

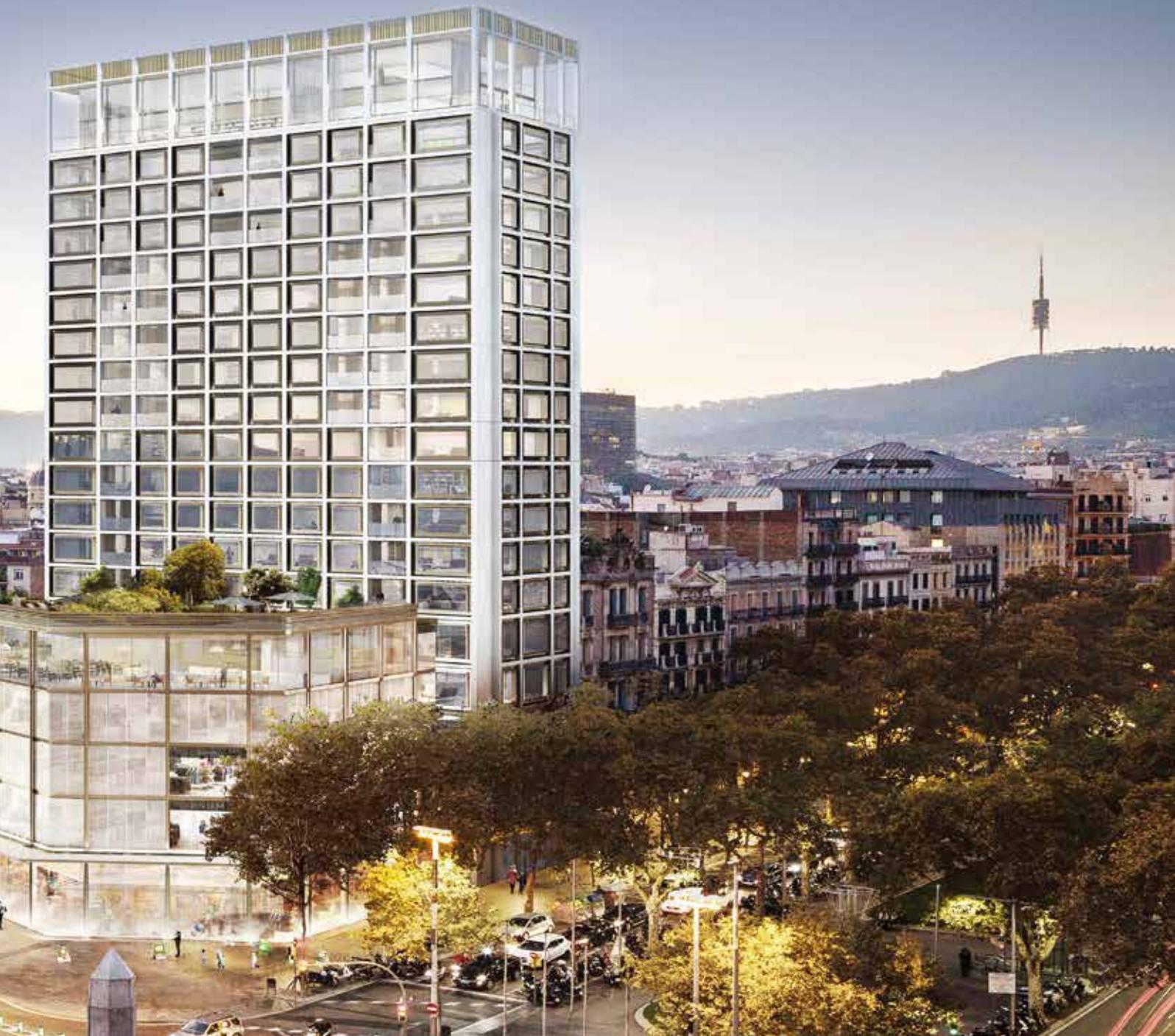


Savills World Research
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SPOTLIGHT | 2018

Branded Residences

Sector Overview | How They Work | Global Distribution





Four Seasons Resort, Peninsula Papagayo, Costa Rica

Foreword

Adding value in a competitive global marketplace for prime property

Branded residences have been around for more than a century, but only in the last two decades has the sector really taken off. Rapid expansion has gone hand-in-hand with a growing, globally-mobile high-net-worth population that has risen fourfold in 20 years.

Cash-rich, time-poor, and brand-conscious individuals are attracted by quality design, security and the high levels of service branded residences offer. Hoteliers have actively diversified into residential as resorts and prime city centre buildings incorporate a wider mix of uses. Developers, meanwhile, have come to recognise the value-add of a brand in a competitive global marketplace.

To date, branded product has been focused in the US and Asia,

and are located in resorts or major international gateway cities, but there remains significant untapped global potential. The recovery of Europe's leisure markets has made projects in the Mediterranean viable once again, and branded projects are first off the starting blocks. With many top tier world cities looking fully valued, the market is also turning to secondary urban centres for new opportunities and growth.

Looking ahead, continued wealth generation in emerging markets will underpin expansion, but we expect to see the sector evolve as it matures. New brands will enter the market and the service and amenity offer will widen, with an emphasis on experiences, particularly as younger buyers grow in importance.

Summary

There are more than 400 branded residence schemes globally.

Together they have a combined total of 55,000 branded residential units.

The US is the largest market with 32% of global stock by number of schemes. The UAE, Mexico, Indonesia and China have the largest pipelines outside the US.

40 major hotel operators are active in the sector, of which Marriott International is by far the largest with a 31% market share by number of schemes.

Non-hotel players are rising. YOO has overtaken hoteliers to become the single largest brand of any type by number of projects, with over 50 residential schemes completed and operating globally. Other non-hotel brands, including cars and fashion houses are growing in the sector but still remain small in comparison.

Our analysis shows an average premium for branded residences over non-branded product of 31%, but this varies significantly by location.

Lesser premiums are achieved in more mature luxury markets, where prime stock of all types are of very high quality, and location is a greater determinant of value. In New York, recent branded schemes trade at a discount to some exceptional non-branded projects.

HNWIs and emerging market wealth will continue to drive expansion of the sector. The Middle East and Eastern Europe (for domestic HNWI growth) and Australia (for inbound HNWI flows) are markets with relatively little supply but positive prospects.

Guaranteed rental returns will come under greater scrutiny from regulators. A key selling point for buyers in the past, regulation in the US and UK now classes these as collective investment schemes. We expect this model to gradually adapt to appease regulators.

Cover Image: Passeig de Gràcia 111, Residences by Mandarin Oriental, Barcelona, Spain.

The branded residence advantage

Branded residences offer many advantages in a crowded global marketplace for luxury property

There are a multitude of reasons that the branded residence sector has grown so rapidly in the last two decades. Brand association instils buyer confidence, and is especially attractive to globally-mobile, time-poor individuals seeking a high service offer, hassle-free ownership and prospect of rental returns when not in occupancy. Hoteliers benefit from diversified schemes and additional income streams, while deepening their relationship with their customers. For developers, a brand brings profile, and may also lead to price premiums (see p.10). The main advantages for brands, developers and owners are summarised below.

Advantages for the brand, developer and owner

HOTEL/BRAND ADVANTAGES

- Diversification of scheme can improve viability
- Income generation from licensing and management fees
- Short-term returns from sales
- Helps meet planning requirements (where a single use may not be granted)
- Additional and varied rental product
- More brand 'flags' (where standalone)
- Deepens customer relationships



DEVELOPER ADVANTAGES

- Reputable brand instils buyer confidence
- Price premiums over non-branded product
- Greater project visibility
- Design expertise and consistency
- Gain access to the hotels' customer base



OWNER ADVANTAGES

- Superior services and amenities
- Brand association, perceived as 'safer'
- Turnkey, quality fit out
- Suitable to lock up and leave
- Prestigious 'trophy home'
- Investment potential and income returns (rental schemes)
- Professionally managed

Source: Savills World Research & Savills International Development Consultancy

How they work

In broad terms, branded residences are normally a partnership between a brand (often a hotel operator) and a developer. The brand grants a licence to the developer to market and sell residences incorporating their brand. Residences are sold to private individuals or entities, who may use the property for their own use, or let it through the hotel’s rental scheme subject to conforming to the required furniture and fitting specification. The following fees are usually charged by hotel operators:

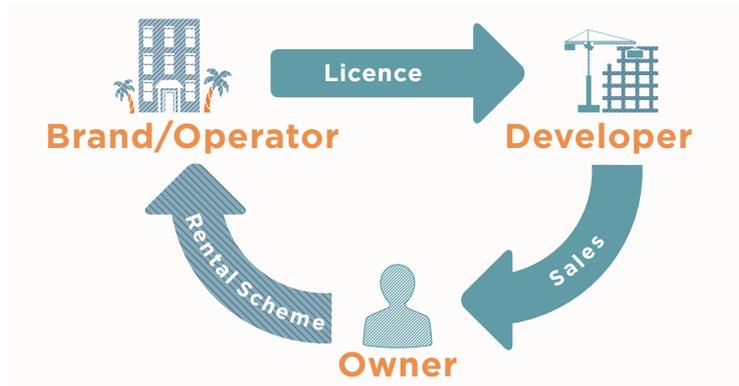
- **Marketing License Fee** (also known as ‘Royalty Fee’): 2%-5% depending on operator and brand. Paid by the developer.
- **Management Fee** (if residences are managed by the hotel operator) an annual charge paid by the owner for having the brand on their residence, and access to the operator’s services, concierge etc, or **Trademark License Fee** (if residences are franchised by the hotel operator) paid by the owner for having the brand on their residence, collected by the property manager.

Owners of branded residences are also required to pay annual fees (sometimes called ‘Homeowners’ Association Fees’, ‘Community Expenses’ or ‘Service Charges’) to cover the service and maintenance of common areas on the development and are directly proportionate to unit size or purchase price.

Homeowners’ Association Fees vary depending on the location, hotel brand as well as the services included, but usually equate to between 0.5% and 2% of the purchase price, per annum.

It is important that annual service charges do not exceed this, as excessive charges have shown to damage saleability, regardless of price point. Developers and operators should aim to keep them as low as possible whilst maintaining expected high standards of service and quality.

Simplified branded residence model



Type of branded residence:

- Co-located:** residences located on same site as hotel, e.g. Pine Cliffs Residence, Luxury Collection, Algarve
- Condo hotel:** residences located within or comprise entire hotel building, e.g. W Hotel and Residences South Beach, Miami
- Standalone:** residences on separate site to hotel (but hotel of the brand usually present elsewhere in city / location), e.g. Mandarin Oriental’s Passeig de Gràcia 111, Barcelona
- Non-hotel:** residences associated with non-hotel luxury brand, e.g. Missoni Baia in Miami

Typical specification

Unit types and sizes vary depending on scheme location, although smaller units (studios or one bedroom) are not usually delivered in resort locations to avoid cannibalising the hotel’s own offer. Development costs are higher than on a non-branded scheme, given best-in-market interior specification and extensive communal areas and facilities. Furniture, Fixtures & Equipment (FF&E) packages are mandatory if a buyer wishes to enter their property into the managed rental scheme.

Branded residences often offer exceptional levels of service and amenities. ‘Base services’ (included in service charges) comprise concierge and the use of hotel amenities (if affiliated to one), or dedicated amenities. ‘On-demand’ services, at additional cost, range from housekeeping to pet services (see below). Elevated status in hotel loyalty programmes is another major selling point, granting the holder access to free or discounted stays across the hotel’s network.

Typical service offer

BASE SERVICES	ON-DEMAND SERVICES
<ul style="list-style-type: none"> ■ Use of hotel amenities (or dedicated amenities for residences) ■ 24/7 security ■ Valet parking ■ Elevated status in loyalty scheme ■ Concierge: <ul style="list-style-type: none"> Mail and package delivery Travel and restaurant reservations Spa and salon reservations Golf and entertainment reservations Wake-up calls 	<ul style="list-style-type: none"> ■ Housekeeping ■ In-home dining service ■ Personal shopping ■ Personal trainer ■ In-home spa treatments ■ Childcare services ■ Pet services ■ Meeting room services / office equipment ■ Use of guest suite

The sector today

We estimate there are more than 400 branded residential schemes globally, with a combined stock of approximately 55,000 residential units. The sector is dominated by hotel brands, which account for 85% of schemes. There are 40 major hotel operators active, with 65 individual brands between them. Following its purchase of Starwood in 2016, Marriott International is by far the largest single player, with a market share of 31% among hoteliers by number of schemes.

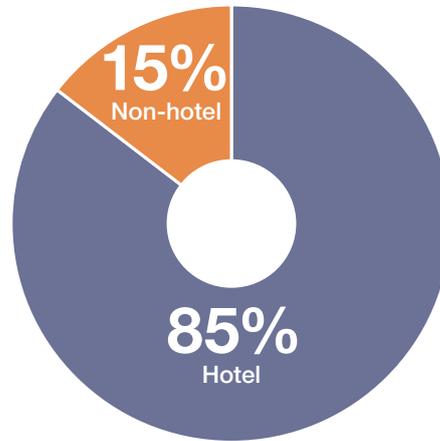
The largest individual brand by number of schemes is not a hotelier, but YOO, a brand built on design credentials (see box out). Marriott International's Ritz-Carlton is second, followed by Four Seasons (see chart).

In terms of global distribution, the US is the biggest single country market, home to 32% of schemes (130). Asia Pacific hosts 30% of schemes (120), of which China is the single biggest market with 7% of schemes (30). Europe, just ahead of MENA, represents 13% of the market (51 schemes). New York, Miami, Dubai and Bangkok are the biggest city markets, all with at least 15 projects.

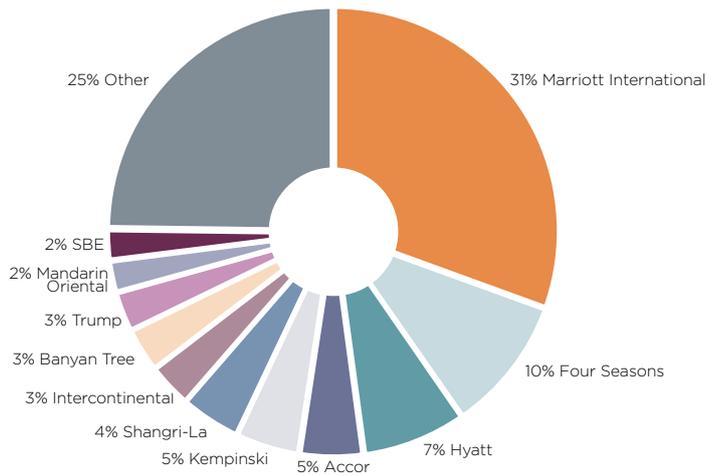
Branded residences are commonly located in either urban cores or resorts (74% and 26% respectively), and in either environment the development is usually situated in a prime location.

The sector is dominated by hotel brands, which account for 85% of schemes

Hotel vs non-hotel branded residences
Share of schemes



Hotel branded residences
Share of schemes



Source: Savills World Research

Top 20 individual residence brands (hotel & non-hotel)



Source: Savills World Research



Miami is home to more non-hotel branded residences than any other city

Non-hotel branded residences

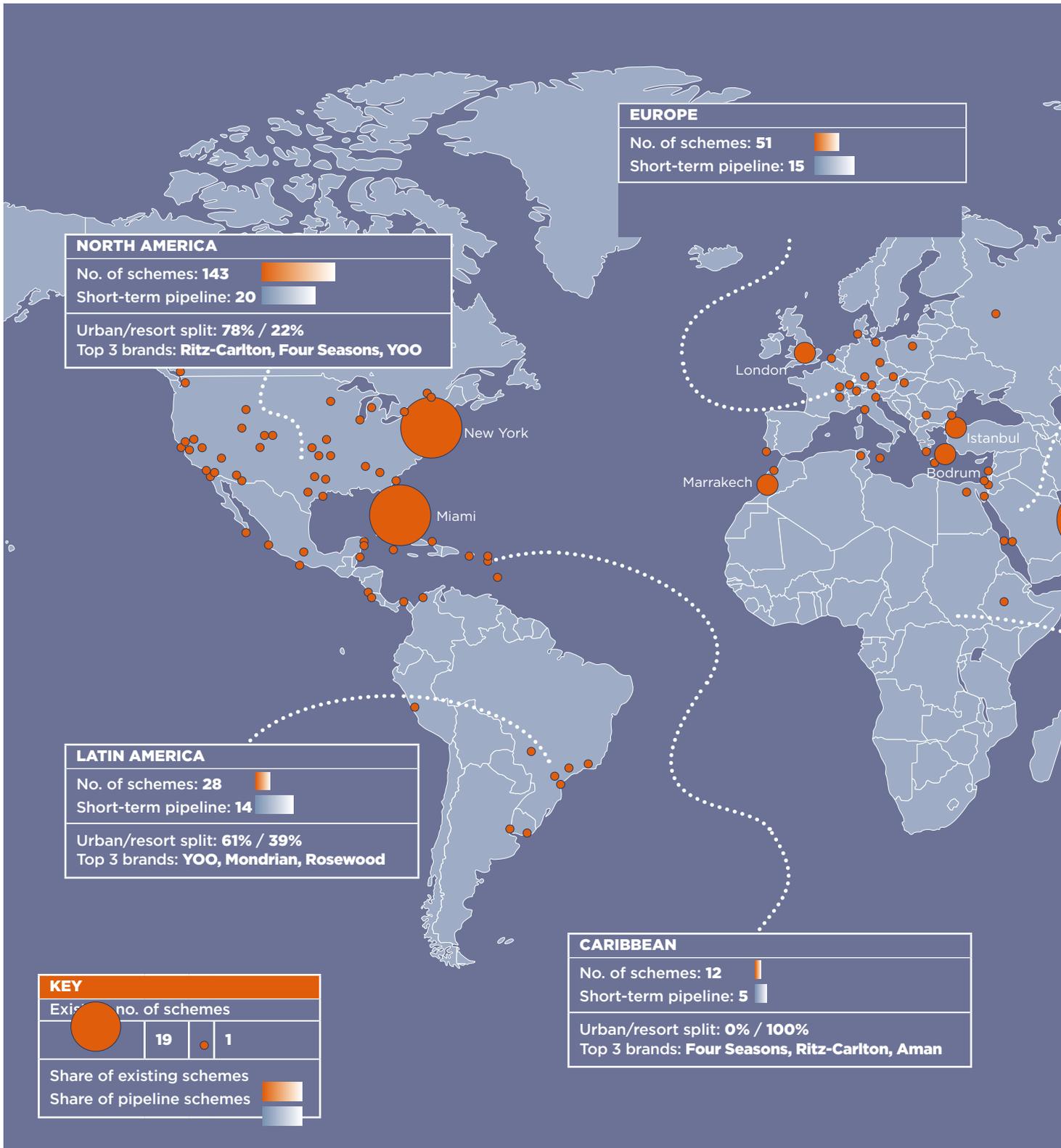
While hotel brands dominate the sector, other aspirational brands are operational too, ranging from luxury cars and fashion houses to celebrity designers. Residential developments under these brands

benefit from association with a luxury product or designer. Miami has been a hotbed of innovation in this area, host to a wider range of non-hotel branded projects than any other city.

Non-hotel branded residences, selected examples

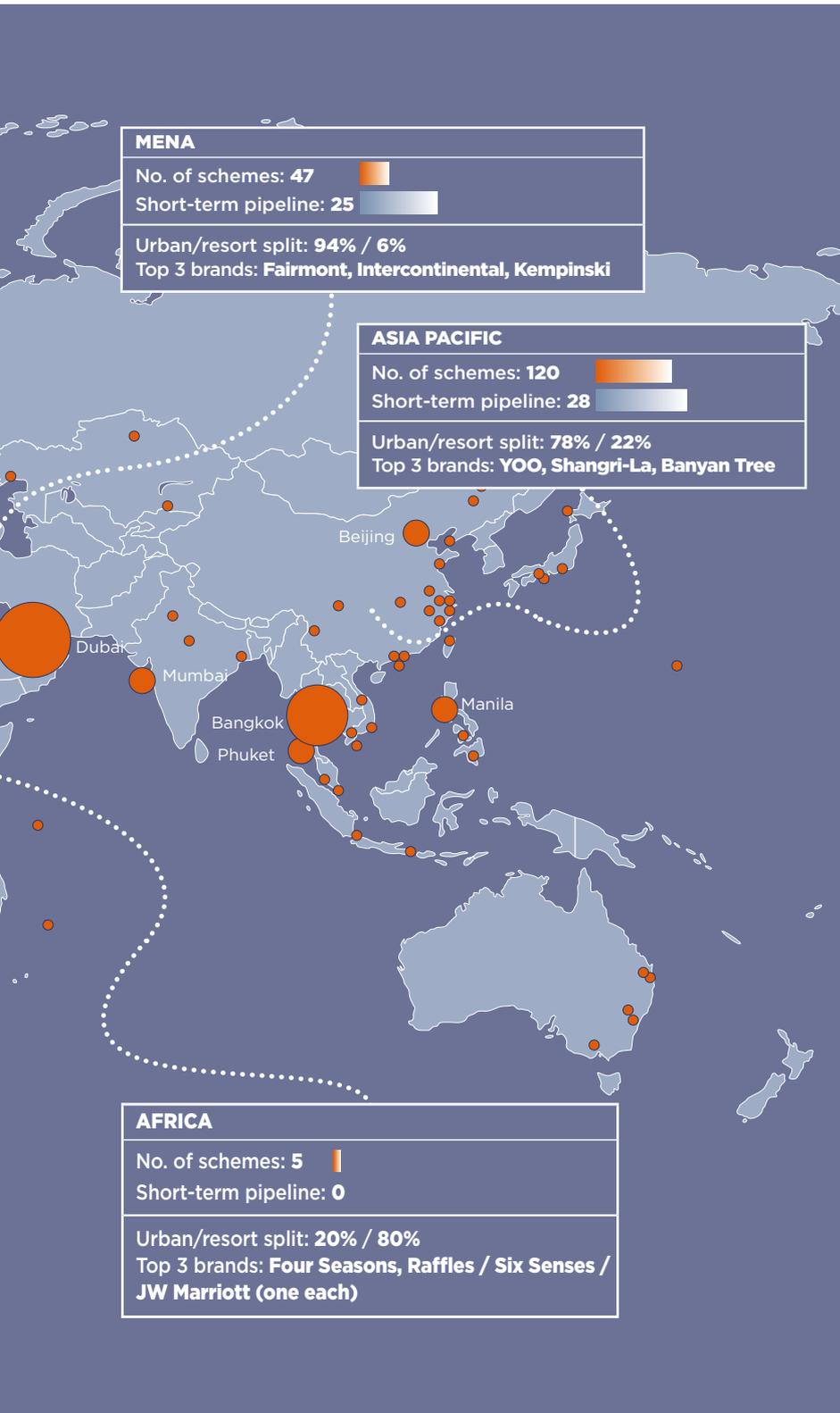
Brand	No of completed residential schemes	Project locations	Summary
YOO	52	34 countries	YOO was established in 1999 by John Hitchcox in partnership with designer Philippe Starck. It works with a team of celebrity designers, including Jade Jagger and Kelly Hoppen, to create distinctive designer-branded residences that bring visibility to projects. YOO is also now branching into standalone hotels.
Porsche	1	Sunny Isles Beach, FL	Developed by Dezer Properties and designed by Porsche Design Studios, this 60-storey tower features a car elevator that allows owners to park their car outside their apartment.
Aston Martin	1	Miami, FL	G&G Business Developments collaborated with Aston Martin, who designed the interior spaces of the 66-floor tower. Located in downtown Miami, sales have achieved a 44% premium over non-branded luxury stock.
Missoni	1	Miami, FL	Another Miami project, Missoni Baia is developed by OKO Group with design by the Missoni fashion brand. To take advantage of the waterfront location, apartments feature flow-through design and 10-foot deep balconies. In response to market conditions, designs were recently reconfigured to offer smaller units.

Supply: global distribution and sector characteristics



Source: Savills World Research

There are more than 400 branded residence schemes globally with some 55,000 branded residential units combined. Here we analyse their distribution and characteristics



BRANDED RESIDENCES AT A GLANCE

406

Schemes globally

55,000

Residences

74%

In urban locations

136

Average no. of residences per scheme

14% single-family

32% mid-rise

54% tower
Scheme building type

40

Average number of storeys in tower schemes

5%

Are converted buildings

YOO (13%)

Largest single brand

Marriott International

(31%)

Biggest hotel group

US (32%)

China (7%)

Thailand (6%)

Top three countries by no. of schemes

New York (5%)

Dubai (4%)

Miami (4%)

Top 3 cities by no. of schemes

Dubai

Top city by short-term pipeline

Marriott International

Largest short-term pipeline by group

Ritz-Carlton

Largest short-term pipeline by individual brand

The branded residence price premium

Our analysis shows an average premium for branded residences over non-branded product of 31%, but this varies significantly by location

When a luxury brand is given to a residential product, it benefits from the same qualities of that brand by association and design. Purchasers of branded residences are assured of a quality product, limited in supply, that shares in the values of the brand. Pre-existing brand awareness means that the residential product may enjoy greater profile and attract a larger demand base. For this reason, purchasers are willing to pay more for branded than non-branded property. Our analysis suggests that on average, branded residences achieve a price premium of 31%, but this varies significantly by location.

The largest premiums are usually achieved in emerging markets. Luxury brands have proved appealing to the newly wealthy, by whom they are viewed as a mark of success. Owning a branded property is seen as both status affirming and a safer investment choice. Premiums are also larger in these markets because the standard of branded properties are usually so much higher than existing and even new-build non-branded stock.

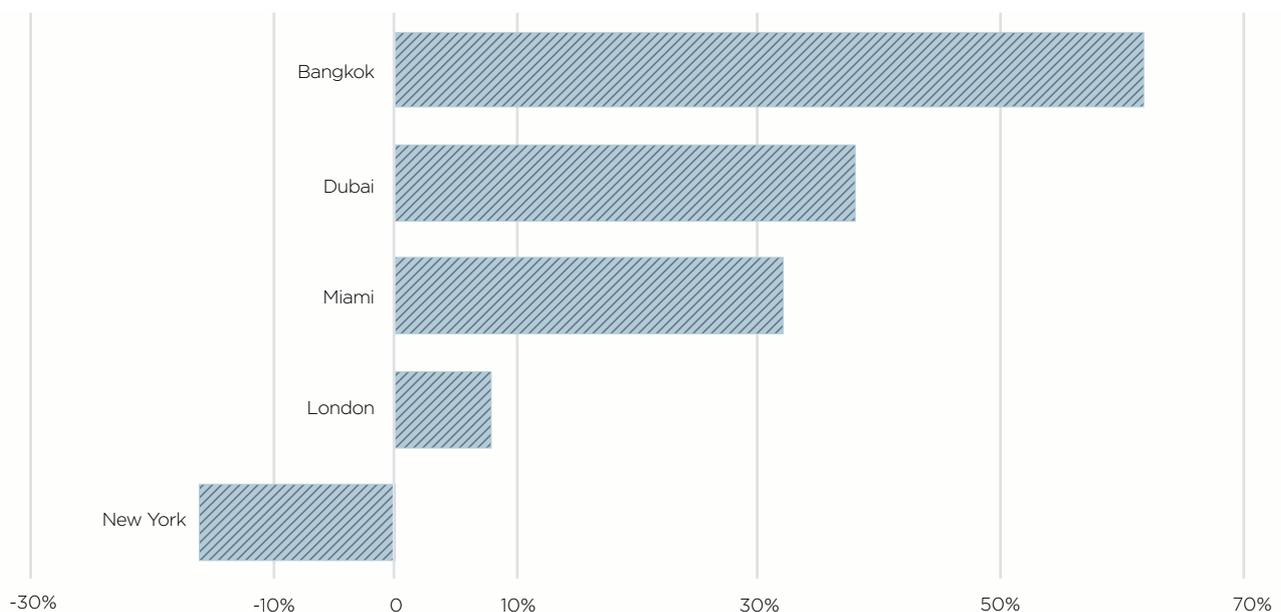
Analysis of current prices at the Ritz-Carlton Residences in Bangkok, located in Thailand's tallest building, MahaNakhon, show that premiums can exceed 80% over competing, non-branded stock. Where a branded development is the first to bring prime property of

international standards to an emerging market, premiums can be even greater. For example, branded residence premiums of 90% over existing prime stock have been achieved in Belgrade, Serbia. In Almaty, Kazakhstan, they have exceeded 150%.

In the case of European resort locations, premiums range from 20% to 45%. In this market, there is a balance to be struck between pricing and sales velocity, however, as evidence suggests that resort developments commanding the highest premiums also see slower sales velocities. Four Seasons' Palazzo Tornabuoni, Florence, a conversion of a historic palazzo, achieved a 44% premium over comparable local prime stock. Amanzoe, an Aman Resort in Porto Heli, Greece, achieved a 40% premium over non-branded product. Pine Cliffs, a Luxury Collection resort in Portugal's Algarve, sold strongly and achieved a 37% price premium.

Lesser premiums are achieved in more mature luxury markets, where prime stock of all types are of very high quality, and location is a greater determinant of value. Comparing equivalent branded and non-branded developments, in Dubai the premium stands at 38%, Miami 32%, and in London it is 8%. Analysis of recent sales prices in New York suggest in some cases a branded discount of 15%, as some exceptional, non-branded, buildings currently trade.

Branded residences sales price premiums by key cities



Based on prices per square metre of comparable branded and non-branded developments

Source: Savills World Research

The future of branded residences: demand

HNWIs and emerging market wealth will continue to drive expansion of the sector

The market is expanding geographically

Our analysis of existing supply and projects currently under construction suggests a broader geographic spread than ever before. Over a quarter of projects currently under construction are in Asia Pacific (27%), closely followed by the Middle East and North Africa (23%), 14% in Europe and 13% in Latin America. At a country level, the UAE, Mexico and Indonesia have the largest pipelines outside the US.

Watch emerging countries

Branded residences can offer a solution to residents in emerging markets with immature residential property sectors. They offer comfort, security and familiarity.

We have identified ‘emerged’ and ‘emerging’ countries with the best domestic growth prospects over next decade, making them strong contenders for future branded residence development. The UAE, a safe haven in the Middle East, ranks first and already has the largest pipeline of branded projects outside the US.

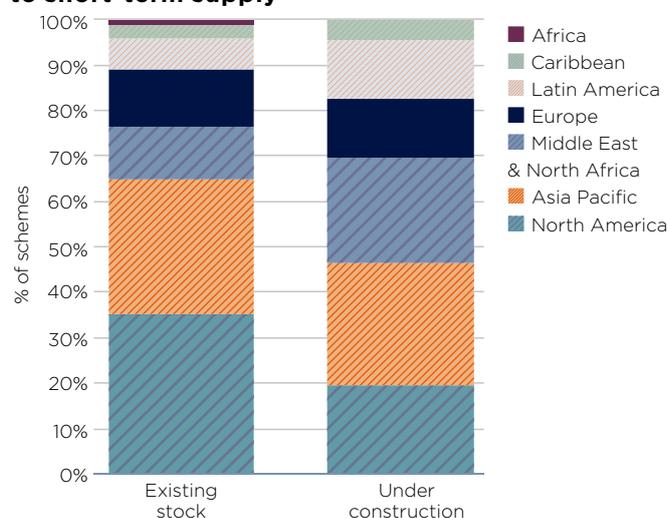
Kazakhstan, Qatar, Panama, China, and Israel all have at least a handful of branded projects, but positive underlying domestic growth prospects suggest room for more. Pioneering developers and operators may consider emerging Eastern European markets such as Latvia, Slovenia and Slovakia, or Turkmenistan, all currently unserved with no stock of projects in the pipeline.

Follow the money: HNWI trends

Popular destinations for globally mobile HNWIs, especially those that attract emerging wealth, are a natural base for branded residences. For those who may be buying abroad for the first time, the presence of a brand instils buyer confidence.

Australia saw the largest inflow of HNWIs in 2017. As the country’s business centre, many HNWIs who migrate to Australia are likely to end up in Sydney. Currently, Sydney has just one branded residence scheme. Australia stands out as a market that has huge growth potential.

Distribution of existing stock compared to short-term supply



Source: Savills World Research

Top 10 countries by domestic growth prospects*

Country	Existing branded residence schemes	Short-term scheme pipeline
1. UAE	25	12
2. Kazakhstan	3	1
3. Latvia	0	0
4. Turkmenistan	0	0
5. Qatar	4	0
6. Slovenia	0	0
7. Panama	3	1
8. Slovakia	0	0
9. China	30	5
10. Israel	3	2

*Forecast growth 2018-2028 in GDP, population, employment and households earning over US\$250,000, GDP per capita greater than \$15,000

Source: Savills World Research

Global HNWI flows in 2017

Inflows		Outflows	
Australia	(+10,000)	China	(-10,000)
US	(+9,000)	India	(-7,000)
Canada	(+5,000)	Turkey	(-6,000)
Caribbean	(+5,000)	UK	(-4,000)
Israel	(+2,000)	France	(-4,000)
Switzerland	(+2,000)	Russia	(-3,000)
New Zealand	(+1,000)	Brazil	(-2,000)
Singapore	(+1,000)	Indonesia	(-2,000)

Source: New World Wealth

FOUR SEASONS RESORT



PENINSULA PAPAGAYO, COSTA RICA

Adding value through management

BRAND

Four Seasons

DEVELOPER / INVESTOR

Gencom (since 2017)

COMPLETE

2004, renovated 2017

BRANDED UNITS

65

HOTEL ROOMS / SUITES

182

SALES PRICE POINTS

\$800 per sq ft

BUILDING

3 to 5-bedroom villas and apartments.

LOCATION

Peninsula Papagayo, overlooking two beaches. Thirty minutes from Liberia International Airport with direct flights to the US, Canada, UK and Central America.

AMENITIES

Arnold Palmer golf course, five tennis courts, marina, 8 miles of nature trails, restaurants and lounge, gourmet grocer. Emphasis on sustainability and 'barefoot luxury'. Papagayo Explorers Club provides local experiences and activities, ranging from dolphin explorations to mountain biking.

SUCCESSSES

A proactive approach to property management has been attractive to buyers. Recent refurbishments saw significant upgrades to the residences and amenity offer, and the addition of 25 new residential units. The resort now has the highest grossing rental revenues in the Four Seasons portfolio.

THE RITZ-CARLTON RESIDENCES



WAIKIKI BEACH, HONOLULU HAWAII, USA

Fast-selling resort

BRAND

Ritz-Carlton (Marriott International)

DEVELOPER / INVESTOR

Irongate

COMPLETE

Tower I: 2016, Tower II: 2018

BRANDED UNITS

556

HOTEL ROOMS / SUITES

Condo hotel

SALES PRICE POINTS

\$2,000 per sq ft

BUILDING

Studio to 4-bedroom apartments located in two towers of 28 storeys on a single podium deck.

LOCATION

Not a frontline beach location, but adjacent to Luxury Row, a prime retail destination. Residences in the tower benefit from ocean and water views.

AMENITIES

Concierge, celebrity-designed gym, yoga studio, spa and infinity pool. Two restaurants: Sushi Sho and BLT Market (which also provides room service), plus a Dean and DeLuca café and winebar on the ground floor promenade. On completion of the second tower, a high-end grocer, children's facility, and 2,500 sq ft of event space will also be provided.

SUCCESSSES

In spite of being a few blocks inland from the beach, the project sold quickly and achieved a premium over competing supply. Sales of tower one began in Q1 2013 and 92% of units were under contract in the first year. Sales of tower two started in Q3 2014, 237 (96%) of units had been contracted by Q1 2018 (a rate of approximately 70 per annum).

EDITION WEST HOLLYWOOD



LOS ANGELES, USA

Bringing the right brand to the market

BRAND
EDITION (Marriott International)
DEVELOPER / INVESTOR
Witkoff Group and New Valley
COMPLETE
2019
BRANDED UNITS
20
HOTEL ROOMS / SUITES
190
SALES PRICE POINTS
\$3,000 per sq ft

BUILDING

13-storey building with 20 2 to 4-bedroom residences and two rooftop pool decks.

LOCATION

West Sunset Boulevard in West Hollywood, a cultural and entertainment hub long associated with the movie industry.

AMENITIES

Signature restaurant, a lobby lounge, rooftop venue and a nightclub/bar, rooftop pool and a 4-treatment room spa. Separate rooftop pool and terrace for residences.

SUCSESSES

EDITION, positioned as a boutique 'anti-chain' luxury brand, aligns well with West Hollywood visitors and residents alike. A quality, but targeted amenity offer proved appealing to buyers (mainly those working in film and media) and the scheme sold quickly. Sales began in Q1 2018 and 80% of the units were under contract by June 2018.

PASSEIG DE GRÀCIA 111



BARCELONA, SPAIN

European city standalone

BRAND
Mandarin Oriental
DEVELOPER / INVESTOR
KKH Capital Group, Perella Weinberg
Real Estate Fund II LP
COMPLETE
2020
BRANDED UNITS
34
HOTEL ROOMS / SUITES
Standalone
SALES PRICE POINTS
TBA

BUILDING

20-storey tower, conversion of the former Deutsche Bank building.

LOCATION

Passeig de Gràcia is Barcelona's most exclusive retail street and home to two of Gaudi's architectural works. Avinguda Diagonal is at the heart of the city's business district.

AMENITIES

Private serviced lobby, club lounge, meeting and entertainment space, fitness facilities, spa, outdoor recreation deck and swimming pool. Dining and parking.

SUCSESSES

The first standalone hotel-branded residences in Europe. A conversion of an office building by renowned Catalan architect Carlos Ferrater, it makes best-use of a prime site.



The Residences at the West Hollywood EDITION, Los Angeles, USA

The future of branded residences

As the sector matures, a brand alone can no longer be counted upon to generate a premium and new non-hotel brands will give hoteliers a run for their money

Brands alone will no longer command premiums in saturated markets

Brands generate the largest premiums in new destinations and emerging markets that have yet to see prime residential product of international standards. In mature markets, branded residences command a smaller premium, and recent evidence from New York suggests that branded schemes are actually trading at a discount to non-branded stock. Schemes such as 432 Park Avenue (unbranded) offer hotel-style services and amenities, and has successfully established itself as brand in its own right.

To differentiate from the competition, experiences rather than services will become an increasingly important factor. A pool, spa and concierge service are now a staple of any mid-to-high-end residential development and no longer enough.

In response, branded operators are setting their schemes apart by offering distinct brand experiences. Marriott International's W hotels and residences have led the way in targeting the market for millennials (and their followers) and offer celebrity-chef restaurants, bars and nightclubs, attracting visitors and local residents alike. Six Senses focuses on health and wellness. Accor's Orient Express residences will offer an extensive entertainment offer themed around the 'art of travel'. Another Marriott International brand, Luxury Collection, emphasises location and the unique features of the property itself.

New brands will give hoteliers a run for their money

The branded residence sector is dominated by hotel brands, but others are making inroads. YOO is the largest single brand, car brands and fashion houses are in on the act, and other aspirational brands will follow suit.

Technology companies, already disrupting the car industry, may be a natural fit. They are innovative and have loyal customer bases. Luxury food and drink brands may be another contender, with potential to provide a distinct service offer to residents.

Guaranteed rental returns will come under greater scrutiny from regulators

Historically, many developers have offered guaranteed rental returns on branded residences. These were mandatory rental schemes whereby a developer offered owners guaranteed return for a fixed number of years. In a low interest rate environment, such schemes were a major selling point and cemented the sector's popularity with investors.

While appealing, when these agreements expired, owners rarely benefited from the same levels of return (in many cases the developer built it into the sales price). Today, far fewer brands are comfortable with the risk exposure. Regulators are also taking notice. Legislation, first in the US and now the UK, classes these programmes as collective investment schemes, and subjects them to the same scrutiny as financial instruments.

As a consequence, such guarantees are no longer offered on projects in the US, and other markets are likely to follow suit. Agents are also now unable to promote such projects in these markets, even if they are outside the US or UK.

We fully expect to see guaranteed rental returns to adapt to this legislation as a result. The sale and leaseback model is being used as a workaround in some cases. The litmus test is: is the buyer purchasing a property or an income stream? Optional rental schemes appear to be the best model for the sector going forward.

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