

Atlanta Hotel Market Update

February 2023

Atlanta, a city for tourists and sports lovers.

Atlanta is known as a major transportation hub in the United States. Its airport has been recognized as the world's busiest airport since 1998. Back in 1996, the Olympic Games put the city under the international spotlight. Future events such as the 2025 College Football Playoff National Championship and the 2026 FIFA World Cup will be held in the city. Each year, Atlanta welcomes more than 50 million international and domestic visitors who are attracted to the professional sports, performances, and tourist attractions.

For large meetings and events, the reservation number demonstrates a positive outlook for future years despite a relative lag in recovery. There are over one million room nights on the books for 2023, over target by 30%. For the next six years, the number of group reservations has achieved an average of 38% over the targeted pace.

Atlanta is also leading in Covid recovery. According to research by Atlanta Convention & Visitor Bureau, during the pandemic, the number of visitors dropped from 57 million in 2019 to 32 million in 2020 and climbed back to 44 million in 2021. In 2022, it has achieved a 99% recovery rate in passenger volume when compared to the 2019 level. The number of domestic travelers has surpassed the 2019 level, while international travelers reached 80% of the 2019 level.

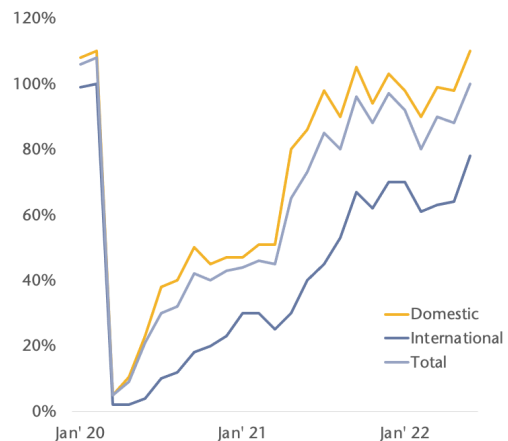
Atlanta's hotel market continues growing, keeping up with the national trend.

While there is 1.9% room supply growth in the US market, the 11.0% growth in demand has greatly boosted the occupancy and ADR on a national basis, with annual growth rates of 8.9% and 19.1%, respectively.

The positive trend also arrived in Atlanta, which showed an 8.4% growth in occupancy and 18.0% growth in ADR, only slightly behind the national data for the year 2022.

Although the demand has almost recovered to the pre-pandemic level, the robust pipeline in Atlanta will slow occupancy's recovery. According to CoStar, more than 4,900 rooms are under construction in Atlanta, equal to 4.4% of the existing supply in the market. Midscale and Upper Midscale account for half of the rooms under construction. Thus, the occupancy will most not likely return to the pre-pandemic level in the near future.

Number of Travelers to Atlanta as % of 2019



Source: Atlanta Convention & Visitor Bureau

2022 Hotel Market At A Glance

| | |
|--------------|-------------------|
| ▲ 1.9% | ▲ 2.3% |
| US Supply | Atlanta Supply |
| ▲ 11.0% | ▲ 10.5% |
| US Demand | Atlanta Demand |
| ▲ 8.9% | ▲ 8.4% |
| US Occupancy | Atlanta Occupancy |
| ▲ 19.1% | ▲ 18.0% |
| US ADR | Atlanta ADR |

Source: STR

Different from occupancy, ADR continually outperforms the 2019 level, partly driven by the national inflation. In December 2022, it recorded an occupancy of 57.2% and ADR of \$113.05. While Atlanta shows a growth of 6% in ADR, Top 25 Markets exhibits a growth of 11%, further widening the difference between the Atlanta market and the Top 25 Markets.

Transients serve as the major revenue stream, while better revenue management could drive up performance.

For the Atlanta market, transient customers have made up 60.5% of the demand in the market. The ADR for transient customers is \$196.93, which serves as a major source of revenue for hotels. Group customers take up 32.7% of demand at \$185.42. The rest of the demand is contributed by contract customers, who pay at a discount of \$97.70.

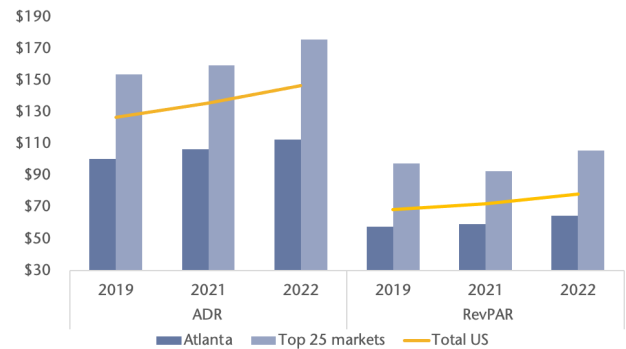
Comparing the percentage with the Top 25 Markets', Atlanta has a lower transient customer percentage, but a higher group and contract customer percentage, which leads to comparably lower performance in ADR than the Top 25 Markets. Revenue managers could work on these percentages to drive up topline performance.

Investors shift to midscale hotels.

The number of transactions hit a record in 21Q4 and has slowed down since then. According to CoStar, the price per key in 22Q4 is \$129k, down from \$151k in 20Q1, as most of the trades in 2022 are tilted towards the economy and midscale properties. During Covid, the RevPAR of midscale and economy is less affected than other classes. These midscale and economy hotels have demonstrated a higher tenacity in economy downturn and could rebound more quickly after crisis.

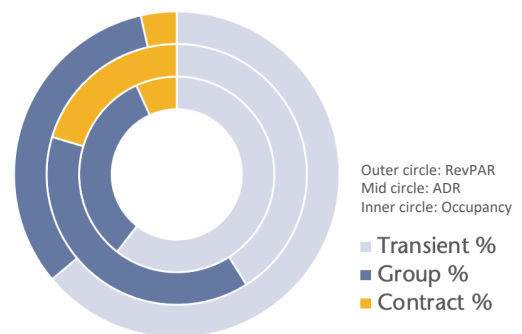
The overall market cap rate reached 8.2% in 22Q4 and is forecasted to reach 8.3% by 23Q4. Meanwhile, the market cap rate for midscale and economy class will stabilize at 8.7% in 2023.

Atlanta vs. Top 25 vs. US Market in December



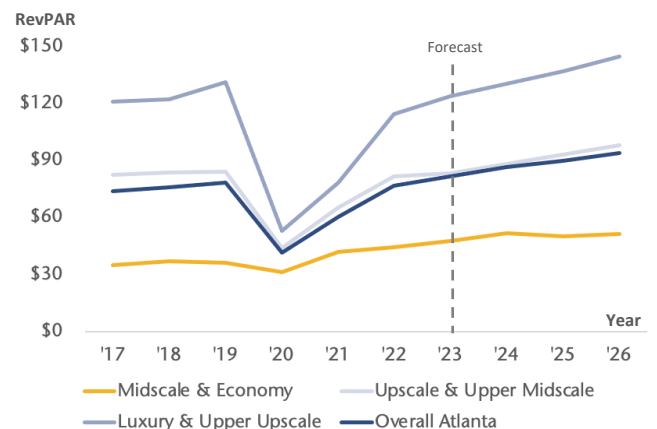
Source: STR

Atlanta Demand by Segments



Source: STR

Atlanta Hotel RevPAR Performance by Class



Source: STR

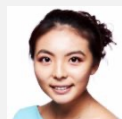
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