PROGRAM MATERIALS
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What You Don't Know, But Need to Know, About Hotel Investments in 2021

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Dr. Sharon Meit Abrahams is a legal talent development expert with over 25 years of experience in success coaching for attorneys and executing high impact programs for law firms. She has created and implemented firm wide initiatives that help attorneys maximize their productivity while maintaining engagement. When individuals produce, a firm increases its profitability. As a talent development leader, she has handled every aspect of an attorney's firm life from onboarding and integration, through mentoring and training to succession planning and exit interviews.

Dr. Abrahams has published three books with the American Bar Association and regularly publishes articles for Thomson Reuters and American Legal Media. Known for engaging and educational programs, Dr. Abrahams is a sought-after keynote speaker, program facilitator and law firm advisor.

Bringing CLE topics to law firms, legal associations and law firm networks is a labor of love. Reach out to see what Legal Talent Advisors can do for you.

SPEAKERS

Yariv C. Ben-Ari
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Yariv Ben-Ari is a partner in Herrick's Real Estate Department and a co-chair of both the firm's Israel practice group and Real Estate Hospitality group.

Yariv advises real estate lenders, trustees, servicers, owners, operators, developers and contractors on a variety of sophisticated matters. An Israeli-American, and a member of the Israeli bar with longstanding ties to both countries, Yariv often assists foreign developers and investors in their U.S. real estate transactions, as well as U.S. clients seeking outbound investments.

Yariv's diverse experience spans office buildings, shopping centers, multifamily properties, hotels and resort properties across the U.S. and abroad. He frequently advises clients on single asset and portfolio acquisitions and dispositions, domestic and international development projects, foreign bond financings, and other finance transactions. He also represents developers, contractors, subcontractors and design professionals on complex construction contracts and project administration matters.significant countries. David is a founding director of the *Concilium Global Compliance, Investigations & Enforcement Defense Network*, an alliance of business crimes and compliance lawyers around the world, which provides integrated investigations, defense, and compliance solutions to cross-border problems.

Jonathan Falik
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Jonathan Falik is the Founder and Chief Executive Officer of JF Capital Advisors. Mr. Falik leads the firm's hospitality business, which includes equity and debt placement, asset acquisitions and dispositions, portfolio transactions, JV structuring, asset management, management company and brand evaluation, and strategic and capital markets advisory services.

Mr. Falik was a Senior Managing Director and the Head of Hospitality Capital Markets at BGC Real Estate Capital Markets. Simultaneously, Mr. Falik was the Head of Hotel Investment Sales for Newmark Grubb Knight Frank. Previously, Mr. Falik was a Managing Director and Head of the Lodging and Leisure Investment Banking group at Cantor Fitzgerald & Co. Prior to joining Cantor Fitzgerald, Mr. Falik was the founder and CEO of JF Capital Advisors, a lodging advisory and principal investment firm. While at JF Capital, Mr. Falik led the acquisition or development of 25 hotels with over 5,500 keys and an aggregate cost of approximately $1 billion. Additionally, Mr. Falik was the CEO of Eagle Hospitality Trust, a 13 hotel-property private REIT. Mr. Falik has led the sales of single assets and portfolios of 88 hotels for over $2.2 billion of value. Before founding JF Capital in 2004, Mr. Falik was an investment banker at Bear Stearns in the Gaming, Lodging and Leisure Group.

Mr. Falik began his career as a CPA at Price Waterhouse. Mr. Falik has over 25 years of experience in the real estate and lodging sector. He has worked on numerous M&A and financing transactions involving well over 2,000 hotels and over $30 billion of transaction value. Of the $30 billion, $29 billion was completed as an advisor and $1 billion was completed as a principal. He has been actively involved with mergers and acquisitions of public and private companies, portfolio sales and single asset sales, equity financings, high yield financings and mortgage financings. Mr. Falik has extensive hospitality experience as an agent, advisor, principal, owner, borrower, guarantor, franchisee, lender and asset manager. Mr. Falik received a BA in economics with high honors from Rutgers College and an MBA from Columbia Business School with a concentration in Real Estate Finance. Mr. Falik has been an adjunct professor at NYU's Real Estate Institute and is an active lecturer and panelist at industry events. Additionally, Mr. Falik sat on the board of the Boutique & Lifestyle Lodging Association.

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What You Don't Know, But Need to Know, About Hotel Investments in 2021

Presented by Yariv Ben-Ari & Jonathan Falik

February 2, 2021

Biographies

Yariv Ben-Ari

Partner; Co-Chair Real Estate Hospitality;

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Presentation Outline

Presentation Overview

This presentation presents a practical approach for attorneys to understanding basic hotel structures, agreements, financial terminology and applications.

The presentation addresses calculations, and a common sense understanding of concepts used in hotel industry management agreements, franchise agreements, loan agreements and joint-venture agreements. The presentation will also cover unique challenges during the COVID-19 pandemic and integrated solutions.

Topics covered include operating metrics (RevPAR penetrations, GOP, NOI), financial return metrics (IRR, NPV, Equity Multiple), and credit metrics (Debt Yield, DSCR, LTV).

The presentation illustrates concepts and concerns relevant to attorneys who are drafting or reviewing legal agreements for hotel transactions.

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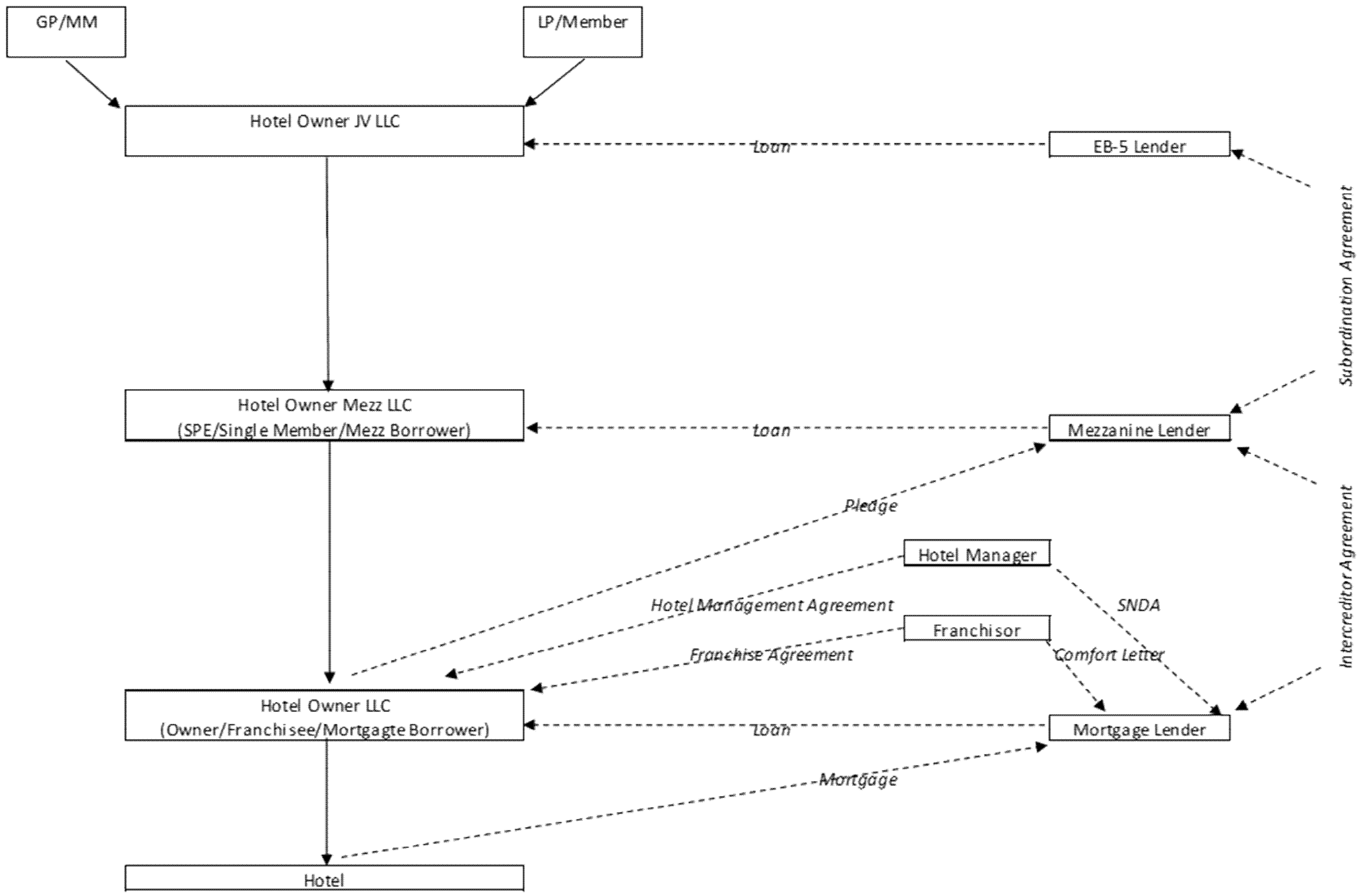
The Nature of Hospitality Transactions

The Basic Structure



Is a Hospitality Transaction a Real Estate Transaction?

"Some" Things You Need to Know

- Franchising laws
- Labor and employment law
- Intellectual property law
- Insurance law
- Corporate and income tax law
- Privacy laws
- Liquor laws
- Zoning and land use
- Local laws and customs
- ADA & OSHA

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COVID-19 Challenges

COVID-19 Changed the Industry

- Operational Impact and Mitigation
- Revenue Impact
- Safe Operation - Employees and Guests
- Change of Use
- WARN Act
- Collective Bargaining Agreements
- Reopening Ramp-Up and Implications on Loan Documents and Franchise Agreements

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Management & Franchise Agreements

Owner Vs. Manager

Owner Vs. Manager

WHO IS RUNNING THE SHOW? PLEASE MEET YOUR HOTEL MANAGER

The hotel manager has certain responsibilities included in managing the day-to-day operations of the hotel, such as:

- Compliance with brand, franchise, and competitive set standards under the hotel management agreement or franchise license agreement
- Guest experience
- Setting room rates, collecting revenues, issuing complementary credits, or other rebates related to guest rooms or other services at the hotel
- Selecting and managing food and beverage operators and operations as well as retail leases
- Compliance with local laws and regulations (e.g., labor, unions, zoning, building, health and safety, environment and accessibility of public facilities)

Owner Vs. Manager (Cont.)

Other areas to consider:

- Withdrawal liability
- Worker Adjustment and Retraining Notification Act (WARN Act) compliance
- Occupational Safety and Health Act compliance
- Americans with Disabilities Act compliance
- State and federal wage compliance
- Patient Protection and Affordable Care Act compliance
- Immigration matters or visa requirements
- State or country regulations regarding labor pool requirements

The Hotel Management Agreement

- Is your manager a “qualified manager” subject to approval by your franchisor and lender?
- How much control and autonomy will your manager have?
- How is your manager incentivized and can you terminate your manager?
- Budget
- Financial performance or profitability
- Revenue Per Available Room (RevPAR)
- Hotel owner return on investment
- Annualized occupancy requirements
- Ratings requirements
- What is the value of the hotel management agreement?
- The SNDA
- The Cash Management Agreement

Key Business Terms / Concepts in Agreements– Management Agreements

Management Agreements:

- Term: Management agreement terms usually vary from 1 year to 50 years; often have automatic extensions; Independent management companies usually have much shorter term than branded managers
- Base Fee: Base fees are typically structured as a percentage of total revenue; usually 3%-4% of gross revenue for full service and 4% of gross revenue for limited service properties
- Incentive Fee: Incentive fees are usually structured as a % of income in excess of a certain GOP (Gross Operating Profit), or as a % of NOI in excess of a preferred return on owners invested capital
- Termination Fees: Brand managed hotels usually have substantially greater termination fees than independent management contracts; termination fees can range from the remaining term of the contract down to no fees; independent management contracts usually have a sliding scale starting at 3x prior year fees and reducing to 1x, and sometimes burning off entirely
- Change of Control: Most management agreements are not assumable; so new owners have to work through similar economics with an existing or new manager; often the ability to acquire a hotel unencumbered by management, significantly increases the value and the pool of potential investors and reduces the cap rate by 50 to 100 bps

Key Business Terms / Concepts in Agreements– Management Agreements

Management Agreements (continued):

- Working Capital: Specified amounts are required to fund working capital needs of the hotel
- Employee Liability Issues: Employees are almost always employees of the manager, not the owner; Owner is responsible for their costs (including payroll and benefits)
- Performance Test: Hotel owner may terminate the Management Agreement if various performance test measures are not met for a period of time, usually two consecutive fiscal years
- Financial Reporting: The manager is responsible to submit full financial reporting for the hotel on a monthly, quarterly and annual basis while keeping a full set of books and records
- Pre-Opening Fees: Fees charged to the Owner by Manager in providing services before the opening date of the hotel that are necessary to prepare the hotel for operation
- The FF&E Reserve (Furniture, Fixtures, & Equipment): This is usually 4-5% of gross revenue and is set aside in order to have a pool of capital for replacements and upgrades of the FF&E in a hotel

Key Business Terms / Concepts in Agreements– Management Agreements

- Effect of Reduced Management Fees on Asset Value: A reduction in base management fees (from 4.0% to 3.0%) directly impacts operating performance, and as a result Asset Value.
- The table shows the increase in NOI due to the reduced fees, and as a result, the increase in asset value, assuming a 7.5% exit cap rate.

	Base Case	Reduced Mgmt Fee	Variance
Total Revenues			
Year 1	*$35,069*	*$35,069*	*$0*
Year 3	*38,569*	*38,569*	*0*
Year 5	*41,061*	*41,061*	*0*
Base + Incentive Management Fee			
Year 1	*$1,400*	*$1,052*	*$348*
Year 3	*1,667*	*1,284*	*383*
Year 5	*1,926*	*1,519*	*407*
FF&E			
Year 1	*$1,403*	*$1,403*	*$0*
Year 3	*1,543*	*1,543*	*0*
Year 5	*1,642*	*1,642*	*0*
NOI			
Year 1	*$6,772*	*$7,120*	*($348)*
Year 3	*8,348*	*8,730*	*(383)*
Year 5	*8,898*	*9,305*	*(407)*
Asset Value (Assumes 7.5% Cap Rate)			
Year 1	*$90,296*	*$94,935*	*($4,639)*
Year 3	*111,301*	*116,403*	*(5,102)*
Year 5	*118,636*	*124,067*	*(5,432)*

($ in thousands)

Key Business Terms / Concepts in Agreements– Management Agreements

- Termination Fee upon Sale Explanation: The below outlines the language and subsequent calculation of a termination fee upon sale for a full-service hotel:

Termination on Sale	Owner shall have the right to terminate the Hotel Management Agreement upon the sale of the Hotel at any time during the Term; provided Owner provides prior written notice to Operator and pays the Termination Fee. "Termination Fee" - Average of T-12 monthly Management Fees x (36 less the number of full calendar months since the Commencement Date). In no event shall the Termination Fee be less than the average of T-12 monthly Management Fees x 6.

- Assuming that the hotel is sold in Month 18, and the Manager earned a Total Management Fee of $850k in the previous TTM period, the Termination fee due would be the following:
- Total Months: (36 Months – 18 Months) *($850k / 12 months) = $1.275 million.

Key Business Terms / Concepts in Agreements– Management Agreements

- Performance Test: The below outlines the language of a performance test provision in a management contract:

Performance Test	Owner will have the right to terminate the Hotel Management Agreement if for each of any two consecutive full Fiscal Years commencing from and after the expiration of the second (2nd) full Fiscal Year (i.e. full Fiscal Years three (3) and four (4) shall be the first test years): (a) the Gross Operating Profit achieved by the Hotel for each such Fiscal Year is less than ninety percent (90%) of the Gross Operating Profit set forth in the Annual Plan; and (b) the RevPAR of the Hotel for such Fiscal Year is less than ninety-five percent (95%) of the target RevPAR Penetration Index (collectively, the "Performance Test"). "RevPAR Penetration Index" shall mean a fraction that is calculated by dividing (i) the actual RevPAR for the Hotel, by (ii) the average RevPAR for the Competitive Set, as set forth in the Smith's STR Report (or comparable report). The Performance Test shall be equitably adjusted to account for any of the following circumstances: a Force Majeure Event (as defined in the Definitive Agreements), casualty or condemnation of all or any portion of the Hotel, capital improvements that result in displacement of rooms or amenities or negatively impact the average daily rate of a Hotel, an adjustment to the Competitive Set, including any rebranding or material renovations occurring at one or more of the Competitive Set hotels, or an Owner event of default.

- Usually, the Performance Test is a two-prong test, meaning that two separate provisions need to be failed to provide Owner with the right to terminate the Hotel Management Agreement.
- The Performance Test usually has one test related to RevPAR penetration versus the hotel's competitive set and one test related to the Hotel's profitability at the Gross Operating Profit level.

The Franchise Agreement – The "Flag"

Who is my Anchor Tenant?

Considerations

Brand strength, including the marketing abilities, reservation system, and customer base, of the franchise. The economic terms of the proposed franchise agreement, such as:

- Franchise fees
- Required initial capital and working capital
- Availability and terms of key money
- Capital improvement requirements
- Net worth or guaranty requirements
- Geographic territory vs. areas of restriction
- Dispositions and Financing
- Negotiation of a new franchise agreement
- Franchise application fees
- Implementing a new PIP
- Franchisors right of first refusal
- The Comfort Letter
- Liquidated damages
- Control by Franchisor (e.g., staffing, training, marketing etc.)

The Franchise Agreement – The "Flag" (cont.)

A strong hotel franchise or brand can improve the value of the hotel with:

- A loyal and accessible customer base
- Established marketing channels
- A well-developed centralized reservations system and amenities

Or do we go with a large brand or a boutique brand?

- Market trend
- Lower Cost
- Less strict brand requirements

The Franchise Agreement – The "Flag" (cont.)

Other considerations:

- Remaining term
- Termination rights
- Assignment rights
- Purchase rights or options held by the hotel manager
- Uh oh, "DEBRANDING"
- The Branded Management Agreement

Key Business Terms / Concepts in Agreements– Franchise Agreements

Franchise Agreements:

- Term: Typically 20 years, but sometimes 10 years
- Royalty Fee: Ranges from 4.0% to 6.5% of Gross Rooms Revenue, and for some Franchisors also from 0% to 3% of Food and Beverage Revenue; This is a significant profit center for the Franchisor
- Marketing / System Fee: Usually about 4% of gross rooms revenue, not a profit center for the Franchisor
- Other Fees: Other fees paid including: Reservations, Technology, Loyalty Program, Training, etc.
- Fee Ramp Up: For new investors / buyers making significant capital improvements, it is common to see some reduction in earlier year royalty fees
  - Royalty fees may by reduced by 1, 2, or 3 percentage points during the early years
- PIP: Property improvement plan capital expenditures; required by a Franchisor on change of ownership of an asset; designed to bring the hotel up to current brand standards
  - PIP is attached as an Exhibit to the Franchise Agreement
  - PIP is created based on scope of the required work, and does not have a defined dollar amount

Key Business Terms / Concepts in Agreements– Franchise Agreements

Franchise Agreements (cont.):

- Termination Fees: Payment of liquidity damages required to prematurely exit a Franchise Agreement
- Guarantees: Franchisee guarantees its obligations under the Franchise Agreement including payment of fees and completion of the PIP
- Liquidated Damages: If Franchise is terminated prior to term, there is a liquidated damages calculation
- Radius Restrictions: Limitations on where and when the Franchisor can grant another Franchisee
    - Also known as an AOP (Area of Protection)
    - Usually burns off after a few years and very specifically defined
- Key Money: Unsecured forgivable loan that self-amortizes over the life of the underlying franchise agreement; very valuable to owners as it reduces equity
    - If a Franchise Agreement is terminated early, unamortized key money is required to be repaid
    - Is generally funded to the Franchisee shortly after the hotel opens

Key Business Terms / Concepts in Agreements– Franchise Agreements

Franchise Agreements (cont.):

- Technical Services Fee: Fee for technical advisory services provided to Owner related to hotel design, area requirements for reach hotel function, food and beverage concepts, the facilities program and criteria for hotel systems
- The FF&E Reserve (Furniture, Fixtures, & Equipment): This is usually 4-5% of gross revenue and is set aside in order to have a pool of capital for replacements and upgrades of the FF&E in a hotel
- Debt Restrictions: Some stronger Franchisors impose certain covenants or LTV limitations on debt financing; this becomes a major negotiating point for heavily leveraged opportunistic buyers
- Change of Control: Franchise Agreements are generally not assumable so a new asset buyer must negotiate a new franchise agreement; this may be on better or worse terms than the existing agreement
- Approved Operator: Franchisors require that the Management Company selected be an approved operator; creating limitations on who may manage the property

Key Business Terms / Concepts in Agreements–Franchise Agreements

Termination of Franchise: The below outlines the language and subsequent calculation of a termination fee upon sale for a full-service hotel payable to Brand:

Termination Fees	Liquidated damages payable to Brand equal to the average of the preceding 24 months franchise and marketing fees multiplied by the lesser of 60 or one-half the number of months remaining in the term

Assuming that the hotel is sold in Year 7 (84 months) as part of a 10 Year (120 months) Franchise agreement, and Hilton earned an average Total Franchise and Marketing Fee of $62,500 in the previous 24 month period, the Termination fee payable to Hilton would be the following:

Total Months: (120 Months – 84 Months) *(1/2)*62,500 = $1.125 million.

A Total Termination Fee of $1.125 million is due to Brand to terminate the agreement.

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Investments & Joint Ventures

Key Business Terms / Concepts in Agreements: Joint Venture Equity Agreements

Joint-Venture Equity Agreements:

- Equity Contribution: Majority partner will want sponsors to have "skin in the game" to align interests; Big concern if sponsors have reduced their basis through the receipt of Development Fees, Acquisition Fees, Asset Management Fees, Property Management Fees
- Asset Management Fees: Sometimes structured as % of revenue; sometimes structured as % of asset value; used to offset costs of overseeing the assets and the venture; Trend has been to move away from formulaic asset management fees and towards a true cost reimbursement; so that asset management fees are NOT a profit center to the sponsor
- Preferred Returns: Most JV agreements with private equity sources have preferred returns to capital invested, before the sponsors receive promoted interests; Preferred returns are generally measured as the leveraged IRR to the equity invested
- Major Decisions: Clause in the JV agreement which governs the partners' ability to come to an agreement on items such as capital expenditures, sale of the asset, refinancing, ability to enter into operating agreements, franchise agreements, etc.

Key Business Terms / Concepts in Agreements: Joint Venture Equity Agreements

Joint-Venture Equity Agreements (continued):

- Promotes: Promote structures take many forms, but are utilized to provide outsized incentive compensation to deal sponsors for strong returns and performance
- Promotes are sometimes referred to as extra splits or Carried Interests
  - Carried interest is an equity interest granted to an investor or participant in a deal, which gets that participant an equity interest different than its actual percentage equity contribution
  - Carried interest may result from a sponsor's effort in putting a deal together, securing certain entitlements or approvals or in executing a deal
- Splits: Some deals are structured with splits in lieu of promotes; the splits simply govern how net cash flows are allocated to the partners; and do not contemplate a preferred return
- Financing / Refinancing: Decisions on financings are critical and drive the to JV partners potential promotes

Key Business Terms / Concepts in Agreements: Joint Venture Equity Agreements

Exit Mechanisms:

- Buy / Sell Agreement: An agreement made between the JV partners whereby either member can set a price at which it will either sell its interest or buy the other member's interest
- Put / Call Agreement: In some JV's, one partner may want to hold the asset long-term and the other want to liquidate earlier, the JV can provide for a sale of the seller's interest under certain circumstances. The advantage of this approach is that the JV partner that wants to buy knows it will be the buyer and the JV partner that wants to sell knows it will be the seller
- Right of First Offer (ROFO): a contractual obligation by the owner of an asset to a rights holder to negotiate the sale of an asset with the rights holder before offering the asset for sale to third parties
- Right of First Refusal (ROFR): a contractual right that gives its holder the option to enter a business transaction with the owner of an asset, according to specified terms, before the owner is entitled to enter into that transaction with a third party

Key Business Terms / Concepts in Agreements: Joint Venture Equity Agreements

What is a Pref and a Promote?

- Pref: Pref is shorthand for preferred return; it references the required return that an investor will require and receive on its invested capital prior to the sponsor receiving promoted interests, or outsized cash distributions relative to its capital invested. The "Pref" is usually measured as a leveraged IRR – Internal Rate of Return
- Promote: Excess or "promoted" cash distributions and economic interests achieved by a deal sponsor after achieving the preferred returns to equity investors
- Commonly seen preferred/promote structures are as follows:

	Hurdle			Promote		
Equity Invested	**1st Tier Pref**	**2nd Tier Pref**	**3rd Tier Pref**	**1st Tier Promote**	**2nd Tier Promote**	**3rd Tier Promote**
10%	10-12%	15-17%	20-22%	10-15%	15-20%	25-30%
15-20%	10-12%	15-17%	20-22%	10-15%	20-25%	30-35%
25%	10-12%	15-17%	20-22%	10-15%	25-30%	35-40%

Key Business Terms / Concepts in Agreements: Joint Venture Equity Agreements

The below illustrates the single tier promote structure for a 90% LP Equity and 10% GP Equity Partnership.

90/10 until the achievement of a 14% preferred return to the LP Investor and return of all capital, and thereafter a 20% promote to GP Investor. A full cash flow is provided on the following page.

Summary Project Returns			
Equity Funded	$113,500		
Total Profit	30,083		
IRR	15.6%		
NPV (12%)	$4,897		
Equity Multiple	1.9x		
Summary LP Returns		**Summary GP Returns**	
Equity Funded	$107,825	Equity Funded	$5,675
Total Profit	26,001	Total Profit	4,082
IRR	15.1%	IRR	19.5%
NPV (12%)	$3,789	NPV (12%)	$1,097
Equity Multiple	1.8x	Equity Multiple	2.2x
% of Total Profit	86.4%	% of Total Profit	13.6%

($ in thousands)

Key Business Terms / Concepts in Agreements – Joint Venture Equity Agreements

LP Cash Flow		2018	2019	2020	2021	2022	2023
Cash Flow After Debt Is Paid Down		$0	$5,795	$1,881	$2,373	$2,713	$58,967
Equity (90%)		($30,645)					
Preferred Return			$5,216	$1,693	$2,136	$2,442	$42,172
Residual Cash Flow			0	0	0	0	9,688
Total Cash Flow		**($30,645)**	**$5,216**	**$1,693**	**$2,136**	**$2,442**	**$51,860**
Cumulative Cash Flow		(30,645)	(25,429)	(23,736)	(21,600)	(19,158)	32,701
GP Cash Flow							
Equity (10%)		($3,405)					
Preferred Return			$580	$188	$237	$271	$4,686
Promote			0	0	0	0	2,422
Total Cash Flow		**($3,405)**	**$580**	**$188**	**$237**	**$271**	**$7,108**
Cumulative Cash Flow		(3,405)	(2,825)	(2,637)	(2,400)	(2,129)	4,979
LP 14.0% Preferred Return							
Required Return	14.0%	$0	$4,767	$4,623	$4,623	$4,623	$6,935
Actual Return		0	(4,767)	(1,881)	(2,373)	(2,713)	(6,935)
Accrued Return Balance		**$0**	**$0**	**$2,742**	**$2,250**	**$1,910**	**$0**
Accrued Return Interest							
Beginning Balance		$0	$0	$0	$2,742	$4,991	$6,901
Additional		0	0	2,742	2,250	1,910	0
Repayment of Accrued		0	0	0	0	0	(6,901)
Ending Balance		**$0**	**$0**	**$2,742**	**$4,991**	**$6,901**	**$0**
Additional Equity							
Equity Return		$0	$34,050	$33,022	$33,022	$33,022	$33,022
Repayment of Principal		0	(1,028)	0	0	0	(33,022)
Additional Return Equity		34,050	0	0	0	0	0
Ending Equity Return Balance		**$34,050**	**$33,022**	**$33,022**	**$33,022**	**$33,022**	**$0**
Equity Cash Flow		**($34,050)**	**$5,795**	**$1,881**	**$2,373**	**$2,713**	**$46,857**
Residual Cash Flows		**$0**	**$0**	**$0**	**$0**	**$0**	**$12,110**
GP Promote	20.0%	**$0**	**$0**	**$0**	**$0**	**$0**	**$2,422**
Residual Cash Flows		**$0**	**$0**	**$0**	**$0**	**$0**	**$9,688**

($ in thousands)

The table illustrates the single tier promote structure for a 90% LP Equity and 10% GP Equity Partnership

90/10 until the achievement of a 14% preferred return to the LP Investor and return of all capital, and thereafter a 20% promote to GP Investor

General Terminology

What matters to hotel investors?

- Historical & Projected Operating Performance
- Penetration Analysis (Occupancy, ADR, RevPAR)
- Cap Rate (NOI after FF&E reserves)
- EBITDA Multiple
- IRR – Internal Rate of Return
- NPV – Net Present Value
- Cash on Cash Return
- Debt Yield (using NOI after FF&E reserve)
- Loan to Cost
- Loan to Value

General Terminology

Occupancy (Penetration)

- An index designed to measure a hotel's performance relative to its competitors.

$$\frac{\text{Hotel Occupancy}}{\text{Comp Set Occupancy}}$$

- Example: If a hotel's Occupancy is 82% and the Competitive Set Occupancy is 75%, the hotel's Occupancy index would be 109.3%. If a hotel's Occupancy was 90%, its index would be 120.0%.

ADR (Penetration) Index

- The ADR index measures a hotel's ADR performance relative to an competitive set

$$\frac{\text{Hotel ADR}}{\text{Comp Set ADR}}$$

- Example: If a hotel's ADR is $60 and the Competitive Set ADR is $50, the hotel's ADR index would be 120.0%. If a hotel's ADR was $80, however, its index would be 160.0%.

General Terminology

RevPAR

- RevPar or Revenue Per Available Room is the total guest revenue divided by the total number of available rooms or the occupancy multiplied by the ADR.

Occupancy x ADR

- Example: If a hotel's Occupancy is 75.0% and the ADR is $60.00, the RevPar would be $45.00.

RevPAR (yield) Index

- Measures a hotel's revenue per available room (RevPAR) and penetration against the comp set.

$$\frac{\text{Hotel RevPAR}}{\text{Comp Set RevPAR}}$$

- Example: If a hotel's RevPAR is $60 and the Competitive Set RevPAR is $50, the hotel's RevPAR index would be 120.0%. If a hotel's RevPAR was $80.00, however, its RevPAR index would be 160.0%.

General Terminology

Loan to Cost

- Loan to Cost (LTC) is a ratio used in commercial real estate construction to compare the amount of the loan used to finance a project to the cost to build the project.
- If the project cost $100 million to complete and the borrower was asking for $80,000,000, the loan-to-cost (LTC) ratio would be 80%.
- The costs included in the $100 million cost figure would be land, construction materials, construction labor, professional fees, permits and so on. The LTC ratio helps commercial real estate lenders assess the risk of making a construction loan.
- The higher the LTC ratio, the higher the risk. A similar, commonly used metric, the loan-to-value ratio, compares the amount of the loan to the fair-market value of the project.

General Terminology

Loan to Value

- Loan to Value (LTV) is the mortgage amount over the appraised value of the hotel.
- It is a lending risk assessment ratio that financial institutions and others lenders examine before approving a mortgage.
- Typically, assessments with high LTV ratios are generally seen as higher risk and, therefore, if the mortgage is accepted, the loan will generally cost the borrower more to borrow or he or she will need to purchase mortgage insurance.
- For example, if an investor needs to borrow $80,000,000 to purchase a $100,000,000 hotel.
- The LTV ratio yields a value of 80.0%. Since bankers usually require a ratio at a maximum of 75% for a mortgage to be approved, it may prove difficult for that investor to get a mortgage.

General Terminology

What is a cap rate?

- An unleveraged yield on an investment.
- Cap rates, rather than multiples, are typically used in real estate valuation analysis.
- Defined and calculated as:

$$\frac{\text{Net Operating Income}}{\text{Purchase Price or Value of an Asset}}$$

- Example: A 7.0% cap rate (or a 7 cap deal) is one in which the Net Operating Income (always prior to debt service) divided by the purchase price is 7.0%.
- Similarly, the Purchase Price or Value can be determined by calculating the Net Operating Income divided by the cap rate.

General Terminology

What is an EBITDA multiple?

- EBITDA multiples help to provide an estimated valuation of a property/portfolio/company.
- Used to analyze and compare profitability between companies/properties/portfolios because it eliminates the effects of financing and accounting decisions.

$$\boxed{\frac{\text{Value}^{(1)}}{\text{EBITDA}} = \text{EBITDA Multiple}}$$

- Example 1): A property is purchased for a price of $100 and is expected to generate an EBITDA of $10 next year. The EBITDA multiple is 10.0x.
- Example 2): A property is purchased for a price of $100 and is expected to generate an EBITDA of $8 next year. The EBITDA multiple is 12.5x.
- EBITDA multiples are used by some investors to determine when to enter/exit an investment based on pre-determined multiple levels.
- Warning: EBITDA multiples can’t be computed for assets that report net losses.

(1) Enterprise Value (EV) or purchase price

General Terminology

How do you determine the “exit cap rate”?

- Exit cap rate determination is highly judgmental
- Many investors assume an exit cap rate of 100 bps (basis points) wider/higher than the going in cap rate.
  - There is no rationale for this but it is commonly used.
- The appropriate way to determine an exit cap rate is to look at historical valuation levels for comparable quality assets or portfolios and use that as a base point.
  - Sensitivities can be run to see how sensitive deal returns are to exit cap rate changes.
- A buyer prefers the market’s cap rate to be high – the higher the cap rate the lower the purchase price for the given income stream.
- Conversely, a seller prefers a low cap rate, as the seller wants the highest price possible for the stabilized income stream they’re selling.

General Terminology

What is an Internal Rate of Return (IRR)?

- Calculates the annualized effective compounded return rate over a specified period of time. It assumes that all cash available that is distributed gets reinvested into a property/portfolio/company at the same IRR.
- IRR calculations are commonly used to evaluate the desirability of an investment. The higher an investment's IRR, the more desirable it is to investors.

Year	Cash Flows
0	$-4,000
1	1,200
2	1,410
3	1,875
4	1,050

$$NPV = -4{,}000 + \frac{1{,}200}{(1 + r)^1} + \frac{1{,}410}{(1 + r)^2} + \frac{1{,}875}{(1 + r)^3} + \frac{1{,}050}{(1 + r)^4} = 0$$

IRR = r = 14.3%

- An investment's IRR is the discount rate at which the Net Present Value (NPV) of outflows (negative cash flows) of the investment equals the NPV of the benefits (positive cash flows) of the investment.
- As long as the cost of capital is less than the IRR, the NPV for the project will be positive.
- Warning: IRR can be misleading for certain investments where cash flows switch from positive to negative more than once (will lead to more than one IRR).

General Terminology

So why is everyone so focused on IRR?

- IRR is a measure that is commonly used in evaluating financial opportunities and widely understood.
- Time value of money plays an important role since money devalues over time. The IRR can help you determine the return relative to other investments, so that you can prudently choose which opportunities yield the highest investment on your money.
- Warning: The higher rate of return MAY NOT BE the better investment (because of uncertainty and varying risk associated with different transactions).

General Terminology

What is Net Present Value (NPV)?

- Valuation mechanism that allows investors to calculate the value of an asset today by discounting the expected future cash flows at a certain discount rate.
- The discount rate is based on the riskiness of the asset and the required returns of the equity investor. (For most hotel deals, the discount rate is between 10-15%).

Year	Cash Flows
0	$-4000
1	1200
2	1410
3	1875
4	10000

$$NPV = -4{,}000 + \frac{1{,}200}{(1 + 15\%)^1} + \frac{1{,}410}{(1 + 15\%)^2} + \frac{1{,}875}{(1 + 15\%)^3} + \frac{10{,}000}{(1 + 15\%)^4}$$

NPV = $5,060

- NPV is the only metric that considers the time value of money, properly adjusting for the opportunity cost or the risk of capital.
- Any project that has a positive NPV, in theory, should get done.
- The only exception to the superiority of NPV is when the firm is constrained by capital rationing. This implies that the firm can not finance all positive NPV projects and should therefore choose the projects that give the highest NPV for each dollar of investment.

General Terminology

What is an Equity Multiple?

- Calculates the overall return on an investment on a leveraged and unleveraged basis.

Leveraged Equity Multiple

$$\frac{\text{Sum of Leveraged Cash Flows + Residual Value}^{(1)}}{\text{Total Equity Invested}}$$

Unleveraged Equity Multiple

$$\frac{\text{Sum of NOIs + Residual Value}^{(1)}}{\text{Total Capital Invested}}$$

- Example 1): An investor purchases a hotel for $100 and sells the hotel three years later for $150. In addition, the investor generated a total of $50 of operating cash flows during the three years as owner, which amounts to $200 of total returns. The investor would have realized an unleveraged equity multiple of 2.0x or $200 / $100.
- Example 2): An investor purchases a hotel for $100 (funding $60 of the investment with a mortgage loan and the remaining $40 with equity), and sells the hotel three years later for $150. In addition, the investor generated a total of $50 of operating cash flows during the three years as owner which amounts to $200 of total returns. The investor would have realized a leveraged equity multiple of 3.5x or $140 / $40.

What is Cash-on-Cash Return?

- Cash-on-Cash return measures an investor's annual rate of return on total initial cash invested.

$$\frac{\text{Annual NOI} - \text{Annual Debt Service}}{\text{Total Initial Cash Equity Investment}} = \text{Cash on Cash Return}$$

- This is sometimes referred to as an Equity Yield.
- Example: If an investor purchased a property for $100 but only paid $40 in cash (40% LTV), and that property generates $5 in cash flow (NOI less debt service) in a year, the Cash-on-Cash return for that year would be 12.5% ($5/$40).
- Cash on Cash is one of the "back of the envelope" calculations used by potential investors to see if an asset qualifies for further review and analysis.

What is an STR Report?

- Smith Travel Research (STR) is a global provider of benchmarking, analytics and marketplace supply and demand data for the hotel industry.
- A STAR Report is a customized report that can be ordered to evaluate the performance of a hotel vs. a weighted average composite set of competitive hotels.
- For example, if you are developing a limited service hotel in the Bronx, you can order a STR report that tells you the Occupancy, ADR, and RevPAR of all the reporting limited service hotels in the Bronx. This information can be very useful for underwriting a hotel.
- STR reports are used for numerous purposes including the following:
- Feasibility
- Projections
- Competitive benchmarking
- Operator performance tests and operates extension tests
- Employee incentive compensation (especially sales teams)

What is an STR Report?

Example STR Report

Occupancy (%)	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	65.2	63.6	66.9	76.4	87.8	90.6	93.7	94.6	91.8	93.1	91.9	88.9	80.4	80.6	83.8
Competitive Set	67.2	72.7	73.7	82.2	87.7	84.6	85.8	80.9	84.1	87.3	91.1	78.8	80.7	78.7	81.4
Index (MPI)	97.1	87.6	90.8	93.0	100.1	107.0	109.2	116.9	109.1	106.7	100.9	112.8	99.6	102.4	103.0
Rank	3 of 6	4 of 6	4 of 6	4 of 6	4 of 6	3 of 6	1 of 6	1 of 6	1 of 6	1 of 6	4 of 6	1 of 6	4 of 6	3 of 6	3 of 6

ADR	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	181.11	150.70	163.63	184.56	201.96	217.15	224.31	187.22	177.63	199.39	207.50	181.62	179.99	180.78	191.85
Competitive Set	166.39	156.13	160.52	186.11	194.74	216.66	203.32	176.84	168.57	199.02	217.87	185.57	187.59	180.46	187.42
Index (ARI)	108.8	96.5	101.9	99.2	103.7	100.2	110.3	105.9	105.4	100.2	95.2	97.9	96.0	100.2	102.4
Rank	2 of 6	4 of 6	3 of 6	4 of 6	3 of 6	3 of 6	2 of 6	2 of 6	3 of 6	3 of 6	5 of 6	4 of 6	5 of 6	2 of 6	3 of 6

RevPAR	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	118.13	95.91	109.52	141.08	177.34	196.64	210.09	177.17	163.09	185.71	190.59	161.52	144.71	145.74	160.73
Competitive Set	111.81	113.45	118.35	152.93	170.79	183.27	174.44	143.15	141.83	173.77	198.41	146.31	151.46	142.11	152.51
Index (RGI)	105.7	84.5	92.5	92.3	103.8	107.3	120.4	123.8	115.0	106.9	96.1	110.4	95.5	102.6	105.4
Rank	2 of 6	4 of 6	4 of 6	4 of 6	3 of 6	2 of 6	1 of 6	1 of 6	3 of 6	3 of 6	5 of 6	2 of 6	5 of 6	2 of 6	2 of 6

What is an STR Report?

- The below excerpt from an STR Report breaks out the RevPAR penetration (called an "Index" or "RGI") for the subject hotel vs. the competitive set.
- The STR Report below is a weighted average composite by total hotel keys of six comparable hotels to the subject hotels.
- STR does not control the comp set; any Owner can run any comp set (to an extent) that that choose, which can provide a distorted result.
- As an example, in November 2018, the subject hotel achieved a RevPAR of $162 as compared to the competitive set, which achieved a RevPAR of $146.
- In order to calculate the subject hotel's RevPAR penetration, simply divide the subject hotel's RevPAR of $162 by the completive set's RevPAR of $146.
- In November 2018, the subject hotel achieved a RevPAR penetration of 110.4%, which was the second highest in the competitive set of six hotels.

RevPAR	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	118.13	95.91	109.52	141.08	177.34	196.64	210.09	177.17	163.09	185.71	190.59	161.52	144.71	145.74	160.73
Competitive Set	111.81	113.45	118.35	152.93	170.79	183.27	174.44	143.15	141.83	173.77	198.41	146.31	151.46	142.11	152.51
Index (RGI)	105.7	84.5	92.5	92.3	103.8	107.3	120.4	123.8	115.0	106.9	96.1	110.4	95.5	102.6	105.4
Rank	2 of 6	4 of 6	4 of 6	4 of 6	3 of 6	2 of 6	1 of 6	1 of 6	3 of 6	3 of 6	5 of 6	2 of 6	5 of 6	2 of 6	2 of 6

STR is a division of publicly traded CoStar Group, Inc., which on a subscription basis provides hotel competitive market data.

What is an STR Report?

- As demonstrated in the STR Report below, there is a tremendous amount of variability in the RevPAR index month to month.
- This variability can be further impacted by several factors including renovations and having rooms offline, reflagging the Hotel, or large changes in contract business (In NYC this includes changes to crew or Homeless housing contracts with the City of New York).
- In order to counteract this variability, it is important to have an annual or T-12 calculation to smooth out that variability.
- As an example, the RevPAR penetration fluctuates from a low of 85% in January 2018 to a high of 124% in July 2018; in totality, this smooths to a November 2018 TTM RevPAR index of 105%.

RevPAR	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	118.13	95.91	109.52	141.08	177.34	196.64	210.09	177.17	163.09	185.71	190.59	161.52	144.71	145.74	160.73
Competitive Set	111.81	113.45	118.35	152.93	170.79	183.27	174.44	143.15	141.83	173.77	198.41	146.31	151.46	142.11	152.51
Index (RGI)	105.7	84.5	92.5	92.3	103.8	107.3	120.4	123.8	115.0	106.9	96.1	110.4	95.5	102.6	105.4
Rank	2 of 6	4 of 6	4 of 6	4 of 6	3 of 6	2 of 6	1 of 6	1 of 6	3 of 6	3 of 6	5 of 6	2 of 6	5 of 6	2 of 6	2 of 6

What is an STR Report?

- The STR Report also details where the subject Hotel ranks compared to the competitive set in Occupancy, ADR, and RevPAR.
- As an example, in the comp set below, in November 2018 the subject hotel ranked 1 of 6 in Occupancy, 4 of 6 in ADR, which in totality blends to a RevPAR rank of 2 of 6.
- In the end, the subject Hotel's November 2018 RevPAR of $162, ranked second of the six competitors; one hotel achieved a higher RevPAR during the month, while four hotels achieved lower RevPARs than the subject Hotel.

Occupancy (%)	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	65.2	63.6	66.9	76.4	87.8	90.6	93.7	94.6	91.8	93.1	91.9	88.9	80.4	80.6	83.8
Competitive Set	67.2	72.7	73.7	82.2	87.7	84.6	85.8	80.9	84.1	87.3	91.1	78.8	80.7	78.7	81.4
Index (MPI)	97.1	87.6	90.8	93.0	100.1	107.0	109.2	116.9	109.1	106.7	100.9	112.8	99.6	102.4	103.0
Rank	3 of 6	4 of 6	4 of 6	4 of 6	4 of 6	3 of 6	1 of 6	1 of 6	1 of 6	1 of 6	4 of 6	1 of 6	4 of 6	3 of 6	3 of 6

ADR	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	181.11	150.70	163.63	184.56	201.96	217.15	224.31	187.22	177.63	199.39	207.50	181.62	179.99	180.78	191.85
Competitive Set	166.39	156.13	160.52	186.11	194.74	216.66	203.32	176.84	168.57	199.02	217.87	185.57	187.59	180.46	187.42
Index (ARI)	108.8	96.5	101.9	99.2	103.7	100.2	110.3	105.9	105.4	100.2	95.2	97.9	96.0	100.2	102.4
Rank	2 of 6	4 of 6	3 of 6	4 of 6	3 of 6	3 of 6	2 of 6	2 of 6	3 of 6	3 of 6	5 of 6	4 of 6	5 of 6	2 of 6	3 of 6

RevPAR	2017	2018											Running 12 Month		
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	2016	2017	2018
My Property	118.13	95.91	109.52	141.08	177.34	196.64	210.09	177.17	163.09	185.71	190.59	161.52	144.71	145.74	160.73
Competitive Set	111.81	113.45	118.35	152.93	170.79	183.27	174.44	143.15	141.83	173.77	198.41	146.31	151.46	142.11	152.51
Index (RGI)	105.7	84.5	92.5	92.3	103.8	107.3	120.4	123.8	115.0	106.9	96.1	110.4	95.5	102.6	105.4
Rank	2 of 6	4 of 6	4 of 6	4 of 6	3 of 6	2 of 6	1 of 6	1 of 6	3 of 6	3 of 6	5 of 6	2 of 6	5 of 6	2 of 6	2 of 6

What are the Potential Flaws When Comparing to a “Comp Set”?

- A hotel in any given area will not necessarily compete with all hotels in that area for the same sources of demand.
- For a market study, or for diligence, it is important to determine which hotels compete with the subject hotel and to what degree, and those that do not should be eliminated.
- The process of selecting the hotels to be included in a comp set is, in itself, subjective, and the biases of the person making the selection can influence what hotels are included and excluded.
- Other potential issues that could distort a comp set include:
  - A lack of supply within the market
  - Oversaturation of hotel supply within the market
  - Failing to acknowledge new hotels
  - Grandfathering a comp set during conversion
  - STR sufficiency guidelines
  - Substantial property uniqueness

CAPITAL ADVISORS

HERRICK

Documenting Credit Facilities, Metrics and Loan Adjustments

Credit Facilities

- Collateral
- Rental Income Vs. Inventory
- Intellectual Property
- Comfort Letters
- SNDAs

Key Business Terms / Concepts in Agreements:

Loan Agreements:

- Rate: Can be fixed or floating
- Amortization: Typical to see 25 year amortization for hotel loans, some have 30 year, and for lower leverage loans, some may have no amortization and are interest only
- Term: In CMBS, 10 years is most common term for fixed rate loans, followed by 5 year loans; 5 year loans are most common for floating rate CMBS, and they are usually structured as 2 year loans with 3 one year extension options
- Points / Fees: Fixed rate loans typically have no origination fees; floating rate loans will usually have 1 point origination fees
- Prepayment: Floating rate loans will typically have some lockout period during which the loan may not be prepaid, followed by yield maintenance for a portion of the term

Key Business Terms / Concepts in Agreements

Loan Agreements (continued):

- Recourse: For a recourse loan, a lender can look to all other assets of the Borrower as collateral. Most CMBS loans are non-recourse except for “Bad Boy” carve-outs
- Covenants: Minimum required credit statistics such as Debt Service Coverage Ratio (DSCR) or Debt Yield
- Guaranties: May require personal recourse guaranties of repayment, debt service, and performance of obligations
- Cash Traps: Many loans incorporate a feature that traps cash and precludes it from being distributed to owners if certain credit statistics and operating cash flows are not achieved
- Reserves: May be required for property taxes, Insurance, ground rent payments, FF&E replacement, seasonality, debt service short falls
- Defeasance: Substitution of U.S. government securities as collateral for a property removed from a loan; fixed rate CMBS loans will typically require defeasance to exit the loan
- Yield Maintenance: Designed to keep a lender indifferent between keeping a loan outstanding and paying it off; calculated as the present value (usually using the Treasury rate as the discount rate) of all of the future debt secure payments, less the outstanding balance

Key Business Terms / Concepts in Agreements

What is the FF&E Reserve? How does it work?

- The FF&E Reserve (Furniture, Fixtures, & Equipment) is usually 4-5% of gross revenue and is set aside in order to have a pool of capital for replacements and upgrades of the FF&E in a hotel
- Lenders underwrite and require the reserve
- Franchise agreements require FF&E reserves; Lender and Franchisor FF&E Reserve requirements are not duplicative and are generally 4-5% of gross revenue

What are Bad Boy Acts and Non-Recourse Carve-outs?

- Bad Boy Acts are a series of specifically defined actions that trigger personal recourse liability for the sponsor of the borrower
- Bad Boy Acts include such items as: Voluntarily filing for bankruptcy; Fraudulently stealing or diverting funds; Causing environmental damage to the building or land
- The concept of the “carve-outs” is that the commission of any of the enumerated “Bad Boy” Acts is carved out of the non-recourse nature of the loan, converting it to recourse

Relevant Credit Metrics

Debt Service Coverage Ratio (DSCR)

- The ratio of Net Operating Income available to meet annual debt service for interest and principal amortization.

$$\frac{\text{Net Operating Income}}{\text{Total Debt Service}} = \text{DSCR}$$

- Example: If you own a hotel that generates $120 of NOI this year and you have a total annual debt service payment of $100 your DSCR is 1.20x. In other words, you have enough cash to meet 120% of your annual debt payment.
- A DSCR of less than 1.00x means a property is generating negative cash flow after debt service, and the borrower has to fund equity to pay the debt service.
- Loan agreements have historically included a DSCR covenant that requires the borrower to meet a specific DSCR. If a borrower fails to remain above this DSCR, it usually is considered an act of default or may cause cash to be trapped and other mechanisms to come into play.

Relevant Credit Metrics

Debt Yield

- Debt Yield is a common metric used by lenders to analyze their own returns. The Debt Yield is a proxy for a Cap Rate for the lender. This statistic may be relied upon to help determine acceptable advance rates when property values are difficult to determine in dislocated markets.

$$\frac{\text{Net Operating Income}}{\text{Total Outstanding Debt Balance}} = \text{Debt Yield}$$

- Example: If a lender requires an 10.0% debt yield when making a loan and a property generated $80 in NOI last year, the lender would determine that an acceptable loan amount is $800.
- Debt Yields can help judge the strength of a loan based on a comparison of the Debt Yield to historical Cap Rates and/or prevailing market Cap Rates, serving as a stressed analysis to real estate investment return thresholds assuming stable cash flows.
- Debt yields have become much more important given very low floating interest rates and very low 30 day LIBOR interest rates, which can create a DSCR that is very high even though the credit statistics are not that strong.

Relevant Credit Metrics

	2019	2020	2021	2022	2023
NOI	**$6,772**	**$7,857**	**$8,348**	**$8,686**	**$8,898**
Senior Credit Stats					
Beginning Balance	$62,425	$61,563	$60,654	$59,695	$58,683
Amortization	(862)	(909)	(959)	(1,012)	(1,068)
Ending Balance	$61,563	$60,654	$59,695	$58,683	$57,615
Interest Rate	5.5%	5.5%	5.5%	5.5%	5.5%
Interest Expense	3,410	3,361	3,310	3,255	3,198
Amortization	862	909	959	1,012	1,068
Debt Service	4,271	4,270	4,269	4,267	4,266
DSCR	1.6x	1.8x	2.0x	2.0x	2.1x
Debt Yield	11.0%	13.0%	14.0%	14.8%	15.4%
Mezzanine Credit Stats					
Beginning Balance	$17,025	$17,025	$17,025	$17,025	$17,025
Amortization	0	0	0	0	0
Ending Balance	$17,025	$17,025	$17,025	$17,025	$17,025
Interest Rate	10.00%	10.00%	10.00%	10.00%	10.00%
Interest Expense	1,703	1,703	1,703	1,703	1,703
Debt Service	1,703	1,703	1,703	1,703	1,703
Cumulative Credit Stats					
Total Debt	$78,588	$77,679	$76,720	$75,708	$74,640
Total Interest Expense	5,112	5,063	5,012	4,958	4,901
Total Amortization	862	909	959	1,012	1,068
Total Debt Service	5,974	5,973	5,971	5,970	5,968
DSCR	1.1x	1.3x	1.4x	1.5x	1.5x
Debt Yield	8.6%	10.1%	10.9%	11.5%	11.9%

Source: JF Capital Projections

- The Debt Yield is calculated on a cumulative basis – it includes both the senior and the mezzanine debt balances.
- Through the mezzanine, the Debt Yield decreases as the outstanding debt balance increases.

Relevant Credit Metrics

	Base Case	Ramp-Up FF&E	Variance
Total Revenues			
Year 1	*$35,069*	*$35,069*	*$0*
Year 2	*36,504*	*36,504*	*0*
Year 3	*38,569*	*38,569*	*0*
FF&E			
Year 1	*$1,403*	*$701*	*$701*
Year 2	*1,460*	*913*	*548*
Year 3	*1,543*	*1,157*	*386*
NOI			
Year 1	*$6,772*	*$7,474*	*($701)*
Year 2	*7,857*	*8,405*	*(548)*
Year 3	*8,348*	*8,733*	*(386)*
Total Loan Balance (Senior + Mezz)			
Year 1	*$78,588*	*$78,588*	*$0*
Year 2	*77,679*	*77,679*	*0*
Year 3	*76,720*	*76,720*	*0*
Total Debt Yield			
Year 1	*8.6%*	*9.5%*	*-0.9%*
Year 2	*10.1%*	*10.8%*	*-0.7%*
Year 3	*10.9%*	*11.4%*	*-0.5%*

- A ramp-up in FF&E reserve over the first few years of operation can have a considerable impact on calculated Debt Yield.
- The below compares the Debt Yield Calculation for a hotel with a 3-Year ramp-up (2.0%, 2.5%, and 3.0%) in FF&E reserve with one that does not (4.0% reserve throughout).
- The difference is considerable and may be the difference in passing or failing a debt yield or DSCR test.

Relevant Credit Metrics

	Base Case	Includes Amort	Variance
NOI			
Year 1	*$6,772*	*$6,772*	*$0*
Year 3	*8,348*	*8,348*	*0*
Year 5	*8,898*	*8,898*	*0*
Interest Expense (Senior + Mezz)			
Year 1	*$5,136*	*$5,112*	*$24*
Year 3	*5,136*	*5,012*	*124*
Year 5	*5,136*	*4,901*	*235*
Amortization Expense (Senior + Mezz)			
Year 1	*$0*	*$862*	*($862)*
Year 3	*0*	*959*	*(959)*
Year 5	*0*	*1,068*	*(1,068)*
Total Debt Service Expense (Senior + Mezz)			
Year 1	*$5,136*	*$5,974*	*($838)*
Year 3	*5,136*	*5,971*	*(835)*
Year 5	*5,136*	*5,968*	*(832)*
Total DSCR			
Year 1	*1.3x*	*1.1x*	*0.2x*
Year 3	*1.6x*	*1.4x*	*0.2x*
Year 5	*1.7x*	*1.5x*	*0.2x*

- Factoring 25 Year Amortization into the debt calculations changes the DSCR dramatically
- With the amortization included, the DSCR decreases; In the comparison below, DSCR in Year 1 decreased by 0.2x

Relevant Credit Metrics

Debt Per Key

- Debt Per Key is a valuation metric used during the underwriting process that measures the total amount of debt for a property or portfolio divided by the total number of keys or rooms.

$$\frac{\text{Total Debt Balance}}{\text{\# of Keys}}$$

- Debt Per Key measures the lenders basis in the asset
- Example: If a hotel has $50,000,000 in total debt and 200 keys, it has $250,000 of debt per key.

Debt/EBITDA

$$\frac{\text{Total Debt Balance}}{\text{EBITDA}}$$

- Provides investors with an approximation as to how much time it will take for a property to pay off all of its current debt, ignoring interest, taxes, depreciation and amortization.
- In contrast to DSCR, a high Debt/EBITDA ratio suggests that a firm or an asset owner may not be able to service its debt in an appropriate manner.

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Structuring the Deal

Sample Financial Illustrations

How Deal Structuring Affects Returns

1. Funding all development (or capex) at closing

- The leveraged deal return is 14.7% when funding all development costs (or capex) at closing.

Illustrative Sources & Uses

			Interest Rate
Total Land Cost	$10,000	10.9%	
CapEx Cost	0	0.0%	
Development Cost	81,629	89.1%	
Total Uses	$91,629	100.0%	
Debt	50,000	54.6%	5.5%
Mezzanine Debt	15,000	16.4%	15.0%
Pref Equity	0	0.0%	14.0%
Equity	26,629	29.1%	7.7%
Total Sources	$91,629	100.0%	

Exit Assumptions

Year 5 NOI	$9,928
Exit Cap Rate	8.0%
Gross Sale Price	$124,099
Less: 2.0% Fee	2.0%
Net Sale Price	**$121,617**
Net Sale Price Per Key	**540,520**

Returns

Equity IRR		**14.7%**
Equity NPV	15.0%	($665)
Equity Multiple		2.8x
Total Profit		$49,085
Unleveraged IRR		**9.8%**
Unleveraged NPV	10.0%	($1,233)
Unleveraged Equity Multiple		1.8x
Total Profit		$73,367

	Construction			Operation				
Returns Analysis	Close	2018	2019	2020	2021	2022	2023	2024
Property Cash Flow	$0	$0	$0	$6,856	$7,699	$8,265	$9,132	$9,928
Acquisition Cost / Sale Proceeds	(10,000)							121,617
Key Money / Security Deposit Return				1,500				
Development Costs	(81,629)							
Senior Debt Issuance/Repayment		50,000	0					(44,545)
Mezzanine Issuance/Repayment		15,000	0	0	0	0	0	(15,000)
Senior Debt Interest Expense(1)				(2,723)	(2,668)	(2,610)	(2,548)	(2,483)
Senior Debt Amortization(1)				(977)	(1,031)	(1,088)	(1,148)	(1,211)
Mezzanine Interest Expense(2)				(2,250)	(2,250)	(2,250)	(2,250)	(2,250)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($91,629)**	**$65,000**	**$0**	**$2,405**	**$1,750**	**$2,317**	**$3,186**	**$66,056**
Cumulative Equity Cash Flow	(91,629)	($26,629)	($26,629)	($24,223)	($22,474)	($20,157)	($16,971)	$49,085
Unlevered Cash Flow	**($91,629)**	**$0**	**$0**	**$8,356**	**$7,699**	**$8,265**	**$9,132**	**$131,545**

Source: JF Capital Projections
(1) Fixed-rate debt at 5.5% interest with a 25 year amortization schedule
(2) Fixed-rate debt at 15.0% interest with a 0 year amortization schedule

Sample Financial Illustrations

How Deal Structuring Affects Returns (continued)

1. Funding all development (or capex) at closing (continued)

- The leveraged deal return is 18.3% with a 2-year development period (equal funding in each year)

Illustrative Sources & Uses

			Interest Rate
Total Land Cost	$10,000	10.9%	
CapEx Cost	0	0.0%	
Development Cost	81,629	89.1%	
Total Uses	$91,629	100.0%	
Debt	50,000	54.6%	5.5%
Mezzanine Debt	15,000	16.4%	15.0%
Pref Equity	0	0.0%	14.0%
Equity	26,629	29.1%	7.7%
Total Sources	$91,629	100.0%	

Exit Assumptions

Year 5 NOI	$9,928
Exit Cap Rate	8.0%
Gross Sale Price	$124,099
Less: 2.0% Fee	2.0%
Net Sale Price	**$121,617**
Net Sale Price Per Key	**540,520**

Returns

Equity IRR		**18.3%**
Equity NPV	15.0%	$4,801
Equity Multiple		2.8x
Total Profit		$49,085
Unleveraged IRR		**11.4%**
Unleveraged NPV	10.0%	$6,074
Unleveraged Equity Multiple		1.8x
Total Profit		$73,367

	Construction			Operation				
Returns Analysis	Close	2018	2019	2020	2021	2022	2023	2024
Property Cash Flow	$0	$0	$0	$6,856	$7,699	$8,265	$9,132	$9,928
Acquisition Cost / Sale Proceeds	(10,000)							121,617
Key Money / Security Deposit Return				1,500				
Development Costs		(40,814)	(40,814)					
Senior Debt Issuance/Repayment		9,186	40,814					(44,545)
Mezzanine Issuance/Repayment		15,000	0	0	0	0	0	(15,000)
Senior Debt Interest Expense (1)				(2,723)	(2,668)	(2,610)	(2,548)	(2,483)
Senior Debt Amortization (1)				(977)	(1,031)	(1,088)	(1,148)	(1,211)
Mezzanine Interest Expense (2)				(2,250)	(2,250)	(2,250)	(2,250)	(2,250)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($10,000)**	**($16,629)**	**$0**	**$2,405**	**$1,750**	**$2,317**	**$3,186**	**$66,056**
Cumulative Equity Cash Flow	(10,000)	($26,629)	($26,629)	($24,223)	($22,474)	($20,157)	($16,971)	$49,085
Unlevered Cash Flow	**($10,000)**	**($40,814)**	**($40,814)**	**$8,356**	**$7,699**	**$8,265**	**$9,132**	**$131,545**

Source: JF Capital Projections
(1) Fixed-rate debt at 5.5% interest with a 25 year amortization schedule
(2) Fixed-rate debt at 15.0% interest with a 0 year amortization schedule

Sample Financial Illustrations

How Deal Structuring Affects Returns (continued)

2. Different leverage levels

Leverage of approximately 70.0% results in a leveraged equity IRR of 23.1%.

Illustrative Sources & Uses		
Acquisition Cost	$100,000	88.1%
CapEx Costs	10,000	8.8%
Closing Costs	3,500	3.1%
Total Uses	**$113,500**	100.0%
Debt	62,425	55.0%
Mezzanine Debt	17,025	15.0%
Pref Equity	0	0.0%
Equity	34,050	30.0%
Total Sources	**$113,500**	100.0%

Exit Assumptions	
Year 5 NOI	$9,937
Exit Cap Rate	7.0%
Gross Sale Price	$141,963
Less: 2.0% Fee	2.0%
Net Sale Price	**$139,124**
Net Sale Price Per Key	**$397,496**

Returns		
Equity IRR		**23.1%**
Equity NPV	12.0%	$16,609
Equity Multiple		2.5x
Total Profit		$49,475
Unleveraged IRR		**12.2%**
Unleveraged NPV	8.0%	$20,186
Unleveraged Equity Multiple		1.7x
Total Profit		$74,110

			Operation				
		2018	2019	2020	2021	2022	2023
Property Cash Flow			$7,660	$8,781	$9,324	$9,693	$9,937
Acquisition Cost / Sale Proceeds		($113,500)					139,124
Debt Issuance/Repayment		62,425					(57,615)
Mezzanine Issuance/Repayment		17,025	0	0	0	0	(17,025)
Key Money / Security Deposit Return			5,000				
Senior Debt Interest Expense(1)			(3,410)	(3,361)	(3,310)	(3,255)	(3,198)
Senior Debt Amortization(1)			(862)	(909)	(959)	(1,012)	(1,068)
Mezzanine Interest Expense(2)			(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
Refinancing Proceeds			0	0	0	0	0
Asset Management Fee (3)	1.0%		(351)	(365)	(386)	(398)	(411)
Equity Cash Flow		**($34,050)**	**$6,336**	**$2,444**	**$2,967**	**$3,326**	**$68,453**
Cumulative Equity Cash Flow		($34,050)	($27,714)	($25,271)	($22,304)	($18,978)	$49,475
Unlevered Cash Flow		**($113,500)**	**$12,310**	**$8,416**	**$8,939**	**$9,295**	**$148,651**

Source: JF Capital Projections
(1) Fixed-rate debt at 5.5% interest with no amortization schedule until refinanced
(2) Fixed-rate debt at 10.0% interest with no amortization schedule until refinanced
(3) Asset Management Fee calculated as 1.0% of total revenue, paid annually

Sample Financial Illustrations

How Deal Structuring Affects Returns (continued)

2. Different leverage levels

- Increasing to leverage of approximately 80.0% results in a higher leveraged equity return of 29.0%.

Illustrative Sources & Uses		
Acquisition Cost	$100,000	88.1%
CapEx Costs	10,000	8.8%
Closing Costs	3,500	3.1%
Total Uses	**$113,500**	100.0%
Debt	68,100	60.0%
Mezzanine Debt	22,700	20.0%
Pref Equity	0	0.0%
Equity	22,700	20.0%
Total Sources	**$113,500**	100.0%

Exit Assumptions	
Year 5 NOI	$9,937
Exit Cap Rate	7.0%
Gross Sale Price	$141,963
Less: 2.0% Fee	2.0%
Net Sale Price	**$139,124**
Net Sale Price Per Key	**$397,496**

Returns		
Equity IRR		**29.0%**
Equity NPV	12.0%	$18,324
Equity Multiple		3.0x
Total Profit		$45,134
Unleveraged IRR		**12.2%**
Unleveraged NP\	8.0%	$20,186
Unleveraged Equity Multiple		1.7x
Total Profit		$74,110

			Operation				
		2018	2019	2020	2021	2022	2023
Property Cash Flow			$7,660	$8,781	$9,324	$9,693	$9,937
Acquisition Cost / Sale Proceeds		($113,500)					139,124
Debt Issuance/Repayment		68,100					(62,853)
Mezzanine Issuance/Repayment		22,700	0	0	0	0	(22,700)
Key Money / Security Deposit Return			5,000				
Senior Debt Interest Expense[(1)]			(3,720)	(3,667)	(3,610)	(3,551)	(3,489)
Senior Debt Amortization[(1)]			(940)	(992)	(1,046)	(1,104)	(1,165)
Mezzanine Interest Expense[(2)]			(2,270)	(2,270)	(2,270)	(2,270)	(2,270)
Refinancing Proceeds			0	0	0	0	0
Asset Management Fee [(3)]	1.0%		(351)	(365)	(386)	(398)	(411)
Equity Cash Flow		**($22,700)**	**$5,380**	**$1,488**	**$2,012**	**$2,370**	**$56,585**
Cumulative Equity Cash Flow		($22,700)	($17,320)	($15,832)	($13,821)	($11,451)	$45,134
Unlevered Cash Flow		**($113,500)**	**$12,310**	**$8,416**	**$8,939**	**$9,295**	**$148,651**

Source: JF Capital Projections
(1) Fixed-rate debt at 5.5% interest with no amortization schedule until refinanced
(2) Fixed-rate debt at 10.0% interest with no amortization schedule until refinanced
(3) Asset Management Fee calculated as 1.0% of total revenue, paid annually

Sample Financial Illustrations

How Deal Structuring Affects Returns (continued)

3. Different exit cap rates

- An exit cap rate of 7.0% produces a leveraged equity IRR of 23.1%.

Illustrative Sources & Uses			Exit Assumptions		Returns		
Acquisition Cost	$100,000	88.1%	Year 5 NOI	$9,937	**Equity IRR**		**23.1%**
CapEx Costs	10,000	8.8%	**Exit Cap Rate**	7.0%	Equity NPV	12.0%	$16,609
Closing Costs	3,500	3.1%	Gross Sale Price	$141,963	Equity Multiple		2.5x
Total Uses	**$113,500**	100.0%	Less: 2.0% Fee	2.0%	Total Profit		$49,475
Debt	62,425	55.0%	**Net Sale Price**	**$139,124**			
Mezzanine Debt	17,025	15.0%	**Net Sale Price Per Key**	**$397,496**	**Unleveraged IRR**		**12.2%**
Pref Equity	0	0.0%			Unleveraged NPV	8.0%	$20,186
Equity	34,050	30.0%			Unleveraged Equity Multiple		1.7x
Total Sources	**$113,500**	100.0%			Total Profit		$74,110

			Operation				
		2018	2019	2020	2021	2022	2023
Property Cash Flow			$7,660	$8,781	$9,324	$9,693	$9,937
Acquisition Cost / Sale Proceeds		($113,500)					139,124
Debt Issuance/Repayment		62,425					(57,615)
Mezzanine Issuance/Repayment		17,025	0	0	0	0	(17,025)
Key Money / Security Deposit Return			5,000				
Senior Debt Interest Expense (1)			(3,410)	(3,361)	(3,310)	(3,255)	(3,198)
Senior Debt Amortization (1)			(862)	(909)	(959)	(1,012)	(1,068)
Mezzanine Interest Expense (2)			(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
Refinancing Proceeds			0	0	0	0	0
Asset Management Fee (3)	1.0%		(351)	(365)	(386)	(398)	(411)
Equity Cash Flow		**($34,050)**	**$6,336**	**$2,444**	**$2,967**	**$3,326**	**$68,453**
Cumulative Equity Cash Flow		($34,050)	($27,714)	($25,271)	($22,304)	($18,978)	$49,475
Unlevered Cash Flow		**($113,500)**	**$12,310**	**$8,416**	**$8,939**	**$9,295**	**$148,651**

Source: JF Capital Projections

(1) Fixed-rate debt at 5.5% interest with no amortization schedule until refinanced

(2) Fixed-rate debt at 10.0% interest with no amortization schedule until refinanced

(3) Asset Management Fee calculated as 1.0% of total revenue, paid annually

Sample Financial Illustrations

How Deal Structuring Affects Returns (continued)

3. Different exit cap rates (continued)

- Decreasing the exit cap rate to 6.0% results in a higher leveraged equity return of 29.5%.

Illustrative Sources & Uses		
Acquisition Cost	$100,000	88.1%
CapEx Costs	10,000	8.8%
Closing Costs	3,500	3.1%
Total Uses	**$113,500**	100.0%
Debt	62,425	55.0%
Mezzanine Debt	17,025	15.0%
Pref Equity	0	0.0%
Equity	34,050	30.0%
Total Sources	**$113,500**	100.0%

Exit Assumptions	
Year 5 NOI	$9,937
Exit Cap Rate	6.0%
Gross Sale Price	$165,623
Less: 2.0% Fee	2.0%
Net Sale Price	**$162,311**
Net Sale Price Per Key	**$463,746**

Returns		
Equity IRR		**29.5%**
Equity NPV	12.0%	$29,762
Equity Multiple		3.1x
Total Profit		$72,662
Unleveraged IRR		**15.0%**
Unleveraged NPV	8.0%	$35,964
Unleveraged Equity Multiple		1.9x
Total Profit		$97,298

			Operation				
		2018	2019	2020	2021	2022	2023
Property Cash Flow			$7,660	$8,781	$9,324	$9,693	$9,937
Acquisition Cost / Sale Proceeds		($113,500)					162,311
Debt Issuance/Repayment		62,425					(57,615)
Mezzanine Issuance/Repayment		17,025	0	0	0	0	(17,025)
Key Money / Security Deposit Return			5,000				
Senior Debt Interest Expense(1)			(3,410)	(3,361)	(3,310)	(3,255)	(3,198)
Senior Debt Amortization(1)			(862)	(909)	(959)	(1,012)	(1,068)
Mezzanine Interest Expense(2)			(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
Refinancing Proceeds			0	0	0	0	0
Asset Management Fee (3)	1.0%		(351)	(365)	(386)	(398)	(411)
Equity Cash Flow		**($34,050)**	**$6,336**	**$2,444**	**$2,967**	**$3,326**	**$91,640**
Cumulative Equity Cash Flow		($34,050)	($27,714)	($25,271)	($22,304)	($18,978)	$72,662
Unlevered Cash Flow		**($113,500)**	**$12,310**	**$8,416**	**$8,939**	**$9,295**	**$171,838**

Source: JF Capital Projections
(1) Fixed-rate debt at 5.5% interest with no amortization schedule until refinanced
(2) Fixed-rate debt at 10.0% interest with no amortization schedule until refinanced
(3) Asset Management Fee calculated as 1.0% of total revenue, paid annually

Sample Financial Illustrations

How Deal Structuring Affects Returns (continued)

4. Modeling a Refinancing

- With no refinancing, the deal produces a leveraged equity IRR of 23.1%.

Illustrative Sources & Uses			**Exit Assumptions**		**Returns**		
Acquisition Cost	$100,000	88.1%	Year 5 NOI	$9,937	**Equity IRR**		**23.1%**
CapEx Costs	10,000	8.8%	**Exit Cap Rate**	7.0%	Equity NPV	12.0%	$16,609
Closing Costs	3,500	3.1%	Gross Sale Price	$141,963	Equity Multiple		2.5x
Total Uses	**$113,500**	100.0%	Less: 2.0% Fee	2.0%	Total Profit		$49,475
Debt	62,425	55.0%	**Net Sale Price**	**$139,124**			
Mezzanine Debt	17,025	15.0%	**Net Sale Price Per Key**	**$397,496**	**Unleveraged IRR**		**12.2%**
Pref Equity	0	0.0%			Unleveraged NPV	8.0%	$20,186
Equity	34,050	30.0%			Unleveraged Equity Multiple		1.7x
Total Sources	**$113,500**	100.0%			Total Profit		$74,110

			Operation				
		2018	2019	2020	2021	2022	2023
Property Cash Flow			$7,660	$8,781	$9,324	$9,693	$9,937
Acquisition Cost / Sale Proceeds		($113,500)					139,124
Debt Issuance/Repayment		62,425					(57,615)
Mezzanine Issuance/Repayment		17,025	0	0	0	0	(17,025)
Key Money / Security Deposit Return			5,000				
Senior Debt Interest Expense[1]			(3,410)	(3,361)	(3,310)	(3,255)	(3,198)
Senior Debt Amortization[1]			(862)	(909)	(959)	(1,012)	(1,068)
Mezzanine Interest Expense[2]			(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
Refinancing Proceeds			0	0	0	0	0
Asset Management Fee [3]	1.0%		(351)	(365)	(386)	(398)	(411)
Equity Cash Flow		**($34,050)**	**$6,336**	**$2,444**	**$2,967**	**$3,326**	**$68,453**
Cumulative Equity Cash Flow		($34,050)	($27,714)	($25,271)	($22,304)	($18,978)	$49,475
Unlevered Cash Flow		**($113,500)**	**$12,310**	**$8,416**	**$8,939**	**$9,295**	**$148,651**

Source: JF Capital Projections
(1) Fixed-rate debt at 5.5% interest with no amortization schedule until refinanced
(2) Fixed-rate debt at 10.0% interest with no amortization schedule until refinanced
(3) Asset Management Fee calculated as 1.0% of total revenue, paid annually

Sample Financial Illustrations

How Deal Structuring Affects Returns (continued)

4. Modeling a Refinancing (continued)

- With a refinancing in Year 3 at an 11.0% Debt Yield and a 6.0% interest rate, the deal produces a leveraged equity IRR of 30.3%.

Illustrative Sources & Uses		
Acquisition Cost	$100,000	88.1%
CapEx Costs	10,000	8.8%
Closing Costs	3,500	3.1%
Total Uses	**$113,500**	100.0%
Debt	62,425	55.0%
Mezzanine Debt	17,025	15.0%
Pref Equity	0	0.0%
Equity	34,050	30.0%
Total Sources	**$113,500**	100.0%

Exit Assumptions	
Year 5 NOI	$9,937
Exit Cap Rate	6.0%
Gross Sale Price	$165,623
Less: 2.0% Fee	2.0%
Net Sale Price	**$162,311**
Net Sale Price Per Key	**$463,746**

Returns		
Equity IRR		**30.3%**
Equity NPV	12.0%	$30,374
Equity Multiple		3.1x
Total Profit		$72,373
Unleveraged IRR		**15.0%**
Unleveraged NPV	8.0%	$35,964
Unleveraged Equity Multiple		1.9x
Total Profit		$97,298

					Operation		
		2018	2019	2020	2021	2022	2023
Property Cash Flow			$7,660	$8,781	$9,324	$9,693	$9,937
Acquisition Cost / Sale Proceeds		($113,500)					162,311
Debt Issuance/Repayment		62,425					(85,891)
Mezzanine Issuance/Repayment		17,025	0	0	0	(17,025)	0
Key Money / Security Deposit Return			5,000				
Senior Debt Interest Expense(1)			(3,410)	(3,361)	(3,310)	(3,255)	(5,190)
Senior Debt Amortization(1)			(862)	(909)	(959)	(1,012)	(1,217)
Mezzanine Interest Expense(2)			(1,703)	(1,703)	(1,703)	(1,703)	0
Refinancing Proceeds			0	0	0	28,425	0
Asset Management Fee (3)	1.0%		(351)	(365)	(386)	(398)	(411)
Equity Cash Flow		**($34,050)**	**$6,336**	**$2,444**	**$2,967**	**$14,725**	**$79,951**
Cumulative Equity Cash Flow		($34,050)	($27,714)	($25,271)	($22,304)	($7,579)	$72,373
Unlevered Cash Flow		**($113,500)**	**$12,310**	**$8,416**	**$8,939**	**$9,295**	**$171,838**

Source: JF Capital Projections
(1) Fixed-rate debt at 5.5% interest with no amortization schedule until refinanced
(2) Fixed-rate debt at 10.0% interest with no amortization schedule until refinanced
(3) Asset Management Fee calculated as 1.0% of total revenue, paid annually

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Operations

Key Business Terms / Concepts in Agreements

F&B Leases / Operating Agreements:

- Term: Term varies based on strength, popularity and cachet of the operator
- Base Fee: If structured as an operating agreement, usually a fee of 4-5% of total F&B Revenue; for celebrity chefs it may be as much as 6% of F&B revenue
- Incentive Fee: Various structures but usually a significant percentage of profit
- Termination Fees: Usually not that significant; higher in the case of celebrity chef
- Other Key Issues: Branding, financial reporting, adherence to hotel brand standards, etc.

General Terminology

How to Read an Income Statement?

Line Item	Definition
Occupancy Rate	**Occupancy** is calculated by dividing the number of rooms sold by rooms available
Average Daily Rate (ADR)	**ADR** is the average rate paid for rooms sold (ADR = room revenue / rooms sold)
RevPAR	**Revenue Per Available Room** ("RevPAR") is ADR * Occupancy Rate
Revenue	Revenues generated by each department or profit center
Rooms	Calculated as RevPAR * Number of Days in a Year * Number of Rooms
Food & Beverage	Includes Restaurants/Bars, Banquets/Meetings, Room Service, Audio Visual/Room Rental
Other	Includes Telecommunications, WiFi, Retail Rentals, Lease Income, Sundries, Parking, Spa, Guest Laundry etc.
Total Revenue	
Departmental Expenses	Costs that are incurred by and charged directly to one department or profit center
Rooms	Includes housekeeping, consumables in rooms, sales commissions, etc.
Food & Beverage	Food cost, Beverage cost, Labor and Payroll Cost, Glassware, Linen, etc.
Other	Various product costs, labor costs, payments to various third-party operators, etc.
Total Departmental Expenses	
Total Departmental Profit	Total Revenue less Total Departmental Expenses

General Terminology

How to Read an Income Statement?

Line Item	Definition
Undistributed Operating Expenses	Costs that apply to two or more departments of the hotel or are not possible to effectively allocate
Administrative & General	Includes: GM, Assistant GM, accounting team, credit card commissions, office equipment.
Marketing	Includes: Director of Sales Marketing, Revenue Management, sales assistants, marketing campaign expenses, promotions, etc.
Utility Costs	Includes: All electric, gas, water costs
Property Operations & Maintenance	Includes: Chief Engineer, porters, maintenance staff, contracts for elevator maintenance, landscaping, etc.
Total Undistributed Operating Expenses	
Gross Operating Profit (GOP)	
Franchise Fees	Includes: Royalty fees to franchisor if operation is under a license agreement
Management Fees	Includes: Base fee as percentage of top-line revenues, may also include incentive component
Taxes	Property Taxes for ownership of hotel (not income taxes)
Insurance	Property and Casualty Insurance for building; Not employee-related insurance
EBITDA	
FF&E Reserve	% of Gross Revenue that is set aside in order to have capital for replacements and upgrades of the FF&E (Furniture, Fixtures, & Equipment)
Net Operating Income (NOI)	

General Terminology

How to Read an Income Statement?- Limited Service Hotel

Occupancy Rate	75.0%		
ADR	$114.99		
RevPAR	86.24		
	Ratio-to-Sales	Per Available Room	Per Occupied Room Night
Revenue			
Rooms	96.7%	$31,486	$114.99
Food & Beverage	0.0%	0	0.00
Other	3.3%	1,070	3.91
Total Revenue	100.0%	$32,556	$118.90
Department Expenses (1)			
Rooms	23.4%	$7,367	$26.91
Food & Beverage	0.0%	0	0.00
Other	72.5%	460	1.68
Total Departmental Expenses	24.0%	$7,827	$28.59
Total Departmental Profit	76.0%	$24,729	$90.31
Undistributed Operating Expenses			
Administrative & General	8.7%	$2,846	$10.39
Information & Telecommunications Systems	1.2%	386	1.41
Marketing	4.9%	1,592	5.81
Utility Costs	3.9%	1,275	4.66
Property Operations & Maintenance	4.7%	1,524	5.56
Total Undistributed Operating Expenses	28.0%	$9,128	$33.34
Gross Operating Profit	47.9%	$15,601	$56.98
Franchise Fees (2)	4.6%	$1,507	$5.50
Management Fees	3.1%	1,004	3.67
Taxes	4.7%	1,542	5.63
Insurance	1.0%	320	1.17
EBITDA	39.1%	$12,734	$46.51
FF&E Reserve (3)	1.4%	463	1.69
NOI	37.7%	$12,271	$44.82

Source: 2017 HOST Almanac US Full-Service Average

(1) Departmental expenses and profits are calculated as percentage of the related departmental revenue, not total revenue
(2) Generally royalty/franchise fees are 5% of rooms revenue but it is skewed lower as the STR composite index includes independent hotels
(3) FF&E reserve is usually 4% of total revenue; it is skewed lower as the STR composite includes hotels without mortgage loans and required reserves

General Terminology

How to Read an Income Statement?- Full Service Hotel

Occupancy Rate	74.6%		
ADR	$193.94		
RevPAR	144.68		
	Ratio-to-Sales	Per Available Room	Per Occupied Room Night
Revenue			
Rooms	64.7%	$52,927	$193.94
Food & Beverage	28.5%	23,349	85.55
Other	6.8%	5,590	20.48
Total Revenue	100.0%	$81,865	$299.98
Department Expenses (1)			
Rooms	25.9%	$13,710	$50.24
Food & Beverage	71.2%	16,613	60.88
Other	72.5%	2,453	8.99
Total Departmental Expenses	40.0%	$32,776	$120.10
Total Departmental Profit	60.0%	$49,089	$179.88
Undistributed Operating Expenses			
Administrative & General	7.7%	$6,338	$23.23
Information & Telecommunications Systems	1.3%	1,100	4.03
Marketing	6.8%	5,607	20.54
Utility Costs	3.0%	2,440	8.94
Property Operations & Maintenance	4.1%	3,370	12.35
Total Undistributed Operating Expenses	23.0%	$18,855	$69.10
Gross Operating Profit	36.9%	$30,233	$110.78
Franchise Fees (2)	1.4%	$1,153	$4.22
Management Fees	3.3%	2,691	9.86
Taxes	3.4%	2,747	10.07
Insurance	1.0%	816	2.99
EBITDA	27.9%	$22,826	$83.64
FF&E Reserve (3)	1.9%	1,595	5.84
NOI	26.0%	$21,231	$77.80

Source: 2017 HOST Almanac US Full-Service Average

(1) Departmental expenses and profits are calculated as percentage of the related departmental revenue, not total revenue
(2) Generally royalty/franchise fees are 5% of rooms revenue but it is skewed lower as the STR composite index includes independent hotels
(3) FF&E reserve is usually 4% of total revenue; it is skewed lower as the STR composite includes hotels without mortgage loans and required reserves

General Terminology

What is Net Operating Income (NOI)?

- The income stream generated by the operation of the property, independent of external factors such as financing and income taxes.

Revenues
- Distributed Expenses = Distributed Profits or Operating Income
- Undistributed Expenses (Admin & General, Sales & Marking, Repair & Maintenance, Utilities) - Management Fees = Gross Operating Profit (GOP)
- Fixed Expenses (Property Taxes, Property Insurance, Lease Payments) **= Earnings before Interest, Property Taxes, Depreciation and Amortization (EBITDA)**
-FF&E Reserve **= Net Operating Income (NOI)**

- Net Operating Income is prior to any deduction for income taxes or interest expense.

General Terminology

Difference between GOP and NOI?

- GOP, or Gross Operating Profit, doesn't account for fixed expenses, management & franchise fees, and FF&E Reserves.

Difference between Distributed Expenses and Undistributed Expenses?

- Distributed expenses relate to specifically identified departments such as Rooms, Food & Beverage, Spa, Retail and Parking.
- Undistributed expenses are those that are difficult to attribute to a specific revenue center; these include Administrative and General, Sales and Marketing, Utilities, Repairs and Maintenance.

Annual P&L for Sample Hotel

	2017		2016		Variance	
Occupancy	80.8%		80.1%		0.7%	
ADR	$182.97		$179.56		$3.41	
RevPAR	147.78		143.86		3.92	
Days Open	365		366		(1.00)	
Rooms Available	127,690		127,694		(4)	
Rooms Occupied	103,136		102,309		827	
Revenues	**$**	**%**	**$**	**%**	**$**	**%**
Rooms	$18,871	61.4%	$18,370	60.5%	$500	1.0%
Food & Beverage	10,079	32.8%	10,334	34.0%	(255)	-1.2%
Rentals & Other Income	1,771	5.8%	1,673	5.5%	98	0.3%
Total Revenue	**$30,721**	**100.0%**	**$30,377**	**100.0%**	**$344**	**0.0%**
Distributed Profit						
Rooms	$13,577	71.9%	$13,203	71.9%	$374	0.1%
Food & Beverage	2,565	25.5%	2,425	23.5%	140	2.0%
Rentals & Other Income	1,653	93.3%	1,527	5.0%	126	88.3%
Operating Income	**$17,796**	**57.9%**	**$17,155**	**56.5%**	**$641**	**1.5%**
Undistributed Expenses						
A&G	$2,834	9.2%	$2,133	7.0%	$701	2.2%
Sales and Marketing	3,172	10.3%	3,773	12.4%	(601)	-2.1%
Repairs	1,147	3.7%	1,308	4.3%	(161)	-0.6%
Energy	780	2.5%	783	2.6%	(3)	0.0%
Franchise Fee	1,053	3.4%	807	2.7%	246	0.8%
Total Undistributed Expenses	**$8,987**	**29.3%**	**$8,805**	**29.0%**	**$182**	**0.3%**
GOP	**$8,809**	**28.7%**	**$8,351**	**27.5%**	**$458**	**1.2%**
Management Fee	567	1.8%	478	1.6%	89	0.3%
Fixed Expenses						
Ground Lease & Insurance	$453	1.5%	$457	1.5%	($4)	0.0%
Property & Other Taxes	636	2.1%	621	2.0%	16	0.0%
Insurance	248	0.8%	252	0.8%	(4)	0.0%
Total Fixed Expenses	**$1,089**	**3.5%**	**$1,078**	**3.5%**	**$11**	**0.0%**
EBITDA	**$7,152**	**23.3%**	**$6,795**	**22.4%**	**$358**	**0.9%**
FF&E Reserve	1,229	4.0%	1,215	4.0%	14	0.0%
NOI	**$5,923**	**19.3%**	**$5,579**	**18.6%**	**$344**	**0.7%**

This is an overview of the Annual P&L for a sample full-service hotel for the periods of 2017 & 2016.

($ in thousands, except per key amounts)

Undistributed Expense Allocation – Sample Hotel

	2017			Rooms			Food & Beverage			Rentals & Other Income		
Allocations												
Square Feet	300,000		100.0%	200,000		66.7%	35,000		11.7%	65,000		21.7%
Total Revenue	30,721		100.0%	18,871		61.4%	10,079		32.8%	1,771		5.8%
Revenues	**$**	**%**	**Alloc**	**$**	**%**	**Alloc**	**$**	**%**	**Alloc**	**$**	**%**	**Alloc**
Rooms	18,871	61.4%		18,871	100.0%	100.0%						
Food & Beverage	10,079	32.8%					10,079	100.0%	100.0%			
Rentals & Other Income	1,771	5.8%								1,771	100%	100%
Total Revenue	**$30,721**	**100.0%**		**$18,871**	**100.0%**		**$10,079**	**100.0%**		**$1,771**	**100.0%**	
Distributed Expenses												
Rooms	5,293	28.1%		5,293	28.1%	100.0%						
Food & Beverage	7,514	74.5%					7,514	74.5%	100.0%			
Rentals & Other Income	118	6.7%								118	6.7%	100.0%
Total Distributed Exp.	**$12,925**	**42.1%**		**$5,293**	**28.1%**		**$7,514**	**74.5%**		**$118**	**6.7%**	
Distributed Profit												
Rooms	13,577	71.9%		13,577	71.9%	100.0%						
Food & Beverage	2,565	25.5%					2,565	25.5%	100.0%			
Rentals & Other Income	1,653	93.3%								1,653	93.3%	100.0%
Operating Income	**$17,796**	**57.9%**		**$13,577**	**71.9%**	**$0**	**$2,565**	**25.5%**	**$0**	**$1,653**	**93.3%**	
Undistributed Expenses												
A&G	2,260	7.4%	100.0%	1,473	7.8%	65.2%	741	7.4%	32.8%	45	2.6%	2.0%
Information and Tech	575	1.9%	100.0%	375	2.0%	65.2%	189	1.9%	32.8%	11	0.6%	2.0%
Sales and Marketing	3,172	10.3%	100.0%	2,068	11.0%	65.2%	1,041	10.3%	32.8%	63	3.6%	2.0%
Repairs	1,147	3.7%	100.0%	748	4.0%	65.2%	376	3.7%	32.8%	23	1.3%	2.0%
Energy	780	2.5%	100.0%	509	2.7%	65.2%	256	2.5%	32.8%	16	0.9%	2.0%
Total Undistributed Exp.	**$7,934**	**25.8%**	**100.0%**	**$5,172**	**27.4%**	**65.2%**	**$2,603**	**25.8%**	**32.8%**	**$159**	**9.0%**	**2.0%**
GOP	**$9,862**	**32.1%**	**100.0%**	**$8,405**	**44.5%**		**($38)**	**-0.4%**		**$1,495**	**84.4%**	
Management Fee	449	1.5%	100.0%	276	1.5%	61.4%	147	1.5%	32.8%	26	1.5%	5.8%
Incentive Fee	118	0.4%	100.0%	73	0.4%	61.4%	39	0.4%	32.8%	7	0.4%	5.8%
Franchise Fee	1,053	3.4%	100.0%	1,053	5.6%	100.0%	0	0.0%	0.0%	0	0.0%	0.0%
Fixed Expenses												
Ground Lease & Insurance	453	1.5%	100.0%	302	1.6%	66.7%	53	0.5%	11.7%	98	5.5%	21.7%
Property & Other Taxes	636	2.1%	100.0%	424	2.2%	66.7%	74	0.7%	11.7%	138	7.8%	21.7%
Total Fixed Expenses	**$1,089**	**3.5%**	**100.0%**	**$726**	**3.8%**	**66.7%**	**$127**	**1.3%**	**11.7%**	**$236**	**13.3%**	**21.7%**
EBITDA	**$7,152**	**23.3%**	**100.0%**	**$6,278**	**33.3%**	**87.8%**	**($351)**	**-3.5%**	**-4.9%**	**$1,226**	**69.2%**	**17.1%**
FF&E Reserve	1,229	4.0%	100.0%	755	4.0%	61.4%	403	4.0%	32.8%	71	4.0%	5.8%
NOI	**$5,923**	**19.3%**	**100.0%**	**$5,523**	**29.3%**	**93.2%**	**($754)**	**-7.5%**	**-12.7%**	**$1,155**	**65.2%**	**19.5%**

This is an overview of the true 2017 Rooms, F&B, and Other Income for a sample hotel after Undistributed and Fixed Expenses are allocated.

($ in thousands, except per key amounts)

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General Terminology

General Terminology

Difference between RevPAR and Revenue?

- Revenue is a general term, while RevPAR specifically refers to rooms revenue.
- Rooms revenue is calculated as RevPAR * # of days in the year * # of rooms.
- Total Revenue will include multiple sources:
  - Rooms Revenue
  - Food & Beverage Revenue
  - Spa / Golf Revenue
  - Parking Revenue
  - Retail Revenue
  - Other Revenue
- For a full service hotel, Rooms Revenue is usually approximately 65% of Total Revenue.
- For a limited service hotel, Rooms Revenue is usually approximately 93% - 97% of Total Revenue.

What Have US Hotel Statistics Been Historically?

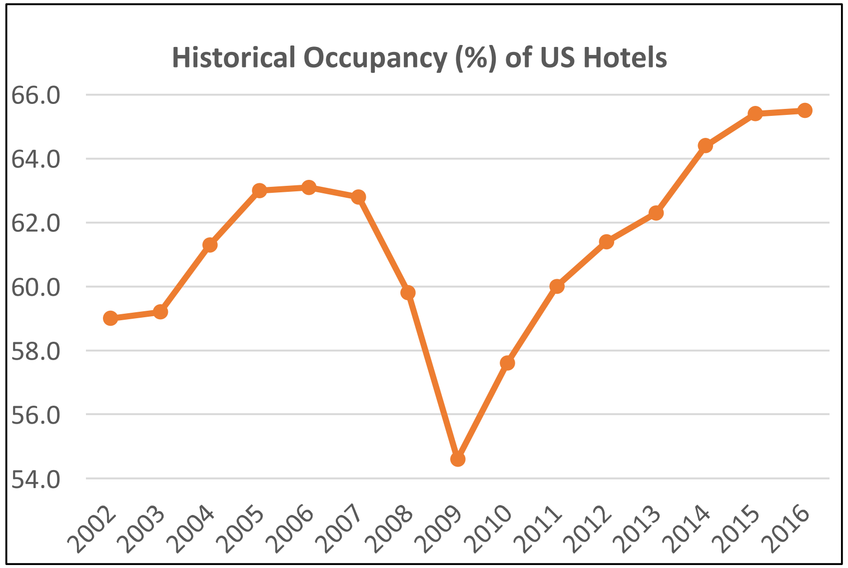
Observations: We are at all time peak occupancy and ADR, yet GOP margins are depressed

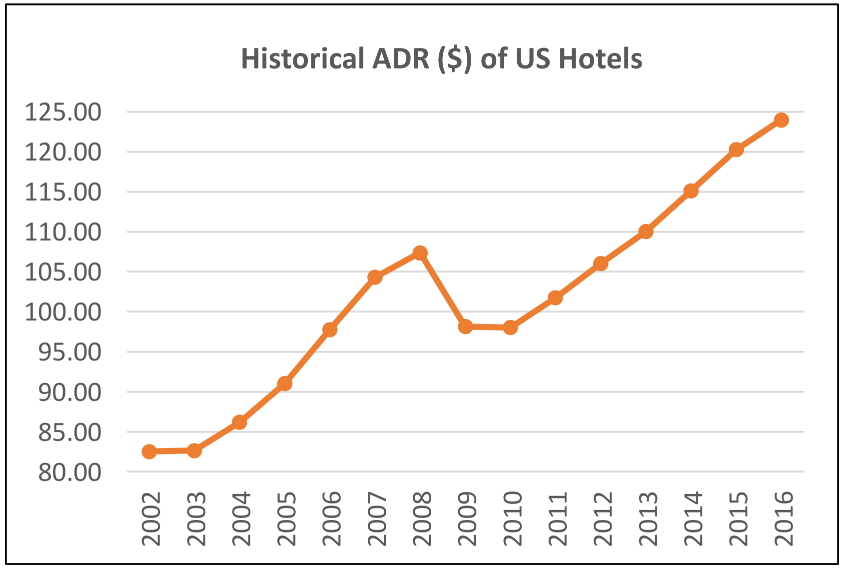
All US Hotels

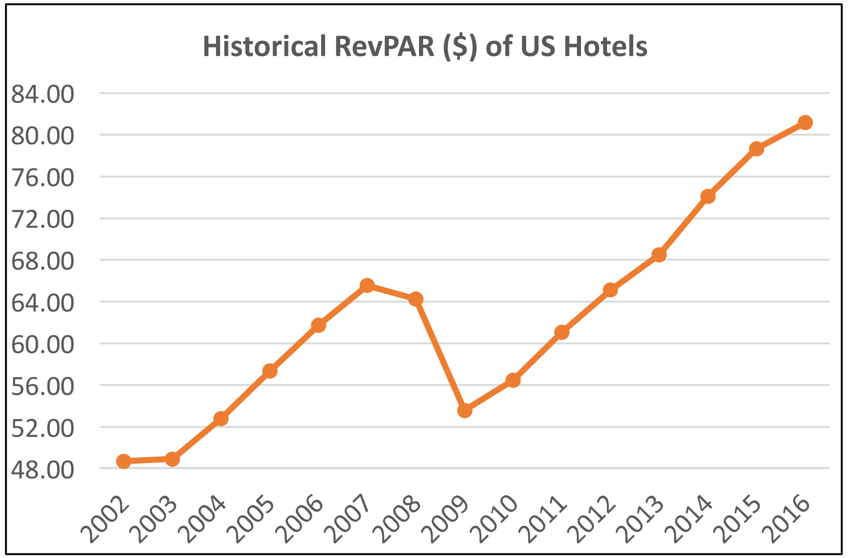
Year	Occ. (%)	change	ADR ($)	change	RevPAR ($)	change	GOP (%)	change
2002	59.0		82.53		48.70		35.7	
2003	59.2	0.3%	82.66	0.2%	48.91	0.4%	35.0	-2.0%
2004	61.3	3.5%	86.18	4.3%	52.79	7.9%	36.6	4.6%
2005	63.0	2.8%	91.02	5.6%	57.35	8.6%	38.8	6.0%
2006	63.1	0.2%	97.80	7.4%	61.74	7.7%	41.3	6.4%
2007	62.8	-0.5%	104.32	6.6%	65.55	6.1%	38.1	-7.7%
2008	59.8	-4.8%	107.39	2.9%	64.25	-2.0%	36.8	-3.4%
2009	54.6	-8.8%	98.18	-8.6%	53.56	-16.6%	32.0	-13.0%
2010	57.6	5.6%	98.06	-0.1%	56.46	5.4%	33.1	3.4%
2011	60.0	4.2%	101.77	3.8%	61.06	8.1%	34.5	4.2%
2012	61.4	2.4%	106.05	4.2%	65.13	6.7%	35.5	2.9%
2013	62.3	1.4%	110.03	3.7%	68.51	5.2%	35.8	0.8%
2014	64.4	3.4%	115.13	4.6%	74.11	8.2%	37.4	4.5%
2015	65.4	1.6%	120.31	4.5%	78.67	6.2%	38.4	2.7%
2016	65.5	0.1%	124.00	3.1%	81.17	3.2%	38.2	-0.5%

Source: HOST Almanac 2017 and HOST Margin Analysis

What Have US Hotel Statistics Been Historically?







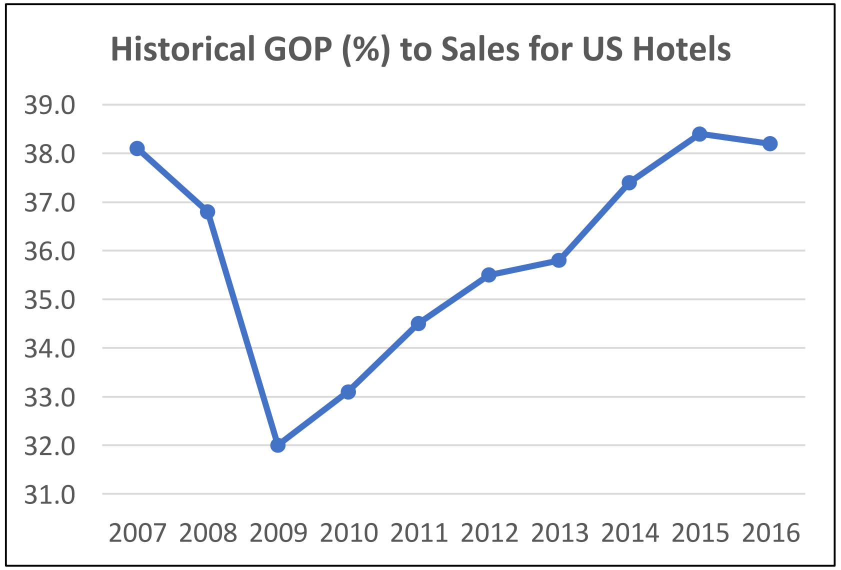
Source: HOST Almanac 2017 and HOST Margin Analysis

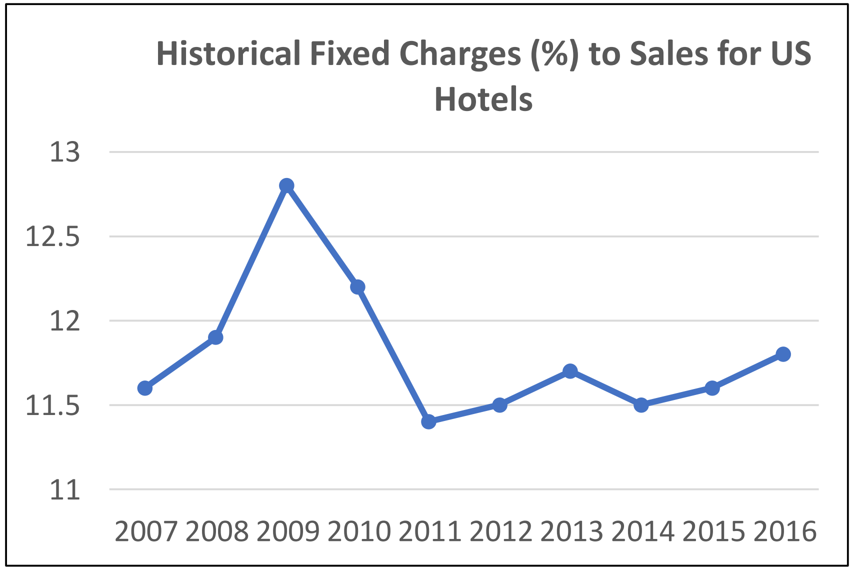
What Have Hotel Margins Been Historically?

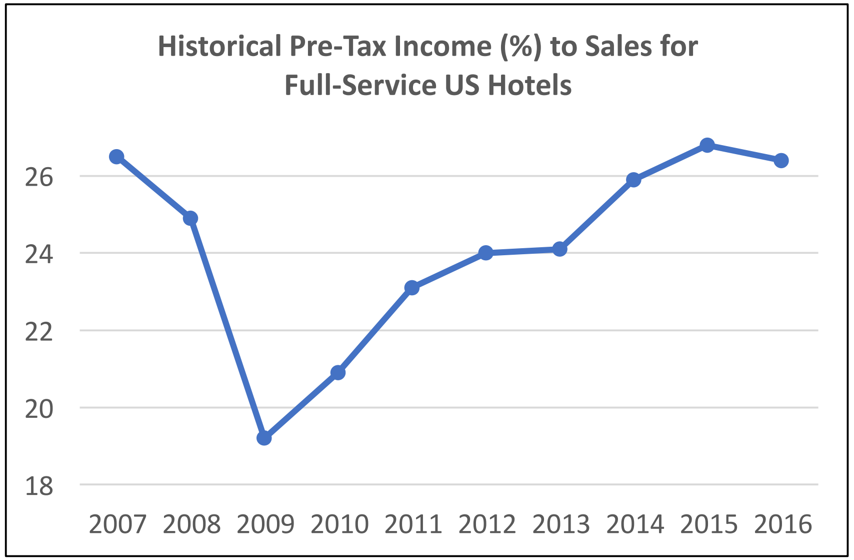
Financial Ratios to Sales						
Year	GOP (%)	change	Fixed Charges (%)	change	Pre-Tax Income (%)	change
2007	**38.1**		**11.6**		**26.5**	
2008	**36.8**	-3.4%	**11.9**	2.6%	**24.9**	-6.0%
2009	**32.0**	-13.0%	**12.8**	7.6%	**19.2**	-22.9%
2010	**33.1**	3.4%	**12.2**	-4.7%	**20.9**	8.9%
2011	**34.5**	4.2%	**11.4**	-6.6%	**23.1**	10.5%
2012	**35.5**	2.9%	**11.5**	0.9%	**24.0**	3.9%
2013	**35.8**	0.8%	**11.7**	1.7%	**24.1**	0.4%
2014	**37.4**	4.5%	**11.5**	-1.7%	**25.9**	7.5%
2015	**38.4**	2.7%	**11.6**	0.9%	**26.8**	3.5%
2016	**38.2**	-0.5%	**11.8**	1.8%	**26.4**	-0.1%

Source: HOST Almanac 2017 and HOST Margin Analysis

What Have US Hotel Margins Been Historically?







Source: HOST Almanac 2017 and HOST Margin Analysis

Impact of OTA's on Reported Results

The reported ADR shown on hotel income statements has changed significantly with the growth of Online Travel Agencies - such as Expedia and Booking.com.

Different brands and owners have different deal structures, but for the most part, Expedia bookings will generate an ADR to the hotel NET of the Expedia booking commission, while Booking.com room bookings will generate a gross ADR to the hotel, which will then separately be charged a travel agent commission which reduces the rooms margin.

Travel agency commission gets booked in rooms expense and has the result of overstating the true ADR while reducing the rooms profit margin. To illustrate this, please see the illustrative chart below:

This can impact RevPAR and any performance test or extension test driving RevPAR.

	Hilton	Expedia	Booking.com
Amount Customer Pays	$200	$200	$200
Reported ADR	200	170	200
Adjusted ADR Net of Commission	200	170	170

Note: The Expedia and Booking.com commission rates are both illustrated at 15%

Acronyms

Acronyms

DORM – Director of Revenue Management

DOS – Director of Sales

DSCR – Debt Service Coverage Ratio

DY – Debt Yield

FF&E – Furniture Fixtures and Equipment

FTM – Forward Twelve Months

GM – General Manager

GMP – Guaranteed Maximum Price

GOP – Gross Operating Profit

GSS – Guest Satisfaction Report

IO – Interest Only

IRR – Internal Rate of Return

LOS – Length of Stay

LRA – Last Room Availability

LTM – Last Twelve Months

NLRA – Non Last Room Availability

NOI – Net Operating Income

NPV – Net Present Value

NTM – Next Twelve Months

OTA – Online Travel Agent

POM– Property Operations and Maintenance

QA – Quality Assurance

ROI – Return on Investment

STR – Smith Travel Research

TTM – Trailing Twelve Months

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Glossary

Glossary

ADR (average daily rate) - The average rate paid for rooms occupied, calculated by dividing room revenue by rooms occupied. (ADR = room revenue / rooms)

ADR (rate) index - ADR index measures a hotel's ADR performance relative to a competitive set. An ADR Index of 100 equals fair share of ADR, compared to the competitive set of hotels. To calculate an ADR index: (Hotel ADR / competitive set of hotels' ADR) x 100 = ADR index For example, if the subject hotel's ADR is US$50 and the ADR of its competitive set is US$50, the subject hotel's index would total 100. If the subject hotel's ADR totaled US$60, its index would be 120, indicating the hotel has captured more than its fair share. If the subject hotel's ADR totaled US$40, its index would be 80, indicating the hotel has captured less than its fair share.

Amortization period - The timeframe during which the loan amount will be fully paid down to a 0 balance; most hotel loans have a 25-30 year amortization period. If the amortization period is longer than the loan term, then at loan maturity there will still be an outstanding loan balance.

Bad Boy Carve-Out - A risk or source of liability for which a borrower's principals may assume personal liability under a Carve-out guaranty for the commission of "Bad Acts".

Base Management Fee - A percentage of "gross revenue" (sometimes referred to as "total revenue") which rewards the management company's revenue generating capability (but not efficiency). 3.0% - 4.0% of "gross revenue" is a typical base fee.

Basis point - A unit equal to 1/100th of 1% and used to denote the change in a financial instrument. The relationship between percentage changes and basis points can be summarized as follows: 1 percent change equals 100 basis points, and 0.01 percent equals 1 basis point or "bp".

Bullet Loan - A loan with no amortization, in which borrower agrees to repay principal in a lump sum at maturity. Interest is generally payable monthly.

Capital expenditure - Also known as CapEx. Cash spent by a business to invest or maintain fixed assets such as land, buildings and equipment. These amounts are capitalized on the balance sheet rather than run through the income statement as an expense.

Glossary

Cap - A hedge to protect the borrower from the risk that a floating interest rate will rise above a certain level, much like an insurance policy against higher interest rates. Requires a one time payment but imposes no other obligations to the beneficiary.

Capitalization rate - The capitalization rate (or cap rate) is the Net Operating Income divided by the hotel's total value. This represents the unleveraged yield on investment.

Carve-Out Guaranty - A guaranty of certain risks for which a lender refuses to look solely to the collateral. Also sometimes a contingent full guaranty of the loan, to discourage the borrower from doing certain bad things (like a voluntary bankruptcy). These matters are all "carved-out" from the otherwise nonrecourse nature of the loan, giving the lender access to the other assets of the guarantor.

Cash-on-Cash Return - The amount of cash flow (Net Operating Income after debt service) divided by total cash equity invested.

Commercial Mortgage Backed Securities (CMBS) - fixed rate bonds collateralized by large single assets or diversified pools of first mortgages secured by commercial properties. A CMBS bond structure is used to create individual bond classes, called tranches, each of which carry a distinct rating and risk/return profile.

Competitive set - A competitive set or "comp set" consists of a group of hotels by which an individual property can compare its own performance to the group's composite weighted average performance.

Contract rooms - Contract rooms are occupied at rates stipulated by contracts – such as for airline crews and extremely long-term or permanent guests.

Credit agreement - A legal contract in which a bank arranges to loan a customer a certain amount of money for a specified amount of time. The credit agreement outlines all the rules and regulations associated with the contract. A credit agreement can be a lengthy and detailed document that explains all the terms of the contract.

Deposit Account Control Agreement (DACA) - A deposit account control agreement is a document in which a debtor, secured party and bank maintaining a deposit account agree to the handling of funds in that account. The document "perfects" a security interest in the debtor's deposit account in favor of a secured party under the UCC. Because security interests in deposit accounts can only be perfected under the UCC by control, control under the DACA is established when the depository bank agrees to comply with instructions from the secured party directing the disposition of funds from the account without needing any further consent from the borrower.

Glossary

Debt service - Payment of interest expense and principal amortization on a loan. May be paid monthly, quarterly or annually.

Debt yield - Calculated as Net Operating Income divided by the outstanding debt balance; essentially measures the cap rate to the lender.

Debt Covenant - Is a promise that certain financial or nonfinancial activities will or will not be carried out.

Defeasance - A process to substitute collateral when looking to sell or refinance an existing property

Deferred maintenance - Delayed required physical maintenance and upkeep items on a property.

Discount rate - The interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. The discount rate in a DCF analysis which takes into account not just the time value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the required discount rate. The discount rate is essentially a measure of the riskiness of the cash flows.

Draw - A disbursement from a construction loan to pay for construction and other costs incurred to date on a job; May also be a disbursement from a reserve account for an existing property.

DSCR (Debt Service Coverage Ratio) - NOI divided by annual debt service payments, where the debt service includes interest expense and principal amortization.

EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization; EBITDA is NOI prior to a deduction for reserve for replacement.

EB-5 - An immigration program that provides a method of obtaining United States visas and green cards by investing in the U.S. and creating new jobs within specified Regional Centers defined by the government.

Equity - The property value attributed to the owner; often this is the cash invested in the property; Calculated as Value – Debt.

Glossary

Extended Stay - Hotel guests stay for extended periods of time, typically more than 5 consecutive nights.

Extension Test - In order to qualify for an extension beyond the initial maturity date for a loan, several requirements or covenants must be met such as DSCR ratios, debt yield, etc.

Equity Kicker - A lender's right to receive a percentage of appreciation or equity ownership of the collateral.

FF&E - Furniture, fixtures and equipment.

FF&E Reserve - Refers to Furniture, Fixtures and Equipment (FF&E), that have no permanent connection to the structure of a building or utilities. Hotel owners set aside an annual reserve for replacement for FF&E, typically 3-5% of Total Revenues.

FFO (Funds From Operation) - Used by REITs to define cash flow from overall operations; FFO is prior to deductions for depreciation and amortization expense.

Flow-through - A measure of marginal profitability/loss on incremental increase in top-line revenue

Food & Beverage (F&B) revenue - Revenues derived from the sale of food, beverages, banquet beverages and other F&B sources. Other F&B sources include meeting room rentals, audio-visual equipment rentals, cover or service charges or other revenues within the food-and-beverage department.

Franchisor - A company that sells franchises license agreements. Sometimes referred to as a licensor.

Franchisee - An individual or company buying a franchise. Sometimes referred to as a licensee.

Full-service hotel - Full-service hotels have a restaurant, lounge facilities and meeting space as well as minimum service levels.

GOPPAR - Gross operating profit per available room.

Glossary

GOP (Gross Operating Profit) - Measures the operational profitability of a hotel after subtracting all Departmental Expenses and Undistributed Expenses.

Group rooms - Group rooms are sold simultaneously in blocks of a minimum of ten rooms or more (e.g. group tours, domestic and international groups, association, convention and corporate groups).

Guest Satisfaction Score (GSS) - A customer metric related to satisfaction and willingness to recommend through a blind feedback mechanism. GSS scores are often an important metric in calculating incentive management fees for the franchisee / manager.

Hard Lockbox - A lockbox that the lender fully establishes at Closing, with tenants being immediately directed to pay all rent to the Lockbox. Any disbursements from the Hard Lockbox require lender approval.

Hedge - Any transaction to shift to a third party a risk of market fluctuations. In real estate, typically refers to mitigating the borrower's exposure to interest rate fluctuations by purchasing a Cap or entering into a Swap. Borrowers cannot yet enter into Hedge transactions to cover fluctuations in real estate values, but these may be around the corner, assuming continued development of the derivatives market.

Hold period - The timeframe that an investor owns or intends to own a hotel; usually a 5-year or 10-year hold period.

HOST Study - The HOST Study contains information on hotel revenues and expenses broken down by departments including rooms, food and beverage, marketing, utility costs and maintenance. This report is published annually by STR and the results are based on the composite operating statements of over 5,000 U.S. hotels.

Interest only (I/O) - A loan that has no required principal amortization during the loan term. A loan may be interest only for a defined number of years, and then has a principal amortization schedule.

Interest rate - The rate of return paid to the lender; the interest rate on a Fixed Rate loan remains the same throughout the lifetime of the loan; the interest rate for a Floating Rate loan varies based on an index – such as LIBOR.

Incentive Management Fee - A fee that is a percentage of some level of operating income. A typical incentive fee will be in the range of 10%-15% of operating profit above a return on invested capital which rewards the management company for profitability.

Glossary

Intercreditor Agreement - An agreement among lenders that sets forth the various lien positions and the rights and liabilities of each creditor and its impact on the other creditors.

Internal rate of return (IRR) - The discount rate that makes the net present value of all cash flows from a project equal to zero. Generally the higher a project's internal rate of return, the more desirable it is to undertake the project. IRR can be used to rank several prospective projects under consideration. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and undertaken first.

Limited-service hotel - Rooms-only operations, (i.e. without food-and-beverage service) or offer a bedroom and bathroom for the night, but very few other services and amenities.

Loan Servicing - The administration aspect of a loan from the time the proceeds are dispersed until the loan is paid off. This includes sending monthly payment statements and collecting monthly payments, maintaining records of payments and balances, collecting and paying taxes and insurance (and managing escrow and reserve funds), remitting funds to the note holder, and following up on delinquencies.

Loan Term - The timeframe at the end of which the loan will be paid off.

Loan to Cost (LTC) - Metric used in hotel construction used to compare the financing of a project as offered by a loan to the cost of building the project. The LTC ratio allows commercial real estate lenders to determine the risk of offering a construction loan.

London Interbank Offered Rate (LIBOR) - The interest rate for lending among banks is typically the base rate for floating rate commercial real estate loans.

Lockbox - An arrangement by which property income goes directly to a particular bank account (subject to lender security interest) to be applied in accordance with a specified Waterfall. Formally called cash management. Subspecies include Hard Lockbox, Soft Lockbox, and Springing Lockbox, whose definitions can vary.

Loyalty Program Threshold - When a given hotel's occupancy goes above the Loyalty Program Threshold (ie: 95%), all loyalty redemption nights are charged to the brand at the ADR currently on the books. If it is below this threshold, they will be charged at some fraction of the ADR on the books.

Glossary

LTV (Loan-to-Value) - The percentage of loan amount to the overall property value.

Manchised - Hotel properties that are managed and franchised by the same company.

Mezzanine debt - A subordinated debt instrument secured by a pledge of equity in the borrower.

Mezzanine Financing - A hybrid of debt and equity financing typically used to finance the expansion of existing companies. Mezzanine financing is debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan isn't paid back in time and in full. It's generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

Monetary Default - The failure to pay interest, principal, or other financial obligations promptly when due.

Net Operating Income (NOI) - A company's operating income after operating expenses are deducted but before income taxes and interest expense are deducted. It is usually calculated as EBITDA less an FF&E reserve.

No-Cut Management Agreement: A management agreement that a hotel owner has virtually no hope of ever terminating before its schedule expiration.

Non-Recourse – a provision in a loan that prohibits the lender from seeking debt repayments from the owner of the property, and the lender can seek recovery only from the property itself.

Occupancy - Occupancy is the percentage of available rooms that were sold during a specified period of time. Occupancy is calculated by dividing the number of rooms sold by rooms available. Occupancy = Rooms Sold / Rooms Available.

Occupancy (Penetration) Index - An index designed to measure a hotel's share of the segment's (Hotel Occupancy / Competitive Set Occupancy).

Online travel agency (OTA) - An Internet-based hotel and travel reservations system. (Expedia, Booking.com, Priceline.com)

Quality Assurance - A test provided by a hotel franchisor in order to ensure that a given hotel franchisee is meeting brand standards and operating procedures.

Glossary

Pipeline - Pipeline data details existing hotel supply and projected growth.

Portfolio lender - A lender that originates mortgage loans and holds them on its balance sheet.

Property Improvement Plan (PIP) - A requirement by hotel brands that owners undertake renovations and upgrades to meet current brand standards. The PIP is memorialized in a precise scope document providing the scope of work to be done and related required timelines. PIPs are generally required when a hotel joins a brand system or when a branded hotel is sold.

REIT (Real Estate Investment Trust) - Entity that invests in real estate and does not pay corporate level income taxes.

Real-estate owned (REO) - Property owned by a lender, usually a bank, after an unsuccessful sale at a foreclosure auction.

Recourse - A provision in a loan that allows the lender to pursue the personal assets of the borrower if a loan is in default.

Return On Investment (ROI) - The % return on an investment; calculated as the actual or projected return ÷ investment capital required.

Right of First Offer - Is a contractual obligation by the owner of an asset to a rights holder to negotiate the sale of an asset with the rights holder before offering the asset for sale to third parties.

Right of First Refusal - Is a contractual right that gives its holder the option to enter a business transaction with the owner of something, according to specified terms, before the owner is entitled to enter into that transaction with a third party

RevPAR (revenue per available room) - Revenue per available room (RevPAR) is the total guest room revenue divided by the total number of available rooms. RevPAR differs from ADR because RevPAR is affected by the amount of unoccupied available rooms, while ADR shows only the average rate of rooms actually sold. Occupancy x ADR = RevPAR.

RevPAR (yield) index - A RevPAR (yield) index measures a hotel's fair market RevPAR versus the competitive set.

Room Revenue - Total room revenue generated from the rental of rooms.

Glossary

RRM (Room Revenue Multiplier) - The ratio of value to room revenue; calculated as the value ÷ room revenue rooms available.

Securitization - The process of combining mortgage loans and then marketing different tiers of the repackaged instruments to investors. Mortgage-backed securities combine mortgages into one large pool, the issuer can divide the large pool into smaller pieces based on each individual mortgage's inherent risk of default and then sell those smaller pieces to investors. The process creates liquidity by enabling smaller investors to purchase shares in a larger asset pool.

Segmentation - Rooms nights, Average Daily Rates, and revenue broken down by type of business (transient, group, contract).

Single Purpose Entity - A newly formed entity whose sole purpose in life is to own and operate particular collateral. The rating agencies established elaborate rules for these entities (e.g., cannot share letterhead or telephone number with another entity).

SMERF - An acronym for the Social, Military, Educational, Religious and Fraternal segment of the group travel market; usually has high level of guests per room and achieves a low ADR.

Smith Travel Research (STR) - Smith Travel Research or STR is a global provider of benchmarking, analytics and marketplace supply and demand data for the hotel industry. STR was recently purchased by CoStar.

Soft Lockbox - A Lockbox that the parties establish at Closing, initially allowing the borrower to withdraw funds without lender permission or control. The lender can block those withdrawals if the property later fails certain financial tests or is in default.

Springing Lockbox - A lockbox to be established or activated in the future if certain events occur.

Subordinate - Refers to the fact that one entity's position is inferior to another; for example, the mezzanine lender is subordinate to the primary lender, meaning that the primary lender is paid first and the mezz lender is paid next; thus, the mezz lender is in a riskier position if there is not enough NOI to pay them.

Sweat Equity - The equity value in a property that is earned by a developer who increases its worth through the developer's intangible efforts, such as by obtaining zoning or planning consent, negotiating option rights, producing schematic drawings for a potential form of development, or negotiating terms for a pre-leasing. The developer may convert its Sweat Equity into a share in the future value of the completed development.

Glossary

Total revenue - Revenue from all hotel operations, including rooms sold, F&B, parking, spa, laundry, phone, miscellaneous.

Trailing 12 – The past 12-month period. Also called TTM.

Transient rooms - Include rooms occupied by those with reservations at rack, corporate, corporate negotiated, package, government, or foreign traveler rates. Also includes occupied rooms booked via third party web sites.

Underwriting - The process of evaluating an investment, including its potential value, risk, future cash flow, probable return, and ability to fund debt; performed by investors and lenders.

Warm Body - A creditworthy individual, as opposed to a borrower-related entity that might sign a guaranty but has no real assets.

Waterfall - The priorities for application of cash, such as in a Lockbox.

CAPITAL ADVISORS

HERRICK

Biographies

Yariv Ben-Ari, Partner; Co-Chair, Real Estate Hospitality; Co-Chair, Israel Practice
Herrick Feinstein, LLP

Yariv Ben-Ari is a partner in Herrick's Real Estate Department and a co-chair of both the firm's Real Estate Hospitality group and the Israel practice group,

Yariv advises real estate lenders, trustees, servicers, owners, operators, developers and contractors on a variety of sophisticated matters. An Israeli-American, and a member of the Israeli bar with longstanding ties to both countries, Yariv often assists foreign developers and investors in their U.S. real estate transactions, as well as U.S. clients seeking outbound investments.

Yariv's diverse experience spans office buildings, shopping centers, multifamily properties, hotels and resort properties across the U.S. and abroad. He frequently advises clients on single asset and portfolio acquisitions and dispositions, domestic and international development projects, foreign bond financings, and other finance transactions. He also represents developers, contractors, subcontractors and design professionals on complex construction contracts and project administration matters.

Memberships & Associations

- PropTech Zone, Mentor
- "Strength Through Diversity" Young Professionals Leadership Program, Advisory Program, Co-Founder and Member
- Council of Young Jewish Presidents, Member; Executive Committee, Past Member
- America-Israel Friendship League, U.S. Board of Directors, Member
- American Friends of Sheba Medical Center, Board Member
- American Friends of NATAL, Advisory Board, Member
- Knesset (Israeli Parliament): Online Services Committee of the Sub-committee on the Issue of Internet and Information Technology, Member (September - December 2000)
- Israel Defense Forces (1992 - 1995)
- Israeli Wine Lovers Group, Manager

Jonathan Falik, CEO
JF Capital Advisors

Jonathan Falik is the Founder and Chief Executive Officer of JF Capital Advisors. Jonathan leads the firm's hospitality business, which includes equity and debt placement, asset acquisitions and dispositions, portfolio transactions, JV structuring, asset management, management company and brand evaluation, and strategic and capital markets advisory services.

Jonathan was a Senior Managing Director and the Head of Hospitality Capital Markets at BGC Real Estate Capital Markets. Simultaneously, Jonathan was the Head of Hotel Investment Sales for Newmark Grubb Knight Frank. Previously, Jonathan was a Managing Director and Head of the Lodging and Leisure Investment Banking group at Cantor Fitzgerald & Co.

Prior to joining Cantor Fitzgerald, Jonathan was the founder and CEO of JF Capital Advisors, a lodging advisory and principal investment firm. While at JF Capital, Jonathan led the acquisition or development of 25 hotels with over 5,500 keys and an aggregate cost of approximately $1 billion. Additionally, Jonathan was the CEO of Eagle Hospitality Trust, a 13 hotel-property private REIT. Jonathan has led the sales of single assets and portfolios of more than 100 hotels for over $2.5 billion of value. Before founding JF Capital in 2004, Jonathan was an investment banker at Bear Stearns in the Gaming, Lodging and Leisure Group. Jonathan began his career as a CPA at Price Waterhouse.

Jonathan has 25 years of experience in the real estate and lodging sector. He has worked on numerous M&A and financing transactions involving well over 2,000 hotels and over $35 billion of transaction value. Of the $35 billion, $30 billion was completed as an advisor and $1 billion was completed as a principal. He has been actively involved with mergers and acquisitions of public and private companies, portfolio sales and single asset sales, equity financings, high yield financings and mortgage financings. Jonathan has extensive hospitality experience as an agent, advisor, principal, owner, borrower, guarantor, franchisee, lender and asset manager.

Jonathan received a BA in economics with high honors from Rutgers College and an MBA from Columbia Business School. Jonathan has been an adjunct professor at NYU's Real Estate Institute and is an active lecturer and panelist at industry events. Additionally, Jonathan spent five years on the board of the Boutique & Lifestyle Lodging Association.