

Duff on Hospitality Law

Metro Makes Hyatt's Day

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In May 2012, [we blogged](#) that the Hospitality Industry is on the road to recovery and [Metro](#), Portland's regional governing body, was once again considering an [Oregon Convention Center](#) (OCC) hotel. On September 13, 2012, Metro approved [a proposal](#) by local developers to construct a Hyatt Regency Hotel. The full development team consists of Mortenson Development, Mortenson Construction, Hyatt Hotels Corporation, ESG Architects, Ankrom Moisan Architects, Piper Jaffray & Co., Jones Lang LaSalle Hotels and Star Terra LLC/Schlesinger Companies.

The Mortenson team proposed four development options, two options for the StarTerra, LLC property (directly north of the OCC) and two options for the PDC-owned site (directly east of the OCC). For each site, Mortenson proposed two different development programs achieving approximately 600 rooms. The development program options include: 1) a 600-room Hyatt Regency or 2) a combination 420+/-room Hyatt Regency and 181-room Hyatt Place. Metro favored the Mortenson team because this team has extensive hotel development and financing experience. Further, Metro recognized that Hyatt currently does not have a strong presence in the Portland market and a Hyatt Regency hotel could serve national convention clients at the convention center as well as introduce new corporate Hyatt-based group business in Portland.

Expect to hear more about the complete deal in the coming months. Some of the key deal points yet to be cemented include Hyatt's willingness to enter into a labor peace agreement regarding employees of the proposed hotel; the willingness of Hyatt to enter into a room block agreement acceptable to the OCC's national sales and marketing contractor, Travel Portland; and the team's flexibility on finding ways to close the funding gap between the available public subsidy and the requests contained in the written proposal. In addition, local hoteliers have hired counsel to ensure the deal comes with a room rate floor. Many local hoteliers report of the drastic undercutting by The Nines that significantly reduced its room rates to fill vacancies. The local hoteliers do not want to face the same result when the Hyatt is operational. Further, the debate has likely only just begun about the public subsidy to the project. Public investment was requested for each of the options, including direct investment by Metro and Portland Development Commission (PDC) totaling amounts ranging from \$10.3 million to \$36.1 million, as well as reinvestment of 11.5% of the 12.5% transient lodging taxes generated by the hotel over a 30-year period. The resolution of these outstanding items will likely help determine which hotel option and scale make sense for all parties.

According to Metro, these and other aspects of the deal will be worked out on the following schedule:

- Hyatt/union negotiate labor peace agreement Sept.-Dec 2012
- Metro staff negotiates initial term sheet Sept.-Dec. 2012
- Metro Council, City Council/PDC, County Commission approve term sheet December 2012
- Staff negotiates development/financing agreement Winter 2013
- Metro Council/PDC approve development/financing agreement Spring 2013
- Construction begins Fall 2013
- Construction completed Fall 2015

Based on our government contracting and development experience, don't be surprised when the schedule slips. Questions? Please contact [Greg Duff](#).

Tags: Hyatt Hotels Corporation, Metro, Mortenson Construction, Portland Development Commission, Travel Portland