



## **HOSPITALITY ADVISORY SERVICES LOAN & ASSET PROGRAM**

Due to current economic and market conditions, significant demand declines are expected at virtually every hotel and resort in the U.S., Canada and the Caribbean for the next few years. Most lodging assets will be facing a difficult operational period with deterioration in their financial performance.

TPG reinstated its Hospitality Advisory Services (HAS) division specifically to meet the needs of lenders, servicers and private equity investors seeking expert advice for their troubled hospitality assets. The HAS menu of services is designed to quickly evaluate each loan or asset, identify problem situations, and recommend immediate action to preserve asset value and prevent the deterioration of operations and the physical plant.

The initial objective of any HAS engagement is to estimate the financial performance of a hotel over the immediate near term in order to determine the property's ability to fund operations and service its debt.

Long term, HAS works to preserve asset value through identification of specific and quantifiable areas of cost savings and revenue enhancement by actively overseeing the day-to-day manager's implementation of operating tactics and strategies. The end goal of any HAS engagement is to stabilize a property and enhance its overall revenues and bottom line net operating income.

HAS has been privileged to provide consulting, advisory and asset management services to a broad array of investors and lenders. The firm has also completed a number of impartial valuation analyses related to loans as well as disposition efforts. A partial list of engagements and clients is provided below.

### **CONSULTING AND ASSET MANAGEMENT ENGAGEMENTS**

Adolphus Hotel – Dallas, TX	Marriott Waterside – Tampa, FL
Beverly Hilton – Beverly Hills, CA	PGA National Resort & Spa – West Palm Beach, FL
Bishop's Lodge Resort – Santa Fe, NM	Rancho Bernardo Inn – Rancho Bernardo, CA
Carambola Resort – St. Croix, USVI	Ritz Carlton – Ft. Lauderdale, FL
Don CeSar Beach Resort – St. Pete Beach, FL	Sawgrass Marriott at TPC – Ponte Vedra, FL
Four Seasons – Great Exuma, Bahamas	Sheraton Canal Street – New Orleans, LA
Hard Rock Hotel & Park – Myrtle Beach, SC	Trump International Hotel – Ft. Lauderdale, FL
Hilton Hotel – Dedham, MA	Laketown Wharf – Panama City Beach, FL
Hilton Hotel – St. Petersburg, FL	W Hotel – Birmingham, MI
Holiday Inn on the Hill – Washington, DC	Westin Book Cadillac – Detroit, MI
Hyatt Regency Tampa – Tampa, FL	
Marriott Hotel – Austin, TX	



### CONSULTING AND ASSET MANAGEMENT CLIENTS

Alagem Capital	City of St. Petersburg,	MetLife Real Estate
Alliant Partners	Florida	Midland Loan Services
Apollo Management	City of Tampa, Florida	Ohio Carpenters Pension
Bank of America	CW Capital	Fund
Capmark	Ecclestone Organization	PNC Bank
Cargill	Ferchill Investments	Prudential Insurance
Castillo Grand LLC	iStar	TIAA/CREF
CBRE Strategic Investors	J.P. Morgan Chase	VEF Advisors
Cigna	LNR Partners	

The degree of HAS's involvement varies greatly depending on the circumstances surrounding the property or the existing loan. The firm's services are designed to address the specific situation in which our clients may find themselves, and include:

**Level One**

***Loan Monitoring and Sensitivity Analysis***

- Little or no access to information and/or to the property beyond what is granted through loan documents.

**Level Two**

***Asset and Operations Monitoring***

- More open access to information and/or to the property resulting from lender and borrower cooperation and communication.

**Level Three**

***Asset Management***

- Unrestricted access to the property since it has been taken over by the lender; active and ongoing asset and operational oversight.

### **LEVEL ONE: LOAN MONITORING AND SENSITIVITY ANALYSIS**

In most Level One situations, HAS is working "behind the curtain," with no access to hotel or resort personnel and usually with only limited access to detailed financial data. Accordingly, unless full access is granted to the property and to documentation, we will complete our initial analysis and submittal to the client based upon our ability to gain insight through primary and secondary research sources including our industry contacts and lodging databases.



## Level One General Scope of Work

In this Level One phase, HAS will:

- Perform as detailed a financial analysis of the property as possible utilizing readily available property financial information and market intelligence.
- Complete a visit to the property, if deemed worthwhile, to discretely gain insight on the property's operations and physical plant.
- Acquire existing supply and demand lodging databases and extrapolate pertinent information as it relates to the subject property.
- Utilize our existing market knowledge and, when possible, our relationships with key industry contacts, to obtain intelligence on the local market and hotel demand issues.
- Research available economic data for the local market and the region.
- Acquire lodging performance data for a set of competitive hotel properties for the previous year and for current year-to-date.
- Evaluate lodging performance expectations for the balance of the given year for the subject market.

Many of the revenue sources of any hotel or resort rely to some degree on the “spend” of each guest being accommodated at the property. Correlations between occupied rooms and revenue-producing areas such as rooms, food and beverage, golf operations, spa, casino, etc., are therefore dependent on the occupancy and number of guests staying at the property.

Accordingly, we will perform a Revenue Per Occupied Room (RevPOR) analysis, where appropriate, in order to determine the total spend-per-guest relative to the various revenue departments at the property. By doing this, we will have a basis upon which to determine the total impact of room nights gained or lost for each of the revenue generators at the property.

Based on the aforementioned RevPOR analysis, we will prepare estimates of financial performance for the subject property for a 12-month period. In addition, in order to determine cash available for normal property operations and to service the existing debt, we will perform a sensitivity analysis on the relative flow-through and debt service coverage based upon three separate potential revenue performance scenarios.



### LEVEL TWO: ASSET AND OPERATIONS MONITORING

A more detailed analysis can be completed once “the curtain is open” and there is direct access and communication between lender and borrower. Such access is typically obtained once it is legally documented in order to mitigate potential lender liability issues. The goal of a Level Two engagement is to develop specific findings and recommendations aimed at minimizing losses, maximizing cash flow and, as a result, enhance the value of the asset in the near-term.

Upon being provided with access to a property’s management team, we will commence a detailed operational market and financial analysis. The scope of this phase is to complete a detailed analysis of the marketing and revenue maximization efforts being realized by property management, and to gain an understanding of management’s ability to control expenses.

By completing a detailed operations review, we gain a greater insight into the operator’s abilities, identify and quantify specific areas of cost savings and revenue enhancement, as well as improve our accuracy in developing estimates of future financial performance.

#### **Level Two General Scope of Work**

Once access to property management and financial and operating documents is granted, HAS will review the following key items in detail in order to develop a specific report of findings and recommendations for the client:

- Historical financial data, including:
  - Profit & Loss statements for the past 36 months
  - Balance sheets
  - Annual budget and marketing plans
  - Historical and future capital expenditures
  - Accounts payable, accounts receivable and aging reports
  - Property taxes
  - Insurance expenses and coverage
  - Working capital and cash flow management
  - STR reports
  - Group booking pace reports
  - LNR account production
  - *Hotelligence* reports
  - Capital item expenditures
  - Other operating information

We will also develop a current hotel market positioning and competitive market analysis as well as a property positioning statement relative to its competitive set by reviewing the following items:



- Sales and marketing plan
- Analysis of revenue management techniques deployed by management
- Analysis of sources of business
- Existing distribution channels used to gain business and their associated costs

We will focus on cost containment issues by performing a detailed analysis of:

- Expenses and controls deployed by management
- Food & Beverage operations and profitability
- Hotel staffing and labor cost controls

In addition, we will also review the following general areas of property operations:

- Guest service and quality assurance scores
- Physical plant condition and maintenance
- Management company contract compliance (limited review)
- Other compliance issues (limited analysis)

We will review secondary market research to further our understanding of the property's market dynamics relative to local demand generators, the competitive set, and overall market demographics and economics. This review may include:

- Historical occupancy and average daily rate history of the competitive lodging market
  - Identify visitor trends and the lodging markets' seasonality of demand
  - Evaluate any cyclical fluctuations in the property's lodging demand over the recent past
  - Identify lodging demand generators and target markets
  - Research historical and current tourism and group business generation programs for the property and the market
  - Identify area attractions and activities
  - Perform comparative performance of local lodging market to that of the competing markets, as warranted
  - Assess primary feeder markets
- As it relates to resort- or destination-oriented properties, current historical and proposed air access from the identified feeder markets and their potential impact on the property.
- Other future changes that can positively or negatively affect lodging demand at the property or in the local market.



- Interviews with executives of local hotel operators (General Managers, Directors or Sales, etc.) to gain insight on expectations for their properties as it relates to future performance.
- Other third-party data relating to recent performance of competitive lodging properties with the property.

Based on the results of this Level Two detailed analysis, we will then be in a position to evaluate and report on management's abilities, and develop specific quantifiable cost savings and revenue enhancing opportunities which will focus on both short- and long-term recommendations to maximize profitability and value. In addition, we will have more in-depth information with which to better estimate a 12-month forecast of operations.

### **LEVEL THREE: ASSET MANAGEMENT**

A Level Three engagement typically commences when a client has taken back a hotel through foreclosure or a deed in lieu of foreclosure. As such, the client is now in a position to assume a much more active role in the oversight or actual management of a property. Such an action is often taken when a defaulting borrower (or an affiliate) is also the property's operator. A key and initial element of HAS's Level Three engagement includes all steps completed in the previously described Level Two.

Our focus is to provide the client with an in-depth property analysis based on factual and achievable revenue enhancement and expense reduction techniques, and then take an active role in overseeing the implementation of an involved asset management effort.

In a Level Three engagement, HAS serves as the knowledgeable industry intermediary between our client and the hotel operator. HAS works on an ongoing basis with the property's operator to maximize cash flow and enhance the value of the property.

In this role, HAS becomes much more of a direct and active developer of strategies and tactics, in addition to monitoring the implementation of these programs on behalf of the new owner.

#### **Level Three General Scope of Work**

Our Level Three Asset Management program consists of several responsibilities and corresponding objectives delivered during a longer period of time. These objectives generally focus on evaluating, recommending and monitoring specific actions relative to all aspects of hotel performance, including:

- Revenue generation
- Expense management
- Profit maximization
- Market positioning



- Management proficiency and ability
- Brand affiliation
- Evaluation of physical plant and property condition
- Capital budgeting and planning

Additionally, Level Three responsibilities include:

- Interviewing and engaging a property management firm or general manager on the client's behalf should a change in management be warranted.
- Ongoing monitoring of the transition of the property from one management company to another, or converting to independent (non-branded operations).
- Development of performance benchmarks and financial reporting methodology.
- Development and implementation of financial control point responsibilities.
- Sourcing and hiring third-party accounting services provider, as needed.
- Monitoring management's existing financial controls, policies and procedures.
- Operational oversight, including regular property.
- Long- and near-term strategic planning regarding operations, marketing, and capital budgeting.
- Review of physical plant preventive maintenance procedures.
- Attendance at ownership meetings, especially as formal updates of financial and operational performance are presented.
- Facilitate meetings with franchisor and other constituents as needed.