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## EARNINGS

# Hotel Executives Outline Labor Crunch Causes, Changes

Publicly Traded Hotel Companies Address Labor Model As Demand Starts Rebound



Park Hotels & Resorts officials are saving \$100,000 annually by eliminating the general manager position at the Hilton Waikoloa Village. (CoStar)

By [Sean McCracken](#)

Hotel News Now

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Hoteliers are being forced to rethink their operating models as the pool of available employees lags well behind increasing demand for hotel stays as the industry looks to emerge from the COVID-19 pandemic.

Speaking during recent [first quarter earnings](#) calls, leaders of publicly traded hotel companies discussed how their approach to managing labor is changing and the conditions that are leading to the problem. Here are some of the highlights.

## Park Hotels & Resorts

Thomas Baltimore Jr., president and CEO: "There are people who are unable to go back to work, whether they have school-aged children at home, the schools haven't been open, and that's certainly part of it is we look at some of the gaps today. But the other part that's the elephant in the room is that there are very generous unemployment benefits and you hear numbers to the tune of \$20 to \$23 an hour and full benefits. So there are some that have that that bridge, if you will, and it's very accommodating bridge through September. So again, we would fully expect as the back as vaccinations continue to accelerate and people are more and more confident as we get to the fall. You expect people back in their offices for some significant period of time plus kids in schools. And then I think we're going to get a much better sense of really where the labor picture is."

Sean Dell'Orto, executive vice president and chief financial officer: "Where we started out with it was to just really kind of baseline each of these properties and the staffing levels for a lot of the managerial type levels or assistant managers, whether it's the front desk or [food and beverage] just trying to take this opportunity to zero base it. ... As we've looked at how the F&B operations are being thought through and living with that skeleton kind of environment that we're in with labor, we recognized there's some redundancy still. We could take one manager. We could ultimately take one manager for an F&B operation in a situation where we had an F&B manager over each restaurant. Now you combine multiple restaurants under one manager and things like that. There are some vacant positions that we thought

again about not needing to fill. ... So, it's just continuing the evolution of rethinking the model there and working with our partners here to kind of be creative. We do think these are permanent [changes]. We think there's another \$5 million [in savings] in complexing where your sales team within an area will be looked at differently. One example is we had Hilton Hawaiian Village who was outstanding, and we had our general manager at the Waikoloa Resort take a different position and use that opportunity to have her assume the role of kind of a lead manager or managing director over two hotels and save about \$100,000 by not replacing a general manager position at the Waikoloa Resort."

## Hilton

Kevin Jacobs, chief financial officer and president of global development: "It is very difficult, particularly here in the U.S., to get labor, and it is constraining the recovery because you can't get enough people to service the properties. I do think in the short term there's going to be wage pressure, wage inflation. I do think it will stabilize and work itself out as we get later into the year. It's a complex issue that is at the intersection of people being concerned about their health still, particularly in some of the communities that we need to get focused back in coming back to work and that's going to take some time for both vaccination and marketing to a number of those communities to get vaccinated and getting it done and getting them to a place where they feel safe being in a workplace. So that's part of it.

"The other part of it is getting kids back in school because a lot of people in the workforce are taking care of kids. If there's no daycare, school becomes daycare. The federal government, for all the right reasons, way back when did a top up of unemployment insurance and on top of the state unemployment insurance and obviously sent out [stimulus] checks and they did all these things to support people that were in harm's way, all of which made sense. At the time, maybe some of it makes a little bit less sense now, in the sense that the demand is there, and the jobs are there. Yet people don't have as much of a need to come back to it. ... I think by the time you get to September, October, I think the vast majority of those could easily be reemployed given what I think demand will be in the business."

## Choice Hotels International

Pat Pacious, president and CEO: "We as a company, and our franchisees in tandem with us, have done a number of things during the pandemic to cover labor costs, everything from

have done a number of things during the pandemic to save on labor costs, everything from housekeeping on request to a flexible grab-and-go breakfast. These items also save on labor costs. There are some things we've done to remove the labor costs, some of it, in our franchisees' total cost of ownership. The ability to hopefully be able to continue to run their hotels with a smaller labor force than they had prior pandemic. But everybody has been talking about the same thing. It's the additional unemployment insurance, stimulus money that is really causing people not to return to work yet as housekeepers and the like. So, again, we hope that's transitory. It extended through the month of September. As workers begin to get closer and closer to that, we do hope it'll ease up on the pressure that some of our franchisees are seeing.”

## CorePoint Lodging

Keith Cline, president and CEO: “We came into the pandemic as an industry with a labor shortage and that labor shortage has increased. The industry has done a lot of things similar to what we’re doing. For example, not cleaning stayover rooms to create additional housekeeping capacity in the hotel. Obviously we are in dialogue every day with our third-party manager on either a combination of incentives or programs to [encourage] people to jump into the hospitality industry and once they are in, incentivize them to stay. So we’re in active discussions now on programs we’d like to deploy as we go into the summer months. The shortage of labor today is one of the top topics in this building.”

## RLJ Lodging Trust

Leslie Hale, president and CEO: “Everybody knows there’s a staffing issue within the industry. It’s not just the lodging industry, it’s the service industry overall. And clearly that’s being influenced by the extended benefits that associates are receiving, lack of childcare because some students are not in school or just the flux in occupancy which doesn’t give us the ability to offer 40 hours of work. We think those are temporary and transitory and that occupancy will improve [as] we get past September as it relates to the benefits that some of the labor pressure sets aside. We think our team is doing a great job in terms of dealing with the shortage of staffing and being able to meet the needs of the customer and the consumer despite the lack of staffing in some areas.”

## DiamondRock Hospitality Company

Mark Brugger, president and CEO: “If you look at the jobs report even this morning the bulk of the pickup was in hospitality and leisure-oriented jobs. So, yeah, there's a rush on for rehiring folks. There is a big pool of people out there that were unfortunately laid off in this, but then some have found other jobs and other work. Some people need to stay home and care for children and other issues in the pandemic as we emerge out of it.

“So we're having different experiences in different markets. We pride ourselves that generally, we are excellent employers. But it's a — I would say, it's a mixed bag depending on the market and how tight the labor markets are there. We are having to incentivize in some markets to get employees to come back, but we have a good handle on it. And remember a lot of our markets were doing very good jobs. If you take New York City for instance, where a hotel is having the overall package for a housekeeper, it's something like \$80,000 with all the benefits. So if you compare that versus the alternatives, it's still a very attractive job. But we're clearly like our other folks in the industry and markets like Florida, it's very challenging to get workers. But we're on it. And we think we have a good action plan.”

Tom Healy, chief operating officer and executive vice president of asset management: “The goal is to create incentives that reward behavior and not just elevate everyone's wage, right? Try to create incentives for when the business is good. And when the business gets a little soft that comes down. So we're looking at basically incentives across — in all those markets.

“And then I think the bigger thing that we've seen is FTE creep, fixed FTE creep. We've established baselines for the portfolio at occupancy levels, right? So we looked at every type of fixed position. If it's a greeter a supervisor or a manager, back of the house, accounting, administrative, wherever — those are all in our mind fixed FTEs.

“So we've created benchmarks for all of our hotels. And then we're tracking those every month. And we're making sure that the positions that add value and improve customer experience and touch the customer, those ones are the ones that go back first and drive revenue.”

Jeff Donnelly, executive vice president and chief financial officer: “One point I would make is that I recognized on our call and other calls people have asked about labor, I actually think there's an opportunity to the extent there are in some markets or in some situations

shortages of labor it does give rise to the opportunity to redo the labor model in those situations, whether it's increased usage of digital check-in or again changing customer behavior around room cleaning and things of that nature. So I think we're encouraged on that front.”

## Apple Hospitality REIT

Justin Knight, president and CEO: “There's been a lot of talk about the labor crisis or a challenge that a number of service industries are having — finding good workers in today's environment. And certainly we are — as are most businesses in service industries impacted by that. Relative to our full-service peers, I think we're advantaged on the margin in that. We came into this year running higher occupancies and had, in the last year and have for some period of time been in market, adding back employees as we've built back occupancy. We made the strategic decision in November and December when we saw seasonal declines in occupancy to retain workers that we had brought on as we ramped to our prior peak occupancy in October.

“And as we built back occupancy this year, that's worked to our benefit. The labor pressure isn't quite universal. We're feeling it more in certain markets than others. But [we] anticipate that it will continue to be an issue as we see a ramp-up in service businesses across the country. And I think there's been a significant discussion in prior earnings calls from our peers about other factors that are contributing to the challenges that we have now, including difficulty finding childcare for certain individuals, competitive environment and government-subsidized unemployment.

“The trick is in the near-term meeting our needs. I think we're fortunate in that our business, relative specifically to our full-service peers, is efficient by design. The total number of workers that we're looking for as we build back occupancy is meaningfully less. We don't have outlets that we need to staff in addition to the kind of the normal base functionality of our hotels, which we see as an advantage.”

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“Supply growth always lags demand trends. And I think as a result, last year, we continue to see an increase in supply in a number of our markets. As we move through this year that

becomes less of a factor. And certainly, as we look at 2022, 2023 and even beyond, our expectation is that we'll see meaningfully less supply growth in the majority of our markets. Construction costs continue to be relatively high, and the labor shortage is impacting developers' ability to get deals done in the current environment. We've also found that early-cycle lenders tend to be more conservative in their underwriting of development deals and availability of capital is the most meaningful constraint on supply over the long run.”

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“We've highlighted in past conversations and in past calls that our primary areas of focus with the brands are around the service model, typically housekeeping and the food and beverage offering. Looking at our total expenditures, historically 40% of our total cost structure has been labor-related. And while we anticipate individually, we will be paying employees more, we're working with the brands on ways that we can adjust our service model and have a need for fewer people, which should yield a meaningful benefit to us on outside.”

## Wyndham Hotels & Resorts

Geoff Ballotti, president and CEO: “We've intensified our diversity, equity and inclusion efforts as we cultivate a workplace that supports the open dialogue that makes Wyndham Hotels & Resorts such a great place to work. ... Labor has always been an issue long before this pandemic began. I mean, we've always known that the hotel industry employs 10 million people. And that was before we went into COVID that we were struggling to fill a million jobs. And certainly with the pandemic and unemployment insurance, it's an issue our industry is very, very focused on.

“It's especially concerning in urban, in group, in meeting and full-service, destination hotels. I mean, we need more housekeepers. That's what we're hearing. And that's what Michele and I see when we travel. We need more front-desk workers, we need more culinary workers, and what the hotel industry is doing ... is advocating on so many different fronts. Last Tuesday, the administration approved an additional 22,000 H-2B visa applicants and you know, that's allowing our 66,000, normal, temporary foreign workers to grow to 88,000. But it's a drop in the bucket, and we need more.

“We're asking the administration for the travel ban to be lifted for all J1 foreign students,

that's another 300,000. Let's see, the AHLA is launching I know, a custom portal to attract the young opportunity from across the United States of America, especially in the downtown areas, and getting the word out in terms of what a great industry we have.

“It is much less of an issue in the select-service space for a company like ours. We don't have the outlets, we don't have the restaurants, we don't have the banquet and catering facilities, but it's certainly top of mind for our ownership. And it was a large part of what ... led to our new breakfast standards that we put out ... to really reduce the labor and the requirements for our owners. Everybody's focused right now on getting our franchisees and our owners — now that they're getting back to the occupancy levels — back to the profitability levels that they had in 2019.”

## Marriott International

Leeny Oberg, executive vice president and chief financial officer: “On the hotel margin side, as you've heard us talk about before so much of how we hold onto these margins depends on how fast demand comes back, because we do believe that there's some work that we've done that will permanently help keep some of this margin improvement. But obviously, depending on how long it takes for demand and ADR to come back, you've obviously got annual wage inflation risks that start to cut against some of the savings that we've come up with.

“So from that respect, we do watch really carefully. I'd say roughly 50% of a full-service cost structure is related to labor. And we are watching that very carefully. As we see demand come back and look at all the things that we've done on the productivity side, but the pace there is very much around how quickly demand comes back. So far from what we can tell, we do like what we see in terms of the pop back on rate and feel good about our ability to hold on to some of these savings in a more permanent way. But obviously, wage inflation is something that we see.

“And frankly, it is typically been the case that when you have inflation on wages, you often also have inflation on ADR, which helps to offset that.”

## MGM Resorts International

Bill Hornbuckle, president and CEO: “The first three weeks that this thing really took off in

DAN HODDINCKE, PRESIDENT AND CEO. THE LAST THREE WEEKS THAT THIS THING REALLY TOOK OFF IN the middle of March, we got caught off guard. If you asked us today, we probably have 1,300 openings. If you asked us in the middle of 2019, how many openings we have at any given moment, it's about 1,300, 1,400. And so it just the velocity of how quickly it came back. I think over the next 60 days or teams have done a great job in responding. And I think you'll

see us get back to the place where particularly service levels are where they want and need to be. Because we'll be able to staff up, there is a couple of holes.”

Jonathan Halkyard, chief financial officer: “The labor costs we expect to be largely sustainable. I mean, there is — there are a couple of circumstances in our regional properties where we've been aside from what I mentioned earlier about adding some additional capacity to restaurants, for example, which operate at lower margins than the other revenue centers. There's a couple of circumstances in our businesses where we're under our intended complement of employees, but those are — there are relatively few of those.”

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3. The US, Global Hotel Markets That Stand Out Through One Year of the Pandemic

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4. With Hotel Industry in 'Worst Dislocation' He's Seen, Former Holiday Inns CEO Looks To Buy

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5. **MACK REAL ESTATE TAKES OVER CONTROL OF SEVEN NEW YORK CITY HOTELS**

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6. **Presenting the Bear Case for the US Hotel Industry**

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7. **Blackstone, Starwood Capital To Buy Extended Stay America for \$6 Billion**

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8. **Times Square, the 'Crossroads of the World,' Shows Signs of Rebound**

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