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We still have a strong seller’s market by Earle Wason

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Earle Wason

My last article for the New England Real Estate Journal was titled Spring Preview 2023. In that article I stated that “The inflation of today, high gasoline prices, war in Ukraine and the steady increase in interest rates will have to have an effect on our economy, hotel operations and hotel sales. But when and how?” Some of that is becoming clearer but still there are a lot of unanswered questions. One of the major being the partisan wrangling taking place in Washington to reach a means to increase the debt limit. I assume as always at the last minute there will be some kind of compromise but in the long run something must be done to stop the growth of the national debt as we all know the consequences.

I can address the hotel sales activity from my own and our company’s perspective. We had banner sales volume years in 2021, 2022, and now in 2023. We recently closed the sale of the Anchorage by the Sea, an oceanfront resort in Ogunquit ME. It was a full-service resort with 250 rooms and sold for $100 million. We actually had five offers on the resort, four of which were over $90 million. A wonderful property and probably my “once in a lifetime sale.” The fact that there was that kind of interest continues to indicate we still have a strong seller’s market. At this time we have five properties in Vermont under purchase and sale agreement. Two in New Hampshire, two in Maine and one in Mass. We are in the process of negotiating four other Letter of Intents. Our problem now is that we are lacking inventory of product to sell as I believe is common in our industry at this time. Even with unpredictable times we have motivated buyers but few sellers.

We are finding financing for these transactions but clearly the interest rates are higher and in fact some lenders have already stopped considering hospitality loans. What I find most interesting is the effect of the consolidation in our industry. Although I have been in the real estate business for more years than I like to admit; I did begin representing hotels for sale only in 1990. As you can imagine it is a different world and the biggest adjustment for me has been the reduction in the number of hotel owners then and now in New England and I am sure across the country. I suspect in fact that there are at least 50% less hotel owners today. The strongest growth was by the New England based regional companies. Firms holding 30 to 80 hotels in their portfolios is not uncommon. Even smaller companies are aggressively planning to grow their companies and are the first to respond when a new opportunity enters the market. We have seen very little activity recently from the REITS. I believe the significant factor being the interest rates which for non-recourse financing is now between 9.5 and 10%. The key factor here is the lack of any personal guarantees. It becomes very hard to leverage up and provide the kind of returns that the REITS were providing when the financing was 3.5%. On the other hand, there are many lenders providing mortgages in the mid 6% range when there are personal guarantees. I am often asked “What are the current Capitalization rates?” The answer is “It still depends.” Limited-service franchised hotel in Marriott, Hilton or IHG brands will be different than in other mid-market limited-service brands and further differentiation in a full-service property. It looks as if full-service resort properties have won the gold. In general, the capitalization rates range between 7.5% to 9.5%. These rates, when the purchase is leveraged, do not bring in the yield we have seen for the past few years. The reason being the lack of inventory of hotels for sale.

I have spoken recently with many of my friends and clients who own and operate hotels. Reservations and advance deposits are strong, the word in the resort markets is that it will be another banner year. I am hearing that revenues in 2022 in the suburban markets such as Rte. 128 and Rte. 495 were nearing 2019 levels. One owner with hotels in these locations, told me that he is ahead every month so far in 2023. He also told me he was anticipating a softening sometime in the not-too-distant future. This owner went on to say that he does see a small fall in occupancy and average daily rate but just a small bump with soft landing. I hope he is right.

There still seems to be a lot of money available but for all of us that go to the grocery store regularly know costs are very high and that will have to have an effect soon. With that in mind, I am still surprised by the number of hotel projects throughout New England either under construction or in the pipeline. Although the costs have dropped some, the cost per room for construction is easily $100,000 to $150,000 more than it was just five years ago.

One last comment; the labor market has not improved in any form. Many hotels, restaurants and other hospitality, tourist or resort properties are struggling as they are short-staffed. This should be a priority for Washington but all that seems to be heard from there is how proud they are of such low-employment numbers. Something needs to change.

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