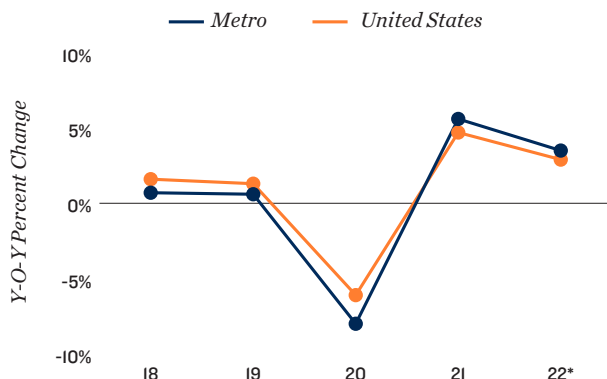


Hotelier Revenues Climb on Domestic Visitation; International Travel Rebound Imminent

Domestic and business travel drive performance boost. As a major hub for international travelers, the pandemic's impact on Chicago's hospitality sector was more pronounced than in other markets that rely more heavily on domestic visitation. However, the city announced tourism numbers rose 86 percent in 2021 when compared to the previous year. This sharp recovery continued into 2022, with annual hotel revenue up 166 percent year-over-year through May. The return of business travel is an important factor, as average occupancy and nightly rates climbed the fastest during the last 12 months in and around the CBD. With international tourism still below pre-pandemic norms, the lifting of travel restrictions should boost room demand in this segment by year-end.

Events and conventions returning to pre-pandemic norms. While some events like Lollapalooza and the Bank of America Chicago Marathon were able to take place in 2021, capacity limits and postponements made it an abnormal festival season. A more typical summer and fall event slate in the city is coming to fruition in 2022. This year's Lollapalooza festival is expected to attract more than 100,000 attendees per day. Additionally, the Taste of Chicago food festival and other events will boost performance for hotels in the summer months of 2022. Furthermore, some aspects of the city's new short-term rental laws went into effect last summer, including a ban on single-night stays and more stringent registration rules. This should aid traditional lodging in Chicago moving forward.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Hospitality 2022 Outlook



3,030

ROOMS
under construction

CONSTRUCTION:

Builders have ramped up development heading into the second half of 2022, with the number of rooms under construction in May surpassing 3,000 for the first time since 2018. Up-scale or upper midscale hotels make up roughly 60 percent of the pipeline.



950

BASIS POINT
change in occupancy

OCCUPANCY:

The return of international travel will help boost the average annual occupancy rate to 59.5 percent, building on the domestic and business travel tailwinds sparked during the first six months of 2022.



24.8%

INCREASE
in ADR

ADR:

Following a sharp increase in the summer months of 2022, ADR is expected to continue its upward trajectory, but at a slower rate. The measure will reach \$150.73 by the end of 2022. This level is more than \$5.00 above the pre-pandemic average.



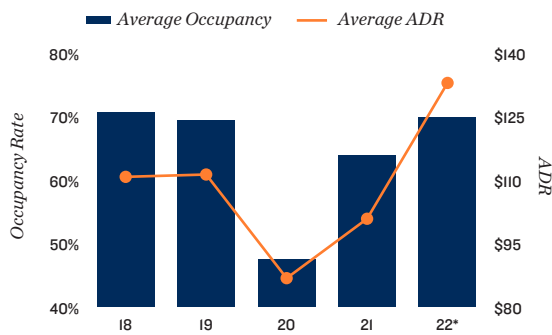
48.5%

INCREASE
in RevPAR

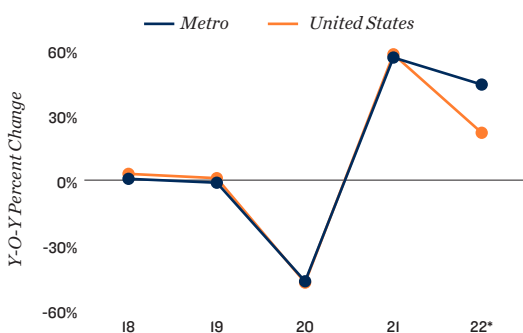
REVPAR:

Higher nightly rates will aid RevPAR, which is expected to grow to \$89.63 in 2022. Despite this, lagging occupancy metrics will result in RevPAR landing about 12 percent shy of 2019 levels.

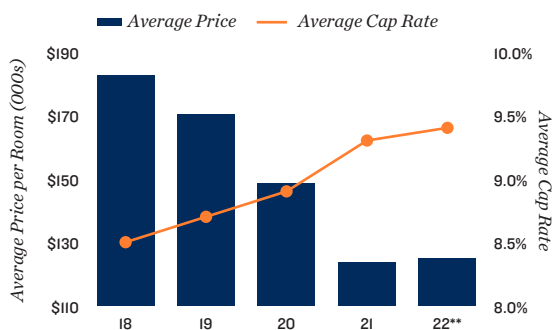
Occupancy & ADR Trends



RevPAR Trends



Sales Trends



* Forecast ** Through May

Sources: CoStar Group, Inc.; Real Capital Analytics

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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.

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May 2022 - 12-Month Period

OCCUPANCY

1,900 basis point increase in occupancy Y-O-Y

- The widespread reopening of leisure activities, in unison with dissipating gathering restrictions, has contributed to the sharp rise in bookings, with occupancy reaching an annual average of 54.7 percent entering June.
- Average occupancy rates in South and Southwest Chicago are the highest in the metro, but the rate also rose 2,630 basis points in the CBD.

ADR

53.2% increase in the average daily rate Y-O-Y

- The ADR in Chicago grew to \$133.30 over the 12-month period ended in May. This level is more than 90 percent of the pre-pandemic measure.
- Pent-up demand for travel is allowing operators to increase nightly rates in the metro. This is especially true in the Chicago CBD submarket, where the average annual ADR rose 48.5 percent year-over-year entering June.

REVPAR

134.9% increase in revenue per available room Y-O-Y

- While occupancy still lags pre-pandemic norms within the metro, a sharp recovery in the spring months contributed to RevPAR rising to an annual average of \$72.95 at the end of May.
- RevPAR in the full service segment is spurring this increase. The metric in higher-tier lodging climbed 210 percent relative to the prior yearlong span.

Investment Highlights

- Given the struggles within the hospitality segment emerging from the pandemic, average sales pricing per room fell in the metro by more than 12 percent in both 2020 and 2021. With occupancy and revenues exhibiting upward movement this year, a sub-5 percent dip to \$124,900 per room in May is the smallest decrease since the downward trend began in 2019. Sales volume rose in the last 12 months, but still lags pre-pandemic norms.
- Within Chicago, investors are targeting upper upscale buildings with heightened velocity, due to strong room demand for high-end lodging near tourist hubs. Over the 12-month window ended in June, these assets traded for an average sales price of \$190,000 per key, usually involving hotels with more than 150 rooms. The River North to Gold Coast area is the most liquid region of the city, due to the swaths of high-end retail in the CBD.
- The Chicago Northwest submarket, which stretches from Elk Grove Village and Arlington Heights into the Pingree Grove-Algonquin area, is another place where investors are ramping up activity, following an increase of more than 100 percent in hotelier revenues. Investors here usually target upper midscale hotels, but a wide array of sales have occurred recently. Sales pricing here is roughly half the metro mean per room on average.