

CEIS REVIEW INC.



Hotel Lending RMA New England

March 27, 2024

Rob Reuter | Executive Managing Director



Hotel Performance Metrics

Recent National Metrics and Latest HVS Forecast

	Occupancy	ADR	% Chg	RevPAR	% Chg
2019	65.9%	\$131		\$86	
2020	44.0%	\$103	-21.1%	\$45	-47.4%
2021	57.5%	\$125	21.0%	\$72	58.3%
2022	62.7%	\$149	19.1%	\$93	29.8%
2023	63.0%	\$156	4.3%	\$98	4.9%
2024	63.4%	\$159	2.0%	\$101	2.7%
2025	63.7%	\$163	2.5%	\$104	3.0%
2026	63.9%	\$168	3.0%	\$107	3.3%
2027	64.0%	\$173	3.0%	\$110	3.1%

Source: STR (Historical), HVS (Forecast)

Hotel Performance Metrics

Moderate RevPAR growth expected

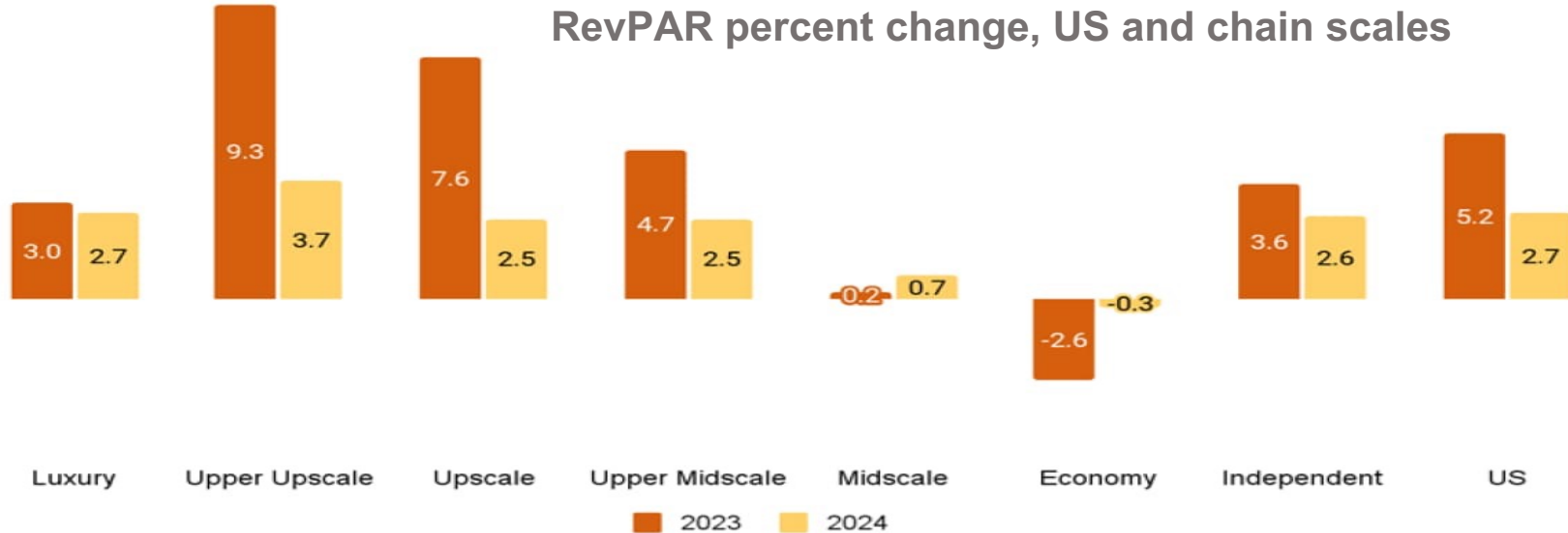
U.S. hotel industry forecast

Metric	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast
Occupancy	63.0%	63.6%	64.0%	64.1%
ADR Change	4.3%	3.1%	2.8%	3.1%
RevPAR Change	4.9%	4.1%	3.5%	3.2%
Real RevPAR Change from 2019	-5.0%	-3.5%	-2.1%	-1.0%



Source: STR, © 2024 CoStar Group

RevPAR percent change, US and chain scales

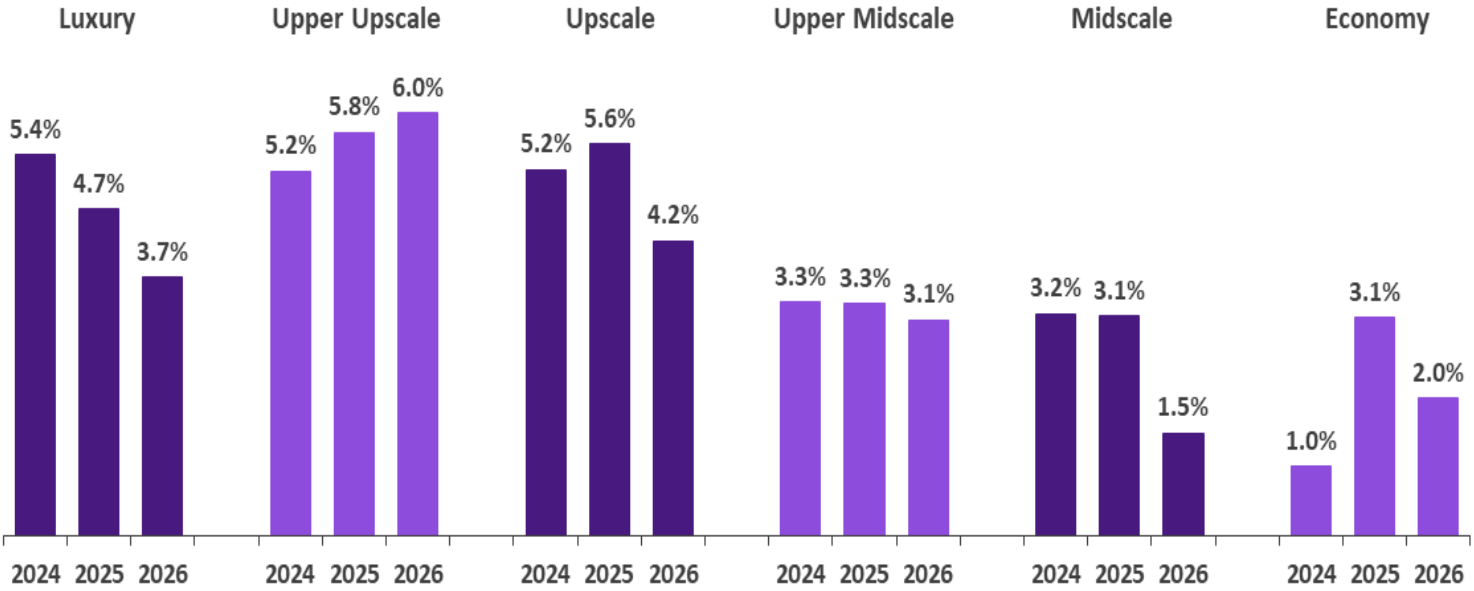


Source: PWC, based on Data from STR

Hotel Performance Metrics

All chain scales to see annual gains

U.S. chain scales, RevPAR, YoY % change

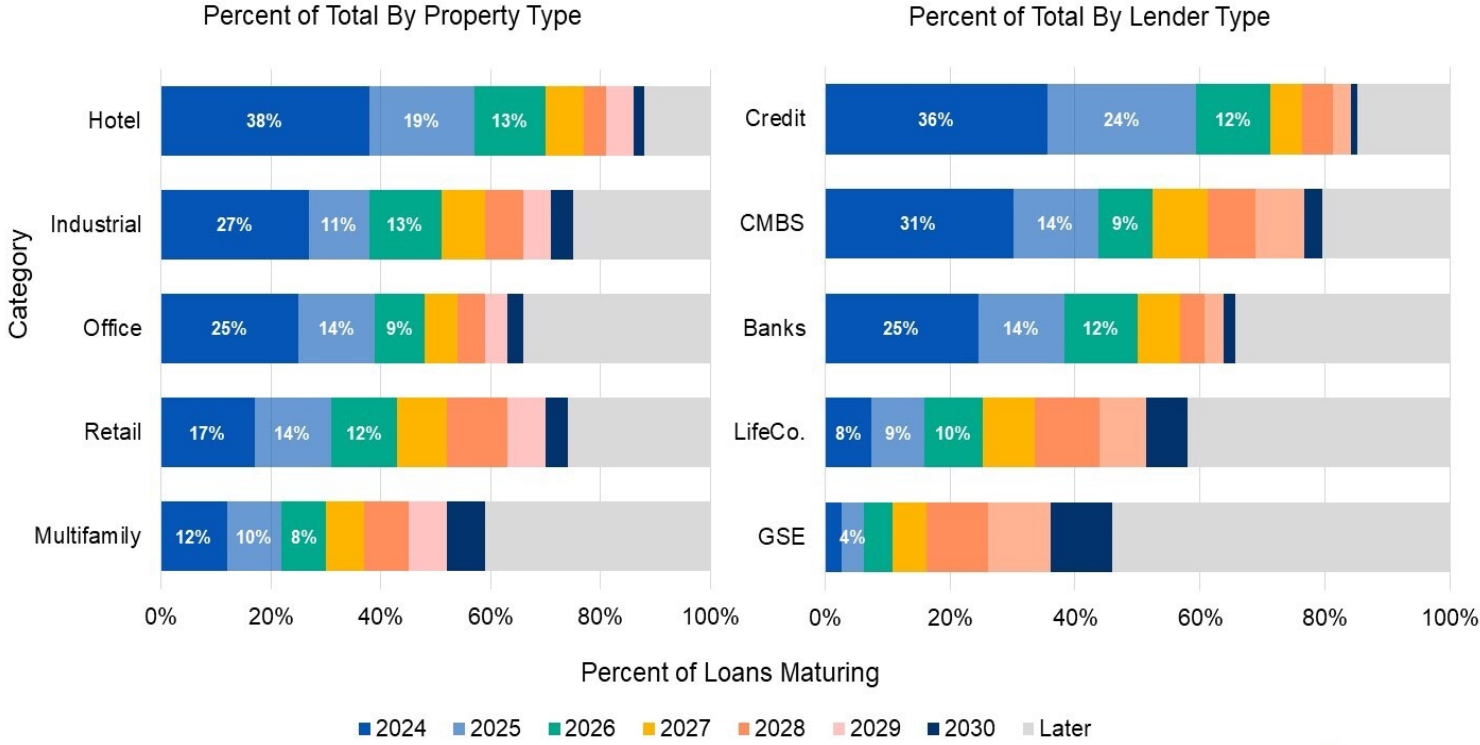


Source: STR. © 2024 CoStar Group



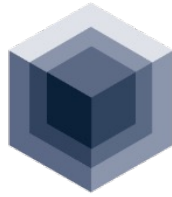
CRE Loan Maturities

A Look at CRE Loan Maturities by Property and Lending Type



Source: CoStar, Mortgage Bankers Association, as of March 2024





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CEIS Loan Review Results

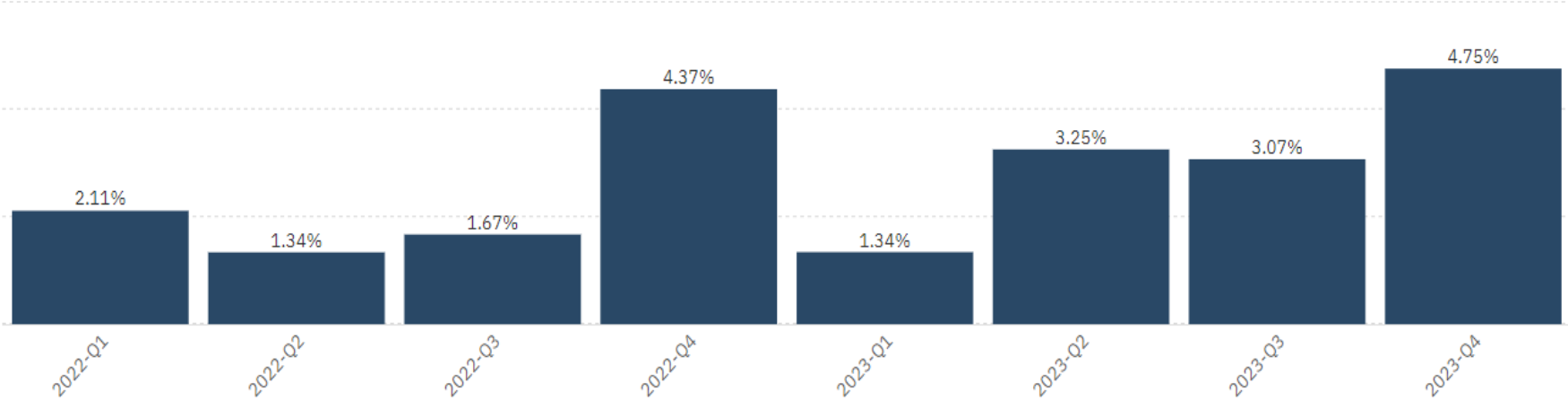
(Following Pages)



Hotel Loans – CEIS Review Results

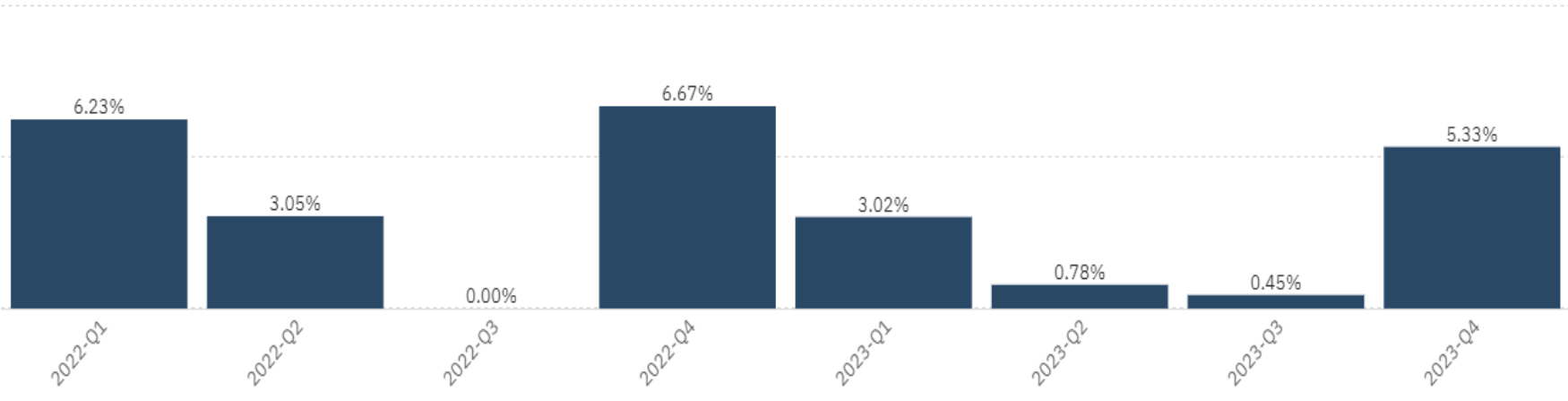
Hotel Loans Reviewed

All Hotel Loans



Hotel Loans Reviewed

Hotel Construction Loans



Source: CEIS Data for CT, NJ and NY Banks

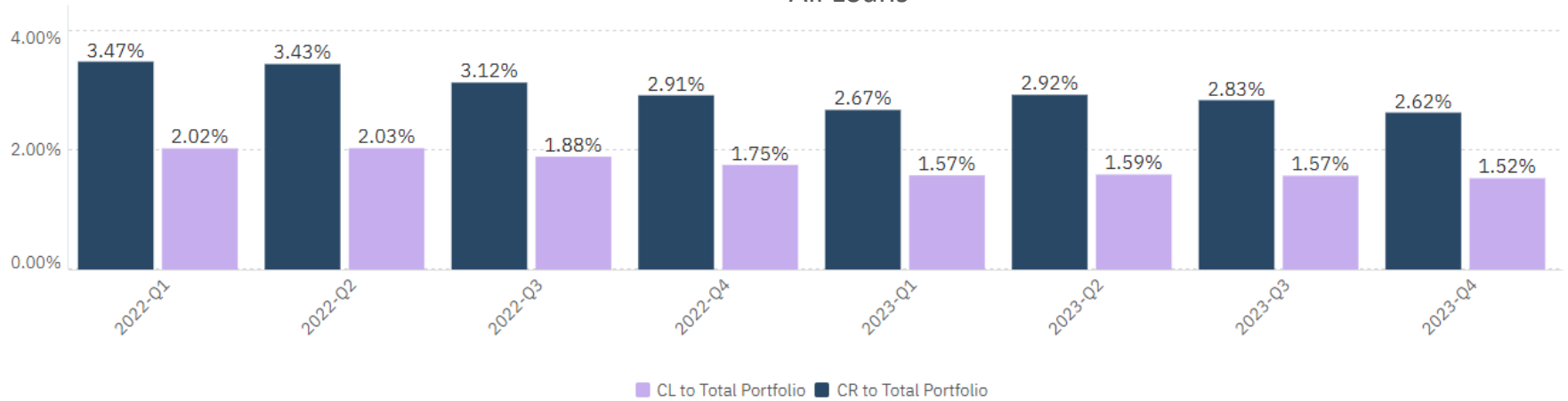


Loan Quality

The following presents the trendline on criticized (Special Mention, Substandard, Doubtful) and classified (Substandard, Doubtful) loans relative to portfolio.

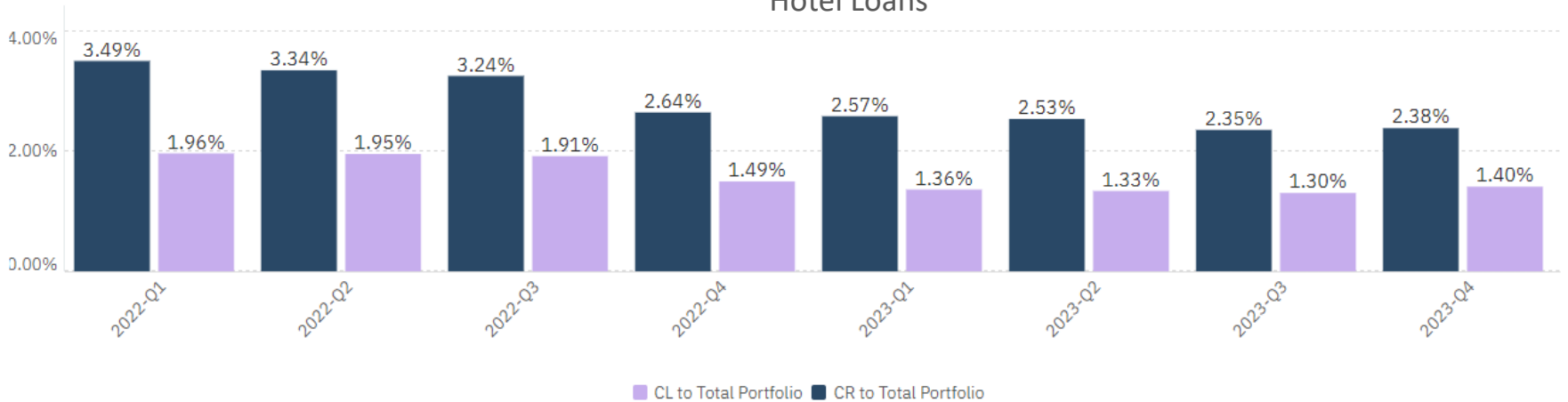
CRCL/Portfolio

All Loans



CRCL/Portfolio

Hotel Loans



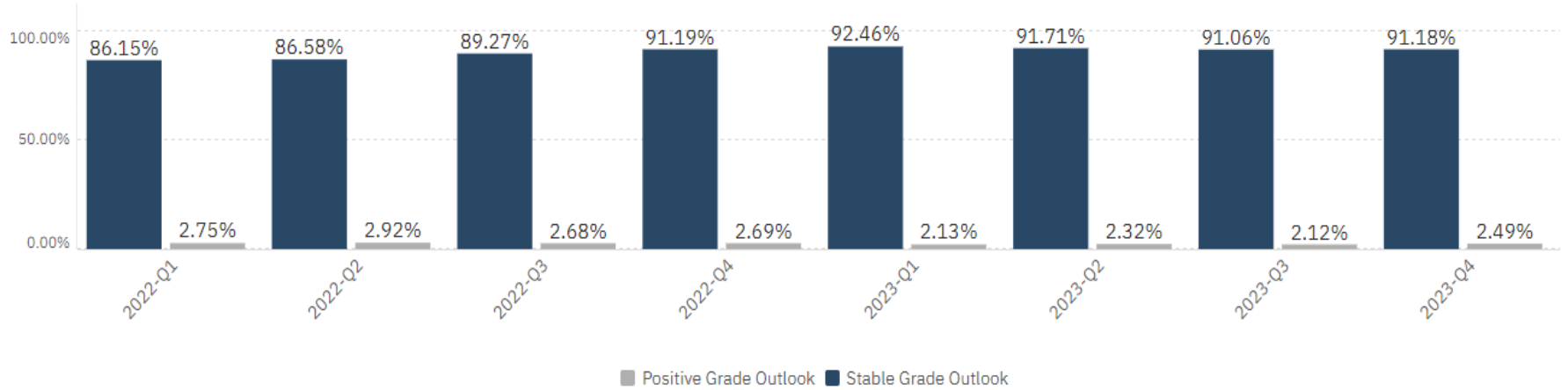
Source: CEIS Data for CT, NJ and NY Banks

Grade Outlook

The following are CEIS' estimates of the six-month outlook for assigned grades.

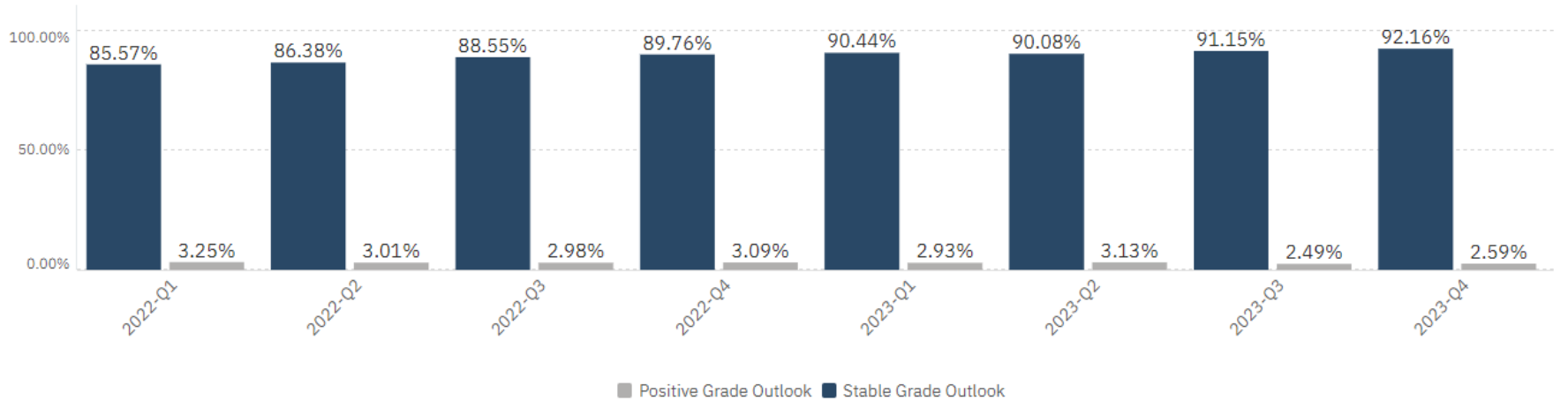
Combined Grade Outlook - Positive and Stable

All Loans



Combined Grade Outlook - Positive and Stable

Hotel Loans



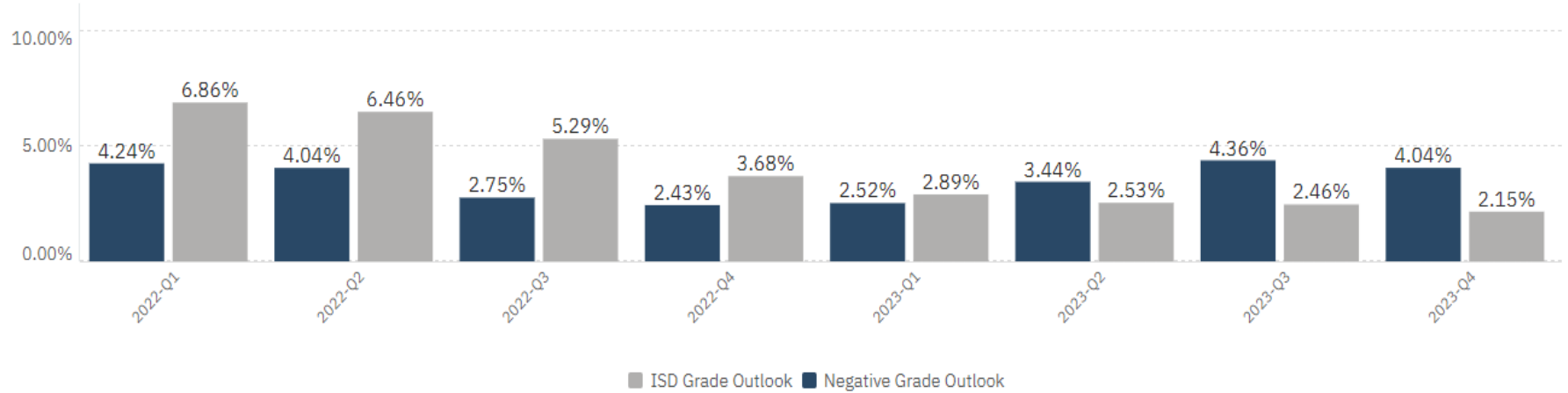
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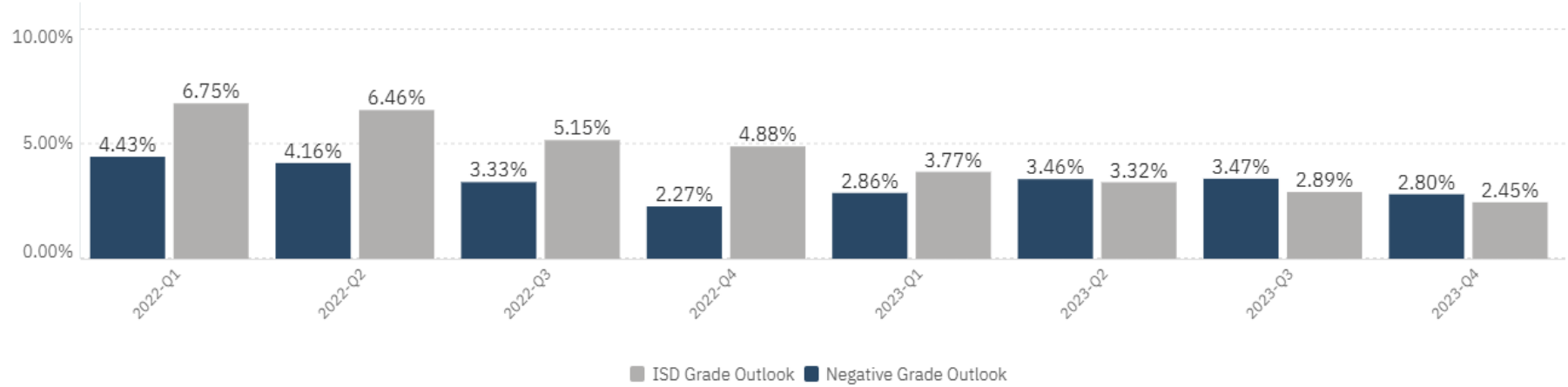
Combined Grade Outlook - Negative and ISD

All Loans



Combined Grade Outlook - Negative and ISD

Hotel Loans



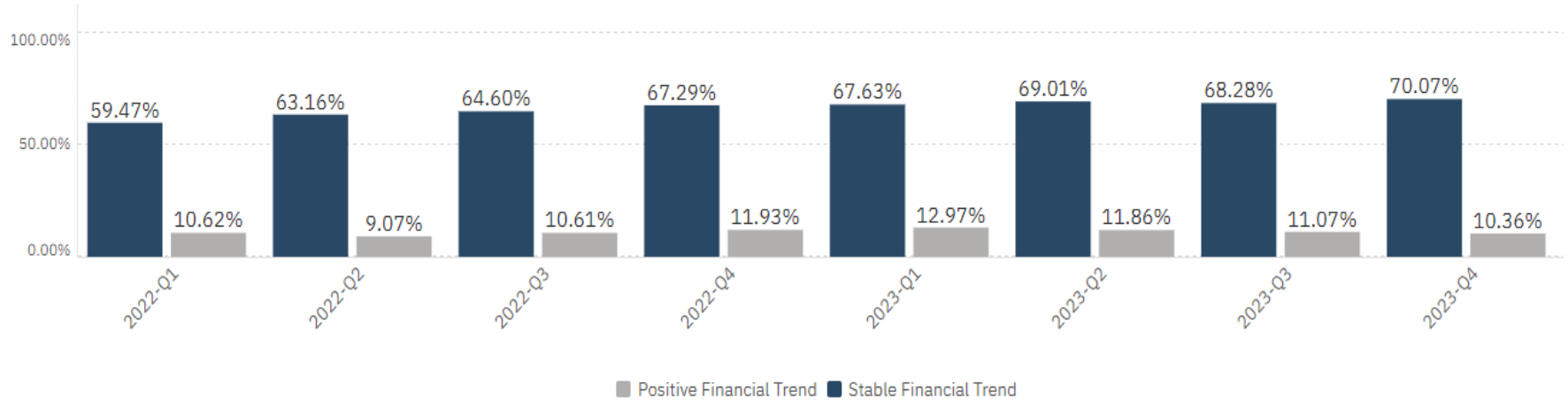
Source: CEIS Data for CT, NJ and NY Banks

Financial Trend

The following are the observations made regarding the financial trend of the borrowers.

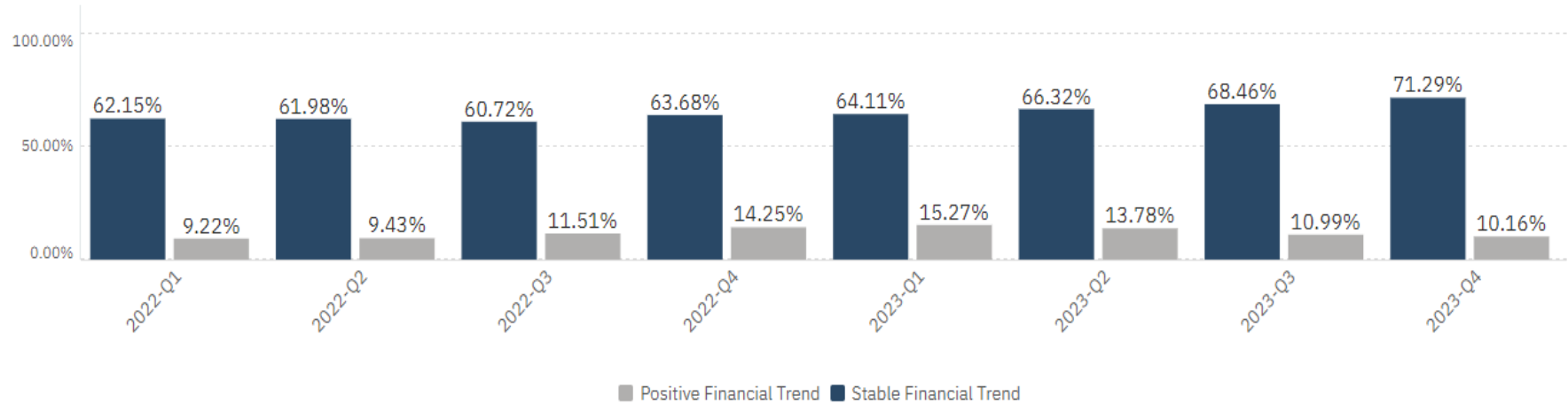
Combined FT - Positive and Stable

All Loans



Combined FT - Positive and Stable

Hotel Loans



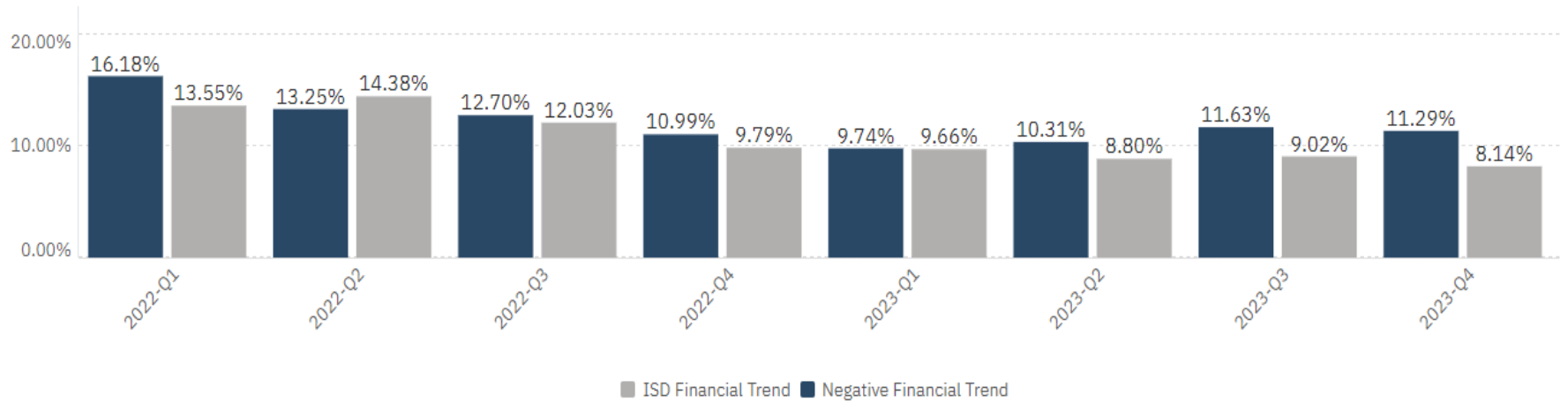
Source: CEIS Data for CT, NJ and NY Banks

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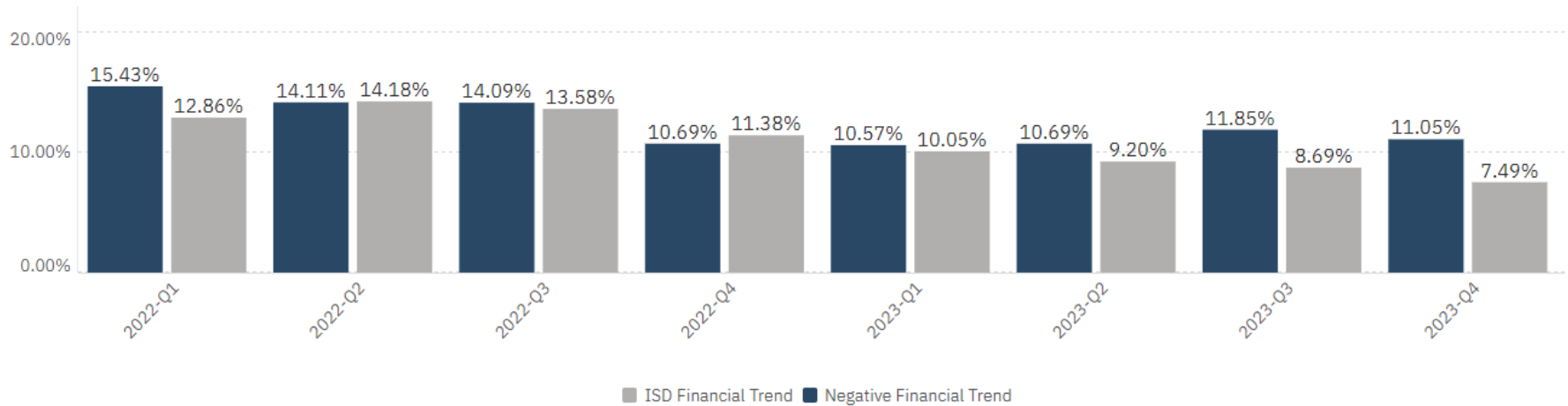
Combined FT - Negative and ISD

All Loans



Combined FT - Negative and ISD

Hotel Loans



Source: CEIS Data for CT, NJ and NY Banks

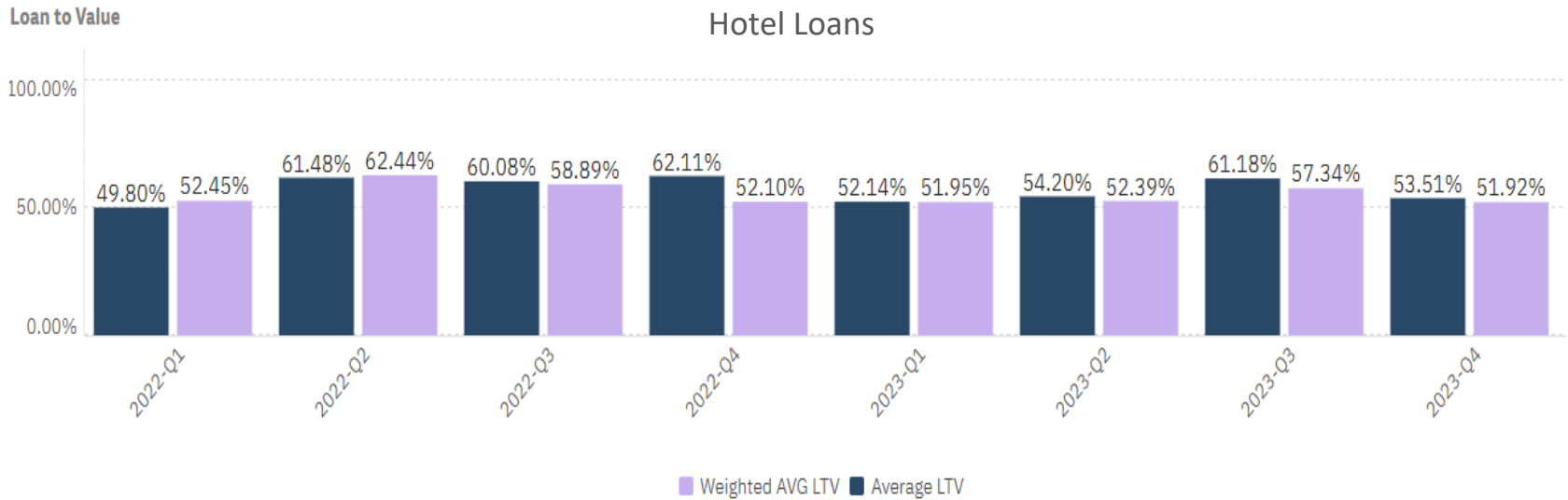
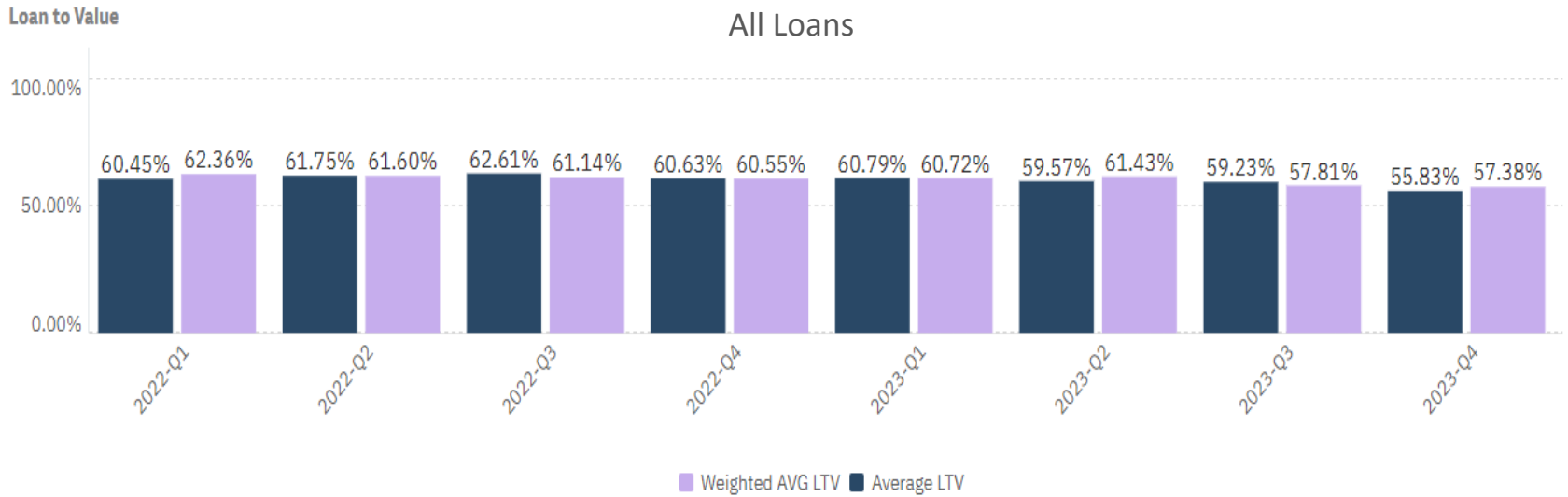
Covenant Compliance



Source: CEIS Data for CT, NJ and NY Banks



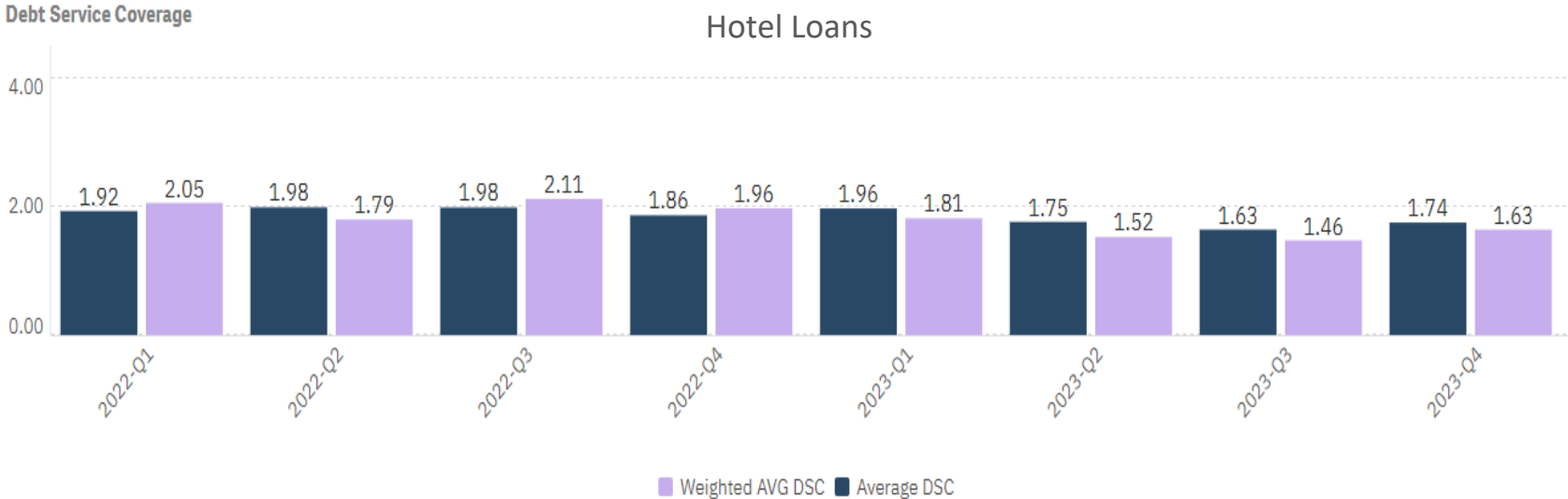
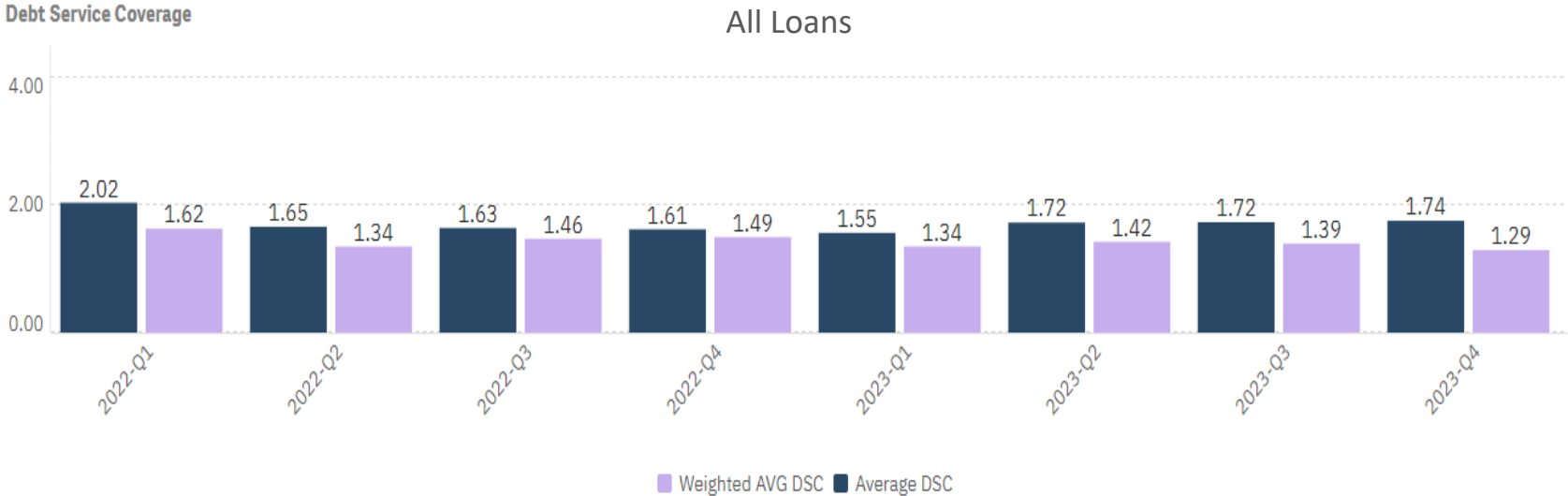
New and Renewed CRE - LTV



Source: CEIS Data for CT, NJ and NY Banks



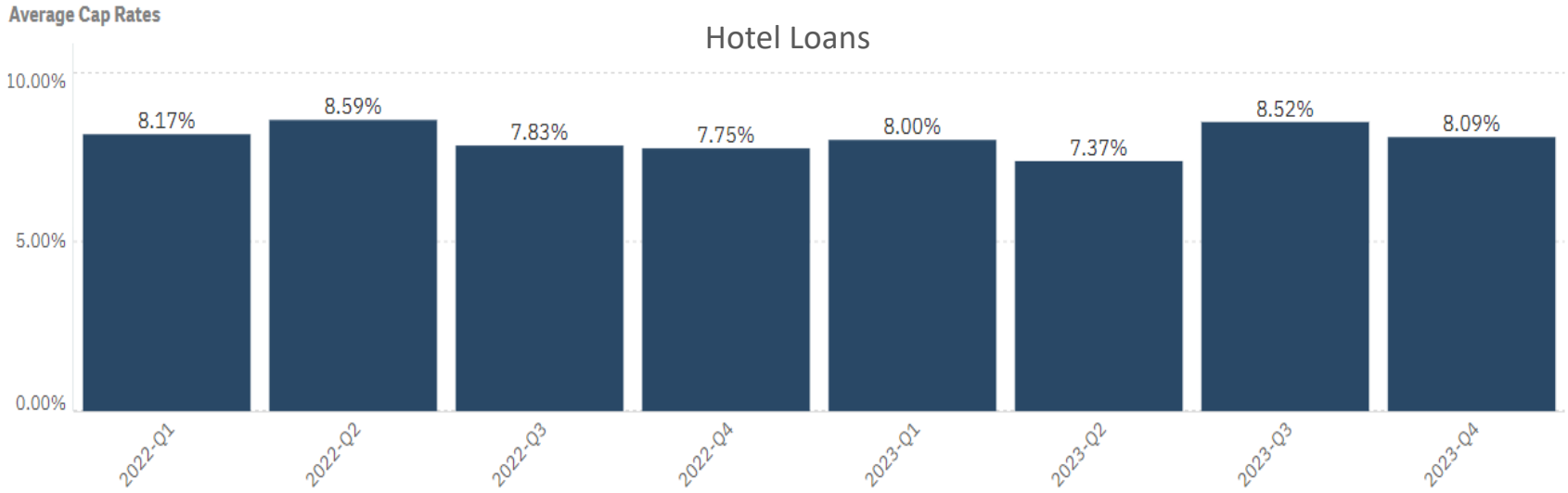
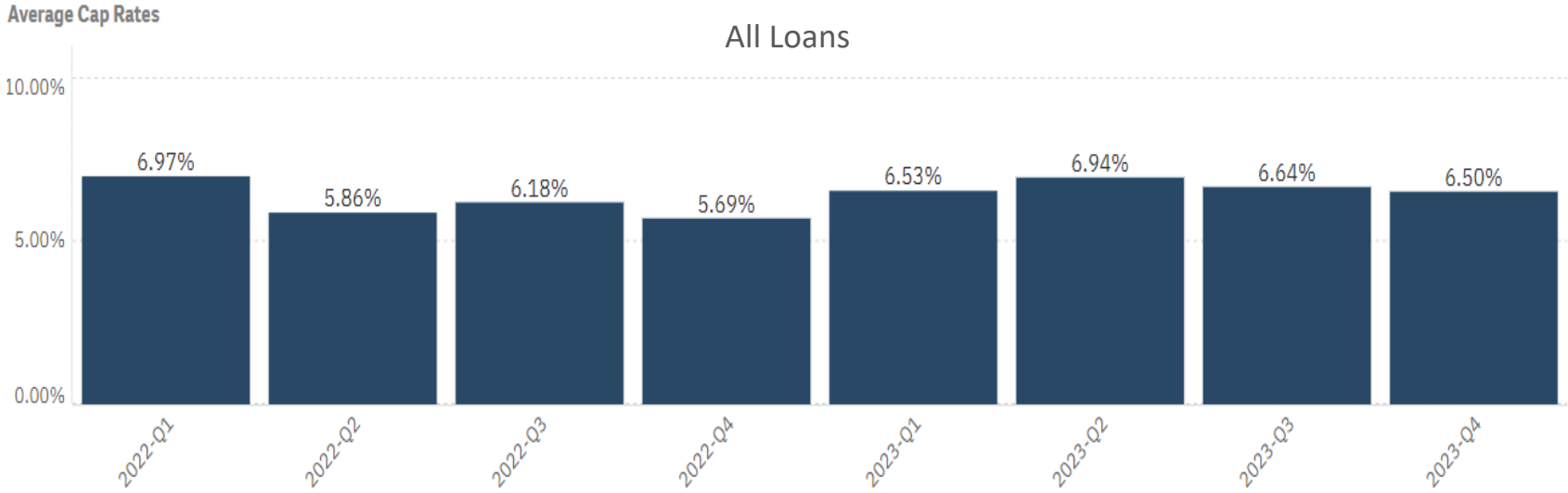
New and Renewed CRE - DSCR



Source: CEIS Data for CT, NJ and NY Banks



Cap Rates – New and Renewed CRE



Source: CEIS Data for CT, NJ and NY Banks



Hotel Lending

Best Practice Underwriting Criteria

- Underwriting guidelines and procedures are usually a segment of the overall CRE Policy
- Hotel Business tends to be relationship driven
- Detailed property analysis including location, property status and market demand.
- Hotel size, class, amenities
- Minimum 3-5 years of operating history
- Financial forecasts and business plans
- Franchise agreements (terms – tenor, fees, etc.)
 - Most require tenor of agreement to be the same as, or longer than the hotel mortgage maturity
- Many limit franchises to major national brands

Hotel Lending

Best Practice Underwriting Criteria

- Condition of hotel is key: age, new or latest renovations and extent of renovations (some put limits at 5-15 years on renovations)
 - Property improvement plans should be completed within certain timeframes
 - Overall, the property should be in good repair
- Operator / Management Agreement (HMA) – experience, terms, etc. (most require at least 5 years of successful hospitality operations in a similar market)
- Owner – extensive experience with hotels/motels
 - Ability to provide personal guarantee and financial support
- Standard Performance Metrics
 - Occupancy
 - ADR
 - RevPar
 - Operating profit margins
 - DSCR
 - LTV

Hotel Lending

Best Practice Underwriting Criteria

- Operating History/Trends
 - Stable operating history (usually tracking for the past three years)
 - In the current environment, Banks will need to take account the impact of COVID
- Benchmarking performance metrics to peers/competition in neighborhood market – source used (i.e. most common 3rd party – STR database)
- The key performance metrics and benchmarking are required at underwriting and for ongoing monitoring in annual reviews, or more frequently depending on property performance and market conditions
- All criteria more stringent for construction and/or start-up hotel properties, if allowed
- Most require depository relationships for new customers

Hotel Lending

Underwriting Metric Criteria

- Pricing – generally charge higher spreads/premium for hotel transactions
- Typically require more restrictive, higher minimum DSCR requirements than in other real estate products
 - Most observed with minimum 1.40x to 1.50x requirement
- Typically require lower maximum LTV than in other real estate products with valuations taking into account total value, real estate only; including FF&E
 - Generally seen at 50%-55%
- Many Banks put a cap on underwriting occupancy assumptions, with minimum occupancy levels of at least 60% for the current period
 - and average occupancy for the last three years at 60% or higher
- Concentration: most Banks put a limit on the amount of lending to hospitality/hotels as a percentage of Tier 1 Capital as well as the overall CRE portfolio

Hotel Lending

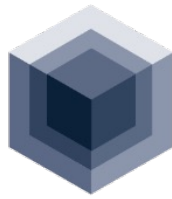
Current Underwriting Observations

- Lenders focused on underwriting cash flows – whether it be pro-forma or in-place cash flow. More scrutiny on projections and sensitivity analysis
- More cognizant on refinancing and take-out risk
- More structure including tighter covenants, more equity and more frequent and detailed operating and financial reporting
- More targeting of select-service hotels (75 to 125 keys) with major brands. While there is still interest in boutique hotels, lenders are seeking properties with in-place cash flow in diversified markets that have leisure, meeting, and business demand with limited seasonality
- Lenders seeking hotels in labor friendly markets with consistent demand patterns

Hotel Lending

Current Underwriting Observations

- Continue to implement stronger recourse requirements
- Well capitalized and experienced operators are the most attractive
- Starting to see more sellers contemplating and bringing hotels to market in 2024 as debt maturities are reached, some PIP delays are exhausted and conversely, some good cash flowing business plans are completed
- It is becoming more difficult to execute franchise agreements with terms in excess of ten years posing challenges when seeking longer term permanent financing
- Hotel lending is going mostly to borrowers with established relationships



CEIS REVIEW INC.

CEIS is an independent consulting firm established in 1989, serving the needs of organizations with general and/or specialized commercial loan portfolios.

Loan Review, ALLL / LLR Methodology and Validation, Portfolio Stress Testing, Portfolio Acquisition Review, Leveraged Lending Review, Municipal and Public Finance Review, Loan Policy Maintenance, Process Review, and Customized Loan and Credit Seminars.

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