

# Hotel Financing: The 6 Best Types of Loans

Hotel financing has never been easier than it is today. There are many different types of financing options for hotel businesses. Each type of loan has unique parameters. This gives established and prospective hoteliers options for financing hotel developments.

The fundamentals of hotel financing are where any hotel business owner should begin. Hoteliers should understand how hotel loans work and the types of hotel financing before learning how to finance hotel development.

## What Is a Business Loan For Hotels?

A business loan for hotels is a sum of money lent out by a financial institution that gets used to fund hotel business operations. Hotel business loans are just like any other business loan. Business owners seek financial assistance to fund businesses related to their hotel.

Hotel funding gets approved by banks and direct hotel lenders like Avana Capital.

If approved for the loan, the hotel business owner can use the financing to assist with any aspect of the hotel. This can include renovations, equipment, or purchasing an old hotel.

The amount of financing correlates to the project or how established the hotel is in the market. Small hotels should remain grounded and seek loans in their scope. There are types of hotel loans that specifically assist small hotel businesses. Established businesses have more options because there is less risk for the lender.

## Types of Hotel Financing

There are several avenues hoteliers can take to finance their business needs. Picking the optimal hotel funding sources will ensure an easier loan experience.

### **SBA Loans for Hotels**

Small hotels can seek out loans from the Small Business Association. It is a government-funded financing system that gives loans to small businesses specifically. SBA loans are not exclusively for hotels. They are available to all types of businesses, from medical businesses to trucking.

SBA hotel loans can get used for acquiring old hotels, construction, or refinancing.

There are two common types of SBA loans available to hotels. SBA 7(a) is the most common type of small business loan. It has low-interest rates and a long repayment period.

SBA 504 is more complicated and can only get used to purchasing fixed assets like real estate

These two types of loans are available to all small businesses that qualify. There are specific small business loans catered towards those in minority groups. Small hotel businesses should exhaust all their options.

## **Mezzanine Loans**

Mezzanine loans are a financing option for established hotels. The reason for that is that mezzanine loans combine equity and debt to the lender. Hotel owners need to have a business that can provide equity. They get used for expanding rather than kickstarting.

Mezzanine loans provide sizable sums of money due to the significant collateral.

## **Hotel Bridge Loans**

Bridge loans are another form of financial assistance for established hotels. Bridge loans are short or medium loans that assist hotel owners through transitions. These are ideal loans for hotels purchasing new property or buildings and need cash to secure the deal.

Hotel bridge loans are for striking quickly on opportunities.

## **Business Line of Credit**

The line of credit is the easiest loan option. It is a helpful choice for new hotel business owners. The business line of credit has low-interest rates and only charges on what you use. The business line of credit can cover small renovations or new equipment related to your hotel.

## **Conventional Business Loan**

The conventional business loan is the standard type. Hotel owners that have established businesses, good books, and credit can take out a loan with a bank or financial institution. If your hotel is in good financial health, the business loan gets approved quickly. It provides more cash than loans for smaller hotels.

## **How Does a Hotel Loan Work?**

A hotel loan begins much like any other business loan. The type of loan will depend on the size of the hotel business.

Small hotels should pursue loans that get catered to small businesses.

- SBA 7(a)
- SBA 504

- A business line of credit

These are loans that small hotels are likely to receive. Banks that partnered with the SBA give out SBA loans.

Established hotel businesses have access to loans that provide generous sums of cash.

- Mezzanine loans
- Hotel bridge loans
- Conventional loans

Established hotels have access to these types of loans because it is less risky to the lender.

The process still operates about the same. Hotel businesses assemble a business plan and gather financial documents. These get presented to the financial institution and if everything is in order, they get approved for the loan. The amount of time it takes to get approved depends on the type of loan. Bridge and conventional loans are generally quickly approved.

## Hotel Funding Structure

The exact structure of the loan depends on the type of loan. Like most loans, the business owner repays over the course of a predetermined time.

SBA 7(a) gets structured with low-interest rates and a long repayment period.

Bridge loans have high-interest rates but get repaid quickly.

## Hotel Financing Qualifications

Some types of hotel loans are easier to qualify than others. Hotel loans are traditionally worth a lot because the hotel business is costly. Hotels purchase real estate, renovate entire buildings, and employ a lot of people. These higher costs correlate to high risk for the financial institution.

Hotel businesses have to go the extra mile to ensure they have an excellent business plan. Small hotels need a clear vision with a realistic way to get there. Since small hotels might not have much-established credit, the business line of credit is a good place to start. It is the easiest loan to get approved.

Loan approval for hotels comes down to credit, business plan, and established business. If a hotel has all three, the sky's the limit. Small hotels have to work their way up. It is possible through small business loans and lines of credit.

## Best Hotel Financing Loans in 2022

The best hotel financing loan depends on the business situation of the hotel.

A hotel just starting, but has some established business and credit should start with a business line of credit.

Established small hotels that have been in operation for at least a year should seek out an SBA 7(a). The SBA 504 can get acquired if a small hotel is attempting to purchase another hotel.

Established large hotel businesses can apply for loans in the millions. Conventional loans and mezzanine loans will provide the necessary funds for the business activities of big hotels.

## Wrap Up

Hotel financing is a process every hotel business owner will go through. Business owners need to find the exact hotel lending source that fits their needs. Small hotels target small business loans. Mezzanine loans fund big hotel brands.