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Earle Wason - Change is exponential like the death of the milk man and a successful restaurant chain

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It is about this time each year that I am invited to speak to a group of MBA students at the University of New Hampshire. The university has been an important part of my life and I met my wife Mary there when we students. This year's session took place a couple of weeks ago and it is always a fun event for me. I really like to talk about changes in business since my first experience working in my father's business and reviewing some of the changes that most often are not known to a student in their 20's.

I usually start off each class with a discussion about my father's company, he was in the milk and ice cream business and had over 100 trucks on the road each day delivering milk door to door. This was a very successful business in the 40's, 50's, and early 60's but he didn't see what was coming with the age of the supermarkets. His business included a very successful ice cream stand on Rte. 125 in Haverhill, Mass. near the Plaistow N.H. town line. I worked many weekends in my early teens scooping ice cream, we would have 7 windows open and lines up to 14 people or more at each window. Around 1965 when I was in college, I suggested to my father that he look in to buying some McDonald's franchises, his comment to me was "McDonald's will have come and gone and Wason MacDonald Milk Company will still be here" not only was he wrong but now on the site of the old Ice Cream stand is a McDonald's restaurant. Soon after the company closed I was hired as the manager of a Howard Johnson restaurant in North Conway N.H. I asked the UNH class if they had ever heard of Howard Johnson Restaurants and not one of them had, and it was one of the most successful restaurant chains of the past 50 years. Here are two really good examples of great businesses that did not adjust with the times, more about that a little later as it pertains to the hotel business.

There is one other story that I really like to tell in this class and this year the saga continues. In 1980 I was representing the owners of the Crestwood Motor Lodge on Rte. 16, North Conway, and was offering the hotel for sale for \$680,000. This was the Jimmy Carter years and the SBA interest rate was 2.75 points over the prime rate which at this time was 18.5%. I ran an advertisement in the Boston Sunday Globe with all the glowing details about this really nice resort property and the paper made a mistake and dropped a 0 on the price, it now read \$68,000. I thought that I would be on the phone all morning just taking calls but no, just one call and before I could tell him the price was wrong he asked: "is there any owner financing with the sale?" Unbelievable. Well it turned out the property was purchased two years later for \$1.6 million and the entire facility was torn down to construct a retail center which had second floor retail space. That used to be my entire story but there is a new twist. The anchor for the center was LL Bean and about a year ago they moved to a new location. The center is now vacant and a foreclosure auction was held in December. The highest bid from other than the lender was \$1.2 million. This is incredible to consider when it sold for

just the land value at \$1.6 million over 25 years ago. I know this is only one example but it still is indicative of the need to continually analyze how we conduct our business and adjust to rapidly changing requirements and consumer demands.

With the above issues in mind the hospitality business and the hotel brokerage business do not have a lot in common today as they were even back just 10 years ago. We know the Hospitality Real Estate Trusts (REITS) are buying hotels and driving prices on top brands, specifically Marriott and Hilton product. The REITS are really not much more than money brokers, they hire hotel management companies to manage the hotels, they hold for 5 to 7 years, and then sell for the reversion. I can see a time soon where a few REIT managers get in a room together and you might hear: "I will give you 3 Marriott Courtyards for 4 Hampton Inns and some cash." Real life monopoly. I think in the near future the problem though due to the strength of these brands will be the PIP requirements at time of sale; these brands will submit major requirements which in the long term could actually bring the values of the hotel down.

As to the rest of the hotel industry I believe most all know it has been a tough few years. The majority of our efforts have been working with lenders and owners to find buyers at what ever price works and then structure the transaction to get to closing; short sales, note write downs and note sales have been very common. Many forbearance agreements have been written but for these it just seems to push the problem forward to be addressed at a later date. The small Inn and motel business is really suffering both in revenue and in buyer demand; with some exceptions where there are "Barriers to Entry", many properties should be demolished and converted to other uses: Retail, office, restaurant.

Buyer demand for other hotel product is rebounding, and we have placed some hotels under agreement that are clearly arm lengths transactions that were the result of seller and buyer negotiation without the lender's influence. The first sign of a very positive outlook for the months ahead.

Change is exponential and like the death of the milk man and a successful restaurant chain and many other businesses that have been lost in the past 40 years, adjustments need to be made. Nothing is clearer in the hotel business than the consumers' demand for good product as shown by the success of the Marriott and Hilton brands and how they have separated themselves from the rest of the pack, both to the overnight guest and the hotel owner.

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