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

By A.J. Singh, Raymond S. Schmidgall
and Tunga Kiyak

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 have published the index annually and presented it at investment conferences for the past three years. Based on user feedback, the index is being recognized by those in the hotel investment community as a reference tool for the long term market potential for hotel investments. This article presents the comparative change in the index (L-MPI©), for the 25 largest lodging market areas (as tracked by Smith Travel Research) in 2012 as compared to scores in 2011.

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 underlined dimensions. Each dimension is measured using indicators and is weighted to determine their contribution to the overall market potential index. [1] 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: 2011-2012

The L-MPI© city rankings are shown in Table-2, and present the city ranking and index scores for summer 2012 and summer of 2011. The table also lists the positive and negative changes in the city rankings. We

---

[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.

have analyzed below the performance of the top five cities, bottom five cities and those with the most significant change from the summer 2011 index. The Lodging Market Potential Index may be accessed from http://globaledge.msu.edu/LMPI. The interactive index allows you to rank the individual dimensions of the index.

High performance cities based on Lodging Market Potential

San Francisco, New York City and Oahu Island, maintained their ranking as the top three ranked cities respectively based on market potential this year as well. However, when analyzing the three cities the drivers of their ranking were slightly different based on the dimensions and related indicators of performance. While all three scored very high in terms of hotel market performance (occupancy, room rate and REVPAR), other underlying indicators influencing market ranking differed between these cities. In the case of **New York**, its large economic base, market consumer purchasing power, tourist trends and commercial real estate performance had a very strong impact on its ranking. On the other hand, the city continued to add hotel rooms to the supply, most of which seem to be well absorbed as the city was the leader in hotel market performance (Rank:1). For **San Francisco**, in addition to its market performance, its overall growth in hotel market performance for the past five years (Rank: 4), market consumer purchasing power, tourism growth and commercial real estate performance (all Rank: 5) were the key influencers on the index scores. The underlying factors influencing **Oahu's** ranking were its very strong market performance growth for the past 5 years (Rank:2), strong commercial real

globalEDGE BUSINESS review

estate performance (Rank:1), limited growth of new hotel supply and a relatively stable macro-economic environment (Rank: 2). It is also notable that Oahu moved up in ranking from 7 in 2010 and has maintained its overall rank of 3 since last year.
.

New Orleans, when it was first covered in the Index in the spring of 2010, it ranked a dismal 22 in overall market potential an obvious aftermath of the hurricane Katrina in 2005, which devastated the city's economic base and tourism infrastructure. However, by the summer of 2010, its ranking improved to 17, which it maintained until last year. However, New Orleans is definitely on a very strong comeback trail as its market potential ranking has propelled it to the 4th place in the overall L-MPI ranking. This surge has been strongly influenced by a very strong growth in its economic base, tourism traffic and market performance, where all three are ranked 1 and 2 respectively in the calculated index.

Boston maintained its ranking in the top 5 markets however it slipped from its 3rd rank in the summer of 2010. Its primary drivers were a strong base of consumer purchasing power (Rank:3), a high relative growth in hotel market performance for five years (Rank: 3). However, its hotel market supply absorption and weakening commercial real estate market are impacting its ranking and something market watchers may want to monitor, as they may be red flags. A parallel case that market watchers may want to compare is **Denver**, which was ranked 4 on the index last year (2011) but has since dropped to 9, influenced by lower hotel room absorption and a weakening commercial real estate market, despite having strong tourist growth numbers for the past five years.

Major Positive Shifts in Market Performance

While New Orleans tremendous resurgence to an overall rank of 4 in the Index was discussed earlier in the article, Houston also has enjoyed a major resurgence. It was ranked 21 in 2011 but rose to number 7 in 2012. While its hotel market performance is still relatively low (Rank: 16), it has shown marked improvement in hotel market performance growth, commercial real estate

performance, and hotel market supply absorption. All these point towards a resurging market. Nashville has moved up in ranking from 14 to 8 in 2012, mainly due to constrained hotel supply and strong performance in real estate markets. This has helped its long term market performance growth ranking. Furthermore it should be noted that the summer floods of 2010, would have impacted the city's performance in 2011, when its ranking dropped from 10 (in 2010) to 14 in 2011. Therefore, the 2012 market rank (Rank: 8) appears to be closer to its 2010 rank of 10.
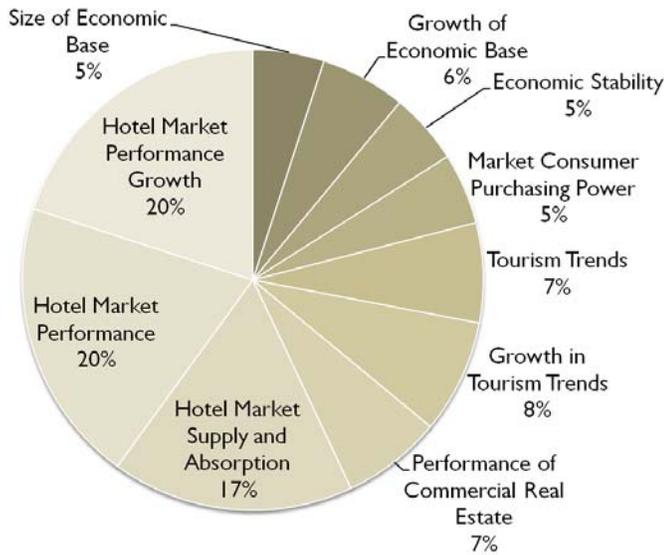
Major Negative Shifts in Market Performance

Several lodging markets had negative shifts in their ranking such as Denver, Los Angeles, Chicago, Seattle, Washington DC, Philadelphia, Minneapolis, and Dallas, ranging from -1 to -5. However, two markets, Norfolk and Anaheim showed major negative shifts in their ranking of -8 and -9 respectively. In the case of Norfolk this was surprising as we reported an improvement last year from rank 25 (2010) to rank 15 (2011). However, this year Norfolk ranked at the bottom at 23 a change influenced by a low growth in tourist arrivals. In the case of Anaheim, all market performance and underlying indicators turned negative in 2012, hence a drop of 9 points in its ranking from 12 to 21.

Conclusion

The School of Hospitality Business 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/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.

♦ **gBR Article 07-01, Copyright © 2013.**

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	

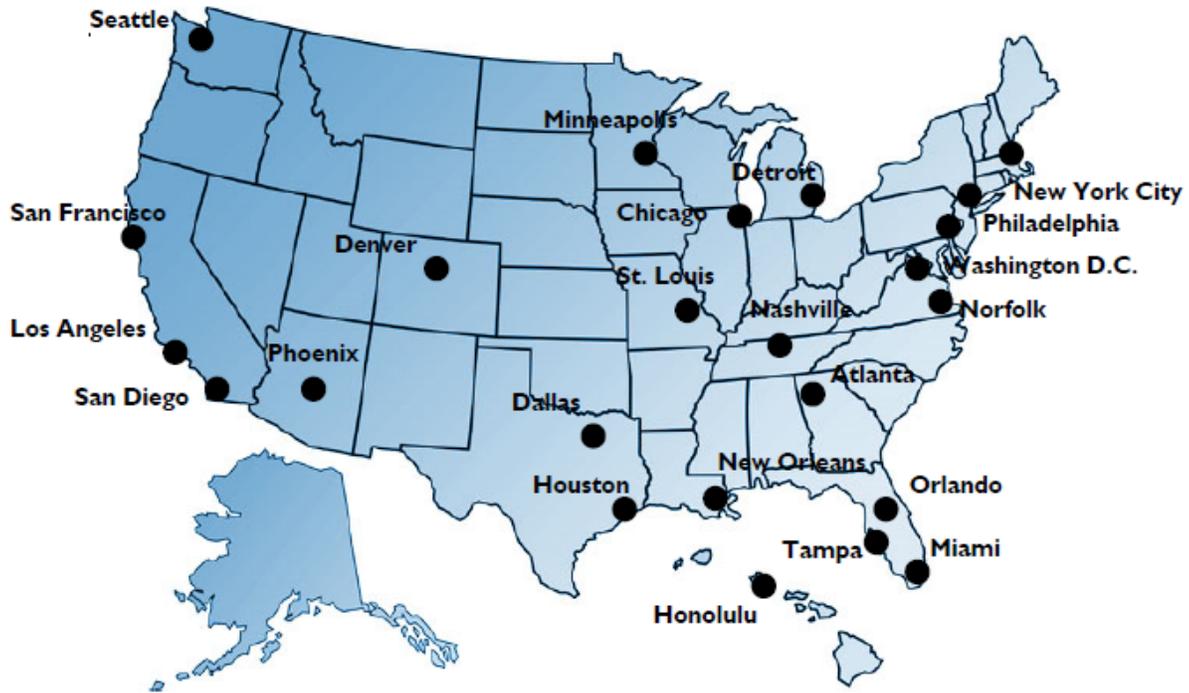**Exhibit-2 Lodging Markets Identified for L-MPI ©**

Table-2 Lodging Market Potential Index Overall Rankings: Summer 2012 vs. Summer 2011

City	Rank Summer 2012	Rank Summer 2011	Change Rank	Index Summer 2012	Index Summer 2011	Change Index
San Francisco	1	1	0	100	100	0
New York	2	2	0	98	99	-1
Oahu Island	3	3	0	97	96	+1
New Orleans	4	17	+13	94	38	+56
Boston	5	5	0	92	72	+20
Miami	6	6	0	74	69	+5
Houston	7	21	+14	70	28	+42
Nashville	8	14	+6	66	41	+25
Denver	9	4	-5	61	77	-16
Los Angeles	10	7	-3	61	67	-6
Washington DC	11	10	-1	60	62	-2
Seattle	12	9	-3	58	63	-5
Chicago	13	8	-5	56	63	-9
Philadelphia	14	11	-3	51	56	-5
St Louis	15	18	+3	50	37	+13
Atlanta	16	20	+4	45	29	+16
San Diego	17	19	+2	42	35	+7
Minneapolis	18	13	-5	41	50	-9
Dallas	19	16	-3	36	41	-7
Tampa	20	24	+4	35	18	+17
Anaheim	21	12	-9	34	52	-18
Orlando	22	22	0	30	26	+4
Norfolk	23	15	-8	22	41	-19
Detroit	24	23	-1	22	19	+3
Phoenix	25	25	0	1	1	0

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

About the Author
A.J. Singh is Associate Professor at *The* School of Hospitality Business at Michigan State University. Raymond S. Schmidgall is Hilton Hotels Professor at *The* School of Hospitality Business at Michigan State University. Tunga Kiyak is Managing Director of the Academy of International Business, whose Secretariat is located at Michigan State University.