Pandox

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– The hotel industry needs a new agreement structure!

Management agreements are detrimental to value growth, according to Pandox' CEO.

In an article published on the company website, Pandox' CEO, Anders Nissen, attacks international hotel companies, or brand companies as they are often called.
- Brand companies prefer agreement structures that obstruct profitability and value growth in hotel properties, he says. Hotel property owners should phase out the old management agreements and replace them with incentive based rent agreements. On the 3rd of March, he will participate in a panel at the International Hotel Investment Forum in Berlin where the topic will be debated.

In a traditional management agreement, the property owner appoints an operator to run the hotel for a management fee, often calculated as a share of the turnover. In some cases, the hotel owner also pay an additional incentive fee based on the hotel's profit, but that is normally a smaller part of the total fee.

– As the hotel's gross revenues determine the income for the operator, the logic consequence of the fee structure is to focus on maximising turnover while areas such as productivity and profitability take a back seat, says Anders Nissen. For the hotel owner, this is bad news as productivity and profitability are the most important factors of value growth in a hotel property.

Under the typical structure of a management agreement the property owner shoulders all investment costs in the property, leaving him in a position where he has full financial responsibility for operations, as well as investments, while the operator – who is in control of the value chain – shares any upside, while avoiding risk and investment costs. The solution, according to Anders Nissen, is incentive based rent agreements. The rent the operator pays to the property owner is based on turnover and the costs for investments and product development is shared in a way that creates common goals and incentives. This agreement structure incentivises the operator to increase profitability by adding revenue, lowering costs and making sound long term investments in the product, he adds. The parties share upsides as well as downsides, with capital, potential and risk being reasonably balanced between the parties.

Read the full article on Pandox' homepage: www.pandox.com.

For more information, please contact:

Anders Nissen
CEO Pandox AB
+46 8 506 205 50
+46 708 46 02 02
anders.nissen@pandox.com

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