Marcus & Millichap

Hospitality Research

2018 INVESTMENT FORECAST

Central Midwest

Hotel Reservations Rise; Investors Flock To Major Cities in Missouri and Oklahoma

Business and sporting events in the Central Midwest keep the region's hotels booking guests. Missouri and Oklahoma led occupancy and RevPAR gains last year for the region, which also includes Kansas. In Missouri, major corporate relocations, including those by the National Geospatial Intelligence Agency, Pfizer and Microsoft, will fuel improved weekday room demand. This spring, St. Louis' hotel occupancy is expected to lift as college basketball enthusiasts reserve rooms to attend the 2018 SEC Men's Basketball Tournament in the Scottrade Center. Farther south, the opening early last year of Oklahoma City's Expo Center, the municipality's largest event space, has attracted several more national and international events to the metro. This year construction is expected to start on the city's new convention center and luxury hotel. Moving forward, the region as a whole will experience moderately improving occupancy that will in turn drive further gains in ADR and RevPAR.

Buyers home in on Missouri metros as more higher-service properties are sold. Limited asset availability and increased investor demand intensified the competitive bidding environment, prompting the average sale price per room to appreciate by 28 percent in 2017. An even larger increase occurred for Missouri-based hotels, which traded with greater frequency this past year. Demand for assets situated in St. Louis and Kansas City in particular pushed prices higher. Part of this appreciation is also due to what types of establishments are selling. In the past, independent and economy hotels were the most popular products. Recently more midscale and upper midscale properties changed hands. While there is greater diversity of chain scales in the deal pool, non-institutional investors are still predominantly trading 30- to 40-year-old buildings with fewer than 100 rooms. These buyers prefer suburban establishments near major highways.

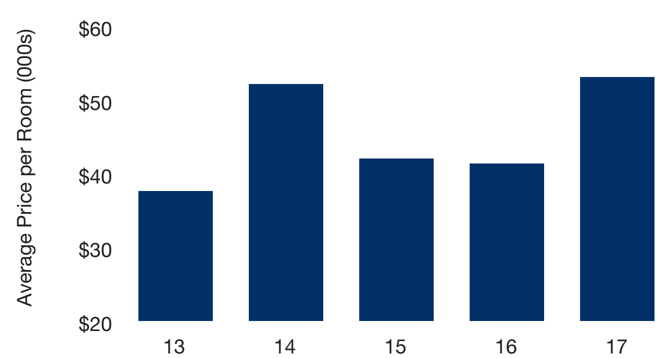
States: Kansas, Missouri and Oklahoma

2018 Demand Growth

1.9% Year-over-Year Room Nights

1.9%	2017 Year-over-Year Leisure and Hospitality Employment Growth
-40 bps	Five-Year Occupancy Growth 2014-2018
5%	Five-Year RevPAR Growth

Hotel Sales

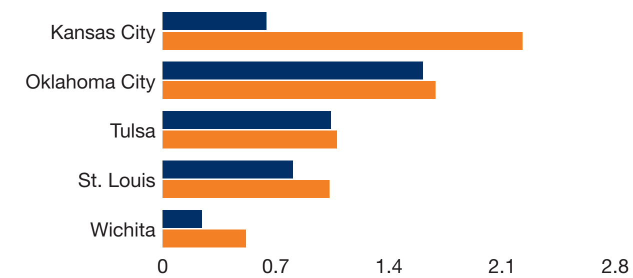


Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

2018 Regional Highlights

- A $380 million redevelopment of the parkland surrounding the Gateway Arch will conclude in 2018, adding 11 acres of greenery and expanded museum space that will attract tourists. This should generate additional demand for hotels in St. Louis, the region's primary hospitality market.
- The first new convention-center-adjacent hotel in 35 years will open in Kansas City in 2020. The $322 million, 800-room project is currently under construction, and it will be owned and operated by Loews Hotels.
- News of Oklahoma City's upcoming 270,000-square-foot convention center and Omni hotel, scheduled to open downtown in 2020, will improve hotel demand this year. The Paddlesport Retailer trade show is relocating its annual event to the metro so the show can grow into the new venue over time.

Development Trends♦



2018 Region Forecast

Supply up 1.0% — Approximately 8,600 rooms are under construction across the region, with the greatest proportion slated for Oklahoma. Of the 3,500 rooms to be delivered to the state, nearly half of them are in Oklahoma City.

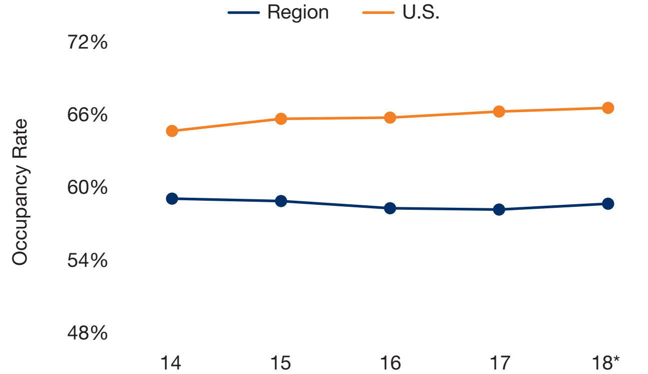
Occupancy up 50 bps — Annual occupancy will improve to 58.4 percent in 2018 following three years of mild declines. The region is still below the 2015 peak of 59.0 percent.

ADR up 2.3% — An increase in revenue provided by higher occupancy will prompt ADR to increase to $91.78. Last year the rate grew 2.2 percent.

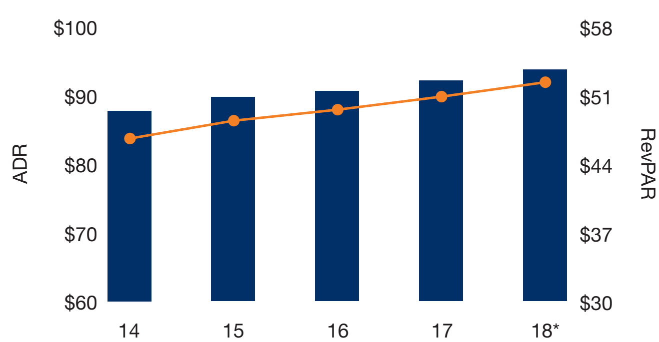
RevPAR up 2.2% — Contributions from higher ADR assist RevPAR in advancing to $53.60 this year, surpassing 2017's growth rate of 2.0 percent.

Investment — Tulsa tied St. Louis in the number of hotel transactions reported in 2017. A greater number of medium-size independent and sub-full service establishments traded at half the price per room and at an average cap rate 300 basis points below that of the Gateway City.

Annual Occupancy



Full-Year Revenue Measures



♦2017 Recent Opens; 2018 Under Construction
* Forecast
Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

Peter Nichols | National Director National Hospitality Group
(212) 430-5100 | peter.nichols@marcusmillichap.com

For information on national hospitality trends, contact:

John Chang First Vice President | National Director Research Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Sources: Marcus & Millichap Research Services; AH&LA; AARP Research; Altus Data Solutions; Bureau of Economic Analysis; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; PKF Hospitality; Real Capital Analytics; STR Inc.; Trepp; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Treasury Department.