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# Hoteliers tested by lack of visibility into demand

01 OCTOBER 2020 8:56 AM

Hoteliers are trying to prepare for the post-Labor Day drop in leisure demand with little to no group or corporate business to replace it.



## PREPARING FOR FALLING AUTUMN AND WINTER DEMAND

(Illustration: Rachel Daub)

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REPORT FROM THE U.S.—Now is the time of year when most hoteliers would normally say goodbye to the last of their summer leisure guests and welcome the return of groups, corporate and conference business. But clearly, this is not a normal year.

A significantly reduced amount of leisure travel kept hoteliers somewhat afloat over the summer, but now that the season has ended and kids are back in school, either in-person or remotely, hoteliers will certainly feel the absence of group and corporate demand this fall and winter.

So how are hoteliers preparing?

### **Demand and booking windows**

The industry had been shaping up for a great fall for corporate business because the Jewish holidays fall on a favorable pattern and Halloween is on a Saturday, which would kill the week if it was on a weekday, Pebblebrook EVP and CFO Raymond Martz said. The vast majority of businesses continue to work from home partially or completely, and many schools are teaching remotely.

While this would normally be the time of year for leisure to drop off, he said this environment might create a demand for families or individuals looking to take weekend trips or even three-day weekends to “just get away otherwise they’ll go crazy.”

Looking at the demand available, the forward bookings through airlines show leisure hasn't fallen off as much as it usually does, he said. Leisure demand is down around 40% to 44% now compared to 90% back in April.

The demand patterns have been short term, Martz said. On the Thursday before Labor Day weekend, Pebblebrook's hotels picked up about 15 percentage points of occupancy for the weekend. That's been holding true as weekday business has remained weak compared to weekend demand, but guests are booking their weekend stays on the Thursdays and Fridays before.

"It's pretty immediate," he said. "That's why right now it's so hard to analyze. ... It's really hard to have any visibility and say, 'Hey, here's what the second half of September looks like, here's the first half of October.'"

When first looking at September, Kerry Ranson, chief development officer at HP Hotels, said the realist in him thought the situation would revert back to April numbers or worse because there was no corporate business on the books. However, September's numbers picked up and, at the time of the interview, the company was only about \$100,000 short of where they started August month-to-date in total revenue on the books.

Their pickup has been coming in at a 48-hour window, but he expected that to dry up. October has seen cancellations, some of which were from booking delays from earlier in the year. November and December were showing nothing.

The company is looking at the segments that are booking now to help prepare for the coming months, Ranson said.

"Because what was there last year or how we historically used algorithms for the forecast, the segments are so different, obviously, and then the numbers are significantly changed," he said.

On average, about 80% of the bookings coming in for Hospitality Ventures Management Group are inside of a week with 90% coming inside of 30 days, HVMG VP and Chief Revenue Officer Cory Chambers said. There's little demand coming in beyond 90 days.

To better understand demand, the company is interested in how many reservations in the portfolio overall and at individual hotels come in one week for the next 30, 60 and 90 days compared to the reservations that came in the previous week, he said.

"If a hotel converted 500 net reservations this week for the booking window of 30 days versus 400 net reservations for 30 days in the last week, that is a very positive marker for us, which we will then have some confidence to forecast," he said. "Conversely, when we see the reservations trends decrease week over week, then we know we're looking at some sort of shift in demand."

## Labor

As the recovery slowly continues, HVMG is looking at moves it can make to add back where it has cut while still preserving profit margins, Chambers said. Through a labor perspective, the company has weighed using temporary labor or bringing back a part-time employee or even a full-time employee who can execute multiple job roles.

"Those are not easy questions to answer," he said.

They have to figure out what they are going to need over the six to 12 to 18 months, he said. Demand is inconsistent with occasional spikes, making it difficult to figure out staffing models for positions such as housekeepers.

"How do you manage those peaks and valleys of demand until we have more consistent levels of demand across the board?" he asked. "Those are the types of challenges and difficult questions that we have to navigate between now and the next several months as we as we sit

down to start to project and forecast 2021."

There's a lot of volatility in the next 30-, 60- and 90-day windows, he said, and predicting what's going to happen in the second and third quarters of next year is even more difficult.

Marshall Hotels & Resorts President and CEO Mike Marshall said furloughs turned into permanent layoffs for some employees. Some have moved on while others are just not working. He hopes those who can come back along with young adults new to the industry can come in with a strong work ethic and make the industry better than it was before.

Staffing has been light, with someone at the front desk, which includes some management team members taking shifts, and calling in extra housekeepers if the hotel rents extra rooms, he said. The hotels still are not offering complimentary food, none of the restaurants are open and they are not providing valet services. They have, however, brought back their salespeople.

While some hotels had to bring back employees this summer because leisure demand translated to occupancy ranging from above 50% to 70%, that is going to drop, Ranson said.

"We'll have to unfortunately lay some people off," he said.

The company will have to shift into figuring out operations with occupancy staying about 40% to 45%, he said. That means determining what the staffing model will look like for managers, housekeepers and other employees. In the past, the company has tried to avoid using contract labor, but they are now in contact with staffing agencies in certain markets.

"You're going to have business that pops up ... within 48 to 72 hours," he said, explaining there's a need to bring people on quickly to handle that.

It's helpful that guests don't want direct housekeeping service, he said. They might ask for new towels or other amenities, but they're not asking for having rooms cleaned during their stays.

### **Making payments**

The biggest question the industry will face is how long owners can work with their lenders before the lenders say "no more," Marshall said. Lenders don't want to take over hotels, but at some point, if they're still not getting paid, they'll have to do something. The big deadline is coming soon.

"To me, the biggest concern is, how long can you go without making your mortgage payment," he said. "There will be some people that just say ... 'Here's the keys, you can have them back.'"

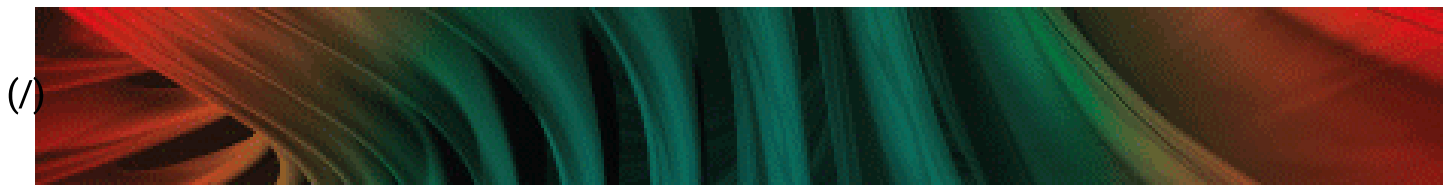
Marshall Hotels is still within the period in which it can actively negotiate extensions or delays on payments, he said. The company bought itself another three to four months through fairly strong leisure business at its mid-Atlantic hotels, but he doesn't expect to be able to make mortgage payments in January, February or March.

Lenders will likely get more aggressive on making payments because regulators are making them get more aggressive, Martz said. Back in April and May, the lenders and regulators could be more flexible, but as the industry has progressed and it's now late in the year, they've come to the realization this is not just a 90-day period of negative cash burn with a magical comeback.

"This period is going to last for an extended period, likely into spring or summer of next year," he said.

Many companies, such as Google, won't have employees return to their offices until the summer of next year, he said. If they aren't having employees return to the office, they're not going to have them fly on an airplane and stay in a hotel somewhere.

"You're going to have a realization by a lot of people that this is going to extend out another nine months, 12 months versus what they thought was three months, so lenders are going to have a different view," he said.



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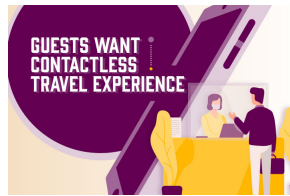
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