

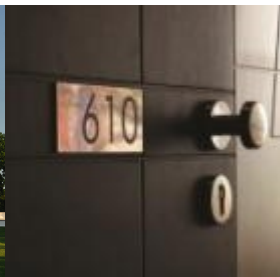


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IN FOCUS:  
**WASHINGTON, D.C.**

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*As economic recovery resumes and tourism strengthens, Washington, D.C. remains a top draw for leisure, convention, and government demand, with area hotels achieving some of the highest RevPAR levels in the nation.*

## Highlights

- Activity related to Washington, D.C.'s political machinery continues to benefit the area's economy despite the government shutdown and sequestration. Unemployment in the MSA remains well below that of the nation.
- Visitation levels to D.C. are strong, and visitor spending shot up during 2013, signs that support an overall positive outlook for local business.
- Convention demand in the District is strong, with many large events booked through 2020; the new Marriott Marquis convention headquarters hotel has helped bring in more and larger events, and conventions are expected to trigger tens of thousands of additional room nights for area hotels.
- Market RevPAR neared \$160 in 2013—a new peak—and RevPAR growth is expected to continue through 2014.
- Roughly 1,711 hotel rooms have come to the D.C. market since June of 2013, most in the form of the 1,175-room Marriott Marquis. More than 2,550 hotel rooms are under construction or expected to begin development in the market over the next twelve months.

The high concentration of government agencies, employees, and associated non-profit and commercial entities in Washington, D.C. has helped sustain a high standard of living for residents and buffer the area from major economic downturns. Sequestration, federal cutbacks, and a government shutdown hit the Washington, D.C. hotel market hard in 2012/13. Nevertheless, local and federal government activity has resurged, benefitting the area's economy and hotel industry directly, as well as indirectly through the contractors who bring business to D.C.; associated drivers of demand include law firms, the International Monetary Fund (IMF), and global political events.

This economic progress is evidenced on the job front, as well; at 5.4% at the close of 2013, unemployment in the greater Washington, D.C. MSA remains well below that of the nation, and the latest figures as of April of 2014 follow a trend of job growth. The following article examines how government, tourism, conventions, and other core strengths of Washington, D.C.'s economy are impacting the area's hotel industry.

### WASHINGTON MONUMENT



Source: Destination DC

# Tourism

The D.C. market, which abounds in historical and cultural attractions, has realized year-over-year increases in visitation since 2010, with 18.5 million visitors in 2012. Destination D.C. reported approximately 17.4 million domestic visitors to the area during 2013, a 3.6% increase over the prior year. Domestic and international spending in 2013 also grew by 7.6% and 8.0%, respectively.

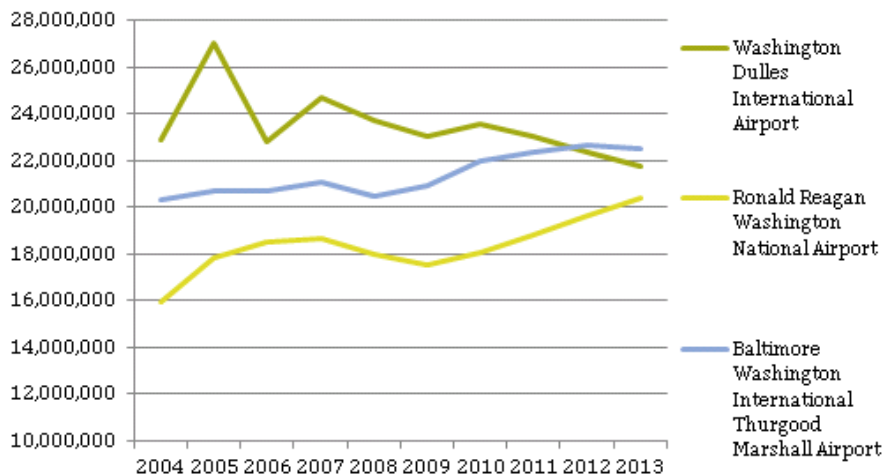
EXHIBIT 1: TOTAL ANNUAL VISITATION IN D.C. 2001-12

Year	International		Domestic		Total	
	Visitation	% Δ	Visitation	% Δ	Visitation	% Δ
2001	1,100,000	—	14,700,000	—	15,800,000	—
2002	1,000,000	-9.1 %	14,800,000	0.7 %	15,800,000	0.0 %
2003	800,000	-20.0	14,600,000	-1.4	15,400,000	-2.5
2004	1,000,000	25.0	13,800,000	-5.5	14,800,000	-3.9
2005	1,000,000	0.0	14,100,000	2.2	15,100,000	2.0
2006	1,000,000	0.0	13,900,000	-1.4	14,900,000	-1.3
2007	1,100,000	10.0	14,800,000	6.5	15,900,000	6.7
2008	1,400,000	27.3	15,200,000	2.7	16,600,000	4.4
2009	1,500,000	7.1	14,800,000	-2.6	16,300,000	-1.8
2010	1,700,000	13.3	15,500,000	4.7	17,200,000	5.5
2011	1,700,000	0.0	16,100,000	3.9	17,800,000	3.5
2012	1,700,000	0.0	16,800,000	4.3	18,500,000	3.9
2013	Unavailable	—	17,400,000	3.6	Unavailable	—

Source: Destination DC

Airport passenger traffic levels serve as another good indicator of visitation to the D.C. area. Ronald Reagan Washington National Airport in Arlington, Virginia has realized significant growth in passenger traffic since 2010, while traffic at Dulles International Airport has decreased in recent years, the result of fewer domestic travelers; however, the Metropolitan Washington Airports Authority reports that international travel is increasing. National Airport is expected to surpass Dulles in enplanements going forward, and anticipated improvements at both Dulles and National should help bolster travel to the District of Columbia.

EXHIBIT 3: ANNUAL PASSENGER TRAFFIC IN D.C. 2004-2013



Source: HVS

## Convention Activity

Event bookings at the Walter E. Washington Convention Center (WEWCC) have averaged 8% growth per annum since fiscal year 2008/09, with an average of more than one million attendees descending on Washington, D.C. each year. Year-end 2013 data illustrates an increase in attendance of nearly 7.0% compared with the 2012/13 fiscal period, with the number of events hovering above 200. The convention center benefits from steady government-related events each year, hosted by the Association of the U.S. Army, American Israel Public Affairs Committee, and the Credit Union National Association, among many others; each of these events injects millions of dollars annually into the local economy. Recent and upcoming major events include last year's 57<sup>th</sup> Presidential Inauguration Ball and conventions of the American Dental Association (November 2015) and the Society for Human Resource Management (2017). These and other events at the center are each estimated to drive anywhere from 20,000 to 60,000 room nights to area hotels.

The pace of bookings has ramped up considerably, spurred by the recently constructed Marriott Marquis headquarters hotel, located adjacent to the WEWCC. Convention officials reported that the center was losing major events each year because of a lack of proximate room blocks, and the 1,175-room Marriott Marquis staunchly the losses. Even amidst speculation of major developments in convention destinations such as San Diego, Los Angeles, and Boston, the WEWCC is expected to remain competitive over the long term.

EXHIBIT 2: WEWCC ACTIVITY, 2008/09-YE 2013

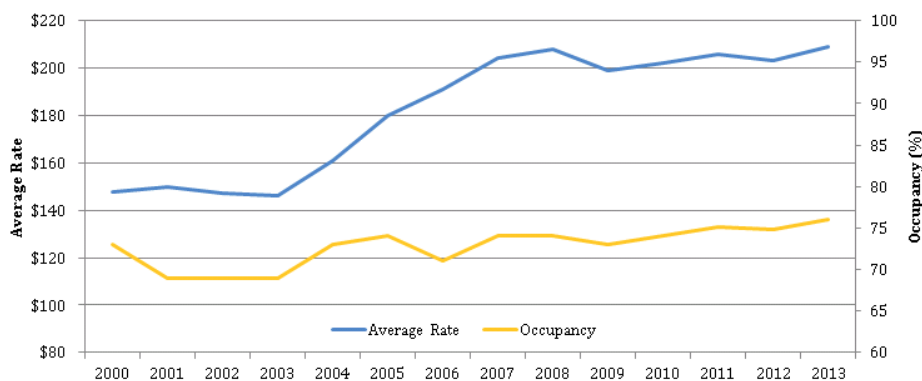
	Attendance	% Δ	# of Events	% Δ
2008/09	1,100,000	—	183	—
2009/10	1,050,000	-4.5 %	204	11.5 %
2010/11	1,020,000	-2.9	214	4.9
2011/12	1,020,000	0.0	231	7.9
2012/13	1,020,000	0.0	208	-10.0
Year-end 2013	1,090,000	6.9	204	-1.9

Source: Events D.C.

## Hotel Performance

Government, leisure, and meeting and group demand have helped keep occupancy relatively stable for Washington, D.C. area hotels. Average rates have seen greater fluctuations over the past decade; the market's room rate strengthened year-over-year from 2004 to 2008, reaching \$208 before the height of the recession. Room rate dropped 4.3% in 2009,<sup>1</sup> a relatively modest decline compared with the more pronounced effects of the recession in other markets during that time; this highlights the area's dependence on its more stable government sources of demand. Government demand had a flipside effect as well, with local hoteliers reporting that the per diem ultimately kept room rate in D.C. from growing at a pace similar to that of top destination markets in the country.

EXHIBIT 4: ANNUAL AVERAGE RATE AND OCCUPANCY, 2000 THROUGH 2013



Sources: Smith Travel Research & Destination DC

<sup>1</sup> Smith Travel Research (STR)

<sup>2</sup> STR

The Washington, D.C. hotel market had a record year in terms of RevPAR for 2013, achieving a level of \$159;<sup>2</sup> this reflects 4.0% RevPAR growth over 2012. Hoteliers reported that the focus

was on increasing room rate in light of strong demand levels, although occupancy still increased moderately to 76% to end the year. According to area hoteliers, RevPAR is expected to soften slightly during 2014 as a result of a weak first quarter, when harsh winter storms shut down government operations, businesses, and attractions in the District. The addition of new supply into the market, along with the continued effects of government cutbacks in spending, could also hinder room rate in the near term, as area hotels are expected to keep rates competitive in an attempt to sustain occupancy levels. This will more heavily affect economy and limited-service hotels; average rate is expected to remain strong for upper-scale and luxury brands, as these hotels target a less price-conscious customer base and are not as impacted by government sources of demand.

## Seasonality

Historically, hotel occupancy in Washington, D.C. has reached well into the mid 80s from March through July, as well as in October, months in which the area's most seasonable weather attracts more tourists and conventions; the January presidential inauguration every four years also brings a surge of demand. By contrast, the winter months tend to coincide with lower occupancy (mid to high 50s) at D.C. hotels, a result of slower business, convention, and leisure demand. Occupancy in April reached 89.6% in 2013 and 89.5% in 2014,<sup>3</sup> the highest levels in recent years and a strong indication that the rough first quarter of 2014 has resolved into stronger performance.

## Hotel Supply

Washington, D.C.'s hotel supply spans approximately 120 hotels, ranging from economy to luxury and totaling nearly 30,000 rooms. The majority of these hotels are categorized as upper upscale, which accounts for more than 50% of the total room supply. The mid-scale segment is the smallest with just four properties, accounting for 252 rooms.

## Closures and Renovations

The 372-room L'Enfant Plaza Hotel, which was closed in early December of 2013, is reportedly in need of over \$28 million in renovations, which are now underway; the hotel, owned by the Stanford Hotels Group, is scheduled to reopen on December 31, 2014. Closed since 2007, the famous Watergate Hotel is expected to undergo a renovation and expansion from 251 to 348 rooms.

The 231-room Embassy Row Hotel, managed by Destination Hotels & Resorts and located just off Dupont Circle, is slated for conversion into an independent upscale boutique hotel after a renovation scheduled to begin this year. A \$5-million renovation was completed at the Hotel George, a Kimpton property located near Union Station, in the first quarter of 2014. Minor renovation projects are underway at several D.C. hotels, including the Holiday Inn Washington-Capitol and the Embassy Suites Hotel at the Chevy Chase Pavilion.

## New Supply

Notable new hotels in the D.C. market over the last year include the previously mentioned Marriott Marquis, which opened on May 1, 2014, as well as the Cambria Suites Washington, D.C. Convention Center; the Capella Washington, D.C. Georgetown; the Hampton Inn Washington, D.C./White House; and the Hilton Garden Inn Washington, D.C./Georgetown. The newest hotel in the market is the 200-room Hyatt Place Washington, D.C./US Capitol, which opened on June 26, 2014. Exhibit 7 shows the range of hotels under construction and/or in the early stages of development.

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<sup>3</sup> STR

**EXHIBIT 7: RECENT HOTEL OPENINGS AND DEVELOPMENTS WITHIN THE DISTRICT OF COLUMBIA**

Future/Recent Openings	Category	No. of Rooms	Opening Date	Status
Capella Washington, D.C., Georgetown	Luxury	49	3/22/2013	Recently Opened
Hampton Inn Washington, D.C./White House	Upper Midscale	116	6/1/2013	Recently Opened
Marriott Marquis Convention Center Hotel	Upper Upscale	1175	5/1/2014	Recently Opened
Cambria Suites Washington, D.C. Convention Center	Upscale	182	5/1/2014	Recently Opened
Hilton Garden Inn Washington, D.C./Georgetown Area	Upscale	238	5/23/2014	Recently Opened
Hyatt Place Washington, D.C./US Capitol	Upscale	200	6/26/2014	Recently Opened
L'Enfant Plaza Hotel	Upper Upscale	372	12/31/2014	Under Renovation
Hampton Inn & Suites & Homewood Suites	Upper Midscale	125/114	4/23/2015	Under Construction
Hampton Inn & Suites (Capital Riverfront BID)	Upper Midscale	168	5/19/2015	Under Construction
Homewood Suites by Hilton	Upscale	160	10/16/2015	Under Construction
Trump International Hotel	Luxury	271	3/1/2016	Under Construction
Half Street Hotel	Upscale	196	12/15/2015	Start Next 12 Months
Homewood Suites at 50 M street	Upscale	195	Q1 2016	Start Next 12 Months
Hyatt Place DC Capital/National Mall	Upscale	214	12/31/2015	Start Next 12 Months
Hyatt Place - West End	Upscale	168	12/15/2015	Start Next 12 Months
Conrad Washington CityCenter DC	Upper Upscale	370	Early 2018	Start Mid-2015
Element and Aloft Hotels Washington Canal	Upper Upscale	TBA		Early Planning
InterContinental Hotel Southwest Waterfront/Wharf	Luxury	278		Early Planning
Ballpark Square Hotel - Capital Gateway	Midscale	170		Early Planning
Residence Inn by Marriott Columbia Place	Upscale	124		Early Planning
Courtyard by Marriott Columbia Place	Upscale	377		Early Planning
Mixed-Use Development Hotel - East M Street	Upper Midscale	100		Early Planning
Mixed-Use Development Hotel - Square 701	Upscale	170		Early Planning

Source: HVS

Within the upscale and luxury hotel pipeline, noteworthy additions to supply include the Trump International Hotel, which will revitalize the landmark Old Post Office Pavilion on Pennsylvania Avenue as part of a roughly \$200-million renovation of the building. A Conrad by Hilton hotel was recently announced for construction in the CityCenterDC development, a 2.5-million-square-foot, multi-phase, mixed-use project to be located on a 10-acre site in the heart of the District.

Even with a sharp impending rise in new supply, the outlook for occupancy and average rate remains strong among area hoteliers, given the expected increases in corporate, leisure, and group visitation in the coming years; this includes the tens of thousands of room nights expected to come to the market as a result of the opening of the Marriott Marquis, which should radiate out to help absorb the new supply over the next several years.

## Hotel Investment

Per the latest HVS/STR Hotel Valuation Index (HVI),<sup>4</sup> Washington, D.C. is currently 63rd in terms of valuation growth on a per-key basis versus other major markets across the country, a reflection of the impact on room rate from the federal budget cuts during 2012 and 2013.<sup>5</sup> Nevertheless, D.C. ranks among the nation's top markets in terms of RevPAR, which is expected to realize overall growth over the next several years; the strong pipeline of new supply also betokens the need for additional rooms given strong demand levels across the District.

Recent government cutbacks and political struggles caused demand levels to decline in the D.C. market in recent years. Even so, the area should resume a growth pattern over the long term, and investors can expect higher-end hotels to achieve relatively strong RevPAR growth in the near term, as these hotels are not as sensitive to demand related to the government. It is important to note, however, that investors with an interest in budget to midscale limited-service hotels should remain cautious in their income projections, as RevPAR is not expected to gain much traction in the near term as hoteliers focus on lowering rates in an attempt to sustain occupancy and remain competitive among tourists and other travelers.

## Conclusion

Low unemployment levels, the anchors of local and federal government, and expansion and revitalization efforts underway across the area speak to the strength of the Washington, D.C. economy. The recent entrance of the Marriott Marquis and the resultant increase in bookings for the convention center bode well for bringing room nights to the market in the near and long term. While the pipeline is relatively packed with hotel projects, rising levels of demand should help absorb the new hotels. Ongoing effects of sequestration and dampened levels of government travel make for a somewhat anticlimactic outlook for RevPAR in 2014; nevertheless, local hoteliers expect performance to resume a strengthening trend beginning in 2015 as the local and federal governments continue to rebound. Overall, Washington, D.C.'s hotel industry remains vibrant and ever-evolving, which should command the attention of well-advised hotel stakeholders looking to make a move in the market.

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<sup>4</sup> <http://hvi.hvs.com>

<sup>5</sup> Budget cuts caused a significant drop in government travel, and to sustain occupancy levels hotels were committed to lowering rates.



## About HVS

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