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The notion that a hotel's brand contributes significantly to the property's market value is supported by an analysis of nearly eleven hundred hotel transactions over the past fifteen years. The analysis found that brands added value beyond the usual contributors to a property's value, such as net operating income and revenue per available room. The effects of branding were most noticeable in midmarket and upscale hotels. Based on per-room sales statistics, certain brands added significantly more value to their franchisees' properties than others.

Keywords: hotel valuation; brand management

A hotel property's brand identification is clearly a large factor in its market value, but measuring the brand's contribution to a property's market value has so far been as much "art" as "science."[1] A number of financial indicators are used to determine a property's value. Net operating income (NOI), average daily rate (ADR), occupancy rate, and even number of rooms have proven to be significant predictors of a hotel's market value.[2] Despite the clear indication that brand affiliation contributes to hotel value, existing research has neither confirmed that notion nor evaluated the relative strengths of various brands.[3] Assertions in hotel trade magazines that different hotel brands contribute differently to hotel value have not been based on rigorous, scientific research design and statistical procedure.[4] Indeed, an article published in the previous *Cornell Quarterly* found that certain brands added more to hotel value than others did. Because those data were disguised, it was not possible to determine which brand contributed the greatest value.[5] In the research presented here, we undertake to conduct a rigorous analysis of brands' contribution to property values.

Few developments have altered the lodging landscape more than the proliferation of new brands. The most recent annual brand report in *Hotels* magazine listed 285 lodging brands worldwide.[6] Depending on how a "new brand" is defined, six to eight new brand names were introduced to the market in 2005, including "aloft" and "NYLO."[7] Not only is it generally recognized that brands create value for both consumers and companies,[8] but consumers use brands as cues to infer certain product attributes, such as quality.[9] Because loyal customers are generally less price-sensitive, more willing to purchase more, and generate positive word of mouth, corporate management has realized that brand names are among the most important assets of a company.[10]

This study examines the brand effect on hotel market value from an investor-owner perspective. The fundamental question we set out to answer is, What is the role of brands in determining hotels' market values? In particular, are there value premiums for hotel properties affiliated with certain brands over those affiliated with other brands? Based on a data set consisting of more than one thousand actual hotel-sale transactions, we explore whether a particular hotel brand contributes more or less to the value of hotels flying that flag, while controlling for the most recognized value predictors, namely, NOI, ADR, occupancy rate, and number of guest rooms.[11] By revealing brands' effects on hotel values, we expect this study to assist current and potential hotel owners, investors, lenders, and other analysts, as well as corporate brand management, with their assessment of the power of brands in terms of hotel market values.

Power of Branding

Much has been written about branding and brand equity, which can be defined as the "added value endowed by the brand on the product."[12] The value of a brand chiefly resides in the minds of customers and is based primarily on customers' brand awareness, their perceptions of its quality, and their brand loyalty.[13] The model of brand-value creation proposed by Keller and Lehmann indicates that brands first create value for customers by helping to assure them of a uniform level of quality.[14] After customers become loyal to a brand, the brand owner can capitalize on the brand's value through price premiums, decreased price elasticity, increased market share, and more rapid brand expansion. Finally, companies with successful brands benefit in the financial marketplace by improving shareholders' value.[15]

Researchers have posited that branding is particularly critical in service industries such as the hotel business.[16] The recognized goal of hotel branding is to provide added value to both guests and hotel companies by building brand loyalty.[17] It was reported that 85 percent of business travelers and 76 percent of leisure travelers preferred branded hotels over independent properties.[18] One reason for this finding is that hotel guests rely on brand names to reduce the risks associated with staying at an otherwise unknown property.[19] In that regard, strong brands enable hotel chains to be part of and to differentiate themselves in the mind-set of customers.[20] From the company's point of view, previous research has suggested that the level of brand equity is positively related to a hotel company's financial performance (e.g., revenue per available room, or RevPAR).[21] Realizing that a brand's strength ultimately drives stock price and shareholder value, the lodging industry has been recognized as "a brand-equity business."[22]

Market Value of Hotels

Hotel investors apply different valuation methods to assess the market value of hotels. In addition to the sophisticated appraisal approaches that are most commonly used by commercial real estate appraisers (i.e., cost approach, sales-comparison approach, and income-capitalization approach),[23] hotel investors also apply more expeditious methods, such as the ADR rule of thumb, which suggests that hotels should generate $1 in ADR per $1,000 in value per room.[24] Automated valuation models (AVMs) are used as another expeditious valuation method.[25] Among the many factors that may influence hotel market values, AVMs have revealed that NOI per room, ADR, occupancy rate, and number of rooms are the four most significant factors in predicting hotel values. The effects of other indicators such as capitalization rate, location, and property age are effectively captured by these four key factors.[26]

Brand affiliation is linked to hotel value in another way, which is that branded hotels have a financing edge.[27] Since chain affiliation is incorporated in lenders' tight underwriting formulas, obtaining financing for an independent hotel is generally more difficult than for a branded one. Consequently, more stringent underwriting criteria, including lower loan-to-value ratios and higher interest rates, are common in the financing of an unflagged hotel property.[28]

Despite all the discussion of the effects of hotel branding on hotel value, the matter has not been subjected to rigorous research. The chief investigation of brand effect has occurred by incorporating brand affiliation into the concept of business enterprise value (BEV).[29] According to *The Appraisal of Real Estate*, BEV is defined as "a value enhancement that results from items of intangible personal property, such as market and management skill, an assembled workforce, working capital, trade names, franchises, patents, trademarks, nonrealty-related contracts or leases, and some operating agreements."[30] Although *The Appraisal of Real Estate* acknowledges that hotels and motels are subject to BEV, licensed real estate appraisers show no consensus regarding the magnitude of BEV as a component of market value.[31] BEV studies focusing on the retail industry indicate that a brand name's benefit is ambiguous to real estate developers, who suspect that brand value may remain with the brand owner rather than be conferred on individual retail properties.[32] Research in the hotel industry suggests that brand affiliation, name recognition, and good reputation for high-quality service together can contribute as much as 20 to 25 percent of the going-concern value of a successfully operating hotel.[33] Regardless, exactly how hotel brand contributes to or diminishes hotel market value remains unstudied.

Brand Effects on Hotel Market Values

To examine the role of brand names on hotel market values, this study uses the Penn State Index, a database drawn from more than 2,500 hotel-sale transactions from 1990 through 2005, which includes 1,233 transactions with complete hotel operating and descriptive information. For the twelve-month period prior to each transaction, the database includes ADR (mean = $92.91), occupancy rate (mean = 65.8 percent), and NOI (mean = $8,044 per room), as well as sale price (mean = $84,868 per room), capitalization rate (mean = 9.55 percent), and room revenue multiplier (RRM; mean = 3.46). Other information in the database includes the number of guest rooms (mean = 210), property age (mean = twenty years old), location (city, state, and region), hotel type as defined by Smith Travel Research (economy, midscale without food and beverage service [F&B], midscale with F&B, upscale, upper upscale, and luxury), and brand affiliation. We adopted Smith Travel Research's scheme for categorizing hotel brands into hotel types because they are

Exhibit 1:
Sample Characteristics

Hotel Type	*Number of Brands*	*Number of Hotels*	*Percentage*
Economy	5	68	6.37
Midscale without food and beverage (F&B)	9	219	20.52
Midscale with F&B	7	188	17.62
Upscale	14	302	28.31
Upper upscale	8	266	24.93
Luxury	4	24	2.25
Total	47	1,067	100.00

independent of our research and because they are well accepted and well regarded in the hotel industry.

For the purpose of this research, we excluded brands with fewer than three sales transactions because we believe that too few transactions cannot represent the corresponding brands. Furthermore, transactions representing independent properties were excluded because the independents' status as a "brand of one" makes the value of that brand difficult to ascertain. Such selection resulted in 1,067 hotel-sale transactions, representing forty-seven of the top one hundred brands, as reported by *Hotels*.[34] A description of the sample is shown in Exhibit 1, and examples of brands by hotel type and the average sale price per room of each brand are provided in Exhibit 2.

When Hotel Brands Contribute to Value

The findings of this study indicate that brand affiliations contribute significantly to the variances of hotel values. The findings support the notion that a hotel's brand matters in assessing the property's value. However, the specific effects of a brand vary across hotel types.

We were particularly interested to find that brands influence hotel values more in midscale and upscale hotels than in the most inexpensive (economy) and expensive (luxury) hotels. One possible explanation is that perhaps the midscale and upscale segments comprise both the most active, innovative, and well-positioned brands and also the least active and stodgy brands. However, it is also possible that we just did not have a sufficient number of brands represented in the luxury and economy segments to capture any statistical effects. We argue that brands in the middle and upscale categories show a great deal of variance, while the brands at the top and bottom of the price range are less distinct from each other. Based on the results of Tukey's multiple comparison tests, let us look at the specific brands that achieved significantly higher or lower prices per room compared to other brands in their segments. It is important to note that our comparisons may be influenced by specific one-time events within a particular chain that may not apply to future property transactions.

Limited-service brands. Compared to the mean for the brands in the midscale without F&B category, TownePlace Suites and Country Inn & Suites achieved significantly higher prices per room, while market values for Fairfield Inn were below the average. We were not surprised that TownePlace Suites enjoyed the highest

Exhibit 2:
Sale Price per Room of Brands by Hotel Type

Hotel Brand	*Mean ($)*	*Standard Deviation ($)*	*Minimum ($)*	*Maximum ($)*
Luxury				
Four Seasons	350,115	254,686	119,863	736,842
Ritz-Carlton	303,480	107,788	171,667	479,167
Fairmont	394,366	194,026	223,555	605,327
InterContinental	241,262	58,310	195,008	306,763
Upper upscale				
Doubletree[a]	74,955	47,915	23,959	209,524
Embassy Suites	108,812	53,287	21,635	195,604
Hilton	106,489	61,816	15,464	270,305
Hyatt[b]	130,373	88,622	14,308	397,770
Marriott	109,915	53,722	21,878	259,117
Renaissance	119,710	63,640	46,844	246,377
Sheraton[a]	78,761	31,886	19,898	133,663
Westin[b]	150,320	72,820	44,347	278,302
Upscale				
Adam's Mark	70,070	28,982	20,000	125,828
AmeriSuites	80,680	20,669	43,164	127,848
Courtyard by Marriott[b]	94,890	32,527	26,991	202,469
Crowne Plaza[a]	62,365	33,069	20,633	125,859
Four Points	75,352	43,940	27,800	215,054
Hawthorn Suites[a]	60,805	28,780	27,132	95,000
Hilton Garden Inn[b]	92,890	63,588	21,948	301,418
Homewood Suites[b]	102,122	21,583	68,421	143,836
Radisson[a]	60,728	32,533	17,742	146,893
Residence Inn[b]	108,885	34,647	31,746	207,395
SpringHill Suites	85,343	25,574	49,533	134,328
Staybridge Suites	76,901	13,827	62,264	89,744
Summerfield Suites[b]	103,333	39,273	89,112	131,072
Wyndham	89,617	45,435	22,527	206,000
Midscale with food and beverage (F&B)				
Best Western	53,126	38,547	12,544	186,668
Clarion	50,585	26,961	17,754	99,176
Holiday Inn	46,875	33,259	8,974	204,545
Howard Johnson[a]	25,975	15,078	7,114	50,909
Quality Inn	32,594	11,232	17,308	50,769
Ramada[a]	28,670	13,969	9,000	66,905
Red Lion	57,074	9,062	46,610	62,305
Midscale without F&B				
AmeriHost	52,904	9,596	43,443	61,172
Comfort Inn	43,212	26,028	9,430	116,667
Country Inn & Suites[b]	70,735	16,726	59,914	90,000

(continued)

Exhibit 2:
(continued)

Hotel Brand	*Mean ($)*	*Standard Deviation ($)*	*Minimum ($)*	*Maximum ($)*
Fairfield Inn[a]	31,136	16,664	11,111	83,333
Hampton Inn	54,169	25,938	16,832	194,444
Holiday Inn Express	49,480	17,048	23,387	87,413
Sleep Inn	44,649	16,123	24,766	63,818
TownePlace Suites[b]	86,511	24,840	43,883	111,131
Wellesley Inn	45,363	11,880	25,000	55,376
Economy				
Cross Country Inn	13,080	3,966	11,582	22,074
Days Inn	34,939	23,793	9,050	101,923
Microtel	29,998	8,584	22,152	43,636
Super 8	27,220	5,952	15,665	47,295
Travelodge	35,504	28,142	12,108	80,000

a. Sale price per room is significantly lower than the rest of the segment.
b. Sale price per room is significantly higher than the rest of the segment.

average market price ($86,511 per room) because it is one of the newest extended-stay brands. It is backed by Marriott and offers spacious rooms and ample features and amenities not found in most nonsuite brands in this category. Country Inn & Suites also stands out with a mean sale price per room at $70,735, and this achievement was at least partially attributed to its hotels' new physical plants, relatively consistent performance in guest satisfaction, and ADR increases.[35] The finding that Fairfield Inns were relatively low in average price may be an artifact of our study. We can only report the values of hotels that were sold. Those that are being held by existing owners do not appear on our index. This fact probably explains Fairfield's relatively low average price of $31,136 per room. In recent years, Fairfield's brand-management team has eliminated from its system older, first-generation properties constructed in the 1980s. It stands to reason that many of these properties would not command premium prices (and will cease to be Fairfields).

Full-service brands. Two brands in the midscale with F&B segment caused most of the variance in the Tukey's statistics. Those two underperforming brands were Howard Johnson ($25,975 per room) and Ramada ($28,670 per room). These chains' lengthy effort to position themselves in the market has been well documented.[36] As hotel guests lost interest in those brands, it is reasonable that hotel investors followed.[37] Both brands have been working toward rebuilding their brand images through a "Project Restore" program, in which higher quality standards have been introduced, lower-quality properties have been "cleaned up," and stronger marketing initiatives have been launched. For example, it has been reported that nearly 20 percent of Howard Johnson franchisees received warnings to either comply with the newest franchise standards or to reflag, and more than fifteen thousand substandard rooms were removed from the Ramada chain in 2004 and 2005.[38] Sales of low-performing properties would drag down per-room values for both chains. We

How Analysis of Covariance Works

We conducted an analysis of covariance (ANCOVA) to examine the effects of brand on a hotel's market value, as measured by sale price per room. As mentioned in text, several important control variables were considered. Because net operating income (NOI) per room, average daily rate (ADR), occupancy rate, and number of rooms have been revealed in automated valuation models (AVMs) as significant predictors of hotel market values, their effects are regarded as preexisting and consequently should be controlled to precisely assess the effects of brand. In addition, we tallied each brand's annual total number of rooms in the United States between 1990 and 2005 to control for the potential effect of brand size on the hotel sale price per room. Having done that, we found brand size to be an insignificant factor, and we dropped it from the subsequent analyses.[a] Moreover, because the sale prices per room are highly skewed, we transformed this variable by taking the natural log of the price per room to satisfy the statistical assumption of normality.

ANCOVA is commonly applied when (1) the predictor is a categorical variable; (2) one or more extraneous sources of variation are known to correlate with the response variable, and the magnitude of such correlation(s) is perceived as being even stronger than the effect of the predictor on the response variable; and (3) those extraneous factors are not the primary focus of the study.

ANCOVA is differentiated from multiple regression analysis and analysis of variance (ANOVA) in that it is powerful in statistically removing the effect of the extraneous factors. Indeed, ANCOVA combines the features of regression and ANOVA by treating the extraneous factors as covariates: first, ANCOVA uses regression-type procedures to remove variation in the response variable due to the covariates, and then, the conventional ANOVA procedures are used on the adjusted values of the response variable. Therefore, ANCOVA partitions the total variation into components ascribable to the effect of the predictor, the effects attributable to any covariates, and the error term. The basic intention of ANCOVA is to compare the predictor levels at a common value for the covariates. ANCOVA is an appropriate approach in this study because the predictor (brand) is a categorical variable, and the literature has clearly revealed the significant relationships between the response variable (sale price per room) and the other factors (i.e., NOI per room, ADR, occupancy rate, and number of rooms), which are not the primary focus of this study. Therefore, ANCOVA allows us to test the brand as the predictor while controlling for the effects of NOI per room, ADR, occupancy rate, and number of rooms.[b]

First, we tested the overall brand effects on hotel market values by conducting ANCOVA on the entire data set. Sale price per room of each transaction was the response variable in the model, where brand was the predictor, and NOI per room, ADR, occupancy rate, and number of rooms were covariates. As shown in Exhibit A (model 1), the results clearly show the significant effect of brand on price per room, as it accounts for a considerable increase in R^2 over the control variables (NOI per room, ADR, occupancy rate, and number of rooms, which also are significant).[c]

Next, we tested the notion that hotel market values differ significantly by hotel type.[d] To examine whether the significant effects of brand are indeed due to the variances among different hotel types, we repeated the ANCOVA, but this time we nested brands inside the six Smith Travel Research (STR) hotel types. The results, shown in Exhibit A as model 2, again support the significant effect of the brands within hotel types on a price-per-room basis, while taking into consideration the effects of the previously mentioned four key predictors.

Refining our analysis further, we applied separate ANCOVA tests for each of the six types. Again, the four financial predictors (i.e., NOI per room, ADR, occupancy rate, and number of rooms) were controlled as covariates in each ANCOVA test. As shown in Exhibit B, the results of the six ANCOVA tests reveal that the mean value of price per room varies significantly across four types, namely, midscale with food and beverage (F&B), midscale without F&B, upscale, and upper upscale. In contrast, we found no significant

Exhibit A:
Overall Brand Effect on Mean Price per Room

Variable	*Degree of Freedom*	*Sum of Squares*	*Mean Square*	F-*value*
Model 1: Brand as the predictor				
Average daily rate (ADR)	1	16.275	16.275	13.66***
Occupancy rate	1	8.021	8.021	65.69***
Net operating income (NOI) per room	1	6.688	6.688	54.78***
Number of rooms	1	1.667	1.667	13.66***
Brand	46	28.894	0.601	4.93***
Model 2: Brand nested within hotel type as the predictor				
ADR	1	16.275	16.275	13.66***
Occupancy rate	1	8.021	8.021	65.69***
NOI per room	1	6.688	6.688	54.78***
Number of rooms	1	1.667	1.667	13.66***
Hotel type	5	5.699	1.139	9.34***
Brand nested within hotel types	41	16.747	0.389	3.19***

***$p < .001$.

Exhibit B:
Brand Effect on Mean Price per Room by Hotel Type

	Economy	*Midscale without Food and Beverage (F&B)*	*Midscale with F&B*	*Upscale*	*Upper Upscale*	*Luxury*
N	5	9	7	14	8	4
Mean ($)	28,148	53,112	42,085	83,141	109,916	322,305
Median ($)	29,998	49,480	46,875	78,790	109,363	326,797
Standard deviation ($)	9,104	16,413	12,762	16,267	24,936	65,545
Minimum ($)	13,080	31,136	25,975	60,728	74,955	241,262
Maximum ($)	35,504	86,511	53,126	108,885	150,320	394,366
F-value (brand)	0.21	2.30*	2.38*	3.15**	4.41**	0.43

*$p < .05$. **$p < .01$.

brand effects on either economy hotels or luxury hotels. That is, the midscale and upscale brands significantly affect hotel market values, but that is not true of brands in economy or luxury segments. Remember that this analysis is a comparison of brands with each other, and not a comparison of the effect of having a brand with that of having no brand, which may tell a different tale in both the economy and luxury segments. Finally, we scrutinized which brands are particularly different from the other brands within the same hotel type, that is, which brands have particularly strong or weak effects on property value. For this analysis, we conducted Tukey's multiple comparison tests to examine the pairwise difference between brands within each of the four midscale and upscale segments in which we found significant brand effects.[e] We discuss the results in the main section of this article.—*J.W.O. and Q.X.*

a. $F = 0.153$, $p > .05$.

b. For more information regarding ANCOVA, see R. Kuehl, "Analysis of Covariance," in *Design of Experiments: Statistical Principles of Research Design and Analysis*, 2nd ed. (New York: Duxbury, 2000), 550-71; P. Ludford, "A Guide to Choosing the Correct Statistical Test for HCI Research," www-users.cs.umn.edu/~ludford/Stat_Guide/ANCOVA.htm (accessed February 18, 2006); B. G. Tabachnick and L. S. Fidell, "Analysis of Covariance," in *Using Multivariate Statistics* (Boston: Allyn & Bacon, 2001), 275-321; and E. Yoder, "Analysis of Covariance" (unpublished presentation handout, October 5, 2004), 1-12.

c. The model based on the literature of automated valuation models (AVMs) included average daily rate (ADR), occupancy rate, net operating income (NOI) per room, and number of rooms as independent variables and had an R^2 of .7532. After the inclusion of brand as an additional predictor, the R^2 increases to .8283, indicating a .0751 or 7.51 percent change in R^2. The magnitude of such increase of R^2 is considerable, indicating that brand is not only a statistically significant factor but also a practically significant factor in explaining the variance of hotel market value, as measured by sale price per room in this study.

d. J. W. O'Neill and A. Lloyd-Jones, "Hotel Values in the Aftermath of September 11, 2001," *Cornell Hotel and Restaurant Administration Quarterly* 42, no. 6 (2001): 10-21; J. W. O'Neill, "ADR Rule of Thumb: Validity and Suggestions for Its Application," *Cornell Hotel and Restaurant Administration Quarterly* 44, no. 3 (June 2003): 1-10; and A. Singh and R. Schmidgall, "Financing Lodging Properties," *Cornell Hotel and Restaurant Administration Quarterly* 41, no. 4 (2000): 39-47.

e. Tukey's multiple comparison method is, according to Toothaker, "among the best known and most popular multiple comparison procedures." It is well recognized that for all possible pairwise comparisons (as in this study), the power of Tukey's method is better than most other popular methods, such as the Dunn method. It is suggested that Tukey's multiple comparison tests are most appropriate after significant differences are found among the compared pairs; therefore, in the subject study, only the results of Tukey's tests on the four segments in which a significant brand effect was revealed were provided. See W. Mendenhall and T. Sincich, "Follow-Up Analysis: Tukey's Multiple Comparisons of Means," in *A Second Course in Statistics: Regression Analysis*, 6th ed. (Upper Saddle River, NJ: Pearson Education, 2003), 613-23.

believe additional time may be needed for the effects of such "rebranding" efforts to be shown in the market values of these branded properties.

Our comparison of the values of the full-service and limited-service midscale segments (testing the segment effect on the sale price per room in a separate ANCOVA test) showed that the mean sale price per room of the midscale without F&B segment ($53,112) is significantly greater than that of the midscale with F&B segment ($42,085).[39] We take this result as an indication that investors are less interested in the relatively aged properties in the full-service segment, as compared to the newer limited- or select-service properties. This finding supports the 2002 prediction that the average market value per room of these two hotel segments would "flip" in 2003. It appears that the flip has occurred from the previous situation where full-service midscale hotels were worth more per room than limited-service midscale hotels.[40]

Upscale values. In the upscale segment, our statistical analyses indicate that the value leaders are industry innovators Residence Inn ($108,885 per room), Summerfield Suites ($103,333 per room), Homewood Suites ($102,122 per room), Courtyard by Marriott ($94,890 per room), and Hilton

Garden Inn ($92,890 per room). The difference in the market value per room of those five brands was statistically significant compared to the mean prices per room of Crowne Plaza ($62,365), Hawthorn Suites ($60,805), and Radisson ($60,728). In the upper-upscale segment, the mean prices per room of Westin ($150,320) and Hyatt ($130,373) stand out, compared to Doubletree ($74,955 per room) and Sheraton ($78,761 per room). Based on the results of the Tukey's tests, the other brands in the upscale and upper-upscale segments did not vary significantly.

Our results do not specifically indicate why one brand significantly boosts hotel values, but it appears that certain brands, such as Courtyard, Residence Inn, and Westin, have established a competitive advantage over their competitors. One clue is that the brands with relatively low per-room values, such as Doubletree, Howard Johnson, Radisson, and Ramada, may have confused guests regarding their brand images, thus hurting brand awareness.[41] The findings of our study suggest that such brand-awareness disadvantages may be reflected in the hotel market values connected to those brands.

Also afflicting those chains, along with Sheraton and Fairfield Inn, is system churning as part of an upgrade. The Sheraton brand remains strong in terms of awareness among hotel guests, but the system's "upgrading" efforts, similar to Fairfield's, may partially contribute to the relatively low market value shown in our study. Recent trends suggest that Sheraton has strengthened its brand by implementing several strategies, including upgrading quality standards, improving guest satisfaction, and introducing an attractive prototype to expand into smaller markets. It has also matched Westin's bedding innovation with its own Sweet Sleeper bed. With these changes, Sheraton picked up momentum and became one of the top ten new-development leaders in 2005.[42] We believe Sheraton's strategy may serve as an interesting model for other brands that are still struggling to clarify their image.

The relative lack of variation among the four luxury brands and five economy brands that we studied tells a story of strong focus on brand identity. In the luxury segment, Fairmont, Four Seasons, InterContinental, and Ritz-Carlton are all long-renowned brands with relatively steady performance. We see the result, as market values do not vary significantly among these brands. Similarly, the brands studied in the economy segment do not show significant variance in terms of price per room. However, it should be noted that many economy brands, some of them active market players, such as Studio 6 and Extended Stay America, were not in the sample because there have been relatively few sales transactions of those brands. The results regarding the economy segment might have been different if more economy brands were included.

More than meets the eye. Before we offer our conclusions, we offer the following observation. We believe that the findings of this study add to our understanding of the relationship between hotel brands and market values. That said, the complete assessment of a brand's value is a complex matter. Hotel brands involve multiple dimensions, including physical facilities, amenities, and service quality and styles. Our research aims to connect brands to the value of hotels. We do not mean to imply that this is the only consideration. A brand's relationship with hotel value is just one benefit a brand brings to a hotel's owner. Although it is important for hotel owners to be able to recognize the effects of a brand on hotel market value, other benefits associated with a brand, such as guest satisfaction and loyalty, should be considered to fully assess the brand's total value.

Conclusions

To the best of our knowledge, our study is the first to empirically examine the relationship between specific hotel brands and market values. As expected, we found that brands collectively have a significant effect on hotel values. More specifically, we found that hotel brands affect market values of four hotel types, namely, midscale without F&B, midscale with F&B, upscale, and upper upscale. (There was no significant differentiating effect for branded economy and luxury properties in our sample.) We also found that individual brands had greater or lesser effects on hotel valuations.

The findings of this study are expected to assist both hotel owners and corporate brand-management teams to better understand the value of effective brand management. For hotel owners, whose goal is to maximize the market value of their asset, recognizing the role of brand name in hotel market value is beneficial for positioning and flagging decisions. Specifically, owners of midscale and upscale hotels should be cognizant of the value their chosen hotel brands bring to their properties.

For hotel companies' brand-management teams, effectively assessing brands' effects on hotel market values can strengthen the overall value of the brands and possibly improve the brands' franchise sales. Such rational analysis can signal weaknesses and assist with the development of reimaging, retrenchment, or remedial brand strategies, when necessary. Furthermore, such analysis can assist corporate brand managers in evaluating whether their intended brand strategies are being achieved.

In addition to the caveats we have presented above, certain limitations should be considered in the interpretation of our findings—limitations that suggest directions for future research. First, as we mentioned, the data-selection criteria excluded a few brands with limited sales-transaction volume, particularly in the economy segment. In particular, the limited sample size in both the economy and luxury segments may affect the statistical results. Future research incorporating a database with an even more complete portfolio of brands may shed more light on this topic.

Second, this study does not analyze the interaction of brand cost and hotel value. It is reasonable to expect that prestigious brands would command greater royalties and fees than do their competitors. HVS International's Annual Hotel Development Cost Survey may be of assistance to hotel owners and investors in this regard. An interesting question for future research is whether the value premiums associated with strong brands exceed the accumulated costs of the brands. Previous research has suggested that such future research should be conducted at the hotel unit level.[43]

Third, it should be noted that Smith Travel Research's brand classifications are primarily based on each brand's systemwide ADR. While this segmentation method is objective, it is arguable that a few brands could be categorized into different segments based on the facilities and services offered. For instance, one could argue that Hawthorn Suites might be classified as a midscale without F&B brand instead of an upscale one. Such a reclassification would eliminate the statistically significant differences between Hawthorn Suites and the leading upscale brands such as Residence Inn. We acknowledge that there are always advantages and disadvantages in applying different brand-classification methods.

Fourth, literature in brand extension suggests that parent companies may influence their respective brands. That is, differences among parent companies' branding strategies may account for the different effects among the brands. Although brand extension is beyond the scope of this study, how the branding strategies of parent companies influence the relationship between brands and hotel market values is worthy of further research.

Knowing which brands contribute to a hotel's value might cause a hotel owner to consider changing brands. Such a change is not always expeditious or simple. For one thing, a desired brand may not be available in a given market. Moreover, dropping a brand usually invokes penalties, such as liquidated damages. Still, hotel owners remain free to change brands if it is to their advantage. Well-informed owners should be aware of the relative market values of the various brand options before them, and brand-management teams should be similarly aware. Previous research has discovered strong links between a hotel brand's quality level and its performance, which in turn has strong links with hotel market value. As a result, hotel brand-management teams that wish to maximize hotel market value should seek to maximize brand quality not only through addressing brand image but through quality management. It appears that upgrading a brand should have a positive effect on the market values of the individual hotel properties affiliated with the brand.

Endnotes

1. See M. T. Kenney, "Quantifying Business Enterprise Value in Shopping Malls: Current Issues and Future Trends," *Appraisal Journal* 68, no. 3 (2000): 307-15; W. N. Kinnard, E. M. Worzala, and D. L. Swango, "Intangible Assets in an Operating First-Class Downtown Hotel," *Appraisal Journal* 69, no. 1 (2001): 68-83; and J. W. O'Neill, "An Automated Valuation Model for Hotels," *Cornell Hotel and Restaurant Administration Quarterly* 45, no. 3 (2004): 260-68.
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