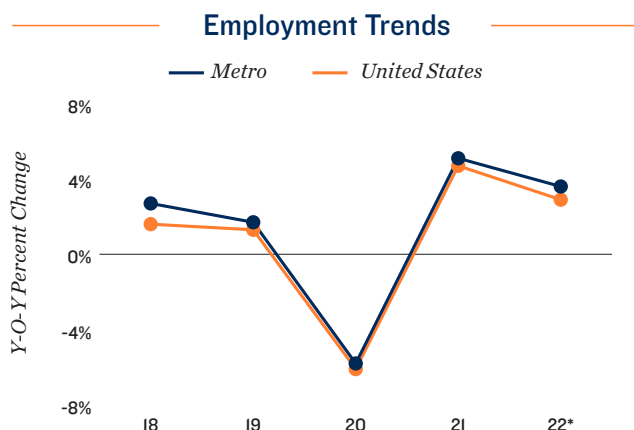


### Limited Service Hotels Nearly Back to Pre-2020 Occupancy as Budget Considerations Play a Role

Broad economic price pressures dictate thrifty travel agendas. Occupancy rates in both the economy and midscale segments climbed within 200 basis points of their respective 2019 averages during the past year ended in May. On the other end of the spectrum, the loss in occupancy relative to pre-pandemic measures exceeded 1,000 basis points in the upper upscale and luxury segments. This variation in recovery timelines is tied to economic conditions, labor limitations at highly-amenitized properties, and the slow return of international and business-related visitors. Many domestic travelers are factoring in elevated flight costs and prices at the pump when planning a trip, persuading more visitors to seek budget-friendly accommodations when visiting the Space City. In fact, Houston's most expensive ADR submarkets – the CBD and Galleria/Greenway Plaza – were the only two areas in the metro that logged an average occupancy rate below 50 percent during the past year.

High-end hotels face a longer rebound, but it is accelerating. Full service hotels have more ground to make up relative to pre-pandemic norms, however, performance metrics in recent months show that the segment is swiftly moving in the right direction. Average occupancy from March through May 2022 reached nearly 62 percent at these hotels, roughly 1,500 basis points above the same stretch of last year and the strongest three-month mean since the first quarter of 2020. Demand improvements allowed the ADR in this segment to grow more than 23 percent annually to a new record high of \$173.70.



\* Forecast  
Sources: BLS; CoStar Group, Inc.

### Hospitality 2022 Outlook



1,950

ROOMS

under construction

#### CONSTRUCTION:

As of May 2022, developers were underway on less than 2,000 hotel rooms metrowide, the smallest amount at that point of the year since 2014. The construction pipeline moderation should help existing select and full service hotels raise occupancy levels.



250

BASIS POINT

change in occupancy

#### OCCUPANCY:

Up nearly 1,500 basis points from the 2020 register, the average occupancy rate surpasses 57.0 percent this year. This is a major rebound from the most difficult stretch of the health crisis, but still shy of the 64.6 percent average achieved from 2010-2019.



12.4%

INCREASE

in ADR

#### ADR:

By the end of 2022, the yearlong ADR will increase to \$102.70, piloted by robust gains in the full and select service segments. On a regional scale, nightly rates in Houston are on the more affordable side, potentially aiding travel during an inflationary period.



17.7%

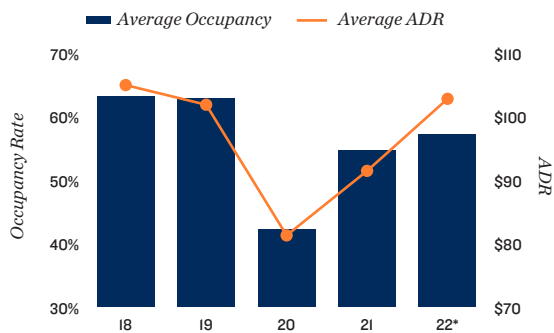
INCREASE

in RevPAR

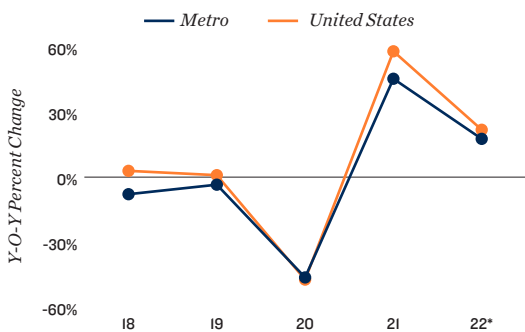
#### REVPAR:

Gains in both occupancy and ADR support solid RevPAR growth, with the yearlong average in this metric expected to reach \$58.65. This measure is about 8 percent shy of the 2019 recording, and 24 percent below the all-time high witnessed in 2014.

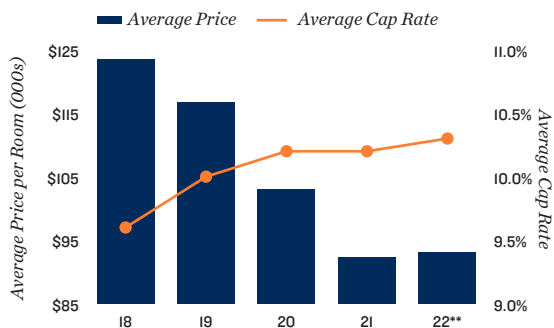
### Occupancy & ADR Trends



### 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

**1,100** basis point increase in occupancy Y-O-Y

- The East/Baytown area was the sturdiest. Average yearlong occupancy never fell by 1,500 basis points annually at the depths of the pandemic. Aligning with macro trends, over half of the rooms here are limited service.
- Conversely, the average trailing 12-month rate in the CBD fell almost 5,000 basis points through early 2021, recovering two-thirds of that since.

### ADR

**27.1%** increase in the average daily rate Y-O-Y

- The CBD, Galleria/Greenway Plaza and the Southwest Freeway area all registered an ADR during the yearlong span ended in May that was higher or on par with the equivalent period of 2019.
- Each of the six market classes logged year-over-year ADR growth above 10 percent through May, led by the upper upscale and upscale segments.

### REVPAR

**57.6%** increase in revenue per available room Y-O-Y

- Half of the 10 submarkets had an average RevPAR below \$50 during the past year, while the metric was above \$65 in four: the CBD, Galleria/Greenway Plaza, Medical Center/Reliant Stadium and North/Woodlands.
- RevPAR measured the smallest in the George Bush Airport Area, though recent improvements in air passenger volumes should help the submarket.

## Investment Highlights

- From July 2021 through June 2022, about 25 percent more hotel deals were completed than in the prior yearlong interval. Rebounding performance metrics and the property type's ability to adjust room rates on a frequent basis during an inflationary period are bolstering buyer interest. Local and out-of-state investors had roughly a 70-30 split of acquisitions during the past year, respectively. Non-local buyers had a stronger appetite for full and select service assets in the urban core and first-ring suburbs, where entry costs are favorable relative to many similarly-sized metros.
- Hotel sale prices in Houston had been trending downward since 2017, but the pace of decline is easing. During the past year ended in May, the average price fell 2 percent to \$93,100 per room, compared to reductions of at least 5 percent in all but one year spanning 2017-2021. Mild entry costs and an average cap rate of 10.3 percent — the highest among major U.S. hospitality metros — make Houston an attractive option for private buyers.
- Investors focusing on hotel assets in the \$1 million to \$5 million range hone in on the George Bush Airport Area and East/Baytown submarkets, where economy and midscale listings are more prevalent. Properties meeting this criteria often transact for prices under \$60,000 per room.