As branded residences proliferate, from the Caribbean to China, a growing number of developers, hotel groups and investors are looking to capitalise on this opportunity. But just what are branded residences, what underpins their appeal, and what is driving the rapid expansion and diversification of this sector?

The evolution of branded residences

It is no coincidence that we are seeing such a renewed interest in the branded concept given the rapid growth in global wealth witnessed since 2000. Knight Frank’s Wealth Report highlights that the global ultra-wealthy population ($50m+ in net assets), grew by 18% in the five years up to 2017 and is forecast to increase a further 40% over the next five. With the branded concept well established by hotel operators, the number and types of operators entering the space is now expanding and diversifying. Brands such as Versace, Armani and Porsche have all lent their names to developments in recent years.

In this report, we look at the different types of branded residence, the rationale behind the concept, global exemplars and future trends.

What defines a branded residence?

“The first true branded residence, the Sherry-Netherland hotel in Manhattan, opened its doors in 1927. More than 90 years on, the sector has grown enormously and is now to be found in over 60 countries across the globe. Our research shows that there are now over 400 branded residences across the globe, the majority of which are hotel branded.”

The traditional branded concept is a hotel-led development with integrated or linked residences. They naturally benefit from the hotel brand (quality), management (smooth running) and services (luxury). In essence, this gives the owner the comfort and permanence of a home but with the full benefits and luxury of a five-star hotel. This concept has diversified so that it can be offered more flexibly across varying markets and locations and now manifests itself in many ways globally, which fall into five broad categories, as demonstrated below.

While every scheme is different, one could argue that the impact of the branded concept is diluted the more it moves away from the original hotel-driven traditional model.

Timeline of the branded residence

1927
Sherry-Netherland hotel opens in New York marking the birth of the concept

1985
Four Seasons opens its first branded private residences in Boston

1988
Aman launches the first resort branded residence with Amanpuri in Phuket, Thailand

2011
The Residences at Mandarin Oriental, London were completed setting a new world benchmark for luxury branded residences

2000-2018
Rapid expansion to over 400 projects by 2018

Typographies

Hotel led developments with integrated residences
Luxury resorts with residences used as holiday lets
Residential led developments with hotel adjacent
Residential developments with hotel management
Residential developments with remote hotel tie in
VALUE DRIVERS AND PRICE PREMIUMS

Supply and Demand Value Drivers

In order to understand the value drivers of branded residences, below we examine the key motivators from both providers (supply) and purchasers (demand).

### Supply Side

**Hotel development cash flow**
- The ability to sell residences off-plan and receive significant capital payments upon practical completion, assist with both development and operational cash flow as hotels will naturally take time to operate at optimal occupancy rate.

**Risk mitigation**
- Residences can help off-set cyclical and seasonal variations, as well as extraordinary events that pose a risk to any hotel business, both in terms of occupation and additional service take up.

**Value premium of brand**
- Brand involvement can increase project visibility and enhance values for residential developers. This can be something of an insurance policy,” says James Snellgrove, director of global business development at VYO.

**Planning benefits**
- The addition of residential apartments can be politically favourable where the delivery of apartments into a market is a priority.

### Demand Side

**Developer quality covenant**
- “When buyers see marketing for a Ritz-Carlton, St Regis, EDITION or Marriott residence, they know that they’re going to get a quality product,” says Daniel von Baumer.

**Service provision and physical amenities**
- “Residential services offer the individuals the opportunity to preserve their most precious commodity - time,” says Todd Nisbet, Crown Resorts. As individuals increasingly become global citizens with diverse business interests, time is becoming a rare commodity. With a full hospitality offering, individuals know that the day-to-day necessities are taken care of, be it housekeeping, concierge facilities, or room service.

**Building maintenance and management**
- James Price, vice president of residential at Four Seasons, adds it is the "management services and guaranteed building maintenance which also enhances value." Nisbet adds that hospitality brands are "always re-investing and maintaining their brand.”

### Does this mean that having a brand results in a price premium?

While a brand association may result in a premium in any region, the additional value varies substantially from one place to another. "Where it’s an entirely new offering, we might be two or three times the price of anything in that market. In other markets there will be price ceilings,” says Price. "A variety of factors can drive price premiums,” adds von Baumer. "Marriott International has, for example, Ritz-Carlton-branded residences in Kazakhstan and Bulgari-branded residences in Dubai that commanded significant premiums for the developer over luxury, residential product in those markets."

It is important to note that a price premium can be location driven. Indeed, our research shows that there is great variation on price differentials between different global locations and also different locations within cities.

The data shows that the price differentials can vary from as much as 112% in some cities in Asia, to there being no differential at all.

Erin van Tull, Partner at Knight Frank notes that "while the branded concept in the Sydney market is still embryonic, all the evidence we have to date from marketing One Barangaroo is that a premium of 25% to 35% ahead of comparable non-branded product is where the market will sit.”

However, assessing a price differential is extremely difficult as there are few cases that control for every factor affecting price. For a true comparison there would need to be a branded residence in the same location as a comparable non-branded, with the same exterior and interior design. A deep understanding of micro markets is required in assessing the business case for any branded concept. Put simply, will the market pay a premium and why?

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**Off-plan and receive significant cash flow as hotels will naturally take time to operate at optimal occupancy rate.**

### Market differentiation
- "For a hotel operator, residences can be a new theatrical for the brand; a way to deepen the relationship with the consumers," explains Piers Schmidt, a luxury brand consultant and commentator at The Luxury Branding.

**Residential identity /critical mass**
- A new hotel can significantly enhance areas with limited residential identity or services. The sales appeal of a residential scheme in a commercial area, but with a trophy hotel attached, is far stronger.

**Value/Cost benefit**
- On a per square foot capital value basis, residential accommodation can drive a higher value than hotel accommodation. There could also be cost savings through greater efficiencies across gross/net area ratios and specification requirements.

**Lock up and leave option**
- Global buyers are prepared to pay a premium where they know their property is safe, maintained and serviced in their absence. This ranges from technical maintenance to having fresh flowers upon arrival.

**Holiday rental/Investment yield potential**
- "Often there’s a rental pool, which means owners can offset their maintenance costs. Now, 60-80% of buyers put their property in the rental pool, which is double what it might have been 10 years ago,” says Muriel Muirden of WATG. According to Price, the rental programmes tend to be a bigger driver in resort locations as those buying in cities tend to use them more regularly.

**Kudos**
- When all is said and done, people will always value a badge that is universally respected and that reflects well upon them.
To build a global picture of branded residences we have looked at some of the industry’s biggest hotel operators including Marriott, Four Seasons, Accor Hotels and many more. Together Marriott, Four Seasons and Accor Hotels represent over half of all hotel branded residences, with Marriott alone accounting for three-quarters of these. The map demonstrates the geographical expanse of the concept with hotel branded residences present in over 180 locations across 64 countries globally.

As the concept originated in North America, it is no surprise that this market is the most developed and has the largest presence, accounting for a third of all schemes. However, the Asian market for hotel branded residences has seen strong growth, particularly in Thailand and Indonesia, with Asia now accounting for an estimated 30% of schemes. This trend is set to continue, “Asia is the continent of opportunity: there’s a growing market and rapid urbanisation,” says Muriel Muirden, executive vice president at the architectural firm WATG.

At a more localised level, as a single city, Dubai is where there is the highest concentration of branded residences. With operators such as Kerzner International, The Address, The W, Jumeirah and Bulgari entering the branded residence marketplace, from resort living on the Palm Jumeirah to urban concepts close to Downtown Dubai and the Financial Centre (DIFC). According to Piers Schmidt, a luxury brand consultant and commentator at The Luxury Branding, “the explosion of development in Dubai is down to the fact that developers and promoters have a need to differentiate: you can build it taller, make it revolve and shimmer, but when you get inside an apartment, having a brand gives an advantage.”

One region in which the branded concept is still quite small is Europe, accounting for only 7% of branded residences. In Europe there is “less demand for branded things, period,” according to Schmidt. “Developers are less prone to license a brand to move their real estate [in Europe] because they know their asset has appeal,” he adds. However as residential markets become more competitive Europe may be another area of growth.

Urban living
The branded concept is a predominantly urban concept, with 62% of hotel branded residences in cities as opposed to beach/resort locations. However, this does vary by region. In North America, two thirds of schemes are in cities, whereas in Asia it is much more balanced, with almost half being in resort locations.

As the market continues to expand it is expected that developments are likely to concentrate in urban areas. Across the global economy there is a huge shift towards major urban hubs, for example Aman, the first resort brand, is now moving towards the urban space. This is driven by the less seasonally affected demand in urban centres.

“Hotel branded residences are present in over 180 locations and 64 countries globally.”
New York

Hotel branded residences have been a key segment of New York City’s luxury market since the original hotel serviced residential apartments at The Sherry-Netherland and The Carlyle. The early 2000’s saw a resurgence of large-scale hotel-branded condominiums, notably the opening of The Residences at Mandarin Oriental New York in 2003 as part of the mixed-use Time Warner Center development perched on the prime southwest corner of Manhattan’s Central Park. This revival reflected the rapid expansion of global wealth and the focus of New York as a key global city for high net worth individuals.

In the 15 years since, a number of hotel branded condominium developments have created a popular niche in the prime and super prime development market. While previously clustered in historically prime neighbourhoods on the Upper East Side and Midtown, new hotel branded developments have now extended into the prime Downtown market.

Midtown’s Baccarat Hotel and Residences, which sold out in 2017, boasts the world’s first Baccarat Hotel and views of Central Park. With the crowning duplex penthouse selling for more than $42 million in 2016, condominium residents here have access to five-star hotel services and amenities.”

Andrew Wachtrogel, Douglas Elliot

Dubai

In a city renowned for its plethora of 5-star hotels, the emergence of branded residences in Dubai has become increasingly common.

In recent years Dubai has transitioned from a holiday destination, to a city in which to invest in a more permanent home. The global citizen is looking for a more sophisticated offering in Dubai that will elevate their living experience to incorporate not only great design and architecture but also the benefits of resort living - private beaches, spa facilities, concierge and Michelin-starred restaurants.

The branded residence offering in Dubai has raised the bar even further, with its first super-prime development. Located on the Palm Jumeirah, directly adjacent to the iconic Atlantis The Palm resort, The Royal Atlantis Resort and Residences provide a selection of 2, 3 and 4 bedroom apartments, penthouses and garden suites. Not only does the development benefit from all the world-class amenities and experiences that one would expect from a best-in-class hotel, it also occupies one of the world’s most prime locations in global real estate terms and is set to become the new icon of Dubai.”

Maria Morris, Knight Frank

“"The global citizen is looking for a more sophisticated offering in Dubai”

LOCATIONS IN FOCUS

We spoke to four leaders in Knight Frank’s global network on their marketplace for branded residences.
Sydney
One Barangaroo, Crown Residences marks the introduction of hotel branded residences in Australia. The arrival of branded residences at this time into Sydney is no coincidence. Sydney continues to attract high net worth individuals (HNWIs) by taking up a significant proportion of the 10,000 HNWIs net inflow into Australia each year, the highest of any country, for three years running as reported by New World Wealth. This demonstrates Sydney as a rapidly advancing global city. Since the global financial crisis in 2008 Sydney has seen strong growth in prime property prices. The lack of exceptional stock has plagued the top end of the market, lifting prices as demand continues to increase.

One Barangaroo, Crown Residences, as the country’s first fully integrated, six-star hotel branded residences, has received a very warm welcome from both Australian and offshore purchasers alike since sales commenced. The driving force behind the on-going interest is a combination of the lifestyle offering as well as the design and location.

The Wilkinson Eyre designed building will be globally recognisable and with floor to ceiling windows throughout, will offer iconic views over Sydney Harbour Bridge and the Opera House.

Erin van Tuil, Knight Frank

London
Since a global residential benchmark was set at One Hyde Park, the first European residences at the Mandarin Oriental, the London market has seen an increase in branded residences at the top end of the market. While many prime residential developments actually offer the service level and amenity akin to hotels, both hotel and residential developers have identified London as the global city of desire for ultra high net worth individuals and are looking to take advantage of this focus.

Alexander Lewis, Knight Frank

“Crown Residences have set the benchmark high for Australia and will compete on a global level to both investors and residents alike”
THE FUTURE OUTLOOK

As branded residences multiply globally, how and where is the sector expected to grow and diversify? What are the potential risks and rewards for developers, brands and buyers as it does so? And in an age of high customer expectation and the on-demand economy, how will branded residences meaningfully differentiate themselves from the competition?

Expansive demand

Branded residences, until the 1990s a scarce commodity but can now be found in almost every major city and major holiday destination. Having extended its reach, the sector is growing exponentially. The major hotel brands dominate and expand. However, smaller hotel groups are entering the market and, recently, luxury brands outside hospitality have lent their names to new developments. This adds a new dimension to the concept, one with an emphasis on pure association rather than a proven service record.

The sector’s growth has been such that, in some areas, the development type has almost become ubiquitous. They were once “the exception rather than the rule,” says Chris Graham, an expert on branded residences, “but look at Thailand today, where almost 40% of all new developments are now branded.” “Marriott International sees demand for co-developments are now branded.” “Marriott has been aspirational. Now hotel companies are offering brands at a 4-star level also. That risk may be unlikely to stall developers, however, with industry commentators saying that it is unlikely that we are going to move to a world where suddenly buyers are no longer concerned with the offerings of branded residences. The market will undoubtedly get more competitive, and there will be a few developers and brands squeezed out as a result, but that is unlikely to stop them trying to capitalise on a market which still offers substantial benefits. The crucial question, as Graham puts it, is this: “the bar gets raised every year – more facilities, more experience, more tech if everyone’s doing that, how are you going to to offer something different?”

The future of the branded residence

Potential new offerings and technologies to cater for different demographics

Potential new offerings and technologies to cater for different demographics

More experiences, rather than services or facilities

More eco-focused in design and operation

Positive outlook

The growth of the sector will not be without potential pitfalls. There is a danger that in democratising the concept of branded residences, developers also risk devaluing it. The concept has always been aspirational. Now hotel companies are offering brands at a 4-star level also. That risk may be unlikely to stall developers, however, with industry commentators saying that it is unlikely that we are going to move to a world where suddenly buyers are no longer concerned with the offerings of branded residences. The market will undoubtedly get more competitive, and there will be a few developers and brands squeezed out as a result, but that is unlikely to stop them trying to capitalise on a market which still offers substantial benefits. The crucial question, as Graham puts it, is this: “the bar gets raised every year – more facilities, more experience, more tech if everyone’s doing that, how are you going to to offer something different?”
DEVELOPING VALUE

There are wide ranging factors that determine the value placed on hotel branded residences and these factors must be considered at all stages of planning and development. Understanding what drives decisions is key to optimising profit. This is an area of focus for Knight Frank’s consultants across the globe.

Before any residence is brought to the market there are years of work, from concept planning through to detailed design. Maria Morris states that the consultancy services provided by Knight Frank throughout the process “optimise the residential offering by aligning every aspect of the residence with what the buyer is looking for.” Wealthy individuals buy hotel branded residences as a lifestyle option but also with an eye on capital appreciation. Carolyn Sebba comments that high-end hotel brands represent “prestige, an extra-ordinary level of services, aspirational lifestyle and convenience.” In addition, Sebba adds that the list of services available are endless and hard to replicate outside this space, “for example, amenities such as landscape gardening, carny together as real value drivers.”

Sebba advises that “we offer consultancy services and strategies that must be considered carefully and each stage in the development process interrogated as to what is going to add the most value to the buyer.” Having the right architecture, right location, superior interior designers, and extras, such as landscape gardening, marry together as real value drivers,” notes van Tuil. “In my view, it has to have a combination of great design and tremendous architecture, top class interiors, plus the right amenities and experiences. Luxury is expected from our clients; the most important element is how to raise the bar across every aspect of the overall offering,” adds Morris.

“Most importantly,” van Tuil concludes, “we work as a global team. Branded residences cannot be designed in isolation without considering global exemplars. Not only the residences, but the hotel brands that lie behind them. The reality is that our clients, whether they are buying in Dubai or Sydney, will have likely experienced the very best across continents. They will be comparing a scheme offered in London to one offered in New York. Our greatest strength as a firm is working together to ensure our clients schemes are globally competitive.”

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