

# INDEPENDENT MANAGERS OFFER FLEXIBILITY IN CONTRACTS

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Why does a hotel owner take a hotel independent? A number of reasons could apply, including location, revenue forecasts, market repositioning or exit strategy. Put another way, an independent hotel generally offers flexibility, and this flexibility extends to the independent hotel manager who an owner will likely hire to manage the hotel's day-to-day operations.

Most independent hotel managers offer flexibility across the board. It can be found in executive staffing, sales and marketing and a whole host of operational functions. In addition, this flexibility is almost always reflected in the management contract.

Owners may turn to independent hotel managers for fewer fees, a shorter term or more approval rights. These are the obvious choices when negotiating any management contract. However, recent experiences driven by the volatile economic environment also show owners desire the flexibility (and lower costs) independent hotel managers offer for transition, technology and capital expenditures.

### Transition

Transition costs occur with a change to any manager. However, no manager handles a transition exactly

like another. Independent hotel managers typically show flexibility for "transition-in" tasks, especially when challenged to do so by the owner. In contrast, a branded manager likely requires more employee training and might seek more executive relocation. Whoever the manager, transition-in costs will add up and should be part of the negotiation of any new management contract.

There also will be similar costs when a manager transitions out of the hotel, whether because of a failed performance test, a termination upon sale or some other reason. While "transition-out" costs are likely hidden within the management contract or otherwise difficult to identify before a new manager begins operating the hotel, independent hotel managers likely will offer the lower cost.

### Technology

Technology costs can be daunting. There are all the software packages needed for property management, accounting, sales and the like. There are also the costs for PCs, Wi-Fi and websites. Many independent hotel managers have flexibility on the various software packages. This can mean the continued use of existing systems (a huge cost saver) or a slower change-over to new systems

(a partial cost saver). In contrast, most branded managers will demand their systems across the board from the day operations begin. The brands are also far more likely to impose changes over the life of the deal for upgrades to the latest versions of software and hardware.

### **Capital expenditures**

CapEx can obviously be a huge cost with any hotel, whether related to structural improvements, renovations or furniture, fixtures and equipment replacements. Owners and managers should spend

significant time negotiating the property improvement plan or any other capital improvements plan. However, without the burden of “brand standards” that drive the behavior of branded managers, independent hotel managers are more likely to drop or lower immediate CapEx requirements. This same flexibility also will likely find its way into the management contract’s provisions on withholding reserves and otherwise funding long-term CapEx. Much like technology costs, the flexibility offered over the life of the deal can be a significant savings.

An independent hotel is not always the right answer. Sometimes the strengths of a brand, such as distribution, win the day. However, if reasons exist to take a hotel independent, then the flexibility offered by an independent hotel manager and reflected through the management contract could be another important factor in the mix. It also seems to help that most independent hotel managers can quickly negotiate and document a deal.