Investment Values of Lodging Property: Proof of Value for Selected Models

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Investment Values of Lodging Property: Proof of Value for Selected Models

Abstract
In an earlier article the authors introduced two models that demonstrated the effects of taxes and lender criteria on a property estimated value. Here's the proof of value for those models.

Keywords
lodging property, property price, property tax, lender criteria

Disciplines
Hospitality Administration and Management

Comments
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Investment Values of Lodging Property

Proof of Value for Selected Models

by Jan A. deRoos and Stephen Rushmore

In an earlier article the authors introduced two models that demonstrated the effects of taxes and lender criteria on a property's estimated value. Here's the proof of value for those models.

Jan A. deRoos, Ph.D., is an assistant professor at the Cornell University School of Hotel Administration. Stephen Rushmore is president of Hospitality Valuation Services, based in Mineola, New York.
Exhibit 1

Values for all calculations

Our proof uses these numerical values:

- \( M \) = 75%
- \( n \) = 10 years
- \( r \) = varies
- NOIR = 4,031,000
- SE = 3%
- \( i \) = 10.25%
- \( m \) = 30 years
- \( t_1 \) = 39%
- \( l_2 \) = 7 years
- \( B \) = 60%
- \( B_r \) = 30%
- \( F \) = 20%
- \( F_r \) = 70%


The net operating incomes and reserves for replacement are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net operating income</th>
<th>Reserve for replacement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2,112,000</td>
<td>320,000</td>
</tr>
<tr>
<td>2</td>
<td>2,423,000</td>
<td>344,000</td>
</tr>
<tr>
<td>3</td>
<td>2,728,000</td>
<td>370,230</td>
</tr>
<tr>
<td>4</td>
<td>2,865,000</td>
<td>397,740</td>
</tr>
<tr>
<td>5</td>
<td>3,008,000</td>
<td>417,650</td>
</tr>
<tr>
<td>6</td>
<td>3,156,000</td>
<td>438,510</td>
</tr>
<tr>
<td>7</td>
<td>3,316,000</td>
<td>460,440</td>
</tr>
<tr>
<td>8</td>
<td>3,482,000</td>
<td>483,460</td>
</tr>
<tr>
<td>9</td>
<td>3,656,000</td>
<td>507,630</td>
</tr>
<tr>
<td>10</td>
<td>3,839,000</td>
<td>533,010</td>
</tr>
</tbody>
</table>

The annual debt service is calculated by multiplying the mortgage component by the mortgage constant, and the equity residual is calculated by subtracting the mortgage balance from the total equity.

Base Case, Model 1 (before-tax analysis)

Inputs: loan-to-value ratio is 75 percent; before-tax equity yield is 21.0 percent.

The value is proven by discounting the cash flows to the mortgage and equity components at their required rate of return. If the sum of the annual debt service plus ending mortgage balance discounted at the mortgage interest rate equals the initial mortgage balance; and if the sum of the annual equity dividends plus equity residual discounted at the equity yield rate equals the amount of equity capital invested, then $24,041,000 is the correct value using the algebraic model.

Using the assumed financial structure set forth for this scenario, the value can be allocated between the debt and equity as follows:

- Mortgage component (75 percent) $18,031,000
- Equity component (25 percent) 6,010,000

Total $24,041,000

Case Two, Model 1 (before-tax analysis)

Inputs: no debt; unleveraged total property yield is 14.1 percent.

The value is proven if the sum of the annual total cash flows plus the
reversion value discounted at the total property yield equals the value of the hotel ($24,041,000).

The reversion value at the end of the tenth year is calculated as follows:

Reversion value

\( \frac{($4,031,000)}{.115} \) $35,052,000

less

Brokerage and legal fees

(3 percent) 1,052,000

Reversion $34,000,000

Exhibit 5 shows that discounting the annual cash flow at a discount rate of 14.1 percent (total property yield) produces the $24,041,000 valuation.

Case Three, Model 2 (after-tax analysis)

Inputs: loan-to-value ratio is 75 percent; after-tax equity yield is 17.5 percent.

The value is proven if the sum of the annual after-tax cash flows to equity (equity dividends) plus the after-tax equity residual discounted at the after-tax equity yield rate equals the amount of equity capital invested.

The assumed financial structure set forth for this scenario is the same as the base case (Model 1, on the previous page), allocated between debt and equity as follows (and as shown earlier):

Mortgage component (75 percent) $18,031,000

Equity component (25 percent) 6,010,000

Total $24,041,000

Calculating the annual debt service is the same as for the base case and is repeated here:

Mortgage component $18,031,000

Equity component $6,010,000

Calculating the annual debt service is the same as for the base case and is repeated here:

Mortgage component (10.25 percent, 30 years) .108297

Annual debt service $1,953,000

Using annual debt service of $1,953,000, and assuming one annual mortgage payment, the amortization table shown in Exhibit 6
**Exhibit 5**

**Total property yield (IRR = 14.06%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net income before debt service</th>
<th>Present value (PV) of $1 @ 14.06%</th>
<th>Present value of $1 Discounted cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2,112</td>
<td>0.876705</td>
<td>1,852</td>
</tr>
<tr>
<td>2</td>
<td>2,423</td>
<td>0.768611</td>
<td>1,862</td>
</tr>
<tr>
<td>3</td>
<td>2,728</td>
<td>0.673845</td>
<td>1,838</td>
</tr>
<tr>
<td>4</td>
<td>2,865</td>
<td>0.590763</td>
<td>1,693</td>
</tr>
<tr>
<td>5</td>
<td>3,068</td>
<td>0.517925</td>
<td>1,558</td>
</tr>
<tr>
<td>6</td>
<td>3,158</td>
<td>0.454067</td>
<td>1,434</td>
</tr>
<tr>
<td>7</td>
<td>3,316</td>
<td>0.398083</td>
<td>1,320</td>
</tr>
<tr>
<td>8</td>
<td>3,482</td>
<td>0.349001</td>
<td>1,215</td>
</tr>
<tr>
<td>9</td>
<td>3,656</td>
<td>0.305971</td>
<td>1,119</td>
</tr>
<tr>
<td>10</td>
<td>37,839*</td>
<td>0.268246</td>
<td>10,150</td>
</tr>
</tbody>
</table>

Total property value: 24,041

*10th year net income before debt service of 3,639 plus sale proceeds of 34,000 = 37,639

Numbers are 000s of dollars

---

In years where the taxable income is negative, the tax liability is positive, thus assuming that the tax benefit can be used to offset a tax liability from another investment.

shows the debt service, annual interest, mortgage balance at the beginning and end of each year, and the amount of amortization.

To determine the taxable income, the amount of the annual depreciation must be quantified. Using the acquisition price of $24,041,000, the following table shows the allocation of the basis among the three components: building (60 percent); furniture, fixtures, and equipment (FF&E, 20 percent); and land (20 percent).

Improvements:

- **Building**: $14,425,000
- **FF&E**: $4,808,000
- **Land**: $4,808,000
- **Total**: $24,041,000

The straight-line depreciation method will be used, with the building component being depreciated in 39 years and the FF&E component being depreciated in seven years.

The reserve for replacement needs to be factored into the depreciation calculations. It is assumed that each year's reserve for replacement will be spent in a lump sum on the last of each year and will increase the basis in the following year. Thirty percent of the reserve for replacement will be spent on building components (39-year assets) and 70 percent on the acquisition of FF&E (seven-year assets). The depreciation of reserve-for-replacement expenditures in a year will commence the following year. Exhibit 7 shows the calculation of the depreciation for the building and FF&E components.

The basis for the building is calculated each year by deducting the annual depreciation from the beginning-of-the-year basis and then adding the building component of the reserve for replacement. The basis for the FF&E is calculated each year by deducting the annual depreciation from the beginning-of-the-year basis and then adding the
### Exhibit 6

**Amortization table, base case three ($000s)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest payment</th>
<th>Principal payment</th>
<th>Annual debt service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,948</td>
<td>1,837</td>
<td>1,826</td>
</tr>
<tr>
<td></td>
<td>1,813</td>
<td>1,798</td>
<td>1,782</td>
</tr>
<tr>
<td></td>
<td>1,765</td>
<td>1,746</td>
<td>1,725</td>
</tr>
<tr>
<td></td>
<td>1,691</td>
<td>1,655</td>
<td>1,618</td>
</tr>
<tr>
<td></td>
<td>1,584</td>
<td>1,533</td>
<td>1,465</td>
</tr>
<tr>
<td></td>
<td>1,417</td>
<td>1,348</td>
<td>1,247</td>
</tr>
<tr>
<td></td>
<td>1,206</td>
<td>1,116</td>
<td>1,005</td>
</tr>
<tr>
<td></td>
<td>986</td>
<td>877</td>
<td>754</td>
</tr>
<tr>
<td></td>
<td>773</td>
<td>643</td>
<td>509</td>
</tr>
<tr>
<td></td>
<td>506</td>
<td>377</td>
<td>245</td>
</tr>
<tr>
<td></td>
<td>243</td>
<td>177</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>112</td>
<td>73</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>42</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>17</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

#### Beginning mortgage balance

<table>
<thead>
<tr>
<th>Year</th>
<th>18,031</th>
<th>17,926</th>
</tr>
</thead>
</table>

#### Principal payment

<table>
<thead>
<tr>
<th>Year</th>
<th>105</th>
<th>115</th>
</tr>
</thead>
</table>

#### Ending mortgage balance

<table>
<thead>
<tr>
<th>Year</th>
<th>17,926</th>
<th>17,811</th>
</tr>
</thead>
</table>

The basis for the building is calculated each year by deducting the annual depreciation from the beginning-of-the-year basis and then adding the building component of the reserve for replacement.

The basis for the FF&E is calculated each year by deducting the annual depreciation from the beginning-of-the-year basis and then adding the FF&E component of the reserve for replacement.

### Exhibit 7

**Depreciation for the building and FF&E components ($000s)**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total reserve for replacement</td>
<td>320</td>
<td>344</td>
<td>370</td>
<td>398</td>
<td>418</td>
<td>438</td>
<td>460</td>
<td>483</td>
<td>508</td>
<td>523</td>
</tr>
<tr>
<td>Building basis, beginning of year</td>
<td>14,425</td>
<td>14,151</td>
<td>13,882</td>
<td>13,618</td>
<td>13,359</td>
<td>13,104</td>
<td>12,851</td>
<td>12,602</td>
<td>12,356</td>
<td>12,113</td>
</tr>
<tr>
<td>Initial building depreciation</td>
<td>370</td>
<td>370</td>
<td>370</td>
<td>370</td>
<td>370</td>
<td>370</td>
<td>370</td>
<td>370</td>
<td>370</td>
<td>370</td>
</tr>
<tr>
<td>Reserve for replacement, building depreciation</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Less: Total building depreciation</td>
<td>370</td>
<td>375</td>
<td>381</td>
<td>384</td>
<td>387</td>
<td>391</td>
<td>395</td>
<td>399</td>
<td>403</td>
<td>407</td>
</tr>
<tr>
<td>Add: Reserve for replacement, building</td>
<td>96</td>
<td>103</td>
<td>111</td>
<td>119</td>
<td>125</td>
<td>132</td>
<td>138</td>
<td>145</td>
<td>152</td>
<td>160</td>
</tr>
<tr>
<td>Building basis, end of year</td>
<td>14,151</td>
<td>13,882</td>
<td>13,618</td>
<td>13,359</td>
<td>13,104</td>
<td>12,851</td>
<td>12,602</td>
<td>12,356</td>
<td>12,113</td>
<td>11,875</td>
</tr>
<tr>
<td>FF&amp;E basis, beginning of year</td>
<td>4,806</td>
<td>4,345</td>
<td>3,867</td>
<td>3,373</td>
<td>2,861</td>
<td>2,323</td>
<td>1,757</td>
<td>1,165</td>
<td>1,218</td>
<td>1,293</td>
</tr>
<tr>
<td>Initial FF&amp;E depreciation</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
<td>687</td>
</tr>
<tr>
<td>Reserve for replacement, FF&amp;E depreciation</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Less: Total depreciation</td>
<td>687</td>
<td>719</td>
<td>753</td>
<td>790</td>
<td>830</td>
<td>872</td>
<td>916</td>
<td>962</td>
<td>1018</td>
<td>1073</td>
</tr>
<tr>
<td>Add: Reserve for replacement, FF&amp;E</td>
<td>224</td>
<td>241</td>
<td>259</td>
<td>278</td>
<td>292</td>
<td>307</td>
<td>322</td>
<td>338</td>
<td>355</td>
<td>373</td>
</tr>
<tr>
<td>FF&amp;E basis, end of year</td>
<td>4,345</td>
<td>3,867</td>
<td>3,373</td>
<td>2,861</td>
<td>2,323</td>
<td>1,757</td>
<td>1,165</td>
<td>1,218</td>
<td>1,293</td>
<td>1,358</td>
</tr>
</tbody>
</table>

The basis for the building is calculated each year by deducting the annual depreciation from the beginning-of-the-year basis and then adding the building component of the reserve for replacement.

The basis for the FF&E is calculated each year by deducting the annual depreciation from the beginning-of-the-year basis and then adding the FF&E component of the reserve for replacement.
### Exhibit 8

**Calculation of taxable income ($000s)**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>2,112</td>
<td>2,423</td>
<td>2,728</td>
<td>2,865</td>
<td>3,008</td>
<td>3,156</td>
<td>3,316</td>
<td>3,482</td>
<td>3,656</td>
<td>3,839</td>
</tr>
<tr>
<td>Less debt service</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
<td>1,953</td>
</tr>
<tr>
<td>Cash flow after debt service</td>
<td>159</td>
<td>470</td>
<td>775</td>
<td>912</td>
<td>1,055</td>
<td>1,205</td>
<td>1,363</td>
<td>1,529</td>
<td>1,703</td>
<td>1,886</td>
</tr>
</tbody>
</table>

**Add back:**
- **Amortization:** 105
- **Reserve for replacement:** 320
  
**Total additions:** 425

**Deduct:**
- **Depreciation for...building:** 370
- **...FF&E:** 687
  
**Total deductions:** 1,057

**Taxable income:** -473

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income</td>
<td>-473</td>
<td>-162</td>
<td>144</td>
<td>282</td>
<td>416</td>
<td>558</td>
<td>708</td>
<td>1,554</td>
<td>1,753</td>
<td>1,965</td>
</tr>
</tbody>
</table>

---

### Exhibit 9

**Calculation of after-tax equity cash flow ($000s)**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income</td>
<td>-473</td>
<td>-162</td>
<td>144</td>
<td>282</td>
<td>416</td>
<td>558</td>
<td>708</td>
<td>1,554</td>
<td>1,753</td>
<td>1,965</td>
</tr>
<tr>
<td>Tax rate</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
<td>0.39</td>
</tr>
<tr>
<td>Tax liability</td>
<td>-184</td>
<td>-63</td>
<td>56</td>
<td>110</td>
<td>162</td>
<td>218</td>
<td>276</td>
<td>606</td>
<td>684</td>
<td>766</td>
</tr>
<tr>
<td>Cash flow before debt service</td>
<td>2,112</td>
<td>2,423</td>
<td>2,728</td>
<td>2,865</td>
<td>3,008</td>
<td>3,156</td>
<td>3,316</td>
<td>3,482</td>
<td>3,656</td>
<td>3,839</td>
</tr>
<tr>
<td>Less debt service</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
<td>-1,953</td>
</tr>
<tr>
<td>Tax liability</td>
<td>159</td>
<td>470</td>
<td>775</td>
<td>912</td>
<td>1,055</td>
<td>1,205</td>
<td>1,363</td>
<td>1,529</td>
<td>1,703</td>
<td>1,886</td>
</tr>
<tr>
<td>After-tax equity cash flow</td>
<td>344</td>
<td>533</td>
<td>719</td>
<td>802</td>
<td>893</td>
<td>988</td>
<td>1,087</td>
<td>923</td>
<td>1,020</td>
<td>1,129</td>
</tr>
</tbody>
</table>

---

**FF&E component of the reserve for replacement.**

A separate taxable-income calculation is necessary because the IRS definition of taxable income is different from annual cash flow.

The following items are allowable (IRS) deductions:
- All normal operating expenses,
- Interest on mortgages, and
- Depreciation (a non-cash expense).

The following cash expenditures are not allowable deductions:
- Reserve for replacement, and
- Amortization of mortgages.

The taxable-income calculation starts off with the 10-year projection of income and expense. The projection includes the reserve for replacement, which is not an allowable deduction. From the projection of income and expense, the assumed debt service (interest and amortization) is deducted. The interest component of the debt service is an allowable deduction but the amortization is not. The result of deduct-
ing the reserve for replacement and
dept service from the projection of
income and expense is commonly
called “cash flow after debt service.”

Taxable income is calculated by
ong back the amortization and
reserve for replacement and deduct-
ing the depreciation on the building
and FF&E. The details are shown in
Exhibit 8.

Once the taxable income is cal-
culated, the tax liability can be de-
termined by multiplying the taxable
income by the assumed tax rate
(39 percent). The after-tax equity
cash flow takes the cash flow after
debt service and deducts the tax
liability (see Exhibit 9). These cal-
culations result in the quantification
of the annual after-tax equity cash
flow for the 10-year projection
period.

Note that in years where the
taxable income is negative, the tax
liability is positive, thus assuming
that the tax benefit can be used to
offset a tax liability from another
vestment.

The valuation model assumes the
ale of the subject property at the
end of the tenth year. The resulting
equity residual and tax conse-
quences need to be determined.
This is called the after-tax equity
residual.

The after-tax equity residual is
calculated by capitalizing the
th-year’s net income by the
terminal capitalization rate to obtain
the reversion value. The before-tax
equity residual from the sale of the
property is determined by deduct-
ing the ending mortgage balance
and sales expenses (broker and legal
fees) from the reversion value.

As indicated earlier (and repeated
here) the reversionary value is cal-
culated by capitalizing the eleventh
year net operating income at 11.5
percent, as follows:

Reversion value
($4,031,000/.115) $35,052,000

less:
Brokerage and legal fees
(3 percent) 1,052,000
Mortgage balance 16,344,000
Equity residual 17,656,000

The tax consequences must then
be determined to obtain the after-
tax equity residual. The capital gain
is the difference between the rever-
sion value and the property’s tax
basis at the end of

The following table illus-
trates the calculation of the tax
consequences of

<table>
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<tr>
<th>Year</th>
<th>Net income before debt service</th>
<th>Present value (PV) of $1 @ 17.51%</th>
<th>Discounted cash flow</th>
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</table>

Value of equity component $6,010

*10th year after-tax cash flow of $34,000,000
plus after-tax equity residual of $17,656,000

Net sale price $34,000,000

Less basis:
Building $11,875,000
FF&E 1,358,000
Land 4,808,000

Total basis $18,041,000

Capital gain $15,959,000
Capital gains tax rate 0.28
Capital gains tax $4,469,000

Before-tax equity residual $17,656,000

The proof is completed by dis-
counting the annual after-tax cash
flows for the ten-year projection
period plus the after-tax equity
residual at the assumed after-tax
equity yield rate of 17.51 percent to
see if the results equate to the origi-
nal equity investment of $6,010,000.
Exhibit 10 shows the discounting
process and proof.
This issue of Cornell Quarterly has much to offer about service quality, which gives me the opportunity to add my two cents based on some first-hand observations. Regular readers of this page of Cornell Quarterly may recall the last missive from executive editor Glenn Withiam, in which he described his preference for anonymity during his hotel stays (December 1995, p. 96). That letter prompted me to "fess up: unlike Glenn, over the past several years I have been shameless (or perhaps just cheaper yet) in taking advantage of my professional affiliation with the industry. Knowing that I still have much to learn about the inner workings of the hospitality industry, I have arranged numerous stays in advance of my travels by making my itinerary known in advance, requesting tours of the property, and scheduling meetings with key management personnel. I have also had the opportunity to participate in several "fam" trips.

It was that I found myself in Jamaica this past October, a guest of all-inclusive Ciboney Ocho Rios, a Radisson villa, spa, and beach resort. It was a perfectly orchestrated fam trip for about a dozen journalists, organized by NYC's Ellin Ginsburg Communications. The tightly scheduled trip delivered precisely and generously what the letter of invitation promised. That is, we toured and enjoyed the resort's facilities, traveled beyond the resort's 45 acres to see more of Jamaica's natural beauty, tasted the culinary specialties of the island, saw what makes Ciboney a special place for romantic getaways, and watched as delighted paying guests got their money's worth. (Ciboney's rates are based on length of stay; a minimum three-day visit for a couple in typical villa accommodations is US$1,260. The honeymoon villa suite is a little less than twice that amount.)

The enthusiastic cooperation of Ciboney's staff, the carefully maintained grounds and facilities, the culinary skill and inventiveness exhibited by CIA graduate chef Jack Shapanisky, and the well-conceived amenities and accommodations combined to demonstrate exactly how and why the relatively young resort (it opened in 1991) has earned so many awards. Among Ciboney's trophies are designation by the American Association of Travel Editors USA as "one of the world's ten best hotels" for 1994, the Official Hotel Guide's award for "Most Romantic Resort" and "Best Honeymoon Value," the 1995 Gold Key and Gold Platter awards from Meetings and Convention magazine, and, also in 1995, its third consecutive AAA Four-Diamond award. (In fact, Ciboney was the first all-inclusive resort in the world to receive AAA's four-diamond accreditation.)

Ciboney is the brainchild of Jamaican entrepreneur Peter Rousseau, who engaged us with his company during our visit. Rousseau is one of just three individuals nominated as "Independent Hotelier of the World" by Hotels magazine in 1994. Along with the team that developed the $45-million resort, he conceived the idea of individual swimming pools for the resort's 80-some villas, which in turn resulted in the resort's promotional tag line, "What kind of a resort has 90 swimming pools?" Well, now I know: A well-managed, relaxed-and-friendly, makes-me-feel-at-home resort called Ciboney.

So, how do they do it? Ciboney's enviable success, I mean, and making guests feel special? First, the resort is very good at delivering exactly what it promises—and more. Moreover, as best as I could tell, the management is not afraid to invest in two key success strategies:

1. Retain quality employees and (2) promote Ciboney's products to tour guides, meeting planners, and travel agents through on-site visits.

I made it a point to ask each and every line employee I encountered how long they had been employed at the resort, which has been in operation for just under five years. Among all the housekeepers, groundskeepers, barkeepers, waitstaff, ground-transportation drivers, and spa workers to whom I spoke, not a single employee answered fewer than three years. That is key to service-quality management and guest satisfaction: long-term employees who are well trained, who enjoy the work they do, and who are devoted to a management that rewards them for a job well done (often by promotion up through the ranks). Site inspections are also key for any property trying to compete in a highly developed market such as Jamaica. Besides the group I was in, the resort was hosting several other travel-industry groups during my brief visit, primarily travel agents. Undoubtedly, those folks will return home and promote the honeymoon packages, meetings-and-convention services, and leisure-travel opportunities that Ciboney excels at delivering. (Ciboney's market mix is about 85-percent leisure and 15-percent meetings and incentive.)

Merely hoping that potential customers, meeting planners, or travel agents will happen to see an advertisement, or just relying on positive word of mouth from satisfied guests, are by themselves insufficient strategies. So is an off-site sales pitch that, no matter how well crafted it may be, can't begin to differentiate one all-inclusive property from another if the customer hasn't experienced either. Ciboney clearly benefits from the value of a direct outreach approach that offers decision makers first-hand experiences at the resort, which in turn helps those key individuals to sort more decisively through the clutter of ubiquitous advertisements, promotions, and sales calls from similar, competing operations.

Service-quality management is a complicated concept to formulate and actualize, as indicated by the several articles in this issue of Cornell Quarterly which tackle different aspects of that topic. So if, after studying and reading all about service quality, you're still not sure what it's all about or what it looks like, let me suggest you go see for yourself: visit Ciboney Ocho Rios.—F. L. C.