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## **Where are the silver linings for the hotel business amid COVID-19? - by Jim Luchars**

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Jim Luchars

Stonebridge Companies

My last article for NEREJ in late February labeled corona virus as a “real concern” for New England hotels. Well, the past six months have felt like six years and, referencing my esteemed colleague Jim O’Connell’s analogy in his August article, the PAIN continues! The virus shut down travel and business activity in March and the hotel business has been one of the hardest hit economic sectors with travel grinding to a halt and millions of jobs lost. According to Smith Travel Research, year-to-date through August, hotel demand, occupancy and RevPAR (Revenue per Available Room) are down 37.1%, 34.3% and 46.6%, respectively. 2020 will go on record as the largest annual RevPAR drop in history, worse than the Great Recession of 2008/2009 and any other downturn in the past fifty years. Boston has been on the leading brunt of this crisis with RevPAR down 51.1% year-to-date August, the highest of all the top 25 markets in the country. The timing of when the virus hit impacted the market at the start of the spring which is usually the beginning of the peak season that extends through summer and early fall, thus exacerbating the year over year comparison.

As with all major markets, the core CBD has been the most impacted with neighborhoods like TD Garden/North Station and the financial district the hardest hit. At the peak of the crisis, over seventy hotels closed in greater Boston and approximately 75% have re-opened in the past 60 days. There is a long road ahead of us and 2021 will be bumpy.

The question I am getting from many of my non-hotel colleagues is “Are there any signs of daylight?” and “When do we pull out of this?” While not easy to identify, there are some “Silver Linings” to point to for a glimpse of optimism:

Drive-to leisure business has thrived. Demand was strong at drive-to leisure destinations this summer. Despite the virus headwinds, throughout the U.S. people traveled by car to many leisure destinations. In particular, resorts that were pro-active in creating and promoting “safe” environments benefited and in some cases demand exceeded 2019 peak season numbers, particularly at luxury beach destinations.

Staycations are a real trend. They helped drive some urban demand during the summer. Hotels were on sale like never before and locals took advantage of this. Not all urban markets benefited but some, like Denver, saw this new segment grow as families in need of a change from the COVID lock-down took advantage of multiple options at deep discounts. This trend has slowed with kids back at school and sports activities resuming at some level.

The operating model is changing and for the better. The virus has forced hotel brands to work with owners to re-assess the operating model and standards that have been in place for years. The biggest changes have been in housekeeping and food and beverage. Rooms are now only cleaned on check out for health/ safety reasons and many in the industry are pushing for this to be a permanent change whereby guests will have the option to have their rooms cleaned more regularly on an a la carte basis for an additional charge. Following the evolution of the airline business, this is a natural progression for hotels. Food and beverage standards have also changed with no more free buffets and substantially reduced offerings. The permanent status of both of these categories is still an ongoing debate with the brands but, regardless, there will be some significant long-term changes to the operating model that will improve hotel profitability while not impacting the guest experience. This is a positive for an industry that was struggling with increasing fixed costs and eroding margins.

Hotel owners that survive this crisis will thrive when demand returns. For hotel owners fortunate enough to navigate the crisis and get through the balance of 2020 and 2021, there will be opportunity to excel with less competition.

Urban markets will prove to be resilient again. Demand will return to Boston, New York and the other major urban markets in the country. This occurred after 9/11 and the Great Recession and it will happen again. Despite the current trend of relocation out of cities, travel and interest in our country's urban centers will recover and drive hotel demand. Cities that rely heavily on group convention business may lag others given the long lead time in booking and the discretionary nature of attendance. Boston does rely on convention demand but is not as dependent on it as some market like Chicago and New Orleans.

Some relief on oversupply and re-openings. After ten years of recovery from the Great Recession, many hotel markets were beginning to absorb substantial new supply. Boston is included on this list with many new hotels opening in the Seaport, financial district and North Station sub-markets. The onset of COVID has certainly curtailed the pipeline of new projects for at least the next two to three years, a helpful dynamic when demand starts to recover in 2021. In addition, many hotels in cities have yet to re-open and may convert to alternative uses. The most extreme example of this is New York City where approximately 50% of hotels remain closed and some prognosticators estimate that 30% will not re-open due to insurmountable operating costs. This reduced inventory will benefit hotels that re-open as markets recover.

The hotel industry faces a very challenging next twelve months with leisure travel slowing in the fall and Q1 the off-peak periods for many markets including Boston. Owners will have to rely on lender cooperation and the availability of cash to survive this difficult stretch. However, as we look forward,

there are some “Silver Linings” to consider as we grind through the day to day of the current environment.

Jim Luchars is chief investment officer for Stonebridge Companies, a hotel development and operating company.

Prior to joining Stonebridge, Luchars was a principal at AEW Capital Management overseeing all hotel investments.

Luchars has over 25 years of experience in the hotel business and commercial real estate. Founded in 1991 by Navin Dimond, Stonebridge is a privately owned, innovative hotel development and hospitality management company. They manage a portfolio of 45 hotels across the United States, and provide investor opportunities, hotel development services, hotel management services, and hospitality career opportunities to our partners and associates. Currently, their hotel portfolio is comprised of 7,000 guest rooms across multiple select-service, extended stay, mid-scale, and full-service hotel brands located in primary and secondary markets.

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