

Asset managers on M&A, OTAs and other expenses

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Asset managers share their perspectives and approaches to different issues affecting the hotel industry, including M&A activity, OTAs and controlling expenses.



A LOOK AT ASSET MANAGEMENT



PART 3 Perspectives on Industry Issues

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Editor's note: This is the third entry in a series looking at various aspects of asset management in the hotel industry. [Part one](#) looked at the history of asset management. [Part two](#) explored the future of the discipline.

REPORT FROM THE U.S.—The United States hotel industry is constantly evolving as it encounters new challenges and advancements. To ensure their clients' success, asset managers need to be aware of what's coming and take a proactive approach to each new development.

Hotel News Now reached out to a group of asset managers to gather their perspectives on the different issues affecting the hotel industry.

Mergers and acquisitions

Over the short term, Marriott International's acquisition of Starwood Hotels & Resorts Worldwide will have a certain level of negative impact for asset managers, said Anjali Agarwal, EVP of asset management at Chartres Lodging, because there will be so many more mouths to feed in the distribution system. Having so many comparable brands will have a dilution effect, she said.

However, as the asset manager of two big-box Sheratons, being able to plug into Marriott's distribution system and joining a larger family will help close the rate gap to some extent, she said. Looking at long-term effects, she said, the economies of size and scale will yield benefits in purchasing power and when negotiating with online travel agencies.

The combination of RLJ Lodging Trust and FelCor Lodging Trust is good news for the sector, said Charles Paloux, VP of asset management for Hersha Hospitality Trust. It highlights there's potential for public-to-public transactions, he said, and that boards of directors are willing to make difficult decisions when they perceive obstacles to value creation. However, it's still more likely to see more public-to-private M&A in the sector, he said.

"Nevertheless, lodging REITs continue to trade within similar multiple ranges, which makes accretive transactions difficult," he said. "The last proposed public-to-public hotel REIT deal was in 2001—MeriStar Hospitality and FelCor."

OTA competition

Managers should be able to explain to their asset managers what the average bookings costs are for OTAs compared to brand.com and direct booking, said Charles Oswald, president and CEO of HP Hotels. Those who can articulate that can better understand how they can intelligently remix their business.

OTAs have effectively won the battle and are gaining revenue share, he said, and brand messaging so far hasn't effectively reduced the penetration of OTAs. Asset managers should challenge their operators to try to better educate the guests arriving at their hotels about the value of direct booking versus OTAs, he said.

"Most consumers are not usually aware of the advantages," he said. "They could have received a better rate online and gotten benefits."

Having a higher mix of OTA business is sometimes the result of not having a good long-term plan, Oswald said. Most of the OTA business comes from shorter booking windows, he said, which might indicate its necessary to change plans to reduce the reliance on OTAs to fill these reservations.

The new cancellation policies by Marriott and Hilton are encouraging, Paloux said, and he hopes other brands will follow suit.

Hersha has reduced its OTA commissions despite selling more rooms compared to the previous quarter in 2016, he said, by shifting its mix of business. It took on more locally negotiated rates, government and small-group business, he said, and relied less on lower commissionable airline and consortia business.

“Along those lines, we are closely evaluating forward pace, international travel and non-repeating citywide events further out in the booking window to best understand where to strategically place groups,” he said. “This initiative has helped to reduce commission expenses by avoiding the use of high-cost online channels to fill rooms during periods of slack demand.”

Labor and other expenses

Minimum wage has had the biggest impact in major urban areas, said Chris Doyle, VP of asset management at Hersha, as it affects those on minimum wage along with hourly employees who think of their pay based on a dollar-plus minimum. Looking at non-union hotels compared to union hotels, wage growth has affected the company more in the near term, he said, but there might be headwinds when collective bargaining agreements are renegotiated.

“We have worked with our operators to realign our staffing model and to restructure our personnel across various departments including sales, revenue management, accounting and engineering to maximize the benefits of our clustering strategy,” he said.

Hersha continues to look for ways to renegotiate and lock in rates for outsourced laundry, parking and other third-party service providers, he said, and it has negotiated favorable long-term contracts in all of these areas to help mitigate cost increases across the company’s portfolio.

Having a flexible operating model and alignment with operators has helped implement new initiatives to limit margin loss in a slower-revenue-per-available-room-growth environment, Doyle said. The company has been pushing on rate, particularly in markets with high occupancy, he said. It’s also taken advantage of cost savings through synergies in clustered markets by tightening job sharing roles and using employees to take on different responsibilities. The company has focused its CapEx projects on softer markets to prepare for when the markets eventually turn around, he said.

A portfolio-wide sustainability program has yielded significant cost savings through energy management initiatives that brought in LED lighting and guestroom energy management system, he added.

With 2% RevPAR growth predicted over the next year and a projected increase of 2% to 3% in expenses, Maxine Taylor, SVP of asset management at CHMWarnick, said that's a net negative in terms of year-over-year net operating income. In trying to manage expenses, it's important to see where the company can make changes without affecting the guest experience, she said.

Credit card expenses have gone up exponentially, she said, and much of it has to do with big groups paying with credit cards.

"A \$50,000 bill paid with a credit card with a 3% fee—it can really add up," she said.

Ten years ago, to upgrade to a new credit card, it required filling out new forms and going through a process, she said. Now, credit card companies let users upgrade with the same card at the push of a button, she said. As the cards users gain more benefits, the cost to use the cards increase.

"The fees are growing, but the revenue is staying the same," she said.

One way to possibly cut back on expenses is to see what concessions a brand can offer, Taylor said. Brands require ongoing training for employees, she said, but sometimes that means sending the director of sales or a GM to train a couple times a year, sometimes in far off places, such as Hawaii. This is a good time to ask for a concession, she said—for example, seeing if the brand will let the employee go to a training session once a year instead of multiple times.

Technology

Advances in technology are coming faster than the hotel industry can react, Taylor said, especially when it comes to third-party entities in the booking process. There are websites affiliated with the major OTAs out there that allow guests to book a room and then can cancel and rebook the reservation automatically if a lower rate pops up between the time of booking and the guests' stay, she said.

However, other advances can help cut back on expenses. As mobile check-in grows in popularity, she said, that might reduce the need for as large of a front-desk staff. The question remains what upselling opportunities will be available through this platform, she said.

"We're trying to get our hands around the technology and what's happening out there," she said.

Agarwal said her company is testing robots in one of its hotels that will eventually deliver room service and respond to other guest requests. Advances in this technology could lead to further automation, she said, which is moving in the right direction of controlling costs.

"I've not seen one able to make a bed yet, but they are in use to clean hotel room carpets and public spaces," she said.