nerej
CELEBRATING 55 YEARS

The New England Lodging Industry posts strong gains in room revenues; largest are ME and N.H.

January 16, 2008 - Front Section

Following a common historical trend, the New England lodging market appears to be picking up steam as the national market begins to cool. Hotel room revenues in the region grew by 8.4% through November 2007 compared to growth of 7.7% in 2006. Conversely, room revenues on a national basis grew by 7.3% as compared to 8.1% last year. Somewhat surprisingly, the New England states experiencing the strongest growth in room revenues were Maine and New Hampshire. Conn. and Rhode Island, two states that have been experiencing strong growth in recent years, appear to be slowing.

During the last few economic cycles the New England region has lagged behind the rest of the country in terms of the downturn and the recovery. Within the region, the major metropolitan areas tend to lead the recovery. Specifically markets such as Boston, Providence, and Fairfield county Conn. ramp up first following a downturn, then as economic growth spreads to secondary and tertiary markets those areas also see strong growth in lodging revenues. A review of lodging market performance data compiled by Smith Travel Research indicates that in this cycle, things are not as clear. New supply has depressed market performance in Providence, while Springfield, Hartford, and Worchester have all experienced a decline in demand. There are bright spots, however. The Portland, Maine, Manchester, New Hampshire, and Burlington, Vermont markets all did very well in 2007. The regional picture is equally murky when comparing the different states. While Maine and New Hampshire experienced the largest gains in 2007, Vermont experienced the smallest growth in lodging revenues.The following paragraphs review the 2007 performance of each of the states in the region.

Mass. has the strongest hotel market in the region. Specifically the industry generated average room revenues of $90.22 per available room in the state through November. This represents a 7% increase over the prior year. While in 2006 the Boston/Cambridge market led the state in hotel room revenue growth, the suburbs appear to be driving the market in 2007. Through November, revenues per available room in Boston and Cambridge were up 7.8% while the entire Boston Metropolitan Statistical Area (MSA) grew by 9.1%. Part of the reason for the growth in the suburbs versus downtown is that downtown is performing at near record levels with an occupancy of 76% and an average rate over $210 through November. Boston's strong performance is pushing rate-sensitive travelers and those that can't find rooms at all out to the suburbs. With a strong convention calendar through the first half of the year, the Boston market is expected to continue to grow through 2008.

The Conn. lodging market had a lackluster year in 2007. Growth in hotel room revenues was the second lowest in the region behind Vermont and lagged the nation as a whole. The statewide occupancy was only 61.9%, compared to 64.6% nationally and 62.8% for the region. One of the factors affecting the state's occupancy has been its growth in supply. While supply grew at a modest rate of 1.5% through November 2007, it had the second highest growth rate in the nation in 2007 and the highest in 2006. In terms of average rate, the State fared a bit better than the nation but lagged behind the region. Specifically the statewide average rate was $105.01 through November compared to $103.70 for the nation and $119.23 for the region.

Rhode Island, which had the second highest revenues per available room in the region, was impacted by new supply in 2007, which pushed market occupancy down slightly. Specifically supply grew by 3.6% while demand grew by only 2.4% resulting in a decline in occupancy of 1.1% to 62.8%. Notable additions to supply in Providence include the expansion at the Westin and the new Renaissance hotel.

The lodging industry in Vermont performed better than it did in 2006; however, it still had the lowest growth rate in the region at 5.8% compared to a region-wide rate of 8.4%. As was the case in 2006, all of the growth in lodging revenue occurred in average room rate as supply remained flat and demand declined slightly by 1.2% resulting in a drop in occupancy from 58.8% to 58.1%.

The lodging industry in Maine had a surprisingly strong year in 2007. Through November room revenues were up 14.2%, compared to the next closest state in the region, Mass., which experienced growth of 8.8% The growth in room revenues was derived from both increased demand (6.3%) and average room rate (7.4%). Leading the State's improved performance was the Portland market which experienced strong growth in occupancy and rate. The Portland market's strong performance appears to be attracting developers as there are two hotels under construction in the market with more proposed.

New Hampshire had a fairly good year in 2007 with occupancy growing by 2.9% and average rate growing by 3.0% through November. A 2.1% increase in supply helped to push hotel room revenue up by 8.2%. One obvious factor in the market's improved performance is the January Presidential Primary, which has attracted candidates, their teams, and the press to the area. The state has also benefited from economic expansion in the southern part of the state, which has resulted in increased lodging demand.

The region's lodging market appears to be on an upward trend as the national market appears headed in the opposite direction. With increasing talk of an economic recession, it will be interesting to see if the region can achieve another year of strong growth. While tighter credit and declines in housing could constrict consumer spending, thus impacting leisure travel, there have been no signs of a slow-down in corporate travel - yet. Overall, we are cautiously optimistic about the prospects for the region's lodging performance in 2008. In fact, given the region's history as compared to the nation as a whole, we anticipate that growth in the lodging sector will again outpace the national average.

By Matthew Arrants and Rachel Roginsky, Pinnacle Advisory Group