

New Orleans Hotel Industry Impacts A Benchmark for Post-Katrina Recovery

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Introduction

As the City of New Orleans and its citizens rebuild homes, infrastructure, and businesses, policy makers and business leaders have sought to evaluate how best to recover from the damage Hurricane Katrina caused in August 2005. For some local industries, it may be informative to have benchmarks from before the hurricane that provide a basis of comparison during recovery. To take one example, if the local hotel industry could have an accurate measurement of its size and importance to the local economy prior to Hurricane Katrina, then it could have a clearer understanding of its progress in the recovery process moving forward. Furthermore, policy makers could use this information to inform their decisions about how to prioritize efforts to spur recovery in certain industries.

Description of Study

During the past 12 months, the Greater New Orleans Hotel & Lodging Association (GNOHLA) retained HVS International (HVS) to conduct a study of the local hotel industry's economic and employment impact on the local New Orleans economy. This study attempts to measure the impact of the hotel industry on the local New Orleans economy prior to Hurricane Katrina. For the purposes of this study, HVS defined the local economy as Orleans Parish. Therefore, the study estimates the economic impact and employment impact of hotels located in Orleans Parish in 2004, the most recent complete year prior to the hurricane. The findings of this study may serve as a benchmark for the New Orleans hotel industry as it attempts to recover from the direct and indirect effects caused by Hurricane Katrina.

This study is unique in two ways. Firstly, the study utilizes actual employment data and proprietary financial statements, collected from individual hotels that were operating in New Orleans in 2004. Rather than relying on national survey data, we interviewed general managers and local hotel staff directly. Secondly, the study makes a more detailed evaluation, compared to most traditional economic impact studies, of the employment impacts of the industry on the local economy. For example, this study attempts to measure not only the number of jobs created by the hotel industry, but also what the average wage is, what the ethnic and age makeup of the hotel industry workforce is, and numerous other employment characteristics of the New Orleans hotel industry.

HVS identified a sample set of hotels intended to be representative of the citywide inventory of hotels in New Orleans. The study defined four distinct hotel categories. Convention hotels are properties with at least 1,000 guest rooms and a strategic focus on attracting convention-related group business. Full service hotels are properties that offer a full range of guest services, including a three-meal restaurant, room service, meeting space, fitness centers, business services, valet parking, and other guest services. Limited service hotels offer some, but not all, of these guest services. Economy hotels are properties that generally offer rooms only and depend on surrounding businesses to provide other guest amenities and services. For confidentiality reasons, this study does not identify the properties included in the sample. However, the sample represents approximately 16.1 percent of the total room supply in Orleans

Parish. The sample also includes one or more property from each of the four hotel categories defined above.

The study then evaluated a detailed set of confidential financial and employment data pertaining to properties in each of the four defined hotel categories. After obtaining this data through surveys, interviews, and physical inspections in some cases, HVS extrapolated these findings across the City's entire hotel supply to calculate citywide estimates of total employment in the industry, demographic characteristics of New Orleans hotel employees, average annual wages by employees in the industry, average hourly wages by hourly workers in the industry, the annual cost of benefits and services paid for by hotels to employees, and total guest spending at hotels.

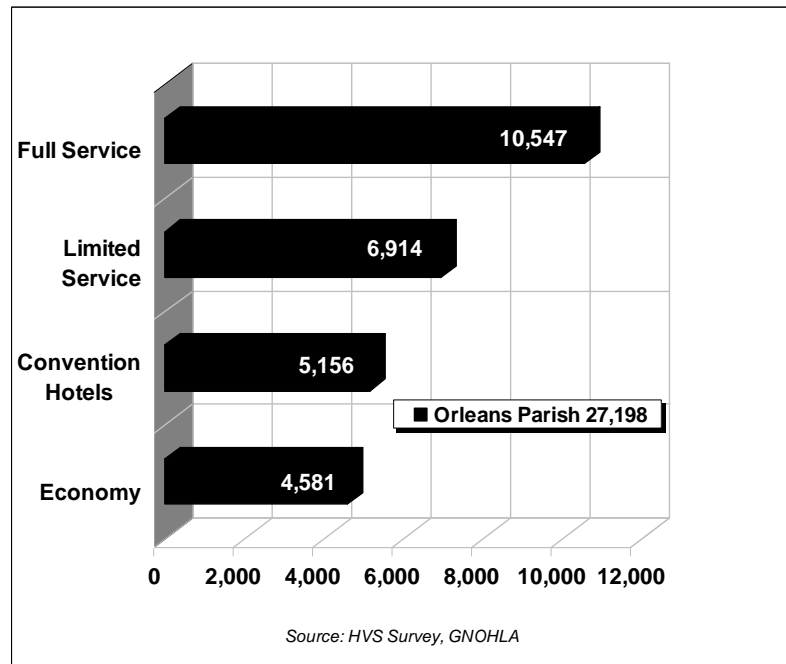
Using the nationally recognized IMPLAN input-output model, developed at the University of Minnesota, HVS also estimated the local hotel industry's "indirect" and "induced" spending impacts, commonly known as the "multiplier effect" when taken together, on the New Orleans economy. For the purposes of this study we define indirect impacts as the additional local spending by businesses that result from guests' spending at hotels. For example, when a guest stays at a hotel in New Orleans, that hotel in turn may spend money to purchase linens, supplies, and services from local suppliers or service providers. Induced impacts are the additional local spending by workers that result from guest spending at hotels. For example, when a guest stays at a hotel in New Orleans, workers at that hotel earn more money, some of which they spend in the local economy on goods and services.

Industry Overview

In 2004 there were 156 hotel properties operating in Orleans Parish. These properties represented approximately 27,200 guest rooms. Total estimated employment at these hotels was approximately 14,600 workers in 2004. This study further categorized the hotel inventory according to each hotel's service level. The study also categorized employment according to age, gender, race, full-time versus part-time status, and salaried versus hourly compensation status. A summary of these findings follows.

Figure 1 shows the total number of hotel rooms in Orleans Parish in 2004. The figure shows an estimate of how many rooms were available in each of four hotel categories.

Figure 1
Breakdown of Room Inventory in Orleans Parish



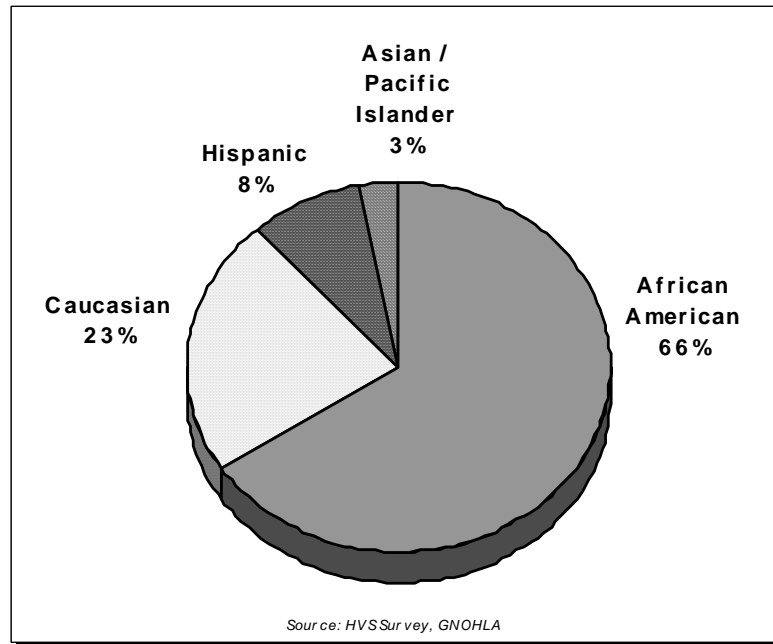
The New Orleans hotel industry (Orleans Parish only) had 27,198 rooms in 2004 and a relatively large proportion of those rooms are in the full-service and convention-service categories. Approximately 58 percent of the City’s hotel inventory is in one of these upscale or full-service categories. Approximately 25 percent of the City’s hotel rooms are in limited service properties. Many of these limited service properties are also classified as “boutique” hotels, especially those located in the French Quarter area of downtown New Orleans. Only about 17 percent of the City’s hotels are classified as “economy” or “rooms-only” hotel properties. This distribution indicates a relatively upscale local hotel inventory in New Orleans compared to other markets of comparable size.

Workforce Characteristics

In 2004 total estimated employment at all New Orleans hotels was approximately 14,600 workers. This total employment estimate is consistent with the total room inventory. The employment and room supply findings indicate a ratio of approximately 0.54 employees per hotel room across the industry in Orleans Parish, which is compatible with our findings in other markets around the country. In this study, HVS evaluated ethnicity, age, gender, compensation status and other characteristics of the hotel workforce. The figures that follow throughout this section of the study illustrate our findings.

Figure 2 shows hotel employment by ethnicity at hotels in Orleans Parish in 2004.

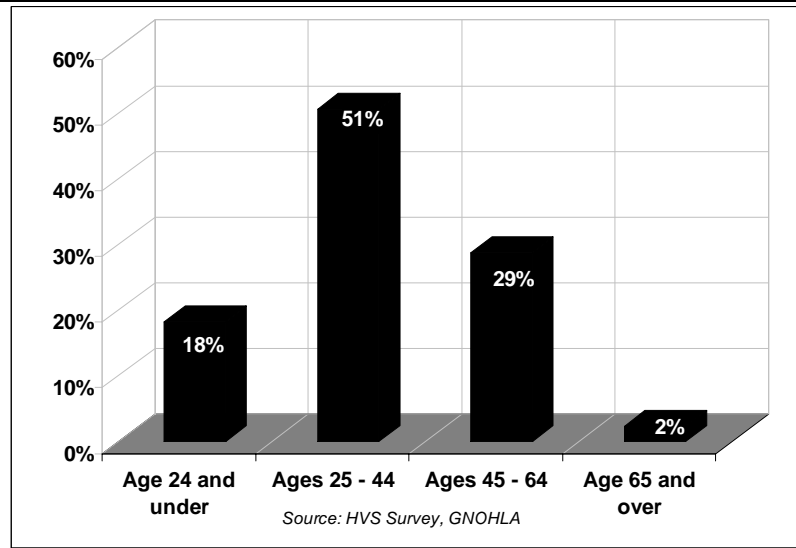
Figure 2
Employment by Ethnicity



The hotel industry in New Orleans may appear to have a relatively high concentration of African American workers. But this reflects the overall makeup of the New Orleans population. In 2004 approximately 66 percent of the hotel workforce in New Orleans was African American. By comparison, approximately 67 percent of the resident population was African American in the 2000 Census. Approximately 23 percent of the hotel workforce was Caucasian. By comparison, approximately 27 percent of the resident population was Caucasian, according to U.S. Census data. Approximately eight percent of the hotel workforce was Hispanic or Latino, while three percent of the local population was made up of Hispanic or Latino residents. Asians, American Indians, Pacific Islanders, and people of other ethnicities made up the remaining three percent of the hotel workforce in Orleans Parish in 2004.

Figure 3 shows the age distribution of employees at New Orleans hotels in 2004.

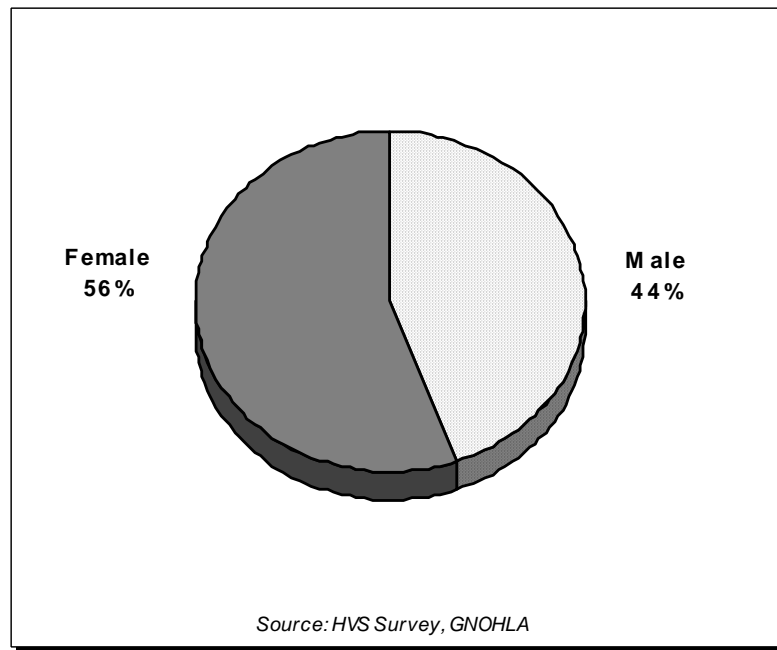
Figure 3
Employment by Age



The hotel workforce is relatively young compared to other industries. More than half of all hotel workers employed in 2004 were between the age of 25 and 44. Approximately 18 percent of hotel employees were under the age of 25. Approximately 29 percent of hotel employees were between the age of 45 and 64. Only two percent of hotel employees were age 65 or older.

Figure 4 shows the distribution of employees at New Orleans hotels in 2004 according to gender.

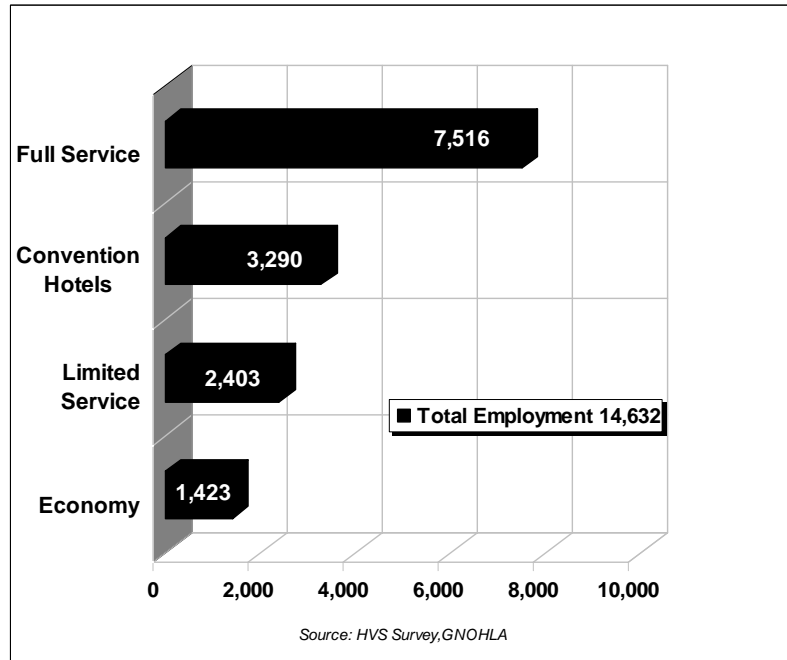
Figure 4
Employment by Gender



The New Orleans hotel workforce was slightly weighted toward women in 2004. Approximately 56 percent of hotel employees were female and 44 percent were male in Orleans Parish during this period. For comparison purposes, the overall population in New Orleans was approximately 53 percent female and 47 percent male, according to U.S. Census data.

Figure 5 breaks down the total number of hotel employees, which was approximately 14,600 workers, in Orleans Parish in 2004. The figure shows an estimate of how many employees worked in each of four hotel categories.

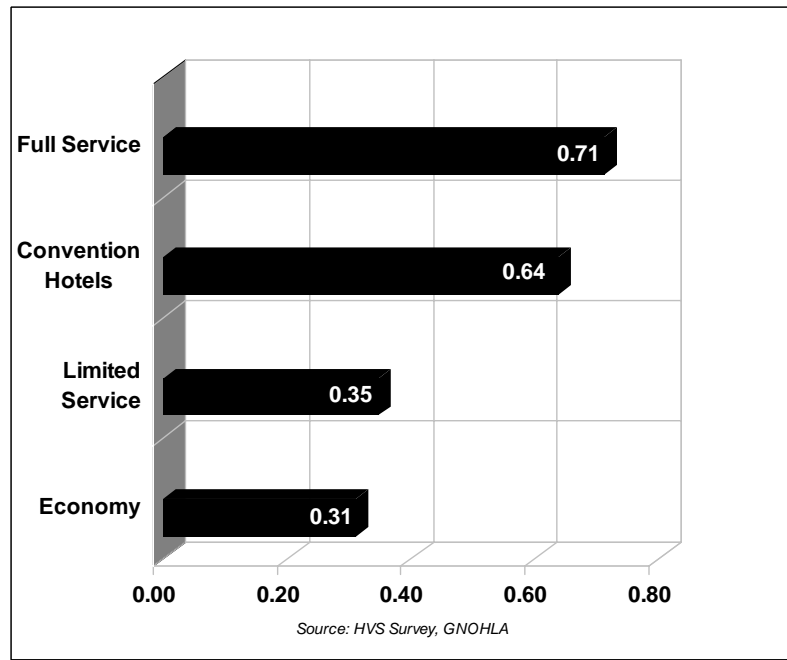
Figure 5
Employment by Hotel Service Category



Hotel employment in New Orleans is concentrated in full-service and convention hotels. Approximately 74 percent of the industry’s employees worked in full-service or convention hotels in 2004. Limited service hotels employed roughly 16 percent of all hotel workers in New Orleans. During the same year, economy hotels employed less than 10 percent of all hotel workers in New Orleans. This workforce distribution loosely reflects the overall room inventory at hotels in New Orleans.

Figure 6 shows the ratio of employees to rooms in Orleans Parish for each of four hotel categories.

Figure 6
Employees per Room by Hotel Service Category



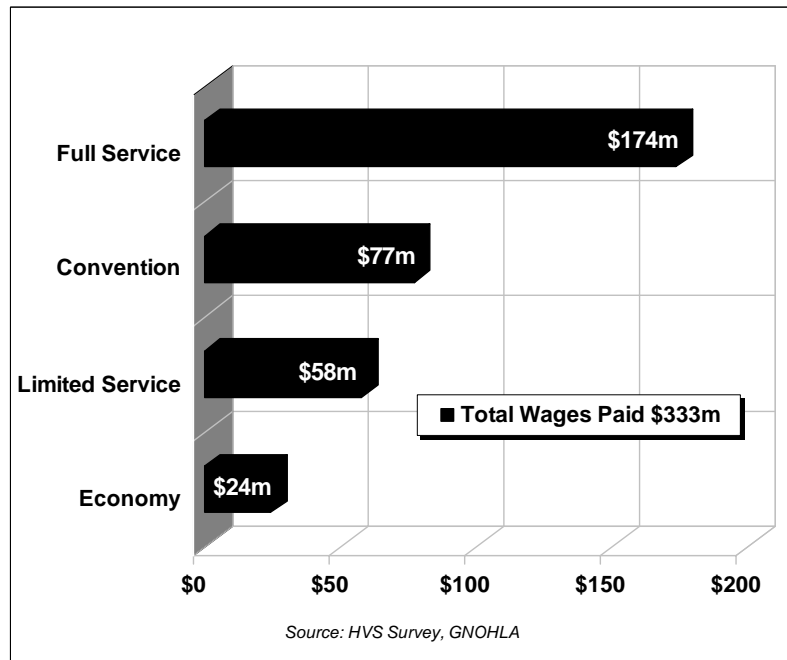
The additional services and amenities offered at full-service hotels and convention hotels generally require more employees than limited-service hotels and economy hotels employ. Therefore, the number of employees per room is significantly higher at full-service hotels and convention hotels compared to limited-service hotels and economy hotels. Full-service hotels employed an average of 0.71 workers per guest room in New Orleans in 2004. By contrast, economy hotels employed an average of only 0.31 workers per guest room. Although convention hotels typically offer just as many services and amenities as other full-service hotels, the convention hotels are much larger and are able to achieve certain economies of scale with respect to their workforces. This is one reason why the average number of employees per room is somewhat lower at convention hotels than it is at full-service hotels.

Employee Compensation

This study estimates that hotel operators paid out approximately \$333 million in wages, salaries, and related compensation to New Orleans hotel workers in 2004. HVS estimates that hotels spent an additional amount of roughly \$45 million in 2004 on benefits and personal services they provided to hotel workers in Orleans Parish.

Figure 7 shows total wages, salaries, and related compensation to New Orleans hotel workers for each of four different hotel categories.

Figure 7
Total Wages by Hotel Service Category

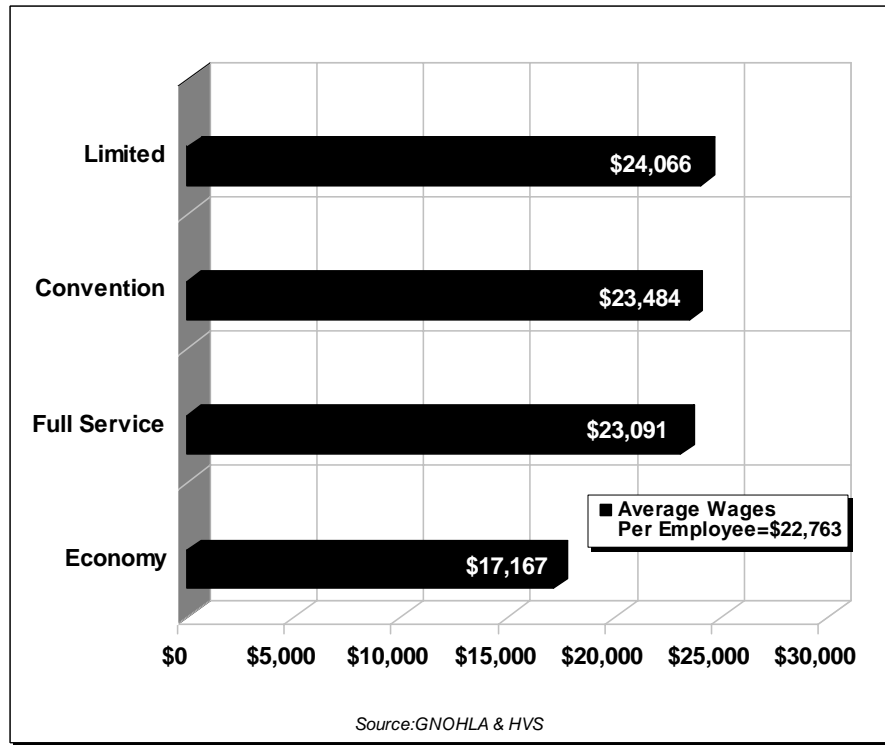


The distribution of wages by hotel type roughly reflects the distribution of employment and the room supply in New Orleans. The industry’s \$333 million payroll represents an average annual compensation of approximately \$22,800 per employee in 2004. Including benefits and other services, average total compensation was approximately \$25,800 per employee in 2004.

According to our research, the majority of workers employed by hotels in Orleans Parish in 2004 were full-time workers being paid hourly wages. Roughly 92 percent of employees worked full-time according to our survey data. Approximately 87 percent of the hotel employees were hourly workers. The remaining 13 percent were paid salaries. One major aim of the study was to determine average wage levels for hourly workers at hotels in Orleans Parish.

Figure 8 indicates the estimated earnings of all workers at New Orleans hotels in 2004. The estimates include wages and bonuses, but not tips or benefits that may be provided by employers.

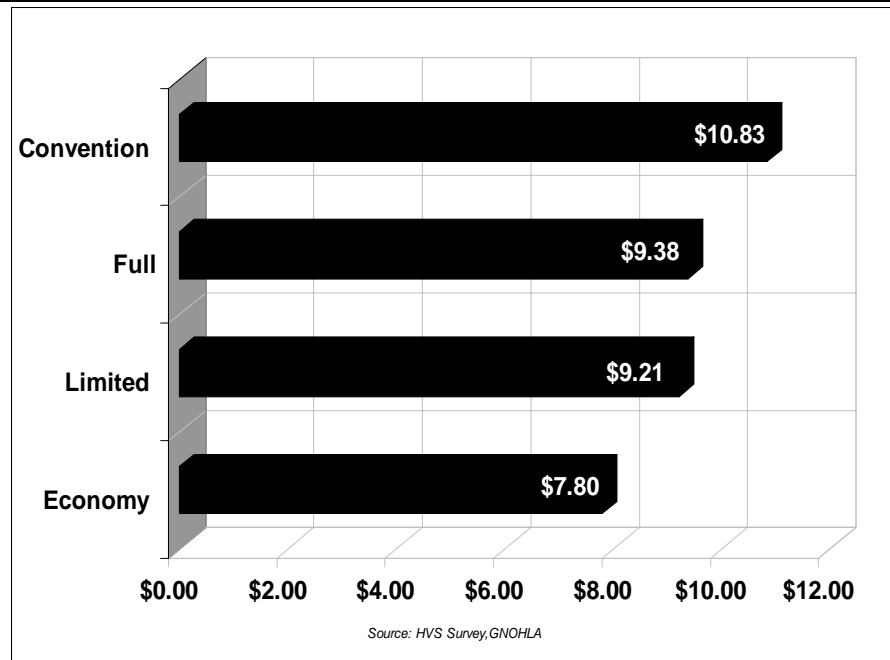
Figure 8
 Estimated Average Annual Wages per Employee



The study found that hotel workers have full-time equivalent earnings that range between roughly \$17,167 and \$24,066 annually, based on 2004 wage levels. Moreover, hotel managers indicate that wages for hourly workers have increased significantly since Hurricane Katrina as the local labor supply has tightened.

Figure 9 shows the average hourly compensation for hourly hotel workers in Orleans Parish working in each of four hotel categories. These figures include wages and tips, but not benefits.

Figure 9
Average Hourly Compensation for Hourly Employees (Excluding Benefits)



The average hourly compensation estimates include all reported wages and tips earned by hourly workers divided by the total number of hours worked by hourly workers at hotels in Orleans Parish in 2004. HVS obtained records of hours worked, wages paid to hourly workers, and estimated tips earned by hourly workers from hotel managers. On average, we found that hourly workers earned between \$7.80 per hour and \$10.83 per hour in 2004, depending on what type of hotel property employed them. Because some workers may not accurately report all tipped earnings, these estimates may be conservative.

Given that a large proportion of employees work at full-service and convention hotels, the study finds that the majority of hourly hotel employees in New Orleans earned between \$9.38 and \$10.83 per hour in 2004. This figure does not include benefits and services that may have been provided to some full-time hourly employees. The 2004 wage levels for hourly workers are substantially higher than the federal minimum wage, which is \$5.15 per hour. The New Orleans figures also compare favorably to higher minimum wage levels put in effect by state and local governments across the country.

Table 1 shows states with minimum wage levels that exceed the federal minimum wage of \$5.15 per hour in 2006.

Table 1
Statewide Minimum Wage Levels

State	Basic Minimum Rate (\$ per hour)
Washington	7.63
Oregon	7.50
Connecticut	7.40
Vermont	7.25
Alaska	7.15
New Jersey	7.15
Rhode Island	7.10
Michigan ¹	6.95
California	6.75
Hawaii	6.75
Massachusetts	6.75
New York	6.75
Illinois	6.50
Maine	6.50
Wisconsin	6.50
Florida	6.40
Arkansas ¹	6.25
Delaware	6.15
Maryland	6.15
Minnesota ²	6.15
¹ Goes into effect in October 2006.	
² Large employers	
Sources: US Dept. of Labor, State Labor Depts.	

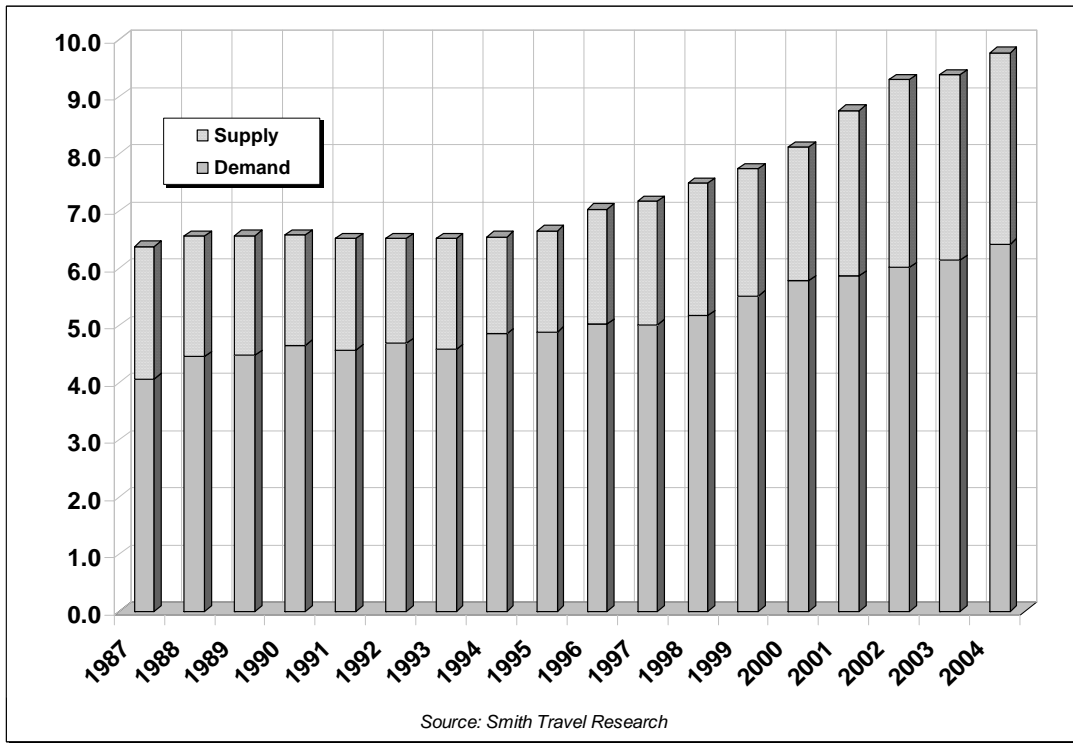
Statewide minimum wage levels currently range from \$6.15 per hour in Minnesota to \$7.63 per hour in Washington State. A small number of municipalities also have passed minimum wage laws during the past several years. Santa Fe, San Francisco, and Washington D.C. have citywide minimum wage levels that are \$9.50 per hour, \$8.82 per hour, and \$7.00 per hour respectively. For comparison purposes, in 2002, voters passed a citywide minimum wage of \$6.15 per hour in New Orleans, which was subsequently overturned by the Louisiana Supreme Court later that year.

Supply and demand

This study also reviewed citywide hotel supply and demand trends through 2004. Supply data measures the number of room nights available in 2004. Demand data measures the number of room nights sold in 2004.

Figure 10 indicates the annual supply of available room nights and the number of room nights sold in 2004 throughout Orleans Parish.

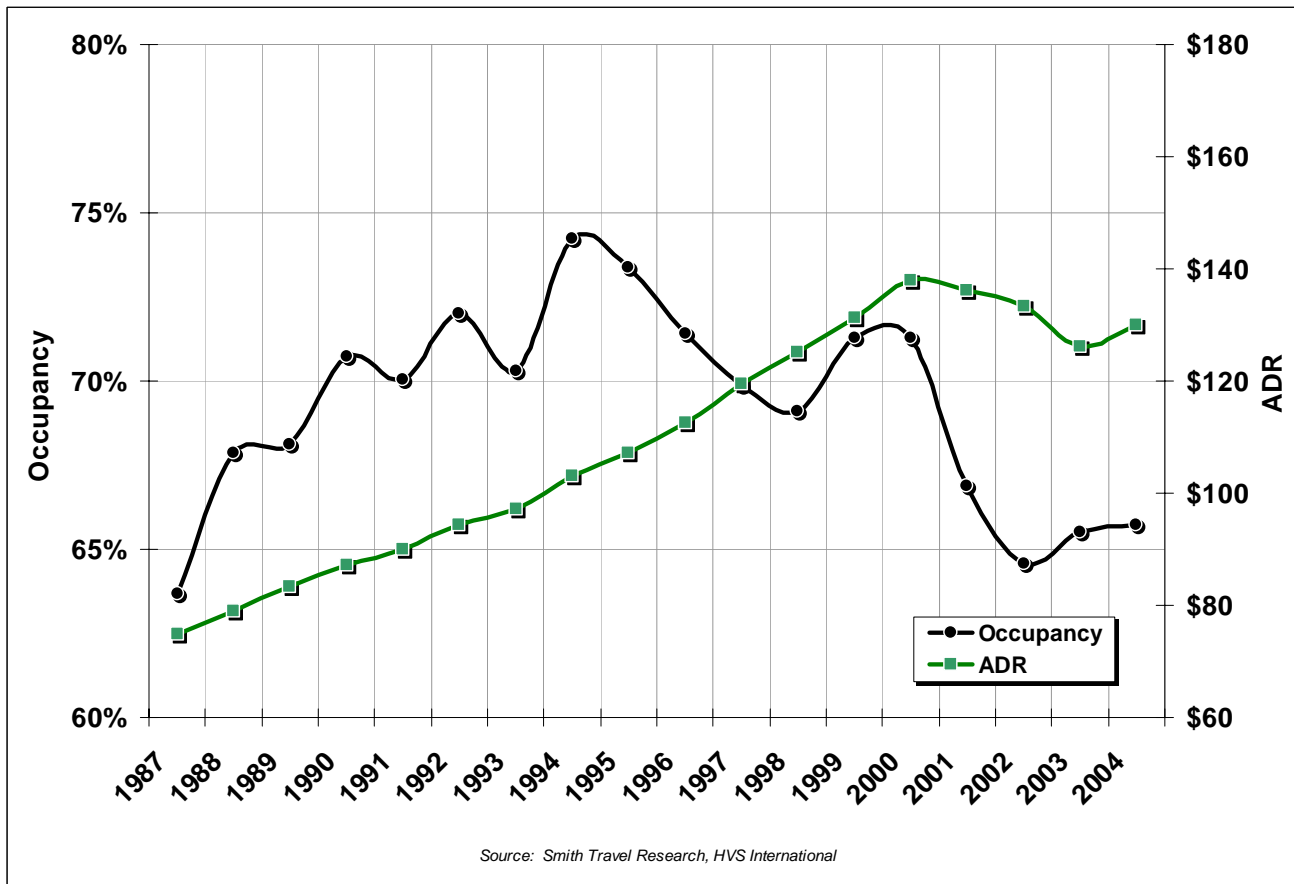
Figure 10
 Supply and Demand of Room Nights in Orleans Parish (in Millions)



Hotel room supply and room demand trends have followed a similar trajectory in Orleans Parish since 1987, when Smith Travel Research began tracking this data. In 2004 there were approximately 9.8 million room nights available, according to data from Smith Travel Research. This figure roughly reflects the room inventory in New Orleans multiplied by the number of days each hotel was in operation during 2004. New Orleans hotels sold approximately 6.4 million room nights in 2004. This reflects the aggregate number of rooms rented in all hotels throughout Orleans Parish during the year. Room night demand, therefore, represented approximately 65.3 percent of the available supply in 2004. This is commonly referred to as the annual “occupancy” of hotels.

Figure 11 shows trends in average annual occupancy and average room rates in Orleans Parish over the same period.

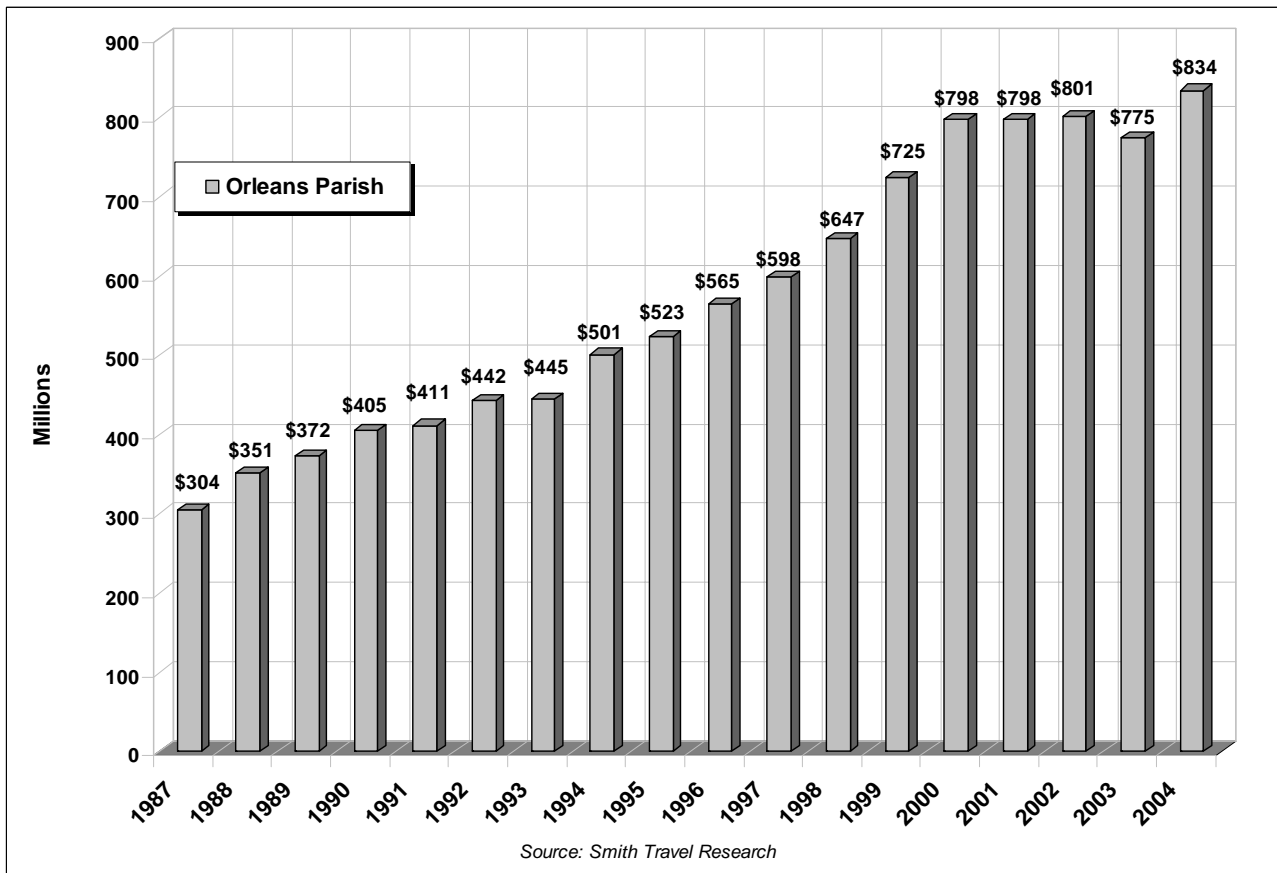
Figure 11
Trends in Occupancy and Average Daily Room Rate



This figure illustrates how much hotel occupancy figures and average daily rate (ADR) figures can fluctuate with changes in the economy. In 2004 the average occupancy was over 65 percent at New Orleans hotels. The ADR was nearly \$130 per room per night in 2004. Occupancy levels declined severely in 2001 and 2002 as a large increase in hotel room supply coincided with a national economic recession. Average rates declined somewhat during the post-recessionary period as well. Occupancy levels began to recover in 2003, as hoteliers continued to lower their room rates. Increases in room rates resumed in 2004.

Figure 12 indicates total estimated revenue from room sales at New Orleans hotels in 2004.

Figure 12
Trends in Total Citywide Hotel Room Revenue



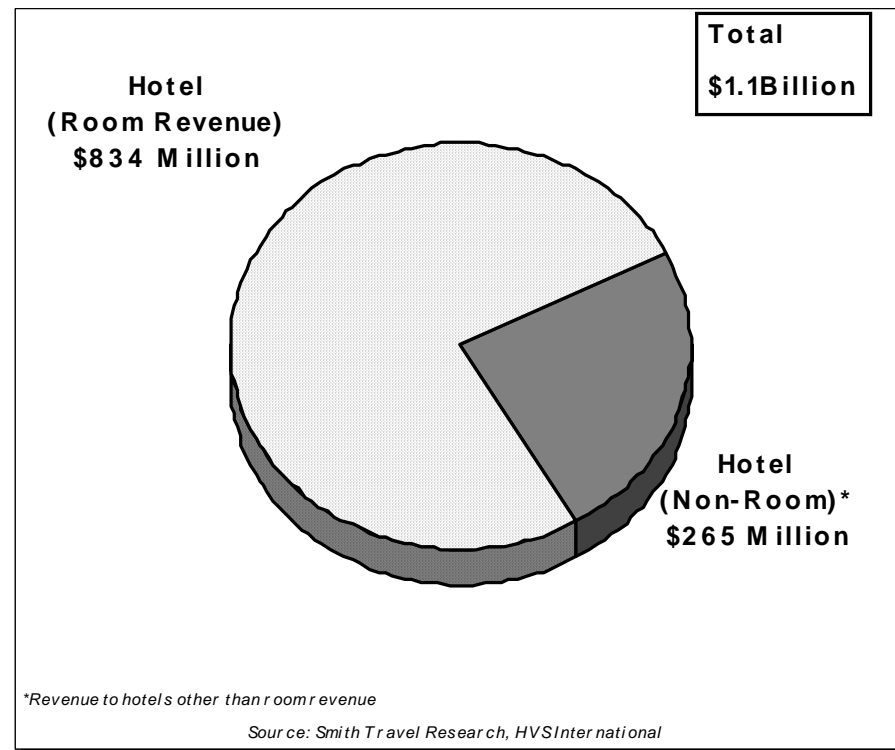
Based on the number of hotel room nights sold and the average rate charged per room night, data from Smith Travel Research shows that total citywide room revenue at New Orleans hotels was approximately \$834 million in 2004. After a brief period of stagnation or decline following the most recent national economic recession, the New Orleans hotel industry indicated clear signs of recovery by 2004.

Economic Impacts

The estimate of hotel room revenue in New Orleans is the starting point for our economic impact analysis since room rentals are the largest spending category by visitors at most hotels. But it is not the only source of revenue for hotels. Although room rentals represent the largest category of revenue for most hotels, guests also spend money on gifts, travel amenities, food and beverage orders, communications, and other services while staying at hotels.

Figure 13 provides estimates of hotel guest spending on room rentals and other hotel purchases that took place in New Orleans hotels in 2004.

Figure 13
Total Hotel Guest Spending in New Orleans



Hotel guests spent approximately \$834 million on hotel room rentals in Orleans Parish during 2004. But guests also spent money on related goods and services offered at these hotels. Using an extensive in-house library of hotel operating data, HVS estimated the ratio of in-room spending versus other spending that takes place in New Orleans hotels, based on the unique mix of full-service, convention, limited-service, and economy hotels in New Orleans. HVS estimates that approximately 76 percent of all guest spending at hotels derived from room rentals. Approximately 24 percent of all guest spending at hotels in New Orleans derived from other types of spending such as room service, valet parking, telecommunications, and other goods or services. Based on room revenue calculations, then, we estimate that guest spending other than room rentals accounted for approximately \$265 million of hotel revenue in 2004.

Therefore, total direct spending at local New Orleans hotels was approximately \$1.1 billion in 2004. Using input-output modeling software from the IMPLAN Group, HVS estimated that this direct spending also generated substantial additional rounds of

spending in the local economy. We estimate that the hotel industry accounted for approximately \$127 million of additional indirect spending and approximately \$237 million of induced spending in the local New Orleans economy in 2004.

The following amounts summarize our economic impact estimates:

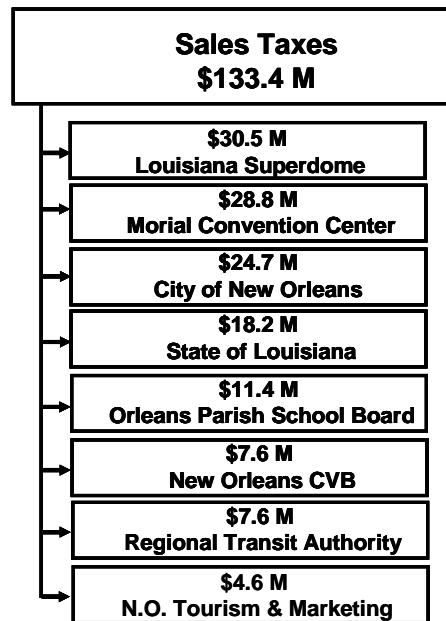
- Direct Spending: \$1.1 billion
 - Indirect Spending: \$127 million
 - Induced Spending: \$237 million
-
- Total Impact: \$1.5 billion

Direct spending represents money spent directly by guests at hotels, either on rooms or other goods and services. Indirect spending accounts for the fact that local hotel businesses “re-spend” some of this money in the local economy on supplies provided by other local businesses. Induced spending estimates show that hotel employees and other household spenders have more money to spend in the local economy than they would, on average, if these hotels were not open. Therefore, we estimate total economic impacts from the New Orleans hotel industry were approximately \$1.5 billion in 2004.

The study also analyzed additional economic impacts generated by hotel guests that occurred due to guest spending outside the hotels. For every dollar spent on room accommodations, the average visitor to New Orleans also spent additional money on shopping, dining, entertainment, and local transportation in New Orleans. Based on data from a visitor spending survey conducted by the University of New Orleans, this study estimates that total visitor spending by hotel guests was approximately \$3.7 billion in New Orleans in 2004. We estimate this direct spending produced an estimated economic impact of \$5.6 billion in the local economy, after accounting for indirect and induced spending.

Figure 14 provides estimates of hotel sales tax revenues generated by the New Orleans hotel industry in 2004. These figures do not include property taxes, downtown development district taxes, and other special fees that hotels and their guests may have paid in 2004.

Figure 14
Distribution of Sales & Room Tax Revenues from Hotels in Orleans Parish



Sources: Parrish Assessor, State Department of Revenue, GNOHLA & HVS

We estimate that hotels located in Orleans Parish generated approximately \$133.3 million in hotel sales tax revenues in 2004. Some of these tax revenues contribute to the state's general fund and the city's general fund. But the majority of these tax revenues go to local funds to support the Louisiana Superdome, the Morial Convention Center, the Orleans Parish School Board, the New Orleans Convention & Visitors Bureau, the Regional Transit Authority, and the New Orleans Tourism and Marketing Corporation. As in many other communities, New Orleans has established a loose alignment between the companies that generate tourism related tax revenues and organizations which support the broader tourism industry. This relationship between those who pay tourism-related sales taxes and those who benefit from such taxes is an important element in creating a sustainable tourism industry.

Because this study analyzes data from 2004, it is the author's hope that the findings of this report may serve as a useful benchmark for policy-makers, hotel managers, investors, and tourism officials as the City of New Orleans embarks on a period of recovery from the effects of Hurricane Katrina.

About the Author



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