FINANCIALNEWS
HOTEL JOURNAL

FINANCING notes

ROCKBRIDGE CLOSES FINANCING FOR FL RESORT
RockBridge Capital, LLC has closed a $26.6-million first-mortgage investment to finance the acquisition of the 212-room Shores Resort and Spa in Daytona Beach Shores, FL.
The property is an oceanfront resort that recently underwent a comprehensive renovation totaling approximately $30 million. The property features a signature spa, restaurant, infinity pool, poolside bar and 15,000 square feet of meeting space.
The sponsor is private REIT Lowe Enterprises, which develops, owns and manages properties through its affiliated management company Destination Hotels and Resorts.

FIRST AMERICAN REALTY FINANCES TENNESSEE HAMPTON
Fairfield, NJ-based First American Realty Associates, LLC has arranged the $3.3- million acquisition financing of a 100-unit Hampton Inn and Suites in Pigeon Forge, TN. The six-story hotel is operated by Mountaintop Management, LLC.
The property is 10 minutes from local attraction Dollywood and near other popular venues.
Joseph Epstein, president and founder of First American Realty, arranged the financing on behalf of East TN Holdings, LLC.

GE REAL ESTATE PROVIDES $16.9M FOR EMBASSY SUITES
GE Real Estate has provided a $16.9-million flexible-rate, on-book loan to the Shamrock-Hostmark Hotel Fund, LP for the acquisition and renovation of a 198-room Embassy Suites in Palm Desert, CA.
The three-story property, which opened in 1984, has been underperforming during the past three years, according to the company. However, GE, also an equity investor in the fund, seeks turnaround investment opportunities.
According to Susan Lee Furbay, director of GE Real Estate's North American lending hospitality group, the two companies "share a commitment to fiscal responsibility with a sharp focus on investments that take advantage of opportunity-based assets."
The property also is considered attractive as tourism is increasing in the area, she noted. It will retain the Embassy Suites flag.

WIEN AND MALKIN INFUSES $9.4M INTO FOUR SEASONS
Wien and Malkin Strategic Capital IV, LP has invested $9.4 million into a Four Seasons hotel, condo and fractional-unit development under construction in Vail Village, CO.
The investment, which is for a three-year term with two, one-year extension options for the developer, completes a financing package that's in excess of $225 million for the 121-room luxury hotel and 35 condo apartments, 16 of which are being sold as whole-ownership units. The remainder will be sold as fractional units.
The developer is Minneapolis-based Vail Development, LLC. Layton Construction Co. of Salt Lake City is the general contractor.
The project, for which ground was recently broken, is scheduled for completion in August 2009.
According to George Perry, senior vp and director of investments for W&M Properties, which sources and structures investments for the Strategic Capital program, Wien and Malkin worked with the senior and mezzanine lenders to fill a gap between the institutional package and the sponsor's equity.

AZTEC ARRANGES $70M REFI FOR TWO SHERATONS
Aztec Group, Inc. has placed a $70-million first mortgage on the Sheraton Miami Mart and the Sheraton Orlando Downtown in Orlando, FL.
The 334-room Sheraton Miami Mart includes 24,000 square feet of meeting space, a restaurant, a swimming pool, a 21-unit retail plaza and a 160,000-square-foot convention center. It was renovated and converted into a Sheraton in June of 2005.
The newly renovated Sheraton Orlando Downtown opened in January 2007 following a major renovation of all guestrooms and public areas. The property includes 341 guestrooms and suites, a restaurant, a bar, a pool and 16,500 square feet of meeting space.
Boaz Ashbel, Aztec's managing director, along with Jason Shapiro represented the borrower in the placement of these loans. "The borrower's cost of capital was significantly reduced with the creative structuring of the 10-year, fixed-rate loans on unstabilized assets," noted Shapiro.

— STEFANI C. O'CONNOR

Consider refinancing at the peak

I'm here to explore the current environment and options for long-term, fixed-rate financing of hotels. As a result, below you will find both recent beneficial shifts in hospitality lending and the risks associated with refinancing as the peak of the market cycle predictably gives way to down cycle effects.

The central theme surrounds the importance of proactively managing a hotel's mortgage financing costs to take advantage of refinancing opportunities and to reduce the possibility of financial distress in any business scenario.

The decision surrounding when to refinance a hotel's mortgage debt starts with the goals of the owner. Some hoteliers prefer to maximize the loan amount. Others seek payment savings. Many want it all. But unlike any other time in our industry, conditions in today's hospitality and capital markets will allow many owners to balance these goals. This is true because much has changed for the benefit of hoteliers since many of you last sought long-term financing.

The question then is, "When is the right time to refinance my hotel mortgage?" The recommendation here is to lock in the benefits of refinancing during today's optimal conditions. By proactively protecting cash flow you leave yourself room to maneuver as we inevitably slide into the down slope of the hotel business cycle.

Not so long ago, it was virtually impossible to get a loan greater than 70% loan-to-value. Today, owners can obtain a loan of upwards of 75% LTV in either a conventional or commercial mortgage-backed security conduit program.

The ability to refinance at a higher LTV creates an opportunity to recapture or "cash out" equity. A portion of the refinance proceeds are used to pay off the existing loan and the remaining funds (the recaptured equity) are returned to the owners so they can, for example, pay for property renovations, buy out remaining equity partners in the hotel, invest in another property or fund a retirement investment account.

The all-in interest rate on most fixed-interest rate, long-term hotel loans is comprised of a spread plus the prevailing 10-year Treasury yield. Today, the capital markets are such that spreads can be negotiated significantly lower than in the past; the current supply of capital and demand for hotel

MONEY talks

Cameron Larkin
First American Realty Associates, LLC

loans combine to benefit hoteliers. In addition, today's 10-year Treasury is historically low in comparison to the average of 5.88% since 1990. An improved all-in interest rate provides immediate cash flow savings to the borrower.

Savings are also achieved by increasing the amortization schedule over which loan payments are calculated. Whereas hotels typically garnered either 20- or 25-year amortization in the past, today it's possible to negotiate 30-year amortization. Longer amortization lowers monthly mortgage payments and further conserves cash flow.

Let's say you took out a $4-million CMBS/conduit loan on your hotel nine years ago at a fixed rate of 8.25% and 25-year amortization. The loan matures in eight months, but you can refinance early at a relatively low prepayment premium. In addition to refinancing the remaining $3.4-million balance, you want to recapture equity to invest in a new acquisition or development.

You want it all: a larger loan to recapture equity, a lower cost interest rate and longer amortization. The best of the below four options (see chart below) depends on the owner's unique needs and goals. In each scenario it's possible to realize considerable benefits by refinancing early to take advantage of today's favorable market.

Recent hotel valuations have increased dramatically with rising profitability, falling cap rates and a healthy investor appetite for our sector. Still, hotels are a risky investment. The future is not gloomy, but it is important to prepare for RevPAR decline.

Consider refinancing to lock in payment savings on your current hotel mortgage debt. It will be easier to ride out a down market when you obtained inexpensive debt during good times. Also, just because you're able to obtain a full-leverage loan doesn't mean you should borrow that much. Leave yourself some room to maneuver as we slide into the next phase of the cycle.

Cameron Larkin is the Dallas-based senior vp of hospitality financing and business development at First American Realty Associates, LLC. He may be contacted at cameron@firstamrealty.com.

Loan Variables	Current Loan (originated 1997)	Low Leverage (no cash-out)	Low Leverage (with cash-out)	Medium Leverage (with cash-out)	Full Leverage (with cash-out)
Net Operating Income	$695,000	$695,000	$695,000	$695,000	$695,000
Hotel Valuation	$6,153,846	$7,700,000	$7,700,000	$7,700,000	$7,700,000
Remaining Loan Balance		$3,400,000	$3,400,000	$3,400,000	$3,400,000
(plus) Equity Recaptured		$0	$1,200,000	$2,000,000	$2,400,000
Loan Proceeds	$4,000,000	$3,400,000	$4,600,000	$5,400,000	$5,800,000
Loan-to-Value (LTV)	65%	44%	60%	70%	75%
Treasury Rate (at rate lock)	6.35%	4.60%	4.60%	4.60%	4.60%
(plus) Spread	1.90%	1.10%	1.20%	1.25%	1.30%
Fixed All-in Interest Rate	8.25%	5.70%	5.80%	5.85%	5.90%
Loan Term	10 years	10 years	10 years	10 years	10 years
Remaining Term	8 months	10 years	10 years	10 years	10 years
Amortization	25 years	30 years	30 years	30 years	30 years
Annual Payment	$378,456	$236,803	$323,888	$382,282	$412,823
Debt Service Coverage	1.84	2.93	2.15	1.82	1.68
REFINANCING BENEFIT					
Annual Payment Savings		$141,653	$54,568	($3,826)	($34,367)
(minus) Prepayment Premium Cost		($65,960)	($65,960)	($65,960)	($65,960)
Annual Savings - Year 1		$75,693	($11,392)	($69,786)	($100,327)
(plus) Annual Savings - Years 2-10		$141,653	$54,568	($3,826)	($34,367)
Total Payment Savings		$1,350,567	$479,724	($104,217)	($409,629)
(plus) Equity Recaptured		$0	$1,200,000	$2,000,000	$2,400,000
	TOTAL BENEFIT	$1,350,567	$1,679,724	$1,895,783	$1,990,371