

U.S. Hotel Market Q1 2020 Topics and Trends

After many years of consistent growth, the United States Hotel market has entered a significant downturn. With the collapse of travel beginning in 2020, the U.S. Hotel market is battling very difficult circumstances from the impact of COVID-19. This report analyzes the trends in market fundamentals and investment sales in the nation's Hotel market.

FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic led to a global slowdown of commercial activity, with several municipalities enforcing lockdowns and travel bans. The occurrence of these stay-at-home orders had a substantially negative effect on the hotel industry. Further impacting the economy are the lockdown orders, which typically involve closing down businesses that are considered non-essential.

Short Term Impact

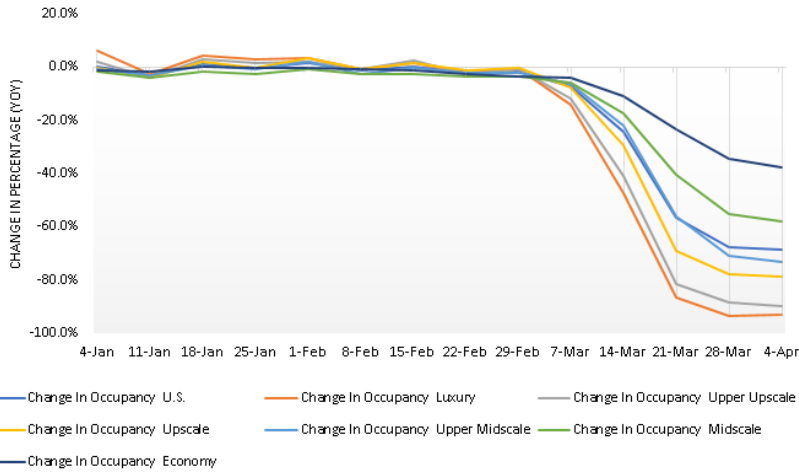
In Q1 2020, occupancy, ADR, and RevPAR experienced the biggest drop since the height of the Great Recession in Q2 2009. According to STR, the U.S. Hotel occupancy rate dropped a total of 68.5% across all chain scale segments. The occurrence of the stay-at-home orders particularly affects the hotel industry due to the nearly complete lack of demand. Additionally, ADR has trended downward by 41.5% across all chain scale segments, as well as RevPAR decreasing by roughly

80%. High-end chain scale segments are producing larger declines, indicating a potential increase in the demand for low-end chain scale segments.

Long Term Impact

A major issue within the hotel market is determining when guests will feel safe enough to travel and comfortably stay in unfamiliar surroundings once again. The American Hotel & Lodging Association released an industry wide Stay Safe standards at the end of April as many states start the reopening process. Additionally, hotels are beginning to outline new policies to comply with Stay Safe standards and to go above and beyond for future guests. There will be a significant decrease in usage of communal areas in hotels such as breakfast buffets, spas, and lounges. There will also be contactless check-in and out interactions implemented throughout most hotel properties. Hilton is currently exploring the use of electrostatic sprayers, which would be used to mist disinfectant across communal areas. While it is hard to foresee how the hotel market will continue to perform going forward, it has already played a significant role in impacting the market and is expected to continue impacting the hotel market negatively through Q3.

US Hotels - Weekly Change in Occupancy

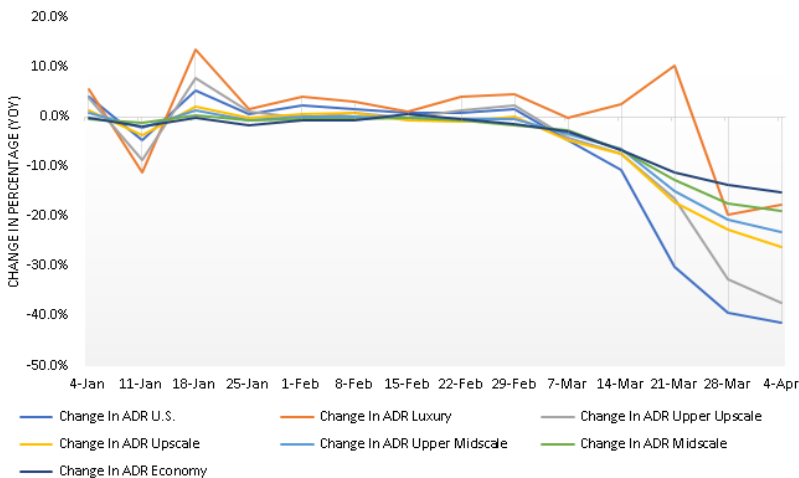


MARKET FUNDAMENTALS:

Occupancy

COVID-19 has had a tremendous impact on the US hotel market with a substantial decline in occupancy. According to the graph on the left, the U.S. Hotel market dropped a total of 68.5% across all chain scale segments. Luxury and upper upscale hotels had the most significant decrease in occupancy, dropping approximately 90% by the end of Q1. The two least affected hotel chain segments were midscale and economy, falling 57.8% and 37.5% respectively.

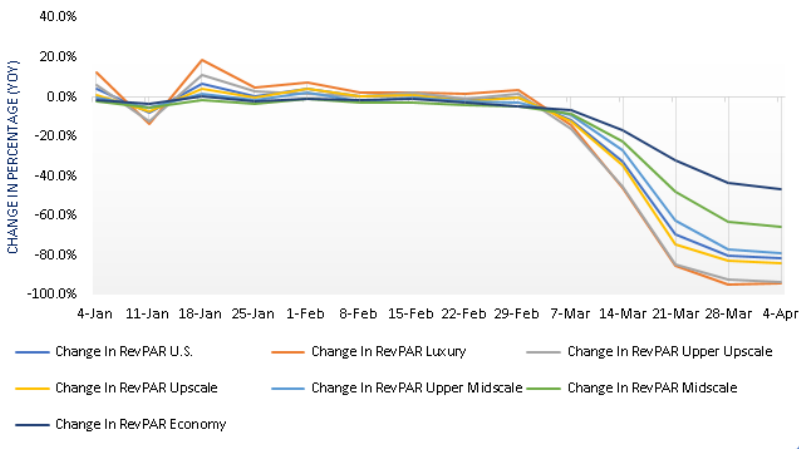
US Hotels - Weekly Change in Average Daily Rate



Average Daily Rate (ADR)

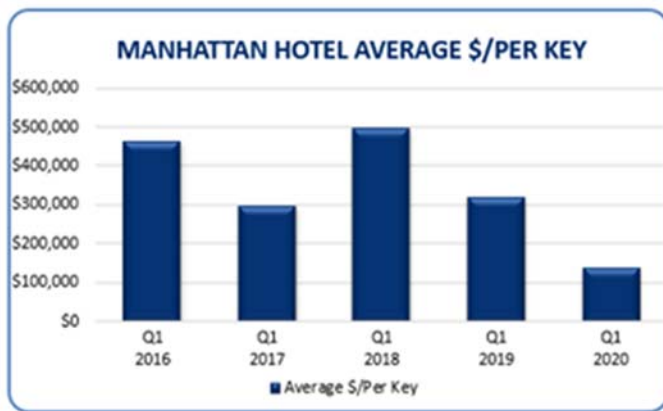
By Mid-March, the Average Daily Rate (ADR) in the U.S. Hotel market experienced an immediate downward trend, decreasing 41.5% by the end of Q1. The graph shown to the left portrays less of a decrease in midscale and economy hotels, indicating that high-end chain scale segments are rapidly falling in demand compared to the low-end chain scale segments. ADR for luxury hotels fluctuated throughout Q1 and was not as severely affected as other high-end hotels, only dropping 17.7% at the end of the quarter. Overall, compared to occupancy and RevPAR, ADR has shown to be the least affected by the Global Pandemic but shows no signs of recovery as travel continues to wane.

US Hotels - Weekly Change in Revenue Per Available Room



Revenue Per Available Room (RevPAR)

While travel throughout the U.S. is limited during this pandemic, RevPAR has experienced large declines across all chain scale segments. The two hardest hit were luxury and upper upscale, both dropping more than 92%. RevPAR shows similarity to occupancy in terms of producing rapid downward trends beginning in the month of March. According to the graph on the left, RevPAR has been declining substantially week by week since the beginning of March and is expected to continue this trend through Q3.



Sale Volume (Fiscal Year Ending Q1)

Total dollar volume for investment sales in the U.S Hotel market had been trending upward at a steady rate for three years before COVID-19. However, the fiscal year ending Q1 2020 represents a significant decrease from the prior four years, down to \$5.1 billion compared to \$10.6 billion in fiscal year ending 1Q 2019. The future being uncertain, health-based travel disruptions and new supply concerns could weigh on sales velocity in the year ahead. With the high-end chain scale segments producing larger declines, the demand for the low-end chain scale segments could potentially increase in the foreseeable future.

Manhattan Hotel Market Average Key (FYE Q1)

The average price per key in the NYC Hotel market has experienced fluctuating trends over the past five years. The price per key had been declining for three years, but for the FYE Q1 2020 the average was roughly \$137,000 per key. Trends indicate a continuation of this trend through 2020. As data shows, the Manhattan market has already been experiencing a substantial decline in average price per key as of FYE Q1 2020.

Manhattan Hotel Market Average Cap Rate (FYE Q1)

Over recent years, the average cap rate in the Manhattan Hotel market has fluctuated between 5.5% and 7.4%, however for the FYE Q1 2020 it increased to 10.0%. By the end of April 2020, the market has seen very little transaction activity. 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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