

## Investors Optimistic in Northwest Region, Fueling Hotel Demand

### Growth moderates amid rising supply.

Hotels in the Northwest region, which comprises Idaho, Montana, Oregon, Washington and Wyoming, posted lower increases in revenue metrics and a slight decline in regional occupancy during the past 12 months ending in the second quarter. Washington was the only state to register an increase in occupancy but supply injections during the next few years may place downward pressure on the rate. Rising supply in several of these states will place downward pressure on regional occupancy and slow growth in the average daily rate and RevPAR this year. Roughly 6,500 rooms are in the construction pipeline in the region's largest metros of Portland and Seattle, and the projects are scheduled for completion during the next few years. Job growth above the national level will sustain demand from business travelers in both metros and healthy tourism

will provide additional opportunities as hotel owners prepare to compete with new deliveries. Outside these two major markets, Idaho and Wyoming posted steady increases in ADR and slight upticks in RevPAR despite significant declines in occupancy year over year. Revenue metrics in Montana increased moderately and as a result of the steady RevPAR and ADR growth, the area generated additional buyer interest during the last 12 months.

### Bidding heats up for Northwest region's hotels.

Hotel investors are increasingly targeting properties in the Northwest region amid rising tourism and job growth. Independent and economy hotels accounted for the majority of transactions during the previous 12 months and will likely remain of interest to buyers in the near future. Limited listings in the upper upscale segment have

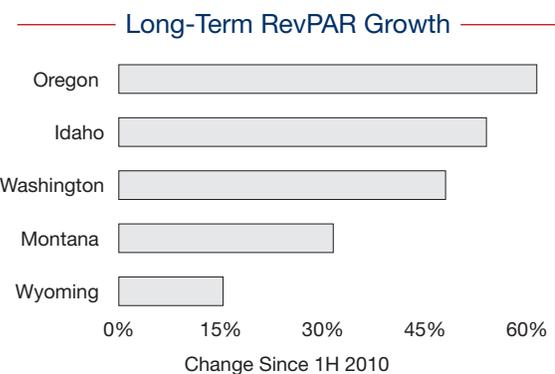
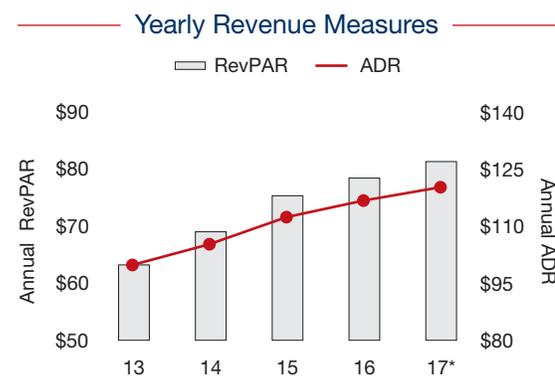
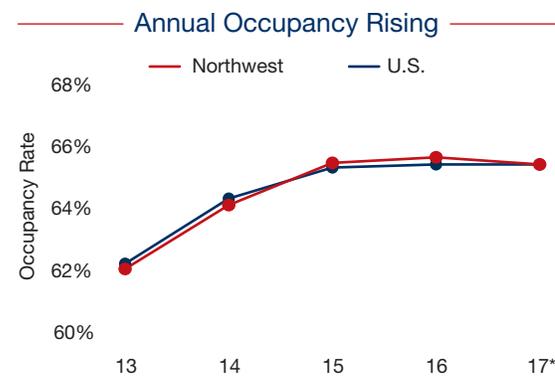
fueled a competitive bidding environment, lifting the average price per room substantially during this time. Buyers are primarily targeting hotel properties in Washington and Oregon with approximately 90 percent of all transactions occurring in these two states. In particular, rising occupancy and strong revenue performance in Seattle garnered investors' attention, increasing sales velocity in the metro and pushing up the average price. Transactions in Portland inched down slightly as more buyers sought properties outside the metro, notably in Lane County. Hotels in the other states offer steady income and tend to attract local and regional buyers. Sales in these states held relatively steady year over year. As supply grows considerably in the coming years, investors may have additional opportunities to expand their portfolios with the region's hotels.

## 2017 Forecast

- Regional occupancy rate ticks down.** Supply growth will lower regional occupancy in 2017. It will inch down 20 basis points year over year to 65.4 percent. More than 7,000 rooms are under construction in the Northwest region and roughly 6,700 rooms have entered the final planning stage with the expectation to break ground in the coming year.
- Montana hotels shine.** Steady RevPAR and ADR growth in Montana will persist through 2017 as rising tourism numbers benefit hospitality demand. Demand growth will also benefit occupancy levels next year. Improving metrics may motivate local investors to inject additional capital into properties and draw competition for brand-affiliated hotels.
- Unflagged hotels attracting greater attention.** Independent hotels accounted for close to 25 percent of all hotel transactions last year, a slight increase from the prior 12-month period. Most of these properties changed hands with prices near those found for branded midscale assets. The bulk of sales were located in Washington and Oregon.

	2016	2017*
Occupancy	65.6%	65.4%
Demand Growth	2.0%	1.8%
Supply Growth	1.7%	2.0%
Average Daily Rate	\$116.79	\$120.30
Annual Change	3.9%	3.0%
RevPAR	\$78.36	\$81.25
Annual Change	4.1%	3.7%
Revenue Growth	5.6%	4.0%

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



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

## National Hospitality Group

**Peter Nichols**  
Vice President | National Director  
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

© Marcus & Millichap 2017 | www.MarcusMillichap.com

## Occupancy Trends

- Room demand continues to grow but more slowly than supply. During the year ending in the second quarter, occupancy in the Northwest region declined 10 basis points to 78.9 percent behind steep drops in Idaho and Wyoming. Occupancy in both states fell 240 basis points.
- Despite a decline in regional occupancy, Washington registered a significant boost as rooms sold climbed 4.1 percent year over year. Occupancy within the state rose 110 basis points during this time to 80.8 percent in June. The metro of Seattle posted a 70-basis-point increase to 87.8 percent.
- Occupancy in Oregon and Montana registered declines during the last four quarters. In Montana, occupancy ticked down 10 basis points to 75.1 percent while occupancy in Oregon plunged 110 basis points to 78.6 percent. Portland was a significant driver of the decline as an influx of supply outpaced room absorption. Occupancy fell 150 basis points in Portland to 83.6 percent.

## Revenue Trends

- Regional RevPAR and ADR advanced at a faster pace during the previous 12-month period, rising 4.7 percent and 4.6 percent, respectively. Since last June, RevPAR in Washington grew significantly, registering a 7.2 percent increase. Seattle was the prime contributor to the gain with RevPAR in the market jumping 8.7 percent. Washington also led the region in ADR growth, which rose 5.8 percent year over year.
- Idaho, Oregon and Wyoming registered ADR gains in the 3 percent span, though RevPAR varied throughout the states. RevPAR in Idaho and Wyoming inched up marginally while Oregon posted a 2.1 percent gain during the last four quarters.
- Montana cataloged modest advances in RevPAR and ADR, though growth slowed from the prior year. RevPAR rose 2.3 percent during the previous 12 months, building on a 4.0 percent climb in the prior year. ADR edged up 2.5 percent after a 4.7 percent increase was registered.

## Sales Trends

- Transaction velocity in the Northwest region rose roughly 25 percent with buyers increasingly targeting properties in Washington and Oregon. Buyer interest did pick up slightly in Montana amid RevPAR and ADR growth.
- Fewer midscale assets were sold in the past year relative to the preceding 12 months. Investors picked up the pace in economy and independent hotels, which accounted for about half of all transactions. Prices varied widely depending on property age and recent performance, with the regional average resting above \$87,000 per room.
- Transaction velocity in the Seattle metro rose roughly 6 percent during the year, particularly as more hotels became available in the downtown area. The bulk of hotels that traded in Downtown Seattle were independent or upscale, with average price above \$300,000 per key. Demand also remained healthy outside the core, with investors increasingly targeting hotels north of Downtown Seattle.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Republication or other re-use of this data without the express written permission of STR is strictly prohibited. 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; AHLA; BLS; CoStar Group, Inc.; Moody's Analytics; Real Capital Analytics; STR, Inc; TWR.