

A Tale of Two Hotel Markets

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Today's hotel investment market is no longer moving as a single, unified sector within the global commercial real estate arena. Lodging capital is increasingly moving into two favored camps: luxury and resort properties at one end of the spectrum, and newer efficient select-service hotels at the other. Although both categories benefit from strong investor interest, each category appeals for very different reasons. What unites them is their ability to offer a clearer investment thesis than the middle of the lodging market, namely legacy full-service

properties flying the flags of very familiar traditional hotel brands.

Luxury Hotels: The value of being different.

High-end hotel and resort investments attract capital because they offer scarcity, pricing power, and multiple avenues for value creation. Exceptional locations, substantial barriers to entry, and affluent guests who are less sensitive to price can protect performance throughout changing economic cycles. Very little new inventory is being added at this level, due mainly to the cost to construct them. The best luxury properties are not merely places to sleep; they provide memorable experiences with distinctive architecture, food and beverage, programming, wellness, recreation, and quite often branded residential components. Investors should look for attributes that provide revenue growth well beyond just the guest room.

Assets at the top end of the market can offer investors an increasingly scarce advantage: true differentiation. A well-positioned resort cannot easily be replicated, particularly in coastal, mountain, or urban gateway markets where land and entitlements are scarce. When considering acquiring an exclusive asset, the investor should evaluate strategic renovations, a move to a stronger operator, curating memorable programming, or affiliating with a recognized luxury brand that can materially increase rate, occupancy and ancillary guest spend. For well-capitalized buyers, these properties provide both operating upside and growing real estate value.

Select Service Hotels: Understanding demand resilience.

Newer select-service hotels typically represent opposite, yet equally compelling investment propositions. Their appeal rests on simplicity, efficiency, and predictability. Modern select-service properties require fewer employees, offer limited

food-and-beverage exposure, and carry lower capital needs than older full-service hotels. Further, their streamlined operating models are especially attractive in an environment of elevated labor, insurance, utility, and financing costs.

When considering investing in select-service, savvy investors should look for certain attributes in an acquisition. For example, seek assets that are attractive to a wide range of demand sources such as corporate travelers, project staffing, families, youth sports teams, and price-conscious leisure guests. Avoid a narrow target audience. When paired with strong brands with global guest loyalty programs, they are hard to beat. Keep the reach of a brand's loyalty program in mind when evaluating an acquisition. Location is key: seek properties located near employment centers, airports, universities, hospitals, or growing suburbs. Newer select-service hotels can produce consistent cash flow in these venues, without the operating complexity found in large full-service properties. One of the ancillary benefits of acquiring select service hotels is that their operations – factors such as revenue drivers, operating expenses, and capital requirements – are easier to understand and underwrite.

Conclusion

The bifurcation in the lodging investment sector also highlights certain asset types that require more careful evaluation. Older, undifferentiated full-service hotels often face a combination of challenges: aging physical plants, costly brand-mandated renovations, extensive labor requirements, challenged food-and-beverage profitability, and the inability to drive premium rates. Similarly, older early-generation select-service properties may struggle against newer competitors while requiring renovations that are unlikely to generate corresponding increases in revenue. That said, given their condition, such assets may present an excellent opportunity to acquire them at a significant discount to replacement.

Today's most active private and institutional capital are inevitably gravitating primarily toward exceptional assets or efficient ones. Luxury and resort investors are accepting greater complexity in exchange for scarcity, experiential demand, outsized upside, and long-term asset value appreciation. Select-service investors, on the other hand, are choosing efficient operations, broader demand from various segments, and a more predictable cash flow stream. Hotels that fall in the middle of the pack, namely legacy properties that are neither distinctive nor efficient, may require a more compelling investment thesis to attract traditional financing, though they can still appeal to investors seeking value-add opportunities.

This division does not necessarily mean every luxury resort or new select-service hotel makes for a sound investment. Investment basis, location, brand, management, and capital structure remain key differentiators that any investor should carefully evaluate. Yet the direction of investment preference is clear in today's market: capital rewards hotels that can tell one of two convincing stories. They deliver irreplaceable and memorable experiences with meaningful valuation upside, or they offer modern, efficient lodging products built to generate consistent investment returns without a lot of frill.