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Hotel Asset Manager: Understudy or Deus ex Machina?

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Often overlooked in the three-act play wherein hotel owners, managers and brands strut the stage, is the player in the wings, hoping for a fourth act: the asset manager, busily whispering lines to each of the other three. Those who work in the hospitality industry generally know what to expect when any one of the big three takes the stage. In the first act, the owner pleads for fair treatment, a reasonable economic return and the right to sell or finance his hotel free of interference from the other players. In the second, the manager asserts control, assures the owner of its good intentions, but then ushers the owner offstage, instructing him to "sit down and keep quiet." Finally, the brand arrives in a haze of brimstone and flourish of trumpets, to have the last word in the third act, serenely confident in its primacy over the others. As the curtain falls, we gather our things in order to depart. Yet the house lights remain dimmed, so we linger, only to see the curtain rise once again as the player in the wings takes the stage.

Bill Robinson, of Robinson Asset Management, Matt Arrants of Pinnacle Advisory Group, and Michelle Russo of hotelAve each appeared on separate evenings as hotel asset manager.

"What is your role?"

Robinson: "At the most basic level, I facilitate open and proactive communication among stakeholders, such as the owner, the manager, the brand and the lender, while monitoring compliance with the agreements governing their relationships. Essentially, you want to provide any one of these stakeholders with time and distance to major events such that they can proact (as opposed to react) appropriately, that is they need to know the bus is coming to hit them when it is still down the hill and around the bend, not when it is bearing down on them."

Russo: "Our mission is to achieve our owner's key objectives, which typically include asset protection and value enhancement. Value enhancement is typically manifested in maximizing cash flow; however, it also includes effectively managing capital expenditures, negotiating effective management contracts, and understanding capital markets. Managers should be great at servicing guests, motivating, developing and having a strong bench of employees and executing the owner's business plan. As a result, managers typically don't have a lot of time (nor the staff resources) to develop strategy. We provide strategic vision for the asset, are typically better at completing complex ROI analysis, bring best practices from other experiences and typically have access to better market intelligence, that when shared with the property manager helps to enhance the operation. We are also typically quicker to request corporate support for a hotel to address specific recurring issues and are solely concerned with the value maximization of the owner's asset, while managers sometimes have to balance that with the objectives of their brand or management company."

"The owner is already paying a hotel manager. Why should he hire and pay you?"

Arrants: "The interests of the owner and manager are not always aligned. Owners often do not perceive those instances and I help them both with perception and favorable resolution."

Robinson: "Sometimes a manager is so far out of the money relative to the incentive management fee that profitability no longer remains an important focus. Maximizing gross revenue then becomes the focus, with little attention paid to what falls through to the bottom line. If the asset manager is able to wring more NOI out of the hotel through expense management, the return to the owner is exponential, through capitalization of the increased NOI."

"What qualifications should an asset manager have?"

Robinson: "Nearly every hotel owner has a different definition of asset management, and therefore the qualifications change accordingly. When I was with Olympus working with our manager and partner, I focused on operations, refinancing, and dispositions, with some focus on capex issues, but our partner's "asset managers" were almost exclusively focused on capital projects and rarely got involved in the operations review component. I have also found that a large portion of my time over two tours of duty as asset manager for private equity firms is spent on writing and communicating operational results, outlook, and valuation to investors in the funds, as well as to partners and principals of the firms who might not have firsthand knowledge of hotel operations."

Arrants: "A jack of all trades with a wide range of experience, including the ability to benchmark performance. I'd like someone with consulting experience because they have seen a lot of different situations."

"Are asset management agreements at will or for a term?"

Russo: "Minimum terms are typically required because of the heavy up-front lifting."

Arrants: "A common arrangement would be year to year with a 30 day out after six months."

"How do you get paid?"

Russo: "Fees can be fixed, based on a percentage of gross revenue, or a percentage of profit improvement, or a mix, depending upon the needs of the client."

Arrants: "We usually work on a flat rate basis."

Robinson: "The fee most typically discussed in the market is 1% of gross revenue, although in my experience it is rarely what is being charged. A base fee of .5% of gross is more typical. Most of my fee arrangements have been backed into by setting a scope of services, calculating typical amount of hours per month or per year along with an estimated hourly rate, and assigning an annual or monthly dollar fee. I have had requests for proposals where the owner has said "we do not want to pay more than $40,000 per year for this engagement," in which case I come up with a relatively narrow scope which can be delivered at that rate. I have also entered into hourly arrangements, which are typically very short term or interim engagements where the asset manager is literally taking on individual projects for the asset at the request of the owner. Incentive fee arrangements will be based on a percentage of incremental NOI over budget, or in some cases, a lower percentage of incremental NOI over prior year."

"Do you assist Owners in negotiating hotel agreements? If so, how is your role different from that of the lawyer?"

Russo: "Generally, lawyers and business people evaluate and view the contract language from different viewpoints. While both lawyers and asset managers understand how to effectively negotiate all of the key terms, we assess the reasonableness of the manager's underwriting based on our knowledge of the asset and local market. We quantify the manager's economic proposals and assess the reasonableness of performance test provisions relative to our own and the manager's underwriting. We also understand how to value the management contract to the manager in order to determine the amount of potential key money. We focus on how the contract affects operations, including how guest data is received, post-closing responsibilities, the types of monthly reports received, budget approval process and the reasonableness of manager's typical budget approval exclusion requests. The key to negotiating a management agreement is to achieve the owner's priorities as well as ensure the contract maximizes exit value. Recently, we have procured double digit key money for a large franchise contract and termination upon sale (with a very reasonable fee) from a substantial brand operator. We have a formal new management/ franchise negotiation process, including timeline, analysis, comparable assessments, and contract valuation templates that we employ to help our owners achieve their objectives."

"How has the current rotten economy affected your clients and services?"

Russo: "We have taken over ten hotels from foreclosure to REO for our lender clients in this current cycle. Overwhelmingly, the brands have been very accommodating in the foreclosure process and in offering a reasonable period of time to address brand standard capital needs. In one instance, one a lender did not have a comfort letter with one of the large brands. Initially, the brand was heading down the path of a change of ownership, requiring significant initial fees and a PIP; however, because we worked with other offices of this client, we had knowledge of their other loans with the same brand. We were able to show the brand the comfort letters of these other deals and they agreed to honor the language in those deals for this project that didn't have a comfort letter, eliminating the significant fees and a change of owner PIP."

Lo, and behold, our quiet player in the wings is none other than the deus ex machina, arriving to extricate the other actors from problems which seemed to them intractable. The asset manager plays a role very helpful to each of the other stakeholders, assisting communication, defining expectations, formulating strategy, and enhancing value, all without being encumbered by potentially conflicting loyalties or agendas. Sounds like a fourth act worth a view.

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