

Investment in commercial property is on the rise, and various market dynamics—including lower cap rates—have shifted greater focus to the sale and development of hotels.

The 2015 Commercial Real Estate Finance (CREF)/Multifamily Housing Convention and Expo, run by the Mortgage Bankers Association (MBA), was quite a showcase. Dubbed "CREF 15: Where Market Makers Meet," the conference exuded energy from beginning to end, with the prevailing sentiment being that commercial property stakeholders, from owners and developers to investors and appraisers, collaboratively have the power to bring deals and projects to fruition. This includes hotels, a segment that has gained increasing interest among investors.

The MBA hosted a Super Bowl party to kick off the event, with NFL Hall of Fame running back Eric Dickerson addressing and mingling with the crowd Sunday afternoon. The celebrity presence, the historic game, and more than 3,000 mortgage professionals eager to share intelligence got things off to a motivating start. Here are some of the key takeaways.

Lower Interest Rates, More Commercial Property Loans

The CREF conference deals with investments related to all commercial property types, with a focus on industrial, multifamily, and office properties. Forecasts were generally positive across the spectrum. The MBA released a statement projecting \$414 billion in commercial and multifamily loan originations in 2015, rising to \$430 billion in 2016.¹

The prolonged spell of low interest rates has caused apartment development and lending to cool, but the development of individually owned condominiums and complexes has replaced apartment development as the leading commercial product. Strengthening dynamics in the commercial office market nationwide have made Class A and B office space more desirable, and projects are picking up. The industrial category continues to lag, primarily because the market for manufacturing in the United States, while growing, still suffers from oversupply.



The rise in development and lending for these commercial real estate projects helps support a positive outlook for the U.S. hotel industry, which has realized, overall, impressive performance figures over the past twelve months. More office space generally brings more commercial hotel demand to a market, and large-scale construction projects such as an office building or condominium complex generate demand for local hotels. Moreover, the lending atmosphere that enables funding for such projects extends to hotels as well, giving hoteliers and investors reason to pursue capital and loans—a pursuit that just a few years

ago would have been bogged down in the torrent and aftermath of the recession.

Healthy Outlook for Commercial Lending, Including Hospitality

While the CREF conference was not hotel specific, many of the large CMBS January's Americas Lodging Investment Summit (ALIS) in Los Angeles were reinforced at CREF 15. This year is expected to be very strong for commercial lending, and given the continuance of sound economic conditions in the U.S., 2016 should follow suit.

Cap rates, already on the decline, are expected to continue to drop, especially in primary/gateway markets. Los Angeles and New York stand as two examples of this dynamic, with both markets having had transactions with cap rates in the range of 7% to 8%. Cap rates are also falling in secondary and tertiary markets, particularly on professionally managed and/or nationally affiliated assets. The overall decline in cap rates bodes well for both owners and investors, increasing the market value of existing assets, equity in the real estate, and increasing the appeal for owners to sell assets while market conditions are in their prime.



The growth in commercial investment, combined with the favorable cap rate trends seen in many markets, bodes well for the hotel investment market. The multifamily segment was the first to recover from the Great Recession, but the number of multifamily projects has resulted in a spike in supply. Hence, investors and lenders are looking at other commercial real estate investment options, including hotels.

Conclusion

Discussion and news from the conference leaned heavily toward optimism. "Commercial and multifamily real estate finance markets are strong," said Jamie Woodwell, Vice President of Commercial Real Estate Research at the MBA. "Rising property values, improving property fundamentals, low interest rates and higher loan maturity volumes should all help boost mortgage borrowing and lending in the coming year."²

These favorable investment parameters have clearly helped increase interest in the hotel segment, which is once again becoming popular among non-traditional lending and investment groups. With many multifamily and office developers now looking to channel investment into hotels, and with performance levels and property values for the U.S. hotel industry on the whole continuing to improve, hotel-focused conference-goers left CREF 15 in high spirits.

¹ Mortgage Bankers Association press release. February 2, 2015. <http://www.mbaa.org/NewsandMedia/PressCenter/90503.htm>

² Mortgage Bankers Association press release. February 2, 2015. <http://www.mbaa.org/NewsandMedia/PressCenter/90503.htm>