

ROOM RATE RECOVERY

Hotel Market Set to Surpass Pre-COVID Performance

After Lagging U.S. Markets, Boston Rebounds in 2023

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Just 12 months ago, the Boston and Cambridge lodging market was showing signs of a recovery from the pandemic, but was slower to recover than most markets across the country.

It's quite a different story today.

The city's lodging market has not fully recovered from the devastating impact of the global pandemic that began in early 2020. However, hotel managers in the local lodging market are not looking back anymore. Without hesitation, it's fair to say that the local hotel market is only slightly below pre-pandemic levels and room revenues are expected to surpass 2019 by year end 2023.

Before we discuss the current and projected state of the Boston/Cambridge lodging market, let's first quickly review the city's lodging history. Similar to the national lodging market, the Boston lodging market is cyclical. Over the past 25 years, there were three low points in the cycle, the most recent and most significant occurred in 2020.

For the seven years immediately preceding 2020, the annual occupancy in the city was over 80 percent. Boston's occupancy dropped to 25 percent in 2020, and increased to 45 percent and 70 percent in 2021 and 2022, respectively. With respect to average daily room rate (ADR), pre-COVID the city's long-term ADR grew at 2.5 percent, compounded annually. In 2020, the ADR declined by 38 per-

cent, followed by a 32 percent increase in 2021. In 2022 the ADR reached \$279, \$18 above the ADR in 2019.

For the past three years, the hotel industry presented data as an index to 2019. The point of the index was to quantitatively display the recovery, with the goal of illustrating when the hotel industry will meet and/or exceed pre-COVID metrics.

ADR Drives the Recovery

Market occupancy in Boston and Cambridge was 45 percent in 2021, only 55 percent of its level in 2019 (a 55 percent index). By the end of last year, occupancy reached 84 percent of its pre-COVID level. Leisure demand surpassed its pre-pandemic levels in 2022, however corporate and group demand were still limiting travel, and international visitors were well below historic levels given the travel restrictions that were still in place last year. While demand in 2022 was not fully recovered, operators were very successful in managing ADR, and in 2022 the ADR's index to 2019 was 107 percent. As a result, revenues per available room (RevPAR) achieved 90 percent of the revenues pre-COVID.

The recovery in Boston and Cambridge was well below the recovery seen across the country. By way of example, the RevPAR index in 2021 and 2022 for the entire U.S. lodging market was 83 percent and 108 percent, respectively. In the top 25 markets, as defined by STR, the index these two years was 67 percent and 100 percent, respectively. Undoubtedly the top 25 markets have been slower to recover, and Boston's recovery was below the average of the top 25 markets.

BOSTON AND CAMBRIDGE LODGING MARKET

2023 Q1 PERFORMANCE

	JAN.	FEB.	MAR.	Q1
Occupancy	53%	59%	74%	62%
ADR	\$186	\$193	\$249	\$214
RevPAR	\$100	\$114	\$185	\$133
RevPAR vs. 2019	94%	90%	104%	96%

• Source: Pinnacle Advisory Group

BOSTON AND CAMBRIDGE LODGING MARKET PROJECTIONS

	2022	2023	% Change	Index to '19
Occupancy	69.5%	75%	+8.2%	91%
ADR	\$279	\$289	+3.8%	111%
RevPAR	\$194	\$218	+12.6%	102%

• As of May 2023

• Assumes the U.S. lodging market is not negatively impacted by an economic recession and/or other major event

• Source: Pinnacle Advisory Group

+7.6%
Projected Demand Increase

-1%
Projected Supply Increase



According to Meet Boston, previously known as the Boston Convention and Visitors Bureau, the BCEC will have a record year of room nights in 2023.

The improvement to the city's lodging market in the first quarter of 2023 continues its upward trajectory. Noticeably, the city is getting closer to a full recovery with a 96 percent RevPAR index in the first quarter of 2023.

Projections for 2023

To move away from indexing, let's discuss the monthly improvements compared to last year. For the first three months of 2023, the city accommodated 1.5 million visitors, which was approximately 338,000 more occupied rooms than last year during the same time period. Using simple math, that's an average of 3,700 more guest rooms occupied per day than the first quarter of 2022.

This increase in demand is primarily from corporate and group visitors. Even more favorable is the improvement to room rates. In the first quarter of 2023, the ADR was almost 12 percent above the first quarter of 2022, which is well above inflation. Clearly, the market's performance in the first quarter of 2023 is encouraging.

With the first quarter behind us, and the pandemic rarely a topic of discussion, how will the city's hotel operating metrics end up by the end of 2023? We looked at a myriad of factors to estimate year-end hotel performance including, but not limited to the potential for an economic slowdown. Convention demand in Boston is expected to have its best year ever based on business on the books, a huge positive for group demand. Numerous leisure events are planned for the city, but many leisure travelers will opt to travel outside of the U.S. given the ability to travel abroad.

Business travel will continue to get stronger; but work-from-home and hybrid work is here to stay. Inflation will come down, but will still be well above

the desired rate of 2.5 percent.

With this in mind, Pinnacle believes that demand will improve in Boston and room rates will increase. Our expectations for demand growth, coupled with extremely limited new supply in 2023, results in a projection of 75 percent for year-end occupancy.

A Record Year Ahead?

All demand segments will continue to increase in 2023. Business travel, the slowest segment to recover, will continue its upward momentum, but is not expected to be as dominant as it was in 2019. Leisure has proven to be resilient and will likely moderate in 2023. Nevertheless, Boston has clearly proven itself to be a leisure destination.

Small and large groups and conventions are back in full swing. According to Meet Boston, previously known as the Boston Convention and Visitors Bureau, the BCEC will have a record year of room nights in 2023, beating the record set in 2019

of 488,000 roomnights.

Almost all international travel restrictions have been lifted. Demand from colleges and universities, an important component of Boston's lodging market, is out in force. With demand back, hotel managers will continue to drive rates, although by year end rate growth will likely be closer to inflationary levels.

There is much to be optimistic about as we head into the summer of 2023. Revenue growth will be positive, but it's important to point out that the hotel industry continues to deal with a challenging labor market, higher operating costs, and wage pressures. Still, all signs point to a healthier lodging market in 2023. ◀

Rachel Roginsky is owner and principal of Pinnacle Advisory Group.

'Forgotten Middle' Housing Receives Strong Reception

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Together with committees comprising our board members and supported by input from the senior living finance community, we issued a request for proposals to banks and capital markets in the spring of 2021. One of the responses came from a sophisticated and experienced senior living source. This financing is structured similar to a construction loan, with each advance having an interest rate collar that allowed us to close in a volatile interest rate environment. Upon fill-up and the payoff of debt from the Community Share fees, 2Life will have less than \$30 million of long-term debt creating a very

low-leveraged product that serves the middle market by keeping monthly fees low.

Most importantly, this team has moved the needle in a meaningful way toward serving the middle market. We welcome conversations with other organizations seeking insight into how we have shaped this project, and hope that there will be more projects like this one developed to meet the tremendous need. As our CEO likes to say, it's not a market opportunity, it's a moral imperative. ◀

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