

GSAIR - Highlighting The Trends, Changes, Debate And Discussion Within The Serviced Apartment Industry

Every 18 months, The Apartment Service, Travel Intelligence Network (TIN), and over 40 recognised and respected industry experts from around the globe, begin the process of compiling the most comprehensive and thought provoking report on serviced apartments and corporate housing that is available today.

GSAIR (the Global Serviced Apartment Industry Report) - now in its 5th edition - covers more subjects and discussion points than ever before.

Developed for a wide audience of buyers, investors, bookers, operators and guests, GSAIR aims to help interested parties learn more about where the sector is going, who has what - and where - and what exactly the issues are facing the industry - in every aspect of the business.

Subjects range from service to security, from buying to booking, from investment to infrastructure, from Angola to Adelaide, and everything (and everywhere) in between.

Charlie McCrow and Bard Vos (from The Apartment Service) and Mark Harris (from TIN) invest nearly 6 months responsibly compiling information and interviewing representatives from a range of primary and secondary global sources that are closely aligned to the serviced apartments sector.

Published and distributed globally, GSAIR analyses the results of The Apartment Service survey. The overarching message in this 5th edition, 2015/2016, is that the global supply of inventory has increased by an impressive 14% since the last report, and that the market has doubled in the last 12 years.

The popularity of serviced apartments is continuing to grow, the industry is being recognised, investors have seen and are reacting to the opportunity, and users are enjoying the products (fig 1).

Charlie McCrow shares his take on the outcomes of the report and the background to the development and exponential growth of an industry.

Evolving...

The apartment sector has evolved differently over the past few decades across the global regions. Since the early 1990's, the US and Singapore led the way for the sector as we know it, albeit originating with different product models and target customers - their chains are still some of the largest by numbers of units today.

The understanding of the definition of 'what is a serviced apartment', and what the varying property types are under this umbrella expression, is crucial in understanding the way markets have,

and still are, developing globally. And importantly - it helps us to understand the new emerging brands.

The next few paragraphs will take you on a journey from the early 1990's to the present day, and will help to explain the growth of recognised brands that are still shaping the landscape.

The US - Following The Trends Of The 'No-Frills' Hotel Concept

The development of extended stay hotels in the US increased dramatically during the growth of popularity of the 'no-frills' hotels concept. This model had less overheads for hotel operators keeping running costs to a minimum.

With plenty of available land, building 'purpose designed' extended stay hotels happened quickly. Residence Inn became the largest brand with over 150 locations in the 1990's. The benefits of the concept was quickly being recognised by the users (fig 38).

Oakwood quickly expanded their property operation business to include national corporate housing services and later expanded into the management of properties in Asia and a base in Europe.

More recently, US extended stay hotels (aparthotels) experienced growth in 2014, with revenues rising at the fastest rate since 2006. This was against a backdrop of user demand for extended stay properties increasing with less supply growth in the sector (according to the recent Highland Group report).

The Far East – The Change From Residential To Serviced Apartments

The APAC model of serviced apartments developed from residential accommodation that was adapted to house shorter stays with added services.

The Ascott Group opened their first 'serviced residence' as an exclusive club in 1984, and another in London a decade later. They subsequently bought Citadines in the early 2000's, creating the foundations of the global brand that exists now. French in origin, Citadines had just merged with Orion, another French

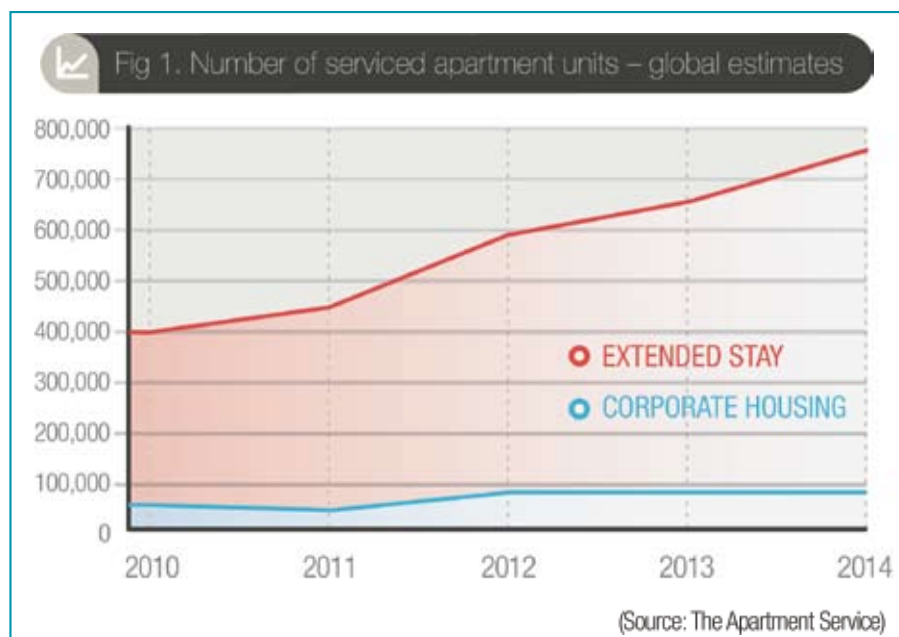


Fig 38 – US extended stay supply growth

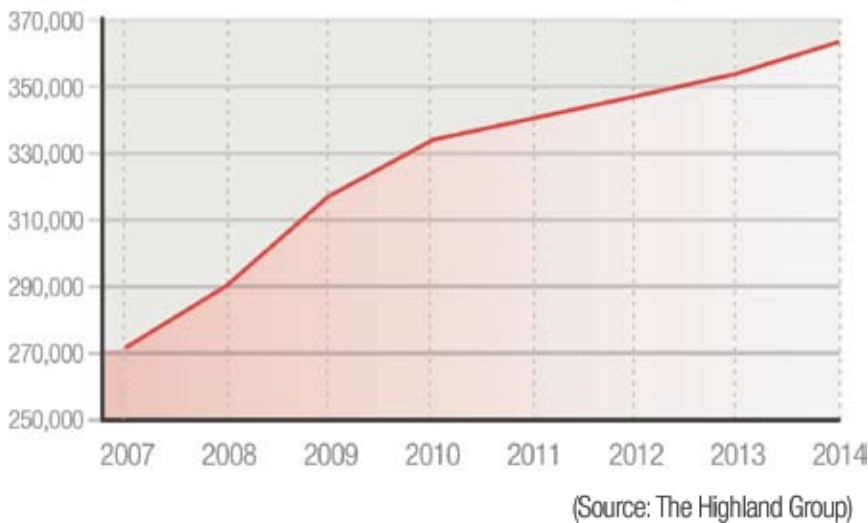
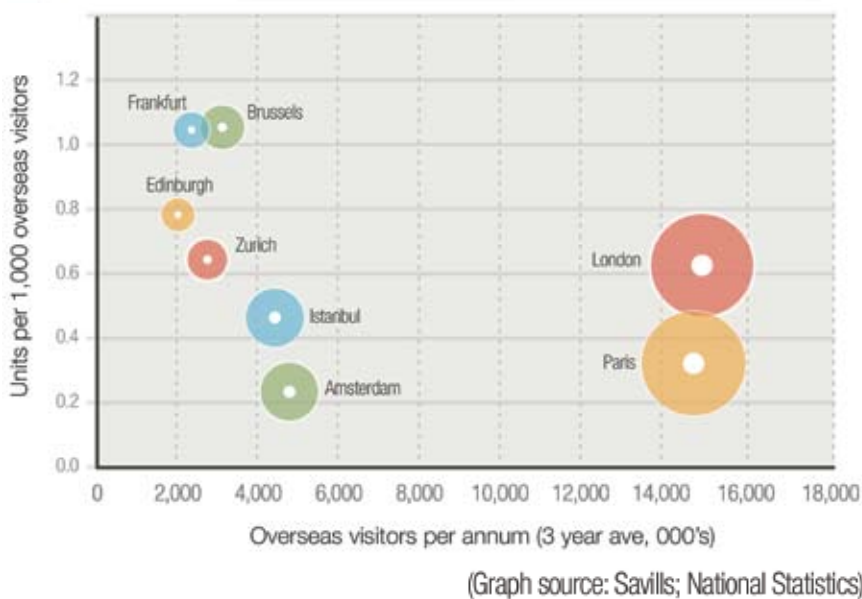


Fig 27 - Serviced apartment supply by European cities by visitors & relative to hotels



aparthotel brand.

APAC is strong with investment in secondary markets, reflecting that primary cities such as Hong Kong and Singapore may have reached their peak.

Both Frasers and Ascott have shown their capability to grow their brands outside of their home territory.

Europe – Restricted Opportunities, New Builds, Conversions And Communities

The rest of Europe, outside of France, had a limited growth in the same time period.

The restricted opportunities to build new properties in older, densely populated cities, the high cost of land (when available), and also the lack of rental

property communities, combined with the shorter distances and larger numbers of countries concentrated in Europe, has made it easier to continue to use hotels and to keep the majority of visits 'short' across the continent (fig 27).

Adagio (Accor), a European brand and increasingly international operator of aparthotels, has two distinct brands now operating in Europe and LATAM.

The concept of the new build aparthotel model has gained popularity versus the original 'corporate housing' stock that originated from residential accommodation units.

The corporate housing and serviced apartment offerings however, have been upgraded over the past 15 years by

professional serviced apartment operators with expansive teams across the globe, as well as small operators that have reacted to local demand in their markets.

Serviced Apartments and corporate housing unit numbers have increased in key cities across Europe versus aparthotels due to a consistent demand for an extended stay option, especially in markets where there has been limited entry of aparthotel products.

The aparthotel brands are now emerging strongly across the region. Players such as Derag, Staybridge, Vision and Adagio are all looking for further opportunities to widen their footprint.

Market Changes – Investment And Growth

The great news is that not just the aparthotels are experiencing increased demand. The traditional serviced apartments and corporate housing players have seen continued growth and recognition across all markets and platforms due to the key differentiators of space, privacy and a 'home from home' environment, these benefits are generally not delivered by a traditional aparthotel.

Serviced apartments are growing in volume in the secondary and tertiary locations where aparthotel developers (currently) do not see the potential, or perceive that they are able to realise the returns for the size of property that they would be looking to build.

The interest of institutional investors into the private rental sector is now growing across Europe and the UK. Companies such as Essential Living are introducing products into the space that will enhance the stock of serviced apartments available on the market. There is still great potential for rapid growth of supply in the UK markets.

The Growth Of Global Players

The survey (conducted by The Apartment Service in quarter 4, 2014) of the largest global operators, highlights the changes in unit numbers and distribution since our 2013/2014 GSAIR report (fig 42).

One of the core constrictors to growth of the industry has been the lack of available land, especially in high density cities across Europe and APAC.

Countries like Australia have become far better developed than other similar sized countries where the concept has been slow in taking off, possibly largely for this reason.

Fig 42

Serviced apartments totals worldwide

| | 2013/14 | 2015/16 | YoY | 2013/14 | 2015/16 | YoY |
|-------------------------|--------------|--------------|--------------------|----------------|----------------|---------------------------|
| | Locations | Locations | Variance Locations | Apartments | Apartments | Variance Apartment Totals |
| Accor | 221 | 201 | 90.95% | 21,898 | 22,647 | 103.42% |
| The Ascott | 177 | 218 | 123.16% | 22,785 | 30,519 | 133.94% |
| Extended Stay Hotels | 683 | 686 | 100.44% | 77,200 | 77,588 | 100.50% |
| Frasers | 50 | 50 | 100.00% | 7,739 | 10,075 | 130.18% |
| IHG | 485 | 512 | 104.92% | 48,521 | 51,732 | 104.40% |
| Marriott | 1,018 | 945 | 92.82% | 119,771 | 109,306 | 91.26% |
| Pierres et Vacances | 257 | 257 | 100.00% | 22,252 | 22,252 | 100.00% |
| | 2,894 | 2,879 | 99.48% | 321,186 | 324,119 | 100.92% |
| Australia | 1,104 | 1,073 | 97.19% | 57,220 | 55,169 | 103.41% |
| The Americas | 5,702 | 6,045 | 106.02% | 418,950 | 446,058 | 106.47% |
| Latin America | unknown | 56 | unknown | 6,899 | | |
| Asia | 419 | 551 | 131.50% | 49,480 | 72,857 | 147.26% |
| Middle East | 289 | 380 | 131.49% | 40,364 | 55,732 | 138.07% |
| Europe | 1,212 | 1,723 | 142.16% | 85,293 | 105,818 | 124.11% |
| Africa | 76 | 102 | 134.21% | 4,634 | 8,802 | 189.94% |
| TOTALS WORLDWIDE | 8,802 | 9,981 | 112.16% | 656,911 | 778,338 | 114.11% |

Source: The Apartment Service

Up until now, the largest 'chains' have been from the US, Australia, Singapore and France, however, the market share of these largest operators reduced over the past 18 months as new entrants are accounting for increased demand.

Adagio, Ascott, Oakwood and Frasers all have extensive expansion plans – some US chains such as Staybridge (IHG) and Residence Inns (Marriott) are looking at further expansion in Europe with both already operating several properties.

Other regions experiencing growth with large potential are Africa, India and China, where the aparthotel concept is quickly gaining pace.

So how does this growth affect the industry? Let's review from the sales perspective.

Communication, Connection, Commercial And Clients

As discussed above, over the last 18 months since the 2013/2014 GSAIR report – the serviced apartment industry has continued to grow exponentially. The industry is enjoying sharing ideas, information and resources through many vehicles, and continues to drive conversation, debate and opinion that has moved the industry forward.

As Charlie alluded to, many operators have grown their brands very successfully, and there are now more and more independent operators across the globe that are striving to gain a marketing platform for their products – hence the successful arrival of alliances (such as The TAS Alliance), partnerships and serviced apartment booking agencies into the arena.

There are now consultants, associations and affiliates to the sector who have become

more confident in their relationships and delivery of key messages.

Alliances have been built and developed to provide competition to the original global players that have dominated the markets for the last 10 years, leveraging availability for buyers and providing access, data and management information through one platform.

The report shows that over the next two years, the industry will see a focus on the following areas:

Distribution And Yield

There is a definite drive for intelligent distribution of available inventory from operators to the buying community through an array of marketing platforms that provide access to global booking agents (TMC and RMC) and direct buyers through the widest and most successful booking channels.

Savvy serviced apartment operators (especially those that have come from a hotel management background) are now yielding their products, and mirroring the actions of hotels and airlines to gain the most revenue from every transaction.

Revenue management has hit the serviced apartment world, and every corporate buyer knows exactly what the impact of this means to the availability of negotiated rates and available units when you have high demand in a market.

Health, Safety, Security And Compliance

There is a high requirement to deliver information and solutions to all corporates, travellers and assignees that shows compliance, adherence to health and safety needs, and importantly - a

robust security plan.

Understanding and managing risk in every environment is a key factor for every stakeholder across the globe.

Smart Data, Not Big Data

Management information that is provided without analysis as 'big data' is consistently frustrating buyers. The drive to analyse trends, provide recommendations and present 'smart data' as part and parcel of every local, regional and global contract is prevalent.

Buyers want the kind of 'smart' information that can be consumed, shared and broken into outputs to enhance the management and direction of their serviced apartment programmes.

Partner Engagement

Realising the value of partner engagement versus supplier management, in order to provide a global programme and ensure that a guest as happy in deepest darkest Peru as they would be in Paris, the supply chain managers need to be fully engaged with their suppliers.

Training, development, investment in time and relationships, continue to be the only route to help create the expected levels of service, the right product, the fastest response times (both for booking and issue resolution), and to be able to show acute market awareness in a fast paced and ever-changing environment.

Exceeding Expectations

Setting expectations and more importantly, exceeding them, is one of the most satisfying parts of any business. Ensuring that brand marketing, property information sheets and online profiles are recognisable and deliverable, has always ensured that users return to a product or brand and on-going business demand and opportunity is sustained.

Hospitality

Whether a provider has the most basic product or the most luxurious – being able to safely access a comfortable, clean apartment with everything in working order (including internet), with a warm welcome, are the absolute expectations of any guest and is a measure of a product's hospitality. It is widely recognised that hospitality is what makes the difference, it is a reflection of the brand's personality.

The Future

So where from here? One message is clear, serviced apartments, corporate housing,

extended stay properties and aparthotels have fast become a trusted and respected accommodation solution across the globe for extended-stay travellers.

Markets (including secondary and tertiary) are growing and developing quickly, and buyers are becoming more familiar, educated and informed about the opportunities to use this relatively new accommodation solution.

The Apartment Service is delighted to present the 5th edition of GSAIR to the market, this recognised and celebrated inclusive report continues to highlight the trends, changes, debate and discussion within this fast moving and innovative industry.

By Jo Layton featuring Charlie McCrow.



Jo Layton, MD Group Commercial Sales, The Apartment Service. Jo Layton has joined The Apartment Service as Managing Director – Group Commercial Sales. She has successfully established The Apartment Service's new Alliance brand as part of her overall remit to develop the company's successful agency, network and Roomspace brands. Layton joined from BridgeStreet where she was responsible for sales and marketing throughout EMEA and APAC and was instrumental in the expansion of the UK office. www.apartmentservice.com



Charles McCrow has been the driving force behind The Apartment Service's 33 year success. With a background in property development and construction, Charles is a long standing member of several industry bodies and a founder member of the UK's Association of Serviced Apartment Providers (ASAP). Under his leadership the company has been at the forefront of innovation in the sector, the latest example of which is the TAS Alliance. Charles' investment in technology and people has helped power the growth of the serviced apartment industry, resulting in the launch of the sector's first alliance of independent operators to provide an end-to-end solution for buyers and travellers globally.

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