

Creating Value Through Strategic Capital Planning

Asset Managers Urge Owners To Take Long-Term Approach On Properties

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As asset managers, we are finding ourselves investing more time on capital planning and execution than ever before. While hotel profits and available funds for capital projects are at high levels, discipline is required to spend wisely to protect owner investments and ensure projected returns are achieved. The brands are not always aligned with owners on these priorities, as they are often focused on enhancing brand position rather than asset value.



Instead of focusing on new tips for project execution, this article will address ways to add value through strategic capital planning.

- Does your capital plan align with your investment objectives? Examples of alignment include improving guestrooms in a repositioning project (to gain more ADR), or on improving food and beverage options to enhance a hotel's wow-factor. Objectives may not be driven solely by financial metrics (i.e. targeted spend), but more so on preserving the asset condition as it relates to your investment hold period.
- What are your guests telling you? In making decisions on where to deploy capital, guest feedback can play an integral part when it comes to both large projects (i.e. for a room renovation), or small projects (i.e. replacing alarm clocks or pillows).
- Are you looking out multiple years? Increasingly, asset managers need to be looking out 10 years to identify significant expenditures (such as elevators, building system replacements) that may not be on the manager's radar screen (or is, and they are afraid to tell you the actual cost for fear you may cut back on their brand desired initiatives). This longer time frame is also critical for expensive brand initiatives, such as tub-to-shower conversions.

- Is time an ally or a foe? While asset managers generally prefer to have visibility on capital projects, by allowing sufficient time for pre-planning, an owner can make time an ally, as this allows for value engineering, cost containment, etc. Careful planning and extra time can also save money on procurement and shipping.
- Are there implications of your capital plan on the Hotel Management Agreement (HMA)? The HMA likely defines (in varying forms) routine capital expenditures and owner-funded capital expenditures (typically on building systems). Spending on each may impact defined terms such as owner's invested capital, which may, in turn, result in changes in calculations for incentive management fees and/or performance test thresholds. A review of these key items is critical and ideally, needs to be spelled out with your manager prior to execution.
- Have you asked why? Asset managers increasingly see programmatic replacements that many management companies put into the capital plans. While some planned replacement cycles (such as upgrades for Internet and technology systems) may be relevant others, such as meeting space every seven years, may have no applicability to your specific hotel and need to be challenged.

While unforeseen events and unplanned capital expenditures may always be a part of life (and hotel ownership), effective capital planning is critical to enhancing value during an ownership period, and at sale.

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