A Hospitality Sector Review
for the Pearl of the Orient

The Hospitality Sector Rebound

Research, May 2020

Cover Photo by Ben Villarosa

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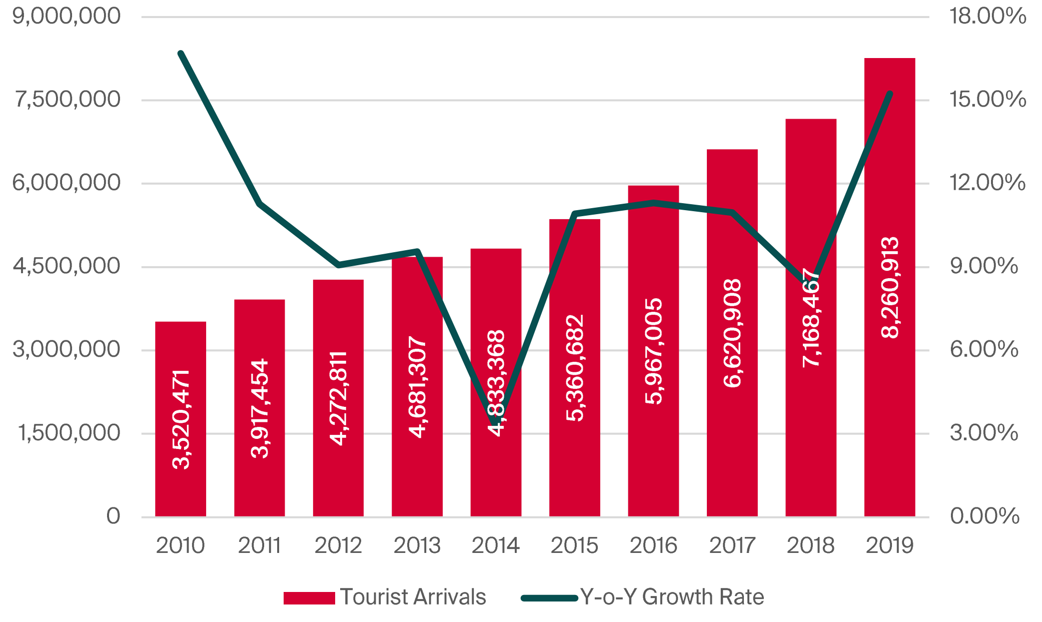
The coronavirus disease 2019 (COVID-19) caught the world by storm as it spread in an unprecedented and exponential manner. It caught everyone off-guard as there was no playbook to handle this type of situation. The rapid spread of the virus practically shutdown economies and dragged down the financial sector worldwide. To contain and avoid severe repercussions from the said disease, the Philippines implemented the enhanced community quarantine (ECQ) in the Luzon island. The imposed lockdown restricted people's mobility which led some companies to maintain a skeletal workforce in their official workplaces and placed the rest of their employees on a "work-from-home" set up. Other companies employed more extreme measures as they totally ceased operations. International flights have been restricted to the return of repatriated OFWs and other Filipinos coming home, while domestic flights have been shutdown until further notice.

Performance pre-crisis

The tourism sector is one of the drivers of the gross domestic product (GDP) of the Philippines. It is mainly due to the constant increase in tourist arrivals over the years. According to the National Economic Development Authority (NEDA), about 1.5% of the entire GDP output of the Philippines in 2018 is attributable to the tourism industry. It increased in 2019 with the total recorded visitor arrivals at around 8.2 million, growing by 15.24% year-on-year and by 8.90% annually since 2010. The majority of the foreign tourists who visited the country in 2019 came from Korea, China, and the USA with tourist arrival percentage shares of 24.08%, 21.10%, and 12.89%, respectively.

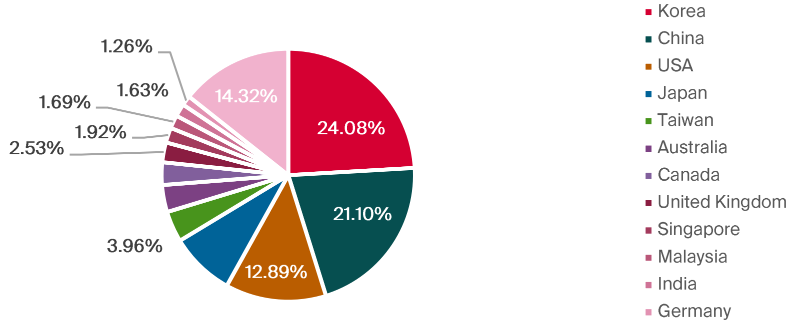
The increasing tourist arrivals were due to the combined efforts of government agencies and the private sector, as well as the implementation of recent regional

FIGURE 1
Historical Tourist Arrivals in the Philippines



Source:
Department of Tourism

FIGURE 2
Share of Tourist Arrivals per Country in 2019



Source:
Department of Tourism

initiatives. The numerous successful events sponsored by the country have proven to be very successful in marketing the country as a sought-after tourist destination. And these continuous collective efforts across various sectors and institutions will improve the travelling experience in the country in years to come.

Impacts of lockdown and travel restrictions

Unfortunately, the massive stoppage of different economic activities due to lockdown and worldwide travel ban has already instigated a negative outlook for the travel and tourism industry in 2020. According to the International Air Transport Association (IATA) latest assessment report, weekly domestic flights worldwide has dropped by 70% as of April 2020. The Asia and the Pacific region was first to experience the downward pressures of COVID-19 to aviation industry, mainly due to quarantine protocols imposed by China. The rest of the world soon followed in imposing their own set of travel restrictions. As a result, NEDA forecasted a loss to the gross value added (GVA) of the tourism sector for 2020 in the range of PhP77.5 to PhP156.9 billion due to the anticipated decrease of Asian tourists. It is equivalent to about 0.4% to 0.8% of the country's GDP.

Apart from commercial flights, online accommodation platforms have also felt the negative effects of the travel restrictions and health regulations imposed by the different countries. For instance, these policies led the Airbnb to recently revised its cancelation policy that will result in its member hosts to lose a significant amount of their expected income. To alleviate this, Airbnb provided an assistance package amounting to USD250 million that is estimated to cover about 25% of what hosts would have to pay for canceled bookings. Another relief program worth USD10 million was specially allocated to super hosts. It forced the founders of Airbnb to take no salary for months, while its executives are getting a 50% cut on their paychecks to maintain liquidity until the situation improves.

Hence, the low volume of domestic travel and foreign tourist arrivals heavily affected the operations of various hospitality establishments (i.e. hotels, resorts, inns, hostels). The limited inbound flights dropped occupancy rates to as low as 30% for most accommodation facilities. Some hotels have reported a 5% occupancy level, which came from repatriated OFWs or returning Filipinos held for a 2 week quarantine. It also forced some hospitality operators to stop their respective operations temporarily. Likewise, other hospitality facilities that cater to M.I.C.E (meetings, incentives, conferences, exhibits) experienced decrease in revenues as well due to the lockdown.

Hospitality Sector Bounces Back

Notwithstanding the imminent negative impacts of restricted travel, the hospitality sector will eventually experience an overall rebound. The pace of recovery will heavily depend on how COVID-19 will be contained.

The recovery of hospitality services catering to business-related demand will be slow. There will be a gradual resumption of operations which will mainly be dictated by the restrictions to be imposed post ECQ. There will also be some adjustments to the new work practices as well as to the new set of protocols to be implemented in the hotel premises. With this said, recovery will depend on how soon everyone can adapt to these adjustments.

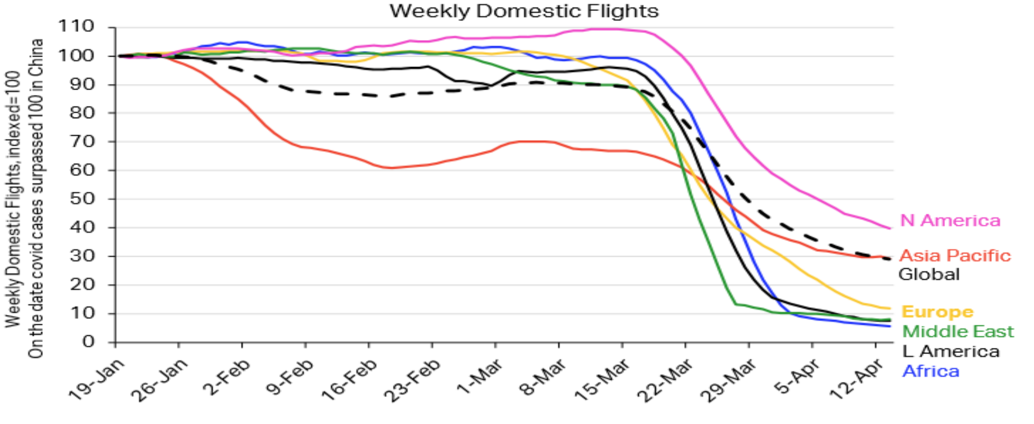
On the other hand, leisure-type hospitality developments will also eventually recover, albeit contingent to some factors such as travel restrictions imposed by the countries of origin and the Philippines. However, low local tourism confidence, especially in the short to medium-term could hamper the recovery of these establishments. The negative implications of obstructed income generation would be manifested by the preference of Filipinos to prioritize spending for essential goods and services over other matters. This behavior of the populace will still be seen for the first few months post-ECQ.

Lastly, the recovery of hotels that services mainly the MICE market will heavily depend on public confidence. As long as the threat of the COVD-19 persists in the country, we cannot expect any MICE activities and any form of revenue derived from it.

Our Recommendation

To mitigate the adverse effects of imposed travel restrictions and lockdown, Santos Knight Frank recommends re-purposing hotel rooms and facilities, at least in the short term. Hotel rooms could be used as temporary housing facilities for medical front-liners and essential workforce or as an isolation / quarantine facility for COVID-19 patients. For instance, various local governments in Metro Manila commissioned some hotels to have their rooms, and

FIGURE 3
Weekly Domestic Flights per Region

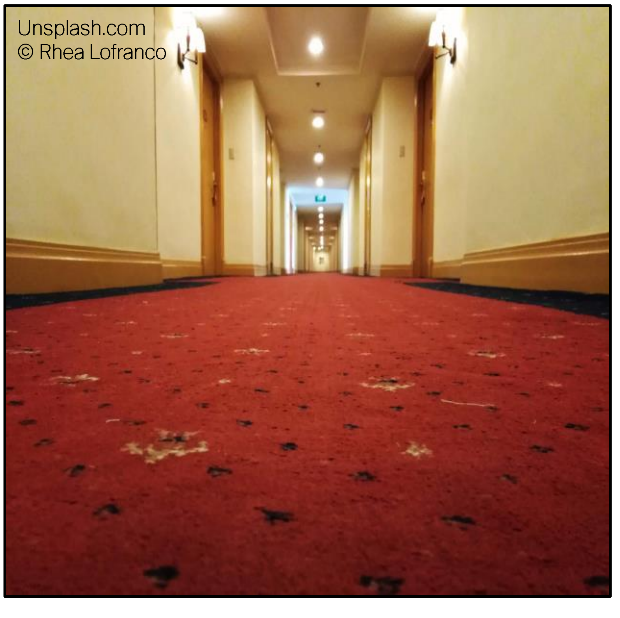


Source:
International Air Transport Association, FlightRadar 24

conference centers used for isolation and quarantine areas. Airbnb also offered some of their units to house healthcare workers during the COVID-19 pandemic. More recently, the Philippine International Convention Center (PICC) has been converted into a quarantine facility for COVID-19 patients, with smart houses set outside to serve as housing facilities for the health workers.

Aside from that, conference facilities and function halls may also be converted as a temporary workplace for BPO companies and its employees. Some of the deluxe hotels in the metropolis (and in Cebu City) offered their rooms in bulk for use as accommodation and workplace for BPO employees.

The negative implications of the lockdown and travel ban to the overall financial situation of businesses must also be in the mind of hotel operators in the medium to long term post-ECQ. Revisiting their business and marketing strategies would be vital as activity in the sector is not expected to be significant in the foreseeable future. Owners and operators should keep a close watch on how economic activity is picking up as this will



provide them some idea on how to gradually resume operations. Offering discounts and special packages will also help to jumpstart the recovery process.

Recovery will also depend on how soon the confidence to travel will be re-established. This will be two prong as there will be budgetary and health issues that needs to be considered. Travelers are expected to be more conscious of their expenses mainly brought about by the uncertainties due to the pandemic. In the same manner, the COVID-19 outbreak will make travelers more wary to travel as the looming possibility of contracting the virus in the plane, boat, bus or train as well as in the hotel becomes large if proper disinfection and sanitation are not implemented.

In terms of upcoming hospitality establishments, developers may consider adapting a condotel-type development. The said business model allocates some of the units to be sold to investors to recoup some cash outflows immediately. The remaining units will be retained for recurring income purposes. It will allow developers and operators to maintain liquidity and lessen operational costs, especially when uncertain times arise.

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