

Seattle Hotel

Market Forecast

	Estimated 2014	Projected 2015
Room Occupancy	↔	↓
Average Room Rate	↑	↑
Daily RevPAR	↑	↔

Market Up Close

Hotel occupancy rates have been quite high for several years, particularly in urban markets.

Room prices have surpassed pre-recession levels, with recent rate growth at a strong pace.

Hotel sale activity is averaging nearly two significant transactions per month.

Four new hotels opened during the first half of 2015, and five more are nearing completion.

In some markets, increases in supply are likely to outpace growth in demand, driving down occupancy rates. ■

The current cycle of hotel development is underway. Four hotels opened in or near Seattle during the first half of 2015, and five more are expected to open later this year. Including the recent expansion of one property, over 1,700 new guestrooms will have opened by year end.

This is only the tip of the iceberg. At least 11 projects with nearly 3,300 guestrooms are under construction or expected to break ground soon, and nearly a dozen additional proposals could add 2,000 more rooms over the next four years.

With the regional economy now firing on all cylinders and many urban hotels operating near practical capacity, there is no question of the need for new lodging supply. Time will tell if the pending developments prove to be too little or too much.

HOTEL PERFORMANCE

The results presented in the following table reflect the performance of selected Washington submarkets. Measures of demand include the market occupancy rate, the market average room rate, and revenue per available room. Estimates for 2015 were extrapolated from year-to-date results and adjusted for seasonality.

Market occupancy rates remain high in and near Seattle. In the Seattle CBD, this will be the fourth successive year with annual occupancy near 80%. Occupancy is also strong in downtown Bellevue, along the Issaquah-Eastgate corridor, and among the midscale hotels at SeaTac. As new rooms open in the central business districts of Seattle and Bellevue, occupancy rates are expected to decline.

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Area Review

Hotel Performance

Market	Tier	Room Occupancy			Average Room Rate			Daily RevPAR		
		2014	2015(Est)	Change	2014	2015(Est)	Change	2014	2015(Est)	Change
Bellevue CBD	Overall	76%	72%	-4.4%	\$175	\$184	5.0%	\$132	\$133	0.4%
Bellingham	Upscale	74%	65%	-12.5%	\$110	\$114	4.0%	\$82	\$74	-9.0%
Chelan/Leavenworth	Upscale	54%	55%	1.3%	\$169	\$173	2.3%	\$92	\$95	3.6%
Dupont	Overall	64%	66%	2.0%	\$102	\$104	2.0%	\$66	\$68	4.1%
Eastgate/Issaquah	Overall	79%	80%	1.5%	\$145	\$152	5.0%	\$114	\$121	6.6%
Moses Lake	Overall	54%	55%	2.6%	\$88	\$90	2.2%	\$47	\$50	4.9%
Richland	Upscale	72%	66%	-9.0%	\$110	\$112	2.0%	\$79	\$74	-7.2%
SeaTac	Midscale	81%	80%	-0.9%	\$101	\$104	3.0%	\$82	\$84	2.1%
SeaTac	Budget	75%	75%	-0.1%	\$65	\$67	4.0%	\$49	\$50	3.9%
Seattle CBD	Upscale	82%	82%	0.6%	\$193	\$213	10.0%	\$158	\$175	10.7%
Seattle CBD	Midscale	80%	78%	-2.9%	\$156	\$168	8.0%	\$124	\$131	4.9%
Spokane Airport	Upscale	72%	72%	0.0%	\$102	\$105	2.5%	\$74	\$75	2.5%
Wenatchee	Midscale	70%	70%	0.3%	\$99	\$101	2.0%	\$69	\$71	2.3%
Sample Average		72%	70%	-1.8%	\$124	\$130	4.5%	\$90	\$92	2.9%

The performance of hotels in Eastern Washington has been more modest, but still reasonably healthy by historical standards. For the current year, occupancy rates are projected at 50% to 60% in the seasonal markets of Leavenworth and Chelan, and at 60% to 70% in Spokane, Wenatchee, and the Tri-Cities.

The Bellingham market was the first to peak following the recession, and the first to attract new hotel development. Four new hotels recently opened in that city, and a fifth is nearing completion. While demand has continued to increase, rates of occupancy are expected to decline.

HOTEL DEVELOPMENT

Four new hotels were completed in the tri-county area in 2014, and four more opened during the first half of 2015. There are now at least 17 hotels under construction, nearly all of them in King County, and numerous additional projects are proposed.

Seattle

Strong occupancy and rising prices have made Seattle a high-profile target for hotel developers. Areas of particular interest include the central business district and South Lake Union.

The 97-room Palladian Hotel opened in Belltown in February as the latest local addition to the Kimpton portfolio. In May, Ariel Development opened the 172-room Hyatt House Space Needle just east of Seattle Center. The 222-room Hilton Garden Inn (part of the Hill7 development) opened in June.

Construction has commenced on several mixed-use projects that include a lodging component. Among these are the 184-room SLS Hotel at 5th & Columbia, the 158-room Thompson Hotel at 1st & Stewart, and the 278-room Embassy Suites just north of CenturyLink Field.

Outside the CBD, the 130-room Staybridge Suites opened in April, becoming the youngest hotel in the Fremont/Wallingford neighborhood. A 165-room Residence Inn in the University District is scheduled for completion this fall. A 168-room Hampton Inn & Suites will open in 2016 on a site near Northgate Mall.

Nearly a dozen other hotels are proposed in or near downtown Seattle. The most ambitious proposal is for development of a mixed-use project with 1,260 guestrooms, restaurants, retail shops, and 100,000 s.f. of meeting space. The new hotel would be very near the expansion site for the Washington State Convention Center.

South King County

The owners of Cedarbrook Lodge in SeaTac have completed a 63-room addition to the upscale conference hotel, bringing its room count to 167. In Des Moines, the 225-room Four Points by Sheraton is scheduled to open in November. In Tukwila, the opening of the 139-room Home2 Suites is imminent, and demolition has begun for the mixed-use Washington Place development, which is to include a 189-room hotel.

Hotel Development

Property Name	Location	City	Type	Opening	Rooms
Cedarbrook Lodge (addition)	18525 36th Ave S	SeaTac	Conference	Feb-15	167 (63)
Palladian Hotel	2000 2nd Ave	Seattle	Boutique	Feb-15	97
Staybridge Suites	3926 Aurora Ave N	Seattle	Extended Stay	Apr-15	130
Hyatt House	416 John St	Seattle	Extended Stay	May-15	172
Hilton Garden Inn (Hill7)	1829 Boren Ave	Seattle	Select Service	Jun-15	222
Home2 Suites	380 Upland Dr	Tukwila	Extended Stay	Jul-15	139
Marriott Hotel	200 110th Ave NE	Bellevue	Full Service	Jul-15	378
Homewood Suites	1400 Block NW Poplar Way	Issaquah	Extended Stay	Aug-15	123
Residence Inn	4501 12th Ave NE	Seattle	Extended Stay	Sep-15	165
Four Points	22406 Pacific Hwy S	Des Moines	Full Service	Nov-15	225
Thompson Hotel	1st & Stewart	Seattle	Boutique	May-16	158
Courtyard	3003 Colby Ave	Everett	Select Service	Jul-16	156
Hampton Inn & Suites	9550 1st Ave	Seattle	Limited Service	2016	168
Home2 Suites	600 Station Dr	Dupont	Extended Stay	2016	140
Even Hotel	527 Fairview Ave N	Seattle	Limited Service	2017	123
SLS Hotel (5th & Columbia)	800 5th Ave	Seattle	Full Service	2017	184
W Hotel	400 Block Bellevue Way NE	Bellevue	Full Service	2017	245
Southport Hotel	1083 Lake Washington Blvd N	Renton	Full Service	2017	353
Embassy Suites	255 S King St	Seattle	Full Service	2017	278
Hotel Indigo (Potala Tower)	2116 4th Ave	Seattle	Boutique	2017	142
Washington Place Hotel	223 Andover Park E	Tukwila	Full Service	2017	189
Hedreen Convention Hotel	800 Howell St	Seattle	Convention	2018	1,260

East King County

The 378-room Marriott Hotel in downtown Bellevue is expected to open in July 2015. Several blocks to the west, construction is underway on a 245-room W Hotel, part of the Lincoln Square expansion. Two other downtown hotels, a Hilton Garden Inn and a Marriott AC, are expected to break ground soon. The new 123-room Homewood Suites in Issaquah has a scheduled opening date of August 2015. Also in Issaquah, preliminary site work has begun for a 145-room SpringHill Suites.

Snohomish County

A 156-room Courtyard by Marriott is under construction in the Everett CBD. In downtown Bothell, the conversion of the former

Anderson School to a McMenamin's hotel and restaurant is underway, with completion scheduled for late this year. Several parcels in Arlington and Marysville recently have been considered for hotel development.

Pierce County

In Tacoma, a proposed mixed-use project near the convention center would include a 330-room hotel, apartments, and retail space. The planned conversion of the former Elks Lodge to a McMenamin's hotel is expected to proceed when financing is secured. The mixed-use Point Ruston development likely will include a 175-room Silver Cloud Inn. Ground has broken on a new Home2 Suites in Dupont.

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Hotel Transactions

Property Name	Location	Year Built	Sale Date	Sale Price	Rooms	\$/Room	\$/SF
Roosevelt Hotel	Seattle	1930	Mar-15	\$37,000,000	151	\$245,033	\$418
Red Lion Hotel	Bellevue	1969	Feb-15	\$35,400,000	181	\$195,580	\$366
Heathman Hotel	Kirkland	2006	Feb-15	\$17,478,374	91	\$192,070	\$309
La Quinta Inn & Suites	Seattle	1960	Apr-15	\$16,500,000	72	\$229,167	\$270
Red Roof Inn	SeaTac	1979	May-15	\$14,437,230	152	\$94,982	\$176
Quality Inn	SeaTac	1981	Feb-15	\$6,750,000	103	\$65,534	\$123
Travelodge	Fife	1978	Feb-15	\$3,800,000	79	\$48,101	\$107
Days Inn	Everett	1968	Mar-15	\$3,000,000	76	\$39,474	\$73
Days Inn	Fife	1991	Jan-15	\$2,950,000	65	\$45,385	\$135
Ramada Limited	Tukwila	1999	Jan-15	\$2,700,000	38	\$71,053	\$167

HOTEL TRANSACTIONS

During the first half of 2015, and excluding national portfolios, there were 10 sales of hotels in King, Pierce, and Snohomish Counties at prices exceeding \$2 million. By comparison, there were 11 such sales in all of 2008, three in 2009, five in 2010, nine in 2011, 15 in 2012, nine in 2013, and 15 in 2014.

The Roosevelt Hotel in downtown Seattle was built in 1930 and has 151 guestrooms. It sold for \$37 million as part of a change in the ownership structure of the partnership. Formerly part of Coast Hotels, this property is now affiliated with Provenance.

The Red Lion Hotel in downtown Bellevue occupies a large site adjacent to the interstate highway. The 181-room hotel sold in February for \$35.4 million. Reportedly, the value of the underlying land was a consideration in the purchase price.

The same consideration likely influenced the price paid for the La Quinta Inn & Suites in Seattle's Denny Triangle. This 72-room hotel was built in 1960 in advance of the World's Fair, and is in a neighborhood that is undergoing extensive redevelopment. The hotel sold for \$16.5 million.

The Heathman Hotel in downtown Kirkland sold for about \$17.5 million. The upscale boutique hotel has 91 guestrooms and is in the heart of that city's retail and restaurant district.

The Red Roof Inn in SeaTac sold for about \$14.4 million. The 152-room limited service hotel opened in 1979. There also were five sales involving budget hotels in SeaTac, Fife, Everett, and Tukwila.

Among the budget hotels, sale prices ranged from \$39,000/room to \$95,000/room and from \$73/s.f. to \$176/s.f. For the four sales at the top of the market, prices ranged from \$192,000/room to \$245,000/room and from \$270/s.f. to \$418/s.f.