



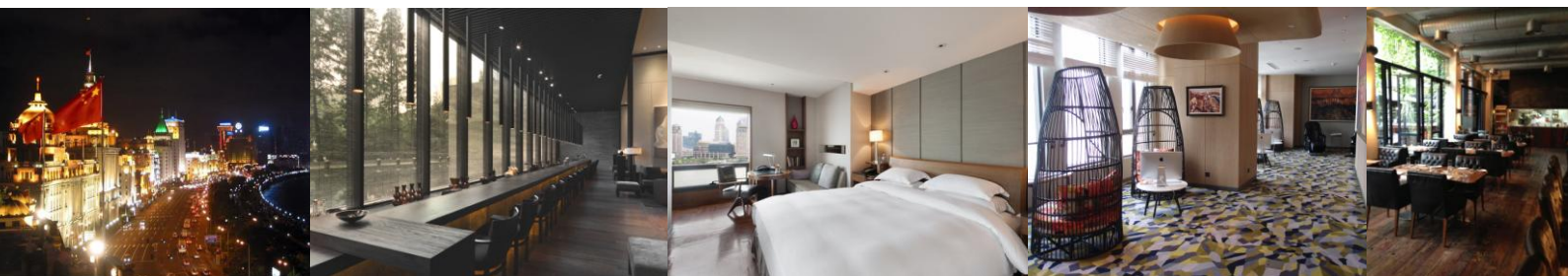
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IN FOCUS: SHANGHAI BOUTIQUE HOTEL MARKET SCENE

Wenting Xu
Analyst

Jonathan Jaw
Associate

Tan Wei See, MRICS, MISM
Partner, Shanghai



Emerging Niche: Boutique Hotel

As the travellers' expectation is becoming more diverse, the upscale hotel market witnesses the growth of niche segments. Besides the high-end facilities and standard service, the travellers now are seeking for unique lodging experience. In line with the upward trend and strong potential for niche market, boutique hotel developments are gaining increasing attention from developers in China.

Case Studies of Upscale Boutique Hotels in Shanghai

In order to understand the characteristic of upscale boutique hotels, seven prominent boutique hotels in Shanghai have been selected in the view of popularity, reputation, positioning, and facilities. These seven boutique hotels represent five different types of concept: culture-oriented, chic-designed, lifestyle, urban resort and intimate home-feeling.

Mansion Hotel

Located in the middle of Old French Concession district, Mansion Hotel is the China's first deluxe city heritage boutique hotel. Originally designed by French architect Lafayette in 1932, the hotel features a French-style exterior with old-Shanghai-style interior. Situated within a five-story limestone edifice, the Mansion Hotel offers 30 guestrooms.

SUITE, MANSION HOTEL



88 Xintiandi

Located in Xintiandi, a district composed of reconstituted traditional mid-19th century Shanghai style houses and alleys, 88 Xintiandi features a traditional oriental elegance combined with contemporary styles. Managed by the Langham Hospitality Group, this 53-guestroom boutique hotel provides guests with complimentary access to the neighbouring Langham Xintiandi's facilities. 88 Xintiandi is rated as the 'Best Boutique Hotel Shanghai' by the Shanghai Magazine in 2012 and 2013.

GUESTROOM, 88 XINTIANDI



The Waterhouse at the South Bund

The Waterhouse at the South Bund is located within a historical warehouse constructed in the 1930's. The interior of this boutique hotel is fully renovated with contemporary design compared to its dated exterior. Designed by Neri & Hu in 2011, the architectural concept stems from Neri & Hu's renovative take on clear contrast of the new and the old. The four-story, 19-guestroom boutique hotel is managed by the New Majestic Group, one of the top Singaporean boutique hotel operators.

ROOFTOP BAR, THE WATERHOUSE AT THE SOUTH BUND



URBN Hotel Shanghai

Formally a factory warehouse and post office, the URBN pays homage to its city and place in history by using locally sourced and recycled materials to make up each aspect of its design. From the wood floorboards in each of the 26 rooms taken from Shanghainese lane houses, to the gray slates in the hallways sourced from the rooftops of old buildings in the Former French Concession, every feature of the URBN aims to reuse and recycle to create something innovative.

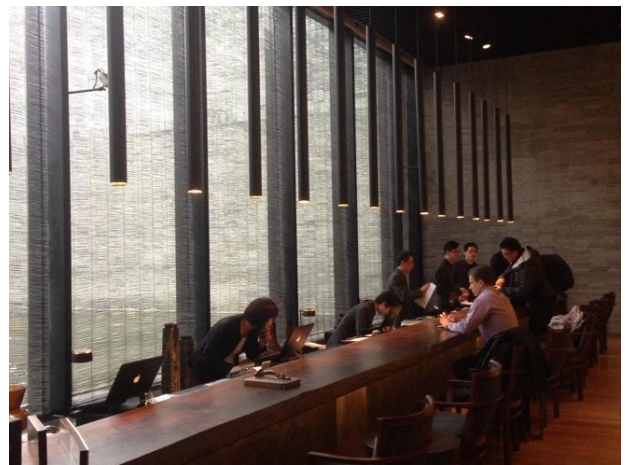
GUESTROOM, URBN HOTEL SHANGHAI



The PULI

Located in Jing'An Park, the PULI is positioned as the first urban resort in Shanghai with the combination of the Chinese traditional culture and modern resort-concept design. Managed by Urban Resort Concepts (URC), a Hong Kong hotel management company, the Puli is designed by Layan Design Group and Jaya & Associates. With 229 guestrooms, the Puli offers one of the most guestrooms in the Shanghai boutique hotel market.

CHECK-IN COUNTER, PULI



JIA Shanghai

JIA Shanghai, located in the heart of Nanjing Road, is surrounded by retail, commercial and entertainment centers of Shanghai. Developed from a historical building built in the 1920's, the hotel is co-designed by BURO Architects, Hecker Phelan and Guthrie Interiors (HP&G), and AFSO. Because JIA takes its name from the Mandarin word meaning 'home', the 47-guestroom boutique hotel offer a collective design that instills luxurious comfort for its guests.

SUITE, JIA SHANGHAI



Les Suites Orient, Bund Shanghai

Located on the Shanghai Bund, Les Suites Orient is a 168-guestroom boutique hotel that features Art Deco and traditional oriental design style. The hotel is designed by Zongyue Wu, a Taiwanese interior designer who also designed Les Suites Orient, Taipei. Although the façade of the hotel features antique Shanghai Bund flair, the guestrooms features modern luxury design.

SUITE, LES SUITES ORIENT, BUND SHANGHAI



What are the Differences of Selected Upscale Boutique Hotels from its Competitors?

Due to the somewhat limited comparable facilities in the city, the selected upscale boutique hotels in Shanghai mainly compete with internationally-branded upscale and luxury hotels in terms of rate positioning. We have categorised competitive upscale and luxury hotels with the selected boutique hotels into the following three groups.

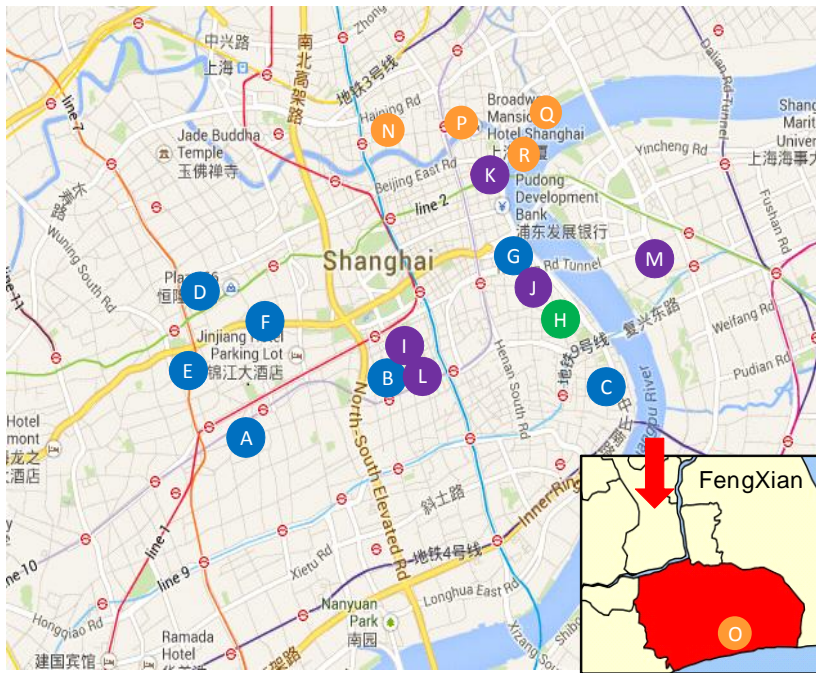
- Large-Scale Internationally-Branded Upscale;
- Internationally –Branded Lifestyle; and
- Internationally –Branded Luxury

Location of Selected Boutique Hotel and its Competitors in Shanghai

The following map shows the location of selected boutique hotels and its competitors. As illustrated, selected boutique hotels are all located in Puxi area. Sited either by the Bund or in historical areas such as the French Concession and Xintiandi, boutique hotels are located in areas that are characterized by its chic fashion vibe and upscale positioning. Similar to the selected internationally-branded luxury hotels, location is one of the most important determinants for boutique hotel developers.

As of now, Hotel Indigo Shanghai on the Bund serves as the sole lifestyle hotel in Shanghai. With the further maturing of the Shanghai upscale hotel market, Shanghai is expected to witness the opening of numerous lifestyle hotels in the near future. These includes the proposed Bvlgari Shanghai, W Shanghai and SLS Palm Beach Shanghai.

SELECTED COMPETITIVE BOUTIQUE HOTEL MARKET



Selected Boutique Hotels

- A** Mansion Hotel
- B** 88 Xintiandi
- C** The Waterhouse at the South Bund
- D** URBN Hotel Shanghai
- E** The PULI
- F** JIA Shanghai
- G** Les Suites Orient, Bund Shanghai

Selected Lifestyle Hotel

- H** Hotel Indigo Shanghai on the Bund

Selected Luxury Hotels

- I** Andaz Xintiandi
- J** Waldorf Astoria Shanghai
- K** The Peninsula Shanghai
- L** Langham Xintiandi
- M** Park Hyatt Shanghai

Incoming New Supply

- N** Proposed URBN Hotel
- O** Proposed SLS Palm Beach Shanghai
- P** Proposed Bvlgari Shanghai
- Q** Proposed W Shanghai, THE BUND
- R** Proposed Sunny Bellagio Shanghai

Source: HVS Research

The following table shows the hotel we selected in Shanghai for hotel group comparison.

Hotel Positioning	Hotels
	Mansion Hotel
	88 Xintiandi
Boutique	The Waterhouse at the South Bund URBN Hotel Shanghai The PULI JIA Shanghai Les Suites Orient, Bund Shanghai
Lifestyle	Hotel Indigo Shanghai on the Bund
	Andaz Xintiandi Waldorf Astoria, Shanghai
Luxury	The Peninsula Shanghai Langham Xintiandi Park Hyatt Shanghai

Smaller Scale of Facilities

The smaller scale of facilities, as compared to their competitors, is common characteristics for the selected upscale boutique hotels in Shanghai. Together with distinguished design and concept, the smaller scale of the property creates comfortable and unique experience to the guests.

Average room count of the selected upscale boutique hotels is around 82, ranging from 19 to 229, which are much lower room count than their competitors. In contrast to the lower room count, the selected boutique hotels feature a higher suite ratio of around 26% as compared to their competitors. The lower room count and higher suite ratio allow the selected upscale boutique hotels to focus on FIT segment with higher budget, resulting in a relatively high rate.

COMPARISON, GUESTROOMS FACILITIES

Category	Average No. of Rooms	Average Suite Ratio	Average Size of Standard Room (sqm)
Selected Boutique Hotels	82	26%	38
Large-Scale Internationally-Branded Upscale	567	16%	39
Internationally-Branded Lifestyle	184	13%	36
Internationally-Branded Luxury	266	16%	53

Food and beverage outlets in the selected upscale boutique hotels mainly serve in-house guests. However, benefitting from the unique environment created by their design and concept, food and beverage outlets in the selected upscale boutique hotels are popular venue for walk-in demand and social gatherings, resulting in a higher seat capacity ratio per guestrooms.

COMPARISON, FOOD AND BEVERAGE OUTLETS

Category	Average No. of Rooms	Average No. of Food and Beverage Outlets	Average Ratio of Seat Capacity per Guestroom
Selected Boutique Hotels	82	3	2.1
Large-Scale Internationally-Branded Upscale	567	7	1.2
Internationally-Branded Lifestyle	184	3	2.0
Internationally-Branded Luxury	266	4	1.2

With the smaller room count, MICE segment is not a main demand driver for the selected upscale boutique hotels in Shanghai. In addition, the relatively high rate positioning and limited food and beverage outlets hinder the boutique hotels penetrate MICE segment. However, the specialised design, atmosphere and concept enable the boutique hotels to capture high-end executive meetings, private events, tradeshows, and social gatherings to some extent.

COMPARISON, MEETING FACILITIES

Category	Average No. of Rooms	Average Meeting Spaces (sqm)	Average Ratio of Meeting Space per Guestroom
Selected Boutique Hotels	82	224	2.7
Large-Scale Internationally-Branded Upscale	567	2,890	5.1
Internationally-Branded Lifestyle	184	300	1.6
Internationally-Branded Luxury	266	1,522	5.7

Emphasis on Concept and Design

The main characteristic of the boutique hotels is uniqueness. The uniqueness is driven by their distinguished concept and design, resulting in creating personalised experience to the guests. Generally, the concept and design of the boutique hotels are combined with local culture and history. Consequently, the development of boutique hotels is not standardised.

As compared to the large-scale upscale hotels, the boutique hotels are characterised by their unique combination of local culture and history with their non-standardised design and decoration. In addition, the special art collection and building's exterior enhance the boutique image of the properties.

The strong emphasis on design and concept enables the boutique hotels to create unique experience for the guests and provides the guests a chance to learn more about the city.

Target Market

The demand for the larger-scale internationally-branded hotels is mainly driven by the MICE and

corporate-contract-basis travellers. In contrast, corporate and leisure FITs (Frequent Individual Travellers) with the relatively higher accommodation budget are main demand drivers for the selected upscale boutique hotels in Shanghai, which are similar to the lifestyle and luxury hotels in Shanghai.

In terms of geographical origin, foreign travellers from Europe, the United States and Australia remain main sources for the selected upscale boutique hotels in Shanghai. Currently, domestic travellers are a minor demand driver for the selected upscale boutique hotels. This is different dynamic from the larger-scale internationally-branded hotels, where domestic travellers play an important role for their demand sources.

However, as the domestic travellers experience more boutique hotels, the selected upscale boutique hotels in Shanghai will witness the trend of growing domestic travellers as their key demand source.

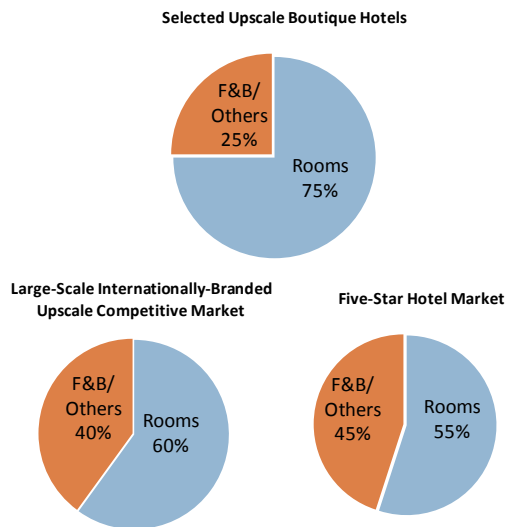
Main Revenue Generators

The food and beverage department is an important revenue contributor for the large-scale internationally-branded upscale competitors in Shanghai, driven by the revenue from banquet department.

In contrast, revenue generated by the rooms department is a main contributor for the selected upscale boutique hotels, accounting for around 75% of total revenue.

With the smaller scale of facilities, revenue contribution from food and beverage department is somewhat limited as compared to large-scale upscale hotels. However, the specialised concept of food and beverage outlets and meeting spaces in the boutique hotels attract walk-in demand and high-end small-size social gatherings.

COMPARISON, MAIN REVENUE GENERATORS



Source: HVS Research

Rate Premium

The rate premium is generally driven by the various factors such as location, facilities, brand and so on. As of 1H2013, large-scale internationally-branded upscale competitive hotels and internationally-branded luxury hotels achieved a high rate, led mainly by their locations and brands.

COMPARISON, AVERAGE RATE POSITIONING

Hotel sectors	Average of Estimated ADR in 2013
Selected Boutique Hotels	1.51
Large-Scale Internationally-Branded Upscale	1.82
Internationally-Branded Lifestyle	1.37
Internationally-Branded Luxury	2.17
Marketwide Five-Star Hotels (Shanghai)	1.00

Although the selected upscale boutique hotels are not under the internationally strong brand, average rate for the selected boutique hotels in Shanghai in 2013 was approximately 51% higher than marketwide five-star hotels' average rate, and slightly lower than the average rate of the large-scale internationally-branded upscale competitors. This strong rate positioning for the selected upscale boutique hotels in Shanghai is driven by:

- Unique design concept and theme that add value to an unexpected memory;
- Favourable neighbourhood that is convenient for the guests to experience a destination; and
- Luxury amenities.

Key Considerations for Successful Upscale Boutique Hotel Development

Given our case study for the selected boutique hotels in Shanghai, we have summarised the following key considerations for the successful boutique hotel development.

Location, Location, Location

The choice of the location and surrounding area is a crucial consideration for the successful boutique hotel development. The image of boutique hotel is definitely supported by the surrounding areas and location itself. The most of well-known boutique hotels in Shanghai are situated within the historical building or surrounded by the vibrant and well-known entertainment areas such as the Shanghai Bund and Xintiandi. The harmonisation with the location and neighbourhood enables a boutique hotel to create specialised experience for the guests.

Market's Maturity

As the hotel development and tourism industry matures, the market is likely to witness the growth of this niche segment. The various types of hotels are likely to be developed in mature destinations in order to satisfy the different needs of travellers.

As the upscale boutique hotels are much trendier than the typical upscale hotels, they generally target demand from lifestyle-related industries such as fashion and IT. Considering the typical target market of the upscale boutique hotels, the city's economic structure and openness, as well as well-developed tourism resources will support the success of the boutique hotel development. In addition, considering demand for the upscale boutique hotels are mainly driven by high-end Corporate and Leisure FITs, volume of these travellers are a crucial success factor for the boutique hotel development.

Distinguished Hardware

As guests for the upscale boutique hotels seek for the exclusive lodging experience, the concept and design of the hotel are key factors for the successful upscale boutique hotel development.

The distinguished concept and design creates the main characteristics of boutique hotels, uniqueness. The

emphasis on concept and design, driven by specialised decoration, furniture, lighting, amenities and collection of arts and antiques enable the boutique hotels to deliver unique experience to the guests.

Furthermore, the creation of the design and concept, which are harmonised with surrounding area, local culture and destination's history further enhance the guests' experience.

In addition to the design and concept, creation of unique facilities, such as famous Chef's restaurant, outdoor spaces with stunning views, high-end spa facilities and flexible meeting spaces for social gathering, further enhance the appeal of boutique hotels.

Emphasis on software

Upscale boutique hotels have a relatively high staff ratio per guestroom in order to deliver personalised service to the guests. The service provided by the upscale boutique hotels is not standardised, and is driven by customers' individual needs. The emphasis on service quality creates the friendly environment for the guests, which is considered to be one of key success factors for the upscale boutique hotels.

New Supply of Boutique Hotels-- Lifestyle Hotels

Although lifestyle hotel offers a less distinguished "boutique" experience due to their relatively larger scale and corporate standards, lifestyle hotel can take advantage of corporate's marketing machine to target specific demographics and customers.

In the short to medium term, Shanghai will witness the opening of numerous lifestyle hotels.

W Shanghai, THE BUND

Starwood's W Hotels is a successful lifestyle hotel in the market. W Hotels' combined traits of classic boutique hotel and their own unique identity. The W Shanghai, THE BUND, is expected to open in 2015, which can be considered a competitor to the existing only lifestyle hotel, Hotel Indigo Shanghai on the Bund. W Shanghai will have 600-guestrooms, all decorated in Shanghai style.

PROPOSED W HOTEL, THE BUND

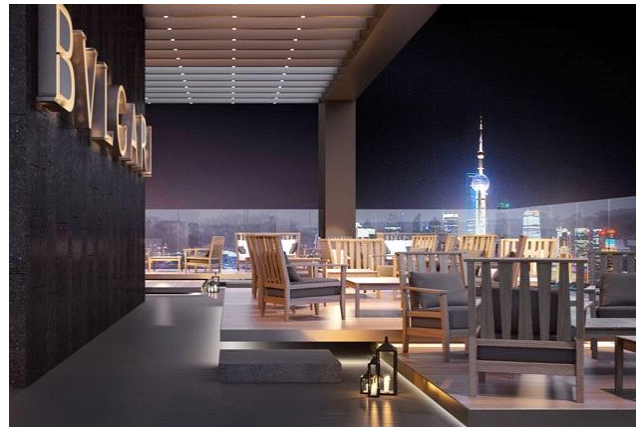


Source: Starwood Hotels

Bulgari and Bellagio Shanghai

Bulgari, a luxury hotel and jewelry brand, is scheduled to open in Shanghai in 2015. Bellagio is also expected to open a 200-guestroom luxury hotel in 2015 on the Shanghai Bund.

PROPOSED BVLGARI SHANGHAI



Source: Bulgari Hotels

Summary

Though it is difficult to pinpoint a definition of boutique hotel, some traits of boutique hotel are universally agreed. These include unique design, craving new experience to customers and situating in prime destinations.

With numerous boutique and lifestyle hotels opening in the near future, Shanghai is set to witness a transformation of its upscale hotel market.



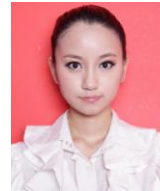
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About the Authors



Wenting Xu is an Analyst with HVS's Shanghai office, specialising in hotel valuation and consultancy. She joined HVS after completing her MS in Hospitality Management degree at Cal Poly Pomona, California.

Since then, she has provided market research, consulting and operator search services, and feasibility studies in Greater China.

Contact Details:
+86 21 5171 7001 Ext. 8015
WTeXu@hvs.com



Jonathan Jaw is an Associate with HVS's Shanghai office. He joined HVS after completing his MSc program in Real Estate Economics and Finance at London School of Economics. Having Real Estate Private

Equity experience with Morgan Stanley, Jonathan has conducted more than twenty feasibility studies, strategic advisories and other consultancy assignments.

Contact Details:
+86 21 5171 7001 Ext. 8013
JJaw@hvs.com



Wei See Tan, MRICS, MISM, Partner of HVS Shanghai, has over fifteen years of experience in the Asia Pacific real estate industry. Since then, Wei See has been spearheading feasibility studies, valuations, and advisory assignments for

major real estate developers and financial institutions in the Asia Pacific region.

Contact Details:
+86 21 5171 7001 Ext. 8003
WSTan@hvs.com