



Evaluating Lodging Opportunities

This section explores market opportunities for new lodging accommodations in the downtown area. It will help you understand travel and visitation trends, existing competition, traveler market segments in the area, and projected room night demand. This section will help you project the occupancy and average room rate, key variables in determining the viability of a new hotel downtown.

Hotels can be an extremely valuable addition to a downtown area. They bring leisure visitors and business people to the heart of a community. They can fill a compelling market need by accommodating visitors to area businesses and institutions. Hotels can generate sales for nearby retail and service businesses and capture tourism dollars in the community. Hotels also generate significant tax revenues while creating many new jobs for local residents.

Because of their central location, downtowns often provide great market opportunities for hotel development. Downtown sites are typically within close proximity to businesses and industry, colleges, hospitals, attractions, services and entertainment. These are important generators of room-night demand.

Market conditions in your area have a significant impact on the feasibility of a new hotel. The strength of the local lodging market affects how many rooms you can sell and the rates that you can charge. This section will help you analyze your market so that you can gauge the market potential of a new lodging facility in your community. This analysis is especially important in demonstrating the potential of downtown locations, as many lodging developers often prefer suburban or highway sites.

This section will help you collect and analyze information as part of a lodging market analysis. The analysis is tailored to the hotel/motel industry and should answer the following:

- What trends are occurring in the lodging industry?
- Are local economic and visitation trends favorable?
- Who are the competitors and how successful are they?
- What are the potential lodging market segments in the area?
- What occupancy and average room rate could a new property achieve?

Using your projections of occupancy and average room rate, you can estimate whether a new lodging facility would make financial sense in your downtown.

The material that follows include data collection and analysis techniques as outlined in the flowchart. While the part on projecting sales volume should be the final step, the other parts can be completed in any order.

Learn more:

[Lodging Consumer Trends](#)

[Market Area Business and Tourism Activity](#)

[Lodging Demand Analysis by Segment](#)

[Lodging Competition Analysis](#)

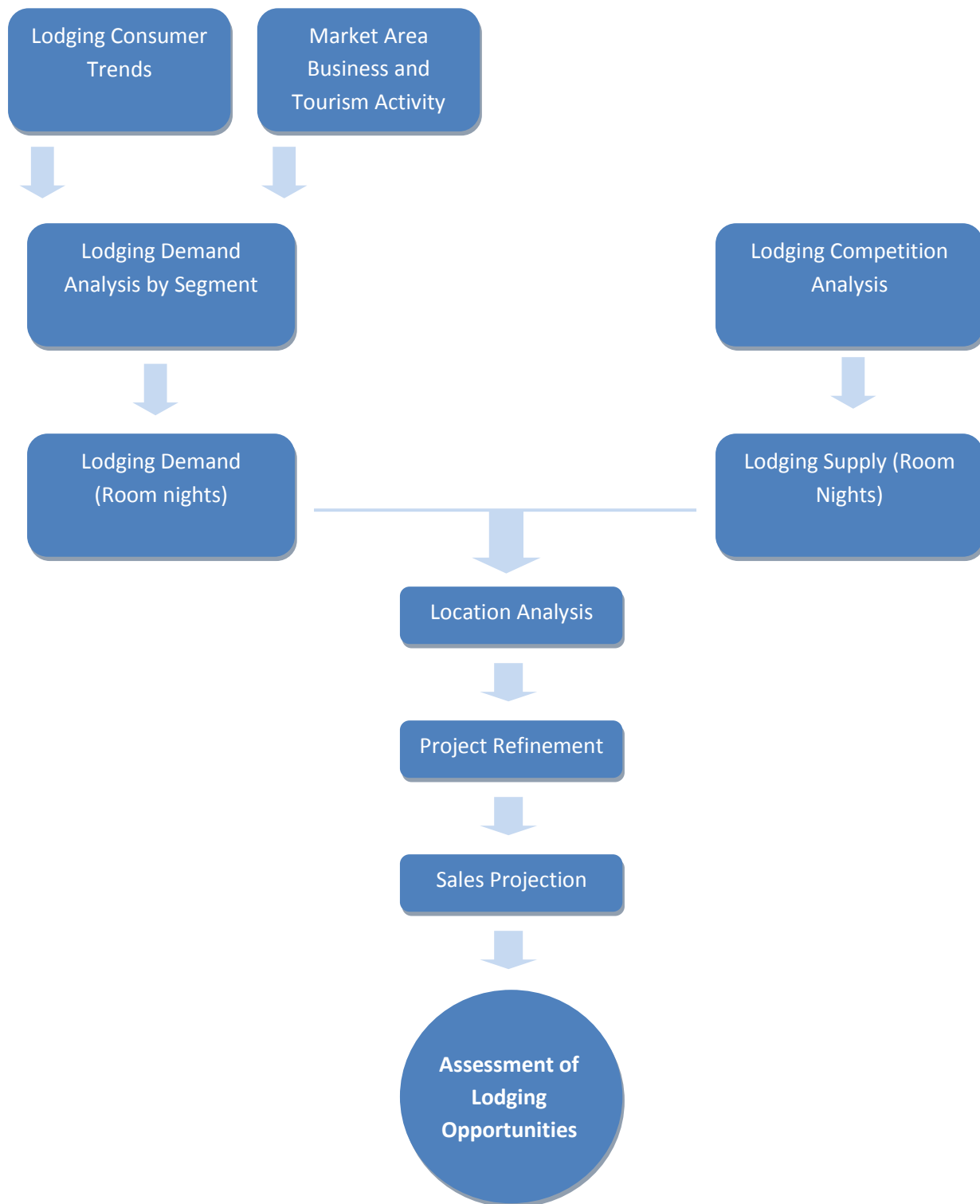
[Location Analysis](#)

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Process of Evaluating Lodging Opportunities

Lodging Consumer Trends

National and regional industry trends need to be considered as they may affect the profitability of a new lodging operation in your community. Relevant trends might include the growth in demand for overnight accommodations, changes in travelers' lodging needs, and new, innovative properties that are opening around the country.

There are various sources of trend information including the American Hotel and Lodging Association; state and local hotel/motel associations; hospitality industry libraries available at many colleges and universities; industry publications (such as *Cornell Hotel and Restaurant Quarterly*, *Hotel & Motel Management* and *Lodging*); web sites such as *hotel-online.com*. Other industry related research provided by accounting and consulting firms specializing in the lodging industry (such as Smith Travel Research and Pannell Kerr Forster).

The following provides a sample of topics you might want to study as part of your market analysis. Be sure to expand this list as needed.

- **Growth in Industry** - limited service vs. full service, chain vs. independent, downtown vs. suburban, etc.
- **Market Demand** - occupancy and room rates, business travel trends, leisure travel trends, group travel trends, and lodging preferences of various market segments.
- **Market Supply** - aging of existing lodging facilities, new types of properties, growth in number of properties, and alternative lodging accommodations (such as bed & breakfast operations and inns).
- **Success and Failure Factors** - service, facilities, amenities, pricing practices, reservation systems, efficient property sizes, debt-to-sales and other financing statistics

Market Area Business and Tourism Activity

Hotels that primarily serve business travelers usually rely on the strength of the local business community. The size, stability and diversity of major local employers are important factors that should be researched. Plans for future business development should also be studied including growth in professional and technical employment. Local planning officials and chambers of commerce are good sources for this information. Ask for information to help you understand trends over the past ten years and the future outlook.

Hotels in resort areas typically rely on local attractions to bring in customers. Attractions may include natural or scenic sites, recreational activities, cultural or historic sites, special events and shopping and entertainment. Operators of these attractions can sometimes provide you with estimates of attendance and seasonality trends.

An analysis of the transportation network serving the market area is also important. Existing streets and highways and proposed improvements should be identified. Distances to feeder markets (where the guests originate) may be particularly important for resort hotels. Local economic and demographic trends should also be considered.

Examine the following market area characteristics and include all information relevant to a new property in your community. Use several years' data to identify trends.

- **Business and Economic Characteristics** - room tax collections, * eating and drinking place sales, retail sales, employment (levels, types, major employers), office/industrial space occupied, and exiting and future major employers.
- **Tourism and Recreation Characteristics** - visitation to parks, lakes, beaches, museums, casinos, festivals and events and other attractions.
- **Transportation Factors** - distance from major cities, traffic counts, airport service, ferry volume and passenger rail volume.

*Municipal room tax collections can provide you with a measure of the growth in lodging revenues during the past three to five years. This is typically a reliable source of data to supplement your analysis of area competition.

Lodging Demand Analysis by Segment

Based on local business and tourism activity, you should identify what market segments of overnight guests visit your community. These market segments typically fall into four categories: business, leisure, group, and other.

Business Travelers

Business travelers represent a large portion of lodging demand in many market areas. They include people traveling on business representing commercial, industrial and governmental organizations. Peak business demand is usually experienced Monday through Thursday nights.

It is important to understand why business travelers are visiting the market area and how many room nights they generate. Reasons for visiting a particular area might include conducting business with a local company (recruiting, training and management meetings); calling on multiple businesses (by suppliers, vendors and sales representative); and stopping over between destinations.

Interviews with local business representatives can be the most effective way to estimate how many room nights they might generate. Questions to ask include: type of visitors, frequency of visits, length of stay, where most visitors tend to stay and what rate range is acceptable.

Leisure Travelers

Leisure travelers may visit an area for a vacation, to attend sporting or social events, to shop, or to visit friends and relatives. They might be staying over simply because they are traveling to other destinations. Leisure travelers may be individuals, couples, families, or small groups. Travelers visiting hospitals and universities are typically included in this market segment.

Leisure room demand is often seasonal. In larger, more urban market areas, leisure room demand may be limited to weekends, summer months and holiday periods. To measure the significance of leisure demand in your market area, interview the local visitor bureau, chamber of commerce and local event and attraction operators. Also, study variations in room rates by day of week and time of year. Higher rates usually indicate periods of higher occupancy. Finally, inspect local hotels to determine if they have been designed to serve leisure travelers. Recreational facilities such as pools, fitness centers, tennis courts, snowmobile trails and other features may indicate the importance of leisure travelers to a particular property.

Group Meeting Travelers

The group market consists of both leisure and business travelers. Leisure groups include bus tours, school activities, athletic events, etc. Tour groups are often brought to an area for sightseeing and attending special events. Local attractions that appeal to leisure tour groups may have records of the numbers and names of tour operators who have visited their

attractions. The National Tour Association and American Bus Association, among others, can provide information on tour activity.

Business group meetings are typically associated with conferences, board meetings, training programs, seminars, trade shows, and other gatherings. Often the sponsoring organization will be from the local area. Out-of-town organizations may use local meeting facilities because they often rotate the sites of their regional meetings. Information on the group meeting market can be obtained through state chapters of Meeting Planners International and the American Society of Association Executives. Your community's convention and visitors bureau or chamber of commerce can usually provide a good estimate of local group meeting activity.

Other Travelers

Various lodging customers cannot be classified under the categories of business, leisure, or group. These travelers may include construction workers, truckers, utility crews, airline personnel and others. Activity at local truck stops, distribution centers, long term construction projects and other sources of demand could help you estimate the significance of this market segment.

Lodging Competition Analysis

The most important part of a lodging market analysis is the study of current and proposed competition. The operating performance of existing local competition is a key indicator of market potential. Conduct interviews with area hotel operators to effectively complete this part of your study.

An important part of your competition analysis is estimating the monthly and annual operation performance of each competitive property. Performance can be measured in terms of occupancy percent and average daily room rate.

Occupancy Percent = number of rooms sold / number of rooms available

Average Daily Room Rate = total room revenue / number of rooms sold

In addition to occupancy and average room rates, each operation should be carefully studied to determine its strengths, weaknesses and competitive position in the market area.

Information on your competition can be obtained from interviews with management, hotel websites, *American Automobile Association Tourbook*, *Mobil Travel Guide*, and state and local lodging directories.

You should also investigate any plans for other new lodging operations in the area. Too many new rooms can lead to depressed occupancy levels and "price wars." Local planners and the development departments of hotel companies are usually aware of developments proposed for your community.

The following items will help you analyze each competitor.

- **Location** - proximity to sources of lodging demand, accessibility, visibility and surrounding neighborhood
- **Facility** - age, exterior appearance and condition, interior appearance and condition, cleanliness, signage, types of rooms (suites, standard room,...), food and beverage outlets, function rooms and recreation (pool, fitness center)
- **Service** - quality of service and extra services offered
- **Operating Information (from managers)** - weekday vs. weekend demand patterns, historical occupancy growth or decline, monthly occupancy levels, number of 100% occupancy days per month, average room rate per month (after any discounts), major market segments served per month and major sources of demand
- **General Information** - number of rooms, months open, published rates, franchise affiliation, ratings in travel guides, local reputation and plans for expansion or improvements

Location Analysis

Location is a critical consideration because it impacts your ability to draw customers. It is important that your location be visible, accessible, convenient and attractive to your market. Surrounding land uses are important for all types of lodging operations. High traffic volume is very important. Aesthetics of the area, noise, safety and other factors should be considered. How you evaluate your location will depend on the type of property you are considering and the customers you hope to serve.

Hotels benefit from high visibility and proximity to generators of room night demand. Local colleges, hospitals, attractions, services and entertainment are examples of “room night” demand generators. Be sure to consider future growth patterns when analyzing your location.

Hotels in resort areas generate most of their business from leisure travelers who see the lodging facility and surrounding area as their “destination.” Access and visibility, while important, are secondary to the quality of the facility, services, amenities, and nearby attractions.

Different types of lodging operations will have different location requirements. Analyze your location using the factors listed below. Be sure to consider other location criteria to your particular hotel development.

- **Description of Immediate Area** - commercial profile, adjacent land uses, proposed developments, safety, and availability of nearby services (food, services, shopping)
- **Proximity to Demand Generators** - businesses, colleges, hospitals and other institutions, convention facilities, and tourist attractions (museums, historical sites, recreation).
- **Traffic Volume** - highway/street traffic counts and traffic patterns
- **Accessibility** - proximity to major streets and highways, ease of entrance and exit
- **Other Issues** - Site size and social, political and environmental concerns related to development downtown.

Project Refinement

In planning for a new downtown hotel, it is essential to understand the lodging needs of people visiting your community. Using data already gathered, this part will help you refine your proposed hotel concept so that it can effectively serve your market area.

Segments of the industry include luxury, full service, midmarket, economy, resort, extended stay and subcategories of these hotels. It is important to match the lodging concept (or segment) considered with the needs of travelers to the area. For example, the extended stay hotel concept works best in areas with a high concentration of office and corporate headquarters that bring in people for longer stays.

One of the most important considerations in refining your hotel project is estimating the total number of guestrooms. Optimum room size is dependent on a number of variables including market area room demand as measured by occupancy rates; financial resources available to the developer and minimum room size allowed by a franchiser. Keeping the project within the optimum size range will help ensure financial success while reducing the risk of over-building within a market area.

Using the items below identify development criteria for a new hotel in your downtown area.

- **Affiliation** - independent or chain.
- **Product Category** - limited or full service
- **Room Type and Number** - standard rooms, suites and specialty rooms
- **Amenities and Facilities** - restaurant and lounge, function facilities, recreation (pool and fitness center).
- **Market Area to be Served** - as defined by primary competition.
- **Market Segments to be Served** - business, leisure, group and other categories.
- **Expected Price Range** - peak and slow periods

Sales Projection

Room sales in a hotel are a function of occupancy percent and average room rate as defined earlier. A key indicator of future performance is past performance of other properties in the market area. The steps that follow will help you estimate your occupancy, room rate and resulting sales potential.

Step 1: Project Market Area Annual Occupancy

Project the occupancy for your entire market area for the coming year using the following procedure. See the following example as a guide for projecting market area occupancy.

- A. Under *Area Hotels*, list all of the competitive properties in your market area. If you are an existing operator, be sure to include your own property.
- B. For each property, record the *Days open*, *Rooms* in the property, and the estimated *Occupancy Percent*.
- C. For each property, calculate and record the number of *Rooms Available* per year by multiplying *Days Open* by *Rooms*. Sum the *Rooms Available* column.
- D. For each property, calculate and record the number of *Rooms Sold* per year by multiplying *Rooms Available* by *Occupancy Percent*. Sum the *Rooms Sold* column.
- E. Calculate the current market occupancy by dividing the sum of *Rooms Sold* by *Rooms Available*.
- F. Looking ahead to next year, record any additional rooms (New Room Supply) that will be added to the market area. Include your planned downtown hotel here.
- G. For next year, record additional growth in room night demand that might occur as a result of improving economic conditions, tourism visitation, or simply as a result of having new lodging rooms added to the market area.
- H. Record the Total Area *Rooms Available* and *Rooms Sold* for next year (current year totals plus additions from steps F and G). Calculate next years market occupancy by dividing *Rooms Sold* by *Rooms Available*.

Current Year	2011	<u>Lodging Supply:</u>			<u>Lodging Demand:</u>		
		<u>Area Hotels</u>	<u>Days</u>	<u>Rooms</u>	<u>Room Avail</u>	<u>x Occupancy</u>	<u>=Rooms Sold</u>
		Hotel Midtown	365	80	29,200	68%	19,856
		Downtown Inn	365	75	27,375	69%	18,889
		Roadside Inn	365	45	16,425	70%	11,498
		Traveler's Inn	365	40	14,600	62%	9,052
		Highway Motel	365	30	10,950	66%	7,227
		Suburban Inn	365	20	<u>7,300</u>	<u>58%</u>	<u>4,234</u>
		Total Area			105,850	67%	70,755
Next Year	2012						
		New Room Supply	365	60	21,900	-	-
		New Room Demand	-	-	<u>-</u>	<u>-</u>	<u>3,650</u>
		Total Area			127,750	58%	74,405

Example Projection of Market Area Occupancy

Step 2: Project Your Property's Capture of Market Area Annual Occupancy

Based on your hotel's relative strengths and weaknesses, determine if a downtown property will achieve an occupancy higher or lower than the market occupancy projected in step one.

Compare your proposed operation with the competitive properties in your market area using the criteria in the example Strengths-Weaknesses grid (see grid below). Be sure to keep in mind the types of travelers that make up local lodging demand. Then, estimate your proposed property's occupancy projection based on these strengths and weaknesses.

	Competitive Strength ←-----→ Competitive Weakness					
Immediate area	-	X	-	-	-	-
Proximity to demand	X	-	-	-	-	-
Traffic volume	-	-	-	X	-	-
Accessibility	-	-	-	X	-	-
Visibility	-	-	-	X	-	-
Building Appearance	X	-	-	-	-	-
Guest Rooms	X	-	-	-	-	-
Reputation and Ratings	-	X	-	-	-	-
Franchise Affiliation	-	X	-	-	-	-
Management	-	X	-	-	-	-
Maintenance	X	-	-	-	-	-
Projected Annual Occupancy:						
Market Area	58%					
Proposed Property	64%					

Example Strengths-Weaknesses Grid to Evaluate Proposed Property

Step 3: Check the Reasonableness of Your Occupancy Projection

Once you have projected your annual occupancy, determine if it is reasonable given the historic seasonal demand patterns in the market area. First, identify the seasonal trends for each market segment. Based on these demand patterns, estimate monthly occupancy levels. The average occupancy level for the 12 months should be similar to your annual projection in step 2. See the following example.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Seasonality - Indicate Peak-Season (P), Middle-Season (M) or Off-Season (O):												
Business	M	M	M	P	P	P	O	O	P	P	M	O
Leisure	M	M	O	O	M	P	P	P	M	M	O	O
Group	O	O	M	M	P	P	O	O	P	P	M	O
Rooms Available:												
Days Open	31	28	31	30	31	30	31	31	30	31	30	31
x Rooms	100	100	100	100	100	100	100	100	100	100	100	100
= Avail.	3,100	2,800	3,100	3,000	3,100	3,000	3,100	3,100	3,000	3,100	3,000	3,100
Annual Total = 36,500 rooms available												
Rooms Sold:												
x Occ %	45%	45%	35%	60%	80%	85%	90%	90%	75%	65%	50%	45%
= Sold	1,395	1,2260	1,395	1,050	1,860	2,400	2,635	2,790	2,700	2,325	1,950	1,550
Annual Total = 23,310 rooms sold or 64% occupancy												

Example Occupancy Reasonableness Check

Step 4: Project Your Average Room Rate

Effective pricing is critical in the lodging business as increases or decreases in rates have a major impact on the “bottom-line.” Setting prices to maximize profit is an important process that requires consideration of the rates charged by competitors and the price sensitivity of travelers to the area. The following four steps will help ensure that you are competitively priced relative to your competition.

- **Analyze your expected market segments.** What factors do they consider when choosing a lodging facility (such as location, service, condition, and affiliation)?
- **Compare your expected quality level and appeal with that of your competitors.** Make this comparison using the factors identified in step 2.
- **Analyze the room rates charged by your competitors.** Consider single and double rates, discounting, and variations in rates by season. Estimate their average annual room rate.
- **Project your average annual room rate by considering the rates and quality levels of your competitors.** Your rates must be acceptable to the market segments you are targeting.

Step 5: Project and Analyze Your Sales

After you have developed projections of occupancy and average room rate, you will be able to calculate the projected room revenue. These performance estimates can then be compared with industry standards to determine whether the project would be attractive to a developer. See the following example.

	<u>Proposed Hotel</u>	<u>Industry Average</u>
Projected Annual Occupancy	64%	67%
x Number of Rooms in Your Hotel or Motel	100	-
x Days Open	365	-
x Average Room Rate	\$85	\$75
= Projected Annual Room Revenue	\$2,000,000	—
Revenue per Available Room (RevPar)	\$55	\$50

Example Projection of Sales and Comparison to Industry

Analyzing the Results

Once your calculations are complete, compare your annual occupancy, average room rate and RevPar projections with state and national averages (see "industry trends" earlier in this section). Study these projections carefully to make sure they are realistic.

If your projections are near or above the state or national averages for the type of property you are proposing, lodging should be considered a possible market opportunity for your downtown area. While more detailed feasibility work will be needed, this assessment should provide developers with an important market overview of lodging development opportunities downtown.

Appendix - Using GIS to Demonstrate Downtown's Location Advantage

Downtown hotels often have location advantages over suburban properties. They are often closer to major demand generators such as hospitals, colleges and large employers. In addition they often have a high concentration of dining, entertainment, retail, and other services that complement a visitor's overnight stay.

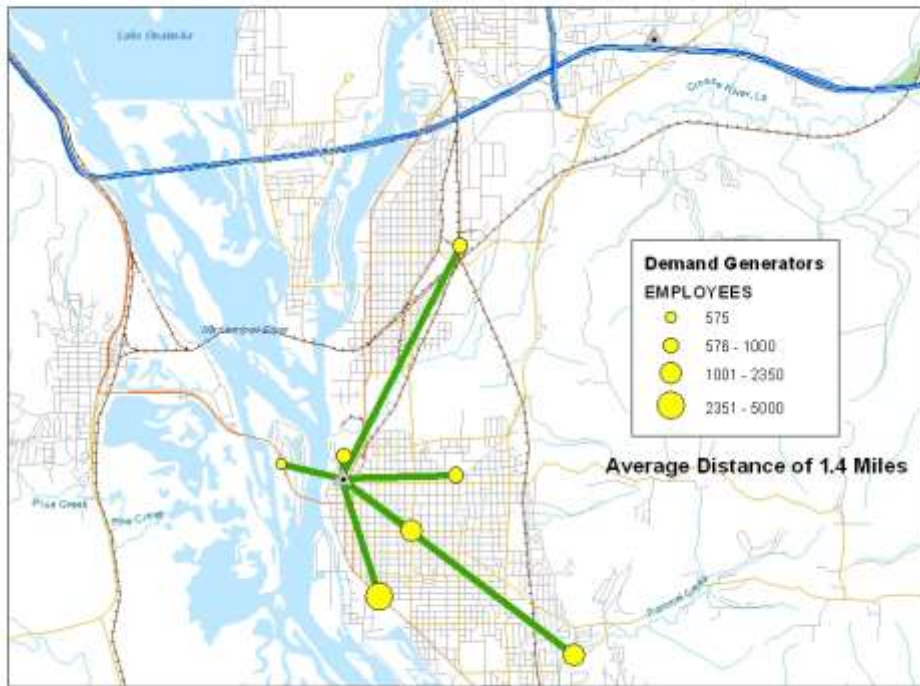
GIS can be used to identify these advantages and provide data to prospective investors as a means of attracting development downtown.

One method of demonstrating downtown's location advantage is to measure its proximity to local lodging demand generators. This can be done using GIS as follows:

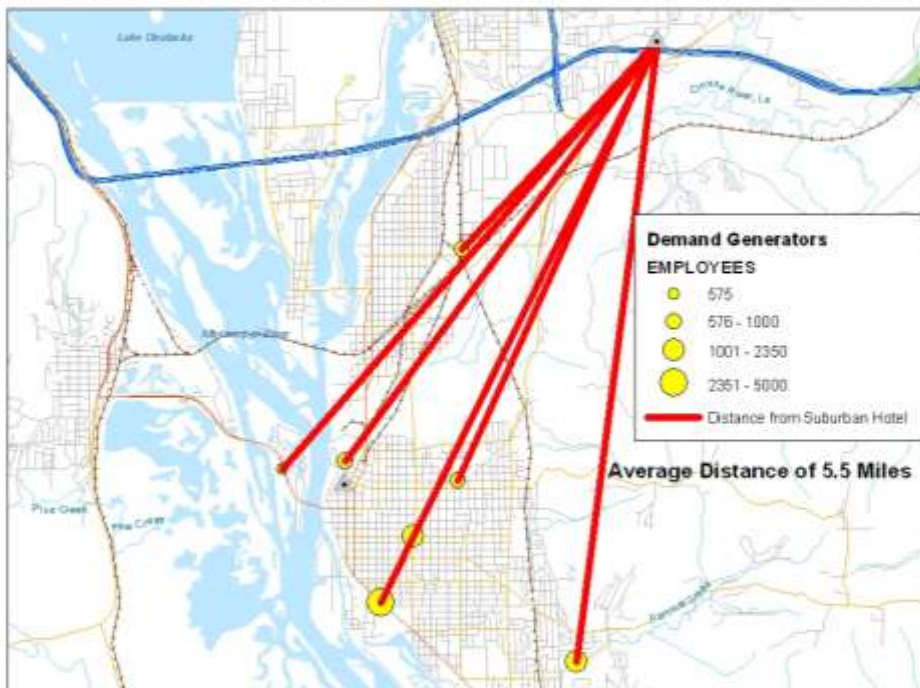
- Identify a point that represents the center of the downtown area
- Identify a point that represents the concentration of suburban hotels
- Identify points that represent major demand generators in the community
- Measure the average distance from downtown to the major demand generators
- Measure the average distance from the suburban hotels to the major demand generators
- Compare downtown with the suburban hotels to determine its proximity advantage

Using GIS, this analysis could be presented as illustrated on the maps that follow. Based on this analysis, downtown is significantly closer to the main demand generators identified (average distance of 1.4 miles from downtown compared to 5.5 miles from the suburban location). This supports the argument to locate a hotel downtown because it is centrally located and closer to the major demand generators in the community.

Distance from Downtown to Major Demand Generators



Distance from Suburban Hotel to Major Demand Generators



About the Toolbox and this Section

The 2011 update of the Downtown and Business District Market Analysis toolbox is a result of a collaborative effort involving University of Minnesota Extension, Ohio State University Extension, and University of Wisconsin Extension. The updated toolbox was supported with funding from the North Central Regional Center for Rural Development.

The toolbox is based on and supportive of the economic restructuring principles of the National Trust Main Street Center. The Wisconsin Main Street Program (Wisconsin Department of Commerce) has been an instrumental partner in the development of this toolbox.

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