

Supply Boom Weighs on Occupancy in Dallas; Smaller Metros Attract Buyers

Occupancy declines in major Texas markets amid growing hotel supply and readjustments from the hurricane. Hurricane Harvey lifted occupancy considerably in 2018. The rate will fall slightly this year as room nights adjusted closer to level recorded before the storm. Houston, which had the greatest impact from the hurricane, will likely face a second year of declining occupancy growth as it readjusts from the more than 400-basis-point lift driven by Harvey. The drop in the rate will also push down on the average daily rate and RevPAR in the metro this year. Outside of Houston, hotel construction is ramping up in Dallas, which already has one of the largest construction pipelines in the United States. The increased supply will weigh on the metro's occupancy this year, though steady demand will keep the rate above the statewide average. Overall, improvements in many of the state's smaller markets will negate a large decline in overall occupancy this year.



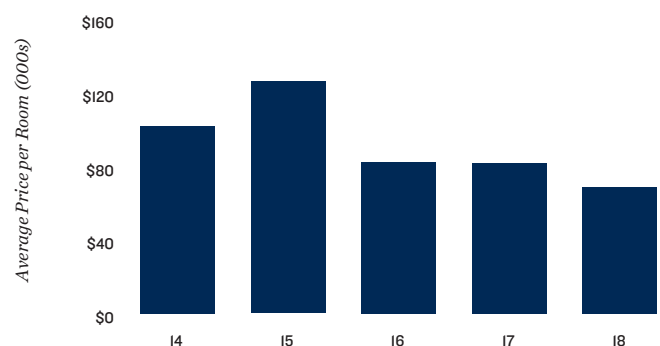
Bidding heats up in smaller markets; Dallas/Fort Worth attracts out-of-state attention. Transaction velocity slowed notably last year as many investors reevaluated their strategies after the impact of Hurricane Harvey. This year, buyer demand will likely pick up in many of the state's smaller markets where first-year returns up to 200 basis points higher than within Dallas and Houston can be found. These areas include El Paso, San Antonio and Lubbock, where buyers are primarily targeting limited and select service hotels comprising 150 rooms or less. While sales are increasing in these smaller metros, nearly a third of hotel transactions will continue to take place in the Dallas/Fort Worth market. In addition to local investors, many out-of-state buyers, particularly from New York and Georgia, are targeting area properties. Hotels in the market change hands with first-year returns in the 10 percent band on average.



2019 Demand Growth

1.9% Year-over-Year Room Nights

Hotel Sales



5.4%

Percent of Inventory Under Construction as of December 2018

-130 bps

Five-Year Occupancy Growth 2014-2019

8%

Five-Year RevPAR Growth

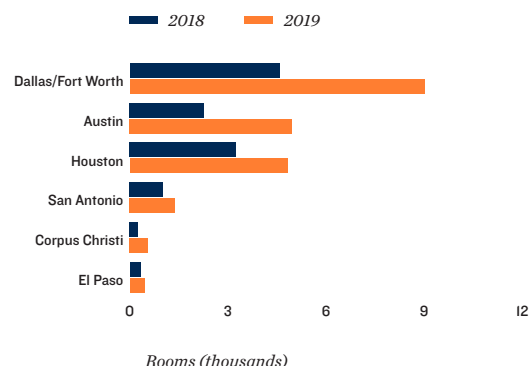
2019 Regional Highlights

- In late 2018, the San Antonio City Council passed legislation that would regulate short-term rentals. Owners of these rentals would be required to register with the city and pay a \$100 fee. They would also have to renew their registration every three years. There are also limitations on the amount of rentals in multifamily buildings. These new regulations could prevent some from listing their homes, which bodes well for area hotels.
- WestJet is beginning to offer airline flights from Austin to Alberta with twice weekly service starting in May. The new flights will likely bring visitors from Canada to the market, benefiting hotel occupancy and revenue metrics.
- Job growth remains above the national average in Dallas/Fort Worth, which could aid hotel occupancy and revenue growth as business professionals travel for meetings and interviews.

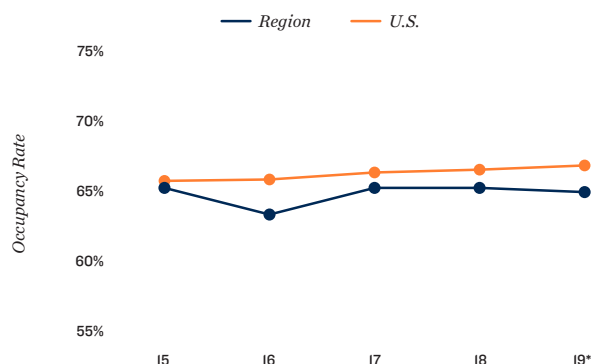
2019 Region Forecast

- Supply** Construction shows no sign of stopping in Texas. Approximately 25,200 rooms are underway throughout the state and an additional 25,300 rooms are expected to break ground in the next 12 months. Combined, these rooms represent about 430 new hotels.
- Occupancy** After remaining flat in 2018, the statewide occupancy rate will tick down 30 basis points this year to 64.6 percent.
- ADR** The average daily rate in Texas will climb to \$107.08 in 2019. Last year, ADR registered a 2.7 percent hike.
- RevPAR** The improvement in ADR will support a moderate uptick in RevPAR this year, rising 1.5 percent to \$69.40. During 2018, RevPAR edged 2.7 percent higher.
- Investment** After rebuilding in Houston, investors may reinvigorate interest for hotels in the market. Many buyers remain keen on economy hotels within the city of Houston and Baytown. Many of these properties are older, attracting opportunistic investors.

Development Trends *



Annual Occupancy



Full-Year Revenue Measures



* 2018 Recent Openings; Under Construction as of December 2018
* Forecast

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Hotel chain scale definitions are based on information available as of February 2019. Average prices and cap rates are a function of the age, type and geographic area of the properties trading and therefore may not be representative of the market as a whole. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; AH&LA; AARP Research; Altus Data Solutions; Bureau of Economic Analysis; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; STR Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Treasury Department.