

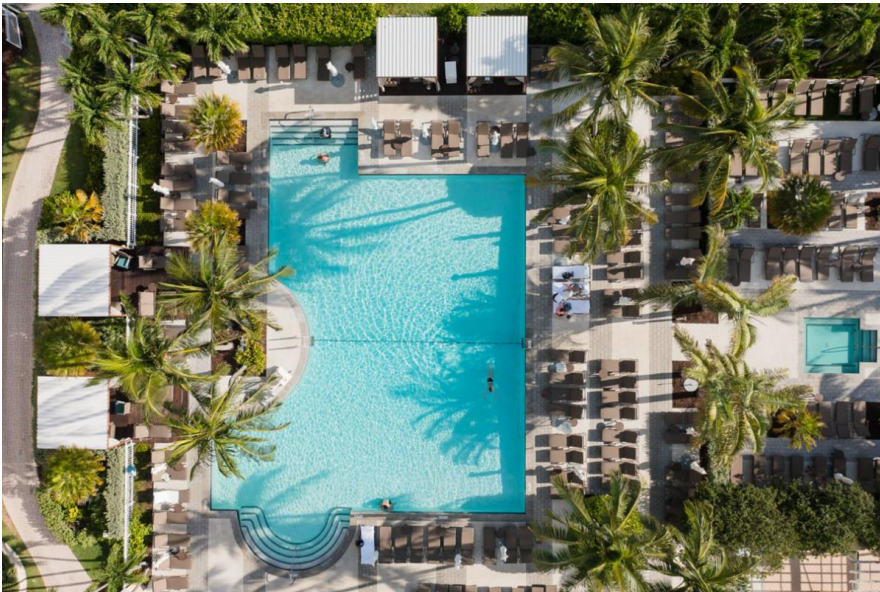
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How to Run a \$7.5 Billion Luxury Hotel Portfolio: Inside Gencom's Strategy

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Skift Take

Karim Alibhai's began his career at a Best Western motel. In the decades since, his firm Gencom has bought, sold, and developed eight Ritz-Carltons and dozens of other luxury hotels. Here's his formula.

Sean O'Neill

Karim Alibhai knows better than most how to make luxury hotels profitable. He's the founder and top boss of [Gencom](#), which has owned, part-owned, or developed 8 [Ritz-Carltons](#) and 150 hotels under other brands over three decades.

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Gencom's traction is notable, given how tricky it is to [get the economics right in luxury hotel](#) deals and development.

- Prime real estate is pricey. White-glove service is expensive. After such costs, where are the profit margins?
- Equally challenging is how luxury hotels have seen softness in room rates during most of the past decade, according to [STR data as analyzed by Bernstein Research](#).

Yet Gencom has defied the averages with its portfolio worth about \$7.5 billion.

Last week, Gencom acquired majority ownership in [The Ritz-Carlton Key Biscayne](#) resort in Miami for an unpublicized sum.

- The real estate investment and development firm plans a \$100 million renovation to start next year.
- Gencom knows the property better than anyone. It co-developed and built the 17-acre resort, which debuted in 2000. It later sold its majority stake.

This November, Gencom will open [Nekajui, a Ritz-Carlton Reserve](#), in Costa Rica, as a luxury mixed-use complex being built ground-up across 1,400 acres.

- The three dozen units cost roughly between \$3 million and \$13 million each.
- That's the highest price per square foot Costa Rica has seen for such properties yet.

Last July, Miami officials okayed Gencom's and [Hyatt's](#) plan for a billion-dollar development project — with construction set to start next year.

- [Miami Riverbridge](#) will be anchored by a redeveloped 615-room [Hyatt Regency Miami](#).



Aerial view photo-illustration of the upcoming Miami Riverbridge project, which a Hyatt Regency hotel will anchor. Source: Gencom.

Negotiate With the Luxury Hotel Brands

Alibhai has pushed the major luxury brands to give Gencom some leeway to fine-tune development and operation.

- “The luxury operators are very good, by and large, but you do need a very active asset management approach where they respect and listen to you — versus them saying ‘I’m St. Regis, I’m Rosewood, I’m Four Seasons, etc., so I know best,” Alibhai said.
- Exhibit A: In 2017, when Gencom co-acquired the [Four Seasons Resort Peninsula Papagayo](#) in Costa Rica (with another developer, Mohari), Four Seasons mandated a \$15 million renovation.
- “We said, ‘Look, we think the potential ROI [return on investment] justifies a bigger, \$35 million renovation,’” Alibhai said. “But for us to put that in, we need you to change certain things, such as how you’re going to price the rooms and what the staff-to-guest ratios are.”

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Karim Alibhai. Source: Gencom.

- Four Seasons liked that Gencom was a development group willing to invest thanks to its ability to get capital from top-tier lenders. So it agreed to make operations leaner and less costly, such as by trimming middle management and being more assertive in the rates it charges. “Today, that’s one of the most successful Four Seasons resorts,” Alibhai said.
- Exhibit B: In 2015, Gencom took a stake in [The Ritz-Carlton Fort Lauderdale](#). “It had a negligible net operating income, yet 18 months later, it had grown almost seven-fold with the same manager, Ritz-Carlton,” Alibhai said.
- Exhibit C: Last year Alibhai and his team went to Ritz-Carlton and said that [The Ritz-Carlton Key Biscayne](#) resort wasn’t doing as well as it should and that it had seen its heyday. Gencom offered a plan to invest \$100 million to upgrade amenities and reposition the hotel’s reputation among travelers.
- “Ritz-Carlton agreed because it’s a win-win,” Alibhai said. “If we do x, y, and z, their average rates will go up, so they’ll make more money through their management and incentive fees. But in exchange, they agreed to flexibility in certain financial contributions and so forth and to agree to our plan for reimagining the property by them doing x, y, and z.”



A pool at The Ritz-Carlton Key Biscayne, Miami. Source: Gencom.

Residential Underwrites Luxury Hotels

Alibhai, 59, was one of the first, in the late 1990s, to recognize the value of pairing luxury hotels and residential development.

- Alibhai's Gencom helped kickstart the trend by helping Ritz Carlton create its first branded residences.
- Since then, multiple players have collectively built [more than 80,000 hotel-branded residential units](#), according to Savills.
- "Luxury travelers were becoming more discerning and looking for better amenities and more elaborate amenities than, say, a spa with three treatment rooms and a small gym," Alibhai said. "Yet you can't afford to put all those things in a hotel alone because the occupancy rates won't justify the operational costs."
- "Residential sales help amortize the cost of the better spas, pools, and restaurants quite significantly," Alibhai said.

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- “To use very rough numbers, a true luxury resort today will cost you almost \$2 million a key [or per room or suite] to build because of land costs in coveted locations, the amenities you have to put in, etc.,” Alibhai said. “At \$2 million a key, it’s not easy to make the economics work for the hotel itself.”
- “So what you try to do is, at a minimum, see if you can reduce its costs by 50% by building residential and getting residential profits such that your net cost is instead \$1 million a key — to do some quick and dirty math,” Alibhai said. “Now the economics work because your profit from residential paid back half the cost of the hotel, as a rule of thumb.”
- “When you do ultra-luxury, you’re spending even more, so it’s harder to get costs down as much as a percentage,” Alibhai said. “But you can still catalyze the value of the land across the project and increase the value of everything adjacent.”



A photo illustration of an outdoor living room with an infinity pool at a residence at Nekajui, a Ritz-Carlton Reserve Residence, coming soon to Peninsula Papagayo. Source: Gencom.

Buying Low, Selling High

Alibhai works hard to sustain an organizational culture that emphasizes hustle and humility.

- Alibhai began his career working at what he calls a “negative two-star” Best Western motel. He had to hustle to work his way up to trading Rosewoods, Fairmonts, and Auberges. He tries to instill the hustle culture in his team — and also a willingness to think outside the box — to outmaneuver rivals.
- A key lesson: “Getting the right entry point on a deal is half the battle of a project’s success,” Alibhai said. Not overpaying for real estate allows room for error and bad luck in the later development work. While that truth may sound obvious, a long list of struggling luxury hotels suggests it’s not widely absorbed.
- Hubris is one challenge to watch out for. “It’s a mistake to think we’re that much smarter than everyone else in development,” Alibhai said. “For example, we would not go into a tough market that others are avoiding and build a ground-up luxury property and just think some Gencom magic would make it successful.”
- For instance, Gencom only bought the [St. Regis Chicago](#) in a joint venture with GD Holdings in 2021 because it was a pandemic-related distressed sale. Gencom hustled to put together a transaction whose “very complicated” nature deterred rival bids.
- Similarly, Gencom’s soon-to-open [Nekajui, a Ritz-Carlton Reserve](#), in Costa Rica became an attractive project financially because Gencom acquired the infrastructure, such as the golf course and marina, in a distressed situation in 2015.
- “We polished the gem, so to speak, so that when buyers came to look at the residential units, we had a lot to show,” he said. “People said, ‘We’ll pay North American prices to be a resident here.’ It’s nearly sold out. If we had built it all ground up, it would’ve been an expensive entry in a greenfield situation where we wouldn’t have known if we would’ve been successful.”



The “pasta lab” hallway at the Tre Dita restaurant that opened in 2023 at the St. Regis Chicago. Source: Gencom.

Right-sizing Luxury Operations

Experts note that [the best-reviewed and the most lucrative luxury and ultra-luxury hotels tend to be owner-operated](#). What’s notable about Gencom is that it has to work with third-party managers to get the results it wants.

- Gencom recognized that restaurants and bars are becoming critical to the success of luxury hotels. (Roughly 1 billion photos on Instagram were food-related in 2023, said [SproutSocial](#).) So Gencom insisted that Marriott outsource the St. Regis Chicago’s offerings to Lettuce Entertain You Enterprises, the city’s largest restaurant company. The result includes a just-opened Tuscan steakhouse in collaboration with award-winning Los Angeles-based Chef Evan Funke.
- “The property is outperforming the market on all metrics in its first 12 months,” Alibhai claimed.
- In 2017, Gencom bought [Rosewood Bermuda](#), which had been in receivership. Gencom made a \$25 million renovation. Its premise was that the operator had only been managing it as a six-months-a-year operation when it could be a nine-months-a-year operation.

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- “Yes, for three months a year, it’s too cold to swim in the ocean,” Alibhai said. “But only 20% or so of the guests are going into the ocean year-round. So you could extend the season to attract people to take board meetings and play tennis and golf if we invest in the facilities.” The early trajectory is positive, and Gencom is now doing a more than \$300 million redevelopment of [Fairmont Southampton](#) in Bermuda.