



Waldorf Hotel Analysis

CHARLES COUNTY, MARYLAND



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ACKNOWLEDGEMENTS

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PURPOSE

The purpose of this analysis is to provide the Charles County Economic Development Department (EDD) an understanding of the market forces at play within the Waldorf lodging cluster. Awareness of hotel market dynamics will inform public sector redevelopment and tourism/visitation planning and strategies for the next three (3) years.

INTRODUCTION

The Waldorf lodging submarket was chosen as the subject of analysis by virtue of its distinct position in the Charles County marketplace and its relatively significant inventory of nine national brand or “flag” properties. Flag brands include well-known companies such as Marriott, Hilton, Holiday Inn, Starwood, and Carlson. Flag brands also feature lifestyle properties such as Residence Inn by Marriott, Hilton Garden Inn, and Holiday Inn Express.

Waldorf has a very active hotel market that reflects its location along one of the busiest U.S. highways on the Atlantic seaboard. Although the Town of La Plata has two flag hotels and the Town of Indian Head has one flag hotel, their distance from the Waldorf lodging cluster suggest that they have their own unique demand profiles and market characteristics and are therefore not included in this analysis.

METHODOLOGY

To perform this analysis, EDD utilized a mixed methods research design that collected and integrated both quantitative and qualitative data to provide an in-depth analysis of the Waldorf hotel market. The quantitative data was collected by Smith Travel Research (STR), a private data vendor that collects and reports on hotel occupancy and room rate data from hotels and motels across the United States. The data was collected and presented as a series of monthly and daily trends dating back six years.

The qualitative data was collected by interviewing representatives of several of the hotel properties within the Waldorf lodging cluster. The purpose of these interviews was to complement the STR data by eliciting information and inquiring about future plans for local hotels. While certain details of those interviews are confidential, the key stakeholders’ input provide important local context for analyzing factors that impacted the hotel market in 2018.

The framework that guides the analysis examines the following lodging market characteristics of the Waldorf trade area:

- Competitive hotel supply;
- Hotel occupancy trends;
- Annual operating characteristics;
- Sources of demand; and
- Tourism initiatives.

The analysis concludes with a discussion of the implications of the findings.



LODGING MARKET OVERVIEW

Lodging submarkets can be very unique, and product mix is driven by the demand and location segments they serve. Demand segments defined by STR include the following:

- **Commercial:** Primarily business travelers. Commercial demand is strongest Monday through Thursday nights and is relatively constant throughout the year;
- **Extended Stay:** Consist of individuals who require accommodations for more than five nights; typically, the length of stay ranges from ten to fourteen nights but can stretch to a month or more. The majority of extended-stay demand is business-related including hospital research, insurance companies use for insurance claims, large-scale construction projects, or corporate projects;
- **Meeting and Groups:** The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people; and
- **Leisure:** Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel.

Location segments are property classifications driven by physical location and are defined by STR as such:

- **Urban:** Densely populated location in a large metropolitan area such as Washington, D.C. or Baltimore;
- **Suburban:** Suburbs of metropolitan markets such as Waldorf;
- **Airport:** Hotel in close proximity to an airport that primarily serves demand from airport traffic;
- **Interstate:** Property in close proximity to major highway or other major road with the primary source of business via passer-by travel;
- **Resort:** Property located in a resort area or market where a significant source of business is derived from leisure/destination travel such as Ocean City; and
- **Small Metro/Town:** Area with either a smaller population or remote locations with limited services such as the Town of Indian Head.

STR delineates market categories that are defined by actual or estimated average room rate:

- **Luxury:** Top 15% average room rates. Typically, full-service, offering a wide variety of onsite amenities, such as restaurants, meeting spaces, exercise rooms or spas;
- **Upscale:** Next 15% average room rates, and also full-service, offering a wide variety of onsite amenities;
- **Midscale:** Middle 30% average room rates. Limited facilities and amenities, typically without a full-service restaurant;
- **Economy:** Next 20% average room rates, limited service; and
- **Budget:** Lowest 20% average room rates.



COMPETITIVE HOTEL SUPPLY

Hotels in the selected Waldorf trade area benefits from both the **commercial** and **leisure traveler** demand segments, as evidenced by day of week and seasonal occupancy trends. For the business traveler, Waldorf is easily accessible to Washington, D.C. and offers lodging within walking distance of desirable amenities such as restaurants and shopping. For the leisure traveler, Charles County has much to offer with hundreds of miles of shoreline boasting seventeen marinas, waterfront dining, parks, and historic points of interest.

These hotels generally fall within the **economy** to **upscale** range, which offer amenities such as a pool, exercise room, small business center, and complimentary breakfast. STR recognizes a more refined and nuanced *upper midscale* class as well, which falls between the midscale and upscale classes. *Economy* hotels represent lower average room rates and offer fewer amenities (Table 1). Although the trade area contains older motel stock that predates the 1970s, it is highly unlikely that this obsolete lodging type would be developed in the future since the demand profile is so narrow and is not accounted for in this analysis.

Table 1
Competitive Hotel Supply
Waldorf, Maryland 2022

Establishment	Class	Open Date	Rooms
Residence Inn Waldorf	Upscale	Jun 2009	98
Hilton Garden Inn Waldorf	Upscale	Apr 2010	130
Courtyard Waldorf	Upscale	Dec 2008	91
Holiday Inn Express Waldorf	Upper Midscale	Feb 1987	91
Hampton Inn Waldorf	Upper Midscale	Sep 2000	100
Comfort Suites Waldorf	Upper Midscale	Aug 2000	69
La Quinta Inns & Suites Waldorf	Upper Midscale	Jun 1985	86
Baymont Waldorf	Midscale	Jun 2006	66
Super 8 Waldorf	Economy	Jul 1986	59

Source: Smith Travel Research 2022

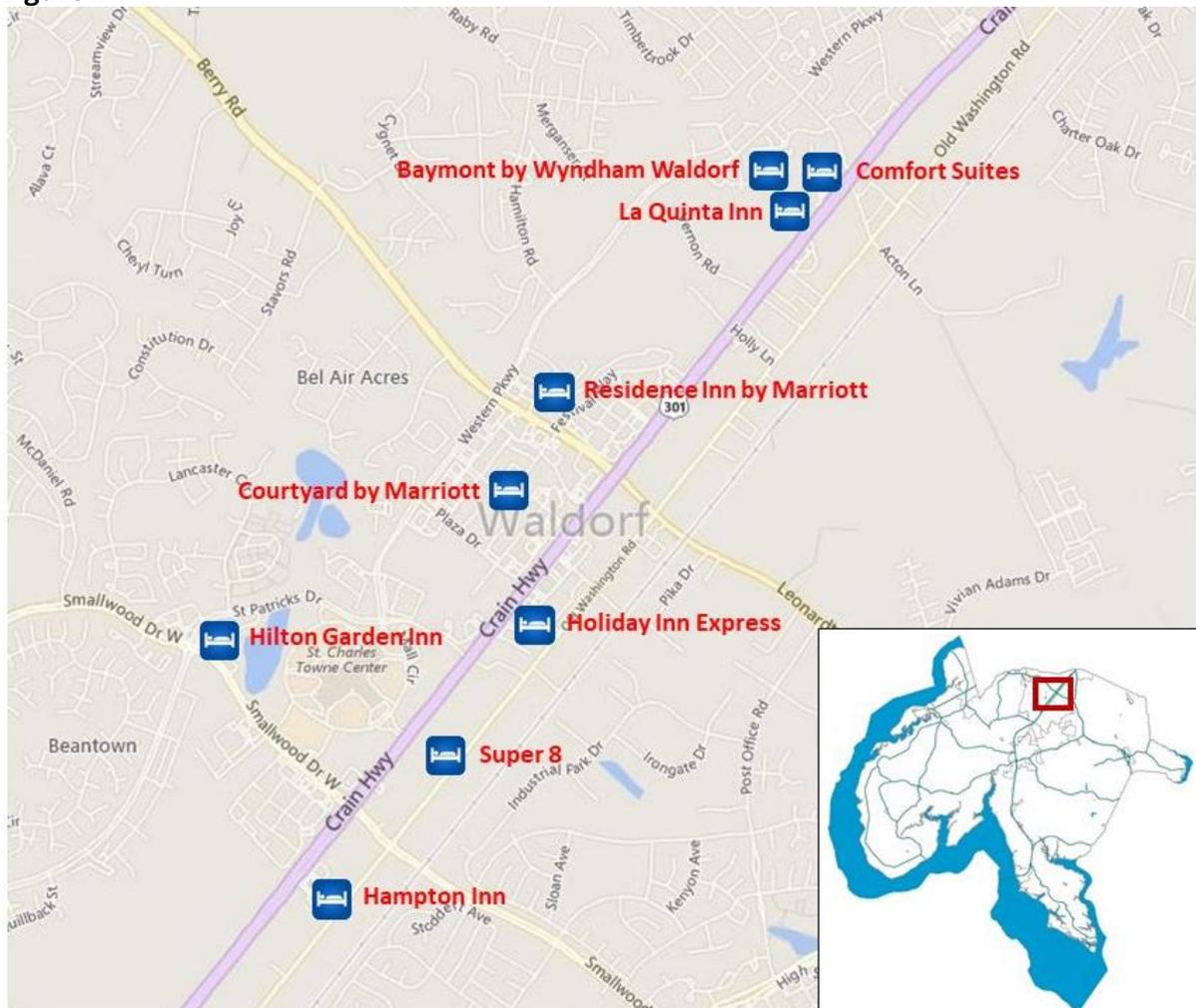
According to STR, the Waldorf trade area has three *upscale* hotels comprising 319 guest rooms, four *upper midscale* hotels comprising 412 guest rooms, one *midscale* hotel comprising of 66 rooms and one *economy* hotel comprising of 59 rooms as illustrated in Table 1.

Five of the eight *upper midscale/upscale* hotels were built since 2000 and are of better quality and more contemporary design than older stock. The remaining three hotels were built in the mid-to-late 80s, with some undergoing renovations over the years. The prevalence of higher quality inventory is indicative of the discerning nature of the Waldorf trade area's predominant demand segments. Figure 1 shows how the subject properties are distributed in the trade area.



Access and visibility are important to the success of lodging properties, as Figure 1 illustrates that Waldorf's flag hotels are all within close proximity to U.S. Route 301. Hotel owners and operators are also increasingly cognizant of the benefits of nearby complementary uses such as restaurants and retail stores to attracting guests. Several hotels in Waldorf are within walking distance of full-service restaurants and shopping centers which enhances their competitive position.

Figure 1





HOTEL OCCUPANCY TRENDS

Hotel occupancy is the percentage of room nights that are sold during a specified period of time and is a key indicator of hotel performance within a specific market. Hotel supply is expressed as room nights, or the number of available rooms multiplied by the days of the year (365). This number fluctuates as hotels undergo renovation, new product comes online, and older or underperforming hotels/motels are taken out of service. The Waldorf trade area has not undergone any additions to the inventory since 2010, so the data reflect market trends for a lodging inventory that is consistent throughout the six-year study period. It should be noted that not every hotel/motel operator reports their performance data to STR. As such, the analysis contained in this section only reflects those hotels/motels that have consistently reported their data to STR.

Annual hotel occupancy data showed a robust average occupancy of 74.3% in 2016. However, a declining trend in hotel occupancy by 3.9% in 2017 and further declined by 4.7% in 2018 was cited by stakeholders interviewed due to the completion of the construction of the Competitive Power Ventures (CPV) St. Charles Energy Center, a gas turbine power generating plant. This was the primary reason for the decline in occupancy to 70.4% in 2017. This was due to the departure of the specialized construction contractors who temporarily resided in some Waldorf lodging establishments throughout the duration of the project.

Regarding the further occupancy decline in 2018, there is obscurity in what might be causing the market to fall at such rate. Some stakeholders attributed it to reasons including but not limited to the further impact of the completion of the power plant, and the oversaturation of hotels in recent years in and around neighboring communities - which has led to increase competition for demand and subsequent price diminution of rooms in terms of discounts, coupons, and vouchers. This price reduction has proved to be fairly detrimental to some hotels that feel that they lack the competitive advantage and the amenities to attract their usual clientele profile, which in this case would rather choose to take advantage of the lower cost.

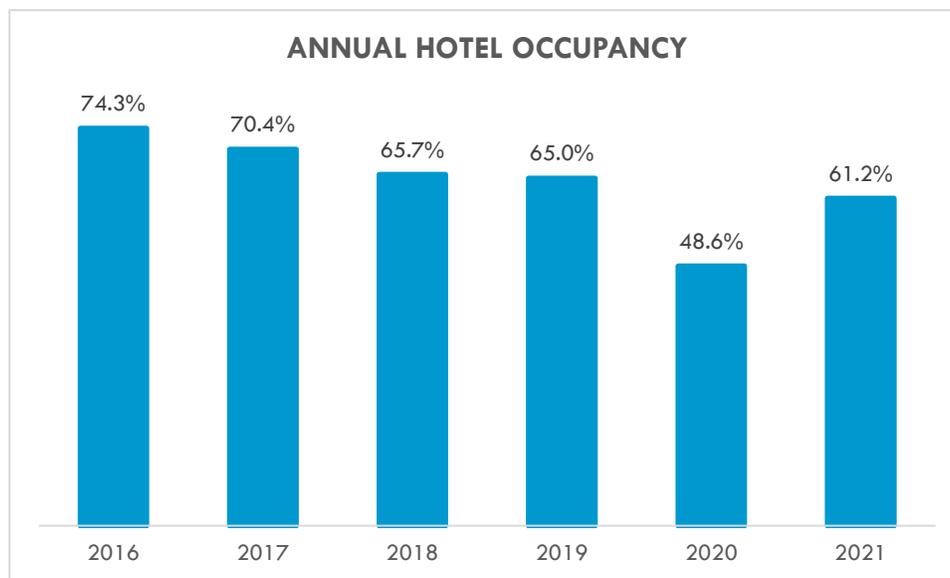
The market remained stable in 2019, however in 2020 due to the COVID Pandemic the hotel market saw a major decline both locally and on a national level. Entering in the year 2021, we see that annual hotel occupancy increased by almost 13% close to pre-pandemic levels. This can likely be attributed to COVID cases beginning to fall heavily around February 2021 and continued well into the summer months. With cases around the nation dropping, travel began to pick up, which increased bookings for hotels within the subject area.

It is worth noting that hotel investors will typically watch for occupancy rates rise to at least 65% before considering bringing new product to a market. In 2018 and 2019 respectively, holding around a 65%, the market was approaching a threshold that would appear to be performing at a level that would support additional hotel rooms. However, investors may find it prudent to evaluate future performance for assurances that the lodging market is projected to stabilize (Figure 2), in addition to considering additional factors such as future development outlook, availability and desirability of land, cost of land, access and visibility, predominant demand drivers, available amenities such as restaurants and retail, and more.



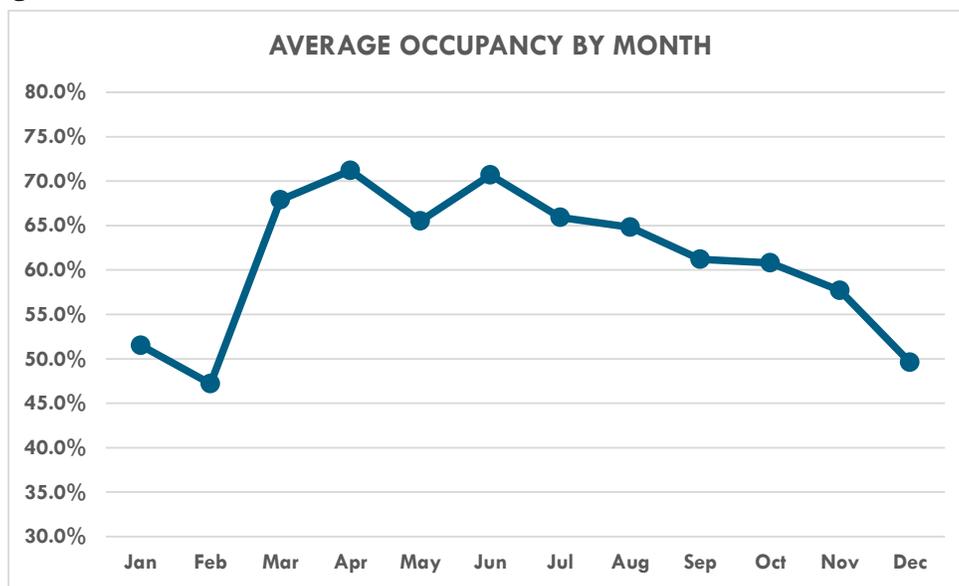
Another factor to consider is that as the COVID pandemic lingers, new problems such as the labor shortage and inflation may also lead to investors evaluate expanding hotels in the Waldorf area. Many of the stakeholders confirmed that are still under pre-pandemic staffing levels.

Figure 2



Source: Smith Travel Research, 2022

Figure 3



Source: Smith Travel Research, 2022

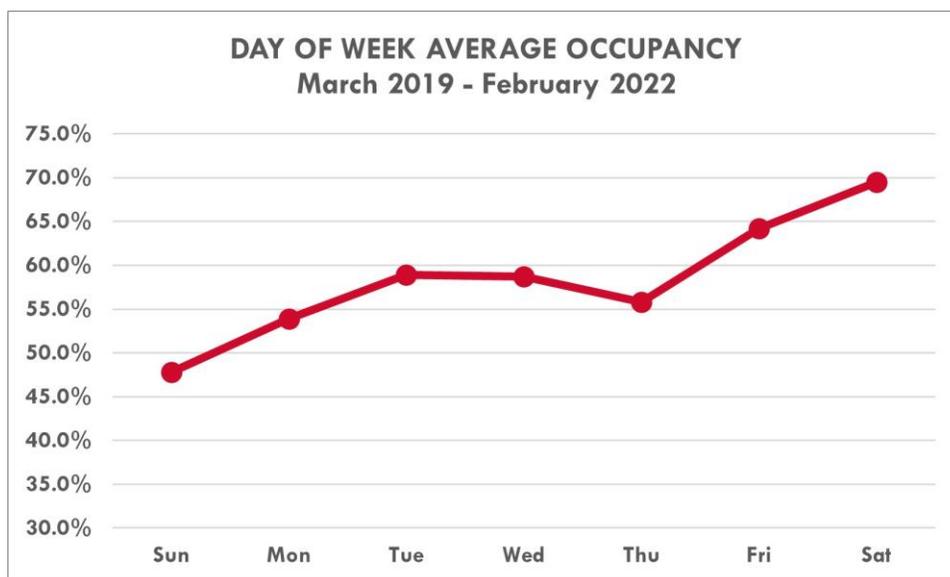


Six-year average hotel **monthly occupancy** data for the selected properties in the Waldorf trade area show a seasonal marketplace with discernable peaks and valleys. Occupancy was greatly affected by the COVID Pandemic in 2020. With 54.6% in January to a major decline in March and April the occupancy started to show signs of increase in May to peak of 57.1% in September, then back to a decline in the fall.

The summer peak suggests that Charles County attracts a significant amount of leisure travelers and is consistent with the description of this demand segment. Stakeholder interviews identified family reunions, weddings, bass fishing tournaments, and other warm season events are the main reasons for the peak during the month June. Also, events such as the bi-yearly world class drag race titled H-day (Honda Day) in Budds Creek relatively contribute to hotel demand during seasons of typically lower average occupancy.

Daily occupancy trends are useful for identifying how various demand segments impact the local hotel market. For example, the business/corporate traveler segment's peak days are midweek as demonstrated by occupancy rates of 62.2% and 61.6% on Tuesday and Wednesday respectively. The peak day for the leisure traveler segment is Saturday, when occupancy rate is at a weekly high of 70.2%. Sunday averages 47.0% occupancy, when lodging activity within most demand segments is lowest. Note that STR uses three-year averages for calculating day of week occupancy (Figure 4).

Figure 4



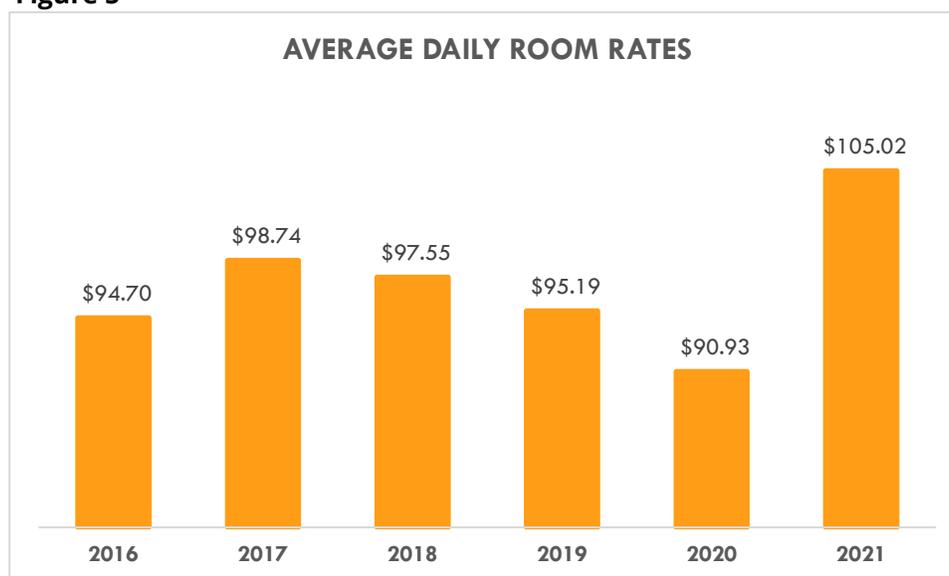
Source: Smith Travel Research, 2021



ANNUAL OPERATING CHARACTERISTICS

The **average daily room rate** (ADR) is the total room revenue divided by the number of rooms sold. Upward trends in the ADR indicate a strengthening market, while downward trends indicate a weakening or over-supplied market. As Figure 5 illustrates, ADR improved from \$94.70 in 2016 to \$98.74 in 2017, marking an average annual increase of 4.1% (Figure 5). However, 2019 showed a decline of 1.2% in ADR which aligns with the issue of market saturation raised during the qualitative data collection phase. In 2020 room rates fell to a new low which coincides with the height of the COVID pandemic as there was a severe reduction in travel and businesses were shut down. This in turn caused a severe reduction in hotel bookings leading to a reduction in rates. However, in 2021, we see that ADR jumped about fifteen percent to \$105.

Figure 5



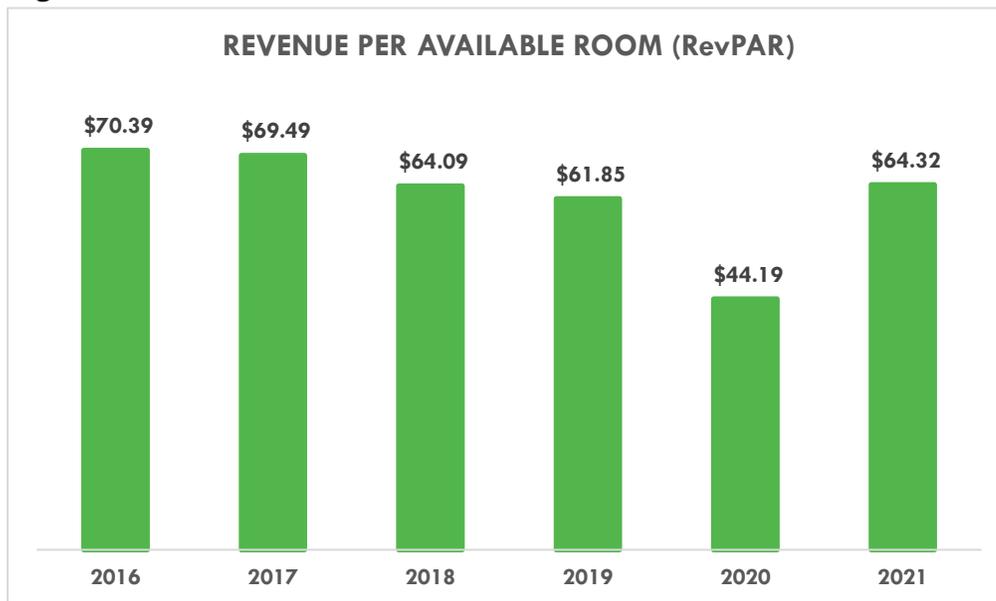
Source: Smith Travel Research, 2022

Revenue per available room, or RevPAR, is one of the most important measurements in the hotel industry for measuring hotel efficiency. In contrast to average room rates, which reflect the average daily rate charged for occupied rooms, RevPAR is a measure of average revenues per available room-night throughout the entire year. While the average room rate only measures current market pricing, without regard to the effectiveness of that room rate, RevPAR measures the efficiency of renting hotel rooms during low occupancy periods. Therefore, hotels with high room rates may experience lower occupancy, resulting in lower RevPAR rates, while more aggressively priced competitors with higher occupancy rates will achieve a higher RevPAR and greater operating efficiency.



In 2016 RevPAR was at \$70.39 the highest in a six-year timeframe, showing the lodging market segment gaining in strength at an average annual rate of 9.8% in prior analysis. In the past few years, RevPAR fell from \$69.49 in 2017 to \$61.85 in 2019 and further fell in 2020 to \$44.19, reflecting the decline in occupancy and ongoing effects of the COVID Pandemic. (Figure 6). In 2021, RevPAR increased to \$64.32 the highest since 2017 and 46% increase from 2020. This can be attributed to a large influx of people traveling as COVID restrictions were lifted as well as an ADR of \$105 would lead to greater revenue.

Figure 6



Source: Smith Travel Research, 2022

Table 2 summarizes annual operating characteristics in the Waldorf hotel market from 2016 through 2021 for nine properties comprising 790 rooms. An annual occupancy rate of 67% is healthy by industry standards, and a sustained occupancy that exceeds 65% coupled with a steadily rising RevPAR generally attracts investor interest and triggers the planning process for expansion of supply. Therefore, the subsequent three-year decrease starting in 2016, prior to the COVID pandemic, in all key indicators (Table 2), is a cause for concern as it seems to suggest lower overall Waldorf lodging efficiency.

Table 2
Waldorf Hotel Market Annual Operating Characteristics

	2016	2017	2018	2019	2020	2021
Properties	9	9	9	9	9	9
Rooms	790	790	790	790	790	790
Occupancy	74.3%	70.4%	65.7%	65.0%	48.6%	61.2%
Avg. Room Rate	\$94.70	\$98.74	\$97.55	\$95.28	\$90.93	\$105.00
RevPAR	\$70.39	\$69.49	\$64.09	\$61.90	\$44.19	\$64.32

Source: Smith Travel Research 2022



FUTURE DEMAND DRIVERS

The lingering effects of the pandemic on the local lodging market can probably not be fully appreciated until the 2022 characteristics are fully assessed. By then, natural market forces should have overtaken the impacts of COVID-19.

The potential for increased future room night demand is an important element in the hotel investment decision making process. Commerce, cultural and recreational assets, meeting and events facilities, and entertainment and destination attractions all contribute to demand for lodging. In Waldorf's case, there are several factors that could enhance the prospect of additional lodging inventory in the local marketplace.

The current construction of the Governor Harry W. Nice Memorial/Senator Thomas "Mac" Middleton Bridge replacement is a key factor that could drive significant hotel occupancy, similar to CPV St. Charles Energy Center. According to the Maryland Transportation Authority, the bridge is anticipated to complete construction in 2023, when it opens to the public. Which should generate at least some market demand for the region.

Another more permanent demand driver is the Army Reserves Training Facility in White Plains which became operational in 2019. The Army Corps of Engineers projected that the facility will be utilized 37 weekends per year, providing training for approximately 200 Army reservists per two-day session, requiring that trainees procure local accommodations for two nights. Assuming all visiting personnel require overnight lodging, the facility could generate a maximum of 14,800 room nights. To put this in perspective, a 100-room hotel operating 365 days a year at 65% occupancy sells 23,725 room nights annually.

It is important to note, that when meeting with the hotel stakeholders, they expressed their optimism when talking about future of the industry. There are a few main reasons for this, the first being the amount of economic relief received during the height of the pandemic. Hotels mentioned how federal/state relief funds and, most importantly, grants from the Charles County Government significantly helped them and allowed for the hotels to continue to operate, while substantially cutting back services. Additionally, during the height of the COVID pandemic, hotels hosted many extended-stay guests, including FEMA workers and travelling nurses, which allowed for them to have record numbers in some cases. Finally, hotels have described peoples' eagerness to go out and engage in celebratory activities, outside of their homes, to host events such as bridal and baby showers at select locations.

IMPLICATIONS

Given the findings of this analysis and the shifting nature of the demand drivers in the marketplace, it is imperative that market forces affecting the hospitality industry are observed closely by the EDD. Furthermore, a continuous trilateral collaboration between the hotels, EDD, and Tourism would be essential in enhancing the local lodging market as it would keep all parties informed on recent developments affecting the market and support the implementation of key tourism initiatives.



TOURISM / HOTEL PARTNERSHIP INITIATIVES FOR FY2023

Heading into FY2023 the Tourism Division will focus on Outbound Marketing and Promotion, Special Event Attraction, Local Event Promotion, Seasonal Campaigns and Destination Development to support and enhance overnight stays for local hotel partners and increase attendance at Charles County attractions. The objective is to create interest within diverse groups who will visit the county for weekend stays, holiday events and local/regional tourism. Some of the specific initiatives we will focus on include:

Marketing Materials Distribution: The division will share the Official Charles County Travel Magazine, profile sheets and quarterly industry newsletters to keep the hoteliers supplied with transactional materials and informed of tourism priorities.

Advertising Partnership: The division will be launching “Legendary Rewards” which is an incentive-based partnership with the local business community that will provide discounts for visitors in market using QR code technology. In the future, the division plans to expand this program to produce a coupon booklet that will include additional incentives and rewards. The booklet will be distributed out-of-market and beyond the borders of Charles County. Other statewide seasonal campaigns that tourism will be partnering with the hotel industry on include “Home for the Holidays” and “Romantic Getaways” packages with advertising during the winter months.

Group Travel: During FY2023 the division will make a more concerted effort to partner with industry partners at group travel shows and marketplaces. While all materials provided by hoteliers will be distributed, attendance at tradeshow (including Maryland Motorcoach, Pennsylvania Bus Association) will be available to hotel representatives on a rotating basis. Tourism will continue to work closely with local businesses to enhance custom itineraries for individual and groups use to explore the many assets in Charles County. Staff will continue to expand marketing efforts to cultivate a variety of motorcoach, special interest, and youth group tours to the region.

Event Expansion: As the division continues to establish signature events, we will be collaborating with the industry to promote hotel packages and advertising campaigns for multiday events.

Workforce Development: Tourism is excited for the opportunity to expand the statewide job fair initiative established in statewide during National Travel & Tourism Week in May 2022. The division is interested in working with industry partners to host a regional hospitality job fair and provide resources, such as customer service trainings, for interested stakeholders.

Industry Communication: The division produces a quarterly industry newsletter for business communications and will increase business visits with partners. Additionally, the division will commit to partnering with other organizations to execute networking opportunities for industry partners.



Technology Enhancements: The division will be expanding resources to include a tourism application, custom website itineraries, and an expanded event calendar. The new event calendar will use geofence technology to capture events found online and occurring in Charles County. Because there are limitations to all technology resources, stakeholders will still be granted access to submit missing events to the calendar on the tourism website. (www.ExploreCharlesCounty.com) The new platform will also be utilized to display custom itineraries that can be downloaded directly from the website. These resources will be a beneficial tool for residents, visitors, and the business community alike.