

**RealShare EXCLUSIVE** Last updated: April 17, 2008 11:50am

## Scarcity of Capital Causes Debt Disconnect

By *Natalie Dolce*

NEW YORK CITY-There is a scarcity of capital out there and Wall Street investment banks have a limited appetite for hotel debt, agreed sources at Real Estate Media's [RealShare Hotel Investment & Finance Summit](#) earlier this week. The "Town Hall Meeting," moderated by Scott Stephens, principal of HREC Investment Advisors took the audience of more than 350 on an in-depth look at the debt and equity capital markets and helped shed some light on how the credit crunch is affecting the hotel investment and development market.

Greg O'Stean, EVP and managing director at GE Real Estate, told the audience that underwriting hasn't really changed that much. "The market has changed, but we have kept our basic standards." He continued that there has been a bit of a shift from last year. "Today we have a mixture of center cut deals."

Angelo Stambulus, VP of hospitality at Capmark Finance, agreed with O'Stean's comments, noting that the market has definitely changed, however he said that spreads have widened. "There is a scarcity of capital out there. Wall Street investment banks have a limited appetite for hotel debt."

Stambulus explained that "we are back to the basics," a [point](#) that was stressed throughout the day by other participating speakers and panelists. "We are back to underwriting principals."

Much change has happened since the conference last year, Stambulus said. "We are looking at selective loan purchases that are being marketed for sale from other lenders. We see returns better for existing assets so we are deploying out money in that direction."

Bernie Siegel, principal of KSL Capital Partners, noted that from a buyers' prospective, capital structure is entirely different today. "Supply and demand fundamentals have changed dramatically. We are looking at supply more carefully." He explained that there is a disconnect in debt financing. "We came here from four years of record transaction volume. We aren't going to see those numbers for a while due to [lack of debt](#)."

Siegel said that on the lodging side, those who are in the market right now have to have a reason to be. "Broken deals are rampant now. I think we are going to see more opportunities going forward." Siegel did note, however, that he believes the second and third quarter will be tougher for business and that 2009 might be challenging in some markets.

Jack vanHartesvelt, SVP and principal of Kennedy Associates Real Estate Counsel, agreed with Siegel in that he is seeing a lot of broken deals at the moment, however he said that he feels good about the future of the industry. "We underwrite looking at long-term fundamentals of the industry. Right now, there isn't enough money out there, and prices need to drop."

As far as a recession goes, vanHartesvelt said that "whether we are or aren't, demand for hotel rooms is directly correlated to GDP. Based upon that, I would say that we weren't in one in January and February, but if we are in one now, it is pretty mild. I think we are going to be in this for a relatively short time." He continues that now is the time to buy properties in you want them at a cheap price. "Our demand is largely driven by our economy. I think foreign investors are looking at professional US investors, trying to get ideas from the US companies. If US companies are all sitting on the sidelines, foreign investors will most likely do the same. Foreign investors are not doing things that are opportunistic."

Bill Weber, director of Credit Suisse, agreed with vanHartesvelt that a "recession, if you call it that," won't last for too long. "There will be a period of stability until people get more comfortable."

Copyright © 2008 ALM Properties, Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited.

For reprint information call  410-571-5893  or e-mail [afaulkner@remedianetwork.com](mailto:afaulkner@remedianetwork.com).