

HOTEL BUSINESS

NEWS



**OTO
Development will
redevelop
Baltimore's
Maryland
Trust
Building
into a
SpringHill
Suites.**

OTO Development Explores Extended-Stay Segment

BY STEFANI C. O'CONNOR

SPARTANBURG, SC.— Almost 10 years after going public in a decade spent pushing the long-term-stay market to new heights, several key executives of segment steamroller brand Extended Stay America, acquired by affiliates of

The Blackstone Group last year, are now on the same track with a new enterprise that is starting to see similar growth.

"We've got 26 deals under contract," said Corry Oakes III, CEO/president of OTO Development. It's a feat accomplished some 18 months after ESA was

sold and his position as the brand's president/COO ended.

Launched by ESA founders H. Wayne Huizenga and George Johnson Jr., OTO is rife with ESA ex-pats who want to recreate the formula that delivered 485 Extended Stay properties in

continued on page 18

OTO Development Is In Pursuit Of High Barrier Markets, Mixed-Use Projects

continued from page 1

42 states in 10 years' time. Former ESA CFO James Ovenden is the company's CFO, secretary and treasurer. Todd Turner, former vp, real estate for ESA, reprises that role in the new firm. Together with Oakes, they comprise the OTO behind OTO Development.

"We have a great team relationship," said Oakes. "We understand one another's strengths and weaknesses and it's just a great environment to go build another great company. Wayne and George looked at the decade we spent building that business and looked for opportunities to leverage those experiences and leverage that education. Staying in the hotel business seemed the perfect fit."

The company mission focuses on new-build, extended-stay and select-service brands in domestic markets with high barriers to entry. Right now OTO is focusing on Hilton and Marriott product in those niches, with brands such as Courtyard by Marriott; SpringHill Suites; Fairfield Inn and Suites; Residence Inn; Hampton Inn; Hampton Inn and Suites; Hilton Garden Inn; and HomeWood Suites. The company is also eyeing some Embassy Suites deals, and new product from Global Hyatt Corp. and Starwood Hotels and Resorts Worldwide.

Turner wrangles field operations and the team handling site selection in new markets. "We're interested in going to markets where the supply/demand imbalance is favorable for the construction

of new hotels...we like high barriers to entry because that will be some security for us going forward—there won't be six or eight new hotels coming in on top of us in the next few years...We're looking at markets that have already started to rebound very strongly, and where the economics are right for us to be able to afford to buy the land, build the hotel and get the right return," said Turner.

continue new development and we moved forward and picked up the contract on the site. It's an area that's extremely difficult for somebody else to come in and put up a new hotel."

OTO touts itself as being well-capitalized, with new hotels financed via Palmetto Hospitality Fund I, which has capital commitments from equity investors that include Johnson and Huizenga. It has

we're able to be patient and do the deals that make sense for investors," he said.

Out of the Palmetto Hospitality Fund I, OTO believes it can do between \$700 million to \$800 million worth of development over the next several years, with the potential for more than \$1 billion worth of development—if it can be done prudently, noted Oakes.

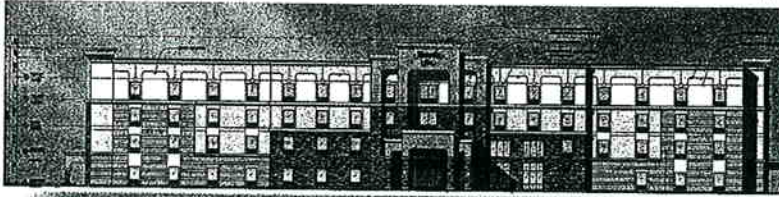
OTO Development currently has under contract about \$350 million worth of development. Three deals have closed with the remainder going through the entitlement phase. "We expect to have a total of seven under construction by the end of this year," said Oakes.

While the industry trend toward joint ventures continues to heat up, Turner didn't think that would be a likely scenario for OTO Development, although he added the company wouldn't rule anything out,

noting OTO would like to get involved with "mixed-use, lifestyle-type centers... provided the ownership structure fits the way we want to do things."

OTO is doing a stand-alone Hampton Inn and Suites near the sprawling National Harbor multi-use project across the Potomac River from Old Town, Alexandria, VA. "The mixed-use project is what drew us to the site," said Oakes.

Among other projects, OTO also is doing an adaptive reuse in Baltimore, MD, which will redevelop the historic Maryland Trust Building into a 97-unit SpringHill Suites.



A blueprint for one of OTO's new build properties, a 110-room Hampton Inn in Cypress, CA. The company currently has about \$350 million worth of development under contract.

Oakes noted it was imperative that the market characteristics allow for an investment "that produces the kind of return our investors want to make...we don't want to go to Houston or Phoenix where as soon as one intersection gets built out, the next one develops the same cluster of hotels. We want to find those markets that are exploding from a demand standpoint and also afford some barriers to entry."

Oakes noted by way of example, the development of a Hampton Inn in Garden City, NY, that has been a five-year process. "This was a deal we were working on at Extended Stay. Blackstone chose not to

common ownership with OTO.

"Having access to capital allows us to finish," said Oakes. "That's probably the biggest advantage that we have going for our company." He cited the ESA track record and the ability to close on deals. "So when we enter into a contract with somebody, they generally understand financing is not an issue. [We] close. [We] produce," he said.

Oakes explained that unlike many funds that have to have capital invested within a distinct time period with capital returned to investors, OTO Development is not under that pressure. "So