

BUSINESS BRIEFING

MORE THAN A GUESSING GAME

NUMBER CRUNCHING AND MARKET COMPARISONS
SHED LIGHT ON HOTEL DEMAND

AUGUST 2008 | A VALUATION ADVISORY SERVICES PUBLICATION

CONTENTS

- 1 An interesting comparison
- 4 Conclusion

Cushman & Wakefield, Inc.
51 West 52nd Street
New York, NY 10019-6178
Tel (212) 841-7500
www.cushmanwakefield.com

EXECUTIVE SUMMARY

In recent years, particularly in the past 12 months, much has been written about where hotel room night demand is going. It has largely been a guessing game taking into account various macroeconomic metrics and prevailing wisdom, until now. In this briefing, we show the close and revealing relationship between office and hotel occupancy.

AN INTERESTING COMPARISON

Cushman & Wakefield has closely examined all major urban business centers and their respective hotel markets around the US and has found that, for many of these markets, the relationship between occupied office space and room night demand is undeniable, even though it varies by city and is stronger in some metro areas than others. Of the nation's largest markets, we have excluded for this briefing those with comparatively small office markets and/or those that are more leisure-focused (Orlando, Oahu, Norfolk-Virginia Beach, etc.).

The chart on page 2 shows the relationship by year for Washington, DC, one of the markets with the strongest correlation. While Washington, like others under study, benefits from demand sources other than occupied office space (leisure travelers, convention attendees, group travel, etc.) the historical relationship between occupied office space and occupied hotel rooms remains largely intact. In the case of the Nation's Capital, an average of approximately 263 room nights are generated per year for every 1,000 square feet of occupied office space per year. Without getting too deep into statistical analysis, the standard deviation of the annual relationship is 6.1, meaning that there is a high probability that the annual number of room nights generated in the city will be within 257 to 269 per 1,000 square feet of occupied office space.



CHART 1: WASHINGTON, D.C. ANNUAL HISTORIC OFFICE AND HOTEL STATISTICS

Year	Rounded Average Occupied Office Space (1)	Hotel Room Supply (2)	Occupied Hotel Rooms (2)	Occupied Annual Business Hotel Rooms/1,000 SF of Occupied Office Space	Hotel/Occupancy ²
1995	72,367,906	73,983	18,383,671	254.0	68.08%
1996	72,281,843	74,786	18,468,431	255.5	67.66%
1997	72,382,576	75,342	19,209,044	265.4	69.85%
1998	75,429,644	77,289	19,535,319	259.0	69.25%
1999	76,529,212	79,692	20,340,252	265.8	69.93%
2000	79,152,806	82,297	21,645,090	273.5	72.06%
2001	77,879,561	84,960	20,273,955	260.3	67.38%
2002	78,191,684	86,154	20,562,141	263.0	65.39%
2003	81,076,626	87,114	21,116,511	260.5	66.41%
2004	84,641,591	88,422	22,803,062	269.4	70.65%
2005	85,024,342	89,830	23,388,915	275.1	71.33%
2006	87,242,936	91,273	22,762,442	260.9	68.33%
2007	88,382,755	92,242	23,072,437	261.1	68.53%
<i>Average 1995-2007</i>	<i>79,000,000</i>	<i>83,337</i>	<i>20,889,328</i>	<i>263.3</i>	<i>68.67%</i>
<i>Standard Deviation 1995-2007</i>				<i>6.1</i>	

Forecast Annual Business Occupied Hotel Rooms/1,000 SQ of Occupied

(1) Cushman & Wakefield Analytics, inclusive of tenant & owner occupied office buildings
(2) Source: Smith Travel Research

One can make a reasonably well-supported projection of room-night demand, once a reliable indicator of occupied office space is established.

The change in occupied office space is reported as absorption. This figure takes into account leases being signed for new or additional space less space anticipated to go vacant. The difference between the two is the net change in occupied office space. This figure can be positive or negative.

Presented in the chart on page 3 is a summary of the statistics for the 18 markets studied. As mentioned earlier, the relationships vary as do the standard deviations. The total room nights by market are, of course, also dependent on the room-night generating propensity of the market's office tenants, non-commercial demand generators, and large one-time city-wide events such as political conventions. It goes without saying that extraordinary events such as the attacks of September 11, 2001, and the current credit crisis will impact hotel occupancy independent of occupied office space. Nevertheless, particularly for those markets with low-standard deviations, one can make a reasonably well-supported projection of room-night demand, once a reliable indicator of occupied office space is established.



CHART 2: OFFICE/HOTEL RELATIONSHIPS

Market	Occupied Rooms/1K Occupied Office Space	Standard Deviation ²
1 Manhattan	48.8	3.1
2 Atlanta	206.6	10.1
3 Boston	87.9	6.2
4 Chicago	132.1	4.1
5 Dallas	116.7	4.8
6 Denver	110.9	2.9
7. Detroit	147.4	12.0
8 Houston	99.7	9.2
9 Los Angeles	942.9	38.4
10 Miami	350.3	37.9
11 Orange County	228.2	18.9
12 Philadelphia	100.4	5.3
13 Seattle	237.5	14.4
14 Tampa	429.3	35.1
15 Washington, DC	263.3	6.1
16 Minneapolis-St. Paul	134.0	6.0
17 Nashville	338.1	18.1
19 St. Louis	199.0	6.1

The prediction of the ebb and flow of demand for office space is by no means an exact science. Significant office leases in major markets, however, are typically signed for a minimum of five to a maximum of 20 years. The activity surrounding the movement of these major tenants is well publicized, whether it involves a new or existing building. Similarly, global real estate services companies, such as Cushman & Wakefield, make it their business to know which major tenant leases are expiring and whether the tenant plans to expand, contract, or move out of the market.

The nature of office leases therefore enables us to predict the near-term future of the office market far more effectively than that of the hotel market. For example, in Washington, a total of 3.83 million square feet of office space is expected to be absorbed during 2008 and 2009. Based on historical data then, an additional 1.0-plus million room nights can be expected to be added to that market in that period (3.83 million square feet of occupied office space, divided by 1,000, multiplied by 263 per 1,000 square feet of occupied office space = 1,007,290 annual room nights).

Of course, to determine what this means for an individual property, other factors would have to be considered including the hotel's ability to capture that additional demand, the city's hotel supply pipeline, the anticipated market occupancy rate, and displaced demand.

For those markets with a strong relationship and for which office market statistics were available as of the writing of this article, we have projected the anticipated change in room night demand for 2008 and 2009 in the table on page 4. The markets with the brightest prospects include Washington, DC, Atlanta, and Nashville. Those coming out on the losing end include Manhattan and Orange County.



CHART 3: PROJECTED OFFICE SPACE ABSORPTION AND ROOM NIGHT IMPACT BY MARKET 2008-2009

Market	Occ. Rms/1K Occ.Off. Space	Anticipated Office Absorption			Projected Change in Room Nights 2008-09 ²
		2008	2009	Total	
Manhattan	48.8	(6,019,000)	(3,095,000)	(9,114,000)	(444,550)
Atlanta	206.6	1,840,000	2,649,000	4,489,000	927,483
Boston	87.9	784,000	3,035,000	3,819,000	335,722
Chicago	132.1	(1,418,000)	3,252,000	1,834,000	242,235
Dallas	116.7	1,711,000	3,392,000	5,103,000	595,634
Denver	110.9	2,003,000	614,000	2,617,000	290,224
Detroit	147.4	138,000	767,000	905,000	133,335
Houston	99.7	2,136,000	2,330,000	4,466,000	445,168
Miami	350.3	204,000	1,024,000	1,228,000	430,207
Orange County	228.2	(964,000)	303,000	(661,000)	150,818
Philadelphia	100.4	360,000	360,000	720,000	72,303
Seattle	237.5	720,000	1,240,000	1,960,000	46,458
Tampa	429.3	(351,000)	428,000	77,000	33,060
Washington, DC	263.3	1,720,000	2,110,000	3,830,000	1,008,571
Minneapolis-St. Paul	134.0	158,000	1,130,000	1,288,000	172,592
Nashville	338.1	1,470,000	1,145,000	2,615,000	884,165
St. Louis	199.0	260,000	981,000	1,241,000	246,924

CONCLUSION

Though there will never be an airtight way to predict hotel room night demand, an analysis of the office market in certain cities can provide an excellent indicator that could, at the very least, help inform business plans.



A VALUATION ADVISORY SERVICES PUBLICATION

ABOUT THE CUSHMAN & WAKEFIELD VALUATION ADVISORY SERVICES GROUP

The Valuation Advisory Services Group, a part of Cushman & Wakefield Capital Markets, is the largest, fully integrated real estate valuation organization in the world. We deliver measurable value to our clients through appraisal services, highest and best use analysis, dispute analyses and litigation support, while also offering specialized expertise in various industry sectors. As well, with valuation professionals in 70 offices, located in 43 countries, we are uniquely qualified to undertake large, multi-location portfolio assignments. We offer our clients specialized expertise in the following areas:

- Affordable Housing
- Agribusiness
- Appraisal Management
- Corporate Finance Consulting
- Dispute Analysis & Litigation Support
- Due Diligence
- Golf
- Government Affairs
- Hospitality & Gaming
- Location Incentives
- Portfolio Valuation
- Residential Development
- Retail
- Self Storage
- Senior Housing/Healthcare

For more information, please contact:

Eric B. Lewis, MAI, MRICS
Managing Director, Industry Leader
Hospitality & Gaming Group
Cushman & Wakefield, Inc.
51 West 52nd Street
New York, NY 10019-6178
Tel: 212.841.5964
Fax: 212.841.7849
eric.lewis@cushwake.com

Mark D. Capasso
Managing Director | Co-Leader
Hospitality & Gaming Group
Cushman & Wakefield of CA, Inc.
601 South Figueroa Street, 47th Floor
Los Angeles, CA 90017-5752
Phone 213.955.6442
Fax 213.627.4044
mark.capasso@cushwake.com
www.cushmanwakefield.com/valuation

Cushman & Wakefield is known the world-over as an industry knowledge leader. Through the delivery of timely, accurate, high-quality research reports on the leading trends, markets around the world and business issues of the day, we aim to assist our clients in making property decisions that meet their objectives and enhance their competitive position.

In addition to producing regular reports such as global rankings and local quarterly updates available on a regular basis, Cushman & Wakefield also provides customized studies to meet specific information needs of owners, occupiers and investors.

Cushman & Wakefield is the world's largest privately held commercial real estate services firm. Founded in 1917, it has 221 offices in 58 countries and more than 15,000 employees. The firm represents a diverse customer base ranging from small businesses to Fortune 500 companies.

It offers a complete range of services within four primary disciplines: Transaction Services, including tenant and landlord representation in office, industrial and retail real estate; Capital Markets, including property sales, investment management, valuation services, investment banking, debt and equity financing; Client Solutions, including integrated real estate strategies for large corporations and property owners; and Consulting Services, including business and real estate consulting. A recognized leader in global real estate research, the firm publishes a broad array of proprietary reports available on its online Knowledge Center at www.cushmanwakefield.com

Published by Corporate Communications. For more market intelligence and research reports, visit Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com

© 2008 Cushman & Wakefield, Inc.
All rights reserved.
Printed in USA.
Cushman & Wakefield, Inc.
51 West 52nd Street
New York, NY 10019-6178

This report has been prepared solely for information purposes. It does not purport to be a complete description of the markets or developments contained in this material. The information on which this report is based has been obtained from sources we believe to be reliable, but we have not independently verified such information and we do not guarantee that the information is accurate or complete.