

Spotlight European Serviced Apartment Market

2015



SUMMARY

■ Concept and brand awareness remain issues. Tackling this has the potential to widen demand, supporting further expansion and operational performance.

■ London remains the primary target market for the major operators and their brands, but interest beyond London is gathering pace.

■ Investor confidence in the sector is improving, reflected in the entrance of corporate private equity and institutional investors. The lack of institutional grade stock however, remains the biggest barrier.

■ All gateway European cities forecast to see further increases in visitor numbers, which should prove beneficial in terms of demand.

■ A return to pre-crisis business visitor numbers is still to materialise suggesting the full upside in Serviced Apartment demand is yet to be realised.

■ The ability to raise concept and brand awareness will be key to maximising this improving demand.

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“Improving concept awareness and institutional investment will be key themes over the next 12 months.”
James Bradley, Savills Hotels
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➔ What is a Serviced Apartment?

■ There is no single definition of what a Serviced Apartment or Aparthotel is, which is not necessarily an issue as operators/brands will develop their own clearly defined offers. The real issue is that a potentially significant proportion of consumers are not even aware of Serviced Apartments as a concept let alone being able to identify brands.

■ Why does this matter? Essentially concept and brand awareness have the potential to widen demand as consumers become more familiar with the product and its potential advantages over hotels for certain types of trips. It can also enhance investor confidence as a strong brand can provide investors with a better understanding of the offer.

■ Brand development has picked up pace over recent years aided by stock expansion. The increasing preference of operators to develop their own purpose built stock, allowing them to 'brand' their properties both externally and internally, has been key to this. Expansion by international hotel operated brands in Europe, such as Accor's Adagio, IHG's Staybridge Suites and more recently Starwood's Element, is also aiding brand awareness across the Continent.

■ However, we believe that there is still some way to go, even in terms of concept awareness. To test this we carried out a consumer survey, the key results of which are detailed in Graph 1

and 2 below (details on the survey can be found on the last page).

■ Consumer awareness of the concept amongst business travellers, who tend to be primary users of Serviced Apartments, was relatively healthy. However, this was skewed towards the Serviced Apartment label as opposed to Aparthotels. For example, 72% of respondents who travel on business stated they knew what a Serviced Apartment was as opposed to 52% for Aparthotel (Graph 1).

■ Awareness across the larger sample however was lower with 41% stating that they did not know what a Serviced Apartment was, increasing to 57% for Aparthotels. This is particularly high if you consider the few people who would be unfamiliar with what a hotel is.

■ Despite over half of the sample having some level of concept awareness, there was a total disconnect when it came to brand awareness.

■ Over three-quarters of survey respondents (77%) could not name a single Serviced Apartment or Aparthotel brand/operator (Graph 2). Only 8% could identify a brand or operator although an additional 5% could name individual properties. A larger number (10%) incorrectly named a hotel brand.

■ We suspect that brand awareness will improve as the development of purpose built stock continues to gather

pace. Yet, there is perhaps still work to do in improving wider concept recognition.

Branded expansion increasing

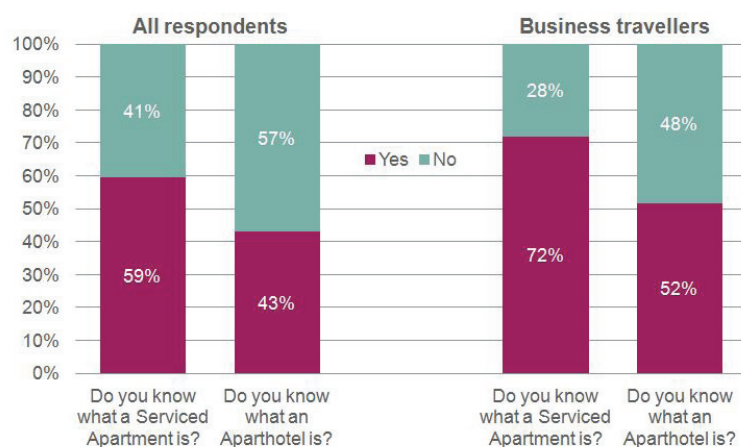
■ Operators are already tackling the lack of brand awareness through physical expansion. Based on a selected list of some of the largest European operators we have identified 26 sites in the development pipeline totalling over 3,500 units. In last year's report we identified 12 European sites (Table 1).

■ Of this sample pipeline, London is the primary target market for these major operators with nine sites in the pipeline. Looking at the entire London pipeline (based on known committed schemes up to end 2017) there are 15 sites totalling just over 1,500 units.

■ The strength of London's economy and size of its corporate visitor market has been a key pull for operators and investors. More recently however, interest beyond London and the UK has been improving.

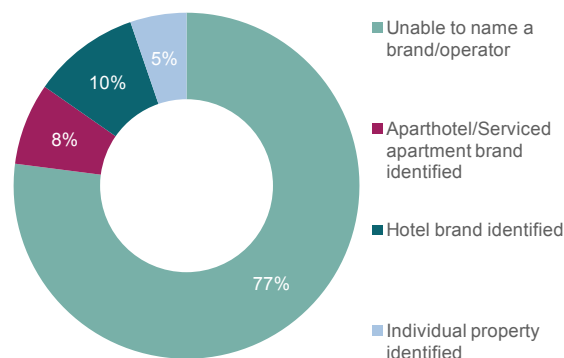
■ Of the operators/brands listed in Table 1 five have pipeline sites in a number of key UK regional cities including Birmingham, Manchester, Edinburgh and Aberdeen. German cities also feature highly, being on the pipeline list for three of the operators/brands identified. For example, of the four known schemes Frasers Hospitality have in the pipeline, three are in German cities.

GRAPH 1
Concept awareness generally poor...



Graph source: Savills Research

GRAPH 2
...but brand recognition even worse



Graph source: Savills Research

TABLE 1

Overview of selected operators

Operator/ Brand	Pipeline units	Selected pipeline (dates estimated)
Adagio (Accor)	600+	Birmingham (2015); London Aldgate East (2016); Edinburgh (2016); London Stratford (2017)
Adina (TFE Hotels)	300+	Nuremberg (2016); Frankfurt (date unknown)
Beyondor/ SACO	600+	London Aldgate (2016); London Cannon Street (2016); London Old Street (2016); Aberdeen (2016); Dublin (date unknown)
Derag Livinghotels	111	Frankfurt (2015)
Element (Starwood)	200+	Amsterdam (2016); London (2017)
Fraser's Hospitality	500+	Capri Frankfurt (2015); Fraser Suites Geneva (2015); Capri Berlin (2017); Fraser Suites Hamburg (2017)
GoNative	70	London Southbank (2016); London City (date unknown)
Staybridge Suites (IHG)	116	Manchester (2016)
Staycity	800+	Lyon (2015); Birmingham (2015); London Covent Garden (2016); York (2016); Edinburgh (2017)

Table source: Company corporate information; AMPM

■ Improving operating conditions outside London have been key to this wider expansion as have pricing constraints in London. For example, for some operators pricing and rent affordability constraints in London have meant that expansion opportunities beyond London, where the same pricing issues are less acute, are proving more attractive.

Institutional investment starting to trickle in

■ Transaction volumes remain heavily constrained due to the lack of purpose

built stock. Activity in the UK, one of the largest markets in Europe, has totalled close to £300m since January 2014 covering relatively few deals. While activity remains limited, it is the entrance of corporate private equity and institutional investors that suggests that confidence and interest in the sector are expanding.

■ This is further borne out by the fact that some investors see Serviced Apartments as a subsector of hotels rather than a distinct market.

■ For example, institutional investors Aviva and LaSalle entered the sector with London acquisitions in 2014. The largest transaction to date in the UK was the acquisition of the Think portfolio for a reported £206m by Starwood Capital earlier this year.

■ Elsewhere in Europe Singapore's Far East Hospitality, a subsidiary of the Far East Organisation, acquired a 50% stake in four Adina branded properties marking their first foray into the European hospitality market.

Visitor growth to continue

■ The improvement in operational performance already highlighted has been aided by an improvement in overseas visitor numbers across key European cities.

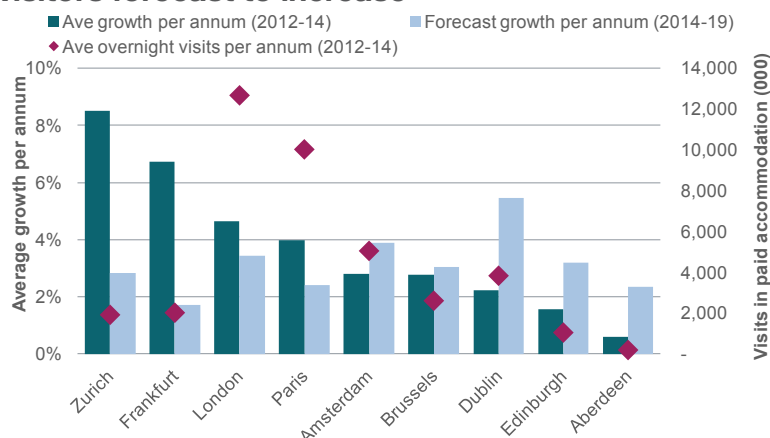
■ Of the nine European cities that we tend to track for the Serviced Apartment sector, all have reported increases in the number of international visitors staying in paid accommodation over the last three years (Graph 3). Zurich has seen the greatest rise with an average growth per annum of 8.5%, with an estimated 2.0m overseas visitors staying in paid accommodation last year. However, in quantum terms London remains the largest market with an estimated 13.4m visitors in paid accommodation in 2014.

■ Current forecasts from Oxford Economics suggest that this upswing will continue with the previous weaker performers expected to report more robust growth going forward. For example, Dublin is forecast to see the largest increase of 5.5% per annum over the next five years, over double that seen during the preceding three years.

■ Dublin's strong growth reflects, in part, a bounce back off a relatively low base. It also reflects economic and employment expansion in the city. Ireland's low Corporation Tax rate has seen a number of firms, particularly US Technology firms such as Facebook and Twitter, establish sizable offices in the city. For the City's Serviced Apartment market this is likely to have a positive impact on demand and operational performance.

■ Further expansion in visitor numbers is likely to further accentuate the potential supply issues highlighted in last year's report. We previously noted that Amsterdam, Paris and London were found to have the most constrained levels of supply relative to the size of their international visitor markets with 0.2,

GRAPH 3

Overnight stays in paid accommodation by overseas visitors forecast to increase

Graph source: Oxford Economics

→ 0.3 and 0.6 units per 1,000 visitors respectively. Having said this, any real supply pressures will be dependent on the success of operators in raising concept and brand awareness and in turn demand.

■ For those markets that are experiencing significant stock expansion, concept and brand awareness become all the more important in maintaining growth in operational performance.

■ London occupancy remains robust, currently averaging 79.5% over the first four months of 2015. However, it has reported monthly year-on-year falls since late 2014 with year to date occupancy as of April 2015 down 1.7% on the same period in 2014. Initially this generated some downward pressure on rates and in turn RevPAR (Revenues per Available Room), although this has subsided throughout 2015 with year to date rates and RevPAR up 3.4% and 1.7% respectively.

■ We believe some of this downward pressure on occupancy has been driven by weaker business visitor growth. However, increases in stock may have been a contributing factor. For example, business visitor numbers

to London increased 0.9% in 2014 as opposed to the 4.8% uplift in leisure visitors. This was outpaced by stock expansion, which increased 6.3% over the same period with an additional 4.2% growth seen to date this year.

■ A significant increase in supply can dampen operational performance growth as a market absorbs new stock. This impact on London is likely to be minimised once business visitor numbers return to their pre-recession level, which at present are still 10.5% off their 2006 high of 3.7m despite consecutive annual increases over the last five years.

■ This suggests the full upside in Serviced Apartment demand is still to be fully realised. Even with this positive demand driver the sector still has more to do in raising awareness with potential users, although stock expansion will aid this. By addressing this, further operational performance growth and stock expansion can be fully supported. ■

2015 Consumer Survey

Using a Google consumer survey Savills surveyed over 200 UK based consumers on their awareness of the Serviced Apartment/ Aparthotel sector and its brands.

OUTLOOK

Are we on the verge of a 'brand' race?

■ Despite the apparent concept and brand awareness issues the scale of the branded development pipeline suggests that this will be eased going forward.

■ Considering the level of branded supply in the development pipeline, the race is on to establish the first 'high street' Serviced Apartment or Aparthotel branded network. That is the creation of a brand that is known across consumer groups and not just those within the business travel community.

■ We have already seen some degree of consolidation within the sector with the merger of SACO and the recently launched Beyonder brand backed by Oaktree Capital. We may see further instances of this as it is one of the quickest ways to develop scale.

■ The real positive for the sector going forward is the fact that business visitor numbers, on the whole, are yet to return to their pre-recession levels. This suggests that there is still a considerable upside in terms of operational performance subject to operators/brands successfully maximising this source of demand.

Please contact us for further information



James Bradley
Hotel Valuations
+44 (0)20 7409 8771
jbradley@savills.com



Tim Stoye
Hotel Valuations
+44 (0)20 7409 8842
tstoye@savills.com



Richard Dawes
Hotel Transactions
+44 (0)20 7409 8106
rdawes@savills.com



Kirsty Perrin
Hotel Transactions
+44 (0)20 7409 8137
kperrin@savills.com



Marco Peetsma
Netherlands Valuations
+31 20 301 2034
m.peetsma@savills.nl



David Poole
France Valuations
+33 (0)1 44 51 73 10
dpool@savills.fr



Tom Barrett
Head of Hotels & Leisure Ireland
+353 (1) 618 1415
Tom.Barrett@savills.ie



Marie Hickey
Research
+44 (0)20 3320 8288
mlhickey@savills.com

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