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Nouveau niche

The economic forecast is gloomy, but there's no raining on the hotel industry's parade

Responses to today's inclement economic weather tend to range from panic, through defiance, to blind faith that somehow everything is going to turn out peachy. The international hotel industry, at least, is striking a defiant note, moving ahead at full throttle.

Established brands such as Four Seasons, Ritz-Carlton and W are debuting new properties from the Middle East to middle America. Once dowdy chains like Le Méridien and InterContinental have embarked on expansive – and expensive – makeovers of their existing hotels, while injecting their latest debuts with slick spas, celeb-chef restaurants and 'cultural' programmes. Long-time 'boutique' leaders, including the US's Morgans Hotel Group and the UK's Firmdale Hotels, are adding new properties to their portfolios, many designed by leading architecture firms, such as Morgans' favourite, Roman and Williams in New York.

The surprise, though, is the number of new brands being introduced to the market. According to global consultancy firm PricewaterhouseCoopers (PwC), a whopping 38 new hotel brands have been launched worldwide over the past three years. Of the arrivistes, a full 20 are in the luxury segment, while the remainder are more cost-oriented, 'select service' brands aimed mostly at business travellers.

Many of the newcomers are niche spin-offs from global lodging leaders, such as InterContinental's Indigo; Element and Aloft from Starwood; the Waldorf-Astoria Collection from Hilton; Ritz-Carlton's Reserve; Andaz at Hyatt; and Edition, the new partnership from Marriott and Ian Schrager. Others are second act projects from industry veterans, such as Capella, launched last year by former Ritz-Carlton vice chairman Horst Schulze; the Crillon and Baccarat brands by ex-Starwood chief Barry Sternlicht; and the ever-expanding Rocco Forte Collection. The remainder are mostly independent brands battling for their share of an increasingly crowded marketplace, such as Alila in Asia; Hospes in Spain; SLS Hotels on America's West Coast; and Mexico's Grupo Habita.

Of course, these launches have been a long time in the plotting. 'The hotel companies have spent years researching and developing their new brands,' says Scott Berman, leader of PwC's Hospitality & Leisure division in Miami.

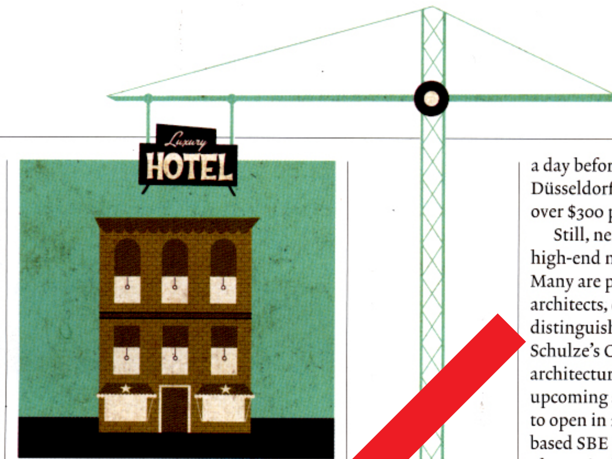
The most hyped of the new players are those emerging from the major global chains, of which InterContinental's Indigo is the most established. With 24 existing properties and 60 more under development, four-year-old Indigo is emblematic of the traveller type and the market niche that most of the spin-offs will work to cultivate. 'Branded boutique' is how Indigo's brand management director, Gayle Jett, describes the chain. 'It provides the consistency and reliability of a major chain, with the unique design and personal service of a boutique brand.'

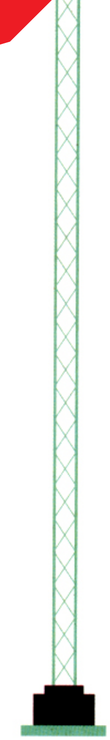
BRAND AID
The international hotel market shows no signs of slowing down, with 38 new brands and spin-offs launched recently, many of whom are recruiting high-profile architects, designers and chefs to strengthen their market position

If Indigo sounds a lot like W Hotels, that's because it is – as are many of the other chains-in-the-making, such as Edition, Andaz, Aloft, Nylo and the Hamburg-based 25 Hours Hotels. 'W has shown that "lifestyle" hotels can work, and these new names will try to emulate this environment, at a lower price-point,' says Jan Freitag, vice president of global development at Smith Travel Research.

While ten-year-old W might maintain a first-mover advantage, its success suggests that the marketplace remains receptive to new niches from old stalwarts. 'Travellers today are younger, more demanding and more fickle,' says PwC's Berman. 'There are far higher expectations with far less loyalty.'

To meet these demands, newcomers are creating products that finely balance service with price. As Freitag notes, rates will generally be lower than at W – mostly under $150 per night at hotels like Aloft, Nylo, Indigo and Element. What's more, the newcomers are targeting untapped sub-segments of the 'branded boutique' arena. Element, for example, is aimed at guests staying for three or more nights; Aloft, Nylo and Netherlands-based Citizen M hotels are targeting tech-savvy travellers who don't mind DIY check-in kiosks; while pricier newcomers like Schrager's Edition and Hyatt's Andaz suit swankier types seeking out luxe spas, destination restaurants, hip bars and even on-site art collections. 'There are still big holes in the marketplace,' observes Denise Korn, creative director at Boston-based branding consultancy Korn Design. 'This segmenting is a smart way to fill them.'





It could also, however, be too much of a good thing. Most analysts agree that some level of attrition will be inevitable, as new brands are either bought by larger companies or fail to move beyond the gestation stage. This kind of shakedown would be particularly painful for many of the new luxe and ultra-luxe entrants – such as Capella, Crillon, Baccarat and SLS – whose most important branding points are the reputations of their high-profile founders. Yet while the global economic slowdown would suggest such a shakedown is likely, the hotel industry's top tier is proving surprisingly resistant to mid-level belt-tightening.

Indeed, a spring 2008 report by the Market Metrix Hospitality Index showed luxury hotel prices actually rising by 5.4 per cent during the first quarter of this year. True, luxury hotel occupancy rates did fall by 1.9 per cent during the same period. But with fewer than 200 rooms in most of the new properties, 'filling our type of hotel is not particularly difficult', said Capella founder Horst Schulze, just a day before opening his third property in Düsseldorf in May, where rooms begin at over $300 per night.

Still, neither Capella nor the other high-end newcomers are taking chances. Many are partnering with high-profile architects, designers and restaurateurs to distinguish themselves to consumers. Schulze's Capella has recruited Japanese architecture icon Tadao Ando to design its upcoming ski resort outside Sapporo, due to open in 2010. Meanwhile, Los Angeles-based SBE Hotel Group is linking up with players in different fields to launch its new SLS Hotels brand later this year – first in Los Angeles, followed by Las Vegas and Miami. SBE president Sam Nazarian has signed a 15-year contract with Philippe Starck to design SLS properties, complete with customised furniture by Cassina. New York design gallerist Murray Moss is creating a shopping 'bazaar' at the SLS Beverly Hills for design-hungry guests. And Spanish chef José Andrés – a Ferran Adrià protégé – will oversee all of SLS's restaurants and bars. Guests at SLS's debut Beverly Hills property will also have preferred access to top LA restaurants and nightspots, such as Katsuya, Hyde Lounge and The Abbey, all of which are owned by SBE as well.

It's too soon to tell if Nazarian, and his industry counterparts, will see their new ventures develop into flourishing, multi-property brands. Many are aiming for dozens of global sites within the next few years, proving there is no shortage of industry ambition or entrepreneurial will. Whether the embattled development community will respond to the call with the cash required, and whether consumers will make their reservations, however, will ultimately determine which of the new brands move beyond the buzz to become viable businesses. ★