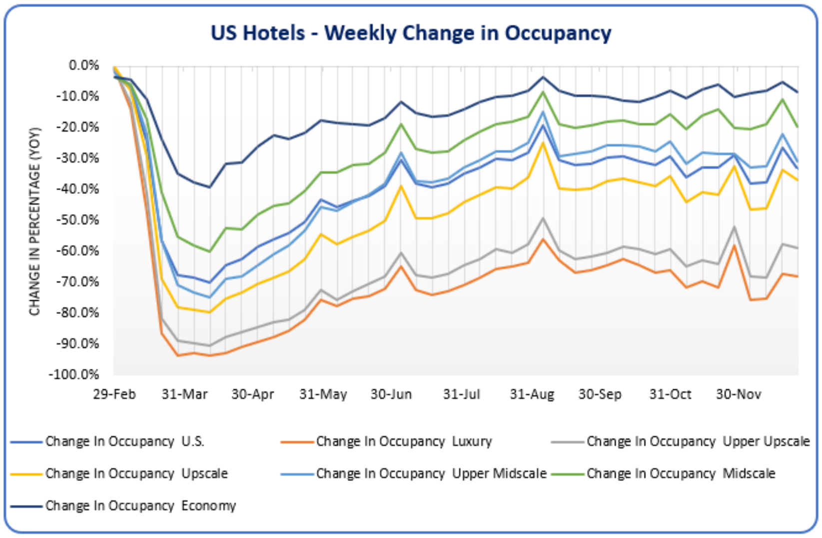
U.S. Hotel Market Topics & Trends – 4Q 2020

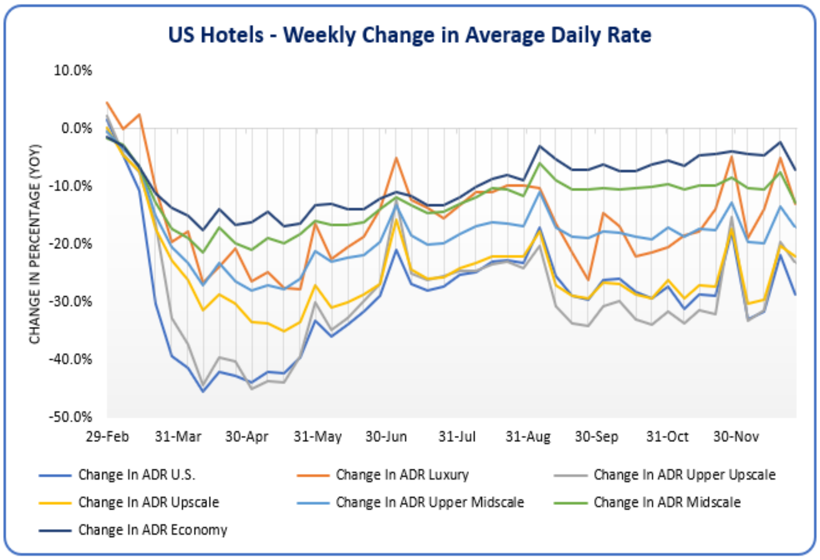
After many years of consistent growth, the United States Hotel market entered a significant downturn in Q1 2020 which has continued throughout the year. With the collapse of travel beginning in 2020, the U.S. Hotel market is suffering from the impacts of COVID-19. Despite the significant declines that occurred in Q1 and Q2, the market started to see improvement with travel restrictions loosening. While analyzing Q4 2020 data, each market fundamental shows declines which seem to indicate a recovery is not in the near-term future. This report analyzes the trends in market fundamentals and investment sales in the nation's Hotel market.

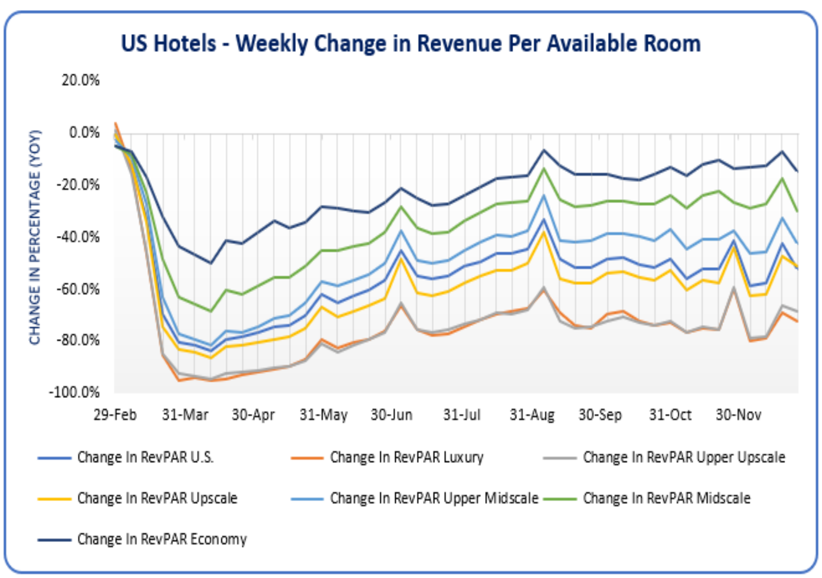
Throughout 2020, the hotel market has been significantly low in transactions and dollar volume due to the economic uncertainty, however, there are some active players still contributing to the sector. The graphic on the right reflects the top five buyers including their dollar amount invested for Q4 2020. Bally's Corporation is the top buyer of Q4, accounting for $165 million in transactions.

The figure on the right reflects the top sellers within the hotel market for Q4 2020. Xenia Hotels & Resorts, Inc is the largest seller for the second consecutive quarter, accounting for approximately $283 million in sales volume. Following in second and third are Host Hotels and Resorts, Inc, representing $216 million and Caesars Entertainment Corporation, accounting for approximately $152 million sales.

With the future still unclear, it is difficult to discern when this sector can fully recover. However, the hotel market is beginning to show signs of improvement.







MARKET FUNDAMENTALS:

Occupancy

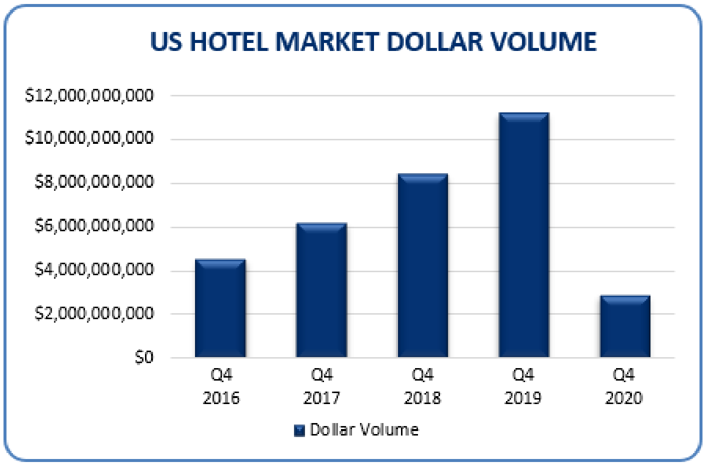
COVID-19 has had a tremendous impact on the US hotel market and resulted in a substantial decline in occupancy. According the graph on the left, the U.S. Hotel market dropped heavily in March 2020 across all chain scale segments. Luxury and upper upscale hotels experienced the most significant decrease in Q1 while midscale and economy hotels experienced the least decline. Analyzing the figure to the left, Q4 2020 experienced a slight upward trend compared to Q1 through Q3 before it started to decline once again towards the end of the quarter.

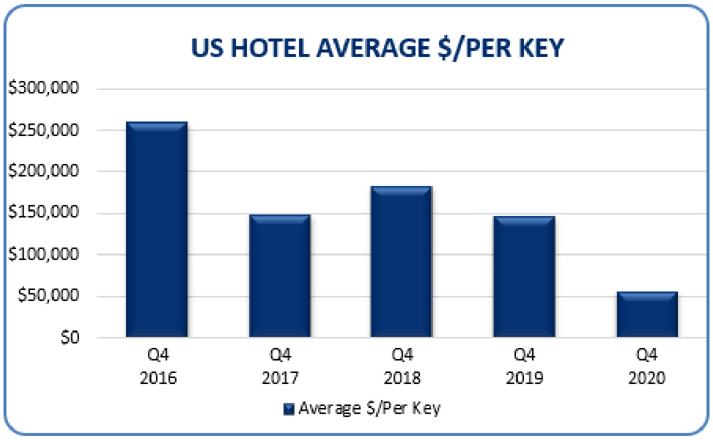
Average Daily Rate (ADR)

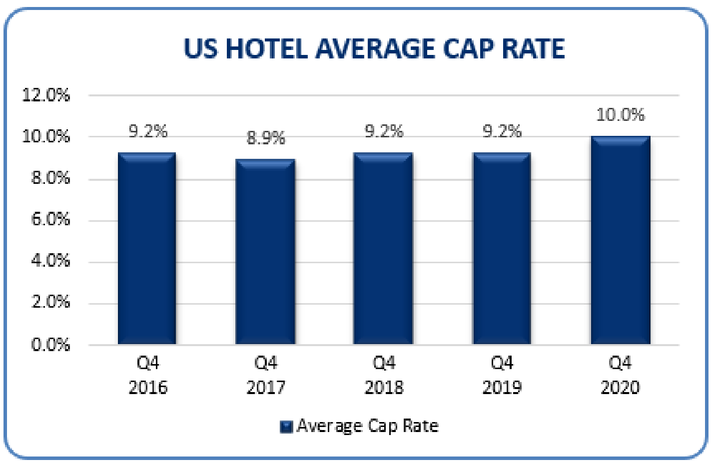
By Mid-March, the Average Daily Rate (ADR) in the U.S. Hotel market experienced an immediate downward trend, decreasing 41.5% by the end of Q1. The graph shown to the left portrays less of a decrease in midscale and economy hotels, indicating that high-end chain scale segments are rapidly falling in demand compared to the low-end chain scale segments. As shown in the graphic, ADR for Q4 2020 began to make a slight recovery from the prior quarter, however, dropped off again towards the end of December.

Revenue Per Available Room (RevPAR)

While travel throughout the U.S. has declined during this pandemic, RevPAR has experienced large declines across all chain scale segments. The two hardest hit segments were luxury and upper upscale, both dropping more than 92%. RevPAR shows similarity to occupancy in terms of increases from the rapid downward trends that began in the month of March. According to the graph on the left, RevPAR has decreased in the past month, after experiencing a slight upward trend earlier in the quarter.







Sale Volume (Fiscal Year Ending Q4)

Total dollar volume for investment sales in the U.S Hotel market had been trending upward for four straight fiscal years ending 4Q 2019, prior to COVID-19. This trend changed dramatically in the FY ending 4Q 2020, which reflects a significant decrease from the prior four years, down to $2.84 billion compared to $11.1 billion in Q4 2019 and $8.37 billion in Q4 2018. Market uncertainty, health-based travel disruptions and new supply concerns could weigh on sales velocity in the year ahead. With the high-end chain scale segments experiencing larger declines, the demand for the low-end chain scale segments could potentially increase in the foreseeable future.

US Hotel Market Average $/Key (FYE Q4)

The average price per key in the US Hotel market has experienced a fluctuating trend over the past five years. The price per key had been declining for two years, but the fiscal year ending Q4 2020, the average price per key experienced a significant drop to $57,071 per key. Trends indicate a continuation of this trend at least through early 2021. As data shows, the US hotel market has continued experiencing a substantial decline in average price per key as of the fiscal year ending Q4 2020.

US Hotel Market Average Cap Rate (FYE Q4)

Over recent years, the average cap rate in the US Hotel market has fluctuated between 8.9% and 9.2%, however for FYE Q4 2020, cap rates increased to 10.0%. While the number of hotel closures are growing due to the Global Pandemic, the market has experienced a 7.6% decline in supply and 45.9% decline in demand from the prior year. These reflect the highest declines since 2009.

SOURCE: STR and Marshall & Stevens

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