Horwath HTL

Hotel, Tourism and Leisure

Special Market Report

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Serviced Apartment Market

Recently, the German accommodation market has been complemented by another interesting accommodation option: serviced apartments. Being a hybrid of the residential apartment sector and the hotel market, the serviced apartment market positions itself between short hotel stays and longer-term rental accommodation.

Available data for this young market is still sparse. Data used in this report is mainly based on numbers surveyed by Apartmentservice, a leading experts consultant in the field of Serviced Apartments (see Serviced Apartment Marktreport 2017, Apartmentservice).

The market is already well established in the US and Asia Pacific and growing in Europe as well. Germany has the second largest serviced apartment market in Europe (Emerging Accommodation Segments 2017, Hotel Alternatives.

General Market Development

Germany and especially its top 7 city destinations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Stuttgart) enjoy great and growing popularity for tourist travellers. Due to its strong economical position and development, business travel is increasing as much as domestic from international destinations.

The number of overnight stays has increased up to 447 million (+15% in the last 5 years) with a compound annual growth rate (CAGR) of 2,6%. At the same time, the demand for long-stay products increased and the market aims to satisfy this, as can be seen from the fast-growing number of new serviced apartment developments.

The demand for temporary living is constantly increasing as the working environment changes, and the number of permanent commuters spending the work-week away from home grows.

In Germany, about 2 million commuters live in the city where they work from Monday to Friday. Generally, conditions on the job market have changed with the global working environment and increasing mobility are only two of the many changes. International businesses have become more cost conscious in the last few years.

Following Apartmentservice, serviced apartments hold noticeable economical advantages compared to hotel costs, due to reduced staff and service costs for cleaning, laundry, restaurant etc., so that expenses can be reduced by up to 50%. Furthermore, business travellers prefer the features of serviced apartments compared to standard hotel products. This is also reflected in the rapid development of Airbnb.

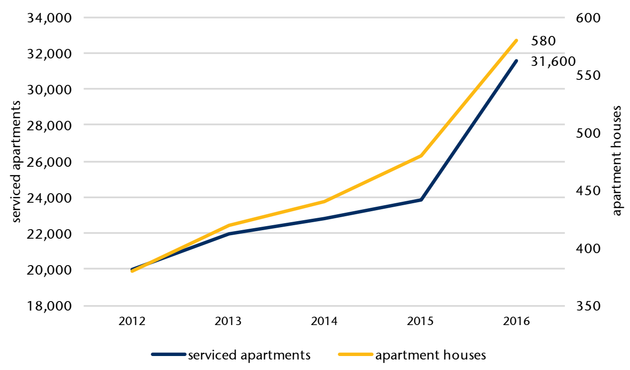
Temporary living concepts are also relevant for students in form of student housing, and this is another important target group in Germany. With about 2.8 million students, from which almost 0.5 million come from abroad, Germany is the 5th most asked country for studying in the world (Kurzstudie Temporäres Wohnen 2017, HSH Nordbank AG). Accordingly, the demand for micro apartments is increasing in the main German student cities. Currently, the supply is not meeting the demand, even though it is increasingly adapting. The two categories student housing and serviced apartments are likely to further mutually stimulate each other, subject to further close observation.

Market grows continuously

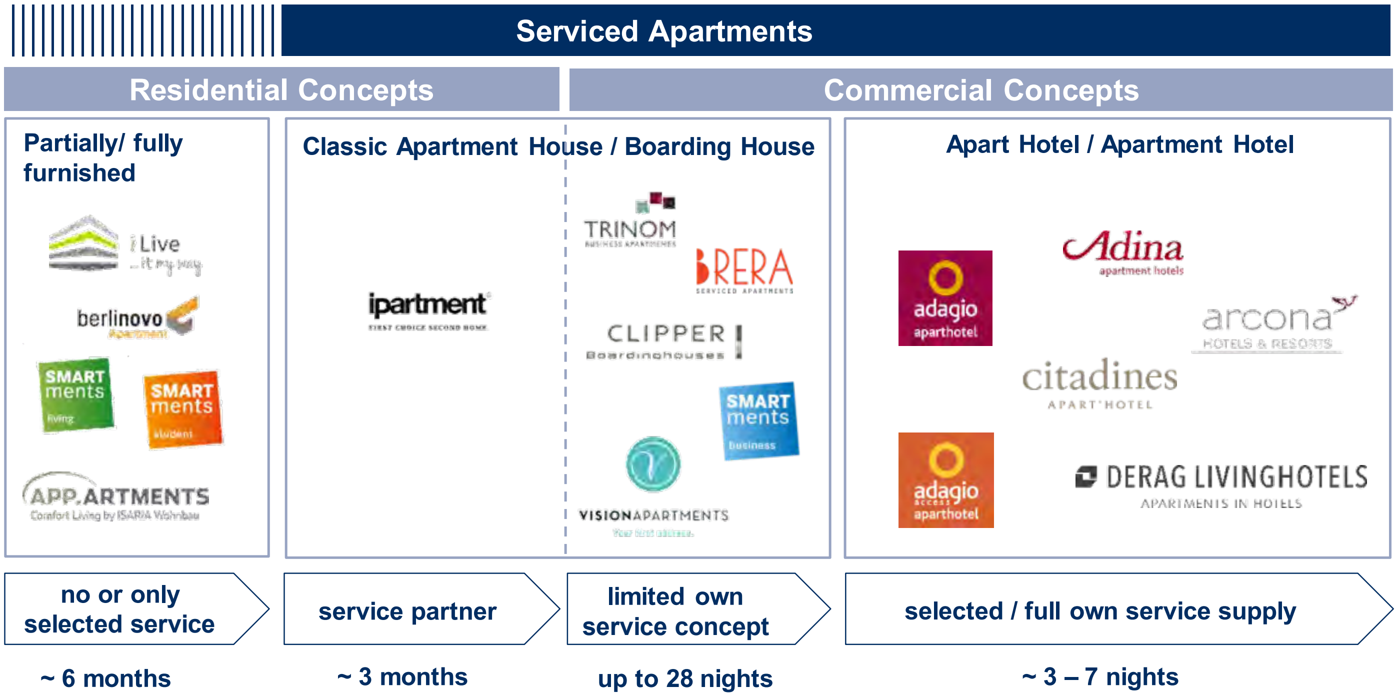
Although available data sources are still scarce due to serviced apartments being a rather new category, first consolidations of information show: the trend is sustainable. From 2016 to 2017 an increase of 17% has been reported but the total market share of serviced apartments represents only 3.6% of the German hotel market capacity.

According to another survey made available by Apartmentservice, the number of serviced apartments has grown from around 375 registered houses with roughly 20,000 units in 2012 up to almost double in the first quarter of 2017 with a registered number of 580 houses with around 31,600 units (houses with more than 15 units). And again, as for example Apartmentservice Press release to Marktreport February 2017 says, market shows further growth potential by +37% until 2019.

Development serviced apartments and apartment houses 2012-2016



Source: Marktreport 2017 Serviced Apartments by Apartmentservice; Rendered by Horwath HT



Source: Marktreport 2017 Serviced Apartments by Apartmentservice; Rendered by Horwath HT

Referring to Apartmentservice, Munich is market leader concerning the total number of serviced apartments (5.100), followed by Berlin with a total of 4.716 apartments. Whereas Berlin is, leading by numbers of recorded branded serviced apartment houses (22 houses), Munich is the number one considering the number of units in branded apartments (1,918 units, Berlin: 1,578 units).

Current serviced apartment projects under development

An increasing number of planned serviced apartment projects show the attraction and positive development of this category in Germany.

As noted in the Marktreport of Apartmentservice the pipeline projects in the big 7 cities in Germany from 2017 - 2019 show that the highest number of serviced apartments are officially planned for Munich (total accumulated 2,313), followed by Berlin (total accumulated 1,750). By 2019, 7,516 units are planned to open in the top 7 German cities (data from February 2017, Apartmentservice).

Terms and definitions in this young market

The current apartment market is characterized by a variety of terms and definitions, which sometimes make it challenging to align arguments and statistics.

The following list shows a short compendium of most frequently used terms on the apartment market:

- apartment house
- boarding house
- apart hotel
- apartment hotel
- residences
- city suites

This shows, that the market has grown from both the residential real estate market and the commercial hospitality real estate market.

Consequently, the serviced apartment market is a hybrid of two different asset classes (Emerging Accommodation Segments 2017, Hotel Alternatives). The residential market includes partly or completely furnished apartments and student houses etc., whereas hotels, apart hotels and apartment hotels belong to the commercial market.

A universal Charta was developed by the big brands of the Serviced Apartment Industry and Apartmentservice. Based on this Charta, the above listed terms can now be summarized into two new main categories, ‘classic Apartment House’ on the one hand and the ‘Apart hotel / Apartment Hotel’ on the other hand. While ‘serviced apartment’ is used as an umbrella term for concepts in order to distinguish clearly from pure residential housing.

Following the charta the service concepts vary from full hotel service standards in the commercial apart hotel or apartment hotel to service concepts delivered by cooperation partners in the classic apartment house/ boarding house concept. Several operators, investors and project developers have already signed the Charta of temporary living to acknowledge the use of those terms and definitions.

Key figures of classic Apartment House and Apart Hotel / Apartment Hotel

Classic Apartment House	**Apart Hotel/ Apartment Hotel**
Individual concept	Standardized concept
Location at Top 7 but also smaller destinations	Mainly located at top 7 and/or tourist destinations
Rather <50 units per house	Rather >50 units per house
Rather owner operator	Rather hotel chain operators
Focus on long-stay 28+ nights	Focus on short and mid-stay (3-7 days+)
Reduced reception	Full reception 24/7
F&B reduced or not at all	Full F&B services
Fully equipped kitchen	Small kitchen/ kitchenette
Selected guest services (laundry, cleaning, shopping)	Up to full guest services
Long-stay share over 50%	Long-stay share around 10-15%

Source: Marktreport 2017 Serviced Apartments by Apartmentservice; Rendered by Horwath HT

International and local operators

Serviced apartments are not only offered by existing market participants as hotel chains, but a significant number of new providers and operators are entering the competition with fresh and new ideas.

The German serviced apartment market is dominated by individual national operators. Since 2013, the presence of international chains increased through new market entries and reached a market share of about 11%, says Apartmentservice. The big 7 cities with tourist and business demand have benefited from the new chains.

Derag Livinghotels is the market leader with its number of houses in Germany (13 houses, 1,461 units), followed by Adina Apartment Hotels (7 houses, 988 units) and then Aparthotel Adagio & Adagio Access (5 houses, 698 units).

Top 5 Apartment Brands

Operator	No. of Houses	No. of Units
Derag Livinghotels	13	1,461
Adina Apartment Hotels	7	988
Aparthotel Adagio & Aparthotel Adagio Access	5	698
Citadines Apart'Hotels	4	556
GHOTEL hotel & living	6	459

Source: Status February 2017, Marktreport 2017 Serviced Apartments by Apartmentservice; Rendered by Horwath HT

In summary, the serviced apartment market in Germany has a bright future, with further growth in demand and supply with the likelihood of introducing interesting fresh new ideas to the established hospitality market.

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We support our clients comprehensively with strategic advice, planning & development consultancy and during realization of hotel real estate, resorts or tourist destination.

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