

# Chapter 10: Personal Service and Lodging Businesses

**This major group includes establishments primarily engaged in providing services generally to individuals, such as laundromats, drycleaning plants, portrait photographic studios, and beauty and barber shops. Also included are establishments operating as industrial launderers and those primarily engaged in providing linen supply services to commercial and business establishments. Lodging businesses include establishments engaged in furnishing lodging or lodging meals and camping space and camping facilities.**

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## Hotels, Motels and Bed and Breakfasts

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Commercial establishments, known to the public as hotels, motor hotels, motels, or tourist courts, primarily engaged in providing lodging, or lodging and meals, for the general public.

### Description of Business

This industry accounts for approximately \$90 billion in annual revenues and is closely associated with the general travel industry. Business travel and leisure travel customers are roughly even in terms of consumption. Hotels are distinguished by the amenities they provide and are generally classified as either full service or limited service (motels).

### General Industry Information

There are more than 47,500 hotel/motel properties in the U.S., according to the American Hotel and Lodging Association. The 1980s brought a huge construction boom to this industry, which eventually oversaturated the hotel market and depressed the per-room revenues.

Franchise operators account for a large amount of the industry's revenues and have emerged as powerhouses due to their strong marketing, standardized employee training, and brand loyalty programs. Industry leaders include Inter-Continental, Cendant Corporation and Marriott. These hotel giants operate as parent companies for several hotel chains, which are varied in terms of price and amenities offered.

Lower-end, limited service operations have become quite popular in recent years, with cost-conscious travelers looking for no-hassle deals. Increased automation from the larger chain operators assists in keeping prices low, while

maintaining reasonable profit margins. Many buyers seek a well established, low hassle reservation system in place. Limited service hotels are associated with comparably low staffing needs.

High-end resort hotels have experienced three consecutive years of double digit declines in profitability before a major rebound in 2004. Revenues from sources other than room rentals account for approximately 48% of the total revenue at these types of establishments. Resort hotels require significantly more staff than other types of hotels, which explains their higher payroll expense ratios. Generally speaking, resorts with more than 250 rooms enjoyed greater gains in revenue and profitability in recent years (source: *Trends in the Hotel Industry, USA Ed. 2005 by PKF Consulting*).

There are several attributes that are associated with a hotel’s success. The occupancy rate is a good measure of room rental activity and is particularly useful for setting prices that optimize profits. Ancillary services, such as dining and convenience stores, add value to a hotel, along with intangibles (such as retention rate and positive referral sources from travel agents).

**Typical Occupancy Rates**      **Table 10-1:    Occupancy Rates**

Type of Operation	Occupancy
Full Service Hotels	65-75%
Limited Service Hotels	70-75%
Resort Businesses	75-80%
Bed and Breakfasts	45-55%
Motels	50-75%

**Financial Performance Ratios**      **Table 10-2:    Hotels and Motels**

Operating Expenses	
Operating Expenses (Motel)	45-50%
Limited Service Hotel	55-60%
Full Service Hotel	58-70%
Bed and Breakfast	35-50%

Average daily rate is typically calculated as being gross income/365 days/total rooms.



**Business Valuation Formulas**

- Median: 75% of annual revenues (for leasehold properties)
- 1.75 to 2.75 times ODCF (for leasehold properties)
- 7-9% cap rate (for branded hotels)
- 9-11% cap rate (motels)
- 5-6.5 times gross sales (motels)
- 3.75-4.75 times gross sales (brand hotels)