

Article | Intelligent Investment

# Select Service Hotels and the Paid Accommodations Industry

HOTEL CURRENTS™

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## Key Takeaways

- The emergence of select service hotels changed traditional ways of viewing the lodging industry in the U.S. and spurred consumer-driven innovations.
- Because a universally accepted definition of select service has not emerged to organize data, capital suppliers have difficulty evaluating operational performance and investment returns for the select service category.
- The concept of paid accommodations more accurately describes the broader spectrum of overnight occupancy industry structure than the traditional concept of lodging.
- The lodging and residential rental industries are becoming more unified suggesting that future industry performance will depend less on travel patterns.

Articulating how a particular industry, such as lodging, is organized and how the organization changes over time is difficult. Instead, in this blog I trace the ongoing organizational changes in the lodging industry by abandoning siloing according to property type, location and chain scale.

Select service is a hybrid classification which incorporates elements of property type, chain scale and short-term occupancy or rental (STR). While an important part of the current lodging landscape, select service hotels are not consistently classified. At CBRE Hotels Research we created a definition of select service that covers the range of characteristics associated with this segment. I rely on the definition to highlight innovations to lodging industry structure associated with cross classifications of property types, chain scales and short-term rentals (STR).

## Evolution of Naming Conventions in the Lodging Industry

During the post-WWII era in the U.S., hotels were broadly categorized either as full-service and limited-service properties (hotels and motels). Because most full-service hotels operated in cities and many limited-service motels were constructed along highways, location categories, such as urban and rural/interstate, further described industry structure. Any temptation to strictly align full-service hotels with urban locations and limited-service motels with outlying areas along highways disappeared as more limited-service properties began appearing in cities and full-service hotels along major highways. Subsequently, other location-specific identifiers, including airport and resort hotels, emerged. Somewhere along the historical timeline the term ‘motel’ nearly disappeared. Incidentally, until the early 2000s the leading national industry trade group American Hotel and Lodging Association was called the American Hotel and Motel Association.

Corporate involvement and franchising represent two dominant lodging industry themes during the latter part of the 20th century. The emergence of large firms with limited ownership of properties and maximum franchise and management contract relationships with owners led to another important taxonomy. This set of definitions involves collections of the brands connected to franchise/management relationships and stratified by room rates that positively correlate with assemblages of physical features, service levels and locations. In response to these important innovations, hotel data company Smith Travel Research (now STR) created a set of chain scales spanning from luxury to economy. Figure 1 provides listings of legacy definitions that traditionally defined the lodging industry.

**Figure 1: Legacy Definitional Structure of the Lodging Industry**

Service Levels*	Locations*	Chain Scales
Limited Service - Motel	Urban	Luxury Hotel
Full Service - Hotel	Suburban	Upper-Upscale Hotel
Resort Hotel	Airport	Upscale Hotel
Suite Hotel <i>with</i> Food and Beverage	Small City/Town	Upper-Midscale Hotel
Suite Hotel <i>without</i> Food and Beverage	Resort/Destination	Midscale Hotel
Convention Hotel	Rural/Interstate	Economy Hotel

\* Definitions in CBRE Hotels Research's Trends in the U.S. Hotel Industry® and Benchmarker.®  
CBRE Hotels Research

## Not Settled in Science

The categorizations of the hotel industry in Figure 1 would be ‘settled science’ (i.e., no longer debatable) if further evolution and innovation had not intervened. Guests refined their preferences and the Internet led to unanticipated innovations. Short-term rental companies such as Airbnb substantially broaden consumer lodging choices and the competitive landscape. These firms definitionally redefined lodging. I recall listening to Randy Smith, STR founder deliver a speech at their data conference a few years ago use the term ‘paid accommodations’ to describe the new scope of the company’s data management goals. Although the lodging industry has not become the ‘paid accommodation’ industry - it probably should!

Expansion of short-term rentals is one way the lodging industry and the residential rental industry (i.e., apartments) are moving together. The other avenue toward consolidation of the two industries is the evolution of extended stay. Companies such as Woodspring Suites allocate ample spaces in their buildings for both traditional extended stay guests and unfurnished apartments for longer-term occupancy.

Lodging industry performance depends entirely on travel. The paid accommodations industry performance does not. The value in Woodspring Suites building investments may exceed that of buildings containing residential condominiums and hotel rooms because of the difficulty of switching condominiums to hotel rooms.

## Select Service Defined and Justified

Many of the brands now associated with select service have been in existence for several decades. Most select service definitions, of which there are several, mention that these hotels don’t qualify as full-service hotels and go beyond the service boundaries of limited-service hotels. Definitions often mention specific chain scales, the existence of amenities, and food and beverage services, but a precise statement of what select service means in the context of traditional naming conventions is missing. To perform analyses of this industry component, CBRE Hotels Research developed a definition that allows for tagging select-service brands and properties through a cross-referencing of property type and chain scale. The focus across the four groups that comprise the CBRE definition involves the service level of the hotel. These are<sup>1</sup>,

<sup>1</sup>A couple explanatory notes about this definition appear below.

- Access to a hotel income statement data base (e.g., CBRE’s Trends®) is necessary for making decisions about which full-service hotels fall short of the 15% cut off for food and beverage revenues in #1.
- Room rates, which determine placement in chain scales, indicate service levels. Implicitly, an upper-midscale limited-service hotel should be offering guests more services than a midscale limited-service hotel. While such distinctions may appear arbitrary, price and quality are usually highly correlated.
- Extended-stay hotels identified in #2 and #3 are not always included as part of the select service category, but both groups fit with respect to services, that is less than full service and greater than limited service.

1. **Upscale, Full-Service Hotels with Limited Food and Beverage (F&B):** Chain-affiliated hotels that operate in the Upscale chain-scale segment. Food and beverage revenue comprises typically less than 15% of total revenue. Brands are comparable to Courtyard by Marriott and Hilton Garden Inn. Examples include Hyatt Place and Hotel Indigo.
2. **Upscale, Extended-Stay Hotels:** Chain-affiliated hotels that operate in the Upscale chain-scale segment. Guest rooms are residential in style, and property food and beverage service are limited. Brands are comparable to Residence Inn. Examples include Homewood Suites and Staybridge Suites.
3. **Upper-Midscale, Extended-Stay Hotels:** Chain-affiliated hotels that operate in the Upper-Midscale chain-scale segment. Guest rooms are residential in style, and property food and beverage service are limited. Brands are comparable to TownePlace Suites. Examples include Candlewood Suites and Home2Suites.
4. **Upper-Midscale, Limited-Service Hotels:** Chain-affiliated hotels that operate in the Upper Midscale chain-scale segment. These properties typically do not offer any retail food and beverage service. Brands are comparable to Hampton Inn. Examples include Fairfield Inn and Comfort Inn.

Industry commentators conclude that hotel companies and developers originated the select-service hotel concept through sponsorship of brands following Say's Law - supply creates its own demand. Select-service hotels are less expensive to build than full-service hotels while retaining some of the same services and operating at higher margins. An alternative explanation for the proliferation of select-service establishments assumes developers and branding companies adjusted their behaviors to changing consumer preferences. Consumers facing the binary choice of full-service and limited-service occupancy remained unsatisfied with the service levels and room rates offered by the two options. A growing number of hotel guests desire additional services at comparable prices relative to limited-service hotels while not seeking the service levels and room rates of full-service hotels. By design, select-service hotels align well with demand patterns of guests whose interests during leisure travel include existential experiences near over-night accommodation properties, and during business travel, quick breakfast in the morning and cocktails in the evening.

## Emergence of the Paid Accommodations Industry

Anyone attending a lodging industry conference and reading trade publications is continually exposed to the select-service moniker. Portfolios of select-service hotels are in high demand by investors. While it is tempting to conclude that select service is simply a refinement of the legacy industry structure, it actually represents an evolution of accommodation à la carte services (or no services) demanded by an increasingly more sophisticated consumer. They include locational proximity to entertainment attractions and food and beverage establishments combined with room pricing flexibility for adjustable lengths of stays. The à la carte consumer movement for services and the gradual merger of traditional lodging and residential rental industries have become significant drivers of industry change.

Here are some thoughts on the future of lodging industry structure.

1. The concept of paid accommodations more accurately describes the broader spectrum of the short- and long-term overnight occupancy industry than the traditional concept of lodging.
2. The lodging and residential rental industries are becoming more unified suggesting that future industry performance will depend less on travel patterns.
3. Because a universally accepted definition of select service has not emerged to organize data, capital suppliers have difficulty evaluating operational performance and investment returns for the select service category.
4. Customized service offerings including no service will continue to shape the structure of the paid accommodations industry.