

A room of one's own

As the Marriott-run Bulgari opens in Knightsbridge, Noella Pio Kivlehan looks at whether hotel chain operators can successfully run boutique hotels

The name Bulgari is synonymous with wealth through its diamond retail empire. Marriott, meanwhile, conjures up images of large, standardised – albeit good-quality – hotels. Unlikely bedfellows, perhaps, but, on 1 June, the two were joined with the opening of the Bulgari Hotel in Knightsbridge. It is the duo's third international collaboration, following on from properties in Milan and Bali.

Despite coming from such different spheres, Nick Boyd, senior partner at Edward Symmons and head of the firm's hotels team, believes the opening of the Bulgari Hotel "represents a natural progression for Marriott as the company seeks to broaden the range of brands and hotel experiences it can offer prospective guests".

It is a sentiment with which Jane Lees, senior director of the valuation team at CBRE Hotels, concurs. "While the two brands would appear curiously mismatched, their partnership reflects not only the popularity of boutique hotels, but a commercial pragmatism driving what is a niche business."

For Marriott, it was the perfect marriage. Tim Walton, vice-president of international development at Marriott, says: "We believe that the relationship of the Luxury Group (a division of Marriott International), with Bulgari is unprecedented in our industry."

The hotel/designer name tie-up is becoming increasingly common in the hotel sector due to a move towards individuality in hospitality products in markets such as London.

"Indeed, such partnerships have allowed international hotel chains to infiltrate the boutique hotel space where previously they were 'forbidden' – or at least by definition," says Lees, adding: "At the same time, it has given fashion houses the opportunity to fly their flag and grow their businesses across new service lines."

As well as Bulgari – which, according to David Harper, director of Leisure Property Services, is reputed to have cost more than £3m per bedroom to develop – Radisson has teamed up with Italian fashion designer Missoni to open a hotel in Edinburgh.

Internationally, fashion brands Versace, Ferragamo, Christian Lacroix, Giorgio Armani and Moschino all have their names attached to hotels.

Alongside these high-end tie-ins, most chains are creating their own "boutique" brands. "Accor has Gallery M, IHG has Indigo and Starwood has W, which is reputed to earn more for Starwood than any of its other brands, despite having fewer properties," says Harper.

Other London boutiques include The Goring (where Kate Middleton stayed the night before the royal wedding), Morgans Hotels (Sanderson and St Martins Lane), Firmdale's hotels (Haymarket Soho House, among others), Cadogan Hotel, and the Trafalgar Hotel, which is run by Hilton on behalf of London & Regional.

There is no doubt that the chains understand the importance of the boutique market, as Hilton has demonstrated. In 2008, it created its own boutique brand, Denizen. Unfortunately, Starwood alleged that Hilton misused trade secrets stolen by former executives Ross Klein and Amar Lalvani, who both played a role in the formation and expansion of Starwood's W Hotels brand, and who joined Hilton shortly before the Denizen concept was made public.

A lawsuit followed, but the companies settled, and from December 2009, under an agreement, Hilton was barred from working on an entrant into the lifestyle hotels segment for two years. Denizen was shelved. "It is arguable that such risks would not have been taken if the prize was not considered to be so great," says Harper.

However, there is speculation in the market that Hilton may be gearing up to



re-enter the sector. Maurice Taylor, founder and chief executive of Chardon Management, a UK independent hotel management company, says: "I would expect to see the launch of a Hilton boutique brand within the next six months. There is no way Hilton is going to miss out."

But a Hilton spokesman says: "No plans have been announced regarding the development of a lifestyle brand or launching one at any future time."

While most companies are, clearly, eager to jump on the boutique bandwagon, there are some drawbacks, namely in that a brand by its large, conglomerate nature could wipe out the image of a boutique's individuality.

"It is vital that you look at the specific product in great detail, because you need the right manager for the right product," says Nick Newell, a director in Savills' hotel team. "This will mean in certain circumstances a brand could add great value, while in other areas they may not be able to operate as well as a unique operator could. It all depends on the specific opportunity."

For Harper, brands add value to a hotel in a number of ways: filling hotels, and reducing cost base. But, even these



against the ethos of a boutique hotel.

"The key driver that the brand can deliver is the 'rewards system' – points mean prizes. That is where a brand has the advantage over the independent hotel," says Harper.

An advantage, yes, but brands need to know when to use their powers, and when to hold back. For instance, says Harper, the Halkin hotel in Knightsbridge

London boutique hotels The Goring Hotel (above, left) and Soho hotel (above) are already well established

whether through tie-ins or the launch of the chains' own boutique properties. As CBRE's Lees concludes: "Considering the growth in the boutique hotel sector and the mutual benefits to both parties, we expect to see further collaborations between hotel chains and fashion houses."

"We expect to see further collaborations between hotel chains and fashion houses"

benefits come with their own problems.

"First [the chains] fill the hotel through their booking systems. However, is this vital in a location such as London, which tends to fill well without the benefit of a brand? Brands can reduce the cost base at a hotel by producing economies of scale through discounted bulk buying, but having the same products as every other hotel in a group goes completely

is "one the best-performing hotels in London, all down to the management company Como hotels not applying a 'hard branding' to such a unique property. Another example is a hotel such as Number Eleven. The 60-bedroom boutique hotel operated by Small Luxury Hotels thrives on its uniqueness."

Despite any bumps in the road, the boutique's market is set to get bigger,

And this growth is also because of the nature of the boutique hotel market. As Alex Sturgess, partner in the Knight Frank Hotels team, says: "It lends itself to both the larger hotel groups with their brand compliance and also to the independent owner operator who can 'carve a niche' in the market with a specialised product that appeals to a specific guest."

APART-HOTELS LOOK TO ACCOMMODATE MORE OF THE MARKET

The UK's apart-hotel market is, in comparison with the US and Europe, pretty small, with scope to grow. They account for more than 7% of the temporary accommodation industry in the US and 25% in Australasia, but in the UK they make up less than 2% of the market. Savills' spring 2012 report predicts a 200% increase in supply levels would be needed to fill the supply gap in central London.

Miles Auger, associate director at CBRE Hotels, says: "In the UK we expect more operators to enter the market, perhaps with different business models, as the sector becomes more established."

One company seeking to take advantage of the gap in the market is boutique real estate investment firm BridgePoint Ventures. It is hoping to open up to five apart-hotels a year over

the next five years, starting in the UK, before rolling out the concept to Germany, Amsterdam and Paris. In the UK, BridgePoint is looking at sites in London, Edinburgh, Aberdeen, York and Bath. It has exchanged contracts in Portsmouth this year.

Chief executive officer Eric Jafari says: "Our strategy is twofold. First, in London we will focus on small, high-quality rooms to accommodate the needs of the market. Second, we will concentrate on strongly performing secondary locations such as Edinburgh, Manchester and Aberdeen."

Jafari believes the apart-hotel's market is now ready for expansion because "the model has a fraction of the costs associated with staff and facilities like restaurants and conferencing that a hotel would typically offer, the running

costs are significantly less". He adds: "This means that the apart-hotel operator has the ability to market the room at a significant discount to a comparable grade hotel room."

BridgePoint's main competitor is Patron Capital Partners, which focuses heavily on London with the Staybridge Suites. "We like the Staybridge product and Patron are a sharp bunch. However, from our experience, we have found that the Staybridge floorplates tend to be too large for the projects that we have looked at, which is why we have decided to create our own product."

"That said, being primarily a funder of hotels means that as and when new rival concepts emerge, we are able to partner with them to finance projects, provided the model pencils."

