HVS

MARKET REPORT

COVID-19's Impact on the Seattle Lodging Market

DECEMBER 14, 2020

Seattle effectively closed for business in early March 2020 because of the COVID-19 pandemic. Attempts to reignite the local economy have faced multiple setbacks, compounded by 40+ national convention cancellations, the shuttering of the 2020 cruise season, and the substantial decline in inbound domestic and international travel. The effects of COVID-19 on the Pacific Northwest have been nothing short of catastrophic to the hospitality industry.

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, Metro Seattle occupancy fell roughly seven points from 68.1% in 2008 to 61.6% in 2009; this year, we forecast occupancy to drop from the 2019 benchmark of roughly 74% to 37%, reflecting a 50-point correction. Average rate declined from $127 in 2008 to $112 in 2009, an 11% drop; this year, we forecast ADR to fall 36% ($161 to $104).

Seattle – 2020-2023 Forecast

	Historical		Forecast			
	2018	2019	2020	2021	2022	2023
Occupancy	75.1%	73.9%	37%	57%	69%	72%
Percent Change		*-1.6%*	*-50%*	*53%*	*22%*	*5%*
Average Rate	$165.01	$160.74	$104	$119	$142	$155
Percent Change		*-2.6%*	*-36%*	*15%*	*20%*	*9%*
RevPAR	$123.87	$118.79	$38	$67	$98	$111
Percent Change		*-4.1%*	*-68%*	*76%*	*45%*	*14%*

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

2020 Major Factors

- Virtually all significant corporate travel dissipated in 2020 given the widespread impact of the virus. While most businesses began reopening in late May 2020, major employers in the tech industry, such as Amazon, Google, and Expedia, as well as other major corporations, allowed employees to continue working remotely; restrictions on non-essential travel have continued through December 2020. Boeing, whose production declined following two crashes of

the 737 Max airplane, has experienced more challenges because of the pandemic. As of October, Boeing was expected to eliminate about 30,000 jobs, with at least 10,000 in the State of Washington, by the end of 2021. This is anticipated to affect various companies and industries associated with aerospace throughout the Puget Sound.

- The Washington State Convention Center (WSCC) remains effectively closed for busines. Under Governor Inslee's plans, gatherings of over 50 people are not allowed until the Phase IV. King County, aside from temporary restrictions, remains in Phase II. Only professional training and testing that cannot be performed remotely are allowed, and occupancy in each meeting room is limited to 25% of the meeting room's capacity or 100 people, whichever is fewer; social-distancing guidelines must also be in place. Receptions, networking events, and live entertainment remain prohibited. Our contacts at the center expect the facility to reopen for public events by the summer of 2021, with some larger-scale group demand returning in the summer and fall of 2021. The widespread distribution of a vaccine should help instill confidence as organizations look to rebook future meetings once it is safe to do so.
- Aside from the closure of the WSCC, the main concern continues to revolve around the future of the $1.8-billion expansion, which is underway. Funding for the expansion is directly limited to the value of recent hotel-tax revenues. Reportedly, another $300 million of financing is required to complete the project. As of early December 2020, King County announced a $100-million loan to help continue to fund the project. Additional assistance could be provided from the City of Seattle or the State of Washington.
- In response to the COVID-19 pandemic, the Centers for Disease Control and Prevention (CDC) issued a "No Sail" order in early April 2020; by mid-July, the order had been extended through September 2020, essentially eliminating the entire cruise season in Washington. Reportedly, in 2019, there were approximately 1.2 million cruise-ship passengers. The lack of a cruise season has further amplified the low demand levels during the pandemic.
- The city's budget/economy and extended-stay hotels are performing better than other hotel types, showing some resiliency during the pandemic. Hotels located in the surrounding suburb locations, along major interstates, and near Seattle-Tacoma International Airport are also experiencing less severe occupancy declines. We expect this foundation to stay in place, with extended-stay and lower-priced demand representing the majority of room nights generated in the October 2020–April 2021 period, in particular.
- In addition to the impact of the pandemic, Seattle was also affected by social injustice demonstrations, which begin in May 2020. The Capitol Hill neighborhood in Seattle gained national attention for the six-block occupied protest zone coined CHOP. Established on June 8, 2020, and dismantled on July 1, 2020, the occupation against police brutality was overshadowed by several shootings and violent acts.

Looking Forward

- Travel contracts in Seattle during the coldest winter months, and this winter will likely be no different, with travel declining to minimal, essential travel only. Restrictions related to indoor dining and a lack of holiday entertainment events will limit staycation weekend travel. Accordingly, further ADR discounting will be expected, as is typical for the market during the winter. The early spring months will also be challenged, as group demand will remain at bay, and corporate travel is not anticipated to heat up until late spring and early summer.
- Major companies in the greater Seattle market continue to extend work-from-home policies. Amazon extended the company's policy to allow employees to work from home until June 30, 2021. Microsoft, with headquarters in Redmond, announced a policy that allows employees to work from home for less than 50% of the work week and will approve permanent remote work on a case-by-case basis. Other companies have extended policies into the fall of 2021, including Starbucks. These policies are largely anticipated to impact corporate-related travel, although vendors and contract workers associated with companies headquartered in Seattle are reportedly still traveling to/from Washington State.
- A stronger market is expected for the summer of 2021, relative to 2020, as the nation is anticipated to emerge from pandemic restrictions, and the distribution of the vaccine should be well underway. However, tourism in Seattle will be largely dependent on the cruise industry, as well as international travel. On October 30, 2020, the CDC issued a framework for a Conditional Sailing Order, but there are many obstacles to address first for a successful cruise season, including crew and passenger testing prior and during the trip. Given the impact of the pandemic on major metro areas, Seattle's reliance on international travel, and the social demonstrations, Seattle's hotel occupancies did not

exceed 40% during the summer months of 2020. In 2021, we expect summer occupancy to approach 70% across the Seattle metropolitan market. In a normal year, Seattle experiences occupancy in the 80s during the summer, which is anticipated to occur by 2023.

- The strengths of Seattle's demand segments will again shine through once meeting and social-distancing restrictions are eased. Seattle is home to a diverse set of industries, including aerospace and defense, high technology, transportation and logistics, telecommunications, education, and health care. The city is also a popular leisure destination, home to a variety of professional sports teams, the WSCC, and a plethora of outdoor attractions and points of interest, all of which contribute to lodging demand.
- Recent hotel openings have included the Courtyard by Marriott Seattle Northgate, Lotte Hotel Seattle, and CitizenM in South Lake Union. The full-service Stanford Marriott is under construction in South Lake Union and is anticipated to open in early 2021. A number of other hotels are proposed; however, few are actively under construction.

We are confident that the Metro Seattle market will rebound upon the release and distribution of a vaccine, the retirement of group meeting restrictions, the reopening of the convention center, and the resumption of corporate and government travel. We continue to watch the factors affecting Seattle 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, contact anyone on our Pacific Northwest team, located in Portland, Oregon: Kasia M. Russell, MAI, Lauren Reynolds, and/or Eileen Bosworth.

City of Seattle's COVID-19 Guideline Highlights (as of December 2020, excluding any temporary restrictions):

- Restaurants are limited to 50% indoor dining capacity or lower as determined by the local Fire Marhsall; outdoor dining capacities will become more difficult to use once the colder weather arrives.
- Only professional training and testing that cannot be performed remotely are allowed. Occupancy in each meeting room is limited to 25% of the meeting room's capacity or 100 people, whichever is fewer; social-distancing guidelines must also be in place. Receptions, networking events, and live entertainment remain prohibited. Indoor events will be permitted in Phase IV of the reopening.
- The University of Washington developed WA Notify, an exposure notifications app for Washington state. The app alerts you to when you have potentially been exposed to COVID-19 by exchanging random, anonymous codes with the phones of nearby people who also have the WA Notify app. More information can be found here.
- Another resource is the Economic Recovery Dashboard from the Washington State Department of Commerce, which is a tool that uses various data sources to track the state's economic recovery.