Hotel Lawyer: The PROs and CONs of multi-branded hotels

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Hotel Lawyer on multi-branded hotels.

Hotels with more than one brand are increasingly common, but it wasn’t always so. Although some compelling advantages are driving this trend in many situations, developers and owners should weigh the advantages against other considerations.

My partner Bob Braun is a senior member of our Global Hospitality Group® and has experience with many hundreds of hotel management and franchise agreements. Bob is also co-author of the Hotel Management Agreement & Franchise Agreement Handbook (3rd edition), and has first-hand experience with branding and management for every major traditional hotel brand, including a number of multi-branded properties. Today he explores the phenomenon in greater detail.

Dual-branded & multi-branded hotels: Opportunities and challenges
by
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The trend of dual-branded and multi-branded hotels

Over the past few years, the popularity of multi-branded properties has exploded. Less than a decade ago, a dual-branded hotel was an oddity. Then dual branding became more common, and some properties began to use more than two brands, so “multi-branding” was born in the hotel industry. In the early days, multi-branding resulted from unique circumstances. Today, it is driven by a number of factors discussed below, and there are nearly 100 properties with multiple brands and nearly that many again in construction.

What are multi-branded hotel properties?

Multi-branded properties are two or more hotel brands occupying the same property. Sometimes they are built side by side, or in the same development; other times, they share the same building shell (and more, as noted below). Typically, two roughly equal brands will be paired so that a transit occupancy brand will be co-located with an extended stay brand. For example, a Comfort Inn built together with a Comfort Inn & Suites, or a Hampton Inn next to a Home2Suites by Hilton, or a W Hotel and an Element Hotel. Or two luxury brands might be paired, such as a Ritz Carlton and a JW Marriott.

We have been involved in a number of issues on many multi-branded properties, and our experience suggests that developers and owners need to carefully evaluate both the advantages and disadvantages before making a commitment to the complex relationship created with a multi-branded hotel.

Drivers for Multiple Brands.

What are the drivers for selecting a multi-brand property over a single brand? Brands and owners see a variety of potential...
advantages:

- **Land Costs** – Some of the most attractive locations for hotels are also some of the costliest locations. Locating two brands on a single site can make it possible to utilize land more efficiently. While a particular location might not support a single hotel with 300 rooms, it might be appropriate for two different brands with 150 rooms each.
- **Construction Cost** – Similarly, two hotels located on a single location may be able to share back of the house facilities, fitness areas, pools, parking, and even common areas or front desk space. Moreover, costs related to plans, permits, fees and entitlements can be shared, resulting in greater efficiencies.
- **Operating Savings** – Two hotels may be able to share personnel that would otherwise be underutilized, such as engineering or maintenance personnel. It may also allow for overall lower staffing levels by allowing one hotel to “borrow” personnel from another to address higher occupancy.
- **Premium pricing** – While there is little more than anecdotal evidence, brands will often argue that where a lower chain scale property is matched with a higher one (e.g., an upper midscale property with a midscale property), the lower scale property will see higher rates, rather than depressing the rates of the higher scale.

**Challenges**

The benefits of multiple brand properties may be reduced or offset by other challenges and issues:

- **Limited Choice** – It is extremely rare for unrelated brands to share a single address. Hotel companies are loathe to allow their brands to mix with those of other hotel companies, and will generally insist that only the brands in their portfolio share a location. Thus, there may actually be fewer choices among brands (although the proliferation of different brands by hotel companies may at least partially offset that limitation).
- **Choosing the Brands** – The potential problem of limited choice can exacerbate what is often a difficult decision: which is the correct brand? Where two brands are co-located, the owner must consider not only which is the right brand, but how to choose brands that complement each other.
- **Duplication of Services and Facilities** – While the hope would be that two related brands could share facilities and services, there may be enough differences between brands that duplication is required. Thus, the property may have two sets of fitness areas, pools, front desk and elevators dedicated to each brand. Moreover, the hotel companies may require dedicated personnel for each brand to ensure that brand standards are observed.
- **Property Maintenance** – Owners may find it difficult to coordinate brand upgrades and improvements, which will often be required on different schedules and can result in conflicts where the two brands overlap, particularly where facilities are shared. For example, a new public area design for one brand may conflict with the requirements of the other brand.
- **Maintaining Separate Identities** – Unless the two hotels are completely separated, which would conflict with the goal of efficient design and operation, efforts will need to be made to separate the guest experiences, which can lead to confusion and, potentially, bad feeling. What would a guest say if they were denied access to the facility of a hotel that shares the same front door?

Perhaps the most challenging aspect of multiple branded properties is measuring performance. Consideration must be given to addressing the possibility that one property may underperform or may violate the terms of its management or franchise agreement.

Will it be possible to terminate one brand agreement and not the other? And what are the consequences of that
termination on hoped-for benefits of multi-branding? For a management company, will performance standards, including both incentive fees and termination rights, be calculated on the basis of combined performance, or the individual performance of each property? These are questions that need to be addressed, and for which there is little precedence.

**Conclusion**

Multi-branded properties address some key concerns of hotel owners and developers, by creating the opportunity to maximize the value and income from a single location. However, they cannot be approached simply by signing two sets of agreements; the relationship of the two properties and the consequences of dual (or triple or quadruple) branding must be considered in advance. This requires engaging legal professionals with experience designing and identifying the potential advantages and pitfalls of these developments.

**For more information on hotel branding, management and development**

You will find a lot more information related Hotel Development, Hotel Franchise and Hotel Management Agreements on the [Hotel Law Blog](http://HotelLawyer.com). The following are only a few of the resources you will find there:

- Hotel Management Agreement & Franchise Agreement Handbook 3rd edition is released for free download
- The importance of Comfort Letters in financing franchised hotels
- Checklist for negotiating Hotel Management Agreements/Hotel Operating Agreements – The HMA PRO™ Checklist
- Hotel Lawyer with insights on “How to get a great hotel operator”
- The 5 questions every owner should ask before selecting a hotel brand
- When should you choose a brand for your hotel? And when should the brand manage your hotel?
- Dual-branded hotels — What every owner or developer should know
- Hotel Franchise Agreements and the 5 biggest mistakes a hotel owner can make
- Hotel Lawyer on Repositioning: The New York Times reports 39 percent increase in reflagging
- How to get the right hotel operator
Bob Braun is a Senior Member of JMBM’s Global Hospitality Group® and is Co-Chair of the Firm’s Cybersecurity & Privacy Group. Bob has more than 20 years experience in representing hotel owners and developers in their contracts, relationships and disputes with hotel managers, licensors, franchisors and brands, and has negotiated hundreds of hotel management and franchise agreements. His practice includes experience with virtually every significant hotel brand and manager.

Bob also advises clients on condo hotel securities issues and many transactional matters, including entity formation, financing, and joint ventures, and works with companies on their data technology, privacy and security matters. These include software licensing, cloud computing, e-commerce, data processing and outsourcing agreements for the hospitality industry.

In addition, Bob is a frequent lecturer as an expert in technology, privacy and data security issues, and is one of only two attorneys in the 2015 listing of SuperLawyers to be recognized for expertise in Information Technology. Bob is on the Advisory Board of the Information Systems Security Association, Los Angeles chapter, and a member of the International Association of Privacy Professionals. Contact Bob Braun at 310.785.5331 or rbraun@jmbm.com.

This is Jim Butler, author of www.HotelLawBlog.com and hotel lawyer, signing off. Why don’t you give us a call (or send an email) and let us know what you working on? We would like to see if our experience might help you create value or avoid unnecessary pitfalls. Who’s your hotel lawyer?

Our Perspective. We represent hotel owners, developers and investors. We have helped our clients find business and legal solutions for more than $87 billion of hotel transactions. We have closed more than 1.5 billion of EB-5 financing and sourced more than half of that for our clients.

As a client, our unparalleled experience means that you get:

- better, faster, more cost-effective results
- greater certainty of execution while avoiding costly missteps or missed opportunities
- added credibility from our experience and reputation
- greater confidence that you will get the best deal possible

If you would like chat about how we might help you achieve your hotel goals—with EB-5 financing or otherwise— please contact Jim Butler. And of course, there is no charge for our initial discussion.

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