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I have lived through many slowdowns in my career and each has a different personality - by Earle Wason

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Earle Wason

In the 1950s and 1960s there was a television crime show: Dragnet. Joe Friday the lead detective had a slogan used often in the show: "just the facts ma'am, just the facts." Unfortunately, the facts for 2024: lower hotel revenues, lower occupancy rates and lower room rates. I am sure this is not what most want to hear. In looking back, 2022 was very high revenue, occupancy and room rate year. It is now not the benchmark, but was instrumental in many hotel sale prices in 2022 and 2023. Revenues dropped in 2023 and further dropped in 2024 to date and I cannot see a change in that for the balance of the year.

What does that mean? I do not know, but I do believe a change is not likely until after the election. I have lived through many of these slowdowns in my career and each has a different personality. We have had huge consolidation of hotel ownership beginning in the early 1990s. I have said before that we probably now have a total number of hotel owners about 60% less. This should help in having less hotels in financial trouble.

This leads to current interest rates. Hotel financing has become more difficult, and lenders are looking for larger down-payments. Interest rates vary from 6.25% to 7.5% and it does look like the Fed could reduce the Fed Funds Rate by 50 basis points the next time they meet in the fall. Rates in the 7% to 8% range have been the norm for most of my career so looking for a big decrease in rates is not likely. That means we are back to the old norm and a valuation adjustment. If you are thinking of selling or buying it makes no sense to wait for the rates to go down as the other adjustment to value is the significant increase in operating costs. Obviously: labor, cost of goods, utilities, real estate taxes and insurance costs. One hotel I am very familiar with just saw the annual insurance cost move from \$82,000 per year to \$145,000 per year. This equates to lower profitability and therefore lower values.

The cause for the revenue decreases is alarming. There are many factors for the softness in demand: market volatility, inflation, the large number of U.S. citizens living paycheck to paycheck, more Americans traveling overseas, less Europeans traveling to the U.S. and more. Business travel has leveled off at less than seen in the pre-pandemic years.

As to hotel sales activity it has decreased below 2023 levels. There is limited inventory and hotels that have been marketed are still in 2022 or 2023 pricing levels. The demand to buy remains solid but buyers outnumber sellers and prices need to be adjusted downward. Demand for good quality hotels priced in the 9% to 11% capitalization rate range is still in play but very hard to find. Some new construction still exists but construction costs remain very high. There are now so many brands available targeting different market segments. This is the generator of new construction, but the level of new construction should be fading until there is growth in revenues and lenders are better prepared to provide financing.

My firm has been fortunate in that we have presented hotels for sale where the motivation is based upon generational change. These owners usually have low debt, have been in ownership for significant periods of time and have good equity. We have also been fortunate that many roadside

motels and inns which were predicted to be outdated and ready to be demolished have made a comeback. Tourists and travelers are enamored by the funky remodeling and quality rooms seen in many of these properties. I have a property for sale that has lime-green refrigerators in the room, pink sinks and tile in the baths and a retro upgrade to the rooms. A good example of this is the former Downtowner Motel in Saratoga Springs. We brokered this hotel a few years ago to Lark Hotels, a boutique hotel specialty firm with many properties here in the Northeast. The hotel has gone through a complete very “cool” upgrade and is now known as the Spa City Motor Lodge. A great example of the changes occurring in these smaller hotels/motels.

The hotel business can be very resilient, but like spring in New England “many bumps in the road”.

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