



# KEEPING UP WITH THE JONESES

**Should traditional luxury hoteliers take note of 90%-plus, members-only Soho House? Or will this niche brand be just the flavor of the moment?**

*By Oriana Lerner, contributing editor*

**UK** hotelier/restaurateur Nick Jones isn't the next Ian Schrager. Nor is his members-only Soho House model going to change the face of the industry as the boutique hotel concept has. But, like Schrager, Jones is making mainstream hoteliers and investors a little uncomfortable. His purposefully cool "houses" in the UK, continental Europe and the United States are forcing guests and competitors to rethink what constitutes a luxury hotel experience. Travelers are buying in to the tune of US\$2,000 annual membership fees and rates from US\$200 to more than US\$600 to get something traditional hotels provide only to VIPs: exclusivity, or a marketable approximation thereof (non-members can occasionally book rooms at premium rates). Since most of the hotels have 23 to 39 rooms, even occupancies in the

90s aren't going to skim off the cream of the high-spend travel crop. Still, Jones' approach raises the question of whether members-only platforms could be a lucrative if narrow vein of opportunity for diversifying the 5-star hotel offer.

The staying power of his premise is likely to be tested within the next year. At press time, international financial

publications were reporting that Jones may be forced to buy out the 80% stake in the company currently held by UK rag-trade tycoon/restaurateur Richard Caring within the next 12 months. Sources suggest that a put and call option in the original agreement is responsible. Although Jones isn't commenting, the rumor mill indicates he's looking for private equity participation — perhaps from the Middle East (according to *The Telegraph*) — even though no formal sales process has been launched.

Figures being bandied about put valuation for the group at as much as US\$493 million and, according to *The Telegraph*, one offer reflects a value "of as much as 15 times group earnings." Numbers aside, who's on that short list and how quickly they bid will be a good indicator as to whether the private hotel approach can deliver return rates high-net-worth individual and funds require.

#### SOHO HOUSE AT A GLANCE

**Headquarters:** London

**Portfolio:** Hotels, restaurants, cinemas, Cowshed (spa and product line)

**Distribution:** "Houses" in the United States, United Kingdom and Europe; possible development in Asia, the Middle East and secondary U.S. markets



Suite at Soho House in Berlin

#### BEHIND THE SPOTLIGHTS

Love him or loathe him, Jones has a story to tell. And it's not all about straight-line success. Detractors sniff that he isn't a "hotelier" like the Barry Sternlichts, Isadore Sharps and Schragers. Nor does he have the proper academic degree. He doesn't pretend to. Jones is upfront about "not shining" at boarding school and why he opted for a career in catering. "It was considered a s\*\*\* job, 20 years ago. That was partly the reason why I wanted to go into it. Plus, I'm obsessed with food," Jones says.

Whatever the rationale, he found his passion, joining Trusthouse Forte in 1980 and, within eight years, becoming marketing manager of London's Grosvenor House in Park Lane. "I learned both the operations and



Bar at Soho House in Miami

### THE WORK AHEAD

If Soho House is to get traction as an international brand, here's what has to be done:

- **Make a stronger market base.** The membership model is not a deep market, and members quickly lose their loyalty in a downturn. Jones has to find the balance between exclusivity and creating a customer base that can fill more rooms in more places. Maybe W Hotels can offer some inspiration.
- **Get inventive with development.** Some experts contend a concept like this has a very short list of destinations that can offer the right vibe. In addition, there's pressure to make every hotel equally cool — even when newer, maybe cooler competitors will be opening in these A-list locations every few months.
- **Show the financial world that these aren't just trendy hotels — they are a brand.** No one is going to fork over cash unless Jones can continue to prove that each property can deliver stand-alone profits and strengthen the overall performance of the group. Critics argue that anyone can deliver that in London or New York. So watch Berlin and Miami for a truer read on what this group can do.

marketing sides," he says.

By the end of decade, he blended his love of the whole dining-out scene and promotional creativity into his own venture, the Over the Top restaurant group. In his words, the eateries were "rubbish." Did he know it at the time? "Yes. I saw that it wasn't working. It was all my fault. Put it down to youthful arrogance," he says.

Fortunately, Jones wasn't too arrogant to learn his lessons. Crafting his second-effort restaurants, he pumped up the social ambiance, replaced snobbery with insider chic, avoided "massively overcharging" and told chefs that dishes should have no more than three ingredients. London's Café Bohème in Soho launched to rave reviews, starting off a series of openings *The Sunday Times* calls "the coolest clubs in the country."

In 1995, he backed into the hotel business when the film studio above the Café Bohème moved out. The landlord approached Jones about taking over the space. Accessible through a smallish door, the area

suggested the notion of a private destination, and Soho House was born. "It was accidental," Jones says. "I wasn't out to 'fix' anything about hotel operations. I love hotels, and I love staying in them. I just saw the chance to offer something different."

From the outset, Jones knew what he didn't want: the feel of a corporate hotel. "Every city, every locale is individual. So we try to design each property to reflect that. We look for staff with individuality. We want every hotel to have quality, instinct, attention to detail, a similar way of doing things without losing that individuality," Jones says.

His days with Trusthouse Forte and his failure with Over the Top taught him a lot about respecting budgets. Committed to fashioning casually chic interiors, Jones focuses investment on high-visibility features that count to his target market of media people and creative types, and he economizes on the rest. That's why all of the hotels have screening rooms and why Soho House neither belongs

## COVER STORY



Soho House in New York City

to a representation/marketing service nor courts OTAs. Why pay for what you can get free? "If you put out a decent product, people will find it," Jones says. "We've grown effectively through word of mouth."

It helps that the words are coming from the mouths of A-listers including Nicole Kidman, Madonna, George Clooney and Fatboy Slim. There is a real draw for these stars in knowing that every other guest has been vetted by the hotel's selection committee after reviewing each membership application. Security is also a priority. But Jones is aware that VIPs are fickle. A celebrity in his own right (as well as the spouse of one of most visible television presenters in the UK, Kirsty Young), he works hard to keep his clubs in the public eye, whether sponsoring film festivals, hosting photo shoots or becoming a media star, as the New York property did for a "Sex in the City" episode.

### MAKING NUMBERS WORK

The halo effect of famous guests, events with hard-to-get tickets and a reputation for discreet service have generated the kind of demand that has enabled Jones to grow the group from its London debut to Babington House (a resort in the Somerset

countryside) and onto Berlin, New York and, most recently, Miami. Well aware of how many groups have failed to support far-flung operations, Jones admits to being "very nervous" about opening his first hotels outside the UK. Still, he trusted that he understood demand trends among his members and prospective members.

To date, he's had a steady stable of investors. He makes the point that the original backers were very supportive and that Caring has been "a great partner." When asked about rumors

that he and Caring disagreed about the future direction of Soho House (reports indicated Caring favored franchising while Jones wanted to retain the current equity investment/management model), Jones denies any hard-line differences. "I'd be open to any growth vehicle as long as the product stays the same — whether that means sole ownership, franchising, management contracts, sliver equity or leasing," he says.

He's shopping the world for opportunities. The members-only concept is small enough and flexible enough to make fiscal sense in new-builds and conversions that wouldn't suit a transient hotel operation. Jones can use this freedom to look at buildings with odd footprints or less than A locations to get into cities high on his radar: from Istanbul and Mumbai to Chicago, San Francisco, Milan, São Paulo, Shanghai and Beijing. "We can look at locations that aren't big enough for the chains," he adds.

He likes creative financing and deal-making as much as creative design. "We might do a luxury resort if the right deal came along," he says. "We might also look at a small group acquisition if it had the right elements. We're constantly thinking about what size we should be. I'm grateful for every year we can add a

### IN HIS OWN WORDS

Despite a life lived in headlines, most stories about Nick Jones eventually use the term "down to earth" as a descriptor. Some of his competitors disagree, charging that he lives in a pretty rarified atmosphere. So what does he have to say for himself?

**On his work:** "I love it. I'm having a good time. Ever since I was a kid I loved going to work."

**On his hours:** "I'm too afraid to add up how many hours I work. Let's say I have lots of 4 a.m. days."

**On innovation:** "I've never really had a plan. I just look at opportunities as they come up. That was true for Soho House and, more recently, for Cowshed (the spa and product line). We couldn't find a company with the products we wanted for Babington House, nor did we want a spa operator from outside. We wanted an individual statement, so we did it all ourselves."

**On his leisure time interests:** "I don't have time to read, and I don't listen to music constantly. I do like lovely beaches."

**On the hard parts of being a hotelier, including a death in one of his hotels:** "There have been headaches and heartaches. There have been the unusual tragedies and the usual challenges of floods, contractors not delivering and union problems. But if you believe in what you're doing and have confidence, you can make it."

**On happiness:** "That hasn't happened yet. I'm still working on that."

## COVER STORY



Screening room at Soho House in Los Angeles

couple of properties. I'd like to have more hotels in Europe and the United States and some in South America. But I'm not keen on expansion just to get to some critical number."

Bigger would be better on the financing side, Jones admits. More scale would mean better financing terms. But, with the slow upward crawl of interest rates, there is less pressure for dramatic growth. He also believes that the membership model gives him a leg up in terms of investors' comfort level. The upfront contribution from membership fees eases the capital intensity of the ramp-up period. Jones maintains that the benefits continue throughout the operations cycle — from making projections easier to achieving more control over food and beverage costs. The result, he adds, is "good gearing" and returns in the 30% range — strong enough to sell to equity players.

### CAN IT LAST?

Positive numbers. Positive press. Positive pipelines. It all sounds good. But does this sexy star concept have long-term appeal? And, is there enough substance behind the style to warrant a capital infusion from savvy investors? The jury's still out.

On the one hand, this isn't

the best of times to be marketing innovation. "The attitude of the lending community toward anything non-conventional and unproven is still very hesitant," says Lara Sarheim, associate director, HVS International, London. "There has been a flight to certainty by lenders, where the proven brand machines are seen to be able to deliver customers during a downturn and overall soften the volatility in the hotel operation cycle (compared to independents or smaller, less known chains)."

Ramsey Mankarious, CEO of Cedar Capital Partners, London, goes further. "It would be hard to attract money from institutional investors," he says. "At this point, these properties look more like restaurants with rooms."

There is also the risk that all image-conscious properties face: What happens when the jet set moves on? "This is a more elusive factor," Sarheim adds. "The 'cool' factor has to continue."

As with any high-spend concept, Soho House is playing in a narrow sector. There aren't that many super-cool people and wannabes, and most of those want their favorite brand to follow them to their next must-have destination, not vice versa.

"When you are trying to be

exclusive and target a very niche market — in this case, fashion and entertainment — by definition, you are kind of limiting yourself in terms of growth. At some point your size gets in the way of accomplishing exclusivity," says Bruce Stemerman, managing director, Strategic Advisory & Asset Management, Jones Lang LaSalle Hotels. "Growth is also restrictive by markets they operate in. There may be limits to where they can go and attract interest."

Both of those limitations could pose problems going forward. "The key to the viability and durability of any true hotel brand is distribution. Without access to global distribution, this concept has limited shelf life," says one industry watcher.

Still, Sarheim sees the upside. "The Soho House Group is a strong brand and is widely recognized within its niche segment. The operational structure and efficiency is not immediately obvious and might present issues for certain lenders at first glance. But in effect, isn't the model that the group follows just charging members twice (once for membership, and once for hotel stays/use of the club facilities)? In which case it presumably must be quite profitable, and certainly reliable given the number of members worldwide," she says.

And, what happens if the reported need for a buyout fails and the group's founder is no longer at the helm? "SoHo House Group is not about the individual (unlike Schrager) but about the Club (that was propelled into the global sphere after being featured in various TV series and movies as the most exclusive and trendy venue in NYC/London)," Sarheim says.

A little surprisingly for someone with such a strong vision for his company, Jones agrees. "If anyone thinks I'm the brand, I'm flattered," he says. "I love what I do and I want to continue. But Soho House is bigger than me. Someone else could come in, but they'd have to put as much into it as I have to keep it going."