

HVS Market Intelligence Report: San Antonio, Texas

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San Antonio, the “Alamo City,” is often regarded as “the Heart of Texas,” as its illustrious past and cosmopolitan present have come to symbolize the rich heritage of the state. This area was explored by Spanish expeditions in 1691 and 1709, and the town was founded in 1718. One of the most fought-over cities in North America, San Antonio was the site of many battles during the Texas Revolution, including the Siege of Bexar and the infamous Battle of the Alamo. After Texas entered the Union, rapid growth ensued as San Antonio became a servicing and distribution center for the western movement of the United States.

Today, visitors by the millions are drawn to the city’s meandering Riverwalk, the 18th-century Spanish missions, and, of course, the Alamo. The coexistence of the old and the new is one reason San Antonio is viewed as an attractive place to relocate or visit. The San Antonio area is part of the greater south-central Texas economic base, where the tourism and commercial sectors have seen tremendous growth in the past several years. San Antonio features a variety of industries and employers that represent a cross-section of hotel demand potential. Some are national in scope, others wholly local; many are engaged in high-tech research and manufacturing, others in health care and defense. Expansion is occurring in each of these industries as well, thus providing the city with an economy as diverse as its culture. This article delves into San Antonio’s progress in the 21st century, the preservation of its legendary history, and how hotel properties play a role within this framework.

Business and military growth

Business is the key to growth in any metropolitan area, and business is good in San Antonio. According to CB Richard Ellis (CBRE), San Antonio’s office market has been growing since 2004.¹ Occupancy for the entire San Antonio market is at an extremely healthy 87.9% for the first quarter of 2008.² Not only is San Antonio the home of AT&T’s world headquarters, several other major corporations have recently established a presence in the area. Toyota Motor Engineering and Manufacturing North America invested \$850 million to build its Tundra manufacturing plant in San Antonio, which opened in November of 2006.³ Microsoft Corporation is currently constructing a 500,000-square-foot data center in San Antonio. Microsoft will incorporate green technologies in the construction, design, and operation for this facility, which is scheduled to open in July of 2008.⁴ Philips Semiconductors recently completed a \$300-million expansion within the Westover Hills development. Philips’ latest expansion at its 126-acre campus brings its total northwest San Antonio investment to roughly \$750 million. Following these big fish, a school of ancillary support companies have moved to the area as well. As a result, weekday hotel occupancy has climbed to roughly 71% citywide, according to HVS estimates.

The Alamo City has one of the largest concentrations of military bases in the United States—and these bases are expanding. The Base Realignment and Closure (BRAC) program will add several thousand military and civilian personnel to San Antonio, as well as \$2.1 billion in base renovation and construction to be completed no later than 2011.⁵ Consequently, San Antonio will be the hub for all Defense Department medical training and research, which will further increase both transient and extended-stay demand in central San Antonio.

Tourism

Even while nurturing all of this new business, San Antonio has not neglected its second-largest industry: tourism. According to the City of San Antonio Convention and Visitors Bureau (SACVB), the City began a \$216-million

Summary

Texas’ second-largest city is experiencing growth never before seen in its long and storied history.

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improvement project to lengthen the famed Riverwalk from two to thirteen miles in the fall of 2007. This expansion project will connect the city's entertainment and leisure venues, historic areas, and museums to the original Riverwalk within the Central Business District (CBD). With the Riverwalk, the Alamo, SeaWorld, and Fiesta Texas, it is little surprise that Travel + Leisure ranked San Antonio as the eleventh-favorite city to visit in the United States in 2007.⁶ Some 26 million visitors to the city made an economic impact of over \$10 billion in 2006.⁷ As can be expected, lodging demand related to the tourism industry continues to increase, as San Antonio's international exposure as a destination city intensifies.

New infrastructure and property development

In order to support all this growth, the City is engaged in over 150 infrastructure projects, including road expansions, park and open space improvements, and expanding healthcare facilities.⁸ The San Antonio International Airport is currently expanding as well; terminals and gates are being added to better accommodate the 8 million travelers utilizing this facility every year and to provide greater capacity for future passenger growth.⁹

Although almost every area in San Antonio is experiencing growth, the CBD and the northwest area are undoubtedly leading San Antonio's modern renaissance. Several master-planned, mixed-use developments are currently under construction or expanding in these two areas. The historic Pearl Brewery is being redeveloped as a mixed-use urban center in the northern downtown district. Growing beyond the successful La Cantera development, projects such as The Rim, Tacara, Alamo Quarry, and élan are under construction or expanding in the northwest area. The Westover Hills development is expanding as well, adding retail shops, entertainment venues, and hotels to the existing expanse of professional office buildings and residential components.

Convention activity has always been strong in San Antonio. In 2004, The Henry B. Gonzales Convention Center expanded to over 1.3 million square feet of space. The facility contains 440,000 square feet of contiguous exhibition space, a new 40,000-square-foot ballroom, 113,000 square feet of meeting space (divisible 59 ways), and a 2,500-seat performing arts theater. Conventions are also held at the Municipal Auditorium, which offers 35,000 square feet of meeting space. Additionally, the Grand Hyatt, a 1,003-room convention headquarters hotel, officially opened in March of 2008, enabling the city to attract larger, higher-rated conventions than was previously feasible. According to the SACVB, future events are being booked at a steady pace.

New hotels

Of course, the lodging industry is benefitting from these noted activities in San Antonio. Not only have citywide occupancy levels stayed above 70% since 2004, but average rates have increased at a healthy pace as well.¹⁰ In turn, new lodging projects have recently opened or are currently under construction. In addition to the numerous limited- and select-service properties constructed in San Antonio, notable hotel projects (in addition to the Grand Hyatt) include a 1,000-room JW Marriott Resort & Spa in the northwest area, which is expected to open in 2010.¹¹ More telling, though, are the new-concept hotel developments under construction. Starwood Hotels & Resorts and InterContinental Hotels Group are introducing their new upscale boutique hotel brands—dubbed aloft and Hotel Indigo, respectively—to San Antonio.¹² Choice Hotels is introducing Cambria Suites, its new upscale product, to the city as well.¹³ With the selection of San Antonio as one of the first cities in the nation to receive these new concepts, the lodging industry has made San Antonio a de facto commercial and leisure destination city.

Conclusion

The richness of San Antonio's history and culture remains, even as recent efforts of both public and private entities transform the city into a modern American metropolis. With so many travelers drawn by the city's diverse economy, strong convention activity, and numerous leisure attractions, the development of new hotels has not stinted occupancy levels in San Antonio; in turn, hotels have been able to achieve higher rates. The circulation through the city shows no signs of slowing, and the Heart of Texas should beat resiliently in the foreseeable future.

¹ CBRE Office Market View, First Quarter 2008

² Ibid.

³ Toyota Motor Corporation website, San Antonio Business Journal, 2007

⁴ The Washington Post, July 31, 2007

⁵ Austin-American Statesman, January 2008

⁶ Travel + Leisure, October 2007

⁷ Hospitality Study Impact Committee Report, 2007

⁸ City of San Antonio Web site

⁹ San Antonio Airport System

¹⁰ HVS

¹¹ San Antonio Business Journal, March 2007

¹² Ibid.

¹³ Ibid.

About **Shannon L. Sampson**



Shannon L. Sampson is Managing Director and Leader of the firm's Caribbean Region consulting and valuation practice. With nearly 20 years at HVS, Shannon has extensive experience providing valuations, market and feasibility studies, and consulting services on a variety of asset types, including destination resorts, luxury mixed-use properties, convention hotels, and dual-branded hotels. Given his analytical skills and aptitude for solving problems that arise in complex projects, clients particularly value Shannon's insights and recommendations regarding hotel room counts, product positioning, amenities, and branding for many types of proposed properties, including hotels, all-inclusive resorts, and mixed-use resorts with complementary real estate. Contact Shannon at (512) 626-9172 or [\[email protected\]](#).