

## **Lenders More Cautious, But Hotel Loans Still Available**

Despite a roiling credit market, hotel loans are still available and getting done, especially for mid-market hotels, according to TransActions Recap, a comprehensive database of hotel real estate maintained by Hotel Brokers International (HBI).

“Lenders are being more conservative and want more equity and documentation. As a result, transactions are taking longer to complete, usually an additional 30 to 60 days,” according to H. Brandt Niehaus, CHB, president of HBI and Louisville-based Huff, Niehaus & Associates, Inc. “This will likely continue for at least another couple of quarters.”

On the positive side, interest rates continue at highly favorable rates. “First-year interest rates on transactions in the first quarter 2008 actually declined to 7.4 percent from 7.9 percent in last year’s first quarter,” he said. “The lower rates reflect the aggressive cuts made by the Fed. They made no changes at their June meeting, which many interpret as meaning that rates will remain static for the short term.”

Reflecting lenders conservatism, the amortization period is tightening up. It declined to 21.7 years in the 2008 first quarter, down from 25.0 years, in the 2007 first quarter. Length of the loan term also declined to 11.7 years, down from 15.8 years. Debt coverage ratio rose to 1.9 times in the 2008 first quarter, compared to 1.5 times in last year’s first quarter.

Niehaus noted that local banks and Small Business Administration loans remain the most accessible choices for mid-market properties like Americas Best Value Inns. “For those hoteliers who have a proven track record and a working relationship with their local bank, obtaining financing should be relatively pain free except expect more equity to be required,” he said. If you are having problems with financing, check with your hotel broker because they have multiple contacts and relationships. Some hotel brokers also provide mortgage brokerage services. Some hoteliers are finding mezzanine loans an attractive alternative.

First mortgage to loan value for the 2008 first quarter rose to 75.6 percent, compared to 74.9 percent for the same period in 2007. “Those figures are still pretty much in line with historical averages and certainly aren’t onerous,” he said. “But the equity price is changing.”

Niehaus pointed out that the number of transactions in the upper scale sector and higher segments have dramatically declined. “That is where the real financing problems lie,” he noted. “The commercial mortgage-backed securities market is essentially non-existent, and the market has not yet figured out how to replace it. However, mid-market properties continue to be highly sought-after and are financeable.”