

# Hotel Development -From Inception to Operation

Tara Marlow - Partner, Head of Real Estate, Hotels & Leisure - Real Estate / Family Business  
- Dubai International Financial Centre

In Part 1 of this article, I sought to introduce and outline the first stages of the life of a hotel – from inception through to opening. My intention was to present a simple account, for the benefit of hotel developers and owners, of the hotel development process and to show just how complex this process can be. In terms of the interaction between owner and operator, the article also sought to highlight how this relationship works, and how important it is to develop the relationship at the very earliest stages of the project.

Part 2 is the final part of my article, and follows the process through the construction stage to fit-out and procurement, appointment of the hotel personnel, pre-opening activities and finally, to opening.

## **Construction and beyond...**

The nature of the project will dictate what is required in terms of construction. The process will differ depending on what is required, i.e. construction of a new hotel, completion of construction of a partially built hotel, or refurbishment/renovation of an operational hotel.

Renovation/refurbishment of an operational hotel will bring additional complications and considerations. In most ways, this situation raises the greatest risk to owner and operator alike, and will require the most management by all parties to ensure that it is successfully executed with minimal impact on the operator, guest experience and revenue.

Once schematic design is completed (incorporating the operator's input to ensure compliance with its brand standards and requirements), the owner can finalise the pricing and programme. The owner can then also commence the tender process for appointment of its contractor.

The owner's professional consultants should advise on the type of procurement method best-suited to the project. This advice will structure the construction process, the team and the type of construction contracts to be entered into. The owner's consultants will assist in putting together the tender package and will identify suitably qualified, experienced and licensed contractors who should be invited to tender for the construction works.

In the event that the project is the completion of a partially built hotel, it may be that the best advice for the owner is to re-engage the original contractor for completion of the works. This would be appropriate where the quality of the work is acceptable and will avoid the need to find another contractor who is willing to take responsibility (and liability) for the existing works – something which is often difficult to achieve and will come at a cost to the owner in any event.

Once the contractor has been appointed and the project costs and programme set, detailed design of the hotel can be finalised and fed to the engineer and contractor, and physical construction may commence (subject to obtaining all necessary approvals).

Throughout the construction process, the operator and the owner should continue to work together, to ensure that the operator remains fully involved in the design process, so that each stage of design and construction can be signed-off by all parties. It is inevitable that issues, problems and delays will arise at some point, and this is where a cohesive and communicative relationship between owner, operator, professional team and contractor will prove to be of benefit. The construction process very rarely runs

smoothly, and it will save time and money in the long term to deal with any issues quickly and proactively.

Completion of the detailed design will also enable the owner to fix specifications of all furniture, fixtures and fittings, thereby allowing these items to be procured. It is important to get the timing of this right and to work backwards from the estimated project completion date, ensuring that items with the longest lead times for order and delivery can be procured first. In doing so, this should avoid any need to make late changes to the specifications (which will already have been approved by the operator and incorporated into the construction costs), as well as avoid delaying the construction programme and the anticipated hotel opening date.

### **Mockup and benchmark rooms**

Completion of the detailed design will also allow the creation of a 'mockup room' for each room type, for inspection and acceptance by the operator. Sign-off of the mockup room establishes and fixes the design, layout and specification of the rooms and no further changes should be necessary.

Also, during the construction and fit-out process for the rooms, a 'benchmark room' should be established for each room type. Whilst the mockup rooms fix design, layout and specification, the benchmark room fixes quality, actual construction processes and finished detail of the rooms. This serves as a marker for all those engaged in the construction, (from the plasterers to the electricians, the plumbers to the carpenters), and the benchmark room should not be deviated from, either in process or finishing quality.

### **Completion**

Upon completion of the construction works in accordance with the construction contract, the owner's engineer will issue a certificate of practice completion. This is issued subject to a defects liability period (usually of 12 - 24 months), and any snagging or minor defects will be remedied. The authorities will also be required to issue a completion certificate, a permanent utilities connection, and ensure that the building is approved and insured for occupation following inspection of the works.

Completion of the works pursuant to the construction contract is a major milestone - upon this date, the hotel is physically handed over by the contractor to the owner and the risk of and responsibility for the property passes to the owner. The owner will, in turn, pass the responsibility for management of the hotel to the operator, pursuant to the terms of the hotel management agreement (and ancillary agreements, as appropriate).

### **Pre-Opening**

Approximately 12 months prior to the estimated completion date, the operator must hire the executive personnel for the hotel. These are the people who will work with the owner to take the hotel through the pre-opening stages to opening and full operation. Generally, the hotel general manager, the sales and marketing director and the financial controller are among the first employees usually hired. The owner should be entitled to interview candidates proposed by the operator for these roles and to approve or reject such candidates.

The 12 months leading up to the opening date are busy for the operator - it is during this time that the sales and marketing strategy plan for the hotel must be put together, the pre-opening budget compiled for agreement by the owner, the first annual operating budget and performance forecast is compiled, cashflow forecasts and working capital requirements are prepared, and the rank and file hotel staff employed and trained. It is also an expensive time for the owner, as they will now start to provide the working capital that the operator requires to implement all such things.

At the same time, the ff&e is being installed at the hotel and the construction phase is coming to a close. The operator will remain involved with completion of the hotel fit-out and decoration, protecting its brand

throughout and ensuring compliance with the brand standards.

All the various operational licences must be applied for and obtained, including the liquor licence (if applicable) and local police/security department clearance in terms of surveillance and security systems at the hotel. Most of the operational licences will necessarily be applied for in the name of the owner, with the operator's assistance. To facilitate this and the management of the hotel generally, it is usual for the owner to provide the hotel general manager with a power of attorney.

Where a hotel is operated under a management agreement (which is the most common form of agreement throughout the Middle East), then usually the owner will be the legal employer and sponsor of the hotel staff. Therefore, whilst the operator will manage the staff on a day to day basis, and the staff remuneration and benefits packages will reflect those implemented by the operator (either on a regional or international basis), the owner remains legally responsible for the employees, including payment of salaries and any end-of-service benefits.

In terms of marketing and advertising of the hotel, this period sees a gradual rise in activity, as the hotel will officially be included in the operator's portfolio and customer loyalty programmes, and centrally marketed through its international sales networks for bookings to commence. Closer to the opening date, the hotel will also be marketed on a local and regional basis and events will be planned for the opening date. Sometimes, where the operator is comfortable to do so, a hotel may open on a 'soft opening' basis. This is a period prior to the official opening date where the hotel may be partially occupied and therefore not very busy with guests, which allows the staff a period of time to implement their training on a 'live' basis and to de-bug any problems that may arise.

### **The opening date...**

At some point during the pre-opening period, the owner and the operator will agree and fix the official opening date of the hotel. This might be timed to coincide with a particularly busy period for the tourism industry specific to the location of the hotel, or with any major conferences, exhibitions or sporting/leisure events taking place within the vicinity of the hotel. Wherever possible, the intention should be to maximise the impact of the launch of the hotel and to capitalise on these events by attracting as many guests as possible. This should allow the hotel to firmly establish itself and commence development of its reputation and customer loyalty.

Completion of the hotel under the construction contract will be subject to snagging and rectification of any minor defects, and the operator will play an important part in logging all the various items with the owner, which will require such remedy by the owner's contractor over the next 12 - 24 months. The operator will want these items to be remedied as swiftly as possible with as little inconvenience to the hotel operation as possible. Retention of a percentage of the construction costs from the owner until all the defects have been remedied also provides the contractor with an incentive to remedy as soon as possible.

### **The start of a beautiful relationship...?**

On the opening date, the development process (save for snagging) draws to a close and the operator assumes full responsibility for operation of the hotel and, hopefully, a return of profit to the owner.

The official launch of the hotel is an exciting time for all involved. It is the culmination of the hard work and endeavours by many individuals involved during the time leading up to this event. It may have been a very stressful or relatively painless process, but however the hotel comes into being, the road ahead should hopefully be the start of a long, fruitful and mutually beneficial relationship between owner, operator and of course, the guest.

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Tara Marlow is Head of Property, Abu Dhabi and Regional Head of Hospitality, at Al Tamimi & Company.

Tara can be contacted on [t.marlow@tamimi.com](mailto:t.marlow@tamimi.com).

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