MAY 2014

THE INCREASING IMPORTANCE OF BRANDED RESIDENCES

Lucy Payne
Consultant & Valuation Analyst

Arlett Oehmichen, MRICS
Director



Following the success of our recent article 'Here to Stay – an Overview of the European Serviced Apartment Sector', which gives a comprehensive overview of the European Serviced Apartment sector, we have spoken with industry experts to further explore the worldwide strategies and future growth opportunities of the major branded residence players globally. This article is based on a sample of eight luxury international branded residence operators.

Overview of Branded Residences

The concept of branded residences has rapidly evolved over recent years. As our previous article discussed, this growth in branded residences has been spurred by its attractiveness to both developers and investors. Compared with unbranded residential properties it is proven that developers of branded residences can demand premiums in cities around the world by simply having a brand affiliation.

Branded residences are a growing concept in luxury housing whereby the developer works with international upscale and luxury brands to create a 'home' for wealthly individuals who are constantly travelling and enjoy having their 'home' looked after.

They are typically managed by well-known hotel operators, and are therefore usually located adjacent to a hotel, or in part of a mixed-use development. This allows the resident owners to benefit from the use of hotel services, facilities and amenities. Branded residences are located in international city centres, as well as in resort destinations.

Branded residences are a relatively safe investment, given that it is a tangible asset and is often associated with a known brand. Additionally, investors are attracted by the design and high-quality services associated with the concept.

In some properties, brands offer rental management agreements. In this instance, the branded residence is mainly an investment product and the owner of the unit has limited use, for example twelve weeks of the year, during which he can use the property.

Our Survey and Key Findings

We surveyed a sample of eight major hotel operators which are also recognised players in the luxury branded residence market in order to understand their current portfolio, strategy and future goals. Our findings are detailed below.

- Branded residences are operated in both urban and resort locations. Although, urban projects are preferable as they are easier to manage because owners are typically living in the residence year round, or for a large part of the year, whereas resort locations are more remote and owners are characteristically staying for a shorter period of time;
- Typically, residential developments are not actively being sought after; they are a bi-product of hotel developments predominantly in a mixed use context;
- Branded residences have helped brands enter new markets. For many operators a large proportion of their existing pipeline is in mixed-use developments;
- The majority of operators do not operate standalone residential products and it is not a major consideration for the future;
- Hotel operators offer a combination of serviced and branded residences. The terms and conditions of the rental programme for branded residences, or whether a rental programme exists depends on the legal restrictions of a destination. Some operators do not currently have a rental programme at any residences;
- On occasions third-party developers only brand the hotel component in a mixed-use development and use the hotel brand as leverage to aid sales of unbranded residences. It is noted that third-party developers do not always see the upside potential of branding the residences;
- A license/royalty fee is typically between 3% and 5% and is negotiable. However, there are some operators that would command higher fee levels;
- The majority of operators show a general consensus that the license/royalty fee payable

covers the use of the brand name and approval of marketing material. However, certain operators consider it their USP to offer additional sales and marketing services for third-party developers which can be included in the license/royalty fee or come at an additional cost;

- Generally, it is considered the third-party developers' responsibility to sell units. However, operators typically have a dedicated team in-house to train and support developers, including a marketing and sales support division. These services often come at a charge which varies depending on service offering;
- Only a few operators help the developer in generating qualified sales leads, Most of the time the operator would assist with using their network and channels for selected marketing campaigns (such as magazines, adverts in existing hotels and so forth);
- Brand standards are important for residential developments and design and technical guidelines are given to developers. Typically, the standards provide additional criteria on top of that given for hotel developments. We note that guidelines are flexible to a certain extent and are project specific. There are, however, minimum requirements regarding unit mix and sizing;
- Owners of the branded residences sometimes gain membership to the operator's loyalty programme, or similar offering, which provides them with discounts and benefits at the operator's hotels around the world.

Pipeline

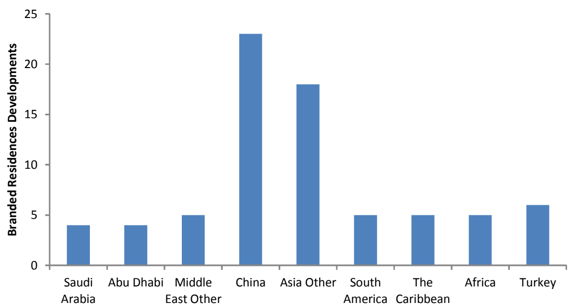
A key topic of discussion in our interviews was the current pipeline, and according to the information obtained the most important market for development of branded residences at present is China.

Characteristically, development projects in China are mixed-use and these are encouraged by the government. As a result, a number of operators are entering the market with a hotel and a branded residence is built to complement it.

Other important markets for expansion in the medium term include Asia, Africa, Middle East and South America. We make the following comments.

- Other important Asian markets excluding China are primarily Japan, Indonesia and Thailand;
- There are also several projects in India, spread throughout the country, including Delhi and Goa;
- Turkey is seeing branded residence development in both Istanbul and in several beach resort locations;
- There are numerous projects in the Middle East with the majority concentrated in Saudi Arabia and Abu Dhabi. Interestingly, Dubai is not a market which is actively under development as many already have presence there;
- Projects in Africa are concentrated mainly in North Africa, specifically in Morocco and Egypt;
- Companies headquartered in North America are predominant in developing residences in the Caribbean. We note that following the onset of the global economic crisis many projects in the Caribbean have been put on hold and remain so;
- Projects in Central/South America are spread throughout the region, including Mexico, Puerto Rico and Panama.

TABLE 1: WORLDWIDE BRANDED RESIDENCE DEVELOPMENT



Source: HVS Research

The preceding chart shows the branded residences pipeline for the luxury branded residence operators surveyed. We note that this chart is not exhaustive. For details on recently opened projects in Europe please see our previous article.

Conclusions

The overall view is that branded residences are an important sector moving forward following recovery from the global economic crisis, as demand for branded residences moves with the real estate market. In addition, mixed-use developments are becoming more frequent in some markets and these typically contain a residential component.

From our research we understand that there does not seem to be any geographical limitations with regards to branded residential development globally, although the majority seems to be concentrated outside of Europe at present.

For more information on branded residences and other forms of serviced apartments please see our article 'Here to Stay – an Overview of the European Serviced Apartment Sector' which was published in July 2013 and will be updated to coincide with the Serviced Apartments Summit which takes place in London in July 2014.

About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **www.hvs.com**

With offices in London since 1990, **HVS London** serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuation and feasibility studies, and for our ability, experience and relationships throughout Europe and Africa, HVS London has extensive first-hand consulting experience in the serviced apartment and branded residence sectors.

Superior Results through Unrivalled Hospitality Intelligence. *Everywhere.*

About the Authors

Lucy Payne is a Consultant & Valuation Analyst with HVS's London office. Lucy holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey and a certificate in Hotel Real Estate Investment and Asset Management from Cornell. She joined HVS in 2010 and since then has worked on a number of valuation and feasibility assignments across Europe and Africa.

Tel: +44 (0) 20 7878 7757
lpayne@hvs.com

Arlett Oehmichen is a Director with HVS's London office, specialising in hotel valuation and consultancy. Arlett holds a Masters in Real Estate Investment and Finance from Reading University, UK. She has extensive experience of feasibility studies and valuations throughout EMEA and specialises in mixed-use and resort studies in Europe, the Middle East and the Caribbean. She has extensive consulting experience in the branded residence sector.

Tel: +44 (0) 20 7878 7753
aoehmichen@hvs.com