

Hotel Group on Track to Finish Marriott Amid Industry Decline

San Jose – Business Journal

CAMPBELL - Despite the downturn walloping the hospitality industry, a hotel 10 years in the making is on track to open in Campbell in December. Huntington Hotel Group is well aware of the industry's double-digit declines in occupancy and room revenue, but the Irving, Texas, developer still plans to open its seven-story, 162-room Marriott Courtyard on Creekside Way near the Hamilton Avenue exit of Highway 17. "We've been through the '90s and 9/11 – we'll get through this one," said Mike Siegel, vice president of Huntington's operations.

This wasn't the plan or the prognosis when Huntington purchased the 3.5-acre site from Peter Pau's Sand Hill Property Co. in July. Hospitality was a favored sector for commercial real estate investors, but that was before the calamitous economic events in September.

"At the time, San Jose occupancy and its business climate looked like it was coming along well," Siegel said. "We thought it was time for a new product on the market."

Campbell city officials had selected the site for a hotel in the late 1990s.

Kirk Heinrichs, Campbell's redevelopment manager, called the parcel near the Pruneyard office towers, downtown Campbell and the Hamilton Avenue light-rail stop a "great location."

The hotel, valued at \$37 million in 2008, was expected to bring the city \$500,000 a year from the 10 percent transient occupancy tax, Heinrichs said, but expectations have been scaled back.

Siegel noted the primary element that attracted his firm to the site hasn't changed. Huntington's strategy is to develop hotels in markets with high barriers to entry, meaning it takes years, not months, to obtain approvals to build.

"We'll take the time to work with a difficult real estate deal," he said, adding "We felt very lucky to pick this up from Peter Pau."

Given what he knows now about the market, Siegel said he would have waited before buying. But time is money, he said, so Huntington will finish construction.

Tom Callahan, CEO of PKF Consulting, a hospitality industry adviser, knows the site because his firm had worked with Pau to develop it. He said Huntington, a small but well-regarded developer, is smart to finish the hotel.



Courtyard Marriott San Jose Campbell

Callahan said the project's timing is unfortunate but hardly a huge surprise given the cyclical nature of real estate.

"This project was in the works before the downturn of the tech wreck," he said. "Real estate just takes a long time to get moving. It's impossible to predict, and it takes a little bit of luck."

Unfortunately the downturn is not predicted to improve for several years. After showing double-digit growth in profits in 2005 and 2006, the number of travelers and room rates showed signs of weakness in early 2008 but still continued to grow until the third quarter. At that point slow growth turned into double-digit declines of 20 to 30 percent.

Analysts predict the downturn will send hotels developed or traded during the past four years into bankruptcy because the deals were heavily leveraged.

"Seventy percent of development costs or acquisition costs was debt," Callahan said. "In all those properties, the debt was wiped out. Any property traded or built since 2005 has depreciated in value by 30 percent."

Huntington, which began in 1992, is a private company, and Siegel was unwilling to disclose financial figures, but he said his firm is invested for the long term. He also hopes the next-door office site owned by South Bay Development Co. will be developed eventually.

When it opens, the Marriott will employ 50 people. Among its attractions are an interactive multimedia screen where guests can find nearby restaurants, entertainment and driving directions. The hotel will also offer bistro restaurants.

Huntington owns or operates 15 hotels in Maryland, Texas and Southern California. Most of the hotels are Marriotts, but a few are Hiltons.

This entry was posted on Friday, April 24th, 2009 at 1:45 pm and is filed under [2009](#).

