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# Property Week

## Travelodge landlords must decide whether to stay or go

By [Sally Hickey](#) | Thu 6 August 2020

When Travelodge announced it would not be paying March quarterly rent earlier this year, few could have predicted the length and intensity of the fight that ensued.



Source: Shutterstock/ Ceri Breeze

Landlords accused the hotel operator of using the Covid-19 pandemic as an excuse to cut bills it could afford to pay, protected by the government's moratorium on legal action against non-paying tenants. Travelodge rejected the allegations, citing the negative effect of forced hotel closures due to lockdown, and demanded landlords agree to a company voluntary arrangement (CVA), which it said would help secure 10,000 jobs and the interests of all shareholders.

In June, the CVA was begrudgingly approved by 86% of landlords. Terms included a 38% overall cut in annual rent roll until December 2021 and an agreement that shareholders would not take any money out of the company until that date. Also included was confirmation that all Travelodge hotels would stay open during the CVA.

Landlords have just a few weeks to decide whether or not to commit to Travelodge in the long term. So will they stick with it or twist to another brand – or will they get out of the hotel sector altogether?

Up until mid-August, landlords can choose to add an extra three to five years to their lease terms to make up for foregone rent. For some landlords, this might seem the safer 'better the devil you know' choice.

However, others may take the view that staying with Travelodge involves the risk that the operator may run into yet more trouble. After all, it is not the first time Travelodge has had financial woes – it underwent a CVA in 2012 after buckling under £1.1bn of debt. Ownership was seized from Dubai International Capital by its main lenders Goldman Sachs, Avenue Capital and GoldenTree Asset Management – the current owners.

Some of the doubters may plump for option two and transfer to another brand. Secure Income REIT, one of the operator's biggest landlords, negotiated a lease-break option for most hotels before November, meaning that landlords could switch to a different operator if they do not agree to the lease extension offered by Travelodge.

Goodnight Hotels is offering landlords that sign up in the next two months a 25-year full repairing and insuring lease with CPI-linked rent reviews and initial rent matching that paid by other occupiers.

## Terms and conditions

AGO Hotels, a new brand set up by head of the Travelodge Owners Action Group Viv Watts in partnership with Accor, is offering Travelodge landlords a 25-year lease with RPI-linked base rent at 50% of current Travelodge rent, adjusted for inflation since the last rent review. Landlords would also be offered a share of equity in the firm, allowing them to benefit from any profits (a key criticism of the Travelodge model is that landlords were asked to accept rent cuts without benefiting from any profit).

Then there is the third option: exiting the hotel market altogether and repurposing their assets.

“There is good reason to believe that some of the more full-service [Travelodge] stock in locations

that are already obsolete could become alternative uses like residential, healthcare or student accommodation – anything under that ‘beds’ umbrella,” says Joe Stather, a CBRE associate director who advises on hotel investment.

However, Martin Smith and Matthew Pohlman, partners in Goodwin’s real estate practice group, are not convinced this is a viable option for landlords.

“Repurposing assets is not an easy thing to do – that path takes many months and includes many stakeholders,” says Pohlman. “In order to repurpose your hotel, you’d have to have a pretty long-term dim view of the asset class.”

Smith adds: “I don’t think you can sit here with any certainty and say if you move to another brand you’ll definitely go through the same thing again – but no investors are turning their back on hospitality as an investment asset class yet.”

Yet is the operative word – and even those that would like to get out of hotels may find it harder to do than they thought. In the meantime, they need to make a decision and make it quickly. The deadline to add to their current lease terms with Travelodge is looming.