S&P Global
Ratings

Research

Presale:

CLNY Trust 2019-IKPR

November 19, 2019

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Preliminary Ratings

Class	Preliminary rating	Preliminary amount ($)	LTV (%)	Market value decline (%)(i)	Debt yield (%)(ii)
A	AAA (sf)	204,725,000	31.7	80.1	32.0
X-CP	AAA (sf)	25,412,500 (iii)	N/A	N/A	N/A
X-EXT	AAA (sf)	204,725,000(iii)	N/A	N/A	N/A
B	AA- (sf)	72,865,000	43.0	73.0	23.6
C	A- (sf)	54,150,000	51.4	67.7	19.8
D	BBB- (sf)	71,535,000	62.5	60.8	16.3
E	NR	100,605,000	N/A	N/A	N/A
F	NR	101,935,000	N/A	N/A	N/A
G	NR	111,435,000	N/A	N/A	N/A
RR	NR	30,200,000	N/A	N/A	N/A
RR Interest	NR	7,550,000	N/A	N/A	N/A

Note: This presale report is based on information as of Nov. 19, 2019. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i)Reflects the approximate decline in the $1.1 billion appraised as-is value that would be necessary to experience a principal loss at the given rating level. (ii)Based on S&P Global Ratings' net cash flow and the mortgage balance. (iii)Notional balance. The class X-CP and class X-EXT certificates will not have certificate balances and will not be entitled to distributions of principal. The notional amount of the class X-CP certificates will be equal to the A-2 portion of the class A certificates, and the notional amount of the class X-EXT certificates will be equal to the certificate balance of the class A certificates. LTV--Loan-to-value ratio, based on S&P Global Ratings' values. NR--Not rated.

Profile

Expected closing date	Dec. 5, 2019.
Loan	One two-year floating-rate commercial mortgage loan maturing Nov. 7, 2021, with five, one-year extension options totaling $755.0 million. The loan is interest only for its entire term and has an interest rate equal to LIBOR + 2.32%, which increases by 0.25% in the fourth extension period. There is an interest rate cap equal to 5.53% during the initial loan term and during any extension periods, and no more than the greater of 5.53% and the rate, when added to the spread, which results in a DSC of no less than 1.10X. The aggregate debt yield must be no less than 9.0% to exercise the fourth and fifth extension options.

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Profile (cont.)

Collateral	The mortgage loan is secured by the fee and leasehold interests in 46 hotels: 36 extended-stay, eight limited-service, and two full-service hotels.
Payment structure	Amounts available for distributions to the certificateholders (including the RR class and RR interest) will be allocated between amounts available for distribution to the holders of the RR interest and to all other certificates. The portion of the amount allocable to the RR class and interest will always be the product of that amount multiplied by 5%, and all other nonretained certificates will at all times be the product of that amount multiplied by 95%. The issuer will make interest payments on the certificates to classes A, X-CP, and X-EXT, pro rata, based on the interest due, and then sequentially to the class B, then C, then D, then E, then F, and then G certificates. Principal payments will be distributed sequentially to the class A, B, C, D, E, F, and then G certificates until each class is paid in full. Realized losses are allocated in reverse sequential order first, to the class G certificates, then to the class F certificates, then to the class E certificates, then to the class D certificates, then to the class C certificates, then to the class B certificates, and then to the class A certificates, in that order.
Secondary debt	Mezzannine debt totaling $100.0 million.
Loan sellers/loan originators	Morgan Stanley Mortgage Capital Holdings LLC, Bank of America N.A., and JPMorgan Chase Bank N.A.
Borrowers	46 special-purpose entities, each organized as a Delaware limited liability company (collectively, the borrowers). The borrowers are indirectly majority-owned by Colony Capital Inc. and indirectly managed by Chatham Lodging L.P., the guarantor. The loan's sponsors are Colony Capital and Chatham Lodging Trust.
Servicer	KeyBank N.A.
Special servicer	CWCapital Asset Management LLC.
Trustee and certificate administrator	Wells Fargo Bank N.A.

Rationale

The preliminary ratings assigned to CLNY Trust 2019-IKPR's $755.0 million commercial mortgage pass-through certificates reflect S&P Global Ratings' view of the collateral's historical and projected performance, the sponsors' and managers' experience, the trustee-provided liquidity, the loan's terms, and the transaction's structure. We determined that the loan has a beginning and ending loan-to-value (LTV) ratio of 111.2%, based on S&P Global Ratings' value.

Transaction Overview

An overview of the transaction's structure, cash flows, and other considerations follows (see chart 1).

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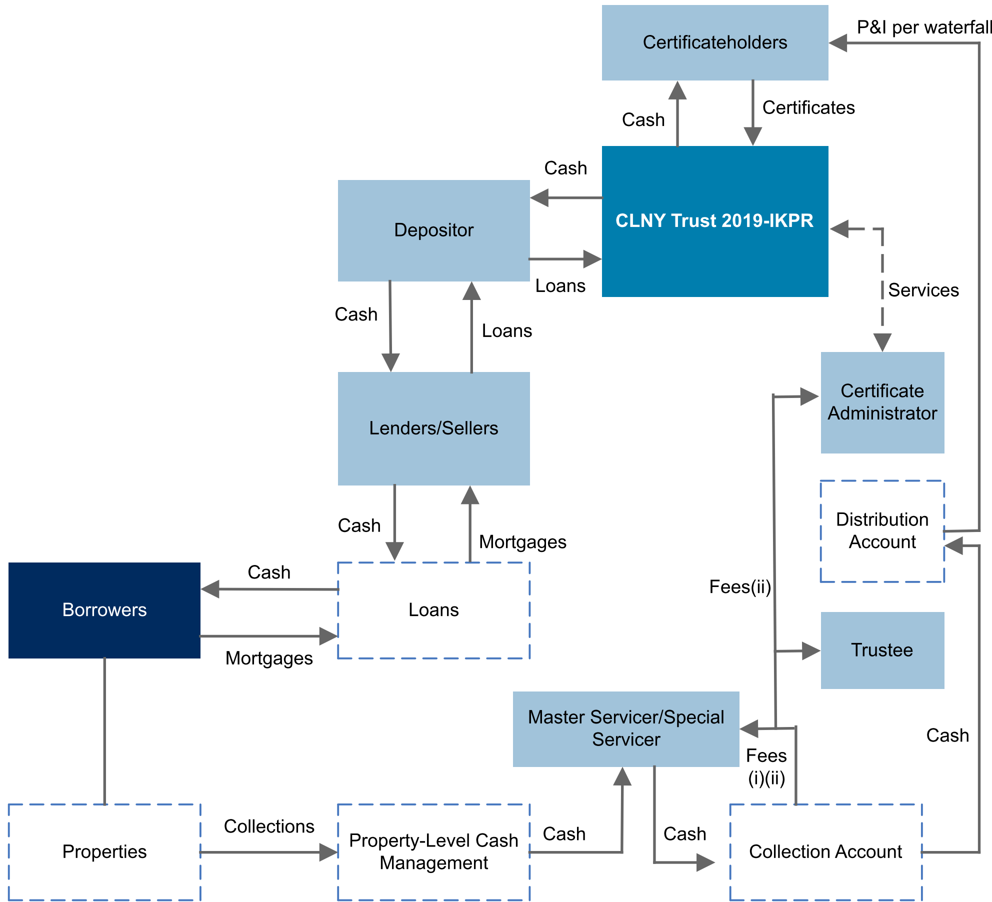
Chart 1

Transaction Structure



(i)Special servicing, liquidation, and workout fees. (ii)Includes reimbursements. P&I--Principal and interest.
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Strengths

The transaction exhibits the following strengths:

- The portfolio is geographically diverse with 46 hotels located in 16 states. After California, New Jersey, and Washington, which represent 22.1%, 14.5%, and 11.1% of the trust balance by allocated loan amount (ALA), respectively, no other state accounts for more than 10.1% of the trust balance.
- Each of the hotels benefits from its affiliation with a nationally recognized franchise. The hotels are operated under eight different brands, each of which is affiliated with either Marriott (78.3% by ALA), Hyatt (13.6%), or Hilton (8.1%). The three largest brands in the portfolio are Residence Inn (30 hotels; 60.0% by ALA), Hyatt House (five hotels; 13.6%), and Hampton Inn (four hotels; 8.1%). In addition to name recognition, the chain affiliation enables the hotels to

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benefit from national brand-wide marketing campaigns and frequent stay programs.

- With the exception of three hotels (5.7% of ALA), all of the properties in the portfolio had a revenue per available room (RevPAR) penetration rate--which measures the RevPAR of the hotel relative to its competitors, with 100% indicating parity with competitors--exceeding 100% as of the trailing 12-month (TTM) period ended June 2019 based on each hotel's Smith Travel Research (STR) report.
- The transaction benefits from the mortgage pool's granularity. The Residence Inn San Jose South (5.7%), Four Points Ft. Walton Beach (5.7%), and Belmont Hyatt House (5.3%), are the three largest assets by ALA and together make up 16.7% of the mortgage pool by ALA. The 10 largest properties comprise 43.0% by ALA.
- Of the 46 properties, 27 (66.5% by ALA) are located in markets that we consider to be primary, and 13 properties (21.1%) are in markets we consider to be secondary. The remaining six hotels (12.3%) are in tertiary markets. Primary markets have historically exhibited lower default and loss rates relative to secondary and tertiary markets. Because of their age, many of the properties have more accessible locations along major highways and thoroughfares relative to more recently constructed competitors.
- The transaction has a hard lockbox in place with respect to credit card receipts and tenant rent, and there is a cash flow sweep upon a mortgage or mezzanine event of default, borrower bankruptcy, or if the debt yield (based on the principal amount of the loan and mezzanine loans) falls below 7.25% during years 1-3, falls below 7.50% in years 4-5, and falls below 7.75% in years 6-7. In addition, there are ongoing reserves for taxes, insurance (unless a blanket policy is in place), ground rent, and furniture, fixtures, and equipment (FF&E). There is also a property improvement plan (PIP) reserve equal to $460,000 per month during each month of the extended loan term. The debt yield is 9.27% based on the total loan balance and the NCF as of the TTM ending August 2019.
- Each of the franchise agreements expires after the extended loan maturity date in November 2026. While the majority of franchise agreements expire in 2029 (31 properties; 59.9% by ALA) and 2034 (13; 35.6%), two of the franchise agreements expire sooner is 2027 (2.8%) and 2028 (1.7%).
- The borrower sponsors are Colony Capital Inc. and Chatham Lodging Trust. Chatham Lodging L.P., a Chatham affiliate, is the nonrecourse guarantor under the mortgage loan. Colony Capital is a real estate investment and investment management firm, and as of June 30, 2019, it had $43 billion in assets under management. Chatham Lodging Trust is a publicly traded REIT that invests in upscale extended-stay hotels and premium-branded limited-service hotels. Chatham Lodging has ownership interests in 133 hotels. Chatham Lodging has been part of the ownership group since purchasing the portfolio with Cerberus in 2011. In June 2014, Colony Capital (formerly NorthStar Realty Finance Corp.) contributed $208 million to acquire a majority interest in 47 assets from Cerberus Capital Management, with Chatham remaining in the joint venture with a minority interest.
- The current mortgage and mezzanine loans refinance $830.9 million of mortgage debt, and fund $26.0 million of reserves and $18.9 million of closing costs. The borrower contributed $20.8 million in equity towards the refinance.
- The transaction structure provides that the borrowers are responsible for expenses from the special servicing or work-out of the loan or enforcing its documents, such as collecting special servicing, work-out, and liquidation fees. The servicer must make administrative advances (provided the collateral has sufficient value) to cover interest shortfalls that might otherwise arise from these expenses if the borrowers do not pay them on time if these advances are

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deemed recoverable from liquidation proceeds, which we believe will help avoid or mitigate shortfalls to the certificateholders.

Risk Considerations

The risks we considered for this transaction include:

- Based on S&P Global Ratings' valuation, the trust loan balance is highly leveraged, with a 111.2% LTV ratio, which is higher than the LTV ratio for many single-borrower transactions we have rated recently. The LTV ratio based on the appraiser's valuation is 69.8%. Our estimate of long-term sustainable value is 37.3% lower than the appraiser's valuation.
- In addition to the mortgage loan, there is $100.0 million of additional mezzanine debt, which increases our LTV ratio to 126.0% from 111.2%. We accounted for the additional debt by using lower LTV recovery thresholds at each rating category.
- The trust loan balance has a strong debt service coverage (DSC) of 2.20x, calculated using the 2.32% spread plus the current 1.78% LIBOR rate and S&P Global Ratings' net cash flow (NCF) for the portfolio, which is 13.1% lower than the issuer's NCF. However, the loan's DSC based on the interest rate cap of 5.53% plus the spread and S&P Global Ratings' NCF is 1.15x. Further, the DSC including the $100.0 million of mezzanine loans is 0.96x, based on the LIBOR cap plus the spread and S&P Global Ratings' NCF, or 1.75x based on the current LIBOR plus the spread and S&P Global Ratings' NCF.
- The mortgage loan is interest only for its entire seven-year extended term, meaning there will be no scheduled amortization during the loan term. Compared with an amortizing loan, an interest-only loan bears a higher refinance risk because of the higher loan balance at maturity. We accounted for this lack of amortization by using lower LTV thresholds at each rating category.
- Unlike the U.S. lodging sector overall which has experienced RevPAR growth over the past several years, the portfolio's performance has declined over the past three years. After increasing in 2015 and 2016, RevPAR declined by 1.3% in 2017, increased 0.9% in 2018, and declined by 0.4% in the TTM period ended August 2019. NCF declined by 6.0% in 2017, 0.7% in 2018, and 1.3% in the TTM ended August 2019. The portfolio's NCF margin has also dropped to 31.1% in the TTM ended August 2019 from 34.0% in 2015.
- The average age of the hotels in the portfolio is approximately 29 years. Additionally, 18 (31.1% by ALA) of the 46 hotels are Residence Inns that have exterior corridors, a feature which is generally outdated and considered less safe by some travelers relative to interior corridor hotels. However, approximately $154.3 million was spent on capital expenditures across the portfolio between 2014 and July 2019 ($25,940 per guestroom). Furthermore, during the loan term, the sponsors are planning to spend an additional $84.1 million ($14,134 per guestroom) on renovations and alterations required under franchise-related PIPs, as well as an additional $29.6 million on other capital improvements. There is an upfront PIP reserve for $26.0 million and an ongoing reserve for $460,000 per month for the entire 84-month loan term equating to $38.6 million. We deducted $28.5 million from our value for a portion of the PIP that was not provided in an upfront reserve.
- If a franchise agreement expires or is terminated, the borrowers must enter into a replacement franchise agreement with a replacement franchisor. However, properties representing up to 10% of the loan balance can have a replacement brand that is one tier below the current brand category based on the STR rating scales, but no lower than the upper midscale category, which

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includes brands like Comfort Inn, Wyndham Garden Inn, Hampton Inn, and Holiday Inn. A downgrade of the franchise to a lower category can result in reduced occupancy, ADR, and RevPAR, and thus NCF levels relative to the performance of hotels in a higher STR chain scale category.

- We visited nine of the 46properties representing 32.9% of the ALA. The Westin Governor Morris in New Jersey was closed at the time of our visit on Nov. 4th, due to a power outage at the property that stemmed from a fire on Oct. 25th, according to the property manager. The property reopened on Nov. 12th. The hotel's guestrooms were newly renovated in early 2019 and in excellent condition, and the public spaces, including the meeting space and lobby, were also updated at that time. We also visited the two San Jose Residence Inns, Hyatt House Belmont, the two Denver Residence Inns, Residence Inn Atlanta Downtown, Courtyard Montvale, and Residence Inn Saddle River. These properties were in average condition.
- Several of the hotels are in markets where the appraiser or property managers identified new hotels that are planned or under construction that will compete directly or secondarily with the subject properties. There are recently completed hotels or hotels under construction, particularly near the Chicago, San Jose, Atlanta, and Louisville properties, which will compete fully or partially with the subject hotels upon their completion and stabilization. We reduced our RevPAR and NCF from current levels to account for the potential dip in performance that may occur upon the opening and stabilization of additional hotel properties.
- The loan permits individual properties to be released upon a release premium payment that ranges from 105%-115% of the ALA depending on the total debt being prepaid, subject to certain debt yield tests. These release premiums are below the 125% minimum that we generally look for. In addition, six properties (5.5% of ALA) are permitted to be released at par.
- Six properties (Residence Inn Downtown Denver, Residence Inn Denver South, Hampton Inn Columbia, Residence Inn Troy, Residence Inn Richmond NW, and Residence Inn Altamonte Springs) totaling 8.5% of the allocated loan balance had scores within the "red zone" on their recent franchise inspection reports and are therefore not in compliance with the brand standards. Furthermore, the Residence Inn Denver South property is in default under its related franchise agreement. We used a 9.75% or 10.0% capitalization rate on these properties to account for their condition.
- The 136-guestroom Courtyard Fort Lauderdale hotel is on a ground lease, which expires in August 2034, only eight years after the extended loan maturity date. This could substantially depress recoveries from that property because of the uncertainty around extending the ground lease. We accounted for this risk by deriving its value using a present value of the expected NCF over the remaining term of the ground lease.
- The transaction exhibits concentration in the lodging sector because the loan is secured by the fee and leasehold interests in 46 hotels. S&P Global Ratings considers lodging properties to be among the riskiest property types due to the daily nature of their pricing structure, significant operating component, and higher expense ratio, relative to other property types. Also, compared to full-service properties, limited-service and extended-stay hotels have a shorter development timeframe, are less expensive to construct, and are easier to finance, potentially resulting in fewer supply constraints.
- There is no warm body carve-out guarantor, and the carve-out guaranty is capped at only 15% of the loan amount. In our view, these limitations generally lessens the disincentive provided by a full non-recourse carve-out related to "bad boy" acts or voluntary bankruptcy.
- The transaction documents include provisions for the transaction parties to seek rating agency confirmation (RAC) that certain actions will not result in a downgrade or withdrawal of the

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then-current ratings on the securities. The definition of RAC in the transaction documents includes an option for the transaction parties to deem their RAC request satisfied if, after having delivered a RAC request, the transaction parties have not received a response to the request within a certain period of time. We believe it is possible for a situation to arise where an action subject to a RAC request would cause us to downgrade our rating on the securities according to our ratings methodology even though a RAC request is deemed to be satisfied pursuant to this option.

Overview Of The U.S. Lodging Sector

U.S. lodging sector

After five consecutive years (2003-2007) of RevPAR growth, performance for the overall U.S. hotel sector started to decline significantly in the second half of 2008 as the effects of the recession--including a rise in unemployment levels, a decline in consumer confidence, and weakened corporate profitability--took hold.

Table 1

U.S. Hotel Sector Historical Performance

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Occupancy (%)	63.1	60.3	55.1	57.5	60.1	61.4	62.2	64.4	65.5	65.4	65.9	66.2
ADR ($)	104.04	106.96	97.51	98.06	101.64	106.1	110.3	114.92	120.3	124.13	126.72	129.83
RevPAR ($)	65.61	64.49	53.71	56.43	61.06	65.17	68.58	74.04	78.68	81.15	83.57	85.96
RevPAR change (%)	N/A	-1.7	-16.7	5.1	8.2	6.7	5.2	8	6.3	3.1	3	2.9
Supply change (%)	N/A	2.7	3.2	2	0.6	0.5	0.7	0.9	1.1	1.6	1.8	2

ADR--Average daily rate. RevPAR--Revenue per available room. N/A--Not applicable. Source: Smith Travel Research.

In 2009, the industry experienced unprecedented performance declines, as RevPAR decreased by 16.7%, the largest single-year decline for the industry on record. The economic downturn most severely strained the luxury and upscale segments, due to a decrease in higher-rate corporate transient and group travel and a decline in high-end leisure travel as consumers more closely monitored their discretionary spending. However, all lodging segments experienced double-digit RevPAR declines in 2009 because hotel demand typically correlates closely with overall economic performance.

Occupancy increases stemming from strengthened demand, particularly in the corporate transient segment, have led to improved performance in the U.S. hotel sector each year since mid-2010. As occupancy levels stabilized, average daily rate (ADR) gains followed. RevPAR increased each year between 2011 and 2018 (see table 1). As of year-end 2018, U.S. RevPAR exceeded the prior peak RevPAR achieved in 2007 by 31.0%. Year-to-date through September 2019, RevPAR increased 1.0% versus the same period in 2018.

While still positive, RevPAR growth rates have slowed in recent years as occupancy reached peak levels. Furthermore, U.S. supply growth was significantly below historical averages in each year between 2011 and 2014 but has escalated to more typical levels, growing by 1.6% in 2016, 1.8% in 2017, and 2.0% in 2018. In addition, while RevPAR has increased annually for the U.S. overall, several of the top 25 lodging markets have experienced declines in recent years, including

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Chicago, Philadelphia, New York, and Washington, D.C.

Limited-service market overview

The limited-service segment of the lodging industry caters primarily to price-sensitive corporate and leisure transient demand. These properties offer a limited range of guest services, have minimal public space, and generally do not have significant food and beverage operations. Guestroom amenities are minimal, and depending on their age, some properties may feature exterior corridor configurations.

Properties in this segment maintain minimum staff levels to provide a lower price point while maintaining profitability. The limited amenities offered enable operators to limit expenses, particularly payroll expenses, due to the lower staff levels required. Gross operating profits for the economy segment typically range from 25%-30%, which is higher than the margins of full-service hotels.

Eight of the hotels in the portfolio (19.6% by ALA) are considered limited-service hotels because they lack full-service three-meal restaurants or significant meeting space. Based on their ADR, the limited-service hotels in the portfolio fall under the upscale (Courtyard and Four Points) and upper-midscale (Hampton Inn) chain scale segments, according to STR.

Upscale extended-stay market overview

In addition, 36 of the hotels in the portfolio (74.4% by ALA) are considered extended-stay hotels. The extended-stay sector is divided into three segments: upscale, mid-price, and economy. Based on the level of amenities and services provided, the ADRs and lengths of stay vary among these segments. Based on the brands of the extended-stay hotels in the portfolio, Residence Inn and Hyatt House are considered upscale, while TownePlace Suites is considered an upper midscale extended-stay property.

The extended-stay hotel sector caters to guests seeking longer-term hotel stays. These properties differ from traditional hotels in that the guestrooms are equipped with separate living and sleeping areas and have full kitchens or kitchenettes. In addition, they typically offer fewer guest services, have limited public space, and generally do not have food and beverage outlets. Guestroom amenities are also limited, and housekeeping may not be provided daily. Because guests tend to stay at these hotels for a longer timeframe, the limited guest services typically result in lower operating expenses compared with those of traditional full- and limited-service hotels.

Table 2

Innkeepers Hotel Portfolio Overview

	No. of hotels	Allocated loan amount	% of allocated loan amount
Extended stay(i)	36	561,349,000	74.4
Limited service(ii)	8	148,151,000	19.6
Full service(iii)	2	45,500,000	6.0
Total	46	755,000,000	100.0

(i)Extended-stay hotels include Hyatt House, Residence Inn, and TownePlace Suites. (ii)Limited-service hotels include Courtyard by Marriott, Four Points by Sheraton, and Hampton Inn. (iii)Full-service hotels include the Sheraton Rockville and the Westin Morristown.

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Property Characteristics

Collateral description

The mortgage loan is secured by the fee and leasehold interests in 36 extended-stay, eight limited-service, and two full-service hotels operating under eight different nationally recognized brands. The average room count is 129 guestrooms, and the average age of the properties, constructed from 1963-2006, is 29 years. Due to their age, 18 of the properties have exterior corridors.

Demand for limited-service and extended-stay hotels is primarily driven by corporate transient and leisure demand. The hotels generally have very limited meeting space and therefore generate minimal meeting and group demand. The national brand affiliations and related recognition is extremely favorable considering the sector's reliance on transient demand. With their age, many of the properties enjoy superior visibility and are near major highways and thoroughfares relative to newer competitors.

Brand distribution

The 46 hotels operate under eight different national brands, each of which is affiliated with either Marriott, Hyatt, or Hilton.

The largest three brands comprise 39 hotels representing 81.7% of the portfolio by ALA (see table 3). Thirty hotels are branded Residence Inns (60.0% by ALA), five are Hyatt House hotels (13.6%), and four are Hampton Inn properties (8.1%).

Table 3

Portfolio Brand Affiliations

Franchise	Brand family	Allocated loan amount (mil. $)	Allocated loan amount (%)
Residence Inn	Marriott	452.6	60.0
Hyatt House	Hyatt	102.7	13.6
Hampton Inn	Hilton	61.2	8.1
Courtyard	Marriott	43.9	5.8
Four Points	Marriott	43.1	5.7
Westin	Marriott	38.4	5.1
Sheraton	Marriott	7.1	0.9
TownePlace Suites	Marriott	6.0	0.8
Total	-	755.0	100.0

Geographic distribution

The portfolio is geographically diverse with 46 hotels located in 16 states (see table 4). The three states with the largest allocation by ALA are California (22.1% by ALA), New Jersey (14.5%), and Washington (11.1%). No other state accounts for more than 10.1% of the trust balance.

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Table 4

Concentrations By State

State	No. of properties	% of allocated loan amount
California	6	22.1
New Jersey	6	14.5
Washington	4	11.1
Florida	4	10.1
Texas	4	7.4
Georgia	2	5.3
Kentucky	3	4.9
Colorado	2	4.8
Maryland	3	3.9
New York	2	2.9
Michigan	2	2.8
Illinois	1	2.6
Pennsylvania	2	2.4
Connecticut	2	2.0
Virginia	2	1.8
Maine	1	1.5
Total	46	100.0

RevPAR penetration

The hotels in the portfolio compete primarily with other limited-service and extended-stay brands. Below we summarize the RevPAR penetration rates for the hotels in the portfolio (see table 5). With the exception of three hotels, each of the remaining 43 hotels in the portfolio had RevPAR penetration rates above 100% as of the TTM ending June 2019. We attribute the generally high RevPAR penetration rates to the fact that all of the hotels within the portfolio are associated with nationally recognized brands. However, in certain cases, the hotels identified as primary competitors are of a lower chain scale classification, which may increase the hotel's penetration rate due to a lower average RevPAR for the competitive set.

Table 5

RevPAR Penetration Rates(i)

RevPAR penetration	No. of properties	% of allocated loan amount
>140%	7	16.8
130%-140%	3	5.6
120%-130%	12	18.9
110%-120%	15	36.0
100%-110%	6	17.0
<100%	3	5.7

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Table 5

RevPAR Penetration Rates(i) (cont.)

RevPAR penetration	No. of properties	% of allocated loan amount
Total	46	100.0

(i)All figures as of trailing 12 months ended June 2019. RevPAR--Revenue per available room.

Capital expenditures

The hotels were constructed between 1963 and 2006, and the average age of the hotels in the portfolio is approximately 29 years. However, the sponsors and previous owners spent approximately $325.8 million total between 2007 and July 2019 in capital expenditures. About 47.4% of this total, or $154.3 million, was spent in the last five and one-half years (see table 6).

The sponsors are planning to spend an additional $84.1 million ($14,134) per guestroom during the seven-year loan term on required PIPs as well as an additional $29.6 million on other capital improvements. There is an upfront PIP reserve for $26.0 million and an ongoing reserve for $460,000 per month for the entire loan term equating to $38.6 million. We deducted $28.5 million from our value for a portion of the PIP that was not provided in an upfront reserve.

Table 6

Capital Expenditures

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD July 2019	Total
Total (mil. $)	70.3	6.5	0.8	35.7	11.3	19.2	27.6	26.9	34.2	8.7	49.6	17.6	17.4	325.8

YTD--Year to date.

The loan is also structured with an ongoing FF&E reserve equal to 4.0% of total revenue. Due to the age and condition of the individual properties, we utilized a 5.0% FF&E expense in our analysis.

Leasehold interests

The Courtyard Fort Lauderdale (1.3% of the loan by ALA) is subject to a ground lease with the city expiring on July 31, 2034. Base rent under the ground lease is based on either an appraisal method or a consumer price index method. The annual base rent may never be adjusted below $64,886; it is currently payable at $122,176. The ground lease generally affords the lender standard notice and cure rights.

Property releases

The borrowers may obtain the release of one or more of the properties subject to a release price equal to 105% of the ALA for the first 20% of the initial loan balance (not including par releases), 110% of the ALA for the next 15% of the loan balance (not including par releases), and 115% of the ALA thereafter (not including par releases). Six properties (5.5% of ALA) can be released at par: Residence Inn Harrisburg, TownePlace Suites Horsham, Hyatt House Mt. Laurel, Residence Inn Binghamton, and Residence Inn Shelton.

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These release premiums are below the 125% minimum that we generally look for. There are additional restrictions on property releases, including a requirement that releases are subject to a debt yield that is not less than the greater of (i) the lesser of the aggregate debt yield immediately before the release and 12.0%, or (ii) 9.0%. For the first $100.0 million in releases relating to third-party sales, the aggregate debt yield must exceed 8.5%, and the release amount is the lesser of 100% of net sales proceeds or net sale proceeds that would result in the release debt yield, but not less than the adjusted release amount for the property.

Management agreements

The properties are managed by Island Hospitality Management, LLC, a national hotel management company with expertise managing extended-stay, limited-service, and full-service hotels across major brands such as Marriott, Hilton, and Hyatt. Island, headquartered in Palm Beach, Fla., operates 173 hotels across the U.S.

The management agreements expire on June 9, 2024, and automatically renew for one additional term of five years unless the manager or operating lessee gives 90 days' notice that it does not elect to renew the management agreement. Under each of the management agreements, the property manager is entitled to a management fee equal to a monthly fee of 3.0% of gross revenues, an accounting fee of $1,200 per month per property, and a revenue management fee of $750 per month per property.

If the management agreement expires or is terminated, the borrowers must enter into a replacement management agreement with the current manager or another qualified manager within 60 days following expiration or termination. Any replacement manager would have to be a qualified manager, which is a reputable and experienced management organization (which may be a borrower affiliate) possessing at least 10 years' experience in managing hotels similar in size, scope, use, and value as the properties and has at least 10 years experience managing at least 5,000 hotel rooms (exclusive of the properties) and is subject to rating agency confirmation.

Franchise agreements

Each property is operated under a separate franchise agreement, which grants the franchisee the right to use the franchisor's name in the hotel's operations, as well as the right to use certain reservation and other systems for a fee.

In total, the portfolio hotels are subject to franchise agreements that expire in either 2027, 2028, 2029, or 2034, with the majority expiring in 2029 (59.9% of allocated loan balance). No franchise agreement in the portfolio expires during the fully extended loan term. The two franchise agreements with the shortest remaining terms--expiring in 2027 (Courtyard Montvale) and 2028 (Courtyard Atlantic City)--each have a 10-year extension option.

Table 7

Franchise Agreement Expiration Dates

Expiration year	No. of hotels	Allocated loan amount ($)	Allocated loan amount (%)
2027	1	21,354,000	2.8
2028	1	12,910,000	1.7
2029	31	452,066,000	59.9
2034	13	268,670,000	35.6

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Table 7

Franchise Agreement Expiration Dates (cont.)

Expiration year	No. of hotels	Allocated loan amount ($)	Allocated loan amount (%)
Total	46	755,000,000	100.0

If the franchise agreement expires or is terminated, the borrowers must enter into a replacement franchise agreement with the current franchisor or another qualified franchisor within 120 days following the franchise agreement's expiration or termination. A qualified franchisor is defined as (1) any current franchisor as long as the replacement brand is in the same or better category based on the STR chain scales; (2) a replacement franchisor with a brand that is not more than one tier below the brand being replaced and no lower than upper midscale for up to 10% of the properties by ALA, inclusive of the following clause (3); (3) a Wyndham Hotels & Resorts or Choice brand as long as the replacement brand is not more than one tier below the brand being replaced and no more than 5% of the ALA in aggregate; or (4) a reputable and experienced franchisor (which may be a borrower affiliate) possessing experience in flagging hotels similar in size, scope, use, and value as the properties and is subject to rating agency confirmation.

Third-Party Reviews

We reviewed appraisal, environmental, engineering, and seismic reviews prepared within the past 12 months for the 46 properties. In our view, none of the properties had notable issues. Phase II environmental reports were not recommended for any property and there were no recognized environmental conditions. Due to the age of the properties, the environmental reports identified materials that are suspected to contain asbestos in 24 properties, but we understand measures have been put in place to control this. Of the 10 properties located within seismic zones 3 or 4 (those in California and Washington, 34.7% of the ALA), none have a SEL greater than 15%.

The property condition reports identified approximately $1.1 million in immediate repairs needed. The borrowers are required to complete these repairs within the timeframe stated in the loan agreement for each repair item. Should they fail to complete these repairs within the specified time, it would be an event of default under the loan. There is no upfront reserve for these mandated repairs.

Structural and legal issues

We reviewed legal matters that we believed were relevant to our analysis. This review included analysis of the major transaction documents, including the offering circular, trust and servicing agreement, and other relevant documents and opinions, to understand the transaction's mechanics and its consistency with applicable criteria. We also conducted a focused legal review of the first-mortgage loan agreement, intercreditor agreement, and the cash management agreement.

Historical Cash Flow And S&P Global Ratings' Cash Flow Notes

S&P Global Ratings reviewed the historical cash flows and the issuer- and appraiser-reported cash flows to determine its view of a sustainable cash flow for the portfolio. We summarize the historical and S&P Global Ratings' NCF for the property below (see tables 8A and 8B).

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The portfolio generates the majority of its revenue from the rooms department, which generates about 93% of total revenue, coupled with a small food and beverage component at 4%-5% of total revenue. We determined room revenue for the portfolio by assessing the hotels' recent RevPAR levels, new supply in certain markets, and property condition and recent and planned renovations. We assumed a $103.56 RevPAR for the portfolio, which is about 4.3% lower than the RevPAR as of the TTM period ending August 2019.

We estimated total marketing and management fees at 13.2% of total revenue for the property, which is slightly above historical performance. We applied the contractual 3.0% management fee and utilized a 5.0% FF&E reserve in our analysis. We applied a 9.66% average capitalization rate to our NCF to derive our value for the property, which is 37.3% lower than the appraiser's value. The portfolio has historically generated a strong NCF margin between 33.6% and 31.1%.

Table 8A

Historical Cash Flow Portfolio

	2016	2017	2018	TTM August 2019	UW	S&P Global Ratings
Occupancy rate (%)	78.6	76.1	76.6	76.5	76.7	74.8
ADR ($)	139.13	141.54	141.87	141.47	141.51	138.40
RevPAR ($)(i)	109.40	107.69	108.69	108.25	108.52	103.56
Total revenue (mil. $)	256.0	251.8	254.8	254.4	255.3	242.6
Total departmental expenses (mil. $)(ii)	66.0	66.7	68.2	69.0	69.4	66.9
Departmental profit (mil. $)	190.0	185.1	186.6	185.4	186.0	175.7
Total undistributed expenses (mil. $)(iii)	81.5	81.9	83.1	82.9	83.2	81.4
Total fixed charges (mil. $)(iv)	12.3	12.3	13.0	13.1	13.1	13.2
Total capital items (mil. $)(v)	10.2	10.1	10.2	10.2	10.2	12.1
NCF (mil. $)	85.9	80.8	80.2	79.2	79.4	69.0
NCF margin (%)	33.6	32.1	31.5	31.1	31.1	28.5
NCF haircut (%)						(13.1)
Cap rate (%)(vi)						9.7
Deductions to value ($)(vi)						35,829,509
S&P Global Ratings' value ($)						678,781,545
S&P Global Ratings' value/key ($)						114,119

See table 8B for the cash flow footnotes. UW--Underwriter. ADR--Average daily rate. RevPAR--Revenue per available room. NCF--Net cash flow. Cap rate--Capitalization rate.

Table 8B

Cash Flow Notes

(i)	We determined room revenue for the portfolio by assessing historical RevPAR levels, competitive position, property condition, and new supply entering the submarket.
(ii)	We generally based departmental expenses on the percentage of departmental revenue in recent years and also evaluated the expenses on a per occupied room basis.

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Table 8B

Cash Flow Notes (cont.)

(iii)	We generally based undistributed expenses on approximately the percentage of total revenue and per available room figure during the TTM period. We utilized a 3.0% management fee. Our sales and marketing and management fees totaled to 13.2% of total revenue.
(iv)	We based real estate taxes on the approximate August TTM 2019 figure. Insurance was based on the actual policy expense.
(v)	We estimated FF&E expenses at 5.0% of total revenue.
(vi)	Deductions to value included $2.3 million for CA Prop 13, $4.9 million for the discounted cash flow valuation of Courtyard Ft. Lauderdale, and $28.5 million for unreserved PIP required during the loan term.

FF&E--Furniture, fixtures, and equipment. NCF--Net cash flow. RevPAR--Revenue per available room. PIP--Property improvement plan. TTM--Trailing 12 months.

Changes from JPMCC 2014-INN and CLNY 2017-IKPR

The collateral pool was previously securitized in 2014 in JPMCC 2014-INN and in 2017 in CLNY 2017-IKPR. Table 9 below shows a comparison of certain metrics between the transactions and CLNY Trust 2019-IKPR.

Table 9

Comparison To JPMCC 2014-INN And CLNY Trust 2017-IKPR

	JPMCC 2014-INN	CLNY 2017-IKPR	CLNY Trust 2019-IKPR
Number of properties	47	47	46
Number of rooms	6,094	6,098	5,948
Most recent RevPAR ($)	94.58	108.13	108.25
Most recent NCF (mil. $)	70.3	85.0	79.2
Appraised value (mil. $)	983.6	1,128.9	1,081.9
Trust mortgage balance (mil. $)	635.0	754.0	755.0
Mezzanine balance (mil. $)	205.0	96.0	100.0
S&P Global Ratings' occupancy (%)	74.8	76.8	74.8
S&P Global Ratings' ADR ($)	124.00	132.36	138.40
S&P Global Ratings' RevPAR ($)	92.69	101.60	103.56
S&P Global Ratings' NCF (mil. $)	65.4	74.8	69.0
S&P Global Ratings' value (mil. $)	687.9	786.9	678.8
S&P Global Ratings' value decline to appraised value (%)	112,876	129,046	114,119
S&P Global Ratings' value decline (%)	(30.1)	(30.3)	(37.3)
S&P Global Ratings' mortgage LTV (%)	92.3	95.8	111.2
S&P Global Ratings' total debt LTV (%)	122.1	108.0	126.02
S&P Global Ratings' total debt yield (%)	10.3	8.8	8.1

ADR--Average daily rate. RevPAR--Revenue per available room. NCF--Net cash flow. LTV--Loan to value.

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Property Evaluation Details

During our property evaluation, we performed the following reviews:

- Conducted a site inspection of nine of the subject properties (32.9% by ALA);
- Analyzed and valued the properties, which included reviewing property-level operating statements, the borrower's budget, and STR report;
- Reviewed management and sponsorship, which included discussions with property management;
- Reviewed the third-party appraisal, environmental, and engineering report for the properties; and
- Reviewed the legal matters that we believed were relevant to our analysis, as outlined in our criteria. We reviewed the major transaction documents' current drafts--including the loan agreement, offering circular, and trust and servicing agreement--to verify compliance with our criteria and to understand the mechanics of the underlying loans and the transaction.

Scenario Analysis

We performed several 'AAA' stress scenario analyses to determine how sensitive the certificates would be to a downgrade during the loan term.

Effect of declining RevPAR and NCF

Room revenue has historically constituted approximately 55% of the property's total revenue. Therefore, a decline in room revenue, which is measured by RevPAR, would likely create a decrease in cash flow available for debt service. A decline in RevPAR may occur because of a decline in occupancy or ADR.

To analyze the effect of a decline in RevPAR and, consequently, cash flows on our ratings, we developed scenarios where the RevPAR decreases by 4%-20% from our current RevPAR assumptions. This corresponds to an NCF decline ranging from about 9%-43%. See table 10 for the effect on S&P Global Ratings' credit ratings under the scenarios listed above, holding constant S&P Global Ratings' 9.66% average capitalization rate, and the resulting potential transition in the ratings on the certificates.

Table 10

Effect Of Declining RevPAR And NCF On S&P Global Ratings' Credit Ratings

Decline in S&P Global Ratings' RevPAR (%)	0	(4)	(8)	(12)	(16)	(20)
Corresponding decline in S&P Global Ratings' NCF (%)	0	(11)	(21)	(31)	(42)	(52)
S&P Global Ratings' LTV (%)	111.2	125.1	142.8	166.2	198.6	246.9
Potential rating migration from 'AAA'	AAA	AA+	AA-	A	BBB	BB

RevPAR--Revenue per available room. NCF--Net cash flow. LTV--Loan-to-value ratio.

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Transaction-Level Credit Enhancement

To determine a transaction's credit enhancement at each rating level, we use each loan's S&P Global Ratings' DSC and LTV to calculate the stand-alone credit enhancement (SCE) and diversified credit enhancement. However, because this transaction is secured by one loan, its SCE represents the transaction's credit enhancement at each rating level.

Our analysis of a stand-alone transaction is predominantly a recovery-based approach that assumes a loan default. We use the loan's stand-alone LTV thresholds at each rating level to determine the expected principal proceeds that can be recovered at default and are applicable to a loan with a 10-year loan term, a 30-year amortization schedule, and no additional debt (a "benchmark 10/30 loan").

We considered the mortgage loan collateral for this transaction to be interest only for its entire term and there is additional debt in the form of mezzanine debt. To account for these additional risks, we reduced the LTV thresholds by applying negative adjustment factors across all rating categories. We also applied a positive LTV adjustment to account for the geographic diversity, brand diversity, and granularity of the properties in the portfolio.

Top Three Brands

1. Residence Inn

Residence Inn is Marriott's upscale, extended-stay all-suite product with full kitchens (classified as an upscale product within the STR chain scales). As of 2018, the brand had a total of 789 hotels in North America. A typical Residence Inn property contains a breakfast/dining area (where a complimentary breakfast is served and evening social is held), a business center or lobby workstation, a market pantry, a guest laundry room, an exercise room, and a swimming pool. In 2018, Residence Inn generated a brand-wide 79.3% occupancy, $148.27 ADR, and $117.52 RevPAR.

The CLNY Trust 2019-IKPR portfolio includes 30 Residence Inn hotels, representing 60.0% by ALA. The 30 hotels within the portfolio had a RevPAR of $106.84 as of the TTM ended August 2019, which is about 9.1% below the North American brand-wide average. Of the 30 Residence Inns, 18 are "generation one" assets (31.1% of the ALA), which are of an older vintage with a design typified by exterior corridors. The historical performance of the Residence Inns hotels in the portfolio are reflected in table 11.

Table 11

Residence Inn Hotels Historical Performance

	2016	2017	2018	TTM Aug. 2019	S&P Global Ratings
Occupancy (%)	80.2	77.7	78.0	78.0	76.0
ADR ($)	135.29	137.17	137.20	137.04	134.50
RevPAR ($)	108.53	106.57	107.03	106.84	102.22
RevPAR change (%)	N/A	(1.8)	1.1	(0.2)	(4.8)
NCF (mil. $)	54.3	50.9	50.6	49.8	43.7
Change (%)	N/A	(6.2)	(0.7)	(1.5)	(12.4)

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Table 11

Residence Inn Hotels Historical Performance (cont.)

	2016	2017	2018	TTM Aug. 2019	S&P Global Ratings
NCF margin (%)	37.2	35.6	34.9	34.4	31.7

ADR--Average daily rate. RevPAR--Revenue per available room. NCF--Net cash flow. TTM--Trailing 12 months. N/A--Not applicable.

2. Hyatt House

Hyatt House is classified as an upscale product within the STR chain scale. In 2007 and 2008, most properties under the AmeriSuites flag were renovated and rebranded as Hyatt House hotels; however, several Hyatt House hotels were newly constructed as well. As of December 2018, Hyatt House had 71 hotels in the U.S. providing guests with a variety of amenities and services including a complimentary continental breakfast, H Bar, and a kitchen/café that offers food and beverage items for purchase. Most properties include a pool, exercise room, and a limited amount of meeting space. Guestrooms typically feature full kitchens. In 2018, Hyatt House generated a brand-wide 80.6% occupancy, $155.45 ADR, and $125.33 RevPAR.

The CLNY Trust 2019-IKPR portfolio includes five Hyatt House hotels representing 13.6% by ALA. The five hotels within the portfolio had a RevPAR of $124.32 as of the TTM ended August 2019, which is in line with the brand-wide average. The hotels were built between 1984 and 1996, and have an average age of 28 years. A summary of the Hyatt House hotels historical performance is provided in table 12.

Table 12

Hyatt House Hotels Historical Performance

	2016	2017	2018	TTM Aug. 2019	S&P Global Ratings
Occupancy (%)	84.7	82.6	83.0	83.1	80.5
ADR ($)	151.33	151.14	149.62	149.63	150.25
RevPAR ($)	128.12	124.86	124.16	124.32	120.95
RevPAR change (%)	N/A	(1.8)	1.1	0.1	(4.6)
NCF (mil. $)	12.3	11.3	10.4	10.7	9.2
Change (%)	N/A	(8.4)	(8.3)	2.9	(13.7)
NCF margin (%)	38.8	36.2	33.3	34.1	31.1

ADR--Average daily rate. RevPAR--Revenue per available room. NCF--Net cash flow. TTM--Trailing 12 months. N/A--Not applicable.

3. Hampton Inn

Hampton Inn is a limited-service brand trademarked by Hilton Worldwide. It is classified as an upper-midscale product per the STR chain scale. As of year-end 2018, the brand had a network of about 2,186 hotels in the U.S. Accommodations and amenities throughout the chain are generally consistent including a front desk, vending area, breakfast/dining area, guest laundry room, and, in many cases, a fitness room and a swimming pool. Complimentary hot breakfast and free WiFi are provided. In 2018, Hampton Inn generated a brandwide 74.2% occupancy, $123.53 ADR, and

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$91.63 RevPAR.

The CLNY Trust 2019-IKPR portfolio includes four Hampton Inn hotels representing 8.1% by ALA. The four hotels within the portfolio had a RevPAR of $105.03 as of the TTM ended August 2019, which is 14.6% above the U.S. brand-wide average. The hotels were built between 1984 and 1996, and have an average age of 29 years. A summary of the Hampton Inns historical performance is provided in table 13.

Table 13

Hampton Inn Hotels Historical Performance

	2016	2017	2018	TTM Aug. 2019	S&P Global Ratings
Occupancy (%)	78.5	76.3	77.2	77.0	76.3
ADR ($)	133.45	133.11	134.45	136.37	133.0
RevPAR ($)	104.73	101.62	103.73	105.03	101.41
RevPAR change (%)	N/A	(1.8)	1.1	1.3	(3.3)
NCF (mil. $)	6.7	6.1	6.0	6.4	5.6
Change (%)	N/A	(8.9)	(2.2)	7.6	(12.5)
NCF margin (%)	35.2	33.1	31.7	33.2	30.6

ADR--Average daily rate. RevPAR--Revenue per available room. NCF--Net cash flow. TTM--Trailing 12 months. N/A--Not applicable.

Related Criteria

- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- General Criteria: U.S. Government Support In Structured Finance And Public Finance Ratings, Dec. 7, 2014
- Criteria | Structured Finance | CMBS: Insurance Criteria For U.S. And Canadian CMBS Transactions, June 13, 2013
- General Criteria: Methodology And Assumptions: Assigning Ratings To Bonds In The U.S. Based On Escrowed Collateral, Nov. 30, 2012
- Criteria | Structured Finance | CMBS: CMBS Global Property Evaluation Methodology, Sept. 5, 2012
- Criteria | Structured Finance | CMBS: Rating Methodology And Assumptions For U.S. And Canadian CMBS, Sept. 5, 2012
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Criteria | Structured Finance | CMBS: Assessing Borrower-Level Special-Purpose Entities In U.S. CMBS Pools: Methodology And Assumptions, Nov. 16, 2010
- Criteria | Structured Finance | General: Global Methodology For Rating Interest-Only Securities, April 15, 2010

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- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Global Structured Finance Outlook 2019: Securitization Continues To Be Energized With Potential $1 Trillion In Volume Expected Again, Jan. 7, 2019
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- U.S. And Canadian CMBS Diversity Adjustment Factor Matrices, Sept. 5, 2012
- Application Of CMBS Global Property Evaluation Methodology in U.S. And Canadian Transactions, Sept. 5, 2012

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Counterparty Risk Framework: Methodology And Assumptions," March 8, 2019; "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.

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