



How Fast Will Lehigh Valley Lodging Market Recover?

As we recognize the one-year anniversary of Pennsylvania’s COVID-19 Stay-At-Home orders, we appear to be rounding the corner and headed towards some semblance of normal. With the return of clickity clack sounds of Thunder Hawk at Dorney Park & Wildwater Kingdom rattling over Hamilton Street, the sweet music of Arts Quest Center at Steel Stacks filling the air of Southside Bethlehem and the innocent giggling of young children entering and exiting Crayola Experience in Easton, can we expect an immediate return to 2019 room revenues?

2019 is recognized as the peak of lodging performance in the Lehigh Valley as well as across the country. An 11-year recovery from the financial crisis of 2008 had seen Average Daily Rates (ADR) climb annually and the Lehigh Valley was able to absorb small increases in supply each year with little impact to occupancy. 2020 year-end performance of 55.7% occupancy (23.8% decline), and an ADR of \$89.18 (16.2% decline), resulted in a RevPAR (Revenue per Available Room) of \$49.69 (36.1% decline). Combined with a reduction in inventory due to some hotel’s suspension of operations the total room revenue fell by 37.7% in 2020. This compared favorably to the overall decline in United States lodging revenues of 50% compared to 2019.

Upscale hotels in the Lehigh Valley were hardest hit with their reliance on corporate travel, meetings & groups, and special event demand. They saw a 42% decline in revenue with majority of the decline contributed to a drop of 31.3% in occupancy compared to overall market decline in occupancy of 23.8%.

So how fast can we get back to 2019 levels of occupancy and ADR? Industry analysts STR and HVS provided a national forecast for a full recovery to occur by 2024.

| | Historical | | | Forecast | | |
|-----------------------------|------------|-----------|-----------|-----------|-----------|-----------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| U.S Lodging Industry | | | | | | |
| Occupancy | 66.1% | 42.0% | 53.5% | 61.0% | 65.0% | 65.5% |
| Percent Change | | -36% | 27% | 14% | 7% | 1% |
| ADR | \$ 131.17 | \$ 103.00 | \$ 109.25 | \$ 119.00 | \$ 127.25 | \$ 133.75 |
| Percent Change | | -21% | 6% | 9% | 7% | 5% |
| RevPAR | \$ 86.76 | \$ 43.26 | \$ 58.45 | \$ 72.59 | \$ 82.71 | \$ 87.61 |
| Percent Change | | -50% | 35% | 24% | 14% | 6% |

Historical data provided by STR and Forecast provided by HVS.

Can the Lehigh Valley Lodging Market bounce back quicker?

Supply over the past year has been impacted with the suspended operations of the 177 room Renaissance (12 months), 283 room Wind Creek Casino (3 months) and the full renovation of the former 175 room Holiday Inn Conference Center at Rt. 100, which will convert to a Delta by Marriott in Q2 of 2021. The 149 room Home 2/TRU dual branded Hilton hotel opened in July 2020. The Americus A Trademark Hotel by Wyndham will bring to Downtown Allentown market 80 rooms this summer and 45 extended stay units by the end of the year. A 205 room Hyatt Place & Hyatt House Dual branded hotel located at the Air Products new corporate office is scheduled to open in Q4 of 2021. Wind Creek Casino recently started construction on their 270-room tower and convention

space addition which is scheduled to open in 2022. There are several select service and extended stay projects that are in different stages of planning at the Airport, Center Valley and Rt. 33 corridor which could move forward in 2022. The Jaindl Land Co. Lehigh Valley Hotel & Spa (200 rooms) is targeted for 2023 opening. In total this annual 1-2% increase in supply is sustainable for the overall market and should not create any interruption to the recovery.

Finally, recent flag changes to the 107 room Marriott Courtyard to Sonesta Select and 120 room Residence Inn to Sonesta ES both located on Motel Drive near Lehigh Valley International Airport adds to the complexity of forecasting the recovery to the Lehigh Valley lodging market. With all that said, I do see a quicker recovery for the Lehigh Valley Lodging Market.

| | Historical | | | Forecast | | |
|--|------------|-----------|-----------|-----------|-----------|-----------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Lehigh Valley Market (Sample 53 Properties) | | | | | | |
| Occupancy | 73.1% | 55.7% | 66.0% | 71.4% | 73.0% | 72.5% |
| Percent Change | | -24% | 18% | 8% | 2% | -1% |
| ADR | \$ 106.40 | \$ 89.18 | \$ 95.00 | \$ 99.00 | \$ 106.50 | \$ 108.00 |
| Percent Change | | -16% | 7% | 4% | 8% | 1% |
| RevPAR | \$ 77.78 | \$ 49.67 | \$ 62.70 | \$ 70.64 | \$ 77.75 | \$ 78.30 |
| Percent Change | | -36% | 26% | 13% | 10% | 1% |
| Lehigh Valley Upscale Class (Sample 17 Properties) | | | | | | |
| Occupancy | 70.5% | 48.4% | 63.0% | 68.0% | 70.5% | 71.0% |
| Percent Change | | -31% | 30% | 8% | 4% | 1% |
| ADR | \$ 124.90 | \$ 107.42 | \$ 111.00 | \$ 118.00 | \$ 125.00 | \$ 127.00 |
| Percent Change | | -14% | 3% | 6% | 6% | 2% |
| RevPAR | \$ 88.05 | \$ 51.99 | \$ 69.93 | \$ 80.24 | \$ 88.13 | \$ 90.17 |
| Percent Change | | -41% | 35% | 15% | 10% | 2% |
| This represents current expectations based on continued decline in overall COVID -19 cases, widespread availability of vaccines by May 1, 2021 and limited capacity restrictions on events space by September 1, 2021. | | | | | | |
| Historical data provided by STR and Forecast prepared by Gregg Marzano, CHIA Associate Advisor SVN Imperial Realty, Allentown, PA | | | | | | |

Looking forward, it is going to take some time for corporate travel to fill the upscale class of hotels Monday through Thursday. Average rate in the corporate segment could lag with the loss of 225 Marriott rooms and their Bonvoy loyalists. The market still has to catch up to the addition of the 149 Home2/TRU rooms and the return of the 177 room Renaissance and 175 room Delta by Marriott. Look for signs of rebound midweek not to return till 2nd Q 2022. The Lehigh Valley has always been a strong leisure destination with plenty of demand to fill the weekends May – October. We should see consistent sell outs on the weekends from a backlog of weddings and a return of sporting events, festivals, and mini drive vacations. By the end of 2022 hoteliers could expect to be profitable, and I anticipate a full recovery by 2023 barring no setbacks from the pandemic.

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Professional Experience: Gregg Marzano, has recently joined SVN | Imperial Realty as an Associate Advisor. He has over 30 years of Hotel, Resort, Restaurant and Golf Course professional sales experience. He most recently oversaw a \$75 million portfolio of select service, full-service and resort properties for GF Hotels & Resorts out of Philadelphia, PA. He brings an unique skill set to the hospitality real estate sector having personally provided property budgeting, feasibility, and market analysis work for over 3 decades. He is a certified instructor in Hotel Industry Analytics and serves on the Northampton Community College Hospitality and Tourism Advisory Board.