"Midscale, Extended Stay" Accommodation Could Be the Next Big Thing for Hospitality

Just three years ago, the hospitality sector faced some of its toughest challenges. As borders closed and travel all but ceased, hotels were left scrambling to come up with new strategies to stay afloat until they could reopen their doors to incoming guests.

Among the bright spots for commercial real estate (CRE) over the past couple of years has been the trend of ongoing recovery we've seen for this sector. An additional upshot of the upheavals has been a drastic rethinking of what hospitality properties and packages can, and should, offer their guests.

We've seen new trends like "resortainment" rising to prominence, while luxury, long-term accommodations have become an increasingly popular option for travelers taking advantage of remote work situations.

The latest development in that ongoing chain of innovation is a move to cement "midscale" accommodation as a longer-term option for traveling, and working, guests. And it's gaining traction with some of the biggest players in the industry.

Top Brand Offerings

Over the past few months, there has been a spate of announcements for new midscale offerings entering the market.

At the start of the year, for example, Hilton Hotels announced a "premium economy" brand called Spark, which combines hotel-style guest rooms with communal public spaces, built-in 24-hour retail markets and digital check-in options.

Since then, Hilton has also announced a "lower-midscale, extended-stay" brand currently labeled "Project H3", which is set to offer apartment-style accommodation for traveling professionals.

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Hyatt has a new Studios concept and notes that Studios will be its first "upper midscale" brand in the Americas and aims to combine "the coziness of a studio apartment with the energy of a creative studio." Like Hilton's Spark, Hyatt Studios will include amenities like a 24-hour food market and "grab-and-go" breakfasts.

A common theme among these new offerings is the idea that providing a midscale, extended stay option will allow big brands to expand their footprint in smaller markets that don't currently have access to them.

Reinventing the Trend

The trend of longer-term, midscale accommodation isn't a new one. As anyone familiar with the hospitality industry knows, there have always been accommodation options that cater to longer-term visitors on a 'less-than-luxury' budget. What's changed, however, is the degree of interest in these offerings, what they provide, and how long guests are staying.

In a recent interview with CoStar, CEO of Noble Investment Group, Mit Shah, noted that midscale accommodations now cater to guests staying for upwards of 30 days, a trend he calls: "the nexus between hospitality and multifamily."

Another tailwind for midscale extended stay assets is the relatively lower cost of building them (compared to many other assets in the space), and the fact that they can operate on a much more streamlined model. Shah notes that most could be run with as few as seven to eight full-time employees.

In his discussion of "Project H3", Hilton President and CEO Chris Nassetta agrees, pointing out that the new midscale brand could deliver "astronomical margins," especially given low per-unit build costs.

He adds: "We're talking about an average length of stay of probably 20 to 30 days on average, versus most of the core extended-stay brands with five to 10 days… It's a different demand base, different types of locations, which is why we love it because we're not already serving it."

New Opportunities

As these premium brands move into newer, and smaller, submarkets, they bring with them some interesting possibilities. New accommodation models mean new opportunities, including for commercial real estate (CRE) professionals working in adjacent sectors, like retail.