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UNDERSTANDING ECONOMIC LIFE

Economic life is the period when improvements to a property contribute to property value. Hotels and motels have a definite life span of positive cash flow. As improvements age and suffer phys-

ical, functional and external obsolescence, income productivity declines. When income no longer provides adequate return on the property, improvements have no remaining economic life.

The economic life of a hotel varies considerably. In 1978, the Internal Revenue Service conducted a study

which showed hotels and motels have the following economic lives:

Average Economic Life Span*		
	Life In Years	Standard Deviation
Hotels	40.91	20.63
Motels	31.00	6.87

*Source: The Appraiser, June 1978

The large standard deviation means a hotel may have a useful life as short as 20 years or as long as 60 years. This unknown contributes to the hotel investment risk.


Economic life is typically uninfluenced by physical deterioration, or functional obsolescence.

External obsolescence—incurable outside factors such as declining neighborhood, adverse change in the local economy, overbuilding, new highway and travel patterns—shortens the life of a hotel. These may radically affect the economic viability of lodging facilities and diminish bottom line profits.

The included chart shows some of the actual lives of several New York City hotels.

The famous Waldorf-Astoria occupied its original site at Fifth Avenue and 34th Street only 37 years before it was replaced by a property with a higher and better use, the Empire State Building. The Ritz Tower operated as a hotel for only 32 years. In 1978, the Sheraton Motor Inn was converted to a foreign embassy after 16 years as a lodging facility.

Based on the life histories of more than 60 New York City hotels, we found the average life was approximately 36 years, which supports the previously cited IRS study.

Because nothing remains constant and change is ongoing in the hotel industry, the likelihood of controlling external obsolescence is remote. 

Actual Lives of some NYC Hotels

Hotel	Year built	Year closed	Age
Waldorf-Astoria	1892	1929	37
Belmont	1903	1930	27
Vanderbilt	1912	1966	54
Weylin	1920	1956	36
Kimberley	1922	1973	51
Ritz Tower	1925	1957	32
Savoy Plaza	1928	1965	37
Sheraton Motor Inn	1962	1978	16

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