FYI TRADITIONS ARE IMPORTANT

Two important traditions are typically performed when new lodging properties are constructed. First, when the final floor is completed, an evergreen tree is placed on the top of the building. This act signifies that the building will rise no higher. It also symbolically ties the building safely to the ground through the "roots of the tree."

The second important tradition is performed when the ceremonial ribbon is cut on opening day. At that time, the key to the front door is symbolically thrown onto the roof because it will never be used again. This is a symbol signifying that the building is more than just a building. It has become a place that will always be open to those who are seeking a room for the night or more appropriately a "home away from home."

Achieving Profitable Operations

The financial performance of lodging properties has been historically cyclical. When the economy grows, the demand for overnight accommodations also tends to grow. This growth results in higher **occupancy rates**, attracting developers who build more properties. This building boom finally slows when the economy softens, causing travel to slow or the supply of new rooms to exceed demand for these rooms. Therefore, construction and pricing decisions should be based on the ability to achieve and exceed **break-even** occupancy levels. To achieve long-term profitability, hotel developers use the following rule of thumb: For every $1,000 in construction costs, $1 in room revenue must be achieved.[30] Using this calculation results in a **cost per key** to construct and furnish each room. So, for example, on the average per-room construction cost of approximately $120,000[31] for a midscale hotel without food and beverage facilities, a room rate of $120 per night would need to be generated.

Table 7.8 shows the major revenue and expense centers for a full-service 300 room center city hotel with convention facilities.

Additional revenue centers that might be seen for some hotel operations include meeting room revenues, technology revenues, spa revenues, and rental and concession revenues. There are also additional cost centers that may be common for expense reporting including sales and marketing, accounting, purchasing, human resources, and safety and security.

Pricing and occupancy are doubly important to lodging facilities, which are noted for operating on thin profit margins owing to capital and labor intensiveness. Building and equipping a lodging facility is very expensive and requires a long-term commitment of financial resources or capital. Once constructed, the daily, weekly, and monthly costs of providing adequate staffing continue to be incurred.

The rooms side of hotel/motel operations provides the main source of income and operating profits for lodging properties in many countries, typically generating over 60% of revenues and yielding a departmental margin of approximately 70%. A great deal of management and marketing effort is focused on maximizing occupancy levels and room rates by monitoring the rate or pace of future room reservations. To achieve the maximum occupancy at the best price, hotels and motels have relied on establishing several different rates and borrowed the concept of revenue management from the airline industry. These systems help managers achieve the maximum amount of revenue from a variety of available rates. If you were to walk in off the street on a high-demand day, you would probably receive the **rack rate**, the standard and most expensive quoted rate for one night's lodging. However, due to the ease of travelers searching for information on the go, room rates are becoming more transparent. A guest could search the web or use an app to check the rate before walking in to the front desk. Therefore, often the **best available rate (BAR)** is offered to capture the walk-in guest through direct booking.

The rack rate that is offered to transient guests is the most profitable rate for a property. The least profitable are long-term contracts with preferred customers, such as airline crews, that guarantee a minimum number of paid stays per year. These contract rates may