THE GREAT EXTENDED-

BOOM

The extended-stay segment has been on a development tear, with record supply, demand and performance. Here’s why – and what the segment offers owners.

by ALICIA HOISINGTON
STAY

It seems the industry can’t go a day without another announcement that a new extended-stay hotel is opening across the country. Extended-stay hotels, defined by segment expert The Highland Group as those properties that are fully equipped with a kitchenette in each guestroom and that accept reservations but do not require a lease, have seen significant development and performance growth over the past few years.

Year-to-date 2010, the United States had 91,353 total extended-stay room nights available, according to The Highland Group. By 2017, that number increased 30.3 percent to 119,063 available room nights. Likewise, demand has been on the upswing for the segment. In 2010, U.S. extended-stay hotels sold 66,811 total room nights year to date. By 2017, that number climbed 38.2 percent to 92,301 room nights sold.

Those trends are right in line with what Adrian Kurre, global head for Hilton’s Homewood Suites and Home2 Suites extended-stay brands, sees in his corner. For example, Home2 Suites has been one of Hilton’s fastest growing brands, he says.

“2018 will see My Place further our expansion nationwide, with locations in all regions of the country on deck,” Rivett says. “Major markets such as Las Vegas, Chicago, Phoenix and Dallas/Fort Worth are in the works alongside smaller secondary and tertiary markets like Saint George, Greenville and Rockford, just to name a few. There’s no lack of diversity in our development pipeline, which is really exciting.”

If you take Homewood, Home2 and Embassy Suites, there’s a new hotel opening every four days,” Kurre says. Home2 Suites has 142 properties currently open, while Homewood has 425 open hotels, each with hundreds more in the pipeline.

My Place Hotels of America has seen a development ramp-up as well, according to President and CEO Ryan Rivett. The hotel company has 35 locations open from Anchorage to Atlanta, with a Nashville and a second Des Moines area hotel newly opened.

DATA DIVE: HOW EXTENDED-STAY HOTELS PERFORM
The extended-stay segment has been on a tear of late. The full-year 2017 was a great time for extended-stay hotels and provided the fundamentals for the industry to absorb a large number of new openings happening in 2018, according to research from The Highland Group. In fact, in 2017, the segment’s room supply gained more than 8 percent over the previous year. As of the third quarter of 2017, the research for extended-stay hotels shows:
• Room demand rose 9.1 percent over 2016.
• Room revenues increased $1 billion to $9.3 billion over 2016, a 13.3 percent gain.
• Occupancy remained above 80 percent for the fourth consecutive year.
• Average daily rate grew 3.7 percent for the overall segment. By comparison, ADR for the total U.S. grew 2 percent over the same time period.
• Extended-stay revenue per available room (RevPAR) saw a 4.6 percent gain compared to the previous year. The overall RevPAR gain for the U.S. was 1.9 percent as a comparison.
LOCATION, DEMAND DRIVERS KEY TO SUCCEED

Location is one piece of the puzzle when it comes to finding the perfect spot to drop in an extended-stay property.

For instance, Kurre says Hilton is focusing its efforts on urban and suburban areas as well as in Canada and Latin America. Homewood Suites in November opened a property in Silao, Mexico, which was also the first to feature the brand’s Latin American prototype. That property joined one other Homewood in Mexico, but the pipeline continues to grow in Latin America, with upcoming locations in the Dominican Republic and Peru, as well as additional properties in Mexico.

“We have some new and innovative building models with a focus on adaptive reuse that can capitalize on market conditions,” Kurre says.

Rivett says it’s not enough to follow the leader – or construction cranes – when developing an extended-stay hotel. Rather, developers need to look to what markets offer.

“I’ve heard others in the extended-stay space accept cranes and construction as sufficient indicators of healthy demand, which is really limiting performance to seasonality from our experience,” he says. “While construction can be booms for any kind of hotel, it’s not a reliable generator for long-term performance. With a focus on providing mid-scale quality and a rate structure designed for nightly and extended stays, My Place appeals to a base of diverse demand for high-quality product at an economy price.”

For example, the company looks to regional medical markets that draw in everyone from doctors to patients. Locations that are heavy in retail markets can see regional management, quality assurance agents and shoppers as great demand drivers. Likewise, higher education markets attract guests from board members to visiting families, Rivett says.

Kurre says markets housing businesses that offer long-term training programs and require guests to stay five-plus nights are key for extended-stay success. However, it’s also important that those markets offer more amenities for guests outside the hotel in order to see maximized success.

“We conducted research and found that extended-stay guests want accommodations in walkable, fun and vibrant communities with easy access to transportation,” he says.

A GOOD DEVELOPMENT PROPOSITION

While the value proposition for extended-stay hotels can certainly be great for guests, Kurre and Rivett say developers and owners can reap benefits, too.

“While the operational platforms within extended stay vary, its profitability and growing demand is enough to pique any hotelier’s interest,” Rivett says, pointing to The Highland Group’s research that shows a net increase of 34,000 extended-stay rooms by the third quarter of 2017 over the prior year period. “With more supply, the natural fear is oversupply, but really what we’re seeing is a change in attitude about extended stay as guests become more educated in the value of extended-stay amenities.”

Kurre says that developers might be fearful about the construction costs of extended-stay hotels, as rooms are traditionally larger than transient guestrooms, which leads to an expanded footprint and requires more land to build. However, he says Hilton’s Home2 Suites brand often can open in less than a year and require a smaller footprint. Homewood also offers the option for 85 percent of the property to comprise studio suites, which require less square footage. That equation can help drive returns for owners, he says.

“We did a study and found that space was important for guests, but there wasn’t a requirement for a separate bedroom,” Kurre says. “That separate bedroom created more square footage than was needed. Guests love the studio suites, and it helps drive better returns.”

He says it’s equally important that Hilton’s extended-stay brands aren’t sitting still, and brand leaders are always looking at existing properties and the overall portfolio to understand how to drive high-value Hilton Honors business. The brands also continue to go through refurbishment programs to stay fresh to guests.

“Guests will make us their first choice because we’re focusing on the core fundamentals,” Kurre says.

CHALLENGES AND OPPORTUNITIES

As with every sort of development, the extended-stay segment offers both challenges and opportunities for owners and operators.

“The interesting thing for extended-stay brands is that you have to be out there; it’s a niche brand, and it’s sales intense,” Kurre says. “You have to bring on a focused director of sales who understands the local market and thinks that nothing is ever done for the extended-stay business.”

Warm hospitality is also a must, and Kurre says sometimes that can be a challenge in a segment such as extended stay where guests with a longer length of stay might interact less with team members.

“If you think about hospitality, the reason people come to stay is that they have a craving for relationships and they want to be around other people,” he says. “With the advent of digital check-in and digital keys, fewer people are getting that hospitality.”
The advantage for extended-stay brands can be food and beverage, he adds. For example, 85 percent of guests at Hilton’s extended-stay brands come down from their rooms to eat breakfast.

“A key thing we are addressing with owners is you can’t skimp on food and beverage. You have to deliver that with people who are engaging and connect with the guest and deliver hot food hot and cold food cold – from a person with a smile,” he says. “Do that every time, and you will deliver and connect, and they will stay again and again.”

On the developer side, Rivett says that working with cities and local municipalities can be a challenge for the brand. “We’ve seen permitting processes take longer than expected as of late, and the reason for it depends on the relationship between these local entities and other extended-stay developers that have built in their communities,” he says. “Whether developing or marketing, as an extended-stay brand that focuses on offering high-quality amenities and friendly service, expressing our determination for a midscale experience with flexible rate tiers is essential.”

**THREE’S A CHARM**

Extended-stay brands make great pairings in dual-branded properties. But what about a tri-branded property? In January 2017, First Hospitality Group and Hilton broke ground on Hilton’s first tri-branded property comprising a Hilton Garden Inn, Hampton Inn by Hilton and a Home2 Suites by Hilton. The property, which will be connected to Chicago’s McCormick Place convention center via skybridge, is slated to open this year. Upon completion, the hotel will include about 379,500 square feet, including 23 floors and a total 466 guestrooms and suites.

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