

# Reinventing the Full-Service Hotel

*“Perceived risk is the full-service hotel segment’s new reality”*

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Feeling the burn of the most-recent downturn, the hotel industry can’t help but feel that it flew too close to the sun this time. Once a niche real estate investment class, due to its perceived risk and volatility, the decade following the Great Recession turned into a “Golden Age” for hotel investment. The proliferation of the limited-service model, coupled with record setting worldwide travel demand, helped to attract a slew of new investors who enjoyed returns that outpaced other commercial real estate segments.

Today the hotel industry is in the wake of unprecedented upheaval, as the industry’s unique daily operating business model has proven itself again to be overly susceptible to economic crisis. While the industry has proven resilient in the past, nobody expects the hotel landscape to be business as usual once travel resumes. Instead, the industry will likely face increased scrutiny from lenders and investors alike, as the inherent risks of the business model force participants to rethink asset strategies going forward.

Nowhere will this reinvention prove more prevalent than with the big box, full-service hotels in our city cores and metropolitan suburbs. Already facing a pre-Covid identity crisis in the new and efficient limited-service world, it is no surprise that upscale-to-upper-upscale, full-service hotels have been disproportionately impacted during the recent downturn. According to STR data for April 2020, one-third of all upper-upscale hotels were shuttered, while the upscale segment fared better by comparison with a roughly twelve-percent reduction in supply, albeit still elevated when compared to limited-service chain segments that trended near five-percent room closure over the same period.

The full-service segment’s reliability on fickle demand sources, such as in-house and convention group demand or international travel, will prolong the segment’s recovery and force stakeholders to deploy alternative strategies to meet investment obligations and mitigate perceived asset-class risk. Savvy participants have already begun to pivot, with guestroom-to-office space conversions happening in many urban markets, offering displaced office workers a viable alternative to the hectic home office environment. Similar opportunities exist for the underdeveloped serviced-apartment sector in the United States, with well-located and amenity-rich hotels offering a desirable lifestyle choice for city-dwelling renters. Likewise, many universities are scrambling to find additional student housing options to comply with new social distancing measures, allowing hotels to potentially serve as a short-or-long term dormitory solution for these institutions.

While the single-purpose, full-service hotel will inevitably evolve through adaptive-reuse, the specific path is still unclear. Beyond location, how a property is configured will ultimately determine the mixture of uses that can be supported at the facility. Inherently, sprawling-horizontal properties will face greater adaptability challenges compared to more vertical boxes. Also, stakeholders will need to navigate local zoning and building codes to ensure that adaptation is even possible. Most importantly, how will major brands react to conversations about reducing guestroom counts on existing franchise agreements? Can the major brands pivot quickly enough with investors to offer branded non-guestrooms solutions, as suggested above, to mitigate revenue-loss, hedge segment-class risk, and better support their franchisees? Many strategic decisions and conversations lie ahead, but it is clear that our industry needs to reinvent the risk-intensive, full-service segment to ensure its viability in the post-Covid 19 operating environment.



**About the Author:** Ryan Wall began his hospitality career working in operational roles at hotels and resorts before spending nearly six years with HVS as a Certified General Appraiser and Consultant. Most recently, a Vice President of Franchise Sales and Development with Radisson Hotel Group, Ryan works extensively with hotel owners and developers to grow the Radisson portfolio. Ryan is a graduate of The School of Hospitality Business at Michigan State University.



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