
Preston Hollow Capital Brings Private Debt to Municipal Market.

- **Dallas firm has raised more than $1 billion from investors**
- **New Orleans convention center hotel would be biggest deal yet**

The agency that runs New Orleans' convention center may build a 1,200-room Omni Hotel attached to the exhibition hall, a project that local tourism officials say is needed to boost business in the Big Easy.

If the project is given the go ahead, the $516.5 million needed to finance it won't come from selling tax-exempt bonds to mutual-fund managers and individual investors in a public offering, as is typically done. It will come from a loan from Preston Hollow Capital, a little known company that's looking to shake up the $3.8 trillion state and local government bond market with a direct-lending model that's ballooned in corporate America.

Since its founding four years ago, Preston Hollow has extended $2 billion of loans. It has financed a hotel in a Dallas suburb, hospitals in California and New York, student housing in Pennsylvania, and roads, sewers and other infrastructure for economic redevelopment projects in the suburbs of New York City, Cleveland and Atlanta.

In New Orleans, it's pitching its biggest deal yet, a little more than month after closing an equity commitment of more than $225 million from investors, including funds managed by HarbourVest Partners, Stone Point Capital LLC and Pathway Capital Management, bringing its permanent equity capital to more than $1.3 billion.

Preston Hollow occupies a niche between banks that lend to municipalities with strong credit ratings — a market that exploded after the financial crisis — and individuals and mutual funds that buy traditional bonds. Preston Hollow lends over the long-term, as much as 40 years, to projects that banks won't finance because they're too risky, require more time to repay — or both. It stands to get an 8.2 percent interest rate on the New Orleans loan if it goes through, more than twice the yield on benchmark 30-year municipal bonds.

"There was this wide gap between the bank market and the capital markets marketplace for a committed buyer," said Ramiro Albarran, managing director at Preston Hollow.

Banks Retreat

Outside of the municipal market, lending by private equity funds and asset management firms to companies has ballooned to more than $600 billion as stiffer regulations led banks to pull back, according to researcher Preqin Ltd. The corporate-tax cut law has also made state and local government debt less lucrative to banks, leading them to cut their holdings during the first three months of the year for the first time since 2009, according to the Federal Reserve.

Loans are attractive to investors because they're immune from the price swings of publicly traded assets, said Albarran, while borrowers can cut out the fees for lawyers and credit rating companies associated with bond offerings.

“Often there’s a lack of risk appetite from the borrower’s standpoint to go through all the steps necessary for doing a capital markets transaction and hoping the buyer will be there at the end of the day,” said Albarran.

Preston Hollow Capital was founded by Jim Thompson, who worked at Orix USA, a subsidiary of Japan’s Orix Corp., for 22 years, including 10 years as chief executive officer. He invested $100 million of his own money in Preston Hollow Capital, named after the wealthy Dallas neighborhood where he lives.

Thompson, an avid pilot who owned a Czech-made military training jet and flew his Cessna Citation CJ3 to Europe, built Orix USA from a company that securitized mortgage-backed securities into a 1,400-employee firm with $5 billion in assets.

’Wasn’t Ready’

Orix invested in energy, real estate, and municipal projects and acquired Mariner Investment Management and mergers adviser Houlihan Lokey.

“I wasn’t ready to stop working,” Thompson said in an email.

Thompson’s departure from Orix wasn’t amicable. Orix sued Thompson, accusing him of planning the new firm while still at there and poaching its employees. Thompson, who said his compensation included a five percent share of Orix’s value, sued after the company denied the options existed and didn’t pay him, according to the lawsuits. The cases were settled and terms are confidential.

Thompson brought along 10 of his Orix colleagues to his new firm. Now, Preston Hollow and its 32 employees focus on sourcing deals — “where public policy and private capital intersect — rather than purchasing companies,” Thompson said in an email.

And while Preston Hollow started with a focus on financing infrastructure for economic development projects, it’s diversified into higher education and healthcare investments.

In April, Preston Hollow closed a $125 million loan with El Centro Regional Medical Center in California’s Imperial Valley near the Mexican border to bring the city-owned hospital into compliance with seismic safety standards and refinance existing debt. About a quarter of El Centro’s residents live in poverty and suffer from high rates of diabetes and cancer.

Preston Hollow bought the hospital’s tax-exempt bonds yielding 5 percent to 6.38 percent. “They gave us terms better than what we would have had seeking the markets,” said hospital Chief Executive Officer Dr. Adolphe Edward.

The New Orleans hotel deal has attracted scrutiny from a non-partisan research group, which estimates the development team is seeking cash and subsidies with a present value of $330 million. These include tax rebates of 10 percent of room revenue, 4 percent of food and beverage revenue, and a property tax exemption until the debt is repaid in 40 years.

On August 9, New Orleans Mayor LaToya Cantrell, wrote a letter to the chair of the the Ernest N. Morial New Orleans Exhibition Hall Authority opposing the proposed deal and saying she had “grave concerns” about the size of the public subsidy, future implications of the project on tax revenue and the plan’s scant details.

The mayor also said she was concerned about the interest rate on the tax-exempt bonds Preston Hollow would purchase. Thompson declined to comment.

Bloomberg Markets

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August 17, 2018, 7:50 AM PDT

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