

CHAPTER 9

PROJECTION OF OCCUPANCY AND AVERAGE DAILY RATE

In this chapter, a penetration model is used to understand how the new hotel will penetrate the competitive set and what occupancy and rate will result.

Competitive Set Supply and Demand Growth

The table below shows the historical and expected competitive set growth by segment from 2001 through 2022. Growth in each segment can be natural growth, new induced growth or can be the set's ability to penetrate the market outside the competitive set's historical pattern.

Table 9-1

Estimated Competitive Set Demand Growth by Segment												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2001	130,533	--	127,566	--	38,566	--	296,665	--	468,295	--	1,283	63.4%
2002	130,533	0.0%	127,566	0.0%	38,566	0.0%	296,665	0.0%	468,295	0.0%	1,283	63.4%
2003	130,363	-0.1%	127,400	-0.1%	38,516	-0.1%	296,280	-0.1%	468,295	0.0%	1,283	63.3%
2004	143,634	10.2%	137,250	7.7%	41,494	7.7%	319,187	7.7%	468,295	0.0%	1,283	68.2%
2005	142,064	-1.1%	135,750	-1.1%	41,041	-1.1%	315,697	-1.1%	468,295	0.0%	1,283	67.4%
2006	143,314	0.9%	136,944	0.9%	41,402	0.9%	318,475	0.9%	468,295	0.0%	1,283	68.0%
2007	142,976	-0.2%	136,621	-0.2%	41,304	-0.2%	317,724	-0.2%	468,295	0.0%	1,283	67.8%
2008	143,262	0.2%	137,304	0.5%	40,891	-1.0%	321,457	1.2%	468,295	0.0%	1,283	68.6%
2009	141,113	-1.5%	137,304	0.0%	40,687	-0.5%	319,104	-0.7%	468,295	0.0%	1,283	68.1%
2010	141,113	0.0%	137,991	0.5%	40,890	0.5%	319,994	0.3%	468,295	0.0%	1,283	68.3%
2011	142,524	1.0%	139,371	1.0%	41,708	2.0%	323,603	1.1%	468,295	0.0%	1,283	69.1%
2012	153,213	7.5%	168,639	21.0%	44,627	7.0%	366,479	13.2%	614,295	31.2%	1,683	59.7%
2013	159,342	4.0%	188,875	12.0%	46,413	4.0%	394,630	7.7%	614,295	0.0%	1,683	64.2%
2014	161,732	1.5%	198,319	5.0%	47,341	2.0%	407,392	3.2%	614,295	0.0%	1,683	66.3%
2015	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2016	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2017	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2018	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2019	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2020	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%
2021	161,732	0.0%	198,319	0.0%	47,341	0.0%	407,392	0.0%	614,295	0.0%	1,683	66.3%

Source: HSP

The projection shows the hotel opening at the beginning of 2012 (Total Supply column). The new hotel will represent a 31 percent increase in the competitive set room supply. Note that the Hilton opened in 2001, although demand remained flat the following year, occupancy held steady – just after a period of a travel recession throughout the U.S. This speaks to the ability of high quality product to be absorbed quickly as there is a flight to quality.

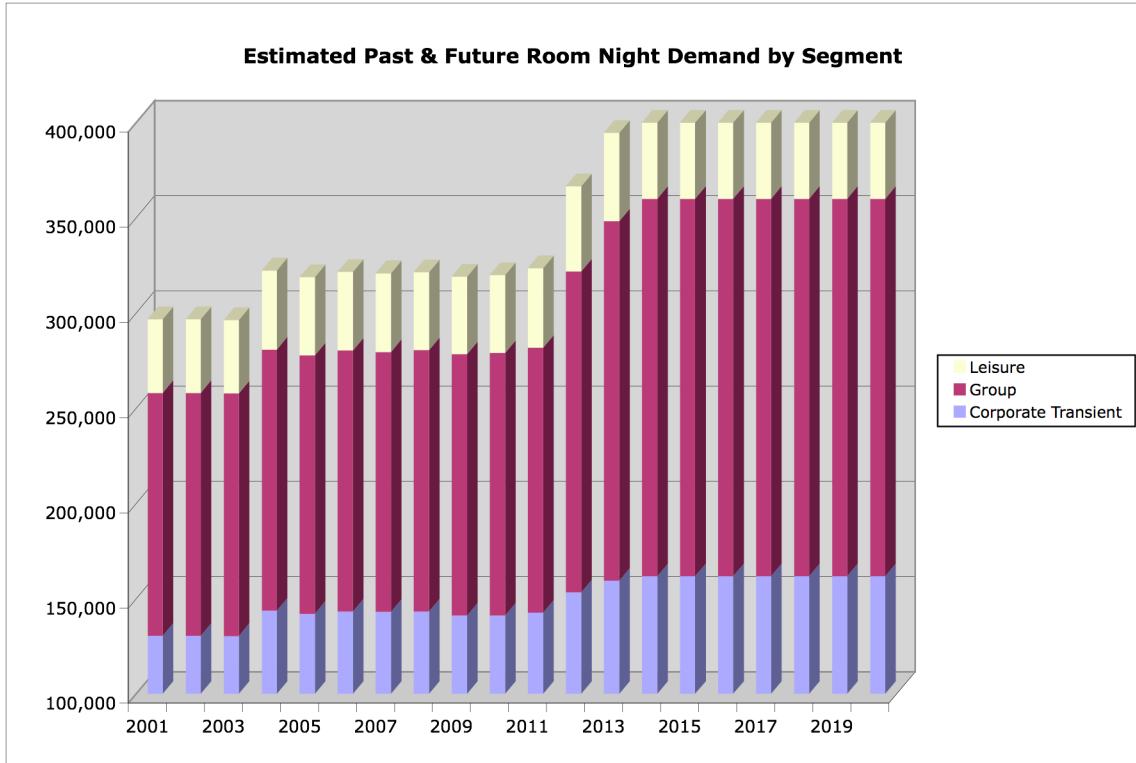
It is assumed the hotel will be absorbed over a three-year period.

Based on the new hotel, overall group room nights are projected to increase from approximately 139,000 before the hotel and convention center open, to 198,000 at

stabilization of the property. Much of this is due to the proposed hotel offering a larger room block for the city and the fact that it will have its own meeting space. Overall occupancy is projected to decrease to 60 percent for the competitive set in 2012 and increase to 66 percent by 2015 as it is expected the new rooms will be nearly absorbed within the period. Absorption for the hotel will occur over four years.

The figure below shows the projection of demand for the competitive set.

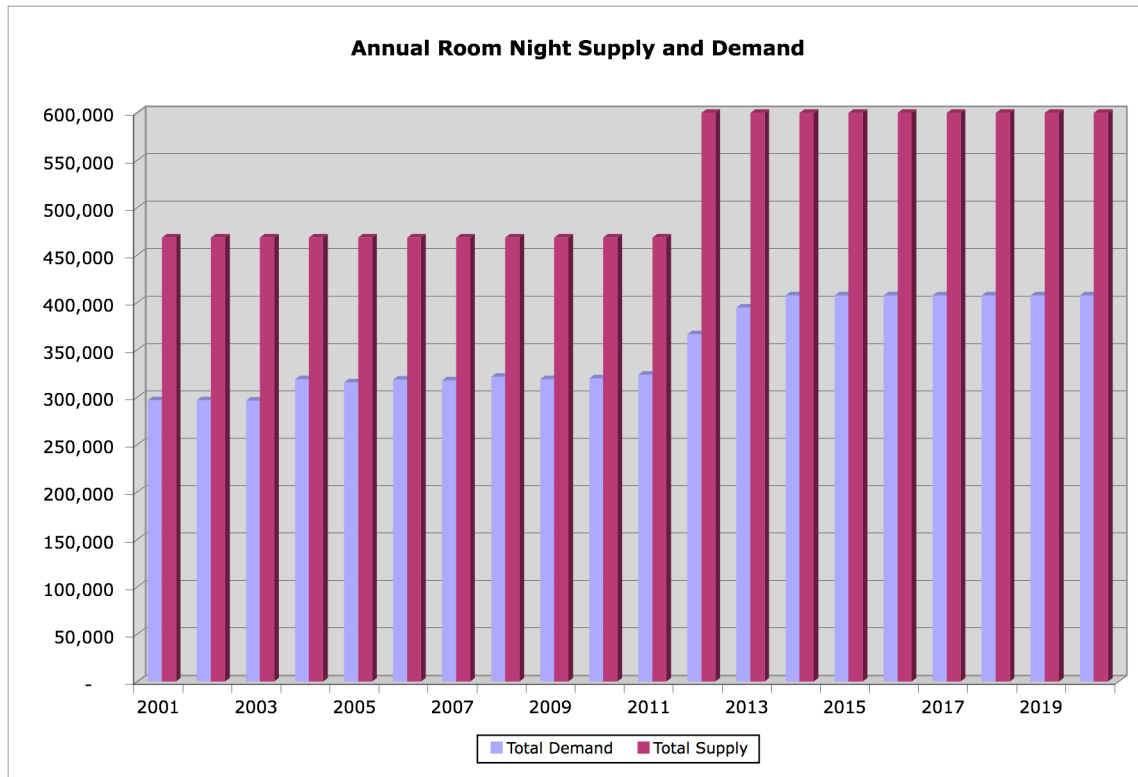
Figure 9-1



As shown, demand is expected to increase due to the opening of the hotel, especially in the group segment.

The next figure shows demand and supply changes.

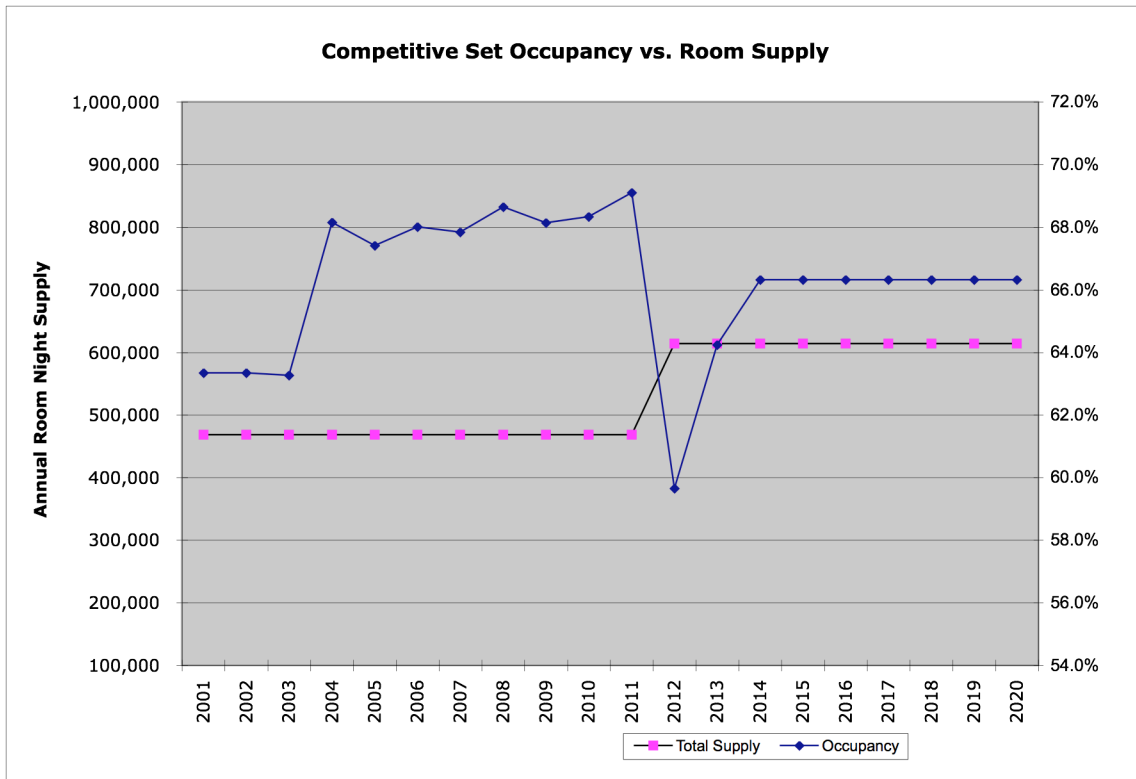
Figure 9-2



As shown, supply will increase from 468,300 room nights in 2008 to 614,300 room nights in 2012. Despite the large increase, demand is projected to increase at a similar rate, albeit more slowly.

The next figure shows supply versus occupancy.

Figure 9-3



As shown, occupancy rose in 2004, and is expected to peak in 2011 before dipping in 2012 as a result of the added supply. It is projected to climb again up to the hotel's stabilization. The stabilized occupancy for the set is 66 percent.

Penetration Rate Analysis

Occupancy penetration is the ratio of a particular property's actual room nights captured compared to its fair share. Fair share is defined as the ratio of the property's number of rooms to the total rooms in the defined competitive supply. For example, if a hotel has 100 rooms and the market has 1,000 rooms, its 'fair share' of business would be 10 percent of market room nights. The ratio is then applied to the total market demand by segment to measure the property's actual room nights captured compared to its fair share of room nights.

The table below shows how the property would fare if it captured its fair share of the competitive set demand.

Table 9-2

Fair Share for Proposed Hotel - Room Nights												
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	% Change	Total Rooms	Occupancy
2012	36,414	--	40,081	--	10,607	--	87,101	-13.7%	146,000	0.0%	400	59.7%
2013	37,871	4.0%	44,890	12.0%	11,031	4.0%	93,792	7.7%	146,000	0.0%	400	64.2%
2014	38,439	1.5%	47,135	5.0%	11,252	2.0%	96,825	3.2%	146,000	0.0%	400	66.3%
2015	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2016	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2017	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2018	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2019	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2020	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%
2021	38,439	0.0%	47,135	0.0%	11,252	0.0%	96,825	0.0%	146,000	0.0%	400	66.3%

Source: HSP

In a "fair-share" scenario, the hotel would capture 38,400 corporate transient room nights by stabilization in 2015, more than 47,000 room nights in the group segment, and 11,300 room nights from the leisure category. At stabilization, the hotel would perform at 66.3 percent occupancy.

After preparing projections of overall market occupancy, the analysis provides an assessment of the expected qualities of the proposed hotel in relation to the competitive supply to formulate projections of occupancy. This projection represents the hotel's relative performance, or "penetration" within the competitive supply. Characteristics considered in this analysis include, but are not limited to, location, market orientation, pricing strategies, contracted rooms, chain affiliation, facilities, and amenities.

The table below shows the projected penetration of the market segments by the hotels.

Table 9-3

Estimated Market Penetration of Proposed Hotel						
Year	Corporate Transient	Group	Leisure	Total Penetration	Projected Set Occupancy	Subject Occupancy
2012	95%	113%	45%	97%	60%	58%
2013	100%	118%	50%	103%	64%	66%
2014	105%	125%	55%	109%	66%	72%
2015	105%	125%	55%	109%	66%	72%
2016	105%	125%	55%	109%	66%	72%
2017	105%	125%	55%	109%	66%	72%
2018	105%	125%	55%	109%	66%	72%
2019	105%	125%	55%	109%	66%	72%
2020	105%	125%	55%	109%	66%	72%
2021	105%	125%	55%	109%	66%	72%

Source: HSP

The hotel is projected to penetrate the corporate transient market from 95 to 105 percent during the period, primarily due the location of the hotel very close to the Capitol and within the CBD. In the group market, it is projected to show 113 percent penetration in the first year of operation and 125 percent by stabilization. Leisure

penetration is projected at 45 percent the first year of operation and 55 percent by stabilization. Total market penetration is projected to be 109 percent by stabilization, leading to an occupancy rate of 72 percent.

The table below displays the projected occupied room nights by sector and the occupancy rate for the hotel.

Table 9-4

Projected Demand for Proposed Hotel											
Year	Corporate Transient	% Change	Group	% Change	Leisure	% Change	Total Demand	% Change	Total Supply	Total Rooms	Occupancy
2012	34,594	--	45,291	--	4,773	--	84,658	--	146,000	400	58.0%
2013	37,871	9.5%	52,970	17.0%	5,515	15.6%	96,357	13.8%	146,000	400	66.0%
2014	40,361	6.6%	58,918	11.2%	6,188	12.2%	105,468	9.5%	146,000	400	72.2%
2015	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2016	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2017	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2018	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2019	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2020	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%
2021	40,361	0.0%	58,918	0.0%	6,188	0.0%	105,468	0.0%	146,000	400	72.2%

Source: HSP

As shown, corporate room nights are projected to increase from 34,600 to 40,400 during the period. Group nights are expected to increase from 45,300 in the first year of operation to more than 58,900 by stabilization. Overall occupancy is projected to increase from 58 percent to 72.2 percent during the four-year absorption period.

The table below shows the resulting stabilized demand mix for the hotel compared with the competitive hotels.

Table 9-5

Projected Hotel Stabilized Demand Mix vs. Comp Set		
Segment	Hotel at Stabilization	Comp Set
Corporate	38%	40%
Group	56%	49%
Leisure	6%	12%
Total	100%	100%

Source: HSP

Based on its penetration of the market, HSP expects the hotel to draw 38 percent of its business from the corporate transient sector (compared with 40 percent for the set), 56 percent from the group segment (compared to 49 percent for the comp set),

and six percent from the leisure segment (compared with 12 percent for the comp set).

AVERAGE RATE ANALYSIS

The average rate is the weighted average of the rates charged to all guests in all segments throughout the year. For example, due to seasonality, the winter months have low demand and therefore yield lower rates. Rates also differ depending upon how far in advance the room is sold and based on the user type. Groups usually are able to attain a discount because they are filling more rooms; however, their rates can exceed more discounted leisure business. Corporate travelers usually pay the highest rate, and leisure travelers generally pay the least amount for rooms. The resulting average provides a benchmark for performance measurement as well as a tool for managing target revenue generated per occupied and available room night.

Competitive Position

The competitive position of a property determines, in large part, its ability to generate rate. A hotel with high comparative quality to the rest of the competitive set as well as a good location and brand reputation will be able to penetrate the competitive set rate at greater than 100 percent. The proposed hotel will be generally well-located (for group and corporate transient), the newest hotel in the market, and a part of the strongest set of hotels. It is expected that rates for each segment will be slightly above that found at other hotels. For these reasons, we expect that the hotel will penetrate the average rate at 112 percent.

Projected Average Daily Rate

The table below displays the projected average daily rate in the competitive set and the proposed hotel's penetration and resulting rate. Given that the Hilton penetrates the competitive set rate by approximately 25 percent, it is believed that the proposed hotel will be able to meet or exceed this level of performance.

Table 9-6

Average Daily Room Rate Projections					
Year	Comp. Set ADR	Annual Increase	Hotel Rate Penetration	Projected Hotel Rate	Annual Increase
2002	\$98	--			
2003	\$98	0.3%	--	--	--
2004	\$102	3.7%	--	--	--
2005	\$107	5.4%	--	--	--
2006	\$114	6.0%	--	--	--
2007	\$120	5.5%	--	--	--
2008	\$123	3.1%	--	--	--
2009	\$124	0.5%	--	--	--
2010	\$128	3.5%	--	--	--
2011	\$134	4.5%	--	--	--
2012	\$138	3.0%	125%	\$173	--
2013	\$142	3.0%	125%	\$177	2.4%
2014	\$147	3.0%	124%	\$182	2.6%
2015	\$151	3.0%	124%	\$187	3.0%
2016	\$156	3.0%	124%	\$193	3.0%
2017	\$160	3.0%	124%	\$199	3.0%
2018	\$165	3.0%	124%	\$205	3.0%
2019	\$170	3.0%	124%	\$211	3.0%
2020	\$175	3.0%	124%	\$217	3.0%
2021	\$180	3.0%	124%	\$224	3.0%

Source: HSP

The hotel is projected to penetrate the market at 125 percent in the first year with a rate of \$173 and increase to \$187 by 2015.

The table below summarizes the projected performance of the hotel.

Table 9-7

Performance Projections				
Year	Average Daily Rate	Occupancy	Revenue per Available Room	Annual Increase
2012	\$173	58%	\$100	--
2013	\$177	66%	\$117	16.5%
2014	\$182	72%	\$131	12.3%
2015	\$187	72%	\$135	3.0%
2016	\$193	72%	\$139	3.0%
2017	\$199	72%	\$144	3.0%
2018	\$205	72%	\$148	3.0%
2019	\$211	72%	\$152	3.0%
2020	\$217	72%	\$157	3.0%

Source: HSP

The hotel is projected to achieve a \$173 average rate in its first year with occupancy of 58 percent. The average rate and occupancy are expected to be \$182 and 72 percent, respectively, at stabilization. Revenue per available room is projected to be \$100 in 2012 and increase to \$131 by 2014.