Downtown Hotel Development

Emerging Opportunities for Small & Medium Size Cities

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Discussion Points

1. Trends in the Hotel Industry
2. Renewed Interest in Downtowns
3. Opportunities for Downtown Hotel Development
4. Challenges to Downtown Hotel Development
5. Extension Resources for Downtown and Tourism Business Planning
1. Trends in the Hotel Industry

*Past:*
Highway/Suburban Orientation

*Future:*
Urban “Trendy” Select Service Brands
Past: Highway/Suburban Lodging Orientation

Characteristics:

Rapid growth beginning in the 1950’s – Interstate system, increase auto use

Suburbanization – housing was followed by retail, office and lodging development

Cookie-cutter concepts introduced with standard amenities, designs, operations, management, reservations and advertising

Franchising fueled the growth of these chains

Howard Johnson

http://www.youtube.com/watch?v=lpFpTfnYlRg&feature=related
Future: Urban “Trendy” Select Service Brands

Characteristics:

Guest Room Features - urban-inspired, loft-like rooms

Hotel Lobby Features - lounge areas for working and socializing, desks and comfortable seating

Hotel Features - Smaller than full service hotels (typically 100 to 200 Rooms)

Marriott Courtyard
http://www.youtube.com/watch?v=_gpAyOc8J-8

NYLO Plano
http://www.youtube.com/watch?v=u58dxvnUGwl
Aloft
Starwood Hotels
**Select-Service Hotels**

*2006 Performance*

- **NOI** margin:
  - With F&B: 38.7%
  - Without F&B: 41.9%
  - All U.S. Hotels: 28.0%

Notes:
- * - Comparable in room count and occupancy.
- ** - Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research
2. Renewed Interest in Downtowns
Why Are Downtowns Important?

- Serves as a prominent business center
- Reflection of how a community sees itself
- Significant community tax base comes from downtown
- Downtown is an indispensable shopping and service center
- Downtown is the historic core of your community
- Downtown represents vast public and private investment
- The central business district is often a major tourist draw
- Downtown is often the center of government
- Downtown provides a sense of community and place

Source: Wisconsin Main Street Program
Sample Challenges Facing Downtown

• Most downtown are still overlooked by the chains and large-format stores
• Keeping public facilities downtown
• Providing diverse housing for changing demographics
• Providing comprehensive multimodal transportation
• Perceived safety and image
• Lifestyle shopping centers and new town centers. Leakage from downtown continues
Selected Characteristics of Great Downtowns

• Multiple traffic generators and market segments
• Walkable, “sense of place,” distinctive architecture, …
• Commitment to mixed use development and synergy
• Broad public/private investment in the future of downtown
• Mix of housing downtown – YPs to Retirees
• Flexible workspaces downtown
• A mix of local, Innovative downtown businesses
• A retail niche has been established
• A hub for dining, arts and entertainment

From work by Gary Ferguson of the Ithaca Downtown Partnership and other sources
3. Opportunities for Downtown Hotel Development

- Location-Location-Location
  - demand generators
  - restaurants
- Higher Revenues Downtown
- Renovation/Adaptive Reuse
- New Construction

New Hotel Development planned for Downtown Peoria
http://www.youtube.com/watch?v=swegQgoDZ3Q
Location-Location-Location (Demand Generators)

Distance from Suburban Hotel to Major Demand Generators

Average Distance of 5.5 Miles

Demand Generators
EMPLOYEES
- 575
- 576 - 1000
- 1001 - 2550
- 2351 - 5000

Distance from Suburban Hotel
Location-Location-Location (Demand Generators)

Distance from Downtown to Major Demand Generators

Average Distance of 1.4 Miles
Higher Revenues Downtown

Rev Par is revenue per available room.

(Occ.% x $Ave. Rate)

Rev par is a key utilization measure that ignores vacancy rates and illustrates the entire hotel’s assets ability to generate revenue.
Renovation/Adaptive Reuse

Hotel Metro - Milwaukee

Completion Date: 1998

The six-story limestone Art Deco building was built in 1936 and was used as an office building until the 1990s. In 1998, Hotel Metro opened after a $7 million renovation to create an European Art Moderne-style boutique hotel.
New Construction

Grandstay – Sheboygan, WI

Completion Date: 2009

The GrandStay Residential Suites is a 71-unit hotel located downtown just blocks from Lake Michigan. The Sheboygan downtown is alive with many lakeside attractions, excellent restaurants, an active theater and great shopping venues.
4. Challenges to Downtown Hotel Development

- Downtown vs. Edge-of-Town Development
- Demonstrating Downtown’s Return on Investment

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Downtown vs. Edge-of-Town Development

- Land costs are typically higher in downtown areas. Also, more than one property may need to be assembled for a downtown project.
- Because they have a history of use, downtown properties often present complex title issues.
- Downtown projects often require a complexity of permits and may pose conflicts with requirements and historic preservation guidelines.
- Redeveloping a downtown building often involves a change of use, which triggers additional review under local zoning (setbacks or parking).
- Downtown construction often involves demolition of existing structures. With a higher chance of environmental hazards or other complications.
- Downtown building projects often bring complex construction challenges. In many communities, it will cost 25-50% more to build downtown.
- Suburban buildings can be bigger and more easily meet the standardized requirements of a chain. Parking is more restricted downtown.

Source: Vermont Forum on Sprawl

Center for Community & Economic Development
LENDER ORDERED
AUCTION
THURSDAY, MAY 14  11:00 AM
179 Room Full Service City Center Hotel-Oshkosh
Former Park Plaza Hotel

OSHKOSH, WISCONSIN USA

Center for Community & Economic Development
<table>
<thead>
<tr>
<th></th>
<th>Downtown Hotel</th>
<th>Suburban Hotel</th>
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<tbody>
<tr>
<td>Rooms</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Occupancy (stabilized)</td>
<td>64%</td>
<td>60%</td>
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<tr>
<td>Average Room Rate</td>
<td>$100.00</td>
<td>$80.00</td>
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<tr>
<td>RevPar (Stabilized)</td>
<td>$64.00</td>
<td>$48.00</td>
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<tr>
<td>Room Revenue</td>
<td>$2,803,200</td>
<td>$2,102,400</td>
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<td>Total Revenue</td>
<td>$3,363,840</td>
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<td>House Profit</td>
<td>$1,278,259</td>
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<td>Income After Fixed</td>
<td>$1,009,152</td>
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<td>Land and Improvements</td>
<td>$15,000</td>
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<td>Construction</td>
<td>$70,000</td>
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<td>Furn, Fixture and Equip</td>
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<tr>
<td>Soft costs</td>
<td>$20,000</td>
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<tr>
<td>Loan to Value</td>
<td>70%</td>
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<tr>
<td>Equity %</td>
<td>30%</td>
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<tr>
<td>Equity $</td>
<td>$4,248,000</td>
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<td>Return on Investment</td>
<td>24%</td>
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<tr>
<td>Payback Period years</td>
<td>4.2</td>
<td>4.8</td>
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*Center for Community & Economic Development*
5. Extension’s Role in Downtown and Tourism Business Planning

- Help community leaders (planners, tourism officials, others) understand the benefits of concentrating hospitality establishments downtown.
- Help lodging industry developers recognize untapped and emerging market opportunities related to a downtown location.
Downtown Market Analysis Toolbox

http://www.uwex.edu/CES/cced/downtowns/dma/15.cfm
Tourism Business Development Toolbox

http://www.uwex.edu/CES/cced/economies/tourism/index.cfm
Financial Analysis Tools

Break Even Analysis

Number of Rooms

Costs and Sales

Total Sales
Fixed Cost
Total Cost

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More Research Needed

• How can small to middle size downtown get on the radar screens of developers?

• What nearby amenities contribute most to the success of a downtown hotel?

• How are consumer attitudes and preferences changing with regard to selecting a hotel location?

• Other..
Interested in Collaborating?

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