

Storm coming for S.F. hospitality industry: City will lose 1 million visitors over next two years

Hotels in San Francisco may take a big financial hit over the next two years, with the loss of one million convention attendees due to the Moscone Center's renovation.

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SKIDMORE, OWINGS & MERRILL LLP WITH MARK CAVAGNERO ASSOCIATES

The \$500 million Moscone center expansion will add 300,000 square feet to the convention center.

San Francisco's largest convention center is undergoing a \$500 million expansion project, which will increase the space from 625,600 square feet to 888,300 square feet, and add 42 percent more usable space. The project is expected to be completed by fall 2018 and will eventually help fill more hotel rooms and restaurant seats in San Francisco, but in the short-term its closure will hurt local businesses.

Moscone's 70 or so annual events are responsible for generating a significant amount of San Francisco's tourism revenue: around 20 percent of the total

economic impact from visitors comes from Moscone attendees, according to San Francisco Travel. The center is known for attracting major tech conventions such as Salesforce (NYSE: CRM)'s Dreamforce and Oracle Corp. (NYSE: ORCL)'s OpenWorld, which brought in 135,000 and 60,000 attendees last year, respectively.

SFTravel CEO Joe D'Allessandro said that Moscone North and South will be closed for five months in 2017. As a result, the city will see 360,000 fewer room nights for the entire year.

San Francisco Marriott Marquis General Manager Chuck Pacioni said that the renovation will be a big deal for the hotel industry and city as a whole.

"A lot of the demand and rates in the city are associated with the convention center, and when 40 percent of that is gone, simple math tells you that it's going to be challenging for everyone," he said.

Hotel consultant Rick Swig of RSBA & Associates foresees several ripple effects from the Moscone renovation. Less hotel demand due to the loss of one million attendees means hotels may be chasing visitors with lower rates. If hotels cut rates to fill rooms, they will bring in less revenue. Lower hotel revenue would mean the city's tourism occupancy tax will bring in less money for the city's general fund.

Counterbalancing some of the loss from the Moscone closure is the reopening of the SFMOMA, which will bring more visitors to the Yerba Buena area.

Pacioni of the Marriott Marquis said that looking on the bright side, he hopes business will be even better when the renovation is complete.

"One silver lining in all of this is Moscone is the lifeblood of this city. The past four to five years with business being so strong, some people have lost sight of that. They'll all be reminded of that in the next two years," said Pacioni.

To off-set the loss, SFTravel is working with hotels near Moscone to focus on booking smaller meetings in hotel ballrooms and meeting spaces. SFTravel launched a campaign called "Wow" that provides special incentives for meeting

planners to book meetings in hotels, such as offering free Wi-Fi.

"We're focused on building different types of meetings," said D'Alessandro. "We won't make up for all of it by any means, but some of it."

SFTravel is also building more international business and attracting visitors from China and the United Kingdom, which have been some of the strongest tourism markets for San Francisco.

While Swig believes that the shortfall of attendees won't be a disaster due to the city's strong corporate economy and tourist economy, he said that businesses directly around Moscone are going to suffer. He predicts that small restaurants and shops in the area will be hurt.

"I can tell you that there's a big storm coming and it's guaranteed to drop 10 inches of water on the ground," Swig said. "Even if businesses say 'Yeah I'm prepared for it', it's still going to affect you."

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