

A LOOK AT 2007 COMMERCIAL LENDING

Life Companies (LC) have started of conservatively. Look for LCs to write more structured finance deals this year after strong growth in their commercial lending programs last year despite increased competition from banks and conduits. LCs are not going to be able to tighten spreads much from where they are now, with some deals being done below 1% over Treasuries.

There are some concerns in the retail lending about DSC and refinance risk in this sector. On the other hand Hotel bridge loans are particularly hot with demand for established properties. Lenders see rising occupancy and average daily room rates combined with the high cost of development keeping supply in check for the hospitality sector in 2007. The most sought after property is the full-service hotel. The cost and time necessary to build a full-service hotel is prohibitively expensive, making existing properties a valuable commodity.

Construction lenders are expected to target developments of extended-stay and limited-service properties. These properties can be built in a relatively short time, usually 12 to 18 months. Look for community and regional banks to compete for these deals, especially when the developer is already a client and the project is local. The time to build a full-service luxury resort is roughly four years according to Hospitium, a hospitality research and consulting company, so look for these projects to get built with a residential component.