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# Transformation of Sheraton renews interest in brand

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Marriott still has work to do when it comes to the transformation of its Sheraton brand, and the vision for the brand will be clearer as the company continues to evolve the brand.

By Deanna Ting

BETHESDA, Maryland—It's been a little more than a year since Marriott International unveiled its plans for transforming Sheraton at the NYU International Hospitality Investment Conference, and three since Marriott inherited the brand in its $13.3 billion acquisition of Starwood Hotels & Resorts in 2016.

Last year's NYU display showcased Marriott's ideas for a new lobby and guestroom prototypes, which centered on cultivating a sense of community, especially within public spaces.

New features included a communal "productivity table" where people can work alone or together; on-demand flexible meeting spaces; a coffee bar that's transformed into an actual bar at night; and the placement of a community manager who could assist guests with ordering food and beverages or booking meeting spaces.

Marriott's vision for the Sheraton brand is to reinforce it as a gathering space. Indy Adenaw, VP and global brand lead for Sheraton said, "Sheraton is anchored on the town square of today, where people can feel at home together."

Marriott's goal is to get the Sheraton brand back on track like it did with its flagship brand. Bjorn Hanson, hospitality consultant and former clinical professor at the NYU Jonathan M. Tisch Center for Hospitality and Tourism, said "it was never clear what Sheraton's core image or market appeal was."

"There are Sheraton resorts for leisure, Sheraton hotels for business and Sheraton properties designed for groups, and the brand's domestic reputation differs heavily from its perception abroad," he said. "In Asia, for example, the Sheraton brand could go head to head with luxury brands.

Adenaw added that the brand's "diversity dynamic continues to be a challenge, and we've spent time working on the more than 191 locations in North America."

"But the diversity challenge is also a flipside of an opportunity," he said. "This is a brand that people have grown up with, and if we can convince everyone to go in on this together, that strength will now help us."

**Where Sheraton is today**
To date, approximately 82 of the 191 Sheraton hotels in North America are undergoing some type of renovation. In total, Sheraton is Marriott's most geographically diverse brand, and its third largest in terms of rooms (more than 155,000) and fees.

The global pipeline for new hotels is at 85, with much of the new hotels coming out of Europe and China, Adenaw said.

Global Development Officer for North America Noah Silverman said in North America, Marriott has four signed Sheraton deals and one is expected to be signed by the end of the year.

According to Marriott's most recently reported earnings, revenue per available room and occupancy were lower in the first half of 2019 than they were in the same period last year for North America. Systemwide, Sheraton hotels in North America saw a 1.2% drop in RevPAR and a drop of 1.3 percentage points in occupancy.

Since acquiring the brand in 2016, Sheraton's RevPAR index has improved to more than 100.

**How owners feel**
Joao Woiler, co-founder and asset manager of Miami-based Cambridge Landmark, owns five hotels, four of which are in the Marriott brand family, including the Sheraton Orlando North, purchased in June 2017.

It was after seeing the new Sheraton public space and guestroom concepts at NYU in 2018 that Woiler and his team sought to buy the Philadelphia 201 Hotel from Blackstone Group. They planned to renovate the former Sheraton Downtown Philadelphia and convert it back to its previous brand.

"When we saw the plan that Marriott has for the Sheraton brand, we were convinced that it was a space where we would like to put our time and resources in," Woiler said. "We bought into that vision."

In February, Cambridge closed on the Philadelphia deal. Woiler said Cambridge is prepared to spend anywhere from $36 million to $38 million to fully renovate the 757-room hotel to include the community-driven features Marriott has developed for the Sheraton brand.

At Cambridge's Sheraton Orlando North hotel, where 70% of its 389 rooms have been fully renovated, Woiler said net operating income has gone up 50% since June 2017, and that's despite the fact the hotel has been open during room renovations. The lobby will be renovated in a few years, he said.

For Woiler, Sheraton's challenges represent opportunities. The company has a lot of faith in the Sheraton team to rebuild the brand over time, and they're willing to wait. He said he's been encouraged by Sheraton brand leadership and the fact that Marriott has embarked on removing underperforming and non-conforming properties.

"There's no doubt that Sheratons were trading at a discount," he added. "As an owner, it's truly an opportunity. People recall the brand. It's worth the investment and focus Marriott is giving to the brand."

Kory Kramer, partner and investment officer for Newport Beach, California-based Eagle Four Partners, said he and his partners decided to buy the Sheraton Denver Downtown in October 2018 primarily because of its "massive potential," and they are investing $80 million to renovate it and position it as "Denver's trophy group meeting and events hotel."

"Flagship brands like the Sheraton need to redefine themselves in order to remain relevant and combat an increased preference on boutique hotels," Kramer said. "We believe the new look and feel of the brand speaks perfectly to the discerning business traveler."

**The new Sheraton Club Lounge**
Marriott spent $255 million to buy the Sheraton Grand Phoenix, which is currently being renovated into the prototype of the new Sheraton, expected to be completed by early next year.

Even through the renovation, Marriott is testing its new Sheraton Club Lounge at the property, which includes virtual reality to try out design concepts with owners and travelers.

"We want the club lounge to feel like a sanctuary, with pockets of spaces that you can make your own, where food and beverage will feel much more informal and more approachable," Adenaw said.

By using the VR headsets to test out the new concepts, Marriott is able to better gauge how people interact with the lounge without having to make a heftier investment in building out an entire model lounge room in these early design stages.

"We're using this to solicit owner feedback," Adenaw said, adding that Marriott planned to bring in five or six different ownership groups to try the VR experience.

Sheraton is learning from the Marriott brand's club lounge refresh and finding that many lounges are no longer being placed on higher levels or in more secluded parts of the hotel, he said.

"Many are shifting to the ground floor," he said. "Consumer behavior has shifted, and there's a push to have lounges on the ground floor, both from an owner perspective and consumer one. It makes sense because it's centrally located and that means there's a richer variety of food available, and travelers have easier access. The more natural light there is, too, the more they use it."

Because many Sheraton hotels traditionally had large lobby spaces, shifting the club lounge to the lobby level could prove to be a good thing for owners in terms of maximizing space.

From an owner's perspective, club lounges can be a potential money pit, but if they're placed in the right markets, they can be worth the investment, Woiler said.

“If you’re Marriott, you can drive more of those loyal customers into the hotel and you should invest,” he said. “But if you’re in an area where you are already packed with plenty of platinum-level guests and so on, I think you should take care not to build too big of a lounge because you might bleed money.”

Hanson said he believes the demand for hotel club lounge experiences among consumers remains high.

“The hotel experience has become, for many people, the highlight of the trip, and if there are options to make it even more of the best of the travel experience—like having concierge floors, manager receptions, room upgrades, or lounges—those are ways to offer a more personalized experiences and offset the unpleasantness that you can find in other parts of the travel experience,” he said.

If hotel owners can manage to monetize the lounges by offering some complimentary food and beverage, but also making it possible for guests to order and pay for other items, that’s even better for their bottom lines, especially when operating a full-service property.

“If you look over time, food-and-beverage profits have improved,” Hanson said. “If we look 20 years ago, they were below 20%; now they’re in the mid- to upper 20s, closer to 26%.”

Smart hoteliers are reconfiguring what food and beverage is, he said.

**The future of Sheraton and full-service hotels**

While Marriott cements its vision for Sheraton as the world’s gathering place, the company still faces some challenges. Namely, that there are still many different Sheraton properties out there—not all of which cater to business-minded travelers.

And even as more select- or limited-service brands emerge, there’s still a place for full-service brands like Sheraton.

Silverman said Marriott has seen record signings for its full-service brands in North America for a number of years.

“We haven’t seen a drop off in interest in full-service hotels by comparison to the interest in the past,” he said. “While it’s certainly true there’s been a high degree of interest in select-service, it hasn’t come at the expense of interest overall in full-service hotels.”

One exception was the traditional suburban hotel with 300 or so rooms and thousands of square feet in meeting space, he said.

“We’re still doing some deals with those kinds of hotels, but there aren’t a whole lot of new-builds happening in those markets,” Silverman said.

Even as demand for full-service hotels holds steady, it’s clear these brands need to redefine themselves, Kramer said.

The vision for Sheraton will be clearer once the new Sheraton Grand Phoenix emerges in 2020.

“Phoenix will be the first chance to show you exactly what we’ve been working for,” Adenaw said. “I want owners to understand that we’ve worked really hard to have conviction in what we do but to do it hand in hand with them, to ensure the ideas that we’re building have operational rigor and financial rigor, and that they’re tested in a wide range of properties.”