Checking in on the Health of the Hospitality Industry

COVID-19 has wreaked havoc on the U.S. hospitality industry. The scope and severity of the pandemic erased years of revenue per available room (RevPAR) gains virtually overnight, leaving hotel owners and operators scrambling to adjust in a highly fluid market. Average daily rate (ADR), occupancy, and RevPAR have all plummeted. The industry experienced a small recovery during summer 2020 but then began to slip again in the fall and winter of 2020/2021.

Without government relief, the American Hotel and Lodging Association (AHLA) estimates that more than 38,000 hotels in the U.S. will close their doors as a result of the pandemic. AHLA reports that just 11 states will account for 51% of these closures.

STATE	HOTELS	ESTIMATED CLOSURES WITHOUT CONGRESSIONAL AID*
California	5,791	3,880
Texas	5,528	3,704
Florida	3,861	2,587
New York	2,336	1,565
Georgia	2,115	1,417
North Carolina	1,828	1,225
Pennsylvania	1,564	1,048
Tennessee	1,535	1,028
Virginia	1,532	1,026
Illinois	1,522	1,020
Ohio	1,520	1,018
STATE TOTAL	**29,132**	**19,518**
NATIONWIDE	**57,180**	**38,311**

**Hotel closure and foreclosure figures based on AHLA member survey, September 2020.*

Current Trends

HVS Global Hospitality Services recently reappraised 140 hotels showing "that values predominantly declined between 15% and 30% in 2020." The HVS report also shows that ADR decreased 21%, and RevPAR decreased by nearly 50% in that same period. The upscale and luxury sectors saw the largest declines. Another report authored by STR, Inc. shows that occupancy in all hotels nationwide declined from 77.3% in 2019 to 44% in 2020.

These trends are expected to continue until there is mass acceptance of approved COVID-19 vaccines and the economy begins to right itself. Although recovery is expected to begin in 2021, a full rebound is not expected until 2024.

Shifting Consumers and Controlling Operational Cost

Shift in Consumer Taste

- Consumers are seeking less density and avoiding urban areas
- Consumers are more inclined to visit limited service hotels in markets within driving distance

Unemployment

- There is a strong correlation between high unemployment and lower RevPAR
- High unemployment through 2021 presents major challenges to recovery of the hospitality industry

Impact on Travel

- The total number of travelers by flight has dropped approximately 75%
- Event cancellations have impacted consumer mobility

Luxury vs. Economy

- Economy hotels have outperformed those in the luxury sector
- Demand for economy is less sensitive to economic downturns
- Economy hotels can operate at lower occupancies and lower margins

Business and Leisure

- Uneven rebound is likely
- Accelerated adoption of technology poses significant threat to business travel market

Expectation of Safety

- Additional safety measures are expected
- Hotels that promote safety will outperform competitors that do not

Impact to Cash Flow

- **Decreased Demand and Revenue**
  – Loss of meeting/group business and corporate traveler
  – Nonoperational cost centers, such as food and beverage, spas and health clubs, retail, and golf, are no longer profit centers
- **Limited Pricing Power with Reduction in ADR and RevPAR**
  – CBRE reports total operating revenues on a per available room basis were down 63.3% year over year
- **Increased Expenses**
  – Capital expenditure for property improvement plan and COVID-19-related expenses

Financial Relief

Thanks to Dramatically Reduced Cash Flow, Hotels Have One of the Strongest Cases for Tax Relief When Appealing Property Tax Valuations

Logistics related to the reopening of hotels, such as new sanitation standards and controlling variable operational expenses, are top-of-mind concerns for hoteliers. However, fixed expenses—particularly an asset's property tax burden—are also key factors that hotel owners should closely monitor. Because of eroded net operating incomes (NOIs), together with ultimately declining values, hotel property assessments should fall somewhat proportionally.

Recommended Savings Approach

Cash flow is a continued challenge for hotels across the country, and exploring creative solutions will be a key survival tactic in 2021. Many hotel owners are entering into agreements to sell their interchange fee class action settlement claims as a solution to limited cash flow. The payments for these transactions are often issued within 15 days. In addition, requesting loan forgiveness through the initial and secondary Paycheck Protection Program can be beneficial for hotel owners and operators.

Appeals of both real estate and personal property values are a must. Each state handles the valuation of hospitality assets differently. Yet, in 2021, all should set values that take the impact of COVID-19 into account. Hotel owners should also investigate potential transaction tax reviews in states that have favorable statutes surrounding hospitality assets, such as Arizona, Hawaii, and the District of Columbia, among others.

How Ryan Can Help

Ryan's property tax experts provide comprehensive assistance with all these services, in addition to a broad range of tax-saving opportunities.

Award-Winning Tax Services

For additional information

1.855.RYAN.TAX

ryan.com