Hospitality Research

Regional Report

Second Half 2018

Mid South

Marcus & Millichap

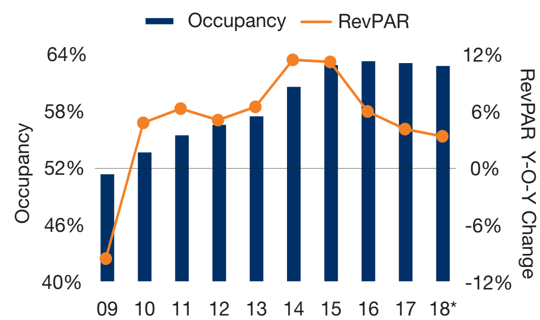
Supply Flows Into the Mid South States; Investors Scour the Region for Hotels

Flurry of hotel construction in Mid South region. Elevated supply additions throughout the Mid South region have begun to weigh on occupancy improvement. Many of the major markets within the region, including Nashville and Louisville, have roughly 5 percent or more of total inventory under construction. In Louisville, the recent re-opening of the renovated and expanded convention center may generate demand to fill these new rooms as the city increases capacity for more meetings and events. Strong employment and tourism growth will drive room demand from business and leisure travelers in Nashville, likely minimizing the impact supply additions will have on occupancy this year.

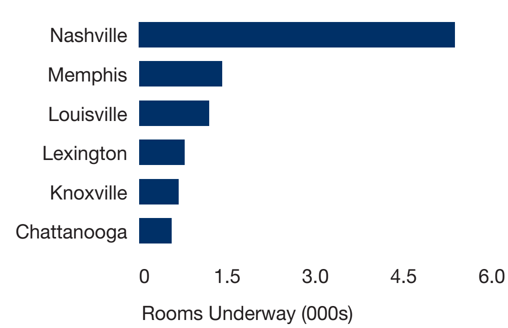
Buyers increasingly target hotels in the Volunteer state. Rising hotel revenue metrics and higher first-year returns than many gateway markets continue to spur demand for hotels from both local and out-of-region buyers in the Mid South. Sales picked up more than 20 percent throughout the region during the past 12 months, with buyers primarily targeting assets in Tennessee. Cap rates in the region average in the high-8 to low-10 percent band based on chain scale and location.

- **Occupancy declines slightly amid elevated construction.** Occupancy in the Mid South ticked down 10 basis points during the past 12 months to 62.9 percent in June as supply pressures mounted in many of the region's markets. Kentucky was the primary driver of the decline with occupancy in the state falling 100 basis points during this time to 59.6 percent. In Tennessee, occupancy picked up 30 basis points to 64.6 percent, primarily led by many of the state's smaller markets. The rate in Nashville declined 20 basis points to 73.8 percent. The city has nearly 5,400 rooms underway and an additional 6,300 will break ground within the next 12 months, potentially placing further upward pressure on the rate.
- **ADR and RevPAR climb higher across the Mid South region.** Despite flattening occupancy, moderate growth in the average daily rate is generating above-national-average gains in RevPAR. Regionwide, ADR posted a 4.5 percent advance during the past 12 months to $107.56, which led to a 4.4 percent increase in RevPAR to $68.31. In Nashville, ADR and RevPAR climbed 5.9 percent and 5.7 percent, respectively. The significant decline in occupancy in Kentucky moderated growth from the prior five-year average. Here, ADR picked up 3.0 percent while RevPAR rose 1.5 percent during the year ending in June.
- **Prices climb amid heightened demand for hotel assets.** Economy and midscale hotels are highly sought after in the Mid South region and strong investor demand for these limited service hotels pushed the average price up 15 percent during the past four quarters to roughly $45,900 per room. Overall, buyers targeted hotels across several markets and smaller cities. Properties in and surrounding Nashville, Memphis, Lexington and Knoxville garnered particular attention during the past 12 months. In Nashville, prices averaged around $64,000 per room while more affordable properties were found in Knoxville at roughly $55,500 per key.

Annual Occupancy & RevPAR



Rooms Underway as of June 2018



* Forecast
The Mid South region contains Kentucky and Tennessee.

National Hospitality Group

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