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Outlook for the greater Boston lodging market: Outperforming all expectations

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The greater Boston lodging market is significantly outperforming all expectations this year. The strong performance for the market is expected to continue into the foreseeable future. In the Boston/Cambridge market through June, convention and corporate transient demand helped drive average market occupancy up 12% from 64.8% last year to 72.4%. Over the same period, average room rates have grown by 1.5% from $186.34 to $189.12. As a result, revenues per available room (RevPAR) have grown by 13.3%. The improved market performance has not been limited Boston and Cambridge. In the suburbs (I-495 and in, not including Boston and Cambridge) market occupancy is up 18%, however average daily rate is down 6% resulting in revPAR growth of 11%.

The strong year-to-date performance of the greater Boston market is expected to continue through the remainder of the year. Pinnacle Advisory Group is projecting that the Boston/Cambridge lodging market will finish with a 7% increase in occupancy at 76%. Average rate is projected to grow by 2.1% to $191.00. The result is RevPAR growth of 9.5 %. In the suburbs, Pinnacle is projecting that occupancy will grow 10.3% to 62% with a decline in average rate of 2% resulting in RevPAR growth of 8.1%.

While it is impossible to forecast exactly what the economy will do, recent market demand, and leading economic indicators suggest that transient (non-group) corporate and leisure demand will remain strong through 2011. The challenge for the Boston/Cambridge market in 2011 is group demand. When analyzing group demand we consider citywide conventions and group booking pace data provided by many of the hotels in Boston.

While in recent months there has been very strong growth in group demand for 2011, both citywide conventions and in-house groups, as reflected in group booking pace data collected by Pinnacle, are behind 2010 pace. Specifically, in August of 2009 there were 22 citywide conventions on the books for 2010 with approximately 380,000 associated room nights. As of August this year there are also 22 citywide conventions but with only 280,000 associated room nights. While the Massachusetts Convention Center Authority (MCCA) and the Greater Boston Convention and Visitors Bureau have been working hard to close the gap, it is unlikely that convention related demand in 2011 will match 2010 levels.

Pinnacle Advisory Group tracks the definite group room nights on the books at 17 hotels in Boston. These hotels are broken into several sets. The set that accommodates the most group demand is the Back Bay set, which is composed of the following hotels: Back Bay Hilton, Sheraton, Marriott Copley Place, Westin Copley Place, Fairmont Copley Plaza and the Boston Park Plaza. As of July of this year, the definite group room nights on the books for 2011 were down 19% when compared to 2010 as of July 2009.

With the recent strong demand from transient corporate and leisure travelers many operators that cater to those segments are very optimistic about 2011. In particular hotels located in the financial district of Boston and in Cambridge are very bullish. Managers at the larger group hotels are much more cautious as some of them are dramatically behind 2010 pace from a group perspective. Due to the fact that these big box hotels are behind pace, there is a concern that they will dramatically drop their rates either through internet distribution channels, local corporate negotiated accounts or aggressive pricing for airline crew contracts. So far, at least, the operators have been indicating that they are hoping to close the gap in group demand slightly as demand in that segment continues to grow. At the same time, they are hoping that any shortfall in room nights will be made up through an increase in transient related room nights.

Each year, we at Pinnacle Advisory Group survey several regional lodging executives from the major chains to learn what they are forecasting in terms of RevPAR growth. This year, those executives indicated that there is a fairly wide gap between what smaller transient hotels are projecting and what the larger group properties are projecting. Specifically, they indicated that transient hotels are expected to experience RevPAR growth of 6 to 8% while the group hotels are projecting growth ranging from 2 to 4%. Based on our research and analysis we are projecting that occupancy will remain flat at 76% in 2011, however, average rates will grow by 6% from an estimated $191 to $202.50. As a result, RevPAR is projected to grow by 6% from an estimated $145.16 in 2010 to $153.90.

Projecting market performance in the suburbs is much more challenging than downtown Boston and Cambridge. Not only are there fewer leading indicators, such as the group booking pace, but the market is much larger geographically. In fact, the suburban market is really composed of numerous submarkets, such as Newton-Waltham, Braintree, and Westborough-Marlborough. One factor that could be considered a leading indicator in the suburbs is new supply. While supply grew steadily through the middle part of this decade, it has slowed considerably and is not expected to be a factor in 2011. Historically, the suburbs also benefitted from compression, or overflow demand from Boston and Cambridge. In recent years, that demand has dried up due to supply growth in those markets that has enabled them to capture demand that had previously pushed as far out as the I-495 corridor during peak demand periods.

In periods of economic recovery, hotel demand tends to begin in Boston and emanate outward through Newton and Waltham. Through the beginning of this year, that appears to be the case as the Newton Waltham market has experienced some of the strongest growth in demand in the suburbs. If the trend continues the rest of the suburban markets are likely to see strong growth in the months ahead. In particular, with continued growth in occupancy levels, operators are expected to gain some pricing power and thus be able to achieve increases in room rates. Specifically, we are projecting that in 2010 market occupancy will grow two points from 62% to 64%. Average room rates are projected to grow approximately 4.1% from an estimated $97 in 2010 to $101 in 2011. The result is RevPAR growth of 7.5%.

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