MARKET REPORT

HVS Market Pulse: Anaheim, California

APRIL 18, 2019

Preparing for a galaxy far away at the happiest place on earth, hotels owners are looking toward an optimistic future given the record attendance levels at both theme parks and a strong historical precedent for the positive impact of new attractions.

Market Overview

Since 1955, Anaheim's economy has been driven by The Walt Disney Company, which is also the largest private-sector employer in Orange County with nearly 32,000 employees. Its local operations include Disneyland and the California Adventure theme parks, three Disneyland hotels, and Downtown Disney (a shopping and entertainment area). The area's lodging market is also supported by the Anaheim Convention Center, which currently provides the largest convention facilities on the West Coast. As Disney and the convention center have expanded, the City of Anaheim created the Anaheim Resort Area (ARA) in 1994 to effectively manage development of the area surrounding Disneyland. The ARA, encompassing 1,078 acres, is synergistically designed as a cohesive plan including the Disney Parks, Anaheim Convention Center, hotels, and retail centers. Within Anaheim and the adjacent City of Garden Grove, the hotel market offers nearly 190 hotels, offering over 23,000 rooms, or nearly 42% of the overall supply available in Orange County.

The Impact of New Attractions

Supply

Hotel owners and developers have been preparing for the addition of the new Star Wars attraction and the expected boom in demand. The following table illustrates major hotel openings in the last five years. This growth trend is expected to continue, with several projects across the market in various stages of development and construction as of early 2019.

	Occupancy	ADR	Hotel Rooms Available	2018 Occupancy Growth over 2017 period	2018 ADR Growth over 2017 period
Anaheim-Santa Ana	77.5%	$162	Over 57,000	(0.5)%	3.5%
Unemployment	2.9% Dec 2018				

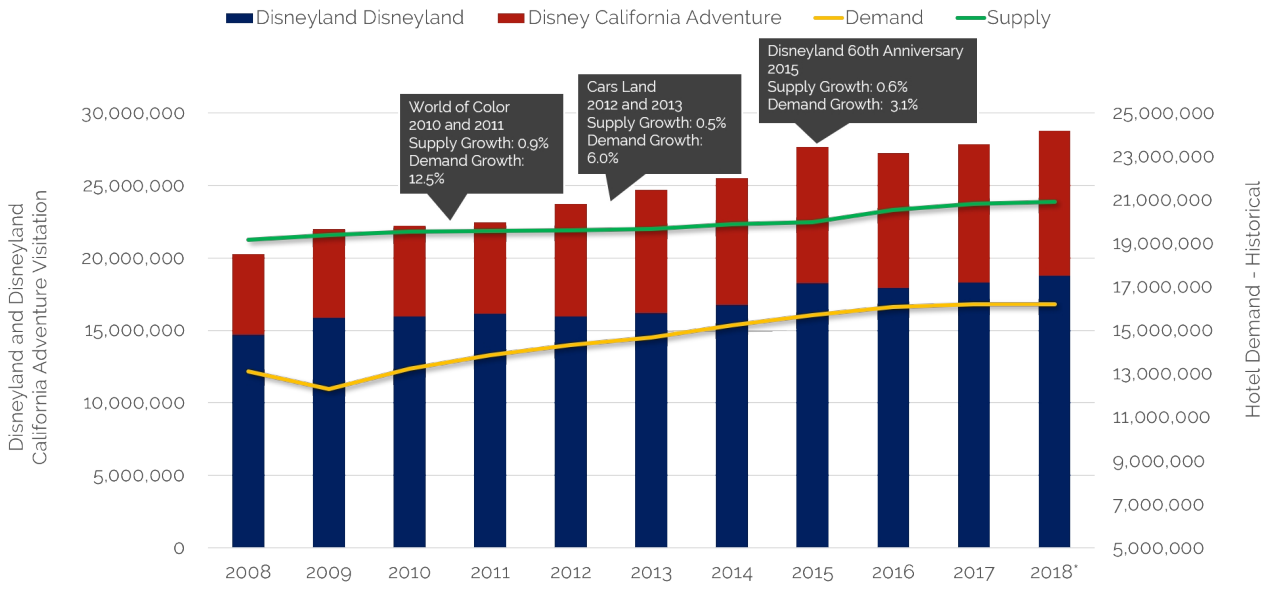
Top Employers	Disneyland Resort	31,160 Employees
	Kaiser Permanente	6,185
	Northgate Gonzalez Supermarkets	2,000
	Anaheim Regional Medical Center	1,200
	Hilton Anaheim	1,000
New Hotel Supply	2,646 new hotels rooms in the last five years, nearly 5% increase in supply 1,901 rooms under construction, representing 3% increase in supply 2,430 rooms proposed, across five full-service projects	
Office Space	7M SF available, 15.5% Vacancy, $28 Average Asking Lease Rate	
Conventions	171 in the 2017/18 fiscal year with 960,000 attendees 200,000-square-foot expansion completed in September 2017	
Airport	10.6M; 2.3% increase over 2017 at John Wayne Airport	

Source: STR, Bureau of Labor Statistics, City of Anaheim 2017/18 CAFR, HVS research, REIS, City of Anaheim 2017/18 CAFR, Orange County Airport

As the table illustrates, new supply has increased significantly within the last five years (4.6%), with growth driven by limited-service, select-service, and extended-stay hotel products that are aimed at serving families and conventioneers alike. Looking forward, demand growth is shifting toward the full-service segment, with the Westin and JW Marriott now under construction. Development incentives provided by the City of Anaheim, along with the strong RevPAR performance of the three full-service Disney hotels, have attracted developers to construct full-service hotel properties. These hotels are expected to focus on higher-rated convention business but are also anticipated to attract loyalty guests traveling for leisure.

Demand

A clear pattern emerges when looking at the impact of the addition of major attractions on hotel demand. In the years where a major attraction opened (or a special event occurred), overall park visitation soared, resulting in demand outpacing supply in those years.

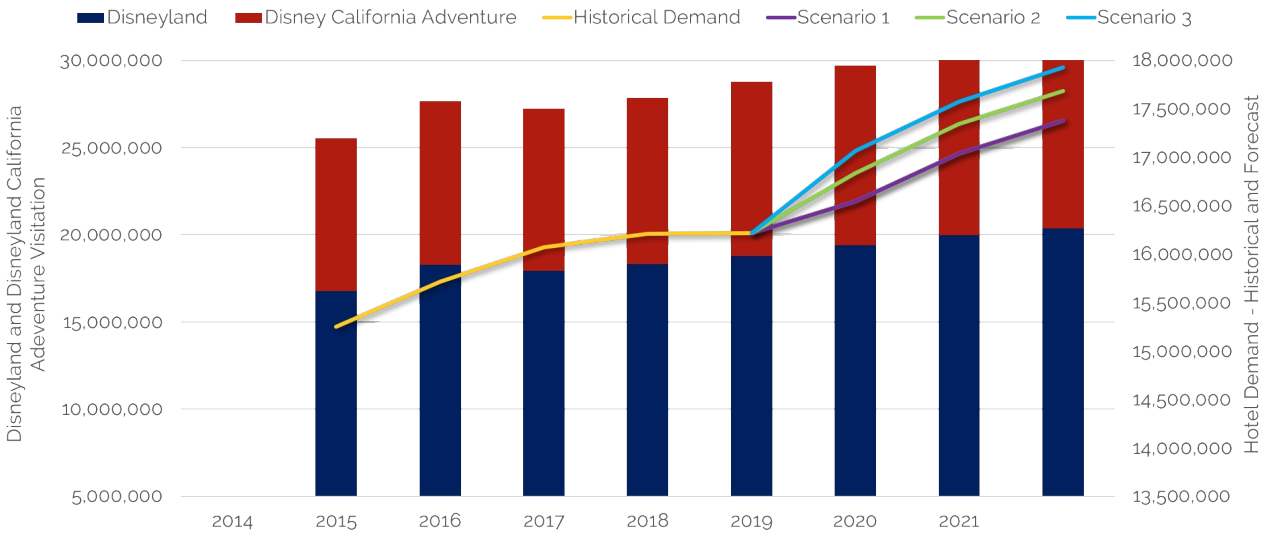


Source: AECOM Theme Park Index, STR

An important caveat to consider is that the Disneyland theme parks do not affect hotel demand in isolation. The market is replete with other demand generators that generate room nights in the market, such as the Anaheim Convention Center, Honda Center, and Anaheim Angels Stadium, not to mention several large employers. However, viewing the impact of new theme-park attractions on the overall base of demand does provide us with some context for assessing the future.

The Future

In March 2019, Disneyland announced that the Stars Wars: Galaxy's Edge attraction would open on May 31, 2019, and hotel managers reported an immediate surge in bookings for this summer and beyond. Based on the historical trend outlined in the previous chart, the following three scenarios estimate future hotel demand for the Anaheim market, with new supply taken into consideration.



Source: HVS Forecast

Whether we consider a conservative impact based on the average demand growth over the last five years (Scenario 1), presume demand growth to be similar to the largest single-year increase over the past five years (Scenario 2), or assume that Star Wars: Galaxy's Edge will attract an entirely new customer base and cause an unprecedented boom in hotel demand (Scenario 3), the picture is clear. The force of the new Star Wars attraction will have a lasting impact on the Anaheim lodging market.

HVS continues to regularly consult in California, with a Consulting & Valuation offices in Los Angeles and San Francisco. Luigi Major and the HVS California team are ready to assist you on any consulting needs you may have. Eric Guerrero with HVS Brokerage can also discuss any California-area assets you may be considering selling in 2019.