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Contacts

Washington DC Office
1900 K Street NW
Washington, DC 20006

Thomas F. Kaufman
(202) 955-1604
tkaufman@hunton.com

John M. Ratino
(202) 778-2221
jratino@hunton.com

Bethany Moir Burns
(202) 419-2057
bburns@hunton.com

Dallas Office
1445 Ross Avenue Suite 3700
Dallas, Texas 75202-2799

Robert G. McCormick
(214) 468-3357
rmccormick@hunton.com

Daryl B. Robertson
(214) 468-3371
drobertson@hunton.com

Miami Office
1111 Brickell Avenue, Suite 2500
Miami, Florida 33131

Robert S. Rausch
(305) 810-2543
brausch@hunton.com

Richmond Office
951 East Byrd Street
Richmond, Virginia 23219-4074

Andrew J. Tapscott
(804) 788-8620
atapscott@hunton.com

Phantom Hotel Revenue — What You Don't Receive Can Cost You

In these economic times, many hotel owners are focusing on very proactive asset management. One item worth investigating: How does your manager book hotel revenues generated from online travel agencies?

When a guest books a hotel room through an online travel agency or OTA, the OTA collects the room price from the guest, deducts its negotiated commission and transfers the balance to the hotel manager. We understand that some managers are including the room price paid by the guest to the OTA in their gross revenue calculations despite the fact that managers do not actually receive such amounts. Other gross revenue discrepancies can result from promotional incentives like free breakfasts, the value of which are also sometimes included in gross revenues.

Example:

Room price paid by guest:	\$200.00
Free breakfast booked as revenue:	\$20.00
Total Gross Revenue:	\$220.00
OTA Commission:	-\$50.00
Value of free breakfast deducted as promotion:	-\$20.00
Net amount received by Manager:	\$150.00
Gross revenue gap:	\$70.00

Because base management fees and hotel taxes are calculated off of gross revenues, booking the room price paid by the guest to the OTA and the value of promotional incentives as gross revenues received by the manager artificially inflates the manager's base management fee and increases the hotel taxes paid by owners. Plus, the actual expense of the breakfast reduces your net.

Example:

Additional taxes and fees paid by hotel owner:	Gross revenue gap	Cost to owner of inappropriate OTA revenue booking:
3% Base Management Fee	.03 x \$70 =	\$2.10
15% Hotel Tax	.15 x \$70 =	\$10.50
	Total:	\$12.60



The cumulative effect of such artificially inflated base management fees and hotel taxes clearly could have a material adverse impact on owners' costs. In addition, the phantom gross revenues driven by this method of booking OTA revenues could potentially undermine owners' performance termination rights or the effectiveness of performance tests or the manager's qualification for incentive fees under the management agreement.

To figure out how your managers are booking OTA revenues, you should consider reviewing monthly financial statements. If you have any questions about your manager's obligations regarding the handling of OTA revenues, if you want to discuss other asset management issues raised by your current management agreement or any other hospitality issue, please feel free to contact us.

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