

## Chula Vista bayfront project boosts San Diego County's hotel development



Rendering shows the future Chula Vista Bayfront hotel and convention center, which broke ground last year. It is the largest of six San Diego County hotels that were under construction in 2022. (Courtesy of Gaylord Pacific development team)

By Lori Weisberg

San Diego County hotel openings slowed significantly in 2022, but thanks to the long-awaited groundbreaking of Chula Vista's bayfront resort hotel, last year's construction activity increased sharply compared to 2021.

A year-end report published by Orange County-based brokerage Atlas Hospitality Group reported that six hotels with 2,117 rooms were under construction in 2022. That's nearly six times the 376 rooms that were under construction in 2021, according to Atlas. Accounting for the lion's share of the 2,117 hotel rooms is the 1,600-room Gaylord Pacific Resort hotel, part of a \$1.2 billion project that also includes a convention center and 1,600 parking spaces.

San Diego's uptick in new construction was a departure from the statewide trend, which showed the overall volume of hotel rooms under construction to be relatively flat compared with 2021, with 114 properties accounting for more than 15,000 rooms in various stages of construction. Hotel openings in California, though, declined, falling by more than 40 percent.

In San Diego County, the decline was more precipitous, with total rooms in 2022 — 152 — decreasing by nearly 80 percent from 2021 when 717 rooms in five hotels opened.

Atlas points out that the falloff in the number of hotels opening in 2022 is largely due to COVID-19. Many developers, it explained, had deliberately held off debuting their properties in 2020 due to the pandemic, which in turn artificially pushed up the number of openings in 2021. Last year, in fact, marked the fifth highest year for hotel openings since 2010, Atlas said.

“Normally we’d be concerned by a significant drop-off like this but we’re not as concerned because if you look at prior years, the number of rooms that opened in 2022 is closer to the norm than it was in 2021,” said Robert Heist, a vice president with Atlas Hospitality. “What we’re tracking as far as open hotels in 2023 will be close to 2022 so we won’t see the same kind of drop-off.”

“It’s going to seem like things are OK but it’s 2024 and later that we’ll see a significant drop-off, and that’s because of the current environment as far as financing goes. The hotels that will be opening this year were already under construction.”

The steady climb in interest rates over the last year, coupled with fears of a potential recession, has made the financing of new projects more costly, and as a result, such developments are viewed as riskier by lenders.

Last October, Manchester Financial Group announced plans for a 36-story bay-view hotel near downtown San Diego’s waterfront, but the developer acknowledged that the difficult lending environment could delay a groundbreaking. Manchester President Ted Eldredge said at the time that if the financing he wants isn’t available the company is willing to wait until terms are more favorable.

Among the hotel rooms currently under construction are 59 extended-stay rooms that are not being built as a traditional hotel but rather will be housed within a 37-story apartment tower near Little Italy. The highrise known as The Lindley is expected to be completed by early 2025.

Among the San Diego openings in 2022 were 142 rooms located within the Hotel del Coronado’s Shore House residences. They represented the resort’s first new hotel rooms in 15 years and were marketed as for-sale residences that could also be booked for overnight stays.

“I’ve noticed that there have been more hotels and larger hotels put in the development pipeline,” said Emmy Hise, senior director of hospitality analytics for the CoStar Group. “It is tough to develop right now because of the high-interest rates and cost of labor. I’ve heard a lot of people say it’s less expensive to buy a hotel than build a hotel.”

But San Diego’s strong rebound from the depths of the pandemic, she said, positions the county to be a strong destination for new development.

“Short-term isn’t great but long-term projections are good because hotel operating fundamentals are so strong,” Hise said. “Even though there is a projected recession, the hotel operating

fundamentals are forecast to stay strong. Occupancy will continue to grow through 2023, and daily rates may show a small decline but they are still expected to be \$30 above 2019 levels

“San Diego has performed really well and better than most California cities.”

## San Diego County hotels under construction in 2022

Hotel	City	Rooms
Gaylord Bayfront Hotel	Chula Vista	1,600
SpringHill Suites Eastlake	Chula Vista	179
Element Hotel	Chula Vista	152
AC Hotel San Diego	San Diego	145
Hyatt Place Carmel Valley	San Diego	127
The Lindley	San Diego	59

Source: Atlas Hospitality Group