



## O'NEILL ON VALUATION

### BRANDING WORKS

**Branded hotels fare better than independently operated properties in economic downturns**, according to research recently completed at The Pennsylvania State University School of Hospitality Management. A study of the performance of hotels during both economic recessions and expansions indicates that brand-name hotels are more profitable than independent hotels under all economic conditions, but the difference is particularly significant during recessions.

There's been a lot of debate in the hotel industry about the advantages of brand affiliation and independent hotels. Along with Mats Carlback, a doctoral student at the University of Gothenburg in Sweden, I set out to study how these hotels performed in a range of economic conditions. We studied data from Smith Travel Research on the financial performance of 51,991 hotels in the U.S. during the previous economic cycle since 2001. A total of 29,418, or 56.6 percent, were brand-name hotels—members of chains of three or more hotels operated under a single brand name, such as Marriott or Holiday Inn.

We examined four core revenue and profit indicators—a hotel's occupancy percentage, average daily rate, revenue per available room and net operating income—that measure the financial performance of both independent and branded hotels. To see how these hotels performed in recessionary and expansionary periods, we compared these figures with economic indicators provided by the U.S. Bureau of Labor Statistics and the U.S. Bureau of Economic Analysis.

While there wasn't a significant difference in the net operating income of the branded and independent hotels during economic expansions, branded hotels registered significantly higher NOI than independent hotels during the recessionary years of 2002 and 2008.

The costs and fees associated with belonging to a hotel chain, such as franchise and royalty fees, tend to negatively affect the NOI of an operation. However, the intangible benefits of a brand appear to compensate for these costs through increased occupancy, especially during recessions. What we found is the lion's share of a branded hotel's intangible asset value is in the brand itself.

During the recession of 2002, the occupancy rate of branded and independent hotels was 58.2 percent and 52.4 percent, respectively. In 2008, another recessionary period, branded hotels posted a 59.1-percent occupancy

\* John W. O'Neill, MAI, CHE, Ph.D., is managing director of Hospitality Advisory Services, LLC, and associate professor in the School of Hospitality Management at The Pennsylvania State University. He can be reached at [jwo3@psu.edu](mailto:jwo3@psu.edu) or 814-863-8984.

#### Penn State Index of Hotel Values

Overall	Value Per Room	Annual Percent Change
2007	\$ 98,264	9.3%
2008	\$ 93,752	- 4.6%
2009	\$ 76,457	-18.4%
2010	\$ 78,326	2.4%
2011 (forecast)	\$ 84,973	8.5%
<b>Luxury</b>		
2007	\$ 351,351	7.5%
2008	\$324,204	- 7.7%
2009	\$253,083	-21.9%
2010	\$263,762	4.2%
2011 (forecast)	\$ 285,931	8.4%
<b>Upper Upscale</b>		
2007	\$ 177,203	6.6%
2008	\$ 165,032	- 6.9%
2009	\$134,460	-18.5%
2010	\$ 136,893	1.8%
2011 (forecast)	\$ 148,993	8.8%
<b>Upscale</b>		
2007	\$ 121,624	7.6%
2008	\$ 113,957	- 6.3%
2009	\$ 92,028	-19.2%
2010	\$ 92,721	0.8%
2011 (forecast)	\$100,760	8.7%
<b>Midscale With Food &amp; Beverage</b>		
2007	\$ 72,178	6.7%
2008	\$ 68,329	- 5.3%
2009	\$ 56,900	-16.7%
2010	\$ 56,719	- 0.3%
2011 (forecast)	\$ 59,596	5.1%
<b>Midscale Without Food &amp; Beverage</b>		
2007	\$ 77,972	9.8%
2008	\$ 74,645	- 4.3%
2009	\$ 62,870	-15.8%
2010	\$ 63,370	0.8%
2011 (forecast)	\$ 67,157	6.0%
<b>Economy</b>		
2007	\$ 28,204	6.9%
2008	\$ 25,6174	- 9.2%
2009	\$ 17,793	- 30.5%
2010	\$ 17,137	- 3.7%
2011 (forecast)	\$ 19,389	13.1%

Source: The Pennsylvania State University



O'NEILL ON VALUATION Continued

rate, while independent hotels posted a 56.2-percent occupancy rate.

Also, the average NOI of branded hotels in 2002 was \$2.07 million, while the NOI of independent hotels was \$1.31 million. In 2008, branded hotels brought in an average NOI of \$2.53 million, and independent hotels had NOI of \$2.49 million. One area where independent hotels outperform branded hotels is in ADR. One reason independent hotels can charge higher prices for their rooms may be the perceived uniqueness and exclusivity of independent hotels among clientele.

This research study suggested several explanations for the improved performance of brand-name hotels during declining economic periods. In addition to large marketing campaigns, the global distribution systems of hotel chains offer centralized reservation systems, guest loyalty programs and access to online travel agencies such as Expedia and Travelocity.

Brands also offer potential guests the perception of dependable service and experience. There's an

emotional share with branded hotels. It appears in bad economic times people return to the security of brands. The study could help owners decide whether the benefits of belonging to a franchise outweigh the costs of a brand.

Now, on to the Penn State Index of U.S. Hotel Values: Overall, hotel values are expected to grow by 8.5 percent on average in 2011. Luxury hotel values are expected to grow by approximately \$22,000 per room, a significant increase, but still bringing values nowhere near the peak of 2007.

Upper upscale, upscale, midscale and economy hotels are all expected to register healthy increases in value in 2011, with economy hotels expected to record a particularly notable 13.1-percent increase. Again however, these values are all expected to be below their 2007 peaks. While at this stage, it isn't possible to project 2012 hotel values with any acceptable degree of confidence, current trends suggest that the potential exists for significant increases in 2012.

A D V A N C E D

# K9 Detectives LLC

**BED BUG SNIFFING DOGS**

**Our certified highly trained dog teams** pinpoint areas infested with bed bugs for an average-sized room in about one and a half minutes. **Advanced K9 Detectives LLC's** methods are the most cost effective, highest level of accuracy.



**Advanced K9 Detectives LLC**  
888-5BedBugs (888-523-3284) • www.K9bedbugs.com  
• info@advancedk9detectives.com




CIRCLE 24 ON READER SERVICE CARD

## WILSON PUBLIC AUCTION

*By Order of Court of Common Pleas, Lucas County, Ohio  
Farmers & Merchants State Bank vs Hare Krishna LLC, et al  
Case #CI200907238*

**Thurs., March 3, 2011 @ 12:00PM (Noon)**



**1704 Tollgate Drive, Maumee Ohio 43537**  
*Directions: I-80/90(OH Turnpike) Exit 59*

Situated in the Tollgate Subdivision in the City of Maumee, OH, this 36,740 SqFt, 2-story Hotel was built in 1987 on 2.6+/- Acres. Close to Shopping, Movie Cinemas, Walleye Fishing, Recreation Parks, (Softball, Soccer) & variety of restaurants. Located 45 minutes South of Detroit and 60 minutes West of Cedar Point on the Ohio 80/90 turnpike. NEXT TO TOLEDO'S ONLY INDOOR WATER PARK, SPLASH BAY. Taxes are \$17,980.28/half yr

*Call the Auction Co., for Appt. to view & more information.  
Look the property over & be prepared to bid. **DON'T MISS THIS OPPORTUNITY!!***

**Terms:** All bids begin at 2/3's of the appraised value of \$1,200,000; Opening bid will be \$800,000. Successful Bidder will deposit 10% Down Day of Sale by Cash or Cashier's Check. Purchaser shall pay the Balance of the Purchase Price by Cash, Cashier's Check, Certified Funds and/or Wire Transfer within 30 days. The deposit shall be subject to forfeiture in the event that purchaser fails to pay the balance due. The successful purchaser will receive a sheriff's deed for the property. Taxes will be paid from sale proceeds in accordance with the Lucas County Sheriff Sales method. Other sale terms are in accord with the Sale Guidelines for Lucas County Sheriff Sales and the Orders of the Court of Common Pleas, Lucas County, Ohio. 2% Buyers Premium Added.

825 N. Main St. Bryan, OH 43506 / 419-636-5500  
241 S. Main St., Bowling Green, OH 43402 / 419-354-7653  
Toll Free: 866-870-5500

**Auctioneers:** Wayne M. Wilson CAI, Brent J. Wilson CAI, Denver N. Geitgey CAI,  
Fred Nott, Keith Whitman, William H. Retcher, Shad T. Ridenour CAI,  
Richard Reed, Sam Kunsman

**Visit Our Web Site [www.WilsonAuctionLtd.com](http://www.WilsonAuctionLtd.com)**

CIRCLE 25 ON READER SERVICE CARD