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HOTELS VS. FURNISHED SERVICED APARTMENTS: WHO HAS A LEG UP ON THE OTHER?

Worldwide hotels are up in arms these days, battling fierce competition: the traditional accommodation offer is being overpowered by alternative ‘feel like home’ structures. **Nada Alameddine**, partner at Hodema finds out what this means for hotels

With accommodation in nearly every major hospitality destination worldwide, the trendiest at the moment is the C to C online lodging service Airbnb, where visitors can stay for short or longer periods in people’s homes; both shared and private. Its popularity is on the rise due to lower rates and listings that can rival four and five-star hotels.

Fierce competition

But, there are more professional competitors, such as serviced apartments. They offer furnished flats for both short and long-term stays. Their price is inclusive of utility bills, and provide hotel-like amenities, such as housekeeping service and 24-hour reception or concierge service. It was originally set up for long term stays, enabling visitors to make themselves at home when abroad and, with more space and privacy, avoid the anonymity of hotel rooms. Extended stay hotels are usually composed of one-bedroom and two-bedroom units with a kitchen or kitchenette.Their prices and categories range from economy to upscale.

They prove particularly popular among families, since they can all remain together, are more flexible than hotels in terms of schedule and have a private kitchen that makes life with children easier. But they keep the hotel feel, with the same service standards. From long stays traditionally, people have thus turned to serviced apartments for shorter stays, at the expense of regular hotels.

Another crowd of new aficionados are business travelers, who sometimes have to stay for lengthy periods of time away from home. The so-called corporate housing is popular mainly in North America, and the average stay is above 30 nights. The services provided are usually maintenance and cleaning, and the fees are generally 20 percent lower than the extended stay hotels.

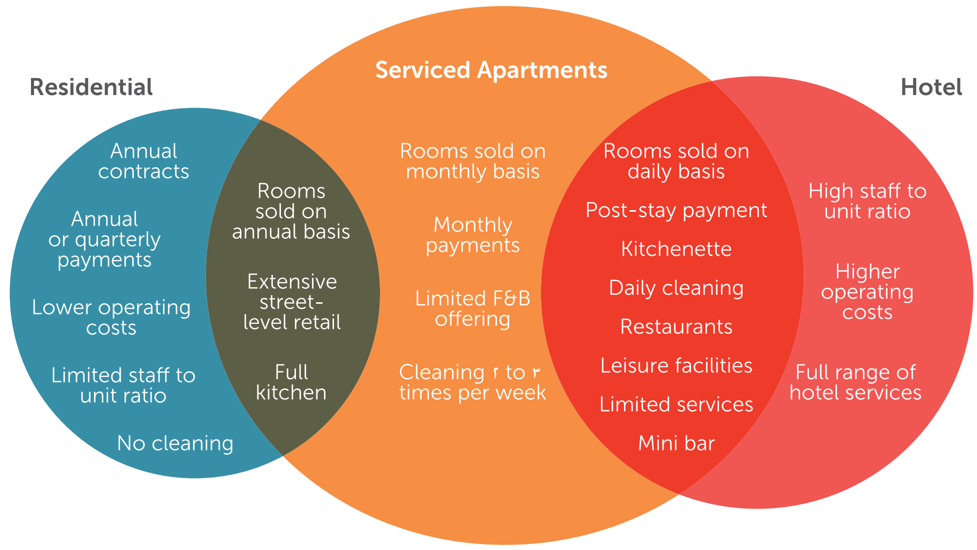
However, hotels are trying to compete with serviced apartments by introducing a ‘suite-in’ formula, as they offer studios and one-bedroom suites, all coming with regular hotel services. Unlike extended stay hotels, these don’t have kitchens.

International operators often develop a furnished serviced apartment building, in addition to their hotels; allowing them to target different types of demand, cater to a wider market and have flexibility in their product offering. Branded serviced apartments cut even more into costs, as they benefit from standardized operations and centralized clustered services. They have on average 29 percent fewer staff than unbranded establishments. “This increases the synergies between both components when compared to standalone operations in terms of shared costs (salaries, marketing, staff) and shared areas, which reduces the overall development cost and maximizes the use of space", said Elie Milky, senior director business development - Middle East and Africa at Carlson Rezidor Hotel Group.

With its growing popularity, the serviced apartment business is being developed by international chains such as Ascott The Residence, Jumeirah Living and Oakwood. Many establishments are also unbranded and independently run by local investors.

However, owners and developers are moving away from unbranded furnished apartments to branded products, with international operators maintaining international standards, consistency, a wider appeal to the consumer and a real estate sound asset for the owner. "We have taken over several such properties, which are currently undergoing conversion plans, in order to become brand compliant", added Milky.

> *"The serviced apartment is at the crossroads of hotel rooms and private housing, sharing parts of its business model with both"*



Source: Colliers International

The best of both worlds

The serviced apartment is at the crossroads of hotel rooms and private housing, sharing parts of its business model with both. Depending on the categories, its restaurant offering, cleaning services and fees system differ.

With their various offers depending on services, length of the stay and budget, serviced apartments can also reach different types of clients, which enables them to maximize their activity and achieve maximum revenue. They often position themselves as a cheaper option to hotels, with lower operating costs and fewer employees. For Nadim Fakhry, founder & CEO of Beam Developers and Beirut Homes, the gap is significant. "If I had to develop my fifth project in Lebanon, it would be a furnished serviced apartment project rather than a hotel, due to the high operating cost of the latter, as well as its food and beverage component which is difficult to manage."

A growing trend in the region

The Middle East is no exception to the market evolution. Big players, such as 'Jumeirah Living' (Jumeirah Group) in the UAE, The Living by Beirut Homes, or Boudl in Saudi Arabia, have entered the sector. The United Arab Emirates, the most touristic area in the region with Dubai, planned a total of 39,178 units in 2014. With occupancy rate reaching 82 percent in financial year 2013, the sector announced an Average Daily Rate (ADR) of USD 118.6 and a Revenue per Available Room (RevPar) of USD 97.3. The main customers are from Saudi Arabia where, quite the reverse, the offer is mostly lower. According to Colliers International, Riyadh establishments' occupancy rate reached 75 percent in 2013, whereas the ADR is USD 99.5 and the RevPar USD 75.7.

In Lebanon the offer remains high-end, targeting Western tourists and expatriates with an estimated total of 12,450 units across the country. The hotel industry is upmarket as well, with customers, mostly from the Gulf countries, less familiar with the furnished apartment concept than European visitors.

But lately the sector is changing, due to the massive influx of Syrian refugees, who are eagerly looking for furnished accommodations. Their budget is lower, and they are looking for long-term stays. "Despite our high occupancy rates at "Beirut Homes" (80 to 90 percent), I do not recommend entering the furnished serviced apartments business unless it is made for long stays", added Fakhry.

A lack of regulations

The lack of regulation to classify and standardize serviced apartments in the region has led to the entry of developers to the market who do not respect the required global criteria of services, size and fees. Some just convert residential buildings without meeting the standards; seeking larger potential returns on their property. The absence of an efficient reservation and payment system is also a source of problems. But the challenges are not only for lower-end establishments: branded ones provide luxury services more and more similar to hotels. That creates a confusion in defining the segment, and toughens competition.

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