

In 2006, hotels in the Puget Sound region recorded their best performance in recent years. Demand has been fueled by continued improvement in the regional economy and robust convention activity. While some new hotels have opened, the scale of this new development has been modest. As a result, hotel occupancy rates are at a five-year high.

ROOM OCCUPANCY

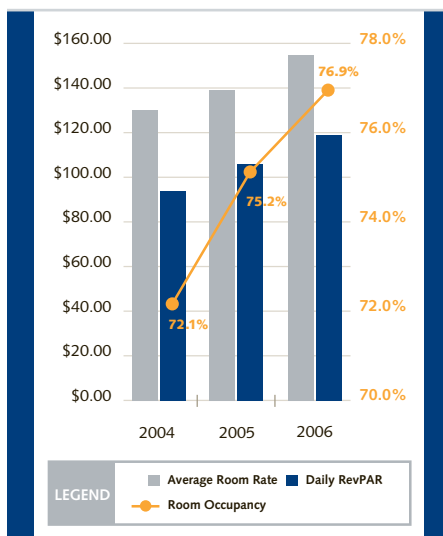
The average occupancy rate for hotels in downtown Seattle was 72% in 2004, 75% in 2005, and 77% in 2006. This is the highest level recorded since 1998, and it came despite the opening of several new hotels. Similar improvement was recorded in South King County and in Snohomish County, where occupancy rates improved to 73% and 75%. In East King County, where a substantial number of rooms have opened in the last few years, the 2006 occupancy

rate was just under 70%. The market occupancy rate in Pierce County was about 71%.

AVERAGE ROOM RATE

During 2006, the average price of a guestroom was \$155 in downtown Seattle, \$128 in East King County, and \$80 to \$100 in the other nearby markets. In Seattle, South King County, and Snohomish County, where market occupancy exceeded 70%, the year-over-year increases in room rates were in the range of 10% to 12%. Room prices rose by about 9% in East King County and by just under 7% in Pierce County.

SEATTLE STATISTICS



DAILY REVPAR

RevPAR (Revenue Per Available Room) is the product of the occupancy rate and the average daily room rate. With strong growth in both room occupancy and room prices, Daily RevPAR rose substantially in each of the markets surveyed. In comparison to the prior year, the volume of room revenue generated per guestroom in 2006 was up 7% in Pierce County, 12% in

Market Forecast

SEATTLE	ACTUAL 06	PROJECTED 07
Room Occupancy	77%	↓
Average Room Rate	\$155	↑
Daily RevPAR	\$119	↑

Market Close

- Strong growth in demand and relatively stable supply are supporting high rates of room occupancy, with many hotels reporting their best performance in nearly a decade.
- Room prices increased at double-digit rates during 2006, extending the recovery that began in mid-2004.
- High rates of occupancy are attracting the interest of developers, particularly in the Seattle CBD, where nearly a dozen new hotels are proposed or under construction.

RECENT HOTEL SALES

Hotel Name	City	Year Built	Sale Date	Sale Price	Rooms	\$/Room
Springhill Suites	Seattle	2001	Nov-06	\$50,400,000	234	\$215,385
Residence Inn Lake Union	Seattle	1990	Sep-06	\$45,636,192	234	\$195,026
Alexis Hotel	Seattle	1904	Jun-06	\$38,341,576	109	\$351,758
Summerfield Suites Hotel	Seattle	1990	Jun-06	\$29,300,000	193	\$151,813
University Tower	Seattle	1931	Dec-05	\$26,400,000	158	\$167,089
Executive Pacific Plaza	Seattle	1928	Jun-05	\$13,900,000	155	\$89,677
Sierra Suites	Bothell	1998	May-05	\$9,491,229	123	\$77,164
Ramada Inn	Seattle	1978	Mar-06	\$9,000,000	120	\$75,000
Best Western Rivers Edge	Tukwila	1986	May-06	\$7,500,000	143	\$52,448
Comfort Inn	Tacoma	2000	Jan-05	\$6,700,000	90	\$74,444
Days Inn	SeaTac	1992	May-05	\$6,478,508	86	\$75,331
Best Western Executel	Federal Way	1983	Mar-06	\$6,450,000	112	\$57,589
Baroness Hotel	Seattle	1928	Jun-06	\$6,075,000	59	\$102,966
Edmonds Harbor Inn	Edmonds	1984	Jul-06	\$5,500,000	91	\$60,440
Silver Cloud Inn	Renton	1989	Feb-06	\$4,250,000	105	\$40,476
Best Western Baron Inn	Monroe	1994	Mar-06	\$3,780,000	58	\$65,172
Island Country Inn	Bainbridge Island	1994	Sep-05	\$3,505,000	45	\$77,889

East King County, 13% in Snohomish County and the Seattle CBD, and 17% in South King County.

HOTEL DEVELOPMENT

Typically, a market occupancy rate of 70% is sufficient to attract the interest of hotel developers. With market occupancy exceeding 75%, downtown Seattle has received the most attention: three hotels opened in 2006, and nearly a dozen are in various stages of development. New lodging also is proposed for the Bellevue and Tacoma CBDs, and in many of the peripheral suburban communities. The current development cycle is expected to extend through 2009.

Seattle Review

The strong performance of the downtown Seattle market has generated a host of new projects. Hotels opened during 2006 include:

- Hotel 1000, a 120-room luxury hotel in a structure that also houses high-end residential condominiums.
- The 160-room Pan Pacific Hotel, the lodging component of an upscale mixed-use development that also includes condominiums, a grocery store, and retail space.
- Silver Cloud Inn Stadium, a 211-room property located at the entrance to Safeco Field.

Among the pending developments:

- A 415-room addition to the Sheraton Hotel is scheduled for completion in mid-2007. With the addition, the hotel will have 1,253 guestrooms, making the Sheraton by far the largest hotel in the Pacific Northwest.
- The Arctic Building, constructed in 1915, is being renovated and converted to the Arctic Club Hotel, a 120-room full service property expected to open in 2008.
- A similar renovation is proposed for the Alaska Building, an office structure erected in 1904 and slated for conversion to a 254-room Courtyard by Marriott.

HOTEL MARKET STATISTICS

	Downtown Seattle	South King County	East King County	Snohomish County	Pierce County
Room Occupancy					
2004	72.1%	66.1%	67.1%	69.2%	64.3%
2005	75.2%	69.2%	68.2%	74.9%	70.9%
2006	76.9%	73.1%	69.6%	75.4%	71.2%
Average Room Rate					
2004	\$128.50	\$79.15	\$113.22	\$76.09	\$80.47
2005	\$139.97	\$84.19	\$117.21	\$81.03	\$76.41
2006	\$154.79	\$93.34	\$128.27	\$90.91	\$81.56
Daily RevPAR					
2004	\$92.65	\$52.32	\$75.97	\$52.65	\$51.74
2005	\$105.26	\$58.26	\$79.94	\$60.69	\$54.17
2006	\$119.03	\$68.23	\$89.28	\$68.55	\$58.07

- Construction of a luxury hotel and condominium project is underway just west of the new Washington Mutual Center. The 149-room hotel will carry a Four Seasons affiliation and will likely be the rate leader in the Seattle market. It is expected to open in mid-2008.
- The Olive 8 development will include hotel rooms, a 13,000 s.f. health spa, and luxury condominiums. The 346-room Hyatt at Olive 8 is expected to open in 2008.
- A large vacant tract adjacent to the high-rise Macy’s Garage is the site of another proposed hotel/condominium project. The 88-room luxury boutique hotel would incorporate the first level of the existing garage for the hotel lobby, function space, and service areas.

Several downtown hotels changed hands during 2006, including the

Alexis, the Residence Inn on Lake Union, and the Springhill Suites. The Alexis, widely regarded as one of the premiere boutique hotels in the city, was purchased for nearly \$350,000 per guestroom. Also of note is the December 2005 purchase of the University Tower Hotel, located near the University of Washington and now operating as the Hotel Deca.

South King County Review

The SeaTac area has seen little new lodging development since the flurry of activity that took place in the late 1990s. The recently renovated Hilton Hotel and the older but larger Marriott Hotel continue as the rate leaders. The capacity of the market was reduced by nearly 300 rooms with the closure of the Radisson Hotel, which lay in the path of the new light rail line. Hopes for a new full-service hotel to the south of the airport hinge on the proposed construction of a southern connection between Interstate 5 and the terminal.

In Renton, a large waterfront tract along the south shore of Lake Washington, formerly owned by The Boeing Company, is being transformed as a mixed-use development, and may eventually include a lodging component. The former Silver Cloud Inn in Renton was sold and reflagged as a Quality Inn.

East King County Review

In the space of two months in late 2005, downtown Bellevue saw the opening of two new hotels: the 253-room Courtyard by Marriott and the 337-room Westin Bellevue. This significant increase in supply likely had a negative impact on market occupancy. Nevertheless, the owner of the 382-room Hyatt Hotel has announced plans to expand that property with a second tower.

A 150-room Courtyard by Marriott opened in mid-2006 on a site near Interstate 5 in Kirkland. In downtown Kirkland, a boutique hotel is proposed

for development in the city's popular pedestrian retail district. A Hilton Garden Inn now under construction in Issaquah will be that city's first new hotel in 30 years. A site along the Sammamish River in Woodinville is being marketed for a development of a mixed-use center to include residential condominiums, retail shops, winery outlets, and a hotel.

Snohomish County Review

After 20 years of operation under various flags, the largest lodging property in Everett was closed for an extensive renovation, reopening in late 2005 as the 243-room Holiday Inn. With 11,000 square feet of meeting space, this hotel has resumed its role as the premiere meeting facility in the city.

A 102-unit Hilton Garden Inn opened in late 2005 in Mukilteo, near the Boeing assembly facilities at Paine Field. A second HGI, with 200 guestrooms, has been proposed for development in Lynnwood, on a site near the new Lynnwood Convention Center.

North of Marysville, construction began in 2006 on a 363-room hotel adjacent to Tulalip Resort Casino. The Tribe expects to spend \$130 million on the 12-story structure, which will also be convenient to Interstate 5 and the new Quil Ceda Village retail center. The hotel is scheduled to open in early 2008.

Pierce County Review

Since 1983, the Sheraton Hotel has been the dominant lodging property in downtown Tacoma. As proposed, this 319-room hotel will undergo a \$6 million renovation and be reflagged as an independent property, the Hotel Murano. The Murano will be themed around the glass art industry popularized by Dale Chihuly and other local artists. Completion is planned for late 2007.

Also new to the Tacoma market are the 156-room Courtyard by Marriott, which opened in mid-2005, and the former Ramada Inn, which underwent an extensive renovation and reopened as the 162-room Best Western Tacoma

Dome Hotel in early 2006.

To the north, the former Best Western Executive Inn in Fife has been converted to the 140-room Emerald Queen Hotel & Casino, with slots and gaming tables now occupying what had been extensive meeting facilities. Further south, in Lakewood, a 120-room La Quinta Inn is nearing completion on a prominent site overlooking Interstate 5.

SOURCES

Information concerning recent hotel sales, projects under construction, and proposed developments was compiled by GVA Kidder Mathews from property owners and managers, county records, and the CoStar Group. The performance of the regional lodging market is tracked by Wolfgang Rood Hospitality Consulting and is reprinted with permission from their survey, *Trends in the Hotel Industry, Pacific Northwest*. Figures reflect the performance of survey participants.

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