

## Unlocking Hotel Value: Investor Strategies for Today's Market

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The lodging cycle is in a favorable stage, with the investment community in general agreement that...times are good. We concur with this sentiment and if there is one thing 2014 has taught us so far, it's that opportunities for improved performance continue to exist even beyond that reflected in underwriting proformas and aspirational operating budgets. While the leading prognosticators may not be on the same page regarding just how robust RevPAR growth will be in 2014, we see significant potential for those investors who know where to look for opportunities and actively pursue them. From incremental rate potential to capital planning strategies, we are experiencing continued upside in performance and see opportunities for enhancing asset value that should not be overlooked in today's market. The following provides just some of the areas in which we have been successful in unlocking incremental value this year on behalf of the hotel owners we represent:

**Mix It Up:** At this stage of the cycle, when demand is solid and the focus is on growing average daily rate (ADR), we cannot emphasize enough the importance of really understanding the mix of business being accommodated at your hotel and challenging the operating team to measure profit contribution by segment. By identifying opportunities to optimize your segmentation, while employing sound revenue management practices (distribution and pricing by segment), savvy investors can yield meaningful increases in ADR and profitability. In our experience, not all revenue managers are created equal and the discipline remains rooted more in art than science for many operators today. Revenue targets are only as good as the roadmap outlined for achieving them. Strategic guidance, coupled with continual monitoring of the operating team in this area can yield significant upside, often with relatively minor adjustments in strategy.

**Balancing Cost/Benefit of Brands & Operators:** In light of rising operating costs, many of them attributed to new brand standards and management fees, hotel operators and brands cannot be evaluated on competency alone, but rather must be measured on value delivered. The ability to "flex" costs associated with brand and management will vary considerably, but an effort towards continually measuring effectiveness against these expenses and a process for evaluating new standards and programs should be in place. Investors should evaluate the overall cost/benefit of brand-managed vs. retaining a third-party operator, typically easier (and less costly) to accomplish at acquisition. If changing out management is not the solution or proves cost prohibitive, there are always opportunities to evaluate and negotiate cost and participation in individual brand programs and management initiatives that do not deliver value to your hotel. Conversely, there may be opportunities to participate in optional brand or operator programs which could potentially benefit your asset, either generating incremental revenue (i.e. centralized sales programs) or reducing on-property costs (i.e. insurance plans). The key is to have a thorough understanding of the various management company fees being assessed (IT, revenue management, accounting, etc.), as well as brand/franchise programs available to ensure a favorable cost/benefit.

**Return on Renovation:** Capital spending has been on the rise with no signs of stopping in 2014. Whether triggered by a PIP (Property Improvement Plan) following an acquisition or a planned renovation scheduled to maintain a competitive product, hotel investors will be making decisions about when and how to spend capital reserves, which can directly impact hotel value. Capital plans should be developed based on a ROI mentality, as opposed to a list of brand requirements. Where will you get the biggest returns on your improvement? Enhance those features that translate into incremental value for guests and offer incremental rate potential. Likewise, consider projects to transform non-revenue producing



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space into a profit centers. Defer projects to replace or upgrade areas that don't provide immediate benefit to the guest or your bottom line.

**Be An Active Owner:** We're not talking about a scene out of Undercover Boss, wearing disguises and making beds. What active ownership means in today's investment climate is being close enough to the operation so you can weigh in on key decisions and develop a culture with your operating team to adopt an "owner-centric" perspective. Whether directly or through representation by a qualified hotel asset manager, fostering a collaborative relationship with your property team and establishing accountability can materially impact not only future performance, but also long-term asset value.

**About CHMWarnick:**

CHMWarnick ("CHMW") is the leading provider of hospitality asset management and ownership advisory services in the US, delivering material positive impact on asset value and returns for lodging real estate owners and investors. The company currently advises a client portfolio of more than 50 hotels with 20,000 rooms, collectively valued at \$10 billion. In addition to operational hotels, CHMW actively is representing clients on \$2 billion in hotel development projects in major markets across the US. CHMW's experience has included advisory on more than 400 hotels, including major and secondary markets in North America and the Caribbean. It has served as a trusted advisor to a wide-range of US and internationally-based ownership groups, including sovereign wealth funds, private equity, public agencies, pension funds, lending institutions, Fortune 100 companies and insurance companies. While CHMW has worked with many hotels, it is uniquely qualified in its experience with urban luxury and boutique properties, convention center headquarter hotels and destination resorts.

CHMW offers a senior, stable and experienced team of 29 hospitality professionals. The company provides a broad range of expertise in areas such as hotel consulting, planning and development, contract negotiation, operations, new hotel openings, strategic planning, sales and marketing, revenue management, accounting and finance, food and beverage, loan/agreement compliance, capital planning and physical asset oversight, risk management and investment counseling. CHMW's diverse background, and deep experience (a third of its team has 30+ years hospitality experience) affords an unparalleled level of resources, providing clients with the most comprehensive hotel advisory services available in the industry today. To learn more about CHMWarnick, visit our website at [www.chmwarnick.com](http://www.chmwarnick.com) or contact us at 978-522-7000 or [info@chmwarnick.com](mailto:info@chmwarnick.com).