

COVID-19 “The Hefty Guest”

April 22, 2020 / By Hala Matar Choufany



And... Suddenly, while we were projecting growth in the MEA region and applauding the ongoing efforts of governments in developing further the tourism infrastructure, improving accessibility, attracting local and foreign investments and easing off travel restrictions, we wake up to a new reality, a serious and destructive threat, and a force that is beyond imagination that will shape our future.

An unexpected hefty guest checks-in that will undoubtedly leave behind significant losses and a drastic change to the traditional travel and tourism landscape.

As we digest the current changes, adapt to the new norms of confining to the borders of our homes, look out desperately for signs of hope and recovery, and sympathize with the consequences that COVID-19 has on our lives and business environment, we evaluate and analyse what the ongoing impact will be and how the different stakeholders are currently reacting to this dramatic unfold of events.

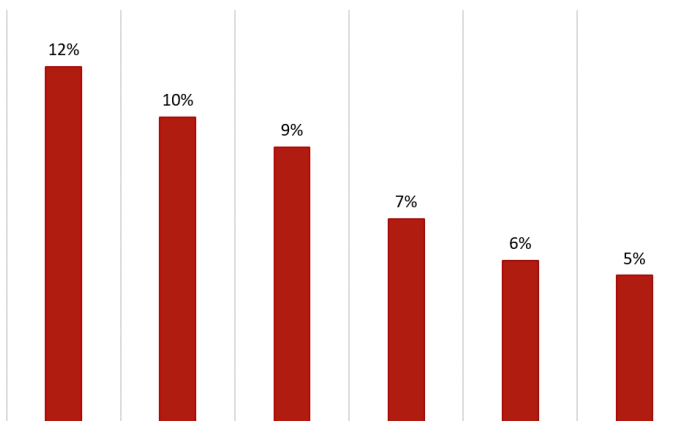
We will continue to engage with you through various publications in the next couple of weeks and months in an effort to provide a framework for guiding future decision making, analyse the new dynamics in our industry, identify the key challenges that lie ahead, and endeavor to forecast future performance.

We have now learnt that this unprecedented event is an unmatched shaker to our industry, hence we need to acknowledge that previous downturn cycles, recessions, and virus outbreaks are not a real benchmark to the current pandemic state. We, therefore, should be prepared to unlearn and relearn about the future behavior of the traveler and hotel guest.

The immediate response of the key hospitality stakeholders in dealing with this crisis shows solidarity, efforts to mitigate the undeniable long-term impact on human capital and businesses and the unquestionable priority to safeguarding the wellbeing and safety of the citizen of the world.

And while the support of the key hospitality stakeholders has been remarkable, the long-term financial implications on the sector is likely to be of a significant burden.

Figure 1: Tourism & Travel Contribution to GDP



Summary

While we were applauding the ongoing efforts of GCC governments in developing further their tourism infrastructure, an unexpected hefty guest checks-in that will undoubtedly leave behind significant losses and a drastic change to the travel and tourism landscape. We will continue to engage with you to provide a framework for guiding future decision making, analyse the new dynamics, identify the key challenges that lie ahead, and endeavor to forecast future performance.

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Source: UNTWO- 2019

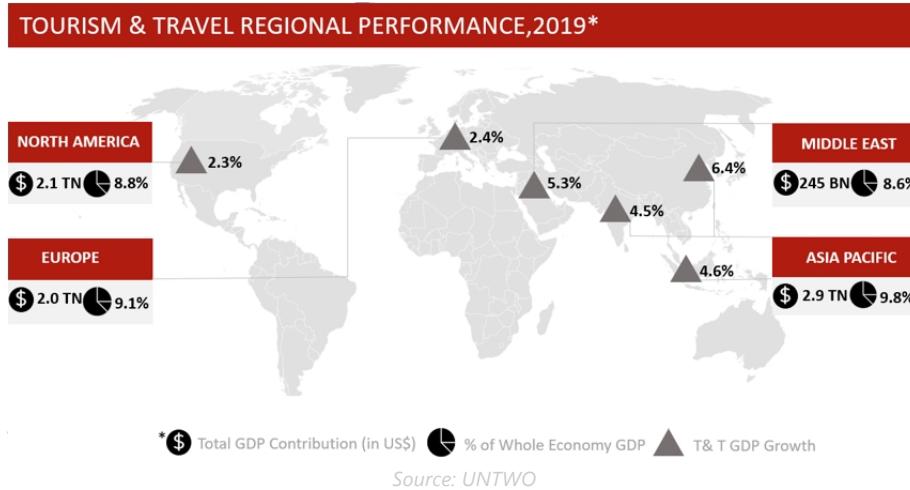
The Hefty Guest, COVID-19, is not only threatening the healthcare systems and wellbeing of each citizen, but also the stability of the world economies.

In 2019, global tourism accounted for 10.4% of global GDP and 10% of global employment. In the GCC, the tourism industry contributed up to 12% of GDP, and amongst the non-oil industries, tourism is one of the largest contributors to the economy.

Until recently, substantial tourism budgets were put in place by various governments in the GCC, to further support the growth of travel and tourism inline with their tourism growth vision. Major global and regional events were planned, and significant investments were made to support the potential growth in the sector.

While borders remain closed, travel restrictions coupled with national lockdowns enforced, the hospitality industry has been impacted tremendously.

Figure 2: Tourism and Travel Regional Performance



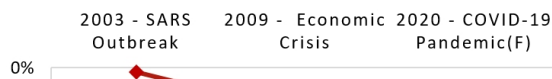
While 2003 SARS outbreak resulted in a 0.4% decrease in international tourist arrivals, the 2009 global economic crisis had a larger impact on the industry, with tourist arrivals decreasing by 4%.

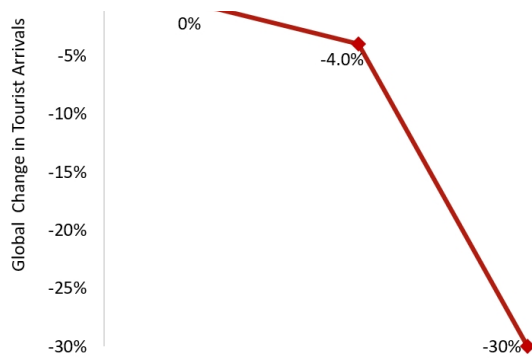
According to World Tourism Organisation (UNTWO), international tourism receipts is expected to decrease by USD 300 to 400 billion globally as tourist arrivals are forecasted to decrease by 30% in 2020 compared to 2019.

UNTWO forecasts the that global tourism and travel industry could potentially lose USD2.1 trillion and 75 million jobs in 2020. The Middle East is also forecasted to lose USD 65 billion and approximately 1.8 million jobs in 2020.

Despite our previous experience with the performance of hotel markets during a recession or subsequent to a health outbreak or terrorist acts, we take the view that the traditional forecast models for a U-shape, L-shape or a V-shape recovery is unlikely to serve as a good benchmark in projecting the likely changes in the travel and tourism dynamics that will be largely influenced by the government regulations, the guest sentiment and future behavior. Forecasting the recovery in these unprecedented times will be complex as this global crisis produced a number of variables that will potentially forever challenge the way we travelled and our choice of hotel accommodation.

Figure 3: Percentage Change in Tourist Arrivals





Source: UNTWO

GCC governments have generously stepped in to provide support through various financial initiatives, incentives, loan facilities, preferable repayment terms and economic stimulus packages ranging from USD10 billion to USD70 billion. It however remains evident that this hefty guest has burdened the entire industry with unforeseen losses and many businesses may be at risk of becoming insolvent.



Today, major airlines are disrupted to an alarming level; consequently driving the aviation industry to seek financial support from their governments.

Restaurants, entertainment venues, wellness facilities, event spaces, and other hospitality related providers are at the risk of sinking below water levels.

Focusing on hotels specifically, Owners and operators are dealing with the current crisis on a day-to-day basis, making hard decisions regarding staffing, continuing or suspending operations.

In the GCC, approximately 400 hotels have temporarily closed and the majority of the remaining hotels are operating with single digit occupancy. When and how many of these hotels will re-open remains an unanswered question and the financial cost implications of closing down and eventually reopening will need to be assessed.

Owners are also having difficult conversations with lenders and investors and are determining the legality around the impact of closing down on the management or franchise agreement, branded residence agreements that are in place, and additional complexity when considered in the context of mixed use developments.

Declining RevPAR's over the last couple of years in the GCC region as a result of oversupply and changing market dynamics, coupled with increasing operating costs, resulted in significant drops in hotel values in 2019. Between 2010 and 2019, average hotel values declined by approximately 30%, suggesting a correction in the market and a loud call for owners to stop overspending, hotel operators to streamline their operations and create value, and for the tourism authorities and related government entities to support a balanced growth. With the current performance indicators and closures as a result of the COVID-19, current values are at least 20% lower since the beginning of 2020 and while the current market conditions are attractive to acquire distressed assets, the future income potential of these assets will be highly dependent on the forces that will shape the industry.

Whether hotels remain open or make the hard decision to close, the challenges that lie ahead for owners are immense and while operators continue to extend supportive measures to owners, the industry today comprises many troubled and distressed assets and hotel owners are left wondering whether the current situation will

result in a delayed cashflow or permanent loss leading to foreclosures, bankruptcy, bank repossessions to name a few.

Finally, beyond the current depression or anticipated recession lies two important elements, which require further evaluation, as they remain the ultimate value drivers which will determine the key success factors for the industry.

Human capital, which forms the core of the service industry, is today experiencing an unprecedented uncertainty as a result of current closures, suspension of operations, loss of income, and potentially loss of employment.

The guest of the future will undoubtedly have their preferences, travel behavior, choice of destination, and hotel selection to name a few inverted from what the current traditional hospitality model is designed to deliver.

Despite the road being long and laborious, we remain confident that the industry will be fast to learn and adapt to the future needs and preferences of the travelers and guests and successfully overcome this challenge. We will travel again, and our curiosity will always lead us to experience what the hotel industry has to offer. We, at HVS, are committed to supporting our partners and clients to navigate through these unfortunate times and we look forward to seeing you again soon.

About **Hala Matar Choufany**



Hala Matar Choufany is the President for HVS Middle East, Africa & South Asia and Managing Partner of HVS Dubai.

Hala is an experienced Managing Partner and Hospitality Advisor with a demonstrated history of working in the hospitality industry. Skilled in Contract Negotiation, Feasibility Studies, Development Recommendation, Valuation, Asset Management, and Strategic Advisory; she has advised on more than 2,500 hospitality and mixed-use projects in the last 15 years across Europe, MEA and Asia. Hala has in-depth expertise in regional hotel markets and a broad exposure to international markets and maintains excellent contacts with developers, owners, operators, investment institutions and government entities. Hala speaks frequently at investment conferences on a range of topics including asset valuation, management issues and women leadership.

Hala completed Executive Education at Harvard Business School. She also holds an MBA in Finance and Strategy from IMHI (Essec- Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala is fluent in English, French and Arabic.

Hala is a board member of Harvard Business School club of the GCC and is a mum of three. Born in Beirut, Hala lived and worked in a number of cities across Europe, Asia and Middle East.

For more information, contact Hala at [\[email protected\]](#)