

HOTEL CRISIS STRATEGIES

A client service of The Plasencia Group, Inc.

FORECLOSURE TIME

A subordination agreement (SNDA) is indispensable in this turbulent period

In the hotel industry, a subordination agreement is typically a stand-alone, tri-party agreement that is executed in conjunction with a property's loan documents. The three subjects who are parties to the subordination agreement are the lender, the borrower (owner), and the operator or management company.

Given the crises being caused by the current economic downturn at virtually every hotel in the country, lenders should ensure that they have a clear understanding of the provisions of, and rights granted by, their respective SNDA agreements and act accordingly and deliberately.

****Now is not the time for vacillation.****

Historically, hotel operations and facilities have deteriorated dramatically and precipitously when revenue-generating guests simply aren't coming through the front doors. The lodging industry is now experiencing revenue declines at unprecedented levels, and it is clear that many hotels will find themselves unable to make payroll, much less make debt service payments. Every 10% reduction in hotel revenues represents a decline of 25% to 50% in net operating income.

Many of our clients, especially those lenders who have lived through past down-cycles, are taking proactive steps now – staying ahead of the issue – rather than burying their heads in the sand expecting the storm to blow over. Our staff's key focus is to determine the severity of the problem at individual hotels, and then take practical steps toward verifying that costs are being aggressively contained, thus ensuring that more top-line revenues are retained to service debt.

The Plasencia Group is prepared to actively work with borrowers and operators as directed by our insurance or banking clients. Please let us know if we may be of service in protecting your current loan and potentially, your equity interests.

SNDA Primer

A subordination agreement, known in the lodging industry as "the SNDA," addresses subordination, non-disturbance and attornment issues among the related parties. Think of it as a three-sided triangle with the following key components:

Subordination

A lender will typically require a borrower to compel the hotel operator, brand, or management company to subordinate its management interest in the property to the lender's position. The subordination provision is critical in any loan documentation since the lender will require full rights to the property should there be a default by the borrower at any point during the term of the loan.

Non-Disturbance

While the operator may be required to give up some or all of its rights in the case of a default, the non-disturbance provision typically calls for the lender to not disturb the operator's enjoyment or control of the hotel, or to terminate the management agreement so long as the loan is actually performing and in good standing. In the case of default, certain parts of the non-disturbance provision may quickly become moot.

Attornment

In the case of a loan default, a lender and borrower may agree to a deed in lieu of foreclosure, or a lender may actually foreclose to protect its interests. The provisions of the attornment language will activate, requiring the operator or manager to accept the lender (or the lender's successor) as the new owner of the hotel. In some cases, the lender may have the right to terminate the operator at foreclosure.

To discuss how The Plasencia Group can quickly respond to your needs, please contact Lou Plasencia, CEO, or Rich Conti, President at (813) 932-1234.