

The St. Louis Lodging Market's Enduring Recovery

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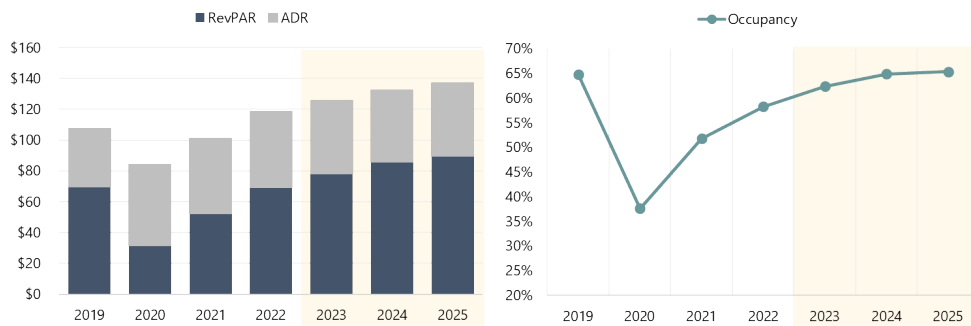
Recent and Projected Hotel Performance

Similar to the rest of the nation, hotel metrics in St. Louis plummeted in 2020 at the onset of the COVID-19 pandemic, but the market had entered a healthy recovery phase by the spring of 2021. Growth accelerated through the remainder of the year, fueled by a surge of leisure travel and the slow reemergence of commercial demand, as well as the return of conventions and major events.

Demand continued to improve in 2022, as corporate employees gradually returned to offices and attendance at large conventions and events increased. Rising labor costs and the shift in travel patterns, as leisure demand rapidly increased and commercial travel was slower to recover, caused hoteliers to aggressively push rate growth. As a result, ADR strengthened robustly in 2022, surpassing the pre-pandemic high by over 10%. Although occupancy has continued to trail pre-pandemic performance, RevPAR for 2022 nearly reached the 2019 level.

As illustrated below, we expect these positive trends to continue.

Historical and Forecasted Metrics—St. Louis Market



Source: STR (Historical), HVS (Forecast)

Demand and ADR Growth Drivers

A number of factors and development projects across St. Louis should boost hotel demand and bolster pricing power in the coming years, as outlined below.

- The **National Geospatial-Intelligence Agency** is constructing a new \$1.7-billion, 97-acre campus, which is expected to be fully operational in north St. Louis by 2026. Although the agency is not new to the region, the new campus is expected to be accompanied by additional research and business partnerships with private companies and local institutions.
- The St. Louis area is a center for research and development in the bio- and life-science sectors, anchored by the local operations of companies such as **Bayer Crop Science**, **Pfizer**, and **Mallinckrodt**, as well as the **Donald Danforth Plant Science Center**. Continued growth within this sector will be supported by further development at two innovation districts: the 600-acre **39 North** in suburban Creve Coeur and the 200-acre **Cortex** in the city's Midtown neighborhood.
- The **America's Center Convention Complex** is currently undergoing an expansion that will update the

Summary

The St. Louis lodging market was growing when the COVID-19 pandemic struck in March 2020 and derailed its momentum. A healthy recovery ensued in 2021, and by year-end 2022, the city's hotel performance was back on track. Although headwinds remain, the outlook is positive, as investments throughout St. Louis are paving the way for strength in the hotel market.

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facility, add new event space, and allow for quicker turnover between events. The project broke ground in 2022 and is expected to be completed by early 2024.

- The 2023 season will be the inaugural season for the city's new **Major League Soccer (MLS)** franchise, the **St. Louis City SC**. The team will play at the brand-new, 22,500-seat **CITYPARK** stadium located near the recently renovated **St. Louis Union Station**.
- Just before the pandemic, in the fall of 2019, the **St. Louis Aquarium** and **St. Louis Wheel** opened at Union Station. At the other end of Downtown, the **St. Louis Gateway Arch** concluded a \$380-million renovation in 2018 that added new interactive exhibits. COVID-19 restrictions impeded the initial ramp-up of these attractions, but they helped draw strong visitation to the market in 2021 and 2022.
- Outside of Downtown, a \$230-million, 425-acre expansion of the **St. Louis Zoo** is underway. Upon completion in 2027, the new **WildCare Park** will offer visitors a one-of-a kind immersive safari experience featuring a variety of big-game species in a natural park-like habitat.
- On the western outskirts of the St. Louis metro area, **The Hoffmann Family of Companies** invested approximately \$150 million in 2021/22 on initial acquisitions aimed at transforming the Missouri River Valley into an international wine-tourism destination.



Hotel Development

The greater St. Louis market experienced a revitalization of its hotel supply over the past two decades thanks to relatively cheap debt and only moderate increases in construction costs. Furthermore, numerous adaptive-reuse projects in St. Louis were supported by generous development subsidies and an ample stock of under-utilized historic buildings.

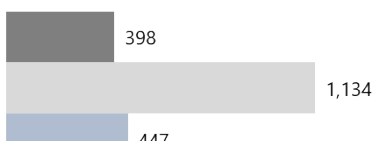
However, these market conditions have changed since 2020. The pandemic dramatically slowed the hotel construction pipeline, and the subsequent increases in development and capital costs have limited the number of new hotel projects. Although select projects will still move forward, cost constraints are proving to be a high hurdle that will prevent all but the strongest projects from coming to fruition.

Furthermore, in 2022, the **City of St. Louis** implemented a new framework for evaluating development projects that will make it much more difficult for hotel projects to receive tax abatements, tax increment financing (TIF), and other subsidies.

Given these factors, increases in the region's hotel supply are expected to be more modest in the coming years than in the recent past. The following tables illustrate the breakdown of new hotel projects we are currently tracking, as well as anticipated levels of supply growth for the next few years.

Hotel Rooms in Development within St. Louis

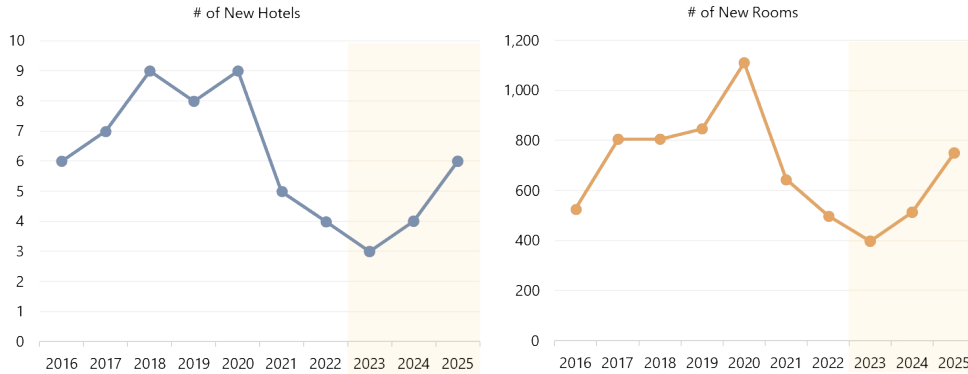
- Under Construction
- Seeking Approvals/Financing
- On Hold
- Early Development/Speculative





Source: HVS

Supply Growth in St. Louis



Source: STR (Historical), HVS (Forecast)

Performance and Investment Outlook

Although new hotel development is expected to face challenges in coming years, the reduced development pipeline combined with the aforementioned investments in the regional economy bode well for the performance of existing assets. Our expectations for the St. Louis hotel market are as follows:

- Further occupancy recovery as strengthening leisure and group demand compensates for the lingering pandemic impact on business travel
- Steady ADR growth keeping pace with, or modestly exceeding, inflation
- A multi-year period of healthy RevPAR gains

The robust supply and demand fundamentals outlined above should pave the way for both stronger operational performance and reduced volatility risk. For a number of years, investment in St. Louis-area hotels has been dominated by regional developers and entrepreneurial owners, with only limited interest from private equity and institutional investors. St. Louis hotel investors who persevered through the trials of 2020 and the ensuing recovery are now relatively well positioned given the favorable market outlook. Furthermore, the current market dynamics should help attract investment to the area from previously untapped capital sources.

For more information, contact our St. Louis market experts, **Daniel McCoy** and **Benjamin Giebler**.

About **Daniel P. McCoy, MAI**



As the HVS Practice Leader for the Midwest, Dan McCoy, MAI, oversees the firm's seven offices in this region. A Senior Managing Director at HVS, Dan is a recognized thought-leader, collaborative advisor, and invaluable resource for the Midwest's lodging industry. He combines a deep understanding of regional hotel markets with strong analytical thinking to provide a wide variety of clients with up-to-date hospitality intelligence and tailor-made solutions. Dan is a Designated Member of the Appraisal Institute (MAI) and a certified general appraiser. Contact Dan at +1 (970) 215-0620 or [\[email protected\]](#).

About **Benjamin Giebler**



Benjamin Giebler is a Manager with the St. Louis HVS consulting and valuation practice. Benjamin obtained his Missouri Real Estate License in 2018 and Kansas Real Estate License in 2020 and worked as a commercial real estate agent in Kansas City. His experience in the hospitality industry includes working as a valet and bell supervisor at the Marriott Downtown Kansas City, and he was part of the opening team at Hotel Kansas City as a front office and bell supervisor. He graduated from the University of Missouri-Kansas City with a Bachelor of Science in Business Administration with an emphasis in Real Estate and Finance. Additionally, he earned a certificate in Hospitality Real Estate Investments and Asset Management from Cornell University. Contact Benjamin at (816) 589-0922 or [\[email protected\]](#).