

# Hotels Find Little Mortgage Relief

BY BEN EISEN

The coronavirus shutdown has spared few companies in the travel business, but times are especially tough for hotel owners whose mortgages are owned by Wall Street investors.

When they need relief, these borrowers go to so-called special servicers that negotiate on behalf of bondholders. Hotel owners seeking a break on their monthly payments say they haven't had much success negotiating with these firms, which have an obligation to recover as much money as possible for investors.

Just 20% of hotel owners whose loans had been packaged and sold to investors have been able to adjust payments in some form during the pandemic, versus 91% of hotel owners who borrowed from banks, according to a survey by the American Hotel and Lodging Association.

Some hotel owners are worried they will lose their properties to foreclosure, despite unprecedented stimulus by the federal government to help hard-hit industries weather the pandemic.

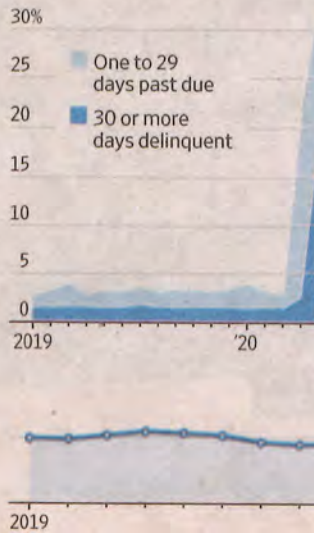
"You will see more foreclosures in the special servicing than anywhere else," said Michael Fay, a principal, managing director and head of the asset-resolution team at brokerage firm Avison Young.

When the hotel business took a dive this spring, Vinay Patel asked for a break on his mortgages, including two tied to properties in northern Virginia. The local bank that extended the mortgage on his Hampton Inn near Dulles International Airport allowed him to pause payments with few questions asked.

He has been trying for months to get relief from KeyCorp, the special servicer on the second property, a nearby Aloft hotel. He has sent the hotel's financials and other information but is still waiting for an answer.

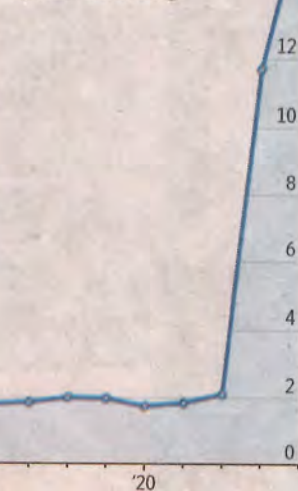
To stay current on the Aloft loan, he cut costs. He stopped

Hotel CMBS loans by payment status



Source: Trepp

Share of hotel CMBS loans that have been transferred to special servicing



the hotel's shuttle and laid off its full-time driver, something he hasn't had to do at his Hampton Inn. He dipped into his personal savings to make the June payment on that loan, but he isn't sure about July.

"We just don't know what is going to happen," said Mr. Patel, who owns and operates nine hotels and serves as treasurer of the Asian American Hotel Owners Association, a trade group.

A KeyCorp spokeswoman said the bank can't comment on the specifics in loan portfolios, but added that it "continues to work in good faith with the borrowers."

The roughly \$550 billion market for commercial-mortgage-backed securities includes loans to shopping centers, self-storage facilities and industrial parks. Hotels account for an \$86 billion chunk of the debt, and they have been hit especially hard by the travel restrictions put in place to curb the spread of the novel coronavirus.

Hotel owners choose upfront whether they want a loan that will ultimately be packaged into a security. Some hotel owners like these loans, whose interest rates are in line with what banks charge, because the lender can seize

the property following a default but can't come after the borrower for further payment.

There are trade-offs: Borrowers typically must get consent from the lender to take on additional debt, which has made it difficult for some borrowers to get the government's emergency small-business loans.

## Owners seeking a break on payments say they haven't had much success.

Industry representatives say the complexity of CMBS loan documents makes the process of providing relief time consuming, and special servicers weren't staffed to handle the onslaught of relief requests. Missed payments, they say, won't necessarily result in foreclosure.

"No one is going to take your asset before they have a full-blown conversation with you," said Lisa Pendergast, executive director of the CRE Finance Council, a trade group that counts special servicers among its members.

At the end of May, 19% of

CMBS loans backed by hotels were 30 or more days delinquent, up from 2.5% a month earlier, according to data from Trepp LLC. The jump was far bigger than for retail and industrial CMBS loans.

Some hotel owners who have managed to reach their servicers have found that the cost of entering into a payment deferral is higher than the relief on offer.

Richard Born said he recently approached a special servicer to defer interest payments on the mortgage of the Maritime Hotel in Manhattan. The monthly interest payments are about \$70,000, Mr. Born said, but the servicer demanded a fee of around \$250,000 just to talk about potential relief.

Mr. Born declined and continues to pay interest.

Hotel owners and their trade groups are pushing Congress and the Trump administration to step in to get special servicers to work with borrowers. Treasury Secretary Steven Mnuchin acknowledged the issue during a congressional hearing last month and suggested he might work with lawmakers on a fix.

Danny Gaekwad, a hotel developer in Ocala, Fla., with a CMBS loan on one of his properties, said he approached the firm that normally handles his payments about a deferral in April. The firm passed his request to the special servicer, Rialto Management Group LLC. He didn't get a response until this week, around the same time he missed his first payment.

A spokesman for Rialto said the company's policy is not to comment on individual loans.

Mr. Gaekwad said he delivered a letter on the matter to Vice President Mike Pence's staff when they attended an event together last month. He is also part of a WhatsApp chat group with more than 100 CMBS borrowers where they share the latest information.

"We live in fear every single day," he said.

—Konrad Putzier contributed to this article.