

HOUSTON'S HEAVY HITTERS

Who's who
in Houston's
leading commercial
real estate
brokerage firms



INTERGROUP REALTY, INC.



TANDY O. LOFLAND

Tandy O. Lofland was responsible for the sale of the two high-density time-share development sites near Disney World and the sale of a 375-acre lakefront site to a national builder for a new 600-home community near Kissimmee, FL.

Prior to founding the Intergroup companies in 1980, Lofland spent nearly 10 years in many phases of real estate development and construction.

During the past 24 years, Lofland has been actively involved in the development, acquisition and disposition of primarily hotel, resort and tourist properties; residential and commercial construction and land development; consulting assignments; property management; and investment banking in the U.S. Europe, Caribbean and Latin America.

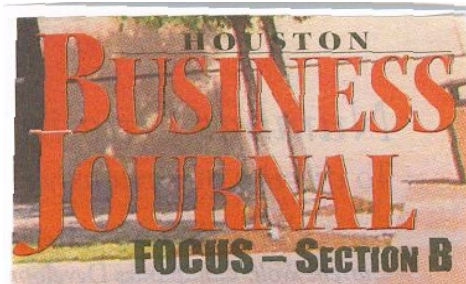
Recent accomplishments include development and marketing of The Parkway, a 195-acre mixed-use

development next to Walt Disney World in Orlando, and transactions or projects involving such hotel brands as Four Seasons, Hilton, Sheraton, Holiday Inn, Crowne Plaza, Radisson, Hyatt, Homewood Suites and Hampton Inn.

Recent transactions include rebranding for the Four Seasons Hotel Buenos Aires and Four Seasons Resort Carmelo, Uruguay and establishment of a joint venture for the development of a new 200-room Hilton Garden Inn in the San Diego area.

Lofland holds a bachelor of science degree in mechanical engineering and an MBA in finance and marketing.

He and his wife, Ellen, have two children, Tandy IV and Catherine.



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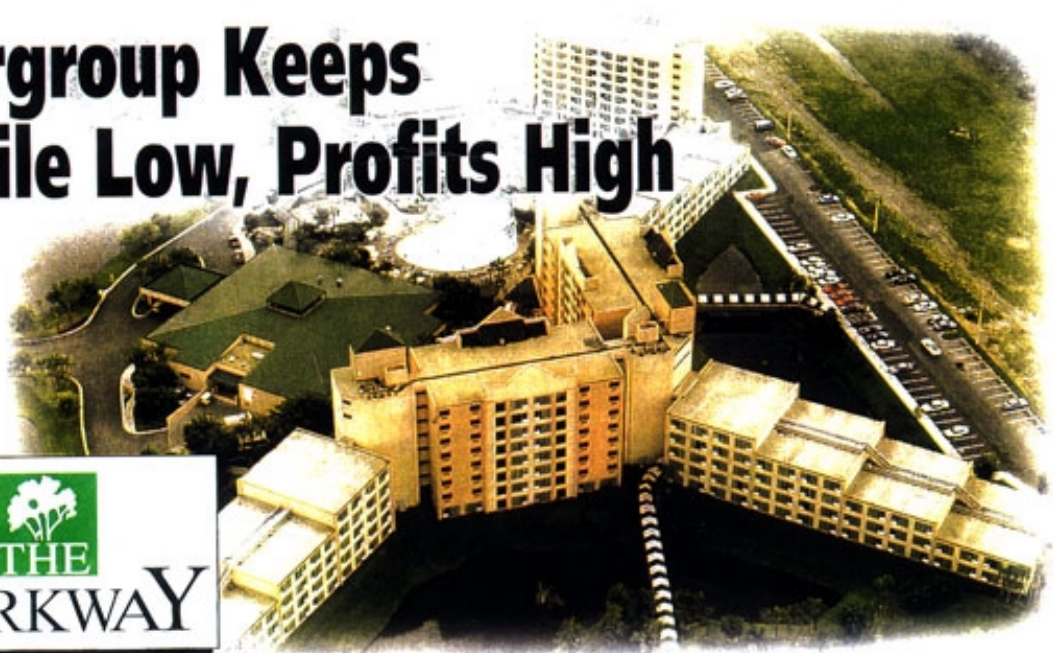
CORPORATE CLOSEUP

HOTEL JOURNAL

Intergroup Keeps Profile Low, Profits High



The Radisson Resort is a 718-room property within Intergroup's Parkway development in Kissimmee.



BY STEFANI C. O'CONNOR

HOUSTON - How do you describe a company that makes a point of flying below the radar screen when it comes to developing, buying and selling properties, quietly conducting transactions for those in the know?

"We are somewhat of an anomaly," said Tandy Lofland, president/ founder of Intergroup, based here. "It's a balance, and we struggle with it all the time."

Intergroup, which has done more than \$100 million per year over the past three years via its development and realty divisions, was Lofland's brainchild. Serving as senior vp for CRSS Inc., a publicly traded design and construction company, Lofland was an officer in the construction management subsidiary.

In the late 1970s, he witnessed the surge in private-sector development work (most of CRSS' work was in the public sector - schools, hospitals, universities, government buildings) and found his interest leaning in that direction. Ultimately, he formed a division within CRSS - Intergroup Development, Inc. - to do that type of work.

In 1982, Lofland spun out the division, creating an independent Delaware C-Corp. At the time CRSS kept a small stake in the enterprise, helping to fund it.

"From a development stand-point, we were addressing a variety of commercial projects, kind of anything, anywhere.



Interestingly, one of our first projects was the Hyatt Regency Macau, next to Hong Kong," he noted. Since then, Intergroup has participated "in every kind of real estate project: industrial,

office, land, retail, multi-family residential, even some single-family residential sub-division."

Separate Components

The biggest challenge in hotel development is handling both the real estate and business components, he said. "Most other real-estate properties have zero employees that go along with them. And while there might be a property manager [often off site], with a hotel there's anywhere from a handful to hundreds of employees all day, every day. It's a lot more involved, therefore a lot more interesting - and that's really why we gravitated out of straight, general commercial real estate into specializing in hotels and resorts," said Lofland.

Before it could enjoy and afford the luxury of being an ultra-low-profile player, Intergroup had to get the word out it existed. Initially, Lofland and his staff put together a program of one-on-one discussions with clients referred to them via their hospitality-industry contacts, a tactic that has served the company well. Case in point is Intergroup's recent handling of the transaction between Barceló Hotels and Starwood Hotels and Resorts.

In April, Starwood boosted its Four Points by Sheraton portfolio by 10%, bringing its property count to 132 in a co-branding deal with Barceló Hotels USA, an affiliate of Barceló Hospitality USA. Barceló worked with Intergroup to close its acquisition of 16 Wyndham and Wyndham Garden hotels, part of the Bedrock portfolio owned by Dallas-based private equity firm Hampstead Group LLC. These properties were reflagged - 13 as mid-scale Four Points, one as a Sheraton - via a master management contract with Starwood. Additionally, two airport properties - in Chicago and Detroit - were converted to Clarions, an upscale brand of Choice Hotels International.

"I'm still surprised at the number of people I know who have been in the U.S. hotel business for 10, 20, 25 years who have never heard of Barceló before it came and did this big transaction," said Lofland.

Barceló Hotels USA is a wholly owned subsidiary of Grubargés Inversión Hotelera, S.A., a Spanish company owned equally by Barceló Empresas, Spain's third-largest hotel and travel company, and its partners: Fomento

de Construcciones y Contratas, S.A., Spain's largest contractor, and Banco Bilbao Vizcaya Argentaria, Spain's second-largest bank.

It was Barceló that approached Intergroup. Charles Scott, director-president of Barceló Hospitality USA, a wholly owned subsidiary of Barceló Empresas, sent a "blind mailout letter" to Lofland, who's immediate response was: "Boy, this looks interesting." It proved to be \$325-million-worth of interesting. The acquisition increased Barceló Hotels USA's total room count to 4,089.

Such a large deal would tend to generate significant speculation and publicity, not only about the transaction itself but about the key players. Barceló, however, really didn't care to be in the limelight, noted Lofland, citing the private family nature of the ownership of the parent company in Spain.

"So that fit perfectly with the M.O. we try to do, which is not to compete with others that are in the transaction business, e.g., brokerages, investment bankers, multiple-listing services," Lofland noted. "We figure over time, there's going to be buyers' markets and sellers' markets, but we'd rather stake out a particular niche. And over the long term, we'd rather be on the buyers' side of the equation, representing them with whatever criteria they have and whatever way they wish to go about it."

At this point, the majority of Intergroup's buyers are private investors. "By and large, most of the medium - and small-size REITs and C-Corps are not particularly active in buying, so the action has moved over to the private side," Lofland said. He also noted the company fashions very discrete relationships with its clients, many of whom he considers, "high profile."

Before it could enjoy and afford the luxury of being an ultra-low-profile player, Intergroup had to get the word out that it existed.

Going International

While Intergroup concentrates on the United States, it has handled non-domestic deals, including some in the Caribbean and Mexico, and 18 months ago represented what was then

Servico Inc. in its estimated \$100-million acquisition of six European hotels (since divested by Lodgian, the result of the Servico-Impact Hotel Group merger).

In select instances, Intergroup will sell a property to maintain or enhance on-going client relationships (it sold a Holiday Inn in Texas for Servico). "We very much try to specialize in full-service, middle and upper-midscale properties: Holiday Inn, Radisson, Hilton, Marriott-type products. We have sold - though it's been more commonly part of a larger package - limited-service properties, but we've just had more luck in that our universe of relationships seem to revolve more around full-service," said Lofland, who added Intergroup also prefers bringing portfolios of properties to the table.

Similarly, the company maintains a relationship with a nationwide network of commercial brokers who often alert Lofland when there are independent hotel opportunities within larger parcel sell-offs, e.g., a mixed-use development.

In addition to its Houston office, Intergroup maintains an office in Orlando where it's been developing The Parkway, a 195-acre master-planned Florida community in Kissimmee situated between Walt Disney World and Celebration, Disney's own planned community. Intergroup bought the land in 1984 for approximately \$6 million (Lofland estimated the land today is worth \$50 million; \$200 million with improvements) and developed three of the current projects. These include: the Radisson Resort Parkway, a 718-room full-service hotel (originally a Ramada, built in 1987, then revamped and expanded); the 44,000-sf Parkway Pavilion shopping center; and the 288-unit Parkway Village apartments. Intergroup also sold improved land parcels that now sport a variety of properties, including a Home-wood Suites and a Hampton Inn, vacation timeshare units and villas, a dinner theater, and other retail outlets.

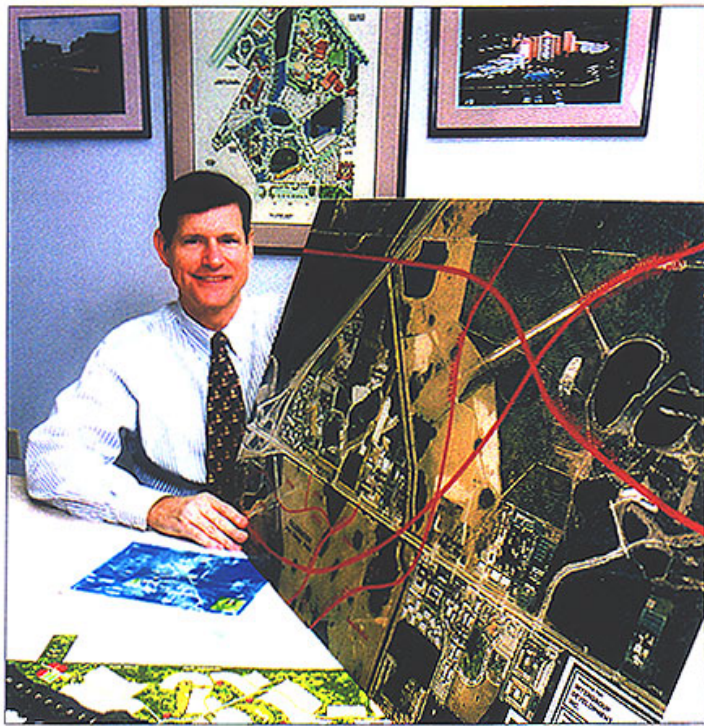
Because the location and the value of the land significantly improved over time, the site became "hot." As Lofland pointed out: "People did approach us with a few crazy ideas, so we put in place a very specific set of architectural controls, design guidelines and covenants that go with the land [the acreage also includes sections of wetlands] and dictate what you can build."

While restrictive, Lofland said such parameters help raise the property values, ensuring similar investors will occupy the the land. "So you won't find a round, purple high-diving center next to the Hampton Inn," or flooded land with water attractions, which was one buyer's proposal, said Lofland.

Prices at The Parkway range from \$400,000 - \$1 million per acre, depending on location, with a five-acre minimum. While much of the "community" is built or building out, certain parcels remain. These include a five-acre lot with highway frontage and a 28-acre parcel that Lofland said may be subdivided. (At presstime, Intergroup was in discussions with both timeshare and hotel developers for the site).

In looking at the two divisions of Intergroup, Lofland said he finds himself gravitating more toward the transaction side than the development end. "One reason is we can address so many more properties, and things tend to happen a lot faster," he said, noting the development process from concept through permitting, construction and opening can take as long as four years. "Transactions can occur within a few months to a year, so we can do a lot more and help people invest a lot more money by working a lot more on transactions. And the more transactions we can do, the more money we can make, and the risk-reward ratio is a little more in sync."

According to Lofland, future plans include acquiring properties and implementing programs of long-term building leases, in addition to expanding relationships with offshore companies looking to acquire existing hotels in the United States.



DAVID A. FARRAS/ISI

Tandy O. Lofland: 'The changing of a brand is almost always a question of renovation. Hotels get tired. They need a new look every five to 10 years or so.'

BY JEFFREY BAIR
SPECIAL TO HOUSTON BUSINESS JOURNAL

Never discount the value of a good business contact.

Tandy O. Lofland, the president of a Houston hotel brokerage with a broadening worldwide practice, recalls how a personal connection recently led to the \$9 million renovation of two South American hotels.

Lofland's clients, the owners of hotels in Argentina and Uruguay, had tapped out the resort market there and wanted to rebrand.

His 20 years of arranging hotel sales had included several meetings with Frank Orenstein, a former executive at the Four Seasons Hotels and Resorts company, the prize catch in Lofland's field of buying and selling hotels.

"Everyone and their brother has a hotel they want to sell to Four Seasons," Lofland says. "But it is difficult to get in the front door with them."

Lofland, the president of Inter-group Realty, had maintained his connections with Orenstein. Orenstein, an executive at Hospi-

Brokers help 'tired' hotels reinvent themselves

tality Investors Group of Scottsdale, Ariz., had maintained his connection with Four Seasons, which had a strong presence on every continent except South America. (The Canadian chain operates a \$300-a-night hotel on Lamar Street in downtown Houston.)

Orenstein led Lofland to Four Seasons like a bellhop taking a traveler to his room. A few months later, the deal was done. A former Hyatt hotel in Buenos Aires, Argentina, and an independent resort 25 miles away in

Carmelo, Uruguay, are reopening in December as Four Seasons Hotels. The 44-unit, 2000 acre resort in Carmelo has a golf course, casino, polo field and some family suites with four bedrooms.

"Those hotels had hit a plateau. They had reached a level they were not going to rise beyond," Lofland says.

CHANGING HANDS

Such "rebranding" of hotels is how the industry eats its young. The phenomenon drives most of Lofland's business. Savvy hotel managers know that business travelers are fanatically loyal to hotel chains, and a hotel that failed under one sign easily might thrive under another.

For example, a Spanish client of Lofland's recently paid \$325 million for 16 Wyndham hotels in the United States and rebranded them as Sheraton, Four Points and Clarion hotels. Another client changed six hotels in Holland and Belgium to the Holiday Inn and Crowne Plaza brands.

"The changing of a brand is almost always a question of renovation. Hotels get tired. They need a new look every five to 10 years or so," says Lofland, whose office is near The Galleria.

His newest business, Intergroup Capital, arranged the financing for the South American transaction and is filling a void created by the increasing reluctance of banks to front money for real-estate transactions.

"Everyone seems to be in a wait-and-see mode. The biggest market we see is taking an existing hotel and repositioning it - spending a little money and turn-

ing it into a Hilton, for example," Lofland says.

According to the trade publication *Hotel and Motel Management*, the U.S. hotel industry is adding 110,000 hotel rooms this year and has been building more rooms than it needs ever since mid-1996. And hotel occupancy was down significantly in each of the first six months of the year, well before the terrorist attacks of Sept. 11 curbed travel even further.

FINANCING HURDLE

The lack of financing remains the biggest hurdle in hotel brokering, says another broker, Leonard Smith, the vice president for marketing at Sparks Financial Group in downtown Houston. That company also has a financing branch, Sparks Capital.

"The greatest challenge we've got is convincing financial institutions and investors that there are pockets out there that are an anomaly - places where the market remains strong," Smith says.

Those include downtown Houston, parts of Los Angeles and Chicago's downtown, he says.

The brokers advise caution to whatever American city becomes the lead bidder for the 2012 Olympics. Houston, San Francisco, New York and Washington, D.C., are seeking the U.S. bid.

Smith says Atlanta built too many hotel rooms before the 1996 games and the travel market there is only now catching up. "Salt Lake City will have the same problem," he says.

LONE WOLF

Smith and Lofland both say

they have had to become more creative in recent years. Lofland, a construction manager in the 1970s, recalls how he was like a lone wolf in hotels when he started Intergroup in 1980.

"I got out of the University of Houston, and most of my class was in commercial real estate, beating each other over the head and looking for the next big thing in shopping center or office building properties," says Lofland, 53, a native of Texas City. "Lots of guys were doing that. There were not a lot of people working in hotels and hospitality."

His flagship project has been the Parkway complex just outside Disney World in Orlando, Fla. Travelers purchase one-week shares in hotel suites at the resort. Intergroup also handled the renovation of four hotels once owned by former Astros owner John McMullen near the Astrodome.

"We've had to continually reinvent ourselves to move to what the market has needed," including the creation of the Intergroup Realty business in the 1980s to kick-start hotel projects," Lofland says.

He has dabbled in offices and shopping but sticks mainly to travel, a slippery industry to get hold of.

"It's a lot more risky in hotels. If you think about a hotel with 400 rooms, it's like a landlord that has to turn over 400 leases every night," Lofland says. "And that pace has to be kept up over many years." ■

JEFFREY BAIR is a Houston-area freelance writer.