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## **Asset Management for a Changing World: Learnings and Strategies from the Pandemic**

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Prior to the onset of COVID-19, hoteliers around the world were enjoying a “Golden Age of Hospitality.” Record-breaking performance in 2019 continued a period of reliable growth, development pipelines surged globally, portfolios expanded from a proliferation of brands with minimal differentiating attributes, and investor confidence remained strong resulting in healthy transaction activity. Hotel asset managers benefited from this period as owners sought their expertise to fully optimize returns during this robust performance period. After one of the longest spans of consecutive RevPAR growth in history, asset managers had access to consistent, reliable data and key metrics that were easily comparable across years of stabilized performance. Then, everything changed.

While economists anticipated a cyclical downturn given the significant period of growth, COVID-19’s impact could not have been predicted by the best prognosticators. Overnight, this event fundamentally altered the hotel industry’s outlook in a way not previously experienced. The impact of 9/11 and The Great Recession paled in comparison. Analytical practices that asset managers relied on for years became obsolete, standard hotel operating structures irrelevant, and projecting future performance unpredictable. As a result, asset managers spent 2020 supporting clients and management teams in ways never before contemplated. A swift change in strategy was required and a multi-faceted approach paramount.

At the operating level, draconian cost-saving measures to slow the cash burn became mandates, and ownership strategies fixated on saving their assets. Now, with one year of unpredictability behind us, asset managers have the opportunity to reflect on their learnings and re-envision a stronger, nimbler hotel operating model, while developing risk mitigation strategies at the ownership level.

### **Reflect**

The successful asset management companies have recognized that adapting their asset management platforms is an absolute and not an option given the events of the past year. Of the many takeaways from the pandemic-induced environment, the three below are perhaps the most cogent and will have a lasting impact on future operating and ownership strategies.

1. Reset the traditional hotel operating structure.
2. Redefine what is negotiable.
3. Plan for pinhole risks and associated cash management vulnerability.

### **Reimagine Hotel Operations**

As COVID-19 devastated demand across the globe, hotel asset managers needed to determine what resources and staff were essential for the new low-occupancy environment and, when mandated by cash flow, a temporary suspension of operations. The process necessitated an in-depth operational review to establish where additional efficiencies existed and it quickly became clear that standard metrics once used to evaluate staffing and expenses (PAR, POR, % of revenue) would no longer apply. As a result, asset managers were required to reevaluate each hotel's operating structure. What positions can be combined? What labor is truly fixed? How can F&B operations be modified to adapt to volatile occupancies, meet changing guest needs, comply with local and federal guidelines, and be profitable? These questions allowed asset managers, in collaboration with operating partners, to develop a minimally fixed and highly flexible operating structure to address fluctuating demand levels and ever-changing federal and local restrictions. These models often relied on developing demand-triggered metrics to establish staffing and expense levels to be dynamically adjusted as part of future forecasting and cash management exercises. The advent of such modeling will impact future staffing and expense management practices as asset managers and owners look to hold operating partners accountable for sustainable operating models. The requirement for new operating models will be explicit as owners work to recover from the pandemic and make sense of their investment strategies.

### **The Art of Negotiation**

With performance impacted, a thorough review and renegotiation of contracts and agreements between brands, operators, lenders, and service providers became essential. Asset managers played an integral role in identifying opportunities, and in many instances, led discussions with stakeholders around a wide array of relief strategies. The goals of these negotiations were to obtain fee relief, modify the scope of services, defer payments, and/or agree upon less restrictive

terms which would provide additional operating flexibilities, allowing asset managers to focus the use of cash on the most critical expenses. Industry partners were responsive to the needs of the hotels; brands loosened standards, operators reduced shared service fees, lenders waived Furniture, Fixtures & Equipment (FF&E) contribution requirements, and vendors agreed to payment plans. While many of these actions were self-serving to each party's pandemic survival strategies, these exercises gave asset managers a new playbook for future downturns, contract reviews, or performance concessions.

### **Focus on Cash**

Ownership investment goals are the *raison d'être* of an asset manager and 2020 was no exception. In 2020, the definition of "returns" was turned on its ear as loss mitigation strategies trumped ROI. Asset managers evaluated how adjusting services, staff, and amenities would impact operating balances, as cash preservation became the daily focus with all decisions contemplating impact on future solvency. The need for additional oversight caused a re-evaluation of cash-flow modeling and comprehensive, dynamic cash forecasts to incorporate impacts of temporary fee reductions, accounts payables strategies, and government relief programs. As important was the ability to produce daily, monthly, annual, and multi-year projections, as owners needed to refine investment goals, and sometimes, renegotiate terms with lenders. We anticipate pandemic-related models will become part of everyday life for asset managers and property-level Directors of Finance.

### **Re-Envision**

For many the pandemic acted as a catalyst for change, providing powerful insight on how the industry can adapt to better meet the developing needs of clients and partners. Three adaptations that asset managers should consider include:

- The importance of being nimble and developing custom KPI's and modeling.
- Enhanced focus on Big Data.
- A need for purpose-built asset management.

#### **Break the Mold of Standard Data Sources & Analysis**

In 2020, evaluating performance data was a significant challenge. While asset managers continued to rely on industry data sources, it quickly became clear that market uncertainty, temporary closures, and fluctuating demand were making these sources almost irrelevant, proving the need for more real-time, reliable analysis. Rather than concentrating on long-term trends and historical data, asset managers turned to month-to-month, week-to-week, and even day-to-day comparisons. This change required a reassessment of standard benchmarking and KPIs and the development of new metrics and models to evaluate the short- and long-term performance trajectory. In addition, as the data became harder to verify, internal property databases became an important information source to benchmark performance and glean trends to exploit short-term financial opportunities.

This pivot highlighted the value of maintaining an expansive, internal (confidential) database of properties, as well as the importance of a powerful, dynamic business intelligence system, to develop new analysis and modeling for different market environments. Implementing these resources provides asset managers with powerful tools and a tremendous value proposition to their clients.

### **Exploit the Digital Age and Big Data**

Digitalization and Big Data are here to stay (only accelerated by the pandemic). Whether it be digital keys, contactless check-ins, energy management systems, virtual tours, or smart-room artificial intelligence, it is clear the availability and demand for improved technical resources is growing. These advancements can not only have huge implications on hotel operating models but also offer substantial opportunities to improve margins and drive incremental revenues. While asset managers may not be required to have extensive knowledge of these systems, a strong understanding of what is available and being able to guide ownership to resources will be critical as we evaluate future value-add and performance-enhancing opportunities. Alike, asset managers should embrace big data as the future and develop their platforms accordingly..

### **Experience is Everything**

2020 showed asset managers the importance of having a purpose-built platform supported by a knowledgeable team. When standard data sources are unreliable and past practices inapplicable, it is expertise, experience, and strategic thinking that separates the wheat from the chaff. Asset management firms should closely consider how they can best leverage each of their team member's experiences as these can be critical when advising clients on the numerous, unfamiliar, and unique issues facing them during the pandemic, or during any future crises.

### **A Unique, Expanding Purview**

The pandemic magnified how the role of the asset manager encompasses a comprehensive suite of services and relationships necessary to advise across a wide range of issues and highlighted several new areas in which asset managers can be invaluable. Whether it be reimagining the hotel operation, improving negotiation tactics, enhancing cash management strategies, offering knowledge on the latest hotel systems and technological advancements, or developing proprietary business intelligence systems with advanced modeling capabilities, asset managers have an opportunity to re-envision their services to improve their ability to both address the goals of their clients and influence the future outlook of hotel operations for years to come.



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