

Detroit back in business

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Story Highlights

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DETROIT—The Motor City is on the mend, thanks in no small part to the recent government bailouts of the once-sagging U.S. automotive industry. Sources say Detroit is now entering a market-wide rebirth, triggering significant hotel development in the downtown area and outlying suburbs.

With large manufacturers like Ford and GM located in Detroit, the recent automotive recovery has boosted business travel there, in addition to an ever-steady health-care industry base. But there's more to the story. Leisure and group business is rising too, sources say, thanks to the strength of local sports franchises, plus the current expansion of Cobo Center, Detroit's primary convention center.

Detroit hoteliers see these signs as testament to the revitalization now underway.

"We've certainly seen a rebound effect. The springboard will always be the auto industry, but there are a number of ancillary sectors that are providing us a lift as well," said Tom Conran, principal of Greenwood Hospitality Group, which owns the upscale 308-room The Henry, Autograph Collection hotel in outlying Dearborn, which it acquired and converted from a Ritz-Carlton in 2010. "We're looking at other opportunities in that marketplace right now. We're bullish on Michigan."

Priced to sell

The improvements to Detroit's core demand drivers have already kicked the market into growth mode. According to recent research by consulting firm HVS, Detroit is one of the key U.S. markets showing pockets of new supply, and the February STR pipeline data states a total of 10 projects are underway there, comprising 1,239 new rooms. STR is the parent company of HotelNewsNow.com.

HVS representatives say current hoteliers are working to push rate, rather than occupancy.

"There has been movement upward. It's all driven by what's happening to the auto industry," said Jaime Law, assistant VP with HVS San Francisco. "There is movement upward in average rate; people are forecasting average rates increasing by 3% to 5% for the next couple of years. Things are improving and just look very good going forward."

Although news of the Detroit metropolitan statistical area recovery is slowly beginning to spread, at the moment developers who are already intimately familiar with the area say they've been using their insight to get a leg up before a proper development boom occurs. A 126-room Hyatt Place will open in Novi in July, while the 115-room Holiday Inn Express & Suites Detroit North Troy is set for an April opening. Developed by the Amerilodge Group, the Holiday Inn Express is one of several hotels the company is currently building in Michigan. Amerilodge sources said the affordable real estate prices in the area present a time-sensitive opportunity that's too good to pass up.

"We're very excited about the growth in the market," said Asad Malik, president and CEO of Amerilodge Group. "We want to get into the ground faster than competitors and make sure we're able to do it at the lowest cost. The cost is starting to creep up, but if you can get in there and lock in rates with construction, you're better off doing that right now. We're very gung-ho about new projects and construction in the Detroit market."

Downtown revival

Amid a movement that some say began with Quicken Loans relocating its headquarters downtown in 2010 and owner Dan Gilbert subsequently acquiring some 15 Detroit commercial buildings, insiders say there's a lot more happening in Detroit than just an automotive renaissance. Overall, downtown Detroit is growing significantly, presenting opportunities for group and leisure hotel business.

For one, the Detroit professional sports teams have performed well in recent years, bringing a steady influx of fans into the city. Now, a new \$650-million, 35-acre entertainment district with a new arena for the National Hockey League's Detroit Red Wings is currently in the planning stages, promising to further boost leisure demand. Second, a \$320-million expansion and renovation is currently nearing completion at Cobo Center, Detroit's main convention facility. As a cold-weather market, the new center will greatly aid in courting meeting planners.

"Detroit realized that in order to be competitive and relevant they had to do something. They're putting the money into (Cobo Center), and I do think it's going to spark some additional hotel rooms downtown," said Joe Shurmur, GM of The Henry. "The convention bureau is refocused on going after more group business for downtown Detroit, which is certainly raising the eyebrows of investors."



The upscale 308-room The Henry, Autograph Collection hotel in Dearborn, Michigan, was acquired and converted from a Ritz-Carlton in 2010.

While select-service and midscale developers like Amerilodge are primarily focused on new-build properties erected on bargain-priced plots in the Detroit suburbs, downtown-minded developers may find opportunities to convert older hotels that are presently closed or retrofit other historic buildings to operate as hotels.

One such project underway is the conversion of the foreclosed 413-room Detroit Riverside Hotel, rumored to be opening as a Sheraton or Crowne Plaza, and situated across the street from the convention center (plans include a covered walkway to the convention center). Another is the 136-room Aloft Hotel being developed by the Roxbury Group downtown in the historic David Whitney Building, targeted for a second quarter 2014 opening.

"The whole thinking right now is to actually redevelop these historic buildings," Law said. "That's the sense I get—to redevelop, instead of building new."

"Financially, if the bones of the facility are still structurally sound, it is much less expensive to renovate than tear down and rebuild," Shurmur added. "Investors are taking a look at what buildings are available and how much money they'd have to put into the existing building to convert it into space for a hotel."

Detroit-area hoteliers are optimistic that the market is on the path to sustained recovery.

"It just seems like things are pulling together, and it's been a natural, organic growth for the market. It's been very exciting for all of us, not just at this hotel," said Alan Osborne, director of sales and marketing at The Henry. "We all remain confident that we are on the rebound."