Hotel sales on the cards in £713m debt shake-up

Mike Phillips 29/03/2010 12:30

The workout of one of the biggest hotel deals in UK history has begun, with a full or partial sell-off of assets a possibility, according to experts.

Advisers have been appointed to restructure the £713m of debt used to finance the £1bn purchase of 73 hotels in 2005.

The hotels, 12 of which have now been sold, were bought by a consortium of GIC, Lehman Brothers and Canadian property company Realstar, and trade under the Holiday Inn and Crowne Plaza brands.

The loan, which was provided by Citigroup and later partly securitised, matures in May, but no refinancing plan has yet been put in place.

PricewaterhouseCoopers is advising the borrowers, and Brookland Partners is advising the servicer, Capita, which acts in the interest of investors who bought bonds secured against the assets.

There is an option to extend the loan if the loan-to-value ratio is 65% or less. However, the last valuation in April 2008 put the LTV at 67%.

In a recent note on the deal, bond analysts at Merrill Lynch said: "We see a range of potential outcomes, all of which look advantageous to noteholders. If the loan defaults in May, the borrower could lose control of the assets, and note-weighted average lengths could shorten depending on the speed of property sales. As there is significant equity in the properties, the borrower is likely to resist this happening.

"The borrower could sell assets or otherwise partially prepay the loan to reduce the LTV to 65%, which would facilitate the loan extension to 2012. Or the borrower could negotiate with noteholders to waive the LTV covenant and extend the loan. Noteholders may thus benefit from increased coupons, prepayment, and/or amortisation."

Any sales would test the market's appetite for large portfolios of hotel assets. At the luxury end of the market, Royal Bank of Scotland recently put up for sale the Grosvenor House and Cumberland hotels in central London.

mike.phillips@estatesgazette.com