

# U.S. Hotel Market Topics & Trends – Q3 2020

After many years of consistent growth, the United States Hotel market entered a significant downturn in Q1 2020 with the emergence of COVID-19. With the collapse of travel beginning in 1Q 2020, the U.S. Hotel market continues to suffer 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. However, while analyzing Q3 2020 data, each market fundamental shows declines which seem to indicate a recovery will not occur near-term. 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 Q3 2020. BPG Real Estate Services, LLC, is the top buyer accounting for \$80 million.

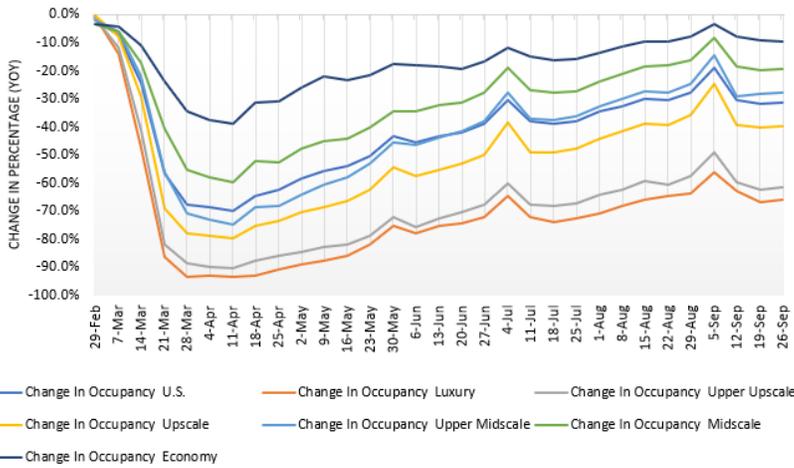


The figure on the right reflects the top sellers within the hotel market for Q3 2020. Xenia Hotels & Resorts, Inc. was the largest seller over the most recent quarter accounting for approximately \$107 million. Following in second and third are Sunstone Hotel Investors, Inc. with \$80 million and Arizona State University accounting for approximately \$64.6.



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

US Hotels - Weekly Change in Occupancy

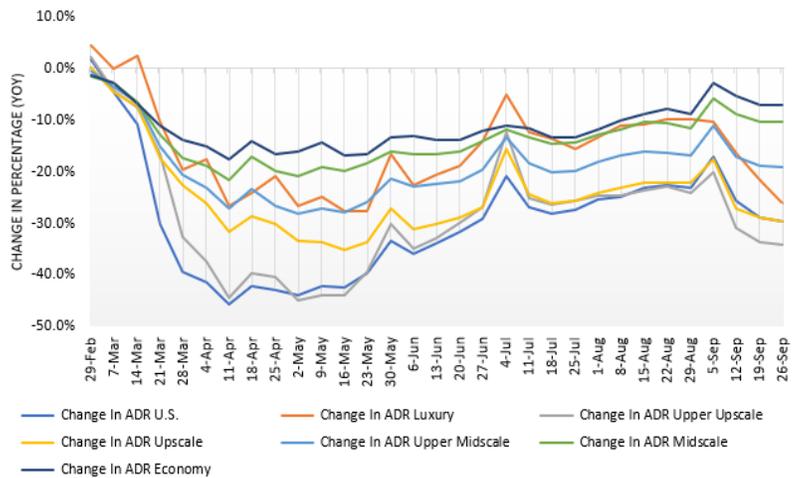


MARKET FUNDAMENTALS:

Occupancy

COVID-19 has had a tremendous impact on the US hotel market with a substantial and immediate decline in occupancy beginning in February. Occupancy in the U.S. Hotel market dropped heavily in March 2020 across all chain scale segments. Luxury and upper upscale hotels had the most significant decrease in Q1 while midscale and economy hotels had the least. In Q3 2020 there has been a slight upward trend compared to Q1 and Q2, before it started to decline once again towards the end of the quarter.

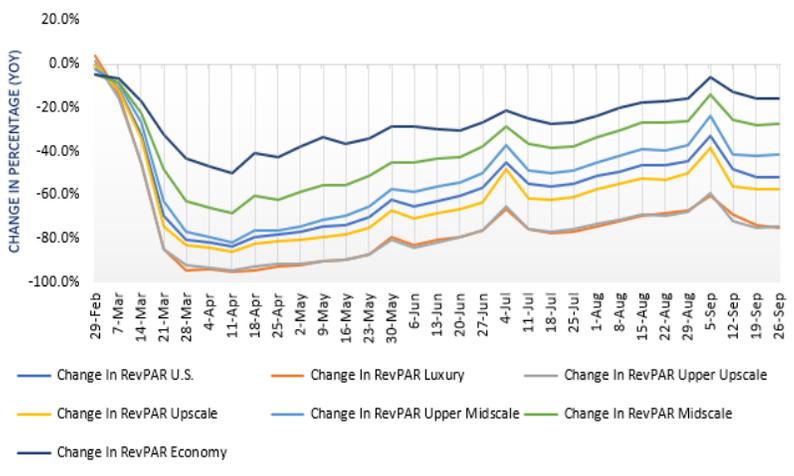
US Hotels - Weekly Change in Average Daily Rate



Average Daily Rate (ADR)

By Mid-March, the Average Daily Rate (ADR) in the US 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 Q3 2020 began to make a slight recovery from the prior quarter, however, dropped off again towards the end of September. Overall, compared to occupancy and RevPAR, ADR is shown to be the least affected by the Global Pandemic and shows signs of recovery as travel continues to become more popular.

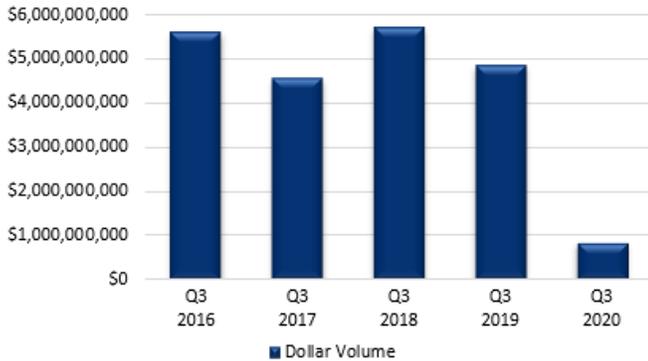
US Hotels - Weekly Change in Revenue Per Available Room



Revenue Per Available Room (RevPAR)

While travel throughout the U.S. has been limited 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 recovering 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 experience a slight upward trend in Q2.

**US HOTEL MARKET DOLLAR VOLUME**



**US HOTEL AVERAGE \$/PER KEY**



**US HOTEL AVERAGE CAP RATE**



**Sale Volume (Fiscal Year Ending Q1)**

Total dollar volume for investment sales in the U.S Hotel market had been fluctuating slightly for three years before COVID-19. However, Q3 2020 represents a significant decrease from the prior four years, down to \$812 million compared to \$4.83 billion in the fiscal year ending (FYE) Q3 2019 and \$5.7 billion in FYE Q3 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 Q3)**

The average price per key in the US Hotel market has experienced a declining trend over the past five years. The price per key had been declining for four years, but in FYE Q3 2020 the average price per key experienced a significant drop to \$89,232 per key. Trends indicate a continuation of this trend through 2020. As data shows, the US hotel market has continued experiencing a substantial decline in average price per key as of Q3 2020.

**US Hotel Market Average Cap Rate (FYE Q1)**

Over recent years, the average cap rate in the US Hotel market has fluctuated between 8.7% and 9.0%, however for FYE Q3 2020, cap rates increased to 9.5%. By the end of September 2020, the market had 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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