

# HVS Market Pulse: San Diego, CA

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San Diego benefits from a diverse mix of demand generated by local corporations, government entities, meeting and group business, and leisure-related activity. Compression resulting from large conventions held at the San Diego Convention Center produces a significant number of room nights in the market on an annual basis. Furthermore, the Little Italy and the Gaslamp Quarter neighborhoods are home to an array of restaurants, bars, nightclubs, and other tourist-oriented businesses that attract leisure guests and serve as amenities to convention attendees. Popular leisure attractions throughout the area continue to attract strong fly- and drive-in demand. The local economy continues to expand, with tech startups, residential development, increases in military spending, and record-high levels of visitation. One of the most up-and-coming areas of the city is its East Village neighborhood.



## Tourism

Tourism is an important factor for San Diego area hotels and the local economy. San Diego's numerous beaches and beach towns, including Mission Beach, Pacific Beach, Ocean Beach, and La Jolla, attract large numbers of visitors annually. According to the San Diego Tourism Authority, overall visitor numbers increased 2.2% in 2018, compared to 2017 data. In 2018, 35.7 million visitors passed through San Diego, with over 17.7 million staying at least one night. Visitor spending increased 6.1%, totaling over \$11.5 billion in 2018. Aside from the sun-soaked beaches, three major attractions bring families to the greater San Diego market.

- SeaWorld is a marine animal theme park featuring animal shows and a variety of rides. In the summer of 2017, SeaWorld debuted its next-generation replacement for the original "Shamu" shows, dubbed Orca Encounter. Reportedly, this boosted attendance figures in the first quarter of 2018, with SeaWorld Entertainment Inc. reporting a 15% increase from the same quarter in 2017. Revenues across all SeaWorld parks climbed 16.5% to more than \$217 million during the same period. <sup>[1]</sup>
- LEGOLAND is a theme park that focuses on Lego bricks, a popular children's toy.
- Balboa Park is a 1,200-acre, urban, horticultural and cultural resource park containing vast open spaces, natural vegetation zones and green belts, gardens, and walking paths. It contains 15,000 trees and 14 specialty gardens; nearly 100 arts, education, recreational, social, and sports organizations; 17 museums and cultural institutions; the San Diego Zoo; and Old Globe Theatre. There are also many other recreational facilities, including a golf course and several gift shops and restaurants, within the boundaries of the park. It entertains more than ten million visitors per year.

Although present year-round, the peak season for tourism in San Diego is from May to September. Leisure

### Summary

The second-largest city in California is benefiting from record occupancy levels and new ADR peaks, despite the entrance of new supply.

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demand is typically strongest during key weekends and during the summer vacation period.

## Convention Center

The San Diego Convention Center (SDCC) is the premier facility for conventions and trade shows in San Diego, hosting nationally and internationally renowned events such as San Diego Comic-Con International, the American College of Cardiology Scientific Session, the National Safety Council Expo, Cisco Live, and the Esri User Conference. Operated by the San Diego Convention Center Corporation, the venue attracts national and international associations and corporate events. The SDCC opened in 1989 and underwent an expansion that roughly doubled its size in 2001. The facility measures 2.6 million square feet, including 615,701 square feet of total exhibit space, 284,494 square feet of lobby and pre-function space, 204,114 square feet of meeting space, and 184,514 square feet of outdoor space. The remainder of the space comprises hallways, kitchens, executive offices, and other back-of-the-house facilities, as well as parking. In 2018, SDCC hosted 68 conventions, an increase of seven conventions over those in 2017. Overall attendance grew 12% to 610,848 attendees. Given the significant amount of meeting and group demand in the market, proposals to expand the center have been brought forth; however, the last two expansion attempts have not received enough support from the citizens of San Diego to secure the appropriate amount of funding. A 2018 initiative to raise San Diego's hotel tax to fund this proposed expansion failed to collect enough valid signatures to earn a spot on the November 2018 ballot. <sup>[2]</sup>

## Local Economic Climate

Apple Inc.'s announcement in December 2018 that it would add a 1,000-employee campus to San Diego's Golden Triangle Area over the next three years <sup>[3]</sup>

is a testament to the strength and attractiveness of the local economy. According to the San Diego Regional Economic Development Corporation, the region's largest employment gain in 2018 occurred within the professional and business services sector, which added 12,600 jobs. <sup>[4]</sup>

This contributed to the declining unemployment rate across San Diego County. The diversity and versatility of the local workforce are two attractive factors that attract businesses.

## Lodging Metrics

Hotel demand and occupancy has been steadily rising since 2010, resulting in peak occupancy levels over 79% in 2017 among hotels in the city of San Diego. Average rates (ADR) began rebounding in 2011, following the recovery in occupied rooms, and have increased year-over-year since then. In 2014, market-wide ADR growth reached levels not experienced since the prior demand peak of 2007; this strong performance was driven by an increase in the number of attendees at key annual conventions, such as Comic-Con International, and healthy tourism levels. Occupancy increased 2.1% in 2018, while ADR grew 3.5%, resulting of a RevPAR increase of over 5.7% from the previous year, despite the addition of 1,387 rooms in 2018 (including the 400-room InterContinental Hotel), demonstrating the market's ability to continually absorb new room supply. <sup>[5]</sup>

	Occupancy	ADR	Room Nights Available	Occupancy Growth over 2017 period	Occupancy Growth over 2017 period
<b>Greater San Diego County</b>	Approx. 79%	Approx. \$166	22+ Million	2.0%	3.7%
<b>San Diego City Properties</b>	Approx. 81%	Approx. \$173	15+ Million	2.1%	3.5%
<b>Top Employers</b>	United States Navy		38,729 Employees		
	University of California, San Diego		37,412		
	Sharp HealthCare		18,364		
	County of San Diego		18,132		
	San Diego Unified School District		13,815		

<b>Unemployment</b>	Declining, now at 3.2% (AS of OCT 2018)
<b>Conventions</b>	68 in 2018, 7 more than in 2017 Approx. 610,000 Attendees (2018), over 50,000 more than in 2017 New 400-room InterContinental Hotel opened in June 2018
<b>Airport</b>	Passenger arrivals up 9.3% in 2018; over 12 Million arrivals

Source: San Diego Tourism Authority

## New Supply

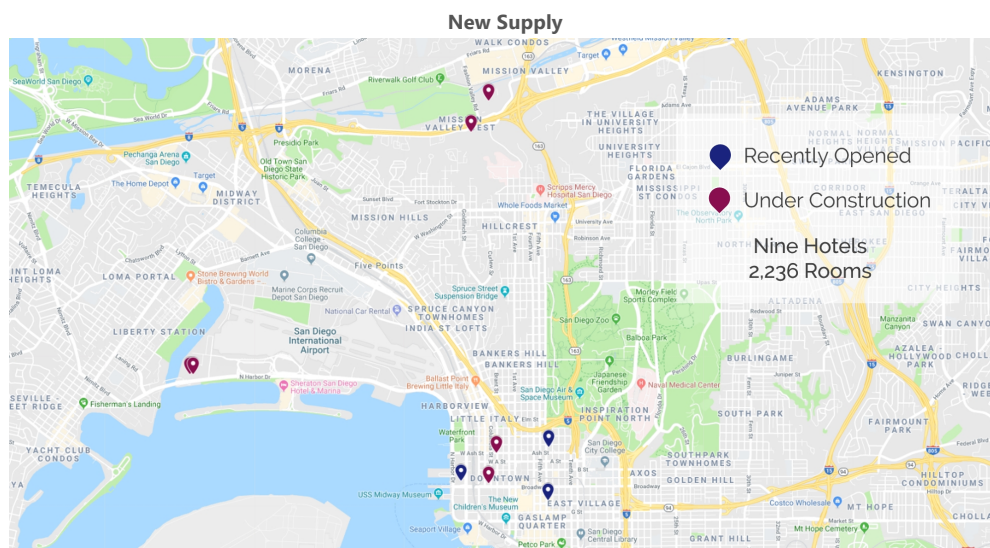
Several new hotels opened in 2018, notably the 400-room InterContinental Hotel in Downtown San Diego, across from the International Cruise Ship Terminal. A 98-room TownePlace Suites by Marriott opened Downtown in June, and California's very first Moxy opened in December to much fanfare. This Millennial-minded, 128-room hotel has plenty of playful touches including the innovate lobby "trike," where guests receive their digital room keys. The hotel's food-and-beverage program is anchored by Bar Moxy, offering items such as a signature welcome nitro-cocktail, local craft beers, and coffee from San Diego Coffee Co. Artist Paul Nandee's mural, featuring distinctive lettering and character creations constructed with cubist angles, adorns the back of the hotel and adds to the hotel's creative flair.

Bar Moxy, Moxy San Diego



Source: Marriott International

By the end of 2019, five new hotels are expected to open in San Diego, adding over 900 rooms to the market. Some of these hotels are highlighted in the map below:



In greater San Diego County, eleven hotels (totaling over 1,600 rooms) are currently under construction, according to STR, including the four above-mentioned hotels. The southern border town of Chula Vista has three hotels under construction, including a Homewood Suites by Hilton, a Hampton by Hilton, and an Ayres Hotel.

## Conclusion

San Diego is experiencing a period economic strength and expansion. The federal government and related entities will remain cornerstones of the market, while the tourism, health sciences, wireless technology, and biomedical engineering sectors should continue to expand. Given the anticipated increases in government funding of the area's military installations, the ongoing expansion throughout Downtown, a strong convention calendar, and other positive corporate news, the outlook is optimistic.

<sup>[1]</sup>Weisberg, Lori. "SeaWorld Attendance and Revenue Leap." Los Angeles Times, Los Angeles Times, 8 May 2018.

<sup>[2]</sup>"Convention Center Fund Fails to Make Nov. Ballot." 10News, ABC 10 News San Diego, 9 Aug. 2018, [www.10news.com/news/hotel-tax-to-fund-san-diego-convention-center-expansion-fails-to-make-november-ballot](https://www.10news.com/news/hotel-tax-to-fund-san-diego-convention-center-expansion-fails-to-make-november-ballot).

<sup>[3]</sup>Luke, S. (2019). Apple Eyes UTC Area for New Campus in San Diego. [online] NBC 7 San Diego. Available at: <https://www.nbcsandiego.com/news/local/Apple-to-Open-Campus-in-San-Diego-502729551.html>

<sup>[4]</sup>San Diego Economic Pulse August 2018. San Diego Regional Economic Development Corporation.

<sup>[5]</sup>"Hotel Boom Appears to Have Staying Power for 2019." NBC 7 News San Diego, 10 Jan 2019, [www.nbcsandiego.com/news/local](https://www.nbcsandiego.com/news/local).

### About **Marcus R. Lee**



Marcus leads Business Development for the HVS Asset Management & Advisory division across the United States. Based in Los Angeles, he provides clients with a full array of third-party asset management services, hotel performance analyses, and brand and operator search and selection solutions. He is also the Asset Manager for two full-service hotels, which includes oversight of a \$12-million, brand-mandated property improvement plan. In addition to his asset management expertise, Marcus has conducted feasibility and market studies, development consulting, brand and operator search and selection, and valuations, with an aggregate value of over \$10 billion. His experience spans the United States, Caribbean, and Latin America, ranging from limited-service hotels to ultra-luxury resort-residential assets. He is a state-certified general appraiser. Contact Marcus at +1 (310) 614-9945 or [\[email protected\]](#).