

Market Intelligence Report 2013 New Orleans

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New Orleans' cultural attractions have held sway for centuries, but new advances have helped diversify and strengthen the city's economy over the past several years. New Orleans' growing biomedical and technology infrastructure is attracting global companies, and a series of high-profile events have highlighted the city's return to prominence as an international destination. The resulting near-record tourism levels and strong convention seasons have helped make the New Orleans hotel market one of the best performing in the nation.

Development Update

Following Hurricane Katrina, state and federal aid and incentive programs, including the Gulf Opportunity Zone Act of 2005, fueled recovery efforts in New Orleans. In recent years, public and private investments in local attractions and infrastructure have driven major revitalizations that include the following:

- In conjunction with its role as host of Super Bowl XLVII in February of 2013, the City of New Orleans completed a number of major infrastructure projects, with notable developments including the completion of a \$53-million extension of the Canal Street streetcar line along Loyola Boulevard ¹. The new line, which provides transit access from the Canal Street corridor to the city's growing Sports & Entertainment District, crosses by the main entrance of the Hyatt Regency, which was re-opened in late 2011 following a \$275-million renovation.
- Also in time for the Super Bowl, a \$50-million renovation of the Ernest N. Morial Convention Center reached completion. The project included the reconfiguring of the previous Hall A into the new "Great Hall," which includes a 60,000-square-foot ballroom, a 4,660-square-foot junior ballroom with rooftop terrace, and a 4,700-square-foot executive lounge. The renovation also created a signature main entrance for the convention center at the east end of the Great Hall.
- Work continues on the city's biomedical corridor, BioDistrict New Orleans, with the University Medical Center slated for completion in April of 2015². Construction of the planned 200-bed VA Hospital—the country's first in roughly 20 years—began in early 2013, with completion scheduled for February of 2016. The \$1-billion project will comprise a 30-acre campus featuring ten buildings and is expected to bring 1,100 new jobs to the market³. The BioDistrict's first major facility, the Louisiana Cancer Research Center, opened in 2012. The center comprises a ten-story, 172,000-square-foot state-of-the-art facility at the corner of Tulane Avenue and South Claiborne Avenue.

Economy Update

The following table illustrates historical and projected employment, population, and income data for the overall New Orleans market.

HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total		Office		Industrial		Households	% Chg	Population	% Chg	Household	
	Employment	% Chg	Employment	% Chg	Employment	% Chg					Avg. Income	% Chg
1999	619,170	—	181,348	—	82,770	—	498,050	—	1,317,010	—	\$69,180	—
2000	617,200	(0.3) %	181,444	0.1 %	79,666	(3.8) %	497,460	(0.1) %	1,320,080	0.2 %	71,661	3.6 %
2001	614,000	(0.5)	181,479	0.0	77,697	(2.5)	495,830	(0.3)	1,327,280	0.5	77,377	8.0
2002	607,870	(1.0)	180,110	(0.8)	75,065	(3.4)	497,060	0.2	1,341,000	1.0	78,429	1.4
2003	612,000	0.7	181,179	0.6	73,137	(2.6)	492,900	(0.8)	1,340,460	(0.0)	82,159	4.8
2004	612,870	0.1	180,220	(0.5)	71,114	(2.8)	496,750	0.8	1,362,390	1.6	86,820	5.7
2006	499,130	(18.6)	145,955	(19.0)	64,027	(10.0)	394,860	(20.5)	1,045,420	(23.3)	113,395	30.6
2007	523,400	4.9	152,729	4.6	68,356	6.8	429,510	8.8	1,094,670	4.7	117,809	3.9
2008	526,270	0.5	152,598	(0.1)	66,168	(3.2)	443,690	3.3	1,127,210	3.0	112,135	(4.8)
2009	517,200	(1.7)	151,905	(0.5)	62,133	(6.1)	452,480	2.0	1,161,340	3.0	104,677	(6.7)

Summary

Activity in medicine, technology, conventions, and tourism brought near-record visitation to New Orleans over the past year. Major developments, ranging from infrastructure to new business and cultural districts, continue to drive hotel demand.

6 Comments

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Economic Trends and Cycles

North America

2010	521,270	0.8	151,616	(0.2)	59,607	(4.1)	458,540	1.3	1,183,200	1.9	110,633	5.7
2011	527,770	1.2	153,448	1.2	60,628	1.7	461,870	0.7	1,193,980	0.9	112,437	1.6
2012	517,410	(2.0)	149,869	(2.3)	57,666	(4.9)	465,690	0.8	1,200,650	0.6	112,313	(0.1)
Forecasts												
2013	519,450	0.4 %	151,655	1.2 %	58,495	1.4 %	469,050	0.7 %	1,206,920	0.5 %	\$115,086	2.5 %
2014	527,400	1.5	155,775	2.7	59,155	1.1	473,020	0.8	1,213,350	0.5	119,418	3.8
2015	537,060	1.8	159,859	2.6	60,354	2.0	478,580	1.2	1,219,770	0.5	123,688	3.6
2016	544,800	1.4	163,021	2.0	61,088	1.2	483,780	1.1	1,226,230	0.5	127,236	2.9
2017	548,100	0.6	164,678	1.0	61,056	(0.1)	488,040	0.9	1,232,040	0.5	129,912	2.1
Average Annual Compound Change												
2000 - 2012	(1.5) %	(1.6) %	(3.0) %	(0.6) %	(0.8) %	4.1 %						
2000 - 2007	(2.4)	(2.4)	(2.7)	(2.1)	(2.6)	7.9						
2007 - 2010	(0.1)	(0.2)	(4.5)	2.2	2.6	(2.1)						
2010 - 2012	(0.4)	(0.6)	(1.6)	0.8	0.7	0.8						
Forecast 2012 - 2017	1.2 %	1.9 %	1.1 %	0.9 %	0.5 %	3.0 %						

Source: REIS Report, 4th Quarter, 2012

The return of residents displaced by Hurricane Katrina accounts for much of the steady rise in population in New Orleans since 2007. Although the market's population in 2012 reached its highest level since the storm, it remains somewhat below the peak recorded in 2004.

Area employment has remained relatively stable since 2007. Recovery projects in the years following Hurricane Katrina kept employment in New Orleans low in 2007 and 2008, though the dissipation of many of these temporary jobs has caused unemployment in the greater New Orleans area to inch closer to the national average in recent years. Unemployment is forecast to remain near 9% in 2013, as setbacks like the closure of Avondale Shipyard hamper job growth. Significant growth is expected to resume in 2014 and to continue through 2016 as the University Medical Center and VA Hospital bring new jobs to the market.

The following table details unemployment statistics for New Orleans, the MSA, the state of Louisiana, and the U.S. as a whole from 2002 through 2011.

UNEMPLOYMENT STATISTICS

Year	Parish	MSA	State	U.S.
2002	6.0 %	5.4 %	5.9 %	5.8 %
2003	6.1	5.4	6.2	6.0
2004	5.5	4.9	5.5	5.5
2005	(N)	7.5(Q)	6.7	5.1
2006	(N)	4.3	3.9	4.6
2007	4.5	3.5	3.8	4.6
2008	5.4	4.4	4.4(G)	5.8
2009	7.7	6.5	6.6(G)	9.3
2010	8.9	7.3	7.4(D)	9.6
2011	8.8	7.2	7.3(D)	8.9
<i>Recent Month - January</i>				
2012	8.9 %	7.4 %	7.6 %	8.3 %
2013	8.6	7.2	7.2	7.9

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

New Orleans' economic base has broadened in recent years to include a vibrant healthcare sector, though the local economy is still founded primarily on hospitality. The city's tourism industry employs approximately 78,000 and generates some \$5 billion per year in new visitor spending⁴. The New Orleans hotel market now boasts nearly the same number of rooms as it had prior to Hurricane Katrina, and airport passenger traffic, visitation levels, and hotel occupancy all returned to pre-Katrina levels in 2011. New Orleans' movie and television production industry also remains strong, with a number of projects filmed in New Orleans in 2012, including Django Unchained and HBO's Treme. The Mayor's Office of Cultural Economy reports that 2012 film and television production in the city accounted for \$669.8 million in direct spending, a 23% increase over 2011⁵. Additionally, the city's revitalization has sparked interest from national and international corporations. In early 2012, GE Capital selected New Orleans as the site of its GE Capital Technology Center, which will reportedly bring 300 new jobs to the area.⁶

Office Space Market Update

The following table details New Orleans' office space statistics, which are important indicators of the market's

propensity to attract commercial hotel demand.

OFFICE SPACE STATISTICS – MARKET OVERVIEW

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
1 West Bank	14	787,000	686,300	12.8 %	\$17.62
2 Ctrl New Orleans	50	12,378,000	10,707,000	13.5	17.51
3 Metairie/Jefferson	66	5,654,000	4,981,200	11.9	19.63
4 North Shore	25	673,000	609,100	9.5	19.29
Totals and Averages	155	19,492,000	16,983,600	12.9 %	\$18.19

Source: REIS Report, 4th Quarter, 2012

Vacancy is highest in the Central New Orleans submarket, a result of a large inventory of office space and the recent trend of tenants moving to newer and more attractive space in the Metairie and North Shore submarkets. Asking rents for Central New Orleans are the lowest of the four major submarkets, as lessors seek to absorb large amounts of vacant space by drawing office tenants back to the city's central business district (CBD). The relatively low office vacancy rate in the North Shore submarket is due in large part to the relocation of Chevron Corporation's regional headquarters in 2008 from the CBD to a new 300,000-square-foot, LEED Gold Certified campus in Covington⁷, which represents nearly half of the occupied office space on the North Shore.

The following table illustrates a trend of office space statistics for the overall New Orleans market.

HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET

New Orleans Market							
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
1999	21,702,000	—	18,510,000	—	14.7 %	\$15.35	—
2000	21,866,000	0.8 %	18,668,000	0.9 %	14.6	15.76	2.7 %
2001	21,644,000	(1.0)	18,368,000	(1.6)	15.1	15.16	(3.8)
2002	21,593,000	(0.2)	18,462,000	0.5	14.5	14.99	(1.1)
2003	21,593,000	0.0	18,498,000	0.2	14.3	15.19	1.3
2004	21,510,000	(0.4)	18,529,000	0.2	13.9	15.35	1.1
2006	19,442,000	(9.6)	17,414,000	(6.0)	10.4	16.96	10.5
2007	19,442,000	0.0	17,424,000	0.1	10.4	17.70	4.4
2008	19,482,000	0.2	17,277,000	(0.8)	11.3	18.10	2.3
2009	19,492,000	0.1	17,157,000	(0.7)	12.0	17.86	(1.3)
2010	19,492,000	0.0	17,168,000	0.1	11.9	18.11	1.4
2011	19,492,000	0.0	16,975,000	(1.1)	12.9	18.12	0.1
2012	19,492,000	0.0	16,983,000	0.0	12.9	18.19	0.4
Forecasts							
2013	19,492,000	0.0 %	17,025,000	0.2 %	12.7 %	\$18.47	1.5 %
2014	19,492,000	0.0	17,084,000	0.3	12.4	18.88	2.2
2015	19,492,000	0.0	17,131,000	0.3	12.1	19.33	2.4
2016	19,492,000	0.0	17,171,000	0.2	11.9	20.03	3.6
2017	19,492,000	0.0	17,193,000	0.1	11.8	20.67	3.2
Average Annual Compound Change							
2000 - 2012		(0.9) %		(0.7) %			1.4 %
2000 - 2007		(1.6)		(0.9)			2.1
2007 - 2010		0.1		(0.5)			0.8
2010 - 2012		0.0		(0.5)			0.2
Forecast 2012 - 2017		0.0 %		0.2 %			2.6 %

Source: REIS Report, 4th Quarter, 2012

Available office space in the greater New Orleans market has remained fairly stable, while vacancy rates began to increase in 2008. Nonetheless, office vacancy remains below the levels observed in the years prior to Hurricane Katrina, and vacancy levels are forecast to fall below 12% over the next five years.

Visitation and Convention Outlook

The following table illustrates visitation statistics for New Orleans since 2003.

VISITATION STATISTICS

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

Source: New Orleans Convention & Visitors Bureau

Visitation to New Orleans has increased dramatically following recovery and marketing efforts in the wake of Hurricane Katrina. According to the New Orleans Convention & Visitors Bureau (CVB), in 2012, the city welcomed its largest number of visitors since the historical peak year of 2004; visitor spending in 2012 reached its highest level ever. Recent events in the city include the BCS National Championship and NCAA Men's Final Four in early 2012 and Super Bowl XLVII and the NCAA Women's Final Four in early 2013. In February of 2014, the city will host the 63rd NBA All-Star Game.

The New Orleans CVB reports that convention bookings have held strong. Citywide conventions scheduled for 2013 include the Healthcare Information & Management Systems Society (HIMSS) Annual Conference & Exhibition in March, Microsoft's TechEd in June, and the conferences of three major medical associations in the fall; each of these events is expected to generate in excess of 5,000 room nights. Tourism officials and local operators report that bookings for 2014 are somewhat slower than those of recent years; however, bookings for 2015 and 2016 indicate a strong recovery. The CVB has set a goal of welcoming more than 13 million visitors to New Orleans by 2018, which will mark the 300th anniversary of the city's founding.

Outlook on Market Occupancy and Average Rate

Occupancy growth accelerated in 2012 on the strength of an influx in visitors for the BCS National Championship and the NCAA Men's Final Four, as well as a rise in convention attendance in the second quarter of the year. With hotels in the market reporting record occupancy levels, HVS expects occupancy for the New Orleans market to stabilize in 2013 as hoteliers focus on raising rates to drive revenue growth. The Super Bowl in February of 2013 resulted in an effective sellout of the entire New Orleans market for a four-day period, and despite the rate controls implemented by the National Football League, local operators were reportedly able to increase asking rates to levels much higher than the norm⁸. This trend should continue through the end of 2013, bolstered by a strong convention year and increasing tourism; occupancy, however, is expected to exhibit a temporary correction in 2014 in the absence of induced demand from the major events of previous years. Beyond 2014, New Orleans' popularity as a tourism and convention destination should allow for modest growth in market occupancy and average rate.

Brokers' Outlook

Brokers, operators, and other market participants project less than 2% growth in market occupancy, while average rate is expected to grow between 5% and 7%, largely on the strength of significant rate increases during the Super Bowl in early 2013. Brokers report an average marketing period of approximately six months for hotels in the market. Stabilized capitalization rates range from 8.5% to 9.5% for limited- and select-service hotels, with rates of 8% to 9% for full-service properties. According to brokers active in New Orleans, the anticipated strength of the market in the near term makes New Orleans hotels a relatively low-risk investment; most market participants feel that now is the time to sell limited- and select-service properties and to buy full-service hotels, particularly those located in the CBD.

Recent Hotel Transactions

The following table summarizes hotel transactions in Louisiana over the last two years.

REVIEW OF HOTEL TRANSACTIONS

Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap
W Hotel New Orleans French Quarter	New Orleans, Louisiana	Apr-13	\$25,500,000	97	\$262,887	—
Courtyard by Marriott New Orleans Downtown Convention Center	New Orleans, Louisiana	Mar-13	33,789,146	202	167,273	7.7%
Courtyard by Marriott New Orleans Downtown Near the French Quarter	New Orleans, Louisiana	Mar-13	23,418,220	140	167,273	9.0%
SpringHill Suites by Marriott New Orleans Downtown	New Orleans, Louisiana	Mar-13	34,792,784	208	167,273	7.7%
Courtyard by Marriott New Orleans Metairie	Metairie, Louisiana	Mar-13	24,098,877	153	157,509	9.3%
Residence Inn by Marriott Metairie	Metairie, Louisiana	Mar-13	18,901,080	120	157,509	8.9%
Hilton Garden Inn Baton Rouge Airport	Baton Rouge, Louisiana	Feb-13	21,556,967	131	164,557	—
InterContinental New Orleans	New Orleans, Louisiana	Jan-13	60,000,000	479	125,261	5.3%
Executive Inn & Suites Baker	Baker, Louisiana	Nov-12	1,230,000	60	20,500	—
Embassy Suites New Orleans	New Orleans, Louisiana	Oct-12	49,500,000	370	133,784	9.6%
Wilton Baton Rouge Capital Park	Baton Rouge, Louisiana	Jan-12	40,000,000	300	133,333	—

THRU	DOWN	ROUGE	CAPITAL	PAID	DATE	NO.	ROOMS	PER	AVG	PER	PER	PER
Hilton Garden Inn New Orleans French Quarter	New Orleans, Louisiana	Jun-12	22,800,000	155	147,097	4.5%						
Econo Lodge Inn & Suites	Alexandria, Louisiana	Mar-12	1,125,000	106	10,613	—						
Lafitte Guest House	New Orleans, Louisiana	Mar-12	2,117,817	14	151,273	—						
Sleep Inn	Scott, Louisiana	Feb-12	2,200,000	83	26,506	—						
Hampton Inn & Suites Alexandria	Alexandria, Louisiana	Dec-11	9,000,000	106	84,906	—						
Hyatt French Quarter	New Orleans, Louisiana	Sep-11	45,700,000	251	182,072	1.9%						
SpringHill Suites by Marriott Lafayette South at River Ranch	Lafayette, Louisiana	Jun-11	10,232,000	103	99,340	—						
Hyatt Place New Orleans Convention Center	New Orleans, Louisiana	Jun-11	12,475,000	170	73,382	—						

The vast majority of these hotel transactions were concentrated in the greater New Orleans market. Contracted prices per room for hotels in the New Orleans market remain strong; since the beginning of 2012, no hotel in the market has sold for less than \$100,000 per room.

Notable transactions in the past year include the sales of major assets such as the InterContinental New Orleans and the Embassy Suites New Orleans, in addition to a five-property portfolio of Marriott-branded hotels, which sold in March of 2013. Brokers and operators in the market report that buyers continue to expect significant revenue growth in the near term, an opinion supported by capitalization rates derived from the illustrated sales, five of which fall below the aforementioned 8% benchmark for stabilized properties. The number of hotels selling at stabilized capitalization rates, however, is gradually increasing, as properties renovated or converted following Hurricane Katrina finish ramping up their operations.

Hotel Construction Update

According to HVS research and information provided by city planning officials, the only major hotel project announced for the New Orleans market is a property that is expected to be constructed in conjunction with the long-rumored redevelopment of the vacant Six Flags New Orleans theme park. The product of a public-private partnership between the City and DAG Development, the project would also include a 400,000-square-foot outlet mall, a big-box retailer, an entertainment boardwalk, an amphitheater, a sports field, and a water park. The feasibility of the Six Flags redevelopment is currently in question given competing plans for the conversion of the CBD's Riverwalk Marketplace into an outlet mall complex.

Despite delays in the Six Flags redevelopment project, the continued strength of the New Orleans market, combined with greater options for financing, should open the door to new hotel developments in the near term. High barriers to new supply remain in place in the CBD, with few vacant parcels available for new construction. Furthermore, brokers report that owners of buildings available for conversion have dramatically increased their asking prices as local hotel performance has improved.

Nonetheless, a handful of hotel projects have been completed in recent months. In May of 2012, the 170-room Hyatt Place New Orleans Convention Center opened in the Warehouse District, directly across from the Ernest N. Morial Convention Center; the Hyatt Place is the product of an eight-month conversion of the former Hotel New Orleans, which had previously operated as a Holiday Inn Express. In December of 2012, the 132-room Hotel Indigo New Orleans Garden District opened after a two-year conversion of the former Garden District Hotel in New Orleans' historic Uptown neighborhood.

Conclusion

New supply is expected to have only a minimal impact on market performance in the coming years, as New Orleans continues to reemerge as a global destination city. Visitation to the city is nearing a record high, with major events such as Super Bowl XLVII showcasing the city's revitalized infrastructure. Looking forward, major upcoming events and conventions, as well as the city's immense appeal to leisure travelers, should keep hotel performance and transactions strong in the near term.

¹ "Loyola streetcar line opens Monday, but officials look beyond Super Bowl," The Times-Picayune, January 26, 2013

² "University Medical Center construction said to be ahead of VA project," The Times-Picayune, March 1, 2012

³ "Construction underway at Veterans Affairs complex in Mid-City," The Times-Picayune, January 30, 2013

⁴ 2013 Marketing Plan, New Orleans Convention & Visitors Bureau

⁵ "City announces record-breaking year for film industry," Mayor's Office of Cultural Economy, January 3, 2013

⁶ "General Electric chooses New Orleans for 300-job tech office," The Times-Picayune, February 17, 2012

⁷ "Chevron's new eco-friendly campus on the North Shore begs the question, 'Is it greener to build new or renovate?'," The Times-Picayune, June 14, 2008

⁸ "Hotel rooms scarce for Super Bowl, prices increasing," *The Times-Picayune*, 14 January 2013