Marcus & Millichap

Hospitality Research

2018 INVESTMENT FORECAST

Gulf Region

Investors From Coast to Coast Acquire Properties in Tourist and College Towns

Hotel performance in the Gulf Region is mixed this year. In New Orleans, fewer rooms under construction and more international tourism from new direct London and Frankfurt, Germany, flights will relieve some downward pressure on occupancy. The region's largest hotel market will post a decline in the rate during the first half of the year as 2017's high numbers were buoyed by the NBA All-Star Game. This will soften annual revenue metrics, as a lack of strong gains will hamper RevPAR growth for the state of Louisiana as a whole. In Alabama, ADR and RevPAR both advance in 2018. A moderating development pipeline plus reoccurring bookings from college-related travel aid occupancy. Revenue measures will also slightly improve in Mississippi, while Arkansas' RevPAR falls for the second consecutive year because of decreasing occupancy. The Gulf Region at large will exhibit a higher ADR in 2018 despite falling occupancy and RevPAR.

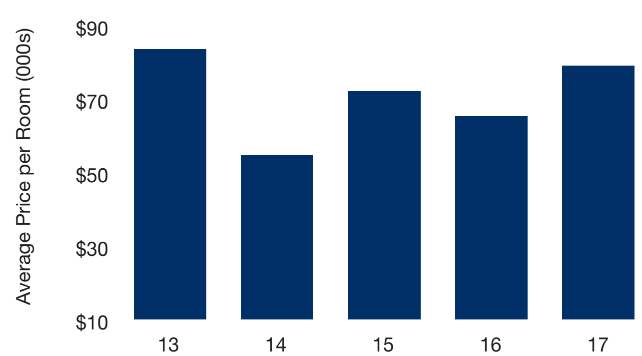
Metros with reliable sources of tourism dominate recent sales. The number of transactions in 2017 increased 11 percent year over year as buyers looking to diversify their portfolios came to the Gulf. Investors from across the country, including from California, New York, Nevada and Virginia, acquired hotel properties in all four states, with an emphasis on select service establishments. In contrast to previous years, a greater number of independent assets changed hands in 2017, reflecting how some buyers are widening their purchasing parameters. Alabama and Louisiana continue to lead the region in trade volume, with New Orleans taking center stage. Investors in the market focused on the highly visited French Quarter. This included the sale of the Westin on Canal Street, an eight-figure deal that inflated average prices for the city. Elsewhere, the Alabama metro of Birmingham and Arkansas city of Little Rock garnered multiple transactions.

States: Alabama, Arkansas, Louisiana and Mississippi

2018 Demand Growth

-0.3% Year-over-Year Room Nights

Hotel Sales



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

2.0% 2017 Year-over-Year Leisure and Hospitality Employment Growth

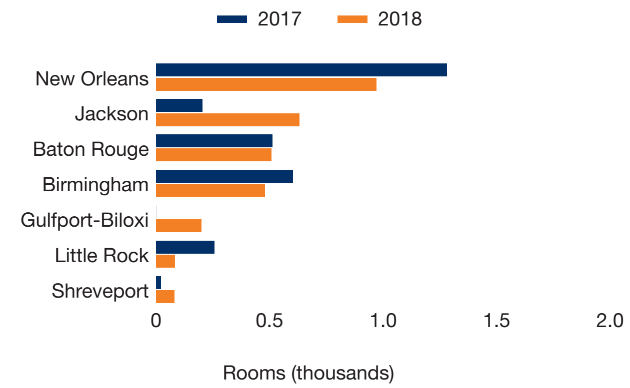
-50 bps Five-Year Occupancy Growth 2014-2018

6% Five-Year RevPAR Growth

2018 Regional Highlights

- In the aftermath of Hurricane Katrina extended-stay hotels in impacted markets outperformed the rest of the country for years following the natural disaster. Similar hotels in markets affected by Hurricanes Irma and Harvey, including parts of Louisiana and Alabama, may register a boost in occupancy and revenue this year.
- Hotels in Mississippi will face less encroachment from Airbnb and similar services in 2018. Late last year the state began taxing short-term rentals at the same rate as hotels.
- Huntsville, Alabama, which already hosts the state's most visited paid attraction, the U.S. Space & Rocket Center, will welcome a new joint Toyota-Mazda manufacturing plant in the near future. Building the plant will create immediate hotel demand from construction workers.

Development Trends♦



2018 Region Forecast

Supply
up 1.0%
About 7,300 rooms will open in the region this year. Louisiana will receive the highest concentration of rooms at 2,800, although Alabama and Mississippi will each also welcome over 1,500.

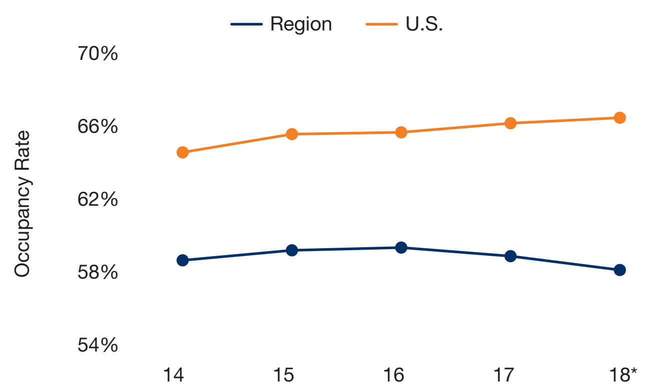
Occupancy
down 80 bps
A downtick in room demand translates to a decline in occupancy to 57.9 percent. Occupancy also dipped last year.

ADR
up 1.5%
Fewer rooms being built will restrict availability during peak travel times, contributing to ADR growth above last year's 1.3 percent pace. The rate is now $95.04.

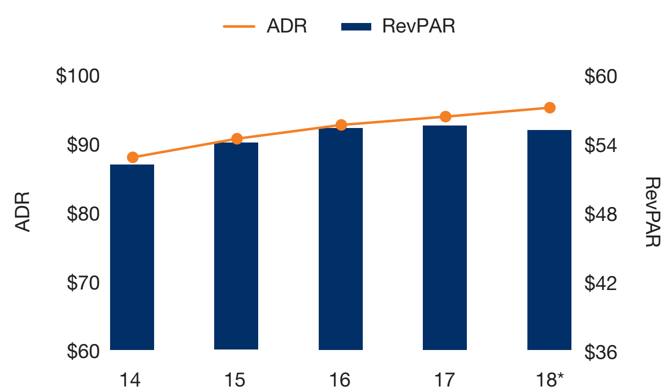
RevPAR
down 0.7%
Despite an increase in ADR, RevPAR will fall modestly in 2018 to $55.07. Last year RevPAR moved up 0.3 percent.

Investment
While the most trades took place in Louisiana, investors also conducted notable business in Alabama. Metros in the state that host large colleges, including Birmingham, Mobile, Huntsville and Montgomery, routinely attract the most attention. Consistent revenue from hotels that cater to college travelers add appeal for those looking for long-term holds.

Annual Occupancy



Full-Year Revenue Measures



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

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Statistical Summary Note: Hotel chain scale definitions are based on information available as of December 2017. Average prices and cap rates are a function of the age, type and geographic area of the properties trading and therefore may not be representative of the market as a whole. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

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.