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SERVICED APARTMENTS IN EUROPE AT THE CROSSROADS BETWEEN NICHE AND MAINSTREAM

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2015 Highlights

During the last 12 months, the serviced apartment sector in Europe gained further momentum with major activity in development, branding and transactions putting the extended-stay market more firmly on the real estate map.

Transactions and Mergers

In January 2015, **Starwood Capital Group** announced the acquisition of four serviced apartment blocks and one residential complex in London for £206 million. The properties, in Tower Bridge, Bermondsey, London Bridge and Earls Court, were constructed in 2008 but were unfinished and partially operational, comprising nearly 650 units. The properties were operated by Think Apartments until August 2014, when the companies which owned them went into administration. Go Native was subsequently appointed as operator and will remain in place. Wells Fargo financed the transaction.

A merger of the serviced apartment platforms run by US-based **Oaktree Capital Management** and **The Serviced Apartment Company (SACO)** created a new £60 million hospitality company. The new company, which will operate under the SACO name, will include both Oaktree and SACO's existing serviced apartments, as well as the new **Beyonder ApartHotel** brand. The business will have a portfolio of 1,645 apartments, comprised of SACO's existing portfolio of 700 operated apartments across the UK, plus new transactions on 945 apartments across ten properties in London, Amsterdam, Edinburgh, Glasgow, Aberdeen and Dublin, due to open in stages from December 2015.

The Adina Frankfurt was recently purchased by **Deka Investment GmbH** in a forward funding deal from developer **GBI AG** for a sum of €39 million. The 181-unit property will be in the city's Europaviertel district and is set to open in autumn 2016.

Last October, Australian-based **Quest Serviced Apartments** announced a major strategic partnership with **The Ascott Limited**. The Singapore-based company is expected to invest AUD500 million over the next five years to develop new Quest properties

across Australia and is also eyeing international expansion in Europe, mainly the UK.

New Market Entries

A number of new brands have been launched that are an exciting addition to the existing offering:

The first **Urban Villa** property opened at the beginning of 2015 in Brentford, west London. This brand, developed by Union Hanover, is all about reflecting a new way of looking at business and leisure accommodation. As well as a bedroom and bathroom, every Urban Villa unit includes a kitchen and living room, all of which is delivered with a distinctive design style and can be transformed in various ways to accommodate any kind of guest, from business travellers on extended stays, couples on a weekend break to families.

FIRST URBAN VILLA, BRENTFORD (WEST LONDON)



CLSA, backed by Oaktree, launched the **Beyonder** brand during the Berlin Hotel Investment Conference in March 2015. **Beyonder ApartHotels** is focused on helping millennial global travellers get the most from their stays – whether it's for six days or six months. Each Beyonder ApartHotel unit is a minimum of 30 m² and has four distinct areas: bedroom, bathroom, kitchen and living space. Tablets control everything from the lighting, the television to the blinds, and free high-speed wireless Internet, telephone and films come as standard. The first Beyonder ApartHotel is due to open in London in December 2015.

In May 2015, HotelsAhead launched its new brand, **Zoku**, which means family, tribe or clan in Japanese. The concept behind Zoku is a home-office hybrid which offers hotel services and the social buzz of trendy locations with its various social areas intended to encourage interaction between travellers. The brand aims to target 'bleisure travellers'; this new segment, which is growing at a fast pace, is a mix of business and leisure. The first 133-bedroom property

is set to open this autumn in Amsterdam and will feature a fully equipped kitchen, in-room office supplies, extensive storage space and a four-person table in each room.

The first **Element** hotel to open outside North America was the Element Frankfurt Airport. Offering bright, modern design and an eco-conscious ethos, the hotel is in Gateway Gardens, Frankfurt's new business district, adjacent to Frankfurt International Airport, Europe's third-busiest air travel hub. In addition to Frankfurt, Starwood Hotels & Resorts has announced the opening of the Element Amsterdam (February 2016) and the Element London Tobacco Dock (September 2017).

Boutique hotel operator Firmdale has opened its **One Denman Place** serviced apartment development in London. The 24 one-, two- and three-bedroom apartments are within the newly opened Ham Yard Hotel in Soho. They are available to let for periods of 90 days or more and can be accessed via an exclusive entrance with a dedicated reception on Denman Place, or via the hotel itself. Each apartment has been designed by co-owner and designer Kit Kemp in a modern British style. Residents have access to all of the hotel's facilities, which include a bar, restaurant, spa, gym, cinema and rooftop garden as well as private event rooms and a bowling alley.

Expansion by Existing Operators

New development in the sector is clearly focused on Western Europe, led by the UK and Germany.

Oakwood Worldwide has launched its **Oakwood Great Tower Street** property. Close to Monument and Tower Bridge London Underground stations, the newly refurbished apartment building comprises nine one- and two-bedroom units.

Further announcements about London developments include the recently opened 93-unit **Staybridge Suites Vauxhall**, which is operated under a franchise agreement with Spring Mews, a subsidiary of CLS Holding. The property will be managed by Cycas Hospitality, which also manage two other Staybridge hotels in the UK (London Stratford and Liverpool).

Following the acquisition of a building on The Strand by LaSalle Investment Managers on behalf of the Coal Pension Fund, the new **Stacycity Covent Garden** will open for business in December 2015 with 106

contemporary, luxury units, spearheading a de luxe Staycity brand. The property will be operated by Staycity on a 35-year lease.

In Germany, Fraser Hospitality has announced the opening of three properties between 2015 and 2018. The latest news featured the **Fraser Suites Hamburg**, which will be developed as a high-end property with a total investment (including acquisition and refurbishment costs) of about €56 million. Fraser Suites Hamburg marks Frasers Hospitality's entry into its 50th city and its third property in Germany after the addition of **Capri by Fraser Frankfurt** and **Capri by Fraser Berlin**, which are due to open in 2015 and 2016, respectively.

Adina, part of the TFE Hotel Group based in Australia and Singapore, has signed a lease to develop a 106-unit property in the heart of Leipzig (opening at the end of 2016). A second Frankfurt property in the city's European Quarter will open in autumn 2016. The latest signing for the group's German portfolio, bringing its presence in the country to eight properties, is the 137-unit **Adina Hotel Nuremberg**, which is also scheduled to also open at the end of 2016.

A more extensive list of recently opened properties and new supply can be found in Charts 9 and 10.

Moving from Niche to Mainstream? – The HVS Survey Results

In order to evaluate whether the sector is moving from niche to mainstream, HVS conducted a survey in the European sector capturing the insights of 30 operators, 11 lenders and 15 investors/developers. The survey was administered online and anonymously, drawing on a tailored HVS contact database as well as support from servicedapartment.news, ASAP and Boardinghouse Consulting. The questions were specifically tailored to each category of respondent. We highlight the main findings throughout the following paragraphs.

HVS has conducted a largescale European stakeholder survey

Lenders are still conservative

The majority of lending took place in the UK, followed by Western Europe. There is a clear preference for aparthotels, with a minority of investors lending on both aparthotels and corporate housing.

CHART 1: MAIN MARKETS FOR LENDERS

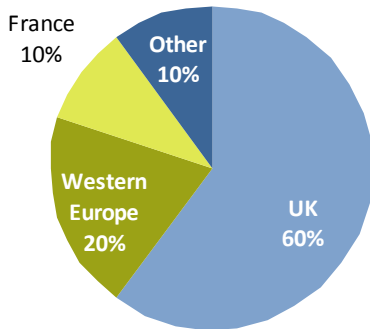
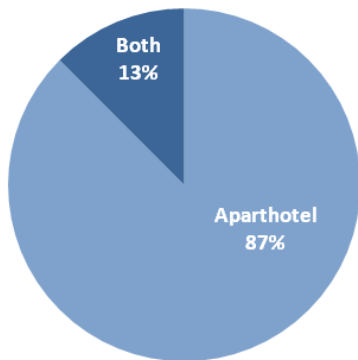


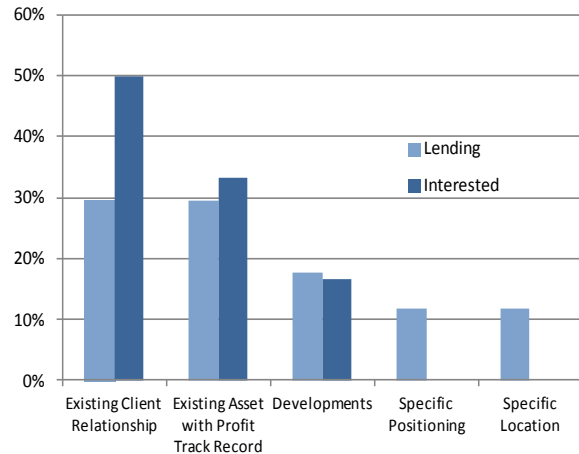
CHART 2: PREFERRED TYPE OF PRODUCT FOR LENDERS



Lending is usually done via the hotel team, as it is considered similar to a hotel operation (as opposed to residential).

In terms of lending requirements, it is clear that the most important aspects for lenders are the existing relationship with the client/sponsor and a proven track record of operation, although 18% of our respondents also lent on new developments. It is worth noting that lenders who have not yet invested in the sector but are interested in doing so place an even higher importance on the existing client relationship.

CHART 3: MAIN LENDING REQUIREMENTS



Whether yields provided by lenders for serviced apartments are closer to residential deals or hotel deals remains inconclusive from our survey. However, the majority tend to apply yields higher than for residential deals and in line with or even higher than hotel deals.

Lenders active in the sector do not yet consider serviced apartments to be mainstream, as they struggle to understand the sector due to the lack of benchmarking data and fragmentation – this is a clearly voiced concern from both lenders already active in the sector and aspiring lenders. Some also note market size as being a limitation for the growth in lending for serviced apartments.

However, just over half of the lenders in our survey search actively for opportunities, whereas the remainder take a more reactive approach towards the sector, evaluating on a case-by-case basis as opportunities come to them.

Operators all Focus on Growth

Our survey comprised a wide range of operators active in the serviced apartment/extended-stay industry from around the globe, but with exposure to Europe. They include operators specialised in both aparthotels and corporate housing (Chart 4) and they operate a variety of business models in the sector, illustrating high levels of flexibility (Chart 5).

CHART 4: PREFERRED TYPE OF PRODUCT FOR OPERATORS

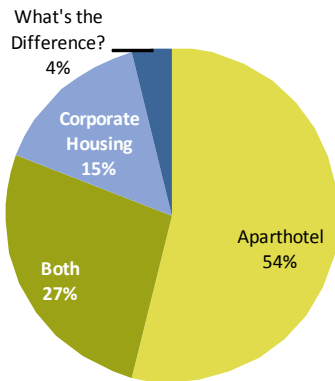
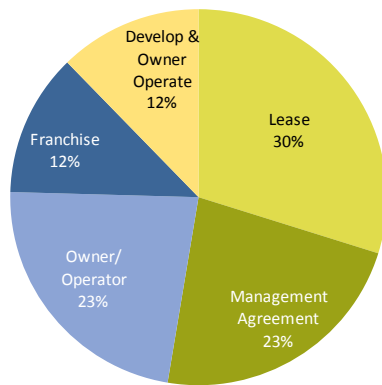


CHART 5: OPERATING MODEL



The challenges of expanding in the sector from an operator's point of view are as follows.

CHART 6: MAIN CHALLENGES FOR OPERATORS

Competing for central sites with residential	16%
Explain the concept to potential investors/lenders as they are not familiar with terminology/underlying business models	12%
Access to benchmarking information (occupancy & average rate)	12%
Competing for central sites with hotels	10%
Attract the right talent for managerial and operational positions	8%
Planning requirements	8%
Access to benchmarking information (financial)	7%
Manage owner's return expectations	7%
Offer critical investment mass of consistent product to	7%
Competing for central sites with offices	6%
Offer an operating model that investors require	2%
Offer critical investment mass of consistent product to private	1%

When asked about the next generation of serviced apartments, there is a clear trend to focus on technology as well as the efficient use of space and a tendency towards smaller sized units. This is entirely in line with the current trend in the hotel sector but

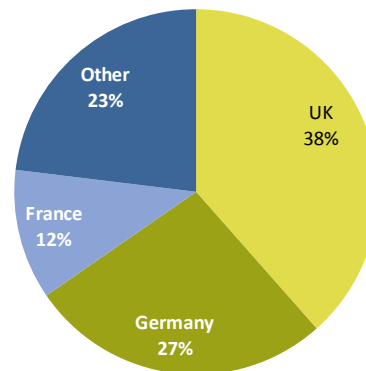
might come as surprise considering that the main perceived reason for guests to choose an extended-stay product is typically the larger space.

Virtually every operator has extensive growth plans throughout Europe with a focus on the UK, Western Europe and Central Europe. When asked about the preferred operating model for growth, most indicate management agreements and leases (56% of respondents).

Investors/Developers on the Lookout for Opportunities

Our surveyed investors have equally already invested in the sector or not, but all of them clearly voiced a strong interest in investing in the future. The main target markets are the UK, Germany and France.

CHART 7: MAIN MARKETS FOR INVESTORS



Slightly different challenges are perceived from this group as opposed to lenders or operators.

CHART 8: MAIN CHALLENGES FOR INVESTORS

Not enough deal volume	24%
Not enough data on benchmarking (yields/transactions)	14%
Not enough data on benchmarking (occupancy & average rate)	14%
Market is too fragmented	14%
Lack of understanding of the main players in the sector	14%
Not enough data on benchmarking (profit & loss)	11%
Not the right locations/deals offered	8%
Lack of understanding of underlying business models	3%

Overall, about one-third of the investors surveyed already consider the sector as mainstream, and the other two-thirds suggested more transparency in data, consolidation and deal volume is needed to facilitate a shift from niche to mainstream.

Conclusion

There seems to be a better understanding about the differences in the main underlying business models – aparthotels and corporate housing – which illustrates that the industry is moving ahead. One might think that last year’s charter signed by all major operators in the sector has helped to foster more transparency in that respect. However, there are numerous operating properties that show elements of both models and hence do not neatly fall into one the categories and do not make it easy for investors or lenders to fully understand the sector.

Whereas lenders clearly do not yet consider serviced apartments to be mainstream, operators and investors/developers feel more comfortable with the sector – with 57% stating that they consider serviced apartments to have already moved from niche to mainstream.

However, the vast majority of lenders and investors are keen to participate in the growth of the sector. Whether from a lender, operator, or investor/developer perspective, the UK, Germany and France are the most interesting markets to-date.

The main challenges are still perceived as a lack of benchmarking information (occupancy and average rate and also operating margins) due to the fragmentation of the sector. Lenders, in particular, and also investors are in search of quantitative rather than qualitative information in order to fuel the growth of the market with capital.

We would like to thank all of the survey participants for their generous input into the study. Your opinions and experiences are important to move the sector ahead.

A big thank you also to Lionel Schauder, intern at HVS, who has been instrumental in putting the survey together and has shown tremendous enthusiasm and hands-on support throughout the preparation of this report.

- HVS -

CHART 9: RECENTLY OPENED PROPERTIES ACROSS EUROPE

Opening Date	Country	Brand	City	Units	Comment
2015	France	Adagio	Courbevoie	99	Recently Opened
2015	France	Adagio	St Genis Pouilly Geneva	81	Recently Opened
2015	France	Adagio Access	Puteaux	120	Recently Opened
2015	France	Adagio Access	Nancy	110	Recently Opened
2015	France	Adagio Access	Dijon	106	Recently Opened
2015	France	Adagio Access	Massy	121	Recently Opened
2015	Germany	Adagio Access	Munich	160	Recently Opened
2015	France	BridgeStreet	Paris (Champs Elysees)	13	Recently Opened
2015	France	Citadines Suites Arc de Triomphe	Paris	112	Recently Opened
2015	Germany	Element	Frankfurt	133	Recently Opened
2015	UK	Firmdale – One Denman Place	London	24	Recently Opened
2015	Bosnia & Herzegovina	Residence Inn	Sarajevo	62	Recently Opened
2015	UK	Skyline Aberfeldy	London	30	Recently Opened
2015	UK	Skyline Gazzano	London	10	Recently Opened
2015	UK	Skyline Greenwich	London	71	Recently Opened
2015	UK	Staybridge Suites	London (Vauxhall)	93	Recently Opened
2015	UK	Urban Villa Brentford	London	100	Recently Opened

Source: HVS Research

CHART 10: NEW SUPPLY PIPELINE ACROSS EUROPE

Opening Date	Country	Brand	City	Units	Status
2015	Germany	acrona Living	Osnabrück	108	Under Construction
2015	UK	Adagio	Birmingham	108	Under Construction
2015	Germany	Boardinghouse	Munich	60	Under Construction
2015	Germany	Boardinghouse	Frankfurt	60	Under Construction
2015	Germany	Boardinghouse	Villingen-Schwenningen	70	Under Construction
2015	Germany	Capri by Fraser	Frankfurt	152	Under Construction
2015	Switzerland	Fraser Suites	Geneva	TBA	Under Construction
2015	UK	Roomzzz Aparthotel	Liverpool	108	Under Construction
2015	UK	Roomzzz Aparthotel	London (Stratford)	82	Under Construction
2015	UK	Staycity Serviced Apartment	Birmingham	174	Under Construction
2015	France	Staycity Serviced Apartment	Lyon	144	Under Construction
2015	UK	The Spires, Edinburgh	Edinburgh	18	Pre-Opening
2015	Switzerland	Visionapartments Geneva	Geneva	38	Under Construction
2016	Germany	Adagio	Frankfurt	171	Under Construction
2016	UK	Adagio	Edinburgh	108	Under Construction
2016	UK	Adagio	London (Whitechapel Rd)	217	Under Construction
2016	Germany	Adina	Frankfurt	181	Under Construction
2016	Germany	Adina	Nuremberg	140	Under Construction
2016	Germany	Adina	Leipzig	166	Under Construction
2016	France	Mode by BridgeStreet	Paris	50	Under Construction
2016	London	Studyo by BridgeStreet	London	22	Planning Stage
2016	Netherlands	Element	Amsterdam	238	Under Construction
2016	Germany	Fraser Place	Berlin	TBA	Under Development
2016	UK	Go Native	London (Southbank)	70	Under Construction
2016	UK	Marlin Apartments Lambeth	London (Westminster)	218	Under Development
2016	London	SACO Beyonder	London	42	Awaiting Planning Approval
2016	Edinburgh	SACO – Beyonder	Edinburgh	187	Awaiting Planning Approval
2016	London	SACO Beyonder	London	168	Under Construction
2016	London	SACO – Beyonder	London	79	Under Construction
2016	Aberdeen	SACO Beyonder	Aberdeen	96	Under Construction
2016	Edinburgh	SACO – Beyonder	Edinburgh	71	Under Construction
2016	Turkey	Somerset	Istanbul	159	Under Development
2016	UK	StayBridge Suites	Manchester	80	Under Development
2016	UK	Staycity Serviced Apartment	London	125	Signed
2016	UK	Staycity Serviced Apartment	York	197	Under Construction
2016	UK	Staycity Serviced Apartment	London (Covent Garden)	106	Under Construction
2016	UK	Staycity Serviced Apartment	Manchester	183	Under Construction
2016	France	Suite Novotel	Paris (Porte de Vanves)	96	Under Construction
2016	Germany	Visionapartments Frankfurt	Frankfurt	130	Planning Stage
2016	Switzerland	Visionapartments Vevey	Vevey	100	Planning Stage
2017	Germany	Adina	Hamburg	202	Under Construction
2017	France	Studyo by BridgeStreet	Paris	115	Planning Stage
2017	UK	Element Tobacco Dock	London	TBA	Under Development
2017	UK	Residence Inn	Aberdeen	126	Under Development
2017	France	Residence Inn	Valbonne	68	Under Development
2017	Dublin	SACO – Beyonder	Dublin	49	Awaiting Planning Approval
2017	Aberdeen	SACO – Beyonder	Aberdeen	71	Planning Received
2017	Ukraine	StayBridge Suites	Kiev	80	Under Construction
2017	France	Staycity Serviced Apartment	Marseille	108	Signed
2017	UK	Staycity Serviced Apartment	Edinburgh	168	Under Construction
2017	UK	Urban Villa Aberdeen	Aberdeen	218	Under Construction
2017	UK	Urban Villa Edinburgh	Edinburgh	174	Planning Stage
2018	Germany	Adagio	Bremen	85	Under Construction
2018	UK	Adagio	London (Stratford)	137	Under Development
2018	Germany	Fraser Suites	Hamburg	147	Under Development
2018	Gibraltar	Residence Inn	Gibraltar	110	Under Development
2018	France	Staycity Serviced Apartment	Paris	220	Planning Stage
2018	UK	The Pennybrook	London (Stratford)	49	Planning Stage

Please note that these lists are not exhaustive

Source: HVS Research



About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrates its 35th anniversary this year. 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 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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Everywhere.**

With an office in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 4,000 hotels and serviced apartments 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 and serviced apartment valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios.

About the Author



Arlett Oehmichen, MRICS is a Director with HVS's London office, specialising in hotel valuation and consultancy. Arlett

joined HVS in 2006 after experience in the hotel investment industry as well as operational hotel experience. Arlett holds a Masters in Real Estate Investment and Finance from Reading University, UK and is a member of the RICS. Arlett has been extensively involved in the serviced apartment sector having worked on numerous feasibility studies and investment advice in the sector. She has spearheaded the 'Think Tank Initiative' in the UK to help define the sector which has led to an industry charter being signed by all major operators. Arlett is a frequent speaker at industry events and conferences.

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