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IN FOCUS:
PALM SPRINGS HOTEL MARKET

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Located in Southern California’s Coachella Valley, Palm Springs is a desert oasis approximately 100 miles east of Los Angeles that boasts world-class golf courses, mid-century modern architecture, Native American gaming, and natural hot springs. In recent years, the area has benefitted from a lively music scene with the increased popularity of the annual Coachella Music Festival.

The City of Palm Springs became a popular resort in the early 1920s with the arrival of Hollywood film stars who flocked to the area for sunny weather and seclusion. This era also saw the establishment of glamorous luxury resorts catering to celebrities and the well-to-do. Increasing numbers of retirees have arrived over the decades, and the city has also long been a popular spring break destination. Over the years, the destination area has expanded south and west. The greater Coachella Valley now boasts several independent leisure and group resorts, including the Ritz-Carlton Rancho Mirage, Omni Las Palmas, and La Quinta Waldorf Astoria, as well as branded limited-service hotels. Today, the area is known for its boutique hotels, mid-century modern architecture, and annual festivals, including the two-week Coachella Music Festival in April.

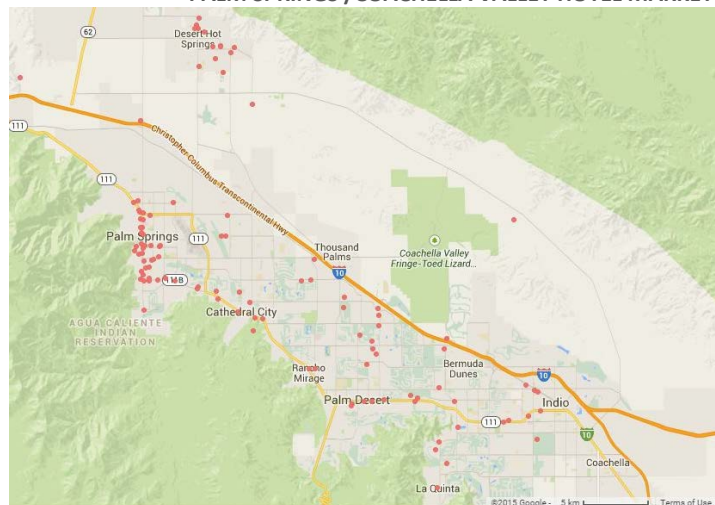


Golfing in Palm Springs

MARKET OVERVIEW

A short drive away from the greater Los Angeles and San Diego metropolitan areas (its primary feeder markets)¹, Palm Springs is a well established leisure-driven market and convenient getaway. The area is also popular among Canadians and northern U.S. residents, the “snowbirds,” who visit the city during the colder winter months because of its mild climate. The height of the tourism season is from January through April, when festivals and special events are most plentiful and when the weather is also most favorable. Travel to Palm Springs traditionally slows in the summer months; however, the city has seen a rise in summer demand in recent years with the growth of day club and music event marketing.

PALM SPRINGS / COACHELLA VALLEY HOTEL MARKET



¹ Approximately 85% of Palm Springs visitors arrive by car, 15% arrive by plane according to the “2011 Visitor Transportation Study” by TNS, DK Shifflet & Associates/Greater Palm Springs CVB.

Downtown Palm Springs

As the heart of the resort area, downtown Palm Springs is a walkable, urban center, with plentiful shopping and dining options and a variety of restaurants and retail boutiques. Downtown is also a cultural and entertainment hub, featuring theatres, museums, and the Agua Caliente Band of Cahuilla Indians Spa Casino. Downtown is also home to the Palm Springs VillageFest, a Thursday night street fair featuring arts, crafts, food, and entertainment, attracting numerous visitors. The Palm Springs Convention Center and various hotels also contribute to the vibrancy of the downtown scene. Rounding out the downtown landscape is the historic O'Donnell Golf Course situated on the northwest side, the Historic Tennis Club Neighborhood on the south end, and the majestic San Jacinto Mountains as its backdrop.



Palm Springs VillageFest

Downtown Palm Springs is currently undergoing a major rejuvenation, highlighted by the amount of development activity occurring. The redevelopment of the 300,000 ft² **Desert Fashion Plaza** situated on 13 acres of land in the downtown core represents a key project for the community. More than 85 percent of the existing mall will be demolished to create a pedestrian-friendly, mixed-use urban village. The new development will include restaurants, shopping, and an open-air event space for concerts, films, festivals, and private functions. A six-story, 155-room **Kimpton Hotel Palomar** will be located at the plaza. Additionally, a four-story, 135-room **AC by Marriott** is proposed adjacent to the Palomar.

Demand Generators

- The Coachella Valley features approximately 125 golf courses and clubs, earning it the title "Golf Capital of the World." Golf, swimming, tennis, horseback riding, and hiking in the nearby desert and mountains are popular forms of outdoor recreation.
- The Little San Bernardino Mountains, the Colorado Desert, and the Mojave Desert are the three ecosystems in the 800,000-acre Joshua Tree National Park which offers unique displays of desert flora and fauna, along with a rugged terrain preferred among rock climbers.
- The **Palm Springs Art Museum** is an art and performing arts center located in downtown Palm Springs. In March 2012, the museum opened an annex, the **Palm Springs Art Museum in Palm Desert**, that features a sculpture garden. The museum subsequently purchased the 1960's-era Santa Fe Savings Bank building which was transformed into the new **Palm Springs Art Museum Architecture and Design Center** which opened in November 2014.
- The Palm Springs Aerial Tramway is the world's largest rotating tramcar. The tram offers a ten-minute ride into the cliffs of Chino Canyon and is a famous visitor attraction just northwest of Downtown Palm Springs.
- About 20 miles northwest of Palm Springs are the **Desert Hills Premium Outlets** in Cabazon, newly expanded as of April 2014 and featuring over 180 stores featuring luxury designer brands. **El Paseo** is another premiere shopping destination, located roughly ten miles southeast of Palm Springs in the city of Palm Desert.
- The day club scene in Palm Springs has gained traction in recent years. Splash House is a new daytime pool party event (started 2013) hosted at multiple venues featuring electronic dance music that attracts upwards of 2,000 attendees in June and August. Various other hotels, such as the Hard Rock and Riviera, have been hosting an

increasing number of pool party events; furthermore, the Hacienda Cantina & Beach Club, an independent restaurant and pool venue, opened Summer 2014.

- Film and production companies from Los Angeles also form an important demand generator given the area’s long relationship with Hollywood. Production crews profit from no permit fees and other discounts in Palm Springs. Notable movies shot in Palm Springs include *About Fifty* (2011), *Alpha Dog* (2006), *Mission: Impossible III* (2006), *Ocean’s Eleven* (2001), *The Player* (1992), *Diamonds Are Forever* (1971), *Sahara* (1943), and *Lost Horizon* (1937).
- The renewable and wind energy sector is another important business driver and employer in Coachella Valley, with major wind farm installations located in the San Geronio Wind Park north of Palm Springs. Activity related to the maintenance, development, and harvesting of energy from over 2,700 windmills is a major economic factor for the city.

Festivals & Events

Large annual festivals and events abound in Palms Springs and the surrounding Coachella Valley:

- Palm Springs International Film Festival (PSIFF) attracts 135,000 people every January.
- Modernism Week in February showcases mid-century modern design, architecture, art, fashion, and culture.
- The BNP Paribas Open tennis championship (also known as the Indian Wells Masters) is held each March at the Indian Wells Tennis Garden, drawing upwards of 30,000 spectators daily during its 13-day run. A \$77-million renovation and expansion of the Indian Wells Tennis Garden was completed In March 2014. The stadium court is the second largest tennis-specific stadium in the world.
- The White Party welcomes over 30,000 attendees every April; according to the event website, it is the largest gay dance festival in the world.
- Club Skirts Dinah Shore Weekend in April is the largest music festival in the world catering to the lesbian community and attracts over 10,000 international attendees.
- Coachella Valley Music and Arts Festival (known simply as “Coachella”) is an annual two-weekend music and arts festival held in Indio each April. In 2014, the festival attracted 90,000 to 100,000 attendees per day.
- Stagecoach Festival is a three-day outdoor country music festival in April that attracts roughly 55,000 attendees per day.

Airlift

The Palm Springs market has historically been limited to drive-in traffic and has been constrained by airlift at Palm Springs International Airport (PNP). However, passenger traffic has increased at PSP in every year since 2010. In 2012, the airport registered a major 14.3% increase attributed to increased service by major air carriers in response to stronger economic conditions and a rise in demand. Virgin America introduced new service to/from San Francisco and New York's John F. Kennedy International Airport in late 2011. Strong passenger levels continued though 2014, attributed to increased demand and new routes added.

PALM SPRINGS INTERNATIONAL AIRPORT STATISTICS

Year	Passenger Traffic	Percent Change*
2005	1,419,087	—
2006	1,529,005	7.7 %
2007	1,610,943	5.4
2008	1,542,925	(4.2)
2009	1,465,751	(5.0)
2010	1,495,167	2.0
2011	1,511,150	1.1
2012	1,727,122	14.3
2013	1,752,180	1.5
2014	1,914,402	9.3

Source: Palm Springs International Airport

*Annual average compounded percentage change from the previous year

Convention Center

The Palm Springs Convention Center has 261,000 ft² of net-rentable space, which includes 120,000 ft² of divisible exhibit space, 21 breakout rooms, and an 18,000 ft² lobby with panoramic mountain views. Notable events that take place at the convention center include the International Film Festival Gala, Club Skirts Dinah Shore, and the White Party.

In 2014, the Palm Springs Convention Center roughly matched the number of events held in 2013, but significantly surpassed the number of hotel room nights consumed, by 26.6%, resulting in approximately 65,000 room nights, just shy of its historical peak set in 2006.

PALM SPRINGS CONVENTION CENTER STATISTICS

Year	Number of Conventions	Change	Attendance	% Change	Room Nights	% Change
2005	94	—	89,011	—	46,201	—
2006	132	40.4 %	146,469	64.6 %	66,053	43.0 %
2007	117	(11.4)	111,966	(23.6)	60,217	(8.8)
2008	134	14.5	125,444	12.0	48,597	(19.3)
2009	112	(16.4)	91,988	(26.7)	46,701	(3.9)
2010	82	(26.8)	102,270	11.2	39,281	(15.9)
2011	101	23.2	129,350	26.5	56,920	44.9
2012	91	(9.9)	146,264	13.1	53,743	(5.6)
2013	100	9.9	120,578	(17.6)	52,129	(3.0)
2014	102	2.0	130,460	8.2	65,994	26.6

Source: Palm Springs Convention Center

TRANSIENT OCCUPANCY TAX (TOT)

Current Transient Occupancy Tax (TOT) rates for the City of Palm Springs are 13.5% for group meeting hotels and 11.5% for all other hotels. Other cities in the Coachella Valley have differing rates: Rancho Mirage (10%), Palm Desert (9%), and Desert Hot Springs (12%). Palm Spring's top revenue source is TOT, accounting for roughly 20% of its total revenues for fiscal year 2014. In each of the past five years, Palm Spring's TOT revenues have increased; TOT collections are 71.6% higher in 2014 (\$21.9 million) than at their low point in 2009 (\$12.8 million). According to the City, TOT collections for the month of November 2014 were up 13.9% over the same month last year. The City attributes the positive increases in TOT revenues to the addition of new hotel supply and a successful international and domestic marketing strategy.²

HOTEL AND RESORT SUPPLY

The Coachella Valley has approximately 120 hotels and motels with nearly 15,000 rooms. Built between 1926 and 2008, the best known Valley properties are large scale resorts associated with golf courses. Palm Springs contains more hotels than any other Valley city, with approximately 5,300 rooms in 55 lodging properties.

With the improvement in the region's economy and demographic shifts, the area has seen a resurgence of interest in hotel development. Over 2,000 rooms are planned for the region.

² <http://www.palmspringsca.gov/index.aspx?page=387>

NEW HOTEL DEVELOPMENT IN COACHELLA VALLEY

Proposed Property	Product Type	City	Rooms	Est. Open Date	Developer	Development Stage
Arrive Palm Springs	B	Palm Springs	32	2015	Palm Grove Group LLC	Under Construction
Infusion Beach and Hotel Palm Springs	B	Palm Springs	124	2015	1875 N. Palm Canyon Gateway Partners, LP	Early Development
Kimpton Hotel Palomar Palm Springs	B	Palm Springs	155	2016	Wessman Development	Under Construction
Port Lawrence Hotel Palm Springs	B	Palm Springs	150	2016	Rael Development Corp.	Early Development
Staybridge Suites Cathedral City	ES	Cathedral City	197	2016	Cathedral Hotel Group, Ltd	Under Construction
SpringHill Suites Palm Desert	LS	Palm Desert	112	2016	Kalthia Group Hotels	Early Development
Dolce Selene Palm Springs Resort	FS	Palm Springs	200	2017	CDI Ventures LLC and Praetor Investments LLC	Early Development
SilverRock Resort Development	FS	La Quinta	340	2018	Meriwether Companies	Early Development
Luxury Resort Rancho Mirage	FS	Rancho Mirage	125	2018	Weintraub Real Estate	Early Development
AC by Marriott Palm Springs	B	Palm Springs	135	-	Wessman Development	Early Development
Orchid Tree Resort Palm Springs	B	Palm Springs	98	-	Weintraub Real Estate Group	Early Development
Alcazar Lofts Hotel Palm Springs	B	Palm Springs	38	-	Pacific Colony Palms Lofts LLC	Early Development
Full-Service Hotel Indio	FS	Indio	120	-	CIIF Hotel Group	Early Development
Fairfield Inn & Suites Palm Desert	LS	Palm Desert	108	-	Prest-Vuksic Architects	On Hold
El Paseo Hotel	TBD	Palm Desert	154	-	Parkcrest Development Corp.	On Hold
Section 19 Hotel	TBD	Rancho Mirage	TBD	-	Quorum Properties	Speculative
Return to Aztlán Theme Park Hotel	TBD	Coachella	TBD	-	Aztlán Development	Speculative
Cathedral City Mixed-Use	FS	Cathedral City	TBD	-	Messenger Investment Co.	Speculative
Citrus Ranch Boutique Hotel	B	Indio	TBD	-	Saxony Group	Speculative
Northgate Mixed-Use Development	TBD	Indio	TBD	-	The Chandí Group	Speculative
Boom Boutique Hotel	B	Rancho Mirage	TBD	-	Boom Communities of Los Angeles	Speculative
Total			2,088			

Key: FS=Full Service, SS= Select Service, ES= Extended Stay, B=Boutique, LS=Limited Service, TBD=To Be Determined

Source: HVS, Build Central, Local Planning Offices, respective developer websites.

Downtown Palm Springs is a vibrant and evolving destination. The Palm Springs hotel market contains an array of boutique hotels, including the Riviera, Hard Rock, Ace, Le Parker Meridien, and Viceroy, that attract weekend leisure guests. Branded “big box” hotels can also be found near the Palm Springs Convention Center in the downtown area, and include the Hilton, Hyatt Regency, and Renaissance. These hotels primarily cater toward meeting and group business during the weekdays. Small “niche resorts” and bed and breakfasts also speckle the market; like the boutique hotels, these hotels tend to attract the leisure crowd

The bulk of current new supply (45% or 932 rooms) is occurring within Palm Springs city limits and almost all of these hotels are boutique/lifestyle in nature. Outside of Palm Springs, the proposed hotel supply consists of more diverse product types, including limited-service and extended-stay lodging. Within Palm Springs, the two most prominent areas of development are downtown Palm Springs and north Palm Springs.

In downtown Palm Springs, the most anticipated new supply is the **Kimpton Hotel Palomar**, which is part of the redevelopment of the Desert Fashion Plaza. The four-star hotel will feature a restaurant, event and meeting space, and city’s first and only rooftop pool and bar. Other downtown hotels in the development pipeline include the **Selene Palms Springs Resort** that will be managed by Dolce Hotels and Resorts and the **Port Lawrence Hotel**, which is rumored to be flagged with a lifestyle-focused, brand. It was also recently announced that an **AC by Marriott**, which is Marriott’s newest brand that “provides innovative spaces of freedom and comfort, with a style that defines the most contemporary hospitality,” is being planned to be a part of the Desert Fashion Plaza development. Lastly, the 229-room **Spa Resort Hotel**, which sits atop natural hot springs owned by the Agua Caliente Band of Cahuilla Indians, closed in July 2014 to make way for a new development. The Tribe is in the planning stages for what is known as “Vision Agua Caliente.” The Tribe announced in November it will partner with JCI Architecture of San Diego to create a master plan centered around the Agua Caliente Hot Mineral Spring. More concrete plans have not yet been announced.

North Palm Springs is witnessing the emergence of an entertainment and shopping district targeted at a younger clientele. An independent boutique hotel, **Arrive Palm Springs**, is expected to open in 2015 and will include three upscale restaurants. Another prominent hotel development is the **Infusion Beach Club and Hotel**, which will be a conversion of the Garden Vista Hotel and will have a restaurant, nightclub, lounge, and day club with an outdoor pool area featuring world-renowned DJs, capitalizing on the Coachella Valley's red hot music scene.

Major Renovations

- The **Omni Rancho Las Palmas Resort & Spa** received extensive upgrades during its conversion to an Omni hotel in the summer of 2013. The budget for the refurbishment project was reported at \$35 million.
- The 796-room **La Quinta Resort & Club**, a Waldorf Astoria Resort, underwent a multimillion dollar refurbishment of its all of its guestrooms and casitas, as well as upgrades to its public spaces. The project was completed in late 2014.
- The **Miramonte Resort & Spa** in Indian Wells will undergo a multimillion dollar, property-wide refurbishment in the summer of 2015. Upgrades will encompass all guestrooms and public spaces.
- The 67-room **Viceroy Palm Springs Hotel** in Palm Springs will undergo a multimillion dollar upgrade, focusing on the public space. The project is anticipated to be completed by the fourth quarter of 2015.
- The 285-room **Doral Desert Princess Resort** in Cathedral City will receive property-wide upgrades and will be converted to a Doubletree by the end of 2015.

Recently Completed New Supply

- A full conversion of the former Hotel Zoso, the 163-room **Hard Rock Hotel Palm Springs** officially opened in October 2013. The property features a restaurant, lobby lounge, poolside bar, fitness center, outdoor pool, and 29,000 ft² of indoor meeting space. The hotel also hosts pool parties and evening social activities with plans to reopen its nightclub as a new destination in 2015. The Hard Rock Palm Springs also claims the title of "world's first crowd-funded hotel." According to media sources, Realty Mogul raised over \$1.5 million for the development, spread across 85 investors around the U.S.
- Opened in May 2014, the 260-room **Ritz-Carlton Rancho Mirage** is the first domestic U.S. opening of a Ritz-Carlton property in four years. The hotel features multiple swimming pools and fire pits throughout the grounds, a 25,000 ft² spa, a fitness center, restaurants, a lounge, two poolside bars, and 16,000 ft² of indoor meeting space. The hotel originally opened in 1988 as a Ritz-Carlton; however, in 2001 it was rebranded as The Lodge at Rancho Mirage. The hotel was closed for renovations in 2006 until its recent reopening.
- **The Triada** (former Spanish Inn) is a 56-room boutique hotel affiliated with Marriott's Autograph Collection. The Triada was developed by Pacifica L39 LLC and opened November 2014.
- **The Palm Springs Hotel** is remodel of the Palm Grove Hotel in north Palm Springs. The independent boutique hotel contains 15 rooms and also opened November 2014.
- An 89-room **Holiday Inn Express & Suites** and a 125-room **Quality Inn & Suites** opened in Indio in March 2014. These hotels are the first to open in the city of Indio since 2004.

RITZ-CARLTON RANCHO MIRAGE



HOTEL MARKET PERFORMANCE

As previously noted, the Palm Springs lodging market is highly seasonal. Winter and spring occupancy reaches the 70/80% level. Hot summer months traditionally show occupancies in the 40% range. Average rates exhibit similar seasonality, reaching their high in the winter/spring and lows in the summer. The market's highest performing months in both occupancy and rate are March and April. As is typical of a leisure-driven market, occupancies and average rates in Palm Spring are noticeably higher during the weekends, with nearly every Saturday selling out throughout the year. Because of the strong seasonal patterns of demand, annual occupancy in the overall Coachella valley typically has been in the high 50% range in recent years. The increased popularity of the destination has supported strong single-digit rate growth in the last two years.

Demand is expected to continue to increase in 2015, with relatively stable occupancy as new supply is absorbed. Average rates are anticipated to continue to increase at an above-inflationary pace over the next few years, supported by new quality hotels entering the market and driving up rate. Hotels in Coachella Valley and Palm Springs should be able to realize healthy RevPAR gains over the next several years.

CONCLUSION

Palm Springs and Coachella Valley are benefitting from a resurgence of interest from visitors and investors. The revitalization of the area as a music, art, and architecture destination combined with its established resort and golf facilities contribute to the market's attractiveness. As Southern California continues to evolve and prosper, so can the expectations for the future of the Palms Springs/Coachella Valley's resorts.



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HVS LOS ANGELES, established in 2013, is located in the South Bay region of the Los Angeles area and is readily accessible to Southern California's hotel and resort markets. HVS Los Angeles operates under the direction of Senior Managing Director Suzanne R. Mellen and Vice President Leah Dauer Murphy (the on-site practice manager). Our LA team has diverse academic backgrounds and hotel-related experience, with in-depth expertise in the numerous and varied lodging markets of Southern California.

About the Author



As a Senior Associate with HVS Consulting & Valuation in Los Angeles, **Nordee Saritvanich** has evaluated numerous hotel properties in California and throughout the United States. Nordee is well-versed in examining the key metrics and detailed nuances of hotel appraisals and feasibility studies for a wide range of proposed and existing lodging

types. Prior to joining HVS, Nordee worked as a credit and equity analyst graduate intern with PB Capital (a member of Deutsche Bank Group) and Time Equities in New York City. Nordee earned his BS degree from the University of California at Irvine and his MS degree with distinction in Real Estate Finance and Investments from New York University. He also has a certificate in Hotel Real Estate Investments & Asset Management from the Cornell University School of Hotel Administration. Nordee speaks conversational Thai, has a black belt in Taekwondo, and enjoys snowboarding.

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