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# The Horizon for Hospitality



According to the World Travel and Tourism Council, the hospitality sector contributed a record \$8.8 trillion to the world economy in 2018, but Covid-19 has brought it to a temporary stop almost overnight. To discuss the effects on the sector and how it can respond, Todd Lundgren, Executive Director for CRTKL, was joined by Giovanni Rizzini, a Partner at Aperio Partners, a boutique financial and asset management consultancy with an exclusive focus on the hospitality, leisure, tourism and residential sector.

## What is happening globally in the hospitality sector as a consequence of the pandemic?

**GR:** "The unfolding Coronavirus crisis has surprised our society, with almost all economic sectors experiencing an unprecedented impact. Tourism, however, is arguably the sector that has been hit the hardest, and it is becoming more and more evident the situation is not going to improve in the near future. While our societies will slowly transit from lockdown to normal life, as is already happening in China, four things are expected to slow the recovery of the travel and hospitality sector:

- Cross-country travel restrictions
- Social distancing will become the mantra of 2020 with an obvious impact on how hotels can operate
- Lockdowns in developed countries might need to be re-introduced during the year
- Some of the tourism hotspots in developed countries (e.g. Caribbean, South-East Asia) will struggle to cope with the virus crisis due to limited financial resources and poorer healthcare infrastructure

If we consider that tourism accounts for more than 10 per cent of the GDP for many countries, we can see how the shock of the current crisis is going to impact many countries' economies."

## What does this mean for our sector in the short and long-term?

**TL:** "Firstly, there are going to be winners as well as losers. Local and regional travel, where you can drive with your family in your own car; avoiding planes and trains, will be strong performers until the pandemic has clearly passed. It will be interesting to see how local and regional hotels adapt and up their game, capturing the market and building a new client base."

**GR:** "The limitations on international travelling will definitely strengthen demand for drive-to-tourism and regional destinations. As an example, we can expect more Brits favouring a holiday in the UK and more Germans preferring the Alps rather than Spain, Portugal or the Adriatic. The trend towards regional destinations will further be strengthened by the expectation people will prefer shorter breaks in 2020. This is partially due to people having less annual leave in 2020 due to companies converting part of the lockdown period in holidays. Also, the economic effects of this crisis will affect the income of the middle classes."

**TL:** "Air travel will take longer to build back, and will be led by business travel in the first instance, much to the benefit of city centres. Until it is clear Covid-19 either has a viable treatment or a vaccine, or there is some sort of passport established for those with immunity, leisure travel will be challenged, especially to traditional resort destinations. Emerging countries, such as India and Africa, will also take longer to experience the uplift. Such countries are lagging behind the western world in terms of the spread of the virus, and they also have less well-developed health care systems."

**GR:** "Despite the tremendous short-term impact of the ongoing crisis, ultimately this emergency is not expected to impact the underlying macro-trends that have led to decades

of continuous growth in tourism worldwide. 2022 is in my opinion going to look much more like 2019 than 2020, albeit that 2021 could still be a transition year due to the economic impact of the recession that might follow this medical crisis."

## How does the industry respond?

**GR:** "Although the forces that shaped the growth of the travel industry in the past years are going to remain relevant in the future and will drive the rebound of our sector, our societies and our sector will need to take on board some of the lessons learnt during this crisis. And some of these lessons will have an impact on how we conceptualise, design and operate hotels and resorts."

**TL:** "I agree. From a design and planning perspective there are several interesting areas to consider: Public spaces might need to get larger as the desire to social distance may linger or even become more the norm. The trend over the last few years has been towards smaller rooms and larger community spaces for F&B, gathering, etc. We believe rooms could grow in size to become more adaptable to working, dining and individual leisure. Guests may in the near term look to make their room their refuge."

## Where will opportunities arise as a result of the changing environment?

**GR:** "The current crisis is also likely to lead to some exciting activity in the mergers and acquisitions market in the hospitality sector. The past few years have seen the number of new deals decreasing due to the very low yield offered during the final part of the previous real estate cycle. My expectation is that the next 24 months will see a strong interest towards investments in prime urban markets. Family offices and institutional investors will try to capitalise on the opportunities created by this unprecedented crisis and the difficulties many hotel owners now face."

**TL:** "This crisis offers a real opportunity to developers of new projects. They could use the next 24 months to plan, tender and begin construction of their projects, particularly as construction costs will also fall and governments are likely to take a more favourable view of planning applications, with the objective to open their hotel or start residential sales at the beginning of a new real estate cycle in 2021-2022."

## Conclusion

While there remains much uncertainty, the hospitality sector will bounce back and its horizon for doing so is not too distant. That said, there will be changes necessary to the form and function of buildings. It is probably too early to say for sure how those changes will manifest themselves, but architects, owners and operators are going to need to work together to re-think and re-configure hotels, resorts, destinations, airports, stations and ports, ready for the recovery as it begins in earnest in 2021.

To listen to the CallisonRTKL hosted podcast in full please visit: <https://soundcloud.com/crtkl/what-is-on-the-horizon-for-hospitality>

