

# Transformation Needs for the Lodging Industry in Hampton, Virginia

May 22, 2009 / By Fiona Fang

Established in 1610, Hampton has been home to many of America's Firsts, including the first Christmas, the first free offering of public education, the first training ground for astronauts, the first summer White House, the first health resort, and the first shipyard. Centered in the growing Hampton Roads region, which is the largest metropolitan area between Washington, D.C. and Atlanta, Hampton's latest stage of growth is being spurred by large-scale public and private investments.

As the city's economy faces opportunities and challenges, so do its hotels. This article explores the recession's impact on demand in the Hampton lodging market, underscoring the need for a transformation of the city's lodging industry.

## Opportunities

Preeminent government and research institutions such as Langley Air Force Base, Fort Monroe, and NASA have historically been the cornerstones of hotel demand for Hampton's lodging market. The following table illustrates the number of people employed at each facility.

**Hampton Military Facilities and Research Institutions**

	Active-Duty	Civilian	Reservists
Langley Air Force Base	8,722	2,370	400
Fort Monroe Army Base	1,507	2,561	171
NASA Langley Research Center	2,300		
<b>Total</b>	<b>12,529</b>	<b>4,931</b>	<b>571</b>

Source: Virginia's Hampton Roads Economic Development Alliance

## Fort Monroe Reuse Plan

Fort Monroe, home to the Army's Training and Doctrine Command, is scheduled to close in 2011 as part of the military's Base Realignment and Closure plan. Virginia Governor Tim Kaine endorsed a plan in August of 2008 for the future use of the Fort Monroe site, which will ensure the preservation of this historic Hampton property. The plan will devote nearly \$500 million to rehabilitate historic buildings and develop cultural attractions such as a museum, among other improvements. Conservative estimates indicate that between 225,000 and 275,000 visitors will come to the redeveloped Fort Monroe each year (assuming stabilized yearly operations), with approximately 55% drawn to historical and cultural attractions, and 45% coming for recreational activities.<sup>1</sup>

## Coliseum Central District Revitalization

Located at the crossroads of Interstate 64 and Interstate 664, the Coliseum Central Business Improvement District is a 190-acre commercial district anchored by Hampton Coliseum. More than 650 commercial businesses operate in the district and approximately 170,000 vehicles travel there on a daily basis.<sup>2</sup>

Beginning with the development of Bass Pro Shops Outdoor World in November of 2004, the Coliseum Central has been transforming into a regional meeting, shopping, dining, and entertainment destination.<sup>3</sup> The Hampton Roads Convention Center opened in early 2005 and the redevelopment of the 1,000,000-square-foot Coliseum Mall into the mixed-use Peninsula Town Center is underway.

Bass Pro Shops Outdoor World has become an anchor store in the Hampton Roads complex, attracting 1.5 to 2

## Summary

Research shows that the recession has disproportionately affected occupancy at the older hotels in the Hampton market. With several large-scale developments promising to change the makeup of demand, a need for newer hotels is evident.

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million visitors per year. The majority of all visitors travel from outside of the local area, bringing mostly weekend business to the local hotel market. The Hampton Roads Convention Center (HRCC) has contributed to a major increase in meeting and group hotel nights within the Hampton Roads area. According to the Hampton Roads Convention and Visitor Bureau, the HRCC hosted 510 conventions and events for over 190,000 delegates in 2008.

Peninsula Town Center, a \$270-million development, will continue to open in phases in 2009, featuring a mix of large department stores, leading specialty shops, restaurants, office space, and residential townhouses and apartments. Several other projects are currently underway or proposed for the city, including the H2O residential community development of approximately 500 luxury townhouses and condominiums, the redevelopment of Mercury Plaza, and the Newmarket Creek Park project.

#### The Booming Medical Industry

Sentara Healthcare, one of the most progressive and integrated healthcare organizations in the nation, provides services to more than two million residents of Hampton Roads. A \$15-million, three-story Sentara Fitness Facility and medical arts building opened in 2008, comprising 32,000 square feet of fitness space and 42,200 square feet devoted to specialized medical programs and rehabilitation. Sentara CarePlex Hospital is currently undergoing expansion with a third hospital tower, the Orthopedic Hospital at Sentara CarePlex, which is anticipated to open in early 2010 and will be the region's only dedicated orthopedic hospital.

In addition, Hampton University's \$225-million Proton Cancer Treatment Center, the first of its kind in Virginia and the Mid-Atlantic region, is under construction. When it opens in 2010, this facility will provide treatment lasting five to ten weeks to approximately 2,000 patients per year.

#### **Challenges**

##### Lodging Infrastructure

Hampton's lodging market is made up of 26 hotels offering approximately 3,240 rooms, of which 17 hotels (offering roughly 2,000 rooms) were built in the 1980s or earlier. The older hotels' product design and amenities, such as an emphasis on exercise facilities, are geared toward the needs of military demand; however, many of these hotels appear dated and outclassed by the newer properties in the greater Hampton Roads market, and the redevelopment of Fort Monroe from a military to a tourist site necessitates a shift in focus for these hotels.

On the positive side, several hotels have been developed in Hampton to meet the new demand trends being spurred by recent developments in the city. The following table illustrates new supply that has entered the market since 2005:

**Hotel Openings Since 2005**

<b>Hotels</b>	<b>Year</b>	<b>Rooms</b>
Embassy Suites	Aug 2005	295
Country Inn & Suites	Sep 2006	96
Hilton Garden Inn	Nov 2007	149
SpringHill Suites	Apr 2008	124
Hampton Inn	Oct 2008	109
<b>Total Rooms</b>		<b>773</b>

Source: Hampton Roads Convention and Visitors Bureau

The Embassy Suites was developed as the major host hotel for the Hampton Roads Convention Center, and the Country Inn & Suites and Hampton Inn were developed to meet the needs of the booming medical industry and commercial demand. The Hilton Garden Inn and the SpringHill Suites, built along Power Plant Road, capture leisure, meeting and group, and commercial demand. This new crop of hotels has captured a large amount of heretofore unaccommodated demand.

Still, most hotels in the market have not kept up with the demand changes. Market interviews with local hoteliers show that these older hotels all have experienced a downward trend in occupancy to some degree. They attribute the occupancy decline to the entry of the new supply and most have sacrificed average rate in an effort to attract more patrons. This tactic, however, has been largely unsuccessful in terms of recovering market share.

Occupancy for a typical hotel among the older set dropped approximately 7% from 2005 to 2007.<sup>4</sup>

As of the writing of this article, no new hotels were in the pipeline for Hampton, nor were there any conversions or renovations planned for the area's older properties. With the diversification of the city's demand, especially with respect to increasing demand from non-government sources, transformation needs for the lodging industry are essential. The lack of financing during the recession is delaying new builds and renovations, but the market is primed for more up-to-date hotels, and activity is expected to gain considerable momentum once the economy begins to recover.

## **Conclusion**

The opening of the new Sentara CarePlex Hospital, the Proton Cancer Treatment Center, and the evolution of the Fort Monroe site should induce more business activity and attract a more diverse array of visitors to the Hampton area. The recreational, retail, and dining establishments at the new Peninsula Town Center will add to the draw. The market is somewhat buffered by the stability provided by the presence of the federal government and the related aerospace and military-technology industries, as well as the healthcare sector. Although unemployment trends show recent increases, in line with trends across the state and nation, the revitalization and development projects noted previously should positively impact the local economy. These market transformations are sounding a knell for new lodging supply, as demand is not only changing but is expected to increase as the economy stabilizes.

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<sup>1</sup> Fort Monroe Federal Area Development Authority – Fort Monroe Reuse Plan

<sup>2</sup> City of Hampton Economic Development - New Development in Hampton

<sup>3</sup> City of Hampton Economic Development – Coliseum Central Master Plan

<sup>4</sup> Occupancy data provided by hotels in Hampton