Staffing problems continue to plague industry - by Earle Wason

March 29, 2024 - Spotlights

Earle Wason

In my opinion, nothing has changed since I wrote my NEREJ 2024 Forecast article. I still believe in all my 50 years as a Realtor, this may be the craziest and most unpredictable period I can remember. We still have no clue as to the effects of an election year, war in Ukraine and Israel, the turmoil in the mid-east and now a terrorist attack in Russia 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 considerably different from the beginning of 2023. It is my intent here to focus on the hotel transaction market for the upcoming months.

Currently, the inventory of available hotels, resort inns and larger motels is extremely low and at a level I have not seen in 18 years. There are numerous reasons for this and at this point of the year most of our sales have been for “generational reasons.” Many who have owned for a number of years are retiring. Most of these sales are hotels that have low mortgages and therefore the equity after federal and state taxes have been substantial. Current owners have not adjusted to the increase in the interest rates. Many believe they will come down and they may, but very little. Most of my career the interest rates have been in the 7.5% to 10% range. In the Jimmy Carter years the prime rate hit 18%.

There are many factors that have led to the limited inventory. Many hotels have been sold since the pandemic at very low interest rates, which inflated values. Therefore, many of those hotels may have mortgages equal to or greater than the value. Due to the large consolidation in the industry, we have 60% fewer owners today then we did in 1990, therefore hotel companies may use funds from another hotel to cover mortgage payments. The hotel company can maintain the asset, not sell, and wait for principal reduction.

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. The number of lenders who have given up on providing hospitality loans is increasing 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 may be 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.

As I have written repeatedly, one of the biggest plagues against the hospitality industry and there has been no change since 2021, as the staffing problems in all New England hospitality properties continues. For many resorts locations lack of housing is becoming one of the big issues and causing a lowering of revenues and therefore lower valuations.

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."

To be perfectly honest, I do not have a feel for the transaction market for the second half of 2024. Interestingly at this month's "Hunter Conference" in Atlanta there was a very upbeat opinion. In a panel "Market Overview: Financial Analysis and Forecasts" a number of the industries top executives made favorable comments about the second half of 2024. Quotes such as: "There are a lot of discussions behind the scenes that will be announced over the next couple of quarters". "I do believe you're going to see in the second half of the year the velocity of trades increase." "The smart money is not focused on what debt costs are today but at the profitability in three to four years. Great time to purchase an asset that is core to your portfolio." A lot more of very positive comments, I hope they are correct.

The National Realtors Association has a tentative settlement that will require a payment of $414,000,000 over the next four years. It is not for price fixing. It stems from the practice of a buyer's agents fee provided from the fee paid by the seller. If I have learned anything over the years the key word is "disclosure." It is to the advantage of the seller to have other agents representing buyers, more offers, the better the price. All our agreements with sellers offer the opportunity to allow for buyer agents and to offer buyer agents a portion of the fee. This has been our practice for years. This change in the residential brokerage business will lead to a lot of additional changes that should have been addressed years ago. Good luck in 2024.

Earle Wason, CCIM, is president and owner of Wason Associates Hospitality Real Estate Brokerage Group, Portsmouth, N.H.