

WHAT ARE THE GLOBAL HOTEL BRANDS DOING TO ASSIST HOTEL OWNERS FOLLOWING THE OUTBREAK OF COVID 19?

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With much of the world in lockdown, many of the major hotel brands took the initial step of making significant changes to their cancellation/booking policies weeks ago to help maintain the vital relationships with their customers.

Governments are assisting business owners in the short term, for example, regarding employees, the deferment of loans and insolvency providing much needed relief to hotel owners. The larger brand operators have also sought to introduce a variety of temporary measures to assist their owners including:

- deferring any renovations required to be carried out to comply with brand standards (save for works required for insurance, health & safety or law) in some cases for up to 12 months;
- deferring the payment of management/franchise fees (covering generally short periods but, in reality, it is likely that these will have to be extended beyond May/June 2020);
- temporarily waiving the requirement for hotel owners to make monthly contributions to the FF&E Reserve and allowing hotel owners to use funds in it for operational expenses (usually on the condition that, by a certain date, the FF&E Reserve would be replenished to the level it would have been had the waiver not been granted);
- reducing the costs of services that are being provided to the hotel owners that are funded at cost by the hotel owners (e.g. sales and marketing etc.) by furloughing (or reducing the working hours of) employees and reducing unnecessary expenditure; and
- waiving the requirement for hotel owners to maintain a certain level of working capital (e.g. reducing the need to maintain three months working capital to one month).

There is no doubt that these actions are intended as positive measures to support owners and provide some comfort as the effects of lockdown and travel bans are felt. Apart from considering the financial implications of the deferral of payments, consideration should be given to how implementation of these measures may affect the existing terms of the relevant management agreement/franchise agreement to avoid any unintended consequences (e.g. waiver of breach by operator or waiver of other key rights such as force majeure). Owners should also make sure their lenders are kept advised (no doubt they will be working with their funders in any event).

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In short, owners of managed or franchised hotels will need to work with all stakeholders to balance the obligations to be met before trading is stable again and keep under constant review their position with funders and brands. The effects of the last banking crisis are instructive and this did not lead to fundamental adjustments in the traditional operating models used in the industry (unless led by funders requirements). We hope the operators will not only work with owners on the immediate position, but also implement practical amendments that go to the bottom line on a longer term basis.

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