Everyone Is Watching the Wrong Wall

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The commercial real estate press has spent eighteen months on the 2026 maturity wall. The numbers are genuinely large — $76.6 billion in hard CMBS maturities this year, $146.2 billion once extension-eligible paper is counted, better than a third of it sitting on loans with debt yields below the 8% threshold lenders treat as the floor for clean refinancing.

It is a real wall. It is also, for anyone buying hotels, largely the wrong one.

The CMBS story is an office and retail story. Office special servicing sits above 17%. Lodging sits near 10% and has been *improving* — down 60 basis points in a recent month, the sharpest decline of any property type. Read the aggregate data and you would conclude hotel distress is receding.

The aggregate data cannot see where hotel distress lives.

The segment nobody is measuring

Most American hotels are not institutional assets. They are select-service properties, seventy to a hundred and forty keys, in secondary and tertiary markets, owned by individuals and small partnerships. They were not financed through conduit. They were financed through SBA 7(a) and 504 paper, and through small-bank conventional loans held on balance sheet.

None of that is securitized. None of it appears in Trepp. When the industry says lodging distress is improving, it is describing a universe that excludes the majority of American hotels by count.

That is not a small measurement gap. It is the whole picture.

What actually happened to these properties

In 2020 and 2021, this cohort received an extraordinary transfusion — PPP forgiveness, ERC refunds, EIDL, forbearance. The programs did what they were designed to do: they prevented a wave of failures during an exogenous demand shock.

What they did not do — could not do — was fix the underlying economics.

A property that was marginal in 2019 emerged in 2022 with its balance sheet patched and its operating model untouched. And then the operating model got materially worse. Labor cost per occupied room rose and has not retreated. Insurance premiums in the coastal and wildfire states have doubled and tripled. Brand-mandated technology spend, franchise fee structures, PIP obligations deferred through the pandemic and now coming due.

Against that, ADR in the select-service segment cannot move proportionally. The customer is rate-sensitive. The comp set will not hold price. The owner-operator has no scale to negotiate insurance, no corporate revenue management, no reserve.

> *The subsidies did not save these hotels. They postponed the reckoning and disguised it as a recovery.*

Why the distress has been slow to surface — and why that is ending

Here is what most observers miss.

The CMBS borrower is non-recourse. When the math breaks, he hands back the keys and walks. It is fast, it is visible, and it shows up in a servicing report within a quarter.

The SBA borrower carries a personal guarantee. He does not walk. He defers maintenance. He stops paying himself. He works the desk on Saturdays. He refinances into worse paper. He does everything a man does when default follows him home.

Which means distress in this segment does not announce itself. It accumulates, silently, in deferred capex and exhausted owners, until the property is not cheap so much as *used up*.

That is the phase we are now entering. The guarantees have not stopped the failures. They have only delayed them, and concentrated them.

The signal

We watch three online auction platforms on biweekly cycles. We are seeing a marked increase in hotel product reaching these platforms, and our own underwriting cadence has climbed accordingly.

We are not aware of anyone publishing this. It would not appear in a servicing report, because most of this paper was never securitized.

We would caution against reading it as a flood.

It is not a flood. It is a sort.

Trepp's own framing of the CMBS market applies with greater force to the segment nobody is watching: loan quality now matters more than maturity volume. Refinancing has become, in their phrase, a path-dependent sorting process.

Stronger sponsors extend. Weaker assets are forced into recapitalization, distressed sale, or foreclosure.

What reaches the auction platform, therefore, is not a random sample of the market at a discount. It is a filtered sample — pre-selected for the assets that nobody with better options wanted. Sub-eight debt yield. Deferred PIP. A market with structural oversupply, or a physical plant whose cost to cure exceeds its stabilized value.

> *These properties are not cheap because the market is cheap. They are cheap because they are broken.*

That distinction determines everything about who makes money on them.

What it implies

If the thesis were "flood," the winning strategy would be capital and patience. Buy the discount, wait for the cycle, sell into the recovery. Cost of capital would be the edge.

It is not a flood, and cost of capital is not the edge.

If the assets are broken rather than merely cheap, the only buyer who wins is the one who can fix an operation. Not recapitalize it — *fix* it. Rebuild a demoralized team. Reset a rate strategy. Renegotiate a PIP. Recover the ground a fatigued owner-operator ceased to chase three years ago.

The financial buyer cannot do this. He can only wait, and waiting does not repair an operation. Nor, notably, does it repair itself while he waits — which is why so much of the distressed hotel product acquired in the last cycle has underperformed its underwriting.

The operator can. And in a sorting market, the operator is the only party who can pay a price that clears while still earning a return, because the value he creates is value that does not exist for anyone else.

The corollary, which we would state plainly

If you can fix the operation, you do not need the discount.

You do not need to win an auction. You do not need the lowest cost of capital in the room. You need access to the asset and control of the operation, and there are structures that deliver both without a purchase at all.

We would rather lease a broken hotel from an exhausted owner and take our participation in the value we create than win a bidding contest for the same building.

The wall everyone is watching will produce a great deal of noise, some genuine opportunity in office and retail, and very little hotel product at prices that reward passive capital.

The wall nobody is watching will produce a steady supply of properties that are unfixable by anyone who cannot operate — and, for those who can, the cleanest entries of this cycle.

We are not chasing the flood. We are underwriting the sort.

Theosis Capital Management acquires and repositions distressed hospitality assets. We don't pursue opportunities. Opportunities pursue us.