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During the COVID-19 pandemic the hospitality business is in “Survival Mode” - by Earle Wason

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Earle Wason

The last article I wrote for publication in the New England Real Estate Journal was in January 2020 and it was to preview the upcoming year. Well as you can imagine I really missed. We all know so much has changed since then.

My plan here is to first provide some observations and thoughts regarding the changes that are occurring at this point and then cover some facts from others that I will quote and give credit to as to what has happened over the past 6 months. Unfortunately, we are far from being able to predict the

future; to try to develop a schedule of future occupancy, average daily rate and RevPAR is impossible. It is also very difficult to determine current valuations and I believe the appraisers will have difficulty. I have heard numbers such as 10%, 20% and 30% discounted off 2019 values. There really is not any data to suggest that any of these numbers are realistic. I am an optimistic person and already based upon our current brokerage activity I believe we have a chance to come out of this economic calamity faster than one would believe.

I had felt that the first of the hospitality transaction market to start any recovery would be properties best suited for owner operators and it appears that I am not wrong. We recently closed two properties, one more than \$200,000 a room and currently have four under-agreement. If you had told me in February that would be the case, I would not have believed it. As in February I saw two significant sales cancelled and I certainly understood. We are starting to see more interest in buying but many believe there will be some good opportunities for "Value Add" transactions at discounted prices. I am not so sure of that but the "Elephant in the room" is the CMBS market. Many lenders are working with their borrowers recognizing that operators do not have control of their business operations. Also, with all the consolidation in the industry and the higher level of hotel management than in other depressed economic times it just makes sense to restructure or postpone debt. The CMBS market will not work that way, or at least, I do not think they will. When a loan is delinquent a special servicer will first want to have an appraisal completed. So as stated earlier, here we go, how will the appraiser verify his data?

Now, some comments from friends/clients in the hospitality business, how this market is affecting them and what kind of adjustments are businesses making as all tell me that they are in "Survival Mode". One owner of multiple properties said he had 1000 employees at this time last year and is now operating with 300. In markets where he has multiple hotels, he is operating with one lobby and registration desk. Another said "Earle, we are just bleeding cash". Almost all are upset about the extra \$600 the unemployed are receiving, those people are just not going back to work. Of course, you mention that to some, and their comment is that they must. That would require the employer to submit the names to the DES, once that is done that employee will not return as there are plenty of other jobs available. One person suggested that the help wanted section of the local papers is just as large as it was before the virus outbreak. One restaurant owner told me that last year he had 50 employees. Right now he is making the best of it with 15, but hopes to have several of his staff return on July 25 when the extra payment is to end. I am hearing that the Democratic Bill extends this benefit to the end of the year. Personally, I really hope the government does not continue with the additional funds, people need to go back to work but this unfortunately is a political issue as the Presidential election could hinge on an economy that could not be as good with less labor available.

Finally, I received my recent online version of Hotel Business Magazine. A very appropriate article by Gregg Walls was included and titled:

What's the deal? The state of the transaction market amid COVID-19

Here are a few points:

“According to data from Real Capital Analytics, globally, hotels have been the asset class most impacted by the pandemic. Sales of hotels were down 50% in the first five months of 2020 compared with 2019 and just 113 hotels sold worldwide from April to the end of June. By comparison, more than 850 hotels sold in the second quarter 2019”.

“A lot of lenders are now taking a wait-and-see approach before they will make capital available. We need to see our current portfolios rebound to some level of debt service coverage and see improvements happening”.

“The default ratio in the hotel industry went from maybe 1-2% to 15 to 20% in just 30 days. At the same time the lenders, special servicers were not staffed up to be able to handle such an onslaught”.

“Those hotel investors in the market now are looking for 30% to 40% discount from 2019 values, hotel owners are just not willing to accept that and therefore the number of available hotels for sale is extremely low”.

As I mentioned the year 2020 is not what we all expected and certainly not what the hotel companies expected after such a successful 2019. The year 2020 was to be the year of the wedding, so much for that but I see huge pent up demand for travelers and once we do recover from the pandemic, I truly believe we will see that V-shaped curve we hear about.

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