

# Hospitality Today – From Medical Crisis to Reopening

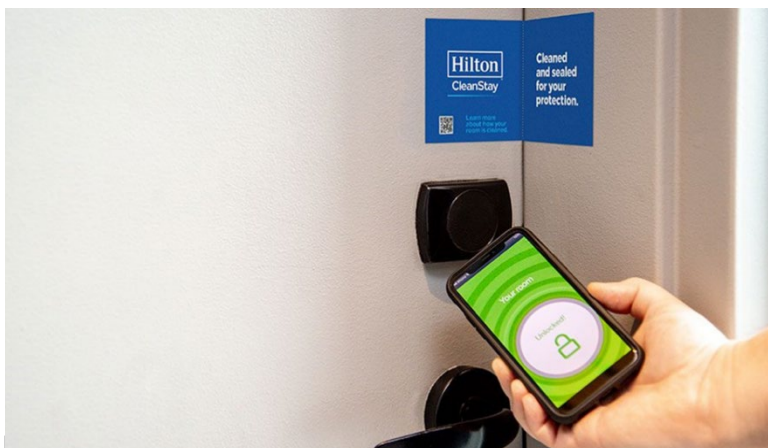
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## Hospitality Today – From Medical Crisis to Reopening

Now more than two months after the Coronavirus pandemic caused businesses to shutter amidst shelter-in-place orders across the world, the hotel industry continues to be on the front lines of this crisis. Wildly beleaguered by the immediate cessation of travel and notably of service in the public health efforts to slow the spread of the virus, as we outlined in the [PKF hotelexperts March newsletter](#), hospitality continues to navigate a complex set of factors.

Despite the Covid-19 crisis, and the precipitous drop of group travel to near zero occupancy by week ending March 21, 2020, room nights have continued to be in some demand. While a dramatic loss from the roughly 3.5 million room nights sold per day in the US last year, “the U.S. hotel industry sells a million room nights each night, no matter what” according to Jan Freitag, Senior Vice President at Smith Travel Research who explains in a May 12 Hotel News Now article that, “because of the first-responders, homeless populations, people driving across country, airline crews and people actually living in hotels, we now know that there is a base level of demand that never goes away, no matter the economic situation.”

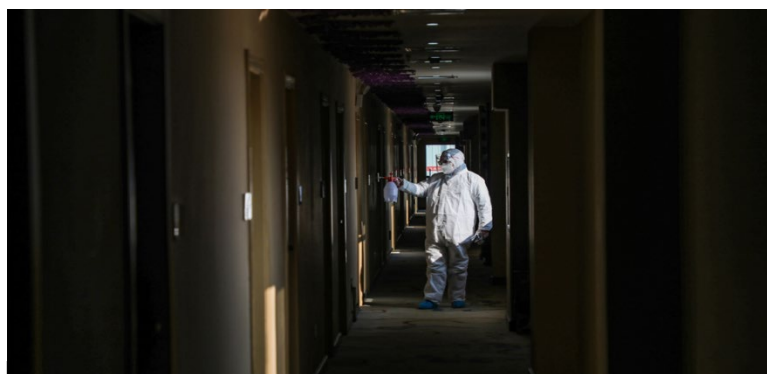


Source: [www.businesswire.com](http://www.businesswire.com)

### New Reality:

Most jurisdictions around the world have lifted restrictions on hotel operations, or plan to do so in June. Hotels now face the challenge and opportunity to assess the best path forward based on available sources of revenue.

**Government Funding:** Government funding is responsible for a meaningful portion of the recent room night demand, with programs in place to support the medical community, other first responders that experience greater risk of exposure to the virus, and at-risk sectors of the population such as the homeless. Despite the lifting of shelter-in-place orders in many communities across the world in efforts to reinvigorate the economy, the persistence of the Covid-19 threat remains. Social distancing remains the critical path towards herd immunity, and safe spaces are still in need, particularly in the largest and most affected cities. While this funding has enabled hotels to remain open and cover many, if not all, fixed expenses, the costs (real and implied) to return a property to market, particularly if it has been a safe haven for the homeless communities, can be onerous.



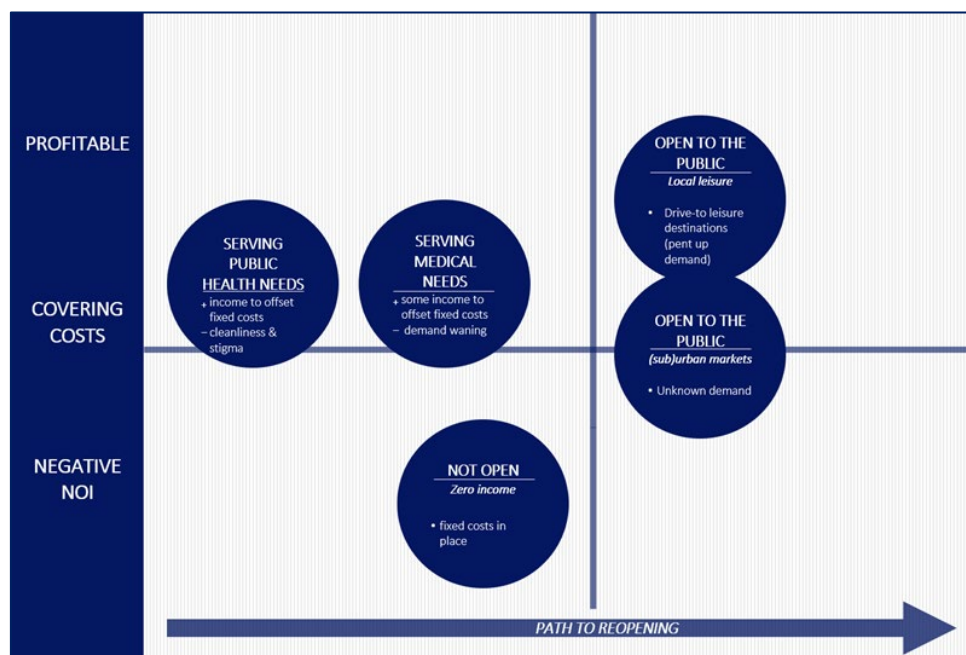
Source: [www.businessinsider.com/](http://www.businessinsider.com/)

**Market Demand:** In May, the industry noted an uptick in occupancy in some hotel markets, notably drive-to, leisure destinations that offer fresh air and assurances that newly adopted cleaning and disinfecting procedures will keep guests safe. According to CBRE, some U.S. drive-to coastal markets amassed 50 percent occupancy rates over the first weekend in May. Most city hotels, however, still suffer a lack of occupancy and continue to face ongoing fixed costs. The return of demand from the

transient market (whether leisure or business) for suburban and urban hotels is projected to be inconsistent in the short term and is therefore being met with properties that are opening with the barest minimum of amenities and associated staff.

A new set of decision-making factors can be seen in the following matrix of property economics and the road back to “normal.” It’s important to note that any qualitative public benefits that can, and should, be overlaid in this decision-making process reside in the hotels’ capacity to return to profitability and resume job creation. Medical and public health benefits are merely a very strong positive externality of the relationship between governmental efforts and the hotel industry.

**Property economics and the road back to “normal”:**



**A case study in Poland**

When addressing the medical needs today, Poland offers a unique case study in the consolidated and immediate actions taken by the Polish Hotel Holding (PHH) company, the largest hotel company in the country, with 27 properties. PHH is owned by the state treasury but runs as a separate business entity under the experienced leadership of Gheorge Cristescu, a former Director of Best Western International in Poland and the Baltic countries. Its deep public-private reach has enabled the company to put itself at the center of the crisis, becoming “a link between the government entities preparing aid, and the hotel industry,” as explained by Malgorzata Broniarek, Commercial Division Director based in Warsaw.

When its hotels were forced to shut down on 13 March, PHH began supporting the help line for the National Health Fund and working to help bring home, and temporarily house, LOT airline employees. By 23 March, the company had enlisted 13 of its own, and many other, hotels in the country to either serve as hotels for medical staff or to become hospital-run “isolation rooms” in which Covid-exposed individuals could safely isolate. The goal was not to solve a “lack-of-beds” problem but to proactively provide distance for the higher-risk population.

Beds in the Isolation Hotels, a total of 22, are paid for by the government. The hotels range from two to five stars, and PHH worked with a team of lawyers and government agents to study historic fixed costs at each hotel to establish a price per key. No margins were built in, and the government has only been billed for the rooms used, calculated on a weekly use basis. Hospital staff were moved into these hotels to operate them to medical standards.

Medical staff hotel room nights are paid for by PHH and by its Polish Hotels for Medics Foundation, whose sole purpose was to raise the funds necessary to aid hosting medical workers in third-party hotels. As of 30 April, 3.25 million zł was raised by

the foundation to co-finance 5,000 room nights offered to medical workers. The fixed rate of 125 Polish Zloty, or roughly \$30 USD was established by the foundation and is 20-30% less than normal for three- or four-star hotels in low season. As per the agreement with the state, hotel employees were guaranteed to be compensated for half of their salary amount throughout this period.

As of 4 May, hotels in Poland were allowed to reopen and PHH has done so amongst most properties – targeting the local, Polish market since international travel is still banned. The hotels that remain in use for medical purposes are those that are most needed for ongoing safe distancing, such as in Silesia, a mining area in the north where an early May outbreak among miners has been recorded. Otherwise, the spread of the Coronavirus has been relatively contained in the Eastern European country. According to Euronews, Poland registered more than 17,600 cases (a ranking of number 31 in the world in terms of recorded cases), and 883 deaths through mid-May. While the broad variation in testing practices across countries limits the validity of comparative cases, Poland's 5% death rate among positive cases is notably less than the US at 6%, the UK at 14%, and nearby countries such as the Netherlands and Belgium, at 12.9% and 16.4%, respectively.

PHH notes that the leadership and citizens of Poland took the crisis very seriously from the beginning. The company was pleased it could act so swiftly in coordination with governmental, medical, and other non-profit resources in order to be of help – while also covering the hotels' fixed costs. If a second wave occurs, Malgorzata assures that they "will do it again, only faster and easier next time" given all their hard-earned knowledge

## Governmental Funding for the Homeless

The most immediate medical needs for hotel rooms in many cities have been addressed at this point of the crisis. PKF hotelexperts does not have a count of rooms currently being used for medical workers and patients in the cities we've surveyed, but the general consensus across the world is that hospitals are not overrun like they were in the early days of the initial outbreak. Makeshift hospitals in school gyms, convention centers, and Navy ships were useful and critical components of contingency planning. Now, cities must begin again, establishing new ways to stay safe – with face masks, social distancing, and an overall cohesive public health agenda.

Homeless populations represent a major public health vulnerability. In an interview with PKF hotelexperts, Vijay Dandapani, CEO & President of the Hotel Association of New York City (HANYC), stated that "there were 60,000 homeless in NYC when the crisis hit, and going forward that number is unfortunately only going to increase." HANYC has worked with the city of New York to bring 25 hotels – and soon up to 50+ hotels – into a program that supplements shelters and provides clean and safe rooms to the homeless. The program allocates FEMA (Federal Emergency Management Association) funds to the hotel for \$115 to \$135 per room per night. Dandapani explains that the list of hotels is not made public due to privacy concerns for the temporary residents, as well as the brand protection of the hotels. While FEMA covers added costs to operate and secure (with cameras and staff to implement curfews) the properties under these extra-ordinary medical conditions, property owners express concerns that FF&E upgrades and overhauls may be required at the end of the program, a capital cost not covered by FEMA or the Departments of Homeless Services. This is a cost-benefit analysis that many properties are weighing as they look to cover immediate costs, including expensive New York property taxes coming due in July. The much-needed program to help curtail the virus among the homeless population is slated to expire at the end of June, but bi-partisan support is seeking an extension through the end of the year. City Council is seeking a vote on the bill, which Mayor de Blasio's office believes could cost the city \$500 MM, before the end of May.

California estimates the number of homeless in the state to surpass 150,000, a figure that has prompted more than two billion dollars in already allocated and proposed funds to address the crisis. "Homeless Californians are incredibly vulnerable to COVID-19 and often have no option to self-isolate or social distance" said Governor Newsom. Under its Project Roomkey program, the state has set an initial goal of securing 15,000 rooms for the purpose of moving the most vulnerable homeless individuals off the street and into these hotel rooms. Local governments will receive up to a 75% cost-share reimbursement from FEMA for hotel and motel rooms, including wraparound support such as meals and security. To date, Los Angeles County alone has secured 3,245 rooms for this initiative. The Los Angeles Homeless Services Authority has filled most of the leased rooms within two to three days of their availability, although it has now stretched local service providers to the point



where it is threatening the potential to take in any more of the homeless population. Going forward, it will become essential to increase the capacity of these services in order to even consider the possibility of satisfying the demand for such housing.

## Conclusion:

Numerous studies show that the hotel sector takes time to rebound after a major crisis. Occupancy returns more quickly than ADR, and RevPAR can take three to six years to return to normal. Several experts predict a five-year period for RevPAR to return to 2019 levels. Another industry expert, from Square Mile Capital, projects a much slower ramp-up in group business – at least two years – than when compared to previous downturns, due to the nature of the virus.

Hotels face a variety of decisions in charting a long course back to profitability – weighing such factors as property taxes, fixed costs, timing of deferred maintenance investments, added costs of cleaning during normal operations, and preparations for a possible second wave of the virus. Furthermore, the recent uptick in drive-to destinations is yielding greater interest in vacation-rental accommodations, as noted recently in Forbes. These are factors that will continue to define the cost and role of “service” in our industry as the world moves towards reopening.

In a recent [interview with PKF hotelexperts](#), Thomas Emanuel, UK Director of Smith Travel Research highlights that “This crisis will raise the profile of our industry, with not just the general public, in terms of the appreciation of our contribution towards GDP, but its entire profile in the eyes of the public sector.” The industry’s contribution to society and its ability to adapt to the toughest situations is what makes it resilient. Moving forward we must look at best practices, remain hospitable, and serve society in its most necessary needs.



Source: [www.latimes.com](http://www.latimes.com)

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