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“COVID-19 IMPACTS ON THE LOUISIANA HOSPITALITY MARKET”

VALBRIDGE BUSINESS CONTINUITY & COVID-19

In response to the COVID-19 pandemic, we want to provide you with an update on our ongoing efforts to continue assisting clients, while also protecting the health and safety of our workplace.

The South Louisiana offices have a robust telework system in place for all our appraisers and staff. We are all working and are 100% operational. Please don't hesitate to contact us if we can be of assistance.

Our thoughts are with everyone affected by the coronavirus outbreak, particularly those on the front lines helping to battle this disease.

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COVID-19 Impact on the Louisiana Hospitality Market

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As the COVID-19 pandemic enters its fifth month, the effects on the Louisiana Hospitality Market can finally start to be measured and their impacts are staggering. The Louisiana Hospitality Market (hotels, restaurants, arts/entertainment and recreation) accounted for 242,700 jobs in Louisiana[i] as of January 2020 according to the Louisiana Workforce Commission. This represents 12.2% of all jobs in Louisiana, or simply put, 3 out of every 25 people in Louisiana's work force are employed directly in the Hospitality market.

As of May 2020, only 145,900[i], or 8.2% were still employed in the Hospitality Market, a decline of 96,800 jobs or 40%. In comparison, the Louisiana Employment Market lost 222,495 jobs overall, a decline of only 11%. Thus, the Hospitality Market accounted for approximately 11 out of every 25 jobs (43.5%) lost in Louisiana because of the pandemic.

In an attempt to understand the impacts of the pandemic, and form both a short-term and long-term projection of the potential market recovery, our firm, Valbridge Property Advisors, not only reviewed publicly available data but also conducted a survey of hospitality professionals across South Louisiana. In order to adequately address the Hospitality Market, we have separated it into two main areas – Lodging and Restaurants/Bars.

Lodging

There are 934 hotels in Louisiana providing 97,385 hotel rooms[i] with approximately 43% of those rooms located in the Metropolitan New Orleans Area. Since the Greater New Orleans Market accounts for nearly 50% of the Lodging rooms in Louisiana, we have centered our Lodging analysis on this area.

According to Smith Travel Research (STR), the worldwide leading provider of hotel data, New Orleans showed a decline of 88.8% between February 2020 and April 2020 when the market appears to have bottomed out at a RevPAR (Revenue Per Available Revenue) of \$14.18, with May 2020 showing only a nominal rebound to a RevPAR of \$17.59 (an overall decline of 86.1%). The chart on the following page shows this precipitous decline.

The New Orleans Lodging Industry and the State of Louisiana's, as a whole, is heavily dependent upon tourism and conventions for the majority of its business. Prior to COVID-19, New Orleans consistently ranked in the top ten convention destinations, often within the top five. However, since the onset of the pandemic, Mayor LaToya Cantrell banned all meetings and gatherings greater than 10 in March 2020 and increased that limit to 25 in July 2020. The State of Louisiana increased its limit to 250 when moving into Phase Two in June 2020, but reduced that limit to 50 on July 13, 2020 as a result of the recent spike in the number of cases of cases.

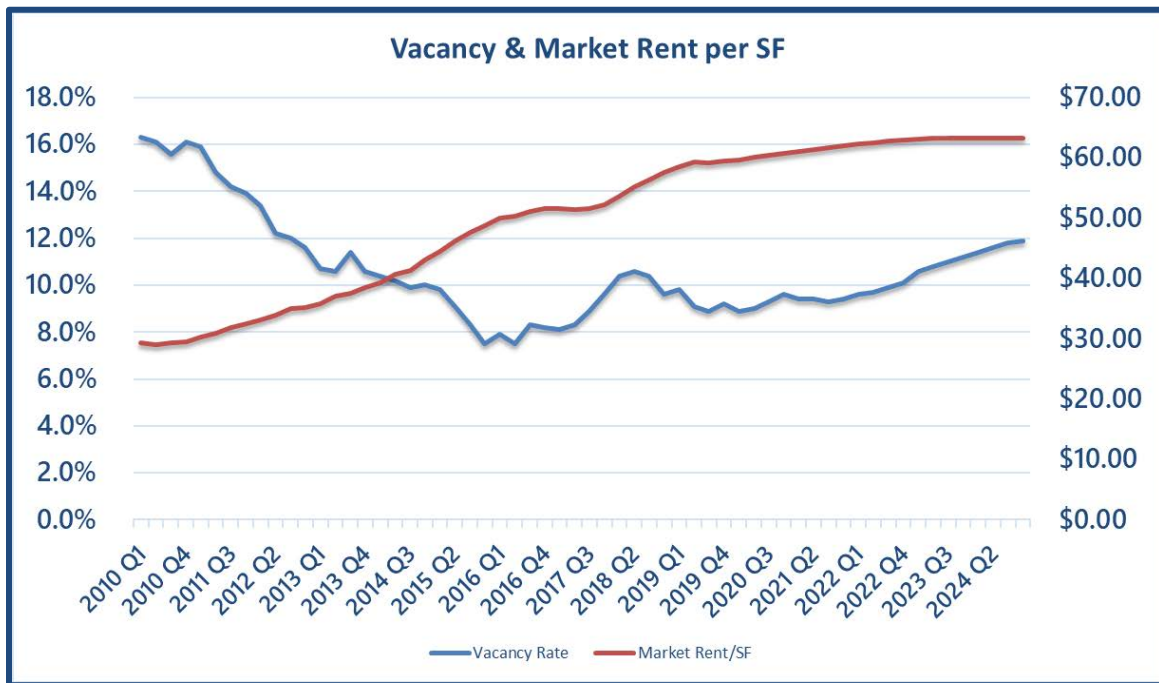
In addition, the State of Louisiana announced that as of July 13, 2020 all bars will be closed to patrons, allowing only curbside, to-go alcohol purchases until at least July 24, and all major festivals have been cancelled in the City of New Orleans until at least 2021. Further, the Mayor of New Orleans indicated that she is willing to forbid fan attendance at Saints games held in the City of New Orleans, if the number of cases does not begin to decrease.

As a result of the government's regulatory response to the pandemic, most survey respondents in the Lodging Industry indicated at least two years before business can return to pre-COVID levels, and at least one year before business returns to a sustainable level. In comparison, STR (formerly Smith Travel Research) predicts that the Greater New Orleans market will not recover to pre-COVID occupancy levels until 2023, and RevPAR not until 2025[i].

Restaurants / Bars

New Orleans and Louisiana, as a whole, are world renowned for their cuisine and restaurants, as well as its bars and music venues. While our lodging analysis focused primarily on the Greater New Orleans Market we have expanded our restaurant/bar analysis to cover the entire Southern Louisiana Region since restaurants and bars have a large draw from local patrons and are not as dependent on tourism as the lodging industry.

New Orleans Hospitality Market



Source: Smith Travel Research

Bars have been extremely hard hit, as they have been required to be closed for most of the pandemic. While the State allowed them to re-open at reduced capacity in Phase Two, they have once again been restricted to curbside and to-go service. In addition, the City of New Orleans had only recently allowed bars to start reopening before once again closing them to in-person consumption.

Restaurants have been a mixed bag as to the severity of the impact COVID-19 has had based upon the type of restaurant. While 100% of our survey respondents indicated that their restaurant business had declined, those that operated restaurants that either offered take-out, curbside options, or had existing drive-thru facilities, suffered the smallest decline in business, with an average decline of 25%.

Those restaurants that were primarily dine-in only but were able to adopt some sort of takeout, curbside program, reported a decline between 25% and 50%, with an average decline of 37.5%. However, those restaurants that were fine dining, or could not adapt to a takeout, curbside environment, reported a virtual 100% decline. Most long-term restauranteurs indicated that restaurants which lease their space and could not adapt to the take-out/reduced capacity model will probably not survive the pandemic.

This was summed up best by Rick Blount, 5th Generation owner of Antoine's in New Orleans,

"Is Antoine's going to survive? Yes. You know why? Because it owns its real estate. Somebody is going to refinance the real estate, which will give us enough capital to survive. If we were 180 years old and we were renters, it'd be done." [i]

It should be noted that even one long-term restaurant, which owned its own real estate, K-Paul's Kitchen (founded by the world renown Paul Prudhomme in the early-1980s), announced on July 13, 2020 that they are permanently closing and selling their property. [i]

When asked about the length of time they believed it would take for their business to return to normal, approximately 50% of respondents indicated 1 year, 35% indicated 2 years, and 15% believed it would be longer than two years.

Conclusions

After attacks by terrorists on 9/11, the City of New Orleans' and Louisiana's tourism and convention business took 12 to 24 months to return to a somewhat normal level, just before 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. In contrast, the current COVID-19 pandemic has affected all 50 states reducing travel and large gatherings.

Based upon the foregoing, it is our opinion, as of July 13, 2020, that it will likely be the summer of 2021 before the hospitality industry sees enough business to begin to reach a viable level and two years before tourism levels increase to a point where market-wide profitability can be seen.

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 as the market settles out. Based upon conversations with local real estate brokers, this greater risk will likely reveal itself in declining rents, increasing capitalization rates, and longer marketing time.

Hotel properties will likely see valuations decline as capitalization rates experience expansion, until the current wave of the Coronavirus impact passes, which in our opinion may occur by the end of the 3rd Quarter 2020 at the earliest, but possibly longer if the second wave anticipated by the CDC and government officials follows in the late fall.

Footnotes

[1] Source: Louisiana Workforce at a Glance, January 2020

[2] Source: Louisiana Workforce at a Glance, May 2020

[3] Source: American Hotel and Lodging Association

[4] Source: New Orleans CityBusiness, June 26, 2020

[5] Source: The Tennessean, June 11, 2020 “After struggling through COVID-19 shutdown, Southern Restaurants ponder their futures.”

[6] Source: NOLA.com “Why K-Paul's in New Orleans was forced to close: 'You can only bleed so much'”, July 13, 2020