

Strong RevPAR growth forecast for extended stay

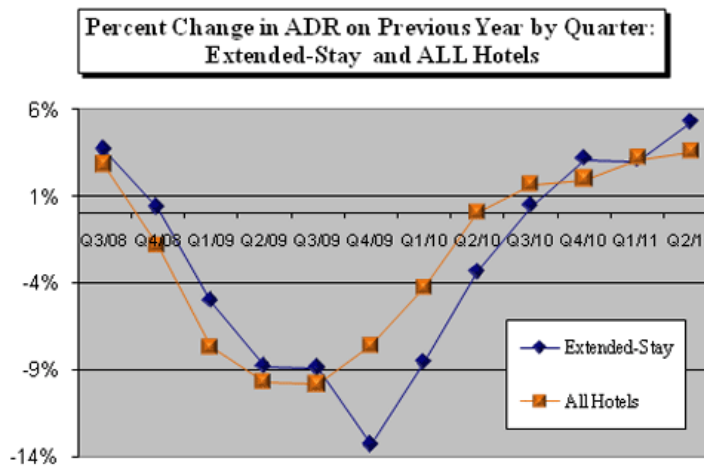
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Story Highlights

- Boosted by a 5.2% gain in the second quarter, extended-stay hotel ADR is up 4.2% for the year to date.
- Net new rooms opening per quarter are falling, and this is forecast to reduce the annual rate of supply increase to 1.5% in 2011.
- If the Highland Group's 8.3% RevPAR growth forecast is realized, it will be the second strongest year for extended-stay hotels in the last decade.

In a related article dated March 2011, we found it unlikely that in 2011 extended-stay hotel revenue-per-available-room growth would exceed the 11.2% annual record set in 2005. The main reason for our forecast was that average rate growth would be insufficient to drive the increase in RevPAR to a new record.

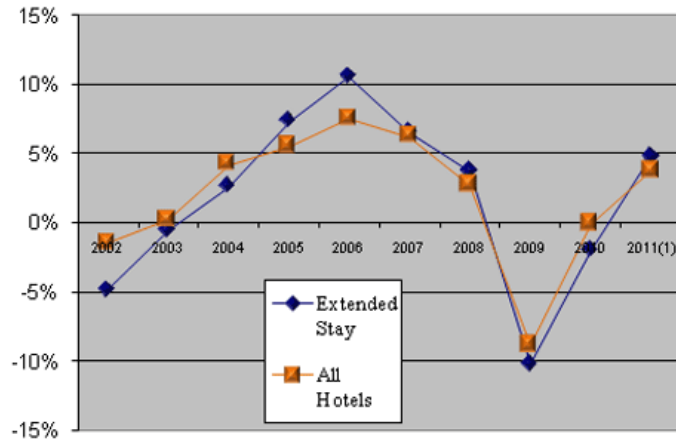
Extended-stay ADR growth is accelerating, but the increase in 2011 compared to 2010 will be well short of the gains experienced in 2005 and 2006. Moreover, the rate of increase in new rooms has not slowed as fast as we thought earlier in the year, and our demand growth forecast needs moderating in light of STR's recent revision for the overall hotel industry. Consequently, lower extended-stay hotel occupancy than initially expected also will limit the increase in RevPAR. However, if our 8.3% RevPAR growth forecast is realized, it will be the second strongest year for extended-stay hotels in the last decade.



Sources: STR Global, The Highland Group

STR's most recent forecast predicts overall hotel ADR will increase 3.7% in 2011 compared to 2010. STR reports overall ADR is up 3.3% for the first half of 2011. Boosted by a 5.2% gain in the second quarter, extended-stay hotel ADR is up 4.2% for the year to date. We forecast extended-stay hotel ADR will grow 4.7% in 2011 compared to 2010.

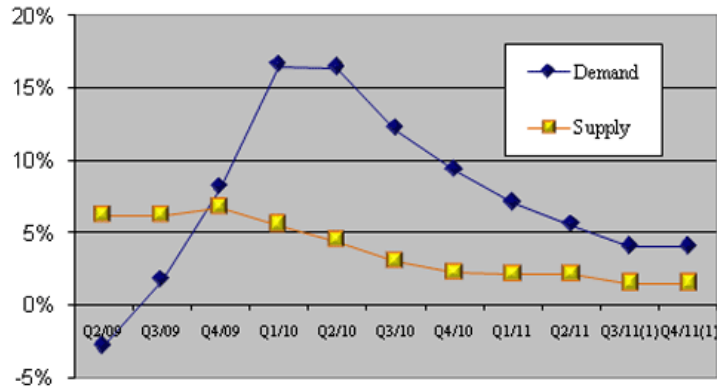
Percent Change on Previous Year: ADR Extended-Stay and ALL Hotels



Note: (1) Projected
Sources: STR Global, The Highland Group

The increase in extended-stay room supply dropped from more than 6% annually in 2009 to 2.2% in 2010. During the past year, the leveling of the number of rooms under construction at about 6,800 meant only a statistically insignificant 0.1% percentage point decline in the supply growth rate. Net new rooms opening per quarter are falling, and this is forecast to reduce the annual rate of supply increase to 1.5% in 2011. While this is the slowest rate of supply growth in at least 20 years, we had expected it to fall to 1.3% in 2011 and possibly even lower in 2012.

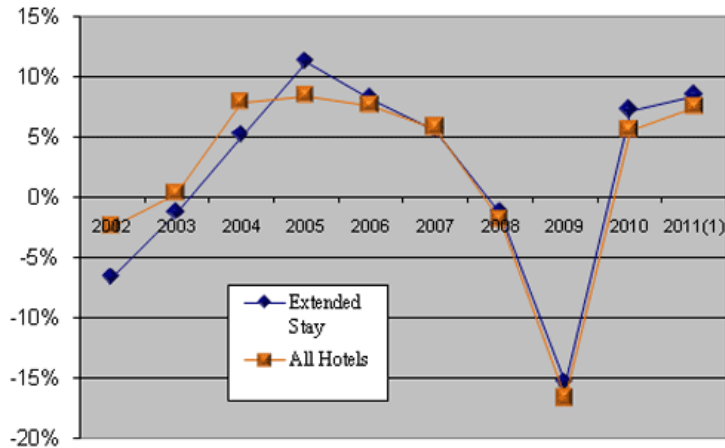
Percent Change in Supply and Demand on Previous Year by Quarter: Extended-Stay Hotels



Note: (1) Projected
Source: The Highland Group

In most years, extended-stay hotel demand grows faster than overall hotel demand. This year should be no exception. But the difference in the growth rates is likely to be small because extended-stay hotels will have to build on a very strong 13.4% demand increase in 2010. Another indicator that demand growth rates are expected to be relatively close is that all three extended-stay price segments are experiencing similar rates of increase in demand as the overall hotel industry. This is comparable to the recovery in 2004, when extended-stay hotel demand increased 4.8% compared to a 4% rise overall hotel demand.

**Percent Change in RevPar on Previous Year:
Extended-Stay and ALL Hotels**



Note: (1) Projected
Sources: STR Global, The Highland Group

Emerging from the last downturn, extended-stay hotels took about 19 quarters to return nominal RevPAR to the peak set in 2000. With occupancy in the mid 70% range, a double-digit RevPAR increase ensued during the next four quarters despite a 4.5% growth in supply. Extended-stay nominal RevPAR should return to the peaks achieved in 2008 in the next three to four quarters. That would be about the same time it took during the previous recovery, and when it does occupancy should be in the mid 70% range. By mid 2012, supply growth is very unlikely to have risen to levels seen in 2005-2006, so perhaps then the stage will be set for record RevPAR growth.

The table following summarizes recent history and our forecast for 2011.

Extended-Stay Hotel Recent History and Forecast				
	2009(1)	2010(1)	2011 (2)	2011(3)
Room Supply	6.7%	2.2%	2.1%	1.5%
Demand	0.4%	13.4%	6.2%	5.0%
Average Rate	-10.2%	-2.0%	4.2%	4.7%
Occupancy	-5.8%	11.0%	4.0%	3.5%
RevPar	-15.4%	7.1%	8.3%	8.3%
Notes: (1) Actual year end (2) Mid year to date 2011 compared to same period in 2010 (3) Projected year end				
Source: The Highland Group				

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