



# City of Morgan Hill

## Legislation Text

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### **CITY COUNCIL STAFF REPORT** **MEETING DATE: JULY 15, 2015**

PREPARED BY: Edith Ramirez, Economic Development Manager/Community Development  
APPROVED BY: City Manager

#### **HA&A HOTEL MARKET STUDY - PHASE I**

##### **RECOMMENDATION(S)**

Accept HA&A Hotel Market Study - Phase I.

#### **COUNCIL PRIORITIES, GOALS & STRATEGIES:**

##### **Ongoing Priorities**

Enhancing public safety  
Maintaining fiscal responsibility  
Preserving and cultivating public trust

##### **2015 Focus Areas**

Stimulate Economic Development  
General Plan Update  
Advance Downtown Revitalization  
Community Engagement Effectiveness

##### **REPORT NARRATIVE:**

On May 6, 2015, the City Council authorized the City Manager to negotiate and execute a contract with Hotel Appraisers & Advisors (HA&A) and with HTL Hospitality to perform a Hotel Market and Transient Occupancy Tax (TOT) Analysis.

The full study is broken into three phases: 1) a Hotel Market Supply and Demand Analyses; 2) a TOT Analysis, and; 3) a Boutique Hotel and Full Service Hotel Market Study, including a 10-year financial analysis. HA&A has completed the first phase of their analysis.

HA&A used a number of sources for data collection, including STR reports, which is the industry leader in the hospitality industry providing a standardized platform to compare hotel performance, track supply and demand data and provide valuable market share analysis for international, regional hotel chains and independent hotels. HA&A also worked closely with the local hoteliers to survey local hotel and capture local trends.

HA&A's findings are listed in a presentation attached as Attachment A. Key findings are as follows:

- Morgan Hill has 13 Hotels that provide 792 rooms. Lodging places like Paradise Motel, the Rancho Motel and the Maple Leave RV Park are not included in the analysis because these are not considered primarily lodging facilities.
- Out of the 13 Hotels, two (2) are considered upscale, three (3) upper-midscale and eight (8) economy class. Older hotels are nearing the end of their economic life.
- New hotel development occurs when existing hotels demonstrate occupancies in excess of 70% for multiple years on an annual basis. Upscale hotel development is typically targeted when RevPAR (revenue per available room) levels can be expected to exceed approximately \$90 on an annual basis. Morgan Hill hotels are demonstrating sustained strong performance, with strong occupancy and ADR (average daily rate) recovery, which suggest there is a market for new hotel development, especially for brands not represented in Morgan Hill.
- Morgan Hill hotels have strong weekly occupancy patterns (compared to national trends) which indicate that there is a substantial unaccommodated demand.
- Four brands are represented in Morgan Hill. There are missing brands that present opportunities for new hotel development.
- Hotel development is cyclical. Morgan Hill missed the last hotel development cycle in 2008-09.
- Historical trends show that new hotel supply has a positive impact on TOT revenue.

More detailed information on the findings is in Attachment A. HA&A is expected to complete Phase II (TOT Analysis) & Phase III (Boutique Hotel and Full Service Hotel Market Study) in late summer.

#### **COMMUNITY ENGAGEMENT: Consult**

Staff worked closely with the local hoteliers to collect data relevant to the findings of this study. Additionally, many conversations and public hearings have taken place.

#### **ALTERNATIVE ACTIONS:**

The Council may choose not to accept the report.

#### **PRIOR CITY COUNCIL AND COMMISSION ACTIONS:**

On May 6, 2015 the Council approved a contract with HA&A and HTL Hospitality to perform a hotel market study and peer review.

On November 19, 2014, the City Council approved a general plan amendment to change 900 Lightpost, located at the corner of Madrone Parkway and Lightpost Way from Industrial to Commercial. On March 18, 2015, the Council approved the rezoning of the same property to a commercial zoning to be in conformance with the General Plan. On April 1, 2015, the Ordinance was adopted.

Furthermore, on January 21, 2015, the City Council approved an amendment to the Planned Unit Development (PUD) Zoning for part of the "Horizon Land," a vacant parcel located adjacent to Condit Road and approximately 500 feet north of East Dunne Avenue to allow for an increased number of hotel rooms and increased building height at the location.

**FISCAL AND RESOURCE IMPACT:**

The City Council approved up to \$55,000 from the General Fund and the Long Range Planning Fund to finance this Hotel Market Study.

**CEQA (California Environmental Quality Act):**

Not a Project

**LINKS/ATTACHMENTS:**

HA&A Hotel Market Study