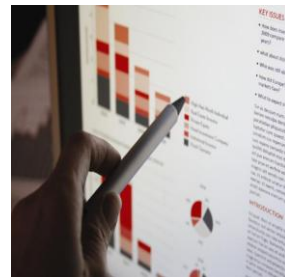




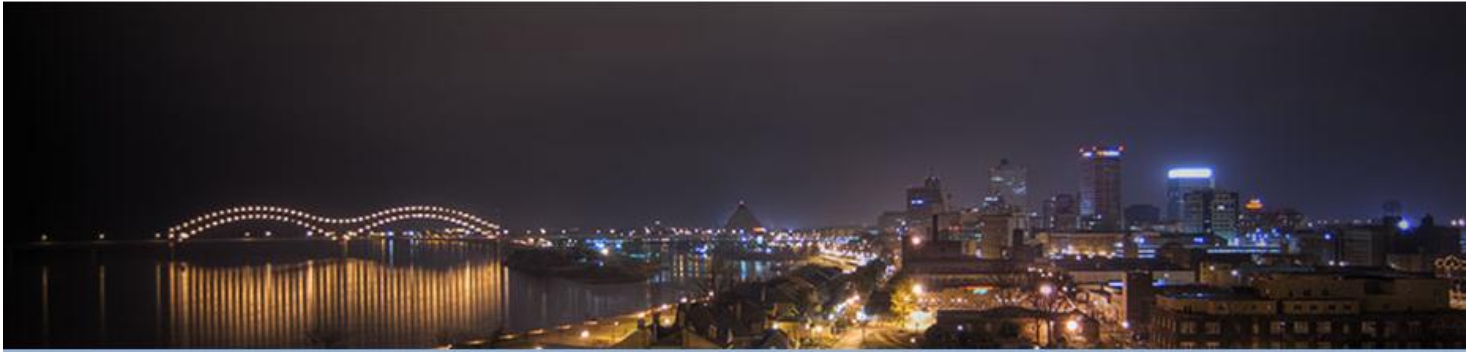
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IN FOCUS:
MEMPHIS, TENNESSEE

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Memphis has struggled with high unemployment and reduced airport traffic over the past several years, but strong tourism numbers and recent developments in manufacturing have put the city's economy and hotel industry back on track.



Source: <http://blog.kipgordon.com/>

Introduction

Elevated above the Mississippi River on the fourth Chickasaw Bluff in southwestern Tennessee, Memphis has long held an advantageous position in the South. Owing to its location on the Mississippi River and the convergence of several major railroads in the city, Memphis serves as a national center for trade. FedEx, headquartered in the city, has realized major growth, and its massive cargo operations at Memphis International Airport have further boosted the city's status as an international logistics hub. Tourism to Memphis is also going strong. Known as "Blues City" and the "Birthplace of Rock n' Roll," Memphis helped launch the careers of Elvis Presley, Muddy Waters, Carl Perkins, Johnny Cash, B.B. King, and Al Green, and millions continue to seek out the city's rich musical and cultural heritage each year.

The following article looks at the growth in logistics and tourism—two of Memphis's biggest generators of hotel demand—along with recent performance and transactions activity for the city's hotels.

A Central City for Logistics

Memphis enjoys a prime location along land and water routes. Trucks out of Memphis can reach many final U.S. destinations—more than from any other city in the country—in just one day. Memphis is also home to the fourth-largest inland port in the U.S. and is served by all five Class I railroads. In 2010, BNSF completed a \$200-million expansion and upgrade of its 185-acre intermodal complex in southeast Memphis, more than doubling the facility's annual cargo capacity. Old Dominion Freight Line, Inc. is constructing a new \$31-million distribution campus in nearby Whitehaven, just south of Memphis. ABF Freight, a third-party logistics and transportation-service provider, is exploring the possibility of relocating a portion of its operations from Little Rock, Arkansas; the company was recently awarded \$4 million in tax incentives for the tentative expansion in South Memphis.

Memphis's economic cornerstones include government, health care, logistics, manufacturing, and tourism.

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FedEx Corporation, headquartered in southeast Memphis since the company's founding in 1971, is the key pillar supporting Memphis International Airport's rating as the top facility for air cargo in the U.S. The company has been actively expanding its operations at the airport, most notably with the development of a \$142-million Air Operations Training Center.

Finally, Volvo Group announced plans in early 2014 to develop a new one-million-square-foot distribution facility in nearby Byhalia, Mississippi, just southeast of the Memphis metro area. These logistics expansions should support growing levels of demand for Memphis hotels.

Tourism

Elvis Presley, Johnny Cash, and B.B. King are among the musical greats whose careers kicked off in Memphis. The Beale Street Entertainment District in the heart of Downtown Memphis spans three blocks of more than 30 nightclubs, restaurants, and retail shops. Among the events hosted on Beale Street throughout the year is the month-long Memphis in May International Festival, which attracts visitors from around the world and produces an economic impact estimated at \$70 million.¹ The new \$43-million Beale Street Landing development opened in June of this year, connecting the entertainment district to the riverfront.

The Graceland Mansion estate in South Memphis, the former home of Elvis Presley, draws hundreds of thousands of fans from all over the world each year. The mansion museum features displays of the "King's" clothing, videos, artifacts, and Gold and Platinum albums, and the grounds include Elvis's burial place in the Mediation Garden. Current ownership has announced plans to expand the Graceland estate with a new 450-room hotel to be called The Guesthouse at Graceland. The \$70-million project is expected to include an upscale restaurant and sports bar upon its anticipated opening in August of 2015.



The former Pyramid Arena in Downtown Memphis is in the midst of a \$190-million redevelopment into a Bass Pro Shops Outdoor World. The 220,000-square-foot retail and tourism attraction will feature archery and shooting ranges, a laser arcade, fish and wildlife exhibits, a 24,000-gallon aquarium, restaurants, and shopping.² Bass Pro Shops expects to hire up to 250 people to staff the mega complex upon its planned opening at the end of this year. The company is also reportedly planning to build a three-story hotel on the site.³

Major Developments and Employment

The manufacturing industry is important in Memphis, and several notable expansions and expansion plans have recently been forged in the city. Mitsubishi completed a new \$200-million manufacturing facility in southeast Memphis in April of 2013, and Electrolux's new 700,000-square-foot manufacturing plant began operations in January of this year. Smucker's has announced plans to invest approximately \$55 million to expand its peanut butter manufacturing facility in southeast Memphis. MicroPort Orthopedics is in the midst of a \$100-million expansion at its campus in the northeast Memphis suburb of Arlington, which will include a new training facility and increased

The logistics sector in Memphis continues to grow, and several of the city's major employers are also undergoing expansions.

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¹ Memphis in May International Festival. Press Release. May 2, 2014. http://www.memphisinmay.org/assets/1680/memphis_in_may_2014_-_memphis_in_may_kick-off.pdf

² "Memphis Pyramid to become 220,000 sq ft Bass Pro Shops Outdoor World." Bass Pro Shops. July 3, 2012.

<http://blogs.basspro.com/blog/bass-pro-shops-charlotteconcord-nc/memphis-pyramid-to-become-220000-sq-ft-bass-pro-shops-outdoor-world>

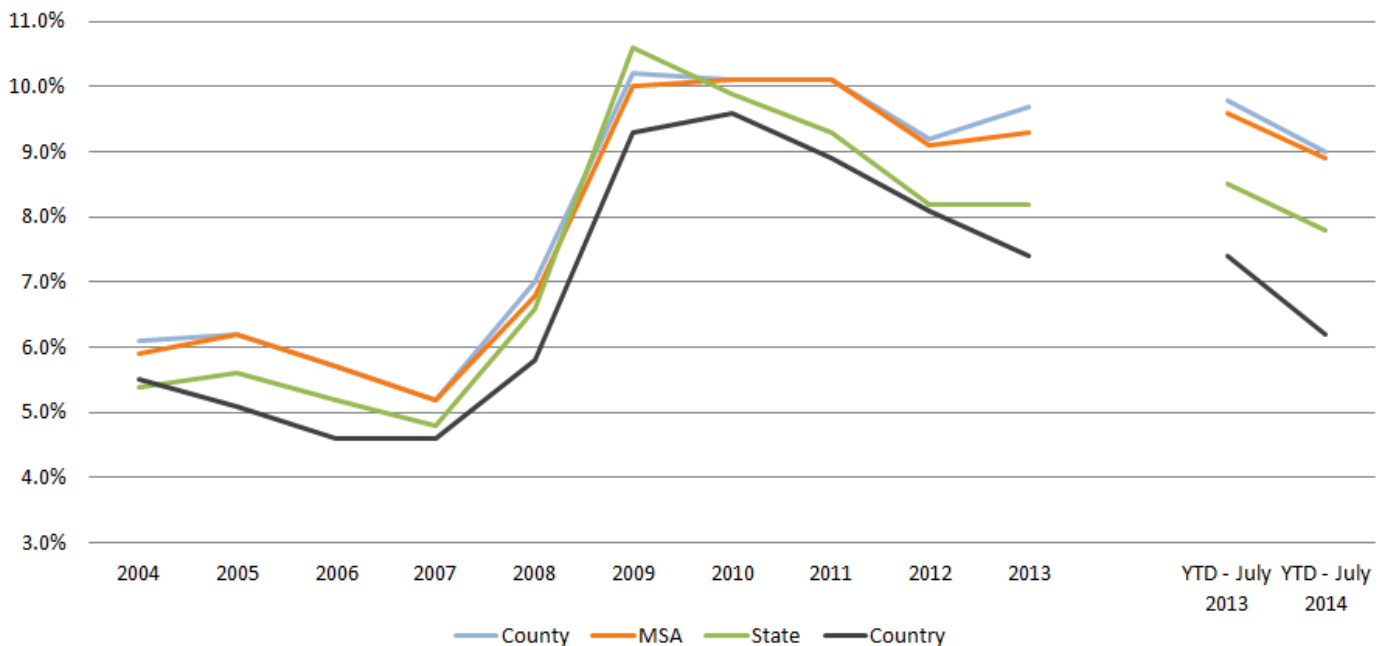
³ Ibid.

manufacturing capacity; this expansion is expected to add over 250 new jobs.

The continuing expansion of International Paper is anticipated to bring new employees to the area following the company's 2012 acquisition of Temple-Inland, Inc. Construction is underway on a \$90-million, 235,000-square-foot office tower at the company's headquarters in East Memphis; the new building is expected to be completed by June of 2015. Conduit Global, a leading business process outsourcing company, opened a new call center in northeast Memphis in June of 2014 that is anticipated to create more than 1,000 new jobs.

The following table shows unemployment rates for the City of Memphis and the surrounding MSA since 2004.

Unemployment

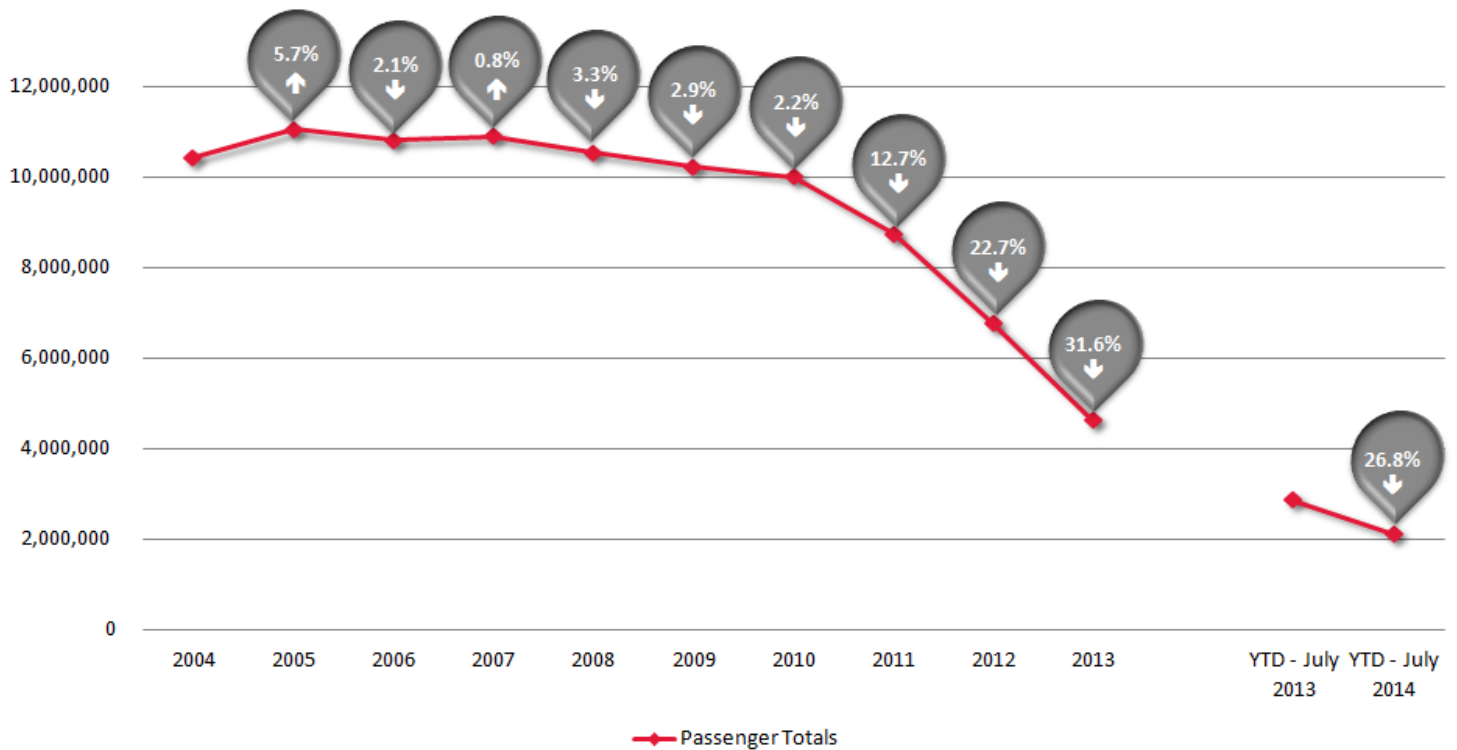


Memphis International Airport

While cargo operations at Memphis International Airport have grown, commercial airline traffic has shrunk, mostly as the result of the 2009 merger of Northwest and Delta Air Lines. Now operating as Delta Air Lines, the combined carrier has drastically reduced service to and from the city, and in September of 2013, the airport lost its official designation as a hub for the airline. Annual passenger statistics, which reflect this trend, are illustrated in the following chart:



Passenger Totals



Several airlines have moved to fill some of the void left by Delta; Southwest Airlines began service in November of 2013, and Frontier Airlines began service in March of this year. This past February, the Memphis-Shelby County Airport Authority announced plans to redesign and consolidate operations at the airport. The \$114-million consolidation project will remove the south ends of Concourses A and C over five to seven years, reducing the number of gates from 83 to 60; however, the number of daily flights into each gate is anticipated to increase. In addition, Concourse B is scheduled to undergo a three-phase modernization project from 2016 through 2020.

Hotel Demand and Performance

Commercial and government travelers are vital to the health of the Memphis hotel industry, particularly in suburban submarkets such as Germantown, Cordova, and Collierville. The Downtown submarket benefits from a healthy mix of commercial, meeting and group, and leisure demand. A limited number of large conventions and major leisure events also push leisure and group demand out to the suburban areas.

The recent recession brought a decline in occupancy in the Memphis market in 2008 and 2009. Demand has since bounced back, but occupancy has yet to recover to levels realized before the recession. Average rate for the market has followed a similar trend, peaking in 2008 before plunging in 2009 and 2010. Although rates have modestly increased since 2011, average rate levels remain a few dollars below their pre-recession peak. Overall, RevPAR for the

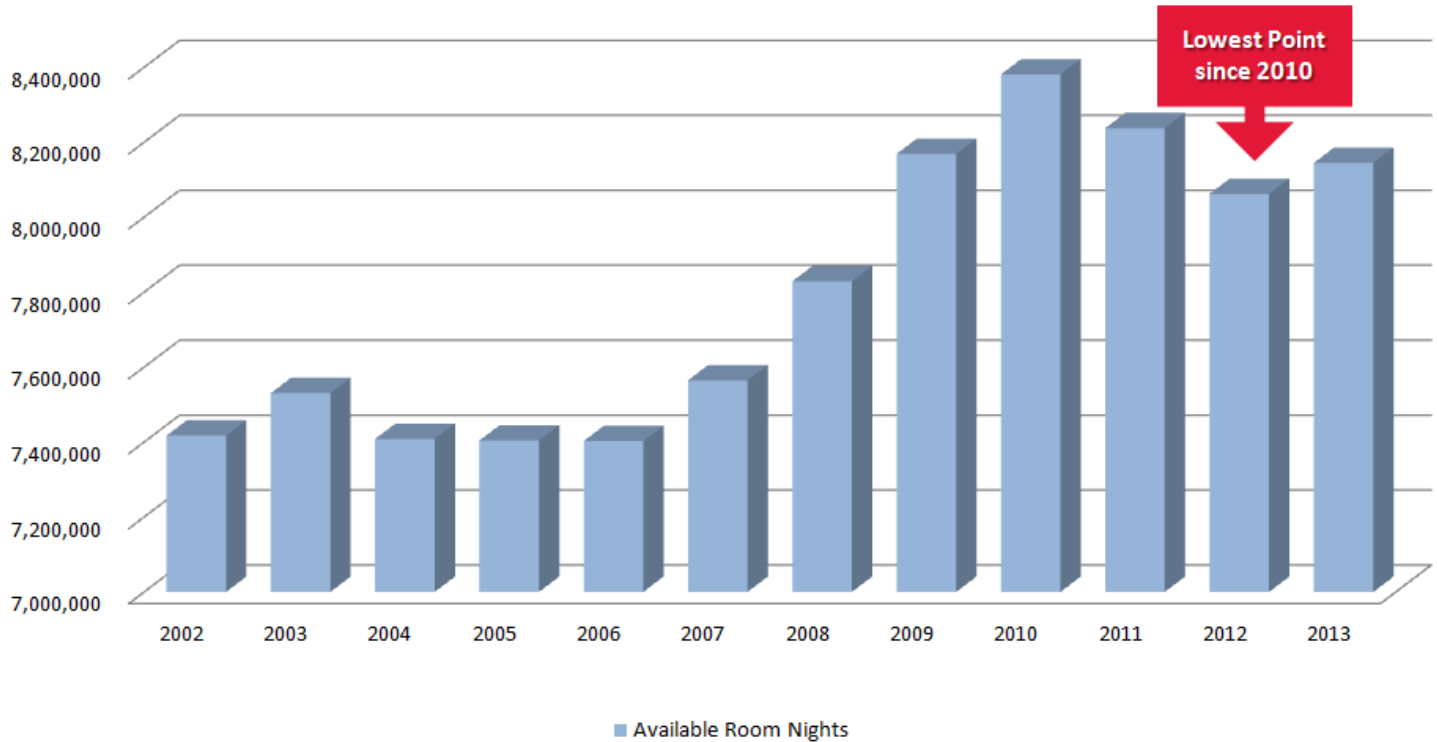
Hotel supply levels remain in check and the hotel market is in the midst of a steady recovery trend.

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market has been steadily climbing but remains approximately 5% below its peak in 2007.

One of the factors fueling the market’s recovery over the past few years has been a decline in the supply of available hotel rooms. The closure of older obsolete properties has reduced the available room supply by approximately 3% since 2010. This purge has improved the overall quality of lodging product in the market, providing stronger pricing power to existing hotels. Despite this, the relatively high local unemployment level and the headwinds caused by declining airport passenger traffic have kept the Memphis hotel market from fully recovering from the recession.

Number of Available Rooms



Hotel performance projections in Memphis vary by submarket, with a cautious outlook for hotels near the airport balanced by more optimistic expectations for the corporate-heavy East Memphis and Germantown areas, as well as the tourism-oriented Downtown submarket. Although some new hotel development projects are moving forward, supply growth appears limited over the next few years, which should steady the overall market on a route of recovery.



Hotel Transactions

The following table lists hotel transactions in Memphis since September 2012.

Property	Location	Sale Date	Price	Rooms	Price/Room	Overall Cap	Year Opened
French Quarter Inn	Memphis, Tennessee	Dec-13	\$1,900,000	105	\$18,095	—	1984
Fairfield Inn & Suites by Marriott Memphis	Memphis, Tennessee	Nov-13	\$2,500,000	63	\$39,683	—	1995
Quality Inn & Suites Memphis	Memphis, Tennessee	Nov-13	\$4,050,000	114	\$35,526	10.1%	1994
Real Value Inn Memphis	Memphis, Tennessee	Sep-13	\$2,490,000	146	\$17,055	—	1973
Courtyard by Marriott Memphis East Lenox Corporate Park	Memphis, Tennessee	May-13	\$4,225,000	96	\$44,010	—	1998
Hyatt Place Memphis Germantown	Germantown, Tennessee	Apr-13	\$11,300,000	127	\$88,976	7.5%	2009
Budgetel Inn & Suites Memphis	Memphis, Tennessee	Mar-13	\$1,880,000	129	\$14,574	—	1986
Budget Host Memphis Airport	Memphis, Tennessee	Feb-13	\$1,700,000	106	\$16,038	—	1983
Mount Moriah Plaza Hotel	Memphis, Tennessee	Dec-12	\$1,250,000	194	\$6,443	—	1976
Holiday Inn Southaven Central Memphis	Southaven, Mississippi	Dec-12	\$10,700,000	121	\$88,430	11.7%	2008
Rodeway Inn Memphis	Memphis, Tennessee	Nov-12	\$1,170,000	49	\$23,878	—	1998
Red Roof Inn Memphis East	Memphis, Tennessee	Sep-12	\$1,600,000	108	\$14,815	—	1980
Super 8 Memphis Airport East	Memphis, Tennessee	Sep-12	\$1,325,000	48	\$27,604	—	1997

The majority of hotel buyers in the Memphis market have been entrepreneurial owners seeking value appreciation through capital investment and/or improving operations. The sales of the Hyatt Place Germantown and Holiday Inn South Haven are exceptions, as these sales concerned assets of relatively recent construction and with stabilized operations.



The table below lists hotel transactions in the region surrounding Memphis since January 2012.

Property	Location	Sale Date	Price	Rooms	Price/Room	Overall Cap	Year Opened
Mountain View Inn Cleveland	Cleveland, Tennessee	Jun-14	\$2,500,000	144	\$17,361	—	1974
Knoxville Inn	Knoxville, Tennessee	Jun-14	\$828,000	57	\$14,526	—	1997
MainStay Suites Brentwood	Brentwood, Tennessee	Feb-14	\$4,600,000	100	\$46,000	7.6%	1998
Comfort Suites Bentonville	Bentonville, Arkansas	Feb-14	\$5,300,000	115	\$46,087	—	2006
French Quarter Inn	Memphis, Tennessee	Dec-13	\$1,900,000	105	\$18,095	—	1984
Fairfield Inn & Suites by Marriott Memphis	Memphis, Tennessee	Nov-13	\$2,500,000	63	\$39,683	—	1995
Hampton Inn Maumelle	Maumelle, Arkansas	Nov-13	\$6,300,000	71	\$88,732	—	2011
Quality Inn & Suites Memphis	Memphis, Tennessee	Nov-13	\$4,050,000	114	\$35,526	10.1%	1994
Residence Inn by Marriott Franklin Cool Springs	Franklin, Tennessee	Nov-13	\$25,500,000	124	\$205,645	—	2009
Courtyard by Marriott Franklin Cool Springs	Franklin, Tennessee	Nov-13	\$25,500,000	126	\$202,381	—	2008
SpringHill Suites by Marriott Little Rock	Little Rock, Arkansas	Oct-13	\$4,500,000	78	\$57,692	7.8%	2000
Real Value Inn Memphis	Memphis, Tennessee	Sep-13	\$2,490,000	146	\$17,055	—	1973
Hampton Inn Knoxville West At Cedar Bluff	Knoxville, Tennessee	Aug-13	\$18,750,000	175	\$107,143	—	1986
Hilton Garden Inn North Little Rock	North Little Rock, Arkansas	Aug-13	\$13,150,000	119	\$110,504	9.4%	2009
TownePlace Suites by Marriott Little Rock West	Little Rock, Arkansas	Jun-13	\$5,350,076	92	\$58,153	—	2009
Family Inns Of America Nashville	Nashville, Tennessee	Jun-13	\$1,300,000	63	\$20,635	—	1982
Courtyard by Marriott Memphis East Lenox Corporate Park	Memphis, Tennessee	May-13	\$4,225,000	96	\$44,010	—	1998
Hutton Hotel	Nashville, Tennessee	May-13	\$73,600,000	247	\$297,976	7.7%	2009
Residence Inn by Marriott Little Rock	Little Rock, Arkansas	Apr-13	\$7,012,500	96	\$73,047	—	1997
Budgetel Inn & Suites Memphis	Memphis, Tennessee	Mar-13	\$1,880,000	129	\$14,574	—	1986
Budget Host Memphis Airport	Memphis, Tennessee	Feb-13	\$1,700,000	106	\$16,038	—	1983
Hampton Inn & Suites Memphis Beale Street	Memphis, Tennessee	Feb-13	\$33,130,000	144	\$230,069	—	2000
Mount Moriah Plaza Hotel	Memphis, Tennessee	Dec-12	\$1,250,000	194	\$6,443	—	1976
GuestHouse Inn Jackson	Jackson, Tennessee	Dec-12	\$1,100,000	114	\$9,649	—	1986
Four Points by Sheraton Nashville Airport	Nashville, Tennessee	Dec-12	\$5,950,000	100	\$59,500	—	1999
Rodeway Inn Memphis	Memphis, Tennessee	Nov-12	\$1,170,000	49	\$23,878	—	1998
Clarion Hotel & Suites Jackson North	Jackson, Mississippi	Oct-12	\$2,200,000	222	\$9,910	—	1957
Embassy Suites Nashville Airport	Nashville, Tennessee	Oct-12	\$20,500,000	296	\$69,257	9.6%	1986
Super 8 Memphis Airport East	Memphis, Tennessee	Sep-12	\$1,325,000	48	\$27,604	—	1997
Red Roof Inn Memphis East	Memphis, Tennessee	Sep-12	\$1,600,000	108	\$14,815	—	1980
Sheraton Nashville Downtown	Nashville, Tennessee	Aug-12	\$47,500,000	472	\$100,636	—	1975
Quality Inn & Suites	North Little Rock, Arkansas	Jul-12	\$1,300,000	108	\$12,037	—	1985
Hampton Inn & Suites Nashville Smyrna	Smyrna, Tennessee	Jun-12	\$8,000,000	83	\$96,386	8.2%	2005
Home2 Suites by Hilton Nashville Vanderbilt	Nashville, Tennessee	May-12	\$16,660,000	119	\$140,000	—	0
Hilton Garden Inn Nashville Smyrna	Smyrna, Tennessee	May-12	\$11,500,000	112	\$102,679	9.5%	2006
Red Roof Inn Nashville South	Nashville, Tennessee	Apr-12	\$2,025,000	85	\$23,824	1.6%	1986
Courtyard by Marriott Nashville Vanderbilt West End	Nashville, Tennessee	Feb-12	\$27,500,000	226	\$121,681	10.0%	1995
TownePlace Suites by Marriott Nashville Airport	Nashville, Tennessee	Jan-12	\$9,848,413	101	\$97,509	—	2012

Comparing recent Memphis hotel transactions with those in the surrounding region makes it clear that the Memphis sales are skewed toward the economy segment and generally have been trading at a discount relative to assets in locations such as Nashville or Little Rock. Those markets, and others in the region, have experienced more robust economic recoveries, driving stronger value appreciation in their respective hotel markets. As such, Memphis may offer some unique opportunities to acquire discounted assets with significant potential for greater appreciation as the pace of recovery in the local economy and hotel market catches up with the rest of the region.

Conclusion

Memphis's recovery from the recession has been slower than that of the region, and improvements in the hotel market have been steady but subdued. Nevertheless, the city's strong logistics and manufacturing sectors have kept the local economy on firm ground, with recent and planned developments beginning to generate momentum in the job market. Tourism remains strong and is expected to grow with the launch of the new Bass Pro Shop facility at the end of this year. These factors leave the Memphis hotel market poised for steady growth, with room to run as the recovery builds steam.



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About the Author



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