

Airport Hotels: On-Site Locations Yield Premium Performance

On average, hotels located on airport properties in major urban markets achieve performance premiums compared to similar-quality hotels located off-site near the same airports. This article attempts to identify/quantify these performance premiums.

The analysis evaluated annual occupancies, average daily rates (ADR), and revenue per available room (RevPAR) at 15 hotels located within major airports. We then compared their performance data to a control group of 15 hotels located off-site near the same airports.

On-site airport hotels offer several advantages compared to off-site airport hotels, allowing them to charge higher rates. For example, the ability to walk directly between one's hotel room and the flight boarding area is more convenient than having to retrieve a rental car and get directions to an off-site hotel. On-site airport hotels also save travelers time and money related to ground transportation. If on-site airport hotels have meeting space, this adds to the convenience for meetings involving parties from multiple fly-in destinations. Finally, on-site airport hotels are particularly convenient for guests who experience flight delays or cancellations.



In our comparison of on-site versus off-site airport hotels, we encountered numerous additional differences that could account for variances in performance between the two groups of hotels. For example, the on-site and off-site hotels typically have different brands. They may also have different service levels and amenities. They typically are at least slightly different in room counts and overall property condition as well.

This study was most interested in attempting to isolate the performance premium that on-site airport hotels achieve specifically related to their on-site airport location. Therefore, in selecting the control group of off-site airport hotels, we attempted to identify the most closely competitive off-site airport hotel with respect to branding, service level, room count, amenities, and overall condition. To minimize the variance in performance due to these variables, we specifically focused on markets that had on-site and off-site hotels that were similar regarding most of these items.

The aggregated data from these 15 matched pairs indicates that on-site airport hotels, on average, achieve significant performance premiums. As shown in the following table, the on-site airport hotels

achieved an average premium in rates of 12.9%, based on annual data from calendar year 2007. On-site hotels achieved comparable occupancies to off-site airport hotels, representing an average occupancy premium of 3.1%. Therefore, the on-site airport hotels achieved an average RevPAR premium of 16.5%.

Performance Measures

On-Site Airport Hotels

Off-Site Airport Hotels

On-Site Premium

Occupancy

76.6%

74.3%

3.1%

ADR

\$146.71

\$129.91

12.9%

RevPAR

\$112.39

\$96.50

16.5%

Sources: Company data, HVS

Based on 2007 data, the aggregate occupancy for the 15 on-site airport hotels was 76.6% compared to 74.3% for the 15 off-site competitors in the control group. The aggregate ADR for on-site airport hotels was \$146.71 compared to \$129.91 for the control group. But this blended average can be better understood by breaking the matched pairs of hotels into two groups – markets where on-site airport

hotels outperform their competitors and markets where on-site airport hotels underperform their competitors.



Out of 15 matched hotel pairs, 11 indicated substantial performance premiums for on-site airport locations. In some markets, such as Chicago and Detroit, the RevPAR premium achieved by the on-site airport hotel exceeded 40.0% versus similarly branded and sized off-site competitors. The Hilton O'Hare in Chicago and Westin Detroit Metro Airport reap substantial benefits from cancellations and delays due to inclement weather during winter months. The inconvenience of driving to off-site airport hotels located near the nation's second-busiest airport is another reason why the Hilton O'Hare achieves such a large performance premium compared to its competitors. The on-site airport hotels in the 11 markets where they outperform off-site competitors demonstrate an average RevPAR premium of 34.2%.

The other four pairs indicated similar or lower performance measures for on-site locations. In these markets, such as Dallas and Washington, D.C., on-site airports underperformed their off-site competitors. This can reflect differences in management, property conditions, property age, and other variables not isolated in our analysis. Some of the underperforming on-site hotels are very old. All of the on-site hotels that underperformed their off-site competitors are older properties or have not experienced a renovation as recently as their off-site competitors. The on-site airport hotels in these four markets demonstrated an average RevPAR underperformance of -21.1% compared to their off-site competitors.

Several of the 50 largest airports in the United States do not have on-site hotels. While there are significant barriers to successfully developing airport hotels, some of these markets may represent good investment opportunities. If a hotel is successfully developed at an airport, it can benefit from barriers to entry, as most airports have very limited land that could be used for hotel development. If an airport has one or more of the following characteristics, it may be a good candidate for an on-site hotel:



Airport with high volume of direct flights
High volume of corporate travelers
Inconvenient ground transport outside airport
Inconvenient or expensive parking
Expensive rental car market
Harsh winter

weather conditions

A well-designed on-site airport hotel that is kept in good condition, located in a heavily traveled airport, especially in markets that experience inclement weather, can represent an opportunity to achieve above-market-average performance.

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