



Market Intelligence Report: Washington, D.C.

Classic hotels and new entrants to the upscale and luxury markets appeal to a widening demographic in the nation's capital

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The New Look of Washington, D.C.'s Lodging Market

The D.C. culture isn't just about politics. An enormous variety of institutions, organizations, and cultural events draw an increasingly diverse demographic and contribute a vibrancy to a city that is characteristically austere. The population has nearly doubled over the past 20 years, and neighborhoods throughout "The District" continue to evolve around the capital architecture and institutions for which the city has always been known.

Decreased consumer spending, rising unemployment, decreased airport traffic, and a reduction in tourism have hurt the hospitality industry in D.C. since late 2008, though the negative effect of the recession has been felt less here than in most other major U.S. cities. As an epicenter for government, commercial, leisure, and cultural concerns, D.C. sustains a strong market for visitation. With so many sources fueling demand, the D.C. luxury hotel market is poised to strengthen once the economy gains footing and the negative connotations of "luxury travel," fomented by popular outrage over corporate shows of extravagant excess, fall away.

Transformations

The needs and wants of travelers to the nation's capital have evolved quickly over the past several years. The focus on traditional limited-service and full-service hotels—and their more conservative clientele—has broadened to encompass the luxurious, the modern, the plush, and the chic in response to the needs of new visitors. Professionals, vacationers, and international travelers have begun to seek out higher levels of service and new styles of accommodation, even with the current backlash against luxury travel.

Students and professionals in their 20s and 30s, a set that has begun to travel more frequently to D.C., factor heavily into the shift interest toward a more novel array of institutions, including hotels. Kerry McBroom, a 25-year-old law student at American University, said that when her working friends visit from countries

like Ireland, Portugal, Spain, and the Netherlands, “[they] only want to check out the hippest places here. They don’t want to see another run-of-the-mill spot. I like to take my friends to typically American places that are anything but typical. It's important to show my European friends that Washington, D.C. can match other world capitals culturally, socially, and artistically.”

Integral to this foray into the cutting-edge, the past several years have seen the emergence of properties such as the boutique Hotel Monaco and the Hotel Palomar; luxury properties such as the Mandarin Oriental and the Ritz-Carlton Georgetown; the recently opened aloft at Washington National Harbor, the proposed element hotels in Herndon, Virginia, as well as near the Dulles International Airport and the Tysons Corner shopping complex. The aloft and element hotel brands represent Starwood Hotels & Resorts’ re-envisioning of upscale hotels geared toward the savvy yet budget-conscious guest, a loosely defined but important demographic on the rise in D.C.

Another example of this transformative trend is the historic Hotel Washington, located on the corner of Pennsylvania Avenue and 15th street, directly across from the White House. Originally built as a retail store and apartment building in 1888, the eleven-story property converted to a hotel in 1917. From its conversion, the Hotel Washington served as the premier and staple hotel for political and business travelers, as well as wealthier tourists able to afford its luxury. The dated and worn condition of the property undermined the Hotel Washington’s premiere position in recent decades, although it remained popular with cost-conscious travelers for whom the location outweighed the condition of the property. This iconic building is currently undergoing a renovation and will reopen in August of 2009 as the W Washington. This transformation should restore the property to a competitive position consistent with its premiere location.

Growth Trends

Relative to the rest of the nation, recent growth trends for the Washington, D.C. metro area have been strong. By virtue of the stability of the federal government and the vast array of private enterprises it directly or indirectly supports, D.C. is somewhat insulated from the economic cycles that impact other U.S. metropolitan markets. Demand for hotel rooms in D.C. remains fairly consistent, and often surges in response to major events such as conventions, festivals, and, of course, presidential inaugurations. The market has also benefited from the construction of higher-end hotels and renovations to existing properties, creating more upscale products. These trends have given momentum to rate growth, helping this market outpace rate growth in the U.S. market overall.

Excluding independent properties, the majority of the Washington, D.C.-Metro area's hotel supply comprises midscale properties without food and beverage. Many of these properties are located just outside of D.C. proper, namely in markets such as Fairfax/Tysons Corner or along the Dulles Toll Road, where a significant amount of development has been occurring over the past several years. In terms of the total number of guestrooms, the largest segment is upper-upscale, and the luxury segment's representation is on the rise. The downtown area houses the largest concentration of hotels in these categories. While luxury properties represent only a fraction of total hotel properties in the D.C.-Metro area, the rooms supply across luxury hotels has increased significantly in the past five years.

Like all other major markets in the U.S., D.C. experienced a decline in demand and occupancy in the fourth quarter of 2008. In January of 2009, D.C. was the only major U.S. market posting increased occupancy—a direct result of the inauguration of President Obama. Beyond the month of January, upscale hotels felt some of the economic downturn, but to a far lesser degree than most other major markets.

Conclusion

So how has the performance of the luxury hotel market fared amid the shifting lines of supply and the influx of more selective patrons? A look at the performance of 20 of the area's highest-end hotels, including the Hay-Adams, the Mandarin Oriental, and more modern hotels like the Hotel Monaco, shows demand for luxury accommodations has declined only modestly in D.C. even as other markets feel it withering away. While occupancy has fluctuated year-over-year, average daily rate has continuously grown by fairly large measures over the past five years, though posting a decline in the fourth quarter of 2008. Nonetheless, this decline was only by a fraction of a percentage point compared to this period in prior years, and subsequently jumped nearly 25% during the January inauguration.

This suggests that there's enough wealth, commerce, and vitality to sustain D.C.'s upper-upscale and luxury markets through these trying economic times, with room for expansion in the years thereafter.



About the Author

Caitlin McKenna, a Project Manager with the HVS Washington, D.C. office, serves our clients from a prominent store of academic and professional experience in the industry. Caitlin earned her Bachelor's degree from Cornell University's School of Hotel Administration. Before joining HVS, Caitlin gained extensive hotel consulting and valuation experience working for Joseph J. Blake & Associates and Leitner Group, Inc. Her projects include limited-service hotels, large upscale properties, and master-planned mixed-use luxury developments, spanning primary, secondary, and tertiary markets throughout the United States. Caitlin also specializes in consulting for proposed hotels serving major metropolitan areas. In addition to hotel appraisals, Caitlin has worked in depth on commercial real estate projects ranging from office to retail to residential properties.

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