Navigating the Minneapolis/St. Paul Commercial Real Estate Market

COMPASS

HOTEL MARKET

JANUARY 2021

Twin Cities Occupancy Down as Industry Navigates Unprecedented Challenges

In the second half of 2020, the Twin Cities hotel market consistently recorded among the lowest occupancy rates of the top 25 markets in the country. In the sector that has been hit the hardest by the pandemic, the Twin Cities' year-to-date occupancy rate of 33.3% was well below the national average of 44.0% occupancy. Greater Minnesota markets fared better than the Twin Cities metro in 2020, especially Duluth, a popular summer destination that significantly outperformed the rest of the state with $53.28 year-to-date RevPAR. Larger, full-service properties in urban areas, by contrast, have been the lowest performers during the pandemic and have the longest road to recovery due to their dependence on large events and group and business travel.

Limited debt capital options for hotel and lodging properties, extended debt forbearance, and lack of clarity about how quickly the hotel industry will recover have resulted in a prolonged slowdown in investment sales activity. An exception that traded during the second half in the Twin Cities is the Bloomington Doubletree. Vinayaka Hospitality purchased the 568-room property for $46,000 per room and announced plans for major renovations. In response to the pandemic, residential and governmental buyers have continued to be active pursuing hotel opportunities, including Hennepin County, which acquired the University Inn and the LuMINN Hotel just before year-end.

Economy, extended stay, limited and select service properties have remained the leading edge of the bounce back in performance, supported by contract-based demand as well as logistical, construction, and other essential workers. Drive-to leisure destinations were also among the stronger performers in 2020, particularly during the summer travel season. TSA data showed throughput in the second half of 2020 underperforming 2019 levels by an average of more than 1.5 million travelers per day.

HOTELS YTD DEC 20 vs DEC 19 — Source: MN Lodging Association

	OCCUPANCY %		ADR $		REVPAR $	
	2020	2019	2020	2019	2020	2019
United States	44.0	66.0	103.25	131.23	45.48	86.64
Minnesota	36.4	61.7	92.03	116.52	33.47	71.92
Mpls-St. Paul, MN-WI	33.3	66.5	86.74	121.47	28.91	80.79
Duluth, MSA	44.1	60.9	120.89	129.71	53.28	79.05
St. Cloud/I-94 Corridor	32.2	53.5	91.25	101.28	29.43	54.14
Rochester (MN)	39.1	65.3	107.56	119.80	42.08	78.17

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Given the revenue-constrained environment, owners and operators have continued to explore new avenues for expense reductions. These measures have included adjusting housekeeping protocols, modifying or shutting down food and beverage services, and working with brands and lenders on fees and costs. Government contracts have also helped to replace lost income at some properties, and lenders are working with borrowers to modify loan payment structures.

The Minneapolis CBD lagged the rest of the market in the absence of the daytime office-using population, business travelers, conventions, and other large events like concerts and sporting events. Downtown reached an unprecedented floor of 4.1% occupancy in April 2020 before tracking the gradual climb back that the rest of the market has experienced, though performance began to soften again starting in September with the end of the summer high season. In response to the limited demand for rooms downtown, supply contracted 6.6% year-to-date in the Minneapolis CBD compared to the year prior.

New developments that were underway prior to the onset of the pandemic continued to move forward. Rand Tower opened in the second half of the year following an extensive renovation and conversion of the historic property, whose previous uses included apartments and office space, to a 270-room Marriott Tribute. Also in the Minneapolis CBD, the five-star Four Seasons at the RBC Gateway tower is scheduled to complete in 2022.

HOTELS % CHANGE YTD DEC 20 vs. DEC 19 Source: MN Lodging Association

	OCCUPANCY	ADR	REVPAR	ROOM REV	RM AVAIL	RM SOLD
United States	-33.3	-21.3	-47.5	-49.4	-3.6	-35.7
Minnesota	-41.1	-21.0	-53.5	-52.9	1.3	-40.3
Mpls-St. Paul, MN-WI	-49.9	-28.6	-64.2	-63.5	2.0	-48.9
Duluth, MSA	-27.7	-6.8	-32.6	-32.9	-0.4	-28.0
St. Cloud/I-94 Corridor	-39.7	-9.9	-45.6	-44.9	1.5	-38.8
Rochester (MN)	-40.0	-10.2	-46.2	-44.1	3.8	-37.8

OUTLOOK

Coming out of the winter months, leisure travel will continue to lead the recovery, as there is increasing pent-up demand and growing consumer confidence about travel with the rollout of vaccines.

Group and business travelers showed an uptick in tentative planning by year-end 2020. The recovery of this segment of the industry hinges on an easing of both corporate travel and government restrictions coupled with a bounce back in convention scheduling and attendance.

The second COVID-19 relief package passed in December provided needed short-term relief to the hospitality industry, allowing operators to retain employees via the Paycheck Protection Program and granting borrowers options for additional forbearance or debt relief.

There is significant capital waiting to deploy in the asset class. A bid-ask spread is expected to persist as buyers and sellers evaluate factors such as the rate of demand recovery, how the second relief package will affect the industry as well as the broader economic recovery and vaccine rollout.

THE COMPASS REPORT

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