



Working With Hotel Owners and Investors in Challenging Times

The Industry's Biggest Risk-Takers Deserve Our Gratitude

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This is a thank you to the owners and investors of hotels and a pep speech for the rest of us in the industry to take care of our owners and investors.



The owners and investors are at the core of who drive our industry. They are the:

- Torchbearers.
- Visionaries.
- Risk-takers.
- Business leaders.
- Entrepreneurs of hospitality.

Our gratitude must go beyond the obvious and go deeper. Especially today, hotel owners and investors are feeling the impacts of the recovery from the pandemic like no other.

Higher Interest Rates on Loans



ISHC Global Insights is a partnership of Hotel News Now and the International Society of Hospitality Consultants to bring in-depth analysis to the hotel industry.

On Feb. 1, the Federal Open Market Committee (FOMC) raised the short-term federal funds rate by 25 basis points, or 0.25%, to a target range of 4.5% to 4.75%, the highest level since 2008. Moreover, the rate is expected to increase further in 2023 and remain “higher for longer” to ensure inflation is stomped out.

More Equity Investments Are Required for Loans

Debt markets for lodging assets continue to be challenged with a limited number of lenders for hospitality assets. Lenders are prudent in today’s macroeconomic conditions with stringent requirements for the borrower

and the project. Based on JLL's Hospitality Debt Market Overview in July 2022, the maximum leverage for banks generally remains at 65%, although the downward pressure on leverage to 60% was observed.

Considerable Increases in Property Taxes

By comparing the 2019 and 2021 HOST Almanac Companion, U.S. hotel property tax expenditures per available room declined by 7% from 2019 to 2021, while total revenue per available room decreased by 65%. In line with rising inflation, property taxes have risen across much of the country in recent years.

Higher Operating Expenses and Lower Profits

Inflation reached 6.5% year over year in December 2022, slightly lower than 7.1% in November 2022 but still relatively high. As inflation continues to be high, hotels are facing higher food and energy prices, broader price pressures and wage increases of employees.

Unprecedented Labor Shortages and Increased Labor Costs

According to U.S. Bureau of Labor Statistics, tourism and hospitality employment stumbled from 16.6 million in 2019 to 13.1 million in 2020. Many of our comrades left the industry and students deterred to attend the hospitality education program. On the other hand, macro data suggests while job gains have remained strong in recent months with the unemployment rate of 3.4% in January 2023, the lowest level since May 1969, making it challenging to attract new recruits to the industry.

More Stringent Brand Standards

As we come through the crisis of the COVID-19 pandemic and more brands and hotels debut, brands are consistently looking to roll out new programs and design schemes to better connect with guest expectations and ensure brand differentiation and competitiveness. However, that means larger property-improvement plans and brand-standard-related expenses for the owners.

Escalating Renovation and Construction Costs

We are seeing a significant upsurge in renovation costs and construction due to larger PIPs or technical services resulted from more stringent brand standards, the labor pools in the hotel construction and development is limited, and the costs of materials for the construction are significantly higher due to various factors such as inflation and logistical challenges.

Supply-Chain Issues

A survey in late 2020 and September 2022 by Ernst & Young concluded that 72% of 200 senior-level supply-chain executives reported the pandemic had substantial negative effects on supply

chains. Because of the lockdowns and health restrictions, the supply-chain challenges that started in 2020 are expected to have a long tail and continued impact on hotel development and operation in 2023.

Allow me to address all of the asset managers, operators, brands, partners, vendors, suppliers and Intermediaries that serve our industry.

We must step up, come together and deliver excellence in what we do to overcome these hurdles. The best in our industry know the owners and investors are expecting new levels of focus on the following:

- People, process and profit.
- Cash flow and capital planning.
- Going beyond the gross operating profit level and looking to the net operating income results.
- Superior strategic planning and effective forecasting.
- Highly effective management of all facets of the operations, such as sales, revenue management, selection of the right people, satisfied associates, service delivery, safety, security, sustainability, sanitation and savings.

The best operators collaborate with the brands, vendors, partners, suppliers, and intermediaries to:

- Fulfill the promise to our guests, visitors, and clients.
- Be leaders in our communities spreading the spirit of hospitality.

The best companies have strong employee recruitment, extensive training and commitment to retention with superior leadership at all levels. Developing a strong and personalized culture — deeply committed to satisfying the stakeholders, starting with their associates, who provide incredible customer service, deliver the brand promise, and improved workplace engagement. They believe this is imperative to ensure repeat business. The culture includes innovation, creativity, and new approaches, but they first focus on the fundamentals. The senior leadership encourages personal and professional development and uses the incredible wealth of information, tools, resources, educational services, portals, and proven solutions right at our fingertips. The use of technology is core to the vision and staying current, especially to improve operational efficiency. The sustainability plans and actions are real and continually evaluated based on results. Never for just show, but for real impact. Rethinking the processes is the norm. Finding new ideas is required, essential for growth and excellence in daily duties. Not to mention it stimulates the desired culture, especially with the new workforce.

The leaders of the best embrace the future and they never lose sight of our purpose and guest satisfaction. Satisfied guests are the result of an outstanding hospitality experience. A common thread is team members are genuinely excited to be in our industry. They are well-trained and effectively deliver exceptional service.

In conclusion, make that leap of faith and recommit our very beings to our industry. Embrace the realities of the issues facing the owners and all of us today. Take the point and show our owners they really matter. Achieve the expected results and deliver performance like never before. The improved performance just may be the key to inspiring owners and investors to keep on investing in our industry despite the headwinds.

Thank you!

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