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The hotel industry in New England will continue to do well in 2020 - by Earle Wason

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For the fourth year in a row I have the opportunity to consider the New Year's forecast for the hospitality industry here in New England for 2020 for the New England Real Estate Journal. It is interesting to note that last year's article was headed: "Let's just let the American people do their thing and not worry about the craziness". If you consider that to be a prediction, I hit it right on the head, except it got even crazier than anyone could have expected: Impeachment? I have reviewed my last three years articles and my expectations for the year ahead is consistent and in line with my thinking from the previous years. We have all been 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, 2018, and 2019.

As I stated last year, in our early sales classes we were told to never discuss, religion or politics and now we have added the stock market. Except to say that it has had a spectacular run. All three of these could affect the hotel industry in 2020. I believe the proper path is to keep our business plans in place, provide quality properties and quality service and all should continue to prosper. In consideration of what we see in Washington I am reminded of one of George Carlin's quotes: "If you think life is anything more than pure entertainment you are missing the point".

Therefore, the hotel industry in New England will continue to do well in 2020. As the case last year, 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, I did believe last year that we might see increasing interest rates and some pressure to see slightly higher capitalization rates, that never really materialized and as of this date it looks like that will continue. 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. There are still a number of older hotels but for those with interior corridors and lower mid-market to economy brands are doing better in the current market. I think there are many markets where this is true and the new trend of dual branded older hotels with one lobby and one front desk will extend the life of many. My big concern heading

into the new year is the number of urban and smaller urban markets where new construction of hotels is expanding to a point where there is great potential to see these areas overbuilt, which could in turn pave the way for lower room rates which are at all time levels in many of these markets.

The following is from last year's article and is still appropriate for today's discussion:

Cost 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 effect as it has in the past three years. Many companies are now looking to find well-built three to six 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: This segment was active in 2019 and is one of the growth models for many existing and new companies. This appears to be the case both through redevelopment and now also in new construction. 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 of the most prominent of which is the redevelopment of the Cliff House in York, ME.

The New Year: I am very excited about the New Year, an election year that could be full of surprises but still another great year ahead for the hotel business. For my companies' part we already have some very good properties under agreement, and it looks like a year where we will benefit from the stronger demand for boutique hotels and resort inns. The regional hotel companies will continue to be players, the new dual branded franchise hotels will come more into play and we will get a glimpse of the overall effect of many of the new targeted franchise brands.

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

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