

## Insights

# COVID-19: A PERFECT OPPORTUNITY FOR HOTEL OWNERS AND OPERATORS TO RECONNECT

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## SUMMARY

Whilst the current Covid-19 pandemic is an extremely challenging time for the hotel industry, it also presents an opportunity for hotel operators to re-connect with their owners, and demonstrate the value that they bring to the relationship.

*“Never let a good crisis go to waste.” Winston Churchill*

The COVID-19 pandemic presents an unprecedented challenge to the hotel industry, with occupancy levels and average daily rates in most markets dropping off a cliff and uncertainty as to when government mandated travel restrictions and lockdowns will end. Even when the pandemic is brought under control, it is unclear what type of recovery we will have. Will it be a V-, U- or other shaped recovery? And will it actually be over, or are we in for several waves of infection that cause longer term damage to the hotel industry?

Unfortunately, we do not have the answers to these questions at this stage. But this doesn't prevent owners and operators from taking positive steps during this crisis to re-connect and re-affirm their relationship. Operators can also leverage their expertise to help owners mitigate the effects of this crisis on their businesses.

## Re-establish relationships

Owners have long grumbled that operators have lost the personal touch and that owners have become just a number to them, with little or no personal attention paid to individual hotels. This is a perfect time for this to change.

Whilst there is still a lot of crisis management to be done for both parties in their respective businesses, they should nevertheless use this opportunity to re-connect with each other. Their relationship is important now more than ever and time spent re-connecting will not only help to

mitigate the effects of the crisis but also hopefully build a stronger relationship going forward after the crisis has ended.

## **Future budgeting**

Setting annual budgets for the next few years is likely to be a difficult task due to the market uncertainty created by this crisis. It will no longer be a case of simply taking last year's numbers and applying some uplift.

Operators should use their experience of managing hotels through past crises (such as SARS) to assist their owners in producing realistic budgets and forecasts for the next few years (as well as adjusting the existing budget and forecasts for the current year). This is essential not only to help owners with their future financial planning but also to assist them with potentially difficult conversations with their lenders about debt restructuring.

## **Deferral of fees and FF&E reserve contributions**

Cash flows are likely to be badly affected during this time. Operators may therefore consider reducing, waiving or deferring their "corporate charges" relating to centralised services that are in some cases not being provided at the moment. If the owner's hotel is currently closed or occupied by government health workers on a fixed rate contract, it may be damaging to the owner/operator relationship if the operator insists on continuing to receive these charges.

Additionally, operators may also consider offering to defer the usual monthly contributions into the FF&E reserve or to allow owners to use any available funds in the reserve to meet more pressing needs such as payroll.

Any assistance that operators can give to owners to help preserve their cash flows at this time will undoubtedly generate goodwill with owners and be remembered in future.

## **Effective use of downtime**

The parties should discuss ways to use this low occupancy period effectively. For instance, is now the time to carry out room and public area renovations or furniture, fixtures and equipment refreshes that would otherwise have caused disruption to guest experience if carried out during higher occupancy periods? This is obviously subject to being able to carry out works safely during this period.

## **Alternative sources of revenue and effective management of costs**

Owner and operators should explore alternative sources of revenue during this crisis. For instance, are there any governmental programmes available for use of the hotel as accommodation for health workers, or can the hotel's food and beverage be repurposed for food delivery services? And

can the operator leverage its scale to negotiate goods rates for its owners taking part in these programmes?

Management of cost is also crucial during this time. Owners often have limited control over spending in their hotel management agreements and operators typically reserve wide discretion to spend in times of crisis. But rather than using their owners' cheque books to preserve their brand and standards, operators should use this authority sensibly and focus on preserving the business as a going concern, which is clearly in both parties' interest.

### **Governmental health requirements**

In hotel management agreements, operators often exclude any obligation to ensure that the hotel complies with applicable laws and regulations. However, operators are often best placed to know of these requirements from their experience of running multiple hotels in any given jurisdiction.

Regardless of what the hotel management agreement says, operators should help their owners to understand and implement any additional health and safety requirements imposed on the hotel. Additionally, operators may also enhance their existing standards to assuage guest concerns about the crisis and encourage them to return.

### **Government stimulus and job protection schemes**

Similarly, the parties should monitor for any government stimulus packages and job protection schemes that may benefit the hotel and have a dialogue about how best to utilise them. These schemes are designed to support struggling business during this difficult time, so it is important that owners and operators take full advantage of them, particularly to ensure that they are able to retain as many employees as possible and avoid the time and cost of retraining anew. When this crisis ends, the employees will remember how they were treated and may be more inclined to jump ship if they are treated badly.

### **Sales and marketing, loyalty and other centralised services**

Owners often question the various (and often opaque) sales and marketing, loyalty and other "corporate" charges that operators charge. Now is the time for operators to be more transparent about these charges and prove their value for money. When this crisis ends, they must leverage them to capture the (hopefully) resurgent demand for travel and drive bookings back into the hotel.

Operators should also be talking to their owners now about their plans to attract guests to the hotel when the market comes back. Is the operator planning major sales and marketing campaign and/or discounted rates or other offers to attract guests? One size is not likely to fit all. Operators should discuss these with owners and get their buy in now, especially if these will involve additional costs to the owner.

### **Conclusion**

The COVID-19 crisis presents many challenges for hotel owners and operators. However, it also presents a great opportunity for operators to demonstrate their value to owners and for the parties to navigate this crisis together and come out with a stronger relationship that generates a more profitable business for both in future.

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## **MEET THE TEAM**



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