

THE BALTIMORE BANNER

No, Baltimore can't just sell the Hilton Inner Harbor because it's losing money

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The Hilton Baltimore Inner Harbor has been losing money. Mayor Brandon Scott has floated the idea of selling, but any transaction would be complicated. (Kaitlin Newman/The Baltimore Banner)

Baltimore's top officials met last month and went over city spending as though they were ticking items off their weekly grocery list. Funding a community garden? Check. Reimbursing employees for travel costs? Check.

Sinking [another \\$1 million into a city-owned hotel](#) that's been bleeding money for years? Check.

When Mayor Brandon Scott floated the possibility of selling the Hilton Baltimore Inner Harbor at a news conference after the spending board meeting, the idea drew cheers outside City Hall. "SELL SELL SELL," [urged one Orioles fan](#), while [a chorus of others](#) suggested demolishing the hotel, which blocks the view of downtown — particularly the Bromo Seltzer Arts Tower — from Camden Yards.

Unfortunately for Orioles fans and city budget writers, it's not that simple. Selling the Hilton could trigger a much bigger financial loss because Baltimore is still paying back the money it borrowed to build the hotel.

That's thanks to a plan championed by former Mayor Martin O'Malley and other city officials. Under his administration, the city sold about \$300 million in bonds to finance the design and construction of the 757-room complex, which opened in 2008.

Property taxes and lodging taxes generated by the Hilton are supposed to pay back this debt. Lately, the hotel hasn't generated enough tax revenue to cover those payments and has been depleting its reserve funds. Since the start of the pandemic, the city has kicked in

more than \$18.5 million to keep the hotel afloat, with another \$7 million currently budgeted. The hotel [reported receiving \\$6.5 million in COVID relief funds](#) in 2021 and 2022 — which doesn't include the \$1 million approved in December.

By mid-2024, taxpayers will have pumped at least \$33 million into the Hilton since 2020.

O'Malley and others believed the Hilton would drive revenues for the city-owned convention center next door and eventually return a profit for the city, but the hotel has never met expectations. Talk of its sale has bubbled up every few years.

City officials considered selling the hotel in 2013 but [backed down after consultants found it would be hard to find a buyer that would cover the hotel's extensive debt.](#) The consultants projected the city would lose as much as \$90 million on such a deal, The Baltimore Sun reported at the time.

In 2015, a surging Orioles team attracted its most fans in over a decade, but [the Hilton kept losing money,](#) prompting then-City Council President [Jack Young to suggest a sale.](#)

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- [Baltimore Hilton hotel faces ‘catastrophic structural failures’ if pipes aren’t fixed](#)
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The Hilton refinanced its bonds in 2017 and lowered its annual debt payment. Then the pandemic hit, dealing a severe blow to Baltimore’s hospitality industry. Since then, the Hilton has been emptying its pockets to find enough money to repay bondholders.

And there’s a lot of debt left to go.

Under its agreement with bondholders, the hotel owes roughly \$250 million that’s expected to be repaid over the next two decades. Trying to pay back these bonds early would typically incur a penalty.

But Matt Fabian, a partner at Connecticut-based Municipal Market Analytics, said there is a benefit to operating a struggling hotel — bondholders might want to get out of this deal, too.

The Hilton has never defaulted on its payments, but it is considered a distressed project by investors.

“This could be an opportunity,” Fabian said.

Given the hotel’s uncertain financial future, bondholders might be happy to get their money back now with a relatively small fee, Fabian said.

Even if the city could broker a deal with bondholders, Baltimore would need to find someone who wants to buy the hotel. That could be hard.

According to Daryl Cronk, director of hospitality analytics at the hotel data firm STR, there's been a significant slowdown in hotel sales nationally. With higher interest rates and tighter lending standards, fewer deals are being struck, Cronk said.

After the pandemic, the strongest markets for hotels have been in resort locations, Cronk said, while urban hotels have been slower to rebound.

If Baltimore found someone interested in buying the Hilton, the next step would be to negotiate a sale price.

Before he started teaching finance full time at Loyola University Maryland, it was Scott Emge's job to figure out the value of businesses, including hotels.

Valuations are often based on sales of comparable properties or industrywide data on investment returns, said Emge, an accountant and former chief financial officer. But, in lieu of that information, sometimes people use back-of-the-envelope math. A common, albeit rough, valuation method for hotels is to multiply the number of rooms by a hotel's average daily room rate, then multiply that number by a thousand.

That would put the Hilton's value at \$145 million, based on 2022 data. The figure is not far from the state's guess.

It listed the hotel's value at \$168 million in its latest property assessment.

That's about \$100 million short of the \$250 million worth of outstanding debt on the Hilton, and there are yet more factors that could complicate a deal.

As of the end of 2022, the city owed \$5 million to the Hilton Hotel Corp., according to bondholder disclosures. The Hilton also [needs to replace corroding pipes throughout the complex after the original builders used steel instead of copper piping.](#)

Still, Scott suggested after last month's spending board meeting that he'd consider selling the hotel as the city pursues ambitious plans to revamp downtown.

"We are open to anything," Scott said. "I'm quite open to someone coming and operating that hotel and not having the city operate it."

Asked about the property again later in December, Scott said he has no specific plans for offloading the hotel. For now, Baltimore is effectively stuck pumping millions of dollars into the Inner Harbor hotel and praying that its tourism industry takes off.

The Hilton is overseen by the Baltimore Development Corp., the city's economic development wing. President and CEO Colin Tarbert said he's focused on the hotel's future and growing its business.

"Now that the hospitality industry is recovering, the hotel will also recover," Tarbert said.

But Tarbert also argued that Baltimore needs to double down on its convention center business, the primary driver of revenues for the Hilton Inner Harbor.

“Baltimore continues to lose major ground in the convention business. Without a major upgrade to the Convention Center, the Hilton cannot perform,” Tarbert wrote in an email. “No one will want to buy it. It cannot perform on leisure travel alone.”

Correction: This article has been updated to correct the title of Colin Tarbert. He is the President and CEO of the Baltimore Development Corp.