



Colliers  
INTERNATIONAL



EXPERTS ON THE FUTURE OF REAL ESTATE

# IMPACT OF CORONAVIRUS ON THE HOTEL SECTOR

APRIL 2020

# THE SUMMER SEASON



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## WILL BE CRUCIAL FOR RECOVERY

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The effects of the coronavirus have led to a hotel crisis never before seen on this scale. During the financial crisis that started in 2008, there was a significant slump in the hotel industry, but occupancy rates never got to the lows that are being experienced right now. That did happen in China after the SARS outbreak in 2003, but the rates bounced back to their old levels within just six months, even in the most affected cities.

If the current pandemic can not be curbed soon, and travel restrictions persist, what will it mean for the hotel industry? We've completed a tour around six major holiday countries, to get a clear picture of the current situation, map out the consequences and identify opportunities.

“ Colliers has been closely monitoring the status of the hotel industry since the beginning of the corona pandemic. Our local teams work together internationally to continuously map out the consequences of this situation and we are happy to share these insights with you. We recently launched a report on the impact of travel restrictions on tourism and the impact on various European economies. Now six hotel experts have their say about their expectations around the consequences, opportunities and recovery. Do you want to know what is going on in your market? Please contact one of our 110 local hotel experts within Colliers EMEA who are always at your disposal.

DIRK BAKKER | HEAD OF HOTELS EMEA



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MARCO  
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# WHAT EFFECTS DO YOU EXPECT TO SEE IN THE HOTEL INDUSTRY?



“ If governments come to the rescue and real estate owners and banks are willing to be accommodating towards hotel operators, the damage may be limited for the time being. If this situation continues beyond the summer season and longer, some hotel operators will undoubtedly face bankruptcy. Particularly those with high levels of debt and high interest charges, or those who have recently made significant investments. Wealthier private investors and hotel operators will be happy to step in, especially in cities where the hotel sector is particularly important. However, hotels in rural areas are likely to have to close their doors.’



“ Hotels themselves cannot do anything to attract more guests, they can only wait until this is over and get ready to open their doors again. If the virus is under control within three months, there will be a rapid bounce-back. Domestic travel and tourism will be the first to get going again after this crisis. Tourists may opt for less crowded locations and opt for more spacious accommodation such as campsites or holiday parks. Expectations in relation to hygiene will also be higher than they were before the corona crisis.



“ This is by far the biggest crisis the industry has ever experienced. Its impact will largely depend on how effectively national governments respond. Significant measures are being taken in the UK, such as a financial contribution of £25,000 to companies in the sector, 80% compensation for the wages of staff that are retained instead of being laid off, and an extension on the deadline for VAT payments for this quarter. These measures will help hotels to survive for the next three months, at least.



“ State aid is urgently needed and is being provided in many cases. In addition, since many hotels are closed, a lot of hotel employees are having to work part-time or are having to take leave. Nobody anticipated this global crisis, so there are no provisions for temporary rent reductions in lease contracts with respect to this type of situation. The government has introduced some legal measures to prevent operators from being immediately terminated in this situation. Undoubtedly, if the situation persists for a longer period, some operators may get into financial distress. Recovery will take quite a while since especially large events and trade shows require lead time and planning.



“ Many governments are working on solutions to limit the impact. However, that financial support is likely to disappear when travel restrictions are lifted. Hotels will then face a rather slow recovery in demand. Their margins will remain under considerable pressure for some time. They will negotiate refinancing with banks. The main problems that I anticipate are for operators with high exposure to fixed rental fees. White Label operators in particular could face problems that could lead to further mergers and acquisitions.



“ In the most optimistic scenario, domestic tourism in Italy may start to get going again cautiously in July. The expected impact of the corona crisis on hotels operating in the leisure market is a significant drop in occupancy. Recovery will take the longest for luxury hotels, because they rely heavily on international tourism. If events that have been postponed until the second half of the year go ahead, the business market will see some recovery from domestic guests, especially in Rome and Milan.

# WHAT EFFECT DO YOU EXPECT ON HOTEL REAL ESTATE?



“ It’s likely that the market value of hotel real estate will decline somewhat as this becomes a poor fiscal year for operators and banks become more reluctant to finance new hotel investments. Regardless of how long this crisis lasts, in the long term global tourism will recover to its previous levels and hotels may become a winning asset class within real estate. In addition, I would expect some renegotiations of rent levels and guarantees and new clauses to be added to lease contracts so that less rent needs to be paid during a pandemic, for example.



“ As soon as travel restrictions are lifted, there will be a significant revival, but it will take a while before we are back to previous levels. Real estate owners will turn their attention to lease contracts, with the cost of repairs and insurance being borne by the tenant. In the long term, I expect more contracts in which rents are linked to turnover, which you already see a lot in the retail sector.



“ Now that the value of many shares has fallen sharply and stock markets continue to fluctuate, I expect real estate to be seen as a safe haven once we return to calmer waters. Once global tourism returns to its old growth levels, hotels will be particularly sought-after. We can expect the value of hotel real estate to drop somewhat initially, because this will be a bad year for hotel operators and the next two years will probably also be down on the years before 2020.



“ After this crisis, the world will have become even more used to flexible and remote working methods. Hotel real estate will be modified accordingly. Flexible workplaces will become a normal part of hotels, such as co-working spaces and special areas for video calls. In addition, free, fast internet will be a must in hotels all around the world.



“ I expect a few investors will review their decision to invest in hotels since they may not have enough experience or trust in the sector. At the same time, real estate again has proven to be more stable than the stock market and hence the investor interest, also for hotels, will remain strong. Although such a crisis was not foreseeable, long term cash flow forecasts may become slightly more cautious and investors will take a closer look at the financial strength of the operators. Most operators will continue to pursue their growth plans, so the demand for new hotels will continue to be there. The hotel sector will recover to pre-crisis levels when travel restrictions are lifted, even if the virus has not completely disappeared.



“ Real Estate activities are currently focused on managing the crisis evoked by the corona virus. However, new development projects or operator search and selection processes are still underway. In the next months a decrease in RevPAR will negatively affect the real estate value of hotels. We expect to see a number of transactions happening in the second half of the year.

## WHAT OPPORTUNITIES DO YOU SEE IN THIS CRISIS?



“ Some hotel operators will need funds and so they will seek to sell their real estate or the hotels in their portfolio. Particularly the fast-growing ‘white label’ operators, whose operations are so tight that they will end up in that situation. Stronger hotel groups will want to take over (part of) their business operations. The larger investment funds will also seek to buy at lower prices but I do not expect a lot of discounts. Finally, I expect alternative sources of finance to emerge as banks take a step back.



“ The vultures have already begun to circle around over head, but I think the robust government measures in the UK have restored some calm to the market, at least in the short term. I’d be surprised if many hotel transactions are completed in the next three months, but that number may rise considerably in the third and fourth quarters. Especially in cases where hotel real estate is no longer in line with investment strategies and hotels are sold off.’



“ Some hotel companies will sell some of their assets in order to stay afloat. REITs and investment funds which were previously having to wait and see before acquiring hotels will grab the opportunity and acquire hotels for a better price than they could have done before this crisis. Still, I think that most hotel groups and owners are solvent enough after the recent good run to get through this crisis, provided it doesn’t go on for too long. There won’t be many distressed-asset deals.



“ Opportunistic buyers will be looking out for two types of hotels: projects with strong, future-proof foundations which have to be sold due to this crisis, or hotels that need renovation work which the current owners no longer have the funds for. An expected increase in domestic tourism may also create market opportunities.



“ Some tenants and operators will have difficulty restarting their operations because all their reserves will have been used up. The same applies to maintenance work and covering the cost of finance. This is likely to create opportunities, both for hotel investors and operators. In a few months once travel restrictions are lifted, we expect to see activity in takeovers, mergers and joint ventures as the short-term liquidity aids will be removed. Some hotel development projects may also not be realized and turned into alternative uses.



“ The Italian hotel market is currently undergoing a transformation, with privately owned hotels being taken over by professional operators - both business operations and the real estate itself. This trend is expected to continue and accelerate following the corona crisis. So there will be even more opportunities for acquiring hotels in the real estate market.

## THE SUMMER SEASON CRUCIAL FOR RECOVERY

In three months' time the summer season will begin in Europe. If the virus is not stable or under control by that time, then the consequences for the hotel industry will be very grave. Under normal circumstances, summer is considered to be the most profitable season. For this reason there are three scenarios to keep in mind:

### 1. The coronavirus will be under control before the summer.

- o Operators lower their costs and appeal to buffers
- o Strong revival of tourism expected in the second half of the year
- o Recovery of the hotel industry will take several months
- o Few consequences for real estate owners

### 2. The coronavirus will be under control after the summer.

- o Losses for operators increase and bankruptcies follow suit
- o Operators prepared for the long-haul will win
- o Recovery of the hotel industry will take until 2021
- o Opportunities for stronger hotel groups and investors

### 3. The coronavirus will not be under control until 2021.

- o A significant share of operators goes bankrupt
- o Some bankrupt hotels will not reopen
- o Recovery of the hotel industry will take years
- o Real estate owners also experience serious blows

Whichever scenario becomes reality, it is certain that tourism will eventually re-enter the growth path it has been on for the past twenty years without major interruption. After the crises in 2003 and 2008, global tourism recovered to its former level within 18 months. It is to be expected that long-distance trips will be exchanged for trips closer for the time being. That speaks in favor of the European hotel market. In addition, the expected recession will cause business traffic to recover more slowly than holiday tourism.

The hotels that survive this crisis without too much damage will have proven to be extremely resilient. That could make the hotel industry an even more interesting market to keep an eye on in the future.





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## ABOUT COLLIERS

Colliers International is a listed real estate advisory (NASDAQ, TSX: CIGI) and represents the new real estate world. We believe in making society a better place by playing an active role in solving real estate issues.

Connecting global market developments, data and the world of occupiers, tenants and investors, ensures that we understand what tomorrow's real estate sector looks like. We spot the right business opportunities for our clients and give well-thought advice. We are the experts on the future of real estate.

These insights allow us to add value to the different stages in the real estate cycle and build strategic relationships. We offer creative real estate solutions that are not only attractive today but also relevant and sustainable in the future.



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