Timing is **everything**

SBE's integrated lifestyle model resonates with marketplace.
FEATURES

16 COVER STORY: NAZARIAN’S NEXT CHAPTER
After a 50-50 tie-up with Accor, luxury lifestyle player SBE now has the might to grow globally with an integrated platform that offers developers everything from design to F&B and entertainment. After nearly 20 years of “selling,” Sam Nazarian says he is ready to do more strategic thinking and dealmaking to grow SBE’s cadre of cool brands.

24 EXPLOITING GAPS
The industry’s giants may have laundry lists of brands behind them, but that doesn’t mean there isn’t room for new thought leadership. Four corners have identified gaps in the market and see opportunities to cash in: Oyo Hotels & Rooms, Standard International, CitizenM and Little Nell Hotel Group.

DEPARTMENTS

4 NEWS UPDATE
Watch out, traditionalists: Airbnb is not sitting still and defending itself against tax collectors. It has acquired HotelTonight and invested in Oyo Hotels & Rooms to better position itself as an “end-to-end travel platform.” Might they become your future partner?

Also: A recap of challenges and opportunities recognized at ALIS; Taj’s foray into homesharing; lessons from luxury co-working club NeueHouse; and a look at development plans for Japanese real estate developer Global Agents.

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36 MANAGEMENT: PLANNING FOR THE DOWNTURN
When Sam Nazarian created SBE Entertainment Group in 2002, he couldn’t make an egg, didn’t know how to manage a hotel, hadn’t gone to Cornell and didn’t come from a real estate or hospitality family. But he had watched his father, Younes, flee the 1970s revolution in Iran and bring his family to the United States to start over again, and succeed. It helped give Sam the determination to create a nightclub-empire in Los Angeles, then learn to fight for hotel management agreements, and sometimes take too much risk in the name of growth. And today, at age 43, he says he has a lot more peace of mind, confidence and discipline to take SBE further – some of that assuredness no doubt coming from a nine-month-old 50-50 partnership with Accor.

Nazarian, whose father made a fortune as an early investor in Qualcomm, says he has stopped chasing ideas down rabbit holes and has become much more of a strategic thinker. That course correction and his personal maturation process today benefits potential development partners who still love his independent spirit, even more so because it is backed by Accor’s global platform and distribution engine. “I don’t have to sell as much. Before, I was always selling. Now it’s more about execution, which is equally as challenging, but much more exciting than having to constantly sell,” he reflects.

Nazarian says he notices how developers recognize and even take comfort knowing about the trials and tribulations he went through learning the fundamentals of development, construction, design and managing red tape. “I know exactly where other developers are at,” Nazarian says. “They have to decide between this brand and that brand. It’s their money and they don’t want to make a mistake, overspend on FF&E and so forth. I’ve been there, and that resonates with them a lot.”

Now, because SBE is asset-light with lifestyle brands that strike a chord with the next generation of developers who have grown up with the Delano, Mondrian, SL, S and Hyde brands, Nazarian is more free to focus on growing SBE’s hotel business to 100 or even 150 properties in the near term (SBE had 25 hotels with some 7,500 keys open at the end of 2018 along with another 170 nightlife venues). And he believes that pipeline is now a lot more attainable because lifestyle has become a much more important category.

“It’s integrated lifestyle that is really resonating with developers – the fact that they don’t have to hire a design consultant, a food and beverage consultant, pay this fee and that fee,” Nazarian says. “The fact SBE’s model is one fee for the whole building, and that includes residential... We’re the largest lifestyle residential player now in the world with US$2 billion of residential sales and another US$1.8 billion coming out of the ground.”

Not surprisingly, Nazarian, who over the years has partnered with the likes of designer Philippe Starck and chefs Katsuya Uechi, José Andrés and Michael Mina, thinks there is going to be a lot more investment into the lifestyle space as the segment becomes even more mainstream. “It’s what people want; it’s what owners and developers want,” he says. “The lifestyle category, which ties into integrated food and beverage, is going to be a big, big part of the next 12 to 18 months.

“Luxury was so important internationally, but that is now being replaced with lifestyle. The team or the brand that knows how to do it effectively, with scale, is really going to be the leader in that space... Our lane has gotten a lot more competitive, but our lane has grown a lot wider.”

In March, Nazarian said the pipeline stood at 64 hotels in various stages
of development tied to the next four to five years. That doesn’t include pipelines SBE is building up with the Accor business development team, which could lead to another 15 to 20 HMAs. The SLS brand accounts for about 45% of the pipeline, according to Nazarian, primarily because of the residential potential for the concept.

“Accor’s purchase of a 50% stake in SBE makes even more sense following the recent launch of Accor Live Limitless its new augmented loyalty program, which focuses on providing more services and experiences to members, but even at the time it looked to be a shrewd move,” says James Bland, director of consumer insight consultancy BVA BDRC, London. “The brands they’ve been adding in the limited-service sectors [Mama Shelter, Jo&Joe and Tribe] are not just providing a contrast to the strength and consistency of what they had before, but should also allow them to learn how best to bring nuance, character, identity and excitement to what can, at times, seem like fairly generic propositions. It was logical, therefore, that they would seek to replicate this in the upscale and luxury segments, and to be able to do so while also boosting presence in North America must have made SBE a highly attractive target.”

STRATEGIC THINKING
Personally, Nazarian says he is the busiest he’s ever been. “But I’m busy doing things that are moving the needle with things that I’m good at,” he says. “Now we have a real strategic partner who not only believes in what we do but is really seeing what we do as on the cutting edge of the hospitality business. It gives you a confidence that is priceless.”

What has caught Nazarian’s attention more recently, he says, is better understanding how people are evolving through this world of social media, and how people are coming together. “A lot has changed in the last two years in social media,” he says. “What I’m seeing now is everything from Uber Eats to Door Dash and this movement where people are staying home, or meeting online. People are not spending as much money per square foot in nightclubs and restaurants and bars just to meet.”

As a result, Nazarian believes it is imperative to create environments for people to celebrate, whether it’s a special occasion, their life or just the day. “So we are looking at the technology aspect of how we can take a brand and populate it in a manner that allows us to keep what we do special — but start generating it to the next level of the masses. We’re looking at everything from ghost kitchens to how we enable our brands to resonate as more than just hotel lobbies and restaurants.”

The SBE team also is looking at how to unlock the value of other platforms by taking, for example, the database of clothing retailer Abercrombie & Fitch and giving its members access to SBE brands, and vice versa. “I don’t think it’s done well enough in the lifestyle space,” Nazarian says, adding he hopes to make an announcement about a communication partnership in the second quarter.

“It’s really about unlocking the value of the brick and mortar,” he adds. “It’s ‘how do I get more people to experience our hotels, direct book? How do we use our global partners to share our
brands with their top consumers, and their consumers with ours? How do we give people value, not just discounts? I think we’re in a world now where its you buy one, get one free. There’s an algorithm. With us, it’s about sharing experiences with like-minded, global platforms. That, we think, will get us off the OTA funnel, in addition to the distribution platforms like Accor.”

GLOBAL OUTLOOK
In the meantime, Nazarian is busy unlocking the potential that Accor brings to SBE and is no longer limited to fighting in one sandbox – the United States – like many of SBE’s peers.

Nazarian cites Asia Pacific as the theater that should provide the most potential for brand growth. “We have three potential sites in China for SLS with existing Accor owners that have hotels they want to now convert,” Nazarian says. “Out of Accor’s 4,700 hotels, there are hotels coming up to a point of major cap ex, and they want to reposition. The main buzzword of adaptive reuse is ‘lifestyle’ without having to bring a super-luxury product like Raffles or Fairmont that would require a tremendous amount of cap ex.”

Nazarian cites the same scenario in Paris, where Accor and SBE share mutual relationships with owners like Qatari investment funds or French institutions looking to brand products. “That’s where I see the real opportunity – going through the assets and the network that Accor has,” he says.

Most recently, SBE announced the first SLS in Dubai would open in 2020 and that a deal in Chicago is in the offing. It also opened two more Umami Burger locations in Japan in April (for a total of four) and more Umami Burgers are coming to Mexico this year. Accor committed to open 100 SBE-created Umami Burger restaurants in the next seven years.

SLS, with its mixed-use potential, is the most mature of the SBE brands, according to Nazarian, while Mondrian and Delano are being repositioned for growth. He adds that the number of Mondrian letters of intent is growing after a successful launch of the brand in the Middle East, on Park Avenue in New York City and on Sunset Boulevard in Los Angeles. “That is a product a lot of users and developers are seeing as a perfect conversion product, and for us, that is growing very fast, especially in Asia Pacific.”

In January, SBE announced a partnership with Mexico City-based Be Grand and its CEO Nicolas Carracedo to develop a Mondrian Hotel & Residences in Mexico City – the first of what is expected to be 10 properties for the partnership in the next five years. The second project to be announced is the Mondrian Del Valle, with 248 branded residences, which will debut in 2022. Within these projects, SBE will bring over 25 restaurant and lounge concepts under its subsidiary Disruptive Restaurant Group.

On the resort side, SBE’s crown jewel is Delano, a brand that has gone through a two-year repositioning. In June, the first international Delano was set to launch in Dubai, and Nazarian says SBE will announce five more Delano projects by year’s end. Two will be resorts in the Caribbean and the others are going to Turkey, Asia and elsewhere in Europe. “These are resorts caliber akin to One&Only, Aman and Four Seasons,” he says. “That’s where we see Delano playing moving forward, both from the residential side and also from the ADR positioning.”

This will include a major renovation of the flagship Miami Beach property over the next 18 months.
The current mix of new-builds for conversions stands at about 70%, but with the potential conversions of Accor-branded properties that number is likely to move toward 50-50 — and predominantly management with some licensing deals for Hyde Hotels and Mondrian. SLS and Delano will be strictly management.

The other product in the portfolio is the newly announced The House of Originals soft brand for existing assets like the Shore Club in Miami Beach, as well as the Sanderson and St. Martins Lane in London, and 10 Karakoy in Istanbul. Nazarian says 200 to 300 hotels could be signed to the Originals brand.

SPEED BUMPS
Integrating into a big system like Accor is always fraught with a bit of peril, and Nazarian says the process has been ongoing since the deal was struck. “We’re looking to fully integrate all of our existing hotels and future hotels into the Accor reservation system by third quarter of this year, which is really the main focus of our corporate team,” he says.

BVA BDRC’s Bland sees a potential challenge in maintaining the SBE brands’ niche positions as the company grows. “The two often turn out to be mutually exclusive, and growing too quickly risks destroying the appeal,” he says. “Also, when a business that was started, inspired and nurtured by a loving, passionate individual becomes part of a large corporate entity, there is potentially a risk not only of losing its dynamism but also of a senior culture clash which, if unchecked, can become toxic and destructive. Accor’s track record, though, will lessen the risk of this, and also with just a 50% stake, they have no choice other than to govern by consensus should any significant differences of opinion ever arise.”

The other challenges are prioritizing opportunities, continuing to sell some remaining assets while retaining management, and making sure the company doesn’t grow too fast from a human capital perspective.

Ultimately, Nazarian sees SBE becoming a consolidator in the lifestyle space, not unlike what his new partner, Accor Chairman and CEO Sébastien Bazin, is doing with adjacency and augmented hospitality — finding smaller, complementary companies with good plans and helping them spread their wings. “Sébastien’s thinking about this world in the fourth dimension constantly inspires me to know that these little ideas that I’ve had over the last 15 years are now in the forefront and in many ways are complementary to his vision for hospitality moving forward.”

For Nazarian, it is not just hotel companies — it’s food and beverage companies as well. “A lot of great entrepreneurs who are stuck at 10 to 15 outlets or hotels want to grow but don’t necessarily know how. They need a partner that can complement them and let them shine, which is what Sébastien has done for me. That’s the next big idea from my perspective.”

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Designing unique experiences through exclusive partnerships with cultural visionaries like Philippe Starck has been an SBE signature.