

Portland Development Commission

Portland, OR

May 2006

PKF
Consulting

I. Engagement Goals

- Evaluate the market potential for a headquarters hotel to be located across the street from the Oregon Convention Center
- Recommend an appropriate facilities program for such a hotel
- Estimate attainable occupancy and average daily rate (ADR) for the subject hotel over its first 10 years of operation
- Estimate hotel financial operating performance to the point of cash flow available for debt service and returns to equity for the first 10 years of operation
- Estimate the impact of the subject hotel on the occupancy and ADR of competitive Portland hotels

II. Engagement Scope

- Review of various economic and demographic data – per the City of Portland, Economy.com and other sources
- Review of the development proposal submitted by Ashforth Pacific and Garfield Traub Development
- Review of various prior studies regarding the subject lodging market
- Meetings with:
 - Portland Oregon Visitors Association
 - Portland Development Commission
 - Oregon Convention Center
 - Garfield Traub
 - Ashforth Pacific
- Teleconferences with Starwood Hotels & Resorts
- Teleconferences with selected office/retail contacts
- Tour of the Downtown and Lloyd District areas
- Site inspection and evaluation

- Tour of the Oregon Convention Center
- Review of selected real estate and transportation materials related to Portland
- Interviews with various local real estate brokers and developers
- Collection of relevant hotel market data – per Smith Travel Research and various other sources
- Interviews of representatives of selected area hotels regarding their property and market performance parameters
- Evaluation of the hotel facilities program as proposed and recommendations of appropriate facilities
- Projections of future competitive market supply & demand
- Estimates of occupancy & ADR for the proposed hotel
- Estimates of potential impact of the proposed hotel on competitive supply

Note: Research and analysis completed March 2006.

III. Area Overview

- The rank of the Portland economy among 387 MSA's per Economy.com:
 - Employment growth 2nd quintile (2004 – 2009)
 - Vitality 1st quintile
 - Cost of doing business 86% (US= 100%)
 - Cost of living 99% (US = 100%)
- The expected annual growth of key indicators over the period 2004 – 2009 per Economy.com:
 - Gross metro product 3.4%
 - Total employment 1.8%
 - Personal income 4.9%
 - Population 1.5%
- The Portland economy is growing, though the pace of expansion is expected to slow somewhat as the area's labor market reaches full employment. Improved terms of trade and business investment will drive near-term growth. Over the extended horizon, Portland is expected to sustain above average rates of growth due to a continued influx of population.

- Key local employers include Intel Corporation, Providence Health Systems, Oregon Health Sciences University, The Kroger Company, Nike, Adidas International, and local and county government.
- Total passenger activity at Portland International Airport grew at 4.3% annually from 2002 – 2005, and is expected to exceed 14 million total passengers in 2006. As of 2004 it was the 33rd largest airport in the US.
- According to The CoStar Office Report – Year-End 2005, the CBD market contains approximately 32% of Portland's 64 million sf of total office space. The CBD achieved the 5th lowest vacancy rate and the 3rd highest quoted rental rate among nine area market sectors.
- The CBD market contains 271 buildings with approximately 20.4 million sf of rentable space. It achieved a 12.8% vacancy rate and a \$18.38 per sf quoted rental rate for year-end 2005.
- The Lloyd Center District contains approximately 4% of Portland's total office space. This does not include public-owned single-tenant buildings. It achieved the 3rd lowest vacancy rate and 5th highest quoted rental rate (roundly \$1.80 below the CBD).

- The Lloyd Center District contains 83 buildings with approximately 2.6 million sf of rentable space. It achieved a 10.1% vacancy rate and \$16.57 per sf quoted rental rate at year-end 2005.
- Portland is the center for Oregon business, conventions, retail, medical services, arts and entertainment.

IV. Site Evaluation

- The Portland Center City hotel market consists of the CBD sector and the Lloyd Center District sector, separated by the Willamette River.
- The subject site is located in the Lloyd Center District, the geographic center of Portland, approximately 2 miles northeast of the core of the CBD (Pioneer Square).
- The subject site for the proposed hotel is located across from the OCC - bordered by NE Martin Luther King Jr. Boulevard, NE Holladay Street, NE Grand Avenue and NE Oregon Street.
- The site is slightly elevated and slopes downward north to south and east to west.
- The site is currently improved with the 97-room Inn at the Convention Center, which will be demolished to construct the subject property.
- Auto and light rail access to Portland International Airport is direct and of short duration.
- Auto access to/from the site to the CBD is via a series of bridges across the Willamette River or Interstate Highways - both of which can be problematic during peak traffic times.
- Light rail access to/from the site is available via Holladay Street in front of the OCC. Light rail availability can be problematic during peak traffic times.

- The building's height should provide good visibility for the hotel. The hotel will also feature excellent views of Downtown Portland and surrounding areas.
- The site is very well located to service demand from and provide access to the OCC, Rose Garden Arena and Memorial Coliseum.
- The site is not as well located as CBD hotels to service demand from Individual Business Travelers (IBT) and Leisure segments generated in the CBD.
- A significant portion of nearby development consists of under-utilized land with rather dated commercial, retail and restaurant (fast food) uses.
- The proposed hotel is expected to act as a catalyst to spur redevelopment and/or new urban development in the immediate area.
- On balance, the subject site is suitable for the intended use.

V. Historic Hotel Market Analysis

- The Portland Central City lodging market contains approximately 5,700 hotel rooms in 31 hotels located in the CBD and the Lloyd District.
- In 2005, these properties achieved a composite occupancy of 73% at a \$108 ADR.
- The relevant competition consists of 8 primary competitive properties containing 2,980 rooms and 13 secondary competitive properties containing 2,022 rooms. Together the primary and secondary set total 5,002 rooms.
- Of this total, 12 properties containing 3,672 rooms (73%) are chain-affiliated hotels and 9 properties containing 1,330 rooms (27%) are independent/boutique hotels.
- 16 properties containing 3,743 rooms (75%) are located in the CBD and five properties containing 1,259 rooms (25%) are located in the Lloyd District.

Competitive Set

Primary Set (Rooms)

Courtyard by Marriott	202
Westin	205
Marriott City Center	249
Embassy Suites	276
The Benson Hotel	287
DoubleTree Lloyd Center	476
Marriott Waterfront	503
Hilton	<u>782</u>
	2,980

Secondary Set (Rooms)

Independent / Boutique Hotels

Riverplace Hotel	84
Avalon Hotel	99
Governor Hotel	100
Hotel Vintage Plaza	107
Hotel Lucia	128
The Heathman	150
The Paramount Hotel	154
Fifth Avenue Suites	<u>221</u>
	1,043

Chain Affiliated Hotels

Four Points Downtown	140
Residence Inn Lloyd Center	168
Red Lion	174
Holiday Inn	239
Residence Inn Downtown	<u>258</u>
	979
	<hr/>
	2,022

- The degree of competition offered by the identified hotels varies by property, market segment, season and day of week.
- The Primary Set varies in type and size of property, but all are upscale in quality and all but one are national brands, with relatively larger room counts and more extensive meeting facilities. Most of these properties rely on more group/convention demand than properties in the Secondary Set.
- The Secondary Set represents a diverse group of indirect competitors. The independent/boutique properties in this group are smaller in room count and meeting facilities and are typically oriented toward the transient customer (IBT & Leisure) at higher price points than those of the Primary Set. The chain-affiliated properties in the Secondary Set consist of both group/convention and extended-stay oriented hotels with price points significantly below those of the Primary Set.
- Other central city supply not included in the Primary or Secondary Sets include:

<ul style="list-style-type: none"> – Motel 6 – Thriftlodge – Days Inn – Shilo Inn Rose Garden – Econo Lodge 	<ul style="list-style-type: none"> - Travelodge Hotel - Rodeway Inn - La Quinta Convention Center - La Quinta Inn & Suites - Holiday Inn Express
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Collectively these 10 properties total 730 rooms and achieved a composite occupancy of 59% at a \$65 ADR in 2005. The Inn at the Convention Center is not included in other supply as it will be demolished to develop the subject hotel.

Historic Competitive Market Performance

Primary Competitive Set

Year	Available Rooms*	Market Occupancy*	Occupied Rooms*	Market ADR*	Market RevPAR*
2001	968,300	67%	647,800	\$112	\$75
2002	1,028,200	66%	678,600	\$108	\$71
2003	1,087,700	65%	705,900	\$108	\$70
2004	1,087,700	69%	747,200	\$107	\$74
2005	1,087,700	74%	803,800	\$113	\$84

* Rounded

Source: Smith Travel Research

Historic Competitive Market Performance

Secondary Competitive Set

Year	Available Rooms*	Market Occupancy*	Occupied Rooms*	Market ADR*	Market RevPAR*
2001	684,000	60%	410,500	\$110	\$66
2002	738,000	62%	460,600	\$103	\$64
2003	738,000	64%	475,300	\$102	\$66
2004	738,000	70%	515,100	\$104	\$73
2005	738,000	75%	555,800	\$113	\$85

* Rounded

Source: Smith Travel Research

Historic Competitive Market Performance

Total Competitive Set

Year	Available Rooms*	Market Occupancy*	Occupied Rooms*	Market ADR*	Market RevPAR*
2001	1,652,400	64%	1,058,300	\$111	\$71
2002	1,766,200	64%	1,139,200	\$106	\$68
2003	1,825,700	65%	1,181,200	\$105	\$68
2004	1,825,700	69%	1,262,300	\$106	\$73
2005	1,825,700	74%	1,359,600	\$113	\$84

* Rounded

Source: Smith Travel Research

- Over the period 2001-2005:
 - Though stable since 2003, available rooms grew at 2.5% per year (primary @ 2.9% / secondary @ 1.9%).
 - Occupied rooms grew at 6.5% per year (primary @ 5.5% / secondary @ 7.9%).
 - ADR grew at 0.4% per year. Both primary and secondary markets experienced significant rate growth in 2005 (\$6 and \$9, respectively).
 - RevPAR increased at 4.3% per year (primary @ 2.9% / secondary @ 6.5%). Almost 85% of the RevPAR growth occurred in 2005.
 - Average annual occupancy was 67% (primary 68% / secondary 66%).
- Competitive market segmentation in 2005:

Individual Business Travelers	45% (Primary 42% / Secondary 50%)
Group / Convention	30% (Primary 41% / Secondary 15%)
Leisure	25% (Primary 17% / Secondary 35%)
- Seasonality of demand (2005):
 - The highest occupancy months were June – October (85%)
 - The lowest occupancy months were December and January (55%)
- Daily variation in demand (2005):
 - Peak occupancy days were Tuesday – Thursday(81%) and Saturday (77%)
 - The lowest occupancy day was Sunday (54%)

Historic OCC Convention Demand

Year	Number of Conventions	Tracked Roomnights
2001	31	106,249
2002	29	113,604
2003	40	139,527
2004	39	104,097
2005	36	118,076
Average	35	116,311

Notes (1) Source: POVA (2) Includes conventions and trade shows that generate significant out-of-town visitation (3) Peak of 2003 represents opening of expanded OCC (4) Tracked OCC roomnights represent approximately 50% of total group business in which POVA is involved

Factors Impacting Future Growth OCC Convention Business

- Growing convention market competition – new hotels / new and expanded convention centers / additional attractions
- Committable convention room block – small block size / large number of hotels / distant hotel locations / limited by high occupancy patterns during prime periods
- Transportation to Portland – cost / logistics / time
- Logistics v. Downtown – hotels / f&b / entertainment
- OCC pricing / rental policies
- Surrounding neighborhood development – quality/quantity
- Amount of available POVA marketing / incentive funds
- Relatively high OCC utilization during prime periods
- Already high penetration of state and regional markets

VI. Facility Recommendations

- 600 rooms
- 41,000 sf function space:
 - Ballroom of 20,000 sf, divisible into 5-6 rooms
 - Jr. Ballroom of 8,000 sf, divisible into 4-5 rooms
 - Two meeting rooms of 3,000 sf, divisible into 2 rooms
 - Two meeting rooms of 2,000 sf, divisible into 2 rooms
 - Four breakout rooms of 500 sf
 - Two boardrooms
 - Extensive pre-function space with windows where possible
- Three-meal restaurant seating 175 (outdoor patio seating / private dining room)
- Upscale sports bar seating 150 (leased space)
- Lobby bar seating 60 - 75
- Coffee express seating 25
- 24-hour roomservice
- Fitness center
- Indoor pool and whirlpool
- Business center
- Gift shop
- 10,000 sf of leased retail / food & beverage space
- Parking to include 350-400 spaces – provided at the hotel / OCC / local parking lots

Why 600 Rooms?

- Consistent with PKF experience and feedback from meeting planners as to what meets the definition of a true HQ Hotel
- Provides the 500-room minimum HQ Hotel room block requirement sought by most targeted meeting planners
- Allows for a 1,000-room block at three hotels within four blocks of the OCC
- Allows POVA and Westin to more effectively market to larger groups (1,500 – 2,000 peak night rooms v. 1,000 – 1,500 peak night rooms)
- Allows Westin to market the hotel within its Starwood Convention Collection
- Even at 600-rooms, would be among the smallest headquarters hotels v. competitive convention markets
- Consistent with sizing recommended by SAG, POVA, OCC, GTA and Westin

Why 41,000 sf of Function Space?

- Desirable complement for a 600 room HQ Hotel (At 68 sf per room, parameter is actually lower than the 81 sf per room offered by the 5 largest competitive Portland hotels)
- Needed to support in-house group business
- Would support occasional shortages of OCC breakout rooms
- Avoids challenges that would accompany partial dependence on OCC space:
 - Group logistics (distance / catering / coordination / control)
 - Group appeal
 - Space availability
 - Less freedom for OCC to book spaces for high profit non-convention uses
 - Administration and control of complicated booking agreement
- Maximizes headquarters hotel revenue and profit potential (rooms, food & beverage, other)
- Consistent with sizing recommended by SAG, GTA and Westin

VII. Estimated Future Competitive Market

- Key Assumptions:
 - No major terrorism events/wars impacting travel to Portland
 - No major economic recessions
 - Continued general economic improvement/growth of Portland
 - Development and absorption of new commercial office space at a strong pace in the CBD and Lloyd Center District
 - Continued growth of POVA marketing efforts and expenditures
 - Total supply additions of 1,220 rooms (24%). Primary supply additions of a 332-room Luxury Collection Hotel opening 9/08 and the subject 600-room hotel opening 1/10. Secondary supply additions of a 168-room boutique hotel at 12th and Washington opening 8/08 and an as yet unnamed 120-room boutique hotel opening 1/12
 - Significant new residential and retail development in the Lloyd Center District

Estimated Future Competitive Supply and Demand 2005 - 2013

Year	Available Rooms*	Occupied Rooms*	Market Occupancy*
2005	1,825,700	1,359,600	74%
2006	1,825,700	1,340,100	73%
2007	1,825,700	1,365,000	75%
2008	1,891,900	1,398,000	74%
2009	2,008,200	1,414,700	70%
2010	2,227,200	1,497,800	67%
2011	2,227,200	1,537,700	69%
2012	2,271,000	1,573,700	69%
2013	2,271,000	1,599,500	70%

* Rounded

Future Supply and Demand Observations

- Total roomnight demand is expected to be down in 2006, owing to a fall-off in OCC demand.
- OCC demand is expected to return to the levels of 2005 by 2008.
- Certain constraints on demand growth in 2006 through mid-2008 owing to flat supply.
- Portland competitive market demand is estimated to grow at 2.1% per year over the 2005 – 2013 period.
- The average annual increase in occupied roomnights is 14,000 over the 2005 – 2009 period and 46,000 over the 2009 – 2013 period.
- Approximately 55% of demand growth is expected to be in the Group/Convention segment, with 104,400 roomnights owing directly to the addition of the subject HQ Hotel.

Future Supply and Demand Observations

- Supply is estimated to grow at 2.8% per year over the 2005 – 2013 period.
- The average Portland competitive market occupancy is expected to be approximately 71% over the 2006 – 2013 period (73% over the 2005 – 2009 period / 69% over the 2010 – 2013 period).
- The Portland competitive market ADR is expected to grow at rates averaging 3% – 4% per year over the 2005 – 2013 period.

VIII. Estimated Operating Performance Proposed Westin Hotel

- Competitive positioning:
 - Strong brand
 - Designation as OCC Headquarters Hotel
 - Extensive facilities
 - New / high quality facilities
 - Experienced management
 - Effective marketing (POVA, Property, Westin Convention Sales)
 - Competitive pricing, consistent with product and market
- Relative advantage in Group/Convention segment due to location v. OCC, facilities and designation as headquarters hotel
- Relative disadvantage in IBT and Leisure segments v. CBD hotels due to location, size and market mix
- Property market segmentation expected to be as follows:

Group / Convention	75%
Individual Business Travelers	15%
Leisure	10%

Estimated Operating Parameters Proposed Westin Hotel

Year	Occupancy	ADR*	RevPAR
2010	56%	\$141	\$79
2011	62%	\$146	\$91
2012	66%	\$150	\$99
2013	68%	\$155	\$105
2014	68%	\$159	\$108

* Assumes 4% average annual inflation from 2005 – 2009 and 3% thereafter

IX. Headquarters Hotel Impact

- The impetus for 61,200 roomnights of new OCC convention demand and 43,200 roomnights of new in-house group demand.
- Its development prevents an erosion of current OCC convention volume beginning as early as 2009/2010 – a loss that otherwise could total an estimated 25,000 roomnights annually by 2013.
- The average annual occupancy of competitive hotels is approximately the same with the subject headquarters hotel v. without it (varying from -1.1 point in 2010 to +0.8 point in 2013).
- Competitive hotel ADR is likely to be equal to or greater than that achieved without it.
- Enhances Portland's image, exposure and traveler volume – potentially leading to enhanced new business relocation to the area.
- POVA and State marketing funds are increased.
- Provides a catalyst for new area real estate development.
- Provides significant economic impact re. jobs, taxes and income.

X. Other Supportive Measures

- Encourage renovations of Lloyd District hotels through various incentives
- Increase POVA marketing funds for direct selling and image enhancement
- Increase funds to help underwrite OCC charges and local transportation
- Provide additional incentives to spur Lloyd District commercial development

XI. Financial Projections – Proposed Westin Hotel (000's)

	2010	2011	2012	2013	2014
Revenues					
Rooms	\$17,292	\$19,824	\$21,681	\$23,083	\$23,678
Food & Beverage	10,503	11,816	12,856	13,595	14,002
Telecommunications	586	668	732	777	801
Parking	1,168	1,317	1,434	1,517	1,562
Other Income	622	700	765	818	842
Total Revenues	30,171	34,325	37,468	39,790	40,885
Total Departmental Expenses	15,188	16,461	17,517	18,331	18,881
Departmental Profit	14,983	17,864	19,951	21,459	22,004
Undistributed Expenses					
Administrative & General	2,332	2,457	2,567	2,664	2,742
Marketing	2,429	2,609	2,757	2,879	2,962
Property Maintenance	1,796	1,890	1,988	2,091	2,197
Utility Costs	1,290	1,328	1,368	1,409	1,451
Total	7,847	8,284	8,680	9,043	9,352
Gross Operating Profit	\$7,136	\$9,580	\$11,271	\$12,416	\$12,652

Financial Projections – Proposed Westin Hotel (000's)

	2010	2011	2012	2013	2014
Base Management Fee	905	1,030	1,124	1,194	1,227
Fixed Expenses					
Property Taxes	711	968	1,119	1,253	1,290
Insurance	287	295	304	313	323
Total Fixed Expenses	998	1,263	1,423	1,566	1,613
Gross Operating Income	5,233	7,287	8,724	9,656	9,812
FF&E Reserve	603	1,030	1,499	1,592	1,635
Net Operating Income	\$4,630	\$6,257	\$7,225	\$8,064	\$8,177

Financial Projections – Proposed Westin Hotel (000's)

	2015	2016	2017	2018	2019
Revenues					
Rooms	\$24,423	\$25,167	\$25,912	\$26,657	\$27,550
Food & Beverage	14,422	14,855	15,301	15,760	16,233
Telecommunications	825	849	875	901	928
Parking	1,609	1,657	1,707	1,758	1,811
Other Income	867	893	920	948	976
Total Revenues	42,146	43,421	44,715	46,024	47,498
Total Departmental Expenses	19,447	20,032	20,632	21,250	21,889
Departmental Profit	22,699	23,389	24,083	24,774	25,609
Undistributed Expenses					
Administrative & General	2,825	2,910	2,997	3,087	3,181
Marketing	3,052	3,144	3,238	3,334	3,437
Property Maintenance	2,263	2,331	2,401	2,473	2,547
Utility Costs	1,495	1,540	1,586	1,634	1,683
Total	9,635	9,925	10,222	10,528	10,848
Gross Operating Profit	\$13,064	\$13,464	\$13,861	\$14,246	\$14,761

Financial Projections – Proposed Westin Hotel (000's)

	2015	2016	2017	2018	2019
Base Management Fee	1,264	1,303	1,341	1,381	1,425
Fixed Expenses					
Property Taxes	1,329	1,369	1,410	1,452	1,496
Insurance	332	342	352	363	374
Total Fixed Expenses	1,661	1,711	1,762	1,815	1,870
Gross Operating Income	10,139	10,450	10,758	11,050	11,486
FF&E Reserve	1,686	1,737	1,789	1,841	1,900
Net Operating Income	\$8,453	\$8,713	\$8,969	\$9,209	\$9,566