

VISIT MORGAN HILL

Tourism Market Assessment

2024



VISIT
MORGAN HILL

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Introduction

This Tourism Market Assessment is a high-level reference point for the current condition of the Morgan Hill hotel & tourism industry, produced by Visit Morgan Hill, the management organization for the Morgan Hill Tourism Business Improvement District.

OUR MISSION

Position Morgan Hill as a vibrant leisure, sports, and event destination and be a catalyst for local tourism benefit through overnight hotel stays

OUR VISION

Recognition of Morgan Hill as a dynamic destination and a thriving local tourism economy

OUR WORK

Visit Morgan Hill is a 501(c)6 non-profit destination marketing organization (DMO), dedicated to executing tourism promotion programs to attract and increase overnight hotel stays. Guided by our [Strategic Plan](#), we implement Marketing Communications, Business Development, and Industry Partnership to attract overnight leisure travelers, sports tournaments, and private groups.

2020 - 2023 ACCOMPLISHMENTS

- We've crafted and monitored a comprehensive long-term strategic plan to guide our journey—through the rocky pandemic times and beyond.
- We launched our tourism brand and ongoing marketing and sales campaigns to put Morgan Hill “on the map”.
- Our photo, video, and digital content has made waves on social media, and we've cultivated fantastic travel media press coverage.
- We're attracting top-notch sports facility clientele and drawing in professional sports organizations.
- We've made meaningful local & regional partnerships to enhance our reach, tourism product, and impact on the community.

Message from the Director

Morgan Hill is emerging as the ultimate “chill” destination in the Bay Area! Since our inception 5 years ago, Visit Morgan Hill has been on a mission to showcase our city's charm and prowess to drive overnight tourism to the city. Our local tourism community proved its commitment to this vision by renewing a 10-year Tourism Business Improvement District. Now, it's the perfect time to assess the state of tourism and elevate our game even further.



“As macroeconomics and regional conditions fluctuate, keeping a steady marketing, sales, and industry presence maximizes our potential share of tourism. The buzz and engagement we've seen across platforms proves that presenting Morgan Hill as a fresh travel destination is hitting the mark. Let's keep doing that.”

- Krista Rupp

Building a strong tourism market grows the entire economic pie. Overnight visitors stay longer and spend more. By boosting overnight stays, we increase revenue to local businesses, supporting local jobs and community resources we all enjoy.

Visit Morgan Hill is committed to maximizing our promotional efforts, developing strong leads, and working with strategic partners to broaden Morgan Hill's appeal. Informing ourselves with the current data and market conditions allows us to make effective decisions for our stakeholders.

Executive Summary

Morgan Hill is poised to capitalize on the benefits of tourism with a strong strategy and favorable statewide projections, but should take heed of softened consumer conditions.

The state of tourism in Morgan Hill depends on various factors like the lingering impact of the pandemic, changes in global travel trends, national and state elections, and nuanced local conditions.

Morgan Hill saw a post-pandemic hotel revenue rebound in 2022, driven by pent up group market demand. While other destinations enjoyed “revenge travel” a year earlier, Santa Clara County’s extension of pandemic restrictions particularly impacted sports tournaments and neighboring San Jose convention travel. Further delaying recovery, an increased remote workforce and reduction of corporate travel decimated Morgan Hill’s pre-pandemic “bread and butter” markets.

In 2023, Morgan Hill hotel revenue remained relatively flat year-over-year, with inconsistent patterns of occupancy and average daily rates. Individual hotel

anecdotes indicate glimmers of returning corporate accounts and increased construction-related travel. However, reports confirm the challenging absence of outdoor-venue dependent sports and events supporting hotel performance in the winter. This reinforces the need for Morgan Hill to attract a well-rounded set of tourism experiences, not at the beck-and-call of fair weather.

While annual hotel revenue growth is slowed, the SF Bay Area forecast is favorable. Morgan Hill’s market mix will continue to regulate as local tourism development efforts progress. Market targeting will need to be strategic as consumers tighten their belts and think twice about their travel expenditures. However, Morgan Hill’s element of discovery, location on HWY 101, and proximity to regional attractions create optimism for travel and visitors make up a significant portion of city spending.

Data Sources Overview for Hotel Performance

Visit Morgan Hill uses a variety of data sources to indicate the health of the local tourism industry. **Hotel performance** is a key collection of metrics, also with various sources. Data is cross-referenced and monitored by Visit Morgan Hill to conclude how hotels are actually performing in the city and make educated projections.



MHTBID Income

One of our most direct indicators of local hotel performance is the Morgan Hill Tourism Business Improvement District (MHTBID) income. The MHTBID is a 1.5% assessment on lodging stays in the City of Morgan Hill that are 30 days or less.



STR Reports

Subscription based Smith Travel Research (STR) reports provide aggregate figures for 8-9 reporting hotels in the city of Morgan Hill. Data points include monthly, YTD, and Running 12-month Occupancy, ADR, RevPAR, and Revenue.



Visit California Lodging Forecast Report

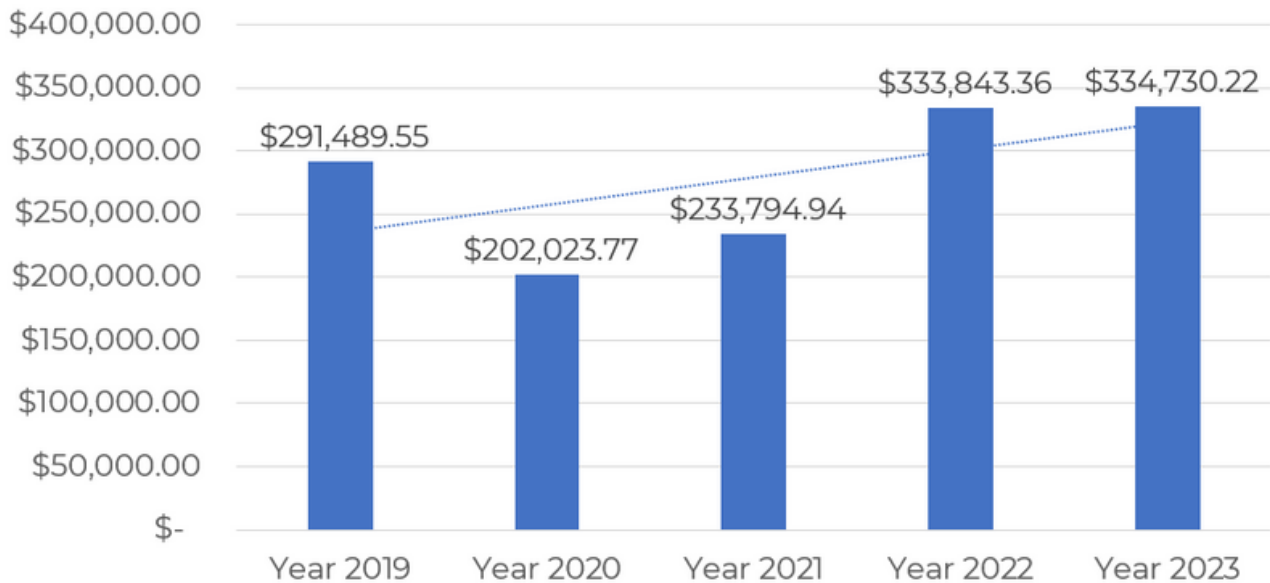
Visit California produces a lodging forecast to indicate projected hotel and lodging performance statewide and for each of the 12 regions within the state. Report data is sourced by STR and Tourism Economics.

MHTBID Analysis

The **MHTBID** is a 1.5% assessment passed on to hotel guests, collected from hotels, and distributed to Visit Morgan Hill. The City retains 2% of the total MHTBID collections as an administrative fee. MHTBID figures in this report are what Visit Morgan Hill receives. Visit Morgan Hill is on a Fiscal Year calendar (July – June). For purposes of this report, income is displayed by calendar year.

Annual MHTBID Income

TBID collections commenced March 2019, transferred to VMH after incorporation July 2019



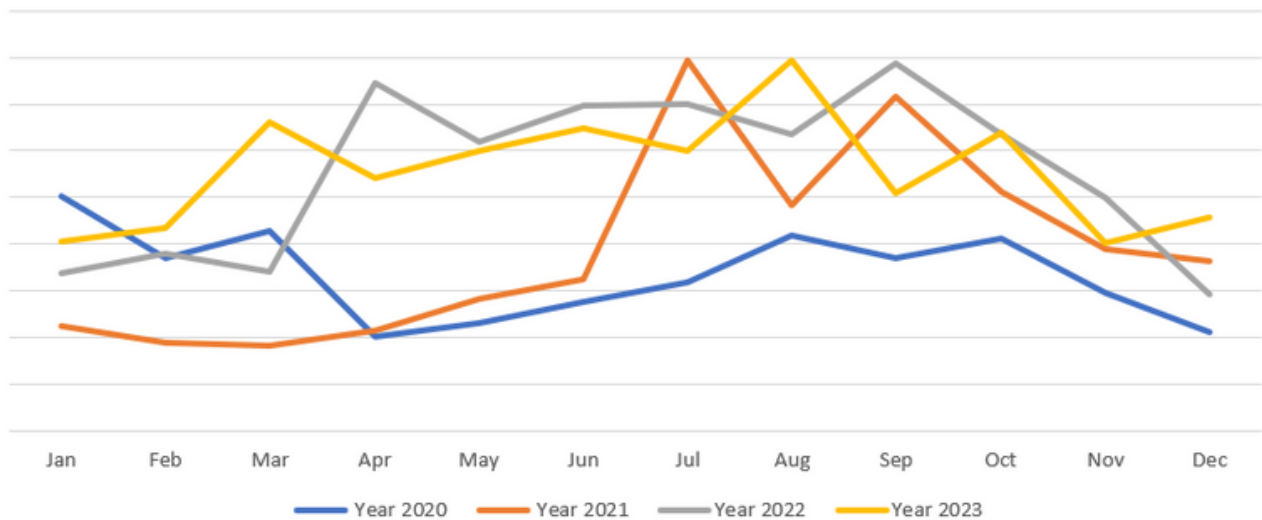
Morgan Hill’s TBID income history shows the year to year fluctuations from 2019 - 2023, including the 2020 pandemic decrease, 2022 recovery, and 2023 regulation.

2019 YOY	2020 YOY	2021 YOY	2022 YOY	2023 YOY
NA	-30.69%	15.73%	42.79%	0.27%

MHTBID Analysis (continued)

Visit Morgan Hill monitors monthly MHTBID income. Analysis of monthly income indicates how specific groups or events impact overall hotel revenue. Additionally, this shows the relative seasonal demand and fluctuations from 2020 - 2023.

Monthly MHTBID Income History



The monthly TBID shows distinct seasonal swings, with consistent seasonal softening October - March. The peaks in the fall of 2020 were due to wildfire related emergencies. Large swim meets and other private groups in March-April of 2022 and 2023 provided a welcome boosts during typically softer months. Other summer-fall peaks represent various outdoor events, such as sports and weddings. This chart also demonstrates the strength of 2022 as a “rebound” year, with more variation in 2023.

Monthly MHTBID Income

	March (Jan)	April (Feb)	May (Mar)	June (Apr)	July (May)	August (Jun)	September (Jul)	October (Aug)	November (Sep)	December (Oct)	January (Nov)	February (Dec)
—2019	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$144,35	\$0.00	\$58,902	\$34,822	\$29,735	\$23,676
—2020	\$25,171	\$18,556	\$21,446	\$10,095	\$11,558	\$13,805	\$15,940	\$20,978	\$18,522	\$20,550	\$14,827	\$10,569
—2021	\$11,152	\$9,367.	\$9,161.	\$10,742	\$14,155	\$16,180	\$39,691	\$24,168	\$35,858	\$25,699	\$19,397	\$18,218
—2022	\$16,947	\$18,983	\$17,092	\$37,257	\$30,902	\$34,901	\$35,068	\$31,853	\$39,463	\$31,814	\$24,980	\$14,578
—2023	\$20,267	\$21,791	\$33,122	\$27,099	\$29,913	\$32,349	\$30,043	\$39,674	\$25,506	\$31,928	\$20,123	\$22,909

STR Analysis

Visit Morgan Hill subscribes to STR reports, showing industry standard performance metrics for Morgan Hill hotels. The reports provide an aggregate average for 9 STR reporting hotels, representing approximately 75% of the lodging in Morgan Hill.

Glossary of Terms:

- **Occupancy (OCC)** - the percentage rate of occupied rooms
- **Average Daily Rate (ADR)** - the average hotel room cost per night
- **RevPAR** - revenue per available room calculated by multiplying OCC and ADR

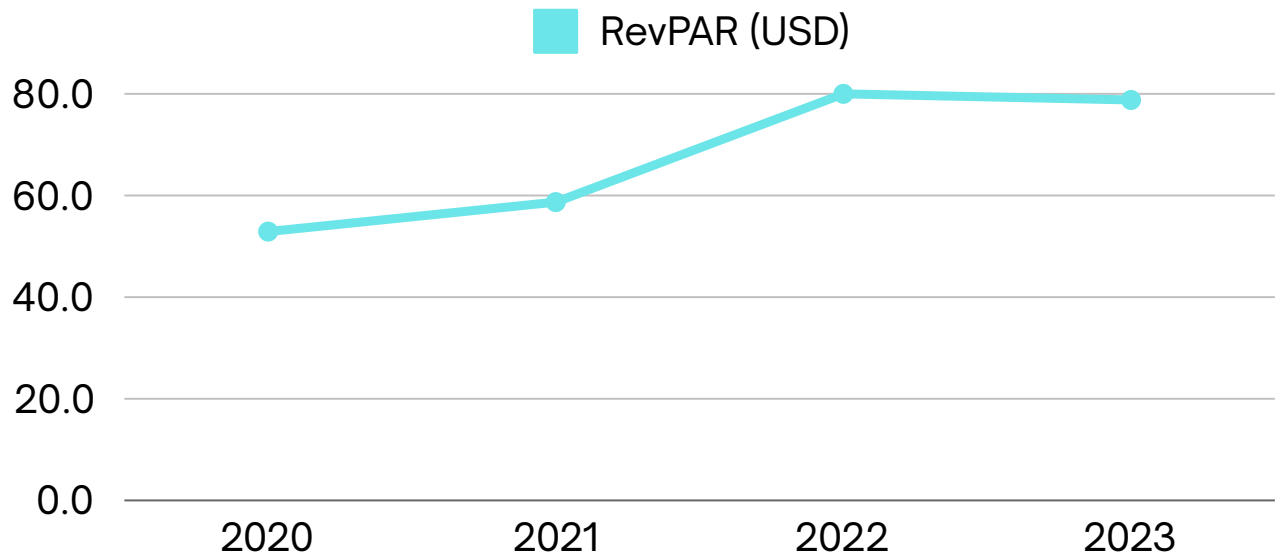
As OCC and ADR fluctuate with demand, RevPAR is the most commonly used metric to determine financial success. For example, a high OCC with a low ADR might not produce as strong of revenue as a lower OCC and higher ADR.

Indicator	2023	YOY Change
OCC	63.5%	-1.6%
ADR	\$124.11	0.2%
RevPAR	\$78.83	-1.4%

In 2023, Morgan Hill hotels saw a YOY decline in OCC with a flat/negligible gain in ADR. Although there was YOY growth in Q1 of 2023, YOY declines in June, August, September, and November brought 2023's aggregate revenue down.

STR Analysis (continued)

The STR RevPAR data in this line graph reflects a similar YOY pattern as the MHTBID income history. Below are annual figures showing Morgan Hill’s aggregate hotel OCC, ADR, and RevPAR levels during and post-pandemic.

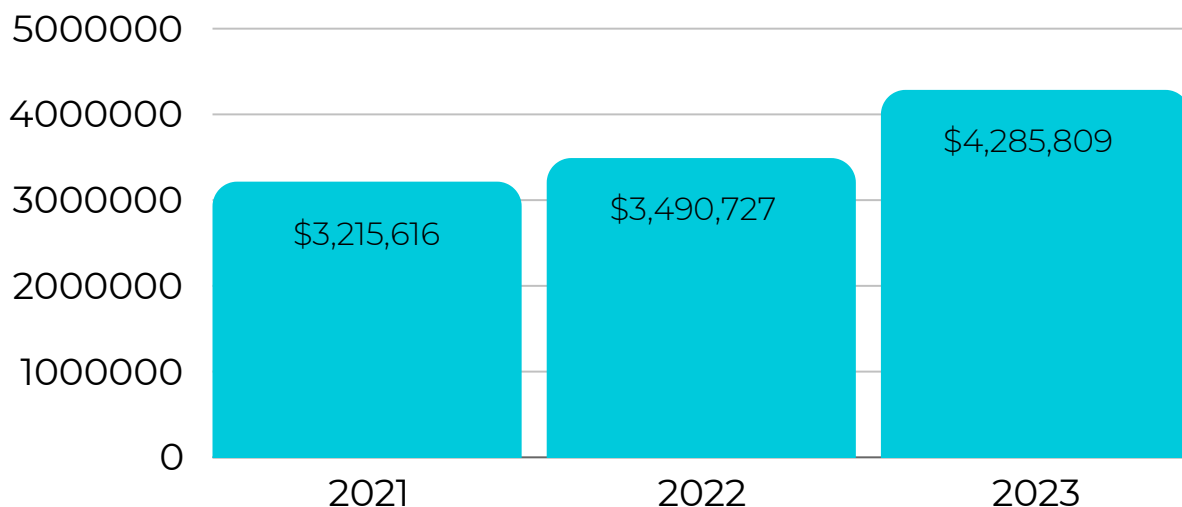


Indicator	2020	2021	2022	2023
OCC (%)	49.5	54.7	64.6	63.5
ADR (USD)	106.92	107.3	123.82	124.11
RevPAR (USD)	52.88	58.72	79.95	78.83

Visa Insights Spending Data

Visit Morgan Hill subscribes to Visa Insights, which shows **anonymous Visa credit card spending figures** in Morgan Hill. This data serves as a representative sample that can compare “apples-to-apples” over time for a variety of categories. The spending figures may be sorted by time frame, resident versus visitor, credit card type (personal versus corporate), market segment, and merchant category. This provides great insight into the the spending patters over time in Morgan Hill.

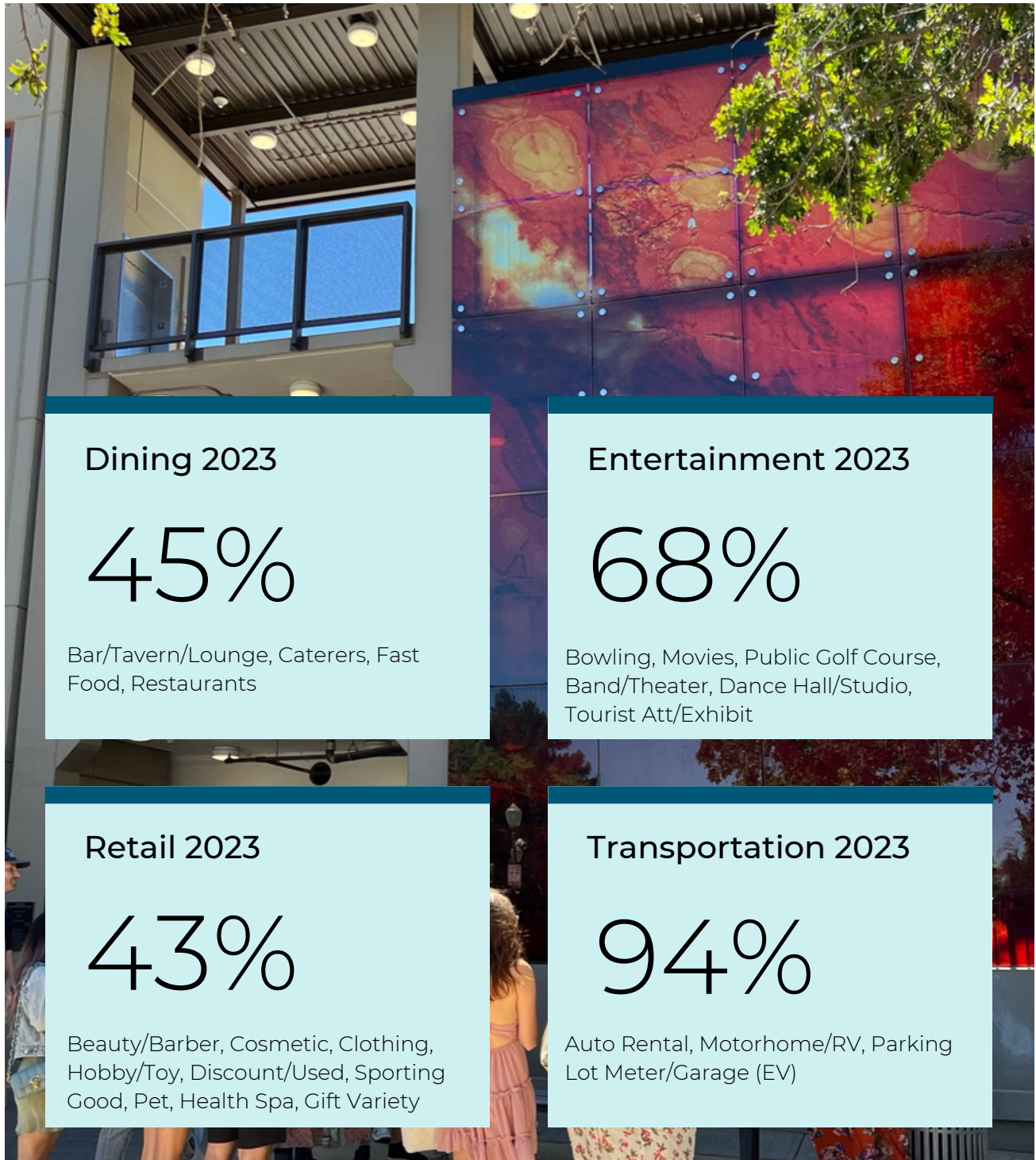
Hotel & Lodging Visa Card Spending History



Hotel spending data over the last few years aligns with the general pattern/trend shown by other hotel performance resources. A notable 22% YOY increase in Hotel & Lodging spend for 2023 is promising, but contrasts the MHTBID and STR reports. MHTBID represents hotel and registered short term home rental stays, and the STR report only represents 9 Morgan Hill hotels. This Visa Insights data includes all lodging categories, including hotels, campgrounds, RV parks, and short term rentals. Visa Insights also only tracks Visa credit cards. The lower year over year growth of TBID revenue versus the higher year over year Visa spending rate could suggest that there was greater 2023 growth in spending at RV parks, campgrounds than at hotels.

Visitor Spending Data (continued)

Visitors have a tremendous impact on Morgan Hill spending. In 2023, visiting Visa credit card holders (cards registered in non-Morgan Hill zip codes) made up the following percentages of overall market segment spending in the city jurisdiction. Due to the complexity of winery and tasting room licensing, individual wineries located in the city limits of Morgan Hill fall within the dining or retail categories.

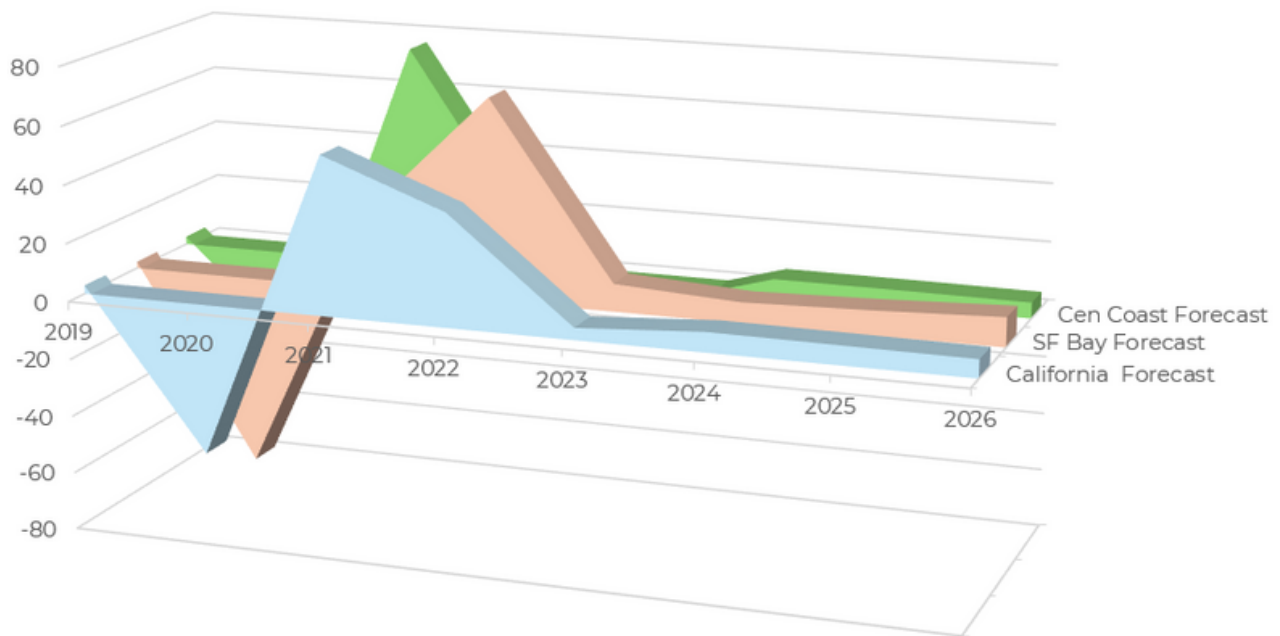


Visit California Lodging Forecast

Visit California produces a **lodging forecast of annual hotel performance projections** for the state and its 12 regions. Morgan Hill is included within the SF Bay Area Region data set, but Morgan Hill market conditions and performance do not always align. Comparing Morgan Hill's TBID income changes to the state and neighboring regions' projections paints a more dynamic picture.



Forecasted YOY Lodging Revenue Growth % by Region

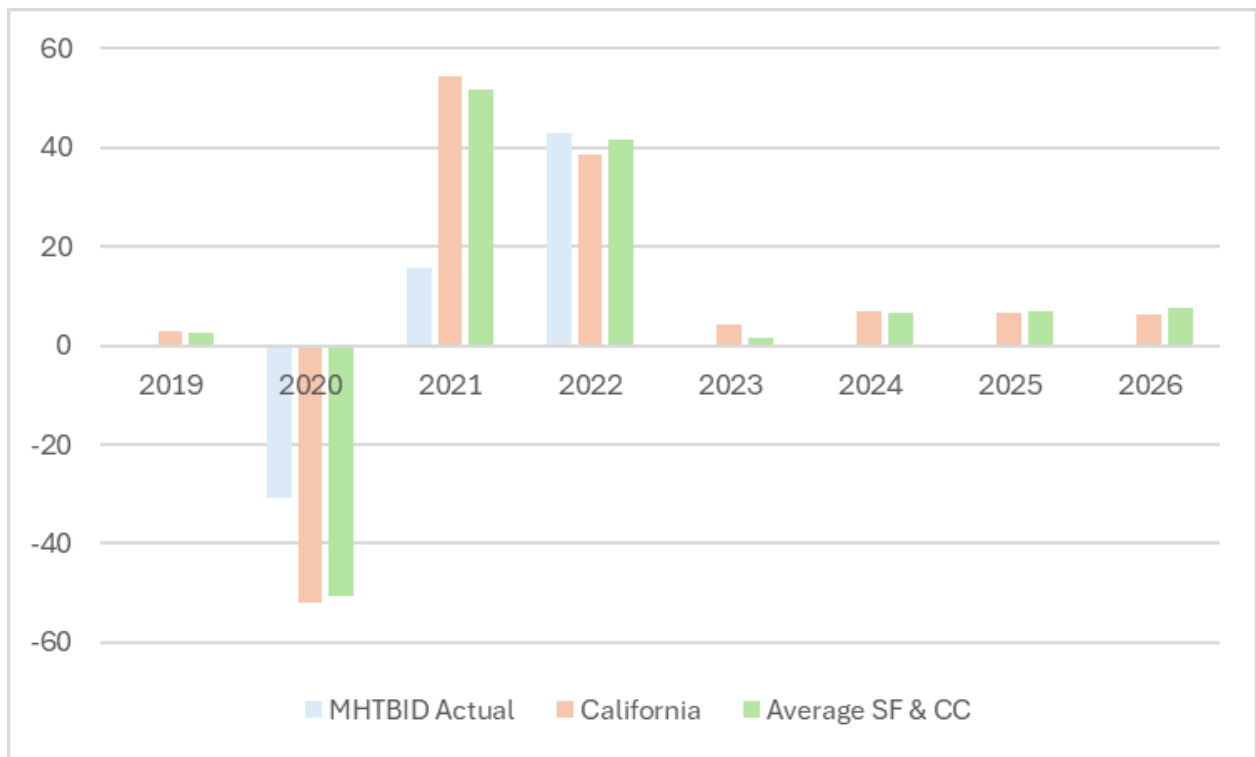


In 2020, all Visit California regions show a declined YOY revenue rate. The State overall and the Central Coast show YOY growth in 2021, while SF Bay shows a later peak in 2022. Central Coast and the State show lower YOY growth in 2023 than the SF Bay Area, further reflecting the Bay Area's delayed recovery. Visit California's forecasting for 2024 - 2026 shows a stabilization of YOY revenue growth rates across regions, between approximately 5.5 - 10%.

Lodging Forecast (continued)

Based on the regional Lodging Forecast projections for YOY percentage revenue growth, we can only speculate what Morgan Hill's local growth will be. However, by averaging Visit California's regional projections and comparing Morgan Hill's MHTBID growth rates, we can draw informed predictions.

Estimated % Growth Projections for Hotel Revenue



Based on the Lodging Forecast projections, we see that Morgan Hill's 2020 MHTBID income change percentages YOY were not as strong of a decline as the State, or the average of the SF/Central Coast. In 2021, the MHTBID YOY growth was not as strong as the State & SF/Central Coast average. However, in 2022 the MHTBID had a stronger YOY revenue growth rate than both the State & SF/Central Coast average. In 2023, MHTBID revenue growth was 0.2%, which is lower than the State & SF/Central Coast. For Morgan Hill in 2024 - 2026, we could cautiously predict 5-7% YOY revenue growth.

Lodging Forecast (continued)

The latest data for 2024 available is February. To further compare Morgan Hill to other California regions, the below chart includes the SF Bay Area, Central Coast, Central Valley, State, and National hotel performance metrics. Morgan Hill trails these other regions and only surpasses the Shasta Cascade region.

Feb-24	MH STR	SFBay	CCoast	CValley	CA	US
Occ	56.1	58.6	56.6	56.5	63.1	58.9
ADR	\$115.13	\$182.00	\$186.00	\$122.80	\$181.70	\$158.23
RevPAR	\$64.64	\$106.60	\$105.20	\$69.40	\$114.66	\$93.19

State and National Economic Statements

The Visit California Lodging Forecast also includes a national economic segment and statewide California lodging summary.

Recovery of California's hotel sector continued in 2023. While room demand stood 7% below the 2019 benchmark, ADR surpassed it by 15%. As a result, room revenue registered solid 4.1% growth. We expect further improvements in 2024 and growth across all KPIs. Nonetheless, full recovery in room demand is not expected until 2025, a 6–12-month lag compared to our previous forecast in September 2023.

Economic output

We upgraded our baseline forecast for the US to reflect the underlying strength of the labor market, a quicker moderation in inflation, looser financial market conditions, and signs that the Federal Reserve is set to pivot sooner than we anticipated.

The most significant changes to our January forecast are an upward revision to our projection for real GDP growth this year, a lower peak in the unemployment rate, and an earlier rate cut by the Fed. We forecast real GDP will grow by 2% in 2024.

Consumers

Consumer spending should get a boost from lower retail gasoline prices, as they have fallen by \$0.76 per gallon since late September, which should boost consumption by roughly \$1 trillion over the course of 2024. Another support for consumer spending is the faster anticipated growth in real disposable income.

With inflation moderating quicker than we anticipated, real disposable income should increase at a solid clip this year. We modelled real consumer spending based on changes in real disposable income, household leverage, sentiment, and wealth, and the results showed that fluctuations in real disposable income are critical for consumption.

Labor market

The breadth of job growth has narrowed but this is not an immediate cause for concern. Job openings are still above those seen in 2019 in almost every industry, suggesting labor demand has not fallen off a cliff. A possible reason for the narrowing of hiring in a few industries, including healthcare, leisure/hospitality, and government, is that the affected sectors were those where output per worker was elevated. This resulted in a larger-than-average increase in wages and that helped ease labor supply constraints, making hiring easier.

We expect unemployment rate will peak this year at 4.25% (from the current 3.7% reading).

Inflation

The January baseline forecast incorporates downward revisions to the PCE deflator released alongside Q3 GDP. The new information has been the monthly breakdown. Headline PCE prices fell by 0.1%, thanks to the decline in gasoline prices, while core PCE prices were up by just 0.1%. On a six-month annualized basis, core PCE inflation is below 2%.

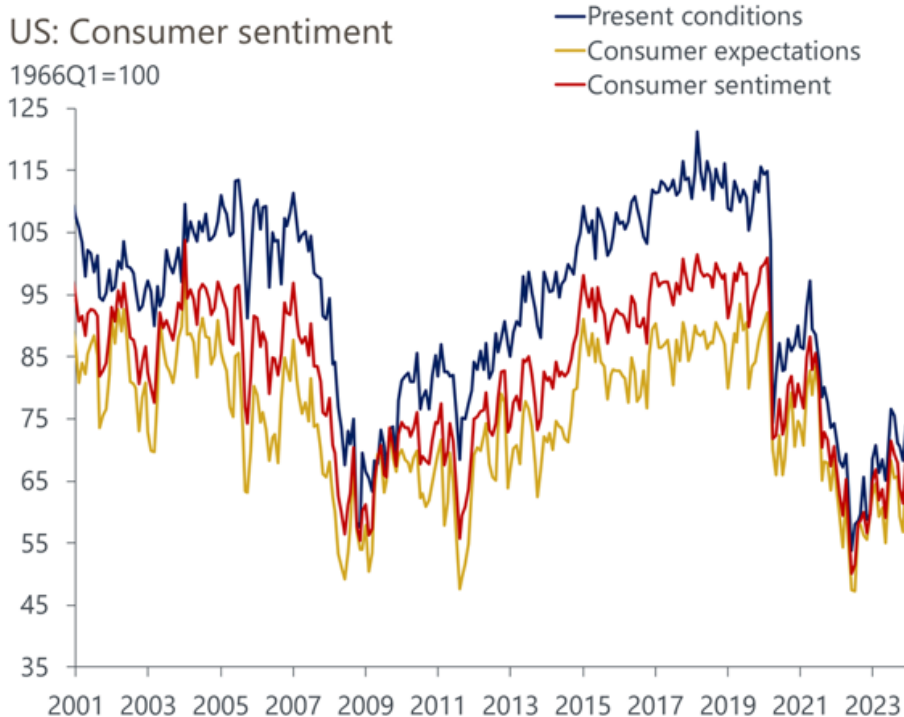
The year-over-year rate is still high at 3.2%, but that will rapidly fall over the coming months and could be close to 2% by the middle of this year.

Lodging Forecast (continued)

The Visit California Lodging Forecast also includes national consumer sentiment data. The chart suggests an upward trend after steep declines in 2020 and 2022, following a decade of consistently strong sentiment.

US: CONSUMER SENTIMENT

Consumers are feeling uneasy



Visit California engaged Tourism Economics to prepare a custom forecast of key lodging sector indicators for twelve California regions (consistent with the market as defined by STR). The analysis relies on:

- Data provided by Visit California, such as historical guest hotel metrics;
- Tourism Economics' prior research on California's tourism economy;
- STR hotel data through December 2023;
- Economic forecasts prepared by Oxford Economics, parent company of Tourism Economics; and,
- Assumptions on the future path of tourism sector recovery.

The full Visit California Lodging Forecast report may be found at www.industry.visitcalifornia.com

Strategic Implications

Visit Morgan Hill's overall strategy holds strong, while this Market Assessment unearths some nuance. Reinforcing a value proposition for Morgan Hill travel, prioritizing "off-season" hotel group leads, and continuing development of diverse, year-round visitor experiences addresses the key learnings in this report.



Reinforce Relative Destination Value

Affordable, high-quality experiences

- Approachable wine country
- Diverse farm to table dining
- Just a short drive away
- Competitive hotel rates

Generate Leads for Winter & Shoulder Seasons

Target high-need times

- Work with facilities to prioritize need dates for sports opportunities
- Work with partners to promote indoor and off-season activities



Advocate for Strategic Development

Support tourism experience & offerings

- Support new assets with year-round seasonality
- Support diversified hotel product
- Invest in streamlined data sources

Acknowledgments

Committed and appreciated partners:

- Visit Morgan Hill Board of Directors
- Morgan Hill Hotel Stakeholders
- City of Morgan Hill Councilmembers
- City of Morgan Hill Teammates
- Morgan Hill Chamber of Commerce
- Morgan Hill Downtown Association
- Wineries of Santa Clara Valley
- Visit California
- Central Coast Tourism Council

We thank you for your continued support of our efforts to elevate Morgan Hill's profile as a premier California tourism destination.

Contact

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