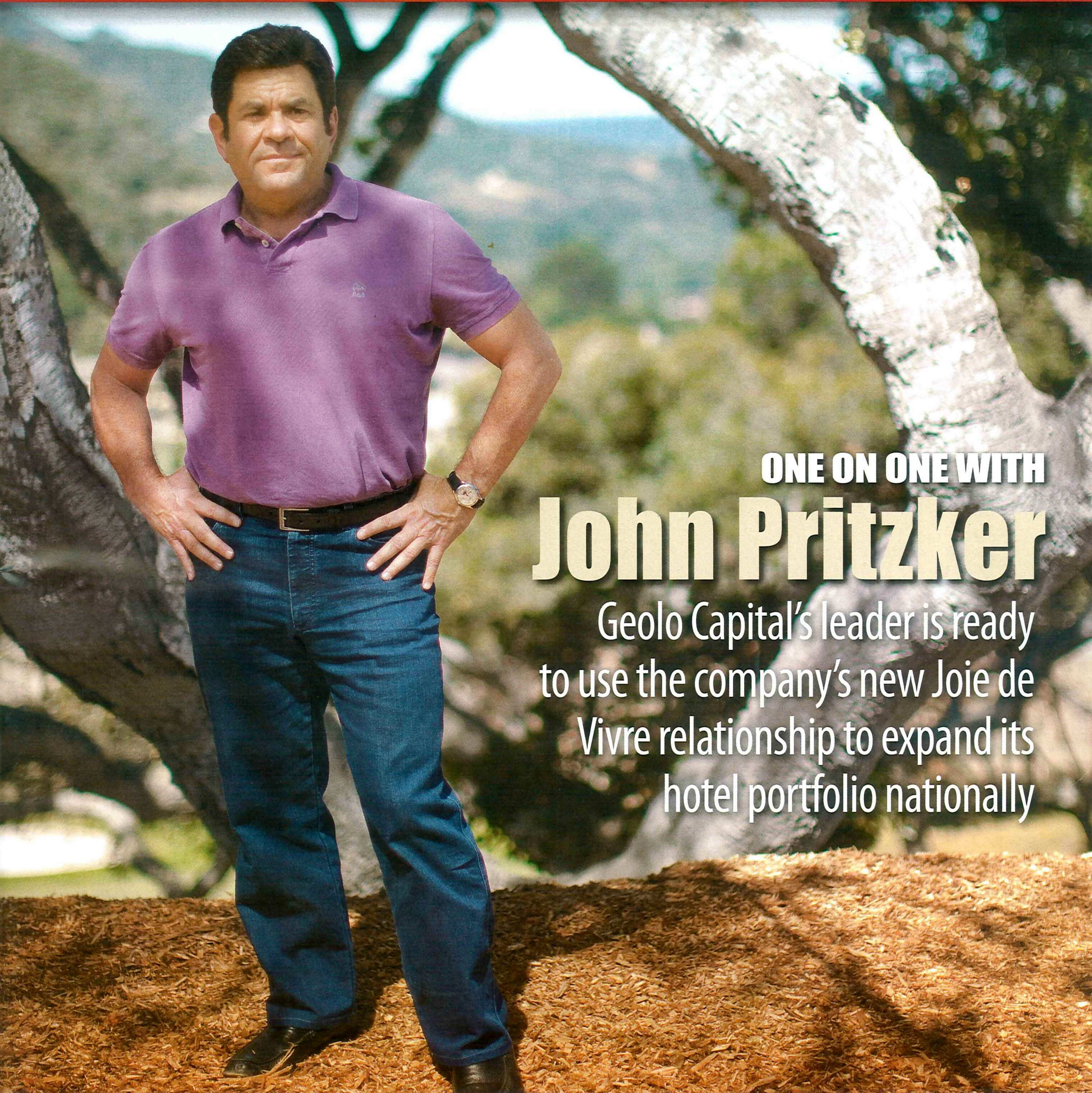


Hotel Management

A Questex Media Publication | HotelWorldNetwork.com

Vol. 226, No. 1 | January 2011



ONE ON ONE WITH

John Pritzker

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JOHN PRITZKER

One on one with John Pritzker

Geolo Capital's leader is ready to use the company's new Joie de Vivre relationship to expand its hotel portfolio nationally

By Ruthanne Terrero
VP CONTENT/EDITORIAL DIRECTOR

Geolo Capital, the San Francisco-based private equity firm, enjoyed an active and fruitful 2010, investing heavily to revamp its newly acquired Carmel Valley Ranch in Carmel, Calif., and taking a majority stake in Joie de Vivre Hospitality, the boutique hotel company launched by industry legend Chip Conley in 1987.

HOTEL MANAGEMENT, in an up-close interview with Geolo Capital's founding partner and director, John Pritzker, got the lowdown on where the company is headed and how it views the acquisition landscape for 2011.

It's no secret Pritzker is a member of the Chicago-based philanthropic dynasty that built Hyatt Hotels and Resorts. But his deep roots in the family business are planted firmly. He worked steadily in hands-on positions for Hyatt over a 22-year span, during summers as a youngster and subsequently in top-level positions. When his tenure with Hyatt ended, he was heading up the company's West Coast business as a managing director/divisional VP.

He, more so than any of his other family members, took to the hotel business quite naturally, he said. "It was a very comfortable fit for me," he said.

Pritzker left Hyatt in 1988 and he compares it to when quarterbacks are asked when are they going to retire. "They say, 'when it's not fun any more,'" said Pritzker. "As an operator, you pull rabbits out of your hat for so many years. After awhile, you can't really find that many rabbits anymore. I have always been hugely respectful of people that can operate properties for years and years. It's a very tough thing to do."

That dynamic, along with the suspicion that his DNA was telling him to do something a bit more entrepreneurial, led Pritzker to become a founding board member of Ticketmaster. He followed this up with other businesses that morphed him from a player in the world of hotel business to that of private equity.

His return to hospitality occurred after he packed up his family about 20 years ago for a three-week vacation in Bali, where he visited with an old friend, Tom Gottlieb.

"Tom and I sat around one night talking about spas and hotels," Pritzker said. "This would have been about 1989 or 1990. At the time, hotel spas were kind of a treadmill and an exercise. There weren't really any hotel spas, spas just weren't a thing at the time."

Gottlieb, in Bali, had, on a small scale, focused

on resort spas, whose formula for success was much simpler than that of urban spas, said Gottlieb. "With an urban spa you have to have a market of 4 to 5 million people to hope to get [a good number] in the door. At a resort spa, really all you have to do is get them into the elevator and it's a whole lot easier."

And, so, the two formed Mandara Spa, which Pritzker initially thought would be a slam dunk match-up for the Hyatt brand. In the end, however, they had 72 Mandara operations "and none of them were in a Hyatt. They were everywhere else, in Ritz-Carlton, Four Seasons, Westin and Marriott. We became the largest spa operator in the world," Pritzker said, noting that Mandara was subsequently sold to Steiner Leisure. Along the way, they also formed a company called Odyssey Club, which they subsequently sold to Exclusive Resorts. They also launched Red Sail Sports with one location and grew it to 23.

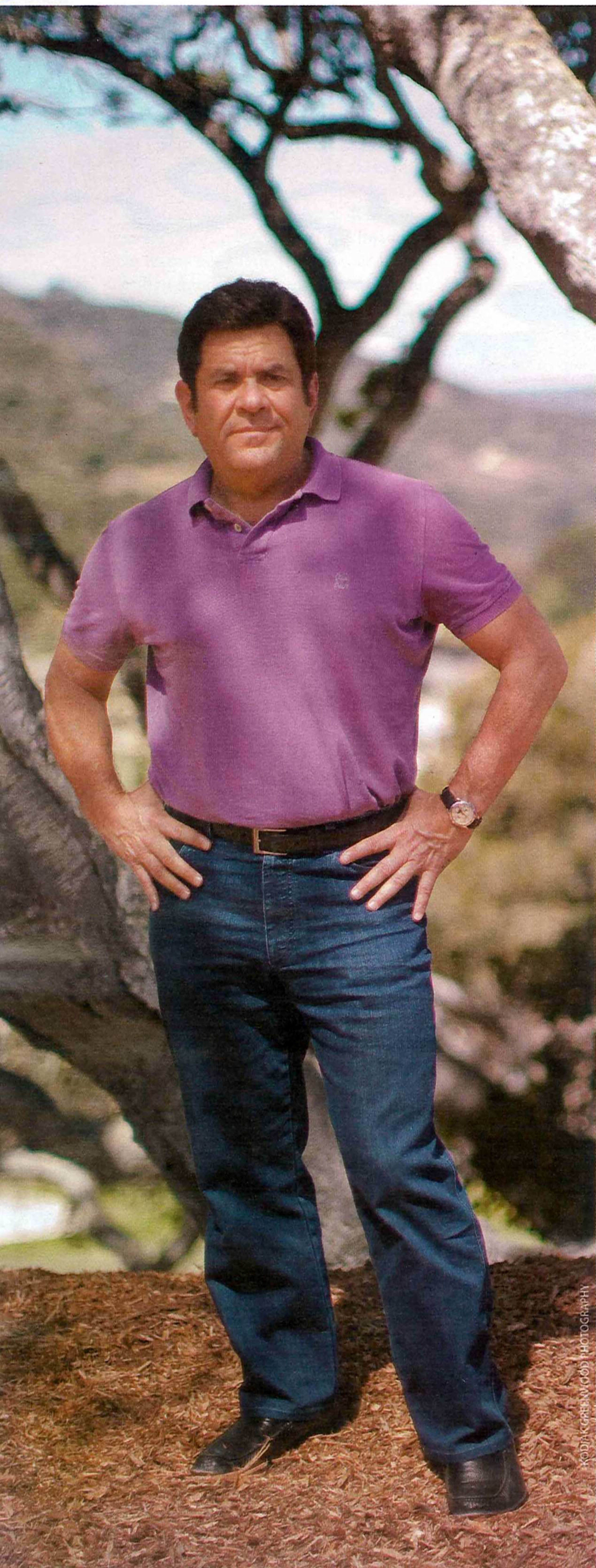
At that point, Pritzker and Gottlieb were well on their way to being a full-fledged private equity firm, which evolved into Geolo Capital in 2004.

Finding a new name for the company was tough, Pritzker recalls, simply because most of the good urls were taken. However, while poring over a periodic table one day, his assistant pointed to the name "geolo," which in Old English means gold. Best part? Geolo.com was available.

More investment money became available as the Pritzker family underwent, what he now calls, "a restructuring." "We started making bigger bets," he said. He and Gottlieb grew the firm, bringing in other top players as executives. New business interests included Western Athletic Clubs and ClubCorp, a golf course operator.

While Geolo was circling hospitality, it didn't get directly involved in the hotel business until Gottlieb phoned Pritzker to tell him about a resort in California called Carmel Valley Ranch. Pritzker checked around to see how his fellow San Franciscans felt about the place. Their responses were markedly similar: "That place was great, whatever happened to it?"

Upon his first visit, Pritzker fell in love with the resort, which sits on 400 acres of idyllic terrain, close to the drive markets of the Bay Area and Silicon Valley. "Blackstone had shopped it to everybody else but nobody seemed to be that interested; it wasn't one of the great periods in hospitality," Pritzker said. Even so, Geolo Capital purchased it from Blackstone "for a price that bordered on silly," according to Pritzker. The deal closed in July of 2009 for a reported \$20



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million. That left plenty in the way of funds to fix the place up and the Geolo team let its imagination run wild with a \$25-million budget. "We would say things like, 'Okay let's put a vineyard over there so we can do our own wine, and let's put four or five acres of lavender fields there.'" The lavender fields begat bees and so beekeeping became a practice at the resort. The bees begat a two-acre organic garden, which begat a demonstration kitchen "and then kind of the ethos of the property came together," Pritzker said.

The Geolo team started thinking quite naturally that they should make a brand out of such a concept, but encountered one major barrier.

"It turns out 400-acre bucolic properties aren't that readily available," said Pritzker. "It turned out we couldn't do the brand."

ENTER JOIE DE VIVRE

Just as they were reaching that clear conclusion, however, Joie de Vivre Hospitality, the boutique hotel company, popped up on their radar screen. Pritzker slightly knew the innovative founder of the company, Chip Conley, but was certainly quite familiar with Joie de Vivre, which was also based in San Francisco and had what Pritzker felt was a similar ethos to Carmel Valley Ranch.

Plenty of suitors had already lined up for Joie de Vivre, which has more than 30 properties in California across all market segments (its flagship is Hotel Vitale in San Francisco), but Geolo Capital jumped right into the negotiations.

It all came together when Pritzker and Conley took a walk together one day, away from the bargaining table. "It became clear that we would get along beautifully as partners and I think, for Chip, that was

as important as the money he would get from the sale," said Pritzker, noting that the relationship would also enable Conley to step away from operating the company on a day-to-day basis and do what he does best, which is working on the creative side.

"It seemed like a really nice marriage," said Pritzker of the partnership, which was solidified this past June. The deal made Pritzker chairman, with Conley remaining CEO. It also meant that Geolo Capital would establish an investment fund with the objective of acquiring \$300 million to \$500 million of hospitality assets over the next five years, with the goal of doubling Joie de Vivre's revenues over that period of time and increasing the portfolio size from 33 in California to about 50 nationally.

The deal gave Geolo Capital a branded platform from which to grow and acquire and manage new properties. Carmel Valley Ranch now has a portfolio it can call home.

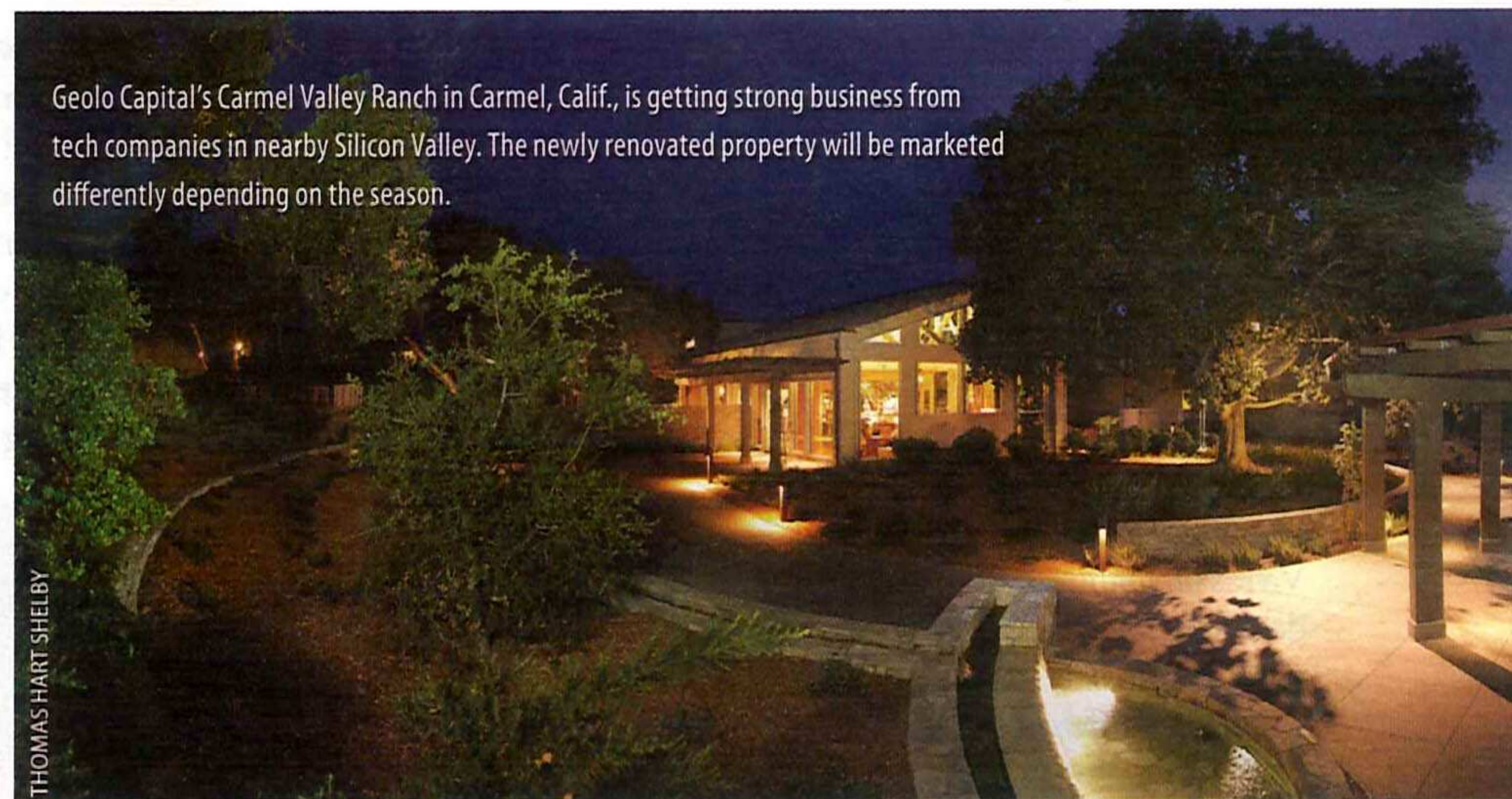
EXPANSION PLANS

What's next? Pritzker says that Geolo Capital today is ready to move into the Manhattan and Washington, D.C., markets via the Joie de Vivre umbrella.

"We think we won't have a national footprint until we are in New York and Washington and so we are really pursuing those opportunities," Pritzker said. "Nothing is easy in Manhattan, but I am actually quite surprised at how much fertile ground we found and we are pretty far down the road toward securing some properties."

He says that he would like to operate three or four hotels in New York under the same cluster strategy that Joie de Vivre has in San Francisco and Los Angeles.

Pritzker envisions the cluster having a variety of price points, as does the Joie de Vivre portfolio, ranging from "The Phoenix,



Geolo Capital's Carmel Valley Ranch in Carmel, Calif., is getting strong business from tech companies in nearby Silicon Valley. The newly renovated property will be marketed differently depending on the season.

which was Conley's first hotel, that he and his buddies painted on a weekend, to the Hotel Vitale in San Francisco, which is a four- to five-star hotel," said Pritzker.

New York's outer boroughs are also being considered. "For my money, the first place I would want to go is Brooklyn because there aren't that many [hotel companies] going to Brooklyn," he said. "My oldest son is 26 and he says 'you guys are crazy not to be in Brooklyn because that's where everything is happening.' And when you spend time there, you see it's pretty much true, especially with the demographic that connects to Joie de Vivre."

As for Washington, Pritzker said some of the negotiations he's working on for New York will end up including some D.C. properties. The reality is, however, the new hotels will end up wherever the deals are. "It's like the college process I have gone through with my kids," he said. "When people say, 'Where does your kid want to go to school,' the real answer is, 'Where he gets in.' And so the real answer is wherever the deals come up that's where we will consider. We can look at specific areas but nothing's that easy."

Beyond New York and Washington, Pritzker said the company will seek properties in Miami, Chicago, "maybe Dallas and we could certainly do some more in Southern California. Then there's Portland and Seattle; really there is no dearth of places you could go."

What kind of assets specifically is the company looking for? "It's less a function of the property," said Pritzker. "I mean, the properties have to have good bones, but it's really more about the relationship with the owner. Where is the owner willing to go with programming, and where are they in terms of spending capital on making sure that the property stays in shape? It's more a function of that than it is even the property

or even the location."

As for building out a management team for each property, Pritzker said "the idea isn't to develop the expertise within Geolo, it's to go find people for Joie de Vivre and let them operate the hotels. We really want to put the faith in those people that they will get the job done."

EQUITY PLAYS

There are a number of ways the portfolio can expand, Pritzker said. "When we did the deal with Chip, the notion was to create a fund that would enable us to go left or right with ease. In other words, if we wanted to put in sliver capital to get the flag, we could do that. If we wanted to be whole owners we could do that. The idea is we can own them, we can manage them or we can have pieces of them."

Five-star hotels, however, are not part of the strategy. "The point of Joie de Vivre was that we really liked the notion of three- to four-star hotels, which are kind of just under the radar. People in the four- and five-star space are bashing each other over the heads and paying crazy prices. If we can take a three-star property and spruce it up to become three-and-a-half, four-star property, we would much rather do that. We think we can do that all day long."

The strategy has other legs, as well. "I think the traveler isn't necessarily looking for just luxury anymore," Pritzker said. "The personalization of the experience is really more important than whether the sheets are 1,200-thread count. We see it at Carmel Valley Ranch. Nobody goes home to their cocktail party and says, 'you should see the room I had!' What they will say is, 'we picked the produce out of the garden and we all walked up to the kitchen and spent two hours making dinner, it was so much fun and the honey came from the bees on the

See *Geolo* | page 22



The 200-room Hotel Vitale in San Francisco is the flagship property for the 33-hotel Joie de Vivre brand.

“Personalization of the experience is really more important than whether the sheets are 1,200-thread count.”

JOHN PRITZKER

Geolo

Continued from page 21 property.’ That to us is much more interesting.”

The concept could be brought to a city hotel, too, said Pritzker.

“We are about to go into a branding exercise; as part of that we want to re-examine Joie de Vivre’s programming and how we do things. We want to see if we can turn them inside out and create something different in the urban properties.”

BACK AT THE RANCH

As for Carmel Valley Ranch, renovations are complete, and strong business is coming from the tech companies in nearby Silicon Valley. With each season, the resort will be marketed and programmed differently, Pritzker said. “For winter, we are thinking of a three-day getaway with university lecturers and food-and-wine seminars where [guests] can pull in the produce and cook,” he said, noting that these activities supplement the spa, golf and tennis activities at the property.

While there may not be anything exactly like Carmel Valley Ranch in terms of its location and expanse, there are resorts, say, in Massachusetts that can be programmed similarly for different times of the year. And while Pritzker has his eyes open for such assets, “we have been really focused on Joie de Vivre right now.”

THE GUEST EXPERIENCE

As for what his days at Hyatt taught him about the hotel business, Pritzker hearkens back to something his father and Hyatt founder Jay Pritzker once said.

“It probably was a joke from somewhere else, but someone asked my dad what made him think he could operate hotels. His response was, ‘I stayed in one once.’

“It sounds silly and glib but the fact of the matter is it’s kind of a ‘do unto others’ philosophy, it’s about providing those things that you would like to see yourself,”

Pritzker said.

And that all comes down to treating one’s employees as well as one’s guests are treated, which is a lesson learned from Pritzker’s early days at Hyatt.

“We are not standing at the front desk and we are not serving the food and beverage,” he said.

“The employees have to be a part of this program, you can’t treat them as a third wheel. It’s about the fact that people don’t come in and do their job just because that’s their job eight hours a day. They come in because they see that providing service can actually be a noble thing and that it can be

really fun and enjoyable.”

While Geolo Capital is a private equity company, the goal with its hotel portfolio is to hold properties for the long term, Pritzker said.

“If you look at my DNA, Hyatt was a private company for 56 years, so we are not a typical

private equity fund that has to be out in five to seven years,” he said. “We are in this for the long haul and we are not looking for short-term solutions. I think that’s what makes us a little different than other operators and other private equity funds.”

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