



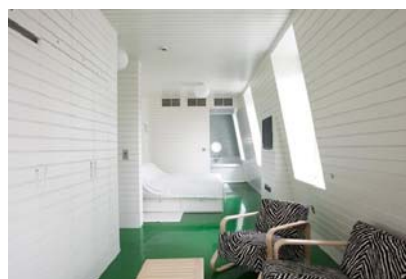
SEPTEMBER 2011

BOUTIQUE HOTELS SEGMENT

THE CHALLENGE OF STANDING OUT FROM THE CROWD

Cristina Balekjian
Associate

Lara Sarheim
Associate Director



Introduction

Interest in boutique hotels, despite the relative slow down in the global economy, remains overwhelming. It is an exciting segment of the market particularly within Europe's gateway cities. New investors are keen to enter the market and established hotel operators are fast expanding and developing new concepts to compete in this sector.

With the boutique hotel market now truly established, operators have recently reported data that suggests their hotels are outperforming the competing corporate chains, especially during the recession. Developing/evolving consumer habits can help to explain this growth as guests are becoming more aware of design, expect a higher level of service, and are increasingly seeking an experience instead of a commoditised product. Guests increasingly want to feel recognised and like to feel part of a unique experience.

Boutique hotels are generally accepted to be small (100 rooms appears to be the invisible boundary) and are therefore better placed to react as their limited capacity enables them to enhance the quality of service and customise their outlets. In the majority of cases, large-scale hotels need to cater to a significant number of guests, and thus struggle to compete with the personal service afforded by a small boutique operation that can take into consideration the preference of each individual guest. Furthermore, (independent) boutique hotel owners often do not have to comply with brand standards, thus developers can more easily convert an existing building into a design led-hotel that welcomes varying floor levels and layouts rather than having to conform to minimum room sizes and specific FF&E standards imposed by most brands.

As the boutique and lifestyle sector has evolved from its small niche into a recognised hotel category for developers, owners, operators and investors, we examine three of the top emerging trends for the sector.

1. The 'Boutique Hotel Experience'
2. Restaurants and Bars
3. Private Clubs

To define or not to define?

Any discussion on the boutique and lifestyle sector seems to inevitably revolve around how to define, compartmentalise, limit and standardise the meaning of 'what is a boutique hotel?'. As the whole concept focuses precisely on avoiding the limits of standardisation that define a 'consistent brand' this presents a true quagmire for those seeking to shed light on the mystery of the lifestyle-oriented hotel product.

Rather than present a definition, the following table illustrates words that are generally associated with boutique hotels in contrast to words that are typically not used to describe these hotels (as inspired by our research and in particular by various panellists at the recent Boutique Hotel Summit, held in London in June 2011).

TABLE 1 TO BE OR NOT TO BE A BOUTIQUE HOTEL?

What is Boutique?	What is NOT Boutique?
Unique	Old Fashioned
Trendy	Traditional
Hip & Cool	Business Hotel
Intimate	Standardised
Design Oriented	Low-Tech
Warm	Simple
Thematic	Impersonal
High-Tech	All-Inclusive
Personalised Service	Comformist
Exclusive	Bland
Experiential	Mainstream
Inspiring	
Aspirational	

Source: HVS Research

The ‘Boutique Hotel Experience’

Boutique hotels are generally associated with being design-oriented hotels that have no more than 100 rooms and provide a very trendy and unique experience at an upscale level. The term ‘lifestyle’ has emerged in association with boutique hotels as they have evolved. Lifestyle hotels also provide a unique experience within a trendy and cool environment while the product itself is on a larger scale with over 100 rooms. The term has become more commonly used with the entrance of chains into the sector, with brands such as W by Starwood, Edition by Marriott, and

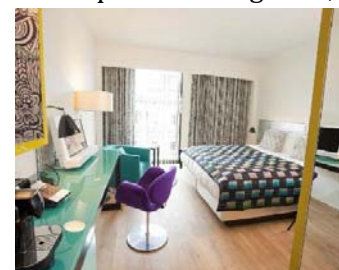


W Barcelona – WET Deck

Hotel Indigo from InterContinental Hotels Group falling into this category. Lifestyle hotels may be small and intimate but they may also have around 200 rooms, if not more, such as the W Barcelona (473 rooms) and the Andaz in London’s Liverpool Street (267 rooms). Additionally, the chains offer all of the advantages provided to any of their other hotels, such as loyalty programmes, standards and the economies of scale associated with international chains.

This therefore brings us to the question: how will the chains be able to provide the ‘true’ boutique hotel experience? And how will the influence of the chains impact the existing boutique hotels in the market?

International chains have typically been associated with standardised business hotels and scrutinised for providing consistency at the risk of being impersonal at each location and property. In the past, this predictability was an advantage as guests travelled to far flung, or simply unfamiliar, destinations and sought the comfort of a familiar brand. As customer expectations have evolved into a desire for more authenticity, adaptation and experience of the local culture, so has the concept of lifestyle hotels. By entering the boutique hotel segment, however, chains have been adapting to the sector offering similar product facilities to those offered by independent boutique hotels which aim to be different and offer authenticity and individuality. The hotel chains have also been able to tap into this segment and differentiate by creating joint ventures with renowned fashion houses and designer brands such as Bulgari, Missoni and Armani, adding the upscale/luxury factor along with design and individuality according to the location of the property and its facilities.



Hotel Missoni Edinburgh, UK

With the entrance of the international chains into the boutique hotel market in addition to the already well-established independent boutique hotels and operators, the sector has started to become a more competitive market with future potential for development. With this in mind, the whole boutique experience is becoming an increasingly important factor in order for hotels to be able to differentiate themselves in the market and stand out from the crowd. Although the uniqueness of a property and its facilities, in addition to the exclusivity and individuality of the hotel are key combinations, quality and personalised service have and will continue to become very significant factors in creating the distinctive overall experience of a boutique hotel. The 'buzz' that the hotel is able to create and maintain over a sustainable period of time is invaluable to a hotel of this type to be able to succeed and compete in the market. Such a buzz can be further enhanced by the facilities provided at the hotel. Boutique hotels have hence started to diversify their food and beverage outlets and concepts in order to be able to create such a unique experience and atmosphere as highlighted in the following section.

Restaurants and Bars



Asia de Cuba at the St. Martin's Lane Hotel, London, UK

Over the past ten years, boutique hotels have evolved their food and beverage offering to match the level of creativity/design witnessed within their guest rooms and public areas. In fact, restaurateurs have seized the reins of the 'food and beverage' operations whilst hoteliers continue to treat the 'food and beverage department' as exactly that, provision of food and beverage for their customers. Guests call these spaces 'restaurants and bars'. Restaurateurs and everyone else in the food and beverage industry view these outlets as concepts, operations and businesses in their own right, as opposed to accessories to the hotel. The involvement of restaurateurs in the idea of the 'hotel restaurant' has completely transformed the notion of what a hotel's dining room and lobby bar could (and should) be. Landmark restaurants, signature bars, often several within one hotel, are now necessary. The St Martins Lane and the Sanderson originally created by Ian Schrager (now Morgans Hotels), were among the first hotels in London to create dining outlets that became destinations in their own right – and attracted publicity for the hotels. These eventually became essential to the profitability of the properties, although the restaurants are outsourced. St Martins Lane saw the opening of Asia de Cuba, a partnership with renowned New York chef Jeffrey Chodorow. This was shortly followed by the opening of Bungalow 8, a further transatlantic iconic brand, which quickly became a popular members' bar.

Hotel operators quickly noticed the high revenue potential that could be driven through the formation of destination restaurants and bar outlets, as well as priceless publicity. It is not uncommon for food and beverage revenue to account for 40-50% of total sales. Aside from increasing revenues, they often acted as strong marketing tools, elevating the hotel's public image and in some instances guests were booking rooms to ensure ease of access into these areas. The value of the 'see and be seen' factor, the 'velvet rope effect' and other tools for creating aspirational experiences should not be underestimated. While perhaps being strongly brought back to life by individuals like Ian Schrager through Studio 54 and his hotels, the concept of 'hotels as theatre' and aspirational spaces is not new. The 'Grande Dame' luxury hotels of the late 19th/early 20th centuries with their sumptuous restaurants and elaborate social scene for the fortunate few already achieved this a hundred years earlier. Hotels like The Savoy in London or the Waldorf=Astoria in New York still benefit from the allure and mystique of their fashionable past.

Over time, the importance of the food and beverage offering has become evident in the majority of design-led hotels, from budget to high-end. Whilst the leading luxury hotels have the capacity



Dinner by Heston Blumenthal at the Mandarin Oriental Hyde Park, London

and budget to entice a number of high profile celebrity chefs, such as Gordon Ramsay at The Savoy Grill, Heston Blumenthal at the Mandarin Oriental, and Marcus Wareing at the Renaissance St Pancras Hotel, the smaller independent hotels are also creating an impact in their own right.

The mid-market and upscale boutique players, such as InterContinental's Indigo brand, are developing design-led restaurants and bars that take inspiration from their local surroundings. The product is fresh in its approach and provides a welcome alternative to many competing mid-market and upscale brands.

The independent boutique operators, whilst in some instances are restricted by the physical size of their property and budget, are nonetheless pushing the boundaries further and attracting high calibre chefs to their sites. These hotels are commonly less restricted to conforming to brand standards, allowing their chefs to create a unique 'one of a kind' concept that reflects the origins of their menu into the design of the restaurant. A recent example can be seen in Bethnal Green's Town Hall Hotel, which in a still re-developing area of East London, provided the conversion of a former town hall into a unique hotel. The hotel partnered with the critically acclaimed chef, Nuno Mendes, in creating *Viajante*. The restaurant has since become a destination in its own right, earning a Michelin star, and drawing a large volume of customers from the local area attracted to the high quality food and inspirational design.



Viajante Restaurant at the Townhall Hotel in London

It is clear that the boutique market has helped develop and evolve the food and beverage offering within hotels, with consumers now expecting a high level of design and creativity to be consistent throughout the hotel. Hotels are no longer able to get away with passable restaurant offerings. Looking forward, we expect further partnerships to evolve between the chef and the hotel in creating truly stand alone offerings drawing in outside custom. The branded chains are also introducing high design into their public areas and in some cases recruiting third party creative consultancies to assist in establishing successful independent outlets. Hoteliers, whether independent or chain affiliated, have had fundamentally to rethink their approaches to hotel food and beverage to compete with the creativity of independent restaurateurs. At the core of this thinking is often the concept of a 'restaurant in a hotel' as opposed to a 'hotel restaurant' – allowing the restaurant more liberty to establish its own concept and identity.

By becoming more independent and distinct destinations within boutique hotels, restaurants and bars in hotels have started to become exclusive places for guests and a specific clientele that would fit into that environment. This, in turn, has been attracting a more sophisticated 'crowd' who like to enjoy elegant facilities within a fairly exclusive environment, without the daunting fees and complicated initiation processes required in many private members' clubs and bars.

Private Clubs

Such notion of exclusivity and privacy is most prevalent in private members clubs, where often even access to the waiting list to become a member – and pay fees – is a complex process which requires referrals from an existing member as well as much patience and persistence. Once on the inside however a whole world is opened up. The result is that private members clubs grow into a self-contained social sphere.

Boutique hotels have always sought to replicate this to a certain degree with private ‘hotel guests only’ areas, such as bars, rooftop terraces, libraries and lounge rooms. The competition to create the most exclusive and interesting ‘guest only’ space is fierce with hotels vying for the PR and cachet associated with the concept of a club. And the converse is also true, with private members’ clubs attempting more and more to venture into the hotel space. Currently, the most successful example of this is Soho House Group, which now runs nine ‘houses’ or clubs from New York to Berlin and seven of these contain hotels – the overlap between the boutique hotel and the private club is clear.



Soho House Berlin, Germany

Do private clubs benefitting from an existing, captive audience, really enjoy an advantage in this venture? Is the members’ base enough to create a profitable hotel accommodation business for the club? How do boutique hotels, which by virtue of the very qualities that make them attractive, do not benefit from an extensive repertoire of ‘repeat’ guests, compete against other hotels who are part of large networks of hotels, with frequent guest programs that reward guests simply for staying overnight at the property? Seen in this light, does the private members’ club scenario present an advantage?



James Wyatt Suite at Home House, London

We consider that one of the next trends for boutique hotels will be to take frequent guest programs one step further, creating their own ‘clubs’ and exporting their unique ‘brand’ to a group of loyal, appreciative followers, and in doing so further reinforce the feeling of exclusivity guests enjoy when staying overnight at these properties. This could take the form of a private space within the hotel, or a club ‘network’, similar to a loyalty club, which would give the member access to various privileges.

What is next?

Design at a discount. Budget Boutique. No matter what we are going to call it, the trend of redesigning economy is definitely emerging as the next big thing in the hotel sector. Starwood already started with a scaled down version of W, when it opened the first Aloft property in Montreal in 2008 and most recently in Europe, the Aloft Brussels. New York based Thompson Hotels are creating their own budget brand, while Dutch hotel company, CitizenM, currently has three properties offering 643 rooms and an ambitious expansion plan throughout Europe focusing on cities such as London, Milan, and Paris. To an extent, Yotel has captured both essences of budget and boutique in their ‘cabin’ hotels at three European airports – Heathrow, Gatwick and Schiphol – and has now taken this one step further with the opening of a more conveniently but nevertheless distinctively designed 670-room hotel in New York City, close to Times Square.



Premium Cabin at the Yotel New York City

The concept of a ‘no frills’ boutique experience is catching on quickly, spurred on by the strength and resilience of the budget hotel sector in cities all over Europe. Development costs are lower, construction time considerably less, and potential sites can be even more awkward as rooms are intended to be tiny. Qbic, another Dutch group, constructs the bed and furniture and bathroom in a cube similar to a large pod, each cube is then installed in the room on site, allowing for very rapid development of a property. The focus is then on creating living spaces in the lobby which encourage social interaction. The food and beverage offering is limited to vending machines.



A room at the Qbic Hotel Amsterdam

As the boutique hotel sector evolves and establishes itself firmly in the hotel investment landscape, more and more attention will be focused on understanding these hotels. Unfortunately by pulling the pieces apart to understand the mystery of the boutique and lifestyle hotel product – much like attempting to define too strictly what is not intended to be defined – we also run the risk of missing the essence of their success. It is, however, clear that boutique hotels are now a distinct layer within the geological landscape of hotel types, with its own formations and trends, and a very exciting one to watch evolve.

The London Boutique Hotel Monitor

In this section we present a brief update on the Boutique Hotel segment in London, important developments and transactions. The London Boutique Hotel Monitor will be published bi-annually.

Table 2 is an updated list of confirmed openings in the boutique segment. Our research shows that by 2013 a further 2,544 rooms will have been added to the London Boutique Hotel sector, effectively doubling the size of this sector and making it the fastest growing segment within the hotel industry in London.

TABLE 2 LONDON BOUTIQUE HOTELS – RECENT AND ANTICIPATED OPENINGS

Hotel	Address	Number of Rooms	Opening Date	Brand/Affiliation
St John's Hotel	Leicester Square	16	Feb-11	—
W London	Leicester Square	192	Feb-11	W Hotels
The Zetter Townhouse Hotel (Extension)	Clerkenwell	13	Apr-11	—
Eccleston Square Hotel	Pimlico	39	May-11	Design Hotels
45 Park Lane	Mayfair	46	Sep-11	Dorchester Collection
Belgraves	Belgravia	85	Sep-11	Thompson Hotels
Aloft London ExCel	ExCel	252	Oct-11	Aloft by Starwood
Dorset Square Hotel	Marylebone	37	Jan-12	Firmdale Hotels
Hotel Indigo Cannon Street	The City	38	Jan-12	Indigo (IHG)
Hotel Indigo Philpot Lane	The City	43	Jan-12	Indigo (IHG)
Hotel Indigo Kensington	Kensington	51	Jan-12	Indigo (IHG)
City Road Hotel	Hackney	247	Jan-12	Soneva Properties
ME London	Holborn	173	Jan-12	ME by Melia
Bulgari Hotel	Knightsbridge	85	Mar-12	Bulgari by Ritz-Carlton
The Great Northern Hotel	Kings Cross	93	Nov-12	—
The Wellesley	Knightsbridge	36	Nov-12	—
Manchester Square Fire Station	Marylebone	33	Jan-13	Andre Balazs
8 Balderton Street	Mayfair	75	Jan-13	Corbin & King Hotels
London Edition by Marriott (ex-Berners)	Central London	190	Jan-13	Edition by Marriott
South Place Hotel	The City	80	Jun-13	D&D
Willow Street Hotel	Shoreditch	146	Jun-13	—
Ham Yard Hotel	Soho	92	Jun-13	Firmdale Hotels
Mondrian Hotel London	South Bank	268	TBC	Morgan Hotels Group

Source: HVS Research

Notable developments and transactions in the boutique sector in London include:

- The Dukes hotel, previously sister hotel to the One Aldwych and part of CampbellGray hotels, announced plans earlier this year to expand the Dukes brand further into European markets;

- Marriott will be introducing their new Edition brand, in cooperation with Ian Schrager, to the London Boutique scene, with the historic Berners hotel becoming an Edition by Marriott over the next 18 to 24 months. The freehold of the property was purchased by Marriott for an estimated £60 million. Coincidentally, the Berners is located very close to the Sanderson, Ian Schrager's first London property which opened in 2000;
- Blakes Hotel was sold in October 2010 for a reported price of £392,000 per key. It was announced that Blakes will be expanding to other European markets;
- The newly opened W London is currently for sale – and was before even opening its doors on 14 February 2011 for approximately £200 million. The sale is said to include the 192-room hotel, the M&M store and luxury apartments;
- Firmdale have repurchased their first hotel, the Dorset Square, which they had originally opened in 1985. They had sold the 37-room property in 2002, after which it continued to operate as an independent hotel. The hotel is currently closed for renovation and expected to reopen by year end 2011;
- The St Ermins hotel, most recently the Jolly St Ermins, was purchased by Amerimar in late-2010 for an estimated £65 million and underwent complete renovation, reopening in Spring 2011 is to become Accor's first MGallery hotel in London;
- Pramerica has signed a deal to purchase a 999-year ground lease for the Great Northern Hotel, which opened in 1854 in the city's King's Cross area, from London-based asset management company RAM Group (which owns the 125-year lease to the property) for a reported £12 million. The Grade II-listed hotel is still undergoing redevelopment and it is expected to open with 92 rooms in 2012/2013;
- The Hoxton hotel, widely recognised for creating its own neighborhood, is currently for sale for an asking price of £70 million;
- The two Morgans hotels, the Sanderson and St Martins Lane, part of the first wave of London boutique hotels over ten years ago, and Schrager's first international adventure are also for sale.

Interest in the boutique segment in London continues to remain strong with more projects being announced. Marriott's purchase and plans for the Berners – as well as the long list of suitors for that property – indicates that London remains a key destination and that boutique properties are increasingly the mode for internationally-branded operators to expand in markets with high barriers to entry such as London.



About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year and clients include virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by more than 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

With offices in London since 1990, **HVS London** serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios.

About the Authors

Cristina Balekjian

is an Associate with HVS's London office. Cristina holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey and has recently completed a certification on Hotel Real Estate Investment and Asset Management from Cornell. She worked in a number of operational roles in the hospitality industry before joining HVS as a Market Intelligence Analyst in 2007, where she has worked on a number of assignments in Europe, the Middle East and Africa.



Lara Sarheim

is an Associate Director with HVS's London office. She joined HVS in 2007, having had six years' operational and managerial hotel industry experience in the USA. Since joining HVS, Lara has worked on feasibility and valuation studies across Europe, particularly in the luxury and boutique lifestyle sector, and was instrumental in establishing the first European Boutique Hotel Summit, which took place in June 2011 in London.



For further information, please contact:

Cristina Balekjian – Associate, HVS
cbalekjian@hvs.com +44 20 7878 7724

Lara Sarheim – Associate Director
lsarheim@hvs.com +44 20 7878 7765