Extended-Stay Pioneer at Home With Franchising

HOSPITALITY: ExecuStay acquisition opened door for Oakwood Worldwide.

By JUSTIN YANG *Staff Reporter*

West L.A.'s **Oakwood Worldwide** is embracing a business model that once "spooked" its executives.

Its shift to a franchised model came as a result of the 54-year-old West L.A. company's acquisition of rival **ExecuStay**, the extended-stay division of Bethesda, Md.'s **Marriott International Inc.** in 2012 for an unspecified amount. As part of that deal, Oakwood, a pioneer of the extended-stay and corporate-housing business, acquired nine ExecuStay franchisees that managed units in more than 700 buildings.

Working with the ExecuStay franchisees made Oakwood more comfortable with franchising its own concept, and it now plans to use the model to expand into Canada and Mexico.

In 1969, the company debuted the Oakwood Garden Apartment concept, aimed at traveling businessmen. It was among the first to cater to guests who needed a residence for more than 30 days but were not prepared to sign a lease for a year or more.

The company built its portfolio of owned properties over the next four decades, eventually selling 30 apartment buildings in 2005 to Englewood, Colo.'s **Archstone** for $1.4 billion. Among the properties were its flagship 1,151-unit Toluca Lake Hills facility and 597-unit Marina del Rey property. The company, which no longer owns property in Los Angeles, has long-term agreements to manage those two complexes.

Peter Anderson, a Santa Monica hospitality consultant and founder of **Anderson & Associates**, said that transaction not only helped Oakwood shift the costs associated with owning real estate to another party, it also gave the company the resources to increase its portfolio around the world, further solidifying its brand.

Oakwood, which would not disclose annual revenue, plans to start franchising its brand in Canada and Mexico in the next 12 to 18 months.

Ric Villarreal, Oakwood's president, said the ExecuStay acquisition showed company leadership that franchising could assist it in fulfilling its goal of efficiently expanding into other secondary markets.

Villarreal said that by requiring franchisees to have experience in the hospitality field and be familiar with a targeted expansion area, Oakwood was able to more smoothly enter previously unexplored markets.

"We really need to outsource our concept to a franchisee that has feet on the ground in the market and is passionate and intimate about the business. A franchisee in the secondary market is an incredible fit," he said.

Under the new arrangement, franchisees are assigned an entire market and run multiple locations. Oakwood gets a percentage of the revenue generated from that market as a part of a monthly fee. The Oakwood and ExecuStay brands are now in 32 markets spanning 28 states.

Minding store

Oakwood, founded in 1960 by **Howard Ruby**, now its chairman and chief operating officer, manages more than 25,000 units worldwide. It has roughly 1,500 employees in the United States, not including franchises. Despite the shift in attitude about franchising, about 70 percent of the properties that bear its brand are company owned. The first Oakwood franchise opened in September, the result of a deal the company struck with **Mainsail Lodging & Development** of

Expansion: Oakwood's Ric Villarreal.

Tampa, Fla., an ExecuStay franchisee that acquired the rights to manage extended-stay locations using the Oakwood name and technology in Florida.

Properties in the extended-stay pool range from studio apartments to single-family homes, helping appeal to a variety of clients, from government workers and consultants to child actors and their families.

Villarreal said some of his personal concerns about the model included overdemanding franchisees taking advantage of the franchisors.

"Being part of the franchise, you're always reaping the benefits from the franchisors," said Villarreal, 57. "The franchise concept originally kind of spooked us."

He said most of the worries stemmed from the fact that the company had never dealt with franchisees in the past.

When Oakwood acquired ExecuStay and started working with its franchisees, Villarreal said he was impressed by the franchisees' drive and willingness to work closely with the company.

"We thought this was something we could do. It was possible to license our name to a business and hold them accountable because we were aligned – we both thought about the same things in terms of growth and success," Villarreal said.

That attitude is contrary to the fear that company executives initially had. They were concerned that franchisees could tarnish Oakwood's reputation.

Even though the business model is relatively new to the company, Villarreal said Oakwood has assets in place that are attractive to potential franchisees.

For example, the company has a service center in Phoenix that takes care of processing all of the invoices and bills generated at each location. The center also handles Oakwood's Internet traffic and its online booking system. Franchisees, who pay an initial fee of between $25,000 and $100,000 in addition to monthly fees, also have access to Oakwood's inventory and sales management systems.

Hospitality consultant Anderson said franchisees would be most attracted by the brand value Oakwood offers.

One reason he suggested that the company's brand has grown over the years is because it had acquired the resources to focus on brand development.

"Oakwood could not have done this if they did not have a strong enough brand." he said. "The hospitality industry took a page out of the Oakwood model and started building extended stays. Now there are multiple segments inside the extended-stay lodging industries. They're basically now selling their expertise using their money to sell their model. It's a good way to leverage a good name."

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