Survey on hotel management contract terms and fees

In cooperation with the Hospitality Asset Managers Association (HAMA Europe) and Modul University Vienna, PKF hotelexperts has been conducting a survey on key hotel management contract terms which was initiated in June 2015. The initial results of this ongoing anonymous online survey were presented at our annual HTLsummit in December 2015 in Vienna.

The intention is to gather data on a global scale. So far, property owners from Europe and China have participated. The aim of the survey is to collect up-to-date market information that can be used in order to benchmark key contract terms and conditions. The survey consists of three parts: hotel demographics, contract terms and conditions (including fees) and questions regarding the property's loyalty programme. A summary of the results for the first two parts of the survey are presented in the following:

- **hotel demographics:**
  The majority of the properties included in the survey are part of a portfolio, operated by the brand owner and positioned within at least the upper midscale segment (according to the classification of STR Global). Furthermore, about 90 % of the properties are located in cities.

- **contract duration:**
  The average duration of the management contracts in China amounts to about 13 years, compared to about 21 years in Europe. With regards to a break clause upon sale, a quite unexpected result came up with about half of the answers from Chinese property owners stating that a penalty is not included in the contract. In Europe, on the contrary, more than 90 % state that a penalty is included.

- **base fee:**
  The base fee is usually calculated as a percentage of total revenue (China: 100 %; Europe: 92 %). The average base fee percentage varies between 2.5 % in China and 2.25 % in Europe.

- **incentive fee:**
  It can be noted that for the management contracts in China, an incentive fee based on an unadjusted GOP is predominant (67 %), whereas more variations are seen in Europe. The most prominent is an incentive fee based on GOP less the base fee (42 %). Other variations include unadjusted GOP (8 %), value below EBITDA less replacement reserve (8 %) and other (42 %).

  In China, 73 % of the respondents state that the incentive fee is cascaded compared to only 50 % in Europe.

- **owner’s priority return (OPR), GOP guarantee and key money:**
  The owner’s priority return (OPR) stipulates that if the hotel's income is not sufficient to serve the OPR (an amount which is defined in the contract), the operator typically agrees to
(partially) waive or defer the incentive fee they would have been entitled to otherwise, thus increasing the cash-flow available to the owner. In China, an OPR is included in 40 % of the contracts compared to 33 % in Europe.

In regards to the GOP guarantee, the operator guarantees a minimum GOP to the owner (or a similar guarantee which could also be based on an adjusted GOP amount). If the actual GOP is below the guaranteed amount, the operator typically injects the shortfall amount from their own funds. Such a guarantee is included in 33 % of the management agreements in China, whereas only 8 % of the contracts in Europe foresee a GOP guarantee.

Key Money is usually paid by the operator to the owner as a contribution to the owner's investment cost related to the development of the hotel. However, it does not entitle the operator to an actual equity share in the investment. Similar to the OPR, 40 % of the respondents from China state that key money is included in the contract. In Europe, this holds true for one quarter of the contracts.

For the sales & marketing fees, strong differences were noted between China and Europe. Whereas in China, all respondents state that the fees are based on the gross rooms’ revenue, this only holds true for about 50 % of the property owners in Europe (for the remainder, 30 % state that the fees are based on total revenue and 20 % on another basis). The average sales & marketing fee percentage (based on the gross rooms’ revenue) in China amounts to 4.1 % compared to 1.9 % in Europe. For the contracts in Europe that use total revenue as a basis for the fee calculation, the average percentage amounts to 1.7 %.

If you are interested in receiving a presentation on the full results of our survey (including the loyalty programme section) or would like to contribute to our ongoing survey, please contact:

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