

LEADING THE WAY
Hospitality Industry Insights

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YOU CAN'T SPELL HOUSTON WITHOUT H-O-T

Coming out of the pandemic, Houston's market RevPAR had at first been slow to recover, meaningfully lagging other Sun Belt markets in terms of RevPAR growth in 2021 and 2022. This dynamic has quickly changed in 2023, however, and for the June 2023 YTD period, Houston has now distinguished itself as the best performing Sun Belt market in terms of RevPAR growth. There are reasons to believe that this growth, which was a long time coming, is sustainable.



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ADR CEILING BEING LIFTED BY HIGH-END PRODUCT

The trends at the top end of Houston's hotel supply provide cause for optimism. Most notably, the Post Oak Hotel, built in 2018 and Houston's only Forbes 5-Star hotel, surpassed the \$400 RevPAR mark in 2022, driven largely by ADR. The hotel continues to push the market's overall ADR and RevPAR ceilings as 2023 progresses. This lofty performance serves as a marker under which the rest of the market can draft. For example, the Lancaster, a luxury boutique hotel in the Downtown submarket that was recently comprehensively renovated, is achieving RevPAR results nearly 50% higher than pre-COVID. Other high-end boutique hotels like the Zaza Memorial City and the Moran at CITYCENTRE are also performing well ahead of pre-COVID benchmarks. A rising tide lifts all boats when it comes to ADR, and the tide is certainly rising in Houston.

Sun Belt Market June '23 YTD RevPAR Change

Market	RevPAR Δ
Houston	19.0%
Phoenix	14.4%
Dallas	13.6%
Atlanta	13.3%
Nashville	11.9%
Orlando	11.4%
Orange County	10.3%
San Diego	8.6%
Tampa	6.9%
Los Angeles	6.0%
Norfolk	5.8%
New Orleans	-3.0%
Miami	-7.1%



PROMISING SIGNS FOR OIL-RELATED DEMAND

The Houston market has continued to diversify and the oil industry is no longer the sole driver of hotel demand in the city, but the energy sector still serves as a meaningful piece of the market’s demand puzzle. Given the oil supply chain, markets in West Texas, where oil is pumped out of the Permian Basin, often see increases and decreases in activity (and hotel demand) well before Houston, where oil companies’ corporate offices sit. As such, West Texas hotel markets, most notably Midland-Odessa, often serve as a “canary in the coal mine” for Houston when it comes to hotel performance. While it is not an exact science, it is promising to see that Midland-Odessa has been the best performing market in Texas in terms of RevPAR growth in 2023. YTD results show that oil-related demand is starting to manifest itself in Houston, to the benefit of local hotels.

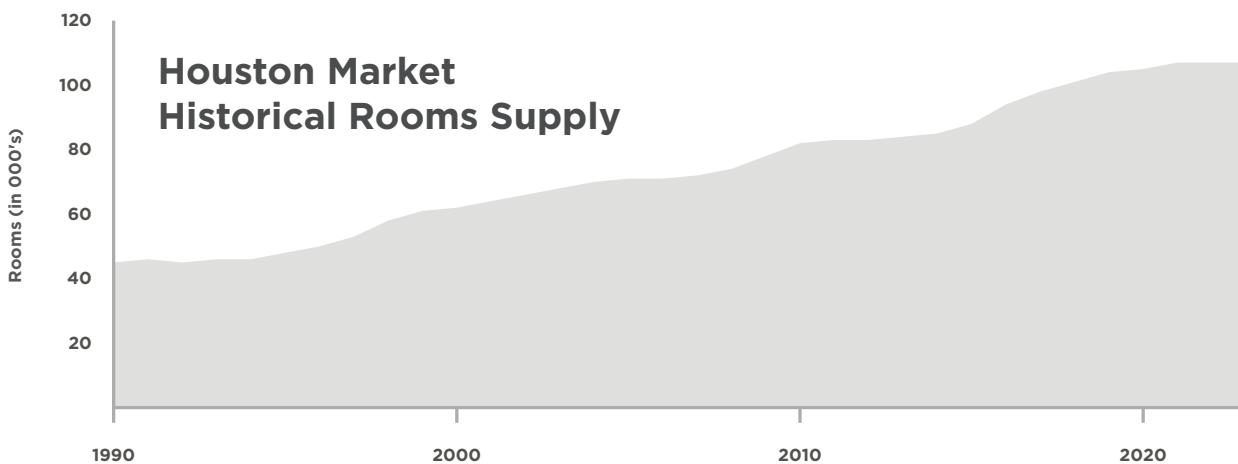
Texas Market June '23 YTD RevPAR Change

Market	RevPAR Δ
Midland-Odessa *	26.6%
Houston	19.0%
Dallas	13.6%
Texas West	12.7%
El Paso *	12.1%
Fort Worth/Arlington	11.7%
Texas East	7.9%
Texas Central	5.3%
Austin	4.6%
Texas North	2.4%
San Antonio	2.4%
Texas South	0.6%
McAllen-Brownsville	-5.4%

* Part of Texas West Market

LIMITED SUPPLY PIPELINE IN WAKE OF MASS ABSORPTION

Much has been made over the years of the seemingly constant threat of new lodging inventory in Texas and in Houston specifically. Indeed, new supply has had a meaningful effect on hotel performance over the years, serving to tamp down market RevPAR. However, it seems that decades of consistent real estate development across the Houston market, and in top submarkets like the Galleria, Downtown, and The Woodlands in particular, have created meaningful barriers to entry for new hotel projects going forward. As shown below, rooms inventory has plateaued after large increases in the 2010s. Without the specter of new supply, the outlook for hotel performance remains positive as demand continues to grow.



CONTINUING DEMOGRAPHIC AND ECONOMIC GROWTH

Houston is one of the fastest growing metropolitan areas in the United States, with its population having expanded by nearly 1.4 million from 2010 to 2022, amounting to a 23.3% increase. Houston plays a vital role in the U.S. economy with the second-highest concentration of Fortune 500 companies in the nation. It is the preeminent energy hub in the country, with a booming oil, gas, and petrochemical industry, and a rapidly expanding renewable energy sector. Once almost exclusively dependent on energy, Houston now benefits from a diverse economy, headlined by healthcare, finance, and professional services. Most notably, it is home to Texas Medical Center, the largest medical complex in the world. Further, the Houston area, home to consulates of over 90 countries, is a center for culture and a melting pot of people from around the world, particularly Central and South America. All of these factors create a diverse and robust hospitality marketplace.

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For more valuable hospitality industry news and market analysis, or if The Plasencia Group may be of assistance at any point throughout the entire life-cycle of your hotels or resorts please call us directly at (813) 932-1234.

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In 1993, The Plasencia Group was formed to provide hotel and resort owners investment advisory services at a personal level. Thirty years and hundreds of engagements later, we still have the privilege of making our clients successful with the passion, access, and certainty they've come to expect. Our firm offers investment sales, owner representation, development and renovation management, debt and equity sourcing, and advisory services to hotel and resort owners throughout North America.

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