

# HOTEL INDUSTRY™

## Conversion Mode

By Dan Marcec - February 9, 2011

In the coming up-cycle, the words “PIP,” “renovation” and “conversion” will be worn out more than the furniture in the very hotels to which they’re referring. When the economic crisis fully subsides, hotels nationwide will be back on their regularly scheduled renovation cycles, which means it’s time to update to brand standards or find a new flag.

Like many brands with conversion strategies, Lexington Collection by Vantage understands the inherent opportunity in this economic climate. At the same time, Lexington has a very specific plan in place in order to take only the properties that fit its profile, and the brand has undertaken extensive research to find out which hotels those will be.



“When we started this brand, the premise was to look at three-diamond and above properties that were full-service, and that strategy has not changed,” says Bill Hanley, group president for the Lexington Collection Worldwide. “What has changed is the tremendous emergence of select-service properties in the three-diamond category that are strong at the operational level and from a consumer demand standpoint. We realized there is a market for us to be in this sector.”

The impetus to create the Lexington Inn, Suites and Inn & Suites distinctions was born out of the two or three times that the brand had to turn down quality, select-service hotels. But as more and more good operators are searching for new brands because they are dissatisfied with the work that has to be put in to maintain standards, Lexington is now available to fit into their portfolio.

For example, the first Lexington Inn & Suites property in Stillwater, Minnesota is a case in point. The property was due for updates from its brand, but didn’t necessarily see the return to the hotel for the \$8,000 to \$10,000 a key renovations required. The owner had a friend with the Americas Best Value Inn brand who recommended Lexington, and the owner called Vantage literally the week it had decided to move forward with the select-service platform, and the deal was done.

“A number of brands are now vulnerable because their owners not happy with new standards or the cost of investment in new standards,” says Hanley. “This was driven home by one of our existing owners in Lansing, Michigan. His brand wanted him to put \$8 million into the hotel, and he thought it was foolish and came to us. We worked out a \$3.8 million renovation program, the hotel looks great and everyone’s happy.”

And that’s the point Hanley wants to drive home about Lexington. This is not a flag to come to if you’re looking for lax standards or light PIPs. Simply, an owner/operator knows his or her market best, and they know what the customer needs. The most recently opened Lexington Inn & Suites located in Jonesboro, Arkansas, needs to provide a much different experience than the other three hotels opening this quarter in St. George, Utah, Wichita Falls, Texas, and Key West, Florida. But to be part of the Lexington brand, they all have to meet the same standard for quality.

“We strongly believe in brand standards, but we also believe in our ‘Collection not a Chain’ concept,” Hanley says. “A PIP should be reasonable and enable an owner to achieve an ROI. For Lexington, the property should be maintained to AAA 3-diamond criteria while giving ownership the freedom to operate.”

Going forward, Hanley expects Lexington to add at least 15 properties by the end of the year. To manage that growth, he said the company is targeting the top 25 performing markets in the U.S., based mostly on Smith Travel statistics (the actual number came to 32, Hanley says, because the difference in the final 10 is nominal). To be clear, these are not the top 25 MSAs by population, but those cities and surrounding suburban markets that currently are performing positively, based on the following criteria:

- Demand change since the trough
- ADR change since the trough
- Demand and ADR change since the peak
- Hotel Valuation Index change actual/projection 2010-2013

Outside that, it’s a matter of hitting the pavement and finding the right hotels with good operators that are in need of a new flag.

“Jonesboro is a great example, because it’s not on our list of top markets, but it’s performing well and we think we can help the operator,” says Hanley. “And that’s how we go about growth – we aren’t just going to come in and pick up a property that thinks it wants to try something new. We’re going to come in and look at their existing distribution and find out where we can help them improve their property, gain market share and get a return on that investment.”

