

Hotel Loan Workouts

COVID-19 IMPACT ON
HOTEL FINANCING





Presenters

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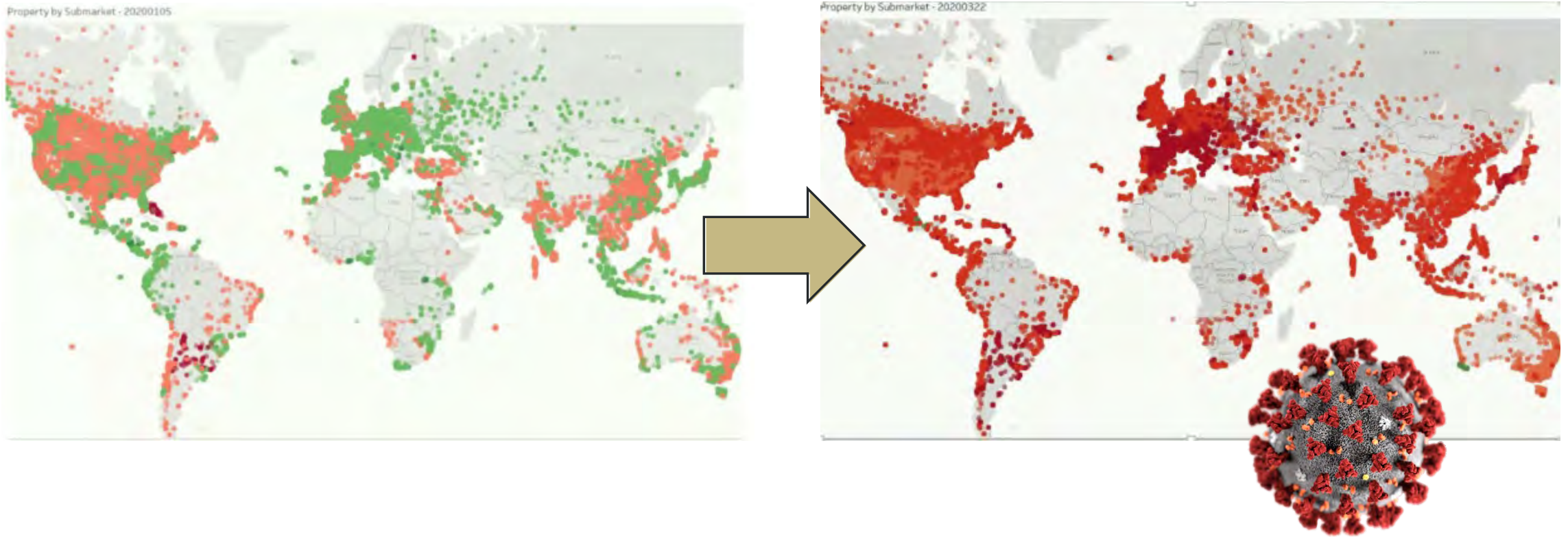
Performance Overview

Jesper Palmqvist | Area Director APAC

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#1 - March made it global

Weekly Covid-19 Global Impact January – 22 March



Occupancy Rolling 7 Days % Change, Submarket level data overlaying WW Census

#2 - Things are still moving very quickly

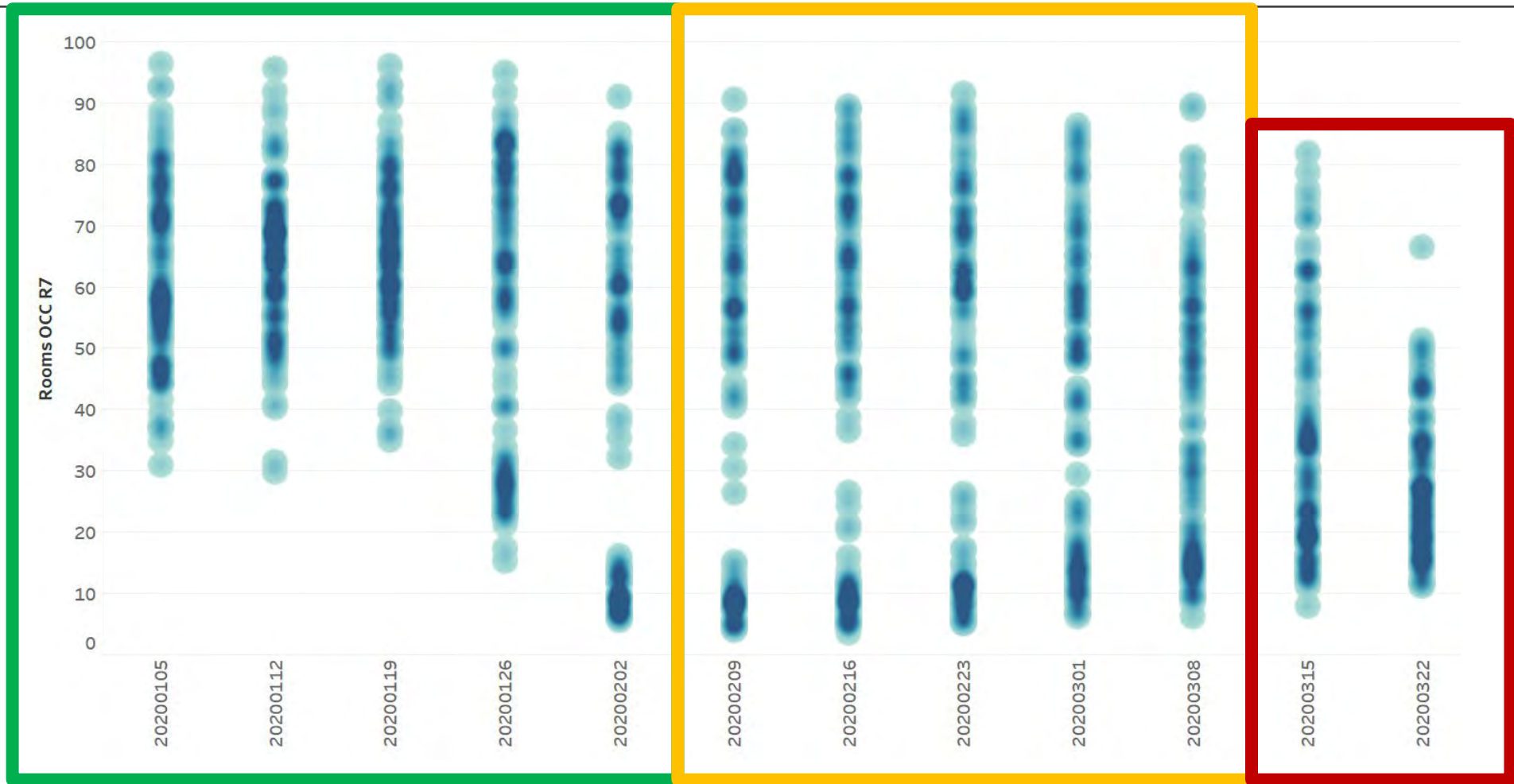
Every week shows new speed – Reliant on central containment measures

Below -90%		Negative 80-90%		Negative 70-80%		Negative 60-70%		Negative 50-60%		Negative 30-50%	
Czech Republic	-97%	Ukraine	-89%	Malaysia	-80%	Brazil	-70%	United States	-59%	Nigeria	-50%
Italy	-96%	Spain	-88%	Colombia	-80%	Costa Rica	-69%	Philippines	-58%	New Zealand	-49%
Austria	-94%	Netherlands	-86%	Egypt	-79%	Canada	-68%	UAE	-58%	Singapore	-48%
Hungary	-93%	France	-86%	Vietnam	-79%	Thailand	-68%	Dom. Republic	-57%	Qatar	-30%
Lebanon	-93%	Switzerland	-86%	Oman	-79%	China	-68%	Russia	-56%		
Poland	-92%	Kuwait	-85%	Puerto Rico	-78%	U K	-67%	South Africa	-55%		
Romania	-92%	Germany	-85%	Turkey	-78%	Indonesia	-66%	Fiji	-51%		
Belgium	-91%	Morocco	-84%	South Korea	-77%	Cambodia	-64%	Australia	-50%		
Latvia	-90%	Portugal	-83%	Peru	-76%	Maldives	-63%				
		Argentina	-83%	Kenya	-76%	Myanmar	-62%				
		Taiwan (China)	-83%	Saudi Arabia	-75%	Japan	-62%				
		Sweden	-82%	Bahrain	-75%	Mauritius	-62%				
		Finland	-81%	Chile	-75%	Mexico	-61%				
		Ireland	-80%	Sri Lanka	-72%						
				India	-71%						

Occupancy % change vs 2019, Week ending 22nd March 2020

#3 – Last couple of weeks was ‘Phase 3’

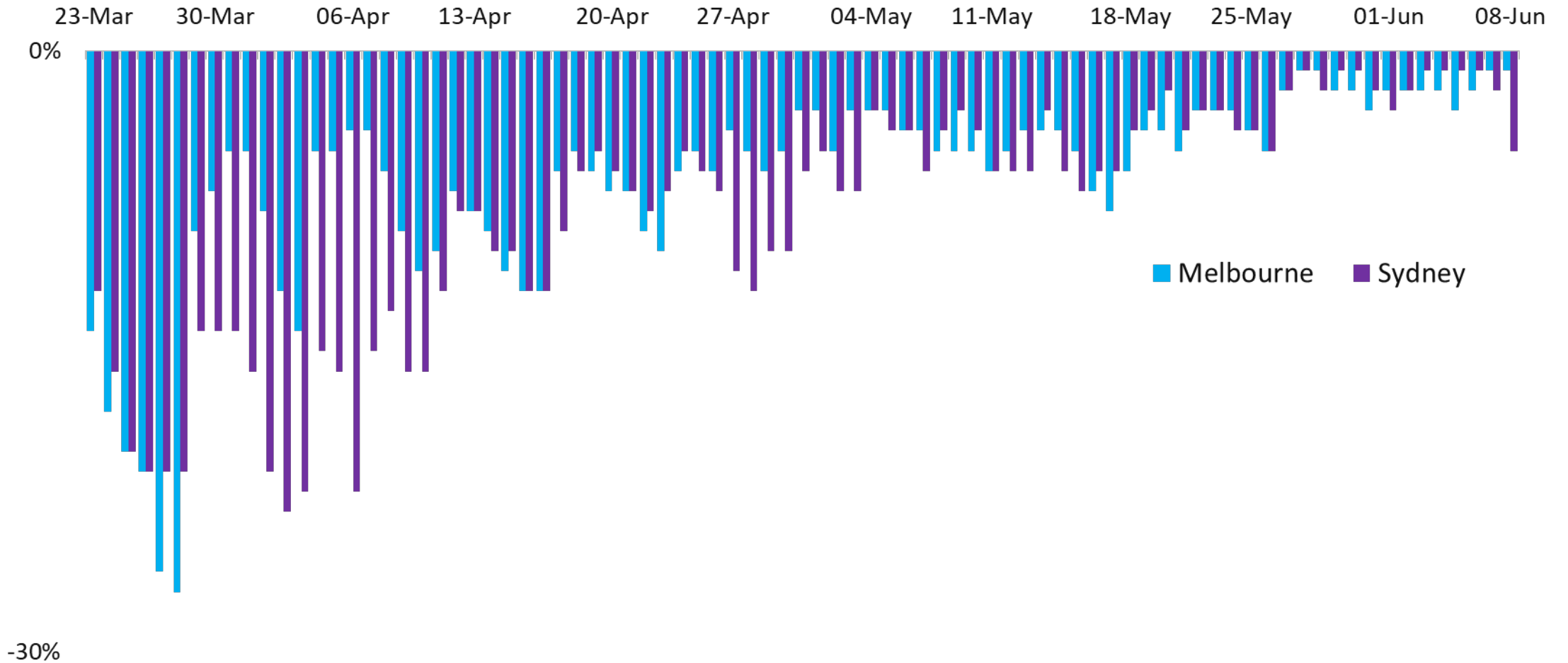
Good January followed by February decline – Then March Madness



APAC Weekly Occupancy 05 January – 22 March 2020

Consumers aren't looking in the next few months

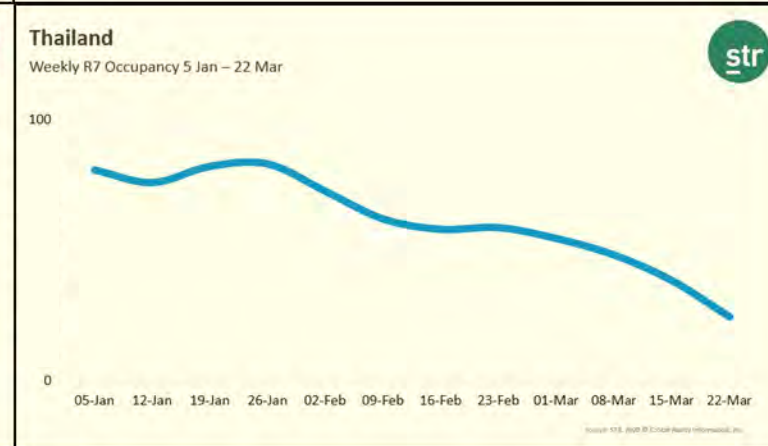
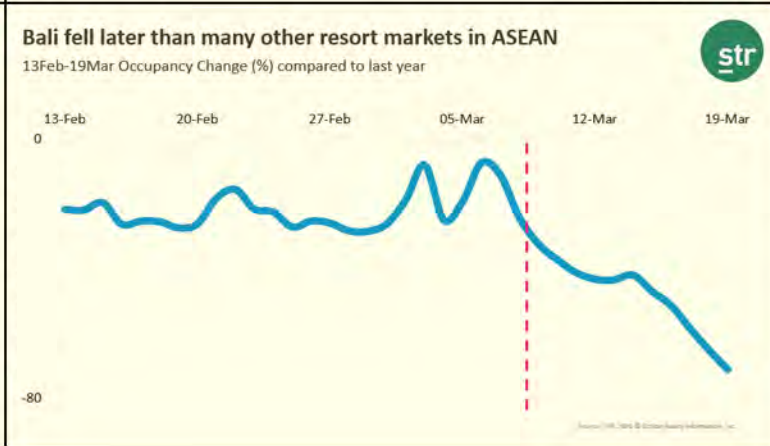
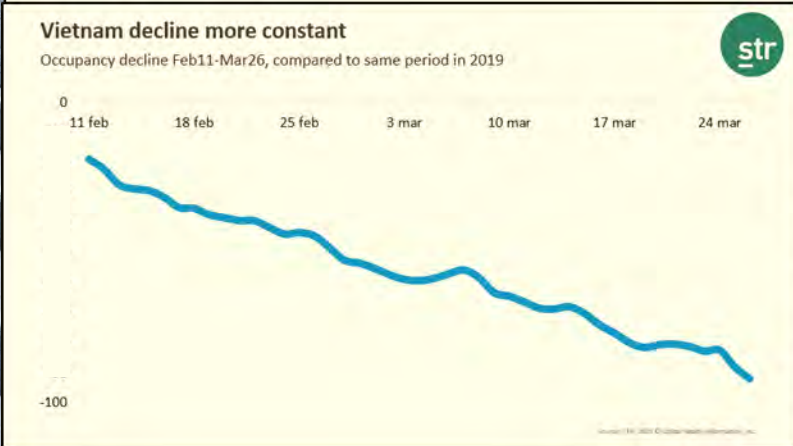
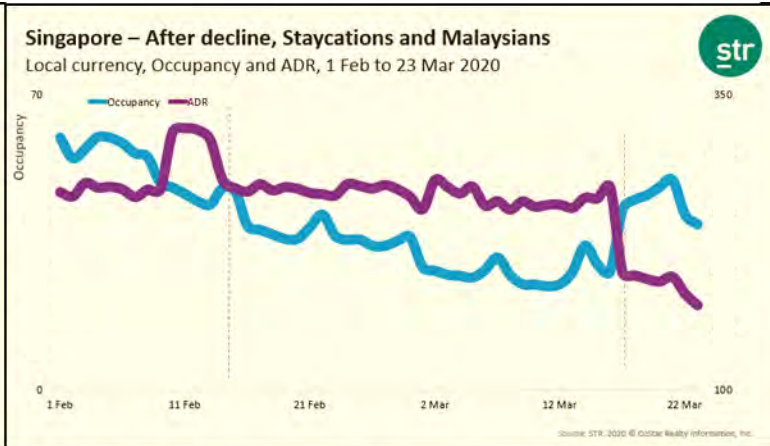
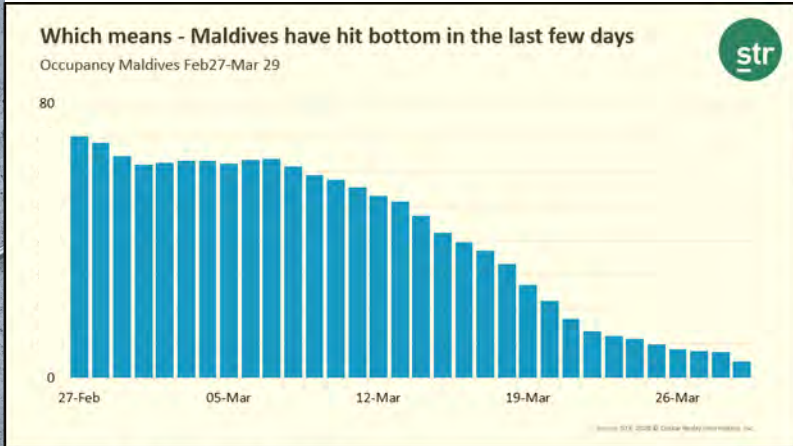
Business on the books: Cancellations exceed new reservations



Pickup for next 3 months as at 23/03/2020

Variations in Asia-Pacific

In case you weren't aware – Declines everywhere



Instead, let's establish a few buckets in this downward spiral

Which markets are probably at the bottom now?

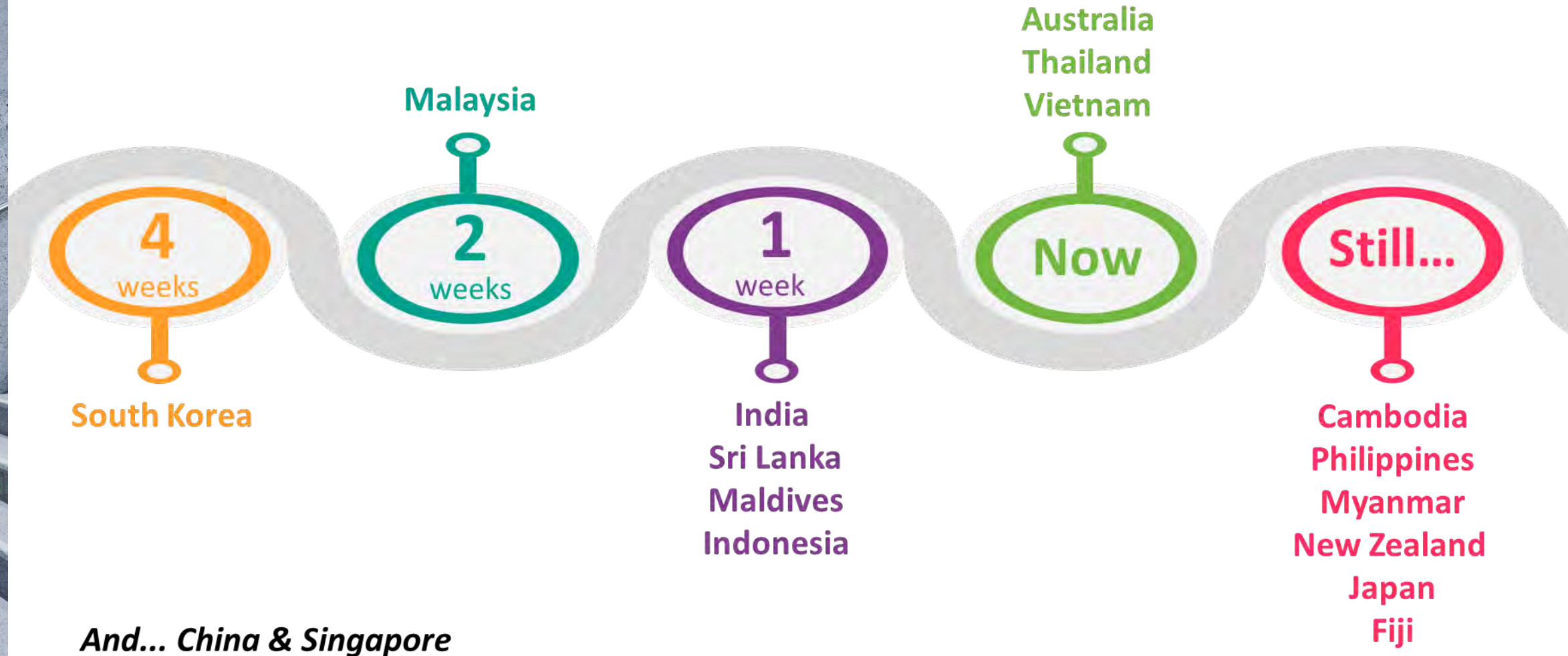
Have they been there for long?

Which can expect further decline?

As of today - Which are more likely to recover sooner?

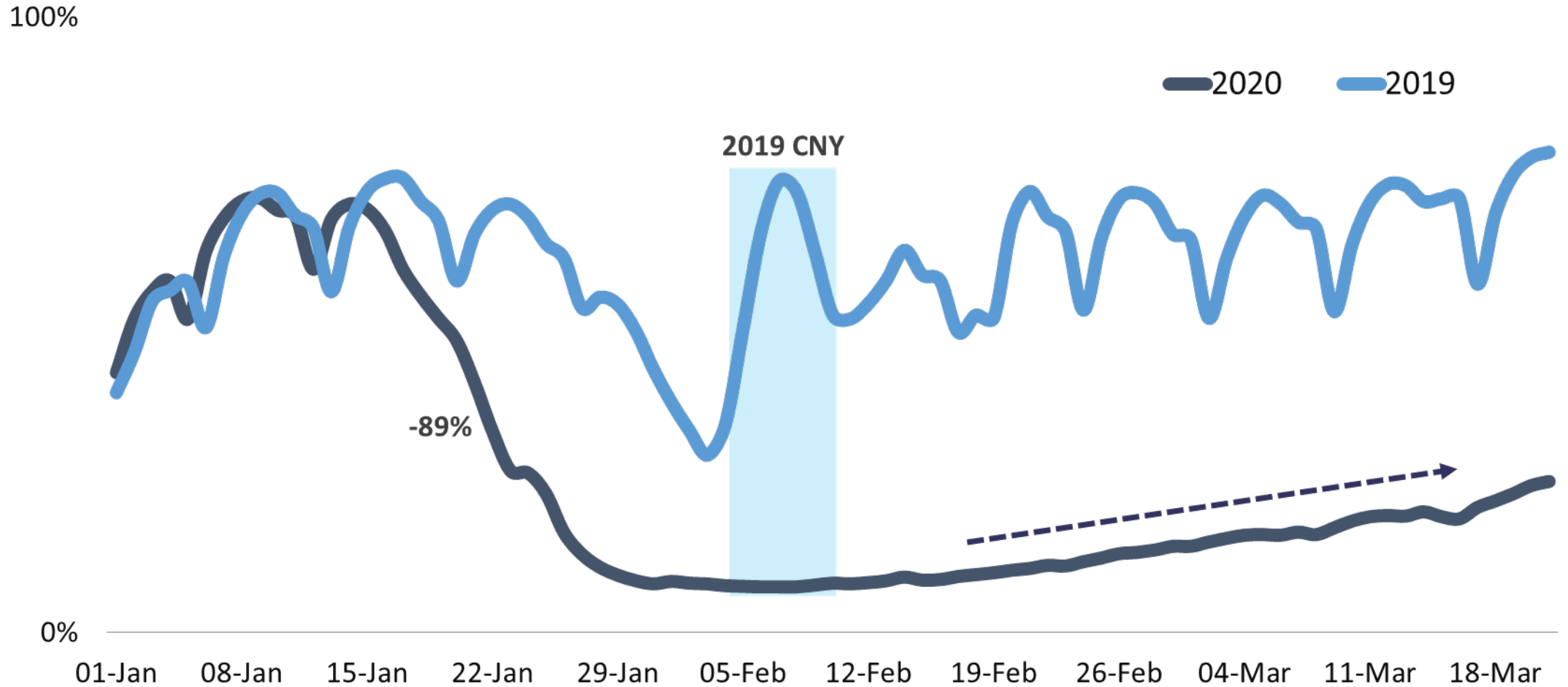
Reaching the floor – in order to rise up again

In Asia Pacific - When were/are markets hitting the lowest levels



China recovery – Slowly coming back

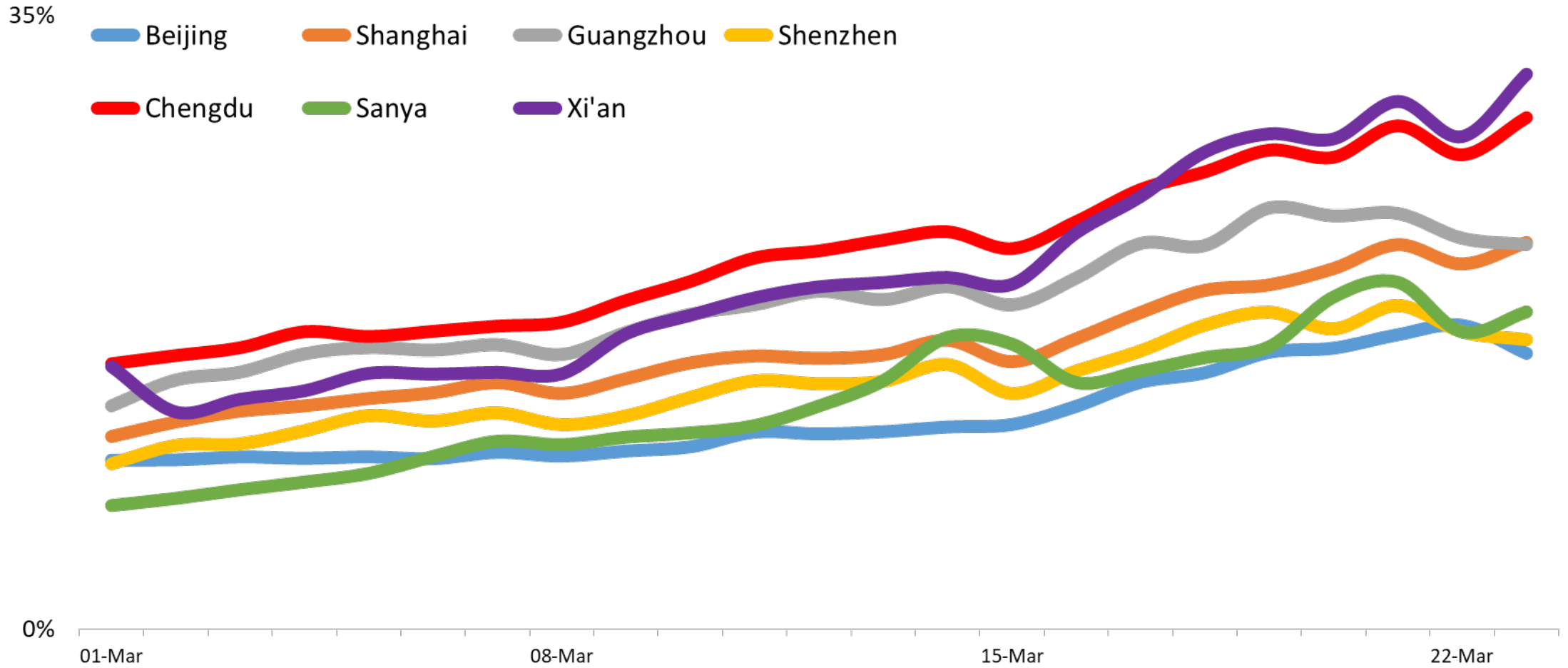
Weekly Covid-19 Global Impact January – 22 March



Mainland China, Occupancy, Daily Data, January 1st – March 21st 2019 & 2020

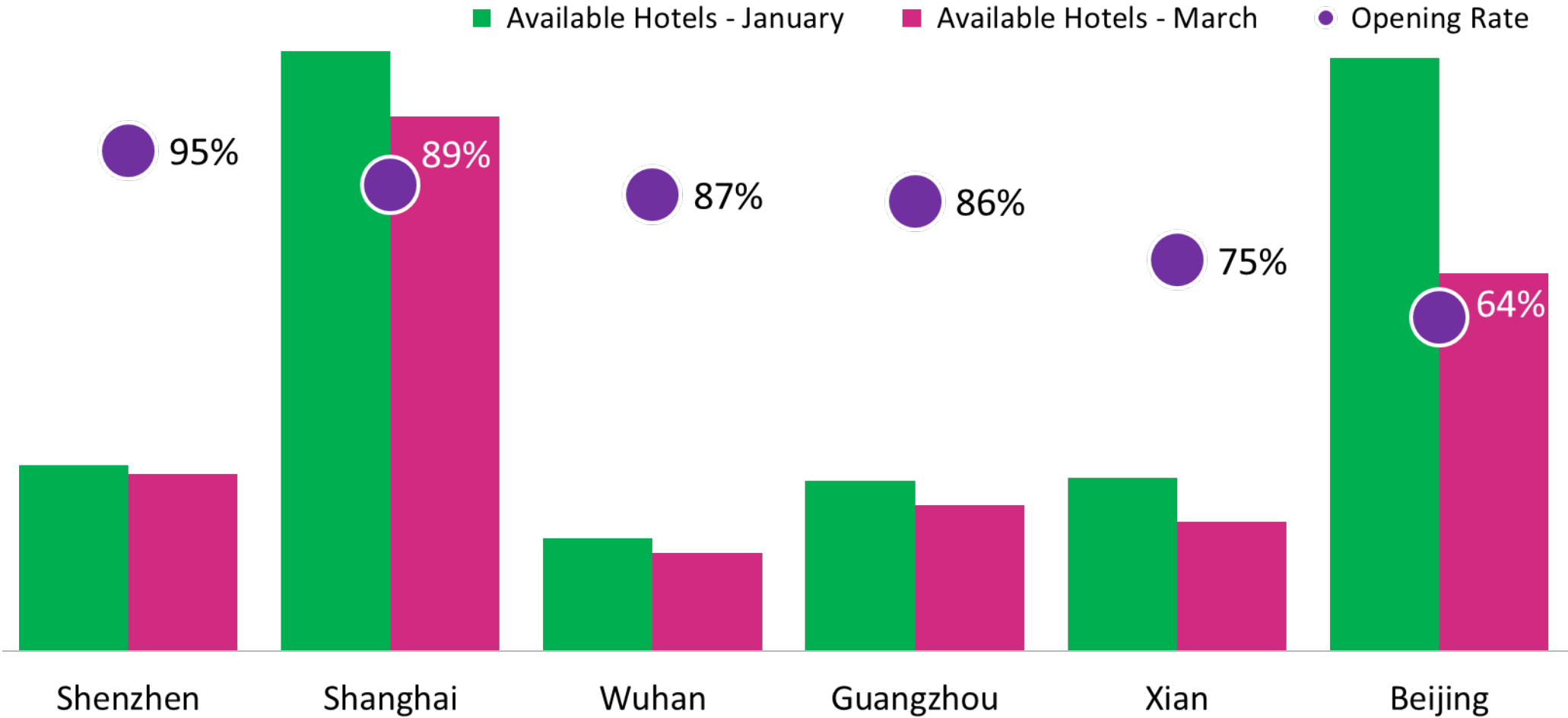
China recovery pace varies by city

And be aware... this could change again



Mainland China, Occupancy, Daily Data, March 1st – 23rd 2020

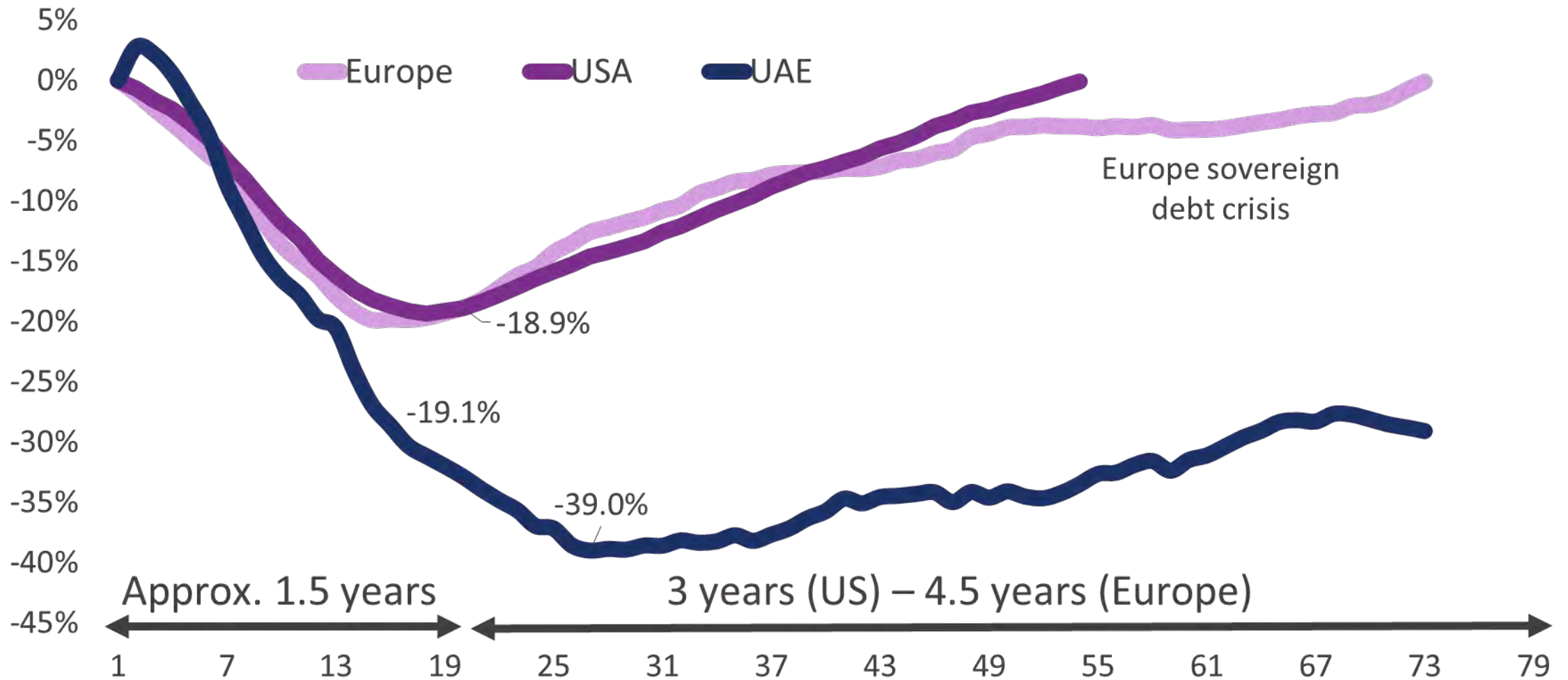
Mainland China back to 87% of hotels open



Percentage of hotels open on Mar 25th 2020 vs Jan 2020 (based on STR participation)

Recovery scenario reminder: Other factors can accentuate

It can be many years to recover



12 month moving average RevPAR indexed to September 2008

No one knows how long this will last

Hope for the best, Prepare for the worst





Coronavirus is having a devastating impact on our industry

- Many hotels are having no choice but to close
- Some are re-purposed for the humanitarian effort
- How long they stay closed for depends on how long the virus persists



Forecast scenarios have worsened significantly

- Length and depth again dependant on virus... and government intervention
- Each step of national containment measures have shown their impact
- The big question is if will this have a long term impact on travel behaviour



What can you do now

- Don't panic – we will bounce back
- Plan for the second half of the year (and 2021)
- Look after each other - This is about lives, not numbers

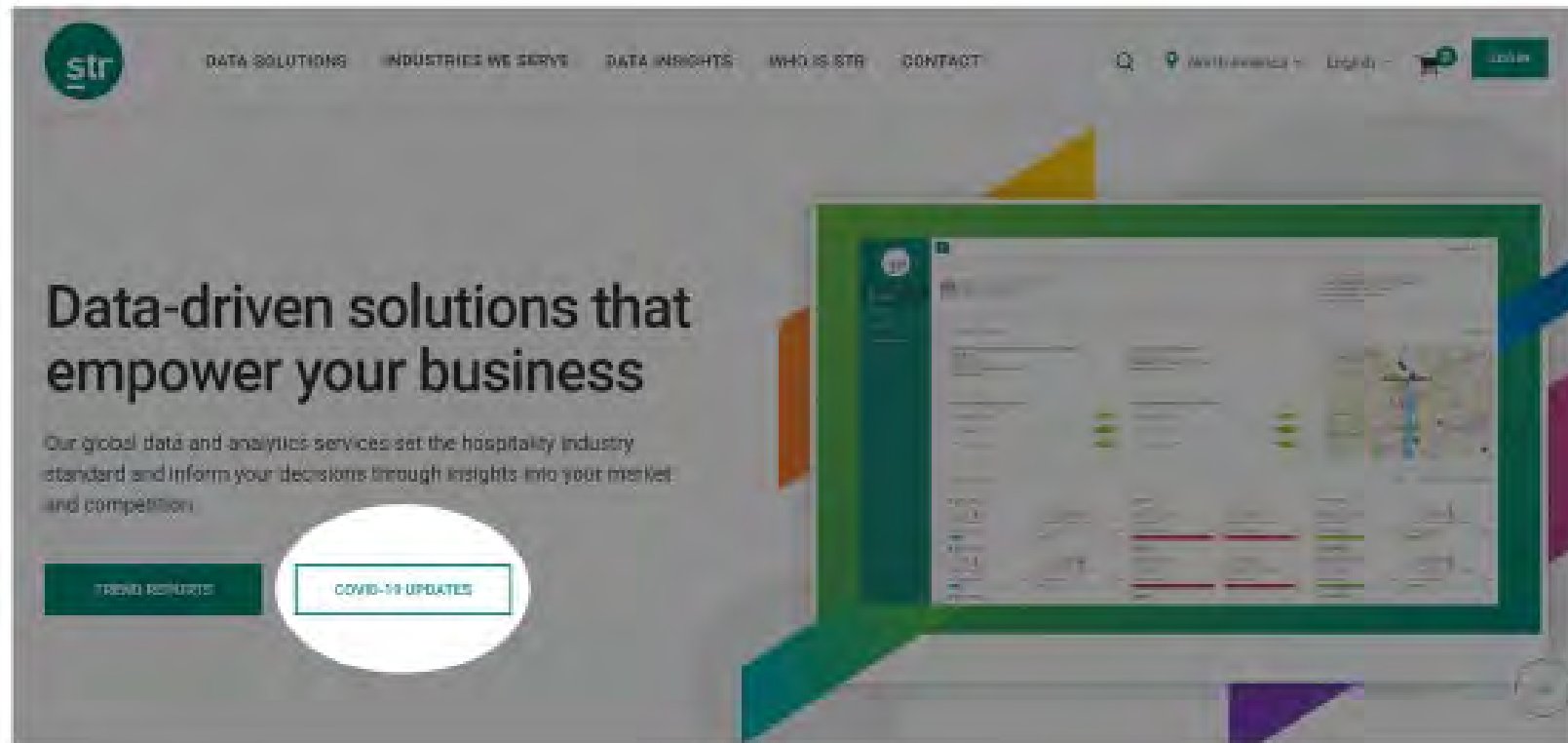
Resources

Webinars, presentations, analysis – STR.com and contact us at apinfo@str.com



STR.com (COVID-19 landing page)

Analysis blogs, webinar recordings, press releases, etc.





Banking Situation

Henrik E. Pedersen | Senior Investment Manager, IFC Consumer Services Asia Department

Banking Situation

- Banks and financial institutions affected
- Government support and regulatory relief
- Owner and Lender dynamic
- Equal burden sharing
- NPL – moratorium, standstill, rescheduling or restructuring





Legal – COVID-19 Impacts

Hotel Loan Restructuring Realities

Yuval Tal | Partner and Co-Head, Hospitality, Gaming & Leisure Group, Proskauer

Key Players

- Borrowers/Owners
 - Are there limited partners or investors? Do any of them have veto/control rights?
- Lenders
 - In addition to senior lender, are there mezzlo lenders? Junior participants? “B” Note holders?
 - In the case of securitized mortgage loans, typical players include trustee, master servicer, special servicer, operating adviser
- Brands (managers/franchisors)
- Third Party Managers
- Guarantors

Borrower Considerations

- Review agreements to understand the rights and obligations of each party
 - Loan Documents
 - Lockbox arrangements
 - Escrow accounts
 - Multiple properties? Property subject to separate loans/arrangements (casino/retail/branded residences)?
 - Management/Franchise Agreements
 - Subordination, Non-Disturbance and Attornment Agreement in place?
- Determine who is “driving the boat” on the lender’s side
 - Are there any co-lenders or participants?
 - Intercreditor Agreement(s)?



Borrower Considerations

- **Other constraints**

- Are there any other agreements, licenses and permits affected by the default?
- “Force majeure” clauses

- **Other Considerations**

- Personal guarantees
- Security in other assets (stock, other properties)
- Consolidation of borrower entities

Lender Considerations

- Review agreements to understand the rights and obligations of each party
- Determine who controls the action on the lender's side
 - What is the relative priority of the lender's lien? Review subordination agreements/intercreditor agreements, if any.
- Consider potential lender liability issues
- How long will different options (judicial/non-judicial) take
- Determine if the borrower should remain in control of the property
- Does it make sense to engage turnaround consultant or other hotel consultant
- Determine if there are any property specific issues to consider in deciding whether to restructure loan/agree to workout or foreclose
- Ability to reject executory contracts including management/franchise agreements



Potential Courses Of Action Available To Lender

- Workout
- Receivership
- Foreclosure (judicial/non-judicial)
- Bankruptcy/Liquidation



Potential Courses Of Action Available To Lender

- Notice of default. This is typically the first item prepared.
 - Should be consistent with the terms and language relating to the breached obligations as set forth in the loan documents.
 - Should confirm notices also given to all other required parties.
- Pre-negotiation agreement
 - Typically contains:
 - a reservation of all rights and remedies.
 - an acknowledgment of the status of payments and other default conditions.
 - a statement that only an executed written instrument will change terms and that the parties may discontinue discussions at any time.



Potential Courses Of Action Available To Lender

- Forbearance/modification agreement
 - Typically contains:
 - an acknowledgement of the specific “Event of Default”
 - an agreement on the new terms of the loan
 - a waiver and release of all claims against the lender
 - a statement of lender’s rights and remedies
 - a ratification of all terms other than those being amended
 - statement of the loan balance
 - an acknowledgment that borrower has no defenses or rights of offset against its obligations
 - a bringdown of representations and warranties
 - anti-deficiency waivers, if applicable, and bankruptcy waivers
 - correction of deficiencies in existing loan documents



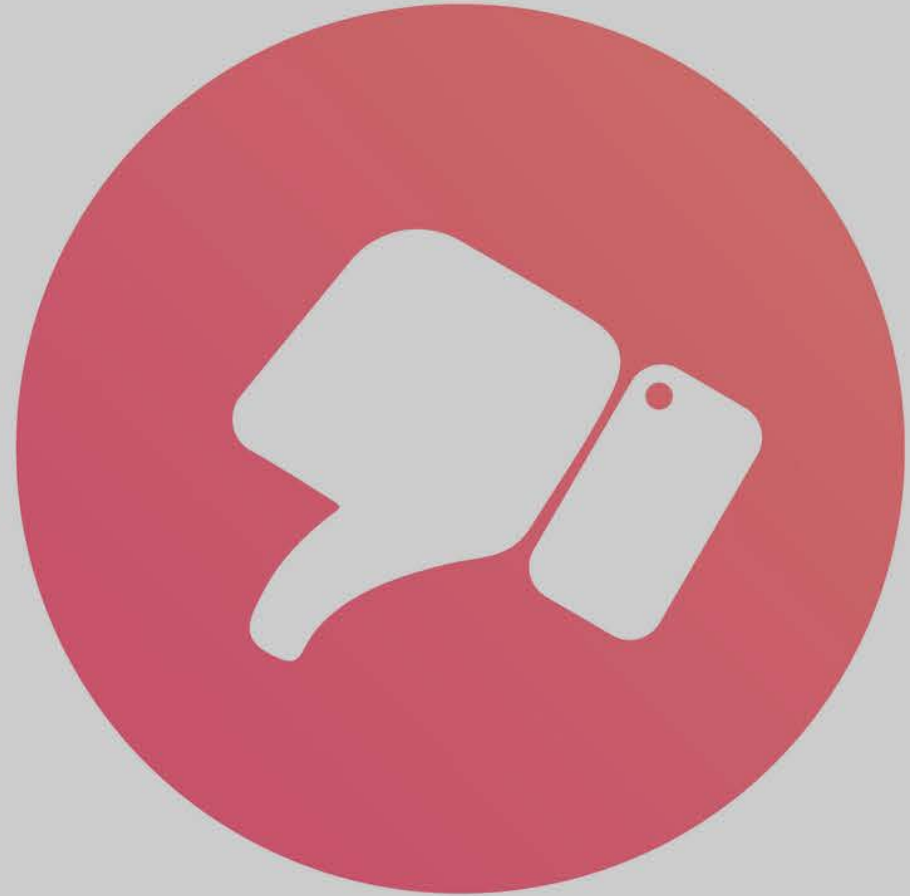
Potential Courses Of Action Available To Lender

- Deed in lieu of foreclosure
 - Affect on right to claim for any deficiency (if property value is less than loan)
 - Receivership
 - Lender typically not interested in taking possession – liability, not its line of business, time required
- Judicial Foreclosure (non-judicial may not be available in some jurisdictions)
 - Right of redemption
 - High cost of action
 - Significant time commitment involved in reaching foreclosure sale
 - May have statutory right of redemption



Potential Courses Of Action Available To Lender

- Bankruptcy/Liquidation
 - Fraudulent transfers
 - Claw back of fees
- Claims against guarantors
 - Manager/Sponsor
 - LPs
 - Outside of borrower structure



DOs and DON'Ts

Eric J. Levy | Managing Director TSI

DOs



- Act Early – be proactive
- Prepare for discussion.
 - Provide Industry Trends (STR reports)
 - Hotel Performance Trends
 - Key Source Markets History so Banks can evaluate future recovery key markets – geographic and type of business (i.e., Business vs Leisure)
 - Summary of Actions to Reduce Short Term Costs and maintain the asset
 - Do NOT assume that Bank Representative will know industry as well as loan origination/relationship officer
 - Include parallels of SARs, MERS, H1N1
 - Organize an information package/request that looks professional
- Share plans for when market trends reverse. Run through Cash Flow projections with rationale outlined. Proactive, good rationale. Two levels of planning/various scenarios

DOs



- Illustrate readiness of Asset for when Market Recovers
- Be Transparent – Bankers Evaluate Borrowers and appreciate those they can trust to work with in a spirit of cooperation
- Uncertainty suggests for limited term moratoriums/re-schedulings with “what ifs” on rollover, rescheduling
- Understand value to banks of paying interest if possible
- Understand covenants that may have to change (especially those based upon TTM. Waivers and amendments?)
- Understand complexities of syndicated/club debt facilities and ensure speaking to lead
- Engage and remain engaged through market bottom and recovery

DON'Ts

- Use strategy of “forcing” a restructure by simply not paying and not engaging
- Blame the bank or attempt to cram down the loan
- Have high expectations for increase of principal
- Go to expense of completing a new valuation
- Get lost in the detail, these are periods of uncertainty
- Attempt to free up collateral
- Give up





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