

Phocuswright Special Series

# COVID-19 HOTEL FORECAST: KEY WEST

June 2020

In cooperation with



Written and researched by  
**Robert Cole**



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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.

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.

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

C.F. Kettering

# Key West

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*This week, we are departing from our focus on gateway destinations (if one disregards the Florida Keys' past experience with Caribbean pirates and the 1970s/80s drug trade) to look at what serves as a fascinating case study.*

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The Florida Keys were effectively cut off from the rest of the world on March 22. Checkpoints were established at the Monroe County border, prohibiting tourists and other leisure visitors from entering. Strictly enforced rules required documentation of residence or employment within the county. Only essential workers could be housed in any form of lodging. Passengers arriving at airports were required to self-quarantine for 14 days.

Monroe County has done an outstanding job of controlling the impact of the pandemic, with only 144 confirmed cases per 100,000 of population and 5.4 deaths per 100,000 of population – substantially lower than the averages for Florida (243 cases/10.5 deaths), the United States overall (515 cases/30.1 deaths) and nearby Miami-Dade County (632 cases/23.3 deaths) per 100,000.

Monroe County's approach is in stark contrast with Florida Governor Ron DeSantis' intended aggressive reopening plan. It has now been over two weeks since Governor DeSantis declared that Florida was ready for Phase II (including allowing non-essential travel). His recent hesitancy is likely due to statewide confirmed weekly case counts increasing steadily since the last week of April. Universal Orlando will partially reopen on June 5 and Walt Disney World has set July 11 as the date for a phased, capacity-controlled reopening.

While the Monroe County lockdown has been disastrous for Key West's hotel business, a major frustration for local hoteliers was the continued online bookings of properties that are closed to visitor arrivals. This was not due to unscrupulous tour operators or wholesalers scamming travelers – but from official sources that travelers would consider trustworthy.

Marriott.com allowed unobstructed booking of the Key West Marriott Beachside Hotel for restricted dates, with a banner at the top of the hotel page asking customers to review government guidance and confirm eligibility to travel and stay at a hotel. It also warned that reservations would not be honored where prohibited. However, links from Marriott's travel guidance page landed, after requiring three clicks, on [www.flgov.com](http://www.flgov.com) – the generic site for Governor DeSantis, which contains no direct links to any specifics regarding Key West or Monroe County travel restrictions. A non-productive waste of time for prospective guests.

Hilton.com also offered the Hampton Inn Key West for booking on dates closed to visitors, with an inaccurate and unhelpful banner asking travelers to review state restrictions and guidelines for eligibility to travel and stay at the hotel. It warned that visitors from certain COVID hotspots could be subject to self-quarantine, and asked potential guests to contact the hotel directly for more information.

Similarly, Expedia allowed closed-date bookings with a similar banner about potential COVID-19-related travel and lodging restrictions, and asked travelers to check national, local and health advisories before booking. No links were provided; not helpful at all.

Airbnb offered 30 properties for rent, again with a generic banner about checking travel restrictions before booking and following government guidelines. A "Learn More" link then required five clicks to eventually land on the Monroe County emergency declaration PDF, which provided the necessary information. A bad user experience eventually resulting in providing the right information.



2020

## February

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## May

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24	25	26	27	28	29	30
31						

## June

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21	22	23	24	25	26	27
28	29	30				

Booking.com did a better job, with a banner providing relevant information: “In accordance with government guidelines to minimize transmission of the coronavirus (COVID-19), this property can only accept bookings from essential workers. Reasonable evidence must be provided on arrival. If it isn’t provided, your booking will be canceled on arrival.” But in reality, a guest would never have an opportunity to arrive, as they would be turned back at the county checkpoint – 110+ miles and a 2.5-hour drive from their planned destination.

These and other sub-standard efforts are guest-hostile practices that undermine trust. Trust is the most fundamental element of the hotelier-guest relationship, and the most important attribute that will accelerate the recovery.

If a hotel is unable to simply communicate that it is not accepting transient reservations, what should guests assume regarding staff training and the attention to detail involving cleaning protocols? The lodging industry must do better, and guests deserve better.

Given the lockdown and housing of essential workers only, Key West’s forecast for May 2020 hotel occupancy was a mere 4% of the May 2019 level, with year-over-year (YoY) revenue per available room (RevPAR) declining 97%. It simply can’t get much worse from a performance perspective.

This further reinforces our conclusion that the inverse relationship between COVID-19 cases and RevPAR is not nearly as predictive as the ramifications of local political lockdown decisions. Again, as has been demonstrated across other international gateways, the better the public health outcomes resulting from strict lockdowns, the worse the local hotel industry performance.

## Key West Timeline

Local Monroe County and State of Florida decisions regarding health and economic initiatives are summarized in this timeline:

- **March 1** – Florida confirms its first COVID-19 case and Governor DeSantis declares a public health emergency.
- **March 15** – State of Emergency declared for all of Monroe County.
- **March 22** – Florida Keys (Monroe County) closed to visitors.
- **March 27** – Vacation rentals banned statewide for 14 days; that ban was extended through April.
- **March 30** – Stay-at-home order issued for four South Florida counties including Monroe County.
- **May 18** – Statewide vacation rental ban modified to allow rentals to reopen upon a written request from the county. As of the last week of May, 42 counties again allow vacation rentals, with 25 counties still remaining closed.
- **June 1** – Florida Keys reopen to tourists.

When Key West reopens, there will still be several Monroe County restrictions in place:

- Maintaining occupancies at 50% or less through June 15, 2020.
- Hotels must follow American Hotel and Lodging Association (AHLA) COVID-19 guidelines for enhanced cleaning practices.
- Facial coverings are required in public places.
- Group sizes are limited to 10 people or less.
- Vacation rentals will reopen as well.
- Each local municipality is authorized to enact its own, more restrictive, emergency directive.

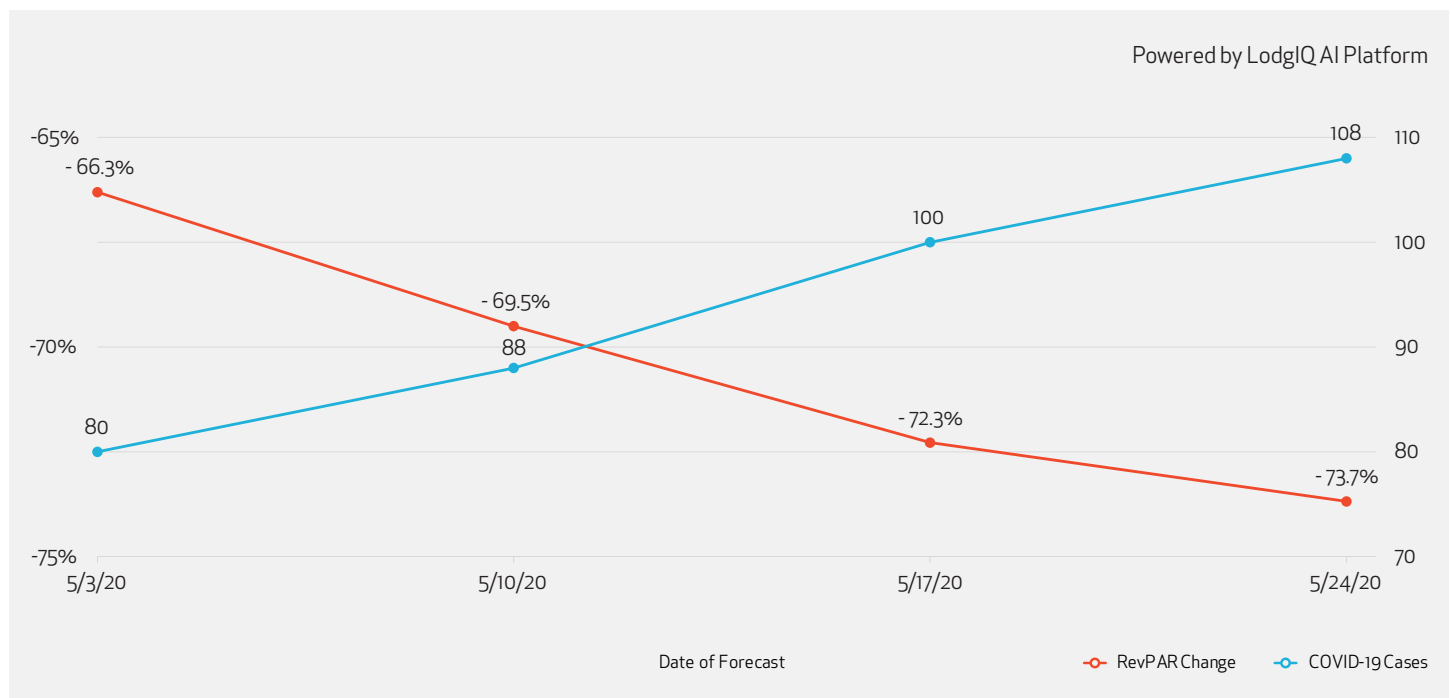
The last point makes it clear that the local and county officials are taking the matter very seriously.

Given the 50% occupancy constraint, and some local sentiment that the pace of reopening will be gradual, the forecast for June is still subject to considerable conjecture.

However, compared to many other destinations evaluated, a 74% YoY drop in June RevPAR is very promising – especially against a 97% drop the previous month, and limited by a 50% daily occupancy ceiling.

Key West's nearly level plateau in confirmed virus cases still maps with the common "X" pattern showing declining hotel demand in inverse correlation with case growth in the weekly forecasts. Key West is in the enviable position of having successfully contained the local spread of the virus, while enabling a relatively rapid rebound. For hoteliers having survived over two months of single-digit occupancy, the worst is hopefully behind them.

**Figure 1:**  
Forecast YoY RevPAR Decline –  
June 2020



With the disastrous May that resulted from the lockdown and visitor ban, Key West has nowhere to go but up from this clear bottom. Interestingly, the May average daily rate (ADR) only declined by 15% YoY. With the full closing of some luxury room inventory and a complete reliance on contract-rated rooms for essential workers, the Key West market exhibited limited rate discounting. This may be the most vivid example available for hoteliers that discounting in a low demand period does not create incremental demand; in this case, transient demand was literally outlawed.

#### May 2020 - Declines



The latest model projects June occupancy to come in at 25%, with a YoY RevPAR decline of 74%. The latest projected RevPAR figure reflects a less than 10-point degradation from our May 3 projection. We do not believe Key West, with its non-sandy, coral coast, will surge quite as rapidly as many Florida beach destinations. Additionally, bars in Florida that earn more than 50% of sales from alcohol will not be allowed to reopen until Phase II. So, combined with the social distancing rules, the parties will not be rolling too soon.

The forecast improves considerably in July and August, where RevPAR declines are forecast to improve by nearly 25 points to -50% and -31% respectively. These are the best figures we have seen to date for any of the destinations studied.

Additionally, the May 3 and May 24 forecast models indicate a modest occupancy decline of less than 1.5% for July and a flat rate for August. If all goes well, Key West should be well positioned for future improvement.

It is critical to note that Monroe County officials have been clear that they will be closely monitoring case counts to measure their performance from a public health perspective – and that is their foremost concern. If cases increase, they will be inclined to lockdown again.

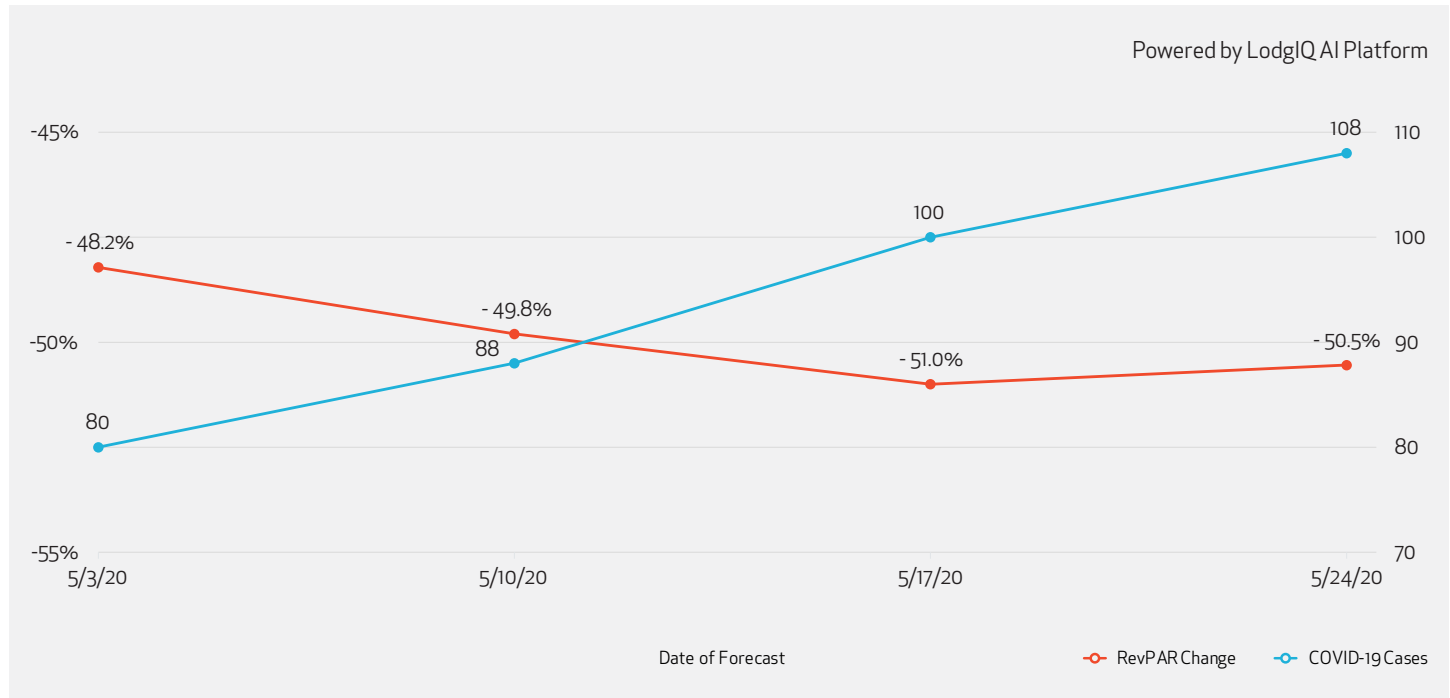
**Figure 2:**  
Change in Forecast YoY RevPAR  
Comparing May 3, 2020 to  
May 24, 2020 Forecast

RevPAR YoY Change	Date of Forecast	
	May 3	May 24
June 2020	-66.3%	-73.7%
July 2020	-48.2%	-50.5%
August 2020	-31.8%	-30.8%

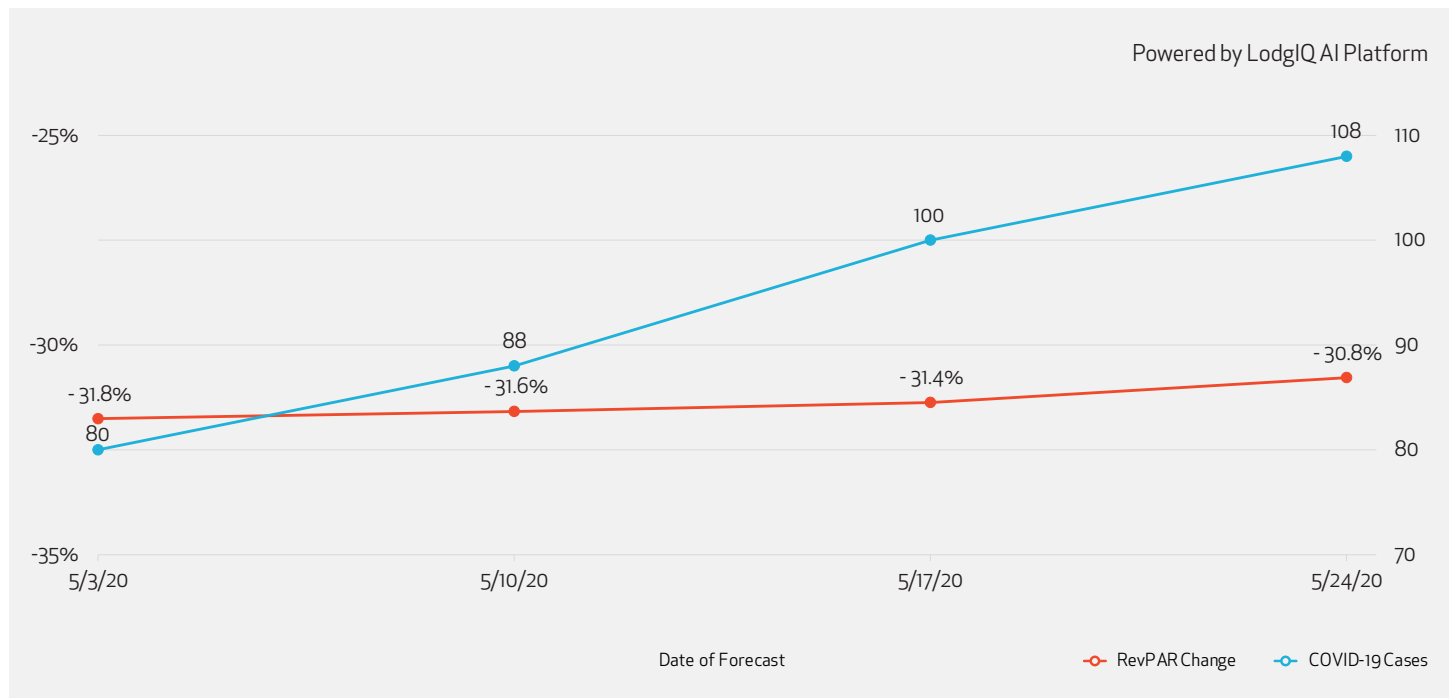
Key West's forward 90-day YoY RevPAR disruption forecast comes in at -51.7%, beating even Singapore by more than 10 points. The hoteliers of Key West may be the envy of the global hotel industry.

**Figure 3:**  
Forecast YoY RevPAR Decline –  
July 2020

It is unlikely that Monroe County will see political pressure exerted from the state or national level to reopen too rapidly or arbitrarily promote commercial interests over local health interests. With the responsibility to protect the community through disasters such as hurricane evacuations, city, county and state officials may have different policy perspectives, but generally pull together in times of need.



**Figure 4:**  
Forecast YoY RevPAR Decline – August 2020





In the absence of a future lockdown, by June 15, when the 50% occupancy limitation is removed, it is projected that the majority of Key West’s guest room inventory will be available. While this may somewhat suppress occupancy compared to other destinations with product remaining closed, it will more accurately reflect true demand fulfillment within The Keys.

The model’s forecast for Key West growing occupancy from near-zero in May to 25% in June, over 45+% in July and 50+% in August is a solid positive trend. Rates, even in early June, appear to be in line with historic levels, with little sign of discounting. With continual occupancy growth, hoteliers should be less inclined to resort to desperate pricing measures.

**Figure 5:**  
Change in Occupancy Forecast  
Comparing May 3, 2020 to  
May 24, 2020 Forecast

Occupancy	Date of Forecast	
	May 3	May 24
June	30.6%	24.8%
July	47.5%	46.2%
August	51.4%	51.4%

Despite these rosy projections, it is also important to address the potential downsides as well.

The Key West hospital has only 169 beds. There are no trauma, therapeutic cardiac, or neurosurgical service centers within the Florida Keys. An isolated coronavirus spike could easily overwhelm local healthcare facilities – which remains a critical point of focus for officials.

With COVID-19 cases currently rising in Florida, as residents and visitors flock to the beaches, and Orlando theme parks begin to reopen, it may be difficult to insulate Key West from visitors spreading the virus. A future lockdown is impossible to predict.

A good proxy for the downside risk facing Key West could be the mountain towns of the Western United States. Sun Valley, Idaho is a 2.5-hour drive from Boise – similar to the distance from Key West to Miami. In late February and early March, visitors from Seattle unknowingly brought coronavirus to Idaho’s Blaine County. The situation was exacerbated when Seattle began to lockdown, and Seattleites escaped to the mountains in a flight to perceived safety.

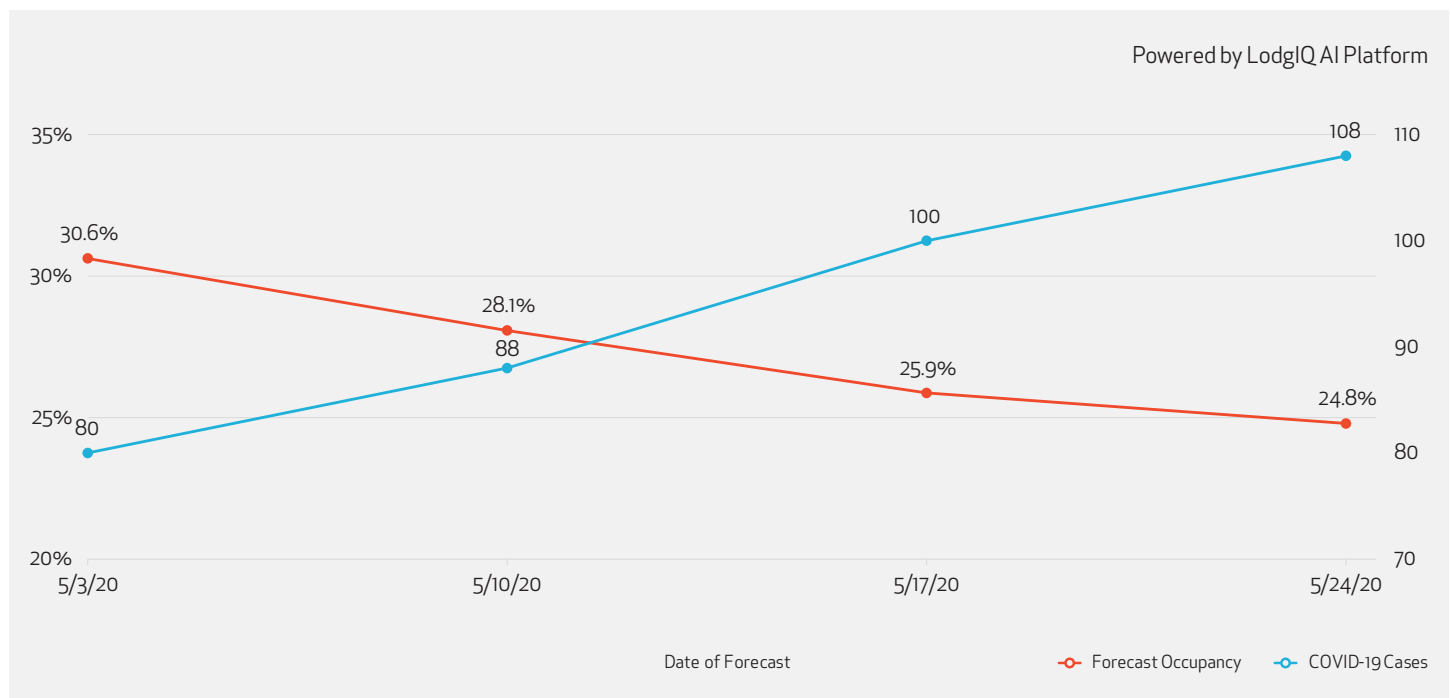
Idaho’s Blaine County is one third the size of Monroe County, but also features a similar scarcity of hospital beds. Unfortunately, the virus inundated the county, with case counts climbing to 2,200+ per 100,000 people – comparable with Wuhan, China and in the same realm as New York City’s 2,400+ cases per 100,000. Fortunately, the Blaine County death rate was only 10% of New York’s per capita rate.



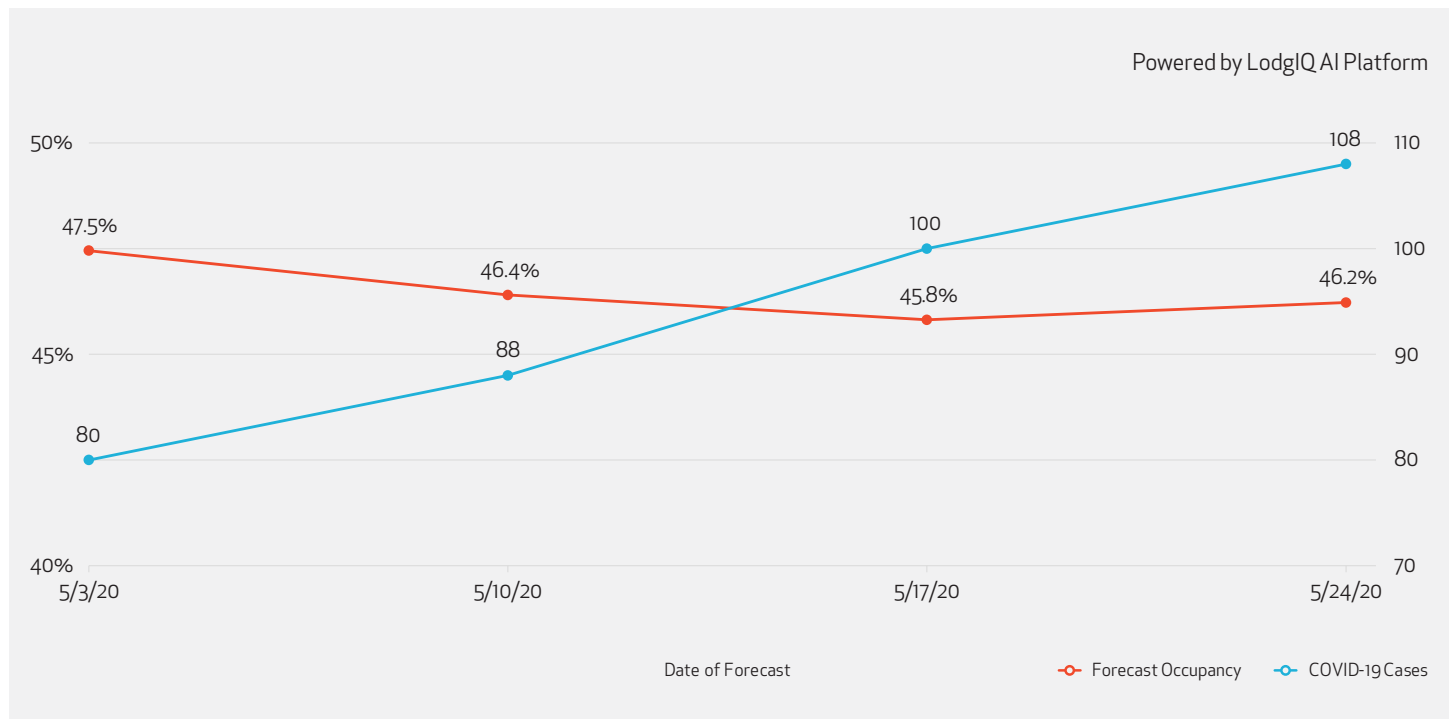
This cautionary tale was mirrored in many other mountain towns along the Pacific Coast and Rocky mountain ranges. Key West, a small town which will be subjected to a high ratio of visitors arriving from non-neighboring areas, understands the risks and wants to prove they have learned from the mistakes of others.

While Key West may have a reputation for being laid-back and easy-going, do not expect the local authorities to let down their guard when it comes to coronavirus. They have already experienced the impact of a full lockdown and will attempt to implement measures that will avoid having to repeat the process. If they are successful, the recovery prospects for the Key West lodging industry are excellent.

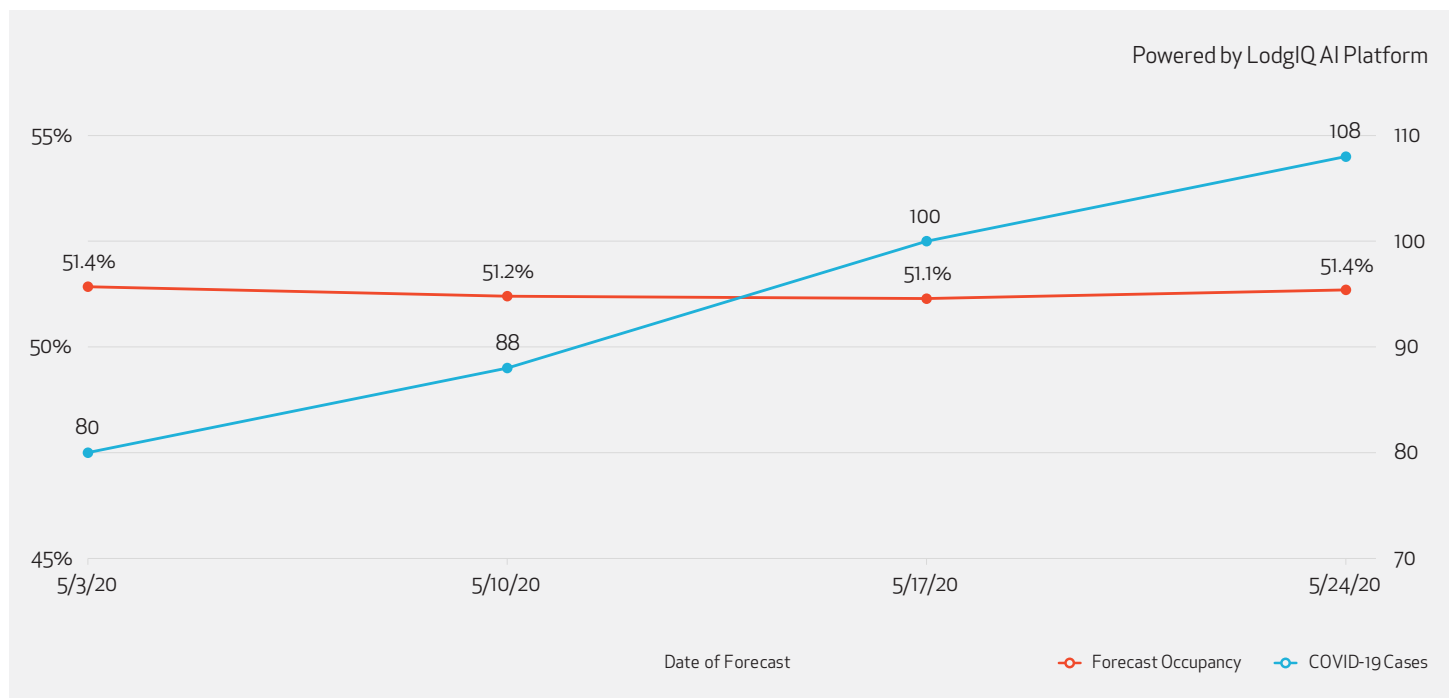
**Figure 6:**  
**Forecast Occupancy – June 2020**



**Figure 7:**  
Forecast Occupancy – July 2020



**Figure 8:**  
Forecast Occupancy – August 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



## About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and Asia Pacific. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

Phocuswright also operates [PhocusWire](#), a media service that covers the world of digital travel 365 days a year with a range of news, analysis, commentary and opinion from across the travel, tourism and hospitality sector.

The company is headquartered in the United States with Europe and Asia Pacific operations and local analysts on five continents.

Phocuswright is a wholly owned subsidiary of Northstar Travel Group.

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## About LodgIQ

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.

[www.lodgiq.com](http://www.lodgiq.com)