

Hospitality Research

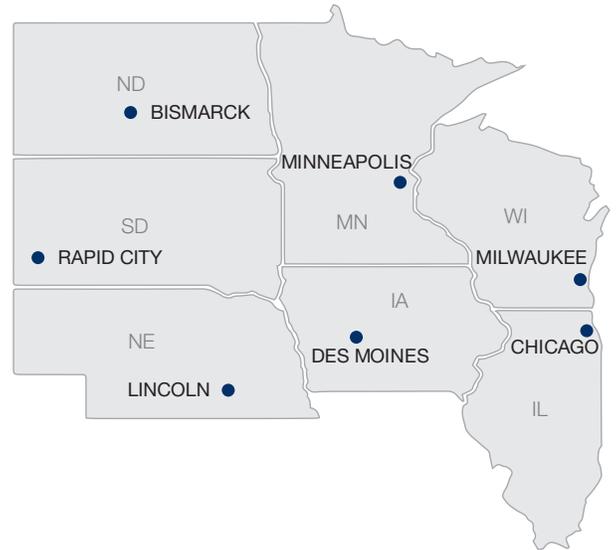
2018 INVESTMENT FORECAST

Upper Midwest

Midwest Metros Invest in Event Space; Buyers Look Outside Main Cities

More people travel to region for business functions and large-scale celebrations. Hotels in the seven-state region of the Upper Midwest performed well this past year as more individuals traveled to the area to attend major events. The most notable occasion, the Super Bowl, occurred in Minneapolis-St. Paul earlier this year. The corresponding boost to occupancy and ADR will contribute to RevPAR growth for the state at large. Chicago is coming off a record-setting year for tourism at more than 55 million visitors, supported by several events held in the city's convention center, McCormick Place, which set multiple attendance records. The trend is likely to continue as a connected hotel will open in 2018, expanding available event space and rooms. Hotels adjacent to convention centers in Des Moines and Omaha are also opening this year. This will enable both metros to host larger events with more amenities to attract attendees and rooms to host them. Such demand-side gains will result in more states reporting positive occupancy and ADR growth this year.

Among many choices, upper midscale properties trade often. A variety of market sizes and a large collection of brand-affiliated hotels at different chain scales provide a wide array of options for investors. Large and medium-scale cities such as Chicago and Minneapolis-St. Paul offer opportunities to acquire anything from a full service hotel to an economy brand. Buyers from the Southwest and West Coast often complete transactions in these urban centers. However, a majority of recent trades took place outside the most prominent hotel markets, with the secondary markets of Wisconsin and Illinois especially popular. In 2017 approximately the same number of independent, limited service and select-service establishments changed hands, denoting an increase in deals of upper midscale assets compared with the previous year.



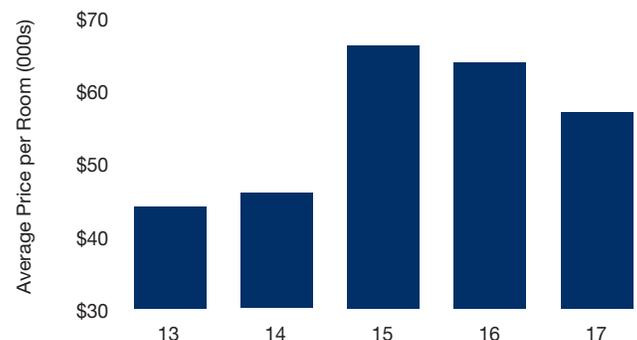
States: Illinois, Iowa, Minnesota, Nebraska, North Dakota, South Dakota and Wisconsin



2018 Demand Growth

1.8% Year-over-Year Room Nights

Hotel Sales



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

1.2% 2017 Year-over-Year Leisure and Hospitality Employment Growth

-140 bps Five-Year Occupancy Growth 2014-2018

6% Five-Year RevPAR Growth

2018 Regional Highlights

- Minneapolis-St. Paul hosted the 52nd NFL Championship Game in February of this year, a traditionally quiet month for the metro. As the third smallest hotel market out of the last eight Super Bowl host cities, constrained supply led to occupancy of 93 percent and RevPAR growth exceeding 500 percent relative to the same weekend last year.
- Milwaukee will receive a new sports arena, public-transit system and hotels this year, facilitating more business and leisure travel.
- Combined, the Dakotas hold 20 national and state parks. These wildlife preserves appeal to nature enthusiasts who travel to the area for many outdoor activities. The growing recreation sector contributes \$55.8 billion to the accommodations and food services industry annually.

2018 Region Forecast

- Supply** up 1.1% Approximately 12,600 rooms are under construction. At almost 5,000, the most rooms will open in Illinois. Iowa's supply will expand the highest as a percentage of inventory. Collectively, developers will add 380 rooms to the Dakotas.
- Occupancy** up 40 bps Positive demand from special events will help improve occupancy, placing it at 59.9 percent, after two years of declines.
- ADR** up 1.0% Rising occupancy combined with higher rates during peak travel periods will contribute to an increase in ADR to \$109.68. Last year ADR rose by 0.3 percent.
- RevPAR** up 1.2% Higher occupancy and ADR growth will support a new RevPAR level of \$67.08. RevPAR dipped 0.8 percent in 2017.
- Investment** Private investors in the \$1 million to \$10 million tranche acquired brands such as Country Inn, Hilton Inn, Days Inn and Super 8 in the markets of Chicago, Minneapolis, Des Moines and Green Bay. Many transactions involved properties along highways connecting those cities.

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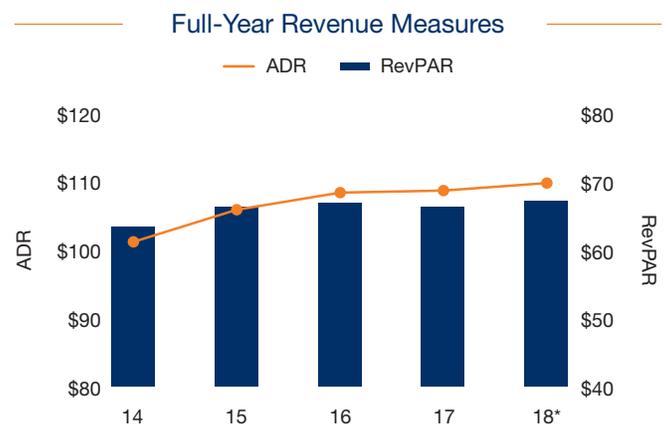
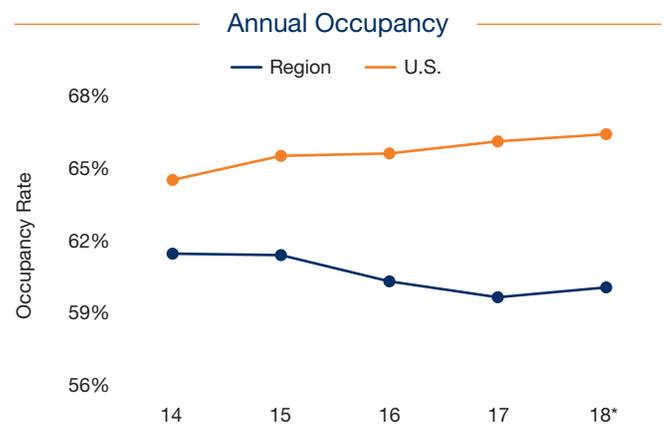
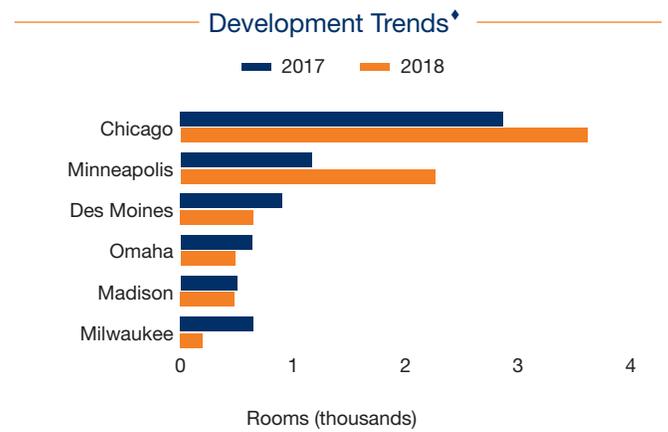
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Statistical Summary Note: Hotel chain scale definitions are based on information available as of December 2017. Average prices and cap rates are a function of the age, type and geographic area of the properties trading and therefore may not be representative 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.

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*2017 Recent Opens; 2018 Under Construction
* Forecast

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