

June 5th,2012

Client: City of Cortez – Shane Hale  
Report Prepared for SBDC – Ft. Lewis  
Report Prepared by Donna K. Graves – Information Services

**Executive Summary** - At the request of Joe Keck at the Small Business Development Center (SBDC) I did some preliminary research for Shane Hale, the Cortez City Manager. Shane would like information regarding the Hotel/Motel industry as Cortez is considering offering some incentives to the Hampton Inn Hotel Chain, which has expressed interest in building a hotel there. IMPLAN estimates that the construction phase of the project could add an estimated \$3.4 million to the local economy. During the operations phase the hotel could provide up to 27 jobs, and about \$402,000 in job income annually. Nationally, this type of Hotel of shows low failure rates and growth in market percentage and volume, based on Employment Class (10-24 employees).

**Data Sources** - In this report I am including information from the IMPLAN Model, using information specific to the Hotel/Motel industry in Montezuma County. This analysis is provided through technical assistance funds from the Region 9 Economic Development District. The analysis illustrates how labor and labor income during the construction and operations phases generate other jobs and job income within the local (county) economy. I am also including some excerpted background information on the hotel industry in general (Sources: *IBIS World, Biz Miner*).

### Montezuma County – IMPLAN Model

Created by [MIG](#) (Minnesota IMPLAN Group), the IMPLAN software system helps analysts address two common questions about economic study and analysis:

- How does my local economy function?
- What would the economic consequences of a project or action be?

The value (output) of the existing Hotel/Motel industry in Montezuma County is estimated at about \$14.8 million in 2012 dollars. There are an estimated 23 Hotel/Motels in Cortez (Reference USA).

Output represents the value of industry production. In IMPLAN these are annual production estimates for the year of the data set and are in producer prices. **For service sectors production = sales.** For manufacturers this would be sales plus/minus change in inventory. For Retail and wholesale trade, output = gross margin and not gross sales.

Industry Code	Description	Employment	Output	Employee Compensation	Proprietor Income	Other Property Type Income	Indirect Business Taxes
411	Hotels and motels, including casino hotels	161.3	\$14,769,220	\$3,236,977	\$413,122	\$3,013,618	\$1,410,210

**Construction Phase** – The project construction budget is estimated to be \$2,160,000. IMPLAN use national models to estimate employment and income levels for different construction types, in this case I have used “construction of new, non-residential commercial and healthcare facilities”. For this analysis, labor income is estimated to be about 26% of the total construction budget.

The construction phase of the project could add an estimated \$3.4 million to the local economy. The estimated 27 construction jobs require about 8 supporting jobs (i.e. truckers, clerks in the local supermarket, or waitresses at the family restaurant). These supporting (indirect) jobs generate an additional \$205,000 in labor income with total construction labor income impacts estimated to be around \$770,000. This creates a “ripple effect” as these earnings then re-circulate through the local economy. Other impacts, leading to the estimated output of \$3.4 million, are the results of rounds of purchases by businesses and consumers, although at each turn there is leakage of dollars due to imports from outside of the county.

Impact Type	Labor	Labor Income	Output
Direct Effect	27	\$563,842	\$2,622,403
Indirect Effects	8	\$205,720	\$824,078
Total Effect	35	\$769,562	\$3,446,481

**Operations Phase** - The Hampton Inn expects to employ between 15 and 20 people, and pay out \$250,000 to \$300,000 in wages annually. Using IMPLAN as a tool we can estimate how many supporting jobs are generated, and how much additional job income is added to the local economy by these supporting jobs. During the operations phase the hotel could provide up to 27 jobs, and about \$402,000 in job income annually to the local economy.

<sup>1</sup> Direct Employment	<sup>3</sup> Implan Multiplier	Supporting Employment	Total Employment
15	1.33	5	20
20	1.33	7	27

<sup>1</sup> Wages Paid	<sup>3</sup> Implan Multiplier	Supporting Wages	<sup>2</sup> Total Value Added
\$ 250,000	1.34	\$ 85,000	\$ 335,000
\$ 300,000	1.34	\$ 102,000	\$ 402,000

<sup>1</sup> Employment and wages reported by Shane Hale - City of Cortez

<sup>2</sup> Value Added includes employee compensation, proprietor income, other property type income and indirect business tax in 2012 \$

<sup>3</sup> Type SAM Multiplier, which includes (direct + indirect + induced effects) / direct effects

The following background is drawn *from IBISWorld*. *IBISWorld* publishes US industry market research reports. Joe Keck provided Shane with a copy of the entire report from which these excerpts are drawn.

### **Background - Hotels and motels**

The hotels segment accounts for nearly 88% of industry revenue, although it only accounts for 44% of industry establishments, and for 82% of industry employment. Hotels that consist of 25 or more rooms provide 83.6% of industry revenue (with 62.7% of industry revenue coming from guest room rentals, 12.5% coming from food and alcohol, 4.2% coming from conference and meeting rooms, and 4.2% coming from other charges), while hotels that offer 25 or fewer rooms only constitute 3.8% of industry revenue. Motels provide 12.6% of industry revenue. The relative proportion of revenue from each of these product segments has been relatively stable over the last five years, although motels experienced some growth at the expense of (higher-priced) hotels during the recession.

### **The difference**

A hotel is an establishment that provides lodging and usually meals and other services for travelers and other paying guests, while a motel provides lodging for motorists in rooms usually having direct access to an open parking area. A particular hotel or motel can be classified by a number of characteristics, including whether it provides full or limited service, whether or not it is located in a metropolitan area, the state or region in which it is located, its price or rate level, the number of rooms, and whether it is independent or part of a chain operation. Hotels (and motels) can also be segmented by room rate levels, with the establishments with the highest 30% of room rates in a local /metropolitan market being classified as upscale/luxury, the middle 30% as mid-priced, and the lowest 40% as either economy or budget.

Overall, the budget/economy segment tends to be the largest in the industry. Since the mid-1990s, the extended-stay hotel component (which offers apartments with separate kitchens, living rooms, bathrooms and bedrooms for longer-staying guests) has been a fast-growing industry segment.

**Competition** - According to *IBISWorld* competition within this industry is generally high and increasing quite often, as there is a large number of small operators and few very large international companies. Other important factors affecting competition include location (being in an area with a high level of activity from both tourists and business travelers enhances demand), the star rating of the motel/hotel, and whether the quality of facilities and service matches the expectations and demands of the guests. The branding and image associated with the establishment or franchised hotel/motel name is also important as it can provide travelers confidence in its facilities and services. More recently, due to travelers' changing booking habits and references, it has become important to have a presence on the internet to allow guests to view the property's facilities, services and tariffs, and to make and pay for reservations.

The Hotels and Motels industry also operates in a dynamic and changing accommodation market. It faces competition from other segments of this wider market (including RV parks, bed-and-breakfast establishments and hostels). As the tourism market segments and continues to fragment further, it will create new needs for traveler accommodations.

**Hilton Hotel Chain** - *IBIS World* also reports that the Hampton Inn is part of the Hilton Hotels Corporation. Hilton is a McLean, VA-based lodging company that has 3,500 hotels and a total of 585,000 rooms that are owned, managed or franchised. In December 2005, Hilton announced an agreement to acquire the lodging assets of Hilton Group PLC (or Hilton International) for \$5.71 billion, or a purchase price multiple of 11.3 times the 2006 adjusted EBITDA. The company was expected to retain its gambling and betting businesses and retain the name Ladbrokes PLC. Following this acquisition, the company had nearly 2,800 hotels and 475,000 rooms across 80 countries. In July 2007, Hilton entered into a definitive merger agreement with The Blackstone Group, a real estate and corporate private equity fund, in a cash transaction worth \$26 billion. Blackstone previously owned 100,000 hotel rooms in the US and Europe, with the limited-service properties, La Quinta Inns and Suites to LXR Luxury Hotels and Resorts. Hilton operates under the brands of Hilton, Hilton Garden Inn, Doubletree, Embassy Suites, Hampton, Homewood Suites by Hilton and Conrad. It also has a timeshare operation that trades under the name of Hilton Grand Vacations. In 1999, Hilton acquired Promus Hotels for \$3.7 billion, which had 1,450 properties under its banner and was, at that time, the sixth-largest operator in terms of hotel rooms managed. Though it also operates a number of vacation resorts in the United States, Hilton has lessened its involvement in casinos.

**Financial performance** - Hilton is privately held and does not disclose financial results, however IBISWorld forecasts revenue will grow at a rate of 3.7% per year to \$9.7 billion over the five years to 2012. Domestic revenue is forecast to grow at a rate of 4.0% per year to \$6.5 billion. Hilton has 350 hotels and resorts, in 76 countries in 6 continents. That amounted to more than 191,384 rooms worldwide. As of 2011, they also had 107 properties in development; 23 in the Americas, 21 in Europe, 19 in the Middle East and Africa, and 44 in Asia Pacific.

In 2009, despite major challenges for the hospitality industry associated with the global recession, Hilton opened 302 new hotels with more than 45,000 rooms. Its total count of hotels at year-end numbered more than 3,500 with a total of 585,000 rooms. During 2009, the company launched a new mid-tier extended-stay brand, Home2 Suites by Hilton, and approved 53 hotels, which gives it opportunity to provide better value options to its guests. It still operates multiple brands across the full range of hotel service levels from upscale, mid-scale to budget, which isolated the company from much of the adverse impact associated with the global recession.

**BizMiner** - BizMiner regularly updates over 2.5 million statistical industry profiles covering 16,000 lines of business in over 300 US market areas. For this report I selected Grand Junction as a comparable market area. For purposes of comparison I have selected establishments with 10 to 24 employees as most comparable to the Hampton Inn.

I have attached the full report for Shane's perusal. Some highlights of the report include:

- Branches (subsidiary facilities of firms; non-headquarters operations) had the lowest failure rates of any class in 2010-2011 (p2).
- Market Volume by Employment Class (10-24) is growing, while other classes are shrinking or growing less (p4).
- Percent Market Volume by Employment Class (10-24) is growing, while other classes are shrinking or growing less (p4).
- Average Sales by Employment Class shows diminishing sales across the board from 2008 – 2011, probably reflecting the national recession as well as the local (Grand Junction) economy (p4).
- # of Establishments by Employment Class shows a strong growth trend for 10-24 employees (p5).
- Annual sales per employee are down from 2008 – 2011, probably reflecting the national recession as well as the local (Grand Junction) economy (p6).
- Consolidation Trends show that the percentage of Branch operations has grown significantly during 2010-2011 as compared to other types of establishments, both locally and nationally (p8).