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## **Let's just let the American people do their thing and not worry about all the craziness - by Earle Wason**

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For the third year in a row I have the opportunity to consider the New Year's forecast for the hospitality industry here in New England. In preparing for writing this article I reviewed my last two years and my expectations for the year ahead for both years were consistent and in line with my thinking. We were all watching our economy grow, stock market hitting record highs and hotel revenues benefitting by it. Well operated hotels throughout New England enjoyed very good years in 2017 and 2018.

I am sure all of you were told in your early sales classes to never discuss, religion or politics and today I am going to add to that the stock market. All three of these could affect the hotel industry in 2019. I have decided to just not think about it. It seems that most of my contemporaries agree. Lets just let the American citizens do there thing and not worry about all the craziness.

Therefore, I do think the hotel industry in New England will continue to do well in 2019. There continues to be a lack of hotels for sale and a lot of buyers with a lot of money chasing deals. That means high-end hotel sales will continue, the biggest adjustment is the effect of increasing interest rates and then some pressure to see slightly higher capitalization rates. The need to sell has decreased as hotel owners are getting very good returns on their investment, there are many more long-term holders and there is continued consolidation in the industry. One item of note that due to the demand for new product some hotel developers/ operators have found buyers for their newer hotels in a relatively short period of time so have created an opportunity to create a very good return in a short time frame. This may be more the case where the developer has other investors involved and who can have a substantial cash on cash return in a very short time frame. There are still number of older hotels but for those with interior corridors and lower mid-market to economy brand are actually doing better in the current market. A prime example of that is the Quality Inn in Worcester which we are currently marketing for sale. Due to the increase of new and higher end hotels in Worcester, the Quality Inn is now able to maintain a fairly high room rate but still be well

under the competition. I think there are many other markets where this is also true.

Costo of New Construction: Last year I thought the cost for new construction was going through the roof, but it seems the roof was raised, and costs are now even higher; new hotels will be still built especially with the push for new brands. There are so many brands now that it is impossible to know them all. I do think that building in tertiary markets will slow down, hard to justify 80+ rooms at \$180,000 a key when the revenues in these markets has not grown enough.

The cost of construction will also have another continued affect as it did in 2017 and 2018. 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 ideas 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 active in 2018 is the 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.

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 with several sales to take place soon in 2019, this includes a 200 room franchised hotel, 115 room franchised hotel, 140 room resort hotel, 30 acre waterfront resort and 50 room independent hotel.

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

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