

Hotel Investment in an Era of Natural Hazards: Leveraging ASTM's Property Resilience Assessment

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Key Take: *Property Resilience Assessments are relatively new and likely to become a part of hotel acquisitions, development, and financing.*

The ongoing and increasing threat of natural disasters throughout the country has expanded the costs and risks involved in acquiring, developing, and operating hotels as well as other investment properties. Depending upon the location of these assets, catastrophes may include damage from flooding, wildfires, coastal erosion, hurricanes, tornadoes, hail, the increasing frequency and severity of storms, and rising temperatures, among others. While developers, owners, lenders, and other market players may have a general understanding of these risks and how to mitigate their exposure to them, they often possess neither the data nor multidisciplinary approach to properly assess the exposure a particular property may have to these existing and increasing risks by virtue of its location,

building materials, grading, or even how the property is developed out in terms of drainage, generators, etc.

This is where the American Society for Testing and Materials, also known as the ASTM, steps in. The ASTM is well-known for developing the Environmental Site Assessment (ESA) Phase 1 in 1993, which today is used industry-wide as part of standard due diligence. A task group was organized by the ASTM to develop a guide for a uniform, efficient, and generalized approach for assessing a real property's specific physical risks created by natural hazards, and to present the property's ability to prepare for, adapt to, withstand, and recover from those hazards. Further, it provides a baseline assessment of occupant safety, damage, and functional recovery time. The new guide the ASTM developed is known as the Property Resilience Assessment (PRA) guide, which utilizes a new standard (E3429-24). Unlike ESAs, there is no corresponding statutory benefit by obtaining a PRA (i.e., obtaining an ESA may be used to determine whether a party has satisfied the "*all appropriate inquiries*" as a defense to certain environmental liabilities before purchasing or financing a property).

A large segment of the hotel industry is uniquely exposed to natural hazards due sometimes to high-risk locations — such as beachfront resorts, mountain lodges, and urban centers. For example, hotels in Florida and the Gulf Coast routinely face hurricane and flood risks, while properties in California and the Mountain West must contend with wildfires and seismic activity. The PRA guide is especially valuable for hoteliers, as it provides a three-stage process to identify relevant hazards, assess property vulnerabilities, and recommend resilience measures. Real-world examples underscore its importance: after Hurricane Ian in 2022, hotels with robust flood mitigation strategies, such as elevated lobbies and flood barriers, experienced less damage and faster recovery times than those without such measures ([Insurance](#)

Journal Staff Reports, 2024). Similarly, hotels in wildfire-prone areas that invest in fire-resistant materials and defensible space are better positioned to protect guests and maintain operations during fire seasons. By integrating PRA findings into their planning, hotel operators can make informed decisions about property design, emergency preparedness, and insurance needs, ultimately reducing business interruption and safeguarding their reputation.

To the extent that hotel owners and developers may be reticent to obtain a PRA, there is a fair chance that lenders will increasingly require their borrowers to obtain PRAs as a condition to closing, and also require that certain recommendations in the PRAs be undertaken for existing hotels, as well as in the plans and specifications for construction loans. Recognizing that natural hazards can significantly impact collateral value and loan performance, lenders are incorporating PRA reports into their underwriting processes to identify vulnerabilities and, in some cases, require mitigation before approving financing. For instance, a lender financing a coastal hotel may request a PRA to assess flood and storm surge risks, then mandate upgrades such as reinforced roofs or backup power systems as a condition of the loan.

Looking ahead, the prevalence of ASTM's Property Resilience Assessment guide is poised to increase as climate risk becomes a central concern for all real estate stakeholders. Lenders, in particular, are recognizing the value of standardized assessments in managing exposure to environmental liabilities and avoiding costly restoration and/or loan defaults. The guide's structured framework — identifying hazards, evaluating vulnerabilities, and recommending mitigation — provides a common language for communication between lenders, investors, insurers, and property owners. It remains to be seen how commonplace PRAs will become, but it is foreseeable that insurance underwriters use these reports to set premiums, and the market may

increasingly “reward” resilient properties with better financing terms and lower insurance costs. However, until such time as PRAs may become de facto required as an important step to getting financing or perhaps to even satisfy a concerned buyer, sellers should consult with their attorneys and advisors about the wisdom of allowing a PRA to be performed as part of a purchaser’s diligence, as it may discover some otherwise unknown risks and walk away from a transaction, with the potential of future prospective purchasers doggedly asking the “whys and wherefores” of what went wrong. To learn more about PRAs, please contact us.