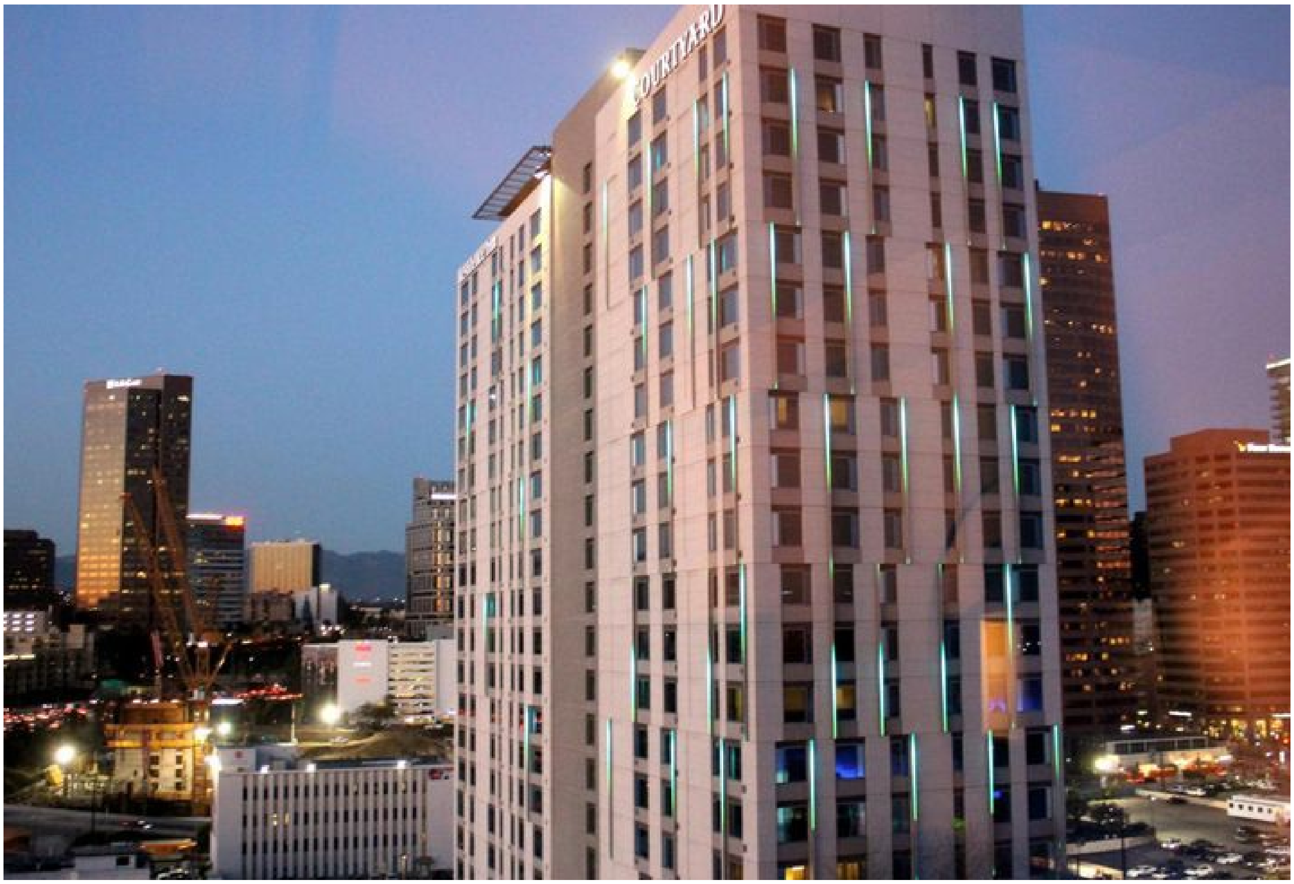
Dual-Brand Hotels Aren't The Industry's Golden Ticket To Big Profits

bisnow.com/national/news/hotel/dual-brand-hotels-arent-the-industrys-golden-ticket-to-big-profits-95422

The hotel industry's knight in shining armor isn't generating the massive profit surplus operators were expecting.



Dual-brand hotels, which put two or more hotel brands from different price points under the same roof, have become a popular strategy for developers to streamline costs. The different hotels retain their front-of-house brand identity while consolidating back-of-house operations and development costs. They were also expected to help boost profits and appeal to customers at different levels of the market.

A new report cautions dual-brand hotels are underwhelming with their performance.

"They're still achieving efficiencies over what two individual hotels would do separately, but it's just not this huge premium," CBRE Director of Research Information Services Robert Mandelbaum said. "Don't sit there and expect a 10% profit margin enhancement. It's more on the lines of 1 to 2%."

Mandelbaum was part of a CBRE team that spent the last four years monitoring the performance data of dual-brand hotels. The study, which tracked 23 various U.S. properties, found dual-brand hotels can cost more to run than single-flag hotels and achieve only slightly better profits. It even warns operators not to pursue a dual-brand hotel project with the expectation of greater profit margins.

The CBRE study found major hinderances include strict brand standards and a push to keep staffers in distinct uniforms — making it difficult to cut down on labor costs by having employees work for both flags.

A Dallas-based dual-brand operator said there are various ways money could easily be saved.

“One of the biggest issues we saw was the company wanted to keep both brands distinct,” Atlantic Hotels Group Chief Financial Officer Arzu Molubhoy said. “We found that having two check-ins was redundant.”

Atlantic Hotels has experience developing several dual-brand properties, including an Aloft/Element near Dallas Love Field. While Molubhoy sees efficiencies coming from a streamlined back-of-house operation that includes the same laundry and maintenance teams servicing both brands, she said there is work to be done with front-of-house operations.

Operators she has worked with on dual-brand properties expected both check-in areas to be fully staffed, which meant hiring an assistant general manager for each desk on top of the general manager overseeing the entire property.

Atlantic Hotels did a test and shut down one of the check-ins at a dual-brand hotel to see how guests would respond. The company said guests responded well since they were getting confused by the earlier configuration.

“We tried it, we tested it and we saw there were some efficiencies left on the table,” Molubhoy said, adding Marriott is receptive to owner and operator feedback.

Marriott did not respond to *Bisnow*’s request for comment in time for publication.

The CBRE report isn’t entirely doom and gloom for the future of dual-brand properties. Undistributed, back-of-house operational costs are about 2% to 3% cheaper at a dual-brand hotel than a stand-alone brand. Mandelbaum says the slower-than-expected efficiencies and stringent brand standards may be a result of the industry’s ongoing success.

“Right now, we’re in a prosperous period in the hotel industry, and profit margins are high relative to where they were in the past,” he said. “They’re probably not complaining too much to the brands. When you see a relaxation in brand standards is during a recession.”

One hotel expert remains optimistic and thinks cost efficiencies will expand to front-of-house operations as the sector grows.

“I think they’re almost going to become a brand unto themselves,” New York-based LW Hospitality Advisors President of Asset and Property Management Services Gary Isenberg said.

Isenberg notes most dual-brand hotels today are composed of Hilton or Marriott flags that have higher operating costs. A Hampton Inn and Hilton Garden Inn combination simply costs more to run than a hypothetical Comfort Inn and Holiday Inn dual-brand property. He also points to Marriott's Courtyard and Residence Inn dual-branded property at L.A. Live in Los Angeles as an example of how the industry is already building to the best economy of scale.

That property has a single check-in at the lobby level, and the distinct brand identity is apparent with separated corridors and rooms upstairs. Hotel companies may push for brands to remain separated, and Molubhoy said this can be achieved by training staff to immediately take guests to their designated brand after an ideally common-use check-in area.

"You can definitely maintain brand identity," Molubhoy said. "You just have to make sure you cater to it and don't let one brand overtake the other."