



McKinney Gateway project approved; construction could begin by June



Photo courtesy of City of McKinney - This rendering shows a potential front entrance to the hotel-conference center that's set to be finished at the Gateway development site in McKinney by late 2014. The city on Tuesday approved an agreement for the 186-room, full-service hotel.

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Gateway is a go.

The McKinney City Council on Tuesday approved an agreement that gives the city and developers the go-ahead to recommence construction of the Gateway hotel and conference center at the northeast corner of Sam Rayburn Tollway and U.S. Highway 75.

City Manager Jason Gray outlined the development agreement's terms and timeline. Construction of the 3 1/2-star, full-service, Sheraton or Sheraton-type hotel and event center will build on the existing structure, and must begin by June 2013. It's set to be complete by late 2014.

"Whether the market value of that property increases or decreases is beyond our control," Gray told the council. "However, having a finished product on the property as opposed to a partially finished structure that's been sitting there for four years, it creates an upward momentum in the property values as opposed to no momentum.

"This is not a project without risk, obviously, but we have done, I think, a very good job of trying to mitigate the risks that come along with doing this project."

The city expects the project to cost about \$35-\$38 million, with the public incentive to range between \$18-\$20.3 million depending on the final cost. The private partners will pay for about half of the project, and the city, McKinney Community Development Corporation (MCDC) and McKinney Economic Development Corporation will roughly share the remaining cost, according to the agreement.

The city will retain ownership of the land - about four acres for this project and close to eight acres from the original project - as well as the event center. It will lease the land and event center to the hotel owner.

If the project costs \$36.5 million (average of the projected total cost), Gray said that the city would likely gain \$6 million in self-supporting hotel taxes, the 7-percent tax charged on the costs of hotel rooms, which it could use to fund the event center. By receiving another \$6 million in hard asset value from owning the event center, Gray said, the city's left providing about \$7 million in "true incentive."

As outlined in the letter of intent (LOI) approved earlier this year, public investment for the project will provide full property tax abatements and a no-cost lease for the first 10 years. The city will retain all sales tax and occupancy tax from the hotel.

"I've heard some criticism by way of suggesting that we're getting into the hotel business," Gray said Tuesday. "We will not be operating the hotel (and) we will not be operating the event center either. We're simply trying to serve as a catalyst in order to get the project completed and serve as a catalyst for the entire Gateway development."

Return on the city's investment depends upon selling the hotel, which Gray said should happen in the first five years. Once it's sold, the city and private partner will split the net proceeds 50-50.

Those proceeds and taxes gained would amount to about a \$9.5 million return over the first decade. Taking away the projected \$7 million the city will pay in incentive, its return after 10 years could be around \$2.3 million, Gray said.

"Because it's based on performance, this is not meant to be a representation of exactly what any return will be," Gray emphasized to the council, adding that the city could choose to receive \$2.5 million in state hotel tax dollars. "It will be based on the sale price of the hotel and it will be based on what final project incentive is."

Charles Helm, majority owner of the Holiday Inn & Suites in McKinney, and Zach Glenn, of Helms Hotel Group, along with other local hotel owners previously voiced their concerns with the LOI. Glenn and Helms again spoke of their worries with the project as it's outlined in the final agreement.

"When the city promotes over 50 percent of the project, gains only 50 percent of the sale of the hotel, and profits when the hotel brings in conferences, that pretty much spells that the city is going into the hotel business," Glenn said.

Helms questioned the city's process in determining Beck, one of the developers, as the construction manager at risk, a process for which he said the city should have used a third party.

"This is the fox guarding the hen house," Helms told the council. "When this project fails, what

position will the city be in regards to saving this project and how will you pay for it? Will the city become a hotel operator or will we have another big, empty building?"

Gray, speaking after Glenn and Helms, also talked about the project as a catalyst for the entire property's development. About 65 acres remain to be developed outside of the hotel-conference center and parking, the Collin College Higher Education Center already there, and the soon-to-be Emerson Process Management headquarters on the north end.

Gray said that the partly finished structure on site has hindered the city's ability to market that property to corporate and retail users, but that the hotel-conference center could again boost that value.

The city has authority of the event center's design and approves design of the elevations and exterior for the hotel-conference center. There will be no public participation if the project costs exceed \$38 million, according to the agreement.

Once a guaranteed maximum price is determined, any change ordered by either the city or hotel owner will hold only that entity financially responsible, Gray said. They would share the cost of the change if they agree upon such an order.

"This council has been working for many, many hours...to go down a pathway of putting together an ideal structure that I believe makes sense - not only for the Gateway development, not only for the hotel project, but for the community as a whole," Gray said. "We believe that this will begin to bring closure to what's obviously a difficult development situation."

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McKinney approves hotel, conference center at Gateway site

Dallas Business Journal by Candace Carlisle, Staff Writer

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McKinney is moving ahead on the development of its \$35 million hotel and conference center on the Gateway site, a 90-acre tract of city-owned land it seeks to develop into business, retail, educational and hospitality property.

The city has signed agreements with [The Beck Group](#) and Champ Hospitality to build a full-service, 186-room hotel and 20,000-square-foot, full-service event space at the northeast corner of U.S. 75 and the Sam Rayburn Tollway in McKinney.

The hotel will boost the city's tourism business, and the events center will give companies and residents a local option for conferences or meetings, said Mayor [Brian Loughmiller](#).

Construction on the project is scheduled to begin in early 2013.

The project is expected to cost between \$35 million to \$38 million, with a public incentive range between \$18 million and \$20.25 million.

The [McKinney Community Development Corporation](#) will retain ownership of the land and own the event center. The Beck Group and Champ Hospitality will own the hotel. The lease rates for the land and the event center have not been set.

About 65 acres of the 90-acre tract of land remain open for development. The city received the land after a two-year dispute with the former developer of a prior hotel and event center project, which stalled in 2008.

Emerson Process Management is also building its \$25 million, 130,000-square-foot headquarters on 10 acres of the Gateway site. The project is scheduled for completion in 2013.


Candace covers commercial and residential real estate and sports business.

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