The Long-Term Outlook For Hospitality In NYC

forbes.com/sites/shimonshkury/2021/02/17/the-long-term-outlook-for-hospitality-in-nyc

There's long-term potential for hospitality investors right now, but investors need to prepare to ... [+]
Ariel Property Advisors

It's no secret that in the age of social distancing and travel bans, the hospitality industry is hurting, but real estate industry professionals are seeing long-term potential, especially in New York City.

The current picture is certainly dire. New York City has a larger percentage of still-closed hotels than any other market in the US: approximately 75% of hotels that closed as Covid-19 hit remain closed. This includes a number of larger, 300-room-plus full-service flagship hotels.

"In the early days of the pandemic, many unions were operating in August and September under the assumption that there would be a post-summer recovery of travel from business travelers," said Evan Weiss, COO of LW Hospitality Advisors. "But recovery remains a slog. There's been plenty of coverage on the economic strain the city is enduring, but what's driving resident reactions is more psychological and sociological. It's about the decisions people are making when it comes to tourism and activities outside of the home, based on how comfortable they feel traveling."

Many unions are considering a shutdown through March in the face of sparser demand. In general, vertical, urban, union-operated markets are difficult to reopen right now because they rely heavily on international travel, especially in gateway cities where international travel is nearly non-existent compared to previous levels.

Additionally, hotels in gateway markets like New York City rely on corporate group travel as a baseline foundation and this type of travel is down dramatically right now. Most conventions and meetings are simply not happening yet. Some leisure travel is being seen within the U.S., but urban markets like Chicago, New York, Seattle and San Francisco are not enjoying their historical norm of leisure travel. Within New York, museums and restaurants are operating at limited capacities, while attractions like Broadway and sports and concert venues are closed to crowds.

“It's going to be a long road back,” said Weiss. “We anticipate that traveler demand for New York City will start coming back toward the end of Q3, but with the severe dearth of international and domestic business travel and tourism, there will be lingering pain.”

Investors are seeing a great deal of long-term investment potential, especially when considering the ... [+]
Ariel Property Advisors

Still, opportunistic investors are perking up. My firm Ariel Property Advisors is finding that there is growing interest in New York City hotel assets, because the expectation is that when the city comes back, it will come back in a big way and the current prices on these properties will represent a discount when weighed against future value.

Valuations do remain a big question right now, though, according to Weiss, as does the capital outlay investors may need to prepare for to maintain an asset's operations. Additionally, EBIDTA is down as much as 70% to 90% throughout the country, according to LWHA data.

"It's crucial for investors to reexamine their investing aims, with a focus on risk," said Weiss. "When underwriting an investment, one must ask themselves and their teams, Why are you getting this value? There is opportunity, but it has to be considered very carefully with an eye toward the longer-term hold."

Generally speaking, hotel properties are selling on a distressed level, which means that debt is difficult to secure and more expensive. In a gateway city like New York, there's likely to be a significant cost to carry, which may likely amount to continued month-over-month losses, necessitating cash reserves for interest and operational expenses.

"2017 to 2019 are good watermarks for performance in terms of earnings for New York City," said Weiss, "and our three-year valuation averages lead us to believe that New York City's revenue per available room is estimated to generally recover to pre-pandemic levels in 24 to 36 months while earnings may need somewhat longer to recover, as demand could recover more quickly than pricing power."

Business travel remains a key factor to monitor in NYC and other gateway cities.
Ariel Property Advisors

LWHA and Weiss are keeping an eye on the types of paradigm shifts that may affect the industry. Overall, leisure will likely regain strength over the medium-to-long term, but corporate travel may see a reduction by as much as 10% or 15% even after an end to social distancing as a result of remote meetings, fewer business conferences and corporate cost-cutting. But again, it is important to note that at this point, no one really knows, and individual investors will include projections in their valuations.

“The nature of people is to travel and experience things with others,” said Weiss. “They want to be together and they want to collaborate. This alone makes me believe that in the long term, we will get back to normal and we will get back to enjoying life together again.”

Ultimately, New York City hospitality is expected to recover and continue an overall projection of growth in the long term, but the immediate recovery will take some patience and, for opportunistic investors, enough reserve capital to weather the downturn until profitability returns.

Shimon Shkury