



## Going to School on University Hotels

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There is a relative boom going on in college- and university-owned hotel development. Across the country there are approximately 85 hotel facilities that are owned by colleges and universities, with another 14 in the development process. These facilities are unique in that they are owned directly by the schools and are closely integrated with the campus. Schools with hotels in development range from small liberal arts colleges such as Swarthmore College to large universities such as Florida State University.

It is critical for schools, their partners, and service providers to understand that college- and university-owned hotels are dif-

ferent from those that are owned by traditional owners such as developers, real estate investment trusts, and private equity funds. Traditional owners develop risk and financial return expectations and then identify a hotel to develop or acquire. Conversely, colleges and universities identify the type of hotel they want to develop or acquire, and then evaluate the risk and return expectations.

Unlike typical developers and owners, colleges and universities are not always driven by profit. Their primary objective with any hotel asset is to support, protect, and improve their core mission. College and university hotels do this by providing an

amenity and accommodations for campus visitors, accommodating demand generated by school-related programs, controlling land for future redevelopment, and serving as a venue to support hospitality-related educational programs.

While most college and university hotels are owned by the school, ownership structures and reporting vary widely. Some schools have foundations that own the hotels, while others create separate entities. Within the organizational structure of the schools, the hotels can report to a wide range of bodies, including the Board of Trustees, asset management and real estate, the business school, the vice president of administration and finance, or the vice president for auxiliary operations.

Due to their unique objectives and locations, college- and university-owned hotels often cost more to build than those developed by independent, for-profit developers. Factors that drive up development costs include:

- The use of union labor: Most schools are unwilling to risk any negative press they might receive for using non-union labor.
- Expensive exteriors: Colleges and universities often have consistent campus-wide designs that might include features such as brick or stone facades or slate roofs, all of which serve to increase construction costs as compared to more typical new development.
- Extensive meeting space: Some schools develop full-service hotels with extensive meeting space in order to support their campus needs rather than to drive profits.
- State of the art technology: To positively reflect their larger brand, colleges and universities often require the latest and greatest guest-facing technology (e.g. RFID locks).
- Additional public space: Some recent school hotels have been built



The colors and style of the Hotel Commonwealth's lobby reflect Boston University.



with oversized lobbies and public areas (e.g. the Morris Inn at Notre Dame and the Alford Inn at Rollins College). These spaces are intended to serve as “the living room of the university.”

Operating expenses can also be impacted by the school’s objectives. When weighing the protection of the school’s brand versus increased costs, colleges and universities will almost always choose protection of the brand. Therefore, a school is generally willing to offer higher wage and benefits packages to its employees than a more typical owner might, rather than risk a labor action that might tarnish its reputation. Additionally, because profit is not their primary motivation, many schools do not actively asset manage their hotels. Therefore there is no pressure on management to control costs.

Lastly, revenues are also often impacted by the lack of focus on profitability at

college and university hotels. They face the unique situation of generating the majority of the demand for their hotels. This can create a significant challenge in setting prices for school-related demand. Departments are expected to use the school-owned facility whenever possible, but that could have a negative impact on their budget if more economical alternatives are available just off campus. Additionally, school-owned hotels must be careful not to appear as though they are price gouging during periods of strong demand (e.g. graduation and sporting events).

Many schools attempt to integrate the hotel with the rest of the university to leverage existing operations, relationships, and facilities. For example, most large universities have extensive in-house resources that can provide services and support for marketing, advertising, and public relations. They also have resources that can support the engi-

neering function of a hotel such as plumbers and electricians. Lastly, due to their size, some schools have their own power plant, or receive volume pricing that can benefit the hotel operation. When considering these economies of scale, it's important to understand the strengths of the school and the needs of the hotel. For example, the school may have great web designers in house, but they have no experience with hotels. That could present a challenge for the operator who is ultimately going to be responsible for the site.

In order to ensure a successful hotel, ownership, their partners, and service providers must all have a clear understanding of the school's objectives and the implications of those objectives. All parties should com-

#### Supplemental Information

Pinnacle Advisory Group was hired by Boston University (BU) in the mid 1990's to assist evaluate demand and make facility recommendations for a proposed hotel in Kenmore Square. At the time the area was known for its noisy bars including the famous Rathskeller where many famous bands got their start in the 1970s and 80s. BU had two primary goals: to improve the area, which is considered the commercial gateway to the Charles River Campus, and to provide accommodations for visitors to the school. The four-star hotel that was built as a result, the Hotel Commonwealth, is credited with helping to transform the area. Kenmore Square is now a well-known culinary destination, thanks in part to the hotel's leased restaurants. The property recently sold for \$79 million with a land lease in place, allowing the school to return funds to the academic mission while maintaining control of the underlying land.

municate in the planning, development, and operating phases in order to clarify ownership's objectives. Then all decisions related to the hotel's development and operations should be considered with an eye on the ultimate objectives. ■



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