

Seattle Hotel

Market Forecast

	Estimated 2016	Projected 2017
Room Occupancy	↔	↓
Average Room Rate	↑	↑
Daily RevPAR	↑	↔

Market Up Close

Hotel occupancy rates in and near Seattle are expected to remain strong through 2016 and then to trend downward for several years.

High occupancy has supported rapid growth in room prices.

The volume of hotel sales has increased steadily since the recession.

Three hotels opened during the first half of 2016 and at least 20 are under construction.

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

Hotel construction is accelerating in and around Seattle. Eleven hotels have opened in the tri-county area within the past 18 months, 20 are under construction, and more are proposed. Developers have been attracted by high rates of occupancy and the recent rapid growth in room prices.

Ultimately, the supply of guestrooms will expand beyond the available demand, leading to lower occupancy rates and stagnant or declining room prices. However, the pending decrease in occupancy should not be confused with a softening of demand. The volume of occupied room nights has increased steadily since the recession, a trend we expect will continue over the next several years. The issue is not whether some new hotels should be built, but the pace at which they will be absorbed.

HOTEL PERFORMANCE

During the first half of 2016, Kidder Mathews completed 22 appraisals of hotels 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. Sources of historical data include individual property managers, franchise representatives, and targeted surveys. Estimates for 2016 were extrapolated from partial year results and adjusted for seasonality.

Hotels in Downtown Seattle are well into their fifth year of record occupancy, with the upscale tier expected to record an average occupancy rate of 84% in 2016. The midscale hotels in SeaTac also are achieving very high occupancy. Both markets have attracted significant new development.

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Area Review

Hotel Performance

Market	Tier	Room Occupancy			Average Room Rate			Daily RevPAR		
		2015	2016(Est)	Change	2015	2016(Est)	Change	2015	2016(Est)	Change
Bellevue CBD	Overall	75%	73%	-3.1%	\$188	\$197	4.8%	\$141	\$143	1.6%
Bellingham	Midscale	70%	67%	-5.0%	\$109	\$110	1.0%	\$77	\$73	-4.0%
Federal Way	Overall	63%	63%	1.4%	\$113	\$121	7.0%	\$71	\$77	8.5%
Moses Lake	Overall	50%	53%	5.2%	\$90	\$92	2.0%	\$45	\$48	7.3%
Renton	Overall	72%	73%	2.5%	\$115	\$118	2.5%	\$82	\$86	5.1%
SeaTac	Midscale	85%	83%	-1.8%	\$127	\$132	3.6%	\$108	\$110	1.8%
Seattle CBD	Upscale	83%	84%	0.1%	\$210	\$218	3.9%	\$175	\$182	4.0%
Seattle North	Overall	78%	76%	-2.2%	\$134	\$145	8.5%	\$104	\$110	6.2%
Tacoma CBD	Overall	71%	72%	1.4%	\$135	\$140	3.6%	\$96	\$101	5.0%
Walla Walla	Overall	56%	57%	0.9%	\$110	\$112	1.5%	\$62	\$63	2.4%
Wenatchee	Midscale	69%	70%	1.4%	\$106	\$108	2.0%	\$73	\$75	3.5%
Sample Average		70%	70%	-0.1%	\$131	\$136	3.9%	\$94	\$97	3.6%

Some local markets already are feeling the impact of new supply. In Downtown Bellevue, where two hotels have opened within the past two years, the market occupancy rate is edging downward. Similar trends are apparent in North Seattle and Bellingham.

In peripheral markets with little or no recent development, occupancy rates have increased modestly. For 2016, we are estimating market occupancy at 73% in Renton and 72% in Tacoma. These rates may not be sustainable, as new hotels are under construction in both markets.

Eastern Washington has welcomed several new hotels, among them the Davenport Grand in Spokane, the SpringHill Suites in Kennewick, and the Courtyard in Walla Walla. Most of these additions have been offset by growth in demand, so that occupancy rates have been relatively stable. In Moses Lake, where the room supply has been unchanged for several years, occupancy is improving.

HOTEL DEVELOPMENT

Four new hotels were completed in the tri-county area in 2014, eight opened in 2015, and three opened during the first half of 2016. There are now at least 20 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, and Northgate.

The 165-room Residence Inn in the University District opened in January. The newest lodging property in Downtown Seattle is

the Thompson Hotel, a 158-room upscale boutique property that opened in May near Pike Place Market.

Richard Hedreen's new convention hotel is well underway on a site near the Washington State Convention Center. The hotel will have 1,260 guestrooms, restaurants, retail shops, and 100,000 square feet of meeting space, making it the largest lodging property in the Pacific Northwest. The developers have not yet announced their choice of brand.

Construction continues on two mixed-use projects that include a lodging component. The 184-room SLS Hotel will occupy a portion of The Mark, a 44-story office tower in Seattle's financial district. The Stadium Place development just north of CenturyLink Field will include a 282-room Embassy Suites and an adjacent office tower. A third such project, Potala Tower, is on indefinite hold due to legal and financing issues.

Also underway are a 146-room Moxy (a Marriott brand) in South Lake Union and the 230-room Charter Hotel (part of the Hilton Curio Collection) near Pike Place market. A 168-room Hampton Inn & Suites is under construction near Northgate Mall. A nearby site has been purchased for a new Courtyard by Marriott.

South King County

In February, the city of Des Moines gained its first full service hotel with completion of the Four Points by Sheraton. The 225-room hotel is two miles south of SeaTac Airport.

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 110-room Hampton Inn & Suites is nearing the midpoint of construction on land just east of Renton's Gene Coulon Park. A Holiday Inn Express is proposed for a site near Southcenter Mall.

Hotel Development

Property Name	Location	City	Type	Opening	Rooms
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	2016	156
Hampton Inn & Suites	9550 1st Avenue	Seattle	Limited Service	2016	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
Hampton Inn	1200 Lake Washington Boulevard	Renton	Limited Service	2016	110
Hampton Inn & Suites	19211 Woodinville Snohomish Road	Woodinville	Limited Service	2016	102
Hampton Inn & Suites	17770 NE 78th Place	Redmond	Limited Service	2016	130
SpringHill Suites	1185 NW Maple Street	Issaquah	Select Service	2016	145
Moxy	1016 Republican Street	Seattle	Select Service	2017	146
Woodspring Suites	7707 Broadway	Everett	Extended Stay	2017	122
Staybridge/Holiday Inn Express	969 118th Avenue SE	Bellevue	Dual Brand	2017	277
McMenamins Elks Lodge	565 Broadway	Tacoma	Boutique	2017	45
SLS Hotel	801 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
The Charter - Curio Collection	1608 2nd Avenue	Seattle	Select Service	2018	230
Convention Hotel	800 Howell Street	Seattle	Convention	2018	1,260

East King County

Three hotels are under construction in Downtown Bellevue. Two select service properties, a 254-room Hilton Garden Inn and a 234-room Marriott AC, each are expected to open late this year. A 245-room W Hotel, the lodging component of the Lincoln Square expansion, should open in 2017.

Additional Bellevue hotels are waiting in the wings. A site in the southern CBD has been cleared for development of a 277-room dual brand property that will combine a Staybridge Suites and a Holiday Inn Express. Hotels also are being considered for inclusion within two proposed office towers.

In Issaquah, a 145-room SpringHill Suites is expected to open toward the end of 2016. A 102-room hotel in Woodinville and a 130-room hotel in Redmond (near the new SpaceX offices) each will be branded as Hampton Inn & Suites. At least one other site in Redmond is planned for hotel development.

Snohomish County

A 156-room Courtyard by Marriott is nearing completion in Downtown Everett. A 122-room Woodspring Suites (an extended stay brand) is under development one mile north of Everett Mall. Sites in Lynnwood, Marysville, and Arlington are being considered for hotels, although none are as yet under construction.

Pierce County

A proposed mixed-use project near the Tacoma Convention Center would include a hotel, apartments, and retail space. A few blocks away, McMenamin's is moving ahead with their conversion of the former Elks Lodge to a 45-room hotel with multiple restaurants and meeting space.

Construction should begin soon on a new 182-room Silver Cloud Inn at Point Ruston. It will be the only hotel in a high-profile waterfront development that also includes apartments, residential condominiums, a theater, retail shops, and restaurants.

Hotel Transactions

kiddermathews.com

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Olympia
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Property Name	Location	Year Built	Sale Date	Sale Price	Rooms	\$/Room	\$/SF
Marriott Hotel	Bellevue	2015	Jan-16	\$175,000,000	384	\$455,729	\$708
Seattle Airport Marriott	SeaTac	1981	Jun-16	\$91,080,000	459	\$198,431	\$305
Hotel 1000	Seattle	2006	Jan-16	\$83,500,000	120	\$695,833	\$627
SpringHill Suites	Seattle	2001	May-16	\$74,100,000	234	\$316,667	\$555
Sheraton Hotel	Bellevue	1980	Mar-16	\$42,700,000	178	\$239,888	\$354
Holiday Inn	Everett	1982	Jun-16	\$15,500,000	243	\$63,786	\$89
Comfort Inn	Kirkland	1982	Mar-16	\$12,800,000	97	\$131,959	\$353
Comfort Inn & Suites	SeaTac	1987	Feb-16	\$12,800,000	176	\$72,727	\$151
Quality Inn & Suites	Pacific	1998	May-16	\$6,800,000	115	\$59,130	\$107
Best Western Sky Valley Inn	Monroe	1994	Apr-16	\$6,550,000	58	\$112,931	\$213
Econo Lodge	Tukwila	1985	Mar-16	\$2,980,000	47	\$63,404	\$162
Best Western Park Center	Enumclaw	1991	Mar-16	\$2,150,000	40	\$53,750	\$81

In Dupont, a 140-room Home2 Suites is nearing completion on land adjacent to the Hampton Inn & Suites. A Fairfield Inn & Suites proposed for that city's central business district is moving through the permitting process.

HOTEL TRANSACTIONS

During the first half of 2016, and excluding national portfolios, there were 12 sales of hotels in King, Pierce, and Snohomish Counties at prices exceeding \$2MM. By comparison, there were 11 such sales in all of 2008, 3 in 2009, 5 in 2010, 9 in 2011, 15 in 2012, 9 in 2013, 15 in 2014, and 17 in 2015.

By far the largest sale involved the Marriott Hotel in Downtown Bellevue. The 384-room full service property opened in 2015. It was purchased in January 2016 for \$175MM, which was \$455,729/room or \$708/s.f. (excluding the garage).

Also in January, the Hotel 1000 was purchased for \$83.5MM, which was \$695,833/room or \$627/s.f. This was the highest price per room ever recorded in this market. The seller had acquired the hotel in July 2014 for \$516,667/room, which at the time was itself a record price.

The Sheraton Hotel in Bellevue sold in March for \$42.7MM. The hotel occupies land that is being considered for upzoning, which enhances its long term potential for redevelopment.

May saw the sale of the SpringHill Suites in Downtown Seattle at \$74.1MM. This was followed in June by the \$91.1MM purchase of the Marriott Hotel in SeaTac. Both hotels are strong performers in their respective markets.

Three of the hotels sold were priced between \$10MM and \$20MM. These included the Holiday Inn in Everett, the Comfort Inn in Kirkland, and the Comfort Inn & Suites in SeaTac. The price paid for the Kirkland hotel may have been influenced by its land value. The SeaTac property is to undergo significant renovation.

Hotel sales in the range of \$2MM to \$10MM took place in Pacific, Monroe, Enumclaw, and northwestern Tukwila.

Among the seven sales under \$20MM, prices ranged from \$53,750/room to \$131,959/room and from \$81/s.f. to \$353/s.f. For the five sales at the top of the market, prices ranged from \$198,431/room to \$695,833/room and from \$305/s.f. to \$708/s.f.