

Owners first size up new brands, the burden of amenity creep and brand performance.

Buy Side PRIORITIES

Franchising is a seller's market," says Murray L. Dow II, president the Dow Hotel Company, Seattle. General activity in hotel real estate has given franchisors the chance to redo their property improvement plans (PIPs) or ask for additional compliance standards.

At the same time, the recent flurry of consolidation has contracted the number of franchise companies and reduced alternatives for franchisees. The result, says Michael Marshall, president and CEO, Marshall Management, Salisbury, Maryland, is that "the best franchise companies rarely, if ever, offer a deal unless they really want to have representation in a high barrier to entry market."

Hotel owners and third-party management companies say that will not impede their deal flow. "The top-tier franchise companies will always have an edge, provided they stick to brand standards and continue to put heads in beds through their frequent stay programs and reservation systems," says Marshall, who plans to add 10 to 12 properties this year. But, they'll have to stay on their toes. "More than 30 brands have been launched. Even though some are still at a fledgling level, they are creating competition for developers and franchisees," says John Belden, president and CEO, Davidson Hotel Co., Memphis, Tennessee, which expects to have seven to 10 more hotels by year's end. "The largest brands are still fighting for shelf space, so they have to work harder for deals."

New Names, Markets

Owners and third-party managers are leveraging the name recognition of big brands to help diversify their portfolios. Dow, which is adding three hotels annually, is targeting both U.S. coasts, along with Denver, Texas and the mid-Atlantic. Also on its radar is a move into the small resort sector, "which has a need

for better management, marketing and potential flag development," Dow says.

Companies such as Davidson are looking to expand further in the United States' top 50 metro areas and, perhaps, break new ground with urban select-service hotels and resorts. Interstate Hotels & Resorts, Arlington, Virginia, is thinking global, combining franchise options with both management contracts and joint ventures to intensify its presence in markets in North America and Europe.

Carrie McIntyre, senior vice president and treasurer at Interstate, is not only looking at

potential, but we continue to have a great deal of confidence in established brands from select-service to luxury."

What Owners Want

Big brands may be in high demand, but they are still going to have to compete. One powerful competitive weapon would be a cap on franchise fees on a per-room basis. "The percentage model continues to add to the franchise coffers (with continued growth in ADR), but franchisors have not reciprocated by expanding their offerings/benefits to franchisees," Marshall says.

Bill Chambers, senior vice president of business development for Lane Hospitality, Northbrook, Illinois, advocates fee relief for the development of new hotel product as an incentive to developers—particularly in the form of reduced franchise fees in the early years and/or "key money dollars" for development. "As new properties are built, brands get exposure for their product. Initial operating costs are reduced which, possibly, can make development more feasible financially. Fee relief is a win for both sides," Chambers says.

Fees aren't the only thing on owners' minds. With so much capital fueling growth, Dow would like to see more attention to terms, particularly in the area protection.

Belden suggests further room for improvement on several key fronts: amenity creep, technology creep, a rethinking of PIPs "that have a suspect return on investment" and "franchisors that don't follow their own standards." ♦

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Lane Hospitality

two new deals in Europe, entry into Mexico and further growth in Russia, she also is looking at new brands. "We have two alofts under construction as part of a program to develop five to 10 alofts over the next several years," she says. "We recently entered a second joint venture that plans to build two alofts and a Hyatt Place. We believe these brands have strong growth

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