



HOW TO THINK ABOUT THE SAN FRANCISCO HOTEL MARKET IN 2024



Since the end of 2019, analyzing and market performance of San Francisco hotels has been a significant challenge, but, given recent data, there may finally be clarity emerging from the turbulence of the COVID-19 pandemic. Different from the prior U- and V-shaped recoveries, the shift in demand segmentation cannot be compared or measured by market forces pre-2020. Now, at the end of the first half of 2024, there is a recognition that any significant improvement in the San Francisco hotel market will likely require both patience and a longer-term perspective. Based on recent data and market sentiment, a more complete hotel recovery is not expected until 2030, and even then is unlikely to look like past market peaks.

How did this happen? In the second half of 2019 and the first two months of 2020, like the rest of the U.S., the San Francisco hotel market was already softening. While the startling disruption in hotel use from COVID-19 was global, the impact to San Francisco was extraordinary among U.S. markets. In the last few years, many hotel markets across the country have regained revenue per available room (RevPAR), but the San Francisco Bay Area continues to be negatively impacted.

Using data from CoStar, the following chart details the annual hotel performance of the two major submarkets of San Francisco, Market Street and Nob Hill/Fisherman's Wharf, compared to the U.S. since 2019.

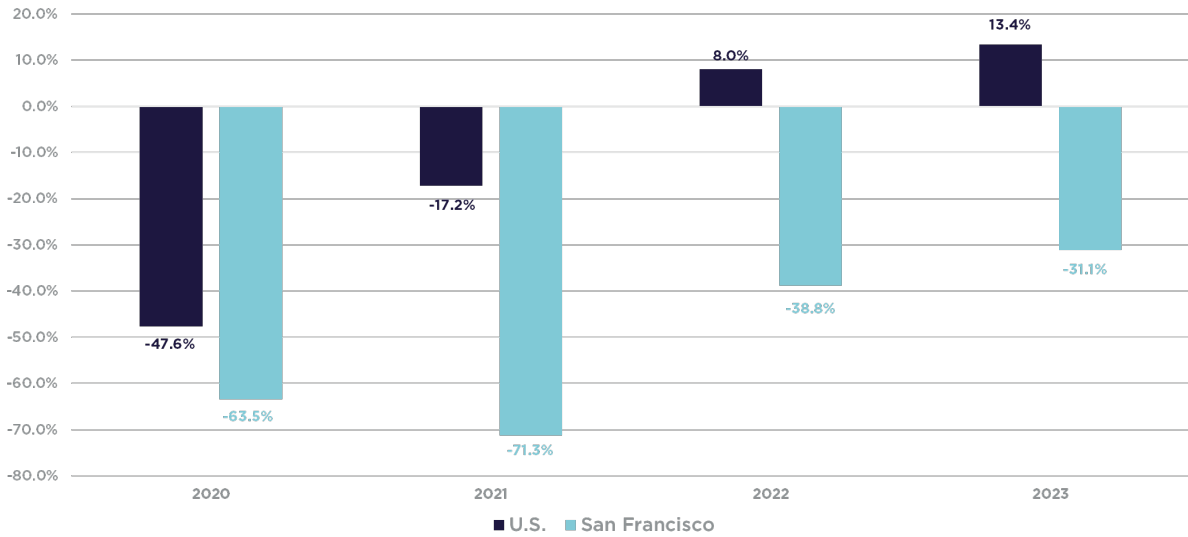
For the U.S., performance has steadily improved since 2020. Occupancy has remained below 2019 levels, a result of shifts in travel patterns since the pandemic and the continued absorption of new supply. However, the surge in average daily rate (ADR) in 2021 and 2022 has allowed RevPAR to far exceed 2019 levels, resetting hotel room revenue for many markets. As depicted in the following table, which presents the changes in metrics relative to the 2019 baseline, San Francisco's hotel revenue has vastly deviated from the improvement witnessed on a national level.

San Francisco Market Street, Nob Hill and Fisherman's Wharf Submarket - Supply, Demand, Occupancy, ADR and RevPAR										
Year	Supply	% Chg.	Demand	% Chg.	Occ	% Chg.	ADR	% Chg.	RevPAR	% Chg.
2018	7,443,567	----	6,135,514	----	82.4%	----	\$261.01	----	\$215.14	----
2019	7,625,648	2.4%	6,274,173	2.3%	82.3%	-0.2%	\$271.23	3.9%	\$223.16	3.7%
2020	5,047,139	-33.8%	1,907,492	-69.6%	37.8%	-54.1%	\$215.57	-20.5%	\$81.47	-63.5%
2021	5,856,466	16.0%	2,419,365	26.8%	41.3%	9.3%	\$155.03	-28.1%	\$64.04	-21.4%
2022	7,085,061	21.0%	4,175,518	72.6%	58.9%	42.7%	\$231.75	49.5%	\$136.58	113.3%
2023	7,492,215	5.7%	4,562,193	9.3%	60.9%	3.3%	\$252.54	9.0%	\$153.78	12.6%
YTD May 23	3,097,909	----	1,784,380	----	57.6%	----	\$271.49	----	\$156.38	----
YTD May 24	3,133,553	1.2%	1,767,768	-0.9%	56.4%	-2.1%	\$265.99	-2.0%	\$150.05	-4.0%

United States - Supply, Demand, Occupancy, ADR and RevPAR										
Year	Supply	% Chg.	Demand	% Chg.	Occ	% Chg.	ADR	% Chg.	RevPAR	% Chg.
2018	1,956,292,569	----	1,290,815,589	----	66.0%	----	\$130.23	----	\$85.93	----
2019	1,991,096,351	1.8%	1,310,333,610	1.5%	65.8%	-0.3%	\$131.55	1.0%	\$86.57	0.7%
2020	1,911,902,275	-4.0%	839,370,188	-35.9%	43.9%	-33.3%	\$103.27	-21.5%	\$45.34	47.6%
2021	2,005,353,092	4.9%	1,153,270,940	37.4%	57.5%	31.0%	\$124.69	20.7%	\$71.71	58.2%
2022	2,040,044,373	1.7%	1,275,693,813	10.6%	62.5%	8.7%	\$149.48	19.9%	\$93.47	30.3%
2023	2,045,726,381	0.3%	1,288,101,703	1.0%	63.0%	0.7%	\$155.92	4.3%	\$98.17	5.0%
YTD May 23	842,226,207	----	518,025,622	----	61.5%	----	\$153.80	----	\$94.60	----
YTD May 24	846,971,634	0.6%	518,261,956	0.0%	61.2%	-0.5%	\$156.61	1.8%	\$95.83	1.3%

RevPAR Percent Change - San Francisco vs U.S.

RevPAR in San Francisco is improving, but lags the U.S. relative to 2019 baseline numbers



San Francisco includes Market Street, Nob Hill and Fisherman's Wharf submarket
 Source: STR/CoStar, Cushman & Wakefield Hospitality & Leisure Group

UNEVEN IMPACTS, UNEVEN RECOVERY

The immediate impact to San Francisco's hotel revenue in 2020 was significantly greater than what occurred in the overall U.S. market. In the initial months of the pandemic, the recovery expectation for San Francisco was not dissimilar to other U.S. hotel markets. Pandemic stay-at-home mandates and public health concerns were anticipated to have a temporary impact, and by summer 2020, the expectation was that travel for both business and leisure would normalize. However, the waves of various COVID variants in 2020 and 2021 continued to deter anything but local and regional visitation to the city.

From March 2020 through the end of 2021, the use of hotels in the area was largely driven by getaway regional and domestic leisure travel. First responder and crew contracts in 2020 and 2021 were also meaningful for demand, as was the use of hotels by residents as a temporary housing. At the same time, escape to resort areas of California for outdoor recreational and cultural pursuits set new records for lodging throughout the California coast, wine country, and desert locations; San Francisco did not benefit to the same extent as these destinations.

Throughout the country, hotel occupancy in urban areas, largely reliant on business travel, remained soft in 2020 and 2021. Meeting and convention demand began to improve in 2022 and signaled a shift in attitudes towards business travel. Many organizations found that gathering groups together to meet, socialize, build culture, and transact is economically efficient. Commercial travel to hotels was becoming more about attending large events than facilitating one-on-one interactions or other narrow purposes.

Then came 2023. Regional “cabin fever” that had set in over the previous three years, combined with the wide availability of vaccinations against COVID-19 and the opening of international travel, meant a surge in visitation to other countries but reduced travel to U.S. resort and urban areas. To compete for guests who were participating in popular leisure travel to Europe and other international destinations, domestic hotel rates were discounted from the peaks of 2022. At the same time, inbound visitation from other countries, formerly a major demand segment for Bay Area hotels, did not materialize as internal leisure travel surged within Asia and Europe.

Since the spring of 2020, the expectation of recovery for the San Francisco hotel market has been a treadmill of hope and disappointment for market participants. Prior to the pandemic, San Francisco had perennial tourist and visitor appeal. Although small relative to other major U.S. urban areas with a population of 808,000, the city has historically punched above its weight due to its numerous attractions and geography. Since the gold rush, the area has supported numerous boom and bust cycles, more recently driven by tech with AI being the current representation. But, unlike prior tech-driven commercial cycles, especially in the post great-recession recovery, business travel has not reemerged, and in-bound overseas visitation is still a fraction of prior periods.

TODAY’S HEADWINDS

In the last four years, San Francisco has become the poster child for work from anywhere. The tech industry, which has driven the area’s booms of the last few decades, has become more adaptable to a non-office workforce. Return to office in San Francisco has plateaued at approximately 55%, and recent sales of office buildings at steep discounts relative to pre-pandemic pricing indicates that commercial real estate investors are accepting of this new reality. More recently, an in-office presence during the Tuesday through Thursday period has been slowly on the rise thanks to mandates from both tech and non-tech companies. Overall, individual business travel remains constrained as online meetings have become the norm.

In addition, unlike other major markets which have recorded a rise in convention and meeting demand, San Francisco’s hosting of large events remains more subdued. While a baseline of conventions and meetings can still be counted on, including the JPMorgan Health Care industry conference each January and several medical conventions in the fall, the cancellation of numerous conferences since 2020, particularly tech-related events, has become a long-term challenge.

And while San Francisco’s star has dimmed, it has brightened in other cities. Competition for groups and conventions has become a battle with formerly regional locations such as Austin, Nashville, Atlanta, and San Antonio which have developed lower cost state-of-the-art meeting facilities. Las Vegas continues to expand its facilities and appeal, as does Orlando. Even with the more affordable room rates in San Francisco, its competitiveness as a travel destination is further challenged by the perception of social issues and contraction of retail and restaurants. The loss of convention hotel room nights in San Francisco continues to reverberate across the Bay Area, as these events were a major source of revenue that supported stronger occupancy and ADR compressing demand throughout across the region.

THE WAY FORWARD

In reframing the San Francisco hotel market's potential, the analysis has moved away from comparisons to 2019, and towards a consideration of what the market's potential can be given observed shifts in demand. Some observers are waiting for a more defined market bottom before asking what the future holds. Occupancy year-to-date through May 2024 in San Francisco has been in the mid-50 percent level, and average rates have continued to decline relative to 2023 levels.

The lack of hotel transactions is reflective of the concerns about the market. Since 2020, RCA/MSCI data has recorded only 17 sales of hotels for lodging use, as summarized in the table below.

Property	Address	Number of Rooms	Year Built	Sales Date	Reported Sales Price (\$)	Price Per Room (\$)
Hotel Zoe Fisherman's Wharf	425 N Point St	221	1990	November-23	68,500,000	309,955
Motel 6 - San Francisco	895 Geary St	73	1970	August-23	10,850,000	148,630
The SeaScape Inn	4340 Judah St	18	1960	August-23	4,725,000	262,500
Hotel Beresford	635 Sutter St	114	1911	May-23	23,700,000	207,895
Huntington Hotel	1075 California St	140	1924	March-23	85,460,000	610,429
Fitzgerald Hotel	620 Post St	55	1910	March-23	12,000,000	218,182
Cornell Hotel De France	715 Bush St	49	1911	January-23	9,000,000	183,673
Yotel San Francisco	1095 Market St	203	1905	October-22	62,000,000	305,419
La Casa Inn	1530 Lombard St	33	1977	September-22	9,950,000	301,515
Hotel Spero	405 Taylor St	236	1928	August-22	71,000,000	300,847
Golden Gate Hotel	775 Bush St	30	1913	June-22	5,375,000	179,167
The Marker San Francisco	501 Geary St	208	1907	June-22	77,000,000	370,192
Hyatt Place San Francisco	701 3rd St	230	2018	January-22	142,000,000	617,391
Villa Florence	225 Powell St	189	1915	September-21	87,500,000	462,963
Hotel Adagio	550 Geary St	171	1929	July-21	82,000,000	479,532
Le Meridien	333 Battery St	360	1989	July-21	221,500,000	615,278
Sir Francis Drake	450 Powell St	416	1928	April-21	157,612,500	378,876

One of the most recent hotel sales in San Francisco, the Hotel Zoe, sold for 44% less than its acquisition price in 2015. At least two of the major hotel transactions in 2022 and 2023 were negotiated acquisitions of the debt. Other discounted hotel debt purchases have also occurred since the pandemic. Five major hotels have defaulted on \$980 million of debt in 2023 and 2023, and four small hotels acquired by Oxford Hotels in 2019 were given back to the bank in June 2024.

The previous three and a half years have been challenging for San Francisco and its hotel industry, and market participants have been unable to articulate a linear recovery trend. However, despite much of the data referenced in this report, recent conversations with many hotel market participants reveal a renewed optimism about long-term improvement for the San Francisco market. The beauty of the area, a large international airport that serves as a domestic and international gateway, an appealing convention center with a variety of hotel inventory, established food and wine culture, and proximity to iconic recreational and cultural areas are demand drivers that are timeless.

Reestablishing the economic benefits of the hotel market, however, will require time and patience. A number of San Francisco hotels and hotel loans are being actively marketed, and just as the office market is being reset in the San Francisco with sharply lower sales prices, the hotel investment market is also in a period of price discovery. Over the next few years, occupancy levels are anticipated improve but remain below pre-pandemic peaks, with more gradual annual ADR improvement. Has the bottom been reached? The market's performance in 2024 may help get closer to an answer, and savvy long-term hotel investors have begun circling to capitalize on potential opportunities.



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