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The summer travel “boom” helps but there are still challenges in the New England hotel market - by Jim Luchars

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Jim Luchars

March and April feel like a long time ago. Massachusetts lagged in the vaccine roll-out and there was still a lot of uncertainty around COVID throughout New England. Now many hotels and resorts are enjoying the busiest summer season they have seen in decades. Leisure destinations from the Cape to the islands to Maine and New Hampshire are thriving and, in many instances, hotels are having to turn away demand. That's right, just a few months after wondering if demand would ever recover, it is hard to find a room in many markets. Why is this pent-up demand so robust? A lot of wealth was preserved through the crisis and, prior to COVID, the economy was strong with travel thriving and airport activity at all-time highs. The resilience of the stock market through the pandemic and increased home equity, fueled by a white-hot housing market, has resulted in an unprecedented amount of disposable income and pent-up leisure demand. People are ready to spend and, for the right get-away, they don't seem very price sensitive. A simple rate shop for a mid-June weekend in Portland, ME and Newport, RI found rates above consistently \$500/night for standard, not luxury, accommodations! VRBO and Airbnb are also experiencing record book trends.

This all bodes well for owners of leisure properties but also comes with challenges. It is impossible to find staff. Feedback from several owners reflect an extreme situation which, in some cases, means the inability to sell all their room inventory and limitations on re-opening bars and restaurants given the shortage in housekeeping and food and beverage labor. Seasonal resorts in New England and elsewhere are also struggling with the limited availability in H-2B employees that historically have been a crucial resource during the summer peak season. It may be the best market in years for high school and college kids to find temporary jobs in the service industry. Other compounding factors to the labor situation are the extended unemployment benefits and overall taint that the hospitality business has experienced through COVID. Many associates are burnt out and some left the industry entirely for jobs in healthcare and other sectors. It will take a huge, collective effort on behalf of our entire industry to overcome this challenge.

Aside from the spike in leisure demand, the balance of demand recovery is spotty in Boston and other New England markets that historically have relied on midweek corporate business. Most of the airport and travel activity is leisure driven but there are signs of some business recovery. In some Stonebridge hotels, we are starting to see project-based travel as well as bookings related to training and sales. The volume is still very limited but it is hopefully an indication of a broader trend heading into the early Fall months. Boston sub-markets like Waltham and the financial district/North Station will continue to really struggle until this segment of demand returns.

As in most cycles, group demand driven by citywide conventions and large events hosted by headquarter hotels will be the last segment to fuel the recovery. Larger conventions book in three to four year cycles with long lead times on room blocks and it will take at least two years for these bookings to reset to close to normal patterns. From most urban hotel owners, group demand is really important as it creates compression periods where sellout nights can be anticipated and operators can maximize revenues. This does not exist in the current demand mix where booking lead times are very short and can be impacted by weather.

With sporadic demand patterns and labor challenges, how are hotel owners navigating this bumpy recovery? There is a lot of discussion with the brands (Marriott, Hilton etc) around the hotel operating model, particularly whether it is necessary to return to the standard daily housekeeping model. Many owners are arguing that daily housekeeping service should be “opt-in” for guests subject to paying a small fee for the service, similar to how the airlines now charge a la carte for everything. Given that many “Green” housekeeping initiatives were being implemented pre-COVID, the opt-in/pay program seems like a logical next step coming out of the pandemic and frankly will help owners retain the viability of their businesses. The debate on this continues and it is good that the brands, who control brand standards through their franchise license agreements, are listening and trying to work with owners on making some important changes to the operating model.

One final silver lining for hotel owners is that COVID has certainly curtailed the pipeline of new projects for at least the next two to three years. There are still many projects that were under construction at the beginning of the pandemic that will be delivered but very few new projects are moving forward. In addition, some hotels in cities have yet to re-open and some have converted to alternative uses. Less new supply and reduced inventory will benefit hotels coming out of the downturn.

The New England hotel business continues to face a very challenging next twelve months but hopefully the worst is behind us. Working with brand and lender partners will continue to be key aspects towards a healthy recovery.

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Prior to joining Stonebridge, Luchars was a principal at AEW Capital Management overseeing all hotel investments.

Luchars has over 25 years of experience in the hotel business and commercial real estate. Founded in 1991 by Navin Dimond, Stonebridge is a privately owned, innovative hotel development and hospitality management company. They manage a portfolio of 45 hotels across the United States, and provide investor opportunities, hotel development services, hotel management services, and hospitality career opportunities to our partners and associates. Currently, their hotel portfolio is comprised of 7,000 guest rooms across multiple select-service, extended stay, mid-scale, and full-service hotel brands located in primary and secondary markets.

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