Article Title

Which financing model is right for hotel properties? An exploratory study of financing models highlighting the practice and effects of different financing models adopted by hotel industries in USA and Singapore

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Abstract

The high debt-financing model adopted by hotel owners in United States had contributed to a large number of foreclosures during the economic downturn. In contrast, the conservative financing model adopted by hotel owners in Singapore had sheltered them through the past recessions. Cultural values may have influenced the types of financing model adopted by hotel owners. Americans have a value system of using borrowed money to invest, while Singaporeans have a value system of saving for rainy days and spending within one’s means. The studies concluded that hotel owners in the United States and Singapore should consider Juglar’s nine to eleven year business cycle as reference (Juglar, n.d.), and adopt a financing model that undertakes an appropriate level of debt at early stage of economic upturns and when the hotel properties are increasingly enjoying high profitability. At the peak of economic upturns, hotel owners should revert to conservative financing model in preparation for potential economic downturns. As hotel business is a high-risk industry, a Quick Ratio of at least 1.5, and Interest Coverage of at least two must be maintained all the time.

Methods

The objectives of the professional paper are to study the financing models of hotel industries in the US and in Singapore; to identify the positive effects and negative effects of the two financing models based on the variables suggested by a study to predict Korean lodging firm failure (Youn & Gu, 2009); to identify the cultural differences that influence the financing models adopted by hotel owners in the US and Singapore; and to recommend the right financing model for hotel owners in the US and Singapore. Historical data was collected and used to perform ratio analysis for hotel industries in the US and Singapore. The results of the ratio analysis were examined to identify the positive effects and negative effects of the two financing models, based on the variables suggested by a study to predict Korean lodging firm failure (Youn & Gu, 2009). The findings from the literature review and ratio analyses were used to develop a financing model for hotel industries that could enable solvency throughout the economic cycle and to maximize profits during economic upturns.

Conclusion

The insolvency rate of hotel properties in the United States was in great contrast with that of hotel properties in Singapore. The literature review has shown that hotel owners in United States have excessively used debt financing for expansion, and high leverage approach has caused exceptionally high delinquency rates and foreclosures of hotel properties in the United States. In Singapore, hotel property owners have adopted a more conservative financing policy. At a low level of debt, hotel owners in Singapore have the financial flexibility to make changes, and the chances of financial woes were slim.