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Hospitality owners should aggressively seek property tax reductions in 2021 - by David Wilkes

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The Roosevelt Hotel, located on East 45th St. in Manhattan, was a New York City landmark. Named for President Theodore Roosevelt, the storied hotel was the backdrop for major motion pictures and known as a fixture of the Manhattan skyline. It made history again on December 18th when it closed its doors permanently. With decimated demand for lodging, the legendary hospitality property could no longer generate enough revenue to meet expenses, which included a hefty annual property tax levy from the City of New York. A staggering number of lodging properties across the country are meeting the same fate, shuttering forever as a result of the economic effects of COVID.

Hotels that remain in operation in 2021 and beyond will be those that can both pivot to attract the shrunken pool of travelers and at the same time succeed in aggressively reducing their property tax burden, among other expenses.

The real test in the property tax arena will be presented in the coming year in most jurisdictions, when the key tax assessment valuation dates will have occurred squarely during some of the worst pandemic months. One might think that the valuation argument in favor of sharp tax assessment reductions is plain. Yet, surprisingly, some tax assessors would have us believe that the devastation in the market is merely a passing blip that will only modestly impact would-be investors, and is no more significant to long-term viability than the dips experienced in the past. Eventually, these assessors are likely to contend, demand will return to previous levels and therefore investment values should not reflect today's financial picture.

Some industry commentators have likened the 2020 pandemic to the SARS virus impact that drastically beat up the hospitality market in 2003. At that time, some have pointed out, hotel bookings fell by 50%, leading to losses estimated at between $30 and $50 billion. With the passing of SARS, the industry rallied back by 2006 and reached unimagined levels of value some years later.

Not so following COVID—this year, and beyond, the picture is fundamentally different than before. Nearly 20 years ago when a virus became widespread, business travelers had limited options and promptly resumed in-person meetings and the travel that required as soon as it was safe to do so. We have all by now become near-experts in using, with success, advanced networking technology that is far beyond what we might have assumed was possible just a year ago. And more platforms are arising to meet demand, along with greater facility among all levels of users as time passes.

Business keeps moving, but it now requires far less travel. Annual occupancy for U.S. hotels this year is expected to drop to 44% and average daily room rates will drop 21%, with resultant RevPAR declining 47% compared to 2019, according to surveys. The use of hotels is also looking quite different: the majority of guests are now booking within 24 to 48 hours of arrival, which strains forecasting and staffing models, making it more expensive to operate and cutting into net income. Some 74% of U.S. hotels say more layoffs are coming if greater assistance is not provided, according to the American Hotel Lodging Association. The Bureau of Labor Statistics tells us that the U.S. leisure and hospitality industry lost 7.5 million jobs in April and since then, only half have returned.

While a virtual connection may never entirely replace all business travel, discretionary travel will be vastly reduced, permanently, and the definition of “discretionary” is sure to be expanded further. While the utility of lodging facilities for business won’t disappear, the tanking of demand in today’s market will in some measure be permanent.

Make no mistake, from a valuation standpoint – and particularly one that requires the isolation of real estate value, which is the only item to be considered for property tax purposes – the current depression in the hospitality industry will be long-standing and it is unlikely that the market will ever return to previous levels. There will of course be standouts that run counter to this view and will command top pricing, but in general the hospitality industry is unlikely to recover in the foreseeable future and tax assessments must reflect this reality. Indeed, some hotels will be hit particularly hard, such as those for which existing franchise agreements are nearing the end of their term and significant capital infusions are required.

Hotel owners and operators in 2021 should focus on one of the most fertile areas of cost control: property taxes. Real estate taxes are among the most significant line items in any owner’s pro forma and reductions should be aggressively pursued in anticipation that assessors are unlikely to be easily persuaded that values will be severely depressed for a long time to come.

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