



US | January 2022

Research Hotels & Hospitality

U.S. Select-Service Hotel Trends & Outlook

Strong recovery of transient demand accelerated select-service hotel investment appetite

Executive summary

Coming off one of the worst trading years in U.S. history, select-service hotel transaction volume is on track to exceed \$12B in 2021, making it the strongest year since 2015. The sector has contributed 40% of total U.S. hotel investment volume YTD November 2021, 400 basis points higher than the 10-year average from 2011-20. Investors are increasingly attracted to select-service hotels due to higher and more consistent yields, increased operating profitability, and expectation of quicker RevPAR recovery relative to the U.S. lodging industry overall. Portfolio transactions have driven more than half of total volume, with capital originating predominantly from private equity investors and developers.

Select-service hotels benefit from a streamlined operating model, which resulted in a 26.9% GOPPAR premium in 2020 relative to full-service hotels. This has helped to fuel investor activity as margins become increasingly tight across the industry and many hotels continue to operate in a zero cash-flow environment. With select-service RevPAR expected to fully recover by 2023, ahead of the U.S. overall, JLL expects the sector's positive investment momentum to continue into 2022.

Key Takeaways

1. 2021 Nov YTD select-service hotel transaction volume is ahead of full-year 2019 levels by 33.5% and is on track to be the strongest trading year since 2015.

3. Select-service hotels continue to attract investors and developers as they achieve higher and less volatile profitability, reaching a 26.9% premium in gross profit margin per available room relative to full-service hotels in 2020.

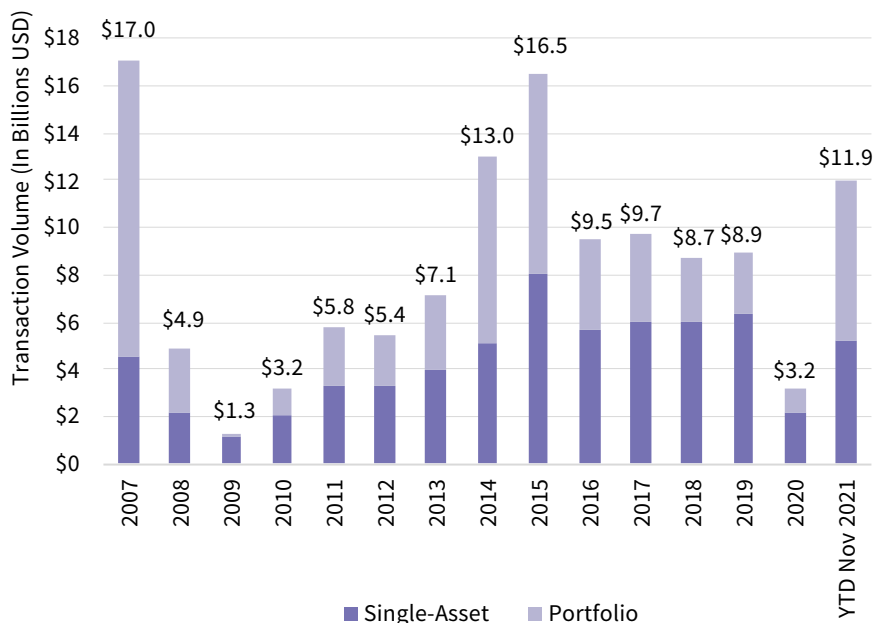
2. A resilient rebound in demand boosted confidence for hoteliers to grow room rates, underpinning strong expectations for select-service RevPAR to fully recovery in 2023, ahead of the total U.S.

4. Select-service hotels represent a defensive property sector with higher and more consistent yields than other hotels. The sector has also shown more long-term stability with limited average price per key volatility over the past 20 years.

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2021 Nov YTD select-service hotel transaction volume is ahead of full-year 2019 levels by **33.5%** and is on track to be the strongest trading year since 2015.

U.S. Select-Service Hotel Transaction Volume



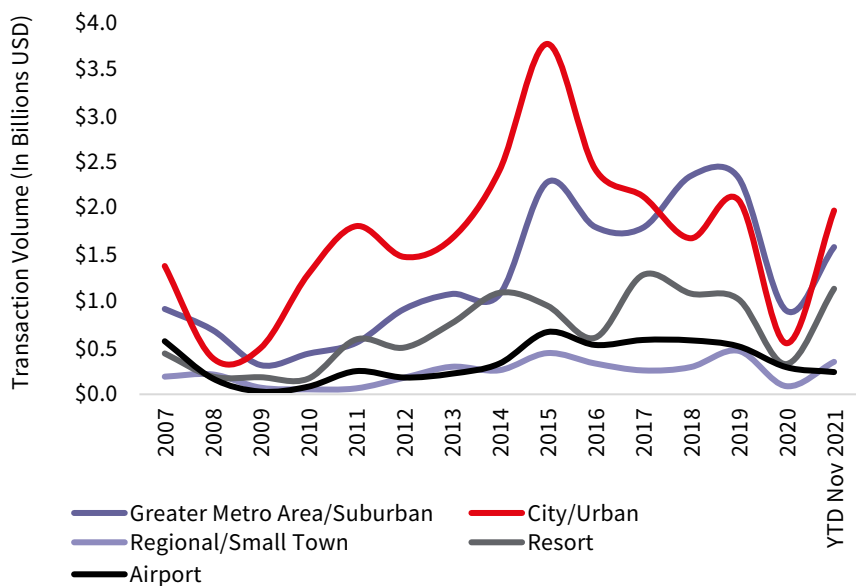
Coming off one of the worst trading years in U.S. history, select-service transaction volume is on track to **exceed \$12B in 2021, making it the strongest year since 2015** and suggesting a bullish investor outlook for the sector.



Portfolio transactions have **accounted for 56% of total volume (the highest proportion since 2014)**, highlighted by Cerberus Capital's \$2.8B 197-property acquisitions in March 2021.

Source: JLL Research
 Note: Includes select-service hotel transactions of \$5M+, excluding casinos. Figures above the bars in the chart represent total transaction volume inclusive of both single assets and portfolio deals.

U.S. Select-Service Single-Asset Hotel Transaction Volume by Location



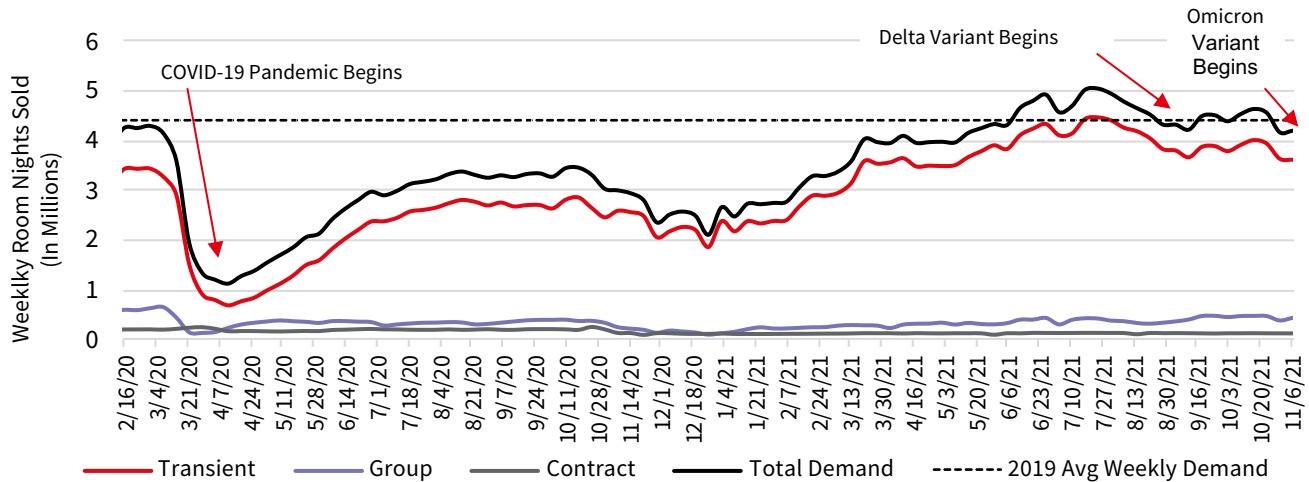
City/Urban markets have historically been the most liquid for select-service hotels and continue to be in 2021. **Resort markets have seen a notable increase (+11% vs 2019)** which mimics the increase in lodging demand experienced across those markets.

Source: JLL Research
 Note: Includes select-service hotel single-asset transactions of \$5M+, excluding casinos.

2 • A resilient rebound in demand boosted confidence for hoteliers to grow room rates, underpinning strong expectations for select-service RevPAR to **fully recover in 2023**, ahead of the total U.S.

Recent news of the Omicron variant sparked renewed fears for travel akin to the Delta variant in August 2021. However, unlike the last variant wave, the effect on travel mentality waned at a faster pace following the release of data and studies showing that the variant causes milder illness. On a weekly basis, total select-service hotel demand is continuing to rise, with recovery compared to 2019 average weekly levels at 95.6%.

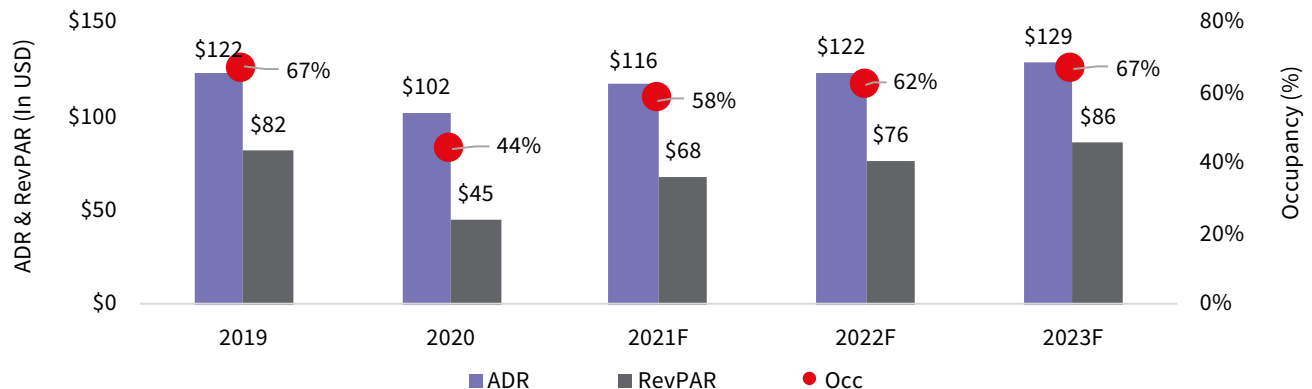
U.S. Select-Service Hotel Weekly Demand Trends



Source: STR (Standard Methodology Reported), JLL Research. Note: Data is as of week ending November 6th. Select-service hotel segmented demand is calculated as an average of upscale, upper midscale, and midscale hotel class demand on a weekly basis.

U.S. select-service hotels outperformed during the COVID-19 pandemic, underpinned by strong transient demand levels in the U.S. which represents the lion's share of lodging demand for the sector. This also gave hoteliers increased pricing power. Sentiment is anticipated to continue into 2022 and over the long-term as consumer sentiment leans towards the affordability and wide offering of amenities from the select-service market.

U.S. Select-Service Hotel Sector's Path to Recovery



Source: STR (Standard Methodology Reported), Costar, JLL Research. Note: Forecast is as of November 2021.



Overall, the path to recovery remains robust with expectations for a full recovery to **2019 levels in 2023, ahead of the U.S.**

3. *Select-service hotels continue to attract investors and developers as they achieve higher and less volatile profitability, reaching a 26.9% premium in gross profit margin per available room relative to full-service hotels in year-end 2020.*

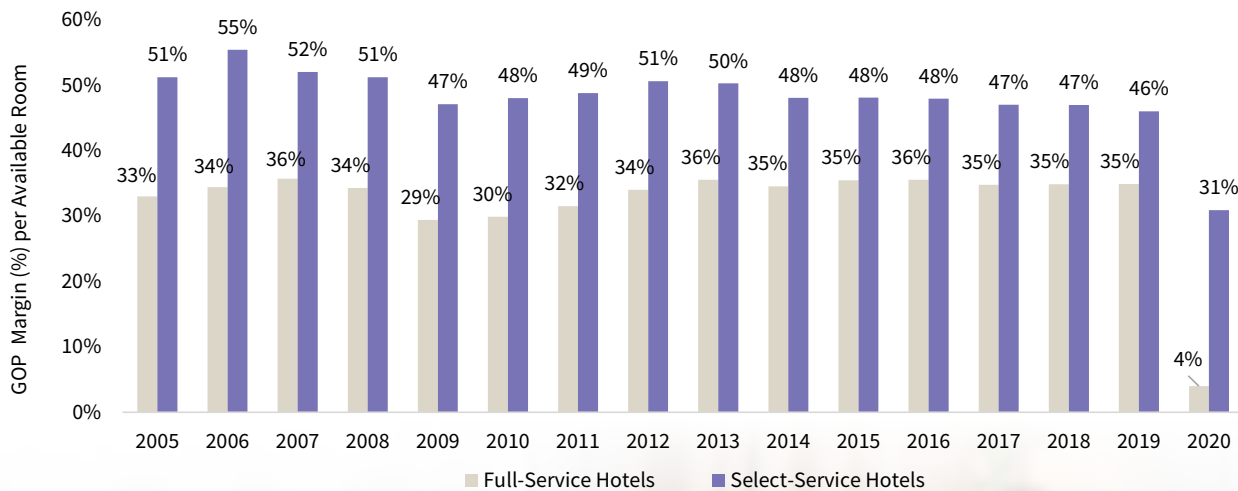
Due to the streamlined operations of select-service hotels and their reputation as a preferred product among millennial travelers, operators and owners have historically achieved higher profit margins compared to full-service hotels.

One of the primary drivers for the select-service sector's efficiency is its strategy for reducing labor costs by leveraging a lean staffing model with cross-trained personnel and integrating digital services for its procedures and products. This has allowed the sector to continue to lead profitability in the industry, particularly as rising wages have become a major headwind that hotel owners and operators face post-COVID-19. Further, by offering quality amenities with no frills, the select-service sector has maintained guest affordability during

the COVID-19 pandemic attracting both leisure and business travelers and effectively raising confidence for the sector to grow room rates.

The sector's strong appeal for investors and developers also stems from its relatively lower cost of development and the modernization of its operations, such as its outsourcing of services for fitness centers and F&B. Positive sentiment for the sector is reflected in the level of new select-service product that has come online. In fact, 73.2% of the total number of hotel rooms that have opened over the past twelve months (as of October 2021), have been select-service. Development growth has modestly increased albeit the recent construction costs and financing challenges will limit further supply growth in the near term, boding well for overall performance.

U.S. Select-Service vs Full-Service Hotel GOP Margin Per Available Room



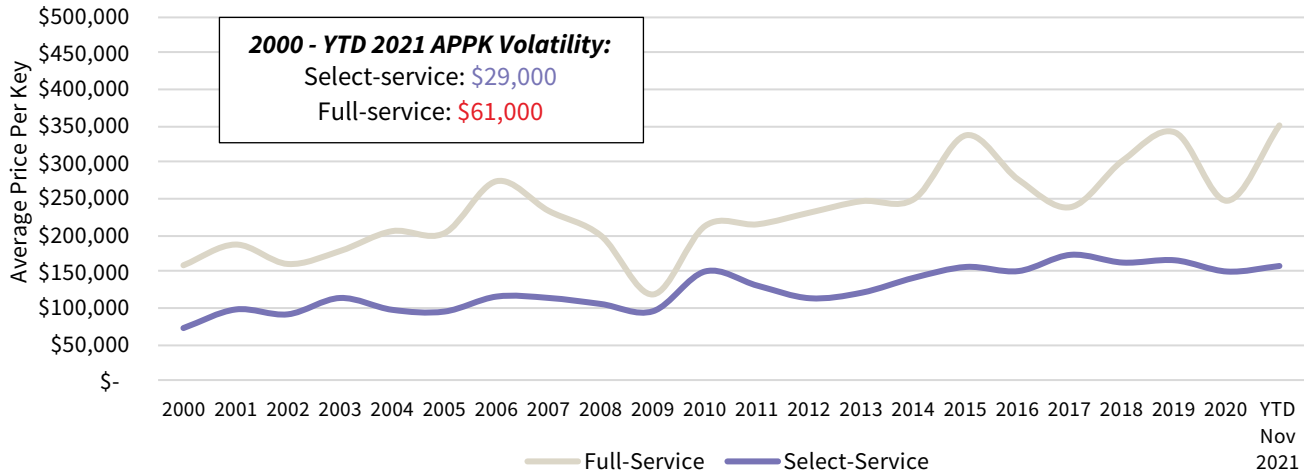
Source: STR (HOST 2021), JLL Research

Note: In 2020, GOP margins are skewed downward by hotels that are not net-positive, particularly full-service hotels that were hardest hit from F&B due to the lack of catering and banquet revenues largely generated from meetings, groups, and conventions.

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Select-Service hotels represent a defensive property sector with higher and more consistent yields than other hotels. The sector has also shown more **long-term stability** with limited average price per key volatility over the past 20 years.

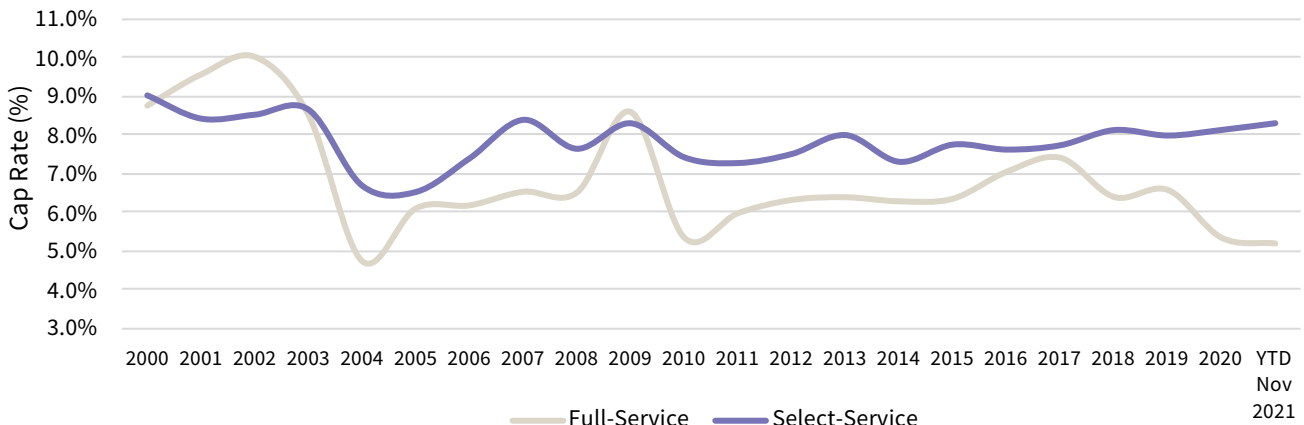
U.S. Select-Service vs Full-Service Single-Asset Hotel Average Price Per Key



Source: JLL Research
 Note: Includes all single-asset transactions of \$5M+, excluding casinos. APPK volatility measures how widely APPK values are dispersed from the average value calculated between 2000 and YTD 2021.

While both full-service and select-service hotels are trading at near-record average price per key, select-service hotels have shown more long-term consistency and represent a more reliable investment opportunity.

U.S. Select-Service vs Full-Service Single-Asset Hotel Yields



Source: JLL Research
 Note: Includes all single-asset transactions of \$5M+, excluding casinos.



Even during market disruptions (9/11, GFC, COVID-19), **select-service hotels yield consistent returns** for investors with limited volatility.

Yield Ranges

	Low	Average	High
Full-Service Hotels	4.7%	6.8%	10.0%
Select-Service Hotels	6.5%	7.9%	9.0%

Glossary

Average Daily Rate (ADR) - A measure of the average rate paid for rooms sold, calculated by dividing room revenue by rooms sold, as defined by STR.

Amenities - A range of features and services provided by hotels including free Wi-Fi, restaurants, meeting space, or an outdoor pool.

Average price per key (APPK) - Total amount paid in all areas of the hotel divided by the total number of keys in the hotel.

Full-service hotels - Hotels classified as luxury or upper-upscale properties, which provide a variety of onsite amenities such as restaurants, meeting space, fitness centers or spas, as defined by STR.

Gross operating profit per available room (GOPPAR) - A financial metric calculated by dividing gross operating profit (GOP) by the total number of available room nights.

Gross operating profit margin (GOP margin) - A financial metric calculated as the difference between total revenue and total operating expenses, and then dividing by total revenue.

Hotel owner operators - Hotelier or hotel operators that manage the daily operations of hotel properties.

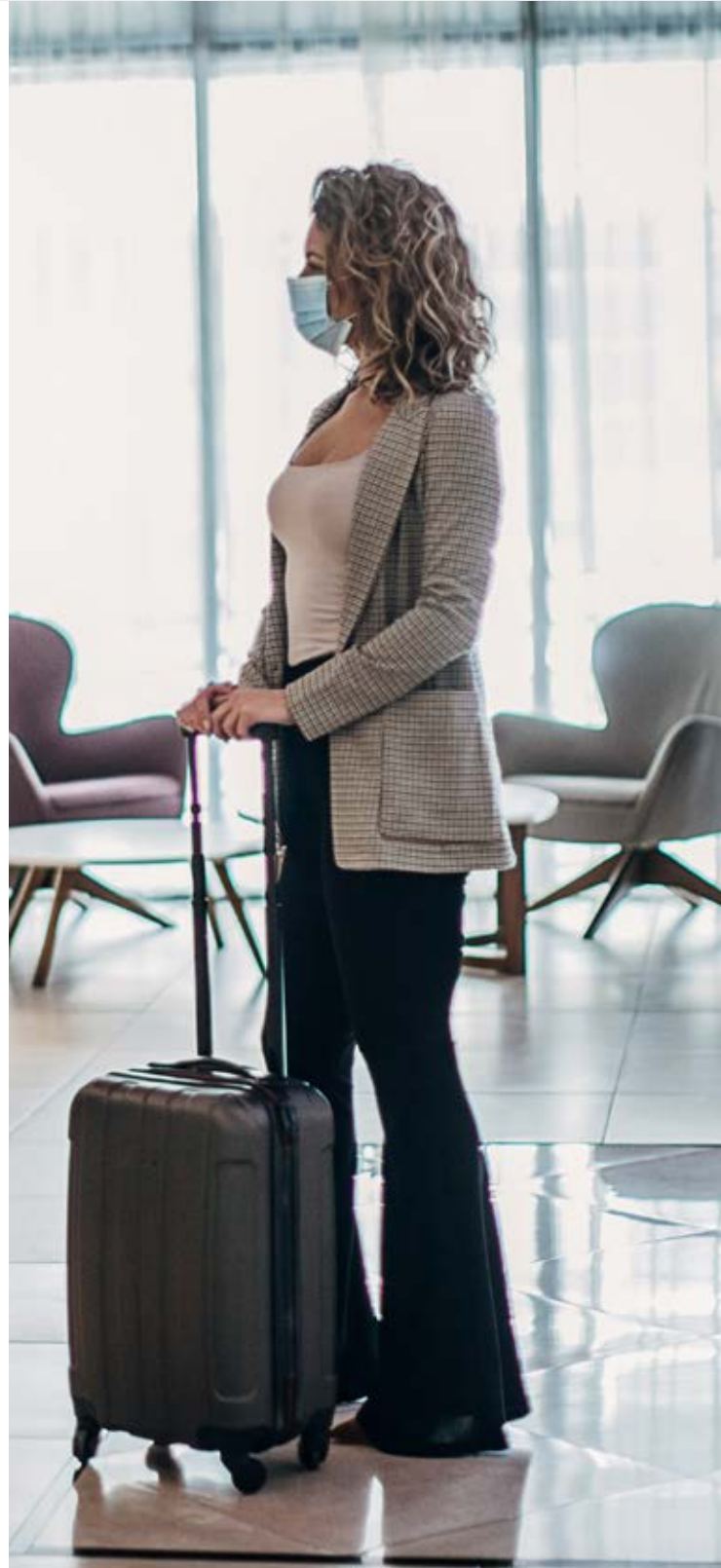
Occupancy - Percentage of available rooms sold during a specified time period. Occupancy is calculated by dividing the number of rooms sold by rooms available, as defined by STR.

Portfolio sale - The sale of two or more hotels in a single transaction.

RevPAR - Lodging performance metric calculated as total rooms revenue divided by the total number of available rooms. Can also be calculated by multiplying occupancy by ADR.

Select-service hotels - Hotels classified as upscale, upper midscale, and midscale properties that provide a selection of amenities along with limited food & beverage services.

Transient demand - Refers to the rooms sold to individuals or groups occupying fewer than 10 rooms per night, as defined by STR.





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