

The Recession's Effects on Seattle's Hotel Industry

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Often characterized by rainy weather, grunge rock, and coffee-infused citizens, Seattle has also traditionally boasted one of the healthiest economies in the nation. A highly-educated workforce, access to world-renowned health care, and a well-established aerospace industry are just some of the factors that contribute to the area's economic vitality.

Seattle experienced tremendous growth over the past ten years, managing to stave off the worst symptoms of past economic downturns. The current recession, however, has recently dealt the city several blows, including the largest U.S. bank failure in Washington Mutual; layoffs at Microsoft, Starbucks, Boeing, and Paccar, Inc.; and plummeting house prices. Now, like the rest of the nation, Seattle is looking for the light at the end of the tunnel.

Business in Puget Sound

The Puget Sound area, encompassing the cities of Seattle, Tacoma, Bellevue, and Everett, is headquarters to many household names. Microsoft, Expedia.com, Amazon.com, Starbucks, Nordstrom, Costco, and Weyerhaeuser are just a few of the area's strongest companies. Boeing, which was headquartered in Seattle until 2001, remains the area's largest employer, with nearly 75,000 individuals staffed in and around Seattle.

Job cuts at some of these corporations, however, signal the descent of the recession on Puget Sound. Recently announced layoffs will affect approximately 4,500 people in the greater Seattle area.¹ Washington Mutual was a cornerstone of Seattle's financial sector until the bank's September 2008 failure resulted in 3,400 jobs losses at its downtown headquarters.²

Microsoft Corporation employs more than 33,000 in the greater Seattle area. A sizable drop in PC sales and software prompted Microsoft to announce layoffs of up to 5,000 employees earlier this year, a move unprecedented in the company's 34-year history.³

Other Seattle-area industries haven't been hit as hard. Seattle's thriving Global Health organizations, which comprise the biomedical research and healthcare sectors, are an integral part of the area's economic framework, "generating \$4.1 billion [of] Washington State's \$272.3-billion annual business activity."⁴ Furthermore, this sector directly accounts for 13,785 jobs and 43,000 supporting jobs in the local workforce.⁵ The area's top hospitals and research institutions include Swedish Medical Center, University of Washington Medical Center, Virginia Mason Medical Center, and the Fred Hutchison Cancer Research Center, which employs 400 individuals and is expanding at an annual rate of 10 percent.⁶

The world's largest philanthropic organization, The Bill & Melinda Gates Foundation, is also headquartered in Seattle. The foundation's core mission is to enhance global access to health care and expand information technology and education in American classrooms.

The University of Washington is consistently ranked among the nation's top institutions of higher education.⁷ In 2008, the University of Washington's Medical Center ranked number ten in *U.S. News & World Report's* Best Hospitals list.⁸

The Port of Seattle, another vital economic driver, is the closest U.S. port to Asia and a key mover of cargo coming into the U.S. In 2008, the Port of Seattle ranked number nine in the U.S. in terms of the number of twenty-foot equivalent units (TEU) handled.⁹ A total of 19,977,215 tons of goods were handled at the Seattle Harbor in 2008, down from a peak of 21,145,797 in 2007. Activity is expected to fall further over the course of 2009.

Summary

The Emerald City, in recent years thought to be recession-proof, has lost a bit of luster in the national economic downturn.

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Seattle-area Developments

Despite the recession, \$1 billion in developments were completed in Seattle in 2008. New office, industrial, residential, biomedical, government, and other developments, representing a collective \$2.9 billion, are currently underway.¹⁰ A new headquarters for the Bill & Melinda Gates Foundation near Seattle Center is under construction at an estimated cost of \$500 million. Amazon.com will be relocating from its current Beacon Hill headquarters to a new, eleven-building campus in South Lake Union in 2010. The \$350-million Escala first-class condominium development will include 283 condominiums, a private club (Club Cielo), underground parking, and ground-floor retail space.¹¹

In July of 2009, Seattle's new mass transit Link light rail began operations along a 13.9-mile segment between the Westlake and Tukwila International Boulevard stations. The project's second stage, scheduled for completion in December of 2009, will include an expansion of this line to the Seattle Tacoma International Airport.¹²

Another highly anticipated development effort approved by the State House of Representatives and Senate in April of 2009 is the replacement of the Alaskan Way Viaduct with a deep-bored tunnel.¹³ The project's initial timeline begins in 2011 and concludes in 2015.

The Seattle-Tacoma International Airport is the regional air hub of the Pacific Northwest, serving both domestic and international carriers. Approximately \$4.2 billion in upgrades, including the aforementioned Link system, have expanded the central terminal, enhanced transportation systems, and added a third runway since early 2007. Passenger traffic grew from 2003 to 2008, but has declined significantly in 2009 compared to the same period last year, as shown in the chart below.

Seattle-Tacoma International Airport: Passenger Traffic 1999-2008

Year	Passenger Traffic	Percent Change*
1999	27,705,488	—
2000	28,408,553	2.5
2001	27,036,073	-4.8
2002	26,036,843	-3.7
2003	26,755,888	2.8
2004	28,804,554	7.7
2005	29,289,026	1.7
2006	29,996,424	2.4
2007	31,296,628	4.3
2008	32,196,528	2.9
January through May		
2008	7,159,425	—
2009	6,722,437	-6.1

*Annual average compounded percentage change from the previous year

Source: Seattle-Tacoma International Airport

Hospitality and Tourism

Seattle is home to cultural and architectural icons like Pike Place Market and the Space Needle, and the waterways, forests, and mountains that surround the area complement the cityscape with remarkable natural beauty. Tourism to the area in 2008 remained popular, even as the national economy sunk deeper into recession. Increasing national exposure through television programs and movies has elevated curiosity about Seattle's charm, and museums and other attractions continue to draw hundreds of thousands of leisure visitors to the city.

The following table outlines Seattle's most visited attractions in 2008.

Seattle Visitation Statistics: Top Ten Attractions in 2008

Venue	Attendance
1 Pike Place Market	10,000,000
2 Seattle Mariners (Safeco Field)	2,672,409

3	Space Needle	1,500,000
4	Pacific Science Center	829,287
5	Seattle Seahawks (Qwest Field)	811,164
6	Seattle Aquarium	748,326
7	Seattle SuperSonics (Key Arena)*	547,556
8	Experience Music Project & Science Fiction Museum	498,568
9	Olympic Sculpture Park	483,480
10	Seattle Art Museum	454,226

*The Seattle SuperSonics terminated their lease with the Key Arena in 2008. Following the 2007–08 season, the team relocated to Oklahoma City, and now play as the Oklahoma City Thunder.

Source: Downtown Seattle Association State of Downtown 2009

The Port of Seattle's cruise ship industry has experienced tremendous growth in recent years, surpassing Vancouver, British Columbia for the first time ever in the number of passengers taking cruises to Alaska in 2008.¹⁴ Last year, the local cruise ship industry generated \$274 million in revenue and created 2,380 jobs.¹⁵

Seattle is also a popular meeting destination for health and medical associations, given the city's strong healthcare and medical research sectors. Nevertheless, Seattle-area meeting cancellations have resulted in the loss of approximately 14,800 room-night bookings for events to have been held in 2009 and 2010. This figure, however, trails by far the losses in other markets across the nation, and the Seattle Convention and Visitors Bureau has begun a nationwide campaign to attract convention business.¹⁶

Hotels in Seattle

Like nearly all of the top U.S. metro areas, Seattle hotels have experienced occupancy, average rate, and RevPAR declines. Impacted by corporate travel restrictions and layoffs, area hotels are struggling to maintain occupancy despite heavy discounting trends. The addition of new supply within the city center has cut into market-wide penetration levels. Other factors, such as meeting cancellations and less discretionary spending on the part of leisure travelers, have also hurt downtown hotels. Although hoteliers are implementing aggressive sales and marketing efforts, business levels remain low. Seattle hoteliers look forward to the summer months, when the high season is driven by cruise activity, tourism, and the multitude of summertime festivities.

The following table outlines the newest additions and planned hotels for the Seattle market.

Seattle Hotels: Newly Open or Under Construction

Property	Number of Rooms	Development Stage	Opening Date
Hyatt @ Olive 8	346	Open	Jan-09
Doubletree Arctic Club Hotel Seattle	120	Open	Jul-08
Hyatt Place	158	Under Construction	Feb-10
Four Seasons	147	Open	Nov-08
Courtyard by Marriott	250	Under Construction	May-10

Conclusion

Seattle's diverse economy and business mix has historically shielded the city from economic fallout. A perfect storm of unprecedented layoffs, a major bank failure, and declining profits of major corporations in the area has, however, caused some turbulence for the local lodging market. The hospitality industry depends on the stability of the greater economy, and Seattle area hotels may be forced to continue the heavy discounting trends seen in so many hotel markets across the U.S. In addition, new supply could keep penetration levels at bay in the near term. Nevertheless, the city's strong marketing efforts, major infrastructure projects, and tourist allure should secure stronger demand levels and stabilize average rates as the economy improves.

¹ http://www.seattlepi.com/business/397851_boeing29.html

² <http://seattletimes.nwsourc.com/cgi-bin/PrintStory.pl?>

³ <http://www.nytimes.com/2009/01/23/technology/companies/23soft.html>

⁴ Downtown Seattle State of Seattle Economic Report 2009

⁵ Ibid

⁶ Ibid

⁷ <http://colleges.usnews.rankingsandreviews.com/college/national-top-public>

⁸ <http://health.usnews.com/articles/health/best-hospitals/2008/07/10/best-hospitals-honor-roll.html>

⁹ Port of Seattle

¹⁰ Downtown Seattle Association State of Downtown Economic Forum

¹¹ <http://www.downtownseattle.com/content/businesses/Development.cfm>

¹² <http://www.soundtransit.org/x1171.xml>

¹³ http://seattletimes.nwsourc.com/html/politics/2009113638_viaduct24m.html

¹⁴ <http://209.85.173.132/search?>

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¹⁵ Downtown Seattle State of Seattle Economic Report 2009

¹⁶ <http://seattle.bizjournals.com/seattle/stories/2009/03/30/tidbits1.html>

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Kasia Russell, MAI is a Managing Director and Senior Partner with the HVS Portland office. HVS leaders now live in and work from more than 30 markets throughout the North American region, including San Diego, LA, San Francisco, Portland, Seattle, Vancouver, Las Vegas, and Phoenix in the west. Kasia has front-line hotel experience with Extended Stay America and Best Western and also worked for the Hotel Bellwether in Bellingham, Washington, and the Skagit Valley Resort in Bow, Washington. She holds the MAI designation and is a state-certified appraiser in Oregon and surrounding states.

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