

HOTEL CRISIS STRATEGIES

A client service of The Plasencia Group, Inc.

DEBT SERVICE COVERAGE

Now is the time to conduct a sensitivity analysis on RevPAR changes and resulting NOI to determine thresholds of debt service coverage

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.

For lenders, servicers and private equity investors who are evaluating their hospitality investments, a thorough analysis of current economic and market conditions and the impact that demand declines will have on operational performance is a critical step in formulating both short- and long-term strategies to preserve the asset's value and prevent further deterioration in operations and the actual physical plant.

Any sensitivity analysis should be conducted based on a comprehensive understanding of the market and the property's operating dynamics, all the while factoring in econometric correlations. In order to fully execute a sound analysis that provides useful information to investors, the process should include at a minimum the following:

- A detailed financial analysis focusing both on Revenue Per Available room (RevPAR) and Revenue Per Occupied Room (RevPOR)
- Site visit to determine the hotel's physical and operational condition
- Market-specific analysis of lodging industry research, performance, and trends
- Evaluation of economic factors in the local market and the region
- Forecast of future demand trends for the market, taking into account:
 - Group and convention bookings
 - Corporate account production
 - Key feeder markets, visitor trends, and market seasonality
 - Historical cyclical fluctuations in the property's demand
 - Demand generators and targeted segments (corporate, leisure, group, etc.)
 - Tourism promotion programs at the local, regional, and state level
- In-depth analysis of competitive set's lodging performance data

The process should produce the estimated financial performance of the hotel over the next three to five years to determine the property's ability to fund operations and service its debt. Armed with this information, hotel investors and lenders will be able to determine appropriate courses of action to stabilize the property and enhance the overall revenues and bottom line net operating income.

To discuss how The Plasencia Group can quickly respond to your needs, please contact Lou Plasencia, CEO, or Rich Conti, President at (813) 932-1234.