

Boston Hotel Market Update: Ten Things to Know

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1. Boston's revenue per available room (RevPAR) is on pace to finish 2023 at approximately 110% of its 2019 level. Occupancy is lagging slightly, at 97% of the pre-pandemic peak, but average rate is picking up the slack.
2. Conventions came roaring back in 2023. The city's primary convention venue, the Boston Convention & Exhibition Center, had a record year. Its demand-generating capacity was much improved following the September 2021 opening of a second headquarters hotel, the 1,054-room Omni.
3. Recent plans called for the decommissioning of the city's secondary convention venue, the Hynes, as part of its sell-off. But the facility has been given a reprieve and is again being marketed for convention use after a four-year hiatus. Because of the multi-year booking window for conventions, this facility's return to normal usage levels will require some short-term pain during the ramp-up.

4. According to Cushman & Wakefield, Greater Boston recorded a net-positive change in absorption in Q3 2023, its first positive quarterly performance since Q1 2022. This is cold comfort in the context of the office market's dramatic retrenchment year-to-date, with 2.6 million square feet of occupancy lost. However, rather than signaling ill health in the city's economy, these trends seem almost wholly related to the work-from-home phenomenon, as tenants seek to right-size in a new reality. Business travel increased through 2023, even as occupied office space decreased.
5. REIS reported total employment growth of 3.2% in Greater Boston in 2022, with another healthy gain of 2.2% projected through 2023. The MSA's October 2023 unemployment rate of 2.5% is near a historic low and is 140 basis points below the national level.
6. For the fiscal year ending October 2023, Boston Logan International Airport's passenger volume finished at approximately 95% of its pre-pandemic peak. According to aviation analytics firm Cirium, global airline capacity finally surpassed the 2019 level for the first time in October 2023. International travel is a relatively small but highly lucrative piece of Boston's demand pie, and its revival has been a boon to all three demand segments.
7. The construction pipeline is nearly empty. Projects continue to gain approval and advance through other pre-construction stages, but high debt costs, high construction costs, and challenging economics mean almost no new hotel construction projects are being financed. The 147-room Raffles opened in September 2023, leaving the 380-room citizenM in the Back Bay as the only hotel under construction. It will open mid-year 2024. The limited new-supply environment is a strongly positive indicator for owners and operators of existing hotels in the market.
8. The city's total inventory actually receded in 2023, as the Sheraton Boston's room count was reduced from 1,220 to 792 in January. After purchasing the property for approximately \$192,000 per room in February 2022, the buyer converted the hotel's 428-room South Tower to a residential dormitory for Northeastern University students.
9. The Hilton brand shifted locations recently, moving a few blocks from the former Hilton Faneuil Hall (now The Dagny) to the Boston Park Plaza. Parks Hospitality acquired the 1,060-room Boston Park Plaza in October 2023 for approximately \$349,000 per room and immediately installed Hilton as both brand and management. This acquisition is characteristic of the few major hotel sales that closed in Boston during the pandemic era due to its "strategic" nature (i.e., serving a broader goal than usual).
10. Boston's RevPAR tended toward 130% of STR's Top 25 Markets before the onset of the pandemic. Hit hard by the pandemic, this metric fell to 87% in 2020, but it is on pace to return to the pre-pandemic standard in 2023. Among the Top 25 Markets, Boston ranked third in October 2023, behind only New York City and Oahu, reflecting the city's lofty stature. With the completion of the Seaport District, Greater Boston is now home to four distinct urban-office submarkets, which also include the Financial District, the Back Bay, and East Cambridge.

For more information about the Boston market or for help making informed investment decisions that align with your goals and risk tolerance, please contact Erich Baum.