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55 YEARS

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Hotel owners “They get no respect” - by James O'Connell

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James O'Connell

As the late great Rodney Dangerfield would say... "I don't get no respect"! Over the past three years, hotel owners have worked through shutdowns, only to experience a massive resurgence in the leisure sector. But they were forced to meet that new prosperity with one hand tied around their back, not being able to find enough labor to support the burgeoning business.

Weddings were backed up like planes over LaGuardia after a Southwest computer glitch. Events scheduled for 2020 were pushed into 2021 and then 2022 pushed to 2023! Hotel rooms full with no one to do housekeeping. Restaurant seats were filled with no one to cook the food or wait on the tables.

Hotel owners were forced to accept huge labor cost increases. A \$20 case of lettuce went to \$100! Fuel prices skyrocketed. But travelers continued to flock to the leisure markets. Hotel owners hung on, waiting for the higher rated, commercial transient business to return. In 2022, profits returned and swept past 2019 levels and things began to look good again for the Owners and investors.

But in June of 2022, Joe Biden's inflation reduction caused the Federal Reserve to get inflation under control by increasing interest rates. The days of +3% interest rates for real estate loans went by the wayside. Interest rates went from 4% to 8% in three months. The same cash flow values of 6/2022 lost 20% by 1/2023. A \$30 million dollar hotel was now worth \$25 million just because of a 100% jump in interest rates. For all of the paying and saving and struggling, masking, disinfecting and all the other work associated with this operating business, these owners now have to endure a 20% drop in value for the cash flow they produced.

I tell you, I get no respect! I keep my people employed, I pay off my PPP, I never go to my bank and make excuses. Now my bank tells me they won't extend! No more voodoo economics! I have a ten-year loan at 4% coming due and no bank wants to touch me! Not even for 8%! Double what the rates were last summer! Based upon new debt coverage ratios, I may not be able to pay and much of the equity I built up has evaporated!

No respect, no respect at all, I tell ya! I tell my friendly banker, who has praised me for hanging in there through historic difficulties, we'll be fine! Look at the statistics! According to Pinnacle Advisors, the Boston hotel market is up 13.3% in occupancy, year to date! Up 11.6% in average daily rate! This is typically the WORST quarter on the calendar for hotel performance and we're up almost 42% in Revenue Per Available Room (RevPAR)!! That signals the return of the long awaited corporate transient traveler! Business is back! Now we can combine a truly strong leisure market with a surging corporate market and we'll produce record profits! How about that loan extension!

My banker tells me he's got holes in his shoes from kicking the can down the road for the past three years. He tells me, "See those office buildings over there, with nobody in them? I have loans on those. No matter where it is, downtown, financial district, Back Bay, Seaport, Cambridge, we are at 22% vacancy! They told all those people to go home and they never came back! Did you know that in Washington D.C. they haven't told federal employees to return to work? It's May 2023. COVID is

in the rear view and they still work from home! Neither has the City government! We've got tumbleweeds rolling down Connecticut Ave.!

My banker says; "I have to raise some cash to improve my balance sheet. We're going to try to sell your 4% loan at 3.75% discount so I can put money out at 8%. But nobody wants 8% money. So, now he's acting like a snapping turtle in the middle of a four lane highway".

I tell ya, this guy... He needs to extend me. He thinks he's the only turtle out there? That FDIC truck has picked off four turtles already! Once the herd tries to cross that highway, not all of those turtles are going to make it! Don't they remember 1989? A lot of turtles got run over back then, I tell ya!!!

Then my banker gives me the "double-talk". He asks me; "Ever hear of performing-non performing"? That's a loan that is being paid and is current, but the value of the underlying collateral is less than the loan is worth. He says he has to write down (take a loss on the balance sheet) the collateral to where the market value is today. Since Boston hasn't had a 22% vacancy rate since the British sailed from Boston Harbor, a lot of banks have a lot of writing down to do.

I tell ya, I almost felt bad for the guy. I thought, Memorial Day is around the corner. Then we really start raking in the dough. I'm a performing loan and I'm thinking I'm getting that extension!

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 2000, 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 \$1 billion 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.

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