



THE HOTEL SANTO

Vanuatu



**Investment
Case study**

By Michael Pusinelli



THE HOTEL SANTO

Country

Vanuatu



Sector

Tourism



Type

Expatriate
Domestic



Background

Mary-Jane arrived in Vanuatu in 1973 as a tourist. After a few weeks exploring the country and then visiting the Solomon Islands, she returned to Port Vila, as she needed to start earning some money. This meant finding a job, so she took up employment as a secretary with the Department of Statistics, in the Condominium Administration. In 1976, she was sent to Santo (or Luganville, as it is also known) by the Department of Statistics, where she met her future husband, Dinh van Tho, who at the time was working in the insurance industry, and who went on to build the Hotel Santo. They subsequently married and had two children, a son and a daughter. With her husband's death some years ago, ownership of the hotel passed to Mary-Jane and the children.

The Hotel Santo now stands on a site previously occupied by the Hotel Corsica, which burnt down in the early 1970's. It is prominently located on the main street in the centre of the township of Santo. Following the fire, the site was acquired by the Dinh

family (a Vietnamese family involved in construction and general trading), and they engaged a French architect and built a new hotel, which stands to this day very much in its original format. They started in 1975 with a bar and restaurant at ground level, with 22 air-conditioned bedrooms on the first floor.



Hotel Santo

Source: Image provided by Michael Pusinelli



The hotel pool and garden

Source: Image provided by Michael Pusinelli

In the late 1970's, the problems in the run-up to independence were starting to affect the business of the hotel quite badly, and the Dinh family could no longer afford to employ a manager. By this stage, ownership of the property had passed directly to Tho and Mary-Jane, so despite having no previous experience of hotel management, they moved permanently to Santo and took over the day-to-day running of the property. They experienced several years of difficult trading, but being the only proper hotel in town they were able to survive on the Government and corporate business that still had to carry on despite the unrest.

Post-independence, tourism started to pick up in 1982 with the development of a major dive tourism industry, much of it based around the wreck of the SS President Coolidge in the Canal du Seconde on the outskirts of the town. In the late 1980's they added a further 8 un-air-conditioned ground level bedrooms on land at the back of the hotel, providing alternative accommodation for more budget-orientated guests. This took the total inventory to its current level of 30 rooms.



Mary-Jane outside a garden room

Source: Image provided by Michael Pusinelli

The Hotel Business

The Hotel Santo has had a chequered trading history, but has been able to survive because it had little or no outside debt, was tightly family-controlled and managed, and for many years was the main hotel in Santo, fondly described as "the only place to stay in town". Its business mix these days is about 50% corporate, 40% Government-related, and 10% tourism for the rest.

Annual occupancy is however low, at an estimated 35-40%, and average room rates are around the equivalent of NZ\$150 a night for an upstairs room or NZ\$120 for a garden room, so the business is really only trading water. This is partly a reflection of the current depressed levels of tourism in Santo, but may also be partly due to the way the hotel is managed and promoted. 80% of their turnover is represented by the accommodation and 20% by their food and beverage operations.

The size of the corporate and Government accommodation market is relatively finite, and with the opening of a number of small new hotels in town



Interior of a typical first floor air-conditioned room

Source: Image provided by Michael Pusinelli

over the last few years, these markets are now spread across a larger number of properties without much growth in overall volume.

While tourism numbers have picked up, particularly with the introduction of direct flights from Brisbane to Santo, this business is very seasonal, and a lot of the leisure market is destined for the more resort-style accommodation elsewhere on Santo and its outlying islands. Diving was a major growth industry in the early 1980's, and this was a significant boost to the business of the Hotel Santo. At that time, many divers were coming in quite large groups, particularly from New Zealand, and the hotel did very well out of this. These days the New Zealand market has shrunk considerably, the groups are much rarer and the market is dominated by Australians. Also, instead of the large groups, the divers are more likely to be individuals or couples. There are three



Interior of a typical budget garden room

Source: Image provided by Michael Pusinelli

commercial dive operations in Santo, some of which also provide the accommodation for their divers, so the Hotel Santo sees even less of this business than it used to.

Mary-Jane is not a particularly active participant in tourism industry marketing initiatives at the moment, because of the poor international flight service and, despite its slightly iconic status, the hotel does not even have its own website. Were the direct flight services to improve, she would take a more active part in chasing the tourist business.

The hotel is a member of the Espiritu Santo Tourism Association, which undertakes collective marketing for the destination, and the hotel relies upon its presence on the ESTA website for much of its leisure bookings. All web-driven and email referrals go directly to Mary-Jane, who handles all the reservations and bookings herself.

Employees

The hotel employs 21 staff, all ni-Vanuatu, 7 female and 14 male. They are constantly being approached by people looking for work, especially school leavers, many of whom have undertaken 4-6 months of formal hospitality training at the local training institutions, only to find there are no jobs when they come out. This is a specific issue for Santo, where there are three recognised training establishments, but not the job opportunities. The parents are encouraged to pay to send their children to these training schools, despite the lack of job opportunities, and this is starting to cause problems.

Local Supply Chains

The hotel is able to source most of its operating and service requirements from local suppliers in Santo. The reliability of supply is a little erratic at times, and they do have to order directly from overseas from time to time. 60% of their food and beverage requirements are imported through local retailers, and only about 40% is local produce, mainly fruit, vegetables, meat and eggs. Seasonality of supply is however an issue, so they have to adapt their menus accordingly.

Investment Process

Business Motivation

The original motivation for the investment by the Dinh family was the recognition by Dinh van Tho of the commercial opportunity offered by the destruction of the old hotel on this site. The ability to replace it with a better quality accommodation business in a market without any comparable competition made it a very profitable enterprise in its early days. The political and economic uncertainty endured by the country in the run-up to and post-independence has made it difficult for them to contemplate selling

out for any reasonable gain since then, particularly while Mary-Jane's relationships with the rest of the Dinh family tied them to Santo for so much of this time.

Mary-Jane's son works in Santo in the construction industry, but her daughter lives in Spain, and neither of them has so far shown any interest in being involved in the hotel. However, Mary-Jane is now in her late sixties and is looking to get out of the day-to-day running of the hotel, so has given her two children an ultimatum that if neither of them commits to taking over the business by July this year, she will sell it.

Financing the Development

The acquisition of the site and the building of the initial hotel complex were funded by a combination of Dinh family money and bank finance. Due to the high cost of borrowing, when the additional 8 garden rooms were added, they were funded out of cash flow from the hotel operation.

Factors that Facilitated Investment

Having access to family funds and the family construction business enabled Dinh van Tho to build the hotel without too much need for recourse to external lenders or outside investors. This has meant that they have always been in total control of the development process and the management of their assets. When and if they go for a major refurbishment, they might look at applying for duty relief on any major importation, but they have not previously attempted to do this.

Aside from the bank finance in the 1970's for the construction of the hotel, the family has been self-reliant. With the passage of time, this question has therefore become less relevant, but the only major issue that they have had to deal with concerning

ownership of the hotel has been the transition from freehold to leasehold following the land reforms introduced at independence. Being an urban-based property, the process for them was not complicated, although it did take several years to complete the setting up of the Government agencies and the finalisation of obtaining and registering the new ground leases. They have had no issues with them since, apart from with the small rural residential investment on Efate.

As owners of commercial property in both Santo and Port Vila, Mary-Jane says they have not had any other issues with their urban leases since they were first registered. Their commercial requirements in respect of banking, accounting and legal needs are all met locally, and while often slow, are adequate for their purposes. The banks are particularly keen to lend to them at the moment, as they are short of good commercial lending opportunities.

They only have to deal with VIPA for the annual renewal of their business licenses, and as long as they fill in the forms correctly and pay the fees, they don't have any other issues. They have never had to go through the application process for new investment with VIPA, as their investments predate its establishment.

Total Investment

Following the death of her husband, ownership of the Hotel Santo passed directly to Mary-Jane and her two children. Aside from the hotel, she also owns some commercial property in Santo and Port Vila, and a rental property on rural land at Mele Maat on Efate. She was also involved in starting an urban sub-division on the way to the Santo airport, called the Palms. The custom ownership of her rural property at Mele Maat has been subject to challenge by claims from rival custom landowners, and the issue has been ongoing for several years. It has still not

been fully resolved, but her own position in respect of the ownership of the leasehold interest was clarified and strengthened in 2006. At this time, there was formal confirmation from the State Law Office of who the true landowners should be.

She places an estimated value on the family's total business interests at under A\$5 million, but has not had the properties or businesses formally valued recently. She has no investments or other interests anywhere else in the Pacific, nor has any intention of so doing.

Challenges to Investment

One of the hotel's biggest challenges is getting paid by the Government and NGOs that use the hotel. Even though they only take bookings that are supported by a formal purchase order, they often don't get paid, especially around the times when there is a change of government. Conventional debt recovery processes are very difficult. However, things seem to be finally starting to settle down with the current government.

A second challenge is improving the Brisbane flight schedule. At present it is not conducive to the short-stay (4-5 day) market, as it comes in on a Tuesday and flies out on a Monday, so it is 6 days or nothing. Until this is resolved, they are missing out on potential business, and tourists won't transit through Port Vila because of the extra time and cost involved.

Santo is regarded as an expensive destination, and they do not see anything like the number of New Zealand visitors they used to get. Once they have a stable government that starts making good decisions, things will improve significantly. Mary-Jane also considers that the proposed introduction of income tax will be a huge threat for existing businesses and a negative for future investment.

Looking Forward

They would go for a lot more of the tourism and leisure market, if starting again. Mary-Jane recognises that the growth of the leisure accommodation properties has left the Hotel Santo behind in this area of business, to the point where she is at a serious disadvantage.

In relation to meeting original objectives, Mary-Jane advises “probably not”, given the state of the New Hebrides in the early 1970s when they set out. No one at that stage was in a position to predict how the future would unfold for them. The fact that they are still trading after over 40 years would indicate that they have been successful so far. Between 1980 and 1981 they were the only hotel in Santo, so despite the post-independence uncertainty, and there were times when they seriously thought that they might go under, they were still able to survive that very difficult period. Fortunately, what little business was coming to Santo over that period all came to them.

Mary-Jane is confident that once the improvements to the Santo and Port Vila airfields are completed, the tourism business in Santo will also improve significantly. The recent introduction of the ATR72 flight service between Vila and Santo has already had a positive impact on visitor numbers. After 10 years of political uncertainty, there has been some improvement in political stability and a lessening of the atmosphere of corruption, which has also helped.

While she has no particular appetite to expend much more energy in the industry herself, she recognises that new owners, with a fresh approach, could greatly improve the performance of the hotel, so she remains optimistic about its future. If she ends up selling the hotel, she would look to investing in the development of a major commercial rental property in the Santo Township.

She has mixed views about the influence of the influx of the new Chinese investors in Santo, but the new wharf and the airport upgrades will make a positive difference. She also feels that if a major investor came in and built a large internationally branded hotel, it would also make a huge difference to their future.

She sees land issues as being the biggest roadblock, and they are certainly holding back rural development. The younger generations of ni-Vanuatu are becoming much more aware and better educated, and more of them are looking to keep the land for themselves, which is also going to make it harder for outside investors.

Mary-Jane sees no reason not to recommend Vanuatu as a place to invest, but cautions that investment in the outer islands would entail a far greater degree of hardship and difficulty than on Santo or Efate. The land issue is the problem – finding the right location and viable leasehold structures are holding things back.

Her top tips for new investors

- Respect the environment
- Make sure you have good accessibility (whether by road, sea or air) to wherever you are going to put your investment
- Maintain good relationships with your staff