MARKET REPORT

HVS Market Intelligence Report: Balancing Boston's Lodging Market

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Hotel supply and customer demand are coming to an accord in key Boston districts, signaling a steady pace for the area's lodging market in 2008.

Beantown Boom

Much of Boston's history can be read in its buildings, and the city's architectural provenance continues to evolve in interesting ways. This is especially true of the lodging market. A vibrant complement of historic sites and modern sports, cuisine, and entertainment makes the city an ideal tourist destination, and a cluster of financial institutions have firmly established Boston as the economic hub of New England. The $14.8-billion "Big Dig," the most complex and costly highway project in the nation's history, came to a close in December of 2007, making Boston more accessible and navigable. This bodes well for the city's tourist- and commercial-demand growth, as well as for its efforts to attract major groups to its new and expanding convention centers.

In a *New England Hotel Magazine* article from August of 2007, HVS Boston's Tom Dolan and Laura Kalcevic authored a piece in which they described three contingents that would determine the prospects for the city's lodging market in 2008.[1] These were, in brief, the rate of Waterfront/Seaport District development, the attraction of more commercial demand, and the fate of the Hynes Convention Center and its influence on the group and convention market segment. These questions have direct bearing on whether the scales will tip in favor of supply, which has become denser over the past few years, or demand, of which the commercial segment in particular has been sluggish. Much has happened since August last, and it's not too early to survey the field again with an eye for what the remainder of the year may have in store.

All's well on the Waterfront

Spanning roughly 1,000 acres, South Boston's Waterfront, also known as the Seaport District, has witnessed tremendous growth since 2000, with more than 8 million square feet already developed and an additional 20 million approved or proposed for development.[2]

The highly anticipated $3-billion Fan Pier mixed-use development is the largest in the history of the Waterfront. This one covers all the bases: Upon completion of the 21-acre master plan, Fan Pier is expected to comprise over 1.5 million square feet of office space, more than one million square feet of luxury residences, a luxury hotel, over 300,000 square feet of upscale retail/restaurant space, the new Institute of Contemporary Art, and ample surface and underground parking. Fan Pier broke ground in September of 2007 and is slated for delivery in late 2009 or early 2010.[3]

Other significant developments planned for the Seaport District include Waterside Place, an eleven-acre mixed-use retail, hotel, and condominium complex totaling more than 1.2 million square feet, and Seaport Square, another mixed-use project with retail and entertainment, residential, office, hotel, educational, and cultural uses.

Building up the commercial segment

Boston is home to such venerable firms and institutions as Fidelity Investments, JPMorgan, Tufts University, Verizon, PricewaterhouseCoopers, and Liberty Mutual. Demand for office space remained strong through 2007, spurring several noteworthy developments:

- One Franklin Street. The former Filene's building at Downtown Crossing is being transformed into a 39-story mixed-use development. Upon completion, the project is anticipated to consist of approximately 300,000 square feet of retail space, 600,000 square feet of office space, and a condominium and hotel complex. Accor North America plans to open a Sofitel hotel in the building in January of 2011.[4]
- Two Financial Center. This twelve-story downtown office building broke ground in June of 2007 and is anticipated to house 215,000 square feet of office space above ground-floor retail. This developing project, slated for completion in early 2009[5], is located on the edge of Boston's Financial District.
- Russia Wharf. This mixed-use combination of new construction and historic restoration is currently underway downtown. The project calls for 550,000 square feet of office space in a 31-story glass-and-steel tower and the renovation of the three historic buildings into residential space.[6]
- Office Space Statistics – Central Business District

Office Space Statistics – Central Business District

Period	Net Rentable Area (SF)	Vacancy Rate	Average Asking Lease Class A	Average Asking Lease Class B	Under Construction (SF)
Fourth Quarter 2004	59,338,080	13.5 %	$38.57	$27.42	355,000
Fourth Quarter 2005	59,264,222	12.3	39.24	26.05	0
Fourth Quarter 2006	59,069,034	10.7	45.98	29.01	125,000
Fourth Quarter 2007	61,434,152	9.3	59.62	33.31	717,336

Source: Grubb & Ellis Office Market Trends - Boston

The growing level of construction activity, a declining vacancy rate, and increasing asking-lease prices indicate a continuation of commercial-demand growth for the foreseeable future. The aforementioned projects should further increase development activity in years to come.

Convening in Boston

For nearly two decades, convention demand was accommodated by the John B. Hynes Veterans Memorial Convention Center, located adjacent to the Prudential Center in the Back Bay area of Boston. This facility opened in 1988 and contains 193,000 square feet of exhibition space, a 25,000-square-foot ballroom, and 38 smaller meeting rooms. The Hynes Center has traditionally targeted small- to medium-sized groups, with a focus on the high-tech and medical industries. An $18-million ongoing renovation will include A/V enhancements, technology upgrades, and environmentally friendly practices[7] to enhance the venue's appeal to this clientele.

The Hynes Center's inadequacies for hosting large conventions and meetings had become increasingly apparent since the late 1990s. The demand for an additional venue was fulfilled in June of 2004 with the inception of the $800-million Boston Convention & Exhibition Center (BCEC). This state-of-the-art, 1.7-million-square-foot facility offers approximately 516,000 square feet of exhibition space, 160,000 square feet of meeting space, and a 40,000-square-foot ballroom. Situated on 60 acres along Summer Street in the Seaport District, the BCEC's location was controversial due to its distance from the main concentration of hotels in Boston. Capitalizing on the need for adjacent accommodations, three hotels—The InterContinental, the Westin Waterfront, and the Renaissance Waterfront—have opened their doors nearby.

Convention Center Statistics

Year	Events	Percent Change	Attendees	Percent Change	Room Nights Generated	Percent Change

2004	184	—	483,124	—	289,263	—
2005	263	42.93 %	589,383	21.99 %	372,396	28.74 %
2006	276	4.94	579,370	(1.70)	513,444	37.88
2007	265	(3.99)	772,557	33.34	580,158	12.99

Source: Massachusetts Convention Center Authority

The table above illustrates aggregate usage statistics for both convention centers, reflecting Boston's surge in meeting and group demand in the three years since the BCEC came online. The Massachusetts Convention Center Authority forecasts that nearly one million visitors are expected at the two convention centers in 2008, generating more than 620,000 hotel room nights.[8]

The hotels are coming!

The table below details the hotel openings of recent years.

Recently Opened

Proposed Property	Number of Rooms	Date Opened	Class	Ownership	Management
Renaissance Waterfront	456	February 18, 2008	Upper Upscale	Marriott International	Marriott International
Liberty Hotel	298	September 5, 2007	Luxury	Private Owner	MTM Luxury Lodging
InterContinental	424	November 6, 2006	Luxury	Extell Development Co.	InterContinental Hotels Group
Westin Watefront	793	June 21, 2006	Upper Upscale	DiamondRock Hospitality	Westin Hotel Management

Source: HVS

The aforementioned office, retail, and convention center developments are expected to generate demand at a pace in keeping with that of new supply, and several major hotel projects are currently under construction or in the early planning stages of development; however, a tight credit market coupled with the uncertainty of the nation's economic status stipulate a higher risk for funding. Under this scenario, many proposals are speculative in nature, and the realization of such hotel properties is less than certain. The following table details both fully committed and speculative hotel projects in Boston:

New Supply

Proposed Property	Number of Rooms	Anticipated Opening Date	Class	Developer	Development Stage	Location
Committed Projects						
Regent Hotel at Battery Wharf	150	May 1, 2008	Luxury	Development Management Corp.	Under Construction	344 Commercial Street, Boston, MA 02109
Mandarin Oriental	148	July 1, 2008	Luxury	CWB Boylston	Under Construction	800 Boylston Street, Boston, MA 02199
W Hotel	235	July 31, 2009	Luxury	Sawyer Enterprises	Under Construction	100 Stuart Street, Boston, MA 02116
Speculative Projects						
Columbus Center Hotel	162	January 2010	Luxury	CUIP-Winn LLC	Planning	Back Bay Area - Columbus Center Mixed Use Development
Five-Star Hotel	175-250	2009/2010	Luxury	New England Development	Planning	Waterfront - Fan Pier Mixed-Use Development
Core Block Hotel	300-400	2010/2011	Upper Upscale	John Drew Company	Planning	Waterfront - Waterside Place Mixed-Use Development
TownePlace Suites/Courtyard (Hybrid)	280	July 2009	Midscale/Upscale	Boston Development Group	Planning	Bulfinch Triangle Area - The Pelagio Mixed-Use Development
Hilton Garden Inn/Homewood Suites (Hybrid)	300	Not Determined	Upscale	Sage Hotel/Boston Red Sox	Planning	Fenway Park Area
Courtyard/Residence Inn (Hybrid)	±500	Not Determined	Upscale	Madison Properties	Planning	Waterfront Area

Source: HVS

Faced with these new installments, many existing hotels throughout the market have undergone extensive renovations to maintain their competitiveness. Noteworthy renovations of the last two years include the following:

- The 793-room Westin Waterfront, which opened in June of 2006, is adding 25,000 square feet of meeting space and three new restaurants; upgrades to the hotel are anticipated to be complete by March of 2008.[9]

- The 193-room Ritz-Carlton Boston Common is currently undergoing an $11-million renovation. Upgrades are slated for completion by early 2008 and will include a new ballroom and an enhanced lobby lounge, which will thereafter be named The Gallery. Additional improvements will address the furniture, fixtures, and equipment in the Club Lounge and all meeting rooms, guestrooms, and suites.[10]
- The 273-room Four Seasons completed a three-year renovation in 2006. The $43-million renovation's key elements included an additional 6,000 square feet of meeting space; a complete renovation of the guestrooms and guest corridors; and a renewal of the lobby, food and beverage outlets, and all other public spaces.[11]
- The 230-room Boston Harbor Hotel underwent a $12-million renovation in 2007, which included a complete renovation of the guestrooms and ballroom.[12]
- The 270-room Hyatt Harborside at Boston's Logan International Airport recently completed a $6-million renovation of its guestrooms and dining and event space.[13]
- The 285-room Colonnade Hotel is undergoing an $18-million renovation slated for completion in the spring of 2008.[14]
- The 143-room Copley Square Hotel is scheduled to reopen in late spring 2008. The property closed on January 14, 2008 to undergo a $14-million renovation that will allow the hotel to "reestablish itself among the city's most popular boutique hotels for Boston's most discerning visitors," according to General Manager John Maibach.[15]

Conclusion

In recent years, the market dynamics of the Boston economy have allowed the local hotel market to achieve substantial average rate and RevPAR growth year over year. The following table illustrates estimated occupancy, average rate, and RevPAR levels for a select set that we believe represents the full- and select-service Boston market.

3-Year Estimated Occupancy and Rate Trend

Year	Occupancy	ADR	RevPAR
2005	75.4 %	$169.44	$127.76
2006	76.1	187.17	142.44
2007	77.3	204.40	158.00

Source: HVS

Occupancy during the three-year period indicates relative stability, while average daily rate has displayed tremendous growth. While occupancy levels are likely to shrink from the shadow of a looming national recession and a phalanx of new supply, Boston's improving economy along with new and upcoming retail, office, and convention developments should mitigate the situation and put occupancy back on the advance toward year-end. The entrance of high-quality hotels should help average rates and RevPAR levels to increase in 2008, albeit by modest amounts compared with those registered historically. Overall, the diversity of new developments citywide is expected to generate demand proportionate to the new supply, bringing greater balance to Boston's lodging market.

HVS leads the industry in accurate, timely, and comprehensive analyses of all aspects of the lodging market. To learn how HVS could help guide your next project in New England, contact our Boston office at (972) 899-5400 or visit http://www.hvs.com/Offices/Boston/.

1 http://www.hvs.com/Jump/?f=2420.pdf&c=2995
2 http://www.nytimes.com/2007/10/07/realestate/commercial/07sqft.html
3 "Fan Pier Comes to Life," Boston Redevelopment Authority, September 26, 2007.
4 January 16, 2007 interview with Mr. Colin McDonald, Vice President of Real Estate Development, Accor North America
5 http://www.boston.com/business/ticker/2007/06/groundbreaking.html
6 http://www.boston.com/business/globe/articles/2007/09/28/firm_in_talks_for_russia_wharf_tower/
7 Massachusetts Convention Center Authority
8 "High Profile, High Impact Conventions Coming to Boston in 2008," Massachusetts Convention Center Authority,

December 27, 2007.

9 Westin Waterfront hotel management

10 http://corporate.ritzcarlton.com/en/Press/Properties/BostonCommon/Releases/11+Million+Dollar+Upgrades.htm

11 http://www.hotelexecutive.com/newswire/pub/_13253.asp

12 http://www.bhh.com/2007_pressreleases/RevRenovationPressRelease.pdf

13 http://www.massport.com/logan/insid_hotel.html

14 http://www.colonnadehotel.com/press_releases/index.cfm?task=detail&id=PR_070712_06175336_VJ1N9

15 http://www.copleysquarehotel.com/press/documents/ClosingforRenovation.pdf