Office of the Comptroller of the Currency

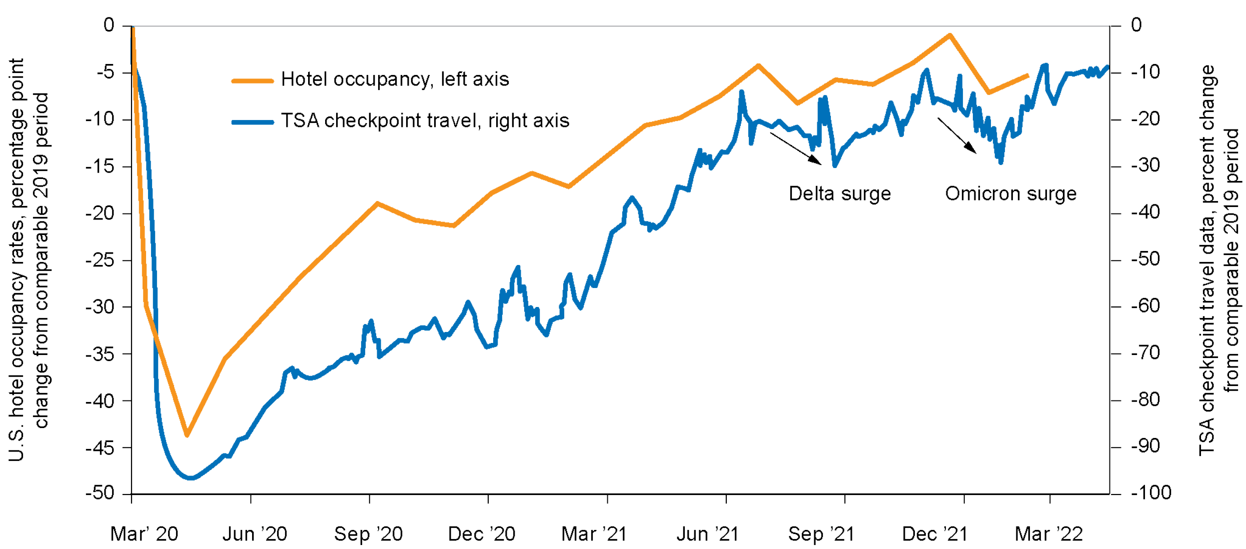
ON POINT

ECONOMIC AND POLICY INSIGHT FROM THE OCC

Uncertain Future of Business Travel a Risk for Higher-End Lodging

The pandemic caused a massive pullback in travel and plunged the hotel industry into a deep recession. At the onset of the pandemic, when stay-at-home orders forced travelers to cancel travel plans, air travel fell by 96 percent compared with the same time in 2019, as measured by Transportation Security Administration (TSA) checkpoint data (figure 1). Air travel is one of the drivers of hotel occupancy. During April 2020, the average U.S. hotel occupancy rate fell by 43 percentage points compared with a year earlier. Hotel occupancy slowly returned in tandem with air travel, but both remained depressed through all of 2020. Air travel only saw significant recovery once vaccines became widely available during the spring of 2021. Despite these gains, compared with 2019 pre-pandemic periods, air travel was down 9 percent as of late April 2022, while overall hotel occupancy was down 5 percentage points as of February 2022. While leisure travel has nearly recovered, weak business travel is holding back a full recovery as virtual meetings have become commonplace.

Figure 1: Number of Air Travelers and Hotel Occupancy Rates Are Nearing Pre-Pandemic Levels



Sources: TSA checkpoint data through April 20, 2022; CoStar Portfolio Strategy data through February 2022

Note: TSA checkpoint travel data is a 7-day rolling average.

Air travel and hotel occupancy were sensitive to COVID-19 infection rates during the past two major infection surges. The summer 2021 Delta variant surge caused air travel to fall modestly in August compared with the same period in 2019, as shown in figure 1. Hotel occupancy also fell during August when compared with the same period in 2019 as more travelers stayed home. Air travel and hotel occupancy resumed their upward trends once Delta variant cases peaked after Labor Day.

A similar but more severe scenario played out for the Omicron variant surge when compared against the same period in 2019. Air travel stopped improving in early December 2021 once the variant was identified, and air travel rates remained mostly unchanged throughout the month. Air travel declined immediately after the December 2021 holidays and did not start to recover until late January 2022, once it was clear that daily Omicron cases had peaked. The Omicron surge did not impact December 2021 hotel occupancy data because much of the surge occurred in the second half of December and travelers were reluctant to cancel long-planned holiday trips. January 2022 occupancy rates, however, fell sharply compared with January 2019, matching the decline in air travel. Once the Omicron wave passed, air travel resumed, and hotel occupancy modestly improved but remained below comparable 2019 levels as of February 2022.

Sluggish Business Travel Holds Back Higher-End Hotel Occupancy

While overall air travel was 9 percent below pre-pandemic levels in late April 2022, weekend travel has recovered faster than weekday travel. Leisure-driven Friday through Sunday travel has led the recovery and was down by just 6 percent compared with 2019 levels in mid-April.[1] In contrast, many businesses have yet to fully resume corporate travel. As a result, weekday (Monday through Thursday) travel, which tends to be more business-oriented, was down by 12 percent compared with 2019 levels in mid-April.[2] The gap between weekday and weekend air travelers has been about 5 percentage points on average during 2021. The gap widens during variant waves and narrows during low infection rate periods.

Correspondingly, occupancy rates at economy and midscale hotels that cater to leisure travelers have performed better than upscale and upper upscale (higher-end) properties and had essentially recovered by April 2021 (figure 2).[3] Higher-end hotel occupancy rates continued to lag as of February 2022. The outlook for more business-oriented higher-end properties remains uncertain because the pandemic proved that in many cases business can be conducted effectively using virtual meetings without the need to travel. Deloitte's Corporate Travel Survey projects that U.S. corporate travel spending in 2023 will be only 68 percent of the 2019 spending, lending further support to a pessimistic outlook for business travel.[4] Occupancy rates at the highest-end, luxury hotels also lag, but because they have a greater reliance on leisure travelers, do not face the same revenue pressures as higher-end business-oriented hotels.

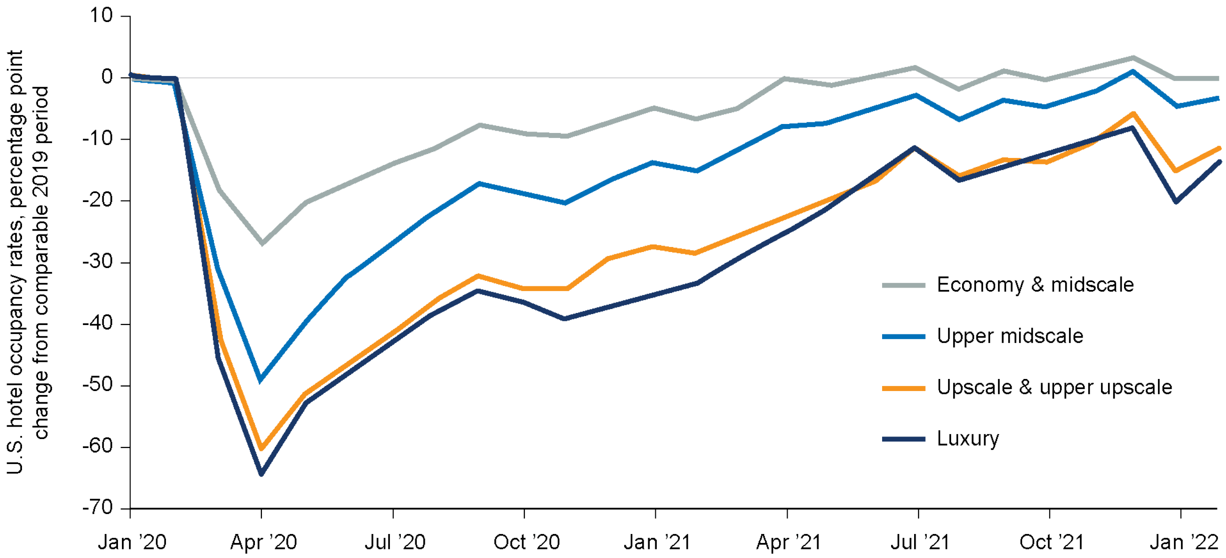
[1] TSA checkpoint data for the week ending April 17, 2022.

[2] Ibid.

[3] CoStar hospitality classes are grouped primarily according to actual average room rates.

[4] Michael Daher, Eileen Crowley, Peter Caputo, Anthony J. Jackson, Bryan Terry, Maggie Rauch, "Reshaping the landscape: Corporate travel in 2022 and beyond," Deloitte, April 18, 2022.

Figure 2: Slow Return of Business Travel Has Negatively Impacted Luxury and Upscale Hotel Occupancy



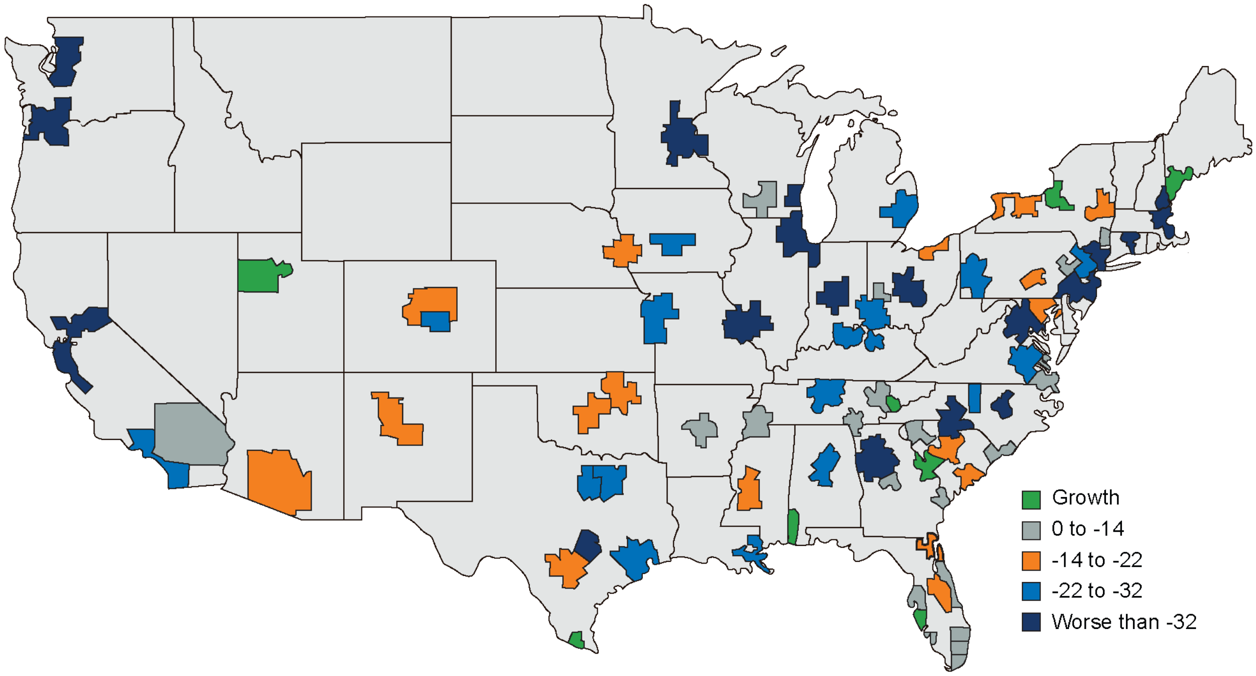
Source: CoStar Portfolio Strategy data through February 2022

Hotel Recovery Slower in Markets Catering to Business Travelers

The weaker recovery in business travel compared with leisure helps explain geographic differences in the recovery of hotel occupancy rates. Average occupancy rates across all hotel property types for markets in more leisure-focused areas (those with a large share of hotels in the economy space) have fully recovered. In contrast, average occupancy rates across all hotel property types in large markets, which are more heavily reliant on business travel, remain well below 2019 levels. The average occupancy rate in San Francisco in February 2022 was 66 percentage points below comparable 2019 levels, while New York City was 46 percent below comparable 2019 levels. When looking at the average occupancy rate for the two worst-performing hotel segments, the higher-end upscale and upper upscale properties, only eight markets in the U.S. have returned to 2019 levels, with occupancy rates in most markets remaining at least 14 percentage points below levels for comparable 2019 periods. In the worst-performing markets, occupancy rates for the higher-end segments are at least 32 percentage points below levels for comparable 2019 periods (figure 3).

Figure 3: Hotels Catering to Business Travelers Have Had Weak Recoveries in Most Large Markets

U.S. hotel occupancy rates for higher-end hotels, percentage point change from February 2019



Source: CoStar Portfolio Strategy data through February 2022

Note: Higher-end hotels include hotels in CoStar's upscale and upper upscale classes.

The Point?

While the lodging industry mostly recovered from the COVID-driven downturn, the uncertain future of in-person business travel may continue to weigh on higher-end hotels catering to business travelers.