Measuring the Investment Potential of Lodging Markets: an Indexing Approach

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ABSTRACT

It is generally accepted that hotel development, investment and acquisition follows three basic steps (Rushmore, 2001):

1. Identifying market areas that show long term potential for hotel investment
2. Choosing a lodging product that takes advantage of the dynamics of the local supply and demand characteristics
3. Search and selection of a suitable site

Whereas, there is value in the individual data and information sources to identify potential markets for lodging investment decisions, a systematic and formal analysis of aggregate market potential can be a useful tool for hotel developers and investors. The purpose of this study is to develop such an objective measure in the form of a Lodging Market Potential Index.

As a first step in hotel development, investment and acquisitions decisions, this index will identify market areas that show long term potential for hotel investment. Based on a scale of 1 to 100, the Lodging Market Potential Index should enable hotel developers and investors to conduct a relative comparison of the 25 largest lodging markets (as tracked by Smith Travel Research) along 10 Dimensions. Dimensions are measured using 30 different indicators and are weighted to determine their contribution to the overall market potential index. To measure the performance of each dimension, objective, credible, reliable and quantifiable indicators were identified.

KEYWORDS: Lodging Investment, Lodging Market Potential, Indexing Approach