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San Francisco Business Times

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'06 growth gives S.F. hotels a clean sheet for '07

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San Francisco Business Times - December 22, 2006 by [Ryan Tate](#)

Hotel room rates in San Francisco have returned to their dot-com-era peaks, according to one tracking firm, and are projected to widely exceed them next year.

The increase marks a largely symbolic victory for city hotels. Escalating labor costs and other forms of inflation over the past six years have muffled the impact of the rate hikes, and occupancy remains below dot-com levels. Also, the statistics do not have perfect accuracy and are taken by many with a grain of salt.

But there is no doubt that rate increases over the past year have been by far the most dramatic since 2004, when prices ended a three-year plummet. And hoteliers are optimistic the gains will continue into next year, though perhaps not to the extent projected by PKF Consulting, the San Francisco firm that produced the statistics.

"The city definitely saw an increase" in tourism, said Chris Rosas, principal of hotel group cTwo, which has five properties around Union Square. "The smaller hotels, which took huge dives after 9/11, have just as much growth to continue."

Rosas saw rates at his stable of two- and three-star boutique hotels for leisure travelers grow 12 percent. Such hotels were especially hard hit during the hotel downturn, since travelers could often find bargain rooms at more upscale properties like the St. Francis or the Palace.

Citywide, average per-night rates climbed \$14 to \$167, according to PKF, while occupancy grew half a percentage point to 77 percent. Next year, PKF projects rate growing \$15 per night to \$182, with occupancy at 78 percent.

In 2000, room rates averaged \$170, with occupancy at 82 percent.

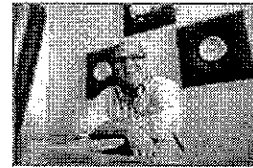
At a December Hotel Council forum where the numbers were presented, hoteliers in the audience pressed PKF CEO Tom Callahan to explain how rates can continue to grow next year, given that convention bookings are slated to fall to around 750,000 room nights from around 850,000 room nights in 2006.

Callahan said growth in leisure travel and, especially, business travel would drive rates up in 2007, though he did not name which specific industries or companies would drive that growth when pressed on the issue of corporate travel. Some hoteliers are pessimistic because business travel has been the last segment of the hospitality sector to recover, lagging convention and leisure travel, and it is not clear which industries will attract visitors the way dot-com companies did in 2000.

Rate hikes of \$15 per night "won't happen," said Jon Handlery, general manager of the Handlery Union Square hotel. "Leisure isn't going to drive the rate up and ... we don't have corporate -- that's our problem."

Handlery is budgeting for about half as much growth in 2007 as PKF predicts.

To keep rates climbing, the San Francisco Convention and Visitors Bureau is ratcheting up its



Spencer Brown
Chris Rosas, principal of
hotel group cTwo.
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rhetoric. CEO Joe D'Alessandro has been meeting with members of the Board of Supervisors and other city leaders since coming to San Francisco from Portland six months ago.

With strongly-worded comments at the Hotel Council forum, D'Alessandro indicated he is ready to move from listening to lobbying.

"I'm embarassed the city of Portland spends more than San Francisco" on tourism marketing, D'Alessandro said. "It's embarassing to go to a trade show and (the booth for) San Francisco is hiding behind the 'S' in the San Diego booth."

"Stepping on people on the sidewalk in the garbage is embarassing ... we have to develop a different culture."

The bureau is widely expected to ask City Hall for a larger share of hotel tax revenue next year, to promote the city both to tourists and conventioners. D'Alessandro said the city cut its Chicago office and cut staff at the Washington, D.C. office.

He also noted that the falloff in convention business next year should be mitigated by last-minute bookings. Short-notice convention bookings for 2007 made toward the end of 2006 are the highest level of such bookings in a decade.

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