Greater China Research

CUSHMAN & WAKEFIELD
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HOTELS

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Checking out boutique neighbourhood hotels in mainland China

HOTELS

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EXECUTIVE SUMMARY

Since the start of 2023, people's willingness to travel for leisure in mainland China has grown stronger, while after the Chinese New Year festival period business travel volume picked up rapidly. Both these factors have contributed to a rebound in performance in the general hotel market in mainland China.

According to the latest data released by the National Bureau of Statistics (China) and the China Tourism Academy, as of the first half of this year, the total number of domestic tourists reached 2.384 billion. This was an increase of 929 million when compared to the same period last year and represents an annual growth of nearly 64%.

Looking at hotel market business performance, in the second quarter of 2023, the average room rate for mainland China's all-star hotels already surpassed the market business performance seen during the pre-pandemic period, reaching RMB 373.79 per night.

When considering boutique neighbourhood hotels in particular, collectively, these hotels are unique, intimate, small-inventory-carrying and design, history and/or culture-inspired community-focused hotels. Level positioning is often a lesser consideration for boutique neighbourhood hotels as they concentrate on authenticity and the personalisation of the stay experience and service. Additionally, these hotels further focus on the appeal of beautiful experiences and related factors, including but not limited to the surrounding local nature and environment, the local food, the local history, the local culture and the local art.

One important feature of a boutique neighbourhood hotel is uniqueness. Often, this is achieved through style, practicality and attention to detail. The style needs to tell the story of the hotel and make it one of a kind.

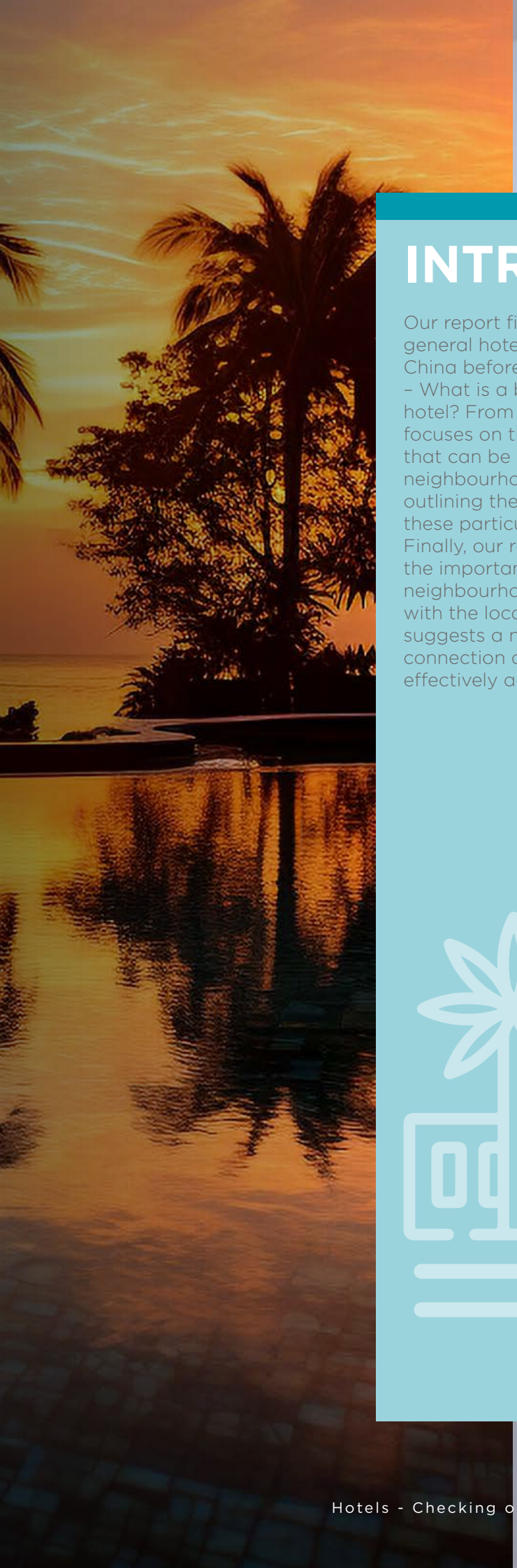
To begin with, good boutique neighbourhood hotel design needs to tell a story. Colour, materials and even a central theme related to a factor or factors, such as location, local culture, hotel history, etc., should be incorporated throughout the entire hotel to furnish the hotel with a seamless and consistent look that goes a long way in fabricating a well-defined theme.

Boutique neighbourhood hotels in mainland China continually need to understand their guests and their characteristics and wants and needs. Guest profiles are ever-changing in mainland China, and in this report, we have highlighted nine types of guests that boutique neighbourhood hotels in mainland China need to be aware of.

Additionally, for a boutique neighbourhood hotel to remain true to its name, it is essential to form a strong relationship with the local community. The benefits of local community engagement are many, including more robust business sustainability for the hotel and community, heightened corporate social responsibility, augmented environmental sustainability and cost reduction. For example, sourcing locally reduces fuel consumption and air pollution. Ways of engaging are many as well and a few examples of how to connect are:

- Employing locally;
- Utilising local products;
- Organising local tours;
- Showcasing local crafts;
- Highlighting local culture, and;
- Championing local entertainment.

Finally, boutique neighbourhood hotels are a fairly new concept but given a greater emphasis on the overall stay experience by a cross-section of hotel guests in mainland China, this type of hotel is expected to be increasingly favoured for both leisure and business stay accommodation in the future.



INTRODUCTION

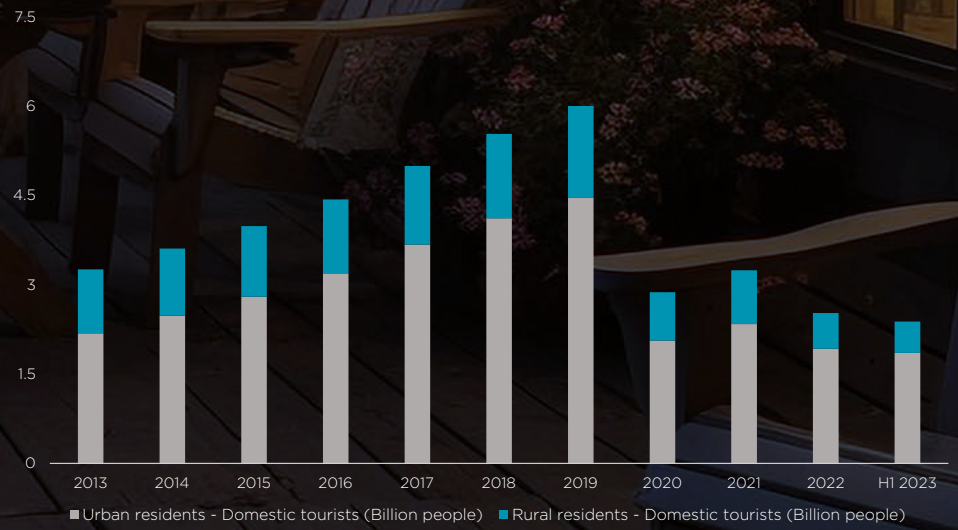
Our report firstly takes a look at the general hotel market in mainland China before answering the question – What is a boutique neighbourhood hotel? From there, our report then focuses on the design elements that can be included in boutique neighbourhood hotels as well as outlining the type of guests that these particular hotels cater to. Finally, our report emphasises the importance of boutique neighbourhood hotels' engagement with the local community and suggests a number of ways this connection and involvement can be effectively achieved.

THE GENERAL HOTEL MARKET

Since the start of 2023, people's willingness to travel for leisure in mainland China has grown stronger, while after the Chinese New Year festival period business travel volume picked up rapidly. Both these factors have contributed to a rebound in performance in the general hotel market in mainland China.

According to the latest data released by the National Bureau of Statistics (China) and the China Tourism Academy, as of the first half of this year, the total number of domestic tourists reached 2.384 billion. This was an increase of 929 million when compared to the same period last year and represents an annual growth of nearly 64%. Amongst this group of people, approximately 1.859 billion visits were undertaken by urban residents, and approximately 525 million visits were undertaken by rural residents, showing year-on-year (y-o-y) increases of 70% and 44%, respectively (Figure 1).

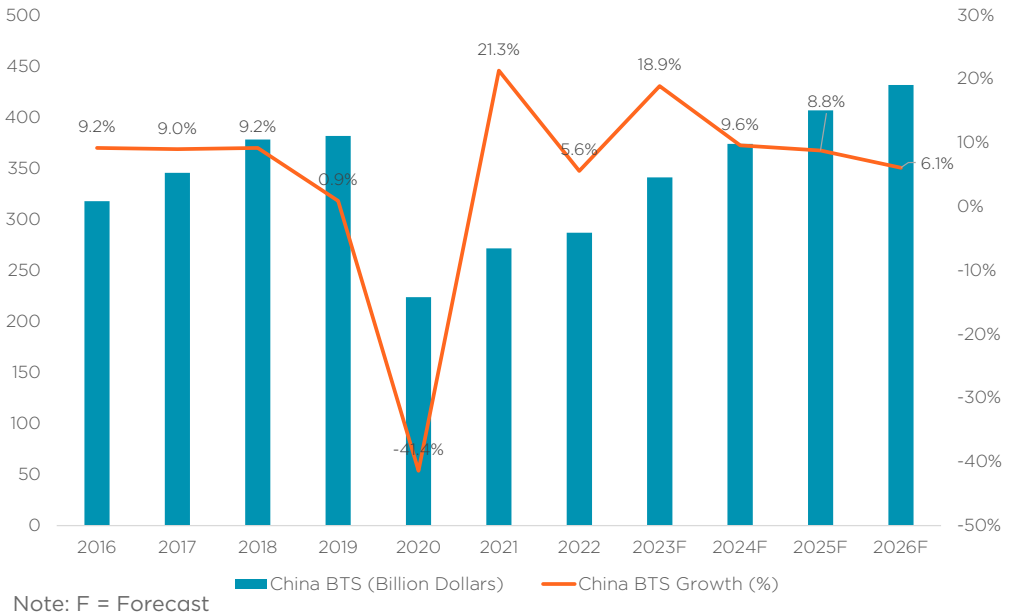
Figure 1: Mainland China domestic tourism (2013-H1 2023)



Source: The National Bureau of Statistics (China), China Tourism Academy (Data Centre of the Ministry of Culture and Tourism), Cushman & Wakefield Research

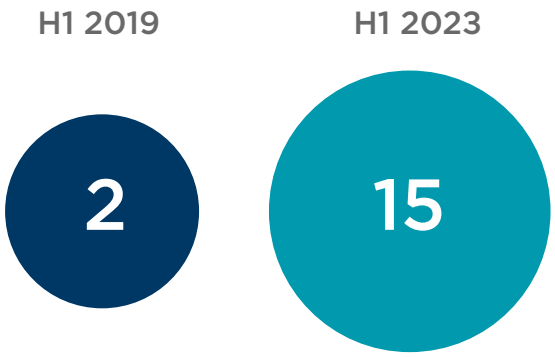
As for business travel, along with the comprehensive relaxation of travel policies in 2023, the mainland Chinese business travel market has already achieved recovery, with the demand for business travel expected to return to pre-pandemic levels in the near future (Figure 2).

Figure 2: Mainland China business travel spending (BTS) (2016-2026F)



Note: F = Forecast
Source: GBTA BTI Outlook, Trip.Biz, Cushman & Wakefield Research

Figure 3: Mainland China inbound tourism prosperity index comparison (H1 2019 and H1 2023)

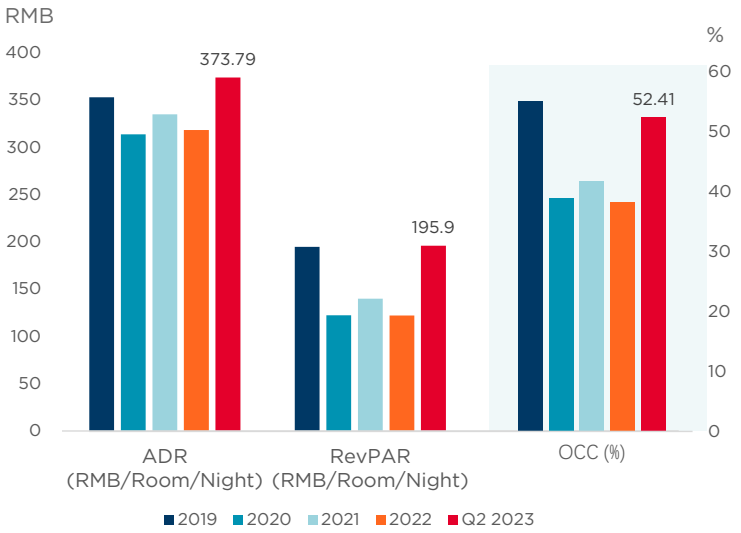


Note: A negative index figure represents a pessimistic view; A positive index figure represents an optimistic view; A zero index figure represents neutral view
Source: WTA, Horwath HTL, Cushman & Wakefield Research

Furthermore, with the orderly restoration of international flights this year, inbound tourism market confidence in mainland China is gradually recovering. From the perspective of the inbound tourism prosperity index, it is evident that anticipation for the inbound tourism market in the first half of 2023 in mainland China has even surpassed that of the same period in 2019, reaching 15 index points (Figure 3).

Looking at hotel market business performance, in the second quarter of 2023, the average room rate for mainland China's all-star hotels already surpassed the market business performance seen during the pre-pandemic period, reaching RMB 373.79 per night. At the same time, the revenue per available room increased from RMB 122.14 per night in 2022 to RMB 195.90, surpassing the level seen in 2019. Finally, the average occupancy rate also recorded an upward-trending number by registering an increase from 38.35% in 2022 to 52.41% in the second quarter of this year (Figure 4).

Figure 4: Mainland China all-star hotels business indicator comparison (2019-Q2 2023)



Source: Ministry of Culture and Tourism of the People's Republic of China, Cushman & Wakefield Research

Given the recovery in the hotel market from both the macro and market standpoints, hotel developers are now more confident in completing their new projects than they were a year ago. This confidence can be seen in the new supply numbers for high-end hotels in mainland China this year as both hotel groups drove in solid new supply completion volume during the first half of this year (Figure 5).

Figure 5: Number of mainland China all-star hotels and new supply of high-end hotels (2019-Q2 2023)

Source: Ministry of Culture and Tourism of the People's Republic of China, Meadin (MTA), Cushman & Wakefield Research

Looking ahead, we expect to see market growth in mainland China to continue into the rest of the year and into next year as business travel volume continues to increase and people's appetite for leisure travel continues to expand.

WHAT IS A BOUTIQUE NEIGHBOURHOOD HOTEL?

With the market recovery, all hotels stand to benefit, including boutique neighbourhood hotels. But before we go on, what exactly is a boutique neighbourhood hotel? Collectively, boutique neighbourhood hotels are unique, intimate, small-inventory-carrying and design, history and/or culture-inspired community-focused hotels. Level positioning is often a lesser consideration for boutique neighbourhood hotels as they concentrate on authenticity and the personalisation of the stay experience and service. Additionally, these hotels further focus on the appeal of beautiful experiences and related factors, including but not limited to the surrounding local nature and environment, the local food, the local history, the local culture and the local art (Figure 6).

Figure 6: Boutique neighbourhood hotels: Example characteristics

Source: Cushman & Wakefield Research

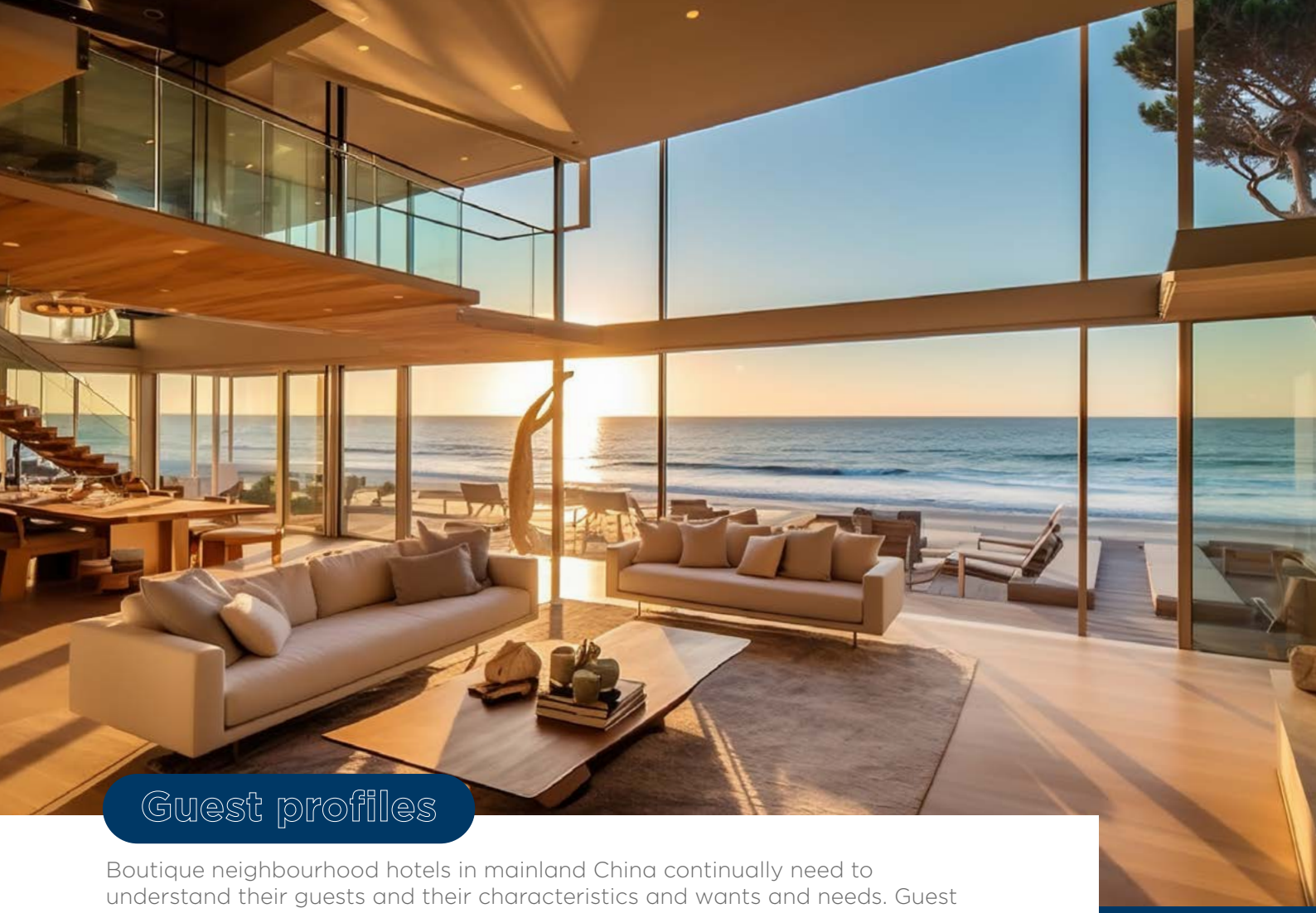
Design considerations

One important feature of a boutique neighbourhood hotel is uniqueness. Often, this is achieved through style, practicality and attention to detail. The style needs to tell the story of the hotel and make it one of a kind.

To begin with, good boutique neighbourhood hotel design needs to tell a story. Colour, materials and even a central theme related to a factor or factors, such as location, local culture, hotel history, etc., should be incorporated throughout the entire hotel to furnish the hotel with a seamless and consistent look that goes a long way in fabricating a well-defined theme (Figure 7).

Figure 7: Boutique neighbourhood hotels in mainland China: Design considerations

Source: Cushman & Wakefield Research



Guest profiles

Boutique neighbourhood hotels in mainland China continually need to understand their guests and their characteristics and wants and needs. Guest profiles are ever-changing in mainland China, and here we have highlighted nine types of guests that boutique neighbourhood hotels in mainland China need to be aware of (Figure 8):

Figure 8: Boutique neighbourhood hotels in mainland China: Guest profiles

- The holidaymaker
- The businessperson
- The younger Millennial/Gen Z
- The family
- The retiree
- The high-net-worth guest
- The wellness and wellbeing seeking guest
- The green guest
- The digital nomad

Source: Cushman & Wakefield Research

1 The holidaymaker guest

The holidaymaker in mainland China generally travels one or two times per year and their travel mainly revolves around their company's annual leave policy. Chinese holidaymakers, who rarely travel solely, have money to spend but are also careful in how they spend it. They also like to be well-versed in the holiday destination they are travelling to and want to get the most out of their stay. Boutique neighbourhood hotels will likely be an option for a typical Chinese holidaymaker if they aren't devoted to a hotel chain or if they aren't already booked into a vacation rental.

2 The businessperson guest

Business travellers in mainland China have packed schedules and look for efficiency and self-service. They're not going to be visiting the local attractions, but they will find good restaurants appealing from both a personal and business purpose standpoint. Boutique hotels, including some boutique neighbourhood hotels, in mainland China do attract the more discerning business traveller who chooses to stay away from the hotel chains, as well as a number of those business travellers who wish to add on some personal travel at the end of their business travel.

3 The younger Millennial/Gen Z guest

The younger Millennials/Gen Z traveller group in mainland China are becoming a more important hotel guest group for boutique hotels in the country to focus on. This guest type is very much into the vacation experience and are willing to share their experiences on social media. Many also have a bucket list of experiences to live and destinations to visit while on vacation and are willing to spend to make their trip a memorable one. Given the uniqueness and personal touch that boutique hotels neighbourhood provide, more and more younger Millennials/Gen Z travellers in mainland China are drawn to what these hotels can offer.

4 The family group guest

Many Millennials in mainland China have now transitioned into parenthood. Having experienced travel during their younger years, many would like to continue their vacation trips with their children. When arriving at their destination, families in mainland China often have well thought through plans for their vacation activities given the fact that organising a family group can be rather demanding at times. Moreover, the family traveller in mainland China, like many family travellers elsewhere around the globe, are attracted to child-friendly environments with sizeable guest rooms and plenty of distractions for the children and boutique neighbourhood hotels can capitalise on these needs by offering these features.

5 The retiree guest

The retiree traveller in mainland China has spent much of his or her working life working during mainland China's rapid economic expansion period and has amassed a fair amount of savings. Now retired, in some cases, they take several trips per year either in pairs or in groups. This guest grouping enjoys local tourist activities and guided tours, and after a day of touring and sightseeing, they look for comfort in their accommodation – which boutique neighbourhood hotels in mainland China can offer.

6 The high-net-worth guest

High-net-worth travellers in mainland China are looking for higher levels of service and a more luxurious stay experience and are ready to spend more money on their trip. While price may not be of the utmost matter at hand, worth is. These guests will usually investigate their trip beforehand and have a general plan for what they'd like to do. High-net-worth travellers in mainland China are also a mixture of young and old and single and married. Stay experience is very important to this guest group as they are exchanging their valuable time and money for it. This type of traveller is looking for service that has the utmost attention to detail and are willing to pay more for experiences that are unique, authentic and memorable – which all fit in with the service offering that the more upscale boutique neighbourhood hotel in mainland China can provide.

7 The wellness and wellbeing seeking guest

Wellness and wellbeing seeking travellers in mainland China travel to satisfy their health, wellness and wellbeing goals. Their destination of choice usually allows them to detox, meditate, eat healthily, practise yoga, go for spa treatments, participate in fitness classes and/or hike in some natural scenery. At their destination, they also like connecting with like-minded travellers who are there for the same purpose. Additionally, wellness and wellbeing seeking travellers in mainland China will often choose to stay at hotels that can fulfil their health aims and that already have a fully functioning wellness and wellbeing programme available with related facilities to boot – and those boutique neighbourhood hotels that offer these programmes and facilities will place themselves in a good position to capture a chunk of this market.

8 The green guest

Green travellers in mainland China are very aware of the concept of environmental sustainability and the need to reduce their carbon footprint. Some are even switching from air travel to rail travel to reach their chosen trip destination. These travellers are also looking for eco-friendly lodging with same-positioned amenities. In this regard, boutique neighbourhood hotels that are able to obtain ingredients locally for the hotel restaurant, utilise green energy, and lessen energy and natural resource usage across the property will be favoured by this guest group.

9 The digital nomad guest

Like in other parts of the world, digital nomad travellers in mainland China aren't tied to a physical office space. They are mobile, location independent and can work remotely from anywhere with Internet connectivity. Some of these individuals are entrepreneurs, while others work for companies. Boutique neighbourhood hotels can accommodate the needs of the digital nomad traveller by ensuring they are equipped with high-speed Internet connectivity and welcoming, flexible space that can be used for both work and leisure and by both many for collaboration purposes and individuals for focused work.

Community engagement

For a boutique neighbourhood hotel to remain true to its name, it is essential to form a strong relationship with the local community. The benefits of local community engagement are many, including more robust business sustainability for the hotel and community, heightened corporate social responsibility, augmented environmental sustainability and cost reduction. For example, sourcing locally reduces fuel consumption and air pollution. Ways of engaging are many as well and a few examples of how to connect are:

- Employing locally;
- Utilising local products;
- Organising local tours;
- Showcasing local crafts;
- Highlighting local culture, and;
- Championing local entertainment (Figure 9).

Figure 9: Boutique neighbourhood hotels in mainland China: Ways to connect with the local community

Source: Cushman & Wakefield Research

Employing locally

By employing locally, the hotel is benefitting the local community and benefitting itself. The local employees will have a deep understanding of the local area, which will be tremendously useful if guests need or want information on anything related to the local area. Additionally, their relatives and friends live in the local area, and if they come across hotel guests, they will be welcoming knowing a family member or friend works at the same hotel.

Utilising local food, goods and products

Uniting with local food producers and merchants can make sure that the community's characteristics can be exposed in multiple ways to the hotel's guests. Authentic local dishes on the menu, for example, can allow guests to feel the community through food, while benefitting the local economy at the same time. As for goods, items that might be able to be purchased locally include locally-made soap, creams, towels, bed linen, gifts, etc. – again contributing to the local community's economy.

Organising local tours

Locals always know what's best. Guests might have done their research, but it is the locals that really know what's worth visiting, what's worth doing and what's worth trying and what's worth buying. A local member of staff with intricate knowledge of the local community will be able to guide hotel guests in what to do in the local area and help them uncover experiences they might not have known by simply surfing the Internet. They will be able to add further value by escorting guests on a tour of the local area that will be able to provide the guests with a bespoke, unique and intimate vacation experience.

Showcasing local crafts

Hotels can host craft classes taught by local artisans. Additionally, hotels might also want to decorate their spaces with local art and craft ware. Moreover, if the guest likes what he or she sees in and around the hotel, information on where to purchase the liked item/s can then be made available to the guest, or on request, even purchased and sent to the guest directly.

Highlighting local culture

Local culture comes in many shapes and forms. One example is the local festival. If one related event is upcoming, encourage the guests to visit, see and experience it. To get the full experience, guest participation might also be encouraged.

Championing local entertainment

An enjoyable and rousing way in which hotels can support their local community and help them thrive is to employ local musicians, performers and artists for their in-house hotel entertainment. Authentic performances will result, and local entertainers will have a channel for their creative undertakings.

Today in mainland China, there are a number of hotels and resorts in general as well as boutique neighbourhood hotels in particular that actively engage the community and one good example is naked Group's naked Stables in Moganshan in Zhejiang province (Figure 10 and Case study 1 in the Appendix).

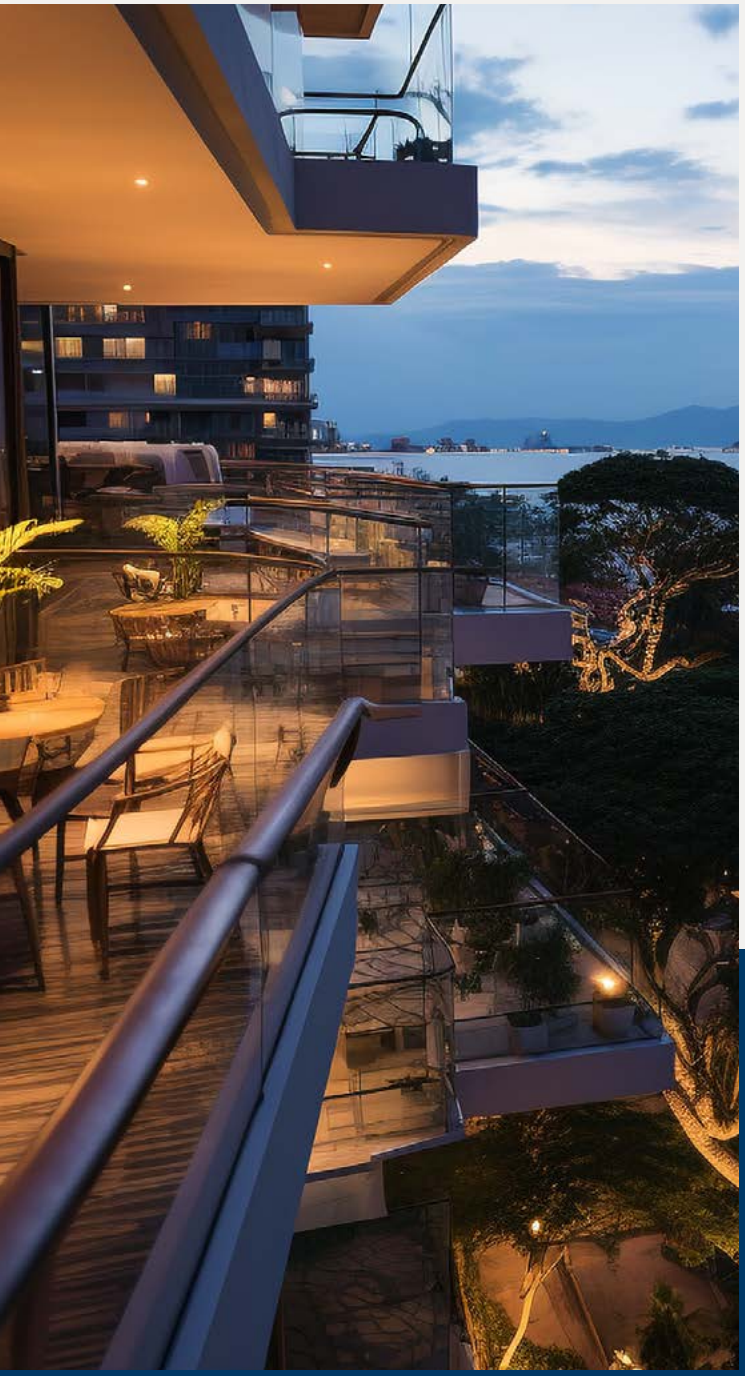
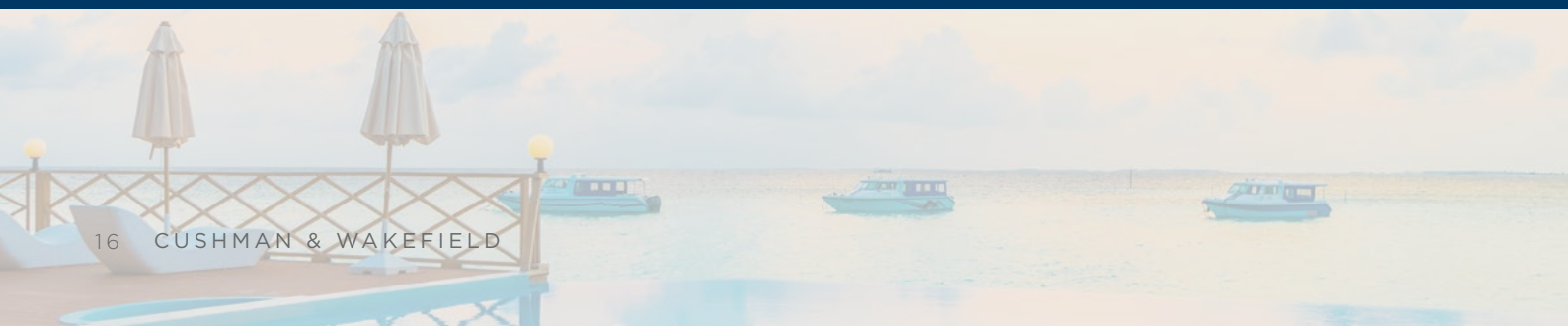


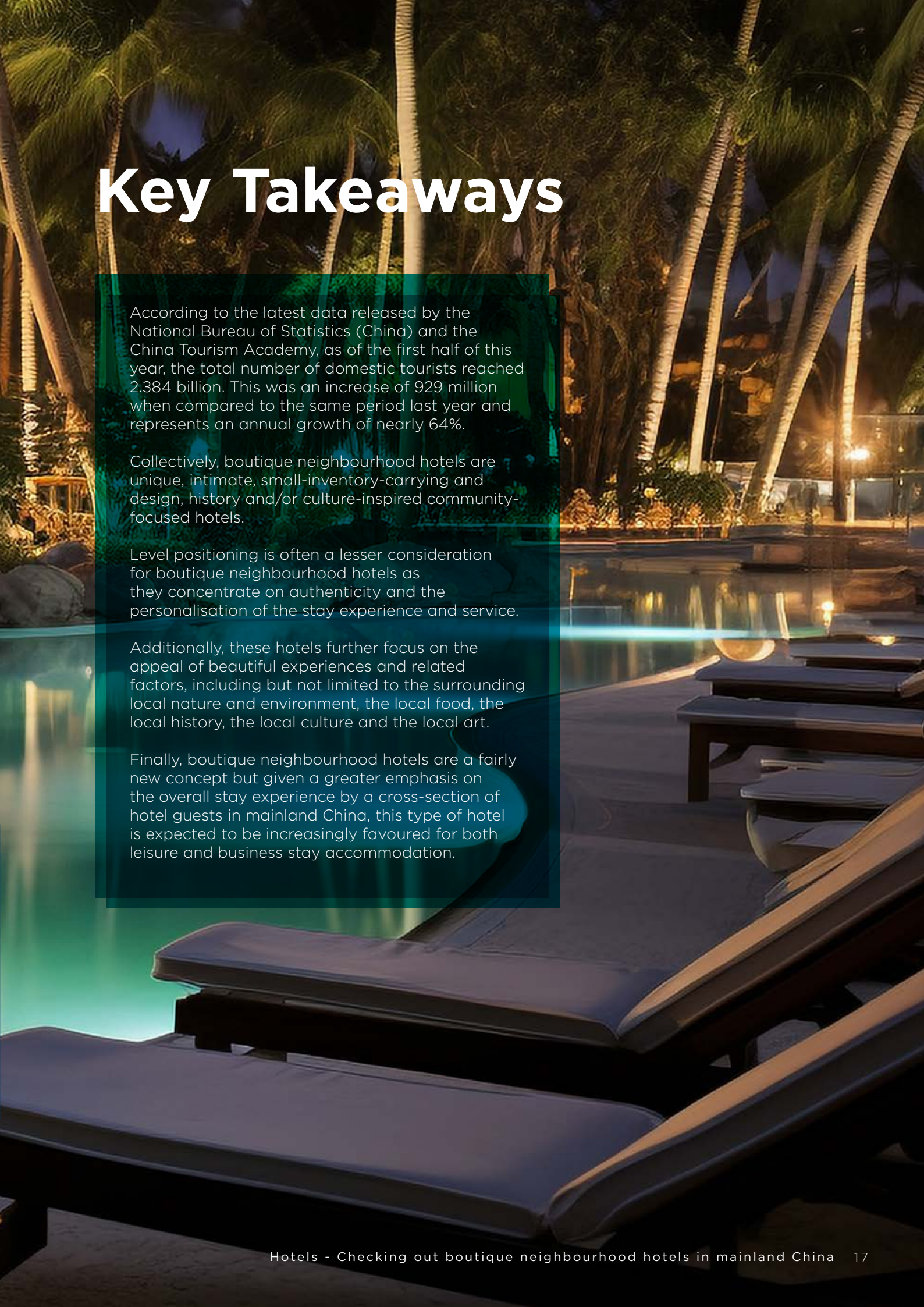
Figure 10: naked Group, Moganshan timeline

2007	naked Home established.
2011	naked Stables established.
2017	naked Castle established.
2020	naked Water established.
2021	naked Valley established.
2022	naked Hill established.
2023	naked Peak expected to be established.

Source: Cushman & Wakefield Research

Finally, boutique neighbourhood hotels are a fairly new concept but given a greater emphasis on the overall stay experience by a cross-section of hotel guests in mainland China, this type of hotel is expected to be increasingly favoured for both leisure and business stay accommodation in the future.





Key Takeaways

According to the latest data released by the National Bureau of Statistics (China) and the China Tourism Academy, as of the first half of this year, the total number of domestic tourists reached 2.384 billion. This was an increase of 929 million when compared to the same period last year and represents an annual growth of nearly 64%.

Collectively, boutique neighbourhood hotels are unique, intimate, small-inventory-carrying and design, history and/or culture-inspired community-focused hotels.

Level positioning is often a lesser consideration for boutique neighbourhood hotels as they concentrate on authenticity and the personalisation of the stay experience and service.

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APPENDIX

Case study 1

naked Stables Moganshan

Connecting with nature and the community

Summary:
naked was started in 2007 and has since advocated for the “born naked, live naked” lifestyle through its luxury resorts, shared workspaces, and various other products. It is the goal of naked Group to bring the experience of “Fresh, Fun, Green, and Great” to their customers.

2011 – Present

Timeline of major events/milestones reached:

2007	naked Home established.
2011	naked Stables established.
2017	naked Castle established.
2020	naked Water established.
2021	naked Valley established.
2022	naked Hill established.
2023	naked Peak expected to be established.

Overview:

- naked Stables – tucked among the bamboo forests and tea plantations of Moganshan in Zhejiang province – a two-and-a-half-hour journey from Shanghai – has become a highly comprehensive eco resort that involves the local community on many levels.

Impact:

- naked Stables' villas, encompassing 121 luxury rooms, are designed to be highly energy efficient;
- The smaller mud Earth Huts are made using rammed earth walls;
- Here, mud and insulation foam are bound together by a string of concrete to create a thick mask which insulates the hut, meaning less cooling and heating is needed;
- 100% of the reserve's water is recycled;
- To top it all off, more than 150 local artisans and labourers were hired during naked Stables' construction phase, while a further 120 villagers from the immediate area work as staff.

How it was done:

- naked's Base Camp is centred in Shanghai and its resort products started with naked Home (2007) in Moganshan;
- After the initial success, naked expanded the idea of a sustainable lifestyle and resort experience into Moganshan's naked Stables (2011) and naked Castle (2017), as well as naked Water in Suzhou (2020), naked Valley (2021) in Zhengzhou's Fuxi Mountain, naked Hill in Nanjing (2022), naked Peak near Xi'an, and a few other projects that are in the pipeline and will be launched soon;
- naked's strategy is to build luxurious resorts that are inspired by nature, managed with sustainability in mind, designed with quality and embedded within the community. Such dedication and promise has helped naked gain numerous recognitions and acknowledgments within and outside the industry.

Results:

- The 60-acre naked Stables resort is the first resort of its size in Asia to achieve platinum certification in the US Green Building Council's (USGBC) Leadership in Energy and Environmental Design programme;
- Over 30% of the produce served in naked Stables' restaurant is organically sourced from the property's own gardens.

Key takeaways:

- Today, naked Stables is now a very well-known boutique hotel resort in China where guests can readily gain the feeling of being part of the wider local community on many different levels during their stay.

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