

Hurricane Boosts Hotel Performance; Supply Additions Bring Challenges

Robust pace of completions softens major metros' occupancy.

Texas hotels ended 2017 on a high note as residents displaced by Hurricane Harvey sought temporary housing, filling rooms across the state and boosting occupancy and RevPAR growth for the year. The state contains the largest pipeline for new supply, which will challenge the hotel market in 2018. Approximately 200 hotels are under construction, bringing nearly 23,800 rooms, and an additional 276 hotels with more than 31,300 rooms are scheduled to break ground through the course of the year. These deliveries will drag on the overall occupancy rate this year, but Houston and Dallas will be most affected as they boast two of the largest construction pipelines in the country. A dip in occupancy in 2018 will moderate ADR and RevPAR growth through the year, as both will register lower than the five-year average pace.

Investors target Lone Star State for midscale and upscale hotels.

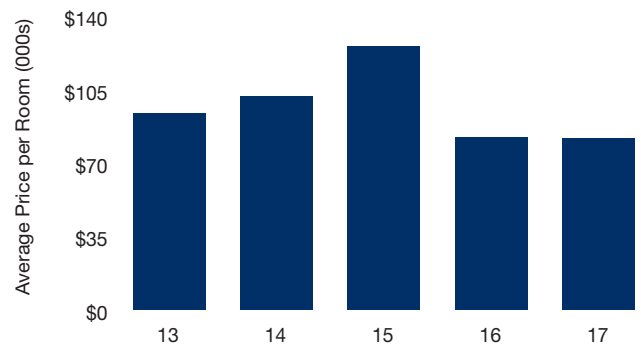
Bidding activity was strong in Texas during 2017 and the number of hotels changing hands increased for a second consecutive year. Interest in midscale and upscale hotel chains grew over time, accounting for 45 percent of all trades during the 12-month span. Approximately one-quarter of all hotels trades occurred in the Dallas/Fort Worth Metroplex, though velocity was flat, but Houston and San Antonio registered an increase in activity as investors sought hotels priced between \$1 million and \$10 million. Cap rates for properties in this price tranche average between 9.5 percent and 10 percent but can range 200 basis points higher or lower depending on property age, chain scale and service level. Investors will be mindful of the supply pipeline in select markets like Dallas/Fort Worth and Houston. A strong economy and business environment in the Metroplex and those helping with restoration efforts in Houston will drive demand for rooms over the year.



2018 Demand Growth

1.7% Year-over-Year Room Nights

Hotel Sales



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

2.8% 2017 Year-over-Year Leisure and Hospitality Employment Growth

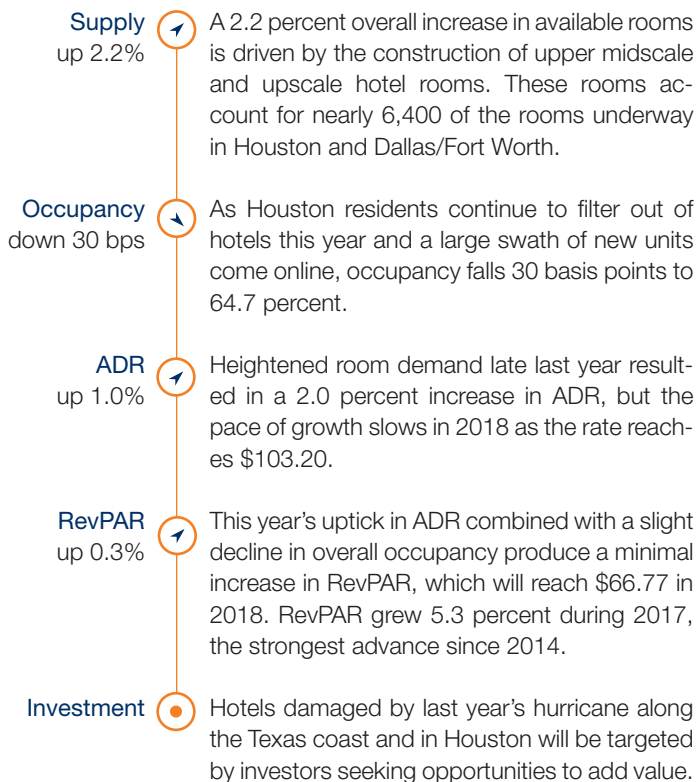
-120 bps Five-Year Occupancy Growth 2014-2018

4% Five-Year RevPAR Growth

2018 Regional Highlights

- While the addition of thousands of new rooms to inventory in Dallas/Fort Worth is expected to weigh on occupancy, the rate currently sits approximately 850 basis points above the 14-year average and will likely remain in the mid- to high-60 percent area due to strong business and economic growth.
- Austin hotels continue to outperform the rest of the state, with occupancy remaining over 70 percent during 2017. The state's capital also hosts a number of large festivals each year, including SXSW and ACL, which draw significant tourist traffic.
- The flooding from Hurricane Harvey boosted hotel occupancy in Houston, providing some relief to the segment after falling energy prices slowed business travel to the market in 2015 and 2016. The rate ended 2017 up 430 basis points from the prior year at 66.7 percent.

2018 Region Forecast

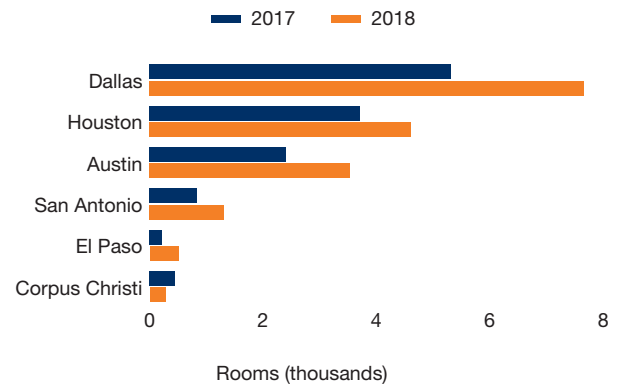


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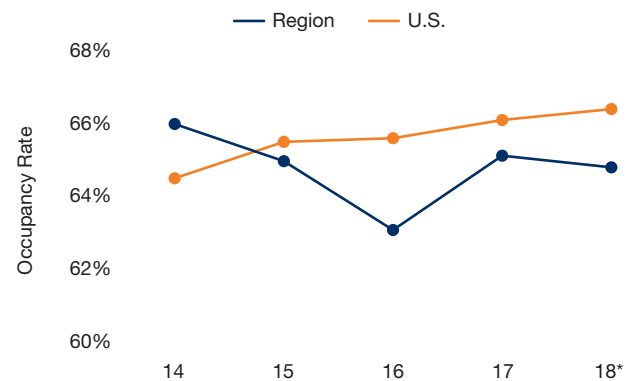
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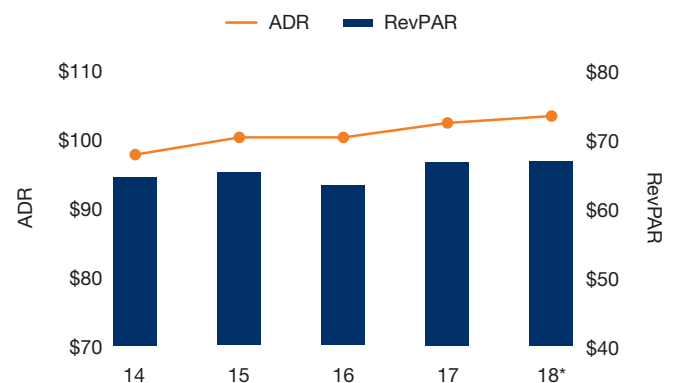
Development Trends*



Annual Occupancy



Full-Year Revenue Measures



*2017 Recent Opens; 2018 Under Construction

* Forecast

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

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.