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55 YEARS

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## **Well operated New England hotels enjoyed another very good year, and I remain optimistic - by Earle Wasson**

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For the second year in a row I have the opportunity to consider the New Year's forecast for the Hospitality Industry here in New England. Last year at this time it was just before the inauguration of President Trump and there were a lot of unanswered questions. As it turns out we are watching our economy grow, stock market hitting records and hotel revenues have been benefitting by it. Well operated hotels throughout New England enjoyed another very good year in 2017. Therefore as I have been for the past four or five years, and correctly so, I remain optimistic for our industry.

**HOTEL TRANSACTIONS:** Last year I felt the hotel transitions market would not be on as strong a footing. I thought this not to be due to the economy in general but a lot of things at play in the industry here in New England. As it turned out there were less hotels for sale in 2017 but still some very significant transactions such as the Apple REIT purchase of the Residence Inn Portland, Maine for around \$331,000 per key and the Hilton Garden Inn in Portsmouth to Chatham Lodging Trust for \$45 million.

There is still a lack of hotels for sale and a lot of buyers with a lot of money chasing deals. That means there should be some more high-end hotel sales and some pressure to see lower capitalization rates in general. Hotel owners are getting very good returns on their investment, so no need to sell; some owners were hoping for a reduction in the capital gain tax but a major change did not materialize, unfortunately, as I think that would have created more sale activity. There are number of older hotels sold in the last boom that now have mortgage balances at or above the value of their properties, a little more on that later in this article.

**OLDER HOTELS:** No new changes here, older hotels are becoming more difficult to sell, especially exterior corridor hotels or the larger two story interior corridor hotels. The new concern is that many Franchises are not renewing agreements. This usually means an owner has to renew with a lower brand; probably the prime example today is the number of Comfort Inns that are renewing as Quality Inn, many first generation Residence Inns, Hampton Inns and Fairfield Inns as an example have the

similar problem.

**COST OF NEW CONSTRUCTION:** The cost for new construction is going through the roof but still new hotels will be built especially with the push for new brands. There are so many brands now that it is impossible to know them all. Hilton is now pushing its new Brand “Tru” and more Home2 Suites are under construction. Choice is really making a strong effort to grow the Ascend Brand as “a collection of one of a kind upscale hotels”, (one of many Soft Brands), Hyatt now includes: “Centric” and Andaz” and the list goes on. All of which again will affect the older hotels.

The cost of construction will also have another continued affect as it did in 2017. Many companies are now looking to find well-built 3 to 6 story hotels that can be purchased in the \$60,000 to \$70,000 a key range. The idea is to put another \$20,000 or more per room into the property and have a good quality property for much less than new construction. These opportunities will also allow the operator to monitor their room rates to below the new hotels room rates and thus compete very effectively.

**BOUTIQUE HOTELS:** Another hotel segment to watch in 2018 is the continued growth of boutique hotels, both through new construction and redevelopment. There are now some very good companies based in New England that are actively seeking opportunities and bring with them great business plans to improve or build properties with well-defined business strategies.

One really excellent example is our recent sale of the Downtowner Motel in Saratoga Springs, N.Y. Located in one of the best locations on the Main St. and with parking this 44 room property purchased for \$100,000 a room will have a major renovation to create an impressive independent boutique hotel.

**THE NEW YEAR:** I am really looking forward to the New Year; to see what it will bring and continue my company’s business model. We tend to be very creative in structuring hotel transactions that range greatly in value. Our model is to represent owners of hotels where the value can be justified by the income stream or by improving the product and operation so that it then can be justified by the income stream. We are starting the year off really strong with six properties already under agreement and scheduled to close in 2018.

Happy New Year and may it be a good one for everyone in the hotel business.

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