



SMITH TRAVEL RESEARCH

RevPAR Penetration at Airport Terminal Hotels

By: Monique Rosszell - HVS Canada

An airport terminal hotel is a lodging facility that is physically attached to an airport, either integrated into the terminal or connected via a walkway so guests can walk to the hotel from the airport without having to rent a car or use an airport shuttle. At present, four such properties exist in Canada, and most appear to significantly outperform their respective airport lodging markets.

A hotel attached to an airport is in a unique situation to capture demand. It is the first hotel that travellers might consider when they are stranded at an airport because of a flight cancellation or an overbooking, as it does not require additional travel by shuttle, bus, or rental car to stay there. Airport terminal hotels are often used as a hub for corporate meetings in which business people fly in from different locations. This reduces the costs and complications involved in trying to obtain transportation away from the airport, and the airport location has fewer distractions than a downtown property.

The following are the primary factors that contribute to the success of airport terminal hotels:

- Airport terminal hotels occupy a convenient location for short, same-day business trips/meetings.
- Airport terminal hotels are easily accessible from the airport, so there is no commute time, and they are insulated from bad weather.
- Airport terminal hotels can easily accommodate distressed passengers and airline contract demand.
- Airport terminal hotels have a unique ability to capture day-use rates from international travellers and short-haul airline crews.

- An airport terminal hotel's food and beverage facilities can compete with the restaurants in the airport for demand emanating from non-hotel guests.

Our research shows that, in addition to the hotels near the airport, airport terminal hotels compete strongly with the downtown hotels within a given market.

To gain a general understanding of how airport terminal hotels operate in relation to their respective competitive markets, we analyzed the operating performance of 14 airport terminal hotels in the United States (10 properties) and Canada (four properties). Their combined performance was compared to an aggregate of their respective competitive sets to determine their aggregated penetration rates. The performance of the airport terminal hotels relative to their respective competitive sets was then analyzed to determine the occupancy, average rate, and RevPAR penetration levels typical of airport terminal hotels.

The table on the following page presents Smith Travel Research's trend results for these airport terminal hotels.

Airport terminal hotels strongly outperform the local airport markets in which they compete. As shown in the table, the airport terminal hotels posted occupancy penetration levels above 100% in each of the last 11 years; the occupancy penetration rate ranged from roundly 102% to 112%. The highest occupancy penetration levels were achieved in 1998, 2001, 2002, and 2004. The average rate penetration levels for the airport terminal hotels were even stronger; they ranged from roundly 113% to 122%. Average rate penetration peaked in 2000, moderated in 2001 and 2002, and gradually recovered until it surpassed all previous levels in 2006. As a consequence of these strong occupancy and average rate penetration levels, the RevPAR penetration



Aggregate of Airport Terminal Hotels vs. Aggregate of Their Respective Competitive Sets

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
14 Terminal Hotels											
Occupancy	76.7 %	78.9 %	79.6 %	75.5 %	75.4 %	73.3 %	74.9 %	71.5 %	78.1 %	77.4 %	78.1 %
Change	—	—	0.9 %	(5.2) %	(0.1) %	(2.8) %	2.2 %	(4.5) %	9.2 %	(0.9) %	0.9 %
Occupancy Penetration	102.4 %	105.1 %	108.0 %	102.1 %	102.8 %	108.4 %	111.9 %	106.3 %	109.6 %	107.4 %	107.4 %
Average Rate	\$104.18	\$113.44	\$120.55	\$126.62	\$135.02	\$121.76	\$114.81	\$114.64	\$120.43	\$133.75	\$149.36
Change	—	—	6.3 %	5.0 %	6.6 %	(9.8) %	(5.7) %	(0.1) %	5.1 %	11.1 %	11.7 %
Average Rate Penetration	113.1 %	113.1 %	114.6 %	117.6 %	120.4 %	114.7 %	114.1 %	116.5 %	117.1 %	120.5 %	121.7 %
RevPAR	\$79.91	\$89.50	\$95.96	\$95.60	\$101.81	\$89.25	\$85.99	\$81.97	\$94.06	\$103.52	\$116.65
Change	—	—	7.2 %	(0.4) %	6.5 %	(12.3) %	(3.6) %	(4.7) %	14.7 %	10.1 %	12.7 %
RevPAR Penetration	115.8 %	118.9 %	123.7 %	120.1 %	123.8 %	124.3 %	127.6 %	123.9 %	128.3 %	129.4 %	130.7 %
Aggregate Airport Competitors											
Occupancy	74.9 %	75.1 %	73.7 %	73.9 %	73.3 %	67.6 %	66.9 %	67.3 %	71.2 %	72.1 %	72.7 %
Change	— %	0.3 %	(1.8) %	0.3 %	(0.8) %	(7.8) %	(1.0) %	0.5 %	5.9 %	1.1 %	0.9 %
Average Rate	\$92.12	\$100.26	\$105.22	\$107.69	\$112.13	\$106.16	\$100.66	\$98.41	\$102.87	\$111.01	\$122.76
Change	— %	8.8 %	4.9 %	2.3 %	4.1 %	(5.3) %	(5.2) %	(2.2) %	4.5 %	7.9 %	10.6 %
RevPAR	\$68.98	\$75.30	\$77.58	\$79.61	\$82.23	\$71.79	\$67.37	\$66.18	\$73.29	\$79.99	\$89.25
Change	— %	9.2 %	3.0 %	2.6 %	3.3 %	(12.7) %	(6.2) %	(1.8) %	10.7 %	9.2 %	11.6 %

Source: Smith Travel Research

level has slowly but steadily increased from roundly 116% in 1996 to 131% in 2006, and estimates for 2007 look even more promising.

Historically, airport terminal hotels have clearly demonstrated at least average operating performance in the worst of times and superior operating performance in healthier times. Interestingly, although airports (and thus airport hotel markets) suffered vastly in 2001 following the events of September 11th, the decline in the aggregated performance of the airport terminal hotels was comparable to that experienced by their respective competitive sets on a percentage basis for overall RevPAR, with declines in average rates being greater than declines in occupancy. As stricter airport security measures created lengthy airport delays during the passenger check-in process following September 11, many travellers discovered the unique benefits of staying at an airport terminal hotel; the added difficulties travellers began to

experience unexpectedly benefitted airport terminal hotels. Even if their business takes them to a downtown area, travellers often bypass typical downtown accommodations in favour of the airport terminal hotel knowing that they could spend the night before their return flight at the airport, thereby assuring a timely airport check-in.

As high-pace lifestyles seem to increase the premium that travellers place on time, all segments of hotel demand are becoming less price-sensitive to the rate premium that airport terminal hotels command. In other words, travellers recognize the unique value of staying at airport terminal hotels and are willing to pay higher rates for the advantages they offer.

The physical barriers to entry support the high RevPAR penetration between airport terminal hotels and their competitive sets. Airport authorities usually authorize one terminal hotel per airport, or one per terminal in

larger airports. Downward pressure on RevPAR growth is experienced in most markets until the new supply has been absorbed. For airport terminal hotels, the barriers to entry and the advantages of their unique location strongly mitigate this impact.

So why don't we all go out and acquire airport terminal hotel properties? They are rarely sold and highly coveted. In Canada, there are three new airport terminal properties currently in the development pipeline, at the Montreal Airport, the Halifax Airport, and the Edmonton Airport. Allegedly, the bidding process has been very competitive. Perhaps we need to build more airports. ▲

December 2007	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2007	2006	2007	2006	2007	2006		
Nova Scotia Area	1,305	39.5%	34.5%	\$96.91	\$88.60	\$38.28	\$30.57	-2.0%	12.2%
Halifax, NS	3,509	39.4%	41.8%	\$110.61	\$107.78	\$43.58	\$45.05	4.3%	-1.7%
Montreal Downtown	9,960	46.5%	47.0%	\$130.33	\$131.99	\$60.60	\$62.04	2.3%	1.2%
Montreal Area	5,433	50.0%	51.4%	\$102.52	\$100.85	\$51.26	\$51.84	2.5%	-0.3%
Quebec City, QC	3,782	43.5%	43.4%	\$119.22	\$114.52	\$51.86	\$49.70	0.0%	0.4%
Quebec Area	5,799	44.8%	45.0%	\$138.01	\$133.12	\$61.83	\$59.90	0.0%	-0.5%
Toronto Downtown	13,824	51.0%	49.3%	\$148.50	\$145.13	\$75.74	\$71.55	2.5%	6.0%
Toronto North/East	6,509	47.2%	47.4%	\$111.48	\$110.74	\$52.62	\$52.49	2.9%	2.4%
Toronto Airport/West	8,007	53.6%	51.5%	\$108.44	\$105.92	\$58.12	\$54.55	-1.2%	2.9%
Ottawa, ON	6,623	50.0%	50.7%	\$129.11	\$126.45	\$64.56	\$64.11	-0.3%	-1.7%
Ontario East	4,237	38.8%	38.1%	\$95.56	\$92.93	\$37.08	\$35.41	1.4%	3.2%
Windsor/ Ontario SW	3,076	37.8%	42.9%	\$96.43	\$95.71	\$36.45	\$41.06	0.0%	-11.9%
London/ Kitchener	6,873	42.4%	43.6%	\$99.07	\$97.10	\$42.01	\$42.34	6.4%	3.3%
Ontario North/ Thunder Bay	2,129	49.2%	49.6%	\$86.43	\$84.32	\$42.52	\$41.82	0.5%	-0.4%
Ontario NC/ Sudbury	4,477	38.4%	39.4%	\$97.53	\$94.37	\$37.45	\$37.18	2.2%	-0.4%
Niagara Falls, ON	9,078	35.6%	39.8%	\$129.18	\$135.42	\$45.99	\$53.90	0.7%	-9.9%
Ontario Central	3,617	44.6%	43.4%	\$107.70	\$104.71	\$48.03	\$45.44	1.9%	4.7%
Mississauga, ON	5,536	48.0%	44.3%	\$107.27	\$105.49	\$51.49	\$46.73	-1.8%	6.3%
Winnipeg, MB	3,690	54.9%	51.4%	\$98.76	\$95.79	\$54.22	\$49.24	3.0%	10.0%
Regina/Saskatoon, SK	4,265	56.0%	51.6%	\$102.87	\$94.48	\$57.61	\$48.75	0.0%	8.4%
Calgary, AB	8,265	54.7%	55.2%	\$131.84	\$117.61	\$72.12	\$64.92	0.4%	-0.5%
Edmonton, AB	7,674	58.8%	58.7%	\$117.16	\$110.81	\$68.89	\$65.05	0.9%	1.0%
Alberta North Area	3,413	52.6%	59.6%	\$144.98	\$135.60	\$76.26	\$80.82	4.0%	-8.2%
Alberta South Area	8,807	47.2%	50.3%	\$145.46	\$133.36	\$68.66	\$67.08	2.6%	-3.7%
Vancouver Downtown	8,285	53.9%	53.3%	\$135.65	\$123.09	\$73.12	\$65.61	-1.2%	-0.2%
Vancouver/ Burnaby Area	1,923	51.6%	52.2%	\$97.13	\$89.74	\$50.12	\$46.84	0.0%	-1.1%
Richmond-Surrey/ East Area	5,950	55.1%	53.2%	\$104.82	\$96.72	\$57.76	\$51.46	2.1%	5.8%
British Columbia Area	5,129	52.2%	51.0%	\$254.27	\$230.21	\$132.73	\$117.41	1.2%	3.7%
Kamloops/ Kelowna Area	4,411	36.2%	36.0%	\$92.10	\$83.74	\$33.34	\$30.15	0.8%	1.5%
Vancouver Island	3,975	43.4%	47.3%	\$101.38	\$97.48	\$44.00	\$46.11	0.4%	-7.9%
Provinces									
Alberta	28,159	51.9%	54.2%	\$122.00	\$113.04	\$63.32	\$61.27	2.1%	-2.2%
British Columbia	29,369	45.9%	46.1%	\$117.97	\$108.60	\$54.15	\$50.06	0.7%	0.3%
Manitoba	4,523	55.0%	50.4%	\$79.43	\$79.80	\$43.69	\$40.22	1.6%	10.8%
New Brunswick	3,698	31.4%	31.7%	\$83.19	\$85.48	\$26.12	\$27.10	2.3%	1.5%
Newfoundland	1,835	44.5%	41.5%	\$97.27	\$96.24	\$43.29	\$39.94	0.0%	7.4%
Nova Scotia	4,814	29.2%	32.2%	\$98.94	\$91.62	\$28.89	\$29.50	0.4%	-9.0%
Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	73,986	43.9%	43.7%	\$108.18	\$106.14	\$47.49	\$46.38	1.5%	2.0%
Prince Edward Island	949	28.5%	37.2%	\$57.25	\$47.85	\$16.32	\$17.80	0.0%	-23.4%
Quebec	24,974	40.4%	41.0%	\$109.03	\$105.42	\$44.05	\$43.22	0.8%	-0.7%
Saskatchewan	5,871	50.8%	44.3%	\$88.25	\$82.82	\$44.83	\$36.69	0.0%	14.7%
Yukon Territory	180	INS	INS	INS	INS	INS	INS	INS	INS
Canada	178,482	43.7%	43.5%	\$109.95	\$104.95	\$48.05	\$45.65	1.2%	1.6%

December 2007 Year-To-Date	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
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Halifax, NS	3,509	68.7%	68.0%	\$127.78	\$123.47	\$87.78	\$83.96	0.1%	1.1%
Montreal Downtown	9,960	66.8%	67.4%	\$149.08	\$152.60	\$99.59	\$102.85	2.6%	1.6%
Montreal Area	5,433	63.6%	64.9%	\$106.61	\$105.31	\$67.80	\$68.35	1.7%	-0.4%
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British Columbia Area	5,129	58.7%	56.7%	\$155.77	\$147.71	\$91.44	\$83.75	0.9%	4.5%
Kamloops/ Kelowna Area	4,411	56.9%	55.9%	\$107.40	\$99.68	\$61.11	\$55.72	1.7%	3.6%
Vancouver Island	3,975	66.9%	64.9%	\$126.89	\$121.05	\$84.89	\$78.56	0.6%	3.5%
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Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	73,986	60.9%	60.6%	\$116.43	\$113.75	\$70.91	\$68.93	1.4%	1.9%
Prince Edward Island	949	49.2%	55.6%	\$97.41	\$89.29	\$47.93	\$49.65	-0.3%	-11.9%
Quebec	24,974	57.1%	56.8%	\$114.52	\$114.60	\$65.39	\$65.09	1.0%	1.6%
Saskatchewan	5,871	63.8%	58.6%	\$89.26	\$83.58	\$56.95	\$48.98	0.2%	9.0%
Yukon Territory	180	INS	INS	INS	INS	INS	INS	INS	INS
Canada	178,482	60.3%	59.6%	\$113.82	\$109.10	\$68.63	\$65.02	1.0%	2.2%

DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvs.com
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