

PORTLAND'S HOSPITALITY INDUSTRY IS RIDING HIGH: WHAT'S ON THE HORIZON?

SONDRA STORM
Embarcadero Hospitality Group

A couple of years ago, my husband and I were in a large crowd on the Congress Street Bridge in Austin, Texas, waiting for two billion bats—the world's largest urban bat colony—to emerge and flood the night sky at dusk. As we waited for dusk to fall, we struck up a conversation with a pair of Swedes, two young guys traveling to the States on vacation. They shared that there were three cities on the top of their list to visit in America: New York City, Austin, Texas, and Portland, Oregon. When we responded "We're from Portland", they smiled broadly and proclaimed, "Portlandia!"

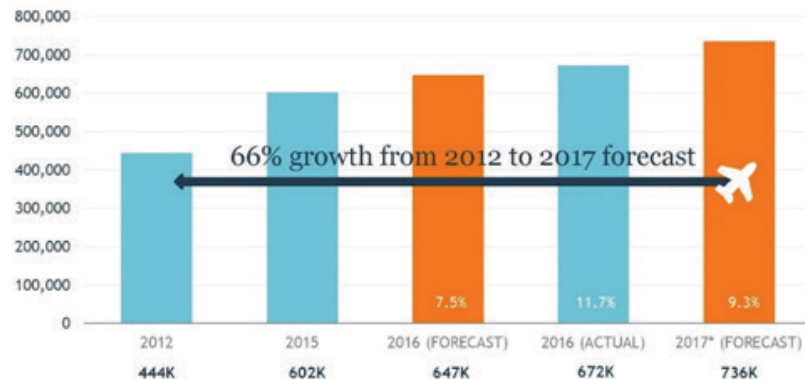
It's no secret that Swedes aren't the only ones intrigued by Portland. The Rose City and Oregon's many attractions have demonstrated increasing appeal to both domestic and international travelers. Travel Oregon reports lodging demand in Oregon has been increasing for eight consecutive years, with nearly 30 percent growth from 2008 to 2016 and 15.7 million rooms booked in FY 2015-2016. While the majority of visitors to Oregon are West Coast dwellers from nearby cities, the nationwide and overseas visitor counts continue to rise. In 2016, Oregon ranked 11th out of all 50 states for U.S. leisure traveler interest, with 13 percent of travelers interested in visiting, up from 6 percent in 2010. In 2016, international visitors

spent \$1.22 billion in Oregon, up from \$1.15 billion in 2015. International travel to Oregon has increased by 25 percent between 2011 and 2016 with a 49 percent projected growth between 2016 and 2021.



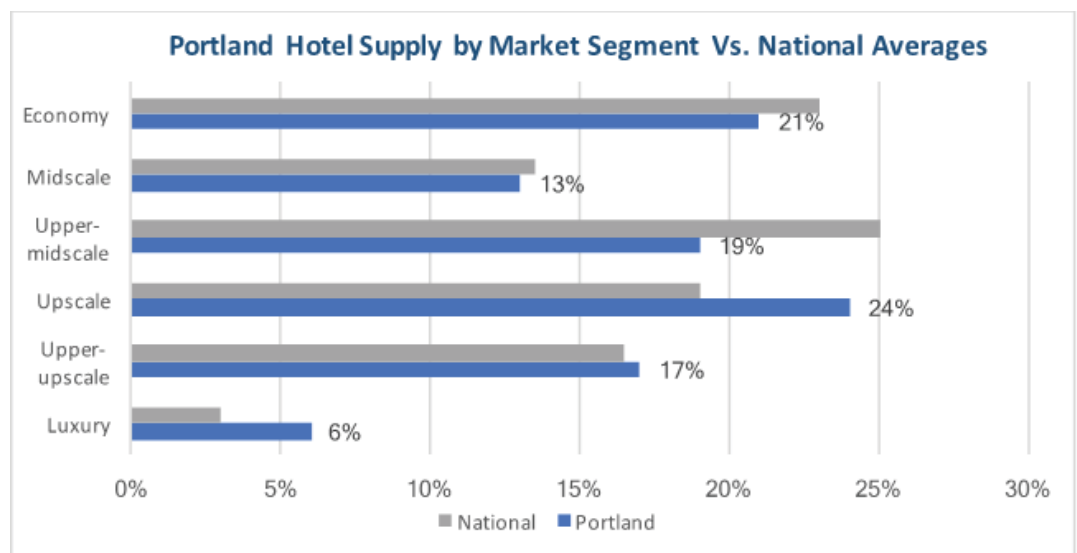
Sondra Storm is CEO of Embarcadero Hospitality Group. In addition to hospitality, Sondra has extensive professional experience in community engagement and strategic planning in the public sphere. Embarcadero Hospitality Group (EHG) is a hotel development, management and consulting firm with offices in Portland and San Francisco. EHG's principals have been involved in the development and management of over 20 hotels ranging from boutique independent to branded business-class properties. EHG frequently consults with private and public clients, including ports, cities, economic development organizations and urban planning firms. Sondra can be reached at sondra@embarcaderohg.com or 503-704-6776.

INTERNATIONAL PASSENGERS PORTLAND INTERNATIONAL AIRPORT



Source: Travel Portland 2016 year-end report

Though Portland is not a first-tier gateway city like Seattle or San Francisco, it has cultivated a strong appeal and identity especially popular among millennials, with increasing appeal among international travelers. Unlike the gateway cities that rely on their name, large populations, centers of commerce and the expected “big-brand” travel experiences, Portland has built a distinct, hip character that is uniquely Portland (no Hardrock Café’s here). Visitors come because of our creative restaurants and food carts, our walkable, bike-able and transit friendly city, our quirky charm, DIY ethos and natural beauty. It’s Portland’s vibe, rather than our tourist attractions that draw many visitors. There are approximately 276 hotels and more than 27,500 rooms in greater Portland, and much like other West Coast metro areas, Portland has a larger market share of “upper end” properties than nationwide averages (“Luxury”, “Upper Upscale” and “Upscale” market segments in industry insider terms). However, compared to the gateway cities, a higher percentage of Portland’s upper-end hotels are independent or “soft branded” properties rather than well-known brands like Hilton, Marriott, W and Ritz-Carlton.



Source: Smith Travel Research, reported by HVS, 2016

Travel Oregon reports occupancies in the Portland metropolitan area are 76.7 percent and central business district hotels at 81.4 percent. These occupancies coupled with record guestroom rates, year after year, Portland hotels are doing better than ever. However, Portland's lodging landscape is changing. The 600 guestroom Hyatt Regency at the convention center broke ground in August, 2017 and is due to open in 2019. A wide range of hotels—mostly downtown, and mostly on-trend boutique or “boutique-like” hotel projects—are in the pipeline. In the four-year period starting January 1, 2016, over 4,000 new rooms either have already opened, or are expected to come online by the end of 2019, a 13 percent increase in supply over all, according to HVS, a consulting firm specializing in the hospitality industry.

Portland: 4,000 New Rooms in 4 Years



*Data Source Smith Travel Research, reported by HVS, 2016

Will Portland's hotel market be able to absorb the hefty shot of supply? How will the very large convention center headquarters hotel impact the market? The convention center and headquarters hotel aims to increase both supply and demand, drawing people to Portland for events that wouldn't otherwise book in Portland. Yet, such events are often booked at a lower price point than other hotels, and they will introduce at least a modest element of the boom/bust guestroom rate dynamic typical of a market that is more reliant on convention based bookings. This will disrupt room rates at least in the offseason and on convention check-out days in Portland's boutique-centric core.

THE PORTLAND MARKET IS “RIDING HIGH”

Portland has been a sexy, highly sought-after location for hotel development in recent years. Developers are drawn to Portland because of the strong performance of existing hotels. Further, construction and development costs, while higher than the national average, are lower than Seattle and San Francisco. Developers are also picking up on the trend in travel toward unique, local “artisanal” experiences that Portland does so well. These factors combined with strong economic conditions have resulted in more than a dozen hotel openings in Portland over the last three years. Despite this rapid increase in supply, hotels in and near Portland have seen minimal fluctuation in their performance. Occupancies have remained relatively constant and room rates have increased steadily. Market demand has proven sufficient to absorb the influx in supply.

Portland's city-wide occupancy in 2016 was 76.6 percent, with the average daily rate of nearly \$137.00 and revenue per available room (RevPAR) at \$105.00. In Portland's central business district, 2016 saw occupancy at 81.4 percent, an average daily rate of \$182.00 and RevPAR at nearly \$149, according to Travel Oregon. We anticipate that demand for Portland rooms will remain high, but with the dramatic increase in supply, we anticipate a modest decline in occupancy for the next three years. However, the strength of the local economy should temper the decline, and we expect increases in average rates average daily rates, as the vast majority of the new supply falls in upper and upper-upscale price categories.

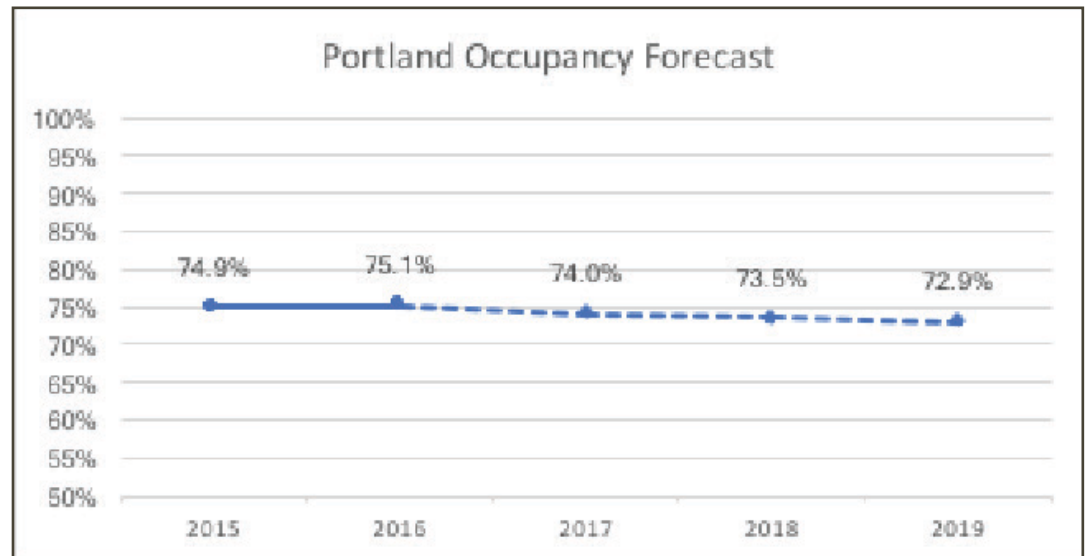
PORTLAND AREA'S NEW SUPPLY AND CHANGING LANDSCAPE

Recently Opened					
Hotel	Location	Type/Market Segment	Year Open	# of rooms	Central City
Residence Inn – Pearl District	1150 NW 9th Ave. Portland	Extended Stay - Upscale	2014	223	X
Society Hotel	203 NW 3rd Ave. Portland	Boutique – Lifestyle Economy/Midscale	2015	62	X
Hotel Eastlund	1021 NE Grand Ave. Portland	Boutique – Lifestyle Upper Upscale	2015	168	X
Hyatt House – Downtown	2080 SW River Dr. Portland	Extended Stay - Upscale	2016	203	X
Marriott AC Hotel	888 SW 3rd Ave. Portland	Lifestyle - Upscale	2017	204	X
Marriott Hi-Lo Autograph Collection	320 SW Stark St. Portland	Soft Brand Boutique -Upper Upscale	2017	120	X
The Duniway – Boutique rebranding of former Hilton	545 SW Taylor St, Portland	Soft Brand Boutique – Upper Upscale	2017	No net new rooms	X
The Dossier – Boutique rebranding of former Westin	750 SW Alder St, Portland	Boutique – Upper-Upscale/Luxury	2017	No net new rooms	X
Hampton Inn and Suites	19999 Tanasbourne Dr. Hillsboro	Upper Midscale	2014	106	
Hampton Inn and Suites	315 SE Olympia Dr. Vancouver	Upper Midscale	2014	99	
Embassy Suites	20001 Tanasbourne Drive Hillsboro	Upper Upscale	2014	165	
TownePlace Suites	17717 SE Mill Plain Blvd. Vancouver	Extended Stay – Upper Midscale	2015	115	
Candlewood Suites	2010 SE 192nd Ave. Vancouver	Extended stay - Midscale	2016	83	
Residence Inn	3160 NE Brookwood Parkway. Hillsboro	Extended stay - Upscale	2016	146	
Aloft	Hillsboro	Lifestyle - Upscale	2016	137	

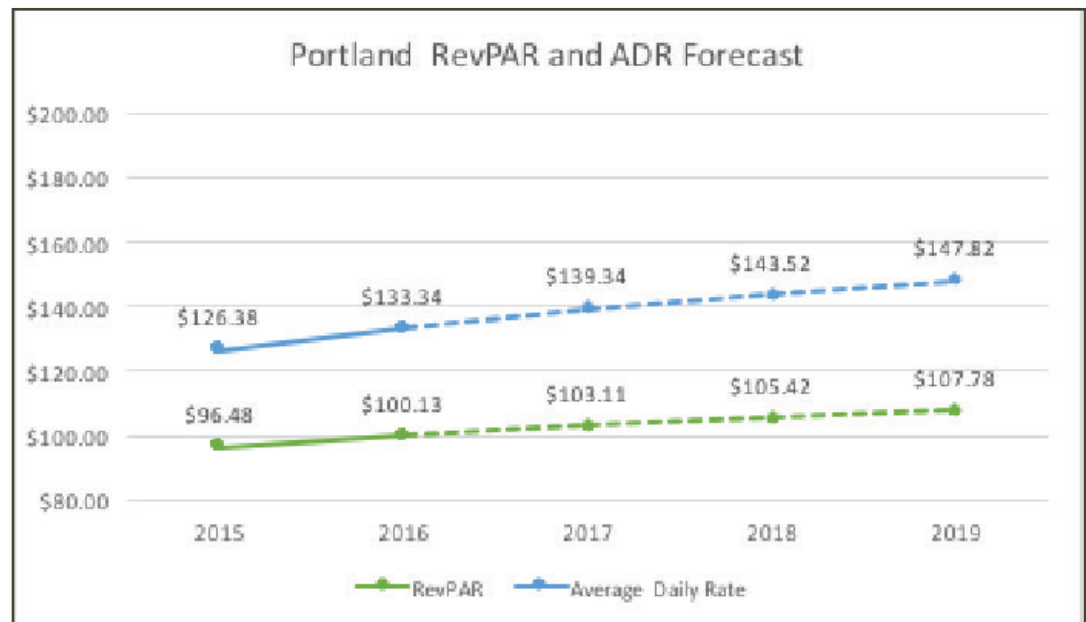
PORTLAND AREA'S NEW SUPPLY AND CHANGING LANDSCAPE

In the Pipeline					
Hotel	Location	Type/Market Segment	Year Open	# of rooms	Central City
Porter Hotel – Curio Collection by Hilton	202 SW Jefferson St. Portland	Soft Branded Boutique – Upper Upscale	Early 2018	299	X
Canopy by Hilton	NW Glisan St and 9th Ave Portland	Lifestyle - Upscale	Early 2018	153	X
Hampton Inn and suites	338 NW 9th Av. Portland	Upper Midscale	2017 or early 2018	243	X
Harlow Hotel	738 NW Glisan Portland	Boutique – Midscale	TBD	25	X
Grove Hotel	NW 4th Ave & Burnside St Portland	Boutique – Upper Upscale	Nov. 2017	113	X
Woodlark	Corner of SW Alder & SW Park Portland	Boutique - Upscale	Spring, 2018	150	X
Jupiter Hotel – Expansion	800 E Burnside St Portland	Boutique – Midscale	Early, 2018	81	X
Radisson Red	Broadway Tower Portland		Mid 2018	180	X
Hotel Chamberlain	509 SE Grand Avenue Portland	Boutique	TBD	TBD	X
Hyatt Regency Convention Center Hotel	777 NE MLK Jr. Blvd Portland	Upper Upscale	2019	600	X
Upper Upscale Hotel Under Development 3rd & Taylor Partners	3rd and Salmon Portland	Upper Upscale – Independent/ Brand status not announced	2019	245	X
Moxy Hotel	10th and Alder Portland	Lifestyle – Upper Midscale	TBD	179	X
Holiday Inn Express	1805 SW 192nd ave. Camas	Upper Midscale	TBD	82	
Holiday Inn Express	Cascade Station – Portland Airport	Upper Midscale	2018	107	
Oxford Suites	Hillsboro	Upper Midscale	TBD	167	
Marriott AC	Vancouver Waterfront	Lifestyle - Upscale	2019	160	
Hotel Indigo	Vancouver Waterfront	Boutique softbrand - Upscale	2019	138	
Cambria Suites	Beaverton	Upscale	TBD	140-150	

PORTLAND AREA'S NEW SUPPLY AND CHANGING LANDSCAPE



Source: Smith Travel Research, reported by HVS, 2016



Source: Smith Travel Research, reported by HVS, 2016

BOUTIQUE AND LIFESTYLE HOTELS ON THE RISE

Independent hotels and new “soft brands” and “lifestyle brands” that are designed to mimic the unique, local and artisanal qualities of the independents represent a larger portion of the hotel market in Portland, compared to other cities where national brands dominate. Kimpton hotels, the first “boutique chain” and recognized pioneers on the boutique front, chose Portland as their first location outside of San Francisco. Kimpton’s boutique hotels have been very successful in Portland, and boutiques and soft brands like the Nines hotel (affiliated with Starwood’s Luxury Collection), rather than traditional brands tend to be the market leaders in Portland.

Big brands like Marriott and Hilton have recognized the success of both the boutique and independent models and are trying to emulate them, to keep market share. Fueled by the success of boutique chains like Kimpton and Airbnb’s “live like a local” ethos, as well as the emergence of the Millennial traveler, the big brands are “going boutique” with the recent introduction of a flurry of numerous “lifestyle” and “soft” brands, including: Hilton’s Canopy Hotels and Curio Collection, Marriott’s AC and Moxy Hotels and “Autograph Collection,” Hyatt’s Andaz and Hyatt Centric Hotels and their Unbound Collection and several more from industry powerhouse families of brands, Intercontinental Hotels Group, Choice Hotels, Radisson, Wyndham Hotels and more. The Millennial generation has now surpassed both Gen-Xers and Baby Boomers in numbers of business travelers and they tend to value “experiences” over things and generally prefer hotels that incorporate unique design, local touches, and inviting public spaces over opulent lobbies and large guest rooms.

Hotel brands, once notorious for strict “brand standards” are loosening up. Brands have traditionally taken pride in consistency and uniformity, promising that the cinnamon rolls, pillow cases, even shower heads are exactly the same in Topeka, Kansas as in Seattle, Washington. But, today hotel chains are all too aware of the young adult’s desire for individualized experiences. As a result, companies like Hilton and Marriott are creating the aforementioned new brands to attempt to replicate the experience and aesthetics of an independent, locally inspired boutique hotel.

Portland already embraces the hallmarks of a boutique/lifestyle property: rooftop gardens, locally sourced everything, shared bikes and the latest foodie concepts. As the brands introduce new millennial-friendly prototypes into the market as fast as they can “put a bird on it”, Portland is a prime target for their new products.

ON THE OTHER END OF THE CONCEPTUAL SPECTRUM, THE MEGA HOTEL IS NOT DEAD

At the same time, the mega-hotel is not dead, and on the opposite end of the conceptual spectrum, Portland is about to get a Hyatt headquarters hotel with all of the traditional amenities one expects from a giant convention center property.

Proponents of the deal emphasized that the 600-room hotel will draw dozens of large events and conventions, bringing thousands of new visitors to the region and pumping millions of dollars into the economy both in economic activity generated by guests and in transient occupancy taxes collected. Organizers report that Oregon currently misses opportunities for revenue when large events pass on Portland due to lack of hotel rooms in the city.

Several local hoteliers opposed the \$74 million in public support and fought the capital stack structure that they assert bolsters the Hyatt corporation at the expense of local entrepreneurs who have invested in and shaped Portland’s robust market. They also assert that the hotel will put downward pressure on room rates.

PROS/CONS AND EXPECTED IMPACTS OF THE CONVENTION CENTER HOTEL



Photo source: Google Images

After several years of public meetings, modeling, analysis, lawsuits, and numerous delays the \$224 million Hyatt Regency finally broke ground in August. Metro believes the new hotel will draw an additional 5-10 large events and conventions annually. In an August 2017 press release, Metro Visitor Venues General Manager, Scott Cruickshank stated that they anticipate at least 10 new conventions each year resulting in \$900 million in convention related spending/year.¹ Groups that once overlooked Portland because there was not a hotel big enough to accommodate their attendees, will now consider Portland.

Scheduled to open in the Winter of 2019, the hotel is expected to have a significant impact on Portland's economy: Convention business is projected to grow by 33 percent; Tourism spending in the region is expected to increase by \$120 million annually; and \$10 million in new tax revenue is expected to be generated each year, according to Metro.

BUT HOW WILL IT IMPACT EXISTING HOTELS?

Advocates argue that Convention Center hotels can generate additional occupancy even as they add supply, because they can expand the market. The Oregon Convention Center projects to increase the demand for all hotels in the Portland area by 70,000 to 110,000 new room nights. If this occurs, only a portion of those new room nights will be booked at the Hyatt Regency and the rest will go to other area hotels.

But many local hoteliers are nervous and here's why.

Convention center hotels potentially depress rates not only because of the increase in supply, but also because of how they structure their rates. To be competitive for big groups, the Hyatt Regency will need a rate competitive with other cities vying for group business, an increasingly crowded group. At 600 rooms, the Hyatt's expenses will be very large on a nightly basis, whether they are sold out or only one-third full. They have to pay their construction loan and their managers' salaries no matter what the hotel's occupancy is on a given night, so they have enormous incentive to fill their rooms (even if it is at a low price) to maximize economies of scale. These dynamics will put downward pressure on Portland area rates especially on days that conventions wind-up, and during the winter, late-fall, and early spring, when Portland hotels already have lower rates and occupancies.

BUT HOW WILL IT IMPACT EXISTING HOTELS?

Convention center hotels are vulnerable to boom/bust cycles. Cities tend to swoon about the potential revenue of convention hotel business. If not clear-eyed and discerning, they can work with consultants who give optimistic projections about the benefit to the city. The truth is hotels in the right market are great economic stimulators. In addition to transient occupancy taxes collected by hotels from guests, hotel guests typically spend as much in the community as they spend at a hotel. If a visitor spends \$250 on a room, they generally spend \$250 in the community.

Further, there is naturally excitement about a headquarters hotel that brings people in and "shows off" one's city.

However, during the last recession, even though government agencies and companies tightened their belts, many cities continued to invest in conventions. As a result, convention centers across the country reduced rental rates and backfilled the loss of "high-impact" conventions with lower revenue generating events, such as seminars, banquets and social events. Hotel performance is cyclical, with broader swings than the retail or residential economy, and convention center hotels tend to swing even more broadly than the average hotel market. Beyond the convention center itself, many developers are concerned about a possible economic downturn and the 4,000 rooms recently added or soon to be added to the market should give developers pause.

Analyses of the impact of convention center hotels nationally reveal examples of both positive experiences. For example in Nashville, where their outcomes were strong, and other experiences where the reality hasn't lived up to the hype. In the book *Convention Center Follies*, Heywood T. Sanders examines the surge in convention center development over the last two decades, fueled by public investment. He concludes that the return on investment is very limited. Sanders warns against viewing convention centers as an economic panacea and warns against the circular logic that often surrounds convention center development.

IN OUR VIEW?

Embarcadero Hospitality Group frequently consults with both public and private entities, we have recommended for and against public/private partnerships based upon rigorous specifics. Every time a convention center has been proposed, we have recommended against, although many of these proposals have either been in extended metro areas already well-served by convention facilities, or smaller markets. This is not to say that we would have recommended against this project in Portland. Given that the convention hotel is moving forward, we have these recommendations for the parties involved:

Key Recommendations for Metro and the Oregon Convention Center:

1. Energetically engage an asset manager on an ongoing basis to ensure goals and philosophies are aligned and to ensure transparency with Hyatt.
2. Utilize the data collected by Travel Oregon and the Convention Center to capture baseline data and measure progress toward goals.
3. Work with the industry and other hoteliers to be collaborative to meet broader tourism goals.
4. The convention center booking team will need to creatively entice groups to come during Oregon's wet winters. Conference bookers are often looking for warm sunny weather (think Las Vegas or Los Angeles). Conventions in the summer when rates are already at their highest could disturb local hotels' abilities to maximize their rates.

IN OUR VIEW?

5. The Convention Center sales team and Hyatt marketing team should consider the following trends:
 - The increase in Airbnb and room sharing. Millennials are increasingly interested in staying at Airbnb rather than at the designated convention hotel. A recent joint study revealed that as many as one-third of group rooms are booked outside of the convention hotel.²
 - The experience-based ethos makes unique locations for conventions and meetings appealing; thus, organizers will need to think about creating a more modern experience and creating event packages that connect attendees to the city and the region.
 - Meeting attendees are increasingly interested in better, “non-corporate” food and beverage, wellness programming, and the latest technology.
 - Competitive pressure has shortened the booking window. Room night blocks associated with convention and trade show events used to be booked more than 18 months in advance. In recent years, that period has shrunk and it is anticipated to continue to decrease.

Recommendations for Local Hoteliers:

1. You do you! A convention center hotel is a particular thing and it is not everybody's thing. Capitalize on the unique experience you offer to guests.
2. “Bleisure” (that's business and leisure) is a rising trend. Millennials now make up the largest sector of business travel and they like to tack on a couple extra days to a business trip for leisure. Portland area hotels should take full advantage of that dynamic.
3. With potentially more rate volatility, general managers and rate managers need to be on top of their game, monitoring and adjusting rates as needed. We find that most mistakes are made by waiting too long to identify future high-demand events and dates. General managers often brag about the high rates they obtained for the last several rooms on sold out nights, but those don't begin to make up for the lost revenue for the other 90 percent of their rooms due to “lazy” monitoring of rates that proved to be too low for the demand. In this manner, huge revenues are lost at many hotels in every market.
4. Make a big, sustained effort to get your guests to book directly on your website or by phone. Expedia and Priceline and their 10-30 percent fees are profit killers, if relied on too heavily. It cannot be overstated: Work your magic to get customers booking through you directly.

Recommendations for The Public:

With \$150 million of the total \$224 million project cost coming from the hotel developer, the Hyatt Regency Portland is a large-scale investment in the Lloyd District. Over 80 percent of the public sector's investment in the project comes from a \$60 million Metro revenue bond that will be repaid with taxes generated by future hotel guests. The balance of the public investment includes \$10 million in state lottery funds and a \$4 million grant from the Oregon Convention Center's reserves.

Metro estimates in FY 2015-2016 convention attendee spending was \$729 million in the Portland metropolitan area. The number of events and attendance have increased year over year since 2013, according to HVS.

IN OUR VIEW?

Proponents have stated that they will see the following results and they should serve as benchmarks on the success of the project:

- Convention business to increase by 33 percent, note the convention center business increased by 11 percent from FY 2015 – 2016.
- Increase hotel room nights in the Portland area by 70,000 to 110,000 new room nights.
- Local tourism spending to increase by \$120 million
- State, city and county taxes to raise \$103 million in the first 10 years
- Once the hotel opens, the metropolitan region can expect total convention-related spending to approach upwards of \$1 billion a year.

These data points along with regional rates and occupancies collected by Travel Portland should be monitored to show both progress toward goals and the impact on the local hotel industry. As with any complex, pioneering investment, reasonable arguments based on reasonable assumptions create competing scenarios that suggest that the Hyatt Convention Center will be a great benefit to Portland and its hotel market, or, alternatively that it will prove to be a modest benefit to the City generally, and hurt the hotel market. Time will tell.

Regardless, it is our view that Portland and its hotel market will continue to outperform the national averages for the foreseeable future; while riding the waves of economic expansions and enduring inevitable cyclical recessions.

Portland, with its proximity to superstar west-coast gateway cities, its wealth of natural and recreational assets, and its compelling identity and charm will slowly, but surely gain in status, and take its place as a prominent metropolitan “place to be” for business and lifestyle, among the already established west coast gateway cities: Vancouver, Seattle, San Francisco, Los Angeles, and San Diego.

As the market evolves, it is incumbent upon us in the hospitality industry to respond with ingenuity and to remain focused on the guest experience. If hotels can “tell the story” of Portland and inspire meaningful connections between guests and the city, each hotel and Portland’s hospitality and tourism market will thrive.

¹ Oregon Convention Center. Portland celebrates groundbreaking of highly anticipated convention center hotel: Hyatt Regency Portland. August 4, 2017. <https://www.oregoncc.org/news/2017/08/04/portland-celebrates-groundbreaking-highly-anticipated-convention-center-hotel-hyatt>.

² ASAE Foundation, Center for Exhibition Industry Research CEIR, Destination & Travel Foundation, Meeting Professionals International (MPI), and Professional Convention Management Association PCMA Education Foundation. The Event Room Demand Study – How Many Rooms Does Your Convention Really Use? July, 2015. Tourism Economics conducted the study.