

*A Review of Corporate Housing Solutions*

# Edinburgh Serviced Apartment Report

Spring 2011



# Introduction

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**Whilst still drawing extensively on Edinburgh's Residential stock, the Serviced Apartment market is beginning to emerge as an increasingly distinct Asset Class as demand in Edinburgh continues to outstrip supply.**

Though demand for Serviced Apartments traditionally came almost exclusively from Edinburgh's high levels of tourist traffic, the corporate market is increasingly looking to Serviced Apartments to provide a cost effective alternative to hotels for the extended stay business traveller. As the profile of the Serviced Apartment market continues to grow both nationally and locally, so too does the number of corporate travellers specifically requesting this type of accommodation.

As corporate demand grows, the market is slowly beginning to respond with the launch of developments increasingly tailored to meet the needs of the business traveller. However, we anticipate that supply of Serviced Apartments will become more and more of an issue. The lack of development finance over the last two years has resulted in very limited residential development, the market from which most supply has been drawn. Aside from developments in Quatermile, Leith and the Fountainbridge area between Haymarket and the Edinburgh International Conference Centre, we anticipate very little development of stock built specifically for the Serviced Apartment Market over the next couple of years.

In spite of the anticipated lack of new supply coming to market, the Serviced Apartment sector is well established in Edinburgh and a significant current stock exists, providing a valuable option for corporate housing requirements in the city.

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# Executive Summary

1. As the second largest financial hub in the UK and fourth largest in Europe, Edinburgh's financial sector continues to drive year round demand for Serviced Apartments;
2. With 13 million visitors annually, Edinburgh is one of the most popular tourist destinations in the world;
3. Demand for accommodation peaks during the Edinburgh Festival, the biggest arts festival in the world, when the city population doubles;
4. Overall Serviced Apartment stock in Edinburgh is now estimated at nine hundred units representing less than 5% of hotel supply;
5. A significant proportion of centrally located Serviced Apartment stock is found in mixed-use buildings with very little purpose built Serviced Apartment development;
6. In the context of such a strong market, Leased Apartments remain a highly cost effective alternative to Serviced Apartments for clients with continuous demand for housing;
7. Net running yields in the Serviced Apartment market are comparable if not better than those achievable in the residential, student and commercial sectors, delivering attractive returns for investors.



# 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.

## 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.

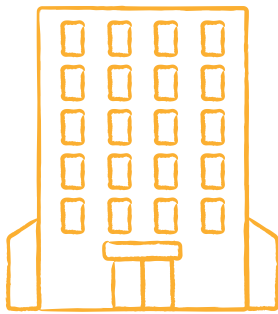
### **Leased Apartments - Longer Term Housing**

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

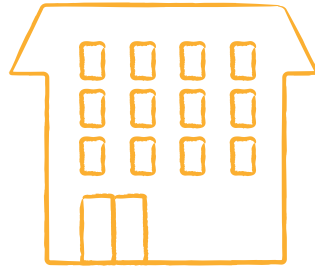
Rates quoted are average city wide nightly rates as at December 2010

**Hotel\***



**£89**

**Serviced  
Apartments**



**£65**

**Leased  
Apartments\*\***



**£52**

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

**Edinburgh is one of the UK’s most significant cities for business and leisure travellers alike. Its rich cultural and architectural heritage attracts millions of visitors annually, while it ranks second only to London in terms of economic output. A growing number of multinational corporations have established a presence in the city and despite the banking crisis the financial sector continues to dominate, making it Europe’s fourth largest financial hub.**

The Serviced Apartment market in Edinburgh is well established. In comparison with other UK cities, a significant Serviced Apartment sector exists with many operators launching or expanding portfolios over the past 18 months. Planning restrictions in the city centre severely restrict new development, creating strong demand amongst operators for residential stock suitable for operation as Serviced Apartments.

The hangover from the financial crisis continues to restrict the number of new developments coming onto the market with very little development specifically for the Serviced Apartment market. As long as debt finance remains scarce, we don’t expect to see any easing of short to medium term supply constraints. In addition, Edinburgh’s UNESCO classification severely restricts development throughout the Old Town and New Town areas.

In the medium to long term, we do expect the development market to respond to the need to grow supply. With net run-

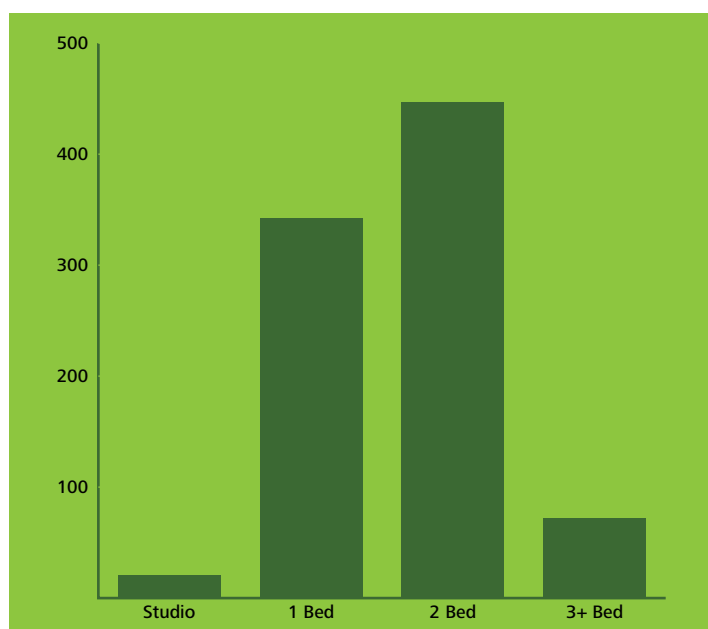
ning yields in the Serviced Apartment market comparable if not better than those achievable in the commercial and student sectors, the market offers attractive returns for investors. A number of uncompleted developments continue to look for additional investment to facilitate completion. The Serviced Apartment market could offer an attractive exit for the owners of these developments.

In terms of demand characteristics, businesses continue to look for more cost effective housing solutions for their personnel. Whilst there is a strong supply of hotels across Edinburgh, rates continue to be high relative to the cost of Serviced and Leased Apartments. With rates up to 30% lower than the cost of equivalent hotel accommodation, we expect to see continued growth in corporate demand for Serviced Apartments, particularly for the extended stay traveller market.

As well as growth in demand from existing Corporates, the high level of new business start-ups in the area is driving additional demand both for hotels and serviced apartments. Edinburgh Economy Watch (EEW) reported that 2,429 new companies were incorporated in Edinburgh between January and November 2010. Edinburgh has also seen significant growth in investment from the finance sector with the establishment of Virgin Money and Tesco Bank in the city’s Exchange District.

EEW also reported that city centre footfall rose by approximately 41% on average in comparison to the previous month - a near doubling of the city’s population as a result of the Festival. Awareness of Serviced Apartments amongst the tourist market is already growing and as corporate interest in the sector also gathers pace, we expect to see the market for Serviced Apartments strengthen over the next 12-18 months.

## Estimated Stock Levels, Winter 2010



**Edinburgh’s Serviced Apartment industry has seen increased demand in the past 12-18 months, driven by:**

- Improvement in the UK economy as the country recovers from recession
- Growing business start-ups in Edinburgh fuels demand for short-term accommodation
- Increasing demand from Edinburgh’s growing consultancy sector
- Rising number of companies beginning to mandate the use of Serviced Apartments

*“Edinburgh’s burgeoning financial sector contributes to the city’s standing as the UK’s second largest economy”*



# Serviced Apartments

Although a well established market, the industry in Edinburgh must overcome certain challenges in order to grow further. A notable characteristic of city centre supply is the lack of stock developed specifically for the Serviced Apartment market. A significant proportion of the Serviced Apartment stock available is taken from the long term residential market resulting in small clusters of Serviced Apartments amongst larger residential communities.

**The key areas of the city in which Serviced Apartments are currently located include:**

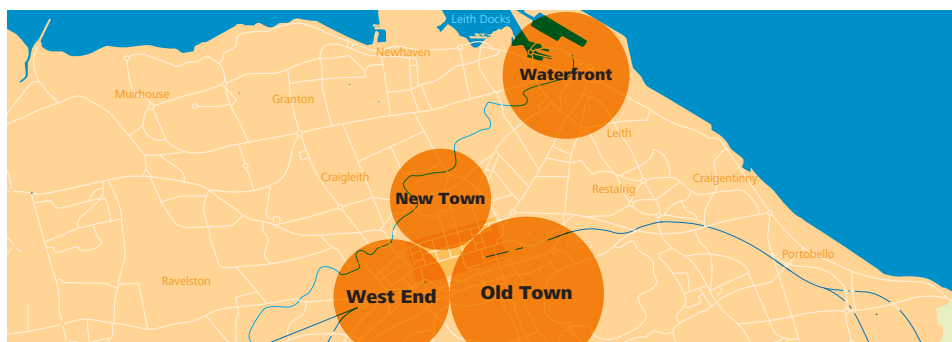
## Waterfront

The Waterfront has traditionally been less favoured for short-term accommodation due to the longer commuting times in to the city centre. However, unaffected by the UNESCO order which limits development in more central areas of the city, construction has increased in the area which has offered large blocks of accommodation.

The Waterfront can be compared to London's Docklands area, it being a relatively neglected part of the city which has seen significant investment and an increase in property construction in recent years. Improving transport links, including the forthcoming tram service linking the Waterfront to Edinburgh Airport and the city centre, will make the area more accessible and thus demand for Serviced Apartments is expected to grow. The willingness to build in the area is exemplified by permission recently granted for almost two hundred residential apartments to be built, one block of 86 apartments on McDonald Street and another of 98 apartments and two commercial units between Poplar Lane and Salamander Place.

## New Town

Edinburgh's picturesque New Town is a Georgian architectural masterpiece,



Edinburgh can be broadly divided into four areas, each containing a growing supply of Serviced Apartment stock. Our research has identified some important factors in the availability and future development of the industry.

making it a pleasant area to explore on foot and particularly sought after for short-term accommodation. It is also the traditional business centre and remains home to a number of companies in the banking, finance and legal professions. New development is affected by the UNESCO order which makes new construction in the area difficult as design is carefully scrutinised, with restrictions on certain developments and architecture not in line with surrounding property. These limitations on design, as well as general congestion and lack of vacant land, hinders supply of Serviced Apartments and restricts development to the conversion of existing property.

Popular Serviced Apartment developments in the New Town include Royal Garden Apartments and Canon Court, as well as a number of properties in the immediate vicinity of Charlotte Square.

## Old Town

The Old Town is also classified as a UNESCO World Heritage site, which contributes to the area's strong appeal to the tourist market, though similarly to the New Town, brings some challenges as far as supply is concerned. Some of the most popular apartments in the area are found at Quatermile development, a mixed use development of over 900 residential apartments, shops and office premises on the site of the former Royal Infirmary. The Quatermile development is the site of one of the largest purpose built Serviced Apartment buildings to come on to the market in the last

18 months. Some smaller developments are found in the vicinity of Edinburgh Castle, though these are mostly utilised by leisure travellers due to their premium quality and associated higher cost often exceeding corporate budgets.

## The West End

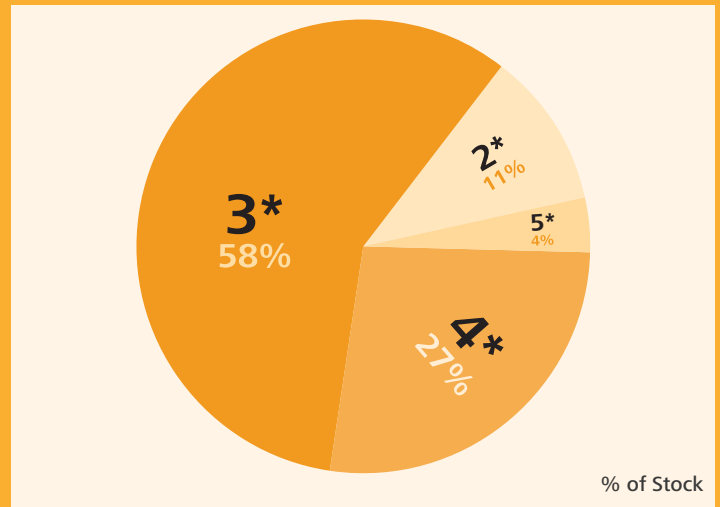
The West End, including Edinburgh's Exchange District, has the highest concentration of commercial tenants, some of whom having relocated from their original premises in New Town. Home to many large employers including Scottish Widows and Standard Life; Tesco Bank have not only recently established their headquarters in the area but also purchased a new building in Gyle, to the west of the city (as reported in The Scotsman in late 2010) demonstrating the significance of the finance sector to the wider area. The scale of recent investment in the area is further highlighted by the multi-million pound upgrade of Haymarket railway station and the extension of the Edinburgh International Conference Centre, with demand for its use having far outgrown its original capacity.

Some of the most popular apartments in the West End can be found on and around Canning Street, as well as the Springside development, formerly a bottling facility for Scottish & Newcastle breweries. Several purpose built apartment buildings are located on Grove Street, meaning the West End contains the highest concentration of Serviced Apartment stock.

## Stock Quality Ratings

Leisure and corporate visitors have different requirements of Serviced Apartments, with Leisure travellers sometimes demanding a higher standard of furnishing and additional facilities such as premium TV channels or concierge services, whereas budget driven corporate buyers tend to favour more cost-effective options with the emphasis on conveniently located accommodation and value for money. Much of Edinburgh's Serviced Apartment supply falls into the 3\* category, broadly appealing to both markets, with premium quality apartments in shorter supply.

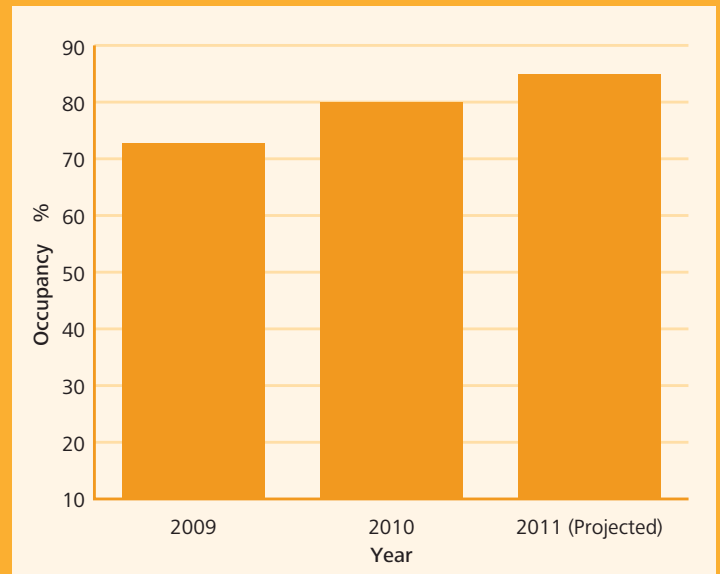
Stock is supplemented by a limited availability of 2\* apartments and a small proportion of high-end 5\* equivalent apartments, though the latter, due to their limited supply and high specification can be very expensive – particularly during times where demand is highest.



## Edinburgh Occupancy Rates

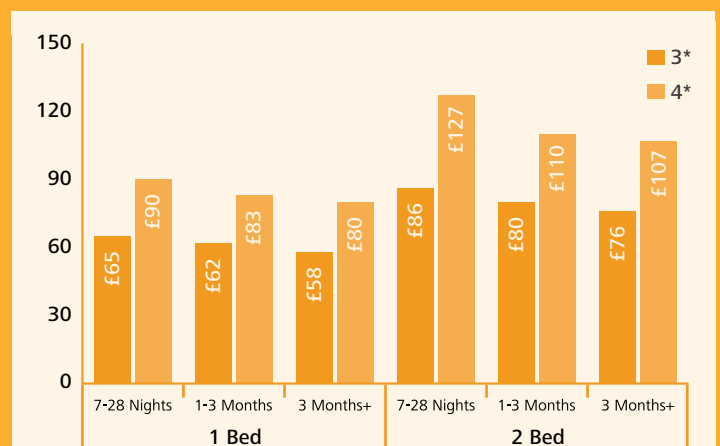
Despite a mature Serviced Apartment market, occupancy rates in Edinburgh tend to be lesser than those in London as the industry is slightly less prominent. The influx of corporate travellers to Edinburgh which underpins year-round occupancy is also lower, although growing. However, available data demonstrates a marked improvement between 2009 and 2010, as the UK began to recover from recession and corporate projects that had previously stalled recommenced, increasing the number of visitors to the city.

Compared to recent years, 2011 may well see a further rise in the popularity and use of Serviced Apartments as businesses invest further in their presence in the city, especially as large corporate headquarters are established. This growth of the economy will inevitably boost the number of business travellers to the region, increasing demand for temporary accommodation as a consequence.



## Average Nightly Rates by Length of Stay

As the market now has a number of well established providers, rates are generally consistent with variances in cost principally determined by property quality and the level of facilities included. The adjacent chart indicates typical nightly costs, with substantial savings achievable for longer stays. The busy periods where demand is highest tend to see inflated prices in the short term, particularly from small or newer operators seeking to establish their market presence. On the whole, however, many providers will honour annually agreed price structures even during the peak times, for those clients or agents making regular bookings throughout the year.



# Leased Apartments

Leased Apartments are included in this report due to their increasing popularity as a low cost alternative to Serviced Apartments. The phrase “Leased Apartments” refers to apartments procured in the residential rental market and furnished and serviced in much the same way as a typical Serviced Apartment. The key distinction is that Leased Apartments require a minimum commitment of 6 months.

We see a growing number of corporate clients with continuous demand for housing seeking to address their requirements by utilising Leased Apartments, especially as project based work in Edinburgh is on the increase.

A significant benefit is that Leased Apartments are unaffected by seasonal demand as properties are procured from the broader long term rental market on Assured Shorthold 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. This is particularly beneficial in Edinburgh due to peaks in demand during key tourist times.

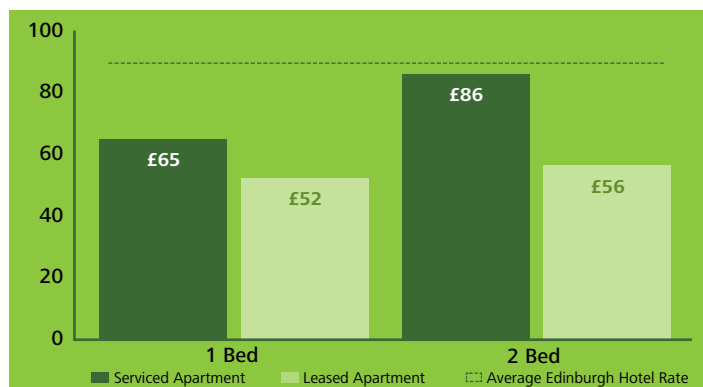
An important consideration in Edinburgh is that the recession forced many individuals to rent accommodation rather than attempting to purchase housing due to the severe lack of available finance. This trend increased the competition for good quality residential accommodation; as a result, rental costs have increased as demand has remained very high.

Leased Apartments nevertheless remain a valuable, cost effective corporate housing solution for those with long term demand for accommodation. Data provided by Savills plc forecasts the recovery of the residential property market in Scotland; as the volume of residential property transactions continues to rise, the upward pressure on rental costs we are currently seeing will alleviate, resulting in stabilising costs.

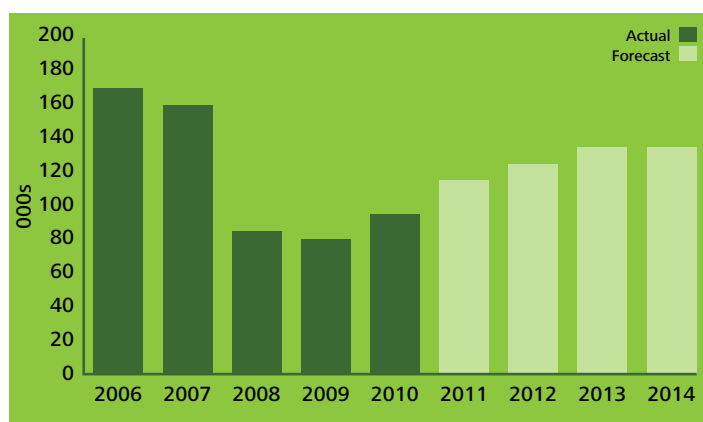
## Key Benefits

- **Costs can be around 30% lower than Serviced Apartments;**
- **Leased Apartment portfolios 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.**

## Average 1-Bed Nightly Rates (3\*)



## Scottish Residential Property Transactions (Savills)





# 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 Edinburgh Market or other housing markets to explore potential housing for your Company/Project, please contact our Strategic Sourcing Department.

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