HVS

MARKET REPORT

The Evolution of Hotel Management Agreements: Adapting to a Value-Focused Market in the Middle East and Africa

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Hotel owners across the Middle East and Africa are taking a more selective approach to management agreements, with greater focus on brand contribution, total costs and asset-level returns. Franchise, third-party management and hybrid models are becoming more relevant as markets mature. Future agreements will require stronger performance alignment, clearer governance and greater flexibility as assets move through renewal, reinvestment and repositioning.

Source: Photo by ZQ Lee on Unsplash

Hotel Management Agreements have been central to the growth of internationally branded hotels across the Middle East and Africa. They will remain essential for many luxury, upper-upscale, resort and complex assets. Yet a more experienced owner base, maturing hotel markets, rising capital requirements and the expansion of franchise and third-party management are changing how operating partners are selected, remunerated and retained.

To understand how these agreements are evolving, HVS surveyed hotel developers, international and regional hotel operators, owner-operators and third-party management companies across the Middle East and Africa. The responding groups represent a combined portfolio of approximately 305,500 keys across 1,313 hotels. This article draws on those findings to examine where the traditional model remains valuable, where owner and operator interests diverge, and what the next generation of agreements should deliver. Results are presented on both an unweighted and portfolio-weighted basis, so the views of the full respondent group can be read alongside the practices of the region's larger platforms.

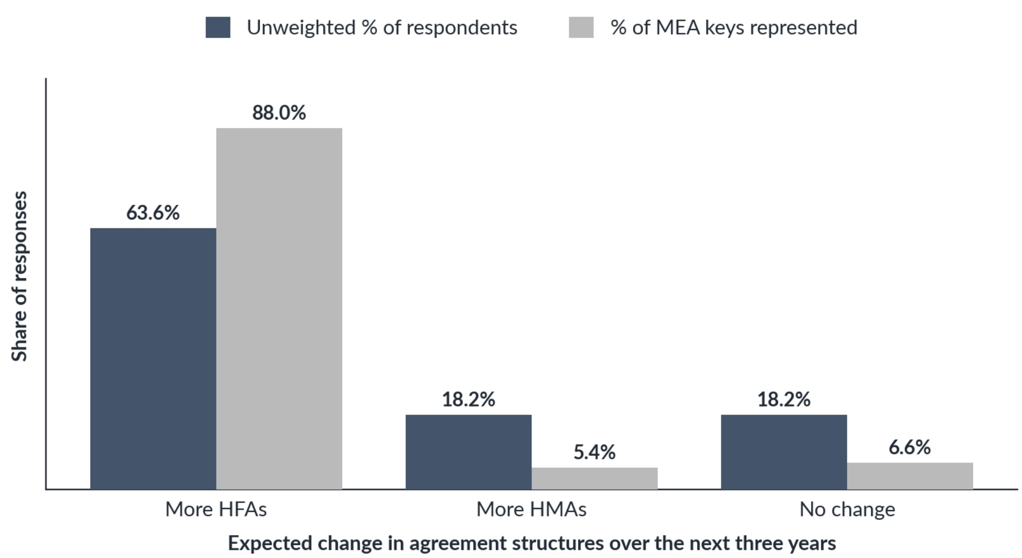
From Brand Selection to Investment Strategy

For much of the region's development cycle, appointing an international operator was an essential step in establishing project credibility. The operator brought a recognised brand, technical expertise, systems, distribution, loyalty and access to international demand. For developers and lenders, the flag also provided assurance that the asset would be designed and operated to internationally recognised standards.

The model aligned naturally with the asset-light strategy of global hotel groups. Owners funded the land, construction, working capital and capital expenditure; operators expanded their networks and earned management, incentive, technical-services and system fees without assuming the underlying real-estate risk. This structure contributed substantially to the professionalisation and rapid expansion of the regional hotel sector.

The market has nevertheless evolved. Owners are better advised and increasingly focused on asset-level returns rather than affiliation alone. Hotels opened during the first major wave of regional development are approaching renewal, refurbishment and repositioning. Operators have also expanded their brand families and accelerated franchise growth, creating more choice while making the incremental contribution of each brand harder to assess.

The Strongest Directional Signal: More Franchise Agreements



Source: HVS

The strongest directional signal is not that owners are abandoning brands, but that brands will increasingly be engaged through different structures. Some 63.6% of respondents expected more franchise agreements over the following three years; weighted by regional key portfolios, the share rose to 88.0%. This is a view from the largest platforms, not a forecast that 88% of future contracts will be franchises.

The question is no longer simply "Which brand?" It is "Which structure will deliver the greatest long-term value for the asset?"

The Fundamental Alignment Challenge

An HMA is built around a common interest in hotel performance, but the parties measure success differently. The owner carries the full capital structure: development or acquisition cost, debt service, working capital, taxes, insurance, FF&E replacement and capex. The operator is principally remunerated through fees linked to revenue and operating profit. Both benefit from a successful hotel, yet the timing, risk and definition of success are not identical.

A revenue-based fee protects operator income even when profitability is weak. A GOP-linked incentive fee improves alignment, but GOP is calculated before several owner-level costs and may therefore trigger remuneration while the owner's return remains below target. Above-property charges, loyalty costs, reservation fees, central services, procurement arrangements and reimbursables can further widen the gap between the headline management fee and the full cost of the operating platform.

A tiered GOP incentive fee is not, by itself, proof of alignment. The operator can outperform a GOP hurdle while the owner underperforms its investment return.

A Stronger Economic Architecture

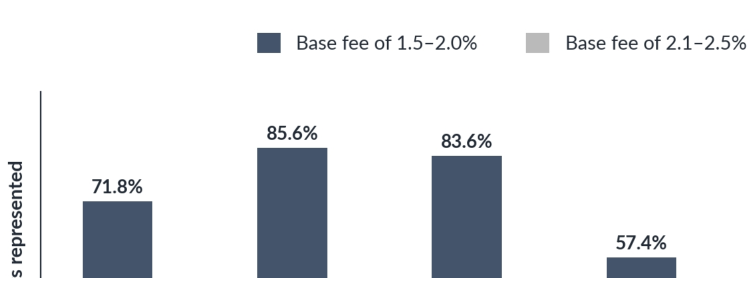
The next generation of HMAs should retain reasonable compensation for the operator's platform and management capability, but place greater emphasis on performance-linked remuneration. Depending on the asset and negotiating leverage, alignment can include an Owner Priority Return, incentive-fee stand-aside, fee subordination, aggregate fee cap or minimum performance guarantee. The objective is not to transfer real-estate risk to the operator; it is to ensure that incentive compensation follows the creation of value for both parties.

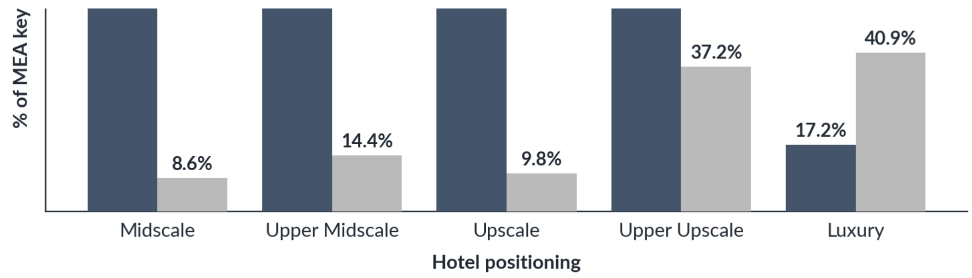
The return threshold must be carefully defined. Debt service varies with the owner's financing decisions and is not always an appropriate operating benchmark. AGOP, EBITDA after the FF&E reserve, or a defined priority return on an agreed investment base may be more workable. Whatever the mechanism, it should be transparent, auditable and calculated consistently under USALI.

The Headline Fee Is Only the Beginning

The survey suggests that base management fees are relatively disciplined below luxury. Respondents representing 71.8% of the key-weighted midscale answering base, 85.6% for upper midscale and 83.6% for upscale report a typical range of 1.5% - 2.0% of revenue. Upper-upscale responses are more dispersed, while luxury operators retain materially stronger pricing power.

Concentration in Key Base-Fee Bands





Source: HVS

Luxury is different for understandable reasons: operations are more intensive, brand scarcity can be greater and technical involvement is deeper. Even so, a premium should be tested against measurable revenue contribution, market positioning and asset-value impact rather than accepted simply as a consequence of classification.

The Hidden Economics

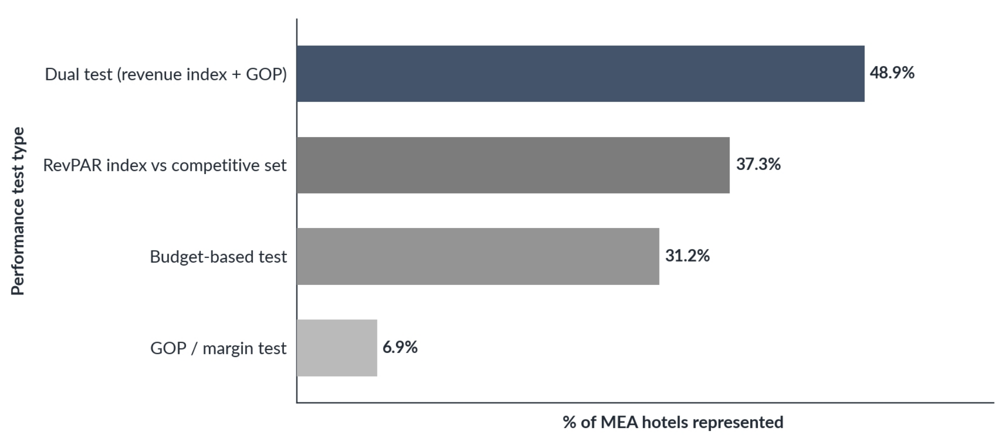
The more difficult negotiation is often the additional fees beyond the management fee. Marketing, reservation and loyalty charges may use different bases: rooms revenue, qualifying member revenue, folio value or total guest spend. Technical-services and pre-opening fees can be material, particularly in luxury. Technology, training, travel, procurement, shared personnel and cluster services add further cost layers.

A modern HMA should include a complete schedule of operator and affiliate charges, calculation bases, frequency, escalation, taxes and reimbursables. Related-party services should be disclosed and demonstrably competitive. Material new system charges introduced during the term should require owner approval, while optional services should carry opt-out rights where they provide no identifiable asset-level benefit. Owners should negotiate the entire economic package: a small saving in base fee can easily be outweighed elsewhere.

Performance Tests, Governance and Genuine Optionality

The performance test is commonly presented as the owner's principal protection against sustained underperformance. In practice, it is frequently difficult to exercise. Tests often begin only after stabilisation, require two consecutive years of failure, combine revenue and profit hurdles, exclude numerous events and permit the operator to cure the failure.

Performance-Test Structures Commonly Reported



Source: HVS

Respondents representing 48.9% of the hotel-weighted answering base report a dual test combining a revenue index and profit hurdle. RevPAR-index tests were selected by 37.3% and budget-based tests by 31.2%. Dual testing is rational: market share assesses competitiveness while profit tests address efficiency. But if both limbs must fail simultaneously, the test can protect the operator as much as the owner.

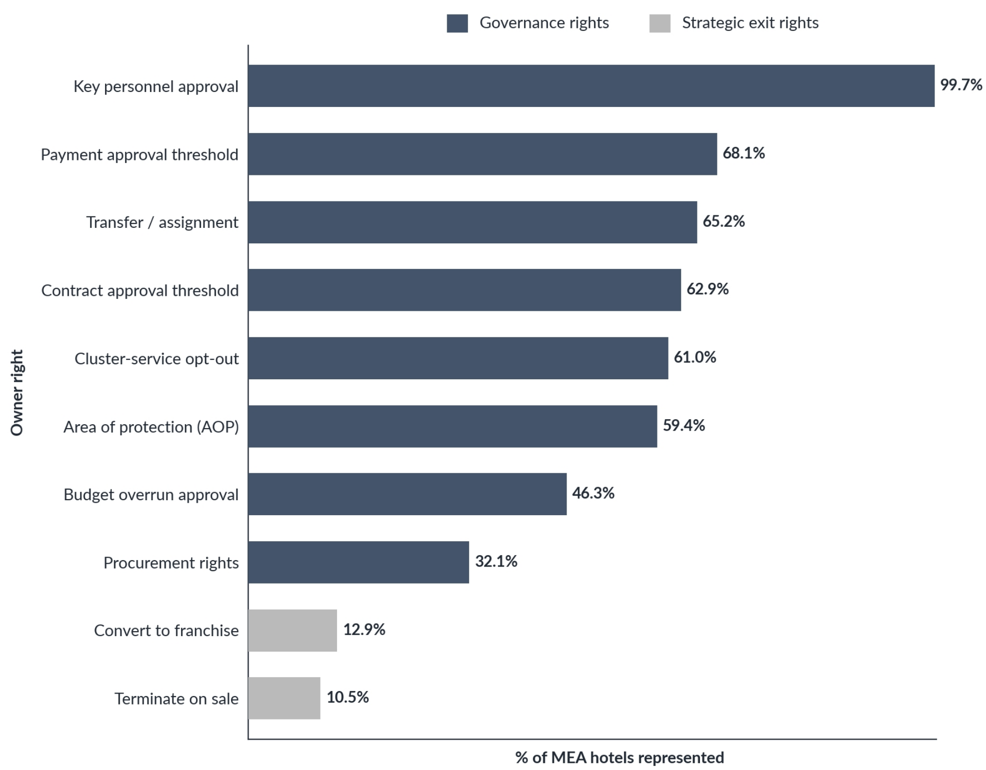
A test commencing in Year 3, requiring failures in Years 3 and 4 and allowing a cure thereafter may not produce an effective termination right until Year 5, or later if an excluded event interrupts the period. A balanced test must address commencement, measurable thresholds, competitive-set governance, limited exclusions and restricted cure rights.

Accountability should also extend beyond RevPAR and GOP. Separate defaults should address persistent brand non-compliance, material reporting failures, unauthorised related-party charges, repeated material budget breaches and failure to implement agreed corrective action. These obligations matter throughout a 20-year relationship even when the traditional financial test is not triggered.

Control Is Not the Same as Exit

Owners should not be passive capital providers. Decisions affecting asset value, liquidity, capital expenditure and long-term strategy require meaningful oversight, while day-to-day operating authority must remain clear enough for the operator to manage effectively.

Governance Rights Are Common; Strategic Exit Rights Remain Scarce



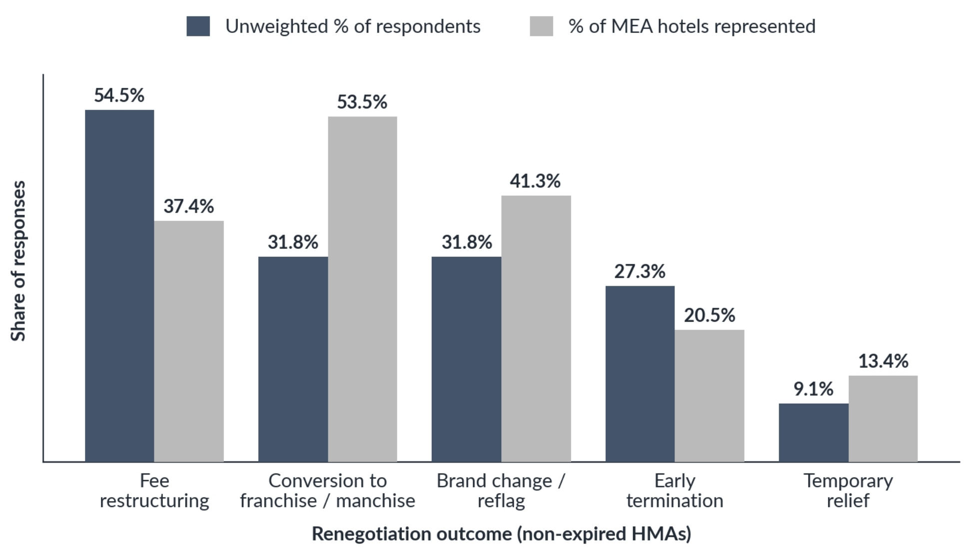
Source: HVS

The survey shows broad acceptance of key-personnel approval, thresholds for material payments and contracts, transfer rights, cluster-service controls and area protection. Strategic exit rights remain scarce: only 12.9% of the weighted base report an HMA-to-franchise conversion right and 10.5% report termination on sale. Yet a hotel can be competently managed and still operate under the wrong brand, cost structure or contractual model.

Optionality can be structured fairly through notice, objective purchaser tests, declining liquidated damages, repayment of unamortised key money and protection against prohibited transfers. Consent rights also need response periods, deemed approval where appropriate, objective reasonableness standards and clear consequences where agreement cannot be reached.

The Capital Cycle Is the Decision Point

Outcomes Reported in Renegotiations of Non-Expired HMAs



Source: HVS

The contrast between raw and weighted answers is revealing. Fee restructuring is the most frequently selected outcome overall, while conversion to franchise or manchise leads when responses are weighted by hotel portfolios. Larger platforms are therefore encountering structural conversion, not merely price negotiation, within existing portfolios.

Renewal should be treated as an asset-management exercise, not an administrative extension. The review should begin years before expiry or a major property-improvement plan and test brand contribution, total fees, operator performance, competitive positioning, capex, alternative brands, franchise feasibility, third-party management capability, valuation and liquidity.

One Model Will Not Fit the Region

A luxury resort dependent on international feeder markets may require the experience, prestige and distribution of a global operator under an HMA. A mature upscale hotel in Dubai or a major African gateway may suit franchise with an experienced third-party manager. A domestic-led hotel in a secondary Saudi city may benefit from a regional platform with lower overheads and stronger local adaptation.

Franchise provides brand access and distribution while giving the owner or appointed manager greater operating and cost control. It also transfers execution responsibility. The owner needs a capable platform, disciplined reporting, brand-compliance expertise, sufficient working capital and active asset management. A weak manager under a strong franchise is not a substitute for a strong HMA operator.

Manchise can bridge the models: the international operator manages opening and stabilisation, then converts to franchise if agreed conditions are met. Third-party managers will become more important as franchise expands, but selection must test operating strength, segment expertise, systems, purchasing, commercial capability, owner reporting and actual performance, not simply fees.

Regional brands also deserve serious consideration, particularly in domestic-led markets, religious-tourism destinations and secondary cities. Their local demand knowledge, cultural understanding, staffing practices and cost structures can create a genuine advantage. With continued investment in technology, revenue management, brand consistency and governance, the strongest regional platforms can become credible alternatives.

The right choice is not "international versus local." It is the brand and operating platform that best fit the asset's demand, capital capacity and investment strategy.

Where Each Structure Is Likely to Gain Ground

Across mature GCC gateways, experienced owners and institutional investors should consider franchise, third-party management and hybrid structures more actively, particularly for established upscale and upper-upscale assets. International brands will remain important, but owners will increasingly separate the value of brand, distribution and loyalty from the value of direct hotel management.

Saudi Arabia should remain a major source of HMA growth because of its luxury resorts, mixed-use projects, emerging destinations and substantial pipeline. These assets often require international technical expertise, mobilisation and brand recognition. Yet the market is diverse: religious-tourism destinations, secondary cities, extended-stay and domestic-led segments may favour franchises, manchise, regional brands or third-party management. Execution risk (construction delay, infrastructure, talent and phased delivery) will require realistic timetables and clearer mobilisation obligations.

Egypt combines strong tourism demand with a large independent hotel base. HVS research indicates that approximately 54% of existing supply remains independent, compared with around 40% under HMAs and 6% under franchise. This creates opportunity for conversion, repositioning and flexible structures, but Cairo, the Red Sea, South Sinai, the North Coast and Alexandria require different solutions.

Across Africa, international brands can provide lender confidence, global distribution and corporate demand in gateway cities and major resorts. They are also extending into safari lodges, private islands, vineyard estates and nature-led retreats. Smaller scale, currency volatility, financing and infrastructure constraints can nevertheless make a full HMA uneconomic. Regional managers and third-party operators should gain relevance where they combine local execution with an international franchise.

The Next-Generation HMA

Standard term policies remain deeply embedded, so the near-term change is unlikely to be a simple move to shorter contracts. It will come through structured flexibility: review points, conversion options, conditional continuation rights and defined transition mechanisms after stabilisation, on major capex, following a sale or at agreed anniversaries.

The next negotiation frontier will also include data and technology. Owners will require direct access to property-level data, distribution costs, channel profitability, loyalty contribution and commercial metrics. Agreements should distinguish investment in the operator's wider platform from technology that provides measurable hotel-level benefit, and preserve access to relevant historical data after sale, termination or conversion.

Area protection must evolve as operators introduce multiple brands with overlapping positioning. Geography alone is no longer enough. Protection should consider brand family, customer profile, positioning and likely commercial impact, with a defined process for exceptions and evidence-based impact analysis.

The structure must follow the investment strategy.
Define positioning, demand, operating needs and investment objectives before selecting the brand and contract model.

Brand value must be demonstrated, not assumed.
Measure contribution to revenue, profitability, distribution, loyalty and asset value against the full platform cost.

Remuneration must align with owner value creation.
Use appropriate return thresholds, stand-asides, caps or subordination where necessary.

Accountability must extend beyond RevPAR and GOP.
Cover reporting, brand compliance, charges, budgets and corrective actions.

Governance must remain effective without becoming interference.
Protect owner oversight of strategy, capex, key appointments and material commitments while preserving operational clarity.

Long-term agreements must be capable of evolving.
Build in review, sale, transfer, conversion and transition mechanisms.

The relationship must be managed through the investment cycle.
Use transparent data, disciplined capital planning and continuous assessment of brand and operator contribution.

The next-generation HMA will not be defined by shorter terms or lower fees alone. It will be defined by measurable value, clearer accountability and the ability to evolve with the asset.

Looking Ahead

HMAs will remain essential where brand, systems and management capability create value the owner cannot efficiently replicate. But relevance can no longer be assumed from the flag alone. Owners will demand evidence of contribution, transparency of cost, accountability for performance and flexibility as the asset evolves.

For operators, this is an opportunity. Those able to demonstrate measurable brand value and accept a modern alignment of economics, governance and exit will remain preferred partners. The next chapter is not the end of the HMA. It is the transition from a brand-led contract to an investment-aligned partnership, one designed to protect the brand, empower effective management and enhance the hotel’s long-term value.

Disclaimer and Methodology:

HVS does not provide legal or other regulated advice or guarantee results. The survey findings reflect general insight based on information available to us by the participants. These findings should be viewed as indicative only and not relied upon for future course of action. These findings may be subject to change and therefore HVS has no obligation to update these findings and makes no representation or warranty and expressly disclaims any liability with respect thereto.

The HVS Middle East & Africa Hospitality Development Survey 2026 covers multinational and specialist regional hotel groups operating approximately 305,500 keys across 1,313 hotels in the Middle East and Africa. Weighted percentages reflect the hotel or key portfolios of answering respondents, as specified for each question; they are not contract-level incidence rates.