MARKET REPORT

Takeaways from the 2024 Boutique Hotel Investment Conference by BLLA: Reviving the Spirit of Boutique Hotels

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In the ever-evolving landscape of hospitality, the term “boutique hotel” has transformed. Once synonymous with personalized service, unique design, and intimate experiences, “boutique hotels” as a phrase has recently blended with some nationally branded and soft-branded property types. Furthermore, the allure of aesthetics, trendy amenities, and Instagram-worthy designs have lately overshadowed the essence that made a boutique property truly special—exceptional service and memorable experiences.



A Return to the Fundamentals

The rise of soft brands and nationally branded boutique hotels has blurred the lines between these property types. The term “lifestyle boutique” now encompasses a wide spectrum, from independently owned gems to chic, boutique-style properties affiliated with major hotel chains. While this diversity is enriching, it also dilutes the spirit. Attendees and speakers at the conference emphasized the importance of reclaiming the distinction of “true” lifestyle boutique hotels.

Experts, hoteliers, and operators alike emphasized the pivotal role that service plays in defining a boutique hotel, and this topic resurfaced repeatedly. It’s not just about checking in and out; it’s about creating magical memories. Guests should feel like cherished friends, not room numbers. Teams should be coached on how to weave experiences, anticipate needs, and surprise guests with thoughtful gestures. Service is the secret ingredient that transforms a stay into a cherished memory.

Here are some fundamental attributes of lifestyle boutique hotels, as outlined during the BLLA:

- **Authenticity:** Design matters, but authenticity matters more. These properties must offer an experience that resonates with guests on a personal level. Whether it’s the historical significance of the building, the local culture, or the unique design elements, authenticity is a pillar that defines boutique properties.
- **Focus on Destination and Audience:** A panel discussion detailed how Montage International and Pendry Hotels & Resorts exemplify the essence of boutique hospitality. The founders meticulously choose destinations that can support their target ADR (average daily rate) and attract discerning travelers. Each property is designed and operated with a unique vision that pays homage to its specific locale.
- **Exceptional Service Levels:** Train staff to be more than courteous; empower them to be storytellers. Personalized recommendations and genuine care can elevate an ordinary stay to an extraordinary one.
- **Human Connection:** The front desk area should be visible and accessible, allowing hotel staff to engage fully with guests. Human connection is where hospitality thrives. It’s the personalized greeting and the genuine interest in making each guest feel special. While AI tools can enhance service, they should complement—not replace—the human touch.
- **Talent Behind the Scenes:** Boutique and lifestyle hotels aim to employ a different class of talent. Unlike traditional hotels that adhere strictly to corporate standards, boutique hotels should hire and train individuals who can narrate the story behind the amenities and designs. Such a staff can ensure that guests understand the property’s uniqueness and its community connection, providing guests with insights, local recommendations, and a sense of belonging.
- **Experiential Stays:** Beyond comfortable beds and plush linens, boutique hotels should offer experiences. Whether it’s a cooking class, a rooftop yoga session, a horse-drawn sleigh ride in the winter, or a guided art tour, these moments become part of the guests’ treasured memories.
- **Personalization and Guest Recognition:** Technology tools need to communicate with each other, and guest data should be integrated across systems, allowing for personalized service. For repeat guests, curate their stay based on preferences. Remember their preferences, celebrate milestones, and keep your property top of mind.
- **Community Connection:** Boutique hotels thrive when they engage with their communities. Collaborate with local artisans, host events that celebrate neighborhood talent, and create a sense of belonging. Guests should feel like insiders.
- **Culinary Adventures:** Food and beverage programming is pivotal. It’s not just about sustenance; it’s also about creating a memorable journey. A unique F&B offering sets the property apart, appealing not only to guests but also to the local community. Bookable guest experiences and immersive activities then become key ancillary revenue generators.

Asset Management to Mitigate Rising Costs

Shifting to ownership and operational matters, independent boutique hotel owners often lack access to the extensive benchmarks and data sets available to properties affiliated with major national brands. Thus, they can significantly benefit from working alongside an experienced and knowledgeable third-party asset manager who can compensate for this data disparity. Asset managers bring expertise in market analysis, personalized revenue management, cost benchmarking, and cost optimization strategies. These skills can enable boutique hotel owners to effectively navigate rising costs, maintain a competitive edge in the marketplace, and protect the bottom line.

Investor Interest in Boutique Properties

On the investment side, investors have remained interested in boutique hotels for several reasons:

- Boutique hotels often transact unencumbered of a brand and management contract. This allows investors to easily implement their investment thesis from day one without restrictions from brand standards or brand-related management and franchise fees.
- Boutique hotels' ability to rapidly adjust rates and services according to market conditions and consumer trends can make them more adaptable when compared to larger, branded hotels, which may be slower to respond to changes due to corporate policies or pre-set rates with large groups and corporate accounts.
- There is no expectation of brand-mandated property improvement plans (PIPs) being completed soon after the acquisition of a boutique hotel. New owners have the opportunity to learn about the local market and consumer demands and preferences before implementing renovation plans that could yield a calculated return on investment.

Creative Capital Solutions

Despite the currently tight capital markets environment, boutique hotel buyers and developers continue to have access to a variety of creative financing solutions to support their ventures. Options include leveraging U.S. government-backed programs such as USDA loans, utilizing EB-5 financing for attracting foreign investments, establishing partnerships with smaller community banks that might offer more favorable terms, and considering recourse loans that provide additional security to lenders.

Conclusion

Authentic boutique hotels continue to attract investors due to their flexibility in operations and lack of brand constraints, allowing for rapid adjustment to market demands and strategic vision implementation from day one. Experienced asset managers can help owners enhance this value by optimizing financial and operational strategies. In terms of guest experience, reviving the spirit of "boutique" hotels will allow service to be the guiding star, authenticity to be the compass, and community to be the heartbeat. It is time to redefine luxury, one heartfelt interaction at a time.