

# Hotel and Resort Lending is No Vacation

Marketing and loan structuring are essential to make your deal happen

By Jay Litt

**E**ntering the summer of 2017, lending sources for hotel and resort projects were sensing some turbulence. Since the financial debacle of 2008-09, the hotel industry has made giant strides in recapturing the profits lost in those two years.

The hotel industry is famous for being cyclical, however. Rising delinquencies in the commercial mortgage-backed securities (CMBS) sector, flat year-over-year growth in revenue per available room (RevPAR) and a number of global economic issues have created concern in the lending and development communities. As lending gets more competitive and interest rates rise slowly, so could the need for commercial mortgage brokers to have additional arrows in their quivers.

Successful marketing basics are among the arrows in a mortgage broker's quiver. They can help lenders and clients get more

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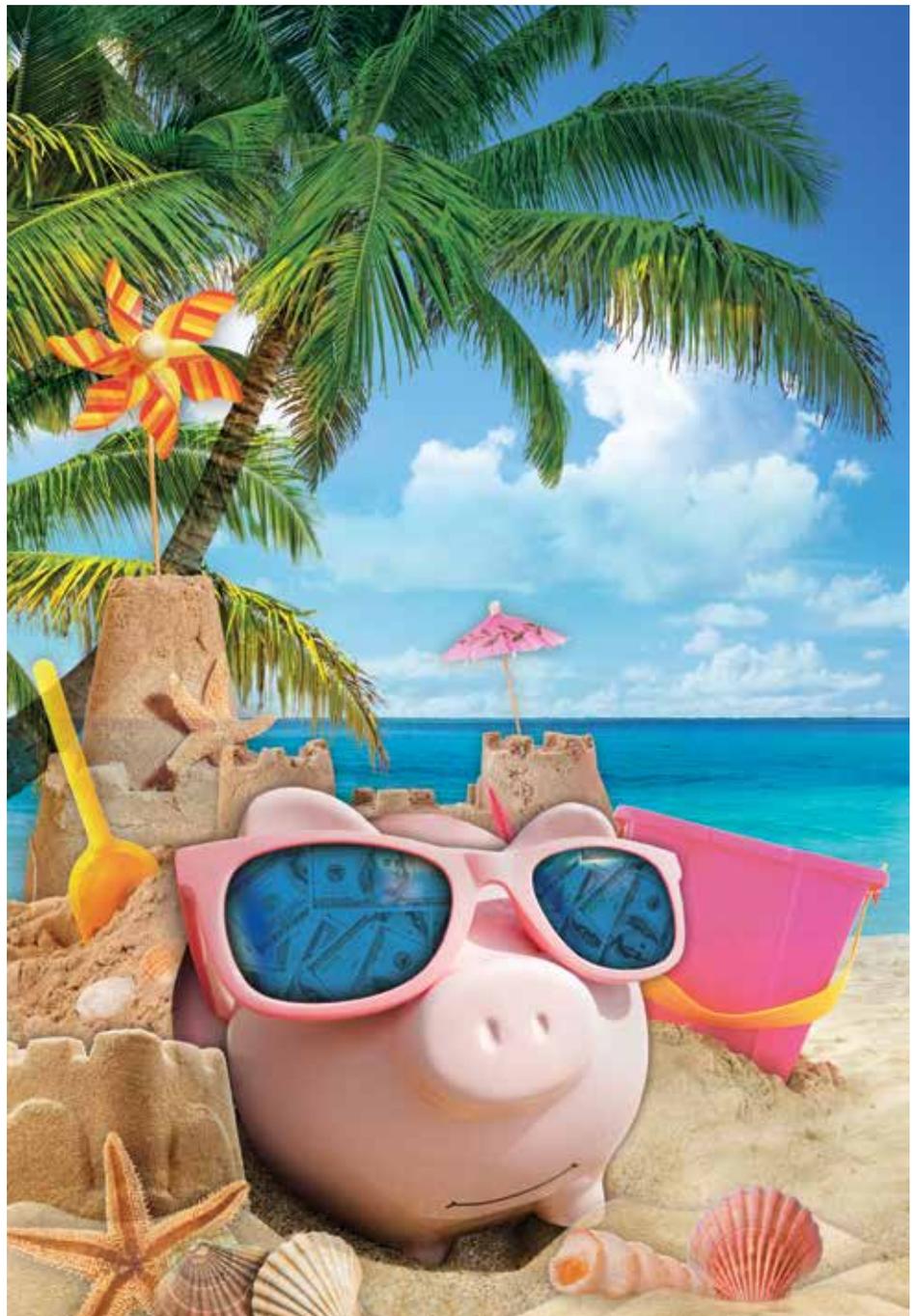


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comfortable in using your services and the projects you present. The hospitality industry has experienced an exceptional seven-year run, replacing lost revenues, profits and confidence among buyers, sellers and lenders. And during this time, RevPAR — which is calculated using the number of rooms in a hotel, its average occupancy rate and its average room rate — experienced normal growth to get the industry back on track.

During cycle changes, it's important to be clear and concise with all offerings and deals. As tremors grow in a market, lending sources can shrink, making competition more obvious. In these times, having a strategic marketing plan is critical. The following marketing basics could be part of the plan that gets you past the finish line.

### Set realistic expectations

A deal is not just a deal. As we all know, there are many aspects to a deal. As we enter a period of greater scrutiny, make sure what you are offering is realistic to both your client and the lender.

During a market upswing, projects that are more speculative can find an audience. Now is not that time. The deals you present need to be ones that lenders and clients feel, from the start, make sense. Do more research and use third-party consultants to make sure the property dynamics, financial history, property improvement plan (PIP) and other aspects are covered and easily explained.

You'll need to work closely with your clients to get this information, and to make sure it's concise and correct. Present the basics of the project to others in the industry to gain additional perspective. Having this direction can help get the deal to the next step.

Lenders are going to be more time sensitive over the next few years. More regulations make for more scrutiny. There will be increased pressure to review more projects in order to find the ones that make sense, so fewer explanations from a broker are better and free up a lender's time. They will want to understand the deal from day one. Easily understood metrics

and transparency are critical components of communication. More mortgage brokers will be presenting more deals, but to fewer lenders, so providing more information — and in formats that are easily understood and analyzed — is critical.

### Keep the essence simple

We all recognize that even the smallest deal can be complicated. When all the stakeholders get involved with a project, it seems to grow in complexity. That's not surprising. But the reality is that there are many moving parts in any real estate transaction, and hotels are probably the epitome of that reality.

As such, the suggestion here is to narrow the essence of the deal and promote that theme with lenders and clients. In every deal, there is a bottom line. What will the deal do for the lender? Where is the value? Can you demonstrate, in a simple format, the basics of the deal? During changes in economic cycles, emotions can run high and brokers with a simplified format will not only be in high demand, but also should complete more deals.

The use of a clearly written memorandum is more critical than ever for an offer. The boilerplate, 85-page bible, a style that grows during market upswings, needs to change. Tighten these documents with the information most

needed by the lender and client. Remember, time is critical to all parties, especially during changing cycles.

If you are working with third-party consultants, make sure what they produce is clear and easily interpreted for the project you are promoting. Deals are complicated. Make sure what you are giving the lender, in the offering memo, is what they need to understand the deal. Spell out the deal clearly and use the memo as an essential document to support your stipulations. You will make your lenders and clients much happier, and the result could be quicker action.

### Virtual data room

Virtual data rooms are online mechanisms for storing confidential documents, such as leases, title documents, financial reports, property details, and information about the local hospitality market and employment sectors.

This is not really a marketing step. This is a reality check. Nothing can be more time consuming and create more confusion than a data room that is difficult to navigate. Having all the information you need in that data room is critical. Here are some suggestions:

Use a checklist. Work with your client or a third party to get all the information you need out on the table. This checklist may be deal-specific.

Cross-reference. Make sure your client has given you sufficient information that the lender will need for their due diligence. This means working with your lenders and their checklists. Don't just hand over the information; be part of making sure the checklists are complete.

Focus on yourself. It's the mortgage broker's job to get all the information. When you prepare your checklist, make sure you are sensitive to the lender's requirements. Your checklist for due diligence may include areas that will not go into a data room, but could be important in explaining operating results.

The data room is a critical component of the deal. It needs to be organized in a way to make the lender's due diligence easier. Once the data room is produced, you should work with the lender to make sure you have all

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the information they need. With every deal, there are obvious blips that can be confusing and need explanation. You should anticipate these blips and, working with your client, see if you can isolate them into a format that will quickly answer a lender's questions. Again, the goal is transparency, and making due diligence faster and more concise.



Changing times mean changing strategies. Years in which projects were started or completed under positive market conditions — and continued positive trends were anticipated — are different from years where the market cools down. Lenders begin to pull back and have a closer look at what is being offered. The caution flag comes out.

