

Wave of new hotels planned in Seattle

Developers see demand for more hotels as rooms fill up and rates rise after a tough time during the recession.

By [Eric Pryne](#)



GREG GILBERT / THE SEATTLE TIMES

The historic, mostly empty Eitel Building at Second Avenue and Pike Street could become a boutique hotel.

It's been more than two years since a new hotel opened in or near downtown Seattle. None is under construction now, nor is any slated to break ground in the next few months.

But the long drought may not last much longer.

Business is up at downtown hotels, which had been hit hard by the recession. They're renting more rooms, and getting higher rates for them.

"We're not quite back to where we were," says Kent Angier, president of Kauri Investments of Seattle, "but the trend is definitely improving."

Developers, buoyed by those numbers, are responding by proposing more new rooms than the city has added in years.

One project under consideration envisions a 1,200-room hotel, larger than any downtown hotel but the Seattle Sheraton.

If all the projects get built, Seattle's supply of lodgings could increase by more than 15 percent.

Developer Kauri, which has built hotels before, may be first out of the gate: It plans to start construction next spring on an 8-story building with a 126-room Hyatt and 46 apartments in the shadow of the Space Needle, at Fifth Avenue North and Broad Street.

American Life and Daniels Development expect to break ground a few months later on a 23-story hotel just north of CenturyLink Field, part of the ambitious Stadium Place development they say will help revitalize Pioneer Square.

Touchstone, another developer with previous hotel experience, has applied for permits for Edison, a 14-story Hilton and an 11-story office tower in the Denny Triangle on Boren Avenue between Howell and Stewart streets.

Touchstone's A-P Hurd says the company also is dusting off plans for a 12-story hotel and apartment building near Pike Place Market, at First Avenue and Stewart, that already has key permits but has been on hold for several years.

Still more projects lurk further upstream in the development pipeline:

- City permit files reveal Stonebridge Realty Advisors, a Colorado hotel developer, is planning an 18-story tower at Fifth Avenue and Stewart Street, across from the Westin.
- Those files also show an architect representing the owner of the Kress Building, at Third Avenue and Pike Street, has approached city planners about building a hotel above the 3-story, 1920s office and retail building.
- Insurance giant Principal Financial is designing a 38-story tower at Second Avenue and Stewart, with 120 hotel rooms on the lower floors and apartments above.
- Ariel Development of Seattle has a contract to buy the historic, mostly empty Eitel Building at Second and Pike, and plans to turn it into a boutique hotel.

All these projects pale in comparison with R.C. Hedreen's still-evolving plans for the block it controls at Eighth Avenue and Stewart, longtime home of the Greyhound bus terminal.

In May, Hedreen President David Thyer was talking about a 900- or 950-room high-rise hotel. Now, according to city permit records, that's been upped to 1,200 rooms along with 600 apartments, 350,000 square feet of office space and 125,000 square feet of meeting space.

It's far from certain all these proposed hotels will be built soon, if at all.

Thyer, for instance, says the go-ahead for Hedreen's project could hinge on whether the nearby Washington State Convention Center expands.

Even then, construction probably wouldn't start for at least two years, he added.

"An up cycle now"

Historically, about half the hotel projects that are proposed get built, says Chris Burdett, a senior vice president in the Seattle office of CBRE Hotels, a brokerage and advisory firm.

But both he and Thyer agree the climate for downtown hotel development has improved markedly.

Lenders are showing more interest in hotels, Burdett says. "There was a lack of interest in taking the risk for probably 36 months. We just weren't on anybody's radar.

"That's changed. We're in an up cycle now."

Numbers help explain why. Downtown hotel occupancy hit bottom at 66 percent in 2009, according to hotel research firm Smith Travel Research of Hendersonville, Tenn.

It has bounced back strongly. So far this year, occupancy is at 76 percent, higher than before the recession.

"The rule of thumb is that when annual occupancy hits 70 percent, then developers start to get interested," says John Gordon, a senior vice president and hotel appraiser with brokerage Kidder Mathews in Bellevue.

During a downturn, hotel managers can fill rooms by cutting rates. But, after falling 14 percent between 2007 and 2010, average downtown Seattle room rates have recovered about half that loss, according to Smith.

Current rates probably still aren't high enough to justify new construction, Kauri's Angier says, but his company is betting they will continue to rise.

Hotel developers also are interested in building now because they say there's no new supply to meet increasing demand. Thyer says that Hedreen's market studies indicate "the need is going to be there."

Downtown's newest hotels — Kauri's Hyatt Place and Columbia West's Maxwell near Seattle Center, and American Life's Courtyard by Marriott in the renovated Alaska Building — opened in early 2010.

"Any time there's a gap like that, there's a perception that there's a need for additional lodging," Gordon says.

He says he's been getting more requests from developers for hotel appraisals and feasibility studies.

Most of the proposed downtown hotels are part of mixed-use projects, usually with apartments. That makes them easier to finance because it diversifies the risk, Angier says.

Touchstone's Hurd says the company's Edison project couples a hotel with an office tower in part because the two can share the same parking: Office demand for stalls is greatest during the day, while hotel demand peaks at night.

While they gear up for new construction, hotel developers say they're also mindful of not moving too fast or reaching too far.

"Yes, things are improving in the hotel market," Thyer says, "but that's like saying things are improving in the housing market.

"It's a slow grind."

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