

An overview of the Orlando travel and  
hospitality industry for 2012 and beyond.

# ORLANDO: THE GREATER ATTRACTION


Robin I. Webb, CCIM, CHA, CHB, CPM, MRICS

---

# ORLANDO: The Greater Attraction

By: Robin L. Webb, CCIM, CHA, CHB, CRB, CPM, MRICS


As we are entering the second quarter of 2013, it is safe to say that the nervousness of early 2011 and the over confidence of early 2012 have both moderated, succeeded by somewhat bridled optimism throughout Central Florida. The increase in supply has consisted of a net of only 2,000 rooms since 2011 to 117,396 rooms according to Visit Orlando, and roomnight demand has continued its growth, pushing overall average daily rates (ADR) to \$96.88 at an occupancy of 68.8% through the end of 2012. That represents a seven percent (7%) improvement in ADR and a 16% growth in occupancy since the bottom of the Central Florida hospitality market in 2009. Year over year, the 2012 revenues reflect a two percent (2%) expansion in occupancy and a three percent (3%) enhancement in ADR, in line with our earlier forecasts. Visitors to the market from all segments of travel topped fifty six million in 2012, achieving a new high water mark for the market!



## Lodging Results

2012 Dec YTD	Orange County		Metro Orlando		Florida		National	
Demand (% change)	1.4%		3.0%		3.3%		3.0%	
Occupancy*	71.9%	0.3%	68.8%	1.8%	64.8%	3.2%	61.4%	2.5%
Average Daily Rate*	\$103.38	3.0%	\$96.88	2.9%	\$113.14	4.2%	\$106.10	4.2%
RevPAR*	\$74.30	3.3%	\$66.68	4.8%	\$73.31	7.5%	\$65.12	6.8%

\*Occupancy, ADR & RevPAR from Smith Travel Research does not include Disney-owned hotels or alternative forms of accommodations such as vacation homes, timeshares, or campgrounds.



Source: Smith Travel Research; Visit Orlando\* Market Research & Insights

According to Tourism Economics, the rebound came swiftly with 94% of the 2009 slippage being regained in 2010 followed by another five percent increase in 2011 resulting in 2012 RevPar reaching almost \$67.00. Of the 57,000,000 visitors expected to contribute to the Orlando economy in 2013, over 43,000,000 will be leisure/vacation guests; another 10,000,000 will participate in Orlando's ever expanding business community with a remaining 3,250,000 attending meetings and conventions. Over the four years since the market bottom, the number

of international visitors has grown by 26% to exceed 4,100,000 in 2012. Year to date performance through the first quarter of 2013, according to Smith Travel Research, for the overall market reflected a 3.4% increase to 76.7% occupancy at an average daily rate of \$111.18, suggesting overall demand for rooms this year will likely be the highest in Orlando's history, exceeding thirty million roomnights.

## Metro Orlando Visitor Forecast



Visitor Volumes (millions)	2011	2012 (f)	12 vs 11	2013(f)	13 vs 12
<b>Total</b>	55.17	56.79	<b>2.9%</b>	57.34	1.0%
<b>Domestic</b>	<b>51.37</b>	<b>52.69</b>	<b>2.6%</b>	<b>53.06</b>	<b>0.7%</b>
Leisure	41.43	42.54	2.7%	42.92	0.9%
Business	9.93	10.15	2.2%	10.14	-0.2%
<b>International</b>	<b>3.80</b>	<b>4.10</b>	<b>7.9%</b>	<b>4.28</b>	<b>3.4%</b>
Canada	1.02	1.08	6.5%	6.5%	2.1%
Overseas	2.79	3.02	8.4%	3.18	5.2%



Source: D.K. Shifflet & Associates; Office of Travel & Tourism Industries; Tourism Economics

With two thirds of all visitors to Orlando being overnight guests, according to D. K. Shifflet & Associates, Orlando's airport traffic exceeded thirty-five million passengers in 2012, reflecting a ten percent (10%) increase in international passengers. At the Orlando-Sanford International Airport that passenger count was up 15% year over year in 2012, with total passengers exceeding 1,800,000. Providing service to London, Amsterdam, and Paris, about one third of all passengers served at Orlando-Sanford are international visitors staying in the U.S from between one and three weeks.

Around 10% of all overseas visitors to United States arrive through Orlando. While that percentage continues to grow, it has not yet returned to the pre-September 11, 2001 level of 11.6% reported by the US Department of Commerce. Although visitors from parts of Europe and the United Kingdom have declined somewhat in recent years, the market continues to experience a resurgence in guests from a number of South American countries, most notably Brazil, Columbia and Argentina.

## U.S. Arrivals from Key Overseas Markets\*



U.S. arrivals from the United Kingdom continues to decline, while South American origin markets are showing strong growth.

	2008	2009	2010	2011	11/10	YTD Jul 2012	12/11
<b>Total Overseas</b>	25,341,451	23,756,184	26,362,616	27,883,157	+11.0%	16,577,901	+7.0%
Western Europe	12,198,081	10,978,668	11,378,767	11,986,795	+5.3%	6,651,994	-0.6%
U.K.	4,565,000	3,899,167	3,850,864	3,835,300	-0.4%	2,079,809	-2.2%
Germany	1,782,000	1,686,825	1,726,193	1,823,797	+5.7%	1,038,660	+5.4%
Brazil	769,000	892,611	1,197,866	1,508,279	+25.9%	980,714	+17.7%
Colombia	419,000	424,526	494,739	496,814	+0.4%	316,718	+14.8%
Argentina	318,000	356,428	436,192	512,258	+17.4%	362,165	+20.3%



\* The Office of Travel & Tourism Industries (US Department of Commerce) only releases year-end destination figures; monthly data is only available at the U.S. level.

Source: US Department of Commerce, Office of Travel & Tourism Industries



With an average stay at close to four days, Orlando visitors are generally focused on enjoying its diverse and ever expanding attractions. Following the monumentally successful WIZARDING WORLD OF HARRY POTTER 2010 opening by Universal Studios, the attraction has already begun construction on expansion of the attraction to include more “London Scenes” such as Diagon Alley, according to *Sunshine State News*. The new experiences are said to encompass such mysterious additions as Gringotts Ride, and Hogwarts Express, opening in 2014, according to the attraction.

The 40 year old, forty-three square mile Walt Disney World completed its initial remake of Fantasyland with its fabled Dumbo and Flying Elephant rides at the end of 2012. Eventually doubling the size of the venue, work will continue well into 2014. Downtown Disney has been substantially redeveloped and will continue to expand its restaurant and retail venues under the new name of Disney Springs. Having just completed an additional 2,000 new guest rooms at the Art Animation Resort, the Disney parks now operate 28,000 rooms for Walt Disney World visitors. Although Disney does not release occupancy numbers, hospitality pundits generally believe those hotels average around a 90%



annual occupancy rate. Now under construction is the 900 acre luxury Four Seasons Resort, which will include another 18-hole golf course along with residential rental units and fractional ownership. It is scheduled to be completed in 2014. Employing over 60,000 workers, Orlando's Walt Disney World is said to be the largest single site employer in the nation with both direct and indirect annual compensation to workers of approximately six billion dollars, according to a spokesperson for Walt Disney World. Disney's revenues continue to expand with the entertainment giant reporting revenue growth of fourteen percent in the first quarter of 2013, according to the *Orlando Business Journal*.



The third major player in the dynamic attractions competition in Orlando is Sea World with its Discovery Cove and Aquatica Water Park venues. In 2012, the theme park opened both Turtle Trek, showcasing a "sea turtle's epic and astounding journey" along with Freshwater Oasis, "a limited-admission, all-inclusive tropical resort where guests swim with dolphins, hand-feed tropical birds in a free-flight aviary, snorkel among thousands of colorful fish and rays and relax on pristine beaches", explains Sea World's media release. In 2013 the attraction just opened its largest expansion ever, Antarctica - Empire of the Penguin, which has drawn huge crowds in its first week of operation.

Surprising many park observers, the newcomer to the family entertainment mix in Central Florida, LegoLand, has reported strong attendance since its October, 2011 launch. Situated on the 145 acre site of the former Cypress Gardens, the park now contains over fifty rides and attractions and is already planning for expansion. Its newest entry, World of Chima, is scheduled to open in July of this year. Now employing over 1300, the park does not publicly release attendance figures, however park general manager, Adrian Jones, recently described the newly developed attraction as a "phenomenal success" in a local television interview.



In addition to the tremendous tourism numbers, Visit Orlando reports that an additional thirteen million visitors arrived in the market to conduct business as well as to attend meetings and conventions. A majority of those guests are dispersed throughout the market, utilizing hotels, restaurants, and services provided within the various metro submarkets.



Currently enrolling sixty-thousand students, the University of Central Florida, located on the east side of Orlando has been a significant catalyst for growth over the past two decades. With its emphasis on robotics, optics, and medicine, the university has spurred growth in the corridor between its primary campus and the high end community of Lake Nona, situated along the Beachline Highway (SR 528),

due east of the Orlando International Airport. Immediately adjacent to the main university campus is the Central Florida Research Park, the seventh largest research park in the nation and the largest in Florida. Both the University of Central Florida and the Research park employ in excess of 10,000 on their respective sites.



The fifty acre health sciences campus located in Lake Nona houses the College of Medicine along with the Burnett Biomedical Sciences Building. Future expansion for the university's Lake Nona campus will include the UCF College of Nursing along with the College of Dental Medicine. With the opening of its health sciences building in the community, UCF emerged with the first completed structure in this expansive medical project. The world class Burnham Institute research facility and the much anticipated Nemours Children's Hospital opened in Lake Nona in 2012. Adjacent to the Burnham facility, the University of Florida is developing a 100,000 square foot medical research building and later this year the Veteran's Administration will open the \$665 million VA Medical Center at Lake Nona housing the first VA hospital to be built in the United States in eighteen years. The medical center will include a 134-bed inpatient diagnostic and treatment hospital, a 118-bed nursing home, a 60-bed domiciliary, an outpatient clinic, and a veteran's benefit mini service center. The latest indication of Lake Nona's continued growth is the City Council's recent approval a new seventeen acre office park consisting of 570,000 square feet of general office, a 150 room hotel, and two 10,000 square foot restaurants.

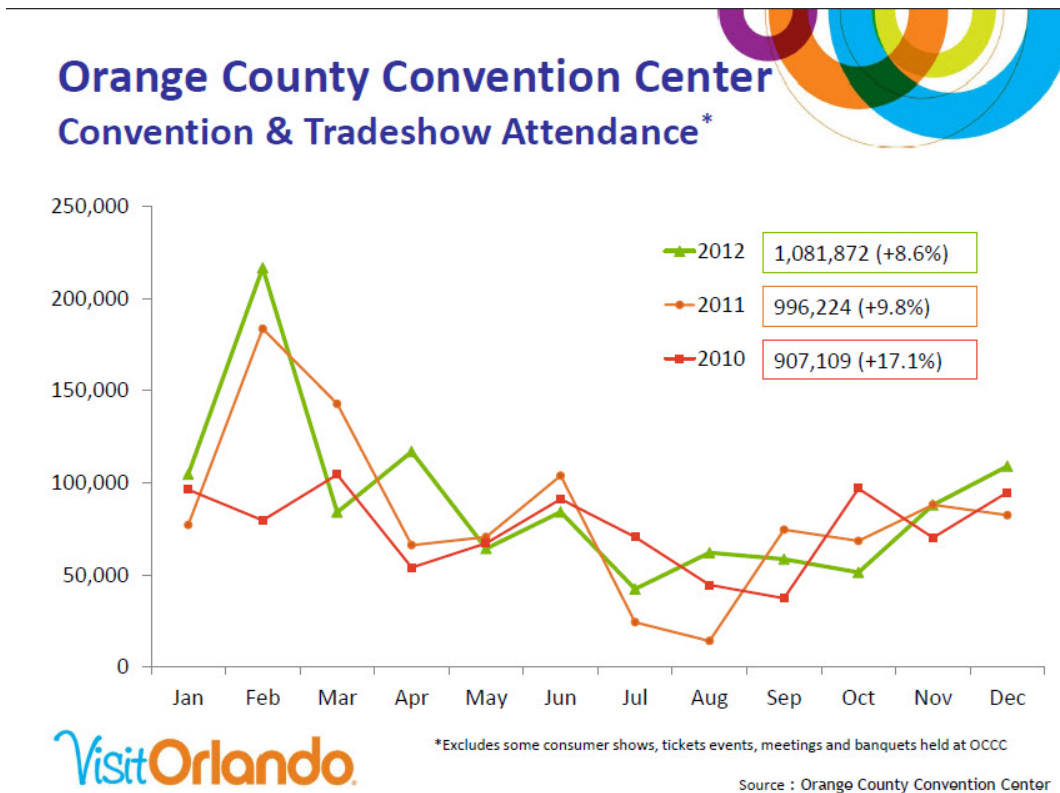


With the massive presence of entertainment in Orlando, it is not surprising that Orlando's Entertainment Technology industry continues its prominence employing over 30,000 with an additional 15,000 people working in other software development disciplines. Coupled with the optics, life sciences, and modeling developments, centered around UCF, employment generally represents higher paying jobs in the marketplace and clearly is a foundation for roomnight demand. At 6.7%, according to the Bureau of Labor Statistics, unemployment in the area is now the lowest it has been since October of 2008.

As economic conditions show improvement across the nation, approximately 3,000,000 persons travel to the Orlando area for business meetings and conventions. While corporate and hotel venue meetings attract approximately 2,000,000 attendees a year, Orange County Convention Center attendance has been consistently improving in recent years with more than one million



conventioners attending conventions and trade shows at the venue, reflecting a year over year growth of 8.6% in 2012. The two million square foot facility will host events such as the PGA Merchandise Show with almost ten miles of exhibits, the Orlando Gift Show, the NAACP National Convention, the International Association of Amusement Parks & Attractions convention, and the American Resort Development Association Fall meeting in 2013.



Throughout recent years, the supply of rooms has remained relatively constant in metropolitan Orlando. With minimal new construction, rooms supply has grown by only 2,000 units since 2010. Although there is much discussion of new development, driven by a vision of increased demand, the near term trend for new hotels is anticipated to be similar to recent years. According to Visit Orlando, approximately 1,130 new rooms will be delivered to the market in 2013 with 439 being demolished, meaning a net increase in supply of less than 700 rooms in a current market of 117,396 units. The net effect will be an increase in available room supply to the market during 2013 of only around one half of one percent.

Hotel sales activity in 2012 reflected an increase of fifty percent in the number of transactions over the prior year with twenty one hotels being sold throughout metro Orlando. Excluding three portfolio sales, the average sales price in Orange County was just over \$27,000 and in Osceola County, \$15,000 per room. No hospitality sales were reported in Seminole County for the entire year. It should be noted that, of the seven Osceola County properties sold, three were not operating at the time of sale. Perhaps the explanation for the low average sales prices is the fact that, of the 21 hotels sold in Metropolitan Orlando during 2012, fifteen were more than twenty-five years old, mostly with exterior corridors. By contrast, the ten lodging properties sold in the market during the first quarter of 2013 averaged in excess of \$49,000 per unit. The average size of the assets sold in 2012 was 290 rooms. Of those reported, transactions occurred at capitalization rates ranging from 8.0 to 11.5%, a wider range than the prior year. It is interesting to note that fourteen of the 2012 lodging property sales were franchised at the time of sale.

Tourism and travel are critically important to the economic vitality of all of Central Florida. With visitors spending almost \$32 billion annually, the industry employs 224,000 workers or one quarter of the entire workforce in metro Orlando's three primary counties. According to the *Orlando Sentinel's* recent article on the area's largest employers, travel related employment equals just over 50% of all jobs reported by the region's 10 largest employers. Prospects for 2013 employment expansion in the sector are almost guaranteed. The extremely positive news for the Orlando Hospitality Industry is that RevPar exceeded the 2007 high water mark, reaching \$74.30 in 2012, establishing a new high! With a very minor increase in supply and consistent demand growth, it is reasonable to anticipate that ADR will increase by another 3% in 2013 and that occupancy will climb by another 2% in the year ahead. We anticipate the number of transactions in 2013 will be similar to 2011 with as much as a 35% increase in the average sale price per unit. Assuming stability in the national economy, 2013 will undoubtedly be an excellent year for hotel owners and operators in Central Florida.

*Robin Webb is both a Certified Hotel Administrator and a Certified Hotel Broker along with being a CCIM senior faculty member. Often serving as an expert witness and receiver in the hospitality industry, he is Managing Director at NAI Realvest in Orlando, Florida.*