



Hotels and Supply and Demand

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VisitKC, Kansas City's convention and visitor's bureau, [is making presentations](#) in which they claim that the city's occupancy rate—the percentage of available hotel rooms sold each night—is lower than what it should be for a “healthy lodging market.” That low occupancy rate is likely due to the recent addition of so many new hotels into the market, many of them subsidized by taxpayers.

As anyone who took Economics 101 would expect, the increase in hotel room supply will drive down prices. And a drop in prices can hurt hotel operators. This is why—in a free-market system—hotel operators may be hesitant to build new hotels. If they overbuild, their investment won't be as profitable.

But in Kansas City, they aren't just spending their own money. They are receiving subsidies in the form of abatements and tax-increment financing to shield them from risk. Recall that one development attorney [made exactly this point in a recent letter](#) to the folks who dole out such subsidies.

As a result, Kansas City is in a predicament: too many hotels rooms resulting in lower than ideal occupancy rates. To fill as many rooms as they can, hotels will reduce their rates and settle for lower profits. VisitKC refers to these completely expected free-market forces as “destabilization.”

VisitKC wants to avoid this. So one of their “strategies for combatting the destabilization” is “increased resources for VisitKC” including a “re-focused” sales and marketing strategy. (A copy of the Visit KC presentation is available below.) In short, they want to spend money doing what hotels should be doing themselves: selling hotel rooms. To their credit, they have also called for [a halt in development subsidies for hotels](#) .

To recap: city hall spent so much taxpayer money subsidizing hotels that more hotels were built than necessary because developers were shielded from the risks of expansion. Now that overproduction risks reducing hotel rates, city hall wants to spend taxpayer money. As I said on KCPT’s *Ruckus*, [yes, this is as stupid as it sounds](#) . Kansas City must do better.

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Patrick Tuohey works with taxpayers, media, and policymakers to foster understanding of the conse

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[4] <https://fox4kc.com/2019/04/15/too-many-hotel-rooms-prompt-call-to-halt-tax-incentives/amp/>

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