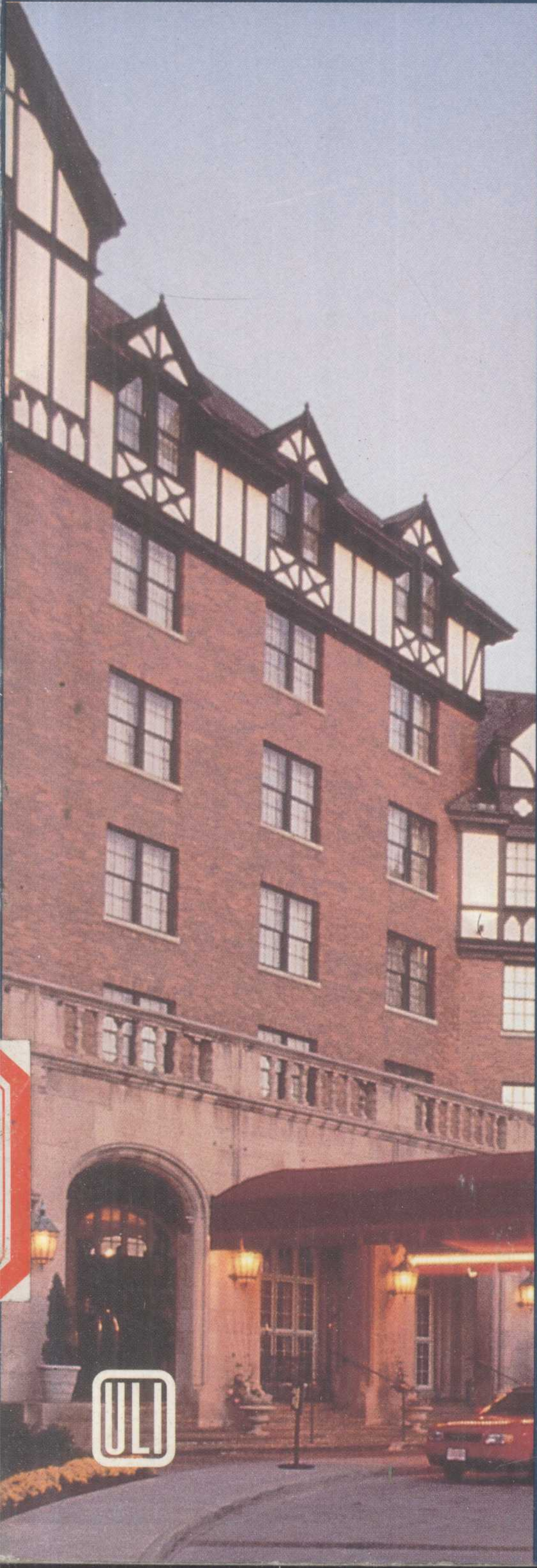
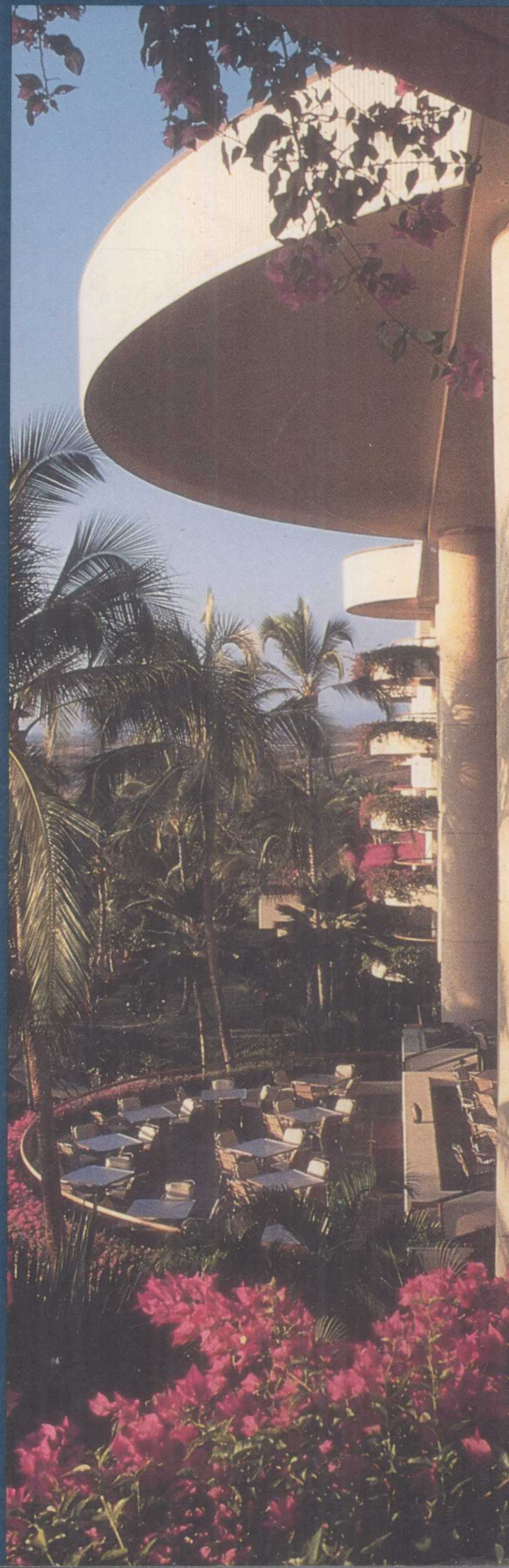
Hotel Development





Urban Land Institute

Hotel Development

PKF Consulting

Principal Authors
Bruce Baltin
Brian D. Bash
Thomas E. Callahan
John A. Fox
Karen Johnson
John M. Keeling
Corey Limbach
Patrick Quek
W. Martin Winfree, Jr.
Lynda Schrier Wirth

Contributing Authors
P. Peter Benudiz
James R. Butler, Jr.
Ronald J. Holecek
Walter A. Rutes
Ronald O. Van Pelt
Howard J. Wolff

ULI
Urban Land Institute

About ULI–the Urban Land Institute

ULI–the Urban Land Institute is a nonprofit education and research institute that is supported and directed by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment.

ULI sponsors educational programs and forums to encourage an open international exchange of ideas and sharing of experience; initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on this research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development.

Established in 1936, the Institute today has some 13,000 members and associates from more than 50 countries representing the entire spectrum of the land use and development disciplines. They include developers, builders, property owners, investors, architects, public officials, planners, real estate brokers, appraisers, attorneys, engineers, financiers, academics, students, and librarians. ULI members contribute to higher standards of land use by sharing their knowledge and experience. The Institute has long been recognized as one of America's most respected and widely quoted sources of objective information on urban planning, growth, and development.

Richard M. Rosan
Executive Vice President

Recommended bibliographic listing:
PFK Consulting. *Hotel Development*. Washington, D.C.: ULI–the Urban Land Institute, 1996.

ULI Catalog Number: H06
International Standard Book Number: 0-87420-798-3
Library of Congress Catalog Card Number: 96-61398

Project Staff

Senior Vice President, Research, Education, and Publications
Rachelle L. Levitt

Vice President/Publisher and *Project Director*
Frank H. Spink, Jr.

Managing Editor
Nancy H. Stewart

Manuscript Editor
Libby Howland

Book Design/Layout
Helene Y. Redmond/HYR Graphics

Production Manager
Diann Stanley-Austin

Word Processing
Maria-Rose Cain
Joanne Nanez

Review Committee for *Hotel Development*

Gregory R. Dillon
Vice Chairman Emeritus and Director
Hilton Hotels Corporation
Beverly Hills, California
with Vladimir Sanda, Architecture and Construction; and James L. Philon, Senior Vice President, Development (retired)

Ronald Eastman
Group Vice President, Lodging Development
Marriott Corporation
Washington, D.C.

Lee G. Lyles
President/COO
Canizaro Lyles Development Company
Charlotte, North Carolina

Charles H. Shaw
Chairman
The Shaw Company
Chicago, Illinois

Alan L. Tallis
Executive Vice President, Development
Red Roof Inns
Hillard, Ohio

About the Authors

PKF Consulting is a national hotel and real estate consulting firm with offices in major U.S. cities. As a member of the Pannell Kerr Forster International Association, PKF/C is networked with one of the world's largest accounting and consulting firms, which has 340 offices in 90 countries. PKF Consulting owns and maintains the database for *Trends in the Hotel Industry*, an annual statistical review of U.S. hotel operations that first appeared in 1935. The firm provides advisory services to assist hospitality practitioners in planning, managing, financing, appraising, valuing, and administering assets; improving operations; and buying and selling properties.

Bruce Baltin, CPA, is a senior vice president in charge of PKF Consulting's Los Angeles office. He has more than 25 years of diverse experience in economic, financial, and operational analyses, including market demand and development consulting for the hospitality and real estate industries. Before joining PKF, he was a corporate operations analyst for the Sheraton Hotel Corporation and a member of the hotel administration faculty at the University of Nevada–Las Vegas. He holds a bachelor's of science degree in hotel administration from Cornell University.

Brian D. Bash, CRE, is a vice president in the Philadelphia office of PKF Consulting. His specialties include advisory services for structuring large-scale real estate developments and complex financial analyses. He is experienced with public/private partnerships and with residential and hotel/retail mixed-use projects and conference centers. He holds a bachelor's of arts degree from Texas Christian University and a master's of arts degree from Pennsylvania State University, both in economics. He holds a Counselor of Real Estate designation and is a member of the International Association of Conference Centers.

Thomas E. Callahan, CPA, CRE, MAI, is an executive vice president of PKF Consulting and based in its San Francisco office. He formerly headed the PKF management advisory practices in Boston, Houston, and Los Angeles. His areas of expertise include market and feasibility studies, appraisals, hotel acquisition and disposition analysis, and real estate development planning. He has overseen masterplan studies for multiuse real estate projects in the United States and Asia, and has performed large, multihotel appraisal projects for a number of major banks. He holds a bachelor's of business administration degree in accounting and hotel and restaurant administration from Washington State University.

John A. Fox is a senior vice president in charge of PKF Consulting's New York office. His experience extends to market studies, due diligence, and financial consulting for hotel owners and lenders. No stranger to the courtroom, he appears regularly as an expert witness in business litigation matters and serves as a commercial arbitrator. He holds a bachelor's of science degree in hotel administration from Cornell University and is on the Panel of Arbitrators of the American Arbitration Association. He is a frequent contributor of articles to various hotel trade journals and is regularly quoted on hotel and travel issues in the national press.

Karen Johnson is a vice president in the Los Angeles office of PKF Consulting. A former regional director of hotel development planning for Marriott Hotels, she is experienced in multiproperty and portfolio analysis and with franchise and management contracts. She has performed feasibility and operational analyses in Europe and the United States. She holds a bachelor's of science degree, with honors, in hotel and restaurant administration from Michigan State University.

John M. Keeling is a senior vice president in charge of the PKF Consulting office in Houston. He has produced numerous market and positioning studies for hotels in the United States and Mexico and provides real estate advisory services to developers, financial institutions, and government agencies in the south central United States. Keeling was formerly a partner with Laventhol & Horwath. He received his master's of business administration degree from Michigan State University.

Corey Limbach is a vice president in the San Francisco office of PKF Consulting. He has headed engagements to provide market and financial consulting for hotels, resorts, casinos, and related hospitality enterprises on the West Coast and in Asia, particularly Southeast Asia and Polynesia. He holds a bachelor's of arts degree from the University of California–Berkeley in anthropology and is a member of the Pacific Asia Travel Association and the California Redevelopment Association.

Patrick Quek is president and CEO of PKF Consulting, headquartered in San Francisco. Before founding PKF Consulting in 1992, he was national director of management advisory services for Pannell Kerr Forster and chairman of its International Consulting Committee. He is a member of the board of directors of PKF Worldwide. He has more than 25 years of experience in tourism master-plan studies, economic and financial modeling, and portfolio management consulting. He has extensive experience in managing projects throughout the Pacific Rim, from Chile to Canada to China, Singapore, and Malaysia. He holds a bachelor's of business administration degree and master's of business administration degree from the University of Hawaii.

W. Martin Winfree, Jr., MAI, is a vice president in the San Francisco office of PKF Consulting. He is an experienced real estate appraiser who has completed engagements across the United States, particularly in the Southeast, the New York metropolitan area, and California. He holds a bachelor's of science degree in applied mathematics from North Carolina State University. He is a member of the Appraisal Institute, where he has served on its Regional Ethics and Counseling Panel.

Lynda Schrier Wirth is a vice president in the New York office of PKF Consulting. Her experience includes feasibility analysis and appraisals of hotels. She is a state certified general appraiser and holds a bachelor's of science degree in hotel administration from Cornell University. She is a past president of the Cornell Society of Hotelmen and an adjunct faculty member of New York University.

Contributing authors **James R. Butler, Jr.**, and **P. Peter Benudiz** are partners with the law firm of Jeffer, Mangels, Butler & Marmaro. **Butler** is chair of the firm's Real Estate and Lodging & Leisure Group. He is a graduate of the University of California–Berkeley and the Bolt School of Law. **Benudiz** is a member of the firm's Real Estate and Lodging & Leisure Group and a graduate of the University of California–Berkeley and Harvard Law School. With 100 attorneys and offices in Los Angeles and San Francisco, JMB&M offers a full-service business law practice. Its real estate and lodging group provides a full range of advisory services for the leisure industry, including workouts, acquisitions, sales, syndication, and financing.

Contributing authors **Howard J. Wolff, Ronald J. Holecek, AIA,** and **Ronald O. Van Pelt, AIA,** are principals with Wimberly Allison Tong & Goo, Architects and Planners. **Wolff** is vice president and corporate managing principal, responsible for spearheading the firm's worldwide strategic planning and business development. He is a graduate of Rensselaer Polytechnic Institute with degrees in both architecture and communication and is a frequent speaker and author on the subject of hospitality design trends. **Holecek** is president and CEO. A graduate of the University of Washington, he has been with WAT&G since 1972 and has been responsible for the design of over two dozen completed hotel and resort projects throughout the United States and Asia. **Van Pelt** is vice president and director of WAT&G's London office. He is a graduate of California Polytechnic State University–San Luis Obispo. He has taught a course on hotel projects for the Cornell University Essec Graduate Hotel Program in Paris, and has been responsible for the design of hotels and resorts in India, Spain, England, the Middle East, the United States, and the Caribbean. Wimberly Allison Tong & Goo is recognized as one of the world's leading architectural firms specializing in hotel and resort planning and design.

Contributing author **Walter A. Rutes, FAIA,** is chairman of 9 Tek Ltd., Development Consultants, and was vice president and director of architecture at such major hotel companies as InterContinental, Sheraton, Ramada, and Holiday Corporation. His projects include the design of the initial all-suites prototype for Embassy Suites. He spent two decades as associate partner with Skidmore, Owings & Merrill. He is a visiting professor at the Cornell University Essec Graduate Hotel Program in Paris and coauthor of interactive software systems used in planning hotels and resorts.

Foreword and Acknowledgments

When ULI's first book on hotels, *Hotel/Motel Development*, was published in 1984, it provided information that until that time had been most difficult to find. The manuscript had been prepared by Laventhol & Horwath, and John Keeling, one of the principal authors, later became associated with PKF Consulting.

When ULI decided that a new edition of the hotel development book was needed, Patrick Quek, president of PKF Consulting, stepped forward and offered to assemble a team to write it. This team has produced a totally new book. Rooted in an understanding of the skills required for success, it provides the best information available on the process of hotel development.

Over the last decade, the hotel industry has evolved a dramatically different and larger range of product. Hotel guests have gone from demanding simply a clean bed and a wholesome meal to expecting a variety of business services and recreational amenities. The industry will continue to evolve as the expectations of the marketplace change. No doubt *Hotel Development* too will be followed by newer editions, but much of what it has to say is of timeless value. The best vision of the future is usually achieved by observation of the best of the past and present, and this book seeks to provide that quality of perspective.

The authors' contributions to this book are readily apparent. But to complete any book project like this after the manuscript has been submitted to the publisher and the authors are winded, the work of collecting materials and tracking down information must continue. The book manuscript was reviewed by seven ULI members or their associates. Their comments along with those of the ULI project staff were sent back to the authors for response. Gary Carr of PKF Consulting spent many hours with the various authors, dealing with editorial queries and confirming or correcting matters of fact.

Many contributors not included among the list of authors provided development profiles so that *Hotel Development* could cover a wide range of hotel types in its case studies chapter. Special thanks for contributing hotel development profiles go to Patrick Wong, Conrad International Hotels Asia project director, for the Conrad International Hong Kong; Gregory Dillon, vice chairman emeritus of Hilton Hotel Corporation, for the Hilton Garden Inn prototype hotel; Alan Tallis, president of Red Roof Inns, for the Red Roof Inn/Alamo Downs; Greg O'Stean, corporate real estate director, and David Sinyard, senior vice president of Holiday Inn Worldwide, for Holiday Inn Express/Strathclyde Country Park; Jenny Little and Chris Watson of Doubletree Hotels for Doubletree Guest Suites/New York City; and Debra Kelman for Loews Miami Beach Hotel.

In addition, a book on hotel development needs a broad base of photo examples to illustrate various types of hotels and specific elements of hotels. For supplying or helping to supply the photographs that enrich this book, I am grateful to the following firms—RTKL; Wimberly Allison Tong & Goo; Helman Hurley Charvat Peacock/Architects; Turner Steiner International; Thompson, Ventulett, Stainback & Associates; Brennan Beer Gorman/Architects; and Daniel, Mann, Johnson & Mendenhall—and to the following individuals—Susanne Pelt of South of the Border; Kerri Wrightman of Holiday Inn Worldwide for the image of the first Holiday Inn; and Stasi Tsirkas of the Radisson Plaza Hotel at Mark Center for giving me access to photograph the hotel's back-of-house.

Frank H. Spink, Jr.
Vice President/Publisher
Project Director, *Hotel Development*

PREFACE

Owning, developing, or acquiring a hotel is a dynamic process similar to kiteflying. Sometimes when the wind is favorable, we let out the string a little and the kite soars higher. Sometimes when the wind is too rough, we have to pull it in a little and the kite can get caught in the trees. The principal purpose of this handbook is to help the development community to stay out of the trees.

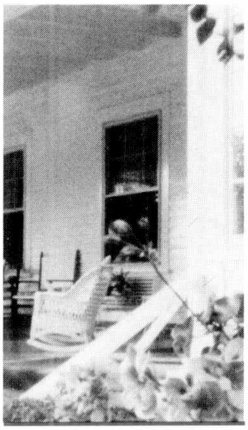
Many participants in the hotel industry consider hotels to be highly complex real estate projects that involve great risk and often consume far too much time, energy, and capital. We tend to forget that hotels are in fact an unusual type of business formula that combines a form of real estate with an ongoing service-oriented business. Most investors strive to keep their exposure to a minimum and hope to prosper. Notwithstanding investor wariness, the distinction of owning a hotel continues to attract investors seduced by the status and glamour they can bestow as well as the potential for tremendous gain.

This book has been written for real estate practitioners who have an interest in the lodging industry. We have structured the book to cater to needs ranging from the development of a new project to the acqusition of an existing property. We hope to provide readers with the basic information they will need to plan successful lodging projects.

We realize that the order of steps will change from project to project, but the methods and process used for evaluating lodging investments will be the same from one project to another. It is our intention that the first-time hotel investor will find this book easy to use and that the experienced investor will find in it valuable insights. We hope that this book will be a useful reference tool for anyone planning or assembling a hotel deal.

Patrick Quek

CONTENTS



CHAPTER 1

A Historical Perspective

W. Martin Winfree, Jr.

While the origins of hostelries are lost in the mists of ancient history, fulfilling the food and shelter needs of travelers is as old a function as travel itself. An early reference to tavernkeeping can be found in the Code of Hammurabi, of about 1800 B.C.E. The Romans established an extensive system of paved roads with way stations and inns at set distances along them. During the European Middle Ages, when religious pilgrimages were why most people traveled, charitable institutions and religious orders provided the primary lodging services.

With the emergence by the 15th century of many European cities as centers of commerce and culture, innkeeping for profit was born. The development of a network of stagecoach routes connecting these cities set off the first hotel building boom. This would be only the first of many transportation innovations, among them railroads, streetcars, automobiles, and airplanes, that would transform the hospitality industry.

The Birth of the Hotel

Inns and taverns were an important focus of activity in the American colonies in the 17th and 18th centuries. They were patterned after English country and city inns, which were designed to fit into their communities as unobtrusively as possible. Boston's (and perhaps the Colonies') first tavern, Coles Ordinary, was founded by Samuel Coles in 1630. The term "ordinary" referred to the midday meal or supper served as part of an overnight stay, an arrangement which hoteliers today call the American plan. By the time George Washington toured the new nation shortly after his election as president, inns were everywhere—many of them soon advertising: "George Washington Slept Here."

A remarkable number of these early inns and taverns survive, particularly in New England and Pennsylvania. A few contain sizable modern hotels within their colonial exteriors, such as the Red Lion Inn in Stockbridge, Massachusetts, and the Nassau Inn in Princeton, New Jersey.

Another survivor of sorts is the concept of the ordinary, as carried on by the modern bed-and-breakfast. B&Bs began to appear in the United States in the mid-1960s, and grew strongly in the late 1970s and 1980s as an alternative to commercialized hotels. B&Bs tend to be located in restored 18th and 19th century homes or (less frequently) historic inns. Ideally, they are situated in residential neighborhoods that also feel historic. The room count is often less than ten and usually under 30. They offer a continental breakfast that typically features homebaked breads and muffins. The development of B&Bs has waned along with the rest of the hotel industry in the 1990s, but many individuals regard operating a B&B as an ideal way of life, and their enthusiasm should keep the concept alive.

By the beginning of the 19th century, the term "hotel" had come into vogue, used to describe establishments that were more commercial than inns. Hotels offered food and drink, as well as lodging.

Perhaps the earliest of the new breed of hotel was the six-story City Hotel built in Baltimore in 1826 and containing 200 rooms. Many of these early hotels were designed by New England architect Isaiah Rogers, beginning with the Tremont House in Boston in 1829. Rogers designed the first of the great hotels built by the Astor family in New York City. The luxurious Park Hotel (renamed the Astor

Red Lion Inn, Stockbridge, Massachusetts.

House as soon as its success was assured) opened in May 1836 with 18 high-class shops, 300 bedrooms, and an unheard-of 17 bathrooms. Rogers designed similarly elegant properties in Bangor, Charleston, Richmond, Cincinnati, New Orleans, Mobile, Louisville, and Nashville.

Many hotels of the era became social and commercial centers in their communities. Civic and fraternal groups used them as meeting places. Hotels housed the first merchant exchanges, hotel guests often brought news from afar, and the first presidential preference polls were conducted in hotels.

Hotel Growth and Diversification

In the latter half of the 19th century, sumptuous grand hotels catering to a new café society were appearing in Europe—the Grand Hotel in Rome, the Paris Ritz, the Savoy of London, and gracious hotels adorning the newly fashionable Riviera. At the same time, the hotels being built in America were more utilitarian in nature. On the west side of the Atlantic, they were nicknamed Palaces of the Public or People's Palaces. Desiring to bring European elegance to America, William Waldorf Astor erected the Waldorf Hotel on the site of the family mansion on Fifth Avenue. It opened in March 1893 and grossed $4.5 million in its first year, a staggering sum for that time.

Not to be outdone, his cousin John Jacob Astor soon afterward built the much larger and just as luxurious Astoria Hotel on the site of an adjoining mansion, from which Caroline Astor had reigned as the undisputed head of New York society in the 1870s and 1880s. The 400 couples who could comfortably fit into her ballroom gave rise to the term "the Four Hundred" for the New York upper crust. The Astoria Hotel upped the ante by providing a ballroom for 600 couples. In 1897, the rival hotels were linked by interior corridors to become the 1,300-room Waldorf=Astoria Hotel, the world's largest hotel. The Waldorf=Astoria Hotel, with its "=" and its luxury intact, was rebuilt on Park Avenue in the 1930s. The Empire State Building stands on its old site.

Another notable project, the Astor Hotel, opened on Times Square (then known as Longacre Square) in 1904. Only half its floor space was devoted to sleeping rooms. Its dining rooms were said to offer the best eating in the city. Its lobby became one of the world's most famous meeting places. Its meeting rooms and its roof garden were other distinctive elements. Crowds packed the hotel during the annual Thanksgiving Day Macy's parade and on every New Year's Eve, to this day.

The grand hotel soon made its way across the country, in cities and resorts alike. In time, every city and town had a more or less ostentatious edifice to offer the traveling public. Hotels cropped up in places that were scarcely more than minor crossroads. Rural folks with urban pretensions saw the establishment of a major hotel as a sign that they—and their town—had arrived. Hotels scraped the sky long before office towers came into being. In smaller towns and cities, the hotel was usually the tallest building in town. The largest hotels were often built near the town's railroad station. Sadly, most of the grander hotels of the 1800s and early 1900s have fallen to the wrecking ball, because they were usually well located but could not be adapted easily to changing times.

Hoteliers in the 19th and early 20th centuries introduced or perfected building components that would be widely adopted in the hotel industry. Isaiah Rogers's Astor House introduced indoor plumbing above the ground floors. Mount Vernon Hotel in Cape May, New Jersey, which opened in 1853, gave each room not only running water but also a bathtub. Rooms with private baths would not become standard in the industry until after 1908, the year in which Ellsworth M. Statler opened the Statler Hotel in Buffalo, New York, with the catchphrase: A bed and a bath for a buck and a half. Other innovations introduced or perfected by the hospitality industry included central heat via radiators, elevators, gas and electric lighting, telephone exchanges and switchboards, and even spring mattresses.

Two major hotel chains that have survived to the present —Hilton and Sheraton—were founded between the world wars. Conrad Hilton entered the hotel business in 1919 with the 40-unit Mobley Hotel in Cisco, Texas. He had acquired eight hotels by 1929, and by means of heroic cost-cutting measures he managed to retain five through the early years of the depression. By 1935, Hilton had used oil profits to buy control of a number of high-profile hotels, including the Plaza and Roosevelt hotels in New York, the Stevens in Chicago, the Town House in Los Angeles, and the Sir Francis Drake in San Francisco. The Hilton hotel empire grew with the continued absorption of smaller hotel chains and distressed independent hotels, culminating in Hilton's purchase of the Statler chain in 1954. Ernest Henderson, who founded Sheraton, was more of an investor than a hotelier. He acquired four hotels in the late years of the depression, beginning with the Stonehaven Hotel in Springfield, Massachusetts, and he took the name of the chain from one of these, the Sheraton Boston Hotel.

Before streetcar and subway systems became widespread around the turn of the century, there was a need for hotels in every urban commercial district and in many residential areas as well. Nearly every corner seemed to have a hotel. They kept their height and shrank their other dimensions to narrow slices. The guest rooms became tiny and jumbled to fit into restricted floor plates.

These small commercial hotels continued to be built into the Roaring Twenties. Later, they often were converted into apartment houses or rooming houses or, in less fashionable neighborhoods, welfare hotels. In the 1980s, many of the better located of these were converted into luxury boutique hotels. Boutique hotels typically have 40 to 100 rooms. They generally de-emphasize food and beverage operations, and stress personalized service and a striking decor. These hotels often are marketed to business travelers or tourists from a particular country or region. Alternatively, other commercial hotels built early in the century have been well maintained without a major rehabilitation, and they are marketed today as an affordable alternative to new hotels. San Francisco in particular has hundreds of small hotels, supplying about 30,000 rooms in formats that run the gamut from the most affordable to the most prestigious.

Other hotel forms began to appear in the 1920s as the industry diversified. Apartment hotels were built, catering to people to whom hotel style living appealed. Tourist courts came into being as people opened their homes to travelers or built additions with a handful of rooms. A few roadside hotels

Courtesy The Shaw Company

The grand lobby of the Chicago Hilton Hotel and Towers, after its renovation and restoration in 1985. The old Stevens hotel was built in 1927 and acquired by Conrad Hilton in the 1930s.

built between major destinations to house people on long-distance trips spelled the beginning of the motel industry.

The heavily traveled vacation route down the eastern seaboard from New York to Miami provides a remarkable example of early motel development. The structures in one small area at the approximate halfway point in North Carolina along U.S. 301, which was the main highway before I-95 was begun in the 1960s, show the entire early history of the motel industry. The oldest buildings are little more than groups of cabins or shacks. Tourist courts and mom-and-pop motels soon followed. Few of these properties ever had a national or even regional affiliation. Most of their patrons must have seemed peculiar to the keepers of these hotels, which, even where they skirted sizable communities like Fayetteville, Rocky Mount, or Wilson, were a world apart.

One of the properties along the New York to Miami highway route is South of the Border, a full-blown resort celebrating nothing so much as an exit from the Old North State. North Carolina was one of the driest states in the country when the roadside motel opened in the 1940s, just inches over the line into South Carolina, a state that was more forgiving about liquid refreshment (not to mention fireworks). With a schlock Mexican theme and a string of preposterous billboards proclaiming itself from as far away as 200 miles, South of the Border covers 100 acres and is a popular tourist trap and honeymoon spot. It boasts 302 guest rooms, two enormous gift stores, numerous restaurants and "cantinas" (none serving Mexican food until the mid-1970s), including a revolving restaurant atop a sombrero tower, and one of the most garish neon lighting displays east of the Mississippi.

While independents can capture demand that has few options, the trend in the industry in the second half of the 20th century has been to provide a wide variety of national and regional chains. The dramatic changes in the hotel industry beginning in the 1950s find their roots in the state of the hotel industry just after the end of World War II.

In 1948, hotels with fewer than 50 rooms dominated the industry. They represented about 85 percent of all hotel establishments and over 40 percent of the number of rooms. Almost all hotels were independently owned and operated properties. Not even 5 percent belonged to a hotel chain. The major chains were Sheraton and Hilton.

Approximately one-fourth of the hotels and over one-third of the rooms in the country were concentrated in the eight states of the Middle Atlantic and East North Central regions—Illinois, Indiana, Maryland, Michigan, New York,

From one motel in 1940, South of the Border has evolved into a sprawling tourist mecca on I-95 in South Carolina.

Ohio, Pennsylvania, and Wisconsin. These states contained 40 percent of the nation's population and a fair number of its largest trade centers, including New York City, Philadelphia, Cleveland, Detroit, Chicago, and Milwaukee.

Hotels were concentrated in population and trade centers. The typical hotel was in an urban setting, usually in a downtown business district and often near a railroad terminal. Business travelers constituted the primary source of room demand. What resorts there were served primarily wealthy individuals. Many were seasonal operations, near a body of water or in the mountains.

In the late 1940s, standardization of hotel product, amenities, or services was limited. Rooms were typically small. Some lacked private bathrooms. Most rooms had no telephone. Swimming pools were uncommon. Only larger facilities usually could support restaurants and bars. The average room rate in 1948 was $3.75.

As businesses expanded to supply the rebuilding of Europe and pent-up and expanding domestic demand for consumer and durable goods, hotels began to experience occupancies in excess of 80 percent. Thus was brought about a significant amount of updating, replacing, and building of hotels, after years of neglect through the depression and the war.

With automobile ownership burgeoning by the early 1950s, hotels began to move outside traditional urban districts. The first motels also ran the gamut in terms of amenities and services offered. With more people traveling to more locations, visitors often would be unfamiliar with the hotels they planned to use. Clearly, the time was ripe for the development of standards for hotels.

Kemmons Wilson's founding of Holiday Inn in 1952 revolutionized the industry. From four motels in the Memphis area, the chain grew to an unprecedented 100 properties across the country by 1960, featuring a reliable standard of quality for guest rooms and considerable similarities in restaurant menus—all at an inexpensive price. Children under 12 traveling with their parents were offered free lodging.

The company has continued to be innovative, developing, for example, the Holidome enclosed recreational center, essentially a glass dome covering the swimming pool and part of the atrium. Holiday Inn became Holiday Corporation after it brought Harrah's Casinos in the early 1980s. It then created a series of new products: Embassy Suites in 1983, Hampton Inn in 1984, and Homewood Suites in 1988. In 1990, Holiday Inn was sold for $2.1 billion. The remaining pieces—Harrah's Casinos, Hampton Inn, Homewood Suites, and Embassy Suites—became the Promus Companies.

Lodging is a multidimensional industry. Its growth and diversification in the United States since 1950 have been phenomenal, and eight key trends have been most influential: population growth and migration, household formations, rising incomes, increased leisure time, construction of the interstate highway system, business development in the suburbs, airport construction and growing air service, and convention center construction.

The first Holiday Inn, Memphis, Tennessee.

Population grew rapidly from 1950 through 1980, at a rate of 1.35 percent compounded annually. The populations of the South Atlantic, West South Central, Mountain, and Pacific regions increased significantly faster than populations in the New England, Middle Atlantic, North Central, and East South Central regions. Population strongly shifted toward the Sunbelt and western states; toward Florida, Texas, Colorado, Arizona, and California.

The population not only expanded, but also grew older and more disposed to form households. Dispersed families needed to travel more frequently, and increased leisure time and improved family incomes made more travel possible.

The construction of the interstate highway system provided the family's primary means of travel and created a demand for lodgings in new locations. Congress authorized a 42,500-mile interstate system in 1944, and its funding in 1956. The system would eventually connect most of the nation's cities having populations of 50,000 or more, and would offer an irresistible opportunity for exploring the country.

The number of vehicles registered in the United States rose rapidly in tandem with the population, and disposable income increased. Travel by automobile was convenient and affordable. It spurred the development of motor hotels along interstate highways.

The interstate system also eased travel within metropolitan areas and aided the development of residential neighborhoods in the suburbs. The residential base attracted shopping centers, office buildings, and recreational and entertainment facilities, as well as hotels, to suburban locations.

After 1945, a growing number of travelers flew. Air travel both inhibited and encouraged hotel development. On the one hand, it reduced travel times and therefore made short stays away from home—especially for business trips—more feasible. On the other hand, jet speeds encouraged business concerns to bring people together for meetings and training sessions more frequently. And access by air opened up many new destinations for pleasure travel.

The development and expansion of airports created business centers outside the downtown. By the early 1980s, more than 700 U.S. airports were certified by the FAA for scheduled passenger service. This included 120 large, medium, and small hub airports, which accommodated the vast majority of U.S. air passengers.

Economic growth, which was accompanied by an expansion in the number and size of professional and fraternal associations, created a strong market for conventions, while improvements in ground and air transportation brought more regions of the country into consideration for conventions and meetings. Some larger cities began by marketing their civic centers and auditoriums as facilities for conventions and trade shows. Although the convention facilities themselves might operate at a loss, the host cities received important economic benefits. Many smaller cities began to construct convention centers to accommodate state and regional groups.

The growth in demand for hotel rooms from the group/convention segment was strong during the 1960s and 1970s. Facilities like McCormick Place in Chicago, the Georgia World Congress Center in Atlanta, the Coliseum in New York, and the Gateway Convention Center in St. Louis generated a need for large hotels to house convention delegates. In many cases, large new hotels were included in urban mixed-use developments that also housed office, retail, recreational, and other types of space.

Lodging chains such as Holiday Inn, Ramada, Howard Johnson, and Travelodge emerged in the 1950s to seize the opportunities for hotel development at new locations. Later, in order to grow faster, many chains became franchisers as well as developers and operators of company-owned facilities. By the early 1990s, about 70 percent of hotel rooms and 40 percent of properties in the United States were affiliated with a chain, franchise, or referral organization.

Hotel chains established their own standard designs, specific development parameters, management structures and systems, operating efficiencies, and advance reservation and referral networks. Easy recognition by the traveling public was an end, the means to which included uniformity of design and distinctive signs, emblems, and slogans for use in chains' advertising programs and sales promotions.

Independent hotels found it increasingly necessary to improve their marketing efforts. Thus, referral organizations like Best Western International, Friendship Inns, and Superior Motels, Inc., evolved to unite the efforts and resources of independent operators. Referral organizations are nonprofit groups that are owned and controlled by their members. They provide reservation referrals, sales promotions, and other advantages of hotel chain operations without causing operators to lose control of their properties.

During the 1950s and 1960s, mature chains such as Sheraton and Hilton needed to develop roadside and suburban hotels in order to compete with the newer chains, but they were unwilling to divert significant capital from their large projects in downtown and resort areas. The solution they came up with was franchising.

All this competition enlarged the range of amenities and services that hotels offered, to include indoor and outdoor swimming pools, restaurants, lounges, meeting and banquet rooms, valet service, complimentary limousine service, live entertainment, saunas, whirlpools, and in-room movies. Hotels that had been developed mainly to provide sleeping accommodations were turned into entertainment, dining, and meeting complexes resembling earlier grand hotels. Intense hotel competition—and the fact that travelers were gaining in sophistication—forced hotels to become more specialized.

Then during the 1970s, high inflation shrank the purchasing power of the dollar and room rates at most full-service hotels climbed to record levels. Perhaps, hotel chains reasoned, less expensive limited-service hotels could serve a market niche. They developed them and by the 1990s they were well patronized. Leisure travelers realized they did not always use the facilities provided by full-service hotels, such as meeting rooms, recreational amenities, restaurants, and lounges. And recession-weary businesses had begun to evaluate more closely their travel expenditures.

The budget or economy hotel chain made its first appearance in the 1960s, and began to grow quickly in the early 1970s. By getting back to basics and eliminating ancillary facilities, budget operators could charge a lower room rate.

Current Conditions and Trends

Different hotel products arose to meet the needs of different travelers. The differences involved five salient hotel traits: prices, amenities and facilities provided, location, traveler markets served, and distinctiveness of style. Marketing

Figure 1-1

U.S. Lodging Properties, 1948–1993

	1948	*1958*	*1963*	*1967*	*1972*	*1977*	*1981*	*1987*	*1993*
Establishments	55,569	70,535	64,276	65,579	58,688	51,861	54,135	44,500	45,000
Rooms Available per Day	1,854,044	2,118,777	2,385,930	2,101,500	2,223,600	2,198,700	2,497,700	2,730,000	3,300,000
Rooms Occupied per Day	1,575,669	1,437,553	1,448,630	1,297,800	1,317,500	1,451,200	1,570,700	1,692,600	2,277,000
Occupancy	85.0%	68.0%	62.0%	62.0%	59.0%	66.0%	63.0%	62.0%	69.0%

Sources: **American Hotel & Motel Association; and PKF Consulting.**

strategies gained in importance as a way of targeting specific traveler needs.

As Figure 1-1 shows, between 1948 and 1993, the inventory of hotel rooms in the United States increased by about 1.4 million. During the same period, however, the number of properties decreased by about 10,600, as smaller hotels gave place to larger ones. Figure 1-2 shows the distribution of U.S. lodging properties by hotel size categories in 1993.

The number of rooms demanded failed to keep pace with the growing supply, and occupancy decreased. That the 85 percent occupancy rate achieved in 1948 has never been repeated is not surprising; in 1948, outside factors were holding hotel room supply at an artificially low level. Annual occupancies in the range of 60 percent have been the norm for the industry in recent years.

Between 1948 and 1993, the South Atlantic replaced the Middle Atlantic as the top U.S. region for number of guest rooms. Major expansion of the guest room inventory occurred also in the East South Central and Mountain/Pacific regions. The number of rooms in the New England and West North Central regions grew minimally, while the number of rooms available in the Middle Atlantic and East North Central regions declined. (Figure 1-3 shows properties and room inventories by major U.S. region in 1987.)

The 1980s were an era of incredible excess in the hotel industry. The resulting pain was largely self-inflicted. Although the decade saw some innovations—all-suite hotels, extended-stay hotels, and dedicated conference centers—the segmentation frenzy mainly involved splitting hairs, mostly between hotels offering a luxury version of budget and hotels offering a budget version of luxury. A bewildering array of brands were launched, some totally new and others the entry of local or regional chains on the national scene. The success of these efforts generally was spotty. Hampton Inn, for instance, became a phenomenon in the Southeast, while it never really took hold in the West. In the South, Best Western came to describe hotels of last resort, while in the West, the brand was attached to upper-end and high-rise hotels. Potential confusion grew as reflagging became commonplace later in the decade. This practice took bizarre turns at times, with a Holiday Inn and a Ramada Inn, for example, simultaneously exchanging affiliations, or a high-rise Sheraton Hotel becoming a Days Inn overnight.

The industry leaders survived the 1980s the best, though not without scars. Two of the most successful new flags were launched by Holiday Inn Worldwide: Embassy Suites was the best designed all-suite chain, and Hampton Inn offered a pleasant room with a free muffin-and-juice breakfast. Marriott mastered the segmentation game with four brands: Fairfield Inn, a stick-built budget product with a fixed price; Courtyard by Marriott, a hybrid full-service hotel carefully designed to meet the needs of people traveling on business; Residence Inn, an extended-stay hotel that offered miniature apartments; and JW Marriott, a luxurious hotel.

Both Holiday Inn and Marriott, however, began to have problems with their flagship brands. Aging Holiday Inn properties seemed out of step with their time, and the separation of the new brands from the older hotels with the creation of Promus Corporation in 1986 seemed to exacerbate the problem. Marriott Hotels remained the premier commercial hotel through the 1980s, but the company's attempts to introduce all-suite and downsized Marriotts met only sporadic

■Figure 1-2

U.S. Lodging Properties by Hotel Size Category, 1993

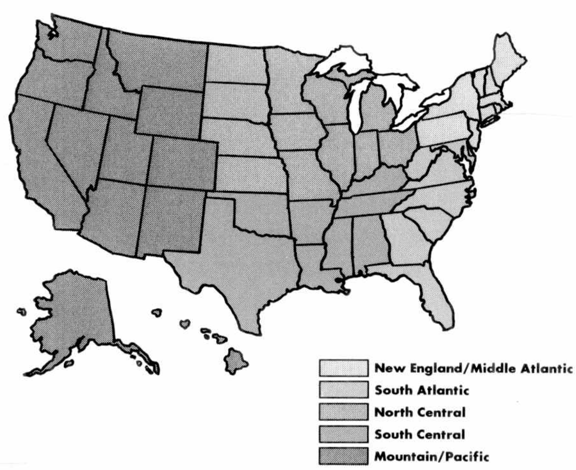
	Properties		Rooms	
Size Category	**Number**	**Percent of Total**	**Number**	**Percent of Total**
Under 75 Rooms	30,600	68.0%	871,200	26.4%
75 to 149 Rooms	9,495	21.1	1,148,400	34.8
150 to 299 Rooms	3,915	8.7	867,900	26.3
Over 300 Rooms	990	2.2	412,500	12.5
Total	45,000	100.0	3,300,000	100.0

Source: American Hotel & Motel Association.

■Figure 1-3

U.S. Lodging Properties by Region, 1987

	Properties		Rooms	
	Number	**Percent of Total**	**Number**	**Percent of Total**
New England/ Middle Atlantic	7,151	17.7%	454,011	16.2%
North Central	8,438	20.8	520,497	18.5
South Atlantic	8,070	20.0	628,467	22.4
South Central	5,864	14.5	433,508	15.5
Mountain/Pacific	10,901	27.0	769,173	27.4
Total	40,424	100.0	2,805,656	100.0



Source: U.S. Department of Commerce.