RobertDouglas

Hotel Lender Survey

February 2021

Table of Contents

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Executive Summary

RobertDouglas conducted its eighth annual lender survey to measure the current state of financing market conditions and ascertain critical future expectations through the lens of the specialist hospitality lending community. The survey was conducted from late-December 2020 to mid-January of 2021 and was completed by more than 50 senior balance sheet lenders, CMBS lenders, and providers of subordinate debt financing.

In response to the unprecedented impact the COVID-19 pandemic has had on the hotel industry in 2020, 49% of survey participants reduced their hospitality exposure and most active lenders implemented more stringent underwriting criteria for new loan originations. Looking forward to 2021, however, most lenders expect origination volumes to increase over the next 12 months while anticipating that credit spreads remain relatively flat.

The majority of lender respondents, approximately 67%, anticipate hotel valuations to increase in 2021 with the remaining lenders divided between expecting values to be flat or to decrease slightly. With most lenders, 78%, anticipating values to peak again in the next two to four years, the responses express optimism for a strong economic recovery over the next few years.

This survey highlights the metrics most important to lenders in underwriting, sizing, and pricing hotel loans. The most important "gating" criteria for reviewing financing requests by a large margin was location and quality of the asset. Although this has been a top priority for lenders in previous years, the responses this year show a stronger emphasis on location and quality of the asset as a "gating" issue as compared to other options such as cash flow metrics (debt yield or debt service coverage ratio), the sponsor's experience and track record, sponsor's liquidity and strength of balance sheet, and source and mix of demand.

What keeps lenders up at night? Survey respondents cited the potential for a U.S. economic slowdown and/or faltering general macroeconomic growth as the most feared threat to their hotel loan portfolio followed by external factors outside the hotel industry such as terrorism, war, and pandemic fears.

This is a big shift from last year when an increase in competitive new supply was perceived as the biggest threat to hotel loan portfolios. However, it is no surprise that these two concerns are now at the top of the list for the biggest potential threats as the economy is currently in a pandemic-driven recession.

2021 Lender Survey Key Takeaways:

- 72% of lenders expect **lending volume to increase in 2021**
- Most lenders anticipate **hotel values to increase** within the next 12 months and **peak within the next 2-4 years**
- Despite changes to the environment in 2020, **asset quality and location** are still the most important criteria
- Unsurprisingly, **economic slowdown** and external factors, such as a **pandemic**, were viewed as the biggest threats to hotel loan portfolios

Respondent Profile

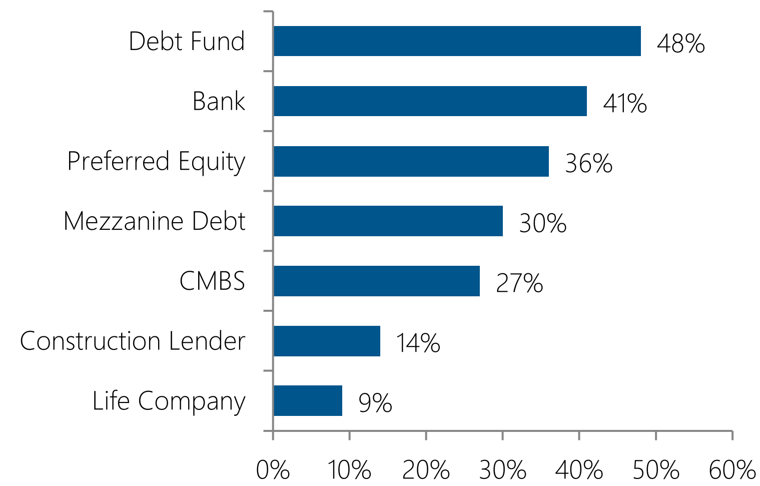
The mix of lender respondents in the 2021 survey is a reflection of where we are in the economic cycle. Due to the distress in the lodging market and changes in the hotel lending landscape since the onset of the pandemic, there are more active debt funds with a deep pool of liquidity providing financing across the capital stack.

Debt funds have raised a record amount of capital to take advantage of the real estate market recovery and we expect this lending platform to continue to play a large part in the recovery of the hospitality debt markets. In comparison to previous years, the survey respondents have been predominantly composed of lenders focused on traditional senior mortgage hotel loans.

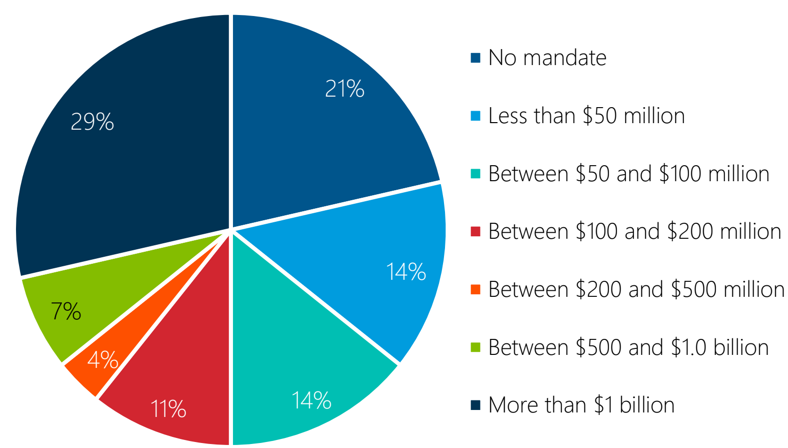
Total domestic conduit originations plunged nearly 40% in 2020 amid fallout from the pandemic. Total US CMBS issuance in 2020 was $59.3B across all asset classes, with lodging originations accounting for approximately $7.0B or 11.9% of that total. The consensus for 2021 among conduit originators is that CMBS originations will rebound sharply with the successful rollout of the coronavirus vaccination program.

Dry powder from debt funds has allowed the hotel lending environment to remain liquid, despite impacts to the hotel industry as a result of COVID-19

Lending Platforms Represented in the Survey



Magnitude of Hotel Sector Targeted Financings

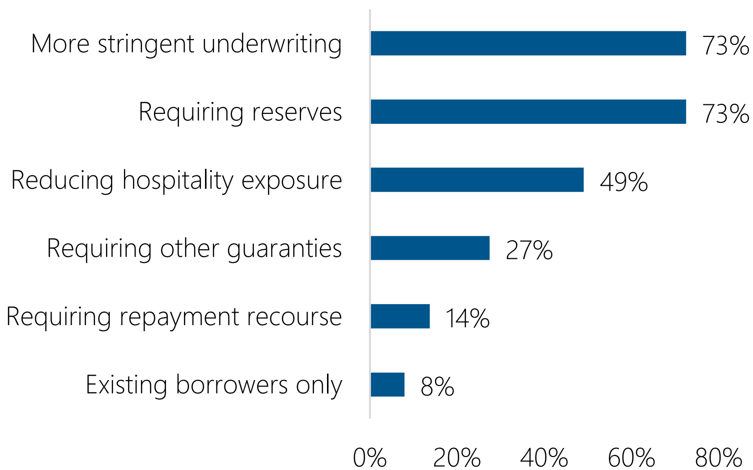


COVID-19 IMPACT

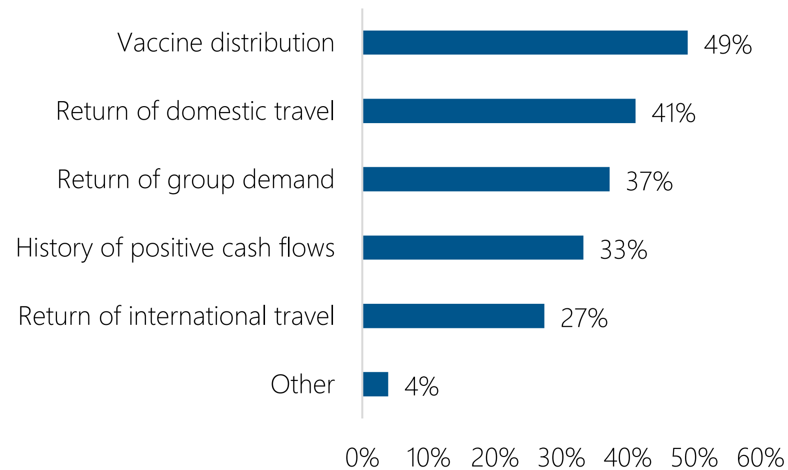
With most lenders working from home due to the pandemic and nearly one-third of respondents' companies restricting domestic travel, it's not surprising that 50% of respondents believe widespread vaccine distribution will increase lending activity in the hotel segment. Over 90% of the respondents are either mandated or have the option to work from home.

Although there has been a notable reduction in hotel lending activity, as evidenced by 49% of participants stating they have reduced hospitality exposure overall, the number of active hotel lenders is encouraging with 69% of the respondents stating that they are actively lending on hotels with only 8% restricting loans to existing borrowers. In response to the impact from the pandemic, most lenders have also implemented more stringent underwriting criteria (loan-to-value/cost, debt yield, and debt service coverage ratio) and are requiring reserves.

Changes to Lending Objectives or Lending Criteria



Events Encouraging Lending Activity



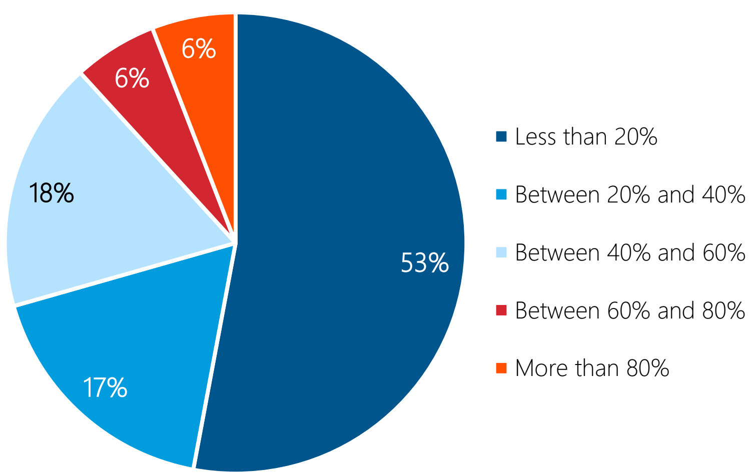
COVID-19 IMPACT: ACTIVE LENDERS

The lending landscape for hotels has slowly loosened and there are more active lenders since the COVID-19 pandemic essentially froze the debt markets in mid-March 2020. While the hospitality debt markets are becoming more liquid, capital providers are still taking a generally cautious approach to hotel loans.

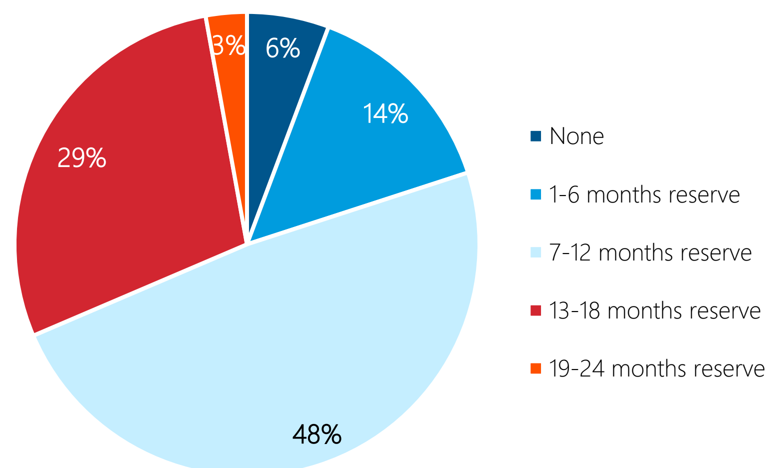
Of the survey participants that indicated they are actively lending, **71% anticipate that over the next 12 months a vast majority of their lending volume will come from new originations** as opposed to workouts, extensions, and restructures, signaling that liquidity within the hotel capital markets is expected to improve throughout 2021. Alternatively, 29% of capital providers expect more than 40% of their lending volume to come from workouts, extensions, and restructures, which reflets the current level of distress in hotel loan portfolios.

The COVID-19 crisis significantly impaired hotel cash flows across the entire lodging market resulting in an increased risk for new loan originations. As reflected in the survey results, many lenders have instituted or increased reserve requirements to adjust for this risk, with **80% of the active lenders requiring more than six months of reserves for new loan originations** and only 6% of respondents not requiring borrowers to establish any reserves.

% of Lending Volume Forecast to Consist of Loan Workouts, Extensions, and Restructures



Reserve Requirements for New Originations



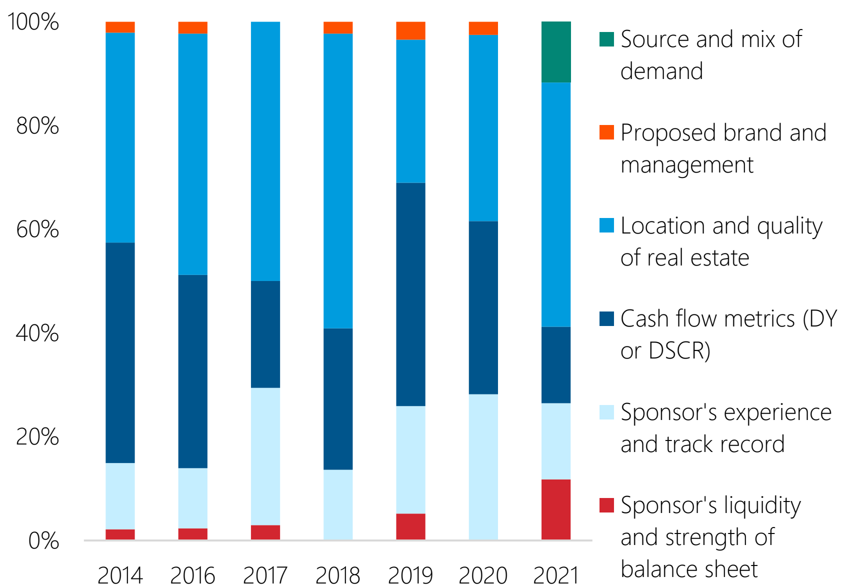
Lending Criteria

Lenders continue to focus on three main areas when reviewing financing requests, with **the location and quality of the real estate** taking the top spot at 47%, followed by **cash flow metrics** such as debt yield or debt service coverage ratio and the **sponsor's experience and track record**, both at 15%.

Historically, these three "gating" issues have maintained the top three spots with other issues coming in distantly. This year, the balance of lenders was evenly split between sponsor's liquidity and strength of balance sheet and source and mix of demand. In contrast to 2020 where no lenders indicated the sponsor's liquidity and strength of balance sheet as a "gating" issue, 12% of lenders identified this as a "gating" issue in 2021 as borrower wherewithal becomes more important in times of distress.

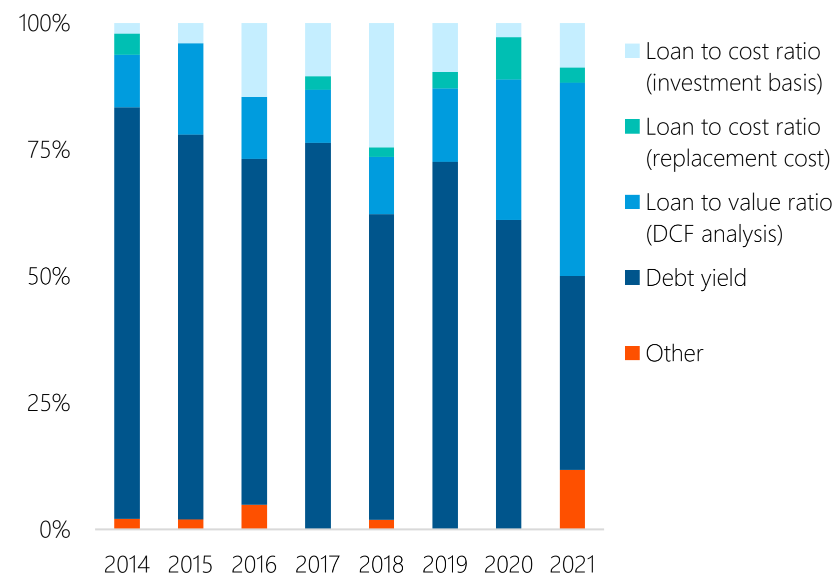
For the first time in the survey's history, debt yield tied with loan-to-value ratio based on an in-house DCF analysis as the most important loan sizing metric. For the past seven years, debt yield was overwhelmingly the most important metric, chosen by over 60% of lenders in previous years, but **constrained hotel cash flows have pushed lenders to consider other metrics**.

Most Important "Gating" Issues for Loan Requests



Note: "Source and mix of demand" was added as a response option in 2021.

Most Important Loan Sizing Metric



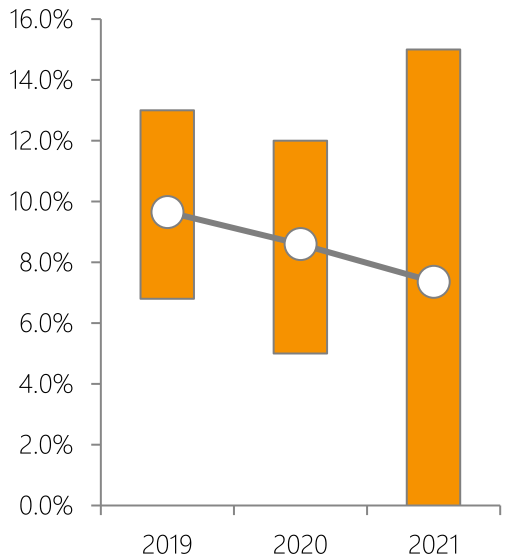
Lending Criteria: Underwriting Metrics

For existing hotels, active lenders provided a wide range of underwriting minimum requirements as compared to previous years. The underwriting range for debt yield and debt service coverage ratio in 2020 was 5%-12% and 0.6x-2.0x as compared to 2021 range of 0%-15% and 0.0x-3.0x, respectively. **The wider range of metrics is reflective of the COVID-19 impact on property cash flows and property values.**

The average maximum loan-to-value ratio dropped from 72.2% in 2020 to 66.2% in 2021, reflecting the perceived increased risk with lending during this economic downturn.

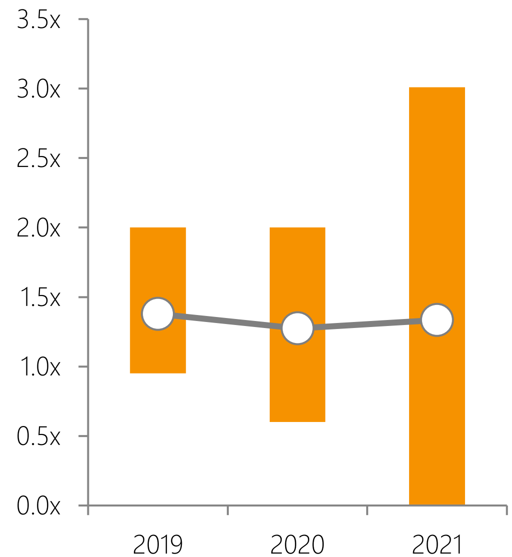
For the purposes of underwriting, 50% of participants indicated that they are focused on future stabilized cash flows followed by 26% focused on year-end 2019 performance. The remaining 25% of participants indicated that they are focused on trailing twelve-month cash flows, 2021 budget, or another metric not specified.

Minimum Debt Yield



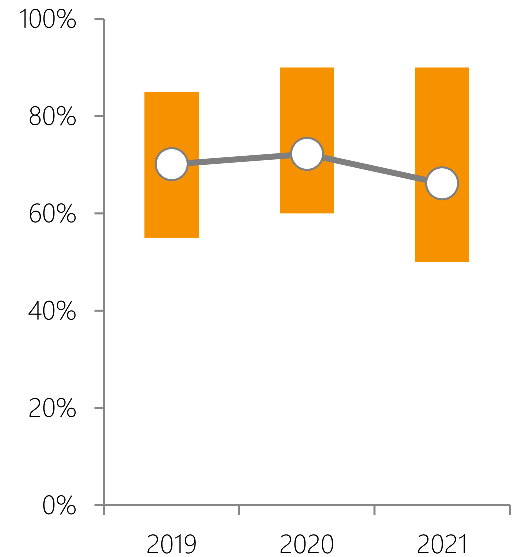
Average: 7.4%
High: 15.0%
Low: 0.0%

Minimum DSCR



Average: 1.3x
High: 3.0x
Low: 0.0x

Maximum LTV



Average: 66.2%
High: 90.0%
Low: 50.0%

Outlook: All Lenders

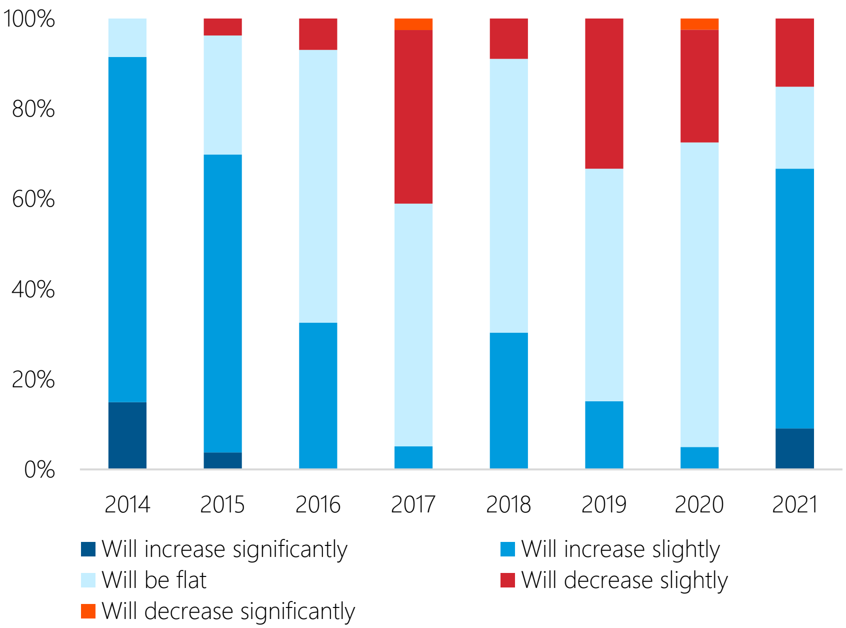
Over 65% of respondents anticipate property values to increase in 2021 with the remaining lenders expecting values to be flat or to decrease slightly at 18% and 15%, respectively. Most lenders anticipating slight increases to value in 2021 (58%) is consistent with the expectation of a gradual economic recovery this year.

Notably, there were no respondents that expect a significant decline in hotel property values over the next 12 months, which can be attributed to the value impairment experienced in the hotel sector in 2020.

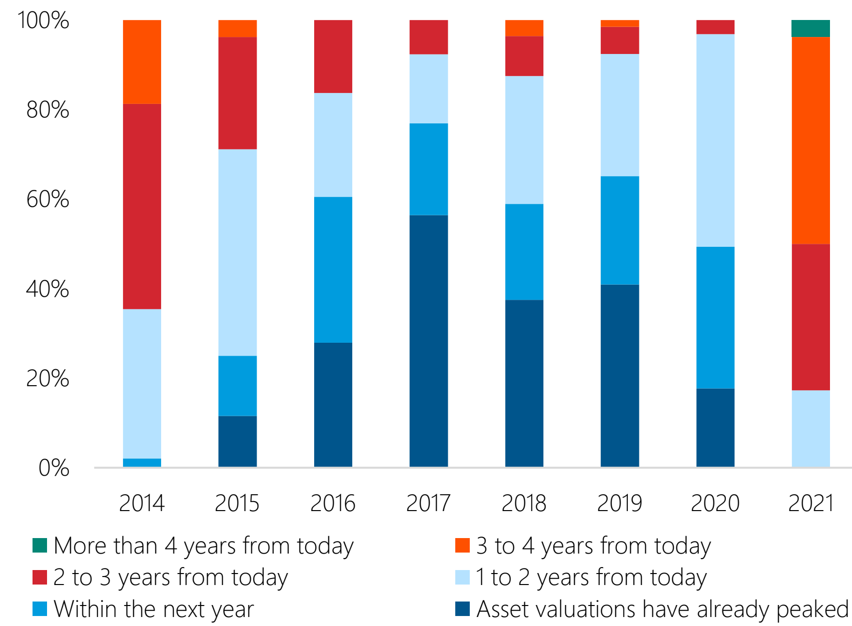
Due to the value impairment on hotel properties resulting from the Pandemic Recession in 2020, the response option of "asset valuations have already peaked" was removed as it is evident that property values peaked in 2019.

The largest group of lenders, 46%, believes values will peak in the next three to four years from today followed by 33% anticipating values to peak in the next two to three years. This sentiment expresses support for a strong economic recovery in the hotel industry over the next few years.

Anticipated Property Value Changes



Forecast for Peak Asset Valuations



Note: "Asset valuations have already peaked" was removed and "More then 4 years from today" was added as a response option in 2021.

Outlook: Financing Risk

Least Risk

Overall, lenders see the least risk over the next year in financing **economy and midscale products**, as these chain scales have endured the pandemic with less impact than other asset classes.

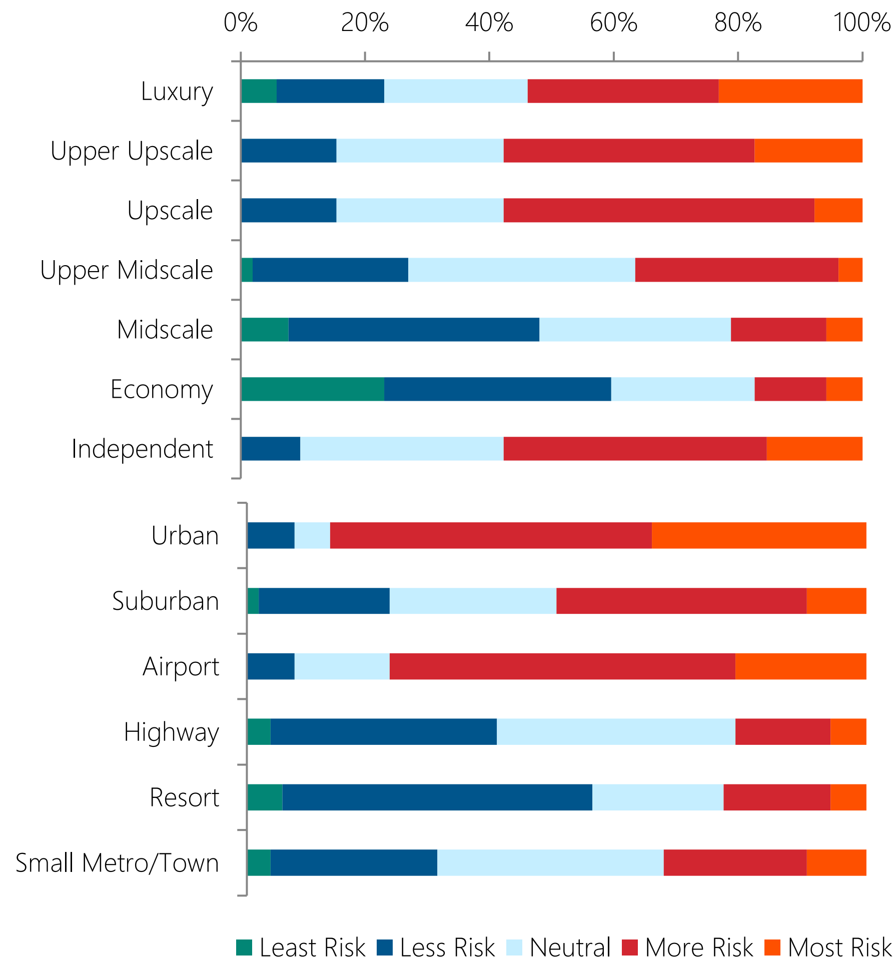
By a wide margin, lenders are most comfortable with lending in **highway markets**, as it was identified as the location with the least risk among all market types. As much of the travel in 2020 was limited to essential travel, the highway markets performed better due to the link to essential business and the logistics and transportation industry. **Resort markets** are also viewed as lower risk by lenders and can be attributed to the strong performance by drive-to and leisure-driven resort properties during the pandemic.

Most Risk

The most overall risk is concentrated in **independent and higher-end products** as they have been hardest hit by the pandemic with year-over-year RevPAR declines in the 55-70% range.

The **urban and airport markets** are perceived to be the riskiest by lenders. As business travel came to a halt and leisure travelers opted for drive-to destinations, global air traffic dropped by approximately 60-70% in 2020 as compared with 2019 and airport and urban hotels experienced a significant decline in occupancy.

Financing Risk by Chain Scale and Location Type

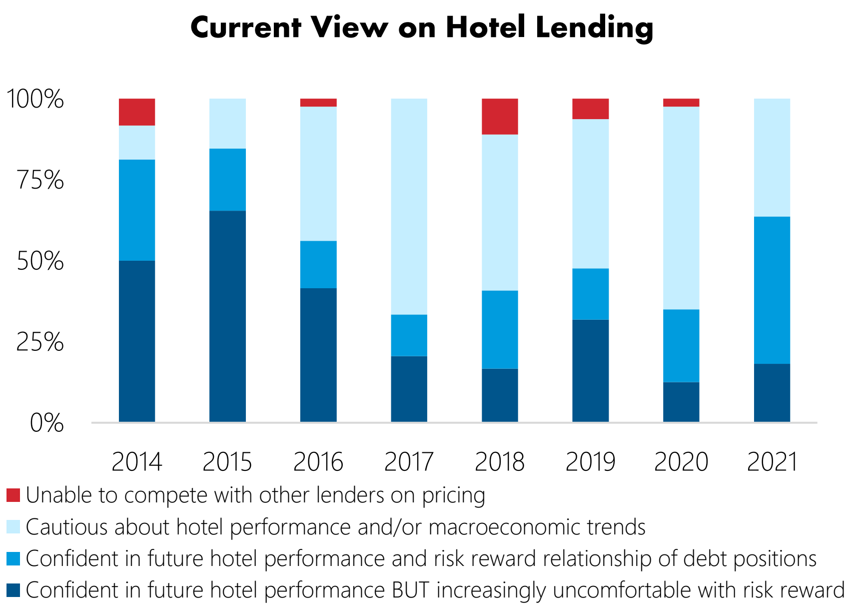


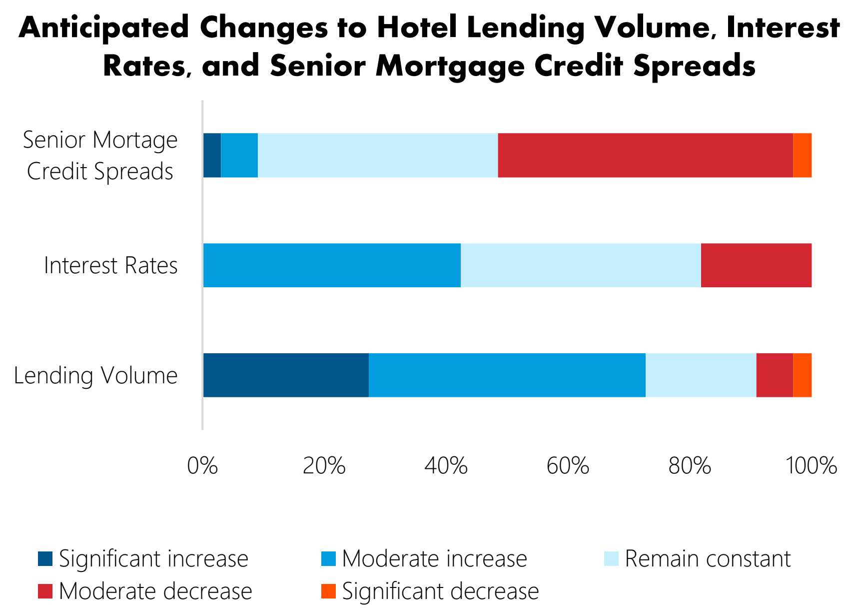
Outlook: Lending Expectations

Lenders expressed more confidence in the future of hotel performance and the risk/reward relationship of debt positions with 45% of respondents sharing this sentiment, a higher level of confidence than any previous year. The increase in confidence in the future hotel performance is a positive signal that lenders expect to see significant recovery in the hotel segment in 2021 and that they feel they are being adequately compensated for the risk/reward relationship of their debt positions.

The large majority of lenders, **72%, anticipate hotel lending volume to increase in 2021**, which is another positive indicator for the economic recovery. Most lenders, 42%, believe that interest rates will moderately increase in 2021. This sentiment is supported by Kiplinger's latest economic forecast, which expects the 10-year treasury rate to rise from 1.1% to 2% by the end of the year. This forecast is based on the government's ability to pass more stimulus legislation with the Democrats controlling all three legislative branches. The boost in economic growth tends to push up interest rates as the demand for funds grows and inflation possibly ticks up. In addition, larger budget deficits will also raise rates as the supply of government debt offered to investors grows.

Overall, the expectation for senior credit spreads in the next 12 months is that they will remain relatively flat (48%) or moderately tighter than current spreads (39%).





OUTLOOK: PORTFOLIO THREATS & MARKET INDICATORS

Respondents selected the potential for an economic slowdown and/or faltering general economic growth as the largest threat to their hotel loan portfolio at 34%, which is consistent with previous years.

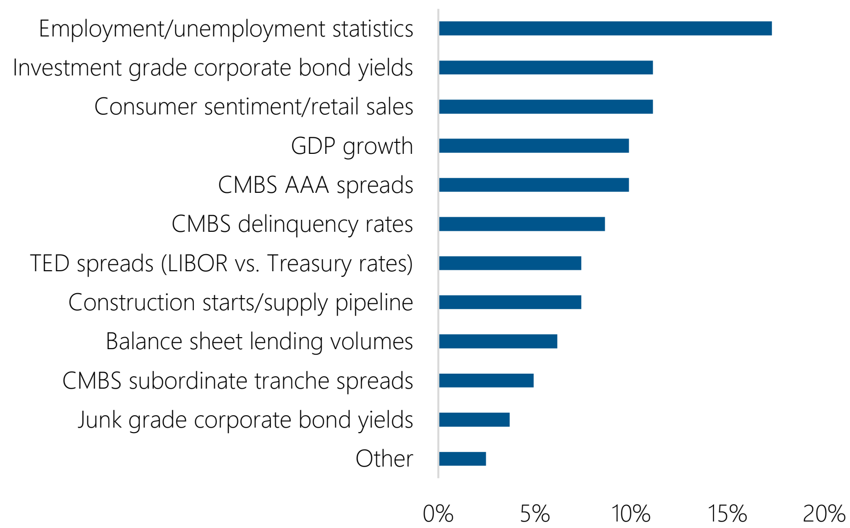
The greatest change to this year's survey that deviated from prior years was the increase in potential risk due to external factors outside the hotel industry such as terrorism, war, and pandemic fears. This was ranked as the second biggest threat in 2021 as compared to the fifth biggest threat in 2020. The rise in ranking can largely be credited to the current global pandemic.

Historically, lenders have prioritized GDP growth as the top indicator for signs of improvement or distress in the capital markets, however, survey respondents this year selected employment/unemployment statistics as the top benchmark followed by consumer sentiment/retail sales. The shift in benchmark priorities is a logical response to the economic collapse resulting from the Pandemic Recession in 2020.

Unemployment rates in February 2020 (pre-pandemic) were 3.5% or 5.7 million people and jumped to 14.8% or 18 million people in April during The Great Lockdown. Since April 2020 unemployment rates have steadily declined and were at a 6.7% or 10.7 million people in December 2020 signaling the economic recovery is underway.

Biggest Potential Threats to Existing Hotel Loan Portfolio

Benchmarks Used to Indicate Signs of Improvement or Distress in the Capital Markets



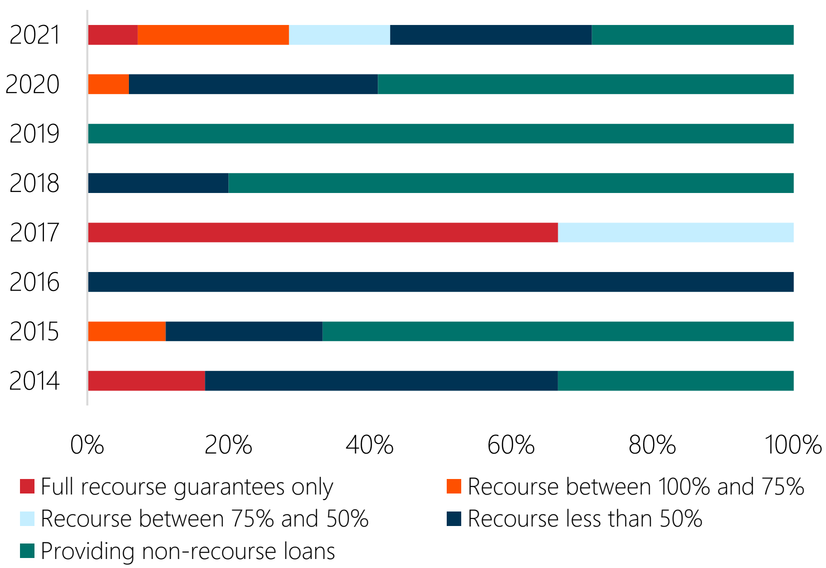
Construction Lenders

Given the uncertainly around the timing of the recovery, the construction lending markets continue to be the most constrained. This is supported by the changes to construction loan recourse requirements and maximum loan-to-value funding available as compared to previous years.

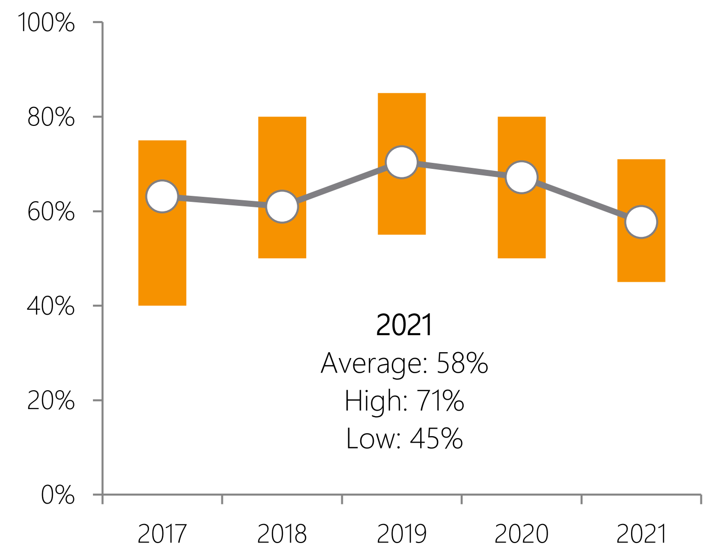
Twenty-nine percent of construction lenders will consider fully non-recourse financing whereas the other 71% of lenders require some level of recourse, which guarantees some level of debt repayment. This equates to a nearly 50% decline in non-recourse lenders as compared to last year. In addition, lenders indicated a decrease in maximum loan-to-value funding with the average loan-to-value at 58%, down 10% from the prior year.

Today, 29% of construction lenders will provide fully non-recourse loans for new hotel developments

Recourse Requirement for New Hotel Development



Maximum LTV



Construction Lenders: Financial Risk

Least Risk

In the 2021 survey, construction lenders indicated that they believe that there is less risk with branded assets in the midscale and upper midscale chain scales, as these represent the industry's most "core" brands and reach stabilized cash flows levels more quickly.

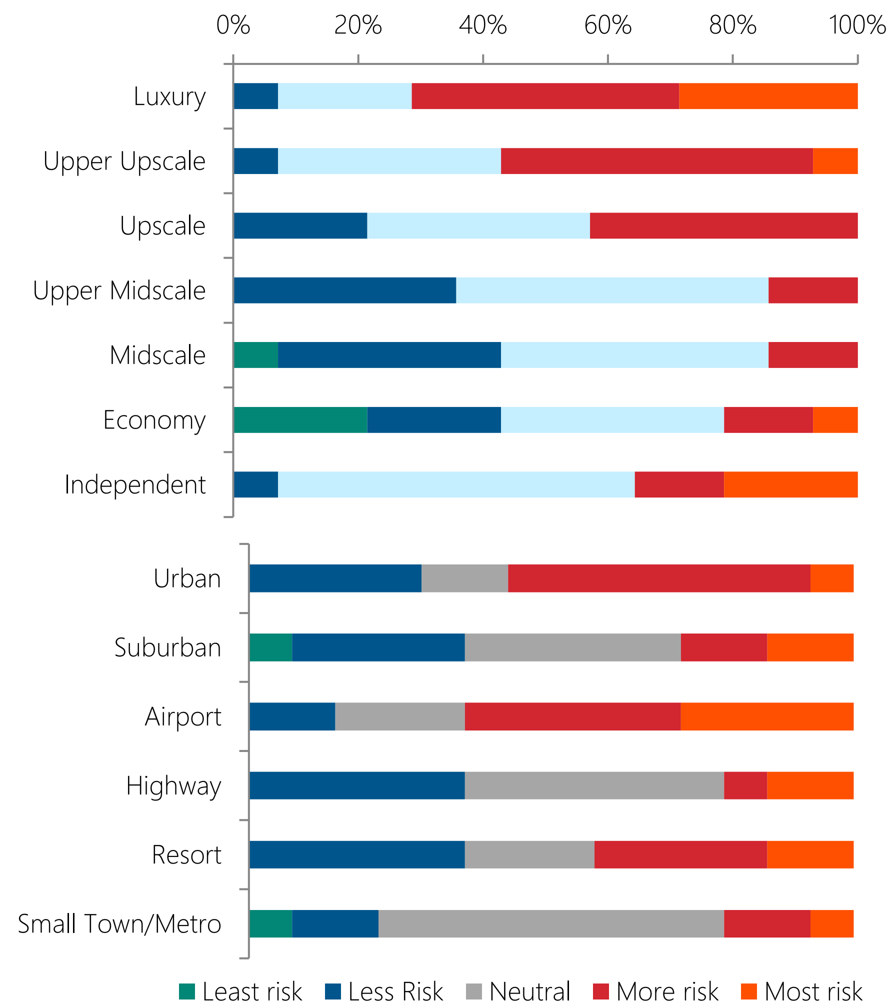
Construction lenders are more comfortable with lending in suburban, highway and small town/metro locations, which is a big shift from prior years when these locations were considered the riskiest locations. This shift in perceived risk can be attributed to those locations performing better during the pandemic.

Most Risk

Branded assets in the luxury and upper upscale segments are believed to carry the most risk among construction lenders as these properties are less predictable and require a longer period of time to achieve stabilization.

Historically, urban infill locations are perceived to be the least risky among construction lenders, however, this year, urban and airport locations were selected as the riskiest locations. This is likely linked to the significant occupancy decline that these locations experienced during the pandemic and an anticipated slower recovery.

Construction Financing Risk by Chain Scale and Location Type



About RobertDouglas

RobertDouglas is a real estate investment banking firm with offices in New York, Los Angeles, San Francisco and Nashville that specializes in the sale, financing and equity capitalization of hotel, resort and gaming properties throughout North America. Founded in January 2013 and currently led by its four partners, Rob Stiles, Doug Hercher, Stephen O'Connor and Evan Hurd, RobertDouglas offers access to exceptional domestic and international institutional investor and lender relationships as it combines the capital markets sophistication of top-tier investment banks with diligent hotel underwriting and proven asset management experience.

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