

# Hotel Business

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Ed James

## 2020 Recap and Looking Forward to 2021

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EXPERT INSIGHT

*By Ed James.*

Just like everyone else in the embattled hospitality sector, I am delighted to see the incredible progress made in the production and distribution of now two approved vaccines for COVID-19. It seems likely that we are seeing the beginning of the end of this crisis and, with any luck, we should be putting it behind us in the second or third quarter of 2021. If that is in fact the case, we can reasonably expect meaningful recovery for our industry in Q3 and Q4 of 2021, and full recovery by the end of 2023. With this timeline in mind, it seems a good time to have a look at expectations for property-level operating results in the short and medium terms, the expected pace of listing activity moving into 2021 and expectations for the hospitality transaction market.

### Hotel Operating Results

Not everyone in the hotel business suffered equally during the crisis. Extended-stay hotels, especially those in the mid-market and budget segments, have done very well through the crisis, as have some economy branded and independent limited-service properties relying on relocations, construction projects and other essential worker-based demand generators. Overall, the limited-service economy and lower mid-market hotels declined only 5% to 15% from pre-COVID levels, and many are fully recovered already. Hotels relying on business travel, meeting/convention business and discretionary leisure travel suffered the most, plunging 50% to 60% or more in some markets.

Accordingly, property-level operating results will continue to suffer through the winter as cases rise after holiday gatherings, further postponing travel as treatment options improve, more social distancing/mask wearing is embraced and the initial effects of the vaccine campaign are realized in early 2021; however, significant recovery should be achieved into the spring and summer.

Our current expectation is that the market overall could recover 40% of its loss in the 12 months starting June 2021 as pent-up demand for travel is unleashed, with another 30% recovered in each of the following 12-month periods, bringing us back to pre-COVID operating metrics in mid-2023.

### **Listing Activity**

The inventory of hotels currently for sale across the country is very low as we head into 2021. Unprecedented federal relief and stimulus efforts and very accommodative forbearance concessions on the part of lenders and special servicers have helped struggling hotel owners hold onto property that may otherwise have already passed into foreclosure or receivership. As a result of these concessions and hope for progress toward ending the crisis, the expected wave of distressed assets coming to market has not materialized, resulting in very little voluntary listing activity in our industry today.

At least for the short term, many sellers are not feeling sufficient pain to cause them to bring assets to market now. Revenues are down almost across the board and lenders have understandably withdrawn from all but the most conservatively underwritten projects. While there is reason for optimism as we pass through the worst of the crisis, the ask-bid gap between seller and buyer is very wide today.

Most hotels coming to market now are those that are involuntary, such as bank foreclosures, CMBS workouts and those from other distressed situations. I do see further distress coming to the market in 2021, especially for those hotels that were in trouble before the crisis. Many markets were reaching or exceeding supply saturation points in 2019 or early 2020 and will need many years of recovery and low levels of additional inventory to recover.

### **Hospitality Transaction Market**

Real Capital Analytics reports that total transaction volume for the hospitality sector in the U.S. was down 79% year-to-date through November 2020, bringing to a close one of the worst years for transactions in history. In the new year, property-level operating results should improve based on our national recovery from the crisis and the sizable pent-up demand that exists in our travel-starved nation. These improved results along with rosier forecasts reflecting a partial return of the business traveler in late 2021 will provide the fuel for the improved transaction pace to come.

I see lender owned hotels finally working their way to market in mid to late spring along with others in various stages of distress. As the recovery takes hold and improved numbers are realized, lenders will return to the sector in a continued environment of historically low interest rates bringing with them a new round of "discretionary selling" further propelling the transaction market upward. Given that meeting and convention-dependent hotels will be the last to recover, I anticipate seeing positive results and a more "normal" pace of transactions in most segments of the hotel business by January 2022.

While geopolitical turmoil, a contested election and a global pandemic have derailed the U.S. hospitality business in 2020, there is reason for optimism looking forward. We are passing over each of these hurdles now and will soon be able to see the bottom of this market cycle in the rearview mirror as our industry returns to profitability.

*Ed James is managing principal of hotel brokerage firm Mumford Company. During his tenure, he has been involved in the sale of more than 200 properties, representing aggregate volume in excess of \$700 million, in 28 states.*

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