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Resort destination hotels first to improve and that trend will continue as state mandates are eased - by Earle Wason

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Earle Wason

What a difference a few months have made since my last article for the New England Real Estate Journal in January 2021. Our brokerage business has been as active as I have seen for a long while. My firm, Wason Associates, has had a business model unlike many other hotel brokerage firms and it is paying dividends for us at this time. Our niche includes several of the resort markets throughout New England and that has been where the greatest demand has been in the northeast. It has been interesting to receive so many calls from private equity groups looking for upscale destination resorts who have a lot of money to chase good solid hotel opportunities in resort locations. This began early in the year, especially in New Hampshire where governor Sununu has done such a great job in managing the COVID-19 pandemic. We were one of the first to start opening and although most hotels were closed from March to June many in New Hampshire had very solid years, the summer and fall were very strong, and the ski season did not disappoint. As a result, we have several hotels and resort inns changing title over the next few months, and activity in other states is improving.

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 as other state mandates are eased.

As I have written before, the CMBS market is the “elephant in the room”. We will see several hotel auctions or call for offer programs, the question is “How much of a discount in value will result?”. Too early to tell at this juncture.

Lenders such as regional and local banks are anxious to place funds again. They are willing to look at 2019 as a benchmark, again though New Hampshire resorts fared well in 2020.

In January I wrote hotel, resort, and motel sales will take place but at a much lower volume than years past. I was wrong as resort sales have flourished. The interest is in 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 ok and the first to come back strong.

One key area where there is no change from January is the continuing staffing problems in all New England hospitality properties. Many restaurants are now closing two or three days a week because they cannot find the staff. I have heard from many hotel owners who are concerned that some rooms will remain vacant as there is not enough staff to get them cleaned. My personal belief is that the extra \$300 a week given to the 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 likely changes to the current business models.

As a Realtor who has specialized in hotel sales for many years, I need to express my concerns about the President's tax plans. He states that he plans on significantly increasing the capital gains tax, elimination of the 1031 Tax Deferred Exchange and elimination of the increase in basis to fair market value at the time of a person's death. These changes will be "earth shaking" if adopted. As to capital gains an increase will mean less sales and longer holding periods, less sales means a lot of lost ordinary income and related taxes paid by the brokers, the attorneys, the title companies, the lenders, the surveyors, engineers, and others. This will be a regressive tax. Of course, elimination of the tax deferred exchange will have the same effect, less sales and longer holding periods. Elimination of the "step up in basis" will create double taxation and especially damming to those estates that need to sell to pay the estate tax.

Many 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. In January I wrote "All hotel owners, resort inn owners, motel owners will now have to take the time to review and adapt to create a new business model". This has not changed.

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