Recovery- Coming soon to a town near you?

The aggregate national lodging recovery statistics have been very dynamic. However, smaller and interior US markets were largely observers, as some coastal and international US destinations sustained double digit RevPAR growth in 2004. The year to date (ytd) 2005 numbers suggest that the recovery is moving inland. This is indeed good news for those markets that have not yet sustained substantial RevPAR increases.

The RevPAR changes are similar for ytd April 2005 (7.9%) as compared to year end 2004 (7.8%). Some consultants (myself included) were unsure that the unprecedented growth in this metric in 2004 could be sustained in 2005. Studying the underlying shifts in performance provide a better understanding of the recovery.

The 2004 RevPAR growth among the top 25 US markets averaged 10.3%. Nine of those markets exceeded growth of 10%. Seven of the nine markets (80%) were coastal or international destinations, including Boston, LA, Miami, New York, Oahu Island, Orlando, and Washington. The falling dollar (making the US an affordable international destination) along with recovery from SARS (enhancing travel to and from China) aided the economic and post 9-11 recovery in these areas. Looking back at previous years, these coastal markets were among those hit hardest by travel declines. Therefore, in many cases, one expected a bounce back to a more normal level of demand. The biggest winners in the 2004 wave of the recovery were upscale and luxury product at urban, airport, and resort locations.

Sustaining a double digit RevPAR growth rate for two years in a row seemed too good to be true, but the ytd April 2005 performance according to Smith Travel Research shows the top 25 markets with an average RevPAR growth rate of 10.8%. Twelve of these markets show growth in excess of 10%, up from 9 markets in 2004. That is where the similarities appear to stop, because only 6 of 12 or 50% of these markets are coastal or international cities. The other 6 (50%) are **interior markets such as Denver, New Orleans, Philadelphia, Phoenix, St. Louis, and Tampa.** Over the past 28 days ending June 4 2005, this trend has accelerated with 16 of the top 25 markets showing double digit RevPAR growth. Five markets exceeded 20% growth. Half of these markets are coastal or international destinations, and the others are interior.

The chain scale and locational statistics provided by Smith Travel offer another interesting perspective on the migration of the recovery. The winning markets ytd 2005 are the Midscale without food and beverage and the luxury segments. Locational attributes show airport, urban, and suburban markets leading. The midscale market growth shows the recovery has “mainstreamed”, meaning the previous rebound concentrated in upscale and luxry product has moved into the mid market. A study of 14 smaller interior markets with 20,000 to 30,000 rooms reveals a quickening recovery pace in 2005. Cities like **Cleveland, Columbus, Cincinnati, Charlotte, Pittsburgh, Milwaukee, Indianapolis, Louisville, Kansas City, Austin, Richmond**, etc. showed an average RevPAR growth rate of about 5% in 2004. These cities are trending nearly 8% RevPAR growth ytd 2005.

The **recovery does indeed appear to be moving inland to interior US cities**. All segments of travel demand appear to be contributors to the trend. Business and convention travel, per the Travel Industry Association (TIA) is projected to sustain a 2% rate of growth in 2005. The TIA forecasts summer leisure travel to increase by 2.3% in 2005. The International Air Transport Association (IATA) recorded an 11.5% increase in domestic travel ytd April 2005. Supply growth appears constrained by a slowdown in the development pipeline. Limited supply and continued demand growth appear to spell another record year for RevPAR increases. Even skeptics must admit that the dynamic recovery which generated unprecedented national RevPAR growth appears poised for an enchore performance in the heartland.

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