

# New Option in Hotel Appraisals: Quantifying the Revenue Enhancement Value of Hotel Brands

by *A. Scruggs Love, MAI, SRA, Bruce H. Walker, and Douglas W. Sutton*

**P**ractitioners generally agree that intangible value exists in hotels. However, there is no general agreement regarding how to estimate the intangible value. O'Neill and Belfrage assert that most of the intangible value in a hotel is based on the brand name and the authors agree.<sup>1</sup>

This article describes a new system that proves hotel brands contribute to hotel revenues, but with major differences in the degree of contribution by each brand. The system quantifies the income attributable to each brand, relative to the market average. O'Neill and Xiao analyzed sale transactions to show that a hotel's brand contributes significantly to the property's market value.<sup>2</sup> The study presented here uses a distinctly different approach.

## Overview of Hotel Brand Value Study

This study measures a brand's contribution to a hotel's performance by quantifying the change in revenue that occurs when a brand is added or removed from the same hotel. The brand is typically the most important variable in the success of most hotels. This study quantifies the typical change in revenue performance that occurs when a hotel's brand changes. The change is calculated on an index basis versus the local market, comparing pre- and post-change periods. The change in revenue per available room (RevPAR)<sup>3</sup> per day is measured on an index basis, compared to the local market, to eliminate any influence on results from changes impacting the overall market area. Consequently, the only variable measured by the system is the effect of the specific brand itself and then its removal.

1. John W. O'Neill and Eric E. Belfrage, "A Strategy for Estimating Identified Intangible Asset Value: Hotel Affiliation Contribution," *The Appraisal Journal* (Winter 2005): 78.
2. John W. O'Neill and Qu Xiao, "The Role of Brand Affiliation in Hotel Market Value," *Cornell Hotel and Restaurant Administration Quarterly* 47, no. 3 (2006): 1-14.
3. The critical statistic used in this study is revenue per available room, or RevPAR. RevPAR reflects the average daily room revenue yield of every room in a property or market (not just occupied rooms). RevPAR is generated by multiplying occupancy times rate (i.e.,  $\text{RevPAR} = \% \text{ occupancy} \times \text{average daily rate}$ ), and it is the most effective and important tool in the evaluation of the success of any lodging concern.

## ABSTRACT

The Revenue Per Available Room (RevPAR) Index can be used as an accurate method for estimating the major component of a hotel's intangible business value. The brand contribution to revenue for six prominent hotel brands was estimated by comparing the RevPAR Index for the same hotels before and after a brand change. Hotel properties performed significantly better in RevPAR Index when operating under an upper-tier brand than they did when operating as independent or marginally branded properties. This shows brand value can be proven and is an accurate way to estimate the intangible value in a hotel property.

Other performance variables include the market average RevPAR, subject location, average age of the brand's hotel stock, property size, property age, and other influences. The data used in this study is extracted from Source Strategies' extensive, proprietary database of the revenue history of all Texas hotels (initially reported to the Texas State Comptroller and subject to their audit).<sup>4</sup> In this database, data is tracked for virtually every hotel property in Texas and is available on a quarterly basis from 1980 to the present. This database is a proven and highly accurate source of hotel revenue information and is relied upon by hoteliers, financial institutions, appraisers, appraisal districts, and state agencies within Texas.

In this study, properties were selected from prominent, upper-, middle-, and lower-tier limited-service brands. The intent is to quantify actual revenue disparity between selected brands, determining the revenue impact varying brands have on their properties. The intent also is to ultimately expand this research to include virtually every brand where a sample of properties with brand changes is available. If an adequate historical sample is unavailable, properties can be assigned a value based upon the most similar hotel brands where data is available.

The findings and conclusions presented herein are based on a rigorous, scientific research and statistical procedure, and are based on audited, state-enforced tax collection data of the highest accuracy.<sup>5</sup>

This system measures the revenue impact of brand name change in three circumstances:

- Dropping an existing brand and becoming unaffiliated (i.e., an independent)
- Adding a brand to an unaffiliated, independent hotel
- Dropping one brand and replacing it with another brand

The study results were found to be statistically very reliable and the full range of brands can now be developed based on Texas market data (about 8.5% of US lodging). So far, for six hotel brands every instance has been identified from 1990 through 2010

where a Texas hotel changed its brand name to another brand or to an independent name. RevPAR performance was measured for each selected hotel versus its local market, both before and after the change. This effectively isolates the hotel's brand as a unique, key variable and the revenue that the specific brand typically generates.

The article includes a section dedicated to each brand's specific revenue-generating benefit, with exhibits detailing the individual case studies. Later in the article, brand averages are summarized, combining all selected case studies for the brand. Findings for all brands studied thus far are then presented and compared.<sup>6</sup>

To illustrate the study approach and how each hotel case has been quantified, a sample individual hotel case study is shown in Table 1. This hotel case is a former Hampton Inn located in downtown Dallas that became an independent hotel in the third quarter of 2007. The property generated a RevPAR Index of 73 as a Hampton Inn in the twelve months ending the second quarter of 2006 (the pre-period), dropping 36% to a 47 RevPAR Index in the twelve months through the second quarter of 2008 (the post-period) after it was no longer a Hampton Inn affiliate.

## Overview of Key Findings

Each brand generates its own level of revenue to a hotel. The higher-tier brand conversion cases that were examined performed significantly better in RevPAR Index when operating under a major brand than they did when operating as independent or marginally branded properties. Conversely, marginal brands contributed far less in revenue generation, with nominal, if any, RevPAR Index changes noted for brands that are considered bottom tier. Naturally, a number of middle-tier brand names are distributed along the hierarchy between upper-tier and marginal hotel brands. Furthermore, the changes in RevPAR Index for upper-tier and middle-tier brands could be understated by a modest amount because the samples included many properties that converted not only from/to independent status, but also from/to marginal brands and did not entirely bottom out to independent status.

4. See Source Strategies, Inc. at <http://www.sourcestrategies.org> for database methodology.

5. Arguably, the data is much more accurate than voluntarily reported hotel data.

6. While the authors would like to present the study in its entirety, it is simply not possible due to the volume of research (6 brands and 148 individual case studies to date, covering over 4.5 million consumer purchases, with over 500 pages of documentation). The term *consumer purchases* is used interchangeably with *room nights sold*; however, *consumer purchases* emphasizes the predominant consumer mass-marketing nature of the hotel industry.

**Table 1 A Sample Case: Branded Hotel Converted to Independent**

City/Zip: Dallas/75202

Year-Qtr	Market RevPAR	Subject RevPAR	Subject/Market RevPAR Index*	12-Month RevPAR Index	Brand
2005-3	\$65.36	\$49.44	76		Hampton
2005-4	\$73.44	\$49.56	67		Hampton
2006-1	\$91.72	\$69.76	76		Hampton
2006-2	\$81.42	\$59.28	73	73	Hampton
2006-3	\$74.25	\$58.91	N/A		Hampton
2006-4	\$75.25	\$56.61	N/A		Hampton
2007-1	\$93.35	\$69.97	N/A		Hampton
2007-2	\$78.31	\$53.94	N/A	N/A†	Hampton
2007-3	\$72.33	\$31.53	44		None
2007-4	\$76.68	\$32.17	42		None
2008-1	\$95.65	\$51.76	54		None
2008-2	\$87.06	\$43.79	50	47	None
<b>Difference:</b>				<b>-36%</b>	

\* The RevPAR Index is calculated by extracting the weighted RevPAR mean of the local market (all nearby hotels), before and after the name change. The ratio between the individual subject property's RevPAR and its corresponding local market RevPAR is the RevPAR Index.

† To make the comparisons more consistent and reliable, data from the year of conversion is not used in this analysis. In many cases, there will be notable disruptions in operation as a brand is being dropped (discontinued national reservations, signage changes, mid-quarter conversions, etc.).

In the study, the top tier of limited-service brands<sup>7</sup> (Residence Inn, Hampton Inn, Holiday Inn Express<sup>8</sup>) were found to enhance a hotel's revenue performance. Removing the brand name and becoming an independent dropped the revenue index by 39% or more. This indicated change in revenue (measured in terms of RevPAR Index) is directly attributable to the intangible value of the brand.

The Comfort Inn brand was also analyzed as representative of a popular mid-tier brand. Removing the Comfort Inn brand and becoming an independent was found to drop the revenue index by 25%.

The data also shows that the conversion from a marginal brand hotel (here Howard Johnson and America's Best Value) caused more nominal shifts in RevPAR Index of less than 10%.

## Importance of Brand Name in Hotel Industry

Hotel business value incorporates all the aspects of the operation, including the effect of brand name. A brand name is a complex and comprehensive, mass-marketed system of identification and operation. A brand is of very high value as supported by the fact that hotels with significant brand names accounted for about 85% of Texas hotel room revenues in 2010 versus only 15% of revenues for hotels operating independently.<sup>9</sup> Further, independent hotels generate RevPAR at only 74% of the rate generated by branded hotels.<sup>10</sup>

It is inarguable that US consumer market demands are highly ubiquitous from area to area, with brand success usually nationally based, rather than based on divergent local or regional tastes. Strong national advertising and promotion, and

7. The limited-service segment is one of the major segments as defined by the *Hotel Brand Report*; a free, recent issue defines all segments and is available at <http://www.sourcestrategies.org>. The limited-service segment is characterized as offering a high-quality room with the only food service, generally a complimentary breakfast. It includes major brands such as Best Western, Hampton Inn, Holiday Express, La Quinta, and others.

8. Residence Inn performance is likely understated due to anomalies within the identified sample and the notable scarcity of recent conversions within the brand. Hoteliers are extremely reluctant to lose the brand, a further indication of high brand value.

9. Source Strategies, Inc., "Brand Performance Results," *Hotel Brand Report* no. 105 (March 2011): 19–20, covering the 78 million room nights sold in Texas in the past 12 months; available at <http://www.sourcestrategies.org>.

10. Ibid.

the consistent physical delivery of products and services in every state are critical to a national brand's success. The large number of geographic outlets for each brand, the existence of powerfully advertised families of brands under a single corporation, and ever-concentrating market shares in every industry are clearly observable.<sup>11</sup> The major proof of national branding and its power is the fact that the market shares of consumer goods and services strongly tend to be the same region to region and state to state across the entire country, whether the consumer category is television networks, soap brands, toiletry brands, beer and soda brands, hotel brands, restaurants brands, or automobile brands.<sup>12</sup>

Brand is particularly important in the hotel business as more than half of all purchases are booked in advance from afar, usually from 300 to 400 miles driving distance from the booked hotel. Further, on any given night, about 70% of guests in any hotel are new to that specific hotel, having never stayed in that hotel previously; however, they usually are not new to the brand name of the destination hotel, having stayed many times in that brand. About half of all purchases in Texas are from out of state, further confirming the national basis of hotel brands.

For consumers, a hotel brand's reliability in delivering a suitable and consistent product is paramount. Brand selection is based on *consumer brand preference*, a term of art in the marketing field, meaning the percentage of buyers who prefer one brand over another (for the occasion of purchase, which changes as each trip's purpose changes).<sup>13</sup> Brand preference is built over time by the brand's product definition, by its geographic availability, by marketing its benefits, and by cumulative consumer experience with it.

For hotel investors, brand selection is consequently one of the most critical choices when developing a hotel. Experienced investors naturally gravitate toward those brand affiliations that add the most value to a project.

Brand is critical to the success of a hotel project. In any market, strong brands will outperform weak brands. Strong brands add significant value to a hotel project, including name recognition; a strong national marketing campaign and reservation system; frequent-traveler rewards programs; and strong, enforced quality-control standards.<sup>14</sup> Weaker brands accept more marginal properties into their inventory, provide inconsistent levels of quality to the consumer, and have weak marketing spending and low brand preference.

The portion of the income attributable to the brand is clearly proven here to not be either real estate or tangible personal property; it is attributable to the intangible business component.<sup>15</sup> Other authors agree that income and value attributed to the brand name is clearly not real estate.<sup>16</sup> Similar statements are made by both Dowell and Rushmore.<sup>17</sup> This view does not appear to be disputed in hotel literature. However, it should be noted that this study contradicts an alternative approach of capitalizing the franchise fees to reflect business value.

Brand strength in generating revenues varies greatly and to ignore the differences between brands would be a serious error in a hotel development project. Properly addressing brand for appraisal purposes should be no less important.

### **Intended Use of Brand Analysis System**

By knowing the near-exact revenue contribution to revenue of a specific brand name (the effect of its standards, systems, and quality enforcement), it is feasible to disaggregate an operating property's market value accurately into its three components:

- Real assets—the hotel improvements and its land.
- Tangible personal property—primarily inventory furniture, fixtures, and equipment.
- Intangible hotel business value—as will be demonstrated, primarily the value of the brand in the operation. Other possible elements of business value are typically minor by comparison (such as contracts, cash, etc.) and are not considered here.

11. The brands of the top-three hotel corporations accounted for 43.3% of 2011 revenues in Texas, up from 37.1% in 2005. The next five corporations add 23.4%, meaning that two-thirds of all Texas hotel-dollar volume is from just eight companies.

12. Author Bruce Walker has been privy to more than \$10 million of primary hotel consumer research over the past forty-five years as an officer of the Holiday Corporation, La Quinta Motor Inns, Howard Johnson Company, and Source Strategies, Inc. and as a brand manager for the Procter & Gamble Company.

13. Consumer research clearly shows that consumer selection of hotel varies by the occasion of use; most consumers buy very different kinds of hotels depending on the occasion of travel.

14. O'Neill and Belfrage, 79.

15. Ibid. 81, and this study.

16. Daniel H. Lesser and Karen E. Rubin, "Understanding the Unique Aspects of Hotel Property Tax Valuation," *The Appraisal Journal* (January 1993): 9–27.

17. Bernice T. Dowell, "Hotel Investment Analysis in Search of Business," *Journal of Property Tax Management* 4, no. 2 (March/April 1997): 46–53; Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992), 247.

With that in mind, the intended use of this analysis system is to assist in estimating the amount of intangible value attributable to a hotel's brand affiliation. It is strongly contended that each brand carries its own value, and a simple appraisal classification of branded versus unbranded hotels is woefully inadequate and inherently inequitable to hoteliers. Critically, when assessing a hotel's property tax valuation (less its franchise value and other intangible value), the contribution of the hotel brand must, in good faith, be accurately measured and credited to the property.<sup>18</sup> Using a table of specific brand valuations could be one appraisal valuation approach, but tiered groupings of like hotels with similar brand values would be an acceptable alternative.

Because the system used here showed extremely high statistical stability, with individual case results grouped quite tightly around the different brand average values, there is a high probability that similar analysis can be conducted for virtually all established hotel brands.

### **Brand Analysis Case Studies Obtaining Cases for Brand Samples**

The initial step in the research was a careful search of the database to identify all properties within a list of target brands that had converted brands as follows:

- Converted to/from an independent property directly from/to one of the six subject brands; and
- Converted to/from a marginal brand directly to/from one of the four mid-tier or upper-tier brands.<sup>19</sup>

Essentially, the study looks at the same property, affected only by a minor passage of time and difference in brand affiliation. A number of strong brands are examined, including Residence Inn, Hampton Inn, and Holiday Express, as well as the mid-level Comfort Inn brand. An examination of marginal brands was also conducted; these included America's Best Value Inn and Howard Johnson.

For these six brands, all individual properties that had undergone a brand conversion since 1990 were examined. Importantly, any hotels among these identified conversions that did not meet specifically defined criteria were excluded. These criteria were strictly adhered to, eliminating any and all factors

other than brand conversion from consideration. The hotels that remained became samples for each studied brand. The established selection criteria included the following:

1. Brand change occurred since 1990
2. Independent (or marginal brand) for at least one year
3. Subject brand for at least 2 years (to allow ramping up)
4. No periods of closure upon brand change
5. No extensive remodeling or renovations (normal, routine renovations only)
6. No lateral conversions to similar/parallel brands
7. No conversions to more prominent budget brands (Super 8, Days Inn, Motel 6, etc.)
8. No major change in room counts or splitting of properties
9. Absence of long-term contracts that would impact the conversion data
10. No estimated data within studied periods (tax reports to the state only)

Financial performance was not examined or considered in any way in the selection process.

It became apparent in the gathering of sample properties that those brands that added the most value to a property also tended to have far less volatility, with owners making greater efforts to retain the brand and brand swapping occurring only when mandated by the franchisor. Conversely, owners of properties with more marginal brand affiliations were frequently brand shopping, looking to trade or drop a brand in an attempt to find a market position that would improve their hotel's performance, or allow financing or tax benefits. Naturally, brands with minimal brand swapping had fewer properties in their identified samples. The respective levels of brand volatility are not quantified but are an additional indicator of brand value.

By carefully selecting hotel samples for each brand studied, it was possible to isolate "brand" as the sole contributing factor in any identified shift in revenue performance. By tracking the revenue shift over a significant sampling of hotels that meet the established criteria, the brand values are accurately isolated and quantified.

18. In Texas and many other states, only tangible personal property and real property are taxed.

19. We did not study lateral shifts of hotels within the marginal brands grouping.



## Using RevPAR Index for Case Studies

This study identified changes in a specific hotel's RevPAR Index when the hotel either converted from a national brand to an independent or a marginal-brand property, or vice-versa. RevPAR was extracted on a quarterly basis from Source Strategies' database for each hotel in the samples for the period surrounding each conversion, along with the matching-period RevPAR for each hotel's local market. The ratio between the subject's RevPAR and the corresponding local market RevPAR is the RevPAR Index, or

$$\text{RevPAR Index} = \frac{\text{Subject Hotel RevPAR}}{\text{Local Market RevPAR}}$$

The following shows examples of below-average, average, and above-average indices:

Subject Hotel RevPAR	/	Local Market RevPAR	=	RevPAR Index	
\$40	/	\$50	=	.80	Below average
\$50	/	\$50	=	1.00	Average
\$60	/	\$50	=	1.20	Above average

Note that each local market defined in the study includes all nearby hotels and motels<sup>20</sup> and thus eliminates the major bias that any selection of competitive sets would generate. Competitive sets are useful to judge operational efficiency but can be highly misleading when judging consumer acceptance because consumer hotel selection is strongly affected by the traveler's changing and occasion-based need.

Since a hotel's revenues or RevPAR can change due to economic and other market conditions, it is critical to measure a property's RevPAR Index change over time, rather than dollar RevPAR or revenues, to quantify the subject hotel's performance. Since local, regional, and even national events should affect all hotels within the given market to a similar degree, using a RevPAR Index provides an accurate measure of a hotel's position versus its local competition (i.e., the market average).<sup>21</sup> Tracking the RevPAR Index for the selected case studies effectively isolates the brand as the contributing factor to the subject brand change.

To maintain a consistent measure of performance shift, the difference going from the subject brand's index to the independent or marginal brand's index was always measured regardless of whether it was a conversion to or from the lesser product type. This measures, on a RevPAR Index basis, how much better or worse a hotel performed as the national brand than as an independent or marginally branded operation.

For example, if a hotel's RevPAR Index versus its local market is 120 (20% above average) in the local market as the given brand, but immediately falls to 90 (10% below average) when the brand is dropped, there is a revenue decline of approximately 25% that can be attributed to the removal of the brand from that property  $(120 - 90) / 120 = .25$ . Conversely, if an independent property has an index of 90, and increases to 120 after 2 years ramping up as a subject brand, there is a 30-point RevPAR Index change. This approach keeps the statistics consistent across the entire sample, and it produces one set of numbers comparing the subject to the independent/marginal brand performance, rather than having separate sets of results for adding and dropping a brand.

## Case Study Example—Hampton Inn Brand

In an examination of brand changes involving the Hampton Inn brand, 21 separate properties operating in the Texas market were identified that either added or dropped the Hampton Inn brand name since 1990. The detailed breakout of these properties and their selection status for use in this research is shown in Table 2, Breakout of Identified Hampton Inn Conversions.

In all 21 cases, the revenues for the hotel increased significantly if the Hampton Inn brand was added and dropped significantly if the Hampton Inn brand was lost. This was a consistent indicator of the brand's high value in relation to an independent name or a marginal brand name.

Of the cases listed in Table 2, the first three categories were selected for review. There were 9 cases of Hampton Inns changing directly to an independent or to/from a marginal brand, which is the basic target of the research. These 9 examples

20. Local markets include every nearby hotel and motel without exception, are geographically contiguous, and typically range from 15 to 35 properties in order to ensure stable relationships between the brands in the area and a stable market RevPAR. All properties in the market are included: the existing, the new, and the closures. Note that 15 to 35 properties is a sizeable if not very large market. Only Source Strategies' database provides property-by-property results.

21. Conversely, a simple shift in revenues could be attributed to other factors, including added supply pressures, a change in local demand generators (military; oil and gas; hurricane impact; etc.), the general economy, or other market conditions.

were reviewed on a case-by-case basis. The remaining 12 identified Hampton Inns were not selected for reasons implied by the category titles.

Once a RevPAR Index stream was established for each sample (as outlined earlier in this article), the index from two years prior to the brand change was compared to the year immediately following the brand change. The period directly during/prior to the conversion was not used in order to eliminate any performance fluctuations due to the ongoing conversion process and the pending loss of brand (changed management, ongoing sale, loss of system reservations, etc.). The period immediately after conversion was used to determine the drop in performance from the loss of brand. The first year post-conversion was used to prevent the inflation of results from subsequent degradation or repositioning of the property if it was not maintained well as an independent or lesser brand.

**Table 2 Breakout of Identified Hampton Inn Conversions**

Change directly to independent	3
Change to a marginal brand	5
Change from a marginal brand	1
<b>Selected:</b>	<b>9</b>
Lateral changes to mid-market brand	8
Changes with room closures	3
Insufficient data (too new)	1
<b>Non-Selected:</b>	<b>12</b>
<b>Total Identified Hampton Inns</b>	<b>21</b>

### Aggregated Hampton Inn Data

Table 3 provides detail on all selected Texas Hampton Inn properties, including the one that was outlined previously in Table 1. All properties selected for this analysis met the specific criteria and were Hampton Inn properties operating within Texas. In this brand's analysis, the 9 identified properties totaled over 1,200 units, over 500,000 consumer purchases (room nights sold), and over 1 million people accommodated.

Findings for the Hampton Inn brand showed that the declines in RevPAR Index upon converting to an independent or marginal brand ranged from 26%

to 60% (Figure 1). The average RevPAR index shift when the Hampton Inn brand was removed was 40%.

### Summary of Findings for All Six Brands

In this study, each brand was analyzed on a detailed, hotel-by-hotel basis. Table 4 and Figure 2 provide a concise summary of the hotel brands examined. The summary clearly illustrates the differing average values of the studied brands as measured by changes in RevPAR Index upon brand conversion. Brand affiliations do not contribute equally to a hotel's performance, with a wide variance between upper-tier and marginal properties. There is a clearly defined distribution of average RevPAR Index contribution among the brands, making ranking or assignment to specific tiers of brand revenue generation benefit possible.

### Statistical Reliability

The analysis of the change in revenues due to the presence or absence of the measured brands is reliable at the highest possible levels due the following aspects of the study:

1. Availability and use of a database of highly accurate historical hotel performance statistics (tax reports from the Texas Comptroller)
2. Identification of all cases of brand change for each subject brand
3. Development of rational and fair selection criteria for case studies
4. Strict adherence to the sample selection criteria in all cases
5. Sample size of over 4.6 million consumer purchases to cover just the six brands examined (approaching 10 million consumer nights at 2+ guests per room)
6. Use of RevPAR Index as a measure of performance
7. Comparing performance during two full 12-month periods (pre- and post-) to exclude seasonality
8. Individual case results quite close to the brand average, with a very reasonable statistical array of values

### Age of Hotels and Renovation Status

Neither the age of the sample hotels nor their condition (possible need of renovation) appear to affect the findings of this study.<sup>22</sup> Study results were basically the same regardless of hotel age.

22. Not studied yet were the minor exception of full-service, concrete, and steel high-rise hotels located downtown.

**Table 3 Hampton Inn Converting From/To Independent or Marginal Brand Name**

City	Case Number	Zip Code	Total Rooms	Year Opened	1-Year Pre-Period			1-Year Post-Period			Cumulative Consumer Purchases All Properties
					RevPAR Index*	Total Consumer Purchases <sup>†</sup>	RevPAR Index <sup>†</sup>	RevPAR Index <sup>‡</sup>	Total Consumer Purchases <sup>†</sup>	Percent Change RevPAR Index <sup>§</sup>	
Dallas	1	75202	309	1960	73	78,200	47	54,700	36%	132,900	
Garland	2	75228	125	1986	117	22,700	65	14,900	44%	170,500	
San Antonio	3	78216	120	1985	109	33,100	64	25,900	41%	229,500	
Houston	4	77013	90	1991	153	24,500	113	17,200	26%	271,200	
Houston	5	77060	157	1979	96	39,000	40	27,700	58%	337,900	
New Braunfels	6	78130	61	1996	176	20,100	123	26,500	30%	384,500	
Corpus Christi	7	78408	157	1982	102	32,900	41	14,200	60%	431,600	
Victoria	8	77901	100	1966	117	20,600	86	17,500	26%	469,700	
San Antonio	9	78230	122	1984	95	32,600	57	21,700	40%	524,000	
<b>Totals/Averages</b>			<b>1,241</b>	<b>1981</b>	<b>115</b>	<b>303,700</b>	<b>71</b>	<b>220,300</b>	<b>40%</b>	<b>524,000</b>	
		<b>Average</b>	<b>1.38</b>								

\* RevPAR Index as independent/marginal brand in year before/after conversion.

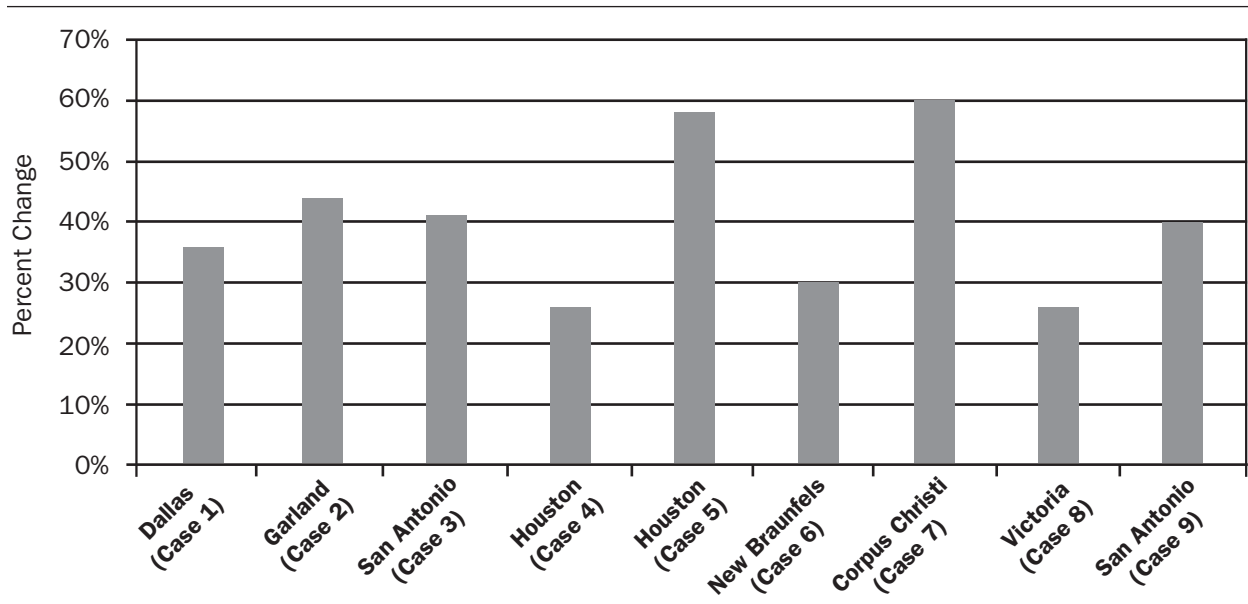
† Number of consumer purchases (room-nights sold) at the specified hotel in the period.

‡ RevPAR Index as subject brand for twelve-month period one year removed from conversion.

§ Minor rounding differences affect totals slightly but do not change results.



**Figure 1 Hampton Inn Change in RevPAR Index**



The cases examined included hotels of all ages, and the study results did not vary significantly between younger hotels and older hotels. In fact, almost one-third of the Holiday Express cases were for properties under 14 years of age (with a building economic life of 30 to 40 years), indicating that age was not the key consideration.

Secondly, the time between the brand operation and independent status in this study is so short that there should be no effect on the measurement system herein. This is particularly true for Hampton Inn and Holiday Express, where advanced reservations are the rule and 70% of guests are first-time visitors to the specific hotel involved; in other words, the purchase decision was brand-based and made without seeing the hotel.

Lastly, extensive Source Strategies studies show an inevitable decline in the performance of all hotels as they age.<sup>23</sup> Two major studies of all Texas hotels, completed ten years apart, show that the average hotel's RevPAR Index versus the total market will decline by 1.67% per year, starting the sixth year of operation. The decline continues indefinitely, even after normal, ongoing renovations.<sup>24</sup> This helps to explain why the major franchisors must relentlessly replace older hotels with newer ones in order to

maintain their competitive positions. Obsolescence in the hotel business is constantly occurring, including "stylistic" and "location" obsolescence, as well as other functional and external obsolescence. The consumer appears to equate hotel newness with cleanliness and oldness with being dirty.

### **Next Steps in Further System Development**

The findings thus far show brand revenue generation benefits ranging from 48% for the most valuable brand to near 0% for one budget brand that primarily converts older, existing motels. These findings quantify what a hotel operator can expect on the occasion of making a change from one of these six brands to an independent hotel.

A "48% brand" means that the RevPAR Index would decline by 48% on elimination of the brand name from a hotel (and all the major marketing support provided by the brand); this assumes the property would then operate as an independent hotel, albeit without the higher and many additional costs of the branded hotel operation. Removing a "0% brand" from a hotel means the hotel should see no change whatsoever in its room revenues; in

23. "The Hotel Life Cycle—It's Very Real" *MarketShare* (September 1994).

24. These studies confirm Walker's experience at the Holiday Inn Corporation. There, no amount of renovation investment was able to change the inevitable declines that continued as each property aged. The aging curve is relentless and cannot be stopped with renovation. Alternatively, without renovation, performance declines will accelerate. So, every hotel must renovate regularly just to avoid any dramatic decline.

**Table 4 Brand Index Change Summary: Converting To/From Independent or Marginal Brand Name**

Brand	Number of Cases	Total Rooms	Year Opened	As Subject Brand			As Indep./Marginal Brand			Percent Change RevPAR Index <sup>§</sup>	Total Consumer Purchases Case Property	Cumulative Consumer Purchases All Properties
				RevPAR Index*	Total Consumer Purchases <sup>†</sup>	RevPAR Index <sup>†</sup>	Total Consumer Purchases <sup>†</sup>	RevPAR Index <sup>†</sup>				
Residence Inn	3	398	1983	132	114,600	93	87,700	48%	203,300	202,300		
Hampton Inn	9	1,241	1981	115	303,700	71	220,300	40%	524,000	726,300		
Holiday Inn Express	32	2,841	1989	131	634,200	79	487,800	39%	1,133,000	1,859,300		
Comfort Inn	54	3,794	1991	109	834,572	81	684,916	25%	1,519,488	3,378,788		
Howard Johnson	28	2,740	1981	62	477,700	55	412,600	8%	890,300	4,269,088		
Best Value	22	1,270	1983	60	227,400	57	204,100	3%	431,500	4,700,588		

\* RevPAR Index as independent/marginal brand in year before/after conversion.

† Number of consumer purchases (room-nights sold) at the specified hotel in the period.

‡ RevPAR Index as subject brand for twelve-month period one year removed from conversion.

§ Minor rounding differences affect totals slightly but do not change results.

fact, some individual marginal hotels have actually improved performance upon removal of the brand.

The next step in the system's development will involve analyzing each major brand and assigning each a "brand revenue generation benefit." With the measurement of most brands, a tiered hierarchy of the power of the brands can be developed. Brands will likely fall into five tiers, where the highest impact of a brand is about 50% and the lowest impact is 0%. It is the initial plan to position brands in one of five 10-point ranges: 50%, 40%, 30%, 20%, 10%, and 0%, but this assignment of tiers will become more clearly defined as additional brands are included in the analysis.

Lastly, the findings of this measurement system will need to be updated every few years to reflect the slow but constant change in brand performances.

### Conclusion

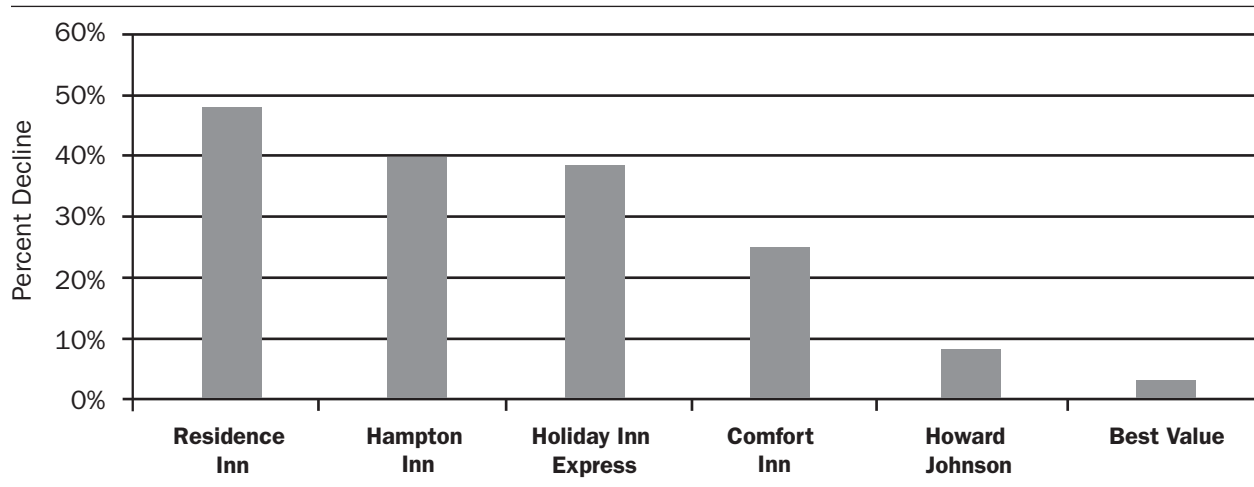
The research presented in this article shows that the RevPAR Index approach accurately measures the current revenue-generation value of each brand. The

“The brand RevPAR Index provides a major quantifiable element when estimating the market value.”

system eliminates all other variables affecting brand performance. The brand RevPAR Index provides a major quantifiable element when estimating the market value of the real estate in a hotel valuation.

It is hoped that this research results in more interest by appraisers and researchers in the differing revenue contribution of the various hotel brands, and the data will become critically useful when estimating the market value of the real estate in an operating hotel. Development of sample hotel appraisals using this brand revenue analysis system and its data is underway, and input is welcomed from others who use this data in developing hotel appraisals.

**Figure 2 Decline in RevPAR Index by Brand Upon Conversion to Independent or Marginal Brand**



**A. Scruggs Love, MAI, SRA, CRE, ASA**, is an independent real estate appraiser at Love and Associates in Hondo, Texas. He is a certified general real estate appraiser in Texas. He specializes in appraising commercial and rural property, and in litigation support. Love has been involved in the development and review of many appraisal courses and was a frequent national teacher of many Appraisal Institute courses. He has been awarded the Harold D. Albritton Award by the American Institute of Real Estate Appraisers and served as the 1990 president of the Institute. Love attended Texas A&M University, received a BBA from Texas A&I (now Texas A&M—Kingsville), and attended graduate business school at the University of Texas—Austin.  
**Contact: scruggslope@aol.com**

**Bruce H. Walker** is president of Source Strategies, Inc., a Texas hotel consultancy and publisher in the lodging industry, which has developed over 1,000 hotel financial feasibility studies. Since 1988, Walker has written the quarterly *Texas Hotel Performance Report* for the Governor's Office of Tourism and Economic Development, the *Hotel Brand Report* newsletter, and the *Texas Hotel Performance Factbook*, he has been published in *The Cornell Quarterly*. He has created and maintains a database on 4,800+ individual Texas hotels, from 1980 to present, based on Texas tax records, and he testifies regularly. Walker previously served as brand manager for Procter & Gamble, and as senior vice president of marketing and strategic planning for the Holiday Corporation and for La Quinta Motor Inns. Walker holds an MBA from Harvard and a BA in economics from Amherst College. **Contact: bruce@sourcestrategies.org**

**Douglas W. Sutton** is executive vice president of Source Strategies, Inc., specializing in development of hotel feasibility studies, database software development, and special studies. His articles on hotel brands have appeared in the *Hotel Brand Report*. He provides litigation support, analysis, and strategy for hotel litigation and testimony. He served as a captain and as information officer for the Directorate of Special Weapons at Kelly Air Force Base in Texas. Sutton received a BS in computer and information sciences from Troy State University.  
**Contact: doug@sourcestrategies.org**

## Web Connections

*Internet resources suggested by the Y. T. and Louise Lee Lum Library*

Appraisal Institute—Guide Note 5: *Appraisals of Real Estate with Related Personal Property, Business Property, or Intangible Assets*

[http://www.appraisalinstitute.org/PPC/downloads/guide\\_note\\_5.pdf](http://www.appraisalinstitute.org/PPC/downloads/guide_note_5.pdf)

PKF Hospitality Research—Hotel Financial Reports and Forecasts

<http://www.pkfc.com/store/>

Source Strategies, Inc.—*Hotel Brand Report*

<http://www.sourcestrategies.org/hotelbrandreport.html>

STR Global/Smith Travel Research

—*HOST Study*

<http://www.strglobal.com/>

—*Hotel News Now*

<http://www.hotelnewsnow.com>