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MEASURING THE INVESTMENT POTENTIAL OF LODGING MARKETS: AN INDEXING APPROACH

A.J. Singh and Raymond Schmidgall

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