

Seattle Hotel

Market Forecast

	Q4 2016	FORECAST
Room Occupancy	↔	↓
Average Room Rate	↑	↑
Daily RevPAR	↑	↔

Market Up Close

Hotel occupancy rates in and near Seattle remained strong through 2016, but are expected to trend downward for several years.

Room prices have increased rapidly, and growth in average daily room rates should continue in the coming year, though at a slower pace.

The market saw 23 significant hotel sales during 2016, the highest volume since prior to the recession.

Five new hotels opened in the tri-county area during 2016, and 22 hotels are under construction.

In many urban markets, we expect that increases in supply will outpace growth in demand, resulting in lower occupancy rates and more competitive pricing. ■

With nearly 5,000 rooms under construction and many more planned, the current wave of hotel development in and near Seattle is about to crest. After several years of very strong performance, particularly in urban markets, we expect that the coming increase in supply will outpace growth in demand, reducing occupancy rates and intensifying price competition.

While some urban markets may soon be saturated, the region still offers opportunities for development of new hotels. Many small and midsize communities outside the Seattle metro area have seen little or no construction in at least a decade. In such markets, a new hotel can quickly become the dominant lodging property if properly sized, positioned, and branded.

HOTEL PERFORMANCE

During 2016, Kidder Mathews completed 41 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 have completed a fifth year of record performance. We estimate the 2016 market occupancy rate for the upscale tier at 84%, the highest annual rate in over 30 years. Many hotels in SeaTac and South Lake Union also are achieving very high occupancy. In each case, strong market performance has been a catalyst for lodging development.

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, Kirkland, and Bellingham.

→ Continued, page 2

Area Review

Hotel Performance

Market	Tier	Room Occupancy			Average Room Rate			Daily RevPAR		
		2015	2016	Change	2015	2016	Change	2015	2016	Change
Bellevue CBD	Overall	75%	73%	-3.1%	\$188	\$197	4.8%	\$141	\$143	1.6%
Dupont/Lakewood	Overall	70%	69%	-1.8%	\$107	\$110	2.8%	\$75	\$76	0.9%
Edmonds/Lynnwood	Midscale	75%	75%	0.3%	\$120	\$120	0.0%	\$90	\$90	0.3%
Everett	Midscale	69%	67%	-2.8%	\$111	\$113	1.8%	\$76	\$76	-1.0%
Federal Way	Overall	63%	63%	1.4%	\$113	\$121	7.0%	\$71	\$77	8.5%
Kirkland/Redmond	Upscale	77%	73%	-4.3%	\$205	\$213	3.9%	\$157	\$156	-0.6%
Marysville/Arlington	Overall	63%	65%	3.5%	\$115	\$118	2.6%	\$72	\$77	6.2%
Puyallup/Sumner	Overall	78%	79%	1.5%	\$107	\$109	1.9%	\$83	\$86	3.4%
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%
Seattle Lake Union	Overall	81%	82%	1.4%	\$173	\$179	3.5%	\$140	\$147	4.9%
Tacoma CBD	Overall	71%	72%	1.4%	\$135	\$140	3.6%	\$96	\$101	5.0%
King/Pierce/Snohomish		74%	74%	-0.3%	\$140	\$145	3.7%	\$104	\$107	3.4%
Bellingham	Midscale	70%	67%	-5.0%	\$109	\$110	1.0%	\$77	\$73	-4.0%
Leavenworth	Overall	61%	61%	0.0%	\$130	\$132	1.5%	\$79	\$81	1.5%
Moses Lake	Overall	50%	53%	5.2%	\$90	\$92	2.0%	\$45	\$48	7.3%
Walla Walla	Upscale	56%	59%	4.1%	\$122	\$125	2.5%	\$69	\$73	6.7%
Wenatchee	Midscale	69%	70%	1.4%	\$106	\$108	2.0%	\$73	\$75	3.5%
Other Washington		61%	62%	0.8%	\$111	\$113	1.8%	\$68	\$70	2.6%
Sample Average		71%	71%	-0.1%	\$133	\$137	3.3%	\$96	\$99	3.0%

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 Downtown Tacoma. However, these rates may not prove sustainable, as new hotels are under construction in each of these markets.

Not surprisingly, the highest average daily room rates were reported for upscale hotels in Downtown Seattle, where the 2016 market ADR was well over \$200. Hotels in King County recorded the most significant increases in room prices as compared to the prior year. For the sample as a whole, the average increase was 3.3%.

HOTEL DEVELOPMENT

Four new hotels were completed in King, Pierce, and Snohomish Counties during 2014, eight opened in 2015, and five opened in 2016. Excluding bed & breakfast inns and older independent

motels, the tri-county lodging market now encompasses 296 properties and about 44,000 guestrooms. At year-end, 22 hotels with 4,979 guestrooms were under construction, and more than 40 additional projects totaling nearly 7,000 rooms were proposed.

Seattle

High rates of occupancy and rising room prices have made Seattle a high-profile target for hotel developers. Hotels opened during 2016 include the Residence Inn in the University District, the Hampton Inn & Suites near Northgate Mall, and the Thompson Hotel in Downtown Seattle. Four hotels (including the 1,260-room Hyatt Regency) are under construction in the central business district, and two are underway in South Lake Union.

South King County

The only new hotel in South King County is the Four Points in Des Moines, which opened in February. Two mixed-use projects presently under construction, Washington Place in Tukwila and Southport in Renton, each will include an upscale hotel. A

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	110 Stewart Street	Seattle	Boutique	May-16	158
Courtyard	3003 Colby Avenue	Everett	Select Service	Oct-16	156
Hampton Inn & Suites	9550 1st Avenue NE	Seattle	Limited Service	Dec-16	168
Hampton Inn & Suites	19211 Woodinville Snohomish Road	Woodinville	Limited Service	Jan-17	102
SpringHill Suites	1185 NW Maple Street	Issaquah	Select Service	Mar-17	145
Home2 Suites	600 Station Drive	Dupont	Extended Stay	Mar-17	140
Marriott AC	210 106th Place NE	Bellevue	Select Service	Mar-17	234
Hampton Inn & Suites	17770 NE 78th Place	Redmond	Limited Service	Mar-17	130
Hilton Garden Inn	965 108th Avenue NE	Bellevue	Select Service	May-17	254
Fairfield Inn & Suites	1500 Wilmington Drive	Dupont	Limited Service	May-17	90
Aloft/Element	NEC 28th & 152nd	Redmond	Dual Brand	May-17	281
Hampton Inn	1200 Lake Washington Boulevard	Renton	Limited Service	2017	110
TownePlace Suites	11700 Pacific Highway SW	Lakewood	Extended Stay	2017	120
Moxy	1016 Republican Street	Seattle	Select Service	2017	146
Woodspring Suites	7707 Broadway	Everett	Extended Stay	2017	122
McMenamins Elks Lodge	565 Broadway	Tacoma	Boutique	2017	45
SLS LUX	801 5th Avenue	Seattle	Full Service	2017	184
W Hotel	500 Block Bellevue Way NE	Bellevue	Full Service	2017	245
Hyatt Regency	1083 Lake Washington Blvd N	Renton	Full Service	2017	347
Embassy Suites	255 S King Street	Seattle	Full Service	2017	278
Washington Place	223 Andover Park E	Tukwila	Full Service	2017	189
EVEN/Staybridge	527 Fairview Avenue N	Seattle	Dual Brand	2017	235
Holiday Inn Express	501 Tukwila Parkway	Tukwila	Limited Service	2017	92
The Charter - Curio Collection	1608 2nd Avenue	Seattle	Select Service	2018	230
Hedreen Convention Hotel	800 Howell Street	Seattle	Convention	2018	1,260

Hampton Inn & Suites is nearing completion just east of Renton's Gene Coulon Park, and construction is underway on a Holiday Inn Express near Southcenter Mall.

East King County

Three hotels in Downtown Bellevue are under construction and expected to open during 2017. These include the Marriott AC, the Hilton Garden Inn, and the W Hotel at Lincoln Square. A site to the south of the Bellevue CBD has been cleared for development of a Holiday Inn Express. Elsewhere in East King County, hotels are nearing completion in Issaquah, Redmond, and Woodinville.

Snohomish County

The new Courtyard by Marriott in Everett opened in October. The 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

Hotels under development in and near Tacoma include McMenamin's conversion of the former Elks Lodge and a new Silver Cloud Inn at Point Ruston. A proposed mixed-use project near the Tacoma Convention Center would include a hotel, apartments, and retail space. A TownePlace Suites is under construction in Lakewood. In Dupont, a Home2 Suites and a Fairfield Inn & Suites each are expected to open in early 2017.

Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

Contact

Brian Hatcher
Executive VP, Brokerage
Pacific Northwest
206.296.9600
bhatcher@kiddermathews.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

John D. Gordon, MAI, AI-GRS
Valuation Advisory Group
425.454.7040
jgordon@kiddermathews.com

Hotel Transactions

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	\$92,000,000	459	\$200,436	\$309
Hilton Hotel	Bellevue	1981	Dec-16	\$87,250,000	353	\$247,167	\$269
Courtyard	Seattle	1999	Jul-16	\$84,500,000	250	\$338,000	\$551
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
Seattle Hilton Hotel	Seattle	1970	Sep-16	\$62,000,000	239	\$259,414	\$461
Sheraton Hotel	Bellevue	1980	Mar-16	\$42,700,000	178	\$239,888	\$354
Home2 Suites	Tukwila	2015	Aug-16	\$28,750,000	139	\$206,835	\$371
Hampton Inn & Suites	Tacoma	2008	Aug-16	\$24,200,000	146	\$165,753	\$277
Holiday Inn	Everett	1982	Jun-16	\$15,500,000	243	\$63,786	\$89
Candlewood Suites	Lakewood	2010	Jun-16	\$13,550,000	83	\$163,253	\$310
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
Medallion Hotel	Arlington	2000	Jun-16	\$11,800,000	97	\$121,649	\$170
Clarion Hotel	Renton	1986	Dec-16	\$11,500,000	111	\$103,604	\$233
Clarion Hotel	Federal Way	1983	Jun-16	\$10,250,000	115	\$89,130	\$156
Quality Inn & Suites	Pacific	1998	May-16	\$6,800,000	115	\$59,130	\$107
Best Western Sky Valley	Monroe	1994	Apr-16	\$6,550,000	58	\$112,931	\$213
Comfort Inn	Auburn	1997	Jul-16	\$3,900,000	53	\$73,585	\$140
America's Best Value	Lakewood	2000	May-16	\$3,300,000	55	\$60,000	\$208
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

HOTEL TRANSACTIONS

During 2016, and excluding national portfolios, there were 23 sales of hotels in King, Pierce, and Snohomish Counties at prices exceeding \$2MM. The aggregate transaction volume was \$867,880,000. With 3,792 guestrooms, the weighted average price per room was \$228,871. This was both the highest volume and the highest price per room since the recession.

By far the largest sale involved the Marriott Hotel in Downtown Bellevue. This 384-room full service property opened in 2015 and sold in January 2016 for \$175MM, which was \$455,729/room. Also in January, the 120-room Hotel 1000 in Downtown Seattle was purchased for \$83.5MM, or \$695,833/room, the highest price per room ever recorded in this market.

Other sales between \$20MM and \$100MM included the Sheraton Hotel in Bellevue, the Hilton Hotels in Bellevue and Seattle, the Courtyard and SpringHill Suites in South Lake Union, the Marriott Hotel in SeaTac, the Hampton Inn & Suites in Tacoma, and the new Home2 Suites in Tukwila. The two Bellevue hotels occupy land that is being considered for upzoning, and the enhanced potential for redevelopment may have influenced the negotiated prices.

Among the sales under \$20MM, prices ranged from \$53,750/room to \$163,253/room and from \$81/sq ft to \$353/sq ft. For the ten sales at the top of the market, prices ranged from \$165,753/room to \$695,833/room and from \$269/sq ft to \$708/sq ft.