

## Fiscal Stimulus Packages Offer Aid to Beleaguered Hospitality Sector; Public Health Crisis Temporarily Reduces Demand for Hotel Rooms

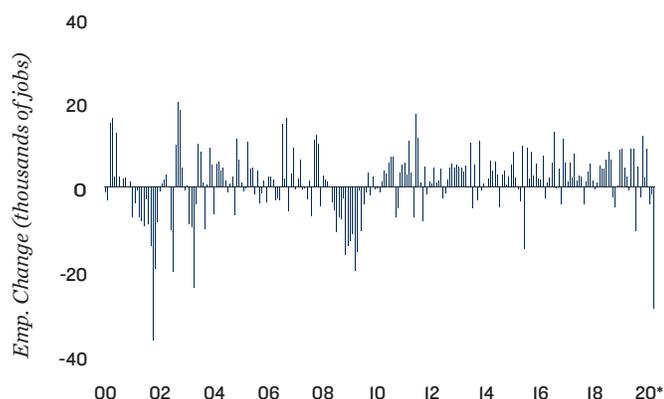
**Public health crisis has substantially impacted the hospitality industry; some demand drivers remain present.** Since February 15, hotel occupancy has fallen from 63.6 percent to 21.6 percent for the week ended April 4, pulling average RevPAR down 80.6 percent. The drop in demand is most severe for higher chain-scale establishments while economy, extended-stay, and interstate-adjacent hotels have fared slightly better. Some rooms are still being used by healthcare professionals and individuals supporting supply chains. Others are electing to use hotel rooms to self-isolate or for personal travel.

**Fiscal aid package offers potential respite to troubled sector.** Many hotels have temporarily reduced or suspended operations and downsized staffs. Between mid-February and mid-March, total accommodation employment declined by nearly 29,000 positions, the largest single-month fall since October 2001, immediately following the events of 9/11. Total sector job losses from that shock reached 91,000 while about 142,000 roles were temporarily removed during the Great Recession. Hospitality job losses during this current health crisis may surpass that figure as the pandemic disproportionately affects the lodging industry. There is relief on the horizon, however. The largest fiscal stimulus package ever issued by the U.S. is on its way and will inject about \$2 trillion into the economy through a variety of programs, helping individuals and businesses weather the short-term costs of the COVID-19 outbreak.

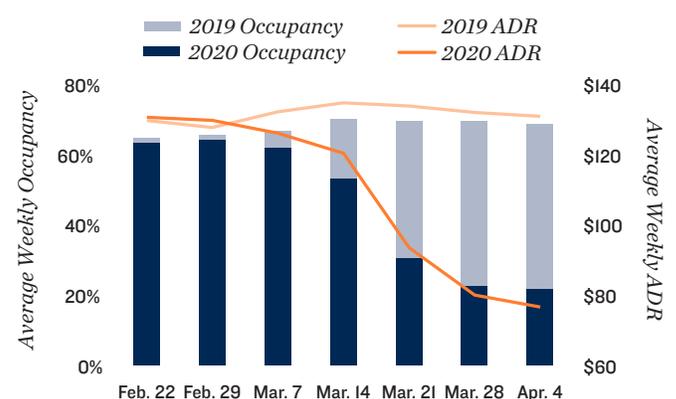
**CARES Act offers multiple avenues for relief.** The Coronavirus Aid, Relief, and Economic Security (CARES) Act will help companies and individuals meet immediate financial needs through a series of loans, grants, direct payments, and tax adjustments. More than \$600 billion of the \$2 trillion in total funding will go to helping people through expanded unemployment benefits and one-time payments. Individuals earning less than \$75,000 a year will receive a direct payment of \$1,200, while families will also receive \$500 per child under 17. About \$500 billion will also be provided to large corporations impacted by the pandemic, which may include some hospitality firms. Companies will also benefit from a series of tax adjustments, including a carry-back on net operating losses reported in 2018, 2019, or 2020. Qualified improvement properties can also now receive 100 percent bonus depreciation, which may help some hotels expense certain costs.

**New loan programs are a main pillar of support.** The Small Business Administration (SBA) is guaranteeing new loan initiatives that will be critical in helping hotels and other businesses meet short-term costs. The programs' priority is payroll, but other expenses are also covered. Together with the provisions detailed above, the CARES Act aims to foster a faster recovery. By helping companies stay afloat and pay employees, while providing benefits to those who were laid off, the act is building a path toward normal consumer behavior, including travel, that will benefit hotels once current restrictions are lifted.

— Accommodation Employment Drops in March —



— Hotel Occupancy and ADR Trends —



\* Through March  
Sources: Marcus & Millichap Research Services; Federal Reserve Bank of St. Louis

Sources: Marcus & Millichap Research Services; STR, Inc.

## Paycheck Protection Program Summary

- **Purpose:** Help companies meet immediate labor and other operational expenses, allowing them to keep workers on payrolls or quickly rehire.
- **Total Available Funding:** \$349 billion, potential for more funding to be added at a later date.
- **Individual Loan Amount:** Lessor of 2.5 times 2019 average monthly payroll expense and \$10 million. Employee compensation in excess of \$100,000 per year not counted.
- **Interest Rate:** Maximum rate of 1.00 percent, payments deferred for six months
- **Expanded Eligibility:** Hotels with 500 or fewer employees per location can apply.
- **Lenders:** All existing SBA-approved lenders; participating federally insured depository institutions and credit unions; and the Farm Credit System. New lenders can be approved in the future.

## Conditions for PPP Loan Forgiveness

- 75 percent of funds spent on payroll expenses.
- Payroll expenses include: salaries, wages, commissions, tips and employer cost of employee benefits.
- Remaining 25 percent can be spent on other costs, including utilities, rent, and mortgage obligations.
- All funds must be spent within eight weeks.
- Employers must keep workers on payroll or quickly rehire.
- Businesses have until June 30, 2020, to restore employment counts and salary levels to where they were on Feb. 15, 2020.
- Once restaffed, employers must maintain staff and salary levels, otherwise loan forgiveness will be scaled down accordingly.

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## SBA Provides Multiple Resources for Hotels

**Major new program offers forgivable, low-interest rate loans to hotels.** The Paycheck Protection Program (PPP) is a key component of the CARES Act that will help small and medium-size businesses, including hotels, meet upcoming payroll and other expenses. The program will offer low-interest rate loans fully guaranteed by the SBA that require no collateral or fees. The value of the loan will be equal to two and a half months of the borrower's payroll costs, based on their 2019 performance. Each loan cannot exceed \$10 million. These loans are also fully forgivable. Criteria for forgiveness are designed to encourage employers to keep workers on payroll, but even so a portion of the funds can still go toward paying off other business expenses such as utilities, rent and mortgage obligations. These loans are available to most businesses with fewer than 500 employees, but hospitality organizations are granted additional eligibility. Organizations classified under NAICS Code 72, which includes restaurants, bars and hotels, can have more than 500 employees on payroll as long as that limit is not surpassed at any one location. This stipulation opens up the PPP program to a large number of hotel owners. Lenders began accepting PPP applications on April 3, but a series of logistical issues has delayed their approval. Additional clarity by the SBA, as well as the possibility of more funding being approved by Congress, will be critical for helping the PPP help as many small businesses as possible.

**Other SBA programs may aid hotels.** The Economic Injury Disaster Loan Program (EIDL) as well as express bridge loans and debt relief are SBA resources that may help hotel investors. The EIDL enables businesses in economic distress with fewer than 500 employees to receive a loan up to \$2 million at an interest rate of 3.75 percent. The CARES Act added to this existing program the ability to receive an immediate cash grant of \$10,000 that does not need to be repaid. Organizations with preexisting relationships with SBA express lenders can also now apply for an immediate \$25,000 grant. The CARES act also authorized the SBA to make all principal, interest and fee payments for six months on behalf of all current and new borrowers under the 7(a) and 504 programs. These range of initiatives, in combination with the PPP, create a multipronged approach for helping companies during this unprecedented health crisis.

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