MARKET REPORT

Marcus & Millichap

HOSPITALITY

San Francisco Metro Area

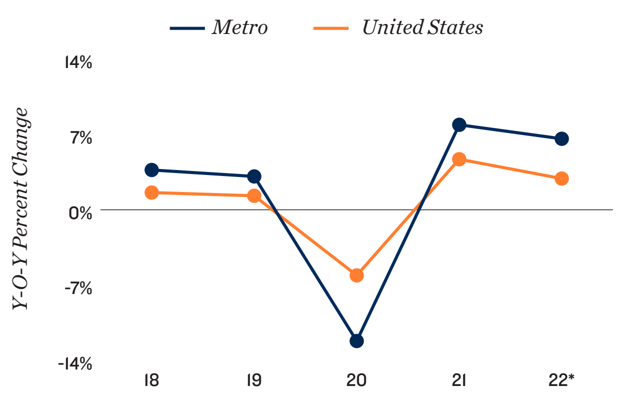
MIDYEAR 2022

Bay Area Tourism Observing Steady Increases; Convention Activity Stimulates Business Transit

High-profile events return as pandemic restrictions fade. One of the hardest-hit metros during the health crisis, San Francisco dropped nearly all COVID-19 restrictions earlier this year. As capacity regulations are lifted, large-scale events should stimulate hospitality recovery. The city of San Francisco proper welcomed its first NBA Finals in June, with the 19,000-seat Chase Center hosting half of the series and additional games during the playoffs. Other events and the 21.9 million individuals expected to visit the metro in 2022 will help elevate occupancy, pushing ADR above $200 by the end of the year. An expected influx of foreign travelers will play a significant role in boosting hotel demand, as before the pandemic, one-third of the metro's tourism stemmed from international sources.

Full recovery dependent on business and foreign travel. Hospitality services catering to business clients still face headwinds, due to a high proportion of firms operating on hybrid or remote schedules. At the end of June, San Francisco office usage hovered at roughly 35 percent of the 2019 level. With business-related travel historically constituting around 30 percent of all visitor volume to the metro, a return to pre-pandemic hotel occupancy may depend on office activity moving toward pre-pandemic norms. On a more positive note, a number of large-scale business conventions are scheduled for this year as health restrictions abate, helping push annual occupancy rates above the 60 percent threshold for the first time since the onset of the pandemic.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Hospitality 2022 Outlook

1,300
ROOMS
under construction

CONSTRUCTION:

Builders have slowed activity, though the current construction schedule is set to expand metro inventory by more than 2.3 percent. The pipeline as of May comprises several larger properties that average nearly 190 rooms each.

1,710
BASIS POINT
change in occupancy

OCCUPANCY:

The lifting of local and international pandemic restrictions will facilitate an accelerated recovery in 2022. The metro will post a robust occupancy gain, with the average full-year rate ending 2022 at 64.4 percent.

38.5%
INCREASE
in ADR

ADR:

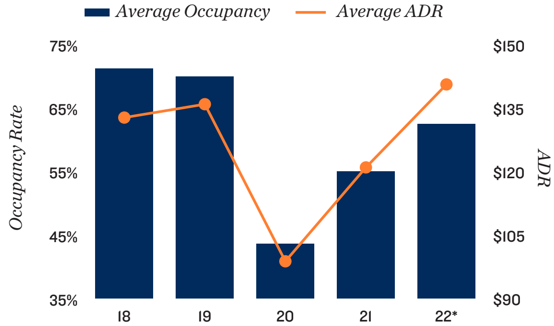
As large-scale conventions and events return without capacity restrictions, increased demand for hotel rooms will drive year-end ADR to $213.10. The gain noted in 2022 will represent the most rapid annual rise recorded in metro history.

88.5%
INCREASE
in RevPAR

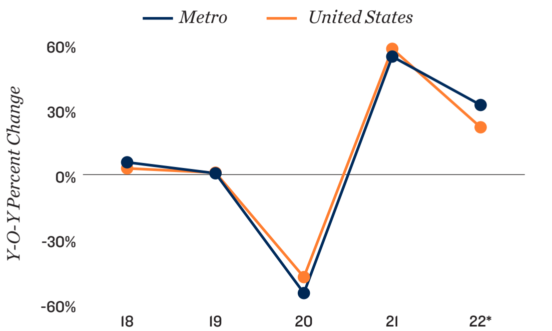
REVPAR:

Earlier in 2022, occupancy gains drove RevPAR over the $100 mark for the first time since 2020. Average annual RevPAR will continue its upward climb, reaching $137.13 by year-end, a figure roughly two-thirds of the 2019 metric.

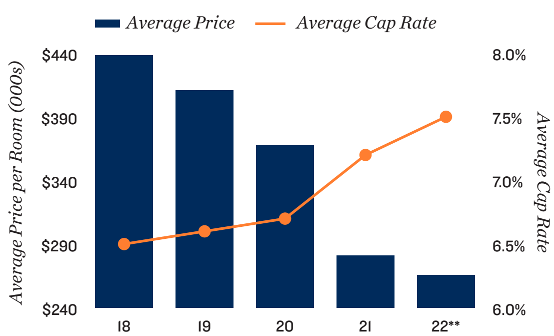
Occupancy & ADR Trends



RevPAR Trends



Sales Trends



** Forecast ** Through May*

Sources: CoStar Group, Inc.; Real Capital Analytics

San Francisco Office:

David Nelson *Regional Manager*

750 Battery Street, Fifth Floor

San Francisco, CA 94111

Tel: (510) 379-1200 | david.nelson@marcusmillichap.com

Prepared and edited by:

Luke Murphy

Research Associate | Research Services

For information on national hospitality trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

May 2022 - 12-Month Period

OCCUPANCY

1,610 basis point increase in occupancy Y-O-Y

- Occupancy has consistently increased after hitting a nadir in early 2021, entering June at an average of 55.0 percent during the past 12 months.
- As tourism began to climb back to pre-pandemic levels, occupancy in the core led metrowide gains. Market Street and the Nob Hill/Wharf submarkets both reported advances of at least 1,750 basis points.

ADR

47.6% increase in the average daily rate Y-O-Y

- Returning hotel demand has translated to the most dramatic 12-month ADR advance in metro history, putting this figure at $177.66 as of May.
- Despite significant occupancy gains in the core, daily rates in Marin County and western San Mateo County maintained their lead over the rest of the market, entering June at an average of $220.23.

REVPAR

117.9% increase in revenue per available room Y-O-Y

- While nightly rates have risen rapidly, slower occupancy gains left RevPAR at $97.67 in May, 48 percent of the equivalent pre-pandemic figure.
- Luxury flags boast the smallest gap between current and pre-pandemic RevPAR. While segment occupancy lagged the market, ADR gains drove RevPAR to $184.68, about 60 percent of the February 2020 rate.

Investment Highlights

- A slower return of business travel than expected weighed on deal flow during the 12-month period ended in May, with transaction velocity occurring at half the rate of pre-pandemic years. Buyers active during this span focused on upscale and upper upscale properties in San Francisco proper, with yields ranging from the high-5 to low-7 percent range. Rapid improvement in the average daily rate made these properties attractive, as easing health restrictions allowed them to extend to their full range of operations.
- Pricing during the 12-month span ended in May fell 16 percent to $265,700 per key. A 60-basis-point yield decompression was observed, with the average cap rate for trades occurring this period rising to 7.5 percent — a level last recorded in 2013 — tying the metro with Los Angeles for the highest average yield among major California hotel markets.
- Institutions and equity firms have resumed buying activity in anticipation of an improvement in tourism. At the same time, smaller private buyers are accounting for a larger share of the buyer pool, as falling prices are allowing these investors to acquire properties at pricing well below the pre-pandemic norm.