

Numerous challenges ahead as industry slowly Recovers

BY [ADAM PERKOWSKY](#) ON JUNE 18, 2021

Last year was a stressful one for owners and developers as they hung on for dear life during the worst of the pandemic. As the industry shows signs of an earlier recovery than expected, they are still facing major challenges, from labor shortages to supply-chain issues to forecasting problems. Some are long term and may be around even when the pandemic is behind us.

The labor shortage is perhaps the most pressing issue owners are facing. Inventory is limited due to the inability to clean rooms, and some F&B outlets remain shuttered because there isn't anybody to serve and cook.

"We must recognize that many current team members are exhausted," said Rick Takach, chairman/CEO, Vesta Hospitality. "They have been working long hours in multiple positions, and our clientele has, understandably, been more irritable and demanding than normal. Many have left the industry. We have to figure out ways to make it fun again. If you find someone good, do everything you reasonably can to retain them."

Ownership groups are trying anything they can to recruit team members to join them.

"We have adjusted wages in some locations, which is not necessarily a winning strategy because all you do is get into an unproductive wage contest with your nearby competitors," said Takach. "We are doing everything we can to find the right people and, in addition to wage and benefit adjustments, we are looking at referral and retention bonuses. Current team members can be excellent recruiters for our organizations."

At McNeill Hotel Company, "We started offering modest bonuses for both the current staff member and the newcomer when a team member refers a new person to us, along with retention bonuses," said Mark Ricketts, president/COO. "This strategy could be considered through Labor Day. Some of our hotels are holding job fairs, which in some cases has been working."

First Hospitality Group Inc. is even looking toward older individuals to fill positions. “Historically, we’d probably default to the Gen X and Gen Z labor pool at the traditional entry level in the hotel business,” said David Duncan, president/CEO. “Today, more so than we’ve had in the past, we are looking at the Boomer generation. There’s a lot of folks who would be more than happy to have a job on a part-time basis; maybe they’re partly retired and want to get out of the house four days a week or four hours a day.”

Greg Friedman, managing principal/CEO, Peachtree Hotel Group, believes that the workforce will stabilize when the country “returns to a level of normalcy with people moving about,” adding, “The hospitality industry represents a significant opportunity for people to grow and develop their careers. It is an enriching experience with a diverse workforce.”

Besides the labor issue, Friedman brought up forecasting and the short booking window as other challenges owners are facing.

“In today’s operating environment, historical trends no longer apply as hotel occupancy and revenue can change week to week,” he said. “The drastic swings in demand, both negative and positive, have made forecasting a bit of a challenge. Perhaps the most significant change happening is to the booking window. Typically, the booking window is anywhere from zero to 30 days, with resorts and other destination locations farther out. But now, travelers are waiting until the last minute—zero to seven days before their trips—to make hotel reservations.”

Managing the recovery curve is another challenge, according to Duncan. “The industry talks about the recovery curve like it is one line through this downturn; it is not,” he said. “It is exceedingly lumpy. Markets are different and submarkets within markets are different.”

Takach’s hotels have had issues with the supply chain, which he called “extremely unpredictable.”

“On one end of the scale, we have had to send people out to local stores to get basic supplies like towels,” he said. “At the other extreme, I must be concerned over delivery of plant equipment like the elevators for our new AC Hotel by Marriott under construction [in Vancouver].”

Despite the pandemic, owners are still looking for hotels to add to their portfolios, and some are having sellers come to them.

“Increasingly, we are being approached with buying opportunities, although many asking prices don’t, in our opinion, reasonably reflect the impact of COVID on earnings,” said Ricketts. “However, we are looking at both new development and potential acquisitions. We are probably seriously studying a dozen or so properties right now. We do want to continue to grow our portfolio of select-service and extended-stay properties, with the focus on Hilton, Marriott and Hyatt brands.”

Duncan, who said his company is active in the acquisition market, pointed out that, in this environment, a company looking to purchase hotels have to do their due diligence.

“You need to be a specialist in the hotel business in terms of being able to underwrite and find deals and knowing the difference between what is cheap and what is good,” he said. “There is a lot of stuff that’s being sold cheaply because perhaps it has very long-term challenges [ahead]. It’s not worth buying them at a cheap price. [It’s all about] finding those good assets and separating them from a whole bunch of cheap ones.”

Peachtree has faced some issues when seeking out an acquisition. “It has been challenging given the amount of capital chasing acquisition opportunities, particularly for high-quality, well-located hotels,” said Friedman. “Cap rates have compressed from last year as these groups are banking on a strong recovery. With steady demand and limited supply, property fundamentals may not support the pricing of some of these assets. In a few years, there may be opportunities to capitalize on the new money entering this sector.” He added that the firm is “more bullish” on new construction.

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