



## Hotel Del co-owner looking for help with loans

**By THOR KAMBAN BIBERMAN**, The Daily Transcript  
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Hotel del Coronado co-owner **Strategic Hotels & Resorts** -- has voluntarily placed \$620.5 million of the property's loans into special servicing -- to prevent them going into default in January.

According to a Strategic (NYSE: BEE) official, all \$620.5 million of this debt secured by the 757-room landmark hotel, matures in January.

"All the debt matures simultaneously," said Diane Morefield, Strategic Hotels chief financial officer.

The property, along with future development rights, was part of a \$745 million purchase of the resort in 2005.

**LNR Partners** (NYSE: LNR) has been named the special servicer on the debt comprised of a senior \$260 million piece securitized through COMM, 2006-FL12, a \$350 million mezzanine piece and a \$20 million credit facility out of which \$18.5 million has been drawn.

**Deutsche Bank** (NYSE: DB) is working with LNR on servicing of the commercial mortgage-backed security instruments.

Special serviced loans may either be put in voluntarily as a path to restructure debt, or the lender may force the issue. In this case, faced with the looming January deadline, Strategic Hotels wanted to be proactive, so it could get the ball rolling on a refinance before the loans matured early next year.

Both Alan Reay, **Atlas Hospitality** president, and hotel consultant Robert Rauch said the \$620.5 million debt on the property is huge by any standards.

"It's by far the largest amount of debt to go into special servicing in California this year," Reay said.

"It's not likely that the current debt is supported by the current cash flow," Rauch said.

Rauch said even if the hotel were able to manage an 80 percent occupancy and everything else went right, the hotel rooms and services would only net about \$30 million in profit.

In fact, *Commercial Real Estate Direct* reported the hotel's profit amounted to \$27.8 million in the 12 months ended June 30.

Instead, *Commercial Real Estate Direct* said the financing was underwritten under the assumption that the property would generate \$71.6 million of cash flow.

"I can't imagine how the current operations can pay the debt," Rauch said.

Strategic owns the resort, along with **Kohlberg Kravis Roberts & Co.** and **KSL Resorts**, and also manage the La Costa Resort & Spa, bought the asset and took out the loans in 2005.

"These loans originated in that 2005-2008 timeframe were at the peak of the market," Reay said.

While the problems for Strategic and its other partners are daunting, Reay said, it is hard for him to believe that the lenders would allow one of the world's most famous hotels to be foreclosed upon.

In the meantime, gaining sufficient cash flow has been a challenge.

*Commercial Real Estate Direct* reported that while revenue per available room (RevPAR) rates have picked up in recent weeks, they haven't fully recovered from the recession.

While better room rates may be returning, Strategic is quick to point out that the existing debt structure is unworkable in its current form.

The problem is that the property would have trouble servicing the debt in the best of times.

"Due to the severe contraction in the credit markets, the reduction in real estate values generally across the luxury hospitality market, and the size and complexity of this existing financing, there can be no assurance that the company would be able to refinance or restructure this indebtedness, or cure or receive a waiver for an event of default if one were to occur," Strategic wrote in a recent regulatory filing.

Morefield, who said no one will notice any change in the Hotel Del's day-to-day operations, said she also doesn't expect the hoped-for restructuring to impact the hotel's long-term expansion plans approved by the California Coastal Commission earlier this fall.

"These entitlements are good for several years," said Morefield, adding she is confident that the debt will be restructured and the hotel's finances will be sound for many years to come.

Plans at the hotel call for the addition of 144 hotel condominium units, a 20,000-square-foot conference center, along with subterranean parking -- configured in such a way so as not to rest atop an earthquake fault.

Strategic and KSL also agreed to pay \$1.05 million in order to build low-cost lodging offsite.

It appears this mitigation lodging will be developed for a hostel in Chula Vista.

Strategic Hotels & Resorts posted a loss of \$30.78 million on \$181.82 million in revenues for the quarter ended Sept. 30 -- compared with a \$65.88 million loss on \$170.84 million in revenues for the like period a year earlier.

The hotel real estate investment trust recorded a \$103.96 million loss on \$534.9 million in revenues through the year's first nine months -- compared to a \$180.72 million loss on \$515.04 million in revenues for the comparable period a year earlier.

The REIT's stock ended Monday unchanged at \$5. It has ranged from \$6.97 down to \$1.43-per-share during the past 52 weeks.