Hotel Investment Market: Where It's At and Where It's Going

SAVANNAH, GA, UNITED STATES, January 26, 2021 /EINPresswire.com/ -- It would be an understatement to say that the hotel industry is experiencing some dark days. In fact, some experts like Georgia-based hotelier Charlton Claxton know that hotels are downright reeling. And unfortunately, no one is to blame - no irresponsible investments or aggressive purchases. The predicament the hotel industry finds itself in is entirely due to the coronavirus pandemic, and it seems that it can't get any worse.

For example, U.S. hotel occupancy during the last week in November 2020 was down to 36.2 percent, a 28.5 percent drop from the same time in 2019. Meanwhile, across the U.S. dropped by 41.2 percent compared to 2019, settling at only $33.49 per room.

Although the hotel industry has seemingly hit rock-bottom, there is only one place to go from there: up. While 2020 hotel sales fell below the number of transactions reported in 2019, which totaled more than $585 million, 2020's year-to-date volume still exceeded $330 million, meaning there are still plenty of investors seeking hotel properties. Why? Because people are realizing that this is a once-in-a-lifetime opportunity to take advantage of discounted deals.

Striking while the iron is hot is a brilliant strategy during these uncertain times, but it's vitally important for any would-be hotel investor to understand 1) where the current state of the hotel investment market is at now, 2) where it's going, and 3) where opportunities can be found.

Where It's At
Nearly every subsector of the hotel market has been affected by the coronavirus and its subsequent recession including luxury, economy, business, and tourism. Large hotels in urban cities with many meeting and convention spaces have been impacted the most, and the smaller economy and interstate-oriented hotels have been impacted the least. There's clearly more leisure travel today than business travel.

At the same time, there is one subsector that has performed well during the pandemic: extended stay properties. Theoretically, this is probably because extended stay units offer in-room kitchen facilities, which allows people to travel while minimizing their interactions with others. In other words, they are ideal for social distancing.

Where It's Going

Despite the current industry slump, Claxton is optimistic about the hotel investment future because the simple fact remains: travel is not going anywhere. He foresees a return to corporate travel in Q2 of 2021 conveniently coinciding with the distribution of a COVID-19 vaccine.

Something else to consider: with many people working from home for almost a year, the need for monthly or quarterly in-person meetings will set business travel up for a well-needed rebound. But companies will have a difficult time forecasting their 2021 lodging expenditures. They may have a smaller travel budget for 2021 than 2019 or 2020, but by 2022, their lodging budgets should be back on track.

Opportunity for Hotel Investors
The question remains: is this the moment of opportunity that hotel investors have been waiting for? Almost, but not right this second.

That's because there's no guarantee that a down market equals immediate cash flow. So hoteliers like Claxton must be patient. Deals under 10 to 15 million dollars will mainly be conducted on online auctions. But even situations where the borrower wants to give back the deed to the lender, and the lender is willing to take it...that process still takes time.

Once 2020 financials are turned over to lenders, there's going to be a lot of pressure on those lenders from their regulators to no longer extend and force the lenders to deal with any troubled assets. A lack of financing options has slowed the pace of transactions in the hotel sector. The lodging transaction market has declined significantly due to the lack of debt and funding options.

Regardless, hoteliers predict that transactions will accelerate in 2021, even if that means investors will have to supply more equity than usual. Their only saving grace will be equity.

When it comes to evaluating potential investments, investors need to realize that cap rates can be less relevant to hotel properties. Instead, investors should be looking at 1) the stability of the demand for that particular hotel, 2) the likely speed of recovery of that demand by sector, and 3) the capital needs that the property has.

There is going to be an abundance of opportunity in the next 24 months for anybody that wants to get into the hotel industry. It's about choosing wisely, timing it correctly, and making sure you have the equity to put down on a deal.

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