HVS

MARKET REPORT

Asset Management Scope and Compensation: A Wide Spectrum

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Asset managers provide a wide range of management oversight, analysis, and support to hotel owners. The specific scope of services is tailored to each owner. Compensation is usually a flat fee or a fee that is a percentage of gross revenues.

Our firm just conducted a study to determine what types of services asset managers provide to the hospitality industry and how they are compensated for such services. To complete this study, we initiated in-depth interviews of senior-level officers and managers from a representative sample of asset management firms that currently provide asset management services to the hospitality industry and are active members of HAMA (Hospitality Asset Managers Association). **Findings** One overarching fact quickly became apparent as we conducted our research: there exists no typical, industry-wide set of guidelines describing the services provided by asset managers; no exact standard, or consistent compensation formula, to provide for such services; and no universal standards specifying the length of asset management contracts. There are three general types or categories of asset managers:

1. "in-house" employees of the ownership entity, or a company affiliated with, or related to, the ownership entity;
2. independent firms unrelated to asset ownership; and
3. individuals that may or may not be related to the ownership entity.

Scope of Services Asset managers provide a vast array of management oversight, analysis, and support services for hotel owners. The specific range of services provided varies; but most asset managers, to some degree, provide the following services:

1. Attend the necessary meetings to gain current knowledge regarding the ownership and management structure of the hotel and the working relationship between the two entities.
2. Represent ownership interests in dealings with hotel management and act as ownership's advisor concerning management and financial performance matters related to the operation of the hotel.
3. Meet with senior executives of the management organization to establish a working relationship with the corporate-level representatives responsible for the management and operation of the hotel.
4. Conduct interviews with members of the on-site management team to gain an understanding of their experience levels and general responsibilities and cultivate and develop a working relationship.
5. Analyze the hotel's monthly financial results and review any significant variances from the budgeted figures with designated representative(s) of the management company to ensure an appropriate plan of action is developed, and to closely monitor the implementation of corrective actions.

6. Meet with management representatives on a regular basis to evaluate and monitor sales and marketing and operational initiatives.
7. Visit the hotel on an ongoing basis to ensure that the management team is effectively managing, marketing, and maintaining the hotel.
8. Monitor and evaluate guest satisfaction levels to ensure a high level of repeat business.
9. Evaluate the strengths and weaknesses of key management staff on a continuing basis and inform ownership on the experience and effectiveness of the on-site management team.
10. Monitor the hotel's operating expenses of the hotel to ensure that effective cost-containment practices are in place, that operating expenses are inline with those of comparable properties and industry standards, and that property management is maximizing cash flow.
11. Evaluate personnel training procedures and practices to ensure that all employees contribute to overall guest satisfaction.
12. Monitor any legal or labor issues related to the management of the hotel.
13. Participate in the development and approval of the annual sales and marketing business plan, capital improvement plan, and operating budget as permitted by the terms of the management contract.
14. Evaluate all pricing strategies and yield management practices to ensure that the hotel is maximizing revenue per available room (RevPAR).
15. Analyze monthly status reports provided by management, and compare the reports and data therein to the operational goals set by management.
16. Monitor market conditions and assess how supply and demand characteristics impact the asset's revenues and profitability.
17. Attend management meetings on a regular basis to keep abreast of all activities related to the marketing and management of the hotel.
18. Communicate and meet with ownership on a regular basis to keep it apprised of activities and events associated with the hotel.
19. Provide written reports to ownership on a regular basis (monthly, quarterly, and annually) that contain salient issues related to the management and financial performance of the asset.

In addition to these services, asset managers may provide strategic planning advice, acquisition and disposition services, tax planning, and alternative use evaluations. **Compensation and Contract Length** The fees charged by asset managers vary widely, and customarily fall into two categories: flat fees and fees based on a percentage of gross asset revenue. Flat fees range from a low of $2,500 to $3,500 a month for a single, focused-service property to a high of $15,000 to $20,000 per month for a more complex and time-consuming full-service asset. Fees that are based on a percentage of gross revenue generally range from 50 to 100 basis points based on property size and the number of assets involved. A typical contract length is one year, with provisions for early termination upon sale of the asset. Financial incentives and performance bonuses for asset managers, while not common, do exist in some situations. **Conclusion** The asset management function is an important component of the industry and can provide ownership with valuable oversight, analysis, and strategic planning guidance. Ownership and asset management representatives should work closely to define the precise scope of work anticipated, and to determine an equitable compensation for these services to assure a win-win situation for both parties that results in profit and asset value maximization.