Regional Lodging Performance Lags the Nation[1]

By Matthew Arrants, ISHC, and Rachel Roginsky, ISHC, Pinnacle Advisory Group

Through October, the New England Lodging Industry has experienced growth in hotel room revenues of only 2.4 percent compared to a rate of 8.1 percent for the nation as a whole. A review of the region's performance on a state-by-state basis reveals that only two of the six states in the region have experienced positive growth in Revenues Per Available Room (RevPAR). In fact, Massachusetts is pulling up the entire region while Connecticut; the only other state with positive RevPAR growth is up only slightly over the same period last year. While the region lags the nation in RevPAR growth, it remains well ahead of the national average in absolute terms with a RevPAR of $66.10 compared to only $58.78 for the nation. In addition, all of the states in the region with the exception of New Hampshire and Maine have RevPAR averages above the national average. While the region's poor relative performance is of some concern, it reflects its historic norm of lagging the nation in recovering from economic recessions.

Typical of most recoveries, Massachusetts and Boston in particular, appear to be leading the rest of the region in improving lodging performance indicators. While the state-wide occupancy level has only increased by 0.2 percentage points the average rate has grown by 4.0 percent resulting in RevPAR growth of 4.4 percent. The greater Boston area has experienced RevPAR growth of 5.8 percent. Data collected in the Pinnacle Perspective indicates that within the Greater Boston Area, the Downtown Boston and Cambridge markets have experienced the strongest growth in RevPAR, with rates in excess of 6.0 percent. The stronger recovery in the urban area of Greater Boston suggests that commercial travelers are driving the state's improved lodging performance. While the urban areas of Worcester and Springfield have also experienced improved performance through the first ten months of the year, the improvements have not been as dramatic.

In considering the performance of the Greater Boston market relative to the rest of the state and the region, it is interesting to note that most of the improved performance has been in average daily rate. This can be attributed to the presence of numerous large hotels with sophisticated management teams that have been able to effectively manage their pricing in order to increase rates. In addition, many of these large branded

---

[1] Except where noted, all statistics were gathered by Smith Travel Research.

hotels have been able to wean themselves from third party internet sites and drive consumers to their proprietary websites from which their able to garner higher rates without paying commissions.

New Hampshire's performance in 2005 relative to 2004 was impacted by the 2004 presidential primaries, which generated significant demand during the normally slow winter months. While the state's relative performance has improved over the course of the year, its RevPAR remains 2.4 percent behind 2004 levels through October. New Hampshire was also heavily affected by a disappointing fall foliage season caused by an unusually rainy month of October. Specifically, in the month of October the state's occupancy declined by 5.1 percent compared to 2004.

Vermont's performance through October is worse than New Hampshire's with a decline of 3.0 percent in RevPAR. This can be attributed to the State's heavy reliance on leisure related demand and its relatively stagnant economy. While the state's ski areas have been working to add attractions they have also been adding condominium units that impact occupancy levels at area hotels. The combination of the increased competition from condominiums, competition for leisure travelers from other states, and wet weather during the fall foliage and spring all had a negative impact on demand for hotel rooms Vermont.

Maine also experienced a decline in RevPAR through October, however it was a moderate decrease of only 1.1 percent. The Maine market has benefited from relatively minor supply increases over the last few years and while there is increased competition for leisure travelers both regionally and nationally, Maine's major tourist draw, its coastline remains unique. In addition, some have suggested that Maine has benefited from reduced rooms supply in the Cape and Islands areas of Massachusetts where numerous hotels have converted to residential (a trend that has also affected the Maine coast, albeit not as dramatically). While the wet weather in May and October had a negative impact on demand, much of that was mitigated by the fact that May is traditionally a strong group month that is less impacted by weather and the foliage season in Maine is less of a demand generator than in neighboring New Hampshire and Vermont. Lastly, Maine has benefited from stable commercial demand in greater Portland.

Rhode Island, which as traditionally had one of the strongest lodging markets in the region, has experienced one of the most significant declines in RevPAR through October. Specifically while the State's RevPAR was the highest in New England at $78.07, it was 2.8 percent below the 2004 level for the same period. The decline in RevPAR resulted from a significant decline in demand (3.8 percent), which when combined with a 2.2 percent increase in supply resulted in a 4.1 point drop in occupancy. There are a number of factors that have likely played a role in the market's declining demand. For example, convention demand in 2005 was below 2004 levels, the wet spring affected leisure demand in the spring and commercial related demand cooled off. The long-term prospects for the state, however are bright as it expected to benefit from increased demand resulting from infrastructure improvements in Warwick, (the expansion of the airport), Providence (the relocation of a portion of I-95) and in Newport (the redevelopment of the Newport Bridge Entrance).

Connecticut was the only state other than Massachusetts in the region to experience growth in RevPAR during the first ten months of 2005. Specifically average daily rate growth of 3.0 percent helped to offset a decline in occupancy of 1.1 point, resulting in RevPAR growth of 1.2 percent. Market occupancy, and subsequently RevPAR would have been much stronger, were it not for a 2.9 percent increase in supply resulting in part from the reopening of the Hilton in Hartford and the new Marriott in downtown Hartford. The state's relatively disappointing performance from a RevPAR stand point is likely due to a timing issue. The opening of the new supply in Hartford has not yet resulted in or benefited from increased bookings at the new Convention center or increased commercial and leisure demand created as downtown Hartford is redeveloped and becomes a more attractive destination.

While the relatively minor increase in RevPAR for the region through October coupled with the mixed results from state to state suggests a weakening of the industry's recovery there are still reasons for optimism. New supply in the region appears to be relatively minor, the states that are under-performing lost less ground during the last recession, and there are several factors likely to result in increased demand for many parts of the region in 2005. In addition to the specific factors previously cited in Rhode Island and Connecticut, the region is also expected to benefit from an improving economy and a record year for conventions in Boston.

Matthew Arrants, ISHC is the Managing Director of Pinnacle Advisory Group. For the firm, he specializes in market asset management, new development and operational reviews. Prior to joining Pinnacle Matthew worked in operations in various capacities with The Four Seasons Hotel in Boston, and Rock Resorts in Hawaii and Wyoming. He holds a Masters Degree in Hotel Administration from Cornell University and a BA in Political Science from Hartwick College.

Rachel Roginsky's bio is on file.