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Review of the market and industry and observations as to where we might be going - by Earle Wason

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It appears the current mantra of all my friend's and clients in the hospitality industry: " Do everything I can to survive until next May or June and hope that there is serious improvement in the fight against COVID-19 and an economy on the rise."

On that note I am going to review what I have seen in the market and industry and make some observations as to where we might go from here.

I would believe that all know that the CMBS market is the elephant in the room. We will see several hotel auctions or call for offer programs, the \$64,000 question is "How much of a discount in value will result?" Interesting that the recent sale of the Hotel Commonwealth in Boston sold at \$23 million less than it was purchased, a discount yes; but not at a great percentage reduction as I would have imagined. Hopefully that will be a sign of what is to come as we all know that the larger the discounts the lower the new room rates will be and therefore affect all other hotels room rates and hotel values.

I have heard numerous positive stories about how the traditional lenders have cooperated with current owners to reschedule payments, place payments or portion of payments in abeyance and be creative in allowing the borrower to realize a means to move though this current COVID-19 crisis. Also, many hotels in the past few years have been financed with the SBA 504 program. This is normally 30% to 35% of the sales price behind a first mortgage of 50% provided by a lender. The SBA has been very open to helping those with loans as well.

Hotel, resort, and motel sales activity has certainly reduced significantly however, some sales are still being conducted. Our company closed a couple of very good sales in June, well after the COVID-19 became an issue and I am aware of others. We are receiving a decent amount of inquiries. Not much for urban and suburban hotels at this time but very strong interest in smaller more remote destination locations and these inquires are from both owner operators (as let's get out of the city) and well known companies that feel the higher end Resort properties will be ok and the

first to come back strong. In that regard many properties in New Hampshire hit higher or equal revenues for the 5 months beginning in June. I think this had much to do with the severe restrictions placed in Vermont and Maine. This is likely to be the case this winter as well. Vermont has put a restriction on skiers from out of state who must quarantine for 14 days in the State of Vermont before they can go to a ski area.

A comparison of COVID-19 cases in the three Northern New England States (the three New England States with the least cases and least deaths) indicates the following:

- New Hampshire: 20,480 cases; 526 deaths
- Maine: 11,508 cases; 191 deaths;
- Vermont: 4,100 cases; 67 deaths.

A vast majority of the COVID-19 deaths in New Hampshire were individuals in nursing or assisted living communities. However, these numbers and the different rules placed by each Governor are open for debate. The economy of NH, especially the hospitality industry is far better than Maine and Vermont's. I do not take a position on this, and I will let you be the judge.

Staffing problems; all New England hospitality properties feel the lack of employees. Many restaurants are now closing two or three days a week because they cannot find the staff. I heard from many hotel owners who could not sell rooms because they could not get them cleaned. My personal belief is that the extra \$600 a week given to unemployed played a big hand in this but also the restrictions on the HB2 and J-1 programs played a role. Hospitality workers' wages must move up and maybe significantly so. What does this mean? Room rates and restaurant menu items prices must go up which means less rooms sold and less customers in the restaurant but it has to happen; adjustments made in what is offered and review with likely changes to the current business models.

What can we expect over the next few months? First and probably foremost is my earlier topic; the CMBS market, this will be very telling as it starts to roll out. Socially distancing will be primary until most Americans can be vaccinated. One sector to benefit will be those who have properties marketed in Air B&B and the like. Families can spend a few days in many resort areas and not have to be in common areas or among other guests. Air B&B just sold for mega dollars, so it is probably here to stay. It has created numerous issues in resort communities and those towns are trying to develop systems to regulate or close them down permanently which could be a real rights issue. New services in hotels and Inns; one I found intriguing was to have a small separate room where couples could be offered private dining. I do think that hotels that offer food and beverage have a great deal of opportunities to reinvent how they operate and what they offer.

Some hotels will have to re-purpose for adaptive reuse. We are involved in two such properties now. One small waterfront resort will be demolished to build a high-end residential development. The other a 100 room recently renovated hotel is to be converted to an Alcohol Recovery center. We also had a sale of a 34-room indoor resort facility that was converted to a center to help recovered

addicts become members of the community again.

We are headed toward a new normal, but it requires time and patience before “it can be clearly defined.”

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