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Private equity groups are looking for upscale destination resorts and have cash for opportunities - by Earle Wason

January 28, 2022 - Spotlights

Earle Wason

Looking back at the year 2021my firm, Wason Associates Hospitality Real Estate Brokerage Group, had one of our best years in hotel brokerage transactions and dollar volume. As we head into the new year, we are already on a pace to be even better in 2022. The firm's business model is paying dividends as at this time the resort markets throughout New England and New York have generated great demand. Private equity groups are looking for upscale destination resorts and have cash for good solid hotel opportunities in resort locations. Summer and fall hotel guest demand throughout the New England resorts has been outstanding with both occupancy rates and average daily rates surpassed in most cases the 2019 record year. As a result, we had several hotels and resort inns in locations such as Jackson, N.H., Franconia, N.H., Woodstock, VT., the Massachusetts Berkshires, Coastal Maine, and others, transfer title before the year end. Many believe 2021 was a wonderful year due to the pent-up demand. That may be true, but I do see that continuing in 2022. Interestingly this demand growth should continue for a while as we had no Canadian or European travels in 2020 or 2021.

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 and 2021 as benchmarks, and 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. I mention n all my articles what continues to be one of the biggest plagues against the hospitality industry and there is no change from 2021, 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 hotel owners who are concerned that 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, baby-boomers taking early retirement and many other factors have exacerbated the problem. Hospitality workers' wages must move up and significantly so. What does this mean? Owners will have to adjust salaries and hourly wages, and review what menu items are offered as restaurants have had to "dumb down" their menus and review changes to the current business models.

Clearly an increase in the H2b and J1 program could help. There are about 40,000 allowed and the latest request is around 200,000. The Washington attitude that these workers take good American jobs clearly shows how myopic our Washington representatives have become.

I have been concerned about the possible increase in the capital gains tax, and elimination of the 1031 Tax Deferred Exchange would be on the current agenda in Washington. There is so much disparity between the two parties I am beginning to believe this has become unlikely in the near future. I hope I am right about this as an increase in capital gains will mean less sales and longer holding periods, less sales means lost ordinary income and related taxes paid by the brokers, the attorneys, the title companies, the lenders, the surveyors, engineers, and others. This would be a regressive tax.

There are a few clear-cut examples of the never-slowing hospitality real estate industry. They include the redevelopment of pre-existing hospitality properties. Redevelopment holds a particularly high advantage in 2022, as the construction costs for a new hotel have reached an extremely high mark. A cost of $180,000 a room to $280,000 a room is not unheard of. Redevelopment properties also pose a great advantage in the COVID space, as the necessary retrofitting that is often needed to comply with the federal and local legislature can be done from the start. This not only reduces time and cuts costs on future upgrades, but also allows property owners to successfully blend these health-conscious components into the overall view of their hotel, thus making them more visually appealing. These redevelopment properties prove perfect for the 2022 market, as they allow buyers to reimagine the property and create their own hospitality experience from the ground up within a structure that helps to minimize cost.

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