Hospitality Research
Regional Report

Second Half 2018

Upper Midwest

Nebraska, Minnesota Lead Regional Occupancy Gains

Oil industry rebound may support improvement in North Dakota moving forward. Occupancy declined slightly throughout the Upper Midwest region during the past 12 months ending in June as rates plummeted in several states. Iowa, North Dakota and South Dakota led declines, with occupancy in each state falling at minimum 150 basis points. Plummeting occupancy stalled growth in the average daily rate in all three states, pushing down RevPAR. The rebounding oil industry may support hotel demand, particularly in North Dakota, which was significantly impacted by declines in the oil markets in 2015 and 2016. Occupancy in the state plummeted more than 1,600 basis points during the two-year period.

Several states post occupancy improvements despite regional declines. Minnesota, Nebraska and Wisconsin each registered healthy gains in occupancy and RevPAR during the past four quarters. The Super Bowl was held in Minneapolis earlier this year, generating a significant uptick in hotel property performance during this time. In Nebraska, many tourists flocked to the state to watch the solar eclipse in August of last year, significantly boosting room demand during the event. Occupancy climbed 200 basis points during that month compared with the same time period in 2016.

Hospitality 2018 Outlook

20 basis point increase in occupancy

Occupancy: After two consecutive years of occupancy declines, the rate will tick up 20 basis points this year to 59.7 percent.

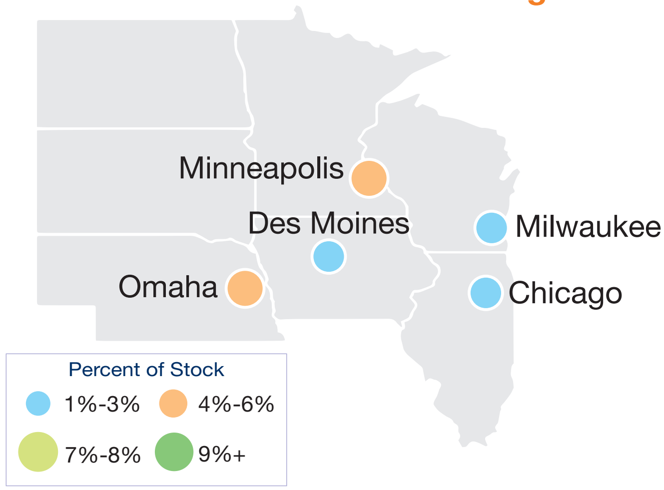
2.2% increase in ADR

ADR: Following the 0.4 percent increase in 2017, the average daily rate climbed 2.2 percent this year to $111.10.

2.5% increase in RevPAR

RevPAR: The uptick in occupancy combined with healthy ADR growth will support a 2.5 percent increase in RevPAR to $67.96. Last year, the rate fell 0.7 percent.

Under Construction % Of Existing Rooms

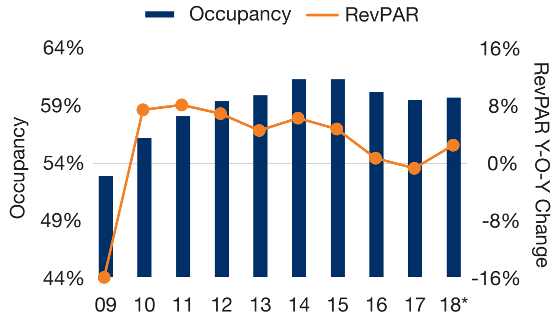


The Upper Midwest region consists of Illinois, Iowa, Minnesota, Nebraska, North Dakota, South Dakota and Wisconsin.
Sources: Marcus & Millichap Research Services; STR, Inc.

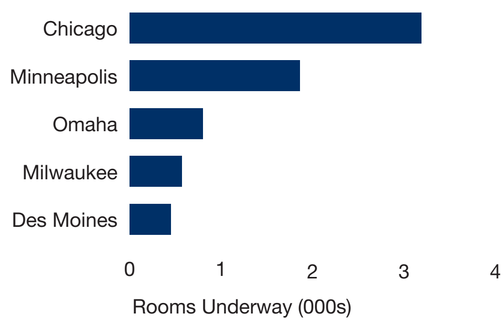
Region Highlights

- Corporate expansions in the Chicago metro may sustain room demand from business travelers. Facebook and Google are each opening and expanding offices in the area and Salesforce is considering bringing 5,000 tech jobs to downtown Chicago. This growth could bode well for hotel occupancy in the market, particularly in downtown.
- Summer tourism to Wisconsin may be impacted by flooding. Several of the state's parks and trails have been closed due to high water levels, limiting some of the recreational activities that draw visitors to the state. On the other hand, the Cross Fit Games moved to Madison last year, bringing in tens of thousands of athletes from the U.S. and abroad. This year, an extra day was added, likely supporting additional occupancy improvement.
- More than 2,400 Airbnb owners in Chicago were sent notices to remove their listings from the site for failing to comply with regulations. Declining listings could bode well for hotels, particularly during large citywide events.

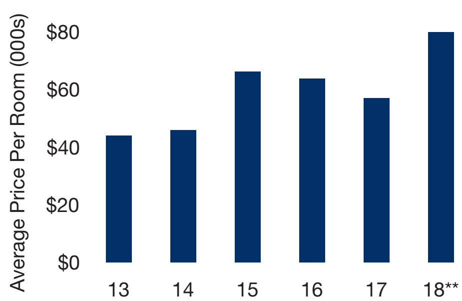
Annual Occupancy & RevPAR



Rooms Underway as of June 2018



Hotel Sales



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

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Occupancy Trends

- Annual occupancy in the Upper Midwest region ticked down 20 basis points during the year ending in the second quarter to 59.8 percent. Despite the decline, occupancy rose in Minnesota, Wisconsin and Nebraska during this time period. Minnesota led occupancy gains, with the rate climbing 80 basis points in the state to 62.5 percent.
- In Illinois, annual occupancy remained flat during the past four quarters at 64.4 percent after declining 50 basis points in the prior year. While statewide occupancy remained flat, healthy room demand in Chicago ticked up 10 basis points during the past 12 months to 68.9 percent after it registered a 40-basis-point decline in the previous annual period.
- The largest decline among states during the year ending in June occurred in North Dakota. Here, annual occupancy plummeted 260 basis points to 49.1 percent. Iowa followed with the annual rate falling 170 basis points to 55.2 percent during this same time period.

Revenue Trends

- The decline in occupancy slowed RevPAR growth during the year ending in June. The average daily rate ticked up 1.0 percent to $110.09 after a 2.1 percent increase was recorded the prior year. The gain in ADR inched up RevPAR 0.6 percent during the past 12 months to $67.47.
- The strongest growth in revenue metrics was registered in Minnesota. ADR in the state climbed 2.9 percent to $114.14 during the past four quarters while RevPAR increased 3.5 percent to $71.70. Growth was more robust in Minneapolis, where ADR and RevPAR rose 3.3 percent and 3.1 percent, respectively, during this same time.
- In Wisconsin, the average daily rate inched up 1.1 percent to $104.72 during the past 12 months. This combined with a 10-basis-point increase in occupancy lifted RevPAR 1.4 percent to $60.79.

Sales Trends

- Transaction velocity in the Upper Midwest region held steady during the year ending in June compared with the prior year. Despite remaining flat, more full-service and independent hotels changed hands during this time, elevating property values considerably as buyers picked up bidding for these assets. Full-service and independent hotels traded with prices averaging between $160,000 and $180,000 per room based on property type and location.
- Approximately half of all transactions were within Illinois and Wisconsin during the past four quarters. Milwaukee and Chicago were popular locales within these two states, though demand remained strong in many of the smaller markets. Hotels in Illinois changed hands with returns in the high-8 percent band on average while cap rates in Wisconsin were considerably higher in the mid-11 percent range.
- Out-of-state region buyers continue to target assets in the Upper Midwest. Investors from New York, California and Texas were particularly active during the past 12 months.