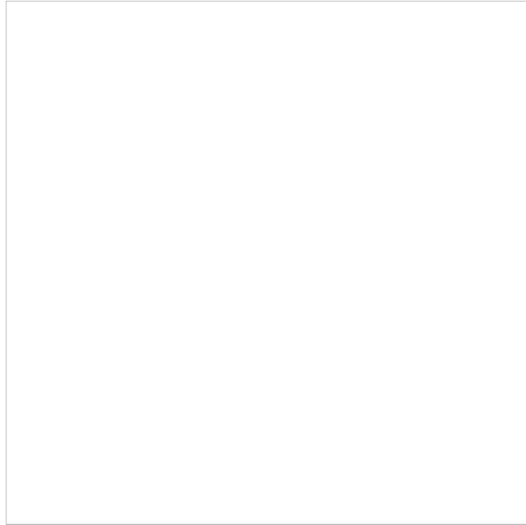


Business Growth and Bellevue's Lodging Industry

February 13, 2009 / By Kaoru Chikushi



In 1940, the Lake Washington Floating Bridge, currently known as Interstate 90, connected Seattle and Bellevue across Lake Washington. Less than ten miles from Seattle, Bellevue soon became a bedroom community for affluent families. In 1946, Kemper Freeman, Sr. transformed a former strawberry farm into Bellevue Square, which became the first shopping destination just outside of Seattle and racked up record-breaking sales. The Freeman's legacy of redevelopment includes the Bellevue Place office tower in 1988 and Lincoln Square, the second-largest high-rise, mixed-use project in the U.S., in 2005. Such standout developments are indicative of Bellevue's dramatic increase in businesses, residents, and visitors over

the past 15 years.

Today, the Bellevue economy thrives on a vibrant downtown and commercial corridors along two major highways. Bellevue has earned a reputation as the center of the metro area's eastside technology corridor and the "hot market" for new growth in the Pacific Northwest.

Business in Bellevue

The area's high-tech era began with Microsoft's arrival in neighboring Redmond in 1979, and firms such as AT&T Wireless, T-Mobile, and Expedia now call Bellevue home. Boeing, Microsoft, Nordstrom, PACCAR, Expedia, Symetra Financial, Bungie, MulvannyG2, Eddie Bauer, Verizon Wireless and other companies occupy 6.1 million square feet of office space inside Bellevue's 410-square-acre business district. Another two million square feet of office space are currently under construction and expected to come online in 2009.¹

This rapid expansion makes the development of 2.2 million square feet between 1990 and 2000 seem almost sluggish by comparison. Unfortunately, office vacancies have risen with decreasing demand, as some firms scale back operations on account of the national recession. Nonetheless, Bellevue's diverse economy and the steady expansion of companies are expected to prevent a further increase in vacancy rates. Microsoft plans to occupy roughly 2.3 million square feet across five buildings, increasing its Bellevue-based workforce to 7,500 by the end of 2009.²

Bellevue's relatively low tax rates also prove attractive to businesses. In 2007, Bellevue property owners paid \$0.93 per \$1,000 of assessed value versus \$2.88 per \$1,000 in Seattle. Costs for employee taxes, licenses, and permits also are much lower in Bellevue.³

A wealth of high-paying corporations and low property taxes creates an ideal environment for high-end retail venues in Bellevue. Bellevue's large shopping centers, such as Bellevue Square and Lincoln Square, cater to an increasing population of city-center residents and draw approximately 16 million shoppers annually. The International Council of Shopping Centers rated Bellevue as the "Top Opportunity" for retail in 2008. According to data from Bellevue's Meydenbauer Convention Center, Bellevue attracts shoppers from surrounding cities and states including Alaska, Montana, Oregon, and Idaho, as well as British Columbia and Alberta, Canada. Retail operations thus prove a rousing demand generator for area hotels.

Summary

Long a satellite of Seattle, the city of Bellevue has been charting its own course for years, with high-tech firms and high-end retail providing the bulk of demand for area hotels.

[Comments](#)

FILED UNDER CATEGORIES

Valuations & Market Studies

Economic Trends and Cycles

North America

Bellevue Hotels

Bellevue's lodging industry is relatively young. In fact, the Hyatt Regency - the city's first full-service hotel - was built by the Freeman family in 1989. Today, Bellevue's Central Business District (CBD) offers four hotels and a collective 994 rooms. Five more hotels are located one-half mile south of the Bellevue CBD.

Existing Hotels

Bellevue CBD	Number of Rooms	South Bellevue	Number of Rooms
Hyatt Regency	382	Hilton	353
Westin	351	Sheraton	251
Courtyard by Marriott	336	Residence Inn by Marriott	231
Silver Cloud	97	Red Lion	181
		Bellevue Club Hotel	67
Total	994		1083

The Hilton and Sheraton hotels have undergone major renovations in order to remain in sync with the new supply entering the market, such as the Courtyard by Marriott and the Westin in 2005. The opening of the Residence Inn by Marriott in October of 2008 helped absorb increasing levels of extended-stay demand in the area.

The following table illustrates overall occupancy and average daily rate at Bellevue hotels.⁴ Two new hotels opened in 2005, yet occupancy remained high in 2006, indicative of the area's strong demand. The opening of the Residence Inn by Marriott and the effects of a weakening national economy led to a moderate decrease in occupancy as of November of 2008.

	2006	2007	2008 YTD (November)
ADR	\$128.27	\$144.95	\$151.41
Occupancy	69.60%	71.40%	67.80%
RevPAR	\$89.28	\$103.49	\$102.66

The table below summarizes proposed hotels in the Bellevue CBD.

Proposed Property	Number of Rooms	Development Stage
Hyatt Regency II	351	Expected to open in June 2009
Marriott-branded hotel	378	On hold
Washington Square	200	Early development
The Bellevue (5-star hotel)	150	Early development
Lincoln Square (3-4 star hotel)	TBD	Early development
Total	1,079 +	

What's Yet to Come in Bellevue

According to city officials, growth in the Bellevue market is being fueled by three significant business trends.

- Growth in the computer, software, travel, medical devices, and videogame industries has spurred new and expanding businesses.
- New and growing businesses bring in more business travelers, and technology companies with an international workforce and clientele regularly use downtown hotels and restaurants as spillover meeting spaces.
- Bellevue-based firms involved with international trade and finance, primarily related to Asian markets, aerospace, and technology, have seen substantial growth in recent years.

These trends have catalyzed the new construction of office buildings and leisure attractions. One of the most notable projects in the area is The Bravern, a mixed-use, upscale development, which will include office towers, restaurants, 450 condominiums, and 35 destination retailers, anchored by a 125,000-square-foot Neiman

Marcus department store. Finishing touches on the Bravern Office Commons (which Microsoft will lease in its entirety) are now being made, with The Shops at The Bravern to follow in the fall of 2009.

Also of note is the future development of the Bel-Red Corridor Project, a \$1.5-billion, 20-year project that will transform a 900-acre light-industrial zone into a high-tech office district (up-zoned in some places to 150 feet), mixed with urban and residential neighborhoods, light-rail transit, and an arts district. In 2008, the City Council adopted the plan and approved the first \$300 million of spending. Located in the northern section of Bellevue along one of the region's two major east-west highways (State Road 520), the corridor stands between Microsoft's two major concentrations of office space: Downtown Bellevue and the Redmond campus. Upon completion, this corridor will serve to incubate new businesses and accommodate substantial increases in both employment and multi-family housing.

Conclusion

Bellevue boomed along with the high-tech industry in the 1990s and was chosen as the best location to live and launch a business by *FORTUNE Small Business* in 2008. For many years following its incorporation, Bellevue could be characterized as a sleepy suburb of Seattle. Today, the city reflects the skyline of Downtown Seattle in the windows of its own high-rises, and the spirit of a cutting-edge city in its innovative corporations and willingness to break new ground. If, as suggested by a recent HVS study (<http://www.hvs.com/Jump?aid=3420>) office space and hotel demand in a metropolitan market can be closely correlated, Bellevue hotels look to reap substantial benefit from area businesses' persistence toward growth.

HVS Dallas performs property appraisals, market studies, and other projects on behalf of lodging industry stakeholders throughout the United States. Please visit us at <http://www.hvs.com/Offices/Dallas> or call us at 972-899-5400 to find out how we can advise on your next venture.

¹ Economic Development, City of Bellevue. Personal Interview. January 14, 2009

² Economic Development, City of Bellevue. Personal Interview. January 18, 2009

³ Economic Development, City of Bellevue. Personal Interview. January 18, 2009

⁴ City of Bellevue Chamber of Commerce