

HOTELIER

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FILLING THE VOID: MIDSCALE HOTELS ARE FILLING AN UNDER-SERVED GUEST SEGMENT

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Midscale brands appeal to developers and operators, as well as consumers, because they're adaptable and dependable, while being flexible enough to meet the technology needs of consumers.

"Most midscale hotels are being built out of the core — it's more cost effective and has lower land costs. The ROI window has a quicker turnaround. Building a midscale is 'cookie cutter;' it's not complicated," observes Justin Meffe, vice-president of Operations, Monte Carlo Hotel Motel International.

Fraser Macdonald, senior analyst at Toronto-based Colliers International Hotels, notes that within the midscale spectrum, there are opportunities to "build variety" and "operate

mortgages,” while the reduced services offered involve fewer staff, which equals reduced costs for operators.

Monique Rosszell, managing director, HVS, agrees, saying “full-service hotels have more costs” and for midscale “the bottom line on a percentage basis is higher.” She adds that midscale “doesn’t require the expertise that full-service needs.” Rosszell also notes, midscale hotels are “more appealing to developers [as they require] less capital investment, which means easier financing.”

Midscale hotels are a dependable investment. “For the Canadian hotel industry, research from Cushman & Wakefield shows that, as asset values have risen, new construction may be a more appealing option. New development opportunities, like Tru by Hilton properties, offer the ability to enter markets with new and modern products, which developers are finding will often outperform their competitive set,” explains Alexandra Jartiz, global head of Tru by Hilton.

Consumers are attracted to midscale hotels precisely because they offer fewer, but specific, services that particular consumers value deeply, such as being dependable for offering efficiency and cost effectiveness.

Measuring Service Quality in Mid-scale Hotels — an American study published in the *International Journal of Contemporary Hospitality Management* in 2015 — stressed the importance of understanding what individual consumers value in a midscale hotel’s services, such as “service product and service environment” over “service delivery.” The researchers concluded that “midscale operators and developers may want to continue to focus on delivering a wider range of services than their guests anticipate.” Meffe believes the corporate traveller “drives” the services midscale brands offer. “They are cognizant of what they spend. [They want] efficiency, cleanliness and a healthy breakfast” as well as an “office away from the office.” Midscale hotels, he adds, “cater to white-collar corporate” clients who want easy access to HQ and [their] clients,” which means midscale hotels tend to be located away from urban cores.

Meffe and Macdonald agree lobbies in midscale hotels are adapting to customer needs. Meffe notes "some brands are being developed with game-changing lobbies with a fully open concept [with services] all in one space."

According to J. D. Power's *2017 North American Hotel Guest Satisfaction Index Study*, hotel guests report higher satisfaction when apps and functionality are a part of their hotel experience. Rosszell also notes the significance of millennials to the midscale segment. "They don't want the bells and whistles that baby boomers wanted." They're "autonomous," using their phones to choose their rooms, check in and as room keys. Not unlike white-collar corporate clients, millennials, Rosszell notes, want simplicity, efficiency and smaller rooms.

Examples of these consumer demands being met are found in the offerings of IHG and Tru by Hilton. IHG's presence in Canada now includes "12 new properties opening next year and 31 additional hotels in the pipeline," says Jonathan Lund, regional vice-president, Franchise Performance Support, Canada, IHG. Its Avid hotels are designed for the midscale segment with "14 million potential customers." Lund describes these guests as the "principled everyday traveller" who is "honest and practical...comfortable relying on themselves and value the basics done exceptionally well." To meet these consumers' needs, Avid's key offerings include efficient and inviting public spaces that allow for work or socializing. Technology is also featured in the offerings. Lund notes a "next-generation reservation system" along with "IHG Connect-enhanced Wi-Fi/bandwidth technology" and the ability for guests to "stream content from their smart devices to in-room TVs" are part of what consumers can expect.

As Jartiz explains, offerings for Tru include an emphasis on technology. The hotel will offer "mobile check-in, digital key, free Wi-Fi, remote printing, a social-media wall, lobby tablets and easily accessible outlets."

Lund says companies continue to rollout new brands within the midscale segment because "[IHG's] extensive research showed there is a vastly underserved segment of midscale travellers who generate significant revenue. There is a need for hotels that deliver a

superior guest experience at this price point. For owners and developers, we are targeting all-in build cost to be \$85,000 to \$90,000 per key.”

“We’re seeing a strong desire for this type of hotel in Canada,” Jartz says. “As a result, [Canada is] home to our first international-development deals [for Tru]. The next few years will see a growth of midscale brands within Canada.” As of October 2017, Hilton had signed deals for three Tru by Hilton properties in Canada — the 92-room Tru by Hilton Edmonton-Windermere, developed by Rohan Investments Inc. (opening 2018); the 120-room Tru by Hilton Markham, developed by Hanisha Inc. and Lodson Investments Corp. (opening 2019); and the 95-room Tru by Hilton Kingston, developed by Canada Ltd. (opening 2019). Citing Smith Travel Research (STR) data, Rosszell comments that of recently opened hotels in Canada, 41.7 per cent are upper-midscale and midscale. Rosszell also notes STR’s four-year projection of construction and planning indicates this segment represents 37 per cent of new supply in the pipeline.

“Consumer demand is driving development in this segment,” observes Jartz. “Travellers are looking for a fresh take on the midscale hotel. This has led to new brands that aim to provide consumers with the experience they’re looking for.”

In the future, midscale customers will come from within and outside of Canada. “There is tremendous growth in occupancy as the world becomes more globalized,” says Rosszell. “People are anticipating that the [travelling] Chinese middle class will equal a tremendous demand [for hotel rooms].”

“The future is bright for this segment,” states Macdonald. “Tourism is rising [and there is] a lot of room for growth.”

Written by J. Lynn Fraser