



The Window to an Operator's Soul—*The Operating Budget*

Budget season is upon us once again and this year the experts are giving hotel owners and investors much cause for celebration, promising continued demand growth and great strides in rate. Time will only tell to what degree market optimism is shared by operators. For this reason, the Operating Budget is much like a crystal ball, providing a snap shot of future property performance expectations, but also providing insight into your operator's goals, objectives and the level of commitment they have to creating value for Ownership. Valuable information can be extracted from the budget if analyzed properly, which sometimes requires reading between the lines. Budget season represents the perfect opportunity for Owners to re-establish goals and expectations to ensure that investment objectives are met, and as market conditions continue to improve, exceeded. Considering the following during your budget review will help prepare for this task and assist in opening dialog between Owner and operator to ensure objectives are clear and aligned going into the new year.

Be Prepared. Owner approval rights over annual operating budgets is a standard provision in management agreements today. However, the time typically allotted for ownership review seems to be shrinking, with only a very short window of opportunity for Owners to impact the budget before it goes final. For Owners dealing with multiple properties, the approval process can be a daunting task. Our best advice for managing the process is to be prepared, including developing a schedule to anticipate key dates, prepping all analytical models and conducting necessary research in advance of the receipt of the first round budget. Having a system in place maximizes the value of the review period to ensure that Owners are in a position to effect real change, rather than simply approve.

Weigh In With The Experts. In preparation for budget review, compile a chart of anticipated growth metrics from reliable national and local industry experts to develop a basis by which budgeted growth assumptions can be compared. Analyzing budgeted growth assumptions from prior years may uncover trends of being below or above industry prognostications which could provide additional support necessary for interpreting and/or challenging preliminary budget submissions.

Benchmark. Obtain as much relevant performance data as possible to provide a means of comparison. There is much controversy over the validity of comparing operations as each hotel is truly unique and therefore operating results can vary considerably. This is true, however, benchmarking results provides a basis by which these differences can be better understood and a means by which reasonableness can be applied to budget line items, particularly, expenses. While there are many reliable industry sources for operating data, we encourage Owners to request comparable data direct from their brand operator to see how their property compares within a region or product category. Ask the question, "what sources do you use by which to benchmark performance?" Another, sometimes obvious comparison often overlooked is to the property itself. Identifying and comparing budget to metrics from a period representing a personal best in the life of the asset can be a very powerful tool...what has been done before, should, in theory be possible again.

Flow Thru Is Key. While achieving a desired revenue stream is critical, it is only half the equation, as profitability is the key driver impacting bottom line results. Testing the flow thru of incremental revenues will quickly demonstrate whether Owner/Operator goals are aligned and identify common "profit busters", such as expense creep and incremental costs associated with ever evolving brand standards. While every situation is different, minimum expectations should be established with respect to flow thru percentages within each operating department and should never be budgeted to decrease, particularly in an improving market.

As part of our asset advisory services, CHM conducts detailed budget reviews for clients representing more than 25 properties on an on-going basis. Historically, we have been able to effectively influence operators to increase profit targets on average by 15 to 20 percent, materially impacting cash flow expectations and realigning operator goals to reflect Ownership objectives. Please call us at 978.522.7000 to learn more about CHM's services and how we can help you derive maximize value from your hotels today!

Ken Wilson
CEO

Chad Crandell
President



PRSR FIRST-CLASS
US POSTAGE PAID
PERMIT #59
BEVERLY, MA

548 Cabot Street
Beverly, MA 01915
978.522.7000 (phone)
978.522.7008 (fax)

With a focus on lodging real estate investment, ownership and asset management, we are dedicated to enhancing value and maximizing returns for our clients and investment partners.

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Legendary Luxury—New Owners Seeks CHM As Asset Advisor



CHM is proud to introduce the latest addition to the asset advisory portfolio—the legendary Chicago landmark hotel, **The Palmer House® Hilton**. CHM was brought on by investor client, Thor Equities, as an investment advisor during the due diligence process, which ultimately resulted in the purchase of The Palmer House in August 2005.

As asset manager, CHM will be actively advising on the \$130 million redevelopment and renovation planned at the hotel, which includes various property enhancements, as well as a new retail center at the hotel's base. Additionally, CHM is conducting a situational analysis, critically assessing the operation, including a review of facilities, financial performance, staffing, market positioning and strategic planning for attaining Thor's investment goals.

"We are extremely pleased to be expanding our professional relationship with Thor Equities. This is an excellent time to invest in the hotel industry and this represents a landmark investment by Thor. Redefining The Palmer House® Hilton, through refined market and product positioning, is what CHM does best. We're excited to participate in this transformation and demonstrate the impact of strategic planning and effective asset management on bottom line results." - Ken Wilson, CEO of CHM.

The Palmer House features 1,639 luxuriously appointed guestrooms, including 172 elegant Tower rooms and 60 grand suites, as well as 127,000 square feet of historic meeting and function space. It is the longest continuously operated hotel in North America (since 1875) and has hosted every U.S. President since Ulysses S. Grant.

