MARKET REPORT

HVS Market Intelligence Report: Asheville, North Carolina

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Business, tourism, and an idyllic mountain setting are perennial features of Asheville, creating demand for hotels old and new.

Nestled in the foothills of the Blue Ridge Mountains, Asheville is known for its natural beauty and small town charm. The tranquility of the surrounding mountains, lakes, and rivers is complemented by the brick-and-mortar grandeur of the Biltmore House and authentic Art Deco architecture of buildings Downtown. Such sights annually invite millions of tourists to Asheville, and businesses in the area have grown and diversified over the past twenty years, making the ground fertile for the hospitality industry in "The Land of the Sky."

Tourism

More than two million overnight leisure travelers visit the greater Asheville area each year, accounting for an economic impact of over $1 billion annually for Buncombe County.[1] Much of the area's tourism dollars are spent at the Biltmore Estate and the surrounding Biltmore Village. Still the largest private residence in the United States, the Biltmore House was erected in the late 1800s by George W. Vanderbilt. In the 1930s, the estate's gates were opened to the public to stimulate visitation to Depression-era Asheville. The Biltmore continues to espouse a spirit of majesty and welcome. The 8,000-acre grounds include a winery; the four-star, four-diamond Inn on Biltmore Estate; numerous restaurants; acres of formal and informal gardens; and a variety of outdoor activities, including hiking and biking trails, horseback riding, Segway tours, and river-floating trips.

Historic Biltmore Village, located just outside the gates of the estate, were once home to estate workers and their families. The buildings now house unique shops, restaurants, and other businesses. These locally owned ventures are now neighbored by Williams-Sonoma, Coldwater Creek, Talbots, and other national retailers in a recently constructed retail and office complex.

Downtown Asheville proves a draw for tourists and locals alike. The unique mix of Art Deco and Neoclassical architecture has survived decades of growth and change, and the local coffee shops, restaurants, boutiques, art galleries, night clubs, and street musicians contribute to the city's idyllic charm. Downtown Asheville also hosts popular annual affairs such as Bele Chere, Shindig on the Green, and the Mountain Dance and Folk Festival. Downtown's historic Pack Square, which had hosted many of these events in the past, is undergoing a $20-million transformation into Pack Square Park. The expanded 6.5-acre site will be a permanent venue for downtown events and a gathering place for locals and tourists throughout the year.

Hotel Demand

Even in the economic collapse following 9/11 and the current slump initiated by the credit crunch, lodging revenues in Buncombe County have increased every year since 1996. A steady flow of tourists churns the city's economic mill, which in turn benefits area hotels. The Tourism Product Development Fund (TPDF), which is funded by taxes on occupancy in Buncombe County, provides financial assistance to major tourism projects, helping drive demand to local hotels. The TPDF has injected more than $9 million into local tourism projects, including the Asheville Area Wayfinding Program, the Buncombe County Civil War Trails, and the Asheville Art Museum.

Buncombe County Room Sales According To Tax Reports

Year	Room Sales ($)	% Change
1996	79,293,935	-
1997	80,994,127	2.1
1998	90,915,449	12.2
1999	93,598,133	3.0
2000	98,052,473	4.8
2001	105,942,408	8.0
2002	117,411,942	10.8
2003	117,444,495	0.0
2004	124,765,173	6.2
2005	138,397,961	10.9
2006	156,962,874	13.4
2007	169,174,972	7.8

Source: Asheville Area Convention & Visitors Bureau

Some 6,000 hotel rooms, spanning small, unbranded motels to grand, luxury resorts, provide Asheville's tourists with a place to rest. Budget-friendly limited-service properties, full-service hotels, and even luxury resorts enjoy a healthy patronage in Asheville. A getaway at the Grove Park Inn Resort & Spa gives guests the chance to enjoy a world-famous spa, play 18 holes of golf, and view the world's largest collection of furniture and lighting fixtures from the Arts and Crafts era. The European-style Inn on Biltmore Estate offers guests a luxury stay on the Biltmore grounds. Both the Crowne Plaza Resort and the Renaissance Asheville, the former situated in the mountains and the latter in the heart of Downtown, underwent major renovations in the last two years. In March of 2008, the former Best Western re-opened as the full-service Four Points Asheville Downtown.

The demand for high-quality full-service properties is evident when looking at lodging construction trends since 2005. The Residences @ Biltmore, which opened in April of 2007, offers luxury condos for short- or long-term stays, touting exclusive concierge service and suite-style amenities. The Holiday Inn & Suites Downtown Asheville, which opened in January of 2008, is a gateway to downtown venues, the Asheville Mall, and other popular retail outlets. The new concierge tower at the DoubleTree Biltmore boasts 37 guestrooms and additional meeting space to accommodate the hotel's increasing

demand.

The Hotel Pipeline

The 104-room boutique Bohemian Hotel Biltmore Village is expected to open in January of 2009. This luxury hotel, part of the Kessler Collection, will offer amenities such as an art gallery, spa and fitness center, and 5,100 square feet of meeting space. The 165-room Hilton Asheville Biltmore Park is currently under construction in the Biltmore Park Town Square mixed-use development just south of Asheville. Expected to open in the summer of 2009, the property will feature a solar water-heating system that should help it achieve LEED certification as a "green" hotel. Construction started in the summer of 2008 on the Hotel Indigo Asheville, which will occupy the former site of the Asheville Area Chamber of Commerce, Downtown. The 100-room hotel, which will also feature twelve luxury condominiums, is expected to open in early 2009.

The Ellington is an ambitious hotel and condominium project proposed for Downtown Asheville. The 23-story building would comprise 125 oversized guestrooms and 52 condominiums, including four penthouse suites. The project had initially come under fire from local residents who feared the building's size and site would run afoul of traffic flow and pedestrian safety. Having since received favor from the Asheville City Council, the project is in the design development phase, with construction set to begin in 2009. Plans for the hotel include alternative-fuel guest shuttles, a laundry recycling system, and even an exterior lighting design that respects the flight patterns of certain migratory birds. The Ellington is projected to attain LEED certification when it opens in late 2010 or early 2011, an achievement shared by only a handful of North Carolina hotels.

The Ellington has also inspired a cooperative spirit in the Asheville community. The Grove Park Inn, a partner in the hotel's development, will give guests full access to all of the Grove Park's amenities. Furthermore, the developers have created a fund for the construction of affordable housing within one-half mile of the Central Business District; a percentage of each condominium sale at The Ellington will contribute to the fund for a period of 70 years, with additional contributions to come each time the hotel is sold before June 1, 2080.

Another upscale hotel project and a major renovation are also in the works. The Asheville City Council gave unanimous approval on October 14, 2008, for a seven-story hotel in Downtown Asheville. The developer, McKibbon Hotel Group, has proposed building an aloft hotel on the site; the aloft represents Starwood Hotels & Resorts' new high-design, upscale, select-service brand. The project, which will also include a city-funded parking garage with spaces leased back to the hotel developer, is considered a "catalytic development" with the ". . . potential to stimulate additional investment or provide missing uses that are critical to maximizing downtown vitality."[2]

The owner of the Haywood Park complex, which includes the Haywood Park Hotel, the Haywood Atrium, an interior parking garage, and a building and parking lot on Page Avenue, plans to refurbish the hotel property and lease empty space in the Atrium and Promenade.[3]

Conclusion

Tourism to Asheville shows no signs of letting up. The local hospitality industry thrives on this demand and in turn serves as a core driver for the economic growth of the greater Asheville area. Tourism generates a payroll of more than $600 million for local residents, more than 18,000 of which are employed in tourism-related jobs.[4] The upscale lodging sector has expanded over the last several years, and new hotels are poised to change the face of Downtown Asheville in the future. This classic southern city retains its composure even in the midst of national economic trouble, and more bright years are expected to lie ahead.

HVS works extensively in hotel markets spanning the southeastern U.S. For more information on how we can help you accomplish your goals, please visit http://www.hvs.com/Offices/Atlanta or call us at (678) 639-3334.

1 http://www.exploreasheville.com/press-room/tourism-statistics/index.aspx
2 http://www.ashevillenc.gov/WorkArea/showcontent.aspx?id=14132

3 http://haywoodpark.com/index.htm
4 Asheville Area CVB 2007-2008 Bureau Book http://ashevillecvb.com/index.php?option=com_docman&task=doc_download&gid=2&Itemid=56