

## How to get the right hotel operator: Part 3 - By Jim Butler, author of [www.HotelLawBlog.com](http://www.HotelLawBlog.com) 2008-05-05

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Hotel Attorney on Hotel Management Agreements . How to get the right brand and operator for your hotel project and a deal you can live with - The Hotel RFP Process.

In the last few articles here at [www.HotelLawBlog.com](http://www.HotelLawBlog.com), I have been sharing some of the important lessons our hotel attorneys in the JMBM Global Hospitality Group(R) have learned about hotel management agreements over more than \$50 billion of hotel transactions, involving more than 1,000 properties. While it may be an exaggeration to say that "JMBM wrote the book on hotel management agreements," we certainly know the area and have at least written a few chapters in that book.

In parts 1 and 2 of this series, we covered:

- \* How the terms of your hotel management agreement can easily raise or lower the nominal value of your hotel by 25% or more
- \* The 5 biggest mistakes owners make in pursuing hotel management agreements (and how to avoid them)
- \* What's a Hotel RFP and what shapes it.

In case you missed our earlier discussion, please see "[How to get the right hotel operator - part 1](#)" and "[How to get the right hotel operator - part 2](#)".

Let's return now to the Hotel RFP process ...

### **5 Factors that determine what your RFP looks like. Is it just a notice to take bids? (NO!)**

How the RFP is shaped -- i.e. how many steps, how much information is provided when, and whether the party conducting the RFP "sells" the deal first to raise enthusiasm, and other elements -- depends on unique considerations in each deal. These considerations include:

1. How well-known is the project? Your location may be known internationally, but there may be a significant education process to explain it, and this specific site, to RFP candidates -- as well as imparting the vision for the new facility and the opportunity it presents.
2. What is the nature of the RFP? What does it seek? A single branded operator management agreement? A franchise and an independent operator? A joint venture partner for the development? Branding for residential components? What are the goals of the master developer? How can the master developer capture the most value through the RFP process, and ultimately, through the development of the intended site?
3. What parts of the project are confidential or sensitive? What information -- if any -- can be provided prior to a confidentiality agreement, and what information should be provided later (either to all RFP candidates, or perhaps only semi-finalists or finalists)?
4. Are there complexities that need to be "sold" or understood? For example, complex ground lease arrangements may deter some bidder interest unless properly explained or sold early in the process. Similarly, integration of hotel mixed-use components with complex CC&Rs and contractual arrangements may justify more effort in a multi-step process.
5. Where are we in the economic and the hotel cycles (which do not always move together) and how competitive is the environment for hotel development, management and operation? And what new "brands" or "lifestyle brands" are seeking to establish themselves relatively quickly with aggressive proposals to enter certain strategic markets?

### **How we can help you with your RFP: Who does what? Why it is critical to mixed-use projects?**

Does this all sound more complicated than you thought? It can be a bit intricate, but the right advisors can help you bring it all together if they have extensive personal relationships in the industry, know the players, and understand the tight interplay of business and legal deal points in a hotel management agreement. But it certainly is more than just getting a couple of phone numbers or working out an LOI over golf!!!

While explaining this to a new client a few days ago, I first saw some great enthusiasm for starting an orderly and logical process. As a mixed-use developer, he knew his retail, office and residential, but he didn't know hospitality. One minute he was excited about wanting to drive the whole project -- with the hotel component as the sparkplug of excitement for the development. He wanted to control every aspect of the hotel from design, to operator, to promotions with the adjoining retail and residential. But almost in the same breath, he wondered if he could offload the hotel development to a hotel developer . . . but then he could not control the hotel as well, and that was problematic. He thought this RFP Process sounded promising. Maybe he could use the RFP to find a hotel developer to take over the hotel, or an operator if that didn't work.

Then a look of doubt crossed his face. "What's wrong?" I asked.

"So exactly what can YOU do for me to get the hotel management agreement of my dreams?"

"OK," he said. "I can see that the JMBM Global Hospitality Group(R) provides more than 'just' great legal advice. But what exactly can YOU do in this process?"

That is when I pulled out my laptop and walked him through an outline of the likely major steps in the RFP Process we could guide him through to identify and contract with his ideal hotel developer, brand or operator. First, of course, we had to review all the background documentation on the project so that we understood the proposed project components. And I explained that we needed to focus on his business goals for the hotel and other mixed-use components.

In mixed-use today, integration and densification are keys to success. To achieve these goals, we need to understand the potential and limitations of controlling legal and business arrangements such as entitlements, leases and other contracts. That will help us identify the most important features and characteristics of the successful RFP candidate and deal terms, and to propose the most effective approach to take with the RFP.

And after that, here's what I told my client the hotel attorneys at JMBM's Global Hospitality Group(R) could do for him:

### **The 16 Step Program -- steps to a successful RFP Process**

1. Meet and discuss with your team the potential options for the intended hotel mixed-use development, i.e. the nature of the transaction, players, product mix, and financing issues and requirements. We can help you identify the potential candidates to consider, and to select the most likely ones for your RFP.
2. We will work with you to shape the project, the RFP transaction and end result. What kind(s) of hotel(s) and residential components will be used in the mix? Will there be restaurant and spa (or other) components in the hotel?
3. Discuss correct phasing and approach for the RFP based on considerations described above. Do we solicit indications of interest and confidentiality agreements first? What information do we provide on the project and the opportunity, at what stages?
4. Identify appropriate brand, and operator candidates with due regard for integration of hotel, residential and retail components, and evaluate where hotel-spa-restaurant brand extension has the greatest potential returns.
5. Commence drafting the RFP documents -- confidentiality agreement, solicitation of interest, identification of key business points desired. Potentially, ultimate documentation is sought, as incorporating this step into the RFP process itself (as opposed to negotiating it at the end of the process) provides a strategic advantage.
6. Review list of RFP candidates with you to select targets.
7. Obtain your comments on RFP documents and finalize.
8. Send RFP documents, per schedule and staging arrangements.
9. Assist you in scheduling and conducting site tours for RFP candidates.
10. Give access to due diligence or other detailed information as appropriate for RFP candidates to formulate meaningful proposal.
11. Receive and evaluate proposals. Prepare comparative matrix.
12. Meet to gather and synthesize comments. Select semi-finalists (or finalists).
13. Notify semi finalists/finalists and pursue goal of approaching closure -- seek best and final offer? Seek clarifications or enhancements or changes in proposals?
14. Seek to negotiate LOI or agreement with finalists.
15. Pursue final documentation with at least one candidate.
16. Execute agreement

It is helpful for my clients to understand how the Hotel RFP Process works, and how we in the JMBM Global Hospitality Group(R) can help add value, every step of the way. I hope it is helpful to you, too. Because whether your project is a standalone hotel or a hotel mixed-use development -- getting the "right" operator or brand is critical. And recently, we have often used it to find the hotel developer to take over the hotel aspects of a hotel mixed-use project. The Hotel RFP Process can really be a valuable tool for identifying the right brand or operator and in getting a contract with that company on terms that increase the project's value, financing, and operational success.

### **About the Author**



Jim Butler is recognized as one of the top hotel lawyers in the world. He devotes 100% of his practice to hospitality, representing hotel owners, developers and lenders. Jim leads JMBM's Global Hospitality Group(R) -- a team of 50 seasoned

professionals with more than \$40 billion of hotel transactional experience, involving more than 1,000 properties located around the globe. In the last 5 years alone, they have brought their practical advice to more than 80 "hotel-enhanced mixed-use" projects, a term Jim coined to fill a void in industry lexicon. This term describes one of the hottest developments in real estate-where hotels work together with shopping center, residential, office, retail, spa and sports facility components to mutually enhance the entire project's excitement and success.

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. They are a major gateway of hotel finance, facilitating the flow of capital with their legal skill, hospitality industry knowledge and ability to find the right "fit" for all parts of the capital stack. Because they are part of the very fabric of the hotel industry, they are able to help clients identify key business goals, assemble the right team, strategize the approach to optimize value and then get the deal done.

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