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Yes, financing is available for NYC hotels

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In a time when nearly every bank is sitting on the sidelines in terms of providing financing for any real estate projects, a few pioneer lenders are stepping into the tepid, shark-infested waters and offering construction and permanent financing for boutique and limited-service hotels in Manhattan.

On New Year's Eve, one of New York's busiest developers of hotels, Sam Chang, chairman of McSam Hotel Group, closed on the financing for his latest Manhattan hotel. From the windy city of Chicago, Broadway Bank provided McSam with a $34.3 million construction loan for an unnamed boutique hotel being built in the Union Square area. The 11-story, 170-room hotel is located at 76 East 13th Street, at the corner of Fourth Avenue.

Late last year, Pacific National Bank, one of the most active lenders in 2008 for hotel construction financing, provided a $55 million loan for the construction of a 25-story, 116-guest suite boutique hotel at the corner of East 48th Street and Lexington Avenue. According to Mark Gordon, executive vice president of the U.S. Hotel Group at Cushman & Wakefield Sonnenblick Goldman, who arranged the loan, "This will be the first new hotel to be built in the Midtown submarket in many years, which underscores the viability of the New York hospitality market."

Hersha Hospitality Management, a leading hotel operator with over 9,564 hotel rooms, will manage the property upon its completion.

In November, Gemini Real Estate Advisors, the owner and operator of the limited-service Gem Hotels, acquired the recently completed Wyndham Garden Chelsea Hotel, the 17-story, 124-room, select-service hotel, located at 37 West 24th Street in the Flatiron District. Financing for the acquisition was provided by a prominent European bank. Gemini purchased the property from McSam Hotel Group, who entered a contract to purchase the hotel in 2006.

Even though the future may have seemed bright for the hospitality industry, one must remember that all of these loans, which closed in the fourth quarter, were originated earlier in the year. These financial institutions that provided the financing followed through on their commitments to fund the mortgages.

Two thousand and nine is a time when little or no financing is available for any commercial mortgages, especially for construction of new hotels. As noted in the Jones Lang LaSalle hotel report: "Lenders have become increasingly selective in underwriting hotel deals, and those lenders that continue to originate loans have inched up pricing while tightening other terms. If the hotel happens to be in a secondary market or has complicating factors, pricing can be as high as Libor plus 1000 [basis points] for low leverage senior debt."

In conclusion, financing for the hospitality industry remains available to a limited and highly selective group of borrowers.

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By Michael Stoler
