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The Einstein Method — a graduate capstone thesis

A proposed analytical protocol seeking industry judgment, not applause.

The orphaned deal: a complement to institutional underwriting.

Small hotel and motel loans — two to ten million dollars — are often too small for the institutional process built to judge them, and too idiosyncratic for the box that process uses. Nobody is wrong when these deals stall; the economics of rigor simply do not clear at that size. This capstone asks whether a disciplined operator-lens read, run to the industry's own standards, can serve the segment the machine leaves behind. It is a research question, not a deployed process. No loans are originated here, no capital is raised, and no platform operates.

WHAT THE INDUSTRY ALREADY DOES WELL

What the industry already does well.

This essay begins with respect, because the record earns it. The institutional hotel research houses, advisory and brokerage firms, and specialized hotel lending desks run forward pro formas, normalize EBITDA, sensitize debt-service coverage, and read franchise and management agreements with genuine expertise. Bank credit culture — shaped by regulatory capital treatment, concentration limits, and examiner scrutiny — produces consistent, comparable decisions at scale. Nothing in this project disputes any of that. The observation is narrower and structural: that rigor has a cost per file, and on a $2–10M motel or small-hotel deal, the cost frequently exceeds what the deal can carry. The deal is not rejected so much as orphaned. That is the space this method is built to occupy — beside the industry, not against it.

WHERE A SMALL DEAL DOESN'T FIT THE COST MODEL

Five places a small deal doesn't fit the cost model.

Standard institutional screens are sensible at the scale they were designed for. Taken together on a small file, they describe five structural frictions — not five failures:

- Seasoning. Two years of clean, stabilized statements are a reasonable ask — one a renovated or repositioned hotel cannot meet by definition. The requirement is sound; the asset class simply cannot always produce it.
- Debt-service coverage from a single trailing period. A sound ratio priced on one period, for an asset whose revenue resets nightly. Complete enough at institutional scale; thin on a $3M file where no one can afford a deeper look.

- Property type read inside commercial real estate policy. A reasonable shorthand that misses the operating business attached to the building — and the committee cost of correcting it rarely clears on a small deal.
- Borrower profile calibrated for diversified sponsors. Global cash-flow and net-worth tests designed for scale can misread the focused owner-operator whose capital sits in the sector they actually know.
- Brand and PIP read as pure liability at closing. A PIP is a real, funded cash obligation — that is not in dispute. It is also the capital plan that buys the asset its post-renovation revenue. Both facts belong in the file.

THE EINSTEIN METHOD — A DISCIPLINE, NOT AN INVENTION

The Einstein Method — a discipline, not an invention.

None of the eight steps below is a technique lenders have never heard of; most are standard practice on institutional files. The claim is narrower and, I think, more honest: run as a sequence, scaled to a small deal, with the reasoning written down at each step, they move a file from a broker's narrative to a decision someone can be held to — and that a lender can reuse.

E Examine market — Supply pipeline and demand drivers; whether the submarket can absorb what is already under construction.

I Interpret meaning — Pricing power and RevPAR resilience — whether the asset holds rate when the market softens.

N Normalize financials — Owner anomalies, related-party charges, skewed payroll, one-time credits, and under-reserved replacement lines stripped out until the operating truth shows.

S Stress-test assumptions — Capital budgets, FF&E; reserves, and wage inflation tested against what actually happened to comparable assets, not against what the model needs to be true.

T Test downside — Recession-level occupancy troughs run against debt service. The question here is survival, not upside. This is a DSCR — the method does not reject the ratio; it refuses to accept a single trailing one as sufficient.

E Evaluate exit — Refinance and sale under cap-rate expansion, with the debt yield that would actually clear at maturity, not the one assumed at close.

I Identify risk — Franchise agreements, management contracts, PIP obligations, and ground leases read in full. The risk that kills a hotel loan is usually on paper, not in the P&L.;

N Name decision — A documented posture, with the reasoning written down so it can be revisited when the outcome is known.

FOUR VERDICTS — DOCUMENTATION, NOT DISCOVERY

Four verdicts — documentation, not discovery.

Fund, restructure, watch, or pass. Credit committees already produce these outcomes — approve, counter-offer, hold, decline — so the verdicts are not the novelty. The discipline is the demand that the reasoning be written and revisitable: a verdict can be argued with; a silent decline cannot. The practical value lands on the owner and the referring broker or lender alike — a documented reason tells everyone exactly what would have to change for the answer to become yes.

THE HONEST BOUNDARY BETWEEN VALUE AND CREDIT

The honest boundary between value and credit.

The sharpest claim in this framework — that a PIP is a value plan rather than only a liability — is also the one most easily overstated, so it should be stated precisely. A PIP is a real cash obligation at closing. Calling it a “value plan” does not make the obligation disappear, and it does not change the credit risk a lender takes at funding. What the method claims is narrower: for a restructure or value read, the asset should be weighed against its post-renovation operating reality, not only the trailing performance of a previous, less efficient operator. That is a value-investing lens any practitioner is free to apply. It is not a claim that future value satisfies present creditworthiness — a lender is still owed before that value materializes.

THE CAPITAL GAP — A HYPOTHESIS TO TEST WITH LENDERS

The capital gap — a hypothesis to test with lenders.

If some declined small deals are viable on the asset′s own terms, there should be a measurable gap: sound acquisitions, refinances, and renovations that stall on structure and cost rather than merit. This capstone does not have the data to prove the gap exists or to size it, and it says so. The cleanest test is a partnership, not a critique: read a sample of declined files with the method, with the cooperation of the lenders who declined them, and compare outcomes. If the method′s “restructure” verdicts do not outperform the original “no,” the institutional answer was right. Either result is useful; only the test distinguishes them.

WHO FUNDS THE DEAL — AND HOW THIS STARTS

Who funds the deal — and how this starts.

The method produces verdicts; it does not produce capital. The capital already exists — debt funds, bridge lenders, SBA and USDA programs, and hospitality-focused private credit all serve this

space, priced above bank debt for sound reasons. The near-term question of this project is therefore deliberately modest: how would a well-documented $2–10M deal find its way, through the lending systems that already exist, to the source whose mandate fits? The research question — whether the operator-lens read reliably justifies the spread on viable-but-declined deals — is answered with data and practitioner critique, not by building a platform first. This essay brokers no deals, analyzes no one's file, and places no capital.

A REQUEST FOR JUDGMENT, NOT APPLAUSE

A request for judgment, not applause.

The hospitality sector is served by institutions whose templates are the rational output of a regulated system optimizing for comparability and capital charge. The argument here is only that rational-for-the-system leaves a segment unattended — and that a practitioner working that segment to the industry's own standards can add value to the hotel buying process rather than noise. That is a claim worth testing, and not a claim worth believing on biography. The forty years behind it are the reason the question was asked, not the reason it should be answered yes. If you lend, broker, or advise in this sector, I would rather hear the flaw than the compliment.

AN HONEST BOUNDARY

This is academic work. No loans have been originated, no capital has been raised, and no lending platform is operating. Nothing here is an offer, a solicitation, or investment, legal, tax, or credit advice. Names of employers, firms, hotels, and brands appear for identification of background and market context only and do not imply criticism, endorsement, or current affiliation. © 2026 Miles Greve · BBMG Group.