HVS Takeaways from the NYU Hospitality Conference

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This week marked the **45th Annual NYU International Hospitality Industry Investment Conference**, with the industry's leaders descending on the **Marriott Marquis Times Square** to discuss the future of lodging. Conversations were optimistic when it came to extending the current rise in top-line revenues, while less positive topics included managing (or waiting out) the challenges of inflation, high interest rates, labor, and financing constraints, as well as a general lack of traditional lending sources, among others. Despite the near-term challenges facing the industry, brighter skies are expected ahead as these drawbacks find resolution. This should ultimately lead to more deals getting done.

People are spending more and more on travel, and the industry is loving it.

As leasing activity continues to pull back in the office and retail sectors, hospitality remains the bright spot in the landscape of commercial real estate, which is expected to lead to a rebound in lending and transaction activity in the coming months and year. RevPAR growth is robust and could remain elevated for several years to come.

An important factor contributing to 2023 RevPAR growth is the continued return of international travel, with significant upside left to be realized, as Chinese tourists have not yet significantly returned. Cross-border airlift out of China is still less than 50% of what it was in 2019. As airlift challenges are overcome, international travel growth should support further hotel RevPAR gains through 2025. The government could also aid the industry's recovery by easing entrance restrictions; roughly 40% of the world population still needs a visa to enter the U.S., and the wait time can be over a year. The sector should also benefit from heightened government and infrastructure investment. On the lighter side, one speaker highlighted the ADR lift being caused by the current Taylor Swift tour.

Construction costs remain sky high (not to mention the exorbitant cost of financing, if any can be secured for proposed projects), which will delay many new hotel projects, and this new-build low will ultimately contribute to continued strong hotel performance. Supply chain challenges and tighter building regulations are also contributing to the development challenges. However, select new development projects are finding their way to fruition, particularly in the luxury/ultra-luxury resort sector and the economy and midscale extended-stay sector. In recent weeks and months, including on the day of the NYU conference, **Hilton**, **Hyatt**, **Wyndham**, and **Marriott** announced new extended-stay hotel brands. A future bright spot in development is likely to be office building conversions to hotel use, particularly in markets where land is hard or expensive to come by.

Creative solutions are needed to minimize pressure on GOP margins.

GOP margins are experiencing pressure, as inflation, increased numbers of channel and revenue partners, and labor challenges, among other issues, are taking costs to new heights and eroding the bottom line. Successful managers are embracing a new operating model that is designed to function with a leaner staffing configuration. This is also by necessity, as the industry now has 500,000 fewer employees than before the pandemic. This new model touches on virtually every area of operations, including HR, technology, marketing, and P&L cost management. Operators are employing machine learning and deep data to provide insights that support better complex decision-making. This increasingly sophisticated analysis is also enabling them to analyze and drill down

Summary

This week marked the 45th Annual NYU International Hospitality Industry Investment Conference, with the industry's leaders descending on the Marriott Marquis Times Square to discuss the future of lodging. This article provides the key takeaways from HVS attendees.

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on data to better understand hotel-specific changes and investment value. Furthermore, they are leveraging AI within hospitality to combat fraud and using virtual chatbots to support customer engagement. Plus, they are strengthening customer loyalty with a renewed focus on direct bookings to reduce third-party fees and boost profitability.

For continued growth and health in the hospitality industry, leaders continued their call for national immigration reform and the need for a more streamlined process and easier access to temporary work visas. The aging population further heightens the need for immigrants to fill the gap, particularly in seasonal markets. In addition to immigration, educating students earlier about the benefits of the hospitality industry was noted as an opportunity.

Retaining hotel staff remains critical. Flexibility and work-life balance are no longer optional; these are expectations that existing hotel staff and candidates expect due to the hybrid work paradigm shift. In some cases, work-life balance trumps compensation. Hotel operators must now offer rewarding jobs and career paths for a purpose-driven workforce who strongly seek meaningful objectives and careers.

A pricey environment for available debt is pushing many deals to the sidelines.

This year's event was all about the availability of debt, or lack thereof. Liquidity issues with regional banks have put constraints on lending, especially construction loans. Traditional banks are weighed down by underperforming loans in the office and retail sectors, which is constricting what they can do in the better performing hospitality sector. Loans under $50 million are available now, but at a high price, while loans greater than $50 million are extremely difficult to obtain.

In order to execute deals, new creative solutions are required with capital stacks, especially as it pertains to larger transactions. The availability of overseas investments such as sovereign wealth funds are beginning to emerge. Despite minimal activity in the commercial mortgage-backed securities (CMBS) market, it is still active. CMBS loans are getting more attention, and buyers are being forced to consider this financing source since pricing is competitive as long as the asset has good cash flow in place.

Private equity firms are now taking a closer look at having more hotel assets in their portfolios. Accordingly, private equity is anticipated to partially fill the credit gap, especially during the next 24 months. Credit funds are especially benefiting during this time, as some debt sources are experiencing equity-level returns. Finally, insurance companies have become more active with hotel lending.

Financing new construction is not impossible; however, given the aforementioned capital constraints, all loans come with a high price now (particularly extreme in the scenario of debt funds). Lenders would likely consider seasoned sponsors who have a well-proven, solid track record and who also have equity (generally a 15–20% deposit). The sponsor's assets would need to be a more favorable class (e.g., hotel assets are generally considered more favorable than office assets now) and located in a strong market. There is most likely some loan availability for these sponsors, though still at a high cost. Developers with projects that are eligible for TIF/property tax abatements may decide to move forward with loans now, as those abatements could offset the current cost of capital.

A rebound in transaction activity is expected in about six to nine months.

Transaction activity is significantly down at present, but there are expectations for a recovery in about six to nine months. Investors continue to model a refinance when the lending environment normalizes, a reality that our CEO, Stephen Rushmore, referenced during his general session presentation. Buyers are looking for opportunities; however, there just aren't enough assets on the market, as sellers have moved to the sidelines to wait for normalization. Debt maturities, more restrictive debt extensions, and delayed PIPs that must be completed are likely to force some transactions to market in the coming months.

The market is seeing some foreign investment from Singapore and the Middle East, and the strong operating fundamentals of the sector are attracting more institutional portfolio allocations toward hospitality investments.

Conclusion

HVS was proud to be a sponsor of this latest installment of this exceptional conference. I'd like to thank Stephen Rushmore, McKenna Luke, and Chelsey Leffet for taking their respective stages and sharing their insights with the attendees, and our own **Dorothy Jennings** for continuing to organize and execute a most extraordinary event. We at HVS are here to help you navigate through this challenging time for our industry. Please reach out to any of our leaders across our many **nationwide and worldwide offices**—we would love to discuss your potential investment or loan, share our insights, and help you make a smart decision.

About Rod Clough, MAI

Rod Clough is the President of HVS Americas. He is responsible for the overall direction, management, and ongoing success of 40+ offices across North and Latin America. Under his leadership, HVS Americas conducts over 3,500 valuation and consulting engagements annually. During his 30-year tenure, Rod has been instrumental in leading the growth of the firm; this includes significantly expanding the number of offices across the United States, as well as launching multiple divisions, including U.S. Hotel Appraisals, HVS Latin America, HVS Brokerage & Advisory, and HVS Asset Management & Advisory. A frequent speaker at the nation's largest hotel conferences, Rod is a designated member of the Appraisal Institute (MAI) and a state-certified appraiser. He earned his BS from Cornell University's School of Hotel Administration and also holds a Colorado real estate broker's license. Furthermore, Rod is proudly Latino and gay, and his firm is welcoming of all races and colors, sexual orientations, ages, genders, and gender identities. Once associates join HVS, they tend to stay due to the extraordinary culture Rod has inspired—a culture defined by the ideals of balance, connectivity, efficiency, collaboration, honesty, integrity, kindness, and excellence, among others. Rod resides in Northern Colorado where he and his husband Jeff are raising their daughter, Rory. Contact Rod at (214) 629-1136 or .