Marcellus drilling boom may have led to too many hotel rooms

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Drilling in Pennsylvania's Marcellus Shale region led to a rapid increase in both the number of hotels and hotel industry jobs, but Penn State researchers report that the faltering occupancy rate may signal that there are now too many hotel rooms.

"Demand is still high in many of the counties in the Marcellus Shale region, but the occupancy rate is starting to come down," said Daniel Mount, an associate professor in hospitality management. "The case could be made that this is a sign that hotels were overbuilt."

Marcellus drilling operations generated approximately $685 million in hotel revenues and added an extra 1,600 new hotel jobs since 2006, according to the researchers, who report their findings in the *International Council on Hotel, Restaurant, and Institutional Education Penn State Research Reports*. However, the latest figures show that demand for rooms may be decreasing. For example, in 2012, demand was flat and occupancy was down 4.1 percent.

If demand continues to decrease, the older, non-franchised hotels may be the most vulnerable to bankruptcy and closure, according to Mount. Of the 14 hotels that closed between 2006 and 2012, nine did not have a national franchise. The average age of the 14 closed hotels was more than 38 years old.

"The overall economic benefit of the drilling boom is still good for hoteliers, but it's just not the bonanza that it used to be," said Mount. "It may be that the newer hotels and the hotel chains are in a better position to withstand the lower demand, in which case, it will be the older, independent hotels that go out of business."

The flat rate contrasts with the explosive growth of hotel construction during the early stages of the drilling boom. Hotel developers built 65 hotels in the drilling region, which is a far greater number than national trends would suggest for hotel development, said Mount, who worked with Timothy Kelsey, professor of agricultural economics and co-director of the Center for Economic and Community Development and Kathryn Brasier, associate professor of rural sociology.

Alternative housing may explain some of the lower demand, as well, said Mount. Some companies that originally assigned workers to hotel rooms may now be housing them at alternative sites, such as apartment complexes or mobile homes, further reducing demand for hotel space.

Other workforce patterns, such as hiring more local workers and gains in workforce efficiencies, may also be contributing factors to the decreased demand in hotel rooms, said Brasier.

A drop in the price of natural gas and decrease in future drilling may also affect demand for rooms, the researchers suggest. Recently, as natural gas prices fell, the total number of wells drilled decreased from 1,968 in 2011 to 1,362 in 2012.

The researchers used the most recent data available from the Pennsylvania Department of Environmental Protection on hotel development and drilling activity in the five major drilling regions—northeast, north central, central, west central and southwest—of Pennsylvania. They then compared data on hotel performance—total demand, average daily rate and total rooms revenue—with national figures.

Provided by Pennsylvania State University