Marcus & Millichap

Hospitality Research State Report

California

Second Half 2017

Occupancy and Revenue Metrics on Upward Trajectory in California

California hospitality demand drivers flourish. The state of California benefits from steady hotel room demand that increased occupancy and fueled revenue growth during the year ending in June. The Los Angeles/Long Beach metro registered a notable uptick in room nights since last June amid strong tourism and convention demand. During the fiscal year of 2016-2017, the Los Angeles Convention Center had the highest number of bookings on record. Increased visitation to the metro lifted occupancy and drove significant gains in the average daily rate and RevPAR statewide. In the Inland Empire, air travel has risen consistently after the city of Ontario obtained ownership of the Ontario International Airport last year. Under the city's ownership, the airport has offered incentives to airlines, boosting flights and helping contribute to one of the largest hotel occupancy increases in this southern region. As the airport continues to add flights, including to international destinations, area hotels should benefit from increased visitors. San Diego's beaches and numerous attractions have made the metro attractive for conventions and events. The metro hosted the 2016 MLB All-Star Game and the world's largest biotech convention in June of this year. Increased visitation fueled occupancy growth to 85 percent in June, one of the highest rates among the major metros. Strong demand for area hotels also fostered above-average growth in revenue metrics.

California hotels pique buyers' attention. Improving occupancy and revenue metrics have fueled demand for California hotels, lifting transaction velocity. Properties in the $1 million to $10 million price tranche were highly targeted among buyers, particularly independent hotels. Among chain scales, more midscale and economy hotels changed hands during the last 12 months, which lowered the average price down roughly 4.5 percent to $168,800 per key. Across the major metros, strong demand drivers in San Diego and a healthy performance in the Inland Empire significantly boosted sales velocity in both markets. Many of the hotels traded in these two areas contained less than 100 rooms. Fewer properties listed in the Los Angeles metro drove a jump in sales volume as competition pushed prices for available assets higher. Hotels in the area traded at prices near $200,000 per room. Several smaller markets, including Fresno and Salinas, garnered inventors' interest during the last four quarters as buyers widened their acquisition parameters.

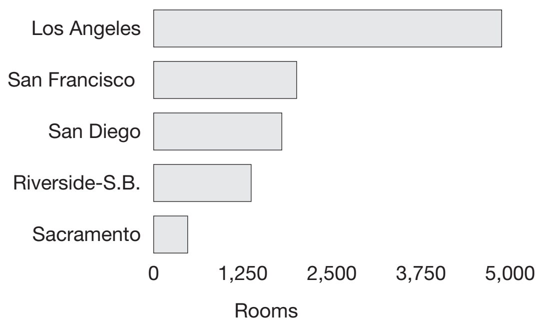
2017 Forecast

- **Revenue measures drive growth.** Room nights in California will outpace deliveries this year, lifting occupancy 40 basis points to 75.8 percent in 2017. The average daily rate will increase 3.8 percent amid improving occupancy to $163.63 by year end. As a result, RevPAR in the state will move up 4.4 percent year over year to $124.02.
- **Job growth persists.** Job growth above the national average in the metros of Riverside-San Bernardino and San Francisco may spark hospitality demand from business travelers. In Riverside-San Bernardino employers created 38,400 positions, a 2.7 percent increase year over year. Hiring in San Francisco rose 2.1 percent as 22,600 positions were added to staffs.
- **Hotel pipeline rises in many metros.** Roughly 17,800 rooms are under construction in California as several metros are increasing their development pipelines. In Los Angeles-Long Beach, nearly 4,900 rooms are under construction and an additional 4,800 will break ground in the next 12 months, potentially weighing on metrowide occupancy in the future. The San Francisco market has 2,000 under development after 340 rooms were completed in the previous four quarters.

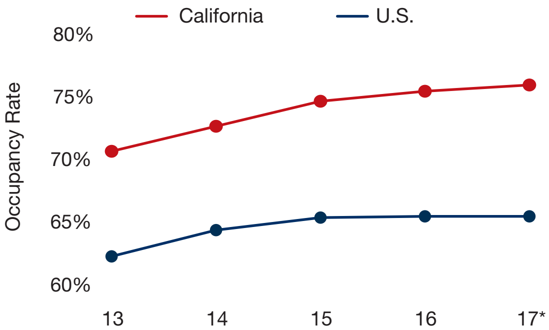
Metrics	2016	2017*
Occupancy	75.4%	75.8%
Demand Growth	1.6%	2.0%
Supply Growth	1.2%	1.5%
Average Daily Rate	$157.61	$163.63
Annual Change	5.5%	3.8%
RevPAR	$119.34	$124.02
Annual Change	6.6%	4.4%
Revenue Growth	6.1%	5.9%

* Forecast
Sources: Marcus & Millichap Research Services; STR, Inc.

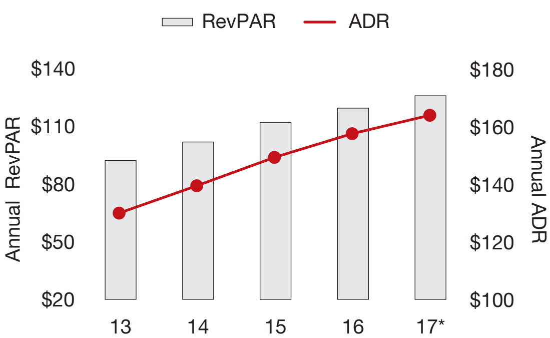
Under Construction Rooms



Annual Occupancy



Yearly Revenue Measures



* Forecast
Sources: Marcus & Millichap Research Services; STR, Inc.

Occupancy Trends

- Room nights rose 2.4 percent, outpacing supply additions and lifting the occupancy rate 70 basis points to 81.3 percent during the previous four quarters ending in June. The occupancy rate in California during this time has risen the past four consecutive years.
- The greatest occupancy improvements were registered in the metros of Riverside-San Bernardino and Sacramento. In Riverside-San Bernardino, year-over-year occupancy surged 340 basis points since last June to 67.8 percent as room nights in the metro increased 6.4 percent during the time. The rate is the lowest among the major metros in the state. In Sacramento, occupancy jumped 440 basis points during the last 12 months to 78.0 percent as room nights climbed 7.2 percent.
- In the last four-quarter period, more than 3,500 rooms in 13 hotels were placed into service in the metro of Los Angeles-Long Beach. The supply additions did not outpace a rooms night increase of 4.8 percent, lifting occupancy in the area 90 basis points year over year to 84.9 percent.

Revenue Trends

- The average daily rate in the state advanced 2.3 percent during the year ending in the second quarter to $165.92. The increase in ADR coupled with climbing occupancy lifted RevPAR in California 3.1 percent to $134.91 during this time.
- Several metros registered above-average growth in revenue metrics during the last four quarters. Los Angeles-Long Beach posted the largest increase with ADR in the market jumping 39.1 percent to $182.13. The significant boost in ADR generated a 55.1 percent increase in RevPAR during this time. The metro of Anaheim-Santa Anna also garnered significant ADR growth with the rate climbing 26.4 percent year over year. As a result, RevPAR in the area jumped 31.9 percent.
- After a 9.4 percent increase last year, ADR in the San Francisco-San Mateo metro fell 9.6 percent during the last 12 months to $225.58. ADR in the market remains the highest in the state. The decrease in ADR and declining occupancy in the area lowered RevPAR growth 12.6 percent.

Sales Trends

- Transaction velocity in California rose 7 percent during the year ending in June as demand for hotels in the metros of San Diego and the Inland Empire increased. Sales in Los Angeles, the Inland Empire and San Diego accounted for roughly a third of all hotel transactions.
- Within the branded segments in the state, limited service assets posted the largest increase in sales velocity during the last four-quarter period. These properties traded at prices near $75,000 per room. A slight increase in full service properties also occurred during this time. Increased competition for these hotels lifted the average price 8 percent to $343,000 per key.
- Fewer listings in Los Angeles slowed transaction velocity during the previous 12 months. Hotels in the South Bay submarket garnered significant investor attention during this time.

National Hospitality Group
Peter Nichols
Vice President | National Director, National Hospitality Group
Tel: (212) 430-5100 | peter.nichols@marcusmillichap.com

Prepared and edited by
Catherine Zelkowski
Research Analyst | Research Services

For information on national hospitality trends, contact:
John Chang
First Vice President | Research Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: $250