Owners, operators share strategies for offsetting costs

29 JANUARY 2018 9:40 AM

Hotel executives share what they're doing to optimize their properties' performance and profitability in the face of labor challenges, emerging technology and other developments in the industry.

Alfred Young, of LaSalle Hotel Properties, speaks about his company's strategies for improving hotel performance during a panel discussion at the Americas Lodging Investment Summit last week which also included Maxine Taylor, of CHMWarnick. (Photo: Bryan Wroten)

By Bryan Wroten
bwroten@hotelnewsnow.com
@HNN_Bryan

LOS ANGELES—Hoteliers want to get as much out of their properties as possible, pushing performance to increase revenue and, by extension, the value of their hotels. Increasing labor costs, investment in new technology and other factors may create obstacles to a profitable bottom line, however.

Hoteliers on the "Ownership track: Asset management—Playing your hand to its full potential" panel at the Americas Lodging Investment Summit shared their experiences with different challenges and what they're doing to overcome them.

The labor issue

Average daily rate is expected to grow 2% to 3% in the U.S., said Maxine Taylor, SVP of asset management at CHMWarnick, but the cost of labor is increasing at similar rates. The combination of slower ADR growth with the increase in labor costs, along with labor regulations, presents a challenge, she said.

Her company has entered into negotiations with unions in which the unions were unwilling to make concessions, she said. “That’s very difficult to deal with when 80% of costs are labor related,” she said.

The labor challenge is felt directly at Crestline Hotels & Resorts, a management company, President and CEO James Carroll said. One way to address the costs and other challenges of the labor shortage is to speak with brands more, he said.

Some of that comes from brand standards, such as housekeeping and green initiatives regarding required headcounts as well as guestroom design that make them easier to clean.

In an efforts to stabilize the company’s workforce, Crestline officials are working with hotel owners to determine the best margins, with the understanding that transitions and turnovers are costly.

“How much more can we pay our employees … so that at the end of the day, you’re actually saving more money versus the cost of multiple transitions?” he asked.

The cost of labor and efficiency are not the only critical issues for owners and asset managers, said Robert Hee, managing director at Canyon Equity.

“When we’ve had properties that run really, really efficiently, it’s great, but that’s not when we’ve been our most successful,” he said. “When we’ve been most successful was when we have that, and we have something that’s clicking on the sales and marketing side. We’re all about sales, marketing and PR. That incremental 10% on that side takes care of a lot of cost issues on the labor side.”

The role of technology

Technology, if utilized properly, may also be helpful in offsetting cost issues, but panelists said there are legitimate concerns among owners about being first adopters of new tech.

Taylor said she wishes the industry would be faster to adopt new technology. “We can’t be slow on these things,” she said. “It took how many years—seven years to figure out we need to charge guests cancelation fees. I don’t know why; it’s not brain surgery. The airlines have been doing it forever. We need to move faster as an industry.”

LaSalle Hotel Properties hasn’t been among early adopters for new tech, COO Alfred Young said. When his company does integrate new technology, it’s because it fits.

"We're not going to be cutting edge as owners on the tech side," he said. "We will let someone else figure it out and then run along."

Negotiating contracts
Young said his company focuses on the dollar amount first when negotiating management contracts, offering a range of 1.5% to 3% of managed revenue, not retail.

Discussions around potential value add become the basis for incentive fees, he added. "Will you increase the value? If so, you get a chunk of it," he said.

All but three of LaSalle's deals are terminable at will, he said, which helps cut out a lot of nonsense.

"If you perform, you're staying," he said. "If you don't, then we'll find someone else."

Carroll said Crestline is willing to make concessions—for example, allowing exit from a contract with a 60-day notice—for owners with whom it has a relationship. He doesn't have the same confidence, he added, in a rookie owner who might see declining numbers as the management company's fault.

"If someone comes to me, and they're a first-time hotel owner and they want to do a transaction, I would love to help them get into the business," he said. "But if they say they want a 60-day out, then I say go find a different manager. If I'm going to invest time in you, you came to me probably because a brand recommended us. You have to leave me in a couple of years to show you how to run the hotel and help you grow the business."

Branded, soft-branded or independent
Carroll said independent hotels have a bit of an advantage these days, as their ability to sell and market outside of a brand is the strongest it has ever been.

"If you are in a market where you're well-known and you have some demand generators around you that are stable, keeping the independent flag is the way to go," he said.

His company has a few independent properties, which have looked at soft brand options, he said. While there would be a boost in revenue and occupancy, that's not enough to offset the franchise fee, he said.

All of Canyon Equity's properties are branded, Hee said, and his company is a big believer of brands. The brands his company pursues in the luxury segment have a cachet and a great distribution system, he added.

His company is looking at branded select-service properties in a parallel strategy, he said. The markets it's familiar with on the "ultra-luxury" side that are experiential and outside national and state parks are under-served by branded select-service hotels, he said.

“There’s a great opportunity there,” he said. “It’s not a big enough opportunity for Blackstone, but for Canyon Equity, it certainly is.”

Independents make up about two-thirds of LaSalle’s hotel portfolio, Young said. That includes the Hotel Chicago Downtown, Autograph Collection, with 350 rooms and an average occupancy level in the mid- to-high 60% range. Moving the hotel into a soft-brand helped give it pricing power on ADR and grew its occupancy by 20 points, he said, so it covered the cost.

His company considered pursuing soft brands for some of its other hotels and approached the major hotel brand companies to see what their collections could offer, but it was “slightly accretive, slightly not,” he said. The properties considered already had occupancy in the 80% range, so it wasn’t an issue of demand but how the move could “rejigger the segmentation” on the demand through the brand, he said.

The other risk of soft brands is the next hotel to be added to the market, he said.

“I don’t believe the pie grows with every new hotel,” he said. “I think it might incrementally grow, but the pie gets split up with thinner slices.”