In recent years, urban revitalization and population growth in outlying areas surrounding major cities have created a wealth of opportunities outside mature lodging markets. These once untouched and undesirable submarkets across the world are now attracting stakeholder attention, as evidenced by the significant public and private investment taking place in these areas.

The expansion of major urban centers has resulted in higher market rents, limited development opportunities and more aggressive competition; this, in turn, has created higher barriers to entry and lower yields for investors. As a result, residents and developers are being priced out of the urban cores and they have been forced to look for more desirable opportunities in peripheral areas. Typical characteristics of these submarkets include easy accessibility to the urban core, authentic food, beverage and retail offerings, and lower levels of congestion.

Lodging investors and brands have the opportunity to pioneer a neighborhood by entering the market in the early stages of development, introducing brands that complement the area and create social spaces that welcome both local residents and visitors. Tourists are initially attracted to these submarkets by the lower price of lodgings. However, as these areas become more established, the thriving food, art and music scene often attracts visitors seeking a more authentic and unique experience.

One example of a submarket that has benefited from expansion and urban renewal is Brooklyn, New York. In the early 2000s, as real estate prices in Manhattan continued to increase, investors and residents began to seek out more affordable opportunities in nearby Brooklyn. In 2004, to support and encourage the revitalization of Brooklyn, the local government rezoned several neighborhoods and invested US$400 million to promote retail, residential and commercial development in the borough. Brooklyn immediately experienced a significant increase in development. Since then, the number of apartment units has tripled, the number of affordable apartments has increased from zero to over 400 and downtown Brooklyn is now the third-largest office district in New York City, with 17.3 million square feet of office space.

Since 2007, Brooklyn’s hotel inventory has doubled, with new properties primarily consisting of mid-scale to upper-upscale and independent properties. As of October 2014, the Brooklyn pipeline has 27 projects totaling 2,378 rooms, representing an 11.6% increase in rooms from the prior year and proving that investor

confidence in Brooklyn’s lodging market remains high. Despite this, Brooklyn represents one of the nation’s most underserved metropolitan areas for lodging. The area has only one hotel room for every 589 residents; in Manhattan, this per-capita rate is more than 29 times higher, showing that Brooklyn needs more hotels to meet demand. Lodging development in Brooklyn offers developers more affordable land prices, as well as favorable tax incentives. Brooklyn’s hotels exhibit strong operating performance, with occupancy and an average daily rate (ADR) well above national averages.  

Brooklyn, which now attracts millions of visitors annually, has also become a tourist destination in its own right. It is now popular with for leisure and business travelers seeking a more authentic and local experience. Similar to Brooklyn, development and urban renewal have surged in Oakland, California, over the past decade. Oakland benefits from its proximity to a major urban city, San Francisco, which is about 20 miles away. Given its location north of Silicon Valley, diverse tourist and cultural attractions, its status as a major hub for technology and biotech employment and that it is a gateway market to Asia, San Francisco has become one of the world’s most sought after markets for real estate investment. However, as prices in San Francisco continue to rise, investors are looking to peripheral areas, particularly Oakland, for additional opportunities. In the 1990s, Oakland’s mayor introduced the “10K Plan,” which was intended to attract 10,000 new residents. More recently, it launched the “10K Two Plan” to attract an additional 10,000 residents. It is doing this through 15 major housing development projects, totaling more than 7,500 units. Oakland has also focused on increasing public areas, such as Lathan Square, to support additional development and enhance the community. Companies, particularly start-ups, are choosing Oakland due to the value proposition: large and more affordable office space. The residential population has shifted to a younger, professional crowd, attributable to Oakland’s cultural diversity, as well as its authentic restaurant and bar scene. Recently, the city has been recognized as a highly desirable travel destination by well-known publications throughout the US. In 2013, Oakland attracted more than 2.5 million visitors.

Oakland experienced significant development over the past decade. However, lodging offerings in Oakland are limited, with just 94 hotels (only 14 of which are branded properties), while San Francisco has more than 200. As such, occupancy rates in Oakland are higher than in most other California submarkets due to the extremely limited supply and high demand. According to Visit Oakland, Oakland is experiencing revenue per available room (RevPAR) growth of approximately 13%, well above the US national average. Other neighborhoods in cities across the world, including East London, Kreuzberg in Berlin, Trastevere in Rome and Revolucni in Prague, have exhibited similar qualities to Brooklyn and Oakland, including urban renewal, an increase in newer lodging brands, boutique properties, proximity to urban cores and increased public and private investment. As visitors continue to choose to stay in these peripheral areas, the lodging need within these submarkets, and the emergence of new submarkets across the globe, is anticipated to expand.