

Financing flexibility gives Grove St. deal green light

BY STEFANI C. O'CONNOR

COLLEGE PARK, GA—Fresh on the heels of breaking ground this past spring on a pair of Marriott-branded select-service hotels in Orlando, FL, Atlanta-based, multi-prong real estate developers Grove Street Partners (GSP) repeated the effort last month, this time here in its own backyard.

With its latest project, GSP is campusing SpringHill Suites and full-service Marriott hotels adjacent to the Georgia International Convention Center. The properties, with 147 and 403 units, respectively, will serve as the anchors of the one-million-square-foot, mixed-use development known as Gateway Center, which is located a quarter-mile from Atlanta's Hartsfield-Jackson International Airport.

Expected to be completed by 2010, the properties will be located at the first station of the under-construction, elevated Automated People Mover (APM) system—which is similar to an air train/tram—that is the first expansion of the airport's internal transit system. The APM also will connect the airport to a new consolidated car-rental area known as CONRAC, which will be west of the mixed-use development and airport.

According to GSP Partner Jim Stormont, who handles hotel development, the second dual-property project had a close call financially. The deal closed Sept. 9 and broke ground the following day, a scenario he felt might not have happened a few days later given the latest significant shifts in economic conditions.

"Originally we went out for debt about 15 months ago. I just went



Grove Street Partners, LLC, is developing two branded Marriott hotels that will anchor the one-million-square-foot, mixed-use development Gateway Center in Atlanta. A Marriott will be one of the properties (below) along with a LEED-certified SpringHill Suites by Marriott (left).

to people that I knew were in the market and I literally spoke to six groups. Five of them said, 'no problem' and sent me a term sheet. It was Lehman Brothers, Merrill Lynch, Capmark, Prudential and Bank of America. I thought it was going to be a slam dunk. So we pull all the details together, get the design done, get our contract done with the city, get our equity done and I went out with the final financing package last spring and every one of those five were out of the market. The entire landscape in the financial arena changed," recalled Stormont.

Grove Street Partners ultimately got financing from a consortium of banks, led by U.S. Bank. "We collectively agreed to proceed and to try and find a syndication partner for U.S. Bank; they couldn't do the whole thing. So between them and us we pieced together participants that included SunTrust, Wachovia, Touchmark, Proficio, Citizens.

One week after we closed we might not have been able to get this deal done," observed Stormont.

The deal itself was two years in the making. GSP initially put in a proposal with the City of College Park, GA, in June of 2006 in response to a request for proposals. The city had built the 400,000-square-foot convention center without proximate hotels and had an additional 28 acres available.

"When they selected us it was based on very preliminary concepts, designs and financial structures that evolved over time until we signed a master development agreement in August 2007," said Stormont.

Under the terms of the public/private partnership, GSP has a "payment in lieu of taxes" or PILOT structure, which means the property is not subject to property taxes because it's owned by a tax-exempt entity. Instead, a payment is made that allows the city and the development

authority to issue bonds.

College Park/Gateway Holdings LLC, a joint venture of GSP and investment partners Fidelity Investments of Boston and GSP affiliate Williams Opportunity Fund, umbrellas College Park/Gateway Hotel One LLC and College Park/Gateway Hotel Two LLC, which own the Marriott and SpringHill, respectively. Marriott International will manage the properties.

"So [the city] provided \$31 million of the project cost," said Stormont, noting the total cost for the hotel piece is \$134 million. "The PILOT structure really made it a viable project. We wouldn't have proceeded, we wouldn't have done it if it wasn't for the PILOT bond."

As part of the master development, GSP also will develop three Class-A office buildings totaling 400,000 square feet, plus 50,000 square feet of retail space and a parking structure.

Atlanta mixed-use project makes Marriott, SpringHill project possible

Stormont considers the project a good fit for GSP's "opportunistic" approach. "We're not planning to be operators of hotels. We just want to be developers. When I'm out looking for projects, I have an extremely hard time finding any full-service hotel that will work feasibly without a public/private partnership or some creative financing niche that is different from just going out, buying a piece of land and building a building," he said.

Still, Stormont felt in this case that the two hotels could have been built as standalone properties without the mixed-use development and is confident in proceeding in the market with the first phase of the project.

While both hotels will go for Silver Leadership in Energy and Environmental Design (LEED) certification, the effort will mark a first for the SpringHill brand. Stormont said the venture looked at certification from two views. First, that it was "the right thing to do" from an environmental perspective and, second, from an investment standpoint there is recognition that consumers

increasingly want to stay in LEED-certified buildings so they, too, can "do the right thing."

"There are even some municipalities and corporations that are starting to recommend that their constituents (and business travelers) stay in a LEED-certified hotel. For example, in speaking with the Airport Authority, if it needs to do business, it needs to rent office space from LEED-certified buildings and is supposed to find hotels that are LEED certified. I think there's a potential incremental demand for hotel rooms if you're LEED certified," said Stormont.

In addition, since the hotel buildings are not long-term holds, when the venture goes to sell them in about five years, Stormont believes there are institutional investors that will value a LEED-certified hotel more than a non-LEED-certified hotel.

Stormont expected a significant amount of market share will come from corporate, association and group business looking for close-in accommodations near the convention center, which offers 150,000 square feet of exhibit

space and a 40,000-square-foot ballroom.



Jim Stormont
Grove Street Partners

The seven-story Marriott, which is being designed by architecture firm Smallwood, Reynolds, Stewart, Stewart and Associates, will serve as the facility's headquarters hotel and feature 20,000 square feet of meeting space. Goode Van Slyke Architecture is designing the Generation-Four SpringHill.

In terms of continuing with a campused-property dynamic, Stormont said GSP would not always look to replicate its Orlando and Atlanta efforts, but recognized the benefits of doing so. "We are enamoured by it. There are economies of scale on

the cost side and the operating side that just make a lot of sense. If the demand is there to work with two brands that are complimentary I think there are a lot of benefits," he said.

Formed in 2004, Grove Street is headed by partners Kevin Kern, the president; Chip Groome (office development); and Stormont. Stormont joined GSP in early 2007 after a career as CFO at Stormont Trice Corp. and later president of Stormont Hospitality Group, LLC and executive vp of Noble Investment Group, LLC, which acquired Stormont Hospitality in 2003.

GSP also is affiliated with the Williams family of companies, which is headed by entrepreneur and investor John Williams, the founder of Post Properties, which is categorized as "one of the largest developers and operators of upscale multifamily communities in the U.S."

GSP also is planning a mixed-use project with office space and a 300-room hotel on land south of Atlanta's Cobb Energy Performing Arts Center, to which John Williams was a major donor.