

asset management report

The role of asset manager is often a complicated one. With the industry continuing to see strong fundamentals, *Hotel Business* sampled how asset managers are addressing their responsibilities in the current environment and what expectations are for 2018. Giving a glimpse into the months ahead are Anjali Agarwal, EVP of asset management, The Chartres Lodging Group LLC; Paul Breslin, managing director, Horwath HTL; Chad Crandell, managing director/CEO, CHMWarnick LLC; and Erik Johnson, VP, Benchmark Owner Advisory Group.

—Stefani C. O'Connor

Describe today's dynamic among owner, management company, brand and the asset manager.

Agarwal: [In particular], Marriott's acquisition of Starwood has resulted in a completely new landscape for owners of former Starwood hotels. From the way the sales teams are organized to systems and technology, back-office accounting and the budgeting process, things are materially different... The continuing emergence



Anjali Agarwal
The Chartres Lodging Group LLC



Paul Breslin, Horwath HTL

of new brands presents a challenge.

Breslin: The relationship has never been better, with all operating at record levels and growing. Yet, it has never been more challenging and, in some cases, contentious. The good news is when it comes to what matters, such as safety, quality, the need to satisfy the guests and employees, all are aligned. The challenges are found in the approach: who should be the benefactor; the how and when, and optimal efficiencies.

Crandell: We describe the dynamic as highly collaborative... While we may not always be in agreement with the property team, developing relationships rooted in mutual respect and alignment of goals has been the cornerstone of our success. That being said, there is a clear divergence in what defines success. Despite the longest period of sustained growth experienced by the lodging industry, costs are growing at, if not exceeding, the rate of revenue growth. In this equation, operators/brands compensated on revenue performance continue to prosper, while owners face the reality of eroding profit margins.

Johnson: For the benefit of the owner, the major dynamic to be concerned with is between the management company and the asset manager. The combination should equal something greater...if all are acting toward a common goal. The ability to determine the challenges on a timely basis and determine solutions and direct together can be powerful. The brands set rules to work within and should provide a revenue spigot the others mentioned need to take full of advantage of.

What are the greatest challenges for your company?

Agarwal: Decisions made by our operating partners that may benefit a certain group of hotels in their portfolio, but to the detriment of the hotels that we own. Balancing and reconciling different priorities and aligning all stakeholders toward shared goals and success continues to be a key aspect of our role.

Breslin: We are keenly focused on risk avoidance; safety and security; optimal revenue growth; cash flow to the bottom line; asset value and preservation—both short and long view; being a guide and/or coach to

the operator; and brand from the owner's perspective.

Crandell: Obtaining data and transparency of brand initiatives. The format in which data is received and the reports provided has not evolved sufficiently to track trends most meaningful in today's operating climate. Or worse, ownership is not privy to such reports because they are not itemized in management agreements. The second challenge is the plethora of brand initiatives implemented over the course of a given year and the lack of hotel-centric-based evidence that they are to the benefit of owners.

Johnson: It is important the manager and asset manager are on the same page with regard to managing the future. Predicting, then solving, problems before they arise and taking advantage of opportunities that others don't see takes an open relationship with no egos.

How are you hedging against the anticipated cyclical slowdown?

Agarwal: We are opportunistically selling in certain markets, strengthening our talent, putting more group business on the books and locking in longer-term loans with realistic debt and extension tests.

Breslin: Through innovation, strategic thinking and a focus on proactive leadership who are finding a way to win. It's the marathon versus sprint mentality. And to focus on the best approach for each hotel, not the cookie-cutter method for all.

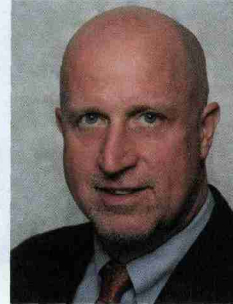
Crandell: From an industry standpoint, we're still in "growth" mode, but the current dynamic of decelerating revenue growth and accelerating expense growth has forced us to...

implement strategies aimed at preserving profit margins even absent a true industry "slowdown." Our focus is less on preparing for a downturn and more on recalibration of the operating model in light of this new norm.

Johnson: Diversifying market segments where opportunities allow and looking at creative and non-typical org charts and job-shaping opportunities. Also, deploying technology to save labor and other expenses.

Tell us your expectations for 2018.

Agarwal: Continue to protect asset value in the light of the changing labor



Chad Crandell, CHMWarnick LLC



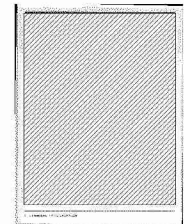
Erik Johnson
Benchmark Owner Advisory Group

environment; make investments that can demonstrate meaningful value creation; find new avenues to drive market share in the wake of supply growth; and execute upon investment objectives to deliver results.

Breslin: Expect the unexpected, anticipate new competitors and anticipate changes in supply and demand. Every manager should read *Who Moved My Cheese?* With aggressive competition and new disrupters, the more we become successful in the hospitality space, the more it will attract outliers to steal market share and find new ways to shake up the status quo.

Crandell: We expect to see demand for qualified service providers in the asset management space continue to increase. As one of my business partners describes it: "Asset management is an insurance policy, except you don't have to die to collect."

Johnson: The need for asset managers will continue to grow...with the ever-expanding distribution channels, brand alternatives, revenue-management strategies and a changing customer base.



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