

BUSINESS

HILTON SEES ROOM FOR GROWTH WITH NEW LOW-PRICE BRAND

Chain woos millennials with bright colors and craft beer, and cozy quarters



Front-desk employee Kristina Navarro at the Tru by Hilton last month in Oklahoma City. BRETT DEERING FOR THE WALL STREET JOURNAL

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At first glance, the new hotel chain on track to be the fastest-growing in the U.S. resembles a boutique brand that might be found in a trendy, urban location.

But Hilton Worldwide Holdings Inc.'s new midprice brand, Tru, is pricing rooms at around \$100 a night or less and is largely aimed at less-flashy locales like suburban highway exits. The first Tru by Hilton hotel opened in May in Oklahoma City, to be followed by more than 200 locations by the end of 2019.

Hilton hopes to expand its customer base by focusing on a lower end of the market than the company has typically operated.

To differentiate itself from competitors in the same price range, such as Best Western or Quality Inn, Tru will try to hold costs down by making rooms smaller and easier to clean, while offering millennial-friendly lobby amenities such as craft beer and pool tables.

The market is enormous: About 30% of nightly demand at U.S. hotel chains is for rooms below an average of \$83 a night, according to STR, a data company that tracks the hotel industry.

The challenge, however, is convincing developers that building new hotels in that price range will generate sufficient returns.

Most midtier hotels occupy older properties that have been converted from other higher-priced brands. With Tru, Hilton is aiming for brand-new properties.

“It’s the graveyard for old hotels,” said Hilton President and Chief Executive Chris Nassetta. “The reason hotels have gotten to that price point is they were something different and they deteriorated. You’re sort of putting lipstick and rouge on a structure that’s obsolete.”

To make the returns worth the new development costs, Hilton had to rethink the design to get more rooms across a smaller amount of space.

Guest rooms are designed to be about 20% smaller than a typical hotel room in the price range. The overall footprint of the property is smaller, too, and will largely be away from big-city centers, keeping land costs down. Openings in coming months are scheduled in places like Farmville, Va., and Cheyenne, Wyo.

In exchange, Tru hotels have a lobby that is more than 80% larger than Hilton’s typical Hampton Inn location, which is priced slightly higher than Tru. The brightly colored lobbies have a self-serve market area where guests can get drinks and food, and also boast recreation areas and a separate section with individual pods where guests can work.

The rooms are designed in a way to make cleaning easier and faster. Rather than carpet, floors are covered in vinyl that can be mopped, and in-room desks and coffee makers have been banished, also to cut down on cleaning times.

“We have been laser-focused on what numbers we absolutely need to hit,” said Alex Jaritz, global head of the Tru brand, who previously worked at Choice Hotels International Inc., which operates brands like Quality Inn.

Other hotel companies are experimenting along the same lines. In recent years Marriott International Inc. introduced Moxy hotels, which have smaller rooms and more communal space in the lobby, though it is at a higher price point than Tru.

Intercontinental Hotels Group PLC said in June it would launch a new brand in this price range.

Best Western Hotels & Resorts introduced a brand called Glo in late 2015, just before Hilton announced Tru, that will operate in the same price range. It has a similar modern design but incorporates elements such as a layout that allows the bathrooms of adjoining rooms to be beside each other in an effort to save space.

The difference with Tru is scale. Best Western has 25 development deals in the works for Glo locations, whereas Tru has 425 properties in various stages of development, the biggest pipeline for any newly launched brand since at least 2003, when STR first started consistently tracking the data.

“They are a serious player. We know we have to up our game,” said Best Western CEO David Kong. “They are going to be in markets that we’ve dominated, so we have to protect our turf.”

Other competitors cautioned that achieving the right returns can be tricky at more affordable price points.

“A lot of people try to enter this marketplace and find it’s not as easy as they believe it is,” said Chip Ohlsson, executive vice president and chief development officer for North America at Wyndham Hotel Group, which runs the Ramada and Wingate chains.

“Where we operate, there’s less margin for error.”

Pat Pacious, president and chief operating officer at Choice Hotels, said his company rolled out a revamped design for new construction on its Sleep Inn brand last year. But

he said Choice has been cautious about moving toward smaller rooms, to avoid potentially alienating older guests.

“When you look at that midscale consumer, a tiny room is not in our view what they are looking for,” he said.

He said one way the company keeps costs down is through designs that allow for some part of the construction process to be done offsite.

John Chandler stayed at Hilton’s first Tru in Oklahoma City on a recent business trip from Dallas. He was impressed with the design but said he was frustrated by his room’s small workspace.

“It’s very chic and cool, it’s very loft-esque. But for a business traveler it’s tough,” he said. “This was very European. I live in Texas, I’m from the Deep South. We like it big.”

Matt Orlando of Houston, on the other hand, said he enjoyed working in the large lobby and felt his room had exactly what was needed.

“What do I do when I go into a room? I’m usually just hopping into the bed, watching some TV and going to sleep,” he said. “That’s why it made sense.”

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