

## Impact Studies

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With the pace of new supply growth accelerating, owners of existing hotels are increasingly concerned as to how their properties will fare in a more competitive market. As brands continually add new product types to fill a niche, hotel operators are becoming more aware of the potential threats from within their brand family. From **Vib** and **GLö**, which are part of the Best Western family, to **Tru by Hilton** and Marriott's **Moxy** brand, hotel companies are introducing new product and revamping their brands' design prototypes, such as the

Formula Blue initiative for the **Holiday Inn Express**, which reflects a new contemporary design. The merger of hotel companies also has owners questioning the future of their properties, such as the **Marriott/Starwood** merger and **InterContinental Hotels Group** acquisition of **Kimpton Hotels**.



The hospitality industry recognizes two types of impact: base and incremental. Base impact refers to the effect of any new hotel rooms in the lodging market on an existing hotel. Incremental impact arises from the shared brand affiliation, which comprises a common reservation system, website, national marketing programs, frequent guest programs, and similar brand recognition. Impact is most commonly measured in terms of occupancy; however, average daily rate (ADR) should also be considered, particularly when assessing incremental impact, as demand driven by the branded reservation system and frequent guest program often achieves a proportionately higher ADR.

In assessing impact, consideration must be given to the following issues:

1. **Economic Conditions:** focusing particularly on the outlook for future growth or decline that would affect lodging demand in the market area
2. **Demand:** including an assessment of key demand generators in the market and for the existing hotel
3. **Supply:** including an assessment of the existing competitive supply and the timing and likelihood of additions to the competitive supply
4. **Facilities:** of both the existing hotel and the development program for the proposed hotel
5. **Location:** of both properties, focusing on proximity to major concentrations of business activity, demand generators, and major transportation routes
6. **Market Orientation:** of the existing hotel and anticipated market orientation of the proposed hotel

Developers need to look at the impact that a proposed hotel will have on the existing supply in a market during their initial due-diligence phase. In addition to a possible decrease in occupancy with the entrance of new supply, it's important to look at how it will affect average rate, particularly if the proposed hotel will share the same parent company with an existing hotel in the market, even if it will not be 100% competitive, such as a

### Summary

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straightforward limited-service hotel versus a limited-service, extended-stay hotel. Often, corporations have a contract in place with a particular parent company, such as Marriott or **Hilton**, where they may have negotiated rates at a full-service, select-service, and limited-service hotel (under that parent company) all within the same market; as such, their employees may select to stay at any of these hotels, making hotels under the same affiliation more competitive than others (under a different parent company) with a similar product offering entering the market. On the other hand, hotels located within markets that rely heavily on interstate travelers, or those located near a military installation, may not be as affected as the hotels that rely heavily on corporate demand generators. In many instances, new supply will increase market-wide average rate; however, for hotels under the same ownership, or competing directly with the new hotel, hoteliers will often decrease their ADR to maintain occupancy and to be more competitive with the new product.

HVS takes an in-depth look at the market and the supply and demand changes over the past ten years and analyzes the impact that new supply will have on a particular property. It's important for developers to contact their parent companies and see what they will accept. Some parent companies hire a third party, like HVS, to conduct an impact study, while other parent companies evaluate this in-house. Each parent company has its own guidance for how much impact is considered too much on an existing property, but it is also important to note that each market is different; thus, while new supply can be detrimental to a particular hotel in one market, other markets can quickly absorb the new supply and continue to thrive, and while the base demand may be affected, the incremental demand may not, at least not to the same degree.

#### About **Heidi S. Nielsen**



Heidi Nielsen, a Senior Vice President with HVS Atlanta office, conducts hotel appraisal work in markets throughout the South. Based in Charleston, South Carolina, her assignments range from single-asset and regional hotel portfolio appraisals to feasibility studies for proposed full- and select-service hotels. Heidi earned her bachelor's degree from the College of Charleston and gained front-line hotel experience with The Sanctuary at Kiawah Island Golf Resort. Contact Heidi at +1 (843) 847-1986 or [\[email protected\]](#).