MARKET REPORT

Marcus & Millichap

HOSPITALITY

San Diego Metro Area

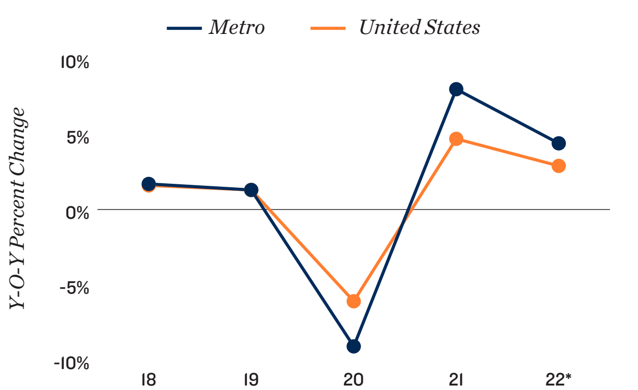
MIDYEAR 2022

San Diego Captures One of the Nation's Highest Occupancy Rates as Mainstays of Demand Return

Bookings lift across hotel classes prior to peak tourism season. Outside of Las Vegas and Florida locales, San Diego recorded the highest occupancy among major U.S. markets over the past 12 months ended in May. During this span, the percentage of filled economy, midscale, upper midscale and upscale rooms each exceeded the 70 percent threshold, with upper upscale establishments registering a more than 2,900-basis-point rise in occupancy. Widespread demand gains enabled the average daily rate to increase by more than 20 percent across all classes of hotels, boosting operators' RevPAR. An additional reason for optimism, hotel demand in May of this year was on par with the same period in 2019. This circumstance suggests the sector may fully recover in the near term, a projection further bolstered by upward trending passenger totals at San Diego International Airport and overall visitor volume.

Conventions and cruises steer second half improvement. Staples of local hotel demand will return in force during the remainder of this year, a boon for area hotels. Considered the largest pop culture event in the nation, Comic-Con International will be held in late July at full capacity, with other large conventions, including TwitchCon and Neuroscience 2022, also slated for this year. Additionally, the number of cruise ship calls is scheduled to ramp up, with nearly 40 departures planned in the fourth quarter. The rise in visitor volume that these events and voyages produce, and the lack of hotel construction, will up demand for existing rooms in the second half.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Hospitality 2022 Outlook

145
ROOMS
under construction

CONSTRUCTION:

Completions are sparse in San Diego County during 2022, with the number of rooms added noticeably trailing the prior five-year average of approximately 1,000 keys. An upscale hotel in the Gaslamp District represents the most notable delivery.

1,260
BASIS POINT
change in occupancy

OCCUPANCY:

The improvement in occupancy recorded during 2022 will nearly match the 1,300-basis-point gain noted last year. This will lift the metro's annual rate to 74.3 percent, the second-highest occupancy among major U.S. hotel markets.

16.0%
INCREASE
in ADR

ADR:

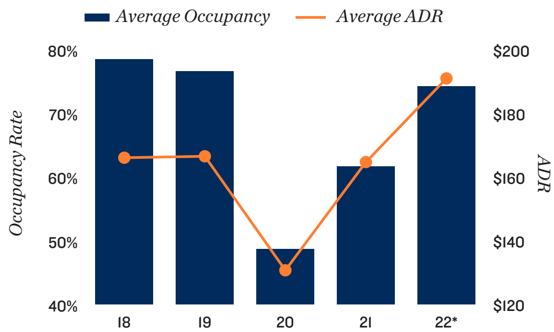
Occupancy nearly on par with pre-pandemic recordings will enable the average daily rate to reach $190.92, a historically high mark for the metro, and the nation's seventh-highest nightly fee. Last year, San Diego notched a 26.1 percent rise.

39.6%
INCREASE
in RevPAR

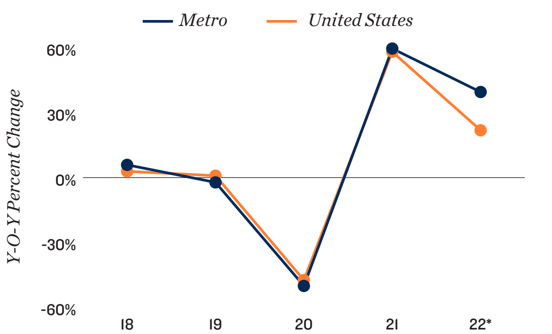
REVPAR:

Notable increases in occupancy and the average daily rate support a second straight year of strong RevPAR growth. At $141.79, the local revenue metric is the fourth largest among major U.S. markets, only outdone by New York, Miami and Los Angeles.

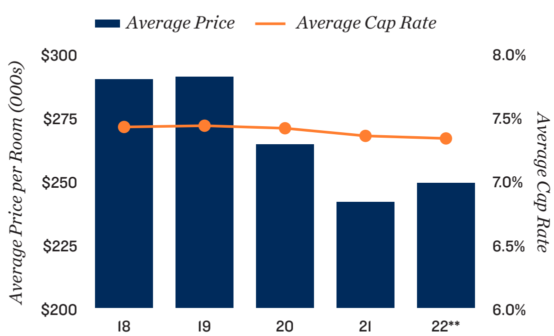
Occupancy & ADR Trends



RevPAR Trends



Sales Trends



** Forecast ** Through May*

Sources: CoStar Group, Inc.; Real Capital Analytics

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May 2022 - 12-Month Period

OCCUPANCY

2,140 basis point increase in occupancy Y-O-Y

- San Diego's hotel sector registered occupancy of 69.6 percent during the 12-month period ended in May, a marked improvement in demand compared to the 1,950-basis-point decline notched in the prior yearlong span.
- Upper midscale properties posted occupancy of 75.7 percent over the past year, the highest rate among hotel classes.

ADR

46.0% increase in the average daily rate Y-O-Y

- Rising room usage across all service levels of hotels during the past 12 months pushed the average daily rate to $183.53.
- Upscale occupancy increased by 2,050 basis points over the recent yearlong stretch, enabling the segment's nightly rate to elevate 36 percent to a mean of $165.04.

REVPAR

110.5% increase in revenue per available room Y-O-Y

- Record ADR and substantial occupancy gains during the past 12 months lifted RevPAR to $127.64. This figure is roughly 2.0 percent below the recording posted in the yearlong period ended in May 2019.
- High-tier hotels noted the largest gains, with RevPAR in the luxury and upper upscale categories up 130.7 and 169.0 percent, respectively.

Investment Highlights

- Investors are exhibiting a preference for San Diego County hotels with more than 100 rooms. Since last April, properties of this description have accounted for roughly two-thirds of all deal flow, with many of these assets trading as part of larger portfolio transactions. The high proportion of these closings has translated to a sizable number of $10 million-plus sales.
- Midscale and upper midscale trading is driving activity in the $10 million to $20 million tranche, with these assets changing hands for an average of $150,000 per room. Buyers are largely targeting 1980s- and 1990s-built properties in San Diego proper that were renovated in the past 20 years, or assets of similar vintage that warrant upgrades.
- Buyers focused on sub-$10 million deals are acquiring economy hotels in Carlsbad/Oceanside and central San Diego locations, including Mission Valley. In both locales, pricing below $140,000 per room remains available.
- The high number of economy and midscale sales is reflecting on the metro's overall pricing. Over the past year ended in May, investors paid a mean of $249,000 per key, a figure $50,000 below averages from 2018 and 2019. In contrast, the mean cap rate has remained consistent at 7.3 percent.