# Hospitality Research

## 2018 INVESTMENT FORECAST

North Central

Marcus & Millichap

## Expanding Economy Drives Hotel Gains; Investors Target Indianapolis

**Indiana and Michigan post strong ADR and RevPAR growth as regional occupancy rises.** The North Central region, which comprises Indiana, Michigan and Ohio, will exhibit the best improvement in hotel occupancy for any region in the U.S. in 2018. A steady supply of new rooms coming to each state join with increased hotel demand to generate more reservations. On average, the hotels in Michigan and Indiana will both exhibit stronger growth rates in RevPAR than they performed at last year as economic recoveries are underway in Detroit and Indianapolis. The Detroit metro is undergoing a renaissance as automotive engineering and design firms are moving in. Meanwhile, Indianapolis is host to a rapidly expanding technology environment in which IT consulting, biotechnology and cloud-computing companies are opening new offices. The increased business demand for hotels as professionals fly in for conferences, meetings and interviews will improve weekday room sales for both metros and the states.

**Major metros in Indiana and Ohio lead sales.** The improved performance of the region's hotels underscored heightened transaction velocity, which doubled in 2017 compared with four years ago. Within the region, more hotels changed hands in Indianapolis last year as consistent occupancy, ADR and RevPAR gains have attracted buyers to the city, raising it to the top of the deal pool. A corresponding increase in the average price is partly reflective of intensified buyer demand in the market. Prices have also risen in Indianapolis due to a higher volume of select-service sales. Regionally, more upper midscale properties changed hands, although economy class assets remain a staple. Value appreciation in certain markets has not deterred investors in the $1 million to $10 million tranche who frequently engage in Indianapolis and Cincinnati. Over the past few years, Cincinnati has offered the highest yields for assets in this price tranche.

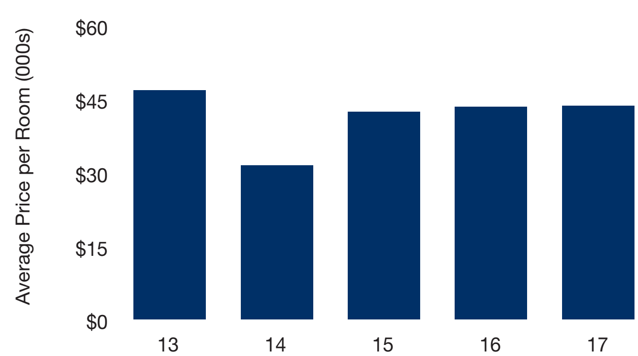
| | |
|---|---|
| 1.6% | 2017 Year-over-Year Leisure and Hospitality Employment Growth |
| 280 bps | Five-Year Occupancy Growth 2014-2018 |
| 18% | Five-Year RevPAR Growth |


States: Indiana, Michigan and Ohio

### 2018 Demand Growth

2.3% Year-over-Year Room Nights

### Hotel Sales

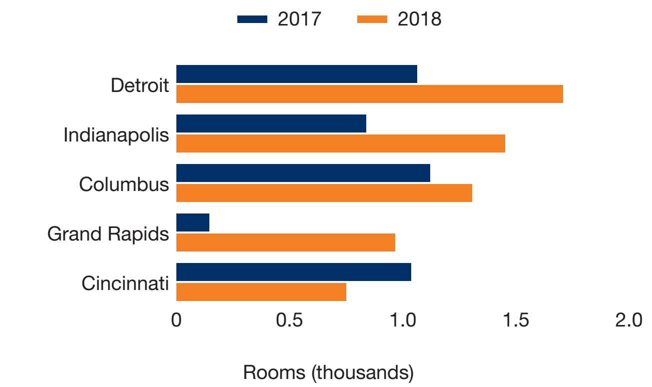



Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

## 2018 Regional Highlights

- Hotel room demand in Cleveland improved 3 percent in 2017, benefiting in part from hosting the Rock and Roll Hall of Fame Induction ceremony, which is held in the metro every other year when the event does not occur in New York. Going into 2018, increased demand for hotels will come to the city as it hosts the NCAA Division 1 Wrestling Championship.
- In addition to rising business-related hotel demand, tourism in Detroit will improve in 2018 as the city shares in hosting duties for the first two rounds of the NCAA Men's Basketball Tournament. Collegiate sports fans who come to watch the games will reserve rooms in the metro, which last hosted games in 2009 when the Final Four was held there.
- Cincinnati leads Ohio with hotel revenue growth thanks in part to $5 billion in annual spending from over 26 million visitors.

### Development Trends♦




## 2018 Region Forecast

**Supply** up 0.8%
New rooms will arrive in the region in the near future at a slightly faster pace than last year as 10,700 rooms are currently under construction. Each state will expand its inventory at approximately the same rate.

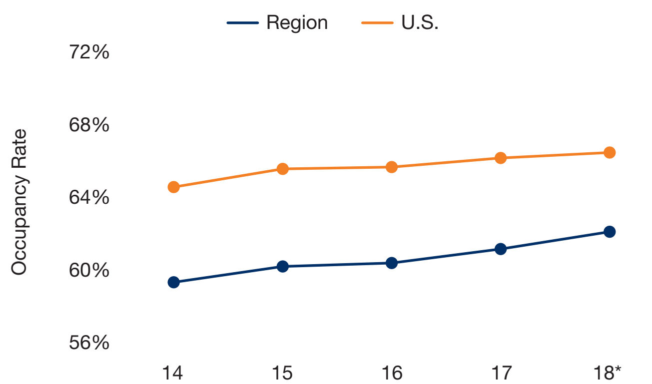
**Occupancy** up 100 bps
Strong room demand outweighs new supply to raise occupancy to 61.9 percent, the largest regional jump in the U.S.

**ADR** up 1.4%
The average daily rate will break the $100 mark for the first time thanks to improved room sales. Last year ADR grew by 1.8 percent.

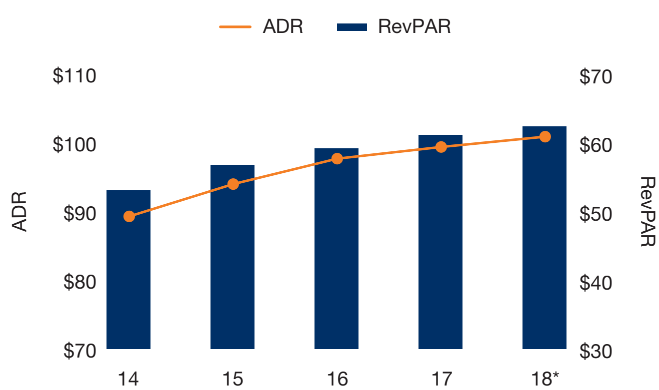
**RevPAR** up 2.2%
Heightened demand in several of the region's premier hotel markets will lead to continued RevPAR gains, putting the rate at $62.41. The region is a top performer for revenue growth.

**Investment**
Cincinnati remains a target for many private investors, specifically in North Dayton and near I-275. In the former location, cap rates can range above 9 percent at entry costs well below the regional average for the same type of hotels.

### 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.