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Hotel asset management in the time of COVID-19 - by Matthew Arrants

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The intent of this piece is to suggest three key approaches to hotel asset management, developed during the COVID-19 crisis, that will continue to serve owners and asset managers as we move forward. As 2020 began, we were looking at another record year for hotel demand. The good times continued to roll. Owners and asset managers did what they normally do. We had tools that we learned we could rely on: Historical performance, competitive data, and numerous benchmarking products. Suddenly, in mid-March, things began to shut down quickly. On March 10th, Massachusetts and Connecticut declared states of emergency, followed by New Hampshire and Vermont on the 13th. On March 23rd, Massachusetts closed non-essential businesses. Demand for hotels and restaurants plummeted.

As the region shut down all non-essential travel, owners scrambled. Meetings and events were postponed. Employees were furloughed. Hotels were closed. PPP applications were submitted. Lenders were given revised projections. It was suddenly a very terrible time to be a hotel owner or asset manager. In retrospect, successful owners and managers focused on three key approaches to managing the situation:

- 1) Focus on long-term gain over short-term pain;
- 2) Be decisive; and
- 3) Get creative.

Focus on long-term gain over short-term pain. Owners and asset managers had to quickly determine what occupancy levels they were likely to run, what employees should be put on furlough or laid off and at what point did it make more economic sense to be closed rather than open. Here in New England, many hotels closed and numerous small properties elected not to open for the season. In the case of those that closed, they determined that the short-term pain of closing was outweighed by the long-term economic benefits. For some seasonal operations, owners were concerned that they would not be able to get the labor they needed to staff their properties or, if they did, there wouldn't be enough demand to cover costs. They looked at the situation and determined that they had a better chance of survival if they stayed closed, rather than assume the risk of substantial operating losses if they opened. Many of those that closed were not forced to give up their properties and many were able to open later with reduced services (e.g. taking only long-term guests and not providing housekeeping).

Be decisive. Savvy owners and asset managers gathered as much information as possible and acted on it quickly. Many owners were paralyzed. Even in the face of lockdowns and all indications that this was likely to last through at least the end of the year, they made no changes to their operations, except for increased cleaning protocols. They burned through precious funds paying staff that might have earned as much, or more, through added unemployment benefits. Acting decisively, however, is not enough and can be misguided. For instance, in hindsight some seasonal operators might have been better served had they been open. Particularly seasonal operators in

states with less prohibitive travel restrictions turned out to have decent-to-strong performance for 2020. Hindsight, however, is always 20/20. And these owners and asset managers had no control over state policies. Hence, to be most effective, regardless of the decisive actions taken, one needed to be prepared to pivot as conditions changed. Savvy asset managers acted quickly, making hard choices, laying staff off, reducing offerings, and even closing. Then as the situation changed, they pivoted appropriately. For example, some opened outdoor dining outlets or offered take-out and delivery to generate food and beverage revenues.

Get creative. After considering long-term implications, and acting decisively, successful owners and asset managers got creative. Colleges and universities, for example, suddenly had a housing shortage and a need for quarantine locations. Smart owners and operators called every school administrator they could find and housed students, faculty, and staff. Other hotels housed front-line workers or offered rooms for use as office space for home-bound workers. Numerous small seasonal inns were offered for complete buy outs to families for long term stays and luxury resorts touted micro weddings. Owners and operators who thought outside the box identified and targeted new sources of demand, offered new or revised services and re-oriented their properties.

These strategies of prioritizing long-term goals, acting decisively, and being creative, can, and should remain with us. They help us to respond to the risks of the times by choosing concrete action steps suitable to each property and ultimately achieving our goal of maximizing asset value. There are also a few simple lessons that we as owners and asset managers can carry forward from this experience with a pandemic. COVID-19 has resulted in reduced face-to-face employee and guest interaction. This, in turn, results in lower labor costs. For example, several properties converted typical outdoor a la carte restaurants to family style and/or window service. Similarly, many hotels offered full housekeeping service only upon request, or at check-out. These changes all resulted in improved profitability for owners and are likely to stay with us to varying degrees into the foreseeable future.

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Prior to joining Pinnacle, Arrants worked in operations in various managerial capacities with Four Seasons Hotels and Resorts, and Rock Resorts. He lectures regularly at prestigious institutes of higher education and served as an adjunct professor at Boston University teaching Hotel Asset Management. Arrants holds a master's degree in Hotel Administration from Cornell University and a BA in Political Science from Hartwick College.