



Article Title

The Value of Location for Urban Hotels.

Citation

By: Valentin, Maxence; O'Neill, John W.. Cornell Hospitality Quarterly, Feb2019, Vol. 60 Issue 1, p5-24, 20p

Abstract

This study finds that hotel location significantly contributes to the property market value. With a sample of more than 600 hotel sales transactions within the Chicago Metropolitan Statistical Area (MSA), the theory that properties located closer to the city center, that is, the Loop, carry market value premiums is tested and supported by the data. Despite being the predominant spatial value driver for hotels, the effect of proximity to the city center is found to be heterogeneous. An additional mile away from the Loop decreases property value by 13% on average when the hotel is located within the 10 miles from the Loop. However, value decreases at a much lower pace when hotels are located outside this 10-mile buffer.

Other spatial variables, such as access to transportation systems and neighborhood dimensions, show that accessibility and environment play a lesser but decisive role in hotel market value. Practitioners and researchers may benefit from these findings mostly when comparing and analyzing hotel market values in a context similar to the urban structure of Chicago.

Summary

In concert with the recognition of hotel guests valuing centrality, this article shows empirically that centrality affects hotel market values. Interestingly, in a city approaching the monocentric framework such as Chicago, the bid-gradient theory predominantly explains the market value of hotel real estate. Hotel guests who can be considered as non-permanent residents may be as concerned about accessibility to the city center as permanent residents. Hoteliers and hotel investors should be aware of the significant difference in value carried by properties located relatively closer to the city center.

On average, the study found that an incremental mile away from the city center decreases hotel market value by 13.0% for the first 10 miles. This effect should be taken into account by professionals when valuing hotel properties.

More specifically, the current study enhances the valuation by sales comparison (SC) literature by providing means of comparing lodging properties which only differ in location. Not only does the value of centrality differ in metropolitan areas, but it is also not constant over time. Given the declining cost of transportation and increasing income, some individuals have found themselves moving outside of city centers. While the distance to the city center was the predominant determinant of land value in the 19th century, other spatial characteristics were shown to be significant in the 20th century which decreased the positive effect of proximity to the CBD on real estate value.