


The Lodging Market Potential Index (L-MPI©) Ranking of Major Lodging Markets in the United States

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Executive Briefing: The Lodging Market Potential Index (L-MPI©) as a systematic and formal analysis was developed as a joint project between The School of Hospitality Business, MSU-CIBER, and globalEDGE to identify aggregate market potential and ranking for major lodging markets in the USA in 2009. Faculty researchers from The School of Hospitality Business at Michigan State University presented the index at the Midwest Lodging Investors Summit (MLIS) in Chicago, in July 2011. This article presents the complete index (L-MPI©), which covers the 25 largest market areas (as tracked by Smith Travel Research) that show the long term potential of lodging investments.

 As a first step in hotel development, investment and acquisition decisions, this index identifies market areas that show long term potential for hotel investment. It will enable hotel developers and investors to conduct a relative comparison of the 25 largest lodging markets along several dimensions. Each dimension is measured using indicators and is weighted to determine their contribution to the overall market potential index¹. The ten dimensions and the corresponding weights are shown in Exhibit -1. To measure the performance of each dimension, objective, credible, reliable and quantifiable indicators were identified. The indicators for each dimension are shown in Table -1 and the geographic distribution of the 25 cities tracked by the index is illustrated in Exhibit-2.

Lodging Market Potential Index Ranking and Index Scores: 2010-2011

The L-MPI© city rankings are shown in Table- 2, and present the city ranking and index scores for summer 2011 and summer of 2010. The table also lists the positive and negative changes in the city rankings. We have analyzed below the performance of the top five cities, bottom five cities and those with the most significant change from summer 2010 index. The Lodging Market Potential Index may be accessed from

¹ The L-MPI uses separately available data from government and business sources at the regional and market level to create an aggregate market potential index. Refer to the article, "L-MPI: A New Tool for Hotel Investment," in the October 2009 issue of Lodging Hospitality, for a detailed description of the development of the Lodging Market Potential Index.

<http://www.bus.msu.edu/shb/>. The interactive index allows you to rank the individual dimensions of the index.

High Performance Cities Based on Lodging Market Potential

San Francisco ranked number one in the summer L-MPI, with a score of 100. This was primarily due to its overall economic stability (Rank: 6), strong performance of the market consumer power strong market performance (Rank:5), strong hotel market performance (Rank: 3) mainly due to a high REVPAR, as a result of strong market occupancy and a relatively high growth in hotel market performance as measured by REVPAR (Rank: 1).

New York City shifted its rank to second place in the overall index, compared to the summer of 2010. The key drivers for New York's performance have been its large economic base, albeit growing at a slower pace, strong purchasing power in the market, and tourism trends, which have resulted in a strong hotel market performance, as compared to the other 24 cities in the cohort analyzed. Some of the factors impacting New York's ranking include: Tourism Growth: shifted downward from 5 to 14, Commercial real estate showed strong performance and moved from 15 to 1 and Ranking for hotel market performance growth moved from 7 to 5.

Oahu Island moved up in ranking from 7 in the summer of 2010 to number 3 in the summer of 2011. The key drivers of the change in ranking were tourism growth, constrained room supply growth and strong hotel market performance growth in hotel market performance. Hawaii being primarily a leisure destination this could be an indication of the resurgence of leisure travel.

Denver moved up in ranking slightly from the previous summer to 4. This was primarily due to a strong performing commercial real estate sector and controlled room supply growth. Its ranking in economic stability, tourism trends and growth in market performance were strong contributing factors. Its average REVPAR growth for the past 5 years was over 15 percent, driven mainly by growth in Average Daily Rate. A possible explanation is growth in business travel demand as evidenced by high commercial real estate absorption.

Boston maintained its ranking in the top 5 markets however it slipped from 3rd ranked in the summer of 2010 the number 5 spot on the L-MPI summer 2011 ranking in 2011. Its primary drivers were a strong base of consumer purchasing power (Rank:3), a high relative growth in REVPAR (Rank: 3) and a relatively strong commercial real estate sector performance (Rank: 6) and strong hotel market performance (Rank: 5). However, the hotel market supply absorption reduced from its Rank 1 in the summer of 2010 to 17 in 2011. This may be an indication of a market that's heating up.

Major Negative Shifts in Market Performance

The L-MPI© is a relative ranking of the 25 major hotel markets in the USA. Besides the top five market performers, there were 5 markets that showed significant negative shifts in ranking. **Atlanta**, which was ranked 11 in the summer of 2010, moved down to 20 this year. The major factors impacting the lower relative rank include a weak growth in macro economic and business trends, primarily unemployment, tourism and commercial real estate performance. These had a negative impact on market performance. **Phoenix** which was ranked 20 last summer, dropped to last place at 25 in the 2011 summer index. Its weakest performance indicators commercial real estate and hotel market performance. In addition, weak market absorption and weak hotel performance continue to plague the market. In general Phoenix seems to be part of the generally weak Sunbelt markets which include Houston, New Orleans and Dallas. All these markets either remained static or lost ground since last summer. Along with Phoenix, **Houston** was the weakest in this region and dropped from Rank 15 last summer to rank 21 in 2011. Market factors were the contributing factors for their weak performance which included tourism and hotel performance. While **Washington DC** still ranked relatively high on the index (Rank: 10) it dropped from a rank of 4 since last summer. Low growth in tourism, excessive room inventory impacted its occupancy percentage which dropped from the previous year. Finally, **Nashville** also dropped in ranking 10 to 14 as a result of weak macro economic indicators, consumer purchasing power and growth in occupancy.

In addition to the significant negative shifts noted in the markets Orlando and Tampa continue to rank low on the L-MPI at 22 and 24 respectively. These markets show very weak growth in market performance and remain relatively overbuilt. The most interesting change was Detroit as it moved up from 24 to 23 in its ranking. While its market performance is still weak, supply has been constrained and tourism is growing. This could be a city to watch for a niched resurgence in certain submarkets.

Major Positive Shifts in Market Performance

The L-MPI showed a positive shift in relative rankings in six of the 25 cities. The greatest positive shift in ranking was **Norfolk**, which moved from Rank 25 in 2010 to Rank 15 this year. All direct indicators of performance, tourism, commercial real estate, limited hotel supply growth, and hotel market performance showed a positive trend. Justin Epps, with Jones Lang LaSalle Hotels, a panelist noted Norfolk may have been helped with the growth in the Naval and government business market segments. **Chicago** showed much improvement by moving from a rank of 16 to 8. Panelists in the General session at the Midwest Lodging Investor Summit reinforced the growing strength of the Chicago market as they mentioned, increase in investment activity, resurgence of a manufacturing based, constrained hotel room supply and a slowing down of the attrition of the convention market which had been a problem due to trade union induced cost increases. These sentiments matched the positive trend with the market indicators in the L-MPI, which included commercial real estate performance, tourism trends and hotel market supply and absorption. The improving trends in **Minneapolis**, and **St Louis**, seem to be part of the general growth in the Midwest which has historically seen low growth rates.

Conclusion

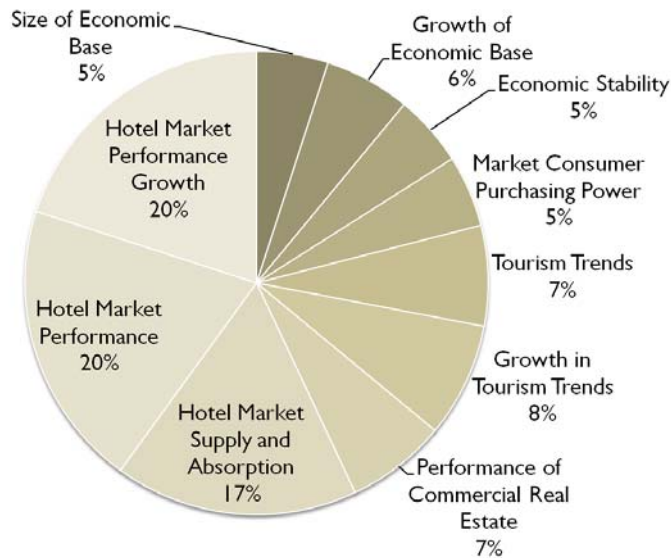
The School of Hospitality Business in collaboration with the Center for International Business Education and Research will publish the Lodging Market Potential Index annually. The overall scores and city ranks are a function of the 10 Dimensions and 30 indicators. We have attempted to analyze a select number of cities to illustrate a way to interpret the index. For a detailed review of all the cities in the index or a city that you are particularly interested in, please visit:

<http://globaledge.msu.edu/resourcedesk/lmpi/>

The interactive feature of the Lodging Market Potential Index will allow you to rank each city based on the ten dimensions identified that impact the overall ranking.

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Exhibit-1 Lodging Market Potential Dimensions and Weights



Note: The percentage (%) by each dimension is the weighting of the dimension.

Table-1 Dimension Indicators

Dimensions	Indicators			
	# 1	# 2	# 3	# 4
Size of Economic Base	Regional GDP	Population	Total Employment	FIRE/Wholesale Trade/Services Employment
Growth of Economic Base (5 Years)	GDP Growth	Population Growth	Employment Growth	FIRE/Wholesale Trade/Services Employment Growth
Economic Stability (5 Years)	Volatility in GDP	Volatility in Population	Volatility in Total Employment	Volatility in FIRE/Wholesale Trade/Services. Employment
Market Consumer Purchasing Power	Per Capita Personal Income	Unemployment	Total Retail Sales	Eating/Drinking Place Sales
Tourism Trends	Enplanements			
Growth in Tourism Trends (5 Years)	Growth in Enplanements			
Performance of Commercial Real Estate	Office Space Vacancy	Retail Space Vacancy	Office Net Absorption	Retail Net Absorption
Hotel Market Supply and Absorption	Room Inventory Absorption (% change supply less % change demand)	New Hotel Supply Construction Pipeline		
Hotel Market Performance	Annual ADR	Occupancy %	RevPAR	
Hotel Market Performance Growth (5 Years)	Growth in ADR	Growth in Occupancy%	Growth in RevPAR	

Exhibit-2 Lodging Markets Identified for L-MPI ©

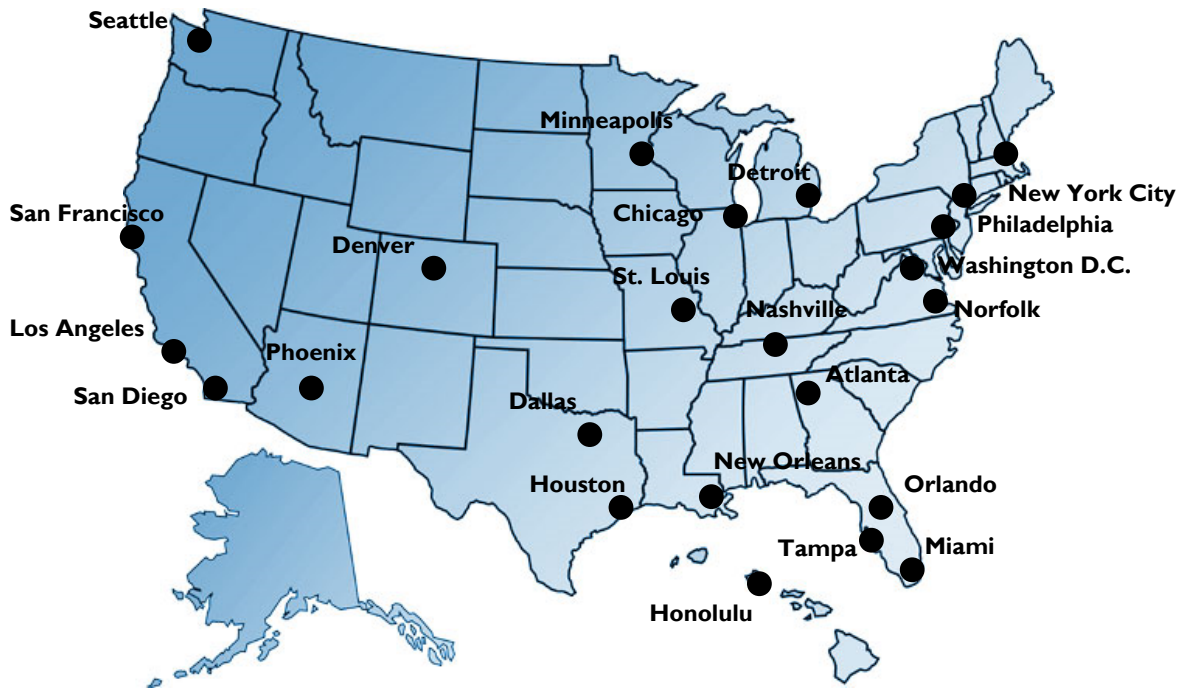


Table-2 Lodging Market Potential Index Overall Rankings: Summer 2011 vs. Summer 2010

City	Rank Summer 2010	Rank Summer 2011	Change Rank	Index Summer 2010	Index Summer 2011	Change Index
New York City	1	2	-1	100	99	-1
San Francisco	2	1	+1	91	100	+9
Boston	3	5	-2	88	72	-16
Miami	4	6	-2	85	69	-16
Denver	5	4	+1	78	77	-1
Washington D.C.	6	10	-4	69	62	-7
Oahu Island	7	3	+4	64	96	+32
Seattle	8	9	-1	59	63	+4
Los Angeles	9	7	+2	58	67	+9
Nashville	10	14	-4	56	41	-15
Atlanta	11	20	-9	46	29	-17
Philadelphia	12	11	+1	45	56	+11
San Diego	13	19	-6	44	35	-9
Dallas	14	16	-2	44	41	-3
Houston	15	21	-6	43	28	-15
Chicago	16	8	+8	40	63	+23
New Orleans	17	17	0	39	38	-1
Minneapolis	18	13	+5	38	50	+12
Anaheim	19	12	+7	36	52	+16
Phoenix	20	25	-5	20	1	-19
St Louis	21	18	+3	17	37	+20
Tampa	22	24	-2	15	18	+3
Orlando	23	22	+1	13	26	+13
Detroit	24	23	+1	2	19	+17
Norfolk	25	15	+10	1	41	+40

Note: Access the full interactive Lodging Market Potential Index at <http://globaledge.msu.edu/resourcedesk/Impi/>

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