

In Conversation With Sheikh Mubarak Al Abdullah Al-Mubarak Al Sabah

As a scion of a wealthy and influential Kuwaiti family, Sheikh Mubarak Al Abdullah Al-Mubarak Al Sabah had few options after his graduation in the U.K. Born to accomplished parents- his father was a senior military man while his mother held a doctorate in Economics-Sheikh Mubarak had many expectations riding on him. After finishing his training at the Royal Military Academy at Sandhurst and following a stint in the Kuwait Armed Forces, he went on to earn an under-graduate degree in Politics with Economics from the University of Buckingham and a MPhil in International Relations from Cambridge University. However, he decided to do something unconventional. "I had to either get into the government or be a civil servant but I decided it was not for me," he says as we sit down for a chat at the sidelines of the recently concluded Arabian Hotel Investment Conference. "I decided to do some courses locally and then wanted to do a PhD because my mother had one, so I enrolled in a program but dropped out," he laughs.

Though his plans to get a Phd did not work out, it paved Sheikh Mubarak's way into his family business, a path that he had no plan to follow initially. "I only have one brother, who is involved in the government and my mother needed someone to take care of the company. Out of responsibility I went back." His decision proved to be a turning point. Previously called Action Consultancy Bureau, the business underwent a restructuring in Sheikh Mubarak's hands. Most importantly he invested into real estate-a new revenue generating sector to the company and diversified into various smaller streams.

The businessman confesses that real estate was always a passion of his which he acted on when he came to the helm. "From a very young age I had a passion for buildings. I would get involved in an ad hoc manner," he says. His previous attempts to get his family to take up investments in Kuwait' property market had failed. Real estate prices and the stock market in Kuwait took a nosedive in 1998, when the oil prices touched an all-time low. "It was a good time to buy. Anyone who bought at that time has made a fortune," he explains "I said to the family why don't we buy assets but they said that we are into the representation business. We had land as part of the family (wealth) but not in the commercial manner. We were very classical and traditional investors, but did not (invest) as a corporate. I didn't like that very much."

However Sheikh Mubarak bid his time to launch his real estate business. In 2003, as U.S. troops entered Iraq, neighboring Kuwait witnessed an automatic economic recovery and a return of confidence among investors that was compounded by the rise in oil prices. Action Real Estate was launched in 2004 and shortly after it naturally led to the formation of another successful venture Action Hotels, after Sheikh Mubarak identified another opportunity within the hospitality sector. "I noticed there was a market gap in the mid-market hotels. I had not seen anything branded till date but there was lot of unbranded stuff. There was nothing of brand standards where it was locally owned and internationally managed. That got us looking at a retail and hotel project".

Action Hotels first inked a deal with AccorHotels to bring its ibis brand to Kuwait. Following the success of the first economy hotel, Action Hotels now operates all the three brands under ibis and has expanded its network to include economy offerings such as Tulip Inn and Golden Tulip from Louvre Hotels. The company also operates all the mid-scale brands from the IHG Group (apart from the Holiday Inn Express) and its operations are not restricted to Kuwait. Sheikh Mubarak says that he introduced the concept of mid-scale hotels in Jordan, Oman, and Bahrain while expanding operations in markets such as the U.A.E and Saudi Arabia.

But today, with the GCC's hotel market nearing saturation point as developers plough in investments to the mid-market hotel sector, Sheikh Mubarak is slightly shifting focus. His newest area of interest is Australia. "We did some acquisitions there in real estate a few years ago and when we started the hotel business we thought of cross pollinating our contacts," he says. "I got in touch with Accor and told them that we would like to develop hotels but admitted that we didn't have any local knowledge. I asked them if they had any projects requiring investors. Then came our first project when Accor gave us a property to invest into. That project led to us expanding in the market and our portfolio in Australia which we are happy with."

Today Action Hotels operates three hotels in Australia with two in Melbourne and one in Brisbane. It recently announced that it will be building a Novotel Melbourne South Wharf at the Melbourne Convention Centre, the group's largest hotel in Australia. Sheikh Mubarak adds that with the latest opening, the group has invested close to \$250 million in the continent and he indicates willingness. "Australia has a relatively stable economy, growth is not exceptional but it is stable. The country has had about 22 years of growth and no recession. That is a very important thing and I hope it continues. It is a very large and mixed economy, large landmass and small population and huge potential, I believe."

Another appeal about Australia is its internal consumer market. As Sheikh Mubarak rightly points out, the country's hotels are not heavily dependent on external tourism. "Our hotels there don't depend on international travelers so much. A substantial portion of the market is comprised of local travelers and corporates, which are strong domestically," he elaborates. Upon being asked if he would consider dual listing Action Hotels, which is currently listed in London Stock Exchange, at an Australian stock exchange he replies: "We will consider all options if it is favorable for shareholders. Currently I don't think dual listing has been very successful for most companies. Australia is an option- not listing but structuring it as a real estate investment trust and getting growth capital to invest with us to expand the business. That can be a natural carve out."

Action Hotels has also got a full pipeline in the Middle East. "This year we have three new hotels opening", Sheikh Mubarak tells me. "The first two are in Saudi Arabia, one is in Riyadh and the other in the industrial zone in Jeddah. In Dubai, we are opening a new Novotel hotel in Dubai Healthcare City, which will serve not only the hospitality industry but also the health-care tourism industry. And we have another site in Media City where we are planning to build a mid-scale hotel. We have not announced it yet but the site is opposite to Palladium." Even as he talks of future investments, Sheikh Mubarak's focus is clearly on affordability. This is evident even in his real estate firm where he has mid-scale properties. On being asked if he would ever venture into luxury hospitality, the answer is a resounding no. "Never! Not for me. I think it is very volatile and very much like the office market. I don't like the volatility. If you are a builder and you want to develop something in luxury, the expectation is much higher. I want something where expectations are realistic and are

steadier. With these luxury developments, the taste can change, the requirements can change, your pricing may be discounted and the investment risk is much higher. Mid-scale is more profitable than luxury for sure. The investment is much less for affordable hotels, but you do more of it," he says.

Sheikh Mubarak's vote of confidence seems to have worked well for his hospitality firm. Action Hotels' revenues were up 22% last year though average EBIDTA breakeven occupancy levels across the portfolio remained low at 37%. These figures come amidst a gloomy forecast for MENA's hoteliers but Sheikh Mubarak says that it has not hit the mid-scale segment so much. "Our ibis revenue was up 20% last year. While there has been a big drop in revenue per available room (Revpar) across five star properties we have not been hit much because we depend more on regional travel. People who stay with us are from the region, out of which 70% is for business and 30% is for leisure. It has been challenging and you can see that from all the reports but on average our portfolio is operating on 77% occupancy," says the Kuwaiti businessman.

Sheikh Mubarak is also quite content with the pace he has set with the expansion. "We are pretty much tied up with what we have. We are a long-term business with long-term financial commitments and we don't make any money until we see our client through the door. So it is a very asset-heavy business. We are focused on delivering our pipeline and ensuring that our newly-opened hotels are up to expectations. We will also consider other new target markets in future. We are present in five of the six GCC countries and unless we expand more in certain cities there will not be much return." It is the same case with the hotel operators as Sheikh Mubarak plans to grow with his current team. "I think we are happy with them currently. We have 12 hotels open with them, six under construction and one under design. That is 19 hotels already signed up. In the short term, we don't have plans to increase our operators but as opportunities come depending on the location—we need to refine the right horses for the courses- we need to identify the right opportunity for that."

If his past performance is anything to go by, Sheikh Mubarak definitely has the eye for that business

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