

AN EDUCATION IN HOSPITALITY

AJ Capital has created a new hotel chain that caters specifically to the college and university markets.

By Nellie Day

There are many reasons people stay at hotels: vacations, business meetings, visiting family and friends. The latter category is usually associated with holiday get-togethers where loved ones want to be close, but due to time, space or patience constraints, many out-of-towners don't want to be *that* close. There are plenty of other reasons why family choose to congregate around specific universities as well: college visits, helping their children move into a dorm, graduations, alumni gatherings and reunions, weekend quality bonding time and sporting events.

It is this market that AJ Capital believes is underserved. So the Chicago-based firm did something about that. It created the nation's first hotel brand that caters exclusively to college- and university-anchored markets.

"In most markets, the hospitality offerings are dominated by cookie-cutter, limited-service hotels, often located on the outskirts of town," says Ben Gottlieb, AJ Capital's vice president of acquisitions. "When visiting a university, a hotel is often the first and last place that one sees in a given town. We saw an underserved niche and capitalized on a tremendous opportunity to improve this sector by curating a hospitality experience worthy of these unique communities."

And, thus, the Graduate Hotel chain was born. The chain, which launched in 2014, now has 1,355 keys in nine university-anchored markets across the country. AJ Capital's most recent acquisition is the 144-room Hotel Durant in Berkeley, Calif., which it purchased for an undisclosed sum this past September.



Photo credit: Christian Horan Photography

AJ Capital converted the Twin Palms Hotel into the Graduate Tempe hotel in September 2014. The hotel sits across from the Arizona State University campus in Tempe, Ariz.

GUESTS LOVE AMENITIES: THE SHIFT IN DEMAND FROM SELECT-SERVICE TO FULL-SERVICE HOTELS

While certain companies like AJ Capital explore niches within the hospitality market, others point to overarching trends that may impact the general types of products delivered out West.

The hospitality market has made a true comeback over the past several years as a result of the improving post-recession economy. Business trips are more common, and families and couples are once again traveling for pleasure. To keep up with the increased demand, the hospitality construction and development sectors have responded, adding various properties, many of which are select-service hotels in strategic locations.

While this rapid growth has positioned the hospitality sector well, there are signs the market is imminently changing — and that the strategy behind hospitality construction and development must, and will, change with it. The improvements in the economy have driven increased demand for beds and amenities. That same economic upturn has also boosted land and construction prices, ultimately increasing the cost of hotel development. While there is still demand for additional hotel rooms in some markets, others are showing signs of saturation. Hospitality professionals will need to address both the increased cost of construction and market saturation — and provide a truly unique product — if they are to succeed and compete in the changing marketplace.

Today's hospitality economy is driven by the consumers' desire to have a lifestyle experience at a property, while feeling a connection to the community where the property is located. The hospitality sector will likely need to move away from the development of select-service properties and increase the number of full-service hotel properties if it plans to accommodate these demands. Full-service properties meet all of the integration, collaboration and lifestyle needs of both business and leisure travelers in an enhanced capacity, providing everything all in one place.

For example, the Paséa Hotel & Spa, which is currently under construction in Huntington Beach, Calif., will offer business travelers the benefit and convenience of high-quality amenities, including ample meeting space, unique on-site dining options and executive concierge services. As a result, these customers may never need to leave the property or the local community, and they will still be able to conduct their business productively and efficiently.

Leisure travelers are often looking for the same qualities as their business counterparts when choosing a property. This has led them to increasingly gravitate toward full-service options. Families and couples want to feel like part of the community. This can be accomplished in a variety of ways, ranging from incorporating local flair and culture into the design of the property to having ample and exciting amenities like a high-end pool, spa or fitness center where guests can gather and experience the property together.

Properties that provide experiences and amenities that can be shared by guests and nearby residents also often find greater success. For example, many hotels offer high-quality dining options that create a community experience for their guests, nearby residents and visitors.

In addition to increased consumer expectations, geographic location plays a large role in the demand for full-service properties. Coastal areas like California and Florida, as well as major metropolitan areas such as Los Angeles and San Francisco, are primed for this type of growth due to their desirable locations and variety of attractions. On the other hand, many smaller and secondary markets may not have the demand or traffic to support the expense of a successful full-service venture.

In areas where it can be economically supported, existing full-service hotels will see an upswing in traffic, and new full-service properties will likely compete well in the marketplace. For developers currently in the process of building a select-service property, it will be important to consider what can be done differently to bring handpicked, extended amenities to the property.

The key to creating a successful hospitality development over the next couple of years will involve understanding how to best incorporate full-service and lifestyle amenities into current and future projects. Successful ventures will truly understand customer desires and will build their properties to meet those demands.

— Bill Wilhelm, President, R.D. Olson Construction in Irvine, Calif.

Like its other Graduate Hotel conversions, AJ Capital plans to reposition, rebrand and renovate the property to make it more reminiscent of the community it calls home. Gottlieb is quick to note, however, that the renovations are not meant to make the property look like a dormitory or frat house.

"While Graduate is a brand, we prefer to look at it as a collection of locally centric boutique hotels," he says. "By design, each Graduate has a distinctly different aesthetic — one that, through subtle storytelling, pays homage to its host community. Think discrete references to distinguished alumni as opposed to overt displays of school mascots and colors. Notice that we refer to these markets as 'university-anchored' instead of 'college towns.'"

In-house interior design teams spend significant time in the cities where a new hotel will debut. They source vintage pieces, interview local



Gottlieb



Above is an exterior rendering of the new Graduate Hotel in Berkeley, Calif. The firm purchased the 144-room Hotel Durant this past September.



The entrance to the Hotel Durant in Berkeley, pre-conversion.

artists, and learn the history, culture and stories of the community. This allows them to capture the essence of the host campuses and cities through the design and amenities.

Gottlieb also believes in capitalizing on the already-established history of a well-known property when the opportunity arises.

“We’re certainly not opposed to new construction — having just completed a very successful ground-up development in Oxford, Miss. — but when presented with an existing structure that meets our location, design and quality specifications, we love the challenge of a conversion,” he says. “The Hotel Durant was steeped in history and a venerable Berkeley institution. The hotel has excellent bones, an irreplaceable location and history that couldn’t be replicated in a new build. In this case, we see more value in continuing the stewardship of a local landmark than in constructing new.”

The firm received \$31.5 million to acquire and reposition the Hotel Durant, which is the closest hotel to the Greek Theater and the 62,000-seat California Memorial Stadium, where students and parents can experience UC Berkeley home football games. Financing was arranged by Jordan Ray, Ari Hirt, Steven Buchwald and David Behmoar of Mission Capital’s Debt & Equity Finance Group. Ray, a managing director with the group, says education is, ironically, key to getting unique projects like a college-anchored hotel conversion off the ground.



Ray

“These types of deals are not necessarily easy for lenders to understand,” he says. “For this particular deal, we educated the market and, in particular, the lender who closed, about the business plan and the demand for this kind of hotel.”

Ray also says these types of deals have been made a bit easier by the fact that AJ Capital now has nine Graduate Hotels under its belt.

“It’s never easy, but once we have educated the market about a product and created a field of interested capital sources, we can re-approach that field on the next relevant deal,” he notes. “You need to make sure your deal works, that you have realistic expectations and that you are keeping the capital stack as uncomplicated as possible. Construction lenders are getting more and more fickle in this environment. The less brain damage, the better.”

Gottlieb notes food and beverage outlets have also become very important within the properties, as they must both complement the other offerings that are walking distance to campus, but still offer guests something unique.

“Hotel restaurants traditionally carry stigmas that we strive to reverse,” he says. “Instead of the ubiquitous self-serve pantry and continental breakfast buffet, Graduate Hotels feature vibrant, yet approachable restaurants, bars and lounges that garner a significant local following. We don’t do stuffy fine dining or white tablecloths but instead feature outlets where guests, students and local residents can visit multiple times per week. This is becoming more common, but we use local purveyors and products whenever possible.”

AJ Capital is currently sourcing future Graduate Hotel sites and is “actively looking at all of the obvious West Coast markets,” according to Gottlieb. Other Western-based properties include the Graduate Tempe hotel, which was converted from the Twin Palms Hotel in September 2014. The hotel sits across from the Arizona State University campus in Tempe. ■



CREATIVE

RECENT LEASING ACTIVITY

AIRPORT DISTRICT

World Famous West Coast Customs, Walmart Superstore

MEDIA DISTRICT

Olive & Thyme (expansion),
Whole Foods Market (opening 2018)

DOWNTOWN BURBANK

European Wax Center, Five Guys Burgers and Fries,
Gyu-Kaku Japanese BBQ, Steak n Shake,
Wood Ranch BBQ & Grill, Yard House,

MAGNOLIA PARK

Morphe Brushes, Slone Vintage, Unique Vintage (remodel),
The Hangar Grille



VIBRANT



NEW DEVELOPMENTS

- Springhill Suites Los Angeles Burbank/Downtown, opened summer 2015
- Tesla Motors Burbank opened October 2015
- Hilton Garden Inn to open summer 2016
- IKEA set to expand to 456,000 sq. ft., its largest US store in spring 2017
- Nickelodeon expansion scheduled to open 2017
- Talaria at Burbank mixed-use project to include Whole Foods Market, opening spring 2018
- First Street Village mix-use project with 13,765 sq. ft. of new retail space

DYNAMIC

BURBANK

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