Hotel Lawyer on Repositioning: The New York Times reports 39 percent increase in reflagging

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Hotel Lawyer on the spike in reflagging hotels. It's often good news for us when the business section of a major newspaper explains what is going on in the hotel sector. (And nice, too, when the paper includes a quote by yours truly.)

The topic? How and why hotel owners reflag properties. The reason for the story: the Great Recession has changed just about everything.

In the New York Times article, Dressing Up for Success, reporter Amy Zipkin says: “According to statistics from Smith Travel Research, a research firm in Henderson, Tenn., nearly 2,500 hotels were reflagged in 2011. While that represents just a 5 percent sliver of all hotel properties in the United States, it was still a 39 percent increase from 2010.”

Brand standards have to mean something.

The reasons that hotel owners reposition hotel properties with a new flag are not new to us. Repositioning a hotel property is generally forced by the market: guest preferences and travel patterns change, owners’ expectations are not met, ownership changes hands, cash flow decreases or mortgages come due, brand standards change. Hotels are reflagged when it can help solve a problem or take advantage of an opportunity (or both). Either way, the Great Recession forced major changes on the hotel industry, and the market is irrevocably different.

Now, after a long period of restraint, we see brands dropping hotels from their systems for failure to meet the brand standards. In most cases, it is not a failure to meet tougher new standards, but rather a failure to meet the old standards. During the depths of the recession, most brands looked the other way on brand standard enforcement, but their patience has run out. And ultimately the value of the flag and guests the brand brings depend upon meeting guests’ expectations.

Owners have expectations of operators too.

On the flip side, hotel owners seek new management where better deals are available. They want hotel management agreements that provide for more flexibility, efficiency and accountability. Difficult as this is for brands, it is necessary for hotel owners to set higher standards, as well, due mostly to the post-recession realities for raising capital.

I was quoted in the New York Times article as saying, “A property can be very different once a hotel changes flags.” This statement is based on decades of experience in assisting hotel owners in changing flags. Sometimes the change comes through the careful exercise of contractual rights. Sometimes it results from tough negotiations for a management agreement that is fair to the owner. Sometimes the change is forced through litigation or takeover.

Why the spike in hotel repositionings now?
Although more understanding for a while, guests’ expectations for service and amenities have recovered to pre-recession levels. Brands’ expectations for compliance with their standards are back. And owners’ expectations for profitability are stronger than ever.

As properties change hands and new capital is deployed, repositioning is often the right step for everyone.

We hope that all our hotel industry friends — owners, lenders, brands and advisors — have their expectations met in 2013!

Happy New Year from all of us at JMBM’s Global Hospitality Group®.

To read the New York Times article, click here.

We have written quite a bit, here on the Hotel Law Blog, about how the Hotel Management Agreement (HMA) is the linchpin of a successful hotel investment. In fact, the hotel management agreement can easily add or subtract as much as 25 percent of the value of a hotel. The HMA holds together a very complex structure, and every critical investment and operational decision is tied to the agreement.

If you need to reflag your hotel, you would be wise to acquaint yourself with the many issues involved, and get yourself the very best advice possible, from advisors and lawyers who know the ropes.

To start, get a free copy of the 2nd edition of the HMA Handbook written by Jim Butler and Robert Braun. To download a copy, go to www.hotellawyer.com, select the “RESOURCE CENTER” tab, click on the “HMA Handbook”, and then the download link.

This is Jim Butler, author of www.HotelLawBlog.com and hotel lawyer, signing off. We’ve done more than $87 billion of hotel transactions and have developed innovative solutions to help investors be successful in bidding for hotel acquisitions, and helping investors and lenders to unlock value from troubled hotel transactions. Who’s your hotel lawyer?

Our Perspective. We represent hotel lenders, owners and investors. We have helped our clients find business and legal solutions for more than $87 billion of hotel transactions, involving more than 3,900 properties all over the world. For more information, please contact Jim Butler at jbutler@jmbm.com or +1 (310) 201-3526.

Jim Butler is a founding partner of JMBM, and Chairman of its Global Hospitality Group® and Chinese Investment Group™. Jim is one of the top hospitality attorneys in the world. GOOGLE “hotel lawyer” and you will see why.

Jim and his team are more than “just” great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them.