

# Better by design

Boutique hotels are weathering the economic storm better than many, and hotel chains have been getting in on the bespoke act, says Adrian Morrison

If the hotel market is cyclical, then tastes within that market are cyclical too. Pre-credit crunch, it was all about gold-tap opulence, but in the past three years, budget and value have become *de rigueur* for a nation experiencing high inflation and economic uncertainty.

Now, while hotels in parts of the country – London, in particular – are enjoying a mini-boom, the boutique sector appears to be outperforming the general market.

“Boutique hotels are really picking up,” says David Harper, director of consultancy Leisure Property Services. “There used to be good trade in the top five-star venues, but people are shifting away from that for a bit more uniqueness. London hotels have improved RevPAR [revenue per available room] by 8.8% to 9%. But with the boutique hotels, trading has improved significantly – almost double that figure, at 15%.”

Harper cites The Halkin, a 41-bedroom hotel just off Park Lane, W1, and the 59-bedroom Zetter Hotel in Clerkenwell, EC1, as examples of boutiques that have outperformed the market.

But there is some debate about this

## EXTRAVAGANCE AT ECCLESTON SQUARE

Boutique operators’ willingness to spend more than other classes of hotel is exemplified by the four-star Eccleston Square Hotel, SW1, which opened in July. Owner Olivia Byrne spent £4m fitting out the 39-bedroom, stucco-fronted townhouse.

All the rooms have £12,000 Hästens beds – reputed to be the world’s best. “Smart glass” separates bedroom and bathroom and can be made clear or opaque at the flick of a switch, creating a sense of space or privacy. An iPad is

provided in every room to control various settings, and there are 46in plasma TVs. However, the hotel’s rooms are relatively small, ranging from 190 sq ft to 250 sq ft. “We were working with small rooms, so we thought about how a stay could be the best experience possible,” says Rob Steul, chief designer with Woods Bagot, the Eccleston Square’s architect. “Rather than think about small rooms where you downgrade the price, we thought of it like cabins on an Italian yacht.”

sub-sector’s performance. Budget hotels are also strong, often undercutting the boutique market on price. “All run-of-the-mill hotels have seen income go down,” says Savills’ joint head of hotels, Rob Seabrook. “But the financial crisis has hit the boutique hotel market less than the three- and four-star markets.”

There is also debate about what a boutique hotel actually is, with the definition often changing to suit the user.

Generally, it means a smaller hotel – some say fewer than 100 bedrooms. It can be branded, but not uniformly. It is usually design-led and fits well with its surroundings. Boutique hotels tend to operate at four- or five-star level and naturally compete with, say, Crowne Plaza. In London, the five-star brands compete with the likes of the Grosvenor House or The Lanesborough.

However, some hoteliers object to the term boutique, seeing it as limiting and

Eccleston Square, SW1: rooms in the four-star hotel have been inspired by cabins on an Italian yacht

misleading. “I have a bizarre 18-year objection, going back to my investment and banking days, when I was trying to bring Ian Schrager to London,” says Kurt Bredenbeck, founder of the Hoxton Hotel in E1, recently voted Best UK Hotel for the third year running by the *Guardian* and *Observer Travel*. “We took objection to the term because a boutique is a shop.”

The irony is that Schrager is now known as a pioneer of the boutique concept. Bredenbeck, however, prefers the term “bespoke” hotel, because of its defined appeal based on style, uniqueness and an understanding of the end-user.

Boutique hotels’ strong design ethos is partly responsible for their strength. The architect of the recently opened Zetter Townhouse in St John’s Square, EC1, was given the brief “as though a mad aunt with a penchant for travel” had designed it. Such attitudes to risk separate the boutique from traditionally branded hotels and provide a point of differentiation which appeals to younger, affluent urbanites.

“People are bored with corporate uniformity,” says Harper. “With the internet, it is easier to take a gamble on a hotel, as you can get a feel for it before you go.”

The traditional upper end of the market is associated with the “grey brigade”, to quote one agent, and is simply not regarded as hip enough. Maybourne Hotel Group recognised this when it carried out a £70m renovation of its Connaught Hotel in Mayfair two years ago.

Julian Troup, head of UK hotels for Colliers International, thinks boutique operators’ willingness to shell out on high-quality fixtures and fittings is another reason for the sector’s success. “It is survival of the fittest, and boutique hotels are fitter than hotels around them,” says Troup. “They set out a stall that shows they are better than their rivals in terms of service and facilities, and regularly deliver. If they pride themselves on quality, then they have to keep capital expenditure up. It is very important.”

There has been a surge of interest in developing boutique hotels, but there are still problems in raising finance. Banks have difficulty in funding non-branded operations, despite understanding boutique hotels’ advantages in some areas. Future development will tend to be entrepreneur-led.

However, boutique hotels are beginning to function as an investment asset – for example, with the recent sale and leaseback of Malmaison. The portfolio had been on the market for several years, but over the summer, institutional investors Legal & General, Aviva and German fund Deka bought the divvied-up portfolio.

“This is a coming of age for boutique as an asset class,” says Savills’ Seabrook. Bredenbeck’s Hoxton Hotel sold recently at a great profit (see box below).

The strength of the boutique hotel market is not just a London phenomenon, but neither is it widespread throughout the UK. Several commentators point to a disjoint between London and the regions, with most markets outside the capital in decline.

Cities such as Glasgow, Leeds, Cardiff and Birmingham have been hit hard in the past few years. Harper splits his business between the UK and abroad, and says: “I would say this [boutique] phenomenon is affecting key cities such as Manchester, Edinburgh, Paris, Milan, Berlin and Munich.”

He believes a key factor in whether a boutique hotel succeeds in a particular location is the availability of both corporate and leisure trade. “If you rely on only one

or the other, you will probably struggle,” he says. Edinburgh, for example, is supported by international trade and tourism and receives a huge boost from its festival in August. In August this year, the Scottish capital outperformed London for the first time in terms of hotel rooms filled and rates achieved.

While there are many examples of strong performance by boutique hotels, some have done less well, often because of poor management and lack of capital investment. New ventures may also be limited because capital values are sitting below development costs in many locations.

But the chains are responding. IHG has launched its own boutique brand, Indigo, and Marriott and Hilton have followed suit. “They need to provide individuality without diluting their corporate identity,” says Colliers’ Troup. “That may cause them some concern.”



Hoxton Hotel, E1, became a Brit Art location

Traditionally, the non-branded, smaller-scale and higher-risk profile of boutique hotels has prevented them from being seen as an investment asset.

However, entrepreneur Kurt Bredenbeck realised a £53m profit recently when he sold the 205-bedroom Hoxton Hotel, E1, to Morgans Hotel Group, owner of the Sanderson and St Martins Lane hotels. The group is backed by Invesco and will rebrand Hoxton House as The Hudson after its famous New York operation.

Bredenbeck, founder of the One Aldwych hotel in Covent Garden, WC2, says: “I have strived to get across to property investment funds that an independent, well-run hotel will very likely outperform a chain hotel. They have been uncomfortable with hotels as an investment or only want a brand, even if it is good for less return. I have proved the opposite. We are selling the

Hoxton for £70m, following a circa £17m investment.” The hotel has achieved a 95% occupancy rate since 2006, more than 10% ahead of the general market.

Bredenbeck’s career has been defined by establishing bespoke hotels in non-established locations. He purchased the Hoxton site through a long-lease mechanism, dramatically reducing the initial capital needed and giving him a three-year window to secure planning and financial backing.

He says he likes “hip, chic neighbourhoods that are going forward”. The Hoxton was becoming firmly associated with the Brit Art scene, fronted by Damien Hirst, and frequented by the style-conscious “beautiful ones” who would eventually become his clientele.

Ironically, Bredenbeck’s success is the result of Scottish Widows turning down an investment proposal in Clerkenwell for what eventually became the Hoxton.