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The hotel industry in New England will continue to do well through 2019 - by Earle Wason

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As expected the hotel industry in New England will continue to do well through 2019. We are enjoying the longest economic expansion of my 46 year career in the real estate business. The question asked so often is "How much longer can this last?" I have heard a lot of guessing on this subject but expect that it will be difficult to predict.

One of the major problems facing the hospitality industry and therefore the U.S. economy is the lack of people to work, some hotel properties cannot operate all their rooms as for a lack of housekeepers. Managers are making beds, working the front desk and will hire most anyone who walks in the front door looking for a job.

The restaurant industry is also really feeling this problem, not enough line cooks, dish washers and waitresses, areas of the dining room need to be closed or in one case a restaurant in Maine closed on Saturday and Sunday and others are just closing the doors.

The H2B program which has been so beneficial has been seriously curtailed. This has to change. In total, this year owners made requests for 108,000 H2B seasonal workers for the upcoming summer and fall seasons, total approved was 35,000, and then in June another 14,000. I spoke with one other owner who has had the same Jamaicans each season for a number of years. These people know his clients and were a significant help in maintaining his business. This year he was told they would not be approved to enter the states. He does not know how he will be able to provide his normal services.

This is "above my pay grade," but could a recessionary period be brought on as a result of not having enough people to fill all the positions that have opened or will be opening in the near term?

Immigration is currently a "hot bed discussion" in Washington D.C. politics. Some may believe that the HB 2' and J-1's are taking good paying jobs from Americans but that is just not true. As our

economy continues to grow and as families in the United States are having less children, continued growth in legal immigration will play a key role. This will be especially so in the hospitality field, we will need dishwashers, maintenance men/women, front desk staff and more.

The transaction market in the hotel sector has again been very active. We are in the middle of one of our best years ever with more sales to close and more hotels likely to be placed under agreement. We have even seen some 5.9% capitalization rates, unheard of just a few years ago. There are still a number of older hotels that are performing well including those with two-story interior corridors and lower mid-market to economy brands. Due to the increase of new and higher end hotels built throughout New England the lower brands can maintain a fairly high room rate but still be well under the competition.

The reason for this is that new construction costs are high and must acquire a higher room rate, however, 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 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 lower than the new hotels room rates and thus compete very effectively.

I am really looking forward to continue my company's business model and success for the balance of 2019 and well into 2020. 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.

Have a great and profitable summer/fall season.

Earle Wason, CCIM, author of "Buying Smart in a Tough Economy" is president and owner of Wason Associates Hospitality Real Estate Brokerage Group, Portsmouth, NH.

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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