

COVID-19 and the European Hotel Sector

March 4, 2020 / By Russell Kett



Consultants are always expected to make predictions and to prepare forecasts, so I do not intend to disappoint you with this bulletin. I predict that, by the time you open this email, something will have happened to ensure that you determine that at least one point I am writing about now is judged to be wrong. Not quite the 'fake news' of Mr Trump perhaps, but we are living in difficult times when many people are taking knee-jerk reactions in the absence of factual evidence. It's easier to cancel events involving lots of people than to wait for the medical outcome to be revealed. (Indeed, I am writing this having had three days of my life suddenly handed back to me when the International Hotel Investment Forum in Berlin was postponed until two months' time at the last minute.)

While a great deal of uncertainty exists about the eventual spread of COVID-19, experience to date in China, other Asian countries and now Europe indicates that a global pandemic is underway. Interruptions of supply chains could exacerbate a global economic slowing down. In the USA, COVID-19 could be the event that triggers a recession just as the events of 9/11 affected the US economy in 2001. A recession could last longer than the COVID-19 pandemic. Prior epidemics such as SARS and H1N1 swine flu provide case studies on the impact of such pandemics. History tells us that the hotel and tourism industry generally 'snaps back' from this type of an event (in a V-shape) and that one of the biggest mistakes hoteliers could make at this juncture would be to cut room rates in an attempt to stimulate demand, despite what their revenue-management systems might be suggesting. If people are afraid to travel, that fear doesn't suddenly disappear when a bargain presents itself.

However, COVID-19 has potential to have a broader impact as it may not be largely contained to a limited number of accommodation markets. (SARS had little or no effect on the European hotel sector, for example.) The hotel industry may not only be affected by the loss of foreign travel as in prior pandemics, but by the loss of domestic travel as well. Consequently, the impact may be more akin to the events of 9/11 rather than to the impact of prior epidemics. The impact on developing countries may be more severe as many countries lack the medical infrastructure to deal effectively with pandemics.

I refer you to my colleague **Anne Lloyd-Jones'** excellent and timely article, **Pandemics and the Lodging Industry**. Anne is a senior managing director of the **HVS New York** office and joined the firm in 1982. Her article refers back to the SARS outbreak of 2003 and points out that there are strong parallels with Coronavirus - both originated in China and the diseases are similar in terms of symptoms, severity and transmission. However, she points out that in terms of international travel and tourism, the context in which Coronavirus is occurring is radically different from when SARS occurred in 2003. Whilst she examines the issues from a US perspective, many of the issues she raises apply equally in a European context.

My colleagues and I remain at your disposal to discuss any aspect of your business which is affected by COVID-19, or potentially so, and we will continue to share appropriate messages with you as the situation evolves. In the meantime, we will respect official travel advisory notices and limit travel to that which is essential. The UK government is today advising us to 'keep calm and carry on'. Sadly, there are plenty of people in the world who seem to be happy instilling panic in the minds of the general public, so matters are more likely to get worse before they get better.

Watch this space.

Summary

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Russell Kett is Chairman of the London office of HVS and also serves on the worldwide Board of HVS. He has 40 years' specialist hotel consultancy, investment and real estate experience, focused on providing valuation, feasibility, shared ownership, property, brokerage, investment, asset management, strategy and related consultancy services, advising hotel companies, banks, developers and investors on all aspects of their hospitality industry related interests, throughout the EMEA region. Russell is a frequent writer, moderator and speaker on the international hotel industry, especially topics relating to hotel valuation, investment, marketing and finance. He is a frequent visitor to Israel and maintains a home there. For more information, contact: [\[email protected\]](#)