

# The Need for Customized, Agile Third-Party Property Management

## Agile Hotel Operations Extends Beyond Lean, Cost-Cutting Measures

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May 22, 2024

Working our way forward from the pandemic, the hospitality industry achieved record profits in 2023.

Having regained our breathing space and then some, we could stop looking back in our rear-view mirrors at those 2019 high-water benchmarks. As leisure travel remained important to individuals and families — and group business was returning — the industry seemed to be normalizing.

Of course, things can change quickly in our economy. We are still seeing some average-daily-rate growth, but not nearly as strong as it has been in that recent past. At the same time, operating costs keep escalating, including everything from property taxes, insurance and utilities to the cost of basic property maintenance, supplies and labor. Many owners are scrambling to achieve accustomed margins, putting intense pressure on what they want to pay for third-party property management.

Paradoxically, many developers and ownership groups are looking to outsource third-party property management to focus on development and asset management. This occurs at a time when it has become trickier to finance and refinance hotels — whether existing properties or new builds — as inflation and high interest rates continue.

### What Can We Customize?

We understand these dynamics. However, a race to the leanest operating principles — i.e. lowest cost above all else — doesn't necessarily serve guests, property managers and their staffs, or owners and investors well.

Instead, we believe all parties are best served by a customized approach to property management, tailoring services to the express needs of ownership and guided by understanding where costs can best be saved — and where they cannot. Let's briefly look at some areas for customization.

### Staffing

Even though many hotels still haven't restored staffing levels that were reduced during the pandemic, we are seeing continued pressure from ownership, given that labor is one of our largest cost centers for operations. We don't expect these pressures to let up soon.

Agile operators will be aided in reaching staffing targets by strong training programs and continued use of cross-trained staff. The brands continue to focus on developing platforms that can be operated with fewer full-time employees, especially in the economy classes, including the extended-stay segment.

#### Healthcare

Staffing directly relates to the cost of healthcare, which overall represents as much as 17% or 18% of U.S. gross domestic product. The trend in the hotel industry is for employers to take on a lower — sometimes, much lower — percentage of plan costs than in past years.

Customized benefit approaches must balance candidate attraction and the well-being of staff with realistic budgets, which will be affected by where a property sits in the chain scale. There is a real tug of war going on here that we don't expect to relent soon.

#### Revenue Management and Accounting Services

Depending on the property and market characteristics and competition, this is an era where services can be customized. For example, in a stable, more predictable market, we may be able to recommend a streamlined approach that focuses on managing the direct revenue-management system, as opposed to more complex forecasting or deep dives in adjunct sales strategies for more dynamic, less predictable markets. In the area of accounting and other administrative support, property managers will be looking at greater automation to control costs for ownership.

#### Property Visits

Property visits allow us to meet people, guests and staff and gauge firsthand many aspects of performance. Most importantly, we can often solve problems on the spot. However, if a property is otherwise doing well, we believe that reducing the frequency of these visits, as appropriate, can be a reasonable and valuable cost-saving measure.

#### Some Cautions

As discussed, hotel property managers today can customize their services and realize savings for owners. In this endeavor, we must be protective of a property's physical condition and its reputation.

For example, while each hospitality entity will have a distinct philosophy with respect to capital-expenditure reserves and preventive maintenance, we believe in doing whatever is reasonable in preserving asset value from a physical standpoint. Hotel operators must be careful that cutting maintenance doesn't result in longer-term deficiencies that are costly to remedy.

Moreover, at a certain point, staffing levels, housekeeping, physical condition, array of services and so on can affect the guest experience, guest scores and brand reviews. In pursuit of profitability, moderation is the key, along with trusting in the insights and recommendations of one's property management partner.

In our experience, there are ways to limit management fees without being destructive of operating performance. The best firms are adapting to this new world of property management, helping

control expenses, while being responsive to owner needs, caring for guests in superlative fashion, and remaining genuinely connected to local communities.

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