nerej
19 63 CELEBRATING 55 YEARS

2012 outlook for the national and regional lodging industry

February 16, 2012 - Front Section

National Perspective

The America's Lodging Investment Summit (ALIS) recently concluded in Los Angeles and the message was mixed. Much was made of the optimism in the air and the conference theme of "rebound," however; if you look closely, the prognosticators were a bit more cautious. Specifically, while they were projecting growth, their projections were more conservative than they were last year.

At last year's conference Jan Freitag of STR projected growth in Revenues per Available Room (RevPAR) of 6.1% for the national lodging market while Mark Woodworth of Colliers PKF Hospitality Research projected RevPAR growth of 9%. In fact, according to STR, RevPAR actually increased by 8.2% in 2011. For both Freitag and Woodworth, lodging demand was stronger than anticipated while average rate growth was weaker.

Looking toward 2012, both prognosticators are expecting occupancy growth to slow, while average rate growth outpaces 2011. Specifically, STR is projecting that occupancy will grow 0.5% and average daily rates will grow by 3.8% resulting in RevPAR growth of 4.3%. PKF is slightly more optimistic. They are projecting occupancy growth of 0.7%, average rate growth of 4.7% and RevPAR growth of 5.4%.

At the conference, John Silvia, chief economist for Wells Fargo Securities had some interesting (and positive) observations:

* The U.S. economy is undergoing a sustained growth of approximately 2.5%;
* Lending in nearly every sector increased steadily during the past year;
* The economic recovery is not even across the country; and
* The Presidential election - and the questions about fiscal policy that surrounds it - presents a major hurdle for recovery.

Jim Burba, the conference coordinator, also cited some interesting statistics based on surveys taken of the ALIS delegates. Specifically, he noted that 92% of respondents were feeling positive about U.S. hotel RevPAR growth while no significant changes were expected for cap rates. "The closest year in our data base that we can find to the mood today is 2006," Burba said.

We at Pinnacle Advisory Group are fairly bullish on the national outlook for 2012. We have seen several positive signs for growth. Demand in the group segment has begun to pick up across the country at both resorts and convention centers. We are also seeing moderate to strong rate growth as a result of stronger corporate demand with limited and in many cases no, new supply. Additionally, a large number of hotels are completing major renovations and repositioning to attract higher paying travelers. As a result of these positive signs we expect that that national market will finish closer to PKF's projections than STR's.

New England

After dramatically outperforming the country as a whole in 2010, the New England region posted a respectable performance in 2011. Specifically, according to STR, RevPAR for the region grew by 8.6% as compared to a national average of 8.2%. Demand in the region was slightly above the national average. This, coupled with no growth in supply helped increase occupancy by 5.2% compared to a national average of 4.4%. Average rates for the region grew by 3.2% compared to 3.7% for the country as a whole.

The strong performance of the greater Boston market in 2010 was one of the factors behind the region's performance in that same year. In 2011, RevPAR growth was still strong but it did not exceed that of the country as a whole. Overall, the greater Boston market's performance in 2011 was relatively strong given that it was an off-year for conventions. This suggests that a very strong convention year for Boston in 2012 should help that market area and the region as a whole to outperform the national average. In fact, Pinnacle Advisory Group is projecting RevPAR growth of 9.5% for the Boston/Cambridge market and growth of 9.2% for the suburban Boston market.

A review of the individual states in the New England Region shows that Connecticut and New Hampshire were the two states that had the strongest grow in RevPAR in 2011. Connecticut hotels benefited from two natural disasters (Hurricane Irene, and the October snow storm) that knocked out power for extended periods in large parts of the state, forcing residents into hotel rooms. New Hampshire benefitted from the Presidential primary that brought campaign employees and the national press to the state in December.

Massachusetts maintained the highest occupancy at 65.8% followed by Rhode Island at 61.2% in 2011. Maine had the lowest occupancy in the region at 56.8%. Connecticut,Rhode Island, and Vermont all ranged between 57% and 59% occupancy. From a historical perspective the state by state occupancy rates have generally returned to their most recent high in 2007. This bodes well for average rate growth in 2012. As demand continues to outpace supply during peak demand periods, operators will be able to increase rates more dramatically.

Looking forward to 2012, we expect the region to outperform the country as a whole. Massachusetts will be helped by a very strong convention year in Boston as well as continued growth in the technology, bio-tech and pharmaceutical industries. Boston is already near capacity from an occupancy standpoint. The additional convention demand in 2012 will lead to compression into the suburbs and help operators there to increase room rates. Connecticut is expected to benefit from incentives that have lured new companies to the state such as Starwood hotels and NBC sports group in Stamford. Rhode Island will be hosting America's Cup World Series events in June that should help the hotels in the Newport area. Northern New England (Vermont, New Hampshire, and Maine) will likely experience moderate growth as their economies grow at the national average.

In 2011, the New England region finished the year at an occupancy rate of 61.4% with an average daily rate of $119.97. With limited new supply in 2012 and the aforementioned growth factors, we expect that RevPAR for the region will grow by between 6 and 8% in 2012 with most of that growth being in average rate.

Matthew Arrants, ISHC is the managing director of Pinnacle Advisory Group. For the firm, he specializes in market asset management, new development and operational reviews. Prior to joining Pinnacle, Arrants worked in operations in various capacities with The Four Seasons Hotel in Boston, and Rock Resorts in Hawaii and Wyoming.

He holds a masters degree in Hotel Administration from Cornell University and a BA in Political Science from Hartwick College.