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Here we are, and as businesspeople in the hospitality industry - we must adapt - by Earle Wason

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Earle Wason

To all my hospitality real estate friends and colleagues, please know I am really flying from the seat of my pants as I write this article. Far from being a prognosticator-that would take divine intervention, my only goal here is to provide a few thoughts as I reflect on recent events. I begin with the obvious, none of us have ever seen a time like this, the hospitality industry has been shut down by a virus. I will leave it to history to judge whether the actions and policies of our medical and political leaders were the right ones. But here we are, and as business people, we must adapt.

As Mark Cuban so aptly put it, we do not know what “is on the other side.”

I have recently seen several charts and data arrays from some of the country’s largest generators of hotel statistics as to what they estimate average daily rate, occupancy and revenue per available room will look like in 2021. As you expect, none of it looks very good. I discount these projections, not so much because I want to see the glass half full, but rather because I understand that these analytics necessarily have a lot of guess work behind them. We simply do not know what it is going to be like.

Testing and a future vaccine will make all the difference. I remember polio from the 1950s, a very scary time until Jonathan Salk appeared and then polio was gone.

Do we need to change our business models? Yes, probably on the short term and with that some long-term changes will result. Hotel cleaning will be more important than ever before, maybe adopt the airlines model. Social distancing at the lobby counter, possibly taking temperatures, less seating in dining rooms, the list goes on and on, but no one should expect it will be the same.

We are now seeing states open-up, Georgia and South Carolina this week. Florida never required closing hotels. Yet the governor of Maine on April 28th, declared all hotels to be closed until July 1st. A state that totally relies on the hospitality industry. I can only say what was she thinking?

For sure there is an all-out presence of the major hotel companies in Maine to combat this decree and there should be. It is my hope in talking with a number of these hoteliers that pressure on the governor will allow her to rethink her policies in this regard.

On a very positive note, it was announced that senator Susan Collins from Maine spearheaded the effort to make a very needed change to the PPP (Payroll Protection Plan). As of now seasonal hotels and restaurants can use the PPP for any 12 consecutive weeks starting on May 1st, through to September 15th. This will be a great help to the larger hotels operating in communities such as Bar Harbor Maine or Boothbay Harbor Maine. The PPP program has almost been a bust for the hospitality industry. First, most of these properties are closed and do not have a reason to bring back staff. Secondly when they do open many of the previous staff may balk at coming in. The average hospitality worker because of the extra \$600 per week is receiving just under \$1,000 per

week. This will continue to the end of July. It may be a boom to the unemployed now but good luck finding work at the end of July. I have already discussed this with hospitality owners and most of them are restructuring their business plan so they will not need as much staffing. Hospitality operators know well what a problem staffing was before the virus. There was virtually no one to work, that will likely change.

More broadly, it is my view that we have let the Chinese off the hook for too many years. China has taken our intellectual property either by forced technology transfer or by outright theft. We ceded to the Chinese the manufacture of not only commodity-type products but also our most critical supply chain items such as important medications and rare earth metals. Surely, they kept the virus concealed for much too long. They should have to pay. The United States owes the Chinese \$1.3 trillion, not paying it, unfortunately, is not a good alternative. I suspect we will see more manufacturing come back to the U.S., likely higher prices for products but really good news for the hospitality industry.

Immigration: We need more immigration, not less, if it is legal immigration. The scholars from foreign countries who are educated in the United States in fields such as medicine, engineering, and technology should be allowed to stay here if they wish. More immigrants will be needed to fill manufacturing and hospitality jobs. We need to bring some basic manufacturing back to the U.S., labor will be more costly, prices will increase but in the long run the United States will be much better for it and the hospitality industry will benefit as well. Other policies for bringing workers on short term stays such as J-1 Visa's, and the HB2 program need to be enhanced and numbers increased as the economy returns.

As to the current hotel brokerage business we are in for some "rough sledding." My firm had two significantly sized hotels under agreement when the virus started. They are both still under agreement, but closings have been pushed out. Still no clear idea if they will close. I also had two agreed upon letters of intent for properties in the \$6.5 to \$9.5 million range when the virus hit. Neither have been signed. We are still receiving some inquiries from buyers, the biggest hurdle coming, financing and appraisals. I am not sure a true appraisal of value can be made at the current time. Let us all just hope for the best.

Enough of my thoughts, I hope I did not ruffle anyone's feathers, but I believe strongly that better days are not that far away.

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.