

## Pharos sees light in hotel industry's tunnel

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### Story Highlights

Integrating the interests of investors and the operator is a cornerstone of Pharos' philosophy.

Secondary and tertiary markets are primary targets for the company, but it also will selectively seek urban hotels.

Founder and CEO Buddy Watson said an initial goal is to have 50 hotels in Pharos' portfolio.

CHICAGO—Buddy Watson is ready to go back into the game. After selling the hotel assets of Watson Hospitality at the cycle's peak in 2007, Watson has formed Pharos Hospitality to find opportunities in the hotel sector.

Watson said during an interview conducted at last month's Midwest Lodging Investors Summit that the plan for [Pharos Hospitality](#) includes acquiring, underwriting, operating and/or asset managing hotels.

"The key to the future is integrating the investor side and operations side into an operations business," Watson said. "The hotel business, brands and the industry are more complex than ever, and integrating all of the pieces is the key. More streamlined accounting and data processes, the use of real-time data, and the adoption of cloud technology has made it necessary for everyone to be on the same page all the time."

Watson added that aligning all of the interests from the ground up rather than from only the transaction side of the business allows for higher financial returns to investors.



### Property profiles

Adam Zembruski, chief hotel operations officer, said Pharos seeks to own/operate premium-branded hotels primarily in secondary and tertiary markets.

"Not only are we not afraid of those markets, we see huge opportunity there," he said.

Before selling in 2007, Watson Hospitality's assets included a Courtyard by Marriott in downtown Charlotte, North Carolina, and Zembruski said Pharos would be interested in that type of property as well.

"The brand-and-market combination is extremely important for us," he said. "We're seeing a lot of hotels that were built in 1997, 1998—the first upscale select-service brand to come into the market that are in the best location in that market. Those are among our primary targets."

Watson said the company has the full backing of its private investors to seek almost any opportunity when it comes to select-service hotels. Most of those hotels fall into [STR's upper-midscale chain-scale segment](#). Zembruski said the company is also targeting upper-end extended-stay hotels. Watson declined to reveal the sources of funding or the total amount of capital available.

"A lot of hotels are under pressure because of various ownership interests, but they are still cash-producing hotels," Watson said. "There are still many hotels making it OK, but they are behind. They deferred brand standards, deferred maintenance, and they must catch up quickly. That's where we want to be involved."

He sees no reason why Pharos, which traces [its name](#) to the island of Pharos in ancient Egypt, couldn't reach 50 hotels in its portfolio in a relatively short period of time.

"We see how that could work from a structural standpoint and a staffing standpoint," Watson said.

### Back to the fundamentals

Pharos' entry into the hotel market could be seen as a signal the hotel industry is indeed in rebound mode. Even if that's the case, the Pharos executives said there are hurdles that must be addressed at the property level and in boardrooms.

"As an industry, we need more talent at the property level and more

education," Watson said.

## **Pharos Hospitality**

**Headquarters:** Charlotte,  
North Carolina

**Key executives:**

*Buddy Watson*, founder and CEO

*Adam Zembruski*, chief hotel  
operations officer

*Robert Bernstein*, director of  
acquisitions and investments

*Jared Carpenter*, finance and  
accounting analyst

*Stephanie Campbell*, corporate  
director of accounting

The integration of marketing and revenue management has become so prevalent at the property level that they must effectively co-exist, the executives said.

"The revenue manager must consider the profitability of business rather than only rate management," Zembruski said.

"What does a piece of business mean to the long-term plan? What is the profitability in the long term?"

For example, seriously considering the business of a sports team that puts four people in each guestroom—and those people happen to wear cleats that rip the carpet—is an issue that every

revenue manager faces at one time or another. Carefully weighing the pros and cons of such business before establishing the rate is essential to long-term success for the property—and for the property's investors, Zembruski said.

"The general manager is the key," he said. "The (directors of sales) and GMs ... their confidence has been challenged with the downturn. They have more bosses, more people getting involved, but they can't overlook the basics.

"There are some GMs out there that won't notice a fray in the carpet. Will they recognize a fray in service?" Zembruski added.

"There's not a thing wrong with being accountable. It's the breakdown of the organization communication ... there has to be some discipline in the chain of command," Watson said. "The consumer is more demanding than ever on all fronts. If a hotel isn't renovated the way it should be, the guest is a little unhappy with it. The consumer is getting more persnickety, but maintenance is behind because of the economy.

"There are many studies that connect guest service and (net operating income)," he added. "You have to have a first-class facility all the way around. You can stitch up frayed carpet, but you also need to stitch up frayed service, too."