Hospitality Research
State Report

Texas

Second Half 2018

Marcus & Millichap

Houston's Recovery Bodes Well For Hotel Property Performance

A variety of forces are propelling hotel occupancies in Texas. The state continues to generate strong occupancy and RevPAR gains, primarily led by the Houston market. Though Hurricane Harvey boosted occupancy and revenue metrics as displaced residents sought housing in late 2017, strong job growth and the rebounding oil industry further sustain room demand this year. Job growth in Houston rose at a faster clip than the national average during the year ending in the second quarter and the oil and gas industry has made a significant recovery since its low in 2016. These factors are benefiting room demand as business travelers visit the metro to attend meetings. As a result, Houston boasted the strongest occupancy gains and RevPAR growth among the state's major metros during the past 12 months.

Supply additions outweigh demand in Dallas. Outside of Houston, an abundance of new rooms in Dallas is placing downward pressure on occupancy, moderating RevPAR growth. During the past 12 months ending in the second quarter, more than 5,900 rooms have been placed into service. An additional 9,000 rooms are underway and more than 11,600 are expected to break ground in the next 12 months. The Metroplex has the second largest pipeline in the nation, following New York.

Hospitality 2018 Outlook

200 basis point increase in occupancy

Occupancy: Following a 190-basis-point increase in occupancy in 2017, the rate will climb 200 basis points in Texas to 66.9 percent this year.

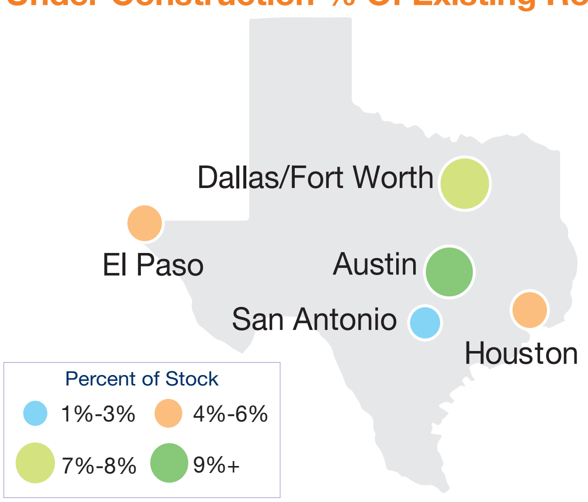
3.8% increase in ADR

ADR: The average daily rate climbs 3.8 percent in 2018 to $106.10, following a 2.1 percent increase registered the prior year.

6.9% increase in RevPAR

RevPAR: Healthy occupancy and ADR growth will support a 6.9 percent jump in RevPAR this year to $71.76. In 2017, RevPAR edged up 5.3 percent year over year.

Under Construction % Of Existing Rooms

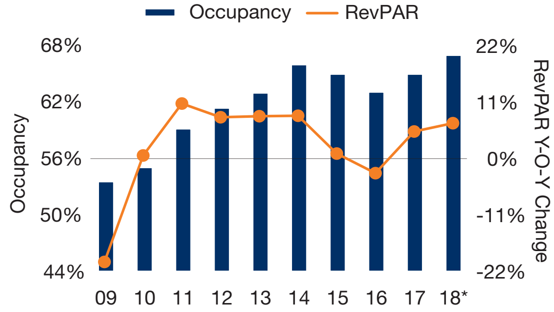


Sources: Marcus & Millichap Research Services; STR, Inc.

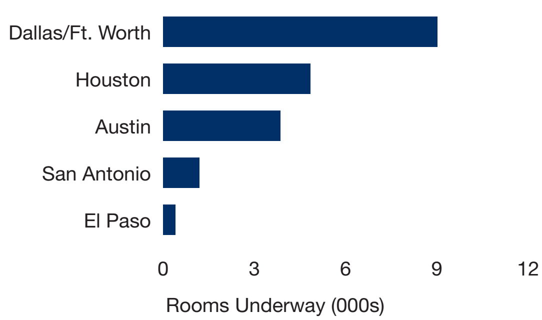
State Highlights

- Several major events during the first half of 2018 bode well for occupancy improvement in San Antonio during this time. The city hosted the final rounds of the NCAA tournament in late March and early April and the Texas GOP Convention in June. Midyear occupancy in San Antonio climbed 20 basis points to 67.5 percent from the same time period last year.
- The Houston Astros won the World Series in the fall of last year. The games likely supported additional room demand in the city, particularly after the impact of Hurricane Harvey.
- Limited listings in Austin have driven competition for hotel properties in the metro, lifting average prices 5 percent to $103,900 per room. Many buyers in Austin are targeting larger assets with more than 100 rooms.
- Strong office-using job growth will drive room demand from business travelers in Dallas, potentially minimizing the impact supply pressures are having on occupancy.

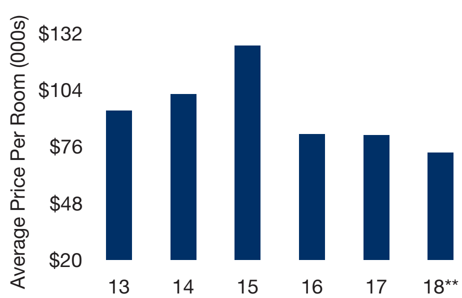
Annual Occupancy & RevPAR



Rooms Underway as of June 2018



Hotel Sales



* Forecast
** Trailing 12 months through 2Q
Sources: Marcus & Millichap Research Services; STR, Inc.

Occupancy Trends

- Midyear occupancy climbed 260 basis points in Texas to 67.1 percent, after posting a 50-basis-point decline the prior year. Strong growth in the first half contributed to a 350-basis-point year-over-year increase during the past 12 months ending in June.
- Elevated room demand in Houston surged annual occupancy 770 basis points during the year ending in the second quarter to 68.7 percent. The pace of growth will likely continue through year end as healthy employment gains and the reopening of tourist sites draw visitors to the metro.
- Supply weighed on occupancy rates in Dallas and Austin. First-half occupancy in Dallas fell 70 basis points to 70.6 percent from the same time period last year, while midyear occupancy plummeted 150 basis points in Austin to 72.7 percent. In Austin, more than 3,800 rooms are under construction, accounting for 10 percent of current inventory.

Revenue Trends

- Heightened room demand is contributing to steady increases in the average daily rate. Overall, annual ADR in Texas rose 3.3 percent during the year ending in June to $104.16, up from a 0.3 percent increase posted the prior year. Rising ADR bodes well for RevPAR gains, which surged 9.1 percent to $69.19.
- ADR growth in Houston was below the state average during the prior four quarters, with the rate climbing 2.8 percent to $107.04. The surge in occupancy within the metro did boost RevPAR considerably. The rate swelled 15.9 percent during this time to $74.04. In Dallas, ADR and RevPAR climbed 2.9 percent and 1.7 percent, respectively.
- In Austin, ADR in the first half of 2018 made a slight uptick, reaching $146.42. Declining occupancy, however, lowered RevPAR 1.9 percent during this same time to $106.45.

Sales Trends

- Strong occupancy improvement and rising RevPAR boosted sales for hotels throughout Texas by 20 percent. Several smaller markets gained increased attention including El Paso, Corpus Christi and Lubbock. In particular, transaction velocity picked up considerably in Dallas/Fort Worth, rising more than 30 percent during the 12 months ending in June.
- More limited service hotels changed hands during the past four quarters, which lowered the average price 11 percent to about $72,800 per room statewide. Demand for independent hotels lifted the average price up considerably in this chain scale to $102,500 per key. Cap rates for limited service properties averaged in the low-10 percent band while first-year returns for independent assets were roughly 100 basis points less.
- Sales slowed in Houston during the past 12 months ending in the second quarter as buyers re-evaluated their strategies after Hurricane Harvey. Properties in Houston changed hands at prices averaging $72,500 per room during this time.

National Hospitality Group
Peter Nichols
Vice President | National Director, National Hospitality Group
Tel: (212) 430-5100 | peter.nichols@marcusmillichap.com

Prepared and edited by
Catherine Zelkowski
Research Analyst | Research Services

For information on national hospitality trends, contact:
John Chang
Senior Vice President | Research Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: $250