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Leisure markets save the day for the hotel industry - by James O'Connell

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The leisure transient and leisure group segments saved our hospitality industry from disaster this summer. After a historically tough twelve months, families hit the road and gave hoteliers the boost that they needed! We have October and fall foliage to rely on but then it's anyone's guess when corporate demand will kick back in and allow our hotel industry to get back to pre-pandemic levels. The "Drive To" markets were incredibly strong. The coast of Maine, the White Mountains, Cape Cod, Newport, Burlington, Portsmouth and Portland all reported performances that were better than 2019. Hartford, Boston and inside Route 128 remained in the doldrums.

The COVID year of 2020 is a lost year that is erased from almost every hotel valuation. The common theme for valuing hotels throughout 2021 was to price off of 2019 and debate when performances would return to 19' levels. Would there be a return for corporate transient and corporate group business in 21'? Or would groups return in 22'? When do you expect the next Boston Citywide Sellout for an "in person" convention?

There are four legs to the "Table of Demand." In Boston, we prided ourselves on having all four solid legs. Corporate Transient was supported by a strong financial and health care sector base. Corporate Group was a fixture with Boston being a nationally preferred convention venue at least ten months of the year. Leisure Transient was driven by the colleges and universities in the spring, summer and fall. Places like "The Freedom Trail" drew people from all over the country and the world as a preferred venue. Leisure Group with social events like the Boston Marathon, Tall Ships, Fourth of July celebrations have always caused compression which benefitted hotels in Waltham, Braintree, Burlington and Wakefield.

COVID-19 kicked three of the legs out from under our Demand Table! National and International business travel hasn't resumed so Boston's corporate transient and corporate group business has been almost non-existent. The shifting of dates, mask mandates and uncertainty over restrictions has cast a pall over gatherings such as Head of the Charles Regatta or the Boston Marathon. It was great to see the Patriots kickoff their season with a sold out stadium again!

But the Leisure Transient segment with families of all sizes traveling throughout New England supported the entire industry and kept it from financial disaster. In the years to come, we will look back on 2021 as the year that room rates were reset in all of the "Drive To" markets. \$600 per night in Portsmouth...absurd! \$450 per night in Falmouth..ridiculous! \$1,000 per night on Martha's Vineyard...Impossible... Impossible No More! The general public was treated to packed houses everywhere this summer, from Bar Harbor, ME to Newport, RI. The rationale was given as, "at least we didn't pay to fly!"

Although smaller in scale, Leisure Group business, mainly weddings, shattered all records in 2021. In 2021, getting married on a Thursday or Friday became common place. Monday checkout's instead of Sunday's, have become the norm and hoteliers in these leisure markets feel like they've gained a day in the week.

In addition to high room rates, the traveling public is now being taught that expectations when you reserve a room need to be moderated. Daily guestroom cleaning is a thing of the past. Want more towels, come down to the front desk and get them. Breakfast is now “Grab and Go”. A hot breakfast means you stuck it in a microwave. Pay more, expect less.

The hotel industry follows the airlines. Trends for paying for certain “upgrades” will become more prevalent in 2022. Beyond better “Wi-Fi”, if you want fresh daily linen and towels; pay extra. Rooms on a higher floor, pay extra. Use of the pool...pay extra. It’s coming.

The sad part of the 2021 experience was that restaurateurs missed out on this phenomenon. A serious labor shortage caused many restaurants to remain closed two or three days of the week, Monday, Tuesday & Wednesday. It was very hard to find a place to eat lunch in North Conway on a Tuesday! Illegals could stream across the southern border every day, but the H2B and J1 Visa programs were canceled and foreign workers could not enter America to work. Many places just couldn’t open. They effectively missed out on selling to 30% of the pent-up demand.

Unfortunately for the corporate transient segment, business travel has been fundamentally affected by COVID-19-19. Zoom and Microsoft Teams has educated businesses. They now realize that work can be done remotely and business travel as we knew it will be cut back significantly. It will be years before “jumping on a plane for a meeting” will be commonplace again. An appreciation for lasting relationships and face-to-face meetings will have to be regained. It’s going to take some time before putting on a jacket or dress will replace a comfy pair of sweats!

Many thanks to those that spent four hours in their car going from Boston to Hyannis! Your patience and your fervor for getting out of the house was greatly appreciated! Now, if someone can figure out how to get those people back on the road in November!

James O’Connell is a principal of HREC Investment Advisors, a national hospitality and real estate company specializing in hotel brokerage and capital markets transactions. He is charged with managing the New England region and works with over 50 HREC hotel brokers in 15 offices around the country.

In June of 2,000, Jim founded O’Connell Hospitality Group, LLC a regional hotel brokerage company which exclusively represented hotel REIT’s, institutional investors, private equity firms and high net worth individuals. He and his team are responsible for over \$1Billion in hotel transactions.

OHG merged with HREC Investment Advisors in September, 2016. Jim remained a Principal within the newly expanded firm. He has spent his entire career selling hotels and credits his initial experience of managing hotel dispositions for the former Bank of New England and RECOLL Management Corp.

He is a 1982 graduate of Massachusetts Maritime Academy and holds a Master’s License for Unlimited Tonnage Vessels. He is a devoted husband celebrating 30 years of marriage and is the proud father of two very successful, fine young men.

