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Regional owners and local operators in general are optimistic about the upcoming year

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As I was preparing my notes for this article, New England Hotel Forecast 2013, it occurred to me that it was not an enviable task. Here, I am going to give some of my personal thoughts about likely hotel revenues, the transaction market and some trends that will likely affect 2013 and years to come.

As there are many differing market areas within the 6 New England States it is impossible to lump all hotels operating successes or disappointments into one category. I am fortunate that I speak often with regional hotel company owners and local hotel operators and in general most are optimistic about the upcoming year. In general many saw a 10% revenue increase in 2011 and that seems to be followed by another 10% revenue increase in 2012. Many travelers today are more confident that they will be able to maintain their employment and the large number of retiring "baby boomers" are set to become a very big part of the traveling public, both bode well for the hotel business. I expect that we will see the upward revenue trend continue in 2013.

The transaction market though is not so clear. My company, Wason Associates Hospitality Group had a good year in 2012, not great, but an improvement from 2011, which saw an improvement from 2010. We do believe that based upon current activity that we should see continued growth in 2013; however, there are a number of unknowns that could come into play. The first is the increase in the capital gains tax and the Obama Care Real Estate gain tax. Affectively the (state and federal) tax has increased from 20%+/- to 30%+/- depending upon which state you are located. I spoke with a client last week whose tax would now increase from \$275,000 upon sale in 2012 to close to \$450,000 in 2013. This will likely effect the "sell now versus hold" decisions of many hotel owners. Secondly, there is a low inventory of good hotel product throughout the region at the current time and buyer demand has been increasing at a rapid rate. Normally this would put some pressure on pricing but for the most part this has not happened yet except maybe for the high quality franchise and boutique properties. Certainly it is not yet affecting pricing in the mid-tier limited service hotels. The good news is that if you have a hotel and want to sell it the demand is there and if the price works based upon the current financials there are buyers and there are lenders to get a deal done. Interest rates are still very favorable and capitalization rates have remained low and it does not look like this should change for a while yet.

About 4 years ago it occurred to me that there were a lot of hotels that were ready for a bull dozer. Some of those have come down or have closed but nowhere to the degree that I expected. I see that as a change in 2013. We are marketing properties that meet these criteria and we are in discussions with a number of real estate developers who are looking for retail, office and apartment sites. Remember many of our older hotels had the best locations and those locations have land value, in most cases, that is greater than the price that can be paid by a hotel company for new

construction. This leads to a likely expansion of new hotel construction.

Some other trends to watch:

- * A surge in demand for high quality boutique non franchised hotels
- * A continued jump in investor interest which at some point will further push pricing higher
- * Return of private equity funds and REITS
- * Supply of available properties, will it be strong enough to satisfy the buyer demand
- * And as already discussed the increase in the capital gain taxes and the Obama Health care tax

We enter 2013 with some of the same issues and questions that we faced in 2011 and 2012; the one difference for the brokerage industry is the reduction in foreclosed hotels and availability of short sales. This has actually led to the current limited supply of hotels for sale. Certainly compared to the last few years' optimism now prevails and I wish all success in 2013.

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