

HOTEL ALTERNATIVES

Serviced accommodation

Serviced apartments are a hybrid of two different asset classes: the residential apartment sector and the hotel market. Their aim is to fill the gap between a short hotel stay and longer-term rental accommodation.

The concept is well established in the US and Asia Pacific, and, despite still being a relatively unfamiliar concept to both investors and customers in Europe, the industry is growing and is now becoming an acceptable accommodation option.

One of the keys to its success is being able to generate a higher gross operating profit and net operating income than the average hotel. This is achieved through lower guest turnover because the length of stay is longer than that of regular hotels and lower operational costs are achieved by providing fewer and less frequent services¹.

While there is no official definition, the term 'serviced apartment' encompasses the three sub-categories: aparthotels, branded residences and corporate housing.

Categories of serviced apartments

Aparthotels/Extended Stay hotels

These extended stay hotels are mainly studios, one bedroom or two bedroom apartments usually found in urban locations, ranging in standard from budget to deluxe. All are fully furnished and include:

- Ensuite bathrooms
- Fitted kitchen or kitchenette
- Lounge/dining area sometimes including a sofa bed or pull-down bed
- Working area, desk, office chair, internet access and direct telephone line

The hotel services usually available from extended stay hotels include:

- Reception desks – some manned 24hrs, others on limited hours.
- Daily or weekly cleaning and laundry service.

There are typically no restaurants, bars or lounge areas, although the level of services is generally higher than those hybrid aparthotels, which are usually a leisure- or resort-based product, and also come in standards of accommodations and range of services from budget to deluxe².

Key players

Regardless of being considered a relatively new sector, there has been significant movement in Europe in the aparthotel sector over the past ten years. Multiple new, large international brands have entered the

¹ HVS, Here to Stay – An Overview of the European Serviced Apartment Sector, July 2013

² The Global Serviced Apartments Industry Report 2013/14, 4th Edition

market, such as Residence Inn by Marriott (2011) and Staybridge (2012); there have also been a number of re-brandings, such as Suitehotel to Suite Novotel.

For the purpose of this report the focus will be on the key players in Europe.

Hotel brands

Adagio / Adagio Access

- A joint venture with Accor and Pierre & Vacances.
- The company acquired 100% of France's second largest operator, Citéa, in 2011 and is now the largest player in France.
- At mid-2016, the brand had 100 aparthotels with 10,864 apartments in eleven countries.
- Aparthotels Adagio, offers modern, spacious apartments with a fully equipped kitchen, as well as hotel services in urban locations for extended stays, based on tiered pricing from fourth night onwards.
- First established in 2007, the brand provides three product ranges: Adagio; contemporary midscale aparthotels in Europe's leading cities, and Adagio Access; economy range, functional aparthotels, which are only located in France and Adagio premium.
- Its development strategy is firmly focused on international expansion. Among the 31 projects with 5,147 apartment, the company is currently working on, some 1,115 apartments are in Europe. It is looking to develop in prime and secondary locations in international capitals, key cities and resorts and in just prime locations in major domestic destinations.
- Has started to franchise its concept, aiming to have 30% of its stock as franchises within three years. A master franchise agreement has been signed with Accor in Brazil which will enable Adagio to set up a network of 40 establishments.

Element

- Launched by Starwood in 2008 as an eco-friendly, lifestyle-driven extended stay brand. The first European property opened in 2014 in Frankfurt and another in Amsterdam in 2016.
- There are currently 22 Element hotels worldwide. By 2018 there are expected to be 46. Some of the development will be dual-branded hotel developments with both the Element and Aloft brands
- Since the Marriott takeover of Starwood, the brand has attracted much attention and it is thought that the development of the brand will continue apace.
- Some of the Element properties opening in the next few years include Element Dar Es Salaam (January 2017); Element Dallas Love Field (February 2017); Element Austin Downtown (August 2017); and Element London Tobacco Dock (September 2017)³.
- With business and leisure travellers looking for more unique spaces, Element is piloting a new guest room design that will feature a communal room in the centre of four guest rooms, allowing travellers to share a kitchen, dining room and lounge area. This will provide more collaborative space for groups who would like to spend time together in a more private setting⁴.

³ <https://skift.com/2016/04/22/despite-marriott-merger-starwood-isnt-easing-up-on-element-hotel-rollouts/>
Retrieved 04/01/2017

⁴ <http://news.marriott.com/2017/01/marriotts-first-ever-pop-innovation-lab-evolves-cutting-edge-aloft-element-hotel-brands/>

- Ascott continuously looks for strategic alliances with leading developers and business partners to propel growth in key markets. Its latest coloration with Quest Apartment Hotels offer 150 apartment hotels across Australasia strengthening Ascott's presence in Australia.
- Has a target to have 80,000 apartment units globally by 2020
- In 2015, Ascott entered into a 50:50 joint venture with Qatar Investment Authority to set up a USD600m serviced residence fund with an initial focus on the Asia Pacific and European regions.

Urban Villa

- Urban Villa was developed by Union Hanover and its backer EquityBridge Asset Management.
- The group opened a 100 unit Urban Villa in Brentford at the end of 2014.
- In mid-2014, it signed over two sites from its UK pipeline to rival brand, Accor. The transaction, which is understood to entail some form of long-term lease-style agreement, sees two development sites signed over to the Adagio flag.
- There has been no further development under this brand.

Vision Apartments

- A privately owned company with operations in Europe (Berlin, Lausanne, Mallorca, Munich, Vienna, Warsaw, Zurich) and it also has a growing global network based on official serviced apartment partnerships
- It currently has 1,040 units in eight locations.
- The focus is on architecture and design. Buildings are mostly developed, fully owned and operated by VisionApartments.
- New openings include Vevey (Switzerland) and Frankfurt (Germany) in 2017.

Zoku

- Zoku was developed by Hans Meyer, co-founder of CitizenM Hotels and Marc Jongerius, former partner of a mid-sized private equity buy-out fund. The holding company Zoku and Beyond BV is backed by the Dutch families.
- It currently has one location with 133 units in Amsterdam and is looking to grow into a global chain within the next decade. It recently won two sites in Paris and other targeted cities include large international creative hubs such as London, Paris, Barcelona, Vienna and Berlin.
- Zoku is a re-invented apartment hotel brand facilitating global living and working. It is a hybrid between a home and an office with the services of a hotel topped off with the social buzz of a thriving neighbourhood.
- The concept drastically reduces the GFA/room by combining hybrid-living (living and working) with spacious micro-living in the same space. It encourages social connections with cool social areas and connects locals and internationals.

Branded residences

Even though the concept of branded residences is not new, it has, over the past ten years, rapidly evolved globally. Branded residences are an amalgam of a typical real estate investment grouped with the concept of 'lifestyle'. They tend to fall into the upscale and luxury category and attract cash-rich and time-poor individuals who are constantly travelling.

Branded residences are characteristically managed by well-known hotel operators such as Ritz Carlton, Four Seasons and Jumeirah, and are therefore usually located adjacent to a hotel. This allows the resident owners to benefit from the use of hotel services, facilities and amenities.

Source: The Apartment Service

Europe

In terms of supply, Europe is the second largest global region for serviced apartments with some 114,000 apartments, although the relative maturity of individual country markets varies considerably.

The principal concentrations of serviced apartments in Europe lie in the business hubs of London, Paris, Geneva, Dublin, Brussels and Berlin. Yet, like so many of the global regions, the serviced apartment product in these locations varies according to the respective national standards.

The investment hotspots include Berlin, Munich, Frankfurt, Paris, Amsterdam, Barcelona and Rome.

Across Europe, Savills estimate that international branded supply accounts for 50% of existing serviced apartment stock.

Some industry commentators believe that the region's serviced apartment sector has reached a crossroads "between niche and mainstream", pointing to significant development, acquisitions and branding as evidence that the extended stay sector has marked out its territory.

The Global Serviced Apartment Industry Report (GSAIR) research has highlighted 114,012 serviced apartments in 1,889 locations in Europe compared to 57,856 serviced apartments in 593 locations in 2013/14. This represents rises of 97% in units and over three-fold in terms of locations served.

The top three brands are all French, not surprising considering that France has the longest standing serviced apartment sector in Europe.

Table 4: Leading European serviced apartment operators 2016/17

Brand	Locations	Units
Pierre & Vacances	226	20,020
Adagio & Adagio Access	97	11,200
ResidHome + Sejours et Affaires (France)	65	5,233
Park & Suites	55	4,937
Citadines	40	4,727
Suite Novotel	29	3,570
Derag Apartmenthotels	16	2,812
ResidHotel	33	2,437
Maeva	31	2,232
ATA Hotels	8	1,601
Total (incl others)	1,889	114,012

Source: The Apartment Service

France: the serviced apartments market in France is well-established, as evidenced by the number of branded operators, who make up roughly 50% of all supply. The sector is growing

Germany: the German market boasts around 470 apartment developments with more than 15 units, equating to roughly 23,000 serviced apartment units, of which 10% are managed by international brands.

will also help to foster more interest from developers and lenders as operating performance can be more easily compared and benefits thereby become clearer.

Standardisation of serviced apartments

Despite the fact that the demand for the serviced apartment industry is growing faster than new supply in many European markets, the industry continues to face a lack of standardisation in both product and distribution.

- **France:** Unlike the rest of Europe, the French serviced apartment market is characterised by a significant number of brands, rather than private operators. Given the slightly more advanced stage of serviced apartment lifecycle in France, it is not surprising that a relatively detailed classification system for serviced apartments exists. This certification is known as Résidence de Tourisme.
- **Germany:** The German serviced apartment market is the second largest in Europe, and has over the past ten years made significant progress in developing a certification scheme for serviced apartments. In 2014 a new seal was created, namely the Certified Serviced Apartment. The success of this new classification system remains to be seen.
- **The UK:** Unlike Germany and France, the UK has lagged behind, as no such classification system for serviced apartments currently exists. Efforts are being made to rectify this by HVS and another scheme is offered by the Association of Serviced Apartment Providers, which is broadening the scope of its quality assurance programme beyond immediate members. The rollout follows a successful launch across member properties. The scheme has also been adopted outside the UK, by a major serviced apartment operator in Amsterdam²⁹.

Changing of terms

A recent new development has been the number of companies moving away from the term serviced apartment in their branding in favour of aparthotel or apartment hotel.

Examples include Australia's market leader Quest spent AUD\$10m on a rebrand in 2015 changing its name from Quest Serviced Apartments to Quest Apartment Hotels. BridgeStreet Global Hospitality has added an aparthotel brand, Mode to its stable.

In the US, Jack DeBoer, known as the founder of the extended stay sector, has launched WaterWalk Hotel Apartments, having launched and sold Residence Inn, Summerfield Suites, Candlewood Suites and Value Place.

Entrance of private equity

The entrance of private equity funds into the sector, e.g. Patron Capital and EquityBridge Asset Management, and their level of committed resources, means that the expansion of purpose-built stock will be significant.

Barriers to Entry³⁰

Planning and zoning issues are another major hurdle for the extended stay market. Research by HVS revealed that many mixed use developments, for example, consider the inclusion of a hotel and/or apartments, but do not tend to entertain the possibility of having onsite serviced apartments. Therefore,

²⁹ Hotel Analyst Daily, 30/09/2014

³⁰ HVS 2014 Here to Stay – An Overview of the European Serviced Apartment Sector, July 2013