

Puget Sound Business Journal (Seattle) - January 29, 2007  
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#### Downtown Outlook

## Expect more big hotel brands to discover Seattle

Puget Sound Business Journal (Seattle) - January 26, 2007 by [Chris Burdett](#)

Should we be selling the building along with the rooms?

It is the age-old question with any institutional real estate investment. Is it time to sell or is there more upside potential? Where do I place my equity once I sell? Can I really sell my hotel for a 6 percent capitalization rate?

That last question is one our industry never thought we would hear. But given the frenzy of buyers, lenders and promoters in the hotel industry, not only are we hearing it, but we are also asking if we expect it to get better.

Right now the hotel industry is the darling child of Wall Street, Main Street and Pike Street. Never before have we been in such euphoria within this industry locally, nationally and worldwide, so perhaps it is time to step back and remember history does repeat itself, especially for those who tend to forget.

Although my expectations, and most others in our industry, do not foresee the dark days of 1990-91 or 2001-02, we do realize the hotel industry is cyclical.

We understand our business model is to lease 350 square feet with a bed, shower and TV every night. What is most amazing is that we continually build and innovate within our industry, and the consumer continues to enjoy the additional amenities and luxuries we provide. This is done at a relatively reasonable cost compared to other prominent cities such as Chicago, Boston, Los Angeles and New York.

Seattle is well on its way to becoming a world-class hotel market delivering new product and first-rate amenities -- more than we've ever experienced before. Today's Seattle hotel consumer expects only the best, and our industry continues to provide the most technologically advanced experience without losing the human touch needed to provide five-star service.

A look at the future

Through June 2006, Seattle had just over 6,500 rooms in the central business district (CBD). These included primarily three-star hotels and above, recognized by industry criteria set forth by AAA or Mobil.

During 2006, we added an additional 280 rooms with the opening of Hotel 1000 and the Pan Pacific. This was a reasonable 4.2 percent increase in rooms available. In 2007 and again in 2008, we expect to add 756 and 908 hotel rooms to the central business district, increases of 10.9 percent and 11.8 percent respectively.

The largest of these will be the 415-room second tower on the Sheraton Seattle Hotel, giving it the title as the largest hotel in Washington, with more than 1,200 rooms

In 2009, with the addition of 733 rooms, the increase in rooms available will be 8.5 percent.

These numbers represent 14 hotels, with more than 2,650 rooms, in the Seattle CBD planned or under construction today. Given the health of the industry and the ranking of Seattle as one of the top markets for new hotel development, I would expect names like Omni, Ritz Carlton, InterContinental and perhaps Hard Rock Hotels to surface in the coming years.

**Final impact**

So the real question on everyone's mind is what will be the impact of all these new properties?

In order to fully understand this question we must analyze current occupancy levels and average daily rates, latent demand, quality and quantity of each facility, and the timing of each hotel.

Taking each of these components into consideration, my expectation is that the Seattle hotel market will remain vibrant and healthy. Any negative impact would likely affect older properties that may not be keeping up with current trends, renovating guest rooms and offering the newest amenities.

From the consumer's perspective, new hotel product in any market is always a great opportunity to find the perfect hotel for their next vacation, event or conference.

Given the intervals of time in which many of these properties will open, the propensity of the product to be four-star and above and the relatively small size of each hotel, the expectation is that occupancy will remain at or slightly below current levels, while average daily rates may slow, but will continue to achieve acceptable single digit growth rates.

Notwithstanding an unforeseen economic downturn or any potentially destructive world events, the Seattle hotel market is as dynamic as ever. It's a very exciting and innovative time for hotel owners and developers.

The real question then becomes: Will the increased value from stronger operations over time be commensurate with current values, given such strong capital markets, an insatiable appetite for hotels and the resulting single-digit cap rates?

Only time will tell. However, if history has any bearing over future events and the hotel industry remains cyclical as always, then in my estimation, while there is still time to enjoy this frenzy in the hotel market, all good things must come to an end.

*CHRIS BURDETT is a senior vice president of Colliers International Hotels Northwest. He can be reached at 206-223-01433 or [chris.burdett@colliers.com](mailto:chris.burdett@colliers.com).*

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