

Boston Hotel Market Outlook - By Erich Baum
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The Boston lodging market's long-awaited recovery commenced in 2004. The course has been set, and substantial investments in transportation and convention infrastructure seem likely to facilitate continued improvement.

The Red Sox went from cursed to first in 2004 and the Boston lodging market also emerged from its own mini-curse and began the process of reversing three years of painful RevPAR losses. Table 1 summarizes historical trends between 1999 and 2004. The information was provided by Smith Travel Research, and includes hotels in Boston (including the airport sub-market) and Cambridge.

Table 1 : Historical Supply and Demand Trends - Aggregate Results for Boston's Top 20 Hotels - Smith Travel Research

Year	Supply		Demand		Occupancy		ADR		RevPAR	
	Avg. Annual Room Night Supply	% Change	Room Night Demand	% Change	Occupancy Rate	% Change	Average Daily Rate	% Change	RevPAR	% Change
1999	4,981,348	---	3,742,814	---	75.10%	---	\$189.15	---	\$142.12	---
2000	5,246,241	5.30%	4,150,828	10.90%	79.10%	5.30%	\$200.53	6.00%	\$158.66	11.60%
2001	5,414,011	3.20%	3,773,103	-9.10%	69.70%	-11.90%	\$181.79	-9.30%	\$126.69	-20.20%
2002	5,461,373	1.20%	3,901,552	3.40%	71.20%	2.10%	\$166.29	-8.50%	\$118.36	-6.60%
2003	5,894,173	7.50%	4,097,367	5.00%	69.50%	-2.30%	\$153.47	-7.70%	\$106.68	-9.90%
2004	6,079,855	3.20%	4,458,389	8.80%	73.30%	5.50%	\$167.02	8.80%	\$122.48	14.80%
Avg. Annual % Change										
1999 - 2004		4.10%		3.60%		-0.50%		-2.50%		-2.90%

Source: Smith Travel Research

Our key observations are as follows:

1. By 2003, the market's RevPAR had dropped all the way to 67% of its 2000 peak level, but improved to 77% of this peak level in 2004. Demand levels and average rate increased at identical 8.8% rates of growth.
2. The new Boston Convention & Exhibition Center (BCEC) was completed in the Seaport District in June 2004 and Boston hosted the Democratic National Convention at the Fleet Center in late July.
3. Strong demand from international sources also bolstered the market. Always an important source of demand in Boston, international travel primarily improved due to the weak dollar.
4. Commercial demand improved, but remains well below the levels noted in peak years. The region's high technology sector is rebounding only very gradually.

In 2004, five new hotels with 673 rooms opened in the city, pacing the 3.2% gain in supply. The following table identifies the new hotels opened last year, as well as those hotels that are expected to open over the next three years.

Table 2 : Changes in Hotel Inventory - Boston

Project Name	Location	Number of Rooms	Comments	Developer
<u>Hotels Opened in 2004</u>				
Courtyard by Marriott	Back Bay	81	Opened 5/04	Boston Exeter Corp.
Hotel Onyx	Bullfinch Triangle	112	Opened 5/04	Kimpton Hotel Group
Hampton Inn & Suites	South End (Crosstown)	175	Opened 6/04	Corcoran Jennison/BU
Jurys Hotel	Back Bay	225	Opened 7/04	Saunders/Jurys Doyle
Clarion Hotel	Bullfinch Triangle	80	Opened 9/04	Farrar Equities
<u>Hotels Opening in 2005</u>				
Courtyard by Marriott	South Bay	164	Under Construction	Jiten Hotel Management
<u>Hotels Opening in 2006</u>				
O'Callaghan Hotel	Financial District	130	Under Construction	O'Callaghan Hotels
Westin Hotel	Seaport	790	Under Construction	Fallon/NED/Starwood
Inter-Continental Hotel	Seaport	424	Under Construction	Intell Mgmt & Investment
<u>Hotels Opening in 2007</u>				
Mandarin Oriental	Back Bay	149	Financed	CWB Boylston
Regent Battery Wharf	North End	149	Financed	Development Mgmt.
Renaissance Hotel	Seaport	477	Final Planning	Fallon/Marriott

The three largest of the new hotels planned for 2006 and 2007 are concentrated in the Seaport District and are designed to accommodate demand generated by the new BCEC. Remarkably, the BCEC is generating decent visitation levels even though it is currently supported by only one hotel within walking distance. Most BCEC delegates requiring hotels are currently shuttled to the Back Bay, where the large group-oriented hotels that have traditionally supported the Hynes Center continue to function as the city's convention headquarters hotels. The transportation situation is not ideal or even convenient, but the Back Bay is Boston's favored commercial neighborhood and is likely to remain the first choice for many convention delegates, no matter how many new rooms are built in the Seaport.

Meanwhile, the Hynes Center continues to function and has actually experienced increased volume despite the advent of the BCEC. The original concept of the BCEC called for the city to operate with two convention centers, and this outcome may still be viable depending upon your point of view. The Hynes has long generated operating losses, and Governor Romney favors a suspension of the operation. Mayor Menino and the local businesses sustained by the convention center's activities are allergic to that idea. It is hard to imagine an alternate use for the facility, and the losses may not be prohibitive for a consortium of buyers with a vested interest in its survival as a convention center. A state panel has been formed to study the question and make a recommendation by the end of the year. Stay tuned.

Overall, Boston appears to be rebounding, and the hope is that 2004 was only the first step. There is cause for optimism, no matter how hard that can be for a New Englander to muster. The ongoing difficulties associated with the Big Dig are embarrassing, but the improvement in the infrastructure is undeniable. Benefiting from a major infusion of capital, the airport is no longer as mystifying to use or as horrible to behold, and passenger counts surged in 2004. And even though the all-too-important high technology sector needs to improve in order to rescue the suburbs, the overall sense in the city is positive. Boston is headed in the right direction, and the 2004 RevPAR results are proof positive.

About the Author:

Erich Baum has 14 years of experience as a hotel consultant and appraiser. He has appraised or consulted on over 200 hotels in 41 states, as well as Mexico and the Caribbean. A graduate of Cornell's School of Hotel Administration, Baum also has a masters of arts in writing from the University of San Francisco.

Mr. Baum is a state-certified appraiser in the State of California, and has served as an expert witness in a number of courts of law. Along with being a contributing editor in the Hotel Investments Handbook, published in 1997, Baum worked as co-author with Steve Rushmore on *Hotels and Motels: Valuations and Market Studies*, published in 2001. This text is published by the Appraisal Institute and serves as its standard text for the teaching of hotel valuation and analysis.

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