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New England hotel recovery gaining momentum - by Jim Luchars

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Jim Luchars

In New England and across the country, hotel demand was extremely strong in March, April and May. Nationally, booked room nights were up 17.5% from the same period in 2021 and occupancy up 13.9% according to Smith Travel Research (STR). Boston far exceeded these numbers during the same period, fueled by the pent-up leisure demand heading into the summer and strong market compression with events like the Boston Marathon and college/university graduations for multiple years (2022, 2021 and 2020) combined into larger ceremonies. Many properties reached new highs this spring. At our Residence Inn near Fenway Park, we broke our single night revenue record several times in May with the Average Daily Rates (ADR) exceeding \$550. We have also seen very strong numbers in Watertown and Needham, evidence of consistent demand and compression throughout greater Boston during the spring and early summer. Forecasts are also robust for the remainder of the summer months.

Overall, the hotel recovery is now broad-based including very positive numbers in gateway urban markets that were hit hard by COVID including Boston, New York City, San Francisco and Seattle. The initial recovery from the pandemic was driven predominantly by drive-to leisure markets but, in the second quarter of 2022, this expanded to most of the country. There are some unique aspects to the current demand growth which is more leisure oriented with midweek corporate travel still lagging pre-COVID levels significantly. This has impacted booking patterns as well. The “Bleisure” traveler is real as people are combining business and vacation with more flexibility to work remotely, resulting in generally higher occupancies on Thursday and Sunday nights which traditionally have been the most challenging days of the week in many hotel markets. When the Bleisure segment initially emerged in New England, many of these travelers were price sensitive and bargain shopping. As we headed into the peak spring/summer months of 2022, this dynamic has flipped where leisure and Bleisure guests are much less rate sensitive and paying significant premiums for summer travel.

Group travel has also recovered more quickly as events and conventions have been rebooked quickly, reversing past down cycle patterns of group often being the last segment to recover. We have not seen the typical trends from past recessions that include high unemployment and less disposable income. In some respects, it has been the opposite with pent-up demand and significant wealth creation in housing and equity markets (despite recent corrections). This has led to an unprecedented growth and recovery of Average Daily Rate (ADR), far outpacing occupancy recovery. Consumers have been less price sensitive and, given hotel owners' unique ability to reprice inventory daily, rates have been pushed in conjunction with inflation. This is a real time example of why hotels can be an excellent hedge against inflation versus other real estate investments. In all other asset classes, rents are set and, in some cases, for years – not hotels! This is being seen at its extreme in New England summer demand where hotel rooms, VRBO and Airbnb are renting for 75-100% premiums over 2021 rates and, in most cases, at higher rates than 2019, pre COVID. In all other down cycles in the past thirty years, occupancy has always recovered prior to ADR as employment recovers and consumer confidence returns. The hotel COVID recovery is entirely different and, after a brutal two years, hotel owners in New England are benefitting from this pricing trend.

The final stage of an elongated hotel recovery in Boston and nationally will be the return of mid-week corporate demand. There are some positive trends in this segment but also some uncertainty. The hybrid working model is here to stay but, depending on the job, that doesn't necessarily mean less travel than pre-COVID. At Stonebridge Companies, we are seeing corporate travel increasing in most urban markets with training programs being reintroduced, fewer restrictions on sales travel and the overall recognition that in person meetings do have value. However, the pace of the midweek corporate transient business is still only 50-60% of pre-COVID levels and, for some suburban markets outside of Route 128 in greater Boston, it is unclear if and when this business returns to pre-pandemic levels.

The momentum of the New England recovery in the past four months is real and a welcome relief for hotel owners. However, there appear to be some headwinds looking into the fall. As kids go back to school and families return from vacation, the return of corporate demand will become increasingly important. This uncertainty coupled with inflation and a slowing economy could impede some of the positive momentum we have today. Fingers crossed that any level of slow down is limited. Hotel owners deserve some stability after the past few years.

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.

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