FORT LEE, VIRGINIA
TEMPORARY LIVING QUARTERS
MARKET & FISCAL IMPACT ANALYSIS

Prepared for the Crater Planning District Commission
Petersburg, Virginia
January 13, 2010

Prepared by:

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1 INTRODUCTION

A. PURPOSE AND NEED FOR STUDY

In the Fall of 2009, RKG Associates, Inc. was retained by the Crater Planning District Commission to analyze the market and tax revenue impacts associated with the proposed development of a 1,000-unit Army lodging facility inside the gate at Fort Lee, VA. This new facility is projected to come on line by September 2011. The purpose and need of the study was defined by the host cities of Petersburg, Colonial Heights, and Hopewell and the counties of Dinwiddie, Prince George, and Chesterfield. The municipal impacts associated with this study include hotel/motel occupancy taxes, hotel/motel sales tax, and retail sales taxes.

In addition to the municipal impacts RKG was retained to analyze the market impacts of the proposed lodging facility on the region's private hotel/motel market. During August of 2009, Fort Lee Garrison Command presented the results of an Environmental Assessment of the temporary living quarters (TLQ), which relied on an earlier analysis prepared by RKG Associates and presented in the Fort Lee Growth Management Plan dated February 2008. This limited analysis was not part of the Fort Lee Growth Management Plan scope of services, but was prepared once it was apparent that the TLQ construction funding was in jeopardy and considerable market opportunities might accrue to the region's private hotel/motel market.

The hotel/motel market impact analysis examines: (1) changes in hotel/motel annual room night supply, (2) changes in projected annual room night demand by all market segments, and (3) changes in annual occupancy rates based on changes in room night supply and demand between 2009 and 2015. RKG Associates also prepared an impact analysis associated with the 17 Lodging Success Program (LSP) hotels that are under contract to provide hospitality services to Fort Lee-related personnel, in all its forms. The LSP hotel analysis examines how changes in Fort Lee demand over the 2009-2015 projection period will impact various hotel tiers. Hotel tiers in this context are categorized by their general proximity to Fort Lee. RKG Associates created a "gravity model" that distributed future hotel room night demand by a number of proximity, quality, and price factors

During the course of this analysis, a loosely-formed coalition of hotel operators and small business owners raised concerns about the potential impact that the proposed TLQ would have on the private hotel/motel market. These merchants are collectively concerned that constructing 1,000 new lodging rooms on-post will effectively pull hotel and retail spending from private businesses. In addition, the new facility would be constructed following a period of rapid expansion, which has occurred over the past several years. While RKG was not retained by the hotel coalition and did not meet with the group's leadership, interviews were conducted with a number of independent hotel operators to understand their concerns and to obtain information about their past and current operations.

To the extent possible, RKG has attempted to document all the future demand assumptions made by the Army relative to future training activities at Fort Lee. Unfortunately, it is very difficult for the Army to truly know its future training loads several years in the future. Undoubtedly, these loads will fluctuate with changing needs and projections made in 2009 may or may not come to fruition. Given these limitations, RKG has taken a conservative approach to this analysis.

The impact analysis consists of the following sections:

Section 1 – Introduction
Section 2 – Executive Summary
Section 3 – Lodging Market Analysis
Section 4 – Lodging Success Program Analysis
Section 5 – Consumer Spending Analysis
Section 6 – Fiscal Impact Analysis

2 EXECUTIVE SUMMARY

A. BACKGROUND

The Lodging Success Program (LSP) at Fort Lee began in 2002, at which time there was one participating hotel. By 2009, the number had increased to 15, and is currently at 17 (totaling 1,818 rooms). The program was begun as a cost-saving measure by the Army and is currently in operation at 19 different bases around the country. The LSP process of contracting hotel stays begins with the Army's Family and Morale, Welfare and Recreation Command (FMWRC) issuing a request for hotels to bid on a military base's off-post lodging needs for the coming fiscal year. Such needs often arise where the supply of on-post lodging is unable to meet the amount of demand generated by temporary stays. In years past within the Fort Lee region, bidding hotels would state their number of available room nights and FMWRC would assign some portion of that figure to the hotels selected to participate. The selection process reflected minimum standards established by the Garrison Command Office and FMWRC.

In order to participate in the program, LSP hotels must offer an 8% discount from the current per diem rate as well as a $2 per room night rebate to FMWRC (previously $4 per night). Therefore, participating hoteliers must exchange certainty of room night capture and a discounted room rate in order to order to benefits of this stream of visitors. However, the LSP is the only official way for hotels to participate in serving these soldiers since they are required to stay at LSP hotels.

A number of changes that occurred related to the LSP process for FY 2010 have caused a shift in the off-post lodging landscape around Fort Lee. The following itemized list reflects those changes that have most impacted distribution of room nights to the LSP-selected facilities (in no particular order).

- **Beginning in FY 2010, the FMWRC required Fort Lee Study Region bidders with a list of scheduled courses that are expected to require lodging (referred to as the "J-3" in the bidding contract), as well as their duration and number of students.** The bidders then had to submit their room availability relative to the J-3, essentially outlining the room night demand they would like to service. Those hotels which meet the program's requirements (which include minimum standards of distance to post, security, functionality, and amenities) are then apportioned a share of the demanded room nights by the FMWRC. The LSP utilizes an indefinite delivery, indefinite quantity (IDIQ)-style contract, meaning that no assurance is made regarding the number of hotel stays actually delivered, but a minimum payment equal to 10% of the stays allocated to a hotel are guaranteed by the Army whether they are fulfilled or not by the end of the fiscal year. The J-3 used to contract the hotels for FY 2010 included some errors, including student loads that would actually be housed on-post, as well as courses that would be held on a different post besides Fort Lee.[1] A correct J-3 is currently being assembled.[2] It is possible that this discrepancy may have caused those parties involved to overestimate the demand for hotel stays, thereby causing participating hotels to also overestimate the amount of stays that they might capture. This miscommunication has bred

[1] Email correspondence from a Program Management Specialist at FMWRC, 16 November 2009.

[2] Email correspondence from Traci Hackley, General Manager at Comfort Inn and Suites, Prince George, 6 November 2009.

confusion and mistrust from the local hotel market and provided much of the framework for questions related to the validity of class load projections

- **The Army Lodging's Central Reservation Center (CRC) began providing the reservation service for LSP stays, a task formerly performed by Fort Lee's Lodging Office.** Soldiers receive their assigned hotel as part of their welcome letter from Fort Lee, but this assignment is not mandatory. Historically, Fort Lee Lodging has guided students to their assigned hotels to promote class unity and best meet the contractual obligations with the LSP hotels. However, anecdotal data indicate the CRC does not operate similarly. Located in Huntsville Alabama, the CRC provides reservation services for any hotel in the LSP program, without preference for the assigned facility. This provides the soldier with the option to stay somewhere different than where assigned. The compulsory nature of the previous method provided a relatively even disbursement of room nights among the participating hotels. It has been brought to our attention that visiting soldiers would not likely be familiar with the area, and generally choose a hotel within close proximity to Fort Lee (this assumption has been validated by interviews with local hoteliers). This new reservation process favors those hotels located most closely to the Fort, and puts those farther away at a disadvantage by shifting the concentration of stays to hotels closest to the Fort.

- **The Army moved away from central billing to individual credit card purchasing.** In the past, lodging costs for visiting soldiers was centrally billed and required the hotels to submit invoices for reimbursement. This system eliminated the potential for non-LSP hotels to house these soldiers, as oversight was held to a handful of facilities. However, the self-pay system requires oversight of thousands of individual reimbursement expenses. As such, the ability to monitor the final destination of the soldiers is much more onerous. In addition, soldiers are not tied to reserving through the CRC, as hotels are not involved in the final payment process. Simply put, hotels are not responsible for collecting money from the Army, and have less incentive to accommodate a soldier booking outside the CRC process.

- **Interviews with local hoteliers suggest that not all soldiers required to utilize the CRC for their stay are doing so, despite the instructions provided with the notification letter.** Instead, some soldiers are making their own reservations and bypassing the CRC. While some of these soldiers attend the hotel assigned to them, it was reported that there are instances where soldiers select other LSP facilities, non-LSP facilities and even venture into short-term apartment rentals. Some reports indicate soldiers are changing hotels during their stay in order to maximize their hotel benefits program rewards or to find lodging more suitable to their tastes. It is believed that soldiers are reimbursed even if not booking through the CRC and/or staying at an LSP-approved hotel as a result of the complexity of tracking each soldier individually. In any case, these stays are not reported to FMWRC nor are the rebates being sent.

The current system no longer evenly distributes LSP hotel stays among the contract hotels and anecdotal evidence indicates that some LSP stays are occurring in non-LSP hotels. In addition, the exact location and number of soldiers staying off-post as part of the LSP program is unclear, causing concern among the hotel community that the Army is not delivering the expected number of stays to the Fort Lee market (discussed in the previous chapter). In December 2009, RKG submitted a FOIA request through Congressman Forbes (VA) office requesting data from FMWRC that would detail where soldiers booking through the CRC are staying. However, this information was not provided to the Consultant prior to the deadline of this project.

These factors have culminated in a situation that no longer evenly distributes LSP hotel stays, with reports indicating some of these stays are being captured by non-LSP hotels. In addition, the exact location and number of soldiers staying off-post as part of the LSP program is unclear, causing concern among the hotel community that the Army is not delivering the expected number of stays to the Fort Lee market (discussed in more detail throughout this analysis). The Consultant submitted a formal FOIA request through Congressman J. Randy Forbes (4th Virginia) office on December 10, 20009 requesting data from FMWRC that would detail where soldiers booking through the CRC are staying. However, this information was not provided to the Consultant prior to the deadline of this project. The August announcement that the 1,000 room Temporary Living Quarters (TLQ) had received funding caused further confusion and concern within the community, since this facility will draw military stays out of the private sector and onto the Fort.

B. HOTEL MARKET ANALYSIS

The concerns related to the TLQ and reported problems with the LSP hotel stays are compounded by the impacts created by the national economic downturn and its effects on the lodging industry. The Fort Lee Study Region (see Map 3-1) lodging market historically has performed very well. Prior to 2008, market demand increased steadily bringing occupancy rates above 70% for the market as a whole. Much of this success is related to activity at Fort Lee. Hoteliers report that Fort Lee has accounted for as much as 40% to 50% of all business within the Study Region. However, the economic downturn has resulted in a net decline in market demand each year since 2007. Concurrently, the development of more than seven new hotels and a total of 756 rooms has exacerbated the decline in occupancy levels. The Consultant estimates that the 2009 occupancy rate is 58.8%, or approximately 8% below 2008 levels.

The projected expansion of class load at the Army Logistics University (ALU) will have a substantial impact on the regional market, both short-term and long-term. The projected activity level for FY2011 will result in an additional 480,000 room-nights of demand for the private sector, a 40% increase in one year. The Consultant projects regional occupancy level of more than 81% during this period. Even with the operation of the TLQ facility starting in FY2012, the net benefit to the private sector will assist in negating the impacts of the economic downturn. In short, the growth in lodging business related to operations at Fort Lee are projected to add more than 66,000 room nights of demand above current estimate levels (436,350 room nights), or a 15.1% increase.

The greatest threat to the private market is over speculation. According to the Petersburg Area Regional Tourism Corporation, there are an additional 14 hotels totaling 1,123 rooms within the development approval process that have not yet begun construction. If these facilities are developed as proposed within the timeframe stated, it will result in a 43% increase in hotel rooms within the Fort Lee Study Market since January of 2008. Simply put, the projected market demand will not be able to support that many new hotels, as the downward pressure on occupancy will create a pricing competition that will drive some facilities to failure.

It is important to note there has been concern expressed about the viability of the ALU to deliver the amount of demand projected by the Army. ALU projections indicate the average daily load (ADL) of students at Fort Lee will increase from approximately 1,000 in FY2009 to approximately 2,450 in FY2011 when all new training entities are operational on post.[3] Based on the Consultant's analysis, the ALU will need to deliver a minimum of 2,100 ADL once the TLQ facility is operational to maintain equilibrium with current LSP business levels for the private lodging market. Given the uncertain times our nation is still facing locally and globally, substantial changes in training needs could impact the Fort Lee Study Region lodging market. While the data provided by the ALU and the Army are the best information available at this time, the concern about future needs and the ability of the Army to meet the 2,100 average daily load threshold to avoid adverse impacts to the private market are reasonable.

[3] Projections do not include numbers from the Transportation or Ordnance Corps, which did not have confirmed projections at the writing of this report.

C. LODGING SUCCESS PROGRAM IMPACTS

The combination of the growth in Fort Lee-related, private sector lodging stays combined with the unforeseen impacts of the changes to the LSP process are projected to cause a reallocation of demand within the Fort Lee Study Region. The projected net increase in LSP stays throughout the private sector will shift hotel capture for those LSP-qualified facilities closest to Fort Lee. These hotels likely will capture this new demand due to their proximity to post. As a result, some of their non-LSP business is projected to be displaced to facilities less competitive in capturing the new LSP demand.

Furthermore, the changes in the LSP reservation system and the inefficient oversight of actual stays have allowed individual soldiers to make choices in hotels, rather than follow the prescribed facility assignment. At a base level, the Central Reservations Center has noted that the reservations process has not encouraged students to adhere to their hotel assignments as diligently as had been done through Fort Lee Lodging. Further analysis revealed that soldiers have circumvented the CRC and official LSP reservation process and booked rooms independently. Data provided by current and former LSP participants indicate this has created an imbalance in room night capture within the market. Most notably, there are confirmed reports that ALU students are booking rooms at non-LSP hotel to take advantage of personal preference or brand loyalty.

While the Fort Lee Study Region lodging industry as a whole is projected to experience a net benefit as a result of the increased Fort Lee operations ***after*** the opening of the TLQ facility, individual hotel operations will be impacted differently. The uncertainty and ineffectiveness of the current LSP procedures has caused a reallocation of demand within the region. Simply put, some hotel operations have reportedly received a disproportionate share of the Fort Lee LSP business while others have experienced a net loss. Unless the reservation system is adjusted, this trend is projected to continue into the future, with a favorable outlook for the Study Region as a whole but accompanied by a loss for specific hotels.

D. CONSUMER SPENDING ANALYSIS

In addition to studying the potential impacts the TLQ facility will have on the Fort Lee lodging industry, the Consultant was retained to analyze the potential impact the proposed new commercial operations on Fort Lee will have on the private retail/service market. Simply put, the economic downturn has impacted local retail and service businesses. Given the BRAC action at Fort Lee includes the development of some new commercial venues, questions were raised as to the potential impact these businesses will have on private ventures outside the gates. To this end, the Consultant studied the current and proposed retail/service offerings at Fort Lee and the spending impacts created by the projected increases in ALU student loads both on-post (in the TLQ facility) and off-post.

In total, there is approximately 304,000 square feet of retail space currently on Fort Lee. The new development projects, including the dining facility at the TLQ, represent an increase of approximately 20,000 to 25,000 square feet, or 8% to 9% over the existing supply. The two notable commercial projects currently under construction include the new car care center complex and the renovation of the Lee Playhouse. The car care center will have multiple businesses operating on-site and is projected to be completed and open in early 2010[4]. The project will be anchored by a Firestone car care center that will include 24 fuel pumps, several service bays and a car wash. In addition, the complex will also include a Popeye's chicken fast-food restaurant, a Class Six store and a shoppette (convenience store). The Playhouse is currently being transformed into a facility that will be able to show movies in

[4] Bell, T. Anthony. *AAFES Offers Update on Various Projects.* Fort Lee Traveller. December 3, 2009.

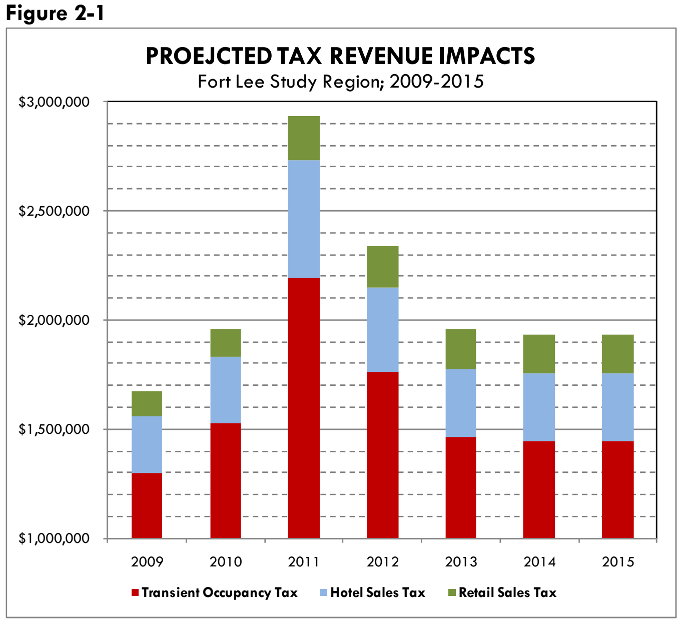
addition to hosting theater events. According to the AAFES Business Operations Manager, the movie theater will have limited operating hours due to the facility's multiuse program.
Two other commercial projects in the pipeline are slated to begin construction soon. The first is located in the northern part of Fort Lee. This project will include a shoppette and a barber shop. According to AAFES, these businesses would be the third on-post shoppette and the fourth barber shop, respectively. In terms of the TLQ facility, there is a proposed 300-seat dining facility to be included in the TLQ facility. Although there are no details about the operation or dining type of this facility, this new eatery likely will draw students who are staying at the TLQ.

The Consultant performed a survey of ALU students to better understand the spending habits and needs for on-post and off-post venues. Based on the findings of this effort, the new commercial space proposed on Fort Lee is relatively disproportional to the likely increase in spending related to the net personnel growth. As such, it is likely that business activity occurring both on- and off-post will experience modest levels of increased business activity due to the increase in area military personnel.

E. FISCAL IMPACT ANALYSIS

The next several years are projected to deliver millions of dollars in tax revenue to the Fort Lee Study Region municipalities. The economic impact analysis indicates that the six Crater PDC jurisdictions most impacted by the Fort Lee expansion will realize a cumulative increase in transient occupancy tax and local sales tax related to hotels stays and retail expenditures (Figure 2-1). The Region is projected to experience a one-time windfall of tax revenue of $1.4 million during FY2011 and the beginning of FY2012. This windfall ends as a result of the opening of the TLQ. At this time, the amount of transient occupancy tax (TOT) revenues and hotel-related sales tax revenues are projected to decline to a level below the peak, but above current revenue estimate levels. However, the Study Region also is projected to experience a sustained net increase in tax revenue of more than $260,000 annually as a result of the increase operations at Fort Lee accounting for the impacts of the TLQ facility.

Figure 2-1



Source: Crater PDC and RKG Associates, Inc. 2010

As already mentioned, the shift in lodging demand allocation due to the increased market activity and the inefficiencies in the current implementation of the LSP has resulted in creating bigger "winners" within the Study Region in terms of net new tax revenues. The data indicate that Colonial Heights and Chesterfield County are poised to experience a larger share of this net gain over communities such as Hopewell and Petersburg. While the details of the retail sales tax revenues are not complete for a jurisdiction-level analysis, it is reasonable to assume Prince George County will benefit the most, as the County collects all on-post sales tax revenue.

Given the imminent increase in hotel stays, the most effective means by which a municipality might try to increase its projected tax revenues may be to increase its TOT rate and the length of stays that qualify for exemption. Colonial Heights serves as a prime example, utilizing an 8% rate (among the highest) and only exempting stays of more than 90 days, while all other municipalities exempt stays of more than 30. This is significant given that approximately 90% of all LSP stays fall below 90 days, while only 20% fall below 30 days. This situation is evident in the fact that Colonial Heights only hosts four of the Study Region's 57 hotels (7%), but is projected to capture up to 30% of collected TOT and 17% of hotel-based sales tax related to Fort Lee stays in 2012.

3 LODGING MARKET ANALYSIS

A. INTRODUCTION

This chapter provides a detailed assessment of lodging market trends and projections for an area defined as the Fort Lee Study Region. The Fort Lee Study Region includes all temporary lodging facilities within nine miles of the Fort Lee boundary (Map 3-1). This area reflects the area most impacted by Fort Lee operations, as identified and confirmed through the consultant's market research, interviews with local hotel operators and discussions with Fort Lee representatives. The results of this effort address the potential impact of the Fort Lee Temporary Living Quarters (TLQ) facility on the regional hotel market.

The analysis is divided into two sections. First, the Consultant researched past and current market trends relating to both Fort-Lee specific and private market influences. This effort established the framework for understanding potential market changes into the future. The second section details the methodology and results of the market projections calculated by the Consultant. The chapter culminates in a narrative and graphic review of the potential impacts created by the TLQ facility.

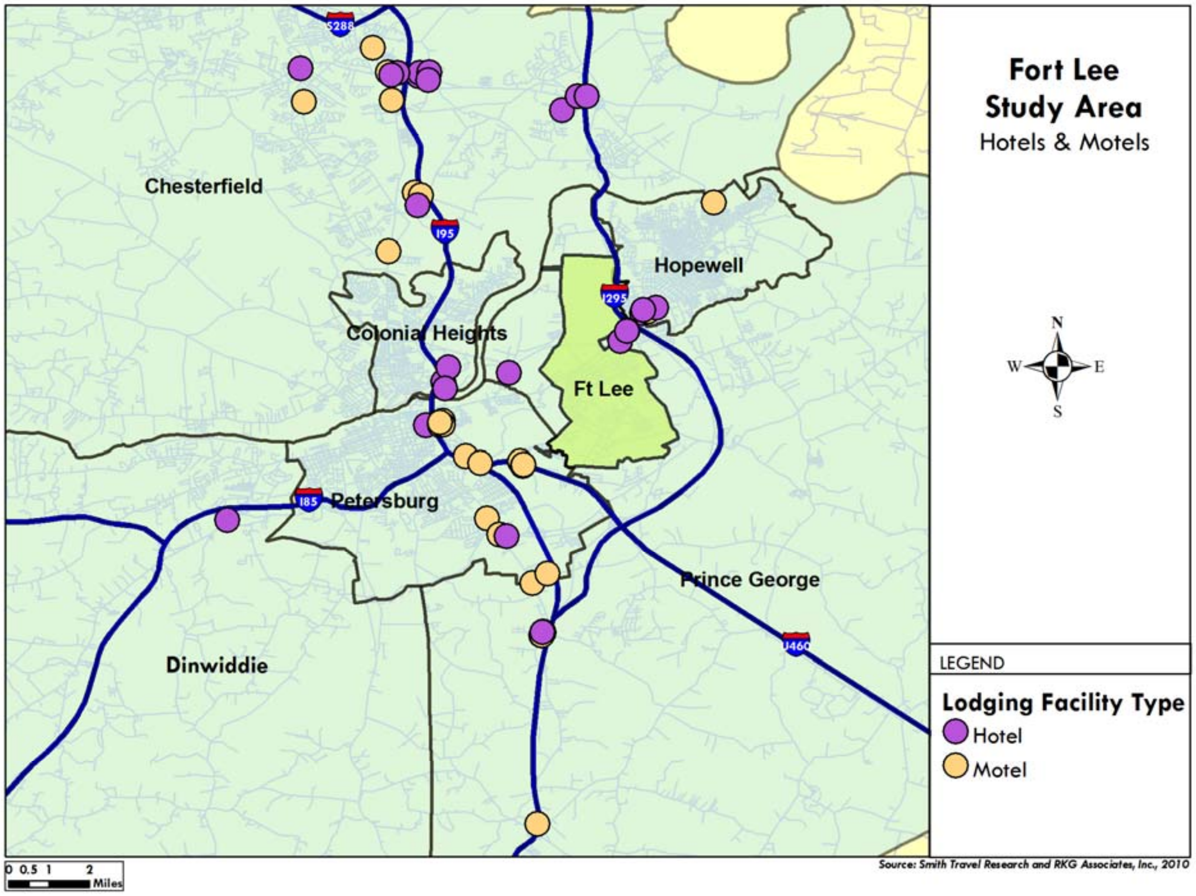
To complete this analysis, the Consultant used a variety of primary and secondary data sources. Most notably, the Consultant collected a myriad of data from the Department of the Army. Information was provided by the Family and Morale, Welfare and Recreation Command (FMWRC), the Army Logistics University (ALU), the Fort Lee BRAC Coordination Office and the Fort Lee Garrison Command Office, among others. Data also was provided by local hotel operators including those operators formerly participating in the Military Training Service Support (MTSS) and currently participating in the Lodging Success Program (LSP). Finally, the Consultant collected data from secondary sources including Smith Travel Research and ESRI[1].

B. HISTORIC MARKET CONTEXT

1. Competitive Lodging Market

According to Smith Travel Research, there are 57 hotels and motels reporting regular data within the Fort Lee Study Region. These lodging facilities total approximately 5,100 rooms. The Consultant analyzed these facilities to provide the most accurate representation of trends in the local market. It should be noted that the majority of these hotels and motels operate under nationally-recognized banners, such as Hampton Inn and Super 8. While these branded lodging facilities comprise the majority of overnight options in the study region, there other hotels and motels that do not have the support of a national brand. In addition, most of the sole-proprietor hotels and motels do not report data to STR.

[1] Smith Travel Research and ESRI are independent data vendors that provide market research and data tabulations of the lodging industry.



To better understand impacts that Fort Lee's ALU facility has on local operators, the Consultant also analyzed the market performance of the hotels that have participated in the housing program designed for the Army Logistics University. There currently are 17 lodging facilities under LSP contract for fiscal year 2010. However, the fiscal year began in October of 2009. As a result, there is not sufficient data available for the current LSP facilities to quantify the impact of the Fort Lee housing program. As a result, the Consultant studied the historic trend patterns for the lodging facilities that have consistently participated in the MTSS/LSP programs in the past (Table 3-1). The twelve facilities reporting data account for approximately 1,200 rooms.

2. Market Segmentation

In 2005, Randall Travel released a report for the Crater Planning District Commission (PDC) studying the market segmentation in the greater Crater region. For the purposes of this effort, the Consultant modified the segments from this report to more closely reflect the scope and purpose of this analysis. Most notably, market segments related directly to Fort Lee business were separated from the remaining categories. The result is a more comprehensive review of the factors impacting demand within the region. The Consultant utilized seven demand sectors to analyze the Fort Lee Study Region. The seven demand sectors include:

- *Fort Lee – Lodging Success Program* – The LSP program, and its predecessor the MTSS program, are the vehicles used by the Army to contract with local hotels for off-post, temporary housing for trainees at the Army Logistics University. All stays associated with the LSP program are included in this segment.

- *Fort Lee – Official Business Travelers* – The Army conducts business with multiple private-sector contractors and federal and military officials each year. These individuals and groups may stay in the area on a short-term basis for meetings or longer if a job or task requires their presence until completion.

- *Fort Lee – Construction Demand* – Projects related to the growth of Fort Lee often require out-of-town construction personnel. The most recent example of this need is the development of the new ALU center. Out-of-town construction crews that are contracted with the Army and/or specializing in various skills sets not readily available in-town were needed to complete this project. The length of stay for these crews is solely dependent on the contracted task.

- *Business/Corporate Travelers* – The corporate presence in the Fort Lee Study Region is comparatively small to the larger centers along the I-95 corridor, but still provides a significant generator of hospitality demand for the region. The areas closest to Richmond draw visitors from both markets. According to the Randall Travel Marketing report prepared for the Crater District Planning Commission on tourism in the region, more than 50% of room stays in Chesterfield and Colonial Heights were business travel related.

- *Event-Related Travelers* – Many of the hotels and motels that responded to the Randall Travel survey indicated a large percentage of guests were with a special event. Within this group are SERF (Social Educational Religious Fraternal) travelers, which encompass demand from sports travelers. For example, NASCAR-sanctioned events at the Virginia Motor Speedway fall within the SERF market segment. It should be noted that the generally accepted acronym is SMERF, which includes Military. However, military stays were separated for this analysis.

- *Leisure/Tourism Traveler* - In addition, tourism travel accounts for a portion of total room stays in the region. Most notably, the Petersburg region has a rich Colonial and Civil-War-era history that draws a substantial number of tourists each year. According to the Randall report, tourism travel accounts for between 5% and 20% of business for hotels that responded to the survey.

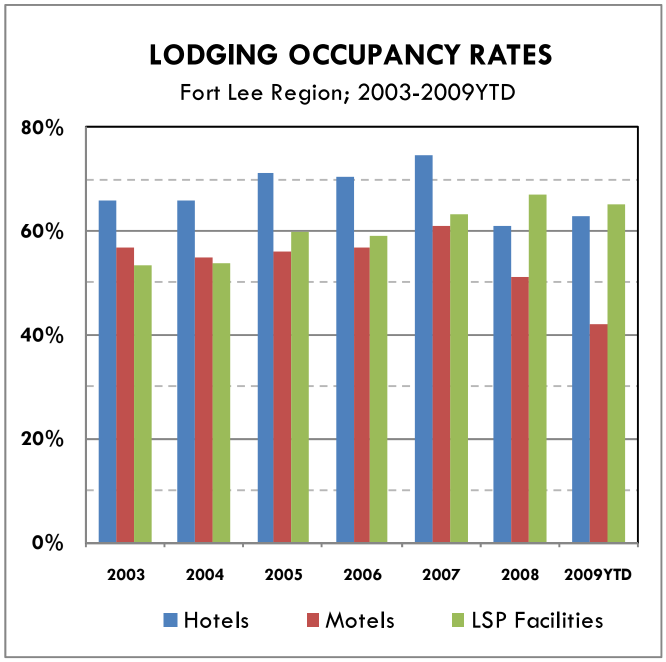
- *Transient Demand* – These users are travelers driving through the region en route to a different destination. This group accounts for a small, but significant percentage of demand as the study region is the confluence of North-South Interstates 85 and 95. These two routes connect the major employment and population centers of the Northeast including Washington DC, Philadelphia, New York City and Boston to similar centers in the Southeast (i.e. - Charlotte, Atlanta, Orlando and Miami). The Gateway region also is traversed by an East-West connector (U.S. Highway 460) that ties the Interstates to the Hampton Roads region and the expanding Port of Virginia.

3. Annual Occupancy Trends

Hotels generally have outperformed motels since 2003 within the Fort Lee Study Region. The annual average for occupancy for hotels within the Fort Lee Study Region ranged from 61% in 2008 to 75% in 2007 (Figure 3-1). In contrast, the Study Region motels historically have maintained occupancy rates in the 50% to 60% range. Occupancy rates for regional hotels and motels have substantially declined since the start of 2008. Hotel occupancy has decreased from an annual high of 75% in 2007 to a sustained low around 62% in 2008 and 2009. Motel occupancy rates have decreased at a more severe pace, declining nearly 19% since 2007 to an annual average of 42% in 2009 (year-to-date).

LSP lodging facilities have experienced annual occupancy rates similar to those of local motels. Prior to 2008, the annual average occupancy rate ranged from 53.4% to 63.1%. However, occupancy levels in LSP facilities have increased slightly since 2007, and remain around 66%. It is likely that much of the drop in hotel and motel occupancy is a direct result of the national recession as businesses are reducing travel expenses. However, the consistency in occupancy displayed by the LSP facilities demonstrates the importance Fort Lee business, particularly the LSP program, has on area lodging.

Figure 3-1



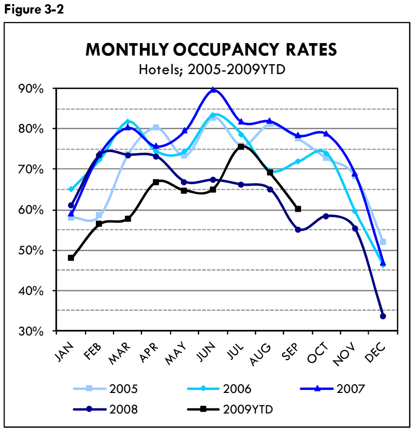
Source: Smith Travel Research & RKG Associates, Inc., 2009

It should be noted that sustained occupancy rates of 65% is a generally sufficient to attract investors to construct additional hotel rooms in a given market. The strong performance of the local market has attracted investment, with several hotels opening since 2007 (detailed later in this Chapter). The unfortunate timing of these investments, and subsequent expansion of the local lodging supply, has exacerbated the impacts of the economic downturn. It was reported to the Consultant that the announcement of Fort Lee's expansion and the corresponding increase in potential business also contributed to the interest in new hotel/motel development.

4. Market Occupancy Trends

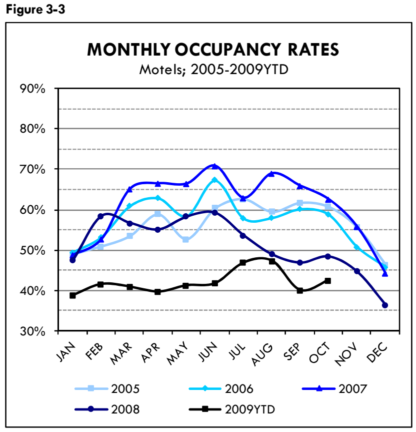
In terms of seasonal occupancy, the Fort Lee Study Region can be defined as a three-season area. Occupancy rates for hotels and motels have traditionally been highest between March and October, dropping substantially from November through January (Figures 3-2 and 3-3). However, seasonal fluctuations in motel occupancy are not as severe as with hotel occupancy. For instance, motel occupancy has remained around 40% throughout 2009 except for in July and August when occupancy rose to approximately 47%. This difference most likely is due to the comparatively lower occupancy trends for motels. Simply put, smaller absolute fluctuations in occupancy for motels reflect similar

Figure 3-2



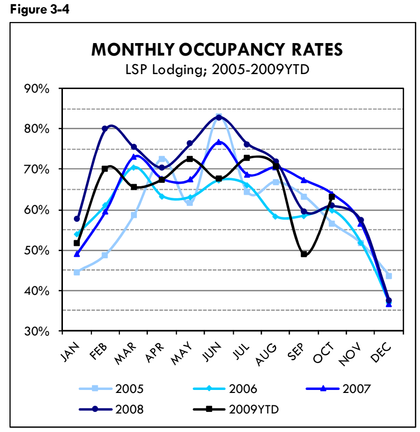
Source: Smith Travel Research & RKG Associates, Inc., 2009

Figure 3-3



Source: Smith Travel Research & RKG Associates, Inc., 2009

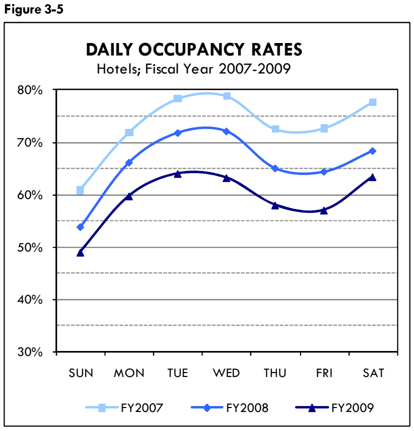
Figure 3-4



Source: Smith Travel Research & RKG Associates, Inc., 2009 percentage changes as hotels. LSP hotels have recently experienced highest levels of occupancy during February and between May and August (Figure 3-4). These occupancy spikes coincide with historic attendance trends at the ALU facility, where Spring and Summer tend to have the greatest concentrations of student activity. Similar to the private market, the Winter season typically is the slowest at the ALU in terms of training loads.

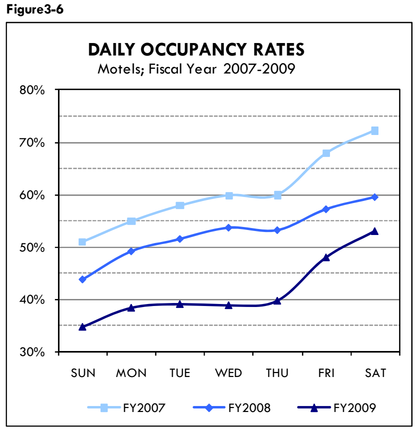
Daily occupancy trends indicate regional hotels and LSP hotels have a more stable level of demand throughout the entire week, while motels peak during weekends. Regional hotels and LSP hotels historically have had high occupancy rates on Tuesday, Wednesday and Saturday nights, indicating a balanced mix between business travel and vacation travel (Figures 3-5 and 3-7). However, the long-term stays of ALU students, which may last between three and eleven weeks, provide a more evenly distributed level of daily occupancy. In contrast, motels generally have thrived on their Spring/Summer weekend traffic (Figure 3-6) often attributed to leisure travelers seeking the greatest affordability. These trends reflect national market tendencies, as weekday travelers (particularly business travelers) tend to patronize hotels more than motels.

Figure 3-5



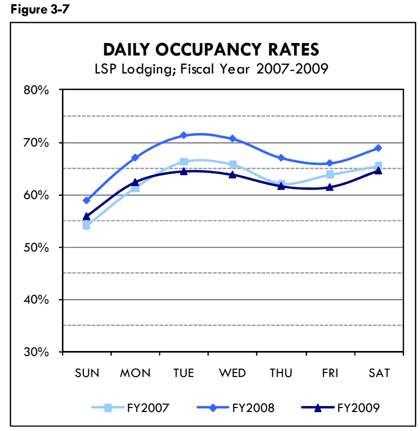
Source: Smith Travel Research & RKG Associates, Inc., 2009

Figure3-6



Source: Smith Travel Research & RKG Associates, Inc., 2009

Figure 3-7



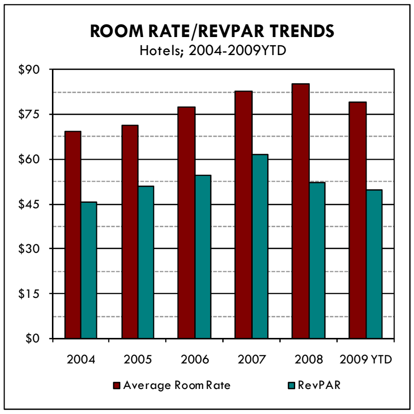
Source: Smith Travel Research & RKG Associates, Inc., 2009

5. Room Rates Trends

The average daily room rate charged by a hotel is another indicator of the quality of hotels. Hospitality venues that have a relatively high room rate within a given market often offer better in-room and hotel-wide amenities. Within the Fort Lee Study Region, regional hotels have maintained the highest average annual room rates, ranging between $69 and $85 per night between 2004 and 2009YTD (Figure 3-8). In contrast, the motel sector Lastly, average annual room rates for regional motels has maintained substantially lower room rates than hotels, with average annual room rates ranging from $43 to $49 per night during the study period (Figure 3-9). This finding is consistent with national market trends, as motel operators attempt to maintain lower operation costs to be more financially competitive for the value-seeking demand sectors.

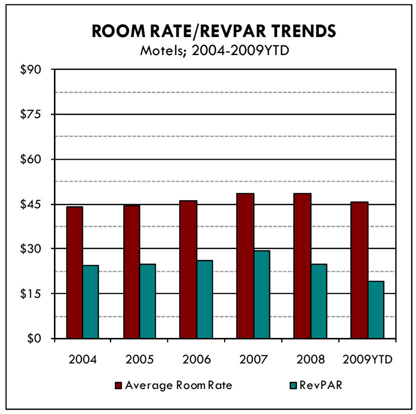
In comparison, the LSP hotel market typically has posted more modest room rate levels, as compared to similar hotel operators in the Study Region. LSP hotels have posted lower average daily room rates between $5 and $15 below the hotel market average (Figure 3-10). The difference most likely reflects the impacts of the region per diem rates for the Region, currently at $70 per night. This figure is well below the posted rates for almost all hotels within the Study Region. Furthermore, LSP stays require participating hoteliers to provide an additional 8% discount below the market's per diem rates as a requirement of participation in the program. The Consultant was able to confirm that all LSP regions within the U.S. require some discount below the approved per diem rate; however the greater Petersburg region has the lowest per diem in the Commonwealth.

Figure 3-8



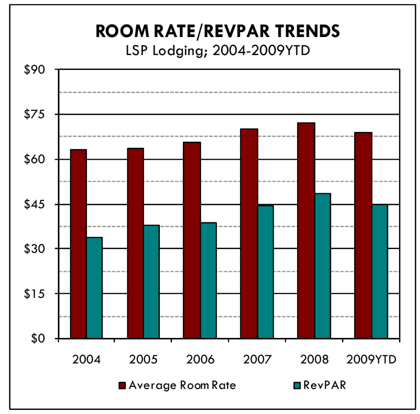
Source: Smith Travel Research & RKG Associates, Inc., 2009

Figure 3-9



Source: Smith Travel Research & RKG Associates, Inc., 2009

Figure 3-10



Source: Smith Travel Research & RKG Associates, Inc., 2009

Average annual room rates for regional lodging facilities peaked in 2008 after steadily increasing since 2004. It is likely that declining occupancy rates between 2007 and 2008 in part prompted the drop in average room rates for 2009. It should be noted that the room rates shown for 2009 reflect the average through September. However, room rates in November and December are typically among the lowest of any month; therefore, room rates for 2009 are likely to end slightly lower than the reported year-to-date (YTD) rates. Declining occupancy and room rates in the Fort Lee region indicate that most lodging facilities are operating with lower revenue streams, which likely limits operating efficiency.

6. RevPAR Trends

Revenue per available room, or RevPAR, is one of the most important measurements in the hotel industry for measuring hotel efficiency. In contrast to average room rates, which reflect the average daily rate charged for occupied rooms, RevPAR is a measure of average revenues per available room-night throughout the entire year. For example, a 100-room hotel has 36,500 annual room-nights (100 rooms x 365 days per year). If this hotel has an occupancy rate of 50% (18,250 room-nights) and gross revenue of $1,825,000 for a given year, then its average annual room rate would be $100 and its average annual RevPAR would be $50 (annual gross revenue/total annual room nights).

While the average room rate only measures current market pricing, without regard to the effectiveness of that room rate, RevPAR measures the efficiency of renting hotel rooms during low occupancy periods. Therefore, hotels with high room rates may experience higher vacancy rates, resulting in lower RevPAR rates. While more aggressively priced competitors with higher occupancy rates will achieve a higher RevPAR and greater operating efficiency. For example, occupancy rates in lower-priced LSP hotels slightly surpassed that of regional hotels in 2008 and 2009 resulting in RevPAR rates becoming more comparable between the two lodging types.

Prior to 2008, operating efficiencies within the Fort Lee Study Region steadily increased. RevPAR increased each year between 2004 and 2008 for both local motels and hotels. This finding is significant when considering average room rate levels also increased steadily during this time period (Tables 3-8 and 3-9). Simply put, market demand was increasing without any commensurate increase in supply, allowing operators to increase room rates while not experiencing any net decline in occupancy. As mentioned, these conditions combined with the noted anticipation of the impact of the expanded ALU created the opportunity for new hoteliers to enter the market. However, the economic downturn has adversely impacted both average room rate levels as well as RevPAR within the Study Region. While the average room rates for hotels and motels increased in 2008, the average RevPAR decreased more than 15% from 2007. Year-to-date 2009 market performance data indicates both average room rates and RevPAR levels have declined compared to the same period in 2008.

Despite the economic impacts of the changes in the national economy, LSP hotels have experienced a much less severe change in room rates and RevPAR (Figure 3-11). In 2008, LSP hotels maintained positive growth in RevPAR as a result of their comparatively stable occupancy levels. Although year-to-date 2009 data indicate these hotels have experienced some decline in room rate levels and RevPAR, the impact is much smaller than non-LSP hotels and motels. This is consistent within earlier findings, as the impact of the ALU and the LSP program has helped insulate LSP hotels from the decline in demand from the private sector.

C. DEVELOPMENT TRENDS AND PIPELINE PROJECTS

According to information provided by Petersburg Area Regional Tourism, the Fort Lee Study Region has experienced substantial growth in lodging supply over the past two years. Since the beginning of 2008, seven new hotels were delivered and two existing hotels built expansions. These nine facilities added 756 rooms (275,940 annual room-nights) to the Region's existing supply. A couple of hotels recently came online as construction of these facilities began earlier in 2009. These include the Residence Inn in Chesterfield County (136 rooms) and the extended-stay Value Place in Colonial Heights (124 rooms). As of the writing of this report, there are two additional hotels currently under construction that total 160 rooms (58,400 room-nights). Once completed, the Fort Lee Study Region hotel supply will have increased 23% since January 2008.

This level of growth is aggressive but consistent with the market fundamentals within the Study Region, including occupancy rates above 75%, increases in RevPAR for five straight years and limited new development. However, the change in economic climate has created a "double" effect, reducing demand concurrently with increased supply.

There are an additional 14 hotels in the development process. In total, these facilities represent 1,023 new hotel rooms, or an additional 20% above the current supply level. Much of the planned hotel development in the Fort Lee region is on hold or has yet to begin construction. This is likely due to a combination of the economic downturn, increased scrutiny and policy changes in the financial industry, and the proposed construction of a 1,000-room Temporary Living Quarters (TLQ) on post. The following points summarize the hospitality projects currently in the regional development pipeline. It should be noted that this information was collected by the Petersburg Area Regional Tourism Corporation.

- Three hotel projects are currently "in the development pipeline," but development of these properties has been put on hold. Each of these projects are in Chesterfield County and are scheduled to operate under a national banner; Days Inn, Sleep Inn and La Quinta Inn respectively. Combined, the three hotels are planned to add 208 new rooms to the region. While all are planned to open in 2010, development schedules may change prior to opening.

- Most of the lodging projects that have gained approval, but have yet to break ground, are located in Hopewell, Prince George County and Chesterfield County. Conversely, there are no plans to develop new hotels in Petersburg and plans for one new hotel in Colonial Heights that is expected to be no larger than 150 rooms.

- There are three potential hotel projects planned in Prince George County, which largely surrounds Fort Lee. One of these, Puddledock Place, is a 168-room facility that is projected to focus on extended stays for military personnel. The other two projects, which include a hotel near the intersection of South Crater Road and Clary Road and two hotels at Diamond Park near the intersection of Routes 460 and 106, were initially planned in 2004 and 1980, respectively. While it is unlikely these projects will be developed in the short-term due to changes in the economic climate, they are permitted and need to be included in future impact analyses.

- There are seven hotel projects in the development pipeline in Hopewell and Chesterfield County. However, two of the four planned hotels in Chesterfield County, which together are projected to account for 156 rooms, are on hold as the market for lodging has slowed. Of the other two hotel projects, one is awaiting approval and is planned for 109 rooms, while the other planned 53-room project has been approved, but has yet to break ground. Lastly, the three hotels planned for Hopewell have been approved and are expected to account for an additional 211 rooms in the region.

If these facilities are constructed, the lodging market within the Fort Lee Study Region would likely experience a substantial negative impact. Local hoteliers indicated that market demand will not recover to 2007 levels for another 18 months to five years. The sudden infusion of additional supply above the growth experienced over the past two years would drive occupancy rates well below levels considered healthy for a market. While all indications these facilities will not be developed in the near-term, the analysis indicates the perceptions and realities within the local lodging market of the potential of continued economic growth and the impact of an expanded ALU has had a profound effect on the development community.

D. MARKET PROJECTIONS

The market projection analysis builds upon the existing conditions identified in the previous section of this chapter, to determine the potential impact the TLQ facility would have on the region's lodging industry. The Consultant modeled the potential change in lodging demand for each of the various market segments impacting the Fort Lee Study Region. The projections were generated independently for each market segment, based on market conditions, the type of demand and the information available to the Consultant at the time of the analysis. The methodology is discussed in greater detail in the following subsection. The results of these efforts were measured based on the potential impact created by on-post housing, particularly the development of the new 1,000-unit TLQ.

1. Methodology

The projections were calculated for the seven primary demand sectors that comprise Fort Lee's hospitality market. The methodologies for the seven demand sectors are detailed below.

- <u>*Fort Lee – Lodging Success Program*</u> – The Consultant was provided projected class loads for the Army Logistics University for fiscal years 2010, 2011 and 2012. These projections were provided by the ALU administration, the Quartermaster Corps and the U.S. Air Force (confirmed numbers were not available from the Ordnance Corps or the Transportation Corps). These projections include class schedules, anticipated student loads and average length of each class. It was reported that projections beyond FY2012 are not available. The Consultant projected a stable activity level beyond FY2012. The Consultant utilized the official projections in the model.

- *Fort Lee – Official Business Travelers* – The Consultant projected future official business travel based on the increase in permanent party activity at Fort Lee. A baseline estimate was created utilizing current estimates for Fort Lee Official Business travel and permanent party personnel levels. The Consultant then applied this ratio to projected future permanent personnel levels provided by the Fort Lee BRAC coordination office. As such, the increase in permanent personnel is projected to result in an increase in Fort Lee Official Business.

- *Fort Lee – Construction Demand* – The Consultant calculated estimates of construction jobs based on current and projected expenditures related to the BRAC action. These estimates reflect regional industry averages, as calculated by the Bureau of Economic Analysis' (BEA) Regional Input-Output Modeling System (RIMS II). The construction job levels reflect changes in construction activity based on the start and end-date projections provided by the Fort Lee BRAC Coordination Office. The Consultant apportioned a small percentage of these jobs to workers from outside the region to reflect the need for specialists and project managers for out-of-area contractors not readily available locally.

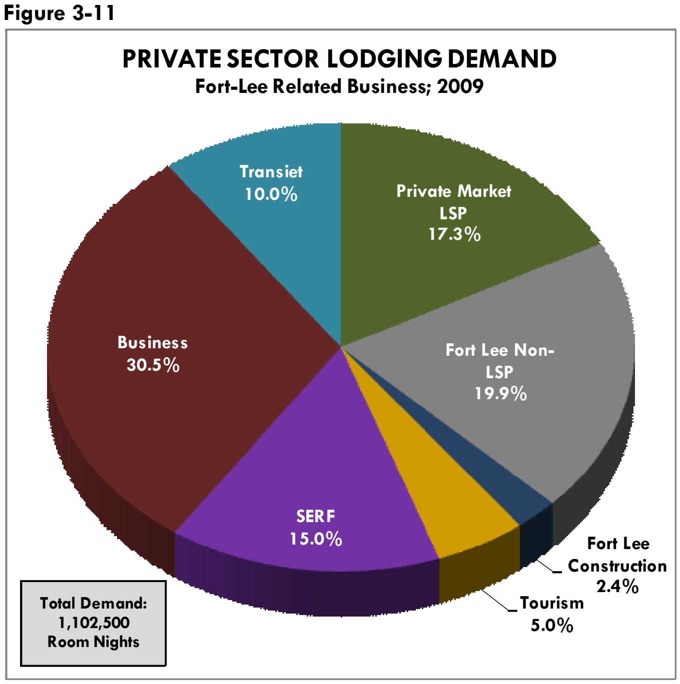
  Due to the BRAC action deadline, all construction related to the increased function of Fort Lee are scheduled to be completed by the end of FY2013. As such, all construction stays are projected to end at that time.

- *Non-Fort Lee Market Segments* – The Consultant projected demand for each of the four non-Fort Lee market segments based on historic market trends, independent market research and interviews with various hotel operators within the Fort Lee region. This effort resulted in a two-tiered market growth projection model to account for continued effects of the current economic downturn. The growth rates for the business/corporate travel, event-related travel, leisure/tourism travel and transient demand each reflect slow economic recovery through 2013 and then individual recovery growth rates through the end of the study period. The assumptions used for this effort were reviewed and supported by a sampling of local hotel operators during a collaboration meeting.

2. Annual Hotel Demand

As noted earlier in this chapter, total market demand has declined between 2007 and 2009. Total private-sector market demand is estimated to be 1,102,500 room-nights per year, approximately a 10% decline from 2007 levels. In addition to the decline in occupancy detailed earlier, market segmentation has changed slightly within the Study Region due to growth of Fort Lee activities. As a result, Fort Lee-related business accounts for almost 40% of all 2009 lodging demand within the Study Region (Figure 3-11). Non-LSP demand (19.9%) is slightly higher than private-sector LSP demand (17.3%). Business/corporate travel (not related to Fort Lee) accounts for an additional 30.5%, with the remaining non-Fort Lee sectors totaling slightly less than 30%.

Figure 3-11

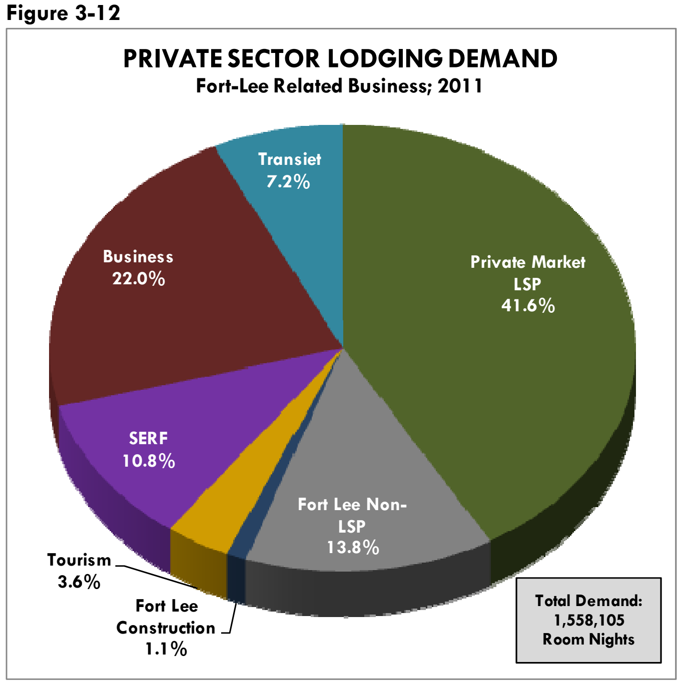


Source: RKG Associates, Inc. 2010

Market demand is projected to increase substantially by the end of fiscal year 2011, primarily due to the ALU reaching full operation. The projection data provided by the ALU, Air Force and Quartermaster Corps indicate the average daily load (ADL) of students will increase from 1,036 students for FY2009 to approximately 2,350 students in FY 2011 (this total does not include the Ordnance Corps or Transportation Corps). The fully operational ALU would result in an additional 480,000 room-nights of demand. The increased permanent-party personnel at Fort Lee likely will bring additional official business travel to the region by FY2011 as well. Permanent-party personnel levels are projected to increase by nearly 14% between FY2009 and FY2011. As such, official business activity is projected to increase proportionally.

In terms of non-Fort Lee business, market research and anecdotal information indicate the non-Fort Lee business demand will begin a slow recovery period in 2010. The Consultant projects these segments (business/corporate, event related, tourism and transient stays) will experience modest growth during the study period, returning to pre-recession levels at around 2013. In total, the Consultant projects the total private market demand to reach almost 1,558,000 room-nights for FY 2011 (Figure 3-12).

Figure 3-12



Source: RKG Associates, Inc. 2010

Since completion of the TLQ is not proposed to occur until mid-FY2012, all of the new LSP demand would need to be housed in the private market. As a result, the private market LSP segment is projected to account for more than 40% of all business in the Study Region in FY 2011 (Figure 3-12). Despite the comparatively smaller market share, the Fort Lee official business and each of the non-Fort Lee market segments are projected to experience modest increases in demand by FY2011. Only the Fort Lee construction stays segment is projected to experience a decline in private market stays by FY2011. This is due to the slowdown in construction activity, as most BRAC-related projects are projected to be complete by the end of FY2011.

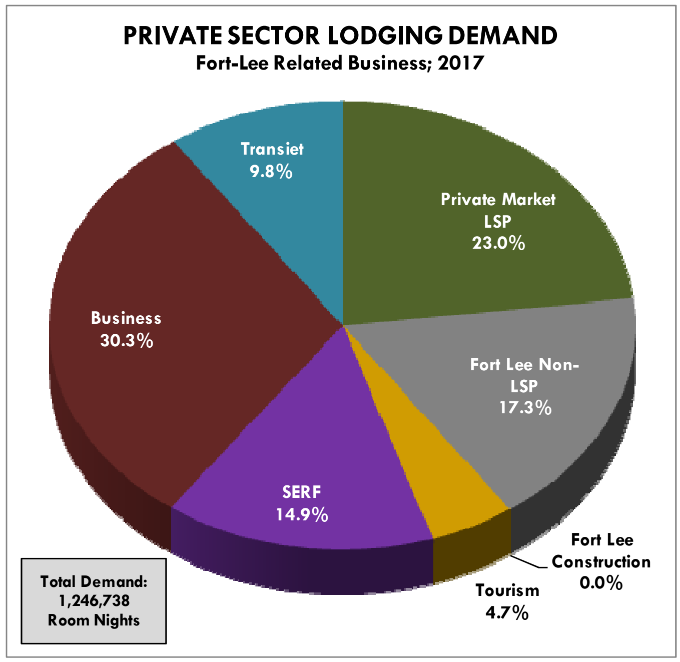
After FY2011, lodging demand is projected to reach a relative equilibrium. Growth in Fort Lee related private market stays are projected to flatten out, as the ALU operations and the permanent personnel levels are expected to reach full capacity by FY2012. Furthermore, BRAC-related construction is proposed to end by the close of FY2013. As such, demand for lodging by construction workers related to Fort Lee will end at that time. While it is likely there will be fluctuations in the total number of room-nights demanded in a given year, the Consultant's research indicates that there are no substantial changes or adjustments planned for Fort Lee beyond 2012. As a result, there is no market-based rationale to project major changes in demand for short-term lodging. In contrast, the non-Fort Lee related business is projected to continue to grow beyond FY2012. These growth rates range from 1.0% to 2.0% annually for the four market segments. This comparatively low growth rate reflects historic market trends, and is consistent with anecdotal information shared by a sampling of local hotel operators. It is important to note any substantial changes in market conditions or Fort Lee operations beyond normal market operating conditions could alter these numbers.

The most substantial difference in private-market demand is the development of the TLQ facility. The 1,000-unit short-term lodging facility has a 365,000 room-night capacity. The opening of the TLQ in the middle of FY2012 will have a direct impact on the private market demand levels. The FMWRC has a stated mission of maintaining occupancy in on-post facilities. As a result, approximately 75% of the incremental growth in LSP stays will be captured by the on-post facility during its first full year of operation. By FY2017, the total room demand will be slightly below 1,247,000 million room-nights for the Fort Lee Study Region, with the market segmentation levels more closely resembling FY2009 shares than FY2011 (Figure 3-13).

While this total reflects a decline in total demand from FY2011, it represents a net increase from current year (2009) demand levels. As such, the development of the Temporary Living Quarters will remove some of the windfall growth experienced in the private market, but the Fort Lee region's hotel market will still experience a net increase in demand once the ALU is fully operational and the TLQ facility is opened.

It is important to note that the "break-even" level for the private market to maintain its current demand levels from the LSP program after the TLQ facility is operational is estimated at 2,100 average daily load. Any operational loads above this number will result in a net increase. Anything below this level will draw existing business out of the market. While current projections from the Logistics University surpass this threshold (currently 2,450 ADL without the Ordnance or Transportation Corps), it is widely recognized that these projections reflect the Army's best estimate on future needs based on current conditions. If the Army's needs change between now and when the TLQ facility goes online, the actual ADL from Fort Lee could change as well (either positively or negatively). Given the FY2009 ADL for Fort Lee was 1,036 students, any changes in training needs could have substantial impacts on the net benefit/reduction for the local private sector lodging industry.

Figure 3-13



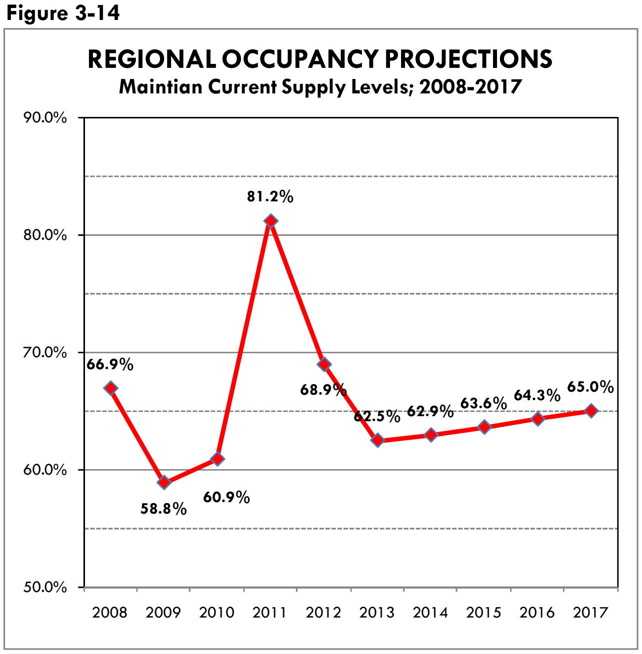
Source: RKG Associates, Inc. 2010

Furthermore, current LSP hotelier participants have expressed concern that they have not received the level of market activity during the first few months of FY2010 similar to FY2009 levels. Several factors have been identified that could be contributing to this discrepancy, including the change in LSP procedure and the current operational difficulties surrounding the Central Reservation Center (CRC). However, the Consultant confirmed that the ALU has been operating at projected levels for the first quarter of 2010. Data provided by the ALU administration indicate approximately 2,400 soldiers have attended during the first quarter of FY2010. This represents an increase of approximately 20% from FY2009. In addition, detailed projection data indicate the ALU has achieved a 98% attendance rate for classes scheduled over the past three months. While there was one cancelled class and five postponed classes, the data indicate the ALU is operating at its projected capacity. As such, the discrepancy between realized room nights at the hotels and attendance levels at Fort Lee is not related to reduced operations. It is the Consultant's finding that this disparity is reflective of problems in implementing the new policies and procedures related to the LSP program (detailed in the next chapter).

3. Supply

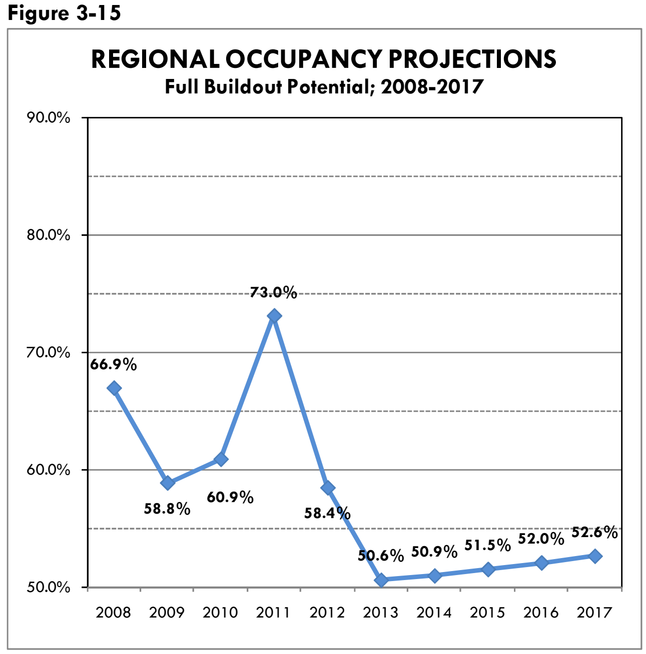
As mentioned earlier in this chapter, the Fort Lee Study Region has experienced substantial growth in lodging supply over the past two years. Since the beginning of 2008, seven new hotels were delivered and two existing hotels built expansions totaling 756 rooms (275,940 room-nights), or approximately a 13.8% increase in the existing supply. In addition, there are two additional hotels currently under construction that total 160 rooms (58,400 room-nights). Once completed, the Fort Lee Study Region hotel supply will have increased 23% since January 2008.

Figure 3-14



Source: RKG Associates, Inc. 2010

Figure 3-15



Source: RKG Associates, Inc. 2010

If the additional 14 hotels totaling 1,023 rooms that have been proposed within the market are completed, these facilities would reflect a net increase of 43% in market supply since January 2008 when combined with the facilities completed since 2007. As of the writing of this report, all 14 facilities are "on hold" for various reasons including site plan review, loss of financing or market impact. However, these potential facilities pose a second substantial increase to the regional market. It was reported to the Consultant that this unprecedented development interest resulted from a range of factors. The particularly strong occupancy rates prior to 2008 and the announcement of the expansion of ALU activities on Fort Lee were cited most often as the genesis of this expansion.

4. Findings

The strong growth in market supply combined with the adverse impacts from the economic downturn substantially impacted the Fort Lee Study Region market occupancy rates. Occupancy levels declined from 66.9% in 2008 to 58.8% in 2009 (Figure 3-14). However, the increase in activity at the ALU and with additional Official Business stays are projected to have substantial impacts by FY2011, when private sector occupancy could be as high as 81.2% market-wide. The completion of the TLQ facility will reduce the private-sector demand starting in FY2012, with market-wide occupancy projected to be 62.5% in FY2013, the first full year of operation. Beyond FY2013, occupancy is projected to increase slowly as a result of growth of the non-Fort Lee markets.

It is important to note that the development of the 11 proposed hotels would have an adverse impact on occupancy as well. The development of these proposed hotels, with the first to be delivered in FY2011, will bring occupancy levels below 51% in FY2013. Occupancy is not projected to rise above 53% by the end of the study period (FY2017). This finding is consistent with earlier analysis, as a 43% increase in total supply within five years is unsustainable in most any market.

E. IMPLICATIONS

The Fort Lee Study Region lodging market historically has performed very well. Prior to 2008, market demand increased steadily bringing occupancy rates above 70% for the market as a whole. Much of this success is related to activity at Fort Lee. Hoteliers report that Fort Lee has accounted for as much as 40% to 50% of all business within the Study Region. However, the economic downturn has resulted in a net decline in market demand each year since 2007. Concurrently, the development of more than seven new hotels and a total of 756 rooms has exacerbated the decline in occupancy levels. The Consultant estimates that the 2009 occupancy rate is 58.8%, or approximately 8% below 2008 levels.

The expansion of class load at the ALU will have a substantial impact on the regional market, both short-term and long-term. The projected activity level for FY2011 will result in an additional 480,000 room-nights of demand for the private sector, a 40% increase in one year. The Consultant projects regional occupancy level of more than 81% during this period. Even with the operation of the TLQ facility, the net benefit to the private sector will assist in negating the impacts of the economic downturn. The most impending threat to the viability of the private sector is over speculation. IF the additional 11 hotels are developed as proposed within the timeframe stated, the market will not be able to support all facilities. Simply put, the downward pressure on occupancy will create a pricing competition that will drive some facilities to failure.

However, there has been concern expressed about the viability of the ALU to deliver the amount of demand projected by the Army. Given the uncertain times our nation is still facing locally and globally, substantial changes in training needs could impact the Fort Lee Study Region lodging market. Furthermore, the Consultant was unable to obtain certain data from the Army by the writing of this report that potentially could address some of these issues. Most notably, concerns were raised about the status of the FY2010 J-3 class load listing and why LSP hotels are not receiving levels of demand commensurate with their contracted room-night amounts or even activity similar to the previous fiscal year. While some assumptions have been made to explain this discrepancy in the next chapter, the concern about future needs and the ability of the Army to meet the 2,100 average daily load threshold to avoid adverse impacts to the private market remain a legitimate concern.