



HOSPITALITY
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Hotels: Branded or Independent?

5 key considerations for Owners & Investors



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Decisions that matter.

A major decision for any hotel owner or investor is whether to affiliate their property with a brand. As ever so often, the trade-offs are as comprehensive as they are complex. We do note that the comparison is between the general independent vs branded hotel. There certainly are independent properties who do very well, yet those remain few and far. We shed light on the key considerations.

1. Revenue

Several studies have shown that branded hotels attain better topline revenues than their independent peers on a like-for-like product. This has largely to do with three general aspects:

- Better presence in the market and thus closer relations with frequent travellers and their gatekeepers (say via negotiated contracts) and capture of infrequent travellers who seek safer options
- Better revenue management – to optimize pricing and maximize yield
- Access to global/regional sales offices and loyalty programs, lowering the cost of customer acquisition and driving occupancy

Independent hotels must be highly creative in marketing and able to leverage unique attributes to get exposure in the market. At the same time, they often rely on costlier booking channels causing their average daily rate (which in general excludes the cost of booking) to be lower. The key for independent hotels is to drive high repeat visitor ratios and/or maintain a strong awareness to drive direct bookings. There can always be an independent property outperforming their branded peers by attracting discerning travellers with high standards and deep pockets. However, getting that formula right and see these guests come back time and again remains elusive to most independent properties. They will have to dig deep and offer more in terms of exclusive/specific experiences (i.e. unique design, entertainment, F&B, wellness, element of personalization) versus their branded peers whose main selling point is consistency and recognition for frequent travellers.



2. Fees & Profitability

The top-line premium many branded hotels maintain doesn't come for free. Chains charge a variety of fees depending on the business model. They are usually expressed as a percentage of (gross or rooms/F&B) revenues and, for directly operated hotels, as a percentage of Gross Operating Profit. In some rare cases they would be a percentage of EBITDA. In addition, there are various one-off booking fees, system fees, loyalty program fees, etc. There are also cases of 'hidden' fees whereby many owners struggle to understand what they are getting charged for.

A study has shown that independent and branded hotels attain similar EBITDA levels, and our observations show that franchised hotels with a third-party operator attain similar profitability as directly managed hotels. The former has the benefit of better cost control yet incurs some fees (which can be substantial at more than 20% of rooms revenues), whereas independent hotels do not incur major fees, however, generally suffer from lower topline performance. Some investors are willing to take that into account and prefer the leaner options of independent hotels. These properties can be more flexible and strategic in terms of what services they offer and thus cut out layers of inefficiencies while also creating new revenue centers – if done right.

Given that bottom-line performance-wise there appears to be no major difference between the three scenarios of a general independent vs franchised with third party manager vs chain operated. The attention turns to qualitative aspects.



3. Standards

Brand standards can be a challenging rule book (and rather dusty at times) but also bring certain benefits via efficiencies throughout the lifecycle. The challenge is more apparent when the brand isn't the right match for the asset, or the chain doesn't dedicate sufficient resources to the asset. This is where asset managers play a critical role as a type of mediator and are further tasked to find solutions. The introduction of soft brands has taken some of the pressure off branded hotels to allow more flexibility and a distinct identity, which resonates more with the current traveller. It should be

noted that chains have become more cognizant of the need for flexibility but may have yet to embrace the concept, in particular when it comes to changing food and beverage (F&B) concepts where only few corporate teams have the bandwidth to shape trends or even keep up with them. Put plainly - only a few operators have a strong F&B game, to the point where additional license fees apply for successful concepts.

On the other side are independent hotels who do not have to adhere to any standards. The challenge is that developing and maintaining or rather updating standards is not part of the daily routine in a hotel. When it comes to mission-critical areas like revenue management which continue to evolve in days of AI, maintaining a competitive edge can be complex and costly. Similarly, centralized purchasing would not be available to an independent hotel, and certain efficiencies would be missed. As sustainability reporting is another area which clients pay attention to, independent hotels would have a steeper learning curve to complete their audits and set-up of new protocols. Thus, any learning curve from new trends and technological or other advances would be more costly to an independent hotel.



4. Safety & Assurance

Often overlooked yet branded hotels usually all follow strict safety standards (life, fire & safety). Many existing independent hotels may not comply with those standards, and a conversion would be very costly. One reason (corporate) clients and groups seek out branded hotels is because of the safety they provide. While many markets are predominantly leisure driven, the benefit may be elusive.

Similarly, lenders and other stakeholders are more comfortable around branded hotels given their reputation. This does not mean that independent hotels do not have sufficient safety standards – they all (should) conform to local building regulations. However, some Chains have significantly more stringent standards. The challenge for independents who outperform on safety are still exposed to the downside risk as one bad apple can spoil the barrel.

5. Talent

One key area often overlooked in the branded vs independent debate is the challenge around talent. Strong achievers in the hospitality industry seek opportunities for growth and are not set to work in the same locale. One major challenge independent hotels face is attracting and retaining the right talent and training them along the way. Major chains provide career opportunities that iconic independent hotels can match. That being said, attracting talent is no easy feat these days for anyone when candidates expect purpose, autonomy, and creativity, not rigid brand standard operating procedures. Yet, talent retention generally becomes more difficult for ordinary hotels and are one the reasons owners opt for brands. After all, successfully driving awareness in the market requires a level of ingenuity that calls for strong performers. Note that this doesn't mean that chains always rotate their top performers to an opening or conduct reshuffles as they grow their teams. Clearly another area asset managers need to keep an eye on. Top performers go where they are respected, challenged, and paid fairly – something the top independent hotels have long understood.

Other Aspects

- One major challenge for independent hotels lies in maintaining their respective competitive positions. We often find branded hotels better able to seize changes in systemic market pricing. For example, when a new, high-end property enters the market and the existing hotels follow suit by increasing their respective rates. Independent hotels seem to be more reliant on CapEx projects to move the needle. At the same time, “continuous upgrades” are more common among independent hotels, which don't help to improve average rate penetration.
- A key difference for independent hotels is when the owners are (heavily) involved in the day-to-day operation of the hotel. The personal touch is hard to emulate for a branded property. On the other hand, continuously implementing best practices may be more challenging for an independent hotel.

Conclusion

As with many things in hospitality, there are no black and white answers in the branded vs independent debate. A brand should bring capital, distribution, and innovation, not rules, fees, and cookie-cutter standards.

Avid travellers look for experiences from storytellers, operators who innovate, and owners who get close to the guest, yet brand standards are usually not designed to achieve that. Each hotel needs to be evaluated individually to determine the best strategy. Owners who have a vision and are willing to roll up their sleeves, learn, and invest time and money can well succeed running an independent property. For all those not so sure, the right brand may be a safer way to go.

About AP Hospitality Advisors

AP Hospitality Advisors is an advisory firm founded by Dan Voellm, MRICS in 2011 in Hong Kong has seen the opening of additional offices in Bangkok, Seoul, and Shenzhen. AP Hospitality Advisors serves owners, investors, developers, operators, and lenders of hospitality assets across Asia-Pacific. The team blends expertise in operations, real estate, and finance to support any critical step in the asset lifecycle.

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About the Author



Dan Voellm, MRICS is the CEO & Founder of AP Hospitality Advisors, responsible for all aspects of the firm. Based in Hong Kong he covers the entire APAC region. Dan works closely

with key institutional and private owners of hotel properties, financiers, developers, and investors, and has gained a strong understanding of their investment requirement and approaches to assessing market values of investment properties. Dan further advises on property and concept development and strategy as well as expert witness testimony.

Dan is vice-chair of the Urban Land Institute's (ULI) Hospitality Development Council in Asia Pacific and became a Professional Member of the Royal Institute of Chartered Surveyors in 2016.

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