Hotel Lawyer on the Schrager-Marriott marriage and its impact on lifestyle hotels. One of my steady themes here at www.HotelLawBlog.com, is that lifestyle hotels are the hottest thing going in new hotel development, particularly hotel mixed-use. (See, for example, “The new “LIFESTYLE” hotel brands are changing the hotel industry and hotel mixed-use.”) But at a press conference held on the roof of Schrager’s Gramercy Park Hotel in Manhattan at 10:00 am on June 14, 2007, Bill Marriott (chairman and CEO of Marriott International) and Ian Schrager (the founder of Ian Schrager Hotels, now known as “Morgans Hotels”) surprised most of the hotel industry with their news. Marriott (age 75) and Schrager (now 60) announced formal plans to partner in the creation of a new lifestyle boutique hotel brand. The as-yet-unnamed-brand will provide the high-design, boutique, lifestyle product that Schrager invented, with Marriott’s world-class hotel operating resources and development support.

For several years, industry experts have wondered how Marriott International could surrender leadership in the lifestyle boutique area to Starwood’s W brand, which some call a knockoff of Schrager’s original concept. Only half in jest, some predicted that Marriott would spawn a similarly hip “M” brand (which looks a lot like a “W” turned over). If Marriott is to reclaim its share of this exploding lifestyle segment, it clearly needed to move quickly to make up for lost time. But many think the marriage of Ian Schrager and Bill Marriott is doomed to an early divorce, if it even makes it to the conjugal bed. Doubtful pundits cite fundamental incompatibilities of style and approach. Meanwhile, Schrager and Marriott are projecting that at least five firm development deals will be signed for the new brand before 2008, and are looking for more than 100 hotels to be open within a decade.

What does the future hold for the “M” brand (or whatever it is ultimately called)?

That’s the question on everyone’s lips.

Marriott International is a powerhouse in the hotel world. It has several thousand hotels under its mighty brands, and is supported by MARSHA, one of the strongest hotel reservations systems in the world. Not that long ago, many thought Marriott had the “best in class” product in almost every hotel segment. But then Marriott began relinquishing its dominance to Four Seasons and Mandarin in the luxury segment, to Hilton Garden Inn and Embassy Suites in the select service and extended stay arenas, and completely abdicated the boutique lifestyle space.

Less than 5 months ago, at the ALIS Conference in Los Angeles, Bill Marriott was interviewed in a general session “hot seat.” Asked about lifestyle boutique hotels, Marriott said, “Lifestyle hotels are a generational thing. I am not in that generation. We are studying it and trying to understand it. It is important and going to get more important.” (See “Notable quotables from hotel industry thought leaders 2007”)

At the press conference today announcing the deal with Schrager, Bill Marriott had apparently found the solution to his problem. Marriott described Schrager’s role in the new partnership by saying, “Ian is going to be developing a new experience for people looking for a hotel with more than just a bed and breakfast. It is a real different lifestyle experience that he will be creating to attract a group of guests and customers who are not staying in Marriott hotels today.”

Ian Schrager, fresh from Studio 54 (and a felony conviction for tax fraud that no one seems to mind these days),
practically invented the hip design, boutique hotel concept that became his trademark. The hotels he helped create now operate under the Morgans Hotel Group banner without Schrager’s active involvement. W took his concept to the fullest market exploitation of any hotel company, and to the bank as well. Schrager has a reputation for his creativity, volatile temper, and attention to the finest details of implementing his concepts.

Logically, one can see why Marriott needs Schrager to recapture a share in the hottest segment in the hotel industry. They need a creative genius and innovator who won’t be bound by the traditional models of solid work-a-day Marriott brands. And Schrager has never been able to play in the big leagues with the likes of Sternlicht and Marriott. He needs the hotel operational support and development resources of a company like Marriott International.

In today’s press conference, Schrager thought the similarities in his and Marriott's character were more compelling than the obvious differences. Schrager cited Marriott’s commitment to excellence, desire to be the best, and have an impact, incredible curiosity, competitive nature, and drive to set the new standard. Schrager said he had identical characteristics that would make the marriage work.

For his part, Marriott recognized that Marriott International is a “brand company” and wants to have a brand in every segment. In fact, he said that after announcing the new Nickelodeon by Marriott branding for kids, the only segment left uncovered is the lifestyle boutique segment represented by Schrager.

**So how could this great combination fail?**

The reasons for success are manifest. Schrager and Marriott bring talents and resources that could provide the recipe for great success. So how could this marriage fail?

Some experts look at Ian Schrager and Bill Marriott and are skeptical that the new partnership can work. In fact, they predict an early failure. They say that the personalities and cultures of the two leaders are inherently incompatible — like oil and water. They compare the imaginative, creative, free-wheeling, open shirt culture of Ian Schrager with the highly organized, manual-driven, institutional, no-nonsense, coat-and-tie culture of Bill Marriott and shrug. Worse, both men are used to demanding and getting their way. Ian Schrager does not take orders from anybody, and Bill Marriott likes to give approval over some of the smallest design features of hotels sporting his brands. What will Schrager do when Marriott criticizes the color of the silk hanging from the ceiling, or some innovative design feature in the restrooms?

Others point each man’s access to everything one could want to know about the other, the “obvious” seeming-incompatibilities, and they believe these two giants “must have worked this out.” Or perhaps, will have to work it out.

We wish them luck and look forward to seeing great things from this new partnership. We hope it is not the story of the scorpion riding the back of the frog across the lake because he could not swim. . .

Jim

P.S. In case you have not heard the story of the scorpion and the frog, here is an abbreviated version:
One day, a scorpion desperately needed to cross a lake, but scorpions cannot swim. Seeing a frog at the water’s edge, the scorpion begged for a ride on the frog’s back. At first, the frog refused, protesting that the scorpion would sting him on the way, the frog would become paralyzed and they both would drown.

After much impassioned begging from the scorpion, the frog reluctantly took the scorpion on his back and started swimming across the lake. Initially, things went well, but about half way across the lake the frog felt the painful, fatal scorpion sting. As the paralysis set in and both the frog and the scorpion started to sink, the frog said, “Why did you sting me? You promised not to. Now we will both die.”

And the scorpion answered truthfully, “I know we will both die. I did it because . . . I am a scorpion, and it is in my nature.”

Our Perspective. We represent developers, owners and lenders. We have helped our clients as business and legal advisors on more than $50 billion of hotel transactions, involving more than 1,000 properties all over the world. For more information, please contact Jim Butler at jbutler@jmbm.com or 310.201.3526.

Jim Butler is one of the top hotel lawyers in the world. GOOGLE “hotel lawyer” or “hotel mixed-use” or “condo hotel lawyer” and you will see why.

Jim devotes 100% of his practice to hospitality, representing hotel owners, developers and lenders. Jim leads JMBM’s Global Hospitality Group® — a team of 50 seasoned professionals with more than $50 billion of hotel transactional experience, involving more than 1,000 properties located around the globe. In the last 5 years alone, Jim and his team have assisted clients with more than 100 hotel mixed-use projects, all of which have involved at least some residential, and many have also involved significant spa, restaurant, retail, office, sports, and entertainment components — frequently integrated with energizing lifestyle elements.

Jim and his team are more than “just” great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them. They are a major gateway of hotel finance, facilitating the flow of capital with their legal skill, hospitality industry knowledge and ability to find the right “fit” for all parts of the capital stack. Because they are part of the very fabric of the hotel industry, they are able to help clients identify key business goals, assemble the right team, strategize the approach to optimize value and then get the deal done.

Jim is frequently quoted as an expert on hotel issues by national and industry publications such as The New York Times, The Wall Street Journal, Los Angeles Times, Forbes, BusinessWeek, and Hotel Business. A frequent author and speaker, Jim’s books, articles and many expert panel presentations cover topics reflecting his practice, including hotel and hotel-mixed-use investment and development, negotiating, re-negotiating or terminating hotel management agreements, acquisition and sale of hospitality properties, hotel finance, complex joint venture and entity structure matters, workouts, as well as many operating and strategic issues.

Jim Butler is a Founding Partner of Jeffer, Mangels, Butler & Marmaro LLP and he is Chairman of the firm’s Global Hospitality Group®. If you would like to discuss any hospitality or condo hotel matters, Jim would like to hear from you. Contact him at jbutler@jmbm.com or 310.201.3526. For his views on current industry issues, visit www.HotelLawBlog.com.