Serviced Apartments
The fastest growing sector in hospitality
Exciting concepts and new brands

The Serviced Apartment landscape has changed significantly over the last few years. New brands and exciting concepts have advanced, responding to the evolving living and travel patterns of consumers.

In 2017, globally there were nearly one million Serviced Apartments, according to The Apartment Services Worldwide. That’s over 30% more than six years ago. North America accounted for over 50% of the global supply, followed by Europe with key markets being the UK, Ireland and Germany.

Traditionally, Serviced Apartments in Europe were largely dominated by small scale owner operators. Over recent years, a number of high profile operators have entered the market with new lifestyle brands such as Zoku, Locke by SACO, Wilde Aparthotels by StayCity, Adina and Bridgestreet’s Studyo. These innovative concepts accentuate home-living style, tapping into the ‘b-leisure’ market and attracting a new generation of travellers who desire flexible hospitality, combining work and play.

Large, established hotel groups are also gaining presence across Europe, recognising the growth opportunity this sector can bring for product diversification and brand expansion. Adagio, Hyatt House, Residence Inn, Element by Marriott and Novotel Suites are just a few examples.

Now more than 50% of Serviced Apartments within Europe are branded.

These new Serviced Apartment offerings fill the gap between a full service traditional hotel and an unbranded, inconsistent product offering of shared accommodation. The increase in competition across Serviced Apartments, particularly from hotel companies has raised both consumer’s awareness and investor confidence in this product.

Source: Leman Locke, London
Within Europe, the UK & Ireland is the Serviced Apartment market leader. According to STR, there are currently over 22,000 Serviced Apartments in the UK & Ireland; that’s a 13% increase compared to two years ago. What’s interesting is that, in these two countries; Serviced Apartments still account for only 3% of total room supply, a lot lower than 8% in the U.S - which is the global market leader of Serviced Apartments.

London has experienced a huge increase in Serviced Apartment supply over recent years and the trend is spreading.

The rest of the country has also seen supply grow 23% in 2017. Cities such as Edinburgh, Manchester and Dublin all recorded strong growth in supply as tourism demand is apparent.

UK Serviced Apartment supply - Top 10 regional UK and Ireland cities 2018
Key brands that dominate this market are StayCity, SACO and Marlin Apartments.

StayCity in particular has been expanding aggressively in the last few years with the number of Serviced Apartments rising c.70% compared to 2016 and now accounting for 17% of market share (excluding independent operators). Marriott’s Residence Inn has also expanded their footprint in London through a partnership with Starwood Capital Group.

SACO, the Serviced Apartment Company, recently bought by Canadian private equity firm Brookfield, has c.70% of their UK pipeline rooms in London, with the rest in Dublin and Manchester. The brand has an ambitious plan to expand beyond the UK into other European markets such as Berlin, Dublin and Paris, with c.1,000 units to open before 2020.

Adagio, Staybridge Suites and Hyatt House have also announced future openings in London, Dublin and other Regional UK cities.

All together branded operators represent nearly 50% of Serviced Apartment pipeline in the UK & Ireland.

How is 2018 shaping up? Strong operating performance supported by average rate

The availability of Serviced Apartment operating performance data has provided more transparency to both industry players and potential investors. In Q1 2018, the UK Serviced Apartment sector achieved strong results, according to STR. RevPAR grew 1.9% year-on-year to £100, which was higher than the overall UK hotel market. The uplift was driven by average rate, up 3.5%, while occupancy fell slightly, down 1.5% in Q1 2018.

Looking at key cities, Birmingham posted the best results, with RevPAR rising 9.1%, supported by an increase in both occupancy and average rate. London and Edinburgh suffered a decline in occupancy, but operators in London were able to yield rate, driving overall growth in RevPAR.

| 1 | StayCity | 17% |
| 2 | SACO | 10% |
| 3 | Marlin Apartments | 7% |
| 4 | Staybridge Suites | 6% |
| 5 | Bridgestreet | 6% |

Note: Excludes independent operators
Source: STR

The pipeline’s booming and London is top of the list

Looking forward, c.13,000 Serviced Apartments are expected to enter the UK & Ireland market by 2021. London remains top of the list, accounting for 34% of pipeline. Dublin, expected to benefit from Brexit, sits in second place, whilst other hot markets include Manchester, Liverpool, Glasgow and Edinburgh.

Looking at brands; StayCity continues to grow, posting the highest number of pipeline rooms among all brands with over c.85% of their development coming into these hot UK city markets.
More and more investors are checking into this sector

With more high-profile operators entering the market, together with the availability of operating data, investors are becoming more familiar and comfortable with investing in to the Serviced Apartment sector.

**Investment volumes in the UK Serviced Apartment market have grown almost five times from £89m in 2010 to £486m as of May YTD 2018.**

Until recently, most investment activities were concentrated in London. 2015 marked a turning point with the acquisition of the Think Serviced Apartment portfolio by Starwood Capital. The deal, worth over £200m, included four London properties and was the first time that a major private equity investor acquired Serviced Apartments of this size.

Since then, more investors followed suit and transaction activities spread beyond London to other regional markets. The SACO Aparthotel Edinburgh George Street, the Place Apartment Hotel in Manchester and StayCity Aparthotels Birmingham are good examples of this.

As of May YTD 2018, investment levels reached a new high with Brookfield acquiring the SACO portfolio. This deal included a management platform, vast development opportunities across Europe and epitomises the shift in international investors’ confidence in the Serviced Apartment sector.

Private equity has been the most prominent buyer in the Serviced Apartment sector, due to familiarity with operational risk, so they are continuously seeking capital enhancing opportunities and new developments. The Place Hotel Manchester, managed by Native and the selection by Starwood Capital for Cycas to operate the Think portfolio under the Residence Inn brand signifies this. Cycas has an ambitious plan to have more than 10,000 Serviced Apartment rooms under their operation / pipeline in the next five years. The white label operator will be expanding in the UK, the Benelux countries, France and Germany. We are also seeing more activities from institutional investors as some operators are willing to offer lease agreements. Examples include the StayCity Apart-hotels in Newhall Square, Birmingham and London Heathrow.

Source: JLL
Serviced Apartments: The fastest growing sector in hospitality.

Germany is the second largest Serviced Apartment market in Europe, with 11,400 Serviced Apartments being located in key hubs Frankfurt, Munich and Berlin. Derag Livinghotels and Adina represent the two brands with the largest number of operating rooms, yet 75% of Germany’s Serviced Apartments are still unbranded leaving room for major consolidation in the market.

### Serviced Apartment market share by brand - Germany 2017

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Derag Livinghotel</td>
<td>27%</td>
</tr>
<tr>
<td>2</td>
<td>Adina Apartment Hotel</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>GHotel</td>
<td>15%</td>
</tr>
<tr>
<td>4</td>
<td>Adagio Aparthotel</td>
<td>8%</td>
</tr>
<tr>
<td>5</td>
<td>Citadines</td>
<td>8%</td>
</tr>
</tbody>
</table>

Note: Excludes independent operators
Source: STR

**A future branded market player in the German market will be Locke by SACO, which as a result of an ambitious growth strategy is expected to further increase its European and German market share.**

Urban periphery locations such as Eschborn (near Frankfurt) and Garching (close to Munich) as well as strong secondary markets such as Nuremberg (e.g. Adina) and Leipzig (e.g. Capri by Fraser, Adina) have increasingly become popular locations for Serviced Apartment development.

**New and familiar players enter the German market**

Currently there are around 5,300 Serviced Apartments in the pipeline for Germany, of which about 52% will still be non-brand affiliated.

A number of established operators have plans to expand or step into the German market, such as Adina, Adagio, Adagio Access, Fraser Suites, Hyatt House, Residence Inn by Marriott and Staybridge Suites. This will raise customer awareness. With 600 new rooms before 2020, Adina represents the operator with the largest number of Serviced Apartments in the German pipeline. Residence Inn by Marriott (c. 480) and Adagio (c. 430) follow closely.
The development of Serviced Apartments as part of a dual-brand or even triple-brand schemes is also evident across Germany.

In order to be more independent from large franchise partners, several major franchisees are building on their market knowledge and developing their own Serviced Apartment concepts and brands. Many of these concepts will benefit from a hotel’s brand affiliation.

### Existing dual and triple brand hotels

<table>
<thead>
<tr>
<th>Hotel Name</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ibis Budget &amp; Aparthotel Adagio Access</td>
<td>Munich</td>
</tr>
<tr>
<td>Courtyard by Marriott and Residence Inn</td>
<td>Munich</td>
</tr>
<tr>
<td>Citadines and Motel One</td>
<td>Frankfurt</td>
</tr>
<tr>
<td>Premier Inn, Hampton by Hilton and Capri by Fraser</td>
<td>Frankfurt</td>
</tr>
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### Pipeline dual and triple brand hotels

<table>
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<th>Hotel Name</th>
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<tr>
<td>Moxy and Residence Inn by Marriott</td>
<td>Frankfurt</td>
</tr>
<tr>
<td>Staybridge Suites and Indigo Hotel project</td>
<td>Frankfurt</td>
</tr>
<tr>
<td>Moxy and Residence Inn by Marriott</td>
<td>Munich</td>
</tr>
<tr>
<td>Adina and Wombat’s Hostel</td>
<td>Munich</td>
</tr>
<tr>
<td>Premier Inn, Adina and Hampton by Hilton</td>
<td>Dusseldorf</td>
</tr>
</tbody>
</table>
Institutions set their eyes on Germany

Serviced Apartment transaction volumes in Germany reached a record high in 2017 at €257m. This was equivalent to 7.6% of total hotel transaction volume in the country, compared to 1.3% in 2016. Notably, institutional investors made up c. 45% of the Serviced Apartment investment volume buyer’s sphere in 2017.

Furthermore, three out of ten Serviced Apartment transactions included a dual- or triple-brand project, such as the sale of the project Postquadrat in Mannheim (ibis, ibis budget & Adagio Access) in July 2017, the sale of the ibis & Suite Novotel Munich Parkstadt Schwabing in May 2017 as well as the sale of the Courtyard by Marriott, Hamburg.

An increasing number of investors, expressly institutional capital, are becoming more familiar with investing into the German Serviced Apartment market. Given that this segment is still fragmented, with a multitude of non-branded and privately operated units, buyers are expected to focus on international brands in the short term, until the smaller private operators have formalised their operations and gained scale.

Adding to investment security and boosting rent coverage ratio, investors are particularly attracted by the high profit margins achieved with Serviced Apartments compared to a classic 3* or 4* hotel.

Serviced Apartment Investment Market - Germany

Source: JLL
Looking ahead, we expect the Serviced Apartment sector to grow at a quicker pace than hotels over the next few years. The sector is set to expand to the rest of Europe, as more travellers desire a flexible, home-style travel accommodation. Hotel operators and investors are capitalising on this demand which drives a much higher margin than traditional hotels. With more quality supply coming to the market from established players, demand for this product will continue to increase.

**Consolidation within the Serviced Apartment sector will become evident as operators seek to drive efficiency and profit margin.**
Case Study

SACO Portfolio
The largest ever Serviced Apartment portfolio sale in Europe

Vendor: Oaktree Capital Management LLC
Purchaser: Brookfield
Price: Confidential

Highlights

The SACO Portfolio transaction represents a significant shift in the way the Serviced Apartment sector is perceived by international investors.

The deal, representing the acquisition of trading assets in core markets, developments in sought-after locations, as well as an operating platform, drew significant attention from investors from around the globe, and with different risk profiles.

Brookfield, advised by JLL, acquired the SACO portfolio. The deal has provided them with immediate and wide market penetration across the UK, and gives the foundation to rapidly expand the platform across Europe via both direct-ownership, management, and lease agreements.

Brookfield’s acquisition of the SACO platform is an indicator of things to come in the sector. The weight of interest in the group during the marketing process, which attracted private equity, institutional capital and operators, demonstrates the level of demand for the Serviced Apartment model and the quality of the group’s assets and business.

Sally Kendall
Executive Vice President, Hotels & Hospitality
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