



# Lifestyle lodging products

Over the past several years, the millennial generation has increasingly impacted the lodging industry, calling into question products and offerings that have for decades been industry mainstays. Today's emerging traveler, millennials and millennial-minded travelers, is more cost-conscious and experience-focused than ever before, whether traveling for business or leisure. To meet these changing demand preferences, hoteliers are seeking innovative alternatives to traditional lodging products. Several of these products initially emerged in Europe and Asia, as highly fragmented markets, less stringent lodging standards and cultural preferences fostered innovation in lodging concepts. Now, in the US, these concepts are becoming increasingly attractive to hoteliers and investors seeking to capitalize on this changing demand base while increasing investment returns.

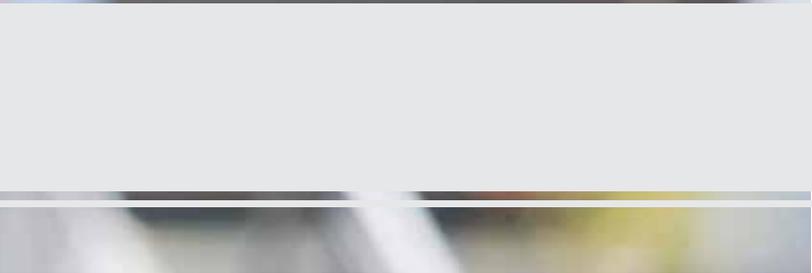
Historically, the European alternative lodging industry has largely catered to students and backpackers, offering no-frills accommodations and communal spaces that provided cost savings and enhanced social atmospheres. As these new products and experiences began to evolve over the last several years, affordability and a focus on social experiences were maintained.

Substantially aligned with the desires of millennials and millennial-minded travelers, these low-cost, amenity-rich hostel, lifestyle budget hotel and hostel/hotel combination concepts are now becoming viable in major US and Asian markets, such as New York, Los Angeles, Miami, Singapore and Tokyo, where traditional hotel rates are prohibitively expensive, as well as markets such as Detroit, New Orleans, Nashville and Portland, where unique atmospheres, architecture and cultural elements draw greater demand. With a focus on limited service with added conveniences, these products are able to decrease costs by removing unnecessary and high-cost elements, such as large guestrooms with full furniture sets, full-service restaurants, room service and daily housekeeping. It replaced them with more practical alternatives,

such as smaller rooms, grab-and-go food and beverage outlets, daily housekeeping to hotel rooms but not to hostel rooms, free bicycles, free Wi-Fi and iPad usage and pay-as-you-go amenities such as air conditioning, towels, toiletries and high-quality in-room coffee machines.

These new products and concepts often emphasize common areas, lounges and bars as the focal point of the property and invite guests to spend more time congregating in revenue-generating areas of the hotel, in turn maximizing revenue per occupied room (RevPOR) spent. Communal spaces are often intended to be inviting to guests by seamlessly blending with the lobby, while their concepts and designs focus on attracting local demand.

As the demand for experience-based lodging has increased, a specialized lodging concept that has gained popularity over the last several years in the US, Europe and Asia is lifestyle membership clubs. More similar to a traditional day club than a hotel, these concepts offer members-only facilities, such as meeting and event spaces, food and beverage outlets, nightclubs, pools, and spas, and they include boutique hotel components that leverage the club's



membership base as a primary demand generator. With a focus on providing social interaction and workspaces for like-minded individuals, often in niche industries such as fashion, fitness, arts and cinema, these concepts aim to produce a creative and local experience.

Membership clubs often feature programs and events with culinary, academic and wellness elements, appealing to a broad array of non-member hotel guests. With multiple components, lifestyle membership clubs benefit from diversified revenue streams, including annuities from membership fees and guest fees, and have greater flexibility to use lower-cost, nontraditional spaces, sometimes with locations across various venues throughout a city. Although these club concepts initially originated in major cities with significant artistic influences, such as New York and London, similar concepts have emerged in cities with expanding creative scenes, such as Berlin, Budapest, Nashville and Shanghai.

As development costs and land prices in metropolitan cities continue to soar, alternative lodging concepts have presented developers with unique opportunities to reduce costs while maintaining the ability to generate strong demand. With shorter development periods, smaller rooms and the ability to use nontraditional spaces, these concepts can have lower development costs than traditional full-service hotels.

Additionally, through efficient uses of space, lower operating costs and management terms that are both less expensive and more flexible than traditional chain management agreements, these products can have higher operating margins than traditional full-service properties. As a result, many of these alternative lodging products have penetrated some of the most expensive and highly trafficked neighborhoods in the world, including Times Square in New York and South Beach in Miami. However, as these products typically emphasize design as a component of the hotel's experience, hoteliers must ensure that soft costs and furniture, fixtures and equipment expenses are appropriately managed.

Despite their growing popularity, many investors and lenders consider alternative lodging products as appealing only to a specialized consumer whose preferences will ultimately change with trends. As demand for new lodging products and experiences continues to grow, hoteliers will need to balance satisfying this demand with investments in traditional products.