

Lodging Econometrics' First Quarter Report Shows the Construction Pipeline Increased to 5,807 Projects with 779,307 Rooms

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Developers Remain Bullish in the Face of Changing Economic Conditions

Lodging Econometrics (LE), the Global Authority for Hotel Real Estate, announced that the Construction Pipeline stood at 5,807 projects and 779,307 guestrooms at the end of Q1 2008, a record high for both project and room counts. 'The pipeline continues to soar. It's a 60,920-room boost, an 8.5% increase over Q4 2007, and the 29th consecutive quarterly increase dating back to 2004. All projects have dedicated land parcels, are being actively pursued by developers and have been verified by the brands,' said Patrick Ford, President.

'For the quarter, Newly Announced rooms into the Pipeline totaled 125,442, an all-time high. Although offset by rising Cancellations and by New Hotel Openings coming online in the first quarter, the Pipeline surprisingly continued to grow at a rapid pace,' said Ford.

Ford continued, 'Developers remain bullish about the future. For hotels under 200 rooms in the upscale, mid-market and economy sectors, financing is still available, albeit at much more difficult terms. At this time, regional banks and dedicated national lodging real estate lenders continue to be less constrained by the lending crisis.'

Total Construction Pipeline							
	At 4Q 07		At 1Q 08		Variance		QoQ % Change
	Projs	Rms	Projs	Rms	Projs	Rms	Rms
Under Construction	1,565	223,977	1,738	241,952	173	17,975	8.0%
Scheduled Starts Next 12 Mos	2,563	315,995	2,728	330,925	165	14,930	4.7%
Early Planning	1,310	178,415	1,341	206,430	31	28,015	15.7%
Total Construction Pipeline	5,438	718,387	5,807	779,307	369	60,920	8.5%

Source: Lodging Econometrics, Portsmouth, NH, USA the Global Authority for Hotel Real Estate.

With 73 projects larger than 200 rooms newly announced into the Pipeline, there was a significant room increase in Early Planning in Q1 2008. Thirteen projects were casinos, while thirteen others were already branded, seven of them by Marriott. The remaining projects are presently classified as Independents. Approximately 70% of them will choose a brand prior to opening. These projects will open in the next decade as their developers anticipate that the lending crisis will right itself before they seek financing.

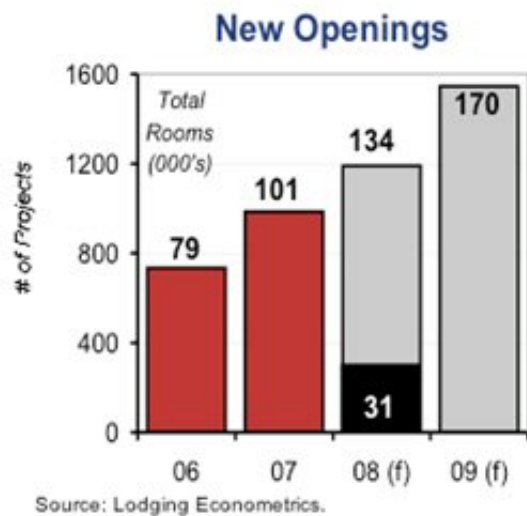
It's clear that developers see the softening economy throughout 2008, and perhaps 2009, as a shallow downturn. They view the lodging industry as a quite healthy, attractive investment class likely to bounce back quickly.

Construction Starts are Accelerating



A growing Pipeline means higher Construction Starts. Year over year (YoY) Construction Starts increased 35% to 176,172 rooms in 2007, compared to 130,132 in 2006. Historically, the first quarter is always the slowest Construction Start quarter of the year. However, an unsurpassed 51,864 rooms started construction in the first quarter, the highest total of all quarters recorded this decade.

The Forecast for New Hotel Openings is on the Rise



Higher Construction Starts translates into a growing Forecast for New Hotel Openings. The Pipeline just began to unfold in earnest last year with 101,238 new rooms opened. LE's latest forecast calls for 1,190 projects/133,623 rooms to open in 2008 for a gross growth rate of 2.8%, with 1,545 projects/ 170,417 rooms in 2009, a gross growth rate of 3.5%.

Assuming that removals from inventory for closings, renovations and redevelopment for alternate use return to normal and after accounting for delays in reporting, the net growth rate which is nearly impossible to predict, should approximate at .3 to .5 points lower.

Significantly, 80% of the 304,040 rooms forecast to open in both 2008 and 2009 combined are already Under Construction.

With declining occupancies likely and perhaps softening demand ahead, the Forecast for New Openings may appear more problematic in the future than it might have earlier, had there not been such an abrupt change in economic trends last fall. Absent that, New Supply in 2008 and 2009 might have been appropriately calibrated and more easily absorbed. It now appears existing open and operating hotels in many markets are likely to be impacted by new supply coming online over the next few years.

Pipelines in Major Markets are Growing

Significantly, seven hotels greater than 1,000 rooms were announced into the Pipeline in the first quarter, four of which were removed from the Pipeline in years past and have since been reactivated. Of those seven, three are Casino projects, while another is a 3,500 room Marriott in Las Vegas.

Of the leading markets, seven have more than 100 projects in their Construction Pipeline, while ten have more than 10,000 rooms. Six of the markets have total room counts in the Pipeline greater than 25% of their existing census and bear continued monitoring.

Construction Pipeline as a Percentage of Census			
	Hotels	Guestrooms	% of Census
Phoenix	122	18,583	32.6
Las Vegas	72	50,283	30.3
San Antonio	77	10,447	30.0
New York	146	23,936	29.3
Washington	152	25,883	26.7
Houston	140	16,273	26.7

Source: Lodging Econometrics, Portsmouth, NH, USA the Global Authority for Hotel Real Estate.

Houston and New York are rapidly climbing up the list. Although somewhat offset by other project cancellations and new openings, they respectively had a whopping 61 and 57 New Projects announced into the Pipeline over the last two quarters.

LE's Outlook

There's considerable churn in the Pipeline. New Openings are growing and Project Cancellations are increasing. But, New Project Announcements are greater, so, for now, total Pipeline counts remain on an upward trajectory.

LE's supply growth forecasts for 2008 and 2009 are near certain, as 80% of the forecasted new rooms are already in the ground.

Supply growth in 2010 and 2011 will depend on whether the softening economy significantly affects lodging. Changes in Operating performance might alter the perception of lodging as an attractive investment class, impacting both developer and lender attitudes, causing a higher flow of cancellations and a slowdown in new project announcements.

Supply growth rates are also dependent upon how long regional lenders can continue to side-step balance sheet tensions that would cause them to cut back on commercial lending.

It's a bit of a wait-and-see situation.

Lodging Econometrics (LE) of Portsmouth, NH is the global authority for hotel real estate. LE conducts Supply Side research for all markets, developers and brands and companies in: U.S., Canada, Mexico, Central America and the Caribbean, Europe, Asia, Middle East, South America, and Africa.

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