



Legislation Text

File #: Res. 2018-96R, **Version:** 1

AGENDA CAPTION:

Consider approval of Resolution 2018-96R, approving a loan assignment and assumption agreement between the City, JQH-San Marcos Development, LLC. (a subsidiary of John Q. Hammons Hotels and Resorts) and JDHQ Hotels LLC. (a subsidiary of Atrium Hospitality) that assigns the duties and obligations of JQH Development LLC under various loan documents with the City related to the development of the Embassy Suites Hotel and Conference Center to JDQH Hotels, LLC. in connection with the sale of the hotel from JQH-San Marcos Development, LLC to JDQH Hotels LLC.; authorizing the City Manager to execute the agreement on behalf of the City; and declaring an effective date.

Meeting date: June 5, 2018

Department: Administration

Amount & Source of Funding

Funds Required: N/A

Account Number: N/A

Funds Available: N/A

Account Name: N/A

Fiscal Note:

Prior Council Action: [Click or tap here to enter text.](#)

City Council Strategic Initiative: [Please select from the dropdown menu below]

City Facilities

[Choose an item.](#)

[Choose an item.](#)

Comprehensive Plan Element (s): [Please select the Plan element(s) and Goal # from dropdown menu below]

☒ Economic Development - [Choose an item.](#)

☐ Environment & Resource Protection - [Choose an item.](#)

☐ Land Use - [Choose an item.](#)

☐ Neighborhoods & Housing - [Choose an item.](#)

- ☐ Parks, Public Spaces & Facilities - Choose an item.
- ☐ Transportation - Choose an item.
- ☐ Not Applicable

Master Plan: *[Please select the corresponding Master Plan from the dropdown menu below (if applicable)]*

Choose an item.

Background Information:

In April of 2018, the City of San Marcos received notice that John Q. Hammons was selling their portfolio of hotels, including their interest in the Embassy Suites Hotel, to Atrium Hospitality group. Atrium Hospitality has an extensive nationwide portfolio of hotels. JDHQ Hotels, LLC is the subsidiary of Atrium Hospitality that will be assuming the interest in and will be the owner of the San Marcos property. City staff has met with representatives of the company and are very encouraged by their hotel operating experience and excitement in taking over this property.

There are two agenda items for consideration in connection with the sale of the San Marcos property from JQH-San Marcos Development (a Hammons subsidiary) to JDHQ Hotels (Atrium). The first item is for consideration of approval of a Subordination Agreement with Goldman Sachs Mortgage and JP Morgan Chase Bank. These two entities are the lenders financing the purchase of the San Marcos property by JDHQ Hotels. The second item is for consideration of approval of a Loan Assignment and Assumption Agreement.

Subordination: As part of the original transaction with JQH (Hammons), the City has a deed of trust lien on the Embassy Suites Hotel property that secures a note in the amount of \$1.5 million. The amount due under the note is forgivable as long as there are no defaults under the terms of the Conference Center Lease Agreement or related loan documents through the year 2026. As part of the original transaction, the City's lien was subordinated to the first lien of Metropolitan National Bank. Goldman Sachs Mortgage and JP Morgan Chase Bank are now providing a loan to JDHQ Hotels (Atrium) in the amount of \$63 million to finance the purchase of the San Marcos property from JQH (Hammons). JDHQ Hotels and its lenders are asking the City to subordinate the City's \$1.5 million lien to the lien of Goldman Sachs Mortgage and JP Morgan Chase Bank securing their loan to JDHQ Hotels.

Loan Assignment and Assumption: As part of the original transaction for development of the Embassy Hotel and Conference Center, JQH (Hammons) entered into various agreements, including a Chapter 380

Economic Development Grant and Loan Agreement, a Note and Deed of Trust. Collectively, these loan agreements secure the \$1.5 million loan from the City to JQH and establish performance obligations for JQH in relation to operation of the Hotel and Conference Center. The Loan Assignment and Assumption Agreement assigns the obligations of JQH under the various loan agreements over to JDHQ (Atrium). The City's consent to the Loan Assumption and Assignment is necessary to allow JDHQ to step into the shoes of JQH and continue to operate the Hotel and Conference Center without interruption. The agreement provides that JDHQ will assume all of the duties and obligations under the original loan agreements, as amended from time to time.

Council Committee, Board/Commission Action:

Click or tap here to enter text.

Alternatives:

Click or tap here to enter text.

Recommendation:

City staff recommends approval of both JDHQ Hotels agenda items.