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Atlanta--The extended-stay segment continues to hold a premium position in occupancy rate and demand growth compared with traditional transient hotels, but finds itself in the same situation as the rest of lodging industry in terms of average rate.

The extended-stay segment had a 4-percent increase of supply and a 3.5-percent rise of demand during 2003, according to a year-end report by The Highland Group. The segment added almost 10,000 new rooms during 2003, and while the segment-wide occupancy rate dropped to 71.7 percent, it's still 12 points higher than the overall lodging industry.

"Overall, the extended-stay industry's rate of decline has slowed down quite abruptly," said Mark Skinner, partner with The Highland Group. "It's the same pattern as the overall hotel industry, except it started the downturn later, and this reinforces the theory that it will experience an upturn."

Frank McCabe, president of Lancaster, Pa.-based High Hotels Ltd., said the two Homewood Suites by Hilton properties in his company's portfolio outperformed the eight other properties High Hotels owns.

"It's hard to put a finger on it, but demand from long-term assignments kept going strong," McCabe said. "They have definitely outperformed during the downturn."

McCabe said his Harrisburg, Pa., Homewood Suites property benefits from the outsourcing of the accounting department of an insurance company based there.

Vision Hospitality Group, a Chattanooga, Tenn.-based company that owns six hotels and manages six others, has been happy with the 76-unit Homewood Suites in its portfolio, according to Mitch Patel, executive vice president. Vision's Homewood Suites property is in a drive-to market and wasn't affected by the decline of travel following 9/11, Patel said.

"Our business has only gone up," he said. "What we did see was a drop in corporate business, but we've been able to pick it up in other areas."

"We had a higher average rate four years ago than what we do now," Patel said. "But we have higher occupancy, so overall [revenue per available room] has increased."

Bill Weatherford, president and c.o.o. of Atlanta-based Premier Hotel Corp., said there still is some rate sensitivity, particularly in the economy extended-stay niche. Premier owns nine Suburban Extended Stay Hotels and manages 10 other extended-stay properties--nine of which are Suburban hotels. The company also is involved in a 300-room extended-stay project called Sienna Suites in Las Vegas.

"You can't approach economy extended-stay hotels with rate increases like you can transient hotels," Weatherford said. "You have to take rate up with baby steps."

Weatherford said that if an extended-stay hotel's turnover rate of its existing customer base is small, it's tougher to raise rate because long-term guests think of the charge as rent rather than a daily rate for a hotel stay.

"We have to get to 80-percent occupancy before thinking about adding rate," he said.

Fred Cerrone, president of Atlanta-based Day Hospitality, said the two TownePlace Suites by Marriott properties in his company's 15-hotel portfolio have performed admirably.

"They've held up pretty well," Cerrone said. "It has been impacted by the economy, but we have been able to find replacement business."

Cerrone said the company's extended-stay hotels have seen a decrease of training and relocation business.

"Government business was our main replacement source," he said. "Fortunately, government business is always around."

Cerrone said his hotels benefited from corporations that traded down in price points to save money.

The right mix

The operations of an extended-stay hotel--particularly the smaller work force needed--have helped the segment maintain its edge.

"Extended-stay still only represents 5 percent of the total hotel rooms in the U.S.," Skinner said. "It has distinguished itself because of its operational model and the 12- to 13-percent occupancy premium it enjoys."

Cerrone said Day's extended-stay properties performed 3 percent to 5 percent better than its transient hotel properties during 2003.

"They do run higher margins," he said. "Extended-stay is less service intensive."

Finding the right mix of extended-stay business--five or more consecutive roomnights--and transient business is one of the most important balances in the industry.

Cerrone said his company's properties need to have an extended-stay occupancy rate higher than 80 percent.

"If you do that, everything runs nicely," he said. "If not, you have to replace extended-stay business with transient business, and the model gets out of whack."

McCabe said he strives to have at least 60 percent of the extended-stay hotels' business be long-term stays.

"Your [return on investment] increases as your extended-stay business increases," he said.

Patel said he likes extended-stay clients to represent at least 50 percent to 60 percent of the occupancy rate.

Supply and demand

Skinner said the extended-stay supply could reach 8 percent or more of the total U.S. hotel guest-room supply.

"The reason supply growth was so strong in the '90s was that the segment was woefully undersupplied," he said. "There's a lot of room to grow. The economy segment still is very under-represented in many major urban markets."

"There are a lot of good markets in this country where economy extended-stay deserves to be," Weatherford said. "For guys with access to capital, there's enough room for them to come online without hurting the overall industry."

Good signs of a recovery exist for the segment.

"The normal extended-stay travel that we experienced in the late '90s is starting to come back to our hotel," Patel said.

Skinner said the demand growth is a good sign. He said the upscale extended-stay segment's consistent performance is particularly noteworthy. The segment enjoyed a 6-percent demand-growth rate for three consecutive years.

Weatherford said the outlook for the remainder of this year is good. He expects 4-percent to 5-percent RevPAR growth for his company's portfolio.

"For extended-stay, '04 should provide some good [returns on investment] on investment capital," he said. Cerrone expects a 3-percent to 5-percent RevPAR increase during 2004.

"As companies start to gear back up, they have to hire additional people," he said. "That plays nicely into the training and relocation

areas that are stalwarts for extended-stay business."

Extended-stay boom

Year	Room supply
1995	49,469
1996	65,465
1997	100,941
1998	147,107
1999	177,658
2000	201,035
2001	220,995
2002	229,852
2003	239,662
2008 *	295,461

* projected

Source: The Highland Group

Extended-stay hotel average daily rates

Segment	1998	1999	2000	2001	2002	2003
Economy	\$26.82	\$28.55	\$29.07	\$29.84	\$29.12	\$28.88
Midprice	\$45.76	\$49.68	\$52.30	\$54.87	\$52.45	\$52.12
Upscale	\$98.77	\$97.43	\$100.95	\$101.46	\$93.96	\$92.03
TOTAL	\$62.70	\$62.45	\$64.39	\$65.79	\$62.62	\$62.08

Source: The Highland Group

Construction trends

Extended-stay rooms under construction at the end of each of the past four years:

Segment	YE 2000	YE 2001	YE 2002	YE 2003
Economy	4,855	899	758	1,166
Midprice	6,773	3,521	3,541	2,137
Upscale	7,694	7,584	5,373	6,026
TOTAL	19,322	12,004	9,672	9,329

Source: The Highland Group

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Editor's note: A copy of the "Report on the Extended-Stay Lodging Industry in the United States-2004" can be purchased by calling (404) 872-4631.

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