

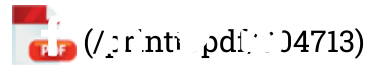
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Hoteliers remain optimistic despite pandemic fatigue

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Members of the Lodging Industry Investment Council look back at the months the U.S. hotel industry has grappled with the coronavirus pandemic and what they believe that means for hoteliers going forward.

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ASSESSING EFFECTS OF THE PANDEMIC

From left: Carlos Rodriguez Sr., of Driftwood Capital; Mary Beth Cutshall, of Hospitality Ventures Management Group; Aik Hong Tan, of Greenwood Hospitality Group; Julienne Smith, of Intercontinental Hotels Group; and Mike Cahill, of Hospitality Real Estate Counselors. (Illustration by Rachel Daub)

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REPORT FROM THE U.S.—The U.S. hotel industry has struggled over the better part of the year with the coronavirus pandemic, watching as cities and states close and reopen and corporate business all but disappear, leaving leisure demand to do the heavy lifting.

At a recent online meeting of the Lodging Industry Investment Council, industry experts spoke about what they have seen over the last several months and what they believe is coming for the industry in the near future.

Making it to the recovery

Recalling a recent conversation, Mary Beth Cutshall, SVP and chief development officer at Hospitality Ventures Management Group, said someone she was speaking with described the hotel industry's current situation as running a marathon for a while and having its effects hitting now.

"We've got a long way to run, so the past several months have been kind of charging off adrenaline, but that only lasts for so long," she said.

The summer was good for many markets because of the leisure demand, especially for those markets that people could drive to, but now the industry is past Labor Day, she said. Hoteliers are entering another chapter, and it's yet to be determined to where they're going.

"I would say people are tired and concerned and trying to really read the tea leaves as much as possible about what the next several months will be like," she said. "For the most part, people are expecting it to be a different experience than this summer because of leisure travel backing off a little bit."

The pandemic hit the U.S. in March, and everyone thought based on what they were seeing at the time that by the end of this year, some sense of normalcy would return, said Julianne Smith, SVP of development, transactions and asset management at InterContinental Hotels Group. Next year was expected to be the rebound year and everything would go back to how it was.

"As it's gone on, it seems like a year's been added to the recovery expectations," she said. "Back in June, July, we thought 2022, 2023 we'll be back in business. Now maybe it's 2023, 2024 as we're learning more."

Many businesses are prohibiting group meetings of 50 or more, going beyond state recommendations and having their own mandates well into next year and possibly into 2022, she said. When corporate and group demand returns is an unknown, making it difficult for hoteliers preparing next year's budgets.

While summer is ending and schools are back in session, leisure has taken a hit, but there's been a trend of people sheltering in place in hotels, having their office hours in their hotel rooms and kids doing remote schools from a hotel, Smith said. Many hotels with balconies and exterior corridors are holding concerts so guests can enjoy them from their rooms.

"Now is the best time to innovate and think differently," she said.

Transactions

From an investor perspective, they've gone through the all the stages of grief, so many are finding a kind of acceptance of the harsh reality of the world today, said Mike Cahill, founder and CEO at Hospitality Real Estate Counselors. In talking with people on the phone about their assets and their plans, they are sad about the current situation but they're being realistic in moving forward.

Cahill expects more hotels sales this month and in future months. Most of these deals were hotels that were a little stressed before the pandemic, but the coronavirus pandemic has put them over the top and it's time for new buyers.

"Hotel investors by nature are optimists, and that's why they go into hotels," he said. "There's that glint of optimism, but there's a bit of 'We just need to work our way through this. The problems are real, they're not going away. I've lost all the equity in my hotel. What do I do?'"

They're reaching a point trying to determine whether they want to fight for their properties for another three to four years or take their lumps after having a good run and then put it on the market, he said. The phone calls now with owners are less frantic as they've achieved a level of acceptance of this reality.

The return of demand

Echoing Cahill's assessment, Driftwood Capital President and CEO Carlos Rodriguez said he is an optimist, and he believes everyone will see the results of all the investments being made into medical research regarding the pandemic. While the big conversations are about the vaccines, he has invested in a company that does rapid testing. As a result, he's hearing about developments in medicine and technology, and the news is encouraging.

Along with the hope of a vaccine being available early next year, there are potential medicines to treat those who are infected, he said. There are remedies reducing the virus' mortality. Multiple companies are coming up with new tests that are more accurate, faster and less expensive. The U.S. Food and Drug Administration will soon approve tests that will have results in less than a minute and cost \$3 or \$4 per test.

When all of these different products come to market, it will help reduce fear among the public, he said.

"Because at the end of the day, once the mortality rate of this virus goes down and people start losing the fear of dying, that's when we'll start seeing more people traveling," he said.

The most important thing is how corporate demand recovers, said Aik Hong Tan, principal at Greenwood Hospitality Group. It depends on whether companies loosen their restrictions on having meetings and allowing employees to travel.

“That’s really the key, because all of the restrictions today are resulting in low occupancy across a lot of hotels, especially those relying on those in downtown locations,” he said.

Once people regain confidence in the current situation, people will begin traveling again, he said.



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