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WHITE PAPER:

Hotel Asset Management 101 For Investors

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As a holding asset, a hotel requires special attention in ensuring that it is as profitable (and valuable) as possible. Indeed, hotels have a number of unique overhead costs, and consequently face a number of unique challenges in managing them.

For hotel asset managers, this means understanding and focusing on a number of KPIs and cost metrics that range from financial performance indicators to operational intelligence to hotel management best practices. And having a proper grasp of these aspects of the hotel business often means the difference between keeping a hotel in the black to having it actually generate a significant return on investment.

Monitoring the Right KPIs

The more a business can measure, the more it can optimize and improve its performance. In the case of hotels in particular, there are some very specific KPIs that should be measured above all others.[1] Indeed, these are critical for everything from managing costs, predictive marketing, and planning for seasonal trends.

OCCUPANCY RATE

Simply put, "Occupancy rate is the ratio of rented or used space to the total amount of available space."[2] And for the hospitality business, that means the percentage of available rooms over a specific period of time.

It's also one of the most important hotel KPIs available because it provides:

- a high-level overview of hotel revenue performance,
- and the foundation on which to measure a number of other KPIs.

REVPAR

Probably the most commonly monitored KPI, RevPar (or Revenue Per Available Room) can be calculated in one of two ways: either "by multiplying a hotel's average daily room rate (ADR) by its occupancy rate, [or] by dividing a hotel's total room revenue by the total number of available rooms in the period being measured."[3]

Of course, this number can fluctuate from seasonality, economic climate, and consumer trends, which can make it difficult to track. But RevPAR remains crucial to understanding the success and profitability of a hotel property at any given time of year. Indeed, it should be used to plan and prepare for both high and low seasons.

AVERAGE DAILY RATE

Average Daily Rate (or ADR) is another useful metric that hotel asset managers should use to measure and calculate the profitability of a property. It provides insight into the average rate a room can earn on any given day during any given period, and is particularly useful for demand forecasting and predictive marketing. Indeed, ADR helps hotels predict seasonal trends, adjust their pricing accordingly, and maximize revenue per room.

GOPPAR

GOPPAR (or gross operating profit per available room) provides even greater insight into the actual performance of a hotel than RevPar.

This is because it considers not only revenues generated, but also the operational costs incurred to generate that revenue.

GOPPAR is calculated by subtracting hotel expenses from the hotel's total revenue, and dividing the difference by the number of available rooms. It doesn't, however, take into consideration the revenue mix of the hotel. So while GOPPAR does not allow an accurate evaluation of the room revenue generated, it does demonstrate the profitability and value of a hotel property as a whole.

[1] 12 Essential KPIs for the Hospitality Industry: https://www.verdant.co/blog/12-essential-kpis-hospitality-industry/

[2] Occupancy Rate: https://www.investopedia.com/terms/o/occupancy-rate.asp

[3] Revenue Per Available Room - RevPAR: https://www.investopedia.com/terms/r/revpar.asp

Managing Operational Costs

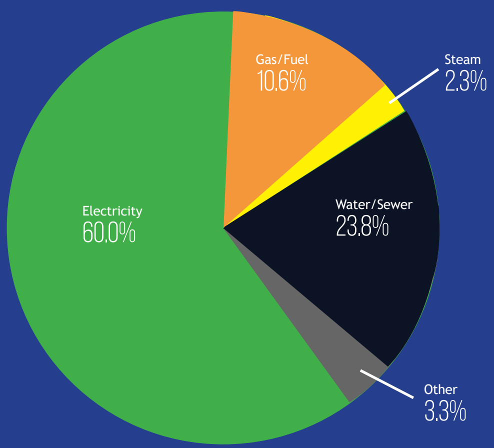
In an ideal business setting, every expenditure should be treated as an investment that's expected to yield a return.

And insofar as maximizing that return goes, asset managers should look at how they can both minimize those costs while maximizing their return.

Since GOPPAR is one of the best KPIs by which to measure hotel performance, moreover, there are a number of specific operational costs that should be closely monitored to ensure that a property is maximizing its performance.

U.S LODGING INDUSTRY

MIX OF UTILITY EXPENSES - 2014



Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

ENERGY MANAGEMENT SOLUTIONS

In the hotel industry, 'keeping the lights on' extends to a lot more than just lighting. Indeed, the 2015 edition of Trends® in the Hotel Industry found that "electricity is the largest utility expense comprising 60 percent of total expenditures. Water/service is the next largest utility cost (23.8%) followed by gas/fuel (10.6%), and steam (2.3%)."[4]

Fortunately for hotel owners, there are a variety of energy management technologies that make it possible to not only monitor their energy consumption with the utmost accuracy, but also adjust and optimize their consumption in response to real-time consumption patterns.

Specifically, IoT energy management devices now allow hotels to both use their HVAC systems more efficiently and save significantly on their energy consumption and costs. While smart thermostats and occupancy sensors monitor and respond to fluctuations in occupancy, smart energy management systems (like Verdant EI) employ sophisticated machine learning algorithms to continuously analyze historical thermodynamics, local weather patterns, and peak demand loads to optimize energy consumption in real-time, all year round.

Indeed, using smart energy management systems to monitor and optimize energy consumption can reduce hotel energy costs by up to 20%,[5] and generate some of the fastest payback periods in the industry (between 12-24 months).[6] The ROI is so significant, in fact, that it will increase the resale value of a hotel.[7]

[4] Consumption and Pricing Influence Hotel Utility Costs: https://www.hospitalitynet.org/opinion/4071456.html

[5] How it Works: https://www.verdant.co/how-it-works/

[6] Energy Management Thermostat Payback/Breakeven Periods: https://www.verdant.co/blog/energy-management-thermostat-payback-breakeven-periods/

[7] How Verdant Hotel Thermostats Increase the Resale Value of Your Hotel: https://www.verdant.co/blog/how-verdants-hotel-thermostats-increase-the-resale-value-of-your-hotel/

LEVERAGING PREDICTIVE MAINTENANCE

In the same vein that 'an ounce of prevention is worth a pound of cure', predictive maintenance can help hotels manage operational costs, as well as prevent costly (and unexpected) repairs to the property's infrastructure.

Specifically, predictive maintenance involves using sensor data to identify wasteful or hazardous trends, and alert maintenance staff before a given issue escalates into a much more costly one. So rather than waiting for a component to break down before being repaired or replaced, predictive maintenance allows engineering staff to predict maintenance needs based on system usage, prevent system failures, and reduce the costs of operating a faulty system.

Consider how a single leaky toilet can cost as much as $840/year,[8] and then add the cost of any additional water damage that occurs until the leak is detected. By monitoring water lines with smart, low-cost IoT-enabled water meters, however, hotels can see an ROI on their water consumption in about 4 years.[9]

Similarly, Verdant's energy management platform continuously collects data related to HVAC runtimes for each unique room and assigns them efficiency ratings. This rating is an indicator of how quickly a room can be heated or cooled back down to the guest's preferred temperature and provides engineering teams with critical alerts when HVAC equipment is in need of attention.

MONITORING LABOR COSTS AS % OF SALES

Of course, there is a lot more to a hotel's operational overhead than infrastructure costs. Indeed, a major part of any hotel's overhead is labour.

After all, a hotel still requires staff to manage bookings, clean room, and perform any number of services that are considered a fundamental part of the guest experience.

Indeed, labor is traditionally one of the most costly overhead inputs,[10] so this KPI is crucial to healthy operation of any hotel. By monitoring overall labor expenditures versus revenue, hotels can avoid over-staffing during slow seasons, days, or shifts.

MEASURING EMPLOYEE PERFORMANCE

Labor costs, of course, aren't just limited to salaries. There are also the hidden costs of employee performance.

In other words, there's how much a hotel pays for each unit of labor, and then there's how much value it gets from each of those individual units.

This is why:

You'll want to develop KPIs to measure your employees' performance, both in terms of their attitude and their output. For example, you might have KPIs measuring appearance and friendliness as well as KPIs measuring speed of service, cleanliness of rooms, etc. Staff turnover is another employee-related KPI that's important in any business.[11]

After all, a big part of maximizing the ROI of a hotel's staffing decisions is understanding not only the optimal number of staff to have on hand at any given time, but also the optimal output for each of those staff members.

[8] Toilet Leaks Cost You $840 per Year: http://www.isustainableearth.com/water-conservation/toilet-leaks-cost-you-840-per-year

[9] Energy Management Thermostat Payback/Breakeven Periods: https://www.verdant.co/blog/energy-management-thermostat-payback-breakeven-periods/

[10] Visualizing Essential Hospitality KPIs in the Age of Big Data: https://www.idashboards.com/blog/2017/05/24/essential-hospitality-kpis-big-data/

[11] KPIs for the Hotel Industry: https://www.storeranker.com/kpis-for-the-hospitality-industry/

Analyzing Booking Curves and Booking Channels

Just as predictive maintenance helps to reduce infrastructure costs and ADR helps to predict seasonal trends and maximize revenue per room, asset managers also need to understand what channels are driving the highest volume of business into their markets (and at the best rates).

This means asset managers should understand what channels -- such as wholesalers, online booking sites, and various marketing tactics -- drive the most valuable booking, and then capitalize on them.

Rethinking the Data

As illustrated by the financial and operational KPIs outlined above, data is an integral component to effective revenue management. The data you're collecting, however, should always be relevant.[12]

For instances, many businesses collect a lot of extraneous data. This leads to paralysis by analysis, and ends up impeding rather than aiding in making smart business decisions.

So hotel asset managers should focus on the most essential data points, as well as on how they collect, record, and use that data. This will make it easier to interpret the data, and make more relevant observations about hotel performance.

In other words, "[r]ather than looking at reservations on the books, [hotel asset managers] should [also] look at all bookings and cancellations of bookings to understand the consumer, channel and segment behavior in order to leverage [their insights] appropriately."[13]

[12] Top 10 Tips for Successful Hotel Revenue Management: https://www.xotels.com/en/revenue-management/top-10-tips-for-successful-hotel-revenue-management

[13] 4 revenue-management tips that will drive profitability: https://www.hotelmanagement.net/revenue-management/4-revenue-management-tips-will-drive-profitability

Leveraging Strategic Upselling and Cross-Selling

Upselling and cross-selling is one of the easiest ways a hotel can improve financial performance. And this should go beyond standard upgrades (e.g. upselling on room size).

Specifically, hotel asset managers should also focus on offering activity packages (such as restaurant reservations, spa services, or local tour bookings) at the time of both booking and check-in. This will allow hotels to spread revenue throughout the property's other services, as well as to its strategic partners.

Implementing Time Management Best Practices

Time is money, and insofar as an asset manager's time is particularly valuable, they need to be managing it effectively. Specifically, just as it is important to rethink data collection efforts to avoid paralysis by analysis, it is also important that an asset manager have (and take) the time to mine and analyze data that they've deemed relevant to their property.

In other words, just as hotel asset managers need to know what makes expenditures generate a return, they also need to be conscientious about what activities actually improve and maintain hotel profitability. Doing so will allow them to avoid distractions (such as superfluous meetings or email correspondence), and focus their energy on efforts that actually impact a property's bottom line.

Strategic Hotel Investment

A smart investment is one that's poised to generate a return. In the case of the hotel industry, however, passive investment is not an option.

As an asset, a hotel requires a special kind of hands-on management if it is going to yield a return, and a particularly strategic approach to that management style if investors hope to maximize that return. Indeed, from financial performance to operational best practices, there are no shortage of KPIs to be monitored and costs to be managed. With the proper expertise and attention to data, however, there is no reason why an investment that looks good on paper can't be made to generate a significant ROI in reality.