Performing a Hotel Market Study and Valuation

What is a Hotel Market Study and Valuation?

Each time a hotel is bought, sold, developed, financed, refinanced, syndicated, or assessed, parties to the transaction may require some type of market study and valuation to indicate its future financial performance. Over the years the lodging industry has used a variety of terms to describe the process of forecasting the revenue and expenses of a property and estimating its market value. These studies may be called *feasibility studies, market studies, market studies with financial projections, market demand studies, economic studies, economic feasibility studies, appraisals, valuations, economic valuations, economic market studies and appraisals, or market studies and valuations.*

Although the studies identified by these names will generally produce similar findings, in this text the term market study and valuation will be used to describe a six-step process.

1. Evaluate the hotel's site and locational characteristics

2. Quantify lodging demand

3. Evaluate competitive lodging supply

4. Measure property-specific characteristics (for an existing hotel)

5. Forecast revenue and expenses

6. Estimate market value

Most appraisers are already experts at estimating market value, so this book will concentrate on the process leading up to and including the forecasting of revenue and expenses. The valuation section will focus on the income capitalization approach and show how the cost and sales comparison approaches provide support for the final value conclusion. By following the procedures described in this book, appraisers will have the tools needed to perform various types of studies.

The Phases For Performing A Hotel Market Study and Valuation

When an appraiser is retained to perform a hotel market study and valuation, a four-phase process is followed to accomplish the goals of the assignment. The phases are outlined here in a logical order, but some of the work required in the individual phases can proceed concurrently. The phases employed in performing a hotel market study and valuation are identified as follows.

Phase 1. Define the assignment

Phase 2. Data collection

Phase 3. Data analysis

Phase 4. Formulate conclusions

This book will explain each phase in order.

Phase 1. Define the Assignment

Before beginning any type of study, the appraiser must define the assignment. Some questions that should be considered when defining a hotel market study and valuation assignment are

Where is the property located?

Is the hotel existing or proposed?

What facilities constitute the property (if it is existing)? What is the date of value?

What is the purpose of the study?

What property rights are to be appraised? Is there any excess land?

Who will operate the hotel?

What is the financial structure - debt and equity?

The answers to these questions are generally provided by the property owner

or client and form the basis for defining the assignment.

Phase 2. Data Collection

Once the assignment has been defined, the appraiser begins to collect data.

The process of collection starts by determining exactly what type of data is

required to complete the assignment. A data collection checklist is often em-

ployed to ensure that no essential information is overlooked. The appraiser

must then determine where to look for each type of data. Typical data sources

include

Information provided by the property owner or client

Primary market research conducted in the field by the appraiser

Secondary research of in-house data and other secondary sources

The data collection process should be thorough, accurate, and all-inclusive.

The results of the market study and valuation are only as accurate as the data

collected.

Phase 3. Data Analysis

The collected data are evaluated and analyzed by the appraiser to form a basis for conclusions. Sophisticated analytical procedures are used to manipulate data so the appraiser can simulate, or model, actual market conditions. Three procedures employed in hotel data analysis are presented in this text: Room Night Analysis, the Fixed and Variable Income and Expense Forecasting, and the Mortgage Equity Valuation Model.

Room Night Analysis

This procedure measures the current hotel demand in the area and forecasts future demand. The market share for the subject property is then calculated based on its competitive strength relative to other hotels in the area. With information on the subject's market share over the projection period and the

forecast room night demand, the program can calculate the subject's probable percentage of occupancy.

Fixed and Variable Income and Expense Forecasting

The income and expenses for a lodging facility tend to fluctuate with changes in the sales volume and usage of the property. By identifying the portion of a revenue or expense item that is fixed and the portion that varies directly with volume or usage, the fixed and variable income and expense forecasting model provides a basis for forecasting a hotel's net income before debt service.

Mortgage Equity Valuation Model

Hotel investors typically make purchase decisions using a mortgage-equity technique in which the forecast net income before debt service and residual

value are discounted to present value at a discount rate that reflects the cost of debt and equity capital.

In addition to these analytical procedures, the appraiser evaluates data used in the cost and sales comparison approaches.

Phase 4. Formulate Conclusions

Based on Phase 3 analysis, the appraiser can formulate conclusions. In a typical market study and valuation, there are a series of intermediate conclusions that lead to the ultimate opinion of value. Some of these intermediate conclusions are listed below.

Intermediate conclusions

1. Suitability of the site for hotel use

2. Suitability of improvements and amenities (if the hotel is existing)

3. Surrounding neighborhood characteristics

4. Local economic and demographic conditions

5. Current level of room night demand subdivided by market segment

6. Expected future trends in lodging demand

7. Existing and projected competition

8. Subject's relative competitiveness and projected capture of room night demand

9. Subject's projected annual occupancy up to a stabilized level

10. Subject's projected room rates

11. Projected use of and revenues from food, beverage, and banquet facilities as well as other services and amenities

12. Projected operating and fixed expenses

13. Estimated net income before debt service for each year of the projection period

14. Income capitalization parameters such as mortgage interest and amortization rates, loan-to-value ratio, term, equity yield, terminal capitalization rate, and inflation rate

15. Opinion of value by the income capitalization approach

16. Opinion of value by the cost approach (if appropriate)

17. Opinion of value by the sales comparison approach (if appropriate)

18. Reconciliation of each approach and final estimate of market value

Note. These conclusions are referred to by number in the data collection checklist.

ASSUMPTIONS

This four-phase approach to performing a hotel market study and valuation will be thoroughly described in the chapters that follow. Readers should keep in mind that these procedures will speed the process of data analysis, but they do not take the place of accurate and complete data collection and experienced judgment in formulating conclusions.

Before proceeding, some of the assumptions made by the author must be set forth.

1. The term hotel is used throughout this text. However, the procedures described for a hotel market study and valuation are equally applicable to motels, motor inns, motor hotels, inns, conference centers, and resorts.

2. This book does not contain a complete discussion of the history of the lodging industry, macro supply and demand trends, and the theory behind various valuation techniques. It is assumed that the reader has some familiarity with these topics.

3. To illustrate the procedures and techniques described in this text, case study examples are utilized. These examples are concerned with an existing hotel with an operating history and a proposed hotel expected to open in three years.

DEFINE THE ASSIGNMENT

The first phase in all hotel market studies and valuations is the creation of a complete and clear definition of the assignment. A clear definition is needed because you cannot determine how to get somewhere until you know where you are going. An appraiser must understand the client's exact needs before embarking on data collection and analysis. A thorough definition is also needed to determine the amount of time and staff required, which must be known to prepare an accurate fee quote.

TYPES OF DATA

To define the assignment, the appraiser assembles data that can be classi-fied as either property-specific or assignment-specific. This information generally comes from the client or the property owner, if they are two dif-ferent parties. Often much of this data is accumulated over the telephone, but a sophisticated client may put together a formal request for proposals (RFPs), which sets forth detailed instructions and assignment require-ments.

Property-Specific Data

Property-specific data relate to the vacant land, if the hotel is proposed, and the land and improvements if the hotel exists. Some property-specific data are essential in defining the assignment.

Does the hotel exist or is it proposed?

A market study and valuation for a proposed hotel require considerably more market research and data collection because the appraiser cannot examine the property's financial track record to date.

Property location

The exact location of the property is needed. A survey is often helpful, but a street address will generally suffice.

Description of the property

If the hotel exists, the appraiser should have a complete understanding of what facilities are included in the study. A minimum facilities description would include room count, number of restaurants and lounges, square foot area of meeting and banquet space, amount of retail space, and a list of other facilities and amenities.

If the hotel is proposed or there is the possibility that the site contains excess land, the appraiser should obtain a description of the parcel. Size, frontage, access, visibility, and topography are important factors to consider in defining an assignment.

Excess land is surplus land that is not needed to accommodate a site's highest and best use. It refers to a part or section of the site that is not needed or used by the current hotel facilities or, alternately, land that could be used for an addition to the existing hotel or for another compatible use. The availability of proper zoning, access, visibility, and utilities must be considered when determining whether land can be deemed excess land.

Assignment-Specific Data

Assignment-specific data include any general information and assumptions provided by the client such as the purpose of the study, the property rights appraised, the date of value, and the property's financial structure and operator.

Purpose of the Study

To meet the needs of the client, the appraiser must understand the function of the study. This book is concerned with market study and valuation. This type of study can serve a wide variety of purposes.

- To develop an opinion of market value or investment value for potential hotel purchasers

- To estimate market value or investment value for potential hotel sellers

- To interest lenders in providing project financing

- To attract investors for equity syndications

- To resolve property tax disputes

- To establish value for bankruptcy and/or foreclosure

- To value property for condemnation proceedings

- To determine if a proposed hotel will be economically feasible

- To determine if present management is maximizing the value of the property

- To quantify the value of property expansion or renovation

Property Rights Appraised

The property rights appraised are the interests that will be transferred as of the date of value. Some of the interests appraisers typically value in hotel appraisals include fee simple, leasehold, leased fee, management contract, limited partnership, corporate stock, and minority ownership. Each

type of interest includes specific property rights and risks, which must be evaluated and reflected in the value opinion.

Date of Value

Every valuation is made as of a specific point in time. A retrospective value, current value, or prospective value may be estimated. Because the data collected must reflect market conditions as of the effective date of value, the appraiser must know the client's assumed valuation date before beginning the assignment.

Financial Structure of the Property

Depending on the specific purpose of the assignment, it may be necessary to examine the hotel's existing or contemplated financial structure, which usually encompasses both debt and equity components. This information is essential in developing an investment value estimate for a particular

hotel investor because specific return requirements must be considered in the income capitalization approach.

Operator's Performance Abilities

When a hotel market study and valuation is performed and a hotel management company is assumed to be the property's long-term operator, the forecast of income and expense should reflect the anticipated performance abilities of that specific operator. Performance abilities typically refer to the company's capacity to operate the property in a manner that maximizes long-term revenues while minimizing long-term expenses. The performance abilities of hotel management companies vary widely and can have a significant impact on future operating results. Therefore, the appraiser must determine at the outset whether the market study and valuation is to assume a generic, competent hotel management company or a specific operator. If a specific operator is assumed, the appraiser should request information pertaining to the operator's performance abilities. Helpful data would include financial statements, occupancy and av-

erage room rates for comparable properties, and information concerning the operator's experience in managing hotels of specific types, classes, and franchise affiliations in particular locations. In later chapters of this book, procedures for evaluating this type of comparable operating data and using it to forecast future operating performance for the subject property will be covered in detail.

Both property- and assignment-specific data are useful in defining an assignment accurately. Hotels are very complex investments, so appraisers should keep in mind that each assignment is unique; additional information not specifically set forth here may be needed to fulfill the needs and expectations of the client.

DATA COLLECTION

Phase 2 of the hotel valuation process is data collection. The findings and recommendations contained in a hotel market study and valuation depend on the quality of the data gathered and used in the assignment. Appraisers are in the business of data collection and retrieval.

This chapter will describe a process for collecting all the data needed to develop a hotel market study and valuation. First, primary sources of data will be explored; then specific types of required data will be illustrated with directions for their collection. Because the material is arranged in a step-by-step manner, it may not be immediately clear how certain types of data will be utilized in the analysis. As the process unfolds, however, the use and organization of data should become apparent.

PRIMARY SOURCES OF DATA

Data for a hotel market study and valuation can be obtained from a wide variety of sources. The three primary data sources described below reflect

the general direction in which the appraiser should start looking for information. The three categories of hotel market study and valuation data are: client-supplied data, in-house data, and field data.

Client-Supplied Data

The client usually supplies property- or assignment-specific information. Client-supplied data include the information needed to define the assignment, as well as additional materials such as plot plans, legal descriptions, architectural plans, financial statements, management contracts, franchise agreements, and budgets. The appraiser should request this data in the proposal contract. In fact, some appraisers begin their contractual work schedule when all the client-supplied data requested are actually received. The quality of data provided by the client is generally good; these data tend to be factual rather than subjective in nature.

In-House Data

Information that is accumulated and maintained by a hotel appraiser in the normal course of business (i.e., not for a specific assignment) is categorized as in-house data. In-house data include comparable sales of hotels, hotel directories, travel surveys, occupancy and average rate databases, financial operating statements, trade and professional journals, and economic and demographic databases. The quality of this type of data is generally good. The ability of an appraisal firm to accumulate a significant amount of meaningful in-house data tends to be directly related to the quantity of hotel assignments it performs.

Field Data

Information that is not supplied by the client or found in the appraiser's in-house database must be collected from the field specifically for the assignment. Field data include site and location-related descriptions, information on market area characteristics and the nature of local lodging demand, com-

petitive property data, and economic and demographic trends. Field data are usually generated through primary research. Therefore, the quality of these data depends on the data collecting techniques utilized and the skill of the appraiser performing the fieldwork. Collecting field data for a hotel assignment can be a time-consuming process. It may take from one to ten days of work depending on the firm's familiarity with a specific market area and the nature of the assignment.

DATA COLLECTION CHECKLIST

The following checklist illustrates the specific types of data that might be accumulated in performing a hotel market study and valuation. The list is not all-encompassing, but it does indicate most of the major data used by hotel appraisers. Some of the data listed may not be appropriate for all studies; the appraiser should, of course, select only the information that is applicable to the specific assignment.

The checklist is followed by detailed explanations of individual entries. In this explanatory material, each data type is followed by a number in parenthesis. These numbers refer to the intermediate conclusions listed in the description of Phase 4 of the valuation process in the Introduction to this text. These references are provided to show how a particular type of data is used in formulating the many conclusions that must be reached in a hotel market study and valuation.

Figure 2.1 Data Collection Checklist

1) Client-supplied data

2) In-house data

3) Field data

    a) Key contacts

    b) Property-specific information

       i) Land

(1) Access

(2) Visibility

(3) Utilities

ii) Improvements

(1) General description

(2) Building layout

(3) Guest rooms

(4) Corridors and elevator lobbies

(5) Food, beverage, and room service facilities

(6) Kitchen

(7) Meeting and banquet facilities

(8) Amenities

(9) Back-of-the-house

(10)   Building systems

(11)   Vertical transportation

          (12)   HVAC

          (13)   Energy management

          (14)   Housekeeping

          (15)   Telephone

          (16)   Fire

          (17)   Security

          (18)   Lighting

          (19)   Miscellaneous

c) Area-specific data

    i) Neighborhood

        (1) Assessed value and taxes

        (2) Zoning/building department

        (3) Planning department

        (4) Highway/transportation department

    ii) Economic and demographic data - trends

        (1) Chamber of commerce

        (2) Newspapers

    iii) Source of visitation demand

        (1) Airport authority

        (2) Convention center and visitor bureau

        (3) Car rental agencies

    iv) Competitive environment

        (1) Competitive hotels

            (a) Room/bed/occupancy tax

            (b) Hotel association

        (2) Competitive restaurants and lounges

            (a) Liquor license laws

            (b) Other restrictions

    v) Sales of competitive hotels

d) Other sources of data and information

    i)   Commercial real estate firm/board/etc.

    ii) Local appraisers/counselors/bankers

e) Photographs

Client-Supplied Data

The client should supply the following types of data.

- Date of market study and valuation (and opening date if hotel is proposed) (Conclusions 9-18)

- Interest appraised-i.e., fee simple, leasehold, leased fee, other value (12-18)

- Purpose of study (1-18)

- Balance sheets and profit and loss statements for past three years with supporting schedules (9-13)

Financial statements should be prepared in accordance with the Uniform System of Accounts for Hotels.

- Development costs including land, improvements, and furniture, fixtures, and equipment (16)

Cost estimates are particularly important for proposed hotels.

- Monthly occupancy and average rate over two years (8-10)

These data are most important for hotels with seasonal demand patterns.

- Copies or summaries of all leases, management contracts, franchise agreements, title reports, stock or partnership agreements, etc. (13-18)

Leases include ground, property, furniture, and equipment leases.

- Architectural plans, floor layouts as built, plot plans, survey and legal description (1,2,16)

If hotel is proposed, a detailed estimate of the project's cost is essential.

- Operating budgets and projections (9-13)

    The owner or operator will usually prepare these items.

- Marketing plans (5-1 1)

    The subject's competitive position and proposed marketing orientation should be evaluated.

- Engineering reports (1,2,16)

    Reports should show current condition and any need for capital improvements.

- Capital expenditures over the past three years and capital budget (cost) projections (1,2,8,16)

    Past expenditures will indicate need for future capital expenditures.

- Real and personal property tax bills, assessments of other hotels in the market area, name of legal owner (12)

Assessments of comparable hotels in the market area can be used to verify the fairness of the subject's assessed value or develop an assessed value if the subject is proposed.

- Past appraisals and market studies (1-18)

    Studying the work of others can sometimes save time, but all findings should be verified.

- Purchase price, date, terms, contract, and closing statement for subject property if sold within the past five years (16-18)

    A previous sale price of the subject property may be a good indicator of value.

- Agreement of sale, option, or listing for subject property (16-18)

    Although such data are not strong indicators of value, they can sometimes provide useful information.

- Financing documents and mortgage and equity data (14,15,18)

    Such information forms a basis for developing a capitalization rate if the data are recent.

- Union contracts (12)

Contracts provide insight into labor rates and work rules. The appraiser should follow up to determine how effectively the unions control productivity.

- Franchise reports concerning occupancy, inspection, and reservations (2,7,8,9, 1 0)

Hotel franchise companies often provide owners with a wide variety of reports and surveys, including occupancy reports, inspection reports, and reservation reports. An occupancy report compares the occupancy and average rate of the subject with other hotels in the same franchise system. An inspection report records the results of periodic physical inspections made by the franchisor. A reservation report documents the reservation activity generated by the franchisor's central reservation system. It sometimes includes a denial report, which indicates the number of guests turned away because the hotel is full. All franchise reports should be requested when the subject property is an existing, franchised hotel.

- Meeting planner's brochure and marketing packages (2,8-11)

All property-specific descriptive information should be reviewed before starting fieldwork. Data can also be collected during inspection of the property.

In-House Data

In-house data are gathered before fieldwork begins. Sources of such data are described below.

- Reports on past appraisals performed in the market area (1-18)

  Prior work in the market area can form a base of information that will be updated and refined during fieldwork.

- Personal contacts (1-18)

  Review personal contacts you have made in the market area to identify any that could be helpful in performing the assignment.

- American Hotel and Motel Association construction report (7)

This monthly report describes proposed hotel projects throughout the United States.

- Publications-*Official Hotel and Resort Guide, Hotel Travel Index, Red Book, AAA Travel Guide, Mobil Travel Guide, Appraisal Institute Directory of Members, and Lodging DataBank* (1 - 18) Various publications on hotel properties and hotel sales data as well as directories of real estate professionals can be helpful in performing a hotel market study and valuation.

- *National Real Estate Investor* city data (3,4)

  This is a good source of general data on real estate activity in major markets.

Sales and Marketing Management database and Survey of Buying Power (4)

This is a good source of general data on real estate activity in major markets.

These publications are sources of economic and demographic data.

Restaurant Business Restaurant Activity Index (RAI) and Restaurant Growth Index (RGI) (1 1)

Consult these sources for restaurant supply and demand information.

FAA terminal forecasts (4,6)

These forecasts provide estimates of airline enplanements for most commercial airports in the United States.

Field Data

Field data are typically gathered at the subject property and in the surrounding market area.

Key Contacts

The individuals listed below are primary sources of data and information pertaining to an existing subject property.

General manager

Assistant/resident manager

Director of marketing

Director of sales

Director of engineering

Front desk manager

Controller/accountant

Market Area Information

The market area information listed below can usually be obtained from key

contacts.

Introductions to other general managers and representatives of the local

chamber of commerce, convention and visitors bureau, hotel association,

etc. (3-1 1)

Ask the subject's personnel to provide introductions to other data

sources in the market area.

Definition of primary market area in geographic terms (3-7)

> As a rule of thumb, a hotel market area is the area within 20 driving minutes of the subject property. Defining the market area tells the appraiser where to investigate both supply and demand.

Demand generator analysis: industry type, location, map (4-6)

> Identify which attractions create local transient hotel demand and plot them on a map. Investigate major generators within the market area.

Major businesses and industries in the market area (4-6)

> List businesses to quantify commercial and meeting demand and forecast future growth trends.

Major users of subject property (2,4-11)

> List the primary users of the hotel and determine whether any users receive special, discounted rates. This information is useful for conducting demand interviews.

Major contract business: term, rate, number of room nights (2,4-11) Contract business users such as airline crews typically rent rooms for a specific pe-

riod of time at a set rate. Appraisers should understand the terms of any significant contract business.

Competition analysis: competitive hotels, occupancy, average rate, and market segmentation (7-10)

A marketing plan should contain detailed information on all the hotels that are competitive with the subject. This information is used to quantify area demand and determine the subject's relative competitiveness.

Mode of arrival and transportation provided (1,5-11): What modes of transportation do guests generally use to travel to the subject property? This information shows the importance of access and visibility and indicates the relative competitiveness of the subject.

Market segmentation (5-11): Determine the types of travelers (e.g., commercial, meeting, leisure) as a percentage of the total usage. Note any changes in the percent- ages that occur over the year. This information can be used to deter- mine the suitability of the improvements and amenities and project future hotel usage.

Average length of stay (2,9-11): How long does the average guest stay at the subject? Identify by market segment.

Points of origin - feeder markets (5,6): Where do the guests come from? Identify by market segment for both the subject and the market area.

Seasonality - weekly, monthly, by segment (5-11): How does usage change over the year? Identify by market segment for both the subject and the market area.

Unaccommodated demand by segment (5,8,9): Quantify the amount of demand that cannot be accommodated because facilities are filled. Identify for both the subject property and the market area. These data are important if new supply enters the hotel market.

Double occupancy percentage (10, 11): Determine the average number of guests per room for each market segment. This information affects the subject's room rates and usage.

Indications of rate resistance, by segment (5,8-10): What market segments display rate resistance and at what rate level does this begin? This information influences future rate increases.

Rack rate strategy - usage of yield management (5,8-10): What type of yield management, or hotel pricing policy, does the subject use? How does it function?

Percent of reservations from franchise (8-11): How effective is the franchise identification in generating room reservations? If the subject is proposed, the franchiser can sometimes provide estimates.

Amount of travel agent commissions (8-11): How much business is generated from travel agents?

Unions (12): Which hotels in the market area are union-operated? This affects the labor component of operating expenses.

Property-specific information

Land

Description of the size, topography, and shape of the land (1,16): Data obtained from the plot plan or survey is important for evaluating access and visibility and the site's suitability for new improvements.

Municipalities (3,4,12): Determine the municipality in which the subject is located and identify other municipalities in the market area. This information is needed to research sources of local economic, demographic, and municipal information.

Area or acreage (1,2,16): The site area found on the plot plan or survey determines the number of units for a proposed hotel and the amount of excess land for an existing hotel. Land value, which is calculated in the cost approach, is usually based on area.

Excess land - salability, highest and best use (16,18): If the subject site contains surplus land that could be used for expansion or another use, additional value may be present.

Plot plan, survey (12): These documents are sources of land information

Frontages (1,8-11): Frontage determines access and visibility.

Adjoining uses (3,8-11): Inventory the land uses surrounding the subject property. Surrounding land uses can enhance or detract from the value of the subject property.

Grade compared to surrounding roads, uses (1,2,16): Grade level can impact access, visibility, and development costs.

Contours, slope, drainage (1,2,16): Topography affects development costs.

Flood hazard insurance (12): If extra insurance is required, a hotel's fixed expenses increase.

Soil tests: water table, percolation tests, flood zones, other engineering studies (1,2,16): These considerations can affect a proposed hotel's development costs.

Air rights, subsurface rights, water rights (16,18): Additional rights generally enhance a property's value.

Landscaping (1,2,8-12,16): Landscaping can significantly influence the competitiveness of a hotel.

Easements, other restrictions (16,18): Restrictions can have a positive or negative impact on property value.

Access

- North-south roads and east-west roads (1,8-11): List immediate and nearby roads and highways. Investigate both the immediate and secondary access for all modes of transportation.

- Modes of transportation (1,8-11): How do guests reach the subject property? Remember, access may be accomplished by more than one mode of transportation.

- Direct access patterns (1,8-11): Describe the access to the subject property by the primary modes of transportation. Describe adjacent and nearby highways, including the number of lanes, medians, turn restrictions, traffic signals, one-way streets, curb cuts, and limited-access roads.

- Future access (8-11): How is access likely to change in the future?

- Distance to major facilities: Calculate the distance in miles and time to highways and interchanges, airports, mass transportation, convention centers, major demand generators, and competitive lodging facilities.

- Competition (8-11): Compare the subject's access to that of the competition.

Visibility

- Evaluate visibility from nearby roadways (1,8-11): Consider how long the subject is visible to drivers and their ability to exit the highway after the subject becomes visible.

- Visibility from nearby demand generators (1,8-11): Is the subject visible from any demand generator?

- Visibility from nearby competitive hotels: Is the subject visible from any competitive hotels?

- Building height and depth (1,2,8-11): How does the subject's building height and depth affect visibility?

- Slope of land (1,8-11): How does the topography of the subject parcel affect visibility?

- Obstructions (1,8-11): Evaluate all obstructions to visibility-both existing and proposed.

- Signage: location, visibility, condition (1,8-11): Describe the subject's signage and evaluate its visibility. Can it be improved?

- Views from the subject's guest rooms, food and beverage outlets, etc. (1,8-11): Evaluate visibility during the day and the night and consider how visibility is likely to change in the future

Utilities (2,12)

- Location, capacity, and provider

Investigate the availability and cost of these utilities:

  - Electricity: local rates, normal demand charges, quantity discounts, seasonal adjustments

  - Natural gas: local rates, quantity discounts, seasonal adjustments

  - Oil: tank size, local prices, quantity discounts

  - Water: potable, hot and chilled

  - Steam

- Telephone

- Sewage

- Liquified petroleum gas (LPG), propane

- Trash removal

- Storm drainage

• Alternative sources

If a utility is not available, consider any alternative sources. What will it cost to make it available?

Improvements (2,8-12,16,18)

The following portion of the checklist is concerned with the subject improvements. During the property inspection, the appraiser focuses on the physical and functional characteristics of the hotel, giving special attention to:

- Age and condition of land and improvements as well as furniture, fixtures, and equipment

- Immediate and future need for upgrading and renovation

- Physical attributes of the property compared to the competition

  Evaluate the facilities offered and their condition, class, and desirability.

- Functionality of the property's layout and design

  What impact does design have on service, maintenance, labor expenses, and security?

- Improvements' effect on future revenues, expenses, and profits

General description and building layout

- Plans and physical description. Obtain all necessary information from the property owner.

- Year opened

- Description and date of expansions and renovations

- Number of structures

- Location of buildings on site

- Number of stories

- Building configuration-H, L, U, straight

- Total square footage

- Landscaping and sidewalks

- Exterior facade-architectural style, materials, balconies

- Future development plans, including project description and costs

- Current engineering reports

- ADA compliant and adequate number of ADA-equipped rooms

Lobby and entrance

- Porte cochere

- Valet parking stand

- Shuttle bus pickup and parking area

- Doors - automatic, airlock vestibule, bell stand

- Luggage storage

- Concierge desk

- Restrooms

- Phones-house and public

- Front desk

  - Visibility to incoming guests

  - Elevator visibility

  - Reservation and registration systems

- Location of executive offices

- Lobby-decor, size, ceiling height

- Lobby layout and circulation

- Layout and circulation on other floors

Guest rooms

- Total rooms, broken down by type of room so all are accounted for

- Number of connecting rooms

- Walking distance from facilities

- Size, ceiling height, terraces

- Furnishings-when last replaced, typical furniture inventory

- Refurbishment schedule

- Amenities-extra phones, multi-line phones, voice mail, computers, shoeshine, cable TV, VCR, etc.

- Doors-construction material, peephole, type of lock

- Closets-size, type of doors

- Wall material-plaster, drywall, concrete

- Windows-material, operation, glazing

- Sprinklers, smoke detectors, other life safety equipment

- Rooms for the handicapped

- No smoking rooms

- Bathroom-lighting, amenities

- ADA-equipped facilities

Corridors and elevator lobbies

- Double, single loaded

- Interior, exterior

- Direction and width

- Lighting type(s), sufficiency of light level

- Ceiling height

- Wall covering, wainscoting

- Floor covering

- Elevator lobby furnishings

- Ice machine

- Soda and snack machines

- Maid, linen closets

- Life Safety Systems (smoke, fire, evacuation plan, location cards on all room doors)

Food, beverage, and room service facilities

- Seating capacities, meals served, and hours of operation

- Copies of menus

- Decor, theme, style, and quality of furnishings

- Bar

- Back-of-the-house access from kitchens

- Description of room service facilities

- Separate outside access, visibility of separate entrance

- Access to restrooms

- Entertainment policy

- Point-of-sale accounting system

- Number of meals served (covers) per meal period per outlet

- Average turnover per meal period per outlet

- Average check per meal period per outlet

- Estimate of in-house capture and outside capture per meal period

- Banquet space-square foot area and rental rates

Kitchen(s)

- Locations

- Access and distance to receiving and storage areas, food and beverage outlets, meeting rooms

- Description, quality, quantity, configuration, and condition of equipment

- Adequacy of size and layout

Meeting and banquet facilities

- Size, name, and capacities of each meeting room, including floor plan and locations

- Mix and number of breakout rooms

- Decor

- Entrance, porte cochere

- Service and public corridors to and from meeting rooms

- Proximity to kitchen

- Adequacy of audiovisual equipment, furniture, and meeting support amenities

- Furniture storage area

- HVAC zone control

Amenities

- Swimming pool-shape, indoor or outdoor, type of enclosure, type of heating system

- Tennis courts-lighting

- Golf-number of holes and yards, annual rounds played, fees

- Jogging trails

- Type and inventory of health/exercise equipment-sauna, steam bath, whirlpool, massage, aerobics

- Description of spa

- Game rooms

- Facilities for horseback riding, ice skating, bowling, boating, sailing, fishing, water skiing, snorkeling, wind surfing, skiing, racquetball, squash, other sports

- Business services-computer, fax, typing, express mail, etc.

Back-of-the-house layout

- Employee entrance, lockers, rest areas, cafeteria, access pattern

- Security-timekeeping, personnel, purchasing offices

- Receiving/loading dock-guest view, lift

- Storerooms

- Engineering-shops, paint, TV, locks, carpenter

Building systems

- Structural support

- Foundation type

- Framing-steel, pre-cast concrete, reinforced concrete

- Walls-load-bearing, non-load-bearing

- Roof-age, condition, sloped or flat

- Roof material-asphalt shingle, built-up felt and tar, tar and gravel, slate, metal, clay tile

- Parking

    – Number of spaces

    – Indoor or outdoor

    – Valet service

    – Cost to guests

– Percentage of use by others

Vertical transportation systems

- Passenger elevators

  – Number

  – Floors served

  – Manufacturer

  – Cable or hydraulic

  – Capacity

  – Feet per minute

  – Automatic or manned

  – Control system-mechanical or electrical relays, computerized load system

- Service elevators

  – Number

- Floors served

- Manufacturer

- Cable or hydraulic

- Capacity

- Feet per minute

- Control system-mechanical or electrical relays, computerized

  load system

- Escalators-number and floors served

- Dumbwaiters/freight lifts-number and floors served

- Stairs

Heating, ventilation, and air-conditioning

- Type of heating system

  - Hot water, steam, electric

  - Fuel type

- Two-, three-, or four-pipe, forced-air delivery

- Simultaneous heating and cooling

- Boilers

    - Manufacturer

    - Model number

    - Age and condition

- Burners

    - Manufacturer

    - Model number

    - Age and condition

- Water heater

    - Manufacturer

    - Model number

    - Size of holding tank

    - Age and condition

- Resistance

  – Manufacturer

  – Model or capacity

  – Age and condition

- Heat exchanger

  – Manufacturer

  – Model or capacity

  – Age and condition

- Heat pump

  – Manufacturer

  – Model number

  – Capacity

  – Age and condition

- Type of cooling system

  – Central/chilled water, heat pumps

- Chiller

  – Manufacturer

  – Model number

  – Age and condition

- Cooling tower

  – Manufacturer

  – Model number

  – Age and condition

- Zones

  – Guest rooms, meeting rooms, public space control

Energy management system

- Type of system

  – Manufacturer

  – Model number

- Individual thermostats

- – Guest rooms

- – Meeting and public space

Housekeeping

- Offices, storage, sorting areas

- Trash chute

- Linen chute

- Exhaust fan

- Washers

  - – Manufacturer

  - – Model number

  - – Quantity

- Dryer

  - – Manufacturer

  - – Model number

  – Quantity

  – Fuel

  – Guest laundry, contract

- Self-serve guest laundries

Telephone

- Type of system

  – Manufacturer

  – Model number

- Type of call accounting

  – Least cost routing

- Other special functions-e.g., two lines, call waiting, call forward-
  ing, voice mail

Life Safety Systems

- Smoke detectors-local or wired

- Heat detectors-local or wired

- Sprinkler system

- Fire extinguisher

- Pull stations

  - Control, communication system

  - Manufacturer and model

- Annunciator panel-location

- Emergency lighting-battery backup

- Exit signage-battery backup

- Fire hoses

  - Fire pump manufacturer

  - Fire pump model

- Standpipes

- Kitchen range hood-CO_2 system/dry system

- Public address system

- Emergency generators and power

  – Manufacturer

  – Model number

Security

- Electronic surveillance equipment

Exterior lighting

- Sodium, fluorescent, incandescent, spot, mercury, halogen bulbs

- Building signage

Miscellaneous

- Presence of asbestos

- Presence of urea-formaldehyde foam insulation

- Building inspection reports

- Health inspection reports

- Underground tanks

- Estimated deferred maintenance

- Estimated functional obsolescence

Area-specific data (3-12)

Neighborhood (3,4,6)

- Neighborhood boundaries and uses

    A neighborhood is a group of complementary land uses that are similarly affected by the operation of the forces that affect property value. The geographic boundaries of the subject's neighborhood are indicated by:

    – Land use changes

    – Transportation arteries/bodies of water

    – Changes in elevation and topography

- Neighborhood characteristics-residential, commercial, retail, or industrial use; rural, suburban, city, or CBD; age, condition, and economic trends

  Define the characteristics of the neighborhood and describe how these characteristics could impact the subject's ability to generate revenues.

- Neighborhood buildings

  Make an inventory of the improvements surrounding the subject property and consider what impact they might have on the subject's revenue-generating ability. Investigate the following factors:

  – Types of building improvements

  – Style, size, density, vacancy levels, rental rates, and trends

  – Effective ages and maintenance or condition

  – New development and construction

  – Competitive facilities, particularly food and beverage

  – Immediate generators of visitation

– Adverse conditions such as noise or other nuisances

- Future trends and potential changes in neighborhood characteristics. What impact will these changes have on the subject property?

Assessed valuation and real estate and personal property taxes (12)

- Estimate of future property taxes for the subject

  Evaluate local assessing practices and determine which jurisdictions levy real estate and personal property taxes.

- Current assessment of subject

  Obtain the name, address, and phone number of the assessor and a tax map showing the subject acreage in square feet and length of boundaries. Research lot and block number, tax identification number, current assessed value of land and building and assessment date.

- Basis for assessment -- income, cost, sales comparison, change upon sale? Consider how the assessed value is calculated for land, improvements, and personal property.

- Date and frequency of assessment, fiscal year

- Five-year and current tax history

- Future trends in equalization rates, assessed values, and mill rates for the subject's taxing jurisdictions

- Comparable hotel parcel numbers and assessments of land and buildings

  Obtain information on how comparable hotels in the area are assessed. What are the assessed values of comparable hotels for land, improvements, and personal property on a per-room basis?

- Tax abatement

  Does the subject property qualify for or receive any form of tax abatement? If so, how is it calculated and what impact does it have on property tax liability?

- Special and future assessments

  Investigate probable future changes in assessments including any special assessments and tax liabilities. The assessing department

can sometimes provide information related to local hotel trends, including:

- – Proposed hotels or hotels under construction

- – Land sales of hotel sites

- – Sales of hotels

- – Rates and occupancies of local hotels

- – Names of hotel owners

Zoning/building department (2-12)

- Jurisdiction covering the subject property and, when appropriate, adjacent jurisdictions

- Name, address, and phone number of all contacts

- Proposed hotel development in market

  - – Names of developers, hotel companies, etc.

  - – Estimated completion dates

- Hotels under construction

  – Status of each proposed hotel

  – Description of approval process

- Zoning of subject-historical and current. Obtain zoning map and a copy of zoning regulations. Investigate the following:

  – Conforming or nonconforming use of subject property

  – Height restrictions

  – Lot coverage, number of units, size restrictions, floor-area ratio

  – Setback restrictions

  – Parking requirements

  – Sign restrictions

  – Other restrictions

- Moratoriums on building, utilities

- Environmental impact study required for new development

- Zoning of surrounding land uses

- Future of neighborhood

- Floodplain areas

- Zoning trends for area

    – Potential/probability of zoning changes

    – Building permits-five-year history, number, and dollar value

- Ability to expand subject property

Planning department

- Jurisdictions encompassing the subject property and adjacent jurisdictions

- Occupancy and rates of existing hotels

- Proposed hotels, additions, expansions, or renovations

- Master (renewal) plan for development

- Pertinent documents

    – Land use map

    – Economic/demographic studies

    – Transportation studies

- Directions of growth-industrial, commercial, redevelopment

- Availability of public development or redevelopment funds/tax incentives for hotels

- Proposed hotels or hotels under construction

Highway/transportation department (3- 11)

- Name, address, and phone number of all contacts

- Origination and destination studies

- Traffic flow/count maps

- Future changes in transportation-road improvements and traffic rerouting roadway changes such as left-turn lanes, lights, curb cuts, medians, turn restrictions, and additional lanes

- Historic and current traffic counts, toll receipts

- Proposed hotels or hotels under construction

Economic and demographic data - trends. During fieldwork the appraiser collects economic and demographic data describing the local economy and population. Data from the past five to 10 years provides a useful benchmark, but projected data are more useful for predicting future trends. Economic and demographic information is used to forecast changes in lodging demand and food and beverage usage over the projection period.

- NAIC employment within the local market area

- Population-migration vs. births, peak vs. annual

- Population age distribution

- Income levels and effective buying income

- Retail sales

- Sales at eating and drinking establishments

- Office space occupancy levels, absorption trends

- Major businesses by employment sector, number of employees, ability to generate hotel demand

- Industrial space occupancy levels, absorption trends

- Unemployment trends

- Housing starts

- Building permits-number, dollar value

- Area maps

- Major generators of visitation Room/bed tax data

- Visitor statistics, area attractions

Chamber of commerce/economic development agencies (3-12). The local chamber of commerce and economic development agencies can often supply much of the economic and demographic data previously described. The following information should be sought.

- Name, address, and phone number of all contacts

- Area description-growth, economic and population trends, industries, demand generators

- Businesses entering and leaving area

- Area attractions -- historical and projected visitation

- Introductions to area officials, hotel association, etc.

- Occupancy and average rates at existing hotels, area-wide average

- Proposed hotels and hotels under construction

- Miscellaneous economic and demographic data

Newspapers (1-18)

- Advertising/research department

  – Economic and demographic data

- Real estate department

  – Articles on recently announced commercial/hotel projects

  – Stories on recent hotel or land sales

Demand generators of visitation (3- 11). The appraiser should develop a list of market area demand generators.

- Typical hotel demand generators

    – Major companies

    – Office and industrial parks

    – Scenic sites

    – Hospitals-local, regional, or national specialty

    – Military installations

    – Colleges

    – Amusement parks

    – Resort facilities

    – Government offices

    – Residential developments

    – Racetracks

- – Sports stadiums

- – Historic attractions

- – Retail shopping

- – Theaters

- – Museums

- – World's and state fairs

- – Sporting events

- – Festivals

- – Shows

- – Historic events

- – National and state parks

- – Courts

- – County seats and state capitals

- Information collected about each generator

  - – Description

  – Proximity to subject

  – Type of visitors

  – Visitor counts, admission charges, recent changes

  – Origin of visitors

  – Accommodations required

  – Season of visitation

- New generators entering the market

Airport authority (4- 12). If the market benefits from a nearby airport, data related to its usage should be obtained.

- Passenger and cargo traffic-past five years, projected, monthly fluctuations

- FAA terminal forecast of projected enplanements

- Airlines and number of flights

- Physical description of airport

- Airport expansion plans

- Cities served (origination)

- Restrictions on aircraft size, times of usage, number of days closed annually

Convention center and visitors bureau (4-11). A convention center can be a major generator of hotel demand. Convention centers and area attractions are often promoted by a visitors' bureau.

- Name, address, and phone number of all contacts

- Physical description of convention center-size, capacities, age, facilities

- Historic and projected number of conventions and delegates, seasonality

- Average expenditure per conventioneer

- Average length of stay, average convention size

- Future calendar, number of future events

- Marketing plan

- Promotion budget-past five years and projected, deficit funding

- Nature and type of events-local, state, regional, national

- Visitor statistics

- Hotel association

- Proposed hotels and hotels under construction

Car rental agency (4-11)

- List of major companies renting cars

- Number of cars rented monthly, annually

- Average length of rentals

- Renter's points of origin

Competitive hotels (5-11). Much fieldwork is directed toward investigating competitive hotels. The data collected are used to quantify existing lodging demand and evaluate the relative competitiveness of area hotels.

- Name and address of competition

- Name of owner, management company, franchise

- Location and distance from subject and demand generators

- Access and visibility

- Year opened

- Number of rooms

- Various room types (e.g., king, double-double, ADA-equipped, etc.)

- Square foot area

- Rates-high, medium, or low

- Type of construction

- Income-producing facilities

- Name of restaurants, number of seats, type of service, hours of operation

- Other food and beverage service

- Banquet and meeting rooms

- Amenities

- Interior or exterior corridors

- Condition and renovation plans

- Expansion plans

- Layout and functional utility

- Brochure description

- Published rates and special rates

- Occupancy and average rates, existing and historic trends

- Percentage of reservations from central reservation system

- Market segmentation (commercial, meeting, leisure)

- Usage of food and beverage facilities

- Seasonality of demand and usage

- Major customers

- Frequent travel programs

- Special services provided

- Unionization of workers

- Proposed hotels and hotels under construction

- Additions and renovations of existing hotels

- Hotels for sale or recently sold in market area

- Photographs of properties

Rooms, bed, or occupancy tax (4- 10). Many jurisdictions impose a rooms tax, which is typically based on a percentage of rooms revenue. Tax data are often available and show revenue trends for the market area as well as individual properties.

- Definition of taxable properties, change in number of taxable rooms

- Method of tax computation

- Historical taxes per month-past five years, future projections

- Identification of tax by property-occupancy and rate if available

- Historical tax rates and changes in rates

Hotel association (5-11). Some market areas have organized hotel associations, which can provide useful information.

- Name, address, and phone number of all contacts

- List of existing hotels, market segmentation, rates, occupancies

- Total room count-current and historical

- Taxes per room or bed

- Hotels recently withdrawn or added to supply

- Sales transactions involving hotels

- Proposed hotels or hotels under construction

Competitive restaurants and lounges (7-11). The following information is sometimes helpful in analyzing the competitiveness of the subject's food and beverage facilities.

- Name and address of competing facility

- Number of seats

- Year opened

- Meals served, days open

- Affiliation

- Name of owner

- Renovation, expansion plans

- Seasonality-weekly, monthly

- Type of menu, service

- Type of patrons-age, income

- Decor/theme

- Entertainment policy

- Average check

- Covers, turnover

- Annual sales

- Reputation

- Location relative to subject property

- Condition

Liquor license laws (2-11). The availability of a liquor license for a proposed hotel and the ability to transfer the liquor license of an existing hotel can be important considerations.

- Acquisition, time, cost, limitations

- Restrictions

    – Ratio of liquor to food

    – Open to public

- – Required unit of sale

- – Minimum age

- Types of licenses

Sales of competitive hotels

- Local data bases that accumulate information on property transfers

- Hospitality Market Data Exchange - a national clearinghouse of sales transactions involving hotels and motels.

Commercial real estate firm/board/brokers/developers/relocation services (1-18)

- Apartments that accommodate extended-stay demand (less than six months)

- Inventory of commercial, office, industrial, and retail space Historic absorption, anticipated growth

- New projects, expansions, renovations

    Useful data may include developer, location, size (in square feet), opening date, description of major committed tenants, projected occupancy, and tenant mix. Tenant mix by NAIC code and national vs. local company can indicate a hotel's ability to generate room nights.

- Geographic patterns of growth in office, industrial, retail, and residential space

- Source of tenants

- Sales transactions involving hotels

- Proposed hotels or hotels under construction

Local appraisers, counselors, bankers (I- 18)

- Land and hotel sales

- Occupancy and average rate

- Market segmentation

- Proposed hotels, additions, and expansions

- Economic and demographic data

- Land use, value, and property tax rate trends

Photographs. For a permanent record of site and neighborhood characteristics, the appraiser may want to take the following photographs:

- Access to and visibility of subject property

- Entrance and sign

- View of subject - four sides

- View from subject - four sides

- Traffic photos - all directions

- Interior photos – lobby, registration, rooms, food and beverage outlets, meeting space, recreational facilities, back-of-the-house

- Surrounding land uses

- Competitive hotels

- Significant demand generators

The preceding description of a data collection checklist is quite detailed. Appraisers should utilize a checklist such as this in a hotel market study and valuation to ensure that all data sources are contacted and all relevant information is collected. When performing fieldwork, it is wise to collect as much information as possible, even if it does not appear to be important. Returning to a market to collect overlooked information can be costly and time consuming.

DATA COLLECTION TECHNIQUES

Once the type and source of data have been defined, various techniques can be applied to collect data. Appraisers know that some types of data are readily available, while others must be carefully researched. Some data sources may willingly assist the collection efforts, while others may try to withhold

accurate information in an attempt to influence the ultimate results. Using proven data collecting techniques, however, appraisers can obtain the best information available and usually screen out any bias or self-interest.

Data collection can be accomplished with a combination of techniques:

1) Personal observation

2) Review of published data

3) Face-to-face and telephone interviews

4) Written surveys

The order of this list reflects the perceived reliability of the data collected by each technique. For example, information derived from personal observation is highly reliable and an experienced appraiser will not be influenced by self-interest or bias. Published data and interviews are somewhat less reliable. Written responses are the most suspect because each respondent is an isolat-

ed, unknown party. By understanding the shortcomings of each technique, an appraiser can employ the techniques in a manner that will produce reliable results. Using the data collection checklist as a framework for the types of information needed for a hotel market study and valuation, all four data collecting techniques are illustrated.

Personal Observation

Personal observation is generally employed during fieldwork. The appraiser visits the site, the neighborhood, and the market area; inspects the subject property (if existing), competitive properties, and demand generators; and makes any other observations necessary to formulate the required conclusions.

1) Suitability of the site for hotel use

   a) Size

   b) Frontage

   c) Topography

d) Excess land

e) Landscaping

f) Access

g) Visibility

h) Utilities

i) Parking area

2) Suitability of improvements and amenities

a) Building layout and design

b) Age and condition

c) Functionality

3) Desirability of the surrounding neighborhood

a) Types of area land usage-i.e., retail, commercial, industrial

b) Age and condition of nearby improvements

c) New development underway

d) Highway patterns

  e) Demand generators

4) Existing and projected competitive environment

  a) Competitive lodging facilities (existing and proposed)

    i) Location, access, and visibility

    ii) Facilities and amenities

    iii) Age and condition

    iv) Chain affiliation

    v) Competitiveness

  b) Competitive food, beverage, and banquet facilities

  c) Competitive amenities

5) Market sales of competitive hotels

Personal observation makes use of the appraiser's experience and hotel expertise. Intermediate conclusions are formulated by comparing the observations and the outcome of previous assignments with the observations made during the current assignment. Personal observation is the most reliable data

collection technique because it is not influenced by external bias, which can slant the results derived from other techniques.

Published Data Sources

Published data includes all information gathered by businesses and organizations that can be considered within the public domain -i.e., readily available to anyone either free or for a price. This type of data is generally reliable and forms the basis for many important conclusions derived in hotel market studies and valuations. Some conclusions that can be supported by published data sources are outlined in Table 2.1 and explored in the discussion that follows.

Table 2.1 Conclusions and Sources

<u>Conclusions</u>	<u>Published Data Sources</u>
Neighborhood characteristics	Zoning manuals, master plans

Local economic and demographic conditions	Economic and demographic data
Current room night demand by market segment	Directories of lodging facilities
Existing and projected competitive environment	Occupancy and average rate data
Expected future trends in lodging demand	Economic and demographic data
Projected usage and revenues from food, beverage, and banquet facilities, as well as other services and amenities	Hotel operating statistics
Projected operating and fixed expenses	Hotel operating statistics
Income capitalization parameters such as mortgage interest and amortization rates,	Mortgage rate data

loan-to-value ratio, term, equity yield,

 terminal capitalization rate, and inflation rate

Opinion of value via cost approach   Construction cost data

Opinion of value via sales comparison approach   Hotel market sales data

Zoning manuals

Published by local municipalities, zoning manuals describe the uses permit-

ted under a jurisdiction's zoning regulations. Zoning manuals establish what

can be constructed and set forth development restrictions such as site density,

building height, setbacks, and site utilization. Hotel market studies and valu-

ations generally include a preliminary investigation of zoning to ensure that

the subject property is in conformance and that the surrounding zoning per-

mits uses that will enhance the neighborhood and the subject's long-term economic viability. The property owner has the ultimate responsibility to see that the project is developed in accordance with local regulations.

Master plans

Most municipalities have master plans which describe current and future land utilization policies. These plans are generally prepared periodically by the local planning department and indicate how a municipality views development and real estate trends.

Economic and demographic data

The term *economic and demographic data* refers to a wide range of statistics relating to historic and future trends in the economy as well as changes in population. This type of data may be produced by numerous sources, including econometric firms, government agencies, and professional journals.

Economic and demographic data are studied to estimate future changes in hotel demand. A hotel market study starts by estimating the current or base level of hotel demand employing a unit of demand known as a room night. The current level of demand is of interest, but more important is the future level of hotel demand in each projected year. This calculation establishes the estimated area-wide occupancy. Obviously, future hotel demand will either increase, decrease, or remain level. Economic and demographic data pro- vide a basis for measuring future changes by imputing movement in hotel room night demand based on similar trends indicated by the data.

When selecting economic and demographic data for use in a hotel market study and valuation, the appraiser looks for statistics that are likely to reflect future variances in lodging demand. The key to this concept is the future. Because feasibility and value are tied to the present worth of future benefits, historic data trends are not important unless they suggest future events. Economic and demographic forecasts are far more meaningful because they represent a view of the future and can be extrapolated to model probable changes in lodging demand.

Unfortunately, most published economic and demographic data merely provide a view of history; appraisers rarely have access to a large amount of data representing future economic expectations. During fieldwork, all relevant economic and demographic data should be accumulated and researched.

Sources of economic and demographic data. Table2.2 shows the type of economic and demographic information that is typically available and its likely source.

Table 2.2 Economic and Demographic Data Available by Subscription

Woods & Poole provide:

- Annual historical population data by county, state, and nation

- Future population projections by county, state, and nation

- Annual historical population age distribution by county, state, and nation

- Annual historical retail sales data by county, state, and nation

- Future retail sales projections by county, state, and nation

- Annual historical effective buying income (EBI) by county, state, and nation

- Future effective buying income (EBI) projections by county, state, and nation

- Annual historical eating and drinking place sales by county, state, and nation

- Historical population data by MSA, state, and nation

- Future population projections by MSA, state, and nation

- Future personal income data projections by wages and salaries, other labor income, proprietors' income, dividends-interest and rent, transfers to persons, income per capita, number of households, persons per household, mean household income by MSA, state, and nation (The same data are available on a historical basis.)

- Historical population data by age group arranged by MSA, state, and nation

- Future projections of population data by age group arranged by MSA, state, and nation

- Future projections of employment by major categories such as agricultural; mining; construction; manufacturing; transportation, communications, and public utilities (TCPU); wholesale trade; retail trade; finance, insurance, and real estate (FIRE); services; federal civilian; government; military; state and local government - arranged by MSA, state, and nation (The same data are available on a historical basis.)

- Future population projections by MSA, state, and nation

The Federal Aviation Administration (FAA) can provide:

Future air carrier enplanements and operations projections made by specific airports (The same data are available annually on a historical basis.)

Restaurant Business magazine publishes:

Restaurant Activity Index (RAI) and Restaurant Growth Index (RGI), available annually on a historical basis

The data listed in Table 2.2 can be obtained for a reasonable cost and provide an excellent starting point for forecasting hotel demand trends. Most of these data focus on future projections, which are most useful to appraisers performing hotel market studies and valuations. Other economic and demographic data are gathered during fieldwork, from discussions and interviews with local officials and other knowledgeable individuals. Table 2.3 lists information that is normally used in the economic market study and appraisal of hotels and indicates likely data sources. The appraiser should keep in mind that the following data represents secondary research and, in some cases, the qualitative information associated with it may be subject to the bias of the organization providing the data.

Table 2.3 Other Data Sources

__Type of Data__	__Sources__
Office space absorption	Real estate brokers
	Chamber of commerce
Office vacancies	Real estate brokers
	Chamber of commerce
Office space under development	Real estate brokers
	Chamber of commerce
	Building department
Inventory of office space	Real estate brokers
	Chamber of commerce
Inventory of retail space	Real estate brokers
	Chamber of commerce
Inventory of industrial space	Real estate brokers
	Chamber of commerce
Highway traffic counts	Highway department

Origination and destination studies	Highway department
Major business by employment sector & number of employees	Chamber of commerce Economic development authority Department of Labor
Unemployment percentages	Department of Labor
Building permits-number and value	Building department
Housing starts	Building department
Hotel rooms tax	Tax collector
Number of visitors to area attractions	Visitors' and convention bureau
New businesses entering area	Chamber of commerce Economic development authority
Businesses leaving area	Chamber of commerce Economic development agency
Convention center usage,	Visitors' and convention bureau

Number of groups, Number of Attendees,

Types of events, Expenditure per attendee,

Average length of stay, Headquarters hotels,

Advertising budget

Assessed values	Assessor
Air cargo data	Federal Aviation Authority
	Airport authority
Tourist visitation	Tourism authority
	Visitors' and convention bureau

Analyzing economic and demographic data. Once the data are collected, they must be organized into a workable format. Economic and demographic data are generally used to forecast trends in lodging demand, so the appraiser is interested in both the direction of change and the rate of this change. The following table of highway traffic counts provides an illustration of a typical statistical analysis for a given demographic.

Table 2.4 Annual Average Daily Traffic (AADT) Counts

Year	Long Island Expressway	Percent Change From Previous Year
1994	28,950	----
1995	29,983	3.6 %
1996	29,082	(3.0)
1997	31,568	8.5
1998	33,910	<u>7.4</u>

Annual compounded percent

    change from 1994:   4.03 %

When evaluating trends in economic and demographic data, the appraiser is most interested in the direction and rate of change. If the data come from two consecutive years, the annual percent of change may be used; if the data span more than two years, the annual compounded percent of change should be calculated instead.

Constant dollar calculations using CPI. The annual compounded percent change calculations are used to project future changes in lodging demand. Because the unit of lodging demand, the room night, is a real number unaffected by factors such as inflation, all growth rates must be calculated in real terms, using constant dollars rather than inflated dollars. The following table illustrates this process.

Table 2.5 Retail Sales

(in millions)

Year	Retail Sales (Current Dollars)	(1998 Dollars)	Percent Change Retail Sales from Previous Year
1995	$1,143,539	$1,223,076	----
1996	1,240,106	1,288,319	+ 5.3%
1997	1,326,962	1,347,631	+ 4.6
1998	1,410,385	1,410,385	+ 4.7
1999	1,492,920	1,460,660	+3.6

Annual compounded

  percent change from 1995:   4.5%

Between 1995 and 1999, retail sales increased a total of 31% in current (inflated) dollars. Performing the same calculation with 1998 constant dollars shows a 19% increase. The real growth in retail sales over this period would be 19%. The difference between the 31 % inflated dollar calculation and the 19% constant dollar calculation is 12%, which can be attributed to inflation, not to real growth in retail demand. The annual compounded per- cent of change in real terms over this period is 4.5%.

Whenever economic and demographic data reflect dollar amounts at different points in time, the data should either be inflated or deflated to a standard, or constant dollar, year. The calculation requires a Consumer Price Index (CPI) adjustment. The following table shows the annual CPI between 1978 and 1999.

Table 2.6 Consumer Price Index

Year	CPI
1978	65.2

1979	72.6
1980	82.4
1981	90.9
1982	96.5
1983	99.6
1984	103.9
1985	107.6
1986	109.6
1987	113.6
1988	118.3
1989	124.0
1990	130.7
1991	136.2
1992	140.3
1993	144.5
1994	148.2
1995	152.4
1996	156.9
1997	160.5
1998	163.0
1999	166.6

The CPI adjustment required to make all dollar amounts reflect 1998 dollars is shown below.

Year	Retail Sales (Current Dollars)
1997	$1,326,962
1998	1,410,385
1999	1,492,920

Adjust 1997 current dollars to 1998 constant dollars as follows:

1998 CPI	163.0	$1,326,962		
1997 CPI =	160.5 X	1	=	$1,347,631

Adjust 1999   current dollars to 1998 constant dollars as follows:

1998 CPI	163.0	$1,492,920		
1999 CPI =	166.6 X	1	=	$1,460,660

Directories of lodging facilities

The level of supply represented by the number of competitive hotel rooms in the area is a factor in estimating the area's lodging demand when using the buildup approach based on an analysis of lodging activity. The size and types of lodging facilities operating in the market also influence the competitive environment. Before beginning fieldwork, an appraiser can identify most hotels in the area using various directories of lodging facilities. These directories typically provide the name of the hotel, address, telephone number, room count, facilities and amenities, and published room rates. Directories such as the Mobil Travel Guide and the AAA Travel Guide include a quality rating for each property, which can be helpful in evaluating competitiveness.

The key to selecting directories of lodging facilities is to be sure they are up to date, complete in their coverage of the area, and contain the room count for each hotel. Specialized directories may provide additional information such as descriptions of meeting and banquet rooms, the date the hotel opened, and the names of important contacts. The directories of lodging facilities listed below provide good information on current lodging supply.

Hotel & Travel Index

500 Plaza Drive

Secaucus, NJ 07096

(201) 902-2000

www.htihotelink.com

Official Meeting Facilities Guide

500 Plaza Drive

Secaucus, NJ 07096

(201) 902-2000

www.omfg.com

Mobil Travel Guide

Prentice-Hall

108 Wilmot Road, Suite 450

Deerfield, IL 60015

www.mobil.com/online_store/

AAA Tour Books

Complimentary to AAA members at local offices

www.aaa.com

(407) 444-7000

Smith Travel Research

105 Music Village Boulevard

Hendersonville, Tennessee 37075

www.str-online.com

(615) 824-8664

Occupancy and average rate data

Information on the current occupancy and average room rate of each competitive hotel in the market area is extremely important in developing a hotel market study and valuation. These facts serve as a basis for estimating existing lodging demand and the relative competitiveness of all the properties in the market. Since this type of property data is generally considered confidential, very few sources compile and publish this information. Two publications, *Lodging 400* and *Texas Rooms Tax*, provide data from which appraisers can calculate occupancy and average room rates for individual hotels.

Each August *Lodging Hospitality* magazine publishes Lodging 400, the results of a survey ranking the top 400 hotels in the country on the basis of revenue performance. The issue contains a number of tables identifying each hotel and pertinent information such as room count, occupancy, total sales, total sales per available room, total guest room sales (rooms revenue), total food and beverage sales, total other revenue, and number of employees. With this information the appraiser can calculate the average room rate by dividing the

guest room sales by the room count times the occupancy percentage times 365. Data from *Lodging 400* are generally accurate and provide a good benchmark for the many areas of the country covered in the survey.

Texas Rooms Tax is another valuable data source. A number of taxing jurisdictions in the United States collect a hotel rooms tax based on a percentage of gross rooms revenue. In most jurisdictions this information is considered confidential and available only in aggregate form, but the state of Texas actually publishes hotel rooms tax information each month. Knowing the rooms tax paid and the rooms tax percentage, a property's total revenue can be calculated. If the average room rate can be estimated, the actual occupancy is then determined by division.

Occupancy and average rate data compiled on an aggregate, area-wide basis are often readily available. This information is sometimes recorded by local hotel associations, visitors' and convention bureaus, accounting firms, assessing departments, and other government agencies. Although area-wide occupancy and rate data are compiled for most major cities, obtaining this

information depends on the cooperation of individual hotels. Sometimes the data supplied in response to these surveys are skewed upward or downward, depending on the bias of the participants.

Area-wide occupancy and average rate data should serve as a check to substantiate the information on individual hotels collected in the field. The room night analysis calculation presented later in this text will demonstrate how area-wide occupancy is derived from the occupancy levels of the competitive hotels comprising the market. It is this calculated occupancy that should be compared with published area-wide data. Any major variance indicates a potential error in one of the data sources that should be investigated. One source of occupancy and average rate data on an area-wide, aggregate basis is Smith Travel Research, and their telephone number is (615) 824-8664.

Hotel operating statistics

One of the primary objectives of a hotel market study and valuation is to derive a forecast of revenues and expenses for the subject property. The basis for such a forecast is a supply and demand analysis, which includes an estimate of the subject's occupancy and average room rate (rooms revenue) and a host of hotel operating statistics that support the forecast of other revenue sources and expenses. For existing hotels, the best source of operating statistics is, of course, the hotel's actual operating history. These data provide a benchmark that can be easily adjusted to project changes in occupancy levels and to evaluate the competence of management. The expected financial performance of proposed hotels can be based on the operating statistics of comparable properties. Comparability encompasses factors such as average room rate, room count, occupancy, ratio of food and beverage revenue to rooms revenue, type of facilities (convention, resort, all-suite, extended-stay), franchise affiliation, management, and geographic proximity. The degree of comparability between the hotels providing operating statistics and the subject property is an important consideration in evaluating the reliability of the projections developed.

When an appraiser cannot find actual operating statistics from comparable properties, there is no other alternative but to use the "data of last resort"-the national averages compiled by hotel accounting firms. Each year several accounting firms survey the financial statements of hundreds of hotels across the country. Using a computerized database program, the financial statements are sorted according to various characteristics (e.g., geographic location, size, occupancy) and averaged. The results are published in tabular form and provide several types of ratios such as percentage of total revenue, percentage of rooms revenue, amount per available room, and amount per occupied room.

Hotel operating statistics derived from an existing subject property's actual financial results, from comparable hotels, or from a national average must be arranged in a format that facilitates the comparison of these data with the forecast assumptions for the subject property. This process will be described more fully in subsequent chapters.

Mortgage rate data

Investors typically purchase hotels based on a valuation approach that employs a mortgage-equity technique. The mortgage component of this technique represents the rates and terms lenders currently require on hotel mortgages. This information is plugged into a formula to derive capitalization and discount rates.

Data for the mortgage component of the formula can be derived by surveying hotel lenders who actively make hotel loans. This method will work if the appraiser has a close relationship with lenders who will divulge confidential information in an accurate manner. However, a better source of data is the American Council of Life Insurance (www.acli.com). This organization, which represents 20 large life insurance companies, collects and disseminates the rates and terms of mortgages actually originated by their members. Use of these data will be described later.

Construction cost data

The basis for the cost approach to value and an estimate of economic feasibility is a reliable estimate of the cost to produce a substitute property with equal utility. The cost of replacing a hotel is generally estimated on either a cost-per-square-foot or a cost-per-room basis using data from a construction cost manual published by a recognized cost reporting service. When any type of hotel construction cost data is used, the appraiser must verify that all components -- e.g., improvements, furniture, fixtures, equipment, soft costs, pre-opening and working capital-are included in the final estimate. Complete hotel construction cost data can be obtained from Marshall & Swift (www.marshallswift.com), whose phone number is (213) 683-9000.

Hotel market sales data

In the sales comparison approach the appraiser compares recently sold, comparable properties with the subject property, adjusting their sale prices for differences such as market condition, time, age, location, construction, physi-

cal condition, layout, equipment, size, and external economic factors. Although hotel investors seldom rely on sales comparison as the sole indication of value, the approach can provide support for the value derived in the income capitalization approach.

Hotel sales data for the local market area should be accumulated during the fieldwork phase of the assignment. Other appraisers, the local assessor, and the hotel association are generally familiar with recent transfers and can provide valuable information

Face-to-Face and Telephone Interviews

Much of the data and information collected during fieldwork is accumulated through interviews. Interviews may be conducted to gather non-confidential factual data such as the assessed value of the subject property, the names and number of employees of local businesses, zoning regulations, and the path of a new highway. Non-confidential factual interviews are easily conducted

once the individual with the necessary knowledge or data has been identi-
fied. Factual data are often embodied in written documents or publications
which can be easily acquired. Non-confidential factual data are usually accu-
rate, particularly if they come from a recognized source such as a governmen-
tal agency, a chamber of commerce, or a university.

Subjective non-confidential data may also be obtained through interviews.
This information is often more opinion than fact. The interviewer may ask:
How will economic conditions change over the next five years? Will the pro-
posed hotel ever be built? What property will the subject compete with? Why
does this particular hotel have the highest occupancy rate in the market? If
subjective data are to be meaningful, the source must have knowledge and
expertise on which the appraiser can rely. Subjective data are more prone to
error than factual data; therefore, credible sources are essential.

The most difficult type of data to elicit in an interview is data perceived to be
confidential. Information of this type may relate to the occupancy, average
rate, and market segmentation of competitive hotels or the financial operat-

ing statistics and development plans for proposed hotels. The nature of the assignment may affect the availability of data perceived to be confidential. For example, a competitive hotel is more likely to provide occupancy and average rate statistics to support a property tax appeal that could reduce real estate taxes than to assist a market study aimed at adding additional rooms to the market.

When confidential information is provided to the appraiser, it may be slanted in an attempt to influence the outcome of the study. Hotel managers are seldom enthusiastic about the prospect of additional competition; their responses to questions about future lodging trends and the success of their properties may not be entirely reliable.

Interview techniques

Certain procedures and checks can be useful in gathering confidential data. To illustrate, assume that an appraiser is researching the occupancy of competitive hotels for an assignment involving a proposed property.

To obtain relevant information, interviews are set up with the general manager or high-ranking personnel of a competitive hotel -- i.e., the assistant manager, front office manager, or director of sales. Because those interviewed might tend to underestimate occupancies, the appraiser must be well prepared before the interview. The key to this preparation is to have already collected accurate occupancy data from at least one hotel. This information can serve as a benchmark to evaluate the responses offered by the management of other lodging facilities.

For example, in performing the market study and valuation of the proposed hotel, the appraiser consults *Lodging 400*, published by *Lodging Hospitality* magazine, and discovers that the actual occupancy of a nearby Holiday Inn was 73% the previous year. This piece of data establishes a credible benchmark that can be useful in interviewing the hotel managers. After a series of

introductory questions on the characteristics of the local market and the competitive environment, the appraiser asks the important question: "Would you mind telling me what your occupancy was last year?" The general manager being questioned may act somewhat surprised at such a question and may respond vaguely, but he might answer like this: "You know, we have had several hotels open in the market and this has affected our operation negatively. My occupancy has dropped. I think we ended last year at about 65%." To check the accuracy of this figure, the appraiser immediately follows up with, "That low? What do you think the occupancy of the Holiday Inn is?" Hotel managers regularly trade occupancy data with their nearby competitors, so it is not unusual for them to have this information readily available. In this case, if the general manager was truthful about the 65% occupancy, he will probably say that the Holiday Inn was operating at 73%. If, however, the occupancy estimate was biased downward -- i.e., it was really 72%, but he told you 65%-the manager would probably make the same adjustment to the Holiday Inn estimate and respond "66%" instead of "73%." Thus, the benchmark shows a downward bias of about seven percentage points, which could probably be applied to the 65% estimate, bringing it up to 72%. The appraiser applies this same procedure to check the occupancies of all the other competi-

tive hotels in the market. The procedure can also be utilized for other, competitive interviews as well as interviews with the chamber of commerce, visitors and convention bureau, assessor, building department, and so forth. Note that responses may be biased in either direction, depending on how the individual interviewed perceives the study and its likely effects.

When the results of the appraiser's interviews are organized on a spreadsheet, natural biases become apparent. By exercising good judgment the appraiser will generally be able to come up with a reasonably reliable estimate of each property's occupancy.

Although it may be difficult to obtain unbiased occupancy data from general managers, most will provide their average room rates and market segmentations. However, it is advisable to test their responses in these areas also if supporting data are available from other properties.

Written Surveys

Another data collection technique is the use of written surveys. A mass mailing of questionnaires is considerably less time consuming than face-to-face or telephone interviews. The success of a written survey depends on several factors.

- The survey's subject matter must be compatible with this form of data collection.

- The survey should be simple so it can be completed in a short period of time.

- The survey must be mailed directly to individuals who fully under- stand the survey's subject matter.

- Sufficient time must be available to develop, mail, and collect the responses to the survey.

Not all of the data needed to perform a hotel market study and appraisal can be collected using written surveys. Most confidential information, for exam-

ple, must be obtained through face-to-face interviews. Economic and demographic data and statistics are generally available from published data sources. Written surveys work well when there are a large number of data sources and the information to be collected is not perceived as confidential. One type of data that fits these criteria is information obtained from demand generators.

A demand generator is anything that attracts overnight visitors into a market area who are likely to use the facilities of a hotel. Demand generators include airports, amusement parks, association headquarters, casinos, colleges and universities, companies and businesses, convenient highway stopping points, convention centers, county seats and state capitals, courts, festivals, government centers, historic attractions and events, hospitals, military installations, museums, offices and industrial parks, parks and scenic areas, racetracks, regional shopping centers, residential developments, resort areas, special events, sports attractions and events, theaters, and tourist attractions.

One procedure for quantifying hotel room night demand is to survey a market's demand generators and estimate the number of visitors they attract over a period of time who will use the facilities of a hotel. This type of information is usually considered non-confidential and can easily be obtained with written surveys.

The design of a written survey is a crucial element in obtaining an accurate response. Most people are bombarded with surveys and have little incentive or time to fill them out, so a short, easy form is essential. The format shown in Figure 2.2 can be used to design a written survey to compare demand generator information.

In addition to designing a form that is simple to complete, the appraiser should include a self-addressed, stamped envelope with the survey so it can be returned quickly.

A good way to increase the survey's response rate is to use a cover letter signed by someone known to the survey's recipients. Depending on the nature of the assignment, this individual could be the local mayor, another government official, the president of the chamber of commerce, a prominent business leader, or a local celebrity interested in the project. The cover letter should also be brief and to the point and explain how the recipient will benefit by responding.

Figure 2.2 Hotel Survey Boilerplate

A new hotel is planned in your competitive market area. Responses to the following questions will assist us in assessing what type of lodging facility will best serve the needs of your firm and other businesses in your area. While we realize that you may not have precise information regarding many of the following questions, we would appreciate your best estimates.

.

1. Your Name/Title_____

2. Company Name/ Department _____

3. Street Address _____

4. City, State, Zip _____

5. Telephone _____

6. What is the current number of employees?

7. What are the primary business activities at:

   this location_____.

In your firm_____.

in your department _____....

8.Within the next year, is the number of employees in your FIRM/DEPARTMENT projected to (please circle)

Increase?   Decrease?   Remain the same?

By how much?   By how much?

9. What are the seasonal percentages of visitors to your FIRM/DEPARTMENT requiring accommodations?

Winter _____%   Spring _____% Summer _____%   Fall _____%

10. What percentage of the visitors described above currently …

Book their own accommodations_____%

Have someone within the firm book their accommodations _____%

Please indicate the name, department and telephone number of the person within your firm responsible for booking accommodations.

11. Reasons for Overnight Stay ....

(Please complete the following chart)

(a) What percentage of the people visiting your FIRM/DEPARTMENT requiring overnight accommodations do so for the reasons indicated?

(b) What is the average number of nights per visit?

(c) On the average, how many people stay in one hotel room per visit?

....

Reason for Overnight Stay	(a) Percent of Total Visi-	(b) Average Length of	(c) No. of People per

	tors	**Stay**	**Room**	
	Relocation			
	Training			
	Temporary Assignment			
	Consulting			
	Meeting/Conference			
	Other_____			
	Total	100%		

12. Current Lodging Facilities Used ...

(Please complete the following chart)

Wbich lodging facilities does your firm currently use? (Please list in the or-

der that you would

select them.)

Name of Lodging Facility   Room Rate Charged

1.

2.

3.

4.

13. Choosing a lodging Facility ...

(a) Please rank the following six factors in order of importance in

choosing a lodging facility.

(1 = Most Important and 6 = Least Important)

Factor	Rating	Factor	Ratir
Price		Convenience of Loca- tion	
Quality of Amenities		Chain Affiliation	
Facilities Offered		Other _____	

(b) Would the availability of a health club/fitness center be an im-

portant consideration in choosing a

lodging facility?_____

14. Meeting and Banquet Facilities ...

Do you currently use meeting and/or banquet facilities at area hotels?

(Please circle whichever applies)

Meeting Facilities   Banquet Facilities   Neither

(If Meeting and/or Banquet Facilities are used, please complete the follow-

ing chart)

	For Meetings	**For Banquet**
How frequently do you use these facilities?		
What is the average size of the group?		
What is the smallest size?		
What is the largest size?		
What percentage of attendees require overnight accommoda-		

tions?		
What percentage occurs on weekends?		

15. Location...

(a) Are you familiar with the location of our project? _____

(b) How would you rank the location of this hotel compared to the

locations of the hotels you   currently

use? (Please circle)

Better   About the same   Inferior

16. Given a choice between a full-service hotel (i.e., Marriott, Holiday Inn, Hilton) and a limited-service hotel (i.e., Days, Red Roof Inn, Comfort Inn), which would you be more likely to choose in booking accommodations for overnight visitors? Why?

The key to a successful written survey is pinpointing the person who is best equipped to answer the required questions. All correspondence should be directed to that specific individual. "To whom it may concern" salutations seldom elicit a satisfactory response. Mailing lists from the local chamber of commerce are usually a good starting point. Using this information as a base, a quick telephone survey can be conducted to obtain the names of the most appropriate respondents.

A relatively long lead time is needed to develop, mail, receive, and evaluate written surveys. Appraisers should allow 30 to 40 days to use this data collection technique properly.

The main disadvantages of written surveys are the normally low response rate, the inability to follow up on a specific question, and a lack of data verification.

The response rate for a written survey depends on many factors, including the form of the survey, the perceived benefits to the respondent, and the ability to direct the survey to the proper individuals. A 10% response is considered good; occasionally a survey will yield a 30% to 35% return. When developing a survey, appraisers should take this low rate of response into account so that enough forms are mailed to ensure a sufficient data sample.

Written surveys do not give the questioner an opportunity to follow up an answer with another question that could elicit an important response. Therefore, it may be advisable to review the responses to the survey and conduct telephone interviews of respondents who appear to have additional data that may be helpful.

Written surveys are often difficult to verify. During face-to-face interviews, the interviewer can evaluate the character of the respondent and judge the accuracy of the data being provided. A person's intonation, body language, and general attitude convey a sense of whether the information being supplied is reliable. Users of written surveys cannot use this form of verification.