Why Keep Your Hotel Loan Current?

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September, 2014

While the performance of CMBS loans backed by hotels appears to have improved in pace with the economy, there are significant issues just below the financial foundation. Similar to what a Phase I study does in identifying potential or existing environmental contamination liabilities, I recently performed a study of 30 CMBS loans backed by hotels, representing slightly more than $600MM in outstanding balance. These loans were all current on their payments and appeared to be performing. But were they really performing???

Here's what I found:

1. The owners were funding approximately $18.5MM collectively a year in debt service shortfalls.

2. Using year-end 2013 NOI and a market cap rate for the geographic location of the hotel, it appears that many of the hotels are worth less than the current loan amount.

3. All loans matured within 2 years.

So, why would a hotel owner on a non-recourse loan keep his loan current only to face a potential maturity default in a few short years?

Are they simply too busy investing and managing other performing assets?

Are they not aware of their options?

Or, are they merely delaying and praying that property values will skyrocket between now and maturity?

As an owner, before you do any of these things, shouldn't you at least KNOW what your options are?

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