Towards an Understanding of Lodging Asset Management and its Components

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Abstract
Lodging asset management has emerged as one of the most important areas of strategic hotel management. Increasingly, lodging companies are soliciting the services of asset management firms or developing internal asset management competencies. This article synthesizes and discusses the essential components of dynamic lodging asset management. The article provides a detail background on asset management and its importance and explains the role of lodging asset managers and their working relationships with ownership and operators. The article also discusses the competencies and skills of asset managers.

Keywords
Hotel asset management, asset manager, hotel real estate management.
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By Leonard A. Jackson

ABSTRACT

Lodging asset management has emerged as one of the most important areas of strategic hotel management. Increasingly, lodging companies are soliciting the services of asset management firms or developing internal asset management competencies. This article synthesizes and discusses the essential components of dynamic lodging asset management. The article provides a detail background on asset management and its importance and explains the role of lodging asset managers and their working relationships with ownership and operators. The article also discusses the competencies and skills of asset managers.

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INTRODUCTION

In an era marked by scarce resources, financial and otherwise, firms are constantly faced with the persistent challenge of maximizing asset performance, while simultaneously developing strategies to make them incrementally stronger. Lodging firms have historically faced such challenges and have consistently attempted to overcome or ameliorate them by embracing and absorbing strategies and disciplines that enhance asset utilization. One such strategy is lodging asset management, which has emerged as one of the most important areas in today’s strategic lodging management. In fact, asset management has become a central tenet for most lodging firms, and several have either retained the services of asset management firms, or have developed internal asset management competencies. Industry wide, the role of asset management is becoming increasingly more significant as firms seek the expertise of asset managers to assist in the delicate task of performing a balancing act between cost containment, revenue generation (Asset Management: Team Players, 2010), value creation and deciding when to shift real estate off their balance sheets (Page, 2007).

Hotels are dynamic income producing assets that are bought, developed, operated and disposed at the appropriate time. Hotels are also high risk investments, characterized by uncertain cash flows and are highly vulnerable to competition and market volatility due to the cyclical nature of the lodging industry. From a real estate operational standpoint, hotels typically have uncomplicated lease structures since rooms are rented on a daily basis. Such leases are classified as gross leases since the daily rate or “rent” includes all utilities. However, while the leasing structure is simple, the success of the property as a real estate investment is dependent on effective management of the entity operationally and strategically. As income producing real estate assets, the facility should be managed with the intent of generating positive returns on
investments, while simultaneously achieving ownership investment objectives. Asset management achieves the dual role of managing the asset through operational and strategic techniques that focus on increasing the property’s value while simultaneously achieve ownership’s investment objectives. In this context, lodging or hotel asset management is a dynamic multi-faceted process that occurs throughout the life of a hotel.

This article sheds light on hotel asset management and its role in strategic lodging real estate management. The article synthesizes, defines and discusses the dynamic role of asset management in strategic lodging management, the role and responsibilities of the hotel asset manager and the components that comprise hotel asset management. The article is not designed to explore each component in detail, since such exploration is beyond its scope. Instead, it provides a primer of each component and hence, highlights the role and importance of each component in strategic lodging management. It is hoped that this article will lead to a better understanding of hotel asset management and its components, since this area has not been amply addressed in the academic literature.

**Hotel Asset Management & the Role of Asset Managers**

The primary objectives of hotel asset management is to ensure that each hotel within a portfolio maintains value in relation to the market, achieve ownership investment objectives, and further, that the property is achieving optimal performance as indicated by superior operational and financial performance. Responsibility for accomplishing these objectives rests with the property’s asset manager who works for the ownership and acts as an objective intermediary between ownership and the property’s operator. In relation to corporate measures of performance, return on asset (ROA) correlates to market capitalization. This measure encapsulates the overall management of the asset in terms of profitable use of capital employed by the firm. Thus, the overarching goal of hotel asset management is to ensure that each property achieves optimal returns on asset. Hence, it is incumbent on asset management and consequently the property’s asset manager to ensure that the property is utilized in ways that will ensure the generation of returns on capital that are superior to the overall cost of capital. Asset managers achieve such objectives through application of dynamic asset management techniques, which are based on strategies emanating from the components of dynamic asset management. These relationships are encapsulated in figure 1 (the dynamic hotel asset management model), which highlights the role of the asset manager in assisting ownership in achieving their return on assets. The model suggests that asset managers act as objective intermediaries between ownership and the property’s operator. Although they act as objective intermediaries, it should be noted that asset managers are agents of the ownership, and as such, owe a fiduciary responsibility to the property’s ownership. The model also illustrates that asset managers links the ownership’s objective with the operation of the hotel in a dynamic ever-evolving process. Asset managers constantly evaluate each property’s performance and develop a
set of value driven strategies for implementation. Once these strategies are implemented, the asset manager will monitor their progress, ensuring that they lead to positive returns on assets. Strategies are developed and implemented based on evaluation and analysis of thirteen general areas, which collectively can be described as dynamic hotel asset management components.

**Figure 1**
The Dynamic Hotel Asset Management Model

**Asset Management and the Role of Lodging Asset Managers**

Although the asset manager’s role encompasses several functions, the primary responsibility of today’s lodging asset manager is to facilitate the management of lodging properties as income producing assets that are acquired, managed and disposed at the appropriate time. As such, the fundamental
function of the asset manager is to maximize the value of the property by advising ownership on the dynamics of the lodging marketplace as well as operational and financial performance of the property. Thus, the asset manager must constantly assist ownership in finding ways to maximize cash flows while simultaneously recommend steps to improve market position, the physical attributes of the property, monitor the performance of the property’s management by assessing their ability to consistently achieve superior returns on investments, while maintaining the overall value of the property. It is important to note that asset managers must be results oriented and should provide advice to ownership that translates into quantifiable results. This requires the utilization and application of both qualitative and quantitative performance assessment and measurement techniques which constantly interact to ensure that the asset is achieving optimal returns. This combination of techniques is critical since quantitative financial measurements by themselves are often poor indicators of the overall performance of the asset, i.e., the hotel (Zigan & Zeglat, 2010). Thus, hotel asset management extends beyond facilities management and benchmarking. Instead, it involves a dynamic process encompassing several strategic management areas.

Asset managers must be adept in reviewing and interpreting financial and operational data prepared and reported by the operator. As previously noted, while asset managers act as conduits between ownership and operators, they are acting on behalf of the ownership and as such, are the ownership’s agents. This role often presents challenges for asset managers since it requires balancing the strategic needs of the property’s ownership with the operational and market confines of the property. Further, both parties often have conflicting goals and strategic priorities. For this relationship to work effectively there must be a high level of trust by all parties. To establish trust and credibility, hotel asset managers must possess the following essential skills and traits: they must possess excellent communication and interpersonal skills; they must be experienced in hotel operations and possess a wide array of hotel operations background; they must be fully aware of, and sensitive to the ownership’s investment goals and philosophy; they must be skilled and astute in the art of negotiations; understand the dynamics of the lodging industry market, especially as it relates to the dynamics of supply and demand; display a full understanding of lodging management from the hotel manager’s perspective; must be fully aware of the hotel’s capital structure and critical property facilities upkeep and maintenance issues; must ensure that expenses are in keeping with industry standards (Feldman, 1995). In essence, hotel asset managers in their fiduciary role as the ownership’s agent are responsible for maintaining oversight of the management company or management group especially in regards to ensuring that the hotel is ideally positioned, marketing and cost containment goals are achieved and finally, income goals are achieved (Beals, 1996).
Understanding the Components of Dynamic Hotel Asset Management

Figure 2 highlights thirteen essential components of dynamic and strategic hotel asset management. These are typical tasks undertaken by a property’s asset manager and include: operational analysis and review; property repositioning, analysis and strategies; site analysis and selection; contract assessment, review and franchise agreements; monitoring and evaluating product improvement plan and brand compliance; hotel investment life cycle management; risk management, loss and business interruption management; acquisition and due diligence procedures; strategic lodging management; capital expenditure and capital expenditure budgeting; property planning and development; facilities recommendation and planning and; brand management and selection. Each component work in concert with each other and as such, are not mutually exclusive. Further, the importance and necessity of each component is contingent on the type of property, the ownership structure and ownership’s investment goals. Hence, some components are not necessary or appropriate certain projects. The importance requirements of each component and the role and responsibilities of the asset managers are discussed in the following section. It also should be noted that components are not discussed in order of importance.
Operational Analysis & Review

The operational analysis and review component of asset management focuses on monitoring the hotel’s operational performance and developing cycles for reporting such information. Reporting cycles can be daily, weekly or monthly, based on ownership’s information needs. The goal of the analysis and review is to obtain information that can aid managers of the property in optimizing operational performance while at the same time, provide information that can be used to reduce operating costs without compromising service and increase the long term value of the property. This suggests that hotel asset managers should constantly monitor typical hotel operational statistics such as occupancy percentages, average daily rates, channel booking reports, pace reports, segment capture reports, RevPAR and review daily and monthly.
financial statements. The actual results from these reports should be compared to established benchmarks such as current and prior year budgets as well as industry market reports such as those generated by Smith Travel Research of PKF consulting. Significant variances should be fully investigated and reported along with recommendations to ameliorate negative variances to the ownership and well as the hotel operator. Areas of excellent or poor performance should be highlighted and reported via abbreviated or exception reports. In addition, if variances are the result of unusual events or circumstances, such events or circumstances should also be highlighted and reported.

The asset managers should also analyze the property’s cash flow position to determine if the property is generating sufficient cash flows from operations to service its financial obligations. This analysis will provide information that will allow the property’s ownership to proactively and strategically make decisions as to the timing and funding of equity distributions. Another key element of operations review is analysis of the hotel’s balance sheet to verify that receivables are collected by the hotel in a timely manner and payables are administered in accordance with established vendor payment terms and in accordance with the ownership’s directives. Pricing of goods and services should be evaluated as part of operational review. Prices should be competitive, based on the property’s primary market segments. The property’s various taxes and insurance policies should also be assessed to verify that they are paid and also, that the property is fully covered under the most cost effective structures. Taxes and insurance should also be assessed to identify areas of potential cost savings.

Finally, operational analysis should include an evaluation of the property’s guest service scores or guests’ perception of the property. This is important since low scores or negative perception of the property can adversely impact the overall profitability of the hotel. Thus, the asset manager should carefully review these reports and make recommendations for improving scores and influencing perceptions. They should also solicit and report employee perceptions of the property and its management. Human resources statistics such as turnover rates for each functional area or department should be evaluated. These analyses of employee perception are important since they will yield information that will facilitate the property in addressing areas of employee job dissatisfaction.

Property Repositioning Analysis

Property repositioning is a strategy that hotel asset managers should consider recommending when changes in the marketplace affect how customers perceive the property. In such circumstances, the property’s primary target market or its key market segments do not perceive the property as the property intends. In this regard, the hotel’s asset manager must constantly conduct perception gap analysis to determine how the hotel should be positioned from the perspective of the customer and from the perspective of the hotel’s brand management. If identifiable gaps exist, the hotel should be repositioned to
eliminate the gap, since such gaps could diminish the overall perceived or actual value of the property. Asset manager therefore must be cognizant of changes or shifts in the marketplace that could impact how consumers perceive the property. Consequently, the property’s asset manager should analyze the market as well as the property’s marketing plan to obtain a full understanding of the property’s sources of demand—both transient and group, and most importantly, its market segments. The asset manager should also conduct qualitative and quantitative analysis through interviews and surveys with the property’s sales and marketing team as well as its customers to ascertain how the property is positioned. Additionally, asset managers should investigate the local market to ensure that the property is appropriately positioned to capitalize on the strengths of the marketplace. These analyses will enable the asset manager in determining if the property’s product service mix is appropriately positioned for its targeted segments. The asset manager should also evaluate demand generators for the property to determine how best the property should be positioned. If the property is not appropriately positioned, the asset manager should recommend the optimal repositioning strategy for the property, and reposition the property upwards or downwards. Hence, the asset manager can suggest implementing positioning strategies such as changing niches within the same flag or simply changing the flag (changing brand affiliations) to one that best fits the property’s position. Other positioning strategies that asset managers can suggest include: updating our refurbishing facilities and; renovating the property or adding addition facilities and services.

**Site Analysis and Selection**

Asset management is also concerned with assessing locations to verify their suitability for hotel investments. This analysis must be conducted for proposed and existing properties that are under consideration for acquisition. Hence, asset managers are required to assist ownership and developers in securing the ideal site on which to situate the hotel asset. The obtain the ideal location, the asset manager will analyze long term lodging trends to identify market areas that show long term potential for hotel property investments. This process also entails choosing the appropriate lodging product that will capitalize on the local supply and demand characteristics as well as searching for, and selecting the appropriate site for the property once the determination is made that the market has long term potential and opportunities exits to capitalize on the area’s supply and demand characteristics. The site should be assessed, analyzed and selected based on: its physical suitability—its size, shape and topography; its access and visibility; the availability of utilities and other essential operational services and; the relevant zoning laws, permit requirements and restrictions that are germane to the area. Evaluation weights applied to each factor based on the magnitude of importance of each factors in relation to the site, ownership’s investment objectives and the proposed property’s product service offerings.
The site’s size, shape and topography should be evaluated to ascertain its suitability for hotel development since such factors will determine the size, types of facilities, number of guestrooms and public spaces that the property can accommodate. Development costs are also affected by the site’s topography and shape. For example, sites that require extensive clearing, soil and rock removal, insertion of pilings, addition of special foundations and retaining walls will increase overall development costs. It is also advisable that the asset manager solicits or recommends that the site is evaluated by soil and structural engineers to ensure that the site is not situated in a flood zone (which will increase the property’s insurance costs), and does not require easement or is situated on, or within a water table. This analysis should also be conducted for existing properties that are under considered for acquisition to ensure that the foundation of the property is sound.

The level of importance placed on access and visibility of the property should be contingent on the characteristics of the property’s primary target market. Highly visible properties are those that guests or potential guest can easily see while travelling on the highways/roads close to the property. For example, a highly visible property is important if the primary target market is guests arriving by highway and need quick and easy access to the property. Conversely, visibility is not an important factor for secluded resorts that attracts guests who are drawn to the property’s seclusion aspects. The site should also be evaluated to determine the availability of services such as electricity, potable water, sewage systems, telephone, natural gas, storm drainage and waste disposal systems. If such services are not readily available, the property’s developer will have to implement and install these services, which ultimately adds to the development cost. In addition, asset managers in their analysis should ascertain early in the development process if connection of a hotel to existing utility systems is permitted since moratoriums often exist in areas to prevent overexertion on existing systems. The area’s zoning regulations should also be reviewed to ensure that all relevant development and operations permits and licenses can be secured prior to property development or acquisition. Zoning codes will determine the property’s floor/area ratios, height restrictions, and parking requirements. Operations permits and licenses are especially important since failure to obtain such licenses could be detrimental to the property’s earnings potential and overall profitability.

**Contract Assessment and Review of Franchise Agreements**

Contract assessment and review of franchise agreements (if any) are ongoing asset management processes. All contracts and business relationships entered into by the property should be reviewed to evaluate benefits and value to the property. For most properties, the most significant contract and relationship that should be evaluated periodically are the management contract and the franchise agreement. This is an especially important element of hotel asset management since management contracts provides competitive advantages for owners and can help them penetrate markets globally (Gannon, Roper, &
Consequently, ownership will enter into management contracts to oversee the operation of the asset and assess performance through measurable performance standards, while retaining limited control and bearing most of the asset risks. The terms of these contracts are usually a combination of commercial and legal terms and typically affect the hotel’s cash flows to the owner and the long term performance and manageability of the property. These contracts typically include: the term of the contract—the length of time that the initial contract remains in effect and renewal terms after the initial contract expires; operating fees—the base fees that will be charged as well as performance incentive fees; operator guarantee—a guarantee that is designed to ensure that the owners will receive a predetermined profit level; performance measures—the typical performance measures are RevPAR and annual GOP; owner approval—a clause that establishes the extent to which the owner’s consent is required for matters and items involving the operation of the hotel; capital expenditure—this includes expenditures for purchase or replacement of FF&E and usually represent non-real estate items that are capitalized as opposed to expensed. Capital expenditures are typically funded by the accumulated capital or replacement for reserve and the terms of the contract usually stipulates that the owner provides the funds for the capital expenditures. Asset managers should ensure that capital expenditures for replacement of FF&E are sufficient to keep the property competitive. Since all agreements are typically subjected to disputes, a significant clause in management contracts is how disputes between the owner and the management company will be resolved. Typical disputes that asset managers will encounter in their fiduciary role include those relating to budgets, performance clauses, changes in management and capital expenditures. Finally, all management contracts will stipulate the conditions under which the contract can be terminated by either party. Although there are several reasons why a management contract can be terminated, the typical reasons include bankruptcy, fraud, condemnation, poor performance, and the sale of the asset. Collectively, these termination factors can be classified as termination on sale, or termination without cause. Termination on sale occurs when owners sell the asset, unencumbered to achieve investment objectives, while termination without cause is typically constructed to ensure that the contractual relationship comes to an end without ill-will on either party (Bader & Lababedi, 2007). As previously noted, since contracts contain legal and commercial terms, it is incumbent on the asset manager to ensure that the terms of the management contract are met and further, decipher or obtain legal assistance to interpret the terms for ownership. Further, as previously noted, the asset manager’s role is to align the interest of all parties. Therefore, successful management contracts recommended by asset managers should be those that address the needs of all relevant parties in the arrangement (Deroos, 2010). Further, today’s hotel asset managers should ensure that they are abreast with the current status of hotel management contracts since industry wide, management contracts are in a state of flux (Eyster, 1997).
The asset manager is also responsible for managing the franchise relationship, ensuring that the franchise is managed as an asset. As such, like other assets, the franchise relationship should ultimately generate revenues for the hotel, and ultimately income for ownership. First and foremost, the role of asset management is to select the appropriate franchise for each property in the ownership’s portfolio. This requires in-depth evaluation of the brand, to ensure that it’s the best fit for the property and is congruent with ownership’s investment objectives. Asset managers should therefore assist ownership in selecting the appropriate brand and consequently franchise at the start of the hotel’s life cycle, or make recommendations about conversion or reflagging from one franchisor to another in an effort to maximize the hotel’s value and profitability. The evaluation and selection of the franchise by the asset manager is important from a profitability perspective since the franchise affiliation will affect the property’s ability to compete in the marketplace, its profit generating potential, its perceived image or market orientation as well as incremental benefits from referral generated business.

As with the procurement of all assets, a cost benefit analysis should be undertaken to evaluate the long benefits of the franchise affiliation as well as the overall costs of such affiliation. Typical costs include: fees and expenses associated with using the brand’s name, logo, image, identity, goodwill, operational procedures, marketing, referrals, reservations and reservations systems. In general, there are six important areas that asset managers should assess and evaluate to ensure that they secure the best franchise asset for the property. These are: the brand’s image; the feeder markets of the property; the total cost of the franchise affiliation; obtain a full understanding of the franchisor; the overall performance of the franchise; and the franchisor’s future (Rushmore, 2001). Analyzing the brand’s image is important since each brand conveys a specific image to consumer. Hence, the brand selected by the asset manager should appeal to the property’s primary target market. It is also essential that asset managers understand the feeder markets or where the property’s primary guests areas of origin. Once this information is known, it is important to select the franchise or brand that is easily recognizable by the primary customer segments or those brands that the primary market segments will recognize or form associations with. The total life cycle cost of the affiliation should also be fully understood by the asset manager. While these costs will differ from one franchisor to another, the typical fees that should be evaluated are broken down into the initial franchise fee, which is the initial fee to join the franchise and continuing fees, which are fees incurred during the life of the franchise agreement. Continuing fees include: royalty fees—compensation for use of brand name, trade mark, service marks & associated logos, goodwill & other franchise services; advertising or market contribution fees—brand wide advertising; reservation fees—supports costs associated with operating CRO, telephones, computers & CRO personnel, and third parties such as travel agents; frequent traveler program fees; and miscellaneous fees such as third party supplier support, consulting fees etc.
Monitoring and Evaluating PIP and Brand Compliance

A property’s asset manager is also responsible for monitoring and evaluating its product improvement plan (PIP). The product improvement plan is a detail document outlining property upgrades and replacement before a property is accepted as one of the brand’s franchisees, or for the property to maintain the brand’s status. Product improvement plans are required by franchisors for two primary reasons. First, hotels that are converted from one brand to another or from independent status to the brand must adhere to the requirements and standards of the brand. This often requires renovations, repairs or upgrade of the facilities. In some cases, additional rooms must be added to meet required standards as well as installation of new signage and logos. Service standards and operational procedures must also be revised and implemented. The other instance where the PIP is required occurs when old brands revitalize to maintain their vitality in the marketplace. This revitalization also requires facility changes that must be managed. In either case, it is the responsibility of the asset manager to ensure that the requirements of the PIP are implemented in a timely manner to leverage the potential of the brand and maximize the value of the property, thereby increasing its revenue potential.

Hotel Investment Life Cycle Management

Asset managers are involved in all stages of a hotel's life cycle and advise the owner during all stages. The life cycle typically includes decisions relating to: the acquisition stage; the hold/sell/refinance decision stage; the reposition stage and; the disposition stage. During the acquisition stage, asset managers utilize their expertise in operations and finance to ensure that the expectations of all project participants are realistic regarding investment goals and objectives for the subject property and further, that an appropriate financial structure is in place. In addition, asset managers should fully understand the motives of the ownership especially as it relates to why they want to develop or acquire the property. Although ownership can be driven by several investment motives, the most common motives for acquisition and development of a hotel property are a combination of: its ability to generate positive cash flows; to obtain tax incentives; to act as a hedge against inflation; to diversify their investment portfolio; for property appreciation; and for psychological benefits (Mason & Musgrove, 2004). Once the asset managers understand ownership’s motives, they should advise ownership if investment in a particular property will satisfy their motives. The asset manager should also assist the owner in selecting the management company (if the hotel will be managed) during this stage since the overall success of the hotel and its value is contingent on the management of operations. Additionally, management companies can assist ownership during the development stage of the property.

The investment goals of ownership and the property’s cash flow might force the asset manager to advise ownership on the next stage, the hold/sell/ or refinance decision. As noted previously, the ultimate goal of asset management is to constantly maximize the value of existing properties. Consequently, asset
managers who adopt a dynamic approach must critically analyze the current value of the asset and make decisions regarding holding the property, selling the property or refinancing the property at the appropriate time. Accordingly, asset managers should periodically assess the marketplace to determine the best option to maximize ownership’s returns on assets or achieve ownership’s investment objectives. This constant assessment is important since the dynamics of the marketplace can change since the time the property was acquired, and the operational aspects of the property might not be congruent with the ownership’s goals. Therefore, asset managers should project the risk adjusted cash flows for all possible options to determine the best scenario that will satisfy the ownership’s goals and objectives, regarding the decision to hold, sell or refinance the property. If the hold/sell/or refinance decisions are not congruent with the goals of the ownership, then the next option for the asset manager is to suggest repositioning the property, if analysis suggests that this option will increase the value of the asset. As previously noted, repositioning the property is usually the asset manager’s response to changes or shifts in the marketplace and repositioning is undertaken to either gain additional market segments or change consumer’s perception of the property.

The final stage or option is usually the disposition or exit from the property. If the property is not meeting ownership’s hold criteria, then the disposition option should be considered by the asset manager. The decision to dispose could be triggered by events such as the property failing to meet specific cash flow objectives. Additionally, if the initial goal of ownership is appreciation, then this stage of the cycle will kick-in when market conditions suggest that the property should be disposed to achieve the ownership’s returns. Once the decision has been made to dispose the property, the asset manager should work with the relevant parties to value the property, establish the price for the property and outline the tax implications of selling the property.

**Risk, Loss and Business Interruption Management**

Risk management is an integral component of asset management and the principal role of asset management in this regard is to mitigate ownership’s exposure to all forms of risks. In this regard, asset managers should adopt a proactive role and analyze the property to discern potential risks and take corrective actions to mitigate or eliminate such risks. Although the risk mitigation aspect of asset management does not generate direct value in terms of cash flows, it generates indirect value since it protects the ownership from potential loss and lawsuits. Asset managers as risk mitigators should conduct periodic audits to identify and document potential risks or disasters. Risks should be divided into human induced risks or disasters and naturally induced risks or disasters. Once potential risks are identified, the asset manager should develop a disaster preparedness plan and a business continuity plan. The business continuity plan should include a crisis management component as well as an operations recovery plan.
**Acquisition and Due Diligence Procedures**

The acquisition and due diligence function of asset management focuses on assisting ownership in taking appropriate steps to acquire the appropriate real asset that will satisfy stated investment objectives. Once the investment objectives of ownership are known, asset managers should advise ownership on the appropriate path to acquisition. Such paths include acquisition through development of a new facility, acquisition of an existing hotel at various stages of performance—a stabilized property, an underperforming property or a property that needs repositioning, or converting existing properties for hotel use. The asset manager should also advise ownership on the type, size, location and cost of the property under consideration. It is also important that the asset manager advises the ownership on the required return as well as establish the hold period of the property during the acquisition stage. It is also essential that asset managers advise ownership on an exit strategy during the acquisition stage. The strategy suggested should be contingent on whether or not ownership’s goal is based on a long-term or short-term ownership strategy. For ownership with long term strategies, their goal is usually for the property to generate cash flows. Hence, periodic valuations periods should be established to ensure that stated goals are being met. Conversely, for short term acquisitions, the typical goal for ownership is usually property appreciation. Hence, targeted sale price should be established during the acquisition stage to realize targeted returns on investment.

Asset managers should also utilize their expertise to conduct due diligence analysis to investigate and determine if there are any issues or factors that could jeopardize the acquisition process or impede the property’s ability to increase value or generate positive returns on investment. Hence, the due diligence undertaken by asset managers is the process undertaken to discover information needed to effectively assess whether or not the risk of investment is worth undertaking, given ownership’s established investment objectives. Asset managers should develop a due diligence checklist for investigation which typically includes some or all of the following areas: rent roll analysis; lease agreement review; service and maintenance review; pending or threatened matters review; title/deed document review; property survey; government compliance review; physical inspection of the property; tax review; insurance policies; engineering studies; market studies and; a detail list of personal property to avoid disputes.

**Strategic Lodging Management**

The strategic lodging management component of asset management expands beyond monitoring of operational performance and routine property management, to assisting ownership in the strategic decision making processes that will ultimately enhance the property’s overall value and more importantly, make decisions relating to managing the property as an investment. Strategic lodging asset management also requires asset managers to provide advice to ownership on when it is appropriate to dispose underperforming or declining assets. Thus, in general, strategic lodging asset management entails a full
understanding of ownership’s investing agenda, analysis of the market, making
decisions of whether or not to manage the property as an independent entity or
to become affiliated with an established chain, physical plant analysis, establishing
development and renovating strategies and valuation of the property. The
market analysis strategic element focusses on competitor identification and
analysis of the competition in regards to their location, prices and product service
offerings. Further, demand generators in the area as well as addition and
deletions to supply should be analyzed and their effects on the property’s
performance should be determined and reported to ownership. Significant
demand drains such as corporate relocations should also be summarized and
reported. Development and renovation strategies should focus on whether or
not developing the property as an independent or chain affiliated entity would
yield the best results for ownership. The strategic function of asset management
requires asset managers to utilize discounted cash flow and budgeting techniques
to provide ownership with a comprehensive analysis of the property’s future
renovations or expansions. Physical plant analysis provides ownership with an
objective assessment of the property’s maintenance, capital projects in progress
and differed capital projects. Finally, the strategic valuation function conveys
information to ownership regarding decisions affecting whether or not
ownership should hold, refinance or sell the property. Such decisions are based
on analyzing the operating environment to determine if the competitive
landscape has changed or if future or current target markets have shifted or if the
neighborhood is improving or deteriorating.

**Capital Expenditures and Capital Expenditure Budgeting**

The role primary of asset management in the capital expenditures and
capital budgeting processes is to synthesize ownership’s capital expenditure goals
and facilitate communication between the ownership and the property’s
operators (Denton & Yiankes, 2004). In this role, the asset manager ensures that
capital expenditures allocated by operators are congruent with the strategic goals
of ownership. Conversely, asset managers ensure that essential capital budget
expenditures such as renovation projects that will enhance the property’s
competitiveness are communicated effectively and urgently to ownership. The
role of asset management in the capital expenditure and budgeting process can
be summarized as performing four critical functions: to monitor and oversee the
property’s overall maintenance to ensure that the physical assets are properly
maintained so that their useful lives can be extended; to oversee the capital
budgeting process and to ensure that capital expenditures are utilized astutely and
in a manner that is congruent with the owners objectives; to develop an effective
plan to manage, monitor and forecast capital expenditures so that ownership can
proactively plan future expenditures, thereby enabling the utilizing of financial
resources effectively; to assist ownership in the strategic decision making process,
especially when deciding if capital expenditures are necessary or discretionary
(Denton & Yiankes, 2004). The role of asset management in the annual capital
budgeting process is again, to act as a conduit between the ownership and the
hotel operator or management, ensuring that both parties have realistic expectations regarding capital expenditures.

Asset managers are responsible for conveying information to ownership about: the general condition of the property, highlighting areas that need capital expenditures; the life cycle status of major capital assets and; the long and short term capital expenditures needed to keep the property competitive. Conversely, asset managers convey ownership’s expectations and capital expenditure priorities to the property’s operator. In general, asset managers undertake the following task in the annual capital budgeting process: a review of the property and portfolio objectives of the ownership; communicate ownership’s expectations to the property’s operators; review and revise proposed budget as appropriate; present the final budget to the ownership for approval and; present the final budget to the property’s operators for implementation (Denton & Yiankes, 2004).

**Property Planning and Development**

Lodging asset managers are also actively involved in the hotel planning and development process. This involvement can either be whether or not ownership decides to acquire an existing property or if ownership decides to develop a new property. If ownership decides to acquire an existing property, the asset manager’s role is to assist ownership in: selecting the appropriate general geographic region that shows potential and fits the ownership’s investment strategy; assisting ownership in narrowing the region to specific cities or specific market areas; identify niche markets within the target area; identify a property within the market area that fits the ownership investment objectives and; conduct a market and financial feasibility study as well as an appraisal. If an existing property is available that meets the investment criteria of ownership, the asset manager should assist ownership with the processes of: extending an offer of intent to purchase the property; negotiating the terms of the sale; selecting an appropriate operator and franchiser; conducting a formal property appraisal and; secure a mortgage and if necessary, assist in securing financial resources. If the property is developed, the asset manager will help in the property planning and implementation stages. During the planning stage, the asset manager will aid the ownership with: selecting the geographic region for the subject property; selecting cities or markets for evaluation; identify and quantify appropriate market niches; select appropriate site for the hotel development and; conduct preliminary market and economic study and appraisal. During the implementation stage, the asset manager will assist ownership with: executing the securing the property with a letter of intent; obtain relevant zoning and regulatory permits; develop and assemble the project development team; select the appropriate operator and franchiser; conduct the formal feasibility study and appraisal and; secure mortgage and obtain equity capital (Rushmore, 2002).
Facilities Recommendation and Planning

The facilities recommendation and planning function of asset management focuses on ensuring that the property provides the facilities that are appropriate for its targeted market segments. Thus, asset managers will work with the development team to ensure that the facilities are planned and selected that will encourage guest patronage. Hence, asset managers will work and consult with all relevant parties to ensure that the property’s public and private spaces as well as supporting facilities provide the necessary elements that guests expect, and most importantly, will that they will induce patronage and increase the property’s value. Typically, asset managers work with the development team to define and identify the types of facilities that are necessary for the property to offer value to its guests. Such facilities include: number and mix of guestrooms; recreational facilities and activities; lodging facilities; interior design; landscaping; lounge facilities; transportation and travel services; shops; utilization of the building and its surrounding natural environment; entertainment; in room amenities and entertainment; number and types of food and beverage outlets and; parking and sport facilities.

Brand Management and Selection

Asset managers also play a critical role in brand selection and brand management. Asset managers are required to evaluate prospective brands as assets, and determine which brand yields the highest net present value and offers the best brand equity for the property. Further, asset managers should ensure that the brand selected should help the property reach its targeted customer base. Each brand should be evaluated as a potential asset that will enhance the property’s value and profitability. Thus, the evaluation should assess each brand’s ability to maximize the property’s value and revenue potential as well as its ability to assist in positioning the property in the most competitive position. In regards to brand management, the asset manager should ensure that the property’s quality assurance inspections and product improvement plans are managed and followed, to ensure that the property remains competitive, and further that the property does not lose its brand affiliation. Additionally, asset managers should evaluate the elements of product improvement plans from a capital resource allocation and competitive perspective to determine which elements should be addressed immediately and which should be deferred. Finally, asset managers should work with the affiliation’s brand managers and the hotel’s operator to ensure that brand standards are maintained.

CONCLUSION

Asset management is one of the most important areas in today’s strategic hotel real estate management. Hotels are income producing real estate assets, and are developed or acquired by ownership to generate positive returns on assets. This often requires the services of asset managers who employ asset management techniques to ensure that the lodging asset is achieving its full investment potential. The primary purpose of lodging asset management is to
provide an overall unbiased perspective on the hotel's performance as an income producing asset. This information is then communicated by asset managers to ownership, investors, lenders and other relevant stakeholders to provide assurance that their interests are being addressed by the property's management. Asset management also ensures that the property’s physical maintenance as well as capital expenditures to maintain or improve the property is complete. The strategic role of asset management is to implement various strategies that will increase the property’s value, and assist management in translating this value into profits. This role requires asset managers to constantly monitor the onsite property management to ascertain operating performance and maintenance of the lodging asset. Asset management also dictates that asset managers makes recommendations that will improve the physical facility, increase revenue growth, provide consistent service quality, increase focus on the hotel’s marketing strategy and implement expense controls. To achieve ownership’s investment objectives, asset managers develop strategies by constantly assessing and analyzing the components of dynamic asset management which include: operational analysis and review; property repositioning, analysis and strategies; site analysis and selection; contract assessment, review and franchise agreements; monitoring and evaluating product improvement plan and brand compliance; hotel investment life cycle management; risk management, loss and business interruption management; acquisition and due diligence procedures; strategic lodging management; capital expenditure and capital expenditure budgeting; property planning and development; facilities recommendation and planning and; brand management and selection.
References


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