The Lodging Conference – HVS Perspectives

October 1, 2021 / By Rod Clough, MAI

With nearly 2,000 registered, the **Lodging Conference** brought together members of the hospitality industry to discuss the recovery, challenges, and successes of the industry to date. The highlights of the event from those that attended from HVS are summarized here.

Market Performance

- The U.S. economy is headed towards a cooling period this fall and winter due to factors such as the COVID Delta variant, supply chain issues, higher energy prices, a recent cutback in consumer spending, and the scarcity of materials. Looking beyond the next two quarters, a much more normal business cycle is anticipated. GDP growth estimates of 5.7% in 2022, 3.1% in 2023, and 2.4% in 2024 were presented; however, with much of the world lagging in vaccinations, a more uneven global recovery will unfold.
- Those more optimistic expect a full recovery by 2023, while the predominant sentiment was an overall market recovery by 2024. This reflects a much shorter downturn/recovery cycle (faster overall rebound) when compared with the last downturn in 2008/09. There are great market-to-market variances depending on demand sources and property types, with large-group-dependent hotels and urban properties likely being the last to see full recovery.
- Factors contributing to the faster recovery trajectory include that 77% of the U.S. population (18 years and older) have received at least one shot of the vaccine, with 57% fully vaccinated. Accordingly, more people will feel increasingly comfortable traveling. Border crossings will return in 2022, further boosting international travel and, particularly, spending in gateway cities, which will benefit from the longer stays.
- With eleven million job openings needing to be filled, technology is spawning new jobs, and the available work force is seeking training to take advantage of these opportunities. These efforts for training and development, as well as the ramp-up of employment, will ultimately benefit the hotel industry.
- Predictions of remote work affecting the industry negatively were addressed through reflecting on the significant levels of already-present remote workers before COVID struck, how many industries are not designed for remote work, and how companies continue to invest in urban office space (e.g., **Google** in NYC). The ultimate sentiment of the conference was to not underestimate the return of business travel; ultimately, nothing compares to the human experience, interaction, and connection that is made through travel.

Capital and Transactions

- Buyers are predominantly seeking select-service and extended-stay hotels that are less than five years old. Rather aggressive underwriting is required to win deals, and return requirements are trending towards the mid-teens (versus the high teens) from an IRR perspective.
- Buyers are not taking the 2020/21 expenses into context, as they are not an accurate picture of true annual cost. In some cases, they are adding more expenses to the 2019 numbers due to increases in labor and insurance costs.
- The anticipated wave of distressed assets coming to market has not materialized; however, there is still an expectation that more of these opportunities may come to market in the next six to nine months. These will typically be assets that have not undergone a healthy recovery through the summer of 2021 and have a longer recovery timeline and/or PIP/renovation needs. Moreover, the lack of additional PPP funds and waning forbearance will be contributing factors.

Summary

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- Many of the funds that were raised to acquire distressed assets have aggressively acquired the limited assets that have come to market, including note sales. This high level of competition for deals has limited the overall negative impact on values given the significant level of capital on the sidelines.
- More recently, some of those funds have pivoted to offering debt/recapitalization financing rather than outright acquisitions. Equity investors are accepting the fact that distressed-asset buying opportunities may not materialize this time around. Owners and developers are seeing this as an opportunity to bring these investors in as joint-venture partners into existing assets and/or new development opportunities and to allow them (investors) the deploy capital that was originally raised for distressed assets.
- A wide variety of debt is available from different sources (e.g., life insurance, CMBS, community banks, debt funds, etc.), and the availability and pricing are dependent on the borrower relationship/profile and the risk/recovery profile of the asset. CMBS lenders now have a "COVID reserve" at closing; moreover, Pace, EIDL, and ground leases all came up as non-traditional avenues, as well.

Labor and Inflation Challenges

- Labor remains a challenge for the industry, as hotels are competing with other industries and employers for staffing, including major employers such as **Amazon**. The need for aspirational and clear career paths was noted as increasingly important.
- The industry has been losing one out of twelve assistant general managers each month due to burnout and stress with cleaning hotels and little hope, as they've experienced general managers doing much of the same thing.
- For corporate staff, many mentioned that allowing some level of remote working is now essential to attaining the best employees given that the recruitment pool has become smaller.
- Inflation is at an inflection point. With the risk of losing market share, companies are finding it difficult to pass along any more price increases to the consumer.

Final Takeaways

- I was able to share early results from our latest HVS Broker Survey, which showed cap rates, exit cap rates, and discount rates returning to pre-pandemic levels for stabilized assets. Pricing is still typically 5% to 10% off of 2019 levels due to near-term impacts on cash flow and where the asset fits in the trajectory of overall recovery (although some properties are now pricing above pre-pandemic levels, and others are realizing price cuts greater than 10%).
- We look forward to seeing the recovery unfold and sharing our insights and takeaways at the coming events this fall and winter. Please join our Global Webinar at the end of this month!

Many thanks to **Eric Guerrero**, **Emil Iskandar**, **Kasia Russell**, **Dan McCoy**, and **McKenna Luke** for their contributions to this overview.

About Rod Clough, MAI

Rod Clough is the President of HVS Americas. He is responsible for the overall direction, management, and ongoing success of 40+ offices across North and Latin America. Under his leadership, HVS Americas conducts over 3,500 valuation and consulting engagements annually. During his 30-year tenure, Rod has been instrumental in leading the growth of the firm; this includes significantly expanding the number of offices across the United States, as well as launching multiple divisions, including U.S. Hotel Appraisals, HVS Latin America, HVS Brokerage & Advisory, and HVS Asset Management & Advisory. A frequent speaker at the nation's largest hotel conferences, Rod is a designated member of the Appraisal Institute (MAI) and a state-certified appraiser. He earned his BS from Cornell University's School of Hotel Administration and also holds a Colorado real estate broker's license. Furthermore, Rod is proudly Latino and gay, and his firm is welcoming of all races and colors, sexual orientations, ages, genders, and gender identities. Once associates join HVS, they tend to stay due to the extraordinary culture Rod has inspired—a culture defined by the ideals of balance, connectivity, efficiency, collaboration, honesty, integrity, kindness, and excellence, among others. Rod resides in Northern Colorado where he and his husband Jeff are raising their daughter, Rory. Contact Rod at (214) 629-1136 or .