INVESTMENT TODAY

REAL ESTATE JARGON MADE SIMPLE

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Hotel appraisals and market studies generally come with their own language. This month's column will be devoted to defining some of those often-used and sometimes-misunderstood expressions.

Rev-par: An abbreviation for rooms revenue per available room. Rev-par is calculated by multiplying a hotel's occupancy by its average room rate. For example:

Hotel	Occupancy	Average Rate	Rev-Par
A	90%	$35.00	$28.00
B	70	40.00	28.00
C	60	46.67	28.00

The rev-par for each hotel in this example is $28.00. If Hotels A and B were similar except that Hotel B pushed room rate at the expense of occupancy, the profit per room for Hotel B would probably exceed that of Hotel A because its utilization is lower. If the cost of developing Hotel C was significantly higher than the others, then its rev-par indicates a probable lower return than its competitors.

Latent demand: As is generally true of commercial-oriented lodging facilities in which demand is not equally spaced throughout the typical week, hotels experience certain peaks and valleys in daily occupancy. In general, commercial hotels enjoy high occupancy Monday through Thursday nights, when demand from business travelers is strong, and significantly lower occupancy on weekends. When hotels operating under these market conditions realize an occupancy greater than 70-75 percent, generally that means an excess weekday demand exists and the hotel must turn away a certain amount of patronage. These would-be guests either settle for less-desirable rooms or defer the trip. Unaccommodated lodging demand is important to identify in growing markets where additional new rooms will benefit from this form of latent demand.

Induced demand: Additional lodging demand that is attracted to an area by the presence of a new demand generator. For example, a new convention hotel produces induced demand by attracting groups that normally would not have considered this market. In some instances, new hotels will create their own induced demand by providing the market with a new type of product or facilities. An extended-stay hotel often creates new lodging demand in markets that had no long-term stay facilities.

Competitive index: A numerical ranking system that indicates the relative competitiveness of a hotel. It is calculated by dividing the room nights captured for a particular market segment by the hotel's room count.

In this example, a market has three hotels with the following operating characteristics:

Hotel	Room Count	Occupancy	Percentage Commercial Segment
A	150	80%	50%
B	200	70	40
C	250	65	70

The competitive index allows the appraiser to rank these hotels by competitiveness in the commercial segment. Total commercial room nights are calculated by multiplying the hotel's occupancy by its room count by the percentage commercial segment by 365 days per year:

Hotel	Commercial Room Nights	Room Count	Competitive Index
A	21,900	150	147
B	20,440	200	102
C	41,519	250	166

Simply stated, the competitive index represents the number of days per year a particular type of traveler occupies one room. In the above example, Hotel C is the most competitive hotel in the commercial segment, with each room being occupied 166 times per year by a commercial traveler. Even though Hotel A has the highest occupancy, it is not as competitive as Hotel C in the commercial market.

Competitive indexes can help hotel appraisers calculate market shares and project future occupancy levels for both existing and proposed hotels.

Stabilized occupancy: Reflects the anticipated occupancy for the property over its remaining economic life, taking into consideration the various stages in its life cycle. Therefore, the stabilized occupancy excludes from consideration any abnormalities in supply and demand, as well as any transitory or nonrecurring conditions (favorable and unfavorable) that may produce unusually high or low occupancy.

Since the uncertainty of future projections increases the further out they are made, basing projections on one stabilized occupancy level achieves the same results as attempting to forecast the inevitable upward and downward occupancy cycles for a lodging facility. Furthermore, discounting future economic benefits also tends to smooth out the cycle, providing additional support for utilizing stabilized occupancy.

The nature of the local hotel demand is probably the best way to establish stabilized occupancy. Since different types of travelers have different travel patterns (days of travel, length of stay and seasonality), the mixture of these visitors within a given market will influence the area's overall occupancy level.

For example, assume a market has a very strong business base that generates a significant room night demand Monday through Thursday. But because the local area has no leisure attractions, very few people utilize the hotels and motels on Friday and Saturday nights. On Sundays, business travelers attempting to get a head start on Monday's activities increase commercial demand. Because of this occupancy pattern, the maximum areawide occupancy level would be approximately 72 percent, assuming sellouts every Monday through Thursday. The following table illustrates this:

	Percentage of Occupancy
Monday	100%
Tuesday	100
Wednesday	100
Thursday	100
Friday	30
Saturday	35
Sunday	40
WEEKLY AVERAGE	72%

These market conditions would not justify using a stabilized occupancy of more than 72 percent unless the property had some significant attractions to capture the limited weekend demand.

Furthermore, since a hotel rarely achieves 100-percent occupancy consistently 52 weeks a year (with the normal commercial drop-off on three-day weekend holidays, Christmas week and the summer months), a good case can be made for establishing the stabilized level in this example at a more reasonable 68-percent level.

Future columns will cover additional hotel terminology. If you would like a particular word or expression explained, write to me in care of *Lodging Hospitality.* **LH**