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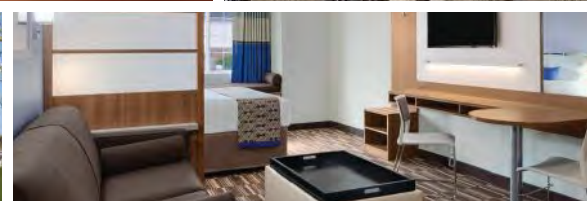
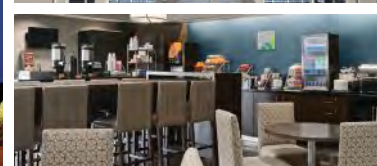
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SOFT FOCUS

Soft branded hotels, like The Press Hotel from Marriott's Autograph Collection, offer more design freedom than their full-branded counterparts.



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The Developing Story: Minneapolis

Located on the west-most edge of the Rust Belt, Minneapolis is in the midst of an economic and population boom. The city offers its residents a diverse and healthy economic environment and has one of the lowest unemployment rates in the country. The city is ripe with opportunity, and lodging developers are taking notice.

BY KATE HUGHES

INDEPENDENT HOTEL GUIDE

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The Soft Sell

More and more travelers today, especially the younger generation, prefer independent hotels with a touch of moxie to cookie-cutter alternatives. But as hotels declare their independence, it can be increasingly difficult to get noticed in an ever-competitive landscape. Enter the concept of membership in a hotel collection.

BY LAURA POWELL AND THE LODGING STAFF

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Frame of Mind

Demand has increased for boutique, lifestyle, and soft brand hotels over the past six years, especially since the recession. Collectively, these arenas represent an \$11.5 billion industry and growing. For those looking to get into the boutique, lifestyle, or soft brand frame of mind, learning the reasoning behind this industry focus is a must.

BY MEGAN SULLIVAN

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Fitness concierges connect hotel guests with local exercise classes.

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Prior to a makeover, the Carlyle Inn in Beverly Hills felt like a Hollywood starlet who had seen better days. Today, the property calls to mind 1920s Art Deco.

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WEB EXCLUSIVE



Starwood's Eco-Innovations

Starwood's Element hotels, a brand focused on delivering a balanced, healthy, and natural hotel stay, are also home to some extremely technologically advanced eco-friendly initiatives. The first major brand to mandate that all properties pursue LEED certification, Element introduces groundbreaking new technologies on a regular basis, including a one-of-a-kind solar canopy that was rolled out earlier this year at the Element Dallas Fort Worth Airport North.

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Independent's Day

INDEPENDENT HOTELS ARE HAVING A BANNER YEAR. As of June, the 22,505 independent hotels in the United States brought in \$39 billion in revenue (up 8.9 percent over last year) and posted an average occupancy of 61.3 percent, which is the highest since 1997, according to STR. It makes sense, given the push toward authentic experiences driving consumers to seek more tailored stays and local connections, which has long been a hallmark of independent hotels. When I talked to Lindsey Ueberroth, president and CEO of Preferred Hotels & Resorts, about this earlier in the year, she pointed to online reviews as one of the many factors driving the segment's growth. "Before, if I traveled anywhere outside the world, I'd want to know that hotel room is going to look exactly the same in New York as it does in India," she said. "Now, with your review sites, you have a greater confidence of where you're going and the fact that it isn't a chain doesn't bother the traveler."

According to a report by The Highland Group, compound demand for boutique and lifestyle hotels grew 6.7 percent and 19.7 percent respectively over the past five years. When you compare that to the 4.2 percent demand for all U.S. hotels over the same period, then it's easy to see why companies like Hilton and Starwood have launched new independent-minded soft brand collections. When Starwood introduced the Tribute Portfolio in April, CEO Adam Aron called it a celebration of the independent hotel. "Independent hotels aren't that difficult to attach to the system," he said. "You don't have to put a new \$400,000 sign on the roof. You don't have to re-train the staff. There aren't 57 brand standards that have to be adhered to or a big property improvement plan that they're going to have to fund to come into the system."

With so much attention on the independent space, indy owners now have more options than ever when it comes to creating partnerships that help them run their business exactly the way they want to. For Ueberroth, that's the beauty of being independent. "You can be nimble and change to meet consumer demands and needs much more quickly than chains that have to make a chain-wide change." And being fast on your feet can be the difference between success and failure.



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PRESIDENT AND PUBLISHER
Edward J. McNeill Jr.

ASSOCIATE PUBLISHER
Jeffrey Cohen

EDITOR-IN-CHIEF
Sean Downey

CREATIVE DIRECTOR
Shane Hickey

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Megan Sullivan

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Kate Hughes

ONLINE EDITOR
Casey Gale

SENIOR GRAPHIC DESIGNER
Bill Hamilton

GRAPHIC DESIGNER
Eileen Keough

EDITORIAL APPRENTICE
Cailli Birdsall

INTERN
Olivia Rizzo

CONTRIBUTORS
Patrick Ford, Robert Mandelbaum, Laura Powell

SALES
SOUTHEAST/MIDWEST: Jeffrey Cohen
678-587-5000, fax 215-321-9636
jcohen@lodgingmagazine.com

NORTHEAST/MID-ATLANTIC: Lawrence Wilhelm
410-849-2177
lwilhelm@lodgingmagazine.com

WEST: Solomon Ortasse
310-526-3988, fax 215-321-9636
sortasse@lodgingmagazine.com

DIRECTOR OF MARKETING: Jeanine Davis
215-321-9662, ext. 62, fax 215-321-9636
jdavis@lodgingmagazine.com

CLASSIFIED/MARKETPLACE:
410-849-2177

MCNEILL MEDIA GROUP INC.
PRESIDENT: Edward J. McNeill Jr.
CHIEF OPERATING OFFICER: Donald Foy
CONTROLLER: Lou Taicher
EDITORIAL DIRECTOR: Jessica Downey
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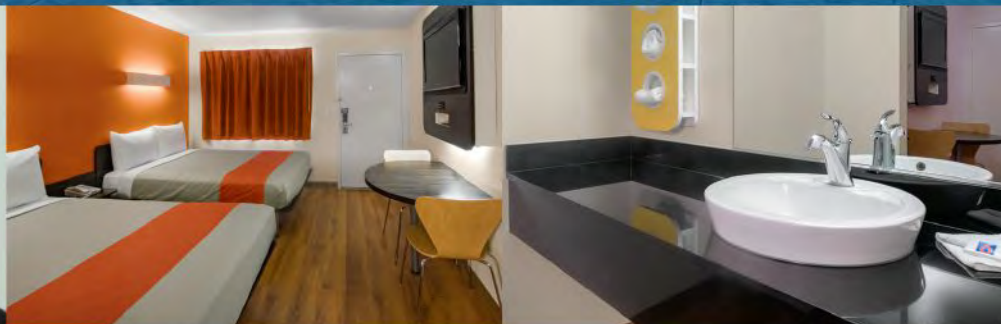
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FOUNDING EDITORS: James A. Pearson and Frances L. Pearson

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CONTRIBUTORS



Casey Gale

Casey Gale is the newest full-time addition to the *LODGING* team. A recent graduate from Rider University, Gale has been writing for *LODGING* for more than a year. The time spent getting acquainted with hospitality paid off, as the pieces she wrote for this issue cover everything from the do's and don'ts of texting guests to the sensational backstory of one of America's most notorious buildings, The Watergate Hotel. The New Jersey-based writer also contributes to *Floriology* magazine.



Olivia Rizzo

New to *LODGING*, editorial intern Olivia Rizzo got a crash course in hotel soft brands this month when she assisted in assembling the 2015 Soft Brand Guide. "It was a great introduction to the world of hospitality," she says. "And it was interesting to see how all the major industry brands differentiate themselves in the marketplace." Rizzo is a junior journalism and women and gender studies major at The College of New Jersey.



Joel Kimmel

An illustrator based in Westport, Ontario, Joel Kimmel is known for his portrait illustrations (see *Checking In*). He has illustrated for magazines such as *Fast Company*, *Wired*, *Popular Science*, and *Playboy*. "I enjoy the challenge of capturing a likeness and bringing a face to life with ink and water-color," Kimmel says. When he isn't drawing portraits, he likes to tour the area near his studio for places to draw and paint.

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Whitney Okuda, catering manager at Hotel Nikko San Francisco, won the **Stevan Porter Emerging Hospitality Leader of the Year** award at AH&LA's Stars of the Industry Awards. After spending her years at San Francisco State University as president of the hospitality management society, she was hired as catering coordinator at Hotel Nikko immediately upon graduation. Committed to helping the Hospitality and Tourism Department in her free time, she serves as an advocate for the Hospitality and Restaurant Foundation and is a committee member for the annual Taste of the Bay Fundraiser.

■ For more info on AH&LA's Stars of the Industry, visit www.ahla.com/stars.

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SVP, Starwood’s Specialty Select Brands
in “Starwood’s Eco-Innovations”

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LEANN WILSON
Executive Director, Association for
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“Preparing Tomorrow’s Hospitality
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MARK ZANDI
Chief Economist, Moody’s Analytics in “Job
Market Weathers the Storm on Wall Street”

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ERINN TUCKER
Assistant Professor in the School of
Tourism and Hospitality Administration at
Temple University in “Which Comes First,
the Industry or Education?”

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SITUATED NEAR THE MAGNIFICENT MILE in River North, Chicago, The Gwen is a modern, design-centric hotel with a prime location that lets guests enjoy the best the Windy City has to offer. With its Art Deco-infused architecture and décor influenced by Chicago-born sculptress Gwen Lux's historic McGraw-Hill façade, The Gwen's 1930s design flavor is meant to transport guests to a glamorous, bygone era. A hotel mixologist (who can craft prohibition era cocktails for all occasions in guests' rooms), an artist's Table dining experience, and turndown quotes from famous Gwens like Gwen Stefani and Gwyneth Paltrow all lend a unique flavor to the 300-room property. In addition, many of the hotel's

terraces offer rare views of the Chicago skyline. With three dining options, the Gwen offers a venue for Executive Chef Joseph Rose and his team to immerse guests in a contemporary American culinary experience created with fresh and local ingredients. For guests who don't have time to grab a bite, Chef Rose also created a fresh-pressed juice blend called "Nighttime Elixir," which is served as part of the property's turndown service. The Gwen offers proximity to premier shopping (more than 460 retail options), world-class dining, and Chicago landmarks like Millennium Park, the John Hancock Center, and the Art Institute of Chicago. The Gwen is Starwood's first Luxury Collection Hotel in Chicago.

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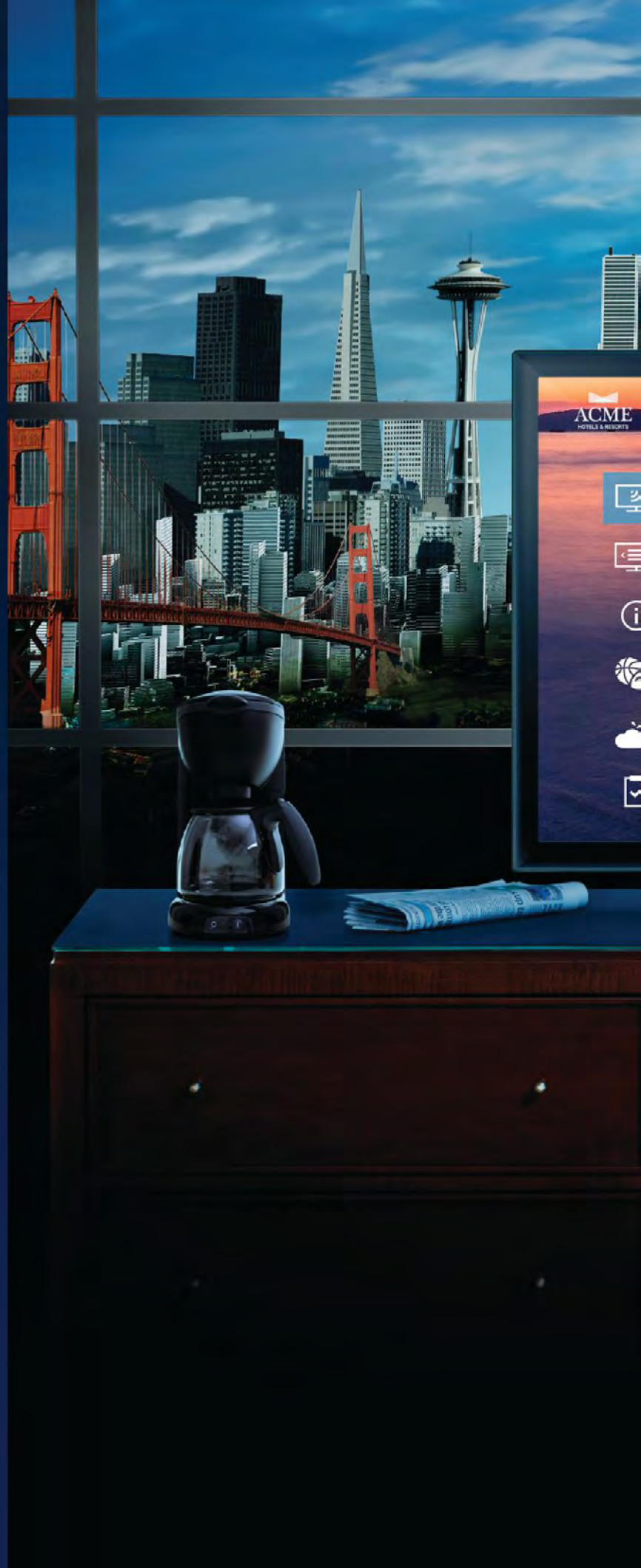


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FRONT DESK

NEWS, IDEAS, AND INSIGHTS

SUCCESS STORY

A Committee of One

NORMAN JENKINS'S TRANSITION FROM BIG COMPANY EXEC TO FOUNDER OF CAPSTONE DEVELOPMENT PROVES THERE'S VALUE IN LISTENING TO YOUR GUT **BY CASEY GALE**

WHILE MOST WERE JUST TRYING TO STAY AFLOAT at the peak of the Great Recession in 2008, Norman Jenkins was busy moving forward, leaving behind a senior vice president position with Marriott International to launch his own company, Capstone Development. After making it through a crash course in operating in a poor economy, Jenkins has learned how

to prepare for the worst and appreciate the best. With seven years under his belt and 19 properties in his portfolio, Jenkins says he would not have done it any other way.

"I had toyed with the idea of launching my own firm for a number of years and, eventually, just mustered up the courage to do it," he reflects. "I

started laying down the foundation, making plans, preparing to launch, and getting support from the Marriott team, and the market just started to melt. But after 16 years at Marriott, I was a firm believer that, if I was going to do it, I needed to do it then."

Navigating the tough times helped Jenkins grow into his presidential role within the company as he began acquiring and building properties around the country, primarily on the East Coast.

"With each transaction, we try to not only create

"I'm more confident and comfortable today... because I've proven to myself that I make pretty good decisions."

—**NORMAN JENKINS**
PRESIDENT AND FOUNDER
CAPSTONE DEVELOPMENT



EXECUTIVE ORDER

As his own boss, Norman Jenkins knows what he wants in a project.

value for our investors but also try to take some learnings into the next project," he says. "When you're first starting out, having worked for a really large company, everything goes to a committee process. When I started out, I was a committee of one. I'm more confident and comfortable today moving forward with my gut than I was seven years ago because I've proven to myself that I make pretty good decisions." →



NICE PLACE

Columbia Place, Capstone Development's latest project, is located in the Shaw Historic District in Washington, D.C.



Jenkins has a few rules he keeps in mind when Capstone takes on a new project. Though the company works on more acquisitions than new builds, investors who are willing to do both are preferable, as Capstone is then positioned to embark on either if an opportunity arises. Jenkins also considers faraway development projects in foreign markets unwieldy, given an unreasonably long commute if issues arise and a lack of distant market knowledge. And, to mitigate proliferation of brands and the addition of too many rooms in a given market, Capstone shies away from leisure-reliant areas in favor of more reliable markets that will perform well in good times and bad.

To mitigate proliferation of brands and the addition of too many rooms in a given market, Capstone shies away from leisure-reliant areas in favor of more reliable markets that will perform well in good times and bad.

"We focus on owning hotels that may lack sex appeal because we want to be in markets where people conduct business, go to school, and receive medical care," Jenkins explains.

Columbia Place, Capstone and Quadrangle Development's current project-under-development in downtown D.C., is evidence of aforementioned good decision-making. The mixed-use site, set to break ground this year, was born from development challenges that plagued their recently completed Marriott Marquis Washington, D.C. The Marquis was originally planned to be 1,600 to 1,700 rooms, but as Capstone began capitalizing on the long-planned project, the economic downturn was in full swing.

"We made this decision with the city of Washington, D.C., because they said they weren't going to give us any more subsidy to build a smaller hotel. We shrank the Marquis down to just under 1,200 rooms," Jenkins says.

Left with a much larger plan than necessary, Capstone was forced to

LOSS OF AUTONOMY

THE NATIONAL LABOR RELATIONS BOARD

issued a decision on Aug. 27 in the Browning-Ferris Industry of California case that expands the definition of joint employer. Here's how industry members reacted to the news:



"[The decision] could severely limit opportunities by diminishing the autonomy of millions of small business owners and dissuading potential entrepreneurs from wanting to start a new business."

KATHERINE LUGAR

President and CEO, AH&LA



"What I struggle with most is trying to understand the rationale of the NLRB in trying to destroy a way of doing business that has been exponentially successful for decades."

KAL PATEL

Director at Large, AAHOA



"When you label this as a 'franchisor-franchisee' discussion, you're throwing a big broad blanket over the whole franchise concept, which I think is a gross error."

BERNIE MOYLE

COO and CFO, Vantage Hospitality

QUICK TAKE

Ur Rm is Rdy

TEXTING GUESTS IS BECOMING MORE COMMON **BY CASEY GALE**

TO ENTICE THE ALL-IMPORTANT

millennial demographic, hoteliers are putting their staff with the nimblest fingers to use by engaging with travelers via text message. By employing this quick and easy form of communication, guests are able to make requests and resolve issues without needless trips to the front desk.

Using a guest engagement platform called Kipsu—one of several companies that connect hotels and customers through text—SLS Beverly Hills began a texting program in 2014. The goal was to improve service and solicit feedback, but it has also yielded unexpected and sometimes life-saving results. “One time, a man forgot to book a restaurant and order flowers for his anniversary, and texted us from the pool,” recalls Ryan Adams, director of operations at SLS Beverly Hills, a Luxury Collection Hotel. “We were able to make arrangements and save the day for him.”

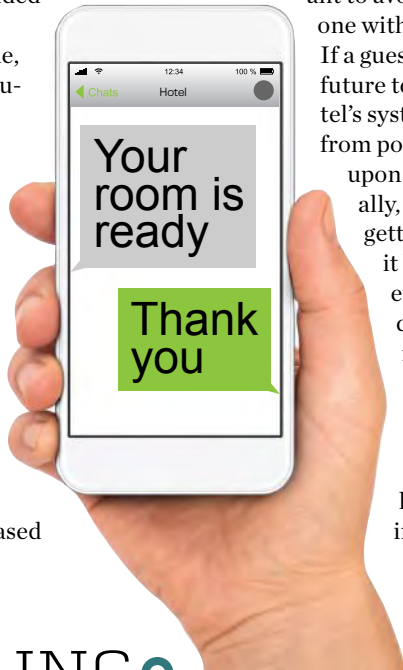
The conversation starts with a welcome text to greet new guests. If guests choose to continue the correspondence, they are sent an in-stay survey based

on a scale of 1–5 about the quality of their visit, ensuring that the manager on duty can resolve any issues before the trip ends.

Customers are also sent light, playful messages regarding the property, offerings, and area attractions upon request. They also hold in their hands the power to receive updates about room readiness, ask for vehicle retrieval, and make in-room service requests. The hotel is working to add a pre-departure thank you message, updates for events or discounts in the spa, and requests for guests to take a Starwood survey or post to TripAdvisor after their stay.

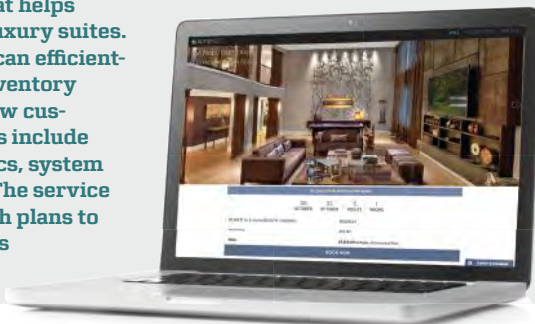
While texting can be mutually beneficial for guests and employees, Adams says it is important to avoid bombarding someone with unwanted messages.

If a guest chooses to opt out of future texts, it is noted in the hotel’s system to prevent messages from popping up again, even upon a return visit. Additionally, Adams cautions against getting too personal. “Keep it brief, not too familiar, even if they invite the dialogue. We want to be fun, but not misinterpreted,” he says. “And don’t entertain rude comments. There is a blocking feature for the hotel to protect the staff if necessary.”



FRESH INC

Suiteness is a new booking channel that helps travelers gain direct access to super-luxury suites. Using the brand-safe platform, hotels can efficiently distribute their high-priced suite inventory in a trusted environment and reach new customers in the process. Built-in features include price transparency, predictive analytics, system security, and responsive technology. The service is currently available in Las Vegas, with plans to add suites in New York, Miami, and Los Angeles in the coming months.



ASK ANTHONY

ANTHONY MELCHIORRI, host and creator of Travel Channel's Hotel Impossible and Five Star Secrets, loves dishing out advice. From sharing best practices to tackling operational issues, he's here to answer your questions.

Q What should an older hotel focus on when facing a renovation to grow occupancy?

A Presuming your hotel’s reputation is good and your sales department effectively manages your online presence, your occupancy may be stagnant because of price points, area demand, or the type of hotel you operate. Renovations improve the perception of your hotel but may not bring additional occupied rooms.

When thinking about what appeals to guests, we are often caught up in technology, bed-type ratios, and what’s popular. An often-overlooked component is simply understanding who your guests are. Find out what percentage of your guests are families, business, leisure, etc.

When you have a better understanding of the demographics your hotel serves, think about how you can complement that with your renovation efforts. Improving the color and lighting may make for a “modernized” look, but to gain guests your property didn’t appeal to before you should focus on the segments you aren’t getting and offer them a reason to give you a second look. Hotels built during the golden era of development catered to the male business traveler. Today, women account for upward of 41 percent of all business travel. This is merely one example that underscores the fact you need to know your guest and what market segments you serve.

Hotel designers work within a budget, but a budget-only focus is perilous because design impacts your occupancy potential. People look before they buy, so when your hotel comes up for its next renovation or PIP, focus both on the guest who is staying with you now and the one staying with you in the future.

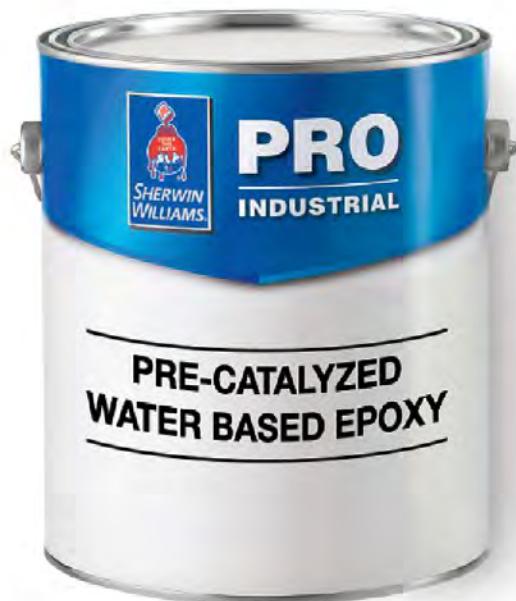
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Checking in Pamela Barnhill



FAST FACTS

Title: President and COO, InnDependent Boutique Collection (IBC) and InnSuites Hospitality Trust

Time with company: 8 years

First industry job: Front desk

Hometown: Phoenix, Ariz.

Hotel must-haves: Fast Wi-Fi

Best advice she ever got: Every night growing up my dad read me *The Little Engine That Could*. That book has always stuck with me. Treat others with respect and be persistent—be that little engine that could.

IN JUST THE LAST FEW YEARS, soft-branded hotels have gained significant traction in the lodging industry. Most of the major hotel companies have a soft brand, and now is truly the age of the independent hotel. However, Pamela Barnhill, president, COO, and founder of InnDependent Boutique Collection (IBC) and president and COO of InnSuites Hospitality Trust, has been a fan of unique properties long before they became trendy. The daughter of an independent hotelier, Barnhill has built a career out of spotlighting independent and boutique hotels with technology and collection tactics that drive RevPAR. With a viewpoint shaped by a lifetime in the independent hotel space, Barnhill has a lot to say about the soft brand segment.

What prompted you to found IBC? | Over the years at InnSuites, we've owned and managed independent, Holiday Inn, and Best Western hotels. From what I experienced, the independents had a significantly harder time driving both top-line growth and bottom line expenses. Unless they had a really good relationship with their vendors, it was very hard to get a good price on a good quality service or product. Because of my relationship with the vendors from the branded hotels, and because I managed and owned more than a few properties, they were willing to give me really good pricing that they weren't offering to other independents.

While I was first experiencing the cost discrepancy in a vacuum, in 2011, I was asked to be on the board of the Independent Lodging Industry Association. When I joined the association, I found that other independent hoteliers have that same challenge. Bringing everyone together and creating a community where we can pool our knowledge and resources to drive RevPAR, or at least provide a level playing field for the independent hotelier to be able to compete, just seemed to be the right thing to do.

What are the top benefits of being an independent hotel? | We have way more flexibility in our independent properties than we do in our branded ones—and we can have a lot more fun running them. We're able to cook creative, delicious, and in-season foods and serve fresh, nutritious fare at breakfast. We're able to have more fun when choosing the amenities we have at the hotel and in the rooms. The paint colors can be more vibrant and whimsical. There's just a lot more creative energy. Independent hoteliers like this freedom and embrace it. They like having their personality show in their properties. On the other end of the spectrum, the larger, institutional buyers typically prefer the easier, branded properties because they provide so many resources and enough regulations and restrictions that they're easy to follow and execute.

Why have we seen a rise in soft brands? | With the rise of online/mobile booking, travelers can see the reviews and the pictures before they make any decisions regarding their hotel stay, whether it's branded or independent. That transparency has allowed independents to gain a stronger foothold because they usually have some pretty interesting amenities, and their price is typically a little lower than the branded competition. So, given a choice between a branded property and a quirky independent, the consumer will probably choose the one that is a little cheaper, has more amenities, and offers more of an experience. Likewise, hotel owners are able to more easily obtain financing and are running the numbers and realizing they can accomplish higher profits due to the variety of services available today that historically weren't available to independent hotels. The big brands are starting to realize this. Now, they also want to provide an experience, but realize that it's hard to create that through tight regulation. They're definitely trying to walk a fine line between their brand standards and creativity. And they're trying to do that through a soft brand because they can't necessarily loosen up hard brands' standards because they've had an established business model for so long.

Speaking of online booking, how do online travel agencies (OTAs) impact independent hoteliers? Independent hotels really need to receive their guests' full information, and OTAs don't necessarily do a good job sharing the data necessary to secure loyal, repeat customers. So as independent hoteliers, we need to think about how we drive that type of business. In my mind, some of the best ways to drive repeat business are retargeting and direct marketing from direct search and marketing on meta channels, which makes information like email and home addresses essential. It's really important that hotels find channels that allow them to get that consumer close, instead of driving them further away.

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WASHINGTON DISPATCH

Running On Time

THE FEDERAL FUNDING PROCESS DESERVES REGULAR ORDER **U.S. REP. ANDER CRENSHAW**



BILL INGALLS

help it grow and thrive. Measures that invigorate the economy, provide marketplace certainty, cut red tape and onerous regulations, and keep taxes and expenses low come to mind and have my full support.

On Capitol Hill, Congress has been making strides in establishing the federal budget while putting some of these lodging-impacting initiatives in place. Case in point: The 12 appropriations bills recently passed by the House Appropriations Committee, along with six appropriations bills passed by the full House of Representatives. This accomplishment is the result of 101 budget and oversight hearings from more than 400 witnesses in House

hearings, as well as 472 considered amendments during 70 hours of debate regarding appropriations bills on the House Floor.

Unfortunately, this momentum has since halted. And, as a result, action on issues important to the hotel and lodging industry has also stalled. As of the end of the fiscal year on Sept. 30, the deadline to fund the federal government, the Senate had not passed a single appropriations bill. What's worse, Congress once again failed to return to "regular order," or the steady process of enacting appropriations bills and accompanying policy, and instead created even more uncertainty about next year's fiscal budget. It also means that hundreds of hours of carefully crafted and meaningful policy changes within the appropriations bills



WHETHER PLANNING FOR VACATION, business, or other travel, millions of Americans depend on the hotel and lodging industry to provide valuable services while they are away from home.

Hotels can offer everything from a comfortable room and a place to eat to advice on where to visit and how to get to the next stop. Travelers have been able to rely on this level of service while this industry steadily grows, creates jobs, and opens doors for employees to move ahead.

In an economy that often generates negative headlines, what we see in the hotel and lodging industry is usually the exact opposite. It is a positive story that Congress should stand behind with policies that will

BY THE NUMBERS

472

Number of considered amendments during **70 hours of debate** regarding appropriations bills in the House of Representatives.

could be shelved until further notice.

American businesses and families do not operate on last year's budget and neither should the federal government. Straying from purposeful, steady, on-time budgeting to temporary, stop-gap funding measures is wasteful and unproductive. Put another way, operating on last year's budget doesn't put you ahead, it puts you behind. And casting aside months and months of policy work means current-day needs aren't being addressed.

In regards to the hotel and lodging industry, we're talking about prevailing issues including ambush elections in which unions are attempting to speed up the unionization process, the campaign by organized labor to rewrite the joint employee standard to enable them to expand the scope of organizing efforts, and an ever-increasing number of online deceptive hotel booking sites. Harmful to industry and consumers alike, I strongly support the elimination of ambush elections, oppose union efforts to rewrite the joint employee standard, and recently called for immediate action to protect consumers from deceptive hotel booking sites. However, any effort to move in that direction within the appropriations process will be brought to a standstill through a long-term continuing resolution.

This fall, Congress once again regrettably finds itself in budget turmoil. It's imperative that Congress return to regular order without delay, which allows the appropriations process to move forward and establishes a long-term budget that can provide the certainty businesses, like the hotel industry, need in order to grow and thrive.

The appropriations process can and must be used to enact positive, pro-growth policies that strengthen our economy, create jobs, and offer the promise of a bright future for generations to come. For the sake of the hotel and lodging industry and all sectors of the economy, every Member of Congress must stand up and say "yes" to the process of regular order in appropriations and "no more" to divisive and partisan bickering that only leaves this nation behind.

Congress has an opportunity to make progress, but only if we keep the schedule running on time. 🏠

■ U.S. Rep. Ander Crenshaw represents the Fourth Congressional District of Florida, where he serves as Chairman of the House Appropriations Subcommittee on Financial Services and General Government.



American businesses and families do not operate on last year's budget and neither should the federal government.

INSIDE AH&LA

As I travel across the country meeting the people who make up the heart of our industry, I am struck by one unique factor that sets us apart: good, quality jobs. Our industry brings together people from all walks of life because we offer flexible hours, career growth, training opportunities, and good-paying jobs and benefit packages. Think of the working

parent who needs a flexible schedule to pick up a child from daycare, the student who is taking night classes to receive an advanced degree, or the aspiring actor who works two jobs to make ends meet.

Yet, efforts to jeopardize that flexibility our employees need is troubling. The Department of Labor's new overtime rule raises the threshold of overtime pay for salaried employees working over 40 hours per week from \$23,660 to \$50,440. While the lodging industry supports a fair and equitable working environment for both employees and employers, we caution the unintended consequences of raising the threshold too high, too fast. Meddling in this employer-employee balance will surely cost business and stability. Most importantly, it could deny management opportunities for so many who passionately want that upward mobility and growth.

Small business owners will also be hurt. Especially those in rural communities, who operate under tight budget margins and can't offset the substantial increase in labor costs that this will create. This will result in unintended consequences that will ultimately harm the very employees that the rule purports to help. This rule is just one of the many pressing issues that Congress is debating this fall which impact our industry in substantial ways. With this issue on the table, along with our fight against the overreaching National Labor Relations Board (NLRB) to change the definition of joint employer that greatly affects small businesses and our efforts leading the charge to level the playing field with short-term online rental companies, AH&LA is front and center.

Yet, our advocacy efforts are only effective if our industry engages with us. That's why, it's more important than ever that you join us for one of the key highlights of 2016: the AH&LA Legislative Action Summit. Together with our industry partner, the Asian American Hotel Owners Association (AAHOA), this public policy conference unites the people of our industry with the players in Congress. Mark your calendars for May 17-18 in Washington, D.C., and add your voice to show policy makers that the heart of hospitality is truly its people.

Katherine Lugar

KATHERINE LUGAR
President and CEO, AH&LA
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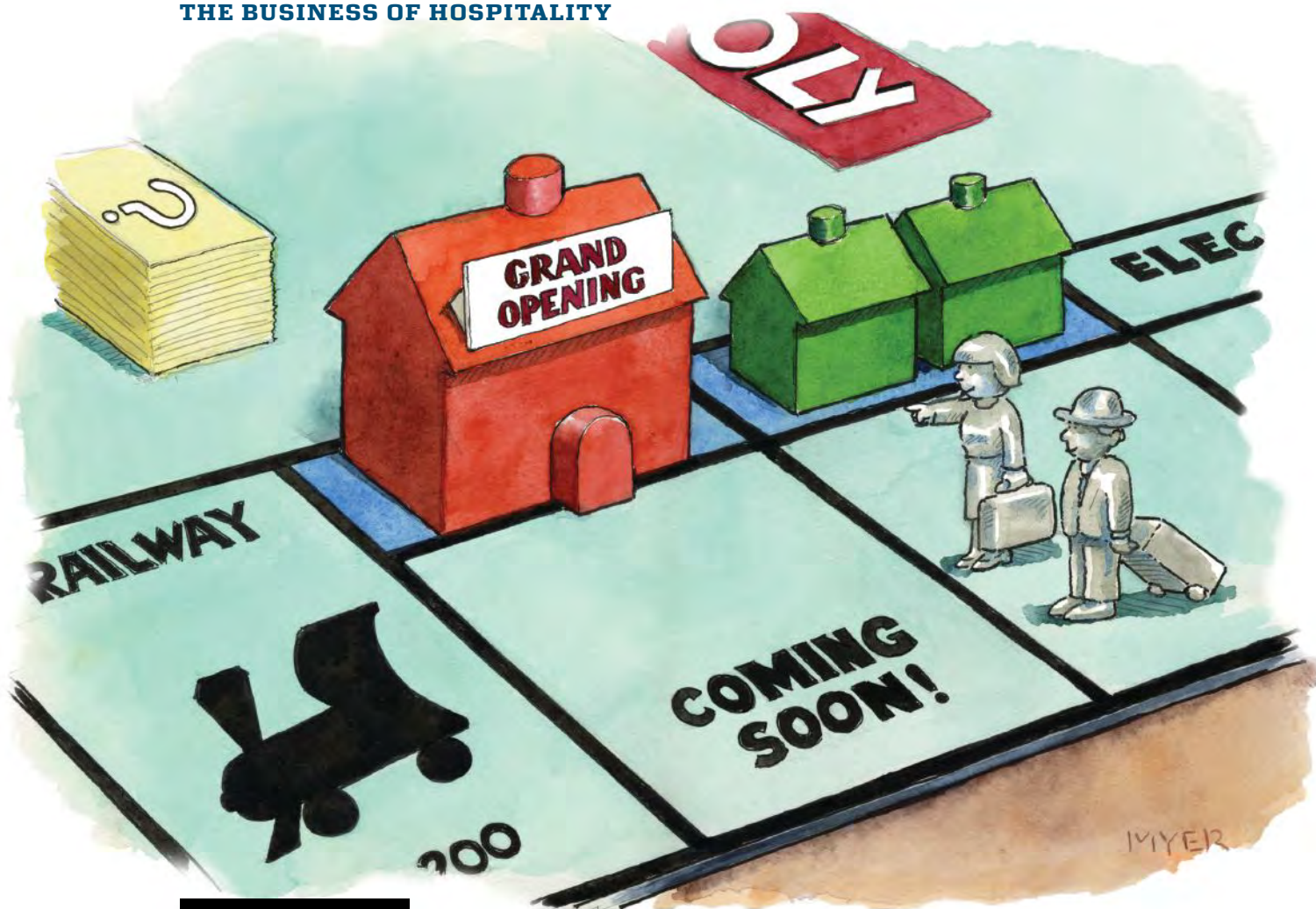
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DETERMINING WHERE LODGING'S PLENTIFUL DEVELOPMENT DOLLARS ARE BEST SPENT **BY KATE HUGHES**

AS OF JULY, there were 3,597 hotel projects, totaling almost 430,917 rooms, in development in the United States, according to the STR Pipeline Report. This represents an 11 percent year-over-year increase from July 2014, and is indicative of a larger trend in the lodging industry—hotel development is at an astounding high.

While this is certainly a much more favorable environment for hotel developers than the economic downturn of 2008–2009, it does present its own set of challenges. Namely, with so many hotels in the pipeline,

how can developers ensure that their properties will succeed among so much competition?

As in any business venture, certain markets are a better bet than others, and lodging developers are quickly finding the best places to invest their money in this particular economic climate. Bill DeForrest, president and CEO of Spire Hospitality, a management company based in Deerfield, Ill., says one of the keys to developing a successful property is doing your homework before starting the process. “In today’s marketplace, →

↓
when you do the right things with the right brands in the right location, you know that you're going to be rewarded," he explains.

That homework involves learning what type of project is the best fit for a certain marketplace, and that might not necessarily be a brand new property or a full renovation. Redevelopment is a particularly high-performing endeavor at the moment. With so much capital available, many development companies are taking time to revamp existing, underperforming assets and further develop them to capture more business. DeForrest explains that this approach has been very successful for Spire. "We've done this in a number of properties over the past couple of years and it's very exciting not only because of the new business the property attracts, but also because of the positive impact such a project has on the guests who had been frequenting a hotel even before we renovated. It makes a hotel feel like a whole new asset, even though it's been around for many years."

Douglas Dreher, president and CEO of The Hotel Group, a Washington state-based management company, adds that there's a reason this type of development is seeing a push at this point in time—when there's more capital available, standards become higher. "The cost of conversions and the cost of PIPs have risen significantly. Across the board, brand standards are rising as well. When there's extra money to spend, brands and developers are going to find a way to spend it," he says.

But the current state of development in the lodging industry isn't just about spending more money; it's about spending it efficiently. That is where dual-branded properties come into play. As one of the biggest development trends today, dual-branded properties are gaining a stronger foothold than ever before in the industry. "You're seeing it in a lot of markets right now because developers have recognized that different brands attract different customers, even if those brands are from the same company," Dreher says.

Dual-branded properties offer a lot of efficiencies because owners and developers can leverage the talent in the location to perform duties for both entities. "By combining two hotels in one building, we can drive the success of both brands," DeForrest says. "It also gives the owners a marketing opportunity to look at the different customer bases and their unique needs in the same marketplace. It gives a property a strong competitive advantage."

Even with the advantages inherent in renovations and dual-branded properties, smart development

is not just about the type of hotel or renovation in the pipeline. New properties have to deliver something special to their marketplace, or they will be overshadowed by the wealth of supply. To make this decision wisely, DeForrest encourages developers to get to know their audience. "It's not just about building something that's efficient and attractive. You've got to program it so that the overall experience brings guests back again and again. You won't be able to do that until you know who your customer is," he explains. "Figure out who your customer is going to be and what he or she is going to want, then make your decision."

While learning about potential guests and what they want from a property, both DeForrest and Dreher have seen common threads, including guests

who are more invested in properties that offer a comprehensive experience in lieu of a simple place to sleep, as well as a desire to stay at properties that offer eco-friendly accommodations. "Green initiatives have been a trend in all industries," Dreher says. "And it's a trend that's probably long overdue in hospitality. Now, with many properties pursuing LEED certification and embracing lean construc-

tion, there are many more properties that appeal to eco-conscious guests."

Keeping all of these factors in mind while developing, building, and opening new properties is a major accomplishment, especially when the economy is as good as it is now. However, hoteliers should remember that development is only the first step. "It's once the property opens that the real work begins," Dreher says. "You've got a construction loan, real estate taxes, insurance costs, and your team has to switch gears from their grand-opening high to running a property. There are real guests, real associates, and it's a dynamic process." Lodging is an industry for people who think well on their feet, and being able to understand the development mindset is just one more advantage a hotelier can have.

"In today's marketplace, when you do the right things with the right brands in the right location, you know that you're going to be rewarded."

**—BILL DEFORREST,
PRESIDENT AND CEO,
SPIRE HOSPITALITY**



EXPLAINER

LEED Certification

Introduced by the U.S. Green Building Council (USGBC) in March 2000, Leadership in Energy & Environmental Design (LEED) certification is a certification program that recognizes buildings that are designed, constructed, maintained, and operated in an eco-friendly manner. New-build properties and renovations in the lodging industry typically involve some degree of green design, such as low-flow toilets, LED lighting, or energy-efficient HVAC systems. Depending on the level of green design, a property can be awarded basic, Silver, Gold, or Platinum certification. The USGBC is in the process of further developing the LEED program to include Regional Alternative Compliance Paths that address geographic and climactic factors that may present a challenge to certification.

MARKET REPORT

Labor Costs On the Rise

INCREASE IN OCCUPANCY REQUIRES MORE HOURS

BY ROBERT MANDELBAUM



ONE OF THE MOST significant findings of the 2015 edition of *Trends in the Hotel Industry* was the 4.9 percent rise in operating expenses (ExPAR) for U.S. hotels during 2014. This is the greatest annual increase in ExPAR since 2007, and uncharacteristic of the strict cost controls implemented during the initial years of the recovery from 2009's Great Recession.

When investigating hotel operating expenses, the first items to consider are labor costs. In 2014, labor costs averaged 31.5 percent of total revenue, and 44.2 percent of total expenses. Over the years, these two ratios have remained fairly consistent, indicating that hotel managers have done a good job adjusting costs relative to changes in market conditions. This is possible because labor costs are a highly variable expense.

Sometimes external factors will influence labor costs. In general, these external factors tend to be less controllable by management. During 2014, the external factor that had the greatest influence on labor costs was the con-

tinuing decline in the national unemployment rate. According to the Bureau of Labor Statistics (BLS), the national unemployment rate dropped to 6.2 percent in 2014, contributing to the 3.6 percent increase in the average hourly compensation rate for workers in the U.S. hospitality industry. From 2010 through 2012, high levels of unemployment significantly suppressed compensation growth to less than 1.5 percent.

Per the 10th edition of the *Uniform System of Accounts for the Lodging Industry*, there are two components of total labor costs. In 2014, salaries, wages, and bonuses accounted for 70.4 percent of total labor costs, with the remainder attributable to payroll-related expenses such as employee benefits.

In 2014, the salaries, wages, and bonuses component of labor costs increased by 3.7 percent, while the payroll-related component grew by 3.8 percent. This differs from recent history, when mandated benefits and rising taxes caused the payroll-related cost component to be the dominant driver of labor costs.

To offset the increasing pressures on salaries and wages, hotel managers responded by controlling staffing levels. In 2014, PKF Hospitality Research estimated that the total hours worked by employees at the hotels in the *Trends* survey grew by a mere 0.6 percent. Considering that the number of occupied rooms in the *Trends* sample increased by

RAISING THE THRESHOLD

At the end of June, the U.S. Department of Labor proposed a rule that would extend overtime protection to nearly five million Americans within its first year of implementation by raising the salary threshold for overtime from \$455 a week to \$970 a week. Per existing federal rules, hourly and salaried workers who earn less than the threshold are eligible for overtime pay, while those who earn more are not. This ruling could have a profound impact on hoteliers who need to increase labor hours to keep their properties running smoothly, requiring that they budget for overtime pay or hire more employees to work fewer hours. The American Hotel & Lodging Association (AH&LA) expressed disappointment regarding the ruling, with Vanessa Sindors, senior vice president and head of government affairs commented, "The proposed changes to overtime rules will hurt our employees and severely impact small business owners, who will be unable to continue the pace of job growth that has been so vital to boosting the economy."

On September 4, the AH&LA filed official comments regarding the rule highlighting the lodging industry's concerns, which include upsetting the employer-employee balance. Brian Crawford, vice president of government and political affairs, said, "We caution the unintended consequences of raising the threshold too high, too fast."

BREAKING GROUND

U.S. Growth Staying on Track

IMPACT OF GLOBAL STOCK MARKETS ON THE ECONOMY AND THE U.S. LODGING REAL ESTATE CYCLE **BY PATRICK H. FORD**

AFTER A SIX-AND-HALF YEAR BULL RUN, the U.S. stock market experienced a dramatic correction over six trading days in late August. It was quick and sharp, leaving the Dow Jones Industrial Average at 15,666 on Aug. 26, 14.6 percent below the market top of 18,350 recorded in May and shown in the top chart. The correction was long overdue as rising stock prices had outpaced the growth of underlying corporate earnings. In the days that immediately followed, a bounce back temporarily recovered about a third of the market's lost value before heading downward again.

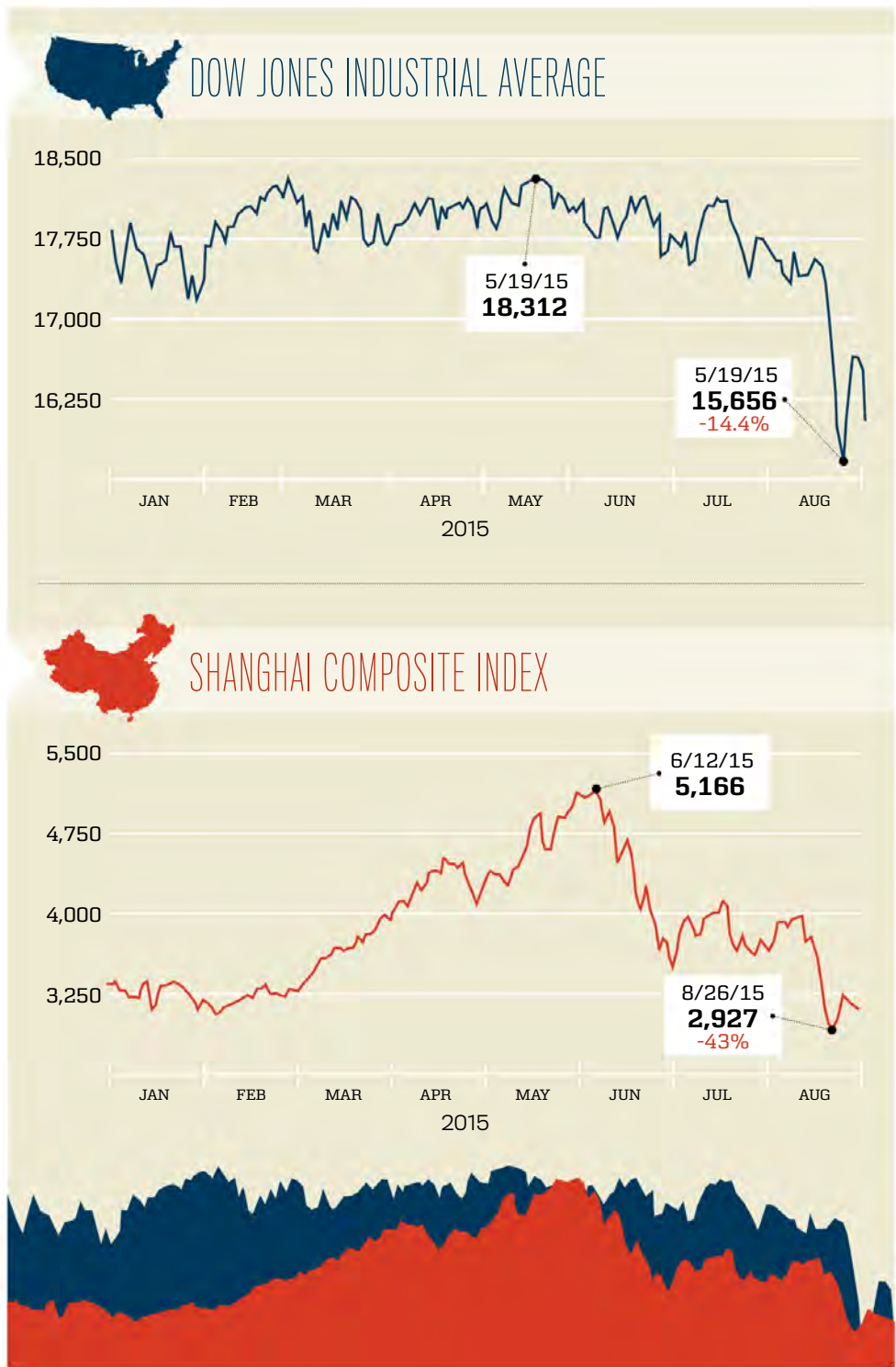
The proximate cause of the U.S. sell-off was rising investor concern about the economic slowdown in China and the seeming chaos in their financial markets. China's manufacturing output has declined for four consecutive years, causing the government to devalue its currency by 2 percent in an attempt to make its exports more price competitive and to temper further declines. Investors particularly fear that the currency devaluation may signal that China's economy is in poorer condition than what was assumed.

A second reason was the perception that the Federal Reserve Bank would begin increasing interest rates, starting in September. The World Bank and the International Monetary Fund have continuously asked the Fed to postpone any increase until 2016 to cushion further disruption to faltering global economies. Many are in recession having seen deep declines in their equity markets, devaluations of their currencies, and precipitous outflows of their capital.

The U.S. stock market will need time to absorb the initial shock of the correction and is apt to drift lower this fall. The market will remain volatile as it reacts to China's ongoing financial woes and to the contraction of other economies that rely heavily on exports to China. This global spillover may also cause the drifting U.S. stock market to test its recently established lows.

CHINA'S SLOWING GROWTH RATE

The triggers causing the U.S. stock market correction are mostly reactions to global financial conditions and are external to the



health of the U.S. domestic economy.

The declines in China's stock market, down 43 percent from its June peak on August 26 (bottom chart), are rooted in its own economic slowdown, however slight. Consensus estimates show annualized GDP growth dropping from 7 percent to 5 percent. By any measure, that is still a very healthy rate of growth.

Another trigger was the over-bought condition of China's stock market. Last year, stock market prices skyrocketed as millions of Chinese people—encouraged by the government—opened brokerage accounts for the first time. Individual investors took heavy losses in the recent crash.

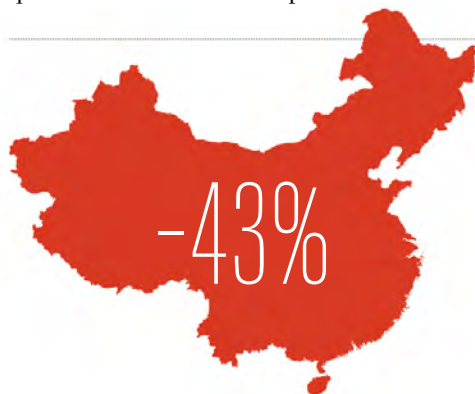
Even more curious, Chinese government entities recently spent trillions of dollars buying equities in order to prop up markets that were already considered significantly overpriced. China's central bank has lowered interest rates five times since November and has also lowered reserve requirements for banks several times since February to encourage more lending.

These monetary strategies are meant to prop up financial markets as China continues to rebalance from a manufacturing, industrial, and construction-based economy to a more consumer-driven economy. More governmental intervention should be expected as conditions so warrant.

China is the second largest global economy and accounts for 15 percent of the world's economic output. The country has the financial resources to successfully accomplish the transformation but the question is whether it also possesses the

political will. The transition is occurring at a slower pace than hoped. Many initiatives have been successfully implemented but the next steps that are required, including the formation of more small businesses and a healthy middle-class with greater disposable income, calls for new, bold social policies. Chinese leadership may have underestimated this undertaking.

The spillover effect from China's manufacturing decline has had an outsized impact on developing nations that rely on the export of commodities to China, as well as on its industrialized trading partners such as Germany and Japan. Fortunately, the U.S. economy is largely fenced off from the impact of China's economic woes, the exception being some U.S.-based multi-



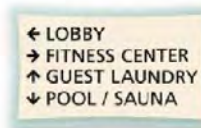
Decline in China's stock market since June. This drop is rooted in the country's economic slowdown.



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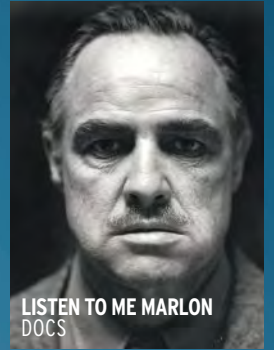
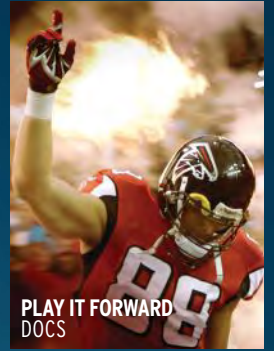
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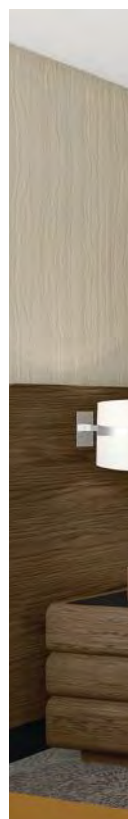
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BACKSTORY



Notorious Accommodations

DEVELOPING A NEW IDENTITY FOR THE INFAMOUS WATERGATE HOTEL **BY CASEY GALE**

IN 1972, THE WORD “WATERGATE” became synonymous with scandal after the office and residential complex was broken into by then-President Nixon’s administration. However, when New York-based Euro Capital Properties acquired the infamous property in 2010 for \$45 million, owners Jacques and Raket Cohen set out to infuse the brand with something a little less controversial—smooth midcentury style fit for modern-day Washington, D.C. The bar is high for a building

high-end design elements to the property. A new, 7,000-square-foot Moretti Grand Ballroom with a Gucci marble statement wall was added by raising the lawn an additional eight feet for leveling, while the rooftop’s 360-degree-views of the Potomac River and Washington Monument were taken into account when planning a new bar. But even with these attention-grabbing new features, the property’s history has not been swept under the rug. Far from it. In fact, Cohen says the Watergate’s background was at the forefront of her mind after acquiring it.

With details including key cards that read, “No need to break in” and pens boasting, “Stolen from The Watergate Hotel,” the rebranding of the hotel cheekily nods to its heritage.

“The property has such a unique history to it,” she says. “We didn’t want to solely focus just on that, but we needed to bring it up in a fun way.”

highlighted in textbooks across the nation, but Raket Cohen says a little pressure to give the Watergate Hotel renewed life after it fell into foreclosure with its last owner never hurt.

With details including key cards that read, “No need to break in” and pens boasting, “Stolen from The Watergate Hotel,” the rebranding of the hotel cheekily nods to its heritage. Even the lettering of the Watergate’s new logo, designed by architect Ron Arad, was inspired by the documents uncovered in the Nixon scandal.

“I know that everyone is looking at us closely,” admits Cohen, who serves as Euro Capital’s SVP of design and development. “But I like working under pressure. I’d like to show the world that we can do something great.”

However, the notorious chapter of the property’s storied past is but a small part of what Cohen aimed to honor. Touches of the hotel’s beginnings are also highlighted throughout, as Cohen says she was instantly drawn to architect Luigi Moretti’s initial vision of the hotel, which first opened in 1967.

Since beginning renovations in 2014, Euro Capital’s \$125 million overhaul has added numerous modern,

“I was learning the history of Moretti, the original architect. It definitely sparked a debate about the future of architecture when he designed this complex,” she says, specifically noting the building’s curved and flowing exterior, which inspired her to draw the outside in; in her words, to “speak the same language.” For uniting the interior

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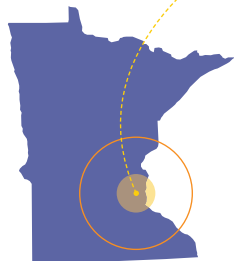
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MINNEAPOLIS, MINNESOTA

Located on the west-most edge of the Rust Belt, Minneapolis, Minn., is in the midst of an economic and population boom. In the last year, the city's population grew by 1 percent, adding 33,000 people to the community, according to *Chicago* magazine. To support this population, the city offers a diverse—and very healthy—economic environment.

With one of the lowest unemployment rates in the country, Minneapolis is home to six Fortune 500 companies. Some of the city's top employers include Target and the University of Minnesota, and the largest privately owned company in the United States, agricultural-giant Cargill, is located just beyond the Minneapolis city limits.

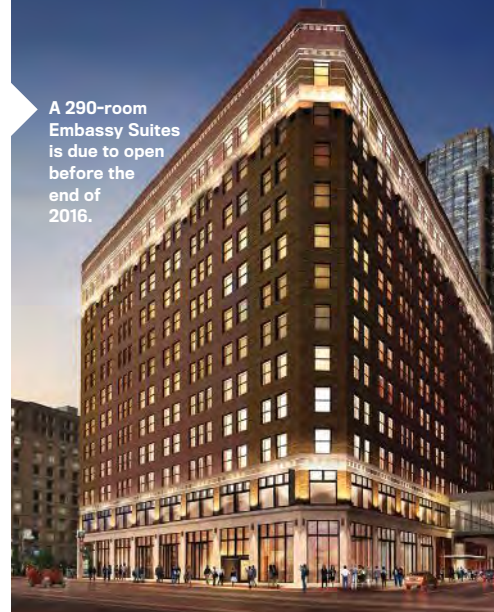
The economic diversity has been a boon for the city as a whole. Mark Eble, managing director and Midwest practice leader at CBRE Hotels, PKF Consulting USA, says the way the economy is attracting people to the city, especially millennials and baby boomers, is refining Minneapolis's culture and making it a big draw for travelers. "In terms of the vibrancy of the downtown, having young people and empty-nesters move into the area is elevating the quality of the restaurants, retail, attractions, and businesses. These improvements are all great for lodging developers," he explains.

And lodging developers have taken notice of the opportunities. The downtown Minneapolis area has attracted a wide range of new hotel projects, including a 135-room Holiday Inn Express planned by TPI Hospitality, a 290-room Embassy Suites planned by HRI Properties, and a 244-room AC Hotel from Mortenson Development. All three of the aforementioned properties are due to open before the end of next year, and they are just a small piece of the bigger picture. Nate Gundrum, Mortenson development executive, says their upcoming AC Hotel will attract travelers drawn to Minneapolis's developing cultural identity. "[Our property] will resonate with travelers looking to experience the city."

Mortenson Development's 244-room AC Hotel will open in 2016.



A 290-room Embassy Suites is due to open before the end of 2016.



STRAIGHT TALK ON MINNEAPOLIS

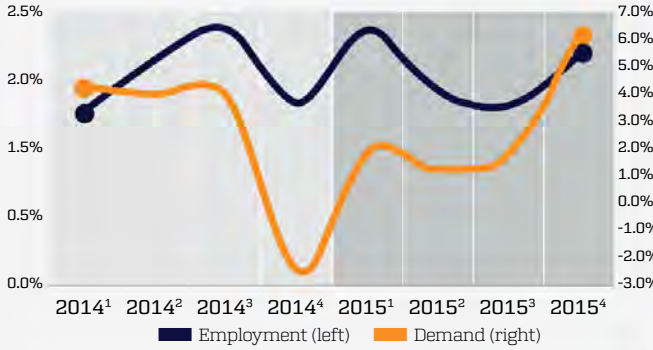
HRI LODGING, a hotel management and development company based in New Orleans, has done about \$1 billion worth of work on adaptive reuse properties in urban core markets. Chief Investment Officer Michael Coolidge explains why HRI's endeavor to turn Minneapolis's historic Plymouth Building into a 290-room Embassy Suites is a perfect fit for the city's market.



- » "The Plymouth Building is very iconic. There aren't a lot of historic buildings in Minneapolis that haven't been converted or reused, so it's a high-profile property that we're going to be able to breathe new life into. To find a building as unique, well-built, and high quality as the Plymouth Building is rare."
- » "Minneapolis's three major sports stadiums—the new Metrodome, which will open in 2017, Target Field, and the Target Center—are all within a six-block radius from our location. It's a very strong place to set up shop."
- » "The building is also a block away from Nicollet Mall, the pedestrian and retail center of the city. The Mall has a really dynamic F&B presence that is only growing, which we are sure our future guests will enjoy."

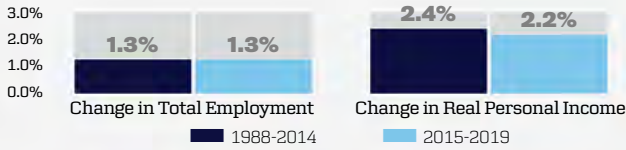
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QUARTERLY EMPLOYMENT VS DEMAND CHANGE



CBRE AE/Moody's Analytics

AVERAGE ANNUAL GROWTH RATES

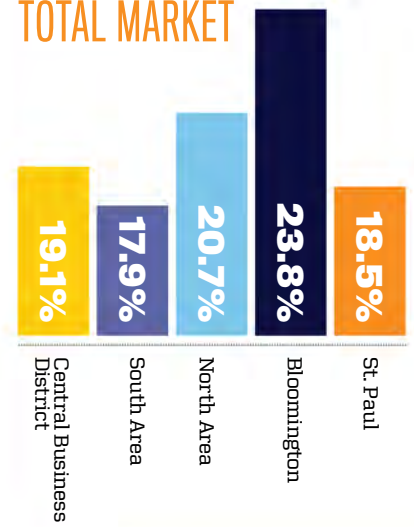


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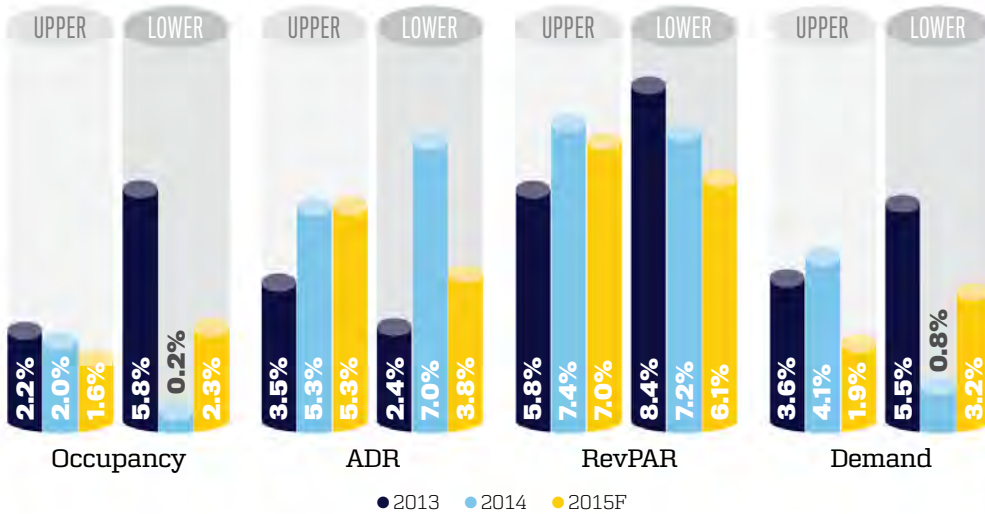
SUBMARKETS AS PERCENT OF TOTAL MARKET



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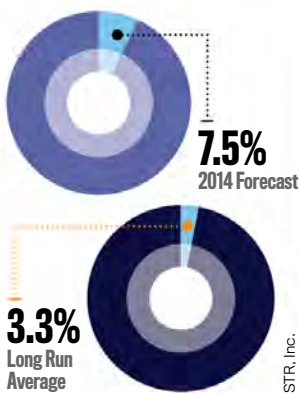


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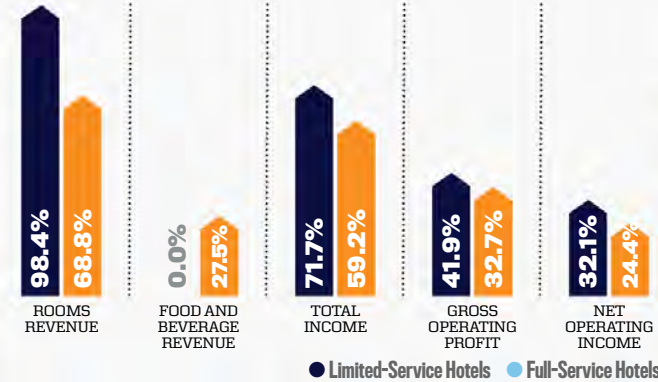
Number of hotels in the pipeline in Q2 2015 (8 of which are in the early planning stage). These projects have the potential to bring **5,062 rooms** to the Minneapolis market. If the pipeline builds out, it will create a growth rate of **12.5%**.

Patrick "J.P." Ford, Senior Vice President, Director of Business Development, Lodging Econometrics

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THE SOFT SELL

THE INDEPENDENT HOTEL'S GUIDE TO **SOFT BRANDS**

BY LAURA POWELL & THE *LODGING* STAFF

More and more travelers today, especially the younger generation, prefer independent hotels with a touch of moxie to cookie-cutter alternatives. But as more hotels declare their independence, it can be increasingly difficult to get noticed in an ever-competitive landscape. Enter the concept of membership in a hotel collection.

Within the past few years, nearly every major hotel company has added a soft brand collection to its portfolio. Neil Cantor, head of the Choice Ascend Hotel Collection, points out that the scrum in the space is caused by “chains that want to be where the consumer is.”

From an owner’s perspective, being part of a soft brand collection has a multitude of advantages, not the least of which are maintaining autonomy while increasing visibility and access to resources. Guneet Bajwa, managing principal of Presidio Companies, is working with Starwood’s Luxury Collection on a soon-to-open resort in St. Helena, Calif. “Soft brands give owners the freedom to provide a unique experience without being boxed in

the big red M is a very important factor to lenders. It’s like a *Good Housekeeping* seal of approval.”

Independent hotels can also gain access to the training programs offered by bigger brands, says Scott Sussman, the hotel and marketing director of The Peacock Inn in Princeton, N.J., an Ascend Hotel Collection member. “Learning is a big bonus of belonging to Ascend,” Sussman says. “In addition to training, we can go to conventions and have the ability to network with other hoteliers and share best practices.”

Then there’s the matter of sheer buying power. The savings achieved through being part of a collection can be substantial. Aside from economies of scale in terms of guest supply and intranet purchasing, Sussman points out that affiliation with Choice’s Ascend gives his hotel better negotiated rates with online travel agencies and lower credit card fees.

So, for the independent, it may seem the best of all worlds. But not all independents may be cut out for collection life. According to a number of owners, a

thering your own individual brand and identity,” he says.

For collection candidates, the next step is selecting the right brand. To achieve the right fit, Press Hotel’s Brady says it’s important to evaluate the local marketplace. “Look at the competitive landscape in your own backyard,” he says. “Look at supply/demand dynamics in the market and make cost/benefit decisions based on that.”

It’s also important to peer into the future. If an owner is involved in buying and selling, length of contract might be a huge factor, says Scott Kucinski, vice president of operations and investor relations for Sotherly Hotels. “RE-ITs, for example, may not want to be encumbered by lengthy and expensive franchise agreements, which can make a sale more difficult,” he notes. Sotherly partnered with Preferred Hotels for its historic Georgian Terrace property in Atlanta because the brand offers a lower fee structure than many of the new collections and a shorter contract length, Kucinski explains.

Then there’s that fee structure itself. Some collections take a set percentage of all revenue. Others base percentages only on room revenue. Rabin Ortiz, general manager of Copamarina Beach Resort in Puerto Rico, says he likes the fact that the BW Premier Collection takes its percentage “solely from reservations made through Best Western channels versus a straight revenue cut. In other words, we only pay for the business Best Western drives to us.”

In the end, choosing a collection may also be about the company you keep. Richard T. Widman, president of Charming Inns, owner of Wentworth Mansion in Charleston, S.C., appreciates being part of a collection of hotels that have unique personalities yet share the same high standards. “What appeals to us as part of Small Luxury Hotels is that although the properties are very different, the level of quality and luxury across the brand is consistent,” Widman says. “As the number one luxury hotel in our market, we want to be associated with similar properties around the world.”

From an owner’s perspective, being part of a soft brand collection has a multitude of advantages, not the least of which are maintaining autonomy while increasing visibility and access to resources.

by standards,” he explains. Jay Patel, co-owner of Wintergreen Hospitality, says the entry of the Franklin Hotel in Chapel Hill, N.C., into Hilton’s Curio Collection, “gave us an immediate presence on a global landscape that you could only dream of on your own.” That was because of the connection to strong global sales and marketing channels, prodigious guest loyalty programs, reservations and customer care systems, and revenue management and back-of-house processes.

Another benefit is easier access to financing, explains Jim Brady, developer and owner of The Press Hotel in Portland, Maine, which recently joined Marriott’s Autograph Collection. “There’s no question about it,” Brady says. “Having

fitting hotel should have a strong streak of personality and a unique presence in its market. Samuel Leizorek, managing partner of Las Alcobas Mexico City, which joined the Luxury Collection earlier this year, says being part of a soft brand requires the dedication of a hands-on owner. “Owners who might want this have to be highly involved in the day-to-day management of a property...people who retain the soul of an innkeeper and manage a property with great attention to details,” Leizorek explains. Jon Cummins, president of Amerimar Enterprises, the management company for St. Ermin’s Autograph Collection Hotel in London, agrees it’s a proposition for an active owner. “You are responsible for creating and fur-



THE BRANDS



ASCEND HOTEL COLLECTION

Choice Hotels International started the Ascend Hotel Collection seven years ago for owners of upscale hotels that had an independent identity, but could benefit from access to the resources and distribution tools of a major brand company. Today, 140 hotels have signed on worldwide, 110 of them in the United States. Ascend Collection properties tend to emphasize authentic, local travel experiences, primarily based on their location.



AUTOGRAPH COLLECTION

Launched in early 2010 and now boasting nearly 100 hotels and resorts worldwide, Marriott International's Autograph Collection offers an experience that is "exactly like nothing else." The soft brand includes 52 U.S. properties, and as the global roster grows, Marriott has started to categorize each hotel by experience (sporting adventure, natural retreat, historic exploration, etc.) as well as location.



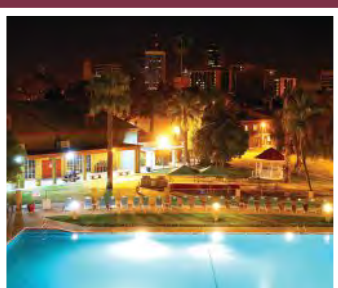
BW PREMIER COLLECTION

In October 2014, Best Western announced its first soft brand offering, the BW Premier Collection. Hotels within the BW Premier Collection will not be part of the official Best Western membership, but they will be listed and can be booked on the Best Western website. Guests will be able to earn and redeem Best Western Rewards points at all BW Premier Collection hotels. The collection currently features eight hotels.



CURIO—A COLLECTION BY HILTON

Launched last year by Hilton Worldwide, Curio—A Collection by Hilton focuses on upper-upscale, full-service hotels in locations around the world. The criteria for membership is that each hotel be individual and, therefore, distinctive from one another. Curio is slated to open properties in Chicago, Birmingham, Philadelphia, and Asheville between now and the end of 2016, and has nearly 20 hotels in the global pipeline.



IBC HOTELS

Billed as a "group of independent hotels for the independent-minded traveler," IBC Hotels is a membership association focused primarily on the economy to upper midscale industry tiers, though there are exceptions. In Phoenix, for example, both the five-star Arizona Biltmore Resort & Spa and the three-star Camelback Sahara Hotel are represented. Out of 6,500 members (accounting for 800,000 rooms) worldwide, 2,700 properties are located in the United States.

GENERAL INFORMATION

FEES

- **Brand Launched:** 2008
- **Competitive Set:** N/A
- **Target Customer:** Travelers pursuing distinct experiences in unforgettable surroundings.
- **U.S. Properties/Number of Rooms:** 110/9,408
- **In the Global Pipeline:** 45

- **Initial:** \$375 per room, \$30,000 minimum
- **Membership:** 4% preceding month's GRR
- **Marketing and Reservation:** 2.5% preceding month's GRR

- **Brand Launched:** 2010
- **Competitive Set:** Curio, Tribute, Design Hotels, Preferred, Small Luxury Hotels of the World
- **Target Customer:** The individualist traveler who prefers diverse, one-of-a-kind experiences that champion independence.
- **U.S. Properties/Number of Rooms:** 52/12,300
- **In the Global Pipeline:** 50

- **Application:** \$75,000 or \$300 per room (whichever is greater)
- **Franchise:** 5% GRS
- **Marketing:** 1.5% GRS

- **Brand Launched:** 2014
- **Competitive Set:** Ascend, Autograph, Curio, The Luxury Collection, Preferred Hotel Group, Hotels of the World
- **Target Customer:** Travelers who are seeking urban and destination experiences around the world.
- **U.S. Properties:** 3
- **In the Global Pipeline:** N/A

- **Application:** \$4,000
- **First Year:** \$20,000 + \$5 per room (+200 rooms)

- **Brand Launched:** 2014
- **Competitive Set:** Autograph Collection, Tribute
- **Target Customer:** Travelers seeking local discovery and authentic experiences.
- **U.S. Properties/Number of Rooms:** 11/4,035
- **In the Global Pipeline:** Nearly 20

- **Application:** \$75,000 + \$400 per room (+250 rooms)
- **Royalty:** 5%
- **Program:** 4%
- **Marketing:** Included in Program fee

- **Brand Launched:** 2008
- **Competitive Set:** N/A
- **Target Customer:** Business and leisure travelers who seek local lodging and authentic experiences globally.
- **U.S. Properties/Number of Rooms:** 2,700/240,000
- **In the Global Pipeline:** N/A

- 10% of IBC-generated and consumed reservations on room rate only.



THE BRANDS



INTERCONTINENTAL ALLIANCE RESORTS

IHG launched InterContinental Alliance Resorts in 2010 when it signed an agreement with the Las Vegas Sands Corp. under which IHG would provide access to its marketing programs and distribution channels to the Sands' two mega-resorts: The Venetian and The Palazzo. High on the list of those marketing programs was IHG's loyalty program, meaning Sands guests could earn and redeem points for their stays.



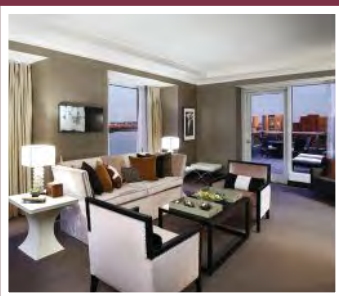
LEADING HOTELS OF THE WORLD

In business since 1928, Leading Hotels of the World today represents more than 400 luxury hotels, of which 41 are in the United States. The U.S. roster ranges from the Hotel Granduca in Houston to the Hutton Hotel in Nashville. A recent addition to the U.S. portfolio is the new Canyon Ranch in Tucson. Two categories of Leaders Club membership (for which travelers pay an annual fee) provide a range of benefits from airport transfers to room upgrades.



LEXINGTON LEGACY HOTELS

Vantage Hospitality established Lexington Legacy Hotels and its sister Lexington Legacy Inns as extensions of its Lexington Hotels brand. Non-branded hotels and inns interested in maintaining their independent status are invited to join. In return, they'll have access to Vantage's distribution and reservations resources. Lexington Legacy Hotels' U.S. portfolio includes D Las Vegas Casino Hotel and Lion's Gate Hotel & Conference Center in Sacramento, Calif. Their international profile includes locations in Bali, Indonesia, and South Korea.



LUXURY COLLECTION HOTELS & RESORTS

When the Solaz, a Luxury Collection Resort in Los Cabos Mexico joins The Luxury Collection in June, it will take its place besides high-end properties in Odessa, Ukraine, Gurgaon, India, and Hangzhou, China, among other recent additions to the Starwood Hotels & Resorts Worldwide soft brand. Dating back to 1994, when it was founded as part of the Italy-based CIGA brand, Luxury Collection today counts nearly 100 properties in its portfolio, representing 30 countries.



PREFERRED HOTELS & RESORTS

Preferred Hotels & Resorts provides marketing and distribution support to more than 650 luxury hotels and resorts in roughly 85 countries. Hotel members are aligned with one of six distinct collections—Legend, LVX, Lifestyle, Connect, Preferred Residences, and Preferred Service Residences. In the United States, the portfolio ranges from The Montage Beverly Hills to The Sherry Netherland in New York.

GENERAL INFORMATION

FEES

- **Brand Launched:** 2010
- **Competitive Set:** Fairmont, Grand Hyatt, JW Marriott, Westin, W Hotels
- **Target Customer:** Business and leisure travelers.
- **U.S. Properties/Number of Rooms:** 2/6,986
- **In the Global Pipeline:** N/A

- Not disclosed.

- **Brand Launched:** 1928
- **Competitive Set:** Small Luxury Hotels of the World, Preferred Hotels, Relais & Chateaux, Luxury Collection, Ritz Carlton, Four Seasons
- **Target Customer:** Frequent international luxury traveler, rising luxury traveler.
- **U.S. Properties/Number of Rooms:** 41/9,095
- **In the Global Pipeline:** N/A

- Not disclosed.

- **Brand Launched:** 2013
- **Competitive Set:** Ascend
- **Target Customer:** Leisure, business and group travelers.
- **U.S. Properties/Number of Rooms:** 3/841
- **In the Global Pipeline:** 5

- **Application:** \$3,000
- **Initial:** \$27,000 + \$200 per room (more than 80 rooms)
- **Monthly Royalty:** \$35 per room per month or 4% GRR (\$2,800 monthly minimum)
- **Monthly Marketing:** \$20 per room per month

- **Brand Launched:** 1994
- **Competitive Set:** Waldorf Astoria
- **Target Customer:** Affluent leisure travelers.
- **U.S. Properties/Number of Rooms:** 14/3,982
- **In the Global Pipeline:** N/A

- **Initial:** \$85,000 base
- **Royalty:** 5% GRR
- **Marketing:** 1% GRR (capped at \$450,000)
- **Reservation Systems:** 0.80% GRR + \$8.65 per room per month
- **SPG:** 5% member-applicable charges (4.2% average blended assessment)

- **Brand Launched:** 1968
- **Competitive Set:** Autograph Collection, Curio, Leading Hotels of the World, The Luxury Collection, Small Luxury Hotels, Worldhotels
- **Target Customer:** Transient leisure, corporate individual, association, and group segments who seek a one-of-a-kind hotel experience that delivers the authenticity of a destination.
- **U.S. Properties/Number of Rooms:** 205/49,500
- **In the Global Pipeline:** 65

- Predominantly a pay-for performance structure.
- **Application:** \$100-\$150 per room
- **Royalty (annual):** \$150-\$350 per room
- **Marketing (annual):** \$10,000-\$20,000
- **Percentage of GRR:** 2%-3%

THE BRANDS



QUORVOUS COLLECTION

Aimed toward the contemporary global traveler, the Quorvous Collection by Carlson Rezidor Hotel group offers luxury hotels immersed in local culture. Their current locations in Kuwait and Edinburg fulfill Quorvous Collection's core lifestyle elements of wellness, replenishment, and presentation encompassing the body; and inspiration, entertainment, and connectivity to fulfill the needs of the mind.



SMALL LUXURY HOTELS OF THE WORLD

Celebrating its 25th anniversary this year, Small Luxury Hotels of the World represents more than 520 hotels in 80-plus countries. The portfolio ranges from hotels and resorts to country houses, targeting affluent travelers. SLH's Club program has more than 350,000 consumers. In the United States, SLH counts 25 hotels as members, with six hotels in New York alone.



TRIBUTE PORTFOLIO

Starwood's 10th brand, Tribute Portfolio debuted in April with its first hotel, the Royal Palm South Beach Miami, and will soon open new hotels in Fort Lauderdale, Coral Gables, Asheville, Nashville, Savannah, and Charleston. Firmly anchored in the four-star, upper upscale category, Tribute Portfolio allows owners of distinct properties to maintain their independent spirit, while benefiting from Starwood's powerful distribution, loyalty, and sales platforms.

GENERAL INFORMATION

FEES

- **Brand Launched:** 2014
- **Competitive Set:** Leading Hotels of the World, The Luxury Collection, Autograph Collection
- **Target Customer:** The modern luxury traveler.
- **U.S. Properties/Number of Rooms:** N/A
- **In the Global Pipeline:** Target of 20

- Not disclosed.

- **Brand Launched:** 1990
- **Competitive Set:** Leading Hotels of the World, Relais and Chateau, Design Hotels, Preferred
- **U.S. Properties/Number of Rooms:** 25/1,792
- **In the Global Pipeline:** 60+

- Not disclosed.

- **Brand Launched:** 2015
- **Competitive Set:** Autograph, Curio
- **Target Customer:** Independent-minded travelers.
- **U.S. Properties/Number of Rooms:** 1/393
- **In the Global Pipeline:** N/A

- **Initial:** \$50,000
- **Royalty Fee:** 5% GRR
- **Program:** 3.5% GRR (covers marketing, sales, reservations, and other centralized services)
- **SPG:** 5% member-applicable charges (4.2% average blended assessment)

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FRAME OF MIND

WHY SMART MONEY
IS GOING INTO
**BOUTIQUE AND
LIFESTYLE
HOTELS**

BY MEGAN SULLIVAN



The Graham Georgetown is part of HHM's Independent Collection.

The numbers paint a rosy picture for developers and owners who want to dip their toes in the boutique, lifestyle, and soft brand segments. Collectively, these arenas are an \$11.5 billion industry and growing, according to a report by The Highland Group.

Demand has increased for boutique, lifestyle, and soft brand hotels over the past six years, clearly since the recession, says Kim Bardoul, a consultant with the Atlanta-based hotel consultancy group and co-author of the 2015 report. For example, with lifestyle properties 300 rooms and under, demand grew at an annual average pace of nearly 20 percent from 2009 through 2014—far above the rate of overall U.S. hotel demand growth of 4.2 percent, the report shows.

“The independent boutique has remained steady in growth, but the soft brand and lifestyle segments have clearly grown stronger in the past two years,” Bardoul says. “I really expect that to grow, because of the awareness the brands have brought to the industry.”

During the same six-year period, supply for lifestyle hotels and soft brands, which are newer products to the market compared to the more established boutique segment, grew at a compound annual average rate of 11.5 and 17.8 percent, respectively. Meanwhile, compound boutique hotel supply grew 3.1 percent—over three times the rate for the U.S. hotel industry overall. Compound demand change for the boutique segment was 6.7 percent, compared to a 4.2 percent increase for all U.S. hotels.

To compile the report, The Highland Group pored through STR hotel



RLHC recently debuted its new lifestyle brand, Hotel RL, with the opening of the 130-room Hotel RL Baltimore Inner Harbor.

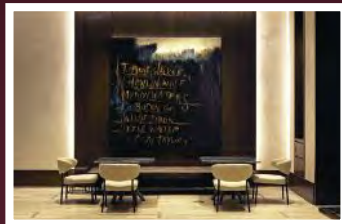
SEGMENT CHARACTERISTICS



DELANO LAS VEGAS

BOUTIQUE HOTELS

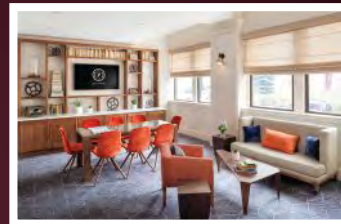
- Independent or part of small brands
- 40 to 300 guestrooms
- Design centric
- Less than 10,000 square feet of meeting space
- Restaurant and lounge on site or a selection of proximate interesting local dining and entertainment alternatives
- Generally upscale to luxury



HYATT CENTRIC THE LOOP CHICAGO

LIFESTYLE HOTELS

- Nationally franchised
- Prescriptive
- Design centric
- Planned for travelers who are interested in boutique lodging
- With a lounge and, at least, light food on site
- Generally upper midscale to luxury



THE PRESS HOTEL

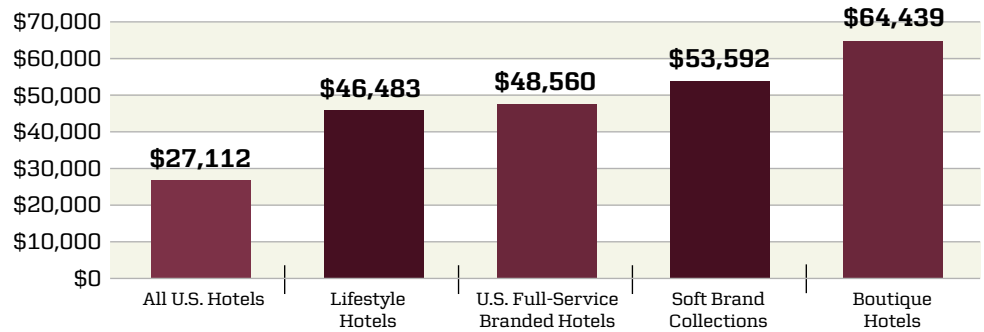
SOFT BRAND COLLECTIONS

- Affiliated with a major national franchise distribution system
- Signature hotels, individually named and branded
- Unique in design
- Generally with restaurant and lounge
- Generally upscale to luxury

SOURCE: "LIFESTYLE HOTELS, SOFT BRAND COLLECTIONS & BOUTIQUE HOTELS 2015," THE HIGHLAND GROUP



2014 ROOM REVENUE PER AVAILABLE ROOM (ANNUAL REVPAR)



census data and qualified hotels into these three segments (see chart). Bardoul says they classified boutique hotels as unique in style, small, and either independent or affiliated with small systems (think Delano by Morgans Hotel Group or Thompson by Commune Hotels & Resorts). Of those boutique properties, 21 percent have less than 60 rooms and 17 percent have 160 to 300, and they range in design and building type. Boutiques have a strong representation in California, New York, and Miami, but appear in at least 46 states, she adds.

“Boutique is a popular but loosely used term, and most people associate it with small,” she says. “Most definitions you pull up use the word ‘small,’ but they also use the words ‘unique,’ ‘highly specialized,’ ‘niche,’ and ‘elite.’ We used that criteria similarly to distinguish between your typical independent hotel, which is very limited in service or amenities without a specific design, from all the others.”

In response to changing traveler tastes and adapting interests of their development communities, the chains have responded by introducing lifestyle and soft brands. The report describes lifestyle brands as prescribed franchise products that are adapted to current trends (e.g., AC and

continued on page 62 →

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TRENDSPOTTING

Through partnering with fitness studios or larger gyms, many hotels are better able to facilitate the healthy lifestyle road warriors begrudgingly toss aside when traveling. However, there are times in even the most well-equipped hotels that guests are too rushed to use the fitness facilities. In these situations, in-room workout videos are an ideal option for those looking to sneak in a quick exercise session. Some hotels, like the **Hyatt Regency Chicago**, even team up with local fitness studios to provide original videos for their guests. The property partnered with a local women's fitness studio, The Barre Code, to create videos that have guests use items already present in the room while exercising. "The beauty of our in-room workout video is that guests can just turn the TV on, start exercising, and end whenever they want. They still get a great workout in a limited amount of time," explains Hyatt Regency Chicago's Marketing Manager, Patricia Kanke.

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Let's Get Physical

A new presence in the lodging industry is the fitness concierge. These fitness professionals partner with a hotel to connect guests with local fitness studios and instructors, register them for classes, and even plan personalized fitness calendars for their stays. VFit, a company based in Washington, D.C., offers fitness concierge services to nearby hospitality properties and Chay Jones, fitness specialist and VFit founder, explains why his business—and ones like it—can be a good solution for hoteliers looking to capture health-minded guests.

○ What is guest response to fitness concierge services?

We've heard from our hotels that once guests know about it, they instantly want to take part. Working out can be mentally, physically, and psychology challenging, even when you're in a familiar environment. By creating fun, accessible workout events within the hotel and around the city, we appeal to the guests who want to keep up their fitness routines but don't know where to start when they're away from home.

○ How do fitness concierges enhance a hotel's fitness offerings?

Fitness concierges bring extra value to a property's existing amenities and services, which could in turn generate additional revenue opportunities. Almost everyone has a gym or a pool, but what are they doing to utilize and upgrade the benefits of these facilities? Fitness concierges raise the bar to ensure customer loyalty to the hotel, and to their own businesses, through customer service and personalized workouts.

○ What is most rewarding about this line of work?

Everyone wants to feel at home no matter where they are. When guests feel like they can stick to their routine while on the road and when we hear about their results, it makes every class and training session worth it.

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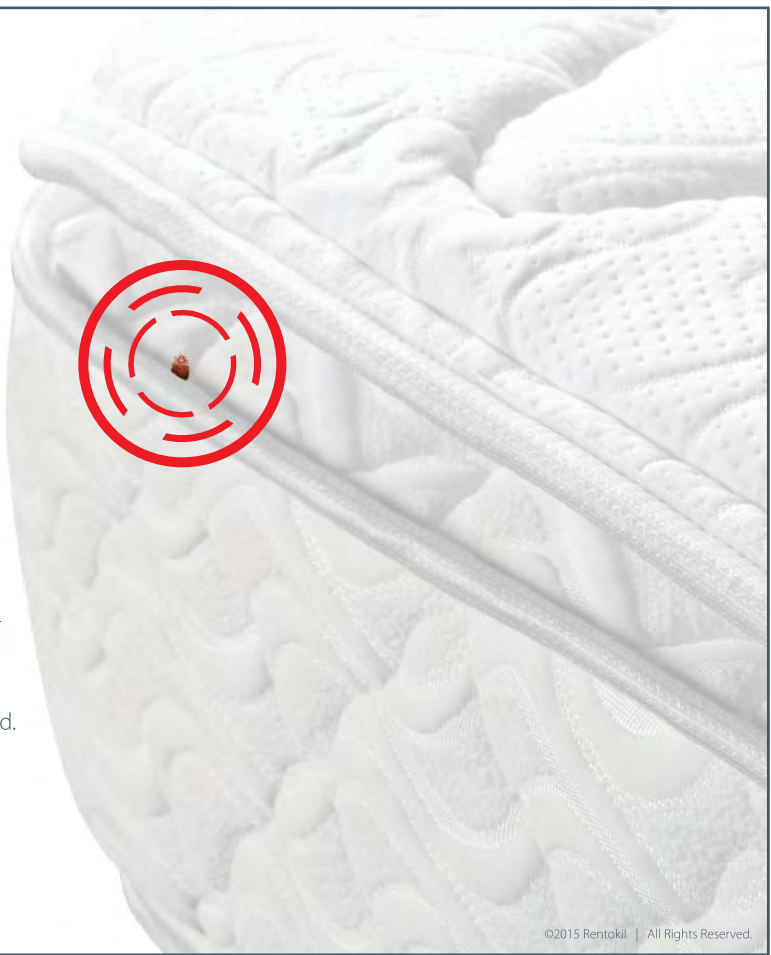
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→ continued from page 51

Moxy by Marriott, Canopy by Hilton, Hyatt Centric). Soft brands like Ascend by Choice, Autograph by Marriott, Curio by Hilton, and Tribute by Starwood give hotel owners and operators the opportunity to affiliate with a major chain distribution system while retaining the unique name and properties of an otherwise independent hotel.

“Developers and owners are seeing increased interest in what I’m calling the ‘now’ traveler, and there’s an opportunity to capitalize on that with little risk, especially if you go through a brand,” Bardoul says.

EXPERIENCE REQUIRED

The ability to convert old buildings into hotels has helped fuel developer interest in these three products versus traditional limited-service brands, Bardoul says. “There’s been an increased redevelopment of city downtowns, either within the core business district or in the periphery, providing opportunity for walkable, trendy little districts of various personalities,” she explains.

Adaptive reuse projects add uniqueness to

continued on page 64 →



The Autograph Collection portfolio features 10 of The Kessler Collection's 11 boutique hotels, including the Grand Bohemian Hotel Charleston.



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→ continued from page 62

the area and provide both guests and locals with an experience that complements the surrounding neighborhood.

Bardoul cites The Craddock Terry Hotel in Lynchburg, Va., and The Dean in Providence, R.I., as examples of boutiques built around the history and culture of their cities. Craddock Terry has roots as a shoe company factory and a tobacco warehouse, while The Dean has a past life as a church shelter and most recently a strip club. “Both of them

have taken the area and implemented it into their product, which independent boutiques clearly have the flexibility to do,” Bardoul says. “It really provides a cool experience.”

More travelers today seek a sense of adventure and unique experiences when visiting a new area. “Consumers are starting to see that there are other experiences out there,” Bardoul says. “Even on a business trip, why not go and explore the community where I’m staying? Instead of just going in,

doing my work, taking a shower, finding a place to eat, and leaving, I actually learn a little bit about Providence or Lynchburg while I’m there.”

HHM, a Philadelphia-based hospitality investment firm, has seen firsthand an increase in consumers who crave personalized experiences in hotels. To meet this need, the company rounds out its robust portfolio of branded full-service, select-service, and extended-stay hotels with a small boutique collection of lifestyle hotels. Of the company’s 30 independent hotels, 10 are currently a part of the Independent Collection (IC), which features hotels located in unique residential neighborhoods of gateway cities, including Miami, New York, Boston, Philadelphia, Santa Barbara, and Washington, D.C. The Independent Collection properties are mostly full-service and similar in size, look, and feel, but each has a unique story to tell that’s shaped by the culture of the surrounding neighborhood.



\$11.5
BILLION

Combined total revenue of lifestyle hotels, soft brand collections, and boutique hotels

According to Foiz Ahmed, vice president of the Independent Collection, HHM can command much higher rates at its independent hotels whereas its branded properties eventually hit a ceiling. Of course, HHM must deliver on those personalized experiences so guests don’t second-guess paying \$400 a night. “From a profitability standpoint, we’ve been right at par if not more profitable in these major markets,” Ahmed says. “You take away all the noise around franchise fees or management fees, so it’s a tremendous savings right off the top, but there also really is no ceiling when it comes to rate opportunity.”

Technology has also helped level the play-

continued on page 67 →

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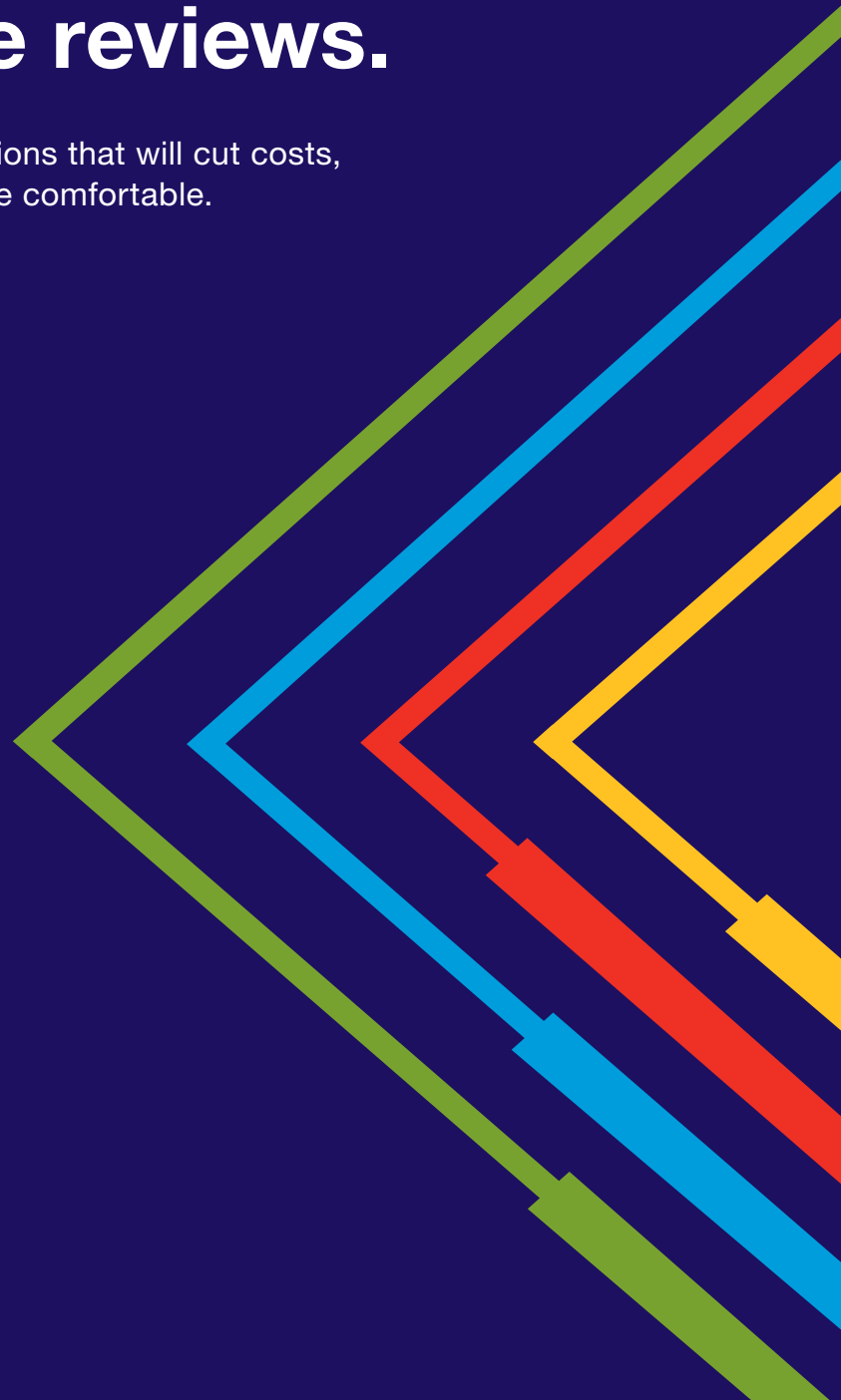
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→ continued from page 64

ing field for independents. From website optimization to meta-search, independent hotels can pay for tools and services that weren't accessible in the past, Ahmed says. "It's a lot easier for the consumer to find us, as well as feel a lot more confident in purchasing," he says. "Technology has made a huge impact on how our guests are finding and buying us."

High rates, eliminating fees, and a more level playing field all sound appealing, but first developers and owners have to get lenders comfortable with their independent projects. The good news is that lenders are more open-minded about independent hotel financing, Bardoul says. While a brand name imposes less risk, lenders have noticed major hotel companies embracing these segments, either by introducing their own lifestyle brands or by attaching soft brands to existing independent and boutique hotels. "It seems as though the lenders are stepping back and saying, 'OK, this guy over here wants to do the same thing, he just doesn't want to brand it,'" Bardoul explains. "They might scrutinize him a little more, but it

20%

The annual average pace of demand growth for lifestyle properties with 300 rooms and under, from 2009 to 2014.

opens the doors just a teeny bit more for the independent boutique developer."

Ahmed agrees that lenders are easing up when it comes to financing independent projects, especially when dealing with a large institution like HHM. "If you're a one-off owner trying to build a hotel in middle America, I would assume there would be tremendous scrutiny behind that from your lenders, but when you're trying to do it in urban locations with occupancies way above 80 percent... we're finding that it's a fair game whether you want to go branded or non-branded," he says.

The one caveat to launching an independent hotel is there is always a longer ramp up period, Ahmed advises. "It's not like we turn on our reservation system and boom, from day one, all of a sudden the hotel is full. Where I've seen that over and over again with the branded hotels. But once we're ramped up and stabilized, our independent hotels perform right alongside, if not better, than our branded hotels." 🗨️

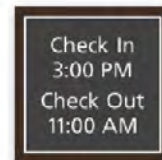
"The independent boutique has remained steady in growth, but the soft brand and lifestyle segments have clearly grown stronger in the past two years."

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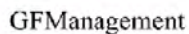


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The Lobby at The Carlyle Inn

HAT TRICK

A custom art installation with floating bowler hats pays homage to Charlie Chaplin, the king of silent films. The artist painted the heads underneath a rich graphite color. A golden, palm-up hand chair underneath begs to be sat in. "My hope is that the guest is at first captivated, then inspired to try on a hat and Instagram it," Franklin says.

OPTICAL ILLUSION

Since the renovation didn't involve structural changes, Franklin needed a creative way to give the illusion of space. She filled up the barreled ceiling with antiqued mirrors to capture the patterns and textures throughout the lobby. "The hexagon tile is impactful on its own, but with the mirror reflection, it goes on forever and creates an optical illusion."



BLACK OR WHITE

The richness of the floor tile comes from a cream, graphite, and charcoal outline, while multiple shades of gray add depth, Franklin explains. "At first glance, the lobby may read black and white, but it's actually the positive and negative relationship on the color spectrum that creates the magic." A mix of metal on the pendants, table bases, and hardware adds a playful element.

PRIOR TO ITS \$1 MILLION makeover, the Carlyle Inn felt like a Hollywood starlet who had seen better days, says Pacifica Hotel Design Manager Christina McCain Franklin. With its Beverly Hills address and existing architectural curiosities calling to mind the silent film era, a classic 1920s Art Deco design fell into place during the property's face-lift. The 32-room boutique hotel, owned and operated by Pacifica, is meant to evoke a sense of wonder and nostalgia. In the refreshed lobby, Franklin treated every design element as art. Tone-on-tone herringbone wallcoverings lure guests into the space, while geometric vinyl dome chairs provide the perfect vantage point for a quirky bowler hat art installation. A stylized nook with a black-and-white hand drawing of clouds on the wall features a hunter green mohair loveseat that's ideal for curling up with a book. "By creating vignettes with art installations and group seating, I was able to update each element of the lobby in an impactful way."

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Mattress Liners for Use Against Bed Bugs & Dust Mites

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With 25 years of experience lending to the hospitality industry, Access Point Financial structures thoughtful, customized solutions in order to meet their clients' specific needs.

\$10,000,000
Sheraton Hotel
MINNESOTA
BRIDGE FINANCING
ACQUISITION/CONVERSION

\$8,700,000
Independent
Boutique Hotel
ALABAMA
BRIDGE FINANCING
ACQUISITION/RENOVATION

\$7,400,000
Radisson Hotel
CONNECTICUT
BRIDGE FINANCING
ACQUISITION/CONVERSION

\$3,200,000
Fairfield Inn & Suites
by Marriott
FLORIDA
BRIDGE FINANCING
REFINANCE/RENOVATION

\$2,200,000
Embassy Suites
by Hilton
CALIFORNIA
CAPEX FINANCING
RENOVATION

\$2,000,000
Comfort Inn & Suites
MARYLAND
BRIDGE FINANCING
ACQUISITION/RENOVATION

\$1,200,000
Best Western Plus
OREGON
CAPEX FINANCING
BRAND CONVERSION

\$850,000
Holiday Inn Express
NORTH CAROLINA
CAPEX FINANCING
NEW CONSTRUCTION



A PARTNER YOU CAN TRUST

e-mail info@accesspointfinancial.com for more information

www.accesspointfinancial.com

One Ravinia Drive, 9th Floor, Atlanta, Georgia 30346