

# COVID -19

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Hotel sector emerge from  
this crisis?

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- There is a great deal of speculation regarding when the UK hotel sector will start to recover.
- Given that these are unprecedented times nobody really has an answer to this.
- Looking at previous health epidemics (SARS, MERS, Swine flu, Zika virus) suggests a very short-lived plunge followed by a very fast recovery.
- But is it more complicated than that? – this note explores the data available in order to try to reach some supportable conclusions.



## Mainland China Hotel Performance (pre- and post-SARS Outbreak)

2002-2004 (absolute occupancy, absolute average daily rate)

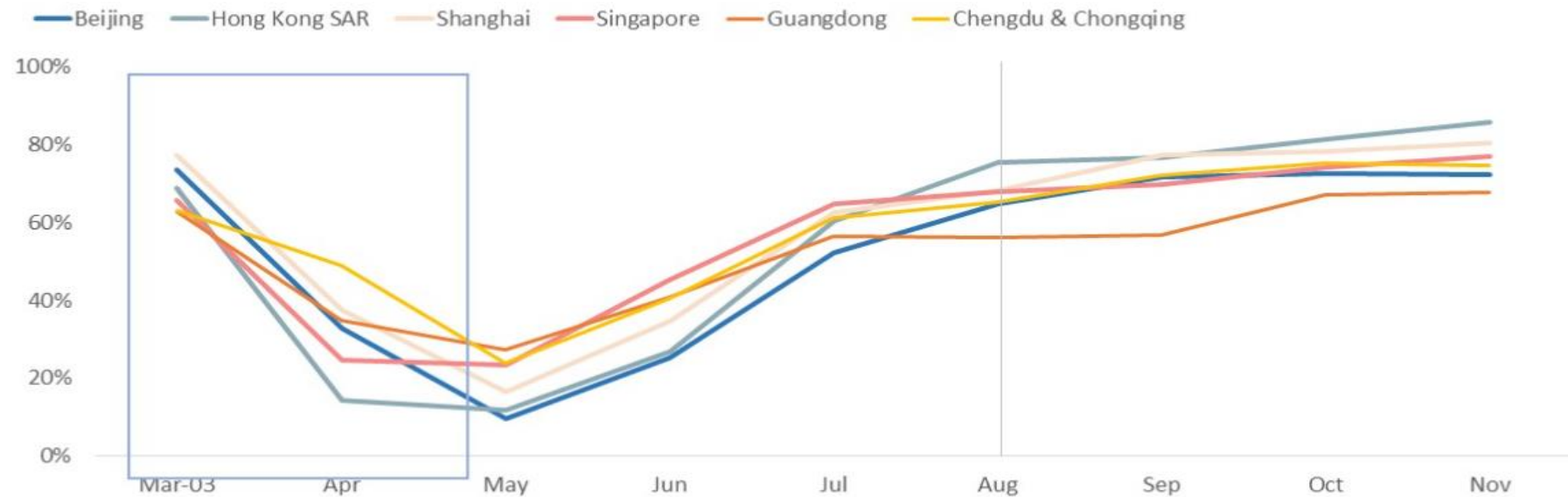


The most similar and best-tracked crisis of a similar nature was the SARS epidemic, which had a short-lived but profound impact on hotels in the Far-East. This chart shows how quickly mainland China was able to rebound from the relatively short-lived epidemic.

Across other affected countries, the impact was broadly similar with a sharp fall followed by a recovery that was almost as steep as the initial fall. Within six months normality had fully returned.

## Market-level occupancy during SARS outbreak

March-November 2003





There are those, however, that believe that such a prognosis ignores the complexities of the Covid-19 event and the wider (global) nature of this event, as well as the extreme measures taken to combat it.

Travel restrictions have been more severe and wider spread than during the SARS crisis.

Similarly, people point to the fact that the number of outbound travellers from China has grown from about 20 million at the time of SARS to more than 160 million in 2019.

There is also the fact that globally countries are moving at different speeds on this, with recovery starting in China, Europe in the middle of the storm (with individual countries there at a more advanced stage than others) and a daily worsening situation in the USA.

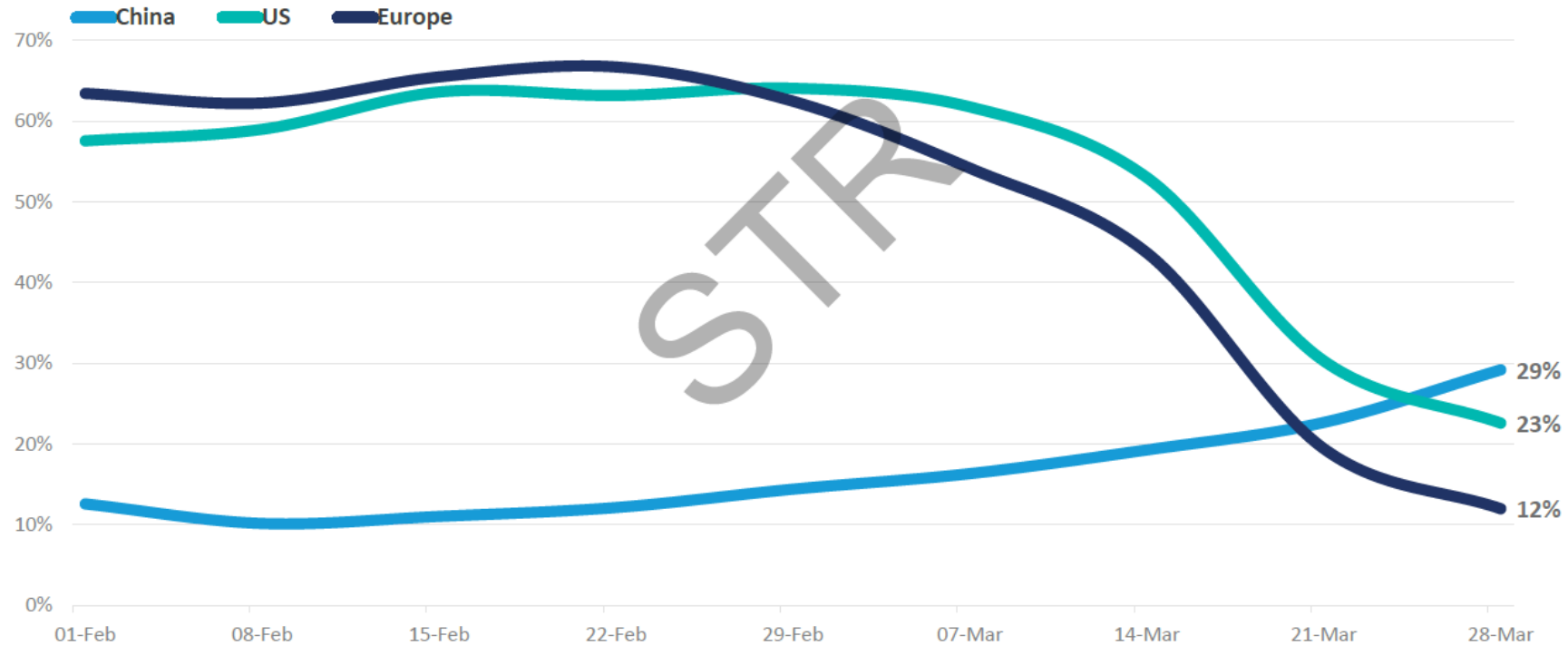
The chart on the following page certainly suggests a somewhat smoother recovery than the very steep V following SARS. However, it is too early to tell as this only tracks to the end of March – before the full easing of restrictions in China – once data is released after the end of April we should see a clearer pattern.





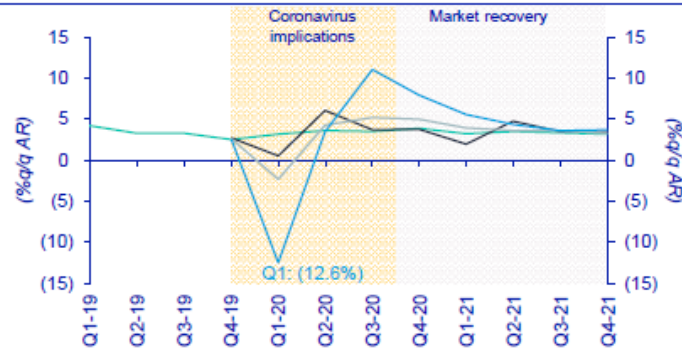
## China Recovers Slightly. Demand Tumbles Everywhere Else.

Absolute Occ %, Select Countries

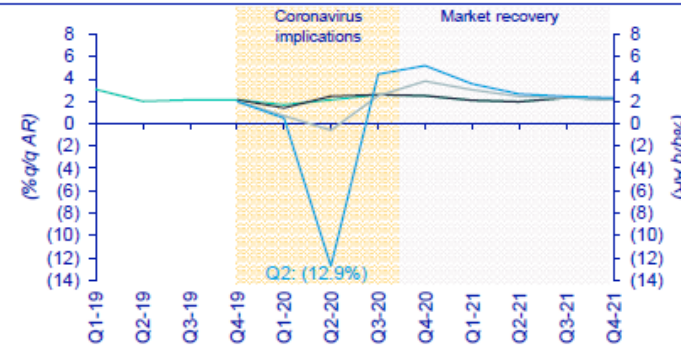


Source: STR. 2020 © CoStar Realty Information, Inc.

World global growth scenarios<sup>(a)</sup>

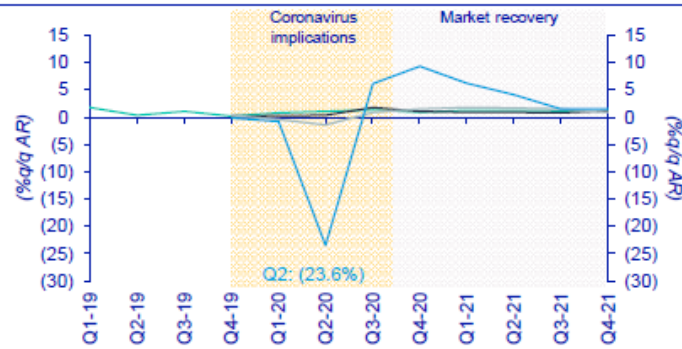


US GDP growth scenarios

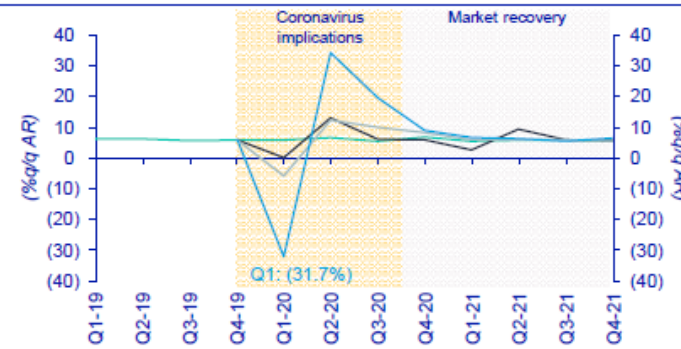


(a) Weighted average of US, EA, China and Japan

Euro area growth scenarios



China GDP growth scenarios



Pre virus 5 Feb baseline 2 Mar baseline New baseline

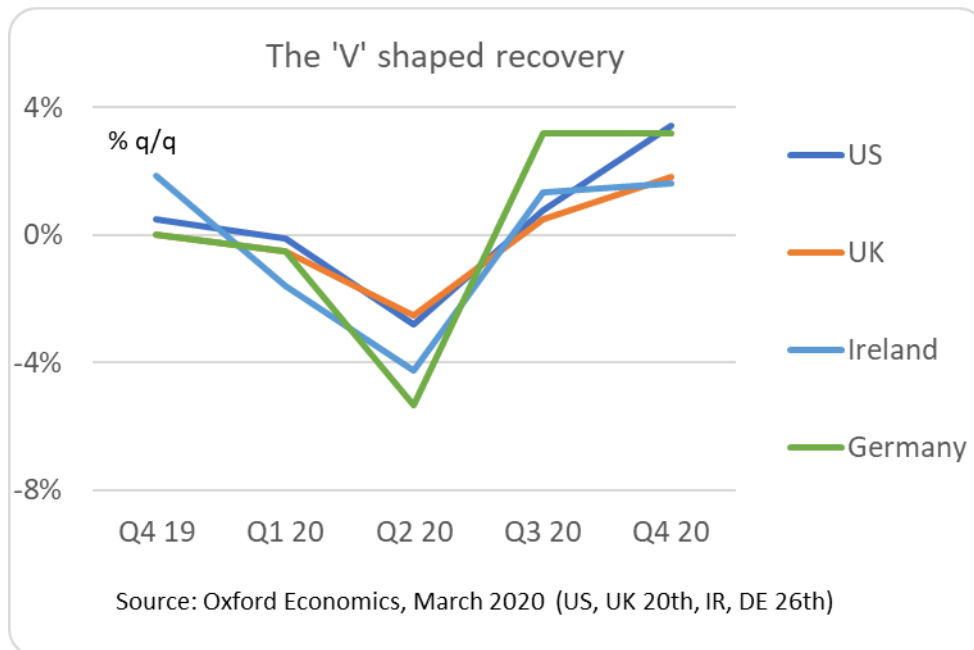
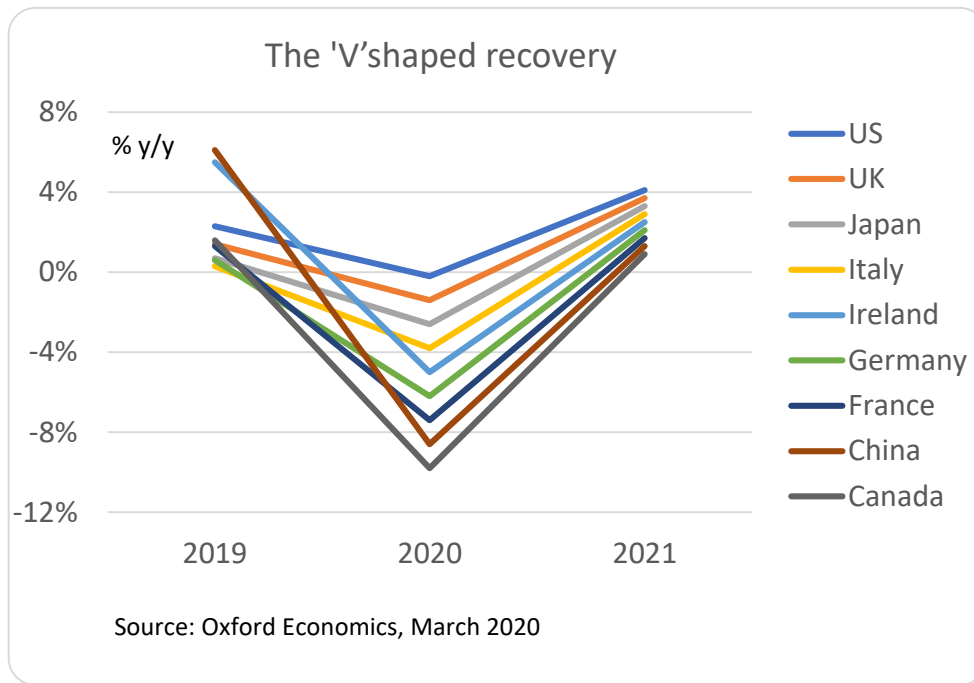
Source: Deutsche Bank research

DB research teams have estimated the impact on economic growth across the world.

Their estimates support a strong 'V' shaped recovery and, in some cases, even some catch-up on pent-up demand.

Their view appears to be that by the second half of 2021, the market has fully recovered in all regions.





Oxford Economics takes a similar view on how the recovery is most likely to follow a 'V' shaped recovery.

It shows most countries recovering at a similar pace, but there are clear expected winners and losers.

It will be important to track these forecasts over the coming months.



## Economic Profile of Top Economies

as of 6<sup>th</sup> April, 2020

Countries	Confirmed Cases	Days Since First Case	Fatality Rate	Cases per Million Population	Market Index (YTD Change)	Stimulus (\$ Billion)	Stimulus (as % GDP)
United States	337,620	73	2.86%	1,020.0	-26.2%	2,200.0	10.3%
China	82,626	96	4.03%	57.4	-9.4%	182.0	1.3%
Japan	3,654	75	2.33%	28.9	-21.5%	795.3	15.5%
Germany	100,123	69	1.58%	1,195.0	-28.1%	1,220.0	31.6%
India	4,288	67	2.73%	3.1	-33.6%	22.5	0.8%
United Kingdom	48,440	65	10.20%	713.5	-28.2%	446.0	15.9%
France	93,780	72	8.63%	1,436.7	-30.5%	382.9	14.1%
Italy	128,948	65	12.32%	2,132.7	-30.3%	27.8	1.4%
Brazil	11,281	40	4.32%	53.1	-39.9%	30.0	1.6%
Canada	15,871	71	1.77%	420.5	-21.9%	98.1	5.7%

Here we show the relative impact of the virus and the Government response in the world's top 10 economies.

This shows the multi-speed nature of the crisis and the differing responses.

Not all data is directly comparable and the UK data, for example, is based on testing of hospital admissions only; thereby under-estimating the number of total cases.

On the positive side, Governments, especially in Europe, have taken very strong measures to combat the worst effects on the economy. Measures have been taken with a view to ensuring that jobs are protected and that we are able to emerge faster from this difficult period.

The UK has been at the forefront of these measures (behind only Germany in scale) which have included:

*Cash grants to SME's within the sector;*

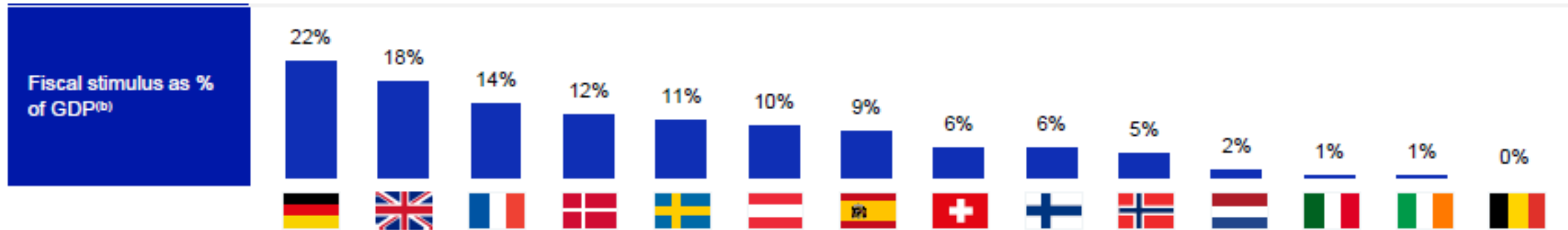
*Business Rates holidays for up to 12 months;*

*Government backed loans schemes;*

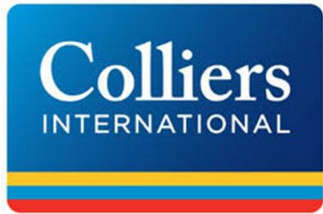
*Self-employed people eligible for grants based on prior three years earnings;*

*Eligibility for the Government backed furlough scheme providing 80% wage relief up to £2,500 pcm;*

*Option to defer VAT payments.*



- It is difficult to be certain about what is happening out there in the real world market place; but it is clear is that this is the worst crisis in living memory for the sector.
- The vast majority of hotels are closed and the only ones which are open are primarily servicing key workers and/or the homeless.
- Of almost 350 hotels in Europe, Marriott (the world's largest hotel company) has just three that are open.
- Travelodge has not paid its quarterly rent which was due at the end of March – upsetting landlords. Premier Inn, on the other hand, has paid rent and instead upset shareholders by cancelling their dividend to preserve cash.
- Other tenants have done a mixture of paying some rents and re-negotiating others on a consensual basis.
- Hotels operating under HMAs have seen income fall to zero and operating companies have similarly suffered, as almost all of their fee charges are based in some shape or form on turnover – this has left those OpCo's with significant costs and no income.
- Even hotels that are closed have been finding out just how expensive it can be to leave a hotel empty, with “burn” costs varying considerably.
- Development is not immune and a number of projects have been placed on hold until things are clearer, while others carry-on as normal confident in their belief that by the time their property opens the situation will have resolved itself.
- The airline sector has been hard hit and with Flybe in the UK and German Wings in Germany already confirmed as casualties, it is difficult to imagine what the new “normal” might look like in the airline industry.
- In the wider travel sector, the cruise industry has been decimated and may struggle to recover.



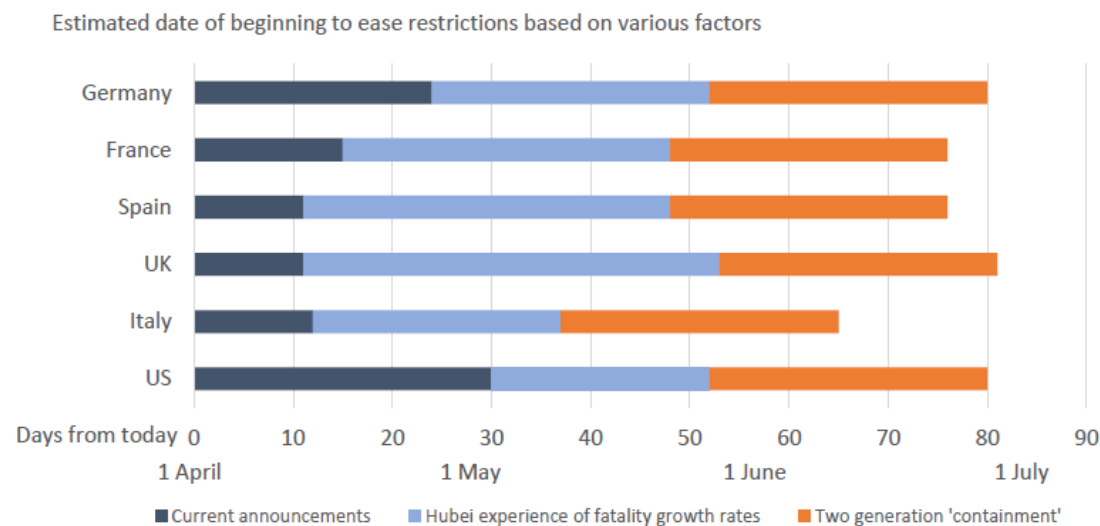
Anecdotal  
information from  
the UK Hotel &  
Travel Markets

# When do the restrictions end?

The chart below shows three potential scenarios for re-opening:

- I. If everything opens on the date that the initial restrictions were imposed for;
- II. Assuming that countries re-open following a Hubei style experience;
- III. Finally if the country awaits 2<sup>nd</sup> generation containment safety standards.

We would consider the first scenario highly unlikely but there may be some phased loosening of restrictions during the light blue period shown above.



Source : Deutsche Bank, WHO, CDC, Worldometer



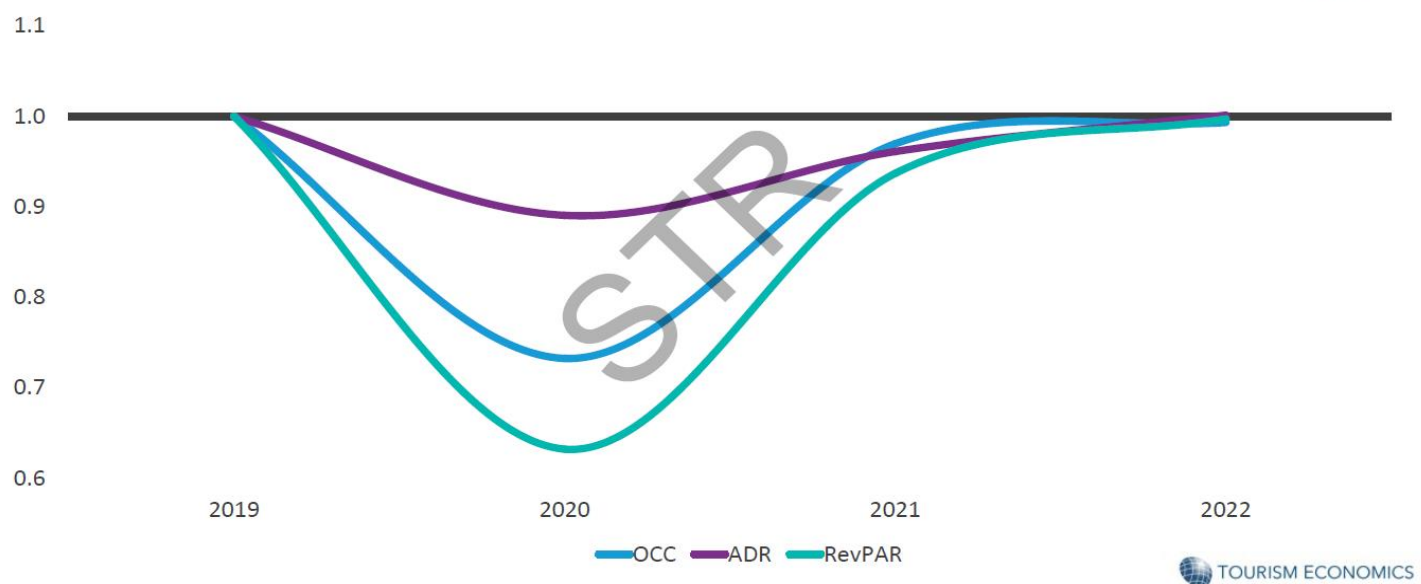


STR, which closely tracks the global hotel industry, has issued its own thoughts based on the data to date for Europe and how China has started to track out of the crisis.

This shows a tricky Q2 for most European hotel industries, followed by a fairly sharp recovery in Quarters 3&4 but a longer period until full recovery – expected toward the end of 2021. This is in line with our own thoughts.

### Return to 2019 levels expected in 2022

Average Hotel RevPAR, Indexed to 2019 for European Forecast Markets\*, March 2020 Forecast



Notes: \* Average forecast for: Amsterdam, Athens, Barcelona, Belfast, Berlin, Birmingham, Brussels, Budapest, Cologne, Dublin, Dusseldorf, Edinburgh, Frankfurt, Gatwick, Glasgow, Hamburg, Heathrow, Leeds, London, Madrid, Manchester, Milan, Moscow, Munich, Paris, Prague, Rome, Stuttgart, Vienna, Warsaw, Zurich

What is clear is that the months of April and May will certainly continue to be heavily impacted. There could be some loosening in June according to the most optimistic sources, but the consensus is that restrictions are likely to stay in place until July or August and possibly longer.

Once the “lockdown” restrictions are lifted and hotels are able to re-open, the belief is that domestic business and leisure travel will recover quite quickly – the so-called ‘V’ shaped recovery. However, international travel will continue to be impacted by international restrictions on UK travellers going abroad and foreign travellers entering the UK. This will clearly impact more those cities with significant international travel (London and Edinburgh foremost in the UK).

There is the added danger with the lifting of restrictions too early, that the virus could revitalise and cause a secondary shut-down of activity – creating a ‘W’ shaped recovery with a secondary dip.

Eventually, international travel will revive and finally there will be pick-up in the Meetings, Incentives, Conferences and Events (MICE) business. That is if we haven’t all become too accustomed to video-conferencing, which has seen significant uptake in recent months.

We would expect hotels with strong UK leisure demand to be amongst the first to pick-up provided the season has not gone by the time restrictions are lifted.

The timing of re-opening is also very important and owners will want to see a clear path to reaching break-even point within a couple of weeks, before making those decisions.

All of this suggests some significant pick-up in Quarters 3&4 of 2020, recovery picking-up pace during 2021 and hopefully a return to normal (or at least a new normal) in 2022.

# How and when does the Hotel sector emerge from this crisis?

# What does the future hold?

It is likely that after such a major crisis, there will be a shift in the way that the sector's owners behave.

In the long-term, Colliers expects more hotel lease contracts in which rents are linked to turnover, which is currently a common theme throughout the retail sector and has been the norm for many years in hotels within the Nordic countries.

Across the board, it could be said that the vultures have already begun to circle around overhead looking for stressed opportunities.

Colliers believes that the robust Government measures introduced in the UK have restored some calm to the market, at least in the short-term. We'd be surprised if many hotel transactions are completed in the next three months.

However, that number may rise considerably in the third and fourth quarters of 2020, with recovery picking-up pace during 2021. This will create opportunities, especially in cases where hotel real estate is no longer in line with investment strategies and hotels are sold off.

# Contact us

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