

FACTORS IMPACTING HOTEL MARKET PERFORMANCE

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Introduction and Context of Study

It is generally accepted that hotel development, investment and acquisition follows three basic steps, (Waterman 2001)

1. Identifying market areas that show long term potential for hotel investment
2. Choosing a lodging product that takes advantage of the dynamics of the local supply and demand characteristics.
3. Search and selection of a suitable site.

Whereas hotel investors and market analysts have access to top line performance data, such as Occupancy, Average Daily Rate, RevPar , these represent historic information.

As such, these data points are useful in that they provide market trends, which can be used to extrapolate future performance. However, these extrapolations are made on the assumption that each of these performance indicators is related to underlying macro economic indicators and other drivers of hotel market performance. For example, it is generally accepted that there is a strong relationship between lodging demand and Gross Domestic Product. Practitioner studies such as a longitudinal research conducted at Pricewaterhouse Coopers by Dr. Bjorn Hanson, established that a strong correlation exists between U.S GDP and hotel room demand, (Economist Update, 2009). A few academic researchers have systematically, studied the impact of other economic factors on hotel, market performance, (Choi, Olson, Kwansa and Tse, 1999; Wheaton and Rossoff, 1999; Canina and Carvell, 2005). However, in general research studies that relate macro economic market indicators to hotel market performance are limited in the hospitality literature.

Study Purpose

The purpose of the study was to systematically analyze the relationship between economic, demographic, real estate, tourism and hotel supply factors and the performance of hotel markets as measured by Occupancy, Average Room Rate and Revenue per Available Rooms. The overall objective of the study was to extract the various indicators of performance into meaningful factors that are expected to drive market performance. Using these factors as independent variables the study seeks to create a model to explain variations in hotel market performance.

Research Questions

The research questions to operationalize the study include the following:

1. What is the relationship between macro economic factors and the performance of hotel markets?
2. What is the relationship between market consumer purchasing power and performance of hotel markets?
3. What is the relationship between tourism trends and performance of hotel markets?
4. What is the relationship between performance of commercial real estate and performance of hotel markets?
5. What is the relationship between hotel supply and performance of hotel markets?
6. What are the key factors that explain variation of hotel market performance as measured by occupancy, average daily rate and RevPAR?

Research Methodology

The study conducted a bivariate and multivariate analysis of Macro Economic, Demographic, Tourism, Real Estate and Hotel Supply data for top 25 Metropolitan Statistical Areas (MSA's) in the USA (Table 1), to establish relationships with specific hotel performance indicators of Occupancy, Average Daily Rate and RevPAR, in the same markets.

A total of 24 indicators of performance (potential explanatory variables) were identified and are outlined in Table 2 below. Bivariate, and Multivariate statistical analysis was conducted to relate these to the measures of hotel market performance, Occupancy, Average Daily Rate and Revenue Per Available Room (Table 3).

Table 1
Sampling Frame: Top 25 Metropolitan Markets

Anaheim, CA
Atlanta, GA
Boston, MA
Chicago, IL
Dallas, TX
Denver, CO
Detroit, MI
Houston, TX
LA-Long Beach, CA
Miami-Hialeah, FL
Minn-St Paul, MN-WI
Nashville, TN
New Orleans, LA
New York, NY
Norfolk-VA Beach, VA
Oahu Island, HI
Orlando, FL
Philadelphia, PA-NJ
Phoenix, AZ
San Diego, CA
San Fran-San Mateo, CA
Seattle, WA
St Louis, MO-IL
Tampa-St Pete, FL
Washington, DC-MD- VA

Table 2

Composite and Individual Indicators of Hotel Market Performance

Composite Indicators	Individual Indicators			
	# 1	# 2	# 3	# 4
Size of Economic Base	Regional GDP	Population	Total Employment	FIRE/Wholesale Trade/Services Employment
Growth of Economic Base (5 Years)	GDP Growth	Population Growth	Employment Growth	FIRE/Wholesale Trade/Services Employment Growth
Economic Stability (5 Years)	Volatility in GDP	Volatility in Population	Volatility in Total Employment	Volatility in FIRE/Wholesale Trade/Services. Employment
Market Consumer Purchasing Power	Per Capita Personal Income	Unemployment	Total Retail Sales	Eating/Drinking Place Sales
Tourism Trends	Enplanements			
Growth in Tourism Trends (5 Years)	Growth in Enplanements			
Performance of Commercial Real Estate	Office Space Vacancy	Retail Space Vacancy	Office Net Absorption	Retail Net Absorption
Hotel Market Supply and Absorption	Room Inventory Absorption (% change supply less % change demand)	New Hotel Supply Construction Pipeline		

Table 3

Composite and Individual Measures of Hotel Market Performance

Composite Measures	# 1	# 2	# 3
Hotel Market Performance	Annual ADR	Occupancy %	RevPAR
Hotel Market Performance Growth (5 Years)	Growth in ADR	Growth in Occupancy%	Growth in RevPAR

References

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