Independent hotel segment shows resiliency, strength

By Patrick Mayock, February 2011

INTERNATIONAL REPORT—When Craig Neddersen founded IDM Group LLC during 1999, he did so with one goal in mind: to prove boutique properties could outperform the competitive set in secondary and tertiary markets.

And not just any boutique properties. Despite the swell of branded boutiques during recent years, IDM Group's portfolio began with true, blue independents—unique properties with their own quirks and characteristics, autonomous owners and operators, and raw exposure to both risk and reward.

Fortunately for Neddersen and his team of like-minded hoteliers, what some might construe as the lonely road through the unaffiliated segment yielded more rewards than risk, and he reached his goal despite a crippling global recession.

"During the downturn, we kept our separation in average rate," he said. "In some cases that separation actually increased because we did less discounting than the brand properties and we kept our separation in occupancy."

The independent segment throughout the world has shown resiliency in recent years, thanks in part to increasingly savvy operators and advances in online distribution. Whereas before travelers would stumble upon non-branded properties by chance, unaffiliated hotels now often top the search results everywhere from TripAdvisor to Travelocity.

"The independents, they had to be found (in the past). You had to arrive at your destination and find your local tourist destination office and ask for the accommodation guide," said Robert Barnard, a partner with PKF in London. "The Internet has given them far greater exposure than they could ever have."

The result, in many ways, is a segment reborn. "We were always like the stepchild, but it's really not the case anymore," said Linda Bruno, a consultant who specializes in independent hotels as managing director of Consultare International Limited.

Performance and fundamentals

Trying to quantify performance for the independent segment is a task fraught with generalities. The segment isn't so much a true segment as it is a catch-all for every non-branded hotel property. Scroll through a census report from research company STR, for example, and you'll find everything from a 30-room, mom-and-pop shop off Interstate 71 to a 200-room luxury boutique in the heart of Manhattan.

Still, average performance results do serve as a reasonable gauge for the overall health of the segment.

In the United States, the independent segment ended 2010 with a 4.9% occupancy increase to 54.9%, flat average daily rate growth of 0.3% to US$95.42, and a 5.2% gain in revenue per available room to US$52.42, according to STR. Those numbers, except in terms of ADR growth, trailed the rest of the U.S. hotel industry slightly.

Year-end 2010 U.S. independent hotel performance

	Occupancy	% change	ADR	% change	RevPAR	% change
U.S. independents	54.9%	4.9%	US$95.42	0.3%	US$52.42	5.2%
U.S. hotel industry (less independents)	58.7%	6.0%	US$99.17	-0.3%	US$58.23	5.7%

Source: STR

Globally, the numbers are similar, according to STR Global.

Year-end 2010 global independent hotel performance

	Occupancy	% change	ADR	% change	RevPAR	% change
Global independents	56.2%	5.0%	US$106.65	0.9%	US$59.91	5.9%
Global hotel industry (less independents)	60.6%	5.9%	US$110.74	1.4%	US$67.09	7.4%

Source: STR Global

"The independent properties that are opened and I keep in touch with, they're doing quite well. They're hanging in there. They're carrying their load. Nobody seems to be in a panic at all," Consultare's Bruno said.

Indeed, the strength of many hotels within the segment has forced the brands to take notice.

"The independent hotel segment within the industry keeps our branded hotels true to form, because they offer something that's so much not that," said Kip Vreeland, VP of the Autograph Collection, Marriott International's collection of 14 independent hotels. "It helps us to stay clear on what our other brand strategies are."

Unique operations

Operating independently of any brand can be both a blessing and a curse for an independent hotelier.

"They operate different agendas than chains," PKF's Barnard said. Independent owners don't face the same financial pressures of brands, nor the same requirements or standards.

"If you're an independent hotelier… maybe you're quite happy not to work too hard," he said. "Maybe you're quite happy to live at an annual occupancy at 50%. You do quite well in the seasons, maybe 80%, but you're quite happy to juggle onward at 30%.

"Stresses and strains of finance on the business are nothing like on the chain hotels," Barnard added. "They can work from a different cost perspective."

Kate Levin, GM of The Levin, a 12-room luxury boutique hotel in London, said her property's independent status makes it "much, much easier" to run. "I don't have asset managers that I have to speak to," she said. "My board is my father (London hotel veteran David Levin) and one other gentleman. It means we can move much, much more quickly on any decisions."

Independent owners often are able to maintain a more niche-oriented focus, too, Bruno said.

“They don’t play the rate game. A lot of them don’t have to because they have their own little niche. They’re much smaller,” she said. “… They usually have one or two niches, and they concentrate on that and they own that. The big, branded properties try to be all things to all people.”

Increased risk

But along with that independence comes increased exposure to risk, a lack of support and inconsistent levels of quality across the segment, experts said.

Throughout Europe, for example—and particularly outside of major cities in countries like Italy and France—travelers often look for smaller, intimate places to stay, Barnard said. Despite attempts to grade those properties to give the consumer some indication of what to expect, various ratings systems have proved ineffective.

That task has since moved online, thanks to sites like TripAdvisor that allow consumers to search among 40 million user-generated reviews. As a result, the global independent segment is more transparent than ever before, Barnard said.

Some hoteliers have responded by joining an increasing number of affiliation groups, such as branded entrants like Marriott’s Autograph, Choice Hotels International’s Ascend Collection or Starwood Hotels & Resorts Worldwide’s Luxury Collection; independent organizations, such as Leading Hotels of the World, World Hotels or Design Hotels; or independent loyalty programs, such as Voilá Hotel Rewards and Stash Hotel Rewards.

The Levin, for example, is a member of Small Luxury Hotels of the World, a group of 520 hotels across 70 countries that offers increased distribution to its members along with global marketing clout.

Still, without the backing of a major brand, the onus of success falls on the independent owner and operator.

“Just because you have an independent property and it’s one of the nicest properties in the market … it’s not just a ‘build-it-and-they-will-come’ mentality,” IDM Group’s VP of business analysis, Sean Skellie, said. “We still have to go out and build and attract business ourselves.”

Contact:
Connie Barbian, Principal, IDM Group www.inndevmgmt.com
920.563.0133 or cbarbian@inndevmgmt.com