



Agenda Item C.1
DISCUSSION/ACTION ITEM
Meeting Date: October 21, 2008

TO: Mayor and Councilmembers
FROM: Daniel Singer, City Manager
SUBJECT: Lodging Market Analysis for Goleta

RECOMMENDATION:

Authorize the City Manager to issue a Request for Proposals for professional services to study local lodging room supply and demand as well as the capacity for local conference and convention facilities.

BACKGROUND:

During the October 7, 2008 City Council meeting, as a part of the Rincon Palms Hotel application approval, comments were raised about the unintended consequences of adding significant room inventory to Goleta's existing hotel/motel room stock. Testimony was given by the public about the concern of increasing room supply without corresponding demand, especially in light of two additional development applications (the Marriott Residence Inn and Camino Real Suites Hotel) moving through the approval process.

DISCUSSION:

In many respects Goleta has a healthy local economy, lead by a strong demand for housing, a local and regional sales tax base, and the economic advantage of being surrounded both a world-class University and an airport. Additionally, Goleta enjoys a strong transient occupancy tax (or "bed tax") base. In fact, Goleta generates the second largest bed tax receipts in the entire County, behind only the City of Santa Barbara. Of course a significant percentage of this base is the result of the successful Bacara Resort & Spa. In addition, Goleta is home to five motels (Super 8, Motel 6, Holiday Inn, Best Western, and Pacifica Suites), and one new hotel (a Hampton Inn). Together, there are almost 1,000 rooms available within the incorporated City, made up of approximately 620 motel/hotel rooms and 360 resort rooms and suites.

Unlike Santa Barbara's strong tourism focus, it is believed that Goleta's bed tax base is the result of a significant local corporate presence, University-related uses, Goleta's proximity to the airport, and spill-over from Santa Barbara during high-peak periods. The truth is, however, little study has gone into understanding who uses our local hotel and motel rooms; why guests are here and how frequently they stay and/or return. To

remain viable in this competitive industry, and as we consider adding another 350 rooms to the available local stock, Goleta may wish to study these dynamics.

Demand for rooms in Goleta is high (see attached 2008 PKF Consulting Lodging Forecast); Goleta is said to have one of the highest occupancy rates in the entire State. This past fiscal year, despite adding almost 100 new rooms, gross tax receipts for the City increased by more than 3% for all existing facilities excluding the Hampton Inn and Bacara (see attached TOT tax tables). Total bed tax receipts for all facilities increased 9.6% from prior year, whereas Countywide the increase was 3.7% (see Countywide TOT Report from County Auditor-Controller). This increase was largely the result of the Hampton Inn coming on-line, but at the same time, Bacara reduced their room capacity by approximately 20% as a result of a 3-year renovation project. Yet regionally and on a State-wide basis, occupancy rates were down approximately 3-5% compared with the previous year. It would, therefore, appear that the addition of the Hampton Inn had little effect on competing facilities in Goleta. But the question remains, at what point are more rooms too much?

Until the Hampton Inn was built the City was only home to motels and one full-service resort. As the City looks forward, consideration should be given to supporting new product types which are different, and therefore less likely to compete with existing motel facilities. From a consumer standpoint, having a variety of product types, services, amenities, and name-brands would be most preferable. Creating a greater "mix" would also help each lodging facility to remain successful since they would continue to respond to a certain consumer sector. Other than the Four Seasons Biltmore and the Fess Parker Doubletree (and now the Hampton Inn), there are no large national name brand facilities on the entire South Coast, such as a Marriott, Sheraton, Hyatt or Hilton. Similarly, there is a recognized lack of conference, meeting and banquet room space.

In conclusion, while Goleta continues to experience strong demand for hotel/motel rooms, it may behoove the City to begin looking forward as to the nature of our local overnight and visitor demand. Analyzing existing supply and demand, as well as future demand growth, may provide the City and our transient industry with useful and timely feedback. Furthermore, a study as to the viability of conference and convention room space in town might allow the City to re-examine previous assumptions about the need for such facilities (aka, the Old Town Revitalization Plan and Page property).

Taking the step to initiate a lodging room supply and demand study along with an analysis of conference and meeting room space may allow Goleta decision makers to take informed steps in future years as to how we support our visitor oriented industry so that all of our facilities stand the greatest chance of success. To do that, a Request for Proposals could be developed that would invite proposals from professional services firms to assist Goleta in the following analysis:

- An evaluation of current and projected market conditions and forecasts for room night availability within Goleta;
- An evaluation of room night occupancy in Goleta;

- The identification of Goleta's existing and proposed market mix of room and facility types;
- An analysis of the potential resources needed to satisfy future demand;
- An analysis of Goleta's current transient market (business use, leisure use, etc.)
- The capacity and economic viability for greater conference, convention and meeting space in Goleta;
- A study of the relationship to UCSB, the Airport, and the City of Santa Barbara and greater region for overnight accommodations and supply and demand.

ALTERNATIVES:

Consistent with the City's Strategic Plan, the City Council recently initiated an RFP for the establishment of an Economic Development Strategic Plan, which is currently underway. A likely outcome of that plan could be to further study Goleta's visitor base and capacity for conference space. At this time the Council could choose to defer initiation of a further hotel/motel room study and instead incorporate such study into the outcomes of the Economic Development Plan.

The Council could also choose to take no action on this item, staying away from the business of studying a private-sector, market-driven issue, with public-sector funds.

GOLETA STRATEGIC PLAN:

Although the City's Strategic Plan calls for Promoting a Healthy Business Climate, there are no objectives aimed at studying hotel/motel room capacity and demand.

FISCAL IMPACTS:

Conducting a professional analysis consistent with the scope of work outlined above will likely cost \$20,000-\$30,000. While funds have not been directly budgeted for this item, the City Council has provided funding for miscellaneous professional services and Strategic Plan projects, which could be used to support this study.

Reviewed By:

Approved By:

Michelle Greene
Administrative Services Director

Daniel Singer
City Manager

Attachments:

1. 2008 PKF Consulting Lodging Forecast
2. Annual TOT (Bed Tax) Receipt Tables
3. 2008 Countywide TOT Report from County Auditor-Controller

Attachment 1

2008 PKF Consulting Lodging Forecast

Golëta									
Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	RevPAR	Percent Change
2002	235,790	N/A	182,416	N/A	77.4%	\$ 95.24	N/A	\$73.68	N/A
2003	235,790	0.0%	176,281	-3.4%	74.8	96.65	1.5%	72.25	-1.9%
2004	235,790	0.0	179,318	1.7	76.0	101.05	4.6	76.84	6.4
2005	235,790	0.0	179,692	0.2	76.2	108.24	7.1	82.49	7.3
2006	235,790	0.0	185,942	3.5	78.9	115.40	6.6	91.00	10.3
2007 E	231,676	-1.7	180,462	-2.9	77.9	121.40	5.2	94.56	3.9
2008 F	271,560	17.2	203,922	13.0	75.1	126.25	4.0	94.81	0.3
CAAG	2.4%		1.9%			4.8%		4.3%	

Source: PKF Consulting

The City of Goleta is located west of the City of Santa Barbara and is internationally known for its great climate and beaches. Also, the Goleta Valley is the location of the principal industrial sector of Santa Barbara County and is often referred to as "Silicon Beach." High technology, including diversified electronics, telecommunications, medical device and remote sensing manufacturing industries are the primary wealth producing sectors of the local economy. Known as a research and development center, Goleta Valley is home to approximately 80 research and development firms, individually employing staffs from two to more than 1,000 persons. Other prominent economic sectors include education, tourism and retail.

The University of California at Santa Barbara (UCSB) with an approximate enrollment of 21,000 students and 800 full-time faculty members has pending plans of a development that will include the addition of 200,000 to 300,000 square feet of facilities over the next few years. Additionally, there are a number of new office and retail developments that are expected to promote growth on a city-wide and regional basis.

The market experienced a considerable increase of room night demand in 2006 of 3.5 percent over 2005, equaling a market occupancy of 78.9 percent. Even with the earlier declines, the Goleta submarket has historically not experienced a market wide occupancy below 74 percent. Average daily rate has shown continued growth despite fluctuations in the economy throughout the historical period. In 2006, average daily rate increased 6.6 percent.

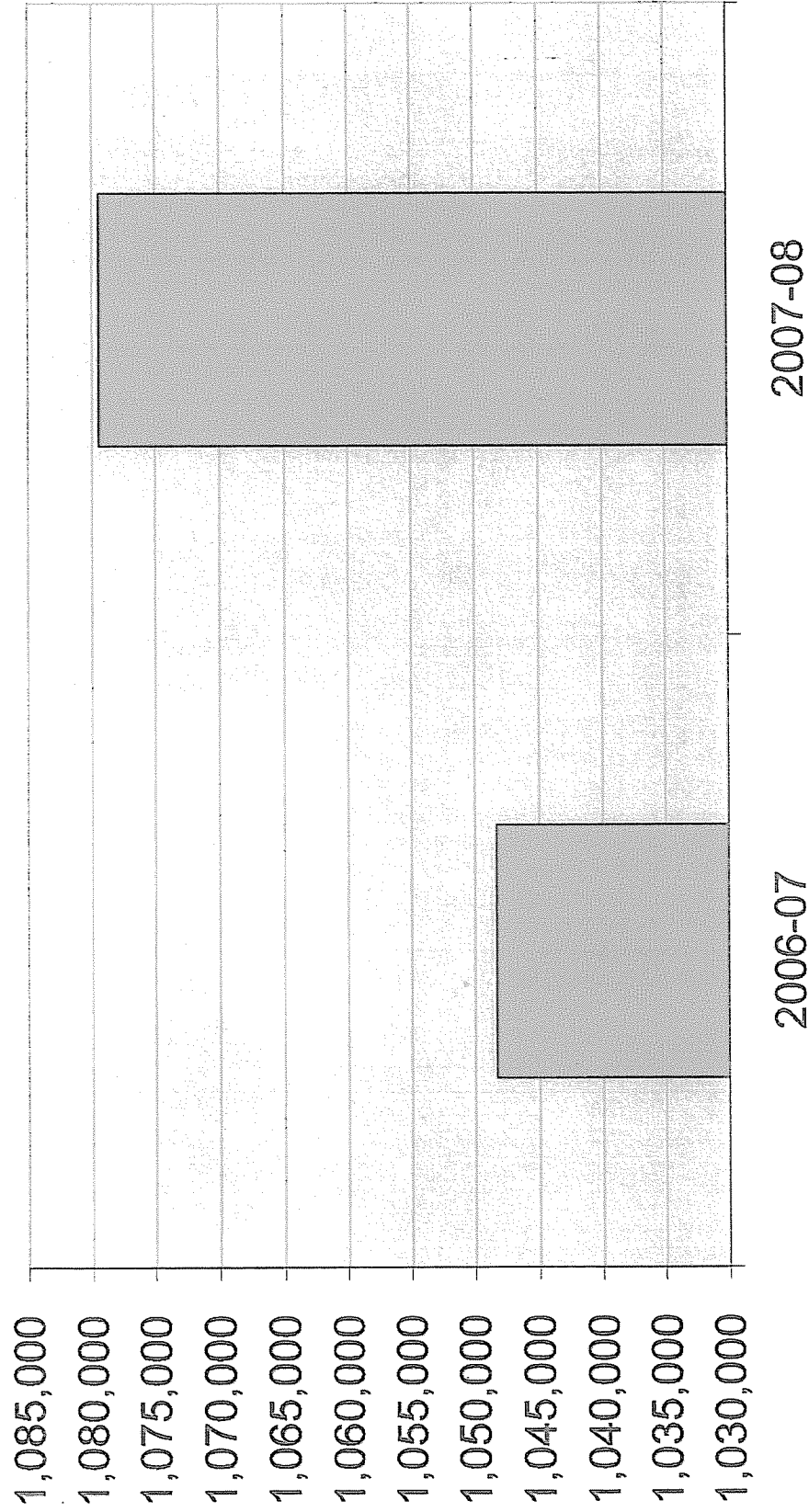
In 2007 we estimate annual supply to decrease 1.7 percent due to The Holiday Inn completing room renovations earlier this year. In addition, the 98-room Hampton Inn, which opened in August, will increase supply as a new addition in the market. Occupied rooms are estimated to decrease by 2.9 percent over 2006, translating into a market occupancy of 77.9 percent. Average daily rate growth is estimated to end 2007 at a 5.2 percent increase over 2006, equating to \$121.40 per room.

In 2008, with annualized rooms from the Hampton Inn coming online, as well as the Holiday Inn at full supply, the market supply is projected to increase significantly by 17.2 percent. In 2008, demand growth is forecasted to increase by 13.0 percent over 2007, slightly less to the increase in annual supply. We are of the opinion that market occupancy is at or near capacity in Goleta. We forecast average daily rate growth to continue to slow down and increase by 4.0 percent in 2008, to \$126.25.

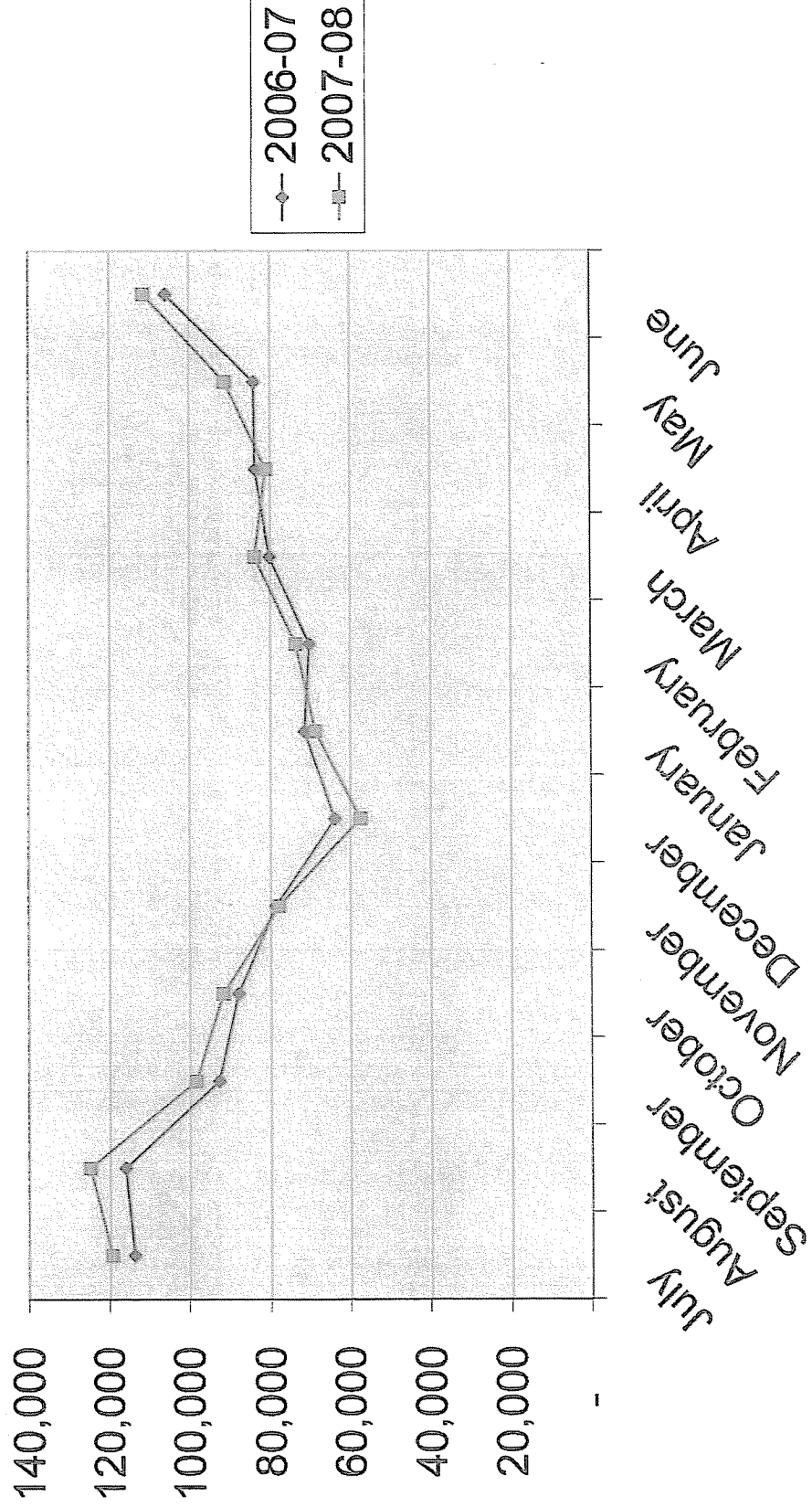
Attachment 2

Annual TOT (Bed Tax) Receipt Tables

**Goleta Annual TOT
excluding Hampton Inn & Bacara**



Goleta Monthly TOT excluding Hampton Inn & Bacara



Attachment 3

2008 Countywide TOT Report from County Auditor-Controller



County of Santa Barbara Annual Transient Occupancy Tax Report

Fiscal Year Ended June 30, 2008

Countywide Transient Occupancy Taxes

In 1963, local governments were granted the power to tax the privilege of occupying a room for a period less than 30 days in a hotel, inn or house located in their jurisdiction. The transient occupancy tax (TOT), currently 10% of the daily rent, is collected by the operator and then remitted to the jurisdiction in which the hotel is located. The City of Santa Barbara has an additional 2% TOT due to the passage of Measure B2000 effective January 2001 to fund Clean Water and Creek Restoration Programs.

Transient Occupancy Tax countywide reached \$34.5 million in fiscal year 2007-08, a 3.7% growth from 2006-07. Incorporated cities receive the largest share of TOT at \$27.3 million while the unincorporated area generated \$7.2 million.

Hotel / Motel Room Transient Occupancy Taxes by Jurisdiction

	2005-2006		2006-2007		2007-2008	
	Amount	Change from Prior Year	Amount	Change from Prior Year	Amount	Change from Prior Year
Cities:						
Santa Barbara	\$14,438,846	8.6%	\$15,229,351	5.5%	\$15,522,708	1.9%
Goleta—City Share ¹	2,603,305	14.1%	2,538,572	-2.5%	2,783,144	9.6%
Santa Maria	2,220,887	-0.8%	2,373,710	6.9%	2,396,491	1.0%
Solvang	2,198,197	19.0%	2,406,003	9.5%	2,418,395	0.5%
Carpinteria	1,243,852	5.6%	1,452,709	16.8%	1,415,000	-2.6%
Lompoc	1,227,611	0.3%	1,371,106	11.7%	1,491,662	8.8%
Buellton	1,139,710	10.3%	1,273,905	11.8%	1,290,390	1.3%
Guadalupe	—	—	—	—	—	—
Total	\$25,072,408	8.5%	\$26,645,356	6.3%	\$27,317,790	2.5%
Unincorporated Areas:						
Montecito	2,079,825	3.0%	3,252,936	56.4%	3,860,051	18.7%
Goleta –County Share ¹	1,735,537	14.1%	1,692,381	-2.5%	1,599,120	-5.5%
Goleta Valley	1,118,202	30.8%	1,115,678	-0.2%	1,148,712	3.0%
Santa Ynez	433,158	8.9%	461,697	6.6%	462,963	0.3%
North County	130,443	21.3%	84,060	-35.6%	84,106	0.1%
Total	\$5,497,165	12.2%	\$6,606,752	20.2%	\$7,154,952	8.3%
Countywide Total	\$30,569,573	9.2%	\$33,252,108	8.8%	\$34,472,742	3.7%

¹ Per the revenue neutrality agreement, TOT generated in the City of Goleta is allocated 60% to the City and 40% to the County and will be in effect until June 30, 2012.

Data Source: TOT from the cities was provided by the city's finance department and TOT for the unincorporated area was obtained through the Auditor-Controller's Office.