

# LODGING HOSPITALITY

## [CHECK-IN] AN INSIDE LOOK AT OUR HOSPITALITY

### LARKSPUR LOOKS TO GROW

**Karl Hoagland isn't your typical hotel executive.** He didn't start as a bellman or working behind a front desk. He fell in love with the industry while working as an investment banker, helping raise millions for his hotel company clients. But he found



Larkspur founder Karl Hoagland

himself more interested in their properties than his job, so after turning 30, he quit and started his own company.

Larkspur Hotels & Restaurants isn't your typical hotel company. What would you expect from the investment banker-turned-hotelier who drives a car fueled by vegetable oil and lives in a home powered by the sun but doesn't believe in the USGBC's

Leadership in Energy and Environmental Design (LEED) rating system?

Hoagland now has 23 boutique hotels along the West Coast, most located in the San Francisco Bay area, the same place where his role model Bill Kimpton started.

After leaving Montgomery Securities, Hoagland founded Larkspur Hospitality Development & Management in 1996 and built 11 Larkspur Landing hotels during the late '90s in California, Oregon and Washington. They were all-suite extended-stay boutique properties, high on technology, comfort and what he calls "genuine hospitality." After surviving the bursting of the dot.com bubble, Hoagland shifted gears and eventually sold the real estate to the 11 properties to Starwood Capital, but his company still manages them and provides the franchise name.

The new strategy became one of acquisition and conversion. Hoagland bought underperforming hotels in urban locations and turned them into more traditional four-star boutique properties. There are now eight in the premium Larkspur Collection.

Along the way, Hoagland found another opportunity: the three-star boutique hotel. Larkspur Hotels, another new brand, debuted in 2007 with the Larkspur Hotel Union Square in San Francisco and was followed this year in California by the additions of the Larkspur Hotel Mill Valley and the Truckee Tahoe Lodge, which kept its Best Western affiliation.

His goal is to have more than 50 properties on the West Coast within five years, and expand to markets like Phoenix, Denver and ultimately the East Coast. Hoagland is again pondering another new develop-

ment push and possibly a new brand. I recently chatted with the Brown University graduate and one-time Goldman Sachs employee on a variety of topics, from Larkspur to sustainability to the economic collapse.

#### Where did you start in 1996?

The company (based in Larkspur, CA) was kind of inspired by Bill Kimpton and the boutique concept and trend he was creating. The opportunity we saw was doing unique, customer-driven and more guest-driven hotels in suburban properties. The Larkspur Landing concept was for high-tech suburbs, as boutique themed, Craftsmen, upscale and limited-service extended-stay hotels. It was an odd hybrid, but at that point there were only five extended-stay brands.

#### Then you got away from new construction?

Beginning in 2003, we kind of changed our strategy and started acquiring hotels, really more traditional boutique hotels. We created a sub brand (Larkspur Collection) to fit those assets. In total we bought 11 hotels from 2003-2007, and we sold 11 (the Landing properties) in 2007. We knew it was a frothy environment, a great time to be a seller in retrospect. But we also bought a few in 2006-07, too.

#### How did the Larkspur Hotels brand come about?

It fits into the three-star bucket because some of the real estate we bought were Best Western or Holiday Inn Express quality and could never be a four-star hotel, but they were still attractive and had management upside and could be positioned as a boutique. A lot of these are like 20-year-old hotels, kind of tired, maybe they lost or never had an edge, but they were often in good locations. Buying and repositioning these has great upside.

#### So is it almost time for another new brand?

Yes, I think that's possible. It could be a new build, maybe a hybrid between a Landing and a Larkspur Hotel. We're going to build new and start with a blank sheet of paper, we need to maximize our potential as independents with unique product attributes.

#### Will you continue to move forward with the other three brands?

We're in a position to do it all, so we could do any.



In terms of a new program or initiative on new builds, it's not yet been hatched. It's a gleam-in-the-eye kind of thing.

### **What about continuing the acquisition strategy with all the distressed assets out there?**

We're looking at lots of opportunities and some portfolios, but nothing ready for announcement yet. It's frustrating, there are a lot of distressed hotels out there, but things really aren't happening. The transaction market is still dislocated. We do have capital available with a long-term partner and are ready for the next cycle.

### **I want to ask about whether this current cycle is almost over, but first tell me about how you got into this industry?**

I was in investment banking and did financing for hotel companies. So I got into hotels and gained knowledge of the business and got an understanding of how to raise money for a hotel company. But I was more interested in my clients' business than financing for them. The culture that I touched on in investment banking was more win-lose, more opportunistic and exploiting opportunities and people. I wasn't as comfortable with that. I wanted to do something I felt better about, put people first and the hospitality business definitely does that. Bill Kimpton was a client of mine and I got close to him and he was my real role model; he had been an investment banker, too.

### **Did you ever tell him that?**

I never got to go back and thank him and tell him what we created was inspired by him. I regret that, but we did keep in touch.

### **You sold a big chunk of your portfolio in 2007, at what amounted to be the exact right time. With your background, did you see this coming?**

It's easy to say in hindsight, but I think I saw it coming. Although I think it was more luck and maybe some sense. As a fundamental investor and a financial analyst, I knew what was happening wasn't sustainable, but these bubbles sometimes last a long time. Knowing it's a bubble is one thing, guessing when it will end is another.

### **What were the causes of this collapse?**

Greed and excess. There was capital flowing into really risky assets, with no appreciation for how risky

they were.

### **Is the worst behind us, and are you poised to take advantage of the climb back up?**

It's still early. We're still in midair. It's either going to be a really calamitous landing with a lot of train wrecks yet to come, or an engineered soft landing and probably some sense of both. We want to be ready and the one thing we do know is at some point what isn't sustainable today is the lack of transactions. They will be attractive in our niche, we'll go for broken and independent assets, ones with no capital, no flag and no access to institutional capital. We can create a lot of value in that space. Development may be the next area of opportunity. We may start a development program now and look to be opening hotels in 2012, because this cycle still has a downlink to go and more time in the trough.

### **Your hotels have many eco-friendly features. How important is that to you?**

Like everything we do, it helps if you have alignment of your values and your leadership. On a personal level, my wife and I are really into sustainability. We collect rainwater, have solar power and we brought that to our business. We've always done things and had a view toward sustainability, from bamboo flooring in the 1990s, all fluorescent lighting, low-flow fixtures, solar installations. Our company sustainability program is a pretty big umbrella; we look at having a positive impact on the community and the environment. It's not just green; we also do community engagement and charities. Toys for Tots and Habitat for Humanity are part of our sustainable efforts. We also have a health and wellness program for our team members. It's not just the traditional stuff. It's all about making a positive impact for the future.

### **But none of your properties are Leadership in Energy and Environmental Design (LEED) certified?**

My take on LEED is it's the last thing I have any interest in doing. The money to become LEED certified, for paperwork, administration and testing, can be a few hundred grand for any decent-sized project. I'd rather spend money on actually impactful, sustainable features or installations, rather than a four-letter acronym. My approach at the end of the day is what's authentic and making an impact, not doing LEED and checking a bunch of boxes. —**Eric Stoessel**