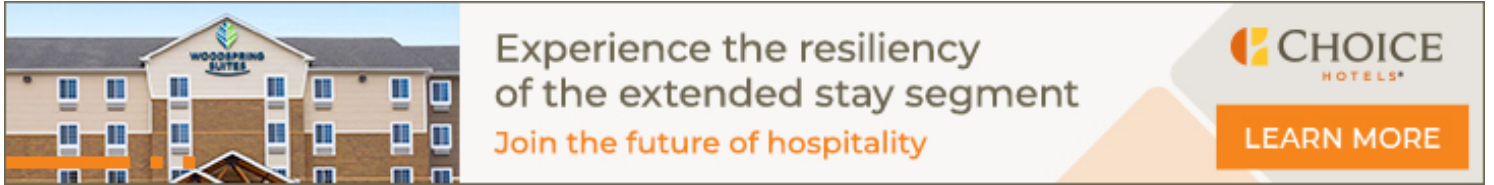
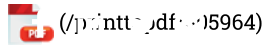


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Ownership

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Cost-cutting efforts should persist even after recovery

18 DECEMBER 2020 9:24 AM

The hotel industry has been forced to operate more efficiently and streamline budgets in 2020. Once business returns, sources said those efficiencies must remain.



(Photo: Andrey Popov/Shutterstock)

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REPORT FROM THE U.S.—Hotel owners and third-party managers learned this year that drastically cutting costs and finding operating efficiencies is doable, and that mentality must continue in the years to come.

Speaking during episode four of the “ALIS 6x8: Recovery top of mind” webinar series, Norman Jenkins, president of Capstone Development, said one positive outcome of the pandemic is “we’ve all been forced to operate a bit more efficiently.”

“Once business returns to normal, we can’t let go of these efficiencies that have built in,” he said.

“We’ve had long discussions with our operators and, by and large, they understand that we’ve gone through some pain. We’ve built in efficiencies. Let’s not just go back to normal and fatten up the (profit and loss statement). Let’s keep these efficiencies in place.”

JP Ford, SVP at Lodging Econometrics, said it’s been a long time since management companies and those at the property level have had to learn to be more efficient.

Jenkins said sales teams must remain aggressive in rebuilding the base of business.

Maxine Taylor, SVP at CHMWarnick, said this is the first time she’s ever been able to zero-base a budget. Several hotels in CHMWarnick’s portfolio either closed or are at minimal occupancies, she said.

“We’ve actually gotten to zero-base our budgets and operating models so that we can see what’s actually in there. That’s been a huge silver lining for us, to really understand what are the expenses that are in these models currently, and where can there be more efficiencies,”

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she said.

Cost-cutting or adjustment focused in part on management and food and beverage—areas that were never really considered for cuts in the past, she said. “I really appreciate that they’re being looked at now,” she added.

Taylor hopes these efficiencies will be long-lasting.

(A) terms of budgeting, Taylor said her company’s process has been conservative on the topline. It’s difficult for anyone to predict what will happen on the revenue side, she said. The goal is to keep expenses low with the intent that once the revenues come back or increase, expenses will be added back.

As an example, she said CHMWarnick is “being very thoughtful in terms of what food-and-beverage outlets and things will come back online—and when, at what levels of occupancies.”

“Some things may not come back at all,” she added.

Owners will need to understand how much cash is required to operate and explain that to their lenders as they refinance, she said. It’s crucial to understand the worst-case scenario.

Mary Beth Cutshall, EVP and chief business development officer at HVMG, said there will be more innovation and strategic focus to come, especially with technology, which could translate to better expense margins and efficiencies.

Jim Alderman, CEO for the Americas at Radisson Hotel Group, said owners’ needs have been changing, and a lot of it is tied to keeping costs in check and returning to positive cash flow.

“With a bulk of our estate, at least from a numbers of hotel point of view, being in Country Inn & Suites, that’s probably going to start off with a reassessment of breakfast. ... Another one ... is bandwidth inside the hotel might become the new free breakfast,” he said.

Deals, development, conversions and valuations

Jenkins said Capstone Development will make selective buys. The company is also spending time on development, with six new hotels currently in the pipeline, primarily urban infill, he said.

“The one thing about development is it takes a while. The projects that are in our pipeline won’t deliver until, say, two to four years—well into the recovery, and we like being in that spot. The pandemic has made development more difficult, and in the near-term, it’s just going to be hard,” he said.

However, he said, development should be difficult. When development is easy, meaning easy access to debt and equity and a simplified entitlement process, that’s when overbuilding occurs.

“I sort of like a more difficult development environment. It’s better for the equilibrium of the business,” he said.

Ford said he expected more cancellations of projects or postponements, but that hasn’t been the case. The development community has taken a wait-and-see attitude in determining the timeline of their projects, which he said is encouraging.

Carlos Rodriguez Sr., CEO of Driftwood Capital, said there will be a trickle of deals coming through, including from banks as well as owners who need to sell in order to save other assets.

“You’re going to see all sorts of sellers, from lending institutions to owners, for various reasons. It’s first going to be a trickle and then as time progresses, as hotels go through the system, whether it’s special servicers or banks ... (you’ll see) more of a wave coming,” he said.

He anticipates this large volume of transactions to occur during the second or third quarters of 2021.

In terms of valuations, Rodriguez said Driftwood is looking at what hotels were producing pre-pandemic, in 2018 and 2019. It also depends on the type of hotel and how long it will take to ramp back up.

He said big-box hotels will require a bigger discount, all the way up to 50% in some cases, because those will take longer to ramp up. Meanwhile, a beachside hotel that is performing well during the pandemic will not require as much of a discount.

Cutshall said sellers are getting more offers and much stronger offers than they anticipated, but discounts haven’t materialized yet at the numbers she expected.

“But we still think it’s coming,” she said.

To win deals, she said it’s important for the capital to already be raised, to close quickly and to be a credible group with a proven track record. She said there’s a shorter due diligence in closing periods than in previous years.

“Sellers are looking for speed of transaction,” she said.

Valuations are difficult right now, she said, and HVMG is conservative on recovery. Now more than ever, it will be a market-by-market, street-corner-by-street-corner industry, she added.



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"You really have to look deal by deal and be very diagnostic and analytical about (a) particular deal. But we do think it's going to take a while. ... We're really not sure of the psychological imprint that COVID-19 is really going to have specifically on corporate transient," she said.

Radisson is primarily focused on conversions, Alderman said, noting an owner looking to convert will need to have available capital.

"Not a lot of owners do. If you don't have available capital, you've got to be able to be willing to sign the type of deal that gets you the investment from the brand, from maybe a key money point of view or a loan, that gives you that capital available to convert," he said.



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