

Rising Visitation in Pennsylvania Surges Regional Occupancy

Occupancy growth in Pennsylvania's largest markets fuels regional gains.

Increased room demand through Pennsylvania is driving considerable occupancy increases in the Mid-Atlantic region. Both Philadelphia and Pittsburgh posted more than 200-basis-point jumps in midyear occupancy, compared with the same time period last year. The Philadelphia Eagles' Super Bowl win in February has brought significant at-

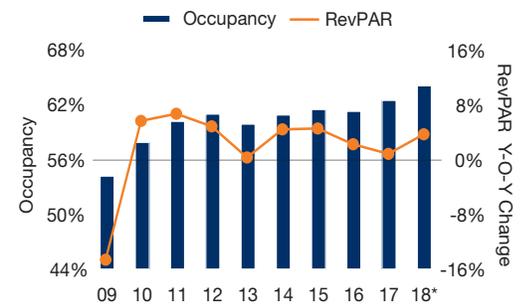
tention to the state and the metro in particular has had eight straight years of record visitation growth. Additionally, several international flights are being launched to both markets, providing direct flights for international visitors and likely supporting additional hotel room demand moving forward.

Strong competition drives prices higher. Limited listings kept transaction velocity

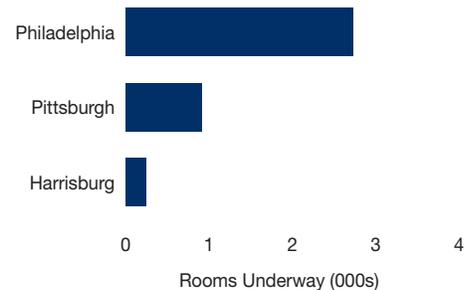
steady throughout the Mid-Atlantic region during the past 12 months ending in the second quarter. Competition for available assets boosted the average price for a hotel up 9 percent during this time to nearly \$93,000 per key. First-year returns in the region averaged in the mid-8 percent band, and properties in major markets traded with cap rates roughly 100 basis points less than average.

- Occupancy surges in Mid-Atlantic region despite slowdown in Delaware.** Occupancy in the first half of 2018 climbed 240 basis points to 62.3 percent in the Mid-Atlantic region, aiding in a 160-basis-point year-over-year increase during the past 12 months ending in June. Delaware registered the only loss among states during the previous four quarters with occupancy falling 100 basis points to 58.5 percent. Occupancy in New Jersey continues to rise at a rapid clip, with the rate edging up 90 basis points during the year ending in the second quarter to 65.4 percent. The legalization of sports betting may prompt some individuals to visit from nearby states, further benefiting occupancy improvement.
- Regionwide ADR slows, limiting RevPAR gains.** Despite strong increases in occupancy, growth in the average daily rate has moderated considerably as rising price transparency and record levels of ADR slow advances. ADR in the region ticked up 0.2 percent during the past year ending in June, reaching \$119.39. Delaware and New Jersey posted slightly higher increases of 0.9 percent in each state. Limited ADR growth, combined with strong occupancy improvement in the Mid-Atlantic, did push RevPAR up 2.4 percent during this time to \$76.74. Pennsylvania posted the strongest RevPAR growth, climbing 2.8 percent. New Jersey followed with a 2.1 percent increase in the rate.
- Northern New Jersey and Philadelphia command investors' attention.** Strong occupancy growth and rising visitation to the metro continue to sustain demand for hotels in Philadelphia. Limited and select service hotels were equally popular within the City of Brotherly Love. Cap rates for metro hotels averaged in the mid-7 percent band. Outside of Philadelphia, hotel assets in Northern New Jersey were increasingly targeted. Elevated demand for these properties increased average prices more than 15 percent to about \$138,000 per key. The bulk of sales in Northern New Jersey were independent and limited service hotels.

Annual Occupancy & RevPAR



Rooms Underway as of June 2018



* Forecast
The Mid-Atlantic region contains Delaware, New Jersey and Pennsylvania.

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