

Anatomy of a deal

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Richard Preis is, to put it mildly, the eternal optimist of Baton Rouge real estate development. He's been promising a definitive announcement about RiverPlace, a mythical high-rise condo tower on a property he owns on River Road, for the better part of 10 years, though all we've seen are renderings.

His bluster and self-promotion make him an easy target for critics, while he says the naysayers just don't see what he sees. Buying 200 acres near the airport in low-income north Baton Rouge may have seemed risky, even a little nutty, to some observers. But Preis says the land that became Howell Place—now a thriving multi-use development—was the last large, viable open tract in the city. If you believe in Baton Rouge, he says, the project makes perfect sense.

He's just as confident that a new downtown hotel can succeed. “I like doing out-of-the-box deals,” he says. “There's a lot to be done in Baton Rouge that hasn't been done. Most people know, I'm not the normal developer.”

Preis, a managing director at Morgan Keegan, says he approaches real estate like he does the stock market, looking for opportunities in “inefficient markets.” North Baton Rouge is one such market, in his view. So is downtown.

“It amazed me that, in the downtown business district, we did not have a new hotel [built] in 51 years,” he says. “Nobody could explain to me why that hadn't happened, other than lack of vision. About two years ago, I made a decision that I was going to get a hotel built in downtown Baton Rouge.”

Work on that hotel, a Hampton Inn & Suites, began late last year; the developer expects the hotel to open early next year.

The land

Bo Aughtry, principal with South Carolina-based developer Windsor/Aughtry, says he took a cursory look at Baton Rouge four or five years ago, but decided the market was a little too soft at the time for a new hotel. He says his firm has built interstate-adjacent hotels in the past, but since 2000 they're more interested in urban settings, particularly those in university towns with a significant government presence such as Columbia, S.C., and Tallahassee, Fla.

Aughtry and Preis have slightly different recollections of how they came to speak to each other. Preis says Morgan Keegan referred him to Aughtry, but it took multiple calls to get Aughtry to call him back. Aughtry says he met with a Morgan Keegan investment banker about a different subject, and called Preis at the banker's suggestion. Either way, the two men eventually spoke.

“If you come down to Baton Rouge,” Preis promised, “it will be as advertised.” Preis says he brought perhaps 15 or 20 people to Baton Rouge in his effort to put together a hotel deal, “but Windsor/Aughtry seemed to be the real thing.”

Again, recollections differ slightly as to how the complicated land swap that led to Windsor/Aughtry building its Hampton Inn & Suites at Lafayette and Main streets was conceived. Here are the basics:

Preis wanted to sell property he owned at Convention and Fourth streets, near St. James Episcopal

Church, to Windsor/Aughtry for the hotel. But Aughtry preferred the former Advocate parking lot at Lafayette and Main streets. Aughtry says he liked that it was near a state-owned parking garage; parking is one of the biggest challenges for downtown hotels.

Stonehenge Capital's managing director Gordon LeBlanc Jr., along with his sister, Moffett Strain, owned the Lafayette Street site. He also owns, with a business partner, a third of a parking lot at Florida and Third streets that's adjacent to his Stonehenge office. Stonehenge always intended to develop the land, perhaps into a mixed-use project that would include the firm's headquarters. St. James Episcopal Church owned the other two-thirds of that parking lot.

Windsor/Aughtry bought the land at Lafayette and Main from the company owned by LeBlanc and Strain for \$1.575 million. LeBlanc then bought the land St. James Episcopal Church owns at Third and Florida for just over \$1 million. St. James turned around and bought the property across from the church from Windsor/Aughtry—which the developer had previously bought from Preis—for just over \$1 million.

The results: Preis unloads his Convention Street property. St. James gets room to grow. LeBlanc has a larger lot on Florida and Third for his development. And Windsor/Aughtry ends up with a prime corner spot, where the Hampton Inn will join the Hilton Baton Rouge Capitol Center and Hotel Indigo on Lafayette Street. Preis says the state and the Hampton have a lease agreement worth about \$150,000 a year for parking in the state-owned garage.

“Everybody walked away happy,” Preis says.

The money

Preis doesn't mention any banks by name, but says several institutions with a prominent local presence passed on the deal, even though the investors were putting up significant equity. Aughtry says Wells Fargo, the eventual lender, is familiar with Windsor/Aughtry's work in other markets, and says Wells is familiar with the Baton Rouge commercial real estate market because of a multifamily project deal it has done here.

Preis says the Hampton would have happened even without the tax credits that went into the deal. Easy for him to say, perhaps, since he doesn't have any of his own money in the project. Aughtry says he and his partners needed every bit of alternative financing they could get for the \$16 million project, including the tax credits and a tax increment financing district, which allows the developers to divert anticipated future tax revenue into paying off construction debt.

“It took it all,” Aughtry says. “It's still a huge risk.” The project would have been viable without help from a demand standpoint, he says, while the credits made it work from an ROI standpoint.

In 2009, the East Baton Rouge Community Development Entity, a partnership between the city-parish and the Redevelopment Authority, obtained \$60 million in federal new market tax credits. Technically, about \$17.5 million was allocated to the Hampton project, although because of the way the program works, only 39% of that, or about \$6.8 million, can actually be claimed by the investors.

Wells Fargo also bought the tax credits, says Walter Monsour, the Redevelopment Authority's executive director. After fees and expenses, the credits put about \$4.7 million into the deal.

The project qualifies for credits because it falls into a low-income census tract. From the city's perspective, the Hampton gets downtown closer to the critical mass of 1,000 hotel rooms needed to attract larger conventions. Monsour says the project passed the government's “but for” test; that is, it

wouldn't happen "but for" the tax credits. In the current environment, in which lenders might only be willing to lend 50% to 60% of a project's value, alternative financing can make the difference.

Aughtry says enthusiastic support from local officials, and his belief that downtown Baton Rouge is on the upswing, helped spur his decision to build here.

"I go a lot on intuition," he says. "It felt to me that the city is on the front end of a meaningful change."

As for Preis, he says the Hampton will enhance the value of his RiverPlace site. And it probably won't surprise you to hear that Preis hints he may have news to share about that site in the next month or so.