



Asset Management: Adding Value During A Transition

The volume of U.S. hotel sales that occurred through mid-year 2006 have already surpassed total transactions for the year 2005, a record for the industry. These days an active market typically means a lot of change – renovation, repositioning, redevelopment, brand/operator conversions – all strategic moves aimed at ultimately enhancing asset value. While significant resources are devoted to planning an asset’s future success, there is an interim period that all Owners must endure – the dreaded **Transition Phase**. With so much time and effort focused on posturing for the future, the transition period can often times leave hotels in a state of “operating paralysis”. While everyone has their eyes on the prize following a successful transition, a wide variety of challenges are faced and must be overcome; new operator but not yet branded; sales team selling a product which has not yet been delivered; new management team, new systems, staffing and training, business retention, not to mention the cost of the transition—these are just a few of the issues that can impact this period. Active owners realize that a “grin and bear it” mentality increases risk exposure and could potentially impact operating cash flow during this period even beyond assumed business interruption due to renovation, which can be anywhere from 3 to 6+ months. The following should be considered when embarking on a major hotel change to ensure success is achieved both during and post-transition.

Have a Plan: Although a standard practice surrounding any property change regardless of the magnitude, having a well defined plan is particularly important in light of a major project. With many new players typically involved after an acquisition, a plan becomes essential to establish clear lines of communication, roles and responsibilities, and organizing efforts toward the common goal. The tendency is to be focused on the future, and unless specifically planned for, the here and now operational period could be in jeopardy if overlooked. Don’t rely on the acquisition proforma; make sure a detailed budget is prepared and there is consensus. Also, ownership should require a “stub-year” operating budget that the management team will be held accountable for achieving, thereby keeping an eye on the ball and limiting exposure during the transition period. Depending on the anticipated timing, several plans may be in order; one that addresses the future brand, facility and positioning, as well as one that addresses the current operation, including interim rate strategies, group selling guidelines and staffing levels to maintain market share and maximize cash flow during the transition.

Corporate Attention: From a brand/operator perspective, the execution of the hotel operating agreement typically signals a shift in responsibility from business development to the property-level operating team. While the operating team will serve as the driving force behind getting the hotel up and running under the new regime, it is imperative that corporate support be maintained to ensure a smooth transition, as well as provide necessary support in the interim, specifically in areas of reservations, corporate sales, marketing and branding.

Flip the Switch: You have just signed on with a major national brand boasting superior reservation contribution statistics; however, you will not be granted the right to fly the flag until the property is up to brand standards. Does this mean that you have to wait for the brand before you can tap into the system? **Absolutely not.** Most brands today will assume hotels on the reservations system and on line before officially branded, which is highly recommended. The sooner you can flip the switch and start tapping into the reservations system, the better, particularly if coming off another brand’s system. What becomes critical here is ensuring that the agents know the property and understand its status to ensure that it is offered to guests like other system properties. Also, rates should be closely monitored to ensure parity across channels to maximum sales during this period, and beyond.

Capital Hotel Management LLC, (CHM) has advised on more than 100 deals over the past five years and has actively planned and participated in more than \$900 million in renovations/repositioning projects for properties under asset management. Please call us at 978.522.7000 to learn more about CHM’s services and how we have assisted Owners to derive maximum value from hotels and enhance overall investment returns during the transition period and well beyond.

Ken Wilson
CEO

Chad Crandell
President



PRSR FIRST-CLASS
US POSTAGE PAID
PERMIT #59
BEVERLY, MA

548 Cabot Street
Beverly, MA 01915
978.522.7000 (phone)
978.522.7008 (fax)

With a focus on lodging real estate investment, ownership and asset management, we are dedicated to enhancing value and maximizing returns for our clients and investment partners.

www.chmhotel.com

Look for CHM at the Lodging and HAMA Conferences this Fall!

Resort Re-Brand—CHM Selected to Asset Manage in Aruba

Actively involved during the due diligence process, CHM was officially retained by the new ownership group to serve as hotel investment advisor and asset manager upon acquisition of the 478-room Aruba Resort Spa & Casino in Palm Beach Aruba. Acquired in June 2006, the property is scheduled to undergo a complete renovation and once completed, scheduled for late 2006, will be re-branded as The Westin Aruba Resort & Casino. Resort services and amenities include a 3,500-square foot spa, a 12,000-square foot casino, 21,000-square feet of meeting and function space, multiple pools, beach and water activities, retail shops and seven food and beverage outlets, including Aruba's #1-rated steakhouse, *Pago Pago*.

As asset manager, CHM will be actively advising on the \$15+ million renovation and conversion underway at the resort. In addition, CHM is responsible for developing a strategic plan for the asset, as well as ongoing monitoring of performance and evaluation of facilities and market positioning to ensure asset value is maximized and investment objectives are met.

"We are very excited to be working with the current ownership group on this project. This deal represented an ideal acquisition; unmatched location in a premier resort destination and a physical product prime for renovation and repositioning. We are confident that we will add value during the conversion and certainly following, having worked in tandem with Starwood on other similar projects with great success" said Ken Wilson, chief executive officer of CHM.

CHM has extensive renovation and repositioning experience, including numerous major scale conversion/capital projects, all designed at enhancing asset performance and overall hotel value. To learn about our people and services that our investor clients have come to rely on, please call us today at 978.522.7000.

