

## Lodging Today

### NICHE MARKETING

#### Radisson Teams up with Arts Groups

Recognizing the importance of "cultural tourism," Radisson Hotels Worldwide is making a play for this audience with a new program, Radisson Partnering with the Arts.

The partnership will encourage Radisson hotels to promote cultural travel opportunities in the communities where they are



Radisson hopes to win over more "cultural tourism" business.

located and to work with these organizations to increase sales and expand marketing opportunities.

A survey showed that 93 percent of Radisson's U.S. hotels already have some relationship with local artistic and cultural organizations.

### AUTHORS

#### The Mysteries of Hospitality

Alan Russell says he is a "recovering hotel manager" who was lucky and talented enough to quit the hotel business for a career as a mystery writer.

Not surprisingly, two of his five mysteries are about hotels. *The Hotel Detective* and *The Fat Innkeeper* (Mysterious Press) are set in the Hotel California, a fictitious San Diego property where Russell's resourceful character, the athletic,



"I like to write with different voices," says mystery author Alan Russell. He's a Gemini.

amorously inclined Am Caulfield, holds court and solves criminally complicated puzzles. Clever books, they're

### STEPHEN RUSHMORE

#### Management Contracts Evolve



Over the past 15 years, hotel management contracts have evolved from agreements generally one-sided in favor of the operator to relationships in which both parties share the risks and rewards for creating successful hotel operations. This transition of power was largely a result of a gradual evolution in which more sophisticated hotel owners have taken over properties from the passive, tax-oriented syndicators of the 1980s. During this process, the basic terms of these agreements underwent many changes that ultimately restricted the rights of the operator and gave more power to the owner. The following is a description of how hotel management contracts have changed.

- **Terms.** During the early 1980s, management contracts extended for 10 to 30 years, some for up to 75 years. More important than the term length was the lack of any performance standard that an owner could use to terminate an incompetent operator. In addition, many contracts eliminated the possibility of selling the property to a hotel operator. Today, management contracts have terms ranging from 3 to 10 years with a few extending for 20 years. Owners have the right to cancel in the event that certain profit goals are not met and buyout provisions permit contract cancellation at any time with a payment to the management company of 0.5 to 3.0 times the previous year's management fee.

- **Management fees.** Management fees generally include various incentives. Most contracts have a component called a basic fee, calculated as a percentage of total revenue that rewards revenue enhancement, not expense control. Some contracts also offer operators an incentive fee calculated as a percentage of a defined profit. That encourages management companies to watch how they spend an owner's money. Historically, the base fee has ranged from three to five percent of gross revenues and constituted the greater part of the overall compensation paid to the operator, typically four to seven percent. Today, the emphasis has shifted dramatically from the base to the incentive fee, with base fees ranging from 1.5 to 3 percent of total revenue. Most operators seek a total management fee of three to six percent of revenue for a successful (profitable) operation.

- **Reserve for replacement.** Today, if the owner does not want to put aside a reserve for replacement, both the operator and lender will walk away from the deal. The old reserve of two to three percent has been replaced by a more substantial four percent of total revenue, with some chains insisting on five percent. This reserve covers the periodic replacement of furniture, fixtures and equipment. It is generally not sufficient to replace heavy equipment, such as heating and air conditioning systems.

- **Capital contributions by the operator.** If the operator is not willing to assume some financial risk, many sophisticated hotel owners are unlikely to employ their services. Most operators will subordinate a portion of their management fees to debt service and a return on equity. Others will make a capital contribution in the form of either equity or a loan (typically secured by a second mortgage).

With the highly competitive environment facing hotel management companies and the massive consolidation caused by the large hotel REITs, it is highly unlikely that the terms of hotel management contracts will ever favor the operator again. Now that the industry has gained control over the hotel management companies, when will it do the same with hotel franchisors? ■■

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