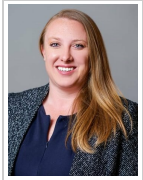


HVS Market Intelligence Report: Oklahoma City, Oklahoma

February 4, 2013 / By McKenna Luke, MAI



Long one of the economic and cultural wellsprings of America’s heartland, Oklahoma City has noted some strong accomplishments of late. *Forbes* recognized Oklahoma City as the “Most Recession-Proof City” in early 2008, just before the worst effects of the recent recession had taken hold. The prediction seems to have proven true: In November of 2012, the “On Numbers Economic Index,” a monthly measure of the economic health of all 102 metropolitan areas with populations above 500,000, ranked Oklahoma City number one in the nation for the fourth consecutive month. Federal, state, and local government; military bases; energy; aviation and aerospace; higher education; bioscience; high technology; agriculture; and manufacturing across Greater Oklahoma City’s ten surrounding counties form a diverse, fertile foundation for economic activity and hotel demand. The city is also becoming a bigger player on the convention, tourism, and hospitality fronts, priming the area’s hotel industry for growth in the coming years.

Commercial Drivers and Hotel Demand Generators in Oklahoma City

Oklahoma City weathered the recent recession better than most of the nation, and recent measures aim to push the city’s economy past pre-recession levels. Agricultural commerce in Greater Oklahoma City has helped stabilize the local economy, and so has the presence of military bases and local and state government operations—the city is the state capital and county seat, and Tinker Air Force Base is Oklahoma’s largest single-site employer. The Will Rogers World Airport is less than six miles from the downtown center, and a strong office market also helps to facilitate business activity in Oklahoma City. The Federal Aviation Administration (FAA) Mike Monroney Aeronautical Center, also located in Oklahoma City, creates a large base of hotel demand, especially in the Oklahoma City West area near the airport. As a result of the strong government and military presence, employment surrounding aerospace and aviation is strong and growing, and Oklahoma City’s overall unemployment levels register well below the national average, as illustrated in the table below.

Unemployment Statistics

Year	City	MSA	State	U.S.
2007	4.6 %	4.2 %	4.1 %	4.6 %
2008	3.7	3.8	3.7	5.8
2009	6.1	6.2	6.7	9.3
2010	6.4	6.5	6.9	9.6
2011	5.7	5.7	6.2	9.0
Recent Month - September				
2011	5.8 %	5.8 %	6.2 %	9.0 %
2012	4.5	4.6	4.9	7.8

Source: U.S. Bureau of Labor Statistics

The emergence of wind energy projects and the stability of oil and gas exploration in Oklahoma have provided major sources of revenue and employment in Oklahoma City. Devon Energy opened its 50-story, \$750-million World Headquarters Tower in October of 2012ⁱ, and the \$100-million expansion and redevelopment of SandRidge Energy’s headquarters is scheduled for completion in 2014. Chesapeake Energy Corporation also continues to expand its campus in the northwest sector of the city.ⁱⁱ With infrastructure and abundant natural resources in place, Oklahoma City is well positioned for growth in alternative energy sources such as wind, solar, and compressed natural gas.

Summary

Business relocations and expansions are one sign of Oklahoma City’s economic strength since the recent recession; increasing hotel tax revenues, greater demand, and new supply demonstrate the strength of the city’s hotel sector.

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A low cost of living, affordable and stable housing market, business-friendly laws and regulations, and relatively short commutes have attracted big businesses to Oklahoma City. Boeing recently opened a new 320,000-square-foot facility and expects to expand its Oklahoma City workforce from 900 to 2100 by the end of 2013 ⁱⁱⁱ. Continental Resources, one of the nation's top fuel-prospecting and production companies, relocated its headquarters to Oklahoma City in 2012, which should help continue to drive corporate demand to downtown hotels.

The most notable driver of economic growth in Oklahoma City is the tax-funded Metropolitan Area Projects Plan (MAPS). Since 1993, MAPS efforts have included the construction and renovation of the Chesapeake Energy Arena and Cox Convention Center, the relocation of Interstate 40 to expand the downtown area, and general improvement projects throughout the city. Projects funded by the program have helped increase hotel demand in Oklahoma City, as the city improvements help to draw leisure visitors in addition to groups and conventions. The continuation of MAPS will provide for more upcoming projects; the most significant planned development is the \$250-million convention center, which is expected to open in late 2018. ^{iv}

Tourism

Leisure demand generators in Oklahoma City include the Chesapeake Energy Arena, Myriad Gardens, and the Bricktown entertainment district, which has recently undergone revitalization. The 18,000-seat arena, home to the NBA's Oklahoma City Thunder and host of major concerts and events, has drawn increased leisure demand, particularly to hotels located in Oklahoma City's Downtown. The once warehouse/industrial district redeveloped and rebranded as Bricktown has become one of the fastest-growing entertainment centers of the Southwest, with restaurants, shops, nightlife, and the Chickasaw Bricktown Ballpark drawing visitors.

Hotels

As with the city's overall economy, things have been going well for Oklahoma City hotels. As of August of 2012, Oklahoma City's hotel occupancy growth ranked second only to Oahu, Hawaii, and the industry's marked growth since the recession is even more impressive given that local occupancy levels took a relatively minor hit compared with the plunge seen in other metropolitan markets. High-quality new supply such as the Skirvin Hilton (2007), the Residence Inn by Marriott Oklahoma City Downtown/Bricktown (2007), and the Hampton Inn & Suites Oklahoma City-Bricktown (2009) bolstered the downtown lodging market and was quickly absorbed. Overall, citywide occupancy has been very strong, with occupancy hovering around the mid-60% to low-70% range over the past five years.

Average daily rate for Oklahoma City hotels began to slow in 2008 and declined until early 2010. Rate finally began to rebound in 2012, after remaining flat for most of 2010 and 2011, and the new supply was absorbed. The city registered an increase of almost 20% in hotel-motel tax collections from FY 2009–2010 to FY 2011–2012. Through the first quarter of FY 2012–2013, growth continued with an increase of 12.7% over the first quarter of the previous period. The table below shows tax revenues for Oklahoma City hotels since late 2008; the strong growth over the past two years and into the latest quarter is a good indication of how demand and rates are returning to form.

Total Oklahoma City Hotel-Motel Revenue

	Tax Income	Hotel Revenue	% Change
FY 2008-2009	\$ 10,661,289	\$ 193,842,000	-2.2 %
FY 2009-2010	10,055,168	182,821,000	-5.7
FY 2010-2011	10,943,534	198,973,000	8.8
FY 2011-2012	12,004,965	218,272,000	9.7
Recent Period - 1st Quarter			
FY 2011-2012	\$ 3,125,005	\$ 56,818,000	
FY 2012-2013	3,521,435	64,026,000	12.7 %

* Hotel Revenue numbers are calculated based on the 5.5% tax rate and are rounded to the nearest \$1,000.

Source: Oklahoma City Convention and Visitors Bureau, November 2012

Strong occupancy, rate recuperation, and increasing demand in Oklahoma City have encouraged new hotel projects throughout the metro area. The Oklahoma City West/Airport submarket has three proposed hotels in various stages of development, and the Greater Downtown market shows even greater potential for growth.

Three hotels are currently under construction in Bricktown: the Aloft, set to open in early to mid-year 2013, and the Hilton Garden Inn/Homewood Suites combination hotel, expected to open in the spring of 2014. These proposed hotels complement a handful of other projects in the works throughout the Greater Downtown area. A larger convention center hotel is anticipated to open in conjunction with the new convention center in Downtown Oklahoma City in late 2018, a substantial boon for the city's lodging industry and reputation as a destination city for meetings and groups.

Wrap-Up

Oklahoma City's endurance of the recession and its economic growth since can be counted in the number of new business relocations, expansions, and projects, many of which are set to extend over the next several years. These projects notably include new hotels, and balancing the addition of hotel supply with projected demand growth will be extremely important to the health of the market moving forward, especially with respect to maintaining occupancy and average rate increases. The new convention center hotel and associated improvements driven by the MAPS program have the potential to take the Oklahoma City hospitality industry to the next level, and new, well-advised, well-timed hotel projects should contribute to and benefit from the city's already strong, diverse economy.

ⁱ **Oklahoma City: Then, Now and Coming Soon, Oklahoma City Convention and Visitors Bureau (Greater Oklahoma City Chamber, 2012)**

ⁱⁱ **Greater Oklahoma City Chamber. (2012, November). (M. Luke, Interviewer)**

ⁱⁱⁱ **Ampel, C. (2012, June 8). Boeing opens second OKC facility; will expand to 1,200 jobs by 2014.**

Oklahoma City, Oklahoma, USA.

^{iv} **Oklahoma City: Then, Now and Coming Soon, Oklahoma City Convention and Visitors Bureau (Greater Oklahoma City Chamber, 2012)**

About McKenna Luke, MAI



McKenna Luke, MAI, co-leads the direction of HVS practices and appraisal thought leadership as a Managing Director. She has overseen and completed thousands of assignments spanning hotel appraisals, market studies, and feasibility studies for hotels, resorts, resort-residential properties, waterparks, casinos, mixed-use assets, and portfolios. Furthermore, McKenna has extensive nationwide hotel consulting and valuation experience having lived and worked throughout the Southwest, West, and Southeast. She holds numerous state-certified general appraisal licenses and is a

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