ANALYSIS: WHY CURRENT PPP LOAN LIMITS MAY LEAD TO MORE HOTEL LAYOFFS

STRUCTURE OF SBA LOAN/PAYCHECK PROTECTION PROGRAM (PPP) IS SOLID.

"The hotel industry applauds the Administration and Congress for their efforts during this unprecedented public health crisis. We support the underlying foundation of the CARES Act, which is an important step toward getting our country up and running again." - **Chip Rogers, President/CEO, American Hotel and Lodging Association**

HOTEL EMPLOYEES NEED HIGHER PPP LOAN LIMITS TO KEEP THEIR JOBS

Current PPP loan limits cover less than one month of average hotel operating costs. Industry revenues have dropped to 20% compared to 2019 and are only expected to rise to 40% later this year. If hotels cannot pay fixed costs, including mortgages, hotel jobs will be lost.

Hotels were among the first to be impacted by COVID-19. U.S. occupancy rates dropped significantly in February 2020.

According to industry experts at CBRE, the hotel industry will not return to 2019 revenue performance levels until 2022.

The "Covered Costs", as defined in the CARES Act, pay 47% of hotel operating costs. With revenues at 20% - 40% of normal levels for the remainder of 2020, a solution for keeping employees on the payroll is to increase the PPP loan limits.

If the CARES Act is amended to raise the loan limit from 250% of average monthly payroll to 800% of average monthly Covered Costs, most hoteliers will be able to keep employees and their doors open.

Hotel Industry Expenses

Covered vs. Non-Covered

Covered by PPP	Expenses	Annual	Monthly
Covered	Labor Expenses	$70B	$5.8B
Covered (max 25% of loan proceeds)	Utilities	$6.1B	$0.44B
	Mortgage Interest + Rent	$15.7B	$1.1B
Non-Covered	Remaining Utilities + Interest	$3.1B	$0.26B
Non-Covered	Other Operating Expenses	$54B	$4.5B
Non-Covered	Fees, Taxes + Insurance	$34B	$2.8B
Non-Covered	Mortgage Principal	$12B	$1B

SBA requires that only 25% of the loan proceeds be used toward non-payroll costs, making it difficult for hotel owners to pay lenders in order to stay in business. Other Operating Expenses includes undistributed expenses such as IT, G&A, marketing and maintenance as well as variable expenses such as food and beverage, cleaning and supply costs and others.

Total operating costs for the hotel industry are $194.9 billion annually or approximately $16.2 billion monthly on average.

	Annual	Monthly	% of Costs
Total Covered by PPP	$91.8B	$7.7B	47%
Total Not Covered by PPP	$103.3B	$8.6B	53%

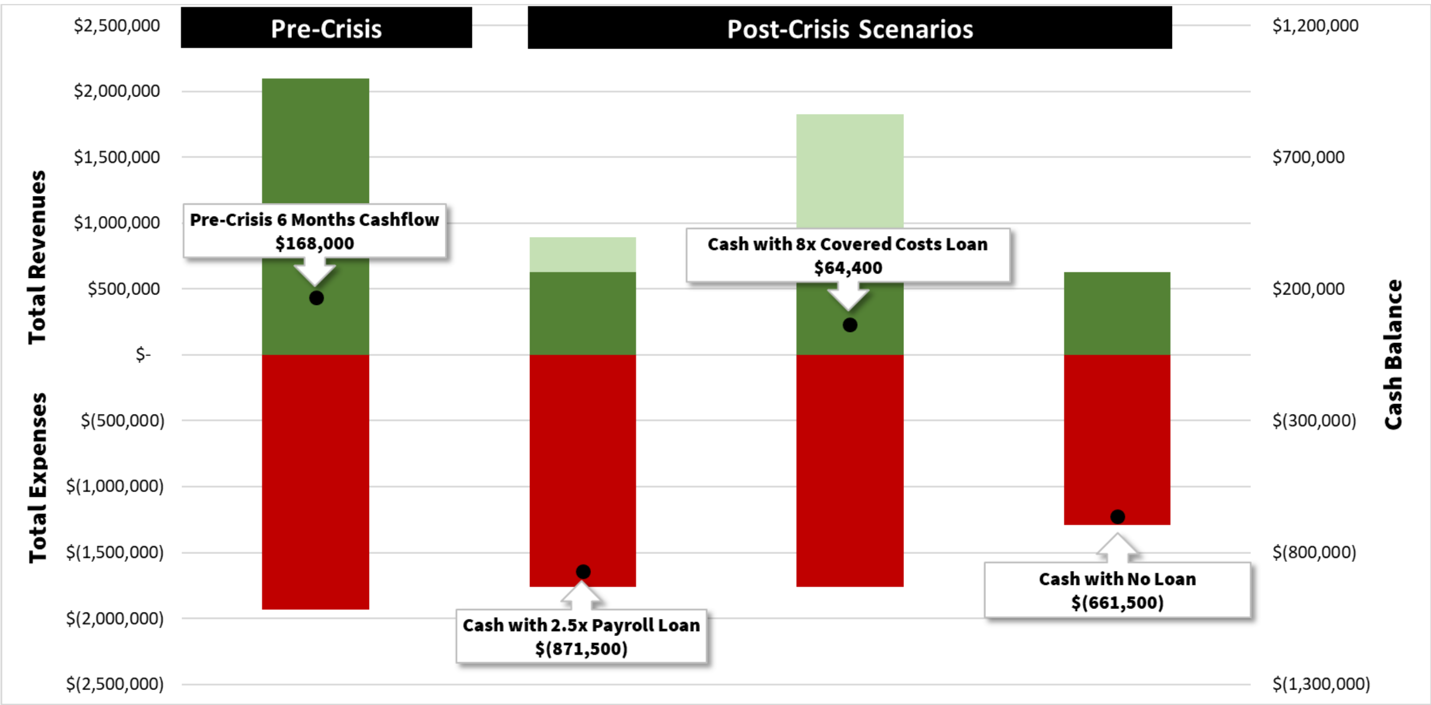
Hotels incur **$7.7B in covered costs on a monthly basis** on top of **another $8.6B in non-covered costs**. **Non-covered costs** such as some undistributed operating expenses, franchise fees, management fees, tax and insurance as well as capital reserve requirements **do not disappear completely or, in some cases, at all** when a hotel is closed or operating with near-zero occupancy.

Source: Data provided by STR from the HOST Almanac.

Pre-Crisis vs. Crisis/Post-Crisis Scenarios

250% payroll loans cannot maintain employment. In order to maintain employees, PPP loan limits must be raised to almost 800% of Covered Costs

The example below shows an average hotel's pre-crisis cash flow over a normal six-month period as well as in the six months post-crisis depending on SBA loan limits. Even after recovery begins, an average hotel will not generate significant revenue to cover costs – hotel occupancy is not projected to return to pre-crisis levels before 2021 and revenue before 2022.



Many small business hotel operators would be in a worse cash flow position by utilizing the Paycheck Protection Program (PPP) SBA loan under the current limits – forcing them to shut down their property and close their hotel business. If the SBA loan limit was increased to eight times the monthly costs covered by PPP, hotel operators would be in a better position to rehire employees and keep them employed.

		SCENARIOS: Post-Crisis 6 Months		
	Pre-Crisis 6 Months	WITH CURRENT SBA LOAN LIMIT (2.5x Payroll)	DECLINE CURRENT SBA LOAN OFFER (No Loan)	WITH IDEAL SBA LOAN LIMIT (8x Covered Costs)
Unit Revenues	$2,100,000	$630,000	$630,000	$630,000
Loan	N/A	$262,500	N/A	$1,198,400
Payroll + Benefits	$(630,000)	$(630,000)	$(157,500)	$(630,000)
Fixed Costs (including Debt)	$(840,000)	$(819,000)	$(819,000)	$(819,000)
Variable + Other Costs	$(462,000)	$(315,000)	$(315,000)	$(315,000)
Operating Cash	**$168,000**	**$(871,500)**	**$(661,500)**	**$64,400**
		Hotels better off closing doors than taking current SBA Loan		

**Model assumes hotel generates 20% of normal revenue for 3 months, then 40% for 3 months"*

CARES Act needs to be amended to increase the SBA loan limit from 250% of average payroll to 800% of Covered Costs so hoteliers can rehire employees and keep them employed.