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# 2017 EUROPEAN HOTEL LENDING SURVEY

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## Introduction

Through our work with hotel investors and developers, we have seen a major uptick in the availability of hotel financing across all European markets in recent years. The widespread availability of bank financing for hotels is partly due to stronger hotel market fundamentals and partly to a more resilient banking sector across most of Europe. Paired with historically low interest rates, this trend has resulted in increased transaction volumes with many deals seeing the use of all available debt.

### The Survey

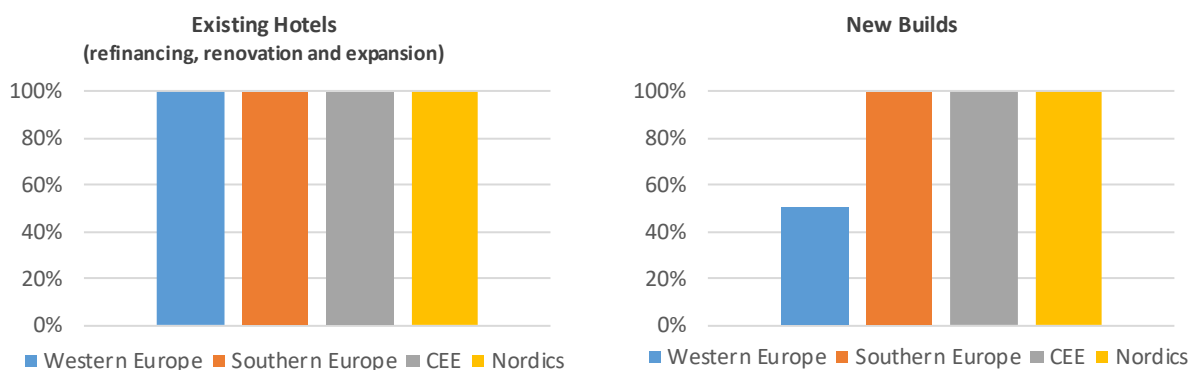
HVS London reviewed and analysed the current lending environment for hotels following a comprehensive survey conducted among hotel teams of leading European banks. The survey consisted of five questions, focusing on current lending parameters for hotels, loan characteristics as well as an outlook on lending criteria. Presented in this report are the consistent themes and trends uncovered.

## Results

### 1. Senior debt is available for all project types

Debt for hotels is available in Europe, albeit some regional differences do exist. Our respondent banks are all willing to issue senior debt for existing property acquisitions, refinancing, renovations and expansions. In the case of new hotel constructions, however, Western European lenders are much more cautious, with only 50% of lenders willing to consider these projects. This attitude mirrors their perception of the market being at a more mature phase in the cycle, resulting in more cautious lending and fears of possible oversupply.

FIGURE 1: AVAILABILITY OF SENIOR DEBT

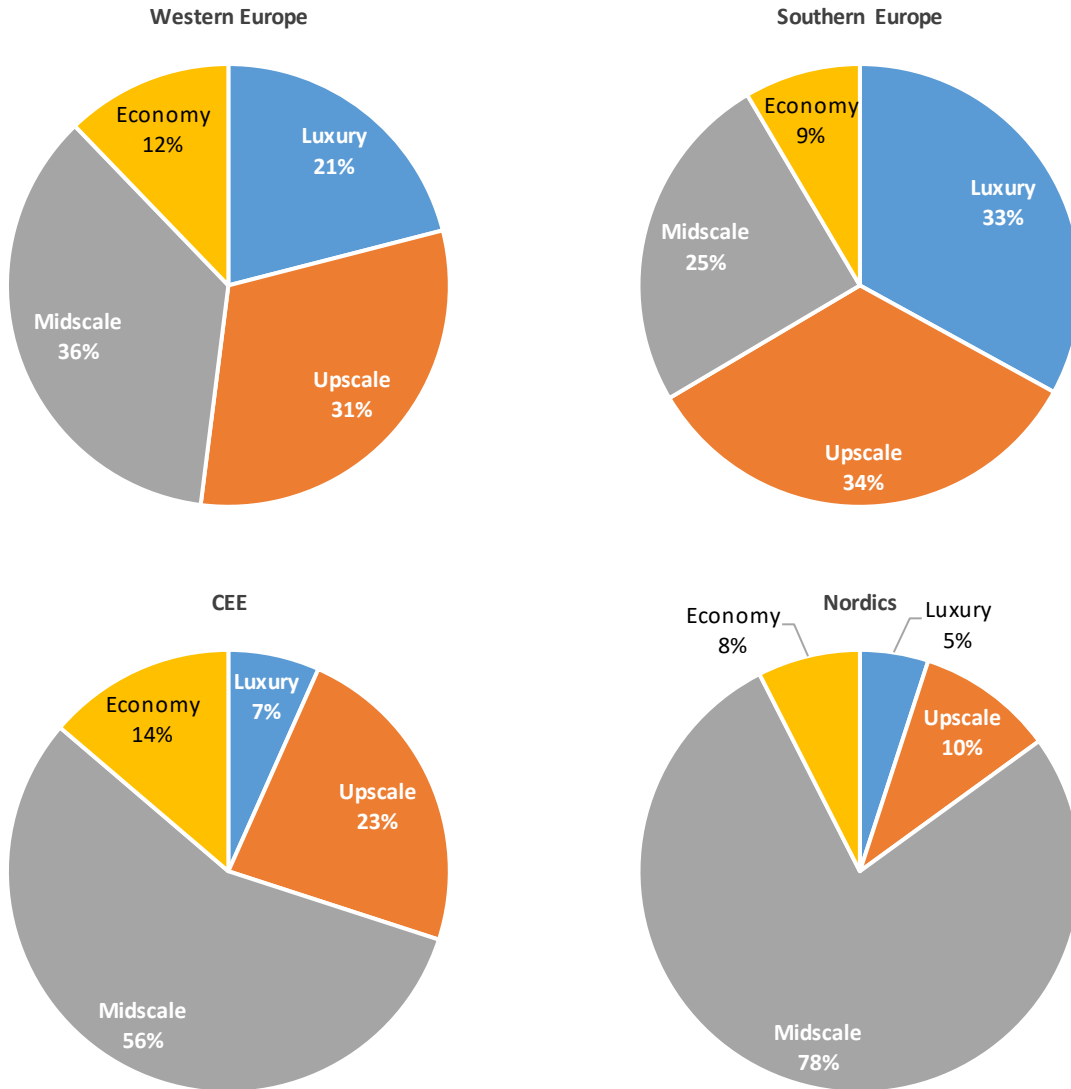


Source: HVS – London Office

## 2. Lenders prefer full-service properties at the higher end of the chain-scale segment

Overall, upscale and midscale hotels are the most favoured type of hotels to receive loans, followed by the luxury segment. Economy properties have received the least amount of financing from our respondents.

FIGURE 2: PORTION OF LOANS GIVEN BY CHAIN-SCALE SEGMENT

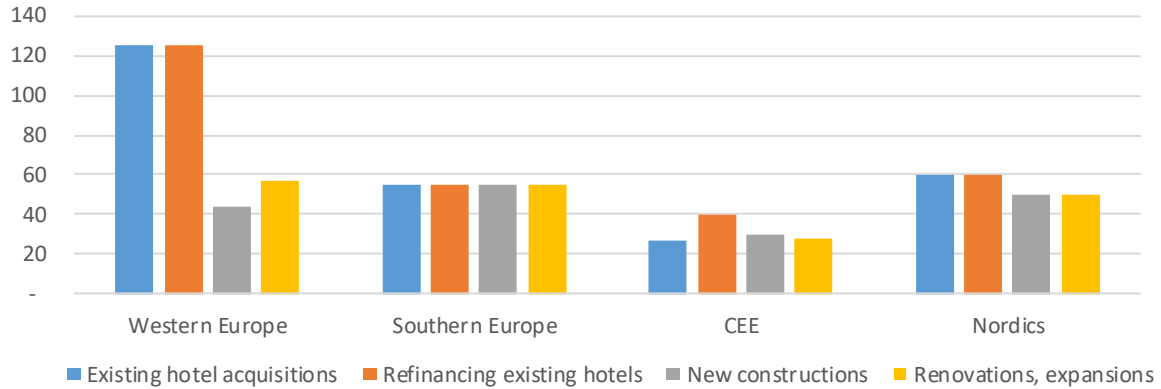


Source: HVS – London Office

### 3. The largest loans are originated by major Western European banks

In terms of the size of loans issued, Western European banks can issue the largest loans. As smaller regional banks are not able to finance projects above €250 million, their Western European counterparts often step in and provide syndicated funding for the largest projects across the continent. When originating syndicated debt, most responding banks can offer loans up to three times the size of non-syndicated financing.

FIGURE 3: MAXIMUM ORIGINATED LOAN SIZE (€ MILLIONS)

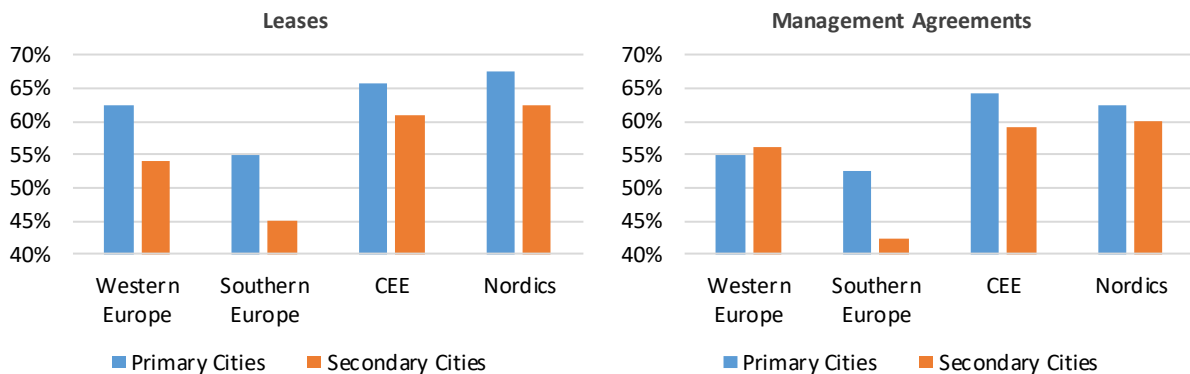


Source: HVS – London Office

### 4. Lending parameters in Western Europe are least stringent

Almost all respondents indicated a loan to value (LTV) ratio of above 50%, with the exception of secondary cities in Southern Europe. Unsurprisingly, primary cities tend to achieve higher LTVs, predominantly above 60% for leases, again with the exception of Southern Europe where the median LTV for primary cities is 52.5%. Furthermore, banks value the perceived lower risk profile of leased hotels across Europe and offer consistently higher LTVs for these properties than for hotels under management contracts.

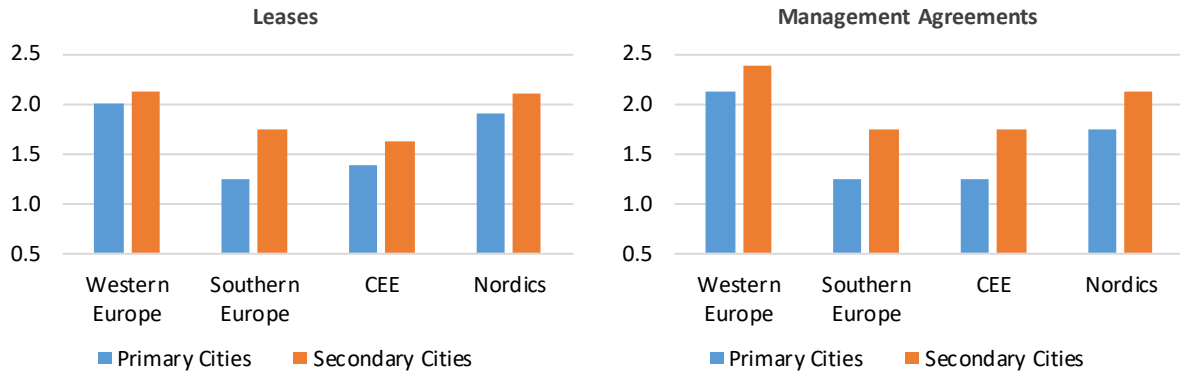
FIGURE 4: LTV RATIOS



Source: HVS – London Office

The same trend can be observed for debt service coverage (DSC) ratios, where respondents require higher DSC ratios in secondary markets and are more cautious about management contracts than for leased hotels.

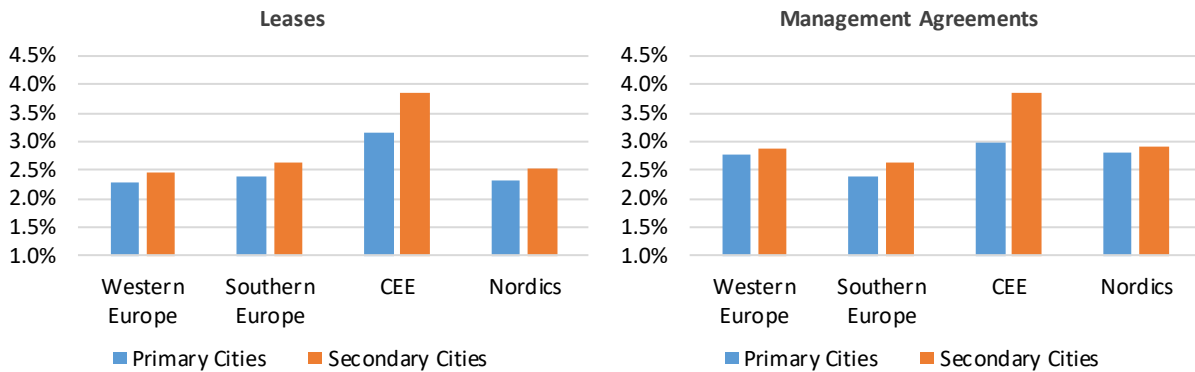
**FIGURE 5: DSC RATIOS**



Source: HVS – London Office

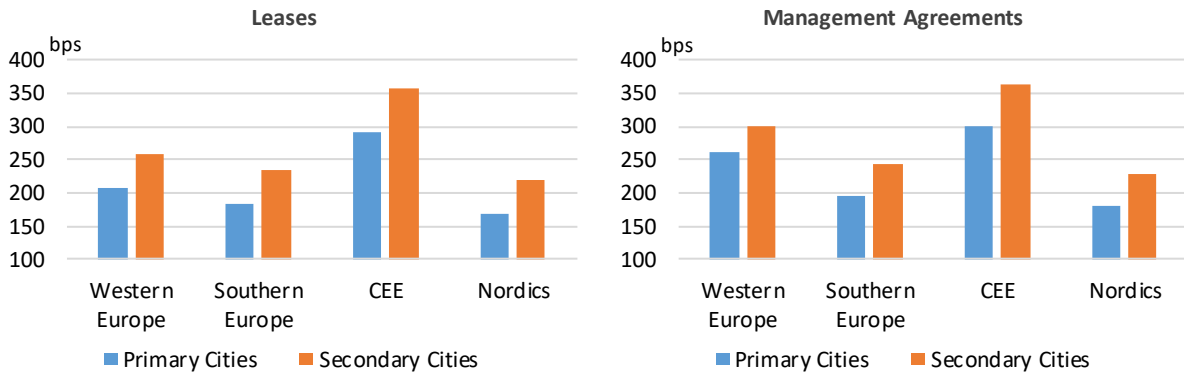
Fixed interest rates also showed less favourable terms for secondary markets, with interest rates in primary cities being at or below 3%. Interest rates for leased hotels in primary cities across different regions are surprisingly close, with very little regional variation except for the CEE.

**FIGURE 6: FIXED INTEREST RATES**



Source: HVS – London Office

**FIGURE 7: MARGIN ON FLOATING INTEREST RATES**



Source: HVS – London Office

Variable floating rates in basis points (bps) follow a more varied trend, with average margins ranging from 170 bps in primary markets in the Nordics to 360 bps in secondary markets in the CEE. The trends

observed in both fixed and variable interest rates come as no surprise and are in line with the generally perceived risk associated with various markets across the continent.

## 5. As bank lending tightens in the future, the shadow banking sector will fill the gap

In terms of the future outlook, responses showed significant regional differences, with Southern European banks being the most positive about hotel lending in the next 24 months. In the case of Western European banks in particular, answers were largely varied in terms of their outlook, with approximately the same number of banks predicting an increase in the size and number of their hotel loans, as those that predicted decreases in these categories. This uncertainty might be yet another signal of a possible tipping point in the cycle.

FIGURE 8: OUTLOOK ON LENDING CRITERIA

	Western Europe	Southern Europe	CEE	Nordics
Size of Loans	—	↑	—	—
Number of Loans	—	↑	—	—
LTV Ratio	—	—	—	—
DSC Ratio	—	↑	—	—
Interest Rates	↑	—	↓	↑
Proportion of hotel loans compared to other real estate asset loans	—	↑	—	—
Lending from Shadow Banking sector	↑	↑	↑	—

Source: HVS – London Office

Western European and Nordic banks have indicated that interest rates are likely to be on the rise again. While this does not come as a surprise considering the historical lows that interest rates are at currently, it is interesting to note that with the consensus for a possible ECB rate hike pushed out to mid-2018, it is likely that these banks might try to increase their margins in the coming years.

Whereas bank lending has undoubtedly been more available over the past few years with more favourable hotel market fundamentals across Europe, most banks are cautious about increasing their lending at the current stage of this cycle. With close to 60% of bank lenders agreeing that lending from the shadow banking sector will increase their activity in the future, investors and developers are getting more creative in filling the gap in lending.

## Conclusion

Despite Western Europe reaching a possible tipping point in the cycle and lenders becoming more prudent, our survey of European hotel lenders indicates a healthy appetite for hotel investments in Europe. With debt being generally available for all project types at historically low interest rates in most regions, borrowers with well-founded business plans should be able to secure financing for their hotel investments.

## About HVS

**HVS**, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries was established in 1980. The company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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**HVS Hodges Ward Elliott** is the hotel brokerage and investment banking division of HVS. Operating within the European marketplace, HVS Hodges Ward Elliott acts on behalf of its clients in the sale and financing of hotels. Assignments include individual assets and portfolios, with transactions having been successfully concluded in most major European markets.

For further information about the services of the London office, please contact Charles Human on +44 20 7878 7771 or [chuman@hvs.com](mailto:chuman@hvs.com).

The HVS logo consists of the letters 'HVS' in a white, serif font, centered within a red rectangular box. A thin white horizontal line is positioned above and below the letters.

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## About the Author



**Peter Szabo** is an analyst at HVS Hodges Ward Elliott, having previously worked at Horwath HTL's Budapest office. His primary responsibilities include financial analysis, development of marketing materials and due diligence.

Peter is a native Hungarian speaker and also speaks German. He holds a BSc (Hons) in International Hospitality Management from Ecole hôtelière de Lausanne with a specialisation in hotel development.