

## Supply Pressures Mount in the Carolinas; Unfazed Investors Heighten Activity

**Occupancy, RevPAR growth moderate.** Strong job growth throughout the Carolinas region sparked a rapid recovery for hotel property fundamentals after the Great Recession, with occupancy and RevPAR up more than 1,300 basis points and 67 percent, respectively, since 2009. This significant boost garnered attention from developers, which have picked up construction of hotels in recent years. The increase in devel-

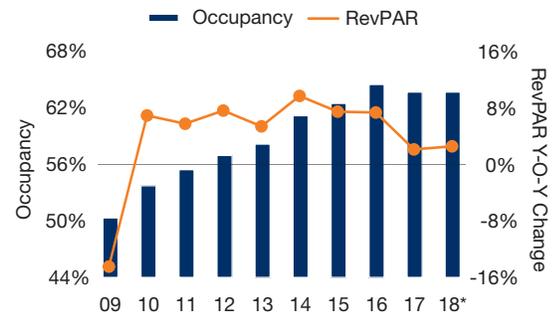
opment has begun to weigh on occupancy improvement, tapering growth in revenue metrics throughout both states.

**Investment activity picks up in Carolinas, placing upward pressure on prices.** Despite moderating revenue growth, high levels of occupancy and RevPAR continue to sustain investor demand for hotels in the Carolinas region. Sales velocity in-

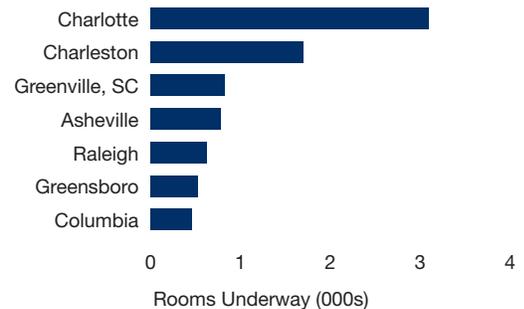
creased 11 percent during the previous four quarters ending in June, with trading in North Carolina increasing. Heightened demand for assets lifted average prices nearly 30 percent in the state to approximately \$77,000 per room. In South Carolina, fewer available listings command significant buyer attention. Bidding on these assets lifted prices considerably to \$90,000 per key on average.

- Large events sustain demand for Charlotte's hotels.** Following a 140-basis-point increase from the prior year, annual occupancy in the Carolinas region declined 120 basis points since last June to 63.4 percent. North Carolina posted the largest decline, with the rate plummeting 140 basis points to 63.2 percent. In the state's largest market, Charlotte, occupancy in the first half of 2018 rose 40 basis points compared with the same time period last year, signaling room for additional improvement. The city will host the 2019 NBA All-Star Game and the 2020 Republican National Convention, which will likely support additional room demand in the coming years.
- ADR and RevPAR moderate across the Carolinas region.** Declining occupancy moderated growth in the average daily rate and RevPAR. During the year ending in the second quarter, regional ADR edged up 2.7 percent to \$107.12, compared with the 3.5 percent increase posted in the prior year. RevPAR ticked up 1.0 percent during this same time to \$68.73, following a 2.1 percent increase. South Carolina generated growth at a faster pace than the regional average, with ADR and RevPAR advancing 2.9 percent and 1.8 percent, respectively. In North Carolina, the average daily rate rose 2.6 percent while RevPAR inched up 0.3 percent as declining occupancy strained growth.
- Prices climb higher amid heightened investor demand for hotel assets.** Independent and upper midscale hotels commanded investors' attention during the past four quarters, increasing property values considerably during this time. Hotels in these chain scales changed hands between \$85,000 and \$100,000 per key with cap rates for these properties averaging in the mid-8 to mid-9 percent range depending on quality and location. Investors looking for lower entry costs and higher returns increasingly targeted economy hotels throughout the region. These assets traded at prices around \$38,000 per room with first-year returns upward of 12 percent. Many of these sales took place in the region's smaller markets.

Annual Occupancy & RevPAR



Rooms Underway as of June 2018



\* Forecast

The Carolinas region contains North Carolina and South Carolina.

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