NOI

Money matters in midscale

Pressure on this segment continues, but profitability is picking up

By Elaine Yetzer Simon
CONTRIBUTING EDITOR

Hotel brokers are starting to see the income statements of midscale hotels without food and beverage start to perk up despite some challenges.

Steven Marx, president and founder of Chicago-based Hotel Source and who also is general partner of a midscale hotel, said "profitability, meaning net operating income, is up this year from last year, and last year was up from the year before."

Charles Skelton, president of Hospitality Advisors and a salesman with Select Hospitality Brokers, said low supply is helping NOI. "As we push more people into these properties, they get a lot more profitable," he said. "Once they reach a certain level of occupancy and a certain level of revenue, ... they can make a lot of money."

Two of the biggest factors affecting profitability in this segment are the food-and-beverage component and labor, brokers say. Richard Conti, president of The Plasencia Group, said he prefers to measure profitability by looking at income before fixed charges. As a comparison, he said income before fixed charges in a well-operated full-service hotel will often range between 25 percent to 32 percent of total revenue, and in a select-service hotel it ranges between 42 percent and 50 percent of total revenue.

"Labor costs in both represent the majority of expenses," he said. "Imagine you have a hotel with F&B and rooms and one with just rooms."

Skelton said how hoteliers think about F&B has changed.

"We look at most operations [with meeting space and an operated F&B outlet] and we're typically looking at 15-, 16-percent profit in those as opposed to rooms, where you're looking at 70 percent," Skelton said. "Food-and-beverage is an amenity, not necessarily a profit center anymore."

Conti said that while select-service hotels took a big hit during the recession because it was difficult to trim already-lean operations, the segment's profitability potential is showing now.

"For every incremental dollar of revenue in an upturn, the select-service hotels can create a greater cash flow to the bottom line," he said. "They are smaller hotels, their occupancy can get higher sooner, so once occupancy gets to a certain point, they can raise rates a little quicker than a full-service hotel because a full-service hotel is selling transient and group." HM

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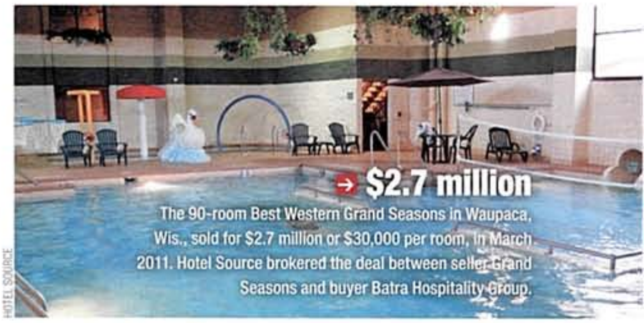
HOTEL SOURCE

→ $2.7 million

The 90-room Best Western Grand Seasons in Waupaca, Wis., sold for $2.7 million or $30,000 per room, in March 2011. Hotel Source brokered the deal between seller Grand Seasons and buyer Batra Hospitality Group.