

Select-Service Sales Rise in the Gulf Region Amid Moderating Performance

Alabama continues to shine despite a regional slowdown. The Gulf Region, which comprises Alabama, Arkansas, Louisiana and Mississippi, posted softer revenue performance and a tick down in occupancy during the previous 12-month period ending in June. Arkansas and Louisiana primarily contributed to the decline in regional occupancy as rates fell more than 100 basis points in each state year over year. In particular, occupancy in New Orleans fell significantly amid a generally weaker performance in the third quarter. The metro did post higher occupancy levels during the Mardi Gras season compared with those registered in 2016 as a record number of tourists visited New Orleans. Two nonstop flights to Europe began servicing the metro in March, highlighting potential opportunities for improvement moving forward. Alabama remained the best performing state.

Occupancy rose significantly as limited construction amid reoccurring bookings led to a jump in room nights. As a result, the average daily rate and RevPAR growth in the state outpaced the region. Improvements should persist as travel for college and university sporting events sustain hospitality demand through the fall. In Mississippi, occupancy, ADR and RevPAR kept relatively steady in June. The state should also benefit from back-to-school activities through the remainder of the year.

Buyers adding geographic variance to portfolios with region's hotels. Investors seeking to diversify their portfolios are considering hotel properties in the Gulf Region. In particular, buyers from California, Texas and Georgia are increasingly competing with local investors for area hotels. Brand names are a primary target for buyers with

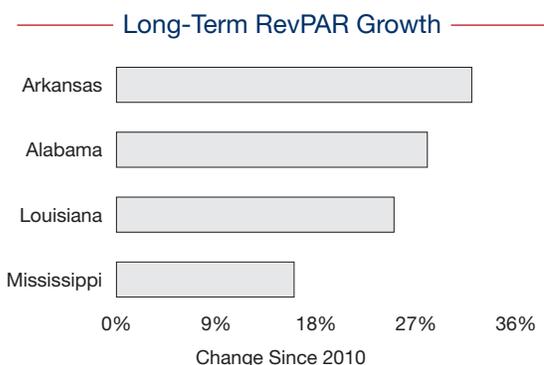
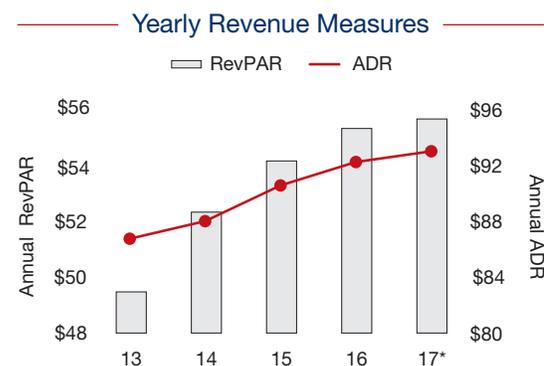
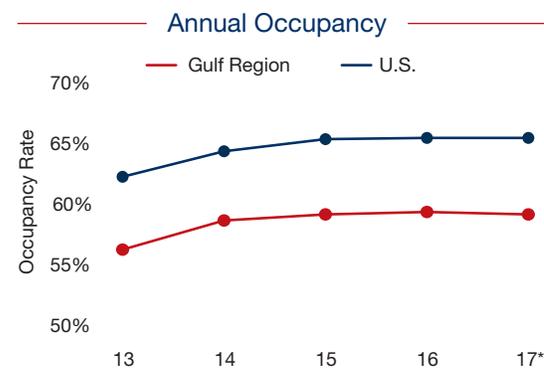
flagged select-service hotels comprising a significant portion of transactions. Demand in this segment is up considerably from the prior 12-month period. Independent hotels have also garnered investors' attention, showing a widening of parameters. Regionally, more than half of all hotel sales during the year ending in the second quarter were concentrated in Alabama and Louisiana. Healthy revenue metrics in Alabama and a shift to college markets within the state are leading investors to assets positioned for continued steady performance. In Louisiana, the bulk of hotel sales transacted were located in New Orleans. Demand in the metro's French Quarter heightened over the past year and the trend may persist as buyers seek to tap into increased visitors in the area.

2017 Forecast

- **Minor downtick in occupancy foreseen.** Occupancy declines in Arkansas and Louisiana will not outweigh the strong performance in Alabama, lowering regional occupancy 20 basis points to 59.1 percent. Supply growth is a large factor in the decline as more than 3,000 rooms are still scheduled for completion through the remainder of the year. In 2016, occupancy ticked up 20 basis points year over year.
- **Revenue metrics moderate in 2017.** The average daily rate will increase nominally in 2017 to \$93.04. A combination of rising ADR and a decline in occupancy will underpin a slight increase in RevPAR this year to \$55.65.
- **Investors diversifying portfolios with properties outside major metros.** The completion of several upper midscale hotels this year may provide buyers with additional investment opportunities, particularly in often overlooked areas. Rising tourism in beach towns along the coast may generate additional demand in Mobile, Alabama. Transactions in the area increased during the last 12 months ending in the second quarter.

	2016	2017*
Occupancy	59.3%	59.1%
Demand Growth	0.0%	1.7%
Supply Growth	2.1%	2.2%
Average Daily Rate	\$92.27	\$93.04
Annual Change	1.9%	0.8%
RevPAR	\$55.31	\$55.65
Annual Change	2.1%	0.5%
Revenue Growth	-0.5%	2.5%

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



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Occupancy Trends

- During the last 12 months ending in the second quarter, occupancy in the Gulf Region slipped 30 basis points to 64.9 percent amid losses in Arkansas and Louisiana. Regional occupancy has been on a decline since 2015 when the rate peaked at 66.3 percent in June of that year.
- Room nights in Alabama rose 4.4 percent during the last four quarters, lifting the state's occupancy 170 basis points to 67.8 percent. Alabama maintains the highest occupancy rate in the region. Over the same time period, a 1.3 percent annual increase of room nights in Mississippi outpaced supply additions. As a result, occupancy in this state ticked up 30 basis points to 65.5 percent in June.
- Declining room demand in New Orleans dropped occupancy in the metro 230 basis points to 68.7 percent. The weak performance led to a 140-basis-point drop in Louisiana's occupancy rate to 62.8 percent and available rooms climbed 2.8 percent.

Revenue Trends

- Declining occupancy resulted in a slower pace of improvement for RevPAR and ADR. During the year ending in June, RevPAR in the Gulf Region inched up marginally, by 0.5 percent, as declines were registered in Louisiana and Mississippi. ADR increased at a slightly faster pace, rising 1.1 percent year over year.
- Rising occupancy emerged as the main driver of the 4.3 percent bump in RevPAR in Alabama during the last 12 months. ADR in the state rose 1.8 percent, a slowdown from the 3.9 percent increase posted the previous annual period. Mississippi was the only other state with RevPAR growth, climbing 1.0 percent during the last four quarters.
- The daily rate climbed 1.7 percent in New Orleans but not sufficiently enough to avert a drop in RevPAR of 1.6 percent during the year ending in June. RevPAR in the metro has a history of large swings year over year. Statewide, ADR ticked up 0.7 percent and RevPAR fell 1.7 percent.

Sales Trends

- The number of transactions in the region rose 8 percent during the previous four quarters as demand picked up for assets in Alabama and Louisiana. Sales velocity in Mississippi and Arkansas moderated slightly during this same time period.
- Select-service hotels comprised roughly a third of all transactions, up considerably from the prior 12-month period. Limited service sales slowed during time as many owners opted to hold on to their properties amid rising occupancy levels within the segment.
- The rising number of transactions in Alabama can be attributed to a jump in sales for New Orleans hotel properties. The increased investor interest fueled competition for available assets, lifting the average price up roughly 5 percent to \$136,000 per key in June.

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Sources: Marcus & Millichap Research Services; AHLA; BLS; CoStar Group, Inc.; Moody's Analytics; Real Capital Analytics; STR, Inc; TWR.