Hospitality Research

2018 INVESTMENT FORECAST

Mid South

Investors Exercise Caution Amid Concerns of Growing Hotel Stock

Heightened supply in Nashville weighs on occupancy. The Nashville metro has led regional improvements over the course of the recovery and in turn fueled construction of new hotels. Last year, heightened completions in the metro began to weigh on occupancy, slowing the pace of ADR and RevPAR growth. Nashville's construction pipeline continues to widen as more than 5,000 rooms are under development and an additional 5,800 are expected to break ground throughout the next 12 months. Elevated deliveries will likely weigh on the metro's occupancy rate again this year, slackening increases in ADR and RevPAR growth. Outside Nashville, strong performances in smaller markets throughout the region, like Memphis, will mitigate a decline in regional occupancy, keeping the rate unchanged this year and driving modest increases in the average daily rate and RevPAR.

Investor demand picks up in Kentucky. Concerns of oversupply in Nashville contributed to a slowing pace of transaction velocity last year and slightly declined the average price per room regionally. Despite the decrease, property values and deal flow in the region remain above the previous five-year average as revenue metrics perform above national rates of growth, buoying investor interest. While properties in Tennessee comprise the majority of transactions, buyers are increasingly seeking hotels in Kentucky. Sales in the state have nearly doubled in the last five years with buyers primarily focusing on economy and midscale properties in larger metros including Lexington and Louisville. Hotels throughout Kentucky trade with average first-year returns in the low-11 percent band, providing investors opportunities for significant yield potential. In Tennessee, investor caution in Nashville may continue into 2018 amid another year of heightened supply additions, motivating some buyers to consider hotels in outlying areas of the metro.

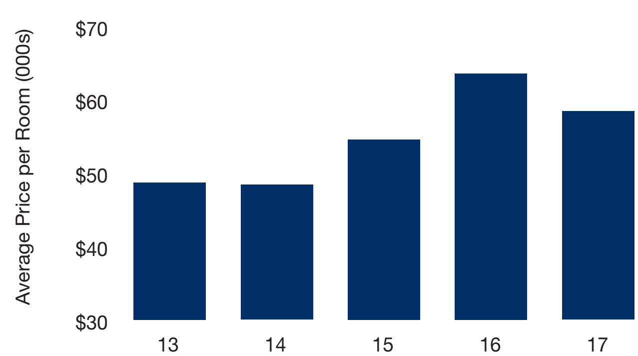
2.1%	2017 Year-over-Year Leisure and Hospitality Employment Growth
260 bps	Five-Year Occupancy Growth 2014-2018
26%	Five-Year RevPAR Growth

States: Kentucky and Tennessee

2018 Demand Growth

1.5% Year-over-Year Room Nights

Hotel Sales

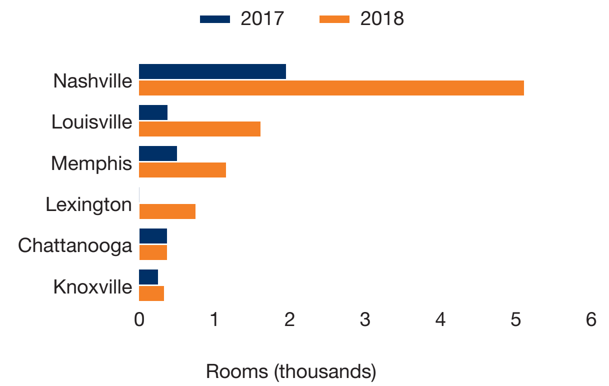


Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

2018 Regional Highlights

- Nashville remains a popular meeting and leisure travel destination, attracting 14.5 million visitors in 2017. Visitation to the metro has increased more than 70 percent since 2008 driving significant hotel demand. Continued investments into the metro will likely support this trend moving forward.
- Airbnb and the Kentucky Department of Revenue reached an agreement last year for the home-sharing service to collect sales taxes on all stays. This, and additional registration requirements in some metros, may reduce the number of willing hosts and benefit statewide hotel occupancy.
- The Kentucky International Convention Center in Louisville will reopen this year after expansions and updates. The reopening will provide opportunities for more meetings and events, benefiting hotels in the metro.

Development Trends♦



2018 Region Forecast

Supply up 2.6%

Nearly 9,400 rooms are underway in the region and an additional 11,000 rooms will break ground in the next 12 months. Nashville will receive the majority of these completions, which are primarily in the select-services segment.

Occupancy no change

The occupancy rate will remain unchanged this year at 63.2 percent as elevated supply additions regionwide weigh on improvement.

ADR up 3.5%

ADR growth will moderate with the rate reaching $109.33. Growth remains above the national rate of 2.5 percent.

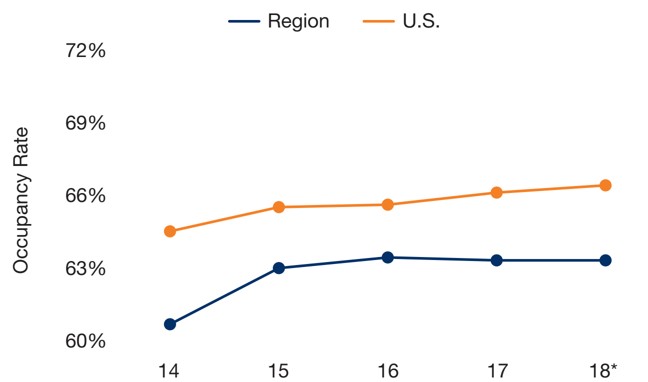
RevPAR up 2.6%

Unchanged occupancy combined with slowing ADR growth will moderate RevPAR from the 4.2 percent increase recorded last year. RevPAR will reach $69.10 this year.

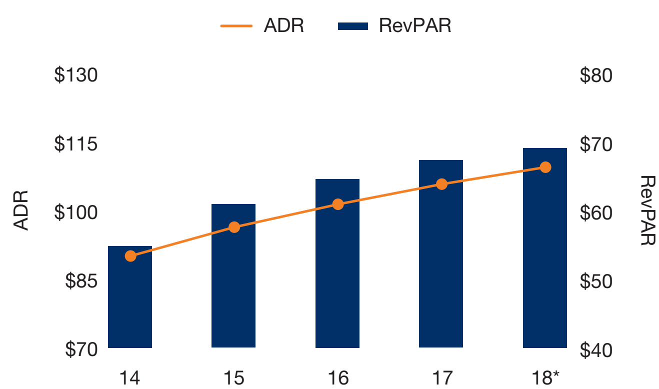
Investment

Strong hotel performance metrics in Memphis may ignite investor demand in the area. Occupancy climbed 110 basis points in the metro last year, fueling ADR and RevPAR growth of 3.5 percent and 5.0 percent, respectively.

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.