Total Vacancy: Hotels Searching for Answers in Wake of COVID-19

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Real Estate, Land Use & Environmental Law Blog

- Coronavirus News
- Entertainment, Art & Sports
- All Federal

Monday, March 23, 2020

Every business in the United States has been forced to confront the halting effect of COVID-19. No sector of the economy has felt the impact more than the hospitality industry. Hotels saw a drop in occupancy when travel advisories began to trickle in, but subsequent governmental shutdowns and mandatory closures have pushed occupancy rates into a free-fall.

The catastrophic impact to the hospitality industry is upon us. Hotels are struggling to cope – what to do about employees, how to deal with debt, and whether it even makes sense to stay open. The American Hotel & Lodging Association (AHLA) has predicted that four million hotel and lodging industry jobs have been lost or will be lost or eliminated in the next few weeks. Occupancy rates in some markets have fallen below 20%. In Chicago, several hotels have announced that they would stop taking customers indefinitely.

Large events like conferences, conventions, weddings, and trade shows have been cancelled across the board. The Center for Disease Control and Prevention (CDC) has advised the cancellation of events of more than 50 people for the next eight weeks, which will likely result in cancellations of the few remaining events in that time frame, as well as many more in the weeks and months to come. Some states, like Ohio, Illinois, and Michigan, have already limited restaurant and bar operations to take-out service, and more states should prepare for such restrictions.

Tragically, significant employee layoffs are now a reality for hotel operators. One
hotel operator announced that it would lay off over 4,000 employees immediately, and by the end of March, it expects to let go another 2,000 employees. Other hotels are running a skeleton crew as often as possible, sometimes with only 15% of the staff working at any given time, and some are beginning to furlough tens of thousands of employees.

Is there help (and hope) on the horizon? Hotels are an essential part of the US economy, and without their vital service in facilitating business travel, tourism, and strengthening local economies, the US would potentially lose $300 to $600 billion of GDP. Hotel industry leaders from across the country recently met with the White House and Congress to petition immediate action to stem the tide of layoffs and closures. Industry leaders stressed the need for access to liquidity and low interest loans.

Some states are already doing what they can to help the hospitality industry in their jurisdictions. Illinois Governor J.B. Pritzker announced that small to medium bars and restaurants would receive a two-month delay in sales tax payments to state and local entities. This sales tax relief could potentially help 80% of bars and restaurants in Illinois. Further, small businesses can begin to apply for federal low-interest loans of up to $2 million that can pay off “fixed debts, payroll, accounts payable and other bills that cannot be paid due to the impact of the COVID-19 pandemic.” Other states are being petitioned by owners of bars, restaurants, and hotels to enact similar policies.

Other hotels are getting creative and working with their local state and municipal governments to combat COVID-19 by offering their vacant space to serve as overflow quarantine housing for those who need a place to hunker down, or to house the homeless population and prevent further spread of the virus. Instead of closing the doors forever, hotel owners have another option to ride the storm and serve the community in a time of desperate need.

Hotel owners and operators are a resilient lot. With the right kind of government intervention, the industry could embark on efforts to weather the storm and get back to the guest services business as soon as the storm passes.

As you are aware, things are changing quickly and there is no clear-cut authority or bright line rules. This is not an unequivocal statement of the law, but instead represents our best interpretation of where things currently stand. This article does not address the potential impacts of the numerous other local, state and federal orders that have been issued in response to the Covid-19 pandemic, including, without limitation, potential liability should an employee become ill, requirements regarding family leave, sick pay and other issues.

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