

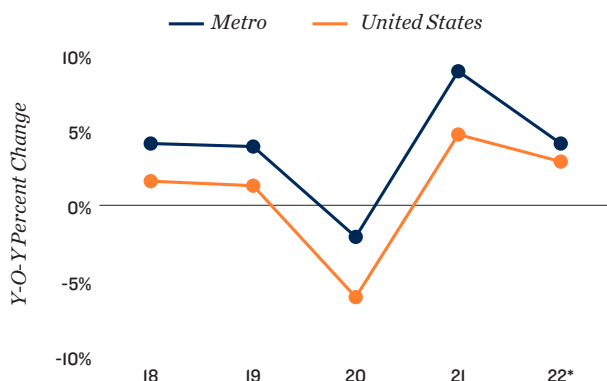
Collection of Near- and Long-Term Demand Drivers Invigorate Hotel Performance and Investor Fervor

Room rates exceed pre-pandemic marks. Several large-scale events have returned in force, after being canceled or extremely limited in capacity during the past two years. The South by Southwest festival drew an estimated 300,000-plus attendees in March 2022, while Rodeo Austin — an event that typically records an attendance figure above 250,000 people — also returned after a two-year hiatus. Additionally, F1 inked a deal to host races in Southeast Austin through at least 2026, with tickets for the October 2022 Grand Prix already sold out. Alongside these major drivers, Austin has qualities that make it attractive to young adults and families alike. Music and entertainment venues stimulate visits by the younger cohort seeking a social getaway. Meanwhile, the University of Texas brings in athletic event attendees, as well as families and friends of students. Enhanced room demand helped propel Austin's average daily rate to a record high of \$151.27 during the yearlong period ended in May.

Economic trends support business travel, compel investors.

Austin is one of the fastest-growing tech hubs in North America, drawing in the likes of Meta, TikTok, Amazon and Tesla over the past year. Despite some near-term uncertainty regarding travel for conferences and conventions, having these types of employers located in the market underscores expectations for a longer-term upswing in business-related visitations. Robust economic growth trends like these are capturing the attention of investors across the country, creating some buyer competition in the investment market.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Hospitality 2022 Outlook



2,900

ROOMS
under construction

CONSTRUCTION:

Relative to the average during the same month of the previous five years, roughly 1,000 fewer rooms were underway in May 2022. Additionally, some hotels are being removed from metro stock as they are redeveloped into other properties like apartments.



270

BASIS POINT
change in occupancy

OCCUPANCY:

At year-end, the metro is expected to register an average annual occupancy rate above 65 percent. This is well above the pandemic trough of 43 percent recorded in 2020, but not quite on par with the 70 percent-plus threshold achieved from 2013-2019.



31.5%

INCREASE
in ADR

ADR:

Austin's average daily rate will surge to \$167.76 in 2022, the highest measure on record by more than 15 percent. This rate is the most expensive in the state of Texas, beating out San Antonio by nearly 25 percent and the other two major markets by at least 40 percent.



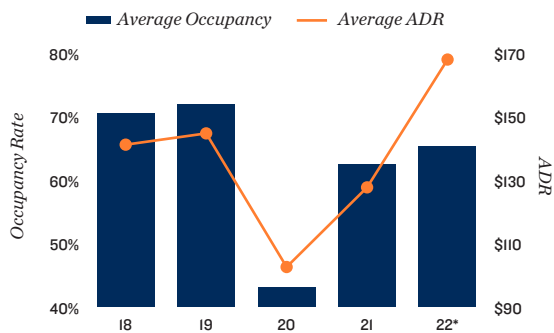
37.1%

INCREASE
in RevPAR

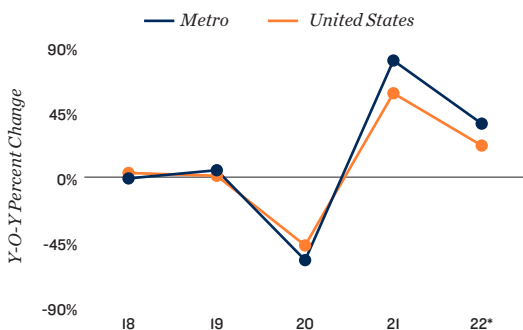
REVPAR:

RevPAR is expected to rise at a faster pace than the national average for the second consecutive year, fueled by robust ADR improvements. Comparing RevPAR in 2022 against 2019, Austin's metric will be up by about 5 percent to \$109.30.

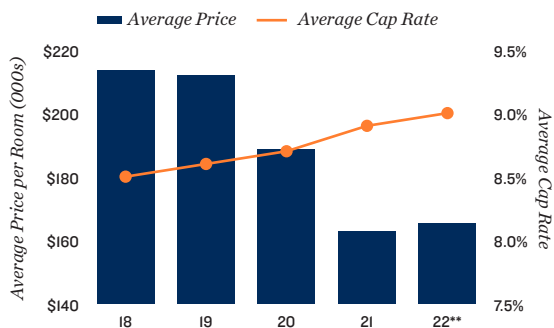
Occupancy & ADR Trends



RevPAR Trends



Sales Trends



* Forecast ** Through May

Sources: CoStar Group, Inc.; Real Capital Analytics

Austin Office:

Bruce Bentley III Regional Manager

9600 North Mopac Expressway, Suite 300

Austin, TX 78759

Tel: (512) 338-7800 | bruce.bentley@marcusmillichap.com

Prepared and edited by:

Benjamin Kunde

Research Analyst | Research Services

For information on national hospitality trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: \$250

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Occupancy, ADR and RevPAR values are trailing-12 month averages unless otherwise stated. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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; Bureau of Labor Statistics; CoStar Group, Inc.

© Marcus & Millichap 2022 | www.MarcusMillichap.com

May 2022 - 12-Month Period

OCCUPANCY

1,930 basis point increase in occupancy Y-O-Y

- Every market class noted an occupancy improvement of at least 680 basis points during the trailing 12-month period ended in May. Harder hit segments like luxury and upper upscale had gains above 2,500 basis points.
- The yearlong average occupancy ended in May rose by 3,000 basis points in the CBD, assisted by the return of major events like South by Southwest.

ADR

55.5% increase in the average daily rate Y-O-Y

- Increased room demand as travel ramped up, paired with consistent upward pressure on rates amid historic inflation, allowed the ADR in Austin to surpass the recording of the equivalent 2019 period by over 6 percent.
- Compared to the trailing 12-month interval ended in May 2019, the ADR in the Round Rock/Georgetown area surged by nearly 45 percent.

REVPAR

118.3% increase in revenue per available room Y-O-Y

- The average RevPAR from June 2021 through May 2022 increased by almost 170 percent in the full service segment. Nevertheless, a RevPAR of \$149.65 trailed the mean in the same span of 2019 by about 10 percent.
- Three submarkets had annual RevPAR growth above 90 percent, including the CBD, Northwest/Arboretum area and the South Austin/Airport locale.

Investment Highlights

- About 50 percent more hotel deals were completed from July 2021 through June 2022 as in the prior yearlong interval. Stronger hotel performance metrics, coupled with outstanding population and job growth projections, are generating significant buyer interest. At the same time, hotel assets are better positioned during periods of high inflation, due to their ability to adjust rates on essentially a nightly basis. Out-of-state investors are increasingly tuned into the market, with these types of buyers comprising at least one-third of acquisitions during the past year ended in June.
- The average sale price per room has fallen since the onset of the health crisis, measuring at \$165,400 during the 12-month span ended in May. A decline in prices translated to upward movement in the average cap rate, which reached 9.0 percent during the past year, a level last seen in 2010. This exemplifies a momentary window of opportunity for investors, as preliminary figures from the second quarter of 2022 indicate that prices have begun to rise and cap rates are compressing amid stronger activity.
- Areas of high focus for hotel investors during the past year included the CBD, South Austin/Airport locale, and fast-growing north suburbs like Cedar Park, Georgetown and Round Rock.