

## Orrick Seals Tricky San Francisco Airport Hyatt Deal

By **Andrew McIntyre**

*Law360, Minneapolis (July 3, 2017, 10:31 AM EDT)* -- Orrick Herrington & Sutcliffe LLP has helped the city and county of San Francisco get to groundbreaking for a major public hotel project at the San Francisco International Airport and has done the heavy lifting of drafting and negotiating numerous agreements with Hyatt along the way.

The 350-room Grand Hyatt luxury hotel broke ground on June 19, but getting to that monumental day took years of planning and negotiation of a host of agreements between local government and Hyatt, Orrick partner Mike Liever told Law360 in a recent interview.

Among the work needed to get the project to groundbreaking was negotiating and drafting a hotel operating agreement, putting together a technical services agreement, working on a pre-opening agreement and drafting a centralized services agreement, Liever said.

And while such work is no walk in the park for any hotel, what made this project even more complex was its proximity to the airport and the fact that the hotel will be owned by local government, both of which added additional challenges to getting the deal done.

Liever, a partner in the real estate group at Orrick, led the law firm's team on the deal, while Bill Doyle, an of counsel in Orrick's public financing group, also worked on the matter.

Liever said his firm first got involved in the project a couple of years ago, and said the fact that the hotel is right next to the airport created various challenges and issues, from security to traffic flow to parking.

"You're doing it in a public setting, which is not often the setting for hotels. That adds a level of complexity on the legal side," Liever said. "It's going to ultimately be financed by municipal bonds, and that's a pretty unusual thing because there are not many airports that do hotels."

Part of the challenge in moving the project forward, Liever said, was working with Hyatt to ensure that the property, owned by the airport, would be up to Hyatt's standards for the Grand Hyatt brand.



Michael Liever



Bill Doyle

The hotel is being built on a site where a Hilton used to sit, but that hotel was torn down decades ago when the airport underwent a major expansion project, and the airport has been trying since to bring a hotel back to the site.

While there have been several attempts over the decades to bring a new hotel there, lawyers at Orrick credit the strategy to structure the Hyatt project as a government-owned hotel as a significant factor in getting the deal moving.

But getting to groundbreaking has required a mountain of paperwork and agreements that Orrick has helped its client navigate.

"When you design a hotel, Hyatt gives you input," Liever said. "They tell you how you have to design this as Grand Hyatt and run it as a Grand Hyatt."

Hyatt will manage the property as a Grand Hyatt through a management agreement with the city and county, an agreement that sets out the standards for the hotel to be run under that brand.

Part of that hotel management agreement involves integrating the hotel into the worldwide Hyatt network, and the agreement also lays out how the concierge service at the hotel will be run.

"That's the key agreement that applies when they open it," Liever said, of the hotel management agreement. "That lays out the relationship between us as the owner and Grand Hyatt as the manager. It sets the standards," Liever said, referring to his client.

But there have been various other agreements.

Liever also helped the city and county negotiate a technical services agreement, which considers things like heating, ventilation and air conditioning systems.

That agreement dealt with matters such as what sorts of soundproofing should be used, how the business center would be set up and what the spa would look like.

"And all the other amenities that Hyatt has when you run a Grand Hyatt," Liever said, describing other aspects of the technical services agreement he helped hammer out.

The hotel will be run as a 4-star property, and will have roughly 17,500 square feet of flexible meeting space, a 24-7 business center, a heated pool and a health club.

The property is targeting LEED Gold status upon completion, and will be a net-zero energy building, meaning the renewable energy generated on site will be tantamount to the amount of energy consumed at the building.

"It's terrific that they're doing this," Liever said. "This will be one of the most sophisticated hotels from a technology point of view."

Sheryl Bregman, the San Francisco International Airport's general counsel, has also worked alongside Liever on various aspects of the project.

But while Liever was busy putting together various agreements between his client and Hyatt, Doyle was hard at work on the financing side.

Doyle said the team at Orrick set the deal up as a publicly owned property in part due to financing and tax considerations, and said it's a rare arrangement for such a hotel to be publicly owned.

"Generally speaking, tax-exempt financing is not available for hotels," Doyle said.

But since the property is owned by the government, it can be financed by tax-exempt municipal bonds, which is exactly what the airport plans to issue.

Doyle said the airport has a strong credit rating that will allow it to get a favorable rate of interest, and the property will be exempt from property tax, given that it is government-owned.

Orrick also helped the airport come up with a \$500 million "commercial paper" program, ostensibly a short-term loan at a low interest rate that the airport will pay back once it issues the municipal bonds.

"The airport has a multibillion-dollar capital plan in process," Doyle said.

And while Doyle was putting the financial pieces of puzzle together, Liever continued work on various other agreements.

He helped put together the pre-opening agreement, which sets out specifics on what exactly needs to be in place for the hotel to open.

In this case, that agreement addressed things like various supplies that needed to be on site, various Hyatt products that needed to be at the hotel and even things like Hyatt towels.

That agreement also laid out certain plans for the business center and concierge service, Liever said.

And then there was the centralized services agreement, which integrated the Hyatt worldwide reservation system into the hotel and set certain standards for operation, Liever said.

While the legal foundation of the hotel has been poured, Liever said he'll continue to offer help on the project as the need arises during brick-and-mortar construction.

"We are very fortunate to represent the city and county of San Francisco," Liever said. "Most of the legal work has been done. We'll consult on an ongoing basis."

--Editing by Rebecca Flanagan and Emily Kokoll.