Research

US hotels post better RevPAR for August

25 SEPTEMBER 2020 8:21 AM

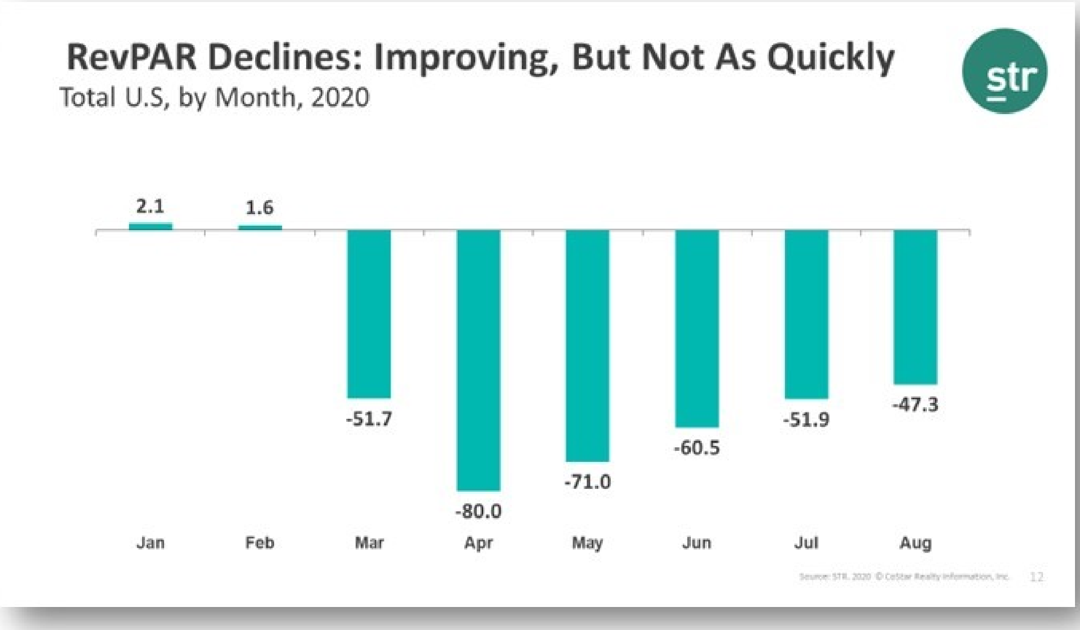
The U.S. hotel industry's last full month of summer provided some slightly better performance as leisure guests became more comfortable with travel in August. But the outlook for group business in the coming months is not good.

By Jan Freitag
jan@str.com
@jan_freitag

NASHVILLE, Tennessee—Congratulations, you made it through the summer of 2020.

I have been watching the "Princess Bride" remakes and table reads, and this line struck me with regards to the U.S. hotel industry: "It just so happens that your friend here is only MOSTLY dead. There's a big difference between mostly dead and all dead. Mostly dead is slightly alive." Which is how the industry feels just about now. Slightly alive.

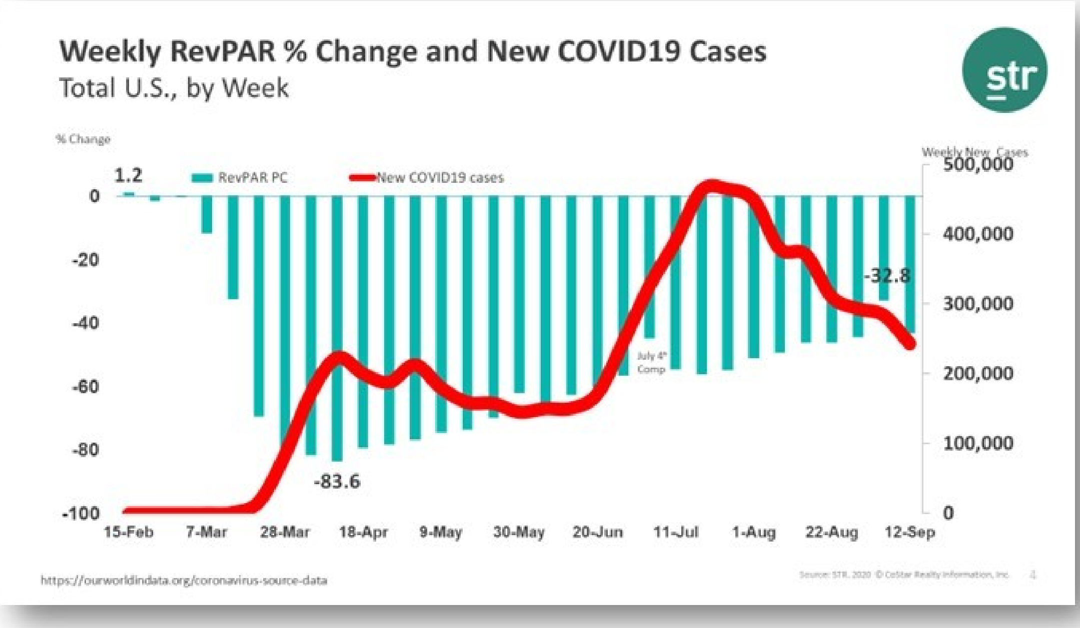
1. More 'less bad' monthly results
August RevPAR declined 47.3% from August 2019 and the continuation of "less bad" results continues. The data used to get 10 percentage points better month over month, but the pace of improvements slowed and will likely slow further (or backtrack?) into the fall.



Source: STR, © 2020 CoStar Realty Information, Inc.

The big question is, now that the summer is over and the traditional leisure travelers are staying home, will there be any corporate demand to pick up the slack? We hear that there is no group demand on the books. So, after Labor Day, what happens?

We have one week of post-Labor Day data (ending 12 September) and it is as good (or as bad) as expected. The Labor Day weekly results (ending 5 September) were the best results since mid-March (RevPAR down 32.8%) and were not sustainable. Case in point, the week ending September 12 showed RevPAR decline of 48.1%.



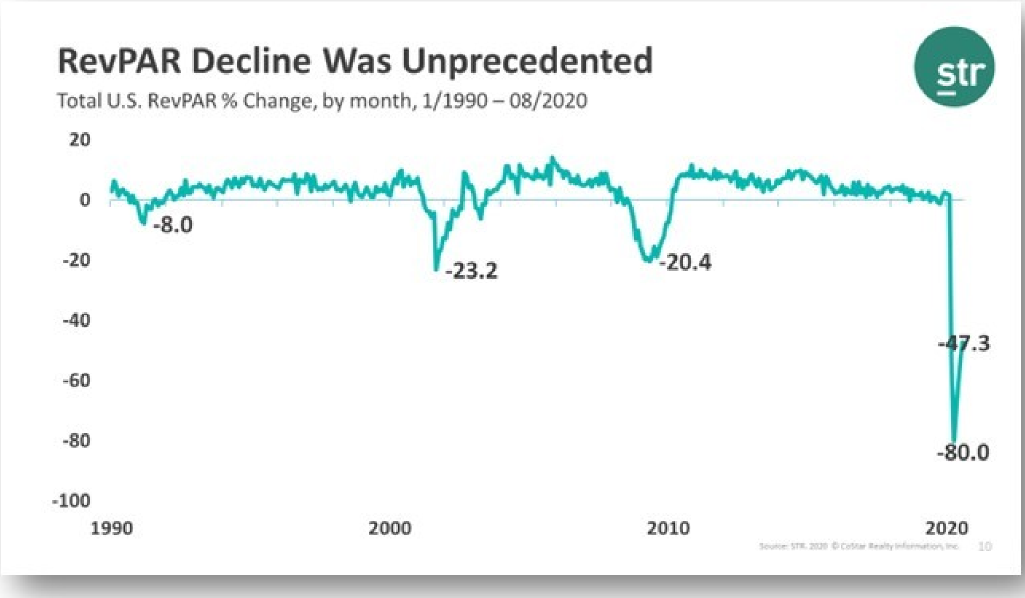
Source: STR, © 2020 CoStar Realty Information, Inc.

The new case counts in the U.S will be the reason that CEOs stay vigilant and conservative when it comes to sending folks back to the office. If people are not in the office, why would someone fly to any major city for a meeting since they will not be able to meet with clients anyway (more on that below). So, office workers might as well stay on Zoom. And that will be a problem for the hotel industry in the major markets and the upper-upscale segment, specifically.

2. More on RevPAR, ADR numbers

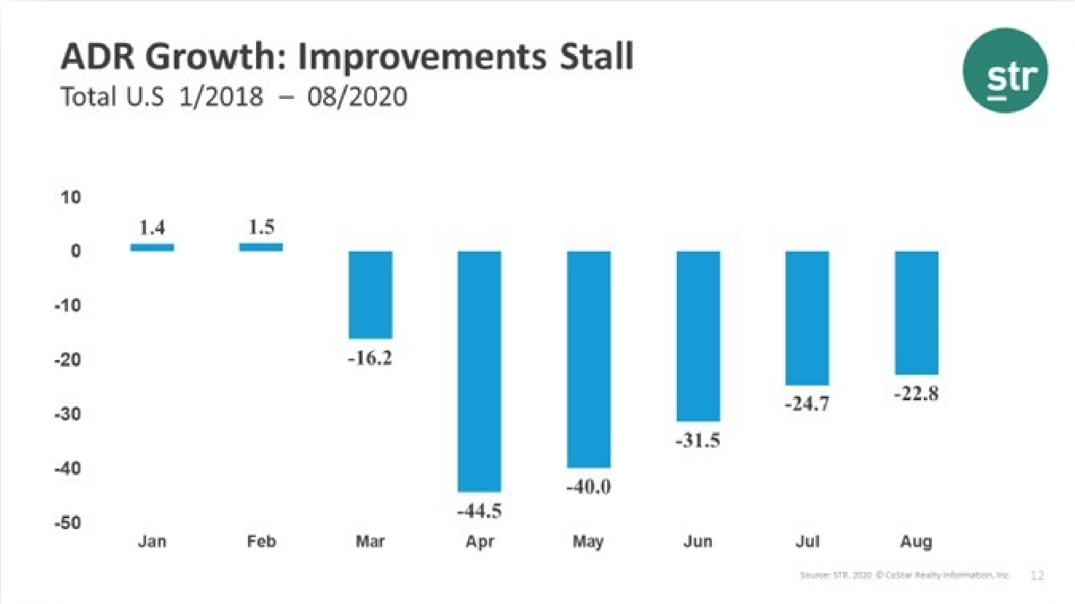
We have not used the long-run revenue-per-available-room percent change chart in a while, but it is worth pointing out that even the "less bad" data that we have reported since May 2020 is still so much worse than anything we have ever seen before.

Remember when we thought a monthly drop of 20% in RevPAR was severe? Well, it was. It is just that our reality of "a severe RevPAR drop" has now been permanently recalibrated. I guess the silver lining is that all of us living through these times will never, ever again be truly shocked by poor performance results. And when some young whippersnapper hotel grad comes to you in 2035 with the "woe is me" face because they are projecting only 2% RevPAR growth, you can just show them this chart and whisper, “We lived through 2020.”



Source: STR, © 2020 CoStar Realty Information, Inc.

ADR declines continue to get slightly better each month; in August U.S. hotel ADR declined 22.8%. But it is very possible that the August data is the beginning of a trend that shows smaller improvements—or even steps backward. You can see that the monthly decline in both July and August was pretty much on par.



Source: STR, © 2020 CoStar Realty Information, Inc.

The positive January and February data keeps the year-to-date ADR results at -18.8% but remember that our ADR forecast for the year is around -21%. And given the very low expectations for the fall, this will likely come to pass.

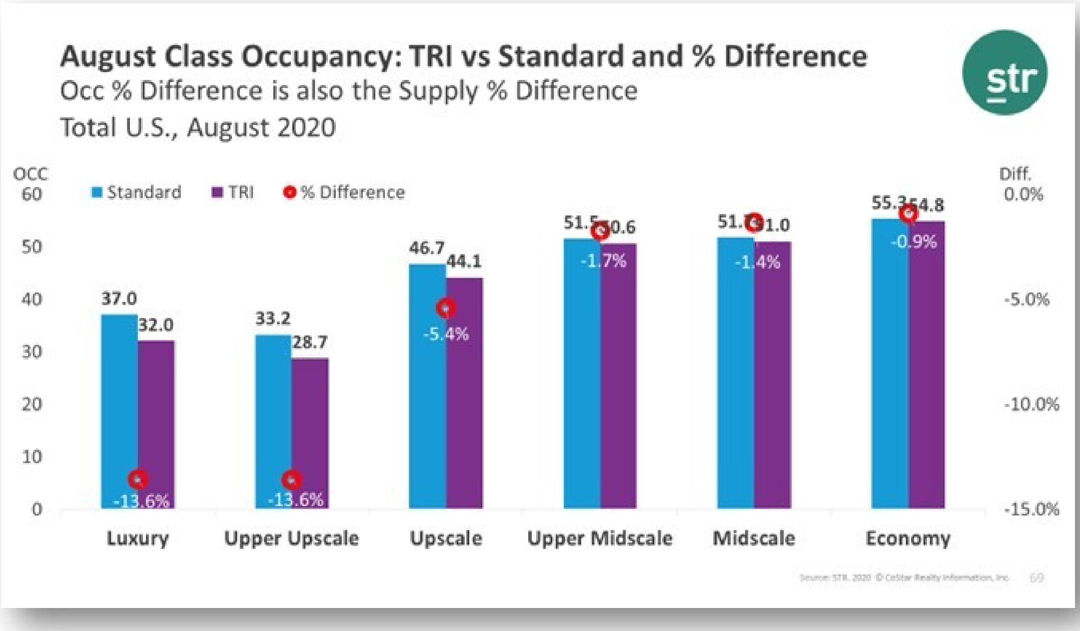
3. Class data

The results of the last month have not changed much as lower-end hotels sold over half their rooms and upper-upscale hotels were two-thirds empty. It’s nice to see that luxury hotels sold 37% of their rooms, pointing at some high-end leisure travelers in resorts during vacation time. The RevPAR decline story remains the same: Upper-upscale hotels declined 65% and economy hotels decreased by 27%.

Class	Absolute Occupancy	Occ %	ADR %	RevPAR %
Luxury	37.0	-50.6	-7.0	-54.0
Upper Upscale	33.2	-56.4	-19.6	-65.0
Upscale	46.7	-39.0	-20.0	-51.2
Upper Midscale	51.5	-29.5	-16.1	-40.8
Midscale	51.7	-22.2	-12.8	-32.1
Economy	55.3	-14.6	-14.6	-27.1

Source: STR, © 2020 CoStar Realty Information, Inc.

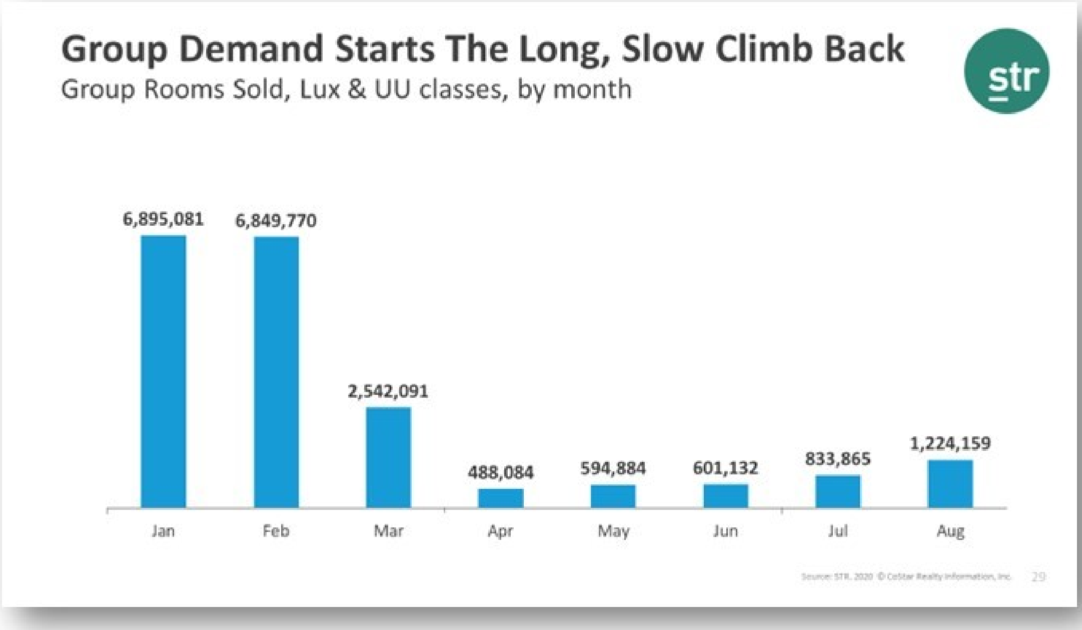
Here is a quick look at the supply difference between standard and total room inventory occupancy that we had discussed last month as well. Most of the lower-rated class hotels are open, over 10% of the higher-end rooms are offline. Now, given the tough operating environment of the high end, it is not an unreasonable assumption that we may see a step back for the upper-upscale class and some more rooms may temporarily close. But I am not sure it will move the needle much; if you made it this far through COVID-19, chances are you will remain open.



Source: STR, © 2020 CoStar Realty Information, Inc.

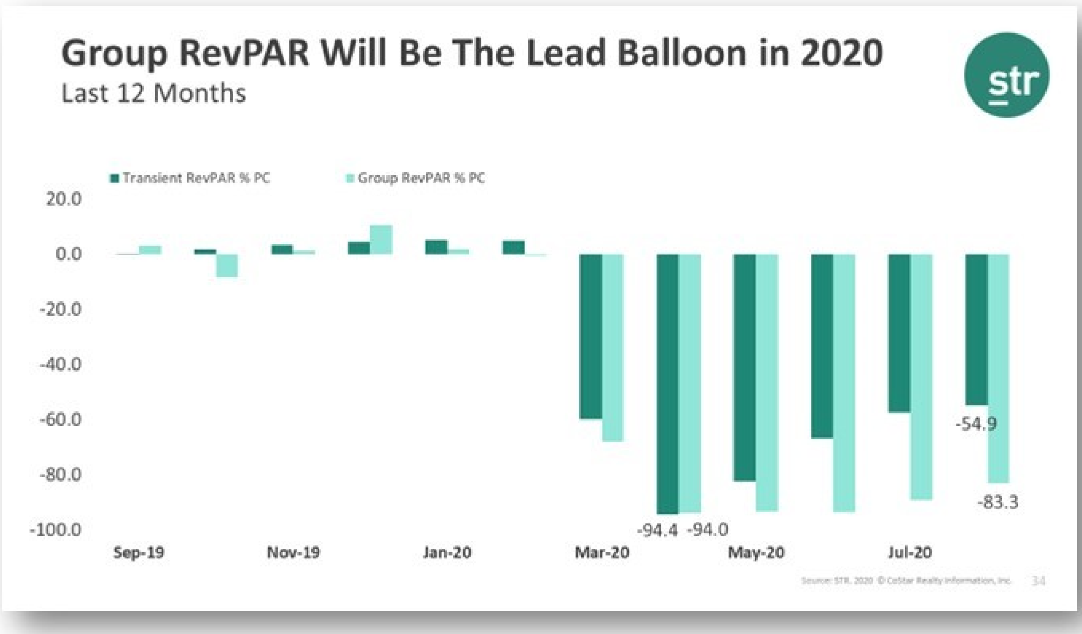
4. Segmentation data

In August, U.S. hoteliers sold over 1 million group rooms. August group occupancy was 4.2% for the U.S. and that was actually the best group occupancy since April. For the first three months of COVID-19, group occupancy stood at around 2%; in July it was 3%, now over 4%. So, mostly dead, which is slightly alive.



Source: STR, © 2020 CoStar Realty Information, Inc.

Group average daily date still stood at $141, which is down roughly 25%, but if you think about all those empty rooms and no compression, I think that value is still quite strong. Transient ADR came in at $195 and that figure is skewed up by luxury ($291 at 32% occupancy) and destination resorts ($209 at 34% occupancy). Looking into the fall, it is not an unreasonable worst-case guess that group RevPAR could take a step back and, yes, could contract further.



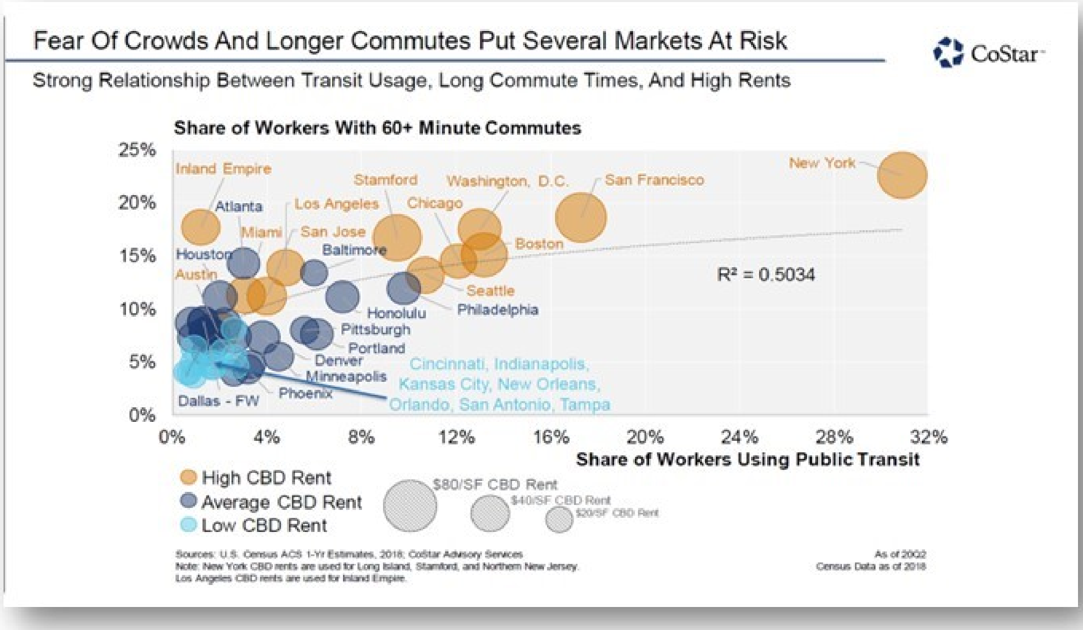
Source: STR, © 2020 CoStar Realty Information, Inc.

Let’s see what the September data holds.

5. Top 25 markets

Let’s use this as a working hypothesis: Business travel happens when businesspeople can meet each other in their place of business. In other words, we will need to see sustained office occupancy to see sustained upper upscale and upscale hotel occupancy.

But then consider this: Our friends from Michael Cohen’s consulting group at CoStar built this fascinating, rather scary chart about commuting times and public transport. It’s really cool, and not good news for hotel occupancy in a lot of the top 25 markets:



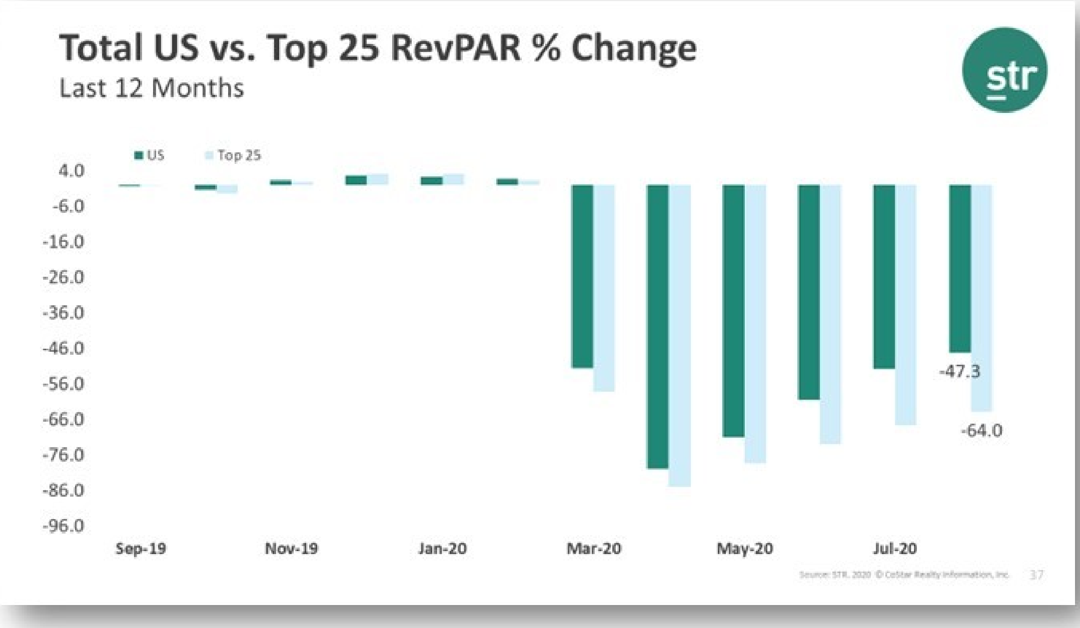
Source: © 2020 CoStar Realty Information, Inc.

In other words, if your commute is quite long and parking is an issue in the best of times and much worse now because no one uses public transport anymore, then your boss may let you work from home for a little bit longer. Or a lot longer. Or maybe forever.

I was talking in April to a very, very smart hotel lender who told me then: "Look, the limiter on the U.S. economy recovery is parking, plain and simple." If office workers cannot get safely to work in their cars—since they will not want to use subways or buses—and then find easy parking, they will not want to come at all.

As you can see in the chart above there a majority of large markets where this is not an issue at all, actually. But New York City and San Francisco have such a prominent space in investors' heads that whatever they observe there will impact the hotel industry sentiment across the U.S. And you can see that those two markets are at most risk for commuter and parking impact.

Looking at the top 25 RevPAR performance then, offices in the larger markets are still quite empty, hence RevPAR performance (-64%) trails all other markets and the total U.S.



Source: STR, © 2020 CoStar Realty Information, Inc.

The chart above implies that the markets outside the top 25 are running a 50%+ occupancy and their RevPAR decline is only 37%.

Jan Freitag is the SVP of lodging insights at STR.

This article represents an interpretation of data collected by STR, parent company of HNN. Please feel free to comment or contact an editor with any questions or concerns.

CoStar Group is the parent company of STR, and HNN is a division of STR.

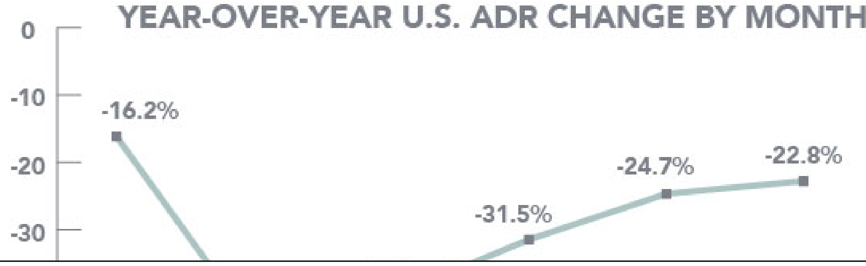
The last gasp of the summer leisure season provided slightly better U.S. hotel industry performance as leisure guests became more comfortable with travel, but the outlook for group business in the coming months is not good.

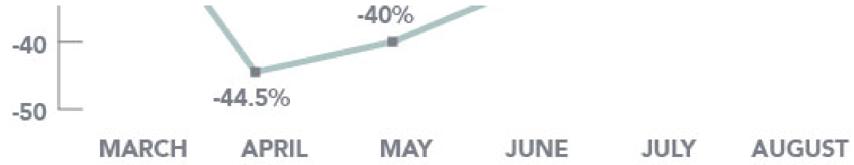
1. **RevPAR declines improved through the summer:** In August, U.S. hotel revenue per available room decreased 47.3% year over year, which was less bad than June and July declines. Unfortunately, this trend is unlikely to continue in the fall.

U.S. REVPAR CHANGE IN SUMMER MONTHS

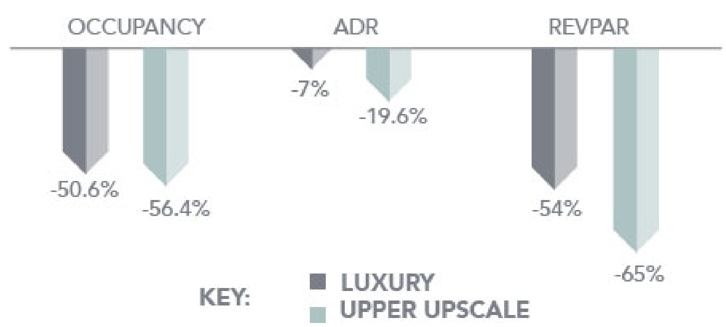
2. **Hoteliers had about the same pricing power for two months:** U.S. average daily rate declined 22.8% in August, slightly better than July (-24.7%).

YEAR-OVER-YEAR U.S. ADR CHANGE BY MONTH





3. **Higher class segments post lower occupancy:** Luxury hotels (37%) and upper-upscale hotels (33.2%) still have the lowest absolute occupancy among the classes, as the economy segment (55.3%) continues to lead the way.



4. **A small milestone for group bookings:** U.S. hoteliers sold more than 1 million group roomnights in August (1,224,159), which is the highest since March (2,542,091). But group RevPAR (-83.3% in August) could decline even further in the coming months.

U.S. HOTEL GROUP PERFORMANCE IN AUGUST

- MORE THAN 1.2 MILLION GROUP ROOMNIGHTS SOLD
- GROUP ADR WAS $141, DOWN 24.3% YEAR OVER YEAR
- GROUP REVPAR DECLINED 83.3% YEAR OVER YEAR

5. **Top 25 markets continue to struggle:** Hotels in the U.S. top 25 markets continue to perform worse than the overall U.S. industry and all other markets. RevPAR was down 64% for the Top 25 markets in August.

U.S. TOP 25 MARKETS

OCC -44.7% TO 41.7% **ADR** -34.8% TO $99.32 **REVPAR** -64% TO $41.46

Hotel News Now

illustration by: rachel daub
source: STR

Download a PDF of the infographic here.