LODGING HOSPITALITY
IDEAS FOR HOTEL DEVELOPERS & OPERATORS

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Guardian Angels

Asset managers watch over your investments

Some general managers unnecessarily cringe when they hear the phrase "asset manager." Owners, on the other hand, smile with the satisfaction that an asset manager is carefully watching over their investments. Since asset management is a relatively new profession in the hotel industry and not very well understood by some industry executives, including hotel GMs and owners, *Lodging Hospitality* recently conducted a roundtable with six board members of the Hospitality Asset Managers Association.

The HAMA board of directors

The group includes more than 100 professionals who represent 1,500 hotels, mostly upper upscale and luxurytier properties in the U.S., with nearly 400,000 guestrooms. The roundtable was held on the eve of HAMA's spring conference in Orlando. The panel:

- Chad Crandell, president of Capital Hotel Management and external communications chairperson of HAMA;
- Kevin Mahoney, vice president of HAMA;
- Bruce Stemerman, executive vice president-operations of Capital Hotel Management and HAMA immediate past president;
- Rick Swig, president of RSBA Associates and secretary of HAMA;
- Robert Tanenbaum, vice president, asset management of Host Marriott and HAMA treasurer;
- Deno Yiankes, president & COO of the Development and Asset Management Division of White Lodging Services Corp. and 2004 HAMA president.

Lodging Hospitality: What is a hotel asset manager and what are the functions of the job?

Chad Crandell: The primary function is to be the owner's fiduciary. Also, to be the owner's advocate, to establish objectives in regard to a property's value performance and its operational performance.

Rick Swig: Vision is a key component, both

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assessing what the owner's vision is for the asset and achieving fulfillment of that vision. The vision could be the ongoing performance and positioning of the hotel; it could also be the march toward a defined exit strategy.

Kevin Mahoney: Asset management is about focusing on and executing the owners' objectives. Asset management activities will vary between an owner who desires to reposition an asset for a long-term investment and one who is motivated to dispose of an asset within a two-year period.

Crandell: When owners say they want to hold assets for five to seven years, we ask them what they want to accomplish during that time: At what point of the cycle do you want to exit? How much do you want to invest in the hotel? What is your internal rate of return on additional equity you put into the hotel? A lot of times owners haven't really thought through those questions, so we work with them to make sure everyone is working toward a common goal.

Deno Yiankes: In addition to educating the owners we spend a lot of time educating managers. Historically, the general managers' financial responsibilities would extend only to house profit or gross operating profit. Today, a fullservice general manager is required to have full profit and loss accountability, including capital and ROI recommendations, brand intiatives, cost/ benefit analysis, renovation oversight and more. As a result, they need to think more like an owner; it's no longer acceptable for them to say, "We just deal with day-to-day operations, and that's it."

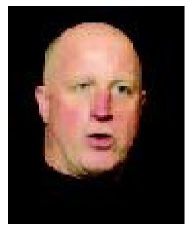
Bruce Stemerman: It's one thing to have a strategic plan, but we also must deal with environmental changes as they occur. A professional asset manager can shift gears and change directions on fairly short notice. In the late '90s, capital expenditures were a very popular thing to do, because we had doubledigit-RevPAR growth and double-digit profit growth. Then 2001 hits, and even before 9/11, the world changed for the lodging industry. As a result, we had to completely change capital spending practices to a point where we were spending as little as possible and minimizing and prioritizing very limited funds. Asset managers need to be incredibly flexible to bring that discipline to the table when the environment changes to that degree.

It should be a manager's best dream to have an understanding and knowledgeable asset manager to work with him.

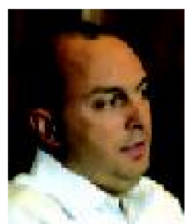
Rob Tanenbaum: This is true even when dealing with two properties in different regions but within the same chain. Even though they're part of the same brand, they may not be sharing ideas, so it's

Rick Swig: The relationship needs to be a collaboration, and sometimes that means compromise.

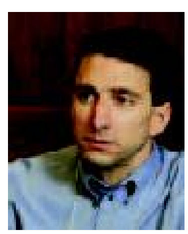
Bruce Stemerman: An asset manager can shift gears and change direction on short notice.



Chad Crandell: It's a myth that in order to be a good asset manager you need to be a former GM.

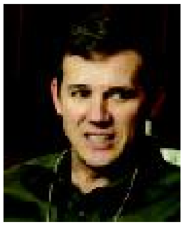


Deno Yiankes: An asset manager also needs to be an excellent communicator.



Rob Tanenbaum: The job is all about relationships and effectively communicating your goals and objectives.

our job to share these ideas and concepts among all the properties we asset manage.



Kevin Mahoney: Asset management has evolved into a prudent and disciplined function that the industry should embrace.

LH: How old is the profession? What are its roots?

Yiankes: The concept of passive hotel ownership is a thing of the past. Very few, if any, hotel owners are not actively involved from an asset-management perspective. Asset management always been part of the industry but never to the level it has in the last decade. What's driving the concept is that hotels are generally the most operations-intensive types of real estate. As a result, they require very active and intensive asset management.

Crandell: The asset management function has existed for 20 to 25 years, but typically it was the institutions that dominated hotel ownership, mainly insurance companies and pension funds. They did asset management in-house, but because these firms and funds had the size and substance to cover shortfalls and make capital improvements, there was significantly less scrutiny than is done today.

Today's investor profile includes a lot of public companies—predominantly REITs, which have an obligation to be active in oversight of the investments in which they have interest. There are also a lot of private funds, and they're also very active and aggressive as owners.

Stemerman: When I first got involved in this profession, there were a lot of hotels owned by real estate limited partnerships that were absolutely passive and controlled more likely than not by the management companies that had established them. As the forms of ownership have shifted, the role of the asset manager has changed.

LH: What backgrounds do most asset managers bring to their profession: operations, marketing, finance, others?

Crandell: It's a myth that in order to be a good asset manager you need to be a former GM. A general manager can become an asset manager, but it's only one set of skills that's needed. Asset managers need to understand operations, real estate, finance, construction, legal issues, marketing issues, risk issues and on and on. In order to gain those skill sets, you can't just come out of one of those disciplines. You must have experience and exposure to all different facets of the business.

Stemerman: A core strength of an effective asset manager is a very strong finance background and an understanding of the impact of investment, return on investment, present value of money—all those concepts that contribute to having a sense of where to focus your attention to get the most bang for the buck.

Yiankes: An asset manager also needs to be an excellent communicator. You may have five great ideas for the operator that will enhance the owner's position, but you'll never be effective if you can't clearly communicate them to management.

Swig: In the long term, the value equation is most important. I've had short-term asset management assignments in which the owners held the property for 18 to 36 months, and I knew my job was to maximize the value of those assets for sale. If I have an 18-year window, my protocols and approaches to those same assets will be different.

LH: What are some of the most important functions performed by asset managers?

Crandell: The most significant starting point for an asset management assignment is the management agreement, which is something not many people coming out of operations thoroughly understand. It is the guidebook that sets the relationship between the management company and the owner. If you don't understand and can't advocate and negotiate positions that further the owners' positions, then you have such a handicap I'm not sure you can catch up.

Mahoney: Whenever possible or practical, get the asset manager involved early—in advance of making long-term decisions such as brand affiliation, management, selection of executive committee members and capital planning. The asset manager can provide valuable guidance in structuring an investment, efforts that go a long way in ensuring that an owner's objectives are positioned for successful execution over the investment period.

LH: How does the job differ when an asset manager is part of the ownership organization rather than an independent entity?

Tanenbaum: It doesn't really differ at all. The job is all about relationships and effectively communicating your goals and objectives. It involves sitting down with managers so they understand what ownership requires of them.

Yiankes: Since my company does a lot of new development, our asset management team gets involved from the time we close on the land. They have input on pre-opening budgets, pre-opening staffing guidelines and other things. However, I don't think there are any significant differences because we're an ownership company.

LH: What is the benefit of hiring an independent asset manager versus having one on staff?

Crandell: Many of our clients are in hotels for a specified period of time because it's part of their investment cycle. Their windows may be three, five or six years, so it's difficult for those organizations to staff up and then deal with the people once the assets are sold. We view ourselves as the owners' in-house outside asset manager, but when the assets are sold, the relationship terminates and the owners have no ongoing costs associated with the asset management function.

Yiankes: As a result of all the segmentation that has occurred in the past 20 years, there are some management companies that may be suited for one asset but you wouldn't consider them to operate another kind of hotel. It's the same thing with asset management. Some individuals and organizations are suited to asset manage 2,000-room megaresorts; others may be better suited to oversee select service or boutique hotels.

LH: Some people believe a management company's worst nightmare would be to operate a hotel that has an asset manager. Is that true?

Swig: It should be a manager's best dream to have an understanding and knowledgeable asset manager to work with them. An asset manager can be an advocate for management, a resource for them and a conduit for all kinds of opportunities to support the management company.

Stemerman: The best relationships are marked by very open communications between the GM and the asset manager. But it's like any other relationship—you need to develop it and earn trust over time. Initially, there may be a natural resistance because management may feel that the asset manager is out to find things or to trip them up or to see things they've done wrong. That's really not the goal of the asset manager; rather, it is to work collaboratively with onsite management to enhance the value of the asset and accomplish the objectives of ownership.

Swig: It's also important to be proactive. The best general managers are those who pick up the phone and call their asset manager when they have a problem or situation, rather than waiting for the asset manager to discover the problem. The strongest relationships are the ones in which it is a two-way street.

Mahoney: Asset managers have worked very hard to create a relationship at the property level. Sometimes there is reluctance at the property level for full disclosure back to the asset manager, as managers would prefer to fix an issue before having to deliver unfavorable news, but by then it is often too late. Asset managers need to be viewed as an ally and a resource for problem solving.

LH: What approach does an asset manager take when he or she first gets involved in an asset that's new to them?

Crandell: Our approach is to quickly develop a strategic plan. The key component of the plan is a SWOT analysis (strengths, weaknesses, opportunities and threats). You look at the operations, the financial structure, and all the different disciplines across the investment and you put them into those categories.

Stemerman: We do a financial analysis that benchmarks the hotel against other properties of its size. Out of that analysis come the strengths and weaknesses. Going through the strategic plan process is probably the most effective way to focus on those areas in which you're going to get the most bang for the buck. It's the 80/20 rule; you focus on areas that will have an immediate impact. Throughout this process, the lowhanging fruit tends to present itself.

LH: Are the brand companies starting to get their arms around the thirdparty intermediary issue?

Crandell: It's a point of some conflict between owners and some brand managers. As an owner, particularly in full-service hotels, in most circumstances I would rather operate with lower occupancies and higher rates, which is not necessarily consistent with the brands' desire to maintain market share. They would rather discount more heavily to maintain their market position.

The hotel business doesn't distinguish between customers. For example, one customer may go to the Internet and get a room for $99 while another one uses the brand distribution channel and pays $199. For both customers, however, the turndown service is the same, the amenities package is the same, the doorman greets each of them the same. Our industry doesn't modify services and standards to what each customer is paying. It's been a long and painful learning curve for brand managers to step up technologically and take a leadership role in trying to control that distribution outlet.

LH: What lies ahead for asset management?

Stemerman: Lodging is an incredibly dynamic business to be part of. It's a fun industry but it is also a challenging one. As asset managers, we bring a level of discipline to the process because of our singular focus on value enhancement.

Mahoney: The asset management function has evolved and developed, and the industry should welcome and embrace it. We're here to add value and the industry will only benefit from it. In the future, asset management will be part of the structure of most hotel investments.

THE CHALLENGES AHEAD

During its spring conference, HAMA members developed a list of the top issues facing the lodging industry and its owners:

Misalignment of brand and owner objectives and priorities. Operators are focused on unit expansion, territorial critical mass and brand-name enhancement, whereas owners are focused on same-store performance with good management, enhanced profitability, trade area issues and asset value enhancement.

Rising cost of labor and benefits. The costs of recent and potential union agreements (e.g., Chicago), workers comp, and benefits are presenting expanding barriers to profit flowthrough.

Underfunded Capex reserves. Building, technology and brand standards requirements are raising questions as to the adequacy of capital replacement reserves.

Revenue management/distribution channels. There is impact on revenue growth from alternative distribution channels (e.g., the Internet) plus inventory management and pricing controls.

Exposure to event risk. There is continued exposure to event risk, whether it be terrorism, SARS, economic impacts or war.

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