Lodging Rebounded Ahead of 2022: Will Positive Delinquency, Issuance and Valuation Trends Continue?

Key Takeaways:

- **At the height of the pandemic, CMBS loans against hotels hit all-time highs in delinquency, but things started improving in 2021.**
- **For all of 2021, $12.82 billion, or 11.75%, of the year's $109.12 billion of total issuance was backed by hotels.**
- **In total, average appraisal values per unit for hotels in the top 10 MSAs was just above $249,000.**

No commercial real estate (CRE) property type was as hard hit by the coronavirus pandemic as hotels.

The sector is reliant on people's ability to travel freely, and that was limited, and in some cases reduced to zero.

Hotels enjoyed a remarkable turnaround to conclude 2021, as many of the strict regional lockdowns that had been instituted in certain parts of the country were lifted. However, the surge of Omicron cases nationwide renewed many of the pandemic-era travel restrictions, which resulted in poor performance to begin 2022.

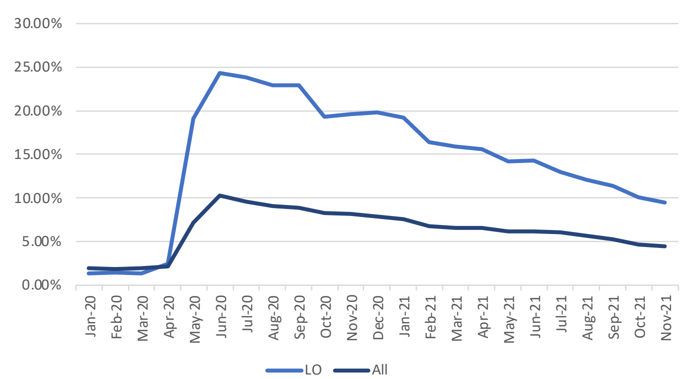
Occupancy, as measured by STR, was one of the key metrics to have plunged as a result of travel restrictions. For all of 2020, lodging occupancy was 44%—it collapsed to just more than 20% in March 2020, when strict national lockdowns were instituted. That was down a staggering 47% from the levels reached in 2019. Things, however, improved markedly as 2021 concluded.

The lodging sector enjoyed its best Thanksgiving week performance on record in 2021, with an occupancy rate of 53%, up 4.6% from the same period in 2019. Even the week before Christmas, December 12-18, saw stellar occupancy of 53.8%, up 7.7% from the same period in 2019. As December ended, the occupancy rate for hotels remained solid at 53.3%.

Since then, the occupancy rate for hotels has fallen to under 50%, well below January 2019 levels. It is no coincidence that the dip in hotel occupancy comes at the same time of the peak in Omicron variant cases, given the lodging sector is largely beholden to travel restrictions imposed because of the ongoing pandemic.

Tourism Economics, a Philadelphia research company, recently predicted that the sector should fully recover in 2023. That's a more optimistic forecast than predicted just months earlier, when they believed a full recovery was coming in 2024. Leisure travel has remained strong in most markets, while group business has been improving more slowly. But international demand remains a laggard.

FIGURE 1: LODGING VS OVERALL DELINQUENCIES



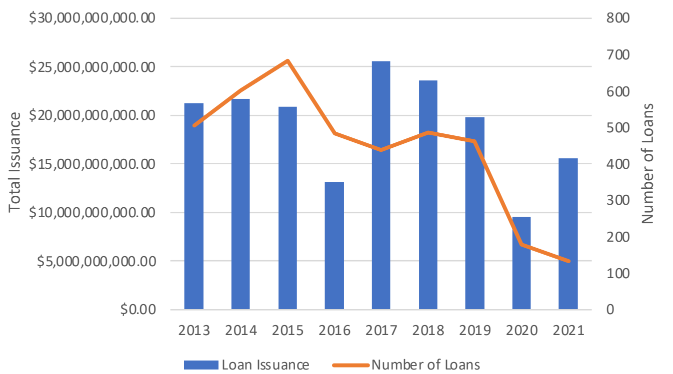
Source: Trepp

Hotel Delinquencies

At the height of the pandemic, CMBS loans against hotels hit all-time highs in delinquency. The rate was 23.45% in June 2020, when $20.69 billion of all securitized hotel loans was at least 30-days late with their payments. It hovered at about 20% for the duration of the year. The true credit quality was masked somewhat as a large portion of the loans receiving forbearance, or debt-service deferrals, were backed by hotels. Those loans were never classified as being delinquent.

But things started improving in 2021. The delinquency rate declined to 14.11% in May 2021, down from 19.28% in December 2020. After a one-month upward blip in June 2021, the rate continued to decline further and came in at 8.79% at the end of December. In other words, only $7.23 billion of loans were late, down from $33.39 billion in June 2020.

FIGURE 2: CMBS LOAN ISSUANCE IN THE LODGING SECTOR



Source: Trepp

Issuance Volumes

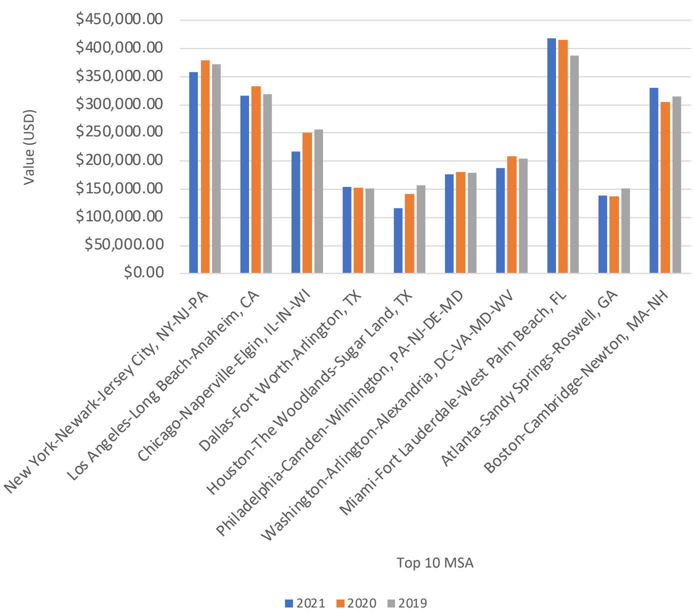
Meanwhile, CMBS lenders abruptly stopped funding loans against hotels. In the second quarter of 2020 only $673.45 million of hotel loans were securitized. That was just 7.5% of the period's total private-label issuance. Hotel issuance was skewed by one outlier: the $562.4 million loan piece, securitized through BX Commercial Mortgage Trust, 2020-VIVA, against the 9,748-room MGM Grand & Mandalay Bay resort in Las Vegas, which is owned by Blackstone Real Estate Investment Trust and MGM Growth Properties.

In contrast, during the first quarter of 2020, $3.14 billion, or nearly 15%, of total issuance during the period was backed by hotels.

Issuance volume has picked up since then. For all of 2021, $12.82 billion, or 11.75%, of the year's $109.12 billion of total issuance was backed by hotels. But again, the total volume was skewed by outliers as three single-borrower deals totaling $9.65 billion, or 75% of the year's total, are included in the hotel number.

It is also interesting to note that the amount of hotel loans issued in 2021 decreased significantly from previous years, despite loan issuance totals rising. In 2021, 134 hotel loans were issued, down from the 2020 total of 178. However, both numbers pale in comparison to the average yearly loan issuance volumes prior to the pandemic, with yearly levels of 400-600.

FIGURE 3: AVERAGE APPRAISAL VALUE PER UNIT BY MSA



Source: Trepp

Appraisal Values

Finally, Trepp considered appraisal values, breaking down the average appraisal value per unit, by metropolitan statistical area (MSA). Figure 3 highlights appraisal values in the top 10 MSAs in the country, and the data suggests that appraisal values are consistent with years past. In total, average appraisal values per unit in the top 10 MSAs was just above $249,000. This is about $1,000 less than the 2020 total, but $300 more than the 2019 total.

When breaking down average appraisal value per unit in specific MSAs, Trepp noted more defined trends. Appraisals per unit in the lodging sector have increased over the past three years in popular vacation destinations like Miami, while cities such as Chicago and Houston have seen a decline in average appraisal value per unit. In 2021, Miami posted an average appraisal value per unit of $419,000, up $3,000 from the previous year. Houston had the worst average appraisal value per unit of all the top 10 MSAs, at just $115,000 per room. This is a decline of about $25,000 from the previous year.

Conclusion

There has been continued speculation that other sectors in the CMBS universe could experience a demise as a result of the pandemic. The brick-and-mortar retail sector faces increased competition from online retailers such as Amazon, and the future of the office remains uncertain given the rise of video conferencing services and remote working. But, is there an equivalent threat to the lodging sector? Surely, in a post-COVID world, people will still want to use their vacation time to visit Disneyworld with their families, but will other, less-anticipated trips be forgone for a simple zoom call? Average appraisal value per room data in specific cities may indicate this, but, as the U.S. economy continues its recovery from the 2020 pandemic and recession, 2022 statistics will provide a much clearer picture on CRE and CMBS investor sentiment in lodging.

For more information about Trepp's commercial real estate data, contact info@trepp.com.
For inquiries about the data analysis conducted in this research, contact press@trepp.com or 212-754-1010.