



# Hotel Room Rate Pricing Strategy and Property Owner Types

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## Introduction

- The landscape of the hotel owner is diverse—hotels are owned, ranging from individual investors to global hotel brand companies and real estate investment trusts (REITs). (Borko, 2021).
- Approximately 50% of full-service hotel stock in mature markets is owned by REITs, financial investors, and institutional investors. (Jones Lang LaSalle, 2015).

## (4) Hotel developers/operators

- Run the properties
- Franchise with a brand and abide by brand standards.
- Primary objective—management fees and proceeds from selling the property
- A longer investment horizon

## Study's Objectives

- To understand the hotel owner's effect on pricing strategies and performance at the property level.
- Notably, we seek to identify the optimal hotel room pricing strategies for different investment objectives of various types of hotel owners.

## Hotel Owner Types and Price Responses

- Four types of hotel owners. Each owner type has **different** investment goals, operating structures, and strategies.

### (1) REITs

- Passive owners
- Hire management companies
- Primary objective—stable incomes from the properties



### (2) Financial investors

- Active owners
- Hire management companies
- Primary objective—sell the investment at a higher price.
- A short investment horizon (Corgel, 2008)



### (3) Hotel brands

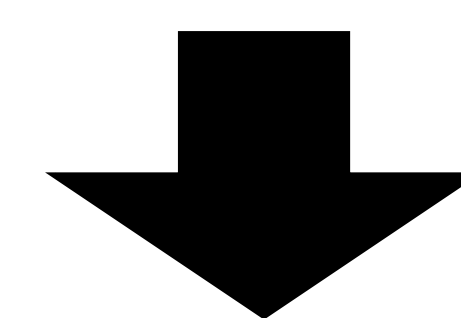
- Own, run and brand their own properties.
- Primary objective: grow the brand
- Asset-light strategy (Sohn et al., 2014).



## Our Expectations

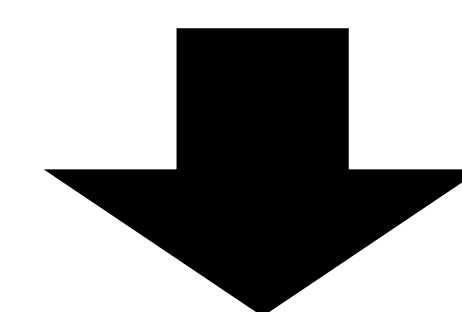
The optimal pricing strategies would differ by owner type, especially during economic downturns.

REITs and financial investors have **higher exposure** to the cash flow volatility from owned properties.



Incentivized to **reduce** hotel room rates to serve their properties' debt and maximize their return on investment.

Brand owners have **lower exposure** to cash flow volatility from owned properties.



**Refuse to lower** hotel room rates to protect their brand images.

## Methodology

- Hotel market performance data (15 years)
- Econometrics methods and models

## Expected Implications

- Help owners and operators determine the pricing strategies that best suit their investment objectives.
- Help owners and brands in the negotiation of the performance clause in their franchise and/or management contracts.
- Asset managers could use the finding to monitor operators' pricing strategies.
- Operators could use the findings as a reference to develop pricing strategies that meet owners' objectives while conforming to brand standards.