



Hotel Contracts: It's Still a Buyer's Market

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Slowly, but surely, the economy is improving. Even to "non-profit" organizations, the improved economy is a welcome sight. Members may be willing to spend discretionary dollars. With the exception, perhaps, of those organizations that heavily rely on federal and/or state funding, member associations, professional societies and certification boards may be able to cautiously plan more initiatives that result in benefits for their constituents. It is possible that this may mean that tax-exempt organizations will become aggressive with their conference plans. This could result in more competition for hotel and convention space for the preferred locations throughout the country. Does this mean that, for hotels and convention centers, it will become a seller's market and there will be fewer concessions for your meetings and conferences?

Not necessarily. It will take some time for hotels and convention centers to once again have the upper hand in contract negotiations. In the near future, associations still will be able to obtain considerable concessions during contract negotiations.

While most association executives are aware of the basic negotiated terms in hotel and convention contracts (room rates, cancellation penalties, etc.) there are still several other ancillary terms that hotels are willing to negotiate. Ultimately, negotiating these terms can add up to large savings and benefits for an association and its members. Consider the following:

1. Lowest Guaranteed Rate: With limited exceptions, the association should receive the lowest guaranteed room and event rates during the event dates.
2. Parking. The association should request complimentary parking or reduced parking rates for all of its attendees.
3. Cancellation Fees. Cancellation fees generally should start low and increase as the event date gets closer. Cancellation fees should be determined by room, and food and beverage profit, not revenue. For example:

From the Agreement Date to 541 days prior to arrival date: 15% of Guest Room Profit

From 540 days to 366 days prior to arrival date: 25% of Guest Room Profit; 15% F&B Profit

From 365 days to 271 days prior to arrival date: 50% of Guest Room Profit, 25% F&B Profit

From 270 days to 121 days prior to arrival date: 75% of Guest Room Profit, 50% F&B Profit

From 120 days or less prior to arrival date: 100% of Guest Room Profit; 75% F&B Profit

“Room profit” can be defined as a group’s room block, multiplied by the group’s average room rate multiplied by the actual profit percentage of the room (i.e., 80%) multiplied by the attrition rate (i.e., 80%).

4. Reuse of Cancellation Penalty. Frequently, a hotel will permit an association to use its cancellation penalty (or a portion) as a deposit to rebook an event of equal or greater size at the same hotel (chain) within 12-24 months of the event date.
5. Baggage Storage Fees. Sometimes hotels will charge guests baggage storage fees if they arrive before check-in or stay after check-out. This fee should be eliminated.
6. Convention/Hotel Tie-in Provision. If the association’s convention/trade show is being held somewhere other than at the hotel, the association may have a “tie-in” provision in the hotel agreement which allows the association to cancel the hotel agreement, with no penalty, if the convention facility cannot be used.
7. Menu Prices. Menu prices should be agreed to at the time the association enters into the hotel agreement. The hotel should have the right to increase these prices by a reasonable (CPI) percentage each year, but the association should place a cap on the amount of the increase. This is an essential budget planning tool.
8. Decorator, Event Planner. The contract should state whether the association wants to use its own event planner or decorator. The hotel should not charge any additional costs.
9. Renovations. The hotel or convention center should represent and warrant that it currently has no plans to renovate during the association’s event and that it will only renovate on an “as necessary” basis and not later than 120 days prior to the event date.

While it is still a buyer’s market, ultimately, even in good economic times, there is always room for negotiations with hotel and convention contracts. Smart negotiations will lead to a successful event and happy members.