Hotel Lending

RMA CaVa Banking School

October 2025

Hotel Lending

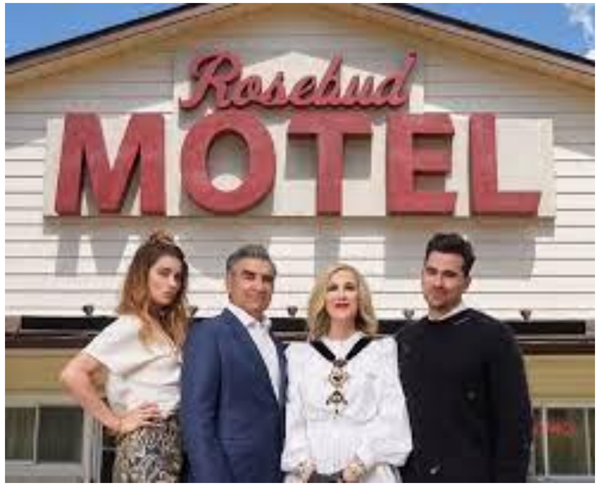
- Types of Hotel / Motel Properties
- Hotel specific ratios and reporting
- Income Statements
- Formulating Cash Flow
- Lending Guidelines
- Operator Strength
- Case Studies

Types of Hotels

- Flagged Hotel
  - Denotes an operating branded property
  - Typically franchisees
  - Shared marketing
    - Commercials
    - Website
    - Booking
    - Points!
  - Marriott, Hilton, Choice, etc.

Types of Hotels

- Non-flag hotel
  - Independently owned/operated
  - Boutique hotels
  - Well located, family run
  - Little to no franchise fees



THE UMSTEAD
HOTEL AND SPA

Types of Hotels

- All-Inclusive
- All Suites and Extended Stays
- Bed & Breakfast
- Boutique
- Full Service
- Limited and Select Services
- Others:
  - Conference Center
  - Spa / Resort
  - Gaming / Casino

Good / Bad

FLAGGED HOTEL

- FEES
- Case Goods Replaced – 3 to 5 yrs
- Franchise Data Comparison
- Known Reputation

NON-FLAGGED HOTEL

- No Fees
- Flexibility
- Branding Not Known – How its located
- How do you compare to like kind hotels

Types of Hotels

- Full Service
  - Full Dining / Room Service
  - Personal Services
  - Spa / Shopping
- Examples:
  - Luxury – Four Seasons, Ritz Carlton
  - First Class – Marriott, Hilton, Westin, Omni
  - Mid-Tier – Holiday Inn, Ramada

Types of Hotels

- Limited and Select Services
  - Limited food service
  - Pool
  - Exercise facility
  - More budget friendly
- Examples
  - Hampton Inn
  - Fairfield Inn
  - Days Inn

Types of Hotels

- Suites and Extended Stay
  - Separate living and sleeping areas
  - Limited food offerings, may have in-room kitchenette
  - Pool, business center, outdoor amenities
  - Appeal to corporate travelers, relocation

- Examples
  - Homewood Suites
  - Residence Inn
  - Extended Stay America

Hotel specific ratios and reporting

- Average Daily Rate – measures the average rate paid form rooms sold divided by rooms sold
- Competitive Set (Comp Set) – analysis of subject property against similar class hotels in similar locations
- Occupancy / Market Penetration Index – rooms sold divided by rooms **AVAILABLE!**
- RevPAR (Revenue Per Available Room) – total room revenue divided by the number of available rooms
- Other Revenue – varies by service type but includes food, spa, parking, and other service revenue (usually increases operating expenses)

Hotel specific ratios and reporting

- Average Daily Rate – varies widely by service level and location. Luxury hotels in large metro cities will have the highest ADR
- Occupancy – varies by location and season
- RevPAR (Revenue Per Available Room) – increases as ADR and occupancy improve
- Other Revenue – must be recurring and consistent; should tie to occupancy

Hotel specific ratios and reporting

STR REPORT

Monthly STAR Report

For the Month of: June 2024

str

July 2024

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index (MPI)	My Prop	Comp Set	Index (ARI)	My Prop	Comp Set	Index (RGI)
Current Month	62.3	64.4	96.8	97.84	91.64	106.8	61.00	59.02	103.3
Year To Date	62.0	54.7	113.4	84.51	85.40	99.0	52.43	46.71	112.2
Running 3 Month	67.7	66.0	102.7	95.63	92.28	103.6	64.76	60.86	106.4
Running 12 Month	61.2	55.6	110.0	88.67	90.41	98.1	54.26	50.29	107.9

July 2024 vs. 2023 Percent Change (%)

	Occupancy			ADR			RevPAR		
	My Prop	Comp Set	Index (MPI)	My Prop	Comp Set	Index (ARI)	My Prop	Comp Set	Index (RGI)
Current Month	7.9	-2.0	10.1	-1.9	-4.8	3.0	5.9	-6.7	13.5
Year To Date	24.1	-1.0	25.3	-6.2	-4.9	-1.3	16.5	-5.8	23.7
Running 3 Month	17.0	7.2	9.1	-1.5	-5.0	3.7	15.2	1.8	13.1
Running 12 Month	6.9	-2.6	9.8	-4.6	-6.3	1.9	2.0	-8.8	11.8

Know Your Market

What's the #'s Really Saying!

- **Quarterly Financials Matter**
- **Know Your Market – Seasonal OR Not**
- **White Elephants, they are always around**
- **Where is your property located, know what's going on!**

June 2025

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index (MPI)	My Prop	Comp Set	Index (ARI)	My Prop	Comp Set	Index (RGI)
Current Month	75.1	71.5	105.0	170.06	163.48	104.0	127.71	116.89	109.3
Year To Date	74.4	60.7	122.5	170.90	153.76	111.1	127.12	93.36	136.2
Running 3 Month	72.8	66.7	109.1	170.66	160.73	106.2	124.27	107.25	115.9
Running 12 Month	79.2	61.9	127.9	194.38	167.41	116.1	153.90	103.62	148.5

December 2024

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index (MPI)	My Prop	Comp Set	Index (ARI)	My Prop	Comp Set	Index (RGI)
Current Month	97.2	59.5	163.3	223.01	154.20	144.6	216.77	91.77	236.2
Year To Date	79.2	61.7	128.3	202.67	179.30	113.0	160.55	110.69	145.0
Running 3 Month	91.7	56.4	162.5	218.91	165.58	132.2	200.64	93.39	214.8
Running 12 Month	79.2	61.7	128.3	202.67	179.30	113.0	160.55	110.69	145.0

December 2024

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index (MPI)	My Prop	Comp Set	Index (ARI)	My Prop	Comp Set	Index (RGI)
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December 2023

	Occupancy (%)			ADR			RevPAR		
	My Prop	Comp Set	Index (MPI)	My Prop	Comp Set	Index (ARI)	My Prop	Comp Set	Index (RGI)
Current Month	78.2	66.6	117.5	207.90	196.33	105.9	162.63	130.75	124.4
Year To Date	85.8	72.7	117.9	212.14	202.57	104.7	181.91	147.31	123.5
Running 3 Month	86.1	75.5	114.0	242.06	225.30	107.4	208.34	170.13	122.5
Running 12 Month	85.8	72.7	117.9	212.14	202.57	104.7	181.91	147.31	123.5

Income Statement

- Revenue
  - Average Daily Rate x Occupancy x Number of Rooms x Days
  - Other Revenue
- Expenses (55- 80% based on age and service level)
  - Staff / Employees
  - Amenities
  - Franchise Fees (4-6%)
  - Property Management Fees (4-6%)
  - Replacement Reserves (4-6%)

Income Statement

- Other Revenues
  - Food / Beverage
  - Telecom / Entertainment
  - Parking
  - Cancellation / No-show
  - Penalties, repairs
- Expenses
  - Departmental – rooms, food
  - Undistributed – property, franchise
  - Fixed Charges – tax, insurance

Formulating Cash Flow

- Annual cash flow can be computed via EBITDA
- Most operators provide monthly STR reports allowing banks to track month over month performance
  - Revenues computed as # Rooms x ADR x Occupancy x Days
  - Expenses can be assumed from prior years or real time if available
- STR will include comparable hotel stats to allow for performance tracking and provide early warning signs if the hotel stats are slipping
- Always consider seasonality when studying month over month cash flow
- STR does not track Other Revenue

Lending Guidelines

- Repayment Terms: Typically balloon term with 20–25-year amortization
  - Consider the age of the property and useful life from appraisal
- Loan-to-Value: Regulations allow up to 85%
  - Highest loan to value reserved for newer properties
  - Consider ~75% or less for older properties
- Project Cash Flow: Baseline of at least 1.25x
  - Additional cushion recommended (1.50x) because this is an operating property
  - DSC should consider reserves, especially for flagged hotels
- Global Cash Flow: Follow bank guidelines
  - Many operators own multiple properties, ensure all are self-sufficient

Operator Strength

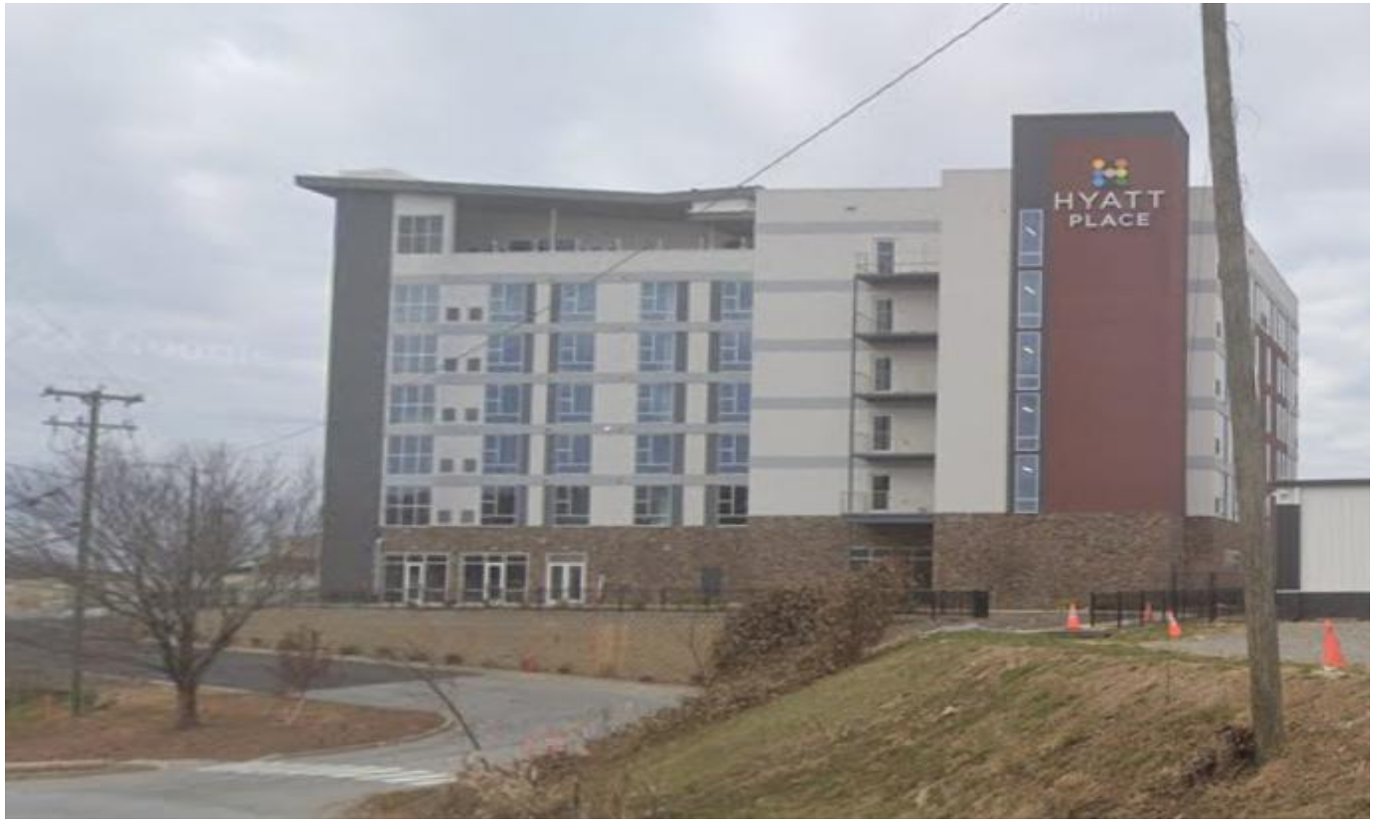
- Prefer owner/operator with strong history in hospitality industry
- Mitigate lack of experience:
  - Strong management team
  - Hospitality education with solid financial backing
  - Prior experience in hospitality
- How well do they manage seasonality
- How well do they manage downturns
- Marketing acumen

Case Study and Appendices

- Hilliott Suites Hotel
- Cap Rates
- STR Reports

8 Years under construction, NEVER OPENS!

What do you think happened!



CASE STUDY

- HANDOUT

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Risk Management Association
Carolinas-Virginias Chapter

NCBankers Association
Strong Banks, Strong Communities