

COVID-19 ECONOMIC IMPACT ON HOTEL INDUSTRY

Topline Talking Points

- As of April 15, nearly 8 out of 10 hotel rooms¹ were empty across the country per STR.
- Since the public health issue began escalating in mid-February in the U.S., hotels have **already lost more than \$13 billion in room revenue**².
 - This figure is rapidly accelerating with hotels currently on pace to lose more than **\$500 million in room revenue per day**³ based on current and future reported occupancy rates.
 - This pace means a loss of **\$3.5 billion every week**⁴ and will only further escalate as the situation worsens.
 - Most hoteliers are already reporting projected revenue losses of greater than 50% for the first half of the year.⁵ Last week, revenues were 16% of what they were last year per STR.
- The human toll is equally devastating with major hotel managers already reporting significant layoffs and furloughs.
 - Based on current occupancy estimates for the immediate future and historical employment impact rates, **nearly 3.9 million total jobs**⁶ **have either been eliminated or will be eliminated in the next few weeks.**
 - **With 70% of direct hotel employees laid off or furloughed, hotel workers are losing more than \$2.4B in earnings each week**⁷.
- Individual hotels and major operators are projecting occupancies below 20% for upcoming months. At an occupancy rate of 35% or lower, hotels may simply close their doors, putting **33,000 small business at immediate risk**⁸.

Abrupt and Unprecedented Drop in Hotel Demand Shocks Industry

The hotel industry is facing an abrupt and unprecedented drop in hotel demand that is gaining pace and getting progressively more severe each day that goes by.

- Additionally, announcements by colleges, schools and professional sports leagues to cancel major events across the country will soon hit leisure travel bookings and broaden the geographic impact of sharp demand declines, accelerating the damage across the industry and nation.

¹ "STR: U.S. Hotel Results For Week Ending 28 March," STR, 4/1/20

² Data through 3/28 based on Smith Travel Research, 2020 STR, LLC, forward-looking data compiled and averaged from anonymous AHLA member survey responses.

³ Data compiled and averaged from anonymous AHLA member survey responses combined with historical performance from Smith Travel Research, 2020 STR, LLC.

⁴ Data compiled and averaged from anonymous AHLA member survey responses combined with historical performance from Smith Travel Research, 2020 STR, LLC.

⁵ Data compiled and averaged from anonymous AHLA member survey responses

⁶ Data compiled and averaged from anonymous AHLA member survey responses combined with Oxford Economics

⁷ Hotel Effectiveness, March 2020

⁸ Oxford Economics, August 2019.

- Major hotel companies and most hoteliers are reporting that group business, which represents roughly 20% of the industry, has dropped by more than 50% for the first half of the year, and they are projecting more cuts through year-end.
 - A 50% decline in group business for the year would mean more than \$30B in losses to room revenue, as well as more than \$110B in losses in related ancillary spend.⁹
 - **For many hotels, groups and meeting related businesses represent the vast majority of their business in any given year.**
- In addition to the full year declines, major brands and hotel real estate ownership groups are experiencing **single digit occupancy levels in April**. These figures are worsening by the day.¹⁰

Industry Sees Sharp Decline In Revenue Due To Drastic Drop In Demand

The hotel industry is already seeing actualized **revenue declines of more than 80% on a weekly basis**, and these declines are accelerating rapidly. For the week ended April 11th, the industry sold more than **18 million fewer rooms¹¹ than last year**.

- Based on current occupancy declines of 50% or more in the coming weeks, **hotels are currently losing more than \$500 million every day**, purely in room revenue and not accounting for additional spend in restaurants, meeting space and other ancillary revenue sources.
- A revenue decline of 55% for the industry would represent roughly **\$120 billion in lost revenue¹²** for the full year.
 - A drop of 30 percentage points in occupancy, coupled with a 30% decrease in rate, would increase that to \$140 billion¹³.

Hotels Risk Foreclosures Due To Negative Cash-Flows

The decline in occupancy is putting real estate asset owners at risk of being unable to make debt service payments.

- **A decline of 15% in hotel revenue puts many owners in a position where they are cash-flow negative**, and thus unable to pay debt service, putting them at risk of foreclosure by lenders. Major hotel companies are already forecasting far in excess of that decline.

Hotels Forced To Consider Reducing Staff To Make Ends Meet

The hotel industry supports over nearly **8.3 million jobs¹⁴**, but drastic declines in occupancy rates will lead to massive job losses for individuals across the industry. Hotel owners are already reporting facing massive, unavoidable layoffs and furloughs.

⁹ Data compiled and averaged from anonymous AHLA member survey responses combined with information from Kalibri Labs

¹⁰ Data compiled and averaged from anonymous AHLA member survey responses.

¹¹ STR Data, Accessed 3/20/20.

¹² Data compiled and averaged from anonymous AHLA member survey responses combined with historical performance from Kalibri Labs.

¹³ Data compiled and averaged from anonymous AHLA member survey responses combined with historical performance from Kalibri Labs.

¹⁴ Oxford Economics, August 2019.

- The human toll is equally devastating with major hotel managers already reporting significant layoffs and furloughs.
 - Based on current occupancy estimates for the immediate future and historical employment impact rates, **nearly 3.9 million total jobs¹⁵ have either been eliminated or will be eliminated in the next few weeks.**
 - **With 70% of direct hotel employees laid off or furloughed, hotel workers are losing more than \$2.4B in earnings each week.**
 - For every 10% drop in hotel occupancy, the industry will have to let go of around **345,000 employees.**¹⁶
- The industry is already facing massive furloughs:
 - Individual hoteliers have reported shutting down part or all of their hotels and **needing to lay off 80% or more of their staff.**
 - One specific major hotel management company reported in March that they were forced to furlough 95% of their staff – 6,650 workers.¹⁷
 - John Boardman, with Unite Here Local 25, represents some 7,000 hospitality workers in the DC metro area. He says that 75 percent of his members are not working right now and that number will likely rise to 90 percent next week.¹⁸
 - Marriott International announced that they were being forced to furlough tens of thousands of their associates globally due to the crisis¹⁹.

Economic Impact Will Ripple Through Hotel Industry Supply Chain

The hotel industry indirectly supports **nearly 8.3 million jobs²⁰**. An economic crisis that reduces hotel occupancy rates would send a crippling ripple effect through industry suppliers (food, linens, amenities), retail and restaurant industries, and businesses that operate along-side hotels (parking garages, etc.).

- **Current forecasts for a 20-30% drop in hotel occupancy over a full year would result in between 2.5 - 3.9 million jobs being lost.**²¹

Potentially Hundreds of Billions Lost in GDP

The hotel industry contributes nearly **\$660 billion²²** to the U.S. Gross Domestic Product (GDP) but could drop to as low as \$160 billion due to drastic drop-in occupancy rates.

- For every 10% drop in hotel occupancy, the industry will support **\$100 billion less in GDP²³**.

¹⁵ Data compiled and averaged from anonymous AHLA member survey responses combined with Oxford Economics

¹⁶ Oxford Economics, August 2019.

¹⁷ Data compiled and averaged from anonymous AHLA member survey responses.

¹⁸ "Union Rep: 75 Percent Of Hospitality Workers Are Idled, Soon To Be 90 Percent," WJLA, 3/13/20.

¹⁹ "Marriott Begins Furloughing Tens of Thousands of Employees," *Wall Street Journal*, 3/17/20.

²⁰ Oxford Economics, August 2019.

²¹ Oxford Economics, August 2019.

²² Oxford Economics, August 2019.

²³ Oxford Economics, August 2019.

- **Current forecasts of a 20-30% drop in hotel occupancy would result in between nearly \$200-300 billion²⁴ in lost GDP.**

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²⁴ Oxford Economics, August 2019.