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There are signs of a very hot hotel and resort market - by Earle Wason

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Earle Wason

I could never have imagined on January 1st how this year's hotel brokerage transactions could lead to one of our best. My firm, Wason Associates, has had a business model that is paying dividends for us at this time as resort markets throughout New England and New York have been where the greatest demand has been in the Northeast. Many private equity groups are looking for upscale destination resorts and have a lot of money for good solid hotel opportunities in resort locations.

In fact, on October 22, we closed the sale of the Wentworth Inn Resort in the beautiful town of Jackson in the Mount Washington Valley, New Hampshire. The selling price was \$11.5 million and sold to a Boston-based private equity firm. Full details of the sale will be available in the New England Real Estate Journal shortly.

Summer and fall hotel guest demand throughout the New England resorts may have been the best ever and both occupancy rates and average daily rates surpassed in many cases the 2019 record year. As a result, we have several hotels and resort inns in locations such as Franconia New Hampshire, Woodstock Vermont, the Massachusetts Berkshires, Coastal Maine, and others closing all before the end of the year.

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.

Lenders such as regional and local banks are looking to place funds again. They are willing to look at 2019 as a benchmark, and many sales are closing with the use of the SBA 504 program. This loan funds 30% to 35% of the selling price behind a lender mortgage of 50% of the purchase price. The 504 is funded by the sale of Government Bonds and has a low fixed-rate mortgage with a 20 or 25-year term.

In January I believed hotel, resort, and motel sales would 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 buyers include private equity firms, regional hotel companies and owner operators who wish to leave urban areas, many of which already have hospitality experience.

Although I wrote about this in my last article, I think it continues to be one of the biggest plagues against the hospitality industry and there is no change from January, 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 unemployed exacerbated the issue. Hospitality workers' wages must move up and maybe significantly so.

What does this mean? Owners will have to make adjustments in salaries, in what is offered as many restaurants have had to "dumb down" their menus and review likely changes to the current business models.

It appears that a lot of owners are concerned about the possible increase the capital gains tax, and elimination of the 1031 Tax Deferred Exchange and therefore some who have considered selling or retiring are finding this to be the best time. This is a stand on my soap box issue for me; an increase in capital gains 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.

My ending comments: Wason Associates has been hired to broker an oceanfront resort on Cape Cod. In less than a week there were 25 Confidentiality Agreements executed and returned to us. Within 10 days of placing the property confidentiality for sale we received two offers both in very close range to our target and believe we will have at least three more in the next five days. That is the indication of a very hot market.

Earle Wason, CCIM, is president and owner of Wason Associates Hospitality Real Estate Brokerage Group, Portsmouth, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540