

Report on the Extended Stay Lodging Industry in the United States

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This report on the status of the extended-stay lodging industry in the United States was prepared by The Highland Group as a service to the industry. We are grateful to the extended-stay hotel chains and owners that contributed information to this report and trust that the results will be useful. While accurate to the best of our knowledge, we do not warrant the accuracy of any information presented, nor do we warrant that any projections will be achieved. This information should not be relied upon to make any investment or management decision without further research and analysis.

Highlights

- Extended-stay hotel room supply in the United States increased 54 percent in 1997 over 1996. Our figures indicate that 38,000 new extended-stay rooms opened during the first ten months of 1997.
- Based on development plans of existing extended stay lodging companies, 80,000 extended-stay rooms are projected to be added each year for the next five years.
- Atlanta is a benchmark city for extended-stay hotels because of the depth and diversity of extended stay supply in the city. As of the end of 1997, extended-stay room supply topped 11,000 in Atlanta. This represents 16 percent of the total Atlanta hotel inventory.
- There will be more economy-price than upscale extended-stay rooms before the end of 1998. This is a significant reversal from prior years and indicates a change in the way extended stay lodging is used by American travelers.
- Projected extended-stay hotel supply will be more than half a million rooms through 2002. At this level, extended stay hotel rooms will represent some 12 percent of total lodging inventory.
- Extended-stay demand grew at an annual rate of 54 percent in 1997, absorbing new rooms as they opened.

Database

The database used in forming the estimations and projections in this report included the extended-stay brands in the table following. There are other independent extended-stay hotels that were not included, but the sample represents the great majority of extended-stay rooms in the US.

Extended-Stay Hotel Brands

Rate Tier	Upscale	Mid-Price	Economy (1)	Budget (1)
Weekly Rate Range	\$450+	\$300 - \$450	\$150 - \$300	<\$150

Manhattan East	Staybridge	Extended Stay America	Intown Suites
Metropolitan House	Sierra Suites	Budget Suites	Value Lodge
Summerfield Suites	Select Suites	Homestead Village	Villager Lodge
Woodfin Suites	Mainstay	Hearthside	Suburban Lodge
Residence Inn	Hawthorne Limited	Value Lodge	Sun Suites
Homewood Suites	Towne Place Suites	Crossland	Various independent properties
Hawthorne Suites	Bradford Suites	Villager Lodge	
	Homegate	Suburban Lodge	
	Candlewood Suites	Sun Suites	
	Lexington Suites		
	Studio Plus		

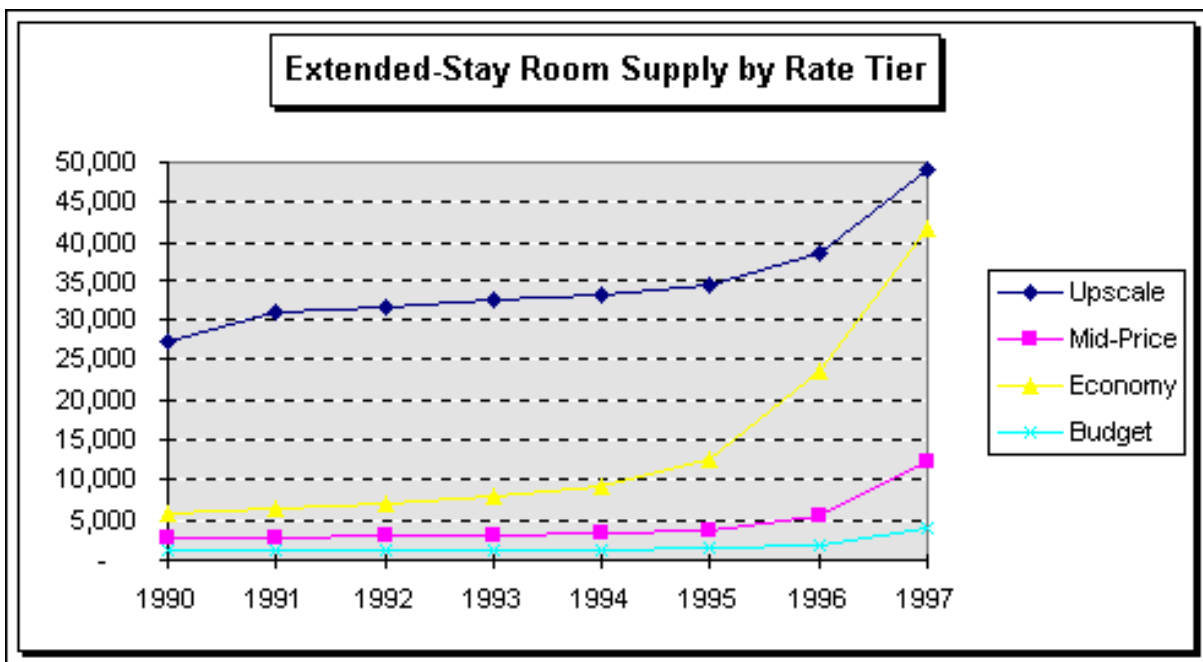
Note: (1) Several chains have product in both the economy and budget rate tiers. They are sorted into these two tiers by hotel within each chain for the averages and charts in this report.

Source: The Highland Group

Brands are grouped by the weekly room rate range in which their hotels conform. However, individual hotels of a given brand may have weekly rates outside the ranges in certain markets and we have adjusted for these variations.

United States Extended Stay Lodging Supply

Extended-stay room supply increased 54 percent during the first 10 months of 1997 compared to year-end 1996. Supply gains in 1997 followed a 32 percent increase in 1996 over 1995. Extended-stay hotel rooms currently represent about 3 percent of total US hotel room supply. The graph following shows the increase in extended-stay hotels rooms by rate tier since 1990.



Sources: *Smith Travel Research*
The Highland Group

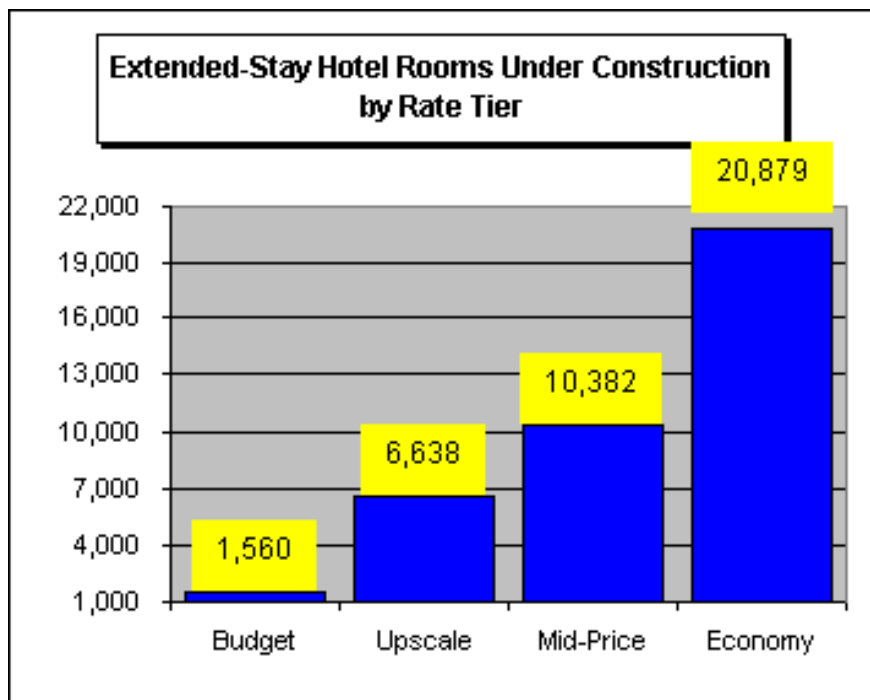
Extended-stay hotel supply approached 107,000 rooms through October 1997 as shown below:

US Extended-Stay Room Supply

Rate Tier	Rooms	Percent
Upscale	48,993	46%
Mid-Price	12,270	11%
Economy	41,733	39%
Budget	3,933	4%
Total	106,929	100%

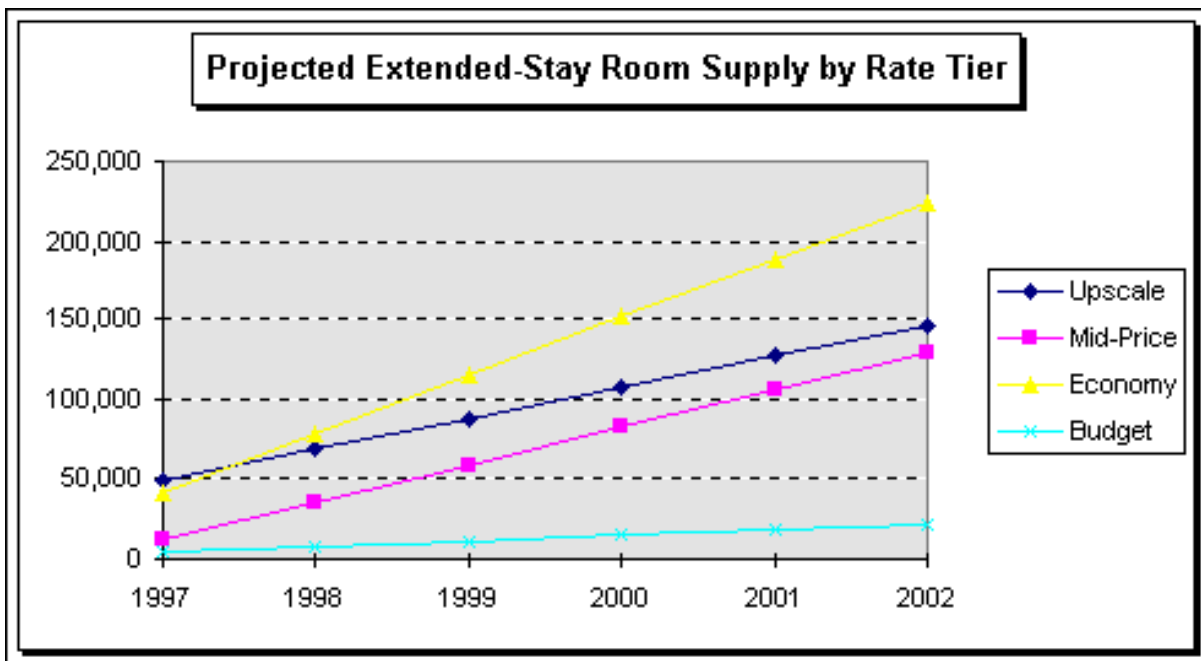
Sources: *Smith Travel Research*
The Highland Group

The fastest supply percentage increase occurred in the mid-price and budget segments because they are the smallest groups. The greatest number of rooms was added in the economy segment and more economy extended-stay rooms are under construction than rooms in other segments:



Source: The Highland Group

Projected room additions through 2002 in the economy segment are also the strongest, and this segment is projected to have the greatest number of rooms before the end of 1998, as follows:



Source: The Highland Group

Assuming supply growth projections are fully realized through 2002, extended-stay rooms will be distributed according to the table following.

Projected Extended-Stay Room Supply 2002

Rate Tier	Rooms	Percent
Upscale	146,143	28%
Mid-Price	128,645	25%
Economy	224,433	43%
Budget	21,933	4%
Total	521,154	100%

Sources: *The Highland Group*

This represents a significant change from the current distribution and marks a change in the way Americans use extended-stay lodging. Use of extended-stay lodging will have expanded from the corporate expense-account market to encompass most demographic segments. Corporations are taking advantage of the availability of these facilities for training, relocation and temporary assignments at all levels.

According to Smith Travel Research, total US hotel room supply increased at an average annual rate of 1.5 percent from 1990 through October 1997. Assuming total room supply increases at the same rate through 2000 and extended-stay hotels growth projections are fully realized, extended-stay hotel rooms will account for about 12 percent of total US hotel room supply through 2002.

United States Extended Stay Lodging Demand

Average extended-stay hotel occupancy was 79.6 percent through October 1997, which was the same as year-end 1996 occupancy despite a 54 percent increase in supply. This represents remarkable expansion of demand in response to new product. The table following shows historic extended-stay hotel demand growth.

Historic Average Occupancy and Demand Growth: US Extended-Stay Hotels

	1990	1991	1992	1993	1994	1995	1996	1997 (1)
Rooms	37,330	41,610	42,950	44,907	47,077	52,404	69,349	106,929
Occupancy	73.3%	73.4%	76.2%	79.1%	80.9%	80.5%	79.6%	79.6%
Rooms Sold (2)	9,987	11,148	11,946	12,965	13,901	15,401	20,154	31,067
Demand Growth		12%	7%	9%	7%	11%	31%	54%

Note: (1) Through October (2) Thousands

Sources: *Smith Travel Research*

The Highland Group

Extended-stay room demand grew at an annualized rate of 54 percent in 1997 compared to 1996. This equates to a gain of almost 11 million room nights in 1997 following an increase of nearly 5 million room nights in 1996 compared to 1995. New extended-stay rooms are being absorbed rapidly on a national level. The table following shows average extended-stay hotel occupancy according to rate tier.

Average Extended-Stay Hotel - Occupancy by Rate Tier

Rate Tier	Occupancy
Upscale	82.7%
Mid-Price	77.2%
Economy	80.0%
Budget	90.5%
Overall	79.6%

*Sources: Smith Travel Research
The Highland Group*

Occupancy is highest in the budget segment, which is consistent with the inverse relationship between average length of stay and price. (Average length of stay increases as price decreases and a long average stay tends to promote higher occupancy.) Ultimately, we project that occupancy in economy and mid-price segment will be higher than in the upscale category. Lower occupancy in these segments compared to the upscale tier reflects a relatively high number of new rooms currently under absorption in mid-price and economy segments.

The table following shows average rate for extended-stay hotels according to rate tier.

Extended-Stay Hotel Average Rate by Rate Tier

Rate Tier	Average Rate
Upscale	\$99
Mid-Price	\$50
Economy	\$31
Budget	\$20
Total	\$67

Source: The Highland Group

The overall average rate for extended-stay hotels declined to \$67 in 1997 from \$71 in 1996. Average rates rose in the upscale segment but the overall average rate declined because of the large increase in lower-priced extended-stay hotels.

We project that the strongest average rate increases will occur in the mid-price segment because of the projected increases in the proportion of hotels priced in the upper end of this category.

Atlanta and Dallas

Atlanta and Dallas share many similarities. Both Metropolitan Statistical Areas (MSAs) are similar in terms of population and employment size, mix of industries and economic growth. Dallas and Atlanta are high growth MSAs and their hotel market mixes are predominantly commercial. We compared the status of extended-stay lodging in Atlanta and Dallas as highlighted in the following paragraphs.

Supply: Atlanta and Dallas

Atlanta has more extended-stay hotel rooms than any other MSA in the nation. At 11,005 extended-stay rooms, Atlanta has more than two and one half times as many extended-stay rooms as Dallas, as shown in the table following.

Hotel and Extended-Stay Hotel Market Summary

	Atlanta	Dallas
Total Hotel Rooms	69,000	47,638
Average Occupancy	66%	65%
Extended Stay Rooms	11,005	4,116
Average Occupancy	82%	77%
Percent Extended Stay Supply	16%	9%
Percent Extended Stay Demand (1)	20%	10%

Note: (1) Includes transient business in extended-stay hotels

Sources: Smith Travel Research, Source Strategies Inc., The Highland Group

Extended-stay hotel rooms represent 16 percent of total hotel rooms in Atlanta compared to 9 percent in Dallas. Demand accommodated in extended-stay hotels in Atlanta accounts for 20 percent of total MSA hotel demand. The respective figure in Dallas is 10 percent. Extended-stay hotels have a greater share of demand than supply, which accounts for their higher occupancies.

One of the reasons for disproportionately high extended-stay supply and demand statistics in Atlanta compared to Dallas is Atlanta's large supply of budget-priced extended-stay hotels, as shown in the table following.

Extended-Stay Hotel Distribution and Average Occupancy by Rate Tier

Rate Tier	Dallas		Atlanta	
	Rooms	Occupancy	Rooms	Occupancy
Upscale	1,873	75%	2,409	71%

Mid-Price	1,048	71%	540	75%
Economy	1,195	85%	4,741	85%
Budget			3,315	88%
Total	4,116	77%	11,005	82%

Sources: Source Strategies Inc.
The Highland Group

Atlanta has more than 3,300 budget-priced extended-stay hotel rooms, many of which have very long average stays. They operate at high occupancy and many operate at rent levels that would not be economically feasible for a comparable property built today. Direct comparisons between extended-stay supply and demand statistics in Atlanta and Dallas should consider Atlanta's budget-priced extended-stay hotel community. However, Atlanta still has almost twice as many upscale, mid-price and economy-priced extended-stay hotels as Dallas. The tables following show extended-stay hotel rooms under construction and planned for Atlanta and Dallas.

Projected Extended-Stay Room Supply: Atlanta

	Hotels Under	Rooms Under	Hotels Planned	Rooms Planned
	Under Construction	Construction	Annually (1)	Annually (1)
Upscale	3	312	2	200
Mid-Price	4	355	5	470
Economy	5	623	8	977
Budget	0	0	2	250
Totals	12	1,290	17	1,897

Note: (1) Through 2002

Source: The Highland Group

Projected Extended-Stay Room Supply: Dallas

Rate Tier	Hotels Under	Rooms Under	Hotels Planned	Rooms Planned
	Under Construction	Construction	Annually (1)	Annually (1)
Upscale	1	78	0	0
Mid-Price	7	737	5	595

Economy	14	2,146	7	903
Budget	2	240	2	250
Totals	24	3,201	14	1,748

Note: (1) Through 2002

Source: *The Highland Group*

According to Smith Travel Research, average annual hotel room supply growth from 1987 through October 1997 was 1.7 percent in Dallas and 3.5 percent in Atlanta. Assuming respective total supply growth rates are maintained and extended-stay hotel growth projections are fully realized through 2002, extended-stay hotel rooms will represent 31 and 27 percent of total hotel room inventory in Dallas and Atlanta respectively.

More than 3,200 extended-stay hotel rooms are currently under construction in Dallas, of which 67 percent are in the economy segment. Atlanta has 1,290 extended-stay rooms under construction, of which 48 percent are in the economy segment. Future room additions planned in Dallas and Atlanta are similar but no upscale extended-stay hotel companies have announced plans for new hotels in Dallas. The economy segment has the greatest number of rooms planned for Atlanta and Dallas.

Demand: Atlanta and Dallas

Room night demand in extended-stay hotels in Dallas increased 648 percent from 1990 through October 1997. The comparable increase in Atlanta, which had a larger base of supply, was 83 percent. The table following shows annual change in extended-stay demand in Atlanta and Dallas.

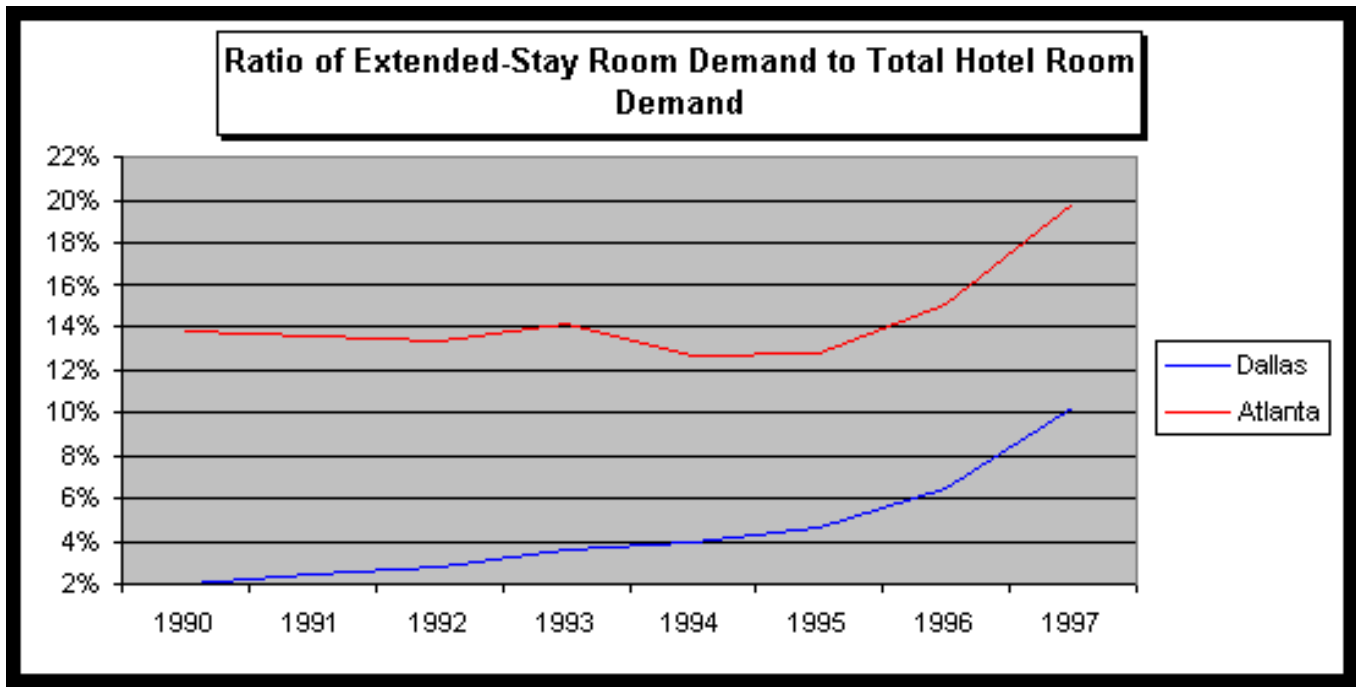
Historic Extended-Stay Demand Statistics

	1990	1991	1992	1993	1994	1995	1996	1997 (1)
<i>Dallas</i>								
Extended-Stay Rooms	699	813	925	1,200	1,333	1,604	2,659	4,116
Occupancy	70%	72%	75%	77%	82%	81%	72%	77%
Demand Growth		20%	18%	34%	19%	18%	49%	65%
<i>Atlanta</i>								
Extended-Stay Rooms	5,466	5,466	5,598	5,598	5,673	5,673	8,131	11,005
Occupancy	90%	86%	87%	88%	92%	95%	83%	82%
Demand Growth		-4%	4%	1%	6%	3%	25%	34%

Note: (1) Through October

Sources: *Source Strategies Inc.*
The Highland Group

Considerably stronger relative extended-stay demand growth in Dallas compared to Atlanta is attributable to the smaller number of extended-stay rooms in Dallas. Atlanta absorbed over 2,100 extended-stay rooms more than Dallas from 1990 through October 1997. Demand growth for extended-stay hotels has been stronger than overall hotel demand growth in both Dallas and Atlanta, particularly since 1995, as shown in the graph following.



Sources: Source Strategies Inc., Smith Travel Research, The Highland Group

Demand growth for extended-stay hotels is projected to exceed overall hotel demand growth in Atlanta and Dallas. However, discussions with operators of newer extended-stay hotels in Atlanta indicated a lengthening in absorption time for new product. Additionally, we noticed increased competition between extended-stay hotels, particularly in the mid-price and upscale segments. Competition between extended-stay hotels will intensify in Atlanta and Dallas and some over building will occur in certain sectors of both MSAs. However, the findings of this research indicate that Atlanta and Dallas overall are unlikely to become over-supplied extended-stay hotel markets in the near term.

Atlanta generates high amounts of extended-stay demand compared to many MSAs. This is reflected in Atlanta's high ratio of extended-stay hotel rooms to total hotel rooms, which is the highest in the nation to the best of our knowledge. While many MSAs may not be able to support the same ratio of extended-stay hotel rooms to total hotel rooms as Atlanta, our research indicates that there is considerable room for extended-stay supply growth in many MSAs around the nation.