Veteran hotel developers, speaking at The Hotel Development Boot Camp — the pre-conference session of JMBM’s Hotel Developers Conference™ — recall the days when the hotel component of a mixed-use development was the “blood donor” of the project. Now, hotels are reaping profits in mixed-use environments and are viewed as essential components for infusing excitement into a mixed-use project. Indeed, mixed-use developers are wooing hotel developers in hopes of striking deals that will provide them with the means for providing a community hub for their projects.

The Hotel Developers Conference™ 2007 is focused on Hotel-Enhanced Mixed-Use and the pre-conference Boot Camp delivered the essentials of hotel mixed-use developments in a four-hour, non-stop session. Peter Connelly of Palladian Development shared the lessons he’s learned throughout his decades of experience in the hospitality industry. He recalled the hotel’s role in the early days of mixed-use development: “The hotel was the blood donor for the Project. We were expected to lose money first, in the hopes of making it later,” he said. Now, the hotel component is vital to the mixed-use projects being developed by visionary developers with winning track records.

Even so, Peter Connelly says that a sophisticated hotel mixed-use project is difficult to pull off. Of Palladian’s Mandarin Oriental mixed-use project in Chicago, he says, “It’s the hardest deal I have ever done.” He offered the boot camp participants this advice for mixed-use projects: 1) make sure your entitlements are in order early in the game; 2) do your finance homework — the capital stack is difficult to explain to underwriters, and 3) have a clear and intelligent exit strategy.

David Berins of Berins & Co. also remembered the “old days” of mixed use. “The hotel used to be the loss leader,” he said. “We used to say ‘location, location, location’ was the key to success. Now we say, ‘mix, mix, mix’.”

His panelists agreed that, at the high end, stand alone hotels don’t make much sense any more. “You have to do mixed use to lower your basis,” he said.

Marty Collins of Gatehouse Capital Corporation, drew on his experience in developing W hotels, Kimpton Hotels and other urban, upper upscale hotels that are highly branded and distinctively designed. “What discerns us as a firm is that we focus on getting the right mix for our market. You have to meet the expectations and desires of your customers — getting the right fit is the single most important thing a developer can do,” he said. “You can’t outrun bad mix.”

Andrea Bills of General Growth Properties Inc. explained that General Growth’s expansion from retail development into mixed-use development was a result of market demand. They understood that their customers were looking for an “experience” when shopping — and adding components to retail, added to the experience. At their Woodlands development in Houston, the conference center — “a city in the forest” — generated demand for a hotel. And as the development grew, the number one requirement of the largest office tenant, was a hotel. After 9/11, some naysayers thought the newly planned hotel should be scrapped, but the tenants were adamant. Now, with the Marriott Waterway in place, and GGP’s retail mall across the street — offering more of that coveted “experience” — it is not surprising that the development garners higher average rents and lower vacancy than the rest of the Houston area.

Dan Hirsch of Miraval Resort and Spa amplified the importance of providing a unique experience in a mixed use environment. “From brand standpoint,” he said, “There must be a deep alignment as to who the customer is and what
experience they seek to have." What are the attributes of your core user?, he asked the Boot Camp participants. What lifestyle do they want to invest in? “Our customer is focused on health and family”, he said. “And the hotel can be a ‘sample’ of the lifestyle we have to offer.” But selling the residential component of the community is different than selling a hotel experience, and, he points out, selling straight real estate and selling a lifestyle are very different.” There is an emotional component to the purchase, ” he said. “It is not unusual for our customers to share a ‘change experience’ at our properties – something they tell their friends about.” Miraval provides their developer partners with tools for their sales people, so that people who know how to sell real estate can also layer the lifestyle sell on top of the usual real estate transaction.

Much much more was jam packed into the special Boot Camp session: integrating mixed-use components to create community, choosing the right brands, construction costs, and the importance of planning were themes that emerged. We will cover these topics in future blog entries. (For those of you who want to hear it straight from the experts, we will make a DVD available for purchase soon.)

But, tomorrow is another full day at the Hotel Developers Conference™. I’ll report back again, soon.