

Occupancy and Revenue Metrics Continue on Upward Track in Georgia

Georgia hospitality demand drivers flourish. Led by the vibrant Atlanta metro, Georgia’s hospitality sector has benefited from rising tourism and job growth. Strong hotel demand has lifted statewide occupancy and the average daily rate during the annual period ending in June. As a result, RevPAR registered a respectable jump from the prior year. In Atlanta, corporate expansions and relocations continue to fill rooms during the workweek. Professional services hiring in the metro far outpaces the national rate of growth and office vacancy has ticked down during the last 12-month period, benefiting business travel demand. As a result, hotel occupancy in Atlanta posted a triple-digit basis-point increase during the previous four quarters, expanding RevPAR and ADR. The metro also has a bustling and growing film industry, which can pack hotels as staff and movie workers travel for

production. The state’s significant film production tax incentives may drive additional growth in the industry, helping to boost hotel demand. Outside of Atlanta, Savannah continues to be a popular national tourist destination and a growing job center with one of the largest ports in the United States. Growth in the area should drive hospitality demand, particularly as the growing aerospace and manufacturing industries lure business travelers.

Limited listings push the average price higher. Demand for Georgia’s hotel properties has held steady during the year ending in the second quarter. Select- and limited-service assets made up the majority of all hotel transactions. The average price per room statewide edged up year over year as a competitive bidding environment for upper midscale

and independent properties lifted prices in both segments. Hotels in Atlanta garnered significant investor attention amid improvements in occupancy and revenue metrics. The metro has benefited from tourism demand as a record 52 million travelers visited the metro in 2016. Limited listings in Midtown and Buckhead pushed many investors outward into the Northlake, Northwest and South Atlanta submarkets. These three areas contained roughly half of all hotel transactions in the metro. In Savannah, fewer properties changed hands during the last 12 months from the prior year as less properties were available. Limited for-sale inventory pushed up the average price significantly, particularly in Downtown Savannah where hotels traded near \$280,000 per room.

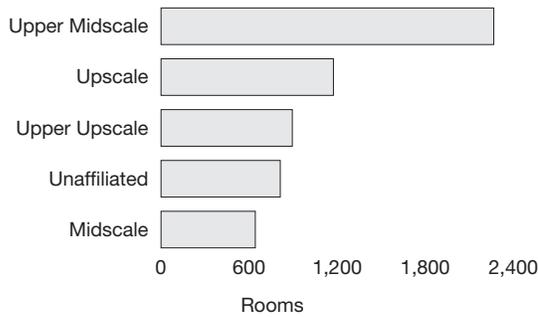
2017 Forecast

- **Revenue measures drive growth.** Room nights in Georgia will outpace deliveries this year, lifting occupancy 30 basis points to 65 percent in 2017. Flooding in the aftermath of Hurricane Irma may lift occupancy rates in some areas. Statewide, the healthy increase in occupancy will also foster ADR and RevPAR growth, rising 4.5 percent and 4.8 percent, respectively.
- **Job gains in Atlanta.** Employment growth in Atlanta has averaged above 3 percent during the prior four annual periods ending in June. Approximately 45,900 jobs were created during the first half of 2017, bringing the year-over-year total to 93,400. During the last 12-month period, office-using hiring jumped 6.4 percent as 47,800 positions were added to staffs. Strong hiring in this segment benefits hospitality demand, particularly during weekdays, as individuals travel for job interviews and business meetings.
- **Hotel planning pipeline rises.** The construction pipeline in Atlanta has more than 3,700 rooms in the final planning stage that are expected to break ground in the next 12 months. An additional 2,000 rooms are planned, though tightening construction lending standards could prevent several projects from advancing.

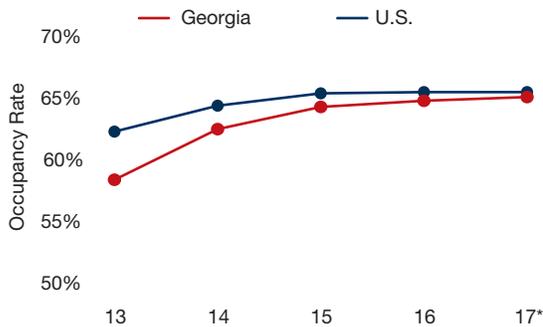
| | 2016 | 2017* |
|--------------------|---------|----------|
| Occupancy | 64.7% | 65.0% |
| Demand Growth | 2.3% | 2.1% |
| Supply Growth | 1.3% | 1.4% |
| Average Daily Rate | \$97.61 | \$102.10 |
| Annual Change | 5.2% | 4.5% |
| RevPAR | \$63.36 | \$66.37 |
| Annual Change | 6.0% | 4.8% |
| Revenue Growth | 7.5% | 6.8% |

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

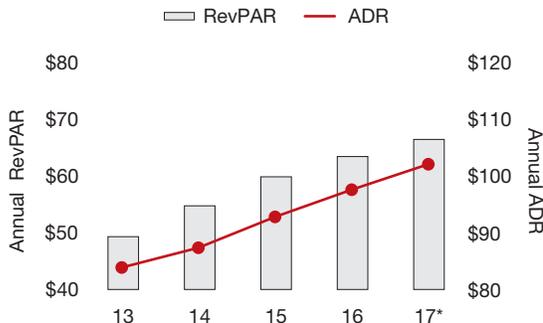
Planned Rooms in Atlanta



Annual Occupancy



Yearly Revenue Measures



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

Occupancy Trends

- Room nights of 3.8 percent exceeded the number of completions, lifting statewide occupancy 160 basis points since last June to 69.7 percent. In the corresponding period in 2016, the occupancy rate in Georgia declined 80 basis points.
- The performance of the Atlanta market is improving after a decline in occupancy was registered in the prior 12-month period. During the year ending in the first second quarter of 2017, rooms available rose 1.5 percent and the number of rooms sold climbed 3.8 percent. As a result, metrowide occupancy jumped 160 basis points to 73.8 percent. In the previous year, occupancy declined 200 basis points amid fewer room nights.
- In the last four-quarter period, nearly 1,500 rooms were placed into service throughout 13 hotel projects. The bulk of new rooms were in the upper mid-scale and upper upscale segments. Roughly 3,700 rooms are under construction metrowide, which may place slight downward pressure on occupancy rates in the coming year.

Revenue Trends

- The average daily rate in the state advanced 4.8 percent during the year ending in June. Rising occupancy, coupled with the increase in ADR, led to a 7.2 percent jump in RevPAR during this time. In the previous year, ADR climbed 4.6 percent and RevPAR advanced 3.3 percent.
- In Atlanta, growth in revenue metrics has picked up from the last four quarters. Since last June, ADR in the metro jumped 6.1 percent and RevPAR edged up 10.1 percent. In the prior annual period, ADR and RevPAR registered 4.0 percent and 1.2 percent growth, respectively.
- ADR and RevPAR growth in Atlanta eased slightly in the April-May period from the first three months of this year before rising again in June. The days of highest growth in ADR and RevPAR are generally during the week, the period dominated by business travel.

Sales Trends

- Transaction velocity held relatively stable during the year ending in the second quarter. Several additional upscale properties changed hands than last year, lifting the average price in Georgia 14 percent to approximately \$66,600 per room.
- The bulk of all sales comprised branded limited and select-service hotels, though demand heightened for properties in the upper upscale segment. More than half of all hotel transactions within the state were recorded in the Atlanta metro, up from the prior 12-month period.
- Heightened demand in Atlanta has fueled a competitive bidding environment and driven up the average price roughly 14 percent to \$87,000 per key. Roughly half of all hotels that changed hands were in the South Atlanta and Northlake submarkets.

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