HVS

Industry Insights: Impacts of Major Brand PIPs

February 20, 2017 / By McKenna Luke, MAI

Overview

Limited-service hotel brands have emerged as some of the top choices for consumers and investors alike. With a national reputation for value and quality, brands such as Hampton by Hilton and Holiday Inn Express have created high expectations for guests across the board. For hotel owners, these brands have created a product that produces strong RevPAR index and house-profit levels.

These brands have acknowledged the wide array of product offering across their assets, mostly due to the aging physical condition given more relaxed standards during the Great Recession and need for refurbishment across hundreds of hotels nationwide. In this article, we will provide an overview of the brand initiatives developed to upgrade and modernize these properties (and the resulting PIPs), offering hotel owners a broad idea of what to expect when investing in a property that lacks these upgrades. These initiatives have produced new concepts that are designed to expand the economic life of the hotel to compete with new supply. It is important to note that the vintage of the asset, structural and roofline configuration, and the timing and scope of recent renovations are key considerations that can significantly affect the scope and cost of the required renovations.*

*This article is not a cost guide for hotel investors, owners, and developers. None of the estimates and details provided may be used for obtaining financing to renovate a limited-service hotel. All information was gathered by HVS and aggregated to protect individual hotel data.

Hampton by Hilton: Forever Young Initiative

Hampton by Hilton's current "Forever Young Initiative" (FYI) was originally introduced mid-year 2014. Hampton's new prototype created an opportunity to take the properties that fit the basic design standards (greater than two stories, etc.) and extend the life of these hotels under their current brand affiliation. Hampton by Hilton's prior brand-wide initiative, the "Perfect Mix" lobby design, was implemented in 2012/13; most properties have undergone a public-space renovation, so fewer costs would be incurred during the FYI renovation.

FYI Exterior Renderings (Post-renovation). Source: Hilton Hotels

FYI guidelines typically require a significant renovation to the exterior roofline and façade of the hotel, new furniture in guestrooms, and a complete reconfiguration and replacement of all fixtures in the guestroom bathrooms. The design scheme of the FYI renovations focus on dark and light contrasting colors, featuring natural wood furniture with lighter linens, as well as upholstery and finishes that do not overpower the guestrooms. Additionally, the design features are centered on the cleanliness of the guestroom.

Summary

The increase of new supply across the United States, the aging condition of limited-service hotels, and an inconsistency of quality across branded hotels has required franchisors to create and implement new design standards.

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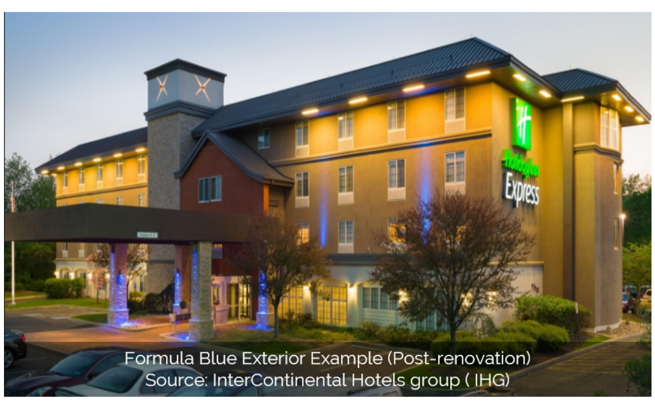
Properties built before 1995 generally require the most extensive renovations, while properties built in the 1980s may require renovations with costs that exceed the financial benefits. Our research indicates that the cost of these renovations typically ranges from $20,000 to $30,000 per room for properties built between 1990 and 1995, and can exceed $40,000 per room for 1980’s properties if the property can be renovated to meet brand standards. Hotels built after 1995 generally require less-extensive renovations, typically costing between $15,000 and $25,000 per room based on issued PIPs. This difference is primarily driven by the scope of renovations previously completed and the prototype architecture, most notably the exterior and roof design. The exterior updates, namely the roofline change from a mansard to a signature cornice, can be one of the most expensive items, estimated to cost between $1,000,000 to $1,750,000, or $8,000 to $17,000 per room; more modern roof lines may limit the exterior costs to only $250,000 to $500,000. The remainder of the costs to renovate is mostly spent on the guestrooms and guestroom bathrooms, with a minor portion allocated to public-area updates. While older properties may require more updates to the guestroom bathrooms, the guestroom case goods and the softgoods package are uniform across all properties.

The photos below illustrate what most Hampton by Hilton guestrooms will look like once renovated.


FYI Guestroom renderings (Post-renovation). Source: Hilton Hotels

Holiday Inn Express: Formula Blue

Following a brand relaunch in 2008, Holiday Inn Express introduced “Formula Blue” in 2014 to provide a clear set of guidelines for the Holiday Inn Express brand. This initiative has been designed to bring a modern, consistent product to all Holiday Inn Express properties across the brand. The "Formula Blue" prototype renovation requires upgrades to the exterior of the building, including a new porte-cochere, a new paint scheme, the addition of exterior lighting, and other minor site and structure updates. Most notably, a reconfiguration of the lobby, breakfast dining area, and meeting space is designed to create open communal space that can be flexible and can accommodate changing needs throughout the day. The new Great Room features a lobby workstation, flexible meeting space, and breakfast-bar space with additional seating; other lobby updates include new furniture and check-in pods. Recreational-area upgrades consist of minor cosmetic items. Lastly, the guestroom plans include new furniture with more functional storage, new décor, and new softgoods, as well as new fixtures for the guestroom bathrooms.



Formula Blue Exterior Example (Post-renovation)
Source: InterContinental Hotels group (IHG)

Properties built before 2001 generally require the most extensive renovations; our research indicates that the cost of these renovations ranges from $20,000 to $35,000 per room. Hotels built after 2001 generally require less-extensive renovations, typically costing between $10,000 to $20,000 per room based on issued PIPs. This is consistent with the brand estimate of $1.2 to $1.3 million, or $15,000 per room for a typical 86- or 87-room. However, the cost can be as low as $5,000 per room if the hotel was recently renovated to another design scheme. Overall, the “Formula Blue” renovations fall into three primary categories: exterior, public space, and guestroom. Exterior renovation costs are much less significant than Hampton’s FYI renovations, typically accounting for a minor portion of the cost. Public-space reconfiguration and renovation costs range from $200,000 to $400,000 total. Guestroom renovations range in cost from $6,000 to $12,000 per room and typically include a minimum of $2,000 to $3,000 per room for prototype-specific updates. The timeline for the major items of the renovations is within twelve months, while some minor items or guestroom-related updates may be delayed. As properties constructed after 2010 approach their first renovation cycle, these properties should to be renovated to the “Formula Blue” standards, including all public-space updates and softgoods in the near term, with case goods replaced in the 2020s. The brand is reportedly targeting a 70% adoption by 2020.

The photos below illustrate what most Holiday Inn Express guestrooms and public areas will look like once renovated.

Formula Blue Exterior Example (Post-renovation). Source: InterContinental Hotels group (IHG)

What are the implications of these major brand PIPs?

In most markets across the United States, Holiday Inn Express and Hampton by Hilton properties tend to be some of the RevPAR leaders among comparable limited-service hotels in the competitive market. Given our experience with these types of properties across the county, we believe the main benefit of these brand-mandated PIPs are directed toward maintaining RevPAR index levels.

However, a current hotel owner should always consider the possibility that these brand-mandated upgrades may not be the most financially feasible option, particularly if the physical configuration of the hotel does not meet prevailing brand standards. Moreover, markets with low RevPAR levels may not allow hoteliers to push rate growth or gain additional occupancy to recoup the cost of these renovations. Several hotels across the nation have converted to other affiliations since these brands have introduced their respective renovation initiatives, and the number can be expected to increase. However, from our experience, we have observed a notable RevPAR decline when hotels are converted from a Hampton by Hilton or Holiday Inn Express to a lower-tiered limited-service hotel. Taking the time to understand the market and demand generators, the impact of retaining the current affiliation, and the competitive hotel supply is crucial for an owner upon deciding whether to move forward with a multimillion-dollar PIP.

Overall, these major brand PIPs will significantly affect the hotel industry. Either hotel owners will opt to renovate these limited-service hotels and maintain RevPAR levels, or they will choose to convert to a different brand, allowing new development opportunity within several markets across the country. In that respect, the outlook for the hotel industry is optimistic, as brands and hotel owners alike aim to create a consistent and quality product that can provide market growth across the country.

About McKenna Luke, MAI

McKenna Luke, MAI, co-leads the direction of HVS practices and appraisal thought leadership as a Managing Director. She has overseen and completed thousands of assignments spanning hotel appraisals, market studies, and feasibility studies for hotels, resorts, resort-residential properties, waterparks, casinos, mixed-use assets, and portfolios. Furthermore, McKenna has extensive nationwide hotel consulting and valuation experience having lived and worked throughout the Southwest, West, and Southeast. She holds numerous state-certified general appraisal licenses and is a Designated Member of the Appraisal Institute (MAI). Contact McKenna at +1 (303) 704-2636 or .