asian Hospitality

Vol. 5 No. 134 March 30 2016

Extended stay enjoys long-term recovery

Unique sector of U.S. hotel industry shines with revival; market watchers see clouds on horizon

My Place Hotel in Anchorage, Alaska, is the latest hotel to open for My Place Hotels, an extended-stay economy brand. The company formed in 2014 to ride the extended-stay development wave in the U.S. It has 22 hotels franchised and open and another eight in the pipeline.

EXTENDED-STAY HOTELS are hot for U.S. investors and developers. More rooms are under construction than ever before, and demand is at a 15-year high, reports The Highland Group in a newly released report on the market.

The report, "US Extended Stay Lodging Market 2016," says last year was "an exceptionally good" one for extended stay hotels. So good, developers are in a building frenzy. "At almost 35,000, extended-stay hotel rooms under construction are at the highest ever reported. The pace of new room openings is accelerating and the increase in supply in 2016 is expected to be one of the largest in more than 15 years," reads the report.

For existing hotels, the opportunity to increase rate was prime; the Highland Group notes a 7.4 percent hike in ADR, higher than conventional hotels in 2015, and the highest in 16 years.

The study, however, offers a serious caveat emptor for this year and beyond. Although new supply came on board in 2015 and met demand, occupancy gains were flat. This year's supply-and-demand ratio will probably drive occupancy down; hotels will find it difficult to command higher rate.

The solution, say U.S. franchisers and developers, is to sell more rooms by offering more consumers more value.

In interviews with Asian Hospitality, hoteliers and franchisers shared some key trends.

Guest demographic changes

While extended stay continues to serve the needs of long-term white- and blue-collar guests in manufacturing, industrial and health care markets, more leisure guests are choosing the option; in particular, couples and families. This is leading owners to build more extended-stay hotels in resort and destination markets.

In addition, extended-stay hotels are seeing more transient guests staying one to three nights, versus the industry average of nine days. The guest length of stay has varied so much in the past several years, the Highland Group has stopped defining extended stay in terms of room nights sold to merely "a hotel with a fully equipped kitchenette in each guest room."

MainStay Suites, a midscale brand of Choice Hotels International, makes no bones about opening in resort and vacation markets to purposely attract leisure guests who want a longer stay. Caragh McLaughlin, head of brand strategy for extended stay brands at Choice, said MainStay Suites generates "both shorter-term and longer-term stays, including longer business travel occasions, relocation stays and government employees."

Choice Hotels, however, has another brand fully dedicated to the mission of extended stay. "Suburban Extended Stay targets blue collar guests who stay for five or more nights; although typical stays are significantly longer than that," McLaughlin said. "Often, Suburban Extended Stay guests are on extended projects away from home and may need a place to stay for weeks or months rather than days."

Home2 Suites by Hilton is a popular choice for younger business travelers – transient and longer term. Adrian Kurre, global head of the Home2 Suites and Homewood Suites, said the brand and its design plays well into urban areas, but Hilton is focusing its expansion on suburban and secondary markets as well as seeking "those gems with an extended-stay need and a transient-stay need."

Meantime, Homewood Suites, an upscale brand that plays well in leisure markets, has launched a compact prototype to accommodate urban sites and allow owners to incorporate up to 85 percent studio suites to meet local market demands.

Staybridge Suites, an upscale brand by InterContinental Hotels Group, also has launched an urban guest room design that offers more efficient use of FF&E, such as mobile desk and built-in cubby shelves. The brand targets 35 to 49 year olds who travel for business during the week, but enjoy taking vacations with their families, said Heather Balsley, senior vice president of Americas brand management at IHG. "To maximize space

Mark Skinner, a partner with the Atlanta-based Highland Group, said catering to a wider guest demographic with

extended-stay products is typical "when the market is very strong." It's an intended bid for short-term transient travelers. "Extended-stay hotels accommodate day-paying guests to boost yield," he said.

However, a market correction is on the horizon. "We are at a point now where growth in supply over the next two years is likely to exceed the growth in demand; so you will see occupancy drop," Skinner said. "When that happens, there is a shift in focus toward the traditional extended-stay guest."

Dean Savas, executive vice president of franchise development for G6 Hospitality, parent of Studio 6, said transient guests usually discover extended-stay by accident. He stressed the core business of extended stay delivers a better return on investment than a transient-focused brand. "It's an extremely lucrative business model," Savas said.

McLaughlin agreed and noted while there is a pipeline of nearly 75 new builds for Choice Hotels extended stay brands, the value proposition is attracting transient-hotel owners who want to convert to an extended-stay business.

Dual-brand anchors

In dual-brand or cross-brand projects, extended stay hotels are almost always part of the package.

Of all the multi-brand projects that opened last year or are on the drawing board for this year or next, extended-stay is part of the mix.

An extended-stay brand is typically paired with a full-service or select-service hotel as it brings more business with less operational costs. Back-office operations are shared as are housekeeping, laundry and maintenance.

Extended-stay brands offer limited to no F&B but its guests can mosey over to the adjacent hotel's bar or dining area – a pay service that drives revenue; they can also share the pool and fitness centers, enhancing their experience, which increases intent to return as well as generates positive social media reviews.

The housekeeping staff can perform daily room cleaning in the transient hotel and dedicate one or two days on the extended-stay side. Laundry and maintenance handle the needs of both properties.

And, returning to the guest demographic mix, a multi-branded project with an extended-stay partner attracts different customers with varying needs, giving smart operators opportunities to drive more revenue.

S. Jay Patel, CEO and president of North Point Hospitality Group, recognizes the business value in grouping hotels under one roof. He plans to build a first – a tri-brand Marriott development on a single tract in Nashville. Residence Inn, the extended-stay brand, will share a building with SpringHill Suites and an AC Hotel.

Patel said Marriott has just begun to explore shared lobbies in dual-brand projects; so the decision is for Residence Inn and SpringHill to not only share a lobby but their part of the building, too. "To the guest, it looks like one hotel with different rooms; but the rooms are laid out to match each of the brand's standards," Patel said.

"There will be the same front desk agent checking in both types of guests; and guests will share the same free breakfast and evening social."

AC Hotel, on the other hand, will have its own lobby and space for guestrooms. The lifestyle brand is a pay-to-guest business model with breakfast and an evening lounge. Residence Inn and SpringHill Suites are free-to-guest models.

As for the target market of each brand in Nashville, AC Hotel will appeal to younger travelers seeking an "edgy" experiential stay; SpringHill Suites will target families with its studio-like rooms; and Residence Inn is aimed directly at the convention center operation where event advance crews and set-up and tear-down teams stay for a week or more.

"We have the density to build 800 rooms; and we are making all three hotels much more efficient to operate," Patel said.

Economy segment underserved

Economy brands such as WoodSpring Suites (Value Place) have not given up their brand identity as a result of the upturn; rather, it has created an extension brand for guests willing to pay a higher rate for a little more comfort.

The economy segment hotels are low cost, low maintenance and amenity free. The company owns 84 of its hotels and approximately the same number are franchised properties. Its U.S. presence has grown significantly in the past three years, mostly in suburban and tertiary markets where business people traveling on strict per diems seek the basic accommodations, or relocating families are pinching pennies.

Last month, the parent company WoodSpring Hotels Inc. rolled out a "lower-midscale" brand called WoodSpring Signature in a bid to attract business travelers seeking a little more in the way of ambience and amenity at an affordable price. The rates will be about 20 percent higher than its economy product, about $300 to $400 a week.

This year, WoodSpring Hotels expects to open 40 new hotels; and another 50 in 2017.

Another rapidly expanding economy brand is My Place, co-founded in South Dakota by Ron Rivett, co-creator of Super 8 Motels Inc. 40 years ago, and his grandson Ryan Rivett. Launching in spring 2014 with its first My Place in Aberdeen, South Dakota, the brand had plenty of space for expansion. Skinner said in an interview at the time the number of economy extended stay hotels had plenty of room to growth throughout the U.S. as there were many markets underserved.

The Highland Group's new report shows economy-segmented supply in the fourth quarter of 2015 was up 6 percent or 4,660 rooms over the fourth quarter of 2014. However, that was not because of new construction.

"New construction is still the smallest in the economy segment, which gained a greater number of rooms from acquisitions and rebranding compared to new construction. New construction accounted for less than half of the increase in economy extended-stay hotel rooms in 2015."

Savas of G6 Hospitality said Studio 6 has 100 Studio 6 properties in U.S. – both conversion and new construction. He is seeing more new builds these days. A Studio 6 opened in Colorado City, Texas, and Sweetwater, Texas, recently and both are new builds. All 20 hotels in the Studio 6 pipeline are new construction.

Additionally, Suburban Extended Stay continues to be a strong performer for Choice Hotels. The appeal of this extended stay option along with the strength of the Choice Hotels value proposition has attracted not only new construction development but conversions as well, including many examples of non-Extended Stay hotels converting to be able to join this portfolio.