



An A-Z of Hotel Industry Terminology

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BLP Guide to Hotel Industry Terminology

A	
Above the Line	Expenditure falling above the line that indicates GOP in the summary operating statement contained in the Uniform System. Items "Above the Line" are treated as Operating Expenses of the business and they are deducted from Gross Revenue when calculating the Incentive Fee
ABTA	Association of British Travel Agents
ADR	Average Daily Rate – see ARR
AGOP	Adjusted Gross Operating Profit – Gross Operating Profit less certain additional expenses (there is no set list but the additional items commonly seen are taxes, contributions to the FF&E Reserve, property insurance and authorised pre-opening expenses). The Incentive Fee is generally calculated as a percentage of AGOP under a Management Agreement
AOP	Area of Protection – an area surrounding a hotel in which the Operator/franchisor agrees not to have another hotel operating under the same, similar or other specified brands. Also known as a "Restricted Area"
ARR	Average Room Rate – a measure of the average rate paid by hotel guests for rooms sold, calculated by dividing Gross Rooms Revenue by the number of rooms paid for by hotel guests over a given period (note that it does not account for voids – see RevPAR). Also known as "ADR"
AVR	Average Vacancy Rate – the number of rooms which are vacant in a hotel, expressed as a percentage of the total, over a given period

B	
Back of House	Area of a hotel separated from the guest areas, containing administrative offices, kitchens, plant etc
Base Fee/ Basic Fee	<p>A fee paid to the Operator under a Management Agreement, which is usually a percentage of Gross Revenue. Currently this is generally in the region of 3-5%.</p> <p>For tax efficiency reasons, an Operator may split the Base Fee into a lower "management fee" payable to a local entity for managing the hotel, and a higher "licence fee" payable to an offshore entity in a low tax jurisdiction for the use of the Operator's brand</p>
Below the Line	For "Below the Line" expenditure, see Ownership Expenses

BHA	British Hospitality Association – a trade association for the UK hospitality industry, including hoteliers
Brand Standards	The standards for a particular hotel brand determining amongst other things its design and the fit-out and operational requirements for that brand. The Brand Standards are set by the brand owner (usually the Operator) and updated from time to time. The Owner will be expected to fund these updates through the Operating Plan
Branded Residences	A residential development linked to a hotel brand (usually at the luxury end of the scale) whereby the residences receive services from an attached/nearby hotel, including use of leisure and F&B facilities
Brigade	The team that operates the kitchen and F&B, such as chefs, waiters/waitresses

C	
C&B	Conference and banqueting
Capex	Capital Expenditure - the costs required for renewals, revisions, rebuilding, replacement, substitutions or improvements to the hotel
Case Goods	A sub-division of FF&E, mainly relating to furniture
Central Services/ Centralised Services	See GS
Chain Hotel	A hotel which is a member of a chain or group of hotels including a Chain Scale
Chain Scale	A method for grouping chain hotels, based on their ARR. The Chain Scale segments are currently: luxury chains, upper upscale chains, upscale chains, upper midscale chains, midscale chains, economy chains and independents (any Independent Hotels will be included here regardless of their ARR)
Clustering	Sharing costs between a group of hotels, normally operated by the same brand or owned by the same Owner. Also known as “Complexing”
Competitive Set	A group of hotels (usually five and a minimum of four in Europe and EMEA) which are in the same or similar market as the hotel, and which are of a similar standard or star rating and against which the hotel’s performance is measured
Complexing	See Clustering
Condo/Condominium	A US term used to describe an apartment. They are usually privately owned but benefit from the use of common facilities

CRO	Central Reservations Office - a sales centre which handles bookings on behalf of a hotel brand's group
CRS	Central Reservations System – the system used by a hotel brand which allows members of the public to make reservations of rooms at a hotel which is part of a chain or group of hotels

D	
Deferred Incentive Fee	A portion of the Incentive Fee that is owing but is not paid to the Operator (for example because a hotel has not achieved the required minimum AGOP level) and is to be deferred until AGOP reaches a certain level, or by some other calculation
Departmental Expenses	Expenses which are allocated to specific hotel departments, such as the rooms department or F&B department

E	
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation – formerly referred to as NOI (or NOP) under the Uniform System. Equal to GOP less Management Fees and Ownership Expenses
EBITDAR	Earnings Before Interest, Tax, Depreciation, Amortisation and Rent – this is commonly used to work out a variable rent under a hotel lease
EMEA	Europe, Middle East and Africa (sometimes EAME)
Extended Stay	Hotel stays for an extended period (usually of more than one week), where weekly rates are quoted

F	
F&B	Food and beverage
F&B Revenue	Gross Revenue which is derived from food and beverage. Other F&B Revenue includes cover or service charges, meeting room rentals, audio-visual equipment rentals etc
FF&E	Either Furniture, Furnishings and Equipment or Fixtures, Fittings and Equipment (e.g. beds, tables, chairs, but normally excluding linen, china and glassware). The expression refers to "loose" items which are not fixed to the property and can be removed without causing damage to the fabric of the property.

FF&E Reserve	The reserve of cash (either a notional accounting reserve or money that has been placed in a separate account/ring fenced) established by the Owner to fund future replacements of FF&E
Financial Controller	A hotel's financial controller or finance director
Fixed Charges	Rent, property taxes and property insurance
Franchise Agreement	An agreement between an Owner (as franchisee) and a hotel brand (as franchisor) allowing the Owner to operate the hotel under the franchisor's brand. The franchisor licenses its brand and gives the benefit of central reservations and marketing system to the franchisee in return for the payment of certain fees.
Franchise Fee	See Licence Fee
Frequency Programme	A loyalty scheme or frequent traveller programme
Front of House	The reception area, concierge and porter services
Full Service Hotel	A hotel which is usually mid-price, upscale or luxury which has a restaurant, meeting facilities and offers certain minimum service levels, with room service and concierge. Contrast with Limited Service Hotel

G	
GDS	Global Distribution System – the network of electronic reservations systems by which travel agents make bookings with airlines and hotels. Examples of GDS include Amadeus, Galileo International, Sabre and Worldspan
GM	A hotel's general manager. Where there is a Management Agreement, often the GM will be the only staff member employed by the Operator whereas the other staff members at a hotel will usually be employed by the Owner (and managed by the Operator on behalf of the Owner)
GOP	Gross Operating Profit – Gross Revenue less Operating Expenses
GOPAR	Gross Operating Profit per Available Room - GOP divided by the number of available rooms
GOR	Gross Operating Revenue – see Gross Revenue
Gross Revenue	Total revenue from the operation of the hotel. This is an accounting principle used to calculate how much revenue a hotel receives. This is generally used to work out a Base Fee under a Management Agreement. Also known as "Gross Operating Revenue" and "GOR"

GRR	Gross Rooms Revenue – Gross Revenue, usually excluding revenue from food, drink, minibars, laundry, pay TV etc
GS	Group Services – benefits, services and facilities provided by the Operator’s head office/regional offices to the hotel in common with other hotels of the same chain often relating to marketing, reservations, promotions, public relations, training and IT support. The hotel will share a proportional cost of the GS with other hotels in the chain or group
GSM	Guest Services Manager

H	
HMA	Hotel Management Agreement – see Management Agreement

I	
IBFC	Income Before Fixed Charges - a measure of profitability of a hotel. This is usually calculated as GOP less Management Fees
Incentive Fee/ Incentive Management Fee	A fee paid to the Operator under a Management Agreement (which increases with the level of financial performance), which is usually a percentage of profit but can include a variety of hurdles and step levels to give additional incentive to the Operator to perform well. A fairly standard, simple Incentive Fee would be between 8% and 10% of AGOP
Independent Hotel	A hotel which is not part of a chain or group

K	
Keys	The number of bedrooms in a hotel
Key Money	An up-front incentive payment by an Operator or franchisor to an Owner in order to secure a Management Agreement or Franchise Agreement. It can be structured as a cash payment, loan or deferred fees. If a loan it will usually amortise on a straight line basis over a certain period with the unamortised amount being repayable to the Operator/franchisor if the Management Agreement/Franchise Agreement is terminated where not due to an Operator/franchisor default
KPI	Key Performance Indicator – a target against which the Operator’s success can be measured e.g. an occupancy rate or performance against a Competitive Set

L	
Last Available Room / LRA	A clause, often found in OTA contracts, under which, as long as the hotel has a room available (even just one room), the OTA has the right to buy (or sell) it at their contracted terms and prices. LRA clauses can potentially dilute the revenue that a hotel can earn from its available rooms. For example, if the demand for rooms is high, and a hotel can sell a room through its direct channels for £100, but the hotel has entered into a contract with an OTA that has an LRA clause allowing the OTA to buy/sell the last available room at the hotel for £75, the hotel stands to lose £25 worth of revenue if the OTA invokes its LRA clause. These clauses were popular with key commercial account holders in the 80s but generally disappeared over time until being reintroduced recently by OTAs (such as Expedia). Operators sometimes accept them for fear of losing the bookings generated by OTAs
Length of Stay	The number of nights a guest spends in a hotel
Licence Agreement	See Franchise Agreement
Licence Fee	A fee paid to the Operator under a Management Agreement or to the franchisor under a Franchise Agreement, which is usually a percentage of Gross Revenue or Gross Rooms Revenue, for use of a brand name. Under a Management Agreement this can be used in conjunction with, or instead of, a Base Fee (usually for tax reasons relating to the jurisdiction of the entity owning the IP rights in the brand and receiving the fee). Under a Franchise Agreement, a standard Licence Fee would be between 3% and 5% of GRR. Also known as a "Royalty Fee" or (in the case of a Franchise Agreement) a "Franchise Fee"
Limited Service Hotel	A hotel which only offers room only options (i.e. with no F&B service) or a room and bathroom with very few other services. These hotels are usually budget or economy scale without Gross Revenue from F&B

M	
Management Agreement	An agreement between the Owner and the Operator for the operation of the hotel by the Operator on the Owner's behalf. For a chain hotel, the Management Agreement is often part of a suite of agreements, which may also include a TSA, central services agreement and licence agreement. Also known as a "HMA", "Operating Agreement" or "Operating Services Agreement"
Management Fees	The fees payable under a Management Agreement relating to the Operator's management of the hotel which will usually consist of the Base Fee and/or Licence Fee, and Incentive Fee
Manager	See Operator
Market Class	A method for grouping hotels located in the same market. A chain hotel's

	Market Class will be the same as its Chain Scale. An independent hotel will be grouped according to its ARR relative to that of chain hotels in its geographic proximity. The Market Class segments are currently: luxury, upper upscale, upscale, upper midscale, midscale and economy
MICE	Meetings, Incentives, Conferences and Exhibitions – this is usually taken to refer to the events industry
Mystery Guest	A quality control measure whereby an undercover person poses as a guest to assess the performance of a hotel

N	
NDA	Non-Disturbance Agreement – an agreement between the Operator and the Owner’s senior lender, under which the lender agrees not to terminate the Management Agreement on an insolvency of, or enforcement against, the Owner. Alternatively, a duty of care agreement might be entered into between the parties instead, which has fewer protections for the Operator but creates a direct link between the lender and the Operator and usually allows the lender to step into the Management Agreement if the Owner breaches its provisions
NOI/ NOP	Net Operating Income / Net Operating Profit – see EBITDA

O	
OS&E	Operating Supplies and Equipment (e.g. soap, crockery, food stocks)
Occupancy	The number of rooms which are occupied in a hotel, expressed as a percentage of the total
OpCo	Where an OpCo/PropCo structure is used under a Management Agreement, the OpCo will generally own the hotel business (but will not own the ultimate real estate interest in the hotel)
Operating Agreement/ Operating Services Agreement	See Management Agreement
Operating Expenses	The expenses of operating the hotel (but not Ownership Expenses)
Operating Plan	A budget for the hotel, usually produced on an annual basis by the Operator, containing forecasts of Gross Revenue, Operating Expenses and Capex for the forthcoming year at the hotel
Operator	A hotel management company managing a hotel under a Management

	Agreement. Also known as a "Manager"
OTA	Online Travel Agency – an online third party (e.g. booking.com or Expedia) which sells hotel rooms and is paid a commission for any bookings by Owners
Owner	The owner of the hotel property (freehold or leasehold) and also possibly of the hotel business but see OpCo and PropCo.
Owner's Priority/ Owner's Preferred Return	Where payment of the Incentive Fee is deferred until AGOP reaches a certain level, or by some other calculation. This allows for sufficient distribution of bottom line amounts to an Owner e.g. to cover debt service. Also known as "Standaside"
Ownership Expenses	Expenditure falling below the line that indicates GOP in the summary operating statement contained in the Uniform System. Such expenditures are viewed as Owner/capital expenses (i.e. not Operating Expenses) and are therefore not deducted from Gross Revenue before calculating the Operator's Incentive Fee (unless any such expenses are specifically agreed as deductions for the purpose of calculating AGOP). Typical items include: Capex/FF&E Reserve contributions, rent (e.g. ground rent, where the Owner's interest in the hotel is leasehold and rent payable for housing accommodation for staff), property and other taxes and non-operating insurances. Also known as "Below the Line" expenses

P	
Performance Test	A mechanism which enables an Owner to terminate a Management Agreement due to the Operator's poor performance. A standard Performance Test would provide that the Owner could terminate a Management Agreement if the Operator fails a two-limbed test (generally GOP performance against the Operating Plan and RevPAR performance against a Competitive Set, both with % targets) in any two consecutive years after a certain number of years after hotel opening (to avoid the Ramp-up Period). The Operator usually insists on the right to make a cure payment to avoid termination as well as force majeure provisions
PIP	Property Improvement Plan – sets out the refurbishment works required at a hotel in order to meet Brand Standards. An Operator usually reserves the right to require a PIP under a Franchise Agreement if a hotel is failing certain Brand Standards, or at a specified point (normally 5-7 years into a Franchise Agreement, when a hotel's natural refurbishment cycle means the hotel needs updating)
Prohibited Person	A person or entity to whom an Owner is prohibited from transferring their hotel. Usually includes an Operator's competitors and people/entities who are subject to international sanctions. US Operators are particularly sensitive to this concept and generally will not negotiate their Prohibited Persons clauses or definitions
PropCo	Where an OpCo/PropCo structure is used under a Management Agreement, the PropCo will generally own the ultimate real estate interest

	in the hotel (but will not own the hotel business)
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R	
Rack Rate	The published rate for a hotel room, normally higher than the achieved rate
Radius Restriction	See AOP
Rate Parity	An obligation imposed by an OTA on an Operator to post prices on the OTA's website which are no higher than the prices offered by the Operator via other sales channels. In some cases, the obligation will apply to sales via all other channels ("wide rate parity") whereas in others it will apply only to sales via the hotel's direct sales channels ("narrow rate parity"). Various competition investigations mean that Rate Parity is now not permitted in some countries
Restricted Area	See AOP (Area of Protection)
RevPAR	Revenue Per Available Room - used as a measure of operational performance and as a metric for the Performance Test
Room Night	A room being occupied by one or more guests for one night
Royalty Fee	See Licence Fee

S	
Sale and Manage-back	The sale of the real estate interest in a hotel by an Owner, where immediately post-sale the former Owner enters into a Management Agreement (as Operator) in respect of the hotel with the new Owner
S&M	Sales and Marketing
Soft Goods	A sub-division of FF&E and includes soft furnishings, textiles, art work etc
Soft Opening	The commencement of partial operations in a hotel or restaurant prior to the official opening
Standaside	See Owner's Priority/ Owner's Preferred Return

T	
Technical	Design and architectural services provided by an Operator to an Owner to

Services	ensure that the construction/refurbishment of a hotel complies with the Brand Standards
Third Party Operator	See White Label Operator
TSA	Technical Services Agreement – an agreement between the Owner and the Operator for the provision of Technical Services to the Owner during the development/refurbishment phase leading up to a new hotel opening, usually for a one-off fee
Tortious Interference	Intentional interference with contractual relations. When a person intentionally damages the claimant’s contractual or other business relationships. Some Operators are now seeking an indemnity against claims for tortious interference when they take over the management or franchising of a hotel and an existing relationship with another Operator is necessarily terminated to make way for the new arrangement

U	
Uniform System	The book “Uniform System of Accounts for the Lodging Industry”, which sets out an internationally agreed system for compiling hotel accounts (giving, for example, methods of classifying Gross Revenue and Operating Expenses in the context of a hotel business). The current edition is the 11th Edition, published by the Hotel Association of New York and the Financial Management Committee of the American Hotel & Lodging Association with funding from the Hospitality Financial & Technology Professionals

W	
Walk-In	A guest without a reservation who walks into the hotel for a room
White Label Operator	An Operator that does not have its own brand under which it manages hotels. A White Label Operator would generally enter into a Management Agreement with an Owner, to manage a hotel either as an unbranded hotel or as a branded hotel under a Franchise Agreement which the Owner is party to. Also known as a “Third Party Operator”

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If you would like to talk through your project or discuss solutions to your legal needs, please get in touch.

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