Private Credit for UK Hospitality: Seasonality, Refurbishment and Covenant Reset

A Financing Framework for Monthly Cash Curves, Refurbishment Downtime, Liquidity Reserves, Covenant Recalibration and Post-Investment Stabilisation

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Abstract

UK hospitality businesses combine seasonal demand, labour intensity, energy exposure, property obligations, advance bookings, card settlements and recurring refurbishment. These characteristics can make annual EBITDA a weak basis for debt sizing. A hotel, pub, restaurant group or visitor-accommodation platform may report a satisfactory full-year result while experiencing severe monthly cash troughs. Refurbishment can deepen the trough by removing rooms, tables or event space from sale before the upgraded asset reaches a stable rate, occupancy and contribution level.

This paper develops a private-credit framework for refinancing and restructuring UK hospitality businesses around monthly cash generation, refurbishment downtime and post-investment stabilisation. The framework connects operating data to debt quantum, drawdown conditions, reserves, pricing, amortisation, covenant definitions, testing periods, information rights, remedies and recovery milestones. Five original figures and five implementation tables translate the approach into a monthly cash curve, refurbishment schedule, reserve waterfall, covenant reset bridge and stabilisation dashboard.

The current financing context supports a more granular approach. The Bank of England reported in July 2026 that a substantial portion of UK private debt originated in 2021 is due to refinance in the coming year, that some borrowers may face tighter terms, and that higher rates and weaker growth can increase pressure on leveraged borrowers and private-credit funds.[1] Its July Agents' summary identified lower lending appetite for smaller firms and for hospitality, while the Q2 2026 Credit Conditions Survey reported slightly lower credit availability for small and medium-sized businesses.[2][3] Official tourism, business and price evidence also shows a mixed operating environment: VisitBritain revised its 2026 inbound forecast to 44.2 million visits and GBP 33.9 billion of spending, while the Office for National Statistics reported that accommodation and food-service businesses had the highest incidence of turnover challenges in early May 2026.[4][5]

Every room count, rate, occupancy percentage, margin, capex amount, reserve, leverage ratio, interest rate, covenant threshold and recovery path shown in this paper is a hypothetical modelling assumption used to explain the framework. It is not a market quotation, forecast, credit recommendation, accounting conclusion, legal conclusion or tax conclusion. An actual financing requires verified borrower data and advice from qualified legal, tax, accounting, valuation, restructuring, property, operational, insurance, fire-safety and financial professionals.

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1. Finance the cash curve, not the annual average

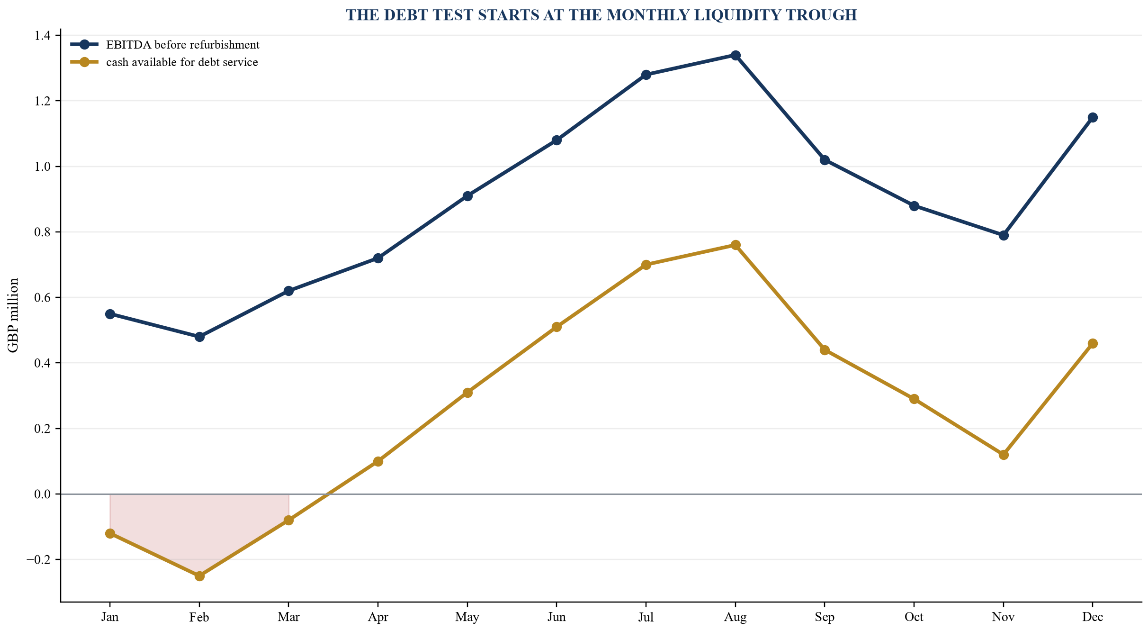
Hospitality debt fails in months, not in annual averages. Annual EBITDA can combine a strong summer, Christmas trading, conferences or major events with weak winter weeks, planned closures and payroll or tax dates. The full-year total may appear sufficient while cash falls below the amount needed for wages, suppliers, rent, interest and essential capital expenditure. A lender therefore needs a monthly, and for stressed periods weekly, bridge from bookings and covers to available cash.

The first task is to reconstruct cash generation by site and business line. Hotel rooms, food and beverage, meetings, events, spa, parking, franchise income and management fees have different booking windows, cancellation terms, margins and settlement cycles. Pubs and restaurants may have shorter demand visibility but faster cash conversion. A group-level model should preserve those differences before consolidation. It should distinguish cash received in advance from revenue earned and should identify customer deposits that remain refundable or restricted.

Debt capacity should be set against the lowest credible liquidity point after operating costs, taxes, rent, maintenance capital expenditure and the minimum cash needed to trade safely. A seasonal revolver may fund a predictable trough if its clean-down and repayment source are visible. A term facility should rely on sustainable cash through the cycle. Refurbishment debt should be matched to the work programme and asset recovery rather than used to fill an unexplained operating deficit.

The financing memorandum should state the cash thesis in operational language. For example, a room refurbishment may reduce available rooms for eight months, lift average daily rate gradually, improve guest satisfaction and reduce maintenance cost. The model should show the room nights removed, the displaced contribution, the construction spend, the ramp in rate and occupancy, and the month in which incremental cash becomes available for debt service. Each assumption needs a source, owner and update frequency.

Figure 1. Illustrative monthly cash curve through seasonality and refurbishment



Values are hypothetical GBP millions and demonstrate the difference between EBITDA and cash available for debt service.

2. Define the borrower, property and operating perimeter

A hospitality financing can involve an operating company, property company, management company, brand owner, franchisee, lessee, landlord and holding company. The lender should know which entity owns the property, employs staff, holds licences, contracts with booking platforms, receives card settlements and services the debt. A model that consolidates the group without mapping legal cash paths can attribute value and liquidity to an entity that cannot upstream either.

The security perimeter should be built from verified ownership and contract rights. Freehold, long leasehold, operating lease, management contract and franchise arrangements produce different collateral and control. A lender to the operating company may depend on the continued availability of a hotel lease or brand agreement. A property lender may depend on rent from an operating company whose cash flow is highly seasonal. Change-of-control, assignment, cure, termination and step-in provisions should be reviewed with counsel.

Cash dominion also matters. Booking platforms, card acquirers, merchant cash-advance providers and banks may have set-off, reserve or withholding rights. Guest deposits may sit in the operating account while carrying performance or refund obligations. Insurance proceeds for business interruption or property damage may be subject to reinstatement conditions. The financing package should identify each material collection account, payment priority, blocked-account right and permitted leakage.

The perimeter exercise should end with an entity-and-cash map. It should show ownership, asset location, material contracts, debt, guarantees, security, tax groups, leases, intercompany balances and distribution restrictions. The model should use the same perimeter. If EBITDA includes a site or service whose cash cannot reach the borrower, it should not support debt service without a verified legal route.

Table 1. Hospitality debt perimeter and evidence map

Perimeter item	Evidence	Credit question	Financing response
property and lease	title, lease, rent schedule, consents and valuation	who controls the site and for how long?	security, consent, cure and step-in package
brand and management	franchise or management agreement and fees	can the brand or operator terminate during stress?	notice, cure, replacement and reserve provisions
booking and collections	channel contracts, acquirer terms and bank statements	when can cash be withheld or refunded?	account control, liquidity buffer and reporting
licences and compliance	premises, alcohol, food, fire and planning records	can the site continue trading during works and stress?	conditions precedent and compliance undertakings
group cash flows	intercompany agreements, tax, guarantees and distributions	can value reach the borrower without leakage?	subordination, cash sweep and restricted payments

Legal ownership, operating control and cash receipt should be tested separately.

3. Read the 2026 financing environment into the structure

Private credit can provide speed, bespoke covenants, delayed draws and operational flexibility, yet the structure must reflect current refinancing and sector evidence. The Bank of England's July 2026 Financial Stability Report states that a substantial portion of UK private debt originated in 2021 is due to refinance in the coming year. It also describes amendment-and-extension transactions and payment-in-kind structures as tools used by some borrowers to manage cash-flow pressure, while warning that such measures may be unavailable or unsustainable for others.[1]

The Bank's July 2026 Agents' summary says credit remains available to most firms but banks are selective, with less appetite for small and medium-sized firms and for hospitality. It also reports growth in asset finance and invoice discounting.[2] The Q2 Credit Conditions Survey records a slight reduction in credit availability for small and medium-sized businesses, while overall corporate credit availability was unchanged.[3] These observations support a financing process that proves asset quality, cash visibility and execution control rather than relying on market liquidity.

The July 2026 Monetary Policy Report records Bank Rate at 3.75 per cent and identifies volatile energy prices and continuing inflation uncertainty.[6] Interest expense, hedging and cost sensitivity therefore belong in the monthly base case and downside. The relevant rate is the contractual benchmark plus margin, fees, original issue discount, hedging cost and cash effect of any floor. A headline margin comparison can be misleading when amortisation, call protection, prepayment fees and delayed-draw charges differ.

The credit proposal should show why the chosen instrument fits the problem. A revolving facility may manage predictable seasonality. A delayed-draw term loan may fund certified refurbishment expenditure. Asset finance may fund equipment with identifiable collateral. A super-senior liquidity line may support a restructuring. Payment-in-kind interest may preserve near-term cash but increases principal and exit leverage. Each instrument should have a defined purpose, cap, draw test and repayment source.

4. Reconstruct demand and revenue at daily resolution

Hospitality revenue begins with capacity and time. For a hotel, available rooms multiplied by occupancy and average daily rate produces room revenue, with adjustments for no-shows, cancellations, complimentary stays, taxes and channel commissions. For food and beverage, covers, average spend, table turns, mix, discounts and delivery fees matter. Meetings and events require contracted revenue, deposits, minimum spend, cancellation rights and incremental staffing or food cost.

Daily operating data should reconcile to the property-management system, point-of-sale system, general ledger, channel statements and bank receipts. The lender should test peak weekends, low-season weekdays, major events, holiday periods and dates around month end. Booking pace should be compared with prior-year pace on a like-for-like basis, taking account of rooms taken out of service. A higher average daily rate on fewer available rooms can produce weaker cash despite apparent pricing strength.

VisitBritain's revised August 2026 forecast expects 44.2 million inbound visits and GBP 33.9 billion of nominal spending for 2026. The forecast notes that visits and nominal spend are expected to rise 2 per cent from 2025, while real spending is expected to decline 1 per cent. It also identifies weaker long-haul performance and a downgrade from the January forecast.[4] A borrower should therefore build demand by segment and origin rather than treat national visitor growth as a guarantee for a specific asset.

Revenue quality also includes cancellation and refund behaviour, loyalty liabilities, package allocations, taxes and principal-versus-agent judgements. IFRS 15 requires revenue to reflect transfer of promised goods or services for the consideration expected.[7] For credit purposes, accounting revenue should be bridged to cash receipts, merchant reserves and future performance obligations. Advance cash may support liquidity only after the associated service, refund and working-capital requirements are understood.

5. Build the operating-cost and contribution bridge

Gross operating profit and EBITDA can conceal cost timing. Labour, utilities, food, laundry, cleaning, distribution, franchise fees, booking commissions, card fees, insurance, property tax and repair cost should be mapped to the activity that drives them. Fixed, semi-variable and variable elements should be separated. The cost model must reflect statutory pay, agency usage, overtime, employer costs and minimum staffing needed to operate safely.

The Office for National Statistics reported in May 2026 that 78 per cent of trading businesses in accommodation and food service activities experienced at least one challenge affecting turnover. Cost of materials and cost of labour were each reported by 50 per cent of businesses in the sector, while economic uncertainty was reported by 44 per cent.[5] These survey results do not predict an individual borrower's performance, but they support testing labour, input-cost and demand sensitivity together.

Energy exposure deserves a separate bridge. Hospitality assets use energy for heating, cooling, hot water, kitchens, laundry, pools, spas and ventilation. The model should distinguish contracted and variable prices, expected consumption, efficiency initiatives, taxes and pass-through. The Bank of England's July 2026 Monetary Policy Report describes energy-price volatility and uncertainty over its effect on UK inflation.[6] A stable annual utility average can therefore understate the cash impact of a price reset during a low-demand month.

Contribution should be calculated by room type, outlet, event, site and channel where data permit. The lender needs to know which operations produce cash before fixed property cost and which absorb it. Refurbishment should target a verified constraint or revenue opportunity. A cosmetic programme that does not alter rate, occupancy, contribution or maintenance may improve the asset while failing to improve debt service.

6. Translate seasonality into borrowing-base logic

Seasonality should be represented through a rolling monthly cash bridge with weekly detail across the lowest-liquidity period. The bridge should begin with unrestricted opening cash, add verified collections and permitted facility draws, and deduct payroll, suppliers, rent, taxes, maintenance, refurbishment, interest and mandatory amortisation. The minimum-cash line should reflect the amount required to operate, not an arbitrary percentage of annual revenue.

A seasonal revolver can be structured around a borrowing base or a fixed sublimit. A borrowing base may use eligible receivables, card settlements or contracted event revenue, adjusted for dilution, concentration, cancellation and ageing. Many hospitality receipts are immediate, so the more important constraint may be the predictable interval between cash outflows and the next peak period. In that case, the facility should have a clear annual clean-down or step-down tied to cash generation.

The draw condition should prevent the revolver becoming permanent loss funding. The borrower should deliver a current cash forecast, compliance certificate and absence-of-default confirmation. Draws above a threshold may require evidence of use and a revised liquidity plan. The facility should distinguish normal seasonal use from stress use. A breach of the expected repayment curve can trigger enhanced reporting, adviser appointment, distribution lock-up or a liquidity review before a payment default occurs.

Seasonality also affects covenant testing. A quarterly leverage ratio using last-twelve-month EBITDA can remain compliant while cash is exhausted. A fixed-charge or debt-service covenant may capture cash pressure more directly, but definitions must address advance deposits, rent, maintenance and refurbishment. Minimum liquidity is often the fastest early-warning measure. A well-designed package uses complementary tests rather than asking one ratio to explain the whole business.

7. Define refurbishment scope before committing debt

Refurbishment should start with a scope register that links every work package to a physical asset, cost, timetable, procurement status, approval, operational impact and expected benefit. Guest rooms, public areas, kitchens, mechanical systems, fire protection, lifts, roofs, energy systems and technology have different lead times and dependencies. A single capex line offers little protection against scope growth or spend that cannot be completed.

The base budget should separate construction, furniture, fixtures and equipment, professional fees, taxes, temporary operations, decanting, pre-opening, technology, permits and financing costs. Contingency should be explicit and controlled. Owner changes and latent conditions should be reported separately from ordinary cost variance. Committed cost, certified work, paid cost and forecast-to-complete should reconcile each month.

Regulatory and rating effects belong in the plan. Current GOV.UK guidance states that non-domestic rented property in England and Wales generally needs at least EPC E where the regulations apply, subject to exemptions.[8] A June 2026 government interim response proposes a higher EPC B standard from 2031 for private rented buildings over 1,000 square metres where cost effective.[9] The work programme should identify the current legal requirement, proposed changes, building-specific feasibility and any landlord-tenant allocation.

Business-rates treatment should also be verified. The Valuation Office Agency's 2026 hotel guidance explains that hotel rateable value reflects expected profit and trading performance, and that the 2026 revaluation took effect from 1 April 2026.[10] Separate GOV.UK guidance states that a property that cannot be used during qualifying repair or refurbishment may be removed from rates until it can be used again, subject to the Valuation Office's assessment.[11] Improvement relief is narrower and does not subsidise general redevelopment.[12]

Table 2. Refurbishment budget and control schedule

Work package	Cost evidence	Operating impact	Draw condition	Completion evidence
guest rooms	tender, quantity surveyor and supplier orders	rooms out of service and temporary rate dilution	approved floor sequence and committed-cost test	practical completion, snagging and rooms returned to inventory
public areas	design, contractor programme and access plan	guest disruption and event displacement	phased access and health-and-safety approval	handover, licences and trading confirmation
plant and energy	survey, specification and lifecycle analysis	planned shutdown and commissioning risk	technical adviser approval and contingency	commissioning, warranties and updated asset register
kitchen and food service	equipment schedule and workflow plan	outlet closure, temporary production and lost covers	operating continuity and food-safety plan	inspections, training and reopened outlet
technology and controls	architecture, vendor scope and migration plan	booking, payments and reporting interruption	testing, rollback and cyber review	acceptance test, access controls and stable interfaces

Costs and benefits are hypothetical; each live work package requires evidence and certification.

8. Sequence downtime as a credit variable

The refurbishment programme should show the number of rooms, seats or event spaces unavailable by day or week. The critical path must include procurement, permits, contractor mobilisation, strip-out, structural work, services, fit-out, commissioning, snagging and operational release. Commercial teams should confirm when inventory is removed from sale and when it can be reloaded across direct and third-party channels.

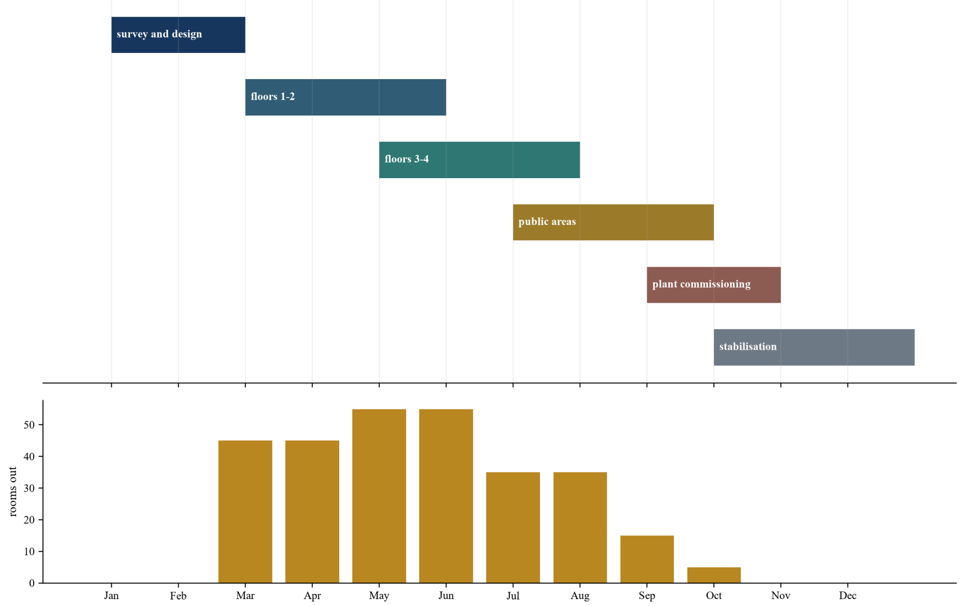
Lost contribution is a financing use. It should be estimated from displaced capacity, achievable occupancy or covers, average contribution and recovery alternatives. The model should avoid treating all lost revenue as lost EBITDA because variable costs fall during closure. It should also avoid assuming perfect displacement into remaining capacity. Group assets may recapture some demand, but only where location, product, channel and customer behaviour support it.

Phasing can reduce the cash trough while lengthening the project and increasing preliminaries. A full closure can shorten execution but concentrates liquidity and reopening risk. The optimal decision depends on construction constraints, seasonality, brand standards and customer experience. The credit case should compare at least two feasible sequences and show the impact on cost, lost contribution, completion risk and debt service.

Delay consequences should be explicit. A four-week slip can extend room downtime into a peak period, trigger liquidated damages disputes, postpone rate growth and consume the contingency or interest reserve. The loan agreement should require prompt notice of critical-path slippage and a revised forecast. Additional draws should depend on remaining contingency and a funded path to completion, not solely on historic spend.

Figure 2. Illustrative refurbishment schedule and rooms out of service

CONTROL THE CRITICAL PATH AND THE SELLABLE INVENTORY TOGETHER



The programme is hypothetical and demonstrates how construction phasing connects to sellable inventory.

9. Control capex draws and cost-to-complete

The refurbishment facility should fund verified expenditure within an approved budget. A draw request should include invoices, payment evidence, quantity-surveyor or technical-adviser certification, progress photographs where useful, updated committed cost, contingency use, forecast-to-complete and confirmation that no material delay or dispute has arisen. The lender should retain the right to request further evidence without becoming responsible for the works.

Cost-to-complete is the central control. At every draw date, sources remaining should cover unpaid committed cost, estimated uncommitted cost, required contingency, interest during the works and the minimum operating liquidity through completion. If a gap emerges, the documentation should specify whether equity is injected, scope is reduced, contingency is reallocated or further debt is considered. An unallocated funding gap should stop discretionary draws.

Equity should be demonstrably funded at the agreed priority. First-loss equity before debt can align incentives and protect completion. A proportional funding mechanism may be appropriate for a well-capitalised sponsor, while a late equity contribution creates risk if conditions deteriorate. The structure should also address cost recoveries, insurance proceeds, contractor damages and refunds. These amounts should return to the project account or reduce future debt draws.

Related-party procurement requires special attention. The lender should understand ownership, pricing, scope, conflicts and approval. Material contracts should have clear payment milestones, retention, warranties, performance security and termination rights. The borrower should not accelerate payments, waive claims or change scope materially without the agreed approval. These controls protect completion and cash rather than attempt to manage the project from the lending desk.

10. Separate operating working capital from refurbishment funding

Hospitality working capital can look favourable because guests pay quickly while suppliers and payroll are paid later. That apparent benefit can reverse when advance deposits are refunded, merchant acquirers increase reserves, a seasonal peak ends or suppliers shorten terms. The credit model should distinguish recurring operating working capital, customer money linked to future service, tax liabilities, capex creditors and overdue trade balances.

The cash forecast should schedule payroll, PAYE and National Insurance, VAT, corporation tax, rent, business rates, insurance, utilities and major supplier dates. A profitable month can still produce a cash outflow when quarterly or annual payments fall due. The 2026 business-rates regime and revaluation require property-level verification. GOV.UK states that retail, hospitality and leisure relief was replaced from 1 April 2026 by multiplier arrangements, with transitional or supporting relief potentially available in defined circumstances.[13][14]

Supplier stretching should not be presented as permanent financing. Ageing should show current, disputed, deferred and overdue balances by supplier. Critical suppliers may require payment before delivery during stress. The lender should identify which terms reflect normal trade and which reflect arrears. A restructuring model should fund a realistic normalisation path, because a business that achieves covenant compliance by accumulating unpaid suppliers has not restored liquidity.

Refurbishment invoices should be kept outside the operating working-capital line. Otherwise a cost overrun can consume the revolver intended to pay wages and suppliers. The model should allocate each cash outflow to operating, lifecycle capex, refurbishment or financing. Separate accounts and approval workflows can support this distinction. Inter-account transfers should be visible and permitted only under the documented waterfall.

11. Design a reserve architecture that protects continuity

Reserves should have a defined purpose, amount, funding source, permitted use and replenishment rule. A debt-service reserve may cover a specified number of months of interest and scheduled principal. A lifecycle-capex reserve protects essential maintenance. A refurbishment contingency protects completion. A tax reserve prevents cash collected for future payment from being treated as free liquidity. A minimum operating-cash floor protects payroll, food safety, security and guest service.

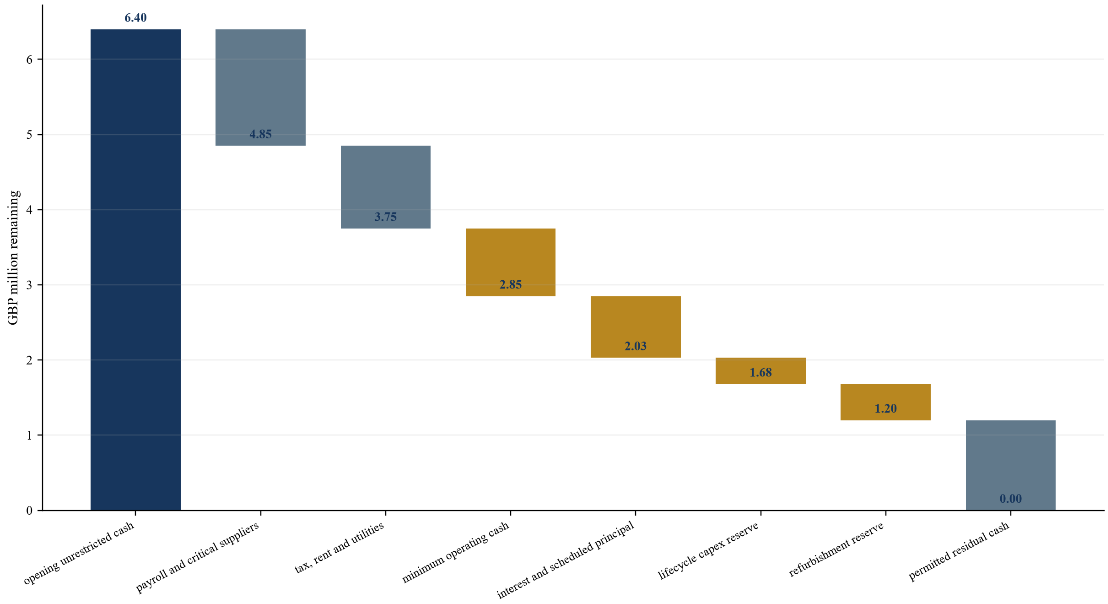
The size of each reserve should be derived from the monthly forecast and identified risk. A three-month interest reserve is meaningful only if the expected recovery and next cash milestone sit within that period. A reserve that is too small creates false comfort; one that is too large can make the financing uneconomic. The model should show gross liquidity, restricted reserves and freely available liquidity separately.

Release conditions should be objective. A refurbishment contingency may be released after practical completion, final cost certification and expiry of material claim periods. A debt-service reserve may step down after a defined number of compliant test dates and verified stabilisation. A lifecycle reserve should continue if deferred maintenance remains. Distribution lock-up should apply before reserve release where the borrower is below a performance threshold or relying on a waiver.

Reserve leakage can occur through broad permitted-payment definitions, related-party charges, management fees or intercompany transfers. The finance documents should set payment priority and information rights. The account bank and security agent need operational instructions consistent with the agreed waterfall. The borrower also needs enough payment flexibility to trade normally. The design should focus controls on material outflows and preserve a clear emergency process.

Figure 3. Illustrative operating and debt-service reserve waterfall

PROTECT OPERATING CONTINUITY BEFORE RESIDUAL CASH IS RELEASED



Values are hypothetical GBP millions and show cash priority rather than a recommended reserve amount.

Table 3. Reserve design and control matrix

Reserve	Sizing basis	Permitted use	Replenishment	Release test
minimum operating cash	weekly payroll, critical suppliers and safe-operation needs	ordinary trading within approved forecast	first priority from collections	maintained throughout facility life
debt-service reserve	scheduled cash interest and principal over defined period	debt service after documented cash shortfall	cash sweep before distributions	compliant tests and verified stabilisation
lifecycle capex	asset register, maintenance plan and technical review	essential replacement and compliance works	monthly or quarterly contribution	only against certified lifecycle spend
refurbishment contingency	risk-adjusted cost-to-complete	approved changes, latent conditions and delay cost	equity cure or reallocation with approval	final account and completion certification
tax and customer obligations	forecast liabilities and refundable advance cash	payment of the relevant obligation	funded as liability accrues	payment or expiry of underlying obligation

The appropriate amount and release test depend on verified borrower data.

12. Size term debt to sustainable free cash flow

Debt sizing should begin with sustainable free cash flow after normal maintenance capital expenditure, cash taxes, lease obligations and working-capital needs. EBITDA is a starting point, not the repayment source. The model should strip out unsupported adjustments, one-off reopening gains, non-cash items and benefits not yet implemented. It should include recurring management, franchise, property and technology costs needed to sustain the revenue case.

Leverage, interest cover and debt-service cover should be tested on monthly and annual views. A low leverage multiple can still create a cash problem if amortisation falls in the trough. A high annual debt-service cover can mask a negative quarter. Amortisation can be sculpted to the cash curve, with a minimum annual repayment and seasonal instalments. Cash sweep provisions can accelerate deleveraging after a strong season while preserving agreed capex and operating reserves.

Pricing should reflect benchmark risk, margin, floor, fees, original issue discount, hedging, prepayment economics and default interest. The July 2026 Monetary Policy Report records Bank Rate at 3.75 per cent and highlights uncertainty related to energy prices and inflation.[6] The financing should therefore model interest under the contractual base case, an adverse rate case and any cap or swap. Hedge collateral or break cost should be included where relevant.

Exit debt is the final constraint. If the facility relies on refinancing after stabilisation, the model should size the exit using a conservative sustainable cash flow, interest rate and leverage level. The property value should not substitute for operating repayment capacity unless the strategy genuinely includes sale or asset-backed refinancing. A maturity wall that can only be repaid through a favourable market is a risk to be priced and controlled.

13. Treat payment-in-kind and amendment as bridges with endpoints

Payment-in-kind interest can preserve cash during refurbishment or recovery by adding interest to principal. It can also increase exit leverage faster than operating performance improves. The credit model should show the principal balance monthly, including capitalised interest, fees and delayed draws. The borrower should understand the cash and accounting consequences, while the lender should define the period, rate, toggle mechanics and return to cash pay.

An amendment-and-extension can align maturity with a credible recovery plan. The Bank of England's July 2026 Financial Stability Report observes that some borrowers have used extensions and payment-in-kind structures to manage cash challenges, while noting that these measures may not be sustainable in the longer term.[1] The financing should therefore attach the extension to completion, liquidity and stabilisation milestones rather than rely on time alone.

Economic consideration for an amendment can include margin change, fees, additional amortisation, cash sweep, sponsor equity, enhanced security, reporting and governance. The structure should identify what risk is being cured. A fee without revised information or operating controls may compensate economically while leaving the original credit weakness untouched. A sponsor injection can fund completion, but it does not prove that the refurbished business can service debt.

The amendment should also address existing defaults, reservations of rights and waivers. The legal document must specify which breach is waived, for which test date and under what conditions. A temporary waiver should not accidentally amend future definitions. Counsel should examine lender consent thresholds, intercreditor rights, hedging, security, guarantor confirmation and any effect on priorities.

14. Rebuild covenant definitions before resetting thresholds

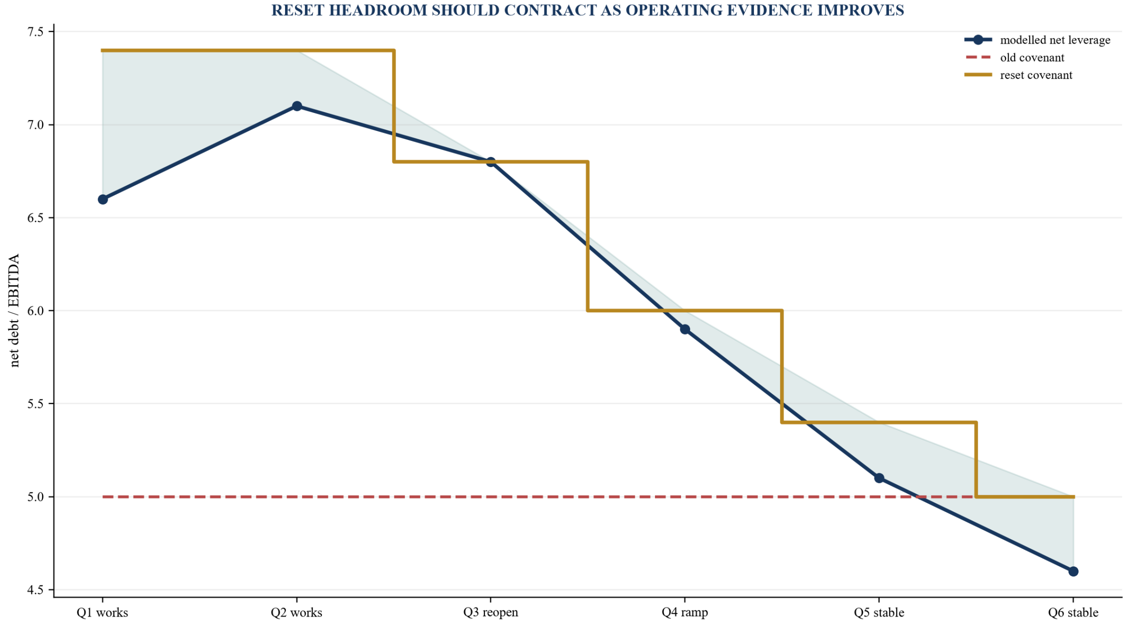
A covenant reset begins with definitions. EBITDA should be reconciled from audited or management accounts and adjusted only for items that are measurable, permitted and time-limited. Pro forma benefits from refurbishment, cost saving or new revenue should have evidence, a cap and a sunset. Rent, franchise fees, management fees, capitalised costs and lease accounting should be treated consistently between periods and ratios.

IFRS 16 recognises lease liabilities and right-of-use assets for many leases, changing reported EBITDA and indebtedness relative to former operating-lease accounting.[15] A finance covenant may use frozen generally accepted accounting principles, incorporate IFRS 16 or apply a negotiated lease adjustment. The agreement should state the method. The credit assessment should still measure the cash rent and fixed occupancy obligation, even if the covenant presents it differently.

The reset should use a bridge from the old threshold to the lowest credible performance point and then to stabilised performance. The threshold may step down or step up over time depending on ratio direction. Minimum liquidity, capex completion and interest cover may supplement leverage during the works. A covenant holiday should have information, distribution and draw controls. The borrower should not be able to incur more debt or release cash while operating without a performance test.

Equity cure rights require precision. The agreement should state amount, frequency, use, calculation treatment and whether cure proceeds reduce debt or are deemed EBITDA. Repeated deemed-EBITDA cures can preserve ratio compliance without improving cash. A debt-paydown cure aligns liquidity and leverage more directly. Cure rights should not remedy non-financial defaults, information failures or loss of a material licence unless expressly agreed.

Figure 4. Illustrative covenant reset bridge



Ratios are hypothetical and show the relationship between refurbishment, temporary headroom and stabilisation milestones.

Table 4. Covenant reset architecture

Test	During works	Reopening phase	Stabilised phase	Early-warning action
minimum liquidity	daily or weekly floor	weekly floor plus reserve test	monthly floor	13-week cash forecast and distribution lock-up
net leverage	temporary stepped threshold or holiday	quarterly stepped threshold	tighter recurring threshold	adviser review, draw stop and cure analysis
interest cover	tested on cash interest with agreed adjustments	quarterly test	recurring quarterly test	cash sweep and hedging review
capex completion	cost-to-complete and contingency test	snagging and final-account test	lifecycle reserve compliance	stop discretionary scope and fund gap
stabilisation	milestone reporting	occupancy, rate, margin and cash milestones	sustained performance over defined periods	enhanced reporting and revised plan

Thresholds, definitions and remedies are transaction-specific and require legal and accounting review.

15. Make lender information a control system

The information package should support decisions before liquidity becomes critical. Monthly reporting should include profit and loss, balance sheet, cash flow, liquidity, debt, covenants, capex, cost-to-complete, occupancy, rate, RevPAR, covers, payroll, energy, booking pace, customer deposits, supplier ageing and bank statements. The lender should receive site-level and consolidated information with a stable mapping to the model.

During refurbishment or waiver periods, a rolling 13-week cash flow should be updated weekly. Forecast-to-actual variance should distinguish timing from permanent change. Material variances need an explanation, owner and corrective action. Booking pace, room availability and capex completion can provide earlier signals than month-end EBITDA. The reporting calendar should align with payroll, tax, rent and interest dates.

Independent review should be proportionate. A financial adviser can validate liquidity and options; a technical adviser or quantity surveyor can certify works and cost-to-complete; a valuer can assess property and trading value; an operational adviser can review the recovery plan. The scope, reliance and information access should be clear. The lender remains responsible for its credit decision, while the borrower remains responsible for operating the business.

Data quality should be tested. Property-management, point-of-sale, payroll, procurement and accounting systems may use different identifiers and cut-offs. The borrower should document reconciliation, late adjustments and manual journals. Information covenants should require prompt notice of material contract termination, licensing issues, fire or safety incidents, cyber events, construction disputes and loss of a key manager or brand.

16. Connect leases, rates and property value to cash

Hospitality property economics depend on tenure and lease terms. A freehold owner faces maintenance, lifecycle capital expenditure and property-value risk directly. A leasehold operator faces rent, service charge, repair, reinstatement and expiry risk. A management-contract operator may have a different fee and control profile. The financing should model the cash obligations under the actual contracts rather than infer them from the accounting presentation.

Rent structures can include base rent, turnover rent, indexation, reviews and deposits. The borrower should model rent during closure, partial trading and stabilisation. Landlord consent may be required for works, finance, security or assignment. If the lender relies on the lease, notice and cure rights can be material. Reinstatement obligations and landlord contributions should be reflected in both sources and uses.

The Valuation Office Agency explains that hotel rateable values for the 2026 revaluation are based on expected profit and trading performance and that the revaluation took effect on 1 April 2026.[10] The borrower should reconcile each property's new rateable value, multiplier, transitional relief and actual bill. It should also assess whether works affect the rating list or qualify for any temporary treatment. Credit assumptions should use documented bills or advice, not a broad sector average.

Property valuation should separate trading value, real-estate value and the value of brand or management. IFRS 13 defines fair value measurement principles, while IAS 36 addresses impairment where recoverable amount may have fallen.[16][17] A credit valuation may use different assumptions and enforcement scenarios. The lender should understand who could operate the asset after enforcement, which licences and contracts transfer, and what time and capital would be needed to preserve value.

17. Stress the combined operating and financing plan

The downside should combine risks that can occur together. Lower occupancy, weaker rate, higher labour and energy cost, refurbishment delay, capex overrun, tighter supplier terms and higher interest can compound. A sequence is more useful than isolated sensitivities: works slip, rooms remain unavailable into a peak month, booking reviews weaken, cash drops, suppliers shorten terms and the interest reserve is consumed.

At minimum, the model should include a base case, operating downside, construction downside and severe combined case. Each case should show monthly liquidity, covenant headroom, reserve use, debt balance and cost-to-complete. Management actions should be specific and time-bound. Marketing reduction, recruitment freeze, phased capex, asset sale or equity injection should have a quantified cash effect and a decision deadline.

The lender should test whether actions are legally and operationally available. A room closure may save housekeeping cost but reduce rate integrity or group bookings. Deferred maintenance may preserve cash briefly while increasing safety, brand and asset risk. An asset sale may require consent and take longer than the liquidity runway. A sponsor equity commitment should be supported by capacity and a binding mechanism where relied upon.

The Bank of England's July 2026 Financial Stability Report identifies vulnerabilities in private credit related to leverage, valuation, liquidity and opacity, and describes the potential for tighter conditions to affect corporate borrowers.[1] The stress test should therefore cover lender-side constraints as well as borrower performance. A refinancing assumption should not rely solely on continuing availability of private credit at the same leverage and price.

18. Measure stabilisation with operating and cash milestones

Practical completion is not stabilisation. A refurbished hotel or venue must reload inventory, rebuild booking pace, deliver service, earn the targeted rate, absorb opening cost and convert revenue into cash. The stabilisation dashboard should begin before reopening and continue until performance has been sustained for an agreed number of periods. One strong month should not release all protections.

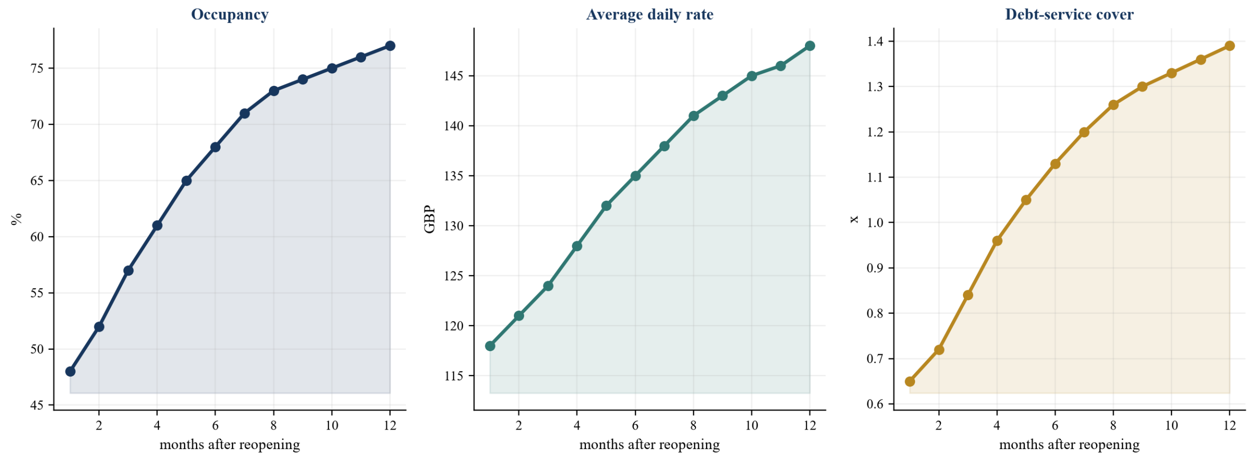
The core measures should include available rooms or capacity, occupancy or utilisation, average daily rate or spend, RevPAR or contribution, payroll efficiency, utilities, guest or customer indicators, cash conversion, maintenance and debt-service cover. The dashboard should show plan, actual, prior period and variance. Metrics should be measured on a consistent like-for-like basis, with rooms out of order and exceptional events visible.

Release of reserves, margin step-down, distribution permission or covenant tightening can be tied to stabilisation. Conditions should include project completion, no funding gap, no default, minimum liquidity, a sustained operating threshold and verified compliance. The measurement period should reflect the asset's seasonality. A summer resort that reopens into peak trading has not demonstrated winter resilience until it passes through the trough.

VisitBritain's revised 2026 forecast distinguishes European and long-haul performance and records weaker real spending than nominal spending.[4] The borrower should therefore segment recovery rather than compare only total revenue. A city hotel dependent on long-haul corporate guests, a coastal leisure property and a regional pub group face different recovery drivers. The dashboard should mirror the actual customer and property mix.

Figure 5. Illustrative post-refurbishment stabilisation dashboard

STABILISATION REQUIRES SUSTAINED OPERATING AND CASH EVIDENCE



Metrics are hypothetical and show the progression from reopening to a sustainable debt-service profile.

Table 5. Stabilisation and protection release framework

Milestone	Evidence	Protection affected	Failed milestone response
practical completion	certificates, snagging, licences and rooms returned	final refurbishment draw	retain contingency and update cost-to-complete
operating ramp	occupancy, rate, contribution and guest measures	information frequency and capex controls	operating review and revised commercial plan
cash conversion	bank receipts, supplier ageing and 13-week forecast	liquidity reserve step-down	preserve reserve and increase cash sweep
covenant compliance	definitions, calculations and certificate	temporary covenant headroom	cure, waiver or restructuring review
sustained stabilisation	agreed metrics across defined periods	margin step-down and permitted distributions	continue protections until evidence is achieved

The evidence period should cover the relevant seasonal cycle.

19. Document the reset as an executable control package

The finance documents should translate the model into enforceable definitions, conditions, undertakings, representations, events of default, information rights, security and remedies. The parties should align the model, term sheet, facility agreement, intercreditor agreement, hedging, security and account documents. A covenant threshold is ineffective if its accounting definition differs from the model or if the lender cannot obtain the data needed to test it.

Conditions precedent should cover corporate authority, financial information, property and lease evidence, licences, insurance, security, account control, capex budget, contractor arrangements, technical reports, valuation, tax and legal opinions where appropriate. Subsequent conditions can address items that cannot be completed before closing without weakening essential Day One protection. Each condition needs an owner and deadline.

Part 26A of the Companies Act 2006 provides a restructuring-plan mechanism for companies facing financial difficulty and can bind dissenting classes subject to statutory and court requirements.[18] HMRC guidance states that it considers plans case by case and expects truthful, evidence-backed proposals, realistic forecasts, full tax filings and a viable path to future payment.[19] A consensual amendment may avoid formal proceedings, but the alternatives analysis should be prepared early enough to remain credible.

Accounting for a debt modification requires separate analysis. The IASB's 2026 amortised-cost measurement project is considering how IFRS 9 should address whether a financial-instrument modification is substantial and results in derecognition.[20] Borrowers and lenders should obtain current accounting advice on modification, fees, effective interest, expected credit loss and disclosures. The legal effectiveness of an amendment does not determine its accounting treatment.

20. Run the financing through a ninety-day execution plan

The first ten business days should establish liquidity control. The borrower should deliver daily cash, a 13-week forecast, account balances, debt, supplier ageing, tax status, payroll, critical contracts, capex status and immediate operational risks. The lender should identify defaults, reservation-of-rights requirements and permitted funding. Advisers should be appointed only to defined workstreams with clear reliance and deadlines.

The next thirty days should rebuild the operating model and refurbishment case. Site and channel data should reconcile to accounts and cash. The technical team should validate scope, schedule, cost-to-complete and compliance. The commercial team should test booking pace, pricing and recovery. The financing workstream should compare maturity extension, revolver, delayed draw, asset finance, equity and asset-sale options. The parties should agree the base case, downside and liquidity minimum.

By day sixty, the term sheet and documentation should reflect the verified plan. Sponsor support, reserves, covenant definitions, draw tests, security, reporting, fees and governance should be agreed in principle. Unresolved diligence should be mapped to conditions or specific protections. The borrower should begin the operating actions that do not depend on closing, such as reporting improvements, supplier negotiations and capex controls.

By day ninety, the financing should close only if the sources cover completion, liquidity and debt service under the agreed case. Accounts and reporting should operate from Day One. The first compliance, capex and cash reviews should already be scheduled. The investment committee should retain a one-page control sheet showing the monthly liquidity trough, remaining cost-to-complete, reserve balances, covenant headroom, stabilisation milestones and next decision date.

The durable credit proposition is simple: term debt funds sustainable cash flow; seasonal liquidity funds a predictable trough; refurbishment debt funds certified value-creating work; reserves protect continuity; covenants test the recovery path; and information rights allow action before cash is exhausted. A structure that preserves these distinctions gives borrower and lender a shared operating language through the refurbishment and stabilisation cycle.

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