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Opinions

Are we moving toward the era of economy?

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The last eight years of recovery have been characterized by different eras, including the M&A era we're in now. What does economy M&A mean for what's next?

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A few weeks ago at the Hunter Hotel Conference in Atlanta, STR's own Jan Freitag announced that the U.S. hotel industry was celebrating 96 consecutive months—eight years—of revenue-per-available-room growth. That statement really made me sit up and take stock. "Eight years? Eight YEARS? What was I even DOING eight years ago?" I asked myself. (STR is Hotel News Now's parent company.)

Well, I was reporting on an industry coming out of recession is what I was doing. The point is that all of a sudden, eight years ago seemed like yesterday, given the fast pace of change this industry experiences.

And if we're celebrating eight years of positive growth now, that means that this fall we'll "celebrate" 10 years since the Great Recession first hit the U.S.

The last eight years have been characterized by different eras: The era of distressed assets. The CMBS era. The era of the REITs. You could go on and on. They all played different roles in the rebuilding of an industry.

Now we're undoubtedly in the era of M&A, and rather than rebuilding the industry, it's serving to reshape it.

Last week my colleague Sean McCracken blogged on this topic and explored how this M&A era is further subdividing from the Marriott-Starwood period of multibrand M&A, into the single-brand M&A period.

I, like Sean, speculated that single-brand companies would be most vulnerable to movement in this period—the Cobblestone Hotels and Red Roof Inns of the world. But really, those companies have carved out pretty nice niches with their development partners, and I don't see them moving from that mark anytime soon.

Sure, some M&A speculation among larger companies and REITs still swirls around. But then you see news like RLH Corporation buying the Knights Inn brand from Wyndham Hotel Group. Knights Inn! That's not even single-brand M&A; that's single-economy-brand-from-big-portfolio M&A.

What is the value there? The logical explanation most give behind M&A is scale, of course. But is scale still worth the same if you're amassing thousands of economy rooms as it is if you're amassing hundreds of premium-branded midscale rooms?

Maybe scale and value are in the eye of the beholder, err … the investor.

I think we may be on the precipice of, dare I say it, the economy era. We're still in the same recovery eon, if you will, but I can't help but see more eyes on that fictional-yet-people-all-know-it's-there segment of "lower midscale/upper economy."

However they define it, this is the new sweet spot I anticipate owners and investors want to be in. It's the Tru by Hiltons (Trus by Hilton?). The Red Roof Inns. The La Quintas. That place where labor and materials costs are as tight as possible yet amenities and design range from passable on the low end to great on the high end.

This is a world where Extended Stay America and WoodSpring Suites are aspiring to, and a world where Hampton Inn is practically the Four Seasons. It's a world where there's hope for Knights Inn.

In other words, it might finally be a time where the economy segment gets the investor recognition to back up the guest demand, the low costs and the good margins it has traditionally enjoyed.

Let me know what you think. Comment below, email me at sricca@hotelnewsnow.com or find me on Twitter @HNN_Steph.