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Consolidation in hotel ownership should allow owners to be better prepared for a slowdown - by Earle Wason

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Earle Wason

I reluctantly agreed to do this end of the year preview in that the uncertainty barometer is near the top of the scale. Looking back at the years 2021, 2022, and 2023 to date, again my firm, Wason Associates, had three of our best years in hotel brokerage transactions and dollar volume. Fortunately, as we head into the year end, we have at least four more transactions to close. However, to be truthful it feels considerably different from the beginning of 2023. The increase in the interest rates has had a profound effect on the hotel sales activity. Private equity groups were looking, and to some degree still looking, for upscale destination resorts, however, the difference at this time; interest rates on non-recourse loans have increased significantly; if you can find a lender at all. This has brought hotel values 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.

Interest rates have increased even further as they are 10% or more for non-recourse lending and 7.5% to 8.5% for recourse lending. A number of regional hotel companies are indicating that the current capitalization rates cannot be less than 9% and that is an all-in rate after any potential PIP. I feel that a big story to 2023 has been the terrible and rainy weather, consumer concerns and large numbers of people traveling overseas. I felt that 2023 would see a small drop in occupancy and it has. Also "Average Daily Rates" have leveled off with 2022 and a great number of owners and operators have indicated New England hotels for the summer were off from 5% to 15%. It is clear now that this will continue.

Brian Moynihan, Bank of America chairman and CEO, put if very succinctly yesterday. "Businesses temperature, for lack of a better term, is mitigated by the worries about inflation, the worries about getting teammates to work for them, and also, frankly, the worries for the impact of higher rates." He goes on "People are forgetting on the commercial side, there is a huge impact on higher rates in terms of people's willingness to borrow. And so lending conditions are tight, and that is what the Fed wanted to achieve. The economy slows down in the middle of 2024 to about a half-a-percent annualized per quarter."

As I have written repeatedly. One of the biggest plagues against the hospitality industry and there has been no change since 2021, as the continuing staffing problems in all New England Hospitality properties continues. For many resorts 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 home 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 are 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."

The world is a mess, and it is not looking to get better soon. A nuclear bomb dropped on Tel Aviv, Isreal would create a world-wide disaster which the U.S. is not prepared. Gasoline analysts have predicted gasoline at more than $6 a gallon soon. Not favorable for the vacation traveler and a big reason the hotel industry may feel added pressure. A staggering statistic from the current Washington administration, the nation's petroleum reserve is now at 24% of capacity. The suggestion of $6 gasoline could be a pipe dream as it could be a lot more.

Many of my clients expected a fall-off in 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 for a slowdown which many believe is forthcoming.

This consolidation since the early 1990s has resulted in a 60% reduction of all hotel owners here in New England and the owner operator model has shifted to just smaller motels and inns. We are in for a bumpy ride.

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