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MARKET REPORT

Detroit Market Intelligence Report

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Unemployment is high, automakers are still in the red, and the city's hotel industry hangs in the balance. But there's more happening in Detroit than the statistics reveal.

Even though the status of American automakers has acquired some tarnish in recent years, Detroit's claim to the industry's origins is unsullied. Those of us in the hotel industry should take especial note. Henry Ford's revolutionary assembly lines led not only to the proliferation of the automobile but also to the network of highways and interstates that have come to span the nation. Long trips and weary motorists brought on the need for interstate hotels, a segment of the industry that has been notable during the recession for keeping performance figures above the curve.

The city has a bold history of ingenuity. But after decades of very real and conspicuous decline, nostalgia may not be the soundest base on which to mount a defense of Detroit's potential. The statistics speak for themselves: a nearly 60-year trend of population decline,[1] one of the highest unemployment rates in the country, three mayors in twelve months, and a hotel market that has seen double-digit RevPAR drops in every part of the city thus far into 2009. Detroit's fall has been so sharp and so protracted that one could reasonably claim the bottom is in sight. The city's complete revitalization may not be near at hand, but some major projects are underway that could coincide with the national economic recovery to benefit the area's hotel market.

The Business Climate

Detroit's once-heralded automotive industry has been beset for decades by declining market share, shrinking revenues, and increased production costs. The decreased demand for U.S. automobiles in domestic and foreign markets, exacerbated by the national economic decline, led to a drop in production and major layoffs throughout the auto industry. In late 2008, both Chrysler and General Motors accepted a government bailout. Unfortunately, the billions of dollars couldn't find sufficient traction, and both companies filed for Chapter 11 bankruptcy in mid-year 2009.[2] This had a devastating impact on the city's job market. In July of 2008, before the bailout money had even been dispersed, Detroit's unemployment level was at 17.3%. One year later, this figure had grown to 28.9%.[3]

With almost one-third of the city's population unemployed, a willing and in large part skilled workforce is preparing to enter a new era of emerging fuel-cell technologies, the research, development, and manufacture of which has been discussed for the area. Superior transportation routes and the region's natural resources, which include steel, coal, forests, and fresh water, provide the incentive and the infrastructure for new development.

Fifteen Fortune 500 companies and four Fortune 1000 companies maintain headquarters in Detroit. While these companies do generate demand for area hotels, commercial travel has plummeted in the last twelve months. Overall demand dropped 8.8% in 2008 and had fallen 17.3% citywide through July of 2009.[4]

The Cobo Center

Detroit's 700,000-square-foot convention center is situated downtown along the Detroit River. The convention center annually hosts the North American International Auto Show (NAIAS), one of the largest exhibitions in the country. In 2009, the NAIAS attracted over 650,000 people to its public show and had an estimated $350-million economic impact on Detroit.[5]

Despite its major billings and accessibility to approximately 5,000 hotel rooms in the downtown area, the Cobo Center is reportedly underutilized, primarily because of its aging facilities. In September of 2009, city officials announced that the operation of the Cobo Center would be taken over by the Detroit Regional Convention Facility Authority. According to Detroit's Convention and Visitors Bureau, this new independent management entity is tasked with improving both the center's operations and its relationship with downtown hotels. Additionally, a 250,000-square-foot expansion and renovation of the existing structure is planned. This $300-million project is expected to be complete by 2011.[6]

Sports and Casino Gaming

Three of the city's professional sports franchises—the Tigers (MLB), the Lions (NFL), and the Red Wings (NHL)—battle it out at Comerica Park, Ford Field, and the Joe Louis Arena, all located in Downtown Detroit. The Palace of Auburn Hills, situated northwest of Detroit, is home to both the NBA Pistons and the WNBA Shock. The successes of some of Detroit's franchises have strengthened their importance as demand generators over the last five years.

Collegiate sports also attract tens of thousands to the city. The MAC Football Championship Game, hosted by the city at Ford Field, annually attracts 25,000 to 30,000 patrons. Ford Field is also the venue for NCAA football's Little Caesars Pizza Bowl each December. The NCAA Final Four basketball championship games, one of the most important events in college sports, were played in Detroit in 2009.

Downtown Detroit is also home to three full-service casino resorts. The MGM Grand, Motor City Casino, and Greektown Casino, all of which opened in the last three years, have a combined 1,200 guestrooms. The Wall Street Journal recently reported that these casinos took in a collective $1 billion in revenue in the first nine months of 2009. This represents only a 2% drop from last year's levels, compared with drops of 14% in both Atlantic City and the Las Vegas Strip.[7] The Caesars Windsor, located across the river in Canada, is another draw for leisure travelers to the area.

Hotels

Adding to the new casino-resort hotel supply, two historic properties have been renovated and have reopened in the last two years: the Westin Book Cadillac and the Doubletree Guest Suites Fort Shelby bring the total new supply in Downtown Detroit to almost 2,000 guestrooms. The increase in supply, coupled with the significant decline in demand, has caused market-wide RevPAR to decrease by 24.2%.[8] Detroit's market-wide average rate and occupancy levels were below par even when the lodging industry was strong; hence, this steep drop is especially painful for local hotel operators.

Conclusion

Thus we return to the statistics, under whose light Detroit's visage has looked sickly for years. Yet things are not as futile as the numbers would make them seem. A proper market analysis would give a far more thorough picture of where Detroit stands and where it's headed than what we've surveyed here, but it's clear that the "Renaissance City" has aims on reinvention. A major push is underway by federal, state, and local development agencies to diversify Detroit's economy. Campus Martius Park was rededicated in 2004, followed by the reestablishment of Cadillac Square Park in 2007. The city's River Walk has been reinvigorated over the past two years. These developments, along with celebrations of Detroit's Motown heritage, underscore the city's claim as a renewed tourist destination. Additionally, construction was completed on the second of two new state-of-the-art terminals at Detroit Metro Airport in September of 2008, allowing for greater capacities and the future addition of new airlines.[9]

The situation for Detroit's lodging market remains precarious, but with all of the recent development, especially Downtown, Detroit presents a potential for growth. Hoteliers may not yet want to count on the city's revival. But looking

into the long term, as projects come to fruition and the national economy regains strength, no one should count it out.

1 U.S. Census Bureau

2 www.forbes.com/2009/05/06/chrysler-gm-fiat-bankruptcy-opinions-columnists-nouriel-roubini.html

3 www.bls.gov

4 Detroit Convention and Visitors Bureau

5 http://www.naias.com/the-2010-show/2009-statistics-report.aspx

6 The Detroit News, Regional Authority assumes Cobo Center operations, September 15, 2009

7 http://online.wsj.com/article/SB10001424052748704224004574487800279559762.html

8 Detroit Convention and Visitors Bureau

9 http://www.metroairport.com/uploads/docs/NR_NT_Opening_Week_Alert.pdf