Marcus & Millichap

# Hospitality Research
## State Report

Second Half 2017

Texas

## Texas Hotels Feel Impact of Hurricane Harvey

**Displaced residents from Hurricane Harvey seek shelter in Texas hotels.** This year is expected to end on a high note for hotels, though at the end of the second quarter, occupancy declined year over year. Nearly all the major state metros, with the exception of San Antonio, registered a decrease in occupancy, average daily rate and RevPAR during the last 12 months. The metro of San Antonio posted healthy improvements among hotel demand drivers as rising room nights and limited completions fueled an increase in occupancy. As hotels filled rooms, ADR and RevPAR registered steady growth year over year. By year end, Texas will register gains in occupancy and revenue metrics as rebuilding efforts continue in the Houston metro after the landfall of Hurricane Harvey. Displaced residents, volunteers and workers have filled rooms. FEMA alone estimates that it has placed more than 53,000 individuals in area hotels as of September. ADR in Houston may also register gains despite local authorities' efforts to prevent price gouging. The upswing in occupancy amid rising ADR will boost RevPAR significantly in the short term. While Houston will register the largest impact in occupancy as a result of the hurricane, hotels in the markets of San Antonio, Austin and Dallas/Fort Worth may post occupancy gains as residents of Houston seek alternative housing options.

**Bidding active in Texas hotels.** Buyers remain active and transaction velocity rose year over year during the last 12 months ending in June. In particular, investors sought more upper midscale and upscale assets during this time. Demand also picked up in nearly all the major metros, with Dallas/Fort Worth and Houston comprising a significant portion of transactions. While many properties traded in the $1 million to $10 million price tranche, several assets changed hands above $20 million as institutional buyers remained active. Outside the major markets, several coastal cities garnered investors' attention amid rising visitors, including Corpus Christi. In Houston, hotel owners are assessing damage from Hurricane Harvey and determining how to better align their portfolios for their investment needs. Some hoteliers may opt to hold on to their properties as high occupancy drives income growth in the short term, while others investors may list their assets in hopes of capturing a higher price per room.

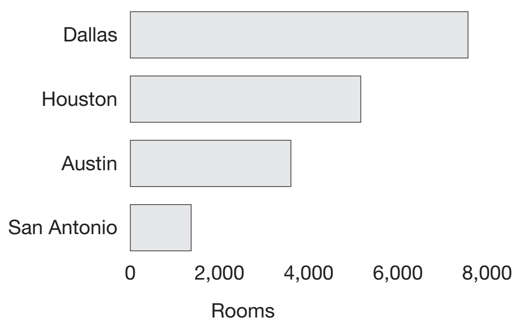
## 2017 Forecast

- **Large revenue jumps in short term amid hurricane recovery.** In the aftermath of Hurricane Harvey, statewide occupancy will rise in the short term as hotels remain occupied by displaced residents and volunteer workers. A slight increase in the average daily rate, coupled with the rise in occupancy, will push up RevPAR significantly.
- **Job growth persists.** All the major Texas markets posted job growth above the national rate during the previous four quarters, benefiting business travel demand. Dallas/Fort Worth registered the largest gain of 3.4 percent as 118,100 jobs were created during this time. Office-using employment jumped 4.7 percent in the metro, the largest increase among the major metros. Houston recovered from declining employment last year as 63,700 positions were created, up 2.1 percent year over year.
- **Last pipeline in United States.** The state of Texas boasts the largest construction pipeline in the United States, which may weigh on occupancy in the next few years. More than 23,300 rooms are under construction statewide and an additional 26,400 are in the final planning stages and expected to break ground in the next 12 months.

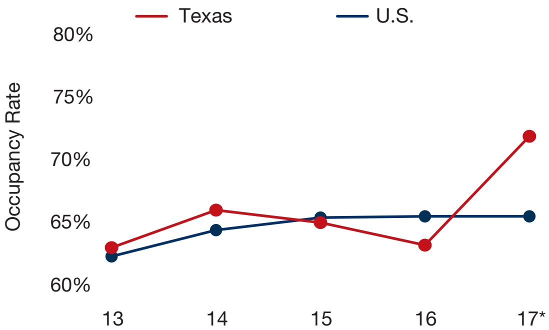
| Metrics | 2016 | 2017* |
|---|---|---|
| Occupancy | 63.1% | 71.8% |
| Demand Growth | 0.1% | 17.6% |
| Supply Growth | 3.3% | 3.4% |
| Average Daily Rate | $100.02 | $103.85 |
| Annual Change | -0.1% | 2.8% |
| RevPAR | $63.28 | $74.56 |
| Annual Change | -2.8% | 17.0% |
| Revenue Growth | -1.1% | 20.9% |

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

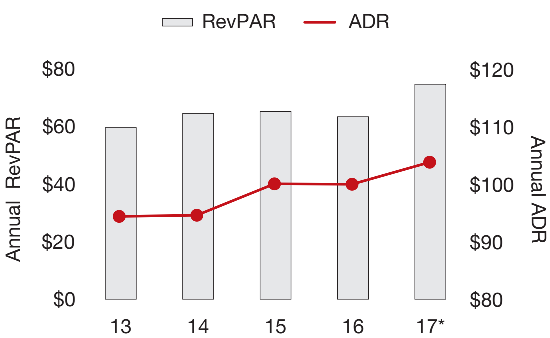
## Under Construction Rooms




## Annual Occupancy




## Yearly Revenue Measures




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

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## Occupancy Trends

- The room nights increase of 1.8 percent in Texas during the last 12 months ending in the second quarter did not outpace supply additions, lowering statewide occupancy 90 basis points to 67.6 percent in June. Occupancy has declined the past three annual periods.
- Declining room nights in Houston amid significant supply additions of roughly 5 percent lowered the metro's occupancy rate 400 basis points since last June to 61.4 percent. Approximately, 4,200 rooms were placed into service in Houston during the last 12 months. In Dallas, room nights declined 1 percent year over year while rooms available inched up 2.5 percent. As a result, occupancy in the market fell 260 basis points to 73.7 percent.
- The San Antonio metro registered the only occupancy increase among the major Texas markets. Occupancy in the area climbed 90 basis points during the last four quarters to 72.5 percent. Nearly 700 rooms were delivered during this time.

## Revenue Trends

- The average daily rate in Texas ticked down 0.5 percent during the previous four quarters to $100.33. Declining occupancy in the state, coupled with the decrease in ADR, contributed to a 1.7 percent decrease in statewide RevPAR to $67.85.
- Declining occupancy in the Houston metro led to a 4.9 percent decrease in ADR to $98.16 while RevPAR fell nearly 11 percent during the previous 12-month period to $60.22. During this same time, ADR in Dallas ticked up marginally to $103.82 but the falling occupancy led to a 3 percent decline in RevPAR to $76.50 in June. The metro of Austin also posted decreases in revenue metrics during the past year. ADR and RevPAR in the area fell 0.1 percent and 4.0 percent, respectively.
- Improvements in occupancy in San Antonio benefited the metro's revenue metrics. The average daily rate climbed 3.8 percent during the year to $115.30 in June while RevPAR in the area jumped 5.1 percent during this same time to $83.58.

## Sales Trends

- Buyers demand for Texas hotels remain healthy. Transaction velocity climbed 10 percent during the year ending in the second quarter as more select service properties changed hands.
- Limited and select service properties comprised the majority of sales during the last four quarters. Prices for limited service hotels averaged around $50,000 per key while select service assets changed hands at around $103,000 per room during this time.
- Improving hotel demand drivers fueled competition for hotel properties in San Antonio during the previous 12 months. The increased bidding in the metro lifted the average price considerably, with several properties trading above $100,000 per key.