

Top Takeaways from the Americas Lodging Investment Summit



The Americas Lodging Investment Summit (ALIS) kicked off the first of the major hospitality conferences in Los Angeles, California, on January 23-25, 2023, with leading hotel industry experts expressing continued optimism about the state of the hotel industry. LP’s Hospitality and Leisure Practice is pleased to present you with the key takeaways from the conference.

- **All eyes are on the second half of 2023.** Hotel investors have a cautiously optimistic outlook for 2023. Even amid a looming recession, experts point to strong travel demand (especially in the sunbelt states), and investors are looking more favorably on the hotel industry due to its strong yields and the inflation hedge that it provides. Leisure travel has continued to be incredibly strong while corporate transient and group travel have been gradually accelerating. Also, international travel is returning as China and other countries remove Covid-related travel restrictions. While there is still a wait-and-see approach, most experts agreed that the second half of the year will show increased transaction volume, including some distressed opportunities stemming from hotel brands enforcing PIPS, and banks and special servicers no longer providing extensions.

Revenue per Available Room To Grow Despite Looming 2023 Recession

US Key Performance Indicators – Revenue Per Available Room Index in Real Dollars

Metric	2022 Actual	2023 Forecast	2024 Forecast	2025 Forecast
Occupancy	62.7%	63.6%	65.3%	66.0%
ADR Change	19.1%	2.1%	3.8%	3.7%
RevPAR Change	29.8%	3.7%	6.6%	4.7%
2019 Real RevPAR Index	-5.7%	-6.2%	-2.5%	+0.1%

Source: Tourism Economics and STR, © 2023 CoStar Realty Information, Inc.



- **What keeps you up at night?** Rising debt costs, supply-chain disruptions, increased construction costs, labor shortages, and the geopolitical situation are the top challenges for the industry. The biggest question may be whether there will be continued recovery in corporate travel demand or whether a looming recession may curb spending for corporate travel. With rising interest rates, lower asset values, and a slowing economy, combined with loan maturities this year, some assets will be candidates for workouts, which will require owners to infuse more equity to keep the investment afloat. Some experts indicated the distress expected in hotel capital markets since the pandemic may finally occur in 2023.
- **Workforce challenges are top of mind.** The hospitality sector's ongoing labor crisis is perhaps the biggest challenge facing the industry. According to the American Hotel and Lodging Association (AHLA), 85% of its members said they were "somewhat or severely understaffed". AHLA is lobbying hard for a solution at the legislative level, advocating for comprehensive immigration reform and an expansion of the country's work visa program. Retaining and attracting top talent means showcasing career paths, not just jobs. AHLA cited that there are over 200 career paths in the hospitality industry. Schedule flexibility is the second most important consideration for hotel workers, after wages. The ability to decide which days, what time of day to work, and how many hours to work each week is key to retention.
- **The capital stack is changing.** Obtaining full-loan proceeds from a single source remains challenging, as lenders are carefully limiting loan-to-value ratios and managing their exposure during the recovery. Additional capital will also be needed for replenishment of FF&E reserves, deferred CapEx, and required brand standards. Larger deals are structured with multiple sources of funding, including senior loans, mezzanine, and preferred equity pieces to backfill the gap. The equity players are demanding higher returns (12-- 16%). We are also seeing creative financing solutions such as sale-leaseback transactions and seller financing. New sources of capital are also coming back into the hospitality industry, such as foreign capital, sovereign wealth, and more family offices.
- **Diversity without Inclusion is a liability.** An important theme among all industry leaders centered on thoughtful DEI initiatives. ALIS celebrated achievement awards for female trailblazers, including Kristen Campbell of Hilton who was presented with the ALIS Law Lifetime Achievement Award. Conference planners remarked that nearly 50% of panelists for ALIS Law were female and over 50% of hotels are owned by Asian-American owners. The "inclusion" in DEI is key. In fact, one conference attendee indicated that diversity without inclusion is a liability.
- **ESG initiatives – It's the right thing to do.** The pandemic accelerated the urgency for hotel owners and operators worldwide to act to protect the well-being of the planet, communities, employees, and guests, which has led to an increased focus on environmental, social, and governance (ESG) initiatives. Hotels that make commitments to sustainability goals and programs are not just satisfying guests' expectations; they are making changes that are good for business as well. Investing in programs that provide owners with a solid financial return, whether through green hotel design, driving energy efficiency through building system or engaging in renewable power purchase agreements on behalf of franchisees, will increasingly become the rule rather than the exception. This is especially true as travelers gravitate toward brands that value sustainability and social responsibility.
- **The new traveler – "Bleisure" and Digital Nomads.** The growth of leisure, "bleisure" and "digital nomads" represents a shift for the industry and hotels will continue evolving to meet the needs of these "new" travelers. Digital nomads are people with flexibility to work from anywhere and take to the road. As a result, technology will be even more critical in a property's success. This represents a growth opportunity for midweek hotel occupancy, which was largely an untapped market. Many hotels' business models have been focused on business customer needs, such as on-site dining, exercise facilities, and business centers.

CONCLUSION

Just three years after the industry faced devastating hardships, hotels continue to make significant strides toward recovery. While there will be some challenges in 2023, Covid-related concerns are fading into the rearview mirror. The industry experts have their sights on the future, especially the Sun Belt states. With a wave of refinancings coming due, more assets, both distressed and well performing, are expected to come to market in 2023.

Thank you to Jeff Higley and his team at BHN Group for organizing such a great event. Thank you also to Chip Rogers and his team at AHLA for their contributions to this article.

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