ALERT — FOR LIMITED PARTNERS IN KSL VI AND PROSPECTIVE INVESTORS IN KSL CREDIT OPPORTUNITY FUND V

KSL's financing of its Hersha Hospitality portfolio poses questions for LPs in KSL VI — and for pension funds considering KSL's newest credit fund.

An analysis of KSL Capital Partners VI's acquisition of Hersha Hospitality raises questions for both limited partners in Fund VI and pension funds who may be considering a commitment to KSL's newest credit fund, KSL Capital Partners Credit Opportunity Fund V.

The report raises questions about

- Below appraisal sales of hotels in the Hersha portfolio
- High transaction costs associated with multiple rounds of financing, and
- Increased leverage

01 THE RECORD

Three financings in three years

On November 28, 2023, KSL Capital Partners VI closed on the purchase of publicly traded hotel REIT Hersha Hospitality Trust in a roughly $1.4 billion deal. At the time of the purchase Hersha owned 25 hotel properties, including 2 joint venture properties, with a total of 3,811 rooms.

KSL financed the purchase with a $736 million CMBS package (KSL 2023-HT) and $204 million in mezzanine debt, secured by 19 of the 25 properties totaling 3,102 rooms. The floating-rate debt was interest only with a 24-month term and the option of three 1-year extensions.

In December 2024 KSL refinanced the debt with a $761 million CMBS package (KSL 2024-HT2) and $104 million mezzanine debt. The debt is secured by 13 of the original 19 properties totaling 2,384 rooms. Like KSL 2023-HT, the debt is interest only with a 24-month term and the option of three 1-year extensions.

In June of this year, KSL completed its second refinancing of the portfolio. Like the two before it, the $890 million CMBS loan (KSL 2026-HT3) is floating rate, interest only, and for 24 months with three 1-year extensions. The debt is secured by 12 properties totaling 2,290 rooms — including one property

that was part of the 2023 CMBS but not in the 2024 refinancing, and one property that was not in the original Hersha portfolio.

There are several reasons why this series of refinancings should concern LPs in Fund VI and those considering committing to KSL Capital Partners Credit Opportunity Fund V.

02 SALES CONCERN

Below-appraisal sales

KSL has sold five of the Hersha properties secured by CMBS debt since the initial purchase. The properties have sold for a combined $202 million — a 26% discount to the 2023 "as is" appraisal and a 37% discount to the 2023 "stabilized" appraisal. Combined, the sales totaled $120 million less than the value implied by the "stabilized" appraisal.

PROPERTY	APPRAISAL DATE	"AS IS" APPR.	"STABILIZED" APPR.	SALE DATE	SALE PRICE	DISC. TO STABILIZED
Winter Haven Hotel	9/6/23	29,000,000	34,600,000	10/7/24	19,700,000	**43%**
Holiday Inn Express — Chelsea	9/8/23	88,000,000	105,000,000	11/18/24	59,800,000	**43%**
The St. Gregory Hotel	9/12/23	51,100,000	57,700,000	9/1/25	29,453,000	**49%**
The Boxer	9/11/23	30,100,000	33,500,000	9/3/25	24,000,000	**28%**
Hilton Garden Inn — Tribeca	9/6/23	76,700,000	91,400,000	3/9/26	69,000,000	**25%**
Total		**$274,900,000**	**$322,200,000**		**$201,953,000**	**37%**

How to read this table: each hotel was appraised in 2023 when the debt was issued ("as is" = value as it stood; "stabilized" = the appraiser's projected value once fully renovated and operating). Every subsequent sale came in below both figures. In total, the five hotels sold for $72.9M (26%) less than their "as is" appraisals and $120.2M (37%) less than their "stabilized" appraisals. Appraisals per the KSL 2023-HT prospectus.

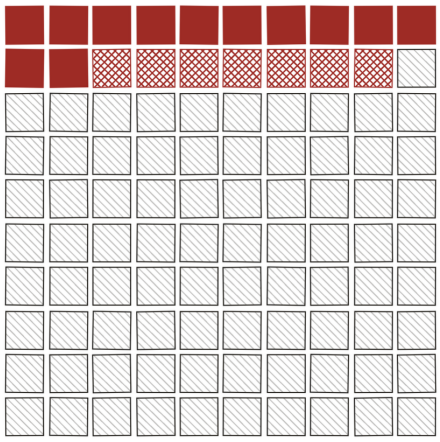
03 COST CONCERN

High transaction costs

KSL's purchase and refinancings have already imposed significant costs on investors. The prospectus for KSL 2023-HT noted $35.1 million in financing costs and $107.8 million in allocated transaction costs. The 2024 refinancing incurred an additional $17.3 million in closing costs, and the 2026 refinancing cost an additional $8.9 million. The combined total is over 12% of the initial purchase price of the portfolio.

FINANCING, TRANSACTION & CLOSING COSTS	AMOUNT
KSL 2023-HT	$142,900,000
KSL 2024-HT2	$17,300,000
KSL 2026-HT3	$8,900,000
Total	**$169,100,000**
Hersha take-private purchase price	$1,400,000,000
Costs as % of purchase price	**12.08%**

FIG. 2 — OF EVERY HUNDRED DOLLARS KSL PAID FOR HERSHA, TWELVE HAVE GONE TO CLOSING COSTS — AND SEVEN MORE TO GOLDEN PARACHUTES.

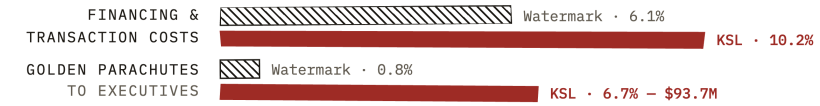


EACH SQUARE = 1% OF THE $1.4 BILLION TAKE-PRIVATE.
SOLID RED: $169.1M IN FINANCING, TRANSACTION & CLOSING COSTS — 12.08%
CRISS-CROSS: $93.7M IN ANTICIPATED GOLDEN PARACHUTES TO HERSHA EXECUTIVES — 6.7%
2023-HT $142.9M · 2024-HT2 $17.3M · 2026-HT3 $8.9M

Additional costs borne by investors in the transaction included anticipated golden parachute payments of $93.7 million payable to Hersha executives, or 6.7% of the total purchase price.

FIG. 3 — COSTS AS A SHARE OF PURCHASE PRICE, SIDE BY SIDE.

COSTS AS A SHARE OF PURCHASE PRICE: BROOKFIELD'S WATERMARK TAKE-PRIVATE, 2022, AGAINST KSL'S HERSHA, 2023



WATERMARK LODGING TRUST, $3.05B: $184.7M COSTS, $24.4M PARACHUTES.
HERSHA, $1.4B: $142.9M COSTS, $93.7M PARACHUTES ANTICIPATED FOR HERSHA EXECUTIVES.

Hersha's $142.9 million closing and financing costs and $93.7 million golden parachutes stand in contrast to a similar REIT take-private transaction that occurred a year earlier. In late 2022, funds managed by Brookfield Asset Management purchased lodging REIT Watermark Lodging Trust. The $3.05 billion transaction included $184.7 million in transaction and financing costs and anticipated golden parachute costs of $24.4 million. Had KSL achieved the same cost discipline as Brookfield — they would have saved approximately $140,000,000.

04 DEBT CONCERN

Increased leverage

If we examine the 10 properties that have been part of the 2023 and 2024 and 2026 financing packages, we can see that leverage has increased out of pace with the increase in cash flow from the properties. The net cash flow from this set of properties increased from $58.0 million in 2023 to $63.0 million in 2025 — approximately 8.6%. The allocated loan amount for the same properties increased from $427.2 million in KSL 2023-HT to an anticipated $734.1 million in KSL 2026-HT3, or 71.8%.

SAME 10 PROPERTIES	2023	2025	% CHANGE
Net cash flow	$58.0 M	$63.0 M	**8.6%**
Allocated loan amount (2026-HT3)	$427.2 M	$734.1 M	**71.8%**

For this portion of the portfolio — the only one we can track across multiple refinancings — the debt yield (net cash flow divided by the loan amount) decreases from 13.6% to 8.6%.

We cannot predict whether KSL will be more successful in selling the remaining portion of the Hersha portfolio than it has been in the past — but even if the hotels sell at a more modest 15% discount to the 2023 "as is" appraisal, the total sales, $733 million, would fall below the allocated debt of $734 million.

05 FOR THE RECORD

QUESTIONS TO ASK KSL

01 What explains the steep decline in the sale price of hotels when compared to the "as is" or "stabilized" appraisals?

02 Did KSL spot-check the assumptions that produced appraisals in any of the financing rounds?

03 Are current valuations for other properties in the portfolio accurate or unrealistic?

04 Do the 12% transaction costs undermine future returns from the portfolio for LPs?

05 Do the transaction and financing costs include any fees to KSL entities?

06 Are the rapid refinancings motivated by extracting equity from the assets? Does returning capital to LPs so quickly allow KSL to start receiving carried interest on this investment sooner? Is that in LPs' interest?

07 Does this example of KSL financing a hospitality portfolio — its specialty — with some unrealistic appraisals and significant transaction costs undermine KSL's record as a provider of hospitality credit?

08 How much can investors rely on KSL's valuations in its credit fund, especially in an era of repricing in private credit?