



## **HOSPITALITY REAL ESTATE POST-CORONAVIRUS**

Asset Stress, Opportunities & New Consumer Status Quo

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May, 2020

# INDEX

## ► Introduction

### **1 Mapping the Pandemic's Impact on Hospitality**

1.1 The Post COVID-19 Traveler and its Impact on Hospitality

1.2 Opportunities within the Storm

### **2 Ensuring Liquidity Flow Through Uncharted Waters**

2.1 A Lender's Point-of-View

2.2 The Borrower's Liquidity Needs

2.3 The 2020 Economy's Blow to Hospitality

### **3 The Challenges in Operating and Managing Assets Post-Pandemic**

3.1 To Open or Not to Open: Hospitality's Most Difficult Decision

3.2 Boosting Guest Confidence Post-Pandemic

3.3 The Road to Recovery

3.4 Protecting Human Capital

3.5 Silver Lining for Operations

### **4 Into the Future: Hospitality's Outlook and Main Challenges**

4.1 Hospitality Sector Outlook: The Near Term Looks Bleak

4.2 Future Looking Investment Strategies

## **Contact**



## ► Introduction

In two months, the life course of millions has changed drastically without discriminating between country, language or class. COVID-19 has jolted the global economy and placed the hospitality industry on thin ice as countries pushed for measures leading up to the Great Lockdown.

The first of its kind to leaders around the globe, COVID-19 will change the way business is done and transform the hospitality real estate industry. Without a precedent, timeline or known depth of impact, decision-making has been made more difficult, putting on the line the future of many hotels, resorts and other related services and product companies.

This GRI Report will discuss the immediate impact of COVID-19 on the hospitality industry from the point of view of GRI Club members during the GRI Global Hospitality eSummit 2020. It will also explore the challenges and opportunities owners, operators and investors will face in the months to come as activity revamps and the rules of the game change.

- Mapping the Pandemic's Impact on Hospitality
- Ensuring Liquidity Flow Through Uncharted Waters
- The Challenges in Operating and Managing Assets Post-Pandemic
- Into the Future: Hospitality's Outlook and Main Challenges



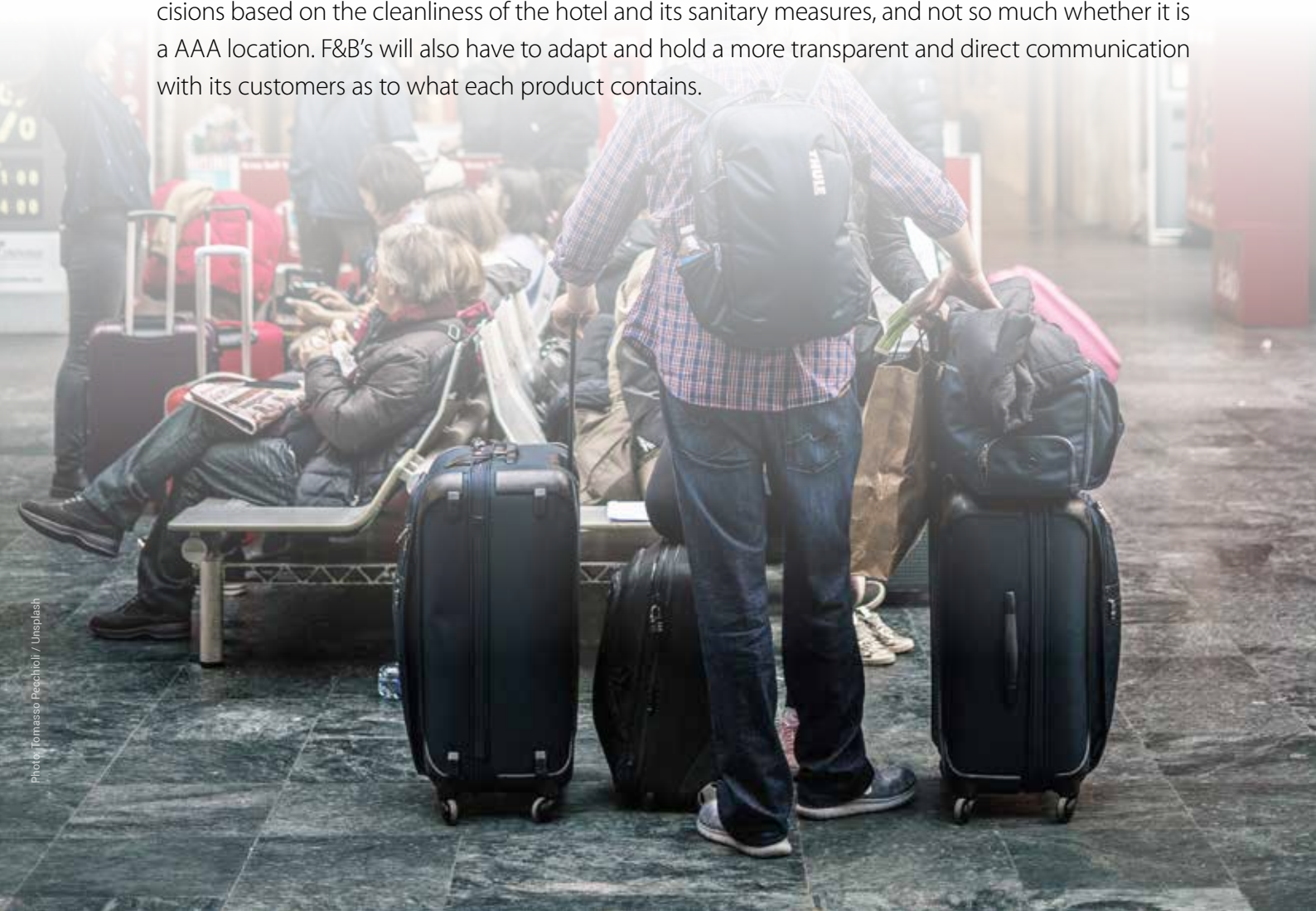
## 1 Mapping the Pandemic's Impact on Hospitality

Stepping out of the lockdown will push hotels into operating in low occupation levels, and with burnt-out cash flows. The focus at the moment is to quickly reopen hotels and generate cash flows. But the biggest unknown remains: how many people will actually start to travel once measures are lightened?

### 1.1 The Post COVID-19 Traveler and its Impact on Hospitality

The status quo is out of the question, and there will be different trends arising in each region. It is important to start analyzing what the future traveller will be like and what the new expectations for hospitality will be. Many believe that there will be an increased focus and demand for healthy experiences, including nutrition, exercise, among others. Health and safety will be the number one concern of the new traveler. Traveling will become a more meaningful experience. The future traveler will look to live the best life not only for themselves, but also for the community and environment. Although travelers will travel less, they will look to squeeze all that they can from the experience.

Technology will play a pivotal role in the new age of hospitality post-pandemic. Especially as it will help reduce contact in hotels and create a safer environment for travelers. Travelers will make their decisions based on the cleanliness of the hotel and its sanitary measures, and not so much whether it is a AAA location. F&B's will also have to adapt and hold a more transparent and direct communication with its customers as to what each product contains.



## 1.2 Opportunities within the Storm

Although key locations will most likely remain in the months to come, values will change in the next 8-10 months and many opportunities available now will disappear. There is already great interest in distressed assets, as funds and investors are already looking into opportunities. There will be significant opportunities, but they will take longer to re-enter the market. Many owners are selling single assets to help their balance sheets and trimming down their portfolios. Various believe that it will be the best opportunity for the distressed market as survivors will be rare across all markets.

The hospitality industry has always been difficult to arrange fractal ownership models, and even the best capitalized hotels will experience pressure in the next months. The hospitality industry will be heavily hit by this crisis, and many hotels will cease being hotels and will explore new alternative usages. Lenders are looking for options to help the industry, nevertheless risk perception has changed completely. All of this will have a great impact on the present and future of the hospitality industry. But now that the hospitality risk profile is much higher, is there still interest in investing?

## 2 Ensuring Liquidity Flow Through Uncharted Waters

The hospitality industry is struggling to stay afloat as it gasps for liquidity. COVID-19 has halted the operations of many from one day to another, forcing it to burn through its cash reserves. Countries have adopted different measures to help companies cope with liquidity issues during the crisis, but there is still more to be done. The US has been more aggressive when it comes to its stimulus package from the Fed, and the credit markets have performed relatively well despite the shock. While India has opted for increasing debt moratoriums where banks can also participate, reducing the number of loans in default. Overall there has been a good response from lenders.

Latin American countries however, have not provided as much support as others. So far, some countries have made credit lines available for some hotel owners, but only for minor amounts. It is important that players work closely with the different levels of government from a labor perspective, as labor issues are more complex than that in the US for instance. Many countries in LatAm do not allow you to fire people and holding strong relationships with the government will help reach results in a far more constructive manner.

## 2.1 A Lender's Point-of-View

According to GRI Members, the majority of the hospitality industry has adapted quickly, although some were forced to shut down by the government. It has all been about price cutting and acting fast to adapt. But once the hotels kickstart again, it will be easier to tell which borrowers are more proactive and which were not. Lenders and borrowers are working closely together to find win-win solutions to the challenges generated by COVID-19. There has been an increase in dialogue between the two, as they look for more flexibility and reduce cash-burn as much as possible.

Most borrowers are looking for financing to make it through or are investors that are lining up opportunities for 3Q. There are many hotels experiencing high-cash burn that are looking for cash to inject into their operations, whether it be from equity or debt. The real headache of debt will start to be felt in August. For the most part, borrowers are trying to provide hotels with funds as they are closed and approving large loans. Nevertheless they are mostly active with long-time customers.

At the moment, there have not been many distressed assets in the market, but more will arise in the next quarters. The distress will start to kick in when hotels open and some believe many will not stay open for long. The next few months will be detrimental to many, and there will be distress opportunities in the market. There are many inquiries regarding distress debt, which may be taken as there is capital in the market interested in hospitality.

In the months to come, there are repayment risks that are starting to surface. Lenders are carefully remodeling how repayment will look like. Some believe it could take three years to get back to normal and depending on the amount of money that each institution loans, they must have a cash trap system in place along with additional funds.



## 2.2 The Borrower's Liquidity Needs

Hospitality REITs in Latin America for instance, have experienced great pressure and many are concerned with volume. They had to shut everything down at the same time, and when the lockdown is lifted, they will face the challenge of ramping all of the assets back up again. Business hotels have much less elasticity than leisure assets, increasing the difficulty.

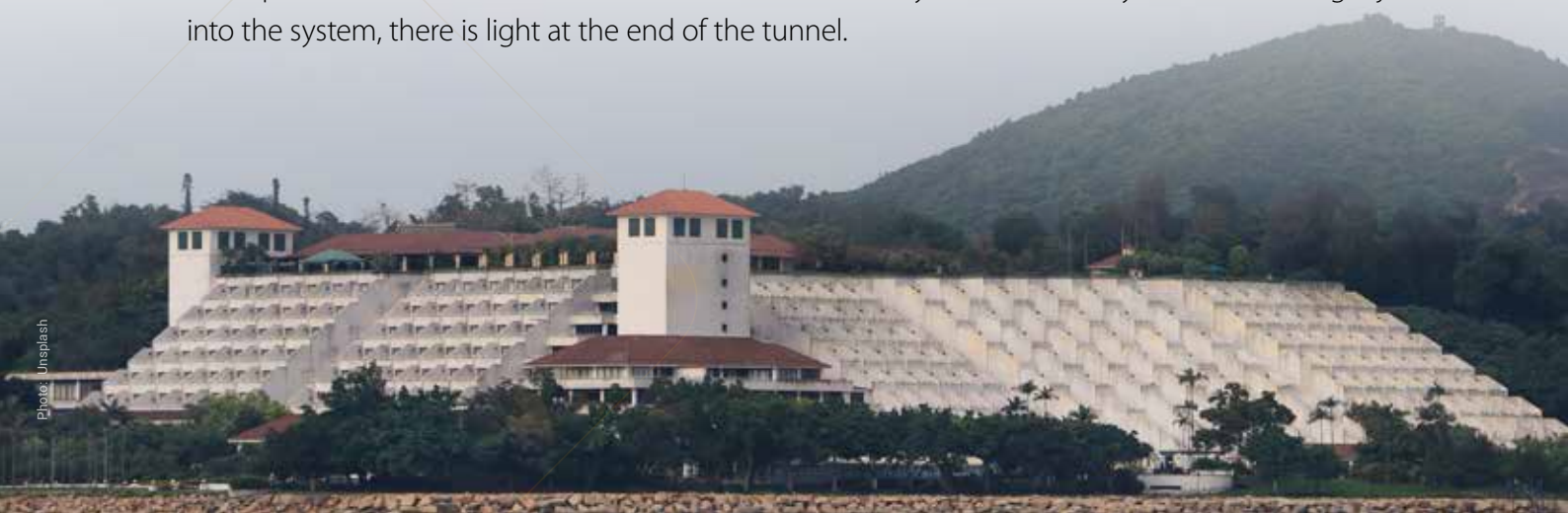
On the road to regain liquidity, players are analyzing which assets they will open first and in what countries. Accompanied by technological innovations and new operating models that will boost guest experience and efficiency. Hotels will have to find new ways to differentiate themselves from others, whether it is using technology or adding semi-permanent coworking spaces to its offering. New investments are currently on hold, as many are waiting for a clearer view of what will happen and as it has grown more difficult to find debt. There is however, the possibility to transform hospitality assets into other types of assets, for instance residential.

When it comes to private equity, throughout this crisis transparency with LPs is essential, especially as they value GPs more on how they handle difficult times, and not so much the good times. Many pension funds do not work with hotels due to their cyclical nature, and more will shy away from this asset class. Money will start flowing through the US first and then Europe, but emerging markets will suffer the longest. It will have to be a really good deal to capture investment.

## 2.3 The 2020 Economy's Blow to Hospitality

For most, 2020 will be a lost year and the bottom of the crisis will be reached in 3Q20. The economic crisis will hit consumer spending, and therefore hit the hospitality industry's ability to bounce back. Many companies will also cut spending and traveling. It may take 2-3 years for things to recover. Local hotels will be the first to benefit as travelers will test the water first before diving into international travel. The hit on disposable income will hit the industry the most, especially as unemployment rates are hitting all-time highs. Many people will not be able to afford traveling and everybody will rethink their priorities.

Although there will be challenges to overcome, and the economy will take a stern hit, there is optimism that COVID-19 will be forgotten, and that the volatility in the hospitality asset class will recover nicely. Hotel performance will also evolve, and if interest rates stay low and money continues being injected into the system, there is light at the end of the tunnel.



### 3 The Challenges in Operating and Managing Assets Post-Pandemic

This sanitary crisis has tied the hands of hotel operators and owners throughout the globe, making them shutdown their assets in a matter of days and sending their employees home. But what will happen once each country lifts its confinement measures? The hospitality industry's biggest worries at the moment are when and how hotels will start to reopen once quarantine measures are lifted.

#### 3.1 To Open or Not to Open: Hospitality's Most Difficult Decision

Quarantine measures are slowly being lifted, but not all players are rushing to get their hotel doors open. Some countries are looking to limit establishments to operate at low occupancy levels to keep the risk of contagion low and there are many hotels that will not be able to reopen with these levels. Industry players are undertaking a break-open analysis for each of its assets to see at what point it makes sense to reopen an asset, or if it is more convenient to keep it closed. These processes involve the owner, manager and the brand of the asset to work together and make the best decision.



As the market reopens, there will not be great volume of demand and some countries are looking at 30 percent occupancy limits and each jurisdiction could limit the services you can offer. Some believe banqueting and conferencing will not be available for the rest of 2020.

#### 3.2 Boosting Guest Confidence Post-Pandemic

Once each country begins to lift the lockdown measures, and people are free to travel, what will the hospitality sector have to do and offer to boost guest confidence? This experience will make travelers more weary and second guess using shared areas. Yet guest and personale interaction is key to providing a great experience for most hospitality players. The key will rest in finding a middle ground between giving guests the feeling of security through sanitary measures for both the staff and the guests.

An action that could help boost guest confidence is third-party certification that would allow hotels or establishments to prove their safety. Some countries, such as France, have explored options to create a stamp of approval from the government itself and are exploring new regulations to ensure the safety of citizens. Creating regulations and requisites for operation among the hospitality industry would make sure that once doors open, guests will want to run in.



### 3.3 The Road to Recovery

Most hospitality players are preparing for a very slow comeback. Especially with countries just starting to set protocols and limits. For most, the occupancy level limits will pose the biggest challenge on the road to recovery. The reason being is that this plays into employment laws, and as they will only need half or less of the staff, existing employment contracts will generate problems in some countries.

People around the world will have to adapt to a post-pandemic world, and the luxury market will have various challenges to overcome. Luxury is all about guest experience and hotels will have to improve their operations to fulfill both sanitary and guest expectations. Some industry leaders believe this will be one of the worst hit hospitality sectors as high-end international travel is expected to decrease. The reality is that the vast majority of the travel will be local and within the same country. Most players are waiting for the dust to settle to see the true impact COVID-19 has had on the world. Leisure will bounce back in the long-term and some believe that the business sector will only use luxury hotels for their C-level executives. Luxury hotels may start looking at more remote locations, where it is difficult for anybody to get there. The tougher the access, the better for luxury hospitality. Luxury will continue, but it may take longer for it to bounce back.

### 3.4 Protecting Human Capital

Ensuring staff safety will be a huge challenge for hospitality. There will be rigid sanitation protocols for each department and each will have a new operating norm. Some players have gone for a fully virtual experience for check-in, yet people continue to look for the personal interaction and go to the front desk. Sanitary measures such as protective shields at front desks, gloves and masks will become the new norm in establishments. There will be many operational changes that will have to be adapted to fit guests that want limited interaction with others. Buffets for instance may be out of the question completely for a while.

Hotels that depend on staff and guests having great interaction as part of its experience, will have to limit interaction and fill in the gaps with more added value. How does one create a great experience and friendly atmosphere without interaction? These types of assets will be pushed to innovate and offer an organized concept of a stay.

Once the sanitation protocols and measures are in place, staff will play an even bigger role in boosting guest confidence. A confident staff will create confident guests. The industry will have to provide their staff with detailed training and development to make sure they are prepared for the new age of travelers. Cross-training will also play a larger role as staff will now have to move and help out throughout different departments due to occupancy levels.

### 3.5 Silver Lining for Operations

Although the road ahead will be bumpier than any recovery the industry has ever seen, industry players are confident that this too shall pass, and that the industry will adapt to the new era of hospitality and guests. It is the time to put faith in associates and fight to find a win-win scenario for both the team and the company. The hospitality industry has proven its resilience time and time again, but there will be winners and losers, and many companies will not make it to see 2021.

GRI members believe that it always looks worse when you are in the crisis, then when you are looking back at it. Companies are starting to see a positive pickup and believe that everybody wants to get back out there, and when we finally can, there will be an upswing in the industry.

## 4 Into the Future: Hospitality's Outlook and Main Challenges

*Guest Analysis by **Peter Wimmer**, Executive Director of Wimmer Family Office and GRI Global Hospitality Summit Session Moderator*

Over the past 2.5 months, COVID-19 has triggered the worst economic crisis since the Great Depression. The IMF estimates that global GDP will shrink 3 percent and that many countries in the developed world will experience double digit declines in GDP in the 1Q and 2Q. The cumulative loss in global GDP this year and the next could be US\$9 trillion according to the IMF, which is more than the economy of Germany and Japan combined. The US' 1Q20 GDP dropped 4.8 percent, the steepest decline since the 2008-2009 financial crisis and yet, does not capture the most severe impact of the shutdown, which has taken place in 2Q20. Thus, 2Q may see a decline in GDP of as large as 40 percent, according to Mohamed El-Erian. In a matter of weeks, unemployment rates have skyrocketed throughout the developed world. The impact on corporate and bank earnings in 1Q is already being felt, and it is likely to be accompanied with record-breaking declines in revenues and earnings in 2Q, as well as for the remainder of 2020.

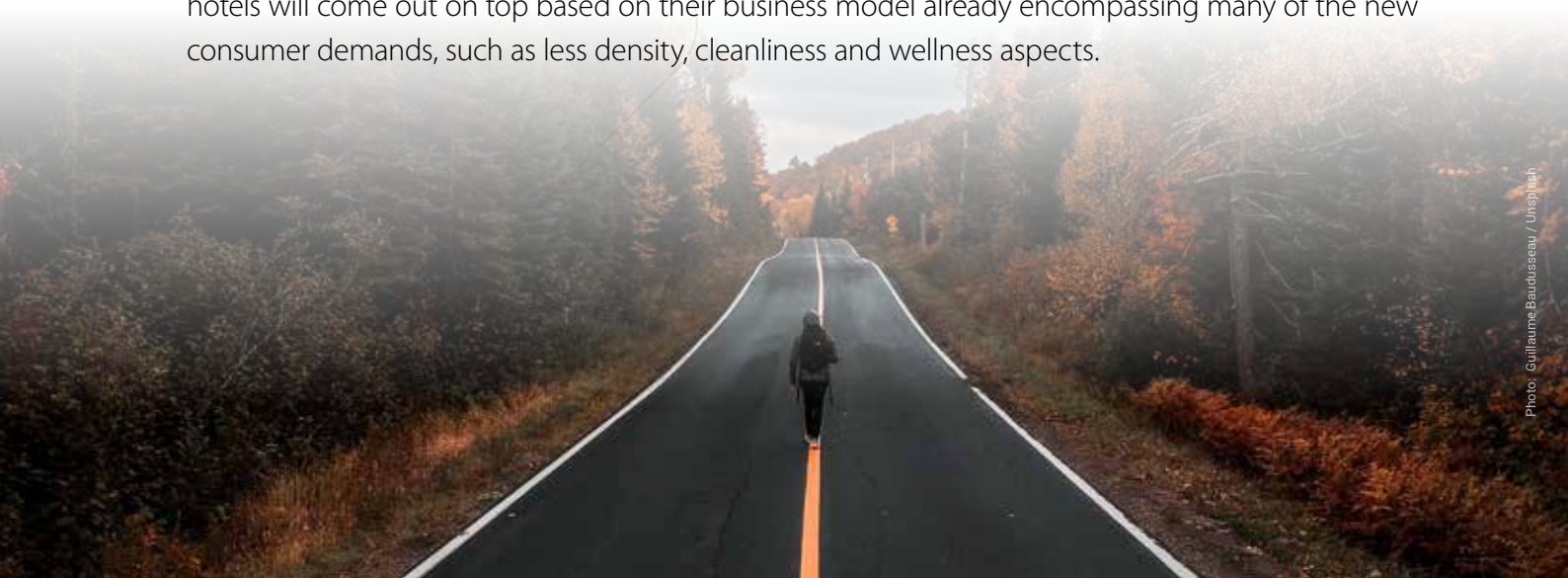
## 4.1 Hospitality Sector Outlook: The Near Term Looks Bleak

The global mass tourism and hospitality industry is large enough to potentially dominate the course of the global economy over the next few years. Global mass tourism has been one of the fastest growing sectors and now represents 11 percent of global GDP. According to a recent report by AG Bisset Associates, over 300 million people are engaged in this sector and 700 million tourists travel internationally. This sector has been decimated by COVID-19 with international travel at a stand-still. This includes airlines and other transportation modes, hotels, cruise ships, entertainment, restaurants, coffee shops, taxis, theatres and other related goods and services. The impact on selected countries has been even more pronounced. Although the US receives the majority of tourism revenues, it represents only a small part of its GDP. In contrast, tourism represents 13 percent of Italian GDP and has been the fastest growing and most profitable sector. Tourism is even more important to Spain generating 15 percent of GDP and is the second most visited country in the world.

Bloomberg recently wrote that extreme measures by governments across the world to contain the spread of coronavirus could cost the tourism industry 50 million jobs. Unemployment will stay high for many years in the industry and it will reduce demand for products and services across many related industries. As tourism is a discretionary expense, and with many people having lost their jobs, international tourism will take a while to recover. It will not be a V shaped recovery and could be a broad U or even a slow trending L. In the last weeks, there have been implications in occupancy, RevPAR and other key metrics in the hotel space that have completely collapsed and are not likely to see an uptick before late 2021. There will be a massive amount of global hotel supply emerging while demand will likely be relatively subdued.

## 4.2 Future Looking Investment Strategies

With record declines in earnings, exponential growth of unemployment rates and the biggest drop in economic activities since 2008, investors remain cautiously optimistic. Short term solutions could be the forging of new partnerships and increasing portfolios with acquisitions of distressed opportunities, which will likely see a drastic rise in Q3. However, this is dependent on cash equity to fund and refinance once the crisis is over. Some participants suggested that high-end resorts and hotels will come out on top based on their business model already encompassing many of the new consumer demands, such as less density, cleanliness and wellness aspects.



GRI is a global club bringing together key players in the real estate and infrastructure sectors. Founded in 1998 in London, it is present in 20 strategic countries.

The mission of GRI is to connect leaders from these markets and contribute to the building of privileged relationships and real business opportunities. In this context, more than 6 thousand businessmen, senior executives and investors participate annually in the club's programming in the world.

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