

COVID-19 RECOVERY OUTLOOK

COMMERCIAL REAL ESTATE - HOSPITALITY SECTOR

June 4, 2020

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This report examines the potential impacts of COVID-19 on the hospitality sector. This report aims to assist County policy makers promote business in the emerging post-COVID-19 business climate consistent with the Council's Economic Development Platform – Business Development Pillar.

KEY TAKEAWAYS

- Leisure travel returns as states re-open, however recovery will be slower in areas more reliant on business travelers or large group gatherings, such as conferences or conventions.
- The DC region, particularly Montgomery County due to its concentration of hotel headquarters, is vulnerable to declines or protracted recovery of the hotel industry.
- Young, Black, and Latinx workers comprise a larger share of the County's hospitality industry relative to their share of the workforce overall. These workers are likely to be disproportionately impacted by hotel closures, furloughs or layoffs, and changes in travel trends.

Additional OLO research on COVID-19 recovery is available here: www.montgomerycountymd.gov/olo

THE HOSPITALITY INDUSTRY IS A VITAL ECONOMIC DRIVER IN MONTGOMERY COUNTY

Montgomery County is a hub for the hospitality industry, serving as the global headquarters for major international hotel companies, including Marriott and Choice and support organizations to hospitality companies like Sodexo, HMS Host, Wedding Wire, and Ridgewells Catering.¹ The industry is a key economic driver for the County. In 2020, the County received an estimated \$23.3 million in revenue from the Hotel/Motel Tax.³

Hotel Headquarters Located in Montgomery County⁴

- Marriott
- Choice Hotels
- Pebblebrook Hotel Trust
- RLJ Lodging Trust
- Diamondback Hospitality Co.
- Condor Hospitality Trust
- PM Hotel Group
- Capital Hotel Group
- Hospitality Partners
- B.F. Saul Hospitality Group
- Donohoe Hospitality

MCEDC & Visit Montgomery - Economic Impact of the Hospitality Industry in Montgomery County⁵

\$78.2 million

Sales & Use Tax, Attributable to Tourism in 2018

\$1.92 billion

Spent by Visitors in Montgomery County in 2018

20,000 (approx.)

Average Annual Room Nights Generated by Sports Tournaments held at Maryland SoccerPlex

COVID-19 CLOSURES CAUSE SEVERE IMPACT TO NATIONAL HOTEL INDUSTRY (FEBRUARY – MAY)

The hotel sector was one of the industries first impacted by international and domestic travel restrictions and stay-at-home orders due to COVID-19, with an estimated \$25 billion in room revenue since mid-February. Impacts were not only felt by hotel headquarters, but also small business owners, as much of the hotel sector is a franchise industry (33K small business owners operate 66% of hotels). The partial shutdown of hotels created a spillover effect on employment in other industries.

- For every 10 workers that lose their jobs due to declining sales in the hotel industry, 8.19 workers will lose their jobs elsewhere in the economy. In April, 7.7 million hospitality and leisure jobs were lost.
- As of May 13th, 7 out of 10 hotel rooms are empty. This is in addition to hotels that are shuttered completely.
- Projected revenue loss is 80% for the second quarter of 2020.⁶

RE-OPENING SPURS GROWTH IN HOTEL DEMAND NATIONALLY

Trends from the beginning of April through May reveal growth in key hotel performance indicators including occupancy rates and revenue per available room. As states began to re-open or use hotels for housing for essential workers, homeless persons, and government-contracted guests, hotel occupancy rates and revenue per room grew in April. By mid-May, portions of all 50 states have at least partially re-opened. As a result, slow weekly demand growth continued through mid-May as leisure activity increased around the country, especially to destinations with beach access like Florida or national park access.⁷

National Hotel Trends (April – May)

Week of 2020	Hotel Occupancy Rate	Revenue Per Available Room	
		Revenue	Comp. to Same Week 2019
Apr. 5 th – 11 th	21.0%	\$15.61	-83.6%
Apr. 12 th – 18 th	23.4%	\$17.43	-79.4%
Apr. 19 th – 25 th	26.0%	\$19.13	-78.4%
Apr. 26 th – May 2 nd	28.6%	\$21.39	-76.8%
May 3 rd – 9 th	30.1%	\$22.95	-74.4%
May 10 th – 16 th	32.4%	\$25.12	-73.6%

Source: STR, , U.S. hotel results for week ending 16 May, May 20, 2020. Revenue per Available Room (REVPAR) equals Rooms Revenue / Total Rooms Available

RECOVERY DEPENDS ON RETURN OF LEISURE AND BUSINESS TRAVEL BOTH NATIONALLY AND INTERNATIONALLY

As States begin to re-open, sector recovery will be uneven across the country, with sharper recovery in areas with more relaxed social distancing.⁹ Comparatively, areas that depend on international and business travel or large groups (sports, conventions, etc.) may have longer recovery periods.

National Trends

- Health and safety concerns will determine how long it takes for the sector to recover.
- Closer to home travel will be preferred in the near-term. Demand for car rentals will increase compared to other modes of travel.
- Hotel industry analysts forecast a 57.5% decline in revenue per available room in 2020, then a 48% increase in the metric in 2021. It will take until 2023 to recover to 2019 peak demand levels.⁸

International Trends

- Hotels in Spain were permitted to open properties, but not common areas and must practice social distancing (e.g., use of QR codes to reserve beach spots).
- Hotels in Sweden and Spain are requiring guests to take a COVID-19 test prior to or at check-in.
- New Zealand is looking to implement a 4-day work week to spur the economy and local travel.¹⁰



THE HOTEL INDUSTRY IS ADDRESSING COVID-19 HEALTH CONCERNS FOR TRAVELERS

The hotel industry, both nationally and abroad, is implementing heightened hygiene protocols in response to COVID-19 to address travelers’ concerns and aid economic recovery. Practices travelers may see at hotels include: mandatory pool and gym reservations; increased number of airport transports; no valet service; sanitizing stations and disinfectant wipes for guest use; wellness screenings, including temperature checks; branded personal protection equipment; and increased use of mobile apps for check-in/out and room keys.¹¹ The table below highlights other practices of several U.S. hotel chains.¹²

Chain	List of Select Practices
Marriott	Use of electrostatic sprayers and ultraviolet light for disinfecting surfaces; knock and drop food delivery
Hilton	Implementing a clean room seal on doors to indicate room was not entered since cleaned; use of electrostatic sprayers and ultraviolet light for disinfecting surfaces; removal of paper amenities from rooms
Best Western	Guest rooms will not be entered by cleaning staff for 24 – 72 hours after guests' check-out; limited cleaning schedules for stay-over-guests
Sandals	Air duct sanitization; certified ,sanitized guest rooms with room seals
Hyatt	Receive accreditation from the Global Biorisk Advisory Council, which will include training/certification on proper disinfection and infectious disease prevention; hiring of a certified hygiene manager at each location; internal and third-party hygiene hiring

COVID-19 IMPACT ON THE HOTEL INDUSTRY IN THE NATIONAL CAPITAL REGION

Hotel occupancy rate in the DC region was 18.3% in April. In comparison, the 2019 Federal government shutdown resulted in an occupancy rates of 50.5% (Jan.), steadily increasing to 73.5% (Mar.). The Stephen F. Fuller Institute at George Mason University predicted the sector may follow similar post-9/11 trends, which could result in a 12-month loss in revenue of \$630 million, with an additional \$600 million loss in economic activity due to reduced traveler spending and earnings.¹³

DISTRICT OF COLUMBIA INDUSTRY TRENDS

- As a result of COVID-19 travel restrictions and shutdowns, D.C. lost its peak travel season, along with a projected \$2B loss in revenue.
- At least 60 hotels closed, and 40 major events are cancelled through September, including many large conferences and conventions.
- The DC Convention Center is projected to lose \$163M in revenue due to event cancellations.
- Events DC created a \$18M hospitality relief fund to assist industry workers.
- Convention centers are exploring how to host hybrid (in-person and online) events to effectively utilize spaces.¹⁴

NORTHERN VIRGINIA INDUSTRY TRENDS

- Arlington’s March occupancy rates were 34.5%.
- Several hotel headquarters are in Fairfax County, including Hilton Worldwide, Park Hotels & Resorts, Crescent Hotels & Resorts and Crestline Hotels & Resorts.
- Hilton reduced hours or furloughed staff in April. Those not furloughed received a 20% pay reduction.
- As of April 18th, Hilton closed 1,000 hotels worldwide, 16% of its global properties. Hilton experienced a 56% decline in revenue per room due to COVID-19.¹⁵

Regional Travel Trends

Travel in Maryland and Virginia increased the weekend of May 16th, as both states entered Phase 1 of re-opening. Parts of Maryland that re-opened saw 570,000 new visitors – 47% came from other states (PA, DE, WV). Travel to areas in Virginia increased, with 2/3 of travelers coming from Maryland. Experts report that it will take 2-3 weeks to determine if travel leads to an increase in COVID-19 cases. With the significant increase in travel, counties need to go beyond infection rate of residents when considering re-opening.¹⁶

COVID-19 IMPACT ON HOTEL AND HOSPITALITY IN MONTGOMERY COUNTY

The County is particularly vulnerable to declines in the hospitality sector as it is home to approximately a dozen hotel headquarters. COVID-19 impacts to headquarters located in Montgomery County include:

- Marriott closed 16% of its hotels in North America (870 hotels) and furloughed 2/3 of its 4,000 headquarters' employees. Marriott reported first-quarter net income of \$31 million, down from \$375 million in the comparable quarter of 2019. Occupancy rates are slowly increasing as leisure travel resumes – overall North American hotel occupancy rate was 20% during the first two weeks of May. Marriott reports low occupancy rates are better than hotel closures, with operations breaking even at 30% occupancy for longer-stay hotels and 40% occupancy at full-service hotels.¹⁷
- Pebblebrook Hotel Trust, a real estate investment trust with 54 hotels and 8,000 employees, reported in April that it temporarily closed 46 of its hotels and furloughed 7,500 employees. Of the hotels remaining open, only one hotel located near Cedars Sinai Medical Center in Los Angeles had occupancy rates in the mid-teens. Pebblebrook expects re-hiring of employees to increase in July as leisure travel resumes and extended CARES Act unemployment insurance ends. Anticipated long-term operation changes include continued impact of food delivery on hotel-operated restaurants, resulting in fewer restaurants in hotels.¹⁸
- Choice Hotels domestic daily occupancy rates, nationally, ranged between 20% to 30% in March. In April, 90% of Choice Hotels in the U.S. remained open. Most the company's domestic hotels are in suburban, small town, and interstate locations and have experienced less severe occupancy declines compared to urban hotels and resorts.¹⁹



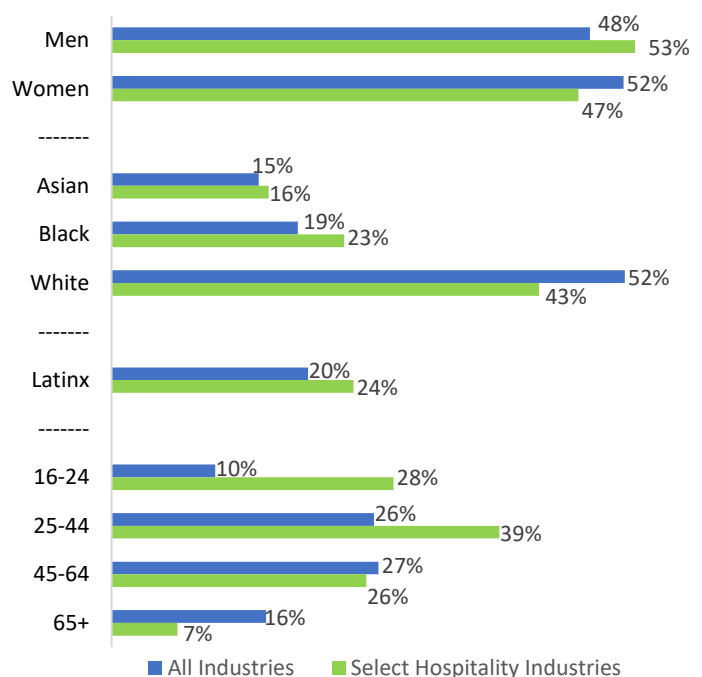
Projected County Hotel/Motel Tax Revenues

Due to travel restrictions, Council staff project that County revenues from this tax will be greatly reduced. The FY20 Hotel/Motel tax estimate was revised down by \$4.66M to \$5.24M (20.0% to 22.5%) from the FY20 estimate of \$23.3M million. The downward trend in revenues continue through FY22, with FY20 revenue estimated to decline by 25.0% to 63.8%, depending on the severity of the economic crisis. Depending on the return of travel habits, Council staff estimate revenues could recover by FY24-FY26.²⁰

MONTGOMERY COUNTY WORKERS EMPLOYED IN HOSPITALITY INDUSTRIES LIKELY TO BE DISPROPORTIONATELY AFFECTED BY COVID-19

U.S. Census American Community Survey (ACS) reports annual worker demographic data at the county level by industry. The industries included in this analysis, and the number of workers employed, are as follows: Food services and drinking places (38.5K); Accommodations, including reservation services (9.0K); Arts, entertainment, and recreation (14.5K); and Transportation, including air, taxi, and scenic and sightseeing transportation (6.5K). Employment represents the number of County residents who work in a particular industry. Younger workers comprise a larger share of the hospitality workforce. There are fewer White workers in selected industries compared to their share of the County workforce overall, while Black and Latinx workers have a larger presence in these sectors.²¹

Share of Workers Employed Overall & Select Hospitality Industries



Note: NAICS Codes (Accommodations, 7211,5615; Arts, Entertainment, and Recreation, 711, 7111, 7112, 713; Food Services & Drinking Places, 722; Transportation 481,487,4853)

Source: U.S. Census American Community Survey, 2018 <https://www.census.gov/programs-surveys/acs.html>

Understanding COVID-19 Impact

HOTEL INDUSTRY TAKEWAYS

As discussed, the hotel industry was initially impacted by travel restrictions and stay-at-home orders but is recovering slowly as states begin to re-open. Key short- and long-term impacts include:²²

SHORT-TERM NATIONAL TRENDS

States slowly re-open with social distancing, contract tracing, and virus containment

- Travel restrictions ease and leisure travel resumes
- Travelers prefer closer to home destinations and driving versus other modes of transit
- Increased focus on cleanliness to promote safe travel, including temperature checks
- Increased use of reservations for hotel amenities, like gyms, pools, beach spots

LONG-TERM NATIONAL TRENDS

States have re-opened and activity is resumed, with continued uncertainty if COVID-29 hot spots emerge

- Business and international travel resumes
- Conventions or other group gatherings return
- Pent up demand for travel helps industry recover
- Continuance of hygiene practices to avoid future outbreak or to meet new traveler expectations
- Use of contactless pay and check-in/check-out procedures using hotel apps remains

Key questions for Montgomery County

- How much should the County factor travel into its reopening plans? What strategies exist for contact tracing or monitoring travelers returning to the County or stopping through on way to another destination?
- What could be the impact of a shift to localized travel and declines in business travel or large group gatherings on County hotel occupancy rates, tourism spending, and tax revenue?
- How will the County be impacted by declines in travel to the DC region? What strategies are other local jurisdictions implementing to attract local or day-trip visitors?
- What will be the impact of teleconference or telework on business travel and how could this impact the County's hotel and hospitality industry?
- What are the potential areas of State and local government regulations related to health and safety of hotels?
- How will new health and safety standards impact hotel costs or fees and how could this impact hospitality workers?
- What are the impacts to the County hospitality workforce if recovery is protracted?

Practical next steps for County consideration

- Measure the impact of hotel industry trends on tax revenues
- Evaluate relevant health and safety codes to meet new hotel cleanliness requirements, including inspections or hygiene managers similar to certified food safety managers
- Evaluate opportunities to promote County to local tourism or day-trippers
- Review impact to and needs of the hospitality workforce to ensure workforce is supported

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