

# Hotel & Motel

## MANAGEMENT

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### Extended-stay segment enjoys performance spike

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Skinner Highland Group

ATLANTA—It's just like old times for the extended-stay segment.

Much like in the late 1990s and early 2000s when it was going through a tremendous growth spurt, the segment showed signs of a development explosion in the first half of 2004, according to a report from The Highland Group.

According to "The 2004 U.S. Extended-Stay Lodging Report: Mid-Year Update" by The Highland Group, year-over-year extended-stay hotel supply grew 3.2 percent in the first half of this year, and compared with the first half of 2003, there was a 31-percent increase in extended-stay guestrooms under construction at the midway point of 2004. There were 239,865 extended-stay guestrooms open as of June 30, and another 9,873 extended-stay guestrooms were under construction.

"Remember, the 31-percent increase is from a very small number," said Mark Skinner, principal with The Highland Group. "But it is a concern because it mostly has happened in the upscale segment, and the question is whether it can adequately be absorbed in 2005 and 2006 when the properties open."



The Inn at Fox Hollow in Woodbury, N. Y., has seen yearly increases in all key performance measures since it opened as an extended-stay hotel in 2002.

The operating measurements for the segment increased across the board during the first half of the year. According to the report:

- there was a 6.4-percent increase in roomnights sold for a total of more than 31.6 million;
- occupancy increased 1.9 percent to 72.4 percent;
- average daily rate rose 2.1 percent to \$63.49; and
- revenue per available room jumped 4 percent to \$46.27.

All three sectors within the segment—economy, midprice and upscale—enjoyed varying degrees of success in each of the categories, the report said.

"Our segment's performance does not dip with the economy as much as our brothers in the industry, so a comeback isn't as great," said David Vickers, president and c.e.o. of Atlanta-based InTown Suites, which owns and operates 120 extended-stay hotels comprising more than 15,500 guestrooms. "Things are very strong and positive."

The segment must focus on general real-estate trends to remain a step ahead, he said.

#### Extended-stay supply

| Segment      | Mid-2001       | Mid-2002       | Mid-2003       | Mid-2004       |
|--------------|----------------|----------------|----------------|----------------|
| Economy      | 51,497         | 52,303         | 52,725         | 53,958         |
| Midprice     | 82,321         | 91,592         | 90,750         | 91,959         |
| Upscale      | 78,210         | 83,904         | 88,860         | 93,938         |
| <b>TOTAL</b> | <b>212,000</b> | <b>222,788</b> | <b>222,336</b> | <b>239,955</b> |

Source: The Highland Group

"The main issue for this segment is access to capital," Vickers said. "It is a bit of a different animal than the traditional hotel industry, and the money doesn't always understand it."

"Starting in the last quarter of last year, the trend has been pretty significantly going upward in rates and occupancy," said Tarang Patel, president of TR Management Corp., which manages seven Suburban Extended Stay Hotels for owners Omni Corp Resources and Atlantic Investors. "That is consistent in all the areas where we have hotels."

The company's three hotels in Florida have seen a \$3.20 increase in ADR over the past year, he said.

Patel said guerrilla-marketing techniques and the fact that consumers are becoming more educated about what extended-stay hotels offer have been the catalysts for his hotels' growth.



Patel Tr Management

The Suburban Extended Stay Hotel in Biloxi, Miss., is part of the extended-stay portfolio of TR Management.

“In Orlando, leisure travel is taking seven to 10 nights, and it used to be three or four nights,” he said. “Also, we have seen that with a [weaker] dollar, more British and German travelers are coming, and many of them are staying for two weeks.”



The Suburban Extended Stay Hotel in Biloxi, Miss., is part of the extended-stay portfolio of TR Management.

Jose Menendez, g.m. at the independent Inn at Fox Hollow in Woodbury, N.Y., said business has improved steadily since the property opened in 2002—and it wasn’t bad from the start.

The Inn at Fox Hollow’s occupancy rate went from 63 percent in 2002 to 78 percent in 2003 and Menendez said he expects it to be 81 percent in 2004. The hotel’s ADR went from \$184.40 in 2002 to \$185.57 in 2003 to \$201 in 2004. The RevPAR went from \$116 in 2002 to \$145 in 2003 to \$164 in 2004.



Menendez Fox Hollow

Menendez said the property throws elaborate parties for potential clients in the office-park area in which it is located.

“You have to create a flow of traffic so people can see what you offer,” Menendez said. “The extended-stay market for a hotel doesn’t mature in the first one or two years. It takes a little longer because you must spend time educating potential clients about what you have to offer. In the third year, our business is maturing.”

About 30 percent of the hotel’s business is extended-stay—most of which is at least 90 days, Menendez said. In addition to business travelers, the hotel markets to stressed clients, divorced clients, home sellers and patients who undergo plastic surgery or other outpatient treatments at a nearby hospital. Each suite is 560 square feet with a fully equipped kitchen.

| Extended-stay pipeline (rooms under construction) |               |              |              |              |
|---|---------------|--------------|--------------|--------------|
| Segment   | Mid-2001      | Mid-2002     | Mid-2003     | Mid-2004     |
| Economy   | 2,044         | 759          | 678          | 543          |
| Midprice  | 5,005         | 1,915        | 2,225        | 1,945        |
| Upscale   | 9,090         | 5,120        | 4,808        | 7,385        |
| <b>TOTAL</b>                                      | <b>16,129</b> | <b>7,785</b> | <b>7,511</b> | <b>9,873</b> |

Source: The Highland Group

## Domino effect

Skinner said the midprice sector of the extended-stay segment had a big performance jump in the second quarter, and he expects that to continue.

“That was a bit of a surprise, given the upheaval in the segment,” Skinner said.

During the first half of the year, The Blackstone Group acquired segment behemoth Extended Stay America and its three brands for \$3.3 billion to put with its Homestead Studio Suites brand in its extended-stay division, which is called Extended Stay Hotels.



Vickers Intown Suites

“The midprice segment is greatly influenced by the Extended StayAmerica brand,” Skinner said.

Blackstone’s different approach to operating the hotels helped individual properties improve their performances, he said.

Vickers said the consolidation in the segment is a good thing—especially when a name like Blackstone is involved.

“Any time you see someone putting that much money in the segment, it’s great news,” he said. “The more institutional the segment becomes, the better off it will be. There is no higher yielding real-estate sector than the extended-stay segment.”

Skinner said he expects the economy segment to see a building boom at some point in the near future, mainly because there are so many major metropolitan areas that don’t have any economy extended-stay product in them yet.

“Construction there will greatly pick up,” he said. “There is an opportunity to do a [brand] rollout in the economy segment, as long as it has Wall Street backing like ESA did in the mid-90s.”

Extended-stay hoteliers are bullish about the segment’s future.

“2004 will end as one of the best years, and 2005 is looking to be very good as well,” Patel said. “The main reason I stick to extended-stay is very simple: It works, it’s profitable and it has a very cookie-cutter approach to operations that gives you leverage and flexibility.”

“There’s a very affluent market out there that’s seeking a place to stay in situations that require lengthy stays,” Menendez said. “Every hotelier can see that. Extended-stay hoteliers can appeal to that need on a much broader scale.”