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Is it the weather or the economy? - by Earle Wason

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Earle Wason

The first paragraph in writing my 2023 preview in January 2023 is as follows: "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 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." (<https://nerej.com/staffing-and-housing-continue-to-be-problem-hospitality-by-earle-wason>)

Much of this is "right on the money". However, interest rates have increased even further as they are likely 9.5 to 10% or more for non-recourse lending and 6.5 to 7.5% for recourse lending. Our firm has now had three great years in a row, and in 2023 we have closed some very good transactions. Negotiating the sale of the Anchorage by the Sea in Ogunquit for \$100 million certainly helped but we recently sold the Capital Plaza Tapestry in Montpelier for \$22 million, and the Stonehurst Inn in North Conway for \$5 million and a few more with some sales still in the pipeline.

I feel that a big story to 2023 has been the terrible and rainy weather. I felt that 2023 would see a small drop in occupancy and it has. The question currently is it the weather or the economy and I think it is a little of both. Also "Average Daily Rates" have for the most part leveled off with 2022.

As I stated in January 2023, "the urban and suburban hotels that cater to groups and the commercial traveler have been affected the most by the pandemic and that is slowly improving but will have the longest recovery period."

Last year at this time lenders such as regional and local banks were aggressively looking to place funds. Most 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. One of the biggest plagues against the hospitality industry and there has been 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 do to the homes values in the resorts it can be impossible to find and therefore employees may need to be bused 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. There were around 200,000 requests and the actual numbers were closer to 45,000. The Washington attitude that these workers take good American jobs clearly shows how myopic our Washington representatives have become.

I was surprised when reading Lodging Econometrics data that there are many hotels in the New England pipeline. The costs have come down some but new builds in tertiary markets are not yet likely. There remains interest in the redevelopment of pre-existing hospitality properties. Redevelopment holds a particularly high advantage in 2023 and poses a great advantage in that it reduces time and cuts costs on future upgrades, but also allows property owners to successfully blend health-conscious components. The redevelopment properties have proven perfect in 2023, 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. These sales usually occur at a price per room under \$100,000 and with \$15,000 to \$20,000 a key capital improvement keeps the pricing well under the \$250,000 +/- costs per room to build new.

At this point in the year, I am grateful that this article is a mid-year review as the balance of the year is somewhat foggy. Many of my clients have expected a fall-off from the past three years and have planned for it. Interestingly the huge consolidation in ownership in our industry should allow hotel owners to be better prepared from a slowdown which many believe is forthcoming. This consolidation since the early 1990s has resulted in a likely 60% reduction of all hotel owners here in New England and the owner operator model has shifted considerably to just smaller motels and inns. For now, let's just enjoy the ride.

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