Marcus & Millichap

Hospitality Research
Regional Report

Second Half 2018

Southwest

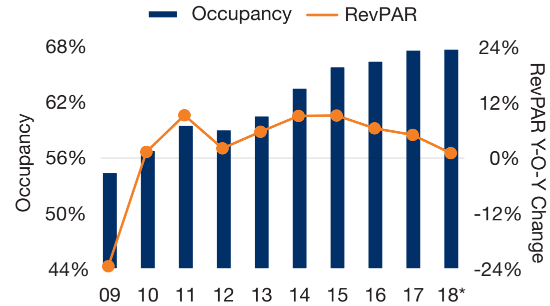
Tourism Boosts Occupancy in the Southwest; Investors Take Notice

Arizona and New Mexico lead occupancy growth. Rising visitation to the Southwest region contributes to healthy room demand, supporting strong occupancy gains. Arizona and New Mexico lead the region in occupancy growth, each registering more than 100-basis-point increases in the rate during the past 12 months. In Arizona, large events hosted throughout the Phoenix metro and above-average job growth continue to fuel room demand from business and individual travelers alike. Within New Mexico, the state's tourism campaign, New Mexico True, continues to drive tourists to the state. New Mexico posted the greatest increases in occupancy, the average daily rate and RevPAR in the region.

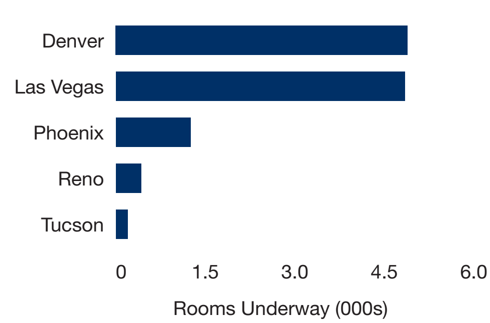
Steady growth in Southwest region fuels bidding for hotels. Strong property performance throughout Arizona and New Mexico nearly doubled transaction velocity in both states and contributed to an overall 28 percent increase in activity throughout the Southwest region. In Arizona, buyers focused on assets in the Phoenix metro, Tucson and Sedona while investors in New Mexico primarily acquired properties located in Albuquerque, Las Cruces and Santa Fe.

- **Room demand remains strong, boosting occupancy.** Hotel occupancy in the region rose 60 basis points during the year to 67.5 percent in June. New Mexico registered the strongest growth, with the rate surging 290 basis points to 62.7 percent. Nevada posted the only decline of the region. Here, occupancy ticked down 40 basis points to 69.9 percent. Part of the decline could be attributed to reduced trips after the Las Vegas shooting in the fall of 2017. In Colorado, occupancy climbed 30 basis points during the past four quarters to 66.9 percent. The rate ticked up 10 basis points in Denver to 73.4 percent.
- **ADR and RevPAR growth moderates.** Growth in ADR and RevPAR has begun to moderate, though both remain more than 10 percent higher than the previous cyclical peak. ADR ticked up 1.2 percent during the year ending in the second quarter to $119.22 while RevPAR rose 2.1 percent to $80.80. Surging occupancy in Arizona and New Mexico led to even stronger growth in revenue metrics. ADR and RevPAR climbed 1.9 percent and 4.2 percent, respectively, in Arizona. Revenue gains in Phoenix were slightly less than the state average, with ADR edging up 1.2 percent and RevPAR increasing 3.7 percent. The average daily rate jumped 6.1 percent in New Mexico, contributing to a 11.2 percent increase in RevPAR.
- **Investors increasingly target select service hotels.** Hotel prices throughout the Southwest region averaged $99,000 per room in June, up 4 percent over the past 12 months as heightened demand elevated property values. Limited service and independent hotels comprised the majority of transactions, though trading picked up considerably in the select services segment. Increased demand in the select service segment pushed the average price up 24 percent during the previous four quarters to $108,600 per key. Cap rates averaged in the mid-8 percent band, roughly 50 basis points lower than the regional average.

Annual Occupancy & RevPAR



Rooms Underway as of June 2018



* Forecast

The Southwest region consists of Arizona, Colorado, Nevada, New Mexico and Utah.

National Hospitality Group

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