HOTEL BRAND AND PROPERTY REFRESHING CAN BOOST LACKLUSTRE BUSINESS

By **kostuch** - May 6, 2015

In 1999, U.K.-based hotel investment firm Palm Holdings landed in Canada with a plan to convert a tired property on Toronto's lakefront into a Four Points by Sheraton. The transformation was successful, and — thanks to Sheraton's distribution system, access to new clients, loyalty program and street presence of an internationally recognized brand — the property's new owners were able to increase rates, occupancy and community presence in one fell swoop.

The decision for one hotel to hoist another's banner is a growing trend, says Anil Taneja, Toronto-based president of Palm Holdings, who says his company has been involved in more brand conversions over the last two years than anyone else in Canada. "The stronger are getting stronger and the weaker are getting weaker," he admits. "Conversion is [one way] the smaller brands with lower room inventory and fewer customers in their loyalty programs are struggling to catch up."

Still, Taneja cautions that a conversion is a high-risk affair that can cost a lot of money while failing to increase the value of the product. "The only way to [lower that risk] is to do the best market research you can," Taneja advises.

Indeed, agrees Sandeep Gupta, VP at Oshawa, Ont.-based Sunray Group of Hotels, a multifaceted ownership and operations firm with a 21-property portfolio under the Comfort Inn, Marriott and Starwood banners, among others. Sunray executives regularly conduct research before repurposing undervalued properties into more lucrative business pursuits. They examine an existing hotel's ADR and occupancy, engage in market studies to see what's missing in the area, scope out the competition, identify whether the hotel has preferred status with corporate organizations and check the property's historical/average ADRs, occupancy rates and market acceptance.

It's the ability to attract more revenue that proves the most critical factor feeding a decision to convert one brand into another. A 100-room hotel with a new-build cost of $150,000 to $170,000 per key has a less attractive cost benefit than a property purchased at $50,000 per key with conversion costs of $60,000 per key, for a total of $110,000 per key (renovation costs vary depending on the building's condition and age, the scope of the renovations and the brand in question, but they generally range between $60,000 and $80,000 per key).

Financials aside, location also plays a big part in deciding whether to convert a property. For example, next year, the Quality Hotel & Conference Centre in Oshawa (formally a Holiday Inn) will be re-launched as a Courtyard by Marriott, a better brand fit for the business area in which it resides. Gupta explains: The Oshawa property had been generating approximately $6 million in room revenue annually when it was a Holiday Inn but only $3.5 million as a Quality Hotel. This reality, along with its "tired" feel and the results of an exploration into the Courtyard brand's capabilities and history throughout the vicinity and country, inspired Sunray to reinvent the property. "Quality is a great brand, but it's only great for certain assets," says Gupta. "There was an opportunity to reposition [the property] under a corporate brand, and we assessed what brand might be best suited for it." With its pedigree and history, Marriott emerged as the most likely pick. When the retrofit is complete, the hotel rooms will sell for approximately $140 per night — competitive with similarly styled hotels in the area — a significant hike from the $90-per-night fee that preceded it.

Sunray can justify the 155-per-cent fee hike for this full-service property because of the enhanced brand recognition and the inarguable bonus of Marriott's bustling reservation system that comes with the deal. "Marriott really appeals to the corporate client, and they tend to pay more for the add-on services that you can't get from a budget-brand hotel," Gupta says.

Still, he concedes the client base needs to be there for a conversion, and it's not always feasible to convert to a higher-end hotel in smaller markets without a big enough client base to realize a return on investment. Sunray owns a hotel in Windsor, Ont., which was a Travelodge when his company purchased it. Rather than upgrade it to a Hilton or a Marriott, as it had considered, it ultimately decided to convert to a limited-service Choice Hotels & Suites brand. “We had to look at our ROI, the demand,” says Gupta. “This made the most sense.”

But finding the right brand fit is just the first step. No amount of research can predict problems that can surface once a conversion job gets underway. “You never know what’s behind a wall or under a floor or a roof,” Gupta warns. “With a new build, everything that you need is there. On conversions, you open up a wall, there’s piping issues, rusty showers and so on.”

Palm Holdings tucks aside a 10-per-cent project contingency fund, which ranges, on average, from $3.5 million to $7 million (or $40,000 to $60,000 per room). When the company recently updated a Travelodge in London, Ont., to a TownePlace Suites by Marriott, the owners discovered the hotel’s electrical system capacity couldn’t handle the new plan. It had to redo all the wiring and breakers for an unbudgeted $500,000. “That blindsided us,” Taneja laments.

In addition to unforeseen repairs, brand amenities and designs can also whittle down the bottom line. Typically, signature brands mandate standards to which owners must comply, and the list increases according to the strength of the name. Standards could include templates for room design, furniture and fixture requirements, exterior colour choice and fire- and life-safety constraints. “It’s almost like playing with Lego pieces,” Taneja says, who admits that divergent room designs sometimes make it about fitting square pieces into round holes.

Full-service interior design firm Hager Design International Inc. is frequently charged with conforming an existing property to another brand’s standards. “The various brands’ philosophies are so different, from the thread count on fabrics to the trim to the ceiling moulding size to the quality of marble in the lobby,” says Doris Hager, president of the Vancouver-based firm. Sometimes, designers can secure waivers from the brands that let them stray from dictated guidelines, as Hager did recently when asked to deliver a 30″-deep granite counter for a buffet that was already in perfect condition — but only 24″ in depth. She says such lenience is more likely if the owner has several hotels within a banner and therefore has an established relationship.

Finally, loyal guests need to be made aware of the upgrades, so they understand the property has been converted to another name. Otherwise there’s no appreciation for the enhanced value that lurks behind the higher room rate, Gupta explains. That’s why conversions need to include the hotel’s exterior in the project, so the change is noticeable to guests.