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Culture Shift

Interstate's Deitemeyer on evolving the company & growing the portfolio

Management Report

Company profiles and ranked listing

Hotel Business®

Culture Shift: Interstate's new CEO discusses his theory of evolution and what makes a best-in-class portfolio



Interstate Hotels & Resorts is used to being at the top. As one of the largest management companies in the industry, the operator is known for having properties throughout the United States and internationally, moving to wherever its owners need it. In the past year, Interstate has increased its portfolio and picked up several key executives. The company has set its focus on expanding both domestically and internationally, growing and developing its team, and adding value for its owners.

"The industry has changed a lot," said Michael J. Deitemeyer, president and CEO of Interstate Hotels & Resorts, a 57-year-old management company. "It's not select-service and full-service anymore. It's select, select-lifestyle. It's extended-stay. It's resort. It's luxury. What's been interesting to me, as we look at the team, is making sure that we're best-in-class for all of those different segments and verticals within the organization."

Over the past year, Interstate's new CEO—Deitemeyer was appointed to the position last year, after a 21-year stint at Dallas-based Omni Hotels & Resorts—has been leveraging his authority to "bring some new energy and excitement around these different verticals."

It was a homecoming of sorts for the executive, who began his career with Interstate in

1992, during his senior year of college, when the company only had about 40 properties. Today, Interstate's portfolio totals a little more than 400 properties.

From day one, Deitemeyer's approach to leadership has been to listen, to consume, to evolve, to adapt. "Coming into an organization with a lot of different brands—it's a lot," Interstate's CEO told Hotel Business last year. "I've been focused on orientation, meeting with all the key players, and starting to dialogue and network with some of the owners. It's going great."



Hampton Inn & Suites, Santa Monica, CA

His plan for the first few months had been to listen and to absorb information on the inner workings of the management company, specifically with regard to Interstate's functionality and organizational structure. "In the first 90 days, I wanted to make sure I didn't come in assuming I knew a better way because that can be dangerous," he said. "So it's just [about] absorption and adding value where I

can with some of our partners and some of our owners." That being said, he did foresee growth opportunities for the management giant—including more momentum in the full-service hotels and resorts space, and projected expansion efforts in the U.K., other regions in Europe and elsewhere. During this time period, he examined Interstate's positioning and focused on making sure the management company was "positioned to take care of [its] different owners and deliver on the returns they're looking for," he said. Being that Interstate is the size it is, this wasn't an easy task for him at all.

"When you think about hotel management and coming back to a group that has as much of a diverse ownership base as Interstate, all our owners don't have the same objectives," Deitemeyer said. "Some of our owners are very opportunistic, looking at buying real estate, moving in, repositioning and exiting. Others are looking for legacy, sustainable EBITDA, long-term value creation."

Despite the challenges, Interstate's CEO has enjoyed his first year at the helm. "In the last year, what I had fun doing is making sure that we're aligning teams that understand...the different nuances in our ownership groups," he said. Deitemeyer also found satisfaction in "rechallenging the way [Interstate thinks] about the different brands and the nuances in the brands, so we can be best-in-class operators in the different segments."

Interstate continued its growth and demonstrated strength in 2017. Within only a year, Interstate's top executive increased properties by nearly 16.7% and rooms by about 7.8% in the management company's portfolio. The management company's gross annual revenue grew from \$3.5 billion in 2016 to \$4 billion in 2017 (an increase of 14.3%). Interstate currently third-party manages all 496 of its properties and has an ownership stake in 11 of its portfolio's properties.

Interstate in 2017 began acquiring management contracts for properties such as Hilton San Francisco Financial District in San Francisco; Las Alcobas Napa Valley in St. Helena, CA; and Minneapolis Marriott Northwest in Minneapolis, and ended the year by entering into an agreement with Merrillville, ID-based White Lodging—another hotel property management company—to acquire a total of 83 management contracts in eight states.

Interstate officially took over the management of all 83 properties in January of this year. The deal marked the largest single-day transition for the company in its entire history. Included in the transaction: 2,500 new associates, 78 select-service hotels and four full-service properties from several lodging groups including Marriott, Hyatt and Hilton.

Interstate has acquired 116 management contracts in 2018 already. "These are all deals that have been in the works for a period of time," the CEO said. Recently signed agreements include a dozen properties from Borealis Hotel Group, a Dutch hotel company with continued expansion potential for the Netherlands, Belgium, Germany, France and additional Western European countries.

"The Borealis hotels that were announced—the 12—some are open," Deitemeyer said. "A lot of those [properties] are under construction, so they'll be phased in over time."

International and domestic expansion

Internationally, Interstate has 62 properties in the U.K., 12 in Russia, three in Ireland, one in the Netherlands, one in Kazakhstan, one in Germany, one in Bosnia and Herzegovina, one in Belgium, and one in Belarus. The hotel management company's portfolio outside of the

\$4B

Gross annual revenue in 2017

496

Total number of properties managed in 2017

82,220

Total number of rooms managed in 2017

U.S. is continuing to grow, and it's not slowing down anytime soon.

"Right now, we have an office in Moscow, and between Moscow and Sochi, we have a large portfolio there," Deitemeyer said. "We are further expanding that portfolio. Right now, we have term sheets signed on three other deals: one in Sochi and two others outside of Moscow, so there's a focus on continuing to build that team out."

As far as Interstate's portfolio in the U.K. is concerned, it's stable; however, the management company's primary focus is establishing its footprint within Central Europe.

"We're opening an office in Amsterdam," he said. "The goal here in the next 90-120 days is we'll have four or five people on our team there. We've hired two already."

Interstate finds there's more of an education process with its portfolio in Europe, since, in many cases, properties tend to be more brand managed. "As we think of our organization globally, it's how do we train our VP of operations; how do we find the right people who understand the nuances in lifestyle-centric, place-making hotels compared to core hotels; and just, what's that look like?" he said. Proportionate to numbers of hotels, Interstate has a larger HR train in Europe than it does in the U.S.

Interstate's portfolio domestically is heavily focused in three states: California, Texas and Florida. The management company's portfolio also has a heavy concentration in the Northeast. Some states missing from Interstate's portfolio include Wyoming, North Dakota, South Dakota, Nebraska, Iowa and Idaho. The company's approach to acquiring management contracts has nothing to do with pinning properties in particular regions.

"It's not a strategy about geography," Deitemeyer said. "It's really a strategy about where our owners and folks we work with are buying and where they see opportunity."

In March, the company acquired the management platform from Gateway Hospitality Group. The 20-hotel portfolio will be operated under Interstate Gateway Management LLC, a subsidiary of Interstate Hotels & Resorts. Aggregating to 2,544 rooms, the portfolio includes premium, select-service properties under lodging brands including Hilton and Hyatt, in addition to two luxury boutique hotels located in five states and the District of Columbia.

Also noteworthy: In February, Interstate's Asia Investment Group, which provides dedicated resources for Asian hotel owners investing in properties in the U.S. and Europe, executed three new hotel management agreements (aggregating to 550 rooms, including hotels under development or construction). Properties in the investment group's most

recent deal include DoubleTree by Hilton Downtown Wilmington-Legal District; DoubleTree by Hilton in Pomona, CA; and Residence Inn Rowland Heights, CA.

Ultimately, the management company's development strategy is to align with its owners' objectives. Interstate's portfolio changes and evolves based on its ownership structure.

Interstate's team continues to grow

The company's CEO is conscious of how people may view his repositioning of the company, which is why he chooses to use the word "evolve" to describe Interstate's shift. For him, it's not about doing away with Interstate's legacy; it's about preserving and respecting Interstate's past, so the organization can grow to where it needs to be.

The management company has 28,000 employees. "As I think about the team and think about some of the changes that we've made, it's really about being more progressive," he said. Just like its portfolio, Interstate has been growing its executive team lately, too.

Late last year, Interstate—in addition to Deitemeyer's appointment as CEO in March—promoted John A. Rubino to EVP of Crossroads Hospitality, the management company's select-service division, where he's been overseeing Interstate's portfolio of select-service and extended-stay hotels in North America since August. Prior to his promotion, he served as EVP of operations in the Crossroads division for a little more than two years.

This year, Interstate continued with its appointments, announcing three in February alone. The management company brought on a new CMO—Andrew Jordan, who previously worked at Adeptus Health, a healthcare provider based in Lewisville, TX. Over the years, Jordan has held leadership roles in both the hospitality and retail sectors.

"When I think about how consumers are evolving in hospitality and how the brands are evolving, I look to Andrew to bring a new, more diverse focus as we think about digital marketing, e-commerce and social media," Deitemeyer said.

Interstate then hired Rogier Hurkmans as a regional VP of operations for Continental Europe. He's expected to help build the company's regional, multi-lingual operating platform, ensure operational excellence and achieve optimal profitability for managed properties. He reports to Ken McLaren, Interstate's EVP of international operations.

Furthermore, Interstate appointed Carrie David to CHRO. She brings 20 years of experience in human resources across a variety of industries, including healthcare, retail, foodservice and hospitality. She most recently served as SVP of operational excellence and GM support for Caribou Coffee and Einstein Noah Restaurant Group.



NoMo Kitchen at the NoMo SoHo in New York City

“We’re a third-party manager, yes, we have ownership in some, but at the end of the day, we are a management company,” he said. “It’s all about leadership skills, training, management development, internships. Our secret sauce—what makes Interstate great—is our people, and we’re doubling down and recommitting to their development, so that’s been fun, and that’s been part of the reason around a new CHRO, and what I

thought she would bring to the organization.”

Last month, the hotel management company named Greg O’Stean as its chief development officer of North America. O’Stean, who reports directly to Interstate’s chief investment officer, Leslie Ng, most recently served as the chief investment officer at Loews Hotels.

“These are people that come in and have taken the time to understand who we are and what we do well,” Deitemeyer said.

In addition to orientation, Interstate offers its employees sales leadership training, revenue management training and more. The management company has plans to rebrand its training programs in order to assist employees with tracking advancement.

“I think we do a good job on all the technical skills training, but I also want to make sure we’re doing the leadership training that’s going to set us up for future GMs and growth,” he said. “At the end of the day, the corporate office is overhead. The strength of our GMs is what represents us, and that’s an area we’re going to continue to push and focus.”

Intrigue Hotels & Resorts by Interstate

In October 2017, Interstate launched Intrigue Hotels & Resorts by Interstate, its lifestyle management division, which includes a variety of independent and soft-branded properties, including urban boutique hotels, upscale restaurants, spa retreats and international properties. Some properties within Intrigue’s portfolio—which focuses on delivering and incorporating innovative culture, style and technology to both owners and guests—include the following: Nomo SoHo in New York; Hotel Erwin in Venice Beach, CA; The Charles Hotel in Boston; and The Marker in Dublin. Interstate currently has nine properties within its Intrigue division.

“It’s created an opportunity, certainly, for us to talk and engage in dialogue with owners who have thought of us in a different way in the past, and so that’s part of what we’re doing,” he said. “[Interstate] is a great organization and has a great history, but I think Intrigue...will speak to the evolution and how we better operate in these different segments.”

Intrigue has its own central reservations system integrated with a consolidated revenue management platform designed for its independent hotels. “It’s about a team that’s more focused on placemaking, understanding the nuances in how you hire employees for different types of hotel experiences, so there’s a different DNA around how you hire and how you train; it’s more attitudinal,” Deitemeyer said. These features are accompanied by a dedicated national sales team, new procurement program and human resources team specializing in lifestyle talent training and acquiring.

“It’s also [about] understanding that social media and digital marketing play a bigger role in success around those hotels,” he said.

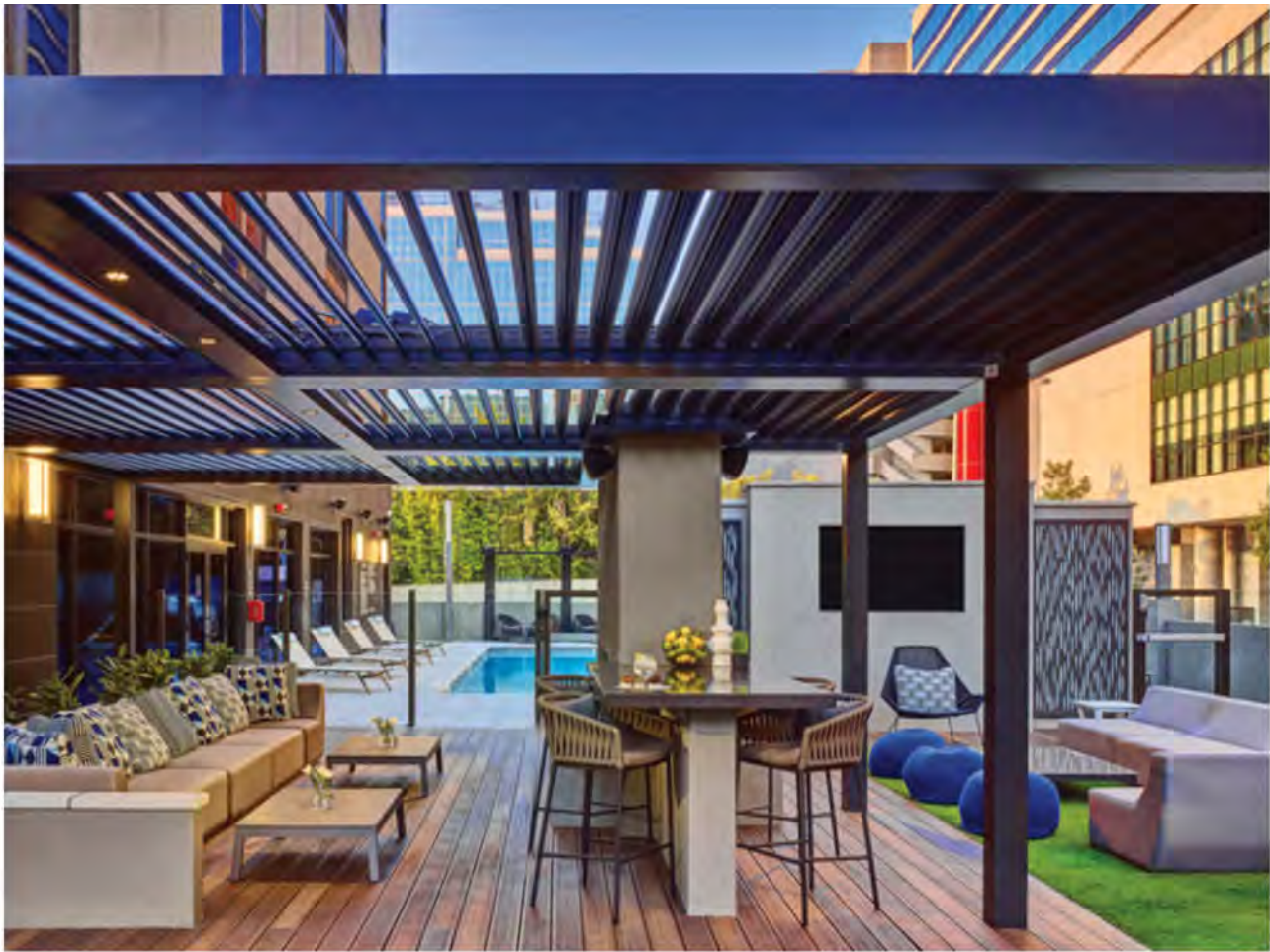
Interstate hasn’t done much with Intrigue within its portfolio in Europe. “A lot of the properties within Europe are going to benefit from some of the new tools that are coming out as part of the Intrigue portfolio,” Deitemeyer said. The management company is beginning to open a dialogue with its marketing unit in the United Kingdom.

A division like Intrigue does more than assist properties within its scope. It enables Interstate to leverage the back engine and create value across the entire organization.

For example, within Interstate’s entire portfolio, it has 44 independent hotels, some of which are more community-driven (i.e., light programming, design, sound). Other properties within its independent portfolio include grand historic hotels, some of which may not transition into the Intrigue platform but will leverage technological advancements the group provides (e.g., the iPad check-in upon arrival at the property).

“Some of [these properties] will move completely within this management team and others will just use features that this management team supports,” Deitemeyer said.

Heading the division is Brian Sparacino, SVP of operations at Intrigue. Prior to his most recent leadership role, he spent 12 years as SVP of sales and operations at Interstate.



Outdoor lounge at AC Hotel Atlanta Downtown

Looking ahead

Interstate won't be staying in its current headquarters for very long. "We're moving a few miles away to an office overlooking the Potomac [River] and looking toward downtown DC," Deitemeyer said. Aimed to bring more excitement and energy to the organization, thereby developing an environment where creativity thrives, a progressive floor plan will be utilized; the new headquarters will be more open and have more communal spaces.

"Allowing the teams to collaborate freely will enable Interstate to truly set [itself] up as best-in-class," the management company's CEO said. While the office architecture is done, office furniture is still being worked out; however, Interstate is going with West Elm. If all goes well, the hotel company will move into its new office space on August 1.

Ultimately, the hotel management company centers its focus on its owners and their specific needs. "Our goal is to align with our owners' objectives," Deitemeyer said. For Interstate, value creation is key; it's how it develops resources for its owners.

For instance, Interstate recognized the need for additional capital project management

support. "That's something we identified as an area of opportunity, so we've tripled the team in 2018 that supports those things for our owners," he explained. Essentially, the management company has been working day and night to avoid the dreadful "c" word: commoditization.

"To me, it's about working against commoditization," Deitemeyer said. "How can I provide services that are valuable to them beyond just, okay, they're running the hotel day-to-day?"

In addition to input on capital project management, Interstate has provided a platform for its thoughts on positioning and branding (Intrigue is one example), and F&B incremental value through restaurant partnerships and relationships (regional chefs and groups). "It's about leveraging those incremental value areas," he said. This way the management team can package and sell items as a value-add to owners and developers.

"At the end of the day, it goes back to one of the things I opened with," Interstate's top executive said. "It goes back to our management team being the best trained, the best possible leaders and us being known for that, and that's really where I just want to double down on how we acquire talent, how we motivate talent, and how we retain talent because, ultimately, that's what's going to define us." HB