



Downtown Beverly Hotel Feasibility Study

Beverly, Massachusetts

Prepared for: City of Beverly
Department of Planning and Development

December, 2018



Prepared by: FinePoint Associates, www.FinePointAssociates.com
Peg Barringer, Project Director



Sponsored by:
MA Dept. of Housing & Community Development,
MA Downtown Initiative Program, Emmy Hahn, Coordinator

Table of Contents

List of Tables and Figures.....	3
Acknowledgements.....	4
1. Introduction and Summary.....	5
2. Hotel Location Criteria, Community Economic Impacts & Roles for the Public Sector. . .	10
3. National Hotel Industry Trends and Outlook.....	13
4. Description of Area Targeted for Hotel Development.....	17
5. Market Area Analysis.....	19
▪ Demographic Highlights	
▪ Economic Highlights	
6. Evaluation of Current Lodging Supply.....	22
▪ Primary Competitive Set – Hotels within Five Miles of Downtown Beverly	
- Hotel Supply within 5 Miles – Characteristics and Room Count	
- Overview of Supply Trend	
- Occupancy	
- Average Daily Rate (ADR)	
- Revenue Per Available Room (RevPAR)	
▪ Secondary Competition – Alternative Lodging	
- Small Inns and Bed & Breakfast Establishments (B&Bs)	
- Rooms and Homes Rented through AirBnB and HomeAway	
▪ Proposed/Planned Hotel Development	
- Hampton Inn Planned for Salem	
- New Boutique Hotel Planned near North Shore Mall in Peabody	
- Previous Plans for Boutique Hotel in Peabody Square Scratched	
- North Shore Music Theatre (NMST) – Need has Prompted Consideration	
7. Evaluation of Lodging Demand.....	31
▪ Overall Hotel Demand Trends in 5-Mile Market Area	
▪ Downtown Beverly Hotel Market Segments and Overview of Demand Generators	
▪ Leisure Traveler Segment	
- Demand Generators	
- Other Findings from Surveys, Interviews and Ticket Sales Analysis	
- Salem Tourism Trends	
▪ Business Traveler Segment	
- Demand Generators	
- Findings from Survey Responses from Cummings Center & Cherry Hill Businesses	
▪ Demand for Overnight Accommodations from Nearby Demand Generators	
8. Function/Restaurant Facilities – Survey Findings.....	41
9. Preliminary Financial Analysis.....	43
Disclaimer.....	44

List of Tables and Figures

Tables

1. Outlook for 2018 and 2019; STR/Tourism Economics
2. Population
3. Median Household and Per Capita Income
4. Beverly - Establishments and Employment Trends by Industry
5. Beverly Top Three Growth Industry Categories
6. Educational Attainment
7. Hotels within 5 Miles - Type, Characteristics and Room Count
8. Sample Booking Room Rates – Hotels within 5 Miles
9. Small Inns and B&Bs Characteristics and Room Count
10. Summary of Air BNB and HomeAway Listings
11. Leisure Traveler Segment: Hotel Demand Generators, Events, & Attendance/Visitors
12. Business Traveler Segment: Hotel Demand Generators
13. Partial Demand Quantification – Nearby Demand Generators
14. Times per year Businesses Use Function/Restaurant Facilities by Group Size
15. Preliminary Financial Analysis

Figures

1. Hotel Occupancy Rate in the U.S.
2. Average Daily Rate in the U.S.
3. RevPAR in the U.S.
4. Beverly Geographic Context
5. Downtown Beverly Map
6. Location of Hotels within 5-Mile Radius of Downtown Beverly
7. Hotels within 5 Miles Year Over Year Change: Supply, Demand, Revenue
8. Occupancy Rate: U.S., 5-Mile Market Area, Essex County, New England
9. Average Daily Rate: U.S., 5-Mile Market Area, Essex County, New England
10. Revenue Per Available Room: U.S., 5-Mile Market Area, Essex County, New England
11. Location of Small Inns and B&Bs within 5-Mile Radius of Downtown Beverly
12. Demand Generator Map
13. Other Findings from Surveys & Interviews with Colleges and Theatres
14. Findings from Theatre Ticket Sales Analysis
15. Findings from Survey Responses - Cummings Center & Cherry Hill Businesses
16. Number of Rooms Sold
17. Change in Number of Rooms Sold
18. % of Businesses that Use Function/Restaurant Facilities for Meetings, Receptions & Other Events by Group Size

Acknowledgements

This project was conducted by FinePoint Associates, Peg Barringer, Project Director, in collaboration with the Beverly Planning and Development Department, Aaron Clausen, Director. Thank you to all who contributed, especially:

- Darlene Wynne, Assistant Planning Director, Emily Hutchings, Associate Planner, and Denise Deschamps, Economic Development Planner, who provided thoughtful guidance and assistance throughout this study.
- Representatives from the North of Boston Visitor and Conventions Bureau, Beverly Chamber of Commerce, and North Shore Workforce Investment Board that provided valuable input and assistance.
- All of the local businesses that graciously agreed to be interviewed and/or surveyed.
- MA Dept. of Housing & Community Development that generously provided funding through the MA Downtown Initiative Program, Emmy Hahn, Coordinator.

1. Introduction and Summary

Purpose of the Study

The purpose of this study is to analyze the potential for lodging facilities in the downtown Beverly area. This analysis includes the study of economic and market conditions, identifying hotel location criteria, potential benefits for the community and roles the public sector can play. (See disclaimer at the end of this document.)

Process

FinePoint Associates worked collaboratively with the City of Beverly's Department of Planning and Development to conduct this study. Staff members, Emily Hutchings, Associate Planner, and Denise Deschamps, Economic Development Planner, were instrumental in providing general review and guidance throughout the process and particularly in encouraging business survey responses and assisting with interviews. The following tasks were completed:

1. Researched the criteria hotel developers use to assess the viability of potential locations. (This helped steer the rest of the study and also offers guidance for future evaluation of specific sites.)
2. Quantified and articulated the positive economic impacts that hotels can have on the community and researched the many types of incentives and other actions that public sector entities can take to encourage hotel development in their communities.
3. Researched national hotel industry trends and the outlook for the near term.
4. Analyzed economic conditions and trends in the market area including demographic characteristics, industry clusters, business, and job growth.
5. Evaluated existing supply. We identified and analyzed hotel offerings representing the primary competition for a downtown Beverly hotel. We obtained data and analyzed supply trends, occupancy rates, average daily rate, and revenue per available room. We also explored the secondary competition.
6. Evaluated demand for hotel rooms. We obtained and analyzed data regarding the number of rooms sold in the 5-mile market area and Essex County as well as trends in New England and the U.S. We identified nearby demand generators (colleges, theatres, business parks, etc.), designed and administered a business survey (100 responses), and conducted interviews with representatives of demand generators to quantify the amount of annual visitors. We obtained and analyzed ticket sales data from two theatres to determine the volume of ticket sales generating from beyond Massachusetts and New England. We also analyzed information from the survey about the use of function space and satisfaction with current options.
7. Conducted 10 interviews with stakeholders and industry experts such as representatives from: the North of Boston Convention and Visitors Bureau, the Greater Beverly Chamber of Commerce, the North Shore Workforce Investment Board, and CHM Warnick, a nationally renowned hospitality investment company located in Beverly.

Summary of Findings

Demand for hotel rooms has increased over the last 5 years in Essex County and there are significant hotel room demand generators within close proximity to Downtown Beverly, amidst a vital and growing economy. Downtown Beverly offers a host of restaurants and entertainment options along with good access and train service to Boston. A new hotel would complement the existing mix of commercial and cultural uses, create economic benefits for the community and is compatible with public sector goals and policy. On the other hand, hotel room supply is also substantially increasing, especially with the new Hotel Salem in full operation and the nearby 113-room Hampton Inn development underway. The following are key findings from our research.

Hotel Demand

Demand Generators and Expressed Desire for Hotel Rooms

- There are several demand generators for leisure travelers within 3 miles of Downtown Beverly, including: 3 colleges, 4 theatres/entertainment venues, several wedding/special event venues, and tourist attractions in the neighboring community of Salem.
- Events at the nearby colleges and theaters attract approximately 400,000 attendees per year, many of whom come from outside of the area. Nearby Salem tourist attractions receive over 1 million visitors per year.
- 83% of survey respondents representing the colleges and theaters indicated they experienced an increase in the number of visitors over the last three years, 50% indicated their visitors have difficulty finding accommodations, and 100% rate the prospect of a Downtown Beverly Hotel as “desirable” or “very desirable”.
- There are 3 nearby business parks plus the Beverly Regional Airport that serve as demand generators for business travelers. The business parks include: Cummings Center (2.4 million sq. ft., over 500 companies), Cherry Hill (1 million sq. ft., over 15 companies), and Dunham Ridge (a 54-acre campus currently under development). The Beverly Regional Airport hosts over 54,000 flights per year, including over 60 incoming international flights, and has experienced a significant increase in corporate jet travel in recent years.
- 69% of business survey respondents from Cummings Center and Cherry Hill indicated they experienced an increase in the number of business travelers over the last three years, 47% indicated their visitors have difficulty finding accommodations and 72% rate the prospect of a Downtown Beverly Hotel as “desirable” or “very desirable”. Several representatives indicated that corporate rates were important to the employers and loyalty programs were important to many business travelers.
- The number of rooms sold in Essex County increased 12% between 2012 and 2017 compared to 10% in New England and 14% in the U.S. The number of rooms sold in the 5-mile market area declined 5% over the same period, likely due, at least in part, to a portion of guests that otherwise might be accommodated within the 5-mile market area finding lodging elsewhere in Essex County (which experienced an increase in supply and rooms sold).

Economic Vitality of the Market Area

- Beverly has a diversified and growing industry base consisting of over 1,500 companies and close to 24,000 jobs. The top 4 industry concentrations include: Health Care, Education, Advanced Manufacturing and Tech/Creative.
- Beverly has been experiencing a higher rate of job growth compared to the North Shore Region and the state overall. Jobs in Beverly grew 21% between 2001 and 2017, compared to 5% in the North Shore and 9% in Massachusetts

Proximity to Complementary Uses and Accessibility

Proximity to Restaurants, Shops and Entertainment

- Downtown Beverly has experienced significant population and commercial growth in recent years, particularly along its two main commercial corridors: Cabot Street and Rantoul Street. The downtown includes three theaters, multiple restaurants and cafés, and various other commercial uses. Cabot Street has become known for its cultural district – the Beverly Arts District – which was formally designated a Cultural District by the Massachusetts Cultural Council in 2015 because of the variety and density of cultural and arts-related enterprises.

Accessibility

- Downtown Beverly is easily accessible with a train station downtown providing access to Boston or coastal points north and east; proximity to State Route 128; and, a 10-minute drive or train ride to downtown Salem. The Beverly Depot commuter rail station is one of the busiest in the MBTA commuter rail system, with frequent service to Boston, a trip to North Station, taking 30 minutes.
- Beverly is accessible by car with easy access to five exits off State Route 128. In addition to on-street parking, Downtown Beverly contains multiple municipal parking lots, as well as the publicly-accessible 500-space MBTA parking garage.
- The Beverly Regional Airport, located in North Beverly, features a fixed-base operator, in addition to many small privately owned airport hangers. In the last few years, there has been a substantial increase in corporate jet travel, evidenced by the 140% increase in air taxi operations from 2012 to 2017 and 39% increase in jet fuel flowage from 2014 to 2017.

Hotel Supply

Existing Hotel Rooms and Secondary Competition

- There are 16 hotels within 5 miles of Downtown Beverly, offering a total of 1,445 guest rooms. Eight are independently owned hotels and eight are affiliated with a chain. There are other hotels located beyond the 5-mile radius along Route 1 to the North and South.
- Only two hotels are located within the City of Beverly, the Wylie Inn and Conference Center (located at Endicott College with 91 guest rooms) and the Beverly Gardens Suites (with 20 guest suites with kitchens suitable for extended stay).
- Supply remained constant in the 5-mile market area from 2012 to 2017 while supply increased in Essex County. The Beauport, a 94-room oceanfront hotel in Gloucester, opened in 2016, was a notable addition to Essex County. Hotel Salem, a 44-room boutique hotel in

Downtown Salem, is the newest addition to the 5-mile market area (opened at the end of 2017). The supply in the 5-mile market area will increase 11% from 2017 to 2020, given the full year operation of Hotel Salem and completion of the 2 new planned hotels (i.e., Hampton Inn being developed in Salem and small hotel in Peabody.) This increase in hotel rooms in the 5-mile market area represents a 3.0% increase in the supply of Essex County.

- In addition to the hotels, secondary lodging competition within the 5-mile radius include 3 small Inns and 17 B&Bs offering a combined total of 83 guest rooms along with Airbnb and HomeAway listings.

New Hotels Rooms Planned for the Immediate Area

- There are at least 2 hotel development projects in the pipeline within the 5-mile market area, including a new Hampton Inn (113 rooms) being developed in Salem and an independent boutique hotel (16 – 20 rooms) planned in Peabody.

Performance of Existing Hotels

- Average occupancy in 2017 was 69% in Essex County, higher than the U.S, average of 65.9%; occupancy in the 5-mile market area was 65.5%, close to the U.S. average. There is seasonality in the market with highest occupancy from June through October.
- The revenue per available room (RevPAR) in 2017 was \$83.69 in Essex County, very close to the U.S. average of \$83.57. RevPar in the 5-mile market area was \$82.10, within 2% of the national average. RevPAR is calculated by dividing a hotel's total room revenue by the total number of available rooms in the period.

Preliminary Financial Analysis for Illustrative Purposes

- To achieve average occupancy, a new 40-room hotel would have to sell 9,563 hotel rooms (i.e., room nights) representing 2.6% of the rooms sold in 2017 in the 5-mile market area and .7% of the rooms sold in Essex County. A new 20-room hotel would have to sell 4,782 rooms representing 1.3% of rooms sold in the 5-mile market area and .3% in Essex County.
- To be financially feasible, a new 40-room hotel, that achieved occupancy and room revenue rates comparable to the 5-mile market area in 2017, must be able to be profitable at a room revenue level of around \$1.2 million (around \$600,000 for a 20-room hotel). If the hotel requires more revenue to be profitable, it would have to achieve RevPAR higher than the market area average.

Community Economic Impacts

Potential Community Benefits of Downtown Hotel Development

- A hotel would help continue to bring vibrancy and stability to Downtown Beverly complementing and enhancing the Beverly Arts District.
- Providing lodging offers visitors the opportunity to lengthen their stay and turn a day trip into a multi-day trip, helping to build a customer base for additional cultural development. Visitors attending college-related events or theater performances may consider extending their stay to take advantage of other local attractions if lodging is attractive and appropriately priced.

- Hotel customers would increase revenue opportunities for businesses located in downtown and elsewhere in Beverly. For every \$100 dollars that hotel guests spend on lodging, they spend another \$221 in the destination (food, beverage, retail, recreation, etc.)¹
- A hotel would create direct and indirect jobs in the community and add to the local tax base.

Public Policy, Support and Potential Approval

Local Zoning and Approval Process

- The CC (Central Business) Zoning District, which encompasses the majority of Rantoul Street and the downtown portion of Cabot Street, allows for hotel use by Special Permit granted from the Planning Board. Prior to application, the City encourages developers to meet with its Project Review Team, which reviews potential projects throughout the City and provides advice and recommendations about application processes and project development. This review process has helped clarify the permitting process for project proponents, and as a result, in many cases has shortened the approval process for project proponents.

Utilities, Public Infrastructure Investments and Financing Incentives

- Public utilities including water, sewer, and electricity are present throughout the Downtown, simplifying the building process for developers.
- The reconstruction of Rantoul Street/Route 1A to complete street standards is an example of public investment that the City of Beverly has made in an effort to encourage redevelopment downtown. This \$20 million project was designed to provide improved access along the Rantoul Street corridor, and includes an enhanced pedestrian environment and bicycle lanes. This project has helped facilitate millions of dollars of private investment along the corridor, including five mixed-use multifamily development projects with over 400 residential units and over 15,000 square feet of new commercial/retail space. Other infrastructure and placemaking projects include the reconstruction of Broadway, Veterans Memorial at 1 Ellis Square, and starting in 2019 reconstruction of Cabot Street to complete street standards.
- The City of Beverly has various public financing incentives available to developers. Tax increment financing (TIF) agreements are well-known to the City. The Façade and Sign Improvement Program – managed jointly by the City of Beverly and the nonprofit Beverly Main Streets – provides grants of up to \$7,500 for businesses and developers looking to improve their façades and/or develop exemplary signage.

Public Support

- The creation of a walkable downtown that offers a vibrant mix of housing, commercial, and cultural uses is a core land use and economic development goal expressed by the Beverly Planning and Development Department. The addition of a hotel to downtown would further this goal and complement the variety of uses already thriving.

¹ Bureau of Economic Analysis: Oxford Economics

2. Hotel Location Criteria, Community Economic Impacts and Potential Roles for the Public Sector

Location Criteria for Hotel Developers

As frequently cited, location, location, and location are the most important factors in real estate, and this holds true for hotel development. The key location selection criteria for hotels are listed below.

Demand

- Is the location near hotel room demand generators?
- What are the hotel room demand generators? (e.g., tourist attractions, industrial parks/local businesses, colleges, hospitals, major crossroad for through traffic, etc.)
- Have these demand generators expressed the need for hotel rooms?
- Is the market area economically vital? Is it growing?

Supply

- How many hotel rooms currently exist in the community? What types of hotels and accommodations are available (e.g., chains, independent, boutique)?
- Are the existing hotels successful?
- How many new hotels and rooms are planned for the immediate area?

Public Policy and Approval

- Will government policies encourage or discourage development of the site?
- Are public financing incentives available?
- How will the public react to the proposed development?
- How long will the necessary approval processes take?

Specific Site Characteristics

- Is the location easily accessed? (e.g., proximity to major roads, public transportation, parking)
- Is the location close to restaurants (most important) and shops?
- Is the location zoned for a hotel or can zoning be easily changed to allow a hotel?
- Is the site large enough? Does FAR, height limits, setback requirements, parking, and other regulations allow for development of the desired number of rooms on the site?
- Are utilities available at the site? (e.g., sewer, water, electricity)
- Can the site be bought or leased? Would the current land owner be willing to exchange the land for a percentage ownership in the hotel?

How Can Hotel Development Benefit a Community?

Hotels can have many positive impacts on the community in which they are located. Several are listed below.

- **Enrich Downtown Vibrancy:** A hotel can help continue to bring vibrancy and stability to a downtown commercial district.

- Capitalize on Institutional Visitors/Expand Tourism: Providing lodging offers visitors the opportunity to lengthen their stay and turn a day trip into a multi-day trip, helping to build a customer base for additional cultural development.
- Increase Local Spending Support for Local Businesses: For every \$100 dollars that hotel guests spend on lodging, they spend another \$221 in the destination (food, beverage, retail, recreation, etc.)²
- Create Jobs: A typical 100-room hotel supports 230 local jobs.³
- Increase Tax Revenue: Hotels pay property tax and guests pay room tax.

What Can and Have Cities Done to Encourage Hotel Development?

Cities use a variety of financial incentives to promote hotel development. These incentives can take many forms.

- Waiving development impact fees and/or building permits
- Lowering development cost by providing and paying for related infrastructure
- Property tax rebates and deferrals including payments in lieu of taxes (PILOTs)
- Hotel/room tax rebates
- Low cost sale or lease of public land
- Assisting the project with public debt instruments (e.g., Tax Increment Financing, bond financing, CDBG/Section 108 loans)
- Providing direct subsidies through development grants

Other actions that cities have taken to attract hotel development include:

- Issuing a request for qualifications (RFQ) or request for proposals (RFP)
- Changing zoning, height limits, and other restrictions to accommodate hotel development
- Including hotel development in planning; gaining public support in advance

The following are several recent examples of public sector actions, taken or currently under consideration, to encourage hotel development.

Hotel Tax Rebate: The City of Hollister, CA has created a program that is designed to encourage the development of additional hotels in an underserved market. The incentive includes a 70% rebate of transient occupancy tax (a tax collected on hotel rooms). The rebate stays in effect for 10 years and is capped at \$2 million. The rebate is only available for hotels that reach a three-diamond rating, which is described by AAA to meet expectations that include: distinguished, multifaceted with enhanced physical attributes, amenities, and guest comforts.

Change in Height Limitation: In April, 2018 the City Council of Auburn, AL voted to change the height restriction, clearing the way for a new hotel development project. The new 4-story hotel will house The Plains Bar and Grill, The Plains Bakery, a spa and wellness center and 120 rooms.

² Bureau of Economic Analysis: Oxford Economics

³ Bureau of Economic Analysis: Oxford Economics

The overall height of the building would be 75 feet, which allows for rooftop features, including a pool and bar. Currently, the maximum height for a building in the College Edge Overlay District, which includes much of Auburn's traditional downtown, is 65 feet.

Reduction of Development Impact Fees to Encourage Certain Types of Hotels: The City of Murrieta, California's Comprehensive Economic Development Strategy promotes the development of quality new hotels. The City believes that higher quality hotels will provide appropriate lodging opportunities for tourists and business travelers and attract other high quality development. In order to encourage the development of higher quality hotels, the City Council approved a tiered Development Impact Fee (DIF) based on the structure amenities provided by the hotel being developed.

Category I (Exceptional Hotel)	\$2.77/square foot
Category II (First Class Hotel)	\$5.55/square foot
Category III (Value Hotel)	\$6.65/square foot
Category IV (Economy Hotel)	\$11.09/square foot

RFP and Parking Study: The City of Grosse Pointe, MI issued an RFP to encourage the development of a hotel in their Village Center. After reviewing the proposals, the city entered into a six-month agreement with the selected developer to allow the city and developer to explore the feasibility, financing, and design of the project. The developer met with stakeholders, business owners and a city-appointed committee during that time. The city commissioned a parking study after concerns arose from business owners in the Village Center and extended the time period for the preferred developer agreement. Recently, the developer presented a new design for the downtown hotel including 88-100 rooms, trimmed down and redesigned from the initial concept that included 125 rooms.

Bond Financing in Addition to Disposition and Development Agreement: The City of Livermore, CA is considering a strategy to facilitate the development of a new downtown hotel. The plan under consideration includes the City selling property for the development to Presidio (the developer) at fair market value based on an appraisal. Infrastructure costs, applicable fees, and the costs of the underground parking would be financed by Presidio through a Community Facilities District (CFD) bond, with payments made by the hotelier over a period of 30 years. Bond proceeds would pay for costs upfront, including the cost of underground parking. The city would participate in the parking garage by leasing the underground parking garage from Presidio, making it a paid public garage and available for both hotel patrons and public parking. Presidio would be responsible for operation and maintenance of the garage and charge a reasonable fee for parking.

3. National Hotel Industry Trends and Outlook⁴

Performance in the hotel industry has been strong in recent years and the experts are forecasting this will continue. Key growth drivers for the travel industry include healthy economic indicators for consumer spending, an overall shift of consumer preferences from products to experiences, and the potential for a robust economy to increase corporate travel. Leading industry authorities say these conditions will support the positive trends in occupancy and room rates.

The following forecast is from STR (formerly Smith Travel Research) and Tourism Economics.

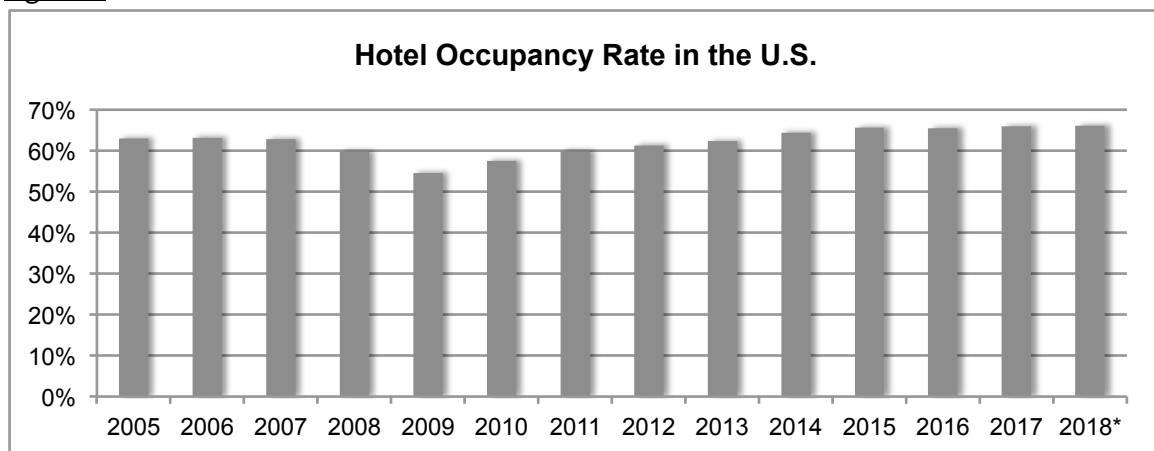
Table 1.

Outlook for 2018 and 2019; STR/Tourism Economics		
	2018	2019
Supply	+2.0%	+1.9%
Demand	+2.3%	+2.0%
Occupancy	+0.3%	+0.1%
ADR ⁵	+2.4%	+2.3%
RevPAR ⁶	+2.7%	+2.4%

Occupancy

Demand appears to be healthy and expected to stay that way. Hotel occupancy is expected to grow to 66.1% in 2018, the highest occupancy level since 1981, according to Price Waterhouse Coopers (PwC) and STR.

Figure 1.



⁴ See Section End Notes for Sources

⁵ ADR (Average Daily Rate) is the average rental income per paid occupied room in a given time period. ADR along with the property's occupancy are the foundations for the property's financial performance.

⁶ Revenue per available room (RevPAR) is calculated by dividing a hotel's total room revenue by the total number of available rooms in the period being measured.

Average Daily Room Rate (ADR) and Revenue per Available Room (RevPAR)

ADR is expected to increase 2.4% to \$129.77 according to STR and Tourism Economics and RevPAR is expected to rise 2.7% to \$85.82. RevPAR has been increasing for the last 8 years.

Figure 2.

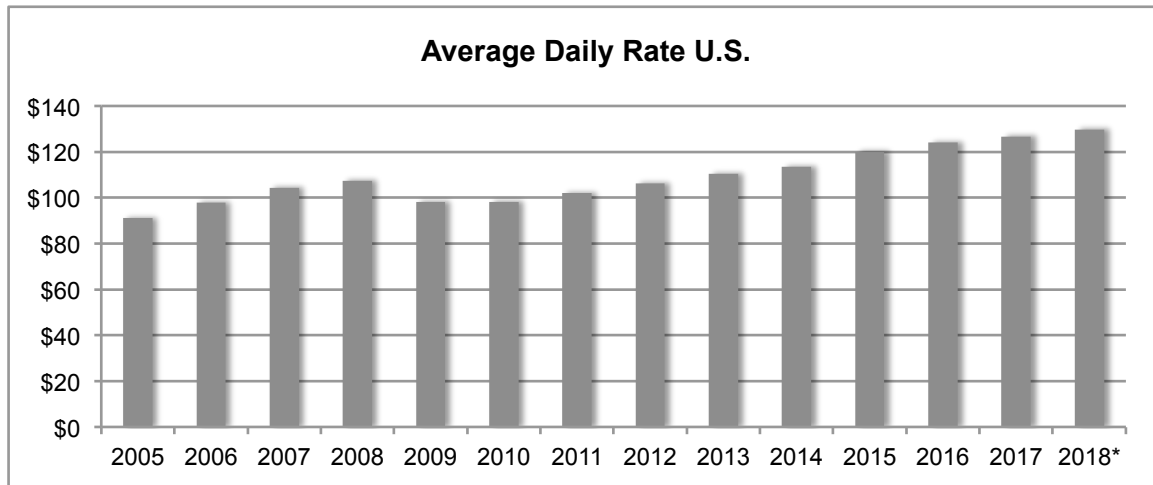
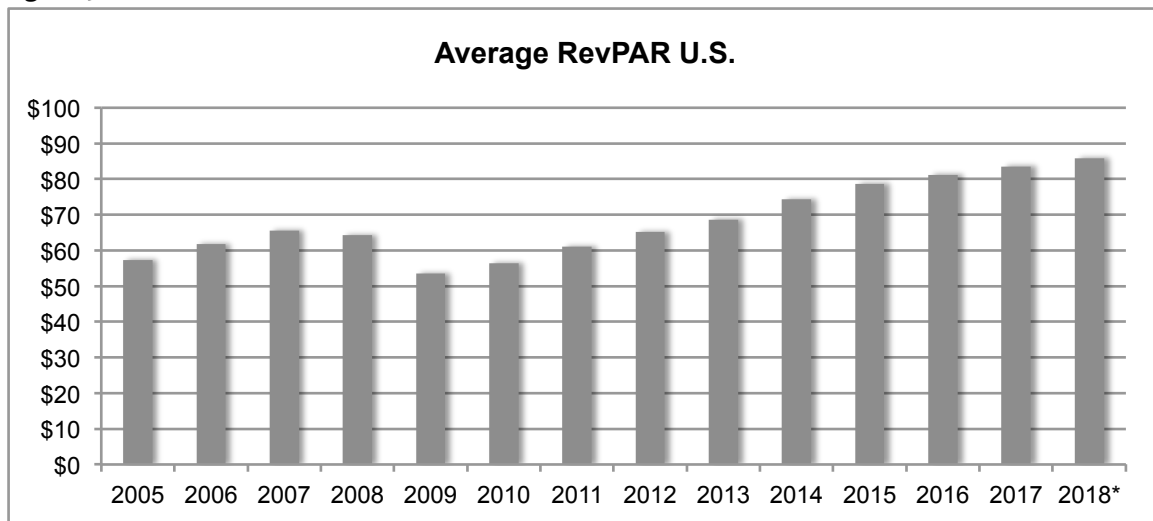


Figure 3.



Demand Trend Among Travel Segments

The current demand skews toward leisure travel, which is a price-sensitive segment that shops around. PwC predicts the leisure segment will continue to drive room-night demand while the corporate segment demand will continue to show slow growth. Going forward, PwC points to strength in consumer spending and the potential for an uptick in corporate travel to result in RevPAR growth again this year. (Corporate travel activity increases with a strong economy. The Global Business Travel Association forecasts business travel globally will increase 6% in 2018.)

Hotel Segment Forecasts

The largest increase in occupancy (+.4%) is expected for luxury and chain-scale hotels. Independent hotels are expected to see the highest growth in ADR (+2.5%) and RevPAR (+2.9%).

Investor Confidence

JLL's Hotel Investor Survey shows hotel investors to be more confident than they were in 2016. JLL attributes this to the RevPAR trend, strong economy, and corporate confidence due to tax reform.

Trends in Hotel Development

One trend is the increasing appearance of “**boutique hotels**” which have experienced steady growth over the last five years. The quest for something “new and different” on the part of the travelling public has given rise to the “boutique hotel”, characterized by intimate atmosphere and idiosyncratic style. They distinguish themselves from larger chain hotels by offering personalized attention and styled accommodations. While there is no official definition, the following are typical traits.

- Small, Intimate in Size and Feeling (10 to 100 rooms)
- An Independent Hotel (or feels like one) - independently owned and/or a member of a luxury hotel association. (Or the boutique brand of a bigger hotel label)
- Unique, Distinct Vibe - no cookie cutter décor, strives to be one-of-a-kind
- Creative Design - often funky, fun, quirky, sometimes based off a theme/motif
- Celebrates Local Flavor, sometimes incorporate locally sourced art and materials.
- Eccentric, with a Sense of Humor, whimsical touches, memorable elements
- Often Focuses on Food & Beverage, restaurants and bars are hip and trendy.
- Often Pet-Friendly

Building Design and Construction Network's Senior Editor, Julie Higginbotham, cites five other important trends shaping today's hotel development.

1. Demand for sustainable, healthy, locally authentic properties, with an eye toward attracting Millennials.
2. Adaptive reuse of interesting non-hotel buildings that provide a strong sense of place and, often, tax advantages. (Tax advantages include Historic Tax Credits for eligible buildings.)
3. Renovation of existing hotel properties to meet pent-up demand and rising consumer expectations.
4. Renewed popularity of large projects mixing hospitality, residential, workplace, entertainment, sports, and other functions.

5. Rise of the value-oriented “select-service” category, bridging the gap between luxury and economy. (Select-service hotels are traditionally defined as properties without restaurants or banquet facilities.)

Definition of Terms

1. Average Daily Rate (commonly referred to as ADR) is a statistical unit that is often used in the lodging industry. The number represents the average rental income per paid occupied room in a given time period. ADR along with the property's occupancy are the foundations for the property's financial performance.
2. Revenue per available room (RevPAR) is a performance metric used in the hotel industry. It is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate. It may also be calculated by dividing a hotel's total room revenue by the total number of available rooms in the period being measured.

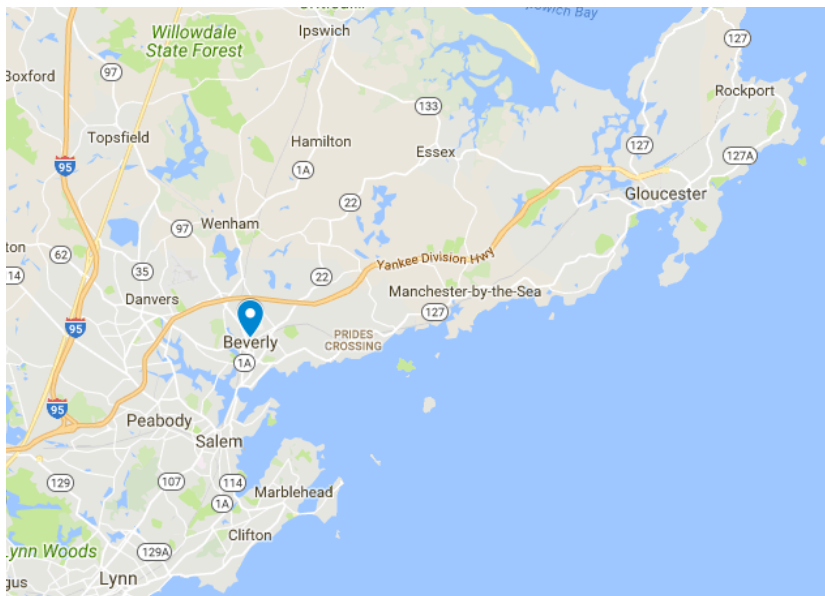
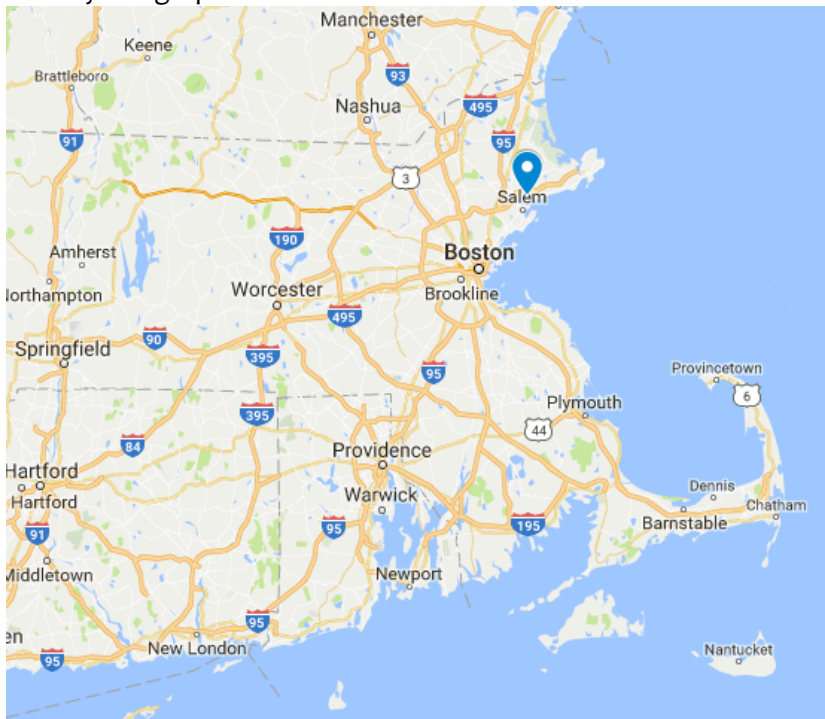
Section End Notes - Sources for National Hotel Industry Trends

1. STR/Tourism Economics Statistics. Hotelnewsnow.com
2. Pricewaterhouse Coopers Statistics, Hotelnewsnow.com
3. “Continued Growth Still in Forecast for U.S. Hotel Industry 2018”, HotelManagement.net, Alicia Hoisington, January 29, 2018
4. Deloitte Travel and Hospitality Outlook 2018
5. “5 important trends shaping today's hotel construction market”, [Building Design +Construction Network](http://BuildingDesign+ConstructionNetwork.com), www.bdcnetwork.com, Julie S. Higginbotham, Senior Editor, April 09, 2014
6. “9 Characteristics of Boutique Hotels”, www.CovingtonTravel.com, February 26th, 2016
7. What Are Boutique Hotels? By Karen Tina Harrison ,Updated 02/09/18, <https://www.tripsavvy.com/what-are-boutique-hotels-2251190>

4. Description of Area Targeted for Hotel Development

The location being considered for hotel development is the downtown commercial district of Beverly, Massachusetts. The City of Beverly is located in Essex County approximately 18 miles north of Boston within the area often recognized as the “North Shore”.

Figure 4.
Beverly Geographic Context

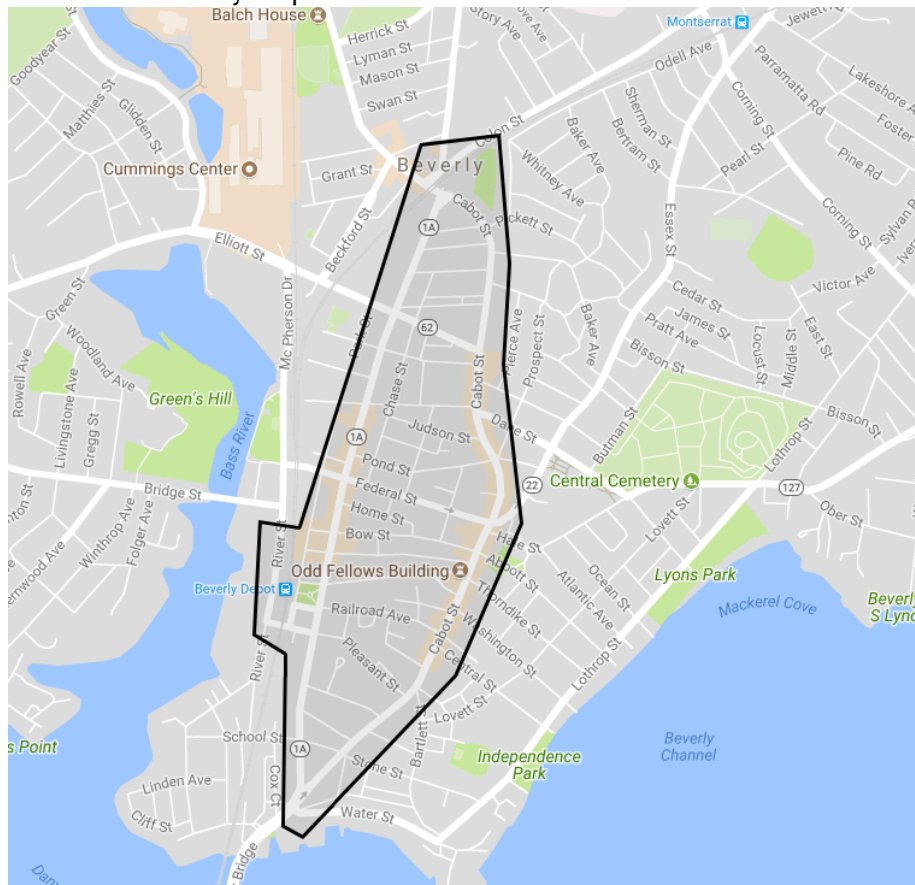


Downtown Beverly is an attractive, walkable, pedestrian scale district which enjoys close proximity to oceans, beaches and other recreational activity. It is easily accessed by multiple routes and is within short walking distance of the Beverly Depot Commuter Rail Station. The downtown area is predominantly comprised of two main commercial thoroughfares – Cabot Street and Rantoul Street. It contains a diverse mix of restaurants, shops, galleries, services and entertainment. The downtown is home to several institutions including Montserrat College of Art, the Larcom Theater and the Cabot Theatre, to name a few. Recently, there has been a surge of mixed-use development projects significantly increasing the number of downtown residential units in the last few years.

Beverly Main Streets (BMS) is a very active, staffed organization that works towards establishing downtown as a regional center for arts and culture, innovation and activity that supports local businesses. The organization hosts a lively calendar of events; the Arts Fest Beverly alone attracts over 2,000 people to the downtown each year. BMS also operates a Retail Incentive Program, a Façade and Sign Improvement Program (in collaboration with the City), and conducts activities to promote the downtown and support businesses.

This study is not intended to focus on any single specific site, but rather to evaluate the market feasibility of hotel development in the downtown area. There are several under-utilized properties in the area including a vacant school property.

Figure 5.
Downtown Beverly Map



5. Market Area Analysis

The economic vitality of the market area surrounding a prospective hotel development is an important consideration when evaluating potential lodging demand. Demographic and economic trends are related to the volume of visitation. Industry growth may signal an increase in transient visitors related to the growing business sectors. Growth in population and household prosperity, often accompanied by amenity development, indicates desirability of an area and may signal potential for greater leisure/social visitation. The purpose of the market area analysis is to review available data to determine if the local market is likely to undergo economic growth, stay the same or decline.

The location being studied is the downtown commercial district of Beverly, Massachusetts. The City of Beverly is located in Essex County approximately 25 driving miles north of Boston within the area often recognized as the “North Shore”.

Demographic Highlights⁷

- The estimated population of Beverly is 41,816. More than 175,000 residents live within 5 miles of Beverly’s Downtown.
- The population of Beverly is growing faster than the state overall. Beverly’s population grew 5% between 2010 and 2017, while population growth in the state was 4% during the same period.
- Beverly’s median household income is 4% higher than Massachusetts. Beverly’s median household income for 2016 is \$73,839, compared to \$70,954 in Massachusetts and \$55,322 in the U.S.
- Beverly’s per capita income is 11% higher than Massachusetts. Beverly’s per capita income for 2016 is \$42,197, compared to \$38,069 in Massachusetts and \$29,289 in the U.S.
- Household income and per capita income in Beverly is growing faster than in Massachusetts as a whole. Beverly’s median household income grew 11% between 2010 and 2016 compared to 10% in the state, while Beverly’s per capita income grew by 17% compared to 12 % in the state.

Table 2.

Source: U.S. Census Bureau

Geography	Population		
	2010	2017	% Change
Beverly	39,720	41,816	5%
Essex County	745,422	785,205	5%
Massachusetts	6,564,943	6,859,819	4%
U.S.	309,338,421	325,719,178	5%

⁷ Source: U.S. census Bureau

Table 3.

Source: U.S. Census Bureau

Geography	Median Household Income			Per Capita Income		
	2010	2016	% Change	2010	2016	% Change
Beverly	\$66,671	\$73,839	11%	\$36,013	\$42,197	17%
Essex County	\$64,153	\$70,886	10%	\$33,828	\$37,210	10%
Massachusetts	\$64,509	\$70,954	10%	\$33,966	\$38,069	12%
U.S.	\$51,914	\$55,322	7%	\$27,334	\$29,829	9%

Source: U.S. Census Bureau

Economic Highlights⁸

- Beverly has a diversified and growing industry base consisting of over 1,500 companies and close to 24,000 jobs. The top 4 industry concentrations include: Health Care, Education, Advanced Manufacturing and Tech/Creative.
- Beverly has been experiencing a higher rate of job growth compared to the North Shore Region and the state overall. Jobs in Beverly grew 21% between 2001 and 2017, compared to 5% in the North Shore and 9% in Massachusetts. During this period, healthcare jobs in Beverly increased by 62% (2,513 jobs), professional and technical jobs increased by 81% (900 jobs) and educational service jobs created by 44% (783).
- Continued economic expansion is expected in the North Shore; Beverly is well positioned to capture this growth. Beverly's job growth in key industry sectors (Eds and Meds, Life Sciences and Creative and Tech) has outpaced the North Shore region since 2009. The Massachusetts Executive Office of Labor and Workforce Development forecasts continued growth in Beverly's most important sectors through 2022.
- Beverly is at the center of the North Shore Life Sciences Cluster with over 60 life science companies and thousands of jobs (many located at the Cummings Center).
- The Cummings Center, the largest office and technology campus on the North Shore, is located at the edge of Downtown Beverly. It contains 2.4 million sq. ft. of office, lab, medical and retail space occupied by 525 diverse businesses, including Merrill Lynch, American Renal, Lahey Health/ Beverly Hospital, Partners HealthCare, Sensitech, Microline Surgical, Xylem, and Waters.
- Although manufacturing jobs have declined in the region, advanced manufacturing is doing well in Beverly and the North Shore. Beverly has a growing base of manufacturing companies (many located in Cherry Hill Business Park) including companies such as: Axcelis, IXYS Integrated Circuits Division, Aero Manufacturing, Amphemol PCD, and Krohne, Inc.
- Beverly has a well-educated workforce. 47% of the residents age 25 plus have a Bachelor's Degree or higher, compared to 41% in Massachusetts and 30% in the United States.

⁸ Source: *Beverly Economic Snapshot*, June 2016, AKRF, updated by FinePoint Associates 2018 with data from Massachusetts Executive Office of Labor and Workforce Development

Table 4.

Beverly - Establishments and Employment Trends by Industry								
	2017 (as of Q3)		Empl. Chg. 2001 -09		Empl. Chg. 2009 -17		Empl. Chg. 2001 -17	
	Estabs.	Empl.	#	%	#	%	#	%
Total employment, All Industries	1,530	23,582	1,235	6%	2,880	14%	4,115	21%
11 – Agric, Forestry, Fish., Hunting	10	28	(26)	-46%	(2)	-7%	(28)	-50%
23 - Construction	109	528	(117)	-25%	184	53%	67	15%
31-33 - Manufacturing	50	1,838	(1,313)	-37%	(407)	-18%	(1,720)	-48%
22 - Utilities	5	483	11	6%	292	153%	303	168%
42 - Wholesale Trade	83	528	103	20%	(88)	-14%	15	3%
44-45 - Retail Trade	139	1,827	(335)	-13%	(334)	-15%	(669)	-27%
48-49 – Transport., Warehouse	22	229	11	5%	(10)	-4%	1	0%
51 - Information	34	742	175	33%	34	5%	209	39%
52 - Finance and Insurance	72	955	36	4%	71	8%	107	13%
53 - Real Estate, Rental & Leasing	46	288	(48)	-18%	71	33%	23	9%
54 - Professional & Tech. Services	226	2,017	207	19%	693	52%	900	81%
55 – Mngmt. of Companies	13	281	142	73%	(56)	-17%	86	44%
56 – Admin. and Waste Services	81	1,121	90	14%	369	49%	459	69%
61 - Educational Services	38	2,560	578	33%	205	9%	783	44%
62 - Health Care, Social Assistance	299	6,569	1,359	34%	1,154	21%	2,513	62%
71 - Arts, Entertain, Recr.	32	490	(212)	-49%	265	118%	53	12%
72 – Accom, Food Services	118	1,660	72	7%	561	51%	633	62%
81 - Other Services, Exc. Pub. Admin.	141	1,192	463	60%	(45)	-4%	418	54%

Source: MA EOLWD

Table 5.

Beverly Top Three Growth Industry Categories (2001 – 2017)				
	Beverly # Jobs	Beverly % Chg.	North Shore % Chg.	MA % Chg.
Total, All Industries	4,115	21%	5%	9%
62 - Health Care, Social Assistance	2,513	62%	50%	51%
54 - Professional & Tech. Services	900	81%	16%	29%
61 - Educational Services	783	44%	-10%	8%

Source: MA EOLWD

Table 6.

Source: U.S. Census Bureau

Educational Attainment 2016 (Age 25+)				
	Beverly	Essex County	Massachusetts	U.S.
Bachelors Degree or Higher	47%	38%	41%	30%
- Graduate/Professional Degree	18%	15%	18%	12%

6. Evaluation of Current Lodging Supply

We researched several categories of lodging available within 5 miles of Downtown Beverly: 1) Hotels, 2) Small Inns (10 – 15 rooms) and Bed & Breakfasts (<10 rooms), and 3) Rooms and Homes Rented through Airbnb and HomeAway.

The first category, hotels, is most representative of direct competition with any potential new hotel in Downtown Beverly and therefore, the most meaningful.

Primary Competitive Set - Hotels within Five Miles of Downtown Beverly

Hotel Supply within 5 Miles – Characteristics and Room Count

There are 16 hotels within 5 miles of Downtown Beverly, offering a combined total of 1,445 guest rooms (see Table 7). Eight are independently owned hotels and eight are affiliated with chains. There are other hotels located beyond the 5-mile radius along Route 1 to the North and South.

Table 7.

Hotels within 5 Miles - Type, Characteristics and Room Count

Hotel	Miles from DT Beverly	# of Rooms	Type	Year Estab.	Chain
Clippership inn	1.1	60	Independent	1970	
Wylie inn and Conference Center	1.6	91	Independent	2007	
Hawthorne Hotel	1.8	93	Independent	1925	
The Hotel Salem	1.9	44	Independent	2017	
Salem Waterfront Hotel and Suites	2.0	86	Independent	2004	
The Salem Inn	2.1	39	Independent	1834	
Beverly Gardens Suites	2.4	20	Independent	1976	
Courtyard Boston Danvers	3.0	120	Upscale	1987	Marriott
Harbor Light Inn	3.3	21	Independent	1986	
Marriott Boston Peabody	4.3	257	Upper Upscale	1989	Marriott
Extended Stay America	4.6	94	Economy	1999	Extended Stay
Knights Inn Boston Danvers	4.9	80	Economy	1962	Wyndham
Motel 6 Boston North Danvers	5.0	110	Economy	1972	G6 Hospitality
Rodeway in Danvers	5.0	100	Economy	1998	Choice Hotels
Best Western plus North Shore	5.0	134	Upper Midscale	1970	Best Western
Residence Inn Boston North Shore	5.0	96	Upscale	1989	Marriott
16 Hotels		1,445			

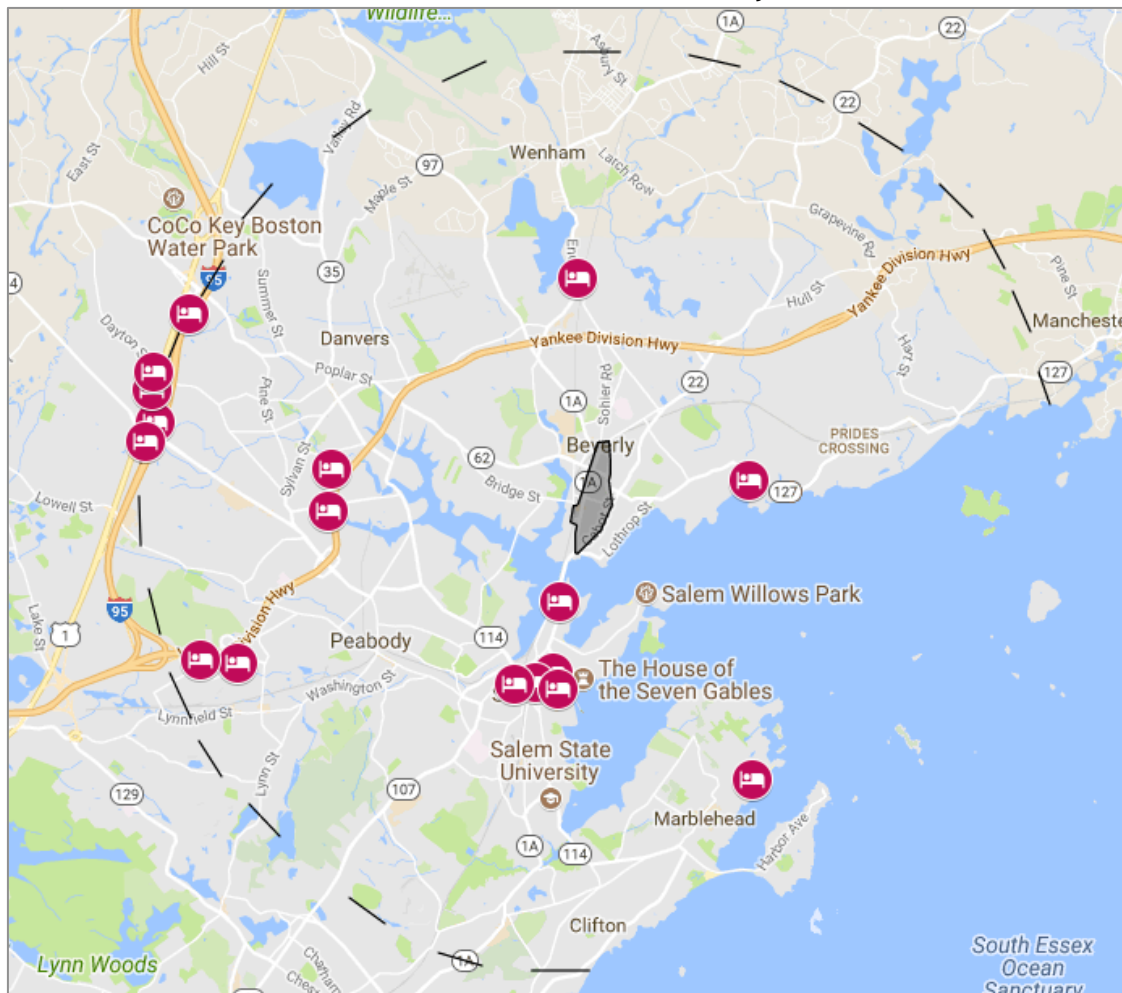
Only two hotels are located within the City of Beverly. The Wylie Inn and Conference Center is located at Endicott College with 91 guest rooms and 17,500 square feet of meeting space to accommodate groups up to 240. The Beverly Gardens Suites has 20 guest suites with kitchens suitable for extended stay in a 2-story motel-like structure located in a residential neighborhood.

Key findings from interview with Wylie Inn General Manager¹:

- Most people stay at Wylie Inn because of weddings and use of the conference center. Very few people stay overnight without an event to attend at the Inn (such as a wedding, conference, or work retreat). 60-65 weddings per year are held at Tupper Manor.
- Endicott College is the Inn's biggest client for business travel and also hosts many events. The Inn does not get many other business travelers although they have marketed to businesses at Cummings Center and Cherry Hill.
- The second and third quarters are peak season. Weddings are usually held every Friday, Saturday, and Sunday. Fridays and Saturdays during this period are typically at capacity.
- The Inn has experienced an uptick since using online booking sites, but the costs are high for these services.
- Thoughts about the prospect of a Hotel in Downtown Beverly:
 - A successful hotel would be smaller.
 - It would be beneficial for any hotel to be connected with a brand name to attract customers looking to collect loyalty points.

Figure 6.

Location of Hotels within 5-Mile Radius of Downtown Beverly



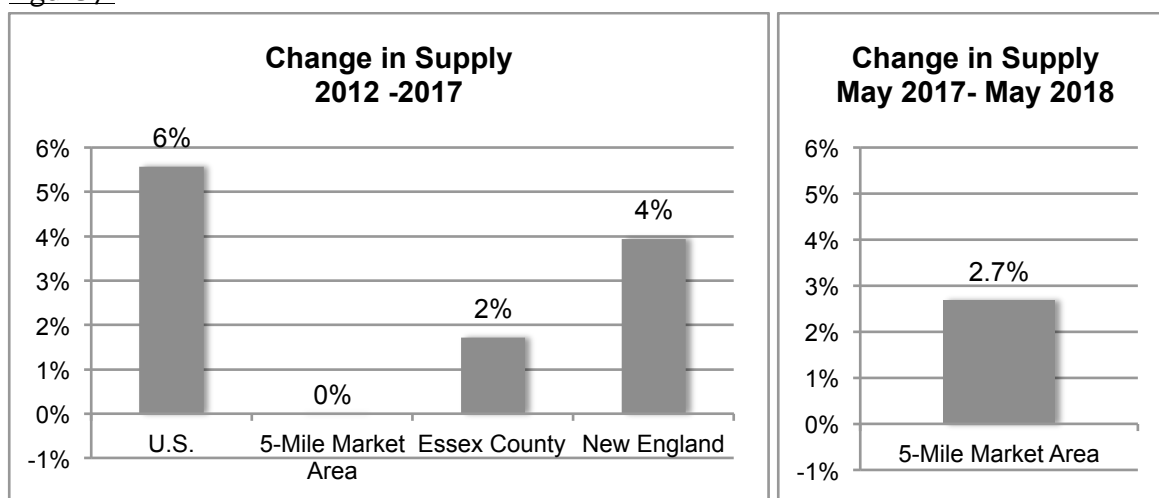
Overview of Supply Trend⁹

Supply remained constant in the 5-mile market area from 2012 to 2017 while supply increased 2% in Essex County. The Beauport, a 94-room oceanfront hotel in Gloucester, opened in August 2016, was a notable addition to Essex County hotel market.

Supply recently increased in the 5-mile market area with the opening of the Hotel Salem at the end of 2017. This boutique hotel in Downtown Salem features a unique style, 44 rooms, and rooftop restaurant/bar.

The supply in the 5-mile market area will increase 11% from 2017 to 2020, given the full year operation of Hotel Salem and completion of the planned hotels (i.e., the new Hampton Inn being developed in Salem and small planned hotel in Peabody.) More information about planned hotels is provided later in this section. This increase in hotel rooms in the 5-mile market area represents a 3.0% increase in the supply of Essex County.

Figure 7.



Occupancy¹⁰

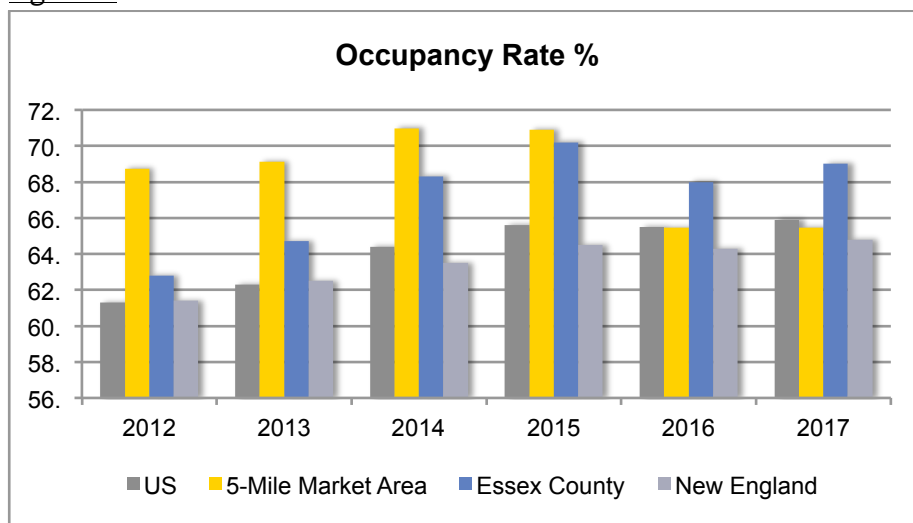
Average occupancy in 2017 was 69% in Essex County, higher than the U.S. average of 65.9%; occupancy in the 5-mile market area was 65.5%, close to the U.S. average. Occupancy among 5-mile market area hotels had been running higher than the national average and higher than Essex County 2012 through 2015 but declined in 2016 and 2017. This may be due, at least in part, to an increasing portion of guests that otherwise might be accommodated within the 5-mile market area, finding lodging elsewhere in Essex County, which experienced an increase in supply and occupancy during the period.

There is seasonality in the market; occupancy fluctuates significantly throughout the year. In the last few years, occupancy in the 5-mile market area has been running over 80% June through October and dropping to less than 50% December through February. Room rates also fluctuate for many of the properties, averaging 15 – 20% higher during more popular months.

⁹ Data Source: STR

¹⁰ Data Source: STR

Figure 8.

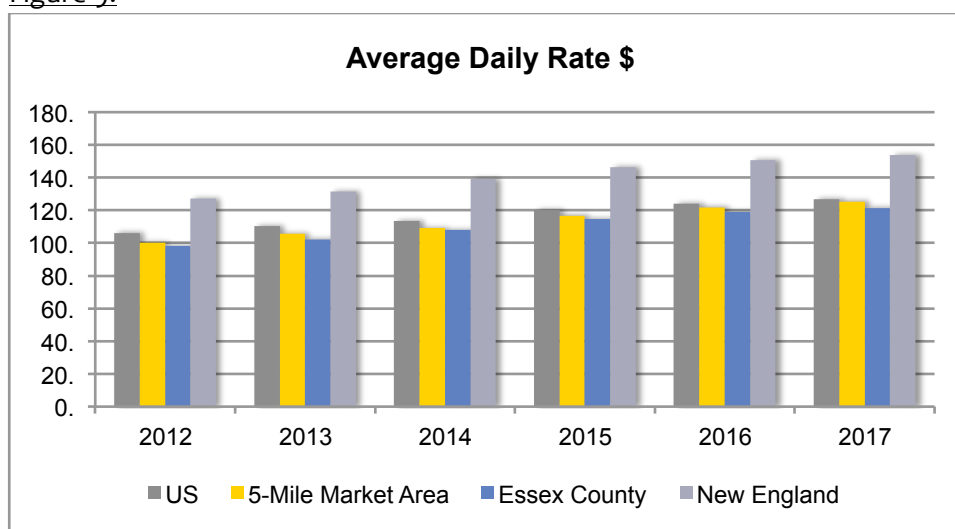


Average Daily Rate (ADR)¹¹

The ADR in 2017 was \$121.33 in Essex County and \$125.42 in the 5-mile market area compared to \$126.72 in the U.S. The New England ADR of \$153.78 is higher, as expected, given the inclusion of large cities such as Boston. ADR for a hotel is the room revenue divided by rooms sold, representing the average rental rate for a single room. This is different than the booking rate because it takes into account discounting. Sample booking rates for area hotels are provided in Table 8. These booking rates are what you might typically find on the hotel website or online booking sites. The ADR accounts for the discount pricing that hotels might offer to groups and selected customers or during slow periods.

The ADR among the market area hotels increased each year from 2012 through 2017 even though demand and occupancy declined 2015 and 2016.

Figure 9.



¹¹ Data Source: STR

Table 8.

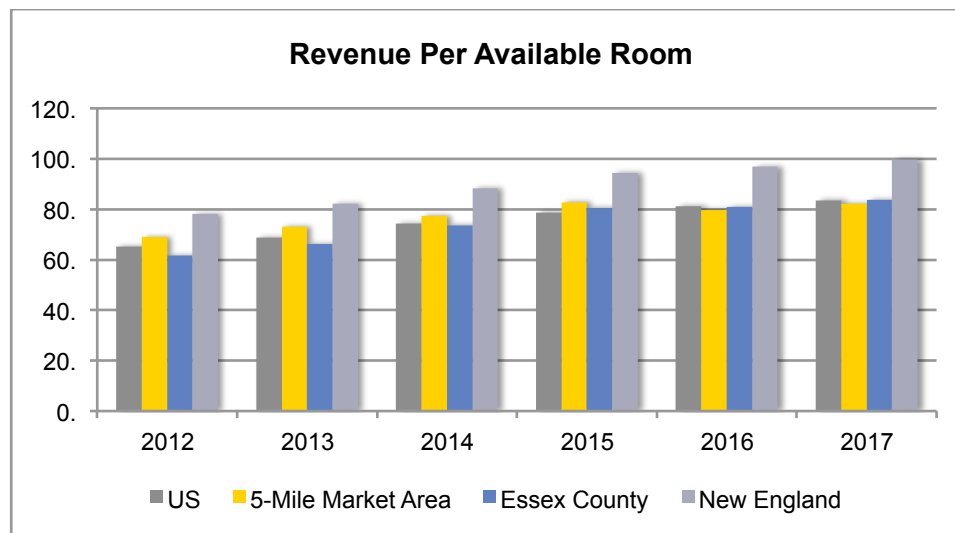
Sample Room Booking Rates – Hotels within 5 Miles

Hotel	Sample Rate June	Sample Rate November
Clippership inn	\$135	\$115
Wylie inn and Conference Center	\$179	\$126
Hawthorne Hotel	\$199	\$179
The Hotel Salem	\$219	\$180
Salem Waterfront Hotel and Suites	\$199	\$179
The Salem Inn	\$229	\$179
Beverly Gardens Suites	\$139	\$129
Courtyard Boston Danvers	\$174	\$154
Harbor Light Inn	\$199	\$199
Marriott Boston Peabody	\$239	\$215
Extended Stay America	\$144	\$133
Knights Inn Boston Danvers	\$109	\$82
Motel 6 Boston North Danvers	\$100	\$96
Rodeway in Danvers	\$126	\$101
Best Western plus North Shore	\$147	\$130
Residence Inn Boston North Shore	\$229	\$219

Revenue Per Available Room (RevPAR)

The revenue per available room (RevPAR) in 2017 was \$83.69 in Essex County, very close to the U.S. average of \$83.57. RevPar in the 5-mile market area was slightly lower at \$82.10, within 2% of the national average. This corresponds to the slightly lower occupancy rate compared to Essex County and slightly lower Average Daily Rate compared to the U.S. average. RevPAR is calculated by dividing a hotel's total room revenue by the total number of available rooms in the period being measured.

Figure 10.



Secondary Competition - Alternative Lodging

Small Inns and Bed & Breakfast Establishments (B&Bs)

In addition to the hotels, within the 5-mile radius of Downtown Beverly, there are 3 small inns offering a combined total of 36 guest rooms and 17 B&Bs offering a total of 47 guest rooms.

Table 9.

Small Inns (10 - 15 Rooms)	Miles from DT Beverly	# of Rooms
The Merchant	2.0	11
Coach House Inn	2.8	11
The Hotel Marblehead	3.8	14
3 Small Inns		36

B&Bs (<10 Rooms)	Miles from DT Beverly	# of Rooms
Gordon's 1841 House	.1	2
Nothey Street Inn	1.6	4
Amelia Payson House	1.6	3
The Daniels House	1.6	4
Morning Glory Bed & Breakfast	1.7	3
Stepping Stone Inn	1.8	6
Golden Cod Guest Rooms	3.1	3
Brimblecomb Hill Bed & Breakfast	3.2	3
Harbor Gardens Inn	3.3	2
Marblehead Summer House	3.3	4
Notorious Annie's Waterfront	3.5	2
The Terraces B and B	3.5	1
Harborside House	3.6	2
A Lady Winnette Cottage	3.8	2
Seagull Inn	3.8	2
Pheasant Hill Inn	4.0	3
Arbor House Bed & Breakfast	4.3	1
17 B&Bs		47

Location of Small Inns (red) and B&Bs (blue) within 5-Mile Radius of Downtown Beverly

Location of Small Inns (red) and B&Bs (blue) within 5-Mile Radius of Downtown Beverly



Rooms and Homes Rented through Airbnb and HomeAway

Beyond hotels, homes or rooms for rent offered by the owners of private residences through online platforms provide travelers another option for accommodations. (Nationally, Airbnb accounts for about 5% of hotel rooms sold.) A search on 7/9/18 for offerings within 5 miles of downtown Beverly showed 19 listings on Airbnb.com (mostly apartments or guest suites) and 31 listings on HomeAway.com (mostly 2 – 4 bedroom homes).

Findings from our business survey and interviews suggests that the Airbnb supply has the most impact on the extended-stay market segment and vacationers coming for longer periods and with large numbers in the party. The Airbnb supply has less effect on the short-term business traveler segment and the leisure travelers associated with theatres and colleges.

Table 10.

Airbnb	# of Listings	Type/Size	Median Price/Night
Beverly	4	1+bedrooms, suites, apartments	\$88
Salem	13	1+ bedrooms, suites, apartments	\$98
Marblehead	2	1+ bedrooms, suites, apartments	\$97

HomeAway	# of Listings	Type/Size	Median Price/Night
Beverly	12	2-4 bedrooms homes	\$288
Danvers	1	2-4 bedrooms homes	NA
Salem	18	2-4 bedrooms homes	\$365

Proposed/Planned Hotel Development

Our research revealed there are at least 2 hotel development projects in the pipeline within the 5-mile market area, including a new Hampton Inn (113 rooms) and an independent boutique hotel (16 – 20 rooms).

Hampton Inn Planned for Salem

According to the Salem News¹², the development of a new Hampton Inn is under way in Salem. This hotel will be located approximately 2.3 miles from the center of Downtown Beverly. The project will include “a 113-room Hampton Inn, 56 apartments and four units of retail space along Washington Street”. The construction is expected to be complete by mid 2020.

New Boutique Hotel Planned near North Shore Mall in Peabody

According to an Article in *The Salem News*, April 25, 2017 . . . Local business partners Peter Pantazelos and Daniel Mammola have plans to develop a five-story boutique hotel next to their restaurant, Alto Forno. The hotel will be situated at the convergence of Cross and Prospects Streets, across from the North Shore Mall in Peabody.

According to attorney Jason Panos, who is representing the partners before the city, the hotel would include 16 to 20 high-end guest rooms (likely with kitchenettes), a coffee shop on the first

¹² “Hampton Inn Breaks Ground”, 10/12/18, *The Salem News*

floor and parking underneath. The prospective clientele would mainly be people in town on business, but may also include shoppers or groups visiting for an event. "As far as what it's going to look like, that's still on the drawing board," Panos said.

Previous Plans for Boutique Hotel in Peabody Square Scratched

A previous boutique hotel development project slated for the historic O'Shea Building in Peabody Square (first announced in 2013) never materialized. The initial plans called for creating a restaurant and conference rooms on the ground floor with 64 luxury hotel rooms on the second and third floors. "Those plans slowly fizzled over the years as Bandar struggled to find investors, according to city officials"¹³ In 2017, the O'Shea building was sold at a foreclosure auction for \$1.47 million to Pat Todisco of Todisco properties who plans to create a restaurant on the ground floor with 21 apartments above. The sale proceeds will cover the debt, back taxes, and an outstanding loan of \$250,000 from the Peabody Community Development Authority.

North Shore Music Theatre (NMST) – Need has Prompted Consideration

Through an interview with the General Manager, we learned that NMST has had increasing difficulty finding lodging for the influx of creative workers (actors, stage crew, etc.) that come to work at the theatre during the performance season. The General Manager estimates that they need lodging for about 30 people for around 22 weeks annually. This has prompted the organization to consider developing a small hotel/lodging facility that could meet this extended stay need while also offering hotel rooms for theatre-goers and other visitors.

¹³ "O'Shea fetches \$1.47M at auction" , 6/1/17, *The Salem News*

7. Evaluation of Lodging Demand

Downtown Beverly Hotel Market Segments and Overview of Demand Generators

The market segments potentially available to a new hotel in Beverly are leisure travelers and business travelers. The business traveler segment can be further segmented into short-term business travelers and extended-stay business travelers.

Leisure travelers and short-term business travelers are likely the primary target market segments for the type of typical independent boutique hotel or lodging facility envisioned for downtown. Extended-stay travelers often prefer kitchenettes and other features that are not common in boutique hotels. This segment also may be more price-sensitive. However, the proximity to restaurants, shops and services that a downtown location would provide might be attractive to a portion of the extended-stay market.

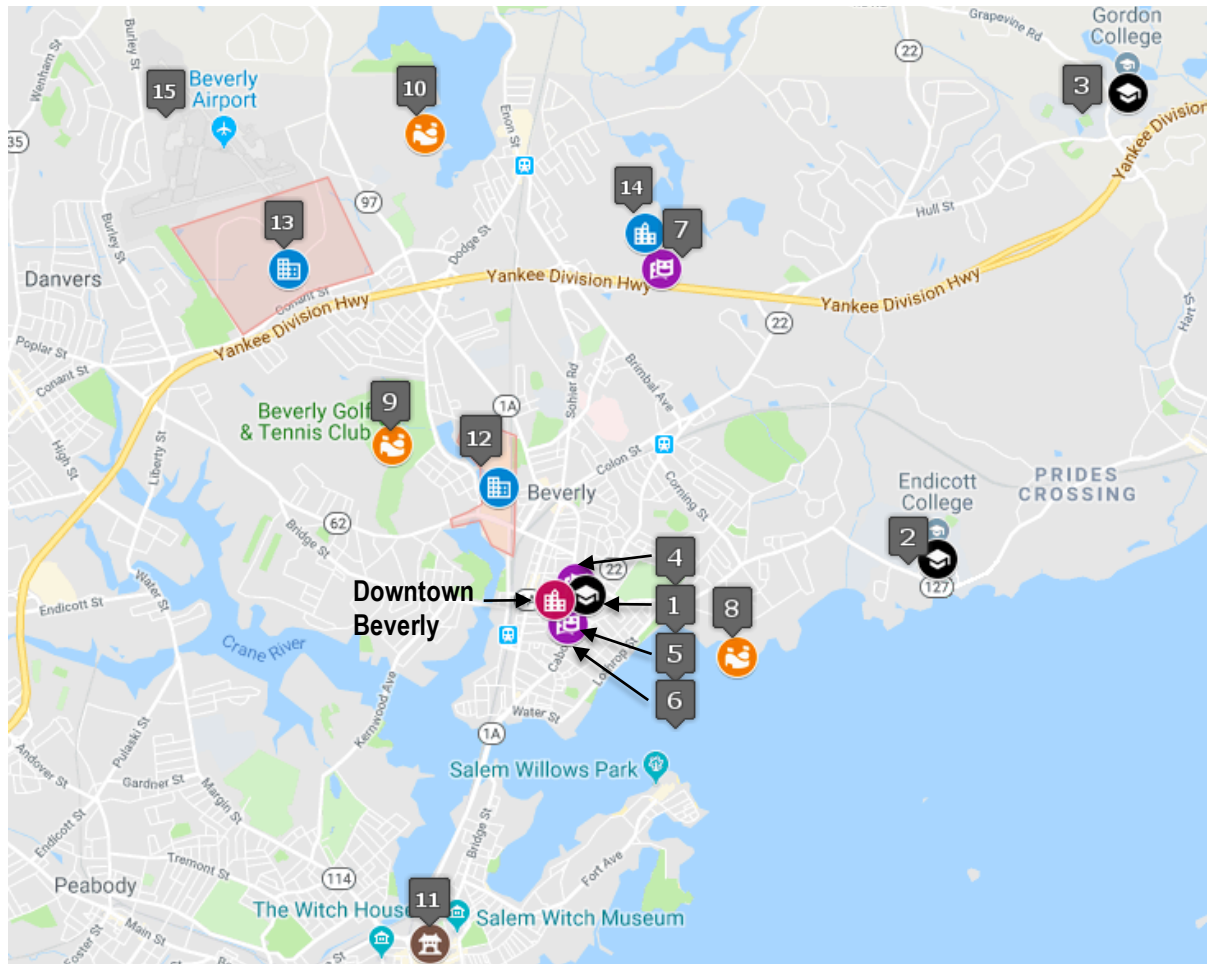
Leisure Traveler Segment: parents, alumni and guests visiting and attending events at one of the 3 nearby colleges, people attending performances at one of the 4 Beverly theaters, guests attending weddings and special events at venues in Beverly, vacationers exploring beaches, historic sites and attractions in Beverly, the neighboring community of Salem and the North Shore.

Business Traveler Segment: short-term and extended-stay

- Short-term Business Travelers - sales representatives, customers, employees from other locations, consultants, etc. visiting local businesses and typically staying 1 to 4 nights per visit
- Extended-Stay Business Travelers – visitors associated with local businesses that stay for longer periods of time and spending more nights per visit, such as temporary workers, visiting scientists/specialists, seasonal theater crews and performers, etc.

There are several demand generators for both segments located within close proximity to Downtown Beverly. These demand generators are illustrated in Figure 12. Additional information about the key market segments and demand generators is provided in the following sections.

Figure 12.
Demand Generator Map



Hotel Demand Generators		
Leisure Travelers	1	Montserrat College of Art
	2	Endicott College
	3	Gordon College (Wenham)
	4	The Cabot Theater
	5	9 Wallis (theater/venue)
	6	Larcom Theater
	7	North Shore Music Theater
	8	Garden and Carriage House at Lynch Park
	9	Beverly Golf and Tennis Club
	10	The Estate at Moraine Farm
	11	Salem Historic Sites/Tourist Destination
Business Travelers	12	Cummings Center
	13	Cherry Hill Business Park
	14	Dunham Ridge
	15	Beverly Regional Airport

Leisure Traveler Segment

Demand Generators

There are several nearby demand generators for leisure travelers including:

- 3 nearby colleges (Montserrat College of Art, Endicott College, Gordon College)
- 4 Beverly theatres/entertainment venues (The Cabot Theater, 9 Wallis, Larcom Theater, North Shore Music Theater)
- Several Beverly wedding/special event venues (Beverly Golf and Tennis Club, Garden and Carriage House at Lynch Park, The Estate at Moraine Farm,)
- Historic architecture, museums and artifacts especially pertaining to the Salem Witch Trials and maritime era in the neighboring community of Salem (including a major influx during the month-long Halloween celebration).

All of these demand generators are located within 3 miles of Downtown Beverly.

Table 11 provides a description of major demand generators, events and estimated visitor volume.

Table 11.

Leisure Traveler Segment: Hotel Demand Generators, Events, & Attendance/Visitors¹⁴

Colleges	Miles from Downtown	Events that Attract Visitors	Est. Annual Attendance
<u>Montserrat College of Art</u> 370 students	0.2	Commencement, gallery speakers, holiday parties, retreats	58,500
<u>Endicott College</u> 2,842 full-time students	2.1	Orientation, commencement, 4 student check-in/outs, 100 admissions events, 2 alumni events, 10 ice arena events, 50 weddings, career fair	
<u>Gordon College (Wenham)</u> 1,657 undergraduate students	4.1	Orientation, commencement, Christmas festivities, 7 advisory councils meet 2-3 times/yr, 12 open houses (100+), summer Friday events (50), 4 employment fairs	

Theaters/ Venues	Miles from Downtown	Events that Attract Visitors	Est. Annual Attendance
<u>The Cabot</u> 850 seat theatre Downtown	0.1	World-class live music, comedy, and film events 350+ days per year, drawing visitors from around New England and beyond.	340,000
<u>9 Wallis</u> 150 seat venue Downtown	0.1	Concerts, comedy shows and other events approximately 100 days per year.	
<u>Larcom Performing Arts Theatre</u> 560 seat theatre Downtown	0.1	Music, ballet, comedy	
<u>North Shore Music Theatre</u> 1,500 seat capacity theatre	1.9	130-150 musicals, concerts, and kids shows annually, approximately 150 days per year.	

Tourist Destination	Miles from Downtown	Attractions that Bring Visitors	Est. Annual Visitors
<u>Salem</u>	1.9	Museums, architecture, artifacts and events especially pertaining to Salem Witch Trials, Maritime History, and month-long Halloween celebration.	1,000,000+ ¹⁵

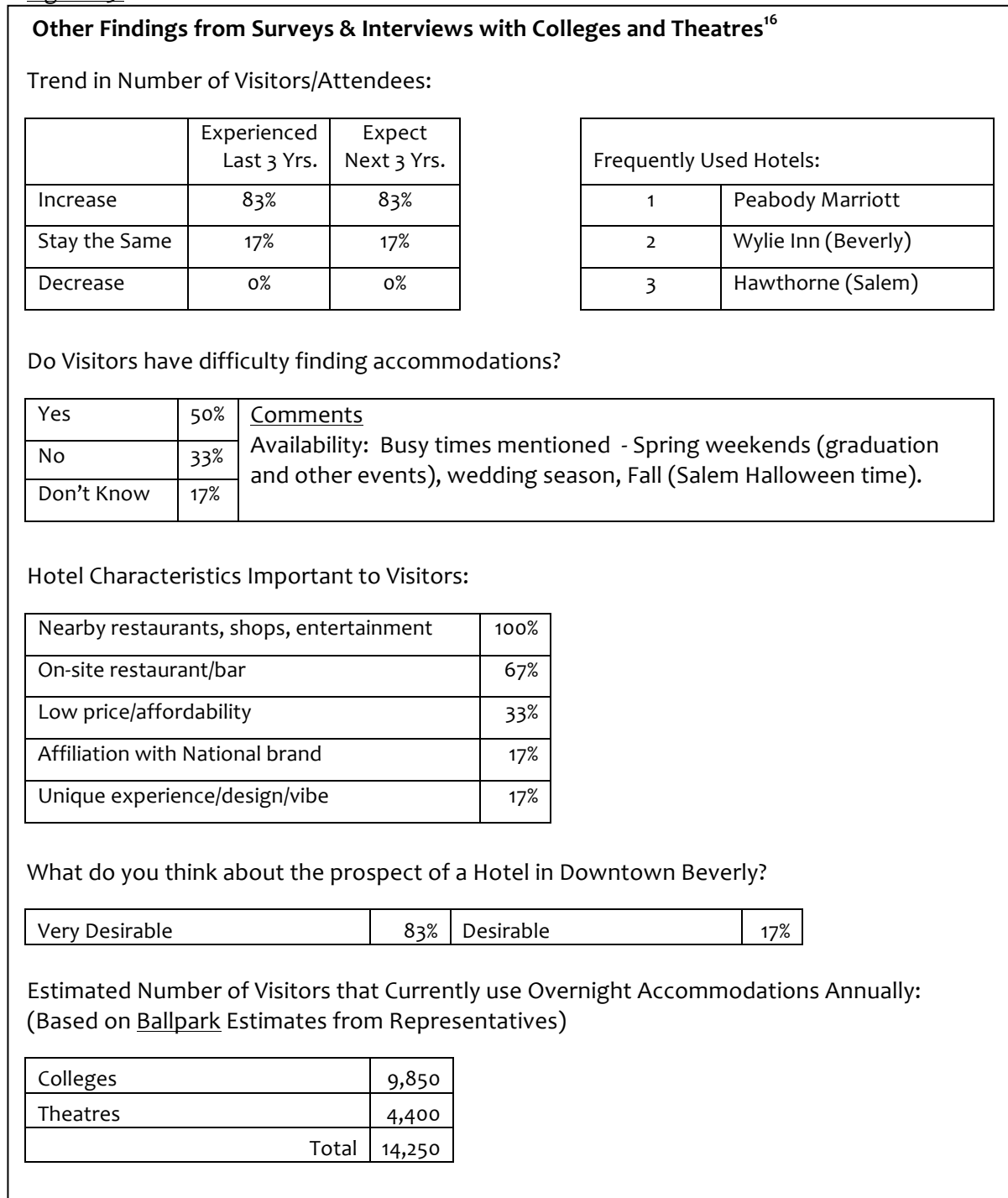
¹⁴ Source: Business survey & interviews conducted Summer/Fall 2018, attendance based on business estimates

¹⁵ Source: Destination Salem Website

Other Findings from Surveys, Interviews and Evaluation of Ticket Sales

Figure 13 summarizes other findings related to demand generated by colleges and theatres including hotel characteristics important to visitors (proximity to restaurants, shops and entertainment tops the list), frequently used hotels, perceptions about difficulty/ease in finding accommodations, etc.

Figure 13.



¹⁶ Source: Business surveys & interviews conducted Summer/Fall 2018

Figure 14 summarizes the result of analyzing ticket sales of two of the four theatres -- the North Shore Music Theatre and 9 Wallis. These findings indicate that approximately 2% of total ticket sales were made by people with addresses outside of New England. This represents an opportunity -- these attendees may be interested in overnight accommodations. According to theatre representatives, ticket sales for these two theaters are estimated at about 262,000 per year which means that approximately 5,240 ticket sales were generated from outside of New England.

Figure 14.

Findings from Theatre Ticket Sales Analysis

Origin of Theatre Ticket Sales (Based on Evaluation of Ticket Sales for 2 Theaters)

Patrons from New England	98%
Patrons Beyond New England	2%

Salem Tourism Trends

Tourism is on the rise in Salem-- attendance has increased at the major attractions such as the Salem Witch Museum, Salem Maritime National Historical Site, and Peabody Essex Museum plus restaurants have likely doubled in the last decade.¹⁷ Destination Salem powers a major marketing campaign and there has been an explosion of festivals in recent years (e.g., Salem Film Fest, Massachusetts Poetry Festival, Salem Arts Festival, Great Salem Fire Centennial, North Shore Pride Parade, Fourth of July celebration, Salem Jazz & Soul Festival, etc).

The annual Salem visitor volume is estimated to be over 1 million; however we do not have estimates for how many of these visitors stay overnight.

¹⁷ "What's Drawing the Most Visitors?", by Tom Dalton, Salem Daily News, March 7, 2014

Business Traveler Segment

Demand Generators

There are 3 business parks located within close proximity to downtown that serve as demand generators for business travelers, Cummings Center, Cherry Hill Business Park, and Dunham Ridge (currently under development). In addition, the Beverly Regional Airport, located only 3 miles from the downtown, brings business travelers into the community.

These demand generators are described in Table 12.

Table 12

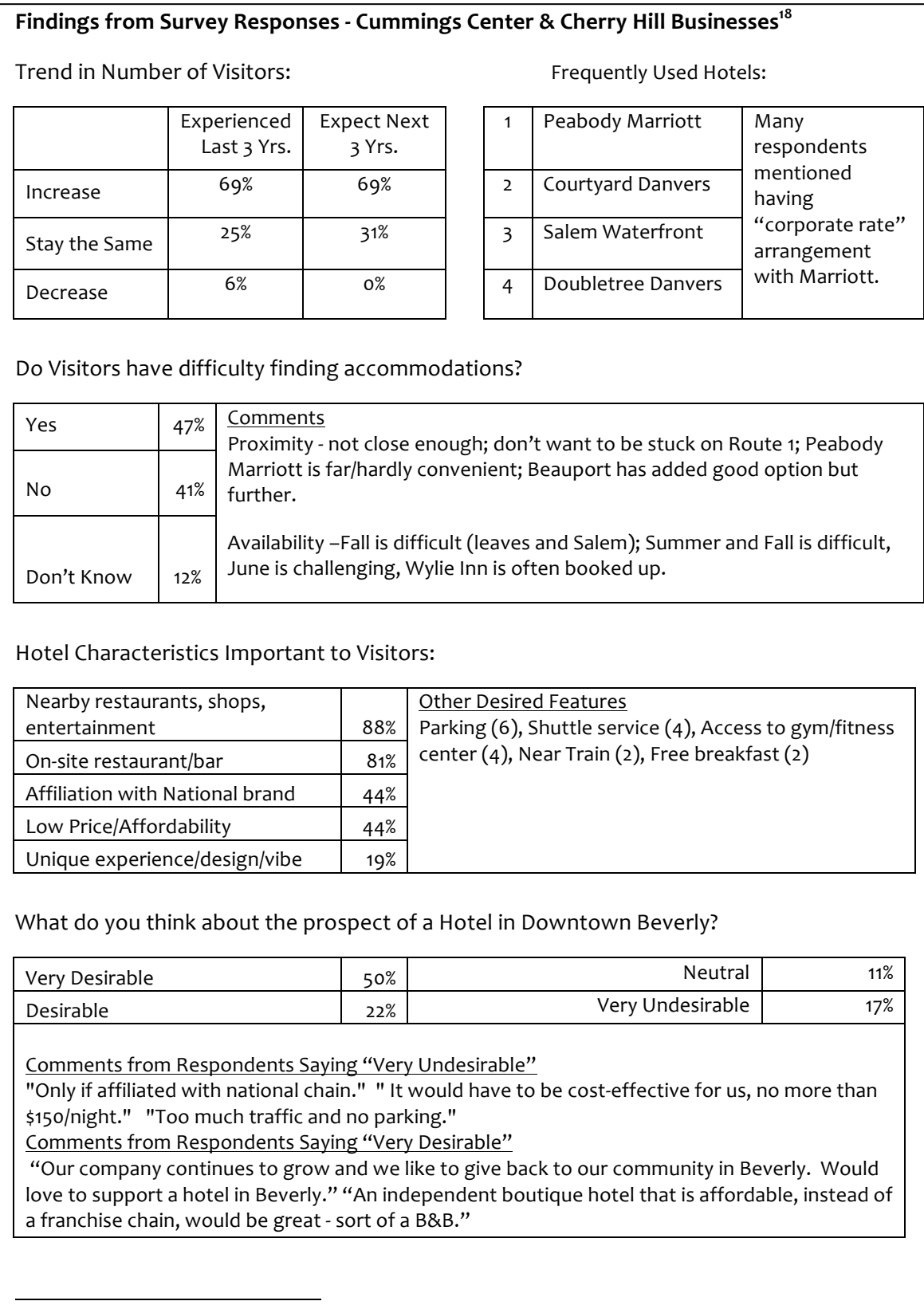
Business Traveler Segment: Hotel Demand Generators

	Miles from Downtown	Description
<u>Cummings Center</u> Largest office and technology center on North Shore.	0.6	2.4 million sq. ft. of office, lab, medical, and retail space occupied by more than 525 businesses including Merrill Lynch, American Renal, Lahey Health/ Beverly Hospital, Partners HealthCare, Sensitech, Microline Surgical, Xylem, and Waters.
<u>Cherry Hill Business Park</u> Industrial park adjacent to the Beverly airport.	2.3	Over 1 million sq. ft. of commercial space housing 15+ companies, predominantly advanced manufacturers such as Axcelis, IXYS Integrated Circuits Division, Aero Manufacturing, Amphemol PCD, and Krohne, Inc., etc.
<u>Dunham Ridge</u> The North Shore's newest business campus.	2.0	The Dunham Ridge office park, a 54-acre campus, is currently under development. The property at 48 Dunham Road is complete (144,000 sq. ft.) and more development is underway. Committed companies include Harmonic Drive (100,000 sq. ft.) and System 7 (11,000 sq. ft.).
<u>Beverly Regional Airport</u> Features a fixedl base operator in addition to many small privately owned airport hangers.	3.0	This "business use airport" has 54,000 flights (in and out) annually including over 60 incoming international flights (and growing). In the last few years, there has been a substantial increase in corporate jet travel, evidenced by 140% increase in air taxi operations from 2012 to 2017 and 39% increase in jet fuel flowage from 2014 to 2017.

Findings from Survey Responses - Cummings Center and Cherry Hill Businesses

Figure 15 summarizes survey responses from businesses in Cummings Center and Cherry Hill Business Park related to hotel characteristics important to visitors (proximity to restaurants, shops and entertainment tops the list), frequently used hotels, perceptions about difficulty/ease in finding accommodations, etc.

Figure 15.



¹⁸ Source: Business survey & interviews conducted Summer/Fall 2018

Demand for Overnight Accommodations from Nearby Demand Generators

Table 13 is intended to be illustrative not comprehensive. We have attempted to quantify partial annual demand created by the nearby demand generators. These figures are based upon information provided by business representatives responding to the business survey and are only rough estimations. It is not possible to estimate the total annual demand because we only have information from a sample of businesses and do not have any data pertaining to room demand of Salem tourists

Table 13.

Partial Demand Quantification – Nearby Demand Generators¹⁹

Leisure Traveler Segment – Estimated Annual Room Night Demand					
Demand Generators	Est. Annual Visitors	# Requiring Overnight Room	Assumption-Visitors/Room	Avg. # Nights per Visit	# Annual Room Nights
<u>Colleges</u>	58,500	9,850	1.9	1	5,184
<u>Theatres</u>	340,000	4,400 ²⁰	1.9	1	2,316
<u>Salem Tourist Destination</u>	1,000,000+	NA	NA	NA	NA
Primary Business Segment					
Short-term Business Traveler Segment - Estimated Annual Room Night Demand					
Cummings Center and Cherry Hill Businesses	Largest demand: Krohne, Axcelis, Sensitech, ATN International		A <u>sample</u> of 24 businesses responded to the survey and identified a total annual need for approx. 4,700 room nights.		
Other Businesses in Beverly	Largest demand: 9 Wallis, Harmonic Drive, Endicott College		A <u>sample</u> of 62 businesses responded to the survey and identified a total annual need for approx. 700 room nights.		
Secondary Business Segment					
Extended-stay Business Traveler Segment					
Cummings Center and Cherry Hill Businesses	Largest demand: Krohne and American Renal		A <u>sample</u> of 24 businesses responded to the survey and identified a total annual need for approx. 4,500 – 6,000 room nights.		
Other Businesses in Beverly	Largest demand: North Shore Music Theatre ²¹		A <u>sample</u> of 62 businesses responded to the survey and identified a total annual need for approx. 4,600 room nights.		

¹⁹ Estimates based on responses to business survey conducted Summer/Fall 2018

²⁰ This estimate is lower than the estimated amount of ticket sales generated from outside of New England.

²¹ Current arrangement for discounted lodging rate is lower than new hotel would likely be able to meet.

Overview of Number of Rooms Sold Trend²²

Demand (expressed by the number of rooms sold) appears to be fairly robust in Essex County, increasing 12% from 2012 to 2017, compared to a 10% increase in New England and a national average of 14%.

In 2017, 367,884 hotel rooms were sold in the 5-mile market area and 1,055,857 rooms were sold in Essex County overall. The 5-mile market area experienced a net decline in number of rooms sold over the 2012 to 2017 period. The number of rooms sold increased in 2013 and 2014, declined in 2015 and 2016 and started to slowly trend back up in 2017. The decline in the number of room sold in the 5-mile market area is likely due, at least in part, to a portion of guests that otherwise might be accommodated within the 5-mile market area attracted to lodging options elsewhere in Essex County (such as the Beauport Hotel that opened in 2016, and also increased patronage of existing hotels beyond the 5-mile area due to more desirable features/better rates). The Hotel Salem (opened in late 2017) will likely have an impact on the number of rooms sold in the 5-mile market area in 2018.

Figure 16.

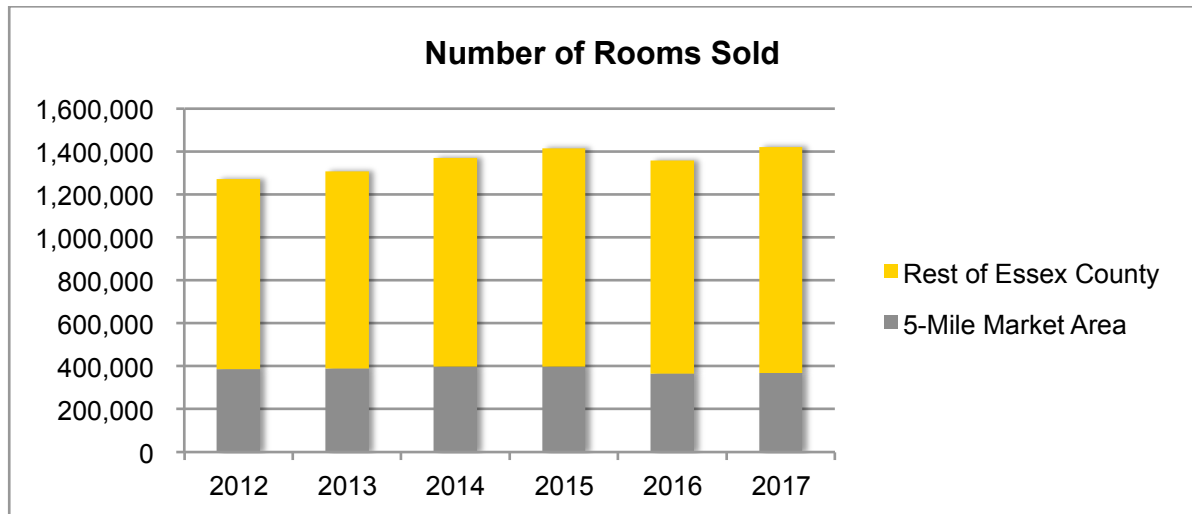
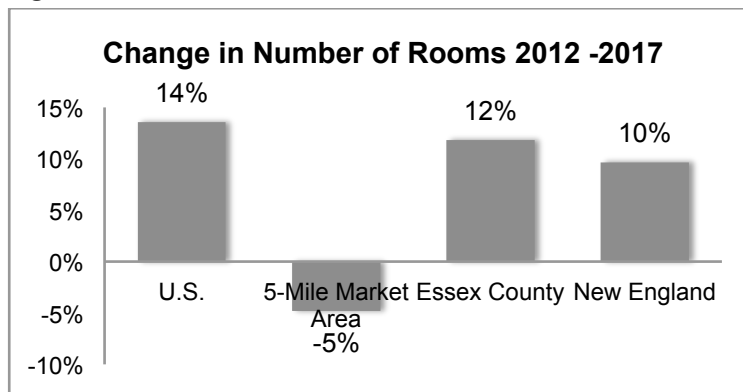


Figure 17.



²² Source: STR Data

8. Function/Restaurant Facilities – Survey Findings²³

Frequency of Use and Group Size

Hotels often include restaurant and/or function facilities. The recently opened boutique hotel in Salem (The Hotel Salem) has a restaurant on the first floor and a rooftop restaurant bar.

We included questions about the need for function/restaurant facilities as part of the business survey. We asked respondents if and how often they use function/restaurant space (not owned by them) to hold meetings, receptions, parties or other events. 87% said they did use facilities not owned by them and 13 % did not. The most prevalent demand cited is for function/restaurant space for smaller group sizes. 67% of the businesses indicated they use function/restaurant facilities for groups under 25 and 30% use function facilities for 25 – 49 people.

On average, the businesses use facilities for groups under 25 people 2.7 times per year and facilities for groups of 25 to 49 people .89 times per year.

Figure 18.

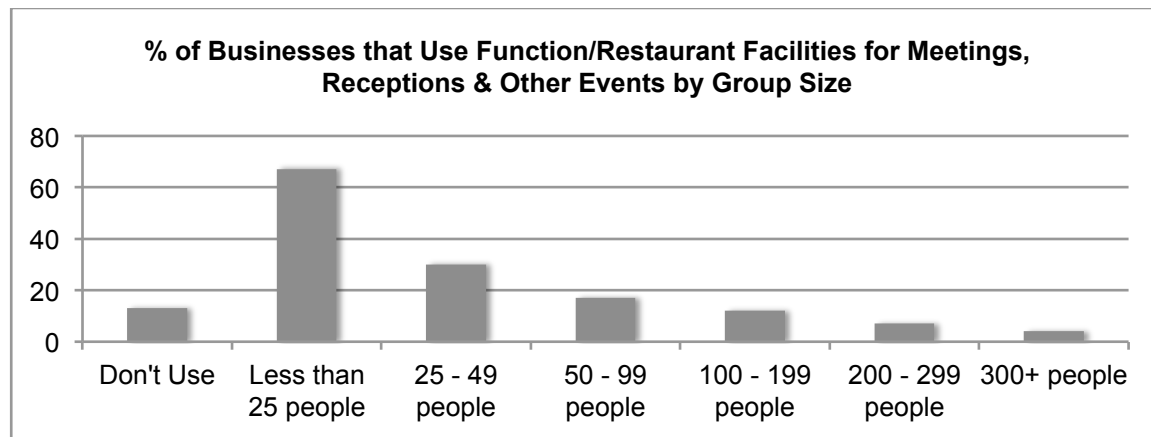


Table 14.

Times per year Businesses Use Function/Restaurant Facilities by Group Size

Group Size	Weighted Average among all Establishments
Less than 25 people	2.67
25 - 49 people	.89
50 - 99 people	.47
100 - 199 people	.12
200 - 299 people	.07
300+ people	.04

²³ Source: Business survey conducted Summer/Fall 2018

Satisfaction with Existing Options

Of those that do use function facilities, 85% said they “would like additional options for places to hold functions in Beverly” while 16% are satisfied with current options.

Comments included:

- “Most of our options for 10+ people are in Salem or Danvers, not downtown Beverly.”
- “There are adequate options in the Beverly, Danvers, Salem, Peabody area but more options are welcome.”
- “Something closer and with parking is ideal.”
- “Something on a par with the Beauport, but closer, would be great.”
- “The need for quality lodging that offers function space is always on our mind.”
- “No parking in Beverly, we go elsewhere.”
- “It would be great to have another option for events. Cruiseport is our go to now (for price and ambiance), but it would be much better to be able to stay in our home community.”
- “Not enough options for 200+ guests. Danversport and Doubletree lack charm.”

9. Preliminary Financial Analysis

Table 15 provides preliminary financial analysis for hotel development scenarios intended for illustrative purposes.

If a new 40-room hotel were developed, it would have to sell 9,563 hotel rooms (i.e., room nights) to achieve average occupancy; this represents 2.6% of the rooms sold in 2017 in the 5-mile market area and .7% of the rooms sold in Essex County. A new 20-room hotel would have to sell 4,782 rooms representing 1.3% of the rooms sold in 2017 in the 5-mile market area and .3% of the rooms sold in Essex County.

If a new 40-room hotel is able to achieve average occupancy and room revenue rates comparable to the 5-mile market area in 2017, the annual room revenue would be \$1,98,660. This means that, to be financially feasible, the new hotel must be able to be profitable at a room revenue level of around \$1.2 million. For a 20-room hotel, the hotel must be able to be profitable at a room revenue level of around \$600,000. If the hotel requires more revenue to be profitable, it would have to achieve RevPAR higher than the market area average. (For a hotel entering the market in the future, revenue would have to be forecasted for the year of entry.)

Table 15.

	Scenario		
	New 20-Room Hotel In DT Beverly	New 40-Room Hotel In DT Beverly	New 60-Room Hotel In DT Beverly
# of rooms new hotel must sell annually to achieve average occupancy (target sales)	4,782	9,563	14,345
% of total 2017 demand in 5-mile market area (number of rooms sold) that target sales represents	1.3%	2.6%	3.9%
% of total 2017 demand within Essex County (number of rooms sold) that target sales represents	0.3%	0.7%	1.0%

Projected Annual Room Revenue, if revenue is comparable to 5-mile market area average of 2017 (To be financially feasible, hotel must be able to be profitable at this revenue level.)	\$599,330	\$1,198,660	\$1,797,990
Projected Annual Room Revenue, if revenue is comparable to Essex County average of 2017 (To be financially feasible, hotel must be able to be profitable at this revenue level.)	\$610,937	\$1,221,874	\$1,832,811

Disclaimer

The purpose and scope of this Study is to introduce the Project Concept and provide general ideas, information and evaluation that may contribute to potential feasibility including analysis of market conditions, typical location criteria and roles the public sector can play.

All the information included in this Study is based on data/information gathered from various secondary and primary sources and is based on certain assumptions. The contained information may vary due to any change in the environment.

As noted, in certain instances, we have presented and used information provided by respondents of surveys and interviews. This entailed estimation and perceptions on the part of the respondents and we cannot verify accuracy beyond the responses we received.

This report is for informational purposes only. FinePoint Associates assumes no liability for any financial or any other loss resulting from this Study.

Any prospective user of this document is encouraged to carry out his/her own further due diligence and gather any information he/she considers necessary for making an informed decision.

No part of this document may be shared without the above disclaimer.