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How cost of living impacts market performance

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Story Highlights

Adjusting RevPAR and ADR for all markets lend clarity to hotel performance figures.

New York goes from the No. 1 spot to No. 8 in adjusted ADR rankings because its cost of living index is the highest of the markets.

RevPAR adjustments do not vary as drastically from the original data as when looking at rates. HENDERSONVILLE—There has been quite a bit of discussion lately at STR regarding how to determine the best performing hotel market in the United States for 2011.

One method of doing so would be to simply look at which market leads in revenue per available room. While this is an important measure, the answer is obvious and widely known to be New York. So rather than looking for the highest RevPAR, we at STR, parent company of HotelNewsNow.com, concluded that some sort of adjustment should be made to the markets' revenues based on all other prices in the market.

New York is a perfect example of why this is necessary. Typically any good sold in New York will go for more than a comparable good sold in Detroit. Saying the good sold in New York simply performed better ignores that the market itself is more expensive.

We are interested in seeing which hotels succeeded the most aside from pre-existing market conditions. This article focuses on the first step taken in the process: adjusting ADR and RevPAR for cost of living.

Cost of living and adjusted ADR

While cost of living is certainly not a perfect indicator of price levels for STR's specific hotel markets, it gives a very good estimate of the relative price levels between the greater markets. Table 1 below shows the top 10 U.S. markets in terms of both ADR and cost-of-living-adjusted ADR for year-end 2011. The cost-of-living indices used here were obtained from the Bureau of Labor Statistics and were calculated using the MSA boundaries of the markets below.

Table 1										
	ADR				Adj ADR					
	Segment	ADR			Segment	Adj ADR				
1	Maui Island, Hawaii	\$246.36		1	Boston	\$147.82				
2	New York	\$244.68		2	Maui Island, Hawaii	\$147.43				
3	Oahu Island, Hawaii	\$164.82		3	Miami-Hialeah	\$142.07				
4	San Francisco/San Mateo	\$155.15		4	Fort Myers, Florida	\$126.77				
5	Miami-Hialeah	\$153.01		5	New Orleans	\$126.13				
6	Boston	\$147.82		6	West Palm Beach-Boca Raton, Florida	\$122.16				
7	Washington, DC-Maryland-Virginia	\$144.84		7	Austin, Texas	\$112.40				
8	West Palm Beach-Boca Raton, Florida	\$134.26		8	New York	\$112.09				
9	San Diego	\$126.02		9	Pittsburgh	\$111.14				
10	Los Angeles-Long Beach	\$123.10		10	Charleston, South Carolina	\$110.28				

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You immediately see that New York drops from second in the unadjusted ADR rankings to eighth in the adjusted ADR rankings, as its cost of living index (218.3) is the highest of the markets taken into consideration.

Maybe the most surprising leap here is Boston, which went from sixth to the top spot in the adjusted rankings.

The ADRs are the same in both tables for Boston because the cost of living index for the city in 2011 was 100, perfectly average. So while the cost of living adjustment for New York drops the ADR a staggering \$132.59, Boston's is unchanged and jumps to No. 1 in the rankings.

Other markets that saw a notable rankings increase from the adjustment include Fort Myers, Florida, and New Orleans, which found themselves in the top five after having not been ranked before. Notable rankings decreases belonged to San Francisco and Oahu Island, Hawaii, which understandably have very high costs of living.

Cost of living and adjusted RevPAR

The next logical progression would be to apply these cost-of-living indices to the market RevPARs, which is shown in Table 2.

Table 2										
	RevPAR				Adjusted RevPAR					
	Segment	RevPAR			Segment	Adj RevPAR				
1	New York	\$198.57		1	Miami-Hialeah	\$107.40				
2	Maui Island, Hawaii	\$172.99		2	Boston	\$105.12				
3	Oahu Island, Hawaii	\$133.13		3	Maui Island, Hawali	\$103.53				
4	San Francisco/San Mateo	\$122.48		4	New York	\$90.96				
5	Miami-Hialeah	\$115.67		5	New Orleans	\$80.91				
6	Boston	\$105.12		6	West Palm Beach-Boca Raton, FL	\$79.45				
7	Washington, DC-Maryland-Virginia	\$97.62		7	Oahu Island, Hawaii	\$78.08				
8	Los Angeles-Long Beach	\$88.31		8	Pittsburgh	\$75.62				
9	West Palm Beach-Boca Raton, Florida	\$87.32		9	San Francisco/San Mateo	\$74.87				
10	San Diego	\$86.78		10	Austin, Texas	\$74.73				

When taking occupancies into account, the results do not vary as drastically from the original data as when looking at rates. Markets such as Miami, New York, Oahu and San Francisco that have strong occupancies faired much better here than in the previous adjusted ADR rankings.

New Orleans surprisingly managed to stay in the fifth spot again in the adjusted rankings with its solid occupancy and low cost of living index of 97. Los Angeles, San Diego and Washington D.C., dropped out of the top 10 with the adjustment as well, since all three have a cost-of-living index greater than 130. Pittsburgh and Austin, Texas, cracked the top 10 again, with cost-of-living indices of 94.2 and 93.4, respectively.

Although this data might not necessarily represent the best performing markets without taking growth patterns into account, they do bring to light several markets that are excelling in hotel performance that are not normally recognized.

Using the cost-of-living adjustment as a rough proxy for the cost of operating a hotel, this analysis illustrates the most efficient markets in terms of revenues for 2011. This is only a first step in the process of determining a best performing market though, and we will have updates to the process to follow.

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