COVID-19’s Impact on the Houston Lodging Market

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Amid a worldwide pandemic, the lodging industry is facing a downturn that is greater than the past two lodging-market declines combined. During the Great Recession, Houston’s occupancy fell roughly twelve points from 67.4% in 2008 to 55.8% in 2009. In 2020, occupancy declined from the 2019 benchmark of roughly 64% to 42%, reflecting a 22-point correction. Average daily rate (ADR) declined from $100 in 2008 to roughly $92 in 2009, reflecting an 8% drop; in 2020, ADR fell 20% from the level achieved in 2019 ($102 to $81).

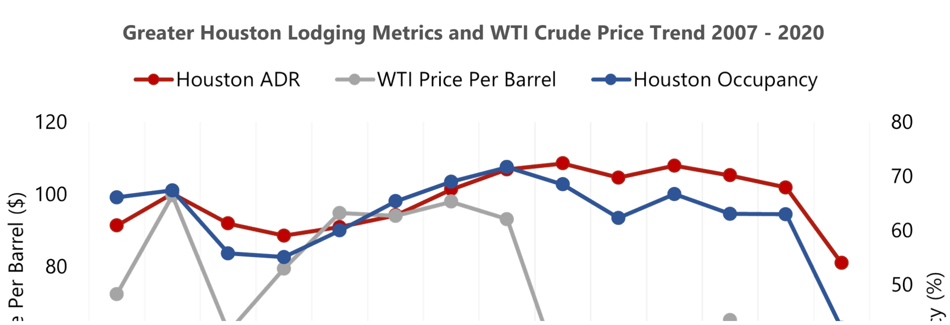
Houston: 2021–2024 Forecast

	Historical		Forecast			
	2019	2020	2021	2022	2023	2024
Occupancy	63.0%	42%	52%	59%	61%	62%
Percent Change		*-33%*	*23%*	*13%*	*4%*	*2%*
Average Rate	$101.89	$81	$86	$94	$98	$101
Percent Change		*-20%*	*6%*	*9%*	*5%*	*2%*
RevPAR	$64.16	$34	$44	$55	$60	$62
Percent Change		*-47%*	*30%*	*24%*	*9%*	*4%*

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

Major factors contributing to our forecast are summarized as follows:

- Market occupancy and ADR bottomed out in April 2020 at the height of the pandemic when nation-wide travel came to a halt and Houston airports reported a 95% YOY decline in passenger traffic. Occupancy and ADR improved slightly through September, and ADR attained its highest point in October since April 2020. As expected, both metrics declined in the last two slower months of the year. This subdued demand and ADR trend is anticipated through the first quarter of 2021, as corporate and group demand will remain at bay.
- The city’s critical energy sector, a major source and driver of corporate lodging demand, suffered an initial shock in the second quarter of 2020 when oil and gas prices crashed in April 2020, reaching its lowest point in recent history as a result of the COVID-19 pandemic coupled with the Russia–Saudi Arabia oil price war. Subsequently, the gradual rise in COVID-19 infection rates, travel restrictions, and remote work-model led to a drastic domino effect across the industry, including depressed demand for gasoline and jet fuel, massive surplus of oil and fuel, reduced crude oil production, low rig count, delayed and suspended projects, and massive layoffs. **Texas Alliance of Energy Producers** reported over 30% job loss in the upstream sector in Texas. The recovery of oil and gas prices and re-investments in capital projects will play a major role in restoring corporate travel demand in the greater Houston market.



Summary

Since early March 2020, the greater Houston area hotels have suffered unprecedented declines in demand, similar to most cities in the United States, because of the COVID-19 pandemic. How far has the Houston hotel market fallen? How does this compare to the last recession? What will the recovery look like?

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Source: STR & Cushing, OK WTI Spot Price (Dollars per Barrel)

- Downtown Houston has been devoid of its typical bustling activities since April 2020, reflecting the absence of domestic and international business travelers, as well as corporate workers in the many high-rises in the city's business hub; the decline of retail and restaurant businesses; and the limited meetings, sporting events, and activities at the **Discovery Green**, **Minute Maid Park**, and the **Toyota Center** on the perimeter of the **George R. Brown Convention Center**. The recovery of Houston's corporate segment is expected to be gradual, initially constrained by reduced business travel budgets in 2021.
- Conventions, meetings, and events at the George R. Brown Convention Center are another casualty of the COVID-19 pandemic. Convention center representatives report losing over 25 citywide events to the pandemic in 2020 and are projecting a very soft 2021. The **Shriners International**, **NAPE Expo 2021**, and the **23rd World Petroleum Congress** are expected to be the highlights of conventions and events in 2021. However, a stronger convention calendar is anticipated in 2022, which will support recovery for the downtown market in that year.
- Greater Houston's budget/extended-stay hotels performed well and proved resilient through 2020. We expect this foundation to stay in place, with extended-stay and lower-priced demand representing the majority of room nights generated through the first half of 2021.
- An improved market is anticipated by the fall of 2021, relative to 2020, as the nation is expected to emerge from pandemic restrictions with the successful rollout and administration of the COVID-19 vaccine. The greater Houston market is anticipated to realize occupancy levels in the low 50s by the end of 2021 (up from the 20-year low of 2020 in the low 40s). In a normal year, Houston metro occupancy trends in the low-to-mid 60s range, which is forecast to occur by 2024.
- Activities in the transactions market since March predominantly represent limited-service hotels located in the greater Houston area; of the 28 closed transactions, only one hotel sale represented a full-service product type. The Sheraton Houston West sold for $7,500,000 ($47,500 per room) in May, and it is expected that this hotel will be renovated and converted to a lower-tier full-service brand. Four transactions, which form part of the larger Colony US Hotel Portfolio 2020 sale to **Highgate Holdings**, were pending as of year-end 2020.

We are confident the greater Houston market will rebound upon the widespread administration of the COVID-19 vaccine, the retirement of group meeting restrictions, and the resumption of corporate and government travel. The **HVS Houston Team** will continue to watch the factors affecting lodging, and our many consulting engagements throughout the metropolitan area allow us to keep our finger on the pulse of the market. We update our forecasts monthly.

For more information, please contact **Shannon L. Sampson** and/or **Bunmi Adeboye** of our Houston team.

> *Harris County's COVID-19 Guideline Highlights (as of February 1, 2021)*
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> - *In October 2020, the State of Texas expanded the occupancy restriction of most businesses, including restaurants, retail stores, libraries, museums, gyms, offices, and manufacturing buildings, as well as increased the permitted indoor event capacity from 50% to 75% of normal operating limit or total listed capacity, as long as participants wear masks and maintain a six-foot distance. A tighter restriction of 25% of an event venue's regular occupancy is mandated in the city of Houston.*

> - *In January 2021, businesses were mandated to reduce operations from 75% to 50% of total listed occupancy after the greater Houston area exceeded its hospitalization threshold. Indoor bar operations were ordered to close, with the exception of bars that have been reclassified as restaurants based on their percentage of revenue from food operations. These operations were permitted to remain open at 50% indoor occupancy.*