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HOTELS

Inside the €330m refinancing of an Italian icon

Starwood and King Street's backing of the Hotel Danieli in Venice suggests international debt providers have faith in Italy's trophy hospitality assets.

By **Daniel Cunningham** - 26 mins ago



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Last month, one of Venice's oldest and most luxurious hotels was subject to a €330 million refinancing, in a deal that suggests debt providers have appetite to fund Italy's highest quality hospitality assets despite the pandemic's impact on tourism.

The transaction saw US managers Starwood Capital and King Street Capital provide fresh finance for the Hotel Danieli, a five-star hotel close to the famous St Mark's Square. The building dates back the 14th century, when it was constructed as the Palazzo Dandolo for an aristocratic Venetian family, and was converted into a hotel in 1824.



Hotel Danieli: Built in the 14th century

Its owner, Italian property company Gruppo Statuto, needed to refinance the asset before the 31 January maturity of a loan from London-based hedge fund The Children's Investment Fund Management. The refinancing was structured as a non-convertible bond issue, listed on the Vienna Stock Exchange – a typical structure in Italian real estate debt deals due to non-banks not being permitted to write loans directly in the country.

It is understood that Starwood provided the senior portion of the financing, with King Street providing junior debt. The loan-to-value ratio is expected to remain below 65 percent during the

term of the loan.

The refinancing will enable a comprehensive refurbishment of the hotel, which is currently managed by Marriott. *React News*, which first reported the deal, said it will support a €30 million upgrade. The hotel is expected to remain open throughout, with Four Seasons expected take over management once works are complete.

Milan-based debt advisory firm Three Stars Capital Partners advised Gruppo Statuto in the deal. Mauro Savoia, the firm's chief executive, told *Real Estate Capital Europe* that the hospitality industry has endured despite the climate of uncertainty and there was significant lender appetite for the deal.

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“Lenders were very interested in the deal, and we were quite advanced with another party before it was decided the structure proposed by Starwood and King Street was the preferred option,” he commented.

Starwood is particularly familiar with Hotel Danieli. Its hotels business was the former owner of the hotel before it sold it to Gruppo Statuto in 2005 for a reported \$244 million.

Savoia said it was not surprising that two US private equity firms won the financing mandate, rather than domestic Italian lenders. “The deal is big, and for a deal of this size, especially in the hotels sector, it is difficult to find a bank, or two banks, that can do it by themselves. Also, the deal required underwriting a management agreement.”

He added: “It is more expensive to borrow from private equity lenders, but Italian banks can also be expensive unless the asset is super-plain vanilla. Consider that on average most Italian banks price loans in the high 200s to low 300s [basis points] and will not go above 50 to 55 percent loan-to-value on hotels.

“So, on a complicated deal such as this, where there is a refurbishment plan and a couple of years with lower NOI [net operating income], it is important to have lenders that understand the asset class very well. Both Starwood and King Street are essentially expert operators when it comes to this asset class, because they both also own hotels.”

Savoia explained there are limited domestic financing options in Italy, aside from the country’s banks, particularly for a deal of this scale.

When Gruppo Statuto refinanced another of its trophy Italian hotels last year, the Four Seasons hotel in Milan, it is understood to have done that another foreign non-bank lender was the majority debt provider. The five-star hotel is thought to have been refinanced with a €166.5 million bond-based financing in which DRC Savills Investment Management provided €141.5 million of debt. However, an Italian bank – Banca Intesa, also participated in the deal.

According to Savoia, the lenders in the Hotel Danieli deal were confident to underwrite the hotel for five years, despite the ongoing impact of covid.

“Probably they shared our expectation that there will be a full recovery of the hotel market in the coming two years. We have already seen a full recovery of the luxury hotel market in Milan, where the second half of 2021 was stronger than H2 2019.

“There has been an amazing recovery in Milan and other key world cities, so I think that the lenders took the view that this will be replicated elsewhere. There’s a strong wish by people to begin travelling freely again.”

Savoia added: “Gruppo Statuto owns one of the best portfolios of luxury hotels in the world and the high experience of the group, in our opinion, was very much valued by the lenders. You want to partner with highly skilled sponsors in a complex deal, especially during covid”.



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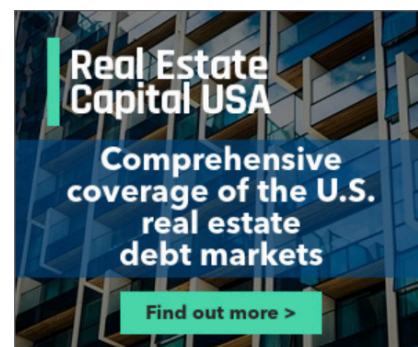
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