

Spotlight

Extended stay: UK stock set to double

2015

Extended stay to become fastest growing segment in UK

■ The serviced apartment/apart-hotel segment, also known as extended stay, remains a relatively small part of the UK accommodation market. Current stock totals approximately 19,000 units, 3.1% of all hospitality accommodation supply.

■ Improving consumer and investor awareness however, means that over the next two years the sector will be the fastest growing segment of the UK hospitality market.

■ Extended stay purpose built supply is expected to expand by an average of 8.4% per annum by the end of 2017. This outpaces the 6.0% growth forecast for budget hotels and the 2.6% across all hotels. It also outperforms that seen over the preceding five years (see Graph 2).

■ While London previously dominated purpose built expansion, the future

growth hotspots over the next two years are expected to be Scotland and the Midlands with average growth per annum of 21.1% and 13.4% respectively.

■ In terms of quantum of units however, London continues to lead with just over 1,200 units expected to be delivered by the end of 2017 (based on known planning consents). Yet Scotland is not far behind with 1,061 units in the development pipeline.

Operator growth targets far more pronounced

■ While the forecast growth in the supply of purpose built extended stay accommodation is significant it is dwarfed by the growth targets set by operators.

■ In a unique survey completed by the Association of Serviced Apartment Providers (ASAP), 48 operators were surveyed regarding their expansion plans and targets through to the end of 2018, both nationally and globally.

Summary

Extended stay - on the verge of global recognition

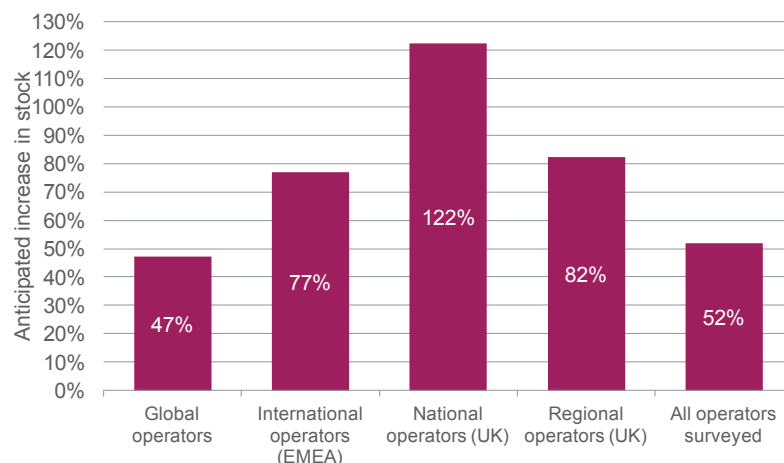
■ The extended stay sector in the UK, including serviced apartments and apart-hotels, is set to be the fastest growing hospitality segment over the next two years, outpacing the growth in hotel supply.

■ This is dwarfed by operator growth targets globally. The 48 operators surveyed by ASAP are planning to increase stock globally by 145,000 units by the end 2018 - a 52% increase in stock.

■ Evolving consumer preferences and improving sector awareness, helped in part by the growth in Airbnb and its profiling of alternative accommodation options, will be key to this stock expansion.

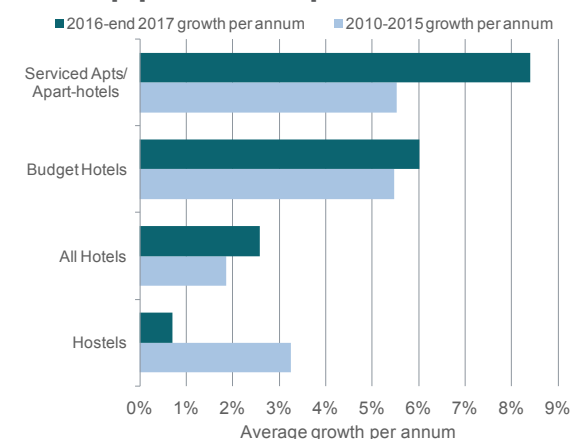
■ Operator appetite for expansion, coupled with demand and current supply constraints, means that the sector is set to become an established and well recognised part of the global hospitality market.

GRAPH 1
Stock expansion by operator type (to end 2018)



Graph source: Savills Research; Association of Serviced Apartment Providers (ASAP)

GRAPH 2
Future purpose built growth to outstrip previous expansion in the UK



Graph source: AMPM

■ Those surveyed represent 278,000 units across more than 2,600 locations globally. We would also note that while we asked operators to provide target numbers, 91.3% of these target units reflect committed supply rather than purely aspirational numbers.

■ Across all those surveyed, target expansion points to a growth in supply of 52.0%, an increase of 145,000 units. National and Regional operators within the UK lead in percentage terms with expansion targets of 122.3% and 82.2% respectively, effectively doubling stock.

■ This drive for expansion is not just a UK phenomenon. The larger global brands surveyed plan to increase their portfolios by an average of 47.2% by the end of 2018. In unit terms this translates into approximately 112,500 new units globally, six times the size of the current UK market - a huge increase.

■ The pure extended stay operators/groups are the driving force behind this global growth. Target expansion by this group points to a 71.1% increase in stock over the next three years. For example, the Ascott Group plans to double its global portfolio to 80,000 units by 2020.

■ Hotel owned brands are also expected to be particularly acquisitive globally. Eight were surveyed by ASAP with their unit targets pointing to an average growth in stock of 40.0%. For some hotel groups their extended stay

brands will be the fastest growing. For example, IHG's Staybridge Suites, their extended stay concept, is set to be one of the fastest growing in its segment with 111 new sites in the pipeline globally (based on data as of Q315).

■ However, it is not just the established players who will be driving growth. The most talked about new entrant has been Zoku. The first site will open in Amsterdam in 2016 with 133 'Smart Lofts' with a view to have five sites and a total of 750 units (operational/under development) by the end of 2018 across key international European cities - reflecting a 500% growth.

■ It is not just the growth target that makes Zoku interesting, its innovation around the extended stay concept also makes it stand out.

■ On the whole the sector has evolved around providing a 'home-away-from-home', overnight accommodation aimed at the longer stay guest. Zoku focuses on providing a hybrid between a hotel and a short-stay office for people who need to live and work in a city for between five days and three months. While supporting 'home working' is implicit in the facilities provided by existing extended stay providers, Zoku places this function up front and also provides a social structure that gives 'global nomads' a local social life.

What's driving stock growth?

■ Supply constraints relative to other more developed markets in the US and Asia Pacific is helping to support stock expansion. For example, London only has a third the number of units of Hong Kong relative to overseas business visitor numbers (1.7 units vs 5.1 units).

■ However, it has been the evolution in consumer preferences and improving concept and brand awareness, that is really helping to drive supply growth.

■ Travellers are becoming increasingly aware of the attraction and benefits of extended stay, whether it is corporate housing, serviced apartments or apart-hotels. Airbnb, previously touted as the big threat, has actually been beneficial in that it has helped profile alternative accommodation such as extended stay. This is reflected in the number of operators that are listing properties on the site. BridgeStreet have taken this a step further by collaborating with Airbnb in the launch of the Airbnb for business product suite.

■ This evolution means that travellers are becoming more open to concepts that are better aligned with their specific requirements. Couple this trend with the stock expansion that is set to take place over the next three years and it looks like extended stay, including serviced apartments and apart-hotels, is set to become an established and well recognised part of the global hospitality market. ■

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