



A three-year, \$8.8-million mezz loan from Terra Capital Partners was part of a capital stack for the 431-room Fort Worth Sheraton Hotel & Spa.

## Terra Capital Partners targets hospitality

BY STEFANI C. O'CONNOR

NEW YORK—Terra Capital Partners, focused on mezzanine loans and preferred equity investments, is now targeting “value add” borrowers, particularly in lodging, and to say the real estate investment manager is opportunistic regarding hotels could be taken quite literally.

“We’ll cycle in and out of asset classes,” said Bruce Batkin, the firm’s president and CEO. “For instance, we might be bullish on retail at a particular point. We might be bullish on hospitality at a particular point. We had done no hospitality between 2003 and 2011. We closed our first hospitality deal in fourth-quarter 2011 and have been very active since. In a year, we might be doing less or no hospitality. It’s a very cyclical asset class and we’ll pick our spots accordingly.”

For now, though, Terra Capital has been helping hospitality projects move along, also providing bridge loans and Class B notes. In the past 12 months, the firm has done at least a dozen financings on properties from San Francisco to South Florida. “It’s really been across the board,” said Batkin.

While opportunistic, the firm also is strategic in how it approaches lodging.

“We are hyper-cautious, particularly in an asset class where they have 24-hour leases. We all know how quickly that market can turn. In virtually all cases, we are coming in at a level relative to reproduction cost that is—in some cases—actually half or less,” said Batkin. “We very much look at the value of the bricks and mortar and what it costs somebody to build new, but we don’t want to participate in new [development]. There’s too much risk in terms of the construction



Bruce Batkin  
Terra Capital Partners

and when it will be brought online in the market and, in terms of existing assets, it’s basically being owned and operated at a much lower basis.”

Terra Capital does finance acquisitions, transitional assets, refinancings where a PIP is not in place and others. “We also finance all sub-classes within hospitality. In our portfolio, we have select-service, full-service, boutique, flagged hotels, resorts, urban, suburban; we really cover the landscape,” he said.

Terra Capital Partners did a refinance of a construction loan for the trendy Z Hotel in Long Island City, Queens, NY, coming in with a securitized lender. “There was a substantial amount of equity behind us, which enabled us to feel comfortable, as the hotel had not yet stabilized,” said the CEO, noting the firm was able to structure an earnout. “It was critical for the borrower in that case to have a flexible lender who was willing to fund earnouts, which certainly a securitized lender is not going to do. So we came in at the mezzanine position and funded a certain amount at closing alongside the securitized lender. They put their loan into a pool and basically offloaded it, and we continued to fund as the property was hitting better numbers. We had a series of fundings, funded alongside the growth in RevPAR, and it’s doing extremely well.”

A 30-year veteran in the finance, investment and real estate fields, Batkin co-founded Terra Capital Partners in 2002 with Simon Milde after serving in senior management positions at Merrill Lynch, ABN AMRO bank, Donaldson, Lufkin & Jenrette, as well as private real estate development partnerships.

He noted the current lending environment vis-à-vis Terra Capital is “very symbiotic” with deals coming to

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## Amerilodge to double Midwest footprint

BY STEFANI C. O'CONNOR

ROCHESTER HILLS, MI—At the height of the industry’s robust performance in 2007, Amerilodge Group made its debut as an owner/operator here in the northern outskirts of Detroit, and despite the ensuing tough years, has built a portfolio of 13 hotels. Now, it has ambitious plans to significantly increase that number since the good times are back.

According to President/CEO Asad Malik, the company is in the process of building five hotels: two Courtyards by Marriott and three Holiday Inn Expresses, all in Michigan, with 10 more properties in the planning stages.

The pipeline projects include a Fairfield Inn & Suites, five Holiday Inn Expresses and four full-service Holiday Inns.

Not bad for an entity whose founder once called it a hobby.

Malik’s foray into hotels stemmed from the similarities he saw between health-care—he was serving as a CFO for several hospitals in the Greater Detroit area seven years ago—and hospitality, albeit with a core difference: “Your engagement with your ‘customers,’” he said. “They’re coming in for multiple different reasons but in most cases they’re coming in for good reasons instead of coming in to a hospital with sickness.”

Malik said he originally founded the company as “a hobby” but realized the demands of being a lodging entrepreneur wouldn’t allow the company to be a sideline and some two years ago, exited healthcare to become a full-time hotelier. “The entrepreneurial opportunity, the ability to own and manage my own business was probably the number-one driving force,” said Malik. Additionally, a classmate of Malik’s father from medical school who had invested in extended-stay properties for 10 years encouraged him to head toward hospitality and supported him by becoming a partner in the enterprise. Malik said his own reputation as a CFO, and the partnership, aided the startup in securing financing for the new-build projects.

Amerilodge Group launched with a new-construction 77-room Holiday Inn Express in Grand Blanc, MI, and now has 10 of the IHG brand hotels open in Michigan, Indiana and Ohio.

Other open brands include Wyndham Worldwide’s Baymont Inn & Suites and Marriott International’s Fairfield Inn & Suites.

“We grew rapidly and pretty much every



Asad Malik  
Amerilodge Group

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the firm directly from borrowers, mortgage brokers or senior lenders. “And we do a lot of repeat business, actually,” said Batkin, adding each deal is largely “asset specific” with basis the most common element among all the ones that do get done.

“That’s critical, clearly, because if we did have to take back an asset, what’s our exposure?” he said.

The quality of the operator also is key. “There are very few operators we would allow to cash out of a deal,” said Batkin, although he acknowledged there was a case where that happened.

The 82-room Mystic Hotel by Charlie Palmer in San Francisco was the first hotel deal Terra Capital did in fourth-quarter 2011 where it financed the acquisition of the boutique property. “He was creating a culinary-centric boutique brand there [Palmer’s Burritt Room + Tavern is the in-house restaurant] and he did so well that he went to refinance out the local bank and us within the last few months. We then came in with a new lender and we allowed him to cash out and we did a full refinance on that; that’s because of basis. I have to get back to that as the most common element,” said the CEO.

In the deal, Terra Capital closed on a three-year, \$4.3-million preferred equity investment in the recapitalization of the hotel for the sponsor, a joint venture between chef/restaurateur Palmer and City Core Hospitality, a West Coast investor/developer. Additionally, the senior lender, Bank of America, increased its existing loan size from \$9.4 million to \$15.5 million.

“So we’ve already gone full cycle on one loan; now we’re into the second loan on that. We’ll certainly reward performance and take risk accordingly,” said Batkin.

Terra Capital also recently closed on a five-year, \$3-million mezzanine loan for the recapitalization of



Above: Terra Capital Partners was able to structure an earnout for the trendy Z Hotel in Long Island City, Queens, NY.

Right: Terra Capital Partners recently closed on a five-year, \$3-million mezzanine loan for the recapitalization of the 247-room Marriott Hotel & Conference Center in Spartanburg, SC.

the 247-room Marriott Hotel & Conference Center in Spartanburg, SC, coming in back of the senior lender, Nations Real Estate Capital, which provided a new \$14-million first mortgage.

In North Carolina, the firm closed a five-year, \$3.5-million mezzanine loan secured by the 175-room DoubleTree by Hilton in Greensboro, which allowed the owner to refinance the maturing mortgage loan.

While Batkin indicated simplicity in a deal streamlines the process, the company doesn’t back away from more complex ones.

For example, it recently closed a three-year, \$8.8-million mezzanine loan as part of a capital stack for the 431-room Fort Worth Sheraton Hotel & Spa.

“That was about as complex as they get,” said Batkin, noting the hotel had been operating in bankruptcy and was facing imminent foreclosure. Terra Capital’s financing was part of a \$58-million capital stack that enabled the original borrower—who had put some \$50 million in improvements into the



property—to acquire the hotel out of bankruptcy through a section 363 sale, he said.

The CEO indicated the mezz piece was critical to advancing the hotel’s purchase and to funding a \$4-million PIP that would allow the owner to implement a new management and marketing plan.

“I would say if we have a distinctive competence that would be meaningful to a borrower, it’s not just a complete familiarity with the asset class—many lenders have that—but we are a very entrepreneurial firm. We operate to institutional standards but we do not operate according to an institutional timetable. Basically, it’s my partner and me who make all the investment decisions. We have the money sitting in the bank. We don’t need investor approval. We don’t need to call capital and we’ve closed deals in as little as two weeks. And I don’t think in over 300 properties we’ve financed that we’ve ever had an unhappy borrower,” said Batkin. **HB**

## Amerilodge Group

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three to four months we had a new one opening,” said Malik, noting all the hotels were new construction. “Even during the downturn in the economy, we were still building hotels. We’ve been able to structure the organization to be very flexible with volume and our leverage has been very conservative in nature. We were able to weather the downturn on a very positive note that allowed us to be in the situation we’re in right now where we’re building the five new hotels.”

The under-construction Courtyards are sited in Battle Creek and Bay City; the Holiday Inn Expresses are in Port Huron, Monroe and here in Rochester Hills.

Malik felt the rebound in the economy is creating opportunities to get into additional markets and expand Amerilodge’s geographic presence. “If you’re the first into that market you’re pretty much getting your competition to think twice before they build, so that [move] has enabled us to do very well in certain markets. Toward that, markets that we’re doing really, really well in, we’re just building a second hotel in,” he said. Although weighted toward IHG product,

Malik said the company is exploring other brands and is now looking to build its relationship with Marriott. “And I believe in a few years, as we build our relationship with Marriott like we have with IHG, we’ll probably then branch out and work with Hilton next,” said the CEO.

Malik said when scouting sites, he “looks at locations where I see potential three years from now. For example, a market where you’re seeing growth occurring currently that we know three to five years from now will be successful. Where populations are shifting toward [it] and growth is occurring at much faster rate than the rest of the area. That allows us to position ourselves five years from now, even though it might have a slow start... that has really been the driving point for our success.”

He expected to stay in suburban markets, where the company has found success, for at least the next three years, although is looking to enter Illinois and Wisconsin within three to five years. “We feel sticking in one geographic region is a lot more manageable for our management team,” he said.

On that team are Director of Operations Darlene Ladd, COO Mark Greene, who also heads construction, maintenance and IT, Controller Veronica Jones and VP/Sales and Marketing Jenny Richardson. **HB**



Top: Amerilodge’s Fairfield Inn & Suites in Fenton, MI, offers a contemporary and colorful guest experience via its decor.

Above: The Holiday Inn Express in Tipp City, OH, is one of 10 Amerilodge Group has open, with more under construction and planned.