Staffing and housing continue to be a problem in all New England hospitality properties - by Earle Wason

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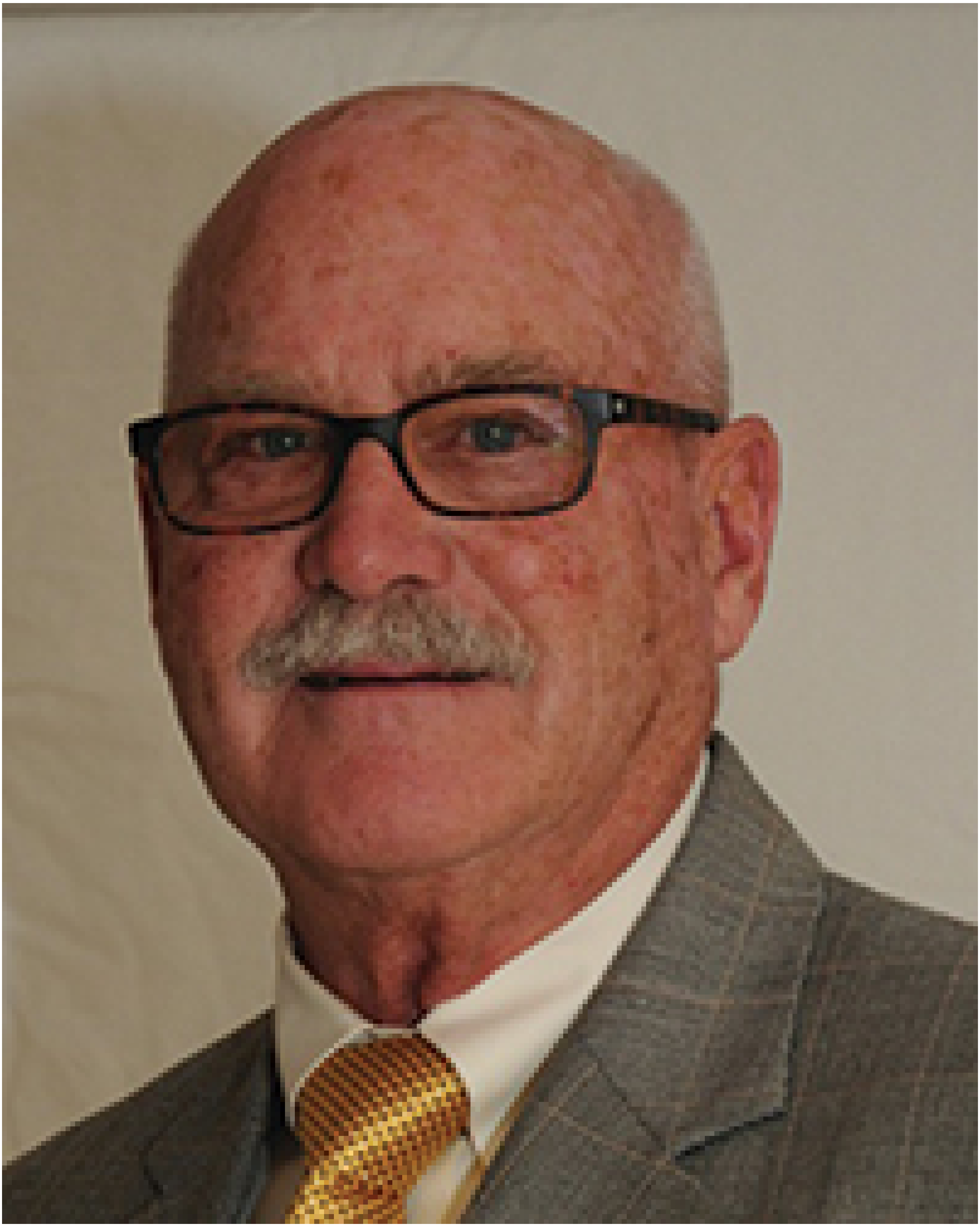

Earle Wason

Looking back at the year 2022, again my firm, Wason Associates, had one of our best years in hotel brokerage transactions and dollar volume. As we head into the new year, we have some really exceptional hotel properties under agreement to close in the next few months. However, to be truthful it feels a little different from the beginning of 2022. Our firm's business model has been paying dividends as through 2022 the resort markets throughout New England and New York have generated great demand. The increase in the interest rates is proving to have an effect on the hotel sales activity. Private equity groups were looking, and to some degree are still looking, for upscale destination resorts. The difference at this time: interest rates on non-recourse loans are settling in around 9% and that will bring prices down and most hotel owners are not ready for that. As a result we have the lowest inventory of product for sale that we have seen for years.

Summer and fall hotel guest demand throughout the New England resorts slackened some in 2022 as average daily rates have continued to increase, but there has been a compensating reduction in the occupancy rate. This has varied by location but generally is indicative of the market now and what I expect to see in the coming months. Interestingly we are beginning to see increased guest demand from Canada and European countries.

As I stated last year 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 sector is slowly improving but has the longest recovery period.

Last year at this time lenders, such as regional and local banks, were aggressively looking to place funds. They are still willing to look at 2019, 2021, and 2022 as benchmarks, but current valuations based upon higher capitalization rates are instrumental in completing a transaction and more time to finalize financing is commonplace. I mention in all my articles what continues to be one of the biggest plagues against the hospitality industry and there is no change from 2021, or 2022, as the continuing staffing problems in all New England hospitality properties continues. For many resort locations lack of housing is becoming one of the big issues. Hoteliers and restaurateurs are purchasing housing for their H2B and J1 visa workers but due to the homes values in the resorts it can be impossible to find and therefore employees may need to be bussed from as much as an hour away from the facilities. Many restaurants have been 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. Hospitality workers' wages must move up and significantly: the minimum wage means nothing. Owners are adjusting, upwards, salaries and hourly wages. Food and beverage outlets have had to "dumb down" their menus and review changes to the current business models. The result has been the similarity of restaurant menus among different operators.

Clearly an increase in the workers from the H2b and J1 program could help. Last year there were around 200,000 requests and the actual numbers were not even half of that. The Washington attitude that these workers take good American jobs clearly shows how myopic our Washington representatives have become.

So far we have luckily not seen any increase in the capital gains tax, and elimination of the 1031 tax-deferred exchange on the table in Washington. There is so much disparity between the two parties I am beginning to believe this will not become an issue in 2023. 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 remains interest in the redevelopment of pre-existing hospitality properties. Redevelopment holds a particularly high advantage in 2023, as the construction costs for a new hotels have reached an extremely high mark redevelopment properties also pose a great advantage in that it reduces time and cuts costs on future upgrades, but also allows property owners to successfully blends health-conscious components. The redevelopment properties prove perfect for the 2023 market, as it allows buyers to reimagine the property and create their own hospitality experience from the ground up within a structure that helps to minimize cost. Construction materials have seen a slight downward trend that should factor into new construction in 2023, a trend we all wish to see continue.

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