Branded Residences Report
2019

Global Sales Focus

Cover: One Barangaroo, Crown Residences

GLOBAL BRANDED RESIDENCES

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

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. Growth in the sector shows little sign of abating: "Marriott alone has more than 60 branded residential projects in the pipeline," says Daniel von Barloewen, Regional Senior Director for Mixed-Use development for Europe at Marriott International. In 2018 and 2019 alone, Marriott plans to open 19 branded residential projects in nine countries.

The birth of the branded concept can be traced back to the prolonged economic boom of the 1920's in America. Indeed, across the years, there is a direct correlation between wealth creation and demand for branded residences.

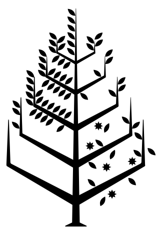
Much of the sector's expansion has occurred in more recent decades. "The market did not really take-off until the mid-1980s when Four Seasons opened condos next to their hotel in Boston. That really demonstrated the success of the model," says Chris Graham, an expert on the sector. The Aman hotel group launched the concept in a resort setting in 1988, with Amanpuri in Phuket, Thailand.

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.

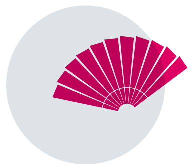
Timeline of the branded residence

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

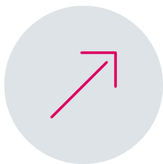


1985
Four Seasons opens its first branded private residences in Boston

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

What defines a branded residence?

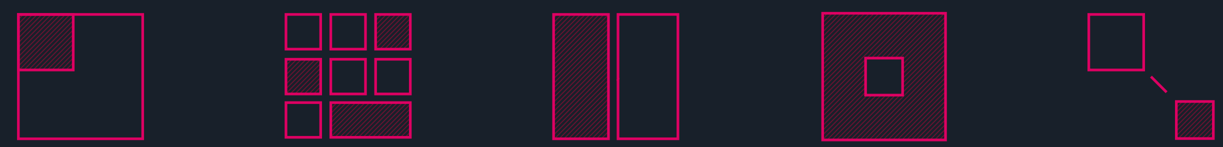
The traditional branded concept is a hotel-led development with integrated or linked residences. They naturally benefit from the hotel brand (quality), management (smooth running) and services (luxury). In essence, this gives the owner the comfort and permanence of a home but with the full benefits and 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.

> *"Our research shows that there are now over 400 branded residences across the globe, the majority of which are hotel branded"*

Typographies



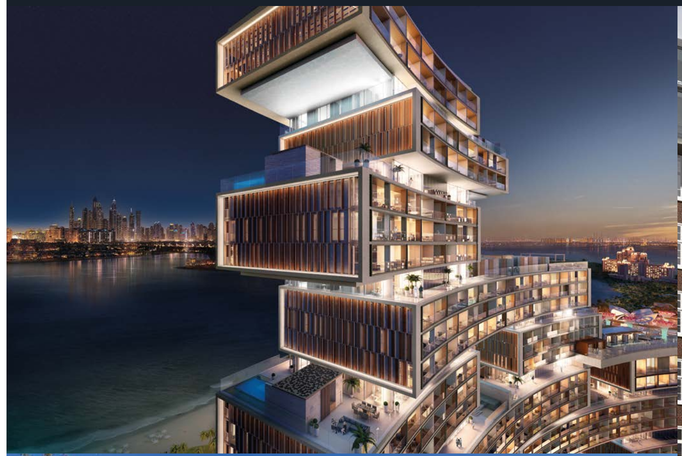
Hotel led developments with integrated residences

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



Top left: The Royal Atlantis Resort and Residences, Dubai

Left: Amari Phuket Residence, Phuket

Above: Mayfair Park Residences, managed by the Dorchester Collection

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 Snelgar, director of global business development at YOO.

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

Product diversification and brand enhancement
"For a hotel operator, residences can be a new theatre 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.

Market differentiation
In mature or saturated markets, or where developers are looking to set new price records, branding and service can therefore be a key differential.

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.

One Barangaroo, Crown Residences

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 Barloewen.

Service provision and physical amenities
"Residents' 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 managment
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."

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.

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 Barloewen. "Marriott International has, for example, Ritz-Carlton-branded residences in Kazakhstan and Bvlgari-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 132% in some cities in Asia, to there being no differential at all.

Erin van Tuil, 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 asessing the business case for any branded concept. Put simply, will the market pay a premium and why?

GLOBALLY MAPPED

The wide and expanding reach of the branded residence concept, mapped.

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 Marriot 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.

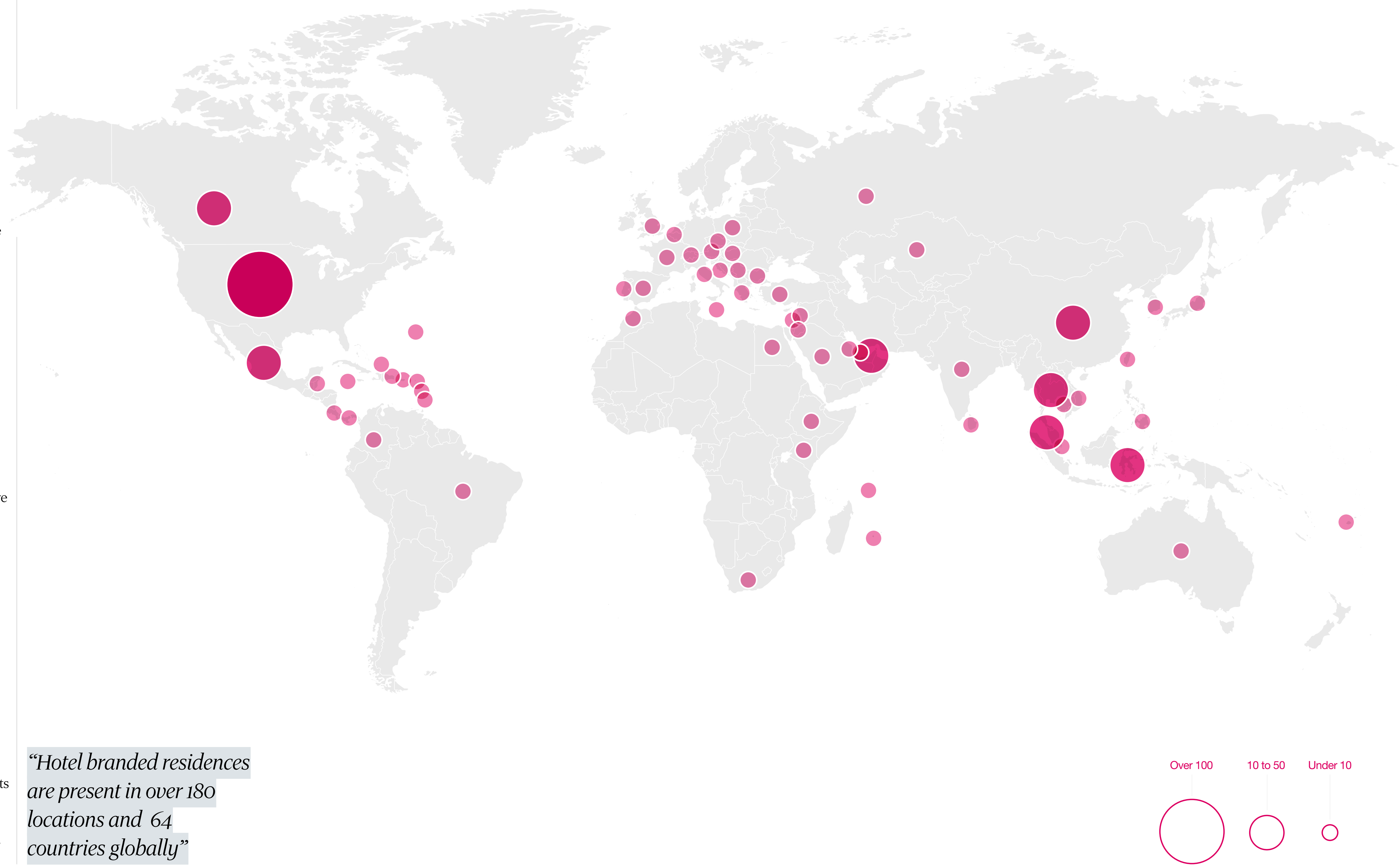
At a more localised level, as a single city, Dubai is where there is the highest concentration of branded residences. With operators such as Kerzner International, The Address, The W, Jumeirah and Bvlgari entering the branded residence marketplace, from resort living on the Palm Jumeriah to urban concepts 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"

LOCATIONS IN FOCUS

We spoke to four leaders in Knight Frank's global network on their marketplace for branded residences.

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 Wachtfogel, Douglas Elliman

"The early 2000's saw a resurgence of large-scale hotel-branded condominiums"

Baccarat Hotel and Residences

The Royal Atlantis Resort and Residences

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"

Above: Twenty Grosvenor Square, Four Seasons

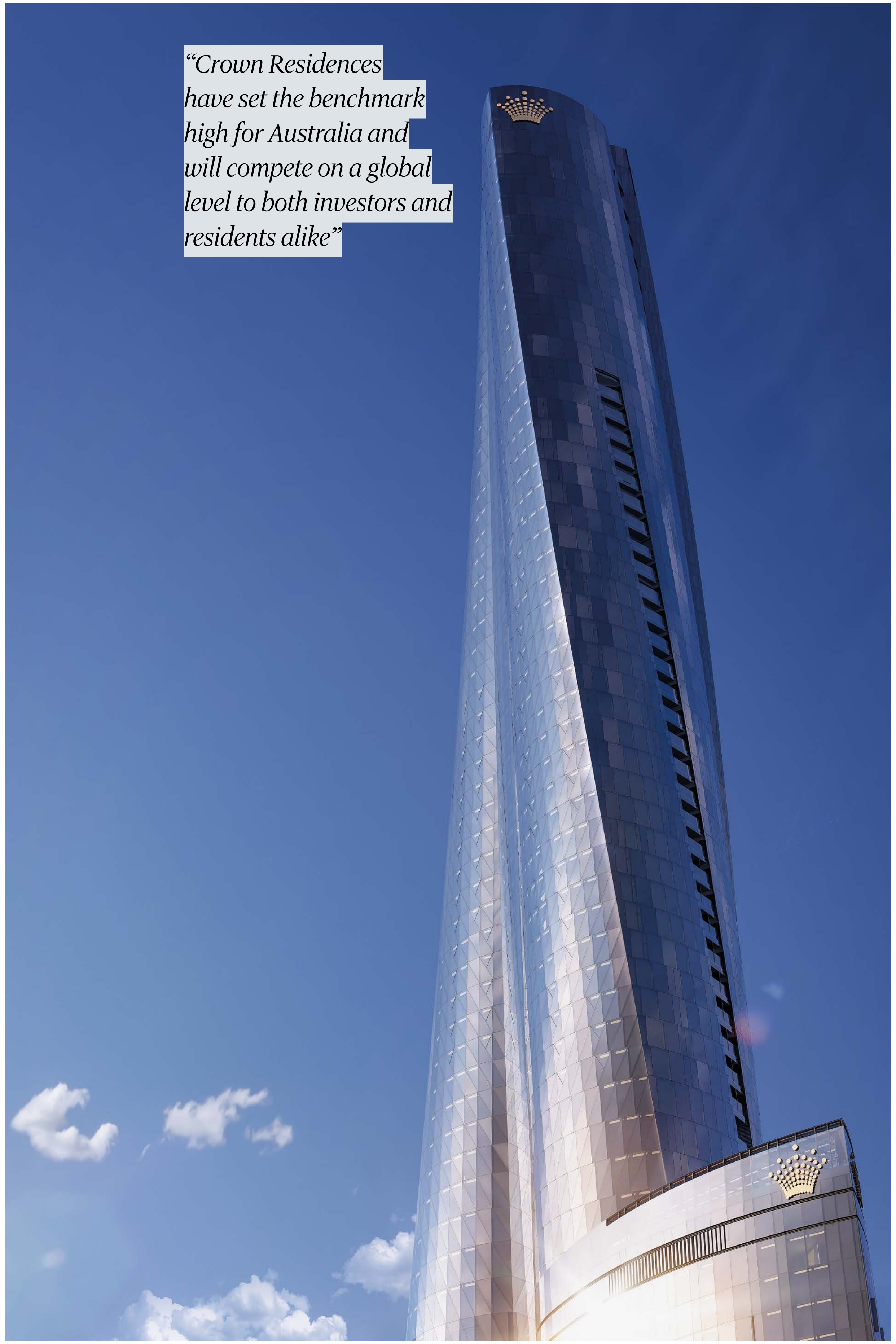
Left: The Residences at Mandarin Oriental Mayfair, London

Below: The OWO (The Old War Office), Raffles

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



One Barangaroo, Crown 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 full suite of hotel-style concierge services, in-room dining, priority booking at the restaurants within the building and the private residents' pool deck, means that the Crown Residences have set the benchmark high for Australia and will compete on a global level to both investors and residents alike.

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

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 1980's 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-located residential product in the luxury and uppermost tiers gaining traction," says Daniel von Barloewen of Marriott International. "The company expects to expand its branded residential portfolio by more than 70% in the next four years."

"From a consumer perspective, the power of brand identification is only growing," says James Snelgar, head of business development at YOO. "The world is becoming increasingly design conscious and brand aware. We talk about appealing to 'a tribe' of like-minded people, people who want to live and socialise with other people with whom they share things in common," he says.

As well as reaching into new territories, hotel developers are attempting to expand their customer base. "We are seeing an increasing demand now for a more affordable offer catering for the millennials," says Snelgar. Resort developers in particular, says Muirden, "are looking at the behaviour of millennial parents and what they want: they really want a good, well rounded experience for their kids."

Different offerings

Increasingly, operators are looking at experiences, rather than just services or facilities, as a way to tempt buyers. "The hospitality industry has gone very much from the tangible to the emotional. It used to be "we can offer more: bigger pool, bigger gym etc. Those features have pretty much become a given. There are only so many gold taps and marble you can put into a residence," says Graham. Now, "it's about creating memories and an emotional link: bringing in a celebrity chef or cocktail maker, arranging a cycle tour," he adds. "The focus," echoes Snelgar, "is now becoming more experience orientated: for example cooking, climbing or diving."

"As well as diversifying the activities they offer, resorts will need to differentiate themselves: they'll need to be more eco-focused in design and operation. Branded residences will have to be far more holistic, with beautiful gardens and a wellness focus, as well as being more multi-generational," says Muriel Muirden of WATG.

With a crowded market providing the impetus to differentiate, developers are also aligning with renowned brands for more and more aspects of any residential project. The model originated with hotels lending their name to developments. The next stage saw the arrival of designers – such as Philippe Starck, who co-founded YOO. "Following the designers have been the 'starchitects': Daniel Libeskind, Frank Gehry, Norman Foster and César Pelli among them. In some cases, as developers strive to raise the bar, you can now end up with two or three brands on a single development. The Armani residences in Miami has Giorgio Armani doing the interiors and Pelli doing the exterior," says Graham. These brands are being pushed forward as part of a scheme's identity, rather than just a component part of the physical product.

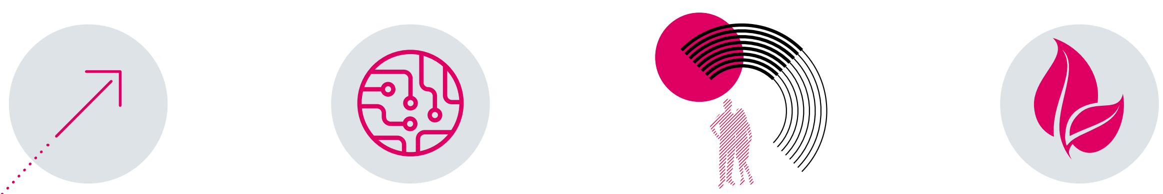
Positive outlook

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?"

The future of the branded residence



2018 onwards
Market growth

Potential new offerings and technologies to cater for different demographics

More experiences, rather than services or facilities

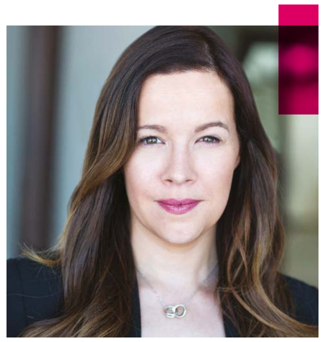
More eco-focused in design and operation

One Barangaroo, Crown Residences

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.

Erin van Tuil
Partner, One Barangaroo, Knight Frank



Maria Morris
Partner, Residential Sales, Knight Frank

Carolyn Sebba
Senior Vice President, Douglas Elliman Development Marketing*

Alexander Lewis
Partner, Residential Development Consultancy, Knight Frank

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, Morris notes that is also important to ensure that the brand is right. "It is simple for a developer to enter in to a license agreement with any operator, but for the branded residences to be exceptional, it has to be the right operator that aligns with the level of service that buyers expect."

The lifestyle component of hotel branded residences is key to buyers' decisions. Erin van Tuil remarks that hotel branded residences offer "ease of living through having all of the facilities on your doorstep," van Tuil continues that "a hotel concierge offers a different service than what you can find in serviced apartments. For example if you want to organise a sommelier or private chef they can do that for you - a normal concierge wouldn't." Sebba adds that the list of services available are endless and hard to replicate outside this space, "for example, amenities include having a butler service, a seamstress, translation services, personal shopping, flower delivery, catering, child-care, and all of these are on call."

However, the added facilities alone are not enough to create a best in-class residence. All aspects relating to the residence 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.

"There are some more practical elements that need to be analysed in the concept phases as well," highlights Alexander Lewis. "In the first instance, you have to remember that you are still designing a residential scheme. Space and function will always outsell frills. Scheme concept and space planning, from building form to detailed layouts, must be perfect. Branded residences can also throw up problems such as onerous service charges and security issues. Cost control and specification analysis is also critical in an inflationary environment."

"Designers can get carried away with all the niceties and latest gadgets," adds van Tuil. "Focus must be on what the buyer places value on, not just expensive gimics."

Morris remarks that our work can "ensure every project is designed with the end user in mind, which is crucial in an increasingly competitive global marketplace."
She continues saying that "we offer consultancy services from conception through to completion. Our goal is to add value to the entire development chain, from spatial planning and mix analysis, through to advising on the amenities required in each building." Sebba adds that "with access to an immense network, including high and ultra high net worth clients, we can provide in-depth market research, intelligence from the brokerage community, knowledge of the market and buyer preferences, all valuable input to create the perfect design, amenity and service offering."

"Good hotel design and good residential design do not always go hand in hand though, as they are both specialised markets that until recently have remained separate, and sometimes follow opposing principles. Design grids, service runs, basement requirements and external light treatment may all conflict and a key part of our job is working with different design disciplines to ensure the value of both hotel and residential are optimised," adds Lewis.

"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."

* Knight Frank's residential alliance partner in the United States

How Knight Frank's consultancy services can add value to developments

Global network with a presence in 60 territories

In-depth market research to provide global benchmarks

Data and insight on buyer preferences

Advice on which services and amenities add value

Spatial planning and **mix analysis**

Marketing strategies

"Luxury is expected from our clients; the most important element is how to raise the bar across every aspect of the overall offering"

Maria Morris

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