



Managing Risks Part of Managing Hotels

Reprint: March 2010 Article By Steve Rushmore, MAI, CHA, CRE, President and Founder of HVS

One of the most important aspects of owning and operating a hotel is minimizing the various physical and liability risks associated with this type of business. Risk management is the process of evaluating a hotel's risk exposure and developing strategies for mitigating those. It incorporates a program for reducing exposure supplemented by insurance protection should an incident occur. A hotel owner and operator would be far better off if they could eliminate all the possibilities of an incident occurring on their property. Since this is not always possible, particularly incidents they have no control over, adequate insurance protection provides a way to reduce exposure to a financial loss.

When reviewing your hotel's risk management strategies, it is essential you understand all the potential areas of exposure and exactly how insurance policies are structured to handle the unfortunate incidents that could occur.

The primary areas of concern include the property itself, premises liability, automobile liability, worker's compensation, fidelity, boiler & machinery and umbrella. An effective risk management strategy will also reduce a hotel's insurance cost. Saving money on insurance requires not only a good broker who fully understands the unique risk exposure of a hotel, but one who can also advise on a strategy that will reduce the chance of an incident.

Let's look at some of the unique risks faced by hotels:

Property Risk

Property risk exposures in the industry are primarily due to the high combustibility of contents and multiple sources of ignition that exist in a hotel. Managing these, as well as updating building electrical wiring, plumbing and heating systems, must be a top priority to mitigate the potential for a fire loss. Additionally, smoke alarms and sprinklers should be installed in all areas of the building, and kitchen equipment must meet all National Fire Protection Association requirements. For resort areas, storm damage is always a concern and needs to be addressed.

It is always essential to insure a hotel's buildings and furniture, fixtures and equipment to replacement cost. Replacement cost is the cost to repair or re-build to like kind and quality in today's dollars. Another major component of your property insurance is the BI (Business Interruption) exposure. BI exposure can be substantial due to lack of backup facilities and the seasonal natures of certain hotel operations. A hotel must be sure to complete a business income worksheet to ensure proper insurance proceeds for a loss of profits and continuing expenses. An accurate account of annual revenues by type such as room, food, and beverage will be advantageous for insurance brokers when they are researching the best and least expensive coverage.

Premises Liability

A hotel's premises liability exposure is high due to the number of guests typically in the property at any given time. High-rise hotels pose unique life-safety issues. Hotels should implement every safety code possible to ensure guest safety. Stairways, elevators, railings and floor coverings should all be in good condition. Exits should be clearly marked, and lighting should be available in the event of a power outage. Balconies should be regularly inspected and maintained. Guestrooms should be accessed by magnetic keys or other similar systems that are unique for each new guest. Services and recreational facilities, such as exercise rooms, swimming pools, laundry facilities, gift shops, barber, beauty and other personal services, require separate review. It is important to identify all the potential liabilities and develop a risk management strategy to reduce the chance of an incident.

Products Liability

Products liability exposures can be high if the hotel has a restaurant or lounge serving alcohol. Employees should be trained in the proper handling of food to prevent food poisoning or the spread of other transmissible diseases. Liquor liability exposures can be high if employees are not properly trained to recognize the effects of excessive alcohol consumption.

STR and HVS are pleased to provide you with this 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.

April 2010	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2010	2009	2010	2009	2010	2009		
Montreal	16,199	56.9%	55.8%	\$123.29	\$124.39	\$70.15	\$69.41	0.9%	2.9%
Toronto	28,771	69.0%	57.8%	\$139.08	\$128.78	\$95.97	\$74.43	-0.5%	18.7%
Vancouver	17,779	60.4%	60.3%	\$129.79	\$127.95	\$78.39	\$77.15	4.2%	4.3%
Provinces									
Alberta	33,870	55.9%	56.1%	\$128.21	\$129.87	\$71.67	\$72.86	2.1%	1.7%
British Columbia	33,092	56.3%	57.2%	\$124.10	\$124.05	\$69.87	\$70.96	2.4%	0.8%
Manitoba	4,515	62.1%	68.4%	\$108.67	\$106.14	\$67.48	\$72.60	0.3%	-8.9%
New Brunswick	4,825	49.7%	52.9%	\$107.15	\$109.61	\$53.25	\$57.98	0.0%	-6.1%
Newfoundland	1,834	69.3%	59.6%	\$121.59	\$113.15	\$84.26	\$67.44	0.0%	16.4%
Nova Scotia	5,811	57.5%	56.2%	\$111.18	\$112.77	\$63.93	\$63.38	0.5%	2.9%
Northwest Territories	325	54.1%	49.0%	\$143.70	\$144.98	\$77.74	\$71.04	0.0%	10.4%
Ontario	79,571	58.6%	54.6%	\$121.34	\$118.47	\$71.11	\$64.68	1.0%	8.5%
Prince Edward Island	949	33.4%	44.3%	\$88.21	\$95.61	\$29.46	\$42.36	0.0%	-24.5%
Quebec	26,688	54.3%	52.0%	\$120.92	\$121.14	\$65.66	\$62.99	0.5%	4.8%
Saskatchewan	6,560	68.8%	66.9%	\$116.62	\$115.46	\$80.23	\$77.24	1.6%	4.5%
Yukon Territory	416	57.9%	49.9%	\$94.35	\$96.71	\$54.63	\$48.26	0.0%	15.9%
Canada	198,456	57.3%	55.7%	\$121.67	\$120.65	\$69.72	\$67.20	1.2%	4.3%

April 2010 Year-To-Date	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2010	2009	2010	2009	2010	2009		
Montreal	16,199	51.3%	51.1%	\$120.77	\$123.07	\$61.96	\$62.89	1.1%	1.5%
Toronto	28,771	61.8%	56.7%	\$130.43	\$131.09	\$80.61	\$74.33	0.3%	9.3%
Vancouver	17,779	64.0%	58.3%	\$166.41	\$125.83	\$106.50	\$73.36	4.4%	14.6%
Provinces									
Alberta	33,870	53.8%	57.4%	\$128.05	\$132.28	\$68.89	\$75.93	2.6%	-3.9%
British Columbia	33,092	57.0%	54.9%	\$158.89	\$129.32	\$90.57	\$71.00	2.2%	6.2%
Manitoba	4,515	60.3%	61.8%	\$107.92	\$105.46	\$65.08	\$65.17	0.3%	-2.1%
New Brunswick	4,825	46.9%	47.3%	\$106.63	\$107.75	\$50.01	\$50.97	0.0%	-0.7%
Newfoundland	1,834	58.7%	53.6%	\$116.09	\$112.02	\$68.14	\$60.04	0.0%	9.5%
Nova Scotia	5,811	51.4%	51.6%	\$109.38	\$108.90	\$56.22	\$56.19	1.5%	1.0%
Northwest Territories	325	56.7%	54.0%	\$143.28	\$146.65	\$81.24	\$79.19	0.0%	4.9%
Ontario	79,571	52.9%	51.6%	\$118.28	\$120.13	\$62.57	\$61.99	1.1%	3.7%
Prince Edward Island	949	36.2%	37.6%	\$87.31	\$90.59	\$31.61	\$34.06	0.0%	-3.7%
Quebec	26,688	51.6%	50.4%	\$121.61	\$123.04	\$62.75	\$62.01	0.6%	2.9%
Saskatchewan	6,560	65.9%	66.6%	\$117.92	\$114.94	\$77.71	\$76.55	2.3%	1.2%
Yukon Territory	416	57.6%	51.8%	\$95.39	\$96.25	\$54.94	\$49.86	0.4%	11.7%
Canada	198,456	54.0%	53.6%	\$126.65	\$122.83	\$68.39	\$65.84	1.4%	2.2%

Managing Risks Part of Managing Hotels (Cont'd)

Automobile Liability

Automobile liability exposure is also high for some properties, like airport hotels, when it is necessary to pick up and deliver guests to and from the hotel. Valet services present garage-keepers exposure for damages to guest's vehicles. With automobile exposures, pre-approval of acceptable MVR's (driving history report), and restricting driving duties to those between the ages of 18-65, are effective methods in managing this type of risk.

Workers Compensation

Workers compensation exposure is also high within the hospitality industry. Cleaning and maintenance operations can cause workers to experience lung, eye or skin irritations and reactions. Slip and

falls, as well as lifting, back injury, hernia, sprain and strain, are all common occurrences.

Every hotel should have a risk management strategy that reduces exposure and provides adequate insurance to cover any unfortunate incidents. Your hotel insurance broker can assist in finding an insurance company that has the extensive experience in evaluating unique hotel risks so you don't end up paying more for your coverage because the company overestimated the exposure and charged too much. The broker should also find you an insurance company with a hotel-oriented loss-control department, which will survey your hotel and assist in identifying areas of risk that can be addressed in your strategy.

When shopping for insurance, your broker will assist in obtaining adequate underwriting information to get you the best insurance at the lowest rate. COPE (Construction Occupancy Protection Information) should be organized per location, and include items such as buildings' square footage, construction materials, year built, number of stories, swimming pools, sprinklers, smoke alarms, key system, buildings contents, business income, hotel receipts, food receipts, liquor receipts and total receipts. Along with this information, obtaining up to five years of loss history is crucial for your broker to get your insurance program the best coverage, at the best price and with the best terms and conditions. ▲

DEFINITIONS

Occupancy:

Rooms sold divided by rooms available.

Room Revenue:

Total room revenue generated from the sale or rental of rooms.

Average Daily Rate (ADR):

Room revenue divided by rooms sold.

Room Revenue Per Available Room (RevPAR):

Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvs.com
Web Site: <http://www.hvs.com>*

The Canadian Weekly Lodging Outlook is a joint publication of Smith Travel Research and HVS, Vancouver and Toronto, Canada. If you wish to reprint any of the articles presented through HVS's website, prior permission from HVS and the respective article's author must be granted. For further information please contact info@hvs.com. Hospitality Valuation Services, HVS and HVS logo are registered service marks.



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.

OFFICE:

735 E. Main Street
Hendersonville, TN 37075
Phone: (615) 824-8664



HVS is the leading consulting and appraisal firm specializing solely in the hospitality industry. HVS personnel have university degrees in Hotel Administration, or actual hotel work

experience, and are taking further courses of study to obtain recognized real estate designations.

OFFICES:

VANCOUVER: Suite 400 - 145 West 17th Street
North Vancouver, BC V7M 3G4
Phone: (604) 988-9743
FAX: (604) 988-4625

TORONTO: 6 Victoria Street, Toronto, ON M5E 1L4
Phone: (416) 686-2260
FAX: (416) 686-2264

For a complete list of consulting and valuation offices [click here](#).