

# A Tale of Two Cities

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A significant change in the mix of hotel rooms in the United States is underway. Extended-stay room supply increased 54 percent during the first 10 months of 1997 compared to year-end 1996 in the United States. Supply gains in 1997 followed a 32 percent increase in 1996 over 1995. Extended-stay hotel supply approached 107,000 rooms through October 1997, or about 3 percent of total United States hotel room supply. By the end of 2002, it is not unlikely that extended stay hotel rooms will exceed 500,000 and represent 12 percent of total US hotel room supply.

We looked at Atlanta and Dallas to evaluate the results of these changes in lodging supply. These two cities are the most developed with extended stay hotels. Atlanta is more developed than Dallas, which provides points for comparison.

Atlanta and Dallas (Metropolitan Statistical Areas or MSAs are similar in terms of population and employment size, mix of industries and economic growth. Dallas and Atlanta are high growth MSAs and their hotel market mixes are predominantly commercial.

Atlanta has more extended-stay hotel rooms than any other MSA in the nation. At 11,005 extended-stay rooms, Atlanta has more than two and one half times as many extended-stay rooms as Dallas, as shown in the table following.

Hotel and Extended-Stay Hotel Market Summary

	Atlanta	Dallas
Total Hotel Rooms	69,000	47,638
Average Occupancy	66%	65%
Extended Stay Rooms	11,005	4,116
Average Occupancy	82%	77%
Percent Extended Stay Supply	16%	9%
Percent Extended Stay Demand (1)	20%	10%

Note: (1) Includes transient business in extended-stay hotels

Sources: Smith Travel Research, Source Strategies Inc., The Highland Group

Extended-stay hotel rooms represent 16 percent of total hotel rooms in Atlanta compared to 9 percent in Dallas. Demand accommodated in extended-stay hotels in Atlanta accounts for 20 percent of total MSA hotel demand. The respective figure in Dallas is 10 percent. Extended-stay hotels have a greater share of demand than supply, which accounts for their higher occupancies.

The distribution of supply in the two cities is different, and contributes to the difference in occupancy reported.

Extended-Stay Hotel Distribution and Average Occupancy by Rate Tier

Rate Tier	Dallas		Atlanta	
	Rooms	Occupancy	Rooms	Occupancy
Upscale	1,873	75%	2,409	71%
Mid-Price	1,048	71%	540	75%
Economy	1,195	85%	4,741	85%
Budget			3,315	88%
Total	4,116	77%	11,005	82%

Sources: Source Strategies Inc.

#### *The Highland Group*

Atlanta has more than 3,300 budget-priced extended-stay hotel rooms, many of which have very long average stays. This results in very high occupancies, although at very low rates. Atlanta also has many more economy level properties, which also tend to have long average stays and resultant high occupancies. Economy and budget extended stay hotels began to be developed in Atlanta about 12 years ago and the city has several developers who specialize in these products. As a result, the market for economy and budget extended stay hotels is particularly well developed in Atlanta. Dallas entered this market later and its supply is less extensive.

Atlanta and Dallas have both had a substantial supply of upscale extended stay units for many years, reflecting the development history of Residence Inns and Homewood Suites, among others.

The tables following show extended-stay hotel rooms under construction and planned, according to extended stay chains, for Atlanta and Dallas.

### Projected Extended-Stay Room Supply: Atlanta

	Hotels Under	Rooms Under	Hotels Planned	Rooms Planned
	Under Construction	Construction	Annually (1)	Annually (1)
Upscale	3	312	2	200
Mid-Price	4	355	5	470
Economy	5	623	8	977
Budget	0	0	2	250
Totals	12	1,290	17	1,897

Note: (1) Through 2002

Source: *The Highland Group*

### Projected Extended-Stay Room Supply: Dallas

	Hotels Under	Rooms Under	Hotels Planned	Rooms Planned
Rate Tier	Under Construction	Construction	Annually (1)	Annually (1)
Upscale	1	78	0	0
Mid-Price	7	737	5	595
Economy	14	2,146	7	903
Budget	2	240	2	250
Totals	24	3,201	14	1,748

Note: (1) Through 2002

Source: *The Highland Group*

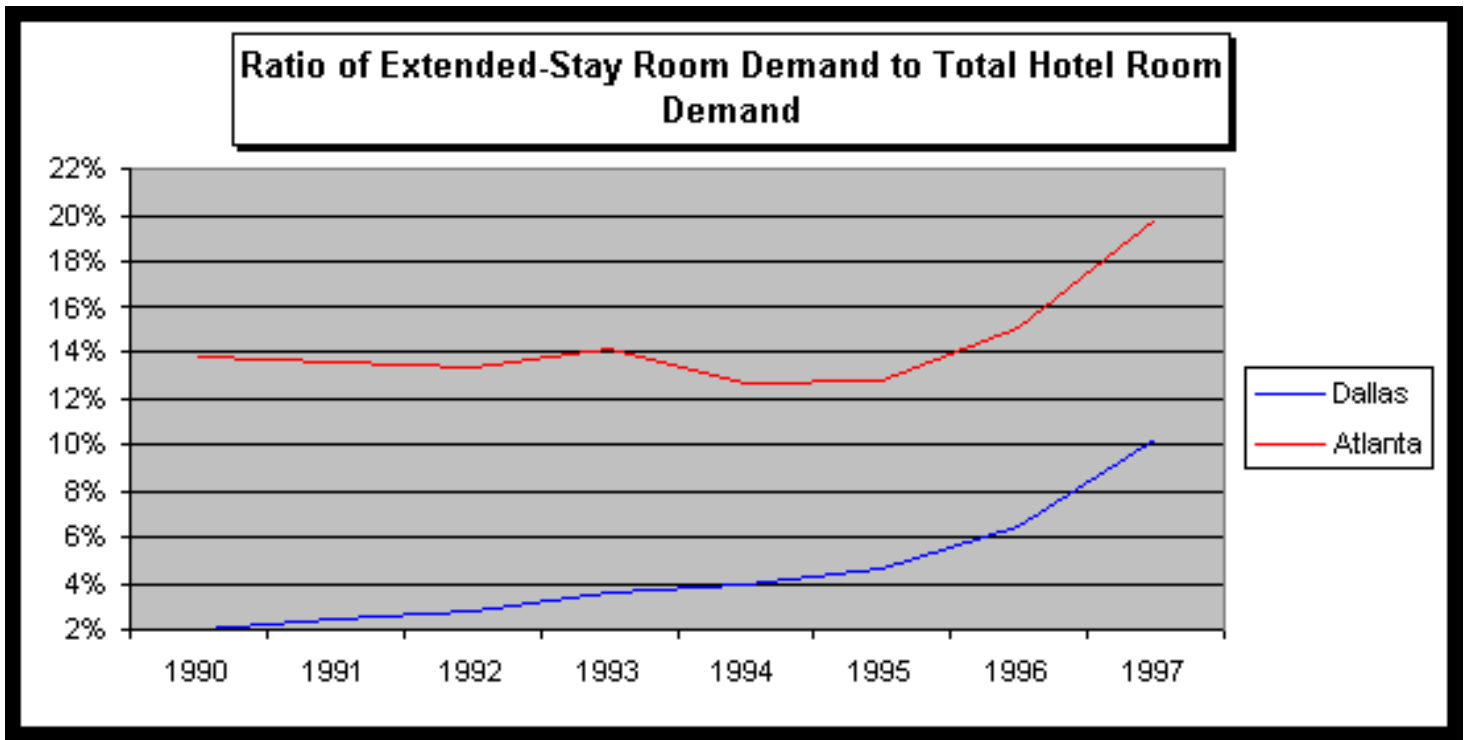
According to Smith Travel Research, average annual hotel room supply growth from 1987 through October 1997 was 1.7 percent in Dallas and 3.5 percent in Atlanta. Assuming respective total supply growth rates are maintained and extended-stay hotel growth projections are fully realized through 2000, extended-stay hotel rooms will

represent 31 and 27 percent of total hotel room inventory in Dallas and Atlanta respectively.

More than 3,200 extended-stay hotel rooms are currently under construction in Dallas, of which 67 percent are in the economy segment. Atlanta has 1,290 extended-stay rooms under construction, of which 48 percent are in the economy segment. Future room additions planned in Dallas and Atlanta are similar but no upscale extended-stay hotel companies have announced plans for new hotels in Dallas. The economy segment has the greatest number of rooms planned for Atlanta and Dallas, which is consistent with national trends in projected extended stay room supply.

Room night demand in extended-stay hotels in Dallas increased 648 percent from 1990 through October 1997. The comparable increase in Atlanta, which had a larger base of supply, was 83 percent.

Considerably stronger relative extended-stay demand growth in Dallas compared to Atlanta is attributable to the smaller number of extended-stay rooms in Dallas. Atlanta absorbed over 2,100 extended-stay rooms more than Dallas from 1990 through October 1997. Demand growth for extended-stay hotels has been stronger than overall hotel demand growth in both Dallas and Atlanta, particularly since 1995, as shown in the graph following.



Sources: Source Strategies Inc., Smith Travel Research, The Highland Group

Discussions with operators of newer extended-stay hotels indicated a lengthening in

absorption time for new product. Additionally, we noticed increased competition between extended-stay hotels, particularly in the mid-price and upscale segments. Competition is projected to intensify in 1998 as some hotels added in 1997 will be under absorption and new hotels open in 1998.

Atlanta and Dallas now have enough history with extended stay hotels to demonstrate that there is a large and diverse market for extended stay lodging. Over the next several years, that experience will rapidly be exported rapidly to other markets where extended stay hotels are more recent introductions.