

CHAPTER 3

National Supply

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3.01 QUANTIFICATION OF SUPPLY

Various attempts to quantify the national supply of transient lodging facilities have, over the years, produced a wide range of estimates of both the number of facilities and the rooms they contain. Defining “transient” and determining what qualifies as a “lodging facility” can be difficult. Some of the issues that must be considered include:

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

One of the best sources of data on the supply of lodging facilities in the United States comes from Smith Travel Research. Anyone who is active in the hotel industry should subscribe to *Lodging Outlook*, published monthly by Smith Travel Research. This publication provides data related to both the supply and demand for hotels and motels, along with estimated occupancies and average rates for most major hotel markets and other valuable hotel investment information.

TABLE 3.1
Census of Hotels, Motels, and Other Lodging Facilities

Sources: 1977, 1982: U.S. Bureau of the Census; 1985: Smith Travel Research

	1977	1982	1985
Properties	51,860	47,570	45,000
Rooms	2,333,000	2,471,000	2,609,000

Another source of supply data is the Bureau of the Census, which periodically surveys all of the hotels, motels, and other lodging facilities in the United States. The bureau then issues a detailed listing of the number of properties and rooms in the country by state and metropolitan statistical area. The results of the most recent surveys, updated by Smith Travel Research, are shown in Table 3.1.

According to the census data, the number of properties declined by 13.2 percent between 1972 and 1982. At the same time, however, the number of rooms increased by 4.4 percent. Smith Travel Research estimates that in 1986, 115,000 rooms were added to the supply while approximately 30,000 rooms were removed through closures, resulting in a net gain of about 85,000 rooms, or an increase of 3.3 percent.

In 1987 Smith Travel Research investigated the supply of hotels and motels in the United States and determined percentages of market share based on both locational characteristics (Table 3.2) and class, as determined by room rates (Table 3.3).

3.02 CLASSIFICATION OF LODGING FACILITIES

In order to analyze the varied supply of lodging facilities in the United States, a system that classifies facilities according to type, class, and locational characteristics must be used.

[1] Type

The type of facility refers to the actual physical property and the primary amenities offered to guests. The types of facilities range from commercial, convention, and leisure to microtels, casinos, and bed and breakfast inns.

TABLE 3.2
Market Share by Location

Source: Smith Travel Research

Location	Market share
Highway	33%
Suburban	31
Urban	17
Resort	12
Airport	7

TABLE 3.3
Market Share by Class

Source: Smith Travel Research

Class	Market share
Luxury	30%
Upscale	19
Basic (mid-rate)	25
Limited (budget) upper	14
Limited (budget) moderate	12

[a] Commercial

Commercial facilities cater primarily to the individual business traveler. These hotels are generally situated in downtown or commercial districts near the businesses that they serve. Their amenities normally include a restaurant, lounge, small meeting rooms, recreational facilities, and shops. The services offered by many commercial hotels include: room service, secretarial services, computer terminal rentals, concierge and valet services, airport pickup, and local transportation.

[b] Convention

Convention hotels characteristically have meeting spaces with enough capacity to handle large groups of people. Generally, hotels with more than 30 square feet of meeting space per guestroom are considered convention hotels. Most convention hotels provide large ballrooms and additional break-out rooms for meetings and conferences. In some hotels, exhibit space and special sample rooms have become popular features. Convention properties also typically offer extensive restaurant and cocktail lounge facilities.

[c] Resort

Resort hotels provide facilities and equipment so that their guests can enjoy activities such as swimming, golf, tennis, boating, skiing, skating, sailing, riding, and hiking. These hotels are usually situated in locations that provide a recreational environment, such as the seashore or the mountains. Resort hotels sometimes use the American or modified American plan for meals, which means that certain meals are included in the price of the rooms. Extensive restaurant facilities are necessary in order to offer these plans.

[d] Suite

Suite hotels feature guest quarters that contain both a sleeping area and a separate living area. In some suite hotels, the suites are actually two normal size guestrooms (12' × 26') situated side-by-side, with one room devoted to sleeping accommodations while the other is used as the living room. Most suite hotels, however, use a single room (13' × 36') with the sleeping area to the rear and the living area in the front. Guest suites generally offer rudimentary kitchen facilities such as a small sink, microwave oven, and refrigerator, but they are not designed for involved food preparation or extended stays. The public space in suite hotels is generally limited, with a minimal amount of meeting space and food and beverage facilities. Guests are generally provided with a complimentary breakfast and access to an open bar in the evening. By increasing the size of guestrooms and decreasing the size of meeting and public spaces, suite hotel companies are able to hold total cost per room to approximately that of a commercial or convention hotel. Guests who do not need a meeting room or extensive restaurant and lounge space are then attracted by the value of larger guestroom accommodations offered at a rate usually similar to a commercial or convention hotel.

[e] Extended Stay

Extended stay hotels, which are a fairly new lodging product, provide a residential atmosphere by offering larger, apartment-type guestrooms with separate living and sleeping areas, full kitchens, exterior entrances, and recreational amenities. Residence hotels generally resemble garden apartment complexes and usually have a small administrative building that houses the front desk and breakfast and lounge areas. Residence hotels attract travelers who must stay in an area for an extended period of time. The average length of stay at Marriott's Residence Inns, for example, is approximately ten days. Typical guests at residence hotels include: relocated employees, auditors working on long-term projects, attorneys involved in a lengthy trial, and engineers assigned to a building project. Up until recently, such extended-stay customers generally had to use either hotels that did not provide necessary facilities or furnished rooms rented on a weekly or monthly basis. From an operational point of view, the extended-stay product is unique and profitable for several reasons: The lower turnover requires fewer people to staff the front desk, the longer stay enables the property to achieve high levels of occupancies (over 80 percent) because the normal commercial demand dropoff during weekends does not occur, and the facilities are so unlike a traditional hotel that there is usually very little competition.

[f] Conference Center

Conference centers combine lodging and extensive meeting and conference facilities with an environment that is conducive to learning. This last characteristic is important because it provides the distinction between a true conference center and what might be termed a convention hotel. Convention hotels attract some educational meetings and seminars but also cater to various meetings of socially oriented groups. These gatherings can at times become noisy, and can have a disturbing effect on a business conference taking place at the same time. As a result, conventions and conferences do not always go well together, so a planner organizing an important learning experience will usually opt for a conference center rather than a convention hotel. Typically, conference centers provide meals, conference planning, support services, meeting rooms, and recreational amenities in one all-inclusive package.

[g] Microtel

Although microtels are a recent development in the lodging industry, they actually represent the reintroduction of an old idea: the budget lodging concept. Over the past 40 years, the U.S. lodging industry has seen many hotel chains that began by offering budget prices slowly evolve into mid-rate products. Holiday Inns, Ramada Inns, and Days Inns all began with the premise that there was an unanswered need in the hotel industry for a low-priced product. However, after a period of time these chains succumbed to "amenity creep"—the gradual addition of amenities such as food and beverage facilities, meeting rooms, and swimming pools, and ultimately raised their room rates. The microtel concept is the most recent attempt to return to a basic, economical lodging product. Generally, these facilities offer guestrooms with only 190 square feet of space but with a full-size bath, color television, telephone, desk, and small closet. Designed to compete with current so-called budget hotel chains such as Super 8, Red Roof Inns, Comfort Inns, and Econolodges, microtels offer

room rates that are approximately 15 to 25 percent lower than those offered by their competition.

[h] Casino

Casino hotels provide guests and visitors with on-site gaming facilities. A well-managed casino can be a major profit center, with the hotel facilities acting as an amenity to attract casino patrons. Casino hotels usually offer specialty restaurants and night-clubs.

[i] Bed and Breakfast Inn

These inns generally offer quaint accommodations along with breakfast. Historic areas in the United States—Annapolis, Maryland; Charleston, South Carolina; and Savannah, Georgia, for example—have numerous bed and breakfast inns that mainly cater to leisure travelers.

[j] Ma-and-Pa Motel

“Ma and Pa” is the name given to old-style motel-type lodging facilities that generally have fewer than 50 units and offer few amenities. Tourist cabins and camps are usually included as part of this category.

[k] Boutique Hotel

A boutique hotel is a small lodging facility that caters to upscale patrons looking for intimate, quiet surroundings. These properties usually offer a high-quality restaurant and extensive room service, among other luxury amenities.

[l] Health Spa

A health spa is a hotel dedicated to providing various health-oriented services and activities, such as special diets and dining plans, exercise programs, medical supervision, and health education and training. Many resort hotels offer spa programs but true health spas are generally solely dedicated to such activities.

[m] Boatel

“Boatels” are lodging facilities that are associated with a marina development. They generally accommodate leisure travelers who wish to enjoy the nearby water, along with boat owners who seek guestrooms and other amenities on shore. The amenities typically offered by a boatel include a restaurant, lounge, ship’s store, laundry, parking, and marine equipment repair.

[2] Class

Describing the class of a hotel is a way of categorizing both the quality of the property and the service provided by its staff. Room rates generally reflect the class of a

property, as indicated by the following list of typical ranges for room rates for most areas of the United States.

Luxury	\$110+
First-class	\$60-110
Standard (mid-rate)	\$45- 60
Economy (budget)	\$25- 45
Microbudget	\$15- 25

The class of a hotel is relative to its own market area. The facilities and level of service offered by what might be classified as a first-class hotel in Utica, New York could be very different from those expected at a first-class hotel in New York City. Determining the class of a hotel often involves a subjective ranking. Generally, the best hotel in a particular market would be classified as the area's first-class luxury property and other lodging facilities in the same area that offer a lower level of quality or service would have a lower ranking.

[3] **Location**

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

[a] **Airport**

Generally situated either at or near an airport facility, this type of hotel usually attracts commercial travelers, small meetings and groups, and airline-related visitation such as crews and delayed passengers. Airline crews can provide a constant flow of business on a year-round basis, but this segment of the lodging market can be very price-sensitive. As a result, average room rates may have to be kept low by such a property in order to ensure continued patronage.

Airport hotels often have pick-up and delivery service to and from the airport. As part of this service, airport hotels often provide telephones at the airport that allow arriving guests to dial the hotel directly with no charge.

Small meeting rooms are also generally necessary in order for airport hotels to attract the meeting business of out-of-town travelers who wish to use the airport as a gathering spot for meetings. Appraisers must be careful, however, when evaluating an airport hotel to determine how much actual lodging demand the airport generates. Some airports are merely regional hubs where the majority of the passengers change planes rather than leave the airport facilities; as a result, they are less likely to generate lodging demand than an airport that serves as a terminus.

[b] **Highway**

A hotel with a highway orientation caters to travelers passing by in their vehicles. Properties with these locations typically attract both commercial and leisure travelers. Proximity to a major highway (usually an interstate) and visibility are the major attributes required for this type of location.

Highway hotels do not often need to provide much meeting space—several small meeting rooms are usually sufficient. A restaurant and lounge on the property

or within walking distance is desirable. Amenities that attract children, such as a swimming pool and playground, are also important if the family leisure market represents potential lodging demand.

Highway hotels are exposed to certain risks. In the past, they have suffered when travel has declined because of gasoline shortages and economic recessions. In addition, changes in traffic patterns created by new routes can improve or devastate a hotel's location almost overnight.

[c] **Downtown**

Hotels situated in the downtown area of a city cater mostly to the commercial and meeting and convention market segments. Depending on the nearby dining alternatives, a downtown hotel may only need to have minimal restaurant facilities.

Adequate parking is a primary consideration when designing a downtown lodging facility. On-site parking is the best solution, but can add considerable cost to the overall project. Valet parking is an important amenity for upscale hotels.

[d] **Suburban**

Suburban hotels are generally located near office, retail, and industrial areas. These locations typically allow for low-rise rather than high-rise construction, more recreational facilities, and better parking facilities than do urban sites. Development costs are typically lower for suburban hotels than for downtown properties.

[e] **Convention Center**

A hotel located near a convention center will draw patronage from the events held at the center, but it must be remembered that most convention centers generate transient visitation only 100 to 130 days per year—which, by itself, is insufficient to justify a lodging facility. As a result, a convention center hotel should be able to attract other market segments, such as commercial travelers and in-house meetings and conventions. To this end, convention center hotels should incorporate enough meeting space within their facilities so that they are not totally dependent on the convention center for them.

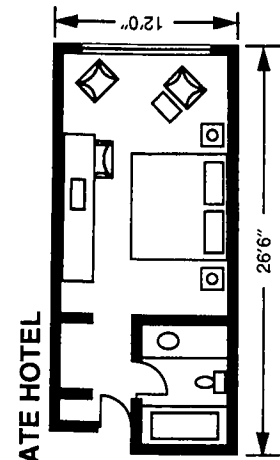
[f] **Resort**

Resort hotels attract primarily the leisure segment of the lodging market and sometimes leisure-oriented meetings and conventions. The facilities of a resort hotel offer leisure activities, such as swimming, jogging, tennis, billiards, bicycling, fishing, riding, and boating.

[g] **Mixed-Use**

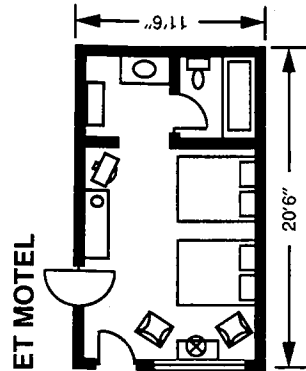
Some hotels are situated in mixed-use developments that contain non-hotel elements such as office space, retail, and residential property. The synergy between the various components of the development is often beneficial for the whole project.

FIGURE 3.1
Typical Guestroom Sizes and Layouts, Various Hotel Types



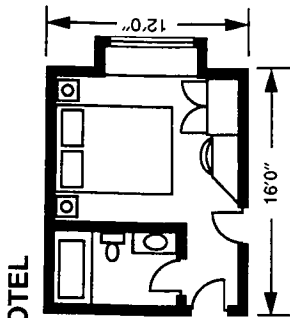
(c) MIDRATE HOTEL

Square Feet:
Living 221
Entry 35
Bath 48
Total 304



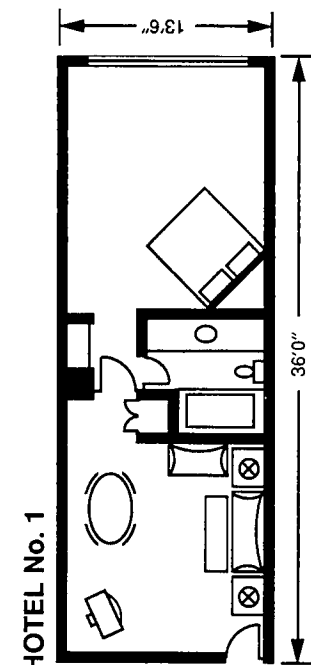
(b) BUDGET HOTEL

Square Feet:
Living 204
Entry 0
Bath 32
Total 236



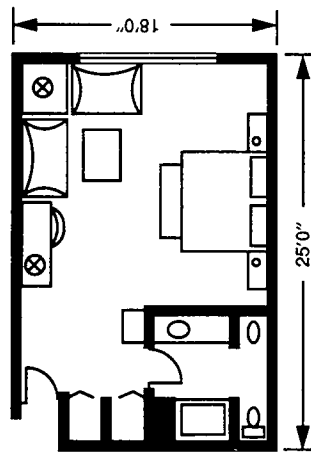
(a) MICROTEL

Square Feet:
Living 132
Entry 15
Bath 45
Total 192



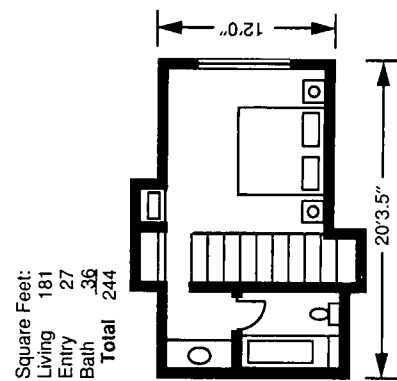
(e) SUITE HOTEL No. 1

Square Feet:
Living 235
Entry 0
Bath 62
Bedroom 189
Total 486

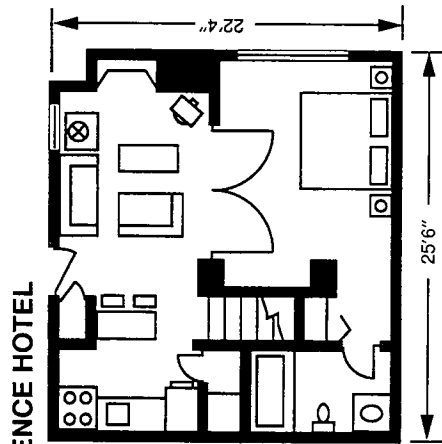


(d) LUXURY HOTEL

Square Feet:
Living 379
Entry 0
Bath 71
Total 450

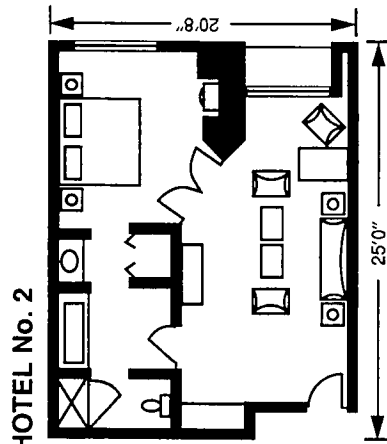


Square Feet:
Living 181
Entry 27
Bath 36
Total 244



(g) RESIDENCE HOTEL

Square Feet:
Living 320
Entry 0
Bath 50
Bedroom 210
Total 580



(f) SUITE HOTEL No. 2

Square Feet:
Living 239
Entry 0
Bath 81
Bedroom 180
Total 500

3.03 GUESTROOM DESIGN

Hotel guestroom design is influenced more by facility orientation and class than by locational attributes. The floor plans in Figure 3.1 illustrate typical sizes and guestroom layouts for various types and classes of hotels.

Figure 3.1(a) is the floor plan of a microtel room. The total area is 190 square feet. Although the guestroom is comparatively quite small, it has all of the normal amenities found in conventional guestrooms.

Figure 3.1(b) is the floor plan for a typical budget motel. The total area of the room is 236 square feet and provides sufficient space for two double beds. In this example the window is situated adjacent to the entry door, which means that the property probably has exterior corridors.

Figure 3.1(c) is a floor plan typical of a mid-rate facility. The 300 square foot room includes an entry area with closet and a king-sized double bed. The corridor to which the room has access is interior.

Figure 3.1(d) is an example of a luxury hotel room that totals 450 square feet. Although the length of the room is 25 feet, which is comparable to hotels of lower class, it is 18 feet wide, which creates a greater feeling of open space. The bathroom is above average in size and the sleeping area has room for two small couches.

The accommodations offered by suite hotels come in many sizes and shapes, but by definition contain separate sleeping and sitting areas. Figures 3.1(e) and 3.1(f) illustrate the layout of two typical hotel suites. Figure 3.1(e) shows a long, narrow space in which the living area is in the front and the sleeping area is to the rear. The suite in Figure 3.1(f) is more square, which results in a side-by-side placement of the living and sleeping areas. Both of these suite layouts have approximately 400 to 500 square feet of space, which is not significantly larger than normal luxury guestrooms.

A residence-type hotel typically provides the greatest amount of space of any type of lodging facility, consisting of a full living room, kitchen, and bedroom. Figure 3.1(g) shows a residence layout that makes use of a duplex-loft arrangement. On the first floor there is a living room and full kitchen toward the front, and a bedroom area and full bath to the rear. On the second floor there is a second bedroom and second full bath. The first floor is 580 square feet in area and the loft second floor 244 square feet, for a total of 824 square feet.

3.04 AMENITIES

Amenities such as swimming pools, room service, and personal care items play a large role in the marketing of hotel rooms. A recent survey of frequent travelers examined what amenities and services travelers expect to find at the three basic classes of lodging facilities (economy, mid-price, and luxury). Table 3.4 shows the results of this survey.

The information obtained by the survey is particularly interesting when contrasted with the results of another recent survey (see Table 3.5) that quantified the use of various services and amenities by guests in lodging facilities. The data in Table 3.5 show, among other things, that while a swimming pool is frequently an expected feature of a lodging facility, it is used only by an average of 29 percent of the guests. This creates an obvious problem for hotel developers: Should an expensive amenity such as a swimming pool that many guests expect but very few will actually use be included in the property? The answer generally lies in the local competitive environment and what amenities are necessary in order to attract the desired market segments and classes of travelers.

TABLE 3.4
Amenities and Services Expected by Frequent Travelers

Source: Dial Corporation, Michigan State University

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

TABLE 3.5
Usage of Amenities and Services

Source: American Hotel and Motel Association

	Guest usage
TV	91%
Personal care items	76
Restaurant	70
More than two towels	69
Wake-up call	59
In-room coffee maker	54
Cocktail lounge	29
Swimming pool	29
Pay TV	20
Exercise equipment	15
Check cashing	10
Room service	10
Valet dry cleaning	4
Video games	3
Coin laundry	2

3.05 FINANCIAL OPERATING CHARACTERISTICS

Hotels generally have financial operating data that is typical of their classification. Income and expense statements for several types of hotels are contained in Table 3.6, illustrating the usual differences between them.

The income and expense statement for the economy motel shows that the property, as is typical, has no food and beverage revenue. Its rooms department expense is an efficient 18.7 percent of gross expenses and the net income ratio to total revenue is 44.2 percent.

In contrast, the statement for the mid-rate convention hotel with average operating ratios shows that rooms department expense is 24.9 percent and food and beverage expense is 82.1 percent of gross expenses. The net income ratio to total revenue is 20.3 percent.

The higher rate convention hotel shows a strong food and beverage business and exceptional operating ratios. Rooms expense is 18.9 percent, while food and beverage expense is 68 percent. The net income ratio is 29.4 percent.

The statement for the suite hotel shows that because food service is not a significant profit generator in a suite hotel, the restaurant has been leased. The property enjoys good operating ratios, which result in a net income ratio of 32.7 percent.

The residence hotel statement shows that this type of property generally achieves a higher occupancy than a suite hotel (81 percent vs. 74 percent in this example) at a similar average room rate. As a result of the higher occupancy, the residence hotel is able to realize a net income ratio of 40.3 percent. Comparing the net income on a per-room basis, the suite hotel earned \$9,311 per room and the residence property earned \$11,634 per room.

While the operating data shown in Table 3.6 is broadly typical for the various hotel classifications, it should be remembered that there are many factors, including local market conditions, chain affiliation, and management ability, that can dramatically affect the results of any lodging facility.

TABLE 3.6
Hotel Financial Operating Characteristics, by Type

	Economy Hotel		Mid-rate Convention Hotel		High-Rate Convention Hotel		Suite Hotel		Residence Hotel	
	Number of Rooms: 62	Average Rate: \$30.00	Number of Rooms: 350	Average Rate: \$69.00	Number of Rooms: 290	Average Rate: \$113.00	Number of Rooms: 240	Average Rate: \$92.00	Number of Rooms: 80	Average Rate: \$92.00
	Percent of gross	Amount per room	Percent of gross	Amount per room	Percent of gross	Amount per room	Percent of gross	Amount per room	Percent of gross	Amount per room
<i>Revenues</i>										
Rooms	97.3%	\$8,097	56.4%	\$18,889	57.5%	\$8,971,000	93.3%	\$5,964,000	94.3%	\$2,176,000
Food	0.0	0	24.9	8,346	29.3	4,581,000	Leased	135,000	0	0
Beverage	0.0	0	13.4	4,491	8.2	1,277,000	0.0	0	0	0
Telephone	2.3	194	2.1	700	2.2	343,000	2.8	178,000	3.7	1,075
Other income	0.4	32	3.2	1,057	2.8	440,000	1.8	113,000	2.0	575
Total	100.0	8,323	100.0	33,483	100.0	15,612,000	100.0	6,390,000	100.0	2,308,000
<i>Departmental Expenses</i>										
Rooms	18.7*	1,516	24.9*	4,697	18.9*	1,699,000	21.5*	1,285,000	18.4*	401,000
Food & beverage	0.0*	0	82.1*	10,537	68.0*	3,984,000	0.0*	0	0.0*	0
Telephone	133.3*	258	108.2*	757	100.0*	343,000	69.7*	124,000	72.1*	775
Other income expense	0.0*	0	0.0*	0	79.1*	348,000	0.0*	0	0.0*	0
Total	21.3	1,774	47.8	15,991	40.8	6,374,000	22.1	1,409,000	20.1	463,000
Departmental Income	78.7	6,549	52.2	17,492	59.2	9,238,000	75.8	4,981,000	79.9	1,845,000
<i>Undistributed Operating Expenses</i>										
Administrative and general	6.8	565	9.3	3,117	8.5	1,325,000	8.8	582,000	9.0	208,000
Management fee	3.0	250	4.9	1,634	3.0	467,000	4.0	256,000	4.0	1,065
Marketing	7.4	613	4.9	1,629	4.7	736,000	9.4	599,000	9.5	2,738
Property operations and maintenance	2.9	242	4.2	1,391	4.1	636,000	5.8	368,000	3.8	1,088
Energy	4.3	355	4.6	1,540	3.2	502,000	5.1	323,000	4.7	1,363
Total	24.4	2,025	27.9	9,311	23.5	1,421,000	33.1	2,108,000	31.0	8,952
House Profit	54.3	4,524	24.3	8,181	35.7	7,817,000	42.7	2,873,000	48.9	14,110
<i>Fixed Expenses</i>										
Property taxes	5.4	452	2.0	671	3.4	532,000	5.2	334,000	4.3	1,238
Insurance	1.7	145	0.3	109	0.2	27,000	1.8	113,000	1.3	363
Reserve for replacement	3.0	250	1.7	557	2.7	428,000	3.0	192,000	3.0	875
Total	10.1	847	4.0	1,337	6.3	987,000	10.0	639,000	8.6	2,476
Net Income	44.2%	\$3,677	20.3%	\$6,844	29.4%	\$6,830,000	32.7%	\$2,234,000	40.3%	\$9,311

* Expressed as a percentage of departmental revenue