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## **The short-term hospitality outlook is extremely challenging - by David Roedel**

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Honestly, what an amazing year for hospitality! For the first time occupancy fell so fast operators could solely focus on customer service. When occupancy drops over 50% and RevPAR more than 75%, that if it were not for the six-foot social distancing, we could carry every guest through the front door?

I recall hearing about the virus in early 2020 but not taking it seriously until reviewing mid-week, hotel occupancy numbers in early February. The hotels we own and operate, which historically run between 85-100% on Tuesday and Wednesday nights started running 70%, 60%, 50% and then, 15% by Saint Patrick's Day. In a matter of one month, business travel evaporated. And, for the foreseeable future, it is not coming back.

We are nine-months into the COVID-19 epidemic and hotels are hard pressed to forecast any positive trends. Although vaccines are now available, most citizens will not receive the vaccine until June. In addition, when will businesses allow, or even insist, their workforce return to pre-COVID-19 business travel? Without business travel, the hotel industry will fail. When it does return, it will return in stages. First, suburban, drive to markets, followed by urban centers, airport hotels and finally domestic and international convention business. Overall full recovery, by many experts, is expected to take a minimum of three years.

There are many stakeholders in the hotel business. With, or without, cooperation between all parties the industry is facing wide-spread business closures, foreclosures, bankruptcies, changes of use and demolition. Typically, especially in the northeast, hotel companies must maintain a cash reserve to run their hotels from November through April. This year, cash reserves are negative heading into the winter months. To maintain ownership, investors must make the decision to either invest more money to keep their hotels in business or walk away and face the consequences.

Stakeholders:

## Hotel Owners/Franchisees

- Investors responsible for the success or failure of the business – paying all expense. The owner/franchisee operates the hotel as an independent, local business.
- Owners need further assistance from franchisors regarding franchise fees payment plans, reduced and/or delayed capital improvements, longer time periods for renovations and assistance in reducing unnecessary operating costs.
- They need their lending partners to provide further forbearance on loan payments in the hope that hotel demand returns at the end of this year or early 2022.
- Owners need state and local governments to allow payment plans on real estate taxes and to reduce or eliminate late charges.
- Unfortunately, to date, the Federal government has failed to provide a financing vehicle that would allow lenders to provide short-term, low interest bridge loans to hotels and other commercial real estate sectors. The PPP is a start, but it is not enough.

## Hotel Management Companies:

- Hired by the hotel owners, the management company responsible for the daily operation of the business. They are typically paid 3% of the gross revenue plus additional charges for revenue management and financial reporting. All employees report to the management company but all expenses, including payroll, is the responsibility of hotel ownership.
- Management companies make their revenue as a percentage of revenue. With revenue down over 50% the business model is tough to make work. They will need assistance from hotel owners to keep their business model solvent.

## Franchisors:

- Hotel owners sign a franchise agreement, typically 20 years, for use of their brand name, reservation system, loyalty programs and other fees to the franchisor. They enforce brand standards outlined in an operating manual which include not only operating standards, but an agreement to maintain the facility in first class condition through investments in capital improvements and hotel renovations over the course of the franchise agreement.
- Like management companies, franchisors rely on a percentage of hotel revenue. They rely on selling their brands to hotels generating superior revenue. They must continue to lobby the government for loan programs to owners that will allow them to ride out the virus.

## Banks/Lenders:

- Banks lend debt, typically, on a 65/35% ratio. They demand a debt service coverage (DCSR) ratio of 1.3 to 1 and the maintenance of an FF&E reserve of 4% of gross revenue. Unfortunately, these standards are impossible to maintain in our current, or near future, forecasts.
- Lenders do not want to own hotels, but in some case, they are going to find themselves as the owner. Once again, they are counting on the federal government to provide programs that minimize their risk of providing loans to hotel clients. Without mitigating the risk of making new loans, they will find themselves as hotel owners.

#### State and Local Government:

- State and local jurisdictions rely on fees from hotels and other commercial facilities. Real estate taxes, sales taxes, rooms & meals taxes, and other fees, depending on the state, are tagged to hotels, and are paid monthly.
- Owners are looking for payment plans and zero late fees to local and state governments. The states are hurting as well and, in some cases, will not bend. Hopefully, the federal money sent to states will allow them to ease the pressure on hotel owners.

#### Federal Government:

- The Small Business Administration (SBA) and Treasury Department Paycheck Protection Program (PPP) loan program recently announced a second round of loans available to the hospitality business. These programs provide much needed assistance but fail to provide neither a long nor short term solution to the historic decrease in revenues. Unfortunately, the much-anticipated Main Street Lending Program never worked for the hotel business. Hopefully, the new administration agrees the hospitality industry requires short-term bridge loans to ride out the impact of the epidemic.

The short-term hospitality outlook is extremely challenging. The industry is moving into the first quarter without business travel, group business, group social, youth sports, college sports and association business. Moving forward, the way in which these stakeholders choose to work, or not work with one another, will determine what the hotel business landscape looks like post-COVID-19.