HVS

MARKET REPORT

COVID-19's Impact on the Hampton Roads Lodging Market

MAY 12, 2021

The Hampton Roads area has historically benefited from strong leisure and tourism demand, government activity at the area's military facilities, and corporate travel. Since early March 2020, however, the Hampton Roads lodging market has suffered a decline in demand, like most metropolitan areas in the United States, because of the COVID-19 pandemic. How much of an impact has the market experienced, and how quickly can this historically stable market recover?

The Hampton Roads economy has long been supported by the federal government, the military, the aerospace industry, and the transportation and healthcare sectors. Lodging demand is also generated by tourism to the beaches and SMERFE-related transient and group travel. The market dynamics have evolved over the last decade with continued urbanization and growth in the Norfolk and Virginia Beach markets, where hotels consistently outperform those in other towns or submarkets within the MSA.

For the Hampton Roads hotel market, occupancy has historically been lower during the winter months, particularly from December to February. During the spring and summer months, steady commercial and government demand is typically supplemented by an influx of leisure travel, supported by the warmer weather along the coastline, resulting in occupancy registering above 80% at some properties. Prior to the COVID-19 pandemic, market occupancy registered a minor increase in 2019. We note that average rate (ADR) growth tends to be limited given the area's reliance on military demand, as the government per-diem rates fall below the rack rate otherwise commanded by hotels in the market.

Even though overall occupancy declined in 2020, compared to 2019, occupancy levels in the summer of 2020 were able to surpass 70% in some submarkets, highlighting the strength and continuation of demand amid the pandemic. Moreover, year-to-date March 2021 data illustrate improvement in both occupancy and ADR, compared to the same period of 2020. As a result of the continuation of stable government and military demand, the Hampton Roads hotel market has gained traction to quickly recover from the disruption of the pandemic.

Hampton Roads 2021–2023 Forecast

	Historical		Forecast			
	2018	2019	2020	2021	2022	2023
Occupancy	63%	64%	51%	61%	63%	64%

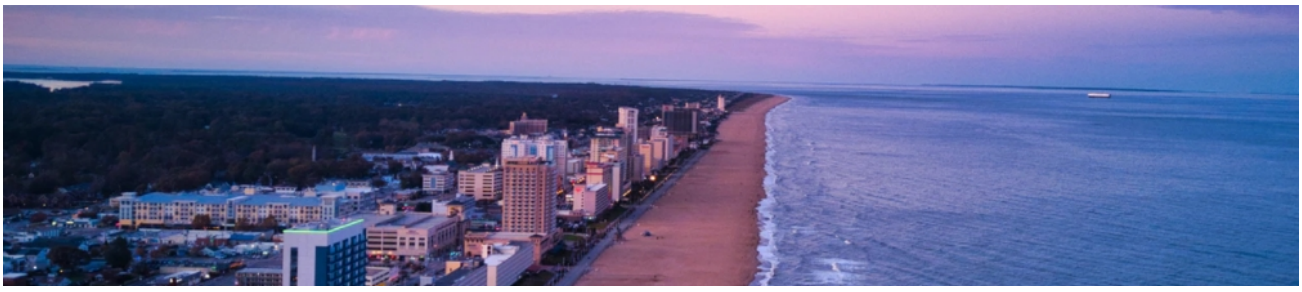
Percent Change		*1%*	*-19%*	*19%*	*3%*	*2%*
Average Rate	$104	$106	$90	$98	$100	$105
Percent Change		*2%*	*-15%*	*9%*	*3%*	*4%*
RevPAR	$65	$67	$46	$60	$63	$67
Percent Change		*3%*	*-31%*	*30%*	*6%*	*6%*

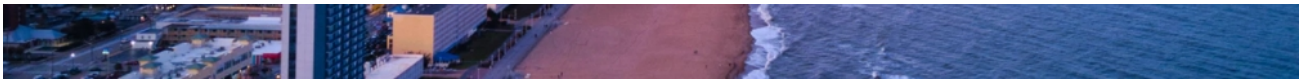
Source: STR (Historical Years) and HVS (Forecast)

Major factors contributing to our forecast are summarized as follows:

- The area has historically benefited from a variety of leisure attractions and destinations. The museums of the Historic Triangle, consisting of the colonial communities of Jamestown, Williamsburg, and Yorktown, were initially closed during the onset of the pandemic but have since reopened with proper safety measures in place, including social distancing and mask wearing. Similarly, Busch Gardens Williamsburg opened at reduced capacity following a temporary closure. The theme park, which has historically been a seasonal operation, will now be open year-round, though at a limited capacity until restrictions are removed. Travel to the coastline remains robust, as observed in the high occupancy levels during the summer of 2020. Leisure demand is expected to quickly recover as these tourist attractions resume operating at historical capacities and as travel restrictions are lifted.

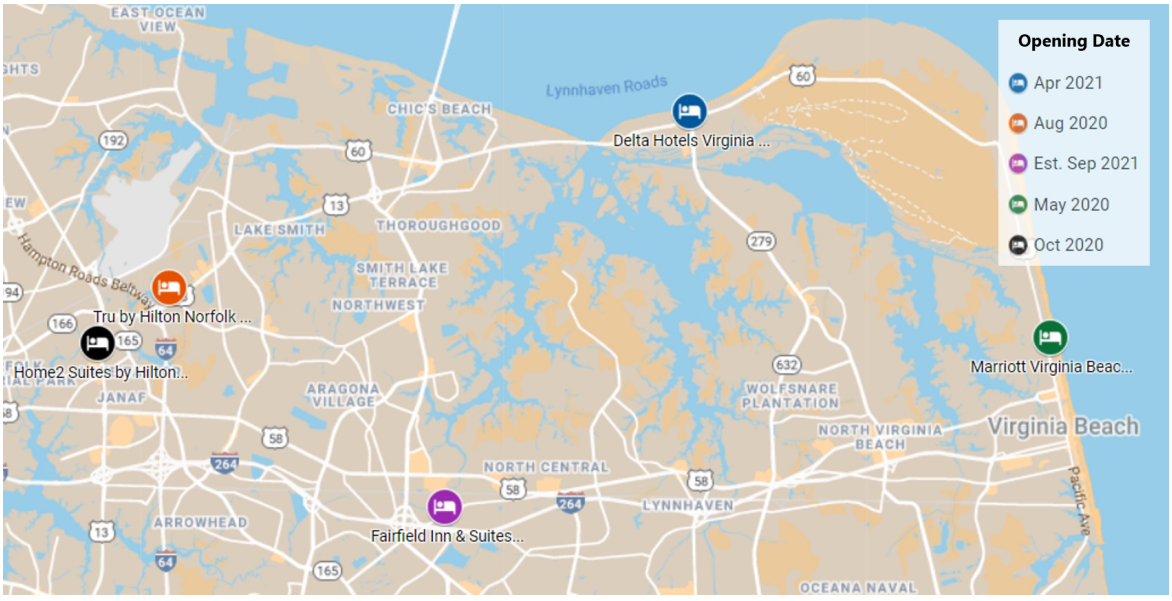
- Three Fortune 500 companies—Huntington Ingalls Industries, Dollar Tree, and Norfolk Southern—are the primary anchors for the area's commercial demand. Like major employers nationwide, during the pandemic, staffing was reduced at these firms, and large-scale projects were delayed or canceled. Given the essential nature of these companies, however, operations continued during the pandemic. With the improvement of the economy and continued distribution of the vaccine, these companies, along with the other employers in the Hampton Roads area, should return to historical production and staffing levels; thus, commercial demand is expected to recover and strengthen.
- Following orders from the federal government at the onset of the pandemic, the military complexes issued travel restrictions, causing a significant drop in government-related demand. Newport News Shipbuilding, part of Huntington Ingalls Industries, is the sole designer, builder, and refueler of all U.S. Navy aircraft and one of only two producers of the U.S. Navy submarine. As the largest employer in the area, this facility employs more than 26,000 people.[1] Our interviews with market participants indicated that staffing was initially lowered to limit exposure given the size of the manufacturing facility and close working spaces, resulting in several project delays. Despite this setback, as one of the exclusive suppliers for the U.S. Navy, the shipyard continued manufacturing during the pandemic. Overall, government-related demand is anticipated to recover as military operations and ancillary facilities return to full operations and as the economy rebounds and travel restrictions are lifted.
- Historically, conferences in Hampton Roads have been hosted at various convention centers in towns such as Hampton, Virginia Beach, and Chesapeake. However, given their sizes, these facilities have served as COVID-19 testing centers during the pandemic. As the vaccine distribution continues and expands, Sentara Healthcare has partnered with local health districts to have these centers also serve as vaccination hubs. Although originally planned in three phases, the renovation at the Hampton Roads Convention Center is currently underway given the cancellation of conferences for most of 2020 and early 2021. Additionally, the opening of the $68-million, 285,000-square-foot Virginia Beach Sports Center in October 2020 has sparked additional demand for sporting events and competitions with a facility that can hold up to 5,000 spectators. As the COVID-19 vaccines are rolled out on a larger scale, meeting and group demand should start a slow recovery, eventually returning to historical levels once the large events that have been postponed are rescheduled.





Hotel transaction activity in Hampton Roads has come to a virtual halt since the onset of the pandemic, with only a handful of transactions to note. The former DoubleTree by Hilton at the Military Circle Shopping Mall, which has been vacant since 2009, was purchased by the Norfolk Economic Development Authority in May 2020 for $2.4 million following the purchase of the adjacent Military Circle Shopping Mall for $11 million. These two sites will serve as part of a larger mixed-use development project for the former shopping center. Several requests for proposals and applications are currently awaiting review, with an anticipated final selection to be made mid-year 2021. The 133-room Motel 6 Virginia Beach was purchased by Baywood Hotels for $2.3 million from Blackstone as part of a three-hotel portfolio purchase in July 2020. Following the hotel's permanent closure in 2019, the 200-room Governors Inn in Williamsburg was sold in November 2020 for $3.1 million, with plans by the new owner, Castle Development Partners, to demolish it to make way for multi-unit residential buildings. As the economy recovers and hotel performance returns to historical levels, however, more hotel transactions are anticipated to be realized.

Given the initial uncertainty of the economy and the questionable recovery timeline at the onset of the pandemic, limited financing was available for new construction, and some new hotel developments were canceled or placed on hold. Despite a limited pipeline in the past year, the following map shows hotels that have recently opened or are under construction in Hampton Roads.



Source: STR and HVS

We are confident the Hampton Roads market will rebound upon the broader distribution of the vaccines, the easing of group meeting restrictions, the reopening of the area's convention centers, and the recovery of corporate and government travel. We continue to watch the factors affecting the Hampton Roads lodging, and our many consulting engagements throughout the region allow us to keep our finger on the pulse of the market.

For more information, contact Chelsey Leffet on our Washington, D.C. team.

The most up-to-date information surrounding Virginia's actions related to COVID-19 can be found at Virginia.gov.

[1] Huntington Ingalls Industries, Newport News Shipbuilding Facts. May 3, 2021. Retrieved May 10, 2021.