



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: NOVEMBER 6, 2018**

FROM: COMMUNITY & ECONOMIC DEVELOPMENT **WARDS: 1 and 2**
DEPARTMENT

SUBJECT: FILE DOWNTOWN AREA HOTEL MARKET ANALYSIS REPORT BY CBRE
HOTELS

ISSUE:

Receive and file the Downtown Area Hotel Market Analysis Report by CBRE Hotels.

RECOMMENDATION:

That the City Council receive and file the Downtown Area Hotel Market Analysis Report by CBRE Hotels.

BACKGROUND:

There are a number of new hotels in Downtown (and the surrounding area) that are either under construction, under entitlement review (not yet approved by the City Council or Planning Commission), or in the conceptual/proposal phase. These new hotel projects include:

1. Hampton Inn (under construction - 140 rooms) generally located on the northwest corner of Market and 5th Streets;
2. Home 2 Suites (conceptual - 119 rooms) generally located at northwest corner of 5th Street and Fairmount Boulevard;
3. R Hotel (conceptual - 160 rooms) generally located on Mission Inn Avenue between Lime and Lemon Streets;
4. La Quinta Inn (conceptual – 120 rooms) and undetermined hotel flag (proposed – 109 rooms) to be located at the intersection of Orange Street and the 60 freeway;
5. Undetermined hotel flag (conceptual – 126 rooms) for Pad K within the University Village shopping center, generally located on the northeast corner of Iowa and University Avenues.
6. 200-room unidentified hotel at Lot 33, located adjacent to the Riverside Convention Center along 3rd Street.

In total, these projects could include 974 new hotel rooms, which represents a significant increase in the number of hotel rooms in the Downtown area.

On March 6, 2018 and July 10, 2018, the City Council declared Public Parking Lot No. 33, the ravine fronting the Riverside Convention Center, and the former Utilities Plaza building, located at 3460 Orange Street, as surplus for potential development of a mixed-use hotel, residential, commercial, and parking garage project. As part of these discussions, the City Council requested that staff provide an overview of the Downtown area lodging market with an emphasis on proposed new hotel developments and their anticipated impact on overall market conditions.

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

DISCUSSION:

The Downtown Area Hotel Market Analysis Report ("Report") by CBRE Hotels presents an analysis of the Downtown area 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.

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

Marriott Riverside	291 rooms
Mission Inn Hotel and Spa	239 rooms
Hyatt Place Riverside	125 rooms
Courtyard by Marriott UCR	163 rooms

When factoring in new hotel development, the Report concluded that market occupancy, for the Downtown area, is anticipated to remain at 80% by year-end based on year-to-date information and is projected to remain at 80% in 2019 due to current demand in the market, despite the anticipated opening of the Hampton Inn in late 2019. Moreover, occupancy rates are anticipated to decrease to 75% in 2020 as the Hampton Inn's rooms are annualized and the anticipated opening of the Home 2 Suites in late 2020. Occupancy rates are estimated to continue to decrease to 71% in 2021 with the anticipated opening of the R Hotel and the proposed University and Iowa Avenue hotel project near UCR. Additionally, occupancy rates are projected to decrease to 69% in 2022 due to the opening of the proposed two hotel project at Orange Street and the 60 Freeway. Lastly, occupancy rates are expected to further decrease to 68% in 2023 as the 200-room Lot 33 hotel opens.

However, as the market absorbs the new supply, the Report estimates occupancy rates will increase to 72% in 2025 and to 76% in 2027, reaching its stabilized level of occupancy.

While the market may, per the Report, fluctuate above and below this number, CBRE Hotels is of the opinion that an occupancy of 76% is appropriate for the Downtown area market. This stabilized occupancy is in line with the average historical occupancy of the competitive hotel market and the current market dynamics and is well above the 2017 national average occupancy of 65.9%.

In conclusion, per the Report, the Downtown area lodging market has shown significant growth

since 2011, with the addition of the Hyatt Place in 2012, to an occupancy rate of 79.8% 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 76%, with 3% Average-Daily-Rate (ADR) growth, by 2027. Lastly, assuming a successful ramp-up and absorption period through 2027, the market will command even more rooms in the long-term.

FISCAL IMPACT:

There is no direct fiscal related to the receipt of this report.

Prepared by:	David Welch, Interim Community & Economic Development Director
Certified as to	
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Approved by:	Rafael Guzman, Assistant City Manager
Approved as to form:	Gary G. Guess, City Attorney

Attachments:

1. Downtown Area Hotel Market Analysis Report
2. Presentation