

FLEXIBLE LIVING

SHORT-TERM THINKING, LONG-TERM REWARDS

For investors and landlords, there are clear long-term rewards in the world of short-term rental accommodation. Cities that embrace the flexibility of models like serviced apartments will reap the economic rewards

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18.2%

Estimated increase in the number of serviced apartments worldwide between 2014 and 2015

Source: The Apartment Service

There are two compelling factors driving global demand for short-term rental accommodation.

First, companies have become more cost conscious after the financial crisis and are curbing the expense and altering the nature of overseas assignments. Second, there is a new generation of younger employees used to more flexible business and leisure travel, which is encouraging companies to deploy people around the world for shorter periods.

However, supply is struggling to match fast growing demand in many established markets, for what is a relatively new form of accommodation. It is a situation compounded by the fact that short-term lets often fall into a legal grey area, despite the rise of online providers like Airbnb.

The combination of a supply shortage and a fluid regulatory landscape means those cities that embrace the short-term rental model stand to reap substantial economic benefits.

CHANGING WORKING HABITS

One way companies have become more conscious about costs is to increase their reliance on short-term assignments and use serviced apartments rather than hotels during the initial stages of a relocation.

Some 63% of companies reported increased pressure to reduce assignment costs, according to a 2015 report by Brookfield Global Relocation Services.

Staying in serviced apartments saves employees making trips to scope out an area before they relocate full time. And, unlike with hotels, extra costs like food and laundry do not tend to build up quickly.

The trend for short-term stays is part of a fundamental shift in the way companies manage their real estate, says Wadih Canaan, Managing Director of buying and relocation agent WSC Properties.

"It has taken a while for people to figure out there was a market for serviced apartments," Canaan explains. "Companies used to lease or buy buildings, but that is capital intensive. They are not in the real estate business and would rather not deal with the headache of maintaining properties." Short-term assignments are forecast to grow to over a fifth of all international relocations in the three years to 2017, according to assignment consultant ECA International. Meanwhile, long-term

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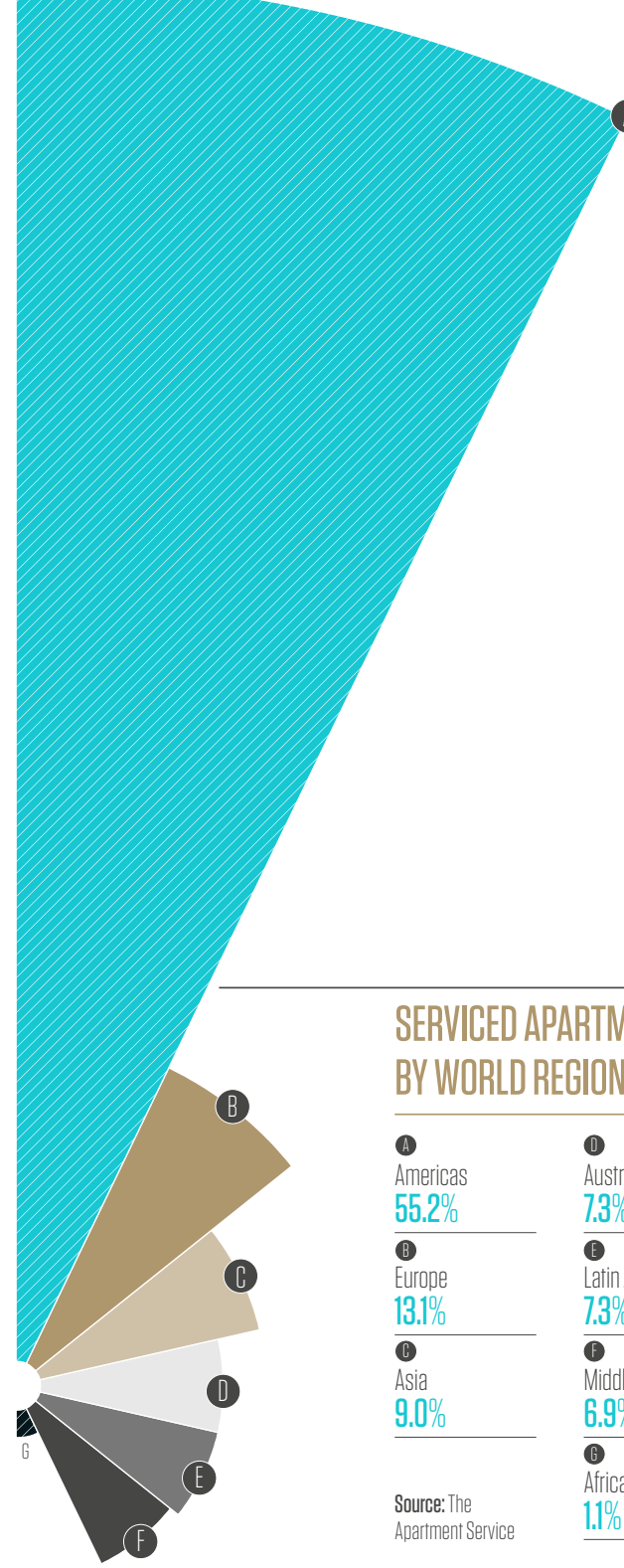
One Fine Stay apartment, New York City, U.S.



assignments are expected to fall from 52% to 45% over the same period. Shorter-term relocations are less disruptive than longer-term moves and are also driven by the desire of larger companies to share skills around the world, including the rotation of graduates, says Alec Smith, Accommodation Services Manager at ECA. "The traditional expat package is based on a longer-term, two to five year deal," Smith explains. "That approach is still popular, but ultimately the world is more global and clients have a growing need for short-term project work. Five years ago companies were put off by the administration of tax and immigration compliance for stays of less than 12 months. While that is still a big challenge, they are more prepared now to accept that they need to absorb the pain."

THE STRUGGLE TO MEET DEMAND

However, while demand is surging, supply around the world is often patchy or constrained by local regulations. Hong Kong is one of the most mature markets for short-term lets, but for a two bedroom apartment at the most popular level of U.S.\$6,450 per month, availability is low.



SERVICED APARTMENTS BY WORLD REGION

- A Americas 55.2%
- B Europe 13.1%
- C Asia 9.0%
- D Australasia 7.3%
- E Latin America 7.3%
- F Middle East 6.9%
- G Africa 1.1%

Source: The Apartment Service

In India, there is currently an under supply of serviced apartments in most major cities. However, a number of developers are building spaces that will hit the market in the next few years.

In Central London, the supply of serviced apartments and short-let accommodation falls far short of the demand from both international tourists and the film industry. Between April and October there is particularly strong demand from directors, producers and actors for three bedroom apartments in Notting Hill. Property that is realistically priced lets immediately and those clients unable to obtain a short let property have to use the more expensive hotel option.

THE OPTIONS

Serviced apartments (see box page 47) is only one way to capitalise on growing demand.

The private short-let market is a lucrative option. However, the reward of rental values that are typically double those in the long-term market is balanced by the greater risk of void periods.

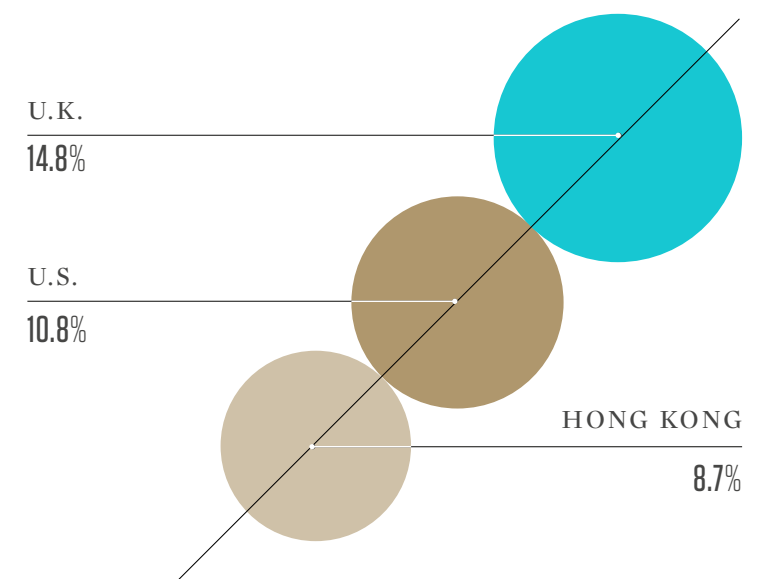
On top of the financial risks, private lets below a certain time period are illegal in most developed markets around the world. For example, the lower limit is three months in the London borough of Westminster, while short lets have become more tightly regulated in Dubai,



Brownstones, New York, U.S.

VISA APPROVALS BY CITY
% CHANGE IN WORK-RELATED VISA APPROVALS 2014 V 2013

Source: Home Office immigration statistics / U.S. Department of State / Hong Kong Immigration Department



“THE TREND FOR SHORT-TERM STAYS IS PART OF A FUNDAMENTAL SHIFT IN THE WAY COMPANIES MANAGE THEIR REAL ESTATE”

Jumeirah Lakes Towers, Dubai, UAE

in preparation for the emirate’s Expo 2020 event.

For private landlords, lets of less than 30 days are a grey area in New York, and condo and co-op boards and local bylaws make short lets difficult, even though the internet is driving the popularity of the model. Furthermore, the market is not standardised and there are laws to protect tenants that can result in problems for landlords when getting them to leave.

Such grey areas have done little to dent the growth of online short-term accommodation providers like One Fine Stay and Airbnb. The latter entered the Cuban market this year, following reports that it would float in the U.S. with a valuation of \$20 billion.

Despite the rapid growth and heady valuations, local restrictions can limit the scope for such platforms, as is the case in Singapore. Airbnb is allowed under Singapore law but the property

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owner has to be living in the apartment at the same time.

Furthermore, many companies continue to favour serviced apartments for reasons of transparency and uniformity of service and quality.

However, Airbnb is increasingly targeting corporate travellers and aims to grow a side of its business that currently accounts for 10% of stays.

“We are seeing a huge rise in business travel,” says James McClure, Airbnb’s Country Manager for U.K. & Ireland. “Travellers and employers have long been asking Airbnb to help make it easier to incorporate Airbnb into their travel policies.”

THE FUTURE

As the sector grows, ensuring quality levels of short-term accommodation will be a challenge, particularly given that future economic growth will be dominated by emerging markets.

For the serviced apartment market, it underlines the growing importance of

branding and the uniform quality of services and booking systems.

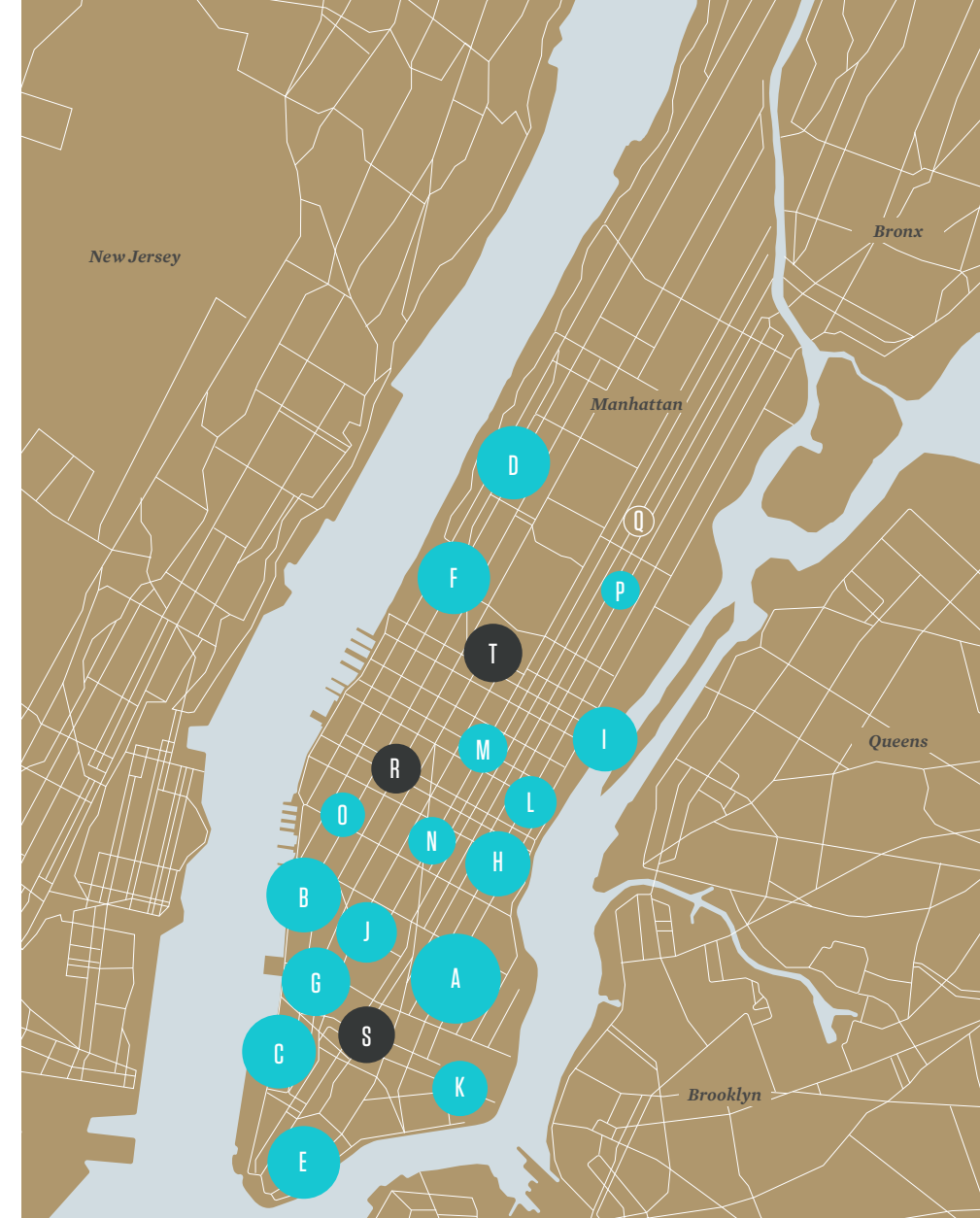
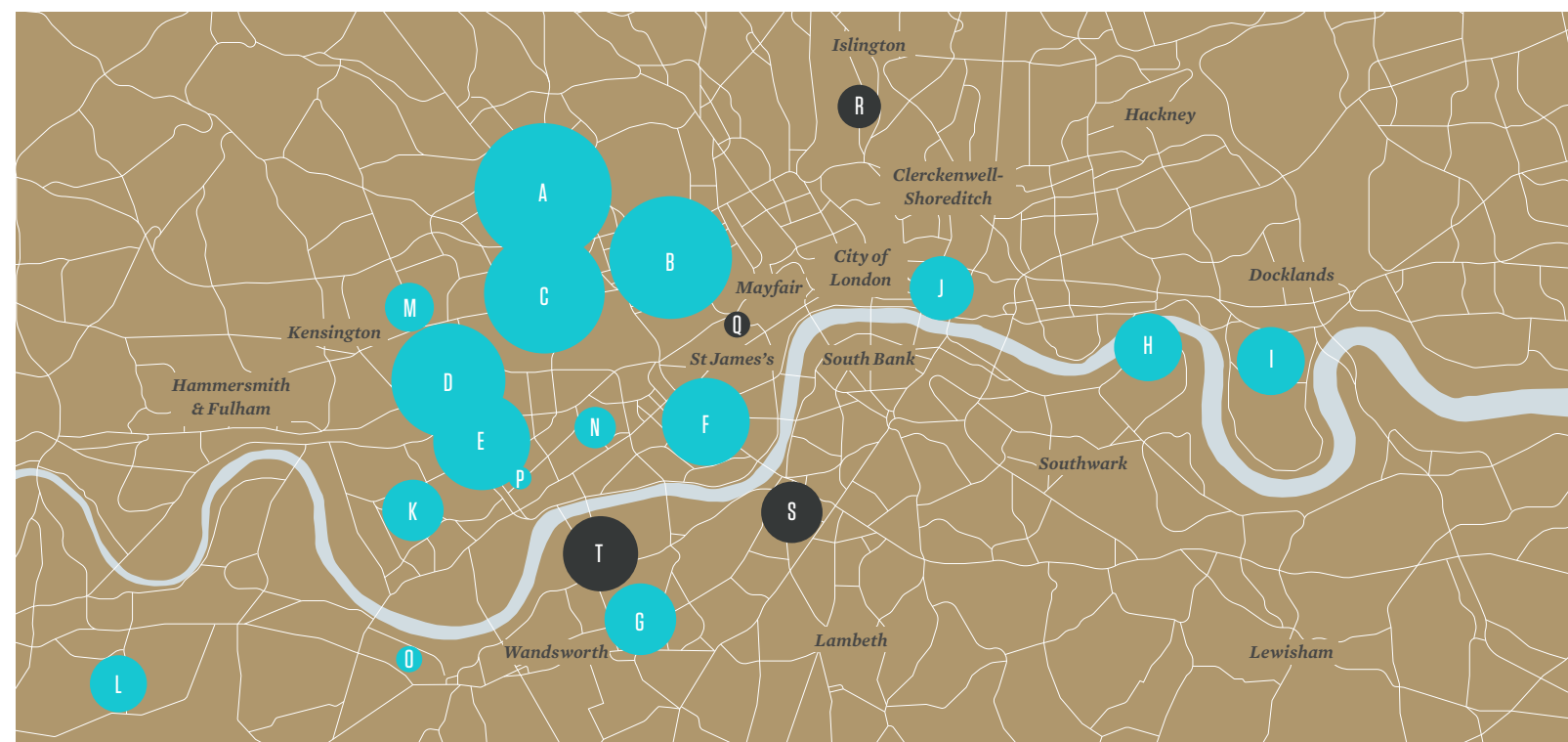
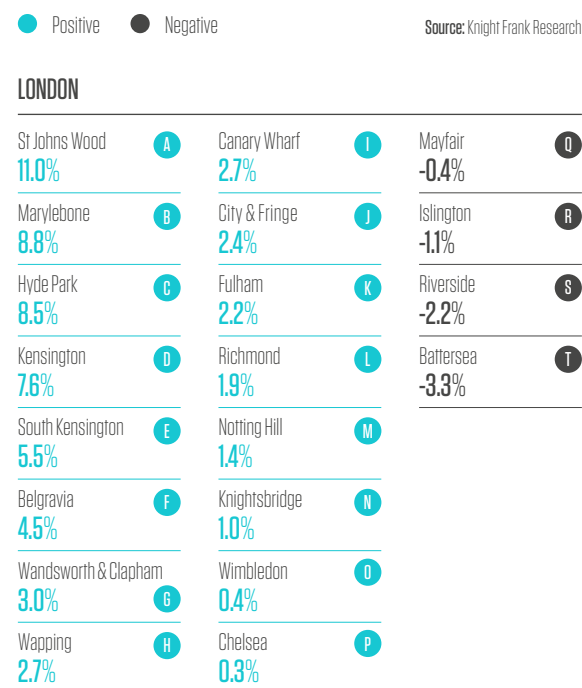
For example, the quality of serviced apartments in Kenya matches that of a hotel, but it’s been done relatively informally to date. The next level will mean more professionalism and a branded type of offer.

There is also a growing trend for operators to locate serviced apartments and hotels on the same site. This produces savings both during development and once open as they share back of house facilities.

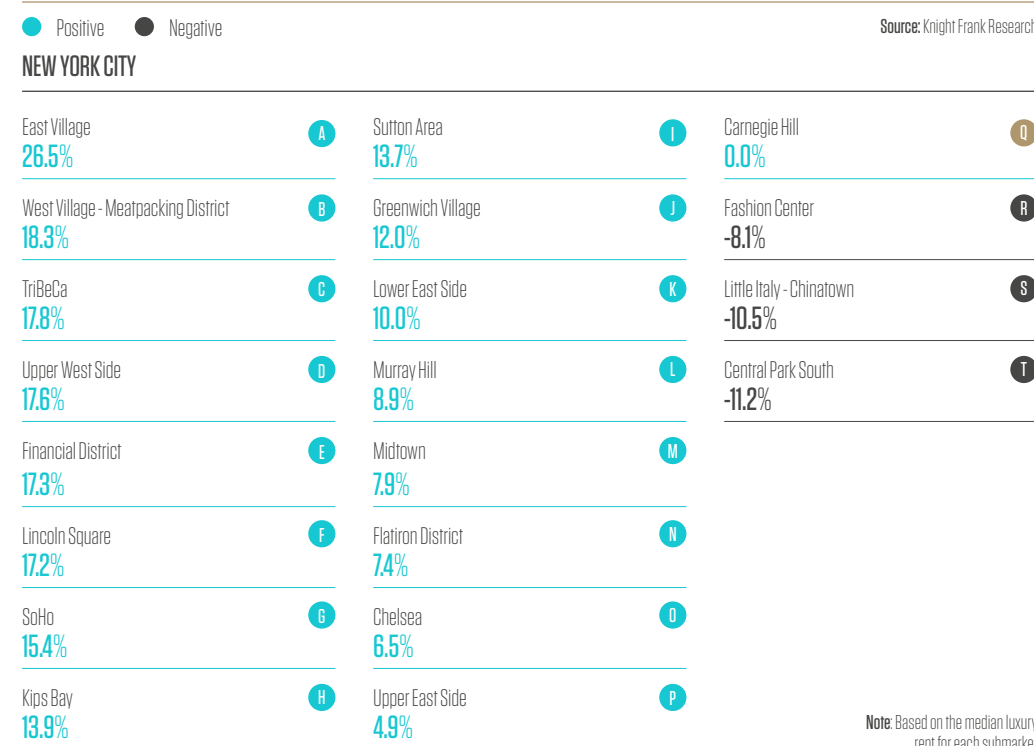
However, there are risks as well as opportunities, underlined by the fact that competitive tension between serviced apartment and hotel operators remains in the most developed of markets.

Those cities that can find a way through such complexities and embrace this new form of real estate stand to benefit from a sector that is set for strong growth.

MAPPING RENTS: LONDON VS NEW YORK
RENTAL GROWTH BY PRIME SUBMARKET
ANNUAL % CHANGE TO Q1 2015



RENTAL GROWTH BY LUXURY SUBMARKET
ANNUAL % CHANGE TO Q1 2015



Note: Based on the median luxury rent for each submarket

THE RISE OF THE SERVICED APARTMENT

An all inclusive hybrid of a hotel room and a rental apartment, the number of serviced apartments in the world has grown by 80% since 2008 to about 750,000, according to a report by The Apartment Service, a global provider of short-term accommodation.

The advantage over a hotel is that it’s cheaper and more homely. In India, a decent complex can be about a third of the price of a five star hotel.

The serviced apartment began life in the U.S. in the 1980s and North America still accounts for 61% of the world’s serviced apartment locations, followed by Europe (17%), Australasia (11%) and Asia (5.5%).

The fastest-growing markets in 2015 were Europe (up 42% on the previous year), Africa (34%), while the number of serviced apartment sites in Asia and the Middle East grew by 31.5%. North America increased by a more modest 6%.

The fact that demand exceeds supply puts upwards pressure on occupancy levels, with nearly three quarters of global operators reporting a year-on-year increase, according to The Apartment Service report.

Such strong occupancy rates mean hotels are increasingly moving into the service apartment market. Marriott and Intercontinental were two of the top three serviced apartment operators in the world by number of units in 2014.