

COVID-19's Impact on the Silicon Valley Lodging Market

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One of the main economic engines of the San Francisco Bay Area, **Silicon Valley** experienced tremendous growth during the last business cycle. Major companies such as **Google**, **Apple**, and **Meta** (formerly Facebook) have expanded their presence in recent years, which has historically translated to strong lodging performance. However, with the onset of the pandemic and a market-wide shift in policy toward remote working in 2020, hotels have been severely affected, particularly in terms of average rate. Moreover, the influx of new supply over the last several years has been significant, which has substantially heightened competition within most Silicon Valley submarkets.

Silicon Valley has traditionally been a midweek market, heavily reliant on high-rated business travel and related corporate group demand, supported by the plethora of companies in the high-technology and life-science industries. However, virtually all major companies in Silicon Valley have implemented a remote workforce policy because of COVID-19. In December 2021, both Apple and Google indefinitely delayed their return to office given the uncertainties regarding the Delta, Omicron, and future variants. As a result, the market mix in terms of demand has shifted away from higher-rated commercial demand to lower-rated leisure travel. Silicon Valley experienced a roughly 85%–95% decline in RevPAR in April 2020. While some demand has begun to return, RevPAR in this market still remains approximately 60%–70% below pre-pandemic levels.

Further compounding these issues, the entrance of new supply in recent years has hampered the recovery of hotels in this market. Prior to the onset of the pandemic, the threat of new hotels affected virtually every submarket within Silicon Valley. Most submarkets realized a decline in occupancy in 2018 and/or 2019, and local operators reported notable declines in demand on weekend and shoulder periods. Mountain View, home to Google's headquarters, experienced the opening of 623 hotel rooms between 2018 and 2021. In nearby Sunnyvale, more than 1,100 rooms across seven hotels either have recently opened or are currently under construction. The North San Jose/San Jose Airport submarket gained 906 rooms between 2019 and 2021, with an additional 209 rooms currently under construction. Even with its extremely high barriers to entry, nearly 300 rooms were added to Palo Alto's inventory in 2021. In the near term, new supply will continue to affect the market, spreading the already reduced demand across an even larger pool of hotels.



While numbers for the lodging market appear somewhat grim, investors are still betting big on Silicon Valley,

Summary

Since the onset of the COVID-19 pandemic, the San Francisco Bay Area has been one of the most severely affected markets in the nation. Silicon Valley, despite its status as the technology capital of the world, experienced significant declines in lodging performance because of its historical reliance on higher-rated business travel. This article discusses the changing business dynamics in Silicon Valley and the impact of the pandemic on the local hotel market.

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with numerous projects underway in and around the region. Google remains committed to its new campus around Diridon Station near Downtown San Jose, which is planned to include between six and eight million square feet of office, retail, housing, and research space. In Mountain View, Google is spearheading the redevelopment of the **North Bayshore Master Plan**, which is slated to feature three million square feet of office space and 7,000 residential units. The largest office lease in 2021 was signed by Meta in December; the company leased roughly 720,000 square feet in Sunnyvale and another 520,000 square feet in Burlingame near the **San Francisco International Airport**. Meta has also announced plans to develop a new live/work village adjacent to its headquarters in Menlo Park, encompassing roughly 3.5 million square feet of office, residential, and retail space.

We are confident that the Silicon Valley market will eventually recover to pre-pandemic levels; however, our current outlook for most submarkets in the region does not indicate a full recovery until 2024/25. Moreover, the improvement in performance will remain gradual until higher-rated business travel resumes, larger corporate groups reconvene, and the return to offices becomes more widely adopted. We continue to watch the factors affecting Silicon Valley lodging, and our many consulting engagements throughout the metropolitan area allow us to keep our finger on the pulse of the market.

For more information, please contact **John Berean** of **HVS San Francisco**.

San Mateo County's COVID-19 Guideline Highlights (as of February 18, 2022)

- *Unvaccinated individuals over the age of two are required to wear face coverings at all times indoors. Masks are still required by the State for public transportation travel; healthcare settings; congregate settings, such as correctional facilities and homeless shelters; long-term-care facilities; and K-12 schools and childcare settings.*
- *Restaurants are not limited by capacity restrictions, nor is a proof-of-vaccination mandate in place.*

Santa Clara County's COVID-19 Guideline Highlights (as of February 18, 2022)

- *All persons must wear face coverings at all times indoors.*
- *Restaurants are not limited by capacity restrictions, nor is a proof-of-vaccination mandate in place.*

About John Berean



John Berean, a Senior Vice President with HVS San Francisco, conducts hotel appraisals and feasibility studies in markets across the western U.S.; John is the firm's Hawaii expert. HVS leaders now live in and work from markets throughout the western Americas region, including LA, San Francisco, Portland, Vancouver, Las Vegas, and Phoenix. John's hands-on hospitality experience includes work at the Queen Kapiolani Hotel in Honolulu. John earned a Masters of Economics, with a concentration in Quantitative Finance, from the Peking University HSBC Business School in Shenzhen, China. He previously earned a

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