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**Q2 2017**

## **MARKET FOCUS: ATLANTA**

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*May 1, 2017*

The Atlanta area lodging market is on solid footing with vastly improved performance and enough new supply in development to attract additional group business, but not so much that it won't be absorbed. While some challenges remain for hotel owners in certain areas of the Atlanta metropolitan area, the general sentiment seems to be one of enthusiasm for the market's continued potential as a group and corporate transient destination.

This issue in our Market Focus series offers insights on the Atlanta lodging landscape, including those from industry experts, hotel owners and investors. We thought it important to share our insights about Atlanta with our clients and friends who may have an interest in investing in the area, already own lodging assets in the market, or both.

Whether your interest in the Atlanta market is as a current or potential owner, we hope that the information contained in this report proves to be helpful. We always welcome the opportunity to speak with our current and prospective clients, to discuss their hotel and resort investments, whether in Georgia or elsewhere.

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### **Atlanta RevPAR: Steady Growth, Mainly from ADR**

A number of factors continue to fortify Atlanta's strong hotel performance. One inarguable driver of room nights is Hartsfield-Jackson Atlanta International Airport (ATL). The airport was named the world's busiest airport for the 19<sup>th</sup> consecutive year in 2016, with more than 104 million passengers recorded. Of those, more than 11 million international passengers traveled through ATL. One can reasonably assume that many of those international passengers connect to other U.S. destinations through Atlanta, while others stay in Atlanta hotels for a few nights at the beginning and end of their extended trips. Further, Atlanta claims to be America's most accessible city, with more than 80% of the U.S. population with a two-hour flight and more than 150 direct, non-stop domestic flights to ATL, according to the Atlanta Convention & Visitors Bureau.

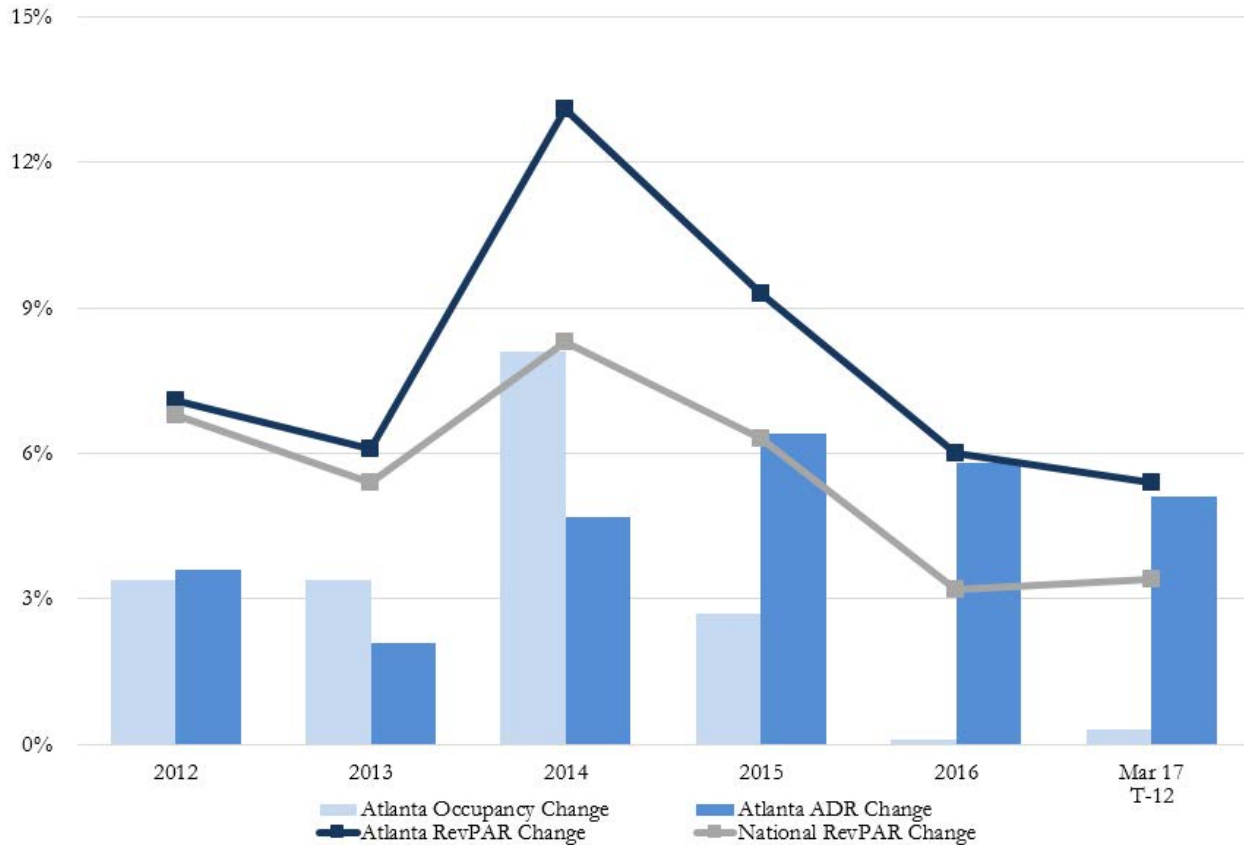
Atlanta also benefits from its hefty cut of the group business market. Convention business is strong at the fourth-largest convention center in the country, but with



one of the lowest ADRs in the Top 25 STR markets, Atlanta may be winning much of that business due to its reputation as a “value” city for conventions. In our opinion, hotels supporting convention business could stand to raise rates without risking these large events. Currently, there are 11,700 hotel rooms within one mile of the Georgia World Congress Center in downtown Atlanta, according to the Atlanta Convention & Visitors Bureau.

The graph below demonstrates how Atlanta hotels have consistently outperformed the national average in terms of RevPAR growth in the last several years.

### Atlanta Performance Statistics



While demand in the metro is solid and RevPAR growth is consistent, there is still plenty of room for Atlanta hotels to increase rates. The market currently lags many other Top 25 markets in terms of actual RevPAR on an absolute basis. The table on the following page ranks the Smith Travel Research Top 25 markets by RevPAR for the March YTD period, with Atlanta coming in closer to the bottom of the list at an average \$75.05 RevPAR, but with an encouraging 4.4% YTD change.

Moreover, any increases in ADR are sure to result in almost pure flow-through of revenues to the bottom line. We encourage owners to challenge their day-to-day operators to push rate and become more competitive with other major convention markets in the United States.

## March 2017 YTD Operating Metrics

Ranked by RevPAR Change

Market	RevPAR	% Change	ADR	% Change	Occ.	% Change
Oahu Island	\$192.55	4.0%	\$233.05	5.8%	82.6%	(1.7%)
Miami	\$186.36	(8.5%)	\$227.37	(7.5%)	82.0%	(1.0%)
San Francisco	\$185.38	(1.8%)	\$234.50	(0.2%)	79.1%	(1.6%)
New York	\$153.46	(1.3%)	\$197.01	(2.2%)	77.9%	1.0%
Los Angeles/Long Beach	\$135.00	(2.5%)	\$169.69	(2.0%)	79.6%	(2.4%)
Phoenix	\$131.21	4.0%	\$165.47	5.0%	79.3%	(0.9%)
New Orleans	\$118.90	8.0%	\$164.15	3.5%	72.4%	4.4%
Tampa/St. Petersburg	\$117.22	5.6%	\$146.90	5.5%	79.8%	0.1%
San Diego	\$115.43	7.5%	\$153.13	6.1%	75.4%	1.3%
Anaheim/Santa Ana	\$114.01	3.0%	\$150.93	3.6%	75.5%	(0.6%)
Orlando	\$108.47	3.8%	\$133.26	3.0%	81.4%	0.8%
Washington, D.C.	\$107.93	16.1%	\$165.94	13.6%	65.0%	2.2%
Seattle	\$96.62	9.2%	\$135.39	3.6%	71.4%	5.4%
Boston	\$95.89	(1.1%)	\$156.30	0.0%	61.3%	(1.1%)
Nashville	\$90.89	3.7%	\$132.63	5.4%	68.5%	(1.6%)
Denver	\$76.33	0.9%	\$117.93	3.0%	64.7%	(2.0%)
Dallas	\$75.65	1.4%	\$108.48	3.4%	69.7%	(1.9%)
<b>Atlanta</b>	<b>\$75.05</b>	<b>4.4%</b>	<b>\$107.84</b>	<b>4.1%</b>	<b>69.6%</b>	<b>0.3%</b>
Houston	\$74.00	2.4%	\$116.12	5.7%	63.7%	(3.2%)
Philadelphia	\$70.29	1.4%	\$118.22	1.3%	59.5%	0.1%
Detroit	\$63.20	9.8%	\$101.39	4.2%	62.3%	5.4%
Chicago	\$63.08	1.5%	\$114.30	1.7%	55.2%	(0.2%)
Minneapolis/St. Paul	\$62.97	1.6%	\$107.97	1.7%	58.3%	(0.1%)
St. Louis	\$57.79	5.3%	\$98.45	4.2%	58.7%	1.1%
Norfolk/Virginia Beach	\$40.10	5.5%	\$78.71	(0.7%)	50.9%	6.2%
<b>Top 25 Markets</b>	<b>\$104.78</b>	<b>2.4%</b>	<b>\$148.95</b>	<b>2.4%</b>	<b>70.3%</b>	<b>0.1%</b>
<b>All Other Markets</b>	<b>\$62.32</b>	<b>4.0%</b>	<b>\$109.86</b>	<b>2.6%</b>	<b>56.7%</b>	<b>1.4%</b>
<b>Total United States</b>	<b>\$75.92</b>	<b>3.4%</b>	<b>\$124.27</b>	<b>2.5%</b>	<b>61.1%</b>	<b>0.9%</b>

Source: Smith Travel Research

An important caveat to note is that the Midtown and Buckhead submarkets have been able to achieve higher rates, on average, than the “big box” hotels that cater to convention business in the Central Business District. Hotels situated in Midtown and Buckhead will likely continue to enjoy higher ADRs as their performance is indicative of the less price-sensitive and higher-rated transient travelers and corporate groups willing to spend more per room than association- and convention-oriented downtown properties.

## New Supply—How Long Before It Is Absorbed?

New hotel room inventory predictions can induce anxiety for hotel operators and investors alike, especially if it's not clear that the market can sustain a demand level to absorb the new supply. We do not believe this to be the case in the Atlanta metro, where the pace of group and transient bookings should continue to support continued RevPAR growth, despite the number of rooms under construction. In fact, as a percentage of current rooms available, Atlanta's projected supply increase of 4% remains below the national average of about 5% for the top 25 markets, according to Smith Travel Research.

### Top 25 Market Supply Growth

Market	Rooms U/C	% of Existing
Oahu Island	180	1%
Norfolk/Virginia Beach	456	1%
Orlando	2,032	2%
Minneapolis	887	2%
St. Louis	1,087	3%
Phoenix	1,962	3%
New Orleans	1,317	3%
Chicago	3,780	3%
San Francisco	1,825	4%
Detroit	1,548	4%
Washington, D.C.	4,069	4%
<b>Atlanta</b>	<b>3,649</b>	<b>4%</b>
Tampa/St. Petersburg	1,771	4%
San Diego	2,468	4%
Anaheim/Santa Ana	2,348	4%
Boston	2,823	5%
Houston	4,778	6%
Philadelphia	2,705	6%
Los Angeles/Long Beach	6,070	6%
Miami/Hialeah	3,578	7%
Dallas	7,228	9%
Nashville	3,904	10%
Denver	4,586	10%
Seattle	5,117	12%
New York	15,607	14%

Note: Data as of January 2017

Source: Smith Travel Research

More specifically, as illustrated in the table on the following page, the impact of new rooms will materialize disproportionately in the downtown submarket, an area that's ripe for continued growth.

## Major Projects Under Construction in Atlanta

Project	Keys	Open Date
AC Hotel   Moxy Atlanta Midtown	288	Q3 2018
<b>Curio Candler Hotel Atlanta</b>	<b>265</b>	<b>Q4 2017</b>
Omni Hotel at The Battery Atlanta	264	Q1 2017
Solis Hotel	204	Q4 2017
<b>Hard Rock Hotel Atlanta</b>	<b>200</b>	<b>Q4 2018</b>
Hampton Inn Buckhead Place	186	Q3 2017
Hampton Inn & Suites Atlanta Midtown	179	Q2 2018
Canopy Atlanta Midtown at Ascent	176	Q3 2018
<b>SpringHill Suites Atlanta Downtown</b>	<b>170</b>	<b>Q2 2018</b>
<b>Cambria Hotel &amp; Suites Atlanta Downtown</b>	<b>141</b>	<b>Q3 2017</b>

Source: Lodging Development

Hotels located in the Downtown Atlanta submarket are bolded.

### Airbnb Doesn't Pose a Significant Threat, Yet

The Atlanta market has proven to be less susceptible to the threat of the so-called “phantom supply” presented by Airbnb than other major U.S. markets. According to Airdna, a company reporting in Airbnb data, the Atlanta market has about 350 active Airbnb listings, a small number when compared to the market’s roughly 91,000 available hotel rooms. This number pales in comparison to another Southeast market, Miami, for example, where there are more than 4,900 active rentals available in the market.

However, some industry pundits warn that the roaring multi-unit residential market may be forming a bubble. If and when that bubble bursts, those unoccupied units may be repurposed as short-term vacation rentals. That influx of supply could very well negatively impact lodging performance in markets that previously proved to be resilient to the impact of the sharing economy, and it could happen virtually overnight.

***“Airbnb is here and it’s here to stay. The hotel industry has to look at it as a new way for the traveling public to spend their lodging dollars. It’s worth studying them very carefully in your specific submarkets and understanding what the competition in your submarket is like, and understanding that not every unit is necessarily competitive.”***

**Jan Freitag, Smith Travel Research**

### Atlanta Remains an Attractive Hotel Investment Market

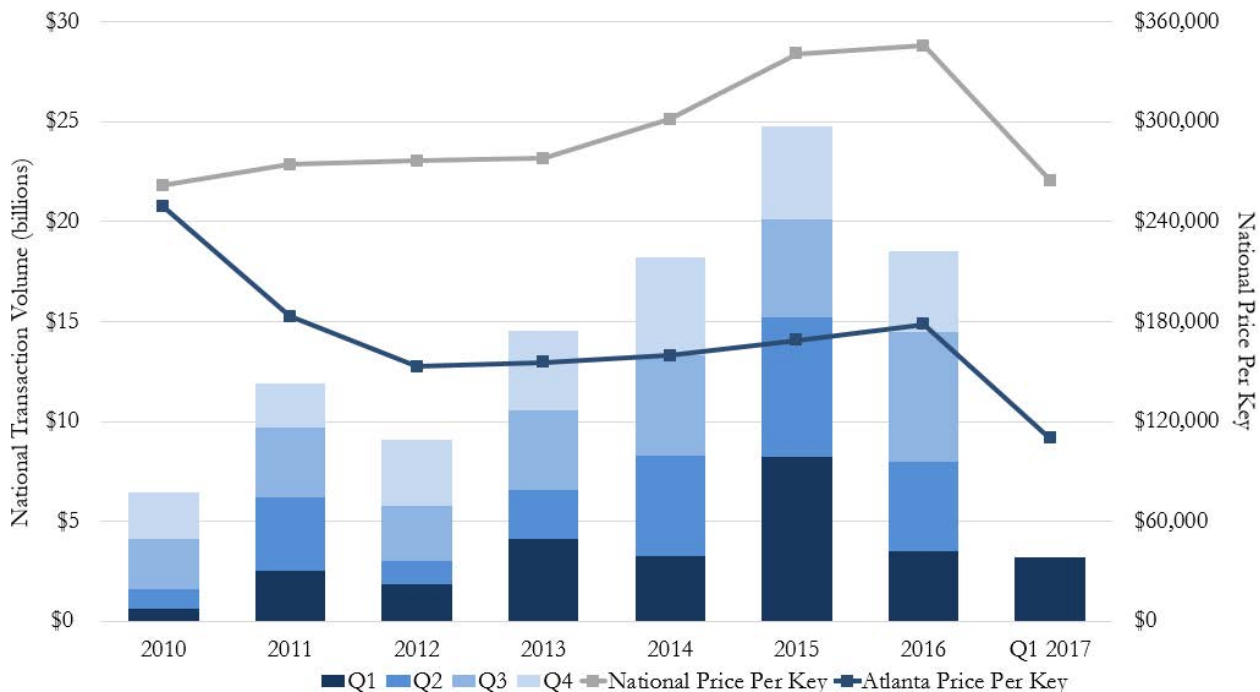
The greater Atlanta area remains poised for growth, especially in hotel profitability. This is one of the primary reasons we believe Atlanta to be an attractive investment market. We anticipate that as average rates continue to increase, incremental NOI flow-through will grow, resulting in increased values. It is likely that this effect will sooner be realized in Midtown and Buckhead since the base average rates

in these areas are higher than in other parts of Atlanta. Atlanta’s ADR growth should result in meaningful increases both hotel transaction volume and price-per-key values over the next five to ten years.

For the past two decades, the Atlanta metro market has registered transaction volume and price per key statistics well below national averages. We believe that trend has already begun to reverse itself. Atlanta has benefited from an abundance of available development sites, as well as growth in several key submarkets such as Downtown, Midtown, Buckhead, Atlanta Perimeter and several other smaller neighborhoods. Two factors are now positively impacting the market’s transaction volume and pricing. First, Atlanta experienced a glut of larger hotel construction in the 80s and again in the 90s. That new supply was introduced generally during periods when the national economy did not support the growth in inventory. It has taken an inordinate amount of time for the supply introduced by those large group hotels to be absorbed. Second, the City has made valiant efforts in the past five years alone to reposition itself as a preferred, easily accessible global convention destination.

In addition to outstanding exhibit and meeting facilities, the market added an array of attractive and diverse amenities to support the much-improved exhibit and room product. The city is now poised to take advantage of increased group business, coupled with ADR growth at a faster pace than previously experienced. Increased demand and improved profits will invariably lead to greater interest by investors in the coming years. Acquisitions by global investors of major assets such as the Marriott Marquis, the Atlanta Hilton and other large convention properties bodes well for Atlanta as a major hotel investment target.

### Annual Transaction Volume by Quarter



Metric	2010	2011	2012	2013	2014	2015	2016	Q1 2017
National Transaction Volume (mm)	\$6,429	\$11,913	\$9,071	\$14,551	\$18,241	\$24,787	\$18,501	\$3,218
National Price Per Key	\$261,735	\$274,228	\$276,344	\$277,924	\$301,400	\$341,043	\$345,581	\$264,595
Atlanta Area Transaction Volume (mm)	\$105	\$196	\$137	\$406	\$334	\$669	\$317	\$138
Atlanta Area Price Per Key	\$248,815	\$183,205	\$152,968	\$155,381	\$159,513	\$168,596	\$178,267	\$109,971

Source: Real Capital Analytics

\*Note: Only one transaction was recorded in Atlanta in the first quarter of 2010.



## Challenges Remain

While the foreseeable future for Atlanta hotel and resort investments is promising, it's worthy to include a few notes of caution:

- Property tax increases loom as many appraisal districts throughout the state, and nation, are actively tracking transaction records to justify higher value assessments for their current real estate rolls.
- Upward pressure on wages is affecting budgets for 2017 and projections beyond that. With the proliferation of new rooms in some markets, operators are beginning to experience upward pressure on wages to maintain high quality staffs.
- The strong U.S. dollar continues to adversely impact inbound foreign travel. Given Atlanta's prominence as a major gateway market to the United States, it is likely that demand will be negatively affected.
- Foreign travel restrictions will also affect corporate and leisure travelers emanating from international locations. Visitors from the Middle East and Europe are already curtailing visits to the United States given the hurdles and uncertainties associated with their travel.
- The cost of utilities, especially water and sewer charges, continues to impact Atlanta. The city currently faces some of the highest water charges in the country, an operating expense that undoubtedly impacts property values.

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## Summary

The dynamics of any market change by the day, but there are trends worth investigating for nearly any lodging investment portfolio.

Whether you're seeking advice on the sale, purchase or financing of an asset in Atlanta or elsewhere, please don't hesitate to give our team a call. Dozens of companies and individuals, many of them repeat clients, have entrusted The Plasencia Group with dispositions, asset management and other consulting engagements across the state. Our history of completed engagements, along with our nationwide reach, positions our team for continued success throughout the United States.

Please visit our website at [tpghotels.com](http://tpghotels.com) for more information on our team, track record and capabilities. As always, please drop me a note at [lplasencia@tpghotels.com](mailto:lplasencia@tpghotels.com) with your feedback and questions. We look forward to speaking with you soon!

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