

US Hoteliers Spent Nearly 75% Less on Improvements in 2020

Pandemic Leads Many to Pause Capital Expenditures



By [Bryan Wroten](#)
Hotel News Now



Hoteliers significantly pulled back from capital-expenditure spending in 2020 because of the pandemic, dropping from almost \$7.3 billion in 2019 to about \$2 billion, according to a new trend analysis report.

The report also found hoteliers changed their spending priorities this year, focusing on things such as cleaning and sanitation equipment, signage about social distancing and wearing masks, reconfiguring food-and-beverage outlets and installing air-filtration systems over expenditures such as software and technology upgrades, new room designs and upgrading fitness centers.

The pullback has brought capital spending down to its lowest level since Bjorn Hanson, adjunct professor at the New York University School of Professional Studies' Jonathan M. Tisch Center of Hospitality and author of the analysis, began tracking these estimates in 2005, when it was \$4.8 billion. The amount spent has increased each year except for a similar fall in 2009 (\$3.3 billion) and 2010 (\$2.7 billion), but the amount has grown steadily since then.

The yearly estimates are based on interviews Hanson conducted with selected hotel executives, analysis of announced brand standards and other sources.

When hoteliers planned out their expenditures for 2020, they were basing their budgets on 2019 performance, which saw the highest occupancy levels since 1981, Hanson said in an interview. They had about two full months at the beginning of the year before having to shut down in the middle of March. While some might expect to see a mirror image in 2021, with more capital expenditures in November and December, that's not likely to happen.

While there will be a recovery in 2021, particularly over the summer and after Labor Day, that doesn't mean much for capital spending, he said.

“If occupancy starts to pick up, there may be some capital expenditures, but it won't be a resumption,” he said.

“It'll be dealing with some postponed expenditures.”

One challenge for hoteliers moving forward on projects in 2021 could be spending money on something like redecorating guestrooms and then learning the brands have changed their standards in response to the pandemic, requiring the hotel to spend more to be consistent with the new standards, Hanson said.

Lobbies need to be refreshed every five to seven years, he said. A brand could change its standard from upholstered furniture in public spaces to furniture with nonporous surfaces because it is more sanitary and, just as important, it looks more sanitary. If a hotelier spends the money to redecorate using a pre-COVID-19 design, that presents a problem.

“Now they think, ‘I should have anticipated that there would have been changes,’ and, ‘Maybe the brand will let me delay a bit, but now I have a lobby that's maybe not going to have the same appeal to some travelers,’” he said.

While 2021 amounts will likely be similar to 2020, or even lower, the industry will take on the necessary expenditures in 2022, Hanson said.

“There is likely to be an increase, but it's not getting back to even 2011, 2012 levels,” he said, which his report estimates to have been \$3.75 billion and \$5.1 billion, respectively.

Some of the physical changes hoteliers have made to their properties will be improved, Hanson said. Hoteliers who set up separation panels and other dividers this past year might be looking to install something more substantial and sanitary and less temporary.

Another project hoteliers are considering is the installation or improvement of air filtration, he said. These are expensive units because it's not simply adding a filter in front of an existing air handler, as the handler might not have the capacity to drive air through the new filter. Some air handlers don't have a spacer to install the filters.

“There will be some upgrading of lobbies and other things just to look new and fresh, but those will be the ones that were being planned for 2020 and 2021, and they're going to be happening a year or two later,” he said.

Freezing Capital Expenditures

McNeill Hotel Company had multiple renovation projects that started last year and were wrapping up right around when the pandemic hit in March, said Anna Rench, senior vice president of asset management and acquisitions. The company had also started at the beginning of the year a full renovation of one hotel that shared a parking lot with another hotel the company managed. When the pandemic hit, McNeill closed the hotel under renovation for about a month, shifting business over to the open property.

“We got really creative in terms of how we completed certain projects,” Rench said.

In April, however, the company put a freeze on capital spending. It set aside funding to wrap up some projects, but otherwise the company was holding off on work for everything except emergency situations, such as if a boiler

went down or a roof was leaking, she said.

As a result, many of the planned 2020 projects have been deferred, Rench said. To prioritize how the company would proceed with capital spending, the executive team set up a tiered system to determine what was necessary, what was a proactive project and what was discretionary.

McNeill worked with its brand partners to push back some renovations scheduled for next year, delaying them until 2022, Rench said.

“We don’t want to push that any further if we can help it because, from our perspective as well as, of course, the brands and the guests, we don’t want to fall behind in terms of a cyclical renovation,” she said. “We want to stay relevant within the market and want to make sure that our product is really competitive.”

Hospitality Ventures Management Group spent about \$16 million in 2019, Vice President of Design and Construction Suzanne Saunders said by email. This year, the company is on track to spend about \$2.7 million.

“We basically went from working our CapEx plan to an emergency-basis spend only,” she said.

From January to the beginning of March this year, the company’s hotels were proactively working their capital plans. Many hadn’t fully engaged in their capital projects but were on track to do so. By mid-March, the hotels shifted to emergency capital spending only as travel came to a standstill because of the pandemic and resulting lockdowns.

Because of the lack of demand and subsequent drop in revenue, hotels couldn't accrue capital reserve funding, which meant little to no money for capital spending, Saunders said. Some lenders allowed borrowers to use pre-existing capital reserve funds for non-capital needs, putting nonessential projects on hold.

“When our industry starts to come out of the pandemic and occupancy rises, there will be a huge focus on CapEx needs across our hotels,” she said.

Bryan Wroten is a senior reporter for [Hotel News Now](#), a CoStar Group news service focused on the hospitality industry.

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