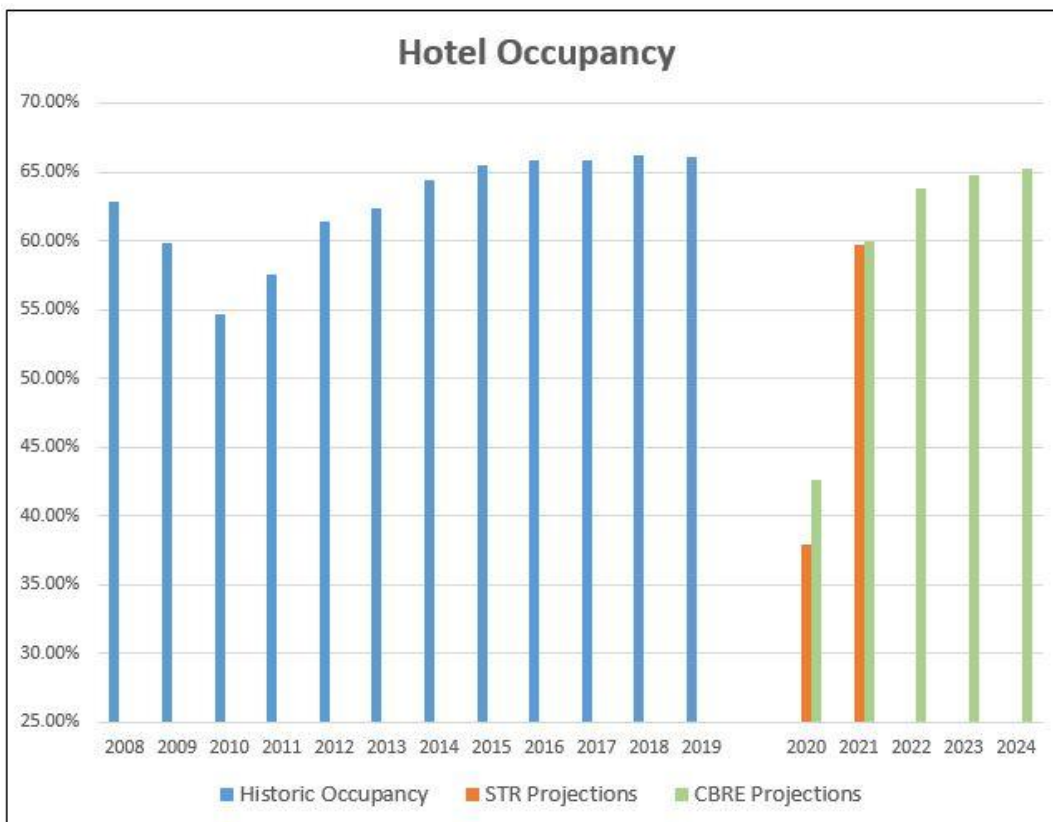


Market Update

The appraisers at Sammartino, Stout & Lo Presti are closely following the COVID-19 Pandemic, and we are analyzing the potential impact of the pandemic on various markets and property types. This information is incorporated into the Market Analysis that we conduct for appraisal assignment. An understanding of the potential short or long term impact of the pandemic on a market or property type is critical in measuring the current value of a property. Today, we are sharing with you the following excerpt from a recent hotel Market Analysis completed by our firm.

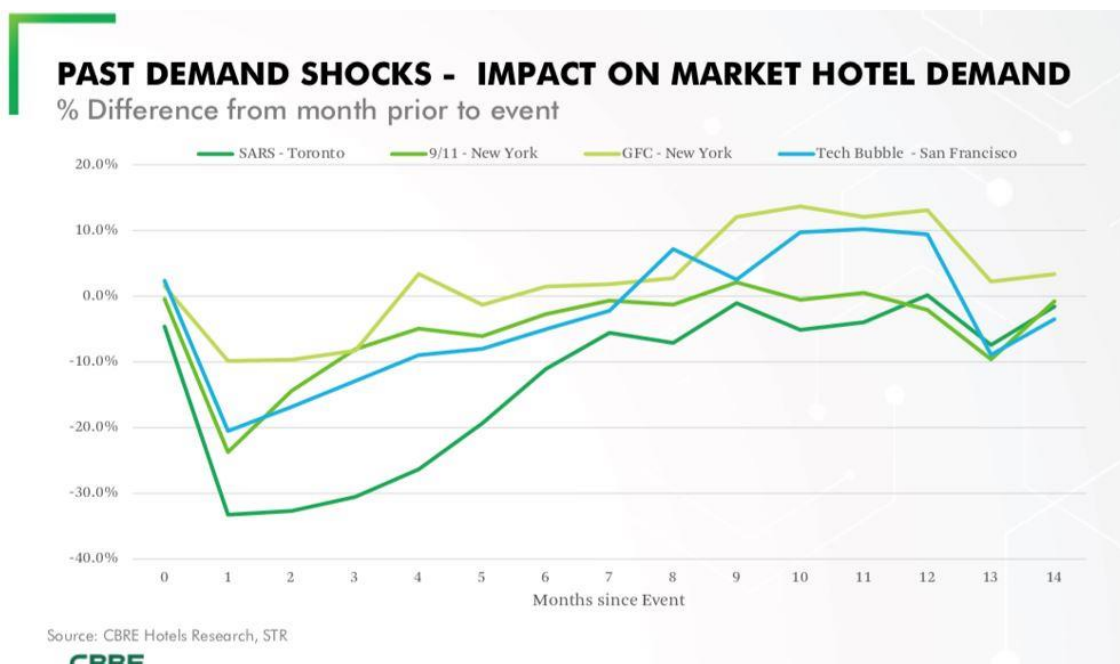
COVID-19 - Hotel Market

Due to the global COVID-19 Pandemic, hotel occupancy is expected to dip to the lowest on record since STR began tracking data in 1987. The most recent trend and near term projections are shown in the following graph.



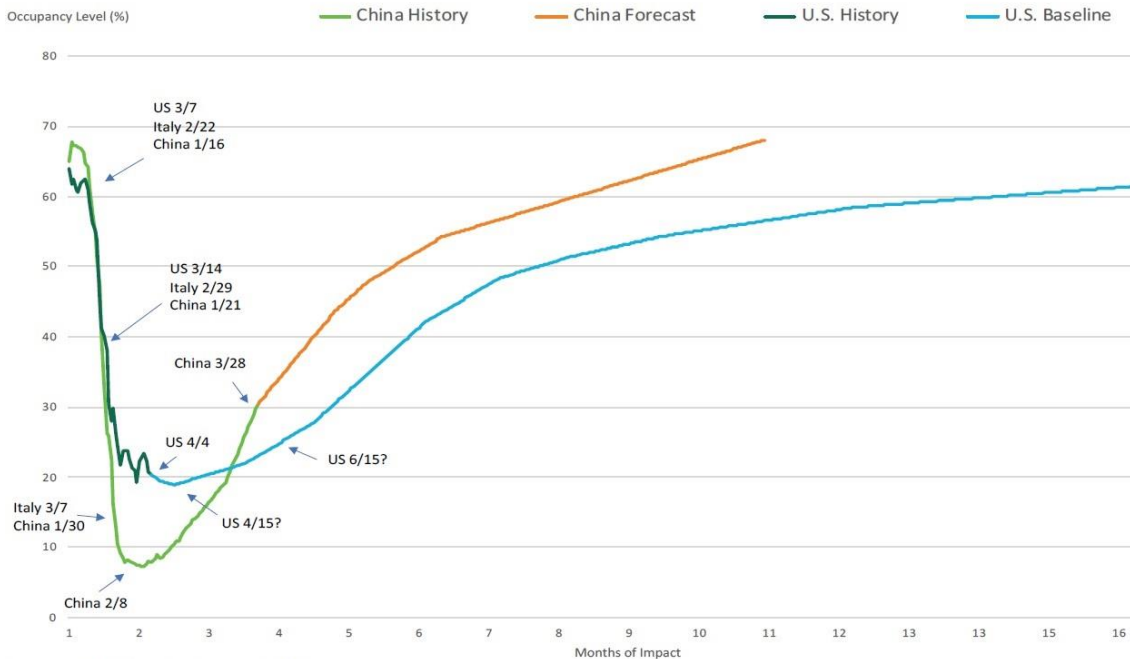
Originally, STR projected that supply would outpace demand in 2020 resulting in a slight drop in occupancy in 2020 and 2021 to 66% +/- . This projection, however, was made prior to the COVID-19 Pandemic. As expected, the pandemic and related government restrictions has reduced travel and demand for hotel room nights. According to Adam Sacks, President of Tourism at STR, “Travel has come to a virtual standstill, but we expect the market to begin to regain its footing this summer.” STR reported that more than 75% of hotel rooms in the US were empty during the week of March 22-28; vacancy increased to nearly 80% by the week ending April 11. **According to STR’s latest projections, occupancy will decline to about 38% for 2020 and increase to nearly 60% in 2021.** Mr. Sacks said that “STR expects the combination of pent-up travel demand and federal aid will help the recovery as we move into the latter part of this year and next year.”

CBRE advisory group, another source, projects that occupancy will decline to approximately 43% in 2020, increase to almost 60% in 2021 and grow to about 65% by 2024. The CBRE projections are reportedly based on a) performance metrics, similar to STR, b) review of data from other countries that saw earlier cases of COVID-19 and are currently recovering, and c) data from prior demand shock incidents (e.g., 9/11 terrorist attacks, SARS – Toronto, etc.). This data is summarized in the following graphs.



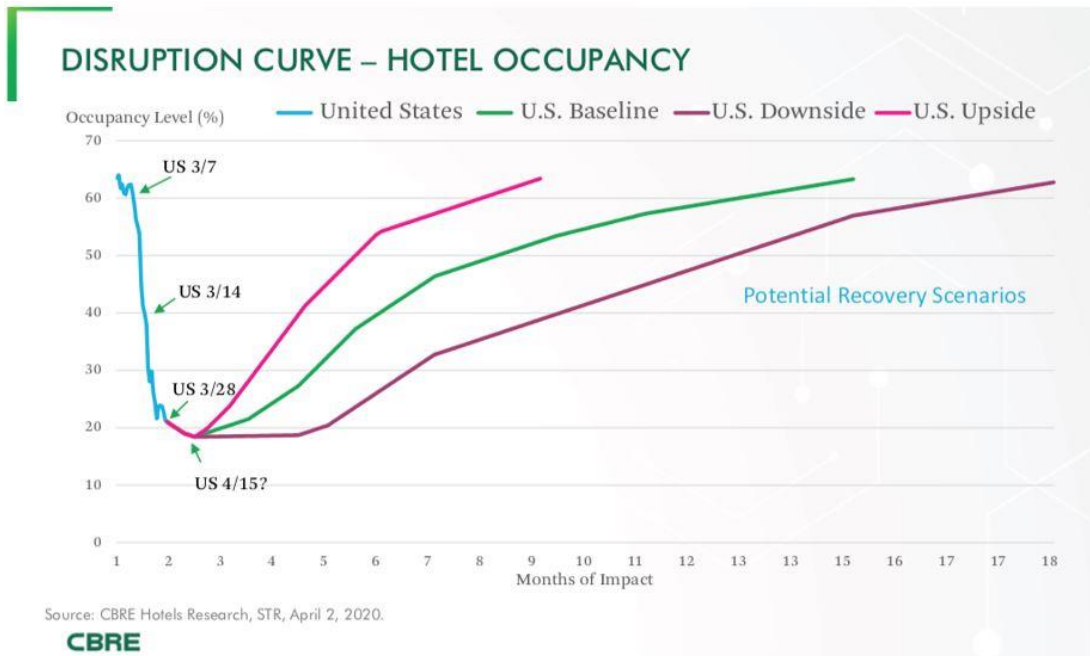
Each of these events had different short-term impacts to the hotel market with the SARS – Toronto event most similar to the current COVID-19 pandemic, although smaller in scale. This event also indicated a longer bounce back compared to the other events, indicating the initial recovery will take some time as conditions improve.

Demand Disruption Curve, Chinese, Italian and U.S. Occupancy Levels and projections



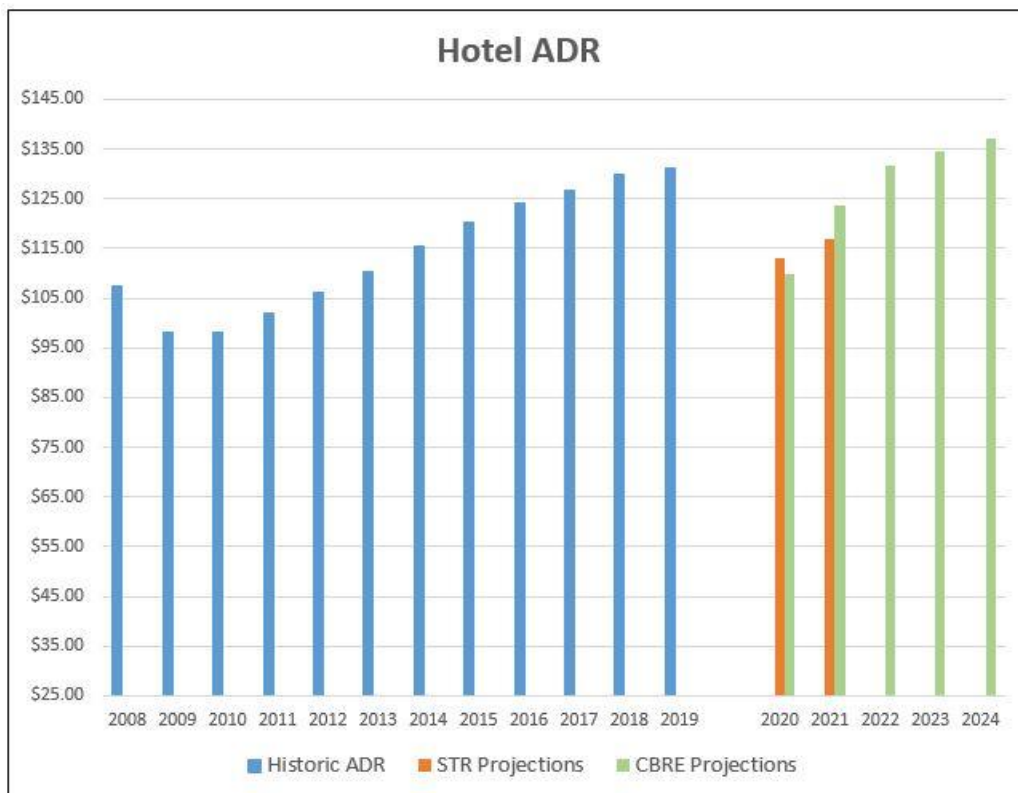
Source: CBRE Hotels Research, STR

As displayed, the United States was initially following the China curve, but it appears to have flattened sooner. It is suspected that hotel occupancy in China dropped to below 10% due to their government's ability to tightly control travel. Occupancy is expected to remain flat over the next month or so with recovery beginning by the summer months.



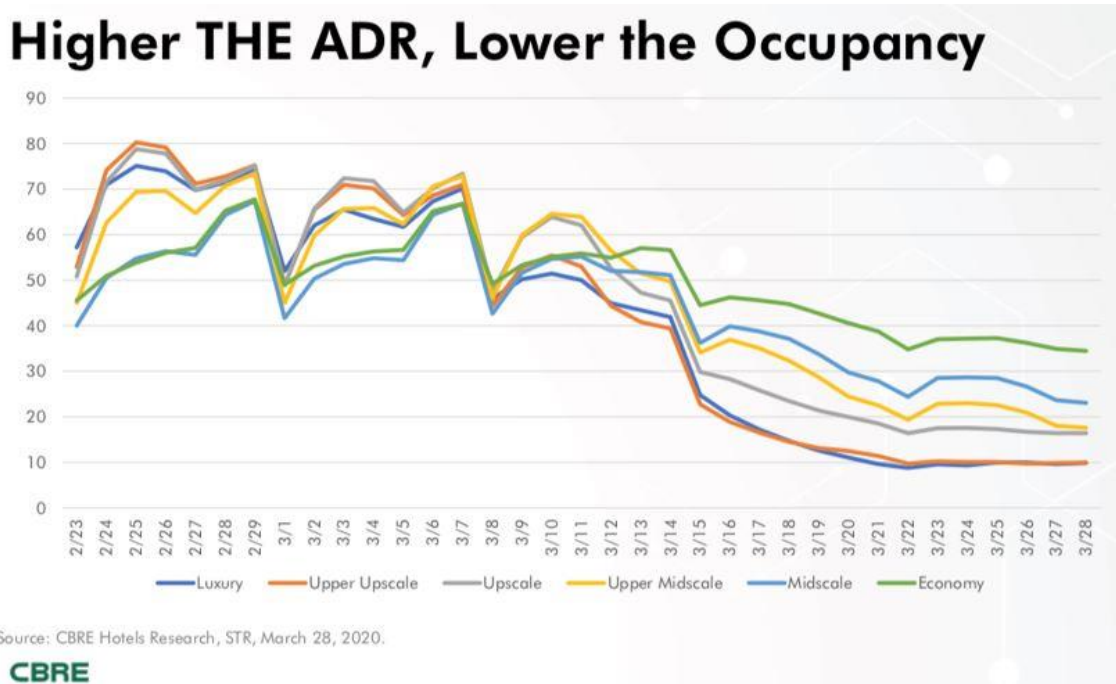
The preceding graph shows three potential recovery scenarios as projected by CBRE. This graph suggests that an initial recovery could start by mid April but will not likely begin until May, especially owing to current social distancing guidelines that are in place until April 30th, 2020.

The following graph details historic and near term projected Average Daily Rate (ADR) trends.



Like occupancy, ADR is expected to decline significantly in 2020 with the week of March 22-28 exhibiting a drop in hotel ADR by nearly 40% to \$79.92. ADR declined further to nearly \$71 by April 11. **According to STR’s latest projections, ADR is expected to decline nearly 14% for 2020 and will increase less than 4% in 2021. CBRE advisory group projects that ADR will decline about 16% in 2020 followed by growth of 12.4% in 2021. CBRE projects continued ADR growth through 2022.** Nevertheless, we expect hotel room rates will need to be more competitive to attract guests as consumer confidence regains strength after the threat from the virus subsides.

The decline in ADR is significantly less than the rate projected for occupancy as it is expected that there will be significant hotel closings in 2020. According to information from CBRE, there is a direct correlation between ADR and occupancy with the largest occupancy declines occurring at hotels with the highest ADRs, including those in resort, urban, and airport areas. This is illustrated in the next graph.



Conclusions

The hotel market was recently operating at or near record highs, but the COVID-19 Pandemic has quickly reversed this trend with the hotel market now operating at record low levels. The immediate impact of COVID-19 on this industry is expected to last several months, with full recovery needing at least one year

and likely two or three years. These factors are expected to negatively impact the hotel industry, which will have a direct impact on hotel valuations through and after this event. Like past market shocks, some operations will not survive and hotel closures are likely to increase in the coming year. The remaining facilities, however, may benefit from fewer competitors once market conditions normalize. As always, local market conditions will vary and require further analysis.

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