Asset and Performance Management Update

Jeffrey Scott and
Robin Wattinger

November 2020

Three takeaways for owners of managed hotels:

- Management contracts are not always carved in stone – how can they be unlocked?
- Property management team – aligned with brand or owner?
- The devil is in the details – and that can be costly.

In this update, our asset and performance management team share some takeaways based on our experience gained from our ongoing asset management assignments overseeing hotels for owners, as well as from one-off engagements conducting, amongst others, performance and operational reviews along with contract and fee assessments.

Contract review and alignment of interests

It is not uncommon for management contracts to be signed, placed in the drawer and forgotten.

Although it should not only be during times of crisis, critical issues raised in the present environment prompts owners to review contract terms and conditions. Of course, contracts cannot be adjusted at a whim. Still, we do see an opportunity, and perhaps even more so today, to review and potentially renegotiate conditions in order assure that a balanced alignment of interests exists between the owner and the operator.

Case in point:

- We recently started working for an owner of a hotel managed by a recognised international operator. In reviewing the contract, various terms were very much one-sided in favour of the operator and, in some cases, not aligned with current international best practices. Ensuing discussions led to numerous adaptions to the contract in favour of the commercial interests of the owner, as well as to the improvement of the working relationship of both parties.
- In general, it is positive to note that international operators are supporting owners by showing flexibility. Revisiting areas such as brand standards (striving to reduce operational costs), temporary allocations of FF&E reserves to support cash flows or passing on salary reductions at the corporate level (for example cluster functions) to hotel owners. We see flexibility in the reduction of certain fees (e.g., a short-term waiver or deferment) or a reallocation of certain corporate fee payments which are reverted for use at the hotel operational level (also for an indefinite period).

Monitoring and reviewing fees

Something we often find neglected by owners and even the local management team of the hotel is the monitoring of monthly invoices submitted by the operating company. Here too it is advisable to monitor and control the basis for the invoiced positions regularly.

Case in point:

- It’s in the nature of things that the property management team of an international operator might not review or question invoiced positions for services coming from the operator’s corporate offices (e.g., fees and reimbursable expenses, etc). In our work conducting operational reviews and fee assessments, we have often encountered situations where the responsible management team members were not able to explain certain invoiced and paid positions. It is not rare that we discovered invoiced items which were either incorrectly invoiced, generally debatable and/or merited a questioning of the services provided. In some instances, we also revealed fee calculation errors, which in one case resulted in a six-digit reimbursement to the owner. This is not intended to point a finger at the operator but rather to highlight the need for checks and balances to also help counter human oversight and error.

Checking USALI conformity

The Uniform System of Accounts for the Lodging Industry (USALI) is a reporting standard most generally anchored in international management agreements (and if it’s not then it should be). We recommend here to periodically review whether revenues and costs get correctly booked given that this can also have an impact, amongst others, on the calculation of fees. This also applies for checking for conformity with important changes in favour of the owner (e.g., more precise definition of net and gross revenues) incorporated in the 11th revised version introduced in 2015.

Case in point:

- Some examples we have come across include the booking of revenue generated via third party providers entirely under revenue where only the commission should be accounted for. Examples included amusement park tickets and external parking being sold and facilitated by the hotel. In another instance, the city tax was accounted for as revenue. In such cases, the revenue forming the bases for the calculation of fees (e.g., base fee, etc.) was inflated, resulting in higher costs to the owner. Examples on the cost side included the allocation of certain costs below GOP which should have been booked as operating costs above GOP. This led to an inflation of the GOP or AGOP, which in turn was used as the basis for the calculation of incentive fees.

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The PKF hotelexperts group, the first fully integrated global advisory firm to serve the hospitality, tourism & leisure and serviced living sectors, traces its roots back to New York in 1927, when William J. Forster (of Pannell Kerr Forster) created the global standard for accounting and benchmarking – the Uniform System of Accounts for the Lodging Industry or USALI – which is still in use today.

Currently, the PKF hotelexperts group has 14 offices worldwide, including Argentina (Buenos Aires), Austria (Vienna), China (Hong Kong, Shanghai) Germany (Berlin – hotelforum), Italy (Milan), South Africa (Cape Town), Turkey (Istanbul), Ukraine (Kiev), United Arab Emirates (Dubai) United Kingdom (London) and the United States (New York, Los Angeles, Miami) with more than 100 consultants providing advisory services including feasibilities studies, valuations and appraisals, operator search, project development, asset management, financing and investment, and strategic advice.

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Please feel free to contact us for further information about this article or if we may assist you in any way.

Jeffrey Scott

Managing Consultant | Head of Asset Management

PKF hotelexperts

E: Jeffrey.Scott@pkfhotels.com

M: +43 664 60969107

Robin Wattinger

Director | Head of Asia

PKF hotelexperts

E: Robin.Wattinger@pkfhotels.com

M: +852 93850845