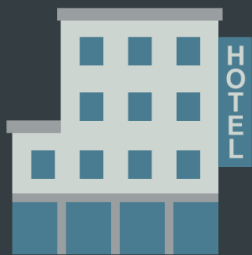


Bird & Bird & Hotels & Leisure

International Hotel Industry Jargon Buster



Your Jargon Buster

This A-Z guide will help you interpret and understand the most commonly used language, acronyms and terminology in the Hotel & Leisure industry.

A

Above the Line	Expenditure that falls above the line which indicates Gross Operating Profit in the summary operating statement, contained in the Uniform System. Items that are "Above the Line" are treated as Operating Expenses of the business and 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 defined list, but additional items that are commonly seen include taxes, contributions to the FF&E Reserve, property insurance and authorised pre-opening expenses). Under a Management Agreement, the Incentive Fee is generally calculated as a percentage of AGOP.
AOP	Area of Protection – an exclusion zone around 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 per room sold, calculated by dividing Gross Rooms Revenue by the number of rooms paid for by hotel guests over a given period (note that this 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 over a given period, expressed as a percentage of the total.

B

Back of house	The part of a hotel that is separate to the guest areas, and which contains administrative offices, kitchens, plant, etc.
Base Fee/Basic Fee	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%. 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.
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, which determine (among other things) its design, the fit-out and operational requirements for that brand. 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 throughout the Operating Plan.
Branded Residences	A residential development linked to a hotel brand (usually at the luxury end of the market) whereby residences receive services from an attached/nearby hotel, which will include the use of leisure and F&B facilities.
Brigade	The team that operates the kitchen and F&B, e.g. chefs, waiters/waitresses, etc.
C	
C&B	Conference & Banqueting.
Capex	Capital Expenditure – expenditure on renewals, revisions, rebuilding, replacement, substitutions or improvements to a hotel.
Case Goods	A sub-division of FF&E, mainly relating to furniture.
Cash Pooling	A cash management strategy that allows companies with credit and debit positions at several financial institutions to combine them into a centralized account.
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, upper upscale, upscale, upper midscale, midscale, economy and independent (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 a hotel, and which are of a similar standard or star rating, against which a hotel's performance is measured.
Complexing	See Clustering.
Condo/ Condominium	A US term used to describe an apartment. Condos 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 for rooms at a hotel which is part of a chain or group of hotels.

D

Deferred Incentive Fee	The portion of the Incentive Fee that is owed but not yet paid to the Operator (e.g. because a hotel has not achieved the required minimum AGOP level) and which 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 & 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 – commonly used to work out a variable rent under a hotel lease.
EMEA	Europe, Middle East and Africa (otherwise 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 & 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 & Equipment, or, Fixtures, Fittings & Equipment (e.g. beds, tables and chairs, but normally excluding linen, china and glassware). The acronym refers to "loose" items which are not fixed to a property and which can be removed without causing damage to the fabric of a property.
FF&E Reserve	The cash reserve (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, and which has a restaurant and meeting facilities, and offers certain minimum service levels, with room service and concierge. Contrast this with Limited Service Hotel.



G

GDPR	The General Data Protection Regulation, the European Union's refreshed data protection law which took effect in May 2018 and introduces maximum fines of 4% worldwide turnover or €20m, whichever is the higher. The GDPR has significant implications for operational customer and staff data processing activities for all those involved in the hospitality services sector.
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 member of staff employed by the Operator, whereas other members of staff 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 a hotel. This is an accounting principle used to calculate how much revenue a hotel generates. This is typically 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. A hotel will share a proportional cost of the GS with other hotels in the same chain or group.
GSM	Guest Services Manager.

H

HMA	Hotel Management Agreement (see Management Agreement).
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I

IBFC	Income Before Fixed Charges – a measure of the profitability of a hotel. This is usually calculated as GOP, less Management Fees.
Incentive Fee/ Incentive Management Fee	A fee paid to an Operator under a Management Agreement (which increases with the level of financial performance), which is usually a percentage of profit, but which can include a variety of hurdles and step levels to provide additional incentives to the Operator to perform at its best. 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 made 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 structured as a loan, it will usually amortise on a straight line basis over a certain period of time, with the unamortised amount being repayable to the Operator/franchisor if the Management Agreement/Franchise Agreement is terminated, where the termination is not the result of a default by an Operator/franchisor.
KPI	Key Performance Indicator – a target against which an Operator's success can be measured, e.g. an occupancy rate or performance against a Competitive Set.

L

Last Room Availability/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) that room 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 which permits 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 1980s, but largely disappeared in subsequent years, until being reintroduced recently by OTAs (such as Expedia). Operators sometimes accept LRA clauses for fear of losing bookings generated by OTAs.
Length of Stay	The number of nights that a guest spends in a hotel.
Licence Agreement	See Franchise Agreement.
Licence Fee	A fee paid to an Operator under a Management Agreement or to a franchisor under a Franchise Agreement, which is usually a percentage of Gross Revenue or Gross Rooms Revenue, for the use of a brand name. 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 an Operator's management of a hotel, which will usually consist of a Base Fee and/or Licence Fee, and an 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 & Exhibitions – this is usually used to refer to the events industry.
Mystery Guest	A quality control measure whereby an individual working undercover poses as a guest to assess the performance of a hotel.

N

NDA	Non-Disturbance Agreement – an agreement between an Operator and an Owner's senior lender, under which the lender agrees not to terminate a Management Agreement on an insolvency of, or enforcement against, the Owner. Alternatively, the parties might enter into a duty of care agreement, which would have fewer protections for the Operator, but would create a direct link between the lender and the Operator, and usually allow 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 & Equipment (e.g. soap, crockery, food stocks, etc.).
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 a 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 (NB. but not Ownership Expenses).
Operating Plan	A budget for a hotel, usually produced on an annual basis by an Operator, which contains forecasts for Gross Revenue, Operating Expenses and Capex for the forthcoming year.
Operator	A hotel management company which manages a hotel under a Management Agreement. Also known as a "Manager".
OTA	Online Travel Agency – an online third party (e.g. Expedia or Hotels.com) which sells hotel rooms and is paid a commission for any bookings by Owners.
Owner	The owner of a hotel property (freehold or leasehold) and also possibly of the hotel business itself (but see OpCo and PropCo).
Owner's Priority/Owner's Preferred Return	Where payment of an 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 an 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 an Owner's interest in a hotel is leasehold and rent is 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 an Operator's poor performance. A standard Performance Test would specify that an Owner could terminate a Management Agreement if an 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 following a hotel's opening (NB. this will not include the Ramp-up Period). An Operator would usually insist on a right to remedy and payment to avoid termination, as well as force majeure provisions.
PIP	Property Improvement Plan – sets out hotel refurbishment works required 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 requires that a hotel be updated.
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 on this point and will commonly refuse to 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 a hotel (but will not own the hotel business).
R	
Rack Rate	The published rate for a hotel room, typically 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 certain 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.
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 & 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) with a new Owner, in respect of a hotel.
S&M	Sales & Marketing.
Soft Goods	A sub-division of FF&E, and which includes soft furnishings, textiles, art work, etc.
Soft Opening	The commencement of partial operations in a hotel or restaurant, in advance of the official opening.
Standaside	See Owner's Priority/Owner's Preferred Return.

T

Technical Services	Design and architectural services provided by an Operator to an Owner to 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 an Owner and an 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 (i.e. when an individual intentionally harms a claimant's contractual or other business relationships). Some Operators now seek an indemnity against claims for tortious interference when they take over the management or franchising of a hotel and, if so, an existing relationship with another Operator would necessarily be 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.
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W

Walk-in	A guest who, without a reservation, walks into a hotel in search of 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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