

## Key Takeaways: The CREF/MBA Conference 2017

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HVS again hosted a booth at this year's Commercial Real Estate Finance (CREF)/Multifamily Housing conference, run by the Mortgage Bankers Association (MBA). More than 3,000 mortgage and lending professionals attended the CREF conference, one of the biggest annual gatherings focused on commercial real estate assets. While hotel-specific data and discussions are only part of the overall scope at the conference, many of the insights, observations, and predictions for commercial properties also apply to hotels.



Here are some key conference takeaways, along with insights on how they could affect the U.S. hotel industry in 2017.

### Tax Reform and Immigration

Conference speakers and delegates spoke to uncertainty on how new policies on taxes and immigration will affect performance, lending, and development of commercial real estate, including hotels. No one knows what new tax legislation would entail once implemented, but David H. Stevens, MBA's president and CEO, put it starkly: "If you thought '86 was a big deal, I encourage you to buckle up"—a reference to the 1986 Tax Reform Act and its ill effects on commercial real estate well into the next decade.

Essentially, a change or repeal of the current tax code covering commercial real estate could adversely affect lending for hotels. If property values depreciate, investors could pull out of certain asset classes because they won't want to diversify portfolios with properties that don't offer a tax break.

With so much new development in the planning phases or underway, lenders are also concerned with immigration policy shifts and their effect on the labor supply. Lenders take into account the cost of construction, and if those costs rise or a project is delayed, the balance shifts. Even the supply of skilled laborers, in addition to onsite day workers, could fall short, costing developers more, lengthening project timelines and creating more risk, or at least caution, among lenders.

### Lending

The common view at the CREF conference foresaw commercial real estate builds, transactions, and lending keeping par with levels from last year. Interest rates, however, are poised to change significantly, with between two and four projected hikes of the benchmark interest rates by the Federal Reserve in 2017. Still, the sentiment seems to be that there is enough capital in play to make deals.

Notably, CMBS lending has been virtually nonexistent since November 2016, though the volume of CMBS loans

#### Summary

This year marks a decade since the last peak in commercial real estate. Speakers at the 2017 CREF conference predict stability in lending activity, though tax and labor issues could curtail new construction.

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has picked up over the past several weeks. Lenders note that it's been ten years since the last peak of the cycle (2007), and a huge number of loans are coming due this year. There had been concern that there wouldn't be enough money in the CMBS pipeline to cover refinancing on all the properties (hotels included) with maturing loans. But the bridge and mezzanine lending offered over the past decade has served as strong connective tissue, allowing lenders and borrowers to continue to make deals.

## Conclusion

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Some hotel-specific insights came from discussions at the HVS booth. One of the effects of tax reform is consolidation of hotel and resort brands from the top down. As ownership groups that could lose tax breaks on their properties look to unload, larger corporations have the opportunity to absorb properties under their brands. Vail Resorts, for example, recently acquired its first East Coast ski resort, and more of this kind of consolidation is on the way.

In the end, lenders at the CREF conference advised on having a solid sponsor for real estate projects. The current lending environment is unlikely to provide for 20% or even 15% loan-to-value deals. But strong projects based on the value of an asset, strong trailing-twelve-month numbers, and an ownership group that can afford to keep up with debt payments and avoid default will have the best chance of securing a loan going forward.

### About **Brett E. Russell**



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