Phocuswright
Powering great decisions.

Phocuswright Special Series

COVID-19 HOTEL FORECAST: SYDNEY

May 2020

In cooperation with

LODGIQ

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Introduction

The global hospitality industry has been ravaged by COVID-19, a classic example of a black swan event. While many are looking backwards to compare the current market environment with the post-9/11 or 2008 Great Recession periods, Phocuswright prefers to look forward – trying to address the tough questions weighing on our collective minds.

Over the coming months, by teaming up with the data science team at LodgIQ, Phocuswright will evaluate a broad swath of hotel-related and other data across a variety of key metropolitan areas. Our key objectives are to model the:

- Level of disruption
- Duration of disruption
- Shape of the recovery curve

The goal is to understand the similarities and differences in hotel market dynamics between destinations. This is especially relevant, as some markets may have yet to peak in terms of the level of infections, while others are seeing active coronavirus case counts decline.

> ***"My interest is in the future because I am going to spend the rest of my life there."***
>
> C.F. Kettering

Travel's multimodal nature and interdependency of origin and destination markets within different sectors adds necessary, but not always welcome complexity to the model. Therefore, this forecast is probabilistic, with a high degree of uncertainty. The spread of the virus is path-dependent, non-linear and impacted by measures such as local social distancing and broader geographic quarantines.

The forecasting model will be continually evaluated and refined as more data is collected, stronger signals identified, and new outcomes revealed. Understanding the impact of the virus and the path to recovery across major global markets will help the industry regain solid footing through more informed decision making. The simplest way to understand the impact of the virus is to observe the change to the forecast as the spread progresses.

Sydney

Australia has done a phenomenal job of flattening the curve. To date, the nation has contained the number of coronavirus-related deaths to less than 100. Australia's number of confirmed cases per million is 275. By comparison, the United States confirmed case rate currently stands at 4,464 per million. The United Kingdom's death rate per million is 501 – more than 125x the rate of Australia.

More remarkably, the wins in Australia have been accomplished without invoking extreme measures. Australians were even able to continue patronizing hairdressing services, as they were deemed essential. The country took a measured approach, instituted constraints, evaluated the results and tightened accordingly, as deemed necessary.

Bans on travelers arriving from hotspot countries and self-isolation of arriving travelers evolved into bans on Australians traveling abroad. Ultimately, the crossing of internal borders was limited only to essential travel. The latter action avoided the spread of local flare-ups to other regions as residents (who might be contagious, yet asymptomatic) fled to perceived low infection rate areas.

Australian officials across all levels of government made decisions informed by health professionals, who made their judgments based on robust testing and contact tracing protocols that were also adapted as conditions changed. By mid-March, New South Wales had testing rate levels nearing 3,300 COVID-19 tests per million – at the time, a level ranking only below Bahrain and South Korea on a global scale.

As with other destinations evaluated, Sydney, as an international gateway with greater density as a major population center, saw the majority of Australian coronavirus cases. The city is located in New South Wales, a state which saw confirmed cases rise from 134 on March 15 to 2,886 a month later. That accounted for 45% of Australia's cases, despite representing only 32% of the population. However, due to the coordinated efforts of the national, state and local governments, between April 15 and May 15, New South Wales only tallied 177 new COVID-19 cases.

2020

January

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

February

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

March

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

April

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

May

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

Despite the early case growth, the subsequent measures resulted in a May forecast with a hotel occupancy rate of 20% and a year-over-year (YoY) RevPAR decline of nearly 83%. Considered in isolation, those figures would be deemed disastrous. When compared to the other destinations evaluated by Phocuswright, based on LodgIQ's forecast model, Sydney trails only Singapore in seeing the least degree of disruption.

Singapore employed a "circuit-breaker" to mitigate a secondary outbreak, following a lockdown in neighboring Malaysia and outbreaks that swept through migrant worker dormitories. In contrast, Sydney was able to achieve a similar directional outcome without resorting to such a strict curtailment of civil liberties. Beginning in mid-May, Sydney is managing a controlled opening of some businesses and restaurants, while Singapore is hoping for circuit-breaker restrictions to begin easing in two weeks.

Sydney Timeline

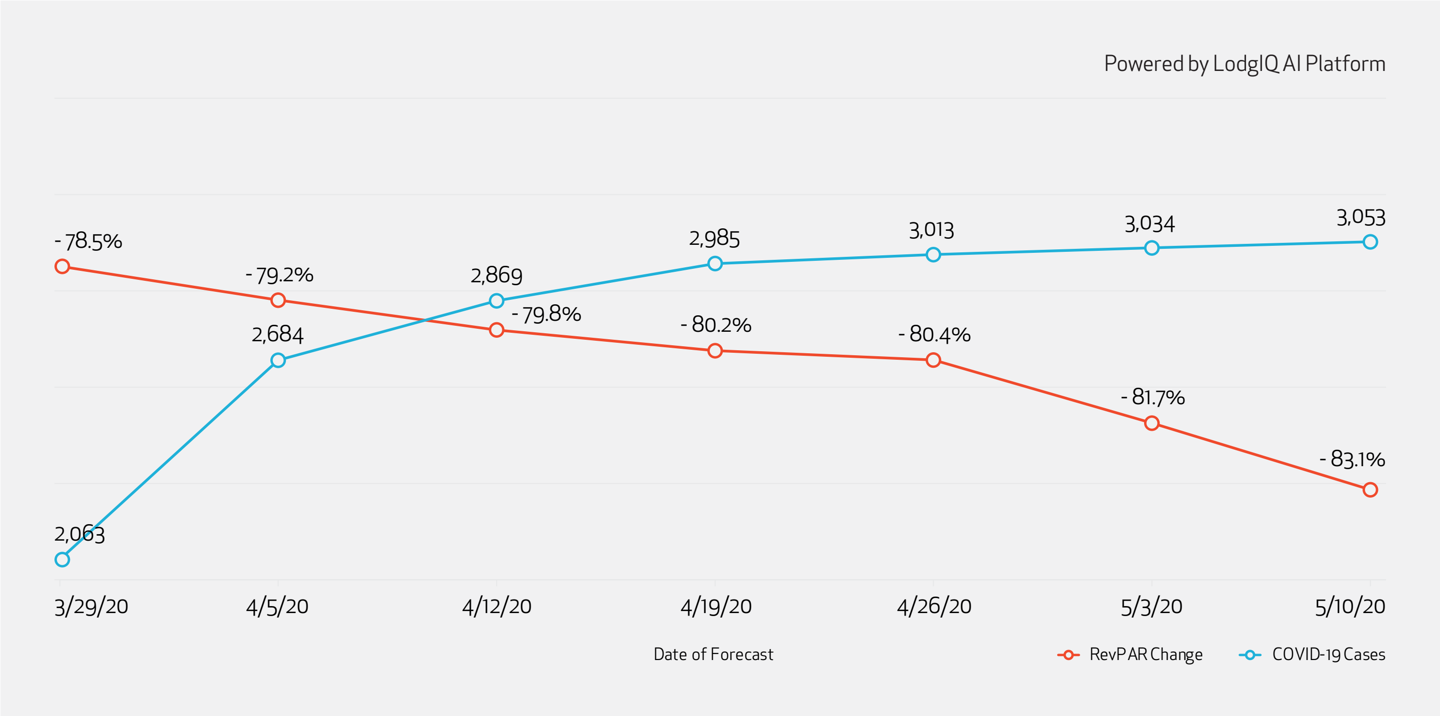
Due to the coordination of local, territory and national governments, Sydney's timeline is largely based on country-wide health and economic initiatives:

- **January 25** – First three cases reported in Sydney – individuals who had recently returned from Wuhan, China
- **February 1 to March 15** – Australia bans international arrivals from hotspot countries (China, Iran, South Korea, Italy) and cruise ships
- **February 27** – Australian Prime Minister Scott Morrison activates Australian Health Sector Emergency Response Plan
- **March 4** – First coronavirus-related death in Sydney
- **March 12** – A$18 billion economic stimulus package announced by the Prime Minister
- **March 15** – Self-isolation required for international travelers
- **March 18** – Australia closes borders to non-citizens and residents
- **March 19** – Qantas grounds 60% of its flights
- **March 22** – Additional A$66 billion economic stimulus package announced
- **March 24** – Australians prohibited from traveling overseas
- **March 26** – Expanded testing criteria introduced
- **March 28** – Weekly national confirmed case count peaks at 2,563
- **March 29** – Residents and citizens returning from foreign countries required to quarantine in hotels for 14 days
- **March 30** – Government announces A$130 billion "Jobkeeper" stimulus package
- **May 9** – Weekly national confirmed case count drops to 148

Due to some of these initiatives, Sydney's rate of RevPAR decline across the weekly forecasts covering the six weeks between March 29 and May 3 has not been nearly as steep as other international gateway cities like New York, London and San Francisco. The model projects a bottom in May with RevPAR down 83% YoY. While the model predicts that forward-looking conditions have deteriorated a bit, it now appears foundational demand will allow the market to produce gradual growth.

Again, the "X" pattern depicting confirmed virus cases and weakening hotel demand reflects the inverse correlation – and Sydney is behaving in a similar fashion to all other global gateway cities.

Figure 1:
Forecast YoY RevPAR Decline – May 2020



In May, Sydney is projected to see YoY room occupancy decline by 75%, average daily rate (ADR) fall off 32% and RevPAR weaken by the aforementioned 83%. Approximately 15 hotels are being utilized as quarantine quarters for international travelers who are required to be isolated for 14 days following arrival. Contract rooms such as these are likely responsible for marginally boosting occupancy and putting downward pressure on room rates.

May 2020 - Declines

~ 75%	32%	~ 83%
May YoY Occupancy loss	May YoY ADR decline	May YoY RevPAR loss

Comparing the model's March 29 forecast with the most recent May 10 forecast, one observes the projected May RevPAR decline grow by nearly five points, with June falling 3.8 points and July by 2.5 points – reflecting a bit of near-term erosion, but less so as the time horizon extends.

Sydney hoteliers may like the looks of the July figure in terms of month-to-month improvement. However, from a pragmatic perspective, seeing RevPAR still off by two thirds YoY that far out indicates hotel owners are not out of the woods by any means.

With Sydney and Australia as a whole doing so well at keeping case counts down, and with more businesses starting to open as May progresses, there may be an opportunity for June to improve somewhat to smooth out what currently appears to be July hockey-stick growth.

Of course, the variables are complex; if Sydney opens and sees case counts begin to rise, another shutdown may be likely, which will obviously put these forecasts in jeopardy.

Figure 2:
Change in Forecast YoY RevPAR Comparing March 29, 2020 to May 10, 2020 Forecast

RevPAR	Date of Forecast	
YoY Change	March 29	May 10
May 2020	-78.5%	-83.1%
June 2020	-76.1%	-79.9%
July 2020	-64.0%	-66.5%

The YoY RevPAR disruption forecast over Sydney's next 90 days comes in at -76.5%, on par with Los Angeles, the destination reviewed last week.

One thing to note about the Sydney forecast model is that it appears to be a bit more bumpy than other destinations. This is due to the government taking proactive action. As discussed in relation to other destinations, strict enforcement of social distancing and lockdowns are very effective at limiting the spread of the virus, but are simultaneously disastrous for the local hotel industry. However, the more successful a country is in managing the impact of the pandemic, the greater the likelihood of an earlier recovery.

For Sydney and Australia, the dance between the government and the citizens will be fascinating to watch. Political leadership has been incredibly careful with messaging that social distancing demonstrates respect for others and is to be commended. It would appear that the politicians were taking a page from the John F. Kennedy approach to leadership – having the citizens ask not what their country can do for them, but what they can do for their country.

If the government can keep the states and territories aligned and keep the population convinced that short-term sacrifice will yield much better health outcomes, from a domestic perspective, they will be in very good shape.

The challenge will be executing the strategy and defining exactly how and when international travel should resume, since Sydney and the eastern regions of the country rely heavily on the tourist trade, as well as international business travel.

Figure 3:
Forecast YoY RevPAR Decline – June 2020

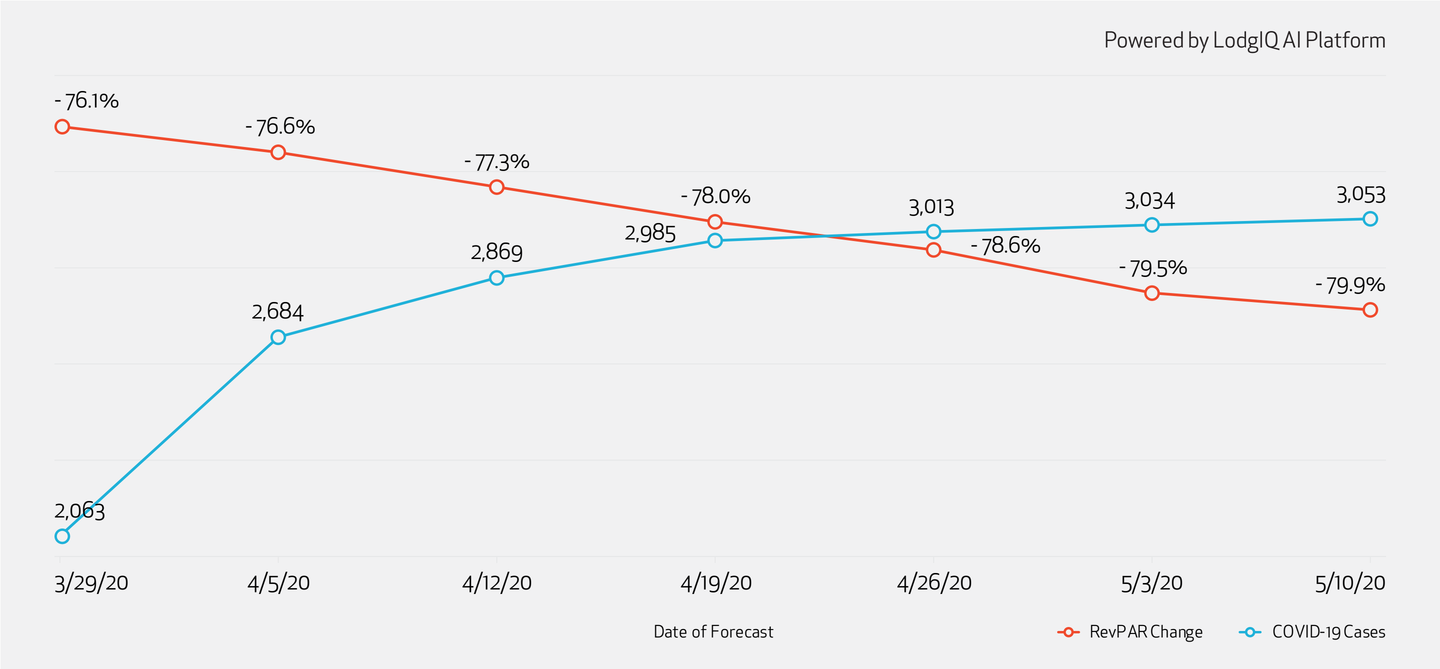
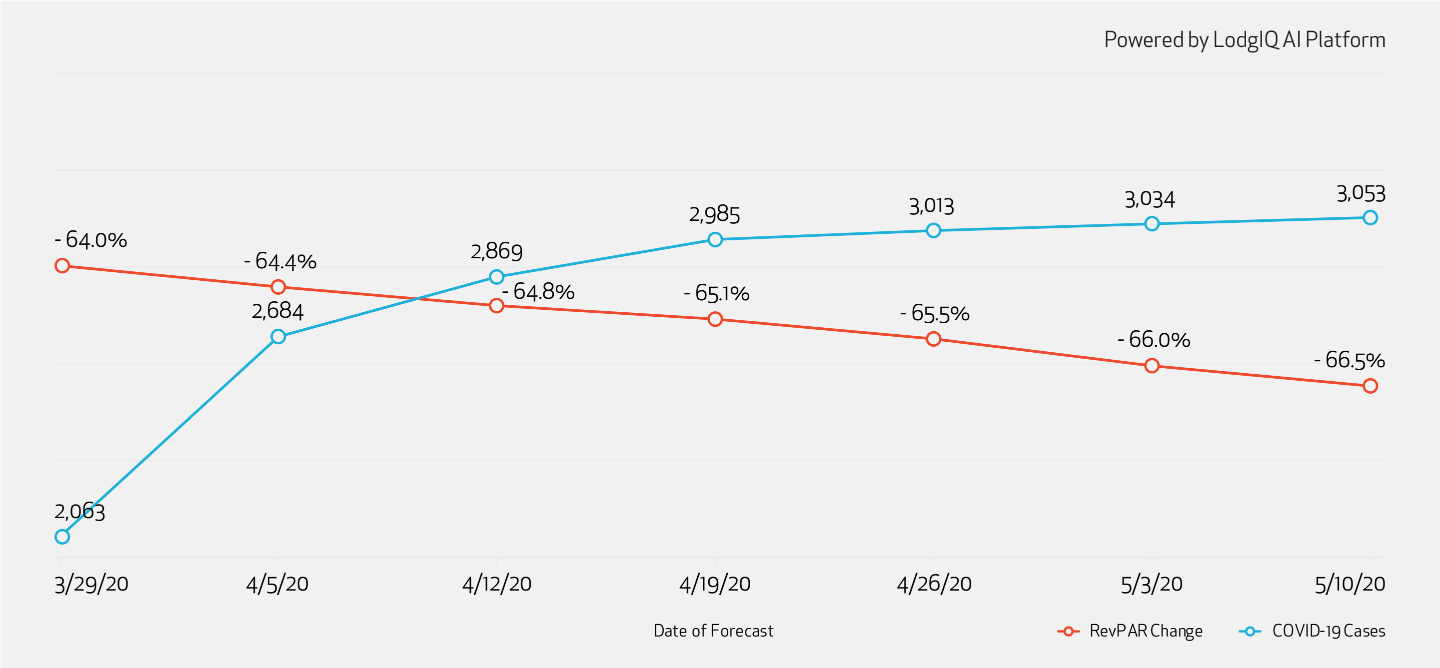


Figure 4:
Forecast YoY RevPAR Decline – July 2020



Another negative impact on hotel occupancy will be international travelers being released from their 14-day quarantines. As international travel is largely shut down, the number of contract rooms will gradually begin to dwindle.

Figure 5:
Change in Forecast Occupancy Comparing March 29, 2020 to May 10, 2020 Forecast

Occupancy	Date of Forecast	
	March 29	May 10
May	23.7%	20.0%
June	24.5%	20.7%
July	35.0%	32.5%

As of now, it appears Sydney may be one of the rare international gateway cities that will avoid occupancy levels falling into the teens. Room occupancy is not expected to climb substantially in June, due to the expectation that political leadership is very hesitant to open too quickly. The model predicts that caution will pay off, with July seeing occupancy rise into the 30% range.

Over the first six months of the year, Sydney would normally see room occupancy in the 80% range and ADRs over A$200. Those are now only fond memories. By successfully flattening the curve, Sydney hotels were largely not needed to house essential healthcare workers, unlike other urban centers that were hard hit. Some Sydney hotel meeting space has been used for temporary hospitals. Looking forward, without the ability to draw demand from international sources, at least in the near- to mid-term, Sydney hoteliers will need to get creative by tapping into new sources of demand.

Beyond the standard stats, one program deserves special attention. The "Hotels With Heart" initiative was designed to help Australia's most at-risk population – its homeless community – stay healthy during the pandemic.

An initial group of 23 people were housed in the Perth Pan Pacific Hotel to protect them and help them effectively social distance. There are now reportedly over 2,000 homeless persons residing in New South Wales hotels. While some participants have dropped out of the program, most notably due to challenges related to addiction and mental illness, others have been inspired to use this opportunity as motivation to never return to the streets.

Understanding that disease can spread easily among disadvantaged communities, Australian state governments have allocated tens of millions of dollars to help keep the homeless safe, along with the rest of the population. Organizers are hoping that the program can be expanded to include victims of domestic violence as well. Globally, reports of domestic violence are increasing as lockdowns continue.

This may represent a unique opportunity for hoteliers to create a win-win-win scenario by filling some empty guest rooms, helping to turn around some at-risk lives, and protecting the country from the spread of the disease.

It's fair dinkum that properly planned and executed, the interests of hoteliers in increasing occupancy does not need to conflict with societal benefits. Good on ya, Aussie hoteliers!

Figure 6:
Forecast Occupancy – May 2020

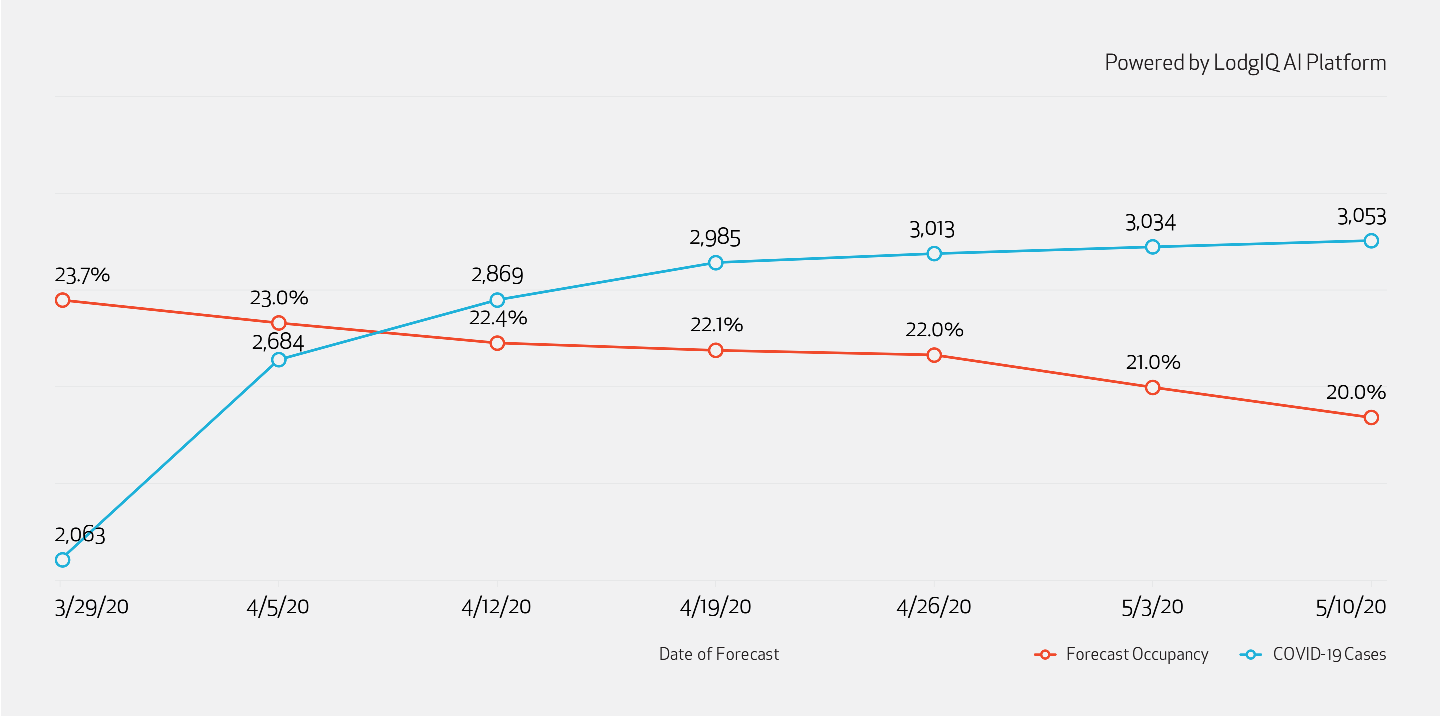


Figure 7:
Forecast Occupancy – June 2020

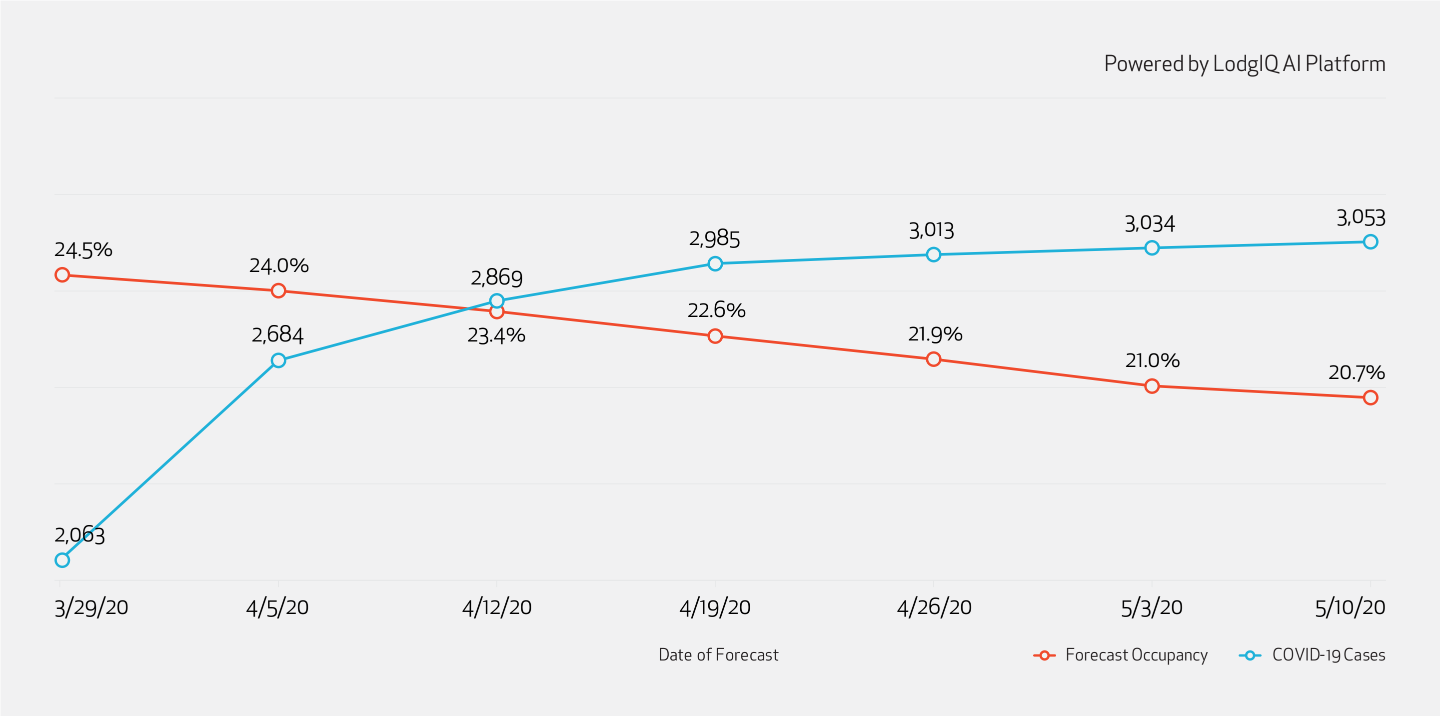
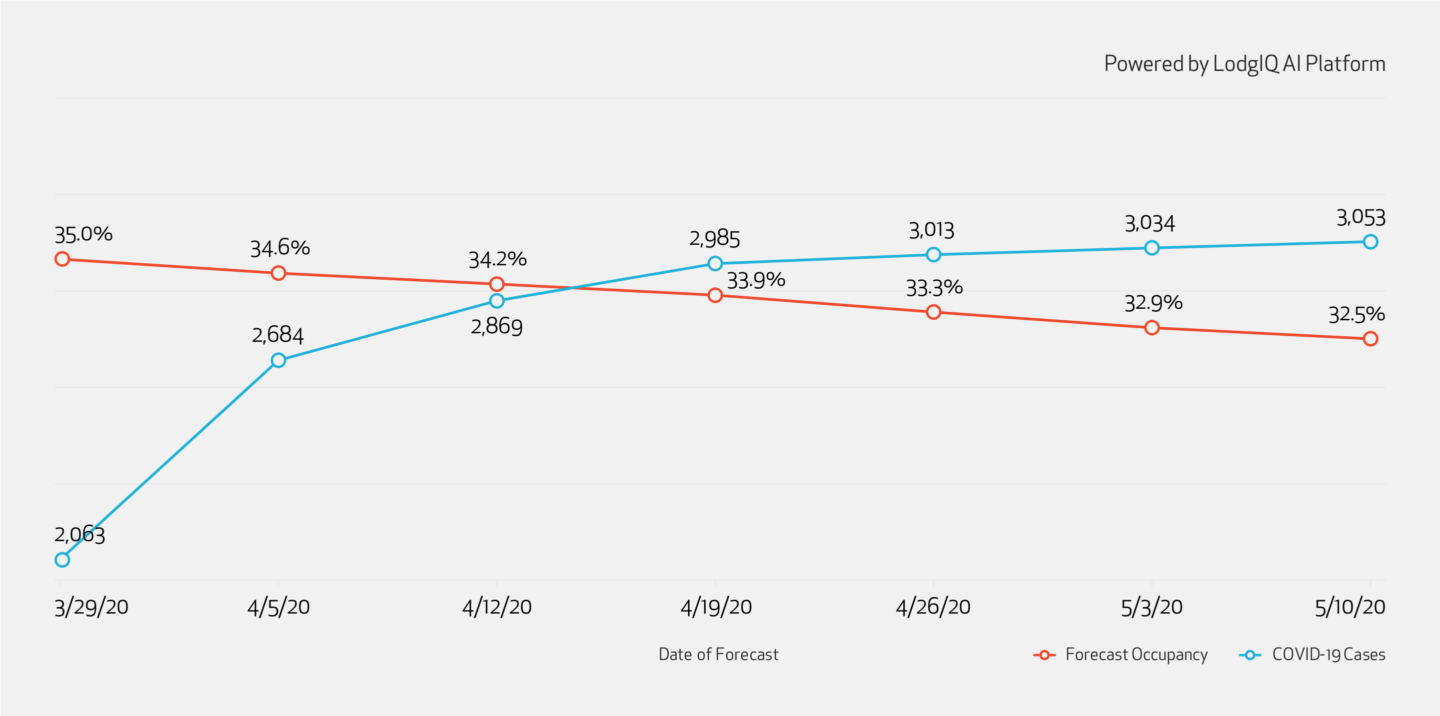
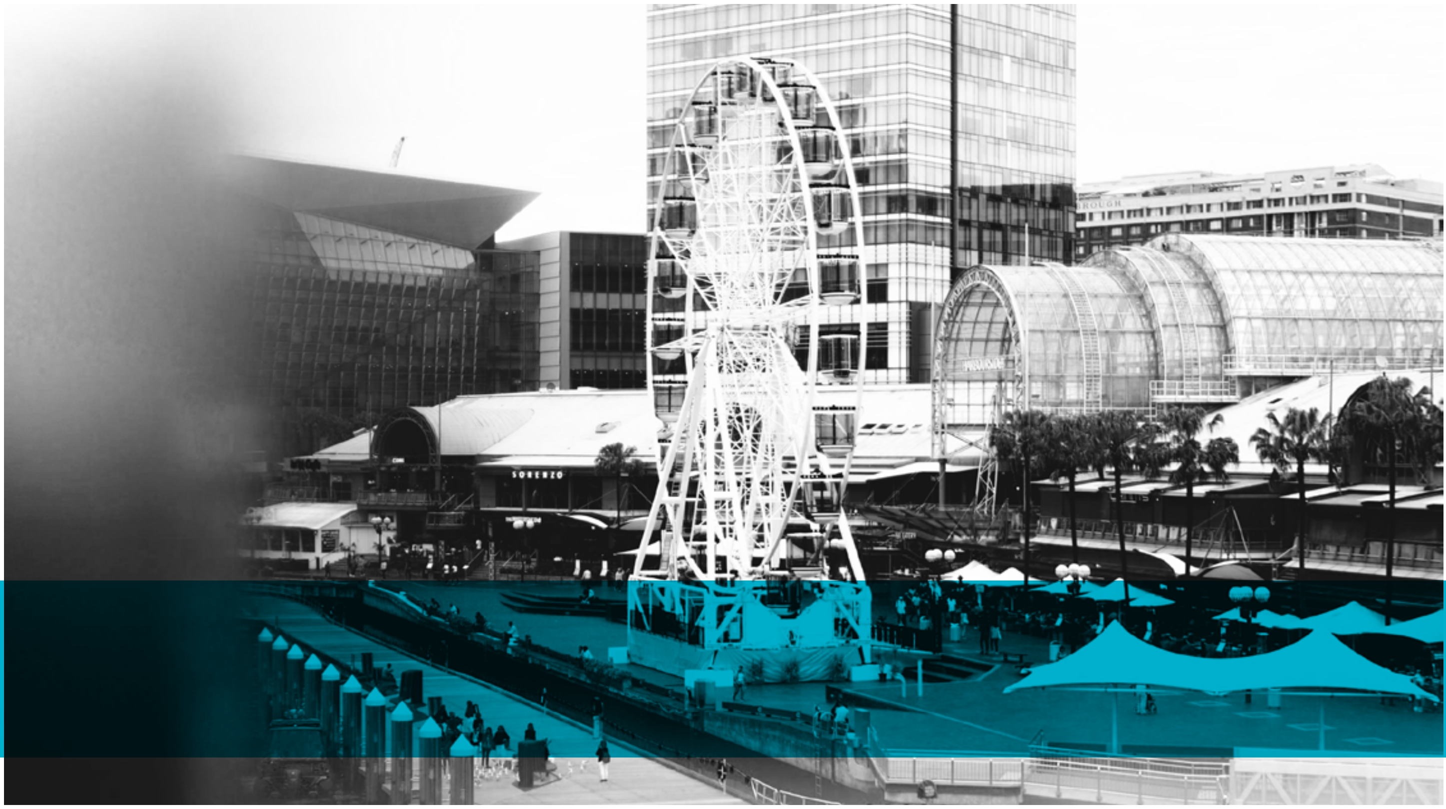


Figure 8:
Forecast Occupancy – July 2020





About the Hotel Forecast Model

We continue to identify leading indicators that signal likely pricing strategies as markets decline and recover. ADRs can be misleading in a market experiencing severe supply contraction, as the mix of available rooms may shift to offer higher ratios of economy or luxury properties. Logically, during significant periods of disruption, travelers may become more price-sensitive, but anxious hoteliers engaging in rate wars may suppress pricing not only for their competitive set, but for the destination overall.

It is also important to remember that as the time horizon expands, greater variation may be expected. As more global markets recover from peak virus caseloads, their outcomes will be captured, with the model continually refined to enhance its precision.

This crisis will pass, but until then, the most urgent questions focus on the depth of the decline, the length of its duration and how the recovery will manifest itself. As the analysis continues, the following factors will be closely monitored to identify early signs of recovery:

- Active cases and mortality rates
- Test counts per million
- Government travel policies
- Stock market and volatility indexes
- Unemployment rates

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LodgIQ uses state of the art BigData Analytics and AI / Machine Learning algorithms to forecast demand and price hotel rooms. LodgIQ is led by a team of experienced hospitality technologists, data scientists and engineers. Seed funded by Highgate Ventures, LodgIQ is re-imagining revenue management with predictive and prescriptive analytics methods. Our flagship product – LodgIQ RM is used by hotels across the globe, day-in and day-out to understand demand and optimize revenue.

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