



CELEBRATING
55 YEARS

nerej

2019 is softer for hotels but Boston remains a strong market - by Jim Luchars

May 17, 2019 - Front Section

Jim Luchars

As we progress into the 10th year of recovery from the Great Recession of 2008/2009, the Boston hotel market remains strong but there are signs of softness.

According to Pinnacle Advisory Group, the Boston and Cambridge market recorded occupancy of 83% and an Average Daily Rate (ADR) of \$262 in 2018 equating to a Revenue Per Available Room (RevPAR) of \$216. This appears to be a peak point for the market and, on an inflation adjusted basis, is well above prior peaks. The ADR levels are not a surprise given the extremely strong leisure, corporate and group demand in the city. However, for the market to record an annual occupancy of 83% is even more impressive given that first quarter is usually a struggle with the weather and seasonality for leisure demand.

A lot of positive dynamics came together in 2018 including a strong citywide group calendar in the summer and fall months, delays on some new hotel openings, and, of course, the Red Sox winning the World Series. All of these factors contributed to forecasted long-term compression in the city allowing hotels to set peak level pricing far in advance of certain dates. The convention calendar is not as strong in 2019 and there is a lot more new supply opening in the year. Over 1,400 new hotel rooms are forecasted to open in Boston and Cambridge which represents a 4.3% increase in supply compared to 2.8% in 2018. Less compression and more new supply will equate to a RevPAR drop in the 2-3% range year over year. While market fundamentals remain very strong for Boston and Cambridge, 2019 will only be the second year in a decade in which RevPAR has softened. RevPAR dipped 0.5% in 2016 but not as significant as the forecast for this year.

The hotel sub-markets in suburban Boston remain strong but the same issues of new supply and less compression from Boston and Cambridge will have an impact in 2019. Waltham, Needham and Burlington have all recently added hotels and demand, while strong during the week, is not likely to keep up with supply growth. This trend is further exacerbated in markets outside of the Rte. 128 loop. Sub-markets like Norwood, Framingham and Marlborough have also experienced significant supply growth and, with limited new demand, hotel fundamentals are weakening.

All this said, it is important to keep the anticipated 2019 dip in perspective. Unlike other markets that are also experiencing some softness at end of this cycle, the long-term macro outlook for Boston remains very positive. The local economy is more diverse than it has ever been and, over the past five years, the base of demand and activity in the city has grown dramatically and continues to expand.

There are really two sub-markets in the city that have experienced significant growth, and this will continue for the next few years. The first is the Seaport District which, after many years of parking lot dormancy, has exploded with development including apartments, condos, office, retail and hotels. This has become a very desirable area to live and work, creating really an extension to downtown. The second burgeoning sub-market is the area around TD Garden, home to the Bruins and Celtics. Aside from over a billion in residential development in the neighborhood, there are two major projects under construction that will significantly contribute to the transformation of the area. Boston Properties' massive The Hub on Causeway project consists of 1.9 million s/f of office, residential, hotel and retail. With phase I completed early this year and two other phases behind that, Causeway St. is beginning to have a whole new vibe and attraction to tourists and New Englanders. Just a few blocks south of The Hub and TD Garden, HYM is under construction on a new one million s/f office tower, One Congress, and State Street Bank will be relocating its headquarters to the building. These two significant developments bookend the activity in this sub-market and will further establish it as a hotel destination.

Yes, 2019 looks to be a softer in the hotel market and supply growth will outpace demand growth, but the overall health of the market long-term continues to be positive.

Jim Luchars is chief investment officer for Stonebridge Companies, a hotel development and operating company. Prior to joining Stonebridge, Luchars was a principal at AEW Capital Management overseeing all hotel investments. Luchars has over 25 years of experience in the hotel business and commercial real estate. Founded in 1991 by Navin Dimond, Stonebridge is a privately owned, innovative hotel development and hospitality management company. They manage a portfolio of 45 hotels across the United States, and provide investor opportunities, hotel development services, hotel management services, and hospitality career opportunities to our partners and associates. Currently, their hotel portfolio is comprised of 7,000 guest rooms across multiple select-service, extended stay, mid-scale, and full-service hotel brands located in primary and secondary markets.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540