DRIFTWOOD CAPITAL

THOUGHT LEADERSHIP

The New Shape of Risk

Private Credit, Real Estate, and the Case for Hotel Credit

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Until recently, private credit was the asset class everyone wanted to own. Today it is being talked about like the scene of an accident.

Blue Owl’s publicly traded shares were down approximately 40% year-to-date as of April 2026. Certain semi-liquid private credit vehicles such as BCRED, HPS Corporate Lending Fund, Morgan Stanley’s vehicle, Cliffwater, and most recently in June 2026, Apollo Debt Solutions, have all gated, restricted, or repurchased redemptions. Fortune characterized the decline in public alternative-manager market capitalization as a “$265 billion selloff.”

We have been getting the same question from LPs, advisors, and family offices: is private credit broken?

We do not think that is the right question.

In our view, what is under pressure is not private credit in some universal sense. It is a particular kind of private credit: corporate direct lending, often to private-equity-owned businesses, frequently underwritten to forward EBITDA, enterprise value, recurring revenue, IP, and the assumption that the borrower’s industry will still look more or less recognizable when the loan matures.

We do not believe that last assumption is as safe as it used to be.

Higher rates are one part of the story. Slower exits are another. But a new factor is AI. Loans secured by enterprise value in software and other disruption-exposed sectors now carry a risk that credit investors did not really have to underwrite five years ago: the possibility that the borrower’s business model is not merely cyclically but structurally impaired.

That is a very different risk from lending against a deeded, income-producing real estate asset with multiple alternative uses.

Yet most allocation committees treat these as the same product. Real estate credit sits inside the “private credit” bucket alongside corporate direct lending, or inside the “real estate” bucket alongside core equity. Both placements can obscure the distinct risk-return characteristics of real estate credit and that miscategorization should be highlighted.

The miscategorization is understandable in historical context. A decade ago, private real estate credit barely registered as a standalone strategy. Real estate debt fundraising was a small fraction of its current scale, and the corporate direct lending market was already an order of magnitude larger. When the strategy was that small, placing it inside the “private credit” or “real estate” allocation bucket was a reasonable simplification. That is no longer the case. Non-bank lenders now account for a materially larger share of U.S. commercial real estate origination than they did a decade ago, and private real estate credit is often understood to be following the same growth trajectory that private corporate credit followed in the 2010s, driven by the same structural forces — bank retrenchment, regulatory change, and borrower demand for flexible capital — but earlier in its evolution. The allocation shortcut that made sense when the market was a fraction of its current size is now producing a material misallocation of institutional capital.

A Miscategorized Asset Class

Brookfield, using a decade of return data through 2023, measured the correlation between real estate credit and the asset classes it is typically grouped with. The results should give allocation committees pause:

CORRELATION OF REAL ESTATE CREDIT TO

ASSET CLASS	COEFFICIENT	READ-THROUGH
Direct Lending (corporate private credit)	+0.18	Effectively uncorrelated
Core Real Estate Equity	+0.18	Effectively uncorrelated
CMBS	+0.09	Effectively uncorrelated
High Yield	+0.09	Effectively uncorrelated
Investment Grade Bonds	+0.06	Effectively uncorrelated
Treasuries	−0.06	Effectively uncorrelated

Source: Brookfield (March 2025), drawing on Gilberto-Levy 2 High Yield Real Estate Debt Index, Cliffwater Direct Lending Index, Bloomberg / ICE BofA / Credit Suisse / NCREIF index data. 10-year period through CY 2023. "Effectively uncorrelated" refers to coefficients between roughly −0.25 and +0.25. Ten-year correlation coefficients move slowly.

Disclaimer: While the 10-year correlation read provides historical context, its reliance on a relatively small dataset and index proxies introduces structural basis risk, and readers should note that these relationships remain highly regime-dependent and may break down during periods of market stress.

Both +0.18 readings reinforce the same message. Whatever is happening in the corporate-credit sleeve — software write-downs, NAV repricing, redemption gates — has historically had almost no read-through to real estate credit performance, and the credit position is not a levered version of the equity below it. Over the measured 10-year period, the cited indices would demonstrate that real estate credit is effectively uncorrelated to every major asset class in the table. That is not the profile of a strategy that belongs inside someone else's bucket. It is the profile of its own allocation line.

The practical consequence of miscategorization is mispricing. When an allocation committee treats real estate credit as a subset of "private credit," it imports risk assumptions from corporate direct lending — assumptions about enterprise-value fragility, NAV uncertainty, and redemption risk — that do not apply to deeded, income-producing real property. When it treats real estate credit as a subset of "real estate," it conflates the credit position with the equity position below it and misses the structural protections that make the two behave differently. Either way, we believe the data shows that the strategy gets underweighted relative to what the risk-return data would justify if it were evaluated on its own terms.

Two Different Products Under One Label

“Private credit” has become too broad a label to be useful. A loan against a software company’s enterprise value and a loan against a hotel are both private credit in the same way that a canoe and a container ship are both boats. The category is technically accurate and analytically misleading.

Corporate direct lending is generally secured by enterprise value plus contractual cash flow. Repayment depends on the borrower remaining a going concern and on the relevant industry remaining financeable at exit. When the collateral is equity, IP, receivables, and forward EBITDA, the recovery value can change very quickly if the business model loses credibility. AI is not just another cyclical headwind for many software and services companies. It changes the terminal value question.

Real estate credit starts somewhere else. Lending against a deeded, recorded, physically locatable asset is different. Cash flow comes from leases, rooms, parking, food and beverage, and other use of the property. If the borrower defaults, the lender has a path to the asset. The recovery anchor is the building and the income it can produce.

This is not theoretical. Over the last decade, U.S. bank charge-off rates on commercial real estate loans have averaged 0.26%, compared with 1.30% on commercial and industrial loans — roughly a fivefold difference.[1]

Valuation is different as well. Real estate credit is generally anchored to third-party appraisals and broker opinions — tools that, while inherently relying on subjective estimates, market lagged data, and non-liquidation metrics, still provide a foundation based on multiple valuation methods, comparable properties, and in-place cash flow metrics (debt yield and DSCR) instead of forward EBITDA multiples and manager-marked NAVs.

The workout playbook also differs. Real estate follows a well-worn path — forbearance, modification, deed-in-lieu, foreclosure, REO — built on legal infrastructure developed over generations. Corporate direct-loan workouts are less predictable, often turning on covenant resets and restructurings for a company whose value can evaporate if it stops being a going concern.

Buildings have been priced through the steam engine, electrification, the automobile, the personal computer, and the internet. Cap rates move. Demand shifts. Markets overbuild and recover. But deeds do not vanish.

FIGURE 1 · DIRECT CORPORATE CREDIT VS. REAL ESTATE CREDIT

	DIRECT CORPORATE CREDIT	REAL ESTATE CREDIT
Collateral	Borrower's equity, IP, receivables (UCC interest)	Deeded real property, recorded mortgage
Valuation anchor	Forward EBITDA multiples; manager-marked NAVs	MAI-credentialed third-party appraisals; in-place cash flow
Repayment driver	Borrower's industry remaining viable through maturity	Continued operation of the underlying physical asset
Cycle exposure	Industry-obsolescence risk (currently AI-driven)	Cap-rate movement; supply-demand fundamentals
Workout path	Covenant resets, PIK toggles, out-of-court restructurings	Forbearance, modification, deed-in-lieu, foreclosure, REO
Recovery anchor	Going-concern value, which can evaporate	The building, which persists
10-yr avg charge-off	**1.30% (C&I loans)**	**0.26% (CRE loans)**

Sources: Brookfield (March 2025); Federal Reserve FRED series CORBLACBS and CORCREXFACBS. 10-year average charge-off rate is for U.S. bank-held loans and reflects general industry experience, not any specific lender or transaction.

Disclaimer: Real estate value can decline materially due to cap rates, demand, casualty, liquidity, borrower behavior, senior debt, and legal delay.

Hotels: HALO and Beyond

Within real estate, not every property type belongs in the same bucket. Office has been the cautionary tale of the decade — hybrid work, shrinking footprints, and uncertain tenant demand have made old underwriting assumptions hard to defend. Retail has bifurcated: necessity-anchored formats hold up; enclosed malls do not. Industrial has been the cycle's darling, but automation and reshoring are changing what the facilities investors spent a decade buying are actually worth.

This is where the HALO framework is useful: Heavy Assets, Low Obsolescence — a frame Goldman Sachs Research advanced earlier this year to describe the parts of the economy AI is least likely to disintermediate. AI is going to keep grinding through the parts of the economy where the product is organized thinking delivered over a wire. What it cannot grind through is steel, concrete, land, and physical experience. The assets on the right side of that line are the ones people actually have to go somewhere to use.

We believe hotels are the cleanest expression of that thesis that we know.

The asset is physical. The use case is physical. The value proposition is physical. A guest needs a bed, a location, a meeting room, a restaurant, and service. No large language model can replicate the need to sleep in a real room the night before a destination wedding. No AI workflow replaces a board meeting, a sales conference, an industry trade show, or a family vacation. The point of the product is presence.

That does not mean hotel demand never cycles. It does. But the obsolescence risk is different. A weak quarter of RevPAR is not the same thing as an industry losing its terminal value. Hotels can be mismanaged, overleveraged, overbuilt, or undercapitalized. They can also be renovated, repositioned, recapitalized, rebranded, and operated better. Hotels, of course, use software in their operations and many will adopt AI tools internally; the HALO point is about the demand for the product, not the technology stack behind it. That is a very different recovery proposition from owning paper in a company whose product may no longer have a defensible moat — or even a mortgage on a property whose core use case may no longer be in demand.[2]

The Durability of Travel Demand

The conventional underwriting view treats travel as an early-cycle discretionary cut, but we believe five years of post-pandemic data have refuted that view.

COVID was the largest stress test the modern travel industry has ever faced. Demand did not shrink permanently. It rebuilt within 24 months and then expanded past pre-pandemic levels. Travel demand has proven among the most durable categories of consumer spending across this period.

Industry consumer-spending data covering the post-pandemic period shows U.S. consumer spending on experiences materially outpaced spending on physical goods, even across a stretch that includes the deepest travel-demand shock in modern history. The experience economy is widely projected to reach roughly $12 trillion by 2028, and the U.S. Travel Association has projected total U.S. travel spending of approximately $1.49 trillion by 2029.

Survey data through 2025 reinforces the durability point. Deloitte's 2025 Summer Travel Survey found 53% of Americans planning leisure vacations — the highest summer incidence since the pandemic — even as financial sentiment weakened. PwC's 2025 Holiday Outlook captured the consumer-tightening dynamic in the same year: with overall spending down 5% versus 2024 and sharp pullbacks in gift spending (down 11%), dining (52% cutting), apparel (36%), and big-ticket items (32%), travel and entertainment held flat at +1%. American households cut goods, dining, and clothing materially before they cut travel; the behavioral adjustment shows up in trip composition — shorter trips, driving rather than flying, more weekend getaways — not in trip incidence.[3]

Aggregate corporate travel volume has not returned to 2019 patterns and likely will not. What has emerged is a different mix: fewer routine events, more high-stakes ones. The bookings happening today are the ones that survived a five-year audit of whether the trip was worth the cost. IATA data shows international premium-class travel grew 11.8% year-over-year in 2024. Delta has projected that premium-cabin revenue will overtake main-cabin revenue by 2026. Business travel does not appear to be declining but instead consolidating into higher-margin segments.

New Supply Remains Constrained

Average annual hotel supply growth across the top 50 U.S. markets has declined from 2.0–2.5% pre-pandemic to roughly 1.0–1.3% today, projected to remain at or below 1% through the late 2020s. The Turner Building Cost Index is up roughly 27% from 2020 through Q3 2025. Replacement-cost economics no longer support new construction at current cap rates in most markets.

Brand-mandated property improvement plans (PIPs) deferred during 2021–2022 are scheduled for completion between 2026 and 2028, meaning existing owners face $10–40 million renovation bills against floating-rate debt that has reset 300 basis points higher. A meaningful share of existing inventory will not be brought current with brand standards on this cycle. Functional, brand-current, well-located inventory is contracting through obsolescence at the same time traveling households are growing structurally.

First In, First Out: What the Loss Data Shows

Hotels are routinely treated as the volatility tail of CRE credit. Default rates support that view: hotels were first into distress in both 2009 and 2020. But default rate is not loss severity, and the conventional view stops at the wrong number.

Trepp reviewed more than $133 billion in CMBS loans that matured between January 2020 and April 2025. Despite RevPAR collapsing 47.5% in 2020 — the worst single-year decline ever recorded — 76% of lodging loans were repaid on time at maturity. Office saw only 60%; mixed-use was the worst performer at 54%. Loss severity tells a similar story: Moody's 2022 annual CMBS loss study ranked office with the highest annual loss severity at 73.9%, with hotel loss-severity performance better.[4]

FIGURE 2 · CMBS MATURITY PERFORMANCE, JAN 2020–APR 2025

PROPERTY TYPE	MATURING VOLUME	ON-TIME PAYOFF RATE
Multifamily, industrial, self-storage	Variable	**70–95%**
Lodging	Variable	**76%**
Retail	$47.4 billion	**65%**
Office	$36.7 billion	**60%**
Mixed-use	Variable	**54%**

Source: Trepp, August 2025. Lodging outperformed every commercial property type except multifamily, industrial, and self-storage — despite being the sector most distressed in early 2020.

Current data tells the same story. Office CMBS delinquency has hit a record 11.7%, surpassing its GFC peak. Multifamily reached 7.7%. Lodging sits at 6.5%, below both office and multifamily as of April 2026, according to Trepp.

The recovery dynamic is structural. A hotel resets its revenue stream every night. ADR can be repriced daily. New segments can be cultivated within a quarter. Compare that to office, where a 10-year lease at a 2019 rent locks in a cash-flow profile that cannot adjust until the lease expires. The same property characteristic that produces faster default also produces faster recovery.

The Coming Margin Tailwind

In our estimation, hotels carry an additional, sector-specific tailwind that does not exist in any other commercial real estate category. Labor runs 30–35% of total revenue at most properties, climbing to 45–55% of total operating costs at full-service hotels. CBRE's 2024 data showed salaries, wages, and benefits rising 4.8% year-over-year against revenue growth of 2.3%. Total hours worked are down 7.4% from 2019 while compensation is up 22.1%.

Guest-facing service is part of the experiential product and is not going anywhere — in an experience-economy world, that human touch is the moat. Coordination labor — revenue management, procurement, scheduling, RFP response, brand-mandated reporting — is the back-of-house cost AI is now beginning to compress. The directional case is straightforward: more labor in the cost stack means more cost to compress, and hotels carry the largest labor stack in commercial real estate. Some of that savings will be captured by brands through royalty and program fees and some will be competed away through ADR over time, but we expect the largest share to accrue to in-place NOI — which is what credit is underwritten against — particularly in independent and lifestyle assets where brand-fee leakage is smaller and in operationally complex full-service formats where the labor stack is largest. The point is not that hotels are the only sector that will benefit from AI-enabled efficiency. It is that hotels' labor density positions them for a more meaningful inflection than office, industrial, or multifamily, where existing cost structures are leaner or more constrained.

The Macro Setup

The structural case is only part of the story. The cyclical setup reinforces it.

POSITIVE DRIVER	DETAIL
Bank retreat	U.S. commercial banks fell from 8,198 in 2000 to 4,135 in 2022 (FDIC). Alt-lender CRE originations rose 34% YoY against bank originations down 24% (Newmark, Oct. 2024).
Maturity wall	$4.5T of CRE debt matures from 2025–2028 (S&P Global). Hotel-specific maturities total $194B between 2026–2029, much of it 2021–2022 vintage paper originated near 0% SOFR (JLL).
Supply discipline	Top-50 U.S. lodging market supply growth has fallen from 2.0–2.5% pre-pandemic to roughly 1.0–1.3% today, with most forecasts at or below 1% through the late 2020s. Turner Building Cost Index up roughly 27% from 2020 through Q3 2025.
Renovation cycle	Brand-mandated PIPs deferred during 2021–2022 are largely scheduled for completion 2026–2028, adding capex pressure at the same time many loans need to refinance.

Sources: FDIC; Newmark Research; S&P Global; JLL Hotels & Hospitality Research, May 2025; Green Street Lodging & Gaming Sector Update, August 2025; Turner Construction Company; LARC Market Intelligence Report, November 2025.

These trends reinforce one another. Limited new supply protects the credit performance of existing collateral. The maturity wall creates a multi-year pipeline of refinancing needs — much of it paper now repricing roughly 300 basis points higher into a banking market that has not come back at scale.

Many borrowers will not need rescue capital because the asset is broken. They will need structured capital because the capital markets changed underneath them. A hotel with sound demand, constrained competitive supply, and a credible renovation plan may still face a financing problem if its 2021 or 2022 capital stack no longer works. For a lender that understands hotels, that is an attractive problem to solve.

What the Strategy Requires

Brookfield's observation is well taken: access to the asset class is not enough. Private real estate credit is not a passive spread trade. Manager selection matters, and it matters more when the market is stressed.

The necessary competencies are not mysterious. A manager needs repeat sourcing, capital-stack discipline, and the judgment to tell the difference between a mezzanine position that is properly protected and one that is just levered equity by another name. It needs to underwrite basis, capex, operations, sponsorship, and exit liquidity. Most important, it needs a credible recovery plan before the loan is made.

That is where hospitality separates itself from many other property types. A hotel is not just an address and a rent roll. It is an operating business inside a building. A hotel without an operator is not an asset in the conventional sense. It is a problem.

We believe a credit fund that owns hotel paper but cannot operate hotels is outsourcing the most important part of the downside case. At the exact moment the asset requires tighter control, better revenue management, labor discipline, brand negotiation, and capex execution, that manager is dependent on a third party.

The strongest hospitality credit managers are not coupon collectors. They can read a PIP. They can evaluate a GM. They can determine whether F&B is an amenity, a drag, or an opportunity. They can challenge a renovation budget with real cost data, not third-party estimates. They can negotiate directly with brands on PIP timing, transitions, and key money. And if the borrower fails, they can run the building.

That operating capability does not eliminate risk. But it may change the lender's options. The more control a manager has over the asset-level outcome, the less dependent it is on paper protections alone.

Hospitality also carries a structural credit protection that does not exist in office or industrial lending: the major flag families are active participants in preserving asset value during workouts. Marriott, Hilton, Hyatt, and IHG earn ongoing royalty, program, and incentive fees on every flagged hotel in their systems, and those fee streams depend on the property remaining open, current with brand standards, and operating credibly under the flag. When a borrower defaults, the brand has both economic incentive and institutional capability to support a constructive resolution — deferring PIP timing, working with the lender on transition logistics, occasionally providing key money to facilitate a recapitalization. None of that exists for an office tower or an industrial box, where the tenant base has no equivalent stake in the building's ongoing operation. A lender who can engage the brand directly during stress — negotiating PIP scope, transition timing, and key money outcomes from a position of relationship rather than letterhead — may have additional recovery tools that are less common in certain other CRE sectors.[5]

The Driftwood Platform

Driftwood has been in the hotel business for more than 30 years — as operators, owners, developers, and, since 2020, as a credit provider. The platform currently owns and/or manages approximately 85 hotels, representing roughly 16,400 keys (as of February 12, 2026) and approximately $3.5 billion of hospitality assets under management (across equity, credit, and property management). The firm grew its assets to institutional scale between 2012 and 2014, backed by partners including Apollo, H.I.G., and Silverpeak, and transitioned to a discretionary GP platform in 2015.[6]

The credit platform was not built as a new strategy. It was built as an extension of an operating company that already had the infrastructure the strategy required: in-house construction and development teams that can stress-test PIP scopes against real cost data from their own pipeline; direct relationships with Marriott, Hilton, Hyatt, IHG, and other major brands, which means the ability to influence PIP timing, brand transitions, and key money outcomes during stress; and a portfolio footprint that provides real-time operating data, comp-set visibility, and insight into how sponsors behave under pressure.

Origination, underwriting, structuring, and asset management sit under the same investment committee. The team that underwrites a deal on day one is the same team that would step in during stress. Post-close, every loan is monitored the way an equity position would be — not as passive paper. When a loan moves from coupon to workout, stepping into the asset is not a contingency plan. The GMs, the regional teams, the F&B leadership, and the back-office systems are already deployed.

Operating capability is only one side of the moat. The other is the discipline that prevents that capability from being deployed too aggressively. Every credit investment moves through five gates of review before funding: an initial financial, capital, and structural analysis benchmarked against the firm's proprietary 85-property operating data pool; a cross-functional review in which the equity, credit, development, and operations teams independently price valuation and basis, structure and pricing, capex cost and timing, and operational performance and projections; an initial investment-committee approval; confirmatory legal, environmental, engineering, and onsite due diligence; and a final investment-committee approval and funding decision. Across an underwriting pipeline that has assessed approximately $35.7 billion of hospitality credit opportunities since 2020, the platform has pursued only 11% and transacted on 63% of what it pursued. The discipline is visible in what the firm declines to underwrite, not only in what it closes.

$35.7B	$3.8B	$2.4B	$391M
HOSPITALITY CREDIT ASSESSED SINCE 2020	PURSUED (11% OF ASSESSED)	TRANSACTED (63% OF PURSUED)	MEZZANINE / PREF. EQUITY DEPLOYED

Since launching the credit platform in 2020, Driftwood has assessed approximately $35.7 billion of hospitality credit opportunities, pursued $3.8 billion (11% of assessed), and transacted on $2.4 billion (63% of pursued). Of the $2.4B total transaction capitalization, Driftwood deployed $391M in mezzanine/preferred equity. Information presented reflects activity from August 2020 through March 2026. Total transactions assessed and pursued are as of October 7, 2025.

Two case studies, provided solely for illustrative purposes, illustrate what that looks like in practice.

Disclaimer: Not representative of all investments; other investments may perform differently. These two investments illustrate the platform's workout approach, were not selected on the basis of performance, and may not be representative. A complete list of credit investments, including unfavorable outcomes, is available on request. It should not be assumed future investments will be profitable or equal these results.

CASE STUDY 01 · STEPPING IN

In late 2021, Driftwood originated a floating-rate mezzanine loan against an independent multi-asset resort property in a destination leisure market. In early 2025, the sponsor failed to repay and the loan went into maturity default. A generic mezzanine lender at that point has limited options: hire a special servicer, hope the senior negotiates, accept a discounted payoff.

Driftwood's in-house operating company, Driftwood Hospitality Management, deployed an operating team within days, working alongside the credit platform's workout architecture to protect operations through the seasonal period while a UCC foreclosure was prepared in parallel. The sponsor, recognizing that the lender could credibly own and operate the asset, sold the property and repaid the loan in full. The outcome was zero principal loss — achieved through the lender's operational capability rather than reliance on paper protections alone.

CASE STUDY 02 · STEPPING BACK

A second case illustrates a different kind of discipline. During COVID, business travel in a particular submarket lagged the broader recovery. Interest reserves on a Driftwood loan were depleting, and the sponsor requested an interest accrual. We suspect many lenders would have agreed, hoping for recovery. Driftwood declined. The sponsor brought in preferred equity to take Driftwood out at par. Driftwood later re-entered the same deal at a lower basis through the senior loan — same asset, better basis, same sponsor, who returned specifically because of how the first transaction was handled.

The two cases show opposite sides of the same capability. In one, Driftwood stepped in and forced a resolution. In the other, Driftwood stepped back and re-entered on better terms. Both outcomes required the same thing: a platform that treats every credit position as if ownership is a real possibility, and that has the operating infrastructure to act on that premise.

Conclusion

The stress in corporate direct lending is a real and specific warning: business-model risk can reprice faster than private marks can reflect it. The appropriate response is not to retreat from private credit. It is to be more precise about which private credit one owns. And one should evaluate real estate credit as what the data says it is: a distinct return stream that we believe does not belong inside someone else's allocation bucket.

Within real estate credit, hotel credit offers a risk-adjusted return profile that, in our view, the institutional consensus has not yet fully internalized. Travel demand has proven durable across the deepest stress test the industry has ever experienced. Supply growth has compressed and will not catch up quickly. Loss severity has been substantially better than the consensus view — better than office, comparable to multifamily. We expect AI to compress hotel operating costs in a way no other CRE sector can match at the same labor density. And a $194 billion maturity wall is creating a multi-year pipeline of refinancing needs into a banking market that has not returned at scale.

But the structural case for hotel credit is only as strong as the platform behind the loans. The question is not whether hotel credit is attractive in the abstract. The question is whether the manager can underwrite basis, capex, and operations; structure across the capital stack; negotiate with brands; monitor assets the way an owner would; and step into the building if the borrower fails. It represents the investment methodologies that Driftwood has applied for more than 30 years.[7]

We believe the premium in hotel credit exists because perceived risk is still anchored on a 2009 mental model that the data has since refuted. What looks opaque to a generalist lender is, for a specialized operator-lender, a risk that may be underwritten and managed — something to absorb, not combat. That distinction is structural, not cyclical. The premium does not normalize as banks return or spreads tighten, because the gap it compensates for is not a market dislocation. It is the difference between lenders who can underwrite, monitor, and if necessary operate a hotel, and lenders who cannot. For institutional investors seeking a private credit allocation with the potential for recurring income and risk-adjusted returns, rather than a timing trade, the implication is straightforward: the opportunity persists precisely because the capabilities required to capture it, an integrated operating platform, deep relationships across the major flag families, and a credit team that can credibly run an asset if the borrower fails, remain scarce.

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ENDNOTES

1 Bank charge-off data is used as general industry context and is not representative of private fund, mezzanine, preferred equity, or Driftwood results.

2 Hospitality workouts can also be complex due to senior-lender control, franchise agreements, operating licenses, labor, seasonality, capex, and brand standards.

3 Deloitte. Right-sized American summer: 2025 Deloitte summer travel survey. May 30, 2025. Deloitte Consumer Industry Center. The report relies on a survey fielded to a representative sample of Americans between March 26 and April 1, 2025, and again between April 7 and April 9. The first fielding reached 1,794 travelers, and the second reached 1,064 travelers. These are survey-based expectations, not actual spending results.

4 Moody's, 2022 Loss Severities Report, as reported by MBA Newslink (Apr. 3, 2023).

5 Brand cooperation is not guaranteed and depends on franchise agreements, brand discretion, property condition, ownership, capital plan, and market factors.

6 Partners referenced represent the largest institutional backers by capital during the 2012–2014 period. Inclusion should not be construed as an endorsement of the adviser by these entities, nor an indication that future partnerships will be similar or successful. Additionally, references to prior partners are for historical context only and do not constitute an endorsement or current affiliation.

7 Past performance and prior realized outcomes are not indicative of future results. All investments involve risk, including the possible loss of principal.

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Reach out to learn more about Driftwood's hospitality credit platform.

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