The Challenges and Opportunities for Developing Luxury Residences for Independent Hotels

By Sebastian Moritz

This article focuses on some of the challenges and opportunities independent hoteliers face when contemplating the addition of residences to their current business structure. As major brands are already heavily investing in the residential market – backed by well-known brand promises as well as global support structures – listed below are some important factors confronting non-branded hotel organisations.

Just to emphasise the economic power, the branded sector currently features over 55,000 apartments in 406 global schemes, served by over 70 different hotel operators, built in over 180 locations in 64 countries – with Marriott, Accor and Four Seasons accounting for over half of them between them.

It is therefore very tempting to non-branded operators to jump on the bandwagon of residential property, but it pays dividends to ensure that all the pros and cons of such an investment are thoroughly investigated to avoid a copy-cat situation that instead creates a load of problems.

At first glance there are a lot of advantages to embarking on a residential project as an independent operator:

- **Hotel development cash flow** – the ability to sell residences off-plan to fund at practical completion via capital payments. Also, there is the potential of substantial management fees if you self-manage the project afterwards.
- Residences with hotel access command premium –recent studies by Knight Frank, Savills and Graham Associates (https://gagms.com/) all put the premium at around 30% by established operators compared to non-branded residences, however huge fluctuations need to be acknowledged depending upon the location (i.e. -15% discount in NY to +60% in Bangkok).
- **Avoid cyclical or seasonal variations** – an occupied residence creates cash flow throughout the year, via service charge and/or residential service consumption.
- **Premium valuation of own brand** – a successful project allows for heightened visibility of the hotel project, as well as showcasing service excellence.
- **Value-Cost benefit** –on a per square foot capital value residences can deliver higher values than normal hotel accommodation.
- **Binding loyal customers even more** – hotel services delivered at the same standard as well as maintenance & caretaking entices extra spending from loyal customers.
- **Lock and Go piece of mind** – customers enjoy carefree usage of their property, when in residence or not.
- **Market differentiation** – allows new prices, branding standards and services to be set to compete in difficult or saturated markets.

Whilst this all sounds great and logical, if you don't look behind the curtain you might be in for a rather rude surprise, putting your customer's goodwill and your financial health at risk.

One of the major factors of branded hotel-residences being so successful lies in their structure; they are part of a mature global operation and, due to their size in portfolio, cash flow and reach, they are not only able to attract the required capital more easily, but also have the operating knowledge as well as staffing expertise and service standards gained over years of experience.

Let's have a look what pain points you might experience when jumping onto the residential bandwagon:

- **Cash flow** – the process of cash-flow is different here as you only receive monies after hand-over of the apartment that is after a successful sale. Also, you must account for expenditures such as one or two months of staffing cost, up-front insurance payment for the building, pre-opening operational equipment etc. which can cause a strain.

ARE YOU STILL PURSUING A RESIDENTIAL ADDITION TO AN EXISTING HOTEL OPERATION?

- Residential marketing –with the market full of comparable units for sale you need to consider how to differentiate yourself from your competitors in terms of presentation, service and operations. You might only get five minutes to convince people of the services you can offer whilst they go through the traditional viewing experience, which is considerably less than in traditional hotel marketing. Professional marketing guidance is strongly recommended.

- Legal platform – I strongly recommend structured legal and sales advice before you start to guide you through home ownership rules, management agreements, lease-hold contract, service charge budget, home association rules, building regulations etc. You need to be aware of the building liabilities and warranties that you have to back – some can elapse within 12 months, some only after 10 years. Lastly, what will happen if you need to sell the hotel – what happens to your residential services?

- Space Planning – it is very tempting to max out your available sellable space for storage, garage parking and other commercially attractive opportunities, but don't forget that you might also have a team of service professionals who will live and breathe your mission and vision. If there are space constraints you will hinder their efforts for years to come, this might lead to higher staff fluctuation, higher cost of operating the building – and eventually erudition of the customer's trust. Definitely a false economy.

- Alignment with existing business – are you venturing into luxury residences or family-friendly offers? How do you plan to align both operations? This simply states the obvious: are you ready to have another 24/7 operation in addition to your hotel – with guests that technically never leave (which can create its own dynamics!)?

Are you still pursuing a residential addition to an existing hotel operation? Knight Frank flags the entry of smaller hotels or even non-branded hospitality brands as a new trend to watch. Regarding marketing strategies, your customers want to be associated with your brand and partake in the benefits of your offering. You will appeal to the like-minded customers that want to live and socialise with other people that share things in common.

Whilst the residential market is still very competitive it still offers substantial benefits, but in order to thrive and survive you have to ask yourself: what can I do better and where can I be different from what the competition does? Chris Graham from Graham Associates forecasts that a lot more 3 or 4 star operators will venture into the serviced apartment markets as it won't be the sole domain for established luxury operators anymore.

About the author

Sebastian Moritz has more than 25 years of luxury hotel experience in senior management roles, with a variety of international hotel companies, including Fairmont Hotels and Resorts, Intercontinental, The Hazelton Hotel Toronto and Shangri-La Hotels.

His residential experience covers management roles at One Hyde Park Residences (Mandarin Oriental Group), Ten Trinity Residences (now Four Seasons Hotels) and Belgravia Gate, before founding MORICON Consultants. He currently consults Lodha Group UK on their two London projects – Lincoln Square and No. 1 Grosvenor Square with a combined sales value of £ 1.5B.

He was educated in Switzerland and holds an MBA from Henley Management College. Sebastian has Member status at IRPM and Assoc. RICS and currently studies for B2R Accreditation. http://www.moricon.net/about/