

Common Pitfalls of Hotel CRE Transactions & How to Avoid Them

Presented by:

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Introduction

Steven Senft leads Stewart Title's National Hospitality Group at Stewart Title National Commercial Services and serves as Senior Vice President. In this role, Senft facilitates all aspects of title and escrow transactions. Steven has built a reputation for serving the needs of his customers and coordinating transactions with his network of attorneys, brokers, developers, investors, and lenders nationwide, with an emphasis on Hospitality. Senft's unique and extensive hospitality experience spans over 24 years and includes hotel ownership, management and operations, financial analysis, sourcing equity, strategic planning, and hotel acquisitions and dispositions. During his career, Senft has been involved in the sale, development, management, advisory and financing of more than \$20 billion in hotel assets representing over 1,100 hotels.

Previously, Senft was a Vice President, Senior Sales Executive with Ten-X Commercial (a CoStar Group company), the world's largest technology platform for buying and selling commercial assets. Prior to this, Senft was a Principal of CRU Real Estate Group, a full-service real estate company with an emphasis on hotel ownership, asset and property management, commercial brokerage and investments. During his tenure at CRU Real Estate Group, Senft managed a total of 17 hotel properties representing approximately 2,600 keys. Senft began his career in the hospitality industry as a Sales Manager for Hyatt Hotels and then Hilton Hotels.

Senft earned his Bachelor of Science degree in Hospitality Management from the Collins College of Hospitality Management and holds a Master of Business Administration from California State Polytechnic University, Pomona. He also earned his Certification in Real Estate, Development and Hotel Investment from the Cornell University School of Hotel Administration.



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Agenda

Common Pitfalls and How To Avoid Them

- ▶ Hotel CRE Overview
- ▶ Understanding Renovations & Conversions
- ▶ Financing a Hotel
- ▶ The Transition
- ▶ Building Your Dream Deal Team
- ▶ Reading and Understanding a Title Commitment
- ▶ In Closing

Hotel CRE Overview

Hotel CRE Overview

Current Market Data

- ▶ Based on preliminary **RCA** data, YTD Q3 2025 nationwide hotel transaction volume in the United States has declined 19.6% compared to the same period last year
- ▶ Nationwide Individual Property trades have declined 7.7% YOY
- ▶ Nationwide Portfolio Volume have declined 58.9% YOY

Outlook

- ▶ Sentiment from The Lodging Conference 2025
 - ▶ Bid Ask Gap
 - ▶ Profitability Concerns - Revenues Flattening vs Rising Operating Costs
 - ▶ Tariff Uncertainty
 - ▶ Lenders active – More Selective
- ▶ Outlook
 - ▶ Guarded Optimism

Understanding Renovations & Conversions

Understanding Renovations & Conversions

Common Pitfalls

- ▶ Budgeting Shortfalls
- ▶ Guest Disruption
- ▶ Poor Planning
 - ▶ Due Diligence
 - ▶ Monitoring Progress
 - ▶ Supply Chain
 - ▶ Quality Checks
- ▶ Construction / Designer Team
- ▶ Not Properly Accounting for Life Fire Safety
- ▶ Realistic Timeline

How to Avoid Them

- ▶ Supply Chain: Order early, anticipate delays
- ▶ Due Diligence – Order Early Your
 - ▶ ATLA Survey
 - ▶ Environmental and Phase 1
- ▶ Guest Disruption Plan of Action
- ▶ Quality Checks: Poor quality will result in addition cost for repairs. Have a scheduled inspections of all work
- ▶ Build your Dream Team

Financing a Hotel

Financing a Hotel

Common Pitfalls

- ▶ Overestimating Finances / Sources of Funds
- ▶ Underestimating Total Project Costs
 - ▶ Refinancing / Renovation
 - ▶ Purchase / Renovation and/or Conversion / and Closing Costs / Working Capital
- ▶ Having your Documentation In Place
 - ▶ Financials, Tax Returns
- ▶ Rushing the Process
- ▶ Choosing the Wrong Loan
- ▶ Franchise Agreement – Retaining or Canceling
- ▶ Underestimating Cost of Insurance
- ▶ Unexpected Mechanic Liens or Clouds in Title

How to Avoid Them

- ▶ Get Multiple Quotes on the Cost of the Renovation
- ▶ Verify P&L against STR Reports & Tax Returns
- ▶ Understand the Franchise Agreement and know if there are windows to cancel or what the cancelation fee and if there is Right of First Refusal Clauses
- ▶ Start getting Insurance Quotes early
- ▶ Partner with the Experts to Help Build Your Loan Packet
- ▶ Order a Preliminary Report at the Time of Listing or Prior to Refinancing to Give Time to Correct Curatives

The Transition

The Transition

- ▶ When to Start?
- ▶ How to Start?
- ▶ Who Does What?



The Transition

Common Pitfalls

- ▶ Not Being Prepared
- ▶ Business Bank Accounts – Credit Card
- ▶ Workers Compensation Policies in Place
- ▶ Bulk Sale / ABC Liquor License Transfer
- ▶ Supply's On Hand
- ▶ Get Combinations to the Safe(s)

How to Avoid Them

- ▶ Start preparing for the operational transition during the due diligence period
- ▶ Set Up Bank Accounts Prior to Closing to Avoid Delays in Credit Cards Being Deposited After Closing
- ▶ Doing a Renovation, get a copy of the building plans
- ▶ Request Guest Supply Levels Prior to Closing
- ▶ Open Communication with Hotel Executive Management

Building Your Dream Deal Team

Building a Dream Deal Team

Brokers & Lenders

Broker
Capital Markets Brokers
Lenders

Attorney

Purchase and Sales
Agreement (PSA)
Objection Letter on Commitment
Management and Franchise
Agreement



Franchise and/or Management Team

What is a FDD and when
do you Start?
Self Manage or Hire 3rd Party
Management Company?

3rd Party

1031 Exchange
Designer
Due Diligence – Alta Survey,
Environmental, Phase 1
Construction Management
Title Company

UCC One

1031 Exchange Partner - Asset Preservation Inc.



API is a national Qualified Intermediary leading the industry for 35 years. Acquired by Stewart in 1993.

Established in 1990, Asset Preservation, Inc. (API) is a recognized national leader in 1031 exchange companies, having successfully completed over 200,000 IRC Section 1031 exchanges.

Asset Preservation is committed to providing investors the highest levels of experience, expertise, and security of funds in the 1031 exchange qualified intermediary industry—what we call The API Advantage™.

Every investor who selects Asset Preservation can be provided a written “Letter of Assurance” from our parent company, Stewart Information Services Corporation (NYSE: STC).

Why Consider a 1031 Exchange?

- ▶ Defer Taxes - Keep more of your profit working for you by deferring capital gains.
- ▶ Buy Bigger or Better - Reinvest pre-tax dollars into new or improved properties.
- ▶ Relocate or Diversify - Shift your investment to new markets or consolidate for ease.
- ▶ Build Long-Term Wealth - Grow your portfolio and plan smarter for your legacy.
- ▶ Estate Benefits - Heirs may avoid taxes entirely with a stepped-up basis.

CONTACT US National Headquarters 800.282.1031 | Eastern Regional Office 866.394.1031 | Website: apiexchange.com | Email: info@apiexchange.com

Key 1031 Exchange Rules

- 1. Like-Kind Property** - The real property being sold and the one being acquired must be “like-kind.” That doesn’t mean they have to be identical or in the same asset class. For example, a hotel could be exchanged for raw land. The key is that both the relinquished and replacement property must be real property held for productive use in a trade, business, or investment.
- 2. Same Taxpayer Rule** - The taxpayer that owns the relinquished property must be the same taxpayer that acquires the replacement property in the exchange. Taxpayers may sell and acquire properties held by an entity that is disregarded to them for federal income tax purposes.
- 3. Holding Time** - While there’s no minimum “holding period” detailed in the 1031 exchange rules, the IRS –in most cases– looks for properties held for a substantive period. A property held for a very short time might not meet the “held for investment” requirement.
- 4. Equal or Greater Value** - To **fully** defer capital gain taxes upon sale, the investor must (1) acquire replacement property that is equal or greater value than the relinquished property; (2) reinvest all net proceeds; and (3) replace debt on the relinquished property with debt or outside cash on the replacement property. Otherwise, you’ll be taxed on the discrepancy.

Key 1031 Exchange Rules

5. “Boot” Consideration - Any additional value received from the exchange, outside of like-kind property, is considered “boot.” This can be cash, relief of debt, or property that is not like-kind.

6. 45-Day Identification Period - After closing the sale of the relinquished property, exchangers have 45 calendar days to identify potential replacement properties. This identification must be in writing, signed by the exchanger, and the properties must be unambiguously described (for example, either by a legal description or property address). There are specific rules about how many properties an exchanger can identify.

7. 180-Day Purchase Rule - After the 45-day identification period, exchangers have an additional 135 days (making it a total of 180 days from the sale of the relinquished property) to close on the purchase of one or more of the identified replacement properties. An exchange may only acquire one or more identified properties.

8. Qualified Intermediary & When to Set Up the Exchange - A 1031 exchange is invalid if the investor receives or has access to the sale proceeds during the exchange period. A qualified intermediary, also known as an accommodator or facilitator, must be used to hold the exchange funds during the exchange process. The exchange must be created with the qualified intermediary before the relinquished property sale closes.

Reading and Understanding a Title Commitment

How To Read a Preliminary Report

- ▶ What is a Preliminary Report?
- ▶ Five Parts of a Preliminary Report
- ▶ Schedule B
- ▶ Spotting the Red Flags
- ▶ Sample Title Preliminary Report



What is a Preliminary Report?

What is a Preliminary Report?

- ▶ **A preliminary report (often associated or confused with a title commitment in some areas) is a dated report that sets out matters affecting title on a particular parcel of land. Its sole purpose is to facilitate the issuance of the policy.**

The report reflects the matters which would be shown as exceptions in a policy of the title insurance so that the parties to the transaction will be aware of any of those matters of record that may need to be cleared prior to the closing of the transaction. This report is issued before the title policy hence the name Preliminary Report.

Matters Shown in the Preliminary Report include:

1. The Estate or Interest Covered
2. The Record Owner of the Estate or Interest
3. A Legal Description of the Parcel of Land Covered
4. The Recorded Easements, Liens, Encumbrances, and other Matters Which Affect The Title and the Land at the Date and Time of the Report

Five Parts of a Preliminary Report

For Ease of Reference, we Will Direct Your Attention to **Five Parts** of a Preliminary Report:

1. Cover Page
2. Schedule A – The Positives
 - A. Shows the Vesting – Who Holds Title
 - B. Contains a Legal Description
 - C. Describes the Types of Estate
 - D. Describes the Type of Policy to be Issued at Closing
3. Schedule B – The Negatives or Otherwise the Specifics About the Property
 - A. Taxes
 - B. CCR's
 - C. Trusts Deeds/Mortgages
 - D. Other Liens, Agreement, Etc
4. Notes and Requirements
5. Exhibit A Which Contains the various Policy Boilerplate Language for CTLA and ALTA Coverage

Preliminary Report – Schedule B

The following exceptions will appear in policies when providing standard coverage as outlined below:

1. (a) Taxes or assessments that are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records; (b) proceedings by a public agency that may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the public records.
2. Any facts, rights, interests or claims that are not shown by the public records but that could be ascertained by an inspection of the Land or that may be asserted by persons in possession of the Land.
3. Easements, liens or encumbrances, or claims thereof, not shown by the public records.
4. Any encroachment, encumbrance, violation, variation or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land and not shown by the public records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.
6. Any lien or right to a lien for services, labor or material not shown by the public records.

Preliminary Report – Spotting the Red Flags

- ▶ Incorrect Owner
- ▶ Legal Looks Different
- ▶ Judgments And Liens
- ▶ Another's Interest
- ▶ Boundary Questions
- ▶ Old Trust Deeds Or Liens
- ▶ Work in progress?
- ▶ “Uninsured Deeds” in the chain of title
- ▶ Encroachments and other defects
- ▶ Unusual easements
- ▶ Road Maintenance Agreements or Improvement Bonds
- ▶ Over-encumbered
- ▶ Private Rights in CC&R's
- ▶ Survey Matters



Preliminary Report – Sample Report

A Resource - How To Read a Preliminary Report

- ▶ A Step-by-Step Guide to understanding How to Read a Preliminary Report
- ▶ We can provide a Sample Report that is available that will Detail Each Section of the Preliminary Report and Provides Notes and What to Look For

SCHEDULE A

Tax Information
Property
Vesting
Guarantees

SCHEDULE B (Exceptions – to be assumed by Buyer)

Lender Liens
Mechanic Liens
Easements
Cell Tower
Leases (Seller needs to provide a
release so it can be removed)

The image shows the cover of a 'Stewart Title SAMPLE Preliminary Report'. It features a white background with a vertical red bar on the left side. The Stewart National Commercial Services logo is in the top right corner. The title 'Stewart Title SAMPLE Preliminary Report' is centered in a bold, dark red font.

**Stewart Title SAMPLE
Preliminary Report**

In Closing

Key Takeaways

- ▶ Be Prepared for the Unexpected
- ▶ Data, Data, Data
- ▶ Build Your Dream Deal Team
- ▶ Selecting the Right Title Company
 - ▶ When you have the right team, getting ahead of issues is key



Thank you. Questions?



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