Why investors are looking to extend their stay in Europe's serviced apartments

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Hotel sub-sector proved resilient during the pandemic and stands to benefit from Airbnb regulation

A garden suite at Brookfield-backed Edyn's new property in Paris

During the Covid-19 pandemic, the European hotel market faced an existential crisis. Revenue per available room (RevPAR) plummeted by 70% to approximately €24 (£21).

However, for one little segment, which makes up just shy of 10% of total European stock inventory, the cut was shallower, and healing faster.

In December 2021, London serviced apartment RevPAR was 17.9% below equivalent 2019 levels, compared to a 40.5% drop for London hotels, reports Savills.

“The serviced apartment sector outperformed because we have a product that can accommodate different types of demand, ranging from short to long stays,” Zachary Schwartz, chief executive of operator Yays, tells *React News*. “During the pandemic we pivoted towards long stay, and then last year we started to tap back into transient demand.”

Starting in the US, spreading through Asia, and now increasingly in Europe, global supply now covers 17,054 locations, according to the *Global Serviced Apartment Industry Report 2022*.

As well the resilience of a light operational model, aparthotels also stand to gain from several trends in a changing Europe: digital nomadism; municipalities hitting back at Airbnb; increasing homeworking; and blended work and travel trips, for example. And institutional investors are turning their heads.

“There is a significant push into non-traditional hospitality segments at the moment,” says Richard Dawes, pan-European director of hotel capital markets at Savills. “Institutions are very comfortable and investing heavily in BTR, and see the blurred lines between this sector and hotels with extended stay positively.”

Resilient model

After a massive hit from the pandemic, the hospitality industry faces another issue: labour. During shutdowns, workers found new opportunities. Facing low pay and long, inflexible hours, many have opted not to return. In the EU, equivalent to 1.2 million positions are likely to be unfilled, according to a 2022 study by the World Travel and Tourism Council. In the UK, where a significant portion of staff are international workers, the issue has been exacerbated by Brexit.

At Yays, individuals or “insiders” run the properties on a lean staffing model.

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The data bears out the findings. In hotels, 47% of respondents said staffing was so severe that service had been impacted, whereas just 17% of serviced apartment owners said the same. Longer stays also benefit overhead costs, by reducing the rate of expensive services such as room cleaning and laundry.

The pandemic has also brought about other changes which benefit the sector. Business trips tend to be less frequent, but of longer duration. The proportion of seven-to-14-night business trips in 2021 was double that of 2019, with 39.2% of business trips in 2021 of eight nights or more, according to the Global Serviced Apartment Industry Report. Increasingly, workers are looking to combine work with leisure travel, all contributing to longer stay durations.

Increased flexibility in working patterns is also fuelling alternative lifestyles. Governments are looking to gain income from the growing “digital nomad” population, with Portugal, Croatia, the Czech Republic, Estonia, Germany, Hungary, Greece, Iceland, Italy, Malta, Romania, Spain and Norway offering specialty visas for the purpose.

The hospitality sector bites back

At the same time of heightened demand, cities and legislative bodies are starting to bite back against the informal market. Airbnb piloted and brought attention to longer stays and the “live like a local” experience, with many aparthotels using the platform to advertise.

The company reported strong numbers in its 2022 report, with revenue rising 24%. However, cities popular with tourists have blamed the platform for worsening house shortages.

Paris, the most popular destination, has implemented regulations that require a compulsory, trackable ID number. The French capital allows short-term rentals of a maximum 120 nights a year, while London and Manchester have implemented a 90-day cap. Amsterdam has gone further, allowing just 30 days, with an outright ban in some areas. The aparthotel sector stands to gain.

Posters protesting property speculation and Airbnb in Barcelona

“In terms of regulation, that’s been a huge positive,” says Marie Hickey, director of commercial research at Savills. “In Amsterdam, for example, that hasn’t stopped consumer demand for that type of product.”

Personal rentals are also unlikely to meet corporate travel requirements.

“Aparthotels meet those corporate policy requirements while still delivering that Airbnb ‘live like a local’ feel,” says Hickey.

In light of these advantages, the sector is predicted to grow. The rate of stock growth is set to accelerate by 21.2% in the next three years, according to Savills, although some of that can be accounted for by the restarting of developments due to the pandemic.

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With more than 11,000 units and 3,000 more in the pipeline, London is the biggest market overall, and growth market. Bavarian capital Munich is also well established, with a 1,000-unit-plus pipeline that equates to roughly 25% growth. Savills projects 500 units or more to be added in Istanbul, Manchester, Belfast, Glasgow, Dusseldorf, Dublin and Frankfurt.

“A lot of investors are focused on the larger markets, such as Paris, Amsterdam and London,” Savills’ Dawes tells *React*. “However, we do believe there is opportunity in smaller cities and secondary markets, that provide both a balanced leisure and corporate demand base.”

Big-name brands

The three largest brands are Adagio Aparthotels, Staycity and Edyn, which together account for 23% of the total pipeline. However, this figure is projected to grow by 45% over the next three years, according to Savills’ 2022 report.

Adagio was founded as a joint venture between Accor Hotels, Europe’s largest hospitality group and Pierre & Vacances in 2007. Private equity investor Brookfield first bought into the Edyn brand (formerly Saco) in 2018. At the time, the business was mostly UK focused, but now spans eight countries with new openings due in Berlin, Zurich and Paris by 2024.

Edyn acquired an 18th century mansion in Paris last October to develop a 145-room boutique aparthotel for its luxury Locke brand

The company’s aim is to be present in all main European gateway cities, and leverage economies of scale, Lauren Okada, head of Brookfield’s European hospitality business, tells *React News*.

“Brookfield was attracted to Edyn (formerly Saco) due to its strong platform, attractive business model focused on the longer-stay market and the strong runway for growth,” she explains. “Similar to our entry to student housing, European aparthotels was a nascent segment, which over the last few years has matured and become increasingly attractive to institutional investors.”

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In 2021, Blackstone and KSL Capital partners provided more than $350m (£300m) in loans via a multi-asset debt facility to fund growth ambitions.

As a North American-based investor, Brookfield had seen at close hand the potential for growth in the market. The US was ahead of the pack, now the rest of the world is catching up. In 2007, 77% of global supply was in the US, compared to 52% in 2022, according to the Global Serviced Apartment Industry Report 2022.

A fragmented market

The sector still has plenty of opportunity for investment, as operations and ownership remain fragmented. In addition to the largest players, several well-established mid-sized players exist. New to the market, several tech companies have come into the space in the last five years, fundraising in the venture capital sphere.

“In Europe there are many participants in the segment but only a few that have achieved scale which creates opportunity for consolidation,” said Brookfield’s Okada. “There are also international brands that have aparthotel portfolios in other regions and are seeking the right entry point in Europe.”

CBRE IM acquired a serviced apartment building in Antwerp last year, which will be operated by Yays

Founded in 2008 in Amsterdam by entrepreneurs, Yays has positioned itself as a hospitality company with strong tech credentials. After growing organically over 10 years, the company gained Proprium Capital Partners as a majority stakeholder in 2017, with the investor adding to its portfolio of pubs, budget hotels, residential and student housing. Properties are owned by a mix of increasingly institutional capital.

Yays recently went pan-European. Last year, the operator opened its first property in the Belgian city of Antwerp, on a 27-year lease. CBRE Investment Management acquired the building when it was completed by the local developer. Overall, the portion of institutional buyers has increased, according to Savills. Between 2018 and 2021 they accounted for a 56.1% share of transactions, compared with 39.1% between 2013 and 2017.

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Increasingly, investors are also looking to get in on brand names as well, with plenty of space for brand expansion and name recognition.

“In terms of the M&A piece, it’s only logical that capital is looking at both the operational and real estate elements,” says Savills’ Dawes. “It is a way of hedging the investment in a more volatile environment, as well as aligning interests in growth markets.”