



CEO: Marriott Saw 'Meaningful Improvement' in Third Quarter

Short-Term Business, Group Business Picks Up



A Marriott Marquis in Chicago. (CoStar)

By Bryan Wroten
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Hotels under Marriott International's flags saw "meaningful improvement" during the third quarter compared to the second, President and CEO Arne Sorenson said.

Speaking during the company's third-quarter earnings call, Sorenson said while third-quarter worldwide revenue per available room declined 66% year over year, that was almost 19 percentage points better than the decline in the second quarter. Worldwide occupancy levels improved each month during the quarter and continue to close the gap to 2019's levels.

While there was a steady climb in demand through August, the rate of improvement began to plateau toward the end of third quarter in most global regions, he said. However, the company has seen overall progress since the trough in April.

In North America, where domestic travelers made up 95% of the company's roomnights in 2019, results in third quarter were meaningfully better than the second quarter, he said. The rate of improvement slowed during September in this region as well.

During the quarter, all chain scales showed improvement compared to the second quarter, Sorenson said.

“Although there were still large variations among hotels and markets, drive-to leisure demand continued to lead the recovery, particularly for extended-stay and resort hotels and for properties in secondary and tertiary markets,” he said. “Business transient and group bookings in the quarter picked up modestly versus the second quarter but still remains significantly lower versus last year.”

Marriott reported for the quarter that its comparable systemwide constant dollar RevPAR declined 65.9% year over year to \$41.24, breaking down to a 65.4% decline in North America and 67.4% decline outside of North America, according to the company’s [earnings release](#). Net income amounted to \$100 million compared to \$387 million in third quarter 2019. Adjusted earnings before interest, taxes, depreciation and amortization totaled \$327 million, down from \$901 million in adjusted EBITDA in third quarter 2019.

Global Recovery

The recovery trajectories around the world have differed greatly by region, and the recovery in mainland China has been the strongest, Sorenson said. Occupancy in mainland China reached 67% in September, a bit ahead of occupancy in September of 2019 and “an extraordinary improvement” from 9% occupancy in February 2020.

“Results have improved meaningfully since February, demonstrating the resiliency of travel when the virus is perceived to be firmly under control,” he said.

About 75% of roomnights in mainland China in 2019 came from domestic guests, he said. Even with the strict travel restrictions limiting visitors from outside the mainland, demand has rebounded strongly across all segments. Leisure transient bookings increased during Q3 and were more than 25% ahead of last year’s as domestic travelers took more trips within the country. Business transient and group bookings strengthened each month since February through only domestic meetings and events, but they still lag last year, he said.

Hong Kong and Macau are seeing a slower recovery because of their reliance on visitors from the mainland, he said. Travel restrictions are easing, but the cumbersome procedures still inhibit demand.

Looking to the rest of the Asia/Pacific region, demand continues to improve as well, but generally is growing much slower compared to China, Sorenson said. The countries are in various stages of reopening, and many still are imposing strict travel restrictions. Japan, Australia, New Zealand, South Korea and the Philippines continue to drive performance helped by quarantine business for travelers entering those countries.

Demand has improved in Europe, the Middle East, Africa, the Caribbean and Latin America, but it has been slower compared to North America and China, Sorenson said. In recent weeks, the rising number of COVID-19 cases in many European, Caribbean and Latin American countries has led their governments to reimpose or extend lockdowns, travel restrictions and social-distancing regulations.

“These measures discourage international travelers who made up about 40% of Europe's room nights and about 60% of (Caribbean and Latin America's) room nights in 2019,” he said.

Demand trends have been comparatively a little better in the Middle East and Africa, where international guests have historically made up about 60% of roomnights, he said. Certain resorts in Turkey, the United Arab Emirates and Qatar were particularly strong in the quarter.

On a global level, demand has plateaued as well toward the end of Q3 and into the first few weeks of the fourth quarter, Sorenson said. Occupancy levels in most regions have remained in line to slightly better compared to September levels, which were marginally ahead of August. Booking windows remain short, so visibility is still limited. Given historical seasonality, Marriott expects easier year-over-year RevPAR comparisons in Q4.

“Of course, as we have seen to date, results vary greatly by region and can change quickly,” he said. “The recent virus resurgences in numerous countries could have a dampening effect on demand. We know the road to recovery is going to take some time.”

Net Unit Growth

Marriott anticipates net room growth of 2.5% to 3% in 2020, which is at the high end of the company's expectation last quarter, Sorenson said. That figure takes into account 1.5% to 2% for deletions, which

are about 50 basis points higher than estimated in February primarily because of hotels that were struggling already before 2020 and then closed permanently because of the pandemic.

Given the fluid environment, there's more uncertainty than normal on the opening dates of many hotel projects nearing completion, he said. However, 46% of the nearly 500,000-room pipeline is currently under construction. While signings aren't as strong as compared to 2019, they are solid considering the overall impact of the pandemic.

"We believe that many of the rooms that do not open in 2020 as a result of COVID-19 will now likely open in 2021," he said. "The pace of openings will likely vary depending on the recovery of lodging demand in specific markets with heightened uncertainties in markets where airlift is key."

There is an encouraging increase in the number of conversations about conversions, he said. The company is keenly focused on conversion opportunities that are accretive from both a brand and a financial value standpoint.

It's too soon for a definitive outlook on rooms deletions for 2021, but it's worth noting "the potential 2021 exit" of 89 hotels owned by Service Properties Trust, Sorenson said, referring to the real estate investment trust [ending its management agreements](#) with Marriott over the brand missing a deadline for paying \$11 million in cumulative priority returns for 122 branded properties. The loss of these assets, almost all of which are limited-service properties, would create a short-term headwind of roughly 1% in rooms growth.

"We are confident in our ability to replace many of those first-generation, limited-service hotels with brand-new updated product," he said.

The initial portfolio was put together with Service Properties Trust at least 20 years ago and were initially a lease or lease-like structure, he said. They've since evolved into a management structure with a cap guarantee that was redone earlier this year.

"We were quite optimistic that actually it was done in a way that would bode well for long term, including getting substantial additional new capital into those assets to bring them up to standard," he said. "Of course, the pandemic had profound impact to that."

The two companies have been in discussions regarding a renewal, but the REIT's executives appear set on rebranding those properties into Sonestas, he said. Though he wasn't sure of the specifics, he believed the return on investment on those properties under the Sonesta flag would be half of that of their current brands through Marriott.

The impact of those properties' fees leaving the system, expected to be \$10 million to \$15 million in 2020, would be minimal, said Executive Vice President and CFO Leeny Oberg.

Working with Owners

As part of Marriott's cost mitigation efforts at the property level, it has conducted a thorough review of its reimbursable programs and service to reduce the associated costs to hotels, Oberg said. This went beyond lower fees being charged given that the majority are still based on a percent of hotel revenue.

"For example, after providing a discount this year on certain fixed mandatory fees paid by all of our hotels around the world, we have worked to provide a meaningful discount on these same fees in 2021 as well," she said. "Of course, we have also significantly cut our expenses associated with providing programs and services, given the lower expected levels of reimbursement from the hotels."

Last quarter, the company was able to reduce breakeven profitability rates at managed properties by 3 to 5 percentage points of occupancy, she said. The company is applying the same approach to its owned and leased properties as well.

Marriott is also allowing owners to access certain reserves for working capital and extended the waiver of required funding for these funds through the end of March 2021 with lender consent where applicable, Oberg said. The company is also working with its U.S.-managed hotels to file for federal coronavirus relief cash credits, leading to refunds of \$119 million, helping support hotels' working capital positions.

"These measures combined with our aggressive collection efforts have been quite effective," she said. "The vast majority of our owners and franchisees continue to pay their bills on time or on short-term payment plans."

Only a small number of hotels have gone into foreclosure this year as lenders have been patient to date, she said. With a few exceptions,

those that did enter foreclosure or receivership retained their flags.

Bryan Wroten is a senior reporter for [Hotel News Now](#), a CoStar Group news service focused on the hospitality industry.

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