

# OUTLOOK 2016



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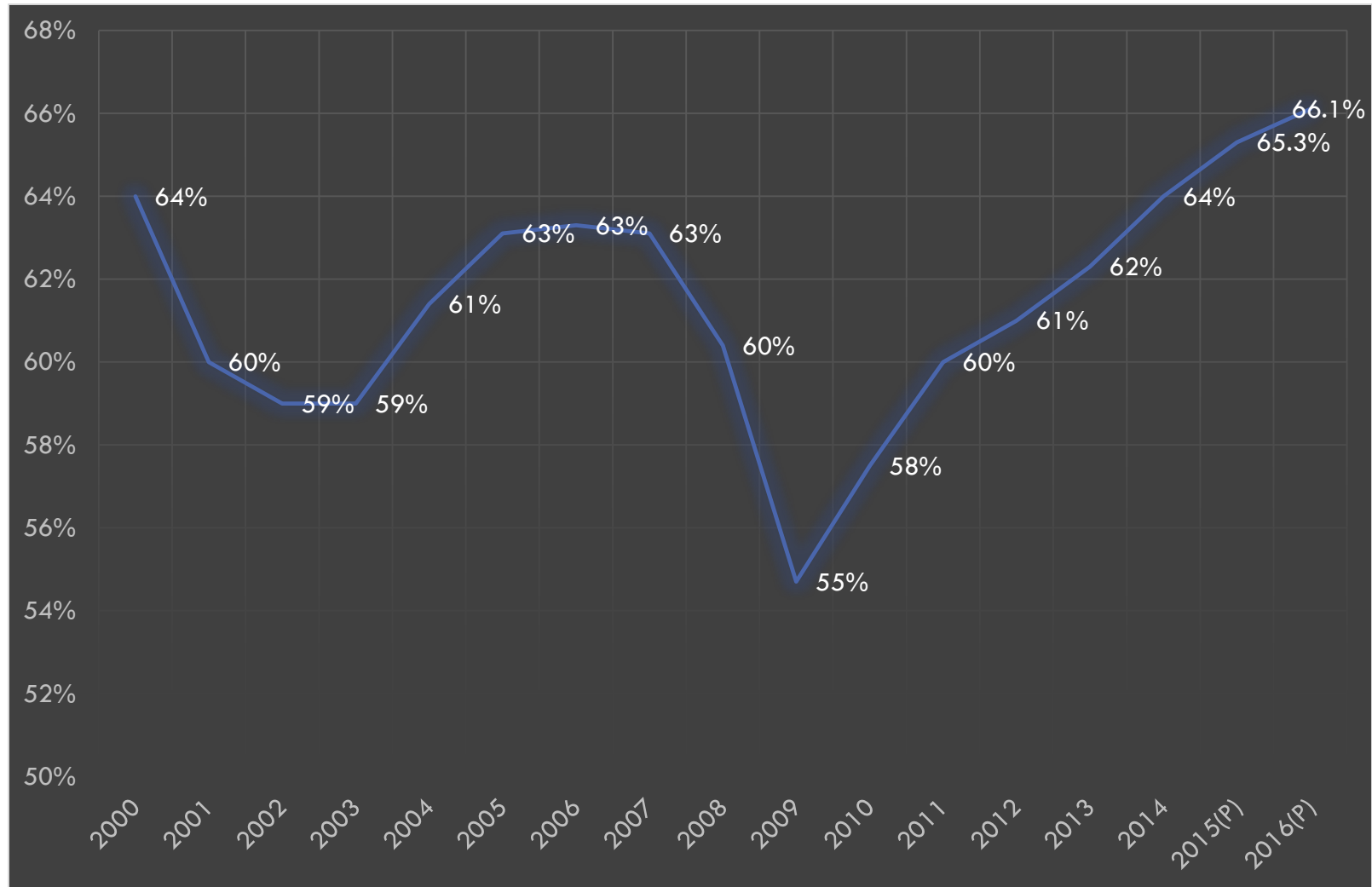
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# NATIONAL LODGING MARKET

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# U.S. Occupancy 2000–2016(P)



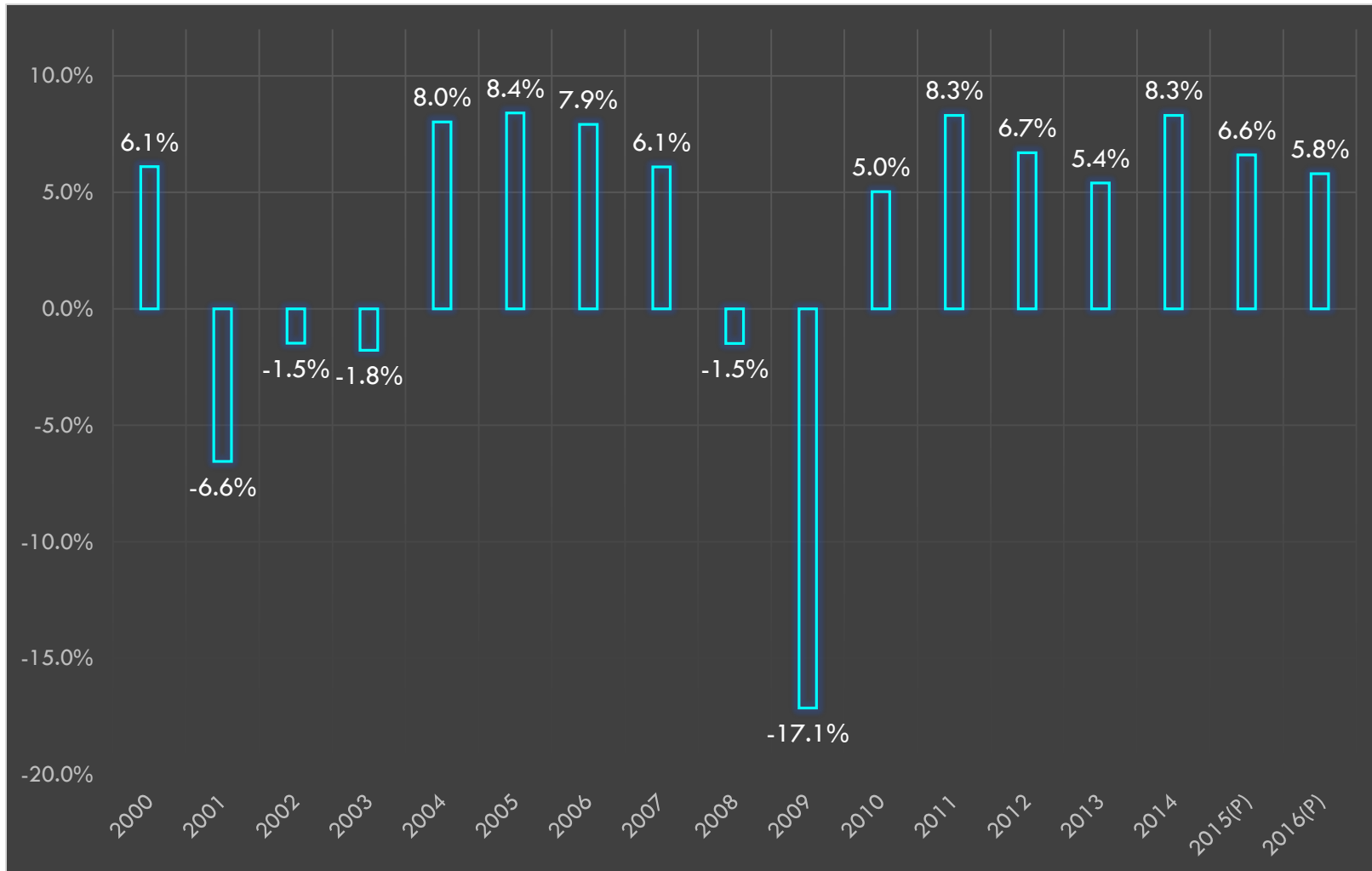
# U.S. Average Daily Rate 2000-2016(P)



# U.S. RevPAR 2000– 2016(P)

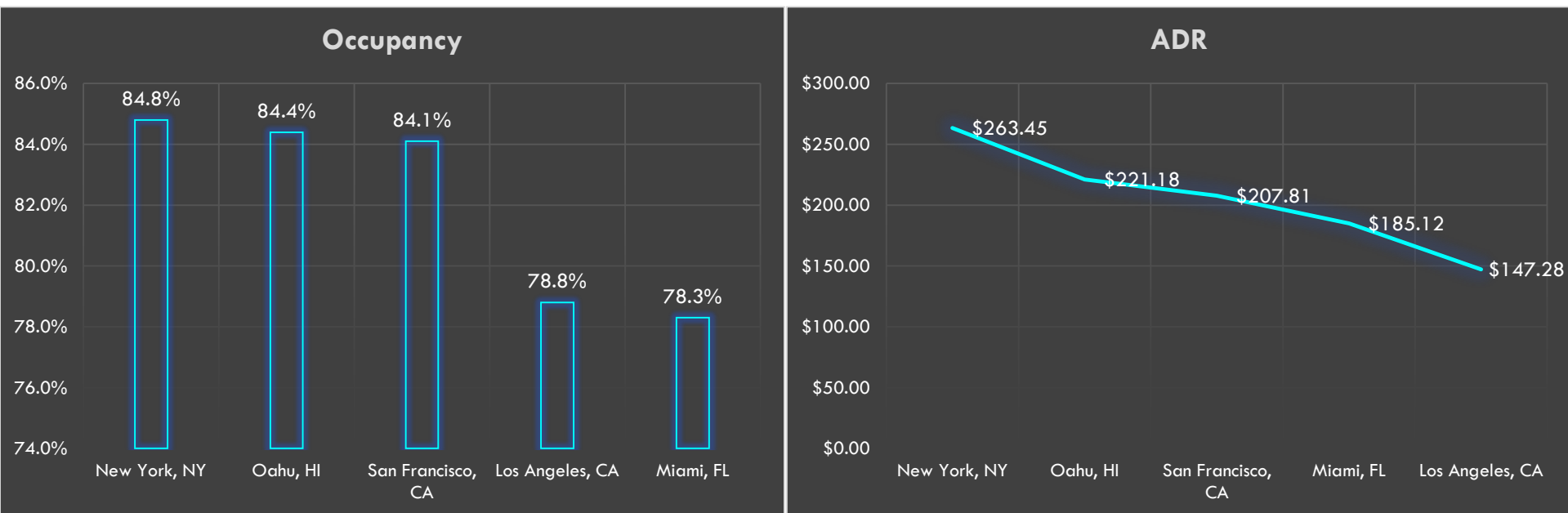


## U.S. RevPAR Percent Change 2000 – 2016(P)



# Boston/Cambridge vs. Top US Markets 2014

|                    | Occupancy | ADR      |
|--------------------|-----------|----------|
| US                 | 64.4%     | \$115.32 |
| Boston MSA         | 75.3%     | \$176.95 |
| Boston/Cambridge** | 81.5%     | \$238.63 |



All data points represent MSA's and the source is STR.

\*\*The Boston/Cambridge data represents the City only and the source is Pinnacle Perspective.



## NEW SUPPLY

- Total number of hotels in the STR active pipeline as of May 2015 was up 11.7% compared with the same time the prior year. This equates to 3,509 projects with 425,896 rooms. This includes hotels In Construction, Final Planning, and Planning.
- Upscale and Upper Midscale chains dominate overall construction activity.
- New York City has the largest number of rooms under construction with 13,300 rooms which represents about 10% of the US total.
- Long term (20 year) average growth rate for new supply is 1.7% CAGR. In 2014, US hotel supply increased .9%. YTD May 2015, new supply is up 1.0%.



## TAKEAWAYS

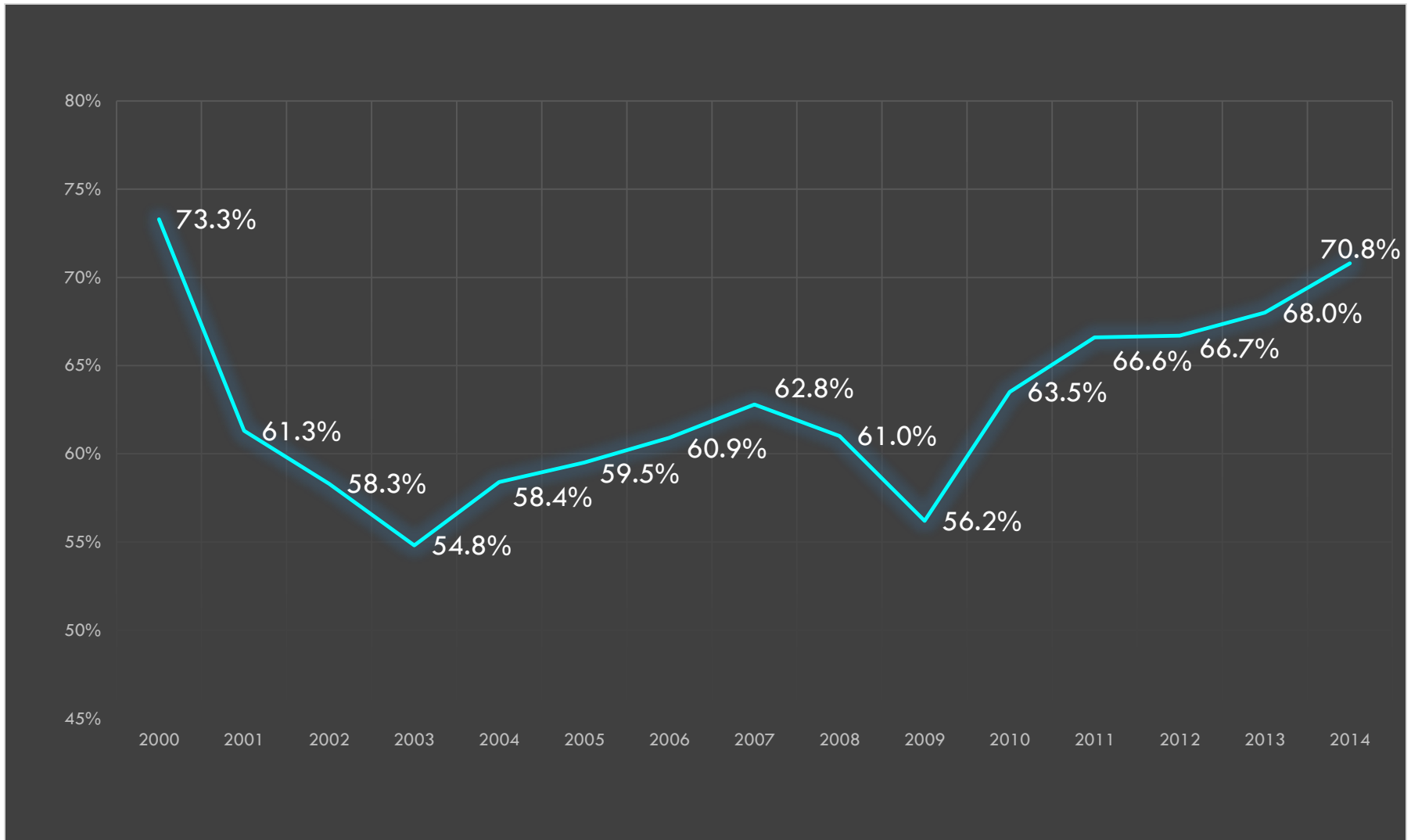
- Industry fundamentals remain solid. The US Lodging market has the highest room demand ever as well as highest annualized occupancy.
- Supply growth is on the rise (1.3%(P) in 2015). By 2017 supply growth may exceed long term average.
- Demand growth continues to outpace supply and remains reasonably healthy.
- ADR growth continues to be the driver of RevPAR growth (5.2% in 2015 and 5.0% in 2016). Note that long term ADR growth is approximately 2.9%.
- RevPAR forecasts are positive: 6.6% in 2015 and 5.8% in 2016.
- Barring an economic downturn or unforeseen factors, the lodging market will continue in the “up cycle” and many forecasters expect this trend to continue into 2017.



# SUBURBAN BOSTON LODGING MARKET

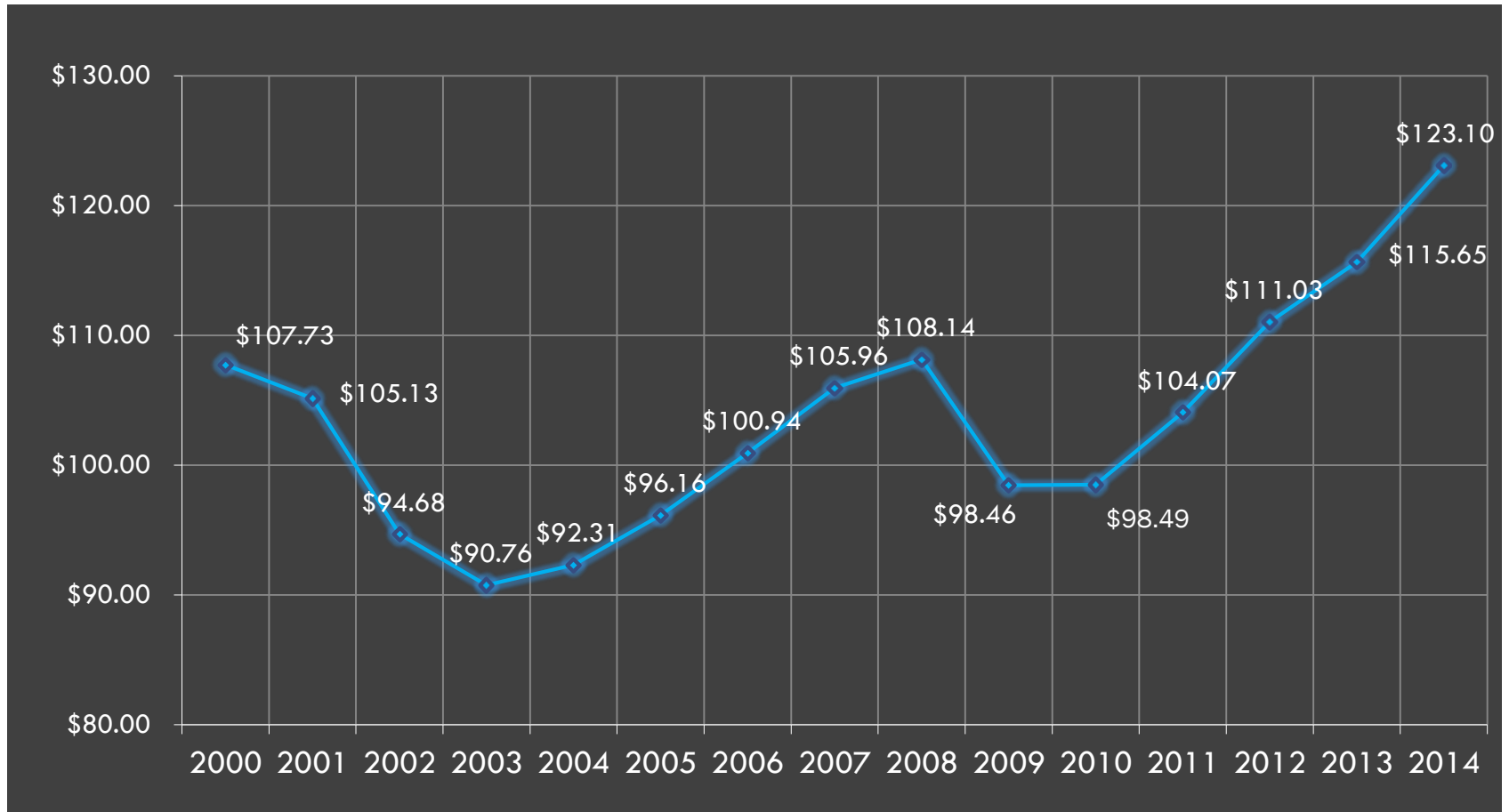
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# Suburban Boston Occupancy 2000-2014



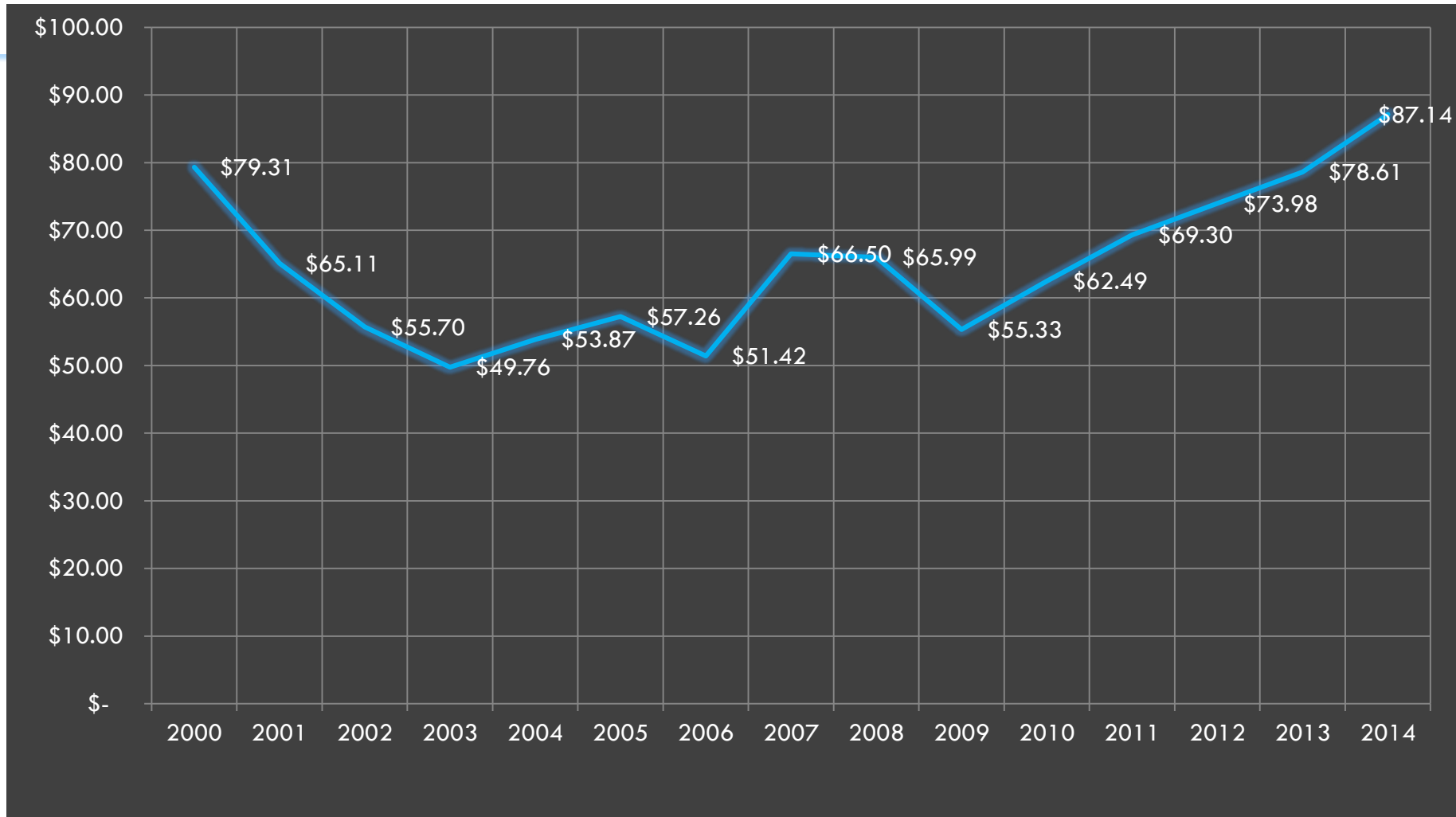
Source: Smith Travel Research (PAG defined area)

# Suburban Boston Average Daily Rate 2000-2014



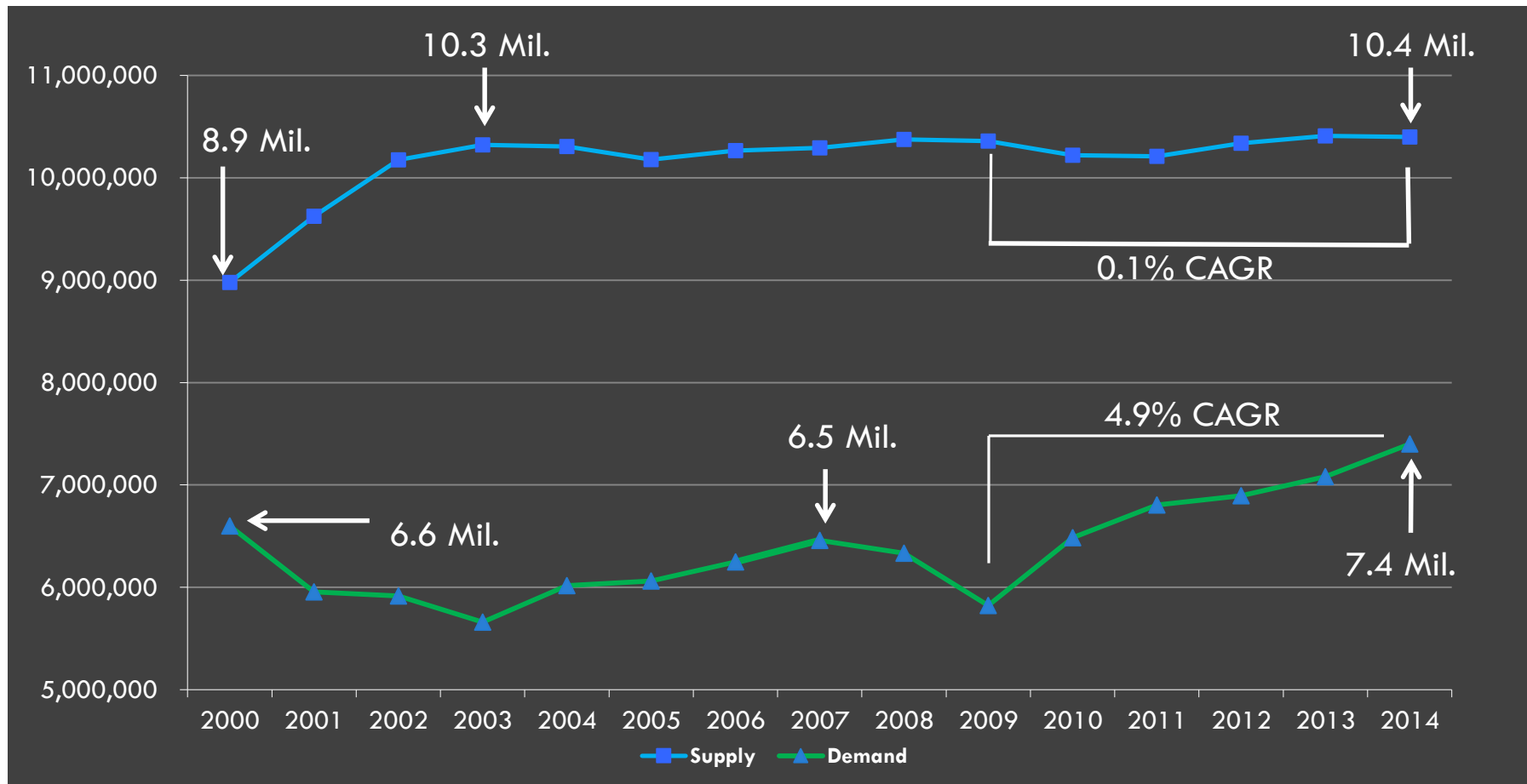
Source: Smith Travel Research (PAG defined area)

# Suburban Boston RevPAR 2000-2014

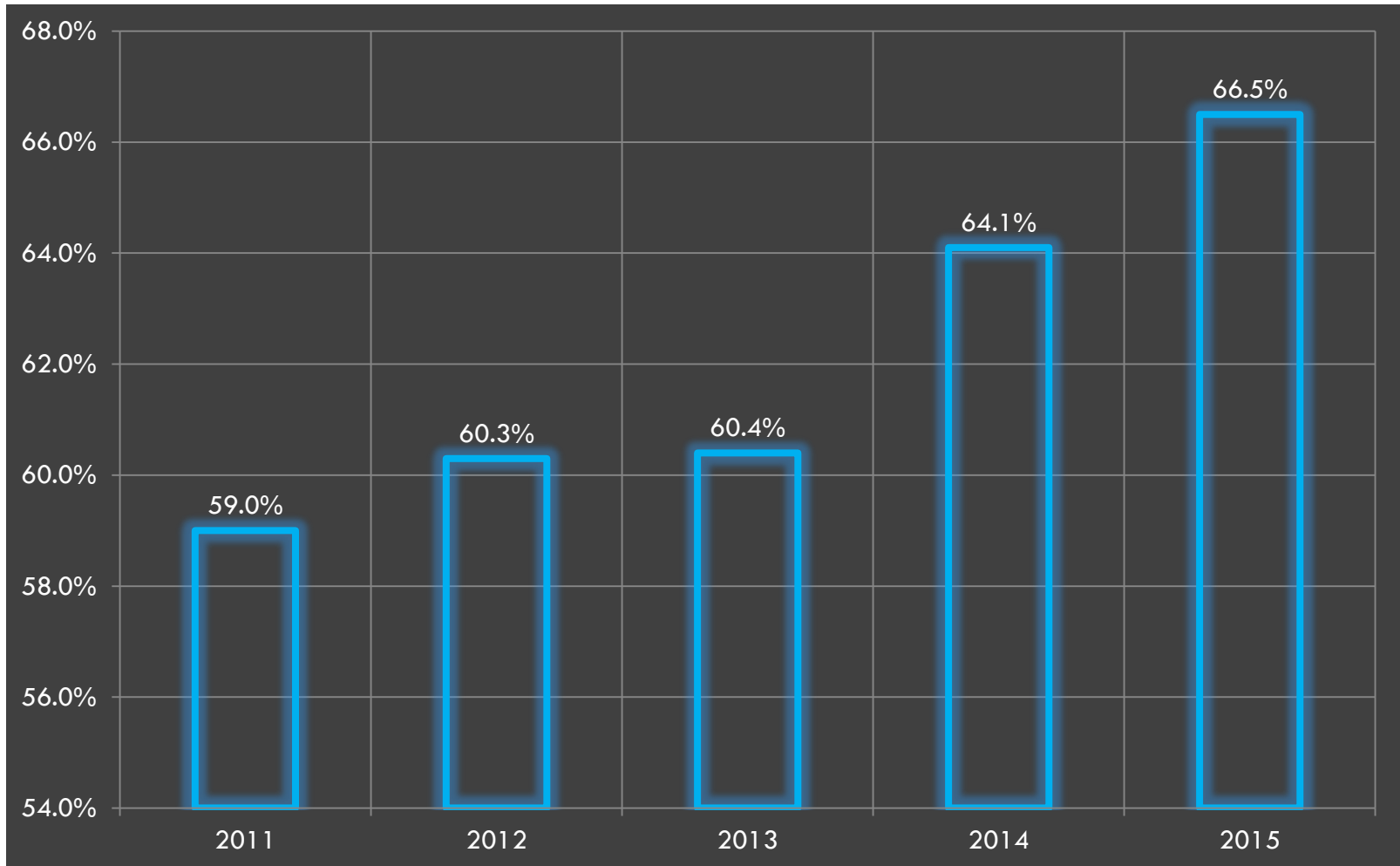


Source: Smith Travel Research (PAG defined area)

# Suburban Boston Supply and Demand 2000-2014



# Suburban Boston Occupancy YTD May 2011-2015



**Source: Smith Travel Research (PAG defined area)**

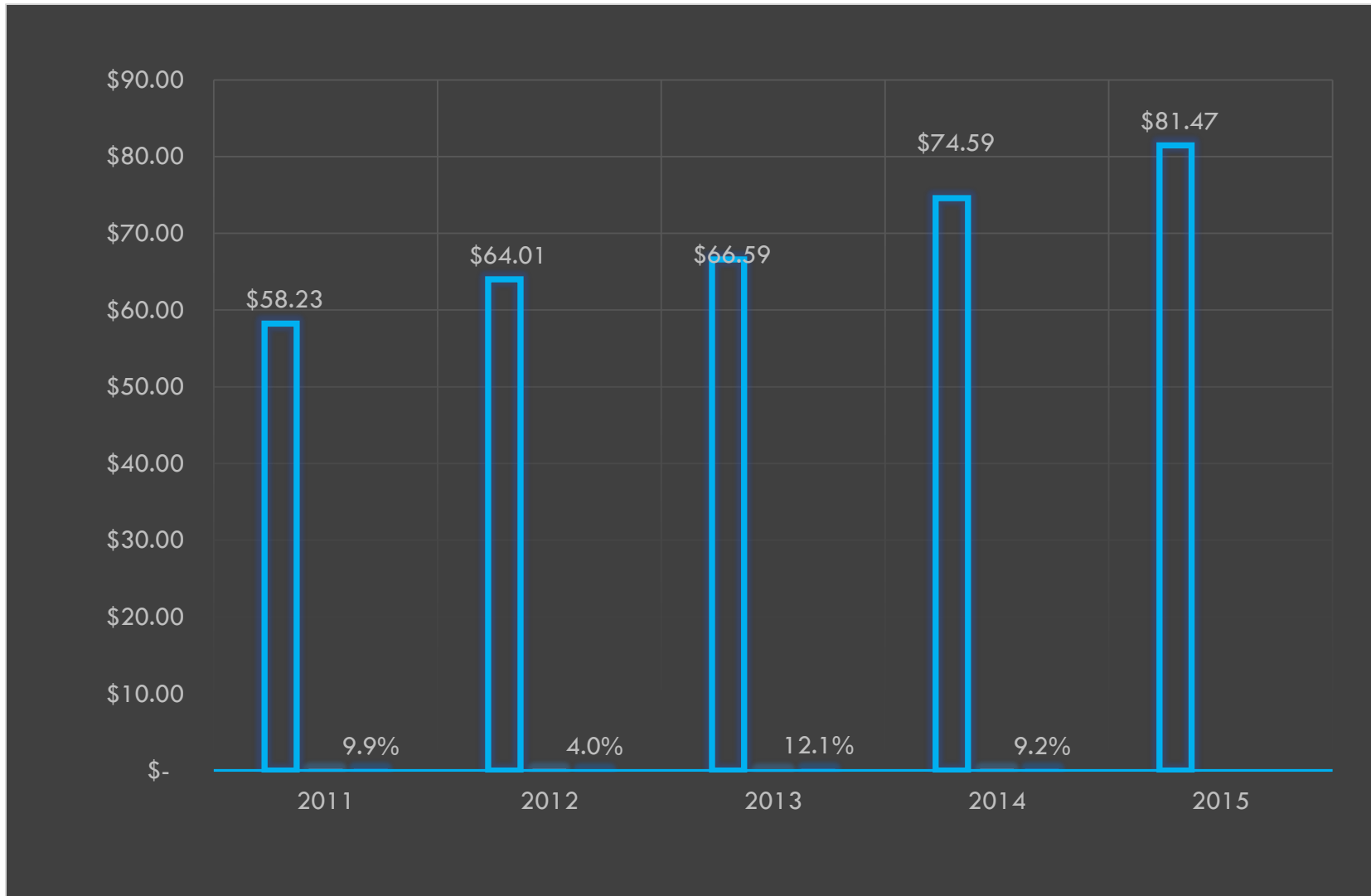
# Suburban Boston Average Daily Rate YTD May 2011-2015



Source: Smith Travel Research (PAG defined area)



# Suburban Boston RevPAR YTD May 2011-2015



Source: Smith Travel Research (PAG defined area)

# Suburban Boston Supply Changes 2015-2016

## 2015

- 130-room Homewood Suites Brookline (December)
- 85-room Holiday Inn Express Norwood (May)
- 140-room TownPlace Suites Chelsea (March)
- 85-room TownPlace Suites Wareham (April)

## 2016

- 170-room Residence Inn Burlington (July)
- 150-room Residence Inn Watertown (November)
- 152-room AC Hotel-Marriott Medford (January)
- 115-room Courtyard Littleton (June)
- 100-room Hampton Inn & Suites Stoughton (November)
- 105-room Hampton Inn Westborough (October)
- 105-room Homewood Suites Marlborough (November)
- 160-room Hilton Garden Inn Marlborough (September)
- 102-room Home2 Watertown (September)
- 92-room Hampton Inn Amesbury (September)
- 115-room Staybridge Suites Quincy (December)
- 114-room Staybridge Suites Waltham (December)
- 128-room Holiday Inn Chelsea (April)
- 152-room Homewood Suites Chelsea (1<sup>st</sup> Quarter)

## Suburban Boston Office and R&D Trends

|               | Square Feet Supply | Vacancy |
|---------------|--------------------|---------|
| Inner Suburbs | 5.5 Million        | 11.2%   |
| Route 128     | 76.9 Million       | 15.0%   |
| Route 495     | 49.3 Million       | 22.0%   |

Source: As of March 31, 2015 (Colliers)

## Suburban Boston Office Trends

- Suburban office vacancies expected to continue to decline in 2015 and 2016.
- Improving market fundamentals are providing confidence to local corporations , rents are rising, and more projects are expected to get off the ground.
- Tighter vacancies are driving up rents and pushing demand further out to I495.
- Continued growth in technology and biotech industries is fueling the recovery in the office market.
- The Suburban office and R&D markets recorded nearly 1.4 million SF of absorption in 1<sup>st</sup> Quarter 2015. This represents 6 quarters of positive absorption.

# Suburban Boston Lodging Demand 2015-2016

- The greater Boston real estate market will benefit from solid regional growth, below average unemployment rate and growing optimism.
- Given continued economic improvements, Leisure Demand will show moderate improvement. This segment continues to be rate sensitive, but with more capacity issues, rate growth above inflation is expected.
- Strong improvements in the local office markets allow for strong weekday demand. Capacity is driving rate improvements throughout the suburban market. Stronger growth in the inner suburbs and 128; positive momentum in outer suburbs (I-495).
- Group demand is on the upswing and most markets are seeing moderate levels of improvement.
- Capacity in peak periods, coupled with higher room rates in Boston, will continue to drive rate increases above inflation.
- New supply will negatively impact occupancy in some markets.



## Suburban Boston Projections 2015

|              | 2014     | 2015     | % Change |
|--------------|----------|----------|----------|
| Occupancy    | 70.8%    | 72.5%    | 2.4%     |
| Average Rate | \$123.10 | \$129.50 | 5.2%     |
| RevPAR       | \$87.14  | \$93.89  | 7.7%     |



## Suburban Boston Projections 2016

|              | 2015     | 2016     | % Change |
|--------------|----------|----------|----------|
| Occupancy    | 72.5%    | 71.5%    | (1.4)%   |
| Average Rate | \$129.50 | \$134.68 | 4.0%     |
| RevPAR       | \$93.89  | \$96.30  | 2.6%     |



# BOSTON CAMBRIDGE LODGING MARKET

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# Boston / Cambridge Occupancy 2000-2014



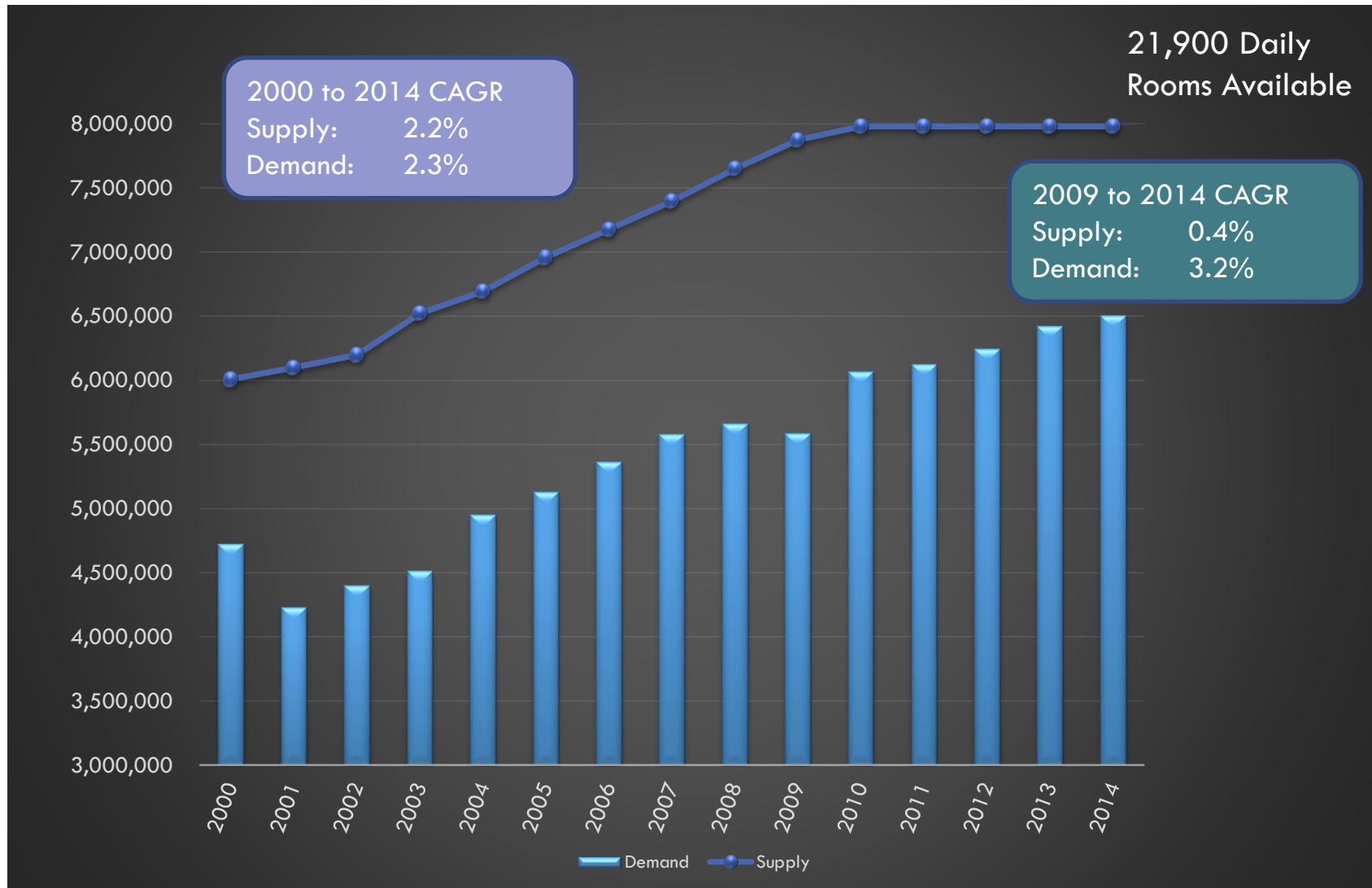
## Boston / Cambridge ADR 2000-2014



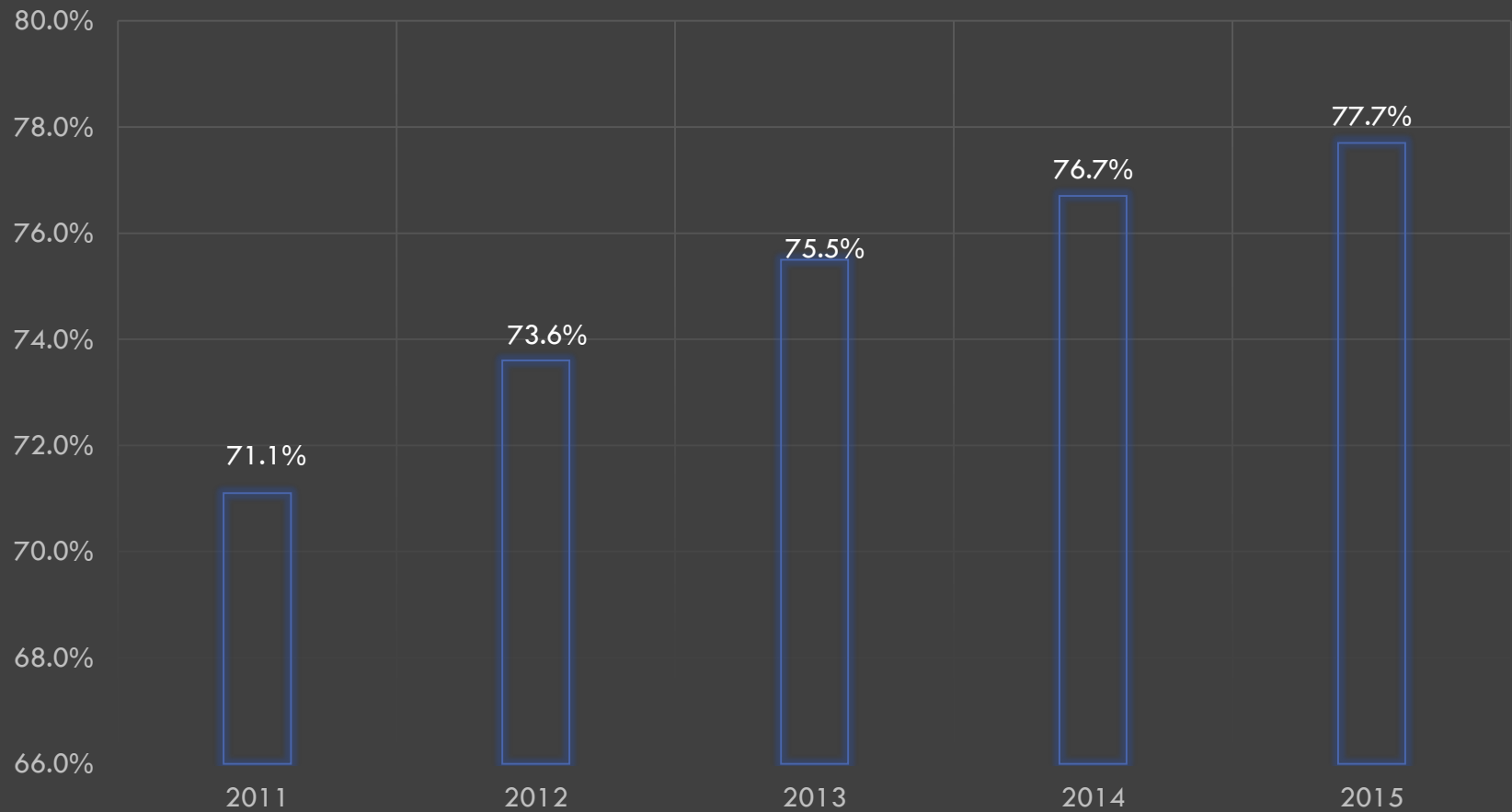
# Boston / Cambridge RevPAR 2000-2014



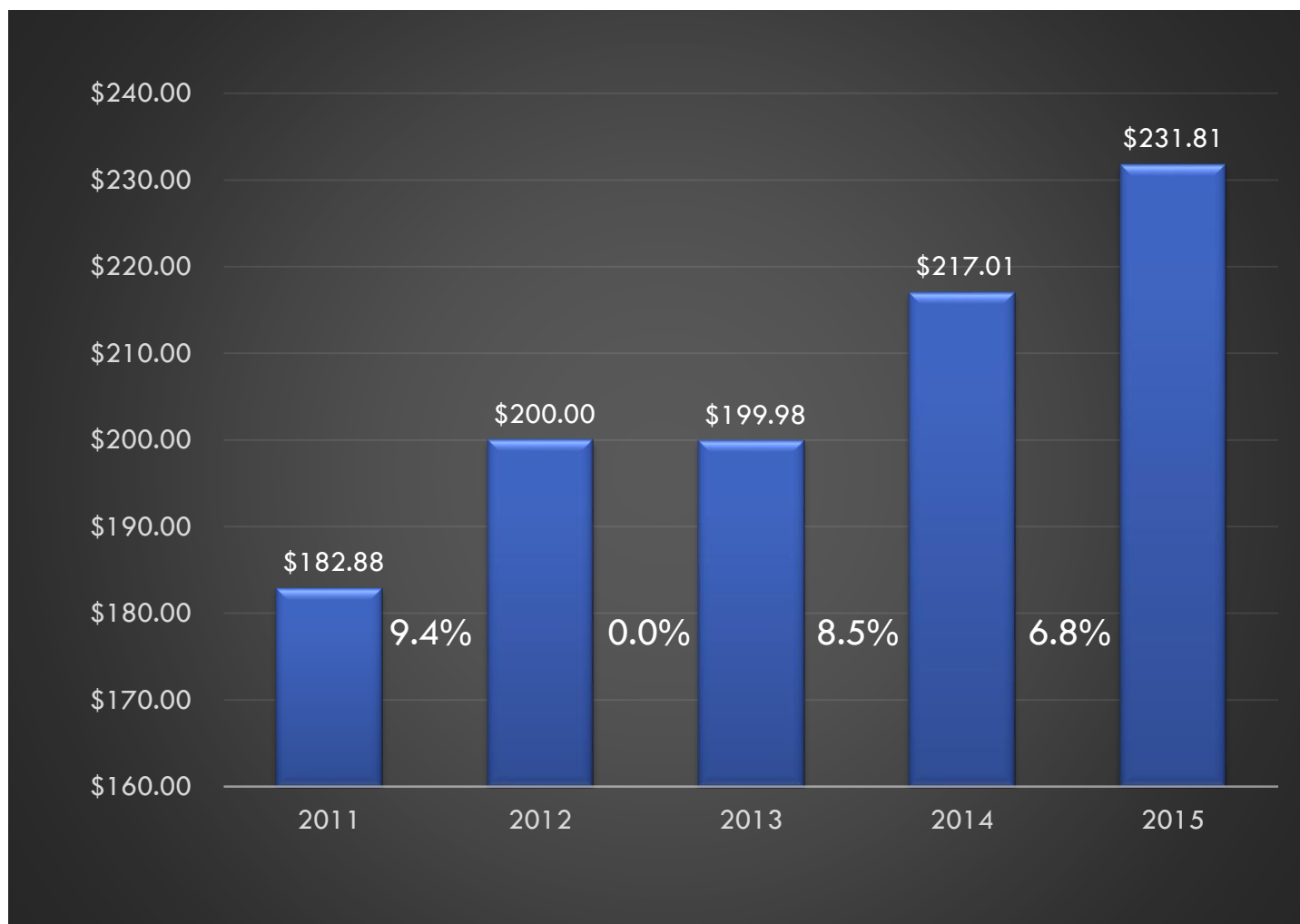
# Boston / Cambridge Supply and Demand 2000-2014



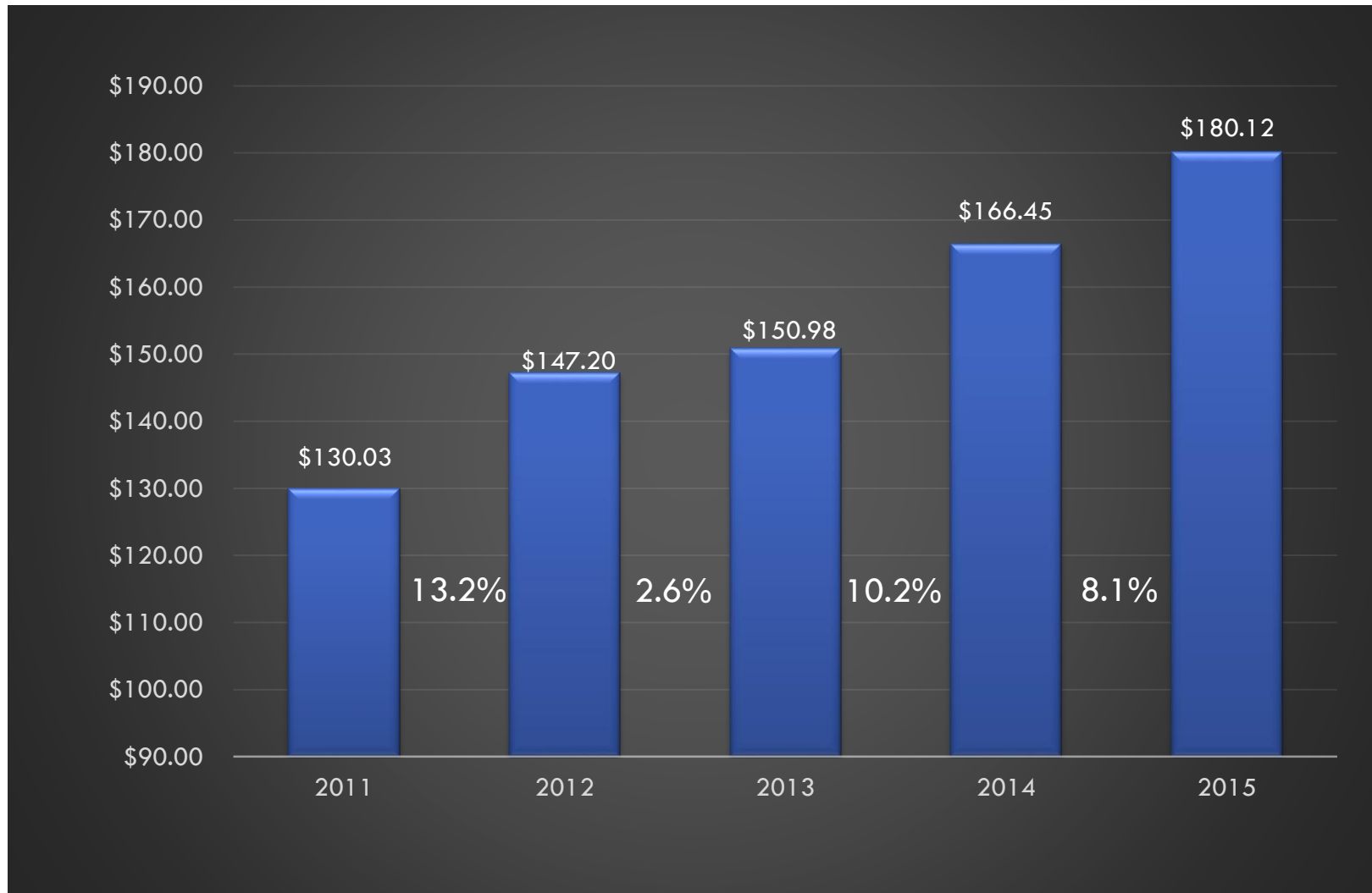
## Boston / Cambridge Occupancy YTD May 2011-2015



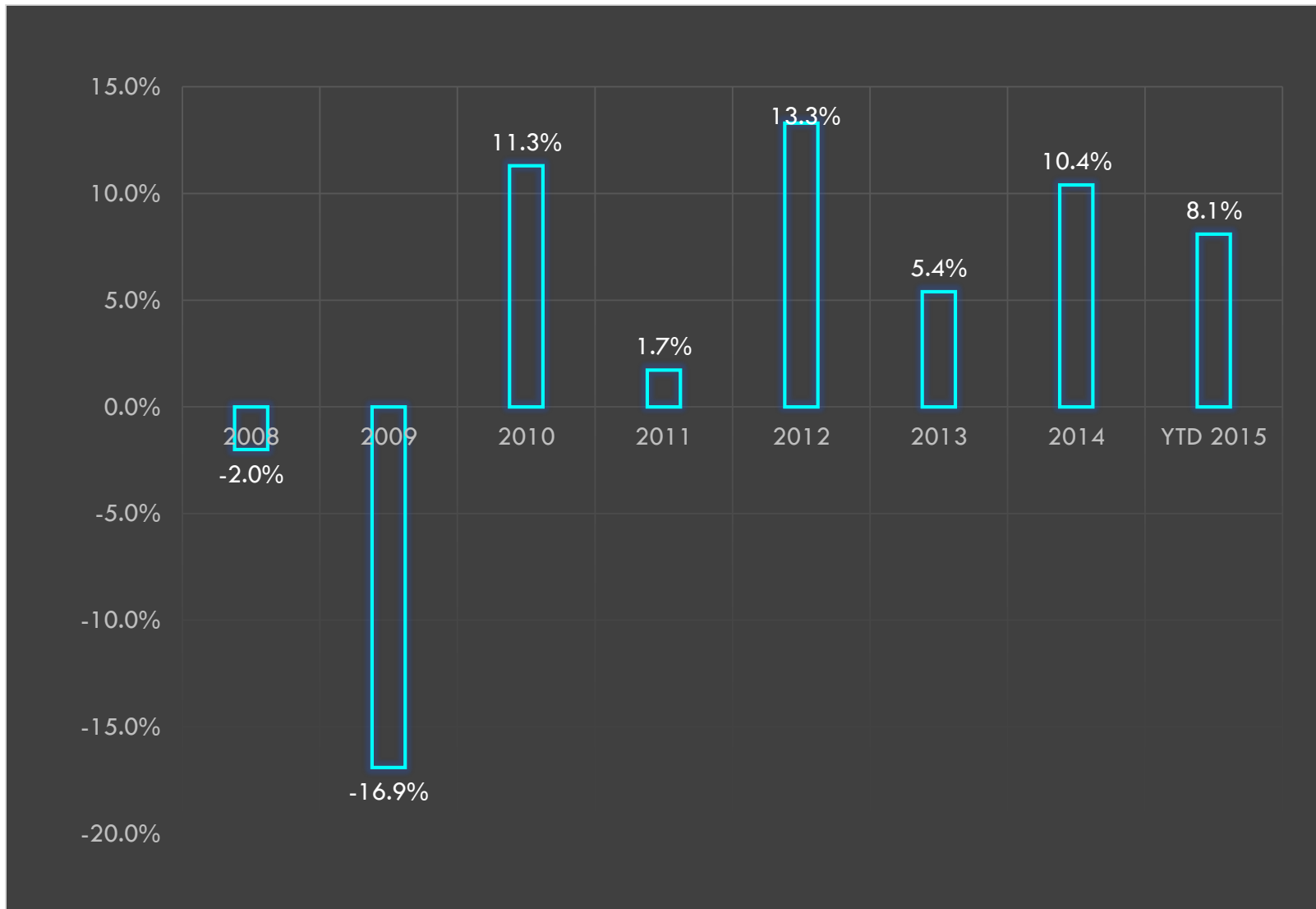
# Boston / Cambridge ADR YTD May 2011-2015



## Boston / Cambridge RevPAR May 2011-2015

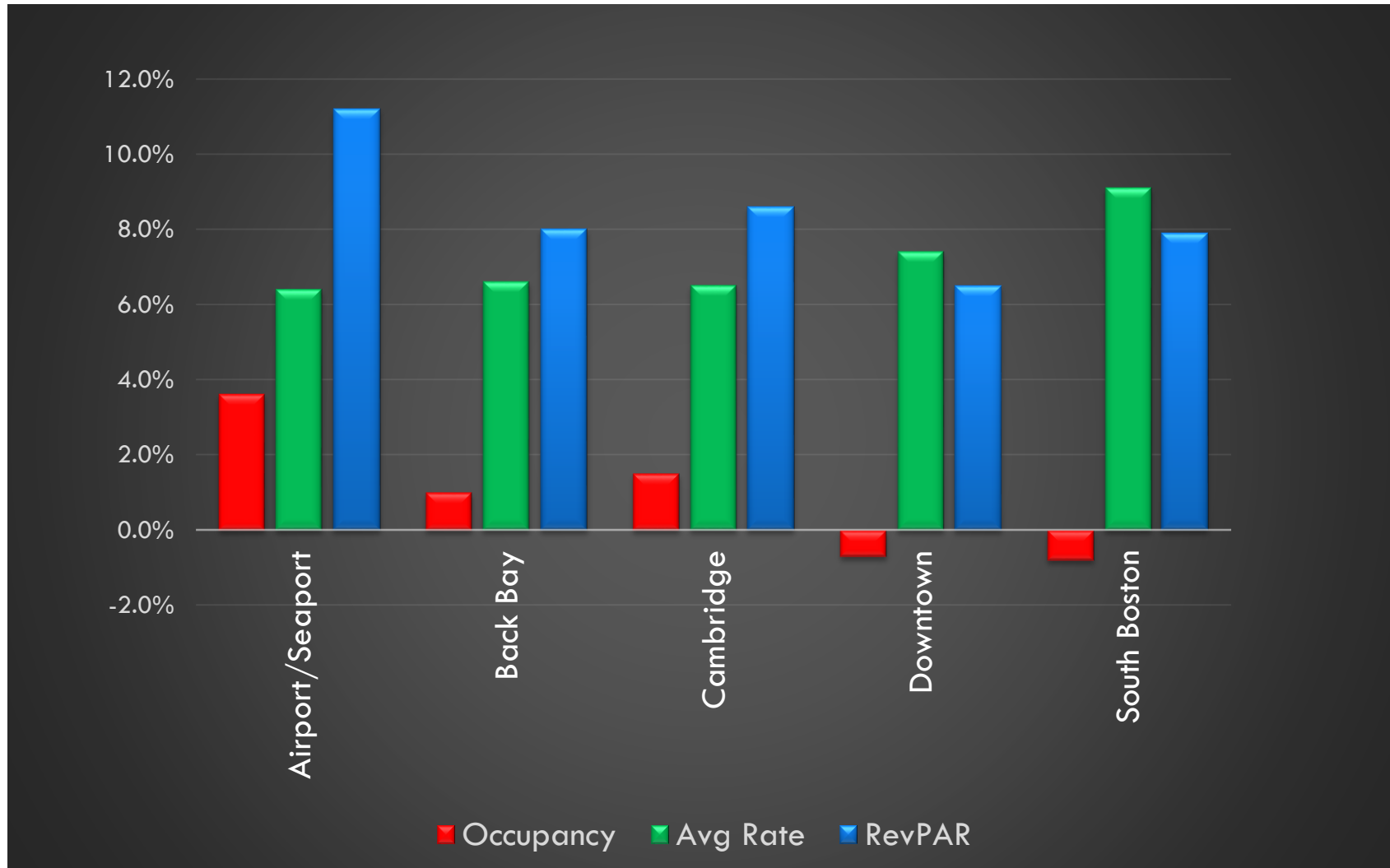


# Boston / Cambridge Change in RevPAR 2008 – YTD May 2015





# Boston / Cambridge Change in Performance by Market Area YTD May 2015



# Boston/Cambridge Supply Changes 2015/2016

**2015:** 123-room Fairfield Inn and Suites Cambridge (March)  
136-room Hotel Envoy, Autograph Collection (June)  
178-room Hilton Garden Inn East Boston (July)  
75-room Porter Square Hotel (October)  
238-room Godfrey Hotel (October)  
96-room Hotel Commonwealth Expansion (December)

**TOTAL: 846 Rooms**

**2016:** 180-room Element (January)  
330-room Aloft (April)  
150-room AC Hotel Cambridge/Alewife (July)

**TOTAL: 660 Rooms**

# Boston's Future New Supply

| New Rooms Supply by Status   |      |     |       |     |
|--|------|-----|-------|-----|
| Status   | Prjs | %   | Rms   | %   |
| Under Construction   | 6    | 19% | 1,393 | 23% |
| BRA Approved *   | 16   | 52% | 2,758 | 45% |
| Under Review / Letter of Intent  | 9    | 29% | 1,913 | 32% |
| TOTAL  | 31   |     | 6,064 |     |
| <i>* Includes two approved project with roomcounts not yet determined.<br/>Does not include rumored/preliminary projects.<br/>Projects provided by Boston Redevelopment Authority as of July 7, 2015<br/>Compiled by Pinnacle Advisory Group</i> |      |     |       |     |

- From 2014 supply level of approximately 21,900 rooms, the projects which are under construction represent a 6.4% increase to rooms supply
- Adding those that have BRA approval, increases supply 19.0%



## Boston/Cambridge Demand Factors



| Boston Unemployment |      | Logan Stat's<br>Total Passengers |        |
|---------------------|------|----------------------------------|--------|
| May 2014            | 5.4% | YTD May 2014                     | 12.1 M |
| May 2015            | 4.3% | YTD May 2015                     | 12.6 M |

## Boston/Cambridge Demand Factors

### Boston Office Market

|            | Million SF | Vacancy |
|------------|------------|---------|
| March 2014 | 62.5       | 12.0%   |
| March 2015 | 63.1       | 10.8%   |

Source: Colliers (March 2015)

## Boston/Cambridge Demand Factors

### Cambridge Office Market

|            | Million SF | Vacancy |
|------------|------------|---------|
| March 2014 | 20.6       | 13.1%   |
| March 2015 | 21.5       | 8.6%    |

Source: Colliers (March 2015)

# Boston/Cambridge Office Demand Factors

## Boston

- Boston has been in expansion mode for over two years. Continued positive absorption and declining vacancies projected through 2018. Rate increases are projected for the next 24 months.
- Attracting more start-ups, tech focused, entrepreneurial companies.
- Seaport Office Market is sizzling with growth. Other major commercial developments in Downtown, Back Bay, Fenway and North Station.

## Cambridge

- Biotech and large pharmaceuticals remain a huge, powerful economic engine
- Lack of office space will drive rental rates especially in East Cambridge/Kendal Square
- Both office, lab, and R&D is at 8.6%

## Boston / Cambridge Corporate Demand Trends

- Demand remains strong.
- Boston is not as dependent on International travelers as it was during the downturn, however if the dollar continues to grow stronger it could impact demand.
- With the increase in employment and office space absorption, corporate demand will continue to grow.
- Boston is less impacted by the strength of the dollar as compared to New York.
- Capacity constraints midweek hurt growth in corporate travel.



## Boston / Cambridge Group Demand Trends

- 2H 2015 combined Back Bay and Downtown Pace is up 4%
- 2016 combined Back Bay and Downtown pace is down 4%
  - Back Bay is down 3%
  - Downtown is down 6%
- 2016 Demand Trends
  - Q1 is a concern due to softer citywide calendar coupled with groups that are wary of coming to Boston in winter due to bad press from last year's storms.
  - Many of 2016 citywides would have been booked during downturn at discounted rates.

## Boston / Cambridge Leisure Demand Trends

- Demand remains strong.
- International tourism remains strong.
- Sporting events such as IndyCar street race and Figure Skating should have positive impact on leisure demand.
- Capacity constraints on weekends and during May through October hurt growth in leisure travel.

## Boston / Cambridge Average Rates Update

- ***Corporate Negotiated*** rates are expected to be up 7 to 8 percent.
- **Group** rates estimated to be up 2 percent.
- ***Retail/Leisure*** rates are expected to be up 9 to 12 percent.
- A portion of rate increases in recent years are a result of operators shifting mix in order to drive rate. As such, rate increases are driven solely by higher rates.
- Due to lower group rates, in 2016 the larger hotels will not experience as much rate growth as smaller, transient focused hotels.



## Boston / Cambridge RFP Season (2016)

Most operators expect to quote rates  
between 9 and 11 percent  
and will settle to rate increases of 6 to 8 percent.



## Boston Cambridge Projections 2015

|              | 2014     | 2015     | % Change |
|--------------|----------|----------|----------|
| Occupancy    | 81.5%    | 82%      | 0.6%     |
| Average Rate | \$238.63 | \$255.33 | 7.0%     |
| RevPAR       | \$194.60 | \$209.37 | 7.6%     |



## Boston Cambridge Projections 2016

|              | 2015     | 2016     | % Change |
|--------------|----------|----------|----------|
| Occupancy    | 82%      | 81%      | - 1.2%   |
| Average Rate | \$255.33 | \$275.76 | 8.0%     |
| RevPAR       | \$209.37 | \$223.37 | 6.7%     |

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