Spotlight
Global Serviced Apartment market review

Autumn 2012

Opportunities for expansion

■ The serviced apartment sector, also known as extended stay in the US, has expanded significantly over the last 30 years. However, the speed of expansion has differed regionally pointing to opportunities for further growth.

■ The US and Asia Pacific markets remain the most developed, largely due to the fact these regions saw the first serviced apartments and the scale of the geographies involved meant that the demand from corporates on extended stays was more pronounced. For example, the travel distances typical to both markets makes it unfeasible for people to make daily/ weekly trips back home.

■ Graph 1 shows current unit supply per 1,000 business visitors for key cities globally, with the larger bubbles indicating greater levels of supply. London is the least developed, although by European standards is considered the most established. Unit supply per 1,000 business visitors is 1.2, less than a quarter of that seen in Hong Kong and New York.

■ Considering this relative undersupply, there would appear to be opportunities for further expansion in London to bring it more in line with supply levels seen in more developed markets. However, even in these better supplied markets there may be scope for further expansion.

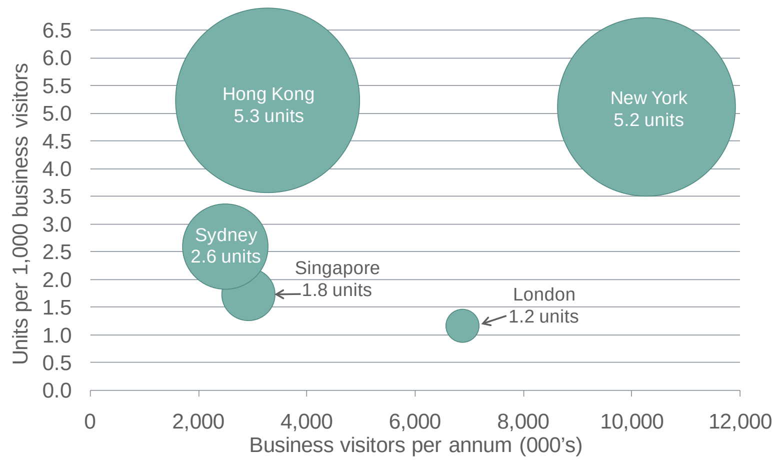
Strong operational performance key feature

■ Latest occupancy data for the key global centres points to an average occupancy of 87.9% (Q212), ranging from 85% in Singapore to 91.6% in Hong Kong. Apart from New York and Singapore, serviced apartments exceed their respective hotel markets by at least two percentage points. This outperformance is not unique. Average occupancy over the last three years has been in excess of that for hotels across all the cities examined, bar New York, by an average of 3.5 percentage points (Graph 2).

■ The strong operational performance across all these global financial centres highlights the relative strength of the sector, particularly in light of the continued economic uncertainty facing some regions. For some markets it has been this uncertainty that has strengthened occupancy as corporates, the typical users of serviced apartments, view the sector as a more cost effective alternative to long-term hotel stays.

■ However, for some markets slowing economic growth may dampen operational performance for the remainder of the year. Hong Kong and Singapore are likely to see a fall in current occupancy levels in line with slowing economic growth in the region and the decline in IPO activity. Having said this occupancy is expected to remain in line with the three year average. A similar slowdown was seen in the London market at the start of this year on the back of the Eurozone crisis. Yet the second quarter saw demand levels improve.

GRAPH 1
International supply comparison



Graph source: Savills; STR; CHPA; Australian Bureau of Statistics (ABS); Singapore Tourist Board

GRAPH 2
Occupancy

Graph source: Savills; ASAP; STR; ABS; HKTB; STB (*Sydney data Q112; **Singapore data Q411)

■ The ability to expand supply, despite the apparent capacity for further growth, is being mitigated by a number of different factors across the various markets.

■ In the case of Hong Kong the restricted supply of development opportunities and the strong competition from private residential developers has hindered expansion. London is facing a similar problem, exacerbated by the relative immaturity of the sector which has made it difficult for operators/ developers to secure funding as the concept is less well known. The recent closure of a number of operations in New York who were apparently operating out of buildings without the appropriate consent, has no doubt rocked investor confidence and may hinder expansion going forward.

TABLE 1

Indicative prime yields

City	Serviced Apts	Hotels
New York	6.00%	4.50%
London	6.25%	5.75%
Sydney	8.00%	7.50%
Hong Kong	3.00%	3.50%
Singapore	4.50%	5.00%

Table source: Savills; Real Capital Analytics

Investor sentiment

■ The relative immaturity of the sector has made it difficult to track investment activity, although transparency is better in the more developed US and Asia Pacific markets.

■ Table 1 shows indicative prime cap rates as of Q312 for serviced apartments benchmarked against hotels for the various cities.

■ Serviced apartment cap rates are 50 basis points (bps) lower than those for hotels in Hong Kong and Singapore, whereas this trend is reversed in New York, London and Sydney. The keener yields seen for serviced apartments in the Asian cities reflects more pronounced investor preference as they are seen as a more secure investment due to their similarity to standard residential, further highlighting the maturity of the sector in these markets.

■ Going forward, we may see investors look to less developed markets, particularly emerging economies such as Brazil and those in the Asia Pacific region, for opportunities.

OUTLOOK

Strong operational performance appears to be the norm irrespective of geography

■ Europe, in particular its key financial centres such as London, show the greatest opportunities for supply growth. We expect to see further expansion by international operators, however, it will be local operators that will be the principal drivers of growth.

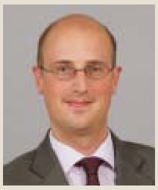
■ The European market is not geared towards strata-titled investments, which are more commonly used in Asia Pacific markets. Greater use of this model in Europe may help drive supply expansion.

■ Serviced apartment operational performance tends to outperform that for hotels irrespective of geography. The higher margins normally associated with the sector should further highlight its attractiveness to investors.

■ Slowing economic growth and uncertainty is generating operational risks in some markets but we believe these to be short lived with occupancy levels to remain in line with the three year average.

■ We believe that in the less developed markets in Europe the yield gap between serviced apartments and hotels will narrow as serviced apartments become a better recognised investment asset, however, this may not materialise for another 12 to 24 months.

Please contact us for further information



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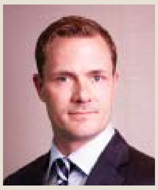

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