

HOSPITALITY

Riverside-San Bernardino Metro Area

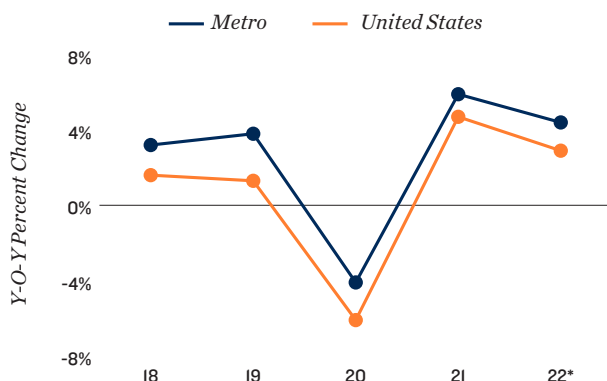
MIDYEAR 2022

Demand Resurgence Elevates Revenue and Average Sales Pricing Well Beyond Pre-Pandemic Levels

Metro stands out on a national scale. Inland Empire hotel demand has been restored. Spanning the 12-month interval ended in May, occupancy was 67.3 percent, making the metro the only major U.S. market with a rate above its recording from the same period in 2019. Heightened demand for upper midscale and upscale rooms supported the recent improvement, with gains across these segments lifting the overall ADR. This, in turn, pushed yearlong RevPAR 25 percent above the recording from the same period in 2019. This is noteworthy, as only Miami noted a higher increase nationally over that span. Looking ahead, pre-pandemic levels of passenger volumes at Ontario International Airport this spring suggest solid demand for proximate hotels can be expected in the near term. Additionally, elevated travel costs may influence more Southern California households to vacation closer to home this summer, aiding local hotels that offer resort accommodations or proximity to outdoor activities.

Coachella Valley metrics notably advance. Home to one-third of the metro's hotel stock, the Palm Springs submarket noted the largest demand improvement over the past year ended in May. Here, occupancy rose 1,750 basis points, pushing ADR to \$222, while lifting RevPAR by nearly 100 percent. Bolstered by two Coachella week-ends, Stagecoach Festival and visitor inflows from colder climates, monthly occupancy averaged 75 percent from February through April 2022. Strong performance continued in May, a positive prior to a stretch of extreme heat that historically impacts local demand.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Hospitality 2022 Outlook



2,030

ROOMS

under construction

CONSTRUCTION:

Building activity was historically elevated as of May, with upper midscale properties accounting for nearly half of the rooms underway. Overall, projects in the Coachella and Mojave River valleys account for more than 40 percent of the ongoing pipeline.



330

BASIS POINT

change in occupancy

OCCUPANCY:

After improving by 1,070 basis points last year, Inland Empire occupancy continues its upward climb, reaching 68.3 percent in 2022. This rate represents the highest annual mark on record, exceeding the 2019 figure by 80 basis points.



22.9%

INCREASE

in ADR

ADR:

Record occupancy allows the pace of ADR growth to slightly surpass last year's 22.2 percent rise, pushing the average up to \$162.11. Despite two years of sizable gains, the metro's rate is at least \$30 lower than other major Southern California markets.



29.0%

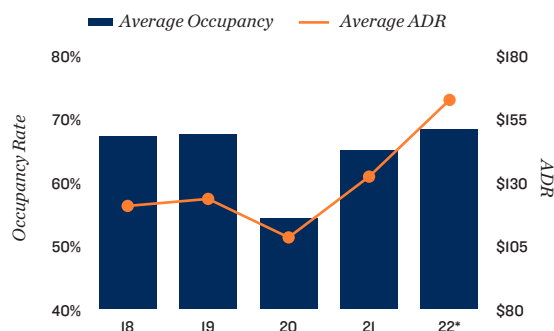
INCREASE

in RevPAR

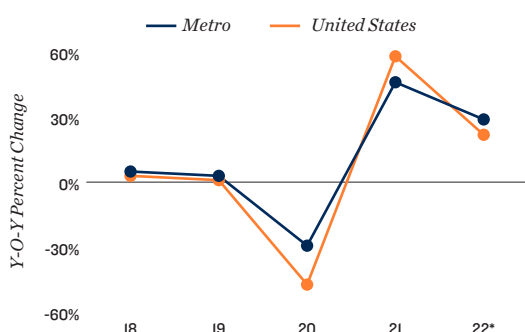
REVPAR:

Historically high demand for local rooms and a second year of sizable ADR growth elevates Riverside-San Bernardino's average RevPAR to \$110.68. This figure is the 12th highest among major U.S. markets.

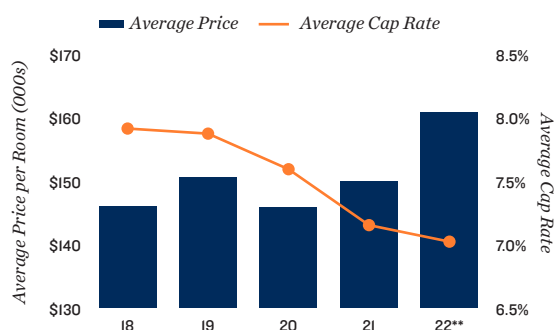
Occupancy & ADR Trends



RevPAR Trends



Sales Trends



* Forecast ** Through May

Sources: CoStar Group, Inc.; Real Capital Analytics

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Ontario International Airport

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May 2022 - 12-Month Period



OCCUPANCY

870 basis point increase in occupancy Y-O-Y

- The recent improvement in hotel demand was highlighted by the Riverside and San Bernardino Center submarket, which boasted a 77.9 percent occupancy rate over the trailing 12-month interval ending in May.
- Upper upscale hotels registered the most pronounced gain among classes, as occupancy rose 2,010 basis points to 58.2 percent.



ADR

35.8% increase in the average daily rate Y-O-Y

- Demand recovery elevated the average daily rate to \$151.87 over the past year, after a slight decline was noted during the prior 12-month stretch.
- Market classes with the highest occupancy – upper midscale and upscale – both reported gains of at least 30 percent. Among submarkets, Riverside and San Bernardino Center notched a roughly 26 percent overall rise.



REVPAR

56.1% increase in revenue per available room Y-O-Y

- After declining by roughly 20 percent over the prior 24-month interval, the metro's RevPAR climbed substantially during the past year, reaching \$102.28. Five of six class types noted increases of at least 40 percent.
- The Ontario and Airport submarket claimed a 57.1 percent RevPAR gain, as occupancy climbed 1,210 basis points and ADR rose by nearly 30 percent.

Investment Highlights

- The Inland Empire recorded the largest increase in hotel pricing across major U.S. markets during the trailing 12-month interval ended in May, a rise that coincided with upscale and other higher-tier properties accounting for roughly 20 percent of total deal flow. The 12 percent gain lifted the local mean price point to \$160,700 per room, a figure that is still roughly \$70,000 to \$90,000 per key below other Southern California markets.
- Investors are pursuing hotels on a one-off basis in vacation destinations and areas that offer seasonal outdoor recreational activities. Since April 2021, transactions in Coachella Valley and outlying portions of San Bernardino County have accounted for nearly two-thirds of total sales activity. In both locales, minimum first-year returns fall in the 6 percent range, with opportunities to obtain 8 percent to 9 percent yields readily available.
- Cap rates are comparable in both aforementioned submarkets. However, property values in these locales contrast. In Palm Springs and other Coachella Valley cities, average pricing hovers around \$220,000 per room, with an equal mix of economy and upscale-plus assets changing hands. Elsewhere, buyers are paying a mean of \$115,000 per key for smaller or midsize economy and midscale hotels in Big Bear Lake and Barstow.