



COVID-19 Impact on New Orleans Hospitality Market

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While it is still too early to know the full extent of the impact of COVID-19 on the New Orleans Hospitality Market, it is possible to divine some trends and begin to form a near-term forecast. Anecdotal evidence has been accumulating throughout early March on the impacts of COVID-19 on the New Orleans Hospitality Market. A small sample of the impacts is as follows:

March 12 Buku Music Arts Project announces that is moving from March 20 and 21 until Labor Day weekend.

March 13 French Quarter Festival announces that it is postponing its 37th Annual event from April 16 to 19 until October 1 to 4. The 2019 event reportedly attracted approximately 200,000 attendees and had a \$200 million impact on the local economy.

March 17 Jazz Fest announces that it is postponing its event from the Last weekend in April/1st weekend in May until sometime in the fall with no definitive dates yet announced. The 2019 event reportedly attracted 475,000 attendees.

Mayor Latoya Cantrell announces that all bars and restaurants were ordered to close (delivery and take out services still allowed). To give an idea of the magnitude of this order, the world renowned Antoine's had not closed in the previous 180 years – not for the Civil War, not for Yellow Fever epidemics, not for either World War, nor for Prohibition, the Great Depression or Hurricane Katrina.

March 23 Joe Jaeger, owner of the “J Collection” group of 19 hotels, announces that they are furloughing 500 employees due to drastically decreasing occupancies. He also stated he is in talks with his partners about completely shuttering several of his hotels and is negotiating with banks to extend payment dates.

According to Smith Travel Research (STR), New Orleans had the second biggest decline in Revenue Per Available Room (RevPAR) for the week of March 15 to 21 with a decline of 86.5% to \$20.02. Now with bars, restaurants and event venues closed until at least April 13th and possibly beyond. It is unlikely that occupancies and RevPAR will increase prior to that date. Also, it will take several months for the industry to return to normal even if the city be able to “reopen” by May 1st, as this will be just in time for the typically slow summer season.

After the 9/11 attacks the City of New Orleans' tourism and convention business 12 to 24 months to return to a somewhat normal level just in time for the onslaught of Hurricane Katrina. It should be noted that this recovery was hampered somewhat due to the 2002-2003 SARS outbreak (which was significantly less virulent than the current COVID-19 pandemic).

Further, after Hurricane Katrina in August 2005 and Hurricane Rita in September 2005 it took approximately nine months before the City of New Orleans was able to host its first large convention and approximately four years before the industry returned to pre-Katrina levels. However, a large portion of this delay was due to the amount of damage to the City of New Orleans and the national recession of 2008.

Based upon the foregoing, it is our opinion, as of March 26, 2020, that it will likely be mid to late summer before the hospitality industry sees enough business to begin to reach a viable level of business and September/October before tourism levels begin to reach a level of sustainability.

What does this mean for valuations of real estate in the hospitality sector?

Retail properties with restaurant and bar tenants will likely see high turnover rates and longer vacancy periods for six to twelve months as the market settles out and returns to a new normal. This greater risk will likely reveal itself in increasing capitalization rates and longer marketing times based upon conversations with local brokers.

Hotel properties will likely see valuations decline as capitalization rates experience expansion until the initial wave of the Coronavirus impact passes which will likely be by the end of the 2nd Quarter 2020 (based upon China's experience) with a slow return to normal over the following three quarters.

If you or your client's portfolio contains hospitality properties, call the experts at Valbridge Property Advisors for an *Independent Valuation in this Variable World*.