

Market Intelligence Report: Wilmington and Newark, Delaware

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Wilmington

Wilmington, Delaware's most populous city, is nicknamed the "Corporate Capital of the World," with businesses representing the pharmaceutical, finance, manufacturing, healthcare, education, biotechnology, insurance, legal, and retail trade industries. Companies that have a significant economic impact on the Wilmington market include AstraZeneca, DuPont,

JPMorgan Chase, Bank of America, Christiana Care Health System, ING Direct, and Barclays, among others. Most of these entities are positioned within Downtown Wilmington or along U.S. Highway 202, locally known as Concord Pike, where a variety of limited- and full-service hotels compete for the demand they generate.

The primary factor behind declining business levels and rising unemployment in Wilmington is the heavy representation of the financial sector in the city, which was hit hard during the banking collapse in 2008. The recession has forced layoffs at non-financial entities as well, including DuPont and AstraZeneca.

The table below illustrates unemployment rates on the local, state, and national levels over the course of the last several years:

Unemployment Rates						
Year	City of Wilmington	City of Newark	Wilmington Metropolitan	County	State	U.S.
2004	6.1 %	3.5 %	4.3 %	4.1 %	3.5 %	5.5 %
2005	5.9	2.9	4.4	4.3	2.9	5.1
2006	5.1	2.7	3.9	3.7	2.7	4.6
2007	5.7	2.7	3.7	3.5	2.7	4.6
2008	7.4	3.6	4.9	4.7	3.6	5.8
<i>Recent Month - June</i>						
2008	7.6 %	4.4 %	4.9 %	4.8 %	4.7 %	5.6 %
2009	12.8	7.9	9.3	9	8.6	9.5

Source: U.S. Bureau of Labor Statistics

According to local hoteliers, room-night demand has declined significantly since the latter part of 2008, and business levels are expected to remain weak through 2009 as corporate and leisure spending tightens. Furthermore, market participants have been pressured to reduce room rates in order to stay competitive. The drops in demand and average rate will make it difficult for area hotels to achieve pre-2008 RevPAR levels over the next several years.

According to city officials, a 138-unit aloft by Starwood is proposed to open in Downtown Wilmington in February of 2011. The development is part of a rehabilitation of the former WSFS Bank headquarters building on North Market Street. The opening of the aloft should coincide with an upswing in the economy and therefore not materially disadvantage occupancy or penetration rates at existing hotels.

Newark

Newark's economy is dependent on the larger companies located in Wilmington, and the market has thus suffered along with that of its neighboring city. According to market participants, Newark has lost thousands of jobs within the manufacturing, retail trade, and financial and insurance sectors since 2007. The closing of the nearby DaimlerChrysler manufacturing facility in 2008 has significantly impacted the Newark economy.

Newark does, however, benefit from stable healthcare and education sectors. Two of the most prominent institutions in these sectors, the University of Delaware and Christiana Hospital, are both undergoing expansion.

Summary

Downsizing, travel freezes, and facility closings have made the climate bleak for hotels in northern Delaware, but a slowdown in the introduction of new supply should help shore up penetration levels when business activity and demand growth resume.

2 Comments

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In an effort to improve office vacancy levels, the city is working with various companies to help absorb the thousands of square feet of commercial space that have recently become available. Bank of America, JPMorgan Chase, HSBC, and other financial institutions with regional offices in Newark have either frozen travel, laid off employees, relocated, or shut down. Nationwide Insurance moved out of its Newark facility in 2008; however, the jobs lost have been largely absorbed with the entrance of student-loan giant Sallie Mae, which immediately assumed occupancy at Nationwide's former facility. According to CoStar Group, Sallie Mae plans to hire approximately 1,100 new employees for its credit operations center by year-end 2011.

Much like Wilmington, room-night demand for Newark hotels has declined tremendously since the latter part of 2008. In addition, year-to-date RevPAR levels have reportedly declined to levels of three to four years ago. According to local hoteliers, business levels have slowed across all market segments, especially within the corporate-transient sector, as a large number of employers have announced travel freezes this year. Most market participants expect double-digit declines in occupancy by year-end 2009. RevPAR is anticipated to decline even more rapidly as room rates drop.

A 122-unit Holiday Inn Express & Suites opened in May of 2009, and a 136-unit Hampton Inn & Suites, now in the early development stage, is slated to open during the latter part of 2010. Occupancy levels at existing hotels within the Newark market will likely be impacted over the short term given this new supply and the sluggish economy; however, the new supply should absorb into the market fairly quickly as the national economic recovery begins to generate more demand in the ensuing years.

Conclusion

The economic pains felt across the country are particularly acute for the Wilmington/Newark market, though the area can look forward to some relief. Situated along Interstate 95, the market benefits from its proximity to some of the most densely populated cities in the country. Philadelphia, Baltimore, New York, and Washington, D.C. are all within a three-hour drive, making the Wilmington/Newark area a nexus for the commercial, leisure, and vehicular traffic between these cities. Hence, when economic activity in those cities improves and generates more business, the Wilmington/Newark market will benefit.

While room-night demand is expected to continue to decrease through 2009, the new supply entering the area shouldn't significantly impact penetration levels, as most of these hotels will open as the economy begins to stabilize and recover. Although it will likely take several years for market-wide RevPAR to return to pre-2008 levels, market conditions should begin to strengthen during 2010 and 2011, creating a more hospitable climate for the local lodging market's recuperation.

About **Jerod S. Byrd, MAI**



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