

## Hospitality Group Of The Year: Cadwalader

By Joyce Hanson

*Law360 (February 18, 2022, 2:02 PM EST)* -- Cadwalader Wickersham & Taft LLP during the pandemic guided a \$4.65 billion securitized financing for the acquisition of 570 Extended Stay America hotels and represented a lender in its \$158.4 million construction loan to develop a Great Wolf resort, placing it among Law360's 2021 Hospitality Groups of the Year.

The firm's guidance of co-lenders JPMorgan Chase Bank, Citi Real Estate Funding Inc. and Deutsche Bank AG in the \$4.65 billion financing helped pay for The Blackstone Group and Starwood Capital Group's \$5.94 billion acquisition of Extended Stay and its affiliated real estate investment trust, ESH Hospitality Inc., according to Cadwalader partner Bonnie Neuman, co-chair of the firm's finance group and head of its real estate finance practice.

Blackstone and Starwood's take-private purchase involved one of the largest single-asset, single-borrower commercial mortgage-backed security loans in the past decade, and was the first large hotel deal since the COVID-19 pandemic hit, the firm said.

"There are certainly some challenges in doing a deal that size and getting it off the ground in a post-COVID world," Neuman said. "But one of the good things about this portfolio was that it had showed little comparative COVID impact and maintained relatively stable occupancy throughout 2020."

She noted that some shareholders pushed back against the deal a week before closing, wondering if they should wait longer for additional value, but they finally approved the takeover in June.

"We were all waiting to see whether or not we were actually going to close this transaction," Neuman said. "The way these public-to-private transactions work is that you get to the shareholder vote and then the deal closes within a couple of business days. So when the shareholder vote came through, everybody scrambled to get the deal the rest of the way over the finish line."

Overall, Cadwalader's lawyers who work on hospitality deals experienced "a very interesting year" in 2021, according to Neuman. She said there was uncertainty about what the industry would look like due to the pandemic, and some market participants expected to see more distressed assets than they actually found in the market.



"Many of the deals we saw involved resorts, where guests could drive to the properties," Neuman said. "There were fewer deals in urban market centers that rely heavily on international travel or business travel. But overall, we did see quite a bit of activity in public-to-private transactions in 2021, which we hadn't seen in 2020. There was definitely pent-up demand. There are still challenges in the hospitality market, but I think that activity will continue."

A good example of a successful resort deal during the pandemic was JPMorgan Chase's \$158.4 million construction loan for the development of Great Wolf Lodge & Waterpark Resort in Perryville, Maryland, Neuman noted, saying the law firm has worked with the resort's family-oriented entertainment operator for years.

"There wasn't a lot of construction financing in 2020 or 2021, certainly not in the hospitality space," she said. "But there are signs of life in the industry, with people willing to take the risk. We have worked with Great Wolf Resorts for some time now, and it is always great to help them grow."

The Perryville lodge is owned and operated by Great Wolf Resorts Inc., which in turn is majority owned by Blackstone, according to Cadwalader.

The construction loan represented the seventh financing the law firm has led for Great Wolf, including a \$1.1 billion CMBS financing for Apollo Global Management's sale of the company to Centerbridge Partners in 2015 and a \$2 billion CMBS financing for Blackstone's acquisition of a majority interest in the company and formation of a new joint venture with Centerbridge in 2019.

"Great Wolf is a good alternative for families who want to travel without getting on an airplane," Neuman said. "The occupancy levels at resorts like that have actually been very high. You can get there without a lot of travel, but they're outside of city centers. That's the way they're positioned. They don't rely at all on business travel. That's not their model. They are purely leisure properties."

Neuman noted that Cadwalader's hospitality work is done largely through the firm's real estate finance practice — a key practice area of the firm located in New York, Charlotte and London. The team is made up of about 50 members, she said, and all have specialized knowledge of transactions in the hospitality industry as well as across all sectors of the real estate market.

She pointed to a significant \$450 million deal last fall, when Cadwalader's lawyers represented the co-lenders in a refinancing of the Hyatt Regency Waikiki Beach Resort and Spa in Honolulu for Mirae Asset Global Investments Co. Mirae, a Korean financial services firm, had bought the leasehold on the 1,230-room resort from Blackstone in 2016 for about \$800 million.

The Hyatt Regency Waikiki Beach Resort and Spa was definitely affected by the COVID-19 pandemic, and when it hit, Neuman said, travelers found it nearly impossible to go to Hawaii. To reduce the risk of the virus's spread, all travelers had to meet testing requirements and comply with self-quarantine restrictions.

"The hotel was shut down and there was a huge impact on occupancy levels and cash flow numbers," Neuman said. "So for this financing, it was all about, how do we get this deal into a securitized financing with enough structure that investors are willing to buy it? And can we get creative enough with this that people have some confidence in this deal?"

To be sure, she added, the Hyatt Regency Waikiki is "a great hotel" that pre-pandemic "was a property

with huge numbers that were trending in the right way," so the lenders were confident the resort would return to its earlier strength.

"But there's a ramp-up to get back," and the deal makers kept a sharp focus on the \$450 million refinancing's structure, Neuman said.

Looking at investment trends in the hospitality industry, Neuman said Cadwalader's practice is seeing a lot of acquisitions and financing in resort and leisure properties, particularly in the limited-service hotel space, while investor interest in business travel to urban centers is relatively weak.

"We'll continue to see acquisitions of large-scale properties such as resort properties that are complicated assets, and we'll continue to see portfolios of properties and finance those," she said. "The underwriting has gotten a bit easier because you do have a year now with hotels largely operating on some level of, even if not 100% back to normal, higher-capacity levels where they can better predict future performance."

--Editing by Ellen Johnson.