

# Slower to rebound, economy-tier still remains viable option

By NICOLE CARLINO

NATIONAL REPORT—It's no secret that in this recovering economy, it's the economy segment—with the

narrowest margins of all the segments—that has struggled the most to make gains. But that's not to say that the segment is without merit.

"The outlook is bright, but

lagging behind most of the other segments," Kelly A. Walters, president/CEO of Supertel Hospitality, Inc., noted. He also pointed out that when it comes to ADR,

especially, the majority of the segments, including economy, are not back to where they once were. "And that's okay, because the economy was overinflated."

ADR is the biggest concern for hoteliers in the economy segment. "My gut tells me there's lots of room to move rate," Peter Mason, EVP of Konover Hotel Corporation, a division of The Simon Konover Company, said. The company focuses on select- and full-service properties throughout New England and the Midwest. "Evidence says that is true. In 2013, I've been disappointed in revenue growth. We've seen rates moving as much as we should. As an industry, we need to get the rate back up. With the U.S. economy getting sluggish, spits and starts, it's a challenge to push ADR."

"Economy [brands] used to be least sensitive to the economy," Walters noted, "but it's proven to not be immune. A lot of folks who stay



Kelly Walters  
Supertel Hospitality, Inc.

in economy are in that 8% unemployment rate." The exec also pointed out that since many midscale hotels compressed their ADRs during the downturn, economy hotels haven't seen nearly the amount of trickle-down occupancy as was expected.

According to the execs, growth is very much geography-based. "We had a couple of small markets in the Midwest that were weak," Walters noted. "We didn't see the growth we were hoping for, but we saw it overall." According to Walters, Supertel owns properties where construction crews, railroad crews and other business-related travelers are likely to be, increasing both ADR and occupancy for the assets.

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The Microtel Inn & Suites in Uncasville, CT, is part of Konover Hotel Corporation's portfolio.

at over 100," Mason pointed out. "A lot of times you can't label a brand into a segment. It's what that local driver is. That is an economy hotel, but we treat it like a midscale."

He added, "I see a lot of mixed signals. I see a lot of things improving, like housing, but mixed signals on slow growth of revenue. In many hotels, a lot of the revenue is local, so you have to look specifically at the demand drivers—are they really susceptible to a downturn or an upturn? What are the extremes? What is the sustainability?"

Walters also noted that a big issue with the economy space is that it's much broader than every other segment. "Some hotels are built as economy, some find themselves there because of aging—it's a less consistent product," he explained. "That's an issue for us." He also explained that going with a well-known brand can help with this. "Years ago, we went the independent route because everything was full. When the recession hit, it taught everyone the value of the brands."

The execs both acknowledged that CapEx spending has increased, and Walters noted that this is necessary for economy properties. "If it's going to endure, you have to further investment in the segment. Many properties have gotten pretty old. To bring consistency the brands want to ensure, capital has to be spent. There are also some hotels that need to move out of the system entirely, and that will happen."

Still, Walters is starting to see more activity from buyers and other signs



Peter Mason  
Konover Hotel Corporation

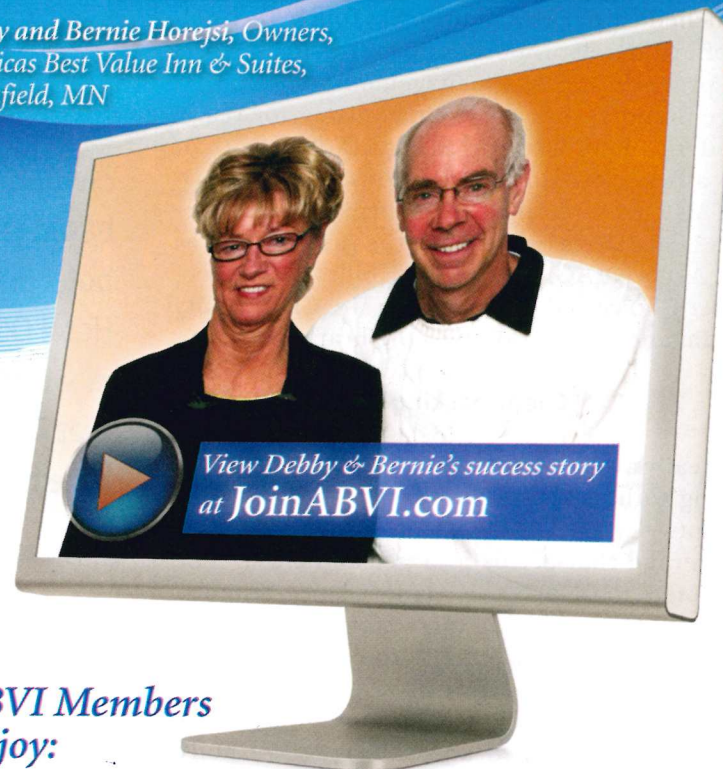
of optimism for the segment. And, of course, Supertel should know about buyers for economy hotels, since the company is in the middle of a process to sell off its economy properties in favor of more upscale properties. But Walters stressed that this strategy isn't a case of Supertel running from a category that no longer has a value proposition. "There's nothing wrong with the economy business; it's served us well for a long time," he said, explaining that because margins are tighter in this segment, it makes it hard for an institutional owner like Supertel, which relies on third-party management companies to operate its hotels. "The economy business lends itself best to the owner/operator model, owned by small operators and sole proprietors that are running the hotel as their occupation and investment," he explained. "They can be much more sensitive to cost than an institutional owner like ourselves can be."

Mason agreed that the economy segment is still a viable product. Konover recently purchased a portfolio of four hotels, which included a 51-room Super 8 hotel in Adrian, MI. "It fit our profile for brand, fit our profile for age, fit our profile for geographic. Does the property pencil out to give ROI? Our analysis was yes. Purchasing them and putting capital in will give us a return."

"You're always going to have people, groups and companies that have different needs," he explained. "There's definitely demand in economy just like there's definitely demand for luxury hotels." **HB**

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