

## Hotel Lenders Invade Hunter Conference

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If you were at this week's Hunter Hotel Investment Conference in Atlanta, you would think plenty of lenders are providing lots of money to finance hotel industry deals. While that's far from true, it was a good sign that, unlike last year, many lenders were at the conference. More importantly, those in attendance or speaking on panels said they're providing financing for a wide range of lodging transactions: acquisitions, portfolio deals, refinancings, renovations, CMBS and SBA loans and, believe it or not, new construction.



"One of two lenders stayed in the market during the downturn, and six months ago there were six to eight companies lending to this segment," said Michael Murphy, head of lodging and leisure capital for The First Fidelity Cos. "Today, I know of at least 12 firms providing everything from CMBS to portfolio financing."

Many speakers pointed out the sharp improvement in hotel performance has drawn many lenders to the industry. Others believe lenders holding loans on distressed hotels are now ready to deal.

"They have more confidence in the numbers," said Jim Merkel, president of RockBridge Capital. "Also, extend and pretend is over. Lenders have done it once or twice and now they're fatigued. Deals will start to get done."

Of course, pronouncements from the stage don't always coincide with reality. Some speakers and many attendees said they're still having trouble obtaining financing for most deals. That complaint is especially true for developers seeking financing of new hotel projects.

"Lending is loosening, but the progress is slow," said Liam Brown, COO of Marriott's select service and extended stay hotels, echoing the sentiment of other speakers. "Part of the problem is government regulation of the banks. Until that changes, the attitude of many bankers is 'if I do nothing I'll be safe.'"

Naveen Kakaria, president & CEO of Hersha Hospitality Management, says once lenders begin to open their wallets, terms will be stiff. Borrowers will need cash, he said, and loan-to-value ratios will be higher and completion guarantees will be common.

There was some difference of opinion among speakers on when new construction financing will again be abundant. A few, like CSM Lodging President Robert Dunn, believe new development financing will soon accelerate and by sometime in 2013 increases in supply will overtake demand growth, spurring another slowdown in hotel industry performance. Steve Joyce, Choice Hotels' president & CEO, disagreed.

"It will be 12 to 15 months before the financing environment is in place for significant new development, so a lot of new inventory won't be coming on line until 2014 or later," he said. Mit Shah, CEO of Noble Investment Group, concurred but added that once development financing returns it will only be available for borrowers with strong track records.

Joyce and other chain executives said they'll help jump-start new development through a range of financial assistance, including offering key money, credit enhancements, even mezzanine lending. "Many of the brand companies, including Choice, are getting more aggressive in our support for our developers looking to build new product," he said. "If, for example, debt for a new hotel is only available at 60% of the project cost, some brands may step in to bridge the financing gap."

Nancy Johnson, executive vice president of business development for Carlson Hotels, offered a real example of how brands can help. The Carlson family contributed equity to assure completion of the new flagship **Radisson Blu** hotel under development in Chicago. As she put it, "We may provide equity participation to complete a project like this, but it must be in the right market with the right kind of product."

On the flip side, speakers from both brand companies and ownership groups reinforced the prevailing wisdom that franchise companies have resumed enforcement of its brand standards and product improvement requirements.

"There was an unprecedented spirit of cooperation between the brands and owners during the downturn," said Jim O'Shaughnessy of Cornerstone Real Estate Advisors. "That's over now, and brands require PIPs to be completed. But it's the right thing to do because you've got to have the right product in order to move rate, and that's one of the key issues facing all hotel owners."