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AN INVESTIGATION OF LEASING PRACTICES IN THE U.S. HOTEL INDUSTRY

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ABSTRACT

Leasing of equipment has increased dramatically in the United States. According to the Equipment Leasing Association of America, total leasing in 1999 reached $226 billion (www.elaoa.com). Despite the popularity and widespread use of leasing, there is a paucity of literature in hospitality on leasing, as the existing literature focuses only on the advantages and disadvantages of leasing.

There were three major objectives for this study. Given the scarcity of statistical information on leasing in the U.S. hotel industry, the first objective was simply to collect statistical data on the magnitude of leasing in the U.S. hotel industry; the second was to find out which reasons for leasing were important to hotel operators in the decision-making process; and the third was to find out which of the four IRS provisions trigger the capitalization of leases in the hotel industry. A survey of the lodging section of Hospitality Financial and Technology Professionals was conducted in the spring of 2000.

Some of the preliminary results indicate that protection against obsolescence, uniform cash outflows, and tax advantages of leasing were the most cited reasons for leasing equipment. Transfer of ownership and bargain-purchase options were the two most cited reasons for triggering the capitalization of the leases. A majority of the respondents (58 of 66) also indicated that they expect leasing to either stay at the same level or marginally increase from the current levels.