

HOTEL MANAGEMENT COMPANY SELECTION AND NEGOTIATION

Client: Developer in Dubai

BACKGROUND TO THE STUDY

TRI Consulting was commissioned to assist with the selection of a hotel management company and to negotiate an appropriate operating agreement for the hotel component of a large scale multi-use project in Dubai.

TRI had previously completed a detailed market and financial appraisal for the project, which indicated that an opportunity existed to develop a hotel product on the subject site.

Our methodology included three consecutive steps detailed as follows:

Phase 1 – Preparation of the Project Brief

The Project Brief was circulated to an identified list of targeted hotel operators. The Project Brief comprised a summary of the market and financial opportunity represented by the proposed hotel component:

The Brief provided potential operators with a base level of information on which they could judge the merits of the project and, hence, secure their interest in submitting a tender for the operation of the hotel.

Phase 2 – Identification of Potential Hotel Management Companies

We identified a targeted shortlist of potential operators which were considered appropriate in terms of operation, style and property portfolio to the project. Prior to circulating the Project Brief, we discussed and agreed the list of operators with our client as well as the content of the letter which we proposed to send to the selected list of operators, for the purpose of setting parameters on the potential operators/lessees.

Phase 3 – Hotel Management Company Contract Negotiation

We circulated the Project Brief to the identified operators and followed up by personal telephone calls in order to solicit timely responses and answer any queries and questions that they may have had. We also requested that each operator submit a formal tender offer for the management contract.

We analysed the responses received to establish the suitability of their proposals in the context of the projects, our client's requirements and the financial offers being made. We prepared a written report on the submissions and recommended the operator with whom detailed negotiations should be initiated.

Acting as our client's adviser, we conducted these negotiations and sought to achieve acceptable Heads of Terms for a management contract which would subsequently become the commercial terms of the agreement so as to fulfil our client's requirements.

Negotiation issues included, but were not be limited to, such matters as:

- requirement for operator equity participation;
- technical assistance;
- contract term (number of years, plus renewal periods);
- management fees;
- level of equity/debt finance available;
- requirement for a profit guarantee;
- reporting requirements;
- termination;
- transfer of ownership;
- exclusivity;
- hotel personnel;
- reserve for replacement of fixtures, fittings and equipment; and
- indemnity.

Additionally, we explored the possibility of other proposals put forward by potential operators, such as leasing the hotel site, or entering into a Joint Venture agreement.

Prior to commencing the detailed negotiations, we agreed with our client the most appropriate management contract (in relation to the aforementioned and other contract issues) for the proposed hotel project.