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# NAPA VALLEY LODGING DEMAND UNCORKED: VINTAGE YEAR DRIVEN BY STRONG MARKET INTEREST

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## Napa Valley Lodging Demand Uncorked: Vintage Year Driven by Strong Market Interest

*Summary: Occupancy and average daily rates show healthy increases over last year. 2,000+ hotel rooms in the pipe would suggest oversupply, but there are development constraints that limit growth.*

### AREA DESCRIPTION

Napa Valley, a region covering approximately 150 square miles about an hour's drive north of San Francisco, California, has a long and famous history of tourism and wine production dating back to the 1840s. The valley today contains five incorporated areas (the Cities of American Canyon, Calistoga, Napa, St. Helena, and the Town of Yountville) along State Highway 29 and the Napa River which bisect the valley. Flanked by the Mayacamas and Vaca mountain ranges, with natural volcanic hot springs in the northern part of the region, Lake Berryessa to the northeast, a favorable climate, and the presence of the multi-billion dollar wine industry and related culinary attractions, Napa Valley is considered one of Northern California's major recreational and tourist destinations. The region, blanketed by world-renowned vineyards, is often referred to as the "Food and Wine Capital" of the US.

### VISITOR PROFILE

According to an analysis by Forbes, the San Francisco Bay Area currently has one of the the strongest metropolitan economies in the country, largely led by the technology and information sectors and robust local housing market.<sup>1</sup> In May 2013, the combined average unemployment rate for the San Jose-San Francisco-Oakland combined statistical area (CSA) was 6.95%. The individual county unemployment rates ranged from Marin County with the lowest at 4.5% to a high of 11.5% in San Joaquin County. In comparison, California's overall unemployment rate fell to 8.6% and the national unemployment rate increased in May to 7.6%.<sup>2</sup> As a consequence of the bouyant economy, residents and employers are beginning to increase their expenditures on travel which has encouraged more leisure visitation and the return of corporate incentive groups to Napa Valley wineries and resorts.

Napa Valley welcomed nearly three million total visitors in 2012, or an average of 13,409 per day. Two-thirds of these (or two million) were day trip visitors<sup>3</sup>. The San Jose CSA's large population base—8.2 million people spanning twelve counties—is the prime source market for Napa Valley as a drive-to destination.<sup>4</sup> 37.7% of all domestic Napa Valley visitors come from this area.<sup>5</sup> To put these figures in perspective, Napa County itself has just over 136,000 inhabitants and the largest city, Napa, clocks in with 77,000.<sup>6</sup>

Nearly 70% of Napa Valley visitors in 2012 reported that leisure (vacation or a weekend getaway) is their primary reason for visiting. And they are loyal guests – the average visitor makes 2.8 trips annually and

<sup>1</sup> <http://www.forbes.com/sites/joelkotkin/2013/05/06/americas-best-cities-for-jobs-2013/>

<sup>2</sup> State of California Employment Development Department June 21, 2013 News Release  
[http://www.edd.ca.gov/about\\_edd/pdf/urate201306.pdf](http://www.edd.ca.gov/about_edd/pdf/urate201306.pdf)

<sup>3</sup> Destination Analysts, "2012 Napa Visitor Industry Economic Impact Report and Visitor Profile,"  
[http://www.visitnapavalley.com/research\\_statistics.htm](http://www.visitnapavalley.com/research_statistics.htm).

<sup>4</sup> 2010 census data from [http://en.wikipedia.org/wiki/San\\_Francisco\\_Bay\\_Area\\_Combined\\_Statistical\\_Area](http://en.wikipedia.org/wiki/San_Francisco_Bay_Area_Combined_Statistical_Area).

<sup>5</sup> Destination Analysts, "2012 Napa Visitor Industry Economic Impact Report and Visitor Profile,"  
[http://www.visitnapavalley.com/research\\_statistics.htm](http://www.visitnapavalley.com/research_statistics.htm).

<sup>6</sup> [https://en.wikipedia.org/wiki/Napa\\_County,\\_California](https://en.wikipedia.org/wiki/Napa_County,_California)

nearly all (92%) said they were likely or very likely to return, which suggests a high degree of satisfaction with the Napa experience.<sup>7</sup>

St. Helena and Napa have the highest visitor traffic followed by Yountville and Calistoga. Nearly everyone (96.6%) travels within the area by car, whether personal or rental, and visits an average of 4 wineries per visit. Visitors are mature and affluent, with one-third over 55 years old and approximately half reporting an annual household income above \$100,000. The typical overnight guest is 52 years old, married, highly educated, and whose household earns \$195k annually.<sup>8</sup>

### Spending Behavior

Visitors to Napa Valley helped generate \$1.4 billion in direct Napa County spending in 2012. The average visitor<sup>9</sup> spent \$205.26 per day, with overnight guests spending an average of \$355.28 per day and daytrippers spending \$151.39 per day.<sup>10</sup> This shows an increase over data published in 2006 that reported an overall economic impact of \$1.3 billion with average visitors spending \$197 per day, overnight visitors spending \$233 per day, and daytrippers spending \$146 per day.<sup>11</sup>

In 2012, visitor spending on retail accounted for 35.4% of all spending, or \$494 million; food and restaurant expenditures came to \$301 million. Direct spending on group meetings, weddings, and events was \$187.7 million. An estimated 10,498 jobs are supported by visitor spending in Napa Valley; of these, 3,800 are in restaurants and 3,006 are in hotels.<sup>12</sup>

Approximately 33% of visitors (or 857,000) were persons staying overnight in Napa Valley lodging. Their average stay in the area lasted three days, and they made an average of 2 annual visits. They spent \$327 million on lodging accommodations and their total spending was \$1.03 billion.<sup>13</sup>

## DEMAND GENERATORS

Napa Valley is a major international enotourism destination and is comprised of the Napa Valley, Oakville, and Rutherford American Viticultural Areas (AVA). The region's mild Mediterranean climate, geography, and geology align to produce some of the world's top quality wines. International recognition came in 1976 when local wineries Chateau Montelena and Stag's Leap Wine Cellars won the "Judgment of Paris," raising the valley to the first rank of wine regions.

The valley is now home to over 450 wineries, many of which feature tasting rooms. Popular vineyards and wineries include BV, Beringer, Carneros Creek, Charles Krug, Frog's Leap, Mumm Napa Valley, Opus One, Robert Mondavi, Rutherford Hill, and Sutter Home. The Culinary Institute of America at Greystone and

<sup>7</sup> Destination Analysts, "2012 Napa Visitor Industry Economic Impact Report and Visitor Profile," [http://www.visitnapavalley.com/research\\_statistics.htm](http://www.visitnapavalley.com/research_statistics.htm).

<sup>8</sup> Ibid.

<sup>9</sup> "Average visitor" category for 2012 includes those visitors staying with friends and relatives, daytrip visitors, and overnight visitors. "Average visitor" for 2006 includes only daytrip and overnight visitors.

<sup>10</sup> Destination Analysts, "2012 Napa Visitor Industry Economic Impact Report and Visitor Profile," [http://www.visitnapavalley.com/research\\_statistics.htm](http://www.visitnapavalley.com/research_statistics.htm).

<sup>11</sup> "Napa County Visitor Profile Study and Economic Impact Study," Napa Valley Conference & Visitors Bureau and Purdue Tourism and Hospitality Research Center, March 2006.

<sup>12</sup> Destination Analysts, "2012 Napa Visitor Industry Economic Impact Report and Visitor Profile," [http://www.visitnapavalley.com/research\\_statistics.htm](http://www.visitnapavalley.com/research_statistics.htm).

<sup>13</sup> Ibid.

restaurants such as Ad Hoc, Auberge, Brix, Bouchon, Domaine Chandon, French Laundry, Meadowood Restaurant, Morimoto's, Tra Vigne, and Ubuntu further complement Napa's rich wine-growing tradition and are renowned for their creative use of local ingredients.

In 2012, the region's wine production had an economic impact on Napa County of \$13.3 billion. The wine industry directly and indirectly provided 46,000 full-time equivalent jobs in the county and generated \$1.3 billion annually in local, state, and federal taxes. Wine-related tourism generates approximately \$1.2 billion annually.<sup>14</sup>

Recreational activities abound in Napa Valley. The Potato Hill mountain range separates Napa Valley from Lake Berryessa in the northeastern portion of the county; the lake is regionally known for its excellent hiking, fishing, and boating. Calistoga has multiple natural mineral-water springs and mud baths. The Valley is also home to many historic landmarks and points of interest, such as Napa Valley Opera House and the First National Bank Building. Glider and hot-air balloon rides also provide popular entertainment. Several local golf courses are available for public play, such as the Silverado Resort's two 18-hole courses. Additionally, bicycle tours are growing in popularity. The Class I bicycle/pedestrian Napa Vine Trail is still in the planning stages (construction funding will be sought as early as fall 2013), but this 47-mile trail will run from the Vallejo Ferry up to Calistoga, providing an alternative to the frequent traffic congestion on Highway 29.

With postcard views, pastoral landscapes, and months of sunshine, the area is a popular destination for special events. Weddings generate significant demand, and over one in ten visitors attended a wedding or event.<sup>15</sup> Napa County does not allow social and cultural events to be held at most wineries, so weddings and events are primarily held at hotels, inns, and resorts.

Conference, incentive, and corporate group meeting attendees (3.2%) together with business (4.3%) and government (0.1%) travellers constituted a combined 7.6% of Napa Valley visitation in 2012.<sup>16</sup> Group meeting visitation is dependent on having the hotels and facilities to accommodate this source of demand, and only a handful of hotels in Napa Valley have adequate meeting space to cater to this market segment. Several hotels in the development process are expected to offer a greater complement of meeting space that will enable them to pursue group meeting business; thus, demand from this market segment is anticipated to become a larger proportion of occupied room nights in Napa Valley in the next decade. The City of Napa has 93,670 square feet of existing conference and meeting space, with another 29,450 square feet either approved or in the application and design phase. The southern portion of Napa County has only 15,800 square feet of existing meeting space, but has 58,000 square feet of meeting space approved.<sup>17</sup>

The following table illustrates the hotels in Napa Valley with the most meeting space, ranked according to meeting space square footage.

<sup>14</sup> Napa Valley Vintners, "2012 Economic Impact of Napa County's Wine and Grapes Report," <http://www.visitnapavalley.com/library.cfm?id=61>

<sup>15</sup> Destination Analysts, "2012 Napa Visitor Industry Economic Impact Report and Visitor Profile," [http://www.visitnapavalley.com/research\\_statistics.htm](http://www.visitnapavalley.com/research_statistics.htm).

<sup>16</sup> Ibid.

<sup>17</sup> City of Napa Lodging and Conference Space Inventory, [www.cityofnapa.org](http://www.cityofnapa.org), February 2013.

## TOP 5 LARGEST NAPA VALLEY HOTEL MEETING FACILITIES

Hotel	Location	Room Count	Meeting Space (SF)	Meeting Space (SF) per Room
Meritage Resort & Spa	Napa	323	50,000*	155
Villagio Inn & Spa	Yountville	112	30,000*	268
Silverado Resort & Spa	Napa County	281	22,000	78
Vintage Inn	Yountville	80	12,888	161
Marriott Napa Valley Hotel & Spa	Napa	275	11,000	40

\* Includes both indoor and outdoor meeting space.

Source: City of Napa Lodging & Conference Space Inventory, February 2013.

Demand patterns are distinctly seasonal, with high occupancy in the summer and weekends during spring through autumn. Large-scale public and cultural events are planned for the low and shoulder seasons. These include the annual Mustard Festival (January-March), Auction Napa Valley (early June), and the annual grape harvest or “crush” (September-October). BottleRock is a new multi-day music festival first held in May 2013 that brought in well over 100,000 visitors and drove up the occupancy rate for that month. Most area hotels had five-night minimums during the event, which stabilized revenues for that month. Summer and early fall should be busy with America’s Cup activity: Napa Valley Vintners and the Napa Valley are the official wine sponsors and region for that event.<sup>18</sup>

Area hoteliers and other market representatives report that tourism to Napa Valley registered a strong rebound in lodging demand and visitation beginning in 2011, continued to grow in 2012, and looks to remain vigorous for the rest of 2013.

## HOTEL ROOM SUPPLY

Napa Valley has approximately 150 hotels, inns, resorts, and bed & breakfasts totaling just under 5,300 rooms, with an average of 36 rooms per property. These figures reflect a large inventory of smaller, independently-operated hotels; only slightly more than a dozen properties have over 100 rooms.

Since 2002, room supply (either through new construction or renovation/rebranding) has shifted away from limited-service hotels towards full-service and luxury property types. Land prices and development costs are generally very high, pushing supply towards the upper/luxury tier and associated higher room rates in order to make development financially feasible. Properties built in the past decade include: Andaz Napa, 3 Palms, the Carneros Inn, Bardessono, and SpringHill Suites Napa.

## New Development

New supply has tended to concentrate in the City of Napa as a result of land use policies and varying economic development policies of the different municipalities. The City of Napa, through its Community Development Department, Economic Development Division, and former Redevelopment Agency, has pursued the development of full-service hotels and resorts as part of their business attraction and retention initiatives. Since 1996, the City has spent or budgeted over \$990 million for private and public construction projects and

<sup>18</sup> Dan Verel, “Bottle Rock Adds Fuel to Rising Napa Tourism”, *North Bay Business Journal*, June 20, 2013.

real estate transactions in the Downtown Napa area.<sup>19</sup> In contrast, St. Helena has had a moratorium on new hotel development that was just lifted in 2010.

Even though projects may receive preliminary approval, due to the high barriers to entry in the Napa Valley, new developments face substantial hurdles and often require a lengthy timeline. Available sites that are adequately sized and zoned to feasibly accommodate large hotels in the area are limited. Concern over available water supply, sewer infrastructure, environmental pressures, and increased traffic are additional constraints that can limit hotel growth. Increased traffic congestion on Highway 29 is a particular problem. At the Intersection of State Highway 29 and First Street, the average daily traffic count in 2001 was 52,000, and in 2011 (latest data available) it was 57,500.<sup>20</sup>

Land use policy is a major factor in hotel development. Napa County has had agricultural land protection policies in place since the 1960s to preserve the agricultural character and quality of the valley. The county's General Plan categorizes all land as either "Urban" or "Open Space;" Open Space lands are then subcategorized as Agricultural Resource ("AR") or Agriculture, Watershed and Open Space ("AWOS"). In 1990, Napa County voters passed an initiative which requires voter approval to change General Plan policies regarding development on and designation of AR or AWOS lands unless certain limited exceptions apply. In 2008, these policies were re-approved to be extended until 2058.<sup>21</sup>

Besides being a sensitive community issue, new development and redevelopment projects in Napa Valley may also be subject to extra infrastructure improvements, which inflate costs, further hindering project feasibility. Liquidity in the debt markets has improved markedly since 2008, and bank financing for new construction projects—large commercial developments in particular—is thawing but continues to be challenging. According to the local city officials and market experts, most of the larger projects currently in the early planning stages are not likely to break ground until around 2018/19.

The following table highlights some of the larger proposed hotel developments and their status.

#### PROPOSED HOTEL DEVELOPMENTS IN NAPA VALLEY

Proposed Property	Number of		Product Type	Development Stage
	Rooms	Estimated Opening Date		
Montalcino Resort	379	N/A	Luxury	Approved, Seeking Financing
Ritz-Carlton Napa	351	N/A	Luxury	Approved, Seeking Financing
Stanly Lane Napa Resort (St. Regis)	245	Groundbreaking Spring 2014	Luxury	Financing Secured
Hotel Veranda	162	June 2017	Boutique	Seeking Entitlements
Napa Pipe Development	150	N/A	N/A	Zoning Amendments Approved
Former Merrill's Drugstore - First St. Napa	150	N/A	N/A	Seeking Entitlements
Hampton Inn & Suites / Napa Century Center	115	Summer/Fall 2014	Full-Service	Application Pending
Enchanted Resorts Development	110	N/A	Luxury	Approved
G. Altamura Development - Soscol Ave. Napa	90	N/A	N/A	On Hold
Silver Rose Inn Redevelopment (Four Seasons)	85	January 2016	Luxury	Approved
Vineland Station Hotel	60	Groundbreaking 2013	Boutique	Approved
Grandview Hotel	57	Groundbreaking 2013	Boutique	Approved, Finalizing Financing
Napa Embassy Suites Addition	54	N/A	Full-Service	Approved
Napa River Inn Addition	26	N/A	Full-Service	Seeking State Approval
<b>Total Proposed Room Supply</b>	<b>2,134</b>			

Source: HVS

<sup>19</sup> Napa Economic Development Division, "New Public and Private Investment in Downtown Napa," [www.cityofnapa.org](http://www.cityofnapa.org), February 2013.

<sup>20</sup> California Department of Transportation, 2011, <http://traffic-counts.dot.ca.gov/2011all/Route22-33.html>.

<sup>21</sup> [http://ballotpedia.org/wiki/index.php/Napa\\_County\\_%22Save\\_Measure\\_J\\_Initiative%22,\\_Measure\\_P\\_%28\\_November\\_2008%29](http://ballotpedia.org/wiki/index.php/Napa_County_%22Save_Measure_J_Initiative%22,_Measure_P_%28_November_2008%29)

Three new hotel developments are proposed for the City of Calistoga. Located on the Silverado Trail, the Silver Rose Inn is to be demolished and redeveloped as a **Four Seasons Resort** with 85 units, including a number of lock-off guestrooms. This project has been approved by the city and public, and the hotel is estimated to open in January 2016. The proposed **Enchanted Resort**, to be located on 88 acres on Foothill Boulevard at the southeast outskirts of downtown Calistoga, was approved via public referendum in March 2013. This residential and lodging project is planned to include 110 guestroom units. The property's estimated opening date is still uncertain. The proposed **Hotel Veranda** project, on undeveloped land that was previously operated as a glider port, is seeking entitlements for a three-story, 162-room, boutique hotel located in Downtown Calistoga. This hotel is estimated to open in June 2017.

In 2010, the City of St. Helena amended their General Plan and removed a cap on new hotels and motels clearing the way for the development of two hotels. **Vineland Station** is a 8.5-acre mixed-use property with a 60-room hotel and 50-seat restaurant that was recently approved by the city. The second floor of the new buildings will have full service apartments. After working to secure financing and entitlements since 2006, Presidio Companies (developers) are expected to break ground this year on the **Grandview Hotel**. The St. Helena City Council agreed to loan the developers a portion of the hotel's tax revenue (up to \$400,000) should the project suffer from low occupancy rates (below 40%), to help the project finalize its financing.<sup>22</sup> The hotel will have 57 rooms built across several adjacent properties (including the historic Acacia House), 3,500 square feet of meeting space and spas, and a 40-seat restaurant.

A proposed resort development at Stanly Lane in south Napa has finally secured financing in May 2013 after being stalled by the recession, allowing for the creation of a luxury hotel property to move forward. SKB Hotel Group of Portland, Oregon, has joined with the Nichols Partnership to develop 93 acres of the 700-acre **Stanly Ranch**. The budget is \$275 million for the resort which will include 150 hotel rooms, meeting space, 95 villas, and a 32,500-square-foot winery. In 2010, the Napa City Council approved a five-star St. Regis resort on the property. However, while the project will remain a five-star hotel, it may not ultimately be a St. Regis. A resort brand is planned to be determined by December 2013.<sup>23</sup>

A 154-acre mixed use development on a former industrial site near the City of Napa known as **Napa Pipe** recently cleared a major production hurdle as the Napa County Board of Supervisors voted in June 2013 to approve the General Plan and zoning amendments for the project. The development was first proposed in 2007, and after a lengthy public review process, has evolved to include up to 945 housing units (of which 140 units are affordable housing), a 154,000-square-foot Costco Wholesale store, a 150-unit senior care facility, a 150-room hotel, and other community, warehouse and office space.<sup>24</sup>

In May 2012, Napa developer Todd Zapolski and partners bought the mixed-use Napa Town Center and adjacent commercial buildings on First Street.<sup>25</sup> The open-air downtown retail hub was constructed in 1987, features 156,000 square feet of retail space, and is undergoing remodelling with plans to reopen in 2014.<sup>26</sup> It

<sup>22</sup> Jesse Duarte, "St. Helena Council Offers Loan to Hotel Developers," *St. Helena Star*, May 15, 2013.

<sup>23</sup> Jennifer Huffman, "Stanly Lane Resort Gets Financing," *Napa Valley Register*, May 30, 2013.

<sup>24</sup> Peter Jensen, "Supervisors Approve Napa Pipe Project," *Napa Valley Register*, June 4, 2013.

<sup>25</sup> Eric Gneckow, "Developer Buys Napa Town Center After Council OKs Downtown Plan," *North Bay Business Journal*, May 2, 2012.

<sup>26</sup> Marsha Dorgan, "New Name, Stores for Napa Town Center," *Napa Valley Patch*, January 23, 2013.

has been renamed “**The Shops at Napa Center.**” The group plans to open a 70-150 room hotel on the site of the former Merrill’s Drugstore.<sup>27</sup>

OTO Development signed a ground lease for an undisclosed price in June 2012. The lease comes with an option to purchase the land at the southwest corner of the Napa Century Center project between the Napa River and the Silverado Trail at the south end of Napa. The 4-acre site sits adjacent to the 12-screen Century Theaters multiplex (the former Cinedome 8) and a 163,000 square foot shopping center and will be a 115-room **Hampton Inn & Suites** hotel. The property is slated to open in summer/fall 2014.<sup>28,29</sup>

## TRANSIENT OCCUPANCY TAX (TOT)

Napa County overnight visitors generated \$33 million in TOT in 2012, which represents a 65% increase from the nearly \$20 million in TOT collections in 2005<sup>30</sup>. Unlike property and sales taxes which get routed through the State of California first with a portion returned to the jurisdiction, TOT tax revenues stay local. For the City of Napa, the TOT counted for 13 percent of its revenue. In Yountville, tourists are even more important: at 61% of revenues, it is the Town’s largest general fund source. No other municipality in California is as dependant on the TOT for funds.<sup>31</sup> The increase in TOT for American Canyon was due in part to increased occupancy and ADR at the 101-room Holiday Inn Express that opened in late 2009 and the conversion of the Gaia Hotel to the Doubletree brand in late 2010.

The incorporated areas of the County have different TOT rates, as illustrated in the table below.

### TOT RATES AND ANNUAL COLLECTIONS

Jurisdiction	Tax Rate	FY2010-11	FY2011-12	YOY Increase
American Canyon	10%	\$724,200	\$929,598	28.4%
Napa	14%	\$9,835,188	\$11,439,294	16.3%
Yountville	12%	\$4,010,442	\$4,996,899	24.6%
St. Helena	12%	\$1,442,085	\$1,517,456	5.2%
Calistoga	12%	\$3,431,505	\$3,764,680	9.7%
Napa County		\$8,158,757	\$9,059,265	11.0%
<b>Total</b>		<b>\$27,602,177</b>	<b>\$31,707,192</b>	<b>14.9%</b>

Source: visitnapavalley.com

Of note, the Napa Valley Tourism Improvement District (NVTID) was created by Napa County in 2010 to promote tourism. Visit Napa Valley, the non-profit tourism marketing organization for the area, is funded by 2% of the tax rate. Only operations offering four or more rooms are subject to the extra assessment.<sup>32</sup> Visit

<sup>27</sup> Jennifer Huffman, “Top 10: New Owners Craft Vision for Downtown Shopping Hub,” *Napa Valley Register*, December 30, 2012.

<sup>28</sup> OTO Development company website, June 6, 2012, <http://otodevelopment.com/company/news/hampton-inn-suites-planned-for-south-napa/>

<sup>29</sup> Jeff Quackenbush, “Developer Acquires Land for 115-room Hotel at Theater Project,” *North Bay Business Journal*, June 4, 2012.

<sup>30</sup> “Napa County Visitor Profile Study and Economic Impact Study,” Napa Valley Conference & Visitors Bureau and Purdue Tourism and Hospitality Research Center, March 2006.

<sup>31</sup> Curtis Van Carter, “Napa Valley Financial Stability Tied to Transient Occupancy Taxes (TOT),” *Napa Valley Address*, August 8, 2012.

<sup>32</sup> [www.countyofnapa.org/ceo/tid/](http://www.countyofnapa.org/ceo/tid/)



Napa Valley's budget has increased from \$400,000 in 2009 to more than \$5 million currently for marketing efforts in each of the County's local jurisdictions.<sup>33</sup>

In March 2012, St. Helena's City Council legalized short term vacation rentals in residential areas with the issuance of up to 25 vacation rental permits. Previously illegal bed & breakfast operations totalled approximately 104 rooms.<sup>34</sup>

## HOTEL MARKET PERFORMANCE

The area's recent stellar performance in occupancy average rate has been attracting investors. For the 12 months ending in May 2013, the occupancy rate for a select set of surveyed full service Napa County hotels rose 3.7% to 75.1%, according to Smith Travel Research data. The average daily room rate (ADR) for the same period rose 5.3% to \$245 per night. Revenue per available room (RevPar) increased 9.2% to \$162. Total revenue for this time period reached \$273 million, up 12.6%.

Over the month of May, the occupancy rate increased 9.2% with ADR at \$272.22 (an increase of 10.1%), due in part to NVTID's marketing efforts leading to increased midweek occupancy and higher occupancy levels during the BottleRock music festival. Lodging revenue itself was up 19.5% to a total of \$29.2 million. Hotel RevPar increased during both the high and low season over the 2012-2013 fiscal year ending in June. Visit Napa Valley predicts 8% growth in hotel revenue for this fiscal year with 5 to 6% growth for the coming year.<sup>35 36</sup>

For 2011-2012, Yountville had the highest occupancy rate in the Valley at 71.6%.<sup>37</sup> With these rates climbing across the region overall, we'll see if they can hold on to the top spot for 2012-2013.

## RECENT TRANSACTIONS

Sales transactions in Napa Valley are few and far between, with most of the action happening in the City of Napa. Currently, **Andaz Napa** in downtown Napa is on the market for \$75 million or \$530k per room (as of April 2013).<sup>38</sup> Only six transactions have taken place since 2003:

### NAPA VALLEY HOTEL TRANSACTIONS 2003-2013

Name	Sale Date	Room Count	City	Price	Price Per Room
Quality Inn Napa Winery	May-01-2012	59	Napa	\$6,800,000	\$115,254
Marriott Napa Valley Hotel & Spa	Aug-01-2011	274	Napa	\$72,000,000	\$262,774
Inn on Randolph	Jul-01-2011	10	Napa	\$1,545,000	\$154,500
Marriott Napa Valley Hotel & Spa	May-20-2009	274	Napa	\$36,000,000	\$131,387
Hilton Garden Inn Napa	Mar-01-2007	80	Napa	\$17,000,000	\$212,500
Fairfield Inn & Suites by Marriott Napa American Canyon	Oct-01-2004	80	American Canyon	\$9,200,000	\$115,000

Source: HVS

<sup>33</sup> Dan Verel, "Bottle Rock Adds Fuel to Rising Napa Tourism", *North Bay Business Journal*, June 20, 2013.

<sup>34</sup> Jesse Duarte, "St. Helena Council Legalizes Vacation Rentals," *Napa Valley Register*, March 28, 2012.

<sup>35</sup> Dan Verel, "Bottle Rock Adds Fuel to Rising Napa Tourism", *North Bay Business Journal*, June 20, 2013.

<sup>36</sup> Jennifer Huffman, "Visitors Dropped a Bundle in Napa Valley in 2012," *Napa Valley Register*, June 21, 2013.

<sup>37</sup> Curtis Van Carter, "Napa Valley Financial Stability Tied to Transient Occupancy Taxes (TOT)," *Napa Valley Address*, August 8, 2012, <http://www.napavalleyaddress.com/napa-valley-financial-stability-tied-to-transient-occupancy-taxes-tot/>.

<sup>38</sup> Jennifer Huffman, "Andaz in Downtown Napa For Sale," *Napa Valley Register*, April 2, 2013.

One success story to highlight from these transactions is the sale of the 274-room **Marriott Napa Valley Hotel & Spa**. In May of 2009, the property sold for \$36 million, with a price per room of \$131,387. Slightly more than two years later, it was resold for double the purchase price at \$72 million with a price per room of \$262,774, which is also the highest value for an area transaction in the past 10 years. As they say, timing is everything.

## OUTLOOK

Napa Valley continues to reign as one of the strongest resort submarkets in California, driven by healthy demand and significant constraints on the development of new supply. Motivated by the stellar Bay Area economy, lodging demand is expected to continue to strengthen through the near term, attracting both investors and developers. The development of several larger resort hotels over the next five to seven years is expected to generate more group meeting and event visitation to Napa Valley, broadening the market's source of room night demand. The long approval and challenging financing process for new supply should provide for phased additions which will allow for healthy absorption of the additional room nights over time.



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