



Real Estate Consulting
and Valuation Services

Cleveland's Lodging Market: A Slow Climb Back

by: David J. Sangree, MAI, CPA, ISHC and Joseph Pierce

Nationwide, the hospitality industry rebounded in 2004 from what had been a two year slide following the events of September 11, 2001. In 2004, Cleveland remained a buyer's market for the lodging industry, but significant improvement in occupancy levels coupled with modest improvements in ADR provided the market's first increase in RevPAR since 2000. The prospect for continued improvement in 2005 of both occupancy and rate remains good.

Occupancy and ADR's

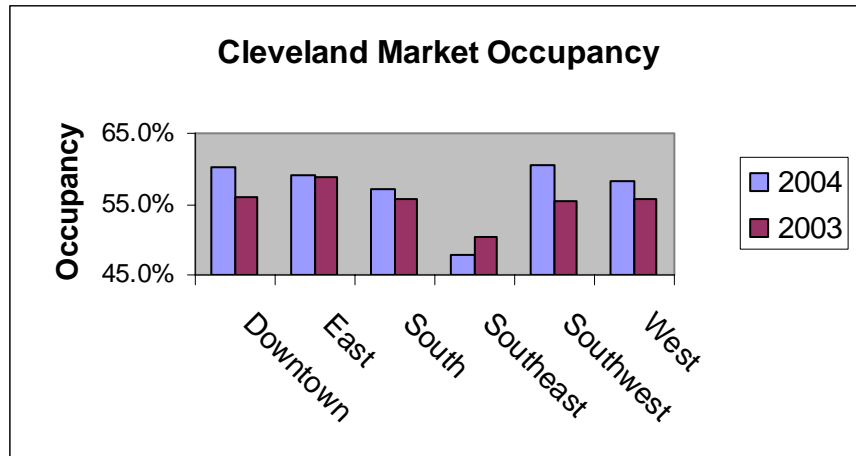
The improvement in occupancy that was seen in 2003, increased its momentum in 2004 without the rate cutting that had occurred over the past three years. The growth in demand for hotel rooms in the market overall outpaced the new supply of hotel rooms for the second consecutive year. For the first time since 2000, however, average daily rate climbed for the market overall. The following chart shows the Cleveland MSA historical lodging performance and our projected performance for 2005. The Cleveland MSA includes hotels located in Cuyahoga, Ashtabula, Geauga, Lake, Lorain, and Medina counties (22,046 rooms).

Historical Operating Performance Cleveland, Ohio MSA 1997-2005							
Year	OCC	Demand % Change	Supply % Change	ADR	% Chg.	RevPAR	% Chg.
1997	65.2%		--	\$78.10	--	\$50.92	--
1998	64.0%	5.8%	7.8%	\$79.96	2.4%	\$51.17	0.5%
1999	62.5%	3.4%	5.3%	\$79.96	0.0%	\$49.98	-2.3%
2000	62.2%	3.5%	4.9%	\$81.31	1.7%	\$50.57	1.2%
2001	57.4%	-4.8%	1.6%	\$77.51	-4.7%	\$44.49	-12.0%
2002	54.3%	-1.1%	3.2%	\$75.32	-2.8%	\$40.90	-8.1%
2003	54.6%	2.0%	1.4%	\$73.53	-2.4%	\$40.15	-1.8%
2004	57.1%	5.0%	-0.1%	\$75.00	2.0%	\$42.83	6.7%
2005 Forecast	59.0%	4.0%	2.5%	\$77.00	2.7%	\$45.43	6.1%

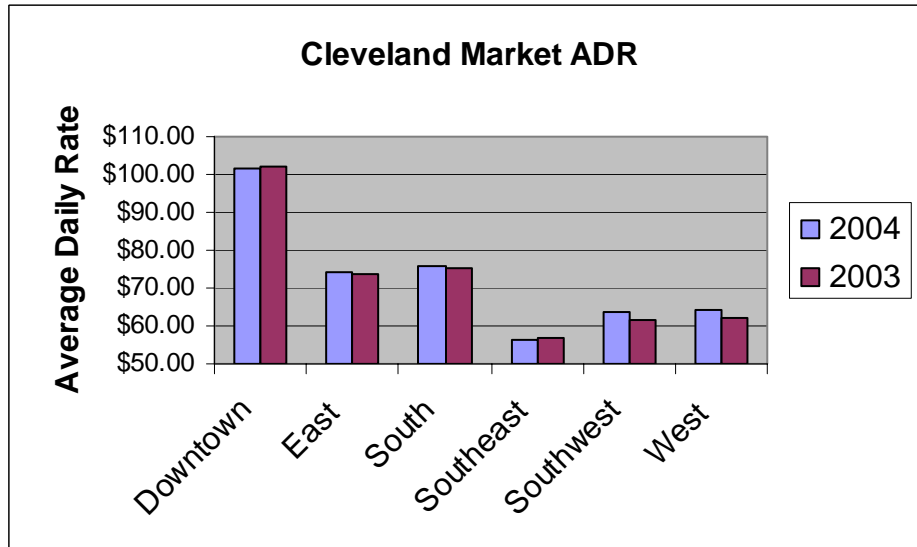
Source: Smith Travel Research (STR) 1997 - 2004, USRC 2005

For 2005, we project a moderate increase in demand coupled with a smaller increase in supply which should allow for an improvement in occupancy levels for the overall market. We project commercial and leisure transient demand to increase, while group demand will record a slight decrease due to fewer conventions and events. The average daily rate in the market is projected to grow at a level similar to inflation but below national projections.

The good news was not uniform throughout the region. The following graph illustrates the varying occupancy performance of the Cleveland MSA submarkets.



The Southwest suburban markets, centered around Cleveland Hopkins International Airport, showed the greatest growth followed by the Downtown hotels. The Southeast suburbs lost ground in 2004 and continue to operate below the average occupancy for the region.



Downtown hotels are clearly the rate leader within the Cleveland MSA, but they have yet to stabilize their average rate, declining slightly compared to 2003. Likewise the struggling Southeast suburbs lost ground in rate, in addition to their occupancy woes.

New Supply

As with 2003, few hotel properties entered the Cleveland regional market in 2004 and they all opened in suburban markets; the 139-room Hampton Inn and Suites in Beachwood, 109-room Geneva State Park Lodge in Geneva on the Lake, and the 62-room Hawthorn Suites in Seville. In addition to the new properties, The Bertram Inn & Conference Center expanded from 162 rooms to 225 rooms in 2004 and added an Amphitheatre to its suburban Aurora location. As the overall market continues to struggle with absorbing the overbuilding of recent years, the limited development has been a positive aspect to the Cleveland market. New developments in 2005 are somewhat more aggressive as over 480 rooms are anticipating opening, all in Cleveland's east and southeast suburbs.

The following chart depicts recent and planned hotel supply additions in the greater Cleveland area since 2000.

HOTEL/MOTEL ROOM ADDITIONS						
CLEVELAND, OHIO						
PROPOSED ADDITIONS						
Completion Date	Property	No. of Rooms	Market	Location	Status	
2005	Hampton Inn	83	Akron	Stow/ Route 8	U/C	
2005	Marriott	300	Beachwood	Chagrin Highlands	U/C	
2005	Courtyard by Marriott	100	Akron	Stow/ Route 8	U/C	
2006	Comfort Suites	70	Twinsburg	Interstate 480	U/C	
2006	Hilton Garden Inn	105	Mayfield	I-271	P	
2006	Homewood Suites	80	Akron	Stow/ Route 8	P	
2006	Holiday Inn Express	80	Kent	KSU Area	P	
2006	Hotel at Landerhaven	120	Mayfield Heights	Landerhaven Conference Facility	P	
Total		938	P - Proposed			
Source: US Realty Consultants, Inc. (216-221-9191)			U/C - Under Construction			
February, 2005			U/D - Under Development			
2000 - 2004 Openings						
2000	Residence Inn	175	Downtown	Colonial Arcade		
2000	Holiday Inn Express & Suites	74	Wadsworth	State Route 94 & I-76		
2000	Intercontinental Suites	163	Midtown	Cleveland Clinic		
2000	Motel 6	63	Medina	State Route 18 & I-71		
2000	Super 8	52	Medina	State Route 18 & I-72		
2000	Residence Inn	96	Mentor	State Route 2 and Hidely Rd.		
2000	Wingate Inn	86	Streetsboro	9705 State Route 14		
2000	Hampton Inn	78	Medina	State Route 18 & I-71		
2001	Country Inn & Suites	60	Macedonia	State Route 8 and I-271		
2001	Lawnfield Inn & Suites	50	Mentor	Center Steet and Mentor Avenue		
2001	Hyatt Regency	293	Downtown	Colonial Arcade		
2001	Embassy Suites	271	Independence	Interstate 77 at Rockside Road		
2001	TownePlace Suites	71	Streetsboro	Near Interstate 80 and I-480 Intersection		
2002	Hampton Inn	81	Brooklyn	Interstate 480 & Tiedeman Rd.		
2002	Hilton Garden Inn	240	Downtown	Jacob's Field		
2002	Homewood Suites	86	Solon	Harper Rd. off 422		
2002	Sleep Inn & Suites	64	Ashtabula	State Route 218 & I-90		
2002	Extended Stay America	113	Beachwood	I-271 & Chagrin Blvd.		
2002	Fairfield Inn	69	Avon	State Route 611 & I-90		
2003	Country Inn & Suites	75	Elyria	Near State Route 67 & I-80		
2003	Intercontinental	300	Midtown	Cleveland Clinic		
2003	Springhill Suites	120	Solon	Aurora Rd. off 422		
2004	Hampton Inn & Suites	139	Beachwood	Chagrin Highlands		
2004	Bertram Inn addition	63	Aurora	SR 43		
2004	Hawthorn Suites	62	Seville	Interstate 76 & Route 3		
2004	Geneva State Park Lodge	109	Ashtabula	Geneva State Park		
Total		3,053				

Regional Issues

In 2004, the greater Cleveland area suffered a number of setbacks, but the year was not without its successes as well. A proposal to increase the sales tax to finance a new convention center was pulled from the March 2004 ballot before voters could weigh in on the issue. Although the business community continues to support the development of a new center, political leaders felt they had insufficient time to inform the public on the need for the facility and its benefits. The city created the Convention Facilities Authority

in 2004, which has a mission to develop a new center. Downtown is left with its dated 375,000 square foot underground Cleveland Convention Center as well as atypical meeting environments such as the Cleveland State University Convocation Center and Gund Arena. In the suburbs, the International Exposition Center with over 1 million square feet of meeting space continues to have an uncertain future. Located adjacent to the Cleveland Hopkins International Airport, the center was slated for demolition in favor of the airport's expansion. However, with the reduction in air travel, it may not be necessary to expand through the I-X Center's property and thus the structure may remain. Unfortunately, this converted tank plant, like the Cleveland Convention Center, lacks up-to-date amenities sought after by meeting planners. A new convention center to replace either or both of these facilities continues to lack regional financial and political support, and seems an unlikely prospect for the near future.

Despite the limitations on conventional convention space, the Cleveland market experienced growth in the group meetings market segment. The following table presents historical meeting activities in the Greater Cleveland area.

Historical Meeting Activities				
Greater Cleveland Area				
Year	Meetings/ Year	% Change # of Groups	Attendance	% Change Attendance
2004	367	10.2%	288,380	23.2%
2003	333	0.3%	234,000	-33.3%
2002	332	5.1%	351,000	-30.2%
2001	316	-9.2%	503,000	51.5%
2000	348	-14.9%	332,000	-21.0%
1999	409	8.8%	420,000	27.7%
1998	376	6.5%	329,000	-7.8%
1997	353	0.9%	357,000	-7.3%
1996	350	NA	385,000	NA

Source: Convention & Visitors Bureau of Greater Cleveland

The number of meetings hosted in Cleveland jumped in 2004 to its highest mark since 1999, increasing 10.2% over last year. Unlike the previous two years when the number of meetings increased but attendance at those meeting declined, 2004 saw an increase in meeting attendance for the first time since 2001. Although the average attendance at meetings continues to lag behind years past, it is encouraging to see the growth in attendance in the past twelve months.

The following table lists the top five conventions planned for the Cleveland area for 2005.

Cleveland Convention Activity		
Top Five Conventions in 2005		
Association	Dates	Attendance
National Wrestling Coaches Association	1/14 - 1/16	4,000
National Collegiate Athletic Association	3/17 - 3/19	10,000
National High School Coaches Association	3/31 - 4/3	6,000
Christian Congregation of Jehovah's Witnesses	7/1 - 8/6*	40,000
United Methodist Church	11/11 - 11/13	6,000
*The Jehovah's Witnessess meet over four weekends in July and August		
Source: Convention and Visitors Bureau of Greater Cleveland		

The region's sluggish economy had an exclamation point placed on it in 2004 when the Census Bureau ranked Cleveland the nation's poorest big city. In the past four years, Cuyahoga County has lost 63,900 jobs or nearly 8.1% of the total jobs in the county. Manufacturing job numbers are even worse, with Cuyahoga County losing 21.4% of that job category during the same period. In late 2005, Ford Motor Company will close its Lorain Assembly Plant, a move that will cost the jobs of 1,200 workers. Not all sectors have contracted however, as health care and financial services job categories continue to show net positive job growth. In addition, International Steel Group reaffirmed its expansion plans for Cleveland, following its recent sale to Mittal Steel Co. Also, Charter Steel is investing \$90 million dollars in an expansion which will generate 140 manufacturing jobs.

Cleveland's Mayor Jane Campbell has thrown her support behind the development of a casino in the downtown area. The specifics of the program are yet to be worked out and a number of obstacles will need to be overcome before a casino can be built. Ohio voters would need to approve casino gambling in the state before it could happen. Twice before in 1990 and 1996, voters have rejected such proposals by almost 2-to-1. However, the mayor has proposed a change in the state constitution to permit communities the right to decide whether or not to permit gaming. She is aiming for getting the proposition on the November 2005 ballot. Most lawmakers still consider the proposal a long shot.

Regional Attractions

Regional attractions have on balance been a better performer in the Cleveland market than that of the other sectors, but they too have had challenges. In 2004, the Cleveland Browns football team played before sell-out crowds each home game despite its poor performance on the field, the resignation of its coach in mid-season and general disorganization in the team's front office. Competitive play by the Cleveland Indians baseball team through most of the 2004 season was rewarded by an increase in attendance for the first time in three years. The Cleveland Cavaliers basketball team, having played to near empty arenas in past years, now performs before sell-out crowds, thanks to the performance of its all-star LeBron James.

Six Flags Worlds of Adventure, the largest theme park in the Cleveland MSA, was sold in April 2004 to Cedar Fair the parent company of Cedar Point and renamed Geauga Lake. The 2004 season's attendance fell to a little over 700,000, a 74% decrease from 2001's attendance and lost \$1.8 million in the prime July to September period. In an attempt to lure people back to the park, adult admission price will be reduced by \$10 to \$24.95 in 2005. In addition, park officials announced plans to build a 20-acre waterpark named Wildwater Kingdom, located on the former Sea World side of the park. Construction on the first phase of the waterpark is scheduled to open by the 2005 season and will include a 60-foot tall tornado slide, activity pool, and a children's area with a multi-story interactive play structure. The second phase will include a 38,000 square foot wave pool, an adult pool with whirlpool spas, a swim-up bar and a number of additional water slides. The estimated cost of the expansion is \$26 million.

Cedar Point, the region's most popular amusement park, also experienced a decline in attendance, dropping to 3.2 million in 2004 from 3.3 million in 2003. Much of the attendance decline was attributed to the lack of new attractions and weather issues. In 2005, the park is investing \$10 million on park upgrades and the introduction of a new thrill ride maXair. The swinging pendulum movement of the ride will take the rider 140 feet high and create a feeling similar to weightlessness.

For the third consecutive year Cleveland hosted the Gravity Games. In 2003, the games held their first live broadcast from Cleveland featuring the freestyle motocross competition. The event was the highest-rated, action sports television event in the United States. In 2004, the games doubled the broadcast coverage with more than 20 hours of event coverage. In 2004, Cleveland hosted the International Children's Games and Festival, the first time the games have ever been held in the United States. About 2,200 young athletes from more than 50 countries participated in a variety of events. Cleveland also hosted the Vice Presidential Debate in October at Case Western Reserve University which was one of the most watched debates of the political season. The events combined to present Cleveland on a world stage which provides long-term benefits including international business opportunities.

David J. Sangree, MAI, CPA, ISHC is Director of Hospitality Consulting with US REALTY CONSULTANTS and a Principal in the Cleveland office. He has performed over 1,000 hotel studies and across the United States and Canada. USRC is a national hospitality consulting and real estate valuation firm with offices in Cleveland, Columbus, Chicago, and West Palm Beach. He can be reached via telephone at 216-221-9191 or via e-mail at dsangree@usrc.com. Joseph Pierce is an Associate with USRC's Cleveland office.

US REALTY CONSULTANTS
14805 Detroit Avenue
Suite 415
Cleveland, Ohio 44107-3921
Phone: 216-221-9191
Fax: 216-221-9097
Web Site: USRC.com