

Two W.P. Carey Hospitality REITs Suspend Distributions Due to Coronavirus

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Carey Watermark Investors 1 Incorporated and Carey Watermark Investors 2 Incorporated, two publicly registered non-traded REITs sponsored by affiliates of W.P. Carey Inc. (NYSE: WPC), have each temporarily suspended distributions due to the reduced travel and lodging demand and related financial impact resulting from the global coronavirus (COVID-19) pandemic.

“Consistent with that being experienced throughout the U.S. lodging industry, to date, the companies have experienced significant cancellations of individual rooms and group bookings and expect that they may continue to do so until the spread of the virus, or the fear of the spread, subsides,” the companies said in a joint statement. “In addition, government-imposed restrictions on travel and large gatherings have adversely affected the performance of the companies’ hotels in affected areas.”

In addition to the suspensions, the REIT are modifying operations and implementing cost reduction plans across their hotels, including:



Implementing detailed cost-cutting contingency plans to eliminate variable costs at each hotel, including both major and minor cost elimination and efficiency measures;
Temporarily suspending operations at select restaurants, spas and other outlets where there is insufficient demand to sustain operations on a commercial basis;
Renegotiating property vendor contracts and payment terms by management companies; and
Postponing certain capital expenditure projects.

“We remain committed to creating value for our shareholders over the long-term. Due to the rapid acceleration of the coronavirus and the uncertainty of its magnitude and duration, we believe it is prudent to preserve our cash during this unprecedented time,” said Michael Medzigian, CEO of both REITs. “We are working closely with our hotel management partners on contingency planning to reduce operating costs and believe the impact of the coronavirus will be temporary.”

In October 2019, the REITs announced plans to merge to create Watermark Lodging Trust, a \$4.6 billion internally managed non-traded REIT. The transaction is expected to close in the first quarter of 2020, subject to the approval of stockholders.

Medzigian added, “We believe the strategic rationale for the merger of [the REITs] becomes even more compelling. As a combined company with a more simplified structure and larger balance sheet with greater financial flexibility, we believe our ability to grow profitability improves. We are experiencing a significant issue that may last a while, but we remain steadfast in our belief that the high-quality assets that comprise our portfolios will be resilient through this period in our history.”

The Carey Watermark Investors REITs were formed to invest primarily in the lodging and lodging-related sectors.

Carey Watermark Investors launched in September 2010 and closed in December 2014 after raising approximately \$1.2 billion in investor equity in its initial public offering and follow-on offering. The company’s \$2.3 billion portfolio is comprised of 26 properties, as of September 30, 2019.

Carey Watermark Investors 2 owned a \$1.6 billion portfolio of 12 properties, as of December 31, 2019. The REIT’s initial public offering was declared effective in February 2015 and closed in June 2017 after raising \$851.3 million in investor equity.

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