Bridging loan: The countdown has begun

What is the current state of play? Hotour boss Martina Fidlschuster answers

The hotel industry in a cash flow dilemma - because politicians do not understand the business. And why do they not understand the industry? / Photo: oxie99 adobe stock

Frankfurt/M (June 26, 2020). At the end of next week, the German parliament will retire for the summer recess. By the time it returns at the end of August, the hotel scene in Germany may well be very different – If further bridging assistance for the medium-sized hotel groups is not provided. Discussions in the industry are becoming quieter, not louder. Martina Fidlschuster, Managing Director of Hotour Hotel Consulting, once again soberly sets out the current state of play. She coolly shows why hotels will systematically drift towards insolvency in the continued absence of help. The numbers are the silent cry – a cry aimed at politicians.

Martina, the German government has meanwhile launched its 3rd economic stimulus package, but there is still no specific solution for medium-sized German hotel groups. What‵s going wrong here?

The main problem is there is simply a lack of awareness of the fact that even in an industrialised country like Germany, tourism is of great economic value. Accordingly, the primary considerations behind the stimulus package are always aligned with the interests of industry and only then somehow adapted to the needs of service companies.


Martina Fidlschuster: There is no „one-size-fits-all" solution.
/ Foto: Hotour

With the fixed cost subsidy, the government did indeed think of industries with massive slumps in revenue – in the erroneous assumption that these were all classic „medium-sized companies".

And of course there's also the fact that hoteliers have a bad lobby since the 2010 VAT reduction! The „filthy rich" who were able to buy a Porsche thanks to the „Mövenpick tax" have not yet been forgotten. That is why the association has – understandably from my point of view – highlighted the pain of the small restaurateurs or individual small hoteliers in its lobbying so far. Everybody feels sorry for them, but not for the big groups!
The restaurant sector was already granted its VAT reduction in the first corona stimulus package, though only for one year – but politicians will certainly see this too as a „gift" in its current crisis management.

So the hotel industry has had to step back in favour of the restaurants. The crucial element for the survival of the medium-sized hotel industry is the bridging support, which is not working. According to the latest data, the government has still not understood that in the hotel industry it is not the overall business that needs to be supported, but rather each individual hotel of that business.

That's exactly right, a chain with 60 hotels would therefore need to receive bridging support for each of its 60 hotels. In this respect, the business model of Accor, Ghotel or Achat Hotels, to name just a few at random, does not differ from that of an individual hotel. The hotel industry is misunderstood on this point in the same way as the travel agency industry: The giant TUI is being helped, and so are the very small travel agencies. But the smaller and medium-sized travel agency chains receive nothing – or only for one location.

(Editor's note: The economic stimulus package provides: „Legally independent affiliated companies or companies owned or directly under the controlling influence of the same person or company may only apply for bridging assistance up to a maximum amount of EUR 150,000 over three months.")

These three months, for which one can get bridging loan, are over at the end of August. If there is no further, specific adjustment, how many hotel groups in Germany could end up going to the wall? Is there any way to make a serious estimate for that?

No, there's no way to tell. The survival of the hotel groups, the vast majority of which have leases, depends on the landlords – or in the case that they own their own properties, on the banks. Even substantial capital buffers will be quickly exhausted in this most serious of crises. Liquidity could get tight very quickly.

As we have reported on several occasions, there are now a number of suggestions and proposals as regards leases/rents. What proposal do you think gives owners and investors the best chance of agreement with their tenants?

As much as we would all like: I cannot imagine a one-size-fits-all solution. The business models of the hotels are too different, as are the parameters of the lease agreements and the persons acting and their constraints (keyword „gilt-edged investment" in the case of open-ended real estate funds) on both sides.

A handshake, a deal: Trust is still key for the discussion about loans. / Photo: rawpixel unsplash

Personally, I find limited turnover leases, and in the case of more business-minded leaseholders also limited, earnings-linked leases in combination with further deferrals and contract extensions, to be the most reasonable.

Or to put it more simply: Both sides should perhaps for the future think about „crisis leases" today, defined for a clearly set period of time and with different repayment scenarios.

With 60 hotels, there would probably be 60 different „crisis lease models"?

That's correct, because there are not only different types of hotels, these hotels are also situated in very different locations. Destinations such as Hamburg, which generate more local and national business than a destination such as Munich, which is dependent on international guests, generally recover faster in a crisis. Covid-19 is now making this very apparent. There's also the fact that the terms of the lease agreements and thus the period for extending repayments also differ within a hotel group. And last but not least, the room for negotiating enjoyed by the various landlords often varies considerably.

In the discussion between landlord and tenant, shouldn't the banks also be involved?

Well, the bank can only get involved when the leaseholder asks for a payment holiday. I do not know of any loan agreement in which the bank is allowed to contact the borrower's tenant directly or actively.

One hotel operator told us that – despite solid previous years and a positive balance sheet – he was turned down by his bank when it came to a loan for further expansion. The bank demanded a 12-month forecast. I imagine that's a classic situation...

To be able to judge such situations, more detail is needed. Basically, I can only say from my experience: Also in the corona era, the same rules continue to apply. A hotelier should always communicate with their bank, even in good years, and thus always remain transparent for the bank. And if I can't make a 12-month forecast, then I must provide the bank with three different forecast scenarios. A bank can only work with the figures – and then look at the parameters behind them to see if this is plausible.

Are Basel 2 and 3 also part of the bottleneck?

Indirectly! The regulations of the Basel Committee on Banking Supervision are primarily intended to reduce the risks of bank failures and so banks must provide sufficient capital backing for loans – more or less depending on the risk assessment of a specific credit exposure. This means that loan applicants with low creditworthiness and little equity either have to pay very high interest rates or receive no loan at all, while loan applicants with good creditworthiness and equity receive far better conditions. After all, the capital that banks have to provide themselves is also expensive. They pass these expenses on to the borrowers.

You are an Austrian and can therefore assess the events in the neighbouring country very well. Which measures work better in Austria than in Germany?

Firstly: In Austria, tourism is the backbone of the economy. And this awareness is firmly anchored in politics and the population – from toddler to grandmother. The lobby of the tourism industry in Austria is very comparable with that of the car industry in Germany.

As regards the measures specifically: I think it is very good, for example, that the fixed cost subsidy is extended to a performance period of 6 months and – if I have understood this correctly – the entrepreneur can choose which 3 months he/she wants it to apply to. This helps the holiday and city hotel industry in equal measure.

Today, Hotour again provides our readers with special expertise: in the „Hotour Monitor", which we attach as a PDF in German and English, you calculate the changing cost structures in crisis mode. Everyone can see that for themselves. What is your conclusion from these calculations – in one sentence?

Even if costs are reduced to the absolute minimum, many companies could become insolvent before demand and sales have risen to workable levels.

Many thanks for your time!
And we would like to take this opportunity to congratulate the Hotour on their 50th anniversary, which you wanted to celebrate last week!

Interview: Maria Pütz-Willems

Hotour Monitor Special Edition 3

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