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The Evolution of Dual-Branded Hotels: How the Marriott/Starwood Acquisition Enhances Opportunities for Developers

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1 Behind Los Angeles' Staples Center sits the dual-branded JW Marriott and towering Ritz-Carlton (Photo by Prayitno)

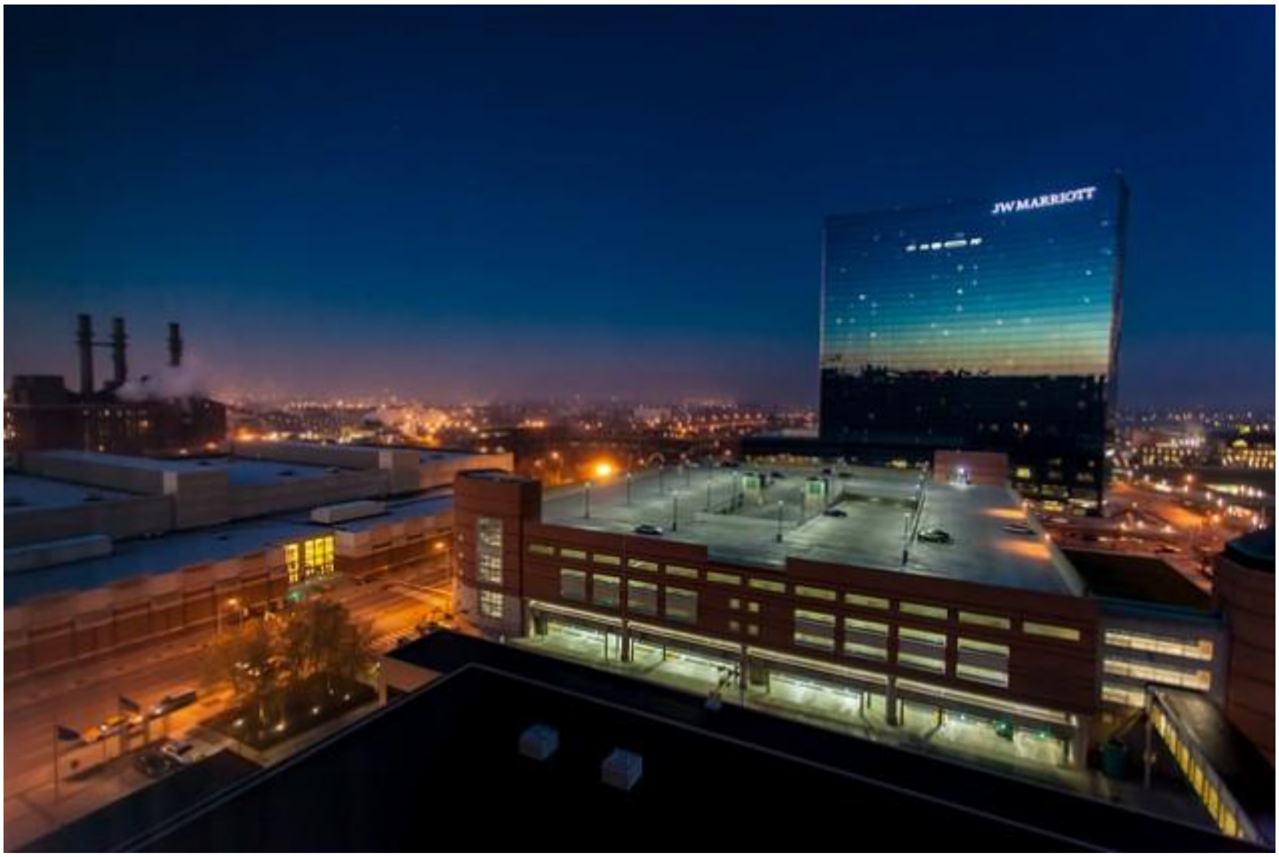
By Daniel Lesser,Jonathan Jaeger, & Jeremy Gilston of LW Hospitality Advisors®

Should the deal ultimately close, the recently announced acquisition of Starwood Hotels and Resorts Worldwide, Inc. (HOT) by Marriott International (MI) will be a lodging industry game changer. MI is a trailblazer of the dual-branded hotel trend and will be well poised to accelerate this concept by capitalizing on its newly-expanded suite of brands.

While Starwood Preferred Guest (SPG) members are fixated on the future value of their rewards points, Wall Street is focused on how the combined entities will maximize shareholder value, with many questions left unanswered. Post-acquisition, MI will include approximately 31 brands, 5,500 hotels and 1.1 million rooms worldwide giving MI significant opportunity to create new dual-branding properties and concepts.

Dual-branded hotels are not a new idea; however, the trend is gaining traction. Recent trends reflect a shift towards greater sophistication in tailoring guest experiences and targeting specific demand segments, thereby creating less overhead and greater cost efficiency. The concept has become increasingly popular as these developments include two hotels, and in some cases even more, that share construction/conversion costs and operational expenses, resulting in attractive development savings as well as an enhanced opportunity to achieve economic feasibility of a proposed project.

During the past several years, the dual-branded hotel trend has accelerated. As of January 2015, there were 79 operational dual-branded hotels and another 54 under construction in the U.S., a projected 32 percent increase in dual-branded supply (see chart below). MI, one of the two dominant dual-branding players (the other being Hilton Worldwide) is leading the way with both the most existing and under-construction dual-branded hotels.



2 Pairing JW Marriott and Fairfield Inn & Suites hotel in Downtown Indianapolis gives MI a strong local market share. (Photo by Mr. Nixter)

When contemplating a dual-branded development strategy, it is critical to maintain brand integrity while selecting a project that fits in with the local market environment. While MI's most popular pairing consists of the Residence Inn and Courtyard by Marriott brands, other pairings exist, such as the JW Marriott and Fairfield Inn & Suites hotel in Downtown Indianapolis. The consortium of MI and HOT will undoubtedly enhance MI's opportunities, combining many new brands and hotel product types, ultimately resulting in greater share in select markets around the country.

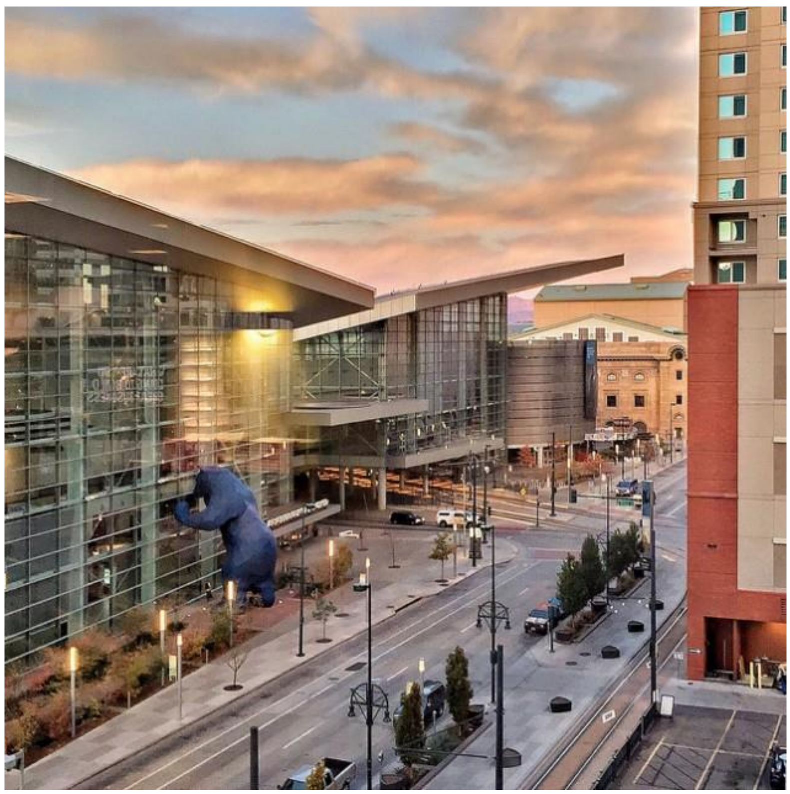
Dual-Branded Hotels as of January 2015

	Existing			Under Construction			Approved to be Open by 12/2018			Total		
	Projects*	Hotels	Rooms	Projects*	Hotels	Rooms	Projects*	Hotels	Rooms	Projects*	Hotels	Rooms
Marriott	18.3	37	8,700	16.0	32	5,488	23.5	47	8,117	57.8	116	22,305
Hilton	18.0	36	6,323	7.0	14	1,894	14.0	28	3,794	39.0	78	12,011
IHG	0.0	0	0	2.0	4	767	3.0	6	822	5.0	10	1,589
Hyatt	0.3	1	212	2.0	4	665	2.0	4	435	4.3	9	1,312
Starwood	1.3	3	831	0.0	0	0	7.5	15	2,994	8.8	18	3,825
Choice	1.0	2	80	0.0	0	0	0.0	0	0	1.0	2	80
Total	**38.9**	**79**	**16,146**	**27.0**	**54**	**8,814**	**50.0**	**100**	**16,162**	**115.9**	**233**	**41,122**

* A fraction is the result of a project having multiple parent companies represented. For example, White Lodging's Chicago River North project includes a brand from Hyatt (Hyatt Place), Starwood (aloft), and Marriott (Fairfield Inn & Suites).

Source: 2015 ALIS Conference

By way of example, Denver is one of the top 25 U.S. hotel markets and is currently experiencing a boom in dual-branded hotel development. Downtown Denver's appeal as a business, convention, and leisure travel destination continues to entice developers. White Lodging, an Indiana-based hotel developer and operator, completed both the 17-story Convention Center Embassy Suites hotel in December 2010 and 21-story dual-branded Hyatt Place/Hyatt House at 14th Street and Glenarm in Downtown Denver in November 2015.



3 Not far from the dual-branded Hyatt House/Place on Denver's 14th Street sits the 17-story Convention Center Embassy Suites hotel. Both properties were developed by Indiana-based firmed, White Lodging. (Photo by MomentsForZen).

The company has since broken ground on a new dual-branded hotel development, the AC by Marriott and Le Méridien Hotel, HOT affiliated. The 18-story development is scheduled to open late summer 2017 and the two hotels will add 495 rooms to the market. The property will be located at the center of the city's business district proximate to multiple demand generators, including the Colorado Convention Center, the 16th Street Entertainment District, the Colorado State Capital Complex, the LoDo Historic District, the Denver Performing Arts Complex, Pepsi Center, Coors Field and Sports Authority Field at Mile High. Each hotel will have its own distinct entry, lobby, and bar-led food and beverage outlet(s). Le Méridien will include +/-8,000 square feet of state-of-the-art banquet and meeting space, including a 5,000-square-foot ballroom.

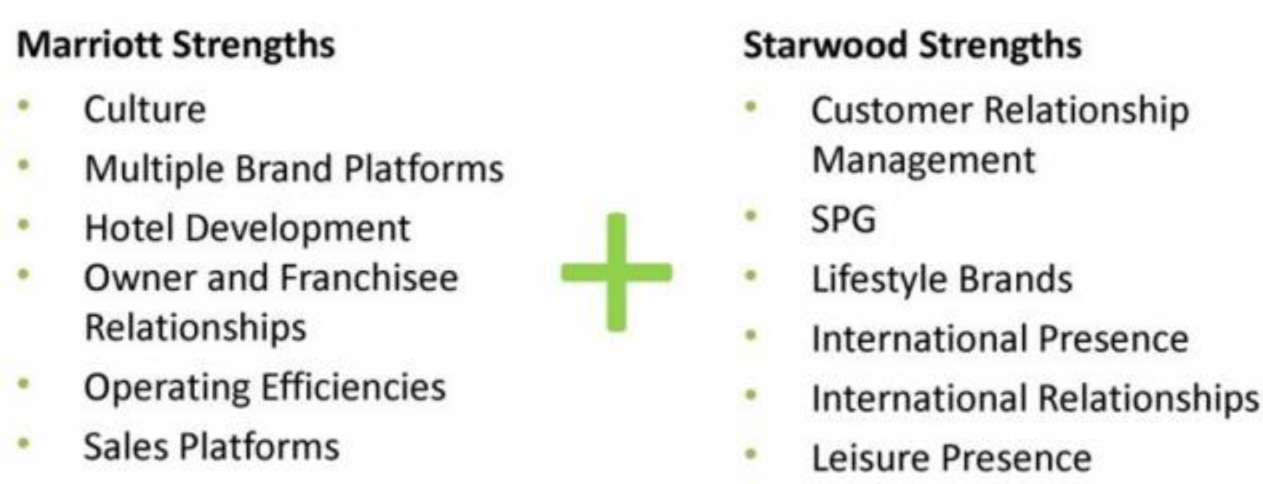
The majority of newly-developed and under-construction dual-branded hotel developments offer value enhancement opportunities by cost-efficiently developing new products within dense urban markets. However, many successful dual-branded hotels exist in airport markets as well as suburban markets where supply is limited or demand is strong, such as the Homewood Suites and Hampton Inn by Hilton located in Syracuse/Liverpool, New York.

Dual-branded hotels eliminate the expense of constructing separate towers for each brand while allowing for shared amenities such as fitness centers, pools, and meeting rooms as well as back-of-house spaces including kitchens, storage, and mechanical areas. In reference to a 2013 dual-branded hotel development in Atlanta, Georgia, it was reported that the developer, North Point Hospitality Group, saved $15,000 to $25,000 per key on construction costs when it built a 228-room Hilton Garden Inn and Homewood Suites hotel. While separate signage, entrances, and lobbies create distinct brand identities within a single structure, only one design and construction program for back of the house and building systems are needed.

Furthermore, from an operational perspective, efficiencies are created through utilization of shared staff, specifically as it relates to management, sales & marketing, and maintenance.

Brand selection processes are largely dependent on a sub-market's existing and forecasted supply and demand trends. As the economic feasibility of new hotel developments is determined for a market, factors to consider pertaining to the selection of optimal hotel brands include name recognition and perception, global footprint, frequent guest programs, and license fees.

Subsequent to the acquisition, MI will be well positioned to leverage the strengths of both brand families as illustrated below:



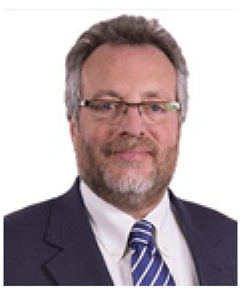
4 Source: Marriott International Investor Relations. 08 Dec. 2015. Web. 07 Jan. 2016.

MI's historically strong sales platform and successful owner/investor relationships, coupled with HOT's sizeable international presence and customer relationship management, will create unparalleled synergies.

According to the MI investor relations website, the majority of MI's development pipeline is located in the United States. As of Q3 2015, HOT, with a strong international footprint, has roughly a quarter of its room inventory situated in Asia, approximately double the room inventory of MI. The combination of MI and HOT will undoubtedly create significant potential for dual-branded hotel development throughout the world as they capitalize on strengths while lessening weaknesses.

To remain relevant and efficient, competitive brand families will need to create and exploit their own dual-branding opportunities. Continued consolidation is likely as hotel companies attempt to achieve operating efficiencies. The MI acquisition of HOT may very well mark the beginning of a wave of hotel mergers and acquisitions. Most recently, Accor, Europe's largest hotel operator, announced its intent to acquire three iconic brands, namely Fairmont, Raffles and Swissotel brands through its parent company FRHI.

Dual-branded hotels have become a focus of the hotel industry over the last several years. With news of the MI acquisition of HOT, the next generation of dual-branded hotels will surely be enhanced. In today's competitive environment, developers are constantly looking for new ways to differentiate their product. Future mergers and acquisitions as well as creative hotel developers will continue to evolve and expand the dual-branded hotel concept.



Daniel H. Lesser has more than 30 years of expertise in a wide range of hospitality operational, investment counseling, valuation, advisory, and transactional services. He currently serves as the President and CEO of LW Hospitality Advisors®, based in New York City.

Mr. Lesser is a leading authority on hotel feasibility and valuation, and is highly sought after to speak at lodging and real estate events, as well as lectures at prestigious institutions of higher education, including Cornell University, Columbia University and New York University. He is widely published and quoted, and serves as a quarterly columnist for HotelNewsNow.com and GlobeSt.com.

Most recently, Mr. Lesser created and served as the Senior Managing Director-Industry Leader of the Hospitality & Gaming Valuation Advisory Services Group at CB Richard Ellis Hotels (CBRE). Prior to joining CBRE, Mr. Lesser founded and led the Hospitality & Gaming Group at Cushman & Wakefield and was a founding member of the team at HVS International. Mr. Lesser has also held operational and administrative positions with Hilton Hotels Corporation and Eurotels-Switzerland.

He earned a Bachelor of Science degree in Hotel Administration from Cornell University, and also attended the Ecole hôtelière de Lausanne, Switzerland and Baruch College- City University of New York. Mr. Lesser holds the following professional designations: MAI (Member of the

Appraisal Institute), FRICS (Fellow of The Royal Institution of Chartered Surveyors), CRE (Counselor of Real Estate), and CHA (Certified Hotel Administrator).

Jonathan Jaeger currently serves as a Managing Director with LW Hospitality Advisors®, based in New York City. Prior to joining LWHA®, Mr. Jaeger had been with Pinnacle Advisory Group from January of 2008 through January of 2014. He began as a Consultant in the Boston office and was promoted to Vice President and head of the New York Practice. During his tenure, Mr. Jaeger was involved in the execution of over 300 consulting and valuation assignments throughout the United States.

Prior to his advisory career, Mr. Jaeger held various operational and accounting/finance positions with Starwood Hotels & Resorts and Kimpton Hotels & Resorts. He graduated with a Bachelor of Science from the Boston University School of Hospitality Administration in addition to a minor in Business Administration from the Boston University School of Management. Mr. Jaeger is a State Certified Real Estate Appraiser specializing exclusively in the evaluation of hotel properties. During his time in Boston, he served on the Emerging Leaders Committee of the Massachusetts Chapter of the Appraisal Institute as well as a Council Member of the Massachusetts Lodging Association Under 30 Gateway Chapter. Beginning in the spring of 2011, Mr. Jaeger joined the adjunct faculty at Boston University, serving as co-instructor of the Hotel Asset Management course. In addition to teaching a course at Boston University, Mr. Jaeger has written several articles for industry wide publications; topics included the Manhattan Lodging Market, Highest and Best Use Analyses, E-Commerce in the Hotel Industry, among others. In New York City, Jonathan is a member of YHIP, the Young Hospitality Investment Professionals Group and also participates with the NYC & Company Hotel Committee in addition to recently affiliating with the Metro NY Chapter of the Appraisal Institute.

Mr. Jaeger is a designated member of the Appraisal Institute (MAI); he achieved this designation in June of 2013. In addition, Mr. Jaeger is an active member of the American Hotel & Lodging Association (AH&LA) as well as a Development Coach for the United States Professional Tennis Association (USPTA).