

## UK Serviced Apartment market

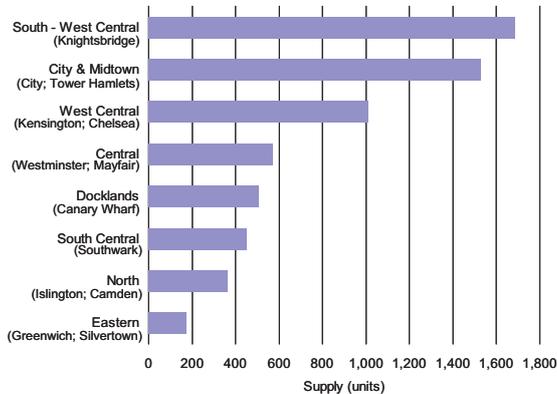
**The sector continues to perform strongly but remains to be largely overlooked by investors, restricting expansion.**



- Central London continues to dominate supply with 6,284 units. A further 2,380 units are expected to be delivered in London over the next 5 years.
- There has been a shift towards shorter stays. London has the largest turnover with 59% of stays during H1 2010 being for less than 1 month.
- Occupancy has bounced back to pre-2006 levels over the first half of this year. This, combined with the lack of new supply, is placing significant upward pressure on rates.
- Business confidence remains tentative, this will continue to support demand as corporates maintain their focus on cost control.
- Capital values in London saw some growth over the first half of 2010, with values now averaging £391,000 per apartment, 27% above the long term average of £309,000. This was driven, in part, by a lack of available stock.
- Prime yields in Central London are currently in the region of 6% to 6.5%, with prime yields in the region at circa 8% to 9%.

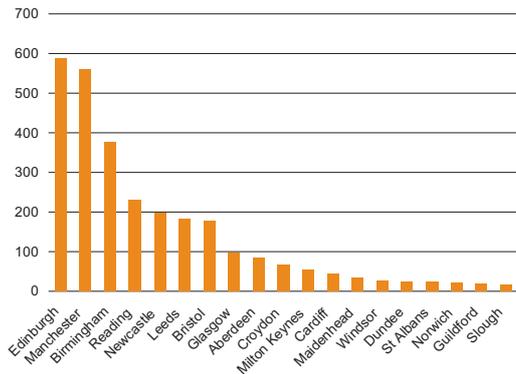
# Supply

## Central London current supply



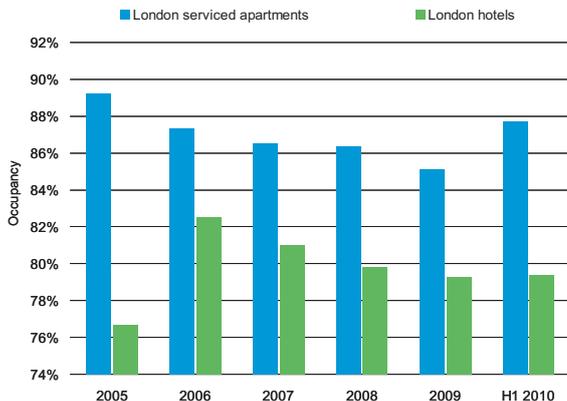
Source: Savills; SilverDoor

## Regional current supply



Source: SilverDoor

## Occupancy bouncing back



Source: Go Native

## Central London expansion muted in 2009

- Central London, with 6,284 units, continues to dominate serviced apartment supply in the UK. However, this constitutes only 6% of total hotel room supply. A further 2,380 units are expected to be delivered over the next 5 years.
- Extensions of banking covenants and mothballing of development projects have made it increasingly difficult for operators to find expansion opportunities through the use of lease/ management contracts. For those operators wanting to pursue their own development projects, access to funding for a sector that is still relatively unknown remains to be a major obstacle.
- What inventory growth there was last year by the larger operators, focused on 'safer' and more established market areas such as Mayfair, Chelsea, Knightsbridge and the City.

## Supply outside Central London concentrated in the key regional centres

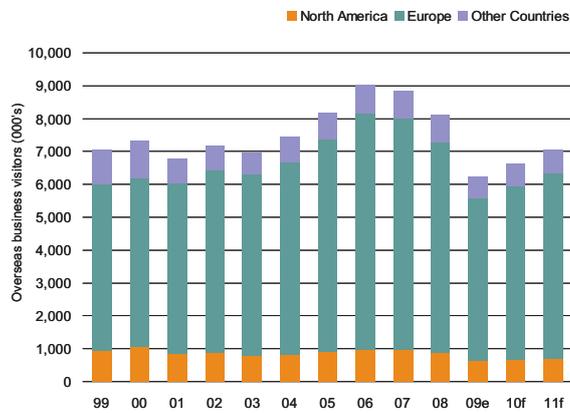
- Savills have been given unique access to data from Go Native, an international agent and operator of a substantial portfolio of serviced apartments in the UK, and SilverDoor International, who are a leading serviced apartment agent.
- Supply outside London is largely concentrated in the key regional cities, with a focus on those centres with a significant presence of large international firms, hence Reading's feature in the top 5.
- There has been a clear shift towards shorter stays of under 1 month largely driven by the higher churn seen in London where 59% of stays during H1 2010 have been for less than 1 month. The Midlands has the largest proportion of stays of over 6 months accounting for 22% of all stays over the last 2 years.

## Has demand held up?

- Go Native has supplied Savills with occupancy data for their portfolio of serviced apartments in London. While this data is specific to Go Native it does provide a benchmark to performance in the wider market.
- Unsurprisingly, occupancy did fall back with the onset of the global recession as corporates looked to cut costs by curbing travel and lengthy secondments. However, despite the fall off in occupancy serviced apartments have consistently outperformed hotels where occupancy has averaged 80% between 2005 and 2009 compared to the 85% seen for serviced apartments.
- Over the first half of this year there has been a marked bounce back in occupancy to 88%. With little new supply coming to the market this is placing significant upward pressure on rates.

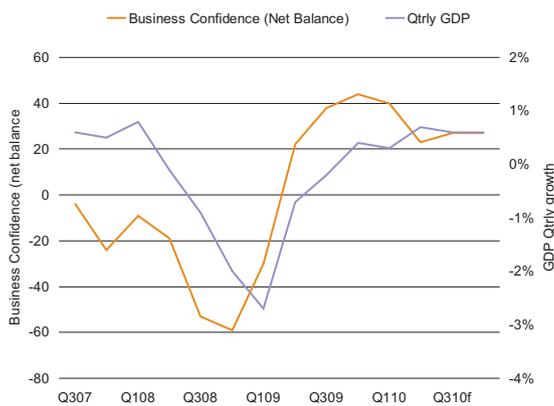
# Market Drivers & Outlook

## Corporate demand looks to have hit the bottom



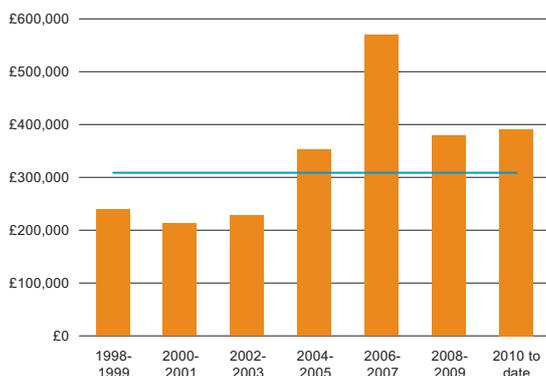
Source: ONS; Savills

## Business Sentiment - a precursor for recovery



Source: Deloitte CFO Survey; ONS; Consensus; Savills

## Average Central London serviced apartment values



Source: Savills

## Improving corporate demand on the cards

- Serviced apartment performance has been closely linked to the corporate market, namely the overseas business visitor. The economic crisis saw companies reduce corporate spending particularly travel expenditure.
- Operators have compensated by diversifying into the leisure market. Business mix is now circa 60% corporate as opposed to the 80% typical prior to 2007. This diversification has also helped to drive average length of stays downward.
- We believe that the UK corporate market hit the bottom in 2009. In line with the previous downturn in 2001 and subsequent recovery, we forecast a 6% increase in annual visitor numbers this year and for 2011.
- Signs of recovery are already apparent as demonstrated by the 1.8% increase in business visitor numbers in Q110 (year-on-year) and the already highlighted bounce back in occupancy.

## Business sentiment will determine strength of recovery

- As with the recent downturn the strength of the recovery will be determined by future economic growth and in turn corporate spending.
- Business sentiment levels have tended to proceed economic performance. Confidence levels have improved in line with positive quarterly GDP returns, but took a knock following the Emergency Budget and downgrading of GDP forecasts.
- As confidence levels remain tentative corporates are likely to continue their focus on costs. As serviced apartments offer a more cost effective solution for longer stays this will continue to support demand.

## Savills valuation index

- Since 1996 Savills have been tracking their own serviced apartment valuations amounting to over £1bn. Focusing on London, 2006 to 2007 marked the peak of the market, with average values of £570,000.
- The fall out in the property market saw average values return to pre 2006 levels during 2008-9. However, value growth has returned with apartment values averaging £391,000 over the first 6 months of 2010, 27% above the long term average. The improvement in residential values and lack of stock were the primary drivers of this. Prime yields in Central London are currently in the region of 6% to 6.5%, with regional prime yields at circa 8% to 9%.
- Going forward, despite the re-emergence of investor uncertainty, the lack of available stock is likely to keep prime yields at current levels for the remainder of the year.

# Survey area & key contacts

## Hotels and serviced apartments

Savills are market leaders, having sold and transacted more than 300 hotel and serviced apartment sales in Central London alone. Sales include trading hotels at both corporate and private levels, from tourist class to 5 star deluxe hotels. Based throughout the UK and Europe, we provide the complete package from acquisition and planning stage, through to lease, management contract or turn-key negotiations and sale of investment.

In 2009, Savills hotel team, on behalf of a client, acquired a serviced apartment building in Central London for circa £100m. Recently, Savills Hotels also completed a portfolio valuation for Ascott Reit.

Savills remain one of the most experienced agents and valuers in the industry. Annually, we handle some €5bn worth of hotel assets transactions and valuations across the UK and Europe.

## Research

The Savills Research team has gained a reputation for an innovative and pro-active approach, which comes from a clear philosophy of market dynamics and an understanding of our client's needs. The research team is unique in providing advice and analysis to clients across all sectors of the property market: from rural property to offices; residential to retail and leisure; in both the UK and Europe. Our established research team, with some 20 years experience, has a strong reputation for producing accurate, well informed and, above all else, independent analysis and commentary on all sectors of the UK and European property markets.

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Savills plc is a leading international property services company with a full listing on the London Stock Exchange. The company has undergone dynamic growth in recent years establishing itself as a powerful player on the international stage with offices and associates throughout the UK, US, Europe, Asia Pacific and Africa. In addition, Savills is the trading name for the property service subsidiaries of Savills plc which advise on commercial, rural, residential and leisure property. Other services include corporate finance advice, property and venture capital funding and a range of property related financial services.

Established in 1997, Go Native is an award winning provider of temporary housing solutions with offices across the UK, Middle East & India. With an annual turnover in excess of £35m, Go Native has grown to become the leading provider of temporary housing solutions to the Consulting, Finance, Auditing, BPO and IT industries, housing over 6,500 relocating, temporary assignment and project personnel each year. In addition to maintaining a comprehensive agency network of Serviced Apartments globally, the company operates a substantial portfolio of serviced apartments across the UK.

SilverDoor international serviced apartments was incorporated as a Limited Company in March 2000 under its original name of Hotdigs. In January 2006 the company re-branded and changed its name to SilverDoor. SilverDoor are specialists in the provision of serviced apartments in London, across the UK and worldwide, SilverDoor has grown since 2000 to become the UK's leading independent serviced apartment agent. SilverDoor are engaged by international corporate and private clients for temporary and permanent relocations, staff housing programmes, business visits, international assignments, city breaks and conferences.

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