JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And / Or Sponsoring Organization Is Missing

3. Development Topics

q. "Hotel-Motel Strategy", "Hotel-Motel Lecture", Motel Investment", no dates

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HOTEL - MOTEL STRATEDGY

I. A hotel-motel is the best example of a space-time product supporting subsidiary service products. The basic product is a room-night and generally this represents an 80-85% gross margin sale. On a \$20.00 room variable costs for linen, clean-up, and registration should be about \$4.00.

A. Clearly the objective is to sell room nights at the highest & daily rate you can get relative to the elasticity of demand.
   1. Location, design, services, and marketing must first sell rooms and then secondarily create additional profit centers.
   2. Note that a restaurant may be operated at break-even point or actually be subsidized by room sales if it is necessary to maintain occupancy and price levels.

B. A room for a night is required by the transient traveler or the terminal visitor and locations will tend to stress one or the other.
   1. The interstate intersection unit play for the transient
   2. The resort motel at the abbey or at the ski slope or in the West Indies is itself a destination for the majority of its customers.
   3. The downtown hotel may seek both types of customers in a more balanced approach

C. Which approach is taken depends on the location of the unit and the daily, weekly, and seasonal time cycle of the traveler.

D. For example, a 100-unit motel has 36,500 room-nights to merchandize.
   1. That consists of 13 4-week periods of 2800 room-nights each.
   2. Each 28-day unit has 4 7-day weeks with one Saturday and one Sunday and 5 weekday nights.
   3. 13 x 28 is 364 and so they may use a special one-day period for a poor holiday like Thanksgiving or December 31 etc. or actually be closed
   4. Marketing problem is to identify the peak demand for week-units and then build no more units than one can carry during the lowest season of demand and still reach some desired annual average rate of occupancy.
   5. For example, in July and August an attractive, well-managed motel can expect 100% occupancy in Door County or Lake Geneva. The problem is what kind of occupancy is needed in March and April. This is where the marketing program starts.

E. For example, the West Allis Motor Inn was aimed to reach visitors to some heavy industry firms nearby from Monday through Thursday and visitors to the V.A. Hospital on Friday, Saturday, and Sunday.
   1. To become a terminal point for visitors, the location must be tied directly to an attraction such as a university, a hospital, a downtown, a ski slope, or whatever. If the business or recreational reason for the trip does not exist, then it is necessary to creat one with a golf course, resort facilities, scenery, Aspen Law Center, or marketing of con-

ventions or mini-vacations. In affect, the marketing department is attempting to market the unumarketable--create a destination point for the traveler he didn't know he needed.

2. The most efficient way to capture consumers is by the group--the business meeting, the convention, or the travel tour. These must be scheduled for those seasonal units for which the primary demand is inadequate.
3. Institutional marketing is necessary to establish general public awareness to reach the individual consumer and this requires establishment of a destinct image in a location which already has general recognition and desirability of its own. The Drake, the Regency Hyatt House, the Ritz-Carleton, Greenbriar, etc.

F. While marketing deficiency in terms of number of occupied units favors group sales, securing the highest average room price depends on the degree of sucess in achieving an institutional image and maintaining a balanced mix of business from all sources.

G. The marketing problem therefore defines a difficult design problem in balancing amenities which create images and destination visits against rooms which create the vast majority of gross revenues and profits
   1. Location or marketing target may determine structure type.
   2. Situs pattern will determine amenities--Madison Inn service bar and restaurant,,meeting rooms with view of campus and city, inside parking--no pool, no lobby, detachment from student activities (defensive space)
   3. Howard Johnson's-coffee shop with access to pedestrian potential, swimmimg pool in large bay space area together with meeting rooms near kitchens. Rooms elevated above actual environment
   4. Hotel services require manpower over an extensvie area with corresponding loss of supervisory control. Design toward centralization, automation, self-service, security against pilferage by guests and employees.

H. All the marketing and design questions eventually resolve themselves around the break-even point--the average occupancy required at the weighted annual average room rate.
   1. Hotel-motels have an unusual format to their cash flow--a retailing format with some customs and terminology peculiar to the field. ~~See attached Abbey Annual Statement.~~
   2. The high capital cost leads to much emphasis on the real estate tax and finance package as well as innovative construction engineering to reduce costs
   3. Basic module for rooms is 13'6" x 28' including a bath. To achieve low room rates one can shrink the width or depth slightly and reduce furniture scale and eliminate all public areas as in the new economy motel. The alternative is to increase room size and amenities to emphasize recreation rather than shelter.
   4. The developer should design for break-even at perhaps 55%, and normal operations at 60-62% and very successful operations at 75%.

HOTEL-MOTEL LECTURE

I. While the regional shopping center may be the premier real estate investment whose success is tied directly to consumer psychology, the hotel, motor-inn, or resort inn is an equallly profitable but spooky investment and highly vulnerable to the attitudes and values of the consumer. Like a retailing ~~establishment~~, the lodging industry is essentially a service industry using a large piece of real estate hardware.

A. The lodging proto-type may be classified for convenience as predominently catering to one of the following consumer types:

1. The transient who is traveling to some other destination and needs food and rest--the Interstate auto traveler.
2. The terminal visitor who has arrived for some purpose in the area and needs a temporary residential base--the businessman coming to Madison.
3. The recreational vacationer requiring both entertainment and relaxation and access to other recreational resources.

B. The basic product is a room ~~base~~ by the day so a 100 room motel has an annual inventory of 36,500 room days, a break even point in the neighborhood of 9000 room days before debt service and before losses on services provided which don't carry their own weight. While rooms create a gross profit margin of 75-80%, public spaces generate little revenue and restaurants and meeting rooms seldom provide much profit per sq. ft. of building but are needed to fill the rooms.

C. When merchandising rooms or considering the accounting for annual operations, it is useful to think in terms of 52 weeks, consisting of 13 seven day periods with each period having 2 weekend nights and 5 week-day nights. The average price per room will differ for weekend and weekdays by season and the occupancy rate will differ drastically by weekend, weekday, and by season. The object in feasibility is not to prove that the motel is feasible at the peak of the season but rather to establish that it can carry its fixed costs during the worst of the season. The secret to The Abbey is not its bookings in July and August but rather its volume from Nov. through April.

II. Assuming a site in search of a market, the first step is to presume one of the three market types as the base of demand, transient, terminal, or vacation. Each demand is derivative of some existing activity level but to an increasing degree is a function of management's ability to create an atmosphere and mood appropriate to the role the guest imagines himself to be playing, ie. cool business, international gourmet and connoisseur, lover or sportsman. The problem for the analyst is to identify a capture rate for that portion of the demand which is derivative and to estimate the degree to which management can create their own demand by serving an unmet need.

A. The derivative demand may be a matter of one or two large installations. For example, the West Allis Inn involved a phone call to the Milwaukee VA Hospital to determine how many families visited patients on weekends to stay overnight. Additional phone calls were made to determine how many salesmen, engineers, and others were brought into town by several neighboring major industries such as Allis Chalmers and Chain Belt Corp. The VA Hospital provided weekend traffic while business provided weekday volume. In each case, seasonal levels could be found and the VA tended to be higher in summer and the businesses higher in winter. Here was an ideal meshing of weekday and weekend cycles. There were no competitive alternatives in the immediate area and the capture rate of the potential derivative demand was high.

B. While terminal derivative traffic may be documented by interview of local organizations and guest registers, derivative traffic from highway volume is more difficult.

1. Highway departments have traffic counts, origin and destination studies, and traffic volume forecasts as well as plans for future interchange development, etc.
2. The analyst may be able to obtain gallonage information from various filling stations along the route and some national chains pay to examine credit card sales at various interchanges to find out where people were coming from and their propensity to spend for various services.
3. Franchise operations have access to reliable regression co-efficients as to their seasonal penetration relative to their particular type of business. (For example, Sheraton pitches to businessmen in their adds "unwinding executive" while others try for a family type image, such as Howard Johnston, "host of the highways". Each chain knows the power of its reservation system to create business and the degree to which its salesmen can contribute business and convention accounts).

C. The terminal or recreational inn may be derivative of multiple generators which change by season requiring a series of sub-estimates.

1. For example, a recreational resort may be a function of skiing, snow mobiling and weekend retreats during the winter while relating to summer vacation patterns, fishing runs and local events during the summer.
2. However, ultimately the terminal and recreational inn depend on management's ability to create or exploit the "mass" of its facilities and to reduce the utility cost to the consumer. Mass is both the variety of services and the magnification of same by increasing consumer appreciation and intangible attitudes while utility costs is both a function of time, anxiety, and satisfaction received per dollar of opportunity costs.
3. Today the style is to capture the motor inn customer by packaging his reason for the trip such as skiing or fishing with his lodging and his transportation. Airlines can pick-up a tourist agency commission or well-known resorts will help sell airline tickets so that there's a tendency to gain control of derivative demands before the trip starts.
4. The transient motel will attempt to stabilize occupancy at low travel periods by appealing to terminal traffic with special rates or meeting facilities while the terminal motel will make a play for the visitor not related to its basic demand generator. The recreational resort inn may need to create its own volume with a secondary market among business meetings, etc.

D. Once the type and number of each type of traveler has been determined some type of marketing stategy must be determined.

1. For example, Holiday Inn started by following the Statler Plan of producing a standard room of a given level of cleanliness and comfort at all locations at pretty much a standard price to avoid the unpleasant surprises of wide differentials in facilities and services which otherwise confromted the traveler. Reliability at a price to avoid the depression of a bad deal was the basic psychology.
2. Over the years, many inn-keepers have made outstanding food the market device, expecting more than half their restaurant going will be from local residents. Business travelers usually ~~only~~ have time for a relaxed dinner while local businessmen ~~locally~~ value the efficient lunches.
3. The recreation visitor is controlled by both the role he would like to play and the budget he has to spend over the length of his stay. The family on a weekend mini-vacation will be a big spender on services while the family on a two week stay will budget carefully.

E. Different age and income groups associate with different symbols and must avoid certain symbols. For example, associations of public officials and financial officers try to avoid Los Vegas or Monte Carlo for trade meetings or the Playboy Inn.

1. Moris Lapidus is responsible for such garish elements as the Eden Rock in Miami Beach or the Americana in New York. He ventures the opinion that for many of the older vacationers, they relate to the 1930 and 1940 movie version of the good life with the stream-lined forms and decor like a Bugsby-Berkley or Doris Day musical.
2. A whole generation has been sold on the Playboy image or on the masculine symbols of timber A-frame construction, etc.
3. Thus the public areas of a hotel act as stage set, back drops for the sub-conscious fantasies of the guests, even the Holiday Inn is catering to a image of common sense thriftiness and the meat and potatoes with no frills standard. Various recreational or business roles are being quietly sold by the ~~XX~~ TV media to pre-condition the customer. This symbol or role will relate to the base from which this demand is derived and should be reasonably understood before making some decisions about market strategy.

F. Relying solely on a passive program of locational position and word of mouth advertising probably will not attract adequate financing or adequate business for a new operation and therefore the developer will need to consider alternative marketing programs or combinations once something is known about demand generators and the profile of travelers.

1. Different franchises offer different images and different styles of managerial assistance but their imput is often over-emphasized by lenders and developers.
2. Membership in a co-operative reservation service such as Western Quality Motels.
3. Independent sales of business meetings and conventions by means of

salesmen making direct calls. Each salesman would then be at attendence at the meeting, make all the arrangements, and make good on all his promises.

4. Block sales ~~have~~ res reservations to companies, universities, or others in regular need of motel rooms or to airlines, bus companies or travel agencies.
5. Creation of a community vested interest in its success by using local development money, or subsidies by local merchants. Even the First Plankington Hotel in Milwaukee back in the 1860's was financed in part by the residents of Milwaukee's Fourth Ward because they felf downtown Milwaukee needed a first-class hotel.
6. Build + Lease to an operator

G. Franchise hotel chains provide instant image, proto-type plan, management systems and little else.

1. Hilton or Mariot require a non-refundable $25,000 just to talk about it. Once the hotel opens the operator pays 10¢ a room per day into a national advertising fund plus 4% of gross room sales plus special assistance charges and may purchase many of his supplies from a subsidiary of the franchiser.
2. The fancy signs and lighted pylons remain the property of the franchiser and under the terms of the contract can be removed whenever the franchiser feels operations are hurting the image of the chain.
3. However, the franchisee can seldom cancel in less than 10 years and may have to pay some type of penalty such as the advertising fee to a certain date, cost of sign removal, etc. The wise developer will have a clause permitting cancellation after 2 years of occupancy below some minimum, say 65%.
4. The franchiser will required the operator to attend his management schools, use his accounting systems and business forms, and expect conformity in quality and detail on a great many items such as furnishing, decor, menus, uniforms, national promotions, etc.
5. For building plans the franchiser provides a proto-type lay-out providing basic specifications but the developer must hire his own architect whose plans must be approved by the chain. Nevertheless, the contract is loaded with hold harmless clauses and the requirement that the developer name the chain as a co-insured in his public liability coverage with a waiver of subrogation.
6. While the franchisee will be controlled by a no compete clause for a certain range, there's no control on conflict of interest by the national chain which will be contracting to send convention business to the hotel. Moreover, if the national chain leader determines that business potential in a given market would justify expansion they might require the franchisee to expand or after 90 day notice they will grant another franchise.

III.

The cash-flow format for hotels is somewhat different than other types of income properties because revenues and costs both reflect a wide number of revenue or profit centers which form divisions the total enterprise.

A. First refer to the one-page summary form of The Abbey for the 13 4 week format and house profit as a net income before capital charges for insurance, taxes, interest, etc. Stress fixed cost vs. variable income and sensitivity of investor return to a small change in occupancy or room rate or occupancy and number or rooms.

B. Refer to Alan O''Hara proform of the Holiday Inn--early use of computer cash-flow as a way of selling a franchisee on the Holiday Inn.

C. Some typical financing packages for packaging a motel.

1. Straight mortgage using appreciated land for equity to finance out.
2. The French plan--create a public or community corporation by selling a package of common stodk, callable preferred, plus mortgage bonds.
3. A conventional mortgage plus chattel mortgages or long-term leases of equipment, furniture, and even carpeting.
4. A conventional mortgage plus a sub-ordinated lease back of land plus a syndication.
5. Financing on the collateral of an operating lease to a national chain.
6. 100% financing by means of a sale and lease-back or participation loan.

MOTEL INVESTMENT

I. Selecting the site has been outlined by the Travelodge Corporation, which uses a partnership formula rather than a franchise.

A. Travelodge selects the site, builds and equipts the motel, and then enters into an operating partnership with individual owners. This group has an 11 point checklist for location.

B. Convenience to the facilities or attractions which draw visitors to the area.

C. Stability in the face of possible highway and street programs, urban renewal, city growth, competing motels, and other factors affecting approach and accessibility.

D. Effective demand as determined by interview with business and bankers and managers of tourist generating facilities.

E. Zoning must be studied as to permissable land use, required construction standards relative to Travelodge specs, and zoning which will permit use of the proper sign. There have been instances of motel failure because large signs could not be displayed.

F. There should be no other sites of comparable quality to invite competition.

G. However, there should be competing motels because of power of mutual attraction, giving visitors a sense of variety of accomodation.

H. Visibility should be good enough to give patrons time enough for an impulse decision. An elevated site is particularly necessary for intercepting motels at highway intersections, whereas terminal motels, i.e. resort in downtown motels, generally have reservations in advance.

I. There should be a coffee shop providing an early breakfast, but other dining facilities should be fitted to the market.

J. Supplemental entertainement like bowling alleys are desirable in the neighborhood.

K. Finally, the motel must have a good address on a well-known street where it is in the city to make the location easy to remember.

II. Ernest Henderson, of the Sheraton chain, feels the problems of the new motel are 70% financial, 20% site, and 10% all others. To solve the financing problem, one must have a sound estimate of earnings.

A. Earnings depend on estimated income and expense. Developers rely on the operating ratios published each year for motels by Horwath and Horwath. Ratios are published for motels with less than 50 units, 50-100, and more than 100 units and further subdivided as with or without a restaurant.

B. Income depends on room rate and occupancy. Room rate is an average daily charge weighted to reflect the distribution of singles, doubles, and suites. Occupancy will reflect room days to offset seasonal and weekly peaks and lows. Income from restaurant and bar is generally based on a dollar-per-guest figure rather than a simple percentage of room income because of the problem of the relative weight given to public rooms and sleeping rooms.

C. Expense ratios are divided among those which vary with occupancy and those which do not.

D. Sheraton estimates a new motel room costs $15-17,000 per room in addition to land . This includes $6-9,000 in construction cost; $5-15,000 per furnishings, up to $1,000 in working capital, and a share of the extras such as swimming pools, dining rooms, and parking lots.

E. It is then possible to put together cash flow estimates, such as the one put forward by a famous chain and flashed on the screen above. Note that earnings are established as a range of earnings by making different assumptions as to average room rate, occupancy, and supplemental income. It is also possible to work backward by taking all cash needs and determining the minimum room rate necessary to meet the default point.

F. The cash flow will support two sources of financing, in addition to a lease of the site - a first mortgage or a purchase money mortgage. Sometimes there are second mortgages on fixtures and chattel mortgages on furnishings. More recently, however, insurance lenders have tried to wrap up the entire deal in one mortgage so that they can foreclose a going operation rather than simply the real estate.

G. Construction of proforma income statements and cash flow charts by means of average ratios for expenses, etc. combined with factors for amortization and depreciation is quickly programmed for computor. A different program is possible for each kind of investment building, apartment house, office building, motel or car wash. In the investment course we hope to build some of these models.

III. Architectural detail we will leave to your readings except for some details on the allocation of space, etc. within the building.

A. The layout of rooms, utility services, lobbies, and so on have become a highly scientific art of hotel management since the late Mr. Statler applied time and motion study analysis to the work of servicing rooms and guests. For modern management and the innkeeper, I recommend the book A Bed for the Night, by Mr. Statler and Emily Kimborough.

B. Motels and hotels face the common problem of establishing the proper ratio of public area, including dining rooms, meeting rooms, and display areas. These seldom generate income directly, but rather help the sale of room space, dining service, etc. while they are expensive to build because of the clear spans and ceiling heights required. It is these areas which reduce the average revenue per square foot below the handsome returns of the room areas themselves.

C. Public rooms must be insulated from sleeping rooms with space to reduce sound. (For example, note that the Holiday Inn puts them in the basement of the lobby and restaurant building.) At the same time these rooms must have large supporting pedestrian circulation spaces and ready access to non-resident guest parking, covered entry, and lobby facilities such as phones and desk service.

D. There must be parking for guests who wish to go directly to the room and a different kind of parking for non-resident guests which serves the market toward which the motel is aimed.

E. Motels offer special design problems in matters of public and private communication, security of both guest property and motel inventory. (Remember the old rule-of-thumb on hotel art -- a picture frame too big to fit in a suitcase or a lamp too heavy and awkward to conceal under a coat.) The new motels call for important lighting effects, individual and zoned heating and cooling, plus acoustical control, not only of the noise of guests, but of nearby airports and truck stops.

IV. Not only is the construction of a motel a complicated exercise in the new arts of innkeeping, but the management is also a severe test of both merchandising and operational ability.

A. Most mortgage lenders will refuse a motel project until it enjoys the assurance of sponsorship and management of a professional organization like Hilton, Holiday Inn, etc.

B. Reservation and brand-name identification show that chain motels average 12% or better higher occupancy than independents. There are various forms of franchises ranging from outright lease to independent management subject to payment of an annual franchise fee and a requirement to purchase certain supplies from the parent organization.

C. For example, a Congress Inn franchise stresses independent management and investment for a package deal in which Congress serves primarily as management consultant and national advertiser.

1. For example, a Congress Inn of 50 units would pay an initial franchise fee of $7500, which increases at the rate of $100 per room for the next 24 units. Thereafter room royalties are 10¢ a day per room whether occupied or unoccupied, and after two years 10¢ per day per room or 2% of the room gross, whichever is greater.

2. For larger units of 150 rooms or more, the franchise fee is $12,500 with a royalty of 15¢ per room per day or 2½% of the room gross.

3. These are ten-year agreements. They contain a clause that within 3-5 years a third party survey will be conducted to measure the need for additional rooms within the exclusive territory granted with the franchise. Should the survey reveal a need for additional rooms, the licensee has the option of building them within 12 months or letting Congress Inns establish additional franchises up to the amount of the indicated required rooms. The Congress will negotiate with existing motels who seek a chain affiliation, charging a lower room royalty where they are not required to supervise design and construction.

4. One Congress blurb shows that for your franchise fee you get brand identification, a copyrighted name, an exclusive territory, an assignable asset (in 1959 the franchise cost $1,000 -- today the same initial fee is $10,000 reflecting appreciation in the value of the Congress name). They also provide free legal counsel, opening promotion advice, and training in the selection of personnel, in purchasing, and accounting. They also offer a central reservation office.

5. However they do not secure financing, and significantly, the area survey conducted by Congress International is their sole property and the applicant will receive only a synopsis which "combined with the prospect's own feasibility study will provide a strong financing presentation."

6, Hotel Management in May, 1964, indicated Congress Inn's average 13-15% return on investment of a 75 room inn with restaurant, $3,000 gross annual income per room, a 75% annual occupancy rate, and $11 daily rate per occupied room.

7. Seventy-five percent of Inn restaurants are leased. Average counter seat turnover is 1.5 for breakfast, 1 for lunch, and 1.5-3 for dinner. Food costs represented 45% of income without credit for employee meals while labor costs represented 30% of the gross income.

8. Payroll costs are the largest single item of expense ranging from 20% in the small highway inn to 30% in the downtown unit. A 100 room inn requires about 25 employees. An interesting note -- one maid can clean about 12 rooms per day.

D. The Holiday Inn may have company-owned units, company-leased units, or franchise operations. Holiday Inn Inc. according to Wall St. Journal was founded by Mr. Kemmons Wilson after a vacation trip in 1952 during which the dingy, overpriced hotels he stayed in convinced him that the motel business "was the most untouched business industry in America." Holiday Inn offers a conventional plan, several high-rise, downtown hotel-type units with revolving restaurants on top, and Holiday Inn Juniors which lack swimming pools and other deluxe ~~fixed~~ features for small towns.

E. In addition it has designed a prefabricated, specially soundproofed unit for airports and is now operating internationally in the West Indies and in the Bahamas.

F. Holiday Inn has also created six subsidiaries which are also enjoying spectacular growth. These include:

1. Inkeepers Supply Co. -- furniture and decorating supplies
2. Merchants Hotel Supply Co. -- food handling equipment and restaurant fixtures
3. Holiday Press Inc. -- commercial printing
4. Coffee Host Inc. -- equipment to dispense coffee in hotel rooms
5. Masterpiece Mirror Corp. -- institutional mirrors
6. Holiday Manufacturing Co. -- prefab. of junior units and truck stops

V. Another new real estate investment related to the automobile is the car wash or auto laundry. A developer may be the leasor of an improved property or silent partner or the actual operator.

A. Presently 80 million passenger vehicles in the U.S. is expected to reach 101 million by 1972, one for every three Americans. The mileage travelled is also increasing from 12,000 miles per auto to 16,000 by 1980.

B. Presently about 5500 commercial car washes do about 2 hundred million car washes a year but only one car in ten ever uses them. This indicates a potential market of 70-90 million vehicles.

C. One solution is the coin operated center marketed by Sofspra, a division of ALD, Inc. The car owner parks in a wash stall area about 18 x 30 with drain and sandtrap and a gun and hose suspended from a tower and a swivel. The gun has two buttons, one for soapy water and one for rinsing. Twenty-five cents gives 5 minutes of wash time, with the typical car costing 50¢. ~~Detergent and water~~