



Economics Research Associates

Memorandum

Date: 11-20-2006

To: Garrett Preis, Gould Property

From: Patrick Phillips

RE: Update of Hotel Market Potential at 1616 Rhode Island Ave., NW

CC: ERA No. 15953

The following memo will serve as an update to market conditions affecting the potential success of a hotel property at 1616 Rhode Island Ave, which is addressed in a prior memo from May 2005. The hotel is proposed to be an all-suite extended stay property serving the Washington DC business traveler. We have considered the regional market, local market conditions, and likely development economics.

Washington D.C. Lodging Market

Washington DC as a national destination competes with top tourist markets like Los Angeles, West Palm Beach and Orlando in achieving high hotel occupancy and average daily rates. Washington DC annual occupancy increased marginally between 2004 and 2005 from 71.5 to 71.9 percent. Average Daily Rates (ADR) in Washington continued their rapid upward trend, increasing 11.3 percent from \$118.93 in 2004 to \$133.37 in 2005.

These two factors led to RevPAR (revenue per available room, or rate times occupancy) increasing 12.7 percent between 2004 and 2005 to \$95.93. The Downtown area, where 1616 Rhode Island Ave. NW is situated, performed well above the broader market, achieving a 75 percent occupancy in 2005 and average daily rate of \$193 resulting in RevPAR of \$146.

Scott Circle Lodging Market

Scott Circle is a moderate lodging market. Submarket occupancy at 69.6 percent in 2005 is below the D.C. average of 71.9 percent. Although well supplied with existing rooms, the location is secondary for both business and leisure travelers: it is not in the heart of the downtown employment center, nor is it close to monuments, museums, and other tourist destinations. While RevPAR in the Scott Circle area is \$20 higher than the regional average, it remains \$31 below Downtown Washington D.C.'s average, highlighting the inferior location of Scott Circle.

The local Scott Circle market is following national trends of rate increases despite slowing demand. Occupancy year to date as of September 2006 decreased 4.3 percent to 66.6

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percent. ADR, however, gained 12.0 percent between 2004 and 2005 to \$167.72 and continues to increase, reaching \$179.69 year to date as of September 2006.

Extended Stay Hotels in Downtown Washington D.C.

The extended stay concept generally performs well within the greater DC market. Both annual occupancy and ADR are above market rates. ADR gained 13.7 percent between 2004 and 2005 to \$152.60, and has increased an additional 10.4 percent year to date to \$168.46 as of September 2006. Additionally, seasonality is less of a factor for this market. Off-season is just two months per year. Occupancy during these months are 65.5 percent and 67.4 percent in January and December respectively.

However, there may be evidence of a slowing market: year to date occupancy as of September 2006 is 78.0 percent, 5.8 percent below the same date in 2005. RevPAR at \$131.41 is \$35.48 above Washington D.C.'s average, and \$15 below Downtown Washington.

Downtown Washington D.C. Market Supply

The central business district of Washington, DC appears to be well supplied, with 55 hotels within one-half mile of the site and 150 hotels within two miles of the site. Despite market saturation, there was a 94 percent increase in number of hotel rooms under construction in Washington between 2005 and 2006, which may contribute to the lower occupancy levels discussed previously.

Further, a 1,450 room convention center headquarters hotel planned for opening in 2008-2009 will likely cannibalize a significant portion of business. Convention-center related overnight stays accounted for 25 percent of Downtown Washington DC's business in 2005. Finally, the Beacon Hotel, an extended stay property, is directly across from the subject site, and the Doubletree, Marriott Courtyard, and Holiday Inn are all within one block.

Construction Costs

Recent rapid increases in construction costs have exacerbated the challenge of developing a from-the-ground-up new hotel in Washington. Virtually all recent additions to supply have been rehabs, conversions, or recipients of TIF or other public funding.

National surveys show that construction costs for non-residential buildings increased 9.4 percent in 2004 and an additional 7.4 percent in 2005¹. Anecdotal evidence suggests even higher gains for key construction-dependent commodities such as steel and cement.

Locally, cost per key for comparable hotel properties in Downtown Washington increased 19.8 percent from \$189,879 in 2000 to \$227,500 in 2005. Increased constructions costs were not offset by RevPAR as it increased only 18.3 percent between 2000 and 2005.

¹ Construction Inflation Alert, Associated General Contractors, Ken Simonson, 2006.