

## No Vacancy: Three Hotels Succumb to Pandemic-Related Pressures

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By Edward E. Neiger

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### EHT US1 Inc.

On Jan. 18, 2021, EHT US1 Inc.—the U.S. affiliate of Singapore-based Eagle Hospitality Real Estate Investment Trust—and certain affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. (Bankr. D. Del. Case No. 21-10036).

Eagle Hospitality Group owns a portfolio of 18 full-service hotels, 15 of which are subject to the bankruptcy proceeding. The filing

was precipitated by the dual pressures of the COVID-19 pandemic and resulting restrictions of business and leisure travel and ongoing litigation with the debtors' founders over a default on master lease payments, tax payments and management services by founder-controlled entities.

The company intended to use the bankruptcy process to facilitate the marketing and sale of its hotel portfolio.

To finance their operations in bankruptcy the debtors sought and ultimately obtained final approval of an aggregate \$100 million DIP term loan facility agented by Wilmington Trust and provided by Monarch Alternative Capital.

On March 22, 2021, Eagle Hospitality obtained approval of bidding procedures for the sale of its assets, with a Monarch affiliate selected as



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the stalking horse bidder with a \$470 million stalking horse bid, subject to potential reduction based on exclusion of the Queen Mary hotel property from the bid.

The approved bid procedures provided for a May 14, 2021 bid deadline, with an auction set for May 20, 2021 if necessary and a final hearing on or before May 28, 2021.

**FMT SJ LLC**

On March 5, 2021, FMT SJ LLC—California luxury hotel Fairmont San Jose—filed a petition for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. The filing was followed on March 10, 2021 by affiliate SC SJ Holdings LLC. (Bankr. D. Del. Case No. 21-10521).

Yet another victim of the COVID-19 pandemic, Fairmont San Jose sought bankruptcy protection after shutting down hotel operations with hopes to reopen within three months after reorganizing to address the plummeting occupancy rates brought on by the pandemic.

Through the bankruptcy process, the debtors intend to rebrand, contract with a new management company and seek to extend mortgage obligations.

To that end, on March 11, 2021, the debtors filed a motion seeking to establish a marketing process to solicit hotel brands to manage the hotel property. An order authorizing the marketing process was entered on April 6, 2021 and established a May 7, 2021 deadline for receipt of qualified manager bids and May 12, 2021 deadline for selection of a prevailing manager.

Concurrently, on March 22, 2021, the debtors filed their Chapter 11 plan and accompanying disclosure statement. The plan provides that if the brand marketing process is successful, and the debtors obtain a brand partner and new financing, the debtors secure a three-year extension of the maturity date of their secured loan agreement. If, however, the marketing process is not successful, the debtors will not receive the benefit of a three-year maturity extension. A hearing in connection with the disclosure statement is presently scheduled for May 17, 2021.

**Wardman Hotel Owners LLC**

On Jan. 11, 2021, Wardman Hotel Owners LLC—Marriott-flagged Wardman Park Hotel—filed a petition for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. (Bankr. D. Del. Case No. 21-10023).

The debtor sought bankruptcy protection citing ongoing losses resulting from COVID-19 shutdowns and litigation with Marriott and the hotel's equity owners. Specifically, the hotel was permanently closed in December after a judge in Maryland's Montgomery County Circuit Court issued an injunction directing Wardman Hotel to meet Marriott capital calls that

could approach \$90 million over the next two years.

Concurrently with the bankruptcy filing, the debtor filed a motion seeking to reject its management agreement with Marriott.

Through the bankruptcy process, Wardman Hotel intends to conduct an orderly sale of substantially all of its assets and wind down its remaining business.

To finance the process, the debtor sought approval of a \$8 million DIP loan to be provided by Pacific Life Insurance Company. The financing request was ultimately approved on a final basis on Feb. 9, 2021 but previewed a looming fight with Marriott over the propriety of the Chapter 11 filing.

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