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Dear Friends,

I hope your summer is off to as great a start as mine. The markets have been friendly, and I was recently able to spend a long weekend with my two oldest boys in one of my favorite cities, Boston! If, like us, you're a history and baseball fan, Boston is the best. We enjoyed awesome food, good baseball, a few beers, and a lot of laughs. Oh, and we walked - a lot! That was real work, as my boys are a quite a bit taller than me, have longer strides, and, boy, do they walk fast. Let's just say that, by the end of it, my shins were begging for mercy. No worries, though, it was wonderful to be able to spend time with them. The older they get, the tougher it becomes to find a time when all of us are available, so I do my best to savor the moments we share.

While recently reviewing the October 20, 2022 Q4 letter that I sent you, I was reminded that I had mentioned an elevated client concern level. (You can view it on my website: www.antonemercurio.com) At that time, clients were close to panicking because, from August to October of that year, the S&P had dropped about 17%. In that letter, I mentioned that the purpose of the enclosed articles was to "address your concerns and assist you in keeping a longer-term perspective and sticking to your plan." Well, good news! It seems that the articles helped; clients stuck it out, took a long-term perspective, and stuck to their plan. And, according to my math, since I wrote that letter, the S&P is up about 20%, surpassing its August '22 peak. Give yourselves a well-deserved pat on the back.

The market has come a long way since October. In the short run, it needs a rest; nothing major, but don't be surprised by a 3-5% pullback in stocks over the next few weeks. In fact, it may have already started and it's probably necessary. On Wall St., it's called "the pause that refreshes." Beyond that, I think you'll see some market tailwinds. The spring banking crisis is behind us (for now), and even though there could be additional interest rate hikes, the bulk of them are likely behind us as well, and among

other things, the situation in Ukraine looks more and more like a stalemate. Overall, I am "guardedly optimistic."

In recent meetings with research people who work in glass towers, I hear a lot of "Well, on the one hand this, but on the other hand that." Not a lot of insight, plenty of hedging of bets. If you run across any one-handed stock market analysts, let me know, but I get the impression that they - like most - have been caught off guard by both the resiliency of the U.S. consumer and the strength of the job market.

In the real world, things seem to be chugging along nicely. Contractors and clients in the trades say things are still busy and the issue seems to be a lack of workers, not a lack of work. Clients in the agricultural sector say the industry is healthy and concerns of a supply glut earlier in the year never materialized. Finally, in the higher end of the real estate market, a client tells me, "Things are good but not frenzied. If it's a nice piece of real estate, there are still multiple offers and bids above asking price." When I inquire about the entry level/first time homebuyer market, it's a cloudier picture. People who bought prior to the interest rate hikes are reluctant to sell if they have an interest rate under 5%. So, there aren't a lot of entry-level homes for sale. Which brings me to my final point.

One thing I'm keeping my eye on is a brewing crisis in the commercial real estate market, especially regarding office, shopping mall and hotel properties. Many regional banks make loans on these properties. Those loans generally feature a variable interest rate and are shorter term in nature. Interest rates will be resetting on many of these loans soon. We're already seeing landlords starting to walk away and hand the keys back to the bank; hence, the enclosed article shared with me by my lovely wife, Gretchen. The fear is that this phenomenon will take some banks down with it. That said, everyone in my industry is talking about this potential storm that's brewing, but it's important to remember that it's almost never the snake you see that bites you. I'm watching closely, though, and will continue to share my thoughts and insights with you on a regular basis.

Best,

Antone Mercurio

Dallas firm expects to hand back keys to 19 hotels, including two in Plano

The Plano properties are among a portfolio that would have required a paydown of \$255 million and \$80 million in capital spending.

Dallas-based Ashford Hospitality Trust Inc. expects to return 19 hotels to lenders in cities including Plano, Las Vegas and Atlanta, declining to pour more cash into the properties, which are part of a \$982 million mortgage pool that missed a repayment deadline in June.

Keeping the hotels would have required a paydown of about \$255 million to extend the financing and \$80 million in capital expenditures through 2025, [Ashford Trust said in a statement Friday](#). The equity in the properties is already negative, based on comparable sales and brokers' opinion of value, according to the statement.

The hotel portfolio in default includes two North Texas properties — Courtyard Plano Legacy Park and Residence Inn Plano.

"At this time, it appears that the most likely outcome will be a consensual transfer of these hotels to the respective lenders," the company said in the statement.

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[Houston and Austin](#)

Ashford Trust worked out deals to extend debt on 15 other hotels in the portfolio by providing a total of \$129 million in paydowns, according to the statement. That includes three Texas properties – Hilton Fort Worth, Marriott Suites Dallas and Lakeway Resort Austin.

With higher interest rates and falling property values, many lenders are requiring borrowers to pay down part of the debt or provide additional capital for property expenses in exchange for extending a loan that comes due.

Braemar Hotels & Resorts Inc., whose ultimate parent — Ashford Inc. — is the same as Ashford Trust, agreed to make a roughly \$121 million payment in June to extend a mortgage on four hotels, reducing the outstanding mortgage debt by 33% to about \$249 million.

Through June, hotel values were down 3% from a recent peak compared with a 16% drop for all commercial property types and a 31% plunge for offices, according to Green Street.

Most of the hotels Ashford Trust expects to return to lenders “are located in markets that have experienced significant headwinds throughout their post-pandemic recoveries, and a number of these markets are not forecasted to reach pre-pandemic topline levels until 2025 or 2026,” Ashford Trust said in the statement.

Related: [Commercial property firm with Dallas holdings scores \\$1.3 billion debt deal](#)

Hotels that will likely be returned include properties with brands such as Residence Inn, SpringHill Suites and Marriott.

The company said that after the situation is sorted with these hotels,

the next upcoming debt maturity is a Morgan Stanley loan pool that's secured by 17 hotels and matures in November.

"We currently believe that loan should be able to be extended with no paydown required," Rob Hays, Ashford Trust's president and chief executive officer, said in the statement.

Related:[Dallas-Fort Worth office vacancy rises with no sign of leasing rebound](#)

5 JUNE 2023 / BUSINESS & TECH / JAY BARMANN

Owner of SF's Largest Hotel, the Hilton Union Square, Is Walking Away, Surrendering It to Lender

Another bit of bad news for downtown San Francisco arrived Monday morning with the revelation that the investment firm that owns the Hilton San Francisco Union Square and Parc 55 hotels is walking away from its debts and giving up hope on a return of SF's convention market.

Virginia-based REIT Park Hotels & Resorts has opted to cease payments on a \$725 million loan, as the [SF Business Times reports today](#), essentially surrendering over 2,900 hotel rooms and hospitality facilities to its lender. This includes the 1,921-room Hilton San Francisco Union Square, which is San Francisco's largest hotel, occupying an entire city block, and one of the country's largest hotels outside of Las Vegas.

Park Hotels & Resorts is also giving up on the 1,024-room Parc 55, citing the continued debt burden of the two hotels on its portfolio,

and multiple factors that have made the SF market less desirable for their business.

"After much thought and consideration, we believe it is in the best interest for Park's stockholders to materially reduce our current exposure to the San Francisco market," said Park Hotels CEO Thomas J. Baltimore in a statement. "Now more than ever, we believe San Francisco's path to recovery remains clouded and elongated by major challenges, both old and new: record high office vacancy; concerns over street conditions; lower return to office than peer cities; and a weaker than expected citywide convention calendar through 2027 that will negatively impact business and leisure demand."

As the Business Times notes, this marks a shift from three months ago, when Baltimore and another hotel group CEO visited personally with Mayor London Breed and expressed some optimism about the future of the business travel market.

The two hotels, as appraised in 2016 for the current loan, were worth a combined \$1.56 billion. So it's a significant move that Park Hotels would walk away from debt that is less than half that amount — and as one analyst tells the Business Times, "it says that they are not optimistic that the business travel or convention and meetings business is going to return soon to downtown San Francisco."

Part of the economics of SF hotels, the Business Times notes, is the historic competition between leisure tourism and business travelers, especially the previously robust convention schedule, which meant lower vacancy rates throughout the year and higher-than-average room rates.

This also seems to point to the possibility that room rates will slide as well.

Hotels across the city have been changing hands with some frequency in the last decade, and the latest news does not mean that the Hilton or the Parc 55 will necessarily close.

JPMorgan Chase, which recently took over SF-based First Republic Bank, will become the new owner of the hotels and may now seek out a buyer at a fire-sale price.

Last week, SF Travel, the city's tourism outfit, [launched a new ad campaign](#) aimed at reviving the city's image in the minds of convention-planners, specifically.

Less than a decade ago, San Francisco enjoyed one of the highest hotel occupancy rates in the country, hovering around 84% in 2015. That slid in the next few years and tanked in the pandemic, but SF Travel said occupancy was back up to 62% in 2022 — which is similar to what it was around the dot-com bust two decades ago.

The agency noted that 35 events scheduled at the Moscone Center this year are set to account for 700,000 room-nights at hotels.

Previously: [SF Tourism Board Launches New Ad Campaign to Sell City as Still Quirky and Fun](#)

Photo via Trip Advisor/Hilton