

CHAPTER 3

National Supply

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¶ 3.01 **QUANTIFICATION OF SUPPLY**

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

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

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

Exhibit 3-1 shows the approximate size of the US hotel market by property size. Another useful measure of the US market is to breakdown the number of hotel rooms by region (see Exhibit 3-2).

Exhibit 3-1 1998 Industry by Property Size

Sources: Smith Travel Resource

	# Hotels	# Rooms
Over 500 Rooms	464	424,587
300-500 Rooms	1,022	379,826
150-299 Rooms	4,168	829,897
75-149 Rooms	11,959	1,292,301
Under 75 Rooms	<u>18,124</u>	<u>810,508</u>
	35,737	3,737,119

Exhibit 3-2 1998 Industry by Region

Sources: Smith Travel Resource

	# Hotels	# Rooms
New England	1,651	147,104
Middle Atlantic	2,646	315,588
South Atlantic	8,054	897,967
E.S. Central	2,540	238,015
W.S. Central	3,583	390,502
E.N. Central	4,482	446,300
W.N. Central	3,156	258,947
Mountain	3,902	456,255
Pacific	<u>5,723</u>	<u>586,441</u>
	35,737	3,737,119

According to the census and Smith Travel Research data, the number of properties declined from 51,860 in 1972 to 35,737 in 1998, an attrition of roughly 30 percent. At the same time, however, the number of rooms increased from 2.3 million to 3.7 million, an increase of 40 percent. These figures indicate that older, smaller lodging properties are closing and being replaced by new facilities with larger room inventories. Moreover, the trend in the lodging industry has been characterized by the disappearance of small, independent properties and the arrival of larger, brand name properties.

¶ 3.02 CLASSIFICATION OF LODGING FACILITIES

Meinrad LP and Smith Travel Research monitors the lodging supply in the United States and determines the market share of lodging facilities based on both locational characteristics (Exhibit 3-2) and class, as determined by pricing tiers (Exhibit 3-3).

Exhibit 3-3 Market Share by Class

Sources: Smith Travel Resource

	# Hotels	# Rooms	Percent
Upper Upscale	1,187	459,425	12.3%
Upscale	1,676	314,759	8.5%
Midscale with Food/Beverage	5,078	671,969	18.0%
Midscale without Food/Beverage	4,552	414,976	11.2%
Economy	<u>9,041</u>	<u>2,592,688</u>	19.6%
Chains	21,534 60.4%	2,592,688	69.9%
Independents	<u>14,099</u> 39.6%	<u>1,133,590</u>	30.4%
	35,633 100.0%	3,726,278	100.0%

As Exhibits 3-2 and 3-3 indicate, highway and suburban markets are the sites of the majority of the lodging supply. In terms of class, the largest number of lodging facilities are considered mid-price, which according to Smith Travel Research, have average rates of roughly \$60, followed by upscale facilities, which have average rates of roughly \$75. Another way of looking at market segmentation is by brand name, Exhibit 3-4 shows the 10 largest hotel chains by number of rooms.

Exhibit 3-4 Meinrad Hotel Segmentation*

Sources: Meinrad LP, January 1997

Top 10 Hotel Brands/Flags by # of Hotel Rooms	Brand Portfolio Totals			Share of Total U.S.A./Canadian Rooms	
	# Rooms	# Hotels	AVG	% Individual	% Cumulative
1 Holiday Inn	240,951	1,286	187	6.84%	6.84%
2 Best Western International, Inc.	195,002	2,106	93	5.54%	12.38%
3 Days Inn	145,343	1,505	97	4.13%	16.51%
4 Comfort Inn	99,382	1,161	86	2.82%	19.33%
5 Ramada Inn	99,335	630	158	2.82%	22.15%
6 Marriott Hotels and Resorts	97,505	226	431	2.77%	24.92%
7 Hilton Hotels and Resorts	95,949	231	415	2.72%	27.64%
8 Motel 6, L.P.	83,987	740	113	2.39%	30.03%
9 Super 8 Motels	82,518	1,337	62	2.34%	32.37%
10 Sheraton Hotels Worldwide	64,055	160	400	1.82%	34.19%
250 OTHER BRANDS	1,328,424	11,278	118	37.72%	71.92%
INDEPENDENT	988,991	12,828	77	28.08%	100.00%
TOTAL POPULATION	3,521,442	33,488	105	100.00%	

[1] Facility Types

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

[a] Commercial Hotels

Commercial facilities cater primarily to the individual business traveler and are generally situated in downtown or commercial districts. Amenities typically include a restaurant, a lounge, meeting facilities, a fitness room, and a gift shop. The services offered by many commercial hotels include room service, a business center, concierge and valet services, shoe shine service, daily newspapers, airport shuttle, and local transportation. Modern commercial facilities also provide work desks, multiple telephones with dual lines and data ports, in-room coffee makers, irons and ironing boards, and copy and facsimile services.

[b] Convention Hotels

Convention hotels are large facilities that characteristically have meeting spaces with the capacity to handle large groups of people. Generally, hotels with more than 30 square feet of meeting space per guestroom located near convention centers are considered convention hotels. Convention hotels generally contain a large inventory of guestrooms with a high percentage of double/double bedding configurations. Most convention hotels provide large ballrooms and small breakout rooms for meetings and conferences. In addition, some hotels feature exhibit space and auditoriums. Convention properties also typically offer extensive food and beverage facilities and other services and facilities found in commercial hotels, although the level of service tends to be less personal.

[c] Resort Hotels

Resort hotels are oriented toward leisure travelers seeking a scenic or recreational environment, such as the seashore or the mountains. Typically, the improvements are sprawled over a large parcel of highly landscaped land. Recreational facilities are provided, allowing guests to enjoy such activities as swimming, golf, tennis, boating, skiing, skating, sailing, riding, and hiking. Extensive food and beverage facilities as well as 24-hour room service are necessary, because the resort's location is often secluded. Other typical amenities include retail facilities, activities desks, children's programs, and massages.

[d] Suite Hotels

Suite hotels feature guest quarters that contain both a sleeping area and a separate living area. In some suite hotels, one suite is composed of two normal-sized guestroom modules. Most suite hotels, however, use a single room (13 feet by 36 feet) with the sleeping area to the rear and the living area in the front, separated by a physical wall. Suites generally offer rudimentary kitchen facilities (e.g., a wet bar, microwave oven, and mini refrigerator) but are not designed for involved food preparation. Guests are generally provided with a complimentary breakfast and evening cocktails. Suites typically contain a sofa bed in the living area that can be used for families with children.

The appeal of suites to the commercial traveler is that business can be conducted in the guestroom without the inappropriate presence of a bed. The public space in suite hotels is generally limited, with a minimal amount of meeting space and usually one food and beverage facility. However, many suite hotels feature partial or full atriums. By increasing the size of guestrooms and decreasing the size of meeting and public spaces, suite hotel companies are able to maintain total cost per room to approximately that of a commercial or convention hotel. Business travelers who do not require large meeting rooms or extensive food and beverage facilities are attracted by the price-value relationship of the larger accommodations and inclusive food and beverage. Leisure travelers, particularly families, benefit from using the expandable sleeping capacity and the money-saving food and beverage component.

[e] **Extended-Stay Hotels**

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

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

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

[f] **Conference Centers**

Conference centers combine lodging and extensive meeting and conference facilities within an environment conducive to educating and training. This environment 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. Social gatherings can at times become noisy and distracting and can have a disturbing effect on a business conference taking place at the same time. In contrast, conference centers provide a quieter, more tranquil, and more serious atmosphere for conference attendees. Typi-

cally, conference centers provide meals, conference planning, audio/visual equipment, support services, flexible meeting facilities, and recreational amenities in an all-inclusive package.

[g] Micro-Budget Motels

The micro-budget motel, or hard-budget motel, includes a very small and compact guest room that consists of 180 to 200 square feet of space, compared with 220 to 250 square feet for the traditional budget product. This type of facility keeps its costs low by eliminating such amenities as restaurants, lounges, meeting rooms, swimming pools, complimentary breakfasts, morning newspapers, and special soaps and shampoos. Minimization of the improvements allow for aggressive rate policies. Chains such as Microtel, Daystop (Days Inns), and Sleep Inns (Choice Hotels) offer this type of product, which attracts the highly rate-sensitive traveler. Key elements in the success of a micro-budget motel include: room rates at 10 percent to 25 percent below those of other economy products in the market, minimum marketing expenses and franchise fees, elimination of superfluous development costs, and tight operational cost controls.

[h] Casino Hotels

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

[i] Bed and Breakfast Inns

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

[j] Mom-and-Pop Motels

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

[k] Boutique Hotels

A boutique hotel is a small lodging facility that caters to upscale patrons looking for intimate, quiet surroundings. Often converted from historic structures, these properties usually offer high-quality amenities and furnishings, signature upscale restau-

rants, and extensive, personalized guest services. Public areas and meeting facilities are generally minimal in boutique hotels.

[l] **Health Spas**

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

[m] **Boatels**

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

[2] **Class**

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

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

The lodging industry does not seem to have a uniform definition of the various hotel classes. Terms such as “economy,” “first-class” (or “upscale”), and “luxury” have different meanings for different people. However, Smith Travel Research publishes average rate and occupancy information for each class category defined previously. Exhibits 3-5 and 3-6 illustrate the various class categories and the corresponding average occupancy and average room rates for lodging facilities in the United States.

Exhibit 3-5 ADR Performance by Location Type (1996-1997)*Sources: Bear, Stearns & Co. Inc.; Smith Travel Research.*

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

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

Exhibit 3-6 Occupancy Performance by Location Type (1996-1997)*Sources: Bear, Stearns & Co. Inc.; Smith Travel Research.*

Location	1997	1996	bps Chg.
Airport	70.5%	71.0%	-0.7%
Urban	69.8	69.7	0.1
Resort	69.7	69.1	0.9
Suburban	65.9	66.3	-0.6
Highway	60.8	61.7	-1.5
Total U.S.	64.5%	65.0%	-0.8%

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

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

[3] Location

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

[a] Airports

Situated either at or near an airport facility, this type of hotel usually attracts commercial travelers, small meetings and groups, and airline-related visitation such as crews and distressed passengers. Contracts with airlines typically provide a substantial base of business. However, as this demand segment of the lodging market is

highly discounted (for the steady block of rooms), average room rate for an airport hotel may be skewed downward relative to its proportion of airline business.

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

[b] Highways

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

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

[c] Downtowns

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

[d] Suburbs

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

[e] Convention Centers

A hotel located near a convention center will draw patronage from the events held at the center. Convention center hotels typically provide food and beverage facilities, additional meeting facilities, and recreational facilities. It must be noted, however, that most convention centers generate roughly 100 to 130 days of transient visitation per year, which alone is insufficient to justify a lodging facility. Therefore, a con-

vention center hotel should be designed to attract other demand segments, such as commercial and leisure travelers. In addition, meeting facilities should be adequate to accommodate self-contained, smaller meetings and functions.

[f] **Resorts**

Resort hotels are located in areas with considerable scenic beauty or recreational opportunities. Resort properties attract primarily the leisure demand segment of the lodging market and sometimes leisure-oriented meetings and conventions such as corporate-incentive groups. Resorts typically feature extensive food and beverage facilities, recreational amenities, and retail facilities. Activity desks are also usually provided for off-property activities and tours. Resorts also provide 24-hour room service, currency exchange, in-room movies, ample parking space, and manicured landscaping. Artwork and design motifs reflect the property's location.

[g] **Mixed-Use Facilities**

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

¶ 3.03 **GUESTROOM DESIGN**

Hotel guestroom design is more influenced by facility orientation and class than by locational attributes. The floor plans in Exhibit 3-7 illustrate typical sizes and guestroom layouts for various types and classes of hotels.

Exhibit 3-7(a) shows the floor plan of a microbudget motel guestroom. The total area is 190 square feet and provides enough space for one bed. Although the guestroom is relatively small, it has all of the normal amenities found in conventional budget motel guestrooms.

Exhibit 3-7(b) shows the floor plan for a typical budget motel. The total area of the room is 236 square feet and provides sufficient space for two double beds. In this example, the window is situated adjacent to the entry door, which means that the property probably has exterior corridors.

Exhibit 3-7(c) shows a floor plan typical of a mid-rate facility. The 300-square-foot room includes a larger bathroom, a separate closet, and a sleeping area containing a king-sized bed and two chairs. The guestroom also contains a combination desk/dresser with a television. The corridor to which the room has access is interior.

Exhibit 3-7(d) provides an example of a luxury hotel room that totals 450 square feet. Although the length of the room is 25 feet, which is comparable to properties of lower class, its width is 18 feet, creating a feeling of greater open space. The bathroom is above average in size and the sleeping area has capacity for a desk, two small couches, and a coffee table.

The accommodations offered by suite hotels come in many sizes and shapes, but by definition a suite contains separate sleeping and living areas. Exhibits 3-7(e) and 3-7(f) illustrate the layout of two typical suite configurations. Exhibit 3-7(e) shows a rectangular guestroom module in which the living area is in the front and the sleeping area is to the rear. The suite in Exhibit 3-7(f) is square, which results in a side-by-side placement of the living and sleeping areas. Both of these suite layouts contain

Exhibit 3-7 Typical Guestroom Sizes and Layouts for Various Hotel Types

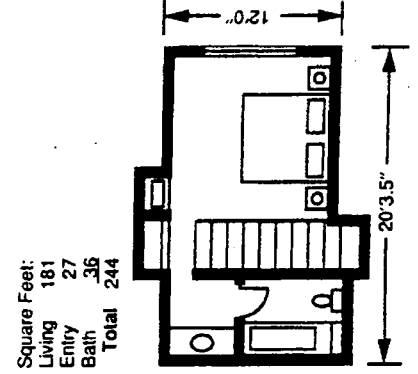
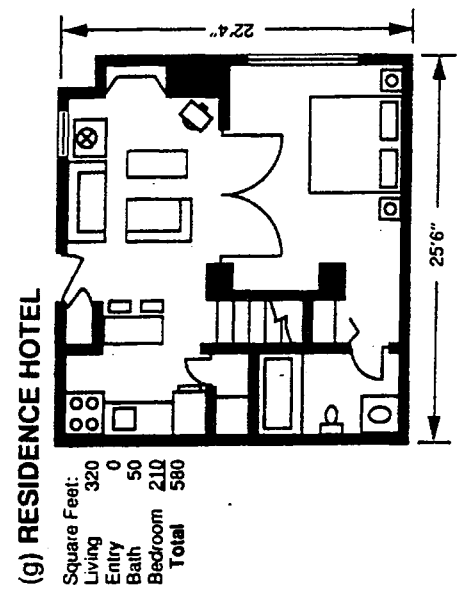
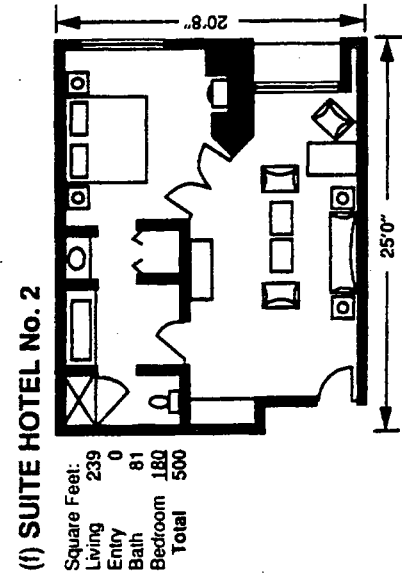
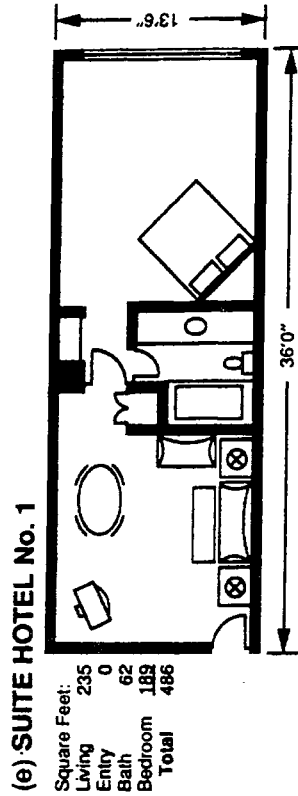
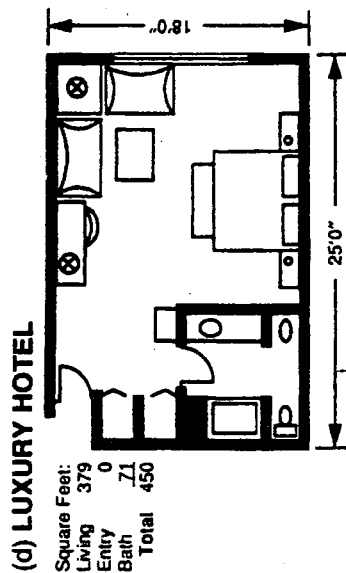
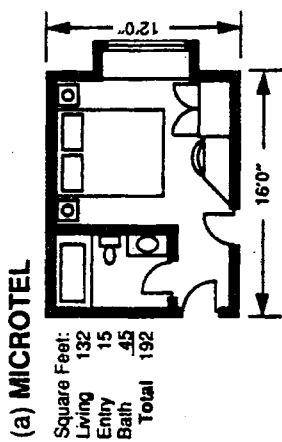
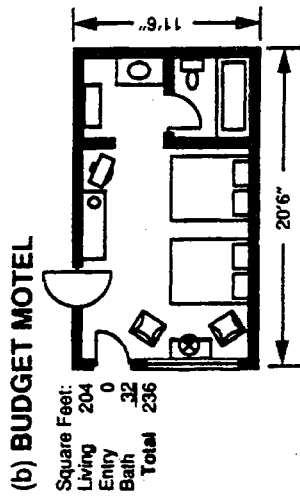
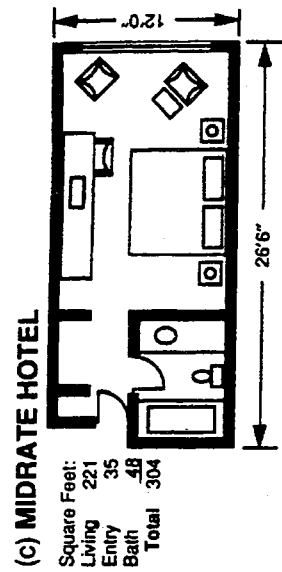


Exhibit 3-7 (cont'd)

(a) Microtel	(b) Budget Motel	(c) Mid-Rate Hotel
<i>Square Feet:</i>	<i>Square Feet:</i>	<i>Square Feet:</i>
Living 132	Living 204	Living 221
Entry 15	Entry 0	Entry 35
Bath 45	Bath 32	Bath 48
Total 192	Total 236	Total 304
(d) Luxury	(e) Suite Hotel No. 1	
<i>Square Feet:</i>	<i>Square Feet:</i>	
Living 379	Living 235	
Entry 0	Entry 0	
Bath 71	Bath 62	
	Bedroom 189	
Total 450	Total 486	
(f) Suite Hotel No. 2	(g) Residence Hotel	
<i>Square Feet:</i>	<i>Square Feet:</i>	<i>Square Feet:</i>
Living 239	Living 320	Living 181
Entry 0	Entry 0	Entry 27
Bath 81	Bath 50	Bath 36
Bedroom 180	Bedroom 210	
Total 500	Total 580	Total 244

approximately 400 to 500 square feet of space, which is only slightly larger than a typical luxury guestroom module.

Exhibit 3-7(g) shows a residence hotel room layout. A residence-type hotel, or extended-stay hotel, typically provides the greatest amount of space of any type of lodging facility. Guestroom modules typically consist of full-size living rooms, kitchens, and bedrooms. The layout in Exhibit 3-7(g) is of a duplex-loft arrangement. On the first floor there is a living room and full kitchen toward the front, and a bedroom area and full bath to the rear. On the second floor there is a second bedroom and second full bath. The first floor is 580 square feet in area and the loft second floor 244 square feet, for a total of 824 square feet.

¶ 3.04 AMENITIES

Amenities such as swimming pools, room service, and personal care items play a large role in the marketing of hotel rooms. Exhibit 3-8 shows the results of a survey conducted for the Dial Corporation by Michigan State University's School of Hospitality Business to determine frequent travelers' expectations of amenities and services. The American Hotel and Motel Association conducted a survey to quantify the usage of the amenities and services provided. The results of that survey are presented in Exhibit 3-9.

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

Exhibit 3-8 Amenities and Services Expected by Frequent Travelers

Sources: Dial Corporation, Michigan State University

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

Exhibit 3-9 Usage of Amenities and Services

Source: American Hotel and Motel Association

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

¶ 3.05 **FINANCIAL OPERATING CHARACTERISTICS**

Income and expense statements for several types of hotels are contained in Exhibit 3-10, illustrating the common differences between the classes of hotels.

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

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

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

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

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

While the operating data shown in Exhibit 3-10 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.

Exhibit 3-10 Hotel Operating Statistics by Type

Exhibit 3-10 Hotel Operating Statistics by Type

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

*Departmental Expenses are expressed as a percentage of departmental revenues

¹Per Available Room

²Per Occupied Room