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Plunge in Convention Hotel Travel Puts Municipal Bonds at Risk.

The industry can withstand a downturn of a month or two, experts say, but a longer delay could hamper financing for projects in development.

Confinement and social distancing mandates are taking a toll on business travel as airlines cut flight schedules and long-distance meetings are held with teleconferencing services like Zoom, putting cities around the nation in a bind.

The plunge in business travel has cast a shadow over hotels that cater to conferences and conventions, which need a steady influx of travelers to survive. That, in turn, could crimp the budgets of cities that used bonds to finance the construction of the hotels with the hopes of attracting more visitors.

Experts say that the industry can withstand a downturn of a month or two, but that a longer delay could hamper financing for construction projects in development.

“The big question mark in this current environment is whether it is at all plausible that the cities will see a substantial increase” in convention demand, said Heywood T. Sanders, professor of public administration at the University of Texas at San Antonio.

“The coronavirus puts them behind the eight ball in many ways,” he said.

As much as 80 percent of the 2,500 business-to-business conventions that are held from March 1 to May 15 each year have been canceled, or are likely to be, costing upward of $3.6 billion in revenue for show organizers and as much as $22 billion in broader economic activity, according to projections by the Center for Exhibition Industry Research, a trade group in Dallas. Consequently, the upscale and luxury hotels across the United States that rely on these trade shows have closed.

The timing is especially vexing for new publicly funded convention hotels that were built to draw business travelers. The $367 million Loews Kansas City convention hotel in Missouri was supposed to open on April 2 and had already hired 340 of the roughly 450 employees it needed. But in mid-March, Loews announced that it would delay opening the 800-room property indefinitely. Kansas City provided financing incentives valued at about $166 million.

The $240 million, 600-room Hyatt Regency Portland at the Oregon Convention Center opened in December only to suspend operations in March. Hyatt officials declined to comment. The project included roughly $74 million in city and state incentives.

“Both of these properties were built on the assumption that a new convention hotel would induce a significant new convention demand,” said Mr. Sanders, a longtime skeptic of the convention growth projections that are often used to justify convention center and hotel construction.

The problem is cropping up across the nation. Many cities fully or partly finance the construction and operation of convention hotels to compete for events, often by using bonds backed by the hotel's income, as well as revenue from hospitality and tourism taxes. Noting the collapse in conferences and forecasting a U.S. recession, S&P Global Ratings recently warned that it could lower the ratings of bonds supporting existing convention hotels in Denver and Austin, Texas. It also downgraded the rating of bonds backing Baltimore's convention hotel.

Hotels that do convention business have suffered jarring setbacks in the past, particularly after the Sept. 11, 2001, attacks and the recessions in 2001 and late that decade, but never has the industry undergone such a sudden reversal of fortune, experts say. The American Hotel and Lodging Association estimates that nearly four million workers across all hotel segments have been furloughed or soon will be. Employees in more labor-intensive upscale hotels that include restaurants, bars and banquet facilities make up a good chunk of those idled.

"Hotel business went from 100 to zero — everybody was traveling the week of March 9, and the next week they weren't," said Elliot K. Eichner, a founder and principal of Sonnenblick-Eichner, a Los Angeles commercial real estate investment bank that arranges financing for hotels, resorts and other properties. "We're now hoping that it goes from zero to 100 once we get a handle on this virus."

As in past tumultuous periods, the so-called upper upscale and luxury hotels that typically serve conventioneers and business travelers are being hit the hardest during the pandemic, said Jamie Lane, senior managing economist for CBRE Hotels Research in the Americas.

The average occupancy rate in those categories plunged to just below 10 percent in the last week of March from around 70 percent for February, according to STR, a global hospitality data analytics firm. And revenue per available room, a key measure of hotel profitability, plummeted more than 90 percent, STR found.

Social-distancing measures have generated uncertainty in the development of new hotels, too, even as many states allow construction to continue. S&P Global Ratings recently warned that $152 million in bonds sold to finance the 463-room expansion of the Hilton Columbus Downtown hotel in Ohio could be downgraded. Workers broke ground on that $220 million project late last year, anticipating a mid-2022 completion.

How the virus could affect projects in the pipeline remains to be seen. But unknowns over when travel will resume — and how strongly it will recover — could make lenders and bond buyers reluctant to finance convention properties, experts acknowledge.

"As of now, we're anticipating a downturn for two quarters," Mr. Lane said. "But if it's longer than that, we could see some projects get postponed or canceled."

Projects on the horizon include a $550 million, 880-room Loews hotel in Arlington, Texas, which is part of a plan to attract more conferences to the city's Texas Live entertainment district. In March, Fort Worth approved a $174 million, 400-room expansion of the Omni Fort Worth and agreed to $40 million in incentives.

According to Omni Hotels & Resorts, construction of the hotel in Fort Worth will not begin until late 2021. The company also said that coronavirus regulations had halted construction of its $550 million, 1,054-room hotel in Boston's Seaport district, but that construction continued at the company's $241 million, 605-room Oklahoma City convention hotel. Both properties were scheduled to open early next year.

The transient nature of guests generally poses the biggest challenge to hotel financing, and the coronavirus crisis has only intensified it, said Anne R. Lloyd-Jones, a senior managing director with HVS, a global hospitality consultant. Multiyear leases usually provide office, warehouse and shopping center landlords with a cushion to ride out turbulence, but hotels essentially renew their leases with their customers every day.

“There is no guarantee that someone is going to replace a hotel visitor that is here today and gone tomorrow, and where we are today underscores that element,” Ms. Lloyd-Jones said. “Lenders have been pretty disciplined, and they will approach any new development with caution.”

Conference and convention hotels that are able to open this year could see a silver lining. The Lake House on Canandaigua, a $48.5 million hotel and convention center project in New York’s Finger Lakes region, has been receiving inquiries from groups that postponed events but could not reschedule them at the same place, said William Caleo, the hotel’s owner. The project was on track to open in August despite the uncertain future. A recent order by Gov. Andrew M. Cuomo of New York halted construction, however, further muddying any semblance of even cautious optimism.

“Pent-up demand has presented a real opportunity for us to fill a void, and I’m hoping that we can accommodate everybody,” said Mr. Caleo, a developer of boutique condominiums in Brooklyn. “But when will people be convening in groups larger than 10? Nobody knows.”

And as professionals adapt to virtual meetings, the need to travel to some conferences is being questioned. But industry experts play down the extent to which groups would use the alternatives, especially given the economic impact that conventions and conferences have on their organizations and local markets.

Additionally, studies conducted by the Center for Exhibition Industry Research have consistently placed value on face-to-face meetings, said Cathy Breden, chief executive of the organization.

After the SARS outbreak decimated Toronto’s hospitality industry in 2003, travel came back just as strong the next year, Mr. Lane of CBRE said.

“Over all, business and leisure travel were at peak levels before the current pandemic, and we don’t see that changing over the long term,” he said. “The industry will get through it, just as it has gotten through many major issues in the past.”

The New York Times

By Joe Gose

April 14, 2020