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The increase in interest rates has had a profound effect on the hotel sales activity - by Earle Wason

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Earle Wason

When Karen Dowell, our friend from the New England Real Estate Journal, called me to write an article for the 2024 Forecast, as usual, I reluctantly agreed. I believe in all my 50 years as a Realtor this may be the craziest and most unpredictable period I can remember. I reread my 2023 Forecast article and amazingly most of it was “right on the money”. I also feel that for 2024 I could say “ditto”. However, we have no clue as to the effects of an election year, war in Ukraine and Israel and the turmoil in the mid-east which could all impact the economy of the U.S.

Looking back at the years 2021, 2022, and 2023, again my firm, Wason Associates, had three of our best years in hotel brokerage transactions and dollar volume. Fortunately, as we head into the new year, we have more transactions to close. However, to be truthful it feels 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. The number of lenders who have given up on providing hospitality loans increases daily. Many loans that were written at the very low interest rates will become due soon, could there be hotels “underwater”, only time will tell.

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. Hopefully, the Feds indication of 3 .025% interest rate drops in 2024 will come to fruition. 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 felt that 2023 would see a small drop in occupancy and it did. And I feel that will continue in 2024. Also “Average Daily Rates” have leveled off with 2022 and I suspect that for many hotels room rates will continue a small decline.

Many economists are predicting the economy to slow down by the middle of 2024, and a soft landing the best scenario.

As I have written repeatedly. One of the biggest plagues against the hospitality industry and there has been no change since 2021, 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 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.

I expect that the continued growth of “Soft Brands” will be a story for 2024. Soft Brands offer existing hotels the opportunity to retain their name, identity and often style while providing access to a branded support network. Most all franchises are now offering one or more brand names. Here in New England there appears to be a strong growth in Ascend, a Choice Hotel product. Expect to see more growth in Soft Brands in the coming years.

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.

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