Key Hotel-Related Takeaways

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Mortgage Bankers Association's

CREF/Multifamily Housing Convention & Expo 2016

HVS

Uncertainty in the CMBS market has slowed investment in commercial property, including hotels. Experts at the recent CREF conference, however, expect the impact to be temporary.

Dubbed "CREF '16: Where Market Makers Meet," the 2016 Commercial Real Estate Finance (CREF)/Multifamily Housing Convention and Expo, run by the Mortgage Bankers Association (MBA), brought together more than 3,000 mortgage professionals eager to share intelligence on the changing market for commercial property loans. The event kicked off with a Pro Bowl party, and legendary college head coach Lou Holtz addressed and mingled with the crowd Sunday afternoon.

The high energy prevailed throughout the four-day event, boosted by the sentiment that commercial property stakeholders collaboratively have the power to bring deals and projects to fruition. This includes hotels, a segment that has garnered increasing interest among investors. Here are some of the key takeaways.

Amid a Skeptical Global Market, U.S. Commercial Real Estate Remains Attractive

The CREF conference addresses investments related to all commercial property types, with a focus on industrial, multifamily, and office properties. Forecasts were generally positive across the spectrum. According to David H. Stevens, CMB, President and CEO of the MBA, this $3-trillion industry is very attractive to investors in the U.S. and worldwide. U.S. commercial real estate lending is quickly emerging as the world's fourth major global investment asset class. In the midst of the recent shifts in the Chinese economy, the drop in oil prices, and questions about the rising government debt of many foreign countries, the strength and stability of the U.S. commercial real estate market looks very attractive.[1]

Michael Fratantoni, MBA Senior Vice President and Chief Economist, expects the Federal Reserve to raise interest rates—despite global market conditions—numerous times over the next two years. HVS anticipates the higher spreads in basis points to result in an overall weakening of the CMBS market, with fewer loans being packaged for securitization. This could affect the amount of capital available to refinance loans that are coming to term in 2016 and 2017, resulting in a rise in bridge and mezzanine loans until the CMBS market moves back to a higher capacity.

Uncertain Outlook for Commercial Lending, Including Hospitality

Many of the perspectives on CMBS from January's Americas Lodging Investment Summit (ALIS) in Los Angeles were reinforced at CREF '16. Essentially, commercial loans will still be available this year, though at a lower volume than in 2015. Underwriting standards for CMBS have loosened in the last few years, which has helped hoteliers and developers move forward with projects. The lending channels, however, are not nearly as free-flowing as they were prior to the recession. Given the multi-layered questions facing global markets, presenters at the CREF conference were leery of making specific forecasts for 2017.

Cap rates, which had been increasing as a result of actions of the Federal Reserve, are expected to moderately increase. The Federal Reserve's future intentions, widening spreads in the CMBS markets, and factors related to the stability of international markets could all influence cap rates going forward.

Despite the uncertainty in the financial markets, hotel bookings and profit margins should continue to increase, according to experts. The drop in oil and gas prices, especially, should bring about a rise in domestic travel and hotel bookings in 2016, and hotel market dynamics are anticipated to remain strong. Nationwide, new supply growth averages less than 2%, although markets including Seattle, New York, and Nashville have experienced significantly higher levels of new supply. Energy-driven markets such as Houston and North Dakota have been more heavily impacted by the current oversupply of oil and gas. Overall, HVS expects national RevPAR to increase approximately 4% in 2016.

Conclusion

Despite the uncertainty clouding the market, official news, presentations, and informal discussions at the CREF conference reflected an optimistic outlook for lending for commercial properties, including hotels. According to MBA CEO David H. Stevens, commercial and multifamily mortgage lenders have "strong appetites" for new loans. Furthermore, Mr. Stevens stated, strong market fundamentals and the maturation of ten-year loans this year and next should produce strong demand from borrowers.[2]

The total percentage that the hotel finance industry will contribute to this projected historic rise is yet to be determined given the uncertainty in the CMBS conduit market. Moderate supply increases, strong demand levels, and expected RevPAR growth, however, should continue to make hotels an attractive segment for investment in 2016.

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[1] Mortgage Bankers Association press release. February 2, 2015. https://www.mba.org/2016-press-releases/feb/remarks-by-mba-president-david-h-stevens-during-mbas-26th-annual-commercial-real-estate-finance/multifamily-housing-(cref)-convention-and-expo

2 https://www.mba.org/2016-press-releases/feb/remarks-by-mba-president-david-h-stevens-during-mbas-26th-annual-commercial-real-estate-finance/multifamily-housing-(cref)-convention-and-expo

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