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CANADIAN MONTHLY LODGING OUTLOOK **MANAGING STRATA HOTELS**

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Managing Strata Hotels

Strata hotels, otherwise known as condo hotels, are hotel properties where investors can purchase individual units of the hotel itself. Investors buy units for a variety of reasons, including return on investment, capital appreciation, and personal usage benefits. Although strata hotels may look the same from the outside, the way they are managed is often unlike traditional hotels.

How Managing Strata Hotels is Different

In regular single-owner hotels, the manager meets with the owner to discuss and make important decisions. In contrast, strata hotels can have hundreds of individual owners. In this case, rather than the manager reporting to numerous owners directly, a strata council is elected to represent the greater collection of owners within the property. These council members are often volunteers and can be anyone from an experienced hotelier to a first-time investor. The strata council attends monthly meetings and voices its opinions to the management about common property, assets, and interests of the strata corporation. In addition, the strata council approves the annual operating budget of the hotel.

The management company of a strata hotel typically has a larger role in daily events because there isn't just a single owner to whom one must report. For example, items that would normally be in a hotel owner's name, such as employee payroll, bank accounts, and franchise contracts, have to instead be in the management company's name. Management companies may also be more involved by owning the commercial spaces in the hotel, such as the front desk, the lobby, the pool, or the lounge.¹ In other cases, the management company may lease these commercial spaces from the strata corporation, the original developer, or a third-party investor.

Challenges in Strata Management

Management companies of strata hotel often face issues when trying to maintain a positive relationship with all the members of the strata council. Dealing with investors who have differing motivations for having entered into the investment can create challenges for the hotel management.

It is explicitly stated in the Strata Property Act of the Government of British Columbia that having a hidden agenda as a member of the strata council is forbidden: "Strata council members must ensure that they refrain from acting in their capacity as a strata council member if their personal interests conflict directly or indirectly with those of the strata corporation."² Nevertheless, disagreement frequently arises because condo owners often come from diverse backgrounds and possess a variety of reasons for owning the property. In other words, there is no common purpose as to why investors purchase their unit.

For example, some condo owners purchase their unit merely as a financial investment. They expect nothing more than a financial return from the management company of the hotel. Others are more interested in the personal use

¹ O'Neill Hotels & Resorts Ltd., "OHR masters the exacting 'condo hotel' business," <http://www.oneillhotels.com/oneill/condohotels.html>, 2010.

² Province of British Columbia, *Guide 4: The Role and Responsibilities of Strata Councils*, April 2010. Page 6.

benefits of strata ownership. This type of investor is more commonly found in resort strata properties, where owners can take advantage of the hotel's luxury amenities, such as pools, spas, and nearby ski hills. Owners wanting to use their condo for personal enjoyment are often less concerned with the bottom line profitability of their investment.

The management is thus in a position where it has to try to accommodate these two differing objectives of strata investors. Owners elected to the strata council should discuss their intentions outright with other owners and take proactive measures in order to avoid conflict both within the strata council and between the strata council and the hotel management. Often, strata councils hire independent asset managers or consultants to assist them in working out these internal issues and in overseeing the hotel management company.

Percentage Management Fee vs. Revenue Split

An important factor in determining the success of both the manager and the investor is what form of hotel management agreement is initially put in place for the property. Sometimes the hotel developer makes this initial decision, whereas other times it is made by the manager. This decision ultimately impacts the entire manager-owner relationship and determines the extent of the manager's duties: "The management contract—the formal agreement between the condominium owners and the managing entity—is probably the single most important document the condominium hotel manager will ever encounter."³

The two most common forms of agreement are the Revenue Split model and the Percentage Management Fee model. Typically, single-owner hotels pay their hotel manager a flat rate (a percentage of the hotel's overall revenue) regardless of profit or loss. The industry standard for this type of fee arrangement is 3 to 5% of a hotel's total revenue.

The alternative Revenue Split model is when the management company pays the owners a negotiated percentage of rooms revenue. The management company is then responsible for paying all the operating expenses out of its share of the rooms revenue. The management company's margin of profit then depends on how well it can both generate revenues and control expenses. In this model, the management company assumes more operational risk, but it has a greater incentive and opportunity to maximize profits.

The most common management structure for condo hotels is the Revenue Split contract. This is because the Revenue Split model takes the risk away from the individual condo owner and gives greater risk to the professional hotel operator. For the average condo owner, who doesn't have any experience with hotel operations, it is appealing to simply get a share of the revenues and not have to worry about any of the risk or operating expenses.

Conclusion

The management companies of strata hotels are responsible for meeting with the strata council of owners and making sure that all its needs are being met. They are also more involved in the day-to-day operations of the hotel than managers of regular single-owner properties. Additionally, management companies must choose either a Percentage Management Fee or a Revenue Split in their management contract and decide how much operational risk they are willing to take on. For these reasons, many management companies do not take on strata hotels in their portfolios. Nevertheless, there is the potential for very high rewards if the strata hotel can be managed successfully.

³ Peter M. Gunnar and Judith A. Burkhart, *The Management of Hotel and Motel Condominiums*, 1978. Page 93.

Canadian Lodging Outlook June 2011

STR and HVS are pleased to provide you with the month's issue of the Canadian Lodging Outlook. Each report includes occupancy (Occ), average daily rate (ADR), and revenue per available room (RevPAR) for three major markets and the Provinces.

If you would like a detailed hotel performance data for all of Canada, STR offers their Canadian Hotel Review. The Canadian Hotel Review is available by annual subscription which includes both monthly and weekly issues. Each monthly issue of the Canadian Hotel Review also includes an analysis provided by HVS. Please contact Erin Hannigan, Canada Sales Executive, at erin@str.com or 615-824-8664 ext. 3313. You may also contact any of their other sales executives at info@str.com or 615-824-8664 ext. 3504.

June 2011	Occupancy Rate (%)		Average Room Rates (\$CAD)		REVPAR (\$CAD)		Room Supply	Room Demand	Number of Rooms	
	2011	2010	2011	2010	2011	2010	% chg	% chg	Sample	Census
Montreal	76.8%	77.8%	\$163.59	\$164.68	\$125.64	\$128.12	-0.1%	-1.3%	16,860	27,939
Toronto	75.8%	79.7%	\$141.01	\$159.07	\$106.89	\$126.78	3.7%	-1.4%	31,341	37,073
Vancouver	79.3%	73.7%	\$155.81	\$152.82	\$123.56	\$112.63	0.5%	8.3%	18,986	26,321
Provinces										
Alberta	65.6%	63.9%	\$142.33	\$144.86	\$93.37	\$92.57	2.7%	5.4%	37,093	67,493
British Columbia	70.4%	66.3%	\$143.44	\$142.17	\$100.98	\$94.26	0.7%	6.9%	35,691	83,829
Manitoba	73.6%	78.3%	\$115.67	\$117.76	\$85.13	\$92.21	2.7%	-3.6%	5,013	13,864
New Brunswick	62.6%	60.6%	\$113.60	\$112.02	\$71.11	\$67.88	1.4%	4.6%	5,187	11,416
Newfoundland	86.6%	87.4%	\$146.87	\$145.38	\$127.19	\$127.06	0.7%	-0.2%	1,876	5,879
Nova Scotia	68.1%	72.3%	\$129.08	\$125.33	\$87.90	\$90.61	1.6%	-4.4%	6,310	13,013
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	187	1,543
Ontario	69.9%	72.1%	\$126.38	\$134.05	\$88.34	\$96.65	1.6%	-1.6%	84,811	138,665
Prince Edward Island	58.1%	58.9%	\$125.04	\$137.01	\$72.65	\$80.70	0.0%	-1.3%	1,002	4,082
Quebec	72.5%	72.6%	\$153.26	\$153.66	\$111.11	\$111.56	-0.3%	-0.5%	27,646	78,126
Saskatchewan	71.7%	71.6%	\$123.78	\$122.06	\$88.75	\$87.39	2.2%	2.3%	7,248	16,820
Yukon Territory	78.0%	78.5%	\$113.75	\$115.77	\$88.73	\$90.88	0.0%	-0.6%	782	2,265
Canada	69.6%	69.7%	\$135.16	\$138.34	\$94.07	\$96.42	1.3%	1.0%	212,846	437,409

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Year-To-Date										
Montreal	61.6%	58.3%	\$135.93	\$133.06	\$83.73	\$77.57	-0.3%	5.4%	16,860	27,939
Toronto	66.0%	66.2%	\$134.00	\$136.17	\$88.44	\$90.14	3.0%	2.6%	31,341	37,073
Vancouver	64.3%	67.1%	\$139.94	\$159.25	\$89.98	\$106.86	0.8%	-3.5%	18,986	26,321
Provinces										
Alberta	58.7%	55.8%	\$131.22	\$132.20	\$77.03	\$73.77	3.1%	8.6%	37,093	67,493
British Columbia	58.1%	59.5%	\$133.48	\$151.32	\$77.55	\$90.04	1.0%	-1.3%	35,691	83,829
Manitoba	63.0%	64.2%	\$112.00	\$111.15	\$70.56	\$71.36	1.2%	-0.7%	5,013	13,864
New Brunswick	51.1%	51.0%	\$109.91	\$108.29	\$56.16	\$55.23	2.5%	2.7%	5,187	11,416
Newfoundland	65.6%	66.0%	\$128.63	\$126.07	\$84.38	\$83.21	0.2%	-0.3%	1,876	5,879
Nova Scotia	56.5%	56.6%	\$117.21	\$115.19	\$66.22	\$65.20	1.4%	1.2%	6,310	13,013
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	187	1,543
Ontario	58.6%	57.8%	\$121.17	\$122.12	\$71.01	\$70.59	1.5%	3.0%	84,811	138,665
Prince Edward Island	46.3%	41.4%	\$99.36	\$103.69	\$46.00	\$42.93	0.0%	11.6%	1,002	4,082
Quebec	59.1%	57.0%	\$133.02	\$130.30	\$78.61	\$74.27	-0.3%	3.3%	27,646	78,126
Saskatchewan	66.2%	67.0%	\$122.06	\$119.50	\$80.80	\$80.07	2.2%	1.0%	7,248	16,820
Yukon Territory	59.6%	58.9%	\$102.36	\$100.96	\$61.01	\$59.47	-0.1%	1.2%	782	2,265
Canada	58.7%	57.9%	\$125.98	\$129.12	\$73.95	\$74.76	1.3%	2.8%	212,846	437,409



About STR

STR provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

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