

Public-private partnerships fuel hotel growth

A public-private partnership can be a key tool for hotel development.

October 30, 2014

Highlights

One of the key amenities of any community rests in its quality hotel stock. The hospitality sector has a more substantive history of success with the P3 model.

P3s can be utilized as a key tool for hotel development.



Charles G. Renner

By **Charles G. Renner**

HNN columnist

There is increasing competition among cities in the United States to attract talent and jobs in order to sustain and improve the quality of life in each community. To remain viable in this competition, numerous cities have concluded that so-called social amenities represent a necessary community investment.

In the words of philanthropist and Health Initiative Coordinating Council Founder Esther Dyson, "Cities are increasingly behaving like companies, becoming intimately involved in the citizens' quality of life, in an increasingly mobile world (and) competing for customers."

Modernization, mobility and economic growth are all pushing cities to clear the hurdle of their limited resources and invest in the amenities that speak to these priorities.

One of the key amenities of any community rests in its quality hotel stock, particularly those hotels that serve to attract and support business and visitors to the region. It is in this context that the use of public-private partnerships in hotel development has grown in popularity. P3 structures are defined by the involvement of the public and private sectors in a manner that shares some form of risk, financial or otherwise, and is intended to generate shared rewards, direct revenue from the project or indirect long-term growth in key metrics. To compete, cities need quality hotels, and P3s are a tested way that a community can respond to this priority. There are a number of examples supporting this premise.

Overland Park, Kansas

While in some social infrastructure settings P3s are emerging as a tool (i.e., justice centers and other municipal buildings), the hospitality sector has a more substantive history of success with the P3 model.

By one measure, from 1995 through 2000, the public sector financed nearly \$1.5 billion toward 20 separate major convention hotel developments. To that,

the Sheraton Overland Park Hotel at the Convention Center in Overland Park, Kansas, was reportedly the first city-owned hotel in the U.S. market. In order to compete as a top-tier hotel with more than 400 rooms and 20,000 square feet of event space connected to more than 250,000 square feet of convention center access, the city partnered with hotel operators, design professionals, a construction guarantee participant and private investors to support the \$90 million-plus in development costs.

Even while considering the need for additional public subsidization, the consensus has been that the hotel is a necessary success and market leader for Overland Park, as demonstrated by a recent analysis sourced by Convention, Sports and Leisure International, where it placed in the top five for the Midwest market.

Raleigh, North Carolina

In North Carolina, several P3-based hotel developments have come to fruition. One example is the \$60-million, 400-room Raleigh Marriott City Center hotel located adjacent to the city's convention center.

As a separate undertaking, this project was supported by the use of private financing, a \$20-million grant from the city as well as a public finance discount for necessary parking facilities. A significant portion of the city's overall \$200-million pledge of a hotel occupancy tax base, the Raleigh project falls in line with a number of projects in nearby Charlotte, which also leveraged P3 development structures to support hotel development serving to attract further investment into the region.

With P3s making such large city projects possible, Forbes magazine named Raleigh one of the fastest-growing cities in 2014.

Overton, Texas

P3 projects are also readily found in Texas, an emerging leader in municipal-driven P3 development. The Overton Hotel and Conference Center in Overton is a hybrid P3 project that was a key to spurring the growth of that area.

The 303-room full-service hotel was privately financed and is operated by the facility owner and leased and managed by the owner of the adjacent 47,000-square-foot conference center. Strategically located to support and enhance the neighboring Jones AT&T Stadium and Texas Tech University, the facility is able to host a majority of area hotel guests attending popular nearby events. In addition, the partnership formed between the city, the university and other private enterprises has created a burgeoning effect repeatedly boosting the draw of the region.

P3 accomplishments

Aside from the opportunity P3s can provide for spurring development, the greater accomplishment is what the development creates, which is the ability

for cities to succeed in the competition to attract talent and jobs.

The speed by which municipal economies are changing and evolving is resulting in the conclusion that greater economic growth is possible. However, the number of growth areas will be limited to communities that continue to evolve. As cities work to provide the amenities necessary to participate in this competition, they are constrained by other infrastructure, constituent demands and the realities of governmental budgets—and the hotel environment is not immune to these circumstances.

Yet, as shown by the above examples and trends found across the U.S. market, P3s can be utilized as a key tool for hotel development—the catalyst found in the competition of cities.

Charles G. Renner is a real estate, development and construction partner at Husch Blackwell, and leader of the firm's public-private partnership team. For more information, email charles.renner@huschblackwell.com or follow @HuschDev.

See more at: <http://www.hotelnewsnow.com/Article/14682/Public-private-partnerships-fuel-hotel-growth#sthash.KPhTwxcJ.dpuf>