

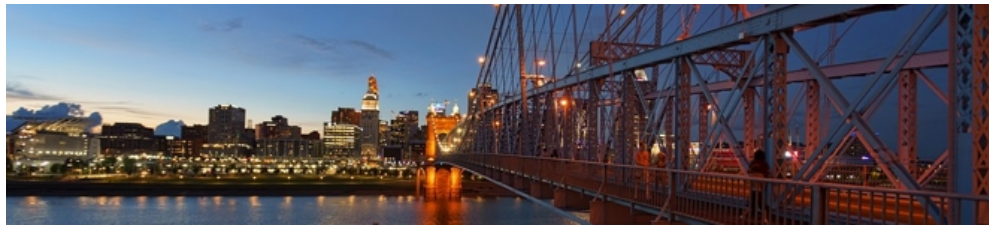
HVS Market Pulse: Cincinnati, OH

October 17, 2018 / By Brian Arevalo



Market Overview

The Greater Cincinnati metropolitan area encompasses a three-state region, including parts of Indiana and Kentucky. Top firms in Cincinnati represent key industries, such as aerospace, automotive, biotechnology, brand design, creative services, chemistry, financial services, IT services, and consumer goods. Together, these sectors have helped fortify the city's economic position, allowing the city to be somewhat buffered from the major fluctuations that other cities experienced during the recession. The city has been successful at not only retaining area businesses, but also attracting new companies. The area's low cost of living, aggressive development incentives, and excellent accessibility via multiple transportation routes have brought national recognition to the MSA. Furthermore, the greater Cincinnati area ranks in the top ten for the number of Fortune 500 and Fortune 1000 companies per million residents, which is a positive reflection of the region's strong economy and high quality of living. The strength of these companies combined with targeted redevelopments downtown caused a wave of hotel development within the CBD in recent years. Since 2014, five hotels have opened within the CBD, and nine more are in early development stages. Despite the supply increases, occupancy in the CBD has remained relatively stable, while average rates have increased year-over-year since 2010.



Major Developments

The City of Cincinnati and Hamilton County have invested in the revitalization of the Martin Luther King Drive corridor near the Interstate 71 interchange. Known as the Uptown Innovation Corridor, the area is expected to create more than 7,000 new jobs over the next 20 years through ongoing development projects. One key project in the Innovation Corridor is the \$110-million laboratory for the National Institute for Occupational Health and Safety (NIOSH). Announced in 2017, the project is expected to be completed by 2021. In 2017, Cincinnati City Council approved plans for a \$650-million expansion of the Children's Hospital Medical Center; the new tower is expected to be completed by 2021. Other developments include The Uptown Gateway mixed-use complex, which will include a 200-room hotel, office space, and upscale retail space; The University of Cincinnati Innovation Center, a \$21-million, 100,000-square-foot facility; and UC Health's \$60-million UC Neuroscience Institute. The significant investment in this corridor has attracted several hotel developments to the interchange. In addition to the Uptown Gateway hotel previously noted, hotels are planned for two other sites at the intersection of Martin Luther King Drive and Reading Road. MLK Investors, a partnership between Kulkarni Properties and Neyer Properties, is developing a mixed-use project that will include office space, retail outlets, parking, and a hotel. On the southwest corner of the intersection, Winegardner & Hammons plans to build a 162-room Residence Inn by Marriott.

Summary

Hotel performance in the Queen City is experiencing record highs, leading to strong interest in hotel development. In this article, we examine what is driving demand growth and how the lodging market will react to an expected supply surge.

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Another major plan that has captured many headlines is the ongoing development project of a purpose-built, professional soccer stadium for Fussball Club Cincinnati (FCC). FCC, which played its inaugural season in 2016, competes in the United Soccer League (USL). Since forming, the team has set records for single-game attendance, season attendance, playoff-game attendance, and season-ticket sales within the USL. In May 2018, FCC was selected to join Major League Soccer (MLS), the highest level of soccer competition in the nation. While the new stadium will not be ready until 2021, FCC will begin competition in MLS in the 2019 season. The \$250-million stadium will become the new home for the team, which currently plays at the University of Cincinnati Nippert Stadium. After lengthy negotiations, the team announced plans to build the stadium in Cincinnati's West End neighborhood. Early design concepts reveal a seating capacity of between 25,500 and 26,500, which would make it one of the largest soccer-specific stadiums in the United States. It remains to be seen whether the team's move to MLS will create significant hotel demand. However, as the team won the USL regular season championship in 2018, fan interest has continued to rise, and season-ticket sales have approached 25,000 accounts for the inaugural 2019 MLS season. Overall, the outlook for hotel demand is optimistic given the prospect of a state-of-the-art soccer stadium and nationally broadcast competitions.

Leisure Sector

Leisure attractions, including sports venues, art galleries, and museums, as well as various weekend events, bring visitors to the city year-round. Paramount's Kings Island, one of the largest amusement and water parks in the Midwest, hosted approximately 3.33 million visitors in 2016. Cincinnati is also home to three riverfront professional sports venues: Great American Ball Park, home of the MLB's Cincinnati Reds; Paul Brown Stadium, home of the NFL's Cincinnati Bengals; and U.S. Bank Arena, home of the Cincinnati Cyclones ECHL hockey team. The City also invested in the \$400-million, 354,000-square-foot Horseshoe Casino that opened in March 2013. The casino was rebranded as the Jack Cincinnati Casino in 2016 following a change of ownership. The Casino, which includes multiple dining outlets and a concert venue, reported approximately 2.79 million visitors in 2016. Other major leisure attractions in Greater Cincinnati include the Cincinnati Zoo & Botanical Garden, Coney Island, Riverbend Music Center, and the Newport Aquarium.

Major events and festivals also drive hotel demand in Cincinnati, with major events such as the Cincinnati Music Festival, Oktoberfest, and the Western & Southern Open consistently selling out hotels. In 2017, Downtown Cincinnati hosted the inaugural BLINK, a four-day interactive light and art festival. The event, which included art and light exhibits cast over Downtown buildings, attracted over one million attendees, making it the most attended Downtown event in Cincinnati history. However, the participants were primarily local residents, creating minimal hotel demand.

Hotel Development

Hotel supply in the urban core of Cincinnati has grown year-over-year since 2012. Despite the staggering increases in supply, hotel occupancy levels have remained strong, while average rates have improved with the addition of higher-quality supply. Since January 2016, over 2,000 hotel rooms have been added to the Greater Cincinnati market, with nearly 1,000 of those in the urban core. Notable additions include the independent Hotel Covington, located in Downtown Covington; the Aloft Newport, located at Newport on the Levee; the AC by Marriott at the Banks, located at The Banks in Downtown Cincinnati; and the Summit, a Dolce Hotel, located in Madisonville.

In addition to the recently opened supply, nearly 2,800 hotel rooms are in development or under construction in the greater market. While some of these projects may not come to fruition, the pipeline remains robust, with the new properties well distributed between central Cincinnati and outlying submarkets. One notable project under development is the 106-room Autograph Collection Lytle Park Hotel in Downtown Cincinnati. This boutique hotel is a renovation of a historic 1909 building in Lytle Park and is expected to open in 2019. Additionally, a 153-room Kimpton Hotel is planned for a location in Downtown Cincinnati near Walnut Street and Fourth Street. While the scale of hotel development may seem significant, the market has historically absorbed supply increases quickly.

Market Outlook

Strong commercial and leisure demand has been a positive factor for hoteliers in recent years. The diversity in demand sources allows for consistent occupancy levels throughout the week. Attendance of local leisure attractions is on the rise, aided by many of these facilities extending their operating periods into late fall and winter. Furthermore, population and employment continue to grow in the region, which in turn is fueling office growth throughout several submarkets. City officials, hoteliers, and other stakeholders report an optimistic outlook for the region's lodging industry. While some market participants expressed concern about planned supply increases, the majority consensus is that ongoing investment and development projects should sustain demand growth in the long term.

About **Brian Arevalo**



Brian Arevalo, is a Director with HVS, oversees the Cincinnati consulting and valuation division. Brian earned his masters degree from The University of Texas at Austin's McCombs School of Business. Brian's prior work in hospitality includes roles in hotel operations and corporate finance. In addition to work in the Cincinnati metro area, he contributes to and helps manage engagements throughout the region, including markets such as Indianapolis, Columbus/Dayton, Cincinnati, and Louisville, among many others. Contact Brian at (817) 680-7666 or [\[email protected\]](#).