To: Jeffrey Epstein[jeevacation@gmail.com]
From: Dr. Henry Jarecki
Sent: Fri 7/9/2010 8:28:21 PM

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Gramercy Park Hotel owners default on loan

Lender tries to sell $140M note that Ian Schrager, Aby Rosen and Michael Fuchs used to turn property into playground for the fabulous. Is the joint really worth $680,000 a room?

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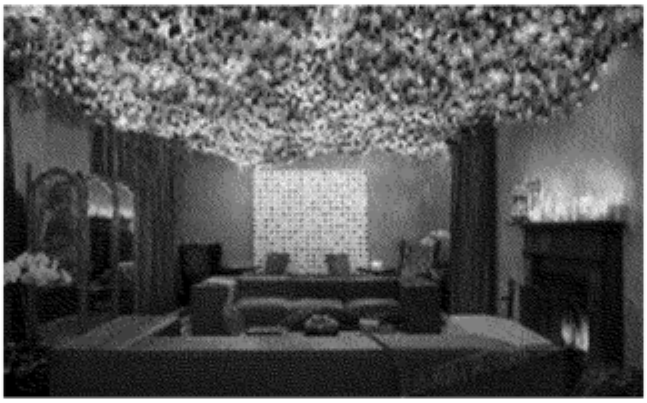

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The Gramercy Park Hotel's website boasts the establishment is "original, romantic, surprising, poetic and whimsical." It neglects to mention the hotel is also in financial trouble.

Noted hotel impresario Ian Schrager and commercial landlords Aby Rosen and Michael Fuchs have defaulted on a loan for the Gramercy Park Hotel, *Crain's New York Business* has learned.

Lender Union Labor Life Insurance is now quietly marketing the loan, but sources with knowledge of the debt offering have scoffed at what they call an exorbitant price of at least $680,000 a room.

The insurer is offering a discount on the debt—originally $140 million—of around 10%, sources said. However, one source wasn't sure if interest on the debt, plus penalties associated with the default, would bring the amount above $126 million.

The original loan was made in 2006 to Mr. Schrager and RFR Holding, the real estate company controlled by Messrs. Rosen and Fuchs. RFR owns the Seagram Building and Lever House, among other properties.

Spokeswomen for both Union Labor Life Insurance and RFR declined to comment.

A spokeswoman for Mr. Schrager said RFR and Union Labor Life have a long relationship and are working to resolve the matter. She would not comment on the default.

The 185-room Gramercy Park Hotel overlooks its namesake park and has won praise in travel and architecture media for its style-setting renovations and bars and party rooms that have become magnets for a certain fashionable moneyed set. It also houses an extensive collection of modern art—a passion of Mr. Rosen's—and a popular Italian eatery run by famed restaurateur Danny Meyer.

Rates at the Gramercy Park Hotel range from $425 a night for a 250-square-foot room to $2,200 a night for a 950-square-foot suite. However, the hotel's average paid rate and occupancy level were unclear.

Some potential investors say the per-room loan price is unreasonable at a time when the hotel industry is still recovering from the deeply punishing recession. The city's average hotel-occupancy rate for the first five months of this year hit 82%, up from 75% in the corresponding period in 2009. Meanwhile, May's average room rate rose 15% to $252 a night from a year-ago, according to PKF Consulting.

"Things are improving, but we are still not back to where we were in 2007 and 2008," said John Fox, a senior vice president at PKF. He added that in recent years, no hotel has sold for the minimum $680,000 per room that Union Labor Life is seeking.

The Gramercy Park Hotel isn't the only hospitality property that is struggling. In an article to be published in this Monday's Crain's New York Business, hospitality expert Bjorn Hanson estimates that last year about half the city's hotels didn't generate enough cash to pay their debt-service obligations.

“The hotel owners and investors have been asked to put in more cash, and that's why we haven't seen more defaults,” Mr. Hanson, a professor at New York University's Preston Robert Tisch Center for Hospitality, Tourism and Sports Management, told Crain's.

Banks also aren't eager to own hotels, so they are making greater efforts to restructure loans. “They don't want to take on a foreclosed hotel because they take up a lot of resources,” Mr. Hanson explained.

But some lenders are seeking to sell the loans, perhaps hoping that any future foreclosing can become someone else's headache.

For example, Anglo Irish New York Corp. is trying to sell loans on three upscale hotels owned by Alexico Group for a combined total of $350 million to $400 million, industry sources said. It was unclear if Alexico had defaulted on one or more of the loans associated with the properties, which are the Mark Hotel on East 77th Street, the Alex Hotel on East 45th Street and the Flatotel on West 52nd Street.

Sources familiar with the proposed loan sale said prospective buyers would be interested in the mortgages only if they hoped to eventually foreclose on Alexico.

An Alexico spokesman couldn’t be reached for comment. Anglo Irish didn't have immediate comment.

Alexico recently poured at least $100 million into renovating the Mark, a 16-story hotel with a marble lobby and a Jean-Georges Vongerichten restaurant. It had planned to convert some suites into expensive private residences that it would sell to pay off debt.

However, lack of demand caused Alexico to slash the number of units for sale to about 10 from 42 originally, according to a Wall Street Journal article in April. At least four buyers are suing to get out of their contracts.

Alexico was falling short of cash it needed to pay off the debt incurred from the renovation, according to the Journal, and borrowed $255 million from Anglo Irish between 2006 and 2009.

There is much more for a bank or investor to consider beyond the hassle of foreclosing when deciding whether to purchase a hotel loan. One investor who was offered the loan on the Gramercy Park Hotel said on the promise of anonymity that he wasn't interested because he feared the establishment would lose its panache if the investor couldn't reach a deal for Mr. Schrager to stay after foreclosure. “I'm afraid he would take all the pretty girls at the bar with him,” the investor said.

However, PKF Consulting's Mr. Fox said many new boutique operators might be able to step into Mr. Schrager's shoes: “There have been a significant number of new players in the boutique hotel scene. Whether Joe Blow operator can do as good a job as Ian Schrager, well, who knows?”

Crain's reporter Lisa Fickenscher contributed to this article.

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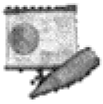

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