

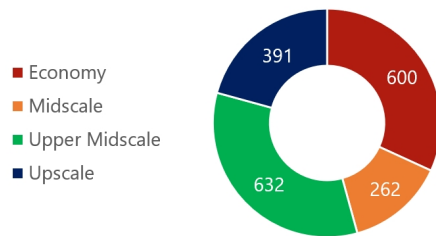
HVS Market Pulse: Kalispell and Whitefish, Montana

January 22, 2020 / By Lauren M. Reynolds

Kalispell

Due to Kalispell’s proximity to Glacier National Park, the region’s local economy is largely tied to tourism and is highly seasonal. Kalispell is home to 22 open and operating hotels, encompassing 1,885 guestrooms. Of those 22 hotels, four of them (totaling 348 guestrooms) have opened in the last six years, accounting for an 18% increase in hotel rooms in less than a decade. These new properties include a SpringHill Suites by Marriott, Country Inn & Suites by Radisson, and MyPlace, which opened in 2016, 2018, and 2019, respectively. The property types in this market range from economy to upscale, as outlined in the table below.

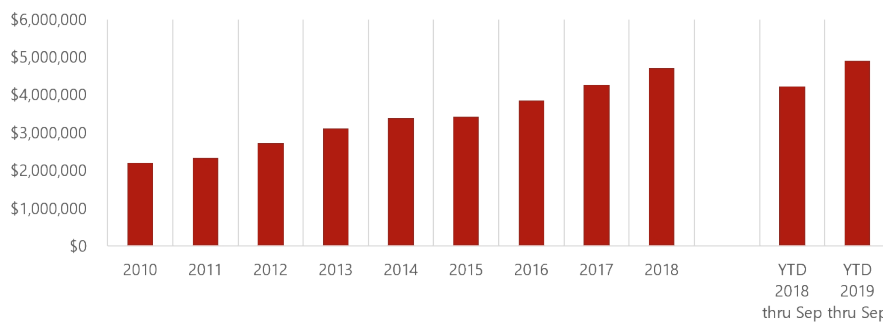
Kalispell Existing Room Supply



Source: STR

Overall gross lodging tax revenue for Flathead County has increased year over year since 2010, according to the Montana Office of Tourism and Business Development website. Of the previous ten years, the year-to-date 2019 period has registered the second-highest overall increase, which could be attributed to increasing room rates throughout the market, additional guestrooms in the market due to new supply, and no fires in Glacier National Park in 2019, further fueling tourism.

Flathead Lodging Tax Revenue



Source: Montana Department of Commerce

The park realized high levels of visitation in 2016 and 2017, concurrent with the National Park Service (NPS) Centennial in 2016, of which the NPS celebrated with increased marketing and programs throughout the year. This was followed by a decline in 2018 given the closures associated with the Howe Ridge Fire. Year-to-date 2019 data through November illustrate a 3% increase in visitation; according to the NPS.

Summary

Kalispell and Whitefish act as gateways to Glacier National Park and have benefited from recent tourism growth and developments throughout the region. These two cities, as well as the national park, are the largest drivers of economic growth for Flathead County.

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Glacier National Park

Following the creation of Glacier National Park in 1910, Kalispell quickly became known as a gateway city for curious tourists wanting to explore the new park. Many notable developments have since occurred, with the construction of U.S. Highway 93 in 2017 through Kalispell being among some of the most impactful. The highway was completed in 2017 and, since then, the surrounding neighborhood has undergone significant commercial and residential development.

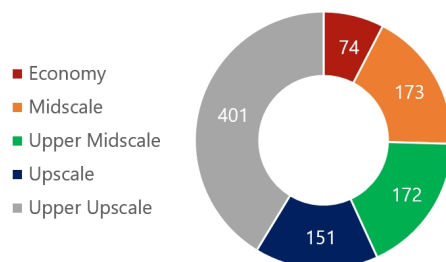
The most recent large project to break ground was the Glacier Rail Park. The Glacier Rail Park measures approximately 40 acres and is part of a larger project, the Kalispell Core & Rail Redevelopment Project. After being awarded the Transportation Investment Generating Economic Recovery (TIGER) grant in 2015, infrastructure for the Glacier Rail Park broke ground in 2017 and was completed in the fall of 2018.

CHS Mountain West Co-op relocated to the rail park in October 2018 from its downtown building, and Northwest Drywall initiated its move at the end of 2019. CHS's previous building was purchased by Bridgewater LLC, and plans include redeveloping the vacant structure into a multi-use office building. Additionally, Northern Plastics Inc. announced in December 2019 that the company plans to relocate to the rail park, which will fill the remaining space in the industrial park. The company will build a new, 40,000-square-foot facility in the park by the fall of 2020. In the next three to five years to follow, the company will reportedly expand to a total of 90,000 square feet. Moreover, the existing rails will be removed and relocated to allow for the construction of a multi-use trail that will extend from Glacier National Park to South Flathead Lake. The removal of the railroad tracks is expected to begin in the spring of 2020, and the public trail is anticipated to drive redevelopment and revitalization in Downtown Kalispell. Although no new hotels are planned for development in Kalispell in the near term, the completion of this project is expected to spur leisure demand throughout the region and benefit local lodging facilities.

Whitefish

Closer to Glacier National Park and home to Whitefish Mountain Resort, Whitefish is home to 16 open and operating hotels, encompassing 971 guestrooms. Of those 16 hotels, three of them (totaling 243 guestrooms) have opened in the last four years, accounting for a 25% increase in hotel rooms. The property types range from economy to upper-upscale hotels, as outlined in the table below. The most well-known property in the region is the Lodge at Whitefish, which is also the largest in the city.

Whitefish Existing Supply



Source: STR

Early on, Whitefish's economy was driven by the railroad and logging. In the 1940s, the Big Mountain Ski Resort (known now as the Whitefish Mountain Resort) opened, and tourism became another economic driver. The Flathead County economy, of which Whitefish is a part, also includes the nearby towns of Kalispell and Columbia Falls. Whitefish is tied to Kalispell via its proximity to Glacier National Park and its heavy reliance on tourism; however, there are significant differences between the two cities. Unlike Kalispell, where the majority of the largest employers in the region are located, Whitefish continues to be a resort-oriented market that directly benefits from an additional source of leisure demand during the winter, generated by the Whitefish Mountain Resort. Recent commercial developments in Whitefish are mostly in the hospitality sector. An 81-room TownePlace Suites by Marriott opened in the summer of 2018, and the 76-room Hampton Inn & Suites by Hilton and the 86-room Firebrand Hotel opened in 2016. According to tourism representatives, the City is working to increase visitation during the off-peak seasons of spring and fall so that tourism-related businesses are able to stay open year-round.

Flathead Valley

While Whitefish is expected to remain the leisure hub for the county, with Kalispell remaining the commercial and retail hub of the county, both cities are important to the Flathead Valley economy. Kalispell is expected to realize continued commercial and residential development in the near term, as will the lesser talked about Columbia Falls area, while Whitefish will continue to focus on increasing tourism during the off-peak months. With this growth, lodging demand will remain an important economical component. Since 2016, the number of available room nights for these two cities has increased roughly 24%. According to market interviews, this increase has negatively affected year-to-date 2019 occupancy levels, as the most recent addition of new supply in 2018 and 2019 continues to be absorbed by the market. However, no new supply for Flathead County is anticipated in the near term, which should bode well for the region as local developments in Whitefish and Kalispell continue.

Flathead Valley is a second-home market, meaning that many people own two, three, and even four homes in the region; as a result, this has bolstered the growth of Airbnb rentals in Kalispell and Whitefish. The significant growth in overall vacation rentals is difficult to quantify; however, according to our market research, we understand that vacation rentals such as Airbnb are subtle competitors to local hotels whose negative impact on hotel demand can easily go unrecognized. Unlike hotels, vacation rentals in this region are not regulated, resulting in virtually limitless growth. However, people looking for a hotel experience have an extraordinary array of upscale options to choose from in both markets. Moreover, as renovations take place at select hotels, properties within this region should continue to maintain a healthy level of competitiveness.

Based on our market research, the overall outlook for this market is positive. A slowdown of new hotel supply entering the region, in addition to the completion of the multi-use trail that will reportedly extend from Glacier National Park to South Flathead Lake, should bode well for tourism throughout the region. Moreover, this region will continue to benefit from its location proximate the Glacier National Park, which was ranked #3 according to the U.S. News & World Report's article, "The 10 Best National Parks in the USA 2018-2019." Additionally, other developments and expansions throughout the greater market should foster growth going forward.