

## FEDERAL RESERVE BANK OF SAN FRANCISCO

# Home Away from Home

**B**USINESSMEN and pleasure-seekers spend roughly \$1.5 billion a year at Western lodging establishments in payment for rooms, meals, liquor, and other goods and services. On the basis of these receipts, the region's lodging industry employs over 120,000 workers and carries an annual payroll of over \$500 million.

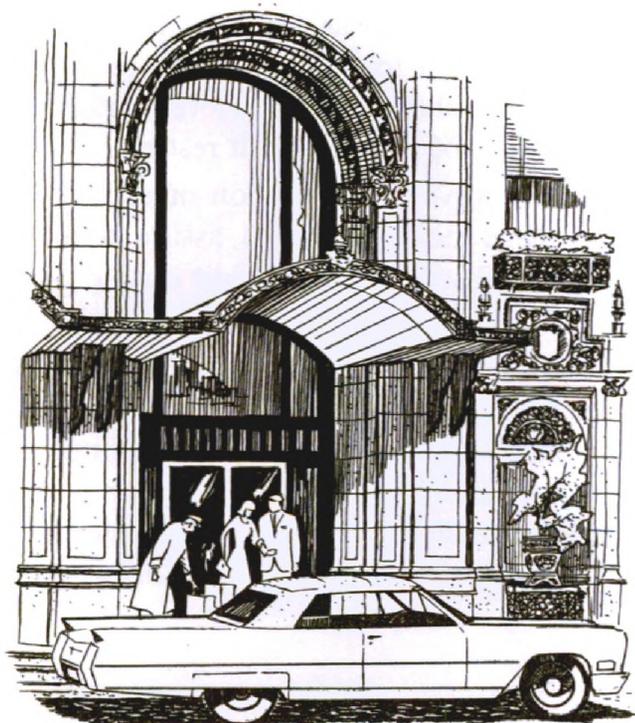
Hotel-motel employment in District states has increased recently at a 6-percent annual average rate, rising from 75,000 in 1955 to 121,000 in 1965. Wages are rather low in the industry, because of the relatively low level of skills required and because of the reliance on tips as a supplement to wages, so the industry—although employing about 1 percent of the total working force—accounts for only 0.8 percent of total wages in District states and for 0.6 percent of total wages elsewhere in the nation. In some Western states, however, the industry's importance is far above average—it accounts for 10 percent of total wages in Nevada and for

1 to 2 percent of the total in Hawaii and Arizona.

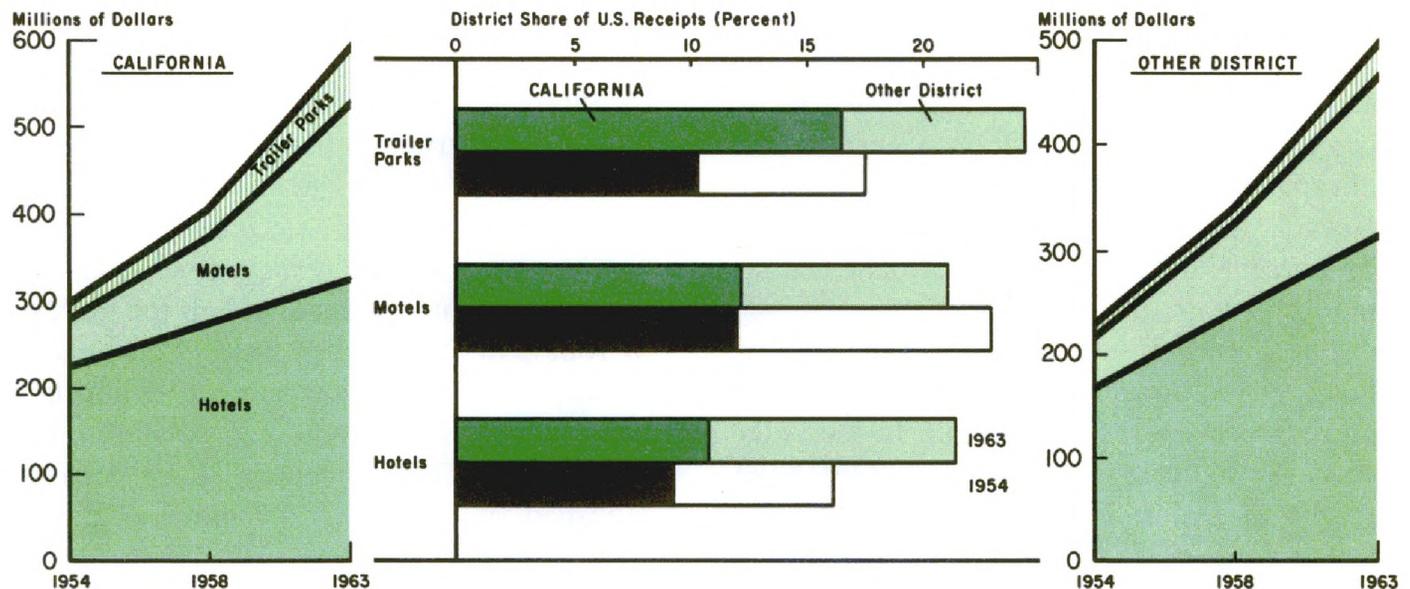
## Diverse growth trends

The region's lodging industry is extremely diverse, including as it does some older—even decrepit—hotels and trailer camps along with some of the world's most palatial pleasure domes. Moreover, establishments vary considerably in size, ranging from massive convention hotels in Los Angeles, San Francisco, Honolulu and Las Vegas to mom-and-pop operated motels located in small rural communities. (Over one-third of the motels and one-half of the trailer parks in District states do not report any payroll.) And the industry also exhibits a wide range of growth rates; between the 1954 and 1963 Business Census years, hotel receipts in Western states grew by two-thirds, to \$641 million, while receipts in the automobile-oriented lodging places more than tripled, to \$442 million. (California and the Pacific Northwest actually registered a decline in hotel-room space over this period.)

Hotels have encountered difficulty in adjusting to the auto and jet age. Because they were originally located near downtown railroad stations, they have lost tourist traffic to freeway-oriented motels and trailer parks, and have lost considerable business traffic as businessmen have shortened their out-of-town stays in tune with jet-age plane schedules. Hotels nonetheless have fought back by catering to jet-age tourist and convention business and by expanding their downtown parking facilities. Motels meanwhile have matured along with the automobile age; the newer establishments stand in sharp contrast to the stage-coach inns of the nineteenth century and in almost as sharp contrast to



## Receipts rise at hotels, but even more rapidly at auto-oriented lodgings . . . Western establishments obtain growing share of total receipts



the cold-water shacks of the 1930's.

The lodging industry has gone through drastic changes in the postwar period. The increased number of travelers, the longer vacations, the sharp rise in auto traffic—all have spurred an especially heavy demand for wayside accommodations which could not be met by the traditional commercial hotels and the older motels and trailer parks. The result is the “grand motel”—an establishment with a hotel-style range of services but motel-style conveniences and parking facilities. Located as they are near airports, in major shopping centers, and even in downtown areas, the new-style elegant motels have become a characteristic feature of the postwar landscape.

### Strong income trends

Despite the faster growth of motels, Western hotels have been able to expand their *average* receipts at the same rate as their competitors. Annual receipts per room increased by about two-thirds in both types of establishments over the 1954-63 period, to \$2,900 for hotels and \$2,100 for motels. Average receipts for hotels in the West were about one-fifth above the average hotel in-

come in other regions, while receipts for motels were roughly in line with the average elsewhere.

Higher average receipts for hotels reflected both a higher level of room rates and a wider range of income-producing services. In 1963, less than half of hotel receipts in Western hotels came from room rentals — much of the rest was generated by restaurant and bar facilities — while three-quarters of motel receipts came from room rentals.

Rising hotel income was accomplished despite the increasing age of the industry's physical stock; two-thirds of the region's hotels, as against one-third of its motels, commenced operations before 1949. Rising income was achieved also in the face of a decline in occupancy rates; occupancy, which had exceeded 90 percent during and immediately after World War II, declined from 72 to 62 percent between 1955 and 1965. Motel occupancy rates have been maintained above 70 percent during the past decade, as the aggregate demand for motel space has grown at the expense of traditional hotels.

But the hotel industry's problems have centered around the older, smaller hotels

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that are both short of modern conveniences and are located in the smaller population centers which have been bypassed by the major airlines and freeways. The magnificent new establishments which cater to the tourist and convention trade have generally prospered. In the 1963 Business Census year, occupancy rates in large hotels in California, Nevada, and Hawaii ranged between 69 and 77 percent, in contrast to a national (large-hotel) average of 63 percent.

Even in the larger convention centers, however, a downtrend in hotel space occurred between 1954 and 1963. In the latter year, New York maintained 122,000 hotel rooms, as against 70,000 in Chicago, 40,000 in Los Angeles, 35,000 in Miami, and 33,000 in San Francisco—which means a drop in room space of one-tenth or more in almost every area. But Hawaii was an exception to this downtrend; hotel-room space in that rapidly growing vacation center tripled over the decade, and recently has grown even more.

### Travelers' impact on construction

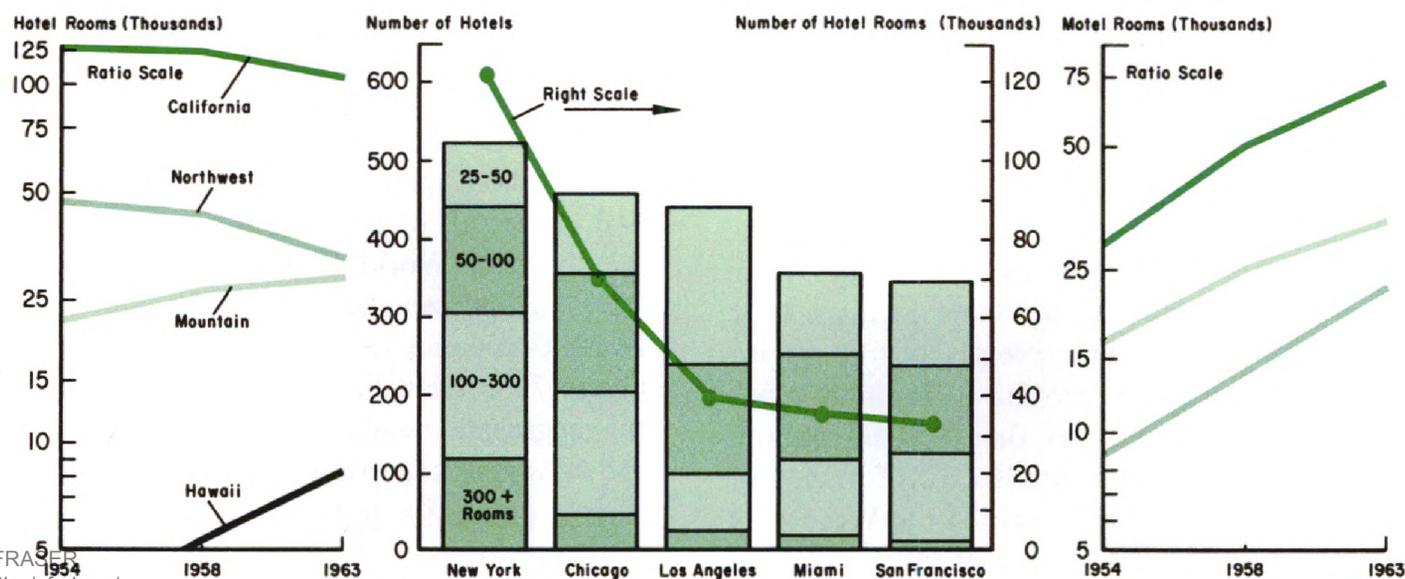
Meeting the transient population's demand for housing has been a major stimulus to the

nation's construction industry over the post-war period. Between 1949 and 1963, the industry produced 5,000 new hotels (almost 1,000 of them in the West) plus 17,000 new motels (more than 3,000 of them in this region).

Motel construction benefits from relatively low building costs. A new 2-to-3 story motel requires only one-half to four-fifths of the cost per room of the average new hotel, and typically it contains less than half the number of rooms of the average hotel. Using mass-production techniques which permit substantial cost savings—and consequently, low room rates—"instant motels" have been established by large national motel chains to take advantage of the high-density traffic generated by major freeways. Financing of such facilities is usually done through life-insurance firms, commercial banks, and even oil companies, which frequently guarantee mortgages in addition to operating motel service stations.

In the future, the rapidly growing number of business, tourist, and conventioning travelers promises to generate a growing amount of business for Western hotels, mo-

### Demand shifts cause sharp expansion in motel (but not hotel) room space . . . hotel space concentrated in New York and other convention cities

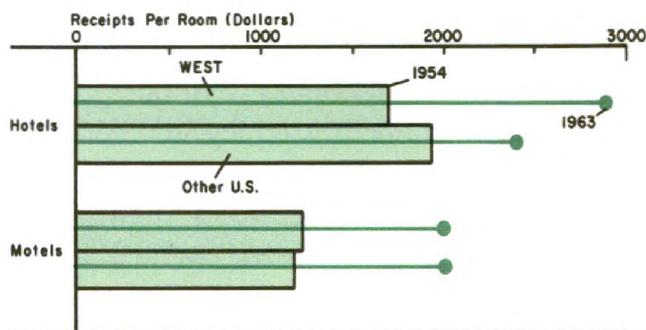


tels, and tourist parks. With more people on the highways, and more coming on the skyways with the advent of jumbo jets, a growing influx of visitors can be expected to tax present lodging capacity and thereby create a need for increased construction of motels and hotels—or at least of those establishments which will offer a wide range of modern facilities in convenient locations. But as the following sample indicates, the Western lodging industry already is preparing for the growing tide of visitors.

In California, construction in recent years has included three large motels, each with 250 to 400 rooms, near San Francisco airport, plus a 1,200-room hotel in downtown San Francisco and a 800-room facility in Beverly Hills. In the planning stage are two large hotels in San Diego, two in Los Angeles, one in Oakland, and one in Anaheim, with room sizes ranging from 400 to 1,000 rooms, plus two more large hotels in the 700-800 room category in San Francisco. One of the latter will contain the largest ballroom-banquet facilities in the West.

In Nevada, convention facilities and gaming tables have attracted a sharp rise in tourism and a consequent boom in construction. Room capacity reached 24,000 in 1963, for a one-fifth increase in four year's time,

## Western establishments hold edge in average room receipts



and it is now sharply higher. Las Vegas in recent years has built a 680-room and a 1,000-room hotel, and major new hotel-convention facilities are now planned for Reno and Henderson (near Las Vegas).

In Hawaii, a substantial construction boom has gone hand-in-hand with its tourist boom. Hotel room space more than tripled in the 1955-65 period, to 15,000, and a 50-percent expansion of this capacity will probably be completed within the next several years. The industry recently added two new hotels of 880-room and 1,060 room capacity, respectively, and in the planning stage are two more large hotels at Waikiki as well as several smaller establishments on the islands of Kauai and Hawaii.

—Paul Ma

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