Recent Challenges Faced by the Monterey County Lodging Market

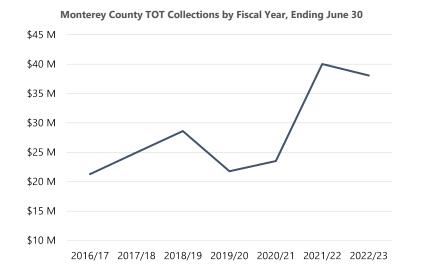
🛗 July 30, 2024 🧹 💄 By Curtis Herbolich

Similar to other resort destinations in California, Monterey County was initially affected by the COVID-19 pandemic; however, the economic effects in 2020 were somewhat minimized by the market's proximity to the San Francisco Bay Area. Monterey's appeal as a picturesque, lower-density, drive-to destination drew significant interest from those seeking refuge from urban centers during the pandemic.



According to **STR**, Monterey County experienced a faster rebound across all hotel performance metrics in 2021 than the San Francisco Bay Area, driven by a surge in demand for outdoor leisure attractions, such as **Pebble Beach Golf Resorts**, **Big Sur**, and **WeatherTech Raceway Laguna Seca**. This growth trend continued into 2022, when RevPAR surpassed 2019 levels, driven by strong increases in ADR.

Transient occupancy tax (TOT) is a hotel tax collected by the county that provides a good indication of lodging revenue trends. TOT collected by Monterey County reached an all-time high in the 2021/22 fiscal year, surpassing \$40 million, with key events such as the **Concours d'Elegance** held during **Monterey Car Week** drawing high-rated travel. Historical TOT trends for the county are illustrated on the table below.



Summary

Monterey County features one of California's most pristine coastlines, and outdoor leisure and event travel drives the local economy. However, Monterey County is still facing some effects of the COVID-19 pandemic given the slow recovery of the San Francisco Bay Area and the market's high barriers to entry.

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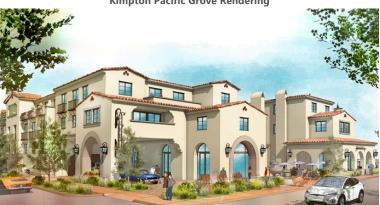
However, like other drive-to destinations near the Bay Area, such as Sonoma and Napa, occupancies in Monterey County remain below pre-pandemic levels. Per STR, year-end 2023 occupancy reached roughly 90% of 2019 metrics, and the year-to-date 2024 performance has remained relatively flat. This trend is a result of the slower rebound of meeting/group demand and stagnant visitation levels caused by the prolonged economic recovery of the Bay Area.

New Development

Hotel developments in Monterey County face high barriers to entry primarily due to its coastal nature, escalating construction costs, and rising interest rates, which significantly increase the financial burden on developers. Despite these challenges, the strong and consistent leisure demand in the area continues to attract developers keen to capitalize on the market's potential. The region's natural beauty, popular attractions, and favorable climate ensure a steady influx of tourists, making it an enticing investment opportunity. As a result, developers are continually exploring innovative strategies and seeking financial solutions to overcome these barriers and establish a presence in this lucrative market.

Given the barriers to entry, there has only been a modest increase in hotel supply within the county over the last several years. In Marina, a 90-room Hampton by Hilton opened in February 2023. More recently, a 93-room Home2 Suites by Hilton opened in this market as part of a three-phase community development that is slated to be fully built-out by the spring of 2025. This community development, known as The Dunes on Monterey Bay, will feature over 1,200 single-family homes, roughly 400,000 square feet of retail space, a movie theatre, a 140,000-square-foot VA clinic, a 26-acre business park, and two hotels (both already open).

Finally, after more than a decade of planning and speculation, a groundbreaking ceremony was held for the 101room Kimpton Hotel in Pacific Grove in late September 2023. This boutique hotel is expected to open in 2025 and will be the brand's first property within Monterey County.



Kimpton Pacific Grove Rendering

Source: Huff Construction Company, Inc.

Looking Forward

Despite stagnation in demand for the Monterey lodging market, there is a growing sense of optimism for a full recovery in the near term. Increased travel from the Bay Area, alongside a resurgence of international visitation, is bolstering the local tourism industry. Additionally, the county's outdoor leisure activities and events continue to draw new visitors. Concurrent with the economic improvement in the San Francisco Bay Area, Monterey's lodging market is anticipated to continue toward a full recovery.

Our unique methodology, which involves conducting primary interviews within local markets, enables us to gather real-time insights and current data. This approach ensures an in-depth understanding of each market we operate in. For comprehensive information about the Monterey County market or for assistance in making investment decisions that align with your specific goals and risk tolerance, we invite you to reach out to Curtis

Herbolich, your HVS Northern California hospitality expert.