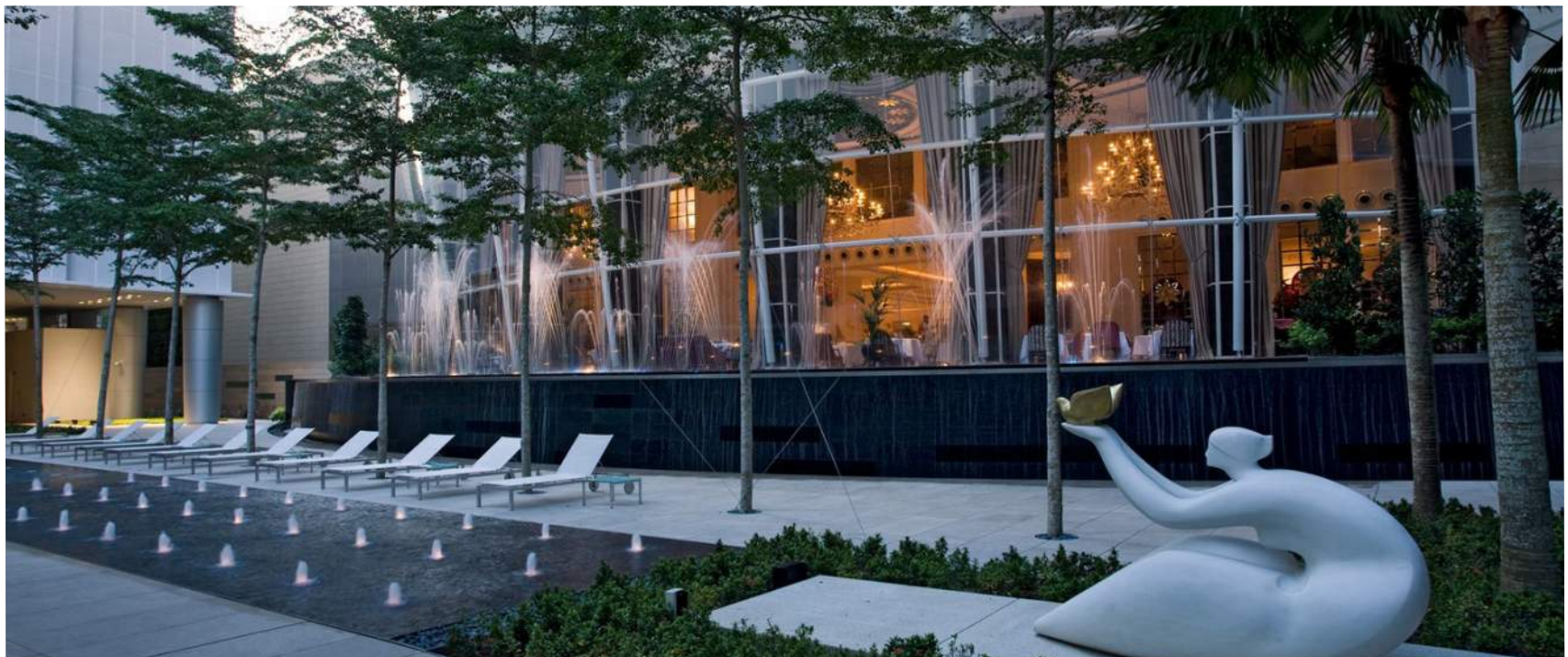


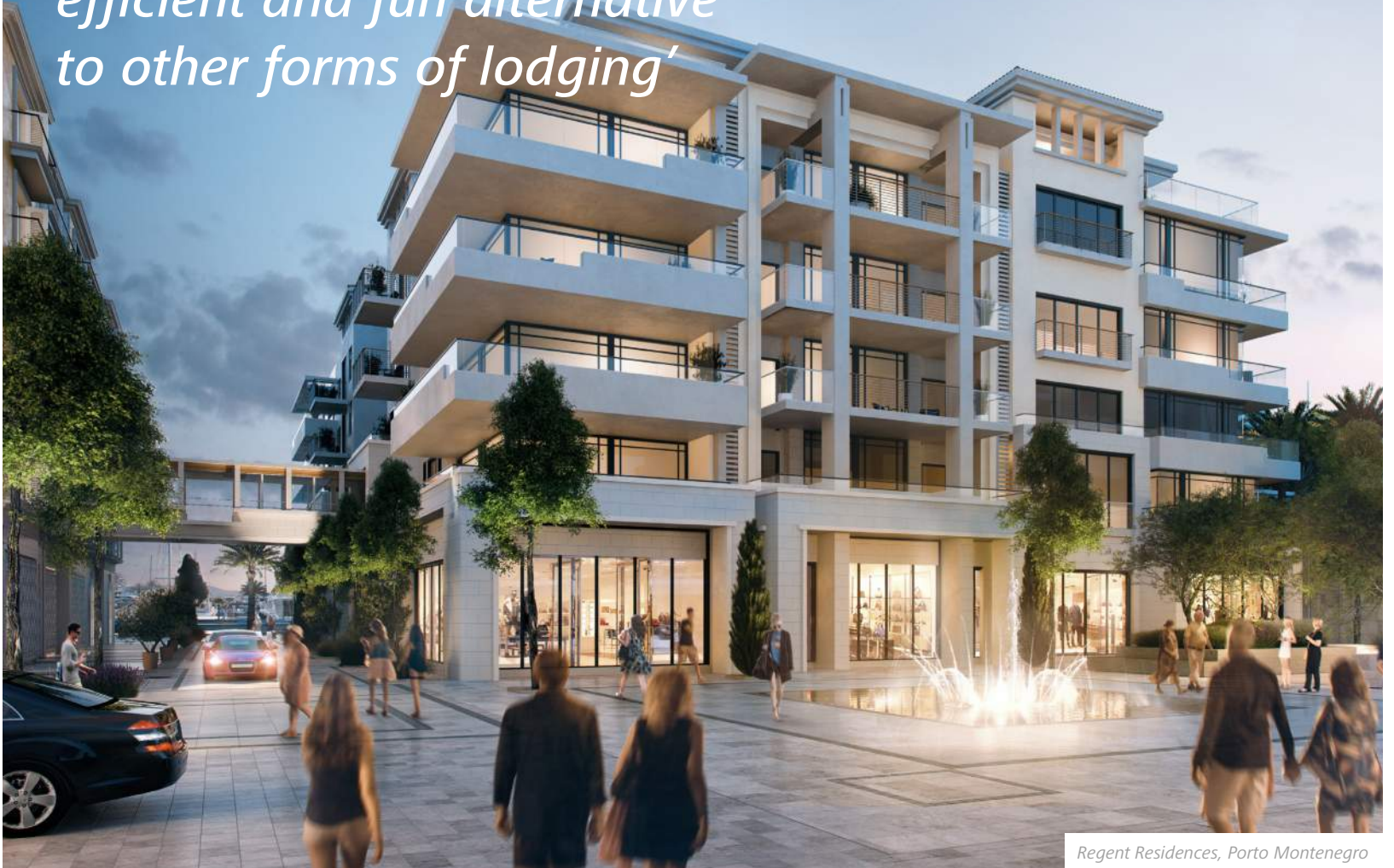
SERVICED APARTMENTS

Checking in for the long term

JULY 2015



'Recent years have seen the serviced apartment model blossom into a dynamic, efficient and fun alternative to other forms of lodging'

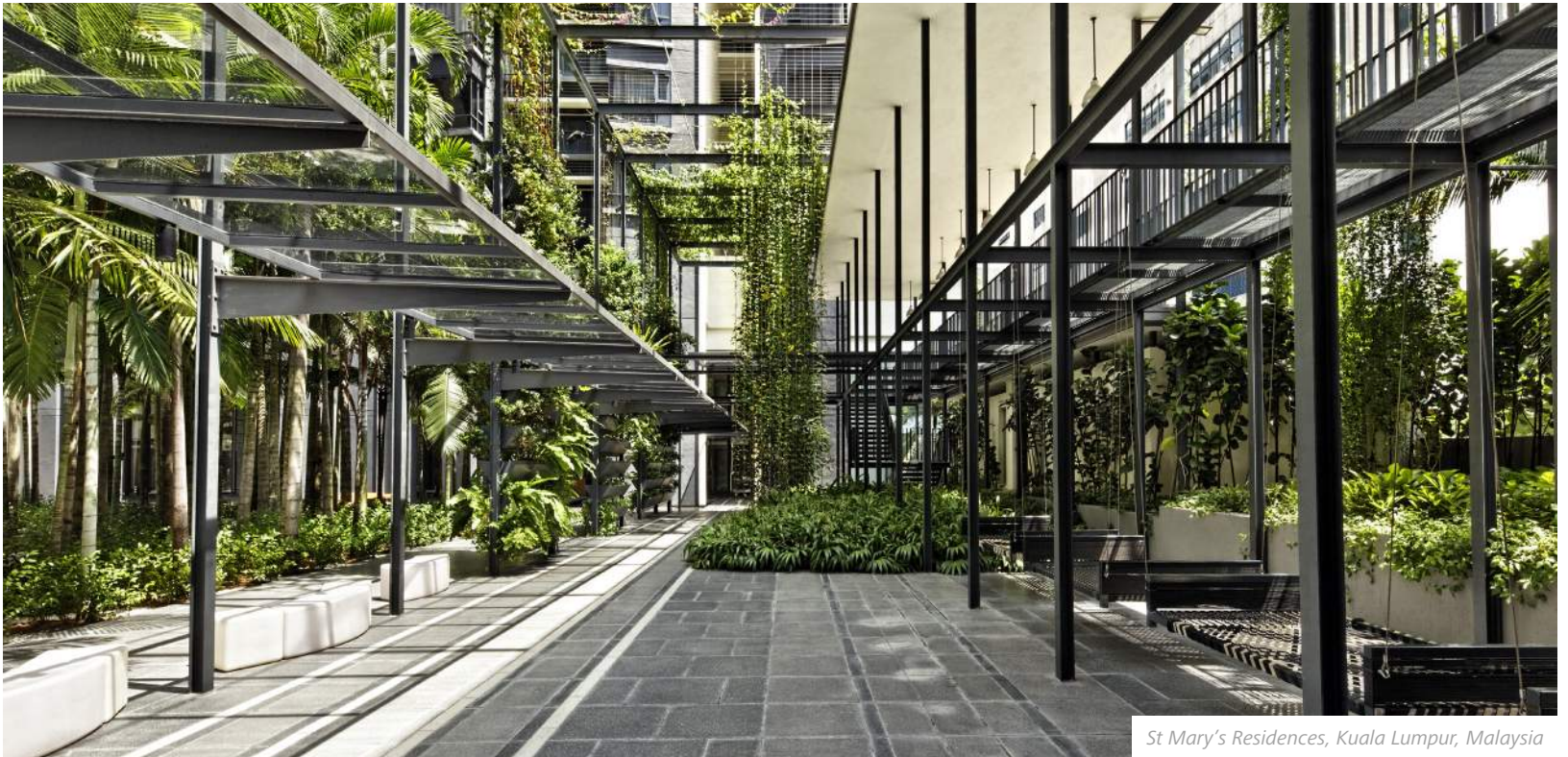


Regent Residences, Porto Montenegro

INTRODUCTION

No longer the unglamorous hospitality sub-sector, recent years have seen the serviced apartment model blossom into a dynamic, efficient and fun alternative to other forms of lodging that responds to a number of emerging travel trends. What's more, the economics are highly appealing too.

As the sector evolves, there is a need for greater intelligence and understanding of the nuances of this real estate asset class. WATG has interviewed a cross-section of experts in the serviced apartment sector on the appeal from the perspective of the developer, investor, operator and end-user. This feedback is shared over the following pages, along with a commentary on the role of design, with insight from Wimberly Interiors.



St Mary's Residences, Kuala Lumpur, Malaysia

OVERVIEW OF THE SERVICED APARTMENT LANDSCAPE

The serviced apartment model is currently one of the most exciting real estate asset classes. Interest in the sector is growing, and the amount of new product coming online is gathering pace. The arrival of several innovative operators, as well as continued growth of the industry's more established names, has given a new impetus to the sector.

'Room service? Send up a larger room.' (Groucho Marx)

So what are serviced apartments and how do they differ from hotels? In their simplest form, serviced apartments provide an alternative form of lodging for those away from home for an extended period of time. Serviced apartments provide a home-like environment, with units typically some 15 to 30 percent larger than a standard hotel room.

So who lives in a place like this?

The fundamentals of the serviced apartment concept are driven by the needs and preferences of corporate travellers (average 70 percent of guests across sample of leading operators). This includes those on short-medium term assignments, as well as those relocating on a more permanent basis requiring interim accommodation whilst searching for a traditional residential dwelling. These clients form a solid base of unit occupancy, upon which higher yielding short-stay travellers are layered.

The rise of the 'bleisure' traveller has had particular resonance for the serviced apartment sector. Those looking to combine the functionality required for a business trip with an opportunity to have fun and engage with the local community in leisure time, have a growing platform of serviced apartments to choose from. "Smart brands are those that can design products and services for our blurred lifestyles" (The Apartment Service).

Operators insist that the role of pure leisure travellers should not be underestimated. Serviced apartments provide a spacious environment for couples and families, and these guests tend to fill units at weekends when short-stay corporate demand dips. Indeed, Guus Bakker of Frasers reports that the market mix is reversed in certain properties in London and Paris, with more leisure than corporate business. This has implications on the product and service provided.

George Sell (Serviced Apartment News) notes that "serviced apartments offer leisure travellers excellent value, providing a comfortable base from which to explore an area without having to pay for F&B, leisure and meeting facilities that they will not use. As the sector becomes better known and consumer awareness levels improve, I predict a surge in leisure use for serviced apartments in city centre locations."

Diversification of the sector

In recent years the hospitality sector has seen a plethora of inventive hotel concepts across the urban landscape. The rise of lifestyle hotels responding to emerging travel trends is exemplified by an ever-growing roll call of brands. Further, hotels at the affordable end of the spectrum have also been getting creative, with the growing presence of select-service lifestyle hotels such as CitizenM and Yotel combining fun, eclectic design with greater price accessibility.

However, we have observed much less innovation in the international serviced apartment sector to date. Market positioning tends to be clustered around the mid-market, with few operators offering a truly upscale product. Opportunities clearly exist for further fragmentation within the sector. By year-end, 2015 will have witnessed the entry of luxury boutique hotel chain Firmdale to the apartment sector, as well as exciting new concepts from Urban Villa, Beyond by SACO ApartHotel and Zoku. Design boundaries are clearly beginning to be pushed, creating a real buzz in the market.

THE BIG ISSUES

Communicating the message: Encompassing both aparthotels and corporate housing, the serviced apartment sector has experienced serious identity issues over the years. Indeed, many commentators suggest that this ambiguity has been a major barrier to the sector's growth. However, 2014 saw the delivery of an industry charter, devised by Serviced Apartment News and HVS, to which many big industry players have signed up including Adagio, The Ascott Group, Frasers Hospitality, SACO, Go Native and Staybridge Suites. This is a notable step towards communicating a consistent message to the masses. But what are the other major challenges facing the sector? We held discussions with a number of leading investors and operators to find out.

Finding stock: The Apartment Service reports that supply in Europe increased by some 24 percent since 2013. While this growth is undoubtedly impressive, many developers in prime urban locations still tend to focus on traditional residential and hotel opportunities.

Opportunities for operators to grow their portfolio are constrained, to some degree, by the ability to identify new stock. Adam Lowenthal (Domus Nova Investments Ltd/Stay AKA) suggests that "finding the developer who is willing to build serviced apartments rather than hotels or residential is tough!" Many developers focus efforts on the residential sector, and this trend has been reinforced by public sector ambition to address housing supply/demand issues, particularly in London. "Are the serviced apartment operators able to offer the developer a better deal than a residential scheme would? That is the challenge".

Not all serviced apartment operators have the equity partners behind them to own, build and operate their own properties. Those that do have such backing (e.g. Stay AKA - Blackrock, California Pension Fund, etc, and Beyond by SACO ApartHotel - Oaktree) are able to

grow through site acquisition/development while other operators are limited to lease deals and management agreements.

Seeking finance: Historically, a lack of awareness of the asset class has been cited as a major barrier to attracting investment. "When talking to the banks, the first question asked is whether you are residential or commercial", says Max Thorne (Beyond by SACO ApartHotel). Even those at differing ends of the same sector will provide an alternative response to this, and this confusion can deter lenders.

There is a general lack of market transparency in terms of benchmarking of operational data and transactions, and this has subdued activity from some major hospitality investment funds such as Host Hotels & Resorts and GIC Real Estate. However, as understanding of the nuances of the sector become clearer, and empirical evidence more comprehensive, such players are likely to take note of this emerging asset class, as illustrated by Starwood Capital's recent foray with the acquisition of a major share of the Think Apartment portfolio, now operated by Go Native.

The confidence generated by strong brands also plays a key role in attracting investment into the sector, something that has been lacking to date. Indeed, it is reported that increased brand awareness, and the subsequent perception of covenant strength, would add significant appeal to investment funds.

Branding: As a relatively embryonic sector there is a notable lack of brand clarity in the market. While impressive operating performance suggests that this does not dampen consumer demand, experts suggest that a lack of awareness acts as something of a deterrent for investors, developers and lenders. In contrast, these parties have a clear understanding of requirements and metrics of the hotel brands.

There is widespread agreement that brand recognition and familiarity with the concept is something that will occur naturally over time. As brands proliferate the market, the sector will become better defined. Indeed, those owned by major hotel groups, such as Marriott's Executive Apartments and Residence Inn, IHG's Staybridge Suites, Starwood's Elements and Accor's Adagio, have the advantage of flying under the banner of their well-established parent company.

Whilst aparthotel operators are increasingly seeping into public consciousness, the Private Rental Sector remains a largely brand free zone. Essential Living is looking to capitalise on this perceived market opportunity, with a mission to "establish Essential Living as the pre-eminent trusted brand for tenants and communities".

Where are the hot markets?: "Any city with a large transient population, both corporate and leisure in nature, represents a strong opportunity for serviced apartments". That is the view of Andrew Hunter of Adina, currently operating around 30 aparthotels in Australia, seven in Europe plus four under construction, and plans to enter the UK market shortly.

So, in the UK for example, is it all about London? “Absolutely not” was the response from all operators. Around the UK serviced apartments have been introduced with great success, and there are strong indicators of further success in key locations. Scottish cities were top of many operators wish list, particularly Edinburgh which has seen a number of new openings in recent times.

Numerous commentators have the Middle East, Africa, India and China on their hit list, although barriers to entry are often high. Adagio, BridgeStreet and Marriott all reference huge potential in certain African countries offering a stable business environment, rapidly growing demand, a large expat workforce and limited supply. Such markets include primary cities in Nigeria, Ghana, South Africa and Kenya, for example.

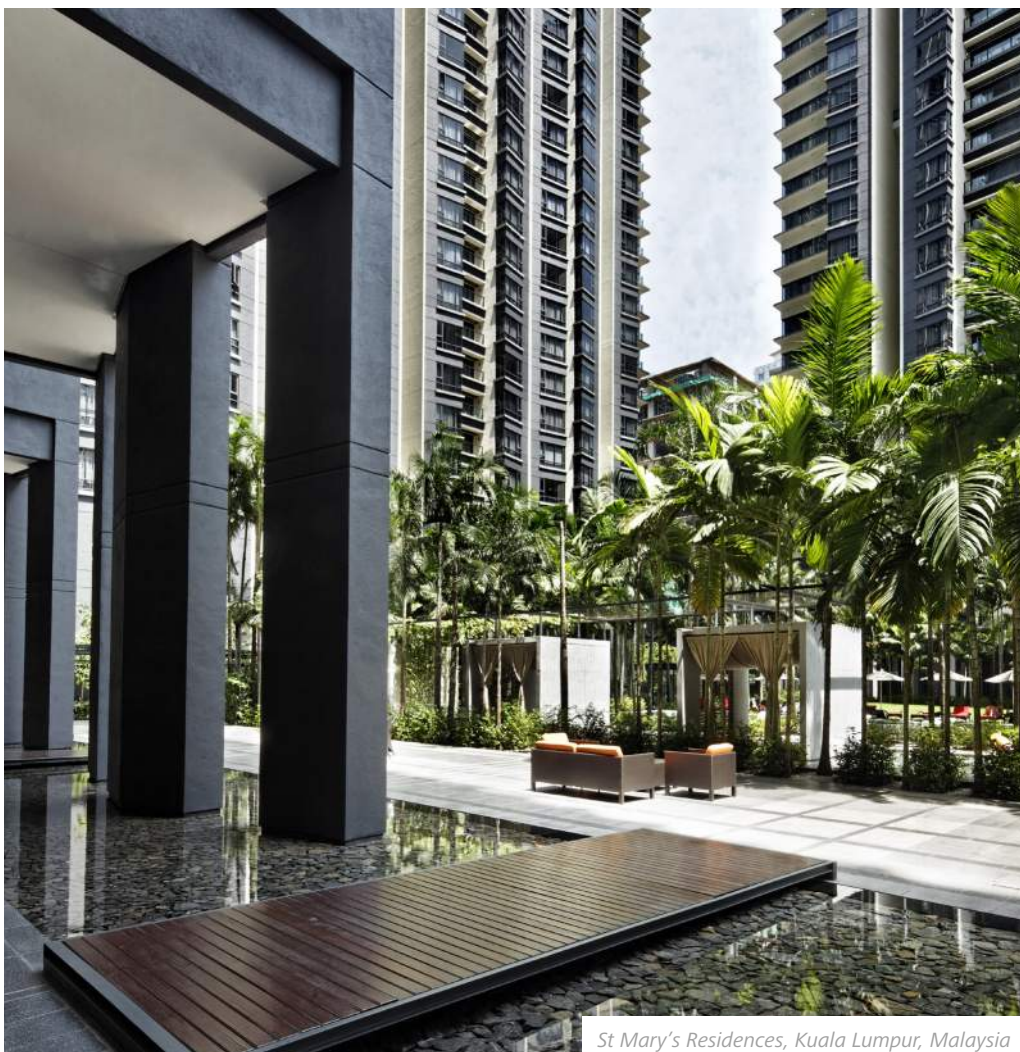
The magic formula: As with hotels, location is key. However, in the case of serviced apartments this may not mean ocean frontage or adjacency to famous landmarks. “A perfect piece of land is close to class A office space where the major corporations in town reside” (Jack DeBoer, WaterWalk). It also needs a “liveability factor” because since people are staying up to 12 months, they need restaurants and retail nearby.

With a scarcity of development opportunities in prime business districts, it may be necessary to consider secondary locations. In such

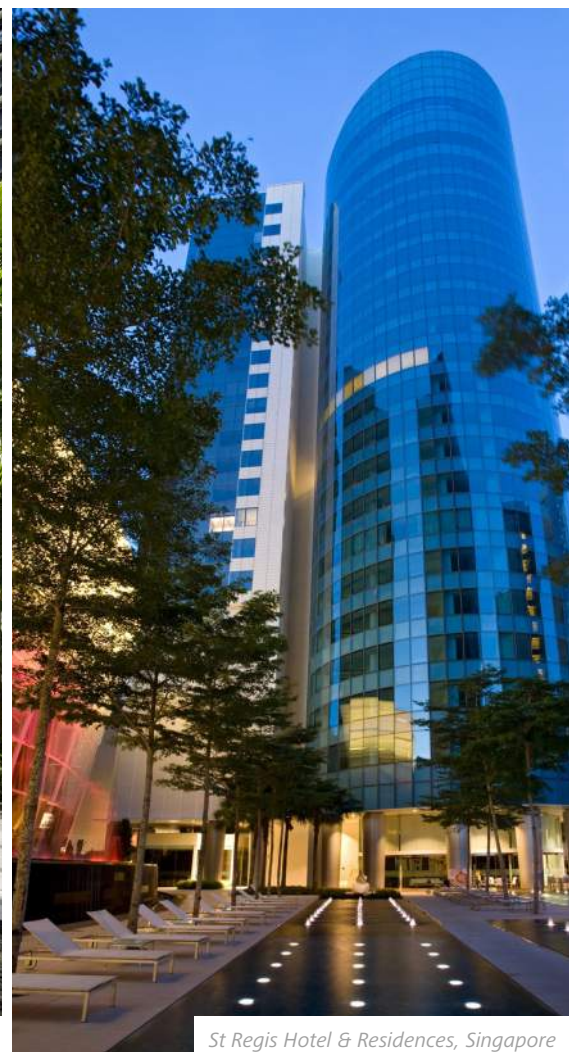
instances, proximity to commuter links is considered essential. This is demonstrated by IHG’s launching of Staybridge Suites in London’s Stratford and Vauxhall.

The efficiencies of dual-branding: Adagio, Staybridge Suites and Marriott Executive Apartments are all operated under the umbrella of their parent hotel groups, Accor, IHG and Marriott respectively. Each sees the virtue in combining serviced apartments with a hotel in a given scheme, thus maximising the value of the development.

Such operations are highly efficient, with a shared core, back-of-house, laundry, security, for example. In such instances, operating costs are typically allocated to the hotel’s P&L, with the serviced apartment operating revenues being almost all-profit. It is acknowledged that there is a degree of demand cannibalisation between the operations, but operators suggest that the opportunity to expose short-stay guests to the extended-stay product can garner positive results in the long term.



St Mary's Residences, Kuala Lumpur, Malaysia



St Regis Hotel & Residences, Singapore

HOW DO THE ECONOMICS STACK UP?

Aparthotels vs. Hotels – An Indicative Appraisal

Is it time to take note of the ever-burgeoning serviced apartment sector? Industry commentators unanimously tell us 'YES', but why should investors, developers and operators strive to understand this niche sector when the traditional hotel model has worked so well for so long? There are numerous reasons, and this paper now assesses the financial equation.

We present below an appraisal of the business case for a serviced apartment development, set against that of a four-star hotel operation in a given location - Central London. We have modelled a product towards the aparthotel end of the spectrum. Assumptions are based on WATG's experience, and in conjunction with SACO.

We also draw on insight provided by numerous operators including Adagio, Frasers, Marriott, BridgeStreet, Adina, Stay AKA and Go Native.

In an urban context, prospects for serviced apartment development typically include residential, hotel and office conversions, as well as new build. For this exercise we have assumed an office conversion, with a Gross Internal Area of 8,500 sqm.

Site Location

CENTRAL LONDON (I.E. LIVERPOOL STREET)

Gross Floor Area

8,500 SQM

FOUR-STAR APARTHOTEL

Net Area Per Key

34 SQM

Gross Area Per Key

51 SQM

No. of Keys

167

FOUR-STAR BUSINESS HOTEL

Net Area Per Key

26 SQM

Gross Area Per Key

53 SQM

No. of Keys

160

Guest rooms

Part of the confusion surrounding the serviced apartment sector stems from the distinctly differing offers, from fragmented collections of individual units, to aparthotel buildings typically of 60 units upwards.

Operators report a desire for a minimum of 60 apartment units in a given project. Max Thorne (Beyond/SACO) considers a need for 100 units to make a building work 'comfortably'. This scale of inventory allows for fixed costs to be dispersed sufficiently, and is modest enough to ensure that occupancy and rates are not compromised. "If a market is strong enough, a building of up to 200 apartments would be fantastic".

Most aparthotels include a mix of studio and one-bedroom apartments, with a small number of two-bedroom units. For the purposes of the appraisal we have assumed the following mix of apartment types, with an average unit size of 34 sqm.

APARTMENT MIX & SIZES				
	Mix	No.	SQM	Area
Studio	35%	59	28	1,650
One-Bed	60%	100	36	3,600
Two-Bed	5%	8	50	400
	100%	167	34	5,700

Public Facilities

Many serviced apartment operators consider their business model to be purely a 'rooms factory', with public facilities simply detracting from the maximum number of keys that can be configured within the building. Indeed, for a typical hotel operation, the rooms division achieves significantly enhanced profit margins than other departments such as F&B and spa/fitness. On this basis, and the fact that exceptional public areas tend to have only a modest uplift on occupancy and rates, such areas should be kept to a minimum rather than cutting into rentable area. In certain instances, it may be possible to utilise basement space to cater to facilities such as fitness and meetings facilities.

However, several emerging industry players see amenities and facilities as playing a significant role in the operation, not just as departmental revenue generators, but also boosting rates. Furthermore, it is proposed that should a guest form social connections with other residents, they are more likely to extend their tenancy. Therefore, communal gathering points, such as a lounge or bar, encourage guests to forge such relationships. Essential Living extols the virtue of such space, in some instances by elevating its location to a higher value upper floor rather than ground level. The resultant effect is longer stays, and thus fewer void periods and higher occupancy rates.

The food and beverage offer in aparthotels is generally fairly modest. Many operators provide a welcome hamper of basic provisions, and subsequently offer a grocery shopping service. Breakfast service typically comprises a coffee machine, and perhaps 'grab-and-go' style continental option. Should there be a perceived market for a more substantial facility, most operators have a preference for outsourcing ground floor space to a third party coffee shop operator. Indeed, Guy

Nixon (Go Native) suggests "in most instances, a city location will mean you have a plethora of cafes, restaurants and bars within a ten minute walk. Why waste valuable space by providing this in-house?".

For those in residence for an extended period, the notion of dining at an in-house restaurant can become somewhat tiresome. Guests prefer to be self-sufficient and explore a range of external dining options. Throughout the sector, we observe a major trend towards engagement with the local area. The much discussed 'sharing economy' has brought us not only Airbnb, but also platforms for 'foodies' to connect with local dinner parties through websites such as EatWithALocal and Cookening. Although an extreme example of the quest for authenticity, this is emblematic of a general movement towards guests embracing the experiential side of travel.

Developers and operators must consider the end user when refining their product. The modern (and future) business traveller is very different from those of the previous 20 years. Generation Y are by nature hard to please. Pre-stay they expect a simple booking process via mobile applications; during their stay they require complete connectivity, efficient but innovative design styles and a localised experience; and, post-stay there is an opportunity for operators to stay connected to guests through social media channels, though to date this demographic has demonstrated lower levels of brand fidelity.

Area Programme

We present below typical area programmes for both operations, based on WATG's experience and feedback from hotel and serviced apartment operators. The efficiency of the aparthotel model is significant, with reduced public areas and back-of-house. As such, nearly 70 percent of the total Gross Internal Area is lettable space. We have allowed for a 'grab-and-go' facility in a social lounge of some 100 sqm, as well as a modest fitness facility of 75 sqm. The proposed programme for the hotel operation includes a more generous lobby area, an all-day-dining restaurant, meeting facilities and a fitness room, totalling a combined 1,400 sqm.

AREA PROGRAMME COMPARISON				
	FOUR-STAR APARTHOTEL		FOUR-STAR BUSINESS HOTEL	
	Area Per Key (SQM)	Total SQM	Area Per Key (SQM)	Total SQM
Guest Rooms	34	5,700	26	4,200
Public Areas	3	500	9	1,400
Corridors	12	2,000	10	1,600
Back-of-House	2	330	8	1,300
GIA	51	8,500	53	8,500

Capital Cost Comparison

Cost consultants Implementar are strategic advisors specialising in the global hospitality sector. Implementar's experience of serviced apartment and hotel development projects reveals that the construction costs for each model differ only marginally.

Cost estimates provided for this paper show that on a per sqm basis, the amount of capital required for an aparthotel building is some five percent below that of a business hotel of equal positioning. Cost savings stemming from a reduced back-of-house (especially kitchen) are notable, and more modest public areas also deliver efficiencies. However, it should be noted that each unit requires its own kitchenette, thus increasing FF&E / OE costs per key.

COST ESTIMATE COMPARISON				
	FOUR-STAR APARTHOTEL		FOUR-STAR BUSINESS HOTEL	
	£	£/SQM	£	£/SQM
Building	21.9m	2,600	22.4m	2,650
FF&E / OE	1.7m	200	2.1m	250
External Works	0.7m	80	0.7m	80
Professional Fees (12%)	2.9m	340	3.0m	350
Cost Per Key	163,000	3,200	180,000	3,330
Total	£27.2m		£28.2m	
Basis & Assumptions	<ul style="list-style-type: none"> - Central London location - Upmarket quality - Cost effective design & construction - Current year values 		Exclusions	<ul style="list-style-type: none"> - Demolition & enabling works - Planning related charges - Finance & insurance costs - Legal acquisition costs - Contingencies - VAT

In terms of site acquisition costs, the sharp rise in real estate values in London has made viable development opportunities a rare find. This has proved a major challenge for all interview respondents in recent times. For this financial modelling exercise we have assumed a site acquisition cost of £17.5 million.

Occupancy Rates

The basic premise of the aparthotel product is that with a lengthy average stay, the impact of room vacancies is reduced and enhanced annualised occupancy rates are possible. Serviced apartment operators constantly report that annualised occupancy sits eight to ten percentage points above comparable hotels.

STR Global data suggest average occupancy levels of 83 percent in London's serviced apartment market (Jan to Aug 2014). WATG research with local operators indicates that occupancy of 88 to 92 percent are common amongst leading operators in prime locations.

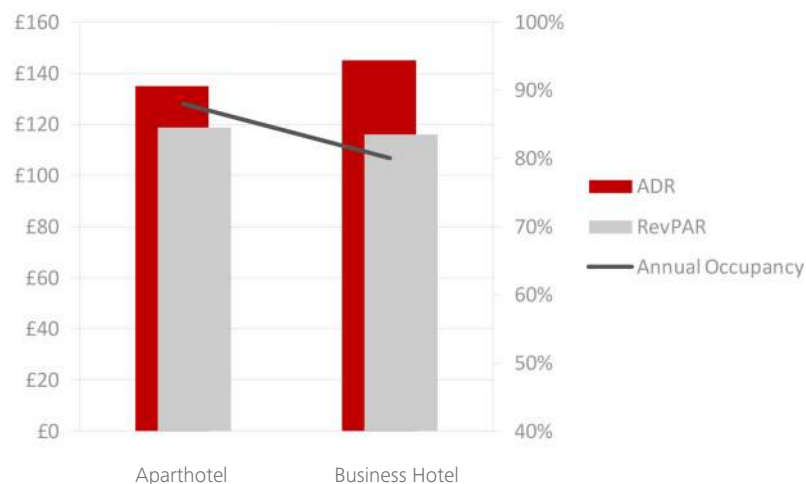
We have applied an annual occupancy rate of 88 percent for the aparthotel and 80 percent for the hotel operation.

Average Daily Rates (ADRs)

According to data published by The Apartment Service (provided by STR Global), the London serviced apartment market achieves the highest rates globally, at £167 per night in 2014.

Across the market, ADRs of serviced apartment operations tend to be in line with business hotels of a similar positioning. While the hotel will have a more substantial amenity offer (notably F&B outlets) and higher levels of service, apartment units tend to be more generously sized. Among our sampled operators, it is suggested that serviced apartment ADRs are plus/minus five percent against those of a corporate hotel of a similar quality and market positioning. Certain operators offer more generously sized units and hotel-like service and amenities. As such, rates at some aparthotels are able to exceed those of comparable hotels.

For this exercise we have applied an ADR of £135 for the aparthotel and £145 for the hotel operation.



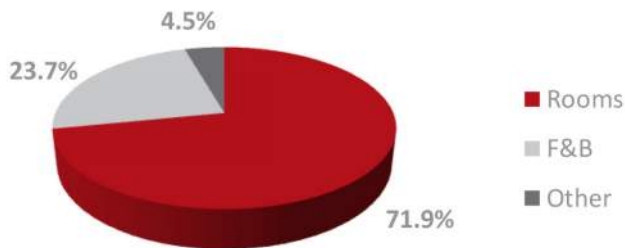
Revenue per Available Room (RevPAR)

Driven by strong occupancy, and solid room rates, serviced apartment operations are generally able to achieve RevPAR levels in excess of a comparable hotel operation. Our hypothetical aparthotel and business hotel show respective RevPARs of £119 and £116.

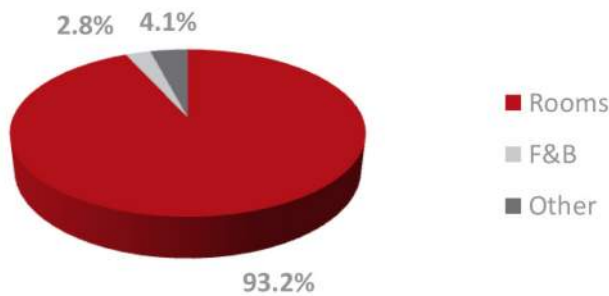
Revenue Mix

With a few exceptions, the aparthotel model is about conserving back-of-house and public space in order to maximise the number of apartments in a given building. This rentable space typically generates between 85 and 98 percent of a building's total revenues. We have allowed for a food & beverage contribution generated by a modest 'grab-and-go' outlet in the lobby, as well as other minor spend on items such as telecommunications, laundry, etc. We forecast that the rooms division accounts for some 93 percent of aparthotel revenues, and 72 percent of hotel revenues in this scenario. For the hotel operation, the F&B department will generate in the order of 24 percent of total revenues, with significant breakfast uptake, as well as moderate lunch, dinner and room service demand.

Business Hotel

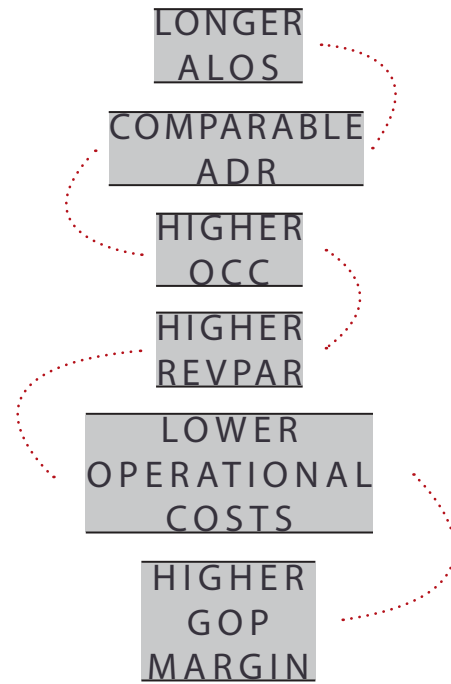


Aparthotel



Regent Residences, Porto Montenegro

Operating Costs



The operating efficiency of serviced apartments, in all forms, is central to the success of the model. Leading operators report Gross Operating Profit (GOP) margins ranging from 60 to 80 percent, with aparthotel models generally towards the lower end of this range (60 to 68 percent). This is some 10 to 20 percent above comparable hotel operations (average 12.5 percent). "It's all about creating better operating models and higher returns on investment" says SACO's Stephen Hanton.

These efficiencies are made possible in several areas. Firstly, staffing requirements for serviced apartments are much lower than hotels. Christabelle Morgan-Desouches of Adagio reports that with the outsourcing of housekeeping, it is possible to run a 120-key property with just ten members of staff. "You can grow your margins a great deal if you are able to keep the number of full-time equivalents down whilst maintaining service levels". Hanton suggests that a 150-unit aparthotel would require around 30 staff, inclusive of housekeeping (0.2 employees per key). This compares to an estimated team of 160 at an equivalent business hotel (1.0 employees per key).

"It's all about creating better operating models and higher returns on investment"

(Stephen Hanton, SACO)

WATG's indicative profit and loss appraisals show GOP margins of 63 percent and 49 percent for the respective aparthotel and hotel operations.

OPERATING PERFORMANCE

Below we summarise the projected key performance indicators for the discussed aparthotel and business hotel in the stabilised year of operation (2015 values).

London's market fundamentals are robust, with strong occupancy performance and modest new supply driving rates. The aparthotel product is one of the most profitable to operate throughout the hospitality sector with margins far in excess of traditional hotels.

When all is said and done, what matters most is the profitability you are able to achieve out of each and every sqm of your building. WATG's analysis reveals that an aparthotel operation is able to drive higher levels of profit per sqm than an equivalent hotel operation (£488 and £442 per sqm respectively). This difference may seem somewhat marginal, but over the entirety of the premises, the impact is quite significant.

FOUR-STAR APARTHOTEL

88%
OCCUPANCY

£135

ADR

£145

£119

RevPAR

£116

93%
ROOMSREVENUE

72%
ROOMSREVENUE

£7.8
MILLION

Total Revenues of

£9.5
MILLION

63%/53% MARGIN
£4.9/£4.2 MILLION

**GOP
&
NOI**

49%/40% MARGIN
£4.6/£3.8 MILLION

PERSQM - £488
PERSQFT - £45

PROFITABILITY

PER SQM - £442
PER SQFT - £41

RETURNS ON INVESTMENT

Full-service hotels often require more capital to build, are 'space hungry' and are expensive to operate. Conversely, serviced apartments are typically more cost efficient to build, less expensive to operate and, in some cases, achieve rates that are similar to comparable hotels.

Serviced apartments increasingly benefit from favourable sentiment with investors and developers. Recent acquisition activity illustrates their growing standing among private-equity firms. It is our understanding that capitalisation rates for serviced apartments vary little from those of hotels in London. For this exercise we have applied an exit yield of 5.0 percent for each scenario. With a higher 'bottom line', this results in an enhanced exit value for the aparthotel, and coupled with a slightly lower capex requirement, produces strong returns. Should the aparthotel command a slightly less favourable exit yield of 5.5 percent, the IRR would see a modest drop to 18.0 percent.

WATG's indicative appraisal of the two development scenarios presents a clear picture of the virtues of the serviced apartment model. However, it is important to stress that development opportunities must be assessed on a market by market, and site by site basis. Local market dynamics of supply and demand will always influence the optimum economic opportunity.

FOUR-STAR APARTHOTEL

FOUR-STAR HOTEL

£17.5
MILLION

SITE ACQUISITION
COST

£17.5
MILLION

£27.2
MILLION

Total
Construction
Cost

£28.2
MILLION

5.0%

EXIT
YIELD

5.0%

£93.1
MILLION

TERMINAL
VALUE

£82.3
MILLION

19.3%

IRR @ 50/50
DEBT TO EQUITY

16.2%

£18.7
MILLION

NPV
@ 10%

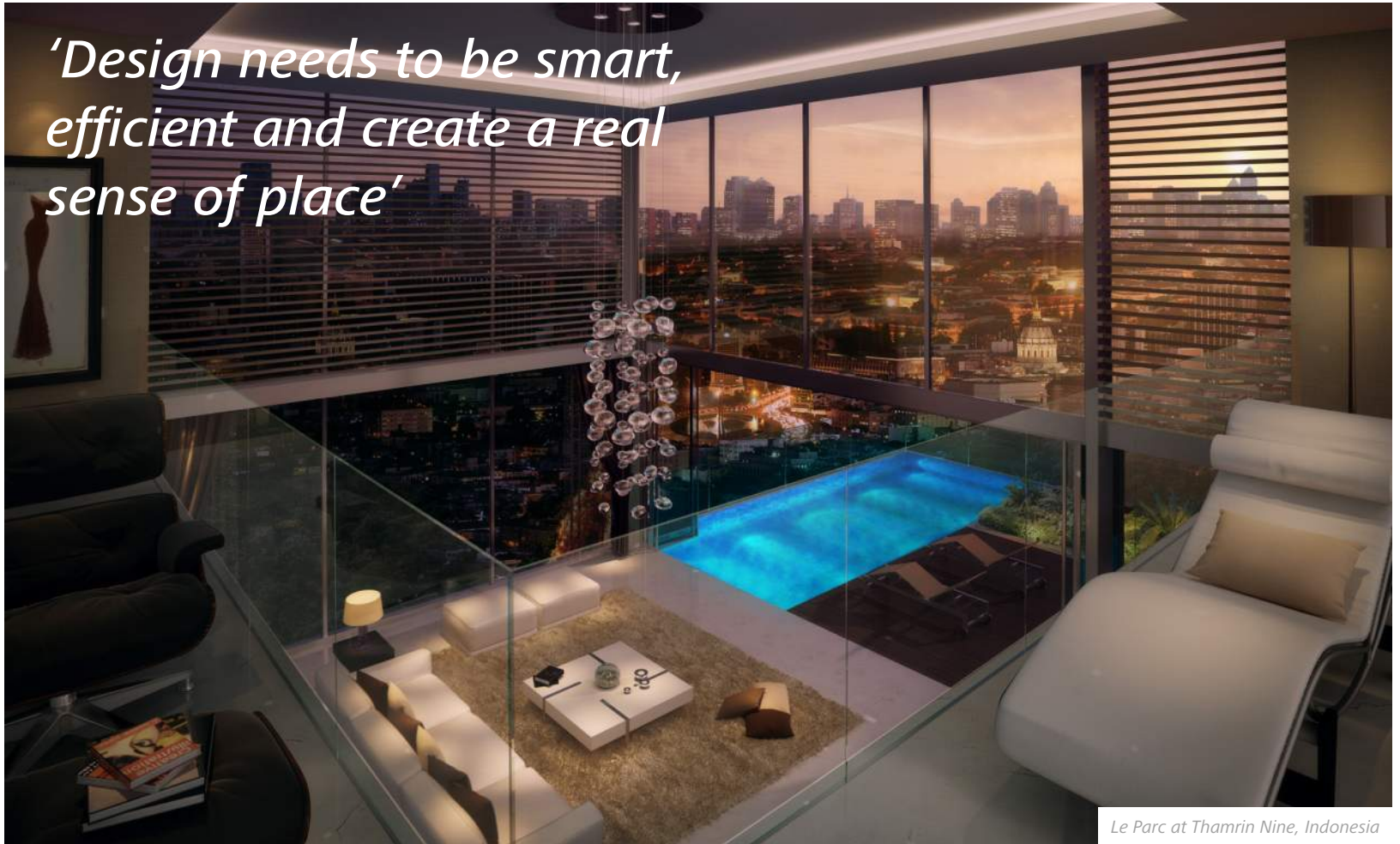
£11.9
MILLION

1:2.3

MONEY IN/OUT

1:2.1

'Design needs to be smart, efficient and create a real sense of place'



Le Parc at Thamrin Nine, Indonesia

BRINGING DESIGN TO THE FORE

WATG and Wimberly Interiors are the world's leading hospitality design firm. We understand the value of unique and timeless design, be it through architecture, landscaping or interior design. As the global hospitality marketplace evolves, and travellers' preferences shift, there is a need to not just be reactionary but also to anticipate future trends and be visionary in our approach to each project.

It can be argued that the serviced apartment sector has, for some time, lagged behind the wider hotel sector in terms of innovative design. The shifting dynamics of the modern travel market must be reflected by a dynamic approach to new serviced apartment schemes. We present below a summary of key trends that we think will shape the sector in the coming years.

To standardise or to localise?: We earlier cited a lack of brand identity within the sector as one barrier to growth. It could be argued that the global standardisation of a particular operator's brand identity can foster a degree of familiarity in the consumer. However, recent years have seen a major shift in the wider hospitality sector away from such an approach, towards unique design styles and an emphasis on

localisation. This is exemplified by the rapid emergence of eclectic lifestyle hotels, and the rise of innovative booking platforms such as Airbnb. It is important for serviced apartment operators to find the right balance, allowing for the brand to develop its own distinct identity, whilst also providing the consumer with a unique residence in keeping with the local environment. Urban Villa is a fine example of this ethos and it will be interesting to observe the reaction of the consumer moving forwards.

'Blurring of business and leisure travel': Much serviced apartment supply has been designed based on the needs of your average business traveller. Yet, numerous operators report growing interest from the leisure travel segment, and with an ever-increasing role of online booking engines (OTAs) serviced apartments are likely to become increasingly part of the hospitality mainstream.

As such, there may be a need to revisit the mix of apartment types and sizes, as well as amenity and service provision. Indeed, Adagio says that currently 10 to 15 percent of rooms should be interconnecting to allow for larger multi-generational groups. We suggest that the need for such flexibility is set to become even greater.

Space efficient design: There are new prototypes in the sector that reflect increased efficiencies of space. Over time the extended-stay unit has decreased in size and we expect this to continue...within reason.

The cost of land and real estate represents a major barrier to development in many primary and secondary cities globally. It is not possible to pass on these capital burdens to the consumer through drastically inflated room rates. As such there is a need to meticulously assess the opportunity to extract maximum possible returns from a given project.

Several innovators in the industry have implemented space-saving solutions ranging from fold-away beds, overhead storage and slimming down the depth of furniture. The new concept from Zoku demonstrates the potential to create a desirable work/live space within a 25 sqm unit! A model apartment was tested on 200 consumers to ensure that such techniques did not compromise the functionality and appeal of the product.

‘Design is a funny word. Some people think design means how it looks. But of course, if you dig deeper, it’s really how it works.’

(Steve Jobs)

Market positioning: Unlike the hotel sector, with its diverse offering of typologies, the serviced apartment sector has traditionally been dominated by mid-market corporate units. More recently, boundaries have begun to be pushed by innovative concepts and those offering a

more aspirational product. We suggest that there is scope for further diversification in the sector, in terms of unit sizes, amenity offer, design styles and price points. It will be important for each brand to carve out its own niche, and ultimately the breadth of appeal of the sector will extend across a wider audience.

Generation X, Y and Z: Where will technology take the sector in the next ten years? Clearly, millennial travellers demonstrate a greater need for in-room connectivity and access to multi-media platforms whilst based away from home. Past this, Beyond by SACO ApartHotel will use energy monitoring technology to allow consumers to regulate their own usage, with an ambition to deliver a ‘greener’ operation. Tablet controlled lighting, television / music and heating also looks set to become the ‘norm’.

Generation Y don’t want F&B in-house. This demographic shows a greater proclivity to drink and dine in establishments outside of the hotel environment. They search for closer connectivity with the urban environment, and tend to reject the standardised offer found in most business hotels. The majority of serviced apartment providers omit this department altogether, with others providing a simple ‘grab-and-go’ style option.

Nevertheless, the wave of millennial travellers has seen a rise in demand for funky, social gathering points. Hans Meyer of Zoku comments that “a social structure is highly desired as global nomads often feel disconnected. Zoku has decided to focus on connecting their residents with each other and the city they’re staying in. We’re stretching the definition of a hotel into something new: a place where people can share ideas, but also bread, cheese and wine...”

Healthy travel: We observe an international movement towards healthy travel. We have all felt the affects of too much time in airplanes, stuffy hotel rooms, unhealthy eating / drinking patterns and interrupted exercise routines, synonymous with business travel! We hope to see leading operators taking note of trends observed in the hotel sector, such as MGM’s ‘Stay Well’ rooms, IHG’s ‘Even’ brand and Swissotel’s ‘Vitality’ programmes. We expect to see more personal trainers and nutrition experts, sleep therapy initiatives and in-room wellness programmes.



Urban Villa



Beyond by SACO ApartHotel

Hospitality: Serviced apartments are in the business of hospitality. A warm welcome, personal touch and on-call service are key elements of generating positive customer satisfaction and must not be forgotten.

“Without focusing on the guest experience and really offering great hospitality that exceeds a ‘home from home’ experience, then our businesses may not flourish. I would also even dare to suggest that our industry may not continue to develop and take its rightful position alongside the more traditional hospitality offering - hotels.” (Jo Redman, SACO).

Interior design trends: It is time to shake up the image of the sector. Yes, serviced apartments must, above all, offer a comfortable and functional residence. But as the sector continues to grow and evolve we want to see the boundaries of interior design pushed.

As Rachel Johnson of Wimberly Interiors notes, “more and more travellers are opting for a serviced apartment over a hotel room as they are seeking space, functionality and ultimately a sense of freedom to make a coffee or even entertain. The design needs to be smart, efficient and create a real sense of place”.

Brands are still finding their way, refining the essence of their product from decor, fixtures, furnishing, equipment and service. We look forward to assisting with this evolution and hope to see a wave of dynamic brands in the marketplace in the coming years.

The relationship between great design, strong operating performance, and developer returns is a clear one.



Zoku

With Thanks



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