

# UNDERSTANDING HOTEL REAL ESTATE INVESTMENT

## Part 1 – Categorization

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### *Introduction*

This is Part 1 of a four-part 'series,' intended to provide an overview about the hotel industry to illustrate various categories of hotels/resorts, branding, and other matters somewhat particular to the business of Hotels. While not every issue surrounding a determination to consider investments in the hotel real estate business will be addressed in this series of articles, it will only generally address the business's operations side. This article will broadly address categorization methodologies in Hotels – Chain Scales, Service Levels, and Locational. The industry itself uses different terminology for different purposes.

### *Chain Scales*

**Chain Scale segments are grouped primarily according to actual average room rates. An independent hotel, regardless of average room rate, is included as a separate Chain Scale category. The Chain Scale segments are: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale, Economy, and Independent.**

Source: <https://str.com/resourcesglossary/chain-scale>

The "Chain Scale" concept was created by Smith Travel Research ("STR"), now owned by Co-Star, and was founded by Randy Smith in 1985 to "establish . . . a database of U.S. hotels and measuring industry-wide performance trends." STR is widely viewed as the "definitive source of data benchmarking for the hotel industry."

A "Chain Scale," is based on the prior year's average daily rate by brand or independent

non-branded hotels, has become something of a qualitative continuum as well. Like all items calculated on average, the Chain Scale determination does not tell the entire story. However, the Chain Scale terminology is meaningful and useful to understand. The Chain Scale report ([HERE](#)) is published annually. An indication of the placement along the Chain Scale continuum of a sampling of familiar hotel brands is set forth below:

<b>Economy</b>	<b>Midscale</b>	<b>Upper Midscale</b>	<b>Upscale</b>	<b>Upper Upscale</b>	<b>Luxury</b>
Days Inn Econolodge Extended Stay Master Hosts Motel 6	Best Western MainStay Suites Red Lion Inns Sleep Inn TRU	Comfort Drury Inns Hampton Holiday Inn La Quinta	Citizen M Courtyard Crowne Plaza Doubletree element	Gaylord Hilton Kimpton Omni Sheraton	Andaz (Hyatt) Fairmont Four Seasons JW Marriott Loews

## ***Service Levels***

Another common method of hotel categorization is by means of level of service. Level of service does not speak to rate achievability or achievement, and a limited-service hotel might, indeed, have a higher ADR. The industry generally divides Hotels into four categories, as follows:

### i) Full Service

Full-service hotels typically encompass mid-price, upscale, or luxury hotels providing restaurant and lounge facilities, meeting space, and minimum service levels, often including bell service and room service. These hotels report food-and-beverage revenue.

Full-service hotels encompass virtually all Luxury hotels and resort hotels and include "group" or "convention" hotels (that is, those with an orientation to groups and meetings). Most "independent" – that is, a hotel unidentified by branding (to be more fully addressed in **a later article**) – hotels are also full service. Size is not a distinction in this category.

### ii) Select Service

Select-service hotels offer the fundamentals of limited-service properties together with a selection of the services and amenities characteristic of full-service properties. Generally, this means certain restaurant and meeting facilities but on a less elaborate scale than one would find at full-service hotels. Specific offerings of select-service properties will vary as to amenities.

A Courtyard by Marriott or a Hilton Garden Inn is the type of hotel generally characterized as "select service." The food and beverage facilities in these hotels provide *a la carte* service and payment.

and, thus, a higher Chain Scale rating than a full-service hotel. For example, Courtyard by Marriott, generally considered a select-service hotel brand, is upscale, while Holiday Inn, generally considered full-service, is upper midscale.

### iii) Limited Service

Limited-service hotels usually are described simply as budget-friendly hotels offering accommodations without the food/beverage component on-site, like a restaurant. These typically have some form of "free" breakfast service, customarily a buffet pre-COVID, now, a grab 'n go bag containing some combination of yogurt, a granola bar, fresh fruit, muffin, and juice or water.

Examples of limited-service hotels include Fairfield Inn & Suites (Marriott), Hampton Inn & Suites (Hilton), and Holiday Inn Express; all of these are in the Upper Midscale Chain Scale.

### iv) Extended Stay

An extended-stay hotel offers long term accommodation for guests. Extended stay hotels appeal to transitional or temporary executive relocations, consultants on 'long-term' consulting projects, and the prototypical "road warriors" who spend a week or more in a region or a regional/corporate office distant from home and might need apartment-like amenities.

Extended Stay hotels also come in a variety of categories, with a Residence Inn (Marriott) or Hyatt House (Hyatt) or Homewood Suites (Hilton) being at the top end of the Chain Scale categorization; all are Upscale, while both Marriott and Hilton offer TownePlace Suites, and Home2Suites respectively in the Upper Midscale Chain Scale.

### *Locational*

One other often used means of categorization is locational. In the United States, these locations typically are called Urban, Suburban, Highway, and Destination, with Destination

ordinarily referring to a resort. Except for minor overlaps, where there is likely little confusion, these characterizations speak for themselves. There is no correlation between a locational characterization and a Chain Scale or level of service.

