

Seattle Hotel

Market Forecast

	Estimated 2015	Projected 2016
Room Occupancy	↔	↓
Average Room Rate	↑	↑
Daily RevPAR	↑	↔

Market Up Close

Hotel occupancy in and near Seattle has remained strong for several years.

Room prices in most urban markets are well above pre-recession levels.

The number of significant hotel sales in this region was the highest since the recession.

Eight hotels were completed during 2015, eight more are expected to open during the coming year, and at least 15 are under construction.

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

Business cycles are a fact of life for most forms of real estate, including hotels. Strong lodging market performance attracts new development, which in turn increases the market supply and puts downward pressure on occupancy rates and room prices. Once conditions have deteriorated to a sufficient extent, the pace of construction slows, hotel performance gradually recovers, and the cycle begins again.

For the lodging markets in and near Seattle, this pattern has recurred at intervals of eight to ten years. Most of these markets are now near the peak of the cycle, with high rates of occupancy, rapid growth in room prices, and numerous hotels under construction or proposed. We expect that market occupancy rates will decline in the near term, reaching a trough in 2018 and recovering to more typical long term levels by 2022.

HOTEL PERFORMANCE

During 2015, Kidder Mathews completed 44 hotel appraisals in the Pacific Northwest and California. The results discussed below 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. Our estimates for 2015 were extrapolated from partial year results and adjusted for seasonality.

Market occupancy rates remained high in and near Seattle. In the Seattle CBD, this was the fourth consecutive year with annual occupancy near 80%. High rates of occupancy also were achieved in North Seattle, SeaTac, downtown Bellevue, Puyallup/Sumner, and along the Issaquah-Eastgate corridor. Over the next three years, as new rooms open in the central business districts of Seattle and Bellevue, occupancy rates in those markets 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%
Bothell	Midscale	69%	68%	-2.4%	\$109	\$116	6.9%	\$76	\$79	4.3%
Chelan/Leavenworth	Upscale	54%	55%	1.3%	\$169	\$173	2.3%	\$92	\$95	3.6%
Dupont	Midscale	64%	67%	5.7%	\$105	\$111	6.0%	\$67	\$75	12.0%
Eastgate/Issaquah	Midscale	79%	80%	1.5%	\$145	\$152	5.0%	\$114	\$121	6.6%
Moses Lake	Midscale	54%	55%	2.6%	\$88	\$90	2.2%	\$47	\$50	4.9%
Puyallup/Sumner	Midscale	70%	77%	10.6%	\$102	\$107	4.9%	\$71	\$83	16.0%
Richland	Upscale	72%	66%	-9.0%	\$110	\$112	2.0%	\$79	\$74	-7.2%
SeaTac	Midscale	81%	80%	-0.5%	\$104	\$114	10.1%	\$84	\$92	9.5%
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%
Seattle SLU	Midscale	84%	84%	0.1%	\$169	\$186	10.2%	\$142	\$156	10.3%
Seattle North	Midscale	77%	74%	-4.2%	\$132	\$146	10.5%	\$101	\$107	5.9%
Spokane Airport	Upscale	72%	72%	0.0%	\$102	\$105	2.5%	\$74	\$75	2.5%
Tacoma CBD	Midscale	67%	71%	7.1%	\$127	\$133	4.8%	\$85	\$95	12.2%
Wenatchee	Midscale	70%	70%	0.3%	\$99	\$101	2.0%	\$69	\$71	2.3%
Sample Average		72%	72%	-0.5%	\$125	\$133	5.9%	\$91	\$96	5.5%

The Bellingham market was the first to peak following the recession, and the first to attract development. Five new hotels have opened in that city since late 2013. While demand has continued to increase, annual occupancy rates are expected to decline.

Most hotel markets in Eastern Washington performed at or above historical norms. Market occupancy rates in Spokane, Wenatchee, and the Tri-Cities were in the range of 66% to 72%. For the more seasonal markets of Leavenworth and Chelan, occupancy averaged about 55%. While most of these areas will see some additions to supply, their scale and impact should be modest.

HOTEL DEVELOPMENT

Four new hotels were completed in the tri-county area in 2014, eight opened in 2015, and eight more are expected to open during the coming year. There are now at least 15 hotels under construction, most in King County, and numerous additional projects are proposed.

Seattle

Strong occupancy and rising prices have made Seattle a high-profile target for developers. Hotels are proposed or under

construction in the central business district, South Lake Union, Northgate, and the University District.

The boutique Palladian, a Kimpton Hotel, opened in Belltown in February. In April, Hotel Concepts completed the Staybridge Suites in the Fremont/Wallingford neighborhood. The following month, Ariel Development opened the Hyatt House Space Needle just east of Seattle Center. The Hilton Garden Inn (part of the Hill7 development) opened in June.

Construction has commenced on three mixed-use projects that include a lodging component. These include the SLS Hotel at 5th & Columbia, the Thompson Hotel at 1st & Stewart, and the Embassy Suites just north of CenturyLink Field. A fourth such project, the Hotel Indigo in Potala Tower, is on hold.

Ground was recently broken on a mixed-use project with 1,260 guestrooms, restaurants, retail shops, and 100,000 square feet of meeting space. This new hotel will be very near the expansion site for the Washington State Convention Center. Nearly a dozen other hotels are proposed in or near downtown Seattle.

Outside the CBD, a Residence Inn in the University District is nearing completion. A Hampton Inn & Suites is under construction near Northgate Mall, and a nearby site has been purchased for a new Courtyard by Marriott.

Hotel Development

Property Name	Location	City	Type	Opening	Rooms
Palladian Hotel	2000 2nd Avenue	Seattle	Boutique	Feb-15	97
Staybridge Suites	3926 Aurora Avenue N	Seattle	Extended Stay	Apr-15	130
Hyatt House	416 John Street	Seattle	Extended Stay	May-15	172
Hilton Garden Inn	1829 Boren Avenue	Seattle	Select Service	Jun-15	222
Home2 Suites	380 Upland Drive	Tukwila	Extended Stay	Jul-15	139
Marriott Hotel	200 110th Avenue NE	Bellevue	Full Service	Jul-15	384
Homewood Suites	1400 Block NW Poplar Way	Issaquah	Extended Stay	Aug-15	123
McMenamins Anderson School	18607 Bothell Way NE	Bothell	Boutique	Oct-15	72
Residence Inn	4501 12th Avenue NE	Seattle	Extended Stay	Jan-16	165
Four Points	22406 Pacific Highway S	Des Moines	Full Service	Feb-16	225
Thompson Hotel	1st & Stewart	Seattle	Boutique	May-16	158
Courtyard	3003 Colby Avenue	Everett	Select Service	Jul-16	156
Hampton Inn & Suites	9550 1st Avenue	Seattle	Limited Service	Oct-16	168
Home2 Suites	600 Station Drive	Dupont	Extended Stay	2016	140
Marriott AC	210 106th Place NE	Bellevue	Select Service	2016	234
Hilton Garden Inn	965 108th Avenue NE	Bellevue	Select Service	2016	254
McMenamins Elks Lodge	565 Broadway	Tacoma	Boutique	2017	45
SLS Hotel	800 5th Avenue	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 Street	Seattle	Full Service	2017	278
Washington Place Hotel	223 Andover Park E	Tukwila	Full Service	2017	189
Hedreen Convention Hotel	800 Howell Street	Seattle	Convention	2018	1,260

South King County

In February, the owners of Cedarbrook Lodge in SeaTac completed an addition to that upscale conference hotel. Two miles to the south, the opening of the Four Points by Sheraton in Des Moines has been delayed into early 2016.

The Home2 Suites in Tukwila opened in July. Construction is underway on two mixed-use projects, Washington Place in Tukwila and Southport in Renton, each of which will include an upscale hotel. A Holiday Inn Express is proposed for a site near Southcenter Mall.

East King County

Summer saw the opening of the upscale Marriott Hotel in downtown Bellevue. Several blocks to the west, construction is underway on a W Hotel, part of the Lincoln Square expansion. Two select service hotels, a Hilton Garden Inn and a Marriott AC, also broke ground during the year.

The Homewood Suites in Issaquah opened in August on a site near the highway. Nearer downtown Issaquah, preliminary site work has begun for a new SpringHill Suites.

Snohomish County

In downtown Bothell, the conversion of the former Anderson School to a McMenamin's hotel and restaurant was completed in October. A Courtyard by Marriott is under construction in the Everett CBD. Several parcels in Arlington and Marysville are being considered for hotel development.

Pierce County

A proposed mixed-use project near the Tacoma Convention Center would include a hotel, apartments, and retail space. A few blocks away, the planned conversion of the former Elks Lodge to a McMenamin's hotel is expected to move forward soon. While the mixed-use Point Ruston development likely will include a Silver Cloud Inn, the timetable for that project is uncertain.

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Hotel Transactions

Property Name	Location	Year Built	Sale Date	Sale Price	Rooms	\$/Room	\$/SF
Homewood Suites	Lynnwood	2014	Jul-15	\$37,900,000	170	\$222,941	\$318
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
Days Inn	Bellevue	1981	Jul-15	\$11,350,000	106	\$107,075	\$393
Super 8 Motel	SeaTac	1982	Sep-15	\$8,500,000	119	\$71,429	\$188
Bothell Hotel & Suites	Bothell	1999	Nov-15	\$8,025,000	84	\$95,536	\$165
Quality Inn	SeaTac	1981	Feb-15	\$6,750,000	103	\$65,534	\$123
Rodeway Inn & Suites	Fife	1987	Dec-15	\$4,500,000	108	\$41,667	\$176
Travelodge	Fife	1978	Feb-15	\$3,800,000	79	\$48,101	\$107
Econo Lodge	Lakewood	1989	Nov-15	\$3,600,000	77	\$46,753	\$132
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
Howard Johnson Inn	Kent	1978	Aug-15	\$2,900,000	85	\$34,118	\$79
Ramada Limited	Tukwila	1999	Jan-15	\$2,700,000	38	\$71,053	\$167

In Dupont, construction of a new Home2 Suites is underway on land adjacent to the Hampton Inn & Suites. A Fairfield Inn & Suites is proposed for development in that city's central business district.

HOTEL TRANSACTIONS

During 2015, and excluding national portfolios, there were 17 sales of hotels in King, Pierce, and Snohomish Counties at prices exceeding \$2 million. By comparison, there were 11 such sales in 2008, 3 in 2009, 5 in 2010, 9 in 2011, 15 in 2012, 9 in 2013, and 15 in 2014.

There were three sales at prices in excess of \$30 million. The Homewood Suites in Lynnwood was purchased by a real estate investment trust. The Roosevelt Hotel in downtown Seattle sold as part of a change in the ownership structure of the partnership. The Red Lion Hotel in Bellevue was purchased with the intent of eventually redeveloping the prominent six-acre site.

Four of the hotels were priced between \$10 million and \$20 million. The Heathman Hotel in downtown Kirkland is in the heart of that city's retail and restaurant district. The La Quinta Inn & Suites in Seattle's Denny Triangle sold at a similar price, but there the value of the underlying land was a consideration. Land value may also have influenced the price paid for the Days Inn in Bellevue. The Red Roof Inn in SeaTac, which is similar to the Days Inn in age and quality, sold at a significantly lower price per room.

Among the ten sales under \$10 million, prices ranged from \$34,000/room to \$96,000/room and from \$73/s.f. to \$188/s.f. For the seven sales at the top of the market, prices ranged from \$95,000/room to \$245,000/room and from \$176/s.f. to \$418/s.f.