



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

Q&A: Technology & Hospitality How The Digital Revolution Is Impacting Hotels

More than 148 million travel bookings are made online each year and while brand websites are still the biggest purchase source, the proportion of bookings made via merchants like Travelocity, Orbitz and Expedia is on the rise. And on the flip side, hotels are competing more heavily with new and emerging online lodging platforms, like Airbnb and HomeAway that can offer lower prices and a unique experience.

REITs' SEC disclosures mirror these industry trends, and the resulting business risks appear to be weighing on their minds. This year, our Risk Factor Report for REITs found that four out of five (80 percent) of the hospitality REITs we analyzed highlight risks related to the rise of third-party Internet travel intermediaries. And 60 percent mentioned short-term rental share platforms.

We sat down with our client Mark Nunneley, CEO of Ashford Hospitality Trust, for his take on how the digital revolution is impacting REITs and operators in the hospitality sector.

Ashford invests in upper upscale and full-service hotels. How is the digital revolution, particularly third-party travel sites that sell rooms based on location and amenities over brand, disrupting revenue in the upper upscale space compared to other hotels?

In general, the digital revolution is impacting the upscale, upper upscale and luxury hotel sectors to a lesser extent than economy, midscale, and upper midscale. The latter bring in more of their business from online travel agencies. Additionally, their target customers are rate-sensitive and more focused on leisure, which makes them more inclined to choose where to stay based on these factors as opposed to brand.

When it comes to what some refer to as "the Airbnb effect," the rise of the sharing economy has hurt economy and midscale establishments more than upscale and above, since lower-rated supply drives a lot of Airbnb. A lot of our upper upscale hotels are business-oriented, so they're seeing less of an impact since the types of travelers using Airbnb generally do so for leisure and budget travel.

What are some ways you're seeing hotels adapt to disruption from ...

a. The rise of third-party intermediaries?

The challenges they pose are becoming a higher priority for the brands, as demonstrated by their investments in new campaigns on mobile apps and increased benefits for loyalty members. Upscale hotels are better suited than other segments to deliver online benefits (like mobile check-in and in-app messaging) to compete against online travel intermediaries.

b. Alternative lodging, like Airbnb?

When you compare hotels to Airbnb lodging options, the major difference is that the hotel segment is focused on delivering top-notch hospitality through on-site staff, amenities and high customer service standards. Airbnb offers a unique and, to some, more "authentic" experience for travelers. The sharing economy is an area of disruption difficult for the segment to adapt to beyond what they're doing to compete with online travel platforms, so it will be interesting to see what creative solutions arise.

How are you seeing upscale hotels leverage digital technologies to improve customer experience?

The days of one hotel computer with Internet and a printer as the standard are long gone. The number of mobile devices guests bring with them—especially those traveling for business—has never been higher, and guests have grown accustomed to free WiFi. Underscoring this trend, according to a 2014 survey by the American Hotel and Lodging Association, just 11 percent of hotel properties charged for WiFi, compared to 25 percent in 2012.



As the demand for free WiFi has increased, so have expectations of quality. Guests now want services, from mobile apps to one-touch in-room adjustments and more, that operate at time-warp speeds, and hotels are moving to make that a reality.

Are there other digital trends you expect to dominate the rest of 2016 and into 2017?

The bandwidth issue will continue to pose challenges for facilities of all levels. Hotels are in the process of figuring out how best to provide faster Internet speed while also offsetting costs. Whether that means offering more bandwidth to all customers or just loyalty members, or only offering free WiFi up to a certain bandwidth, we'll likely see even more hotels move toward the standard connection speed of 1-2 megabytes per second.