

INVESTMENT FORECAST

Marcus & Millichap

HOSPITALITY
California

2022

Southern California Metros Spearhead State's Larger-Scale Rehabilitation

Restoration of demand drivers generates optimism. Home to 10 percent of the nation's hotel inventory, the state's hospitality recovery has been a tale of two regions, with Southern California leading the charge. Supported by increases in second half tourism, Los Angeles and San Diego counties recorded occupancy rates of 64 percent and 62 percent, respectively, during 2021, with Orange County noting the largest annual improvement in hotel demand across California markets. In contrast, the Bay Area has undergone a more protracted recovery, hindered by some of the strictest vaccination requirements nationally and subdued business travel. Last year, San Francisco recorded sub-50 percent occupancy, with San Jose logging a slightly higher mark. Nevertheless, reasons for near-term optimism are emerging, as major tech firms, including Microsoft, announce plans to return employees to offices in the coming months. These decisions, the statewide return of large conventions and an expected rise in domestic and international travel will support the largest occupancy gain across U.S. hotel regions in 2022.

Capital follows strongest revenue metrics. Since the onset of 2021, transaction activity in Southern California has accounted for more than half of the state's deal flow, as investors gravitate to the region's more accelerated pace of recovery. Deals have been most frequent in the cities of Los Angeles, Anaheim, San Diego and Palm Springs, with these locales dictating sales velocity in their respective counties. Across these markets, older economy hotels and properties in the midscale range are in high demand, with pricing below \$150,000 per room readily available. Private buyers seeking the highest volume of sub-\$5 million listings are finding the most opportunities in the Inland Empire and the Central Valley. In the latter locale, assets proximate to Highway 99 are trading at 8 percent to 12 percent returns.

-150 bps 2022 Occupancy vs Long-Run Average

+28% 2022 ADR vs Long-Run Average

+25% 2022 RevPAR vs Long-Run Average

Percent of Stock Under Construction

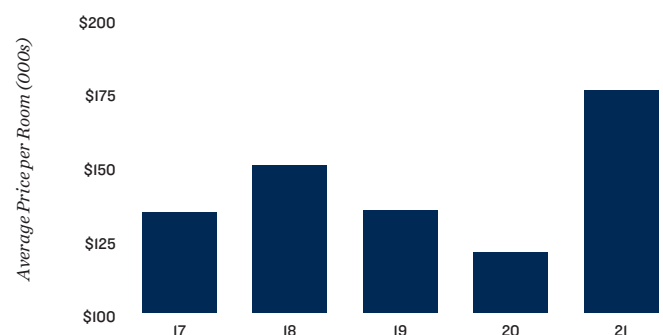
0%-3% 3%-6% 6%-9% 9%+



2022 Demand Growth

+14.4% Year-over-Year Room Nights

Hotel Sales



Note: Long-Run Average spans 2003-2019
Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

2022 Regional Highlights

- Los Angeles County hotels received a significant boost in February, as the metro hosted NASCAR's Clash at the Coliseum and Super Bowl LVI. The latter event was expected to have a nearly half-billion-dollar economic impact on the Southern California economy.
- Statewide, national park patronage was up last year, highlighted by more than 3.3 million individuals visiting Yosemite. In 2022, plans call for the park to limit the number of summer visitors by requiring reservations for day trips, due to major construction projects in the area. This limitation could boost tourism at other California national parks, heightening demand at nearby hotels.
- Comic-Con International returns to San Diego this July, bringing hordes of domestic and international visitors to the metro's downtown. At the Anaheim Convention Center, WonderCon is slated for April, with the event space also hosting the National Association of Music Merchants convention and D23 Expo this summer.

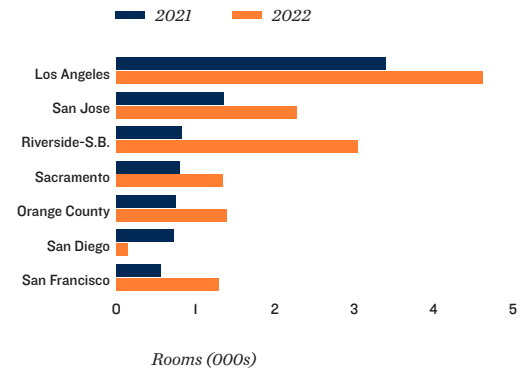
2022 Region Forecast

- Supply** up 2.7% Construction is ongoing on more than 15,000 rooms, with activity concentrated in Los Angeles County and the Inland Empire, where a combined 7,700 keys are being built. In the Bay Area, development is most apparent in San Jose, where 2,300 rooms are underway.
- Occupancy** up 700 bps California registers the largest annual increase in occupancy among U.S. regions during 2022, pushing its rate to 68 percent.
- ADR** up 10.0% A double-digit increase in hotel demand will support a spike in the average daily rate this year to \$164.51. This gain builds off last year's nearly 21 percent improvement.
- RevPAR** up 21.4% A sizable uptick in occupancy and double-digit ADR growth will lift RevPAR by more than 20 percent to \$113.15.
- Investment** After noting muted deal flow last year, the San Francisco and San Jose metros are poised to record a rise in investor activity, once major tech firms return to offices and local COVID-19 mandates ease. Increased business travel and tourism should most impact buyer demand for upper-tier listings.

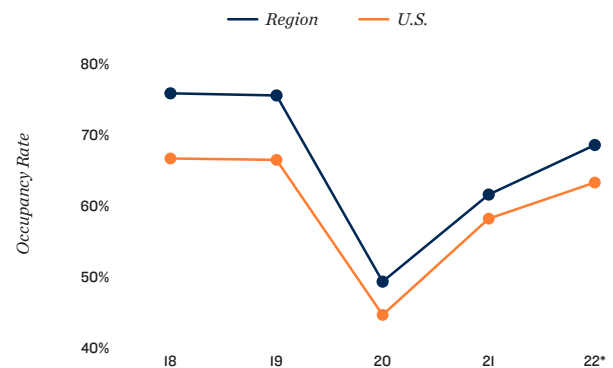
Hotel chain scale definitions are based on information available as of February 2022. Average prices and cap rates are a function of the age, type and geographic area of the properties trading and therefore may not be representative of the market as a whole. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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; AH&LA; AARP Research; Altus Data Solutions; Bureau of Economic Analysis; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; STR Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Treasury Department.

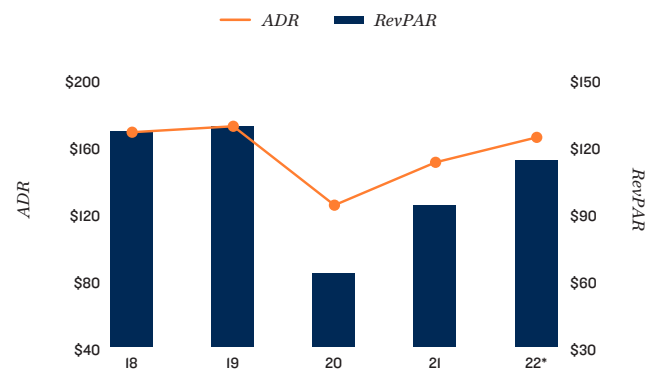
Development Trends *



Annual Occupancy



Full-Year Revenue Measures



* 2021 = recent openings; 2022 = under construction as of December 2021

Sources: CoStar Group, Inc.; STR, Inc.; Real Capital Analytics

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