

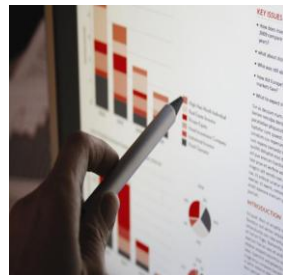


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IN FOCUS:

2014 HVS GREATER NEW ORLEANS LODGING REPORT

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Over the past four years, New Orleans has re-emerged as a hospitality hotspot on par with the nation's top markets. A series of major developments and investments has supported strong hotel performance in the city. Will it hold out over the long term?



Introduction

Mardi Gras, Creole cuisine, and big band jazz had marched New Orleans into the national consciousness for more than a century before Hurricane Katrina dealt its blow to the city's infrastructure, population, and economy. Following a remarkable recovery from Katrina, New Orleans has emerged into a dramatic stage of growth, with new businesses, developments, residents, and visitors re-establishing the city's economy and hotel market among the top in the nation. The following report digs into recent facts for foresight into New Orleans' hotel industry.



Greater New Orleans has continued to benefit from significant public- and private-sector investments in the nine years since Hurricane Katrina.



New Developments

Health Care

The area's investment in health care is immense. The Louisiana Cancer Research Center, the inaugural facility in BioDistrict New Orleans, opened at the corner of Tulane Avenue and South Claiborne Avenue in 2012; the ten-story, 172,000-square-foot facility will soon be complemented by other state-of-the-art medical centers. Another medical facility, the \$1.2-billion, 424-bed University Medical Center, is slated for completion in June of 2015. Construction of a \$1.7-billion, 200-bed VA Hospital began in early 2013, with completion scheduled for 2016. The project is expected to bring 1,100 new jobs to the market.¹

Entertainment

New Orleans' reputation for entertainment and tourism is being reinforced by millions in investments in historic theaters and venues. In 2011, the Joy Theater reopened following \$5 million in upgrades.² The Saenger Theatre completed a \$52-million restoration and expansion project, reopening in September of 2013.³ In June of 2014, a construction permit was filed for a \$7-

¹ Adelson, Jeff. "Work Progresses on Mid-City Hospitals." *The Advocate*. 21 May 2014.

² Pope, John. "Joy Theater on Canal Street Comes Back to Life, 6 Years After Katrina." *The Times-Picayune*. 18 Dec. 2011.

³ MacCash, Doug. "The Saenger Theatre in New Orleans Reopens Sept. 28 with Jerry Seinfeld." *The Times-Picayune*. 13 June 2013.

million renovation of the historic Orpheum Theater,⁴ and plans have been announced for a ten-year, \$10-million rehabilitation of the Loews State Palace Theater, which was purchased in August for \$3.5 million.⁵

South Market

In June of 2013, construction began on the \$48.4-million Paramount at South Market, a mixed-use complex featuring retail, restaurant, and residential components located along the Loyola Avenue streetcar line; the building represents the first phase of the proposed \$200-million South Market District mixed-use development. The project is slated for construction over the next two years; should the plans come to fruition, the South Market District would comprise some 600 apartments and 170,000 square feet of retail space across four blocks, making it the largest mixed-use development in New Orleans.⁶

Airport

In April of 2013, Mayor Mitch Landrieu and the New Orleans Aviation Board announced plans for an \$826-million redevelopment of Louis Armstrong International Airport (MSY) that would include a new 30-gate terminal with two concourses and a parking garage, as well as a \$17-million hotel. Designs for the new terminal complex were unveiled in January of 2014, with completion expected by May of 2018.⁷



Increasing visitation and an unprecedented run of major events, including the 2012 BCS National Championship, the 2012 NCAA Final Four, Super Bowl XLVII in 2013, and the NBA All-Star Game in 2014, have resulted in soaring performance for the New Orleans' lodging market.



Tourism

Tourism is one of the leading industries in New Orleans, employing approximately 78,000 across the city and bringing in billions in revenues for local restaurants, venues, and hotels. The following table shows historical visitation figures, as compiled by the New Orleans Convention & Visitors Bureau (CVB).

Visitation to New Orleans: 2003-2013

Year	Number of Visitors	Percent Change	Visitor Spending	Percent Change
2003	8,500,000	—	\$4,500,000,000	—
2004	10,100,000	18.8 %	\$4,900,000,000	8.9 %
2005	5,300,000	(47.5)	\$2,600,000,000	(46.9)
2006	3,700,000	(30.2)	\$2,800,000,000	7.7
2007	7,100,000	91.9	\$4,800,000,000	71.4
2008	7,600,000	7.0	\$5,100,000,000	6.3
2009	7,500,000	(1.3)	\$4,200,000,000	(17.6)
2010	8,300,000	10.7	\$5,300,000,000	26.2
2011	8,750,000	5.4	\$5,500,000,000	3.8
2012	9,010,000	3.0	\$6,000,000,000	9.1
2013	9,280,000	3.0	\$6,470,000,000	7.8

Source: New Orleans Convention & Visitors Bureau

In 2013, visitation to New Orleans reached its highest point since the peak year of 2004. In fact, visitation has grown closer and closer to the historical peak of 10.1 million each year since 2009, when the immediate effects of the recession made their deepest impact. At \$6.47 billion, visitor spending reached its highest point in 2013, following several years of growth. The city continues to work toward a stated goal of welcoming more than 13 million visitors in the tercentennial year of 2018, a number outlined in the New Orleans Hospitality Industry Task Force's unified master plan.

In June, Governor Bobby Jindal signed a bill

⁴ Ames, Don. "Renovated Orpheum Theater to Join the CBD Culture Club." *WWL RSS*. 28 July 2014. Web. 4 Sept. 2014.

⁵ Sayre, Katherine. "New Orleans' State Palace Theater: From Movie Premieres to Raves to Revival?" *The Times-Picayune*. 8 Aug. 2014.

⁶ Sayre, Katherine. "Construction begins on \$200M New Orleans South Market District downtown." *The Times-Picayune*. 20 June, 2014.

⁷ Shannon, Robin. "City Officials Unveil Designs for \$826M Airport Overhaul." *The Advocate*. 16 Jan. 2014.

passed by the Louisiana State Legislature that will enable the Ernest N. Morial Convention Center to issue up to \$142 million in bond offerings for the center's Phase V expansion.⁸ Plans for the expansion project include a five-acre riverfront park, retail space, condominiums, a people mover, a hotel with executive-style meeting space, and the redevelopment of Convention Center Boulevard to include a linear park.⁹ The goal is to make the expansion unique to New Orleans in order to attract large groups to the city that would otherwise travel to competing convention cities like Chicago or Atlanta. Convention business is seen as key to the sustained growth of tourism in New Orleans, and hotels would benefit from influxes of meeting and group travelers throughout the year.



Tourism to New Orleans has been rising steadily since 2009, and at \$6.47 billion, visitor spending reached its highest point in 2013.



Greater New Orleans Hotel Market Overview

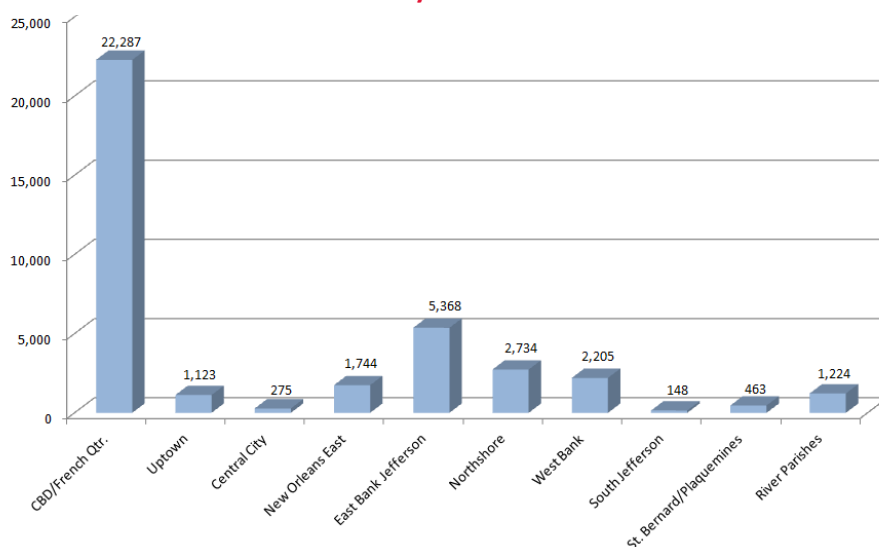
Greater New Orleans is generally accepted as comprising the seven parishes that form the New Orleans-Metairie-Kenner Metropolitan Statistical Area (MSA), namely Orleans, Jefferson, St. Bernard, Plaquemines, St. Tammany, St. Charles, and St. John the Baptist. For the purposes of analyzing hotel inventory, we have divided the Greater New Orleans market into ten distinct submarkets. The adjacent exhibits show total room supply by submarket and the percentage of rooms each submarket comprises.

Room supply in the CBD/French Quarter submarket comprises nearly 60% of all supply in Greater New Orleans. The East Bank Jefferson, Northshore, and West Bank submarkets are the only others containing more than 2,000 rooms, but beyond the volume of rooms per submarket, it is of interest to consider the ratio of branded to unbranded hotels as well.

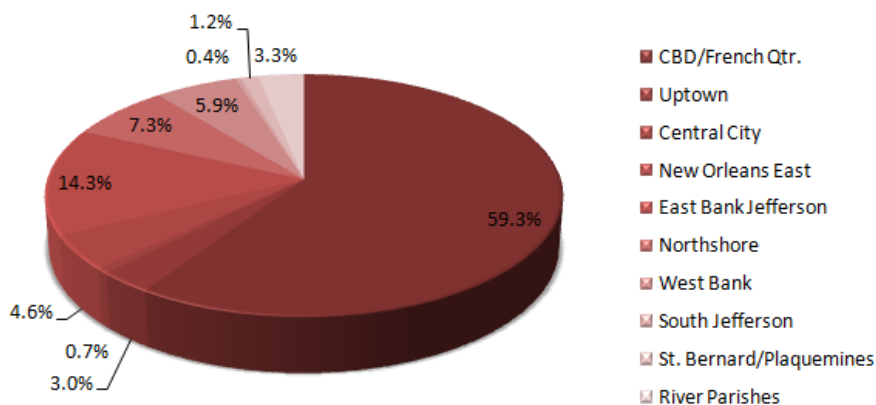
Existing Supply by Brand and Product Type

The level of hotel brand representation varies across the Greater New Orleans market. The following graph illustrates the number of rooms affiliated with each brand family, as well as those independent of brand affiliation.

Rooms by Submarket



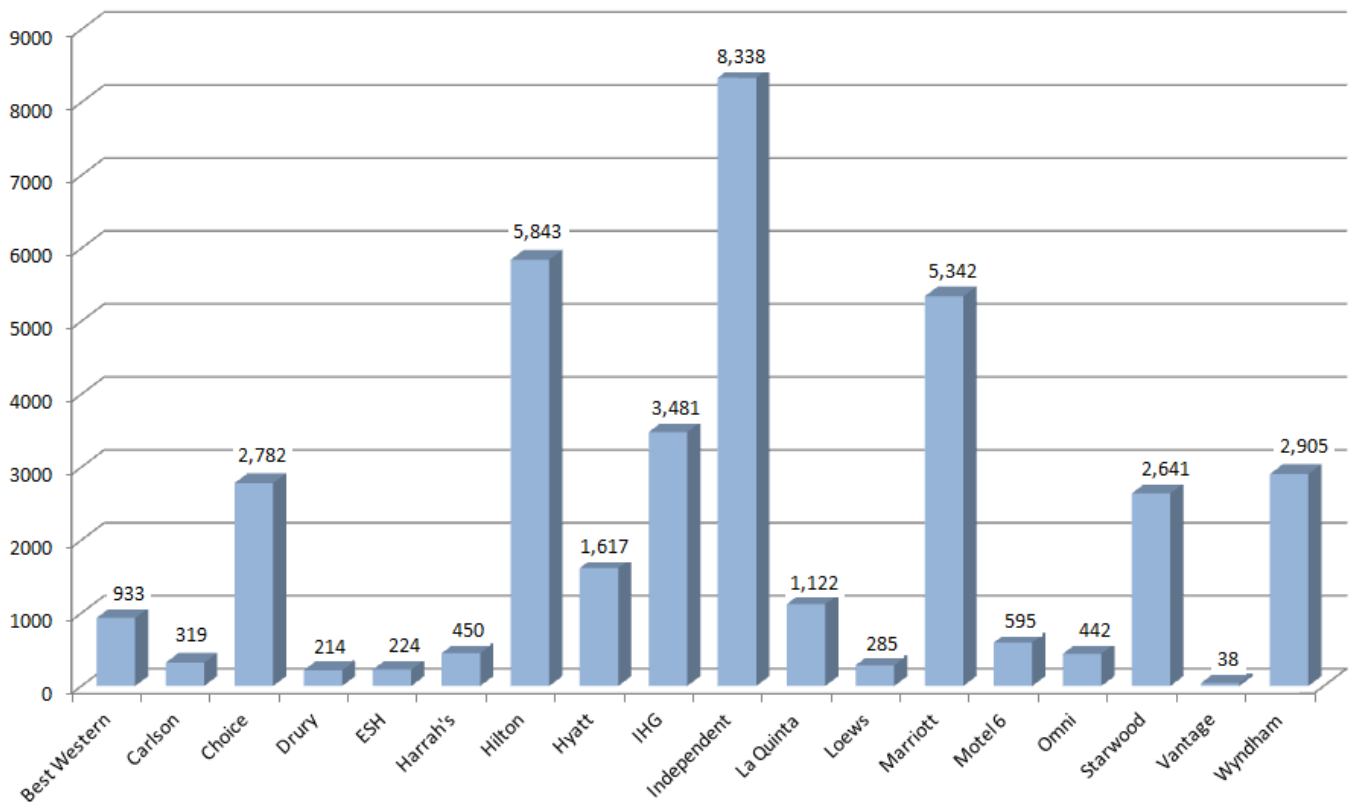
Percentage Rooms by Submarket



⁸ "Bill Signing Signals Approval to Revitalize New Orleans' Convention Center Corridor." *New Orleans Ernest N. Morial Convention Center RSS*. 11 June 2014. Web. 4 Sept. 2014.

⁹ O'Donoghue, Julia. "House Committee Signs off on New Orleans Convention Center Expansion." *The Times-Picayune*. 8 April 2014.

Rooms by Brand Family



Independent assets ranging from small motels to upscale boutique hotels represent 8,315 rooms, or 22.1% of the total room supply in Greater New Orleans. No one brand commands such a percentage of rooms in the market, but Hilton, Marriott, IHG, Hyatt, and Starwood together comprise just over 50% of the market's total room supply. Hilton and Marriott represent the two largest brand families in New Orleans by a wide margin, with a combined total of nearly 30% of market-wide room supply. The exacting brand standards instituted by Hilton, Marriott, and other legacy brands, along with the increasing saturation of these brands in the market, has brought a new level of quality to the overall room supply in Greater New Orleans.

The continued entrance of high-quality brands into Greater New Orleans has resulted in a dwindling number of available brands in some submarkets, most notably the CBD, where a crowded brand roster has led to the entry of underrepresented lifestyle and boutique brands such as Aloft and AC Hotels by Marriott.



The entrance of more hotels from legacy brands such as Hilton, Marriott, Starwood, Hyatt, and InterContinental Hotels Group (IHG) into the Greater New Orleans market over the past several years has resulted in a dearth of available flags, especially in the Central Business District. This in turn has brought about the entrance of underrepresented brands such as Starwood's Aloft and AC Hotels by Marriott.



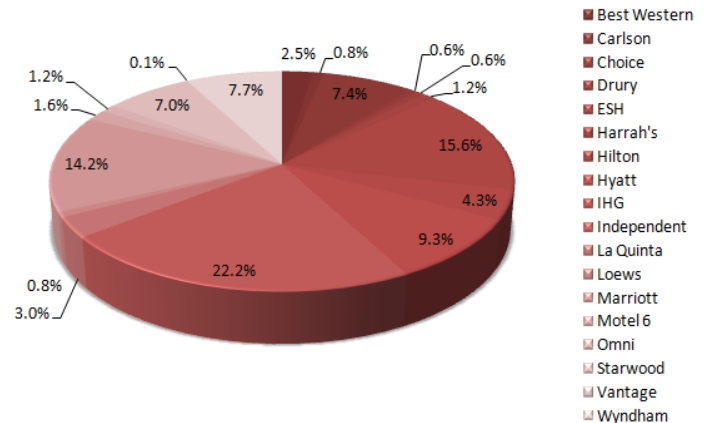
The adjacent charts show the market's room supply by brand family percentage and product type.

Full-service hotels represent approximately half of the total room supply in Greater New Orleans, due largely to the high concentration of full-service hotels in the CBD submarket, which capture demand from conventions and groups in the city. Limited-service hotels comprise more than 40% of the market's supply, followed by the select-service segment at 7.1%. The relatively small percentage of select-service hotels reflects, in part, a general lack of corporate demand generators, which tend to produce patrons geared to this product type. In some submarkets, however, the select-service segment may be underrepresented, which could provide an opening for a well-advised hotel development.

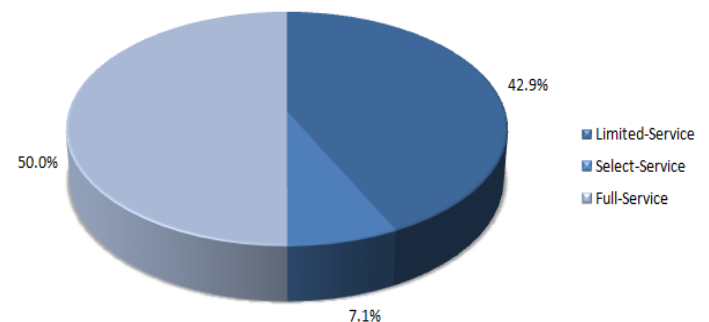
Hotel Performance

The following graph shows occupancy, average daily rate, and RevPAR figures for the Greater New Orleans hotel market since 2004, as reported by Smith Travel Research.

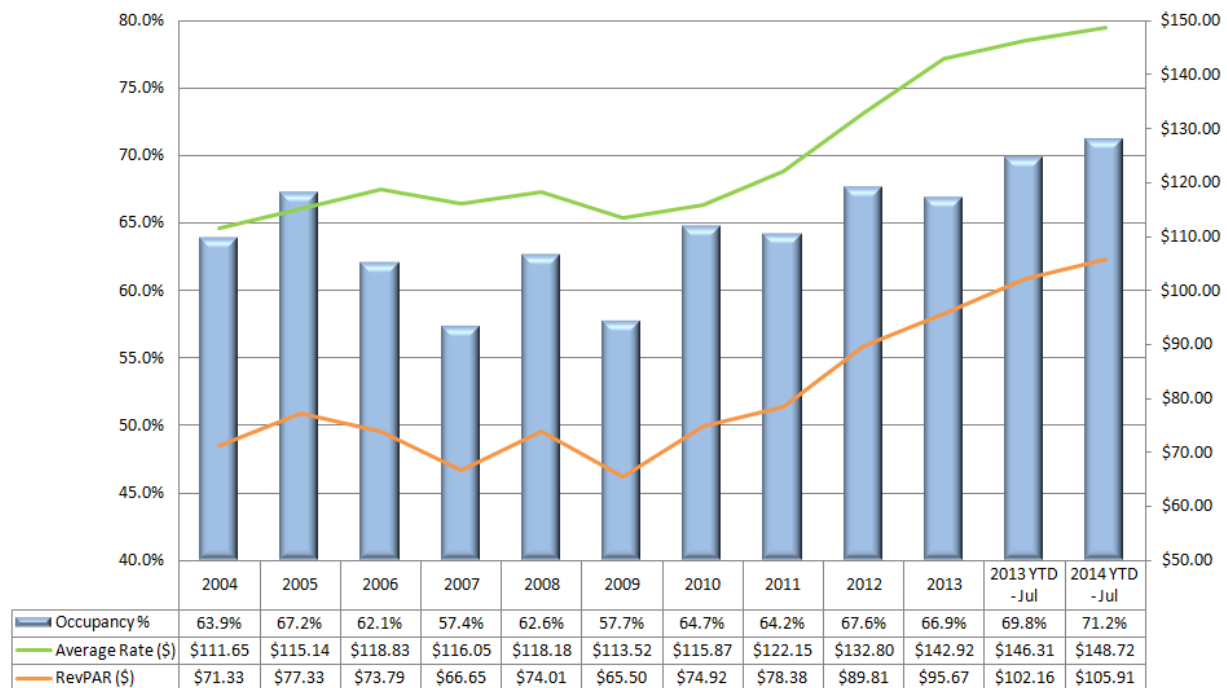
Percentage Rooms by Family Brand



Percentage Rooms by Product Type



Occupancy, ADR, and RevPAR Rising across Greater New Orleans



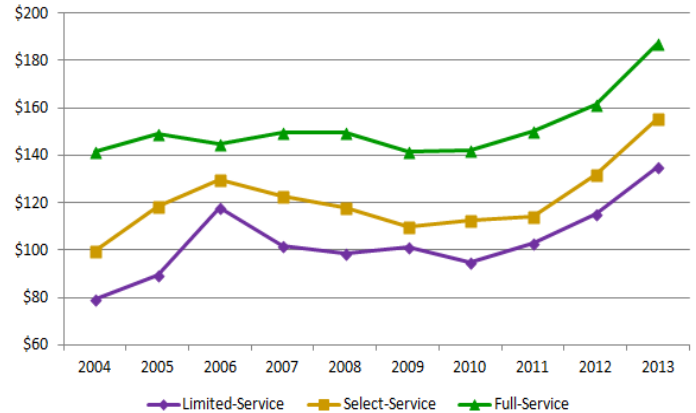
Source: Smith Travel Research

The data can be segmented further by product type. The following graphs are based on a sampling of HVS data for the Greater New Orleans market; these illustrate occupancy and average rate performance for limited-, select-, and full-service hotels since 2004.

Occupancy by Product Type



ADR by Product Type



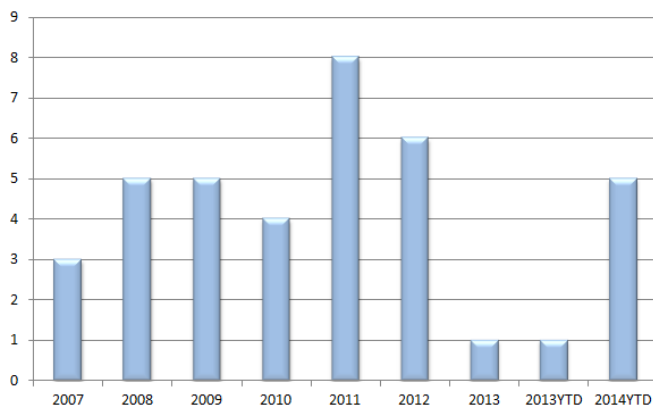
RevPAR in Greater New Orleans has surged since 2009, with a total increase of roughly 46% through the end of 2013. Year-to-date trends through July 2014 show continued increases in both occupancy and average rate, despite the dissipation of Super Bowl demand. These trends cast light on the ongoing increase in visitation to New Orleans, illustrating the growing impact of transient tourism on hotel performance.

Trends among New Orleans' full-, select-, and limited-service hotels appear relatively consistent. All three product types have exhibited strong average rate increases, particularly from 2011 through 2013, largely due to major events such as the BCS National Championship, the NCAA Final Four, and Super Bowl XLVII. In terms of occupancy, the limited-service segment has been somewhat less consistent in recent years, although all three segments have trended within a relatively narrow range. Overall, the full-service segment leads the market, outpacing the area's select- and limited-service hotels in both occupancy and average rate since 2007.

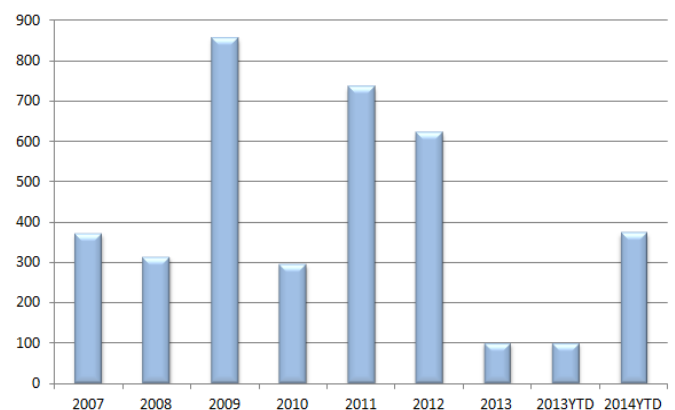
Historical Supply Trends and Pipeline

The following graphs illustrate the number of new hotels and new rooms introduced into the Greater New Orleans market each year since 2007.

New Hotel Openings



Number of New Rooms



While the number of new hotel openings peaked in 2011, the number of rooms introduced to the market peaked in 2009, due largely to the reopening of the 504-room Roosevelt Hotel in that year.¹⁰ The number of new hotels and rooms declined in 2012, and then plummeted in 2013; however, the introduction of new supply is again on the upswing.

The year-to-date period through July 2014 shows a slight increase in the number of new hotels and rooms compared with the same period of 2013. This is a sign that some developers have been able in recent months to overcome the market's traditional high barriers to entry, which include a limited amount of available land (especially in the CBD), limited brand availability, the high cost of converting an existing building, and restrictions imposed on CBD development by regulatory agencies such as the Historic District Landmarks Commission.

The pipeline of confirmed projects in Greater New Orleans, illustrated in the following table, is set to make an impact on the market over the next several years.

Greater New Orleans Development Pipeline

Proposed Hotel	Number of Rooms	Development Stage	Anticipated Opening
CBD/French Quarter			
AC Hotel by Marriott New Orleans Bourbon/French Quarter	220	Under Construction	2014
Aloft New Orleans Downtown	188	Under Construction	2015
South Market District Hotel	234	Under Construction	2015
Julia Street/Baronne Street Hotel	138	Permitting/Approvals	2015
Cambria Suites Warehouse District	178	Permitting/Approvals	2015*
Hyatt House	165	Early Planning	2015*
SpringHill Suites by Marriott/Residence Inn by Marriott	373	Early Planning	2016*
	1,496		
East Bank Jefferson			
Holiday Inn/Candlewood Suites	203	Early Planning	2016*
Best Western Airline Drive	70	Early Planning	2016*
	273		
Northshore			
Holiday Inn Covington Southeast	98	Under Construction	2014
Country Inn & Suites Slidell	73	Under Construction	2015
Holiday Inn Express Slidell Northwest	80	Permitting/Approvals	2015*
	251		
West Bank			
Boomtown New Orleans Hotel	150	Under Construction	2014
Courtyard by Marriott Gretna	123	Under Construction	2015
TownePlace Suites by Marriott Harvey	100*	Under Construction	2015
	373		
Total Rooms	2,393		
<i>*Estimated</i>			

In total, these projects represent a potential increase of 6.4% over the current market-wide supply of 37,548 rooms. The majority of projects are in the CBD/French Quarter submarket, which, as previously noted, hosts the vast majority of the

¹⁰ The figures for 2011 do not include the reopening of 1,193-room Hyatt Regency, which had been closed since Hurricane Katrina.

market's room supply; the influx of new rooms in the CBD/French Quarter roughly matches the percent increase for the market, at 6.7% of the submarket's 22,287 rooms.¹¹

The largest percentage increase is in the less hotel-dense West Bank submarket, with confirmed proposed projects representing 16.9% of the existing room supply of 2,205. This large amount of construction appears to hinge on high barriers to entry in the CBD/French Quarter, to which the West Bank's proximity and more accommodating development landscape make hotel projects more viable at present. Despite the West Bank emerging as the new hotspot for hotel development in New Orleans, the total increase between the West Bank and CBD submarkets is 7.6%, only modestly higher than the market-wide average.

Hotel Transactions

The following table lists all confirmed hotel transactions in Greater New Orleans since the beginning of 2012.

Property	Location	Sale Date	Price	Rooms	Price/Room
O'Keefe Plaza Hotel	New Orleans, Louisiana	Jul-14	\$10,750,000	129	\$83,333
Baymont Inn & Suites New Orleans	New Orleans, Louisiana	Apr-14	\$2,715,000 *	142	\$19,120
Royal Saint Charles Hotel New Orleans	New Orleans, Louisiana	Jan-14	\$25,000,000	143	\$174,825
Loews New Orleans Hotel	New Orleans, Louisiana	Oct-13	\$74,500,000	285	\$261,404
Crowne Plaza Astor New Orleans	New Orleans, Louisiana	Oct-13	\$116,500,000	693	\$168,110
Ambassador Hotel New Orleans	New Orleans, Louisiana	Jul-13	\$15,850,000	165	\$96,061
Cotton Exchange New Orleans French Quarter Downtown	New Orleans, Louisiana	Jun-13	\$17,800,000	223	\$79,821
Royal Sonesta New Orleans	New Orleans, Louisiana	Jun-13	\$120,525,000	482	\$250,052
Orleans Courtyard Inn	Metairie, Louisiana	May-13	\$1,300,000	60	\$21,667
Hilton New Orleans Saint Charles Avenue	New Orleans, Louisiana	May-13	\$59,350,000	250	\$237,400
W New Orleans	New Orleans, Louisiana	Apr-13	\$65,000,000	410	\$158,537
Courtyard by Marriott New Orleans Downtown Convention Center	New Orleans, Louisiana	Mar-13	\$31,500,000	202	\$155,941
Courtyard by Marriott New Orleans Downtown Near the French Quarter	New Orleans, Louisiana	Mar-13	\$26,000,000	140	\$185,714
SpringHill Suites by Marriott New Orleans Downtown	New Orleans, Louisiana	Mar-13	\$33,500,000	208	\$161,058
Courtyard by Marriott New Orleans Metairie	Metairie, Louisiana	Mar-13	\$24,000,000	153	\$156,863
Residence Inn by Marriott Metairie	Metairie, Louisiana	Mar-13	\$20,000,000	120	\$166,667
W New Orleans French Quarter	New Orleans, Louisiana	Mar-13	\$25,500,000	97	\$262,887
InterContinental New Orleans	New Orleans, Louisiana	Jan-13	\$60,000,000	479	\$125,261
Renaissance New Orleans Arts Hotel	New Orleans, Louisiana	Jan-13	\$20,000,000	217	\$92,166
Frenchmen Hotel	New Orleans, Louisiana	Nov-12	\$2,400,000	27	\$88,889
Embassy Suites New Orleans	New Orleans, Louisiana	Oct-12	\$49,500,000	370	\$133,784
Hilton Garden Inn New Orleans French Quarter	New Orleans, Louisiana	Jun-12	\$22,800,000	155	\$147,097
Lafitte Guest House	New Orleans, Louisiana	Mar-12	\$2,117,817	14	\$151,273

*Denotes approximate sale amount

RevPAR increases since 2009 have helped keep the area's transactions market going strong. From 2012 to 2013, sales volume flew from four to sixteen properties, total sales volume rose from \$76.8 million to over \$711 million (more than eight times greater than 2012), and average price per room increased from approximately \$130,000 to \$161,000.

Numerous factors combined to tip the balance toward a seller's market in 2013. First, RevPAR increased approximately 22% from 2011 through the end of 2013.¹² Second, the market gained valuable national exposure from major events such as the 2012 BCS National Championship, the 2012 NCAA Final Four, and Super Bowl XLVII. Lastly, a number of hotel assets became available that investors saw as having significant upside potential, particularly with respect to operations; with renovations, retooling, and re-staffing providing for greater profit potential, these properties were perceived as too good to pass up.

It is true that 2014 sales volume has declined from the remarkable levels realized last year, though the year so far still shows improvement over transaction levels for the comparable period of 2012. Three transactions have closed thus far this year, above

¹¹ The Ernest N. Morial Convention Center has announced a hotel as part of the convention center's planned Phase V expansion; however, exact details of this project have not been set forth.

¹² Smith Travel Research

the two that occurred in the same period of 2012. Volume is down from just over \$520 million to \$38.5 million in year-to-date 2014, but is still up over the \$24.9 million for the same period of 2012.

At roughly \$92,000, average price per room in 2014 is down over both comparable periods of 2012 (\$149,000) and 2013 (\$154,000). This is largely due to the inclusion of the sale of the Baymont Inn & Suites New Orleans, which sold at approximately \$19,000 per key. Without that sale, average price per room for 2014 stands at \$129,000, a closer comparison with the last two years, with the remaining variance attributed to the small sample size of two sales in both 2014 and 2012.

Conclusion

The run of major events in Greater New Orleans in recent years has done more than briefly boost the market; in fact, developments and hotel performance have gained momentum well into 2014, and the market shows no signs of slacking. Furthermore, this strong performance continues to draw investors and brands to New Orleans that previously had no presence in the city. These include lifestyle brands such as Aloft and the first AC Hotels by Marriott property in North America, which is scheduled to open in the CBD in October of 2014.

The city lost a bid for the 2018 Super Bowl, and the opening of new supply will likely slow the tremendous growth realized since 2011. Even given a slowdown in major events and increasing supply, there is little doubt that the Greater New Orleans economy and lodging market have emerged upon a “new normal” of growth and prominence in the national arena, lending an overall positive outlook for the city’s hotels.



Source: <http://www.superdome.com/>



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About the Author



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