

# Manhattan Hospitality Advisors

## Asset Management Case Study

### Luxury Resort

#### Background

We were engaged to execute the due diligence on this Four-Star, Four-Diamond resort, transition the asset to the new ownership, a multi-billion dollar private equity fund, and asset-manage the property on our client's behalf. The Operator felt strongly that ADR had reached its maximum potential and could not be increased without reducing occupancy and guest satisfaction. Additionally, the operator claimed that the existing product offering did not need to be enhanced. The Operator was neither focused on cost containment especially in terms of payroll, nor revenue enhancement and felt strongly that all sources of revenue, including spa and food and beverage, were performing optimally.

#### Financial Improvement

	Beginning	To Date	Improvement	Improvement (%)
ADR	\$468.64	\$748.53	\$279.89	<b>59.7%</b>
RevPAR	\$391.05	\$554.24	\$163.19	41.7%
Room Revenue	\$54,239,100	\$77,084,300	\$22,845,200	42.1%
F&B Revenue	\$19,887,100	\$26,744,300	\$6,857,200	34.5%
Total Revenue	\$83,042,500	\$116,117,300	\$33,074,800	<b>39.8%</b>
GOP	\$27,455,100	\$40,462,800	\$15,707,700	47.4%
Net Earnings	\$21,458,400	\$31,637,600	\$10,179,200	<b>47.4%</b>

#### Revenue Enhancement

- 1) We raised ADR at the property by \$279.89, or 60%, over a 5 year period. We were able to do so by aggressively directing the property to change their business mix which was heavily dependent on low-rated wholesale and group business. We instructed them to increase their share of higher-rated leisure business and to not pre-sell the property a year in advance. We offered an array of strategies to attract the desired targeted market segments.
- 2) The Operator informed us that they could not charge for parking at the resort due to competitive market conditions. We completed a competitive survey and directed the Operator to start charging for parking, resulting in incremental revenues of \$300K annually and approximately \$200K of NOI.
- 3) We raised the daily Internet charge to an amount commensurate with competitive hotels, resulting in \$350K of incremental revenue and NOI annually.
- 4) We re-concepted the existing three-meal restaurant offering to reflect more positively on the resort. The concept was an inferior product and produced a mere 32 covers per night. Dinner covers increased to 130 covers per night and average check increased by almost \$5.00 per cover. The new restaurant concept now attracts local diners in addition to hotel guests, thus expanding the hotel's client base.
- 5) We played an instrumental role in raising the quality of service and product offering at the resort resulting in the awarding of a Fifth-Star and Fifth-Diamond. The property is now consistently

named the top resort in Hawaii and one of the top 10 resorts in the world by Conde Nast and many other travel publications.

- 6) Changing the business mix and improving the quality of service and product offering has widened the ADR and RevPAR spreads between our resort and the competitive set. At the beginning of our assignment, the ADR spread between us and the competitive set was \$107.21. That spread has now increased to \$235.56. Additionally the RevPAR spread widened from \$107.84 to \$215.01.
- 7) We increased pricing on all food & beverage outlets resulting in significantly higher average checks.
- 8) Under our guidance the spa offerings were revamped, thus increasing spa revenue POR from \$38.45 to \$52.02, an increase of 35.3%.
- 9) Our combined efforts assisted the Owner in increasing the resort's value by 275%.

### **Cost Containment**

- 1) Payroll overages were a consistent issue with this particular Operator. We built a zero-based staffing guide for the resort and forced the Operator to reduce staffing by the equivalent of 85 full time employees, resulting in payroll savings of \$3.9 million and we identified \$6 million more in potential savings.
- 2) We renegotiated the Hotel Management Agreement reducing the incentive fee paid to the Operator by adding a hurdle for all Owner's capital investments.

### **Capital**

- 1) We project managed a \$50 million renovation of the resort including guestrooms, corridors, public spaces, and the three-meal restaurant.
- 2) We assisted in the design of and project managed the construction of, a new \$11 million adult infinity edge pool that will generate approximately \$500K of incremental revenue.
- 3) We initiated a competitive retail survey which determined that the existing retail was inadequate when compared to competitive hotels. We instituted a new retail plan and project managed a \$1.7 million renovation of the pre-existing retail space which will generate an additional \$2M of incremental retail sales per year.
- 4) We conducted a study to analyze the incremental value associated with adding a new condo tower to the resort in order to maximize the Net Present Value of the asset.



Oversight and management of the entire FF&E reserve fund saving millions of dollars of unnecessary expenditures, on an annual basis.