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Another interesting and challenging year is coming to an end

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Another interesting and challenging year is coming to an end; in my July article in the New England Real Estate Journal I reported on some of the major market trends that were taking shape in the mid-year. A review of those trends included:

- *the transitioning out of the many older hotels such as exterior corridor hotels and interior corridor two story hotels;
- *the apparent bottoming of the hotel revenue drop with slight revenue improvements that seemed to take place after March of 2010;
- *the return of the REITS looking to purchase Hilton and Marriott products;
- * the slowdown of purchases by the Asian American market; and
- *the lack of demand for medium and small sized resort or transient properties that offer food and beverage operations.

Now that we are in December, there is a little clearer view of what the next year may present. The issues I discussed above are still very apparent and shortly I will outline some of our 2010 transactions that will substantiate these points. Further I believe very strongly that in 2011 brokers will have to enhance their "value added" services and exceed their client's expectations. Although all the aspects of traditional commercial brokerage remain relevant, much more will be expected in providing the services, advise and follow through required to complete transactions, help solve client problems and help clients move forward successfully in what will still be for many a very challenging market atmosphere.

Approximately two years ago, I realized that many hotels owned by clients, past customers and friends would soon be obsolete. I believed that these owners would soon be in need of advise and a program to solve the problem, "who will be the next owner?" We created a liaison with some local and regional developers believing that these older properties had the best locations in most markets and better uses would bring higher sales prices. As it turned out, my idea was in keeping with market conditions, but I was ahead of the curve as even the retail, franchise restaurants, automobile and apartment sectors were all having similar problems...no funding. Well finally this year we are seeing a change, we currently have two properties under agreement to close in early 2011, a large Inn in Manchester, Vermont and a large closed hotel on 14 acres of land in Southern N.H. that will have alternative uses. We have other redevelopment opportunities for sale and there has been very good activity on most of those as well. This is certainly one of the value added services that we have incorporated into our business plan.

Another key area seen in 2010 is the need to work with lenders to help our hotel clients. Initially we helped hospitality owners in negotiating forbearance agreements with lenders in cases where the current cash flows just couldn't be met. Our intent was twofold, one to convince the lender that a foreclosure was in no one's best interest, that the current value of the property had decreased and in

many cases below the current debt structure. Secondly, we helped owners devise new operating budgets designed to control expenses and generate better revenues with emphasis on more effectively increasing Revenue per available room (revpar). For some this worked and for others it did not. In the cases where it did not work we then convinced the lender to aggressively place the property on the market for sale with the intent of receiving the best price possible. This plan recently helped us complete the sale of a very well-known NH hospitality property where the final selling price was less than the debt (known as a short sale) but likely resulted in a much better selling price than if the property were taken to a foreclosure auction. We also recently provided assistance to a lender who had decided to discount a note on a fairly new hotel that was not reaching cash flow expectations. Fortunately, we have some very good clients that own multiple hotels and are structured such that they planned for economic downturns. They know that this creates opportunities and that "Cash is King." In this case, one of our clients was able to purchase a note at a fairly sizable discount and close the transaction in one week's time. I believe that one of the key reasons we have not seen the hotel market move into total disarray is due to a much different view from lenders as to how to handle troubled properties than that of the early 90s when foreclosures were prevalent and values plummeted.

Our firm was involved in a number of atypical transactions this year, but all in keeping with our "value added" services. Gary and Sandra Plourde have been living in South Africa for a number of years, both have hotel backgrounds and Gary was actually involved in upper management for three Starwood owned hotels. They have moved the family to Jackson N.H. where they invested funds in a joint venture with the Tolley family in the ownership of the beautiful 42 room Christmas Farm Inn and Spa. Gary and Sandra's goal is to own the Inn outright sometime in the next three years. Two very good hotel operators, Dustin Bulley and Brent Cole, originally from northern Maine, had purchased the Super 8 in Brattleboro through me a few years ago; this year we negotiated a very different type of management agreement on the Best Western Granite Inn in Nashua, N.H. They are the management team on site and cash flow is their responsibility, a type of a joint venture where Dustin and Brent will eventually be sole owners of the hotel. We were instrumental in helping the owner of the 89 room Highlander Inn and Conference Center in Manchester N.H. complete a sale of his hotel and approximately 35 acres of land to the Manchester Airport Authority. We were hired to sell the hotel only and had seen a great deal of activity when the Airport, which abuts the property, decided it was to their best interest to purchase the site in its entirety. This was not a typical transaction for our firm, but aggressive marketing and strong activity on the hotel helped the Highlander Inn owner finalize a very beneficial sale.

There are a number of other issues that are reshaping our business that I will get into at a later time, but the short of it is that we must adjust to the changing times. It is like the story of the railroads all over again, they forgot that they were in the Transportation business and did not adjust with the changing times, and for us in the hotel brokerage business it's time to clarify how we best service our clients and customers again in what is a very challenging time.

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Wason has brokered more than 150 hospitality transactions over the past 15 years and has fostered excellent relationships within the Northeast hotel industry. Wason has devoted a significant portion of his career to the commercial real estate industry and has held the CCIM designation since 1985.

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