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It would be great to have a crystal ball - Earle Wason

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Earle Wason

In process of writing this article I spent some time reading the articles I have written for the New England Real Estate Journal over the past three years. What a “Roller Coaster Ride”. In my last year’s article for” Mid-Year Review” I ended by writing “I see huge pent-up demand for travelers once we do recover from the pandemic and I truly believe we will see the V-shaped curve we hear about”. Yes, I was right about the pent-up demand and travelers have inundated destination resorts through out New England in 2021, however, some destination resorts did very well starting in June 2020 and on into the ski season. Some properties, although closed for three months did almost as much volume as in 2019. Destination resorts are back hence the V-shape curve and doing even better than in 2019. Unfortunately, this is not the same for many urban and suburban hotels, especially those that rely heavily on conferences and large meetings. I actually read a report yesterday suggesting that those hotels will not be back to 2019 levels until 2023.

Peter Annon, CPA, and Joe Cardillo, broker associate, joined with me about 16 years ago to form Wason Associates Hospitality Real Estate Brokerage Group. Our business model was different than many of the other hotel brokerage firms, as much emphasis was placed on destination locations, a wider range of property values while still being effective in the brokerage of mid-market hotels. As a result, we have sold numerous resort inns, boutique hotels and larger motels. Little would I have believed it at the beginning of year but 2021 will be the best year our company has had since its inception. The demand for destination locations and the amounts of money available is unprecedented. We have several hotels to transfer title over the next few weeks, some which never really hit the market. So now our problem is finding inventory. Which is interesting as there is not much for sale in New England no matter the market. Hotels in urban and suburban locations that are still reeling from the pandemic would not currently have the value of the past and therefore most owners are doing whatever is necessary to hold on. The default list for the CMBS market has been growing which I believe has more to do with those hotels not meeting the Debt Coverage Ratio required. I know of hotels on the list where owners continue to make the mortgage payment but are not meeting the covenant. I am not sure how this will all shake out.

Boutique Hotels: Another hotel segment active is the growth of boutique hotels, both through new construction and redevelopment. There are now some very good companies based in New England that are actively seeking opportunities and bring with them great business plans to improve or build properties with well-defined business strategies.

Cost of New Construction: For the past two years I thought the cost for new construction was going through the roof, but it seems the roof was raised, and costs are now even higher; new hotels will still be built especially with the push for new brands. There are so many brands now that it is impossible to know them all. I do think that building in tertiary markets will ease considerably from 2019 levels.

I have heard that materials prices which were sky high a few months ago are starting to recede but there is a long way to go. When a 2x4 is $9.00 and one sheet of plywood is $90, it becomes hard to justify the purchase.

Many companies are now looking to find well-built 3 to 6 story hotels that can be purchased in the $35,000 to $70,000 a key range. The idea is to put another $20,000 or more per room into the property and have a good quality property for much less than new construction. These opportunities will also allow the operator to monitor their room rates to below the new hotels room rates and thus compete very effectively.

Lack of Staff: I saved this for my last topic. The lack of workers for the hospitality industry is reaching a breaking point. Hotels are, in many cases, unable to sell rooms because they do not have the housekeepers to clean all the rooms. Restaurants are closing one or two days a week which in the summer, when business is the strongest, will reduce revenue significantly and make it harder to have the cash flow to make it through the winter. I have seen numerous Dunkin' Donuts locations that close at 2 pm as there is no staff to remain open. Everyone in the hospitality business is aware of this major problem and it appears now it is happening in many other industries as well. It is great to know there is a problem, now how can it be solved? All of us should be continually providing information about this to our senators, congressmen, and women. It seems that Washington either does not get the problem and or wants to do nothing about it. The first obvious change would be to increase the J-1 and HB 2 visas allowed. Another might be to have more stringent requirements for the unemployed to verify that they are trying to find work, just as governor Sununu has done in New Hampshire. Increase our vocational schools and recognize not everyone should go to college and encourage those that would be good chefs, cooks, and other hospitality positions to be educated properly.

In the end, it always would be great to have a crystal ball, but I am beginning to see new business models to adjust to the labor shortage and adjustments will be further needed to adjust to higher wages and higher cost of goods. As always there are interesting times ahead.

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