

EXECUTIVE Roundtable Series

by *Hotel Business*®

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RED LION®
HOTELS



Photos: Noah Wolf

Standing, left to right: Samuel Reynolds, Apple REIT Companies; Walter Barela, Peak Hospitality; Rick Takach, Vesta Hospitality; Greg Mount, Red Lion Hotels; Michael Cahill, HREC; Adam Suleman, Equinox Hospitality; Navin Dimond, Stonebridge Co.; Bill Sipple, HVS Capital Corp.; and Chris Diffiey, Rockbridge. Seated, left to right: Kenneth Fearn, Integrated Capital; Rolf Tweeten, Alliance Hospitality; Bill Linehan, Red Lion Hotels; Jeffrey Summers, Hampshire Hotel Management; Michael Everett, Sage Hospitality; and Robert Olson, R.D. Olson Development



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Owning It

Owners & developers explore
Airbnb, Millennials & the economy

BY MATTHEW MARIN

Leading hotel owners and developers offered their insight into some of the most talked about topics in the lodging industry during the 2014 *Hotel Business* Owners & Developers Executive Roundtable. Hosted by Red Lion Hotels Corporation, the roundtable was held Thursday, August 14, at Red Lion Salt Lake Downtown.

Sponsored by Arthur J. Gallagher Hospitality Services, Merchant Link and Valley Forge Fabrics, the roundtable gave owners and developers an opportunity to discuss three topics affecting the industry. Jay Schultz, SVP, Hospitality Group, ICD Publications, moderated the roundtable and questioned panelists on the viability of Airbnb as a competitor to the hotel industry, capturing the interest of the Millennial generation and lessons learned from overcoming the last economic downturn.

Airbnb, the web-based housing rental site connecting hosts and travelers, has grown at a rapid rate with more than 500,000 listings in 33,000 cities and 192 countries. Panelists shared concern over the six-year-old company's expansion. Bill Sipple, managing director, HVS Capital Corporation, kicked off the roundtable with his observations. "I don't know how you cannot consider them a viable competitor," he said. "They've grown their business to a point where they reached critical mass. They're definitely a threat to the hotel business."

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For Michael Everett, CIO, Sage Hospitality, Airbnb's global network poses the greatest threat to the industry's economy/budget segment in destination markets. While Airbnb offers a cost-effective alternative for young leisure travelers, the San Francisco-based company may not be a real competitor to hotels that lure business travelers, especially in medium-sized markets such as Denver or Austin, TX, compared to gateway cities such as New York City, added Everett.

With more than nine million users, Airbnb is most popular in cities that attract tourism, despite growing legal concerns. Two men caused a storm of media attention after squatting as Airbnb guests in a woman's Palm Springs, CA, condo. They vacated the property in late August after the owner filed an unlawful detainer notice, according to published reports. Without having to adhere to regulations such as fire safety or occupancy taxes, Airbnb poses an unfair advantage to the hotel industry, the majority of executives at the roundtable agreed.

Kenneth Fearn, managing partner, Integrated Capital, shared an account of his personal experience with Airbnb. His 23-year-old son rented an apartment that he found through the rental website before visiting Manhattan last June. At the time, hotel rooms within his price range were sold out as a result of the high volume of college graduations in the Big Apple.

"He told me, 'I'm staying in an apartment in New York City with some girl,'" Fearn said. "For me, that was the first time I started paying close attention to what Airbnb could do to our industry. Millennials have a much different mindset around communal living situations. The notion of staying in someone else's apartment doesn't resonate with me. But we would be foolish to ignore this."

Some panelists recounted when similar arguments arose during the introduction of online travel agencies (OTAs) and wondered whether the lodging industry would lose additional profits to Airbnb. "The hotel industry lags behind other trends," said Michael Cahill, CEO & founder, HREC. "How many times did we sit around and talk about the OTAs? I think Airbnb is here to stay,—and it's only going to get bigger."

Describing Airbnb as "the new hostel," Walter Barela, principal, Peak Hospitality, expressed further concern over the web-based business model having an unfair advantage over traditional brick-and-mortar properties. Barela shared his observations that homeowners have been purchasing residential real estate only to "then chop them up into guestrooms," prompting city governments to consider lodging taxes.

Airbnb's increasing popularity, together with unclear regulatory structures, has prompted a number of local governments to examine new ways to tax and regulate short-term online rental companies. The American Hotel & Lodging Association (AH&LA) is presently working with local hotel associations and governments to address issues such as occupancy tax payment and

American with Disabilities Act (ADA) provisions. Several executives voiced their support behind the AH&LA's advocacy for fair regulation.

But even with a number of growing concerns, Rick Takach, president & CEO, Vesta Hospitality, believes that the current popularity of Airbnb would eventually subside as Millennials earn more disposable income. "Personally, I don't like the unpredictability of staying at someone else's place," Takach said. "I think as Millennials get older, they may feel the same way, but I think Airbnb is here to stay."

Bill Linehan, EVP, chief marketing officer, Red Lion Hotels Corporation, conveyed the need for regulating Airbnb but would not go as far as to consider the web-based housing rental site a viable threat to the hotel industry. "I'm surprised we're so focused on this because it's more disruptive, in my opinion, to timeshares or vacation rentals," said Linehan. "Are we selling just hotel beds or experiences through a branded experience? I think it's much more the latter."

So how would global hospitality chains target the Airbnb customer? The answer: Hotel brands with unique value propositions would offer young travelers a compelling reason to invest in their properties, noted Rolf Tweeten, chairman, Alliance Hospitality. One such brand that was noted at the roundtable is Even Hotels, which offers a health and wellness value proposition.

However, Navin Dimond, president & CEO, Stonebridge Company, strongly believes Airbnb poses a serious threat to the hotel industry. "The tone of this conversation is scaring me," he said. "What I'm hearing is that this is not a big deal. I think it's a big deal. I think they'll do some damage. I think we need to be very vigilant, direct and aggressive with our strategy to protect our business." Dimond voiced concerns that Airbnb would eventually lure more OTA-friendly travelers in Europe and Asia away from U.S. hotel markets.

Identified as the "new-gen renters" in recent published reports, Millennials account for the majority of Airbnb private accommodation rentals. When asked about their companies' strategies to cash in on this next generation of travelers, executives kicked around varying perspectives on identifying the personality, values, opinions, attitudes, interests and lifestyles of this demographic.

Analyzing Millennials from a psychographic perspective, Linehan noted that the 18-to-34-year-old age group is often looking for instant gratification and recognition. Attempting to meet the needs of this demographic, Red Lion Hotels is rebuilding its loyalty program, which would recognize customers on an individual basis, as opposed to a points-based model. The company is exploring other concepts as well. "This generation doesn't prefer to make their own coffee in the guestroom," said Linehan. "They would prefer a coffee experience in a public, communal space in the lobby."

Red Lion Hotels Corporation plans to
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Photos: Noah Wolf



- 1 Walter Barela (left), Peak Hospitality and Chris Diffiey, Rockbridge
- 2 Jeffrey Summers (left), Hampshire Hotel Management and Kenneth Fearn, Integrated Capital
- 3 Robert Olson, R.D. Olson Development
- 4 Rolf Tweeten, Alliance Hospitality
- 5 Bill Linehan (left), Red Lion Hotels and Rick Takach, Vesta Hospitality
- 6 Samuel Reynolds, Apple REIT Companies
- 7 Michael Everett, Sage Hospitality
- 8 Greg Mount (foreground), Red Lion Hotels
- 9 Adam Suleman (left), Equinox Hospitality and Bill Sipple, HVS Capital Corp.
- 10 Matthew Marin (left) and Jay Schultz, Hotel Business



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Navin Dimond,
Stonebridge Co.



Adam Suleman,
Equinox Hospitality

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announce innovations to the guest experience, including a new brand launch during the Lodging Conference at the Arizona Biltmore Resort & Spa in Phoenix this October. The company will introduce new innovations or “signature moments,” catering to Millennials such as lobbies with a “town hall” ambiance, giving guests a communal environment to work, play and relax, according to the company.

“With Red Lion Hotels, we’re in a great place to retool our brand,” said Greg Mount, president & CEO, Red Lion Hotels. “We’re looking to being more authentic and bringing our Pacific Northwest values across the country. By being authentic, we would resonate more with Millennials. It’s less about following a utilitarian approach and instead being more authentic to people’s lifestyles.”

From a development perspective, Robert Olson, CEO & president, R.D. Olson Development, perceives the needs and desires of Millennials as no different than older generations. “We just opened a Courtyard by Marriott that offers craft beers,” Olson said. “Apparently, that’s what Millennials want, but 65-year-old men want that too. I don’t want to make coffee in the room either; I would rather order it in the lobby.”

As the only Millennial on the executive roundtable, Adam Suleman, acquisitions & asset management, Equinox Hospitality, described his generation as value-driven and price-conscious. Millennials, in his opinion, would opt for OTAs to find the best value and price. Additionally, when this generation of consumers is looking for hotel properties, the three most important factors to consider are Internet speed, unique ambiance and local character.

“Millennials are focused on what is cool and what offers the most value,” said Suleman. “There’s not

a lot of brand loyalty. I never hear my peers or friends say, ‘I want to stay at Starwood three more nights so I can upgrade my status.’ It’s more about finding the best value and spending money on the best meals or concerts.”

Panelists provided their strategies to capturing the interests of Millennials with inviting F&B concepts, tech-friendly features or communal public spaces. When addressing this generation’s needs, some companies have taken the extra step of sharing information on its best practices throughout the portfolio, as in the case of Apple REIT Companies, which has 18 management companies, noted Samuel Reynolds, SVP, development, Apple REIT Companies.

With only five independent hotels in its portfolio, Sage Hospitality applies similar F&B strategies throughout its portfolio’s branded hotels, noted Everett. “Our F&B program is unique and can be adaptable to the local market,” he said. “That’s what we try to do in every situation. The brands need to adopt to owners and operators as opposed to us following the brand’s script.”

In New York City, for example, Dream Downtown, owned and managed by Hampshire Hotel Management, regularly updates its F&B offerings on a regular basis. This lifestyle hotel, located next to Google’s Manhattan headquarters, caters to younger business travelers. “We have six F&B concepts, and they are always being tweaked,” said Jeffrey Summers, VP, business development, Hampshire Hotel Management. “It creates a coolness factor for the hotel.”

From the subprime mortgage crisis that led to the downfall of the U.S. housing bubble in 2008 to the collapse of the speculative dot-com bubble in the early 2000s, the majority of owners and developers on the roundtable experienced at least

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Sponsors, standing left to right: Kimberly Roeser, Valley Forge Fabrics; Jackie C. Collins, Arthur J. Gallagher Risk Management Services, Inc.; Paul Thornton, Red Lion Hotels; Pam Scott, Red Lions Hotels; and Patricia Suppington, Merchant Link. Seated, left to right: Angela Landgraff, Red Lion Hotels; Greg Mount, Red Lion Hotels; Harry Sladich, Red Lion Hotels; and Bill Linehan, Red Lion Hotels



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Representing Red Lion Hotels are (standing, left to right) Paul Thornton and Pam Scott; and seated, left to right, are Angela Landgraff, Greg Mount, Harry Sladich and Bill Linehan.

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three economic downturns during their professional tenure. The executives were asked what they learned and compared the most recent downturn to the previous two.

"This was one of the most dangerous ones," noted Diamond. The biggest lesson learned from the last downturn, he said, was to avoid overleveraging. "We benefited from strategy and luck," he added. "We didn't lose a single asset. If you're in this business long term, then do not overleverage."

Rockbridge also did not lose an asset during the economic downturn. Chris Diffley, managing director, investment management, Rockbridge, attributed his company's success to the relationships formed with its partners. "It was a major downturn and we needed someone to work with. If you have the right partners, you're willing to remain convicted behind your assets," he said.

One lesson to be learned from the last economic downturn was the industry's hesitation to purchase assets, according to HREC's Cahill. "Overall the hotel transaction volume today is only half of what it was in 2007," he said. "It was the greatest recession for the hotel industry yet the markets didn't panic." Cahill observed that owners are now refinancing instead of selling.

Regardless of the hardships that occurred during the most recent downturn, R.D. Olson Development opted for new construction. "In 2009 and 2010, everyone in this room would have said you're crazy," said Olson, whose company recently won the Marriott International Developer of the Year award. "So now, three-and-a-half years later, we opened seven hotels and we have four that are under construction."

Vesta Hospitality's Takach congratulated Olson. "I wish I did what you did," Takach said. "There's a cyclical nature in our industry, and if you have the guts to buy or build during the downturn, then you will do well." Takach added that the last recession offered some key lessons: "Going forward, I am underwriting projects much more carefully than before," he said. "I'm looking at the lowest NOIs these properties ever had, then I make sure my leverage will be adequate during the cyclical nature of the business."

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