



## SERVICE PROPERTIES TRUST & ITS MANAGERS Is breaking up hard to do?

As I read [this article](#) about Service Properties Trust today, I thought of Neil Sedaka.

This is fascinating, as we are seeing something in the hotel industry that we seldom see -- an ownership group with a significant relationship with one brand using its brand ownership in another brand as leverage.

In February, Service Properties Trust (NASDAQ: SVC) and Sonesta restructured their relationship to provide Sonesta relief from its rental obligations to SVC and receipt of other considerations in return for a 34% stake in Sonesta. With IHG's alleged default in fulfilling its rental/return obligations to SVC on 103 branded IHG properties, SVC has a significant incentive to hold IHG's feet to the COVID fire and little incentive to bargain with IHG.

In all of this, Sonesta is apparently exiting the extended stay business, reducing their current portfolio by some 39 hotels, according to [this article](#) (published when the deal between SVC and Sonesta was announced).

Accordingly, it is doubtful that Sonesta would want the 81 IHG extended stay hotels (61 Candlewood Suites and 20 Staybridge Suites), leaving "just" 22 for assimilation into the Sonesta brand universe (with the jury out on whether the three Holiday Inns fit with Sonesta). Still, one wonders whether the corporate infrastructure, particularly regional oversight, at Sonesta is deep enough to take on 22 properties. According to the article, SVC would have a year to maintain IHG brands and management; this is more than enough transition time when the management company is closely held, even if only a 34% stake. I suspect that Sonesta is already identifying its transition planning and personnel needs in anticipation, and, if not, they should be.

The good news in this is that there are way, way too many hotel management personnel who, because of the crisis, find themselves out of work. If I were advising Sonesta, I'd tell them to be ready to beef up their career page and look for an onslaught of resumes and applications from many very capable people.

This unfortunate default could be a boon to Sonesta (and, indirectly, SVC). Regardless of how insubstantial the loss of these properties might be to IHG (there are likely more than 5000 IHG branded hotels in the US), there is likely a bit of handwringing in Atlanta and London over the pending determination of whether IHG will cure the apparent default.

*"They say that breaking up is hard to do . . . ."*