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Hotels Bear the Brunt of Rising Financing Costs

Those hoping that this would be the season for strong hotel and hospitality growth may have to cool their jets a little longer, according to investment analysts speaking at a recent conference and other experts.

The Americas Lodging Investment Summit (ALIS) Summer Update 2022 conference – hosted in New York in July – included a "Wall Street Outlook" panel featuring investment bank executives and a discussion of how financing deals in hospitality are also hampered by rising costs.

"Still Attractive"

The speakers characterized the hospitality sphere in the US as being one that is still attractive to Wall Street bankers and investors, but cautioned that the market drivers include inflation outlook and the cost of credit. The latter was raised by Croft Young, Managing Director of Real Estate, Gaming and Lodging at Morgan Stanley.

According to CoStar's coverage, Young said "the cost of borrowing is now close to 7.5% when many loans were at 4% or lower. Inflation is going to push owners' net operating income beyond the SOFR curve." This "bit of flux", he added, would "put a damper on transactions in the near future."

Still Recovering

With international and domestic tourism severely curtailed during 2021 and 2022, hotels and hospitality real estate were among the hardest hit by the pandemic-specific economic conditions – both in the US and abroad.

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Although there are strong indicators for recovery in many regions in 2022, tourism-related property has had to adapt or innovate to survive the last few years and many did not.

The American Hotel & Lodging Association (AHLA) 2022 State of the Hotel Industry Report says the "next phase of recovery will be uneven, potentially volatile".

Specifically, their research and analysis (for AHLA by Oxford Economics) forecasts:

- "Hotel room night demand and room revenue are projected to nearly return to 2019 levels in 2022".
- "Room revenues are projected to reach $168 billion, within 1% of 2019 figures and an increase of 19% compared to 2021".
- "Occupancy is projected to hit 63.4%, nearing the 66.0% rate achieved in 2019 and far above the 44% and 57.6% reached in 2020 and 2021, respectively".

"Neutral" Grading

Also in July, Fitch Ratings revised its US Commercial Mortgage-Backed Securities (CMBS) 2022 hotel, multifamily and industrial sector outlooks to "neutral", from "improving". This, says Fitch, "following a broad, mid-year reassessment of outlooks across all sectors".