# San Diego Market Overview

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## Summary

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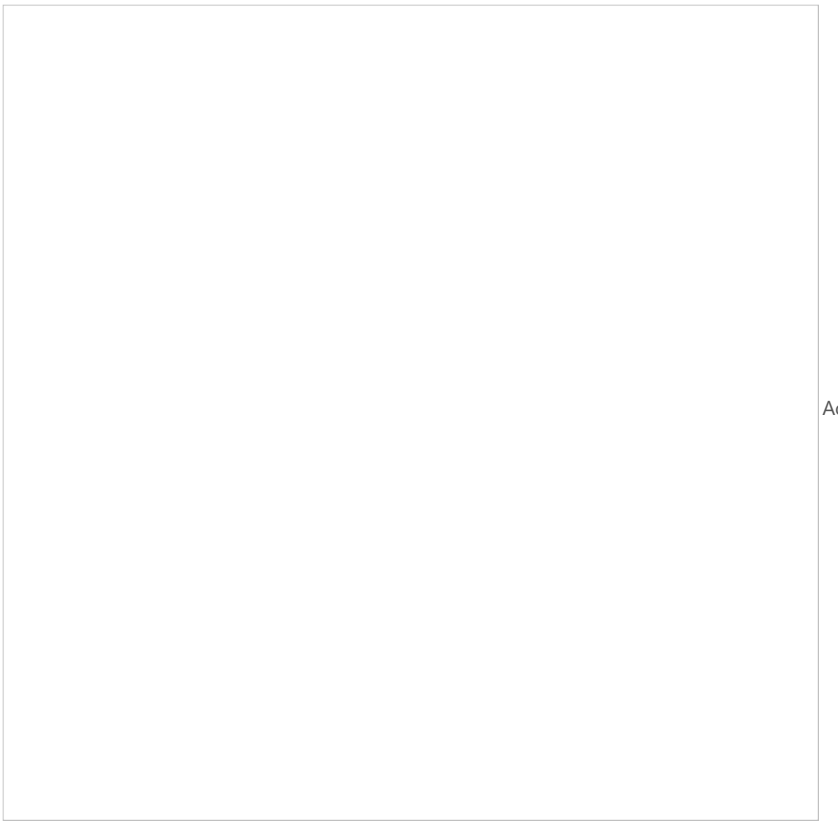
Comments

While the nation's hospitality industry limped through 2001, there were several cities across the nation that fared reasonably well in spite of the malaise caused by the national economy slowdown and the events of September 11th. San Diego, also known as America's Finest City, was one such city. With its coastal orientation, strong drive-in characteristics (70% of all overnight visitors arrive by car), and recently expanded convention center (a September 2001 opening), the city has been quick to recover from the negative events that characterized 2001. The rapid recovery of the downtown market has served as a springboard for the modest recovery expected of the broader San Diego County hotel market. Overall occupancy for full-service hotels in downtown San Diego moderated from 78.2% for year-end 2000 to 72.5% for year-end 2001, representing a decline of 7.3%. However, during this same period average rate in the market held steady, increasing by a moderate 0.1%, finishing 2001 at $153.55. Overall, the RevPAR for full-service hotels in downtown San Diego declined by 6.0% in 2001, a strong result considering the lack of hotel activity reported in the months of September and October.



According to the San Diego Convention and Visitor's Bureau, 2001 delegate attendance was up 16.6% to 286,550 attendees, 2001 delegate expenditures were up 16.9% to $296 million, and 2001 delegate room nights were up 6.8% to 535,788. These results point to the continued positive impact that the expanded convention center will have on the city's downtown hotel market going forward. In fact, in its first full-year of operation (2002), the expanded convention center is currently on-pace to produce approximately 727,000 delegate room nights representing a 63% increase over 2001 results. While the convention market remains an integral component of San Diego's continued success, leisure travel also plays a critical role. Total visitors to the county decreased by 14.8 million visitors in 2001, a 2.7% drop from 2000 figures. As a result, visitor spending in 2001 was off by 2.1% and

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attendance at area attractions (Sea World, Birch Aquarium, LegoLand, etc.) was down 8.7% relative to 2000 results. While these results are not surprising given the reduction of leisure travel throughout the country following the events of September 11th, they have impacted the local economy by nearly $100 million. On the supply side, a general lack of available financing for hotel projects have slowed a potentially robust hotel development pipeline in downtown San Diego. The proposed development of a new ballpark for the San Diego Padres and the convention center expansion have served as the primary catalysts behind the planning for approximately 14 downtown hotel projects, comprising 4,500 new hotel rooms, over the next several years. However, proposed new supply has not been limited to the downtown areas. An additional 10 to 12 proposed hotel projects, comprising more than 3,000 rooms, are also in various stages of planning or development in other areas of the county, including Mission Bay, La Jolla, Del Mar, Mission Valley, and Rancho Bernardo. While these additions to supply would likely have a short-term negative impact on marketwide operating results for San Diego hotels, given the anticipated growth in demand expected from the expanded convention center and a rebounding national economy, it is likely that the broader market would quickly absorb this new supply. It remains to be seen whether all of these projects will come to fruition. Projects currently under construction include a 750-unit expansion of the Hyatt Regency, a 512-unit Omni Hotel, a 261-unit W Hotel, and a 180-unit Staybridge Suites. Downtown's largest potential hotel project, the proposed 1,200-unit convention headquarter hotel, which is to be constructed on the former Campbell Shipyard's site (on the water next to the convention center expansion), is still in the planning stages after several attempts at development. Through the first quarter of 2002, the downtown market's occupancy has shown moderate softness, while average rate has also been weaker compared to the same period in 2001. Specifically, marketwide occupancy has declined to 77.3% through April 2002, down 1.4 percentage points from 78.7% through April 2001. Average rates for the downtown market have declined by roundly 4.3% through the first quarter of 2002, equating to $158.97 in 2002, compared to $166.06 for the same period in 2001. Looking forward to year-end 2002, overall results for the downtown hotel market are expected to show improvement over 2001, particularly in light of the strength expected for the year-over-year comparisons for the months of September and October. With the expansion of the convention center, growth in delegate room nights is expected to achieve growth in the low double-digits over the next several years. Coupled with flat to modest improvement in the leisure travel sector, overall demand in the downtown area should allow marketwide occupancy to achieve modest gains to the low- to mid- 70% range in 2002. Average rate in the downtown market should remain relatively flat in 2002, with increases in both indices expected in 2003.