



# THE PRIVATIZATION OF ARMY LODGING INITIATIVE **PAL**

## THE PRIVATE PARTNERSHIP GOING FORWARD

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## **OVERVIEW**

### **GROUP A, FISCAL YEAR 2003 SUMMARY**

<b>Rooms</b>	<b>4,424</b>
<b>Occupancy</b>	<b>73.6%</b>
<b>Average Room Rate</b>	<b>\$34.05</b>
<b>RevPAR</b>	<b>\$25.05</b>
<b>Room Nights Sold</b>	<b>1,142,192</b>
<b>Certificates of Non Availability</b>	<b>210,951</b>
<b>San Antonio Lodging Success Program Demand</b>	
<b>Accommodated</b>	<b>94,299</b>
<b>Non Availability</b>	<b>57,307</b>

## **A REVIEW OF PAL OBJECTIVES AND PROGRAM EXPECTATIONS**

- **Exit a non-core function and find a cure for capital replacement needs**
- **Obtain private sector innovation and expertise in order to upgrade Army Lodging facilities and services**
- **Minimize the cost impact on The Army's travel budgets while acknowledging room rates will have to increase in order to accomplish lodging upgrades**
- **Create a long-term, sustainable capital improvement program**

## **PAL PROGRAM SERVICE STANDARDS**

**24 Hour – 7 Days a week front desk and reservation service**

**Housekeeping services and amenities consistent with industry standards and good business principles**

**Continental breakfast service**

**Priority placement of official travelers**

**Consideration for distinguished visitors**

## **PAL PROGRAM BUILDING STANDARDS**

**The Army will generally be well served by limited service lodging facilities with extended stay characteristics**

**Needs unique to Army travelers may include:**

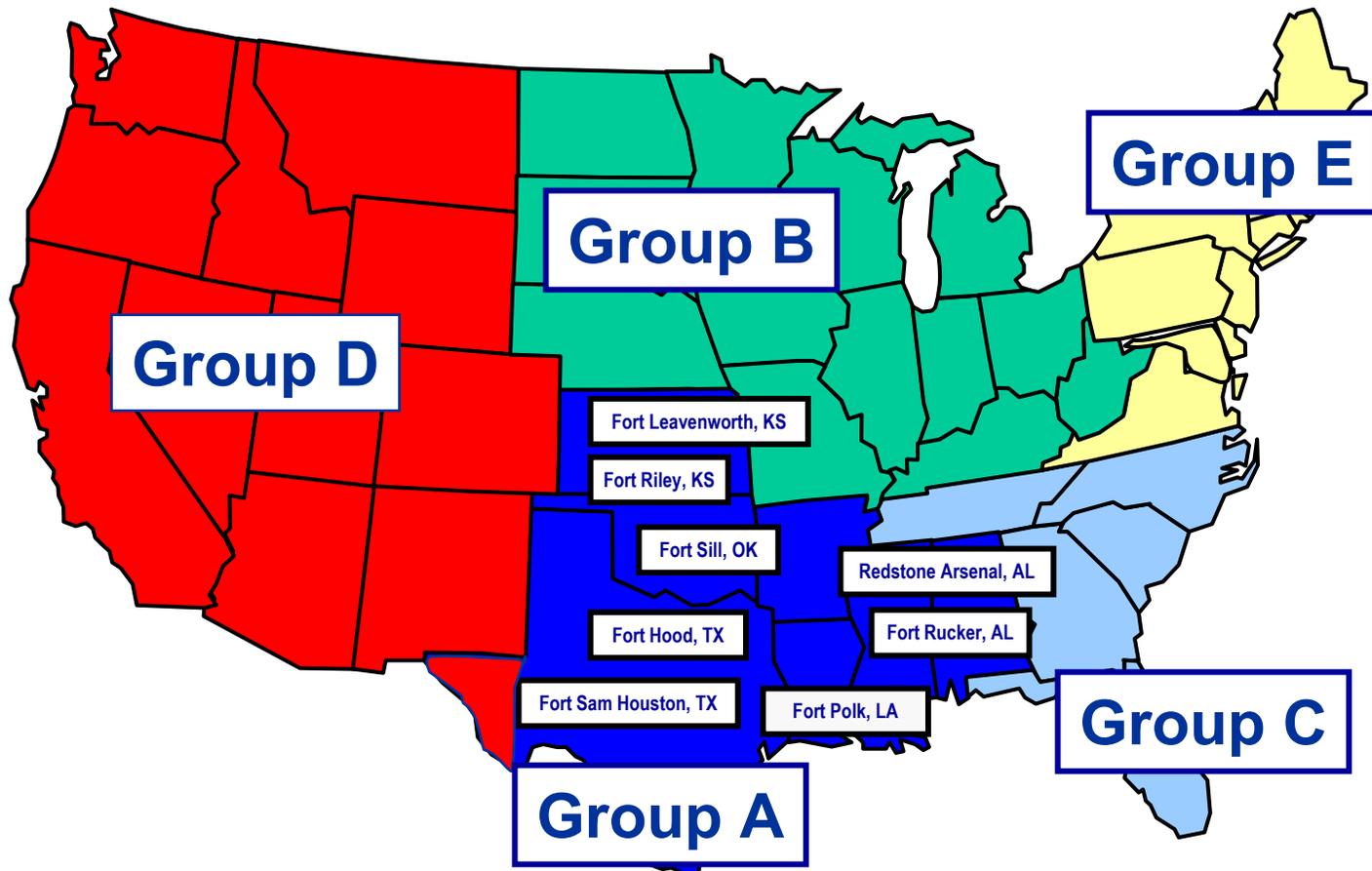
- **Student study rooms**
- **Gear washing rooms**
- **Sizeable guest laundry facilities**
- **Bulk storage areas**

**Compliance with force protection standards**

**Compliance with local building standards and installation design guidelines**

# **PAL PROGRAM – 5 PROJECT GROUPS**

## **Project 1 = Group A**



## **THE PAL OUTLOOK**

	<b>All CONUS/Hawaii/Alaska</b>	<b>Group A</b>
<b>Estimate of rooms</b>	<b>19,052</b>	<b>3,995</b>
<b>Stabilized occupancy</b>	<b>76-82%</b>	<b>76-82%</b>
<b>Average room rate</b>	<b>\$50-\$55</b>	<b>\$47-\$53</b>
<b>RevPAR</b>	<b>\$38-\$45</b>	<b>\$35-\$44</b>
<b>Room revenue</b>	<b>\$264M-\$314M</b>	<b>\$52M-\$63M</b>

## **PAL GROUP A**

**Estimated inventory Reduction From 4,424 Rooms To 3,995 Rooms**

	<b>Rooms</b>	<b>Renovated</b>	<b>New</b>
• Redstone Arsenal, AL	150 rooms	84	66
• Fort Rucker, AL	800 rooms	640	160
• Fort Leavenworth, KS	338 rooms	338	0
• Fort Riley, KS	157 rooms	157	0
• Fort Polk, LA	450 rooms	318	132
• Fort Sill, OK	800 rooms	530	270
• Fort Hood, TX	500 rooms	348	152
• Fort Sam Houston, TX	<u>800 rooms</u>	<u>174</u>	<u>626</u>
<b>Total</b>	<b>3,995 rooms</b>	<b>2,589</b>	<b>1,406</b>

# **RENOVATION AND CONSTRUCTION COST ESTIMATES**

	<b>Rooms</b>	<b>Cost Estimate</b>	<b>Cost Per Room</b>
• Redstone Arsenal, AL	150	\$7,000,000	\$47,000
• Fort Rucker, AL	800	\$27,000,000	\$34,000
• Fort Leavenworth, KS	338	\$8,000,000	\$24,000
• Fort Riley, KS	157	\$4,000,000	\$25,000
• Fort Polk, LA	450	\$15,000,000	\$33,000
• Fort Sill, OK	800	\$35,000,000	\$44,000
• Fort Hood, TX	500	\$18,000,000	\$36,000
• Fort Sam Houston, TX	<u>800</u>	<u>\$60,000,000</u>	<u>\$75,000</u>
<b>Total</b>	<b>3,995</b>	<b>\$174,000,000</b>	<b>\$43,600</b>

\* Not Including transaction and miscellaneous fees.

## **PRIVATIZATION OF ARMY LODGING**

**Assistant Secretary of the Army (Installations and Environment)**

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### **PER DIEM RATES**

	<b>1995</b>	<b>2004</b>	<b>Percent Change *</b>
<b>Redstone Arsenal, AL</b>	<b>\$58.00</b>	<b>\$67.00</b>	<b>1.7%</b>
<b>Fort Rucker, AL</b>	<b>\$40.00</b>	<b>\$55.00</b>	<b>3.6%</b>
<b>Fort Leavenworth, KS</b>	<b>\$40.00</b>	<b>\$55.00</b>	<b>3.6%</b>
<b>Fort Riley, KS</b>	<b>\$53.00</b>	<b>\$55.00</b>	<b>0.4%</b>
<b>Fort Polk, LA</b>	<b>\$40.00</b>	<b>\$55.00</b>	<b>3.6%</b>
<b>Fort Sill, OK</b>	<b>\$45.00</b>	<b>\$55.00</b>	<b>2.3%</b>
<b>Fort Hood, TX</b>	<b>\$49.00</b>	<b>\$62.00</b>	<b>2.7%</b>
<b>Fort Sam Houston, TX</b>	<b>\$77.00</b>	<b>\$91.00</b>	<b>1.9%</b>

***The rooms available CAGR for the group 1995-2004 was 2.6%***

\*Compound annual growth rate from 1995-2004 by installation. Per Diem Rates are set by the Government Services Administration (GSA).

# **PER DIEM RATE CHANGE Compared To Other Benchmarks**

<b>BENCHMARK</b>		<b>ANNUAL % CHANGE</b>
<b>CONUS Per Diem Rates</b>	<b>1995 - 2003</b>	<b>2.87%</b>
<b>US Hotel Industry ADR</b>	<b>1995 - 2003</b>	<b>2.87%</b>
<b>Consumer Price Index</b>	<b>1995 - 2003</b>	<b>2.38%</b>
<b>GDP Deflator</b>	<b>1995 - 2003</b>	<b>1.70%</b>
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<b>CONUS Per Diem Rates</b>	<b>1999 - 2003</b>	<b>1.83%</b>
<b>US Hotel Industry ADR</b>	<b>1999 - 2003</b>	<b>0.61%</b>
<b>Consumer Price Index</b>	<b>1999 - 2003</b>	<b>2.51%</b>
<b>GDP Deflator</b>	<b>1999 - 2003</b>	<b>1.88%</b>

**PAL PROGRAM  
OPPORTUNITIES AND CHALLENGES**

## **THE PARTNERSHIP OPPORTUNITIES**

- **Additional equity derived from conveyed assets, nominal ground lease, and low cash contribution**
- **Demonstrated stable demand and immediate cash flow**
- **Proximity to sources of Army demand**
- **Competitors face significant barrier to entry**
- **The project will generate market-based and negotiated development fees, management fees, and franchise fees**
- **Cash equity will receive a preferred return**
- **Long-term capital improvement program**

## **THE PARTNERSHIP OPPORTUNITIES**

- **Army travelers have strong reasons to elect to stay in on-post lodging facilities**
- **Marketing expenses are low**
- **Significant extended stay characteristics**
- **Unofficial travel demand may also be accommodated**
- **There is potential to capitalize on brand loyalty**
- **Risk mitigation through asset grouping**

## **PARTNERSHIP CHALLENGES**

- **Heavy reliance on a single source of demand**
- **Exit strategies**
- **Deployment and redeployment variables**
- **Base realignment and closure [BRAC] Initiatives**

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