

Item # 19

**AGENDA DATE: 07/15/15
SUPPLEMENTAL# 3**

July 15th, 2015

**RE: Hotel Market
Study conducted by
HA&A (Phase 1 of 3)**

Morgan Hill Hotel Coalition Presentation to City Council

By: Holiday Inn Express MH
Courtyard Marriott MH
Residence Inn MH
Hampton Inn MH
Comfort Inn MH
Quality Inn MH
Microtel MH

HA&A (Phase 1) Hotel Market Analysis

Pros

- Confirmed much of data already presented to the City Council
- Good “sanity check” to make a informed decision

Cons

- Does not quantify or include impact of new hotel supply
 - La Quinta
 - Boutique Downtown Hotel
 - AIM Institute
 - San Jose market supply
- Does not quantify or identify any meaningful growth drivers in local market
- Does not quantify “Unaccommodated room” demand
- Comparison of MH to National statistics, not Bay Area or CA

- Perhaps the Cons will be addressed in Phase 2 and 3 ?

Other issues:

- Emphasis on Brands not represented in Morgan Hill
 - People do not travel because a destination has a specific brand hotel
 - Brand selection is the last part the decision making process (Location and price are #1 and #2)
 - Starwood – represented 12 miles north
 - Four Points Sheraton (220+ rooms) – 101 & Bernal
 - Hilton – Hampton Morgan Hill is part of the Hilton hotel group
 - Hyatt – typically built in metropolitan / high density or airport locations where there is strong corporate demand generators
 - La Quinta – this is a major player in the hotel industry and gaining market share
 - Under construction in Morgan Hill – 104 rooms

Questions not Answered?

- How many hotel rooms can Morgan Hill support?
 - HA&A answer: “Developers typically begin to target a market for new hotel construction when top-performing existing hotels demonstrate occupancies in excess of 70% for multiple years, on an annual basis”
 - We are only getting to this level **NOW**, even based on their data!
- What is the occupancy and ADR impact of the current 1,542 room under construction in San Jose?
- Where are the corporate travelers in Morgan Hill going on Monday - Friday?
 - Is Morgan Hill their final destination or is it Silicon Valley?

HA&A SWOT Analysis

- Strength: Sports Recreation ✓
- Local festivals – only festival that generates business is the Gilroy Garlic Festival
- Weakness: Weak shoulder seasons ✓
(November – February)
 - Note: Previous operator of Outdoor Sports Complex, CYSA, filled the weekends during shoulder seasons (prior to 2010)
- Opportunities:
 - Substantial unaccommodated demand
 - Missing Brands (LQ & boutique coming in)
 - Potential to grow demand generators (?)

Where is the opportunity?

Impact of La Quinta and Downtown Boutique: Scenario #1: 0% Growth in Room Demand

Morgan Hill Top 5 Hotels	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	72%	23,652	21.2%
Residence Inn by Marriott	90	32,850	72%	23,652	21.2%
Hampton Inn by Hilton	106	38,690	72%	27,857	25.0%
Holiday Inn Express	85	31,025	72%	22,338	20.0%
Comfort Inn	53	19,345	72%	13,928	12.5%
Total:	424	154,760	72%	111,427	100.0%

New Supply Enters the Market	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	51.9%	17,055	15.3%
Residence Inn by Marriott	90	32,850	51.9%	17,055	15.3%
Hampton Inn by Hilton	106	38,690	51.9%	20,087	18.0%
Holiday Inn Express	85	31,025	51.9%	16,108	14.5%
Comfort Inn	53	19,345	51.9%	10,044	9.0%
La Quinta (under construction)	104	37,960	51.9%	19,708	17.7%
Downtown Boutique	60	21,900	51.9%	11,370	10.2%
	588	214,620	51.9%	111,427	100.0%

- Introduction of 164 Rooms (+38% supply) and 0% Growth in room demand will shrink Occupancy from 72% to 52%
- All hotels are bankrupt
- Scenario not likely unless we see another 2000 or 2008 recession
- **Coalition STILL SUPPORTS BOTH PROJECTS!**

Note: Assumes occupancy impact will be equal across all hotels

Impact of La Quinta and Downtown Boutique: Scenario #2: 10% Growth in Room Demand

Morgan Hill Top 5 Hotels	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	72%	23,652	21.2%
Residence Inn by Marriott	90	32,850	72%	23,652	21.2%
Hampton Inn by Hilton	106	38,690	72%	27,857	25.0%
Holiday Inn Express	85	31,025	72%	22,338	20.0%
Comfort Inn	53	19,345	72%	13,928	12.5%
Total:	424	154,760	72%	111,427	100.0%

<u>New Supply Enters the Market</u>	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	57.1%	18,761	15.3%
Residence Inn by Marriott	90	32,850	57.1%	18,761	15.3%
Hampton Inn by Hilton	106	38,690	57.1%	22,096	18.0%
Holiday Inn Express	85	31,025	57.1%	17,718	14.5%
Comfort Inn	53	19,345	57.1%	11,048	9.0%
La Quinta (under construction)	104	37,960	57.1%	21,679	17.7%
Downtown Boutique	60	21,900	57.1%	12,507	10.2%
	588	214,620	57.1%	122,570	100.0%

- Introduction of 164 Rooms (+38% supply) and 10% Growth in room demand will shrink Occupancy from 72% to 57.1%
- Hotels are seriously struggling
- **Coalition STILL SUPPORTS BOTH PROJECTS!**

Note: Assumes occupancy impact will be equal across all hotels

Impact of La Quinta and Downtown Boutique: Scenario #3: 25% Growth in Room Demand

Morgan Hill Top 5 Hotels	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	72%	23,652	21.2%
Residence Inn by Marriott	90	32,850	72%	23,652	21.2%
Hampton Inn by Hilton	106	38,690	72%	27,857	25.0%
Holiday Inn Express	85	31,025	72%	22,338	20.0%
Comfort Inn	53	19,345	72%	13,928	12.5%
Total:	424	154,760	72%	111,427	100.0%

<u>New Supply Enters the Market</u>	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	64.9%	21,319	15.3%
Residence Inn by Marriott	90	32,850	64.9%	21,319	15.3%
Hampton Inn by Hilton	106	38,690	64.9%	25,109	18.0%
Holiday Inn Express	85	31,025	64.9%	20,135	14.5%
Comfort Inn	53	19,345	64.9%	12,555	9.0%
La Quinta (under construction)	104	37,960	64.9%	24,635	17.7%
Downtown Boutique	60	21,900	64.9%	14,213	10.2%
	588	214,620	64.9%	139,284	100.0%

- Introduction of 164 Rooms (+38% supply) and 25% Growth in room demand will shrink Occupancy from 72% to 65%
- Hotels are barely making money, but cannot support new supply
- **Coalition STILL SUPPORTS BOTH PROJECTS**

Note: Assumes occupancy impact will be equal across all hotels

Impact of La Quinta and Downtown Boutique: Scenario #4: 35% Growth in Room Demand

Morgan Hill Top 5 Hotels	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	72%	23,652	21.2%
Residence Inn by Marriott	90	32,850	72%	23,652	21.2%
Hampton Inn by Hilton	106	38,690	72%	27,857	25.0%
Holiday Inn Express	85	31,025	72%	22,338	20.0%
Comfort Inn	53	19,345	72%	13,928	12.5%
Total:	424	154,760	72%	111,427	100.0%

<u>New Supply Enters the Market</u>	# Rooms:	Annual Room Nights:	Occupancy:	Room Demand	% of Total:
Courtyard by Marriott	90	32,850	70.1%	23,024	15.3%
Residence Inn by Marriott	90	32,850	70.1%	23,024	15.3%
Hampton Inn by Hilton	106	38,690	70.1%	27,118	18.0%
Holiday Inn Express	85	31,025	70.1%	21,745	14.5%
Comfort Inn	53	19,345	70.1%	13,559	9.0%
La Quinta (under construction)	104	37,960	70.1%	26,606	17.7%
Downtown Boutique	60	21,900	70.1%	15,350	10.2%
	588	214,620	70.1%	150,427	100.0%

- **35% Growth in room demand will get the market back to where it can absorb new supply again**
- **Is this scenario likely in the next 2 years?**

Note: Assumes occupancy impact will be equal across all hotels

Key Takeaways

- Morgan Hill Hotel Coalition is **NOT** anti-growth
 - Advocate sustainable growth
 - Allow 1-2 hotel only and observe the rate and occupancy trends
- Morgan Hill's economy should not be tied to San Jose's fate, so we need our own strong employment base before expanding the hospitality sector
 - Attract higher wage jobs
- Expand the Morgan Hill room supply in proportion to actual demand, not speculation
 - The market needs more demand generators
 - Industrial users and or larger corporations
 - Tourism alone cannot support increased supply
- Rezoning from Industrial to Commercial gives **unfair advantage to developer**
 - Sets wrong example for existing commercial space users
 - Changes risk profile for future developers and existing hotels
- History has taught us important lessons in overbuilding and oversupply in the past 15 years – Let's not make the same mistakes again

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