From the Orlando Business Journal:
https://www.bizjournals.com/orlando/news/2020/08/19/orlando-florida-cmbs-hotels-faring-better-pandemic.html

Local CMBS hotels faring better than national average

Aug 19, 2020, 4:17pm EDT

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The Covid-19 virus's impact has resulted in one in four hotels with commercial mortgage-based securities (CMBS) loans to be delinquent.

The pandemic's impact on travel has put many Orlando hotels — especially those leveraged by debt — in a bind. But it could be worse.

Covid-19's impact has caused one in four U.S. hotels with commercial mortgage-based securities (CMBS) loans to be delinquent, said a report released in August from New York-based securities and investment data analytics firm Trepp. The study looked at conditions of CMBS hotels in the markets which were on the rise for the first half of the year.

The percentage of loans that are 30 or more days delinquent was 23.4% as of July 2020. "This is the highest percentage on record," said Trepp's report. Only 1.34% of loans were 30 or more days delinquent at the end of 2019. Approximately $20.6 billion in hotel CMBS loans were 30 or more days delinquent as of July. That compares to $1.15 billion as of December 2019.

Here's more from the report as of July 2020:

Loans in special servicing: 24%
Loans in the servicer watchlist: 35.3%
Market with the most troubled hotels: New York-Newark-Jersey City, NY-NJ-PA, with 53 — or 38.7% of properties — delinquent

The report did not include Central Florida-specific data, but a local expert with similar data told *Orlando Business Journal* that the region is doing better than other markets.

"There are 45 hotels in the Orlando market that have CMBS debt. Of those, nine (20%) are with the special servicer and 12 (27%) are on the servicer's watchlist. So, the Orlando market is faring better than the national average," said Paul Sexton, vice president with HREC Investment Advisors in Orlando.

In addition, it's not uncommon for properties to go onto watchlists or into special servicing and re-emerge, and, in some cases, firms like HREC have platforms that can connect struggling hoteliers with equity capital partners to work out financing issues.

"Given our status as the No. 1 tourism destination in the world, the Orlando market attracts some of the best management talent and some of the best ownership groups. As the pandemic was a completely external event, special servicers are going to be loath to foreclose on a hotel that was otherwise well managed," Sexton said.

The overall hotel market likely is in better shape than even the CMBS hotels.

The region is home to more than 526 hotels and about 45 are CMBS properties, Sexton added. "As such, the vast majority of hotels are financed either through corporate financing or through the banking system (CMBS is a conduit to the bond market and not part of the banking system). Of those financed through the banking system, the vast majority of owners have been successful in modifying their loans to give them some flexibility."

The local hotel industry had a 29.6% average occupancy rate for the week ending Aug. 8, the most recent data available from Hendersonville, Tennessee-based hotel and data firm STR LLC. That's up from the 12.3% for the week ending April 11, the lowest since the pandemic struck Central Florida in March, but still far below the typical 70% or more the region sees during the summer.

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Richard Bilbao
Digital Producer/Senior Staff Writer
Orlando Business Journal