

Market Pulse: Detroit, MI

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The Detroit metropolitan area has experienced significant economic growth in recent years, fueled by a strengthening auto industry as well as the continued diversification of the local employment landscape.

The hotel sector is benefitting from existing employers expanding operations locally and new entrants to the market. The Big Three automakers continue to invest in the region, while companies like e-commerce giant Amazon.com Inc. are building large warehouse facilities.

Revenue gains for hotels were accordingly robust during the 2010–2016 period. Revenue per available room (RevPAR) during that stretch grew nearly 71 percent, rising from a low of roughly \$38 in 2009 at the depths of the Great Recession to over \$64 by year-end 2016.

Both the average daily rate (ADR) and occupancy have posted consistent gains since 2010. Moreover, hoteliers sold a record number of room nights in the city of Detroit in 2016, according to STR. Occupancy levels approached 70 percent by the end of 2016, with ADRs of nearly \$150 in the central business district (CBD). The data for 2017 show a relatively stable occupancy level with robust gains in ADR.

The record performance achieved in this expansionary period has spurred tremendous hotel development in the downtown core and suburbs.

CBD is Hotbed of Activity

Increased room demand within Detroit’s CBD has outpaced additions to supply, resulting in historically high occupancy levels and even stronger ADR growth.

Year-to-date through September, the metro Detroit hotel market posted a 0.4 percent increase in the occupancy rate and a 5.6 percent rise in the ADR. This has resulted in an overall 6 percent increase in RevPAR when compared to the same period in 2016.

Multiple developments are underway throughout the CBD, helping drive this growth. Little Caesars Arena, a new multipurpose arena for the Detroit Red Wings and Pistons that opened this fall, anchors the District Detroit, a 35-acre, \$1.2 billion entertainment district. The opening of the arena has positively affected the leisure segment in the CBD.

There is movement afoot to make the downtown area a technology hub. In February, software maker Microsoft announced plans to move its Michigan Microsoft Technology Center from Southfield, Michigan, to downtown Detroit in early 2018.

There are about 40 such technology centers around the world. It’s a place where Microsoft clients come to work on projects with the company’s technicians.

In October, Google announced plans to relocate to a new office building in the District Detroit. Healthy growth within the commercial segment is expected in the CBD due to the ongoing revitalization efforts that are

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transforming this market into a premier relocation destination for businesses and corporations.

A number of hotel projects are in various stages of the development pipeline or have been recently completed. In May 2017, Aparium Hotel Group opened The Detroit Foundation Hotel, a 100-room boutique property. Furthermore, Bedrock Real Estate Development is currently constructing the boutique, 130-room Shinola Hotel, which is slated to open in fall 2018.

The Siren Hotel, a redevelopment of the Wurlitzer Building by Brooklyn, New York-based development firm ASH NYC, is another boutique property under construction in the CBD. The boutique hotels are expected to help drive up ADRs.



Other notable developments include an adaptive reuse project undertaken by Starwood Hotels & Resorts Worldwide that will convert the Metropolitan Building in downtown Detroit into a 110-room Element Detroit hotel, which is slated for completion by July 2018.

Meanwhile, West Elm is set to open a 120-room hotel in Midtown Detroit in 2018, marking the retailer's first hotel development. Also, a planned 120-room Hampton Inn by Hilton Midtown at Woodward Avenue and Alexandrine Street is slated to open in the first quarter of 2021.

The anticipated entrance of several smaller boutique properties, plus the renovations of existing hotels such as the planned \$20 million refurbishment of the Westin, should support continued ADR growth with minimal impact on hotel occupancy levels.

Strong Demand in Suburbs

The growth in hotel demand across the suburbs has outpaced new supply in recent years, resulting in a similar pattern in occupancy and ADR. The suburban submarkets are more reliant on the commercial segment than the CBD. The peak demand is Monday through Thursday, with a slight decline during the weekend.

The strengthening auto industry has benefitted many other automotive suppliers. Meanwhile, manufacturers have expanded their operations. As a result, a rush of hotel development has begun throughout Detroit's suburbs, including the Farmington Hills, Novi, Livonia and Plymouth areas.

Group 10 Management Co., based in Southfield, has multiple developments underway. A 106-room Courtyard by Marriott in Farmington Hills opened in early 2017. Adjacent to that property is a 140-room Holiday Inn scheduled to open in early 2018. Rounding out Group 10 Management's development pipeline is a 110-room Hampton Inn & Suites by Hilton in Livonia.

Occupancy levels are expected to decrease slightly in the coming months as the new supply is absorbed. ADR growth is also forecast to slow in the near term, as market participants aim to maintain occupancy rates. Other suburbs are likely to experience similar trends.

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About **Brandon Lerversee**



Brandon Lerversee is a Vice President with HVS, based in Detroit. He embarked on his hospitality career by working a rotational position at the Kellogg Center Hotel & Conference Center; before graduating from college, he was already working with brokers, preparing investment offerings, and appraising hotels. Brandon has since worked on assignments for hotels in markets across the Midwest, including full-service hotels in and around Detroit. Brandon earned a BA from the School of Hospitality Business at Michigan State University (MSU), where he specialized in Hospitality Real Estate Development. Contact Brandon at (269) 303-5551 or [\[email protected\]](#).