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THE SERVICED APARTMENT SECTOR IN EUROPE

HIGHLIGHTS AND TRENDS IN 2016

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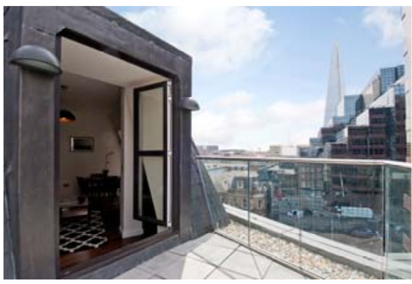

Further growth in both demand and supply fuelled the European serviced apartment industry in the second half of 2015 and the beginning of 2016.

Transactions and M&A Activities

The **Staycity St Augustine Street** in **Dublin** sold for €25 million from NAMA to an undisclosed buyer. The investment shows a net initial yield of around 5% and reflects an average price of more than €227,000 for each unit. Staycity remains as tenant on a long-term lease. The St Augustine Street apartments are arranged in five blocks around a central courtyard and were developed in 2008 by Zoe Developments.

The future **Go Native London Aldgate** was subject to a forward funding transaction. The 178-unit aparthotel at 27 Commercial Road transacted between the Sharma family and Osprey at a price of £80 million. Osprey, which is backed by multi-family office LJ Partnership, has bought the land, including full planning permission, and will fund the developer, Reef Estates, during the development period. Go Native will operate the aparthotel under a management agreement.

Contrary to some press releases, the formerly known Think Apartments portfolio, which was acquired by Starwood Capital in 2008 and subsequently managed by Go Native, is not currently being marketed. We understand that the planned renovation works have started in order to relaunch the properties in early 2017. Hence, no significant portfolio transaction in the European serviced apartment sector has been realised since our previous article. Again, a lack of consistent, large-scale inventory for institutional and private equity players has left the transaction market behind the positive transaction growth in the hotel sector. It is hoped that this will change over the next few years with a higher penetration of branded, new stock becoming available (see new supply section in Charts 3 and 4).

BridgeStreet is at the forefront of strategic partnerships this year, announcing two major milestones in 2016:

- A **partnership with Short Stay Group** which refers to an affiliation in European key growth markets. Selected Short Stay Group locations will be repositioned under BridgeStreet's own brands (Aparthotels, Living, Place and Stüdyo). Furthermore, partners can benefit from the BridgeStreet booking and distribution systems;
- A **collaboration with Airbnb** to build up the Airbnb for Business product offerings and link them to BridgeStreet's client base. An interesting partnership that has been commented on as introducing shared economy services to a managed corporate programme.

Accor has acquired **Onefinestay**, an online provider that offers high-end homes for rent similar to the AirBnB business model, combined with hotel-like services for the proprietor and guest. According to Onefinestay, the main differentiation factor is the careful selection of its properties (about one in 25 of applicants) and a more personalised service.

A list of recent transactions can be found in Chart 5 at the end of this article.

Performance Update

From a sample performance set of the main operators in the market, we comment as follows in general terms:

- The London serviced apartment market saw a softening of average rate throughout 2015 compared with the previous year. However, RevPAR levels stayed largely stable overall, on account of growing occupancies;
- The regional UK markets have been strong on both occupancy and average rate, and therefore registered a positive RevPAR growth in 2015;
- The rest of Europe, comprising the German-speaking countries, Ireland and France, also saw positive results in 2015 and registered increases across the board on an averaged basis.

We note that individual properties might have experienced different trends impacted by their micro-location and product offering.

Product Extension – From Serviced Apartments to Serviced Offices

Mixed-use developments are by no means a new phenomena in the world of real estate but the combination of serviced apartments and serviced offices in one building seems a natural fit. More and more examples are coming up, amongst which are the newly opened Zoku in Amsterdam as well as Vision in Switzerland.

Zoku Amsterdam and WeWork have set up in the same building. WeWork is a shared office space concept created in the US, providing shared workspace, community and services for entrepreneurs, freelancers, startups and small businesses. As of December 2015, WeWork had 54 coworking locations across the US, Europe and Israel – twice as many as it had at the end of 2014, with plans to expand to reach every continent by 2017. Hans Meyer from Zoku comments as follows: "The borders between work and leisure are blurring, which has an effect on spaces we use for work, life and play. Combining Zoku and WeWork is a logical step facilitating this new type of lifestyle, where we create a springboard for international talent and an ecosystem for the new international economy. Within these four walls you find everything to live comfortably and work efficiently, as well as broaden your personal and professional network and getting nurtured. The project in Amsterdam has already proven its success."

SHARED OFFICE SPACE, WEWORK AMSTERDAM

Vision Apartments is launching its first shared offices on Militärstrasse in Zurich at the beginning of July. It plans to capitalise on the need for shared office space for the same target market as the serviced apartments which consists largely of international business travellers. Looking ahead, further offices are planned at Vision's flagship apartment house at Zurich's Giesshübel railway station.

Existing Operators – New Brands

A number of new brands have been launched that are exciting additions to the existing offering:

The Prem Group has launched two sub-brands, **Premier Suites and Premier Suites Plus**. The aim is to have 20 properties across Europe under the brands by the end of 2017 by rebranding existing Premier Apartments and adding new properties to the pipeline. The first announcement was made for the opening of the Premier Suites Plus in Glasgow earlier this year.

Zoku, the new brand of Hotels Ahead has launched its first property in **Amsterdam**. The property, located in the Eastern Canal District, features 133 so-called 'Zoku Lofts' and over 500 m² of social space for its guests. Further expansion is planned in European hubs of creativity such as, London, Copenhagen, Berlin, Vienna, Hamburg and Paris, starting with two selected sites in Paris.

Ascott has launched **The Crest Collection** to distinguish their most prestigious and unique luxury residences. It opens up more opportunities for property owners to preserve individuality and unique features under Ascott management. The first European properties to be part of the collection include three renovated and rebranded Citadine Suites apartments: La Clef Louvre, La Clef Champs-Elysees and La Clef Tour Eiffel in Paris.

BridgeStreet has added the aparthotel brand **Mode** to its repertoire in order to cater to conversion opportunities. Aside from a project in Paris, further European sites will be announced shortly.

Apple Apartments has introduced its **Exclusive** brand to distinguish product of the highest quality and at the highest product levels within its portfolio.

Changes at strategy and management level at **The Serviced Apartment Company (SACO)** are seeing the Beyonder brand (announced in 2015) modified and further evolving into a new lifestyle aparthotel brand called **Locke,** which has just been launched at time of writing. As part of its expansion, SACO recently acquired an office building in Buckle Street with the intention of converting the building into 78 units, serving as an extension of the new 168-unit aparthotel on Leman Street, which is scheduled to open in the fourth quarter of 2016.

Future Expansion of Existing Brands

due to the increasingly high barriers to entry and competition for sites in the capital.

Interestingly, most of the new supply is fairly evenly spread over the next three years. This development horizon takes out most of the speculative projects.

Chart 2 highlights the brands with the most units under development. Staycity leads the pack with a total of 1,161 units in the pipeline, followed by

CHART 1: NEW SUPPLY (APARTMENT UNITS) BY COUNTRY, EUROPE

Brand	Under Construction/Recently Opened	Planned	Opening Date				
			2016	2017	2018	2019	2020
Staycity	996	165	197	634	330	0	0
Residence Inn by Marriott	511	423	0	254	356	324	0
Adina Apartment & Hotels	690	230	320	370	230	0	0
SMARTments Business	337	351	197	329	162	0	0
SACO	416	258	416	0	180	78	0
Vision Apartments	422	203	36	499	90	0	0
Other	3,306	1,031	1,188	1,372	1,444	108	225
Total	**6,678**	**2,661**	**2,354**	**3,458**	**2,792**	**510**	**225**

CHART 2: NEW SUPPLY (APARTMENT UNITS) BY BRAND, EUROPE

Country	Under Construction/Recently Opened	Planned	Opening Date				
			2016	2017	2018	2019	2020
United Kingdom	3,257	839	984	1,628	1,298	186	0
Germany	1,932	742	859	1,127	464	224	0
France	988	400	291	259	613	0	225
Switzerland	304	113	103	314	0	0	0
Netherlands	197	0	117	80	0	0	0
Other	0	567	0	50	417	100	0
Total	**6,678**	**2,661**	**2,354**	**3,458**	**2,792**	**510**	**225**

Source: HVS Research

Similar to last year's article, new development in the sector is clearly focused on Western Europe, led by the UK, Germany and France. HVS research highlights that approximately 30% of the recently-opened or under-construction units over the next four years will be coming on stream in Germany, whereas the UK takes up over 45% of the total new supply. Germany's development hotspots are well diversified across primary and secondary cities such as Frankfurt, Hamburg, Berlin, Munich and Leipzig. The UK additions to supply are also countrywide, with London accounting for just about 30%. This is undoubtedly

Residence Inn (934), Adina (920), Smartments (688), SACO (674) and Vision Apartments (625).

A more detailed and extensive list of recently opened properties and new supply can be found in Charts 3 and 4 at the end of this article.

This Year's Takeaways

The sector has seen another 12 months of positive growth in demand across Europe. Performance figures indicate a positive trend across Europe and the UK, with London's RevPAR growth having stagnated compared to last year but commanding the highest RevPAR levels in absolute terms.

On the supply side, a continous focus on development, particularly driven by major national and international brands of the sector, will result in increased brand penetration in the sector, an important prerequisite for larger, consistent inventory to fuel the transaction market in the medium term.

It remains to be seen how the current Brexit situation will impact demand, supply and performance of the sector in the near future. We hope that by this time next year we will have some more clarity as to the future structure between the UK and Europe.

Irrespectively, the shared economy is continously shaping the apartment rental sector. Therefore, some of the traditional operators, such as Bridgestreet and Accor, started partnerships and acquisitions of major players in the shared economy as an opportunity to open up new distribution channels, expanding the business and broadening the target audience.

Similar to the hotel industry, the serviced apartment industry is seeing a burst of creativity with new brands being introduced or traditional brands reinvented. The combination of serviced apartments and serviced/shared office space seems a logical extension of offering to the same or a similar target audience in one building.

- HVS -

CHART 3: RECENTLY OPENED PROPERTIES ACROSS EUROPE

Opening Date	Country	Brand	City	Units	Comment
2016	France	Adagio Acess La Defense	Paris	84	Opened
2016	Switzerland	Fraser Suites	Geneva	67	Opened
2016	France	Suite Novotel	Paris-14E-Arrondissement	99	Opened
2016	Germany	Adagio City Aparthotels/Adagio Access Hotels	Frankfurt	171	Pre-Opening
2016	Germany	Adina Apartment & Hotels	Frankfurt	180	Pre-Opening
2016	Germany	Adina Apartment & Hotels	Nürnberg	140	Pre-Opening
2016	United Kingdom	Go Native	London - Southwark	59	Opened
2016	Netherlands	B-aparthotels	The Hague	60	Opened
2016	United Kingdom	SACO	London - The Cannon	77	Pre-Opening
2016	United Kingdom	SACO	London - Tower Hamlets	171	Pre-Opening
2016	Switzerland	Vision Apartments	Geneva	36	Pre-Opening

Source: HVS Research

CHART 4: NEW SUPPLY PIPELINE ACROSS EUROPE

Opening Date	Country	Brand	City	Units	Status
2016	United Kingdom	Roomzzz	Manchester	114	Under Construction
2016	Netherlands	B-aparthotels	Amsterdam	57	Under Construction
2016	United Kingdom	Urban Villa	Edinburgh	174	Under Construction
2016	United Kingdom	SACO	London - Aldgate East	168	Under Construction
2016	United Kingdom	Staycity	York	197	Under Construction
2016	France	Staycity	Marseille	108	Under Construction
2016	Germany	Adagio City Aparthotels	Frankfurt am Main	171	Under Construction
2016	United Kingdom	Apple Apartments	Newcastle	6	Under Construction
2016	United Kingdom	Apple Apartments	Cambridge	18	Under Construction
2016	Germany	SMARTments business	Berlin	35	Under Construction
2016	Germany	SMARTments business	Munich	162	Under Construction
2017	United Kingdom	Apple Apartments	Newcastle	18	Under Construction
2017	United Kingdom	Apple Apartments	Edinburgh	14	Under Construction
2017	United Kingdom	Go Native	London - London Bridge	75	Under Construction
2017	Switzerland	Vision Apartments	Vevey	101	Under Construction
2017	United Kingdom	Roomzzz	London - Stratford	87	Under Construction
2017	Germany	Capri by Fraser	Berlin	145	Under Construction
2017	Switzerland	Vision Apartments	Lausanne	100	Under Construction
2017	Germany	Adina Apartment & Hotels	Leipzig	170	Under Construction
2017	Ireland	Staycity	Dublin	50	Planning Granted
2017	Germany	SMARTments business	Berlin	140	Under Construction
2017	Germany	SMARTments business	Berlin	189	Planning Granted
2017	Germany	Adina Apartment & Hotels	Hamburg	200	Under Construction
2017	Netherlands	Residence Inn by Marriott	Amsterdam	60	Under Construction
2017	Netherlands	Hoge Duin Serviced Apartment	The Hague	20	Under Construction
2017	United Kingdom	Residence Inn by Marriott	Aberdeen	126	Under Construction
2017	United Kingdom	Adagio City Aparthotels	Edinburgh	146	Under Construction
2017	United Kingdom	Staycity	Liverpool	202	Under Construction
2017	Switzerland	Vision Apartments	Basel	113	Planning
2017	United Kingdom	Staybridge Suites	Manchester	116	Under Construction
2017	United Kingdom	Roomzzz	Newcastle	77	Planning
2017	France	Residence Inn by Marriott	Valbonne	68	Under Construction
2017	United Kingdom	Staycity	London - Covent Garden	106	Under Construction
2017	United Kingdom	Apple Apartments	Edinburgh	21	Planning
2017	United Kingdom	SACO	Edinburgh - Lismore House	72	Under Construction
2017	France	Mode by Bridgestreet	Paris	47	Under Construction

CHART 4: NEW SUPPLY PIPELINE ACROSS EUROPE (CONTINUED)

Opening Date	Country	Brand	City	Units	Status
2017	France	Staycity	Lyon	144	Under Construction
2017	United Kingdom	Staycity	Manchester	182	Under Construction
2017	United Kingdom	Marlin Apartments	London - Lambeth North	220	Under Construction
2017	United Kingdom	Roomzzz	Liverpool	108	Planning
2017	United Kingdom	Go Native	Glasgow	58	Under Construction
2017	Germany	Adagio City Aparthotels	Bremen	98	Under Construction
2017	Germany	Vision Apartments	Frankfurt am Main	130	Under Construction
2017	Germany	Vision Apartments	Berlin	55	Under Construction
2018	France	Residence Inn by Marriott	Toulouse	147	Under Construction
2018	United Kingdom	SACO	Edinburgh - Erskine House	180	Planning
2018	Germany	Fraser Suites	Hamburg	135	Under Construction
2018	Austria	Vision Apartments	Vienna	90	Planning
2018	France	Adagio City Aparthotels	Lille	79	Under Construction
2018	Ireland	Staycity	Dublin	165	Planning
2018	Germany	Adina Apartment & Hotels	Munich	230	Planning
2018	France	Citadines apart'hotels	Paris	70	Planning
2018	France	element Hotels	Roissy-en-France	105	Planning
2018	United Kingdom	Go Native	East Croydon	189	Under Construction
2018	France	Residence Inn by Marriott	Gibraltar	110	Under Construction
2018	Germany	Residence Inn by Marriott	Hamburg	99	Planning
2018	United Kingdom	Staycity	Edinburgh	165	Under Construction
2018	Austria	SMARTments business	Vienna	162	Planning
2018	United Kingdom	element Hotels	London	77	Planning
2018	United Kingdom	Adagio City Aparthotels	London - Stratford	137	Under Construction
2018	United Kingdom	Urban Villa	Aberdeen	182	Under Construction
2018	United Kingdom	Go Native	London - Aldgate East	178	Under Construction
2018	United Kingdom	Marlin Apartments	Dublin	190	Planning
2018	France	Adagio Access	Montpellier	102	Under Construction
2019	Germany	Residence Inn by Marriott	Frankfurt am Main	152	Planning
2019	Poland	Residence Inn by Marriott	Warsaw	100	Planning
2019	United Kingdom	SACO	London - Buckle Street	78	Exchanged
2019	Germany	Residence Inn by Marriott	Munich	72	Planning
2019	United Kingdom	Citadines apart'hotels	London	108	Planning
2020	France	Zoku	Paris	225	Planning

Please note that these lists are not exhaustive

Source: HVS Research

CHART 5: RECENT TRANSACTIONS ACROSS EUROPE

Date	Property	Location	Room Count	Price (€)	Price per Room (€)	Buyer	Seller
May-16	Staycity Dublin	Ireland	110	25,000,000	227,273	Undisclosed	NAMA
Apr-16	Go Native, London	UK	178	101,000,000	567,400	Osprey Equity Partners	Reef Estates Ltd JV Sharma Family
Feb-16	Aparthotel Parkallee, Mainz	Germany	35	7,400,000	211,400	PSD Bank	J. Molitor Immobilien
Feb-16	Staybridge Suites, Liverpool *	UK	132	n/a	n/a	Cycas Hospitality	Patron Capital
Dec-15	Aparthotel Zurich	Switzerland	67	18,400,000	274,600	Oman Investment Fund (OIF)	Westmont JV Baupost Capital
Jan-15	Adina Apartment Hotel, Frankfurt	Germany	181	39,000,000	215,500	Deka Immobilien	GBI AG

* relates to sale of remaining stake
Exchange rates as at time of transaction

Source: RCA and HVS Research

About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary in 2015. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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With an office in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 4,000 hotels and serviced apartments in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel and serviced apartment valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios.

About the Author

Arlett Hoff, MRICS is a director with HVS's London office, specialising in hotel valuation and consultancy. Arlett joined HVS in 2006 after experience in the hotel investment industry as well as operational hotel experience. Arlett holds a Masters in Real Estate Investment and Finance from Reading University, UK and is a member of the RICS. Arlett has been extensively involved in the serviced apartment sector having worked on numerous feasibility studies and investment advice in the sector. She has spearheaded the 'Think Tank Initiative' in the UK to help define the sector which has led to an industry charter being signed by all major operators. Arlett is a frequent speaker at industry events and conferences.

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