



Horwath HTL™

Hotel, Tourism and Leisure Celebrating 100 years

Industry Report **Developers' Roles and** **Responsibilities**

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ABSTRACT

The primary roles as a developer involve being the leader, building the team, setting the timeline, controlling the money, finalizing the decisions, managing the risk, communicating with the community, selecting the appropriate asset manager and hotel manager, as well as signing the agreements.

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Chapter 1: Be the Leader

A good developer serves as the leader in the development process. As the leader, the developer must first thoroughly understand the development process and its key players. Before development, the developer must decide on when and where to seek appropriate professional advice. During the development process, he should serve as the mediator who actively and effectively synthesizes each member's idea and progress in order to produce a successful project.

Chapter 2: Build the Team

According to Mr. Holland, building the right team is the most important element as a pure developer. "Your team is as strong as your weakest member; and the success of a project is defined at the beginning of the project," said Mr. Holland. Before the leader builds the team, he/she must select the most appropriate team members. It is a good idea to seek advice from a feasibility consultant firm that has much experience and high reputation in the hospitality industry. At the same time, the developer him/herself has to make his/her own effort in seeking the most optimal team members. A good developer should know the major players and their typical roles in the hotel development process, which includes lenders, investors, hotel operator, architects, designers, attorney, consultants, and general contractors. Developers not only select the team members, but also use the approach to build the team that is most suitable for the project's nature. Throughout the project, the developer should keep in mind the objectives of every single team player and coordinate the different objectives from each agent. A lot of the times, certain tasks and projects are to be done cooperatively among various players. Therefore, the developer should fully acknowledge the overlap of tasks and potential interactions among the developer, the design team, and the contractor, in order to finish the project efficiently and effectively. Successful projects met or exceeded the development objectives of their investors and owners.

Sometimes, according to Mr. Holland, when selecting team members, experience level may not necessarily be the most valued factor. The ability to have the skills to execute is more valued. More importantly, the ability to work in a collaborative format is the most essential factor as a team player. He claimed that some strong and capable candidates do not like to work in a collaborative format, so

he usually selects team players that can be the benefit of the whole.

Chapter 3: Set the Timeline

After selecting the team players, the developer should set up a timeline that integrates all the members' action steps in the most specific manner. It is essential for the developer to know the general development process, which is usually in the following order:

Conceptualization, Planning, Pre-programming, and Initiation

In this first step of development process, the developer should establish the financial operational, developmental, and governmental objectives. Afterwards, it is essential to identify the potential issues and select the site for the property. After forming the project team, the developer should determine the concept of the hotel and start raising funds from various sources.

Feasibility Analysis

In this process, the developer should develop a projected demand and supply of the market, based on the pre-programming features of the hotel and the information of the competitive set. This analysis will incorporate not only market outlook, but also financial outlook, including estimated budget and projected performance. Based on the projections above, there should be preliminary decisions on site and facility considerations.

Programming and Commitment

In this step, the developer should make a more precise decision on the programming details, both in quantity and quality. He/she should also identify the functional issues and address the potential concerns in coordination with the brand.

Design

In the design phase, the space allocation and FF&E selection should be decided, documented, and approved in coordination with the brand and the operator. The three design phases are Schematic Design (SD), which includes the space arrangement and basic circulation patterns; Design Development (DD), which details the space allocation and FF&E placement; and Contract Documents (CD), which is the most comprehensive documentation for construction. Last but not least, budget should also be determined in detail in the design process.

Contracting

In the contracting phase, the developer should identify potential bidders and solicit competitive bids, and eventually, select the most appropriate player for the construction process.

Construction

This is the actual process for the physical construction of the property, which may include site work, structure work, systems' construction, interior work, FF&E construction, landscaping, and inspections.

The developer should know that the development process can take anywhere from 18 months to several years depending on the project, and some of the development phases can overlap with each other due to the change in market, costs, financing, and management decision. For example, development planning, feasibility study, and programming can overlap, while the rest can always start before the previous phase finishes.

Chapter 4: Control the Money

As the developer is the person who is in charge of initiating the project, raising funds, and controlling the process, he/she controls the cost and budget for the project as well. As one of the first steps, the developer should prepare a market study and financial projections. Throughout the development process, he/she should secure the financial gain for those associated with the project. Development cost projections is based on typical cost per room for comparable properties and cost of land.

The understanding of cost versus value is always a tough decision for the developer. Based on Mr. Holland's experience, lots of developers understand cost, but do not understand value. It is important to blend them together. The real value added as a developer is the ability to ensure interplay and correlation between cost and value.

Chapter 5: Finalize the decisions

Before finalizing the decisions, the developer must personally critique the drafts of the feasibility study and examine whether the presentation of the competitive environment is presented in a clear and logical manner. The developer is the key facilitator in reaching the

consensus on the goals and objectives of the development project. Based on the goals and objectives of the project and various players, the developer finalizes the decisions of 1) whether to brand the hotel or develop it independently; 2) whether to use the design-bid-build model, the design-build model, or the IPD model; and 3) the cost distribution, including all the hard cost and soft cost.

Chapter 6: Manage the Risk

The developer, in essence, bears most of the risk until opening, so he/she is most responsible for managing the risk of the project. In order to manage the risk, the developer can start the project with a relatively narrow focus in order to better target the market analysis, select truly competitive hotels, define rate and occupancy, identify important trends, and outline the needed design.

Chapter 7: Communicate with the Community

In order for the project to process smoothly, it has to be approved by the local government and be accepted by the local residents, or else there will be many unforeseen troubles associated with the local community. To be approved by the government, the project should be compatible with the natural resources of their sites and with the surrounding land uses. It has to adhere to the zoning rules associated with the land. The developer should express to the community how the new hotel development project would enhance the quality of life and the needs of the communities they serve. At the same time, developers should keep in mind that they also have to deal with several inevitable parties in the community such as NIMBYS, BANANAs, and CAVEs. Those people need to be communicated in a smart manner to avoid conflicts with the ongoing of the project.

Apart from the communication with the local government and local residents, developers should also communicate constantly local expertise, if not hiring them as part of the team. Especially when developing international properties, developers can avoid much more potential obstacles if they consult local expertise.

Chapter 8: Select the appropriate Asset Manager and Hotel Manager

To select the appropriate asset/hotel manager, the developer should keep in mind that an appropriate asset/hotel manager does the following works:

- Satisfies lenders
- Provides design input
- Responsible for day-to-day operations once hotel is open
- Earns fees and often a piece of NOI

Chapter 9: Sign the Agreements

Purchase-Sale Agreement (PSA) (for the land/site control) http://www.printablecontracts.com/Land_Sale_Contract.php records the relationship between the buyer and seller of the land. The PSA usually has the following components:

- **Price:** total purchase price, down payment, monthly installments, interest rate, and due dates for payments;
- **Late Fees:** the amount to be paid if the monthly payment is late for a specific number of days;
- **End of Contract:** the due date for entire balance and interest rate for the remaining balance;
- **Default:** the seller has the right to declare buyer in default of the contract if the buyer does not pay a specific amount of payment on time;
- **Title:** the agreement to transfer the title and/or deed of the land from the seller to the buyer;
- **Insurance:** to state that once the buyer completes the payment plan, the insurance becomes the buyer's responsibility;
- **Taxes:** all taxes that the buyer is responsible as of the date of the contract.

Feasibility Study Agreement is the contract between the feasibility study consulting company and the developer/owner. It is usually comprised of the following terms:

- Project background;
- Expertise of the consulting company doing feasibility study;
- A summarized component of the content of the feasibility study, which usually includes location analysis, site analysis, market analysis, project development recommendations, project specific operating factors, estimate future market and project trading performance, and estimated operating results;

- Reporting issues;
- Preliminary information required from client;
- Timing issues;
- Fees for the feasibility study;
- General terms specific to the consulting firm.

Project Management/Fee Development Agreement is the agreement between the project manager who oversees the design and building process and the owner/developer. It normally addresses the following issues:

- Project manager's duties;
- Decisions on design and specifications in detail;
- Project manager's responsibilities and limitations;
- Project manager's fees.

Franchise Agreement is a legal, binding contract between a franchisor and franchisee that usually incorporates the following terms:

- Grant, term, and fees;
- Duties of franchisor and franchisee;
- Proprietary marks;
- Manuals;
- Confidential information;
- Accounting and records;
- Marketing program and reservation system;
- Insurance;
- Transfer of interest;
- Default and termination.

Hotel Management Agreement records the relationship between the owner and the operator of the hotel. It has the following information:

- Initial term or renewal term;
- Management fees and services;
- Owner's right of early termination;
- Pre-opening services;
- Employment of hotel personnel and acquisition of liquor licenses;
- Minimum working capital.

Private-Public Partnership (PPP) Agreement records the public-private partnership, which is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. They are usually comprised of the following components:

- Definitions, contract documents, reference documents, third party agreements;
- Concession grant, term and payment;

- Department review and oversight;
- Design and construction;
- Operations and maintenance;
- Noncompliance points;
- Contracting and labor practices;
- Developer claims and relief events;
- Changes in the work;
- Payments to developer;
- Lenders' rights;
- Equity transfers and change of control;
- Financial model for the project;
- Project financing and refinancing;
- Insurance, payment and performance security, and indemnity;
- Representations and warranties;
- Default, remedies, suspension of work;
- Termination;
- Reserved rights;
- Records, intellectual property;
- Federal requirements;
- Assignment and transfer;
- Dispute resolution procedures.

Joint Venture Agreement records the commercial collaboration among two or more unrelated parties who integrate their resources with a mutual gain. This usually includes the following terms:

- Scope/purpose of the joint venture;
- Form of joint venture and percentage interest;
- Profits, expenses, duties, and duties of joint venturers;
- Treatment of proprietary and confidential information;
- Liabilities, legal title, and transfers of interest;
- Arbitration and Attorney's Fees.

Broker Agreement is made between the broker and the business entity/personnel that it is working on behalf of to find debt and equity. It is mainly comprised of the following terms:

- Legal compliance;
- Term and termination;
- Exclusivity;
- Fees and payment;
- Non-circumvention;
- Final agreement;
- Legal construction;
- Governing law.

Loan Agreement is a contract between a borrower and a lender which generally includes the following information:

- Defined terms and construction guidelines;
- Maximum loan amount, payment terms, advances, and defeasance;
- Cash management;
- Escrow and reserve requirement;
- Completion of repairs related to reserve accounts, conditions to release of funds;
- Loan security and related obligations;
- Single purpose entity requirements;
- Representations and warranties;
- Borrower covenants;
- No transfers or encumbrances, due on sales;
- Events of default, remedies.

Agreement with the architect is the legal contract between owner and architect that clearly defines the following matters:

- Project's terms and conditions;
- Services provided in different phases, including schematic design phase, design development phase, bidding or negotiation phase, and construction phase;
- Responsibilities of each party;
- Expectations for schedule and payment for services;

Construction Agreement is a mutual or legally binding document between the owner and contractor that incorporates the following information:

- Description of services and scope of work;
- Plans, specifications, and construction documents;
- Compliance with laws;
- Work site description;
- Materials and/or labor provided;
- Payment;
- Term.

Agreement with Interior Design records the relationship between the interior designer and the owner/developer. Generally, it specifies:

- The scope of the services;
- Payment and term;
- Work product ownership;
- Confidentiality, indemnification, warranty, default, remedies, force majeure, arbitration, entire agreement, and severability;
- Governing law.

Consulting Agreement is the general contract between the developer and the consultant, which usually addresses the following terms and conditions:

- Description and performance of services;
- Payment and expense reimbursement;
- Support services;
- New project approval;
- Term/termination and relationship of parties;
- Employees;
- Injuries, indemnifications, assignment, intellectual property, and ownership of social media contacts;
- Confidentiality in the process and after termination.

Asset Management Agreement is the contract between the hotel owner and the asset manager. It is generally comprised of the following sections:

- Background information and objectives;
- Scope of services;
- Asset managers' process and submission requirements;
- Evaluation criteria;
- Conditions, disclaimers, disclosures;
- Timelines;
- Preliminary facilities program for new hotel.

RECOMMENDED ARTICLES:**Chapter 1**

- Hotel Expansion: Renovation vs. New Construction: http://hotelexecutive.com/business_review/238/hotel-expansion-renovation-vs-new-construction
- Five Successful Models of Incorporating Heritage into Hotel Development: http://hotelexecutive.com/business_review/2195/five-successful-models-of-incorporating-heritage-into-hotel-development
- Effective Golf Course and Club Development Today: http://hotelexecutive.com/business_review/2221/effective-golf-course-and-club-development-today
- Hotel Development in the 21st Century: Adapting to a New Real Estate Landscape: http://hotelexecutive.com/business_review/2355/hotel-development-in-the-21st-century-adapting-to-a-new-real-estate-landscape

Chapter 2

- Teaming/timing Sequences in Hotel Development Projects (PDF)

Chapter 3

- Trends in Green Construction in the Hospitality Industry: http://hotelexecutive.com/business_review/1268/trends-in-green-construction-in-the-hospitality-industry
- Hotel Parking Lots: Why First Impressions Matter and How to Spot Trouble Areas Before Your Guests Do: http://hotelexecutive.com/business_review/1761/hotel-parking-lots-why-first-impressions-matter-and-how-to-spot-trouble-areas-before-your-guests-do
- Hotel Development Trends: The Emergence of Hotel Spas: http://hotelexecutive.com/business_review/1924/hotel-development-trends-the-emergence-of-hotel-spas
- Advancements in New Hotel Construction: http://hotelexecutive.com/business_review/2430/advancements-in-new-hotel-construction
- Hotel Maintenance: Four Key Areas That will Increase Property Value: http://hotelexecutive.com/business_review/2484/hotel-maintenance-four-key-areas-that-will-increase-property-value

Chapter 4

- Pitfalls of Private Versus Institutional Financing: http://hotelexecutive.com/business_review/2363/pitfalls-of-private-versus-institutional-financing

Chapter 6

- Top Challenges of Developing New Hotels in Historic Zones: http://hotelexecutive.com/business_review/1407/top-challenges-of-developing-new-hotels-in-historic-zones

- Hotel Development Down, But Not Out: <http://www.hotelnewsnow.com/Article/220/Panel-Hotel-development-down-but-not-out>

Chapter 7

- Overcoming Cultural Differences in International Hotel Development: http://hotelexecutive.com/business_review/1750/overcoming-cultural-differences-in-international-hotel-development
- The Impact of the California Environmental Quality Act on Hotel Development: http://hotelexecutive.com/business_review/2230/the-impact-of-the-california-environmental-quality-act-on-hotel-development

Chapter 8

- Starwood Uses Flexibility with Developers: <http://www.hotelnewsnow.com/Article/198/Starwood-uses-flexibility-with-developers>
- Developers Should Know About Building with Operations in Mind: http://hotelexecutive.com/business_review/469/developers-should-know-about-building-with-operations-in-mind

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Paul Breslin, Managing Director of the Atlanta office of Horwath HTL, is a 35-year veteran of the hospitality industry. His background within the industry is all encompassing, with extensive experience in hotel operations, development and asset management with major branded hotels as well as independent and smaller luxury hotels. From asset management and operational support, planning and development services, sales, marketing and revenue management, transactional advice and financial restructuring, Mr. Breslin has provided consulting services to a global client base.

Mr. Breslin is a member of the prestigious International Society of Hospitality Consultants and the Hotel Asset Managers Association. He is a Certified Hotel Administrator by the Educational Institute of the American Hotel and Lodging Association. He is a founding member and immediate past president of the Atlanta Hospitality Alliance, and currently serves on the Board of the Atlanta Hospitality Alliance and the Governmental Affairs Committee of the Georgia Hotel and Lodging Association.

Mr. Breslin is a Certified Hospitality Educator (CHE) and a well-respected teacher and leader within the industry. He is the Executive-in-Residence in Lodging in the J. Mack Robinson College of Business, Cecil B. Day School of Hospitality at Georgia State University. Through Sabanci University in Turkey, he has trained senior level executives at the Rixos Hotel Leadership Training Program. Mr. Breslin is a frequent lecturer at national conventions and hospitality industry conferences throughout the United States. Mr. Breslin has also been quoted on hospitality issues in publications such as The Wall Street Journal, USA Today, Atlanta Business Chronicle, Atlanta Journal-Constitution and The Miami Herald.

In addition to his work as a consultant and educator, Mr. Breslin provides hotel expert witness services to attorneys specializing in hospitality law. His caseload as an expert witness includes work with both plaintiffs and defendants.



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ABOUT HORWATH HTL:

Horwath HTL is the world's largest hospitality consulting brand with 45 offices across the world providing expert local knowledge. Since 1915, Horwath HTL has been providing impartial, specialist advice to clients and is recognized as the founder of Uniform System of Accounts which subsequently has become the standard for hospitality accounting. Horwath HTL in the United States focuses 100% on hotels, tourism and leisure consulting. With office locations in Denver, Atlanta and Miami, Horwath's seasoned industry professionals are renowned for their vast array of expertise and market study experience.

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