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Hospitality business is in survival mode and must do all that can be done to stay in business - by Earle Wason

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For the fourth year in review, I have the opportunity to consider the New Year Forecast for the hospitality business in New England. In reviewing my articles written in 2018 and 2019 I am proud to say that most of what was anticipated came to fruition. However, I missed big time for 2020. Of course, I am not alone in that regard as we could never have forecast the effects of COVID-19. At this point it is best to not say much about 2020 and move on. Currently all my friends and clients in the New England hospitality business are in survival mode and must do all that can be done to stay in business and to reach May or June of 2021. Hopefully by then the vaccine and an economy on the rise will benefit all.

Clearly the urban and suburban hotels that cater to groups and the commercial traveler have been affected the most by the pandemic and that is likely to continue as that is the sector to have the longest recovery period. Resort destination hotels were the first to improve and that trend will continue although many state mandates are not making that easy. New Hampshire is probably in the best condition as the governor, in my opinion, has handled the virus the best of any of the New England states and allowed an economy to be better than what might have been expected. The summer and fall resorts in New Hampshire all had years approximating the same period in 2019 and the ski resorts are doing o.k. but nowhere near their normal level of skier visits. I do believe though that a lot of vacation owners in Maine, New Hampshire, Vermont, and Western Massachusetts have moved into their homes on a temporary basis. I have heard stories about children in local schools who may have lived in New York or the southern New England states.

On that note I will 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?” So far from what activity we have been able to create and from what I have been told from hotel appraisers, it appears that 20% to 25% discount from 2019 value levels is the norm.

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 obedience and be creative in allowing the borrower to realize a means to move through 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.

Some hotel, resort, and motel sales will take place but at a much lower volume than years past. 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 number of inquiries. Most of the interest is in more remote destination locations and these inquiries are from both owner operators (as let us get out of the city) and well-known companies that feel the higher-end resort properties will be o.k. and the first to come back strong.

Staffing problems in all New England hospitality properties will continue. 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, which is likely now to be increased, 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.

We can expect over the next few months the CMBS financed hotels to become available for sale, this will be very telling as it starts to roll out, thankfully there are not too many CMBS financed hotels in New England as compared to other states. Social distancing will be primary until most Americans can be vaccinated. Properties marketed in Airbnb and the like will continue to benefit as families can spend a few days in many resort areas and not have to be in common areas or among other guests. Airbnb just sold for mega dollars, so it is probably here to stay. New services will be offered in hotels and inns, and of course cleanliness will be a priority. Some hotels will have to repurpose for adaptive reuse and others will be demolished as the land values exceed the value of the income stream in older hotels.

We are headed toward a new normal, some aspects of our economy will not be the same, certainly retail and office space will continue to feel pressure; zoom calls are here to stay. Each of these will have effects on the hotel business. All hotel owners, resort inn owners, and motel owners will now have to take the time to review and adapt to create a new business model.

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