

Buyer Demand Accelerates in Upper Midwest Amid Healthy Performance

Solid gains recorded in Upper Midwest region. During the year ending in June, respectable improvements in occupancy and revenue metrics were registered in the Upper Midwest region, which contains Illinois, Iowa, Minnesota, Nebraska, North Dakota, South Dakota and Wisconsin. The states of Wisconsin, North Dakota and Illinois led occupancy improvement in the region as each market posted significant increases in the rate year over year. In Illinois, the Chicago metro contributed greatly to advancing occupancy, leading to healthy increases in RevPAR and ADR. The metro has benefited from rising leisure room demand as domestic and foreign travel to the area grew. The heightened demand has led to a jump in construction, which may place downward pressure on the occupancy rate into 2018. Elsewhere in the region, Nebraska was the only state to post declines across all metrics

amid mounting supply pressures as six hotels opened during the prior 12-month period in Omaha alone. In Iowa, declining occupancy did not hinder ADR growth, which contributed to a slight rise in RevPAR. The Iowa Events Center, located in Des Moines, is expected to be completed early next year and should benefit hospitality demand in the state moving forward. Several groups have already scheduled events at the new center before its opening.

Demand heightens for region's hotel properties. Steady RevPAR growth and rising occupancy have made hotels in the Upper Midwest region a popular target among investors, fueling transaction velocity during the last four quarters. A sizable concentration of brand-affiliated hotels, combined with a variety of large and small markets with established and reliable demand drivers,

provide an array of potential opportunities for buyers. While a significant number of limited service properties changed hands regionwide, sales of select service properties increased year over year. Hotels in the midscale and upper midscale segments were of particular interest to investors amid steady revenue growth. Transactions also rose in the economy segment as private investors in the \$1 million to \$10 million price tranche became more active. Across the region, Illinois recorded the greatest sales velocity, though Wyoming was not far behind. Occupancy and revenue improvements in North Dakota piqued investors' attention, fueling competition for the state's hotel properties and lifting the average price per room up considerably over the previous four quarters.

2017 Forecast

- **Occupancy improving.** In 2017, occupancy in the Upper Midwest will rise 30 basis points from the prior year to 61.2 percent amid rate improvements in Illinois and Wisconsin. Moving forward into 2018, supply pressures may lower vacancy. Significant impact may be registered in Illinois as the metro of Chicago has roughly 4,000 rooms under construction and an additional 3,700 are in the final planning stage.
- **Revenue metrics in Wisconsin outperform.** Rising regional occupancy will foster increases in revenue metrics. The average daily rate will advance to \$112.67 while RevPAR will reach \$70.50. Wisconsin has emerged as a large contributor to revenue growth regionally as increasing ADR and occupancy levels benefit RevPAR.
- **Group demand attracts investors.** The completion of the Iowa Events Center will continue to draw investor interest to the state for opportunities to capitalize on group demand. Branded upper midscale hotel properties are highly targeted in the area and several upper upscale properties also changed hands, lifting the state's average price per room.

	2016	2017*
Occupancy	60.9%	61.2%
Demand Growth	0.1%	2.5%
Supply Growth	2.2%	2.0%
Average Daily Rate	\$110.41	\$112.67
Annual Change	2.4%	2.0%
RevPAR	\$68.78	\$70.50
Annual Change	1.0%	2.5%
Revenue Growth	0.3%	4.6%

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

Occupancy Trends

- The occupancy rate in the Upper Midwest rose 80 basis points since last June to 73.5 percent. Growth in occupied rooms advanced at a faster clip, climbing 3 percent during the last 12 months while rooms available increased 1.8 percent.
- Illinois, North Dakota and Wisconsin outpaced the regional economy with occupancy rates in each market rising more than 150 basis points. In Illinois, the metro of Chicago posted a 140-basis-point climb from the prior year to 83.4 percent. Rooms sold in Chicago advanced roughly 4 percent during this time.
- Rising supply in Iowa and Nebraska hindered occupancy improvement during the previous four quarters. In Iowa, occupancy fell 110 basis points from last year as several new hotel projects were opened. In the metro of Des Moines, a total of nine hotels were placed into service during the last 12 months. Occupancy in Nebraska registered a 350-basis-point decline as rooms available increased 2.3 percent.

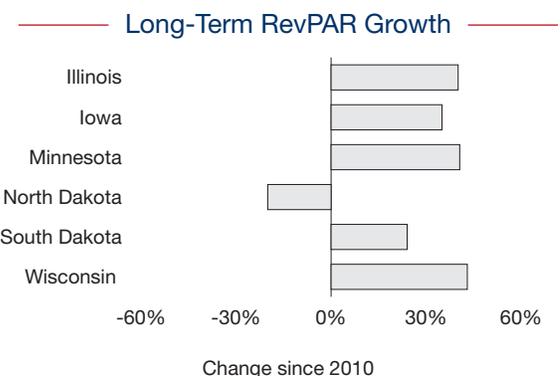
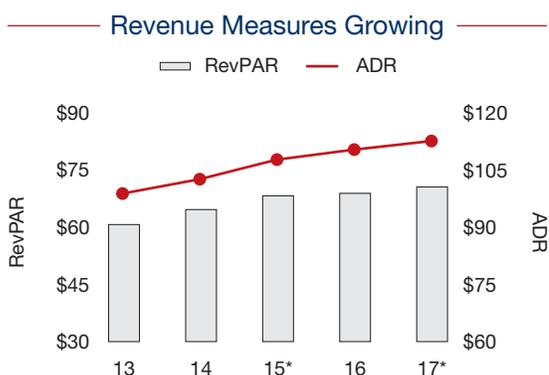
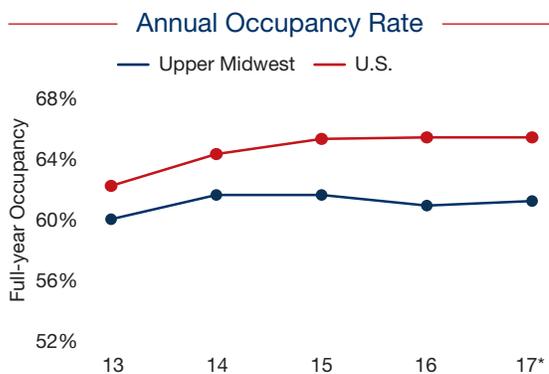
Revenue Trends

- Improving occupancy aided in healthy increases in RevPAR and ADR. Since last June, RevPAR in the Upper Midwest region rose nearly 4 percent and ADR edged up 2.7 percent. Gains of 3.4 percent and 5.1 percent in RevPAR and ADR, respectively, were recorded in the prior year.
- Wisconsin was top performer in revenue metrics across the region. Occupancy in the state rose 180 basis points during the year ending in the second quarter, benefiting ADR and RevPAR growth. ADR jumped 7.6 percent during this time while RevPAR expanded 10.4 percent.
- Declining occupancy in Nebraska led to decreases in the state's revenue metrics. During the last four quarters, RevPAR and ADR declined 5 percent and 0.3 percent, respectively. ADR in North Dakota also fell, though rising occupancy contributed to a slight uptick in RevPAR.

Sales Trends

- Total transactions in the Upper Midwest region rose during the last 12-month period as sales increased in nearly every state. More than half of all hotel transactions were located in Illinois and Wisconsin during this time. Mounting competition in Wisconsin raised the average price up 3.4 percent to approximately \$45,000 per door.
- The bulk of hotel sales in Chicago were located in the suburbs as limited listings fueled intense bidding in the core, elevating prices. Hotels in Chicago's CBD changed hands at roughly \$270,000 per key while prices in the state averaged near \$64,000 per door. Limited and select service hotels comprised the majority of transactions within the state.
- During the year ending in the second quarter, sales of upper midscale properties rose in the Upper Midwest region due to an increase in transactions in Iowa and Illinois. These transactions were a mix of older properties and newer performing assets.

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

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