

## Cornell Hotel Analysis Shows How Renovations Reverse Depreciation

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### Hotel Report Demonstrates the Impact of Renovations on Property Value

As is true of all commercial real estate, the value of a hotel begins to depreciate as soon as the property is open. But a new hotel report from Cornell University's Center for Hospitality Research finds that the depreciation in a hotel's value usually hits an 'inflection point,' when the property value begins to appreciate. The hotel analysis, "New Beats Old Nearly Every Day: The Countervailing Effects of Renovations and Obsolescence on Hotel Price," is available at no charge at [www.hotelschool.cornell.edu/research/chr/pubs/reports/2008.html](http://www.hotelschool.cornell.edu/research/chr/pubs/reports/2008.html).

Hotel value declines at a relatively brisk rate for the first ten years of operation, until renovations slow that depreciation. But then hotels typically reach a point in their economic lives when that depreciation reverses. Based on his study of 3,810 chain-affiliated hotels, John B. (Jack) Corgel - the Robert C. Baker Professor of Real Estate at the Cornell School of Hotel Administration - determined that the average age for this turning point is 28 years (holding constant factors unrelated to property age).

### Hotel Analysis Shows that Renovations Pay Off Over Time

'My analysis suggests that renovation money is well-spent on middle-aged properties that are positioned in strong markets with good locations,' said Corgel. 'Although outside events do remove some hotels, many properties survive to increase in value during their middle years. Thus, I urge owners to analyze today's renovation expenses against this future value.'

The newly released hotel report indicates that the best-positioned hotels that are still operating at the inflection point may well be on their way to become classic properties. Those that are not so well positioned may be candidates for rebranding at a different level of chain scale and average daily rate. The decision for the owner is whether to 'swim upstream' by making investments that counter the effects of obsolescence, or whether it's time to find a buyer.

Thanks to the support of the Center for Hospitality Research partners listed below, all Cornell Hospitality Reports and Tools are made available free of charge from the center's website, [www.chr.cornell.edu](http://www.chr.cornell.edu).

### About The Center for Hospitality Research

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