

# ECONOMIC IMPACT OF POTENTIAL HOSPITALITY DEVELOPMENT IN THE TOWN OF WASHINGTON, NY

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Introduction and Summary of Findings ..... 1

Market Opportunity..... 3

    Lodging Sector Overview..... 4

    Visitor Spending..... 5

    Small Events Market ..... 5

Estimated Impacts ..... 6

    Economic impact of a lodging establishment ..... 6

    Economic impact of a restaurant ..... 8

    Economic impact of a hosted event space ..... 10

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## Introduction and Summary of Findings

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The Town of Washington is evaluating changes to its land use regulations related to future hospitality development. As a part of that review, the Town seeks to understand the potential fiscal and economic impacts associated with desired types of hospitality development. Generating additional tax revenue, and new customers for local businesses, are important considerations in determining what new uses might be allowed.

Respondents to a survey conducted in the early months of 2022 generally favored allowing more hospitality development within the Town, with limitations, by a margin of about two to one. Uses favored in the survey included lodging establishments with no more than 20 rooms, and accessory uses such as a bar and restaurant or hosted event venue. Input received during an open house meeting was consistent with these results. These uses can take many forms.

- **Lodging.** Lodging in a range from one to 20 guest units can include short term rentals (often listed through AirBnB or VRBO), guest cottages and cabins, bed and breakfast establishments, and boutique hotels or inns. Combinations are common, as when a bed and breakfast or inn may offer some rooms in the main structure, and have additional cottages on the property.
- **Eating and drinking establishments.** Restaurants may stand alone or be incorporated into the other hospitality uses being contemplated. For example, a farmhouse may be converted to a restaurant while the barn serves an event venue. Less formal arrangements are also possible, such as farm-to-table dining outdoors or under a tent.
- **Event venues.** Event venues can be newly constructed or repurposed buildings such as historic homes, barns, or industrial buildings. They may also be outdoor or tented spaces used seasonally. Weddings and social events are the most common market, with most bookings on weekends in warmer months or around the holidays. Some facilities also pursue a business market for meetings, training session, or retreats, which are more likely to book weekdays.

Without an actual project to test, a likely scenario was prepared for each of the three hospitality types, which was then modeled to examine impacts such as typical investment, rates and patterns of utilization, employment generation and wages, venue revenues and expenditures, and tax generation.

- A 20-room boutique hotel or inn, providing luxury tier accommodations, will have the greatest level of investment along with economic impacts to the Town. The scenario developed for this analysis would have a total investment in excess of \$10 million, with annual revenue of more than \$1.2 million. It would create up to eleven full-time equivalent jobs, generating nearly \$50,000 in annual lodging tax and over \$160,000 in property taxes. The business would be expected to make purchases of \$560,000, some of which could be captured locally.
- A 60-seat full-service restaurant, marketed to upper-income residents and visitors, would be expected to require an initial investment of \$1.6 million. It would employ eleven to 15 people. With sales of close to \$1.1 million, it would generate about \$87,000 in sales taxes and \$27,000 in property tax. It would spend \$450,000 annually on food, supplies, and services, with the potential for some of these purchases to be made from local businesses.
- An event venue would have the least economic impact in terms of direct spending and tax revenue. The total investment for the model project was \$350,000, generating \$6,250 in

property taxes. Facility rentals without catering provided by the same business do not pay a sales tax in New York. Operating only when booked, the business would not be expected to have full-time employees, instead using contract labor as needed. Annual revenues would be \$250,000. Minor purchases of supplies and services could be captured by local businesses.

Hospitality development will impact the Town directly through additional property tax it collects on incremental increases in value, resulting from new investment. It will benefit indirectly as other jurisdictions see a similar increase in property taxes collected, along with sales and lodging taxes. There will be an overall increase in economic activity, with new visitors and spending at local businesses. Costs to the Town will need to be considered on an individual project basis, however, at the small scale that is being considered, there should be negligible need for off-site improvements or public services.

## Market Opportunity

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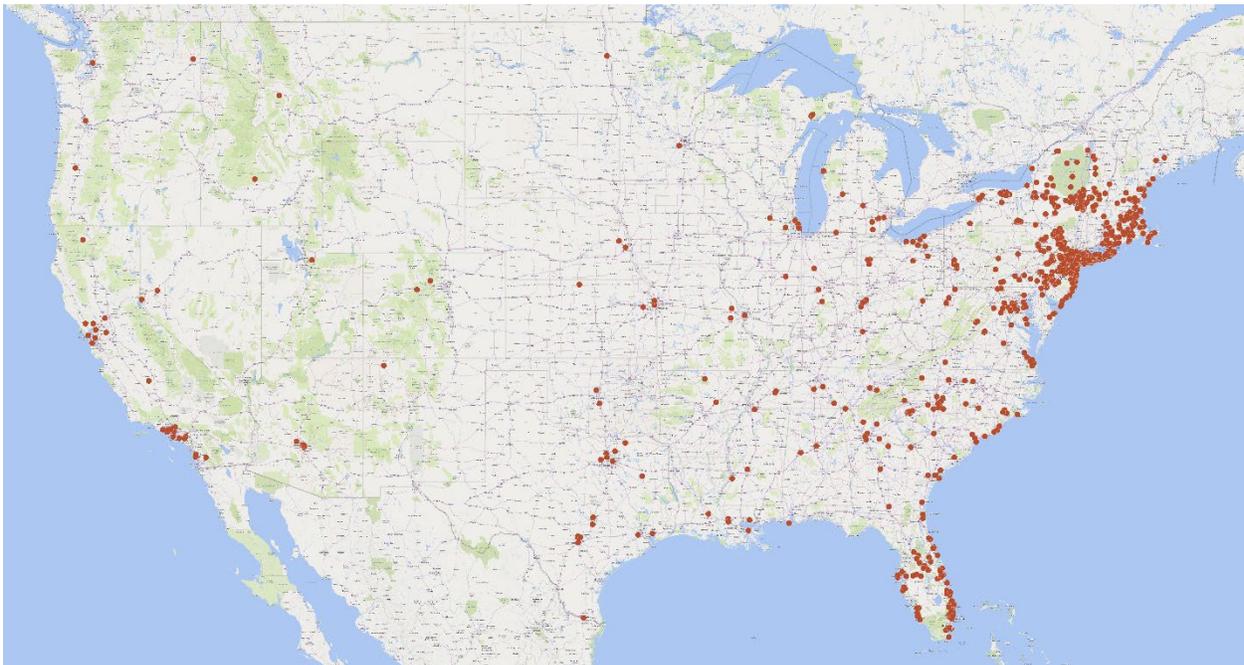
The Town shares in the strong tourist economy within Dutchess County. Millbrook is a quaint village with several tourist-oriented shops and restaurants in its downtown, while businesses like Canoe Hill Market, JSK Cattle Company, Hoofprint Cheese Company, Locust Hill Market, Millbrook Vineyards and Winery, Innisfree Garden, the Cary Institute, and multiple horse boarding farms and riding stables are located within the Town.

### Visitors to the Town of Washington

Place Dynamics used mobile device tracking data, obtained from Placer.ai, to examine the Town's tourist market. For the purposes of the analysis, a tourist was defined as a person who is traveling at least 50 miles from their usual home. Data was collected for all of the Town and Millbrook.

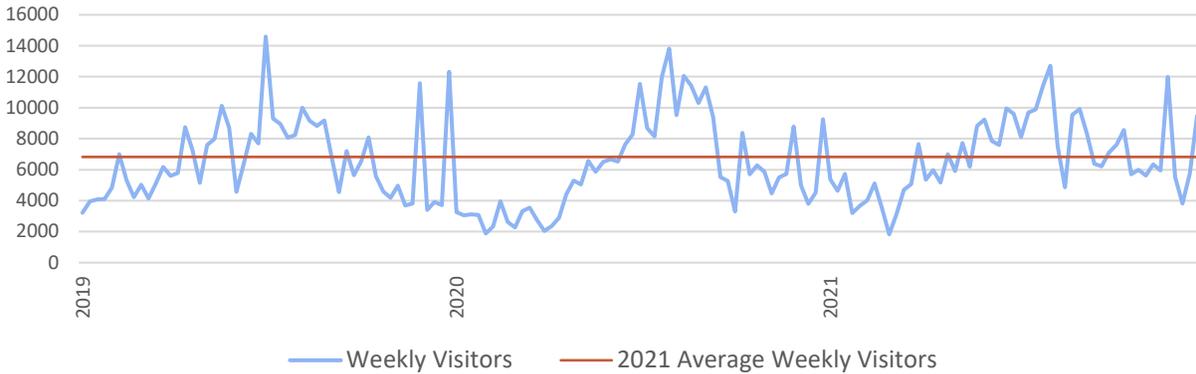
With its proximity to major metropolitan areas like New York City, Albany, New Haven, Hartford, and Springfield, the Town has a very large market within a short drive. About two-thirds (66.3 percent) of visitors are drawn from 50 to 100 miles from the Town, while 19.0 percent originate from a distance of over 250 miles. Although the potential for overnight stays increases with distance traveled, the density of attractions and character of the area will generate overnight stays from people living just a short distance away.

2021 Origins of Visitors to the Town of Washington – Foot Traffic Sample



The Town of Washington had an estimated 347,925 visitors in 2021, or an average of 6,822 per week. Visits are seasonal, however, peaking in summer and again around the holiday season. It is also heaviest on weekends, with Saturday and Sunday accounting for 45.5 percent of total volume, and Friday contributing 17.3 percent.

Weekly Visitors to Washington Township



The typical visitor is affluent, with an average household income of \$160,400. About three quarters are white and non-Hispanic, while one in ten is Hispanic. Persons of Asian ethnicity are the next-largest group at about seven percent of the total. About 20 percent of visitor households have children under 18, which is half of the U.S. average.

*Lodging Sector Overview*

Hotel chains favored by the Town’s visitors tend to be upper midscale to upper tier brands. Several other top tier brands (Hilton Grand Vacations, Kimpton Hotels, The Ritz-Carleton, etc.) appear with lower percentages of guests drawn from this population, but that is to be expected as there are also fewer hotels in these chains. Overall, visitors to the Town can afford, and prefer to stay at top quality accommodations.

Hotel Brand Preferences Among Visitors to the Town of Washington

HOTEL BRAND	PERCENT	HOTEL BRAND	PERCENT
Hampton Inn	24.6	Holiday Inn	13.0
Courtyard by Marriott	21.9	Holiday Inn Express	13.0
Hilton Hotels & Resorts	19.7	DoubleTree by Hilton	12.6
Hilton Garden Inn	16.7	Best Western	12.5
Marriott Hotels & Resorts	16.6	Westin Hotels & Resorts	12.1
Residence Inn by Marriott	14.7	W Hotels	11.9

In April of 2022, Dutchess County hotels averaged a 70.4 percent occupancy rate with an average daily rate (ADR) of \$127.67. This rate is reflective of the properties reporting data, which tend to be the branded hotels. The county has many small inns and boutique hotels that are often likely to charge higher rates. If their data were available, it would likely skew the average daily rate higher. There are approximately 3,020 rooms in 42 hotels or motels located in Dutchess County, while there are an additional 222 rooms in 38 small inns or bed and breakfast establishments.

There have been 26 short-term rentals listed in Millbrook’s 12545 postal code, in the twelve months ending in April of 2022. Data is only available by postal code, rather than village, town, or county. Occupancy has averaged 49 percent in that time, peaking at 73 percent in July of 2021, with a low of

17 percent in March of 2022. The average daily rate (ADR) ranged from \$230 to \$336, with an average of \$270. Listed rental properties had an average of 2.4 rooms and 5.1 guests per stay.

*Visitor Spending*

Visitors spend well above average on most types of goods and services. Their market potential index for all types of restaurants is 137. The market potential index sets national average expenditures at 100, and values higher than that indicate a greater propensity to spend on the good or service. The market potential for spending on alcohol in bars and restaurants is 149, and it is 167 for entertainment-related fees or admissions. Spending level are also high for retail and service categories often found in tourist destinations, such as apparel, household furnishings, pets, toys and games, and personal care services.

Research conducted on behalf of the Empire State Development Corporation estimates that in 2019 the average domestic traveler to the New York City area (a broad region including outlying areas), spent \$458 per day, with 28.2 percent spent on lodging and 21.9 percent spent on food and beverage (\$129 and \$100 respectively). If these numbers are adjusted for inflation, current spending could be estimated at \$146 for lodging and \$113 for food and beverages.

*Small Events Market*

The Town has an interest in understanding potential impacts of facilities that host events, such as weddings and other banquets, or business and organizational meetings. There are two general event types. Social events include weddings, other family events, and social, military, educational, religious, and fraternal (SMERF) group events. Business events might include corporate retreats, general business meetings, training, and conferences. The greatest spending is often associated with weddings, with 2021 average spending of \$266 per person, and the average event hosting 105 guests, according to the *2021 Real Wedding Survey*, conducted annually by The Knot. Lodging is not included in these averages. Other average expenses that may be captured locally include:

- Venue .....\$10,700
- Photographer .....\$2,500
- Caterer .....\$75 per guest
- Cake.....\$500
- Hair and make-up.....\$250
- DJ.....\$1,400
- Florist .....\$2,300

Business meetings may cost \$70 to \$100 per person for a single-day event, with meetings including an overnight stay in a range from \$400 to \$500 per person per night, including lodging. Overnight stays would require on-site accommodations, so that a facility with only 20 guest rooms would be limited in its ability to host these events. Social events other than weddings will have a cost similar to single-day business events. Examples might include family reunions or holiday parties hosted by individuals or organizations.

## Estimated Impacts

Estimated impacts were based on a representative project for each of the three potential uses. These included a 20-room boutique hotel or inn, a 2,000 square foot restaurant with seating for 60 diners, and a 2,000 square foot hosted event space with capacity for 100 guests. Although each type was assessed individually, there is a potential for a development project to include some combination of these activities. In those cases, the impact could be approximated by combining the estimates.

### *Economic impact of a lodging establishment*

To assess the economic impact of new hotel rooms on the community, the analysis considers the case of a 20-room boutique hotel or inn. This could be developed as part of the adaptive reuse of some structure in the Town, or as new construction. All rooms might be provided within the footprint of a single building, or in a combination of the main building and other structures on the site. Aside from evening receptions or morning breakfast, there will be no food service, and there will be no meeting rooms. The project is designed to attract a higher-income clientele usually staying at a luxury hotel.

- **Project investment.** Several properties are currently listed for sale, of a type that might be considered for a boutique hotel or inn. These include vacant land and historic homes that might be altered to function as an inn, through remodeling and addition, and/or creating additional lodging in cottages or outbuildings on the site. Land costs range from \$10,000 to \$20,000 per acre. Existing historic homes range in price from \$7.5 to \$14.5 million.

A newly-constructed hotel would offer some advantages over renovation, in that it could more easily define public and private spaces, and accommodate large guest suites. The average size for a hotel room in the United States is 325 square feet, while luxury suites average 430 square feet. For the purpose of this analysis, 500 square foot space is used, which would result in a need for 10,000 square feet of space for a 20-room property. Another 20 percent is allocated for reception, lounge, business center, fitness room, offices, maintenance, and other uses. This results in the need for a 12,000 square foot building. The 2022 estimated construction cost for a luxury hotel in New York is \$557 per square foot, which would yield a building cost of \$6,684,000. HVS conducts an annual survey including new construction, and can be used to establish benchmark costs for all aspects of hotel development.

Benchmark and Estimated Project Development Costs per Room

	LAND	BUILDING AND SITE PREP	SOFT COSTS	FF&E	WORKING CAPITAL	DEVELOP. FEES	TOTAL
HVS median cost	\$73,129	\$417,589	\$87,401	\$56,391	\$20,708	\$20,611	\$675,829
Percent of total	11%	63%	14%	9%	3%	1%	100%
Project estimate	\$50,000	\$334,200	\$72,600	\$46,700	\$15,600	\$5,200	\$524,300
Total project cost							\$10,373,400

- **Employment.** Staffing levels will vary based on season and occupancy, as well as the use of contract support (such as for maintenance or laundry services), and characteristics of the property. The following is a general breakout of positions that might be created with a new 20-room boutique hotel.

Estimated Boutique Hotel Staffing

OCCUPATION	NUMBER (FTE)	MEDIAN WAGE
Lodging manager	1	\$76,100
Hotel, motel, and resort desk clerks	3-5	\$32,260
Maids and housekeeping cleaners	3-5	\$34,530

- **Revenue.** Hotel revenue was estimated using an average annual 67 percent occupancy, with a \$250 average daily rate. This rate, nearly double the current rate for all hotel properties, is justified by the property type and level of anticipated quality. With a total of 4,891 room nights, the hotel would be expected to generate \$1,222,750 in annual revenue.
- **Expenditures.** Expenditures will vary greatly based on characteristics of the property and its financing. The following estimates are prepared using industry benchmarks based on data for all U.S. hotels. Labor costs average 21 percent of hotel revenue, with the higher figure here reflecting the comparatively small number of rooms provided. Portions of the labor expense, such as desk clerks, are a somewhat fixed cost usually spread out over more than 20 rooms.

Estimated Boutique Hotel Expenditures

COST CATEGORY	BENCHMARK	ESTIMATE
Direct costs	6%	\$73,400
Labor costs	28%	\$343,200
Other indirect costs	46%	\$562,500
Operating margin	20%	\$244,500

A hotel of this size can be expected to contract for multiple services that a larger hotel may internalize. Examples include laundry services, maintenance and landscaping, marketing (including support such as graphic design and web design), accounting, and other business services.

- **Tax generation.** The modeled boutique hotel or inn will pay two primary forms of local tax; a property tax and a lodging tax. The lodging tax is currently set at 4.0 percent, payable to the county. Based on the projected revenue, the hotel would be expected to generate \$48,900 in lodging taxes. With an assessed value of \$7,684,000, and assuming a location in the

Millbrook CSD, the annual property taxes collected (0.2084 per \$1,000) would be about \$160,000.

#### Alternative lodging scenarios

While the survey found support for a lodging business up to 20 rooms, larger numbers of residents support smaller projects, at four and ten rooms. At any size, the market and economic feasibility of a project is going to depend on its own unique circumstances. Given the high cost of property, however, there is a greater probability that a larger project can be profitable, as it can produce the revenue needed to justify costs. More rooms are also going to be desirable in a mixed project, such as an event venue with lodging, where more events can be attracted to places that have rooms for a significant number of guests.

A four-room lodging establishment would most likely be a small bed and breakfast inn, or even short term rental such as VRBO or AirBNB. Its impact on the community would be minimal, in that it is unlikely to have employees and may simply contract for services on an as-needed basis. The ten-room property may face additional challenges. At this size it may have the need for an employee or owner employed full-time in the business. Given the limited number of rooms, it may be more difficult to support costs of acquisition and development, operations, and wages or a profitability goal in the case of an owner.

#### *Economic impact of a restaurant*

Estimates of potential impacts related to restaurant development are based on a hypothetical 2,000 square foot full-service restaurant with seating for 60 diners. This is a type and scale of restaurant that might easily be housed in a retrofitted farmhouse or barn, or newly-constructed building.

Many formats could be considered, ranging from casual or family dining to fine dining, or concepts such as farm-to-table menus, a brewpub, tavern, or bakery-deli. There would also be an opportunity for patio or lawn seating during warmer months, and an innovative operator could be expected to take advantage of a rural setting to offer unique experiences such as themed dinners or live entertainment on an outdoor stage. To keep the analysis simple, and more conservative in its assessment of the impacts of restaurant development, enhancements such as these are not considered.

- **Project investment.** Development costs to build new or retrofit an existing structure are likely similar, as acquisition and retrofitting existing space will require significant updates, and possibly the construction of an addition for a commercial kitchen. New construction will allow a more efficient design, while an existing historic structure could create marketing appeal.

Nationally, the median cost to open a restaurant is about \$450 per square foot, but varies widely based on location, concept, size, design, and other considerations. That figure is an average of both leased and purchased or constructed spaces. Restaurants that lease space will have a lower startup cost, but leasing is probably not an option in the Town. In the eastern United States, the cost to construct a single story commercial building ranges from \$301 to \$361 per square foot, with costs in the Hudson Valley expected to be higher as it is a rural location likely to need additional site work. An estimate for a restaurant in the Town might look as follows.

### Estimated Restaurant Startup Costs

COST CATEGORY	BENCHMARK	ESTIMATE
Land	Three to five acre site	\$500,000
Building and site work	Construction at \$400 per square foot	\$800,000
Kitchen	Equipment, ventilation, plumbing, etc.	\$80,000
Furniture, fixtures, equipment	Tables, plating, POS, tech	\$90,000
Soft costs	Design, permits, professional services	\$80,000
Working capital	Initial supplies, expenses, contingency	\$50,000
Total		\$1,600,000

- **Employment.** Staffing patterns will depend on the meals for which a restaurant is open. The hypothetical restaurant modeled here is expected to be open for lunch and dinner service, seven days per week. Restaurant staffing often includes a large number of part-time employees. The numbers here reflect full-time equivalent positions.

### Estimated Restaurant Staffing

OCCUPATION	NUMBER (FTE)	MEDIAN WAGE
Food service manager	1	\$71,480
Chefs and head cooks	1	\$56,030
First-line supervisors, food prep.	1	\$42,200
Cooks, restaurant	3-5	\$33,980
Waiters and waitresses	5-7	\$33,920

- **Revenue.** The median restaurant has sales of \$325 per square foot, with those in the upper quartile achieving an average of \$535 per square foot. The Town’s market has an affluent customer profile, with above-average spending on food away from home. It can be expected that a new restaurant in a rural setting will cater to this market, resulting in sales higher than the median. The figure for the upper quartile was used, resulting in estimated annual revenue of \$1,070,000. The estimated revenue works out to sales of \$17,833 per seat, compared to an average of \$15,667 for all restaurants in the top quartile.
- **Expenditures.** Estimated expenses for the hypothetical restaurant correspond to national benchmark figures, with the exception that labor costs are shown to be higher than normal, based on required staffing.

### Estimated Restaurant Expenditures

COST CATEGORY	BENCHMARK	ESTIMATE
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Occupancy costs	10%	\$100,000
Labor costs	30%	\$441,250
Cost of goods sold	30%	\$300,000
Operating costs	15%	\$150,000
Operating margin	15%	\$78,750

The hypothetical restaurant shows a relatively low operating margin, but assumes that it will hire a manager and lead chef. In practice, many restaurants are managed by the owner, or even combined chef/owner, so that these salary expenses can increase the operating margin.

- **Tax Revenue.** Local governments will receive both a sales tax and a property tax from new restaurants in the Town. Dutchess County taxes sales at a rate of 8.125 percent, resulting in expected sales taxes totaling \$86,900. Using the same property tax rate as used for a hotel (0.2084 per \$1,000), restaurant property assessed at \$1,300,000 would be expected to generate \$27,000 in annual property taxes.

#### *Economic impact of a hosted event space*

It has become a very common practice for rural property owners to build or convert existing spaces to rent as event spaces. One of the most common approaches has been to convert barns to host mostly social events like weddings and family events. A typical barn may have 1,000 to 2,000 square feet of usable space, and offer a unique environment for 100 to 200 guests. Most have very seasonal bookings and tend to operate only on weekends. A small number of operators will also pursue the market for corporate meetings and retreats.

The example developed for this analysis assumes a property owner in the Town chooses to convert a 30-foot by 50-foot (1,500 square foot) barn into an event center. The barn will have the ability to seat 100 guests with a dance floor, or up to 125 with no dance floor. A 500 square foot addition would be needed to provide a catering kitchen, restrooms, and changing room.

- **Project investment.** Because the property is already owned, there are no acquisition costs. Development costs include renovations to the existing barn, construction of the addition with restrooms and a catering kitchen (intended for basic preparation and warming, not cooking), and site work such as parking and landscaping. These costs are estimated at \$300,000, with an additional \$50,000 spent on furniture and fixtures, supplies, marketing, professional services, insurance, and other costs. The total initial investment comes to \$350,000.
- **Employment.** Facilities of this type usually do not have full-time employees. Business administration functions, and even event activities are often performed by the owner. Temporary help may be used for preparation, service, and clean-up. The owner commonly only provides the venue and furnishings, while the event organizer independently contracts for services such as catering and entertainment.

Temporary help is estimated at two persons each working 16 hours for each event, at a rate of \$15 per hour. These individuals will be responsible for preparing, maintaining, and cleaning up the facility. Meal service will be provided by the caterer. For a total of 50 events, annual payroll will total \$24,000.

- **Revenue.** Most similar venues book the majority of their events on weekend days between April and October, with the potential for additional bookings around the holiday season. Comparably simple event spaces in the Hudson Valley are charging \$2,500 to \$7,500 per day, with pricing depending on day, season, and the number of guests. More elaborate facilities in the area are charging as much as \$20,000 per day.

The proposed facility is expected to host 50 events through the year, with most scheduled on Saturdays and Sundays in warmer months. The average facility rental fee is \$5,000, with total revenue of \$250,000.

- **Expenditures.** Because a facility of this type is not operated on a fixed schedule, and tends to have no employees aside from the owner, its expenses are related to occupancy costs, overhead, and contracted labor. Debt service and utilities are the main occupancy costs. Overhead will include some professional services, maintenance services, marketing, and insurance. Costs for supplies and labor will be directly tied to the number of events booked.
- **Tax Revenue.** Tax revenues directly generated for representative development project will be limited to property taxes. In New York State, when a separate caterer is hired to serve the event, the banquet facility rental is not taxed. Services provided by the caterer are taxed. If both the room and catering are provided by the same entity, both the room and the catering are taxed. Property taxes paid on a \$300,000 improvement to the property will be about \$6,250.