

Stigmatized Hotels In The Internet Age

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The appraisal concept of “stigma”, an impairment to reputation which impacts value, is a relatively new one. In past appraisal literature, it has been discussed in the context of impairment or value reduction in properties with past environmental contamination, or those in close proximity to a dangerous or noxious use (dumps, power lines, sex offenders, etc.). This article explores the potential impact on market value of lodging properties, due to the growing travel industry reliance on Internet guest review sites such as Tripadvisor, TravelPost, and Hotels.com. Appraisers of existing hotel and motel properties should be mindful of online ratings by past guests, as such reviews can have a direct bearing on their ability to attract future bookings and revenue.

Many innovations have impacted lodging properties over the years; the development of the Interstate highway system, and growth of franchised lodging chains among them. Most appraisers are well aware of the potential impact on value related to changing traveler preferences, and routinely recognize functional obsolescence in older hotels in the valuation process. However, until now, few if any appraisers have recognized the evolution in hotel *booking* procedures, and how they impact potential guest decisions. Those changes have largely rendered the concept of “market share” irrelevant, with significant consequences in the appraisal process.

The manner in which guests choose lodging has undergone profound change in the Internet age. The growth of large chains such as Holiday Inn and Ramada Inn in the 1950s and 60s, together with toll free numbers for central reservations systems, simplified travelers’ making of advance reservations. The computer age, and development of the “World Wide Web” or Internet led to even greater change. Revolutionary Internet sites such as Orbitz and Travelocity allowed prospective hotel guests to search for hotels by location and price, and to determine availability without the necessity of calling multiple central reservations systems, or relying on travel agents.

The online travel industry has continued to evolve, notably with development of peer/user review sites, in which hotel guests are able to share their lodging experiences on sites such as Tripadvisor, Travelpost, and Hotels.com. Tripadvisor, the largest of online lodging review sites was founded in 2000, and now posts online guest reviews of over 212,000 lodging properties worldwide. Its site now attracts over 30 million unique visitors a month.

Travel industry surveys in 2007 indicate that 70% of prospective travelers review information online before booking their hotel choice. Over 40% of total hotel reservations are actually *made* online.

Unprecedented market knowledge among consumers, and their direct involvement in hotel bookings (rather than past reliance on the judgment of a travel agent), has significantly changed the dynamic of the hotel market. While efficient, the Internet rating and booking process presents potential risks for hotel owners, and raises significant issues in the appraisal process. *Past management or maintenance problems, even those that are short term in nature, can result in guest reviews online that may impair a hotel's revenue for years in the future.* Ten years ago, a momentary lapse in staff courtesy, an inoperable elevator, or housekeeping oversight was invisible. Now, every deficiency or slight can be placed under the public microscope of Tripadvisor, Travepost, Hotels.com, in the form of a guest review posting.

Although there have been past attempts to define stigma in an appraisal context, most have related specifically to property impairment related to environmental contamination. It is the author's contention that "stigma" may be defined in a wider sense, incorporating other property types and issues. This author postulates the following definition:

"A negative reputation or image associated with real property, resulting in a reduction in its net income or value, which persists beyond the correction or cure of the actual deficiency on which the reputation is based".

In this context, it is appropriate to examine the actual methodologies of Internet hotel review sites, and their potential impact on hotel room rates and occupancies. It is not the appraiser's task to pass judgment on the "right or wrong" of the methodology of online guest review sites, but to recognize their potential impact on hotel revenues. Recognizing WHY a given hotel has *been* unable to achieve market rates or occupancies (and may be unable in the future) are relevant appraisal issues.

Why are these Internet review sites so critical to a hotel's *future* performance? After all, any problems with the hotel you are appraising relate to the PAST management and maintenance. *You* are appraising it "as if renovated" for the new owners, with an entirely new hotel franchise. The reason is that *Tripadvisor and similar sites do not remove past negative reviews simply because a hotel has new ownership or management, because it has been renovated, or its franchise changed.* These sites attach former bad reviews to the new franchise (on the basis of its common address). A potential guest who reviews the posts for a newly renovated and re-franchised Days Inn (with new management and ownership) will also see all negative reviews for the prior (unrenovated) Knights Inn at that location, some dating back years. Further, the overall ratings of hotels are based on the un-weighted average of all reviews, regardless of their dates of posting. While the methodology of their rating systems is open to criticism, there is no avoiding their impact on hotel booking decisions, and achievable room rates and occupancies, which can be significant.

Hotels with a limited number of negative reviews may be able to overcome them quickly, if new management is pro-active in soliciting positive reviews from guests. If, however, there are 50 negative reviews, it is arguable as to when (and if) the property can feasibly overcome its negative reputation or stigma. The length of time necessary to achieve stabilized room rates or occupancies may be extended to such an extent that the hotel may be unable to operate profitably for months or even years. In terms of value, the reduction attributable to “Internet stigma” may be thought of as the present worth of the lost net income, over the time period necessary to achieve unimpaired market rents and occupancies.

Summary: Many hotel choices by prospective guests are being made on the basis of past guest reviews posted on online travel sites. On these sites, “stigma” from past deficiencies in hotel condition and management can persist for years, despite changes in property condition, ownership/management, or changes in franchise affiliation. Achievement of market occupancies or room rates can be impaired by past negative reviews, to the extent that potential future guests rely on them in their booking decisions. In the Internet world, perception trumps reality, and perception can take years to change. Appraisers should recognize this new paradigm of market segmentation in any credible forecast of future hotel revenue.