Lack of financing in hotel real estate? Don’t believe the hype.

hotelsmag.com/news/lack-of-financing-in-commercial-real-estate-dont-believe-the-hype

by Daniel Lesser

July 28, 2023

Elevated levels of inflation and interest rates, along with what seems like never-ending fears of an impending economic recession, has placed the U.S. commercial real estate industry in choppy waters. Earlier this year, the stunning and swift collapse of Silicon Valley Bank (SVB), and subsequent failures of Signature Bank (SB) and Credit Suisse Group AG (CS), created a perceived credit crunch rippling across the global financial system.

Recent sensational headlines are claiming “a lack of financing” and “inability to refinance” hotel assets. The reality is: Don’t believe everything you hear or read. In today’s market, debt is available, however, it is much more expensive than in the recent past. Sophisticated sector investors who comprehend market nuances and can leverage relationships with multiple types of capital partners can secure investment funds regardless of market conditions. Lenders make money deploying debt capital, not sitting with cash on the sidelines. There are plenty of active lenders, including institutional and private investment funds, seeking compelling opportunities backed by strong sponsors with demonstrable track records of quality transactions.

Examples of acquisition, refinancing and hotel construction financings announced thus far this year include:

Acquisition Financing

- Leader Bank provided financing for Certares Management LLC’s acquisition of the 263-room Sea Crest Beach Hotel in North Falmouth, MA.
- Bangkok Bank provided a $65-million loan for Standard International’s $106-million purchase of the 97-key Sixty SoHo hotel in New York.

- A co-lending partnership between iBorrow and Reuben Brothers provided a joint venture between Ian Schrager and Ed Sheetz a $86.7-million loan toward the acquisition of a 139-key hotel property formerly known as the Standard Hotel in West Hollywood, Calif.
- Fifth Third Bank Association provided an affiliate of OTO Development a $49.5-million loan in connection with its $59.6-million acquisition of the 172-room AC Hotel by Marriott St. Petersburg Downtown in St. Petersburg, Fla.
- A joint venture between Gencom, GD Holdings and Magellan has obtained a $76-million loan from Värde Partners to acquire the 192-key St. Regis Chicago.
- Concord Hospitality financed its $48.4 million acquisition of the Cambria Hotel New York – Chelsea in New York with a $32.5-million loan from Western Alliance Bank.
- Wells Fargo provided financing to District Hospitality Partners for its acquisition of the 225-room Westin Annapolis in Maryland.

Refinancing

- An unnamed life insurance company provided $26.75 million of non-cross collateralized, 10-year fixed rate first mortgage financing for the 138-room Lafayette Park Hotel & Spa and the 83-unit Lodge at Bodega Bay, located in Lafayette and Bodega Bay, Calif., respectively.
- Ramsfield Hospitality Finance, along with funds managed by AB CarVal, announced a $95.4-million mortgage for the 488-room Los Angeles Marriott Burbank Airport hotel.
- Flynn Properties secured a $30-million refinancing for the 83-key Madeline Hotel, Auberge Resorts Collection, in Telluride, Colo.
- Maxim Capital Group and Beach Point Capital Management provided a $55 million bridge for three Phoenix, AZ airport hotels, namely the Crowne Plaza Phoenix Airport, the Holiday Inn & Suites Phoenix Airport, and the Hilton Phoenix Airport.
- Franklin BSP Realty Trust, Inc. closed a $120-million loan facilitating the refinancing of a portfolio of 12 limited-service hotels located in California (7), Connecticut (3) and New Jersey (2). The portfolio totaled 1,313 hotel rooms spread across six different hotel chains, including Residence Inn and Hilton Garden Inn. Driftwood Capital provided a co-terminus mezzanine loan of $20 million, for a combined loan of $140 million.
- State Bank of Texas provided a $35-million mortgage to an affiliate of McSam Hotel Group in connection with the nearly completed 20-story 200-key SpringHill Suites by Marriott hotel in Times Square New York.
- An affiliate of a European-based investment bank provided $24 million of refinancing proceeds in connection with the 273-room Crowne Plaza Indianapolis-Downtown-Union-Station in Indianapolis.
- Quadrum Global obtained a $82.5-million debt package from Affinius Capital (formerly Square Mile Capital) to refinance its 489-room Arlo Midtown hotel in New York.

- A joint venture between the LCP Group and Safanad provided an affiliate of The Relevant Group $33.3 million in refinancing proceeds for the 178-key Dream Hollywood in Hollywood, Calif.
- Barings provided a joint venture between Quadrangle Development Corporation and Capstone Development, LLC, a $101.5-million bridge loan to refinance the 504-room dual brand Courtyard/Residence Inn by Marriott Washington Downtown Convention Center in Washington, D.C.
- Barings Real Estate and Mack Real Estate Credit Strategies joined forces to originate for The Robert Green Company a $133-million senior and mezzanine debt package for the 317-unit Pendry Hotel San Diego.
- JPMorgan Chase and Citi Real Estate Funding provided Soho House & Co. a 10-year fixed-rated, interest only $140-million mortgage to refinance the 50-suite Soho Beach House in Miami Beach.
- Barclays Capital Real Estate, Bank of America, Bank of Montreal, JPMorgan Chase Bank, and Societe Generale originated a new single-property $950-million commercial mortgage-backed securities offering to refinance Blackstone Real Estate Partnership VIII's 757-key Hotel del Coronado in Coronado, Calif.
- A joint venture between Oaktree Capital Management and Trinity Investments obtained a $515-million loan to refinance the 771-key Westin Maui Resort & Spa, Ka'anapali in Lahaina, Hawaii. The four-year, 7.75% fixed-rate CMBS loan was originated by Morgan Stanley and German American Capital Corporation, an affiliate of Deutsche Bank.
- Doradus Partners and its affiliated management company Yedla Hotels secured a $145-million floating rate loan through Aareal Capital Corporation to refinance a 997-key portfolio of four newly developed, Marriott and Hilton branded select-service hotels located at Flamingo Crossings Town Center, located at the western gateway to Walt Disney World Resort in Orlando.

Construction Financing

- Affiliates of a joint venture that includes OKO Group and Access Industries secured a $242-million construction loan from Bank OZK for the 56-key and 23-luxury condominium Aman Miami Beach development.
- Artemis Real Estate Partners provided Donohoe Development with a four-year with extension options $74.7-million construction loan to build a dual-branded 147-room AC Hotel by Marriott and 120-unit Residence Inn by Marriott at Reston Town Center in Reston, Va.
- VICI Properties Inc. provided a construction loan for up to $287.9 million to Great Wolf Resorts, Inc. related to the development of the 549-room Great Wolf Lodge in Mashantucket, Conn.
- Development firm Welcome Group secured a three-year with two one-year extension options $36.8 million loan from East West Bank to build a 194 room AC Hotel by Marriott in the Playhouse District of Pasadena, Calif.

- Bayview PACE provided a joint venture between Waterton and Argosy Real Estate a $19.8-million financing agreement for the construction of a new 125-room hotel in Oakhurst, Calif., roughly 16 miles south of Yosemite National Park.
- A joint venture between Flintlock Construction and Atlas Hospitality obtained from Beach Point Capital Management, $120-million three-year floating-rate loan with two one-year extension options construction financing to develop a 32-story 401-key Voco branded hotel in Times Square in New York.

Interest rates are not historically high, yet borrowers have been hamstrung due in part to the historical capitalization rate compression that has occurred over the past decade, combined with a widening spread from lenders. The pullback in overall leverage that debt providers are willing to lend at is tied directly to capitalization rate inflation concerns.

Recent rising debt costs and tightening lending standards have exerted negative pressures on commercial real estate values. While obviously a risk for existing property owners, investment opportunities will evolve as trillions of dollars of commercial real estate debt matures over the next several years. The bulk of this debt originated when base interest rates were near zero and will need to be refinanced in an environment where rates are much higher and in a market with much less liquidity.