

When Higher Education Meets Hospitality

The Requirements for University- or College-Owned Hotels To Be Successful

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As higher educational institutions look to expand both their investment strategies and appeal to prospective student applicants, lodging facilities are popping up on the syllabus as a means to achieve those objectives and being added to the investment curriculum.

In fact, many universities have recognized the potential value of lodging assets and opted to build them directly on or near their campus. In addition to the financial benefits, these lodging facilities are proving to be distinguishing and powerful “front porch” amenities to the school by providing a curated lodging experience that



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communicates the sponsor's mission and values to existing and prospective stakeholders. In essence, these lodging facilities allow the university and college to communicate their message via the design of the building and the service culture within.

However, these higher educational sponsors are often “freshman students” in the subject and should have a heightened awareness of the complexities of this real estate asset class where outside expertise is critical to the successful design, development and financial performance after it opens. In other words, even though it is an extension of the university or college, there is more at stake than simply building, opening and operating a hotel or inn. Making smart decisions up front during the design and development stages are critical to the ultimate success well after it opens, ultimately giving the sponsor the best chance of generating a positive long-term return on investment rather than it becoming a marketing expense or worse, an annual financial burden that needs to be funded.

Of particular importance to the sponsor is an awareness that lodging assets are not just real estate. They are a

labor-intensive 24/7/365 operating business that has 24-hour leases on the guest rooms that can be canceled on a moment's notice. In addition, these assets have high fixed operating costs, a variety of activities occurring within the building that require different expertise — i.e., room rental, food and beverage, recreational activities, etc. — and are at the mercy of seasonal, let alone cyclical, demand patterns that require constant adjustments to room rates, the number of people working on any given day, etc. They also require annual reinvestment to the fixed assets to ensure that the hotel remains in good working order and appealing to its guests.

Because of this, hotels are viewed as the riskiest of all commercial real estate classes by most institutional investors. The location of these lodging facilities on university and college campuses adds another layer of complexity depending on whether the sponsor wants to limit access to the various hotel facilities in order to protect certain dates for their own use, versus allowing the general public to use it whenever they want. Such decisions will influence the ongoing profitability of the asset.

To best ensure that the sponsor's overall objectives are met, these university investors should seek the services of hospitality-centric advisers, asset managers and hotel

management companies. These firms offer highly specialized expertise in this area since the university or college most often lacks the deep level of expertise internally to accomplish these objectives.

Expertise from these firms comes from formal education in hospitality and years of direct experience across a variety of lodging markets, product types and functional areas. That includes developing and operating both independent and branded lodging assets, both on and off-college campuses.

Initially, hotel advisers and asset managers will establish the financial viability of the project and act as the owner's representative through the development process by identifying and hiring the many subject matter experts needed to bring the project to fruition, which often includes the operator or manager. Once the operator is on board, they assist in ensuring that the design and layout of the hotel reflects the culture of the sponsor, and can operate efficiently, among other key aspects. Thereafter, the operator takes over the responsibility of executing on the sponsor's vision and taking on the daily responsibility of delivering the service to the guests and financial goals to the owner.

In the end, the successful development and operation of any hospitality asset is ensuring that the university has the right team assembled that can execute on their goals. Recognizing how the lodging asset fits into the overall strategy of the higher education institution will drive both its design, development cost and operational success, whether it be financial or intangible service or cultural related factors. Frequent and clear communication between the invested parties is imperative to achieve long-term goals, while at the same time protecting the financial resources and reputation of the university or college. Collectively, these tenets will provide the best counsel for higher education to diversify their investments into this higher risk category of real estate, which otherwise may be viewed as intimidating and overwhelming.

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