

**Economic and Fiscal Impacts of the Construction and Operations of  
a Proposed Select-Service Hotel on Greater Cincinnati**

**Prepared for  
Western & Southern Financial Group**

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## ECONOMIC AND FISCAL IMPACTS OF THE PROPOSED CONSTRUCTION AND OPERATIONS OF A SELECT-SERVICE HOTEL IN DOWNTOWN CINCINNATI

### EXECUTIVE SUMMARY

This report studies the economic impact of a proposed select-service hotel in downtown Cincinnati, as a result of both its construction and its operations. Fiscal impacts have also been estimated of the projected operations of the hotel. The operations impact is measured from the projected operating expenditures of the hotel for 2014 and cumulatively for the 30-year period from 2014 through 2043.

The client, Western & Southern Financial Group, provided detailed projections for the costs of construction and operations. The client also requested that additional research be undertaken into other potential community benefits the project could produce. The following table highlights economic and fiscal impacts from construction and operations .

<b>Economic and Fiscal Impacts</b>			
	Construction	Operations – Annual (2014)	Operations – 30-Year Total
Total Economic Impact	\$36,498,300	\$6,409,700	\$355,000,000
Earnings Impact	\$14,066,500	\$1,855,300	\$92,400,000
Employment Impact	438	60	60
Fiscal Impact	\$310,000	\$855,000	\$44,200,000

### **Economic Impact of Construction**

- Total investment on land, construction, and design of the hotel is estimated at \$18.0 million, of which \$3.0 million will be spent on land and the remaining \$15.0 million on capital expenditures related to construction. This \$15.0 million will generate a total economic impact of \$36.5 million in the local economy.
- Construction activities will directly generate 192 jobs in the local economy. Expenditures related to construction will generate an additional 246 jobs for a total impact on employment of 438 jobs.
- These construction activities will also generate direct household earnings in the region amounting to \$7.4 million. This will generate an additional indirect household earnings impact of almost \$6.7 million, resulting in a total earnings impact of nearly \$14.1 million.

## Annual Operations Impact

- In 2014, the hotel is projected to have annual operating expenditures of almost \$3.3 million, which will generate a total annual economic impact of \$6.4 million. So, for every thousand dollars spent on operations, the local economy grows by \$1,970. This does not include the impact of any additional economic activity in downtown Cincinnati.
- The \$3.3 million in spending on the hotel's operations will include \$900,000 in direct household earnings. This will result in an annual impact in 2014 of nearly \$1.9 million in total household earnings, and 60 full and part-time jobs.

## 30 Year Cumulative Operations Impact

- Over a period of 30 years, the hotel is expected to spend a total of \$180.2 million on its operations. This will produce a total cumulative economic impact of \$355.0 million, amounting to an average annual impact of \$11.8 million for each of the 30 years.
- The hotel will spend a total of \$44.8 million directly on employee wages and salaries over 30 years. This will produce a total cumulative earnings impact of \$92.4 million, amounting to an average annual earnings impact of \$3.1 million for each of the 30 years.

## Fiscal Impacts and Other Community Benefits

- The hotel's construction activities will produce \$310,100 in income and sales tax revenues for local governments.
- The hotel's operations will generate \$855,000 in 2014, and an average of \$1.5 million annually in sales, lodging, income, and property tax revenues for Hamilton County, the City of Cincinnati, and other taxing jurisdictions within the region.
- The hotel's patrons will increase local demand for cultural and entertainment institutions as well as other businesses within the downtown area.
- Based on interviews with local expert stakeholders, there was consensus that the hotel would foster the ongoing and new growth within the area.

## INTRODUCTION

### **Overview**

Eagle Realty, a member of the Western & Southern Financial Group, is proposing to develop a new select-service hotel in the eastern part of the central business district. The hotel, to be located in the Lytle Park neighborhood of Cincinnati, will offer nightly rooms, extended stay accommodations, and select-service hotel facilities geared primarily toward business travelers.

The location of the proposed hotel is of particular importance since the Lytle Park neighborhood is a part of the up-and-coming southeast quadrant of downtown Cincinnati. Therefore the proposal for the new hotel is of particular importance to the downtown area for community and economic development reasons. Western & Southern has been involved in the real estate development of the quadrant, and an active stakeholder in downtown Cincinnati's growth.

The construction of the hotel would take approximately a year to complete, with a projected opening in the beginning of 2014. This report provides economic impacts from construction and operations of the hotel along with a cumulative economic impact for 30 years of operation. It is important to note that annual operating expenditures of the hotel for 30 years have inflationary expectations built in, and therefore each consecutive year's expenditures are higher by an average inflation rate of 3 percent.

### **Definitions**

The economic impact of any business includes three elements, as defined here: the direct impact, the indirect impact, and the induced impact.

- The direct impact of the hotel comprises purchases of local resources (labor, goods, and services) for construction and hotel's operations.
- The indirect impact is the purchases of local resources made by local businesses in order to produce the goods and services purchased by the hotel, along with consequent purchases by other businesses that supply the first group of businesses.
- The induced impact is the local household spending of the earnings generated from the hotel's construction and operations related activities.

In assessing the economic impact, the study area is the 15-county Cincinnati Metropolitan Statistical Area (MSA) as defined by the U.S. Census Bureau. It is a 15-county region including Hamilton, Butler, Warren, Clermont, and Brown Counties in southwestern Ohio; Boone, Kenton, Campbell, Gallatin, Grant, Pendleton, and Bracken Counties in northern Kentucky; and Franklin, Dearborn, and Ohio Counties in southeastern Indiana.

## ECONOMIC IMPACT OF CONSTRUCTION

New construction projects such as this generate large, short-term economic impacts within the local economy. The new development would spur major investment in the area providing jobs and income to individuals within the metropolitan boundary as well as promote additional development in the surrounding area.

### Economic Impacts of Construction

It is estimated that a total of \$18.0 million will be spent on the construction of the hotel with \$15.0 million on capital expenditures and \$3.0 million on the purchase of land. The \$3.0 million used for purchasing the land does not technically generate local economic activity and therefore is omitted from the impact analysis.

<b>Construction Expenditures</b>	
Capital Expenditures	\$15,000,000
Land Cost	\$3,000,000
<b>Total Investment</b>	<b>\$18,000,000</b>

For purposes of this analysis, hotel construction is assumed to take place throughout 2013. It is estimated that 75 percent of the \$15.0 million in capital expenditures will comprise hard costs (including salaries to construction workers) and the remaining 25 percent will comprise soft costs such as engineering and architectural services.

Construction projects such as this one can have a significant impact on the local economy because they involve the use of local contractors in building and related trades, and the purchases of large quantities of material from local businesses. The potential economic impacts of the construction project are comprised of the direct spending for the project, as well as the indirect and induced economic activity generated as a result of the construction.

The total economic impact of the local construction spending is calculated to be approximately \$36.5 million, as shown in the table below. Thus, the \$15.0 million that gets spent on construction projects is estimated to generate an additional \$21.5 million in economic activity.

<b>Economic Impact of Construction</b>	
Direct Spending	\$15,000,000
Indirect and induced Impact	\$21,498,300
<b>Total Economic Impact</b>	<b>\$36,498,300</b>

As a result of the proposed hotel construction, additional jobs and economic activity will be generated in the region. During the construction period of about 12 months, an estimated 450 different workers will be engaged in building the hotel. Many of these jobs will be of shorter duration, so construction is expected to directly generate the equivalent of 192 year-long jobs. Expenditures for the construction will generate an additional 246 jobs, for a total impact on employment of 438 jobs.

<b>Construction Impact on Employment</b>	
Direct Employment	192
Indirect and induced Impact	246
<b>Total Impact on Employment</b>	<b>438</b>

These construction activities will also generate household earnings in the region amounting to \$14.1 million. This is derived from the total direct earnings from overall construction, projected to be \$7.4 million. These construction activities are estimated to then generate an additional indirect household earnings impact of \$6.7 million, which occur as a result of jobs generated by the initial project construction.

<b>Construction Impact on Earnings</b>	
Direct Earnings	\$7,410,100
Indirect and induced Impact	\$6,656,400
<b>Total Impact on Earnings</b>	<b>\$14,066,500</b>

## ECONOMIC IMPACT OF OPERATIONS

When the hotel starts its operations in the year 2014, it will generate a total annual economic impact of \$6.4 million and 39 jobs in the local economy. This will result in a total earnings impact of \$1.8 million. This chapter details the annual operating expenditures of the hotel and the annual economic impacts expected to be generated from its expenditures.

### | Operating Expenditures and their Economic Impact

The hotel's operations, calculated to begin in 2014, will include direct expenditures related to labor and other expenses for its various operational departments such as rooms, food and beverage, and general operations. These will amount to a total of \$3.3 million in annual operating expenditures. The table below shows the planned operating expenditures by category.

<b>2014 Annual Operating Expenditures</b>	
Rooms	\$739,000
Food & Beverage	\$219,000
General Operations	\$1,672,000
Taxes & Insurance	\$412,000
Capital Replacement	\$212,000
<b>Total Operating Expenditures</b>	<b>\$3,254,000</b>

These operating expenditures will create additional annual indirect and induced economic impacts within the Greater Cincinnati area. The indirect and induced impact is generated by local firms and employees who supply resources to the hotel to support its day-to-day operations. As shown in the table below, direct spending by the hotel will generate an additional \$3.2 million in economic activity within the Cincinnati region. When these expenditures and impacts are combined, the total economic impact of operations comes to \$6.4 million.<sup>1</sup>

<sup>1</sup> This figure does not include any impact from visitor spending on dining, entertainment, etc. However, two market factors suggest that a new hotel will generate additional economic activity in downtown Cincinnati. First, when a new hotel is added to a market, the total number of room nights usually increases. Most of the additional quantity reflects an increase in market demand, but a small percentage (20-25%, according to industry executives) is demand that is induced by the increase in supply because the new hotel makes a market more attractive to both business and leisure travelers, resulting in an increase in visitors to the region, and consequent new visitor spending on a range of goods and services in addition to hotel rooms. Second, the new hotel is expected to increase downtown stays by accommodating turndowns from the one comparable hotel in the area. Turndowns reflect unsatisfied demand on nights when hotel is at capacity. When prospective guests are forced to choose an alternate hotel, 60% make location their priority and the other 40% select on the basis of brand or category, according to industry experts, leading to a loss of related spending. By capturing additional spending from these two categories of visitors, the presence of a new hotel would generate about \$2.5 to \$3.0 million in additional economic activity in downtown Cincinnati.

<b>Economic Impact of Operations</b>		
	2014	Over 30 years
Direct Spending	\$3,254,000	\$180,235,000
Indirect and induced Impact	\$3,155,700	\$174,791,900
<b>Total Economic Impact</b>	<b>\$6,409,700</b>	<b>\$355,026,900</b>

For every thousand dollars spent on hotel operations, additional indirect and induced economic activity causes the local economy to grow by \$1,970. The sizable indirect and induced impact emphasizes the importance of such a hotel and its direct impact in replenishing the local economy.

Over a period of 30 years, the hotel is expected to spend a total of \$180.2 million on its operations. This will produce a total cumulative economic impact of \$355.0 million, amounting to an average annual impact of \$11.8 million for each of the 30 years.<sup>2</sup>

## Household Income and Employment Impacts

The impact of the hotel on household income and employment begins with the wages and salaries paid to its part-time and full-time employees. The indirect impacts are produced as other businesses hire and pay employees to meet the demands of the hotel. All of these activities generate household income and help to support full and part-time jobs in the Greater Cincinnati region.

The hotel is projected to spend a total of \$900,000 on wages and salaries in its first year. This will generate an additional \$955,300 in indirect and induced impact resulting in a total earnings impact of about \$1.86 million in the Greater Cincinnati region.

<b>Earnings Impact of Operations</b>		
	2014	Over 30 years
Direct Earnings (wages and salaries)	\$900,000	\$44,800,000
Indirect and induced Impact	\$955,300	\$47,552,700
<b>Total Earnings Impact</b>	<b>\$1,855,300</b>	<b>\$92,352,700</b>

Over a period of 30 years, the hotel will spend a total of \$44.8 million directly on employee wages and salaries. This will produce a total cumulative earnings impact of \$92.4 million, amounting to an average annual earnings impact of \$3.1 million for each of the 30 years (with inflation built in).

Hotel projections call for a staffing level of 27 full-time equivalent (FTE) positions. It is expected that the actual direct employment number will be about 30 percent higher than this FTE staffing level, since hotels typically have a moderate amount of part-time employment. The resulting direct

<sup>2</sup> Annual operating expenditures of the hotel for 30 years have inflationary expectations built in, and therefore each consecutive year's expenditures are higher by an average inflation rate of 3%.

employment figure of 35 jobs, combined with the anticipated direct and indirect employment associated with the hotel's operations, produces a total impact of 60 jobs for the Cincinnati region. Because these jobs will be ongoing, the impact in 2014 and over the next 30 years is the same. This overall impact on employment is the sum of all jobs created or maintained as a result of the economic activity generated by the hotel.

<b>Employment Impact of Operations</b>	
Direct Employment	35
Indirect and induced Impact	25
<b>Total Employment Impact</b>	<b>60</b>

## FISCAL IMPACTS AND OTHER COMMUNITY BENEFITS

The economic benefits of a select-service hotel in downtown Cincinnati go beyond the new economic activity that it is expected to be generated from its operational and capital expenditures. The hotel will also produce fiscal impacts in the form of new local government revenues from lodging, sales, income, and property taxes, and it can produce a number of other benefits for the downtown area.

The fabric of the urban environment, comprised of its social, economic and environmental assets, is also impacted on various levels. City and regional leaders rely on the attraction factor of an area to serve economic development strategies. As destinations become more marketable, a city is better equipped to bring in new businesses, a new workforce, and new visitors who inject money into the local economy.

### | Local Fiscal Impacts from Construction

The hotel is expected to contribute \$310,100 to local jurisdictions as tax revenues due to its construction. The fiscal revenue from construction will mainly be in the form of sales taxes and income taxes. As shown in the following table, the City of Cincinnati will receive about \$211,500 of all tax revenues, Hamilton County will receive \$53,400, and the balance of \$45,200 is divided in various ways among other jurisdictions within the region.

<b>Local Fiscal Impacts from Construction, 2013</b>				
	<b>Cincinnati</b>	<b>Hamilton County</b>	<b>Others</b>	<b>Total</b>
Sales Tax		\$53,400	\$5,200	\$58,600
Income Tax	\$211,500		\$40,000	\$251,500
<b>Total Fiscal Impact</b>				\$310,000

A major investment such as this also tends to have valuable spin-off effects, encouraging surrounding property owners to spend money on their properties. When this occurs, the downtown area is likely to experience increased economic activity, and local governments gain additional sales, income, and property tax revenues.

### | Local Fiscal Impacts from Operations

The operations of the hotel are expected to bring a total of \$855,000 to local jurisdictions in lodging tax, sales tax, income tax, and property tax revenues. Nearly all of the lodging tax collected by the City and the County funds either convention center bonds or convention & visitors bureau operations. Aside from these revenues, the following table shows that the City of Cincinnati will receive \$62,800 in income and property tax revenues. Hamilton County will receive an additional \$115,600 in sales and property tax revenues. The remaining \$255,500 is divided in various ways among other jurisdictions within the region.

<b>Local Annual Fiscal Impacts from Operations, 2014</b>				
	<b>Cincinnati</b>	<b>Hamilton County</b>	<b>Others</b>	<b>Total</b>
Lodging Tax	\$160,400	\$260,700		\$421,100
Sales Tax		\$50,500	\$800	\$51,300
Income Tax	\$26,900		\$5,700	\$32,600
Property Tax	\$35,900	\$65,100	\$249,000	\$350,000
<b>Total Fiscal Impact</b>				\$855,000
<b>Over 30 years (total)</b>				\$44,200,000

Over a period of 30 years, the hotel will generate a total of \$44.2 million in local tax revenue, which is an average of \$1.5 million for each of the 30 years. Cumulative tax revenues are projected to include \$12.5 million for Cincinnati, \$18.9 million for Hamilton County, and \$12.8 million for other jurisdictions.

## Other Community Benefits

The community benefits portion of this analysis is based on additional Economics Center research, particularly interviews with people familiar with the community development issues facing downtown Cincinnati. The aim of this research was to gain a better understanding of how a new hotel in this location might affect surrounding businesses and the overall attractiveness of the eastern half of the central business district for existing and potential new employers.

The Lytle Park neighborhood is dominated by residential high-rises, an existing Residence Inn, the Anna Louis Inn women's shelter, and one of the City's largest employers, Western & Southern Financial Group. It is also adjacent to Procter & Gamble and Queen City Square Tower, the City's newest office tower. It is within easy walking distance of Great American Ball Park, The Banks development, Fountain Square, and the forthcoming Horseshoe Casino. This southeast quadrant is described as the perfect mix for someone who loves downtown living, but wants it at a less frenetic pace.<sup>3</sup> The new hotel will offer enhanced convenience for most class A office space businesses. Both the hotel and businesses will, therefore, benefit from each other's existence.

As part of its research, the Economics Center interviewed six local stakeholders with varied business and community interests in the economic development of the neighborhood, City, and region. Though one interviewee was of the opinion that the Lytle Park neighborhood "does not need a hotel," the consensus of the interviewees was that more visitor activity would contribute to the development of the area.

<sup>3</sup> "Downtown Neighborhoods." Downtown Cincinnati Inc.  
<http://www.downtowncincinnati.com/LiveHere/OurNeighborhoods.aspx>

One individual described the Lytle Park area as “unique, high-end, quaint, sophisticated and urban, yet still warm, walkable and accessible.” Every interviewee acknowledged that the activity generated by the Residence Inn, which opened in 2011, was a positive addition to the Lytle Park experience. It was noted that even the loading and unloading of guests benefited the neighborhood by adding opportunities for social interaction and by activating the streets. These new experiences contribute to the attractiveness of the area.

When asked if downtown would benefit from the addition of a new hotel, four of the six respondents strongly expressed their enthusiasm for the concept. Hotel and business travel experts who were interviewed claim that a “new hotel brings a new audience.” With occupancy rates in downtown Cincinnati at their highest levels in the last five years, a new select-service hotel is well positioned to capture this increasing demand.<sup>4</sup> In addition, the economic benefits of creating a sense of place should be noted. New hotel guests would contribute to Lytle Park’s sense of place and continue to define its marketability to potential businesses, residents and tourists. Today, there is an increasing market acceptance for building designs that place “greater emphasis on a sense of place.”<sup>5</sup>

The uniqueness of a select-service concept also has economic benefits unrealized by a full-service hotel. Business and leisure travelers need restaurants and bars, meeting and banquet spaces, and entertainment options. The select-service hotel offers a much more limited range of amenities and services, and thus local businesses are afforded more opportunities to generate revenue from these particular guests. Due to the walkable nature of a dense, urban environment, businesses can benefit from both planned purchases as well as impulse customers.

Downtown Cincinnati is headquarters to several Fortune 500 companies which require hotel rooms for travelling employees and clients. Companies of all sizes that are located in the City need a vibrant, safe downtown in order to attract a creative and skilled workforce. Creating a quality environment for residents and an exciting destination for visitors is a known economic development strategy, and those cities that do it best are most successful.<sup>6</sup> A new hotel in the Lytle Park neighborhood could benefit these companies’ growth strategies as they leverage such local resources to tell the story of an amenity-filled, active urban center. Cultural institutions and convention centers can avail themselves of yet another option when promoting short and long-term stay opportunities to guests and event planners.

Within the downtown area, the combined presence of major employers, other businesses, entertainment attractions, and residential living within close proximity to each other creates a value that is greater than the sum of its individual parts. Spending by new visitors or residents, the opening or expansion of a business, or the success of an international event like the World Choir Games, generates a ripple effect that adds to economic activity. The ability of a business to enhance its environment and contribute to the business objectives of its neighbors is an added benefit.

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<sup>4</sup> Hotel occupancy rates increased from 58 percent in 2007 to 63 percent in 2011.

[http://www.downtowncincinnati.com/Libraries/DCI\\_Publications/2011\\_SOD\\_lo\\_res.sflb.ashx](http://www.downtowncincinnati.com/Libraries/DCI_Publications/2011_SOD_lo_res.sflb.ashx)

<sup>5</sup> “Market Acceptance of Smart Growth.” United States Environmental Protection Agency.

[http://www.epa.gov/dced/pdf/market\\_acceptance.pdf](http://www.epa.gov/dced/pdf/market_acceptance.pdf)

<sup>6</sup> “Valuing the New Urbanism: The Impact of the New Urbanism on Prices of Single-Family Homes”. Mark J. Eppli and Charles C. Tu. Urban Land Institute. 1999.

## CONCLUSION

The \$15.0 million in local construction and design expenditures is estimated to generate an additional \$21.5 million in economic activity in the region. The construction activities are estimated to create 438 new jobs in the region, including 246 jobs created through indirect and induced spending as a result of the hotel's construction. The construction project is also expected to generate nearly \$14.1 million in earnings for area households. Finally, the project will produce \$310,100 in tax revenues for local governments as a result of the construction expenditures.

Upon the opening of the hotel in 2014, its operating expenditures will generate an annual economic impact of \$6.4 million with nearly \$1.9 million in total household earnings and 60 jobs. The City of Cincinnati, Hamilton County, and other local jurisdictions will receive an average of \$1.5 million in tax revenues annually due to the hotel's operations over a 30 year period.

New local amenities and businesses can improve the attractiveness of the Lytle Park area for workers, residents and visitors. According to experts interviewed for this project, a "new hotel brings a new audience" which would likely increase the overall quality of life in the area. Overall, an increased mix of commercial, residential, and mixed-use development will likely result in improved quality of life in the area and an added asset to the entire downtown.

## METHODOLOGY

The total economic impact from construction is the direct spending on construction material, labor costs, and design and architectural services plus their indirect and induced impacts on the local economy. The indirect and induced impacts comprise all related business activities supporting direct construction spending.

To measure the annual economic impact of operations, the hotel's annual expenditure projections for 2014 were provided by a leading hotel development and management company via the client. This information is for various departments in the hotel such as rooms, telephone, food and beverage, and other finance related costs. Information on operating expenditures was also provided for 30 years of the hotel's operation. Inflationary expectation was then built into the 30 year annual figures. This provided the basis for the calculation of the economic impact. Information on wages and salaries of full and part-time employees was also provided for all the years. These constitute the direct impact of the hotel on the local economy, but the hotel will also have indirect and induced impacts.

Local businesses that will supply products to the hotel will in turn purchase local goods and services to produce their products. These local expenditures by businesses that supply products to the hotel are termed indirect impacts. Induced impacts result from wage payments made by firms that supply products to the hotel. As suppliers pay wages to households, they in turn spend some of these wages for local goods and services, which is termed an induced impact.

Fiscal impacts are calculated based on the economic activity, and income estimates determined from the economic impact calculations, using prevailing sales and income tax rates as well as employment distributions. Tax revenues are estimated for the City of Cincinnati, Hamilton County, and other local jurisdictions.

Measuring the indirect and induced impacts in the Cincinnati MSA is made possible by multipliers derived from an input-output table ("I-O table") for the Cincinnati MSA. The Bureau of Economic Analysis of the U.S. Department of Commerce has constructed these tables for major metropolitan areas in the U.S. through its RIMS II project. The RIMS II tables for the Cincinnati MSA provide multipliers to measure the indirect and induced impacts of virtually any type of economic activity in the region.

To gain a better understanding of other community benefits anticipated from the project, research was conducted on facets of downtown urban revitalization. The Economics Center also conducted several interviews with persons knowledgeable about the hotel industry, business travel, and/or local community and economic development issues. Each interview lasted approximately a half hour.