features

Growth and Development of the Hotel-Motel Industry

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Origins of the Lodging Industry

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The first record of innkeeping law is found in the Code of Hammurabi, who ruled Babylonia in approximately 2000 B.C. The code sets forth specific regulations for the operation of Babylonian taverns and inns, including corporal penalties for watering down beer. In this period, taverns and inns were prevalent throughout Greece, Italy, Egypt, and Asia. Greek taverns were frequently located near a temple for easy preparation and transportation of sacrificial animals. These establishments provided travelers with food, drink, and sometimes a bed. The Olympic Games, which began in Greece in 776 B.C., involved travel for both spectators and players, creating a demand for accommodations.

During the rise and fall of the Roman Empire, pleasure travel became possible due to good roads, stable government, economic prosperity, and increased leisure time. Educated, affluent Romans vacationed in Greece and toured Egypt. An excellent network of consular roads and post houses was developed to handle this increased travel demand.

After the fall of the Roman Empire in A.D. 476, travel and trade dropped significantly. The Middle Ages was a time of unstable politics and danger on the roads. Religious travelers were common, however, as the church increased its dominance. Religious orders provided accommodations for travelers in monasteries and in the hospices and inns they operated. Most trips during this period were pilgrimages to holy sites or journeys to fight in the Crusades, which began in A.D. 1095 and lasted approximately 200 years.

In the 13th century the innkeepers of Florence, Italy, formed the first hotel guild. Guild members interviewed visitors at the city gate, assigning foreigners to certain lodging facilities and local visitors to others. Most guild members did not own their hostelries; they rented them under three-year leases from the city.

Excerpt from *Hotels and Motels: Valuation and Market Studies* published by the Appraisal Institute (2001).

A resurgence in lodging demand started in England during the Industrial Revolution (1760), when the British government arranged for mail to be delivered by coach. A national posting system was created and a network of posting inns was established to accommodate the young postboys and provide a change of horses. Travel by coach became fashionable and long coach trips gave rise to demand for overnight lodging and the development of the English inn. These lodging facilities, forerunners of the modern motel, were located on coach trails to provide refuge for weary travelers and protection from highwaymen. Accommodations in these inns typically consisted of single, unheated rooms with straw beds for the nobility and common sleeping areas on stone floors for their servants. Travelers and local townspeople alike enjoyed hearty food and drink.

The American counterpart of the English inn was the colonial inn and tavern. Such inns sprang up in seaport towns and along stagecoach roads and canals in the 1700s and 1800s. In addition to providing travelers with overnight accommodations, colonial inns were often public gathering places used for courts of law, town meetings, and school classes. Massachusetts recognized the importance of inns to statewide commerce and passed a law penalizing any town that did not provide this convenience.

The following description of a colonial inn illustrates how far American hostelries have come in 200 years:

> Accommodations often meant sleeping on the floor of the "long room," with one's feet turned toward the fireplace and one's head on a rolled-up coat, alongside a dozen or more other persons of both sexes. It meant a quick cold-water wash in an outdoor basin and gingerly use of a communal towel. A warning blast on the landlord's cow horn meant all hands to table, ready to tackle breakfast with fingers and knives.[1]

Over time the accommodations provided by colonial inns gradually improved in response to the needs of a mobile, restless society, and American innkeepers assumed their place as important community figures. Samuels Coles of Boston, who opened one of the first taverns in America, became a leading church member and a steward of Harvard University. Because inns functioned as centers of political and social activity, their owners and operators were community leaders.

The First Hotels

The first hotel constructed in the United States was the 73-room City Hotel located at 115 Broadway in downtown New York City. Completed in 1794, the City Hotel was enormous compared to colonial inns and served as a model for similar establishments in Boston, Philadelphia, and Baltimore.

Boston's first hotel was the Exchange Coffee House (1806), which boasted seven stories and 200 rooms, many overlooking a five-story, domed interior courtyard (a forerunner of the atrium hotel). Philadelphia's first hotel, the Mansion House, was built in 1807. Baltimore followed, opening the Baltimore City Hotel in 1826. Each of these properties was larger and more lavish than its predecessor and became the focus of civic pride.

During the 1800s hotels moved westward and flourished in major American cities and towns. The Tremont House in Boston started a trend toward luxury accommodations by offering unheard-of services and amenities: private guestrooms, doors with locks, a washbowl with a water pitcher and free soap, bellboys, French cuisine, and an annunciator system that allowed the front desk to contact guests in their rooms.

Spurred by the success of the Tremont House, hotels nationwide attempted to outdo each other in size, luxury and inventiveness. In 1836 the Astor House in New York City installed steam-powered pumps to send water up above the first-floor level so that plumbing could be installed on upper floors. The New York Hotel, built in 1844, was the first hotel to provide private baths connected to some of its bedrooms, while the Buffalo Statler, built in 1908, included private baths in all of its guestrooms. In 1835 the American Hotel in New York City was the first to have gaslight throughout the building. Edison's electric light was first installed in the public areas of the Hotel Everett in 1882, and the Sagamore Hotel, which opened in 1883 on Lake George, New York, was the first to have electric lights throughout. In 1894 the Hotel Netherlands in New York City installed the first hotel telephone system. The Fifth Avenue Hotel in New York City was the first to have elevators, an innovation that later enabled hotels to be constructed as high-rise structures. The first fully air-conditioned hotel was the Detroit Statler.

As the number of hotels increased, many properties faced the prospect of rapid obsolescence and a consequent loss in value. The City Hotel, for example, became obsolete within 15 years due to competition and was converted into an office building 38 years later. The trend-setting Tremont House closed for

1. Leslie Dorsey and Janice Devine, *Fare Thee Well* (New York: Crown Publishers, Inc. 1964): 4.

> "During the Roaring Twenties, hotel promoters set up shop in towns and cities throughout the United States and sold local residents on the idea that real estate was a sound and safe investment vehicle."

major modernization after 20 years of operation and was considered a second-class property during the last two decades of its 65-year life. Today hostelries face similar problems due to constant changes in modes of transportation and customer preferences as well as competition from newer properties.

The hotels of the mid-1800s followed the railroads westward, and ornate, luxury properties were constructed at major rail centers: the Palmer House in Chicago (1882), Brown Palace in Denver (1893), and the Palace in San Francisco (1875). Hotels became status symbols, and cities tried to outdo each other by building larger and more expensive facilities. In many cases the hotels developed far exceeded existing or potential markets.

In addition to luxurious city hotels, resort hotels were introduced as new rail lines enabled affluent Americans to travel on vacation. Spas, which were considered the first American resorts, were opened in Saratoga Springs, New York (Grand Union Hotel), and White Sulphur Springs, West Virginia (the Greenbrier). Other grand resort hotels built during the 1800s included the Hotel Del Coronado outside San Diego, California, the Ponce de Leon in St. Augustine, Florida, and the Broadmoor in Colorado Springs, Colorado.

Travelers who could not afford luxury accommodations usually were forced to stay at rundown roominghouses, which offered only minimal services and cleanliness. As rail transportation became affordable and more middle-class people began to travel, a new type of hostelry was needed to fill the gap between luxury hotels and roominghouses.

E. M. Statler recognized this demand and built the nation's first modern, commercial hotel in Buffalo, New York. When the Buffalo Statler opened in 1908, it offered many revolutionary conveniences: private baths, circulating ice water, full-length mirrors, overnight laundry, and free morning newspapers. Statler's slogan, "A room and a bath for a dollar and a half," put clean, comfortable transient accommodations within the reach of millions of Americans and increased the interest in travel among the middle class.

Prosperity, Decline, and Renewal

The economic prosperity of the 1920s produced one of the greatest hotel-building booms in America's history. Encouraged by rising occupancy rates, which exceeded 85% in 1920, hoteliers expanded existing properties and constructed hundreds of new and larger facilities. During this period the number of available hotel rooms in some cities doubled with the addition of large convention properties. Chicago's 3,000-room Hotel Stevens (now the Chicago Hilton) opened in 1927 and was the world's largest hotel for more than 35 years.

During the Roaring Twenties, hotel promoters set up shop in towns and cities throughout the United States and sold local residents on the idea that real estate was a sound and safe investment vehicle. Their sales pitch was not based on economic feasibility, but on civic pride and a chance to raise neighborhood or personal prestige. In some cases local merchants were promised patronage from hotel guests if they invested in the project. Seldom did an independent expert prepare a market study and appraisal; instead, the class, size and design of the facilities to be built were frequently determined by the amount of money that promoters could raise. In these "community-financed" hotel projects, real estate bonds for first and second mortgages were sold to members of the community. In many cases the financing structure involved high leverage and an inordinate amount of risk.

The financing fees and commissions promoters charged tended to be high and were usually paid as soon as the financing was in place. As a result, promoters had no vested interest in the hotel's performance.

Beginning in the mid-1920s, *Hotel Management* magazine, a trade publication now known as *Hotel and Motel Management,* published articles by several industry spokespersons warning against "overhoteling." They urged professional hoteliers to tell the public the "real facts" about hotel occupancy levels and financial conditions to offset the exaggerated stories that had circulated earlier in the decade and contributed to overbuilding. To illustrate the extent of the problem, a national survey was con-

ducted in 1928–1929 by an objective body, the Engineering-Economics Foundation. This postgraduate institution in Boston performed the research, quantifying hotel room supply, guest demand, occupancy levels, rates, and hotel failures from 1919 to 1928. They found that occupancy nationwide had dropped from 85.5% in 1920 to 67.6% in 1928. At the same time room rates appeared to be fairly constant, but the foundation claimed that additional services had to be provided to guests, which effectively lowered the rate achieved. The number of hotel failures also illustrated a downward trend, with 64 failures reported in 1924 and 112 in 1928.

During the Great Depression of the 1930s new construction ceased and more than 80% of the nation's hostelries were forced into foreclosure or receivership. By 1933 one-third of America was unemployed and the gross national product had dropped by nearly half. Commercial and leisure travel came to a virtual standstill, and the average national hotel occupancy fell to little more than 50%.

Although the depression forced many hoteliers out of business, it offered those with cash the opportunity to expand their holdings by purchasing distressed properties from receivers and lenders. Parties who had taken debt positions in the original financing structure found themselves owning a piece of the hotel after it was foreclosed. These parties included both institutional lenders and individual investors who had purchased mortgage bonds through public subscriptions in the 1920s. None of these investors knew much about hotel operations so all were eager to sell the properties or their shares to any willing buyer at greatly reduced prices. This created an exceptional opportunity for those who understood the hotel industry and had readily available cash or credit.

Typical purchase terms for failed hotels required a small cash down payment from the buyer. The lender, in turn, provided a restructured debt component for the balance of the purchase price. During the depression prominent appraisers warned investors not to value hotels based on the assumption that the prevailing low levels of income would continue into perpetuity; they projected future earnings to turn around within five years. For America's hotel industry, the depression lasted longer than expected due to the severe overbuilding that had preceded it and the lack of commercial and pleasure travel during the 1930s.

During the depression several hotel companies significantly expanded their holdings, which provided the impetus for the establishment of national hotel chains. Conrad Hilton began his lodging chain in 1919 with the acquisition of the 40-room Mobley Hotel in Cisco, Texas. During the 1920s he purchased and developed a total of eight hotels throughout Texas. Because his hotels were highly leveraged, Hilton lost three of his properties during the depression, but by 1935 profits from oil leases provided him with the cash he needed to satisfy his creditors and fund new purchases. Hilton took control of the Sir Francis Drake in San Francisco, the Town House Hotel and the Rosslyn Hotel in Los Angeles, and the Roosevelt and Plaza hotels in New York. In 1945 Hilton was able to acquire the Palmer House in Chicago for less than $20 million although it cost more than $25 million to build in 1929. That same year, Hilton acquired the Stevens Hotel in Chicago for about $8 million; that hotel was built in 1925 for $30 million. In 1942 Hilton bought the Waldorf-Astoria bonds for 4.5% of their original value.

Ernest Henderson founded the Sheraton hotel chain in 1937 with the purchase of the Stonehaven Hotel in Springfield, Massachusetts. Although he was inexperienced in hotel operations, he had cash and understood real estate and the use of leverage. Henderson took advantage of the depressed hotel prices of the 1930s and early 1940s and the readiness of sellers to negotiate. By 1941 his company had acquired four more hotels and was on its way to becoming one of the nation's largest lodging chains. Henderson believed in leveraging his cash position and acquiring hotels with a minimum amount of cash, sometimes negotiating with sellers to take back second mortgages in return for higher selling prices.

Leading hotel companies such as Hilton and Sheraton were able to overcome the fears of bankers and other lenders wary of independent developers and hotel investments in general. With fire sale prices and favorable financing terms, strong hotel companies with prominent names and proven track records were able to continue their expansions. In some cases the hotel chains guaranteed their mortgages by putting all of their hotel properties up as collateral. This strategy enabled them to borrow 60%–70% of the property's fair market value.

America's hotel industry did not begin to recover until the early 1940s. By then the general economy had improved and the hotel room supply had been significantly reduced by closures. What really revived the hotel industry was the onset of World War II. The massive movement of defense industry workers, military personnel, and their families created an

unprecedented demand for transient accommodations, and the national occupancy level soon exceeded 90%. Although most towns and cities needed more lodging facilities during this period, there was little new hotel construction because financing, materials, and labor were unavailable.

Lenders and investors, still wary of risk after the downswing of the depression, were reluctant to finance new hotels. In some areas the hotel room supply was actually reduced because hotels were converted into housing for American troops. Properties such as the Hotel Stevens in Chicago and the Greenbrier in West Virginia actually served as barracks during the 1940s.

Labor and material shortages during the war years made it difficult for hotels to maintain high standards of service. Guests often waited for hours in hotel lobbies only to find that no rooms were available. At one point New York City hotels had to limit each guest to a stay of three days.

The 1950s marked the beginning of a radical change in transportation. The railroad, which had served travelers for more than a century, began to lose customers to the more economical automobile and the faster airplane. The technology developed during the war helped produce a more affluent population that enjoyed shorter work weeks, more leisure time, and a new freedom to travel. The "mobile society" was born, and more people took advantage of the convenience of highways and airlines.

Sites directly across from downtown railway stations—once considered prime hotel locations—quickly became less desirable and economically obsolete. A more informal lifestyle was developing, and the traveling public seemed willing to sacrifice luxuries such as doormen, bellhops, valet parking, and evening turndown service in exchange for less expensive rooms.

The Birth of the Motel

A new type of highway-oriented lodging facility offering inexpensive, "no-frills" accommodations was needed to meet the needs of travelers. So, in 1950, the modern motel was born. Although the origins of the motel can be traced to the relatively primitive tourist cabins of the 1930s, the motels of the 1950s offered much better facilities.

Most early motels were one-story, wood-frame structures built on slabs with approximately 20–50 units. Their modest rooms had inexpensive furnishings, particle board walls and ceilings, tile floors, small baths, metal shower stalls, and radios. Few motels at this time provided food and beverage service or meeting rooms.

Motels were spartan compared to most hotels, but they became competitive because of their convenient highway locations, ample parking, and low rates. The motel market included vacation travelers (especially young families and senior citizens), salesmen, middle managers, and government employees. Operating statistics for the 1950s show steadily declining hotel occupancies but stable occupancy levels for motels. Because the number of motel rooms was increasing, motels were beginning to capture a transient market previously monopolized by hotels.

The first motels were radically different from hotels with respect to size, construction costs, land values, operating ratios, and management requirements. The distinction between a hotel and motel has lessened, however, due to a variety of factors:

- Motels began to grow with additions to existing properties and more total units constructed for new properties.
- Motels joined referral groups and franchises to obtain national images and greater exposure.
- Motels began offering more amenities, such as television, air-conditioning, carpeting, tile baths, telephones, swimming pools, restaurants, lounges, meeting and banquet rooms, and gift shops.
- Motels began providing more services, including 24-hour telephone switchboard and front desk attendants, nationwide telephone reservation systems, acceptance of credit cards, direct-dial guestroom phones, and morning wake-up calls.
- Improved building techniques were introduced, including the use of concrete and steel, pre-assembled units and high-rise construction.

By the mid-1960s, most new motels offered all the facilities and amenities typically available at hotels. At the same time, hotels were modifying their operations to compete with motels. The result was a gradual merging of the two types of properties into a new type of facility known as the motor hotel. Motor hotels combined the services and facilities of hotels with the convenience of motels.

Although independent motels and motor hotels flourished throughout the U.S., their potential guests had little idea of what to expect when they pulled off the highway. Standards of service and quality varied and guests were frequently disappointed. Kemmons Wilson recognized this problem when traveling with his own family and saw it as an opportunity. In 1952 Wilson started a new era in

the hospitality industry by founding Holiday Inns, one of the earliest motel chains. Holiday Inns offered guests a modern motel with standardized service, a recognized name, and moderate prices. Starting with four motels near Memphis, Tennessee, in the early 1950s, the Holiday Inns chain grew to more than 100 motels nationally by 1960. This tremendous growth was accomplished by selling franchises to individuals who would operate the properties as their own businesses. The first Holiday Inns franchise was sold in Clarksdale, Mississippi, for $500 and a flat fee of $.05 per occupied room. In return for these payments, the franchisee received the Holiday Inn name and logo, architectural plans, training and operation manuals, and national advertising. In 1964 Holiday Inns launched its Holidex I reservation system and a major benefit was added to the franchise package. Kemmons Wilson was overwhelmed with franchise applications.

During the 1950s the supply of motel rooms nationwide increased from 600,000–1,500,000. Several factors contributed to this boom. The first was the passage of the Interstate Highway Act in 1956, which laid out a map for the growth of highways and hence roadside motel sites. Travelers on interstate highways bypassed motels on state highways and these older lodging facilities rapidly succumbed to external obsolescence. A change in the income tax laws in 1954, which permitted real property owners to use an accelerated method of depreciation, also contributed to the increased motel supply and led to a period of readily available cash from "tax-based" hotel deals. In such deals, syndicators offered investors participation in hotels and the benefits of large depreciation and interest expense deductions to offset income in the investment's early years. Franchising was the third factor contributing to the increased supply of motel rooms during the 1950s. Developers' ability to benefit from the name recognition of motel franchises enticed many nonhoteliers into the business.

Lodging Chains

Several new lodging chains were established in the late 1950s and early 1960s. The Marriott Corporation, once known mostly for its food service business, entered the lodging industry in 1957 with its Twin Bridges Marriott Motor Hotel in Arlington, Virginia, outside of Washington, D.C. Marriott is now the largest hotel operator in the nation.

In 1957 the Pritzker family of Chicago diversified its holdings by entering the lodging industry with the purchase of the Hyatt House at the Los Angeles International Airport. Hyatt is now a leading operator of convention hotels. Hyatt hotels are best known for their spectacular atrium lobbies.

In 1954 the Howard Johnson Company, known for its restaurants, opened its first motor lodge. By 1959 the Howard Johnson name was already on 75 motor lodges, both company-owned and franchised. In the mid-1950s Marion Isbell and his associates began acquiring motor hotels in the Southwest. By 1962 they had formed the Ramada Inn chain.

In 1962 the Carlson Companies, founded by Curtis Carlson, acquired the Radisson Hotel in downtown Minneapolis to initiate that company's diversification into the hotel business. The company began purchasing and renovating inner-city hotels in the Midwest and operating them under the Radisson name.

International activity by American hotel companies became prevalent in the 1960s. Inter-Continental Hotels Corporation, a Pan American Airways' subsidiary established in the late 1940s with the opening of the Inter-Continental 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 in the 1960s, expanding its operations into Europe and South America.

A move toward vertical integration within the airline and lodging industry occurred during the 1960s as several large airlines acquired or merged with hotel companies. Trans World Airlines purchased Hilton International Corporation; United Airlines purchased the Western International chain (now Westin Hotels); and American Airlines purchased and developed its own hotels under the name Americana Hotels. Now, all of these relationships have been terminated, showing that the ownership synergy between the travel and lodging industries is not as strong as was once believed.

Arrival of the Budgets

As the motel evolved into the motor hotel, it began to lose one of its primary competitive advantages—its low price. By providing more facilities and services, motels were forced to charge higher rates. This created a void at the low end of the room-rate scale and precipitated the birth of the "budget motel."

Budget motels were introduced in the late 1960s and flourished during the building boom of the early 1970s. These hostelries offered accommodations at prices substantially lower than the prevailing rates

Budget hotels appeal to price-conscious travelers.

of first-class motor hotel chains. To offer this discount, budget motels take advantage of lower initial investment costs, operating efficiencies, and high volume.

Lower Initial Investment Costs

The initial investment costs for budget motels are lower because these facilities have smaller guestrooms, minimal public space, lower land costs, and a simple, no-frills design. The quality of construction, however, is not reduced.

Guestrooms in budget motels average 250 square feet, while rooms in conventional motor hotels typically contain 335 square feet. Smaller rooms reduce construction costs and interior decorating expenditures and less land is needed to build a budget motel. Budget motels eliminate low-revenue public areas such as meeting and banquet rooms, large lobbies, extensive food and beverage facilities, and executive offices.

Because the size of the facilities is reduced, budget motels require approximately 1.6 acres per 100 rooms, compared to 2.5 acres per 100 rooms for conventional motels. Utilizing secondary locations such as land off an interchange or a short distance from the prime commercial/office area can sometimes create additional savings. Most people traveling on a budget are willing to drive a little farther for a better price.

Budget motels are planned for the efficient use of materials and space. Guestrooms are double-loaded (back-to-back) and constructed on concrete slabs with cinderblock walls between rooms. Modular construction has been used successfully in some areas. Landscaping and decoration are kept to a minimum.

Many budget motels are built with construction specifications and standards similar to those of conventional motor hotels. Operators realize that inferior materials and building techniques may produce initial savings but are a poor choice in the long run when repair and maintenance expenses are considered.

Operating Efficiencies

Compact facilities and fewer guest services contribute to operating efficiencies and result in lower expenses. With smaller guestrooms and reduced public space, budget motels require less cleaning and maintenance and can be more efficiently heated and lighted. Some budget chains use maintenance teams that work at several properties, performing routine repairs and preventive maintenance.

The elimination of bellmen, elaborate food and beverage facilities, room service, entertainment, the acceptance of credit cards, and other services reduces payroll and operating expenses. Major savings are realized on food and beverage service; in budget motels cafeteria and coffee shop service is typical. Often a budget hotel will lease land adjacent to a restaurant chain to avoid any involvement in the food service business.

Price, location, and value all generate high volume for budget motels, but travelers choose budget motels mostly because of their low prices. As with any product with an elastic demand curve, a reduction in price increases volume. Operating results substantiate this premise, indicating that budget motels typically operate at higher occupancy levels than surrounding conventional properties do. Many budget motels are purposely located next to higher-priced hostelries to attract price-conscious travelers.

Although budget motels economize in many areas, they still tend to provide clean, quality guestrooms. The rooms contain comfortable beds, full baths, color televisions, standard furnishings and fixtures, and cheerful drapes, bedspreads, and wall coverings.

From an investment or valuation perspective, budget motels are often vulnerable to increased expenses and decreased occupancies. Because of its lower price structure and similar fixed costs, a budget property generally has a higher breakeven occupancy level than a standard motel does. Appraisers must consider this risk when projecting income and expenses and determining a proper capitalization rate.

The 1970s Hotel Boom

In the 1970s, just as budget motels began to inundate the market, the entire lodging industry experienced the start of a construction boom reminiscent of the 1920s. Many factors contributed to this period of expansion and later led to its demise.

New construction was sparked by an enormous amount of financing made available by lenders, particularly real estate investment trusts (REITS). These high-leverage finance companies were created to allow small investors to participate in real estate mortgages and equities. Wall Street quickly accepted the concept, and soon billions of dollars were available to finance real estate projects. Many lenders became so overwhelmed with new money that their underwriting procedures broke down and some marginal developments were approved.

During the late 1960s and early 1970s, hotel companies began to expand their chains through franchising, which at the time was a source of new capital for hotel franchise companies and allowed them to grow and attract national recognition using the franchisee's financial investment in individual properties. Some franchisers, eager to demonstrate such sustained growth and recognition, used questionable marketing tactics to sell new franchises. Many of those selling franchises were compensated based on the number of franchises sold, so there was little incentive to discourage developers from investing in poor locations and overbuilt markets. Many lenders and hostelry developers were led to believe that being part of a national franchise would guarantee success.

The combination of readily available financing and the eagerness of hotel chains to sell franchises resulted in overbuilding and the development of many poorly located, undercapitalized hostelries managed by inexperienced owners. The lodging industry floundered, however, when inflation caused construction costs and interest rates to escalate; the 1974 energy crisis drastically reduced travel, and the accompanying recession curtailed business trips, conferences, and conventions.

Operators of marginal properties quickly fell behind in their mortgage payments, and lenders were forced to foreclose. As lenders became hostelry owners, they either organized workout departments headed by experienced hoteliers or got professional motel management companies to assume operational responsibilities. Sales data indicate that lenders looking for quick sales to remove non-performing hotel assets from their books had to lower their sales prices substantially to attract all-cash buyers. Lenders willing to hold onto foreclosed hotels and employ professional management to reposition and improve the properties' operations were generally able to recoup their original investments within three to five years as the hotel industry began to recover. However, even lenders who repositioned their properties had to take back favorable purchase-money financing to sell the properties because money from other sources was not available.

History has shown that, during economic downturns, hotel values do not fall in the same proportion that their declining incomes do. Sellers—particularly lenders who take back hotels through foreclosure—are not always willing to sell at substantially lower prices. Rather, they are more likely to wait out the downward cycle and dispose of their assets when the market starts to rebound. Appraisers, therefore, can best reflect market behavior by projecting a facility's net income to a stabilized level reflecting renewed market stability and applying the proper discounted cash flow procedure over this time period.

The end of the 1970s was a period of relative calm for the lodging industry. Because most lenders were recovering from the financial wounds inflicted on them by the 1975 recession, they had little interest in making hotel/motel mortgages. New construction was restrained, consisting primarily of additions to existing properties and the development of some large, downtown, convention-commercial hotels. The rebirth of center city hostelries 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 hit by escalating gasoline prices and decreased car travel. Hence, these lodging facilities lost some of their appeal among investors and hotel companies.

Decreased building activity along with the normal retirement of older hostelries from the lodging market and an improving economy created a favorable supply and demand relationship and record-

high occupancy levels in 1978 and 1979. Average room rates rose rapidly as hotel operators took advantage of the excess demand to recoup earlier losses and keep up with inflation.

The 1980s—A Decade of Change

During the 1980s America's lodging industry changed significantly. Another massive building boom took place, several new types of hotels were introduced, and hotel chains began to increase their product lines through segmentation. The industry began to focus on the global hotel market after foreign investors acquired several American hotel chains and individual properties. Use of the hotel management contract became the main means of operation for most publicly traded hotel companies.

After the decline in new hotel development during the late 1970s, the real estate environment appeared ready for a period of renewed hotel expansion. However, the Federal Reserve tightened the money supply in the 1980s, sending the prime interest rate up to record levels. Most of the projects that were in the preliminary planning stages but lacked sensible financing were put on hold.

Eventually, monetary and fiscal policies, along with falling energy prices, reduced the national rate of inflation. This produced a downtrend in hotel interest rates beginning in 1983 and suddenly massive amounts of capital were available for real estate investments. Hotel developers, effectively out of the market since the mid-1970s, rushed to create new projects. They were aided by several major real estate development incentives: favorable industry trends, readily available debt and equity financing, and unique income tax benefits designed to stimulate real estate growth.

Lodging industry trends during the early 1980s were favorable for new hotel development. Many markets showed relatively high occupancy levels, hotel room rates were able to keep up with inflationary price increases, and the travel industry was expected to boom as a result of a healthy economy. National demographics characterized by affluent baby boomers, two-income families, and more leisure time further fueled developers' optimism. As in the past, sellers of franchises were aggressively signing up new prospects using product segmentation to justify the saturation of a market with a common brand.

This time financing was readily available from the savings and loan industry. After recent deregulation, these banks were permitted to lend on commercial real estate such as hotels. Although savings and loans had experience in making real estate loans on single-family homes, most had little expertise with commercial properties, particularly hotels and motels. The result was almost identical to the real estate investment trust fiasco the decade before. Loan underwriting and administration was useless and sometimes nonexistent; the quantity of loans made seemed more important than the quality of the real estate and the integrity of the borrower; and short-term monies were often being used to finance long-term mortgages.

On the equity side, the money raised for hotel developments and acquisitions generally came from syndicated limited partnerships. Most of these ownership structures were devised to take full advantage of the generous tax benefits allowed for hotel real estate. Initially, the majority of hotel syndications were relatively small and the equity raised was less than $10 million. Later, however, Wall Street investors saw the opportunity to make huge fees from selling these equities, and pools of hotels were packaged and sold to investors in $100,000 units. Some of the larger packages attracted more than $100 million in equity. Everyone wanted to invest in hotels, particularly when the property was a prominent, trophy-type hotel or the sponsor organizing the partnership was a major hotel company. A number of the syndications sold out in minutes and some were even oversubscribed.

The favorable treatment provided by America's income tax regulations also contributed to hotel development during the 1980s. By carefully structuring hotel syndications to take advantage of available tax benefits, investors could virtually recoup their total cash outlay in the first year and reap additional benefits in the future regardless of the economic success of the underlying asset. Because there was little incentive to justify a transaction's economics (i.e., cash flow and reversionary benefits), many syndicators overpaid for premier trophy properties, took out excessive fees, and overloaded their hotels with debt.

Hotel franchisers also played an important role in this overbuilding through a new concept called segmentation. In order to show continuous growth, the hotel companies, which at the time catered to only one pricing segment, realized that they could create new products for other pricing segments and thereby offer two or more affiliations in the same market without directly competing against themselves. For example, Holiday Inns, a mid-priced lodging chain, went upscale and established Crowne

Plaza and then ventured downscale with Hampton Inns. Marriott, which was known as a first-class operator, went downscale with Courtyard and downscale further with Fairfield Inn. In addition to adding new pricing segments, hotel companies created entirely new products (e.g., the all-suite hotel, the extended-stay facility, and the microtel). Hotel developers soon rushed to build new properties financed with plentiful amounts of available money and flagged with an assortment of franchises and new products.

A change in the tax law in 1986 eliminated many of the real estate tax benefits of hotels, but the overbuilding in most markets was either in progress or had already happened. By the end of the 1980s, the abuses of the savings and loans became apparent, but it was too late to reverse the overbuilding.

Up until 1990, the lodging industry in most areas of the country was facing massive overbuilding, which created a supply problem. Lodging demand was still strong and, although a recession seemed likely, most industry experts were hopeful that the economy would remain stable. Given this favorable economic scenario and the fact that little new development was anticipated for the first several years of the decade, some experts expected hotel occupancies to improve quickly and the lodging industry to fare better than it had during the 1970s. Unfortunately, the economy did go into a recession, which curtailed business, convention, and leisure travel and produced a downtrend in lodging demand.

The 1990s—Recession, Recovery, and Expansion

The national economy entered another recession in 1990. This, coupled with overbuilding and the Persian Gulf War in 1991, caused the national hotel occupancy rate to bottom out in the low 60% range. In some markets, occupancy rates dropped as low as 35%. The supply and demand imbalance was almost identical to the situation in the 1970s that led to numerous failures. Trailing closely behind this downward occupancy spiral were hotel room rates. Full-scale rate wars broke out in many markets as managers, seeing their patronage decline, attempted to test the elasticity of hotel demand. Since lower room rates rarely create additional new hotel demand and tend to redistribute the existing business among the area's facilities, this strategy produced only short-term revenue gains for some properties and eventually led to long-term profit declines for almost everyone.

"Combinations of principal reduction, interest rate adjustment, and other types of forgiveness were structured to assist hotel owners in coping with excessive levels of debt service."

Many hotels quickly fell behind with their highly leveraged debt service payments. This immediately led to a rash of foreclosures and bankruptcies. At the same time, the savings and loan industry floundered under the burden of non-performing loans; the Resolution Trust Corporation (RTC) was created to handle the crisis. Since savings and loans were prominent hotel lenders at the time, the RTC soon began to take over hundreds of defaulted hotel loans and actual properties as they acquired insolvent banks. Instead of holding onto these assets and waiting for values to recover, the RTC held massive auctions and disposed of hundreds of hotel properties at bargain prices. Those investors with the foresight to see a market turnaround made huge profits by buying low and selling high.

Many lenders opted to restructure their non-performing hotel loans rather than force their borrowers into bankruptcy. Combinations of principal reduction, interest rate adjustment, and other types of forgiveness were structured to assist hotel owners in coping with excessive levels of debt service. Borrowers who were able to survive and get through these crisis years generally preserved some of their equity and tax benefits.

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 hotel financing opportunities. The tax benefits associated with hotels had disintegrated, and passive investors left the hospitality market entirely. The slowdown in supply growth, coupled with an improving national economy emerging from recession, helped improve occupancy levels, which began to recover in 1992. As increases in lodging demand outpaced the growth in supply, occupancy levels continued to climb through 1995. The improvement led to the resump-

tion of supply growth, but only for smaller limited-service hotels, generally financed by local banks. However, higher-rated economy and mid-scale properties soon became economically feasible (i.e., economic value exceeded development cost). These projects were more commonly financed with funds supplied by regional banks and Wall Street conduits that structured mortgage-backed securities to sell off pieces of the debt that were risk-rated by the rating agencies. During this period, the replacement costs for first-class and luxury hotels still exceeded the value of similar existing properties. As a result, little development took place in these two segments.

The re-emergence of Real Estate Investment Trusts (REITs) also influenced pricing trends and sales volume during the mid- to late-1990s. Given their structure, organizational purpose, and low capital cost, REITs were driven by the need to grow by acquiring assets. According to information provided by the Lodging Research Network, the number of hotels owned by REITs increased from 39 in 1993 to 970 in 1998, while the number of hotel rooms controlled by REITs increased from 6,643 in 1993 to 183,784 in the first quarter of 1998. As the REITs and other public companies, including C-Corps, pursued high-quality hotels, competition for these properties accelerated, placing upward pressure on hotel values. This rapid growth ended abruptly in mid-1998, when the stock market lurched downward in response to fears of a global recession, particularly in Asia. The fears proved to be unfounded and stability returned to the capital markets, but the relationship between stock prices of larger hotel companies and the perceived health of the lodging industry continued to create a sense of uncertainty. As the decade ended, the budget and economy segments of the lodging industry were most at risk, whereas the luxury segment was the safest category for investment. New construction in the luxury sector continued to be difficult to cost-justify, so additions to supply have been minimal. Furthermore, the barriers to entry and long development time required for hotels of this type are likely to delay overbuilding for a number of years.

Throughout the past decade, hotel values in the U.S. have fluctuated dramatically. During the late 1980s and early 1990s, values declined in most parts of the country. The downturn, which began in most markets in 1988, was largely attributable to lower operating incomes caused by an oversupply of new hotel rooms that were constructed during the mid-1980s. Overbuilding resulted in flat or declining average rates and occupancies, which caused revenues to fall. A number of other factors exacerbated the situation. The national recession caused a drop in demand in many markets during the early 1990s, and the Persian Gulf War created a virtual freeze on travel in the beginning of 1991, further limiting hotel demand. Operating costs continued to rise despite poor market conditions, resulting in a decline in the net operating income of many hotels throughout the nation. Because operating costs have a large fixed component, some lodging facilities experienced precipitous drops in net income.

As bottom-line profits eroded, many hotels were unable to meet debt service, and hundreds of properties entered foreclosure or bankruptcy. Lenders and government agencies soon became hotel owners. Because most financial institutions were preoccupied with their distressed real estate, little mortgage capital was available and the nation suffered from a well-publicized credit crunch. The property owners, who in most cases were lenders, financed a majority of the hotel transactions that occurred during the early 1990s.

In the early 1990s, the primary market participants were owner-operators with the expertise to turn under-performing properties around. Hotels were out of favor with passive investors as a result of the industry's poor operating performance and the uncertainty of future appreciation. The wide disparity in buyer and seller expectations also limited the number of transactions. Many sellers were unwilling to accept the fact that the market value of their hotel investments had declined below the cost of the project or the original investment. Moreover, many owners faced a significant tax burden upon sale, further reducing their willingness to settle for a price that was below the original acquisition cost.

As a result of these market forces, there was little sales activity involving large, high-quality hotels in the early 1990s. The primary difficulty was the lack of properties available for sale. Owners who were not forced to sell opted to wait for prices to recover. The few hotels that did enter the market during this period generally attracted 15–20 interested bidders, mostly consisting of owner-operators. As a result of the competition for these few assets, the prices of better-quality hotels escalated rapidly. In response, more sellers were encouraged to place their products on the market, and the number of hotels available for sale (and the number actually sold) began to rise in 1994. This trend continued to accelerate through the first half of 1998.

An indicator of this market trend is the number of hotel sales that have occurred during the past few years. HVS International tracks major hotel trans-

actions of more than $10 million annually. In 1992, major transactions numbered 70; a slightly lower level of 53 was registered in 1993. This total increased significantly, to 108 in 1994 and 147 in 1995. In 1996, the total number of major transactions soared to an estimated 227, then increased again to 280 in 1997. The wider availability of mortgage capital was a material factor influencing the increase in both market activity and prices. Initially, the number of lenders returning to the market was extremely limited and the underwriting criteria were fairly stringent: loan-to-value ratios were in the 60%–70% range and amortization periods were shortened to 20 or 25 years. The qualification of the borrower was also a crucial consideration for most lenders.

In the mid-1990s, more lenders entered the hotel mortgage market. Although these institutions remained cautious, the greater availability of funds fostered competition, particularly for high-quality assets and well-qualified buyers. As a result, loan-to-value ratios returned to historical levels of 70% to 75%, and interest rates fell to the 8.0% to 9.5% range for most deals. Amortization periods remained in the 20- to 25-year range. The lingering influence of the downturn in the early 1990s is evident in the widespread practice of underwriting based on net income after the deduction of management fees and a reserve for replacement; these line items typically total 7%–8% of gross revenues.

The market for hotel investments slowed in the third quarter of 1998 due to a reduction in both equity and debt capital available for real estate acquisitions. At that time, many hotel buyers and conduit lenders withdrew from the market due to a downturn in lodging REIT and C-Corp stock prices and the uncertainty of capital markets. The number of major hotel transactions slowed to 241 in 1998 and declined further in 1999 to 118. The market improved somewhat in the first quarter of 1999 as the international capital market stabilized. Transaction activity in the first half of 1999 was significantly below that of the first half of 1998 due to the virtual withdrawal of REITs from the market. By the third quarter of 1999, hotel transactions increased again as buyers and sellers adjusted to new pricing levels and took advantage of the relatively low cost of capital. Private equity capital and traditional debt from commercial banks and credit companies are expected to continue to fuel hotel transactions over the near term. Activity by conduit lenders and public lodging companies also resumed, albeit at a more moderate pace than that witnessed in 1997 and early 1998.

In 1998, moderate to high supply growth in the economy and mid-priced segments caused America's hotel occupancy level to decline. The decline of occupancy in several major American markets, coupled with an unstable global economy, has caused several major lenders to halt hotel financing in anticipation of another economic slowdown. Furthermore, as the number of high-quality, available assets and the amount of available financing diminish, sales activity is expected to slow and will likely result in the stabilization and decline of sale prices.

New Products and Concepts

In recent decades, several new lodging products were introduced, including the all-suite hotel, the extended-stay hotel, and the hard budget hotel. These facilities have gained wide acceptance among the traveling public. While the all-suite hotel and the hard budget hotel essentially absorbed existing demand from traditional hotel products, extended-stay properties actually created new transient lodging demand by attracting long-term travelers who had previously used apartments and residential hotels.

The all-suite hotel is based on the theory that certain types of commercial and leisure travelers do not use the meeting, banquet, restaurant and lounge facilities found in most full-service hotels. Using the space allotted for these facilities as guestrooms instead could create suites with separate living and sleeping areas. The key to the all-suite concept is to reallocate space in a manner that keeps the room rates of a suite similar to those of comparable, full-facility hotels. This creates a favorable price-value relationship for the guest who does not need all the facilities found in a full-service property. Most all-suite hotels also offer a free breakfast and an evening cocktail hour to attract patrons.

The all-suite hotel has been well received by individual commercial travelers and by some leisure travelers. In many markets such hotels are currently the occupancy leader with room rates on par with similar, full-facility hotels. Since they generally have limited food and beverage facilities, all-suite hotels are usually easier to operate and their profit margins are higher.

The extended-stay hotel is designed for the traveler who must stay in an area for five or more consecutive days. It differs from a standard hotel in that the rooms and amenities are oriented toward someone who wants a more residential atmosphere. The guestrooms in an extended-stay hotel have large living areas and full, eat-in kitchens; some have two separate sleeping areas, individual dining rooms, and

separate baths. The exterior of such a hotel usually has a residential feel similar to that of a garden apartment complex, complete with recreational facilities and barbecue grills.

The high occupancy levels of the initial wave of extended-stay hotel development dramatically heightened interest in this segment, and the number of extended-stay hotel products continues to expand, breaking into sub-segments ranging from economy to first-class. The true depth of the extended-stay demand segment remains difficult to gauge, although managers of the lower-rated extended-stay products often find themselves competing with operators of conventional limited-service hotels, while higher-rated extended-stay products often compete as first-class, all-suite hotels. Generally, the hotels succeed, as the strong investment in the guestroom offerings presents a strong price-value perception for guests. Nevertheless, the operating efficiencies in the design and operating concept diminish as the length of a guest's stay shrinks.

The hard budget is the 1990s version of the budget hotel. Over the years the budget hotel concept has experienced what has been called "amenity creep." In an effort to increase room revenue and thus franchise fees, hotel franchise companies encourage franchisees to upgrade their properties by adding more amenities. This usually starts with simple additions such as a free morning newspaper and continental breakfast; later it may include extras like coffeemakers in guestrooms, free shampoo and other beauty supplies, fitness centers, turndown service, and so forth. Each of these amenities creates an expense that must be offset by an increase in revenue. In the end, amenity creep can turn a budget hotel into a mid-rate property or a mid-rate hotel into a first-class property.

Hard budget has taken the budget concept back to basics. Its guestrooms have been downsized to only 192 square feet. It offers none of the normal hotel amenities such as a restaurant, lounge, meeting space, or swimming pool. A hard budget is 10% to 20% less expensive to construct, requires less land, is easier to operate and maintain, and can undercut the room rates of comparable budget hotels by as much as 25%. The hard budget concept, which had its genesis with Statler's "room and a bath for a dollar and a half," illustrates the recurring cycles in the lodging industry.

Market Segmentation

Market segmentation, as a hotel industry phenomenon, originated in the 1980s and continued through the 1990s. Essentially, it represents an expansion strategy for hotel companies. When hotel chains such as Holiday Inns, Marriott, Hilton, and Sheraton were founded, they developed a standardized form of operation that was oriented toward a single class of traveler. For example, Holiday Inns were designed, operated, and priced to appeal to the mid-rate commercial and leisure traveler. Marriott went after more affluent, first-class guests by offering higher-quality facilities and services. Over the years these chains developed strong brand loyalty among these specific classes and types of travelers. As it became apparent that markets for the "core" brand of these hotel chains were essentially satisfied (e.g., most of the available hotel markets within the U.S. had a sufficient number of Holiday Inns to satisfy their mid-priced travelers), the hotel chains had to find a vehicle for expansion that would allow them to develop or franchise additional properties within their established market areas. The answer to this dilemma was to develop a new product and brand name to capture a different class of traveler.

Market segmentation allows hotel chains to expand without simply drawing a portion of the demand away from their core properties. For example, Holiday Inns implemented market segmentation by developing an upscale product with higher-quality finishes and decor, a higher level of service, and more amenities to attract first-class travelers. This brand of hotel was called the Holiday Inn Crowne Plaza (now known only as Crowne Plaza).

Holiday Inns also developed a downscale, budget-type product known as the Hampton Inn, which was designed to capture the more price-sensitive traveler. The Hampton Inn brand (which is now controlled by Hilton Hotel Corporation) offers a lower level of service than the standard Holiday Inn does. It has no restaurant, lounges, or meeting space and the size of its guestrooms and the quality of its decor and amenities are less than one would expect at a typical Holiday Inn. By offering three types of products, Holiday Inns significantly increased the size of its potential market. This allowed the chain to develop or franchise hundreds of additional hotels within its established market areas throughout the United States.

Marriott has demonstrated the benefits of market segmentation, leveraging the substantial goodwill and marketing power it has established through decades of consistent quality into nearly every possible hotel demand segment. Marriott has expanded by both segmenting and acquiring the rights to a variety of brands, including Residence Inn in the

1980s, and, in the 1990s, Ritz-Carlton and Renaissance. These strategic acquisitions have emerged as another common means for sustaining growth.

Strategic Acquisitions and Mergers

Earnings growth is critical to public companies, and hotel ownership increasingly became the province of publicly held companies in the 1990s. Whereas market segmentation continued to represent a viable approach to achieving earnings growth (along with property-by-property acquisition), a far more efficient means to this end was commonly practiced in the mid- to late-1990s in the form of strategic acquisitions and mergers. Starwood Hotels and Resorts and Patriot American Hospitality (now known as Wyndham International) were the most conspicuous companies. Starwood acquired the assets of hotel companies such as Sheraton, Westin, and HEI Hotels, while Patriot American amassed the assets of the Wyndham Hotel Corporation, Carnival Hotels & Resorts, Interstate Hotels, and Grand Heritage Hotels, among others. At the decade's end, the Promus Hotel Corporation, which controlled the Hampton Inn, Doubletree, Homewood Suites, Embassy Suites, and Red Lion brands merged with Hilton Hotel Corporation. A few key multi-brand hotel companies, marketed cooperatively for greater efficiency and economies of scale, now control most of the industry's most recognized brands in similar groups.

The outcome of this shift in the nature of hotel ownership is difficult to discern at this stage; however, hotel companies are now scrutinized and evaluated based on their ability to increase shareholder value, a shift away from the traditional primacy placed on day-to-day operations and basic property level performance. Through future years, the most successful hotel companies will likely maintain a property level perspective and prioritize on-site management while still increasing their earnings through brand leverage, greater economies of scale, and an increasingly global perspective.

Globalization of the hotel industry should intensify during the next decade. More American hotel companies may expand throughout the world and more foreign hotel chains will probably seek opportunities in the U.S. From an appraisal point of view, a global knowledge of hotel trends and valuation techniques will be essential.

Management Contracts

A final factor that has majorly impacted America's hotel industry is the use of hotel management contracts, which emerged during the 1980s. Under this type of agreement a hotel company is paid for taking over a hotel's day-to-day operations. If the hotel company is a well-known chain, the management fee also includes the right to use the trade name. The hotel management company generally has little or no ownership interest in the hotel and is not responsible for funding any operating losses.

Management contracts are particularly appealing to public hotel companies, which, for accounting purposes, do not like to keep real estate assets such as hotels on their balance sheets. Progressive chains such as Marriott have created a strategy in which they develop or acquire a hotel, implement their management, and then sell the property to either an individual investor or a partnership but retain operational control through a long-term management contract. Due to the widespread use of the hotel management contracts and franchises, few hotels operating as part of a national chain are actually owned by that chain.

Learning from History

Many of the changes and trends that developed during the 1990s will continue to affect the U.S. lodging industry in the next decade. In the future, the lodging industry will have to adapt continuously to inevitable changes. Some of the factors that will impact the hotels and motels of the future are discussed below.

Faster Transportation

The jet airplane revolutionized long-distance travel by allowing people to cover more miles in shorter trips. As the speed of transportation increases, supersonic or orbital aircraft will make it possible to fly round-trip between New York and Tokyo and attend a business meeting all in one day. This would eliminate the need for any hotel accommodations.

Better Communications

Before long every home and office will be linked by a computer and video communication system. The need for face-to-face meetings will be greatly reduced when this technology becomes commonplace. Many business meetings, small conferences, training seminars, and conventions could take place without incurring travel and hotel expenses.

Globalization

Faster transportation and communications could hurt the lodging industry, but the inevitable global-

ization of businesses will create a need for business travel when face-to-face meetings are essential. Major business centers throughout the world will benefit from this trend.

Increased Pleasure Travel

As the number of affluent, two-income families has increased and transportation has become quicker, easier, and less expensive, the travel industry has seen an increase in pleasure travel. This trend is likely to continue, and resort areas will benefit from it most.

In addition, the preceding description of the hotel-motel industry in the U.S. identifies several important points that could affect the market value of lodging facilities.

1. The typical hostelry experiences a relatively high degree of functional and economic obsolescence. These factors tend to reduce a property's economic life, thereby decreasing the period during which an owner can fully recapture invested capital.
2. The growth of the lodging industry is influenced by developments in transportation. The first hostelries were located on coach trails; when the railroad came, hotels moved closer to passenger terminals. Later the automobile led to the creation of the motel, and the airplane generated demand for rooms at airport locations. A decline in a particular form of transportation can lead to the failure of associated lodging facilities.
3. The budget motel is the result of a cyclical phenomenon. The rooming house was America's first economical lodging facility. After the rooming house's popularity declined, Statler introduced the first full-facility hotel at an affordable price. In the 1950s the highway motel brought rates down for the mass travel market, and 20 years later the "revolutionary" budget motel was introduced. In the 1990s amenity creep made it possible to recreate the budget motel, this time called the hard budget.
4. Enormous amounts of financing were available in the late 1920s, the early 1970s, and the mid-1980s. Ready capital, coupled with factors such as income tax advantages, other government incentives, and an overheated economy, led to excessive overbuilding, and many properties were forced into bankruptcy or foreclosed soon after they opened. In these boom periods, hotel owners soon discovered what usually happens when a property is poorly conceived, undercapitalized, and mismanaged.
5. Distressed hotels have traditionally been valued by looking ahead to a time when recovery is expected and then projecting income and expense out until a stabilized level of occupancy is achieved. Discounted cash flow analysis is then applied to convert the projected income before debt service into an opinion of value. Using the actual net income of a distressed property would probably understate its market value because most sellers would wait for a recovery to occur unless they were forced to make an immediate sale.
6. The lodging industry has been characterized by change. Appraisers must stay abreast of current industry trends and developments to understand and correctly reflect investors' motivations and behavior in this dynamic market.

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