

## The Benefits and Challenges of University Hotels and Conference Centers

May 28, 2008 / By Anne R. Lloyd-Jones, MAI, CRE



Colleges and Universities have long been viewed as a source of demand for hospitality properties, and proximity to an educational institution is considered a positive characteristic of any potential hotel site. Indeed, this proximity is typically viewed as a marketing tool, and hotel directories are full of listings that identify properties as "at the University" or "near the campus."

The synergies between the hospitality industry and educational institutions have resulted in the development of numerous hospitality facilities on the grounds of colleges and universities. In many cases, these facilities are located within the main campus, and may be attached to a specific school within the University system. Such facilities include hotels and conference centers, the latter often including a full complement of guestrooms and food and beverage facilities. Examples of these properties include the Statler Inn, which is affiliated with and attached to the School of Hotel Administration at Cornell University; the Emory Conference Center Hotel, at Emory University; and the Carolina Inn, on the University of North Carolina's main Chapel Hill campus.

The current development cycle has seen a number of university-based projects, including both hotels and conference centers, which are now in development. While these opportunities have many benefits, they are not without challenges, as well. This article explores the circumstances that can influence a hotel or conference center that is affiliated with an educational institution.

### The Benefits of University Hotels and Conference Centers

Hotels and conference centers that are located at or near a university or college derive numerous benefits from this proximity. The most obvious benefit is the opportunity to participate in the demand generated by the institution. Broadly speaking, this demand can be classified in the following categories:

- Friends and family visiting students or attending university related events such as graduation
- Prospective students (and families) from outside the region
- Alumni
- Individuals and teams participating in sports events sponsored by the university
- Visiting professionals, including professors, doctors, lecturers, etc.
- Individuals conducting business with the university divisions, departments or related institutions
- Individuals attending university-sponsored events such as continuing education or symposia

A less direct but equally compelling benefit is the influence of the university on the local community. The presence of a large educational institution typically has a stabilizing influence on the local economy. It is usually one of the largest – and in many cases the largest – employers in the area, and employment levels are generally subject to minimal fluctuation, regardless of economic cycles. Larger institutions often include medical schools and/or centers, which create jobs and bring people to the area. Many universities sponsor research centers which in turn give rise to new businesses. The presence of a relatively well-educated workforce, together with the proximity to the resources of the institution, can also attract employers to the local area. Finally, the university

### Summary

Proximity to a college or university is considered a positive characteristic of any hotel site. This article explores the benefits and challenges of developing and operating a hotel or conference center affiliated with an educational institution.

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population (including students and staff) requires the support of an array of retail and service business, which collectively generate direct and indirect economic activity from which the community benefits. Collectively these factors create a favorable economic climate, from which hotels and conference centers can derive significant benefit.

Obviously, the above-discussed benefits adhere to any hotel that is located within the institution's sphere of influence. The hotels that are most conveniently located with respect to the campus are in the best position to participate in the demand generated by the facility, although in many markets demand extends well outside the immediate area during peak events, such as graduation. A facility located within the university - that is, physically within the campus and/or directly affiliated with the institution - is usually in the best position to participate in all of the potential sources of demand, throughout the calendar. This fact, together with the cachet associated with a direct connection to the institution, comprise the principal advantages to a direct affiliation with a college or university.

### **The Challenges of University Hotels and Conference Centers**

In investigating the challenges associated with a university based hotel and/or conference center, HVS has spoken with representatives of several companies that have developed, owned or operated university-related hotel/conference centers. Based on these discussions, we have identified the following issues that typically have a material impact on the operations of such a facility.

#### **Characteristics of University Demand**

The characteristics of most of the demand generated by the various university-related entities can influence the profit potential of this demand. Salient characteristics include:

- **Demand Patterns:** The patterns that characterize university related demand fluctuate dramatically. Peak levels of demand occur during major events in the campus calendar, including graduation, parent weekends, alumni weekends and sporting events. Demand in the summer is influenced by continuing education and summer campus programs. Demand during the academic year is sporadic, and typically does not occur during exam periods, holidays, and the "transition weeks" between semesters and at the beginning and end of the summer.
- **Price Sensitivity:** Typically, the cost of a university related event is paid by either the university (or department or division) or the attendees. Universities are generally very cost conscious; when the school is bearing the cost, price can be a material negotiating point. The price sensitivity of the attendees varies with the nature of the attendees. The pool of attendees at major university events will usually include an affluent segment for whom price is not an issue. In other, non "peak" circumstances, where the attendee pool is finite, a higher degree of price sensitivity typically prevails. This is particularly true of education-oriented events. The noted exceptions are business schools and medical schools; reportedly, at least some of the demand generated by these institutions or divisions is able and willing to pay a higher price. The issue of price sensitivity affects both room rates and the fees charged for hosting the event, including meeting room rental, catering costs and other related costs.
- **Nature of Demand:** Although universities generate a significant demand for accommodations, the vast majority of this business is "rooms only". For example, virtually all of the demand generated by the major university events is for hotel rooms only, and does not require much, if any, meeting or conference space.

#### **The University and the developer/operator have different priorities and expectations**

Typically, a university seeking or sponsoring a hotel/conference center development views that entity as only one part of a larger unit, both from a physical/facility perspective and from an operational perspective. The conference center is generally viewed as an amenity in support of the broader university mission, as well as a point of differentiation from its peer universities. By contrast, the third party developer/operator typically views the project as an independent business unit, and applies "market" expectations to the business opportunity. In

many instances, these different perspectives can result in a significant disconnect between the two constituents, and can impair the operations and profitability of the hotel/ conference center. This point summarizes the fundamental issue that affects this type of project, as the disconnect in priorities underlies virtually all of the following specific points.

### **University demand levels do not meet expectations**

One of the most common issues noted by the respondents was the fact that the levels of demand actually generated by the university usually does not meet the expectations outlined at the beginning of a project. For example, when the conference center at a major university was in development, three separate studies (including one sponsored by the university) anticipated that university demand would account for over 50% of the facility's occupancy. In fact, university demand has accounted for less than 25% of occupancy levels since opening.

We have identified several factors that have contributed to the "disconnect" between expectations and the reality of university-related demand.

- There is no single source or gatekeeper for university related demand. While broadly categorized as "university related demand", in reality demand is generated by a variety of different sources, including various academic departments and schools, the administration, alumni affairs offices, and athletics department (which can itself consist of numerous different divisions). To effectively solicit this demand, the marketing staff of the conference center must establish their own relationships with each entity.
- Universities are either unwilling or unable to mandate use of the on-campus facility. In part because there is no gatekeeper for university related demand, the university is not in a position to actively direct users to the on campus facility. Moreover, given the independent spirit that characterizes many academics and university departments, the suggestion that the on campus facility be given priority can backfire, and cause individuals to seek alternate venues. As one respondent put it, a university is really a collection of fiefdoms, each of which is controlled by an individual or committee that has its own perspective and expectations. For these reasons, universities are typically reluctant to enter into any agreement based on room night minimums or guarantees.
- Outside of sporting events and university-wide events (such as parents weekend, graduation and alumni weekends) most of the university related demand is somewhat random, consisting of special events hosted by individuals or departments. In addition to the problems caused by inconsistent or only occasional demand patterns, the specifics and requirements of these events can vary dramatically, so that it is often necessary to respond to each event with a customized package, and in some instances, the on-campus facility simply does not work for an individual event.

### **University expects "most favored customer" status**

As the sponsor, (if not the owner) of the facility, the various constituents of the university frequently expect preferential treatment. The most common expectations/requests include rate discounts; last room availability (at discounted rates); waiver of fees related to events (e.g. meeting room rental); waiver of cancellation policies; and priority during peak periods and events, frequently at discounted rates. At the least, the hotel staff must respond to and manage these expectations, which can create a significant burden for senior management. Often, responding to these expectations results in lower revenue levels, which can in turn affect profitability.

### **University often wants to be the "brand"**

As the conference center complex is a part of the campus, oftentimes the university wants the name of the school to be the "brand." In other instances, the conference center is endowed by an alumni or organization, and the center carries the name of that individual or organization. In few instances is a hotel brand name publicly associated with the conference center. This can limit the marketing tools available to the property, and may particularly constrain the hotel's ability to capture non-university related transient demand; marketing to non-university groups can also be adversely affected in these circumstances.

### **University internal structures can constrain operations and profit potential**

When the university is a participant in the project, particularly as owner or manager, the internal structure and business practices of the institution can affect the operation of the hotel/conference center. The key areas that can be affected include the following:

- The decision making process can be cumbersome, as numerous constituents often have input on key decisions. As an example, authorization for capital expenditures can require multiple approvals and take an extended period of time.
- Personnel policies of the university can influence hiring, firing and compensation of employees, resulting in challenging human resource issues and possibly extraordinary expenses.

### **Conclusion**

The benefits of proximity to a college or university include the opportunity to participate in the demand generated by the facility, while also benefiting from the stabilizing influence of the institution on the local economy. The opportunity to be connected directly to the university positions a property to maximize these benefits. However, these benefits are not without challenges. Many of the above-noted points can be addressed through careful planning and documentation. Agreements between the university and developer or operator can address issues such as booking policy, pricing and availability of discounts, and so forth. Based on our research, we believe it is critical that the hotel and conference center be managed by the same entity. By structuring the management in this way, the impact of the various, potentially problematic issues on the day-to-day operations of the property can be minimized, and any conflicts not addressed in the agreements can be handled at a higher level.

#### **About Anne R. Lloyd-Jones, MAI, CRE**



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