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Subject: STOP

STOP. That's what he should have said.

Last week's four-day trial between architectural and engineering firm Stevens & Wilkinson and the City of Columbia ended with a favorable verdict for S&W. The S. C. State Supreme Court already ruled S&W had a contract, but the Supreme Court sent the question of how much money was owed back to the lower court.

Columbia attorney and active Democrat Dick Harpootlian represented the plaintiff S&W, while the city outsourced its defense to Callison Tighe. More than once Harpootlian declared "a deal is a deal," but that was true for both sides. The question lingering in the courtroom was "just what is the deal here, anyway?"

To show S&W met the requirements of the deal, construction drawings suitable for determining a guaranteed maximum price and then presumably up to the task for construction, lawyer Harpootlian pulled rolled prints out of the box and let them hit the floor with serious thunk factor.

Specifications? Can't build without specifications, but maybe the drawings showed the specifications.

The beginnings of the deal were shown in an April 23, 2003 document called the Memorandum of Understanding (MOU), which itemized the elements of a 300-room convention center headquarters Hilton Hotel, and the MOU also identified the players and the sequence to completion and occupancy.

The deal was a city-owned and city-developed hotel, all to be financed with city bonds, and if the hotel revenues didn't come up to the task to service the bonded indebtedness, the City of Columbia would cough up the difference. From the

beginning in the spring of 2003, Columbia Mayor Bob Coble kept assuring his population the hotel was a winner and a sure-fire source to pay off the bonds. He even went so far to brag to his fellow council members about how profitable the hotel's white linen tablecloth restaurant was going to be, more than offsetting the possible shortcomings in room rentals.

Problem was, Coble didn't know a whole lot about real estate development, and the head of the development team, John Lumpkin of Edens & Avant, had never developed a hotel before.

Not a problem. In hotel development and for as long as anybody in the business can remember, the first thing in a hotel project is a rough feasibility determination. How much can Columbia reasonably expect to collect in room rates for its convention center headquarters hotel? Take that number, in April 2003 \$120 per night, but before the year was out \$140 was being talked about. According to the advice published for the Hilton team by Atlanta-based number crunchers at PKF, a big-time feasibility firm, \$120 a night would pay off the bonds, but most business types in town used the \$140 as more realistic.

The popular rule of thumb in the hotel development business is to find the predicted room rate, then go the length of the development timeline with the prediction that for every \$1,000 in total development cost per room, the front desk has to collect \$1 per night at an occupancy rate of almost 70%. So the \$120 called for by PKF implied each room couldn't cost more than \$120,000 to develop, but the more realistic necessary rental of \$140 meant each room could cost about \$140,000 to develop.

Columbia's Hilton dream team fell apart when Coble's people kept hearing his team was up to \$72 million for 300 rooms, or \$240,000 per room, and that meant the overnight rate had to be \$240 at 70% occupancy just to break even. Columbia could never charge that much in the foreseeable future to fill its headquarters hotel.

A more dramatic illustration is the value of the new hotel after the first night. If \$240 a night was necessary, but \$140 a night was the first night's rent, then the hotel was worth \$140,000 per room. In other words, the Columbia Hilton would

lose \$100,000 per room in value on its first night. Or what cost \$72 million to develop would then be worth only \$42 million.

Hotel developers have any number of ways to project a real estate development pro-forma, including different approaches to feasibility studies, but the rule of thumb cited here is a good start and for the purposes of trying to explain where Columbia was headed with its Hilton, the point was well taken in town by most concerned citizens, fortunately. Former House member Candy Waites and Republican activist Rusty DePass were among the first to openly understand where Columbia was headed, a guaranteed loser.

The State newspaper editorial today, August 5, came out with its lament, "Columbia never should have toyed with hotel building." They're right, but where were they when The State's esteemed business editor kept cranking out positive reports on the city's hotel deal? Today The State claims the city hotel deal was up to \$92 million in total development cost. I have to assume that's a typo. I never saw anything more than \$72 million.

For the year of the life of the startup there was little business analysis worth reading in the morning paper of record. In the local weeklies, though, particularly the Columbia Star and the Free Times, there was plenty, enough to kill the deal.

After a natural death due to lack of feasibility, after council member Devine and her swing vote said this dog won't hunt, Coble's city-developed Hilton concept was changed to a privatized affair. A request for proposals went out. The dead deal, the \$72 million for 300 rooms, was resuscitated by S&W with the requirement the city pay for everything over \$40 million. Never happen, obviously, but S&W had to try. Meanwhile a feasible force surfaced with \$32 million for 222 rooms championed by Windsor/Aughtry of Greenville, the owner and operator of the Hampton Inn on Gervais, not even a block away from the convention center.

For the full \$32 million, each room would cost about \$144,000, a reasonable and workable number. This was still a full-fledged Hilton, and the hotel restaurant was a Ruth's Chris steak joint, which created quite a stir in town. Windsor/Aughtry actually proposed a Hilton Garden Inn, but the city offered \$3 million in city subsidies to kick it up to a full-service Hilton.