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Questions and answers about how the hotel market has been affected by the recession

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In a recent interview I was asked some very specific questions regarding the hotel market and how it affected a well known resort in New England. I felt it appropriate to review some of the questions and answers, as they are very relevant to most New England markets at this time.

How has our resort area fared through this recession? Foreclosures? New owners? Change of use in properties? New development?

As with anywhere in the northeast, resort area lodging properties have seen revenue decline, however, for some the decline has not been as severe as other locations. In that regard, although not recession proof, it does out perform many other resort locations. I believe the bottom of the market for resort areas occurred during the May, June, July period of last year when there was a double hit due to the rainy weather. The urban, business, corporate hotels have seen declines up to 30% year over year and although the first quarter of this year showed some signs of improvement it will be June or July before year over year revenue improvement should be assured. There have been some foreclosures and there will be more before the market returns to some kind of normality. Most of these have occurred in cases where properties were purchased at the peak of the market and prices were too high, and the quality of the management was suspect.

As in other recessions, values tend to be adjusted by use of proper fundamentals as in prices determined by current income and current returns on equity, not what might happen in the future. It has always seemed in the majority of resort locations that many bought on future revenue benefits and do not take in to account the up and down fluctuations of our economy.

One item that concerns me in many resort and urban locations is the amount of vacant commercial space and how that will affect the older functionally obsolescent motels. Normally, these properties would be suited for demolition and change of use to some type of retail or restaurant space that can afford a higher land cost than a hotel. It is hard now to determine who the buyers will be for these properties.

How much have commercial property values declined in resort areas as compared to rest of northeast?

The normal means of valuing a commercial property is by using a capitalization rate, a factor that is divided into the net operating income that is the cash flow before debt service that is generated by the property. This rate has increased some over the past year and a half, but not as much as one would expect. Because the current interest rates have stayed so low, that means values have dropped some-the bigger issue is the vacancy rate that needs to be applied to these commercial properties. A great loss of value is occurring due to the vacancies and therefore reduced cash flow. I

see this in almost every community in the northeast, everyone has this problem.

Reports say we have hit bottom? How hard was the ride?

I would say the resort lodging properties have seen the end of the revenue decline, and I think it will take a while before any substantial increases can be expected. In general, this is probably the worst recession I have seen in my 38 years in the real estate business. The late 1980s were very tough for the real estate industry and the lodging industry but this recession has affected everyone. So many people in any business are experiencing cash flow problems, another reason why I think it will take quite a while to recover. Another very important factor in the upcoming months will be the quality of the hotels or motels management and whether lodging properties create effective business plans, and marketing plans and carry out those plans accordingly.

What are the signs of recovery?

In the lodging industry I would say the first sign is the end of the revenue decline, and in talking with many of my clients throughout New England, that seems to be happening. Some markets have been hit harder than others but even those seem to have bottomed. It is still not pretty for many but there seems to be much more optimism evident with many hotel owners.

How have owners/corporations survived? Has the number of properties for sale risen or are folks riding out these tough times?

I represent a number of regional hotel companies who have grown significantly over the past 20 years. There has been a lot of consolidation in our industry which has helped many ride out this very difficult time. Cash flow seems to be tight for all, but, for the most part, lenders have worked well with many of their borrowers to work through tough times. Again, management is very important as the lenders want to feel comfortable that properties are being operated as effectively as they can in this environment.

How a property performs compared to its competition is extremely important. Actually, there are not more properties for sale than usual. Of course there are some for sale that are having trouble meeting cash flow but, it is really not a good time to sell because the values are down. However, we are seeing very strong buyer demand and there are a number of creative means to help put a sale together which maximizes an owners net sales proceeds.

We do have some properties under agreement to close soon at very favorable price for both the seller and the buyer.

What is your opinion about future predictions for the health of commercial real estate in this area?

Things will be still be shaky for a while but long-term the good locations, resort or urban markets should fare well, and already we are seeing different attitudes in prospective buyers. Up until now they were concerned how much revenue decline remained and how can a buyer make an educated decision to determine price. Now that the declines are ending there will be many more transactions and probably some very good opportunities for savvy buyers.

Earle Wason, CCIM, is president of Wason Associates Hospitality Real Estate Brokerage Group, Portsmouth, N.H.

Wason has been involved in commercial real estate industry for 34 years. He maintains an excellent relationship with some of the fastest growing hotel companies in the northeast, other New England commercial real estate brokers and New England hotel brokers. He holds the CCIM designation and

has held positions as the president of the New England CCIM chapter, the resident of the New Hampshire Commercial and Investment Division of the NH Association of Realtors.

He specializes in the structuring and management of all aspects of hospitality transactions and has brokered more than 130 hotel/motel and resort sales in the last 15 years. Several of Wason's initial clients had only one or two hotels when he began working with them, now these clients have up to 35 hotels. Wason takes pride in his very strong track record of confidential brokerage of hotel facilities and specializes in the structuring and management of all aspects of hospitality transactions.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540