Marcus & Millichap

Hospitality Research

2018 INVESTMENT FORECAST

New York

Statewide Tourism Triggers New Supply; Investor Interest Outside NYC Heightens

Revenue performance measures moderate. The performance of hotels outside of the New York City metro mitigated statewide occupancy improvement last year. The occupancy rate in New York City jumped 120 basis points in 2017 as room nights climbed nearly 5 percent, while statewide occupancy rose 40 basis points. This year, a burgeoning construction pipeline in the metro will slow the pace of occupancy growth marginally, placing downward pressure on ADR and RevPAR amid heightened competition from increased rooms. Outside New York City, the Buffalo and Albany markets each received over 500 rooms last year. Both metros have more than 1,000 rooms either under construction or scheduled to break ground in the next 12 months. The high number of completions will constrict occupancy and weigh on ADR and RevPAR in 2018 although increased investments to boost tourism in both areas could partially negate declines moving forward.

Investors re-evaluate strategies. Transaction velocity in the New York City metro has slowed during the last two years, contributing to declining deal flow statewide. Fewer select-service assets changed hands across New York City with the majority of hotel sales in this segment located in Manhattan. Institutional investors primarily targeted these properties, which traded with average first-year returns in the mid-5 to low-7 percent band. A surge in construction for upscale and upper midscale hotels could provide buyers with additional opportunities for select-service assets. Buyers in the $1 million to $10 million price tranche who have been priced out of Manhattan will target hotels on Long Island where cap rates in the low-7 to 8 percent range are found. Here, the majority of investors target independent hotels, which can provide a variety of value-add opportunities.

2018 Demand Growth

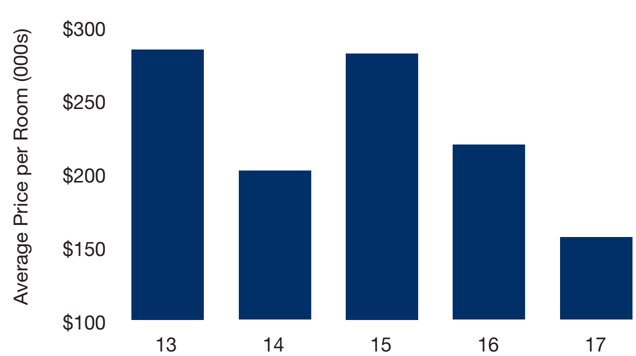
4.1% Year-over-Year Room Nights

2.2% 2017 Year-over-Year Leisure and Hospitality Employment Growth

70 bps Five-Year Occupancy Growth 2014-2018

-1% Five-Year RevPAR Growth

Hotel Sales

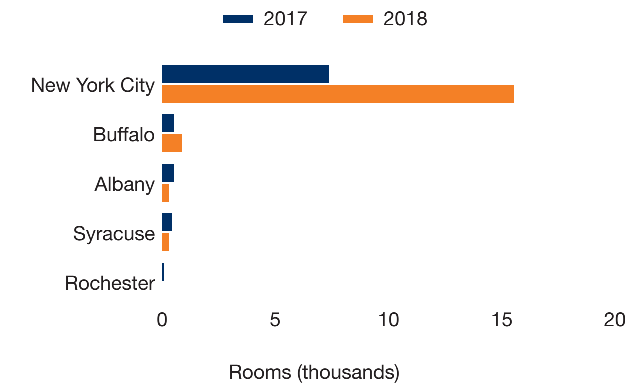


Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

2018 Regional Highlights

- An estimated 61.8 million tourists visited New York City in 2017, setting an eighth consecutive year of record tourism. A new ad campaign to attract longer stays in the city could drive additional travel this year, boding well for hotels.
- The large construction pipeline in the metro of New York will increase competition in the market. As a result, hoteliers are utilizing creative concepts to lure millennial travelers, like rooftop bars and revamped designs that customers want to post on social media, providing additional advertising to hotels.
- The $10 million investment for a new tourism center in Auburn was announced late last year. The center will promote the city and region in an effort to boost travel to the area. Increased visitation, particularly from regionally located individuals, could benefit hotel occupancy and revenue metrics.

Development Trends♦



2018 Region Forecast

Supply up 3.8% — Roughly 18,800 rooms are under construction statewide, with the majority of rooms underway located in the New York City metro. Marketwide, about half of all completions are select-service hotels.

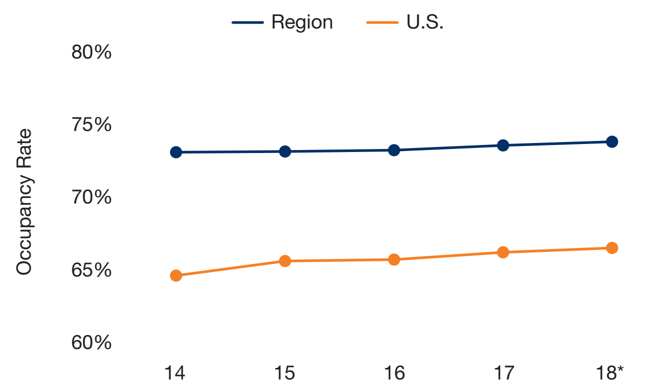
Occupancy up 30 bps — Following a 40-basis-point increase in occupancy last year, the rate will tick up 30 basis points to 73.6 percent as the heightened pace of construction slows overall improvement.

ADR down 0.2% — The average daily rate will decline to $198.70 this year. Increased competition from amplified supply additions has slowed ADR growth for the past four consecutive years.

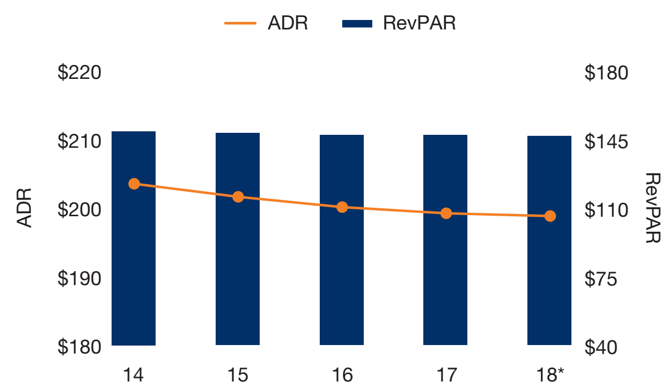
RevPAR down 0.1% — Declining ADR growth will reduce RevPAR nominally to $147. Last year, annual RevPAR ticked down 0.4 percent.

Investment — Limited listings and heightened demand in Westchester have elevated prices to $100,000 per room the last two years. The area's recreational activities attract individuals from nearby New York City, benefiting area hotels.

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.