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Finding hotel operators and professional asset management in times of crisis

Horwath HTL Germany
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FINDING HOTEL OPERATORS AND PROFESSIONAL ASSET MANAGEMENT IN TIMES OF CRISIS

Finding an efficient hotel operator with lasting success is the decisive basis of a successful development of hotel properties. As a rule, long-term leases are concluded with durations exceeding 15 years; they are secured by guarantees and/or rent loss insurances as well as ramp-up agreements.

But what can hotel owners do if the operator fails to perform regardless all ramp-ups and securities or does not want to/cannot pay the agreed rent or not in the agreed amounts? What are the initial signs of such a risk? And above all: What is to be done in such a case?

The focus of this article will be on the enthralling subject of finding hotel operators for existing properties in times of crisis. In many respects, this requires a wide range of specialist knowledge about the commercial, legal, tax and operative processes of a hotel. Additionally, personal contacts and in-depth understanding of the current market situation are required in order to find alternative partners and/or solutions.

In general, the first symptoms of an imminent risk of rent loss are clearly identifiable for the owners and asset managers of the property. First warning signs are, for example, visibly omitted maintenance and repair work, using reserves for the on-going operation contrary to the contract, lower ratings in the hotel rating portals due to poor service and/or offerings, irregular or incomplete payment of the rent payments.

Even if only some of the indications shown above occur, this will frequently entail a slow and successive value impairment of the property. This is a considerable deficiency, which in the end will have significant adverse effects for the owners, mainly in case of an exit and in a comprehensive due diligence. Consequently, avoiding a further risk of rental loss and preserving the asset value are

of priority with a view to stabilise and optimise operations in order to achieve the contractually agreed turnover and results targets or, as the last resort, to replace the hotel operator company.

Roughly speaking, the standard process of finding hotel operators until the successful signing of the contract consists of the following phases:

- Market and competition/potential analysis (including positioning),
- Turnover and results analysis of the own lessee in comparison with the market/competitors,
- Analysis of the optimisation potential of my lessee, support in the stabilisation/optimisation of the results, if necessary, and/or,
- Active search for a new appropriate hotel partner, ideally in the process of a structured tendering procedure of (pre-) selected partners (short list) on the basis of a detailed project description until the signing of a letter of intent,
- Definite contractual negotiations with up to three bidders prior to the signing.

These impending processes of change will be used, for example, to conduct a first performance review of the property, with questions such as: Which areas of the operation should be optimised? Has the property the best possible positioning in relation to relevant competitors or are first adjustments required after a few years of operation? Can building conversion improve the market position in the long term? Are the verified capex provisions equal to the values reported in the balance sheet and can they be used for this purpose? Does the lease in place comply with the current legal and tax requirements in consideration of the owner's exit strategy?

The range of tasks to be accomplished by Horwath HTL for the owner in this process of change with their advice for hotel asset management will be derived only after the respective results are available. It includes the continuous stabilisation and optimisation of the significant turnover and cost items of the operation in connection with a precise owner reporting on the development of the relevant key performance indicators of the hotel and of the local competitors. But more than that: The hotel experts of Horwath HTL provide custom-tailored recommendations for action and advice on behalf of the owner in the process of implementing the respective tasks in the specialised departments on the basis of very detailed benchmark and budget targets. It includes both turnover improvement

measures and cost reduction opportunities, the optimisation/renegotiation of contracts, but also technical and structural optimisation measures when checking the feasibility of structural extension or conversion. All this serves one purpose: to preserve the value of the asset and to achieve its best possible increase also in the future.

Such a success story has just been written by Horwath HTL in connection with a first class hotel property in Germany. On the occasion of the imminent poor performance of the acting hotel operator we were requested by the owner in the context of our asset management to prepare an analysis of the existing operation and to provide recommendations for further action. Not only have we been able with our advisory services to identify weak points and potentials during ongoing operations, but we have also achieved a noticeable stabilisation and optimisation of operations.

Despite all (minor) operative success, our advisory services resulted in the recommendation to change the operator.

This process has been completed in a form exceedingly satisfactory to all parties involved within approximately six months. This had been preceded by an international tendering procedure with three potential partners (short list), intensive negotiations of the form of contract, of the lease amount, security interests and tax optimisations for both contracting parties and a smooth handover process, which was previously structured by Horwath HTL, and finally resulted in clearly better conditions not only for the new owner but for all three parties (the former lessee, the new lessee and the owner) – a triple win situation!

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Olaf Steinhage (Grad. Engineer Architect, Real Estate Economist (ebs)) is Managing Partner of Horwath HTL / hcb hospitality competence berlin gmbh – the company he founded in 2005, to offer hospitality and real estate services one-stop for the development and realisation of hotel and resort projects.

Olaf Steinhage has been involved in the hospitality industry sector for over 15 years now. After having completed his architectural studies at the Technical University of Hannover in 1991, he started his career as a consultant at Suter + Suter AG in Basel, Switzerland. His activities there included analysis of portfolios, real estate consulting, market and location analysis and project development.

In 1993, Olaf Steinhage acquired a degree as real estate economist at the European Business School in Oestrich-Winkel, Germany. From 1993 to 1997, he worked as management assistant and director of project development at Deutsche Interhotel GmbH Berlin, Germany. Thereafter Olaf Steinhage changed to BKatz Group to take over the management of the project development, especially for the resort "Land Fleesensee" in Mecklenburg-Vorpommern, Germany. In 1998, he opened his own hotel in Waren at Müritz Lake (Mecklenburg-Vorpommern, Germany). From 2002 to 2005, before founding hcb hospitality competence berlin, Olaf Steinhage held the position as managing director at Drees + Sommer GmbH Berlin, responsible for the development management and the competence centre of expertise in hotel development for the Drees + Sommer Group.



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Markus Gretenkord is Senior Consultant at Horwath HTL / hcb hospitality competence berlin in Berlin. He holds an international degree with a Bachelor of Business in Tourism-Management of Victoria University of Melbourne. Markus has various work experience in the hospitality and tourism industry, including hotel operations, development, sales & marketing and asset management. He worked for major branded hotels as well as independent portfolios from a 3 to 5 star segment.

Markus started his carrier in various leisure properties of TUI Hotels & Resorts in Greece, Spain and Austria in operational departments. He then became Sales & Marketing Professional on a Senior Level for management positions at Starwood Hotels as well as Kempinski Hotels & Resorts. In addition to that he accompanied national and international activities for hotel operators with numbers of acquisitions. At Horwath HTL Markus is responsible for the asset management activities of the German office.

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