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Patience is the Key to Optimal Covid-19 Recovery for Hotel Industry

July 12, 2021

By Matthew Rubin, Senior Managing Director at SOLIC Capital Advisors, a leading financial advisory firm providing restructuring, investment banking and distressed asset support services

As America re-opens after the COVID-19 pandemic and restrictions are removed or dramatically reduced, the hotel industry is seeing a comeback — at least some types of hotels. Unfortunately, many conference hotels that suffered tremendously during the pandemic are expected to continue to struggle as they face new challenges, even in a robust economy.

Conference hotels are dependent on large groups and business travelers to maximize their earning potential. Unfortunately, large group meetings remain limited as many employees have not gone back to the office yet, or companies are reticent to promote large in-person meetings when many remain uncomfortable in these types of settings. Additionally, labor and staffing issues continue to plague the entire industry as we emerge from the global pandemic and encourage people to return to work.

Issue 1: Staffing and labor issues complicate outlook

The hotel industry is dealing with an unprecedented staffing shortage that is hampering a return to normal. While hotels will add 200,000 direct hotel operations jobs in 2021 according to a research report from the American Hotel & Lodging Association (AHLA), employment levels are expected to remain nearly 500,000 jobs below pre-pandemic levels of 2.3 million in that category.

There are variety of reasons why staffing levels will remain low. For one, many employers and business groups believe the US$300-per-week federal unemployment supplement that is set to last until September in most states is disincentivizing competent and able workers from returning to their jobs. Also, those previously working in minimum wage jobs are rethinking their careers and holding out for higher paying jobs, leaving a void of workers in that pay range. Another factor exacerbating overall hotel staff shortages in the near term is that a limited number of J-1 visas have been issued for summer 2021.

The prolonged shutdown and reduced operations of many hotels during the COVID-19 pandemic forced many employees to re-think their careers within the hotel industry. Some workers in high touch/hygiene related jobs – like servers, housekeeping, janitors and cooks – have been motivated to transition out of the industry and into less high touch/hygiene related jobs.

Additionally, companies such as Walmart and Dunkin' Donuts, who are offering US$15/16 per hour plus health benefits, are posing a major risk to the hotel industry. While benefits are a "nice to have," the hourly rates offered at these chain stores are several dollars above the standard hourly rate at many hotels. While many states grapple with higher minimum wages, some larger companies have the ability to increase hourly rates regardless of a state's position on the minimum wage requirement in an effort to attract new types of workers, which is to the detriment of the hotels.

A lack of available childcare, which has disproportionally impacted the return of women to the job market, is another factor in the hotel staff shortage. With many employees not returning to low-paying childcare jobs, less children can be served due to strict adult-to-child ratios.

How has the hotel industry responded to this set of pandemic-related challenges? Many hotels are increasing wages to compete with outside competition; however, wages can only be increased to a certain degree. Some properties are also offering signing and/or retention bonuses to attract and retain workers, and enhancing benefit packages with higher paid healthcare and increased 401(k) matches. To better attract and retain workers and make the industry a more attractive employment option, hotels are also providing additional opportunities for employees to accelerate through the ranks.

Issue 2: Sluggish demand for conference and group travel limits recovery

As vaccines become widely available, leisure travel is on the rebound. According to AHLA research, the first phase of recovery for the hotel industry has been almost completely domestic leisure travel with business travel still down by about 75%. With employees at many large companies still working from home – and not expected to return until Labor Day or even early 2022 – many companies have already eliminated or dramatically reduced their internal travel/marketing spend and acknowledged group meetings or conferences will be pushed out to 2022. Still, as vaccine distribution increases, group demand in fourth quarter 2021 is expected to be down by only 23% when compared to the same period in 2019.

Concerns over COVID-19 and its variants continue to linger even as vaccinations proliferate. Many companies continue to re-book lodging for a later date or cancel events altogether. Also, many companies are even re-evaluating the overall need and benefits of group events and conferences.

The hotel industry has responded to the depressed business travel market in a variety of ways. As AHLA notes, enhanced cleaning and hygiene practices rank as guests' number two priority after price. So, hotels are sending COVID-19 safety protocols to group planners and organizers to provide assurance that hotels are clean and safe. Discounts and credits are also being offered to keep reservations on the books or to incentivize organizers to book now versus later. In addition, in lieu of accepting a cancellation or re-booking, many hotels are offering reduced room rates, reduced food and beverage prices or credits, and reduced audiovisual pricing and conference meeting room rates.

The benefits of patience and assessments

It's clear that conference hotels will continue to struggle financially from COVID-19 impacts on staffing and business travel, including those from room discounts and the extra costs for attracting and retaining employees. Data from the AHLA report shows that hotel occupancy this year will increase only 8.5 percentage points to 52.5% from 2020. While some full-service hotels break even at 50% occupancy, this does not account for mortgage debt service costs, leaving most conference hotels below its historical average Net Operating Income.

With these unprecedented pressures remaining on the hotel industry, lenders will need to remain patient and may need to agree to covenant lite amendments or to waive both interest and principal payments as recovery continues and hotels' financial performance improves.

For those properties or lenders who are struggling or unable to wait any longer, make assessments to determine the optimal path forward. Assess financial forecasts to determine when interest and/or principal payments may be made. Consider revising covenants or interest rate and amortization schedules until financial recovery is possible, determine the priority of cash flow as it relates to capital improvements versus interest payments, and evaluate potential options such as whether to restructure, foreclose, or force a sale of the property.

Such efforts go a long way in supporting the hotel industry's return to normal and financial solvency.

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