

City Investments Pushed 2 Houston-Area Hotels Over The Top As Projects Elsewhere Faltered

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During a year that saw **well over half** of all U.S. hotel projects grind to a halt, two Houston-area municipalities refused to let market forces overtake their own hotel plans, looking to alternative financing to push deals through.



Courtesy of Hyatt

Hyatt Regency Baytown - Houston

Public-private partnerships helped supplement the funding needed to develop the Hyatt Regency Conroe and the Hyatt Regency Baytown - Houston, with city funding coming to the rescue in both cases.

Dallas-based Garfield Public/Private developed the two hotels, which both opened in May.

“These are long-term plays for the city to bring in business, overnight guests who would not have been in their city in the past,” said [Steve Galbreath](#), chief development officer of Garfield Public/Private.

For the 250-room [Hyatt](#) Regency Conroe, a seven-story, full-service hotel with 38K SF of event space, financing included \$68.9M of tax-exempt bonds and \$30M from city-issued certificates of obligation — debt that doesn’t require voter approval.

The Hyatt Regency Baytown's financing included \$72.6M of tax-exempt bonds, according to Garfield Public/Private. The property has 208 rooms, a convention center and 25K SF of meeting space. It is located on the Houston Ship Channel, adjacent to the Bayland Marina.

Garfield has always employed creative financing as a tool in its belt, but it was especially important to these projects considering the high [interest rates](#) and rockiness in financial markets since the pandemic began, Galbreath said.

While many small and mid-sized cities hope developers will simply come in and build a hotel with amenities, meeting spaces and restaurants without their involvement, that is vanishingly rare due to the expense involved, he said.

“Full-service hotels are very hard, especially in secondary and tertiary markets,” Galbreath said. “That's why you don't have them.”

Garfield Public/Private helps municipalities close the gap between what they can afford to pay for and the financing they need to build the hotels, he said, developing the hotels and helping to structure the finances.

In the past, municipalities typically paid for about a third of a hotel's cost using city income, including sales and hotel occupancy taxes, with the rest of the financing coming from hotel revenues, Galbreath said.

It's harder on cities today, though. Due to inflation, the third that cities would be responsible for has crept up to 40% or 50%, he said. A number of cities have studies in hand and sites selected, but they have put plans on hold as they await a drop in interest rates.

To overcome that, Garfield and its banking partner help the municipalities sell bonds to private funds, Galbreath said. For the two Houston-area projects, the interest rates for the bonds were under 4%.

“That's what's creative about these projects ... that we do tax-exempt financing, which is the cheapest capital they can get,” he said.



Courtesy of Hyatt

The pool at Hyatt Regency Baytown - Houston

“It takes five, six years to get done,” Galbreath said. “Covid didn’t help that at all, but it allows a city ... to get this asset that they need.”

Baytown leadership had been highlighting the need for a local hotel and convention center since the 1990s, Baytown [Mayor Brandon Capetillo said](#), according to the Baytown Sun. The Hyatt Regency is its only full-service hotel.

“I think that it not only surpasses our wildest imaginations, but it provides something for citizens in Baytown that they can point to for decades to come,” former Baytown City Manager Rick Davis said at a ribbon-cutting ceremony in May. “It is the image of Baytown. It is now a destination for this level of meetings and accommodations.”

Net cash flow to Baytown is estimated to be more than \$44M over 28 years, according to Garfield Public/Private.

Conroe Mayor Jody Czajkoski [called the \\$107M Conroe hotel's opening](#) a landmark day for the city. But the long-term investment didn't start paying off overnight.

By June, the city expected to lose \$1M in revenue from low occupancy rates at the hotel through March 2024, [according to The Courier of Montgomery County](#). The hotel's general manager, Roberto Intriago, cited competition from nearby hotels as a contributing factor to occupancy that was expected to hover around 30% this year before ticking up to 49% in early 2024, when the city should start turning a profit.

“We are booking business. We have contracts signed,” Intriago told The Courier. “So business is coming. Business is on the way.”

Over 28 years, Garfield Public/Private expects the hotel's net cash flow to Conroe to top \$71M.

Houston's hotel market overall has been fairly healthy this year despite a drop in its construction pipeline. Experts [told Bisnow this summer](#) that a slowdown is a net positive, as the metro's hotel market has historically been oversupplied.

Business travel to the Houston market was up 17% this year through the first week of July compared with the same period in 2022, according to data Houston First provided to *Bisnow*.

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