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Where to look for U.S. hotel debt

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Story Highlights

- Sources report LTV in the range of 50% to 65%.
- "There is financing available for existing cash flow for select-service hotels, no problem," said Mitchell Hochberg, managing principal of Madden Real Estate Ventures.
- Lenders are now beginning to look at secondary markets.

REPORT FROM THE U.S.—While difficult to come by, financing is available for hotels in the United States—if potential borrowers know where to look.

As recently as two weeks ago, lenders and borrowers were reporting debt was largely unavailable because of uncertainty over whether the United States would reach an agreement to raise its debt ceiling. With that deal now in hand, it appears leverage is once again available to hotel companies—under certain circumstances.

- *Read "US lending 'closed' as debt deadline nears."*

As it was before the debt ceiling fight, cash flow is king, said Mitchell Hochberg, managing principal of Madden Real Estate Ventures.

"There is financing available for existing cash flow for select-service hotels, no problem," he said. "On the development side, it's more challenging." He added that loan-to-value for most deals he's seen is below 60%.

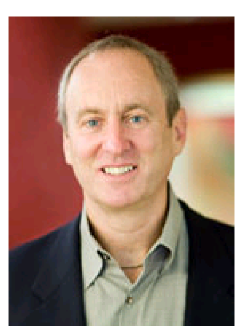
Evan Weiss, executive managing director LW Hospitality Advisors, said debt yield is the metric at which lenders are looking most closely. He added that he's seen LTV slip to as low as 50%. Sources report LTV has been as high as 65% during the past few weeks.

By comparison, the Q2 Hotel Investors Gauge survey by STR Analytics (a sister company of HotelNewsNow.com) showed an average LTV of 66% as of late May.

- *Read "Q2 Hotel Investors Gauge results." (Paid subscription to the Hotel Investment Barometer required.)*

Debt availability

Bruce Lowrey, a managing director at RockBridge Capital LLC, said leverage availability is now leaking into U.S. secondary markets.



"(It is) just like any other cycle when (lending) goes to strong (primary) markets and borrowers and then expands to other markets," he said.

That said, lenders are largely still skittish, Lowrey said. "The events of a couple years ago are still fresh in people's minds."

Summit Hotel Properties has taken on loans in some of the acquisition deals it has entered into, Summit CEO Dan Hansen said.

Bruce Lowrey
managing director
RockBridge Capital LLC

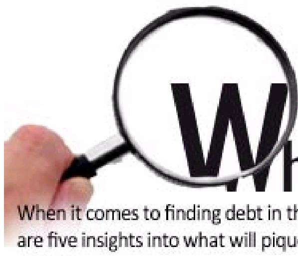
"If it's a good loan, we'll keep it," he said. "Pay it down a little bit."

Perhaps one of the biggest keys for loan approval: a solid financial history on the part of the borrower.

"The borrower matters," Hansen said. "There's debt out there."

Lowrey said growth in gross domestic product will help spark the lending environment. There is, he said, a solid correlation between GDP and revenue per available room.

"Just from what I've seen over the last couple weeks, lenders are still reluctant to do too much right now," he said. "The good news is it can turn quickly."



Where to find debt

When it comes to finding debt in the hotel sector, borrowers have to know where to look. Here are five insights into what will pique the interest of a potential lender, according to finance experts.

- A long history of cash flow, Summit Hotel Properties CEO Dan Hansen said.
- A borrower with a strong, clean record, experts said.
- Loan-to-value of 60% or less, said Mitchell Hochberg, managing principal of Madden Real Estate Ventures.
- Interest rates on bridge loans are generally the London Interbank Offered Rate plus 4% or 6%, while construction lending (where available) is LIBOR plus 7% to 10%, according to Warren de Haan, chief originations officer and managing director, SPT Management LLC.
- Starwood Property Trust is keen on situations where the hotel has opportunities to expand, de Haan said.

— Shawn A. Turner