Commercial Real Estate Debt

Expect a Protracted Recovery in Hotels

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COVID-19 is exacting a heavy toll on the U.S. hospitality industry.

Given the pandemic's social distancing guidelines, shelter-at-home directives, and restrictions on business travel and conferences, it was no surprise that the U.S. hotel sector was hit particularly hard in 2020. The low point for hotels was in the week ending April 11, just weeks after the number of confirmed COVID-19 cases began to accelerate. While there has been a modest recovery, by the end of December 2020 revenue per available room (RevPAR) was still down roughly 50 percent year over year (see chart, top right). Weekly room demand has only recovered to $11.9 million per week, well below the pre-COVID level (see chart, bottom right). All hotel markets felt some degree of distress, though some were less affected than others. Drive-to markets fared better than denser urban markets, which are more dependent on air travel and conference business. Likewise, extended stay hotels have weathered the downturn better than other types of hotels, and economy hotels have fared better than luxury properties.

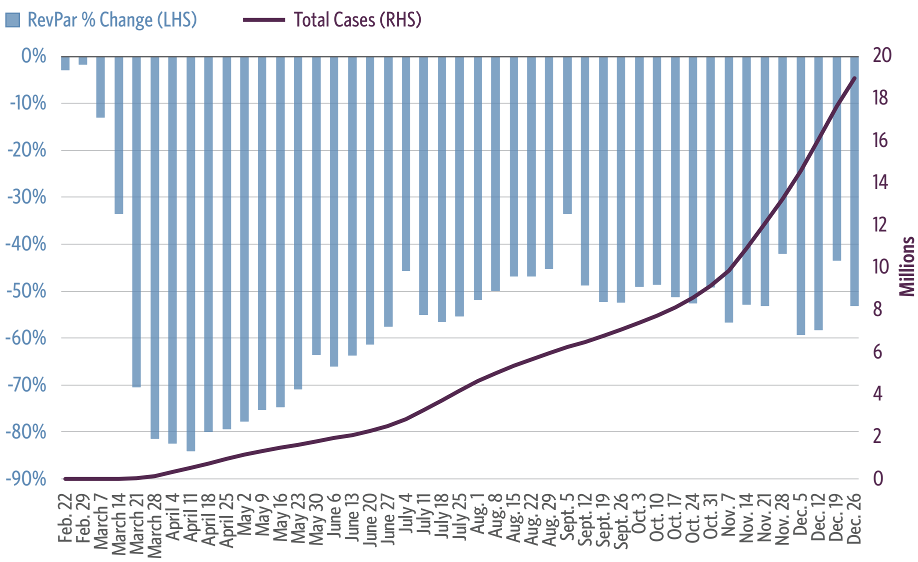
The impact of the hotel downturn on outstanding hotel debt is still to be determined. Since April 2020 hotel borrowers have been asking their lenders for relief to bridge a period of low occupancy. Hotel borrowers have also been actively taking advantage of Paycheck Protection Program (PPP) loans. Some lenders have started to sell distressed hotel debt, but with very few post-COVID transactions trading in the market to date, it is uncertain how much further hotel prices may fall this year. RevPAR recovery will be closely linked to efforts to contain the virus and the return of both business and leisure travel. Without this assurance, it is unlikely that RevPAR will see a quick bounce back. A protracted recovery for the U.S. hotel industry will demand patience from both investors and lenders.

Hotels have been hit hard by the pandemic, but no property type has been unscathed. The pandemic has accelerated the shift to online shopping, and the retail sector is experiencing distress from tenants unable (or unwilling) to pay rent. Elevated unemployment will likely result in rising apartment rent delinquencies. Some office tenants are choosing to retain cash in lieu of paying rent. The full impact of the pandemic on office vacancy will likely not be understood until mid-2021 as office tenants are deferring making decisions on long-term leases. And, although less directly affected, the industrial sector will not be spared either.

As the virus continues to infect commercial real estate, we are closely monitoring COVID-19's impact on cash flows and resulting effects on property values in 2021. Our recent investments have been focused in the industrial distribution sector, as companies accelerate investments in real estate assets critical to the supply chain delivering goods to consumers. These properties have continued to perform well, often backed by long-term net leases guaranteed by investment-grade tenants.

RevPar Recovered Some Lost Ground, but Remains Low

RevPar % Change and Number of COVID-19 Cases by Week



Source: Guggenheim Investments, STR 2020/2021, Bloomberg. Data as of 12.26.2020.

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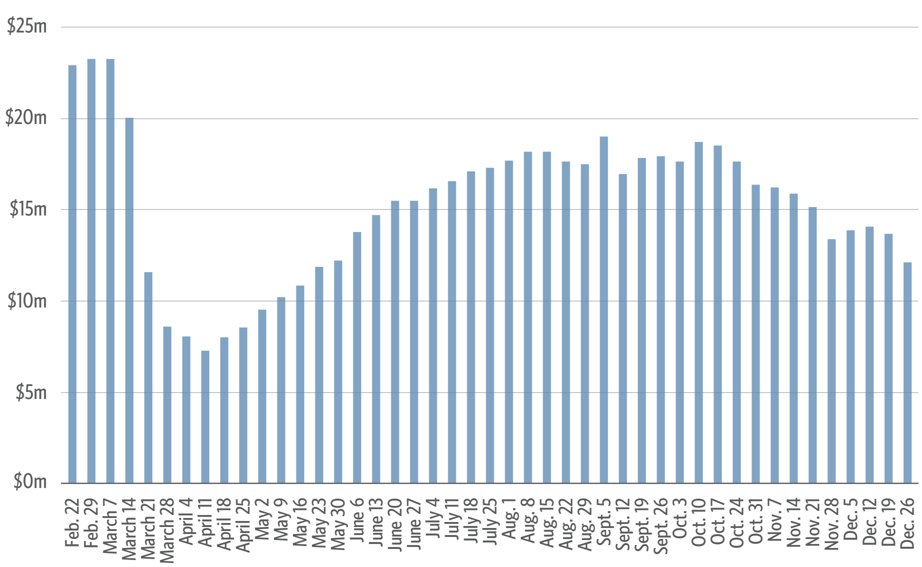
Hotel Room Demand Is Up, but Below Pre-COVID Levels



Source: Guggenheim Investments, STR 2020/2021. Data as of 12.26.2020.

Weekly room demand has only recovered to $18.5 million per week, well below the pre-COVID level.