TEASER

HOTELIVATE
ELEVATION THROUGH INNOVATION

2024 Hotel Management Contract Survey
South Asia

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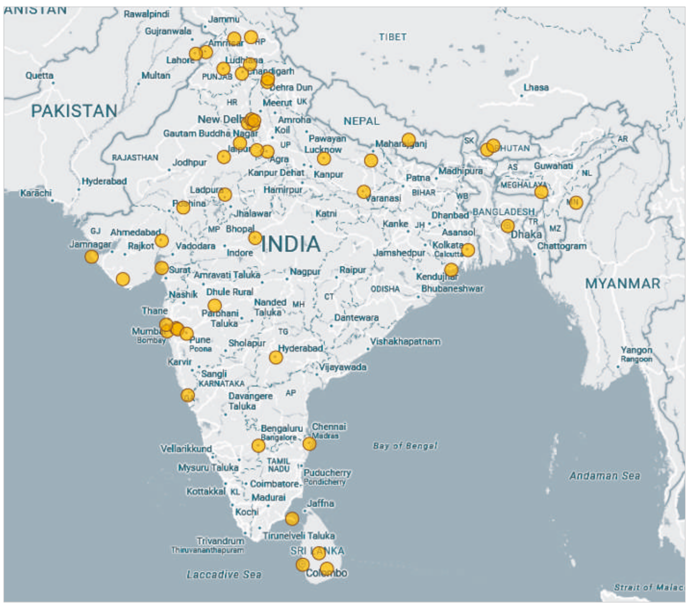
Hotel management contracts have become the dominant model for expansion in South Asia over the past two decades, with even Indian hotel brands increasingly adopting this approach. This strategy offers significant benefits: operators achieve rapid growth, owners gain brand expertise and potentially higher returns, and stakeholders like consultants and lawyers find a thriving niche. This evolving landscape necessitates expert guidance to navigate hotel management contracts. Choosing the right partner directly impacts profitability and asset valuation. As seasoned consultants in South Asia, we have witnessed firsthand how these contracts have adapted to market dynamics, competition, and owner demands. While experienced owners are becoming more adept at negotiation, many still rely on experts to secure optimal terms. Inexperienced owners, in particular, benefit greatly from expert guidance throughout the process. Our experience highlights several poorly negotiated contracts signed by owners without expert guidance. In some cases, even Letters of Intent (LOIs) were signed independently, limiting our ability to negotiate definitive agreements effectively.

The 2024 Hotelivate Management Contract Survey sample includes 151 contracts covering 27,272 keys across 53 cities across South Asia. It encompasses 28 hotel companies and 60 unique brands, with contracts dating back to 1998 and as recent as 2024. Data was collected by evaluating contracts from Hotelivate's internal database, administering an online questionnaire, and engaging in discussions with hotel owners and operators. In certain cases, Hotelivate only had access to the signed LOI or the key commercial terms in the contract which have been incorporated in the report.

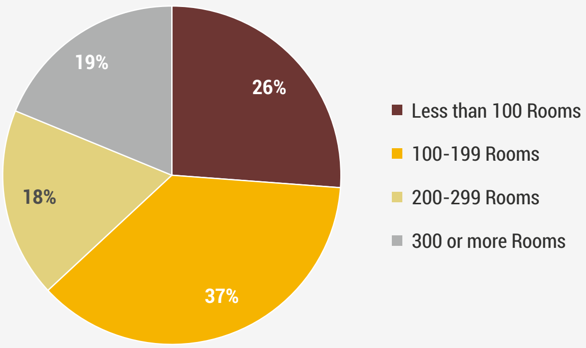
HOTEL COMPANIES

Accor	The Ascott Limited	Concept Hospitality	Fortune	Four Seasons Hotels and Resorts	Hilton
Hyatt	IHCL	IHG Hotels & Resorts	ITC's Hotel Group	Jetwing	Jumeirah Hotels & Resorts
lebua Hotels & Resorts	Lemon Tree Hotels	Mandarin Oriental The Hotel Group	Marriott International	MGM Resorts International	Minor International
Oakwood	Oberoi Hotels & Resorts	Premier Inn	Radisson Hotel Group	Sarovar Hotels & Resorts	Shangri-La Hotels and Resorts
	Starwood Hotels and Resorts	The Leela Palaces Hotels Resorts	The Park Hotels	The Postcard Hotel	

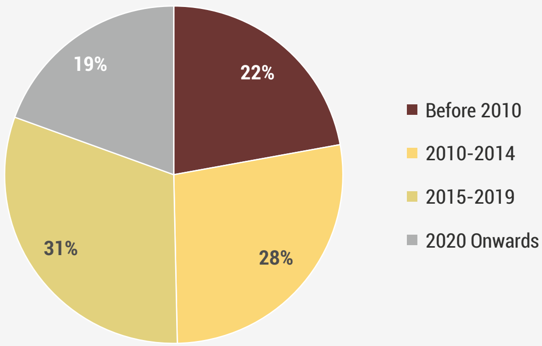
CONTRACTS 151	OWNERS 100	INVENTORY 27,272
HOTEL COMPANIES 28	BRANDS 60	MIN. INVENTORY 13
CITIES 53	STATES 22	MAX. INVENTORY 700



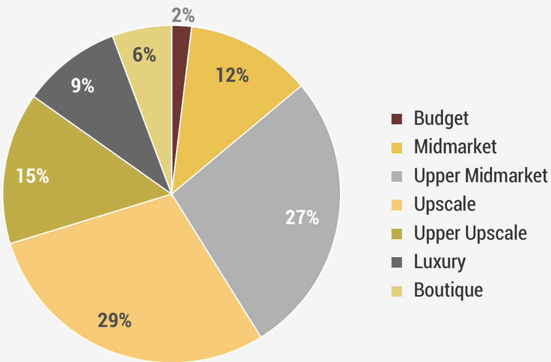
Inventory Range Distribution



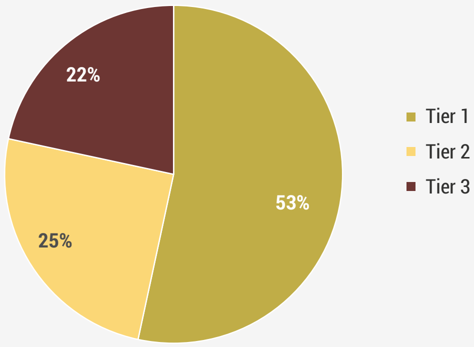
Year of Signing Distribution



Positioning Distribution



City Tier Distribution



The 151 contracts in the sample set vary in format. Some include all supplementary agreements such as the license and royalty agreement, technical services agreement, chain marketing services agreement, and pre-opening agreement, among others. Others consist solely of the hotel management agreement (HMA)/operating services agreement (OSA), or the final letter of intent (LOI)/memorandum of understanding (MOU), which may lack some of the information sought for the survey.

About The Report

This in-depth report explores the key terms and clauses typically found in hotel management agreements. It provides clear definitions and analyses trends over time. Authored by hospitality experts with extensive experience in operator selection and contract negotiation, the report offers exclusive insights and practical guidance. Designed as a reference document for industry professionals, this survey report will enhance your understanding of both traditional and emerging topics in hotel management agreements for South Asia. Key areas covered in the report include:

Initial Term	FF&E Reserve
Renewal Term	Hotel Employees
Area of Protection	Operator's Investment in the Property
Technical Service Fees	Arbitration
Base Management Fees	Indemnification
Incentive Management Fees	Owner-Operator Relationship
Other Operator Fees	Termination
Operator Performance Test	Post- Termination Responsibilities
Annual Budget	Rise of Franchising
Bank Account Control	Branded Residences

The following excerpts have been taken from the **2024 Management Contract Survey.**

TERM OF THE CONTRACT (YEARS)

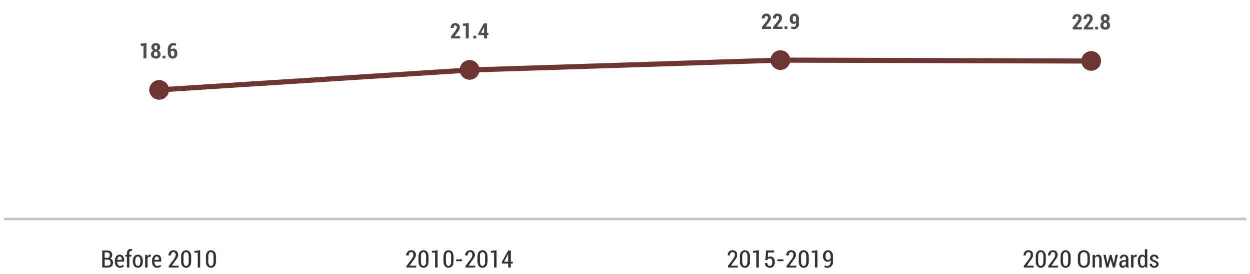
Positioning	Minimum	Median	Average	Maximum
Budget	12.0	15.0	19.0	30.0
Midmarket	8.0	10.0	16.4	35.0
Upper Midmarket	10.0	25.0	21.5	35.0
Upscale	7.0	25.0	23.2	40.0
Upper Upscale	10.0	20.0	22.8	30.0
Luxury	10.0	25.0	24.2	40.0
Boutique	15.0	20.0	22.1	30.0

The duration of the agreement is determined by an initial term, along with one or more renewal terms. The tenure of the agreement is influenced by various factors such as positioning, inventory, signing year, location, and specific commercials. In our survey sample set, the initial term ranges from 7 to 40 years, with a median of 21.5 years and an average of 21.8 years. The average initial term for the higher-positioned hotels tends to be longer compared to the budget and midmarket categories. This trend likely reflects the preference of both owners and operators for greater stability and continuity, especially considering the higher investment levels associated with upscale or higher-positioned hotels. It is important to note that due to the smaller sample size of budget hotels, the data may appear slightly skewed compared to other hotel categories. Typically, the average contract length would be less than 15 years for budget hotels.

INITIAL TERM SPLIT

The vast majority (nearly 95%) of contracts fall within two tenure ranges: 10-20 years and 21-30 years. Within these ranges, terms of 20 and 25 years are particularly common, each representing roughly a quarter of all contracts. It is worth noting that some older contracts and contracts for luxury branded hotels have longer terms exceeding 30 years. The current focus among major hotel operators is on securing agreements between 15 and 25 years.

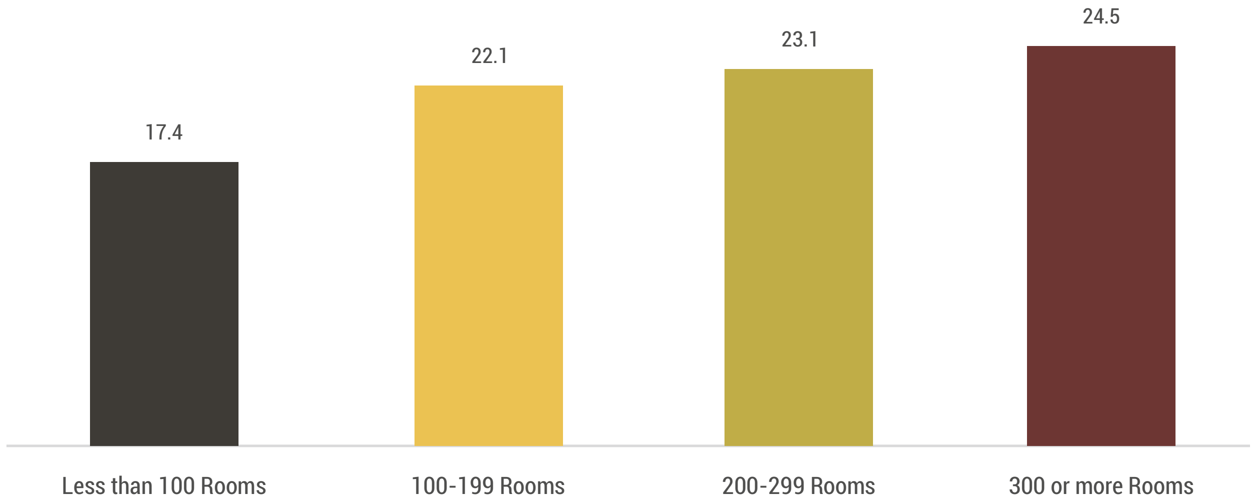
INITIAL TERM BY YEAR OF SIGNING (YEARS)



From the lens of the year of signing, the initial term has witnessed a marginal growth over the years. This increase can be attributed to several factors:

- **Brand Stringency:** Brands are becoming more stringent with their contract terms, with most operators aiming for a minimum term of at least 20 years.
- **Growing presence in leisure locations:** Leisure destinations tend to have a smaller inventory base and typically take longer to generate steady returns, prompting brands to prefer longer tenures to justify the deal value.
- **Large Base of HNI Owners:** The ownership base in South Asia continues to be skewed towards HNIs/UHNIs. Since fees are a more significant factor for these owners compared to contract length, hotel brands can offer longer initial terms in exchange for more favourable commercials in other parts of the agreement.

INITIAL TERM BY INVENTORY (YEARS)



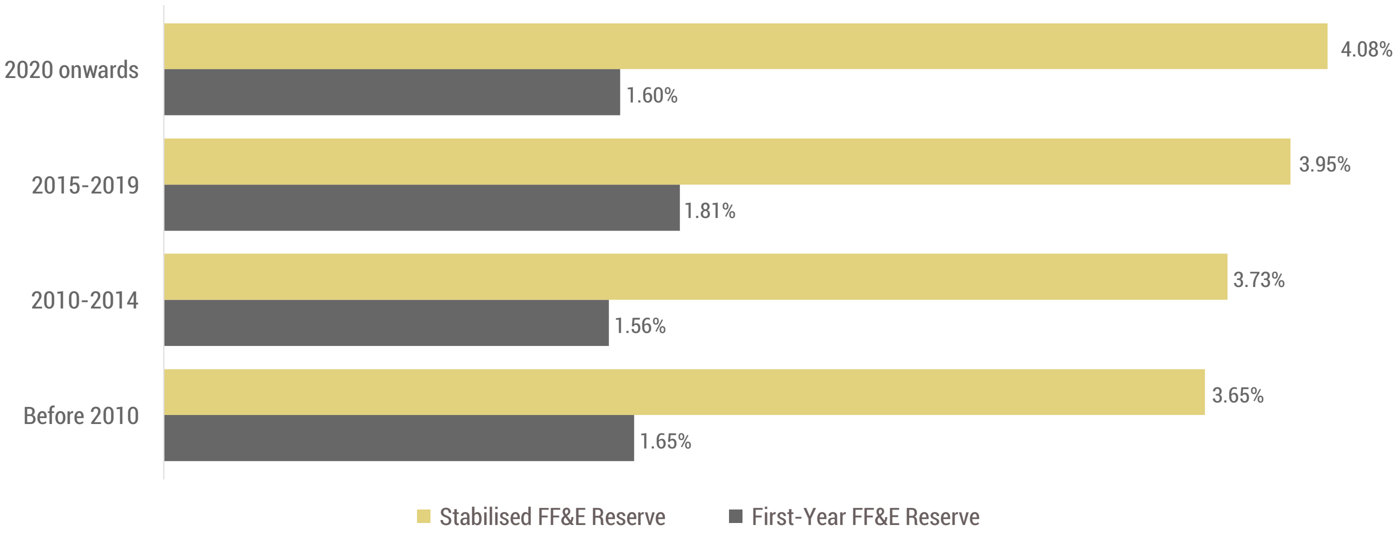
Interestingly, the average initial term tends to increase with the size of the hotel, which can be attributed to several factors:

- **Higher Positioned Hotels:** Larger format hotels often belong to upscale or higher positioning categories, which typically entail longer initial terms.
- **Mature Real Estate Markets:** Hotels with an inventory of 200 rooms or more are frequently situated in Tier 1 locations, representing mature markets where both the owner and the brand have confidence in the benefits of a longer-term association.
- **High Deal Value:** Due to the substantial fees generated by these large hotel projects, operators are often willing to offer more favourable terms in the contract. This can include better fee structures or even some form of equity participation, such as key money or a soft loan. In exchange for these concessions, operators typically seek a longer initial term.

FF&E Reserve

Maintaining a hotel's condition is critical for its long-term value and guest satisfaction. This ongoing process involves periodic soft refurbishments (typically every 5-6 years), and major renovations (every 10-12 years). To ensure the ongoing upkeep of furniture, fixtures, and equipment (FF&E), owners contribute to a dedicated reserve fund for future replacements. These contributions typically range from 1.0% to 5.5% of the hotel's total operating revenue, gradually increasing as the hotel's performance stabilises (typically within 4-5 years). This lower initial allocation reflects the newness of the property and lower initial maintenance needs. On average, the first-year FF&E reserve has been stable over the years. However, as shown in the figure below, stabilised average FF&E reserve allocations have risen by approximately 50 basis points over recent years, reflecting a growing industry understanding of the importance of a robust reserve for long-term upkeep. Some brands are even starting to implement a further ramp-up for the reserve after 10 years to address ageing FF&E. Moreover, existing or converted hotels may require a higher initial contribution depending on their condition. It is important to distinguish FF&E expenditures from major capital expenditures, which are separately funded by the owner for asset improvements.

AVERAGE FF&E RESERVE CONTRIBUTIONS (% OF GROSS OPERATING REVENUE)



The FF&E reserve is usually held in a separate bank account controlled by the operator, with spending authorised according to the annual operating plan. While not a direct payment to the operator, higher FF&E reserve contributions can reduce an owner's overall profitability.

Indemnification

Hotel management agreements use indemnification clauses to allocate financial responsibility for legal claims by third parties (vendors, guests, government) between owners and operators. These clauses define which party covers losses arising from such claims. Typically, the owner indemnifies the operator for most claims, excluding those caused by the operator's willful misconduct or gross negligence. In rare instances, some brands even restrict the owner's compensation for proven operator misconduct to a predetermined amount linked to past management fees. Further complicating matters, contracts may define terms like "misconduct" or "gross negligence" differently than local law with the contractual definition superseding the legislature. Our review of sample agreements found that over half favour the operator with one-sided indemnification provisions. Due to these regional variations and the inherent complexity of indemnification clauses, consulting with legal counsel before finalising any agreement is crucial. Additionally, purchasing appropriate insurance is essential to manage potential liabilities. Most contracts prioritise using available insurance proceeds to remunerate the due arising from any claims.