Bounce Back? The Pandemic and Tourism in Hampton Roads

BOUNCE BACK? THE PANDEMIC AND TOURISM IN HAMPTON ROADS

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair.
– Charles Dickens, "A Tale of Two Cities"

Over the last 24 months, the Hampton Roads tourism industry has set several records. In 2019, traditional hoteliers reported a record $892 million in revenue. Monthly Airbnb revenue in the region reached $17 million in August 2019. Tens of thousands of visitors flocked to events such as Something in the Water, the Virginia International Tattoo and the North American Sand Soccer Championships, among others. Occupancy, revenue and revenue per available room (RevPAR) were all on the rise in early 2020, and a sense of optimism infused the industry.

Within months, more records were set, although these records were not ones to be announced with fanfare. Monthly hotel revenue in Hampton Roads declined by an astonishing 76.6%, from $78.1 million in April 2019 to $18.3 million in April 2020. In Williamsburg, monthly hotel revenue disappeared almost completely. Williamsburg hotels generated $18.1 million in revenue in April 2019, but a year later, revenue fell precipitously to $846,743, a collapse of 95.3%. Reported occupancy rates fell below 40% in many of the region's cities, domestic and international travel plummeted to record lows and layoffs rocketed upward. Optimism, unlike hotel rooms, was in short supply.

Now, in the second half of 2021, we find ourselves in a markedly different environment. Heightened consumer and business expectations have increased interest in domestic travel and tourism. Hotels in Hampton Roads have fared well in this recovery compared to the nation. While hotel revenue in the region for June 2021 was 10% higher compared to the same month in 2019, nationally, hotel revenue was down by 12%. The region's tourism recovery has been relatively strong and thus far sustained.

As with other sectors of the regional economy, the COVID-19 pandemic continues to linger over prospects for an even more robust recovery. The rise in infections, hospitalizations and deaths among the unvaccinated compared to the fully vaccinated underscores the question of whether employers should require vaccinations for employees working in the tourism sector. Difficulties in attracting and retaining talent will also likely persist in the coming months, and it is unknown whether international workers will return in large numbers in 2022. Yet, even with these headwinds, prospects for the coming year are continuing to improve barring another virulent COVID-19 variant or unexpected economic shock.

In this chapter, we explore the impact of the COVID-19 pandemic on the Hampton Roads tourism industry. We delve into how traditional hoteliers were affected and compare their performance with that of short-term renters (Airbnb, VRBO and others). While the pace of recovery has not been uniform, hotels and short-term rentals outperformed the overall economy in Hampton Roads in the first half of 2021.

Years To Remember: 2019 And 2020

2019 and 2020 were years for the history books when it comes to the Hampton Roads tourism industry, albeit for dramatically different reasons. In 2019, hotel revenue set a new record. It was the year that saw the debut of Something in the Water, a music festival that garnered national attention, and a period when a number of traditional hotels continued to move upscale. Conversely, 2020 was a year many in the hotel industry would like to forget, marked by record declines in revenue, occupancy and staffing.

Graph 1 presents the shares of each of the Hampton Roads hotel markets in 2019. Virginia Beach claimed the greatest share of hotel revenue (38.3%), followed by Williamsburg (19.2%). The other markets each comprised roughly 14% of the regional market.

Graph 2 displays nominal and real (inflation-adjusted) hotel revenue for Hampton Roads from 2000 to 2020. Nominal hotel revenue had climbed from the post-Great Recession low of $658 million in 2013 to $892 million in 2019. In 2020, nominal and real revenues both fell by more than 33%. The level of nominal revenue reverted to a level not seen since 2002, while real revenue declined to a point not observed this century.

While the declines in hotel revenue, rooms rented and revenue per available room (RevPAR) were broad-based in Hampton Roads, Virginia and the United States, most of the markets in our region fared better than the state or nation in 2020. Hotel revenue declined by almost half in the Commonwealth and the U.S., but most markets in Hampton Roads observed declines of 30% or less (Graph 3). Exceptions were the Norfolk-Portsmouth market, where revenue declined by 32.7%, and the Williamsburg market, where it dropped an astounding 64%.

The annual data mask the collapse of hotel revenue in Williamsburg during the depths of the pandemic's economic shock. In August 2019, monthly hotel revenue peaked at $21.5 million (Graph 4). With the onset of the pandemic, monthly revenue declined to $7.5 million (February 2020), $4.7 million (March 2020) and $846,423 (April 2020). In the span of only three months, hotel revenue in the Williamsburg market declined 88.8%. While revenue has increased from the low of April 2020, it remains well below 2019 levels. In June 2021, monthly hotel revenue reached $17.7 million. While this was a 514% increase from June 2020, it hides the fact that June 2021 revenue was 6% lower than in June 2019.

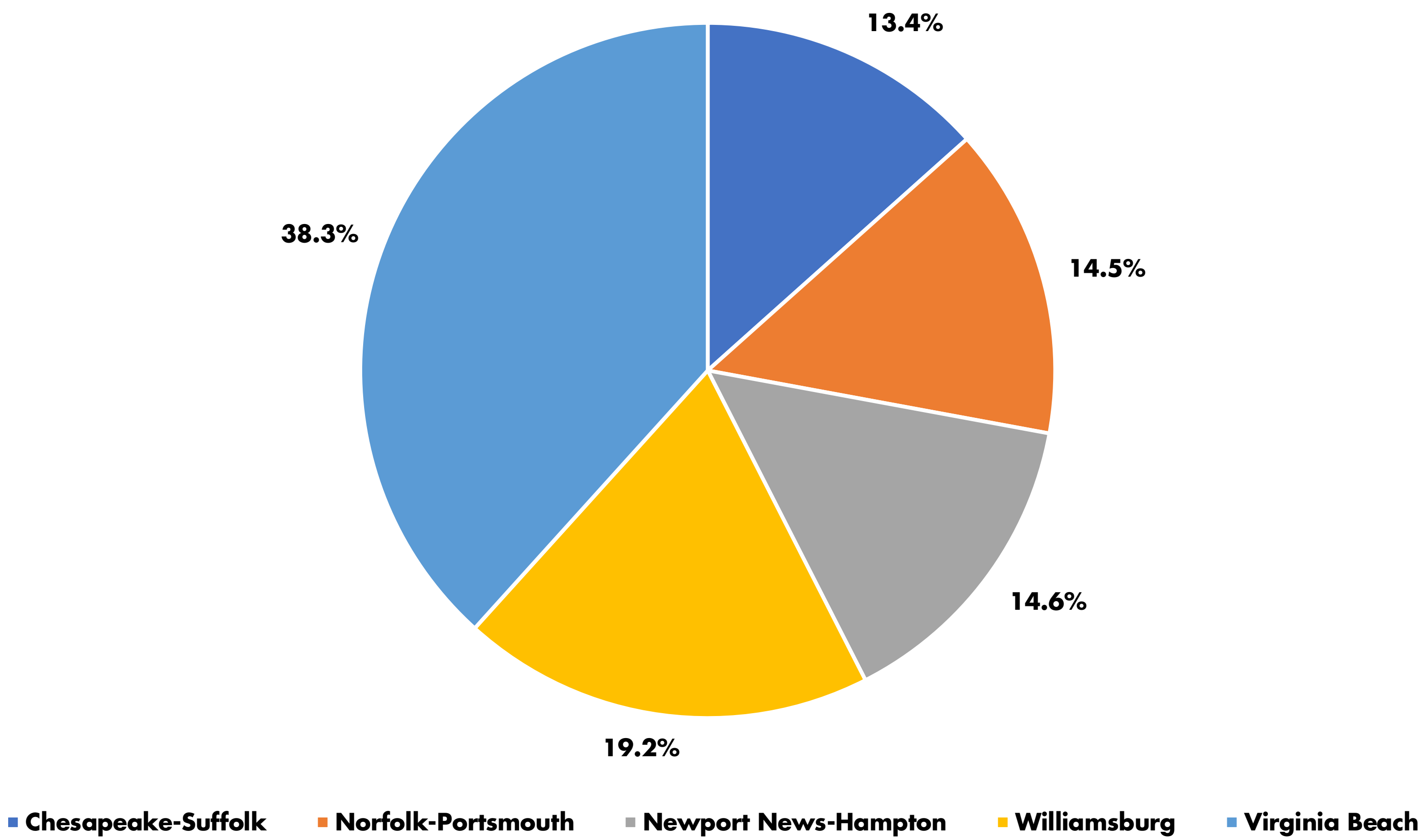
Why did many of the markets in Hampton Roads fare relatively better in 2020 than Virginia and the United States, and why did Williamsburg fare significantly worse? In the case of Williamsburg, the number of hotel rooms rented fell by more than 50% and, in some months, occupancy rates dropped below 20% (Graph 5). The declines in revenue occurred primarily because hoteliers had to lower prices in the face of slumping demand; higher-end hotels were more severely impacted. Compared to other markets, the Hampton Roads hotel industry relies more on leisure and transient guests and is not as dependent on large events, such as conventions, conferences, concerts and the like.

RevPAR is a key measure of performance in the hotel industry, as it represents both the demand (revenue) and supply (available rooms) sides of the market. As shown in Graph 6, RevPAR declined by almost 35% from 2019 to 2020 in Hampton Roads. It must be pointed out that the actual decline in RevPAR was likely higher, since some hotels either significantly reduced the supply of rooms or closed temporarily during the depths of the pandemic. In any case, in 2020, Hampton Roads hotels earned about a third less than they did in 2019.

We would be remiss if we did not point out the large and negative influence of the Williamsburg market on this measure. RevPAR in Williamsburg declined an astonishing 60.6% from 2019 to 2020. Simply put, the COVID-19 pandemic had a devastating impact on the city's hotel industry. Major attractions, like Busch Gardens and Water Country USA, were closed due to the pandemic. With Colonial Williamsburg already experiencing a downturn in visits prior to the pandemic, this latest economic shock is likely to reverberate throughout Hampton Roads for years to come.

GRAPH 1

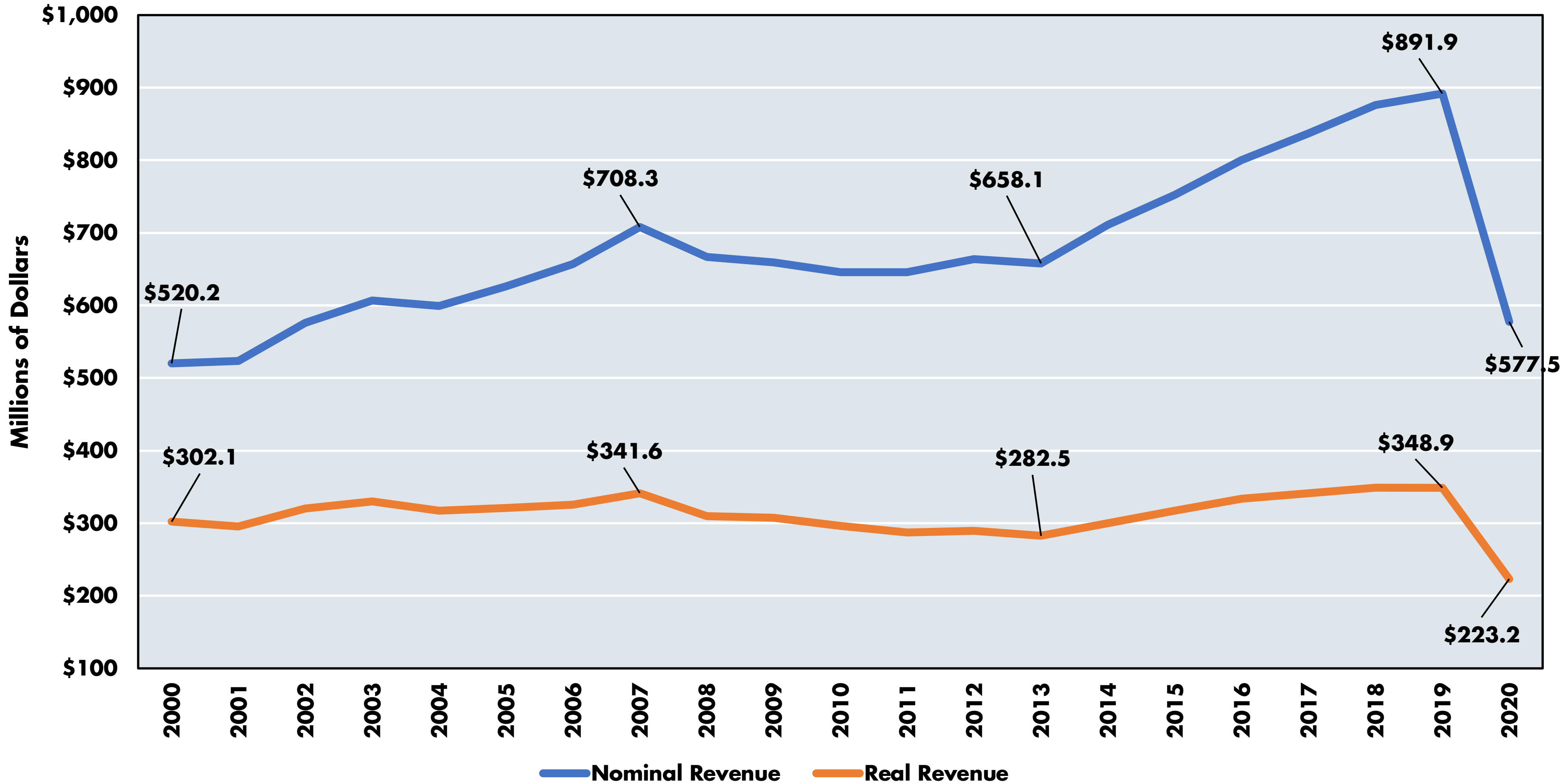
ESTIMATED SHARES OF HOTEL ROOM REVENUE:
HAMPTON ROADS, 2019



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 2

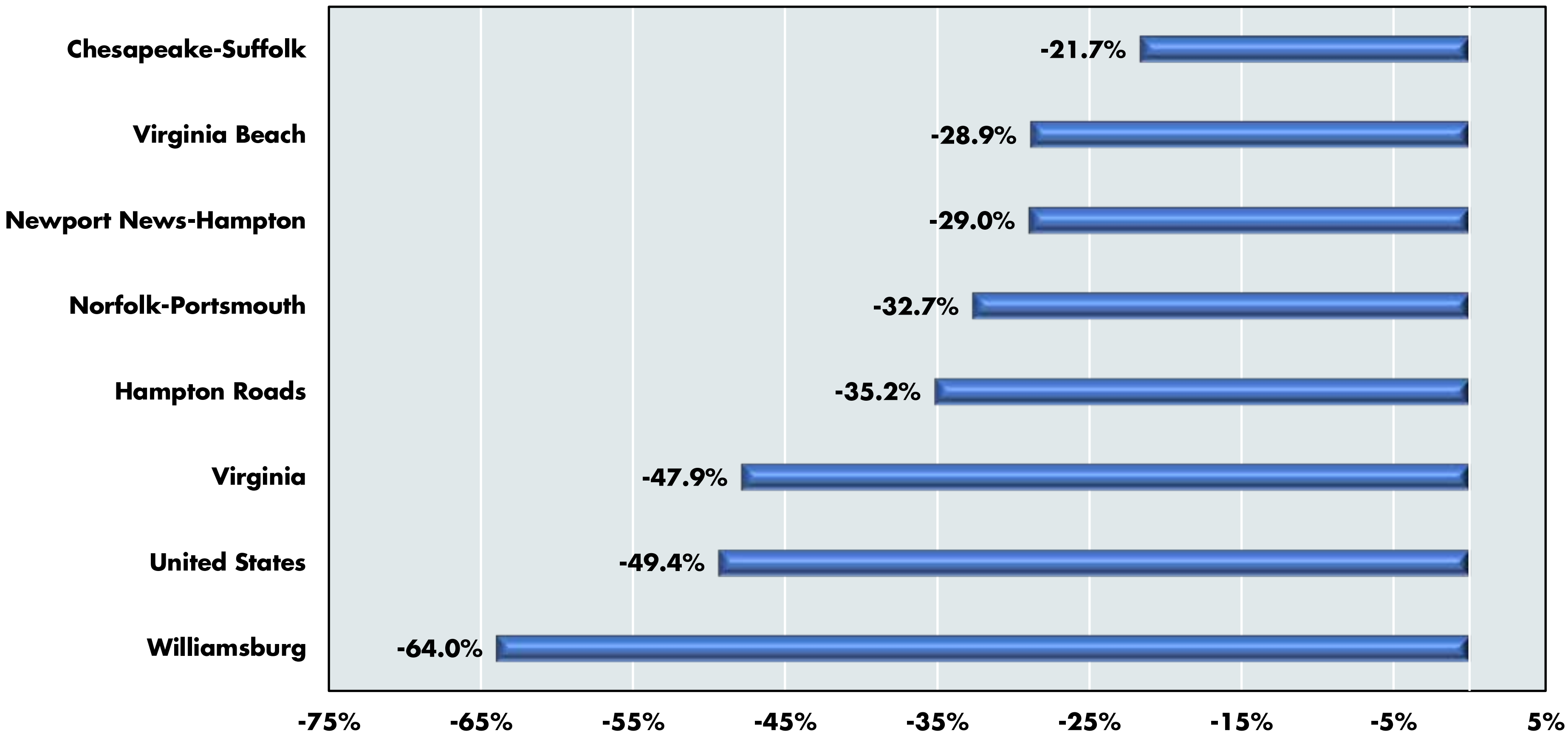
NOMINAL AND REAL HOTEL REVENUE: HAMPTON ROADS, 2000-2020



Sources: STR Trend Reports, January 2017 and January 2021; Bureau of Labor Statistics; and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Base year for the consumer price index is 1982.

GRAPH 3

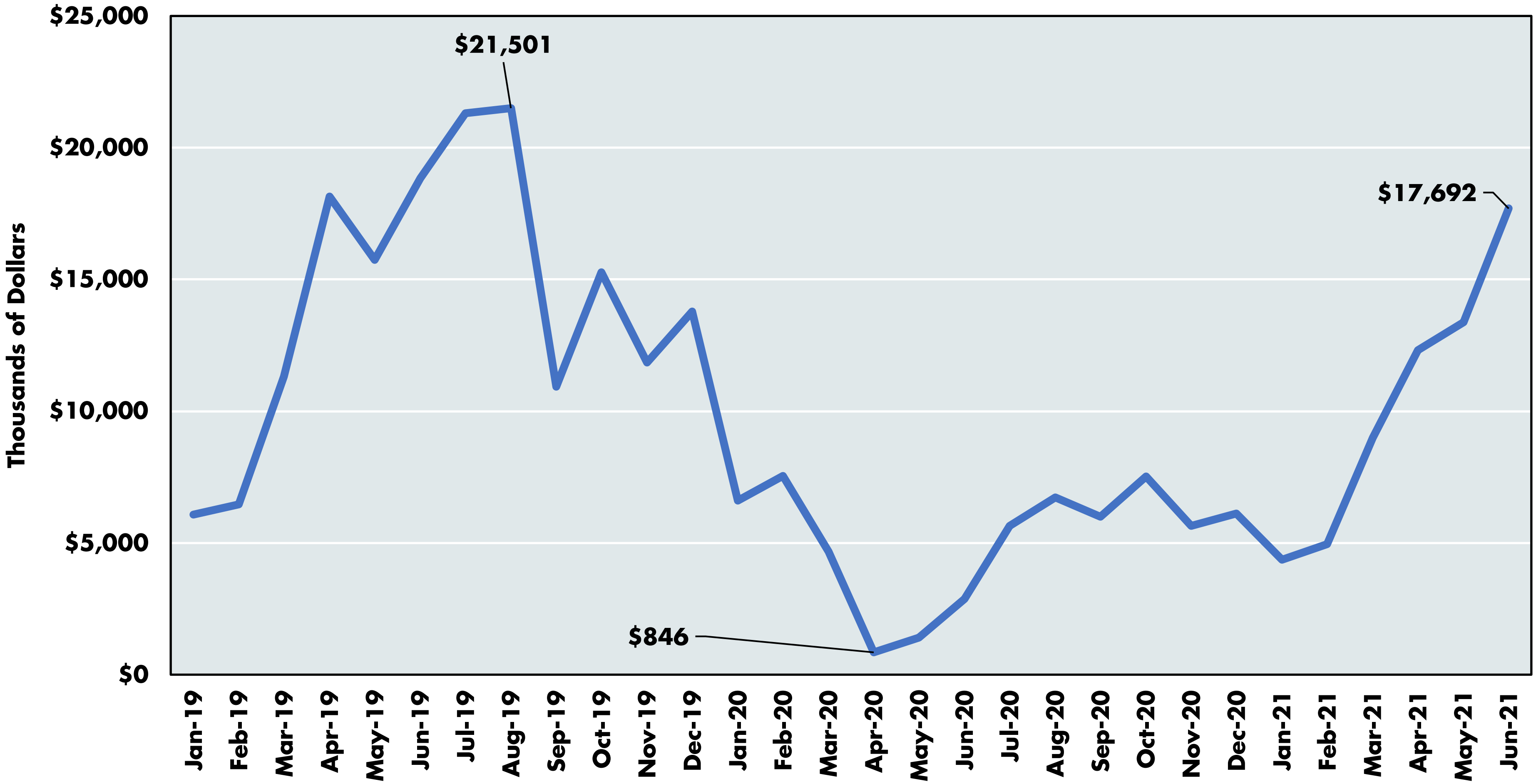
PERCENTAGE CHANGE IN HOTEL REVENUE IN SELECTED MARKETS:
HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, 2019-2020



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

GRAPH 4

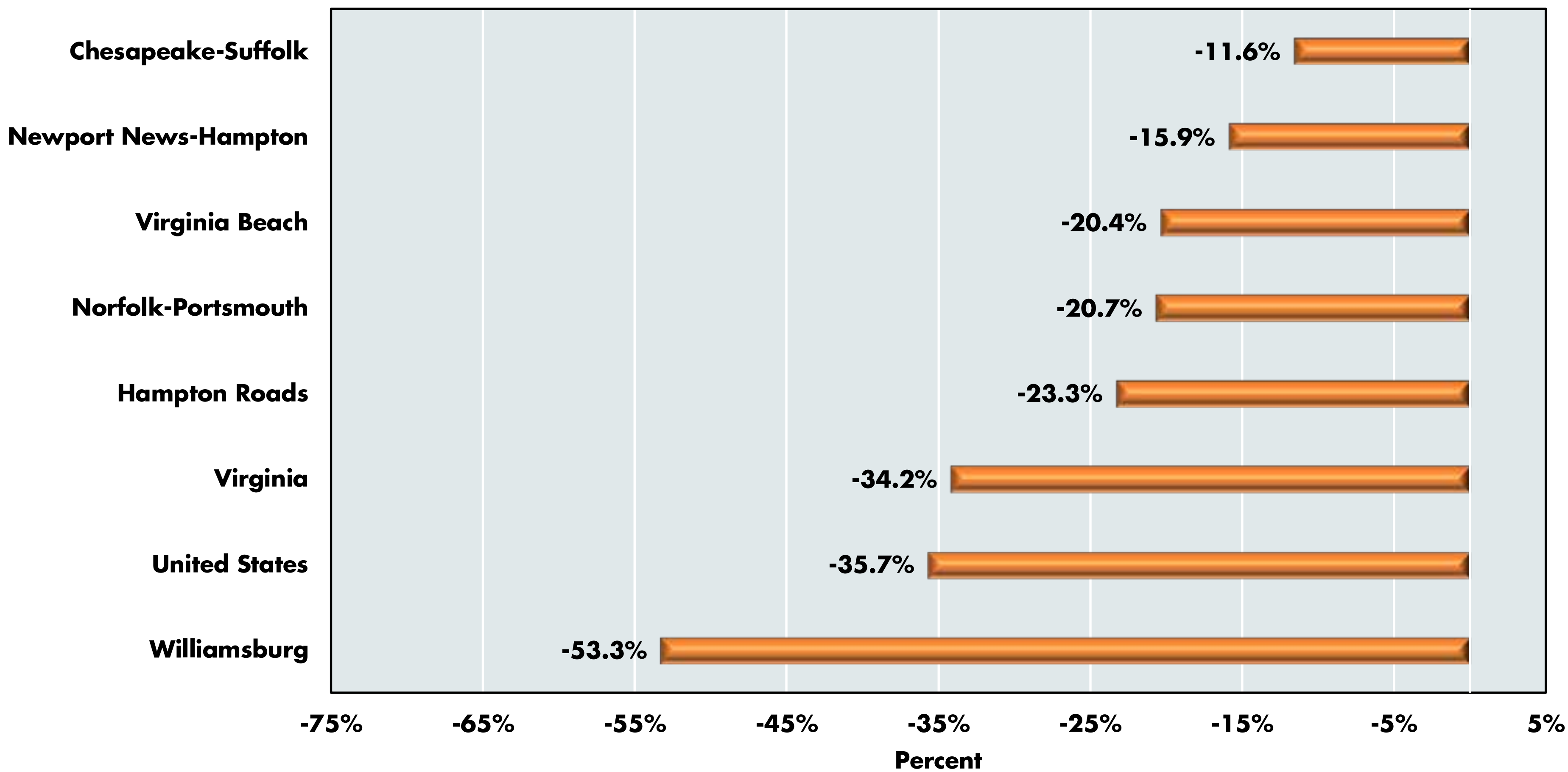
NOMINAL MONTHLY HOTEL REVENUE:
WILLIAMSBURG MARKET, JANUARY 2019-JUNE 2021



Sources: STR Trend Report, January 2021; STR monthly reports; and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

GRAPH 5

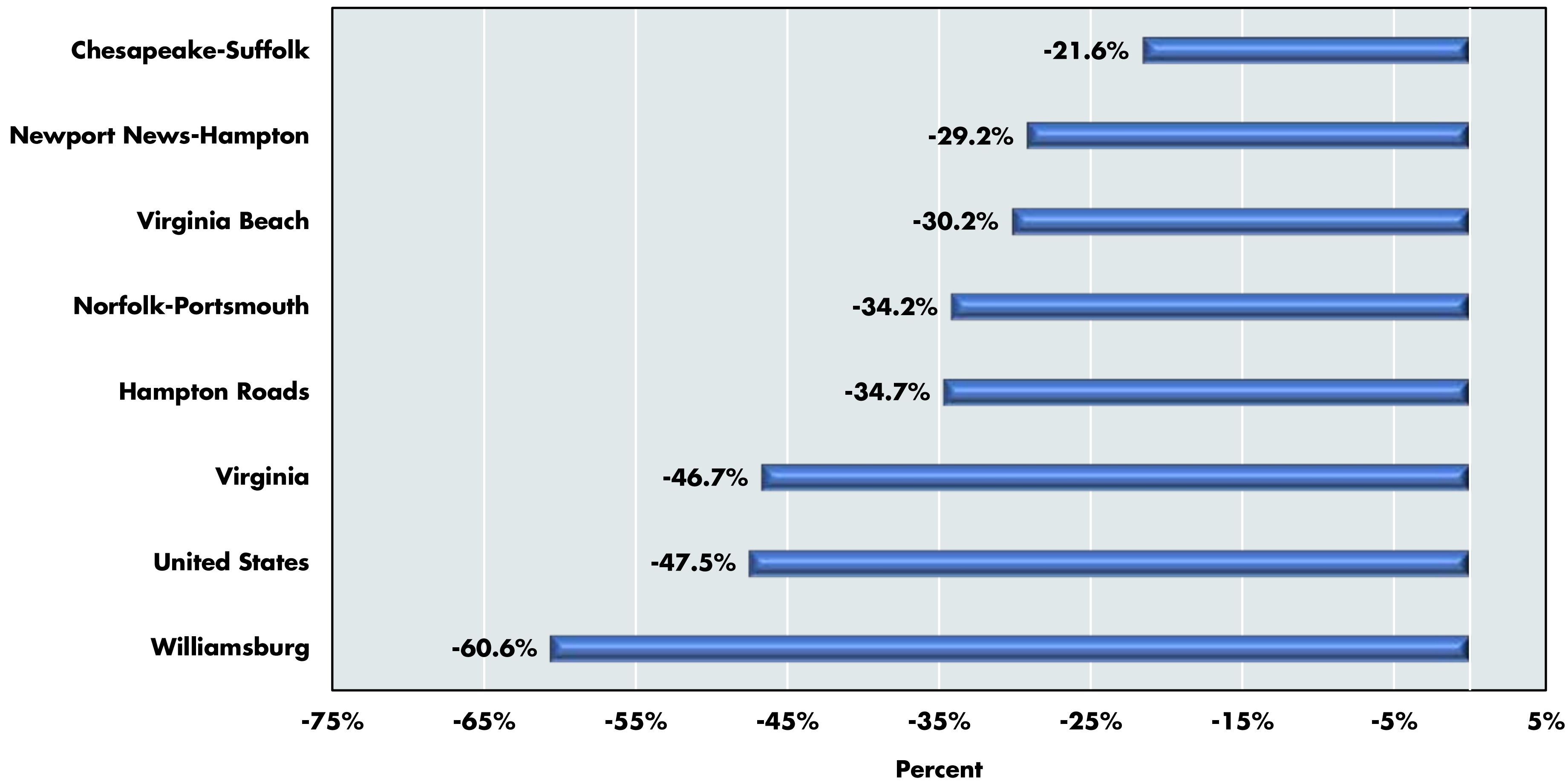
PERCENTAGE CHANGE IN HOTEL ROOMS RENTED IN SELECTED MARKETS: HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, 2019-2020



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

GRAPH 6

PERCENTAGE CHANGE IN REVENUE PER AVAILABLE ROOM IN SELECTED MARKETS: HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, 2019-2020



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

2021: A Recovery Coming Into Sight

Hoteliers in Hampton Roads fared better (mostly) than their counterparts elsewhere in the United States and experienced a more robust recovery through early summer 2021. Graph 7 highlights the percentage change in monthly hotel revenue for selected months from 2019 to 2021. We chose 2019 as the basis of comparison, as the shock in 2020 would bias our conclusions about the recovery progress. While hotel revenue was still 33% below 2019 levels in June 2021 among the nation's top 25 hotel markets, monthly revenue was up 10% in Hampton Roads compared to the same month in 2019.

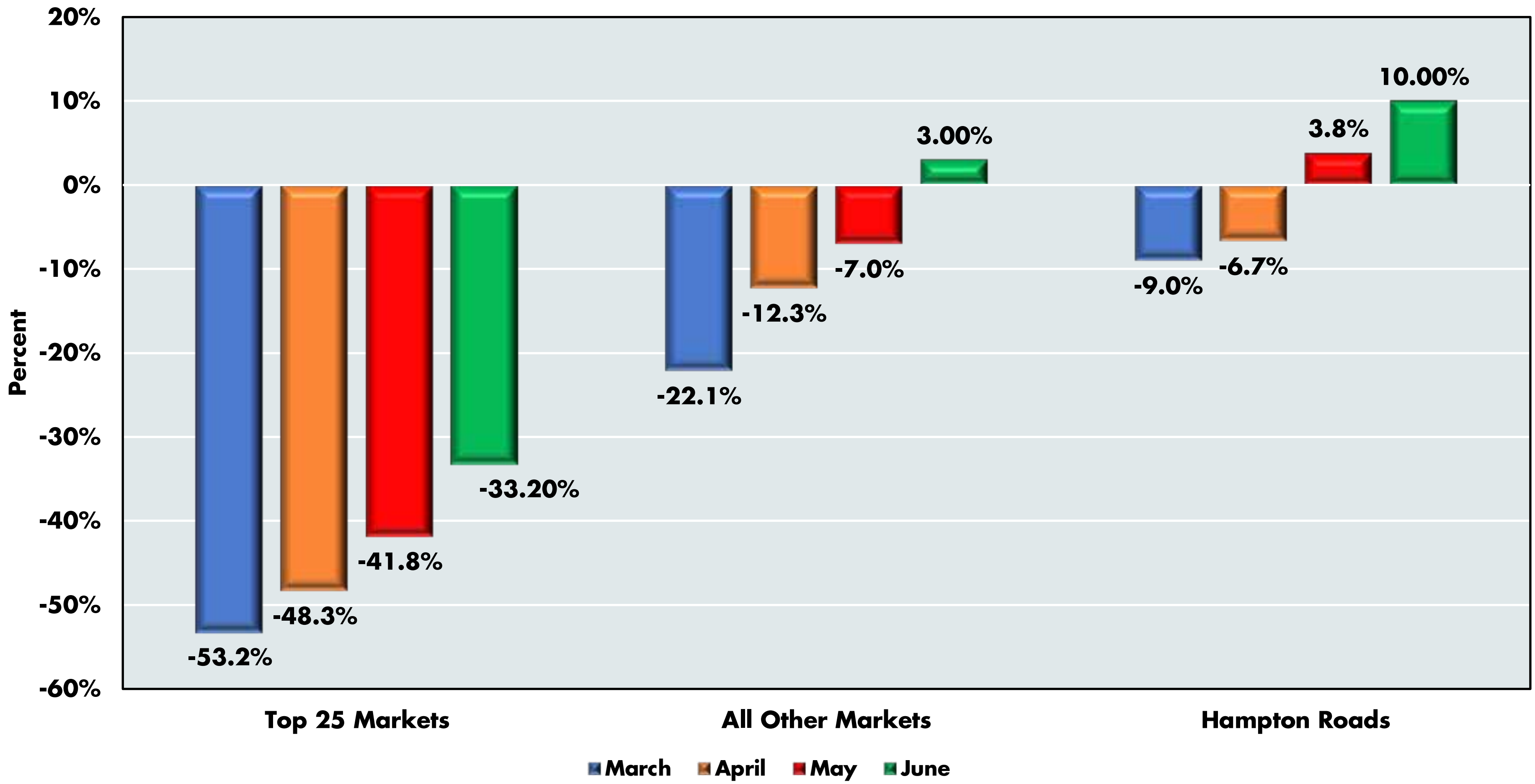
By the summer of 2021, conditions had improved markedly at the local level in Hampton Roads. Graph 8 displays the percentage change in RevPAR for the region's markets. While RevPAR through June 2021 was down by more than 30% for the United States and Virginia, it was down by only 2.1% for Hampton Roads. The Williamsburg market was starting to rebound but still down 15.3% when compared to 2019, Newport News-Hampton was down by 12.2% and Norfolk-Portsmouth was down by nearly 10%. On the other hand, RevPAR in the Virginia Beach market was 7.3% higher than for the same time period in 2019. In the Chesapeake-Suffolk market, RevPAR increased by 5% through June 2021.

The Hampton Roads hotel industry recovered faster from the COVID-19 pandemic than almost any other market in the United States. While regional economic performance lagged that of Virginia and the nation in the first half of 2021, the regional hotel industry proved markedly resilient in most Hampton Roads cities. This recovery is even more striking considering the numerous reports of staffing challenges in the industry.

The rapid recovery in the Virginia Beach and Chesapeake-Suffolk markets bodes well for Hampton Roads. Most of the other markets in the region should fully recover by the summer of 2022 (if not earlier). The obvious concern is the Williamsburg market. The overall performance of this market may have more to do with structural issues within Colonial Williamsburg than recovery from the COVID-19 economic shock. If so, Williamsburg may face a longer recovery period than the rest of Hampton Roads.

GRAPH 7

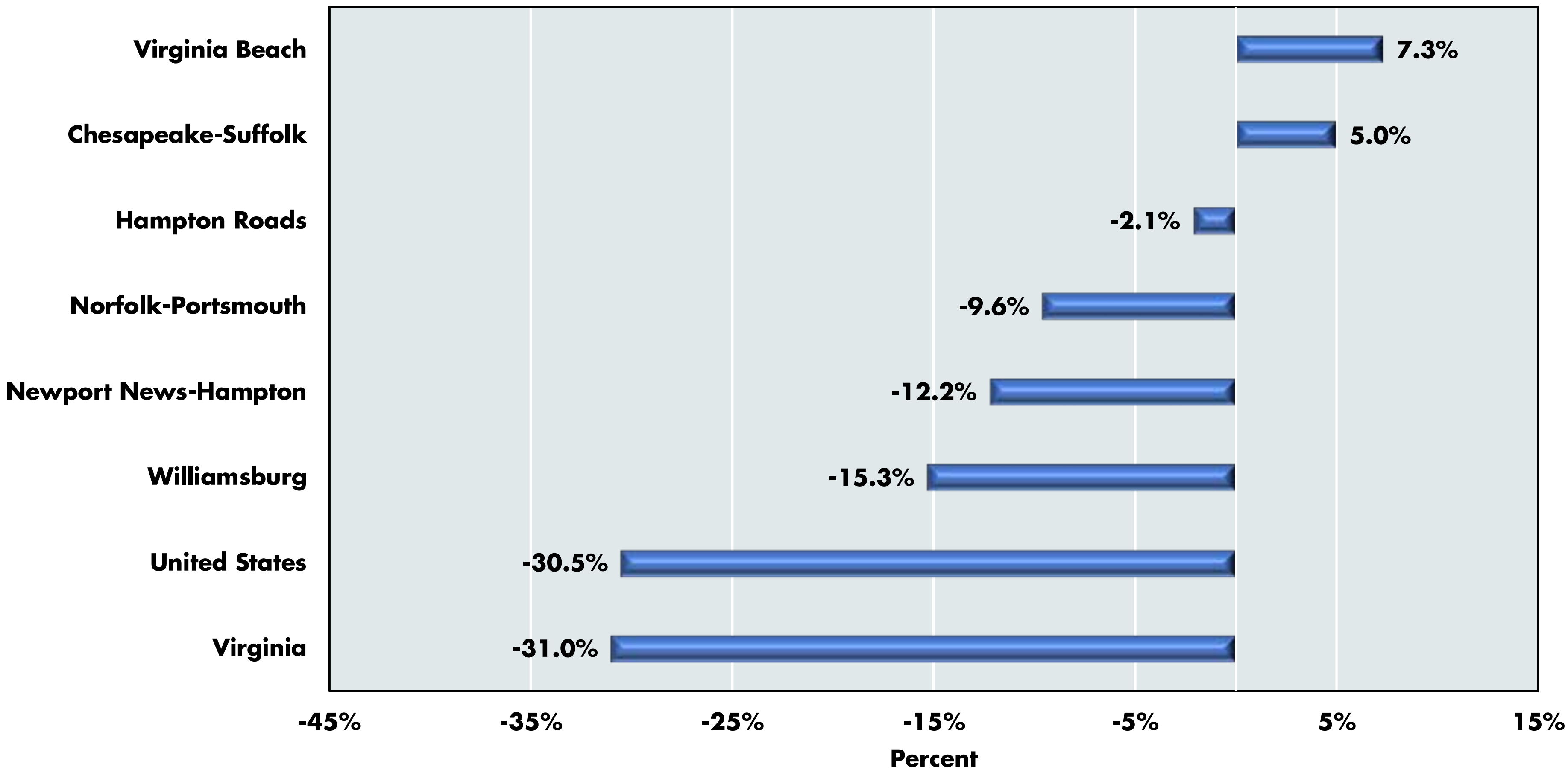
PERCENTAGE CHANGE IN MONTHLY HOTEL REVENUE:
HAMPTON ROADS, TOP 25 MARKETS AND ALL OTHER MARKETS, 2019-2021



Sources: STR monthly trend reports and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 8

PERCENTAGE CHANGE IN REVENUE PER AVAILABLE ROOM IN SELECTED MARKETS: HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, YTD JUNE 2019-YTD JUNE 2021



Sources: STR monthly trend reports and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

Airbnb Navigates Its Way Through The Pandemic

The rise of Airbnb from its humble beginnings is a remarkable story. Starting in 2008 with the rental of an air mattress in San Francisco, Airbnb has become one of the largest (if not the largest) short-term rental companies in terms of listings, funding and name recognition. It continues to expand its business model, offering "experiences" (hosted tours) and an increasing number of connections to travel websites. To track Airbnb business in Hampton Roads, we use data from AirDNA (a private company not associated with Airbnb) to examine listings, revenue and occupancy of Airbnb-hosted properties.[1]

Graph 9 illustrates the meteoric rise of Airbnb in Hampton Roads. In October 2014, the first month for which data are available, monthly Airbnb revenue in the region was approximately $61,000. By July 2016, peak monthly revenue reached $2.16 million. In October 2018, peak monthly revenue had jumped to $13 million, and another monthly record was set in July 2019, with monthly revenue of $16.7 million. Airbnb revenue in July 2020 set yet another record, coinciding with the "reopening" of the regional economy.

Graph 10 presents the shares of each of the markets in Hampton Roads for 2019. Virginia Beach dominated Airbnb listings and revenue in the region, accounting for 66.1% of revenue in 2019. Williamsburg (14.6%) and Norfolk-Portsmouth (12.3%) were the next largest markets in the region. Newport News-Hampton (5%) and Chesapeake-Suffolk (2%) had relatively few Airbnb listings and low revenue in 2019.

Virginia Beach, accounting for approximately 6 of every 10 dollars in 2019 Airbnb revenue, has been the focal point of short-term rentals in Hampton Roads. Graph 11 provides insight into monthly Airbnb revenue from Virginia Beach listings, January 2019 to May 2021. Revenues in 2020 were approximately $8.1 million less than in 2019. However, these losses were not spread evenly throughout the year. Revenue for the peak vacation months (May through September) was essentially the same – $36.9 million in 2019 and $35.8 million in 2020. Off-peak revenue, however, was lower, and this trend continued into 2021. Comparing the first five months of the year for Airbnb in Virginia Beach, revenue was $23.7 million, $17.4 million and $10.5 million in 2019, 2020 and 2021, respectively. If there is a modicum of good news, it is that the percentage decline in revenue relative to 2019 steadily decreased by the spring of 2021.

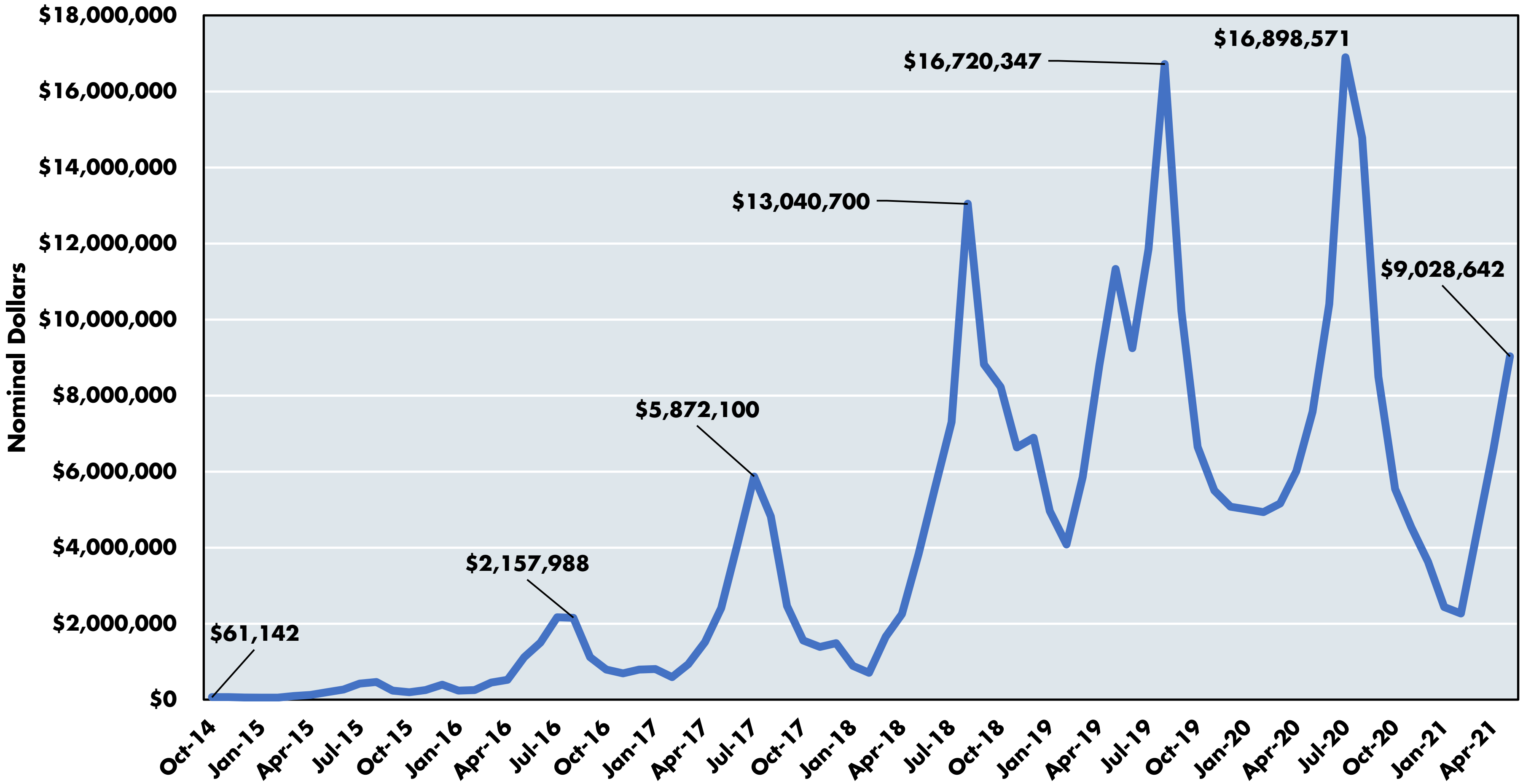
While the COVID-19 economic shock to the traditional hotel industry in Hampton Roads led to double-digit declines in occupancy, revenue and RevPAR, the impact on the short-term rental industry was decidedly less pronounced. Annual Airbnb revenue in the region fell from $100.3 million in 2019 to $92.9 million in 2020. This 7.4% decline paled in comparison to the 35.2% decline in hotel revenue across the region.

Airbnb experienced a rough start in 2021, however. Monthly revenue for January was down approximately 50% when compared to 2019. The short-term rental market has recovered, but not as quickly as that for traditional hotels in the region. By May 2021, monthly Airbnb revenue was only 20% lower than for the same month in 2019. If all goes well, the short-term rental industry should be back on track by the spring of 2022.

1 Airbnb does not provide open access to its data. We rely on data from AirDNA, which tracks the performance of listings and predicts whether or not properties are booked. For more information, see www.airdna.co/methodology.

GRAPH 9

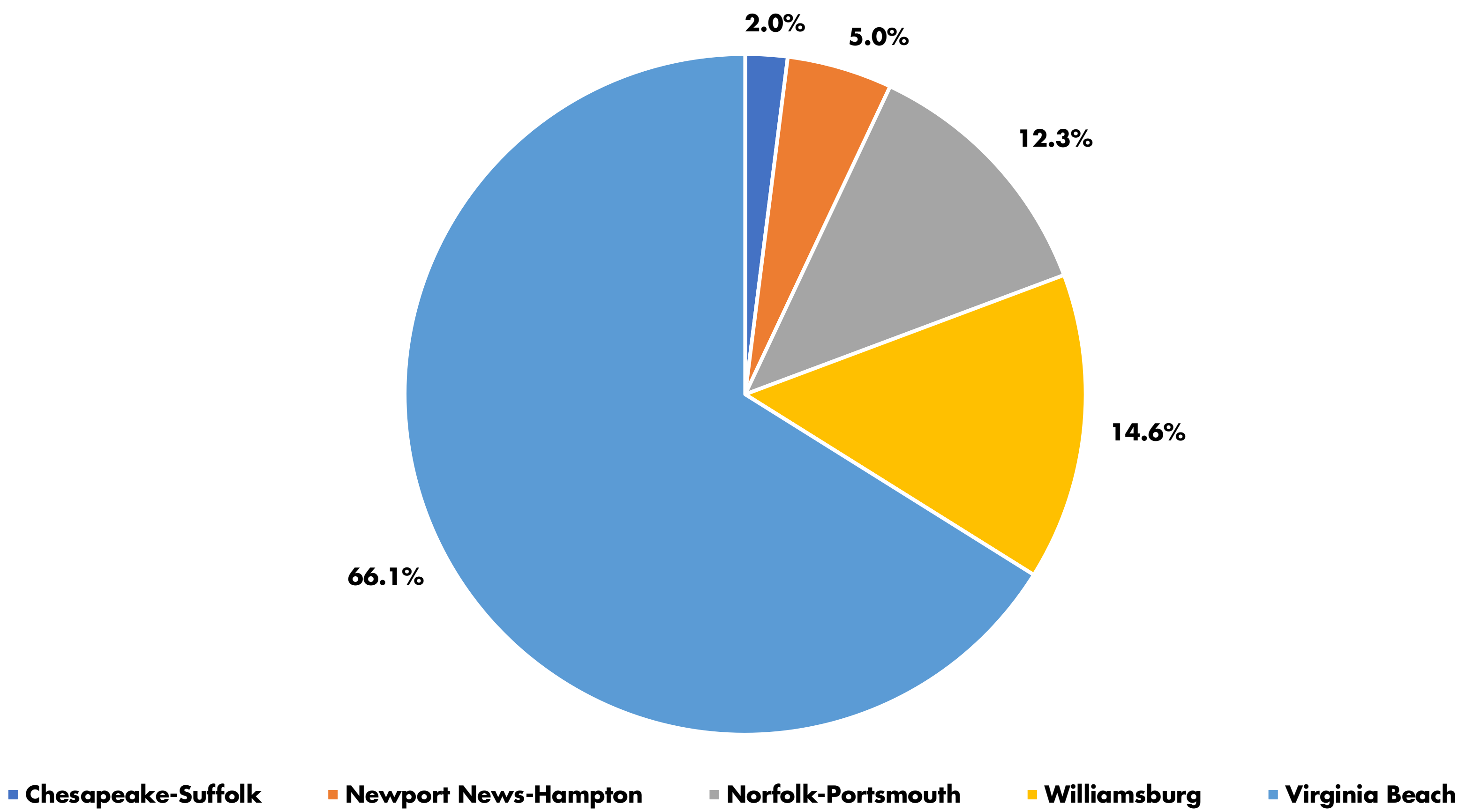
AIRBNB REVENUE IN HAMPTON ROADS, OCTOBER 2014-MAY 2021



Sources: AirDNA (2021) and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 10

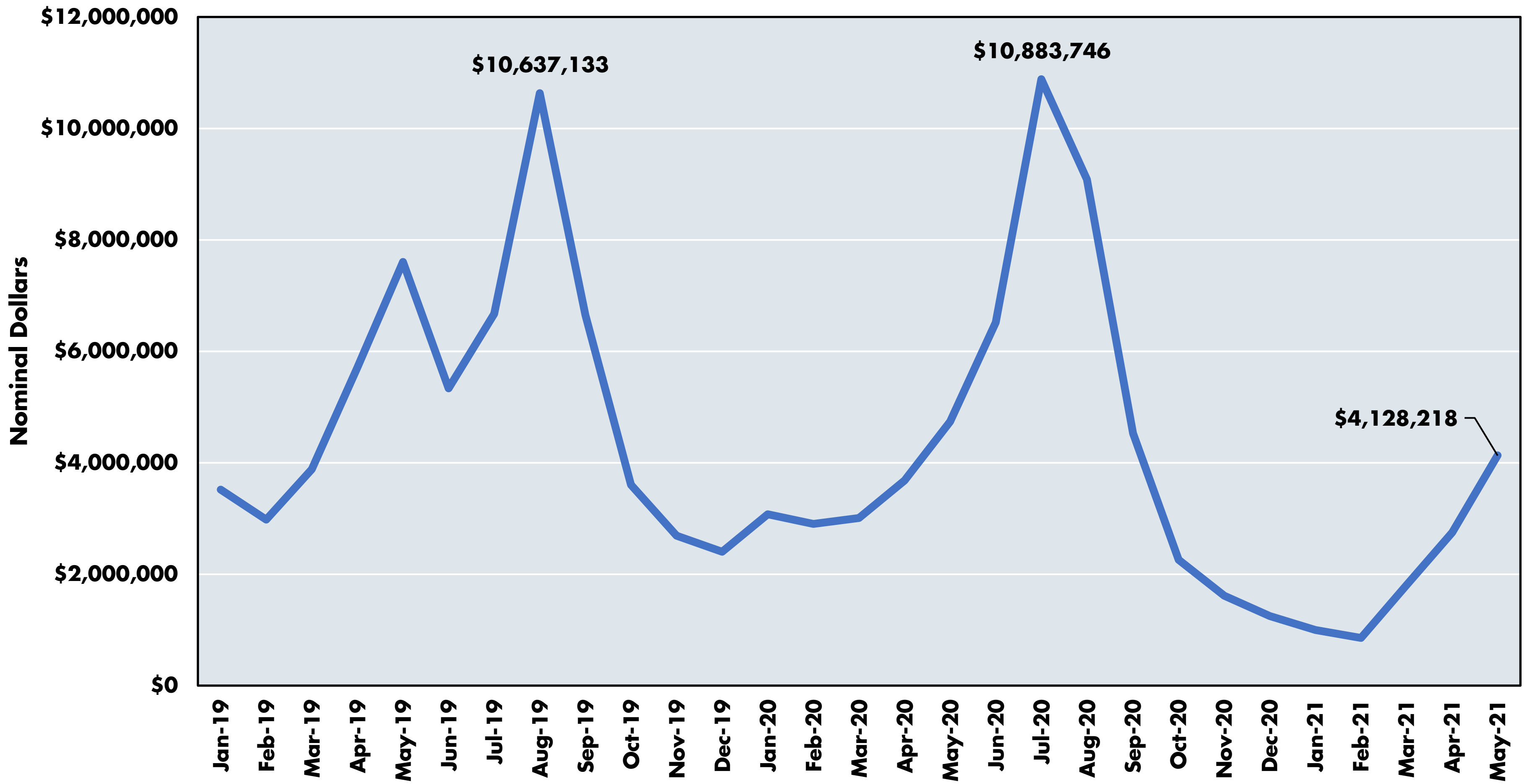
ESTIMATED SHARES OF AIRBNB REVENUE: HAMPTON ROADS, 2019



Sources: AirDNA data, June 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 11

AIRBNB REVENUE:
VIRGINIA BEACH, JANUARY 2019-MAY 2021



Sources: AirDNA data, June 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University

Risk, Comfort And Airbnb

Recent research suggests that tourists' risk perceptions increased significantly during the pandemic. Tourists, hotel staff and short-term hosts all expressed concern about the possibility of contracting the coronavirus. It should have been no surprise when hotels and short-term rental companies announced new cleaning protocols and other measures to mitigate the risk of transmission.[2] These measures, however, imposed additional costs at the same time reservations and revenue were under significant pressure. Short-term rental hosts noted that, unlike traditional hoteliers, they were unlikely to qualify for government aid, and some short-term hosts left the industry.[3] As listings and revenues declined worldwide, Airbnb laid off 1,900 of its 7,500 employees.[4]

Yet, in Hampton Roads, the percentage decline in Airbnb revenue for 2020 was markedly less than that experienced by the traditional hotel sector. What factors might explain why Airbnb outperformed its more established competitors in our region as well as other areas of the country?

One possible explanation is that, unlike traditional hotels, Airbnb listings offered more opportunities for social distancing. Also, over time, the trend in Airbnb listings has shifted toward multiroom, entire-place properties. Airbnb no longer should be thought of primarily in terms of empty nesters renting spare rooms in the back of the house. Despite the decline in revenue last year, the Hampton Roads share of Airbnb revenue originating from entire-place properties increased from 90.5% in 2019 to 92.8% in 2020. During the pandemic, if someone was going to travel, they were likely more comfortable in having an entire property to themselves than staying in a traditional hotel.

Another explanation for Airbnb's relative success is that Hampton Roads likely benefited from the near shutdown of international travel and the significant reduction in domestic tourism. Instead of traveling to other parts of the country or internationally, those who did take vacations found themselves traveling to their "backyard." Strong defense spending in the region also may have helped offset some of the losses from domestic and international tourism.

2 https://www.emerald.com/insight/content/doi/10.1108/JTF-02-2020-0014/full/html.
3 https://www.sciencedirect.com/science/article/pii/S0278431920302152#bib0250.
4 https://news.airbnb.com/a-message-from-co-founder-and-ceo-brian-chesky/.

Yet another factor to be considered is that Airbnb supply is sensitive to market conditions. Unlike traditional hoteliers, Airbnb property owners can bring their properties on market (or take them off market) with little notice. During the pandemic, highly desirable properties that commanded a premium were more likely to remain listed, while less-desirable properties that may have been listed previously for large events fell by the wayside. Knowing this, higher-end property owners may have been able to command a premium for their rentals during the pandemic, unlike hoteliers, who had to reduce room rates in the face of slumping demand.

Final Thoughts

The tourism industry is one of the three pillars of the Hampton Roads economy. As evidenced by the shock to the hotel industry, COVID-19 clearly was responsible for fewer people visiting and spending money in our region. The leisure and hospitality sector accounted for the largest number of layoffs in Hampton Roads in 2020, and while demand has increased in 2021, some of the region's markets still face an uphill climb. Inoculations have contributed to a measure of economic resurgence, but overcoming vaccine hesitancy and resistance among the unvaccinated adult population is key to a sustained recovery.

Surprisingly, amid the pandemic, Airbnb properties fared relatively well in Hampton Roads. Explanations abound as to why Airbnb revenues did not decline as much as those in the traditional hotel sector, or at the same pace seen in other U.S. metropolitan areas. Perhaps the simplest explanation is best: Airbnb listings in Hampton Roads offered a respite to those traveling during the pandemic. Whether these properties were safer than traditional hotels is a matter of debate. What cannot be debated is the performance of these short-term rental properties in 2020. Now, with the traditional hotel sector on the rebound, the question is whether the short-term rental sector will lag as vaccinations increase and consumer confidence grows. Time will tell.