HVS

CHAPTER 2

History of the Lodging Industry

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[1] Inns, Rooming Houses, and Grand Hotels

The first lodging facilities developed in the United States were coaching inns and taverns. Patterned after English inns, these facilities were situated primarily in seaport towns and along coaching routes. As the new colonies developed and the country expanded westward, lodging facilities with higher degrees of opulence were established. Influenced by their European counterparts, they closely resembled the hotel as we know it today and were located in resort and urban settings.

The growth of the U.S. railroad system led to an increased demand for overnight accommodations for rail travelers. Numerous small rooming houses were built near train stations to accommodate transient guests. Quite spartan, these facilities generally had much lower standards of service and cleanliness than the luxury hotel properties found in the cities and resort areas. Travelers in most situations had a choice between high-quality downtown hotels and inexpensive accommodations in railroad rooming houses. For many travelers, unable to afford first-class accommodations, the railroad rooming houses were the only viable option for overnight accommodations.

[2] Birth of the Modern-Era Hotel

At the turn of the century, the United States experienced an economic expansion that, in conjunction with improvements in transportation and lower travel costs, opened up travel to the middle class, thereby creating a new and rapidly expanding market for hotel accommodations. The economic expansion also brought about increased commercial activity and ever-larger numbers of business travelers. However, neither the hotels at the upper end of the market nor those at the lower end satisfied the needs of business travelers.

[a] The First Significant Commercial Hotel

In response to expanding commercial market demand, Ellsworth M. Statler in 1908 opened the Buffalo Statler in Buffalo, New York—the first modern era hotel meant to accommodate the needs of the commercial guest. Many of the conveniences taken for granted today were first instituted by Statler in this hotel, which became the model for reasonably priced, efficiently run commercial hotels throughout the country. Standard features in all of Statler's hotels included private baths, full length mirrors, morning newspapers, and overnight laundry. "A bed and a bath for a dollar and a half," Statler's tagline, came to mean a standardized hotel product to U.S. travelers.

[b] Luxury Hotels in the Early 1900s

During the early 1900s, an aggressive expansion in hotel construction took place in the United States as large luxury hotels (e.g., the Plaza, built in New York City in 1907) were constructed in major cities, and the commercial hotel segment continued to emerge. This expansion slowed during World War I, but when the nation's involvement in that war concluded in 1918, there was a tremendous resurgence in hotel development, which lasted until the early 1920s.

[3] Overdevelopment in the 1920s

After the war, the middle class continued to prosper, and investment capital for hotel development projects was generated. The fact that nationwide hotel occupancy rose from 72 percent in 1919 to 86 percent in 1920, coupled with the perception that real estate was a sound, safe investment vehicle, made many people eager to contribute development capital as they listened to hotel promoters. Many times the developer's arguments for investment were predicated not on economic feasibility but on civic pride, improving a neighborhood, or the personal prestige associated with investing in new hotel development projects. In some cases, local merchants were promised business from the hotel when it opened in exchange for an investment in the project. In these "community-financed" hotel projects, real estate bonds for first and second mortgages were sold to local residents to stimulate business for the hotels from the local community. In many situations, the financing structures that were created involved extremely high leverage accompanied by a commensurately high degree of risk.

Despite these conditions, however, investors were convinced of the viability of hotel development projects. Investment capital was readily available, and numerous hotel development projects were financed, resulting in a boom in hotel construction throughout the decade.

By the mid-1920s, *Hotel Management* (a trade publication that later became the current *Hotel and Motel Management)* began to print articles by industry spokespersons warning against "over-hoteling" and urging professional hoteliers to reveal to the public the "real facts" about their hotel's occupancy level and financial condition to offset the larger-than-life stories that had contributed to the overbuilding. To illustrate the extent of the overbuilding problems, a nationwide survey was conducted in 1928 and 1929 by an objective body, the Engineering-Economics Foundation. This postgraduate college in Boston quantified hotel room supply, guest demand, occupancy levels, rates, and hotel failures between 1919 and 1928. They found that nationwide hotel occupancy had drastically declined from a high of 85.5 percent in 1920 to 67.6 percent in 1928. A staggering decrease of 17.9 occupancy points equated to a 21 percent decline in hotel rooms sold.

Room rates remained generally constant from 1921 to 1928, but the Foundation determined that the additional services offered to guests during this period considerably reduced the profitability of hotel operations. Hotel failures averaged a stunning 15 percent annually between 1924 and 1928.

[4] Depression Years

The true financial condition of the hotel industry became quickly apparent immediately following the stock market crash of 1929. Hotel rate wars became common, leading one industry spokesman to suggest mergers of hotels within cities to stabilize rapidly falling prices. However, even low rates could not stimulate demand.

By 1933, one third of the country was out of work, the gross national product had dropped by almost half, and the lodging industry suffered severely as a result. By 1935, more than 80 percent of the hotels in the nation were in foreclosure or in some form of liquidation. Many properties closed entirely, never to reopen.

[a] Acquisition Opportunities for Ready Capital Sources

As is generally the case in real estate cycles, a major opportunity arose from the collapse of the hotel industry for investors who had available cash. These investors

were able to acquire distressed hotels with minimal cash outlays and reasonable financing. It was during this period that some of the most well-known hotel chains were born.

[b] The First Major Hotel Chains

Conrad Hilton entered the lodging industry in 1919 with the purchase of the 40-room Mobley Hotel in Cisco, Texas. During the 1920s, Hilton expanded his holdings throughout Texas, and had acquired a total of eight hotels by 1929, when the stock market crashed. Because his hotels were highly leveraged, Hilton suffered tremendously. Despite aggressively cutting costs (e.g., by removing guestroom telephones and shutting off entire floors), he was able to retain control of only five hotels in his chain. By 1935, however, profits from oil leases he had purchased provided Hilton with sufficient capital to satisfy his creditors and to fund additional hotel acquisitions. Hilton purchased managing control of the Sir Francis Drake in San Francisco, the Town House in Los Angeles, the Stevens in Chicago, and the Roosevelt and Plaza Hotels in New York.

Another substantial hotel chain was developed during the same period. Ernest Henderson founded what was to become the Sheraton hotel chain in 1937 with the initial purchase of the Stonehaven Hotel in Springfield, Massachusetts. By 1941, his developing hotel company had acquired four hotels and Henderson was well on his way toward building one of the nation's largest lodging chains.

Large, sophisticated hotel development companies, such as Hilton and Sheraton, were successful in persuading skeptical bankers and other investors to invest in their hotel organizations. By taking advantage of the extremely depressed hotel real estate market, the strong, well-capitalized hotel companies were able to continue to aggressively expand their hotel portfolios by acquiring hotel properties at depressed prices.

[c] Early Valuation Theory

Financial analysts who monitored the hotel industry advised investors during the depression years not to value hotels on the basis of their present income streams, which were extremely depressed. They stressed rather that hotels should be valued on the expectation of future earnings, which were expected to rebound as the economy recovered.

Basing their conclusions on the pattern of the previous recession, hotel industry writers and analysts optimistically forecast three years of depressed sales and subsequent earnings before the industry would fully recover. This theory did not hold true because it did not take into account the tremendous overbuilding that preceded the depression; in addition, the economy did not fully recover until the early 1940s.

[5] Economic Recovery in the Early 1940s; World War II

Hotel occupancy levels recovered shortly after 1940 as the general economy of the United States improved. Room supply had been diminished by the closing of many hotels during the depression. With the onset of World War II, the industry experienced a tremendous increase in lodging demand that surpassed even the booming 1920s. As a result of the war, the country was on the move; servicemen traveled home on leave, civilians relocated near defense plants, and the commercial market segment increased

dramatically as all industrial activity related to the war effort was heightened. Despite the large increase in demand, supply remained constant because construction materials and labor were focused on the war effort. Additionally, financing was generally unavailable for new construction because lenders and investors still had a fresh memory of the devastation in the real estate industry caused by the last economic downturn.

In some markets throughout the country, hotel room supply was significantly affected when such hotels as the Stevens in Chicago and the Greenbrier in White Sulphur Springs, Virginia were converted to housing for troops. The combination of increased demand and constant room supply resulted in tremendous increases in hotel occupancy rates. Occupancy levels exceeded 90 percent throughout the country— translating into one of the most profitable economic cycles the industry has experienced.

During this period of extremely high demand and limited supply, labor and material shortages significantly compromised the service levels of most hotels, in many cases forcing guests to wait for hours in hotel lobbies for accommodations. The situation became so untenable during this period in the New York City market that hotels were forced to limit the length of stay to three days for all guests.

» 2.02 POST-WORLD WAR II ERA: CONTROLLED GROWTH AND CHAIN EXPANSION

In the years immediately following World War II, a construction boom equaling that of the period immediately after the first World War failed to occur, primarily because hotel lenders were concerned about a repeat of the financial disaster of the 1930s. Averse to providing development capital to new hotel developers and new construction projects, lenders did, however, provide acquisition capital and limited development capital to proven industry performers to allow them to continue the expansion of their hotel chains. Having developed successful track records during the 1930s and 1940s, the larger hotel chains (specifically Sheraton and Hilton) were looked on favorably by lenders and received assistance during the 1950s in expanding their chains, both by acquiring existing properties and, to some extent, by building new hotels in key cities. The Hilton hotel company purchased the Statler chain of 10 hotels in 1954 for $111 million from Statler's widow, and the Sheraton organization continued its expansion plans by acquiring 22 hotels from Eugene Eppley in 1956.

[1] Motels

During the 1950s, continued growth of higher-end hotel chains was matched by the expansion at the lower end of the market of the family-operated tourist courts, developed initially in the 1930s. With their beginnings in these tourist courts, motels in the early years were usually 20- to 50-unit, family-run operations in which a small investment (such as a retirement nest egg) was made and family members contributed all of the labor. Although during World War II the occupancies of most of the larger hotel properties increased dramatically, the business of the smaller tourist courts declined because people had neither the time nor the money to vacation. Additionally, gasoline and food supplies were rationed, and leisure travel was not popular. It was not until after the war that the situation improved for this segment of the lodging industry.

After the war, travel in the United States became increasingly popular, stimulated by an improving economy that provided increased disposable income and by improvements in automobile travel. Traveling by automobile was simple and relatively inexpensive. The motel market expanded to include business travelers (especially salespeople, middle managers, and small business owners) in addition to vacationers, as well as employees traveling on government-related assignments.

The first motels were distinctly different from the larger hotels of the same period in terms of size, construction costs, land values, and management requirements. They provided lodging accommodations at convenient highway locations; they were much smaller and provided fewer amenities, but charged lower rates than the typical urban hotel facilities of the era.

[2] The Late 1950s and Early 1960s

During the late 1950s and early 1960s, several new lodging chains had their beginnings. Holiday Inns, Ramada Inns, Howard Johnson Inns, Marriott, Hyatt, and Radisson all successfully won significant market share in their market segments through aggressive and inventive sales and marketing practices and techniques.

[a] International Expansion Activities

International expansion activity by several U.S. hotel companies became prevalent during the 1960s. Pan American Airways' subsidiary, Inter-Continental Hotels Corp., which had initially been founded in the late 1940s with the opening of the Intercontinental in Belem, Brazil, continued to develop hotels in Latin America. Hilton Hotels, which had been operating the Caribe Hilton in Puerto Rico since the late 1940s, established its Hilton International division and began expanding operations in Europe and South America.

[b] Marketing Advantages Through Related Activities

A significant move toward vertical integration within the airline and lodging industries occurred during the 1960s as several large airlines acquired or merged with hotel companies. In 1967, Hilton International Corporation (by then a separate company from Hilton Hotels) was purchased by Trans World Airlines. UAL, Inc. purchased the Western International hotel chain, which is now known as Westin Hotels. Another example of the union of lodging and transportation companies was Holiday Inns' acquisition of the Continental-Trailways bus lines and the Delta Steamship Lines in the late 1960s.

[c] Evolution of the Convention Hotel

The convention and meeting market became a focus of interest during the 1960s as hotel chains sought new opportunities for growth and increased revenues. A prime example of this type of expansion was the development of The New York Hilton, which opened in 1963. Designed and built specifically to cater to the growing convention market, this type of facility was established in large cities that provided numerous tourist attractions to bolster attendance at conventions and meeting events. In addition, holding major events in large cities provided attendees with easy and relatively inexpensive travel options.

[d] Start of Franchise Development

Beginning in the 1950s, motel chains such as Holiday Inns used the concept of franchising as a technique for financing their growth. Rather than developing motel properties with their own funds, these lodging firms sold a standardized franchise product and package to investors who then developed and operated the properties as their own businesses.

[e] Product Diversification and Segmentation

Spurred by competition and the oversupply of rooms, companies diversified their product types and plunged into new market segments. The lines of price value and service demarcation become cloudy with the push into diversified business lines. More mature segments (e.g., full-service hotels) began experiencing competition from limited-service properties, suite properties, and extended-stay facilities. Companies learned that brand recognition can stretch across several price points, affording ready acceptance to new brands and products. This segmentation fueled much new development and provided a means of absorbing older properties whose location and age made them less competitive than the newer ones. This specialization attracted new capital, and the limited scope of services and lower variable costs reduced development costs and provided higher operating margins.

As franchise growth proliferated, however, drawbacks such as lack of control by the franchiser became apparent. To gain further control of the management of the brand, the hotel companies aggressively pursued management contracts in addition to franchise agreements.

» 2.03 EARLY 1970s: CONSTRUCTION BOOM, ENERGY CRISIS, AND DOWNWARD SPIRAL

In the early 1970s, as a result of a healthy global and domestic economy and an expanding U.S. interstate highway system, travel in the United States was flourishing. Hotel supply and demand were at an imbalance, with hotel rooms satisfying only two-thirds of the pace of demand growth. As a result, hotel occupancies climbed to 65 percent in 1974. Higher occupancies and increased room rates coupled with obtainable hotel financing accelerated hotel development activity. At the same time, many hotel franchise companies were aggressively expanding to increase their national exposure.

Also, during this era REITs (Real Estate Investment Trusts) were formed, allowing small investors to participate in real estate mortgages and equities.

[1] The Bubble Burst

As a result of favorable demand and available development capital, numerous hotels entered the marketplace in 1974, just as the U.S. economy began to soften as a result of the OPEC oil embargo, which began in 1973. The embargo dramatically increased energy prices and decreased consumer confidence, leading to a decrease in business and leisure travel. Annual hotel occupancy declined to 62.3 percent from occupancy levels approaching 70 percent earlier in the decade. In 1975, room demand increased by only 0.7 percent, further exacerbating the oversupply situation.

Many lenders and developers believed, wrongly, that a national franchise

would virtually guarantee a successful and profitable operation. The bubble burst on the lodging industry when inflation caused construction and interest rates to radically escalate. Additionally, the 1974 energy crisis drastically reduced travel, and the accompanying recession curtailed business trips, conferences, and conventions.

[2] The Involuntary Owners

Operators of undercapitalized properties quickly became delinquent with their financial obligations, and in numerous situations, lenders were forced to foreclose to protect their financial interest in the projects. To address their problems as involuntary hotel owners, lenders developed and organized work-out departments generally headed by experienced hotel personnel, or they engaged professional hotel management companies to assume the operational responsibilities for the foreclosed-upon assets.

These involuntary owners, in most cases, were seeking to dispose of these assets quickly to remove nonperforming loans from their books and to reduce their prices substantially to attract all-cash buyers. Lenders who were willing to hold their hotel assets and employ professional management to reposition and improve the properties' operation were generally able to recoup their original investment in three to five years, once the industry began to recover. However, even lenders who held their assets until economic conditions improved were typically forced to provide favorable financing to dispose of these assets at acceptable prices.

[3] Historical Perspective on Hotel Values

Interestingly, the history of real estate development and economic cycles indicates that during periods of economic decline, the values of hotel assets do not generally decline as radically as their income declines. Sellers of hotel assets and lenders of hotel assets during periods of economic problems were often unwilling to sell at substantially reduced prices. Their objective was to wait out the downward cycle and dispose of their assets when the market began to recover.

» 2.04 LATE 1970s: RECOVERY AND CALM

The late 1970s was a period of relative calm for the lodging industry. Because most lenders were recovering from the financial wounds inflicted by the 1975 recession, they had little interest in making hotel mortgages. New construction was restrained, and consisted primarily of additions to existing hotel properties and the development of some larger hotels oriented toward the commercial and convention markets. The rebirth of center-city hotels was a direct result of fuel shortages and the availability of government financing for inner-city redevelopment projects. Highway-oriented properties, on the other hand, were adversely affected by escalating gasoline prices and decreased automobile travel. These lodging facilities lost some of their appeal among investors and hotel companies.

Decreased building activity, the normal retirement of older hotels from the market, and an improving economy created a favorable supply-and-demand relationship and record-high occupancy levels from 1979 to 1980. Average room rates increased

rapidly as operators took advantage of excess demand to recoup earlier losses and keep up with inflation.

[1] Maturation of Systems and Procedures

Hotel companies that were formed in the 1950s and 1960s matured in the 1970s, becoming more professional and more sophisticated in their management systems and techniques. The disciplines of hotel operations, finance, accounting, and marketing improved during this era, and a great deal of emphasis was placed on making operations more efficient. This was accomplished by the consistent monitoring and measurement of sales and marketing activities and daily operational procedures. Additionally, the practice of comparing individual hotel performance with industry averages was expanded during this era. As the hospitality industry continued to expand and develop, many colleges and universities expanded their hotel and restaurant related curriculums, graduating an increasing supply of talented and well-educated hotel and restaurant personnel.

[2] Chain Expansion Through Asset Sales

To maximize cash flow and minimize financial risk, in the late 1970s and early 1980s hotel chains began to sell ownership of their hotels to investment groups while retaining ongoing management of the facilities. This practice generated capital—used to foster further acquisition and development activities—through fee management agreements with the new owners of the assets. Because the chains were maintaining and managing the properties on a daily basis, they were able to maintain their established standards. (See Chapter 16 for further discussion of the role of management contracts in the industry.)

» 2.05 THE 1980s

After the decline in hotel development during the late 1970s, the environment seemed conducive to a period of renewed expansion. However, the Federal Reserve tightened the money supply in the early 1980s, sending the prime interest rate up to double-digit levels, and most of the projects that were in the preliminary stages but lacked suitable financing were put on hold. In 1983, the national inflation rate began to come under control, and inflationary pressures were reduced. These events resulted in a decline in interest rates, and tremendous amounts of capital became available for real estate development and investment. Hotel developers who had been out of the market since the mid-1970s rushed to initiate new projects. These developers were aided by the following major real estate development incentives:

- Improved demand resulting in higher occupancy rates;
- Escalating room rates;
- Readily available debt and equity financing; and
- Extremely favorable income tax benefits designed to stimulate the national economy out of the recession of the early 1980s.

A steady flow of new hotel properties entered the market during the 1980s, and as a result, the aggregate United States occupancy level declined every year between 1980 and 1987. Many hotels could not operate profitably under a scenario of declining occupancies, and stagnant room rates and another round of hotel foreclosures ensued.

[1] Non-Economic Real Estate Transactions

As mentioned previously, during the 1980-1987 period many real estate syndications were structured using "tax-based" real estate transactions for investors able to take full advantage of taxation rules that permitted losses from one investment to offset other types of income. Additionally, a favorable capital gains tax rate enhanced the value of real estate investments. These "non-economic" real estate transactions (i.e., those not designed to generate cash flow) provided equity capital that would not have otherwise been available to develop these hotel projects. Also, in anticipation of pending changes in the tax codes governing such transactions, hotel construction projects that should have been postponed until market conditions improved were concluded prior to midnight, December 31, 1985,

Because of the extensive lead time needed to complete the entire development process, this led to a period of overbuilding and a glut of hotel rooms coming on the market at the same time. Additionally, since there was little incentive to justify a transaction's economics (i.e., cash flow and reversionary benefits), a number of syndicators overpaid for hotel properties, took out exorbitant transaction fees, and placed unreasonable amounts of debt on the assets.

[2] The Savings and Loan Debacle

By the end of the 1980s, the depth of the savings and loan crisis was evident and the industry became fully aware of the serious problems it faced—too late to reverse the oversupply of rooms developed throughout the decade. Between 1985 and 1990, a staggering 556,000 new hotel rooms were added to the U.S. hotel supply.

[3] Development of Product Segmentation

Although overall new construction slowed, hotel chains had still been active in development as "product segmentation" became the watchword of the 1980s. During the 1960s and 1970s, the concept of market segmentation and its emphasis on the demand side of the lodging equation affected every aspect of the industry. Marketers began to research and understand the buying public more clearly, to define specific segments by their varying characteristics, and to target the segments more effectively by offering the services, amenities, and prices that the public was seeking. In the 1980s, this concept was taken one step further, to product segmentation, when hotel products began to be designed specifically for targeted market segments. The trend in services and amenities during the past thirty years has been to deliver what is appropriate to each market segment and product type, on the basis of market demand and price. For luxury and first-class hotels, where high room rates are charged and guests expect high quality, services and amenities have been increased and expanded. Concierge levels have been added, guestrooms have been lavishly furnished, and guestroom amenities such as toiletries, robes, towels, and personal care equipment have been added and upgraded. Conversely, services and amenities in. economy-level properties

have tended to be reduced or eliminated in order to reduce or maintain low room rates, which are of prime importance in this market segment.

[4] Extended-Stay and Suite Concepts

A new market segment was defined and addressed during the 1980s. Known as the extended-stay market, it comprised guests who needed accommodations for a period of time greater than the typical guest's one to three days, for such reasons as business training, temporary assignment, or relocation. Demand for these needs had previously been met chiefly by short-term lease apartments, but the rapidly growing extended-stay market represented one of the fastest growing segments the industry has witnessed since its beginning.

All-suite hotels also proliferated during this era and several major hotel chains began to aggressively expand in this arena. The unique feature of a hotel room's having separate sleeping and living areas was extremely popular in the commercial market segment as well as the leisure segment—allowing parents to be in the same general area as their children but providing two separate sleeping areas.

[5] Supply and Demand Imbalance

On a national level, lodging demand gained strength during the second half of the 1980s, but the market was awash with excess rooms. Once pressed to meet soaring demand, the industry was now buffeted by listless occupancy, tight pricing, and margin pressure. Hotel chains, which had eagerly capitalized on booming demand, were now locked into an intense battle for market share.

[6] Lodging Industry Stock Performance

The publicly traded stock of the major hotel companies performed as well as the broader markets in 1988 but traded at the lower range of historical trading ranges. Operating trends confirmed the industry's overheated expansion, and although occupancy levels remained at 65 percent in 1988, the industry continued to operate well below its historical peaks. The excess room supply impeded upward price movement (increases were held to around 3 percent—below the Consumer Price Index (CPI)).

» 2.06 THE 1990s: SIGNIFICANT EVENTS

The national economy entered another recession in 1990, which along with overbuilding and the negative effects of the Persian Gulf War in 1991 caused the national hotel occupancy rate to bottom out at 60.8 percent in 1992. In some markets, hotel occupancies fell as low as 35 percent.

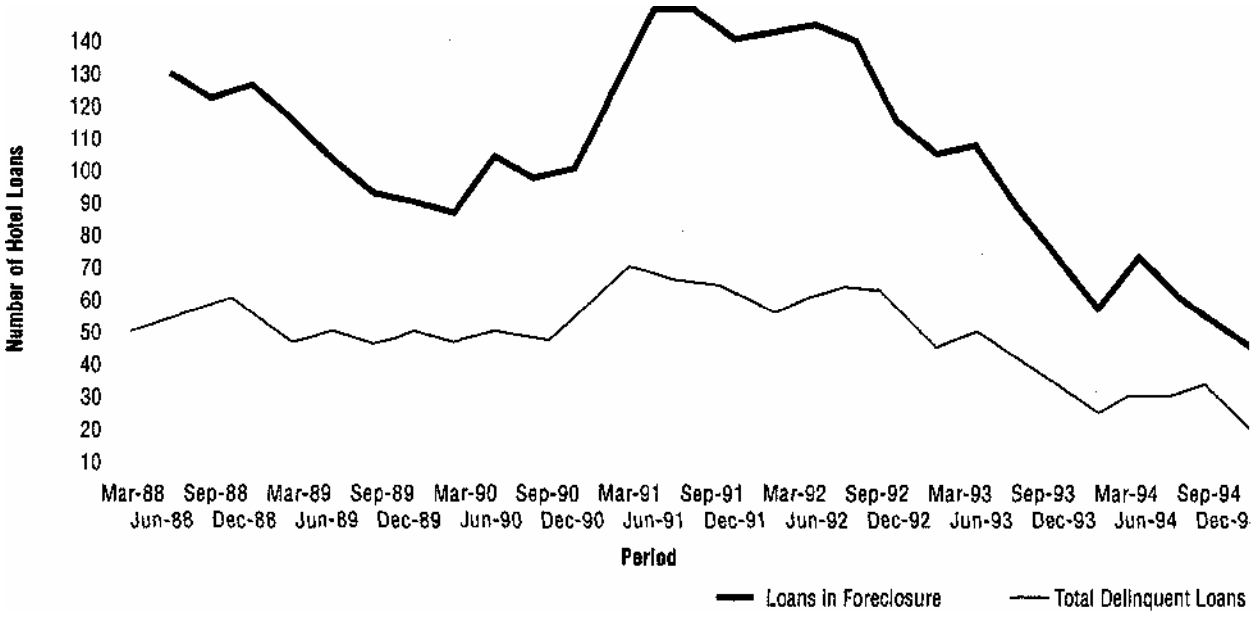
[1] Nonperforming Loans

The number of nonperforming loans reached record levels, and the majority of lenders moved to a workout mode of operation in order to foreclose and restructure

their hotel investments. Many of the savings and loans were taken over by the federal government, and their hotel assets were sold at auction. Exhibit 2-1 illustrates hotel loan performance as reported by the American Council of Life Insurance. The number of hotels in foreclosure peaked in 1991 as loan restructuring was an attractive alternative to foreclosure. During this period, the number of restructured loans almost doubled from previous levels.

Exhibit 2-1 Hotel Loan Performance

Source: American Council of Life Insurance



[2] Gradual Improvement

The industry began to improve around 1992. The national average occupancy was 61.7 percent, a 2.6 percent increase over 1991 performance levels and the largest increase in more than ten years. This was the result of a 4 percent surge in demand coupled with a 1.3 percent rise in supply. All regions of the country except for the West Coast experienced this improvement, with hotels in the New England, South Atlantic, and East North Central regions showing above-average increases.

By 1993, new hotel construction had declined significantly. Lenders, trying to get out from under problematic hotel portfolios, curtailed all real estate lending and would not even consider funding a hotel development project. The tax benefits associated with hotels had been reduced significantly, and passive investors left the hospitality market entirely.

[3] Rebirth of the REIT

In 1993, Real Estate Investment Trusts (REITs) again emerged as an alternative financing source for hotel acquisition and development. The first successful hotel REIT offering of the 1990s occurred in August, 1993, with the initial public offering of RFS Hotel Investors, Inc. Since the initial offering, numerous additional of-

ferings have been completed. Hotel income does not qualify as income from real estate under REIT operating restrictions, which stipulate that a REIT must derive at least 75 percent of its gross income from rents and mortgage interest. Therefore, hotel operating income must be converted to lease income through a more complete REIT structure whereby the REIT owns the hotel properties and leases them to a third-party operating entity.

A great deal of activity continued in the REIT market until the fall of 1994, when the increase in interest rates and the perception of oversupply of offerings and pending structural problems brought the hotel REIT market to a virtual halt. Yields on existing REITs fell and numerous offerings in the planning stages were put on hold or canceled.

The Hotel Real Estate Investment Trust (REIT) was reinvented in late 1990's to serve the management-intensive hotel business. Especially popular were the few so called paired shared REIT's that were able to take advantage of a loophole in the tax law and raise capital very quickly and cheaply to acquire hotel companies. The two most famous Paired-Shared REIT's were Starwood and Patriot Hotels. The hotel market soon turned into a sellers market when the REITs exploded on the scene, buying up so much hotel property that they started a bidding war for hotel restate in late 1997 and early 1998. Then in the fall of 1998, a credit crunch hit the real estate market and REITs, which had paid a premium for hotel properties started to find their stock values declining rapidly. REIT stocks were left at one-half of their 52-week highs. In addition, Congress passed legislation that severely restricted future activity of paired-shared REITs and thus many of them have converted or are in the process of converting to Regular C corporations.

[4] Alternative Financing Sources

Another source of capital was introduced in 1994-REMICs (Real Estate Mortgage Investment Conduits). Initially, mortgage conduits were offered through national home mortgage programs Fannie Mae and Freddie Mac. In these cases, the government is involved to provide an incentive fostering homeownership. The government is not involved in facilitating hotel lending but otherwise the process is in many ways similar. The process starts with the investment bank making a loan to a borrower. When the investment bank amasses a large enough portfolio of loans, it then packages the loans for sale to investors in the secondary market. The loan portfolio is split into distinct subgroups called tranches, with loans of various risks offering commensurate interest rates of return. It is this intention to sell the loans to subsequent investors that leads to the unique feature of REMIC loans. Ratings are provided by firms such as Standard and Poors or Fitch. These rating agencies have historically taken a very conservative approach to hotel transactions, and hotel loans earmarked for a conduit require conservative underwriting. The advantage of these financing vehicles is that loan terms are up to 23 years, which eliminates the rollover risk borrowers face with balloon loans. Additionally, the loans are nonrecourse and are assumable.

[5] The Hot Market: Increased Occupancies, Profitability, and Values

As occupancy rates continued to improve, resulting in rapidly rising hotel values, acquisition activity continued to increase. There was a feeling in the investment community, however, that the market for acquisitions was becoming overheated, and

investors were becoming cautious in order to avoid the first-loss position that the equity players take. New construction of full-service hotel projects continued to be rare, but several developers indicated they were preparing to develop several projects. The only significant addition to supply was in the limited-service market segment.

The pace of hotel sales transactions quickened throughout 1994 and increasingly involved full-service hotels. Many of these properties were owned by insurance companies that are penalized heavily under risk-based capital rules. Both, U.S. hotel operators and foreign buyers displayed healthy appetites. Marriott purchased several full-service hotels from a large insurance company, and Starwood Capital and Gold-man Sachs Whitehall fund purchased the upscale Westin hotel chain.

Impressive value increases were a result of vastly improved occupancies and average rates, large amounts of capital in the marketplace, and no significant new supply in sight. The full-service sector offered the best buy for investors.

The impressive recovery of the lodging industry continued, and 1995 was a banner year, posting $7.6 billion in pretax profits spurred by increased occupancies, room-rate gains, and operating efficiencies. 1995 represented the third consecutive profitable year for the lodging industry since it bottomed out in the economic recession of the early 1990s, Financial performance improved substantially as demand for lodging accommodations rose over the past several years while only a limited number of new hotels entered the market.

[6] Demand Outpaces Supply

In 1995, driven by the expanding economy, total U.S. lodging demand increased at a 3.1 percent compounded average growth rate. Between 1991 and 1995, total aggregate hotel supply increased by only 1.4 percent. Average U.S. occupancy increased to 66.3 percent in 1995—the highest level in twelve years. With improved occupancy levels, hotel owners were able to increase room rates and the average daily room rate in the United States increased by 4.8 percent in 1995-following a 3.8 percent increase in 1994—the first year in which room rates have grown faster than inflation since 1986.

[7] The Markets, the Buyers, and the Sellers

The top five markets for new construction were the Orlando, 6819 rooms; New York, NY, 5372 rooms; Chicago, 4226 rooms; Dallas, 4384 rooms; and Washington, D.C., 8129 rooms. Additionally, the top five contenders for most rooms added to a hotel market segment in 1999 were Hilton Garden Inn, 13,736; Courtyard Marriott, 12,390;

Marriott, 12,210; Hampton Inns, 10,336; and Holiday Inn Express, 9,850.

Significant sales activity and price increases resulted from this improved profitability and value. The life companies who in the past had been sellers became active buyers. Wall Street looked favorably on the industry and continued to supply debt and equity components for the acquisition of hotel products.

The products that were offered for sale in 1997 were supplied by portfolios of subperforming and nonperforming loans, foreign financial institutions, U.S. banks, and private sellers.

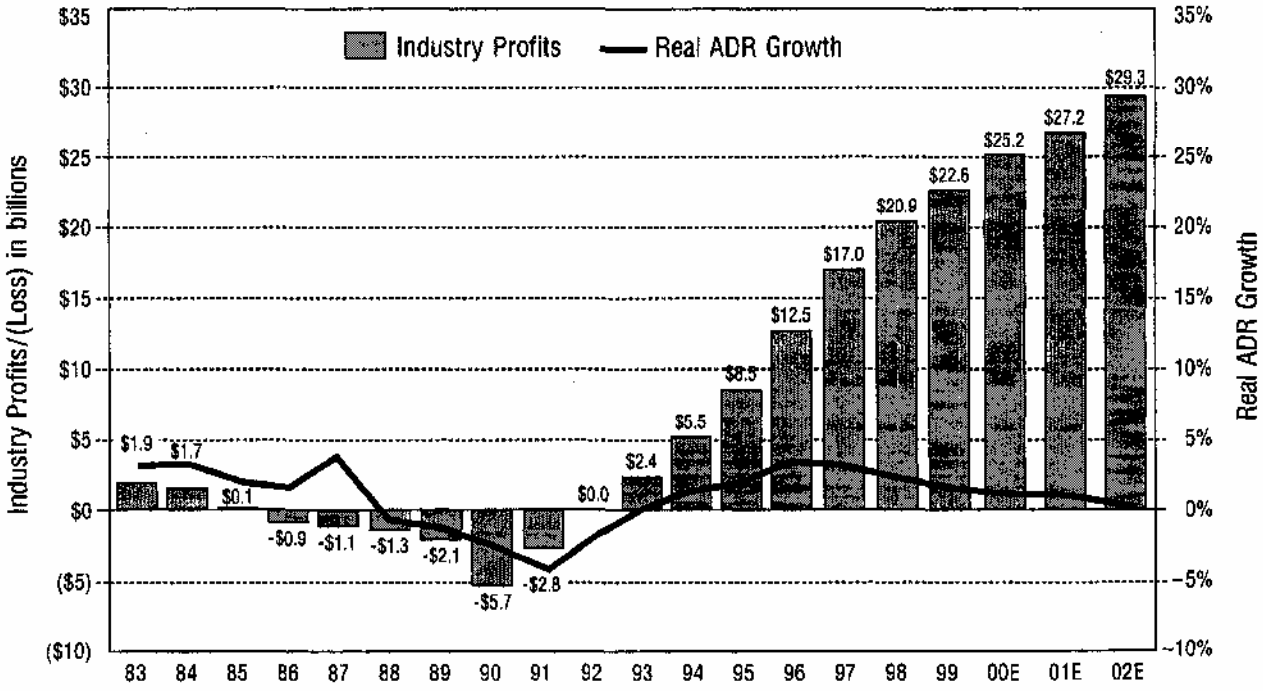
[8] Future Trends

The supply of new hotel rooms is expected to increase slowly during the next several years. Lenders (not necessarily traditional banks and insurance companies, but credit companies and Wall Street securities firms) are beginning to make hotel loans based on very conservative lending criteria. This activity is commencing with the refinancing of existing properties, and the consensus is that hotel lenders will eventually become interested in financing new construction projects in selected markets. This change will occur when occupancies and room rates recover sufficiently to justify new projects that will substantiate the costs of development and construction. Additions to supply are expected to peak in 1998.

With the credit crunch in late 1998 along with the collapse of the CMBS market, the hotel industry is more difficult to predict how the industry will fare. Hotel valuation has retreated somewhat from their highs and financing is becoming more difficult to obtain. Cash has once again taken over as the preferred method of buying. The near term future of the hotel industry is tied to how well the economy performs. As is shown in Exhibit 2-2, the industry has had record earnings since bottoming out in the early 1990s.

Exhibit 2-2 U.S. Lodging Industry—Real ADR Growth Versus Industry Profitability (1983–2002E)

Sources: Smith Travel Research; PricewaterhouseCoopers L.L.P.; Bureau of Labor Statistics.



Although many analyses had seen a slight decline in the hotel industry during the second half of the year 2001, it appears that the World Trade Center bombing will cause a major decline in industry profits. The country should return to normal in the year 2002, but the impact of the terrorist attack on the United States may delay that recovery till the second half of 2002. Fortunately, hotel chains are not in debt to the extent of the last major recession in the early 1990's. So bankruptcies should be minimal and the hotel industry should remain financially viable.

Exhibit 2-3 Actual and Projected Industry Fundamentals (1998-2002)

Sources: PricewaterhouseCoopers L.LP.

Indicator	1999	2000	2001	2002	2003
Occupancy (Percent)	63.2	63.5	63.0	63.3	63.1
Percentage Change from Prior Year	-1.0	0.6	-0.8	0.4	-0.2
Pet. Point Difference from Prior Year	-0.6	0.4	-0.5	0.2	-0.1
Average Daily Rate ($)	$81.37	$85.36	$88.76	$92.20	$96.02
Percentage Change from Prior Year	4.1	4.9	4.0	3.9	4.1
Annual RevPAR ($, Seas. adj.)	$18,758	$19,799	$20,420	$21,290	$22,131
Percentage Change from Prior Year	3.1	5.5	3.1	4.3	3.9
Inflation as Measured by CPI	2.2	3.4	2.7	2.3	2.8
Real GDP, Percent Change from Prior Year	4.2	5.0	2.4	3.7	2.6
Average Daily Rooms Sold (OOOs)	2,446	2,537	2,590	2,661	2,714
Percent Change from Prior Year	3.1	3.7	2.1	2.7	2.0
Annual Room Starts (OOOs)	145.9	122.3	108.1	107,8	106.6
Percentage Change from Prior Year	-9.7	-16.2	-11.6	-0.3	-1.1
Prior End-of-Year Supply (OOOs)	3,792	3,928	4,043	4,147	4,241
Plus: Annual Room Completions (OOOs)	156.1	127.7	120.7	110.3	108.5
Less: Average Annual Removals (OOOs)	20.1	13.0	16.3	16.7	17.1
Equals: End-of-Year Supply (OOOs)	3,928	4,043	4,147	4,241	4,332
Net Annual Change in Supply (OOOs)	136.0	114.7	104.4	93.5	91.4
Percentage Change from Prior Year	3.6	2.9	2.6	2.3	2.2
Industry Revenues (Mil. $)	$103,118	$112,310	$119,163	$127,167	$135.066
Percentage Change from Prior Year	7.3	8.9	6.1	6.7	6.2

Occupancy is calculated by dividing the room night demand by the supply. During the historical period, supply increased at rates ranging from 0.7% in 1982 to 6.0% in 1974. Demand declined each year from 1980 until 1983 and also in 1974, but increased in all other years. In 1979, demand growth peaked at 5.3%. Changes in supply and demand had a varied impact on occupancy. In addition to declining when demand fell, occupancy also dropped when the increase in demand was smaller than the increase in supply.

Also, the data presented in Exhibit 2-4 can be related to historical economic trends. The early 1970s marked the beginning of a hotel building boom reminiscent of the 1920s. Many factors contributed to this expansion, but the two main elements were readily available financing and aggressive chains that were eager to sell franchises.

There will be fewer unencumbered turnaround assets offering high returns because many assets have already been repositioned and are stabilized. There will be limited additions to supply in the foreseeable future.

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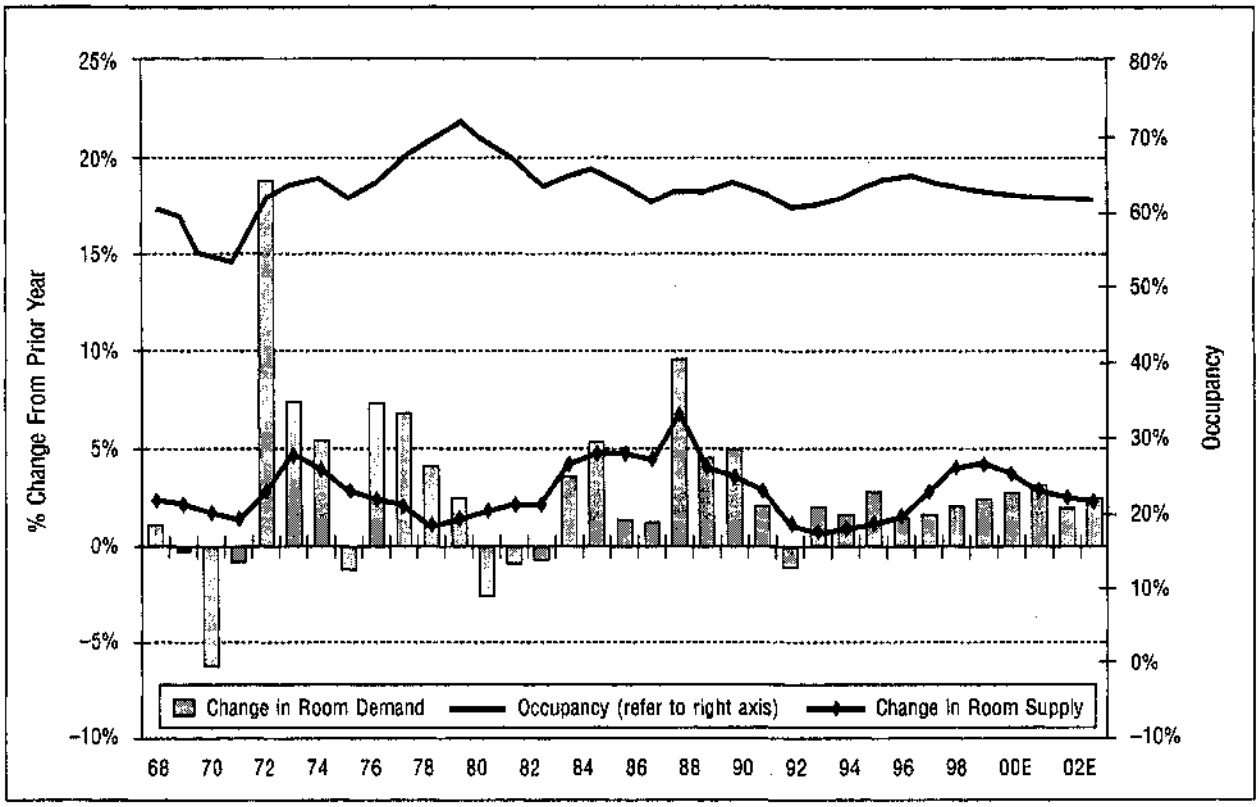
Exhibit 2-4 U.S. Lodging Industry—Occupancy, Demand, and Supply Growth from Prior Year

Sources: PricewaterhouseCoopers L.L.P.; Smith Travel Research.



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CHAPTER 3

National Supply

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» 3.01 QUANTIFICATION OF SUPPLY

Over the years, various attempts to quantify the national supply of transient lodging facilities have produced a wide range of estimates of both the number of facilities and the number of available rooms. "Transient" and "lodging facility" are subjective terms. Some of the issues that must be considered when trying to define them include:

- Is a property that rents rooms on a weekly, monthly, or annual basis considered a transient lodging facility?
- How is a property categorized if it rents rooms for various periods of time?
- How is a mixed-use property categorized?
- Should a property be counted if it is open only part of the year?
- How many rooms must a lodging facility contain to be included in the count?

One of the best sources of data on the supply of lodging facilities in the United States is Smith Travel Research. Many active hotel industry participants subscribe to *Lodging Outlook,* published monthly by Smith Travel Research, which provides data related to the supply, demand, and room sales for lodging markets, along with estimated occupancies and average rates. Smith Travel Research also publishes the *Host Study,* which presents composite hotel and motel operating statistics broken down by type, location, region, price tier, and market orientation, along with other valuable hotel investment information.

Exhibit 3-1 Year-over-Year Change in Supply Demand—All Bear Stearns Brand Segments (1Q95-4Q99)

Sources: Bear, Stearns & Co. Inc.; Smith Travel Research; PricewaterhouseCoopers L.L.P.

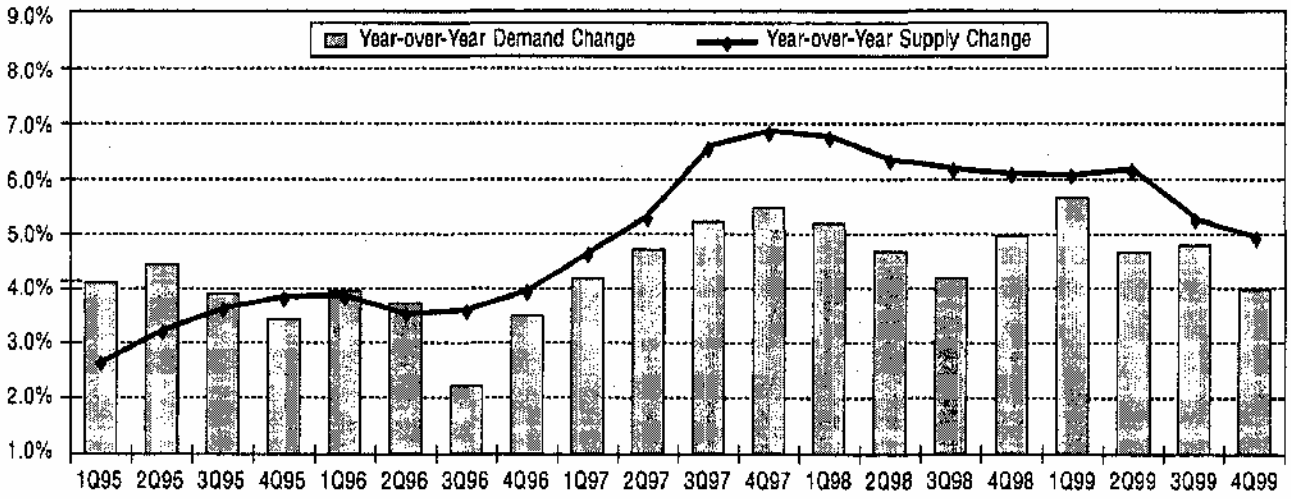

Exhibit 3-2 Five-Year Operating Statistics—All Bear Steams Brand Segments (1995-99)

Sources: Bear, Steams & Co. Inc.; Smith Travel Research; PricewaterhouseCoopers L.L.P.

	1995	1996	1997	1998	1999
Y-O-Y Demand Growth	4.0%	3.4%	5.0%	4.8%	4.8%
Y-O-Y Supply Growth	3.3%	3.7%	5.9%	6.4%	5.6%
Equilibrium Index	*70bps*	*-30 bps*	*-90 bps*	*-160bps*	*-80 bps*
Occupancy	66.2%	66.0%	65.5%	64.5%	64.0%
Change from Prior Year	*40bps*	*-20 bps*	*-50 bps*	*-100bps*	*-50 bps*
Average Daily Rate	$67.11	$71.91	$75.87	$79.35	$81.76
% Change from Prior Year	*4.9%*	7.2%	5.5%	*4.6%*	3.0%
Revenue per Available	$44.46	$47.47	$49.67	$51.17	$52.29
% Change from Prior Year	*5.6%*	*6.8%*	*4.6%*	3.0%	*2.2%*

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Exhibit 3-3 1999 Operating Statistics of Individual Brands Ranked by RevPAR Growth

Sources: PricewaterhouseCoopers L.L.P.; Bear, Steams & Co. Inc.; Smith Travel Research.

		Occupancy			ADR			RevPAR		
Segment	**Brand**	**1999**	**1998**	***Chg.***	**1999**	**1998**	**% *Chg.***	**1999**	**1998**	**% *Chg.***
Deluxe	Ritz-Carlton	77.8%	74.4	*340 bps*	*$219.37*	*$207.93*	5.5%	$170.67	$154,70	*10.3%*
	Four Seasons (US)	74.9%	74,6	*30bps*	$317.00	$300.00	5,7%	$237.43	$223.80	*6,1%*
	Segment Average	**71.7%**	**72.5**	***-80bps***	**$204.62**	**$194.07**	**5.4%**	**(146.55**	**$140.74**	***4.2%***
	St. Regis/Luxury Collection	71,2%	73.2	*-200 bps*	$338,22	$320.82	5.4%	$240.81	$234.84	*2.5%*
	Wyndam Luxury Resorts (1)	72,0%	68,6	*340bps*	$300.97	$312,52	-3.7%	$216.70	$214.39	*1.1%*
Luxury	Sheraton	73.1%	70.9	*220bps*	$141,78	$138,01	2.7%	$103.64	$97,85	*5.9%*
	Westin	72.7%	71,3	*140bps*	$137.10	$133,12	3.0%	$99.67	$94,91	*5.0%*
	Wyndham	69.7%	68.6	*110bps*	$127.83	$124.08	3.0%	$89,10	$85.12	*4.7%*
	Marriott	77.5%	77.6	*-10bps*	$140.86	$135.52	3.9%	$109.17	$105.16	*3.8%*
	Renaissance	70.8%	70,3	*50bps*	$132.09	$129,32	*2.1%*	$93.52	$90.86	*2.9%*
	Segment Average	**71.8%**	**72.0**	***-20 lips***	**$140.90**	**$136.78**	***3.0%***	**$101.11**	**$98.50**	**2,7%**
	Hilton	70.7%	71.2	*-50 bps*	$130.60	$127.19	*2,7%*	$92.33	$90,56	2.0%
Upscale	Crowne Plaza	69.1%	68.9	*20bps*	$108.07	$103.71	*4.2%*	$74.68	$71.46	4,5%
	Hilton Garden Inn	65.9%	64,0	*190bps*	$92.05	$91,00	*1.2%*	$60.66	$58,24	*4.2%*
	Courtyard by Marriott	79.3%	79.4	*-10bps*	$91.48	$88.99	*2.8%*	$72.54	$70,66	*2.7%*
	Embassy Suites	73.1%	72.5	*60bps*	$121,49	$120.77	*0.6%*	$88.81	$87.56	*1.4%*
	Segment Average	**68.3%**	**69,2**	***-90bps***	**$97.67**	**$95.62**	***2.1%***	**$66.69**	**$66.20**	***0.7%***
	Doubletree	70.1%	70.8	*-70 bps*	$108.01	$106,34	*1.6%*	$75.72	$75.29	*0.6%*
	Wyndham Garden	69.7%	71.4	*-170bps*	$93,41	$92.94	*0.5%*	$65.11	$66.36	*-1.9%*
Midscale	Holiday Inn	65.5%	65.5	*Obps*	$76.77	$73.32	*4.7%*	$50.28	$48.03	*4.7%*
with F&B	**Segment Average**	**60.3%**	**60.9**	***-60 lips***	**$69.95**	**$67.30**	***3.9%***	**$42.16**	**$40.99**	***2.9%***
	Quality Inn	58,0%	58.9	*-90 bps*	$61.89	$60.02	*3.1%*	$35.90	$35.35	*1.5%*
	Clarion	59,0%	60.5	*-150bps*	$74.17	$72.25	*2.7%*	$43,76	$43.71	*0.1%*
Midscale	Holiday Inn Express	64,7%	63.8	*90bps*	$66.35	$62.83	*5.6%*	$42.93	$40.11	7.0%
w/o F&B	Comfort Inn	64.4%	65.0	*-60 bps*	$58,98	$56.58	*4.2%*	$37.98	$36,78	3.3%
	Segment Average	**64.9%**	**66.0**	***-110 bps***	**$66.66**	**$63.54**	***4.9%***	**$43.24**	**$41.96**	**3.7%**
	Comfort Suites	67,2%	68.1	*-90 bps*	$69.44	$67.56	*2.8%*	$46.66	$46.01	*1.4%*
	Hampton Inn	68,1%	70,0	*-190bps*	$71.29	$68.57	*4.0%*	$48,55	$48.00	*1,1%*
	Signature Inns	57.9%	61,5	*-360 bps*	$63.41	$61.48	*3.1%*	$36.71	$37.81	*-2.9%*
Economy	Rodeway Inn	50.7%	50.1	*60bps*	$45.57	$44.03	*3.5%*	$23.10	$22.06	*4.7%*
	Jameson Inns	62,3%	63.6	*-130bps*	$52.87	$50.48	*4.7%*	$32.94	$32.11	*2.6%*
	Segment Average	**56.6%**	**57.7**	***-110bps***	**$51.85**	**$50.70**	***2.3%***	**$29.36**	**$29.27**	***0.3%***
	Fairfield Inn	71,0%	73.2	*-220bps*	$58,87	$56.97	*3.3%*	$41.80	$41,70	*0.2%*
Budget	Segment Average	60.3%	60.4	*-10bps*	$43.42	$41.73	*4.0%*	$26.19	$25.19	*4.0%*
	Econo Lodge	54,0%	54.3	*-30 bps*	$45.01	$43.55	*3.4%*	$24.31	$23.65	*2.8%*
	Sleep Inn	60.6%	62.0	*-140bps*	$53.91	$51.32	*5.0%*	$32.67	$31.82	*2.7%*
Upper-Tier	Residence Inn	83.0%	83,1	*-10bps*	$99.03	$98.15	*0.9%*	$82.19	$81.56	*0.8%*
Ext.-Stay	Summerfield by Wyndham	80.9%	81.6	*-70 bps*	$121.39	$119.65	*1.5%*	$98.20	$97.63	*0.6%*
	Homewood Suites by Hilton	73.7%	73.9	*-20bps*	$95.01	$96.01	*-1.0%*	$70.02	$70,95	*-1.3%*
	Segment Average	**76.2%**	**78.0**	***-180 lips***	**$98.34**	**$97.48**	***0.9%***	**$74.97**	**$75.99**	***-1.3%***
Lower-Tier	MainStay Suites	66.9%	57.5	*940bps*	$58.84	$56.40	*4.3%*	$39.36	$32.43	*21.4%*
Ext.-Stay	Crossland Economy Studios	69,0%	61,0	*800 bps*	$30,00	$28.29	*6.1%*	$20,70	$17,25	*20.0%*
	Homestead Village	70,2%	70.4	*-20 bps*	$49.86	$43,00	*15,9%*	$35.00	$30.27	*15.6%*
	Candlewood	67,7%	65.7	*200bps*	$58,24	$53,14	*9.6%*	$39.43	$34.91	*12.9%*
	Segment Average	**68.6%**	**67.5**	***110 tips***	**$46.62**	**$42.83**	***8.8%***	**$31.96**	**$28.92**	***10.5%***
	StudioPlus	73,0%	68.0	*500 bps*	$47.71	$47,86	*-0.3%*	$34.83	$32,54	*7.0%*
	Extended Stay America	75.0%	75.0	*Obps*	$42.29	$40.14	*5.3%*	$31,71	$30.11	*5.3%*
	Suburban Lodges	79,0%	82,0	*-300 bps*	$27,29	$25.03	*9.0%*	$21,56	$20.53	*5.0%*

(1) Formerly Grand Bay.

Other valuable sources are the Bear Steams *Global Lodging Almanac*, Price-waterhouse Coopers, LLP, Arthur Anderson consulting, KPMG Peat Marwick, LLP and EYKL Hospitality Services.

Exhibit 3-1 shows how overall supply has been exceeding demand nationwide since 2Q of 1996. As mentioned earlier, the increased supply has put pressure on the overall occupancy rates and has held down the increases in RevPAR as shown in Exhibit 3-2.

Exhibit 3-3 shows the classification of lodging segments by segments. The segments start with Deluxe hotels and end with Lower-Tier Extended Stay hotels. As noted in the chart, all segments, with the exception of Upper-Tier Extended Stay properties, show some increase in RevPAR for the year. However, only the Lower-Tier Extended Stay segment managed to report a double digit (10.5%) increase in RevPAR for the year.

[1] Facility Types

The type of facility refers to the actual physical property and the primary amenities offered to guests. Among the different facility types are the following: commercial, convention, resort, motel, casino, and extended-stay properties.

[a] Deluxe Hotels

This segment consists of the very top of the hotel industry in regard to service, physical facilities, and amenities. The most commonly associated brands in this segment include the Four Seasons and Ritz Carlton. This segment is also likely to contain independently-owned hotels who have established their reputation over many decades. Some notable examples include the Lenox in Boston and the Mark in New York. Exhibit 3.4 shows that 114 properties qualify as deluxe.

Exhibit 3-4 Bear Steams Brand Segments—Deluxe Segment

Sources: Bear, Steams & Co. Inc.; Smith Travel Research, PricewaterhouseCoopers LLP.

Brand	Property Count	Room Count
Preferred	64	14,512
Four Seasons	22	6,984
Ritz-Carlton	18	6,520
Fairmont Hotel	10	5,576
Segment Totals:	114	33,592

[b] Luxury Hotels

Commercial facilities cater primarily to the individual business traveler and are generally situated in downtown or commercial districts. Amenities typically include a restaurant, a lounge, meeting facilities, a fitness room, and a gift shop. The services offered by many commercial hotels include room service, a business center, concierge and valet services, shoe shine service, daily newspapers, airport shuttle, and local transportation. Modern commercial facilities also provide work desks, multiple telephones with dual lines and data ports, in-room coffee makers, irons and ironing boards, and copy and facsimile services. Convention hotels are large facilities that characteristically have meeting spaces with the capacity to handle large groups of people. Generally, hotels with more than 30 square feet of meeting space per guest-

room located near convention centers are considered convention hotels. Convention hotels generally contain a large inventory of guestrooms with a high percentage of double/double bedding configurations. Most convention hotels provide large ballrooms and small breakout rooms for meetings and conferences. In addition, some hotels feature exhibit space and auditoriums. Convention properties also typically offer extensive food and beverage facilities and other services and facilities found in commercial hotels, although the level of service tends to be less personal.

Exhibit 3-5 Bear Steams Brand Segments—Luxury Segment

Sources: Bear, Steams & Co. Inc.; Smith Travel Research; PricewaterhouseCoopers L.L.P.

Brand	#of Hotels	#of Rooms	#0f Brand	Hotels	#of Rooms
Marriott	262	106,587	W Hotels	12	3,538
Sheraton Hotel	172	62,663	Swissotel	5	2,221
Hyatt	109	54,596	Raphael Hotel	2	295
Hilton	55	38,734	Park Plaza	5	1,284
Westin	57	29,104	Meridien	5	2,217
Wyndham	62	21,063	Inter-Continental	11	4,946
Renaissance	41	17,814	Hotel Sofitel	7	2,073
Omni	34	13,014	Helmsley Hotel	6	2,221
Loews	12	5,288	Doral	6	1,778
			Segment Totals:	**863**	**369,436**

Luxury hotel segment includes both commercial hotels and convention hotels. Exhibit 3-5 indicates that there are 863 facilities that are categorized as Luxury, with Marriott dominating the segment with 262 properties and 106,587 rooms.

[c] Upscale Hotel Segment

This segment consists of hotels and all-suite brands that cater primarily to business travelers who do not need the amenities of a full service luxury hotel. Also, this segment appeals to leisure travelers who want more amenities than can be found in a Midscale Hotel.

Exhibit 3-6 Bear Steams Brand Segments—Upscale Segment

Sources; Bear, Steams & Co. Inc.; Smith Travel Research; PricewaterhouseCoopers L.L.P.

Brand	#0f Hotels	#0f Rooms	Brand	#of Hotels	#0f Rooms
Courtyard	439	61,071	Doubletree Guest Suites	38	8,038
Radisson	233	55,971	Regal	13	4,891
Hilton Inn	158	41,349	Red Lion	25	4,108
Embassy Suites	150	36,556	Westcoast	10	2,088
Doubletree	94	29,439	Westmark	10	1,461
Crowne Plaza	67	21,207	Embassy Vacation	6	1,232
Clarion	123	20,511	Woodfield	7	888
Holiday Inn Select	70	17,826	Hotel Novotel	3	873
Adam's Mark	21	11,542	Delta Hotels	1	760
Wyndham	59	10,577			
			Segment Totals:	1,527	261,279

Exhibit 3-6 indicates that there are 1,527 properties in this segment with Courtyard by Marriott and Radisson hotels dominating the segment with 439 and 233 properties respectively.

[d] Midscale with F&B Hotel Segment

Midscale with food and beverage is the largest single segment in the nation. This segment is represented by some old line brand names such as Holiday Inn and Best Western. Over the years, except for a brief period in the 4th quarter of 1997, supply has declined in this segment. The future does not look any brighter, as changes in consumer behavior does not appear to favor this segment. Exhibit 3-7 shows that there are 4,725 properties with 608,288 rooms.

Exhibit 3-7 Bear Steams Brand Segments—Midscale with F&B Segment

Sources: Bear, Steams & Co. Inc.; Smith Travel Research: PricewaterhouseCoooers L.L.P.

Brand	#of Hotels	#0f Rooms	#of Brand	Hotels	#of Rooms
Holiday Inn	1,015	191,094	Park Inn	39	3,644
Best Western	2,121	189,897	Outrigger	7	3,550
Ramada	664	101,219	Cavanaugh's	14	3,162
Quality Inn	422	48,133	Sheraton Inn	14	2,958
Howard Johnson	263	32,528	Little America	6	2,276
Four Points	92	18,098	Harvey Hotel	5	1,513
Doubletree Club	25	5,076	Garden Plaza	4	691
Quality Suites	31	3,898	Harley Hotel	3	551
			Segment Totals:	4,725	608,288

[e] Limited Service Segments

Perhaps no segment has more sub-groups than the limited service segment. As consumers seek more value for their dollar, the limited service sector has responded by increasing the supply of hotels. Unfortunately, this rush to build has created an abundance of supply that demand cannot meet and as a result, occupancy which peaked at 64.3% in 1995 has now fallen to 60.7% in 1999. The limited service segment is divided into three sub-groups: Midscale without F&B, Economy, and Budget.

Exhibit 3-8 Bear Steams Brand Segments—Midscale without F&B Segment

Sources: Bear, Steams & Co. Inc.; Smith Travel Research: PricewaterhouseCoopers L.L.P.

Brand	#Of Hotels	#0f Rooms	Brand	#Of Hotels	#Of Rooms
Comfort Inn	1,264	100,089	Amerihost	77	4,885
Hampton Inn	914	94,067	SpringHill Suites	41	4,157
Holiday Inn	919	71,541	Sumner Suites	27	3,298
La Quinta	300	38,933	Signature Inn	26	3,071
Comfort Suites	232	18,667	Wellesley Inn	29	2,887
Country Inn &	199	15,169	Lee's Inn of America	21	1,684
AmeriSuites	99	12,721	Heartland	19	1,649
Garden Inn	62	8,849	Clubhouse Inns of	11	1,645
Drury Inn	69	8,837	Cabot Lodge	6	1,076
Hampton Inn Suites	68	7,952	Master Hosts Inn	4	945
Shilo Inn	47	5,332	Conley Inn	5	291
			Segment Totals:	4,434	407,454

The midscale without F&B supply is the largest sub segment of limited service and in 1999 its supply grew by 12.2%. In fact, this segment has seen supply grow at a rate exceeding 10% every year beginning in 1995. Exhibit 3-8 shows 4,434 properties in this group with a total of 407,454 rooms. Comfort Inn and Hampton Inn dominate this segment with 100,089 and 94,067 rooms respectively.

Exhibit 3-9 Bear Steams Brand Segments - Economy Segment

Sources: Bear, Steams & Co. Inc.; Smith Travel Research; PricewaterhouseCoopers L.L.P.

Brand	#Of Hotels	#0f Rooms	Brand	#Of Hotels	#0f Rooms
Days Inn	1,822	157,722	Jameson Inn	83	3,868
Travelodge	507	40,610	Susse Chalet	32	3,680
Fairfield Inn	416	39,453	Guest House Inns	47	3,353
Red Roof Inn	330	37,464	Vagabond Inn	43	3,230
Ramada Limited	364	27,273	Country Hearth Inn	49	3,022
Baymont Inns &	172	16,979	Innkeeper	21	1,810
Rodeway Inn	168	10,571	Mcintosh Motor Inn	13	1,499
Best Inns Of	120	9,459	Nendels	12	765
Shoney's Inn	74	7,191	Key West Inn	12	765
Americinn	138	6,873	L-K Motel	3	80
			Segment Totals:	4,426	375,667

The economy segment are hotels that offer larger rooms than the typical budget hotel. This segment has seen supply growth of only 7.1% in 1999. In fact, this segment has not seen demand or supply grow at more than 8% since 1995. Exhibit 3,9 shows 4,426 hotels with a total of 375,667 rooms.

Exhibit 3-10 Bear Steams Brand Segments—Budget Segment

Sources: Bear, Steams & Co. Inc.: Smith Travel Research; PricewaterhouseCoopers L.L.P.

Brand	#Of Hotels	#Of Rooms	#0f Brand	Hotels	#0f Rooms
Super 8	1,843	112,659	Budget Inn	22	1,507
Motel 6	789	84,908	Select Inn	15	1,402
Econo Lodge	729	46,276	Travelers Inn	14	1,247
Knights Inn	281	22,241	Admiral Benbow	9	1,051
Sleep Inn	236	18,065	Thriftlodge	19	977
Microtel	189	13,954	Interstate Inn	13	795
Howard Johnson Express	195	13,278	Wynfield Inn	3	578
Budget Host Inn	173	6,778	Roadstar Inn	7	576
Scottish Inn	130	6,417	Motel Orleans	7	480
Red Carpet Inn	104	6,245	Ha' Penny	5	454
Masters Inn	34	4,139	Sixpence Inn	5	439
Cross Country Inn	25	3,009	Friendship Inn	9	346
ExelInn	26	2,917	Passport Inn	7	297
E-Z8	26	2,673	Great Western	6	267
Family Inns of America	26	2,291	Hometown Inn	4	262
National 9	56	2,115	Thrifty Inn	3	227
Economy Inns of America	21	2,001	Cricket Inn	1	126
Wilson	12	1,717	Imperial Inns	4	124
Good Nile Inn	14	1,692			

The budget hotel segment is distinguished from economy properties by their smaller hotel room sizes and lack of most amenities that are common in economy type properties. This segment is very popular among senior citizens and people traveling on a very limited budget. This is more mature then the economy segment and thus the supply of hotel rooms has increased only a modest 2.7% in 1999. As shown in Exhibit 3-10, Super 8 and Motel 6 dominate this segment with 1,843 and 789 properties respectively.

[f] Extended-Stay Hotels

Extended-stay hotels provide a residential atmosphere by offering larger, apartment-type guestrooms with separate living and sleeping areas, full kitchens, exterior entrances, and recreational facilities. Extended-stay hotels generally resemble garden apartment complexes and usually have a small administrative building that houses the front office and lounging/dining area. Guest suites are furnished with more residential-style casegoods and softgoods and often feature a fireplace. Extended-stay hotels attract travelers who must stay in an area for an extended period of time. The average length of stay at Marriott's Residence Inns, for example, is ten days. Typical guests at residence hotels include: relocated employees, auditors working on long-term projects, attorneys involved in a lengthy trial, and engineers assigned to a building project

Until recently, such extended-stay customers generally had to use either hotels that did not provide necessary domestic facilities, or furnished apartments rented on a weekly or monthly basis. From an operational point of view, the extended-stay product is unique and profitable for several reasons: the lower guest turnover requires less front office staffing, the longer stay enables the property to achieve high levels of occupancies (greater than 80 percent) because the normal weekly fluctuations do not occur; the facilities are oriented towards commercial demand, which contributes to higher average rates; and the extended-stay property generally achieves low expense ratios and high profitability ratios.

The extended-stay concept has proven to be highly successful. However, as these products cater primarily to white-collar business travelers, hotel companies have recognized a niche for secondary commercial markets that are more economy-minded. New Lower-Tier extended-stay products such as Candlewood Suites (Doubletree) and Homestead Village, MainStay (Choice Hotels) are being developed. In addition, Marriott is currently planning an as-yet unnamed Long-Tier, extended-stay product.

Exhibit 3-11 Bear Steams Brand Segments—Upper-Tier Extended-Slay Segment

Sources: Bear, Steams & Co. Inc.; Smith Travel Research; PricewaterhouseCoopers L.L.P.

Brand	#of Hotels	#0f Rooms
Residence Inn	324	38,366
Hawthorn Suites	102	10,236
Homewood Suite	89	9,866
Summerfield	37	5,005
Woodfin Suites	7	894
Segment Totals:	559	64,367

Exhibit 3-11 illustrates the upper-tier Extended-Stay segment. The total market consists of 559 properties with 64,367 rooms. Residence Inn dominates this market with 324 hotels and 38,366 rooms. The supply of upper-tier Extended Stay hotels grew by 19.95 in 1999.

A relatively new segment to the hotel industry has been the lower-tier Extended-Stay hotel. This has been the fastest growing segment with new supply increasing 44.5% over the previous year. As this market matures, the growth rate should return to a more modest figure. Exhibit 13-12 shows 976 hotels with 108,392 rooms. Extended Stay America is currently the largest company in this segment with 230 hotels and 26,006 rooms in 1999.

Exhibit 3-12 Bear Steams Brand Segments—Lower-Tier Extended-Stay Segment

Sources: Bear, Steams & Co. Inc.; Smith Travel Research, PricewaterhouseCoopers L.L.P.

Brand Hotels	#Of Rooms	Brand	#Of Hotels	#Of Rooms
Extended Stay America 230	26,006	Grassland Suites	39	5,068
Homestead Village 136	18,056	Inn Town Suites	15	2,053
Suburban Lodge 110	14,877	Mainstay Suites	30	2,813
Villager Lodge 135	10,790	Inn Suites	9	1,516
StudioPlus 99	7,839	Sierra Suites	17	1,864
Candlewood Hotel 77	9,103	Lexington Hotel Suites	8	1,184
Towneplace Suites 66	6,609	Homegate	5	614
		Segment Totals:	976	108,392

[g] Casino Hotels

Casino hotels provide guests and visitors with on-site gaming facilities. A well managed casino can be a major profit center, with the hotel facilities acting as an amenity to attract casino patrons. Casino hotels usually offer buffet-style restaurants, cocktail lounges, retail outlets, and entertainment facilities. Depending on the extent and orientation of the gaming facilities, the guestroom furnishings range from moderate to luxury. Suites are provided for "high rollers" and other high-profile guests. Recent mega-casino hotels feature prominent entertainment amenities such as amusement parks, theaters, and architectural monuments as part of an effort to appeal to a wider range of guests.

[h] Bed and Breakfast Inns

These inns generally offer quaint, residential-style accommodations along with breakfast. Historic areas in the United States (i.e., Annapolis, Maryland; Charleston, South Carolina; Carmel, California; and Savannah, Georgia) have numerous bed and breakfast inns that cater primarily to leisure travelers.

[i] Mom-and-Pop Motels

Small, independent, family-operated motels are commonly referred to as "mom-and-pop" motels. These older-style lodging facilities usually have fewer than 50 units and offer limited amenities. Tourist cabins and camps are usually included in this category.

[j] Boutique Hotels

A boutique hotel is a small lodging facility that caters to upscale patrons looking for intimate, quiet surroundings. Often converted from historic structures, these properties usually offer high-quality amenities and furnishings, signature upscale restaurants, and extensive, personalized guest services. Public areas and meeting facilities are generally minimal in boutique hotels.

[k] Health Spas

A health spa is a hotel that provides various health-oriented services and activities, such as special diets and dining plans, exercise programs, medical supervision, massage and therapy, and health education and training. Many resort hotels offer spa programs, but true health spas are solely dedicated to such activities and enforce strict regulations for spa guests.

[l] Boatels

A "boatel" is a lodging facility that is specifically associated with a marina development. This type of facility generally accommodates leisure travelers who wish to enjoy nearby bodies of water, along with boat owners seeking accommodations and other amenities on shore. The amenities typically offered by a boatel include a restaurant, a lounge, a ship's store, laundry facilities, docks, and marine equipment repair and service.

[2] Class

Product segmentation was the key phrase in the hotel industry during the 1980s. Many lodging chains saw the opportunity to segment their markets and create products specifically aimed at a particular type of traveler. In most instances, the segmentation was based on the class of hotel rather than the type of facility. For example, Marriott created Courtyards and Fairfield Inns, which are commercial and leisure oriented properties, respectively, catering to two classes of customers: mid-rate and budget travelers, respectively. Residence Inns, another Marriott product, feature large guestrooms, full kitchens, and comfortable living areas for extended stays and represent product segmentation by type of facility.

The class of a lodging facility is a way of describing the quality of the property and the level of service provided. Generally, a lodging facility's class is reflected in its ability to achieve a certain room-rate level. The class of a hotel is also relative to its particular market area. The facilities and level of service that might be considered first-class in Amarillo, Texas might not receive such a rating in San Francisco. Generally, the best hotel within a particular market is classified as an area's first-class property; other facilities within the same market that offer a lower level of quality or service have a lower ranking.

Exhibit 3-13 AOR Performance by Location Type (1996-1997)

Sources: Bear, Steams & Co. Inc.: Smith Travel Research.

Location	1997	1996	% Chg.
Resort	$114.85	$108.69	5,7%
Urban	114.80	106.56	7.7
Airport	77.98	72.11	8.1
Suburban	72.23	68.31	5.7
Highway	55.16	52.46	5.1
Total U.S.	$75.16	$70.81	6.1%

Note: U.S. results may differ slightly from those elsewhere in report due to processing methodology.

The lodging industry does not seem to have a uniform definition of the various hotel classes. Terms such as "economy," "first-class" (or "upscale"), and "luxury" have different meanings for different people. However, Smith Travel Research publishes average rate and occupancy information for each class category defined previously. Exhibits 3-13 and 3-14 illustrate the various class categories and the corresponding average occupancy and average room rates for lodging facilities in the United States.

Exhibit 3-14 Occupancy Performance by Location Type (1996-1997)

Sources: Bear, Steams & Co. Inc.; Smith Travel Research.

Location	1997	1996	bps Chg.
Airport	70.5%	71.0%	-0.7%
Urban	69.8	69.7	0.1
Resort	69.7	69.1	0.9
Suburban	65.9	66.3	-0.6
Highway	60.8	61.7	-1.5
Total U.S.	64.5%	65.%	-0.8%

Note: U.S. results may differ slightly from those elsewhere in report due to processing methodology.

Most hotel chains attempt to market to a particular class of traveler. For example, Microtel caters to the very rate-sensitive budget traveler, while Ritz-Carlton Hotels attract an upper-end, luxury-oriented, clientele. Most chains attempt to create and maintain a specific image with respect to their class of facilities and service. Holiday Inns, for example, have enforced stringent product improvement requirements on franchisees in order to combat a declining general product-quality perception. Properties not conforming with Holiday Inns' requirements and standards have been dis-connected from the chain

[3] Location

Hotels and motels can be classified by the characteristics of their locations, which often influence the market segments they will attract. Resort hotels, for example, draw entirely different customers from those who stay at downtown hotels.

[a] Airports

Situated either at or near an airport facility, this type of hotel usually attracts commercial travelers, small meetings and groups, and airline-related visitation such as crews and distressed passengers. Contracts with airlines typically provide a substantial base of business. However, as this demand segment of the lodging market is highly discounted (for the steady block of rooms), average room rate for an airport hotel may be skewed downward relative to its proportion of airline business.

Airport hotels generally offer shuttle service to and from the airport. As part of this service, airport hotels often provide telephones at the airport that allow arriving guests to dial the hotel directly at no charge. Meeting facilities are also generally provided in order for airport hotels to attract the meeting business of out-of-town travelers who wish to use the airport as a convenient and accessible gathering place for meetings.

[b] Highways

Highway hotels are designed for guests traveling by automobile. Properties with highway locations typically attract both commercial and leisure travelers. Proximity to a major roadway (usually an interstate), accessibility, and visibility are the major attributes required for this type of property. Highway hotels typically feature limited meeting facilities; a restaurant on property or nearby; and amenities to attract leisure travelers, such as a swimming pool and a playground. Other typical amenities include complimentary hot beverage service, sundries, and road maps.

Highway hotels are exposed to certain risks. In the past, they have suffered when travel has declined because of gasoline shortages and economic recessions. In addition, changes in traffic patterns created by new routes can devastate (or improve) a highway hotel's business. Currency exchange rates and the affordability of airline travel are other factors that affect the profitability of a highway hotel.

[c] Downtowns

Hotels situated in the downtown area of a city cater mostly to the commercial and meeting and convention market segments. Depending on the nearby dining alternatives, a downtown hotel may need to have only minimal food and beverage facilities. The facilities, amenities, and level of service offered by a downtown hotel are dictated by its proximity to such demand generators as office complexes and convention centers. Adequate parking is almost always a primary consideration for a downtown lodging facility. Depending on the age of the improvements, off-street parking may be available on-site or in a nearby parking garage. Valet parking is an important amenity for upscale hotels.

[d] Suburbs

Suburban hotels are generally located near office, retail, and light industrial areas. Proximity to demand generators, dining options, and leisure activities are important aspects of suburban hotels. Suburban locations typically allow for low- to medium-density rather than high-density construction, extensive recreational facilities, and ample surface parking, Development costs are typically lower for suburban hotels than for downtown properties.

[e] Convention Centers

A hotel located near a convention center will draw patronage from the events held at the center. Convention center hotels typically provide food and beverage facilities, additional meeting facilities, and recreational facilities. It must be noted, however, that most convention centers generate roughly 100 to 130 days of transient visitation per year, which alone is insufficient to justify a lodging facility. Therefore, a convention center hotel should be designed to attract other demand segments, such as commercial and leisure travelers. In addition, meeting facilities should be adequate to accommodate self-contained, smaller meetings and functions.

[f] Resorts

Resort hotels are located in areas with considerable scenic beauty or recreational opportunities. Resort properties attract primarily the leisure demand segment of the lodging market and sometimes leisure-oriented meetings and conventions such as corporate-incentive groups. Resorts typically feature extensive food and beverage facil-

ities, recreational amenities, and retail facilities. Activity desks are also usually provided for off-property activities and tours. Resorts also provide 24-hour room service, currency exchange, in-room movies, ample parking space, and manicured landscaping. Artwork and design motifs reflect the property's location.

[g] Mixed-Use Facilities

Lodging facilities that are situated in multiple-use developments that contain both hotel and non-hotel elements (e.g., office space, retail property, and residential property) are referred to as mixed-use properties. The synergy between the various components of the development is often beneficial for the whole project. Additional facilities and amenities for the hotel component are highly dependent on the nature of the other uses in the development.

» 3.02 GUESTROOM DESIGN

Hotel guestroom design is more influenced by facility orientation and class than by locational attributes. The floor plans in Exhibit 3-15 illustrate typical sizes and guestroom layouts for various types and classes of hotels.

Exhibit 3-15(a) shows the floor plan of a microbudget motel guestroom. The total area is 190 square feet and provides enough space for one bed. Although the guestroom is relatively small, it has all of the normal amenities found in conventional budget motel guestrooms.

Exhibit 3-15(b) shows the floor plan for a typical budget motel. The total area of the room is 236 square feet and provides sufficient space for two double beds. In this example, the window is situated adjacent to the entry door, which means that the property probably has exterior corridors.

Exhibit 3-15(c) shows a floor plan typical of a mid-rate facility. The 300-square-foot room includes a larger bathroom, a separate closet, and a sleeping area containing a king-sized bed and two chairs. The guestroom also contains a combination desk/dresser with a television. The corridor to which the room has access is interior.

Exhibit 3-15(d) provides an example of a luxury hotel room that totals 450 square feet. Although the length of the room is 25 feet, which is comparable to properties of lower class, its width is 18 feet, creating a feeling of greater open space. The bathroom is above average in size and the sleeping area has capacity for a desk, two small couches, and a coffee table.

The accommodations offered by suite hotels come in many sizes and shapes, but by definition a suite contains separate sleeping and living areas. Exhibits 3-15(e) and 3-15(f) illustrate the layout of two typical suite configurations. Exhibit 3-15(e) shows a rectangular guestroom module in which the living area is in the front -and the sleeping area is to the rear. The suite in Exhibit 3-15(f) is square, which results in a side-by-side placement of the living and sleeping areas. Both of these suite layouts contain approximately 400 to 500 square feet of space, which is only slightly larger than a typical luxury guestroom module.

Exhibit 3-15(g) shows a residence hotel room layout. A residence-type hotel, or extended-stay hotel, typically provides the greatest amount of space of any type of lodging facility. Guestroom modules typically consist of full-size living rooms, kitchens, and bedrooms. The layout in Exhibit 3-15(g) is of a duplex-loft arrangement, On the first floor there is a living room and full kitchen toward the front, and a bedroom area and full bath to the rear. On the second floor there is a second bedroom and second full bath. The first floor is 580 square feet in area and the loft second floor 244 square feet, for a total of 824 square feet.

HVS

Exhibit 3-15 Typical Guestroom Sizes and Layouts for Various Hotel Types

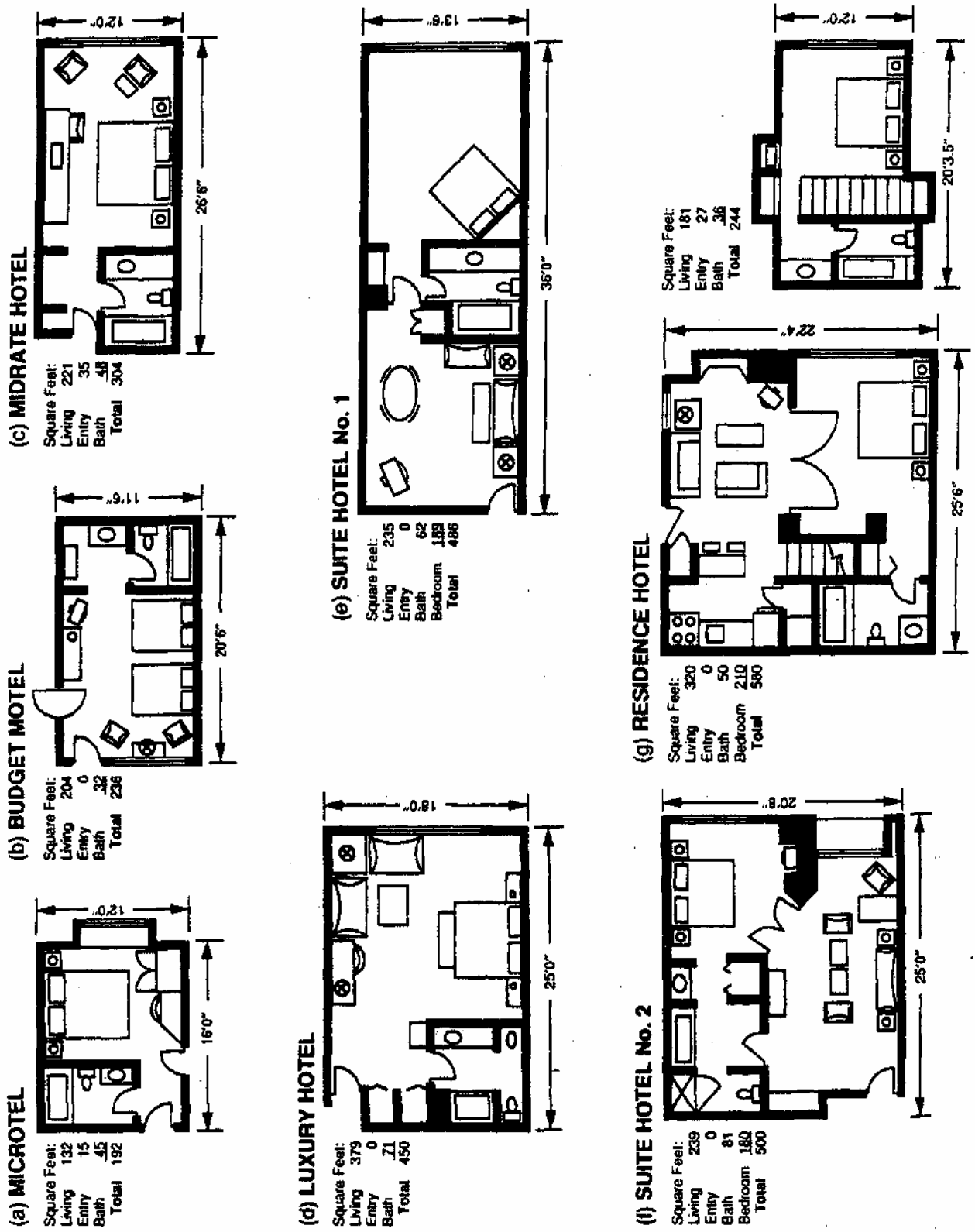

Exhibit 3-15 (cont'd)

(a) Microtel	(b) Budget Motel	(c) Mid-Rate Hotel
Square Feet:	*Square Feet:*	*Square Feet:*
Living 132	Living 204	Living 221
Entry 15	Entry 0	Entry 35
Bath 45	Bath 32	Bath 48
Total 192	Total 236	Total 304

(d) Luxury	(e) Suite Hotel No. 1
Square Feet:	*Square Feet:*
Living 379	Living 235
Entry 0	Entry 0
Bath 71	Bath 62
	Bedroom 189
Total 450	Total 486

(f) Suite Hotel No. 2	(g) Residence Hotel	
Square Feet:	*Square Feet:*	*Square Feet:*
Living 239	Living 320	Living 181
Entry 0	Entry 0	Entry 27
Bath 81	Bath 50	Bath 36
Bedroom 180	Bedroom 210	
Total 500	Total 580	Total 244

»3.03 AMENITIES

Amenities such as swimming pools, room service, and personal care items play a large role in the marketing of hotel rooms. Exhibit 3-16 shows the results of a survey conducted for the Dial Corporation by Michigan State University's School of Hospitality Business to determine frequent travelers' expectations of amenities and services. The American Hotel and Motel Association conducted a survey to quantify the usage of the amenities and services provided. The results of that survey are presented in Exhibit 3-17.

Although a swimming pool is frequently an expected feature of a lodging facility, especially for mid-price and luxury hotels, it is used by less than one-third of the guests. This creates a concern for hotel developers: should a costly swimming pool, which guests expect but rarely use, be included in the design of the property? The answer is generally yes, because of the need to conform with the local competitive environment, despite the low usage.

HVS

Exhibit 3-16 Amenities and Services Expected by Frequent Travelers

Sources; Dial Corporation, Michigan State University

Amenity or Service	Economy	Mid-Priced	Luxury
Personal care Items	13%	61%	95%
Room service	11	73	93
Complimentary newspaper	8	39	90
Swimming pool	39	83	92
Cocktail lounge	8	73	88
Check cashing	24	64	87
In-room refrigerator	5	27	74
Complimentary breakfast	11	42	71
Iron/ironing board	6	20	42
In-room coffee maker	24	46	54

Exhibit 3-17 Usage of Amenities and Services

Source: American Hotel and Motel Association

Amenity or Service	Guest Usage
Television	91%
Personal care items	76
Restaurant	70
More than two towels	69
Wake-up call	59
In-room coffee maker	54
Cocktail lounge	29
Swimming pool	29
Pay television	20
Exercise equipment	15
Check cashing	10
Room service	10
Laundry valet	4
Game room	3
Coin laundry	2

» 3.04 FINANCIAL OPERATING CHARACTERISTICS

Income and expense statements for several types of hotels are contained in Exhibit 3-18, illustrating the common differences between the classes of hotels.

The income and expense statement for a commercial hotel shows that the property generates food and beverage revenue, telephone revenue, and other income. Its rooms department expense is 28.8 percent of rooms revenues, and its food and beverage expense ratio is 72.5 percent of food and beverage revenue. The commercial hotel's departmental expense is 43.3 percent of total revenues, and its house profit equates to 22.1 percent of total revenues. After fixed expenses, net operating income equates to 16.4 percent of total revenues.

The operating statement for a large convention hotel shows a similar departmental expense ratio at 45.0 percent of total revenues. However, because of the economies of scale, undistributed operating expenses equate to 21.9 percent of total revenues, as opposed to 34.6 percent of total revenues for the commercial hotel, resulting in house profit and net operating income levels of 33.1 percent and 26.9 percent, respectively, of total revenues.

In the income and expense statement for a resort hotel, particular differences are noted between the higher revenues generated from minor operating departments and those from rentals and other income. In addition, the resort's marketing and property operations and maintenance expenses are higher. Overall, the net operating income for the resort is 23.9 percent of total revenues.

The statement for the suite hotel shows that because food service is not a significant profit generator in a suite hotel, the restaurant has been leased. The property enjoys excellent operating ratios, which result in a net operating income of 40.7 percent of total revenues.

The extended-stay hotel's statement shows that this type of property generally achieves a high occupancy at a solid average room rate. As a result of the higher occupancy, the extended-stay hotel is able to realize a departmental income of 73.0 percent of total revenues, a house profit of 40.4 percent of total revenues, and a net operating income of 36.1 percent of total revenues.

While the operating data shown in Exhibit 3-18 is broadly typical for the various hotel classifications, it should be remembered that there are many factors, including local market conditions, chain affiliation, and management ability, that can dramatically affect the results of any lodging facility.

HVS

Exhibit 3-18 Hotel Operating Statistics by Type

Type:	Commercial			Convention			Resort			Suite			Extended-Stay		
Number of Rooms:	~300–500			~1,000–2,000			~300–500			~200–300			~100–150		
Occupancy:	~60%			~75%			~70%			~75%			~80%		
Average Rate:	~$75			~$150			~$150			~$100			~$100		
	% of Gross	PAR[1]	POR[2]	% of Gross	PAR[1]	POR[2]	% of Gross	PAR[1]	POR[2]	% of Gross	PAR[1]	POR[2]	% of Gross	PAR[1]	POR[2]
Departmental Revenue															
Rooms	66%	$16496	$74.82	60.9%	$37,702	$135.91	49.9%	$39,878	$152.61	89.9%	$28,644	$102.63	92.9%	$25,909	$94.15
Food	25.9	6,467	29.34	25.1	15,553	56.07	28.4	22,721	86.95	0.0	0	0.00	0.0	0	0.00
Beverage	4.2	1,044	4.74	6.5	4,003	14.43	10.9	8,755	33.50	0.0	0	0.00	0.0	0	0.00
Telephone	3.0	759	3.44	3.0	1,836	6.62	2.2	1,722	6.59	5.2	1,645	5.90	2.3	629	2.28
Minor Oper. Depts.	0.0	0	0.00	3.2	1,992	7.18	7.0	5,568	21.31	4.1	1,408	5.04	0.6	157	0.57
Rental and Other Income	0.9	235	1.07	1.3	818	2.95	1.7	1,335	5.11	0.3	162 0.58	4.2	1,180	4.29	
Total	100.00	25,001	113.41	100.0	61,904	223.16	100.00	79,979	306.07	100.0	31,861	114.15	100.0	27,874	101.29
Departmental Expenses*															
Rooms	28.8	4,759	21.59	26.9	10,125	36.50	21.7	8,665	33.16	23.4	6,695	23.99	23.4	6,058	22.01
Food & Beverage	72.5	5,449	24.72	79.7	15,583	56.18	69.4	21,831	83.55	0.0	0	0.00	0.0	0	0.00
Telephone	82.5	627	2.84	31.1	570	2.06	54.6	940	3.60	29.9	491	1.76	44.3	279	1.01
Minor Oper. Depts.	0.0	0	0.00	57.3	1,609	5.79	86.4	4,811	18.41	45.3	595	2.13	87.7	1,176	4.28
Total	43.3	10,835	49.15	45.0	27,887	100.53	45.3	36,247	138.72	24.4	7,782	27.88	27.0	7,513	27.30
Departmental Income	56.7	14,166	64.26	55.0	34,017	122.63	54.7	43,732	167.35	75.6	24,079	86.27	73.0	20,361	73.99
Undistributed Operating Expenses															
Administrative and General	11.5	2,886	13.09	8.1	4,987	17.98	5.1	4,100	15.69	7.3	2,327	8.34	10.5	2,920	10.61
Management Fees	3.0	750	3.40	0.0	0	0.00	4.3	3,425	13.11	1.4	439	1.57	6.9	1,937	7.04
Franchise Fees	3.6	911	2.99	0.0	0	0.00	0.0	0	0.00	3.6	1,146	4.11	0.0	0	0.00
Marketing	7.3	1,814	9.37	6.5	4,014	14.47	6.5	5,238	20.05	8.2	2,603	9.33	6.4	1,783	6.48
Property Oper. & Maint.	5.4	1,342	6.09	4.9	3,051	11.00	4.9	3,905	14.94	3.4	1,077	3.86	4.6	1,293	4.70
Energy	3.8	951	4.31	2.4	1,468	5.29	3.4	2,752	10.53	2.9	928	3.33	4.2	1,182	4.30
Total	34.6	8,654	39.25	21.9	13,520	48.74	24.2	19,420	74.32	26.8	8,520	30.54	32.6	9,115	33.13
House Profit	22.1	5,512	25.01	33.1	20,497	73.89	30.5	24,312	93.03	48.8	15,559	55.73	40.4	11,246	40.86
Fixed Expenses															
Property Taxes	3.0	750	3.40	2.5	1,574	5.68	2.9	2,318	8.87	2.4	768	2.75	3.3	917	3.33
Insurance	0.7	164	0.74	0.4	219	0.79	0.6	487	1.86	1.7	537	1.92	1.0	292	1.06
Reserve for Replacement	2.0	514	2.32	3.3	2,083	7.51	3.1	2,475	9.48	4.0	1,259	4.50	0.0	0	0.00
Total	5.7	1,428	6.46	6.2	3,876	13.98	6.6	5,280	20.21	8.1	2,564	9.17	4.3	1,209	4.39
Net Income	16.4%	$4,084	$18.55	26.9%	$16,621	$59.91	23.9%	$19,032	$72.82	40.7%	$12,995	$46.56	36.1%	$10,037	$36.47

*Departmental Expenses are expressed as a percentage of departmental revenues
[1]Per Available Room
[2]Per Occupied Room

HVS

CHAPTER 4

National Demand

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»4.01 INTRODUCTION

The demand for lodging in the United States is difficult to gauge, because it requires the evaluation of a number of economic and societal trends. Some of the most significant factors affecting lodging demand include:

- *Value of the dollar.* Declines in the value of the dollar enable more foreign tourists to travel to the United States while restricting the travel of Americans abroad; increases in dollar value reverse this situation.
- *Automotive fuel prices.* An increase in fuel prices discourages people from traveling, while a decrease permits less expensive transportation, resulting in an increase in travel and lodging demand.

- *Number of dual-income households.* Over the past twenty years, the increasing prominence of dual-income households has meant, for these families, greater disposable income that can be devoted to leisure travel.
- *Advances in telecommunications.* Increasingly sophisticated technology has enabled meetings and conferences to take place between participants situated around the globe, thereby reducing the need for business travel.
- *Implementation of frequent flyer I frequent guest programs.* In a number of travel-related industries, including the airline, car rental, and hotel industries, numerous incentive programs now exist that encourage travel by awarding free or reduced-cost transportation, lodging, and other financial rewards.

» 4.02 NATIONAL DEMAND DATA

The analysis of national trends affecting lodging demand depends in large part on pertinent data compiled by government and industry organizations. Data relating to lodging demand can be divided into four general categories:

1. Information regarding the actual use of transient accommodations.
2. Information regarding travel that may entail the use of transient accommodations.
3. Indicators of the general condition of the national economy and broad-based demographic trends that can have an indirect impact on the use of transient accommodations.
4. Information detailing specific characteristics of transient travel demand (e.g., primary reasons for leisure travel or selection of hotels).

Category 1 data provides the clearest indications of the current status of lodging demand, because the data requires little extrapolation or hypothesization. Categories 2 and 3 include information that does not directly reflect demand for transient accommodations, but from which useful inferences can nonetheless be drawn. Category 4 concerns such elements of demand as the most popular destinations for leisure travelers and preferences among the different market segments (i.e., commercial, meeting and convention, and leisure) regarding the amenities offered by lodging facilities. This sort of information indicates not overall levels of demand but rather characteristics of demand segments; it is useful for the proper planning, design, operation, and marketing of individual lodging facilities. Each of these categories of data is discussed in the following sections.

» 4.03 USE OF TRANSIENT ACCOMMODATIONS

Historically, the U.S. Travel Data Center has been the primary source of data regarding the use of transient accommodations and the actual dollar receipts of lodging facilities. This organization conducts monthly surveys of travelers to determine their travel patterns. In more recent years, Smith Travel Research (STR) has emerged as the definitive source of hotel industry data, providing occupancy and average rate statistics as well as supply, demand, and room sales trends on an aggregate national level and for most U.S. hotel submarkets. Several government agencies, including the Bureau of the Census and the Bureau of Labor Statistics, also compile information

regarding the use of transient accommodations in the course of preparing nationwide industrial statistics.

[1] Trends in Hotel Travel Volume

The U.S. Travel Data Center conducts monthly travelers' surveys from which a wide range of statistics are developed and hotel volume trends are tracked. Exhibit 4-1 shows the volume of travel that involved a hotel stay. This exhibit demonstrates a virtually continuous increase between 1986 and 1996.

Exhibit 4-1 U.S. Resident Travel Volumes, 1986-1999 – Hotel/Motel Travel

Sources: Travel Industry Association's National Survey

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	86-96 Change
Trips												
Volume (millions)	247.9	282.1	273.3	290.5	291.1	291.1	325.8	329.5	318.5	316.4	334.0	35%
Share of total	47%	50%	47%	49%	49%	49%	50%	51%	48%	47%	49%	

Exhibit 4-2 shows the compounded annual growth rates for several different travel categories, including travel volume by purpose of trip and by mode of transportation.

Exhibit 4-2 Travel Growth Rates

Category	Compounded Annual Percent Change (1982-1993)
Total Travel	2.8%
Hotel	4.7
Pleasure	3.2
Vacation	3.4
Weekend	5.0
Business	5.2
Auto	2.0
Air	5.8

All categories showed an increase in travel volume between 1982 and 1993. As a result of the 1992 airline rate wars, the highest growth rate was recorded in air travel. Travel that involved hotel accommodations showed an impressive 4.7 percent average annual compounded growth rate during this period. The continuous increase in travel volume supports the observation that the cyclical declines in hotel occupancies in past years were a result of overbuilding rather than a reduction in the amount of travel.

[2] Trends in Total Room Sales

Another direct indicator of transient demand is the annual percentage change in room sales, which is tallied by Smith Travel Research. Exhibit 4-3 tracks room sales trends since 1987 for the United States as a whole.

Exhibit 4-3 Room Sales—U.S. Total

Source: Smith Travel Research

Year	Percent Change
1987	8.3%
1988	8.9
1989	9.1
1990	6.7
1991	1.2
1992	5,3
1993	6.3
1994	8.6

Consistent with trends in new hotel development, national room sales growth gained momentum during the late 1980s, peaking at 9.1 percent annual growth in 1989. Growth began to decline in 1990, and reached a relative low in 1991, when hotel room sales increased by only 1.2 percent, well below the pace of inflation. As the national economy began to recover, so did the relative health of the national hotel market. From 1992 to 1994, room revenues gradually increased to a rate of 8.6 percent, roughly on par with the sales growth levels experienced during the late 1980s.

»4.04 TRAVEL INDUSTRY STATISTICS

Travel industry statistics are generally easier to obtain than information concerning the actual utilization of hotels and motels.

[1] Food and Beverage Sales

Food and beverage sales are quantified each year by the National Restaurant Association for several categories, including lodging places and hotel and motel restaurants. According to data found in the *Statistical Abstract of the United States* 115th Edition, food and drink sales at lodging facilities had a compounded annual growth of 2.3 percent between 1980 and 1992, slowing to a rate of 1.3 percent annually from 1985 to 1992. Reflecting the economic recession, food and drink sales at lodging facilities declined by 0,9 percent from 1990 to 1992. Hotel restaurants showed growth rates of 4.1 percent, 2.3 percent, and negative 0.4 percent in 1990, 1991, and 1992, respectively. Motel restaurants experienced significantly lower volumes each year, with a 7.3 percent decline from 1980 to 1992, a 6.6 percent decline from 1985 to 1992, and a 5.4 percent decline from 1990 to 1992.

[2] Domestic Passenger Traffic

Domestic passenger traffic figures for private cars and domestic airlines, buses, and railroads also provide indirect indicators of transient lodging demand.

According to the *Statistical Abstract of the United States* 115th Edition (Table 1009, p. 62), from 1970 to 1993 total passenger traffic increased at varying rates between 2.0 percent and 3.0 percent annually, with the greatest period of growth occurring during the 1980s. Growth slowed from an annual rate of 2.9 percent in the period from 1980 to 1993 to a rate of 2.2 percent annually from 1990 to 1993. In general, the greatest growth rate took place in domestic air travel, which had a 5.1 percent annual increase between 1970 and 1993—even though, between 1990 and 1993, the growth rate dropped to 1.0 percent. Because air travel tends to generate a high level of lodging demand, these trends are very favorable for hotels and motels, and particularly those located at major airport destinations. Surprisingly, railroad travel increased by 2.5 percent annually between 1990 and 1993, although that mode of transportation still remained only a minor contributor to overall passenger traffic.

[3] International Travel Demand

International travel to the United States represents a growing source of hotel demand. Since 1983, international travel has been increasing at an estimated annual compounded rate of 8 percent. The low value of the dollar in relation to other currencies makes the United States an inexpensive destination for overseas travelers. Approximately 10 percent of the total U.S. hotel demand is currently generated by international travelers, and this percentage is projected to increase to 14 percent during the next three years. Surveys show that foreign visitors stay in hotels nearly twice as long as domestic travelers (7 nights as opposed to 3.6) and use hotels with nearly twice the frequency of U.S. travelers. International vacationers constitute an extremely attractive market, with an average stay of just under three weeks and per-capita spending that is six times higher than that of their U.S. counterparts.

The two primary sources of international travel to the United States are Canada and Mexico. Together, these countries represented more than 55 percent of the total international arrivals in 1994. Because of economic problems, travel from Canada to the United States has remained fairly level during the past several years. Travel from Mexico, however, has increased sharply. The passage of the NAFTA agreement is likely to engender a further influx of visitors from these two countries, which should have a favorable effect on the U.S. lodging industry.

According to data from the U.S. Travel and Tourism Administration, there was little change in the volume of international travel to the United States during the first part of the 1980s. As the dollar weakened in value against foreign currencies during the mid- to late 1980s, international travel increased significantly.

Offsetting the benefits of international travel to the United States is the outbound travel to international destinations by U.S. citizens. Between 1989 and 1994, foreign travel to the United States rose by 28 percent, while U.S. travel to international destinations increased by only 13 percent. Between 1989 and 1994, U.S. travel to Canada declined by 3 percent, while U.S. travel to Mexico rose by 5 percent. Total international travel by U.S. citizens has been increasing slowly.

» 4.05 ECONOMIC AND DEMOGRAPHIC TRENDS

Category 3 data, which indicates general economic health and broad-based demographic trends that can indirectly affect lodging demand, is readily available to analysts and investors. The most useful data of this type pertains to the gross domestic product and the contributions made to it by the wholesale and retail trade and the service industries. Gross domestic product, which is the broadest measure of economic activity, is a relevant indicator for both business and leisure travel.

Wholesale and retail trade generates about 15 percent of the nation's lodging demand, so the economic health of this segment of the economy has particular importance for the lodging industry. In constant 1987 dollars, the gross domestic product (GDP) had a compounded annual growth rate of 1.6 percent between 1987 and 1992. During this same period, the combined wholesale and retail trade grew at 2.1 percent, and services increased by 2.6 percent annually. Slower GDP growth occurred from 1990 to 1992 than in the period from 1987 to 1992, largely reflective of the national economic recession.

» 4.06 CHARACTERISTICS OF TRAVEL DEMAND

Category 4 data is quite different from the first three categories of data in that it does not assist in quantifying lodging demand, but rather provides information about the characteristics of the demand—for example:

- The reasons commercial travelers select a particular hotel
- The usual lead time for booking an association training seminar
- The most popular destinations for pleasure travelers
- Why people travel
- The hotel amenities that travelers request most and the amenities that travelers actually use most

Although Category 4 data does not directly reflect overall hotel demand, an understanding of this information is essential for planning a lodging facility and operating it in a manner that attracts a sufficient level of demand. Exhibit 4-4 contains data regarding the characteristics of an average trip along with the number of nights per trip for the period from 1984 to 1993.

Exhibit 4-4 Characteristics of an Average Trip

Source: U.S. Travel Data Center

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Persons per trip	1.62	1.62	1.59	1.57	1.58	1.60	1.62	1.65	1.63	1.64
Nights per trip	5.20	5.40	5.20	5.00	4.90	4.60	4.40	4.10	4.00	4.20

As the exhibit shows, the number of persons per trip has remained relatively flat during the past ten years—approximating 1.6 persons per trip—although during the late 1980s, the figure dipped slightly. As the late 1980s was a period of rapid economic expansion, the slightly lower statistics during that time might indicate an increase in individual business travel. The number of nights per trip has generally decreased from

a 1985 peak of 5.4 nights per trip to 4.2 in 1993. Business travel budgets have been reduced, particularly during the recessive early 1990s, having a direct impact on the length of business trips, and increasing number of flight options and lower airfares have led to more short "commuter" flights.

With the increase in dual-income households, vacations have changed over the past decade. Mostly gone is the single, multi-week family vacation each summer; today, an increasing number of couples and families prefer shorter but more frequent vacations.

Category 4 data can be made more useful by being broken down into individual segments based on the unique characteristics of the travelers making up a particular segment. The most logical method for performing this operation is to use the purpose of the trip as a distinguishing characteristic. Three primary segments are (1) commercial demand, which consists of individual business people traveling for a business purpose; (2) meeting and convention demand, which consists of groups of people (more than three) traveling for the purpose of having a meeting of some type; and (3) leisure demand, which consists of individuals traveling for pleasure.

One important reason for looking at Category 4 data on the basis of individual demand segments is that different types of demand usually exhibit different characteristics that are useful for lodging facility planners and managers to know. For example, commercial demand exhibits a low double-occupancy rate, while leisure travel generates a much larger number of people per room; leisure travelers typically have a longer average stay than commercial patrons; and growth rates in commercial travel are often dependent on the local economy, whereas growth rates in meeting and convention patronage are most often affected by national economic trends. These characteristics can have a significant effect on the operating results of a lodging facility, so any analysis of lodging demand data should begin by dividing the data into individual segments.

[1] Commercial Demand Segment

As shown in Exhibit 4-5, Business Trips increased from 1986 - 1996 by 17%. The total volume of business travel by person-trips increased even more by 26%. This indicates that the travel party size increased over the time period.

Exhibit 4-5 U.S. Resident Travel Volumes, 1986-1999—Business Travel

Source: Travel Industry Association's National Survey

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	86-96 Change
Trips												
Volume (millions)	164.4	185.0	182.8	199.3	182.8	176,9	210.8	210.4	193.2	207.8	192.8	17%
Share of total	31%	33%	31%	34%	31%	30%	32%	32%	29%	31%	29%	
PERSON-TRIPS												
Volume (millions)	200,1	218.3	224.1	245.6	221.8	224.0	278.0	275.4	246.7	275.2	251.2	26%
Share of total	24%	24%	24%	26%	23%	23%	26%	26%	22%	23%	22%	
Travel Party Size												
(People)	1.22	1.18	1.23	1.23	1.21	1.27	1.32	1.31	1.28	1.32	1.31	

Although business travelers who take 10 or more trips per year make up the smallest segment, this group of travelers has grown in size during the past decade. Hotel chains develop marketing plans aimed at these frequent travelers in an effort to develop brand loyalty. Today, most major commercial hotel chains offer a traveler incentive program, and according to U.S. Travel Data Center, approximately 16 percent of business travelers actively participate in a frequent lodger program. Exhibit 4-6 shows the average number of nights spent per business trip. Most businesspeople spend between two and three nights away from home, while only 13.6 percent of corporate travelers spend more than ten nights on the road.

Exhibit 4-6 Nights Spent per Business Trip

Source: U.S. Travel Data Center

Number of Nights	Percentage of Commercial Travelers
0	13%
1	21%
2-3	38%
4-9	22%
10+	.6%

The typical business traveler is always of interest to hotel investors and operators. Exhibit 4-7 shows some of the most important characteristics of the commercial segment.

Exhibit 4-7 Demographics of Business Travelers

Source: U.S. Travel Data Center

Men	69%
Age 25-55	45%
College graduate	43%
Professional or managerial	57%
Income $40,000+	68%
Two or more wage earners	53%
Average miles per trip	834
Average nights per trip	8.2
Uses airline for trip	35%
Stays in hotel or motel	67%

Exhibit 4-8 shows the types of transportation used by commercial travelers.

Exhibit 4-8 Types of Transportation Used on Business Trips

Source: U.S. Travel Data Center

Primary Type Used	
Car travel	62%
Airline	35%
Bus/motorcoach	1%
Company plane	0.5%
Train	0,5%
Other	1%

According to the U.S. Travel Data Center, the ten most important factors in hotel selection for commercial travelers are the following:

1. Convenient location
2. Clean, comfortable rooms
3. Room rates
4. Recommendations
5. Previous experience
6. Meeting facilities
7. Restaurant—food service
8. Company policy
9. Travel agent 10. Frequent guest program

Predictably, a convenient location is the key factor in the selection process. Clean, comfortable rooms are next on the list, followed by cost.

Commercial travel is distributed fairly evenly throughout the year for both frequent and infrequent travelers, although there is less activity during the months of December, January, and February. Business travel peaks during the spring and fall months, with a slight dropoff noted during the summer months. Exhibit 4-9 lists the distribution of business travel by month throughout the year.

In general, business travelers tend to be less price sensitive than other travelers; furthermore, they travel on a more regular basis, and their demand is fairly predictable. For these reasons, owners and operators of lodging facilities consider the commercial demand segment an extremely important component of the overall demand for lodging.

[2] Meeting and Convention Demand Segment

One of the best sources of national demand data concerning the meetings and convention market segment is *Meetings and Conventions* magazine, a nationally recognized authority on all types of meetings and conventions. Every two years, the publishers of this periodical conduct a detailed survey of their readership to develop data related to the meetings and convention market in the United States, and then publish the information in a book titled *Meetings Market.*

Exhibit 4-9 Distribution of Business Trips by Month

Source: U.S. Travel Data Center

	Percentage of Total	
	Frequent Travelers	Less Frequent Travelers
January	6.4%	5.6%
February	3.6	5.3
March	8.4	9.1
April	10.8	11.1
May	8.0	9.1
June	11.5	9.9
July	8.4	9.7
August	7.5	9.0
September	9.6	7.9
October	9.4	8.7
November	9.5	8.6
December	6.9	5.9
Total	100.0%	100.0%

Meetings Market divides the meetings and convention market into three segments: corporate meetings, conventions, and association meetings. Exhibit 4-10 shows the important characteristics of corporate meetings.

Exhibit 4-10 Characteristics of Corporate Meetings

Type of meeting	Average attendance	Average number of days' duration	Number in past year	Percentage of total	Average number of months' planning lead time
Management Meetings	43	2.7	159,900	20%	4.9
Sales Meetings	64	2.98	133,900	17	8.2
Training Seminars	67	2.6	261,000	33	2
Incentive Trips	81	6.5	60,200	8	4.6
Stockholder Meetings	82	1.6	10,300	1	4.7
Professional/Technical Meetings	86	4.6	101,000	13	3.3
New Product Introductions	98	2.3	30,500	4	1.5
Other Meetings	107	2.1	44,500	6	9.4
Average/Total	69	3.2	801,300	100%	5.1

Corporate meetings typically have a fairly small attendance (the average is approximately 69 people) and range in duration from 1.6 days for stockholder meetings to 6.5 days for incentive trips. The average length of a corporate meeting is 3.2 days. Training seminars make up the largest number of corporate meetings, roughly one-third

of all, followed by management meetings and regional sales meetings. The planning lead time for corporate meetings ranges from a low of 2 months to a high of 9.4 months. The length of lead time is an important consideration for new hotels that must pre-sell meeting space early enough to capture this element of the lodging market.

Major conventions typically consist of groups of 1,000 or more. A unique characteristic of conventions is the amount of time for which they are booked in advance. Exhibit 4-11 shows that as the size of a meeting increases, the number of months lead time required for booking arrangements also increases, to the point at which the average convention of more than 500 people is booked more than four years in advance. This finding demonstrates the need for a long pre-selling program for new hotels that plan to capture large meetings.

Exhibit 4-11 Advance Time Required to Book Meetings

Source: *Meeting Planners Survey*

Number of Attendees	Months
10-50	10
51-150	13
151-300	25
301-500	33
500+	55

Association meetings are generally composed of smaller groups that meet periodically to conduct the business of the association. These events consist of work sessions similar to corporate meetings but also generally involve some leisure-oriented and socially oriented activities. Exhibit 4-12 provides basic information about such meetings.

Exhibit 4-12 Characteristics of Association Meetings

Source: *1994 Meetings Market Report*

Type of Meeting	Average Attendance	Average Duration (Days)	Number In Past Year	Number of Month's Lead Time
Board Meeting	35	1.8	62,500	6.3
Educational Seminars	102	2.1	57,000	9.2
Professional/Technician	111	2.3	35,700	7.2
Regional/Local Chapter	98	1.9	33,500	11.7
Other	178	*2A*	17.800	*-S2*
Average/Total	91	2.1	206,500	10

Association meetings include such functions as board meetings, seminars, and local chapter meetings. They typically attract an average of 91 people, which is larger than the average corporate meeting, but the duration is somewhat shorter—on average, 2.1 days. Planning lead time for association meetings is generally somewhat longer than for corporate meetings, ranging from 6.3 months to 11.7 months.

The time of year of meeting and convention demand is an important consideration when planning a hotel oriented to this market segment. The meetings and convention market has strong seasonal swings in demand, with the high point coming in the late spring and the low point in the middle of winter. Exhibit 4-13 shows the percentage of major conventions held by month.

Exhibit 4-13 Distribution of Conventions by Month

Source: 1994 Meetings Market Report

Month	Percentage of Meetings
January	5%
February	6
March	6
April	8
May	10
June	9
July	6
August	6
September	10
October	20
November	10
December	4
Total	100%

The process by which meeting planners select a hotel is also important information for owners and operators of lodging facilities. According to the U.S. Travel Data Center, the primary factors in hotel selection for meetings and conventions are the following:

1. Food service
2. Meeting facilities
3. Billing procedures
4. Guestrooms
5. Meeting coordination
6. Audio-visual equipment
7. Recreational facilities
8. Convenient transportation
9. Exhibit space 10. Number and caliber

of suites

Meetings and conventions are unquestionably an important market for the lodging industry. Most of these events make use of all of the facilities within a hotel, including meeting rooms, banquet rooms, lounges, restaurants, and recreational facilities. In addition, some groups are willing to meet on weekends and holidays,

thus complementing commercial demand, which falls off during these periods. Another advantage is that meeting plans are typically made by a small committee that can consolidate and facilitate a hotel's marketing and selling activities. In addition, group arrangements such as banquets, centralized booking, check-in, and billing increase the efficiency of convention hotel operations.

As the economy of the United States becomes increasingly service oriented, the need for meetings and conventions should continue to grow. Offsetting this trend, however, will be the greater use of video communications, which will, over time, decrease the need for meetings.

[3] Leisure Demand Segment

Leisure travel is important to the lodging industry because it creates demand that is negatively correlated with commercial demand. In other words, leisure travel is strong during weekends, holidays, and summer, when commercial demand is weak; during periods when commercial demand is strong, leisure travel is generally at a low level. Hotels that can attract both leisure and commercial demand generally enjoy higher levels of occupancy without the peaks and valleys that plague operations that can cater to only one segment of demand.

Exhibit 4-14 contains demographic data pertaining to leisure travelers.

Exhibit 4-14 Demographics of Leisure Travelers

Source: U.S. Travel Data Center

Men	55.0%
Age 25-44	41.0
College graduate	40.0
Professional or managerial	32.0
Two or more wage earners	43.0
Use airline for trip	18.0
Use rental car	9.0
Stay in hotel or motel	40.0
Use travel agent	8.0
Average miles per trip	858
Average nights per trip	4.0
Average household members per trip	1.8

[4] Comparison of Demand Characteristics

Exhibit 4-15 contains listings of customer preference items, which have been ranked according to the importance with which they are regarded by the three main demand segments (1 being most important and 6 least important). The six preference items surveyed are price, travel time, quality, management, amenities, and image. Price simply represents what is charged by lodging facilities for their guestrooms. Travel time is the time it takes to travel to the facility if it is not the primary destination of the traveller, and is primarily a measure of convenience. Quality is a measure of the grade of the accommodations offered by a facility; a high-quality hotel generally has larger

guestrooms, better furnishings, and more personalized service. Management is largely responsible for a lodging facility's atmosphere, which can affect guest comfort and the perceived status of the facility. Amenities are items provided above and beyond the normal necessities found in a lodging facility; they usually become more elaborate as the level of quality rises. Image is an intangible that describes the feeling that is created by a facility and its management and that is augmented through marketing and guest experience.

Exhibit 4-15 Customer Preference

	Class of Hotel		
Demand Segment	**Economy**	**Midrate**	**Luxury**
Commercial	1. Price	Travel Time	Image
	2. Travel Time	Quality	Quality
	3. Quality	Price	Management
	4. Management	Image	Travel Time
	5. Amenities	Management	Amenities
	6. Image	Amenities	Price
Meeting and Convention	1. Price	Amenities	Image
	2. Amenities	Quality	Amenities
	3. Quality	Price	Quality
	4. Management	Image	Management
	5. Travel Time	Management	Travel Time
	6. Image	Travel Time	Price
Leisure	1. Price	Amenities	Image
	2. Amenities	Quality	Amenities
	3. Quality	Price	Quality
	4. Management	Image	Management
	5. Travel Time	Management	Travel Time
	6. Image	Travel Time	Price

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CHAPTER 5

Market, Product, and Site Selection

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» 5.01 LONG-TERM TRENDS

Hotel development or acquisition begins with three basic steps:

1. Identifying market areas that show long-term potential for hotel investment.
2. Choosing a lodging product that will take best advantage of the local supply and demand characteristics.
3. Search for an appropriate site.

When looking at market areas in which to develop or acquire a lodging facility, the investor should first focus on long-term economic trends and on future supply-and-demand characteristics rather than historical factors. A knowledge of the economic history of a market area is useful, but the ability of a new hotel (whether recently constructed or acquired and renovated) to survive and succeed depends on the long-term supply and demand conditions in the market area. The economic life of

a lodging facility typically ranges from twenty to sixty years, with a median of thirty-five to forty years. A long-term evaluation is necessary to determine whether the current economic characteristics of the market are likely to continue or whether some development could take place that would alter the economic climate.

For example, one of the trends presently affecting the economy of the United States is a gradual decline in manufacturing industries and a concurrent increase in service-oriented businesses. This trend has negatively affected the regional economies of many of the major manufacturing centers in the country. One aspect of a decline in a local economic base is that the lodging market in the area is apt to experience a loss in room-night demand. The reverse takes place, however, when an area is able to grow by attracting service-oriented industries.

Other long-term trends that may have a significant effect on both the lodging industry as a whole and on individual market areas during the next thirty to forty years include:

- Decline in the manufacturing and production industries may have a negative affect on market areas that are dependent on this business activity.
- Increase in the service and technology industries will benefit market areas that attract these businesses.
- The aging of the population will result in a greater number of senior citizens who have both the time and the money to travel and to make use of transient lodging facilities. Resort-, leisure-, and tourist-oriented markets should benefit the most from increased travel by the retired population.
- Greater family income, generated by two wage-earners, coupled with generally smaller family size, will stimulate increased leisure travel. Resort, leisure, and tourist markets should prosper from this business.
- The deregulation of the airline industry has reduced the cost of travel to many destinations, with the result that more people can now afford to travel greater distances and patronize more lodging facilities. Technological advances should further increase the speed and range of travel, thus making it easier for people to reach their destinations.
- Faster transportation will, however, in some ways reduce lodging demand. New technology will enable commercial travelers to reach their destinations more rapidly, and thus reduce the amount of time it takes to conduct their business and then return home. At present, for example, a trip from New York to Los Angeles involves five hours in transit, which means a business trip from New York almost always includes one night in a Los Angeles hotel. With the inevitable introduction of supersonic air travel between the coasts, trips to Los Angeles and all points in between will require only one day; consequently, lodging facilities in markets served by this form of high-speed transportation will lose commercial demand.
- Video communication technology is rapidly approaching the point at which businesses will be able to eliminate some of their face-to-face meetings by substituting live video communications, or "videoconferencing." This may reduce the need for people to travel to hold meetings, conferences, seminars, and conventions when the same activities can be accomplished from each party's individual office. However, people still value face-to-face meetings to measure or develop personal "chemistry" for business transactions and to network during larger gatherings. In addition, people report that they enjoy experiencing new places. Therefore, videoconferencing is expected to supplement but not replace business- and meeting-related travel; the potential negative impact on such travel is not expected to be significant.

- It is likely that an increasing percentage of the world's population will be free to travel to more destinations and will also have the financial ability to do so. This trend could benefit lodging facilities, particularly those located in tourist-oriented destinations.

» 5.02 TRENDS IN THE BUDGET AND ECONOMY SEGMENTS

Budget and economy hotels offer lodging without the extra amenities typically found in full-service hotels, such as restaurants and bars, and depending on their location, their price for a guestroom usually ranges from $30 to $65. The customer groups that use these products are normally business travelers, families, and value-oriented vacationers and seniors.

Exhibit 5-1 Hotel Industry Segments

Source: Smith Travel Research

Segment	Range	Average Rate
Luxury	85%-100%	$129
Upscale	70%-85%	88
Mid-Price	40%-70%	68
Economy	20%-40%	52
Budget	0%-20%	42

Exhibit 5-1 segments budget and economy lodging products on a market-by-market basis by average rate,

Exhibit 5-2 Typical Economy and Budget Segment Hotel Brands

Source: Smith Travel Research

Economy Segment	Budget Segment
Amerihost Inn	Best Inns
Budgetel	Budget Host Inn
Days Inn	Econo Lodge
Fairfield Inn	Extended Stay America
Hojo Inn	Inn Town Suites
Homestead Village	Knights Inn
Howard Johnson	Microtel
Ramada Limited	Motel 6
Red Roof Inns	Super 8
Rodeway Inns	Red Carpet Inn
Shoney's Inns	Suburban Lodge
Signature Inn	Thriftlodge
Sleep Inn	Villager Lodge
Suisse Chalet	
Travelodge	
Vagabond Inn	
Wellesley Inn	

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Exhibit 5-2(A) Budget Segment

Source: Bear, Sterns & Co. Inc., Smith Travel Research; Coopers & Lybrand L.L.P.

Brand	#0f Hotels	#0f Rooms	#0f Brand	Hotels	#0f Rooms
Super 8	1,580	96,873	National 9	52	1,935
Motel 6	746	83,183	Thriftlodge	37	1,884
Econo Lodge	735	47,849	Good Nite Inn	14	1,692
Knights Inn	229	19,552	Select Inn	14	1,364
Howard Johnson Express Inn	173	13,174	Budget Inn	16	1,264
Sleep Inn	154	11,426	Admiral Benbow	10	1,163
Red Carpet Inn	129	7,774	Motel Orleans	13	844
Budget Host Inn	186	7,500	Friendship Inn	18	685
Scottish Inn	140	7,010	Ha' Penny	6	631
Microtel	66	5,502	Passport Inn	13	607
Travelers Inn	35	4,256	Cricket Inn	4	598
Masters Inn	32	3,828	Wynfield Inn	3	578
Excel Inn	27	3,013	Sixpence Inn	6	577
Cross Country Inn	25	3,009	Roadstar Inn	7	576
E-Z8	27	2,728	Hometown Inn	5	332
Economy Inns Of America	22	2,474	Great Western	7	323
Wilson	15	2,405	Thrifty Inn	4	315
Family Inns Of America	26	2,291	Travel Inn	4	204
Little America	6	2,276			
			Segment Totals:	4,586	341,695

Exhibit 5-2(B) Economy Segment

Source: Bear, Sterns & Co. Inc., Smith Travel Research; Coopers & Lybrand L.L.P.

Brand	#of Hotels	#0f Rooms	#0f Brand	Hotels	#0f Rooms
Days Inn	1,738	155,795	Vagabond Inn	49	3,419
Travelodge	443	35,089	Best Inns Of America	33	3,129
Fairfield Inn	345	33,231	Innkeeper	23	1,903
Red Roof Inn	259	29,725	Country Hearth Inn	30	1,755
Ramada Limited	218	16,065	Jameson Inn	37	1,659
Budgetel	153	15,930	Mcintosh Motor Inn	12	1,410
Rodeway Inn	210	13,331	Nendels	16	1,072
Shoney's Inn	87	8,836	Key West Inn	13	590
Americinn	90	4,177	L-K Motel	5	190
Susse Chalet	33	3,714			
			Segment Totals:	3,794	331,020

The average rates of budget hotels typically fall in the 20th percentile range and lower in a given marketplace, while the average rates of economy properties typically range from the 20th to 40th percentile.

Exhibit 5-2 outlines the hotel brands that are typically found in the economy and budget segments of the industry.

Presently, construction and supply-side increases are more prevalent in the limited service segments (economy, budget, and mid-scale without food and beverage) in select markets across the United States, as compared with other price tiers. This situation differs from the hotel construction boom of the 1980s where over-building of lodging properties occurred in a more or less simultaneous manner across most segments of the hotel industry. This current trend of overbuilding in select markets is expected to result in varied performance across the segments, and in individual markets across the country.

Because of the recent construction activity within the budget and economy segments of the lodging industry, supply in these segments is currently outpacing demand. This trend has changed somewhat from 1994 and 1995, when the opposite was true: at that time, demand for these lodging products outpaced supply. On a macro level, supply is currently outpacing demand in the budget and economy segments of the lodging industry. However, on a micro level, some regions of the country are more affected by the oversupply than others; there are regions where it is still appropriate to build new budget and economy facilities.

[1] Regional Performance

As previously mentioned, performance in the budget and economy segments of the lodging industry varies by market and by region. Exhibit 5-3 illustrates recent historical occupancy and average rates for nine regions.

As shown in Exhibit 5-3, the New England markets of Connecticut, Maine, Massachusetts, New Hampshire, Vermont, and Rhode Island recorded both the strongest demand and resulting revenue increases in the nation for the year ended October 1997, while supply in this region is estimated to have decreased by approximately 0.04 percent for the same period. The Middle Atlantic region, which includes New Jersey, Pennsylvania, and New York, posted demand increases of 1.1 percent for the year ended October 1997, which exceeded the 1.01 percent increase in supply for the same period. These increases resulted in a 10.30 percent increase in revenue over the same period in 1996.

The areas that posted the greatest increases in supply include the Mountain, East North Central, and West North Central regions of the country. The Mountain region's 3.54 percent increase in supply was coupled with a 0.3 percent increase in demand. The East North Central and West North Central regions posted supply increases of 3.13 and 2.42 percent, respectively, with a zero and 0.1 percent respective increase in demand. While each of the nine census markets posted positive revenue increases for the year ended October 1997, the market that recorded the lowest revenue increase was the East South Central market, where a 1.07 percent increase in revenue was reported.

Overall, as compared to the previous years, the budget and economy segments achieved a 1.70 percent increase in supply for the year ended October 1997, but they experienced no demand growth. This trend of supply surpassing demand is expected to continue for the foreseeable future, until such time when the construction of new properties in the budget and economy segments is no longer feasible. This occurs when the per-room construction costs exceed the values per room of these products. Simply put, new construction occurs when the value of a new hotel is higher than the cost to build it. This positive feasibility draws capital into lodging development; as

more and more hotels are built, occupancies fall and values begin to decline. Feasibility becomes negative when it costs more to build a new hotel than to purchase an existing property with the same utility. At that point, the supply of capital evaporates and new construction ceases.

Exhibit 5-3 Performance of the U.S. Regional Budget and Economy Lodging Markets

Sources: HVS International and Smith Travel Research

	Occupancy		Average Daily Rate		Percent Change		
Year Ended Region	**Oct. 1997**	**Year Ended Oct. 1996**	**Year Ended Oct. 1997**	**Year Ended Oct. 1996**	**Demand**	**Supply**	**Revenue**
New England	61.6%	59.4%	$54.68	$50.88	3.7%	-0.04%	11.49%
Middle Atlantic	64.4	64.3	66.66	61.09	1.1	1.01	10.30
Pacific	64.1	64.0	50.66	46.84	0.6	0.32	8.80
East North Central	56.8	58.6	45.52	42.62	-0.0	3.13	6.80
West South Central	57.8	59.1	39.50	37.41	0.1	2.42	5.67
West North Central	56.5	57.7	41.38	39.49	-0.1	2.04	4.66
South Atlantic	60.5	61.9	43.56	41.28	-1.1	1.20	4.33
Mountain	62.4	64.4	41.74	40.59	0.3	3.54	3.16
East South Central	56.2	58.1	38.79	37.56	-2,1	1.17	1.07
U.S. Total	60.3%	61.35%	$46.53	$43.76	-0.0%	1.70%	6.34%

[2] Hotel Valuation Index

A method of measuring these cyclical changes in hotel values has been developed. Through the use of a valuation model known as the hotel valuation index (HVI), hotel value trends in major markets and in various average rate categories can be monitored. Hotel values change over time as a result of differing capitalization rates and earnings expectations. The HVI was designed to illustrate these changes and to quantify the value attributable to movements in earnings and changes in the costs of debt and equity capital. The HVI also enables hotel investors to compare values among different market areas and product types. By considering historical development cycles and projecting values through the application of the HVI, investors can determine their entrance and exit strategies and take advantage of the inevitable fluctuations in market values.

The HVI is a sophisticated hotel valuation benchmark that covers 47 individual markets, the United States as a whole, and five industry price tiers. The index is calculated based on actual occupancy and average rate data supplied by Smith Travel Research, along with local P&L operating performance, projections of supply and demand, and capitalization rates derived by HVS International. The HVI, which was initiated by HVS International in 1986, reflects trends in market value over time, and assumes a willing buyer and a willing seller rather than a distressed, liquidation-type transaction. It gives the greatest weight to the income capitalization approach, and secondary support is provided by the sales comparison and cost approaches.

In 1997, HVS International began projecting the HVI four years into the future. These forecasts are based on our extensive knowledge of local markets and product types. As is the case with any forecast, actual performance may differ from projected performance as a result of events that were unforeseen at the time the projections were made.

Exhibit 5-4 shows per-room values for the budget and economy rate categories nationwide. Values from 1988 to 1996 are based on actual occupancies and room rates; projected figures were used to arrive at values for 1997 through the year 2000. The annual percent changes in each rate category has also been presented.

Exhibit 5-4 Per-Room Values for Budget and Economy Rate Categories 1988-2000

Sources: *HVS International and Smith Travel Service*

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Economy	$31,00	$33,2	$29,5	$26,24	$27,7	$28,08	$29,49	$35,3	$36,121	$36,4	$37,72	$37,48	$36,2
Percent Change	-	7%	-11%	-11%	6%	1%	5%	20%	2%	1%	4%	-1%	-3%
Budget	$26,94	$26,9	$25,4	$21,81	$22,6	$24,99	$27,49	$33,0	$34,797	$37,1	$33,98	$33,47	$31,4
Percent Change	-	0%	-6%	-14%	4%	10%	10%	20%	5%	7%	-9%	-2%	-6%

In addition to this valuation data, graphs have been developed for the economy and budget rate categories comparing per-room values and replacement costs. These graphs show historical values and cost data from 1989 to 1996, along with projected data to the year 2000.

The market value and replacement cost graphs illustrate the points in time when feasibility was either positive or negative. In addition, these graphs identify when new hotel development is likely to commence and when it is likely to decline. As the market value line moves upward and passes through the replacement cost line, new hotel projects become feasible, lenders and investors gain interest, and development begins. Savvy hotel developers will anticipate this trend and start new construction before the two lines actually cross. On the downside, new development is curtailed when the market value line falls below the replacement cost line. Generally, new hotel development does not begin to slow down until the market value line crosses the replacement cost line. Exhibit 5-5 and 5-6 illustrate these feasibility and development timing concepts.

Exhibit 5-5 Economy Hotels: Replacement Cost vs. Value per Room

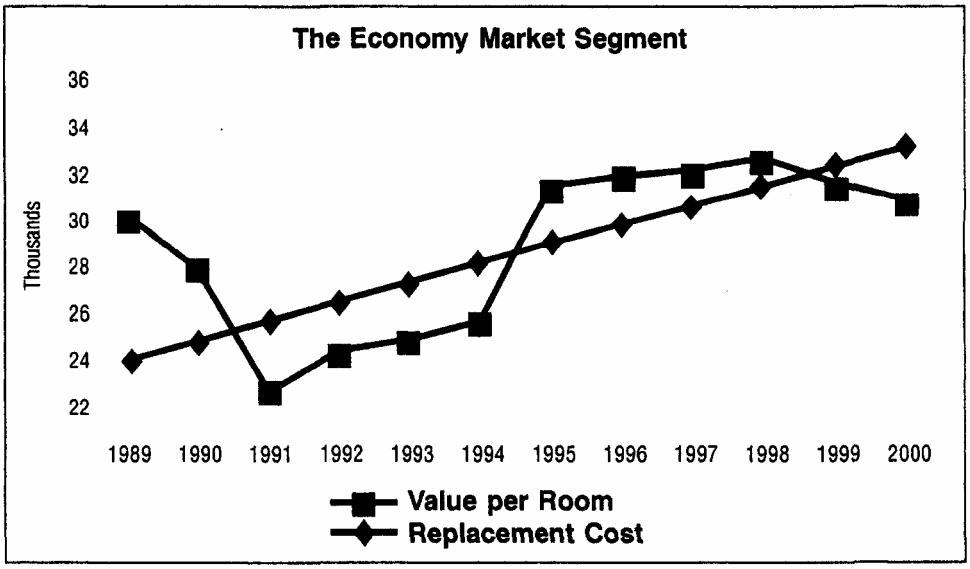
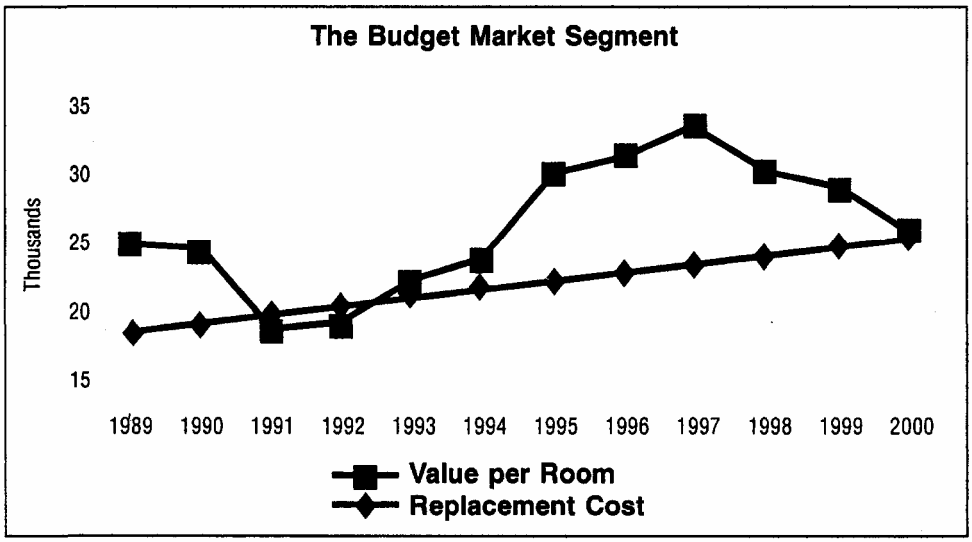


Exhibit 5-6 Budget Hotels: Replacement Cost vs. Value per Room



The economy segment experienced a significant drop in value between 1989 and 1991. During that period, the market value line crossed the replacement cost line, indicating that hotel investors could buy existing properties at a cost lower than what would be required to develop new ones. This buying opportunity continued until 1994, when the market value line rose rapidly and crossed the replacement cost line, signaling the start of new development. We project values to begin to decline in 1998, as this rate category becomes overbuilt, and we expect the replacement cost line to be crossed again in 1999. At that time, over-building in the economy category is expected to result in negative feasibility, and new development should slow down.

Per-room values in the budget segment declined from 1988 to 1991. The replacement cost line was crossed in 1991, which meant that investors could buy an existing budget hotel for less than the price to construct a new one. As a result, development slowed and investors began to focus on acquisitions. As a result of the low occupancies caused by the recession, prices were very attractive, and the RTC flooded the market with hundreds of foreclosed properties. As Exhibit 5-6 shows, those buyers who could foresee an upturn in the value of budget properties realized a significant amount of appreciation. As values for budget-oriented lodging facilities escalated during the early to mid-1990s (exceeding replacement costs in 1993), it again became feasible to develop these types of properties, and construction in the budget segment rose. Exhibit 5-6 shows that values are expected to peak in 1997 and will begin to decline as over-building erodes occupancy levels. By the year 2000, the market value line is expected to cross the replacement cost line indicating possible over-building, which should greatly reduce new development in this category.

[3] Challenges Facing the Budget and Economy Segments

It appears that there are two additional challenges facing the budget and economy segments of the lodging industry. The first challenge is the introduction of budget and economy-oriented extended-stay products. According to F.W. Dodge (a firm that tracks new construction in markets throughout the country), as of the third quarter 1997, there were approximately 229 budget and economy extended-stay products that were in the "start" stage of development. This is the stage of development after plan-

ning and typically is at the point of, or close to ground breaking. These 229 projects amounted to an estimated 28,572 new rooms. Additionally, there were approximately 60 budget and economy extended-stay products in the planning stage. These new additions to supply in the extended-stay arena are expected to magnify the threat of oversupply and erode demand in the budget and economy transient segments.

The second challenge facing the budget and economy segments appears to be posed by the midprice segment of the lodging industry. According to Smith Travel Research, the mid-price segment is comprised of properties in a lodging market with average rates in the 40th to 70th percentile range. This segment typically includes hotel brands such as Courtyard by Marriott, Wyndham Garden Hotel, Doubletree Club, and Hilton Garden Inn. The challenge from this segment is that in 1996, they experienced a 2.9 percent increase in supply, which outpaced their 2.5 percent increase in demand for the same period. It is forecast that this trend will continue through 1999. Due to this supply increase in the mid-price segment, we believe that these properties may have to compete with the budget and economy segments for business by lowering their room rates.

Overall, construction of new hotels is occurring at a moderate pace in the budget and economy segments of the lodging industry, resulting in supply growth that is anticipated to surpass demand growth. It is anticipated, through the use of the Hotel Valuation Index, that as of 1999, it will no longer be feasible to build hotels in the economy segment of the lodging industry due to the per-room construction cost exceeding the per-room value. The same is anticipated to be true for the budget segment as of 2000. The majority of the new construction has occurred in the central and mountain regions of the country, while the Pacific, New England, and Middle Atlantic regions have experienced lower increases to supply. It is, however, important to remember that the lodging industry is a market-by-market business with individual markets often acting in contradiction with overall national industry trends. It is, therefore, imperative for investors to take note of these individual market trends through the use of available information, and to pay attention to the overall state of the economy and budget segments of the industry when forming their investment decisions.

» 5.03 MARKET POTENTIAL

Any market analysis is based on an evaluation of potential supply and demand. In a hotel market study, supply represents all of the competitive lodging facilities in the area, and demand represents the travelers visiting the area who will use these facilities. When there is a balance between supply and demand, area hotels and motels achieve a sufficient level of occupancy to generate a reasonable profit. The relation between supply and demand can sometimes become unbalanced, causing a low level of profit (e.g., oversupply or decline in demand) or a high level of profit (e.g., undersupply or increase in demand). Most markets experience cyclical changes in the relation between supply and demand, with levels of occupancy and profits rising and falling over extended periods of time.

In their search for hotel development or acquisition opportunities, investors should seek out the following;

1. *Market areas with an undersupply of lodging facilities relative to the amount of available demand.* This situation develops when demand increases rapidly because of such circumstances as the arrival of a major new business in the area (e.g., Disney moving into Orlando, Florida); significant growth of an existing business (e.g., Hughes Aircraft receiving a large government contract);

or the improved attractiveness of a city as a destination (e.g., Atlantic City af-

ter the approval of casino gambling). An undersupply of lodging facilities can sometimes occur when existing hotels are withdrawn from the market. An example of this undersupply occurred in New York City during the 1980s, when a number of lodging facilities were torn down and replaced by office buildings.

2. *A cyclical market experiencing an upward trend in occupancy.* Care must be taken not to overestimate the length of the upward trend; such an error could lead the investor to enter the market just as occupancies are peaking before they decline. The best time to develop or acquire a lodging facility is when the cycle is nearing its lowest point. In these situations, prices tend to be depressed and a property can be acquired under the most favorable terms. For example, by the end of the 1980s depressed hotel markets in Houston, Tulsa, and Denver seemed to have hit the low point in their occupancy cycle; consequently, this period was a good time either to acquire an existing hotel or to start developing a new one in these markets. Although this strategy is theoretically sound, it takes both personal determination and strong financial staying power to actually follow such a course.
3. *Markets in which newly-constructed additions to lodging supply have been restricted or inhibited (i.e., where there are barriers to entry).* Barriers to entry tend to favor existing hotels, which benefit directly from a stable supply of competitive rooms. The most common barriers are zoning restrictions, which can sometimes actually bar new hotel development or make it so time-consuming and expensive that developers choose a different use of the property. Zoning can also reduce the feasibility of a hotel project by limiting the number of rooms or by requiring unnecessary facilities such as excessive parking. Other governmental regulations that can restrict development include building moratoriums brought about by a lack of sewage capacity or available water, adverse environmental impact (e.g., traffic congestion), and zero-growth policies. Lack of developable land on a site and proposals of a higher and better use of the land are also forms of barriers to entry. In New York City, the high cost of construction brought about by escalating land values and development costs makes it difficult to economically justify new hotel projects. Investors should be aware of market areas in which barriers to entry are likely to arise in the near future and should look into developing a new lodging facility or acquiring an existing one before the barrier takes effect.
4. *Markets that offer diversity of demand.* Over the long term, hotel markets that cater to a wide spectrum of lodging demand generally suffer fewer significant downturns than areas that are dependent on a small number of demand generators. Cities that depend on one type of industry run the risk that eventually the industry may decline or even go out of business. Markets in the midwest, for example, have suffered considerably when steel and automotive plants have closed. Houston and Tulsa were severely affected by the decline in domestic oil production. In addition to looking for locations with a number of different industries and businesses, hotel investors should also seek areas that attract a variety of market segments. An ideal hotel location caters heavily to all three of the major market segments: commercial, meeting and convention, and leisure. These segments tend to have complementary usage patterns. For example, when commercial demand is weak (weekends and summer months), leisure travel demand is strong, and vice versa. Meeting and convention demand tends to fill the gaps between the strong commercial travel and leisure travel periods, San Francisco, Boston, New York, and New Orleans are examples of cities that have been able to attract strong patronage from all three major market segments.

» 5.04 MARKET OVERVIEW STUDY

To identify a market area with the necessary long-term characteristics to support a lodging facility, the prospective investor should conduct a market overview study. Market overview studies are performed either directly by the hotel investor or by an independent hotel consulting and appraisal firm. A market overview study should include;

- *Discussion of the subject area's economic base and generators of transient visitation.* The long-term outlook for the area is the most important consideration in this discussion, although historical trends should also be examined. The study may determine what the economy of the market will be during the next five to ten years, what will attract transient visitation to the area over that time period, and what the expected economic growth trends for the area will be over the long term.
- *An investigation into the supply of lodging facilities and operating characteristics of hotels and motels in the subject area.* Ideally, the study will contain data regarding historic occupancy cycles during the past ten to twenty years, the typical length of such a cycle, and the high and low occupancy levels during a full cycle. In addition, the study should pinpoint where the area currently stands in the cycle, and whether the cycle is likely to change over the long term. If such extensive data is unavailable, typically a five-year analysis is provided. Finally, the study should discuss the short-term outlook for additions to supply and identify any potential barriers to entry in the market area.

The market overview study should be designed to provide a broad view that will enable the investor to identify market areas with the potential for long-term success. Once a market exhibiting such potential has been selected, a more in-depth, short-term study, known as an economic market study and appraisal, is usually performed. The case study elements at the end of Chapters 6 through 14 illustrate the various features of the economic market study and appraisal.

» 5.05 PRODUCT SELECTION

Once a market area exhibiting the required long-term characteristics has been identified, the hotel investor should make a preliminary selection of the type of lodging product best suited for that particular market. A preliminary selection is made at this point in the process to provide criteria for selecting potential sites. A final product selection is made later, using the information contained in the economic market study and appraisal.

Like market areas, hotel products tend to go through definite cycles. During the past forty years, there has been a recurring phenomenon in the lodging industry known as "amenity creep." Amenity creep has occurred in several major hotel chains; Holiday Inn provides a prime example. When Kemmons Wilson started this chain during the 1950s, his aim was inexpensive lodging for the traveling public. He provided clean, comfortable accommodations at a reasonable price. Over time, however, the chain has upgraded Wilson's initial concept by adding amenities such as meeting space, large restaurants and entertainment lounges, Holidomes, health clubs, and recreational facilities.

The addition of each new amenity or service required economic justification, such as improved occupancy or average room rate. The general trend became a slight upward adjustment in room rate whenever a new amenity was added. Over time, an economy-oriented lodging chain became a mid-rate chain with some individual facil-

ities achieving first-class status. Other chains, such as TraveLodge, Ramada Inns, and Days Inns also began in the economy segment of the lodging industry, but through amenity creep have become established as mid-rate chains.

Franchise chains tend to encourage amenity creep for economic reasons. Because franchise fees are generally computed as a percentage of rooms revenue, when amenity creep drives room rates upward, franchisors benefit directly by collecting additional franchise fees. A swimming pool added by a hotel in order to match competitive facilities might increase the room rate by $5, and thus could be generating $80 per room per year in additional franchise fees.

Hotel investors can benefit by understanding the cycle of amenity creep and the opportunities it produces. Each hotel chain that succumbs to amenity creep creates a void in the market. For example, Days Inns' strategy of moving up from the economy segment into the mid-rate market has left fewer products available for the economy traveler. However, this void is currently being filled by the proliferation of new development in the economy sector, primarily because of lower barriers to entry.

[1] New Hotel Products

Occasionally, a new product appears in the hotel industry that creates its own market niche and is able to capture market share and fend off competition. The following are some of the unique hotel products that have been introduced over the years.

All-suite hotels. The all-suite product is a hotel with oversized guestrooms containing both a bedroom and a living room area. The all-suite concept includes a limited number of meeting rooms, down-sized food and beverage outlets, and a free breakfast, plus a complimentary cocktail hour in the evening. All-suite hotels attract mostly commercial and leisure travelers. This concept has not created any new hotel demand, but rather has redistributed existing demand over more properties.

Extended-stay hotels. Extended-stay hotels are designed to attract the extended-stay (seven nights and more) market by offering large units with separate living and bedrooms, full kitchen facilities, and dining areas. Their layouts resemble those of garden apartments. This concept has created new hotel demand by attracting extended-stay travelers whose previous lodging options were chiefly limited to renting apartments.

Micro-budget motels. A micro-budget motel room is actually a down-sized motel unit that is usually no larger than 190 square feet in area. A micro-budget motel facility is designed to offer accommodations at prices 15 percent to 25 percent lower than the traditional economy-type motel. A micro-budget motel is able to offer this low price by eliminating such amenities as the restaurant, lounge, meeting rooms, lobby area, and swimming pool. This concept has created new hotel demand by providing price-conscious travelers with a lodging product that meets their particular needs. Micro-budget motels attract patronage from rooming houses, mom-and-pop motels, and campgrounds.

Mega-resorts. A mega-resort is an all-inclusive resort hotel offering a wide variety of activities, services, and amenities. Disney World is an example of a mega-resort on the largest scale. The Hilton Waikoloa Village on the island of Hawaii is a mega-resort without a theme park. This concept has created new leisure demand by attracting people who would not be satisfied with normal resort hotels.

[2] Success Factors for Unique Hotel Products

As with any hotel product, the supply and demand characteristics of the local market are one of the primary keys to success. Other factors that are important to making a unique lodging product economically viable include:

- *Ability to create new hotel demand.* A unique hotel product that merely reallocates existing hotel demand among more hotel rooms is not as competitively viable as one that, like residence hotels, actually generates new hotel demand; and
- *Price/value relationship.* Hotel products that achieve the greatest success in the marketplace generally offer a good price/value relationship. This does not mean that only economy properties fit this criteria; for example, all-suite products offer a good price/value relationship to commercial travelers who may not require such amenities as meeting rooms, entertainment lounges, or room service. With a pricing structure that is similar to that of a full-service hotel, an all-suite product can provide the traveler a larger guestroom unit with the benefits of a separate living area and in-room kitchen facilities.

» 5.06 MATCHING THE PRODUCT TO THE MARKET

Before starting the search for sites for a proposed hotel, a preliminary product selection should be made to determine which product would be best suited for a particular market area.

The factors that should be considered in making this preliminary selection include the primary characteristics of the area's existing transient lodging demand;

- **Price**
- Facility requirements
- Seasonality
- Size, by market segment
- Future growth potential

In making the preliminary selection, the following primary characteristics of the area's existing lodging supply should also be considered:

- Number of competitive hotels
- Current levels of occupancy and average rates
- Orientations to particular market segments
- Analysis of facilities, amenities, and services
- Relative competitiveness, by market segment
- Probability of new additions to lodging supply

Finally, the type of lodging product that appears to be capturing the largest share of the market in the area and the reasons for this product's success must be taken into account. Examples of possible reasons include:

- Superior location
- Superior management
- Superior affiliation
- Superior product (facilities and amenities)
- Lack of competition

If the success factors cited can be duplicated, then two issues remain to be dealt with: (1) whether or not there is sufficient demand to justify another product of this

type; and (2) the likelihood that other, similar products will enter the market over the short and the long term, given expected barriers to entry. **If** there are any market segments that are not being adequately served by area lodging facilities, the following considerations should be explored: the depths of these market segments, their expected growth, and the probability of competition for these segments.

On the basis of an analysis of the factors described, the following list provides, in descending order, the most desirable product traits and market conditions for preliminary product selection.

1. A product that does not currently exist in the local market but for which there is sufficient demand to justify its addition to the market. In addition, barriers to entry limit other new additions.
2. A product that exists in the local market, but that, because of a high level of demand and limited competition, outperforms all other products, and for which there is sufficient demand to justify the addition of more products of this type to the market. The product enjoys the protection of barriers to entry.
3. A product that exists in the local market and that experiences strong and growing demand. Competition within this product is also strong, but because barriers to entry discourage entirely new products, another product of the same type could be readily absorbed into the market.
4. An existing product for which there is strong demand in the local market. Competition within this product is present, but if the competition suffers from poor location, poor quality of facilities, poor management, or a weak franchise affiliation, a new lodging facility (or an existing hotel that has been repositioned) with positive attributes should be able to attract sufficient existing demand away from the underperforming competition.

The markets described in items 1, 2, and 3, while worth looking for, are rarely found. Most market areas exhibit characteristics similar to those described in item 4. While this type of market does not display all the optimum characteristics, it does represent favorable investment potential if a good site can be obtained along with strong management, competitive facilities, and a desirable franchise affiliation.

Markets with more than one negative characteristic, such as a combination of stable or declining demand, no barriers to entry of new competition, overbuilding over the foreseeable future, saturation by all existing products, and unfavorable long-term outlook should not be given further consideration unless there are mitigating circumstances.

» 5.07 HOTEL SITE SELECTION

Hotel site selection is the step of the hotel development or acquisition process that follows the identification of a favorable market area and the preliminary selection of a type of hotel product. Generally, the site selection takes place prior to performing an economic market study and appraisal, because this type of analysis is site-specific.

Chapter 7 describes in detail the various characteristics of a desirable hotel site; consequently, only the basic considerations necessary for initial selection are discussed here.

There are three basic locations that are considered suitable as sites of transient lodging facilities;

1. *Locations near transient demand generators.* Most travelers look for lodging facilities that are close to the demand generator that has brought them to the area.
2. *Locations near transportation.* Travelers generally prefer to be accommodated in facilities near the mode of transportation that they use.
3. *Locations near restaurants and entertainment.* Many travelers prefer lodging near the activity center of a market. These areas typically provide restaurants, lounges, shopping, theater, and other types of entertainment.

Hotel sites that are either near or within one or more of these three basic location types are the most desirable, particularly if other positive elements (e.g., easy access and good visibility) are also present. Hotel sites that do not enjoy these basic locational attributes may not be sufficiently competitive to warrant further consideration or the investment in an economic market study and appraisal.

Although this discussion concentrates on potential hotel construction sites, the locational criteria described in the foregoing list also apply to the selection process for existing lodging facilities.

The process of finding a potential market, identifying a suitable product, and locating either a desirable site or an existing facility constitutes the first major step in developing or acquiring a hotel or motel. In most instances, the effort involved in taking this step is made by the hotel investor with the assistance of an outside hotel consultant and appraiser.

The key considerations involved in selecting a consulting and appraisal firm are discussed in Chapter 6,

HVS

CHAPTER 6

Site Analysis

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» 6.01 PHYSICAL SUITABILITY

Analyzing the site of a proposed or existing facility is the first step in the fieldwork phase of a market study and appraisal. The purpose of a site analysis is to determine the suitability of the subject parcel for the development or continued use of a lodging facility.

The primary considerations in a site analysis are (1) the physical suitability of the property (i.e., size, shape, and topography); (2) access and visibility; (3) availability of utilities and essential services; (4) applicable zoning laws, permit requirements, and restrictions; and (5) the disposition of excess land. Each of these factors must be weighed before a conclusion is reached regarding the suitability of the site for a proposed development or the continued use of an existing facility. The case study at the end of this chapter examines all of these considerations in a real-world setting.

Factors such as the size, shape, and topography of a site must be considered in determining its overall desirability and usefulness for development purposes. The size of a parcel, for example, dictates to a certain extent the number of guest rooms and amount of public space that can ultimately be built.

Local zoning codes that set floor/area ratios (FARs), height limitations, and parking requirements are a key consideration in determining the suitable size for a facility. A FAR indicates the maximum total size of a building construction permitted on a particular site based on the total square feet in the parcel. For example, if the area of a parcel is 40,000 square feet and local zoning permits a FAR of 5:1, a building with 200,000 square feet of floor space can be built. This would typically provide for approximately 400 rooms for a commercially oriented property—300 if the hotel is to cater to groups and conventions,

Height limitations and parking space requirements also affect the how a site is used. For example, if a six-story restriction applied to the site previously described, some of the 200,000 square feet of floor space would probably have to be sacrificed.

Parking requirements can also restrict building size, if the configuration of the plot and the number of parking spaces required necessitate the use of a significant amount of area.

The topography and shape of a land parcel directly affect site preparation and development costs. Unusual site conditions that require additional expenditures for site clearing, removal of rock, grading, pilings, special foundations, bulkheads, retaining walls, and the like can significantly increase total development cost and reduce the economic feasibility of a project. In most instances, once the cost of the land acquisition and necessary site improvements exceeds 20 percent of the total project cost, the economic feasibility of the project diminishes considerably. Early in the development process, a soil and structural engineer should survey the site and perform the borings and testing necessary to determine whether any conditions are present that may require special attention prior to construction. Investigation into flood zones, water tables, percolation, drainage, air rights, subsurface rights, water rights, and easements is also advisable, so that any hidden problem can be exposed. To cite one example, hotels situated in flood zones often require special flood hazard insurance.

For an existing facility, similar site research should be made. A qualified engineer should be brought in to evaluate the integrity of the foundation support components and to review any other conditions that affect the site.

» 6.02 ACCESS AND VISIBILITY

Although the adequacy of a hotel's access and visibility is a largely subjective judgment, there are some basic requirements that every lodging facility should meet.

The kind of guests that a hotel generally attracts and the mode of transportation generally used by the guests are the primary determinants of whether access and visibility are important considerations. A highway-oriented hotel catering to commercial and/or leisure patronage passing through an area en route to a destination outside of the immediate local market requires a visible location with quick and easy access. A highly visible location is one that a driver can readily see while traveling at the posted speed limit and that allows for a sufficient amount of reaction time so that the driver can exit safely. The visibility of a site can be increased by the hotel's improvements and signage.

Quick and easy access means a route that leads directly to the property without requiring any complicated turns or direction changes. Access is greatly enhanced if the property is continuously visible while the driver is approaching it.

In other cases, however, access and visibility are not important factors— consider, for example, a convention-oriented destination resort hotel, where most of the guests travel by air, are prebooked, and have guaranteed their arrival with substantial deposits. Because patrons of such a facility often prefer seclusion, a great deal of visibility is generally not required. And while access must of course be available, it need not be quick or easy.

The location of the proposed property in relation to demand generators is as important a consideration as the access factor. A commercial traveler who must visit several firms within a given geographic area will usually seek a centralized location as a base of operation. Most travelers are willing to travel as long as twenty minutes between a demand generator and their lodging facility, but if other competitive hotels have a more central location than the property under consideration for development, it is clearly a less attractive choice.

Exhibit 6-1 Access and Visibility

	Rating[1]
Market Segments	
Commercial—in transit[2]	+2
Commercial—destination[3]	0
Meeting—in-house[4]	–3
Meeting—outside[5]	+1
Leisure—in transit[2]	+3
Leisure—destination[3]	–4
Primary Mode of Transportation	
Automobile	+2
Air	–2
Train	–2
Bus	–3

[1] Scale: –5 = not important; +5 = very important
[2] Passing through an area en route to primary destination
[3] Primary destination of the trip
[4] Most of the meetings held in the subject property
[5] Most of the meetings held at another hotel or convention facility

The rating system in Exhibit 6-1 illustrates the relative importance of access and visibility for several different segments of demand along with various modes of transportation. When the scale number for the appropriate market segment is added to the scale number for the primary mode of transportation, the result is the overall relative importance of access and visibility. For example, for a hotel that caters primarily to commercial destination travelers arriving by automobile, access and visibility has a somewhat important +2 (0 + 2 = 2) rating, while for a similar property catering to leisure destination travelers arriving by bus, the rating is a strongly unimportant:
7 (-4 + -3 = -7).

Other factors that work against drawing patronage, such as not having a chain affiliation or a reservation system, being situated in a highly competitive market, or being a new property with no local reputation, may be offset to a degree by ease of access and high visibility. Economy and luxury lodging facilities typically are less strongly affected by access and visibility than mid-rate and first-class hotels because they cater to their own specialized market segments, and their customers generally tolerate somewhat less convenient access in order to use their facilities.

The access and visibility of a property being considered for development should be further evaluated with respect to the same qualities offered by competitive hotels. For example, assume that a particular property lacks highway visibility and is not centrally located with respect to the primary business centers in the area. If the nearby competitive hotels offer better visibility or a more convenient location, the access and visibility of the property in question must be considered detrimental to its marketability. On the other hand, if the competing hotels have similar visibility and access difficulties, the locational characteristics of the proposed property relative to the others would not result in a competitive disadvantage. The long-term competitive environment must be considered, however, and with it the probability that new hotels with better access and visibility may well be developed.

In a market study and appraisal, the access and visibility of the proposed property should be thoroughly analyzed, and a determination should be made regarding how well the property compares with competing lodging facilities. Specific reference

should be made to access and visibility for all normal modes of transportation as well as the local generators of transient visitation. The conclusions regarding the proposed site's access and visibility should then be reflected in the selection of competitive indexes for the room-night analysis. (See H 11.03.)

» 6.03 UTILITIES AND OTHER SERVICES

The availability of utilities and other essential services is an important consideration for proposed lodging facilities, particularly those situated in remote locations. The utilities and services that should be investigated include:

- Electricity
- Water
- Sewer
- Telephone
- Natural gas
- Oil
- LPG or propane
- Steam
- Refuse removal
- Storm drainage

It is not always essential for oil or gas to be available because electricity can usually be substituted. However, the cost of an all-electric hotel is generally higher, and this additional expense could adversely affect bottom-line profits. During the fieldwork stage of a market study and appraisal, the appraiser should consult with local utility companies, municipalities, and providers of essential services to determine the availability of all necessary utilities and essential services. Care should be taken to determine not only whether a utility is available but also whether a connection to the utility is actually permitted. In some areas of the country, for example, municipalities have imposed sewer moratoriums that prohibit any new sewer connections until the capacity of the system is enlarged. These moratoriums may represent only brief interruptions or may extend the project development time for many years. The cost of bringing a utility to the site or waiting for a moratorium to be lifted can sometimes have a significant negative effect on total cost.

» 6.04 APPLICABLE REGULATIONS

In addition to the FAR requirements, height restrictions, and parking requirements discussed previously, there are other types of zoning regulations as well as permit and license requirements that control the development and operation of lodging facilities, food and beverage outlets, and other services provided by hotels and motels. Zoning codes govern the development of new hotels and the expansion of existing properties by regulating the permitted use of a site, setting limits on density, and requiring essential amenities such as parking. Although the ultimate responsibility for conforming to the local zoning requirements lies with the developer, the appraiser should be aware of the imposed limitations so that the property can be valued in accordance with the existing zoning codes, unless there is a reasonable expectation that the zoning will be modified or a that variance will be obtained. Some of the provisions that should be investigated include:

- Is a transient hotel a permitted use?
- Are a restaurant and cocktail lounge also permitted?
- How many hotel rooms can be developed?
- What constitutes a room?
- Is a unit considered to be one or two rooms?
- Are kitchens permitted?
- What are the parking requirements?
- Are there any restrictions involving:
  —Building height?
  —Building bulk (total square footage)?
  —Building setbacks?
  —Signage?
  —Curb cuts and access?
  —Architectural design?

While zoning codes control the use of real property, permits and licenses typically control business activities. One license that is essential for most full-facility hotel operations is a bar or liquor license. Liquor laws vary considerably from one jurisdiction to another, and the availability of a liquor license should not be taken for granted. Most hotels are at a competitive disadvantage without a liquor license. Other permits and licenses typically required for a hotel operation include:

- Health certificates;
- Occupancy permits;
- Sign permits;
- Food service licenses;
- Fire safety permits; and
- Business licenses.

Although zoning codes, permits, and licenses generally appear restrictive, they can often create value by limiting competition, improving the neighborhood environment, protecting the health and safety of the guests, and regulating operational quality. Appraisers should have an understanding of these regulations in order to assess their impact on future earnings potential and property value.

» 6.05 EXCESS LAND

Land surrounding a hotel is classified as excess if it is not utilized by the current hotel operation. When evaluating a hotel site, the appraiser should consider the potential existence of excess land not currently required for the development or operation of the subject property. Such excess land will often increase the value of a property when separated from the existing hotel component and either sold or developed.

Whether or not an apparently unused parcel is actually used is often a subjective decision. Vacant land often provides aesthetic qualities—such as increased visibility, reduced noise, and greater privacy—that are difficult to quantify but that generally improve the property's overall value. If the value enhancement of not using the excess land is less than the land's independent market value if sold separately,

then the land can be considered excess and should be used in some manner. Favorable uses of excess land situated near a lodging facility include expanding the existing hotel, creating an amenity such as a health club or a retail activity, or developing a demand generator, such as office space.

As noted at the beginning of this chapter, site analysis is usually the first step taken by an appraiser when fieldwork for a market study and appraisal begins. The site is literally the foundation of a hotel project, so it is only when the strengths of a particular site are shown to offset its weaknesses that fieldwork should continue. If it becomes apparent that major site problems exist, further work on the study generally ceases while the overall viability of the project is reconsidered,

CASE STUDY Site Analysis

DESCRIPTION OF LAND

The land under consideration for the development of the subject hotel consists of a ± 8.64-acre parcel located at the northwestern corner of the intersection formed by Central Avenue (State Route 59) and Exit 14 of the New York State Thruway (Interstate I-86/I-286). The municipal jurisdictions governing the property are the City of Spring Valley, the Town of Clarkstown, the County of Rock-land, and the State of New York.

According to a survey prepared by Thomas E. Downs, Surveyor and Engineer, Inc., dated June 10, 1994, the subject parcel contains approximately 380,614 square feet (8.64 acres) of land. The site is an irregular rectangle, with 826.3 linear feet of frontage and access on Central Avenue to the east and 468.2 linear feet along the New York State Thruway to the south. The northern and western property lines face adjoining parcels and measure 866.4 feet and 462.3 feet, respectively. The topography of the parcel is generally flat, with a gentle slope downward from west to east. Assuming that the hotel will be set back approximately 150 feet from Central Avenue, the natural slope of the property would place the first floor of the building roughly eight feet above street level, thus producing an attractive, highly visible entry-way.

The New York State Thruway is situated on an elevated embankment that rises approximately 15 feet above the southern border of the property. The subject property's land starts at the base of this steeply graded slope, so the view of passing traffic and much of the noise would be minimized for anyone using ground-level exterior facilities such as swimming pools and tennis courts. However, a building two or more stories in height would rise above the Thruway and would be fully visible to traffic in both directions.

The parcel is currently vacant of any improvements. A dense grove of trees and brush would have to be removed prior to construction, A five-foot-deep ditch running parallel and adjacent to Central Avenue on the property's eastern border must be replaced with a metal conduit and filled so that the entrance roadway will be on-grade. Surface observations show no rock outcroppings, streams, ponds, or springs. A preliminary test-boring report by Subsurface Survey, Inc., dated May 10, 1995, indicates no unusual rock formations or other adverse site conditions, and suggests that a mid-rise structure would pose no major engineering problems, According to Federal Emergency Management Agency (FEMA) panel No. 050396 0069C, effective September 5, 1993, the subject site is located in flood zone C, which is defined as "areas of moderate or minimal hazard from the principal source of flood in the area." Flood insurance on the subject site is not required by federal regulations.

The size and topography of the subject parcel appear well-suited for hotel development. Sufficient acreage is available to permit either a low-rise or mid-rise facility of as many as approximately 400 units, providing on-grade parking and necessary facilities and amenities. If a 300- to 400-room hotel were developed, the site would be fully utilized, and none of the land would be considered excess.

ACCESS AND VISIBILITY

The subject property is readily accessible to a mixture of local, county, state, and interstate highways. The New York State Thruway, the Garden State Parkway, the Palisades Parkway, and Routes 9W and 16 all pass within several miles of the subject property and serve as major commutation and intra-regional transport routes linking New England with the Mid-Atlantic states. Routes 45, 59, 202, 303 and 304 are used mainly as local commuting arteries within the county. The following description of the county's major highways demonstrates that the area is well-served by a variety of vehicular routes.

At the point at which I-86/I-286 passes adjacent to the subject property, it is part of the New York State Thruway system, a limited-access toll route originating in New York City, extending north to Albany, continuing west through Utica, Syracuse, and Rochester, and terminating in Buffalo. At Albany, 1-86 departs from the Thruway system and continues northward to the U.S.-Canadian border, where it becomes Quebec Highway 15 leading to Montreal. Several miles east of the subject property, 1-286 crosses the Hudson River at the Tappan

Zee Bridge and also leaves the Thruway system to become the Cross Westchester Expressway, which ties in directly with the New England Turnpike (I-95) in Rye, New York. Continuing south from the Tappan Zee Bridge, 1-86 becomes the Major Deegan Expressway when it enters New York City

Virtually all highway traffic between New York City and western, central, and northern New York State and northwestern New England funnels through the New York State Thruway as it crosses the Tappan Zee Bridge. The subject site should, therefore, derive a sizable degree of recognition from its exposure to the thousands of passing motorists. More important, however, the high-speed access provided by the Thruway to the many communities and business centers in northern New Jersey and southern New York should make the proposed subject hotel a convenient gathering point for meetings, conventions, banquets, and transient visitors.

The Garden State Parkway is a north/south, limited-access toll route that extends from Cape May at the southern tip of New Jersey to its northern terminus, the New York State Thruway, approximately one half of a mile west of the subject property. The Parkway is restricted to noncommercial automobiles, and is one of the preferred passenger vehicular routes through New Jersey, As with the Thruway, the Garden State Parkway significantly increases the size of the subject property's market area by facilitating high-speed access from many nearby business centers and communities.

The Palisades Interstate Parkway is another major north/south noncommercial highway, extending from Bear Mountain Bridge in Upper Rock-land County to its southern terminus at the George Washington Bridge, which connects New Jersey with Manhattan. The Palisades Parkway intersects the New York State Thruway and State Route 59 approximately 2.5 miles east of the subject property

U.S. Route 9W, also a north/south highway, generally parallels the Hudson River in the easterly portion of Rockland County. It originates in Albany, extends southward to intersect the Palisades Parkway, the New York State Thruway, and State Route 59 (approximately five miles east of the subject property), and terminates at the George Washington Bridge.

State Route 16 originates in Kearny, New Jersey, near the Lincoln Tunnel (which provides access to Manhattan) and extends northwestward through the western end of Rockland County, par

alleling the New York State Thruway. At Harriman, Route 16 heads westward along the southern tier of New York State, where it terminates at the Pennsylvania border near Erie, Pennsylvania.

In conclusion, area access to the subject property is excellent. The well-developed network of high-speed highways and parkways, along with superior local roadways, significantly increases the subject property's primary market area and facilitates the capture of both transient travelers for room business and local residents for food and beverage sales.

Direct access to the site is from Central Avenue (State Route 59), which forms the eastern boundary of the subject parcel. As it passes the property, Central Avenue is a four-lane, two-directional, undivided highway The area speed limit is 40 miles per hour, and the unobstructed one-half-mile view in both directions would easily allow left-and right-hand turns entering and exiting the subject property

Visibility from Central Avenue is good to excellent in both directions. At the southeastern corner of the subject property, Central Avenue passes under the elevated New York State Thruway. The underpass is approximately 100 feet long (in order to accommodate the six-lane Thruway above) so northbound Central Avenue drivers would not see the subject property until they emerge from the northern end of the underpass. However, the subject parcel has more than 800 feet of frontage along Central Avenue, which means that northbound motorists would have sufficient time to negotiate a left-hand turn after leaving the underpass and sighting the subject property.

Southbound Central Avenue drivers descend a long hill that begins approximately three quarters of a mile north of the subject property. From the southbound direction, the site is fully visible over the entire downhill grade, which means that a mid-rise building on the site would be quite prominent. The commercial-type improvements along Central Avenue are one and two stories in height and so would not impair the subject property's visibility.

The New York State Thruway is a six-lane, divided superhighway that is elevated approximately 15 feet as it passes along the subject's southern property line. While the unimproved site itself has minimal visibility to westbound Thruway traffic and no visibility to vehicles heading toward the east, any improvements two or more stories in height would be readily visible from both directions. It is estimated that a three- to five-story mid-rise hotel would be recognizable to Thruway motorists from

one mile in either direction.

Central Avenue (State Route 59) forms Exit 14 of the New York State Thruway. Along this portion of the Thruway, tolls are collected at a central toll plaza approximately two miles to the east of Exit 14, rather than at the exit. As a result, traffic is unimpaired and flows freely between the Thruway and Central Avenue.

A sign for Exit 14 can be seen by motorists heading west on the Thruway two miles before the turnoff point. This sign indicates that the exit is for Spring Valley and Nanuet, with the crossroad being Central Avenue (State Route 59). A similar sign one mile from the turnoff relates the same information. At this point, a mid-rise structure on the subject property would be fully visible. A third sign provides a one-quarter-mile warning and advises exiting traffic to bear left,

Upon exiting the Thruway, westbound drivers slow to a posted 25-mile-per-hour speed limit and proceed down a semicircular ramp that drops approximately 15 feet to the grade of Central Avenue. Because the intersection of the westbound Thruway exit ramp and Central Avenue is situated directly across from the subject parcel, the entire site is highly visible to all traffic using this ramp. The exit road intersects the eastern side of Central Avenue perpendicularly at a traffic signal, allowing drivers about to head southbound on Central Avenue to make a left turn, and northbound traffic to yield and turn right. This signal provides an additional benefit to the subject property by slowing traffic on Central Avenue, which would facilitate access to and from the site.

Eastbound motorists on the Thruway meet a similar set of directional signs at the same two-mile, one-mile, and quarter-mile intervals, which indicate that Exit 14 is used for Spring Valley and Nanuet via Central Avenue (State Route 59). A mid-rise structure situated on the subject parcel would become visible approximately three quarters of a mile prior to this exit, providing ample time for motorists to react and safely exit to the right.

The eastbound exit ramp is also situated on the eastern side of Central Avenue. Exiting traffic passes over Central Avenue and loops around to the right, descending approximately fourteen feet in order to reach grade level, Because the subject property is completely obscured by the elevated Thruway during this exiting maneuver, it would be advisable to have some type of signage to guide drivers. A traffic light at the perpendicular intersection of the Thruway exit road and Central Avenue allows safe left and right turns. To reach the subject property, a motorist would turn right at this light, proceeding under the Thruway overpass and left into the subject property's entryway.

Reaching the subject property by way of Central Avenue (State Route 59) and/or the New York State Thruway is a simple procedure. A mid-rise hotel structure would be fully visible to all approaching motorists, and the extensive highway signage, convenient exit ramps, and traffic lights would further facilitate access to the subject property. This location, from the viewpoint of highway access and visibility, would make a highly desirable transient lodging site.

After highway transportation, the second primary mode of transportation into the area is air travel to Stewart Airport, situated sixteen miles north, in Newburgh, New York. The subject property is not considered well-located with respect to this facility, and would probably not receive much in the way of direct airport-related visitation, such as airline crews or delayed passengers. However, the airport does bring transient visitors into the area who rent automobiles and drive to demand generators near the subject property.

Access to demand generators of visitation is excellent. Numerous commercial businesses are located nearby as well as a convention center and some tourist attractions. Exhibit 6-2 shows some of the generators of transient visitation in the area, along with the distance in miles from the subject property.

Exhibit 6-2
Transient Visitation Generators

Transient Visitation	Distance from subject property (miles)	Driving time (minutes)
Lederle Laboratories	2.0	6
Avon Products	2.0	6
Chromalloy Corp.	0.5	3
BSR	0.5	3
Ciba-Geigy	2.0	6
Materials Research	0.5	3
Chrysler Motors	12.0	15
Volkswagen	12.0	15
Rockland County Convention	8.0	10
U.S. Military Academy—West	15.0	25
Sunnyside Tourist Attraction	8.0	15

As Exhibit 6-2 indicates, the subject property is centrally located in relation to many of the area's

businesses. With the excellent highway system throughout the immediate market area and the proximity of the subject property to the New York State Thruway, access to most of the nearby generators of visitation is equal to, if not better than, that of competitive lodging facilities.

UTILITIES AND OTHER SERVICES

The subject property is currently served by water, electricity, and telephone utilities. A sewer line is available approximately 100 yards north on Central Avenue but it would, of course, need to be extended to reach the subject property. Likewise, a natural gas line runs within a half-mile of the site to the west, but because of a moratorium on new gas connections and the expense of acquiring easements over adjoining property, it is unlikely that the subject property would use natural gas service, Heating oil, however, could be easily delivered to the property by one of several distributors. Garbage and trash removal could be arranged through a local carting company. (On-site incinerators are not allowed.) Exhibit 6-3 shows the local utility companies that serve the subject property The unavailability of natural gas decreases the flexibility of alternating between gas and oil on the basis of availability and price, and forces a greater dependence on electricity, which tends to be more expensive and less desirable, for cooking and laundry operations.

Exhibit 6-3
Local Utility Companies

Utility	Company Providing Service
Water	Spring Valley Water
Electricity	Rockland Power and
Telephone	New York Telephone
Sewer	Town of Clarkston
Oil	Various private suppliers
Refuse removal	Various private carriers
Storm drainage	Town of Clarkston

APPLICABLE REGULATIONS

According to the Town of Clarkstown Zoning Regulations and Map, dated July 1992, the subject property is currently zoned as RS (regional shopping district). This class of zoning predominates in the immediate area and extends for several miles along Central Avenue on both sides of the subject property. Motels, hotels, boarding houses, and tourist homes are permitted only by special permit from the Board of Appeals,

Discussions with the Town of Clarkstown Building Department indicate that the RS zoning and the size of the subject parcel would permit the construction of a hotel with approximately 400 units, along with associated facilities and amenities. The maximum allowable building height is ten stories, so a mid-rise structure would be permitted. One parking space per guestroom is required, plus an additional space for each twenty square feet of restaurant, lounge, and banquet space,

It is assumed that all necessary special permits and approvals would be secured and the facility constructed in accordance with the local zoning ordinances, building codes, and all other applicable regulations. Verification of this zoning analysis should be made by the developer before further work on this project takes place.

Discussions with local hotel operators and the New York State Liquor Authority indicate that liquor licenses are readily available for full-service hotels. It is assumed that an appropriate liquor license would be issued prior to the opening of the subject property.

SITE SUITABILITY

The subject parcel of land is well suited for its proposed use as a site for a transient lodging facility. Its size, topography, access, and visibility as well as the availability of utilities have been examined and evaluated, and the parcel has been determined to have the following advantages and disadvantages;

Advantages;

- Site is large and has good frontage on two major highways.
- Topography is smooth and has no apparent subsoil conditions that would impair construction.
- Highly developed area roadway system of interstate highways and parkways passes either adjacent to or close to the subject property.
- Site has excellent and direct access and visibility from State Route 59 and the New York State Thruway and local generators of transient visitation.
- Necessary utilities are easily available.

Disadvantages:

- The elevated Thruway requires development of mid-rise (three- to five-story) improvements to achieve necessary visibility. A less expensive low-rise structure would not be suitable.
- Visibility of the site from the eastbound Thruway exit ramp is restricted by the elevated roadway. Some type of signage would probably be necessary in order to reorient exiting motorists as they approach Central Avenue.
- A sewer line would have to be extended in order to reach the subject property.
- Natural gas is presently unavailable,

Nearly all the disadvantages are curable, and the advantages represent highly desirable locational attributes; accordingly, the general conclusion is that the subject parcel is well suited for hotel development.

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CHAPTER 7

Neighborhood and Market Area Analysis

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» 7.01 INTRODUCTION

A neighborhood and market area analysis, which assesses the economic climate in which the proposed lodging facility would operate, is an essential step in a market study and appraisal. The neighborhood portion of the analysis involves the evaluation of current and projected land uses and the identification of economic and demographic trends within the immediate area of the proposed property. The market area portion incorporates a broader range of economic and demographic data; it involves a much larger geographic area and identifies probable future changes. Historical and projected data pertaining to both the economy and the population of the area are employed, first to evaluate current conditions and identify probable future changes, and then to forecast future growth or decline in transient visitation to the area by market segment and thereby predict future demand for transient lodging.

An actual example of a neighborhood and market area analysis is provided by the case study located at the end of this chapter.

» 7.02 NEIGHBORHOOD ANALYSIS

A neighborhood can be defined as a grouping of complementary land uses that are similarly influenced by any forces that affect property value. Neighborhoods usually have an observable uniformity and exhibit a greater degree of commonality than the larger market area in which they are found.

Neighborhood boundaries are generally delineated by changes in land use, types of building occupants, or street patterns; natural boundaries, such as bodies of water or abrupt changes in topography; and man-made improvements, such as highways, railroad tracks, or power lines. The neighborhood of a lodging facility does not usually extend more than five driving minutes from the facility and typically includes areas of commercial zoning occupied by office buildings and retail businesses.

[1] Observation

The basis of a neighborhood analysis is a survey of the salient characteristics of the neighborhood in which the proposed property is located. To perform this survey, the appraiser, using a local street map, usually drives around the immediate area and determines the apparent boundaries of the neighborhood by noting changes in land use around the subject property on the map. The finished map might be accompanied by the following information:

- A list of different land uses in the neighborhood, categorized in broad terms (e.g., retail, office, industrial, rural, suburban, or urban).
- An inventory of specific land uses within one-quarter to one-half of a mile (depending on density) of the subject property (e.g., strip shopping center) with the following tenants:
  - —Single-use office building
  - —Free-standing mid-price chain restaurant
  - —Driving range (among others)
- Characteristics of properties situated near the subject property, including:
  - —Age
  - — Condition
  - —Style
  - —Class
  - — Image
- A review of neighborhood development, including:
  - —Density of existing development in the area
  - —Description of any development in progress
  - — Identification of vacant land that could be developed
- An evaluation of the competitive environment, including the identification of other lodging facilities and food, beverage, and entertainment establishments.

[2] Economic Trends

After identifying and analyzing the salient characteristics of the subject property's neighborhood, the appraiser should obtain information on local economic trends from the municipality's planning and building departments, zoning officials, economic development agencies, real estate counselors, and Chamber of Commerce. In most instances, these sources provide information for a large area rather than for a specific locale, but important data can usually be obtained, including the following:

- The history of the neighborhood's development and growth.
- Sites of likely future development.
- Current vacancy rates for different types of properties along with historical and projected data for vacancies.
- Types of new businesses moving into the area and other types of demand generators likely to be developed in the neighborhood.
- A master plan for the neighborhood, including any recent zoning changes; if there have been changes, a description of trends in use and density.

The statistical data and other information obtained from local sources, in conjunction with personal observations regarding the characteristics and composition of the neighborhood, should allow the appraiser to provide answers to the following essential questions.

- What is the present character of the neighborhood, and how might it change in the future? (Local land uses should be identified and the condition, style, and class of neighborhood buildings should be described.)
- How will the characteristics of the neighborhood affect the local demand for transient accommodations and the operation of a lodging facility?
- What is the current economic base of the neighborhood and how will it change in the future? (The existing types of business concerns and other demand-generating growth trends and new development potential should be discussed.)
- How will the local economy affect the quality and desirability of the neighborhood, the demand for transient accommodations, and the operation of a lodging facility?

The answers to these questions will help in the decision whether or not the local area" is suited over the long term to the proposed subject property. The most important neighborhood characteristics in terms of support for a transient lodging facility are:

- Land uses that generate transient visitation
- Land uses that provide recreation and entertainment
- Land uses that provide attractive surroundings
- Newly-developed areas, or those showing rapidly improving trends
- Safe, low-crime areas
- Class and style similar to that of the subject property

If the neighborhood of the subject property has one or more of these characteristics, and it can be shown that a positive economic climate exists and will continue to exist, conducting the market area analysis is generally warranted.

» 7.03 MARKET AREA ANALYSIS

A market area includes the immediate neighborhood surrounding a lodging facility as well as the larger geographic territory within most of the lodging demand for which a hotel will compete is found. The market area defines the boundaries of lodging demand and includes most of the lodging facilities that would compete with the subject property.

[1] Boundary Definition

The first task in the market area analysis is to define the boundaries of the market area in geographic terms. The perimeter of a market area is set by the farthest generators of transient visitation whose visitors would be likely to utilize the subject property. Most of the subject property's competition is also located within the market area.

Overnight travelers generally seek lodging accommodations that are convenient with respect to the demand generator that they are visiting. In most instances, transient visitors will travel up to twenty minutes from a generator of visitation, or demand generator, to their lodging accommodations. Therefore, the market area

perimeter surrounding the subject property generally has a radius of approximately twenty travel minutes. In most instances, where the primary mode of transportation is the automobile, twenty travel minutes is the same as twenty driving minutes. Depending on the highway patterns, the market area perimeter may take on a variety of shapes showing the various distances that can be traveled over a twenty-minute period. It will, for example, be elongated along the path of an interstate highway, and shortened where travel is restricted to local streets.

The twenty-travel-minute rule of thumb generally applies in suburban areas. In rural regions, the travel time radius is often significantly increased, while a central business district might have a more compact market area. The appraiser can verify the local market area radius by conducting interviews with overnight travelers.

[2] Economic and Demographic Data

Once the boundaries of the market area have been defined, the appraiser should start to collect economic and demographic data in order to identify and analyze future trends in transient lodging demand. (See Appendix 1 for a checklist of the type used by appraisers when they collect this sort of information.) The importance of information about future trends cannot be overemphasized. Because of a constantly changing economic environment, historical results may not accurately portray future trends. For an appraiser, reliable projections of demographic and economic data are the most useful sort of information on which to base predictions of future market demand. Unfortunately, this kind of information is scarce; appraisers usually develop their demand projections using, for the most part, historical, economic data,

Some of the data that an appraiser collects may not, at first, appear to have much bearing on the condition of the lodging market, but categories such as the age distribution of the population, characteristics of the area work force, and the types of businesses and industries in the area constitute economic elements that, taken together, assist in determining the strength of lodging demand and the likelihood of success for a new facility in the lodging market.

[a] Population Age Distribution

While there is no direct correlation between the composition of a local population and the level of transient visitation in a market area, historical data and future expectations regarding changes in population often reflect the economic climate of a locale;
from this consideration an experienced appraiser can draw general conclusions regarding the vitality of the lodging market in the area.

The age distribution of the population in a market area provides an indication of the probable spending patterns in locally generated food, beverage, and banquet patronage. A growing population under the age of 24 should produce greater banquet business in the form of weddings, proms, bar mitzvahs, award dinners, and the like. Growth in the 25- to 34-year-old age group is likely to create increased lounge and entertainment patronage. The 35- to 49-year-old age group generally has the largest disposable income and represents potentially the most significant restaurant-related food and beverage business.

[b] Retail Sales

Trends in retail sales reflect overall changes in population and changes in the ability and desire of area inhabitants and visitors to spend money for retail goods. As with

population trends, retail sales have no direct correlation with hotel room-night demand; rather, they gauge the economic health and vitality of a market area.

Another statistic often cited in conjunction with retail sales figures is effective buying income (EBI), the amount of an individual's gross income that is available after taxes to purchase goods and services. Trends in EBI reflect the ability of area residents to spend money on the goods and services offered by lodging facilities.

[c] Work Force Characteristics

The characteristics of an area's work force provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE), wholesale trade, and service generally produce a high level of visitation, which is typically not rate sensitive. The governmental sector often generates transient room-nights, but the low per-diem reimbursement allowance typically given government employees limits the accommodations they select to budget and mid-priced lodging facilities. The manufacturing and construction sectors, as well as the transportation, communications, and public utilities (TCPU) sectors are least likely to generate significant numbers of transient visitors.

[d] Major Businesses and Industries

The types and sizes of major businesses and industries within a market area provide an indication of the potential for commercial transient visitation. For example, nationally oriented firms attract more visitors than local companies serving nearby areas. Labor-intensive and financial activities are also more likely to create overnight visitation than are highly mechanized firms employing few people.

[e] Office Space

Trends in occupied office space often directly reflect transient lodging demand within a market area because businesses that occupy office space are generally the strongest generators of commercial visitation. While it is difficult to directly quantify commercial transient demand on the basis of the amount of occupied office space in a particular area, any increase or decrease in the amount of occupied space generally has a proportional impact on commercial lodging demand and a less direct effect on transient meeting demand.

[f] Highway Traffic

The quantity of highway traffic that passes through a market area sometimes relates directly to the level of transient commercial and leisure demand. It also has an indirect effect on meeting demand because of later recognition of the facility as a possible site when a decision is made regarding where a meeting will be held.

[g] Airport Statistics

Airport passenger counts are important indicators of transient lodging demand. Depending on the type and location of a particular airfield, a sizable percentage of arriving passengers may have need for hotel and motel accommodations. Trends in passenger counts also reflect local business activity and the overall economic health of an area.

[3] Data Collection

Most published economic and demographic data are subdivided by county, Metropolitan Statistical Area (MSA), or Consolidated Metropolitan Statistical Area (CMSA). If the market area is contained within one county, MSA, or CMSA, only this data is generally used. If the market area overlaps two or more counties, it may be necessary to consider a broader range of data that would include each county.

Much of the economic and demographic data can be obtained from governmental agencies, chambers of commerce, and various specialized publications. Exhibit 7-1 lists several valuable publications that provide economic and demographic data and the types of information that each publication offers.

Exhibit 7-1 Published Sources of Economic and Demographic Data

BL Sources	Data
Sales and Marketing Management	Population levels Age Distribution Retail Sales Eating and drinking place sites Effective buying income (EBI)
Woods & Poole, Inc.	Population levels (general and by age group) Income levels (by source, e.g. wages, dividends) Household (number of households, persons/ household, mean income) Employment (by sector: agriculture, mining, construction, etc.)
Federal Aviation Administration	Air carrier emplanements Operations projections
Restaurant Business	Restaurant activity index (RAI) Restaurant growth index (RGI)

Exhibit 7-2 lists information and data commonly used in a hotel economic market study and appraisal that may not be available from published sources. Most of this information can be gathered during the fieldwork phase of a market study and appraisal through discussions and interviews with local officials and other knowledgeable people.

[4] Data Analysis

After the appraiser collects the necessary data, the data should be put into tabular form for analysis. The primary purpose of the analysis is to develop a basis for forecasting future trends or changes in lodging demand. To do so, the appraiser should focus not only on the direction of change in a given category (i.e., growing, stable, or declining) but also on the probable rate of change. To accomplish these objectives, the data collected should reflect a span of at least two years and should be uniform in quality over the period of time during which it was collected. For example, in the case of traffic counts as set forth in Exhibit 7-3, the counter used to collect data should be placed in the same location during the same periods each year it is used.

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Exhibit 7-2 Other Sources of Economic and Demographic Data

Types of Data	Sources
Office space absorption	Real estate brokers Chamber of Commerce
Office vacancies	Real estate brokers Chamber of Commerce
Office space under development	Real estate brokers Chamber of Commerce Building department
Inventory of:	
Office space	Real estate brokers Chamber of Commerce
Retail space	Real estate brokers Chamber of Commerce
Industrial space	Real estate brokers Chamber of Commerce
Highway traffic counts	Highway department
Origination and destination studies	Highway department
Major businesses by employment	Chamber of commerce
Number of employees	Economic Development Authority Department of Labor
Unemployment percentages	Department of Labor
Building permits	Building Department
Housing starts	Building Department
Hotel rooms tax	Tax Collector
Visitor counts to area attractions	Visitors' and Convention Bureau
New businesses entering area	Chamber of Commerce Economic Development Authority
Businesses leaving area	Chamber of Commerce Economic Development Authority
Convention center usage	Visitors' and Convention Bureau
Number of groups	
Number of attendees	
Types of events	
Expenditure per attendee	
Average length of stay	
Headquarters hotels	
Advertising budget	
Assessed values of real estate	Assessor
Air cargo data	Federal Aviation Authority Airport Authority
Tourist visitation	Tourism Authority Visitors' and Convention Bureau

Exhibit 7-3 State Thruway Traffic Counts

Year	Count	Percent Change From Previous Year
1991	12,566,764	—
1992	12,943,767	3.0%
1993	12,614,836	(2.5)
1994	13,522,145	7.2
1995	14,377,202	6.3

Direction and rate of change are determined by dividing the data for the more recent year by that of an earlier year. For example, using the data in Exhibit 7-3, the change in highway traffic between 1991 and 1992 is calculated as follows:

1992 - 1991 = 12,943,767 - 12,566,764 = 1.03 - 1.00 = +3% The change

between 1992 and 1993 was

1993 - 1992 = 12,614,736 - 12,943,767 = 0.975 - 1.00 = -2.5%

Between 1991 and 1992, the direction of change was positive, which suggests growth; between 1992 and 1993, however, the direction of change was negative, which indicates a decline.

Calculating change over a period of years is somewhat more complicated because the appraiser must determine annual compounded percent change. The basic components of market studies and appraisals, such as projected demand, should be shown as annual compounded percent change.

For example, using again the data in Exhibit 7-3, the annual compounded percent change in traffic counts between 1991 and 1995 is determined by the following formula:

$$-1 + (A - B)^{-1})) = C$$

where: A = Data for last year B = Data for first year N = Number of years of compounding C = Annual compounded percent change

Thus, the annual compounded percent change for the years 1991 through 1995 is -1 +

$$(14{,}377{,}202 - 12{,}566{,}764)W^{5}-^{)} = 3.4\%$$

Annual compounded percent change calculations are particularly useful for projections that involve lodging demand. The unit of lodging demand (room-night) is a real number that is unaffected by factors such as inflation; therefore, it is necessary to calculate all growth rates in real terms, using constant, rather than current, inflated dollars.

Exhibit 7-4 Rockland County Retail Sales ($000,000)

Year	Retail Sales (current $)	Retail Sales (1995 $)	% Change From Previous Year
1991	$1,118,539	$1,251,581	—
1992	1,223,391	1,328,901	6.2%
1993	1,310,534	1,382,183	4.0
1994	1,407,998	1,447,901	4,8
1995	1,451,832	1,451,832	0.3
Annual	compounded percent change	(1991-1995)	3.8%

Exhibit 7-4 shows retail sales in Rockland County from 1991 to 1995. According to this information, sales increased a total of 30 percent, using current (inflated)

dollars. Performing the same calculation using 1995 (constant) dollars shows a 16 percent increase, which is the amount of real growth in retail sales during the same period. The difference between the inflated dollar calculation (30 percent) and the constant dollar calculation (16 percent) is attributed to inflation rather than real growth in retail demand. The annual compounded percent change in real terms over this period is 3.7 percent.

To determine constant dollar amounts, calculations are made using the Consumer Price Index (CPI). Exhibit 7-5 shows the CPI for the eleven-year period from 1975 to 1995.

Exhibit 7-5 Consumer Price Index

Sources: Bureau of Labor Statistics

Year	CPI	Percent Change From Previous Year
1985	107.6	—
1986	109.6	1.9%
1987	113.6	3.6
1988	118.3	4.1
1989	124.0	4.8
1990	130.7	5.4
1991	136.2	4.2
1992	140.3	3.0
1993	144.5	3.0
1994	148.2	2.6
1995	152.4	2.8
1996	156.9	3.0
1997	160.5	2.3
1998	163.0	1.6

To adjust 1994 current dollars to 1995 constant dollars, the 1995 CPI is divided by the 1994 CPI:

1995 CPI - 1994 CPI = (152.4 - 147.2) X ($1,407,997 - 1) = $1,447,901

The current dollar amount for 1993 is converted to 1995 constant dollars in the same way:

1995 CPI - 1993 CPI = (152.4 - 144.5) X ($1,310,534 - 1) = $1,372,173

It is important when performing these calculations to avoid basing an annual compounded percent change calculation on a starting point that goes too far back in time. The analysis should focus on recent trends and movements in economic and demographic data; extending the historical term beyond five to eight years may sometimes yield misleading findings. For example, a new suburban area may experience rapid growth for the first ten years of its existence and then settle down to a 3 percent annual increase. The annual compounded percent change in the early years might be extremely high because the initial population base is so small and new development so intense. However, if the same calculation is performed later, the growth rate might be only 3 percent, which is a more realistic indication for the future. The use of shorter periods also more clearly shows the impacts of normal business cycles, which often contain periodic downturns.

[5] Estimate of Future Transient Demand

After all the economic and demographic data have been accumulated and the annual compounded percent change calculated for each type of data, the appraiser analyzes the resulting historical and projected trends, along with other pertinent information gathered during the study, in order to estimate the probable direction and future rate of change in hotel transient demand. The accuracy of these projections depends on the accuracy with which the various types of economic and demographic data reflect changes in hotel room-night demand. Naturally, the data that most closely reflect trends in transient visitation are given the greatest weight in this analysis. Changes in hotel demand generally depend on the type of visitation, so this analysis is usually performed for individual market segments (i.e., commercial, meeting and convention, leisure, or other specialized segments if relevant). Exhibit 7-6 shows the three primary market segments and the types of data that best reflect changes in the hotel room-night demand that they generate.

Exhibit 7-6 Data Used for Analysis of Transient Visitation

Commercial	Meeting and Convention	Leisure
Total employment by sector	Convention center patronage	Tourist visitation
Office space absorption	Total employment by sector	Highway traffic counts
Office vacancy rates	Airport enplanements	Visitor counts at attractions
Office space being developed	Air cargo data	Total employment by sector
Inventory of office space	Tourist visitation	Restaurant Activity Index (RAI)
Inventory of retail space	Retail sales	Restaurant Growth Index (RGI)
Inventory of industrial space	Visitor counts at attractions	
New businesses entering area	Office space absorption	
Highway traffic counts	Office vacancy rates	
Airport enplanements	Office space being developed	
Air cargo data	Inventory of office space	
Commercial building permits	Inventory of retail space	
Housing starts	Inventory of industrial space	
Assessed values	New businesses entering area	
Population		
Retail sales		
Effective buying income		
Personal income		

[a] Commercial Market Segment

The commercial market segment is composed of businesspeople visiting the various firms within the subject property's market area. Commercial demand is strongest Monday through Thursday nights, declines significantly Friday and Saturday, and increases somewhat on Sunday. The typical length of stay ranges from one to three days and the rate of double occupancy is a low 1.2 to 1.3 percent. Commercial demand is relatively constant throughout the year, with some drop-off noticeable in late December and during other holiday periods.

Individual business travelers tend not to be overly price sensitive and generally use a hotel's food, beverage, and recreational facilities. The commercial segment represents a highly desirable and lucrative market segment for hotels and motels because it provides a consistent level of demand at room rates approaching the upper limit for the area.

Commercial hotel demand is largely influenced by trends related to business activity such as office space absorption; employment (particularly wholesale and retail trade, FIRE, and services); new businesses established in the area; and airport activity. Population growth, although not a strong indicator of changes in commercial demand, usually sets the floor for potential growth in commercial visitation. For example, if an area's population is expected to grow at an annual compounded rate of 1.5 percent, it is likely that commercial hotel demand will grow at least at the same rate.

[b] Meeting and Convention Market Segment

The meeting and convention market includes attendees of meetings, seminars, trade association shows, and similar gatherings of ten or more people. Peak demand typically occurs in the spring and fall. The summer months represent the slowest period for this market segment because so many people take vacations during that time; winter demand can be variable. The average length of stay typically ranges from three to five days. Most commercial groups meet during the weekday period of Monday through Thursday, but associations and social groups sometimes meet on weekends. Commercial groups tend to have a low double occupancy rate (1.3 percent to 1.5 percent) whereas social groups are likely to have somewhat higher double occupancy rates, ranging from 1.5 percent to 1.9 percent.

Meeting and convention patronage is generally quite profitable for hotels and motels. Although room rates are sometimes discounted for large groups, the hotel benefits from use of meeting space and the inclusion of in-house banquets and cocktail receptions. Facilities required to attract meetings and conventions include meeting and banquet rooms with adequate space for breakout rooms, meal functions, and receptions; recreational amenities; and an adequate number of guestrooms to house the attendees.

There are fewer economic and demographic indicators of meeting and convention demand than there are for the commercial segment. Most provide only an indirect indication of demand trends. Convention center activity, particularly usage that generates visitation from outside the area, is probably the best indicator of meeting and convention demand. Commercial activity, such as employment trends and office and industrial space absorption provides an indirect indication of meeting and convention demand because many meetings are the result of business activity. Meeting and convention demand is also created through the efforts of individual hotels using their in-house sales departments; this is known as induced demand. (For a discussion of the methods used to forecast induced demand, see Chapter 10.)

[c] Leisure Market Segment

The leisure market segment consists of individuals and families either visiting a particular location or passing through en route to other destinations. Their purpose for travel may be, among others, sightseeing, recreation, relaxation, or visiting friends or relatives. Leisure demand is strongest Friday through Saturday nights and all week during holiday periods and the summer months. These peak periods of demand are nearly the opposite of those generated by the commercial market segments, which means that if a lodging facility can attract both segments it will experience stable occupancy rates throughout the year.

Individual business travelers tend not to be overly price sensitive and generally use a hotel's food, beverage, and recreational facilities. The commercial segment represents a highly desirable and lucrative market segment for hotels and motels because it provides a consistent level of demand at room rates approaching the upper limit for the area.

Commercial hotel demand is largely influenced by trends related to business activity such as office space absorption; employment (particularly wholesale and retail trade, FIRE, and services); new businesses established in the area; and airport activity. Population growth, although not a strong indicator of changes in commercial demand, usually sets the floor for potential growth in commercial visitation. For example, if an area's population is expected to grow at an annual compounded rate of 1.5 percent, it is likely that commercial hotel demand will grow at least at the same rate.

[b] Meeting and Convention Market Segment

The meeting and convention market includes attendees of meetings, seminars, trade association shows, and similar gatherings of ten or more people. Peak demand typically occurs in the spring and fall. The summer months represent the slowest period for this market segment because so many people take vacations during that time; winter demand can be variable. The average length of stay typically ranges from three to five days. Most commercial groups meet during the weekday period of Monday through Thursday, but associations and social groups sometimes meet on weekends. Commercial groups tend to have a low double occupancy rate (1.3 percent to 1.5 percent) whereas social groups are likely to have somewhat higher double occupancy rates, ranging from 1.5 percent to 1.9 percent.

Meeting and convention patronage is generally quite profitable for hotels and motels. Although room rates are sometimes discounted for large groups, the hotel benefits from use of meeting space and the inclusion of in-house banquets and cocktail receptions. Facilities required to attract meetings and conventions include meeting and banquet rooms with adequate space for breakout rooms, meal functions, and receptions; recreational amenities; and an adequate number of guestrooms to house the attendees.

There are fewer economic and demographic indicators of meeting and convention demand than there are for the commercial segment. Most provide only an indirect indication of demand trends. Convention center activity, particularly usage that generates visitation from outside the area, is probably the best indicator of meeting and convention demand. Commercial activity, such as employment trends and office and industrial space absorption provides an indirect indication of meeting and convention demand because many meetings are the result of business activity. Meeting and convention demand is also created through the efforts of individual hotels using their in-house sales departments; this is known as induced demand. (For a discussion of the methods used to forecast induced demand, see Chapter 10.)

[c] Leisure Market Segment

The leisure market segment consists of individuals and families either visiting a particular location or passing through en route to other destinations. Their purpose for travel may be, among others, sightseeing, recreation, relaxation, or visiting friends or relatives. Leisure demand is strongest Friday through Saturday nights and all week during holiday periods and the summer months. These peak periods of demand are nearly the opposite of those generated by the commercial market segments, which means that if a lodging facility can attract both segments it will experience stable occupancy rates throughout the year.

The typical length of stay for leisure travelers ranges from one to four days, depending on the guests' destination and purpose for traveling. The rate of double occupancy is generally a high 1.7 percent to 2.5 percent.

Leisure travelers tend to be the most price-sensitive segment in the lodging market. They typically prefer low-rise accommodations where parking is convenient to the rooms and require extensive recreational facilities and amenities. Ease of highway access and proximity to vacation-related attractions are important hotel locational considerations for this segment.

Leisure demand has the fewest indicators on which to rely. However, if visitor statistics are available, particularly in resort areas, some good indications of leisure demand trends can be obtained from them. Attendance data for area tourist attractions can also be useful.

[d] Conclusion

The actual estimated change in hotel demand is generally projected by market segment for periods ranging from 3 to 10 years. When forecasting lodging demand, the projection period should be kept as short as possible. The annual percent change should reflect the most probable trend in hotel room-night demand. Many studies project a positive growth in lodging demand, but growth is not necessarily always positive, nor does growth always increase at the same percentage each year.

The end result of the market area analysis should be a yearly estimate by market segment of the percentage growth or decline in transient lodging demand. The analysis should also conclude with an evaluation of how well suited the market area is for proposed hotel development over the long term, or in the case of an existing hotel, for continued use.

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CASE STUDY
Neighborhood and Market Area Analysis

NEIGHBORHOOD ANALYSIS

This section of the study investigates the subject property's neighborhood and evaluates pertinent locational factors that could affect its occupancy, average rate, food and beverage revenues, and overall profitability.

Character of Surrounding Area

The neighborhood surrounding the subject property is characterized by a mixture of first-class retail and office space along Central Avenue (State Route 59) and middle-income residential housing on the secondary streets leading from and running parallel to Central Avenue. This area has a suburban character, compared with the more developed downtown district situated two miles north of the Embassy Suites. The commercial strip on Central Avenue extends from a regional shopping mall just south of the subject property to the southern perimeter of Spring Valley's central business district.

Development of Neighborhood

Development in the subject property's neighborhood began approximately twenty-five years ago as a result of the natural expansion of the Spring Valley area. Growth occurred rapidly; within ten years, most of the property along Central Avenue north of the New York State Thruway was improved with high-quality retail outlets and mid-rise office buildings. Tract developers undertook construction in the surrounding residential areas at the same time.

The subject parcel was formerly a drive-in movie theater constructed forty years ago, shortly after the opening of the New York State Thruway. Because the theater was removed from the improved areas of Spring Valley and easily accessible from the Thruway, it achieved a high level of success during its early years. As the neighborhood became more improved and drive-in theaters declined in popularity, normal economic pressure was exerted to discontinue movie operations and upgrade the property's image. The parcel was sold to its current owners three years ago; these individuals were successful in obtaining the RS (regional shopping district) zoning classification, which permits hotel use.

Property along Central Avenue south of the Thruway only recently captured the interest of developers. Historically, the Thruway inhibited the southward expansion of Spring Valley, This situation changed rapidly in the mid-1970s, when a 500,000-square foot regional shopping center known as the Spring Valley Mall was constructed just south of the subject property, in the southwestern quadrant of the intersection formed by Central Avenue and the New York State Thruway. The mall is anchored by Saks Fifth Avenue and Macy's and contains sixty-seven outlets typical of those found in regional malls throughout the United States. These first-class retail establishments enhance the image of the area, The parcels adjoining the mall to the west are improved with well-maintained single-family homes.

Several office complexes and multifamily apartment buildings are under construction on sites surrounding the mall. Although the area south of the Thruway maintains a favorable image, property located here is still not considered the equal of sites situated farther north on Central Avenue.

Commercial Properties in Neighborhood

The following real estate inventory of the neighborhood provides an overview of the various types of commercial improvements located along Central Avenue.

A one-story strip shopping center containing approximately fifteen retail outlets is located immediately north of the subject property, on the western side of Central Avenue. The tenants include a men's wear shop, a women's lingerie boutique, a travel agent, a real estate broker, a jeweler, an ice cream shop, a liquor store, and an antique dealer. The quality and variety of these shops would complement a nearby lodging facility, though they would also compete with similar facilities contained in a nearby hotel. Facilities located immediately north of the strip mall include a Mer-

cedes-Benz dealer, a three-story medical building, and an office building housing the regional headquarters of IBM Office Equipment Marketing. This branch of the national computer firm is responsible for developing marketing programs in the northeastern United States and training all sales representatives. Numerous conferences are held in this building as a result of these training programs; a majority of the attendees are housed in nearby commercial lodging facilities.

Eight additional retail outlets are clustered north of the IBM building; these buildings were among the first commercial improvements constructed south of the downtown district. This shopping center is intended to serve local residents and includes a grocery store, a pharmacy, a hairdresser, and a bank branch. Similar retail, office, and commercial improvements stretch north into downtown Spring Valley.

The land on the eastern side of Central Avenue, directly across from the Spring Valley Mall, is unimproved. Proposals for future development include office space, a fast-food restaurant, and strip-type retail establishments. Planning officials predict that most of this property will be fully developed during the next five years,

The residential neighborhoods that flank Central Avenue are characterized by attractive middle-income housing. Most of the residents living in this area are employed by local businesses; approximately 10 percent commute to jobs in New York City,

Conclusion

The neighborhood surrounding the proposed subject property appears to be well suited for the operation of a transient lodging facility. A base level of commercial and meeting visitation can be expected to be generated by the nearby offices, particularly the IBM meeting complex. The retail improvements, including the nearby regional mall, would provide a source of both entertainment and diversion for the hotel's guests. The neighborhood's attractive and safe surroundings along with its first-class image would enhance the subject property's market position, and we observed no adverse influences that are likely to have a detrimental impact on the hotel's attainable occupancy, average rate, or food and beverage volume. Some vacant land is available south of the Thruway, which may encourage additional development and have a beneficial impact on local lodging facilities.

MARKET AREA ANALYSIS

The purpose of the market area analysis is to review all available historical and projected economic and demographic data to determine whether the local market area will experience future economic growth, stability, or decline. In addition to predicting the direction of the economy, the rate of future change must be quantified. These trends are then correlated on the basis of their propensity to reflect variances in lodging demand with the objective of forecasting the amount of growth or decline in transient visitation by individual market segments (i.e., commercial, meeting and convention, leisure).

Definition and Geographic Character

The primary market area encompassing the subject property is mostly suburban in character, and can be defined generally as southern New York State and northern New Jersey, More specifically, the subject property's market area consists of Rockland County in New York and the northern portion of the neighboring Bergen County in New Jersey, Some demand may also originate from the New York Counties of Westchester, Putnam, and Orange and the New Jersey County of Passaic, all of which surround Rockland County; their impact on transient visitation would be minimal, however.

Overall, the area is mainly a rolling terrain composed of somewhat rocky and rugged hills ranging from 200 to 500 feet in height. With the exception of its geographically undefined border with New Jersey, Rockland County is isolated from its neighboring counties by the Hudson River on the east and the Ramapo Mountains along the western border. The county is a natural extension of northeastern New Jersey by virtue of the Ramapo Mountains, the Hackensack, Passaic, Saddle, and Ramapo River Valleys, and its proximity to the Hudson River. The Palisades sill, which lies along the eastern edge of the county bordering on the Hudson River, turns inland just south of the Town of Haverstraw, forming an east-west mastiff known as South Mountain and High Tor. Within the bowl formed by the Palisades on the east and the Ramapo Mountains on the west, the topography rises in a series of steps toward the west in a north-south orientation.

The natural north-south contours of the land have had a significant impact on the development of a transportation system of highways and railways that generally conforms to this geographic model. The significant exception to the north-south

highway pattern is the New York State Thruway (I-77/1-277), which traverses the southern part of Rockland County in a mostly east-west direction, cutting through the rugged hills and intersecting with each of the north-south highways. The fact that virtually all east- and westbound traffic occurs on a single roadway benefits the adjacent subject property in terms of both access and visibility.

Rockland County, representing a major portion of the proposed subject property's market area, is the state's smallest county north of New York City. Its triangle-shaped area contains approximately 176 square miles, with borders measuring 17 by 19 by 20 miles. The county is politically divided into 5 towns, 13 villages, and numerous hamlets.

Rockland County is part of the New York City Metropolitan Statistical Area (MSA). The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a high degree of social integration. The subject MSA contains the counties of Bronx, Kings, New York, Putnam, Queens, Richmond, Rockland, and Westchester, all of which are located in the state of New York.

In recent decades, Rockland County's economy has been characterized by its role as a distribution and industrial center, a function of the area's proximity to New York City. In the 1950s, the construction of the Tappan Zee Bridge, the New York State Thruway, the Garden State Parkway, and the Palisades Interstate Parkway opened the county to many new firms seeking the benefits of a suburban location with ready access to New York City and its regional markets. Since the development of this infrastructure, the subject market area has experienced normal cyclical swings over the short term, while a strong positive growth trend has been observed over the long term.

Population

Although there is no direct correlation between an area's population and its specific level of transient visitation, historical and projected population trends often reflect the economic climate of a locale. Exhibit 7-7 sets forth historical and projected population data for Rockland County, the New York MSA, New York State, and the United States as a whole.

Between 1970 and 1994, Rockland County, the New York MSA, and the State of New York all registered average annual population growth factors of 0.3 percent, a level considerably lower than the 1,0 percent annual average gain registered by the nation during the same period. The subject county's population actually decreased in 1977 and 1978, before beginning to record stronger positive gains in 1991 and 1992. At the same time, the New York MSA's population growth has remained flat in recent years, below state and national levels. The region's limited population gains are partially attributable to the high cost of living and doing business in the northeastern United States and the taxes paid by New York State residents, which have discouraged large-scale migration to the area in recent years. Forecasts indicate that the population of Rockland County will continue to increase at a slow rate through 2020, with growth rates generally above those of the MSA and in line with those of the state,

Although these demographic trends are not particularly auspicious, the slight population gains anticipated in Rockland County suggest that lodging demand in the local market will rise slowly. The rate of population growth generally establishes a minimum rate of increase for commercial segment hotel demand; this observation also holds true for the meeting and convention segment if a majority of the meetings are business-oriented.

Age Distribution

The age distribution of an area's population provides an indication of probable spending patterns, food, beverage and banquet patronage, and the propensity to travel. A growing local population under the age of 20 is likely to yield greater banquet business in the form of weddings, proms, award dinners, and similar functions. Growth in the 20- to 39-year age group is likely to create increased lounge patronage and demand for entertainment facilities. Individuals aged 40 to 64 generally have the largest amount of disposable income, and thus represent potential restaurant and lounge patrons. Exhibit 7-6 shows the expected trends in the population age distribution for Rockland County as compared with those of the United States.

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Exhibit 7-7 Historical and Projected Population Trends

Source: Woods & Poole Economics, Inc.

Rockland County				New York, NY MSA			State of New York			United States		
Year	Population	Percent Change[1]	Percent Change[2]	Population	Percent Change[1]	Percent Change[2]	Population	Percent Change[1]	Percent Change[2]	Population	Percent Change[1]	Percent Change[2]
1970	231.1	—	—	9,078.7	—	—	18,264.5	—	—	203,982.3	—	—
1975	247.6	1.4%	—	8,694.9	(0.9)%	—	18,044.0	(0.2)%	—	215,465.2	1.1%	—
1980	259.6	1.0	—	8,277.1	(1.0)	—	17,566.4	(0.5)	—	227,225.6	1.1	—
1985	264.4	0.4	0.4%	8,491.4	0.5	0.5%	17,791.8	0.3	0.3%	237,924.8	0.9	0.9%
1986	265.5	0.4	0.4	8,536.8	0.5	0.5	17,833.5	0.2	0.3	240,133.9	0.9	0.9
1987	264.6	(0.3)	0.3	8,560.9	0.3	0.5	17868.9	0.2	0.2	242,289.9	0.9	0.9
1988	264.6	(0.0)	0.2	8,575.9	0.2	0.4	17,941.4	0.4	0.3	244,499.8	0.9	0.9
1989	264.8	0.1	0.2	8,567.4	(0.1)	0.4	17,983.1	0.2	0.3	246,819.8	0.9	0.9
1990	265.9	0.4	0.2	8,547.5	(0.2)	0.3	18,001.6	0.1	0.2	249,399.4	1.0	0.9
1991	268.4	0.9	0.3	8,540.6	(0.1)	0.3	18,046.9	0.3	0.2	252,137.0	1.1	1.0
1992	270.9	0.9	0.4	8,551.8	0.1	0.3	18,109.5	0.3	0.3	255,077.4	1.2	1.0
1993	271.6	0.3	0.3	8,564.5	0.1	0.3	18,163.5	0.3	0.3	257,919.5	1.1	1.0
1994	272.4	0.3	0.3	8,574.5	0.1	0.3	18,211.8	0.3	0.3	260,663.9	1.1	1.0
1995	272.9	0.2	0.3	8,577.7	0.0	0.2	18,245.9	0.2	0.3	263,211.0	1.0	1.0
2000	274.7	0.1	0.3	8,571.1	(0.0)	0.2	18,3681	0.1	0.2	275,260.0	0.9	1.0
2005	276.0	0.1	0.2	8,548.8	(0.1)	0.1	18,455.8	0.1	0.2	286,757.8	0.8	0.9
2010	277.6	0.1	0.2	8,536.1	(0.0)	0.1	18,564.1	0.1	0.2	298,528.7	0.8	0.9
2015	279.7	0.1	0.2	8,537.8	0.0	0.1	18,703.6	0.1	0.2	310,788.2	0.8	0.9
2020	281.7	0.1	0.2	8,538.9	0.0	0.1	18,841.9	0.1	0.2	323.023.5	0.8	0.9

[1] annual average compounded percentage change from previous year shown

[2] annual average compounded percentage change from 1980

Exhibit 7-8
Population Age Distribution
Source: Woods and Poole Economics, Inc.

	Rockland County				USA
Age Group	**1980**	**1990**	**1994**	**2000**	**1994**
Under 20	34.2%	28.9%	28.6%	28.3%	28.7%
20–39	29.7	30.1	28.9	26.9	31.4
40–64	26.1	30.4	33.1	36.2	23.2
65 and over	10.0	10.6	9.5	8.6	16.6
Median Age	31.2	34.0	35.1	36.7	34.1

Between 1970 and 1994, the median age of the Rockland County population increased from 31,1 to 35.2 years, a median age slightly higher than the 1994 national median age of 34.1 years. The shift in the county's age distribution during this period was associated with a decline in the percentage of residents under 20 and an increase in the percentage of the county population in the age groups of 40 to 64 and 65 and over. Projections suggest continued aging of the county population through the year 2000 with the median age expected to reach 36.7. The percentage of county residents in age groups of under 20, 20 to 39, and 65 and over are expected to decline between 1993 and 2000, while the 40-to-64 age group increases substantially

The under-20 age group typically represents entry-level workers, and its growth or decline can have mixed effects. Workers in this age group typically earn lower wages than older members of the work force; thus, a lack of available employees in this age range may cause an increase in the area's cost of doing business. Conversely, this group is associated with a relatively high level of unemployment.

The baby boom generation, which is represented in both the 20-to-39 and 40-to-64 age categories, has become an important factor in national spending patterns. These residents typically represent a strong market for homes, consumable and durable goods, leisure activities, and other products and services. Growth in this age group is a favorable trend for the lodging industry, because these individuals are associated with a disproportionately large share of total travel expenditures in the United States, Increases in the number of two-worker households and the attendant rise in income levels are expected to further contribute to this group's propensity to travel. The increasing affluence of these well-educated Americans and subsidiary trends such as smaller and double-income fami lies are expected to engender a greater consumption of meals away from home. Primary beneficiaries of these events are the nation's hotel's and restaurants, which will accommodate the added patronage.

With the 40-to-64 age group becoming more prominent in Rockland County local restaurants and lounges should benefit from the higher spending patterns typically exhibited by this group. In addition, local hotels and motels will probably experience some increased demand from children and grandchildren of the older local residents returning home during vacation and holiday periods,

Retail Sales

Retail sales levels reflect both population trends and the propensity to spend money on retail goods, Although there is no direct correlation between retail sales and hotel demand, retail sales trends tend to gauge the economic health and vitality of the market. Retail sales growth should cause local businesses to prosper and make it more likely for new firms to enter the market, thus causing an increase in the demand for lodging facilities. In areas in which tourism is a significant economic factor, retail sales also reflect the amount of visitation. Exhibit 7-9 shows historical and projected retail sales trends in Rockland County, the New York MSA, New York State, and the United States as a whole. All figures have been adjusted to reflect 1977 dollars; thus, the growth rates represent real change.

Between 1970 and 1994, retail sales in Rock-land County increased at a real average annual compounded rate of 0.7 percent, slightly exceeding the 0.5 percent growth factor recorded by the New York MSA, and slightly behind the 0.9 percent growth factor recorded by New York State, All of these indicators lagged behind the national average annual growth rate: 1.3 percent. The impact of the national economic recession on retail sales in all statistical areas was noted in 1990 and 1991, while Rockland County's retail sales also declined in 1993.

Projections indicate a recovery in retail sales between 1995 and 2000; Rockland County, the New York MSA, and the state of New York are all expected to post real annual gains above 2.0 percent, while the national growth rate is expected to exceed 3.0 percent in future years.

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Exhibit 7-9 Historical and Projected Retail Sales Trends

Source: Woods & Poole Economics, Inc.

	Rockland County			New York, NY MSA			New York State			United States		
Year	Retail Sales	Percent Change[1]	Percent Change[2]	Retail Sales	Percent Change[1]	Percent Change[2]	Retail Sales	Percent Change[1]	Percent Change[2]	Retail Sales	Percent Change[1]	Percent Change[2]
1970	$1,141	—	—	$43,572	—	—	$92,696	—	—	$1,053,857	—	—
1975	1,281	2.3%	—	38,979	(2.2)%	—	89,766	(0.6)%	—	1,202,708	2.7%	—
1980	1,395	1.7	—	38,577	(0.2)	—	91,866	0.5	—	1,340,769	2.2	—
1985	1,547	2.1	2.1%	41,554	1.5	1.5%	101,416	2.0	2.0%	1,481,856	2.0	2.0%
1986	1,569	1.4	2.0	42,042	1.2	1.4	103,970	2.5	2.1	1,511,054	2.0	2.0
1987	1,545	(1.5)	1.5	41,295	(1.8)	1.0	103,212	(0.7)	1.7	1,493,286	(1.2)	1.6
1988	1,578	2.1	1.6	42,251	2.3	1.1	105,848	2.6	1.8	1,540,698	3.2	1.8
1989	1,584	0.4	1.4	42,361	0.3	1.0	106,424	0.5	1.6	1,561,073	1.3	1.7
1990	1,569	(0.9)	1.2	41,784	(1.4)	0.8	105,209	(1.1)	1.4	1,558,277	(0.2)	1.5
1991	1,515	(3.4)	0.8	39,972	(4.3)	0.3	100,986	(4.0)	0.9	1,507,861	(3.2)	1.1
1992	1,541	1.7	0.8	40,376	1.0	0.4	102,179	1.2	0.9	1,613,742	1.3	1.3
1993	1,532	(0.6)	0.7	41,646	3.1	0.6	104,867	2.6	1.0	1,593,432	3.7	1.3
1994	1,535	0.2	0.7	41,397	(0.6)	0.5	104,822	(0.0)	0.9	1,613,742	1.3	1.3
1995	1,576	2.7	0.8	42,114	1.7	0.6	107,453	2.5	1.1	1,674,273	3.8	1.5
2000	1,774	2.3	1.2	46,499	2.0	0.9	121,632	2.5	1.4	1,991,623	3.4	2.0
2005	1,978	2.2	1.4	51,369	2.0	1.2	136,969	2.4	1.6	2,336,845	3.2	2.2
2010	2,196	2.1	1.5	56,760	2.0	1.3	153,868	2.4	1.7	2,718,832	3.1	2.4
2015	2,395	1.8	1.6	61,836	1.7	1.4	169,989	2.0	1.8	3,093,334	2.6	2.4
2020	2,624	1.8	1.6	67,905	1.9	1.4	188,855	2.1	1.8	3,520,729	2.6	2.4

[1]Annual average compounded percentage change from previous year shown
[2]Annual average compounded percentage change from 1980

Personal Income

According to the procedures outlined in the National Income and Product Accounts, personal income is calculated by totaling earned income (wages, salaries, other labor income, and proprietor's income), non-earned income, and residence adjustments and subtracting personal contributions to social insurance. Trends in personal income reflect the spending ability of local residents. Like population trends, personal income has no direct correlation with hotel room night demand, but rather tends to gauge the economic health and vitality of a market area. Exhibit 7-10 sets forth historical and projected per-capita personal income levels in Rockland County, the New York MSA, New York State, and the United States.

Rockland County's 1994 per-capita personal income level was higher than those of the New York CMSA, New York State, and the nation. This relationship suggests that Rockland County residents are more affluent than typical Americans and more able to spend money on retail goods, travel, dining, and services. In addition, recent growth factors for the subject county have exceeded those of the MSA and the state, slightly trailing those of the nation. Projections indicate continued strong gains in personal income per capita, with growth factors remaining in the range of 1.5 percent per year over the long term. These trends are favorable, and reflect growth in the potential spending patterns for local residents.

Exhibit 7-11 shows the historical and projected total personal income in Rockland County, the New York MSA, New York State and the United States.

Workforce Characteristics

Exhibit 7-12 sets forth the Rockland County workforce distribution by business sector in 1970, 1990, and 1994, as well as a forecast for 2000. As the exhibit illustrates, the most rapid growth between 1970 to 1994 occurred in the services, TCPU, FIRE, wholesale trade, and construction sectors. Moderate growth was recorded in the agricultural services and retail trade sectors, whereas a decline in employment was noted in the farm, mining, manufacturing, and government sectors. Projections indicate a continuation of this slow rate of growth, with total employment expected to increase by only 0.1 percent per year between 1994 and 2000. Although total employment growth is anticipated to be sluggish, the wholesale trade and FIRE sectors are expected to record moderate gains; this is a positive indicator of future transient lodging demand.

The exhibit demonstrates the diversification of the Rockland County economy. In 1994, the services sector accounted for approximately 34 percent of the overall employment base, with trade, government, and manufacturing contributing 19 percent, 17 percent, and 11 percent, respectively. Because the local economy is not tied to the prosperity of any single sector, the impact of normal business cycles is cushioned.

Farm, Agricultural Services, Mining

The farm, agricultural services and mining employment sectors taken together represented only 0.7 percent of the total employment in Rockland County in 1994. Generally, these three sectors do not generate an appreciable amount of hotel demand, so their small presence as area employers is not a significant factor in this analysis.

Construction

The construction industry represents a relatively small portion of the Rockland County economy. Between 1970 and 1994, employment in the construction sector increased from 3,700 to 4,700, yielding an average annual compounded growth rate of 1.7 percent. However, analysis of this longer term is deceiving. Because of the recession and the fact that many real estate types were over-supplied in the late 1980s and early 1990s, construction employment receded substantially between 1990 and 1994, declining at an average annual rate of nearly 5 percent per year.

As illustrated in Exhibit 7-13, the number of residential construction permits issued in Rockland County has exhibited a downward trend since 1985. The sharpest drops occurred in the early 1990s, which reflects impact of the national recession and overbuilding during the 1980s.

Nonresidential construction has a greater impact on lodging demand than activity in the residential sector, because new commercial, industrial, and retail space generally foreshadows a favorable business climate. The introduction of new firms or the expansion of existing companies may result in increased visitation from individuals conducting business in the area; the direct effect on local hotels depends on the type of activity generated by those firms.

Exhibit 7-14 outlines the assessed value of all non-residential property in Rockland County. The figures are expressed in constant 1995 dollars, and thus percent change represents real growth or Exhibit 7-14

Exhibit 7-10 Historical and Projected Personal Income per Capita

Source: Woods & Poole Economics, Inc.

	Rockland County			New York, NY MSA			New York State			United States		
Year	Per Capita	Percent Change[1]	Percent Change[2]	Per Capita	Percent Change[1]	Percent Change[2]	Per Capita	Percent Change[1]	Percent Change[2]	Per Capita	Percent Change[1]	Percent Change[2]
1970	$13,239	—	—	$15,125	—	—	$13,658	—	—	$11,358	—	—
1975	15,004	2.5%	—	15,386	0.3%	—	14,081	0.6%	—	12,362	1.7%	—
1980	17,188	2.8	—	16,424	1.3	—	15,274	1.6	—	13,924	2.4	—
1985	19,537	2.6	2.6%	18,856	2.8	2.8%	17,459	2.7	2.7%	15,205	1.8	1.8%
1986	20,101	2.9	2.6	19,535	3.6	2.9	18,143	3.9	2.9	15,529	2.1	1.8
1987	20,796	3.5	2.8	19,967	2.2	2.8	18,443	1.7	2.7	15,640	0.7	1.7
1988	21,705	4.4	3.0	20,690	3.6	2.9	18,917	2.6	2.7	15,943	1.9	1.7
1989	21,838	0.6	2.7	21,020	1.6	2.8	19,198	1.5	2.6	16,184	1.5	1.7
1990	21,898	0.3	2.5	21,463	2.1	2.7	19,427	1.2	2.4	16,246	0.4	1.6
1991	21,087	(3.7)	1.9	21,188	1.3	2.3	19,103	(1.7)	2.1	16,009	(1.5)	1.3
1992	21,314	1.1	1.8	21,894	3.3	2.4	19,510	2.1	2.1	16,279	1.7	1.3
1993	21,558	1.1	1.8	21,653	(1.1)	2.1	19,594	0.4	1.9	16,505	1.4	1.3
1994	21,687	0.6	1.7	21,658	0.0	2.0	19,653	0.3	1.8	16,630	0.8	1.3
1995	21,977	1.3	1.7	21,777	0.5	1.9	19,852	1.0	1.8	16,862	1.4	1.3
2000	23,625	1.5	1.6	23,165	1.5	1.7	21,363	1.6	1.7	18,315	1.7	1.4
2005	25,525	1.6	1.6	25.040	1.6	1.7	23,249	1.7	1.7	19,993	1.8	1.5
2010	27,639	1.6	1.6	27,247	1.7	1.7	25,416	1.8	1.7	21,836	1.8	1.5
2015	29,988	1.6	1.6	29,820	1.8	1.7	27,890	1.9	1.7	23,846	1.8	1.5
2020	32,633	1.7	1.6	32,841	1.9	1.7	30,738	2.0	1.8	26.063	1.8	1.6

[1]Annual average compounded percentage change from previous year shown
[2]Annual average compounded percentage change from 1980

Exhibit 7-11 Historical and Projected Personal Income

Source: Woods & Poole Economics, Inc.

	Rockland County			New York, NY MSA			New York State			United States		
Year	Personal Income	Percent Change[1]	Percent Change[2]	Personal Income	Percent Change[1]	Percent Change[2]	Personal Income	Percent Change[1]	Percent Change[2]	Personal Income	Percent Change[1]	Percent Change[2]
1970	$3,059	—	—	$137,318	—	—	$249,460	—	—	$2,316,919	—	—
1975	3,715	4.0%	—	133,778	(0.5)%	—	$254,076	0.4%	—	$2,663,665	2.8%	—
1980	4,462	3.7	—	135,939	0.3	—	268,310	1.1	—	3,163,874	3.5	—
1985	5,165	3.0	3.0%	160,114	3.3	3.3%	310,633	3.0	3.0%	3,617,690	2.7	2.7%
1986	5,337	3.3	3.0	168,769	4.2	3.5	323,550	4.2	3.2	3,728,942	3.1	2.8
1987	5,503	3.1	3.0	170,931	2.5	3.3	329,553	1.9	3.0	3,789,297	1.6	2.6
1988	5,743	4.4	3.2	177,437	3.8	3.4	339,403	3.0	3.0	3,898,086	2.9	2.6
1989	5,783	0.7	2.9	180,087	1.5	3.2	345,236	1.7	2.8	3,994,634	2.5	2.6
1990	5,823	0.7	2.7	183,455	1.9	3.0	349,724	1.3	2.7	4,051,715	1.4	2.5
1991	5,659	(2.8)	2.2	180,957	(1.4)	2.6	344,748	(1.4)	2.3	4,036,505	(0.4)	2.2
1992	5,773	2.0	2.2	187,233	3.5	2.7	353,323	2.5	2.3	4,152,529	2.9	2.3
1993	5,856	1.4	2.1	185,450	(1.0)	2.4	355,902	0.7	2.2	4,256,884	2.5	2.3
1994	5,907	0.9	2.0	185,703	0.1	2.3	357,908	0.6	2.1	4,334,933	1.8	2.3
1995	5,997	1.5	2.0	186,796	0.6	2.1	362,220	1.2	2.0	4,438,159	2.4	2.3
2000	6,489	1.6	1.9	198,555	1.4	1.9	392,395	1.7	1.9	5,041,480	2.6	2.4
2005	7,045	1.7	1.8	214,061	1.5	1.8	429,073	1.8	1.9	5,733,093	2.6	2.4
2010	7,673	1.7	1.8	232,584	1.7	1.8	471,832	1.9	1.9	6,518,595	1.6	2.4
2015	8,387	1.8	1.8	254,599	1.8	1.8	521,641	2.0	1.9	7,411,153	2.6	2.5
2020	9,194	1.9	1.8	280,424	2.0	1.8	579,156	2.1	1.9	8,419,104	2.6	2.5

[1]Annual average compounded percentage change from previous year shown
[2]Annual average compounded percentage change from 1980

HVS

Exhibit 7-12 Rockland County Historical and Projected Employment

Source; Woods & Poole Economics, Inc.

									Average Annual Compounded Percent Change		
Industry	**1980**	**Percent of Total**	**1990**	**Percent of Total**	**1994**	**Percent of Total**	**2000**	**Percent of Total**	**1980-1994**	**1990-1994**	**1994-2000**
Farm	0.1	0.1%	0.1	0.0%	0.1	0.0%	0.1	0.0%	(3.3)%	0.0%	0.0%
Agriculture Services, Other	0.6	0.6	0.8	0.6	0.8	0.6	0.8	0.6	1.6	(0.7)	0.4
Mining	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	(4.2)	(5.9)	0.7
Construction	3.7	3.6	5.6	4.5	4.7	3.7	4.6	3.6	1.7	(4J)	(0.1)
Manufacturing	16.4	15.9	15.3	12.1	14.6	11.5	14.4	11.2	(0.8)	(1.2)	(0.2)
Trans., Comm. & Public Utils.	4.1	4.0	5.9	4.7	6.6	5.2	6.6	5.1	3.5	2.7	0.0
Total Trade	22.2	21.6	25.7	20.3	24.5	19.3	24.4	19.0	0.7	(1.1)	(0.1)
Wholesale Trade	4.9	4.8	7.1	5.6	6.6	5.2	7.4	5.8	2.2	(1.8)	1.9
Retail Trade	17.3	16.8	18.6	14.7	17.9	14.1	17.0	13.3	0.3	(0.9)	(0.9)
Finance, Insurance & Real Estate	7.2	7.0	11.0	8.7	11.1	8.7	11.6	9.0	3.2	0.1	0.8
Services	26.8	26.1	39.5	31.3	43.9	34.4	44.6	34.7	3.6	2.7	0.3
Total Government	21.4	20.9	22.1	17.5	21.1	16.6	21.2	16.5	(0.1)	(1.t)	0.0
Federal Civilian Govt.	0.8	0.8	1.0	0.8	0.9	0.7	0.9	0.7	0.8	(3-6)	(0.2)
Federal Military Govt.	0.8	0.7	0.8	0.7	0.8	0.6	0.8	0.6	0.3	(1.5)	0.0
State & Local Govt.	19.9	19.3	20.2	16.0	19.5	15.3	19.5	15.2	(0.1)	(1.0)	0.0
TOTAL	102.7	100.0%	126.3	100.0%	127.5	100.0%	128.4	100.0%	1.6%	0.2%	0.1%

HVS

Exhibit 7-13 Rockland County Dwelling Units Authorized by Building Permit

Source: *Rockland County Economic Development Authority*

	Single Family		Multi-Family		Total	
Year	Number of Units	Percent Change	Number of Units	Percent Change	Number of Units	Percent Change
1985	529	—	1,144	—	1,673	—
1986	508	(4.0)%	972	(15.0)%	1,480	(11.5)%
1987	467	(8.1)	875	(10.0)	1,342	(9.3)
1988	475	1.7	770	(12.0)	1,245	(7.2)
1989	502	5.7	768	(0.3)	1,270	2.0
1990	460	(8.4)	624	(18.8)	1,084	(14.6)
1991	367	(20.2)	525	(15.9)	892	(17.7)
1992 .	287	(21.8)	492	(6.3)	779	(12.7)
1993	285	(0.7)	497	1,0	782	0.4
1994	302	6.0	510	2.6	812	3.8
1995	325	7.6	535	4.9	860	5.9
Average Annual percent Change 1985-1995		(4.8)%		(7.3)%		(6.4)%
Proj. 1996-2000 annual increases	330	——	545	——	875	——

Total County Nonresidential Property Assessment

Source; Rockland County Assessment Department

Year	Assessed Value in 1995 Dollars	Percent
1985	$1,105,000	—
1986	1,116,000	1.0%
1987	1,149,000	3.0
1988	1,195,000	4.0
1989	1,208,000	1.1
1990	1,198,000	(0.8)
1991	1,164,000	(2,8)
1992	1,102,000	(5.3)
1993	1,057,000	(4.1)
1994	1,105,000	4.5
1995	1,207,000	9.2
Avg. Annual	% Change 1985-1995	0.9%

decline after adjustment for inflation from factors such as new construction.

Between 1985 and 1995, Rockland County's nonresidential tax base increased a total of 9 percent, or an average annual compound increase of 0.9 percent per year after adjustment for inflation. After consistent increases through the mid- to late 1970s, the assessed value of nonresidential real estate declined in each year between 1990 and 1993, owing to the adverse impact of the recession. In 1994 and 1995, strong increases in the assessed value of nonresidential real estate were noted. Projections suggest a continuation of the recovery, and construction employment in Rockland County is expected to increase at an average annual compounded rate of 0.7 percent between 1994 and 2000. This moderate growth should result in some Increases in lodging demand.

Manufacturing

Employment in Rockland County's manufacturing firms declined at an average annual compounded

rate of 4.2 percent between 1970 and 1994, and a more severe drop of 5.9 percent annually occurred from 1990 to 1994. According to information provided by the Chamber of Commerce, there were more than 100 manufacturing plants in Rockland County in 1994 and these plants shipped products worth more than $1.2 billion out of the area, representing an approximate 9 percent increase from 1977. Rockland represents slightly more than 4 percent of total manufacturing production in the New York metropolitan area. Between 1972 and 1994, two manufacturing plants terminated operations in Rockland County. A total of 407 major manufacturing plants closed in the New York metropolitan area during this ten-year period. Projections indicate a further decline of 0,1 percent per year in manufacturing employment in Rockland County between 1994 and 2000.

Rockland County's manufacturing base is relatively diversified, although pharmaceutical and cosmetics firms show some prominence. This diversification is beneficial, and helps to offset declines in any one industry. Exhibit 7-15 lists the major manufacturing firms in Rockland County.

Exhibit 7-15
Major Manufacturing Firms—Rockland County

Source; *Rockland County Chamber of Commerce*

Firm	Product	Number of Employees
Lederle	Pharmaceutical	3,600
Avon Products, Inc.	Cosmetics	1,200
Chromalloy Corp.	Metals	650
BSR	Electronics	600
Ciba-Geigy	Pharmaceutical	500
Materials Research	Plastics	460
RCA	Electronics	350

The division of manufacturing employment between the production of durable and nondurable goods can also have an impact on an area's stability; during periods of economic downturn, durable goods manufacturers tend to suffer more than firms engaged in the production of nondurable goods. According to the New York State Department of Labor, approximately 60 percent of Rockland County's manufacturing employees are involved in the production of nondurable goods.

A 1994 survey, conducted by the Private Industry Council of Rockland County, found that 35 percent of local manufacturing firms anticipated an increase in their number of employees, and 22 percent had plans for plant expansions. New manufacturing capacity, particularly in high technology industries, often has a favorable impact on local hotels. Manufacturing firms tend to attract visitors such as superintendents, auditors, and salespeople; high-technology manufacturers also attract engineers and consultants who are likely to need lodging accommodations.

It is important to consider the subject property's distance from the county's manufacturing firms. Although most out-of-town visitors are willing to travel a reasonable distance from their hotel to their final destination, a twenty-minute drive is usually the maximum limit. The subject site's central location adjacent to the New York State Thruway enhances its ability to attract demand generated by the county's manufacturing firms, A survey of local manufacturers shows that more than 90 percent are located within a twenty-minute drive of the subject site.

Transportation, Communications, and Public Utilities

In 1994, the transportation, communications, and public utilities sector represented a minor portion of the Rockland County employment base; most of these employees work for either postal services or telephone companies. Between 1970 and 1994, employment in this sector increased at an average annual compounded rate of 3,5 percent. Firms in this sector have a mixed propensity to generate hotel demand. Communications firms and utilities are not highly labor intensive and are unlikely to produce significant lodging demand. Projections indicate that TCPU employment will remain flat between 1994 and 2000,

Wholesale and Retail Trade

In 1994, trade was the second largest sector in the Rockland County economy. Retail trade contributed approximately 75 percent of this sector's employment, and the remaining 25 percent represented wholesale activity. Firms engaged in trade (and wholesale trade in particular) often generate considerable hotel demand. Rockland County's trade sector is well diversified, and no particular industry exhibits a dominance in terms of employment,

The trade sector's prominent position in the local economy is attributable to Rockland County's role as a regional market for the tri-state area formed by New York, Pennsylvania, and New Jersey. The well-established transportation network and the presence of a number of industrial parks

and distribution centers further enhance the dominance of the trade sector.

Between 1970 and 1994, trade employment in Rockland County increased at an average annual compounded rate of 0.7 percent; largely as a result of the national recession, a 1.1 percent decline was registered between 1990 and 1994. No real growth is projected through the remainder of the decade.

Finance, Insurance, and Real Estate (FIRE)

The finance, insurance, and real estate sector occupies a strategic position with respect to the control of investment capital, property transfers, and the provision of insurance. The professional firms operating in this sector often generate a considerable amount of commercial hotel demand. Despite flat growth from 1990 to 1994, Rockland County's FIRE sector enjoyed one of highest employment growth rates from 1970 to 1994; projections indicate a moderate increase of 0.7 percent annually between 1994 and 2000. Because FIRE employment is highly correlated to hotel demand, this increase should have a favorable impact on the local lodging industry.

Services

The services industry is the largest employment sector in Rockland County, and health care contributes a significant share of this category. Between 1970 and 1994, services sector employment increased at a strong 3.6 percent average annual compounded rate.

A strong services sector is generally a favorable indicator of lodging demand. Firms engaged in service-related activities tend to attract out-of-town visitors who must use local lodging facilities. In addition, many service firms are relatively immune to fluctuations in the national economy, and thus provide a stabilizing influence. Between 1994 and 2000, services employment in Rockland County is expected to increase at an average annual compounded rate of 0.3 percent, which is considerably lower than the gains registered historically.

Government

Employing more than 21,000 people, government was the third-largest employment sector in Rock-land County in 1994. This category includes employees of local municipalities and state, regional, and federal agencies. Between 1970 and 1994, government employment in Rockland County declined at an average annual compounded rate of 0.1 percent, with more rapid declines registered between 1990 and 1994. Projections indicate no real growth between 1994 and 2000.

Although the government sector generates significant hotel demand, which has a favorable impact on local lodging facilities, much of this business is tied to a governmental per diem that is lower than the prevailing rates charged by moderate-rate and first-class lodging facilities. Although this rate-sensitivity characteristic may limit the number of government employees accommodated by the subject property, this type of demand does contribute room nights in lower-rated facilities, and thus serves to increase the area's overall occupancy level.

Major Businesses and Industries

An analysis of the market's major businesses and industries can provide an indication of the potential for commercial hotel demand, For example, more visitors are attracted by national firms than by local companies serving nearby areas. Labor-intensive businesses and financial activities are more likely to generate hotel demand than are highly mechanized firms that employ few people.

The major employers in Rockland County represent a cross-section of hotel demand potential. Some are national in scope, while others operate on a more local basis; some are engaged in product manufacturing, and others are active in research and development. Although this diversification may not maximize the area's hotel demand, it does tend to stabilize the local economy during its various cycles, Exhibit 7-16 outlines some of the major employers in Rockland County.

Most of Rockland County's major employers operate from office and industrial parks situated along the New York State Thruway. All are within a twenty-minute drive of the subject property and can be considered primary demand generators.

Office Space

Trends in occupied office space are among the most reliable indicators of lodging demand; firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Although it is difficult to quantify hotel demand on the basis of the amount of occupied office space, trends that cause changes in the amount of occupied office space or office space vacancy rates may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand.

Exhibit 7-16
Major Employers In Rockland County
Source; *Rockland County Chamber of Commerce*

Firm	Product	Number of Employee
Lederle	Pharmaceuticals	3,600
Avon Products, Inc.	Cosmetics	1,200
Chromalloy Corp.	Metals	650
BSR	Electronics	600
Lamon Geological	Geological	600
Ciba-Geigy	Pharmaceuticals	500
Swivelieri Co.	Light Fixtures	500
Le Croy	Electronics	475
Materials Research	Plastics	460
Grant Hardware	Hardware	450
St. Regis Paper	Research	450
Federal Paper	Cartons	425
Prentice Hall	Publishing	425
Xerox	Research	400
IBM	Research	400
Chrysler Motors	Automobiles	390
RCA	Electronics	350

Office space in Rockland County is concentrated in several office parks located along the New York State Thruway in Nyack, Spring Valley, and Suffern. Some additional office developments are located in the downtown districts of these areas. Most of the companies occupying office space in Rockland County are local firms or branch offices of national organizations. The area's largest office parks are summarized as follows:

Nyack Office Center:
Location: Exit 11, N.Y.S. Thruway, Nyack, New York
Size: 500 acres Number of Firms: 250
Occupied Office Space: 2,145,400 square feet Total Office Space; 2,524,500 square feet Vacancy Rate: 15 percent Major Tenants; Avon Products, Inc., Ciba-Geigy, Lederle Laboratories, U.S. Polychemical
Comments: This office park, situated approximately two miles east of the subject property, is considered the top corporate location in Rockland County. Approximately 75 percent of the available land is currently utilized and park owners expect occupied office space to increase at a rate of 2 percent to 3 percent annually.

Eastwood Office Park:
Location: Exit 14A, N.Y.S. Thruway, Spring Valley, New York
Size: 300 acres
Number of Firms: 125
Occupied Office Space: 752,300 square feet
Total Office Space: 947,000 square feet
Vacancy Rate: 10 percent
Major Tenants: Chromalloy American Corp., Materials Research, BSR
Comments: This office park typically attracts research-oriented companies. It is the largest concentration of office space closest to the subject property, which benefits directly from the transient commercial and meeting demand generated by the tenants. Approximately 60 percent of the East-wood Office Park is currently developed, and the owners expect the amount of occupied office space to increase at an annual rate of 2 percent to 3 percent.

Suffern Corporate Center:
Location: Exit 14, N.Y.S. Thruway, Suffern, New York
Size: 600 acres
Number of Firms: 73
Occupied Office Space: 367,700 square feet
Total Office Space: 461,000 square feet
Vacancy Rate: 20 percent
Major Tenants: Chrysler Motors, World-Wide Volkswagen
Comments: This new office park, situated approximately twelve miles west of the Subject property, opened in 1973. It is currently 25 percent developed, primarily with manufacturing firms. Future growth expectations for this area are 1 percent to 2 percent annually,

The Rockland County Real Estate Board maintains an inventory of occupied and available office space in the county. Exhibit 7-17 summarizes this information.

Between 1975 and 1995, available office space in Rockland County increased from approximately 6,545,000 to 7,735,000 square feet, which yields an average annual compounded growth rate of 1.7 percent. During the same period, occupied office space increased from 5,745,000 to 6,637,000 square feet, or 1.3 percent compounded annually. As growth in supply outstripped the pace of absorption, the vacancy

Exhibit 7-17 Inventory of Rockland County Office Space In Square Feet

Source: Rockland County Real Estate Board

Year	Available Space	Percent Change	Occupied Space	Percent Change	Vacancy Rate
1985	6,545,000	—	5,845,000	—	10.7%
1986	6,617,000	1.1%	6,200,000	6.1%	6.3
1987	6,637,000	0.3	6,278,000	1.3	5.4
1988	6,697,000	0.9	6,362,000	1.3	5.0
1989	7,234,000	8.0	6,398,000	0,6	11.6
1990	7,459,000	3.1	6,278,000	(1.9)	15.8
1991	7,601,000	1.9	6,123,000	(2.5)	19.4
1992	7,639,000	0.5	6,145,000	0.4	19.6
1993	7,635,000	(0.1)	6,232,000	1.4	18.4
1994	7,669,000	0.4	6,452,000	3.5	15.9
1995	7,735,000	0.9	6,637,000	2.9	14.2
Avg. Annual percent Change 1985-1995		1.7%		1.3%	

rate increased from 10.7 percent in 1975 to 14.2 percent in 1995. Nevertheless, the most recent trends indicate that the pace of new supply additions has slowed dramatically, allowing market conditions to become more balanced. Vacancy rates reached nearly 20 percent in 1992 because of oversupply and recessionary influences. Despite somewhat unfavorable trends in the local office space market, the subject site occupies a strong location with respect to a number of local business concentrations. Furthermore, the fact that a significant portion of available office space exists suggests that there is capacity for further growth in the amount of occupied space.

Highway Traffic

The subject site occupies a prominent location adjacent to the New York State Thruway and within several miles of the Garden State and Palisades Parkways. The amount of traffic passing through the market area has a direct impact on commercial and leisure demand and an indirect effect on meeting demand. Exhibit 7-18 illustrates annual traffic counts on the New York State Thruway at the Spring Valley toll plaza, on the Garden State Parkway at its intersection with the New York State Thruway, and on the Palisades Parkway at its intersection with the New York State Thruway.

Between 1974 and 1995, traffic on the New York State Thruway, the Garden State Parkway, and the Palisades Parkway increased at average annual compounded rates of 1.3 percent, 1.4 percent, and 1.6 percent, respectively. Much of the rising traffic volume can be attributed to an increase in commercial activity in the subject property's vicinity, a conclusion that is supported by the lower growth rates, and, in some cases, declines registered between 1979 and 1992, when the region was struggling through an economic recession. Traffic count trends at each location have generally been positive since 1992, though the gains have been considerably more modest than in prior years,

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area,

The subject property is situated approximately ten miles south of Stewart Airport, which is located in Newburgh, New York, This regional air facility is served by American and Delta Airlines, as well as

Exhibit 7-18 Highway Traffic Counts

Source: New York State Department of Highways

New York State Year Thruway[1]	Percent Change	Garden State Parkway[2]	Percent Change	Palisades Parkway[3]	Percent Change
1984 12,566,764	—	6,153,928	—	5,431,492	—
1985 12,943,767	3.0%	6,369,315	3.5%	5,632,457	3,7%
1986 13,614,836	5.2	6,604,980	3.7	5,846,490	3.8
1987 13,522,145	(0.7)	6,803,129	3.0	6,056,964	3.6
1988 14,377,202	6.3	7,068,451	3.9	6,299,243	4.0
1989 14,528,352	1.1	7,153,254	1.2	6,342,102	0.7
1990 14,423,351	(0.7)	7,159,265	0.1	6,423,012	1.3
1991 14,395,230	(0.2)	7,002,341	(2.2)	6,397,123	(0.4)
1992 14,412,023	0.1	7,100,256	1.4	6,445,251	0,8
1993 14,385,178	(0.2)	7,209,356	1.4	6,445,251	0.8
1994 14,525,108	1.0	7,211,369	0.0	6,428,798	0.5
1995 14,528,397	0.0	7,205,446	(0.1)	6,439,555	0.2
Avg. Annual percent Change 1984-1995	1.3%		1.4%		1.6%

[1] Spring Valley toll plaza
[2] Intersection of Garden State Parkway and New York State Thruway
[3] Intersection of Palisades Parkway and New York State Thruway

several commuter carriers. The popularity of Stew-art Airport has increased in recent years as businesses have relocated to Rockland and Putnam Counties and the New York City airports have grown more congested.

Most of the passengers arriving at Stewart Airport are commercial travelers visiting firms in Rockland and Putnam Counties, Local agencies report that airport car rentals average approximately three days, and it is reasonable to conclude that many of the arriving passengers who rent automobiles also stay in area hotels. Exhibit 7-19 shows historical and projected air passenger enplanements at Stewart Airport; cargo tonnage statistics are also presented because they provide a useful indication of manufacturing trends.

Although the actual amount of cargo shipped from Stewart Airport is small, the strong historical and projected growth rates are a favorable trend. Similarly, although the increases in enplanements are auspicious and provide some benefit to local lodging facilities, the overall impact on the area's hotel demand is minimized by the small number of passengers actually using Stewart Airport.

Rockland County Convention and Exhibition Center

Meeting and convention visitation took on greater significance in the local economy with the 1974 opening of the Rockland County Convention and Exhibition Center, This county-operated facility is located in downtown Suffern, approximately eight miles west of the subject property, and currently offers a 50,000-square-foot exhibition hall that can accommodate groups of 5,000 to 7,500 people. Fifteen additional meeting rooms seat between 25 and 500 people each.

Most of the functions presently held at the Rockland County Convention and Exhibition Center consist of retail trade shows and entertainment and sporting events. Although these activities do not generate significant lodging demand, the facility typically draws 40 to 50 meetings annually that do contribute room nights to area hotels. Exhibit 7-20 outlines the attendance figures and the number of conventions held at the Rockland County Convention and Exhibition Center since its opening,

Exhibit 7-19 Stewart Airport Statistics

Source: Stewart Airport Authority

Year	Passenger Enplanement	Percent Change[1]	Percent Change[2]	Cargo Tons	Percent Change[1]	Percent Change[2]
1978	197,105	—	—	53,120	—	—
1983	245,628	4.5%	4,5%	67,796	5,0%	5.0%
1988	297,423	3.9	4.2	88,189	5.4	5.2
1992	372,420	5.8	4.6	117,171	7.4	5.8
1995	388,876	1.5	4.1	133,288	4.4	5.6
1998	475,321	4.1	4.5	149,217	4.1	5.3
2003	609,546	5.1	4.6	194,099	5.4	5.3

[1] Annual average compounded percentage change from previous year

[2] Annual average compounded percentage change from 1978

Note: 1988 and 2003 projections provided by the Federal Aviation Administration

Exhibit 7-20
Rockland County Convention and Exhibition Center Conventions Requiring Overnight

Source; *Rockland County Convention Bureau*

Year	Number of Convention	Percent Change	Number Delegates	Percent Change
1984	14	—	7.000	—
1985	22	57.1%	12,100	72.9%
1986	36	63.6	20,700	71.1
1987	30	(16.7)	18,000	(13.0)
1988	41	36.7	25,825	43.5
1989	45	9.8	29,250	13.3
1990	46	2.2	29,623	1.3
1991	49	6.5	31,875	7.6
1992	51	4.1	33,071	3.8
1993	49	(3.9)	32,456	(1.9)
1994	47	(4.1)	32,799	1.1
1995	58	23.4	43,799	33.5
Avg. Annual percent Change 1984-1995		13.8%		18.1%

In 1993 and 1994, the Center underwent a complete renovation and expansion, designed to allow the facility to attract larger and more upscale meetings and conventions. As a result of disruptions related to this project, convention statistics declined during those two years. However, with the completion of the project, the center's visitation increased substantially in 1995, as the number of conventions and attending delegates each reached record highs. The center now features 75,000 square feet of space; it can now host groups of 7,500 to 10,000 people. An additional ten meeting rooms seating between 50 and 250 people provide ample breakout space, The entire facility has been upgraded with state-of-the art convention and conference amenities, Continued growth is projected through the near term as awareness of the facility's expansion grows.

Leisure Travel

More than 35 percent of the land in Rockland County is reserved for recreational use; thus, trends in leisure travel are key indicators of the area's lodging demand, Leisure demand is extremely beneficial to hotels because these travelers often seek accommodations on weekends, holidays, and during the summer months, when commercial demand is low. This additional patronage helps to smooth operational peaks and valleys, allowing for increased efficiency and higher profits. The New York State Department of Tourism compiles data on out-of-state tourist visitation. Exhibit 7-21 outlines these trends.

Although Rockland County receives far less tourism than the metropolitan area and New York State as a whole, these travelers do represent potential demand for local lodging facilities. The exhibit shows moderate historical increases over the long term, with some fluctuations attributed to the recent recession. On a monthly basis, Rockland County tourism activity undergoes normal seasonal peaks and valleys. Exhibit 7-22 illustrates these cycles.

Exhibit 7-21 Out-of-State Tourist Visitation (in millions)

Source: *New York State Department of Tourism*

Year	Rockland County	Percent Change	Metro New York	Percent Change	New York State	Percent Change
1984	1.5	—	15.2	—	25.8	—
1985	1.5	0.0%	17.5	15.1%	28.2	9.3%
1986	1.6	6.7	17.1	(2.3)	28.8	2.1
1987	1.7	6.3	17.0	(0,6)	29.1	1.0
1988	1.7	0.0	16.9	(0.6)	29.6	1,7
1989	1.8	5.9	17.1	1.2	31.2	5.4
1990	1.8	0.0	17,1	0.0	31.1	(0.3)
1991	1.7	(5.6)	17.0	(0.6)	30.6	(1.6)
1992	1.7	0.0	16.9	(0.6)	30.5	(0.3)
1993	1.6	(5.9)	16.8	(0,6)	30.1	(1.3)
1994	1.8	12.5	17.0	1.2	30.7	2.0
1995	1.9	5.6	17.5	2.9	30.9	0,7
Avg. Annual percent Change 1984-1995		2.2%		1.3%		1.7%

Exhibit 7-22
Rockland County Visitation by Month

Source: New York State Board of Tourism

Month	Percent of Annual Total
January	7%
February	8
March	4
April	3
May	3
June	12
July	15
August	15
September	11
October	12
November	4
December	6

Approximately 42 percent of Rockland County's leisure demand occurs during the months of June, July, and August. As a result of the region's natural beauty during the fall foliage season, weekend demand is also strong in September and October, Skiers and other winter sports enthusiasts often generate weekend hotel demand in January and February The summer months and fall and winter weekends are slow periods for commercial visitation; the leisure demand base therefore has a stabilizing effect on the market.

The point of origin of leisure travelers influences the demand for local lodging facilities; markets that draw vacationers from distant areas enjoy stronger hotel demand and longer lengths of stay than those that attract a more local clientele. According to information provided by the New York State Tourism Commission, the five states that provide the greatest amount of leisure demand in Rockland County are New York, Pennsylvania, Massachusetts, New Jersey, and Connecticut. Because all of these states are relatively close to Rockland County, much of this visitation is likely to consist of one- or two-day stays, which may benefit local hotels to some degree.

Tourist Attractions

The following descriptions of the area's tourist attractions show the variety of activities that draw leisure travelers to Rockland County, either as a destination or as a stopping point on a longer journey, By virtue of the area's well-developed highway system, numerous travelers pass through Rock-land County bound for destinations outside of the subject property's market area; some of these individuals use local lodging facilities.

Palisades Interstate Park System. The Palisades Interstate Park System consists of eleven recreational areas. These parks provide more than 6,000 acres of land for a variety of recreational uses, including golf courses, tennis courts and water sports, as well as scenic spots for picnicking or hiking,

U.S. Military Academy. This nationally known, time-honored institution, located approximately fifteen miles north of Spring Valley in West Point, New York, is among the area's most popular tourist attractions, West Point offers a variety of visitor activities: the Information Center features films and displays on cadet training, the West Point Museum has exhibits on military history and ordinance, and nearby Fort Putnam is a fully restored Revolutionary War fortification. Visitor counts at the West Point Information Center show moderate historical growth. As Exhibit 7-23 indicates, the recent recession affected visitation during the early 1990s.

Exhibit 7-23

West Point Visitor Trends

Source: West Point Information Center

Year	Number of Visitors	Percent Change
1985	232,793	-%
1986	242,338	4.1
1987	237,249	(2.1)
1988	244,366	3.0
1989	246,890	1.0
1990	253,852	2.B
1991	248,325	(2.2)
1992	241,230	(2,9)
1993	240,339	(0,4)
1994	249,782	3.9
1995	250,856	0.4
Avg. Annual percent change 1985-1995		0.8%

Between 1975 and 1995, visitation to West Point increased at an average annual compounded rate of 0.7 percent. Although the absolute visitor count has some importance in evaluating local hotel demand, the average annual compounded increase provides a solid benchmark for projecting growth in the leisure market segment. Discussions with West Point officials indicate that they expect future increases that are similar to those registered historically. It should be noted that 75 percent of West Point visitation is concentrated in the months of June, July, and August. The remaining 25 per cent is largely contributed by weekend guests or individuals attending special events at the Academy,

Sunnyside. Washington Irving's Hudson River estate is in Tarrytown, approximately eight miles east of the subject property This beautifully landscaped estate, which was constructed in 1735, contains Irving's furnishings, personal effects, and library.

Philipsburg Manor. Situated in North Tarrytown, Philipsburg Manor is a restored seventeenth-century manor house that features an operating gristmill, a granary, a wharf, and a wooden dam across a local river.

Old Dutch Church of Sleepy Hollow. This quaint Dutch church was built in Tarrytown in 1690 on what had been the manor of Frederick Philipse. The building is fully restored, and includes a replica of the original pulpit.

Stony *Point Battlefield and Museum.* This restoration of the historic Stony Point Battlefield is located approximately eight miles north of the subject property. The park features a number of cannons and bunkers, as well as a museum displaying an extensive collection of firearms from the Revolutionary War,

Nyack's "antique row." Nyack, eight miles east of Spring Valley, is a popular destination for antiques enthusiasts.

Our review of various economic and demographic data indicates that the subject property's market area has undergone moderate growth since 1970, although the national and regional recession caused some declines during the early 1990s. Projections suggest an economic recovery, although growth rates are not expected to reach the levels registered during the 1970s.

Summary of Market Conditions

Demand for transient accommodations in the Rockland County area is primarily generated by three market segments: commercial, meeting and convention, and leisure (see Exhibit 7-24). Field-work, area analysis, and knowledge of the local lodging market allow the following estimate of the distribution of the accommodated hotel room night demand during 1995 to be made.

Using the distribution of accommodated hotel demand as a starting point, an analysis of each market segment follows that defines the various segment characteristics and presents an estimate of future trends in room-night demand. All figures in the exhibits that follow that include dollar amounts have been adjusted for inflation, and thus

reflect real change.

Exhibit 7-24
Market Demand Segmentation

Segment	Room Nights	Percent of Total
Commercial	45	45.0%
Meeting & Convention	25	25.0
Leisure	20	20
Airline	10	10.0
Totals	100	100.0%

Commercial Market Demand

In the market surrounding the proposed subject property, the commercial segment consists primarily of individual business people visiting local firms. In addition, a smaller portion of commercial demand represents business travelers passing through the area en route to another destination who stop at local highway-oriented lodging facilities because they provide a convenient resting point.

Commercial demand in the subject market is generated by a wide variety of corporations, with the computer industry and other high-technology employers exhibiting some dominance. This high-technology environment is considered favorable, because these industries are likely to undergo strong growth over the long term. Large firms operating in the area include IBM; Xerox; Lederle Laboratories; Avon Products, Inc.; Chromalloy American Corp.; BSR; Lamon Geological; Ciba-Geigy; Materials Research; and Prentice Hall. Individuals visiting smaller local companies also contribute a significant portion of the area's hotel demand. In addition, business travelers passing through Spring Valley en route to other destinations may stop at local lodging facilities because they provide a convenient resting point along the area's major highways.

The recent recession had a negative impact on commercial demand throughout the United States, and the northeastern region was particularly vulnerable. A number of local firms have undergone cutbacks during the past several years, and layoffs at IBM were particularly well publicized. Despite the lingering effects of the economic downturn, some experts are beginning to note signs of recovery. Our projections reflect an economic rebound during the next several years, although growth rates are not expected to return to the levels achieved during the mid-1970s.

To reach a specific forecast of commercial demand growth, the data that most clearly reflects changes in commercial visitation has been evaluated, The data listed in Exhibit 7-25 is relevant in forecasting future trends in commercial visitation.

Projections indicate renewed growth trends, but at lower levels than those experienced during the 1970s. Between 1994 and 2000, population is expected to increase at an annual rate of only 0.1 percent. Employment in wholesale trade, FIRE, and services sectors are projected to grow at 1.9 percent, 0.7 percent, and 0.3 percent per year, which is somewhat slower than the previous decade. Office space absorption is still positive, and airport passenger enplanements are expected to increase at 6.9 percent per year between 1995 and 1997,

On the basis of this economic and demographic data, one can estimate that commercial hotel demand in the Spring Valley market probably grew at rates of 5 percent to 6 percent per year during the 1970s. A multiplier effect can generally be found between employment growth in the important sectors set forth and the actual percentage increase in commercial lodging demand (i.e. one new FIRE employee will generate more than one new transient visitor). With the recent slow-down in local economic growth, a concurrent reduction in the increase of commercial hotel demand can be anticipated. However, as the national and international economy recovers and the many prominent local businesses start to increase their levels of production and employment, commercial hotel demand can be expected to demonstrate consistent, if modest, growth. Specifically, projections indicate that the commercial segment will increase by 2.5 percent per year through 1998.

Meeting and Convention Market Demand

Most meeting and convention demand in Rockland County is generated by local businesses; events may include training sessions, small exhibits, product announcements, meetings, and seminars. These small functions generally range from twenty to fifty people. Civic groups and professional societies are a secondary source of meeting and convention demand; attendance at these non-commercial events usually ranges from 75 to 250 people, Most meetings and conventions in the subject property's market area are held at local hotels;

large groups that require more space generally use the Rockland County Convention and Exhibition Center.

Future meeting and convention demand is

HVS

Exhibit 7-25 Commercial Visitation Data for Rockland County

Data Type	Period	Data Point	Data Point	Avg. Annual Comp. Change
Population				
Historical	1980-1994	259.6	272.4	0.3%
	1990-1994	265.9	272.4	0.6
Projected	1994-2000	272.4	274.7	0.1
Retail Sales				
Historical	1980-1994	1,394,7	1,534.8	0.7
	1990-1994	1,569.5	1,534.8	(0.6)
Projected	1994-2000	1,534.8	1,774.1	2.4
Personal Income				
Historical	1980-1994	4,461.8	5,907,2	2.0
	1990-1994	5,823.2	5,907.2	0.4
Projected	1994-2000	5,907.2	6,489.5	1.6
Personal Income Per Capita				
Historical	1980-1994	17,188.0	21,687.0	1.7
	1990-1994	21,898.0	21,687.0	0.4
Projected	1994-2000	21,687.0	23,625.0	
Historical Employment				
Construction	1980-1994	3.7	4.7	1.7
Manufacturing	1980-1994	16.4	14.6	(0.8)
Transportation, Communications & Public Utilities	1980-1994	4.1	6.6	3.5
Total Trade	1980-1994	22.2	24.5	0.7
Wholesale Trade	1980-1994	4.9	6.6	2.2
Retail Trade	1980-1994	17.3	17.9	0.3
Finance, Insurance & Real Estate	1980-1994	7.2	11.1	3.2
Services	1980-1994	26.8	43.9	3.6
Total Government	1980-1994	21.4	21.1	(0.1)
Total Employment	1980-1994	102.7	127.5	1.6
Projected Employment				
Construction	1994-2000	4.7	4.6	(0.1)
Manufacturing	1994-2000	14.6	14,4	(0.2)
Transportation, Communications & Public Utilities	1994-2000	6.6	6.6	0.0
Total Trade	1994-2000	24.5	24.4	(0.1)
Wholesale Trade	1994-2000	6.6	7.4	1.9
Retail Trade	1994-2000	17.9	17.0	(0.9)
Finance, Insurance & Real Estate	1994-2000	11.1	11.6	0.8
Services	1994-2000	43.9	44.6	0.3
Total Government	1994-2000	21.1	21.2	0.0
Total Employment	1994-2000	102.7	127.5	1.6
Office Space				
Available	1985-1995	6,545.0	7,735.0	1.7
Occupied	1985-1995	5,845.0	6,637.0	1.3
Non-Residential Building Activity	1985-1995	1,105.0	1,207.0	0.9
Traffic Counts				
New York State Thruway	1984-1995	12,566.8	14,528.4	1.3
Garden State Parkway	1984-1995	6,153.9	7,205.4	1.4
Palisades Parkway	1984-1995	5,431.5	6,439.6	1.6

Exhibit 7-25 Commercial Visitation Data for Rockland County (cont.)

Data Type	Period	Data Point	Data Point	Avg. Annual Comp. Change
Airport Statistics				
Historical Passenger Enplanements	1978-1995	197.1	388.9	4.1
Projected Passenger Enplanements	1995-1998	388.9	475.3	6.9
Historical Air Freight	1978-1995	53.1	133.3	5.6
Projected Air Freight	1995-1998	133.3	149.2	3.8

closely related to growth in the commercial segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and convention demand. The exception is non-commercial meetings, which are tied to the economic factors that influence leisure travel, It should be noted that meetings and conventions are booked in advance; consequently, growth in this segment lags slightly behind increases in commercial demand. The relevant economic and demographic data for the meeting and convention market segment includes all the data used in assessing the commercial segment (see Exhibit 7-25), plus the following additional information presented in Exhibit 7-26.

Local commercial activity is expected to show a modest, consistent gain during the next several years as the national and international economies improve and local businesses start to increase their levels of production and employment. These factors will also have a positive impact on business-oriented meetings and conventions, which constitute the bulk of the demand in this segment,

Specific meeting- and convention-related data involves the Rockland County Convention and Exhibition Center, According to officials of the Rock-land County Convention Bureau, the recent sales and marketing efforts have been extremely positive, and a sizable amount of new hotel demand was accommodated in 1995 as a result of this facility's increased capacity.

Meeting and convention demand in the Rock-land County area has historically grown at an annual compounded rate of between 1 percent to 2 percent. Because of the recent recession, this rate of growth has not been achieved during the past several years, but indications are good that future leisure demand in the area will once again pick up to this slow to moderate level of growth.

Given this economic and demographic data, along with consideration of the demand potential of the renovated and enlarged convention and exhibition center, it is fair to estimate that meeting and convention demand in the Spring Valley market area will increase by 4,0 percent in 1996, with the rate of growth decelerating to 3.0 percent in 1997 and 2,0 percent in 1997 and each year thereafter.

Exhibit 7-26 Meeting and Convention Visitation Data—Rockland County

Data Type	Period	Data Point	Data Point	Avg. Annual Comp. Change
Convention Activity—Rockland County Convention & Exhibition Center				
Convention Attendance	1984-1995	7,0	43.8	18.1%
Number of Conventions	1984-1995	14.0	58.0	13.8
Tourist Visitation				
Rockland County	1984-1995	1,500.0	1,900.0	2.2
West Point Visitation	1985-1995	232,8	250.9	0.8

Leisure Market Demand

In the area surrounding the subject property, leisure demand is generated by the many sites and attractions previously described in this study. The excellent highway system and the New York State Thruway in particular create demand from travelers en route to other destinations.

Future leisure demand is related to the overall economic health of the nation. Trends showing changes in state and regional unemployment and disposable personal income generally have a strong correlation with noncommercial visitation. Traffic counts on nearby highways and attendance levels at local attractions can also form a basis for projections.

As shown by the data set forth in Exhibit 7-27, trends in tourism provide the most supportable base from which to forecast growth in leisure demand. Traffic counts are of less importance, because they are influenced by commercial travel. Leisure visitation to Rockland County between 1974 to 1995 increased at an annual compounded rate of 2.2 percent, with a recent uptick noted following the years of recession in the early 1990s, The largest local tourist destination, West Point, has experienced a 0.7 percent annual visitor growth since 1974.

On the basis of this specific economic and demographic data for the Spring Valley market area, along with a general sense of the economic recovery taking place in the regional (northeastern) economy and the nation as a whole, leisure demand can be expected to show a moderate long-term growth trend. Specifically, leisure hotel demand can be projected to increase at annual rates of 1.0 percent throughout the projection period of this case study.

Airline Market Demand

For purposes of this case study, a fourth demand segment has been identified as being distinct and significant in size. Airline demand is generated by airline crews and delayed passengers making use of nearby airport facilities. The airlines typically contract rooms in nearby hotels and motels for extended periods of time to ensure the availability of accommodations. Because they are able to guarantee a specific usage on a daily basis, airlines are usually able to negotiate a highly discounted room rate. This type of demand can be beneficial for a lodging facility because it provides a base level of occupancy for extended periods of time, which normally include weekends and slow periods of the year. Offsetting the occupancy benefit is the low contract room rates, which will adversely affect the average rate of the property. Skilled hotel operators will use airline patronage to fill in periods of low demand and will quickly displace this type of occupancy when other, higher-rated market segments offer better potential.

As Exhibit 7-19 showed, passenger enplanements at Stewart Airport increased at an average annual compounded rate of 4.1 percent between 1977 and 1995 and projections indicate slightly stronger growth of 6.9 percent per year between 1995 and 1997. Air freight levels historically increased at 5.6 percent per annum and is expected to grow at 3.7 percent per year during the next three years,

While these figures indicate a favorable trend for future airline activity at Stewart Airport, it must be noted that this facility is situated ten miles north of the Spring Valley hotel market area. As a result of this distance, airlines generally use the Spring Valley hotels as overflow for their crews favoring lodging facilities more conveniently located near Stewart Airport. For that reason, the Spring Valley overflow airport room-night demand can be expected to grow at 1,0 percent per year.

Conclusion

Various economic and demographic data has been evaluated here to determine how clearly it reflects future changes in transient demand. On the basis of this procedure, and adding a degree of conservatism because the subject property as yet has no track record, the following forecast of market segment growth rates has been made (see Exhibit 7-27).

Exhibit 7.27

Projected Market Segment Growth Rates

Segment	1996	1997	1998	1999	2000
Commercial	2,5%	2.5%	2.5%	2.5%	2.5
Meeting and	4.0	3.0	2,0	2.0	2.0
Leisure	1.0	1.0	1.0	1.0	1.0