



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 12, 2018**
FROM: COMMUNITY & ECONOMIC DEVELOPMENT **WARD: 1**
DEPARTMENT
SUBJECT: DOWNTOWN HOTEL MARKET ANALYSIS REPORT BY CBRE HOTELS

ISSUE:

Receive a presentation on the Downtown Hotel Market Analysis Report by CBRE Hotels.

RECOMMENDATION:

That the City Council receive an update on the Downtown Hotel Market Analysis Report by CBRE Hotels.

BACKGROUND:

There are a number of new hotels in Downtown that are either under construction, under entitlement review (not yet approved by the City Council or Planning Commission) or in the conceptual phase. These projects include the Hampton Inn by Hilton (under construction - 125 rooms) generally located on the northwest corner of Market and 5th Streets, Home 2 Suites by Hilton (conceptual - 119 rooms) generally located at northwest corner of 5th Street and Fairmount Boulevard, R Hotel by Hilton (conceptual - 155 rooms) generally located on Mission Inn Avenue between Lime and Lemon Streets, and the Residence Inn by Marriott (development offer, no commitment from the City – 160 proposed rooms), proposed to be located at the southwest corner of Market and 3rd Streets. In total, these projects include 559 new hotel rooms, which represent a significant increase in the number of hotel rooms in Downtown.

On March 6, 2018, the City Council declared a 3.01 acre portion of Public Parking Lot No. 33 as surplus for potential development of a mixed-use hotel (Residence Inn), residential and commercial project. As part of the discussion, the City Council requested that staff provide an overview of the Downtown lodging market with an emphasis on proposed new hotel developments and their anticipated impact on overall market conditions.

Shortly thereafter, the City contracted with CBRE Hotels to review and analyze Downtown's existing hotel market and estimate the impacts new hotels would have on it. Staff believes this information will be useful to City decision makers as new hotels are considered.

DISCUSSION:

The Downtown Hotel Market Analysis Report (Report) by CBRE Hotels presents an analysis of the Downtown lodging market in order to estimate the total number of hotel rooms the market could absorb, as well as the estimated impacts that various new hotels will have on the market over the next several years (Attachment 1).

As part of the Report, CBRE Hotels considered the existing Downtown lodging market, which features the following three existing hotel properties:

Historic Mission Inn Hotel and Spa:	291 rooms
Marriott Riverside:	239 rooms
<u>Hyatt Place Riverside:</u>	<u>125 rooms</u>
Total:	655 rooms

When factoring in new hotel development, the Report concluded that market occupancy, for Downtown, will remain at 81% by year-end 2018 based on year-to-date information, and will decrease to 80% in 2019 due to the opening of the Hampton Inn and Home 2 Suites projects. Moreover, occupancy rates will further decrease to 74% occupancy in 2020 as the Hampton Inn and Home 2 Suites rooms are annualized and the R Hotel (by Hilton) opens. Occupancy rates are estimated to further decrease to 73% with the annualizing of the R Hotel's rooms. As the market absorbs the new supply, the Report estimates that occupancy rates will increase to 75% by 2022.

The proposed Residence Inn, which is a development offer by Sonneblich Development and could open in 2023, will further decrease occupancy rates to 71%. However, with the impact of the new supply tapering off and being absorbed, the report estimates that occupancy rates will increase to 73% in 2024, 75% in 2025, and 78% in 2026, reaching its stabilized level of occupancy. Typically, an occupancy rate of 65% or greater is considered profitable for hotels and a target occupancy level of 75% or greater is considered ideal.

Per the Report, the Downtown Riverside lodging market has shown significant growth since 2011, with the addition of the Hyatt Place in 2012, to an occupancy rate of 81% in 2017, which is well above long-term historical averages. The new hotel projects represent high-quality brands with an international presence. As such, the Report affirms that the market can successfully absorb the new hotel projects and, as noted above, reach a stabilized occupancy rate of 78%, with 3% Average-Daily-Rate (ADR) growth, by 2026.

FISCAL IMPACT:

There is no fiscal impact with the receipt of this update.

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Attachments:

1. Downtown Hotel Market Analysis Report
2. Presentation