

Boston Hospitality Review

www.bu.edu/bhr

Published by the Boston University School of Hospitality Administration

B&Bs on Cape Cod; Is the Current Operating Model Sustainable?

By Brian Testorf, Sean Cuthbertson, and
Jonathan Jaeger of LW Hospitality Advisors

Winter 2021

B&Bs on Cape Cod; Is the Current Operating Model Sustainable?

By: Brian Testorf, Sean Cuthbertson, and Jonathan Jaeger of LW Hospitality Advisors®

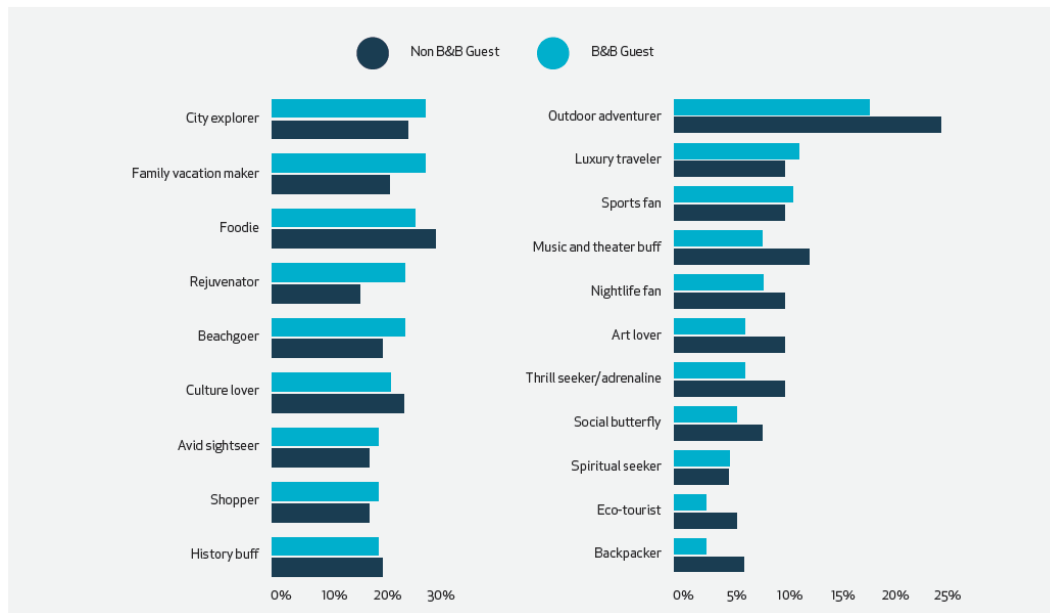


As one of the earliest forms of lodging establishments, the bed and breakfast inn (B&B) has long been prevalent in American society. The Association of Lodging Professionals defines a bed and breakfast inn as “a small lodging establishment consisting of four to eleven guestrooms, with six guestrooms being the industry average”. Similar to the hotel/motel concept, a bed and breakfast typically feature common guest areas such as outdoor decks, patios, and dining areas, while offering select amenities such as Wi-Fi, and as the name implies, a continental breakfast. However, unlike a hotel/motel, the owner of a B&B usually lives on property in the owner’s quarters, assuming the role of manager and completing tasks such as housekeeping and cooking, hence the term “innkeeper.” Given the abundance of beaches, historic homes, and other popular outdoor activities, the renowned summer retreat of Cape Cod, Massachusetts is an appealing destination for both innkeepers and their guests.

B&B Industry Data

Bed and breakfast inns appeal to a certain type of traveler who is interested in a local, unique, and personal experience while still receiving select amenities and services associated with a more conventional hotel stay. More recent travel trends among millennials and younger generations indicate that this group has gravitated toward this segment and has skewed the typical demographic of the B&B guest, which typically appealed to primarily older generations and international travelers. B&B guests describe themselves as free-spirited and price-conscious, taking shorter trips multiple times per year, with a focus on relaxation, rejuvenation, and family vacation. The chart below details the self-description of B&B guests compared to that of non-B&B guests, as compiled by the Association of Independent Hospitality Professionals.

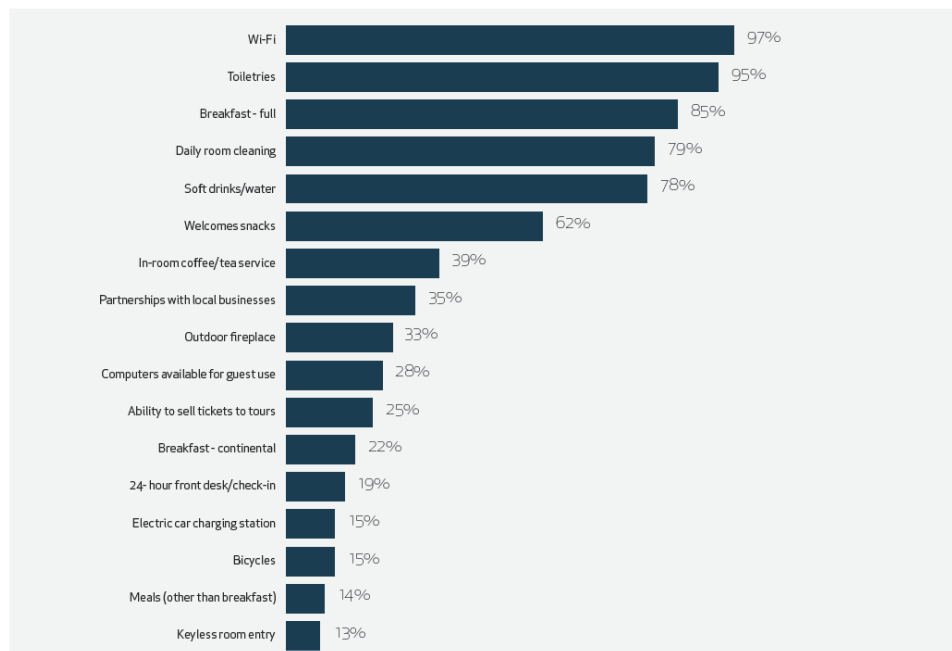
Traveler Self-Descriptions



Source: *The State of B&B's in the U.S. – The Association of Independent Hospitality Professionals*

To accommodate for the changing desires of guests, the bed and breakfast industry has evolved to offer more amenities than in the past. As displayed in the chart below, almost 97 percent of over 500 bed and breakfasts surveyed offer Wi-Fi, as historic and remote properties recognize the needs of today's travelers. Unlike a typical hotel brand, each bed and breakfast is unique, with each one offering amenities and experiences that may differ from the next.

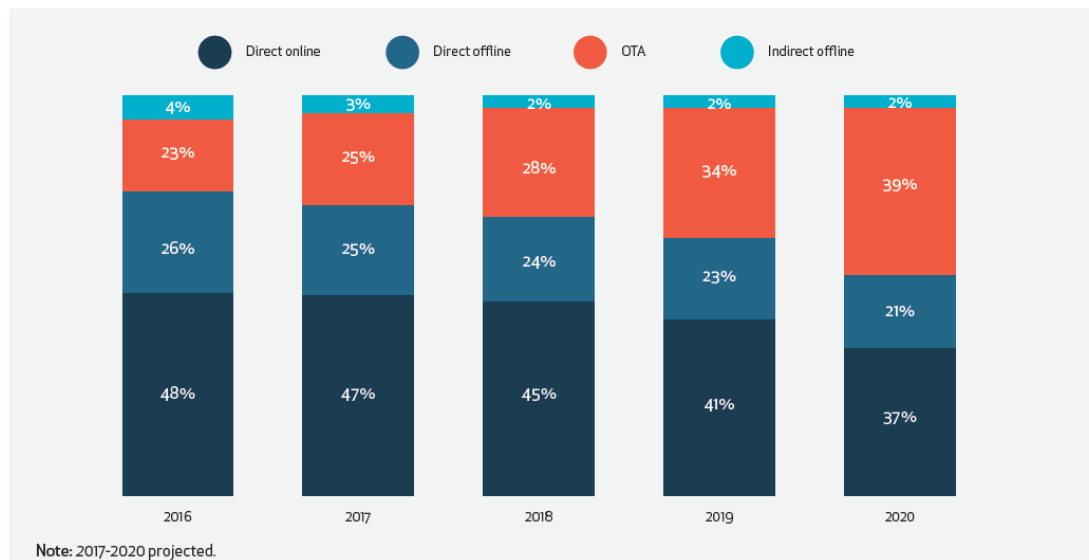
Amenities Offered to Guests



Source: The State of B&B's in the U.S. – The Association of Independent Hospitality Professionals

Similar to trends experienced within the overall lodging industry, online travel agencies have become a major booking tool for bed and breakfast inns. The emergence of online travel agencies (OTAs) has had both a positive and negative impact on the B&B industry. The availability of online marketing has expanded the reach of many bed and breakfast inns which are typically owned and operated by independent operators. However, fees associated with reservations and marketing through these online platforms represent a significant portion of the revenue generated which has increased overall expenses and challenged profitability for the typical innkeeper. The trend is anticipated to continue as OTAs are expected to claim more distribution channel share, as displayed in the chart below.

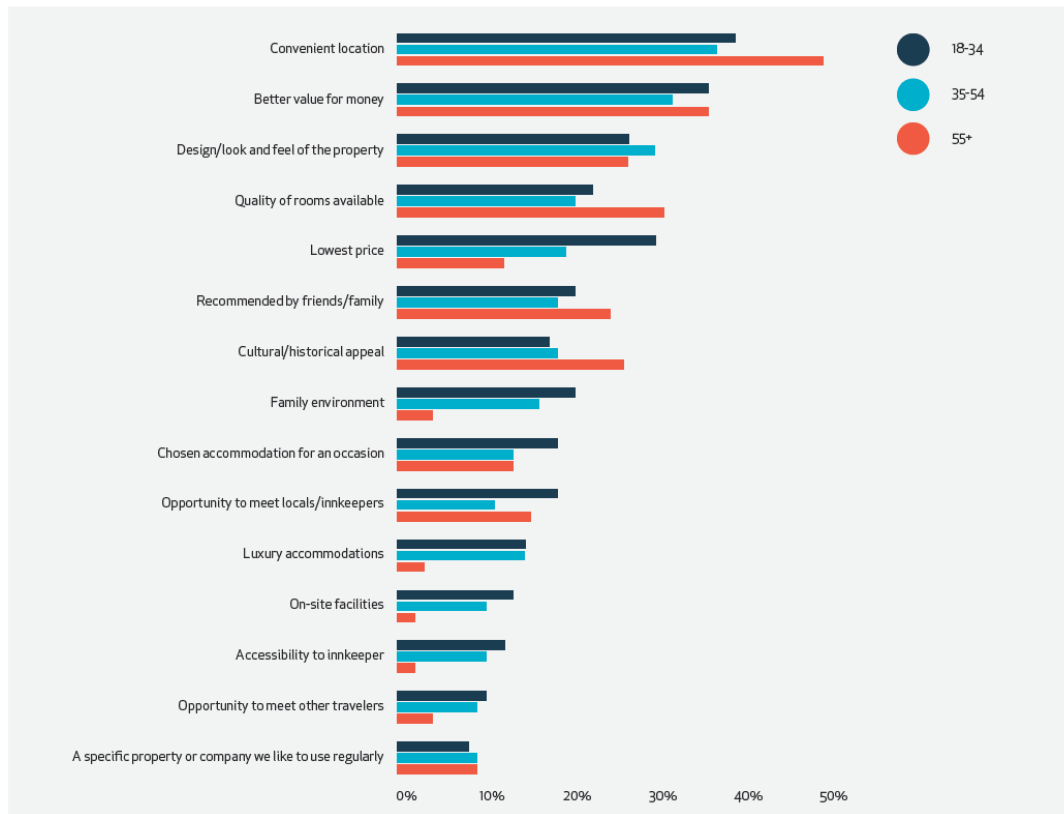
U.S. B&B Channel Share, 2016-2020



Source: The State of B&B's in the U.S. – The Association of Independent Hospitality Professionals

Location and value tend to be the most important factors to guests lodging at a bed and breakfast inn. The importance of these factors varies by age and demographic, with design of the property, quality of room product, price, and personal and online recommendations all considered by travelers looking to stay at a B&B over another lodging accommodation.

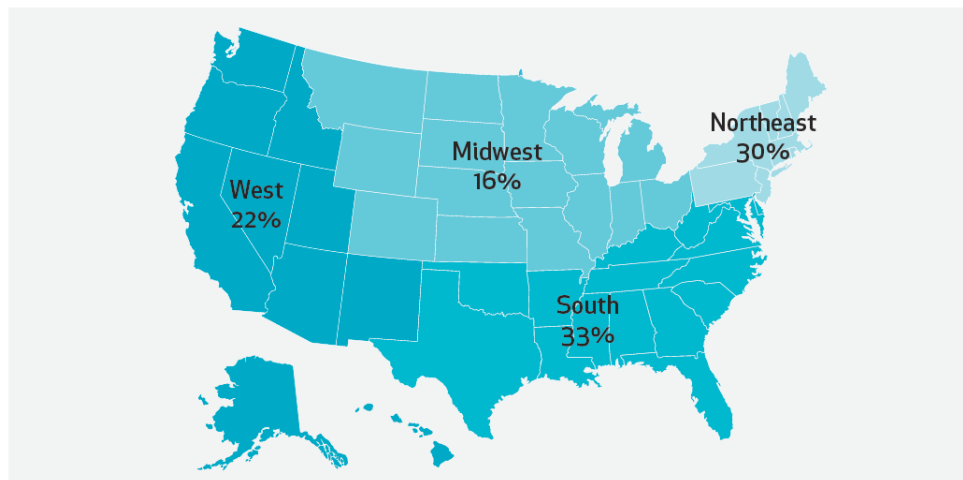
Why Travelers Chose a B&B for Last Trip



Source: *The State of B&B's in the U.S. – The Association of Independent Hospitality Professionals*

With over 17,000 bed and breakfast inns in the United States, travelers can find inn-style accommodations across the country. According to The Association of Lodging Professionals, 29 percent of inns are in rural locations, 23 percent in urban areas, five percent in suburban locations, and 43 percent in locations designated as a village. Many bed and breakfast inns are in the south and northeastern United States, comprising nearly two-thirds of the B&B industry as shown on the following map.

Where are B&Bs located?



Source: The State of B&B's in the U.S. – The Association of Independent Hospitality Professionals

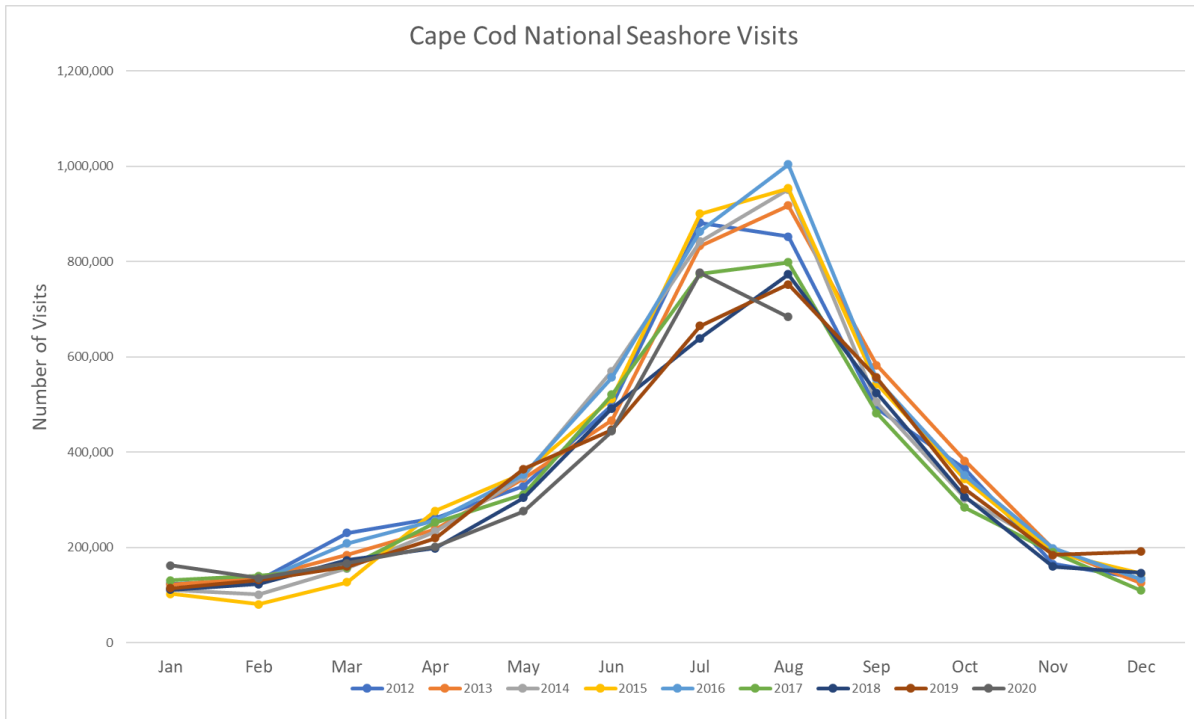
The typical traveler at a bed and breakfast inn is searching for a destination to which they can visit multiple times per year for long-weekends or short getaways focused on relaxation and rejuvenation. Cape Cod, Massachusetts, renowned for its history, beaches and natural beauty which cover more than 400 miles of shoreline, along with its excellent accessibility from major metropolitan markets such as Boston and New York City, represents an appealing destination for the B&B guest. With over 250 bed and breakfast inns, ranging from historic captains' homes to modern private residences, Cape Cod is one of the premier markets for the bed and breakfast industry.

Cape Cod

The phrase “Cape Cod and the Islands” commonly refers to the region of Barnstable County, Dukes County, and Nantucket County in Massachusetts. Barnstable County is comprised of the 15 towns located on Cape Cod: Bourne, Sandwich, Falmouth, Mashpee, Barnstable, Yarmouth, Harwich, Dennis, Brewster, Chatham, Orleans, Eastham, Wellfleet, Truro, and Provincetown; which are considered be part of the Upper Cape, Mid-Cape, or Lower Cape, and the Elizabeth Islands. To the south of Cape Cod lies the Nantucket Sound, and the islands of Nantucket (Nantucket County) and Martha's Vineyard (Dukes County).

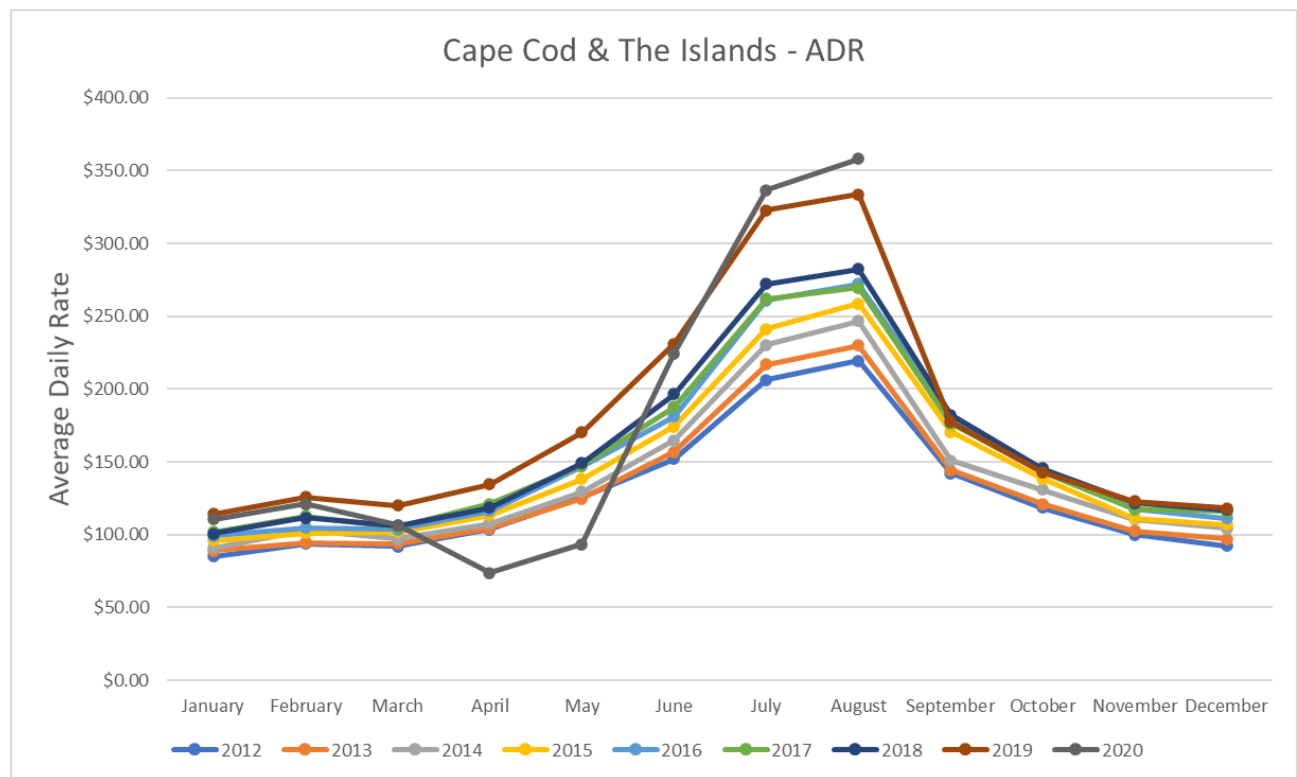
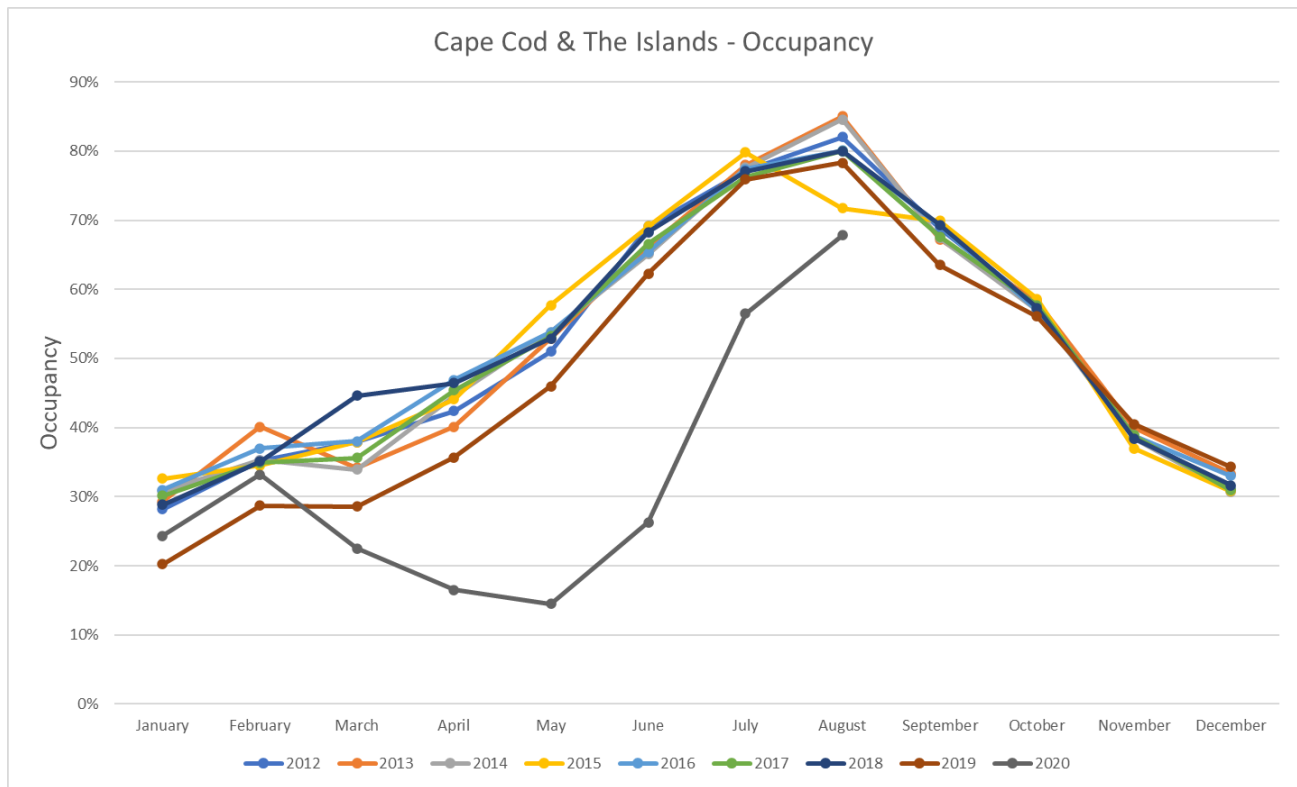
Historically a prominent fishing, whaling, and trading region, Cape Cod, Martha's Vineyard, and Nantucket have evolved to become well renowned resort destinations. Cape Cod has a year-round population of approximately 220,000 and experiences a tourist season which officially begins Memorial Day in May and ends Labor Day Weekend in September. Cape Cod is a popular destination for beachgoers with approximately 400 miles of coastline and 60 public beaches. Outdoor activities in the region include beach walking, biking, boating, fishing, go-karts, golfing, kayaking, miniature golf, and shopping. The Cape also features the Cape Cod Baseball League, sport fishing, and various other youth sporting events.

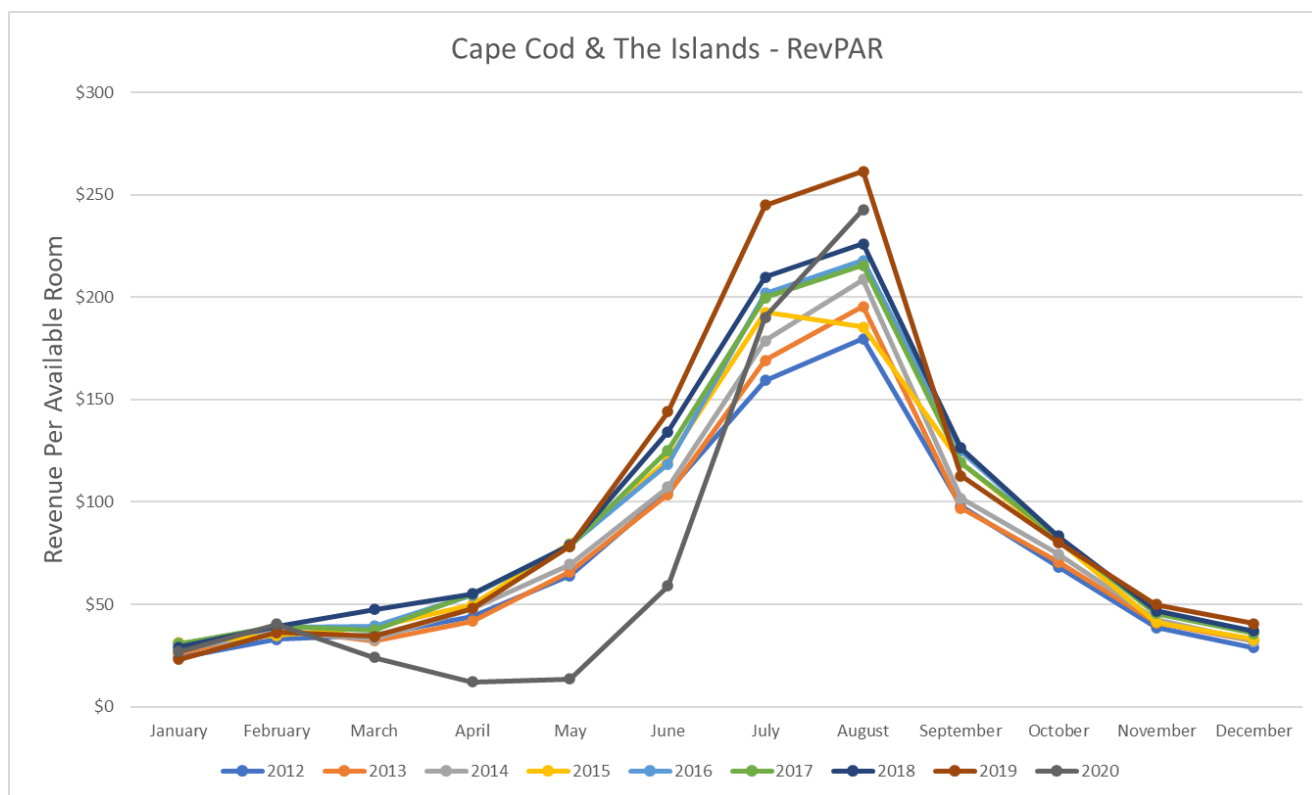
The tourism industry in Massachusetts accounted for nearly \$24.2 billion in direct spending in 2018, with Barnstable County contributing \$1.32 billion. The below charts display visitation statistics in Cape Cod as reported by the Cape Cod Chamber of Commerce:



Cape Cod Lodging Market Statistics

Lodging on Cape Cod consists primarily of smaller inns, motels, and bed and breakfasts, with a few smaller upscale hotels. The following charts reflect historical occupancy, average daily rate, and revenue per available room (RevPAR) for all of Barnstable County, as reported by STR.





Beginning in March of 2020, the Cape and Islands lodging market experienced considerable RevPAR declines as the local area and surrounding regions were under stay-at-home orders and other travel restrictions due to the coronavirus pandemic. As restrictions have been lifted, the more recent months have experienced a lesser YOY impact which was aided by the increased level of drive-to leisure demand given Cape Cod’s proximity and accessibility from several larger metropolitan areas, such as Boston. In fact, August 2020 experienced the second highest RevPAR on record.

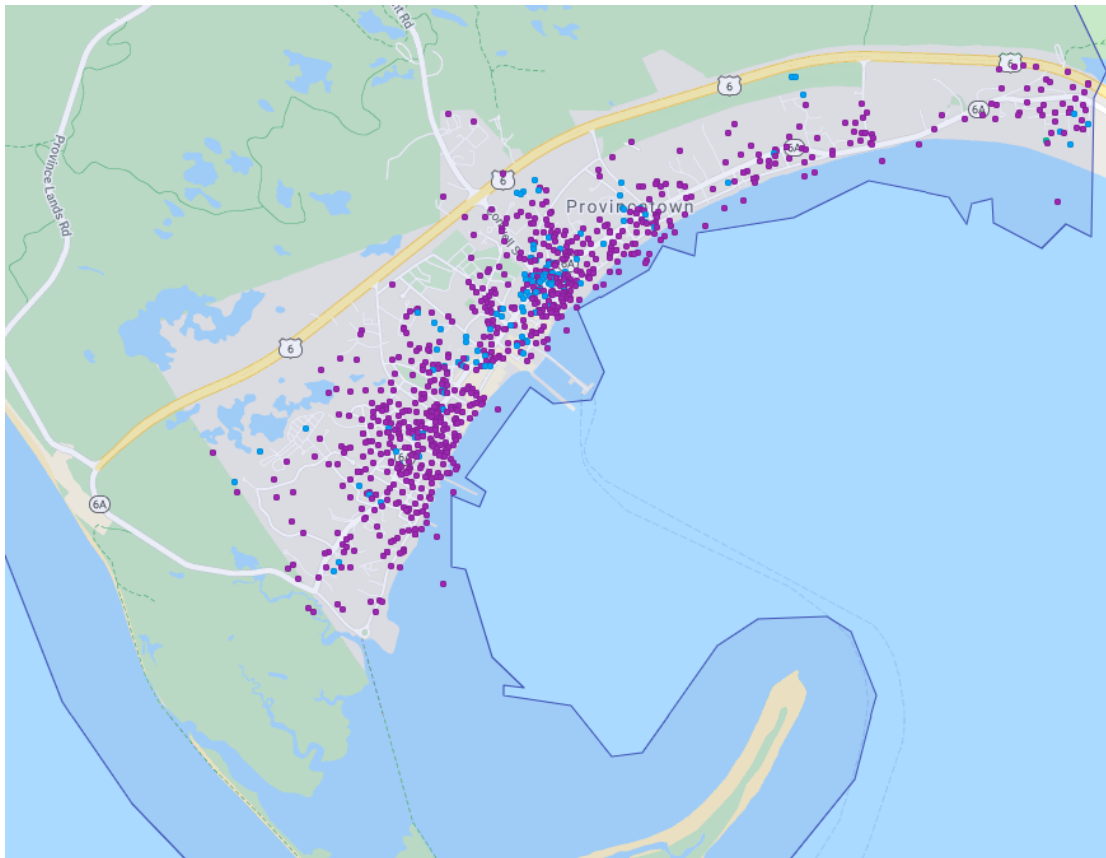
Provincetown

One of the most renowned destinations on Cape Cod is Provincetown. Commonly referred to as “P-Town”, Provincetown has an estimated year-round population of approximately 2,628 as of 2018, which increases dramatically during the summer season when the population can range from 19,000 to 60,000. Provincetown is known for its pristine beaches and natural beauty with over 20 miles of coastal shoreline, as well as its thriving culture that celebrates its history as an “artist haven” with numerous art galleries, museums, and theaters. Additionally, several popular events and festivals occur in Provincetown throughout the year. Major events include the following:

- Provincetown PRIDE;
- Provincetown International Film Festival;
- Provincetown Portuguese Festival;
- Independence Week;
- Family Week;

We have compiled data from Airbnb and major home rental sites such as VRBO and HomeAway via AirDNA, a data source in the home rental industry. The charts below display market performance of entire homes and private room rentals for Provincetown for the period between September 2017 and September 2020.

All visitation data presented is based on information published by AirDNA and reflects visitation to Airbnb and major hotel rental sites only. The map below details active listings in Provincetown, a majority of which are in the historic downtown district located along Commercial Street.



Provincetown AirDNA Data - Historical							
Entire Homes							
Month	Days	Total Available		Listing Nights		ADR	Rooms
		Active Listings	Nights	Booked	Occupancy		Revenue
Jan-18	31	621	19,251	1,218	6%	\$235	\$286,230
Feb-18	28	572	16,016	852	5%	\$209	\$178,068
Mar-18	31	612	18,972	1,591	8%	\$192	\$305,472
Apr-18	30	707	21,210	2,394	11%	\$230	\$550,620
May-18	31	830	25,730	5,429	21%	\$301	\$1,634,129
Jun-18	30	928	27,840	10,031	36%	\$340	\$3,410,540
Jul-18	31	904	28,024	17,914	64%	\$365	\$6,538,610
Aug-18	31	924	28,644	18,970	66%	\$364	\$6,905,080
Sep-18	30	964	28,920	11,496	40%	\$308	\$3,540,768
Oct-18	31	869	26,939	6,715	25%	\$280	\$1,880,200
Nov-18	30	742	22,260	2,324	10%	\$250	\$581,000
Dec-18	31	703	21,793	2,285	10%	\$250	\$571,250
Jan-19	31	663	20,553	1,104	5%	\$250	\$276,000
Feb-19	28	624	17,472	1,058	6%	\$225	\$238,050
Mar-19	31	662	20,522	1,842	9%	\$204	\$375,768
Apr-19	30	759	22,770	3,187	14%	\$223	\$710,701
May-19	31	934	28,954	6,908	24%	\$280	\$1,934,240
Jun-19	30	1,035	31,050	11,770	38%	\$316	\$3,719,320
Jul-19	31	1,062	32,922	21,172	64%	\$378	\$8,003,016
Aug-19	31	1,072	33,232	22,725	68%	\$378	\$8,590,050
Sep-19	30	1,065	31,950	12,437	39%	\$308	\$3,830,596
Oct-19	31	936	29,016	7,022	24%	\$287	\$2,015,314
Nov-19	30	829	24,870	4,022	16%	\$286	\$1,150,292
Dec-19	31	713	22,103	3,174	14%	\$276	\$876,024
Jan-20	31	612	18,972	1,965	10%	\$260	\$510,900
Feb-20	29	563	16,327	2,292	14%	\$250	\$573,000
Mar-20	31	597	18,507	2,553	14%	\$274	\$699,522
Apr-20	30	624	18,720	3,209	17%	\$279	\$895,311
May-20	31	751	23,281	5,215	22%	\$293	\$1,527,995
Jun-20	30	817	24,510	9,356	38%	\$325	\$3,040,700
Jul-20	31	889	27,559	16,497	60%	\$383	\$6,318,351
Aug-20	31	877	27,187	18,034	66%	\$388	\$6,997,192
Sep-20	30	852	25,560	12,816	50%	\$326	\$4,178,016

Provincetown AirDNA Data - Historical							
Private Rooms							
Month	Days	Total Available		Listing Nights		ADR	Rooms Revenue
		Active Listings	Nights	Booked	Occupancy		
Jan-18	31	72	2,232	82	4%	\$117	\$9,594
Feb-18	28	42	1,176	173	15%	\$125	\$21,625
Mar-18	31	63	1,953	242	12%	\$120	\$29,040
Apr-18	30	79	2,370	602	25%	\$120	\$72,240
May-18	31	101	3,131	831	27%	\$141	\$117,171
Jun-18	30	121	3,630	1,313	36%	\$148	\$194,324
Jul-18	31	138	4,278	2,218	52%	\$197	\$436,946
Aug-18	31	130	4,030	2,459	61%	\$200	\$491,800
Sep-18	30	125	3,750	1,597	43%	\$162	\$258,714
Oct-18	31	119	3,689	1,270	34%	\$135	\$171,450
Nov-18	30	91	2,730	665	24%	\$125	\$83,125
Dec-18	31	102	3,162	742	23%	\$125	\$92,750
Jan-19	31	93	2,883	422	15%	\$125	\$52,750
Feb-19	28	79	2,212	292	13%	\$130	\$37,960
Mar-19	31	97	3,007	585	19%	\$144	\$84,240
Apr-19	30	123	3,690	626	17%	\$125	\$78,250
May-19	31	131	4,061	808	20%	\$143	\$115,544
Jun-19	30	165	4,950	1,409	28%	\$146	\$205,714
Jul-19	31	175	5,425	2,245	41%	\$191	\$428,795
Aug-19	31	163	5,053	3,465	69%	\$185	\$641,025
Sep-19	30	160	4,800	2,230	46%	\$150	\$334,500
Oct-19	31	152	4,712	1,224	26%	\$142	\$173,808
Nov-19	30	141	4,230	897	21%	\$146	\$130,962
Dec-19	31	113	3,503	740	21%	\$164	\$121,360
Jan-20	31	89	2,759	1,106	40%	\$155	\$171,430
Feb-20	29	83	2,407	945	39%	\$155	\$146,475
Mar-20	31	85	2,635	756	29%	\$184	\$139,104
Apr-20	30	79	2,370	939	40%	\$195	\$183,105
May-20	31	110	3,410	1,219	36%	\$160	\$195,040
Jun-20	30	107	3,210	1,116	35%	\$177	\$197,532
Jul-20	31	132	4,092	1,802	44%	\$181	\$326,162
Aug-20	31	104	3,224	2,117	66%	\$175	\$370,475
Sep-20	30	94	2,820	1,475	52%	\$156	\$230,100

Full Year Performance							
Entire Homes							
Year	Days	Active Listings	Total Available	Listing Nights		ADR	Rooms
			Nights	Booked	Occupancy		Revenue
2018	365	9,376	285,599	81,219	28%	\$325	\$26,381,967
2019	365	10,354	315,414	96,421	31%	\$329	\$31,719,371
Sept 2020 YTD	274	6,582	200,623	71,937	36%	\$344	\$24,740,987

Full Year Performance							
Private Rooms							
Year	Days	Active Listings	Total Available	Listing Nights		ADR	Rooms
			Nights	Booked	Occupancy		Revenue
2018	365	1,183	36,131	12,194	34%	\$162	\$1,978,779
2019	365	1,592	48,526	14,943	31%	\$161	\$2,404,908
Sept 2020 YTD	274	883	26,927	11,475	43%	\$171	\$1,959,423

The Provincetown market typically experiences heightened demand during July and August. Due to the compression in the market during these months, in which tourism to P-Town reaches peak levels due to the numerous festivals held during the summer months, hotels, inns, and rental properties can capture significantly higher room and rental rates.

Rooms revenue generated by both entire home and private rooms rentals reached peak levels in 2019, which may be primarily attributed to increased bookings through home-sharing and rental platforms such as Airbnb and VRBO, with travelers gaining familiarity with the concept. As experienced in many vacation destinations and lodging markets throughout the United States, visitations and resulting lodging performance experienced significant declines beginning in March 2020 as a result of the COVID-19 global pandemic. However, given Provincetown's and Cape Cod's positioning as a drive-to destination, the market has experienced increased demand levels through the summer months.

Additionally, Cape Cod has recently experienced an extended peak season, with many travelers continuing to visit past Labor Day weekend. As evidenced in the chart below which reflects future booked reservations for private rooms in Provincetown from October 2020 through March 2021, occupancy through December 2020 is anticipated to be above historical levels, as pent-up demand is released in the market. However, with new COVID-19 restrictions being introduced in the fall/winter months, that could impact the future pace.

	AirDNA - Private Room Pacing Analysis - Monthly					
<i>Month</i>	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
<i>Booked Listings</i>	713	531	519	112	196	20
<i>Available Listings</i>	1,008	949	903	1,323	1,188	1,366
<i>Total</i>	1,721	1,480	1,422	1,435	1,384	1,386
<i>Projected Occupancy</i>	41%	36%	36%	8%	14%	1%
<i>Booked Rate - 2020</i>	\$155	\$172	\$172	\$185	\$175	\$52
<i>Booked Rate - 2019</i>	\$128	\$123	\$142	\$147	\$146	\$143
<i>Difference</i>	21%	40%	21%	26%	20%	-64%
Source: AirDNA; Compiled by LW Hospitality Advisors						

Investing in Bed and Breakfast Inns

Based on conversations with several local bed and breakfast inn operators, as well as both commercial and residential brokers throughout Cape Cod, the most likely buyer for an operating bed and breakfast on Cape Cod would be an independent investor seeking to utilize the property as a summer home and/or secondary residence. While a potential buyer may choose to continue operating the property as a bed and breakfast, the price would largely be based on similarly operated bed and breakfast inns or residential home sales in the immediate submarket.

According to data published by the Cape Cod & Islands Association of Realtors, Provincetown and the overall Cape Cod residential real estate market has experienced record performance in the second half of 2020. The median sales price for a single-family property in Provincetown increased by 23 percent through the September 2020 year-to-date period over the same time last year, to \$1,268,750. This trend was experienced within the overall Cape Cod market as the overall median sales price for a single-family property increased by 14 percent over the same time last year to \$490,000. The median sales price for condominiums increased by 20.6 percent in Provincetown and 12.1 percent in Barnstable County through the September 2020 year-to-date period over the same time last year. Given the scarcity of residential homes available for sale, especially in areas such as P-Town, we expect the price and/or value of B&Bs to be driven up by the recent surge in demand.

In the past, when tasked with determining value for a B&B on the Cape, the rooms revenue multiplier was typically the most utilized approach. The most common buyer for a B&B was an owner operator who left another role and/or industry to relocate to a resort destination such as Cape Cod and make a living while operating the property. However, given the challenges and complexity of operating a B&B, specifically due to COVID-19, many owners are marketing their properties with residential brokers who are finding interest from buyers who will no longer operate the property as a B&B. If this trend continues, and as the buyer pool for B&Bs has decreased, we could also experience a decrease in the number of active B&Bs over the next several years.

Conclusion

As the Cape Cod residential real estate market undergoes a surge in demand through 2020, various headwinds may have a resulting impact on the bed and breakfast industry. Rising real estate prices may result in increasing property taxes and mortgages for bed and breakfast owners, impacting the income generated by the property. As the prospect of operating an inn becomes less feasible, innkeepers may choose to sell their inns for conversion into private single-family homes.

Historically, Cape Cod bed and breakfast inns have continuously operated through similar upswings in the residential real estate market, and we anticipate the industry to continue evolving with trends such as a shift to online booking platforms, implementation of modern technology, and experience-driven travel by cost-conscious consumers. Overall, Cape Cod will continue to offer many of the features sought by guests to bed and breakfast inns, and innkeepers will continue to provide these guests with an alternative lodging experience. However, with increased competition from private home rentals, innkeepers will need to be creative in order to maintain overall RevPAR and profitability levels.

References

airdna.co

bedandBreakfast.com

capecodchamber.org

Wright, B. (2018, January). *B&Bs Unbound, The State of B&Bs in the U.S.* Phocuswright. www.phocuswright.com

Authors



Brian Testorf currently serves as a Senior Associate with LW Hospitality Advisors®, based in Boston. Mr. Testorf conducts appraisals of lodging properties across the United States. Mr. Testorf is a State Certified General Real Estate Appraiser specializing exclusively in the evaluation of hotel, resort, and gaming properties. Assignments include market and feasibility studies of full-service, limited-service, and extended-stay hotel facilities. During his tenure with LW Hospitality Advisors®, Mr. Testorf has executed or consulted on appraisals or feasibility studies of over 150 hotels in over 20 states.

Prior to joining LWHA, Brian gained valuable leadership experience and knowledge of hotel operations with Marriott Hotels International at the Westin Copley Place Boston. During his time at the Westin Copley Place Boston, Brian led teams in the Front Office, Food & Beverage, and Sales and Marketing in management roles. In 2016, Brian was named Front of the House Associate of the Year by the Westin Copley Place Boston Executive Committee, and in 2017 directed the Westin Copley Place Boston Front Office to generate the highest amount of Room Upgrade Revenue in the Northeast United States under the Drake Beil Upsell Program.

Mr. Testorf obtained a Bachelor of Business Administration from Bryant University, where he was also a four-year member of the varsity football team as a quarterback. Mr. Testorf also holds a certification in Hotel Real Estate Investments and Asset Management from Cornell University and a certification in Hospitality and Tourism Management from Florida Atlantic University.



Sean Cuthbertson currently serves as Executive Vice President with LW Hospitality Advisors® bringing more than 14 years of experience in appraisal, appraisal review and numerous other real estate consulting services. Sean is based out of the headquarters office in New York City.

Mr. Cuthbertson was previously a senior commercial appraiser with M&T Bank where he completed internal review assignments on a wide range of property types, managed the execution and delivery of various portfolio appraisal projects and performed quarterly market research for decision making purposes by senior management. While at M&T, Sean also served on multiple advisory committees responsible for developing and improving internal processes and procedures as well as the risk division's training and continuing education program. Prior to his time with the bank, Sean was a senior appraiser with CBRE, Inc. in New York where he performed market value appraisals, highest and best use analyses, feasibility, and market studies on a wide range of property types.

Mr. Cuthbertson earned a Bachelor of Science Degree in Environmental Science from the University of Connecticut. He holds the MAI and AI-GRS professional designations from the Appraisal Institute and is a certified general appraiser in New York and New Jersey.



Jonathan Jaeger currently serves as a Senior Managing Director with LW Hospitality Advisors® (LWHA), based in New York City. At LWHA, Mr. Jaeger is responsible for the management and execution of over 1,000 lodging/gaming consulting and valuation assignments throughout the United States, Canada, Mexico, and the Caribbean on an annual basis. From February of 2014 through August of 2019, Jonathan was a Managing Director with the firm. Prior to joining LWHA, Mr. Jaeger was a Vice President at Pinnacle Advisory Group. After starting at the firm in 2008 as a Consultant, he was promoted to Vice President and head of the New York Practice.

Mr. Jaeger's career includes specialized experience in hospitality related: real estate appraisals, economic feasibility evaluations, investment counseling, asset management, and transactional services of hotels, resorts, conference centers, casinos, mixed use facilities, spa & wellness, and timeshare/fractional ownership properties.

Mr. Jaeger devotes significant time to various litigation support and expert testimony assignments. Mr. Jaeger has served as an expert witness under oath through depositions and testimony in court and arbitration hearings in U.S. federal and state courts. Mr. Jaeger has been retained by counsel to owners, lenders, investors, and management companies, thus enhancing his credibility with the courts and other stakeholders.

Prior to his advisory career, Mr. Jaeger held various hospitality operational and accounting/finance positions with Starwood Hotels & Resorts and Kimpton Hotels & Resorts. He graduated with a Bachelor of Science from the Boston University School of Hospitality Administration in addition to a minor in Business Administration from the Boston University Questrom School of Business.

Beginning in the spring of 2011, Mr. Jaeger joined the adjunct faculty at Boston University, serving as co-instructor of the Hotel Asset Management course. Mr. Jaeger also taught a class in the Master of Management in Hospitality (MMH) Program through the fall of 2019. In addition to teaching a course at Boston University, Mr. Jaeger has written several articles for industry wide publications; topics included the Manhattan Lodging Market, Highest and Best Use Analyses, E-Commerce in the Hotel Industry, Texas Energy Lodging Markets, An Overview of Glamping, among others. Mr. Jaeger is a member of the Metro NY Chapter of the Appraisal Institute. Beginning in the Fall of 2014, Mr. Jaeger joined the Adjunct Faculty at New York University; teaching the Lodging Development course in addition to others at the Jonathan M. Tisch Center of Hospitality.

Mr. Jaeger is a State Certified Real Estate Appraiser specializing exclusively in the evaluation of hotel, resort, and gaming properties. Mr. Jaeger is a designated member of the Appraisal Institute (MAI); he achieved this designation in June of 2013. In addition, Mr. Jaeger is an Associate Member of the International Society of Hospitality Consultants (ISHC) as well as a Recreational/Developmental Coach for the United States Professional Tennis Association (USPTA).