



United Kingdom (UK) - Hotel Management Agreements

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General

1. Are Hotel Management Agreements (HMAs) common in your jurisdiction?

HMAs are widely used across the UK, largely for city centre mid to upper tier hotels under a brand. The significant surge in brand franchise has also seen an increase in white label operators operating franchised hotels. Whilst similar, the two forms of HMA have many differences.

2. If not HMAs, what are the alternatives/what is commonly used?

Lease is the obvious alternative. Most hotel operators resist taking a real estate interest and the growth of corporate owners (and investment into them) with internal operating capacity has seen a growth in franchised hotels.

3. Is it common or usual for the HMA to be governed by (i) local laws; (ii) the laws of one of the parties' country of incorporation; or (iii) an alternative jurisdiction?

HMAs in the UK will commonly be governed by English law, it would be unusual for any other jurisdiction's laws to be used as the governing law.

4. Are there any significant or unusual points to note in respect of tax on HMA payments in your jurisdiction?

It largely depends on corporate structures. At a simplistic level there should not be, but as Brexit progresses, both owners and operators will be aware of VAT and withholding issues on payments and the application (which will change) of taxation treaties.

Term and Termination

5. Is there a standard contract period of an HMA?

HMAs for branded operators tend to be longer in duration (20 years +) whereas white label managers will usually be

for shorter periods.

6. Is the term usually fixed? Are early exit or similar options included (contractual or implied)?

The norm is for an HMA term to be fixed. Where early termination or, for example, flip to franchise is negotiated it is usually subject to exit fees. Under English law it is unlikely an HMA could have implied early termination (for convenience) rights. The issue appears to have stemmed from US law where an agency relationship may be considered to exist; agency is not viewed in the same way under English law.

7. Is it usual to include fees/liquidated damages for early termination?

Exit fees for early termination other than due to operator default are common. The level of fees can vary widely depending on a number of issues (e.g. location, brand, scale).

8. What is the usual position in respect of renewal?

This varies widely between different operators. Usually HMAs will be extendable in tranches of say 5 or 10 years. This can be mutually agreed or at the operator's discretion.

Fees

9. Is there a standard fee structure for HMAs (e.g. base + incentive)?

Fee structures vary between operators. The standard is a base fee calculated on revenues and an incentive fee based on profits. Some branded operators may intersperse this with royalty fees.

10. What other fees and charges are there (such as royalties, accounting, marketing, license fees, etc.)?

As above, branded operators may require royalty fees and most require marketing contributions and other fees for certain centralised services, which may or may not be optional (e.g. accounting services).

11. Are owners typically required to set aside funds for fixtures and fittings?

An FF&E Reserve is very common in the UK. Contributions and how it is operated can vary widely depending on practical matters associated with the hotel(s) (e.g. is the hotel part of a portfolio, the hotel's age, standing, etc.).

Performance and Operations

12. What is the usual standard imposed on an operator in respect of the operation of the hotel?

Contractual performance standards vary between operators, type of hotel etc. Generally speaking, HMAs do not usually contain KPIs, SLAs or specific standards as fee structures often mean owner and operator's interests are aligned.

13. What performance measures are commonly used in your jurisdiction?

A performance test is fairly standard (together with a termination right for failure to meet such test) but the type and nature can vary depending on the operator, nature of the hotel, location, etc. A standard performance test would consider achievement against budget and/or RevPAR against a competitive set of local or similar hotels.

14. Is an operator or owner guarantee common in your jurisdiction?

For branded operators, an operator guarantee would be unusual. Regarding owner guarantors it will depend on the owner vehicle, if it owns the hotel (i.e. are there are Propco/Opco structures in place).

15. What is the usual position in respect of employees? With whom does the liability for the employees sit?

The owner will be the employer, except potentially for the General Manager and, depending on the nature of the hotel, certain other senior staff.

16. Is it usual to have a non-compete clause, e.g. that no other property with that brand can open within a certain radius?

Non-competes are common and usually negotiated.

17. Who is responsible for insurance?

The owner is responsible for the cost of property insurance (even if sourced by the operator) and the operator may put operational insurances in place (albeit this would be an operating expense).

18. Does the HMA give rights in real estate in your jurisdiction?

Not in itself. However, where key money is granted or rights of first refusal on a sale etc., restrictions can be registered on the title of the hotel.

19. Does the HMA need to be recorded against the property, if this is possible in your jurisdiction?

Not the HMA itself but rights under the HMA may be per the above.

20. Where financing is taken is it standard to obtain a Non-Disturbance Agreement (NDA) as part of a management or lease agreement?

This depends on the bank and the operator. Traditionally, NDAs have always been required where there is finance and a management agreement.

21. What other agreements usually sit alongside an HMA in your jurisdiction?

There could be a number of different agreements depending on the operator, these include:

- (Brand) Licence Agreement
- Central Services Agreement
- Technical Services Agreement – on a new build or redevelopment
- Central Reservation Services Agreement.

Transfers and Assignments

22. What are the standard rights/restrictions in respect of transfer/sale of the hotel?

Transfer rights under HMAs can vary widely. Commonly, operators will require consent to any change in ownership of the hotel. There may be restrictions on transfers to competitors, restrictions in relation to financial covenant strength and “reputation” tests.

23. When a managed hotel is sold (either asset or share deal), is it usual in your jurisdiction that either the Operator’s consent is required for the sale, or that the hotel may only be sold if the HMA transfers with the hotel?

Yes.

24. Do HMAs commonly include a right of first refusal for the operator to purchase the hotel?

Traditionally this has been common in the UK.

25. Is it usual to include provisions which enable the sale of the property with vacant possession i.e. without the brand?

More recently this has been sought by owners. A standard HMA will not provide for this and if it is ever given there is usually an exit fee.

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Return to Overview page

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