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Hotel Capital Markets - Debt Financing
Q1 2024 Status Update

The HREC Capital Markets Team met with dozens of hotel capital sources at the annual Mortgage Bankers Association Conference in San Diego – we'd like to share our timely review of the state of the hospitality finance market based on discussions with lenders and hotel investors through the first few months of 2024.

- Participants are optimistic that 2024 hotel debt originations will increase after a 2023 market that featured headwinds of rising interest rates, banking turmoil, stalled RevPAR growth, and rising expenses, all of which contributed to a widening of bid/ask spreads.
- While fixed-rates have rapidly improved (10-year treasuries down 80 basis points from October 2023 highs, CMBS spreads down 75 basis points from November highs), the prospect for further interest rate declines are muted.
- Floating rates, which are directly tied to the Fed Funds rate, remain stubbornly high in spite of declining spreads. Participants are less optimistic about significant Fed cuts in 2024 than in December.
- MBA Conference attendance was down – the herd has been thinned given the absence of bank lenders who have been sidelined, and non-bank lenders on hold given legacy loan issues and reduced means to lever loans.
- Stabilization in interest rates and hotel NOIs, combined with ample lender appetite from non-bank hotel lenders should lift transaction volume in 2024.
- We foresee this being a strong year for refinancings given more a more stabilized capital markets environment, a wall of maturities, and banks' reduced appetite to "extend and pretend".
- Construction lending remains very difficult given high rates and construction costs, and the pullback from banks. PACE lending, however, is gaining acceptance and helps to reduce the cost to construct.

Current Middle Market Hotel Rates - HREC Monitor - March 2024

	Term	Min T-12	Min Year 2	Max	Midpoint	Midpoint		
Lender Type	(Years)	Debt Yield	Debt Yield	LTV	Spread	Index	Rate	Amort
CMBS - Full Leverage	10	12.0%	NA	65%	3.00%	4.18%	7.18%	30 yr w/ IO
CMBS - Moderate	10	13.5%	NA	62.5%	2.75%	4.18%	6.93%	30 yr w/ IO
CMBS - Full Leverage	5	12.5%	NA	65%	3.75%	4.16%	7.91%	30 yr or IO
CMBS - Moderate	5	14.0%	NA	60.0%	3.50%	4.16%	7.66%	IO
Life Company	5, 7, 10, 15	13.5%	NA	55-60%	2.75%	4.16%	6.91%	25 yr
Bank - Recourse	3, 5, 7, 10	1.35x dscr	1.35x dscr	50-65%	2.75%	4.16%	6.91%	25 yr
Bridge - Light Lift	2+1+1+1	10.0%	12.5%	65-70%	4.25%	5.32%	9.57%	IO
Bridge - Heavy Lift / Recap	2+1+1+1	Varies	12.5%	65-70%	5.50%	5.32%	10.82%	IO
Non-Bank Construction	3+1+1	NA	12.5%	65-70%	6.50%	5.32%	11.82%	IO
Private Money	2+1	0.0%	12.5%	65-70%	7.00%	5.32%	12.32%	IO
SBA 504 (1st & SBA blend)	10,20,25	1.20x dscr	NA	80-85%	3.02%	4.16%	7.18%	25 yr
Bank - SBA 7a	25	1.00x dscr	NA	83%	1.00%	8.50%	9.50%	25 yr
Pace Lending	20-25	0.0%	1.30 DSCR	30%	3.50%	4.18%	7.68%	25 yr

The above indications are estimates based upon recent quotes and lender feedback - actual rates will vary.
For deal-specific guidance, contact Greg Porter gporter@hrec.com, 949-500-7314 or Justin Goodenow, 248-345-7674

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Notes on Hotel Lender Types:

CMBS

- Appetite for hospitality lending has been stoked by ability to increase hotel allocations in CMBS pools from 15-20% to 20-25%, thanks to reduced allocation limits on office loans.
- Sizing to a 11.5%-12.5% debt yield.
- CMBS + Mez provides an avenue to fixed-rate non-recourse financing up to 1.20x DSCR on IO basis.
- Spreads have come in significantly since December. Combined with lower Treasury rates – CMBS rates are down 150 basis points from Q4 2023 highs.
- 5-year term, all Interest Only comprises 80% of CMBS volume today, as borrowers bet that rates will be lower 5 years from now, and favor the flexibility of 5-year terms.
- Rate buydowns (1% fee to buy rate down 25 basis points) are becoming popular.
- Pre-funded earnouts are back on the table.

Debt Funds

- Several private equity and hotel shops have established new debt funds without legacy issues.
- Lack of sales volume has led to debt funds financing a larger percentage of refinances/recapitalizations than usual.
- Appetite is strong but rates have muted volume.
- Sizing to SOFR+400 for lighter lifts, can get up to +600 for larger lifts or construction.

Life Companies

- Allocations to hospitality continue to increase as office appetite wanes.
- Strong appetite for bread and butter limited/select service and extended stay product.
- Growing stable of Life Cos offering short term bridge solutions.

Banks/Conventional

- Banks are largely either on the sidelines, or limiting financing to existing relationships with significant deposits held at the bank.
- Bank attendance at the MBA conference was way down – why go if you have nothing to pitch?
- "When regulators are camped in your conference room, it tends to chill your committee members' appetite to write new loans."
- Upshot to hotel owners: Cherish your existing relationships with active bank lenders, because forming new bank relationships is as challenging as ever.

SBA

- Plenty of appetite among 7a and 504 lenders – sizing to an 80/85% LTC that can still cover a 1.20x DSCR.
- SBA 504 blended rates between the conventional piece and the SBA piece are around 7.50%.

Need to refinance? Need acquisition financing?

Reach out to an HREC Capital Markets Team Member today for a complimentary evaluation.

HREC Capital Markets is the dedicated hotel finance arm of HREC Investment Advisors, a leading hospitality brokerage firm with 21 offices across the country.

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