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Hotel Company Columbia Sussex Corporation: Flagging Debt Issues for Lenders and CMBS Bondholders

Lodging company Columbia Sussex Corporation, owned by William Yung, III was once one of the U.S's largest owners of full-service hotels. The company grew during the boom years; credit was easy and Columbia Sussex borrowed heavily. At its peak, Columbia Sussex had over 80 properties; today the company has less than half of that number. Much of the shrinkage is attributable to the company's failure to meet debt obligations, an issue the company has struggled with even while the lodging industry recovered following the global financial crisis.

Columbia Sussex's properties are typically financed through a CMBS structure. The company has repeatedly lost hotels to debt, at times amid questions over whether it had sufficiently maintained the underlying asset. This history may raise flags for lenders considering whether to extend credit to Columbia Sussex and to bondholders who are considering whether to invest in securities derived from such debt.

Taking as our starting point the hospitality portfolio Columbia Sussex held in 2007, the peak of the last hotel cycle, we review properties the company has lost to lenders as well as current assets facing foreclosure. We take note of cases where debt servicers or others alleged that Columbia Sussex neglected to adequately maintain the asset (allegations disputed by the company), or where renovations were undertaken after Columbia Sussex lost control of the property. We revisit the case of the Hilton Anchorage, which is likely to be seeking refinancing in the near future, in light of these past performance issues.

Specifically, we find that:

- In 2007 Columbia Sussex owned 85 hotel properties with 32,604 rooms; today the company has only 39[a] properties with 13,314 rooms.[1] [2]
- 44 hotels representing 20,169 rooms – about 62% of its 2007 portfolio - were lost due to foreclosure, in bankruptcy, or under other circumstances consistent with a failure to meet debt obligations, such as sale following appointment of a receiver. Five of its 39[b] hotels are facing debt problems which could result in the loss of these properties.
- Some of Columbia Sussex's debt problems occurred at a time of sustained recovery in the hotel industry; now that several indicators suggest the upcycle may be drawing to a close, we question whether Columbia Sussex can weather a more challenging economic environment.
- In 2010, Columbia Sussex defaulted on a $134.3 million loan at the Westin Casuarina in Las Vegas.[3] The hotel loan was resolved when the property was sold at a $66.6 million loss which **"wiped out the G and H classes of bondholders and about 85% of the F class"** according to business press reports.[4]

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a. Includes Renaissance Philadelphia Airport which is no longer listed on Columbia Sussex's website but latest available documents on property's loan indicate that foreclosure is being pursued. See below.
b. Includes 27 of 85 properties Columbia Sussex held onto from its 2007 portfolio plus acquisitions since that time.

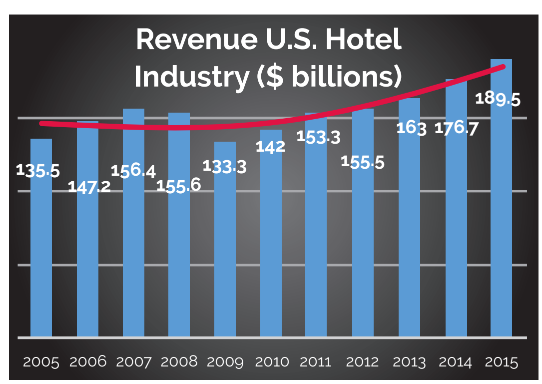
- Columbia Sussex owner William Yung lost several of his gaming assets including the Atlantic City Tropicana casino to bankruptcy after the New Jersey Casino Control Commission (NJCCC) denied a subsidiary's license renewal in Atlantic City in 2007. Columbia Sussex had "cut nearly 1,000 jobs, leading to problems with cleanliness, service and compliance with state casino regulations."[5]

As hotel industry fundamentals show signs of weakening, lenders must exercise heightened scrutiny as Columbia Sussex seeks refinancing for maturing loans and financing for new acquisitions. Columbia Sussex's Hilton Anchorage Hotel has an upcoming loan maturity date of March 2017 and the company will likely be looking to refinance this loan. However, lenders should be aware of risks associated with the property:

- The **Hilton Anchorage loan, the third largest loan in securitization JPMCC 2007-CIBC18, was placed on a servicer watchlist on June 7, 2016.** As of October, 2016 the property had an outstanding loan balance of nearly $81.8 million.[6] For period ending June 30, 2016 the Hilton Anchorage had a Debt Service Coverage Ratio (DSCR) of only 1.16. The property also experienced a drop in its occupancy levels from the same period the year before.[7] The Hilton Anchorage's latest available data on occupancy and DSCR levels falls within the range of Columbia Sussex's currently distressed properties. See Table 1 below for a comparison of the Hilton Anchorage's occupancy and DSCR levels compared to those of Columbia Sussex's currently distressed loans.[8]
- The Hilton Anchorage loan represents about 14% of the pool of loans in bond class AJ.[9] Since 2009, the bond has been downgraded five times by Moody's and six times by S&P.[10] [11]On October 4, 2016 Moody's downgraded the bond to a Caa1.[12]
- The Hilton Anchorage has been combatting persistent mold since at least 2014. Lead and asbestos have also been identified at the property. Lenders should strongly consider the condition of the aging property in assessing whether to refinance the hotel's debt, particularly in light of what may become a challenging financial environment for the hotel industry in general.
- Another Columbia Sussex-owned property was reported to have had mold issues prior to foreclosure. The company sold what had previously been the Marriott Hotel and Convention Center in Oklahoma City to its lender Wells Fargo at a sheriff's sale in December 2015, after Wells Fargo initiated a foreclosure action against the property in Oklahoma state court in 2012. In December 2014, the court-appointed receiver reported that mold was prevalent at the hotel, and Wells Fargo amended its lawsuit in May 2015 to seek damages for alleged remediation costs. A decree of foreclosure was entered in October 2015.[13]

1. Distressed during the best of times?

The U.S. hotel cycle, which is highly cyclical, averages about 7 years from peak to peak.[14] The hotel industry last reached the peak of its cycle in around May 2007, followed by a deep trough during by the financial crisis. The industry is now in its seventh year of improving fundamentals, with revenues and profits both reaching record levels in 2015.[15]



U.S. Hotel Industry Revenue ('05-'15)[16]

There are several indications that the lodging upcycle is now beginning to wind down. In October 2016 Wells Fargo reported,

> "We are reducing our 2016/2017 RevPAR growth assumptions as erosion in critical industry drivers (corporate profits, real GDP, business fixed investment, etc.) is placing continued downward pressure on room demand in the face of a slow and steady acceleration in room supply. If the current 2017 economic forecast (2.2% real GDP) proves accurate, 2.5% RevPAR growth could persist, but if the outlook softens by 100bp as we have seen in many of the past few years, the prospect of flat 2017 RevPAR increases."[17]

Smith Travel Research (STR) expects growth in revenue per available room (RevPAR) to decelerate in 2016, driven entirely by increases in average daily room rates (ADR), while occupancy levels are expected to remain flat. In 2017, STR predicts hotel occupancy rates will begin to decline as the supply of hotel rooms outpaces demand for the first time in several years.[18]

Columbia Sussex was hit hard during the last recession. At its peak in 2007, Columbia Sussex had 85 hotels with over 32,000 rooms, but by January 2012 its portfolio had shrunk to 43 hotels with 14,170 rooms.[19] Much of the portfolio was lost to debt.

2. Over 20,000 rooms lost to debt.

At its peak in 2007, Columbia Sussex owned 85 hotels with 32,604 rooms.[c] Of those, 44 properties with 20,169 rooms, representing about 62% of rooms in the portfolio, have been offloaded as a result of foreclosure, bankruptcy, or under circumstances consistent with debt obligations not being met, such as sale following appointment of a receiver.[d] An additional five hotels, representing 1908[e] rooms, currently have distressed loans (discussed below) and are at risk of being lost to debt; if this occurs, it will increase the percentage of rooms offloaded to debt to about 68%.

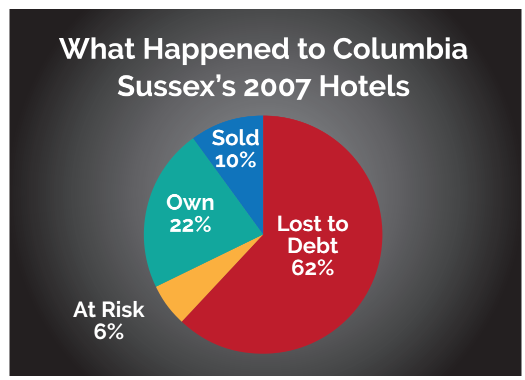


Chart 1. As a percentage of total rooms from 2007 portfolio

Included in the rooms offloaded to debt are 5,821 rooms (or 14 hotels) that were acquired by Blackstone after it bought out $300 million in debt on the 14 properties[f] at a steep discount.[20] [21]Blackstone seized the portfolio via a "deed in lieu of foreclosure" in December 2010 after the loan securing the portfolio had hit maturity default.[22] Blackstone had previously sold the same hotels to Columbia Sussex for $1.4 billion in 2006.[23] [24]

c. Room count as reported on Columbia Sussex's website on February 3, 2007. This count includes the Tan-Tar-A Estates, which was listed separately from the Tan-Tar-A Resort on the website and which had 392 rooms attributed to it.
d. Conclusions based upon UNITE HERE's analysis of properties in Columbia Sussex listed portfolio in 2007 and the reported disposition of those assets since then. Data on file. Not included as lost to debt were the 392 rooms associated with the Tan-Tar-A Estates because of lack of available evidence; the 497 rooms associated with the Tan-Tar-A Resort are included (see discussion below).
e. Room count as reported on Columbia Sussex website in 2007.
f. One of the properties acquired by Blackstone included the Phoenix Marriott Tempe which Columbia Sussex recently reacquired.

Snapshots of Hospitality and Gaming Assets Losses:

a. Westin Casuarina, Las Vegas, NV (2010)

The loan for the Westin Casuarina in Las Vegas (securitization WBCMT 2005-C22) was originated on September 15, 2005.[25] Lenders took over the Westin Casuarina after it was reported that Columbia Sussex defaulted on its $134.3 million loan in April 2010. The hotel's general manager is reported to have "said the parent company isn't fighting the foreclosure and the change in management will be good for the 826-room hotel and its 400 employees."[26]In September 2015, it was reported that the hotel loan was resolved when the property sold at a loss of $66.6 million; resulting in "bondholders incurring a sizable loss on the property."[27]

It was reported that the loan "made up 13.1 percent of the C22 deal before the resolution. The loss wiped out the G and H classes of bondholders and about 85% of the F class."[28]

b. Crowne Plaza Tampa East, Tampa, FL (2011)

Columbia Sussex defaulted on a $27.2 million mortgage (securitization *GECMC 2005-C4*) on the Crowne Plaza Tampa East.[29] In December 2009 it was reported that the "[p]roperty shows signs of significant deferred maintenance including the need for a complete roof replacement. Lock box was trapped in August of 2009 and a receiver was put in place in mid January 2010. The new management has already made good progress and is actively marketing group business. New business manager has been put in place and the expectations are that operations should improve over last year."[30]In October 2011, it was reported that a group led by Interstate Hotels purchased the hotel which "would undergo an $8.5 million renovation."[31]

c. Tan-Tar-A Resort, Osage Beach, MO (receivership, 2012)

Columbia Sussex purchased Tan-Tar-A Resort in Osage Beach, Missouri in 2001.[32] Columbia Sussex had secured a refinance loan for Tan-Tar-A in 2006.[33] The securitization's distribution date statement from December 2012 indicated that the "Loan [was] transferred to special servicing effective 4/25/12 for imminent default…Borrower not interested in modification. Receiver was appointed 9/12/12. Pursuing foreclosure."[34] On September 12, 2012, it was reported that "Driftwood Hospitality Management…announced their appointment to manage the 420-acre Tan-Tar-A Resort in Osage Beach, Missouri."[35] Columbia Sussex's ownership entity, Columbia Properties Ozarks, L.P., filed dissolution papers in Missouri in December 2016 stating that it "no longer owns assets."[36]

d. Crowne Plaza St. Louis Airport, Bridgeton, MO (2012)

Columbia Sussex purchased the Crowne Plaza St. Louis Airport on December 19, 2005; taking out a $26.5 million loan on the property.[37] In January, 2012 it was reported that the hotel was "among about 17 hotels, all owned by Columbia Sussex Corp., pushed toward default by Wachovia."[38]An H&H Financial Group Inc. consultant stated, "…REVPAR had been declining for the last three years,…This year it had essentially bottomed out. It was at a level that it would be difficult for a full-service hotel to survive."[39] A foreclosure sale occurred on February 14, 2012; the property sold for $9 million.[40]

3. Around 1900 Rooms facing foreclosure.

Even in at a prosperous time for the lodging industry, Columbia Sussex continues to face debt problems. Several loans are currently delinquent and/or at risk of foreclosure:

a. Foreclosure is being pursued at Two Columbia Sussex Hotels with Loans Securitized in BACM-2006-3

Minneapolis Airport Marriott

Lenders are pursuing foreclosure at the Columbia-Sussex owned Minneapolis Airport Marriott. In July, 2016 Fitch Ratings downgraded three classes of BACM 2006-3, attributed in part, to the transfer of Columbia Sussex's Minneapolis Airport Marriott loan to special servicing.[41] Fitch Ratings notes that the second largest "contributor to expected losses is the specially-serviced Minneapolis Airport Marriott loan (13.8%)…"[42] The loan was "transferred to Special Servicing effective 3/23/16 due to imminent maturity default. A maturity default occurred 6/1/2016. Demand Letter sent on 6/22/16. Noteholder counsel is pursuing the appointment of a receiver. Rights and remedies are being pursued through a judicial foreclosure."[43]

Marriott Phoenix Airport

The Columbia Sussex-owned Marriott Phoenix Airport loan was reportedly "transferred to Special Servicing (CW Capital) effective 3/23/16 due to imminent maturity default. A maturity default occurred 6/1/2016. Demand Letter sent on 6/22/16. Noteholder counsel is pursuing the appointment of a receiver. Rights and remedies are being pursued through a non-judicial foreclosure."[44]

Analysts at Barclays previously asserted that "the property ha[d] not been renovated since it was built in 1999."[45]

b. Foreclosure being pursued at Renaissance Philadelphia Airport (WBCMT 2006-C23)

Columbia Sussex's Renaissance Philadelphia Airport's loan was reported to have defaulted after not being paid off by its January 11th, 2016 maturity date. The securitization's latest distribution date statement indicates that "modification discussions [are] occurring while foreclosure is pursued."[46]

c. Two Columbia Sussex Loans Securitized in JPMCC 2006-CIBC15 Facing Foreclosure

The loan for the Marriott Knoxville located at 501 South East Hill Avenue, Knoxville, TN matured on June 1st, 2016. The lender has reportedly engaged counsel and will proceed with foreclosure.[47]

The loan for the Marriott – Jackson, located at 200 East Amite St, Jackson, MS matured on June 1st, 2016. The lender has reportedly engaged counsel and will proceed with foreclosure.[48]

4. Questions Over Columbia Sussex's Upkeep of Assets

When an owner fails to make the necessary investments to maintain or improve hospitality assets, it can send the property into a downward spiral. We review investments where debt servicers and others alleged a lapse in maintenance at hospitality and gaming assets owned by Columbia Sussex, or where they undertook renovations upon taking control. Columbia Sussex disputed these allegations.

a. Marriott Hotel and Convention Center, Oklahoma City, OK

Columbia Sussex sold what had previously been the Marriott Hotel and Convention Center in Oklahoma City to its lender Wells Fargo at a sheriff's sale in December 2015. The hotel had allegedly stopped making payments on its loan and by 2012 the property had been transferred to receivership following the initiation of a foreclosure action by Wells Fargo in Oklahoma state court.[49] In December 2014, the receiver submitted a report on the property in conjunction with the lawsuit, asserting that:

> "Based on the condition of the property, Marriott developed a deficiency list of items that required immediate attention. Receiver has negotiated a Franchise Agreement with Marriott effective March 1, 2013 for a six month period expiring August 31, 2013. . . On August 16, 2013 Receiver was granted an extension to the Franchise agreement till October 31, 2013 at which time Marriott reserved the right to terminate the agreement with 30 day notice. The notice from Marriott to terminate the franchise agreement was made public in November. The hotel de-flagged and converted into an independent brand on December 12th 2013."[50]

"The hotel had major mold issues identified in July on the 6th to 9th floors caused by leaking and corroded pipes in-between the bathroom walls."

Marriott Hotel & Convention Center, Oklahoma City, Receiver Report, December 2014

Among the key property issues reported by the Receiver in December 2014 was the alleged "mold…prevalent *throughout the hotel stemming from leaking pipes, condensation and roof leaks*." (emphasis added).[51] The Receiver' report asserted that,

> "*The hotel had major mold issues identified in July on the 6th to 9th floors caused by leaking and corroded pipes in-between the bathroom walls. A mitigation company was hired in August to remediate the problem and a plumber was contracted out to replaced [sic] the leaking pipes. Isolated pockets of guest rooms do exist that need mitigation attention due to this same issue that can be addressed internally*"(emphasis added).[52]

In an amended petition filed in May 2015, Wells Fargo sought to recoup $868,000 allegedly spent to remediate alleged "microbial growth and repair damages due to growth" (an allegation that Columbia Sussex denied) and $750,000 allegedly spent to make repairs such as a new roof, piping leaks, pool and pipe corrosion, and other issues (an allegation Columbia Sussex did not deny).[53] Columbia Sussex asserted in its defense that it had reached a settlement with the Plaintiff barring these claims and that it was not liable for the repairs, which it asserted were attributable to ordinary wear and tear. The case was closed after the court entered a decree of foreclosure in October 2015.

b. Westin Casuarina Resort & Spa (Cayman)

Through its subsidiary Galleon Beach Resort, Ltd., Columbia Sussex secured a $140 million loan for the Westin Causuarina Resort (securitization WBCMT 2007-C32) on May 31, 2007.[54] The securitization's distribution date statement from August 2014 indicated that the hotel's four diamond rating was only restored after the hotel had been placed in receivership and renovations were completed:

> The "[l]oan [was] transferred to Special Servicing effective 2/9/10 due to imminent default…Receiver in place as of 2/11/2011. A major renovation of rooms, lobby and other areas was completed in 2013. Renovation of meeting rooms, spa and restaurants were completed in 2014. The hotel recovered its AAA 4-Diamond Award in 2014 for the first time in many years. In May 2014 a loan sale agreement was executed and is expected to close in August 2014."[55]

c. Richmond Marriott West, Richmond, VA

Columbia Sussex purchased the Richmond Marriott West in Richmond, VA in 2005, but had stopped making loan payments by November 2012. In December 2012, HVS Consulting and Valuation Services prepared an appraisal report on the property. The report asserted that:

> [a]lthough the subject property is relatively young in age, the hotel has not been refurbished since opening in 2001. In order for the property to continue operating under the Marriott brand, a prospective buyer will likely need to invest additional funds to complete the necessary capital improvements to comply with current brand standards and negotiate a new franchise agreement.[56]

> "The [Richmond Marriott West'] s aging room product and new competition contributed to a decrease in the subject's competitive level and RevPAR penetration over the historical period reviewed."
>
> HVS Consulting, December 2012

The appraisal also asserted that the guestrooms "were beginning to look dated in comparison to the competitive standard" and that "guestrooms are in need of refurbishment, and are no longer competitive with the market or in compliance with Marriott's current brand standards."[57]A few guestrooms were noted as having "wall vinyl that was peeling away from the walls due to excessive humidity levels during the summer months."[58]Food and beverage and banquet facilities were similarly characterized as "dated."[59]In the kitchen, a "dishwasher was observed to be leaking, causing damage to surrounding drywall and flooring."[60]

The HVS appraisal was filed in conjunction with a lawsuit by the hotel's lender U.S. Bank, N.A. against the Columbia Sussex entity that held the hotel. The lawsuit sought damages and the appointment of a receiver. While denying allegations that the property was exhibiting signs of deterioration, **Columbia Sussex consented to the appointment of a receiver for the property, and in its response to the complaint stated that "the loan is currently in default and Columbia Properties has represented that it would close the Property if required to make payments on the loan."[61]**A receiver was appointed on December 6, 2013[62]and began operating the hotel on

December 11, 2013.[63] On June 9, 2014, the Receiver and Columbia Properties Richmond Ltd. (CSC) executed a deed in lieu of foreclosure transferring the property out of Columbia Sussex's hands.[64] [65]

d. Tropicana Casino and Resort, Atlantic City, NJ

In late 2006, the Yung-owned Tropicana Entertainment LLC issued $960 million in notes as part of its $2.8 billion purchase of Aztar Corp., thereby acquiring ownership of the Tropicana Casino and Resort in Atlantic City. By the end of 2007, Mr. Yung lost the Tropicana as state regulators denied his company's gaming license renewal and imposed a $750,000 fine.

The New Jersey Department of Law and Public Safety Division of Gaming Enforcement reported a number of concerns about the Tropicana in an October 2007 report to the New Jersey Casino Control Commission (NJCCC). Conducting an independent review to assess the impact of layoffs, cleanliness and customer service, the Division alleged that owners have **"shown little consideration toward their patrons, as workforce reductions have keenly affected the expectations of their patron base to visit a facility that is, at the very least, clean and able to provide customer service at the most basic level."**[66]

"Plainly, the adverse publicity that Tropicana has drawn highlights the need for every casino hotel to be ever vigilant in maintaining a facility that meets the statutory standard. Undoubtedly, Tropicana did not meet the standard at some point during the past year while under [Tropicana Casinos and Resorts, Inc.'s] control."

New Jersey Casino Control Commission, December 2007

In December 2007, the NJCCC denied the casino's application for renewal of its gaming licenses. It stated: "Plainly, the adverse publicity that Tropicana has drawn highlights the need for every casino hotel to be ever vigilant in maintaining a facility that meets the statutory standard. Undoubtedly, Tropicana did not meet the standard at some point during the past year while under [Tropicana Casinos and Resorts, Inc.'s] control."[67]

In January 2008, bond trustee Wilmington Trust sued Tropicana Entertainment in Delaware Chancery Court, alleging that CEO Yung allowed the casino to lose its gaming license after laying off about 900 employees and causing a downward spiral in service.[68] Tropicana Entertainment responded that the lawsuit was "totally without merit."[69] In May 2008, Tropicana Entertainment filed for bankruptcy protection, a few days after receiving notice from Credit Suisse of a $1.3 billion dollar default notice and on the same day that the company was to have paid a $3 million fee to bondholders.[70]

For additional information on the Tropicana visit http://unitehere.org/wp-content/uploads/LenderReport.pdf to read our report: *Report to Potential Lenders to Columbia Sussex Corporation Considering Refinancing Debt Secured by Hilton Anchorage Hotel (Columbia Sussex Corporation Asset)*

e. Tahoe Horizon Hotel and Casino, Stateline, NV

In its December 2007 10-Q filing with the Securities Exchange Commission, Tropicana Entertainment reported it had "received a default notice from Park Cattle, the landlord for the two ground leases for [its] Tahoe Horizon property, arising from Tropicana Casinos and Resorts' alleged failure to maintain the Tahoe Horizon hotel and casino facilities as required by the leases."[71]

In response to the default notice, Tropicana filed a lawsuit against Park Cattle Co. "seeking a declaration from the court that Tropicana Casinos and Resorts is not in default under the leases and enjoining Park Cattle from terminating the leases or attempting to retake the leased premises."[72]Park Cattle filed a counterclaim against the company alleging "that Tropicana Casinos and Resorts breached the leases by failing to maintain the Tahoe Horizon in a 'first class condition' competitive with other casino hotels in South Lake Tahoe, and that the leases should therefore be considered terminated due to Tropicana Casinos and Resorts' alleged failure to cure the alleged defaults."[73]

The dispute between Park Cattle Co. and Mr. Yung's companies was settled in 2008 when Tropicana and its affiliated companies "agreed to make principal cash payments totaling $165 million (the "Settlement Stipulation") with Park Cattle Co.…pursuant to which the parties agreed to settle their ongoing litigation that had been pending in Nevada state court with respect to the ground lease for Tahoe Horizon Resort in South Lake Tahoe, Nevada."[74]

5. The refinancing of the Hilton Anchorage: risks for prospective lenders to consider

The loan for the Hilton Anchorage (third largest loan securitized in JPMCC 2007-CB18) matures in March 2017; Columbia Sussex is likely looking to refinance the property. We note performance issues and provide documentation of ongoing mold, lead and asbestos-related issues at the property.

The property was acquired by Columbia Sussex in late 2005. The loan was added to a servicer watchlist on June 7, 2016.[75] Watchlist commentary on the property states:

> The DSCR per the 06/30/2016 analysis was at 1.16 which decreased when compared with the 06/30/15 analysis DSCR which was at 1.26. The DSCR decreased due to decrease in the following income: room sales; restaurant sales; lounge sales. The trailing twelve month occupancy for the property per the 06/30/2016 operating statement was at 56.76% with an Average daily rate of $149.22 and Revenue per available room of $84.69. Per the inspection report dated 08/16/2016, the property is rated fair. The average current market vacancy and rent are 26-30% and $139/room respectively. The rental rates are stable. Per prior borrower response, the main reason for a slight drop in occupancy is related to a reduction in business from the oil and gas sector. With lower oil prices, the oil and gas producers in Alaska have cut back.[76]

The Hilton Anchorage's occupancy rate for the year ending 2015 trailed the Minneapolis Airport Marriott and the Marriott Renaissance Philadelphia—two of the distressed properties identified early in this report that are at risk. The Hilton Anchorage's DSCR for the same period fell below that of the Marriott Renaissance Philadelphia and the Phoenix Airport Marriott:

Table 1: Performance of Columbia Sussex Properties with Distressed Loans Compared to Performance of Hilton Anchorage [77]

Property Name	DSCR NCF (Latest Available)	DSCR NCF Y/E 12/31/15	Occupancy (Latest Available)	Occupancy Y/E 12/31/15
Hilton Anchorage	(7/1/2015–6/30/2016) 1.16	1.24	(7/1/2015-6/30/2016) 57%	58%
Minneapolis Airport Marriott	(04/01/15–03/31/16) 1.02	1.13	(04/01/15–03/31/16) 67%	70%
Marriott Knoxville	(01/01/16–03/31/16) 0.28	1.08	(01/01/16–03/31/16) 38%	47%
Marriott Jackson	(01/01/16–03/31/16) 0.80	0.49	(01/01/16–03/31/16) 49%	47%
Phoenix Airport Marriott	(01/01/15–09/30/15) 1.29	-	(01/01/15–09/30/15) 54%	-
Marriott Renaissance Philadelphia	(01/01/16–06/30/16) 1.20	1.36	(01/01/16–06/30/16) 67%	70%

The Hilton Anchorage represents 14% of the property pool in bond class AJ in securitization JPMCC 2007 – CIBC18.[78] Bond class AJ was initially rated in 2007 by Moody's and Standard & Poor's (S&P) as AAA[g] bond. Since 2009, the bond has been downgraded five times by Moody's and six times by S&P.[79] As of May 9, 2016, Standard & Poor has rated the bond as CCC[h]. On October 04, 2016 Moody's downgraded the bond to a Caa1[i], a rating for defaulted or impaired securities.[80]

Mold, Lead and Asbestos Identified at Hilton Anchorage

The Hilton Anchorage has been combatting persistent mold and conditions conducive to mold growth at the hotel since at least 2014. The hotel also has asbestos and lead in various building material found throughout the hotel that must be taken into account whenever construction work is performed.

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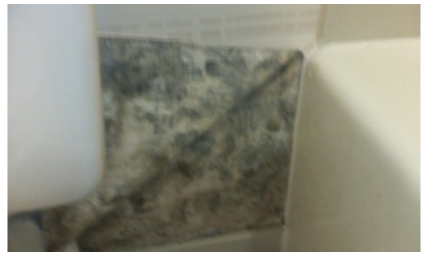
g. AAA rating - Obligations that are judged to be of the highest quality, subject to the lowest level of credit risk
h. CCC rating – Standard and Poor's rating of the bond as currently vulnerable to non-payment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation
i. Caa1 rating – Obligations that are judged to be speculative of poor standing and are subject to very high credit risk. Rating associated with defaulted or impaired securities. There is a 90-95% expected recovery rate for this rating.

See recent photographs from the hotel below:

Room 816, July 2016



Room 824, July 2016

For additional information on mold, lead and asbestos identified at the Hilton Anchorage, see our previous reports at:

Behind the Wallpaper: An Update on Mold and Water Intrusion at the Hilton Anchorage: http://unitehere.org/wp-content/uploads/LenderReport3.pdf

Hilton Anchorage Hotel Loan Pending Maturity: A Report to Potential Lenders Considering Refinancing Columbia Sussex Corporation Debt: http://unitehere.org/wp-content/uploads/LenderReport2.pdf

Report to Potential Lenders to Columbia Sussex Corporation Considering Refinancing Deb Secured by Hilton Anchorage Hotel (Columbia Sussex Corporation Asset): http://unitehere.org/wp-content/uploads/LenderReport.pdf

Conclusion

As lodging industry fundamentals weaken and hotel properties face the prospect of a more challenging economic environment, lenders must exercise heightened caution when giving out loans. Columbia Sussex has failed to meet debt obligations –even under prime market conditions – at times amid claims that it failed to maintain the underlying assets. At its peak, Columbia Sussex owned over 30,000 hotel rooms but subsequently lost about 62% of that portfolio to debt during the financial crisis and the subsequent recovery. A similar pattern can be seen in Columbia Sussex's briefly held gaming portfolio.

Because a number of Columbia Sussex's properties are financed through a CMBS structure, institutional investors must pay special attention to securitizations that hold Columbia Sussex debt. Columbia Sussex's failure to meet its debt obligations resulted in significant losses for CMBS bond holders in at least one case involving a hotel, and its gaming subsidiary was the subject of a lawsuit by bondholders claiming losses in another. Columbia Sussex is likely looking to refinance its maturing loan on the Hilton Anchorage Hotel. The Hilton Anchorage is currently on a servicer watch list, has lower occupancy levels and a lower DSCR than other properties facing foreclosure. The property has also been combatting persistent mold and conditions conducive to mold since at least 2014, raising questions about whether the property lives up to the Hilton brand standard.

Endnotes

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