

HVS Hotel Transaction Activity: The Factors Influencing a Return to Normalcy in a Post-COVID-19 Time

April 16, 2020 / By Drew Noecker



As a result of the current COVID-19 pandemic, the HVS Team has received many questions about when U.S. hotel transaction volume will return to reasonable, pre-pandemic levels. While we do not have a definite answer, as this circumstances are evolving daily, we have tried to use past events to provide some insight on the factors that would affect a possible rebound.

We see the anticipated volume declining because of COVID-19. According to Real Capital Analytics, the year-over-year individual property transaction volume in Q1 2020 was down 61.4% from the same period in 2019, as COVID-19 became a major concern in the second half of the quarter; thus, this portends a large drop in Q2 2020 with a full impact of COVID-19 disruption. With our industry's already-realized transaction volume drop and the continuation of this trend, we wanted to look at a few conditions that we believe will need to be present for a return to a robust hotel transaction market.

Selected Important Factors for a Consistent, Stable Market After COVID-19 Cases Wane

- Availability of Traditional, Stabilized Financing**
There are multiple transitional, or bridge, lenders with which HVS is currently working. However, to return to a healthy market, the CMBS market, SBA lenders, and traditional balance-sheet lenders need to return to lending.
- Understanding of the Volatile Environment by the Lending Community**
HVS is working with many companies who have "paused" hotel lending until a clearer RevPAR trajectory emerges. When lenders feel comfortable with a specific uptrend, the traditional debt market will reopen.
- Return of Broader Commercial Real Estate Investors to the Hotel Market**
One of the significant drivers of the growth in hotel transactions over the last 8+ years was the entry of traditional real estate private equity firms into the hotel ownership space. Those firms are currently concerned about the occupancy volatility of hotels during this health issue, but once the broader real estate private equity firms are again comfortable, the transaction market will improve.
- Solidification of the Concessions Available from Franchisors**
Major franchise companies such as Marriott, Hilton, Hyatt, Choice, and IHG have discussed possible concessions for their franchisees. Once these concessions regarding fees and renovations are understood, owners can safely bid on available assets and return the market to a healthier state.

In closing, while there are many questions that will eventually be answered about the post-COVID-19 hotel transaction market, we believe that industry participants will need clear ideas on several key topics to be comfortable transacting. Answers to these industry questions would be expected within the next few months, as more about the COVID-19 pandemic duration is understood, and our brokerage and advisory team is here to answer questions and discuss concerns.

HVS Brokerage & Advisory continues to work regularly across the United States with owners, lenders, and other

Summary

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transaction stakeholders. Our team can also utilize HVS's significant data resources to discuss any asset you may be evaluating for sale, transition, or recapitalization.

About **Drew Noecker**



Drew Noecker is a Managing Director and Co-Head of the HVS Brokerage & Advisory Division. He has participated in hundreds of hotel transactions across the United States, at over \$2.5 billion in total aggregate value. Drew has worked with hotel owners of all classes and sizes, ranging from branded select-service and extended-stay hotels to independent and luxury resort properties, giving him a nuanced understanding of optimizing transactions. His background in hospitality finance and acquisitions enables him to understand all elements of a transaction and provide insight into disposition and financing opportunities. Drew is a 2003 graduate, with Distinction, of The School of Hotel Administration at Cornell University. He is also active in the Cornell Hotel Society and the Urban Land Institute (ULI). For further information, please contact Drew at +1 (972) 445-9780 or [\[email protected\]](#).