World Research - 2019

SPOTLIGHT

Savills Research

Branded Residences

savills

• Market Overview • Global Distribution • Brand Profiles

Raffles, Old War Office, London

Foreword

Global expansion of the branded residences sector continues as more brands participate

The branded residence sector reached new heights in 2019. A record number of schemes opened, delivering more than 9,000 additional branded units across 21 countries. This record is set to be broken again in 2020 when nearly 70 schemes are due to complete.

Branded residences offer many advantages in a crowded global marketplace for luxury property. Globally-mobile, brand conscious wealthy individuals are attracted by quality design, security and the level of service branded residences offer. For hotel operators, adding a residential component can improve income streams with royalty fees from sales in the early stages and a more diversified hospitality inventory, while also allowing them to be more competitive when pitching for new projects. Developers, meanwhile, have come to recognise the value-add of a brand in a competitive global marketplace.

Significant opportunity remains. Branding a residential development lends a point of difference that will become ever more important in challenging market conditions. We have identified a number of city markets in Europe and the Middle East that offer potential, where wealth is forecast to rise but there is little or no branded supply.

Last year, we predicted that new lifestyle, non-hotel brands, outside the realm of what has been seen to date, would enter the sector. Our prediction has played out: media company Condé Nast has plans to move into the branded residence sector. This, together with rapidly rising participation by hoteliers including Hyatt, Hilton and Accor underscores the depth of the sector's potential in the years to come.

Riyan Itani
Director
Co-head of Savills International Development Consultancy

Summary

The number of branded schemes has grown by 198% in the last decade. Over 65 projects will open by the end of 2019. Nearly 70 are due to open in 2020.

Growth is being driven by the hoteliers. Hotel-branded residences account for 85% of completed schemes, but 96% of pipeline projects.

North America, the birthplace of branded residences, is home to 39% of operating schemes, but only 19% of the global pipeline. Asia Pacific, Europe, MENA and Latin America are adding more projects as the sector globalises.

New York is set to be toppled by Dubai as the global branded residence capital by the end of the year.

The range of brands is diversifying. Luxury hotel brands dominate, but the share of 'Upper Upscale' brands is set to grow, now accounting for 22% of the pipeline.

Savills analysis shows the average premium for branded residences over non-branded product stands at 35%, and can exceed 70% in emerging markets.

Cover Image:
The Four Seasons Private Residences,
30 Park Place in New York

The rise and rise of branded residences

The branded residence sector has come a long way since the very first branded residence opened in New York almost a century ago

In a crowded marketplace for prime property, the distinction of carrying a brand has become recognised as a valuable USP. The number of branded schemes has grown by 198% in the last decade. Over 65 new projects will open by the end of 2019, a new record. This is due to be broken again in 2020 when nearly 70 are scheduled to complete.

The players: movers & shakers

Growth is being driven by the hoteliers. Hotel-branded residences account for 85% of completed schemes, but 96% of pipeline projects. Marriott International is the market leader and set to remain so (see p8), but Accor is rising fast and now has a large pipeline that will push it into second place in coming years, ahead of YOO, Four Seasons and Hyatt (see chart). Both Marriott International and Accor benefit from a large portfolio of brands that they can deploy to suit different markets.

Emaar Hospitality Group moves into sixth, having only entered the sector at scale five years ago. It has an extensive pipeline in the UAE and wider Middle East, under its Address and Vida brands.

Parent company Marriott International dominates the market in terms of number of schemes and unit numbers. However, in terms of individual brands, YOO is the largest single player in the market by both number of schemes and units, followed by Four Seasons. Ritz-Carlton, a Marriott International brand, is set to overtake the latter in the coming years based on reported pipeline.

Regions on the rise

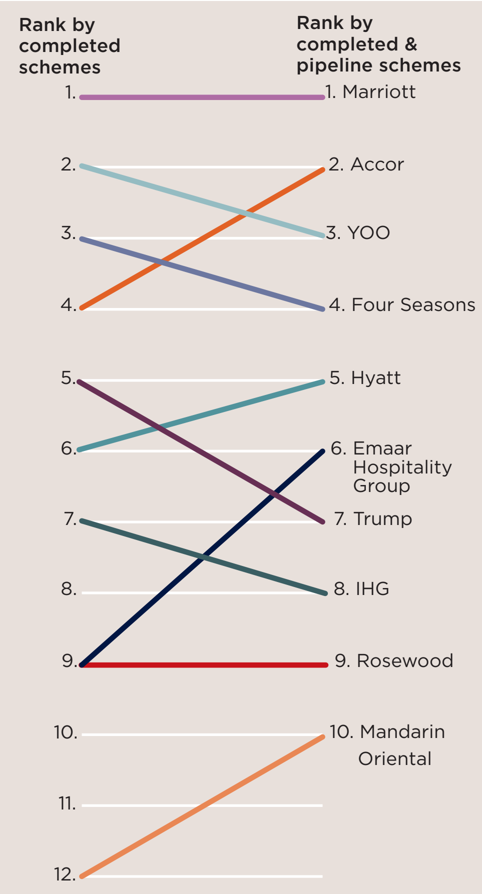
The birthplace of branded residences, North America is home to 39% of all schemes, but as the sector has matured other regions are growing more rapidly.

Asia Pacific, led by Thailand and Vietnam, currently has the most schemes in planning and under construction (23% of pipeline), followed by MENA (21% of pipeline), where the UAE and Egypt account for most of the forthcoming supply.

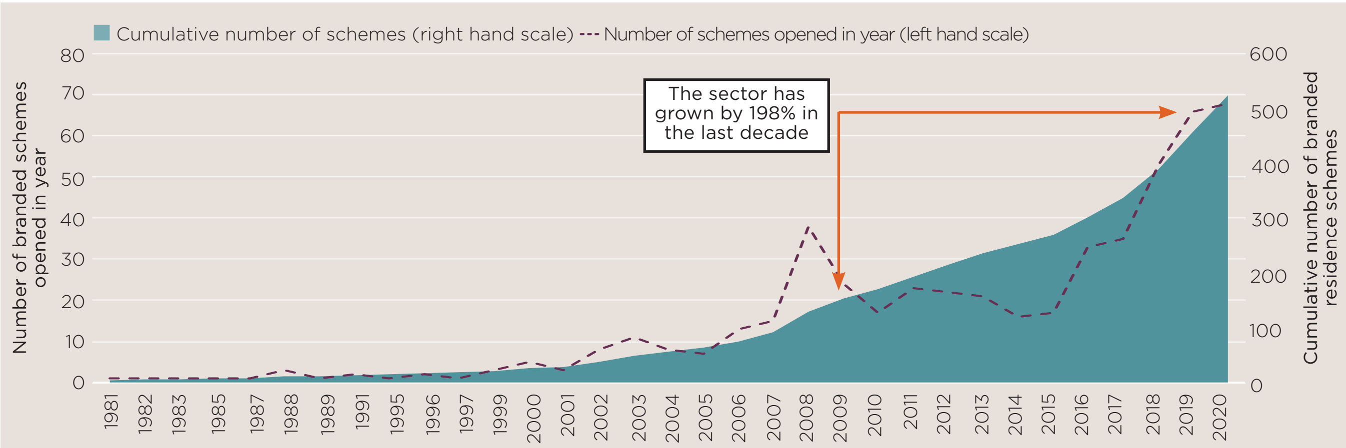
Latin America is a major growth market. The number of schemes in Mexico are set to more than double in the coming years as Marriott International, Accor and Hyatt (among others) open new projects in both resort and city locations.

The biggest players in 2024

Forecast based on completed and announced pipeline schemes



A decade of growth



Source Savills Research & International Development Consultancy

Dubai is set to overtake New York as the global branded residence capital

Miami, gateway to the US and major resort destination has the third largest number of schemes

Phuket is forecast to overtake Bangkok, taking fourth position, where a number of smaller resort schemes are in the pipeline

All change in the city league

New York is set to be toppled by Dubai as the global branded residence capital by the end of 2019, thanks to a pipeline equal to its current supply (see map, overleaf). This surge in supply coincides with the city's hosting of Expo 2020. Miami, gateway city to the US and major resort destination, has the third largest number of branded schemes, and will retain its position. Phuket is forecast to overtake Bangkok, clinching fourth position, where a large number of smaller resort schemes are in the pipeline.

Beyond Luxury

As the sector matures, the range of brands is diversifying. There are almost 80 individual brands in the sector today, and a further 30 brands will be entering the market for the first time in the coming years.

Luxury hotel brands dominate, but the share of 'Upper Upscale' brands is set to grow, accounting for 22% of the pipeline by number of schemes (see chart), and 26% of the pipeline by number of units.

Other aspirational brands are operational too, ranging from luxury cars, such as Porsche, Aston Martin, and Mercedes, to fashion houses, including Missoni, Armani, Versace, and Bulgari. Most recently, US media company Condé Nast has announced its intentions to enter the sector (see p9).

Price premiums

Savills analysis shows that the average premium for branded residences, over an equivalent non-branded product in the near vicinity, stands at 35%.

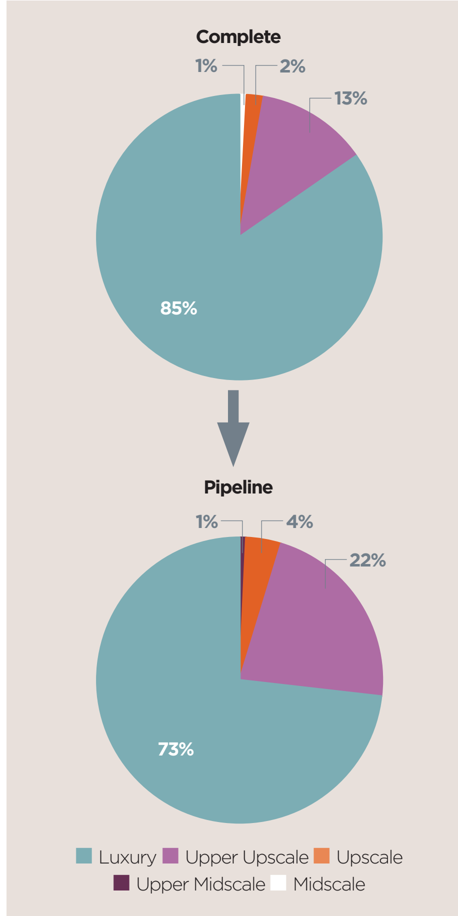
This varies significantly by location, brand and operator. In emerging global cities such as Kuala Lumpur the premium exceeds 70%. In mature markets, where location is a much greater determinant of value, premiums are less. In New York, for example, where some exceptional non-branded product has come to market, a branded discount has been recorded.

Price premiums are only one advantage of branded residences. Greater project visibility, design and marketing expertise and access to the brand's customer base are a few of the benefits for developers.

Owners, meanwhile, benefit from owning a stake in a reputable brand, have access to superior services and amenities, and in some instances access to a hotel's rental programme. And while owners pay a premium for purchase, analysis suggests this premium carries to resales too.

These benefits should be considered and balanced against the costs of brand association, including royalty fees, design fees, commitment fees, service charges, construction costs, FF&E costs and reserve.

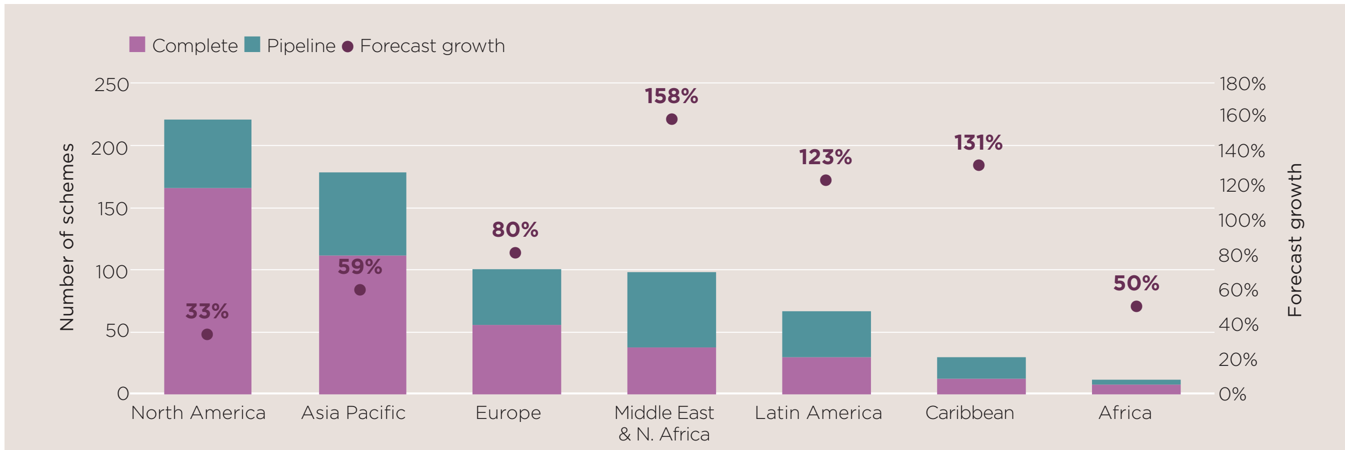
Non-luxury hotel brands account for more than a quarter of the pipeline



Hotel branded residences only, based on STR classifications
Figures may not add to 100% due to rounding
Source Savills Research & International Development Consultancy

Branded residential schemes by region

Future growth to come from outside North America

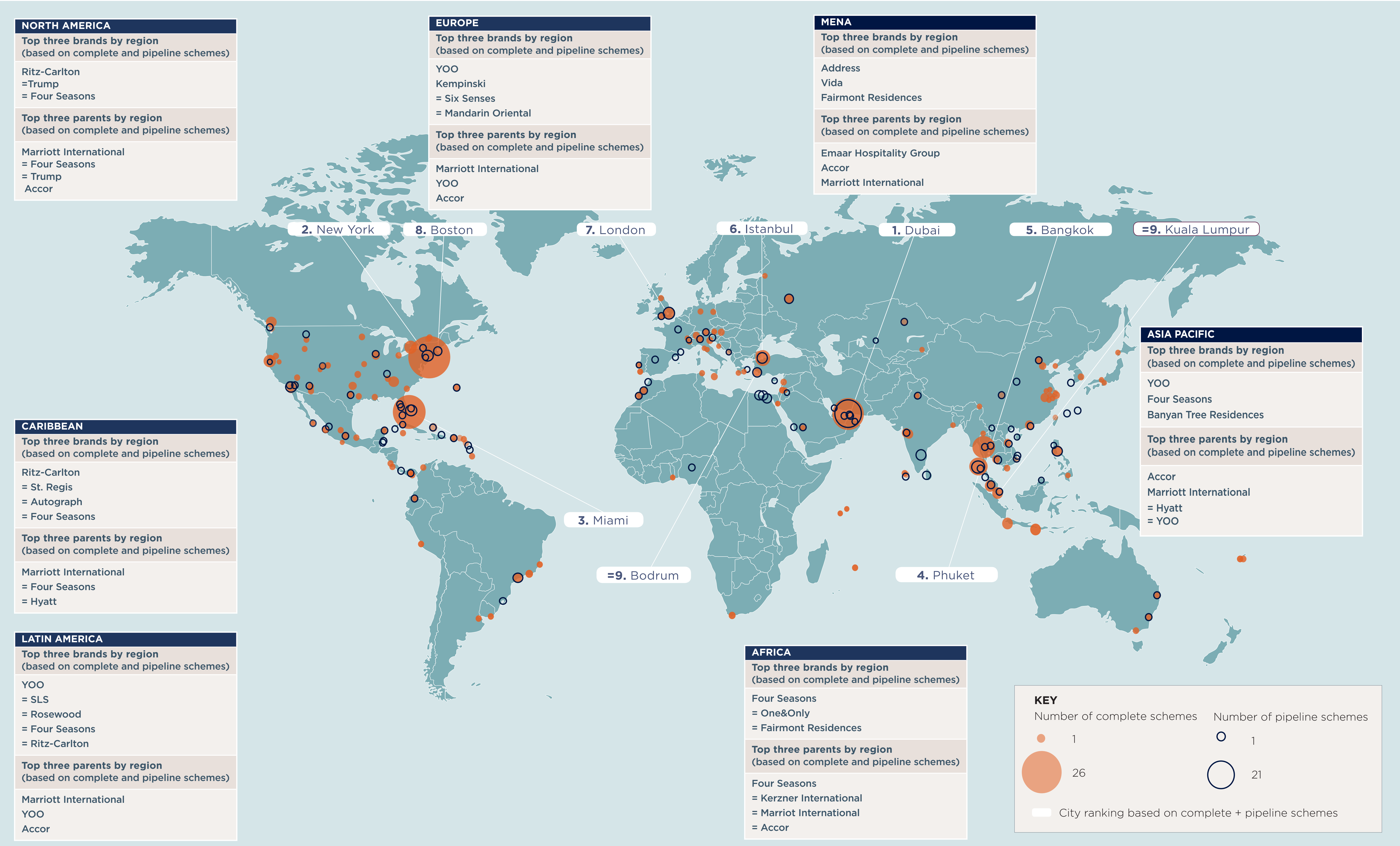


Source Savills Research & International Development Consultancy

Global distribution

Branded Residences: global distribution

There are more than 420 branded residence schemes globally, with 65,000 units combined.
An extensive global pipeline will see these figures rise by more than half again in the coming years



NORTH AMERICA

Top three brands by region
(based on complete and pipeline schemes)

Ritz-Carlton
=Trump
= Four Seasons

Top three parents by region
(based on complete and pipeline schemes)

Marriott International
= Four Seasons
= Trump
Accor

EUROPE

Top three brands by region
(based on complete and pipeline schemes)

YOO
Kempinski
= Six Senses
= Mandarin Oriental

Top three parents by region
(based on complete and pipeline schemes)

Marriott International
YOO
Accor

MENA

Top three brands by region
(based on complete and pipeline schemes)

Address
Vida
Fairmont Residences

Top three parents by region
(based on complete and pipeline schemes)

Emaar Hospitality Group
Accor
Marriott International

ASIA PACIFIC

Top three brands by region
(based on complete and pipeline schemes)

YOO
Four Seasons
Banyan Tree Residences

Top three parents by region
(based on complete and pipeline schemes)

Accor
Marriott International
= Hyatt
= YOO

CARIBBEAN

Top three brands by region
(based on complete and pipeline schemes)

Ritz-Carlton
= St. Regis
= Autograph
= Four Seasons

Top three parents by region
(based on complete and pipeline schemes)

Marriott International
= Four Seasons
= Hyatt

LATIN AMERICA

Top three brands by region
(based on complete and pipeline schemes)

YOO
= SLS
= Rosewood
= Four Seasons
= Ritz-Carlton

Top three parents by region
(based on complete and pipeline schemes)

Marriott International
YOO
Accor

AFRICA

Top three brands by region
(based on complete and pipeline schemes)

Four Seasons
= One&Only
= Fairmont Residences

Top three parents by region
(based on complete and pipeline schemes)

Four Seasons
= Kerzner International
= Marriott International
= Accor

Brand profiles

More than 60 different players participate in the branded residence sector, with over 100 brands between them

Marriott International

The world's biggest player in the sector

Marriott International is the world's biggest player in the branded residences sector. With 100 branded residences across 25 countries Marriott International brands represent one in every four operational projects globally. The company leverages 15 of its 30 leading brands for branded residential projects, with Ritz-Carlton, St. Regis and W accounting for nearly 70% of today's operational developments.

Marriott International's extensive brand portfolio means it can offer a brand appropriate for every location and project type. The company evaluates the tourist and residential sector of every market it enters to find the most complementary match.

Marriott International's portfolio of "distinctive" brands, including the Luxury Collection, Edition and W, are tailored to different demographic groups. W, for example, is strong in city and resort markets and resonates with affluent younger buyers. Marriott's Premium Branded Residences including Marriott, Sheraton and Westin Residences create additional opportunities to diversify the design, services, amenities and pricing offered across a broad residential portfolio.

Marriott International operates all the schemes it brands, ensuring high-quality service that's consistent with brand values. Resident owners can often participate in a hotel rental program, providing access to a huge market of potential renters.

The company currently has 76 branded residential projects planned or under construction, accounting for 27% of the total branded residence scheme in the global pipeline. Marriott International's pipeline is increasingly global – today, more than half of its existing branded residential developments are located in the US, compared to just 20% of pipeline projects.

The branded residential projects in Marriott International's development pipeline would add 18 additional countries. Marriott's Caribbean and Latin America region is experiencing strong growth with a residential pipeline more than double its current distribution led by markets such as Mexico with new projects in both city and resort destinations.

W Residences Algarve, Portugal

Mandarin Oriental

One of the fastest growing players in branded residences

Mandarin Oriental has seven completed branded residences schemes across the globe, making them the 12th biggest player in the sector. Schemes are presently operating in the US, UK, Thailand, Turkey, Macau and Taiwan.

Developers working with Mandarin Oriental benefit from a dedicated marketing and operations team. Owners, meanwhile, benefit from extensive service and amenities, as well as access to a worldwide recognition programme. The ratio of onsite staff to residences at Mandarin Oriental properties is particularly high, in some cases reaching one colleague per home.

While the majority of their residences are adjacent to a Mandarin Oriental hotel (co-located), they have some standalone schemes in the pipeline. These include projects on Fifth Avenue in New York and Passeig de Gràcia in Barcelona.

Mandarin Oriental Residences, Barcelona

The company's portfolio of branded residences is expected to more than double in the coming years. Twelve schemes are currently under development, which will see them move into the top ten largest players in the sector. Their pipeline includes future schemes in Russia, Cayman Islands, Spain, Germany and Turkey. The Residences at Mandarin Oriental, Moscow will be the first luxury branded residences serviced by a five-star hotel in the Russian capital.

Condé Nast

The media company has plans to enter the sector

Savills International Development Consultancy have been in discussions with media company Condé Nast, who has plans to enter the branded residence market. With brands including *Vogue*, *Vanity Fair*, *AD*, *Wired*, *Tatler* and *GQ*, they have the potential to offer a range of curated living experiences to occupiers.

While the company may be best known for its magazines, Condé Nast expanded into hospitality in 2003 with Vogue Cafés and GQ Bars, making residences a natural progression. Branded residences have been chosen as a good fit for Condé Nast's global lifestyle media brands, and an opportunity to further diversify outside the company's core publishing activities.

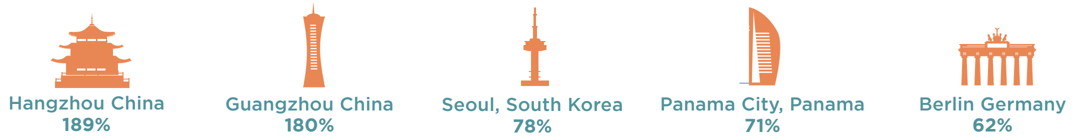
The company plans to offer spaces that are luxurious, relevant and dynamic. Their brands already offer aspirational content on art, culture, design and fashion. Developments are expected to embody these qualities, which will be a key selling point to developers and buyers.

Condé Nast

Condé Nast intends to work alongside developers to approach each space differently, incorporating local materials and architectural styles. Condé Nast will be partnering with premium management and concierge companies to operate their schemes.

Each of the company's brands offers a distinct IP and signature look, but are also flexible and respond to (and indeed shape) changing consumer preferences. This should resonate with a customer base increasingly seeking a curated, on-trend, living experience.

Fastest growing cities for high income households, next five years



The future of branded residences

As market conditions and buyer preferences evolve there is huge potential for the branded residences sector

A point of difference

The prime residential markets of many world cities are slowing. The Savills World Cities Prime Residential Index rose by just 0.4% in the first half of 2019, taking annual growth to 0.7%, the lowest levels seen since 2009. However, with a reputable brand over the door, branded property, perceived to be a 'safer' purchase, is positioned to stand out in more challenging market conditions.

Follow the wealth creation

Global growth may be slowing, but some cities are still generating wealth and are set to outperform in the near term, making them good targets for branded residential product.

Analysis of cities forecast to add the most high-income households in the next five years suggests that the US remains a market to watch, but local supply and market dynamics need to be taken into account.

New York is forecast to add 154,000 high income households in the next five years, more than any other city (see chart). This market is fully supplied, so investors may look to Los Angeles, Houston, Dallas and San Francisco, which are relatively undersupplied relative to forecast wealth creation (see chart).

In the Middle East, Kuwait City and Abu Dhabi offer potential with a large increase in high income households forecast, against no or limited supply. Dubai is forecast to add 24,000 high income households in the next five years, but has a very full supply of complete and pipeline projects. Saudi Arabia offers potential, led by Riyadh and Jeddah, and also supported by the country's push into resort development.

A number of Australian cities are forecast to see strong wealth generation. Supply of branded product in Sydney, Melbourne and Perth is very limited, but sector potential should be considered against relatively weak market conditions at present.

Turning to Europe, London leads, resilient thanks to its world city status. Luxembourg, Zurich and Paris are forecast to add the next most high income households and have no supply of branded product at all. Development opportunities in historic European city centres are limited though; investors have had to focus on conversion and repurposing projects in order to secure prime locations.

Some cities are growing from a lower base. The cities forecast to see the largest increase of high income households in percentage terms include Hangzhou (an important Chinese tech hub), Guangzhou (the biggest city in China's Greater Bay Area), and Berlin (Germany's dynamic cultural and technology centre).

Prime residential markets here may be smaller or less established, and branded residences are well placed to offer comfort, security and familiarity to investors and buyers alike.

Responding to changing consumer preferences

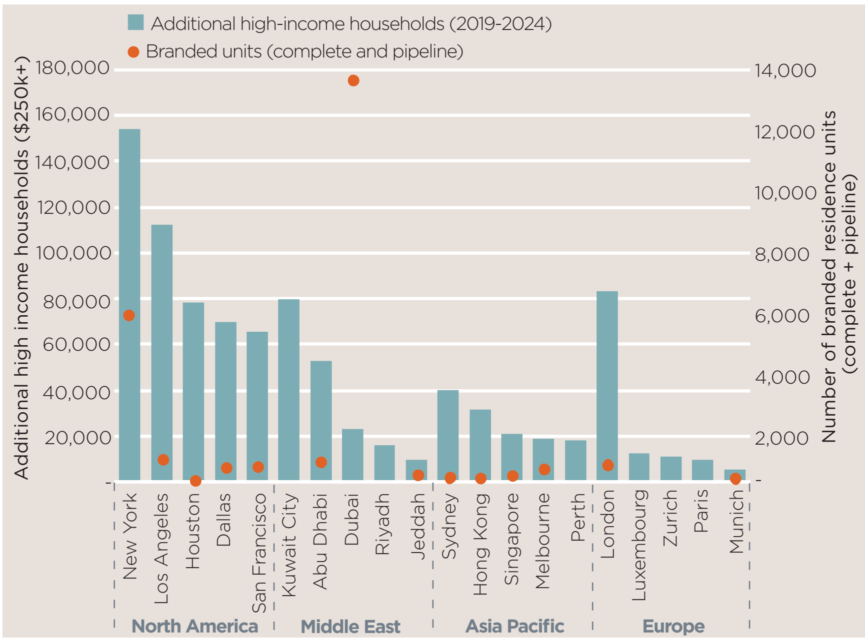
Just because a brand is fashionable today doesn't mean it will be tomorrow. Consumer preferences can, and do, change, and this has implications for the sector.

Hoteliers are proactive in this respect, reimagining brands over time to ensure they remain relevant to customers. Hotel branded residence developments factor in regular refurbishments of communal areas to make sure that schemes reflect current brand values. Hoteliers with a portfolio of brands may rebrand a property to reflect shifts in a particular market.

Millennials, valuing experiences over material goods and prizing individuality, have fuelled the rise of lifestyle brands such as W, SLS and MGallery. Early indications suggest that Generation Z (those currently aged under 24) are even less brand conscious than their predecessors.

It is no coincidence that we are seeing the entrance of players such as Condé Nast. With a portfolio of magazines, they will be able to curate lifestyle without being tied to a single product or brand. This flexibility should resonate with a customer base increasingly seeking a tailored living experience.

Cities adding the most high-income households over the next five years Set against supply of branded residences



Source Savills Research and Oxford Economics

Savills World Research

We monitor global real estate markets and the forces that shape them. Working with our teams across the globe, and drawing on market intelligence and published data, we produce a range of market-leading publications, as well as providing bespoke research to our clients.

Paul Tostevin
Director
+44 (0) 20 7016 3883
ptostevin@savills.com

Sean Hyett
Analyst
+44 (0) 20 7409 8017
sean.hyett@savills.com

Savills International Development Consultancy

Savills International Development Consultancy provides market data driven consultancy to developers, investors and brands in luxury residential and resort markets across the world. Services include pre-acquisition development consultancy, project feasibility studies, premium analysis and a range of branded residential consultancy services.

Riyan Itani
Director, Co-head
+44 (0) 20 7016 3759
ritani@savills.com

Alexandros Moulas
Director, Co-head
+44 (0) 20 7016 3872
almoulas@savills.com

Savills Global Residential

Hugo Thistlethwayte
Head of Operations,
Global Residential
+44 (0) 20 7016 3759
hthistlethwayte@savills.com

Rod Taylor
Director, International
Residential Developments
+44 (0) 20 7016 3727
rdtaylor@savills.com

Savills Hotels

Tim Stoyle
Head of UK Hotels
+44 (0) 20 7409 8842
tstoyle@savills.com

33 Margaret Street
London W1G 0JD
+44 (0)20 7499 8644