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Where we go from here is anybody's guess - by Earle Wason

July 29, 2022 - Spotlights



Earle Wason

In my article for the New England Real Estate Journal's Mid-Year Review two years ago I ended by writing "I see huge pent-up demand for travelers once we do recover from the pandemic." Yes, I was right about the pent-up demand and travelers inundated destination resorts throughout New England in 2021, and some destination resorts did very well starting in June 2020 and on into the ski season. Destination resorts came back in 2021. I have not had a full read yet but the resort markets in 2022 seems to be fine but when the season ends, I believe it may not be as good as 2021. The hotels are doing ok but I hear that the restaurants are not as strong compared to last year. The price of gas is having an effect and the overall level of inflation is causing people to reexamine their spending. Urban and suburban hotels, especially those that rely heavily on conferences and large meetings are still struggling to get back to 2019 levels. Reportedly those hotels will not be back to 2019 levels until 2023 or longer now with the prospects for a tougher economy over the next couple of years.

Valuations on hotels have been affected by the Fed's movement upward in the interest rates. Last year at this time the commercial rate for purchasing a hotel was around 3.5% and now around 5.5%. Historically that is still an excellent rate but each time the rate goes up so does the capitalization rate. Values may be adjusted accordingly, and I feel that sales with 5% and 6% capitalization rates will be less likely.

Our company's business model places emphasis on destination locations and a wide 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. The demand through 2021 and the first half of 2022 for destination locations and the amounts of money available is unprecedented. We have closed a number of hotel sales with 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 feeling the effects of the pandemic would not currently have the value of the past and therefore most owners are doing whatever is necessary to hold on. I recently reached out to many of the hotel companies that own multiple properties, and none felt the need or desire to sell at this time. There has been so much consolidation in the industry that companies are in financial positions to weather whatever the current economy affect.

The boutique hotel market both through new construction and redevelopment continues to have great demand. There are now exceptionally 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.

The cost to construct new hotels has skyrocketed and now can be anywhere from \$175,000 a room to \$300,000 and room. Often the feasibility to build at these rates cannot be justified. As a result, many companies are now looking to find well-built 3-6 story hotels that can be purchased in the \$35,000 to \$90,000 a key range. The idea is to put another \$20,000 or more per room into the property and have an excellent 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.

I just cannot let this one go. 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. Everyone in the hospitality business is aware of this major problem and it is great to know there is a problem, now how can it be solved? All of us should be providing information about this to our senators, congressmen, and congresswomen. 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 H2B visas allowed. We have many immigrants staying in hotel rooms, the state, with federal resources is paying for their rooms, food, clothing, transportation, and cell phones. Yet, these people are not allowed to have a job until they have been here a year. Craziness, let them get a social security number and put them to work, there are so many jobs available. Also, 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.

It is always easiest to report what has and is happening in our industry, where we go from here is anybody's guess.

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