

DESTINATIONS

San Francisco Hotels Negotiating Amid Corporate Demand Spike

BY MATT ALDERTON

GIVEN THE current growth in demand and the threat of a double-dip recession, hotels in many U.S. markets are negotiating harder for corporate travel and meetings business. Nowhere, however, is seeing demand increase more sharply than San Francisco, which leads the top 25 U.S. hotel markets in year-to-date growth for both average daily rate and revenue per available room, according to July data from hospitality research firm STR.

In San Francisco, ADR and RevPAR were up 14 percent and 21 percent, respectively, to \$147.56 and \$114.56. Nationwide, however, year-to-date increases were much smaller, averaging 3.5 percent for ADR and 8.2 percent for RevPAR. Occupancy, meanwhile, was 79 percent in San Francisco and 60.7 percent nationally.

"San Francisco has definitely shifted in favor of hotels in terms of rates," said Lynn Mohrfeld, president and CEO of the California Hotel & Lodging Association. "They had a

nice little rate war, I guess you could call it, when the financial collapse happened. But now, all of a sudden, they're back."

That doesn't mean that travel managers have lost their negotiating power. In fact, the memory of 2008 is still very fresh—and Bay Area hotels still are willing to haggle because of it,

Added Gordon Thompson, vice president of San Francisco-based destination management company Cappa & Graham, "My friends who are hotel general managers have been telling me they are exceptionally busy; which is always great for hotels. However, I believe we all learned a lesson during the past three

The new "compromise" mantra among city hoteliers has changed the conversation from price to value, according to Tom Klein, general manager of the Fairmont San Francisco, which has seen a small spending increase from business travelers and corporate meeting planners. "The price-sensitivity remains in the marketplace, but customers have also become more realistic," he said. "We're working closer with the end user to make sure we stay within their budgets—but they do have more budgets.

The price-to-value [equation] is extremely important for the consumer, and they're prepared to spend more assuming they get the end product they want."

Although clients always are interested in achieving the best possible rates, more of them—especially corporate meeting planners—are willing to pay a premium for the San Francisco brand, Thompson said.

"Things are different today, as professional planners understand the great benefit of holding meetings in San Francisco and understand that benefit exceeds price alone," Thompson said. "Clients who are attracted to San Francisco seek an atmosphere of innovation and energy, which we have plenty of. Cost is still a factor, but it is not the overriding one. Value, impression and buzz are more important."

The same focus on value exists in the business transient market. "In the last two years, it's been more focused on rates, but both the business transients and the group travelers are focused on trying to get some value-adds, as well," said Donna Collings, general manager at the JW Marriott San Francisco. "For example, I would say Internet access is probably one of the biggest value-adds they're negotiating—especially for the business transient."

Whether they're negotiating rates or amenities, travel and meeting buyers are likely to get the best deals in San Francisco

by booking early and often. "Every minute, it seems, the booking window gets smaller and smaller, and that's where the negotiating goes on with hotels," Mohrfeld said. "If you've got a big piece of corporate business, the earlier the better."

SoMa's Surge

Maps can be just as useful in negotiations as calendars, as corporate business has been migrating during the last several years to San Francisco's trendy South of Market district, near Moscone Center.

"South of Market is really up-and-coming," JW Marriott's Collings said. "We definitely see the business going toward South of Market as more and more companies are renting space down there."

Driven by a second-wave tech boom, South of Market, or SoMa, is home to a thriving corridor of technology firms, including the likes of Twitter, Salesforce.com and Zynga. Hotels in this area are the most expensive in the city, according to STR, which said RevPAR there averaged \$147.06 through July, ahead of such areas as Nob Hill, Union Square and Fisherman's Wharf, where hotels might be more willing to negotiate with corporate clients because of their relative distance from the action in SoMa.

"There's a lot of competition right now with all the hotels in San Francisco," said the Collings, who is based in Union Square. "South of Market is probably the hottest market right now, but our Union Square market is still in high demand."

In fact, upward trends in business transient and corporate group business are expected to persist citywide.

"Overall, properties are doing quite well, and for the foreseeable future, going into 2012 and 2013, there's no indicators that the market will change," Fairmont's Klein said.

Mohrfeld isn't so sure, and suggests a wait-and-see approach. "We're at the whim of the economy," he said. "The economy hasn't really improved, but rates in San Francisco are going up. It seems that there's a disconnect there, and I'm not sure how much longer it can last. I think it's going to level off after 2012."

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according to Kristiann Galati, director of sales and marketing at the W San Francisco.

"We've seen significant demand in the San Francisco market," she said. "To a certain extent, we have a bit more leverage than the majority of markets in the country. However, we know we're in this for the long term. When someone's a good partner, we're going to work with them to manage their budget expectations."

years, and hotels will try to work with clients in order to accommodate their needs and prices."

What's changed in San Francisco, therefore, isn't the opportunity for negotiations, but rather the spirit of them. "Customers are certainly able to negotiate, but the total buyer's market no longer exists," Thompson continued. "I believe we are entering a more professional era where we all understand that compromise is key."

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