

*A Review of Corporate Housing Solutions*

# London Serviced Apartment Report

**Autumn 2010**



# Introduction

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**The Serviced Apartment Market in London is enjoying a coming of age. This report is intended to provide investors and corporate users of Serviced Apartments with an overview of this fast evolving market today.**

In terms of demand, the Serviced Apartment market has now expanded its profile well beyond its early beginnings in corporate relocation. Initially led by budget constraints but increasingly in response to traveller preference and the surge of project based corporate assignments, Serviced Apartments are becoming an increasingly prominent alternative to hotels, particularly for longer stays. They also offer a degree of flexibility and service unavailable in the traditional long term rental market providing further opportunity for growth for Serviced Apartment operators.

The Serviced Apartment market faces short term challenges in terms of supply. Lack of development finance remains a significant constraint to new development, both in the Serviced Apartment and wider residential property markets, resulting in high occupancy and a rapid return to pre-recession rates. The Serviced Apartment market is delivering strong demand and yields comparable to the student housing market, thus creating opportunities for investors and developers. For corporate users of Serviced Apartments with visibility and continuity of demand, establishing bespoke portfolios of Leased Apartments offers the opportunity to secure availability and fix rates in the short to medium term.

**Guy Nixon**  
**Founder & CEO**  
**Go Native**

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# Executive Summary

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- Demand for Serviced Apartments has been steadily increasing since Q2 2009;
- Rising demand is fuelled by a growing number of corporates mandating the use of Serviced Apartments and the growing profile of the sector amongst leisure travellers;
- Serviced Apartment rates are up 12% since Q1, 2010;
- Corporate demand for Serviced Apartments is shifting from prime central to less expensive secondary locations in response to the need to reduce costs;
- Corporate demand is also moving towards smaller unit sizes and shared occupancy;
- Tourist demand for Serviced Apartments is rapidly increasing as more inventory becomes available through online sales channels;
- The recession brought new property development to a near standstill placing significant pressure on supply;
- Leased Apartments are becoming an increasingly cost effective alternative to Serviced Apartments for clients with continuous demand for housing reducing cost by up to 30%;
- Overall Serviced Apartment stock in London now exceeds 6,600 units, representing just 6% of hotel supply.



# About Go Native

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**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 and manages a substantial portfolio of Serviced Apartments across the UK on behalf of Institutional, FTSE 250 and Individual Investment landlords.

## About Savills

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We are grateful to Savills for their contribution to this report. Savills plc is a leading international property services company with a full listing on the London Stock Exchange. Savills Research provides detailed advice to clients in locations throughout the UK and overseas across all property sectors. This includes specialist advice including investment and development strategy, development feasibility, relocation consultancy, demand analysis, inward investment advice and data mapping and catchment analysis. Savills remain one of the most experienced agents and valuers in the Serviced Apartment industry.

## Terms Explained

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### **Serviced Apartments - Short to Medium Term Housing**

By Serviced Apartments, we refer to rental apartments and apart-hotel rooms with one or more living spaces, a weekly cleaning and linen change service and cooking facilities. Serviced Apartments may also offer hotel-like services such as concierge/front desk, business facilities, restaurants and laundry services. They are predominantly located in city centres and offer the flexibility to book from a few nights to many months or longer.

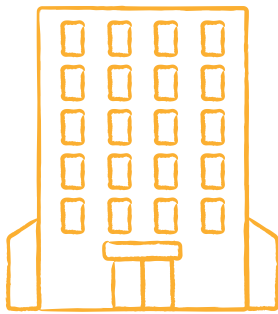
### **Leased Apartments - Longer Term Housing**

By Leased Apartments, we refer to properties leased in the long term rental market with turnkey services delivered to support resident guests. Leased Apartments offer most of the benefits of Serviced Apartments, but at a reduced cost. They do, however, require a minimum commitment of 6 months. Leased Apartments can be delivered in very specific locations close to office or project sites and where Serviced Apartments may not be available in sufficient quantity to meet demand.

# Housing Options At A Glance

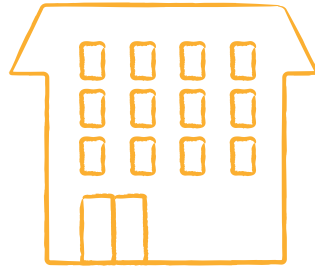
Rates quoted are average London-wide nightly rates as at August 2010

**Hotel\***



**£154**

**Serviced Apartments**



**£113**

**Leased Apartments\*\***



**£80**

1 Night

Length of Stay

6 Months+

Highly Flexible

Notice Period

Restricted

Extensive

Cleaning & Support Services

Flexible

\* Hotel rate as reported by Hogg Robinson Group Six Month Hotel Survey, August 2010

\*\* Leased Apartment rate quoted is based on a like for like comparison with serviced apartment service levels

# Market Overview

London stands apart in the UK, producing 30% of the country's GDP. As a global financial hub, London is almost without equal, and its wealth of amenities and cultural attractions lure millions of business and leisure travellers to the city every year. Little wonder, then, it remains the focal point for the UK Serviced Apartment Market. This section of our report provides an overview of the trends affecting the marketplace today.

As the UK entered recession at the end of 2008, Corporate Travel Buyers were forced to review expenditure across departments. In the uncertain economic climate, many businesses delayed or cancelled upcoming projects deemed to be "non-essential", and housing budgets in particular came under close scrutiny.

A rapid fall in demand followed, and the market experienced a shift in corporate demand from prime central locations, to less expensive secondary locations, and from 1-bedroom, single occupancy apartments to studios or shared, 2-bedroom apartments. As corporate demand contracted, many operators turned to growing tourist demand, buoyed greatly by increasingly favourable exchange rates for European travellers, and by growing awareness of Serviced Apartments in the wider market.

As demand continued to fall in early 2009, many Serviced Apartment operators scaled down their portfolios, particularly those most reliant on the corporate market.

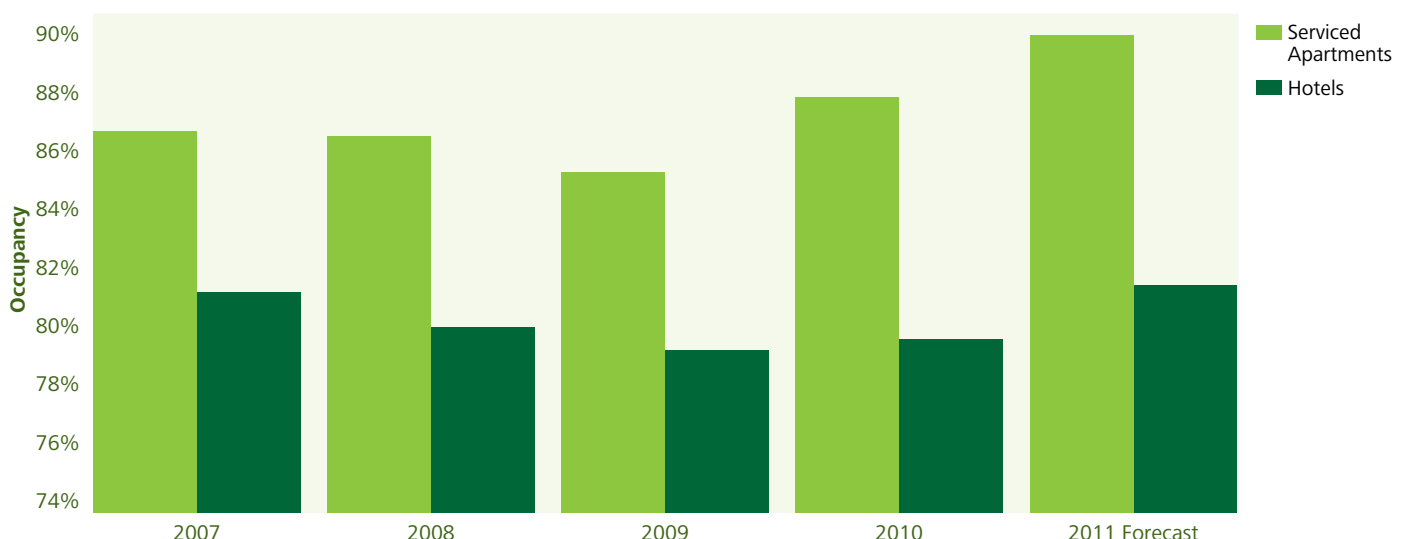
The financial downturn brought both residential and Serviced Apartment development to a near standstill, with lenders severely restricting the availability of finance, and property developers reluctant to invest scarce capital as property values continued to fall.

Since the market bottomed in Q2 2009, the industry has seen steadily increasing demand, driven by:

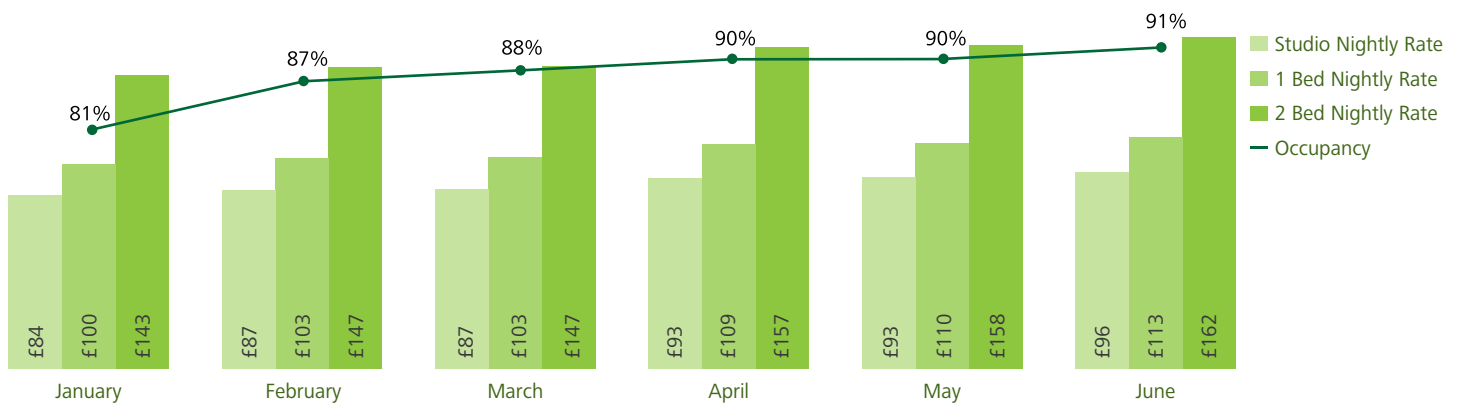
- **Economic upturn across the UK**
- **Growing profile of the Serviced Apartment Industry**
- **Growing online availability of Serviced Apartments (GDS/Online Availability)**
- **Seasonal influxes of leisure travellers**
- **Beginnings of demand for personnel delivering infrastructure for the 2012 Olympics**
- **Growth in the mandated use of Serviced Apartments by corporate travel buyers for stays of 5-6 days or longer, as a more cost effective alternative to hotels.**

Today, occupancy amongst Serviced Apartment operators across London has reached record levels. As a result, there is now intense competition to build portfolios.

## Serviced Apartment vs Hotel Occupancy



## Occupancy vs Average Rates 2010



**Renewed confidence in the market has seen many Serviced Apartment operators introduce substantial rate increases in a bid to capitalise on record demand.**

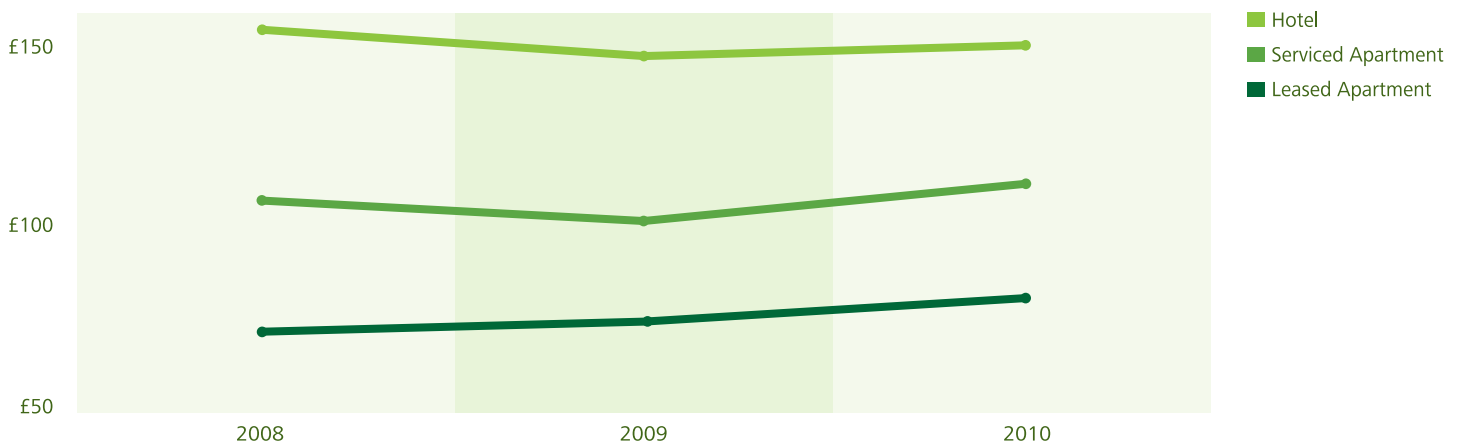
Rates were increased sharply in April, as operators anticipated high demand through the summer. So far, rates have increased by over 12% in 2010. This is in direct proportion to the high occupancy levels, rising steadily from just over 80% in January to well over 90% occupancy in June for most operators.

Typically, weekly rates are pegged back in early Autumn to reflect lower seasonal demand. In 2010 we anticipate discounting in the Autumn, although with various factors now driving increased demand and with occupancy expected to remain high throughout the year, we do not expect to see significant reductions in rates.

This trend is expected to continue throughout 2010, reflecting increased demand, improvement in the UK economy generally, and continued growth in the profile of the Serviced Apartment industry.

To accommodate growing demand, many Serviced Apartment operators have moved to acquire new stock by a number of means, including long term leases and Assured Shorthold Tenancies, Operating & Management agreements and in a minority of cases, through development of their own stock. The number of developers left holding unsold stock has created opportunities for Serviced Apartment operators. There have also been increasing efforts to utilise residential rental stock to meet demand. As the market further matures, the need for a specific planning and asset class will become increasingly necessary to support the continued growth of the sector.

## Cost Comparison 2008-2010



# Serviced Apartments

London's Serviced Apartment stock can be divided broadly into four geographic areas. Our research into the marketplace has identified characteristics typical of the Serviced Apartment market in each area.

## The City of London & its surroundings

Given its high concentration of corporate offices, Serviced Apartment stock is geared toward the Corporate Market, with little demand from leisure travellers. Accordingly, rates in the City are less prone to seasonal fluctuations.

Stock mostly consists of 1-bedroom apartments. Larger properties are difficult to source. Popular developments include Webber Street, 1 Pepys Street, Kings Wardrobe, The Creechurch and Aldgate City East.

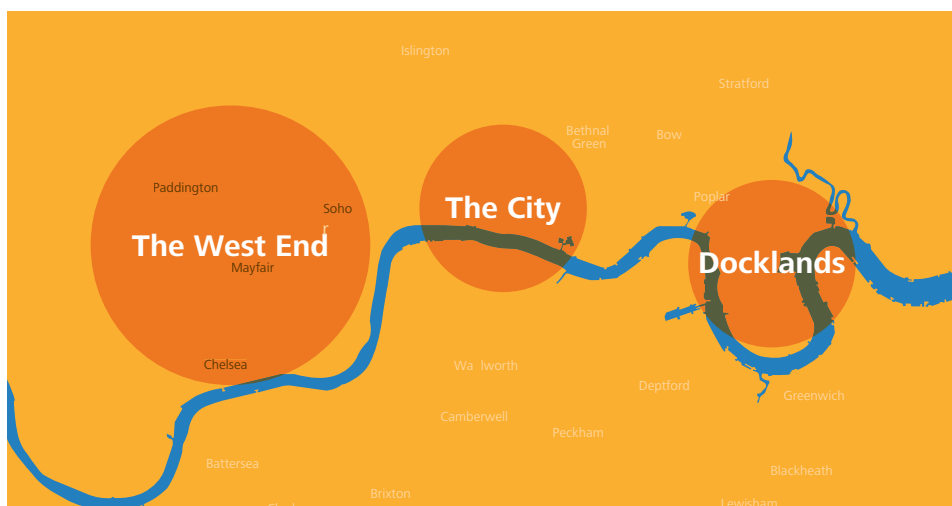
The concentration of Serviced Apartment operators now competing in The City has meant rates have remained competitive. The lack of space for expansion and development within the Square Mile has led operators to branch out to surrounding areas. Locations such as London Bridge and Southwark have benefited from this overspill and now offer a growing selection of Serviced Apartments.

## Docklands

Docklands has seen massive regeneration and residential new-build development since the early 1990s. With little appeal to the leisure market, rates are also less prone to seasonal fluctuations.

Growing demand for residential stock in the area has been a stimulus for the construction of substantial new developments. Notable recent additions include Indecon Court, Lanterns Court, The Landmark Building and Ability Place; Docklands has been the only area of London where multiple large-scale residential development has been feasible.

New developments often include facilities less prevalent in older stock in The



City and West End, such as 24hr reception, swimming pools and on-site gyms. These additional facilities lend themselves well to operation as Serviced Apartments, rather than the long term rental market for which they were originally intended.

## The West End

The West End is the most popular area of demand for Serviced Apartments among leisure travellers and as a result, it is the area most susceptible to significant seasonal rate fluctuations.

Stock ranges from purpose built developments to mansion blocks and period conversions. The West End's inherent appeal for short stays allows less opportunity to negotiate favourable corporate rates, as demand from the leisure market underpins high occupancy levels.

Although there are large blocks of residential and student accommodation in the West End, there remains very little supply of property licensed for use as Serviced Apartments. Significant developments include Chelsea Cloisters, Gloucester Place, Dolphin Square and Point West on Cromwell Road, the latter being one of two large developments of apartments near Earl's Court.

## Greater London

Rates outside of Central London are considerably more cost effective.

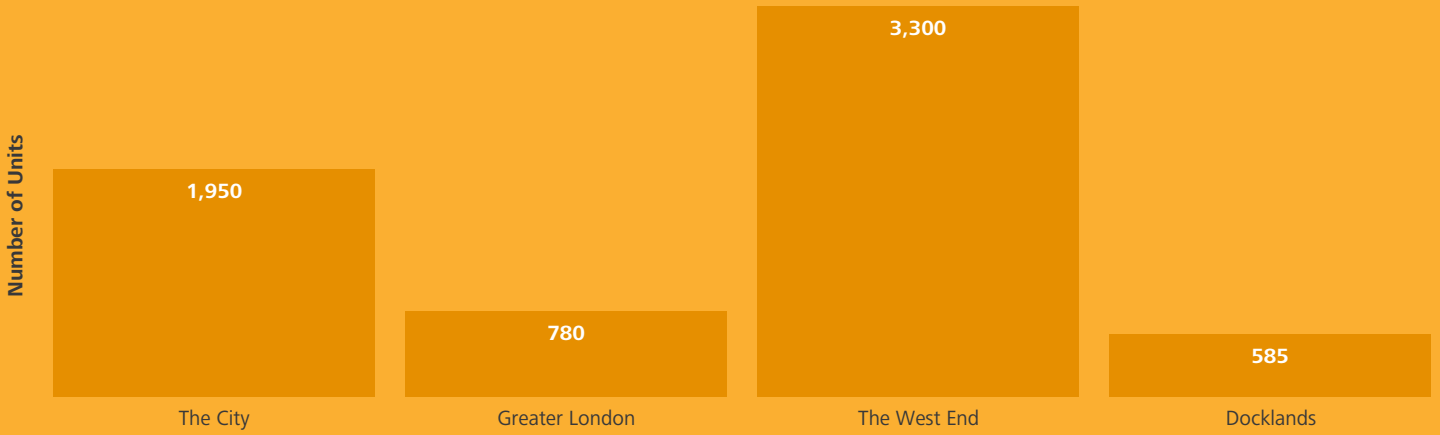
Serviced Apartments are available in the most sought-after residential areas, such as Wimbledon, Richmond, and Kingston upon Thames, with lower cost options increasingly available in Stratford, Hounslow, Croydon and Ilford. The lower cost areas have enjoyed high demand, particularly from the Consulting, BPO and Engineering sectors.

## Serviced Apartment Statistics 2010

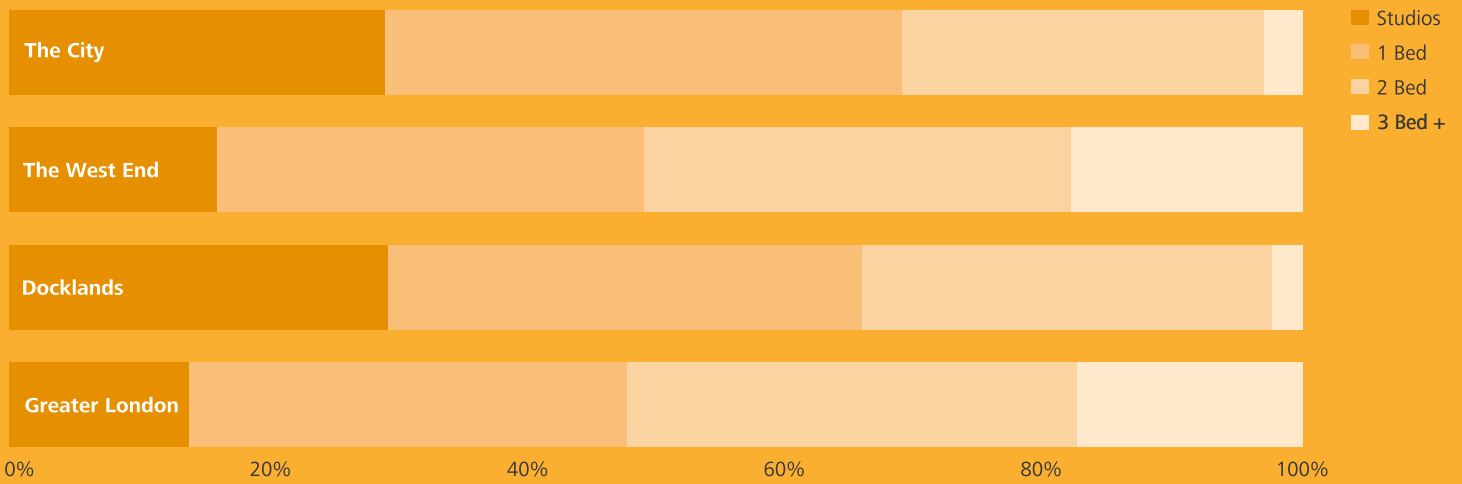
We now see overall Serviced Apartment stock in London of over 6,600 units. This represents a very modest 6% of the total hotel supply, suggesting there is significant opportunity for growth in this fast expanding sector of the market.

Whilst we expect that stock levels will continue to rise in the medium to long term, we are currently seeing only modest increases in Serviced Apartment portfolios due to the lack of suitable supply. This shortage will continue to put pressure on occupancy levels and rates for the foreseeable future.

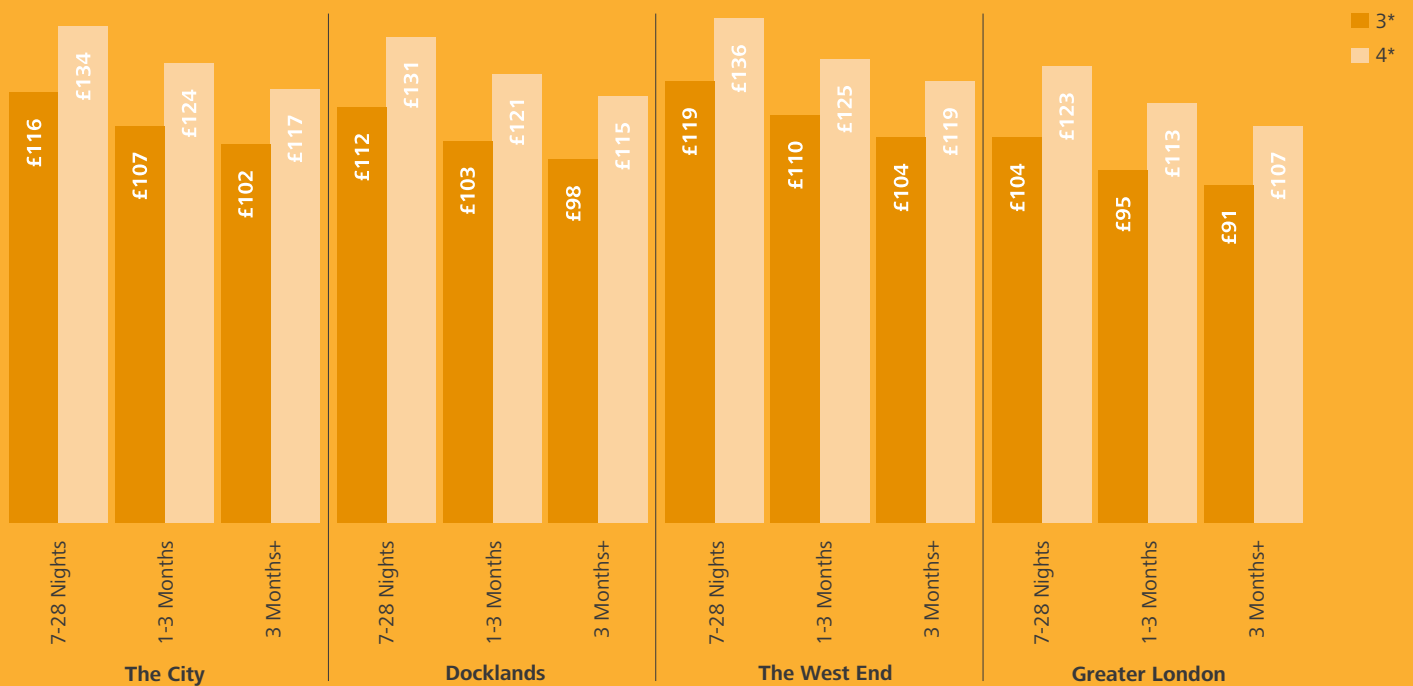
## Serviced Apartment Stock Levels 2010



## Serviced Apartment Stock Profile 2010



## Serviced Apartment Nightly Rates v Length of Stay



# Leased Apartments

Leased Apartments are included in this report due to their rapidly increasing popularity as a low cost alternative to Serviced Apartments. We coined the phrase “Leased Apartments” to describe those apartments that are leased in the long term rental market and furnished and serviced in much the same way as a typical Serviced Apartment. The key distinction between the two is that Leased Apartments require a minimum commitment of 6 months.

We see a growing number of corporate clients seeking to address supply and cost constraints by establishing bespoke portfolios of Leased Apartments to accommodate both a continuous flow of short term assignment personnel and individual assignees requiring accommodation for 6 months or longer.

Whilst rental rates in London are coming under increasing pressure as a result of growing demand and limited supply, Leased Apartments nevertheless continue to offer a valuable source of corporate housing for those corporates with medium to long term visibility of demand.

## Key Benefits

- Costs are typically around 30% lower than Serviced Apartments;
- Once established, Leased Apartments offer certainty and consistency of supply;
- Portfolios can be established in any location, where Serviced Apartments might otherwise be unavailable;
- Subject to minimum lease terms of 6 months, portfolios can be expanded or contracted to suit demand;
- Mandated use of Serviced Apartments by corporate travel buyers enables leased apartments to be run at high occupancy.

## Leased Apartment Cost Comparison



As illustrated above, substantial cost savings can be achieved by utilising Leased Apartments as an alternative accommodation solution.

Another significant benefit is that Leased Apartments are not impacted by seasonal demand; properties are procured from the much broader long term rental market on Assured Short-hold Tenancy agreements. Seasonal fluctuations in demand that can significantly affect pricing in the hotel and Serviced Apartment markets therefore have no bearing on the cost of Leased Apartments.

## Rental Market Overview

The recent volatility in the UK economy has had an enduring impact on the property rental market. Research undertaken by Savills found that the availability of secured credit has fallen considerably since 2007. Limited availability of credit, both for residential property development and to fund first time buyers is putting pressure on the price of stock available within the residential rental sector.

Currently, just 14% of residential stock is accounted for by the private rental sector. This is forecast by some commentators to increase to 20% over the next 5-10 years. This is in stark contrast to major US and European cities where well in excess of 50% of stock is accounted for by the private rental sector.

## Availability of Secured Credit

With very little residential stock coming onto the market, the development pipeline remains at historic lows. This, coupled with an improving economic environment, has created an increasingly pronounced shortage of property available for rental putting sustained upward pressure on pricing.

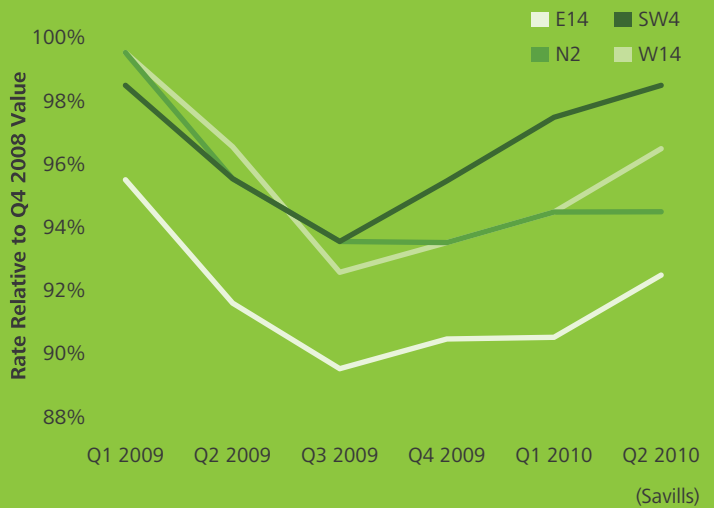
Large project starts have declined by almost 60% since 2007. Savills found that 38% of those surveyed by the Housebuilders Federation in March 2010 agreed that the lack of available finance remained a significant constraint to new development. This compares to 55% in March 2009 but both statistics represent a sharp increase since March 2008, when just 9% of respondents held this view.



## Rental Rates Increasing

London-wide rents fell sharply in 2009 as property investors saturated the rental market, unable to find buyers for properties they could no longer afford to hold. These falls were felt most acutely in the Docklands area, where the combination of large residential developments coming onto the market and heavy loss of employment in the banking sector resulted in a substantial oversupply of property. For Corporate users of Leased Apartments, and Serviced Apartment operators seeking to build portfolios, this created an exceptional though short-lived opportunity to build portfolios at historically low rents.

In late 2009, rents stabilised, and the gradual upturn in the UK economy in 2010 has seen rental costs increase each month, a trend Savills forecast is set to continue for the foreseeable future.

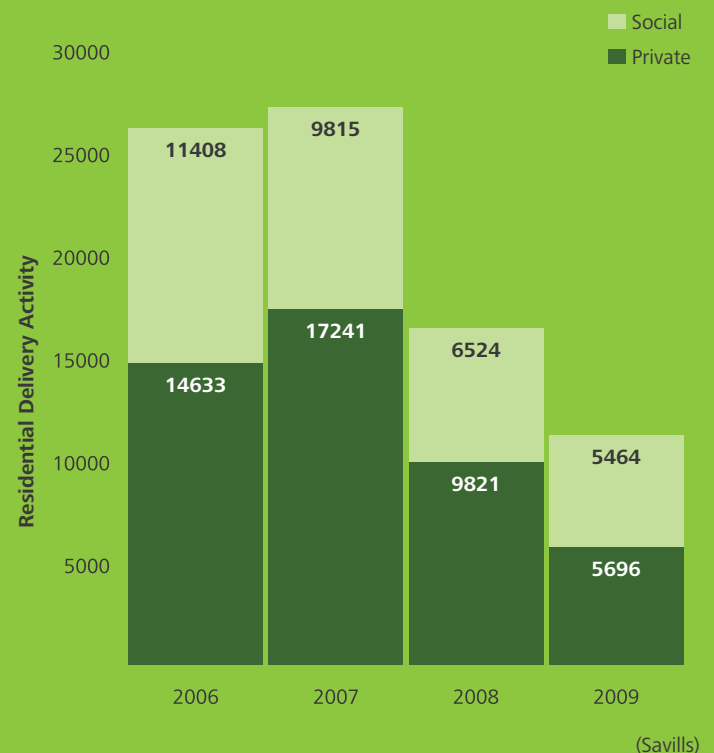


## London Housing Starts

As the economy shows signs of recovery, opportunities are beginning to re-emerge as projects previously put on hold recommence, though new development is generally confined to specific areas where demand is greatest.

The Olympic Games in 2012 has acted as a spur for new development around Stratford, with the Athletes Village due to deliver 5,000 apartments. Following the Olympics, these apartments will be released onto the residential property market, creating opportunities for Corporates willing to house personnel in this area. Stratford aside, reticence to invest in new development in Greater London remains a significant threat to London's ability to meet the housing needs of both the corporate and wider communities at competitive rates.

Against a backdrop of limited new supply and ongoing rental growth expected in the long term rental market, it is our recommendation that Corporates in a position to forecast their medium to long term housing requirements consider utilising dedicated Leased Apartment portfolios to meet this demand and secure rates into the future.



# Go Native Housing Market Intelligence Reports

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**Drawing on our unrivalled experience and knowledge of temporary housing markets, Go Native has undertaken investigative work to produce insightful Housing Market Intelligence Reports in each of the key business locations across the UK, Europe, the Middle East & India. The reports explain the nature of corporate housing solutions available in each location, the pros and cons of each, and make recommendations towards the most effective solutions.**

The reports are intended to be an invaluable resource for Travel Managers, Global Mobility Professionals and Procurement Managers seeking short, medium and longer term housing solutions in the UK, Europe, the Middle East & India. The reports are also intended to provide Institutional, FTSE 250 and Individual Investment Landlords with an overview of the Serviced Apartment market in key business locations.

## Contact Us

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**If you would like to receive further information on the London Market or other housing markets to explore potential housing for your Company/Project, please contact our Strategic Sourcing Department.**

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