Are Boutique Hotels Becoming Mainstream?

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Introduction

For decades big hotel chains across the globe have provided secure and predictable accommodation from the room size to amenities. Within the luxury segment, guests can expect similar layout and design in a room in New York, London or Sydney, as hotels marketed themselves based on product consistency. However, this model is being challenged as consumer expectations change. The advent of social media has altered what travellers – particularly among younger demographics – demand from hotels. They tend to avoid the generic hotel experience and eschew the cookie-cutter hotel model. The desires of these modern travellers have given rise to the emergence and growth of boutique hotels and home sharing platforms. While big hotel chains have been somewhat slow to react to competition from boutique hotels and the sharing economy, they are now fighting back. A number of big hotel operators have launched (or purchased) their own boutique hotel brands over the past five years. The rise of boutique hotels is inevitable and will increasingly account for a larger share of the hotel universe.

What is a boutique hotel?

There is no clear definition of what a boutique hotel is, but in essence it refers to one being designed to offer personalised and customised experience for the customer. Unlike traditional hotels, boutique hotels are unique in design and style and typically smaller in room size, providing a more intimate atmosphere. They are created to attract a wide spectrum of clientele with the focus on providing guests a unique experience, which may include local style and cultural history.

Boutique hotels are popular

The explosion of digital content and social media has given rise to the idea of authenticity and experiential travel, particularly among younger demographics. This cohort is leading the way for more experience-based accommodation and destinations. A number of surveys found that younger demographics are far more influenced by unique experiences than older demographics:

- In a survey by Topdeck Travel on those aged 18 -24, 86% selected experiencing a new culture followed by and local cuisine (69%) as the two most important motivating factors for their travel experience[1]

[1] https://www.forbes.com/sites/lealane/2016/01/15/are-millennial-travel-trends-shifting-in-2016-youll-be-surprised

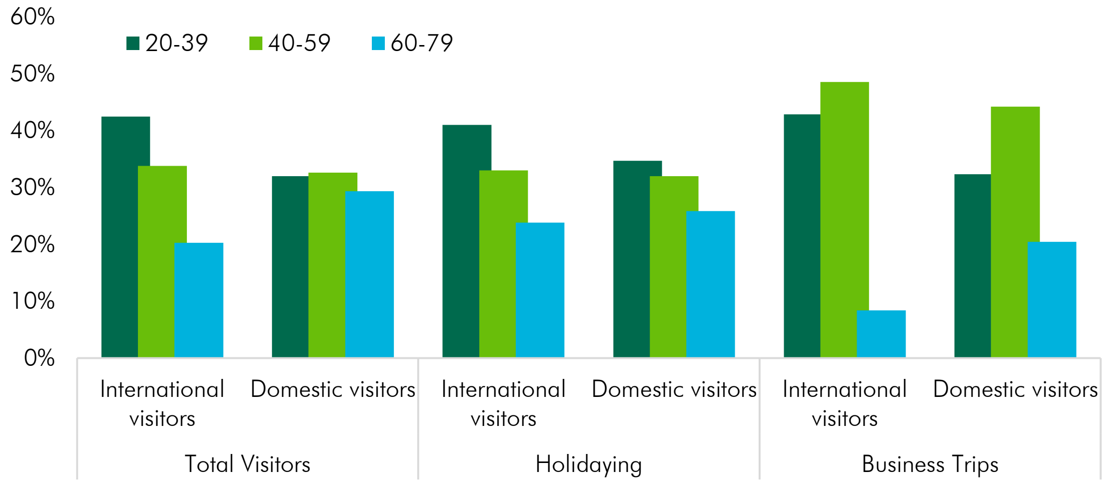
- Millennials have higher demand for enriching experiences (such as cultural, historical, food and entertainment) over traditional hotel amenities, while older generations prefer the latter[2]

- Smart Travel Asia's 2018 Best in Travel Poll found younger travellers are increasingly 'brand blind' and prefer boutique hotels to classic names

- The corporate traveller experience once viewed as functional is now increasingly moving towards personalisation and unique experiences. Increasingly business trips are extended into leisure – further enforcing expectations for unique experiences.

The future of hotel designs and operating models will therefore be increasingly driven by what younger demographics demand, especially when they account for the largest group of travellers. In Australia, those aged between 20-39 accounted for 42% of international visitors in 2018 and one-third of domestic visitors (figure 1). In addition, younger demographics were the largest cohort for both international and domestic visitors holidaying in Australia. While older demographics (aged 40-59) are still the largest cohort among corporate travellers, younger demographics are rapidly catching up, accounting for 43% of international corporate travellers and 32% of domestic corporate travellers. As millennials and those after them grow in seniority in the workforce, they inevitably will account for a larger share of corporate travel.

Figure 1: Share of visitors in 2018 by purpose and age group



Source: TRA, CBRE Research

2. https://www.speckdesign.com/news/2018/an-inside-look-at-millennials-unique-hotel-needs

Big chains providing an experience

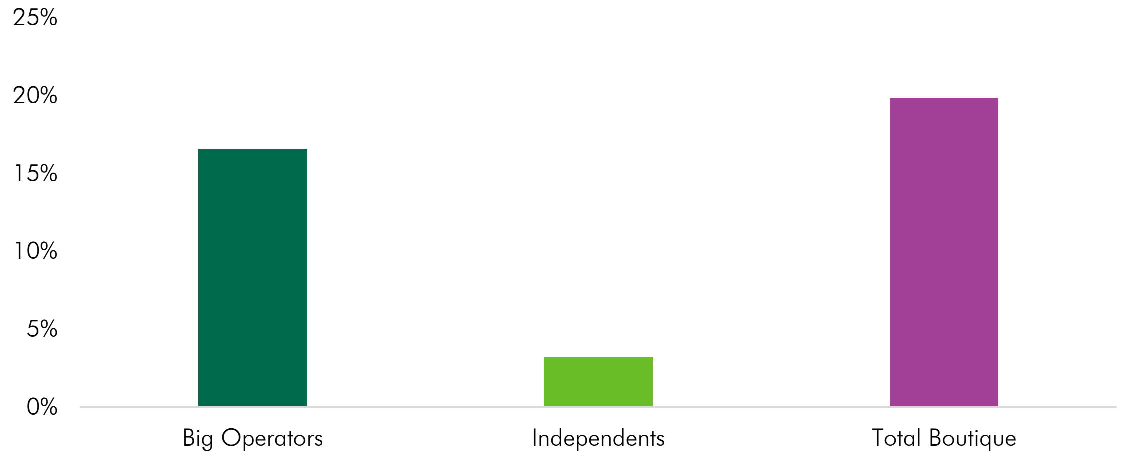
To keep up with the shift in consumer expectation, a number of big hotel chains* have created boutique brands in the past five years. While the share of independent boutique hotels has grown, it is not too late for large operators to embark on the same journey. A survey by Wanup showed that travellers remain brand loyal if hotels offered personalisation and exclusive experiences. Table 1 below provides a selection of brands created by big operators venturing into the boutique arena:

Table 1: Boutique hotels launched by big operators

Brand	Operator	Brand	Operator
Moxy	Marriott Hotel	SLS Hotels	Accor
W Hotel	Marriott Hotel	Delano	Accor
Autograph Collection	Marriott Hotel	Mondrian	Accor
Hotel Jen	Shangri-La	Hyde	Accor
SO Sofitel	Accor	Jo & Joe	Accor
Mama Shelter	Accor	Tru Hotel	Hilton
25hours Hotels	Accor	Canopy	Hilton
The House of Originals	Accor	Andaz	Hyatt

The U.S. market is evidence of the popularity of boutique hotels. The supply of boutique hotels has been growing at 10.8% p.a. over the past five years, while revenue grew at 8.6% p.a.[3]. Boutique hotels now account for close to 20% of the total U.S. pipeline over the next five years (figure 2). It is worth noting that the majority of the pipeline comes from the big hotel chains, accounting for ~84% of the boutique pipeline. This implies that the big operators in the U.S. are indeed focused on developing this segment of the market.

Figure 2: U.S. Boutique hotels as a share of total pipeline (2019-2023)



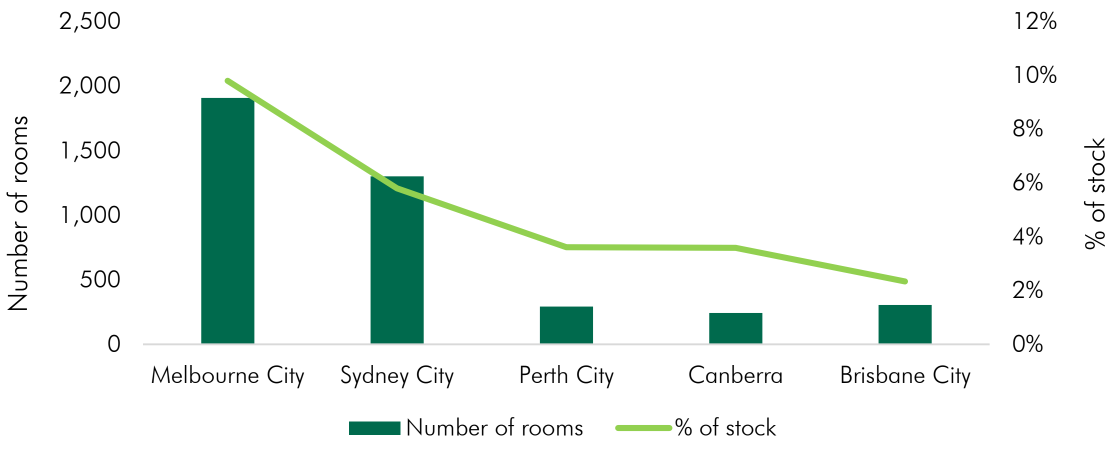
Source: STR**, CBRE Americas Research

* Big hotel chains are defined as a company that owns or manages/operates a number of hotels under the same brand (or a collection of brands) in different locations.
** Note: Republication or other re-use of this data without the express written permission of STR is strictly prohibited
3. IBISWorld Hotels report 2018

Australia has yet to see a large influx of major international brand entry in this segment; however, this is set to change with Accor recently purchasing Tribe – an Australian lifestyle brand focused on high-quality hotel experience at an affordable price - as part of its foray into the boutique brand in Australia. Marriott Hotel will also debut Moxy (a millennial focused boutique brand) in Melbourne in 2021. The success of independent local boutique brands over the past decade, including QT, The Valley – Brisbane, Art Series, Old Clare, Veriu, Spicers Retreat, and Little National, supports the case for international brand entry, as well as more boutique hotel developments.

The higher share of boutique brands in the development pipeline (12% of CBD hotel developments) appears to validate this trend. Sydney, Melbourne and Canberra have the largest share of boutique hotel developments, up to 20% of the pipeline. It seems that boutique hotels are becoming more mainstream as they contribute to a larger share of stock (figure 3).

Figure 3: Number of rooms and percentage of stock as boutique hotels over the next five years



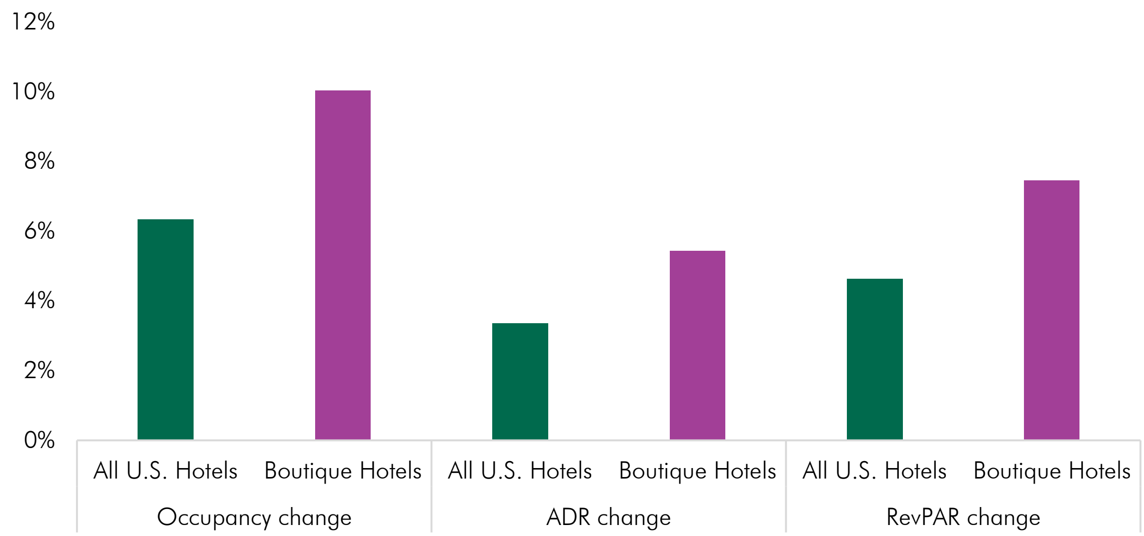
Source: Cordell, CBRE Research

Findings by CBRE Hotels' America Research reveal that boutique hotels outperformed the overall U.S. hotels market in key performance indicators over the past five years (figure 4). Increased demand for boutique hotels contributed in part to the 10% growth in occupancy in the boutique category compared to 6.2% growth for the overall U.S. market. Boutique hotels also experienced stronger growth in average daily room rates, resulting in RevPAR outperforming the U.S. market. In terms of profitability, U.S. boutique and lifestyle brands achieved earnings before interest, taxes, depreciation and amortisation (EBITDA) margin of ~32%, compared to ~27% for the U.S. hotels market in 2017[4]. While performance varies across hotel categories, it broadly reflects that boutique hotels have outperformed the overall market.

The success of boutique hotels in the U.S. and locally is a compelling reason for more international brand entry into Australia. Many of the big chains have targets to roll out boutique brands across the globe by 2030 with Australia being high on the list.

4. CBRE Hotels: Trends and Expectations for Boutique and Lifestyle Hotels, September 2018 Edition; Trends in the Hotel Industry USA Edition 2018

Figure 4: U.S. Hotel key performance indicators - annual change from 2014 to 2018



Source: STR*, CBRE Hotels' America Research. Note: The basket for boutique refers to legacy brands

The advantage of big hotel operators

While younger travellers are less loyal to brands, they would still sign up to a loyalty scheme if hotels meet their specific needs. The advantage of big operators is that they can harness their network and offer room rate discounts and amenities to their members across the globe. Because hotel chains have the benefit of economies of scale, they are able to provide more superior amenities and offer exclusive experiences to members, such as access to chef masterclasses and culinary encounters. Larger hotel groups also have the capital to explore, take risks and push design boundaries to create unique experiences to attract the modern traveller.

There are also financial gains for big operators from creating smaller rooms. Operators can increase productivity in terms of revenue per square metre as guests are willing to accept smaller rooms in exchange for unique experiences. In some cases, the traditional room size of 25sqm is giving way to 15sqm rooms.

The perception of luxury is also changing. The idea of scale and grandeur are now less relevant in today's luxury hotel market; instead, imagination and well thought-out designs are linked with the luxury experience. The advantage big chain operators have is their experience and knowledge of operating luxury brands.

While the shared and experience economy has disrupted traditional hotel industries, ~76% of U.S. millennials still favour a stay in a hotel over home sharing platforms as they are able to get services and engagement from hotel staff[5].

5. Resonance Consultancy. The firm's new 2018 Future of Millennial Travel Report: A survey of America's fastest growing tourism demographic

* Note: Republication or other re-use of this data without the express written permission of STR is strictly prohibited

Interestingly, the same survey found that home sharing accommodations were among their least preferred accommodation choices, contradicting the belief that hotels are less in favour with younger travellers.

Rising competition will drive more innovation among hotels

The hotel environment is expected to witness increasing levels of competition as sharing platforms, independents and hotel chains battle to win customers. As a result, hoteliers will focus on innovation and personality-based offerings in order to differentiate. Already in the boutique segment, a number of hotels are competing via outsourcing food-and-beverage operations to master-chefs. Others are going green, looking at sustainable development to meet the demands of eco-friendly visitors. For example, the West Hotel in Sydney CBD has brought the outdoors into the hotel with its open-air garden atrium and surrounding greeneries. Some operators are launching affordable luxury (for example, ACE hotel and Tribe) catering to savvy travellers who want vibrant designs without the heavy price tag.

Conclusion: Innovate or lose out on market share

Experience-based travel is becoming prevalent across all demographics but highly preferred by younger cohorts. As such, boutique and lifestyle hotels have the upper hand in the battle for customers. The changing of the guard as millennials take more seniority in the workforce and size in the population pyramid means that big hotel operators need to cater to their demand. Missing out means losing a large share of the market.

Personalisation has become the "new thing" to attract and retain modern travellers; winning their loyalty means brands must deliver the experience. Thus, increasingly operators will move away from price-based competition and instead focus on providing experience and exclusivity to differentiate themselves. Australia is yet to receive a large influx of international boutique brands, but we suspect this will change in the coming years, either via acquisition or development. Boutique hotels will account for a larger share of the hotel universe going forward.

There is significant upside for the hotel market in Australia. The growth in international visitors in Australia remains strong; Tourism Research Australia forecasts growth of 6.2%p.a over the next five years. Australia is also poised to triple or quadruple the number of Chinese visitors by 2030 (if it maintains its market share). Such growth potential supports the case for more hotel development in Australia with an increasing focus on boutique brands from big chain operators.

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