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## **The current state of the national and regional lodging industry**

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### National Perspective

The tenth annual America's Lodging Investment Summit (ALIS) recently concluded in San Diego and the mood was decidedly upbeat. As part of the event, numerous well known industry prognosticators offered their interpretations of the industry's 2010 performance and their opinions of what's in store for the industry for the rest of 2011. The general consensus is that 2010 outperformed everyone's expectations and that things will continue to improve significantly through 2011.

The economists and market experts presenting at the ALIS conference representing Scotia Bank, STR and Colliers PKF Hospitality Research suggested that while this is not a perfect recovery most signs point toward moderate to strong growth in the hotel industry. While there are fears of a jobless recovery, a commercial mortgage-backed securities calamity and continued average daily rate weakness, the panelists all suggested that the fundamentals are moving in the right direction.

In a review of the prior 12-month moving average of the top 25 markets, excluding Las Vegas, Jan Freitag of STR said market demand is less when compared to the previous peak. However New York, Washington, D.C., and Boston are selling more rooms. "They're certainly firing on all cylinders."

Gary Fritz, the president of the Partner Services Group at Expedia had some interesting observations about leisure demand. Using rate data from Expedia's online travel agencies, he showed that average daily rates for leisure business is recovering faster than for business travel. In San Francisco, for example, rates paid by leisure customers have risen 12%, while business travelers are paying about 8% less. He went on to suggest that the increased rate for leisure travelers is impacting their length of stay and that travelers also are: trading down on a star-rating basis; shopping around a lot more and making decisions later.

In his presentation, Mark Woodworth of Colliers PKF Hospitality Research pointed out that we are entering the part of the hotel cycle where average rates begin to recover following growth in occupancy. He also pointed out that the improvements in average room rate will help hotel profitability in future years. Woodworth cautioned however, that it won't be until 2013 or even 2014 occupancy levels and revenues per available room (RevPAR) reach their long-term averages. As a result, he predicted that it would not be until late 2012 before industry profitability reaches 2005 levels.

Both Freitag and Woodworth see significant improvements in industry fundamentals in 2011. Freitag, says a minimal increase in new supply (less than 1%), combined with a fairly healthy rise in demand (up 2.5%), will help enable strong rate growth and a 6.1% jump in RevPAR. Woodworth was even more aggressive in his forecast, calling for a 5.3% increase in demand, a 4.6% rise in rates and a 9% boost in RevPAR.

## New England

Here in New England, the lodging market improved at a much stronger rate than the nation as a whole in 2010. The performance of the New England region is heavily influenced by Massachusetts, which in turn, is heavily influenced by the greater Boston market. The Boston Metropolitan Statistical Area (MSA) was one of the top performing major markets in the country in 2010. The strong growth in revenues for the regional industry in 2010 bodes well for 2011; however, it has also brought the region closer to pre-recession levels and thus may inhibit growth slightly relative to other regions of the country.

Boston is the anchor of the New England region from a lodging perspective and it was one of the primary factors behind the region's performance. According to Smith Travel Research, occupancy for the Boston MSA grew by 10.4% placing it behind only Detroit and New Orleans. Boston was bested by only New York City in terms of average rate growth. It increased by 2.4% compared to 7.5% for the New York MSA. Overall, Boston had the strongest growth in RevPAR of all the top 25 markets at 13%.

A review of the individual states in the New England Region shows that Massachusetts had the highest occupancy at 62.4% followed by Rhode Island at 60.4% in 2010. New Hampshire had the lowest occupancy in the region at 53.7%. Connecticut, Maine and Vermont all ranged between 55% and 57% occupancy. From a historical perspective the state by state occupancy rates are generally a few points below their most recent high in 2007 when most were in the high 50's to low 60's range. All of the states in the region experienced fairly strong growth in occupancy ranging from 6.2% in Vermont to 11.9% in Rhode Island. This growth in occupancy coupled with more positive economic news will help operators gain confidence and become more aggressive in their pricing.

Average rates in the region grew at a faster pace than the country as a whole, however, they were fairly mixed on a state by state basis. In Connecticut, average rates declined by nearly 2% while rates in Massachusetts and Vermont grew by over two percent. Average rates in Maine, New Hampshire and Vermont do not traditionally fluctuate as much they do in the other three states in the region. This can be attributed to their more stable economies. Through the last economic cycle, the southern states in the region experienced generally greater increases but also greater declines. The economic cycle was also compounded by the timing of changes in lodging supply, such that after demand started to decline new hotels continued to open. In response operators lowered rates in an effort to stimulate new demand and steal existing demand from competitors.

Looking toward 2011 for the New England region we expect demand will continue to grow, however, it will probably not grow at the quite the same rate as 2010. Average rates however, are likely to grow at a significantly faster pace than they did in 2010 as increased demand coupled with a decrease in demand drives up occupancy levels further giving operators more pricing power.

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