

Global Hospitality Insights

A publication for
the hospitality industry

Following the lifestyle trend

Introduction

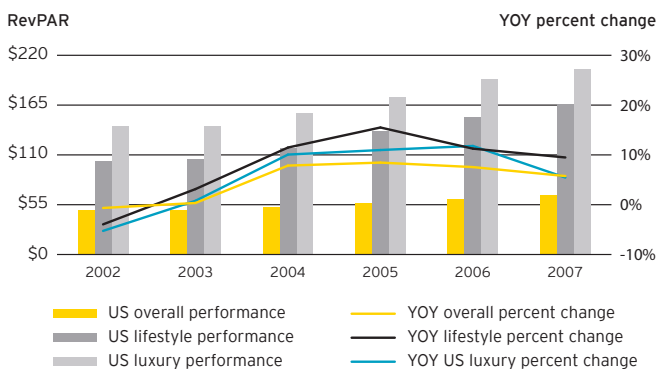
In today's competitive landscape, hotel companies are striving to distinguish themselves while satisfying ever-expanding consumer needs and desires. "Lifestyle" hotels are emerging across the globe in every size, style, segment and market. No longer are lifestyle or boutique hotels reserved primarily for the hip and trendy urbanite. Primary, secondary and even tertiary markets are being targeted by developers in the US and, increasingly, around the world as lifestyle hotels graduate from the exception to the norm. Partnerships are forming in every imaginable combination, such as those between notable designers, car manufacturers, investment groups and established hotel companies.

This segment of the market has particular challenges. Consumers' tastes are becoming increasingly sophisticated and diversified; brands must keep up with cutting-edge technology while being environmentally responsible; new lifestyle brands face the challenge of appealing to a wide, international audience yet differentiating themselves. Service is considered the fundamental foundation for any operator, and fusion of indigenous service, design, culture, food, entertainment and even religion into lifestyle hotels has emerged as a central trend in the segment. The competitive landscape of this sector is becoming more intensified as large, well-established hotel companies debut lifestyle brands and compete with specialized operators focused solely on the lifestyle segment. The following articles explore the key trends for lifestyle hotels around the world as the segment becomes further defined.

Key points

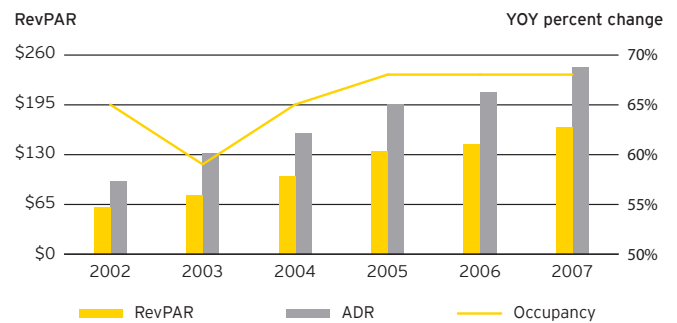
- ▶ The lifestyle hotel concept is expanding into emerging and other markets across the globe, including secondary markets, as people increasingly search for new and different lodging alternatives.
- ▶ A growing trend in the lifestyle segment is the partnership of high-fashion brands and hotel brands, as well as the emergence of select-service lifestyle brands.
- ▶ Lifestyle hotels have begun to integrate regional and cultural attributes into their core concepts to further differentiate themselves.
- ▶ Lifestyle hotels are also increasing their focus on sustainability and "green" initiatives.
- ▶ There is a marked expansion of lifestyle brands through both retail developments and residences, as well as through the establishment of lifestyle spa resorts in sun-and-sand destinations.

US lodging overall, lifestyle and luxury lodging RevPAR performance (US\$)*



US Lifestyle Hotels achieved a RevPAR CAGR of approximately 10% in 2002 through 2007, higher than both US Overall CAGR of 6% and Luxury CAGR of 8% during the same period.

Worldwide lifestyle hotel performance (US\$)*



Lifestyle Hotel achieved a RevPAR CAGR of 22% in 2002 through 2007, driven primarily by ADR growth. In comparison, Overall Hotel RevPAR achieved a CAGR of approximately 10% during the same period.

* Lifestyle hotels defined by Smith travel Research represents hotels that appeal to guests because of their unusual amenity and room configuration. They are normally independent and smaller than 200 rooms with a high rack rate.

Source: Smith Travel Research

Note: Worldwide data does not include US data.

Contents

United States	1
Asia	3
Europe	4
Latin America	5
Middle East	6
Oceania	7
India	8
Russia	9

The lifestyle or boutique hotel has emerged in response to the changes in consumer tastes, trends and behavior.

United States

In today's world, choice and personalization dominate. As consumers continue to seek products and services that reflect their individuality, companies across all industries are taking notice, including those in the hospitality industry.

A young segment of the industry

The marketplace is now characterized by the customization of products and services. The US hospitality industry has followed this evolution with ever-changing lodging products and segments, particularly throughout the last two decades. An industry historically based on standardization and known for similar, traditional hotel rooms has evolved into a vehicle through which designers, developers and consumers alike can make a personal statement. What has resulted is an industry that now exhibits distinctive designs, amenities and innovations.

The lifestyle or boutique hotel has emerged in response to the changes in consumer tastes, trends and behavior. Lifestyle hotels are assumed to have been conceived in the early 1980s with Ian Schrager's Morgans

Hotel in New York City and Anouska Hempel's Blakes Hotel in London, as well as several of the Kimpton hotels in San Francisco. These hotels were often developed and operated by individual owners rather than large hotel corporations. Since that time, the number of lifestyle hotels in the US has grown to more than 400 properties, according to Smith Travel Research, many of which are now part of lifestyle hotel brands. These hotels are distinguished by modern and fashionable design, stylish architecture, exotic cuisine and personalized service. Accordingly, they have historically been developed in or near prime fashion, entertainment and financial centers in US cities such as Los Angeles, New York and Miami.

Creative branding

Though the target market for lifestyle hotels was once trendy, 20-something urbanites, the demographics have evolved to include a broader age range of travelers in their 20s to mid-50s in the middle- to upper-income brackets. Smaller brands like Kor's Viceroy and Tides, Thompson Hotels, James Hotels, Kimpton's Hotel Monaco and Hotel Palomar, Starwood Capital's "1" and Andre Balaz's The Standard hotels are taking full advantage of the expanded consumer base. Furthermore, as many of today's travelers demand personalized service in unique settings, even the more traditional hotel companies are introducing lifestyle segments, beginning with Starwood's W in the 1990's and, more



The lifestyle niche has become an established subcategory among the upper upscale and luxury segments and is making headway into the select-service segment.

recently, Hyatt's Andaz and Marriott's Edition. To remain competitive, they are also implementing design enhancements to existing hotels, such as recently announced upgrades to the next generation of Courtyard by Marriott. Additionally, luxury retail brands, including Bulgari, Missoni and Armani, have recently begun to expand their brand power and customer base by entering the lifestyle hotel sector. This branding of lifestyle hotels, some argue, has gone against the intended purpose of a lifestyle hotel – uniqueness and individuality.

Lifestyle hotel brands circumvent the usually long and costly process required to establish name recognition and consumer trust by focusing on the individuality of the properties and engaging their customers through unique design and service. The lifestyle niche has become an established subcategory among the upper upscale and luxury segments and is making headway into the select-service segment with brands such as Hyatt Place, Aloft by Starwood and Hotel Indigo by Intercontinental, all of which aspire to be performance leaders within their respective segments.

Global expansion

Lifestyle hotels have traditionally been successful in mature metropolitan hotel markets where competition among brands is strong and lifestyle products serve as an alternative to standard hotel

accommodations. As US lifestyle brands and hotel companies gain name recognition and financial success domestically, many are seeking opportunities for global expansion.

Expectations for growth are high in emerging markets where the demand base is composed of affluent individuals seeking the latest in technology, innovation, products and experiences. Markets throughout Asia and the Middle East are among key areas of expansion, with several lifestyle properties currently under construction. European countries such as Italy and the United Kingdom also present attractive markets for US and other global lifestyle hotel companies. Still other destinations are being sought for the allure of seclusion and exclusivity, with a number of lifestyle resorts planned throughout Latin America and the Caribbean. Additional emerging markets, such as Russia, are expected to surface soon as areas of interest.

Staying ahead of the curve

Today, the top companies in all industries are those that leverage innovation on multiple platforms to create strong brand identities offering choice and empowering customers. These companies are not only at the forefront of the trends occurring throughout the world but are also starting new trends. The lifestyle hotel sector is no exception.

Recent trends in the lifestyle segment indicate a continued focus on the seamless integration of modern technology into the guestroom and the extension of the lifestyle brand through retail programs that allow guests to replicate their hotel experience at home. One of the key challenges for this sector, however, is that trends change. Therefore, flexibility in programming and design is anticipated to play an increasingly important role in the development of lifestyle hotels.

Outlook

In today's technology-savvy society, a brand strategy that is in tune with consumer tastes, has mass appeal and is highly customizable appears to hold the greatest potential to generate interest with customers, developers and hotel companies. As this segment continues its expansion, the opportunities for lifestyle hotels appear to be limitless.

Asia

Asia has historically been recognized for its unique and exotic accommodations. Today, the region is in a position to accelerate the global growth of the lifestyle hotel segment. One of the factors that makes Asia unique is that it is not only home to a diversity of cultures, but it is also the center of some of the most established and fastest-growing economies in the world. From the well-known urban markets of Tokyo and Hong Kong to the emerging markets of China and Southeast Asia, the lifestyle hotel concept is well positioned to exploit the advantages of each of these growing markets.

Significant influence

A primary factor that has made lifestyle hotels successful is their ability to provide unique experiences. Although the region does not currently have a high concentration of such hotels, one could conclude that the hotels in Asia have already had a significant influence on the concept. Whether it's Chinese design elements, the integrated spas of Bali, legendary Thai service and hospitality or the integration of technology as found in Japanese hotels, Asia has contributed a great deal to the attributes of today's lifestyle hotels. The region has also benefited from a unique set of local lifestyle hotel operators, including Mandarin Oriental, Aman, Banyan Tree, Shangri La, Peninsula Hotels and General Hotel Management, who have introduced these themes of design, service and technology throughout the region and around the world.

One of the challenges facing lifestyle hotels in Asia, particularly in urban markets, is the overall depth of existing product offerings. With lifestyle hotels typically servicing a narrower segment of demand, hotel companies have historically focused

on developing their traditional three-, four- and five-star brands before introducing a lifestyle concept to the market. In addition, many of the established and emerging urban areas such as Tokyo, Hong Kong, Shanghai and Singapore represent some of the most expensive markets in the world in which to develop commercial real estate. The lifestyle concept must also compete with the increasing trend of mixed-use development projects, which relies on the market awareness and status of a hotel brand in order to maximize the sales prices of residential units.

Outlook

Despite market fluctuations in other parts of the world, many countries in Asia continue to experience positive economic conditions and are anticipated to achieve significant long-term growth. This will likely have a favorable impact on both domestic and outbound lodging demand, including demand for lifestyle hotels. As local lifestyle hotel operators continue to expand and other lifestyle operators enter, Asia should continue to benefit from a growth in critical mass of lifestyle hotels. In addition, due to its influence on the entire concept, the region is also uniquely positioned to benefit from the increased awareness of it that is being generated in other parts of the world.



Europe

Current status of lifestyle hotels

The concept of lifestyle hotels is not new to central and western Europe; however, such properties are primarily concentrated in the UK and Italy, the latter being the center of the European fashion industry. These hotels are often described as unique, exclusive or luxurious, but are generally of modest size and independently managed and, therefore, have relatively low profiles. Compared to the US and Australia, where lifestyle developments in resorts are popular, the trend in Europe has focused on boutique hotels in urban areas. Of these, the most successful have been collaborations between established hotel groups or investors and well-known consumer brands.

An example of this is the Hotel Fox in Copenhagen, an imaginative, cross-branding effort between the Danish Brøchner-Mortensen family and the German Volkswagen group, developed for the launch of Volkswagen's Fox mini car in 2005. The Danish hotel group had 21 artists decorate each of its 61 rooms, with the objective of developing a trendsetting, icon-targeting lifestyle. In line with the Volkswagen philosophy, the hotel offers relatively inexpensive rooms to attract a younger, bohemian clientele.

Around Europe, other lifestyle hotels that have opened focus on well-known consumer brands. In 2004, the Italian jeweler and luxury goods retailer Bulgari, in a joint venture with Ritz-Carlton, opened a 58-room hotel in Milan to target the retailer's affluent customers. In early 2008, a 110-room lifestyle hotel with a Beatles theme, the Hard Days Night Hotel, opened in Liverpool, in time for the city's European City of Culture stint. The hotel's target market is the high-spending fans of The Beatles.

Recent development

While the majority of lifestyle hotels are considered luxury properties and are located in larger cities, the concept is becoming more mainstream as new developments occur across Europe. Such hotels are now appearing more frequently in secondary markets that offer a cultural or geographical backdrop with an air of exclusivity.

Other 2008 openings include: in Norway, The Other Side in Neiden and Grims Grenka in Oslo; in Germany, Roomers in Frankfurt; in Switzerland, Hotel Alex in Zermatt and Nevai in Verbier; in Belgium, the Carbon Hotel in Genk; in the UK, the Vincent in Southport and ABode in Manchester and in France, Le Couvent d'Hérépian in Languedoc-Roussillon.

Lifestyle performance

The performance of lifestyle hotels in Europe has been mostly on par with or slightly

above that of the general hotel market. As the proliferation of lifestyle hotels increases, however, the more significant competition in the sector may impact performance. Going forward, the lifestyle hotel sector's performance is likely to be more in line with that of the higher-end hotel market.

Outlook

More new hotel groups are expected to specialize in the lifestyle sector to take advantage of global travelers' increased interest in unique travel experiences. Joint ventures between traditional hotel groups and designer companies are also anticipated to continue. In the near term, developers and operators are expected to continue targeting urban financial and fashion centers in Europe including Milan, London, Madrid and Berlin.

The lifestyle hotel sector is, by its nature, innovative and dynamic, keeping pace with the latest trends and often at the forefront in creating new ones. For this reason, the sector and its subcategories are expected to continue to expand and diversify throughout Europe.

Lifestyle hotels in the Caribbean and Latin America are growing at a much slower pace than in the United States and Europe.

Latin America/Caribbean

Lifestyle hotels in the Caribbean and Latin America are growing at a much slower pace than in the US and Europe, two markets that are considerably more mature and have more established lodging infrastructure. By their nature, these hotels cater to a relatively narrow segment – those seeking unique experiences among a destination's lodging options – and, for this reason, they are more prevalent in destinations with more alternatives and greater maturity. Lifestyle lodging trends are usually represented by luxury offerings, attracting individuals with high levels of disposable income willing to spend more for unique design and non-standard experiences. Recent trends in this hospitality class in Latin America and the Caribbean are, however, evolving from hotels catering exclusively to preferences around specific lifestyle options (e.g., those offering spa retreat or nature-oriented experiences) to the broader appeal of design-driven environments. Hence, the focus on modern architecture and the associated lifestyle has resulted in lifestyle hotels being developed in major urban centers – São Paulo,

Mexico City, Buenos Aires and Panama City – and some luxury island destinations in the Caribbean.

Opportunity for growth

One of the region's challenges – and a potential opportunity for growth – is that there are no established local lifestyle hotel companies. Presently, there is a lack of scalability and speed to market, which results in most hotels being built and managed by independents. In addition, the absence of multiple properties within a market substantially reduces the efficiency and leverage typically obtained through economies of scale from sister hotels under common management, potentially resulting in lower margins for lifestyle hotels. Their lack of experience operating in global markets also creates a challenge for lifestyle hotels in the region to accelerate plans for growth. Though larger international operators have expressed plans to aggressively embrace the lifestyle hotel niche, Latin America and the Caribbean are not expected to be the primary focal point around these expansion strategies. The region still offers far greater opportunities in the select service and midscale segments, in addition to luxury mixed-use developments, to receive meaningful attention from the lifestyle players.

Escalating construction costs and the prospects of catering to a retiring baby-boomer generation have also resulted in resorts in the Caribbean and Latin America being developed as mixed-use projects featuring a substantial residential component anchored by a hotel. This trend has made it increasingly challenging for lifestyle hotels to compete in the leisure arena, where their lack of significant brand equity and market awareness makes it more difficult to create a value proposition around the sale of residential products and thus makes them less appealing to developers. These drawbacks are also being felt by more established lifestyle brands, which are seeing

greater competition from traditional luxury operators attempting to replicate lifestyle elements into their core concepts in such destinations as Turks and Caicos.

Nevertheless, certain markets are demonstrating strong economic fundamentals and political stability and are expected to experience significant GDP growth in the mid-term. Destinations like Panama City, which traditionally had poor lodging performance, are now enjoying double-digit average rate increases and significant occupancy growth, resulting in a surge in supply across all lodging segments. As destinations like these continue to mature and rise in popularity, there will be greater opportunities to further segment the market, and lifestyle hotels are likely to emerge. There is already proof that lifestyle hotels can work in select mature, urban markets in Latin America, as exemplified by Fasano and Unique in São Paulo, Habita in Mexico City and Design Suites in Buenos Aires, in addition to select Caribbean island destinations such as St. John, US Virgin Islands, featuring Rosewood's Caneel Bay.

Outlook

Despite the existing challenges, it seems likely that demand for lifestyle hotels will grow in the Caribbean and Latin American markets in the next three to four years, with attractive opportunities for offerings in established urban metropolitan areas and resort destinations catering to affluent international demand.

With the increasing number of new lifestyle hotels opening there, the incorporation of Islamic culture into various facets of hotel design, operation and service is an emerging trend in the Mideast.

Middle East

Until recently, the lifestyle hotel segment had been virtually nonexistent in the Middle East. However, recent economic growth, rising oil prices and the subsequent increased purchasing power have fueled demand for luxury lifestyle hotel and residential products in the area, particularly those hotel products with strong brand awareness. As a result, a number of well-known designer brands, international hotel operators and even local start-ups have begun to enter the market.

Paving the road

The fashion house Missoni is paving the road for lifestyle hotels in the Middle East with the development of the first Hotel Missoni in Kuwait, anticipated to open during the third quarter of 2008, and a second property scheduled to open at the end of 2008 in Dubai's Palm Jumeirah. Dubai will also be home to the first of the Armani Hotels and Resorts, a new luxury lifestyle brand that will be operated by EMAAR Hotel & Resorts LLC. Armani's signature property will be part of the Burj, Dubai, the tallest building in the world, expected to open in June 2009. In addition to Armani, the fashion empire Versace is developing the Palazzo Versace Hotel and Condominium Dubai, which will introduce the concept of condominium-hotels to the region. Apart from fashion houses, established hotel operators have begun to introduce their lifestyle brands to the Middle East as well. Starwood plans to open four W Hotels in the region, including two in Dubai (Palm Jumeirah and Festival City), one in Doha and one relatively close by, in Marrakech. Similarly, The Rocco Forte Collection is entering the region with properties planned in Abu Dhabi and Marrakech. And other well-known lifestyle brands are also expected to announce planned additions in and near the Middle East soon.

With the increasing number of new lifestyle hotels opening there, the incorporation of Islamic culture into various facets of hotel design, operation and service is an emerging trend in the Mideast. In cooperation with Guidance Financial Group, Kempinski Hotels launched the lifestyle brand Shaza Hotels in 2006, catering to regional and international travelers seeking greater cultural authenticity from their lodging experience. As an example, Shaza Hotels honors Islamic traditions and religion by showcasing Islamic art and by not serving alcohol in its hotels. Other groups are recognizing this demand and replicating the concept.

In addition, the Luthan Hotel & Spa, a lifestyle hotel catering exclusively to female travelers, opened in early 2008 in Riyadh. Because women in Saudi Arabia could not stay in hotels or book rooms without being accompanied by their male guardians prior to 2008, this has been seen as a significant step forward. As in other parts of the world, lodging products that are more sensitive to the environment (through such elements as alternative energy sources and sustainable architecture) are becoming increasingly popular with travelers to the Mideast, and several such hotels are opening throughout the area. The new lifestyle brand Shaza, for example, demonstrates environmental responsibility by confirming that its developments are certified to Leadership in Energy and Environmental Design (LEED) standards.

Outlook

These developments and trends represent only a fraction of the niche products now taking advantage of the unprecedented growth in the Middle East. Given strong underlying supply and demand fundamentals for the region, additional growth in the lifestyle hotel sector is anticipated for the future.



Oceania

In Oceania (Australia, New Zealand and Fiji), hotel properties have generally centered around a particular theme. For example, hotels located in Fiji were touted as exclusive beach resorts while, in New Zealand, hotels were positioned as country lodges, such as the North Island's Huka Lodge, which commands one of the highest rates in the region. More differentiated lodging options were historically developed in resort destinations, such as Dunk Island in the Great Barrier Reef and Cradle Mountain in Tasmania, both in Australia.

Distinctive features

The number of lifestyle hotels in Oceania has been growing, however, in response to consumer demand for more distinctive accommodation options. The appeal of these properties stems from several factors, including the hotel brand, the services offered, the type of rooms available and even the design and appearance of the building itself. As a result, many Oceania lifestyle properties have succeeded because of their differentiated and unusual product offerings, such as utilization of the latest technology or unique designs and locations.

One notable trend in lifestyle hotels in Oceania has been the development of

well-known consumer-branded hotels, most notably on the Gold Coast in Queensland, Australia, where the world's first Versace hotel opened in 2000. Australia-based Sunland Group Limited, in partnership with Gianni Versace SpA and Emirates International Holdings, is now developing a second Palazzo Versace property, in Dubai, as part of a global expansion to 15 hotels.

Urban development

Other recent trends include the development of lifestyle hotels in large urban centers and the conversion of historic buildings into boutique hotels. The concept of luxury lifestyle properties, such as Eight Hotels Australia's group of luxury boutique hotels, is well known in metropolitan Sydney and Melbourne; however, the concept has recently made its way to secondary markets such as Canberra and Brisbane due to the success of the segment. In terms of historic conversions, the Hatherley House in Tasmania, built in 1823, was recently transformed into a nine-suite luxury boutique hotel.

While established lifestyle hotel operators have been successful, entry into the segment in Oceania can be a challenge because of increasingly high barriers to entry. Land prices continue to rise, and new entrants to the market may be unable to secure financing for acquisitions of prime locations for hotel development. Meanwhile, operating costs remain high for luxury accommodations

in Australia, with wages typically running at 30% of total annual costs. Continued increases in wages, due particularly to the shortage of skilled labor in the region, are anticipated as lifestyle hotels expand and continue to focus on more personalized and unique service offerings.

Outlook

While positive macroeconomic conditions result in a short- to medium-term positive outlook for the lodging industry in Oceania, long-term sustainability in the lifestyle sector requires both a healthy domestic and international following. Demand for domestic travel remains strong, but the strength of the Australian dollar may diminish the attractiveness of Australia as a holiday destination for the overseas traveler.

India

India's hotel industry is at a key stage of development, expanding due to buoyant economic growth, increased lodging demand, changing lifestyles and the gradual emergence of a more discerning traveler. All of these factors are now defining the marketplace. To capitalize on the opportunities, international players are entering the market, and as many as 40 internationally known hotel brands are expected to be represented in India by 2011.¹ In the meantime, domestic players continue to expand their operations.

The industry's rapid growth has led to new concepts, innovative business models and specialization throughout the market. With the competitive pressures resulting from the increased number of brands in the premium lodging segment, as well as the rising global exposure and expectation levels of guests, the concept of lifestyle hotels is slowly gaining momentum.

Diverse concepts

There is already a degree of diversity in the concept of lifestyle hotels in India. The country offers several contemporary lifestyle options for travelers, apart from the typical urban versus resort and business versus leisure lodging choices. For example, The Park Hotels recently completed a major refurbishment of its existing hotels to competitively reposition itself by offering contemporary, city-center boutique hotels for the urban business traveler. Armani Hotels, in conjunction with Emaar MGF, is also expected to join the Indian market with a contemporary lifestyle offering.

The lifestyle concept has entered India's resort segment as well, with luxury lifestyle

resorts centered on guests who seek the balance of mind, body and soul. For example, India's Oberoi Hotels and Resorts offer a distinctly luxurious experience with superior service and attention to detail. The Oberoi Udaivilas, Udaipur; Oberoi Amarvilas, Agra; and Oberoi Rajvilas, Jaipur; have each fused traditional Indian royal architecture, designs and hospitality with new structures and modern facilities to provide guests with unique experiences. This sense of a "royal lifestyle" is also apparent in India's numerous heritage properties, which are actual palaces and historical structures converted into hotels. Given the rich culture and diversity of India's ancient civilization, their qualities are relatively unique.

Another key lifestyle concept in the leisure segment, though not as widespread, is that of destination spas, such as the Ananda in the Himalayas, which has been rated the World's #1 Spa by Condé Nast magazine (Condé Nast Readers' Spa Awards 2005, 2006 and 2007).² Apart from targeting a lifestyle of health and well-being, the spa integrates the traditional Indian healthcare system of Ayurveda with more contemporary western spa concepts.

Outlook

As the Indian market continues its expansion, lodging companies will likely adopt new concepts, while existing concepts will be expanded in an attempt to further segment the customer base and capture those segments that have, up to now, just begun to be tapped. The development of lifestyle hotels is expected to be targeted to larger cities such as New Delhi, Bangalore and Mumbai, as well as resort locations such as Goa and Jaipur. The ever-increasing number of boutique hotels and the diversity of themes available appear to be a clear indication that travelers in India are ready for the new experiences that lifestyle hotels provide.

The development of lifestyle hotels is expected to be targeted to larger cities such as New Delhi, Bangalore and Mumbai, as well as resort locations such as Goa and Jaipur.

¹ *Economic Times* supplement on HICSA 2008 (Hotel Investment Conference South Asia organized by HVS Hospitality Services)

² Source: www.anandaspa.com



Russia

The Russian hotel market, while still in its infancy, is developing rapidly in an effort to close the gap between the requirements of international lodging standards and the realities of its communist-era hotels. Those hotels, which were designed with little consumer focus, comprise much of the current lodging supply. Moscow, the region's most developed hotel market, has 7,000 to 8,000 hotel rooms considered to be up to international standards – of a total of 48,000 rooms in Russia overall. At this early stage in the country's lodging market development, new trends such as lifestyle branding are almost nonexistent.

New Additions

In Russia, recent lifestyle additions to the global lodging supply, such as InterContinental's Indigo, Starwood's Aloft and the Rezidor's Missoni Hotels, are known chiefly to hotel experts, Russians living abroad and frequent travelers. The Rocco Forte Hotel Astoria, located in the heart of St. Petersburg, is the only lifestyle hotel in Russia; however, it will soon to be joined by the first W Hotel in Eastern Europe, scheduled to open in the spring of 2009, also in St. Petersburg.

New Demand

Despite the narrow pipeline, demand for unique, personalized lodging services appears to be increasing in this emerging market. In particular, affluent Russians, who have been accustomed to stringent restrictions in lodging choices, are especially receptive to new experiences in their homes, social lives, fashions, travel and lodging. Lifestyle hotel products in this market could therefore serve as an alternative, not only to the standardized hotel rooms of the West, but also to the more modest accommodations of communist times, making this new lodging segment a welcome addition. Collaborations between internationally known hotel companies and fashion houses have also produced lifestyle hotel brands targeted to affluent consumers, which would seem well suited to cities such as Moscow and St. Petersburg.

The lifestyle niche is now wide open in Russia. Large cities like Moscow and St. Petersburg are particularly well positioned to attract lifestyle products since they draw the wealthiest of the country's international visitors and domestic travelers. The oil towns of Siberia, fueled by petrodollars and the residents' passion for luxury, may follow suit at a later stage.

Outlook

Russia has traditionally relied upon western nations for new ideas and trends. Looking ahead, the hotel brands, lifestyle and

otherwise, that succeed in establishing their presence and capturing travelers' loyalty will join the cadre of top performers in the market who have enjoyed double-digit RevPAR growth for the past seven years in a row.

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EYG No. DF0043

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Contacts

Asia

Ryo Kuwasaki
+813 3595 8414
ryo.kuwasaki@jp.ey.com

Australia/Asia-Pacific

Alison de Groot
+617 3011 3437
alisondegroot@au.ey.com

Caribbean

Mark Lunt
+1 305 415 1673
mark.lunt@ey.com

Europe

Christiane Fiack
+49 6196 996 26347
christiane.fiack@de.ey.com

India

Mona Chhabra
+91 11 4159 4169
mona.chhabra@in.ey.com

Latin America

Rogério Basso
+1 305 415 1321
rogerio.basso@ey.com

Middle East

Mohammed Dahmash
+971 4 332 9276
mohammed.dahmash@ae.ey.com

North America

Michael Fishbin
+1 212 773 4906
michael.fishbin@ey.com

Dan Lasik

+1.703.747.1287
dan.lasik@ey.com

Russia

Gerald Gaige
+7 495 755 9681
gerald.gaige@ru.ey.com