



SMITH TRAVEL RESEARCH

Extended Stay Outlook Strong

By Chase Melnychyn, HVS - Canada

While the extended-stay hotels model has been around for over 30 years since the development of the first Residence Inn in Wichita, Kansas in 1997, the development of the concept in Canada is still well behind the growth that has been seen in this sector in the United States. That slow growth in the Canadian market appears to be changing as developers in Canada become savvy to the beneficial attributes of the extended stay model. Their ability to generate gross operating profit ratios above general industry averages has made this niche hotel market appealing.

Extended stay hotels are defined as "a hotel with a fully equipped kitchenette in each guestroom, and which accepts reservations and does not require a lease"¹. Specifically, extended-stay hotels offer amenities not always available in standard-room hotels, such as fully equipped kitchenettes in all of the guestrooms, self-serve laundry facilities, athletic courts, fitness facilities, and barbeque patios. At the same time, they tend to offer only limited meeting space and on-site food and beverage facilities. Extended-stay accommodations are often a hybrid between hotels and apartment complexes.

In the US extended stay hotels currently represent 6.4% of the total hotel inventory in 2006 (270,512 guestrooms) and are expected to grow to up to 7.6% of the total inventory by 2011. This compares to only 40 branded extended stay hotels in Canada, or an estimated 1% of the total inventory in Canada. The future appears bright for extended-stay hotels, with indications of strong demand confirming their staying power in the market. Demand growth in the US for extended stay hotels is outpacing the market in general and the supply of extended stay rooms is forecast to grow at greater levels than the overall rate of supply growth.

This encouraging market growth is fuelled by several desirable factors in the extended stay model, with the key advantage being

efficiency. Extended-stay hotels operate with reduced operating expenses, which translate into increased profit margins. In the ideal extended stay model, over 50% of guests stay five days or longer. This eases the pressure on the front desk so that its hours and staff may be reduced. Moreover, longer stays mean that full room cleans are not required as often, thereby minimizing housekeeping work. The minimal food and beverage services provided to guests on-site further reduce operating expenses.

The sales and marketing costs involved in running an extended-stay hotel also tend to be less. This is due to the kind of customer that is pursued. Extended-stay hotels typically rely on direct marketing as opposed to costly, large-scale marketing campaigns that target a broad demographic.

Another competitive advantage of extended-stay hotels is their relatively stable occupancy rate. Many hotels experience cyclical weekly occupancy and rate figures, depending on the clientele they pursue. For example, business hotels generally maintain high occupancies from Monday through Thursday, but demand declines during the weekend. The longer stays that extended-stay hotels accommodate minimize these fluctuations. As guests of extended-stay hotels often book for multiple days or even weeks at a time, hotels are able to maintain sustained occupancies, even if guests are not physically in the rooms all days of the week.

Extended stay hotels also typically generate an average room rate premium in a market due to their all-suite orientation, and recent statistics in the US indicate that they have been able average room rate growth premiums over the market in general.

Comparing the financial statements of full-service, and extended-stay hotels confirms the financial advantages of extended-stay hotels. The US data indicates that the profit margins in full-service hotels averages roundly 25% of total revenue, whereas the data

¹The Highland Group, *The 2007 US Extended Stay Lodging Market*



HVS - CANADIAN LODGING OUTLOOK

June 2007	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2007	2006	2007	2006	2007	2006		
Nova Scotia Area	1,149	61.2%	59.4%	\$101.22	\$95.22	\$61.95	\$56.56	0.9%	3.8%
Halifax, NS	3,430	80.3%	79.9%	\$138.55	\$135.54	\$111.26	\$108.30	-0.2%	0.3%
Montreal Downtown	9,986	77.2%	81.4%	\$192.08	\$201.58	\$148.29	\$164.09	3.3%	-2.1%
Montreal Area	5,323	73.9%	75.6%	\$115.11	\$116.69	\$85.07	\$88.22	1.0%	-1.3%
Quebec City, QC	3,912	73.9%	75.2%	\$149.37	\$149.26	\$110.38	\$112.24	0.8%	-1.0%
Quebec Area	5,789	61.6%	61.5%	\$125.99	\$121.28	\$77.61	\$74.59	0.3%	0.6%
Toronto Downtown	13,733	84.1%	78.2%	\$188.82	\$175.93	\$158.80	\$137.58	1.5%	9.1%
Toronto North/East	6,599	73.4%	70.5%	\$119.53	\$116.68	\$87.74	\$82.26	-0.7%	3.4%
Toronto Airport/West	7,824	73.1%	71.4%	\$114.24	\$113.37	\$83.51	\$80.95	-1.1%	1.3%
Ottawa, ON	6,563	81.8%	79.1%	\$143.32	\$134.92	\$117.24	\$106.72	-0.3%	3.1%
Ontario East	4,226	70.5%	66.9%	\$108.18	\$105.29	\$76.27	\$70.44	1.2%	6.8%
Windsor/ Ontario SW	3,084	58.7%	57.4%	\$101.61	\$101.35	\$59.65	\$58.17	0.0%	2.3%
London/ Kitchener	6,288	64.6%	64.3%	\$102.94	\$101.14	\$66.50	\$65.03	3.1%	3.6%
Ontario North/ Thunder Bay	1,808	78.1%	84.4%	\$88.23	\$87.28	\$68.91	\$73.66	0.6%	-6.8%
Ontario NC/ Sudbury	4,250	64.5%	66.1%	\$109.69	\$106.10	\$70.75	\$70.13	1.0%	-1.3%
Niagara Falls, ON	8,871	73.3%	74.1%	\$141.20	\$138.76	\$103.50	\$102.82	0.2%	-1.0%
Ontario Central	3,063	61.5%	61.3%	\$109.83	\$103.63	\$67.55	\$63.53	3.5%	3.8%
Mississauga, ON	5,683	68.7%	65.8%	\$110.32	\$107.26	\$75.79	\$70.58	2.0%	6.5%
Winnipeg, MB	3,693	78.0%	71.0%	\$102.53	\$96.35	\$79.97	\$68.41	-0.2%	9.6%
Regina/Saskatoon, SK	4,363	78.8%	72.7%	\$106.15	\$98.86	\$83.65	\$71.87	0.0%	8.4%
Calgary, AB	8,579	83.5%	84.7%	\$155.34	\$142.93	\$129.71	\$121.06	3.3%	1.8%
Edmonton, AB	7,551	77.6%	76.1%	\$119.47	\$108.52	\$92.71	\$82.58	0.7%	2.8%
Alberta North Area	3,153	71.2%	77.7%	\$172.32	\$149.55	\$122.69	\$116.20	2.0%	-6.6%
Alberta South Area	7,838	72.1%	70.6%	\$162.44	\$156.10	\$117.12	\$110.21	0.6%	2.8%
Vancouver Downtown	7,777	90.3%	90.8%	\$190.47	\$187.43	\$171.99	\$170.19	-2.7%	-3.2%
Vancouver/ Burnaby Area	2,067	86.6%	87.1%	\$132.90	\$122.46	\$115.09	\$106.66	0.0%	-0.6%
Richmond-Surrey/ East Area	5,785	78.3%	76.1%	\$118.45	\$110.65	\$92.75	\$84.20	0.0%	2.8%
British Columbia Area	5,713	59.7%	59.3%	\$122.27	\$121.32	\$73.00	\$71.94	0.7%	1.4%
Kamloops/ Kelowna Area	4,409	63.4%	61.3%	\$106.02	\$99.60	\$67.22	\$61.05	2.4%	5.9%
Vancouver Island	3,500	77.3%	77.3%	\$143.35	\$138.43	\$110.81	\$107.01	0.4%	0.5%
Provinces									
Alberta	27,121	74.3%	75.5%	\$134.72	\$124.35	\$100.10	\$93.88	1.5%	-0.1%
British Columbia	28,489	70.7%	69.8%	\$125.60	\$120.51	\$88.80	\$84.12	0.5%	1.8%
Manitoba	4,525	73.0%	66.5%	\$85.18	\$80.02	\$62.18	\$53.21	-0.1%	9.6%
New Brunswick	3,287	56.2%	52.1%	\$96.53	\$91.35	\$54.25	\$47.59	-0.2%	7.5%
Newfoundland	1,839	83.1%	67.8%	\$120.44	\$108.24	\$100.09	\$73.39	0.0%	22.6%
Nova Scotia	4,579	59.0%	62.9%	\$115.77	\$106.15	\$68.30	\$66.77	0.4%	-5.8%
Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	71,992	70.4%	68.9%	\$122.32	\$115.10	\$86.11	\$79.30	1.0%	3.1%
Prince Edward Island	1,006	57.7%	62.1%	\$123.65	\$114.84	\$71.35	\$71.32	0.0%	-7.0%
Quebec	25,010	66.9%	66.0%	\$126.45	\$132.40	\$84.60	\$87.38	1.0%	2.3%
Saskatchewan	5,714	68.2%	64.7%	\$89.41	\$83.01	\$60.98	\$53.71	0.1%	5.6%
Yukon Territory	638	76.1%	80.8%	\$105.18	\$97.65	\$80.04	\$78.90	0.0%	-5.8%
Canada	174,324	68.3%	67.0%	\$119.97	\$115.80	\$81.94	\$77.59	0.8%	2.9%

HVS - CANADIAN LODGING OUTLOOK

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Nova Scotia Area	1,149	52.9%	49.9%	\$92.79	\$89.93	\$49.09	\$44.88	0.1%	6.1%
Halifax, NS	3,430	65.6%	63.8%	\$122.03	\$117.24	\$80.05	\$74.80	-2.3%	0.3%
Montreal Downtown	9,986	62.2%	63.2%	\$150.54	\$157.31	\$93.64	\$99.42	2.6%	1.0%
Montreal Area	5,323	61.7%	63.5%	\$107.40	\$107.50	\$66.27	\$68.26	1.2%	-1.8%
Quebec City, QC	3,912	58.3%	61.2%	\$127.01	\$126.80	\$74.05	\$77.60	0.8%	-3.8%
Quebec Area	5,789	53.8%	53.8%	\$123.69	\$119.68	\$66.55	\$64.39	0.5%	0.6%
Toronto Downtown	13,733	68.2%	66.5%	\$170.22	\$165.10	\$116.09	\$109.79	0.8%	3.3%
Toronto North/East	6,599	60.7%	61.2%	\$118.10	\$115.40	\$71.69	\$70.62	1.1%	0.3%
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HVS - CANADIAN LODGING OUTLOOK

from the Highland Group indicates net income for economy and mid-priced extended stay hotels in excess of 40% of total revenue and 33% of total revenue for upscale extended stay brands.

Rooms revenue is the most important line item to consider when evaluating the success of an extended-stay hotel, for other revenue sources such as restaurants, meeting space rentals, and retail stores are limited or non-existent in this type of property. Rooms revenue in extended-stay hotels averaged 97.1% of total revenue. With profit margins in this departments ranging from 79% to 85%, depending on the orientation of the extended stay property.

With the success of extended-stay hotels in the United States, many of the major extended-stay brands are now beginning to

focus on Canada where the market is relatively untapped. Companies such as Choice Hotels with its Mainstay Suites and Suburban Extended Stay Hotels are looking to make an aggressive push into the Canadian hotel market, along with existing players such as Homewood Suites by Hilton, Residence Inn by Marriott, Staybridge Suites and Candlewood Suites, both owned by InterContinental Hotels Group. The number of players in the Canadian market is still only a fraction of 30 plus brands that are represented in the US, but is expected to grow significantly in the upcoming years. ♦

DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvs.com
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