Let's Look at the Math of the Post-COVID-19 Hotel Recovery

The Immediate Rebound Might Not Be Steep, but It Will Be Something

By Eric Belfrage
HNN columnist

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There is a mathematical certainty that the lodging market will recover.

While it may be sensational, it may not be overly optimistic to say that we could see high double-digit growth in monthly performance as the lodging industry begins to rebound. While performance is currently poor, there is firm logic that indicates market metrics are about to turn. The advent of revenue improvement will permit more certainty for operators and investors relative to modeling future metric improvement. Recovery of not only leisure but corporate and group demand will allow us to truly know when the trough of the hotel recession is in the rear-view mirror.

Remember, this cycle was not imposed by negative economic circumstances like the Global Financial Crisis — it was medically induced. The underlying economic fundamentals remain solid.

Empirical data in the form of year-over-year monthly metric improvement will be measured across all hotel property types beginning in April 2021, and each month after the one-year anniversary of the pandemic's dramatic impact on travel. Spring 2021 will bring a resurgence of leisure travel, and vaccine distribution will support that increased travel activity. These factors will work together to yield sustained demand growth. Leisure demand will emerge first, and subsequently corporate and group, buoyed by herd immunity later in the year.

Let’s consider the math. We of course do not expect that the April 2021 revenue per available room will be comparable to that of 2019. In fact, CBRE Hotels' view is that RevPAR parity with 2019 will likely not be achieved nationally until early 2024. Even if April 2021 RevPAR is only a third of the 2019 levels — say $30 — April RevPAR growth nationally would achieve a nearly 100% rate of growth from 2020. That should be financially impactful and psychologically encouraging. Of course, national RevPAR of $30 is not great, and far from stabilized, but the trajectory of recovery will be set, and reinforced each month thereafter.

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Of course, a high double-digit rate of growth is not sustainable for very long and will moderate over time. Still, substantial revenue spikes are expected, which will buoy the lodging markets. In the third quarter 2020 edition of "Hotel Horizons," CBRE Hotels forecasts an 18.2% annual rate of RevPAR growth in 2021, followed by 25%, 21.7% and 16.3% in each of the subsequent four years. This is after year-end 2020 RevPAR was estimated to decline by 50.8%.

Once the “hard performance data” is recorded, along with the tailwinds of the vaccine and spring travel, we can confidently assert that the hotel recession has begun to rebound from the trough. This trend should continue as subsequent months record year-over-year monthly growth. The market will certainly take notice of the empirical recovery, and more reliable forecasting will be possible. This trend will strengthen participant attitudes and help bring more clarity to operations, analysis and transaction markets. As the recovery matures, operators’ expectations will improve, feasibility and forecasting will again be quantifiable. The perception of risk will be reduced.

The trail will be long, but well-marked! Much damage has been done to the industry in the last year; however, it has always been cyclical. We will rebound from the bottom and perhaps more rapidly than we think. Everyone I speak with yearns to travel again for business and pleasure. You know when you submerge an inflated ball in the water, and the deeper you push it down, the higher it shoots out from the surface? Perhaps a similar buoyancy will accompany the travel industry in the near future … one can hope!

Eric Belfrage is a Senior Vice President with CBRE Hotels Investment Properties and member of the International Society of Hospitality Consultants.