

Good News for Hotel Loan-Seekers:

SBA Announces It Will Continue Its 504 Refinance Program

U.S. HOTEL

APPRAISALS

By Russ Rivard, MAI



Hotel owners now have more options to refinance eligible fixed assets and business expenses through the U.S. Small Business Administration's 504 Refinance Program.

The U.S. Small Business Association (SBA) recently announced that it would resume its 504 Refinance Program, which gives "small business" hotel owners and operators options to refinance hotels and finance hotel projects such as major renovations. The refinance program originated as part of the Small Business Jobs Act of 2010 to help small businesses obtain capital at a time when the commercial lending market was frozen. The original 504 program expired in 2012. The good news for hoteliers is that now it's back and here to stay.

SBA Administrator Maria Contreras-Sweet set the future for the program through an interim final rule in the Federal Register released May 26, 2016. The resulting opportunities are immense, with \$7.5 billion now available to small businesses, including hotels. "Congress heard the combined voices of small businesses, lenders, and the SBA, and made the 504 Refinance Program permanent—a measure that I'm sure will prove essential in helping small business expand and strengthen the nation's economy," Contreras-Sweet said.

Cushioning the Stress of Interest Rates

Interest rates are closely watched by owners and developers of economy and budget hotels. Low interest rates offer opportunity, whereas a rise in interest rates can shut a project down. Many economists expect interest rates to begin to rise, which creates challenges for hoteliers and other small business owners looking to qualify for a conventional refinance loan.

Under the new SBA 504 Refinance Program, however, a bank and SBA-certified lending partner will provide 90% financing, leaving an owner responsible for just 10% down. The SBA's 504 program also locks in a lower rate for hotel owners (the current SBA 504 loan rate is approximately 4.30%), and this rate is fixed for 20 years. This lightens the burden of monthly debt payments for hoteliers, allowing them to improve cash flow and stabilize operations. The program also allows for refinancing commercial real estate debt, as well as other business debt and expenses.

According to Scott Corrigan, Managing Director of Hospitality Finance Solutions, the endurance of the SBA's 504 Refinance Program provides hoteliers with a friendly avenue for new loans

as their existing loans mature. "A lot of CMBS [loans were issued] between 2006 and 2007. Many of these ten-year matures are set to come due within the next 12 to 18 months," said Corrigan. "Many of the loan balances are between \$5 million and \$10 million, which is the sweet spot for the [SBA 504] program; [moreover,] many of these properties were probably over-leveraged in 2007 and will need 80%-plus leverage again today." Corrigan's insights make it clear how much the continuance of the SBA 504 program is needed right now. "This loan structure will definitely be beneficial to hoteliers and the industry as a whole," he said.

Lower-Cost Loans Lead to a Stronger U.S. Hotel Industry

As new questions arise about the overall outlook for the U.S. economy, fueled by stalls in hiring and other recent data from the labor market, hotel owners and operators are hailing the SBA's success in pushing for permanence in the vital 504 Refinance Program. The healthier, more diverse lending environment that the SBA's program helped catalyze has led to greater strength in the U.S. hotel industry, which has continued to realize positive revenue performance and value growth. In this environment, many hoteliers are choosing to sell or refinance their properties, and for them, the low-interest loan options provided by the SBA are well worth looking into.

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About the Authors



As Managing Partner of U.S. Hotel Appraisals, Russ Rivard coordinates an integrated team of appraisal and support professionals to conduct more than 500 limited- and select-service hotel assignments each year. Russ earned his master's degree from the University of Arkansas in Operational Management and is experienced in rooms division management. Russ is a state-certified appraiser and an associate member of the Appraisal Institute. He regularly represents U.S. Hotel Appraisals at industry events, sharing insights gained from thousands of hotel assignments and nearly two decades in the industry.

Russ Rivard, MAI
(214) 766-5394 | rrivard@ushotelappraisals.com

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