



Commercial Classroom: Situation critical - by Edward Smith

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This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

Time is running out for the Hospitality and the Airline industries. The COVID-19 Pandemic has devastated those industries. Nationally, according to the American Hotel and Lodging Association, as of November, 2020, 57,180 hotels in the U.S. have closed and they predict that unless the industry receives Federal assistance another 71% of remaining hotels will not be able to survive another six months. Jobs lost in the Hospitality industry total 1,918,827 and that number could double if more hotels are forced to close. The tax revenue lost to the states and local governments has reached over \$16.8 billion dollars.

Most major cities throughout the country have been exceptionally hard hit with COVID-19 and the subsequent restrictions. Tourism is practically non-existent as is business travel both contributing to empty hotel rooms. In New York City, the following hotels have permanently closed: Hilton Times Square, two Courtyard by Marriott's Herald Square and Fifth Avenue, Omni Berkshire Place, Blakely, Maxwell, New York Marriott, W, New York Downtown and the Excelsior hotel. Also closing is the Roosevelt Hotel, a city landmark that has been open almost 100 years, built in 1924, named for President Teddy Roosevelt

In a report on the Hotel industry by Price Waterhouse Cooper, they interviewed Vijay Dandapani, president of Hotel Association of NY, representing 300 hotels in NYC. He indicated that in the summer of 2020 only 7% of the city's 120,000 hotel rooms were filled. In 2019 occupancy was 80%. As of September 58%, of all rooms were still closed, a hotel is losing money with only 40% occupancy.

Hotel Revenues have declined 81.6% over 2019

The vast majority of hotels in the city cannot pay their property tax bills, and to make matters worse NYC is charging hotels 18% interest on overdue property taxes—during this pandemic! Dandapani said, "We are not asking for a tax break or a handout. We are merely asking not to be penalized for late tax payments so that we can keep our doors open and keep workers employed."

According to a report on CNBC, 34% of the hotels in New York City are delinquent on their debts.

The report quotes an executive at a leading hospitality investment bank as saying the closures thus far are merely, “the tip of the iceberg,” with more likely to follow—especially in the Times Square/Midtown area.

Dandapani also said: “If half of the city’s 640 hotels survive it would be a great outcome.” CBRE is calling 2020 the worst year for hotels since the Great Depression.

The real question now is what to do with these closed hotel buildings. In most areas, larger cities have a housing shortage, particularly of affordable housing. Some of the hotel owners and investors are considering converting these buildings to residential use.

That may be easier said than done, with concerns for zoning changes, building codes and costs of conversion. Traditional hotel rooms will likely require extensive renovation to add kitchenettes. Hotels that cater to business travelers may contain a lot of meeting and event space that will have to be redeveloped. Most of the units would probably be studio size but adding a connecting door between two units could make them “family” size.

Converting traditional hotels for senior living could solve some of these problems. Common areas can be used for craft and activity rooms. If the operator is offering assisted living, room sizes can remain small and meal service can remain centralized.

The best opportunity for conversions are extended stay hotels and motels. They have the advantage of already having a bedroom, bathroom, living space and a kitchenette, all in the unit. Consequently, they will not require extensive and expensive modification of existing mechanical, electrical, and plumbing systems.

In NY, gov. Cuomo has proposed a five-year plan to incentivize the conversion of commercial buildings and hotels in NYC into residential units. The plan would ease the zoning restrictions on light and air requirements for those conversions. Under the proposal, hotels and offices can go residential if the owner agrees to set aside at least 20% of the apartments as affordable housing. Details of the plan have yet to be worked out.

Airlines

In a report from Airlines for America, the demand for air travel is depressing. In May of 2020 air travel was down 89%. As of October 2020, over 20% of all aircraft in the U.S. were in storage on the ground. According to the TSA—who count air passengers on a daily basis—on January 16, 2021, there were 690,438 people flying verse the same day a year ago when 1,781,893 people flew—61% less passengers this year!

A CNBC report stated the expected losses for the U.S. airline industry for 2020 will top \$35 billion. United Air Lines had reported losses last year of \$7.1 billion and Delta Air Lines lost \$12 billion in 2020. Over 30,000 workers have been laid off because of the reduction in flights. In January 2021 total air passengers were only 45% of 2019 levels.

Airlines for America president Nicholas Calio said, "We're flying fewer people than we have since the start of the jet age in the 1950's." The airline industry is unlikely to financially break even in 2021, and it will take years to recover from the additional COVID related debt. They don't expect to resume pre-COVID passenger volume until 2023 or 2024.

Both industries are truly fighting to survive, and both are counting on the federal government for assistance. We do not know what is in the next COVID-19 relief bill or when or if it will pass Congress. But we do know with vaccines now being distributed this pandemic will come to an end.

This news about these industries sounds grim but think of the real estate opportunities for developers, investors and brokers.

Repurposing buildings is a viable alternative for the hotel industry and other commercial buildings but solving the airlines problems is another issue. But if some airports were to eventually close, we in real estate could help with the land redevelopment.

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