EXCLUSIVE: Investor Seeks To Restructure £336M Hotel Loan As Deadline Looms

28 November 2021 Mike Phillips, Bisnow London

A Thai conglomerate is seeking to restructure £336M of debt secured against a UK hotel portfolio, as the hospitality sector remains one of the few areas of real estate seeing significant loan distress in the wake of the pandemic.

DTGO last week contacted investors that bought bonds secured against a portfolio of 17 UK hotels bought from Marathon Asset Management for £465M in December 2019, just before the emergence of Covid-19.

It seeks to modify a number of terms of the loan, including seeking a long-term waiver of the loan's debt yield covenant. This covenant specifies that income from a portfolio can't drop below a certain percentage of the amount of debt secured against it.

A waiver of this covenant has already been granted but expires in December 2021, at which point the loan is due to mature. When the waiver expires, the covenant will likely be breached, DTGO said. Because the loan matures in December, it can be extended for up to three years, but only if no covenants are in breach, so DTGO is seeking a waiver until December 2022 so the loan can be extended, with a new proposed maturity date of 2024.

The company said the loan-to-value covenant of the portfolio had not been breached at any point. It is being advised in its negotiation with bondholders by Brookland Partners.

So far DTGO has put up £38M in the form of early loan prepayments and cash to cover income shortfalls in exchange for loan covenant waivers. It will put up another £17M in exchange for the new covenant waivers and loan extension.

The loan is split between a £271M senior loan originally provided by Goldman Sachs, and then securitised in March 2020; and a further £65M mezzanine loan.

The 17 hotels in the portfolio are operated under franchise agreements by IHG, Hilton and Marriott.

DTGO is not the only investor trying to stave off loan defaults on a UK hotel portfolio. Property company London & Regional in October agreed to pay £43.5M so that potential loan defaults on a £350M hotel loan hit by the coronavirus pandemic are waived.

A notice to bondholders who own the loan said that the company run by billionaire brothers Ian and Richard Livingstone had agreed to repay £30M of the loan and put £13.5M into an account to be used for future interest payments.

In return, the bondholders agreed to waive a loan-to-value covenant default that happened in February this year and a debt-yield covenant default that first occurred in October last year.

The loan is secured against 49 UK limited-service hotels totalling 6,129 rooms managed by Atlas, which the hotel company London & Regional bought from Lone Star for £550M in 2016. The majority are operated under franchise agreements with IHG and Hilton under brands like Holiday Inn Express and Hampton by Hilton.

Another hotel CMBS transaction arranged by Goldman has also seen the borrower make a top-up payment. In 2018, a company of Israel's Dayan family paid Apollo £742M for a portfolio of 20 UK hotels operated under the Holiday Inn brand. The transaction was funded by a £450M senior loan provided by Goldman, and then securitised, and a £70M mezzanine loan.

The Dayan-backed company in July 2020 made a £28M payment in exchange for a series of loan covenant waivers, according to CBRE, which is also the servicer to this loan.

A notice last week said that one of the hotels in the portfolio, the 184-room Ariel hotel near Heathrow, had been sold to an unnamed buyer.