Covid-19 Pandemic Impact Report for the Hospitality Industry by Grey Hospitality

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Why is Congress dragging their feet? This is the reality… the lodging industry is estimated to report a "50 percent, nearly $125 billion-dollar loss in 2020 making this year the worst year in history for the hotel industry, just the hotels and not travel overall. Oxford also reported that this will equate to a total loss of $910 billion in travel related economic output in 2020. This is seven times the impact of 9/11". According to Hotel Business Magazine September 15,2020. Will your hotel or favorite destination close? Odds are it will.

The back page of the Hotel Business September 15th 2020 edition magazine reported that:

"Travel supports 15.8 million American jobs in total, employing 1 out of 10 Americans. 2019 travel generated $2.6 trillion for the U.S economy. The local

impact is 70 percent to local communities (in traveler related spending) in transportation, food and beverage (retail). The failure of our (Nations) hotels can (and will) have a massive ripple effect on our country's economy."

This is our new reality and needs to make headlines not the back page. Please share and encourage Congress to support the industry, before it's too late.

In review…there is no doubt that March and April of 2020 presented some of the toughest times for the hospitality industry- EVER- affecting hotels, restaurants, OTA's, travel consortia, airlines and cruise lines. Hit hard by the COVID-19 pandemic, the industry has been knocked down, but not out. Today's outlook is still grim as winter approaches despite travel peaks in many markets in the summer. The worst is still to come, unfortunately.

Recently, June, July and August of 2020, travel trends show some positive results in demand (or increased occupancy) efforts from pent up demand in leisure segment due to summer wants in travel and individuals distraught from safer at home isolation. But winter is coming. How long will this last is unsure as increased cases in Covid-19 spread like summer wildfires and travel is banned by neighboring cities throughout the country.

Long-term recovery will come, but when and in what shape is uncertain due to changes in the way individuals and companies were forced to conduct business amidst the social distancing order and quarantine measures nationally implemented. Understanding the current situation and industry data will allow us to project what a recovery might look like, when they might appear, and what are the benchmarks of improvement.

Global Impact to the Hospitality Industry

The following quick review of Global Tourism:

- The World Travel and Tourism Council (WT&TC) has warned the COVID-19 pandemic will impact nearly 50 million jobs worldwide in the travel and tourism industry. (with Asia impacted the worst at 30 million lost jobs) and more than 20 million in the US.
- Over 40 airlines around the world temporarily grounding their entire fleets, and many major carriers canceling more than 90 percent of scheduled flights
- The TSA reported 95 percent reduction in US Travel in early April and still today fluctuate almost weekly as virus cases are reported.
- Once the outbreak is over, it could take up to 12 months for the industry to recover (changing weekly by STR)
- In late March, the International Air Transport Association estimated lost revenue from the coronavirus will exceed $250 billion in 2020 and urged governments to offer immediate financial support to the industry
- The tourism industry currently accounts for 10% of global GDP

The coronavirus epidemic is expected to affect up to 50 million jobs in the global travel and tourism sector at risk, with travel likely to slump by a quarter this year, Asia being the most affected continent, the WT & TC reported. Around 850,000 people travel each month from Europe to the United States, equivalent to a $3.4 billion monthly contribution to the U.S. economy. Of the 50 million jobs that could be lost, around 30 million would be in Asia, 7 million in Europe, 5+ million in the Americas and the rest in other continents.

Airline Impact

The transport association said today's crisis is far worse and more widespread than after 9/11, when U.S. airlines lost approximately $19.6 billion in revenue in 2001-2002. After the terrorist attacks, the U.S. government provided $15 billion to airlines in compensation and loan guarantees.

Restaurants, Events & Travel Impact

Key Findings from the **Travel Intentions Pulse Survey (TIPS): Impact of COVID-19** published from March 27 to September 9, 2020

U.S. Travel Association- Latest Release

Research by MMGY Travel Intelligence (Source: MMGY Travel Intelligence)

The U.S. Travel Association has commissioned an ongoing survey to monitor the impact of COVID-19 on U.S. travelers. The online survey is conducted bi-weekly among 1,200 to 1,500 U.S. residents who have taken an overnight trip for either business or leisure in the past 12 months.

Key Insights September Travel

- The likelihood of taking a leisure trip in the next 6 months is the highest it has been since the survey's inception in mid-March, with 42% (top-2-box %) reporting they are at least somewhat likely to do so, up from 38%
- Travelers feel safest now in personal vehicles and likelihood to travel by personal car during the next six months was the highest it's been since the pandemic started, with three-quarters (75%) indicating they plan to do so. Almost two in five (39%) are willing to drive 300 miles or more (each way) for a leisure trip.
- The likelihood to take a domestic business trip during the next six months also increased, rising from 31% last month to 35% in the most recent results. Importantly, the percentage of business travelers who said they were not at all likely to take a business trip during the next six months declined significantly from 35% to just 25% this month.
- Travelers are just as concerned about family members contracting COVID-19 as they are about getting it themselves
- Younger travelers are more likely to worry more about others, but they are also concerned about their own health

Hospitality Impact August 2020- They asked the likelihood of doing each of the following activities in the next six months:

Taking a domestic leisure trip	42%
Taking a domestic business trip	35%
Take an international leisure trip	18%
Take an international business trip	17%
Likelihood of staying in hotel/resort	39%
Stay in a vacation home/condo	28%
Visit a park or beach	48% and 40%
Visit a theme park	19%
Take a cruise	14%

Attend a business meeting/conference 18%
Attend an off-site business meeting 21%

Travel by:
Personal Car 75%
Domestic flight 35%
International flight 17%
Bus/mass transit 16%

Hotels Impact

No travel, no occupancy, no meals- is where we started in March/April. Today this is somewhat true but is more market and segment driven. The hospitality industry is changing almost weekly in both expectations of travelers and the offerings available at facilities. According to the American Hotel & Lodging Industry State of the Hotel Industry Analysis dated August 31st 2020 nearly 5 out of 10 employees are still not working and the industry sector is down 4.3 million jobs; 65 percent of remain at or below 50 percent occupancy; only 33 percent of Americans say they have traveled overnight for leisure or vacation since March of 2020 and only 38 percent say they are likely to travel by the end of the year.

City center major U.S urban markets are hit the hardest based on occupancy levels mostly in the 30 percent range due to lack of group and meetings travel, extremely weak corporate segment, government travel restrictions, civil unrest, and general anxiety due to social and pandemic publicity and media.

As a result of the COVID-19 pandemic and, more directly, the global ban on travel and rapidly expanding social distancing requirements, travel limitations and the governmental National and State stay-home orders brought travel to a halt at a time when spring break was upon the U.S in early 2020.

As an attempt to offer a level of normality at a time of crisis, most full-service restaurants are operating at small fractions of capacity including increased delivery and curb side pickup of food, beverage and alcoholic concoctions.

American Express reported 50 percent of consumers agree that contactless is safer for personal health than using cash or inserting or swiping a card and hotels and restaurants need to be prepared as the retailers are setting the standard. (Based on comparison to findings from the 2019 American Express Digital Payments Survey). I assume if the survey were to be taken today the percentage would be much closer to 100 percent in agreement of touchless merchandizing or contactless Cards.

Some owners and franchises didn't want to expose employees to potential risk and closed entirely—either as a result of government order (like restaurants in hotels) to preserve cash flows due to lost business while waiting to see what relief the government might assist with in late mid-March 2020.

Early March saw hotels closed due to national social distancing requirements and limitations on group gatherings of 10 or more keeping most guest rooms and meeting rooms empty. Some communities and cities have banned hotels (which has never been seen historically) during spring break to limit exposure. As a result, many hoteliers both large and small have elected to close their doors due to lack of travelers. Who did remain open? STR reported the largest impact of travel segment or class were hotel in the Midscale to Luxury segments reporting single digit occupancy as a class.

Economy and Midscale hotels continue to support the industry. Grey Hospitality has been participating with STR and tracking the weekly effect of the global pandemic and its impact on the industry.

According to Oxford Economics, a leader in global forecasting and quantitative analysis, "the lodging industry is estimated to report a 50 percent, nearly $125 billion-dollar loss in 2020 making this year the worst year in history for the hotel industry, just the hotels and not travel overall. Oxford also reported that this will equate to a total loss of $910 billion in travel related economic output in 2020. This is seven times the impact of 9/11."

As for the state of the industry many hoteliers and consultants turn to STR for monthly performance trends and signs of national recovery. The following information has been released by STR and documents the industry recovery monthly over the pandemic.

Month by Month Comparison by STR

August 2020- Actual Results STR

The U.S. hotel industry's metrics improved slightly in August from the previous month, according to the latest data from STR. Compared to August 2019, occupancy was down 31.7 percent to 48.6 percent, average daily rate was down 22.8 percent to $102.46 and revenue per available room was down 47.3 percent to $49.83.

The absolute occupancy level was the lowest for any August on record in the U.S., but all three key performance metrics were up from July levels. Recent September weekly data shows occupancy just below 50 percent due to a slight decrease in demand.

Among the top 25 markets, Oahu Island in Hawaii experienced the steepest drop in occupancy, down 69.9 percent to 26.8 percent, and the largest decrease in RevPAR—down 81.4 percent to $42.13.

San Francisco/San Mateo in California posted the steepest decline in ADR, down 50.1 percent to $123.23.

July 2020- Actual Results STR

In a year-over-year comparison with July 2019, the industry reported GOPPAR was down 93.3 percent to $5.74; total revenue per available room was down 74.1 percent to $60.04; earnings before interest, taxes, depreciation and amortization were down 115.1 percent to -$9.24; and labor costs were down 64.8 percent to $28.46.

"As the industry inched closer to 50 percent occupancy, we saw continued incremental improvement in the subsequent profitability metrics," said Raquel Ortiz, STR's assistant director of financial performance. "We are, of course, nowhere near pre-pandemic levels, but there were additional encouraging signs in positive GOPPAR for full-service hotels and six major markets."

June 2020- Actual Results STR

Due to the impact of the COVID-19 pandemic, the U.S. hotel industry showed slightly higher performance in June 2020, according to data from STR. This is likely to diminish in July with the resurgence of cases nationally and in key travel markets.

In a year-over-year comparison with June 2019, the industry recorded the following:

- Occupancy: decreased by -42.5 percent to 42.2 percent overall
- Average daily rate (ADR): decreased by -31.5 percent to US $92.15
- Revenue per available room (RevPAR): decreased by -60.6 percent to US $38.88

The occupancy and RevPAR levels reported in June of 2020 were the lowest reported results of any June on record according to STR.

May 2020- Actual Results STR

Due to the impact of the COVID-19 pandemic, the U.S. hotel industry showed continued lower performance during May 2020, according to data from STR.

In a year-over-year comparison with May 2019, the industry recorded the following:

- Occupancy: decreased by -51.7 percent to 33.1 percent overall
- Average daily rate (ADR): decreased by -39.9 percent to US $79.57
- Revenue per available room (RevPAR): decreased by -71.0 percent to US $26.35

The absolute occupancy and RevPAR levels were the lowest for any May on record in the U.S., but all three key performance metrics were up from April levels. Recent weekly data shows occupancy above 40 percent due to a slow and steady rise in demand.

April 2020- Actual Results STR

U.S. hotel gross operating profit per available room fell 116.9% during April 2020, according to the latest monthly P&L data release from STR.

In a year-over-year comparison with April 2019, the industry reported the following:

- GOP Per Available Room: -116.9% to US-$17.98
- Total RevPAR: -92.9% to US$17.39
- EBIDTA PAR: -140.2% to US-$32.30
- LPAR (Labor Costs): -72.8% to US$20.80

"Whereas only the later portion of March was affected, April was the country's first full month in the COVID-19 world, and the impact on U.S. hotel profitability was historic," said Joseph Rael, STR's senior director of financial performance. "occupancy levels hit the floor near the middle of the month,

leaving many properties positioned to lose money by keeping their doors open. That led to more than 5,100 temporary closures around the country."

Among top markets, Houston reported the steepest year-over-year GOPPAR decline (-135.3%), followed by Chicago (-134.6%) and San Francisco/San Mateo (-133.6%).

March 2020- Actual Results STR

In a year-over-year comparison with March 2019, the industry posted the following:

- Occupancy: -42.3% to 39.4%
- Average daily rate (ADR): -16.5% to US$110.66
- Revenue per available room (RevPAR): -51.9% to US$43.54

Among the Top 25 Markets, San Francisco/San Mateo, California, experienced the steepest drop in occupancy (-62.2% to 30.2%), which resulted in the largest decrease in RevPAR (-72.3% to US$55.42). The market also posted one of the largest declines in ADR (-26.6% to US$183.68).

New Orleans, Louisiana, matched for the other steepest decrease in ADR (-26.6% to US$134.98).

Who is Traveling and Where?

According to the US Travel Association and MMGY Travel Intelligence – in a nutshell it's not Corporate Travelers or the Group Segment; its leisure travel and mostly those by automobile where they feel safest. MMGY reported that:

- "Despite the nationwide increase in COVID-19 cases, consumers' concern about contracting the virus has not increased in the latest survey results…and may be the reason that the likelihood of taking a domestic leisure trip within the next six months remains at 40%. More than that (64%) say they expect to book a leisure trip within the next 6 months.

- Those that were already hesitant to travel, however, are becoming even more cautious. In the most recent survey, 21% indicate they are not at all likely to take a leisure trip in the next six months—up from just 13%
- The intent to take a domestic leisure trip remained constant, those expecting to travel for domestic business declined considerably. In the most recent survey, only one-third of confirmed business travelers indicated a likelihood to take a domestic business trip in the next six months—down from 40%"

Past Demand Crisis Impact – Overview:

STR has tracked data for the last 30 years and reports the impact of recent economic disruptions and the effect to the lodging industry.

2001- 2002 Recession from 9/11 there was a noted decline in RevPAR by an alarming 10 percent

2008 -The period of 2008-09 reported RevPAR down by 16.8 percent.

2002 – The 2002 SARS outbreak reported occupancy rate decline by a 26 percent in a comparison between the April-June quarter in 2002 and 2003.

The recession periods resulted in a slump in the consumer spending and leisure travels took the hardest hit. In addition, with increased number of furlough's, nearly no unnecessary business travel was realized.

Outlook for Lodging

STR Current National Forecast:

Given the Pandemic outbreak the March 30 baseline of KPI was forecasted:

	2020 Forecast	2021 Forecast
Supply	-14.9	+15.6
Demand	-51.2	+81.8
Occupancy	-42.6	+57.3
ADR	-13.9	+3.7
RevPAR	-50.6	+63.1

As a benchmark in 2019 the U.S. hotels ran 66.1 percent occupancy, ADR $131, RevPAR $87.00

Currently 2020 is forecasted at 37.9 percent occupancy, ADR $113 and $43.00 RevPAR

Currently 2021 is forecasted at 59.7 percent occupancy, ADR $117 and $70.00 RevPAR

Key Points

- Zero Base Travel Demand (new benchmark): STR defines this as when hotels and the industry have absolutely no demand in the U.S (business, leisure, or group); the lodging industry is still selling 1 million rooms a day and equates to approximately 21.6 percent occupancy. This has never been measured before the Covid-19 Pandemic. (Source: STR week ending April 9th, 2020)
- In this time of social distancing and safer at home STR reported in early April of 2020 21.6 percent of hotel were still occupied. It is estimated that essential workers are impacting the industry. Examples were medical and other essential workers staying close to critical employers or afraid to return home and logistics companies moving products across the country.

- Market Class: those classifications of hotel performing the best or "less bad" (STR Quoted) were the Economy and Midscale segments at 20 to 30 percent, respectively.
- In March and April of 2020, the U.S. has experienced zero group demand across the country
- Early April 2020 STR reported that 12 percent of U.S. hotels (overall supply) were reported closed. This number is likely incorrect due to the fact owners and operators are not notifying STR of property closures and are encouraged to do so.
- Currently 2020 is forecasted at 37.9 percent occupancy, ADR $113 and $43.00 RevPAR
- Currently 2021 is forecasted at 59.7 percent occupancy, ADR $117 and $70.00 RevPAR

Conclusion

Travel will again return but when and where is yet to be determined. Grey Hospitality and STR agree that first, and soon, the leisure traveler will return slowly. As summer results agree in many unique markets. This fall and the continued effects of social distancing and peak cold season, people will again begin to delay their exploration needs and likely pass on travel until summer of 2021. As travelers begin to travel it is likely they will stay local and in lesser populated destinations. We can agree that once popular destinations like New York City, Chicago, and San Francisco, historically top tourist destinations, will be very slow to recover given the Covid pandemic and social unrest. It is believed instead travelers will seek national parks, state parks, family resort homes or rental properties where family units are distanced from large groups as they did in the summer of 2020.

Some individuals believe that over the return to stabilization in the lodging industry we may see some consolidation amongst the hotel franchisees, especially amongst the branded products and the resilient unique properties will remain those unique and boutique hotels. We agree. If one desires to travel it will be for a reason and a memorable one.

Hotels will close, inevitably, and businesses and owners will be forced to take a hard look at any new or future investment they make; and they will be looking at ways to optimize cost, short cuts in hospitality will be a result and we hope it's not a long-term strategy, discounted hospitality.

Overall, it is predicted that the world economy, despite taking a severe blow, will be back in a positive direction in a years' time and will take around 3 years to completely overcome the losses the lodging industry, restaurant industry and the individual traveler accrued during this pandemic of 2020.

Grey Hospitality, a member of Cayuga Hospitality Consultants, offers strategic market analysis, operational planning services (Asset Management) and development consulting to communities, state agencies and developers in the hospitality arena. Our broad range of skills in both management and development experience enables us to quickly provide clients with a focus towards realistic expectations based on expanded services, actual operations, enhanced profitability and potential development considerations based on regional expertise. Whether our engagement involves developing strategic plans, conducting feasibility studies, implementing new services, or evaluating operations, our concern is to assist clients in providing high quality services that meet community needs as well as guest needs, generate new revenue, and contribute to the client's continued strength, master plan and future growth.

I urge you to share this simple story and influence your community leaders to discuss the position of our industry. Thanks for your time and I hope you get the opportunity to share this story.

Sincerely,

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