

BOSTON'S HOT HOTEL MARKET

as more rooms are added, still more are needed

■ for 6 of the last 7 years, Boston's hotel occupancy vacancy rate has been above 77%, as good as it gets in the hotel industry

■ to meet current demand, the city has added nearly 2,500 new hotel rooms since July 1997 – with another 563 under construction

■ but to meet the future demand, Boston needs even more hotel rooms – especially once the new Boston Convention & Exposition Center opens in 2004

NINE YEARS OF "NO VACANCY" SIGNS

Boston's hotel market is among the strongest in the country, with occupancy rates topping 77% in 6 of the last 7 years, a record 4 million occupied room nights last year and a record average room rate topping \$200 per night.

Statistics for the last nine years are as follows:

Year	Occ.Rate	Room Rate
1992	.72.3%	.\$117.57
1993	.75.5%	.\$120.36
1994	.77.0%	.\$127.50
1995	.78.0%	.\$135.00
1996	.79.4%	.\$145.91
1997	.79.6%	.\$162.72
1998	.78.6%	.\$176.59
1999	.74.8%	.\$188.82
2000	.78.6%	.\$200.10

Sources: PKF and Pinnacle A.G.

WHY 77% EQUALS 100% OCCUPANCY

While it would seem that an occupancy rate of anything less than 100% implies a surplus of rooms, this is not the case. Hotel occupancy rates are averages. Even a single room booked every night of the week, except for Mondays, throughout the year yields an average occupancy rate of only 86%, since it is empty one night in seven. Also, since occupancy rates can fall below 60% in slow months like January, February, and March, to achieve an annual average of 77% means that 90% to 100% of Boston's hotel rooms are booked most nights during the other nine months of the year. When occupancy rates are that high – and when the number of room nights and the room prices are setting records - it means more rooms are needed to keep from turning existing business away and to allow for new business growth to continue.

WHY BOSTON IS A MAGNET FOR HOTEL GUESTS

The strong national economy is obviously one of the reasons for the strong hotel market in Boston, but there are other, more local factors.

One reason is the strength of the local economy. Since 1992, the number of jobs in Boston has grown at an annual rate of 2.6%, surpassing the state's job growth rate of 1.9%. The number of jobs in money management, for example, has grown 8% annually and almost doubled since 1992. The number of jobs in professional services has grown 3% annually.

That brings up another reason for Boston's strong hotel market - the nature of the city's economy. Boston's leading industries - financial and professional services, the visitor industry and tourism, health care and education – are the kind that bring people to the city and generate a strong demand for hotel rooms. A mutually beneficial symbiotic relationship then occurs between the hotel industry and the general economy, since these hotel guests generate increased spending at restaurants, retail stores, and entertainment venues.

A RECORD NUMBER OF HOTEL ROOMS IN THE CITY

To meet that continued strong demand, the city has been adding new hotel rooms at a record rate. Since July 1, 1997, 16 new or expanded hotels have added a total of 2,484 new hotel rooms in Boston, bringing the total number of rooms in major (more than 50 rooms) hotels in the city to a record 14,094. The new hotels include:

Hotel	Location	# of Rooms
Airport Hilton	... Airport	... 600
Club by Doubletree	... Dorchester	... 212
Wyndham Boston Hotel	... Downtown	... 362
Club by Doubletree	... Downtown	... 268
Club Quarters	... Downtown	... 170
Custom House	... Downtown	... 84
15 Beacon	... Downtown	... 61
Harborside Inn	... Downtown	... 56
Beacon Hill Hotel	... Downtown	... 13
Best Western "Roundhouse"	... Roxbury	... 92
Seaport Hotel	... South Boston	... 427

BUT STILL NOT ENOUGH ROOMS TO MEET THE DEMAND

Despite the record number of hotel rooms in the city, however, most recent figures suggest that more are still needed. Although the number of room nights in the first quarter of 2001 was down slightly from last year's record high (by approximately 3%), the average room rates were up by the same amount – and the average revenue per available room was also up.

Fortunately, four new hotels totaling 563 rooms are under construction to meet the continued strong demand. They include: the Ritz Carlton on the Common, which contains 191 luxury suites as part of the Millennium Place mixed-use complex; Nine Zero Tremont, a 190 room boutique hotel being built by Intercontinental Development on the site of the former Dini's Restaurant; the Commonwealth Hotel, a 149-room hotel in Kenmore Square; and the Charlesmark Hotel, a 33-room facility on Boylston Street in Copley Square.

NO END TO THE STRONG DEMAND IN SIGHT

But even these new hotels probably won't be enough to meet the continued demand.

There are a number of reasons why the city needs to add even more new hotel rooms.

One reason is to meet the existing demand generated by Boston's services/visitor-based economy. Another is to meet the future demand reflected in the continued growth in those industries. A third reason is to meet the new demand that will be generated specifically by the city's convention industry.

Except for a temporary slowdown in the first half of 1999 – due possibly to the loss of half of the rooms in the Sheraton hotel when they went off-line for renovation – both the Hynes Convention Center and the Bayside Exposition Center have been operating at near capacity. Construction of additional new hotel rooms – like construction of the additional new Boston Convention and Exposition Center – is needed to allow Boston's convention industry to grow to the level the demand indicates it can. Indeed, one of the requirements in the legislation authorizing construction of the B.C.E.C. was that Boston and Cambridge add 2,800 new rooms between July 1, 1997 and December 31, 2000 (2,935 were, in fact, added). Another was that the two communities add 4,800 by the time the center is scheduled to open in mid-2004 (a goal that is expected to be achieved).

PUSHING MORE HOTEL ROOMS THROUGH THE PIPELINE

Because of the continuing need for hotel rooms, more than a dozen new hotel projects have been proposed. Those farthest along in the development pipeline include four that have begun site preparation as well as the headquarters hotel adjacent to the new convention center, and a hotel that is part of the Fan Pier project, which recently won key state and federal approvals. Together, they total 2,444 new rooms.

Hotel	Location	# of Rooms
Homewood Suites	Charlestown	168
Europa	Downtown	88
Embassy Suites	East Boston	272
BCEC Headquarters Hotel	South Boston	1,120
Grand Hyatt	South Boston	600
Battery Wharf	Waterfront	196

Counting the other hotel projects being proposed in Boston – and any being built in Cambridge - the total number of new rooms in the two communities will more than surpass the 4,800 room goal required for construction of the new convention center. Even more important, these additional hotel rooms will accommodate the strong current and future demand in Boston's hotel industry that shows little sign of abating.

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