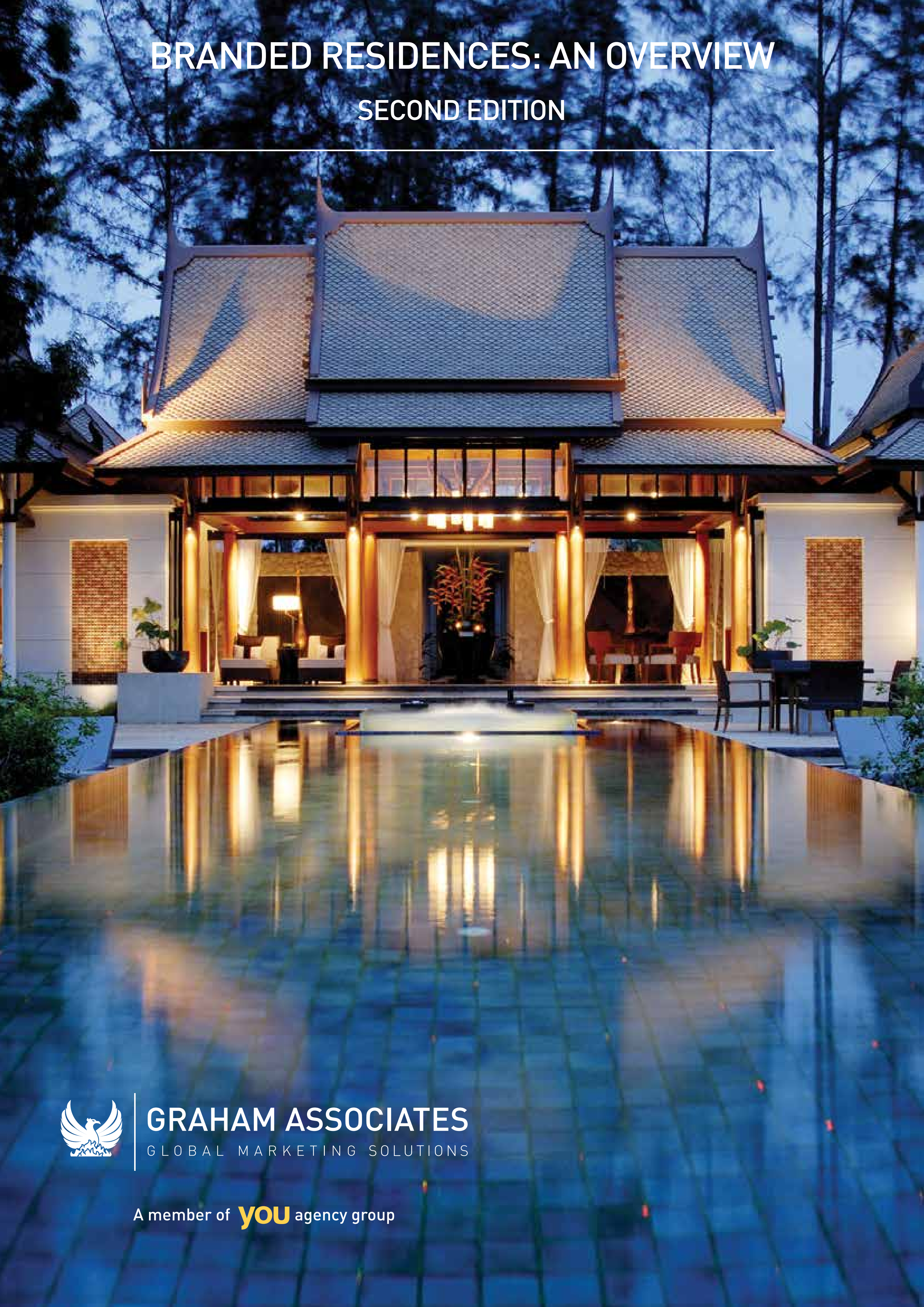
BRANDED RESIDENCES: AN OVERVIEW

SECOND EDITION



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Foreword

Muriel Muirden
Executive Vice President &
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Arguably around for almost a century, the branded residence sector continues to intrigue developers, investors and real estate advisors.

Dynamic and still evolving, the sector offers buyers some degree of security, an element of prestige and a hassle-free holiday home. If executed correctly it offers developers attractive price premiums and accelerated sales velocity, whilst the hotel operator gets rewarded for the marketing muscle their brand brings to the development. Truly a win-win-win scenario.

It is therefore small wonder that, as the dust sheets are being pulled off long dormant resort projects around the world, it is the branded hotel/residence package that is often the phase one development, reigniting confidence and awareness.

The real growth potential, however, lies in the urban sector as mixed use developments and regeneration schemes look to capture the imagination and attention of űber high-end buyers in often congested luxury real estate markets.

Chris Graham, a property expert and resort real estate devotee, has grasped the nettle and collated and supplemented existing research into the sector and undertaken interviews with those researching, developing and selling branded residences. He presents in this report current thinking and direction in the sector and observes the rapid growth in hotel brand participation.

An interesting read and a strong starting point for future monitoring of the market.

Branded Residences: A Brief History

The branded residences concept is believed to have started in the 1920's at Sherry-Netherland Hotel on New York's Fifth Avenue, which operated successfully alongside its own cooperative serviced apartments, followed in 1929 by the opening of The Carlyle Hotel and private residences in Madison Avenue. However, the branded residence market, such as we know it today, did not catch on as an established product within the hotel and resort market until the mid-1980's when Four Seasons successfully sold out its Boston hotel condominiums, soon after which Aman launched Amanpuri in Thailand with 30 branded villas.

Seeing the potential, Four Seasons seized the opportunity and soon established a global presence, largely due to its purchase of the Asia-based Regent Hotels portfolio in 1992. Ritz-Carlton followed, choosing to focus initially on North America.

Around the turn of the millennium, the success of this formula and its marked growth in popularity among wealthy buyers saw an increasing number of market entrants led by Starwood and Fairmont and soon followed by other leading hotel operators such as Kempinski, Aman, St. Regis, Hyatt Regency, Six Senses, Banyan Tree, W Hotels, Shangri-La, Taj, Viceroy and Mandarin Oriental.

Today, with over 50 locations between them, Four Seasons and Ritz-Carlton dominate the global branded residences market, although other major operators are catching up, such as Kempinski (with 26 residential schemes globally), St. Regis and W Hotels.


Tupungato / Shutterstock.com

The Sherry-Netherland Hotel on New York's Fifth Avenue

Hotel Branded Residences: Market Participants				
1	Banyan Tree	Hyatt Place	One & Only	Shangri-La
Accor	Bulgari	Hyatt Regency	Onyx	Sheraton
Address	Canyon Ranch	Independent	Paramount	Six Senses
Aloft	Chedi	Intercontinental	Park Hyatt	Starwood
Alila	Conrad	JW Marriott	Plaza	St. Regis
Aman	Dusit Thani	Kempinski	Radisson Blu	Sukhothai
Amari	Edition	Kimpton	Raffles	Taj
Anantara	Fairmont	Le Meridien	Regent	Thompson
Andaz	Four Seasons	Louvre	Renaissance	Trump
Angsana	Gansevoort	Mandarin Oriental	Ritz-Carlton	Versace
Armani	Golden Tulip	Millennium	Rock Resorts	Viceroy
Atlantis	Grand Hyatt	Mondrian	Rosewood	Vida
Baccarat	Hard Rock	Montage	SLS	W
Baglioni	Hyatt	Movenpick	Setai	Waldorf-Astoria
				Westin

The hotel branded residences market has developed significantly since the 1980's and remains most prevalent in the North American market, although emerging markets in the Middle and Far East are gaining ground. At present, the European market is relatively small but expanding.

According to Maxmakers, a property development advisory firm, the number of hotels offering branded residences increased tenfold during the decade to 2012; even today the evidence suggests that the trend will continue to rise in line with growing consumer demand. Dr. Andrew Harrington at AHV Associates believes that serviced apartments in Europe and mixed-use resorts outside the USA are the most exciting areas for investment and will become mainstream in the next 5 years. "Branded residences is an especially interesting niche in the hospitality business," he adds. "It offers significant attractions for professional investors, including a proven business model that is mainly focused on the top end of the market which, from an investment perspective, tends to be less volatile."

Maria Pajares at hospitality PR agency Mason Rose remarks on the evolution in the industry: "Since we launched over 22 years ago we've witnessed sustained patterns of growth in branded residences, particularly in the luxury hotel sector where more and more brands are diversifying into residential developments."

The above chart is certainly not a definitive list of all participants, but it is a good illustration of the market. What is interesting is that since this chart was originally compiled for the first edition of this report (late 2015), in less than 2 years the same data source shows a 27% increase in the number of hotel brand operators in the residential market. Javier Serrano at STR Global, a leading source of historical hotel performance, explains that the delay in serviced apartments and residences becoming mainstream is because the operational costs and implications involved were unknown and these were therefore not widely recognised as a profitable option: "Any property which was not purposely built as a hotel or hostel, or was managed by real estate companies, private owners or agencies and hotel branded companies, had limited access to this important information." Arlett Hoff, co-author of HVS Global Hospitality Services' report on branded residences, observes that there was a dearth of reliable, consistent and extensive operating data which could be used to benchmark the sector's performance.

Serrano is in no doubt that the growth is driven by a drive to satisfy evolving consumer demand: "As both leisure and corporate travellers' length of stay are now rapidly changing, as accessibility to a wider range of supply options through diverse distribution channels - for example via the internet - has massively increased, and since transportation is more accessible and faster, operator brands are now focusing on offering different options to accommodate changing client needs. Hence the increasing interest in serviced apartments and branded residences."

Cushman & Wakefield's Head of Hospitality Richard Candey comments, "It would appear that hotel guests are becoming more familiar with the concept of branded residences and serviced apartments in preference to hotels. The expansion of sector brands is certainly helping to proliferate the product," adding that the shift in preference among consumers stems from a desire for greater independence and flexibility from their accommodation, but with the same levels of service and convenience.

A leading expert on branded residences is Muriel Muirden, VP of Strategy at WATG, who argues that the growth has been driven by a few key factors on both sides of the equation (see also p.14):

Supply Side (operators):

- A greater awareness among luxury hotel operators of the power - and value - of their brands.
- Brand owners have the opportunity for brand expansion and strong capital inflows from limited exposure/outgoings.
- The challenging economics of building new luxury hotels without some subsidy from residential real estate revenues.

Demand Side (buyers):

- Assurance of quality in construction, design, servicing and amenities.
- "Lock up and leave" capability/option.
- The 'brand kudos' or 'bragging rights' associated with a premium branded address.
- The potential for investment returns from a rental pool (notably in a resort context).
- An increase in the number of global UHNWIs who wish to live in, or use, a secure environment, for which branded residences tick many boxes.

Whilst Arlett Hoff accepts that the strong growth in branded residences has been spurred by its attractiveness to both developers and investors, she highlights specific benefits to buyers that she believes underpin the demand in the market (See also p. 14):

- Innovation in terms of concept (i.e. a mix of hotel and residential).
- The convenience of onsite services.
- Design.
- Security (i.e. buying into a trusted brand).
- Rental income.

Four Seasons Anguilla villa, Caribbean


Raffles Residences Makati

Jumping on the B®andwagon

Not surprisingly, such strong growth in this sector has attracted the attention of fashionable brands in other markets, encouraging them to jump on the bandwagon.

“We would expect more developer and designer brands to emerge in competition to established hotel brands, notably those which are most experienced in pioneering new locations and applying global standards to local markets,” says Daniel von Barloewen, Head of Residential Development Europe at Marriott International (formerly Head of International Development Consultancy at Savills). These include:

- *Fashion and jewellery companies*: Luxury Brands such as Bulgari, Versace, Moschino and Armani have licensed their names (and design expertise) to developers. This segment is expanding into other sectors, e.g. automotive (the Porsche Design Tower in Miami, Mercedes-Benz’ ‘Living @ Fraser’ branded serviced apartments in London and Singapore Singapore, and the Aston Martin Residences in Miami).
- *Developers:* Those with a track-record of distinctive and high profile projects behind them can become ‘the brand’ itself. Examples include Trump and Candy & Candy, and arguably even companies like Emaar, DAMAC and Related. (NB this is a good status to achieve, since it can add a healthy premium to the selling price of their own products that they don’t have to pay out to a third party!)
- *Interior designers:* Commissioned to use their design skills to create distinctive bespoke interiors. A leading company in this sector is Yoo, with a portfolio of over 80 projects around the world and a stable of top designers which includes Philippe Starck, Jade Jagger and Kelly Hoppen (Kate Moss was even commissioned as interior designer on a project). Other top interior design stars include Hirsch Bedner, Yabu Pushelberg, Pierre Yves Rochon and United Designers, whilst Karma Royal Group works with celebrity British designer Nicky Haslam.

The rising influence of “*Starchitects*” as a major USP is also noted. Examples include the Chedi Hotel & Residences in Andermatt designed by Jean-Michel Gathy of Denniston International, Daniel Libeskind’s Zlota 44 in Warsaw, WATG’s St. Regis Hotel & Residences in Singapore, Armani/Casa in Miami by César Pelli and the distinctive residences by Norman Foster and Frank Gehry at Battersea Power Station.

Other brand affiliations that add to the offer include Spas (Elemis, Six Senses, Clarins), Celebrity Chefs (e.g. Ritz-Carlton’s Abama in Tenerife has two Michelin-starred restaurants) and Concierge services (Quintessentially and Harrods).

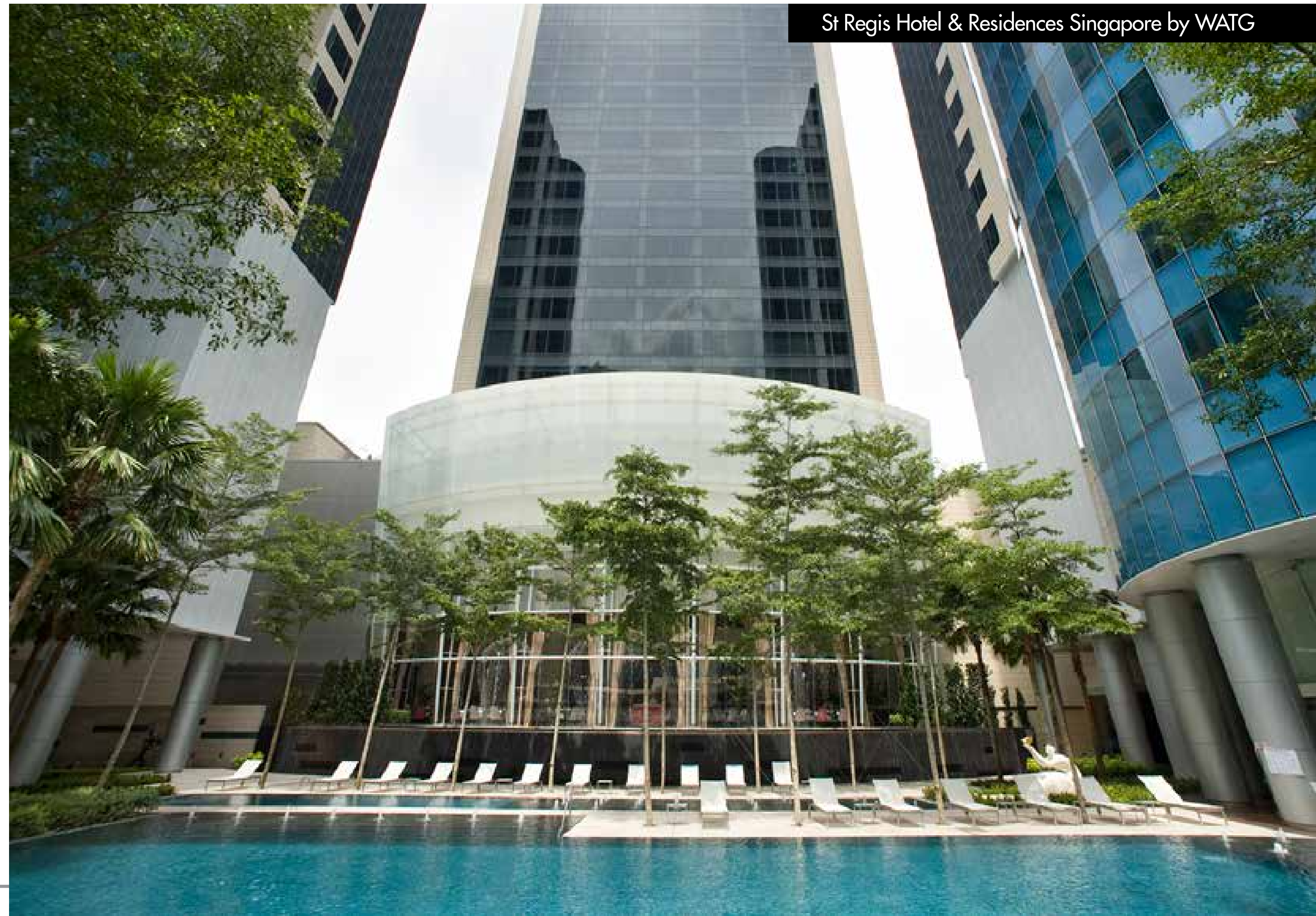
The list will undoubtedly continue to grow, and we also expect to see eco/green credentials being promoted more prominently.

These elements all play an active role in shaping the design and décor of the residences, in order that the completed units accurately reflect their brands down to the finest detail and experientially convey their brand values. To ensure this, the brand owners provide detailed guidelines and design specifications to the developer that must (normally) be applied rigidly - which can on occasion present challenges for the architects (see p.10).

Interbrand’s Rebecca Robins (and co-author of ‘*Meta-Luxury: Brands and the Culture of Excellence*’) hits the nail on the head: “You need to be able to replicate the same levels of service excellence in the hotel..... making it a seamless experience for the brand-loyal consumer. The sweet spot is where integrity of product meets integrity of brand experience.”

Whilst marketing plays a pivotal role in the effective positioning, presentation and communication of any real estate project, this applies especially to branded residences since the buyers are among the most discerning and their expectations are high. Francesco Cefalu, VP of Development at Mandarin Oriental, cites the importance of professional marketing within three key differentiators that he believes underpin successful branded residences projects:

i) The financial sustainability of the hotel itself.
ii) The overall financial solidity of the project, enabling it to weather a lower than expected pre-opening sales absorption rate.
iii) A clear and realistic understanding of target markets and a solid marketing strategy.


St Regis Hotel & Residences Singapore by WATG

License Fees

These companies license their brands to developers for a royalty fee (typically between 3-5% according to HVS and Savills, although some have been known to charge more) and there can be additional costs for related activities such as marketing. "The majority of operators show a general consensus that the license/royalty fee covers the use of the brand name and approval of marketing material," comments HVS' Hoff. "However, certain operators consider it their USP to offer additional sales and marketing services to third-party developers, which may be included in the license/royalty fee but, more likely, will come at an additional cost." Alexandros Moulas, Associate Director at Savills International Development Consultancy, adds: "Operators are putting forward many permutations; the most common one I have seen involves an incremental fee, but this can end up costing developers a lot more."

Extra services offered may include a dedicated in-house team to train and assist developers, such as a marketing and sales support division. However, it is normally the developer's responsibility to promote and sell the real estate units, covering all of the promotional costs and fees, usually working with a real estate agent and specialist marketing company. The operator will generally assist in this process via their customer network and marketing channels (such as advertising in their house magazines, sections on their website etc).

Designed for Living

"Design is a critical part of the creation of a brand. The use of well-known architects and interior designers for example not only increases the quality of the final product but also helps potential purchasers identify with the development."
Knight Frank, 'Branded Developments'

Yoo's founder John Hitchcox spotted a gap in the market when he launched into this sector around the turn of the millennium: "Consumers are more home and design conscious than ever before," he observes. "They want to work in creative spaces and to holiday in beautiful hotels, and they want that design aesthetic to continue through their personal lives into their homes."

Hitchcox believes that this has led to the huge increase in branded (or 'design-led', as he prefers to call them) residences in recent years. "This can really be attributed to the growth of the design savvy consumer, the ever increasing importance of brand trust in our society and ultimately, developers recognising the importance of the home as a high involvement purchase."

A designer offers a distinct identity, style and positioning that resonates (or doesn't) with audiences; these are measured by each individual's personal understanding, perception and experience of that designer or brand. Hitchcox acknowledges this point: "For example, Jade Jagger's bohemian lifestyle and taste are well recognised and highly coveted. As such, there is an alignment there with people who buy schemes that Jade has been involved in; they are buying her design and also a slice of a lifestyle they aspire to."


Leontievsky Mys by YOO Inspired by Starck, St. Petersburg


Private residence at Soneva Fushi, Maldives

Robert Green at Sphere Estates agrees; "Respected architects and interior designers certainly add value, enabling purchasers to further identify with a development as well as the type of lifestyle it will deliver."

Regarding the evolving attitudes of developers towards design, Richard Candey at Cushman & Wakefield observes that they have generally become more flexible in terms of their design and accommodation layout requirements for branded residences and serviced apartments, which he believes can often result in a better, more efficient use of an existing building floor plan. "This can give them a distinct advantage in competing for period buildings against conventional hotels or indeed other uses."

Savills' Alexandros Moulas adds that operators can capitalise on their expertise of the luxury market in advising developers on how best to bring the product into alignment with their brands.

Whilst it is evident that superior interior design is a major attraction for all parties, it may on occasion deter some wealthy buyers, as Lynn Villadolid of Capital Lifestyle Partners points out: "Some HNWIs prefer surroundings designed to their own style and taste, not a 'cookie-cutter' template, whether in the exterior or interior design or the layout of the rooms, which is exactly the same as in their neighbour's home. These don't clinch a sale as easily as being able to offer bespoke interiors to suit each buyer's tastes."

"Hospitality design is beyond lifestyle … it's all about creating memories."
Kevin Underwood, HKS Architects

Design Challenges

Luciano Mazza is Director of Hospitality Architecture at HKS Hospitality Group in London. With a company's portfolio that includes Four Seasons, Ritz-Carlton, Shangri-La, Hilton, Hyatt, Conrad, Mandarin Oriental, Ananda and Intercontinental, Luciano ranks among the world's most prolific designers of luxury branded resorts.

When it comes to branded residences, today's designers tend to face two primary challenges. The first is pragmatic: defining the brief and vision for the development. However, the process has changed over the years. In the past, it was essential to have an operator signed and involved from the kick-off. From a design perspective, this allowed us to start our creative process with properly detailed brand standards and input from the operator's representative during meetings. However, these days clients tend to appoint an operator at the very last moment - or at least only once the residences' concept has been established and its design considerably developed.

Branded villa by HKS at the Fairmont, Taghazout, Morocco

Clearly, the intent is to limit the changes required to meet brand guidelines. Delaying the decision creates a longer timeframe to evaluate different operators and can result in developers gaining a competitive advantage during final negotiations. At HKS we work with every major international brand, so it's not uncommon that when we start to design a hotel or residences, our clients ask us to follow the standards of one specific high calibre brand even if this is not one of the candidate operators, as the resulting design will be fit enough to satisfy a wide range of other brands.

Our second challenge involves philosophy and aesthetics as we consider the all-too-often misused word, "luxury". What is luxury today, and what will be in the future? Inevitably, someone will ask if we can really define luxury or "box it" into a few words. Beautiful marble, a striking sofa or a wonderful bathtub are just intermediate stops on the way to luxury. Exceptional architecture and interiors, spotless finishes and precise implementation are a given, but they are not enough. On top of these "must haves", our designs also need to facilitate the rise of emotions and memories. (See next section).

For me, luxury is time, or a blue sky, or fireflies in the garden at night. Sadly, the children of some of my clients in New Delhi or Shanghai have never seen a blue sky in their entire life! The moments we get to spend with family, friends or even business partners can be a precious luxury. So, when designing branded residences, our aim is to create conditions where people can savour and treasure quality time whilst feeling at one with their surroundings.

I firmly believe a branded residence is still a home. It must feel appropriate not only to the brand, but to its owner as well. Conversations and in-person meetings with a development's top purchasers are invaluable for gaining a better read on a specific market and restoring a designer's dedication and confidence in delivering exceptional results.

Of course, there's also the aspect of creating a comfortable degree of exclusivity for the community of owners. Recently, I had a discussion with a prestigious developer about the sales strategy for some high-end, branded villas we will be designing. I found it interesting that their aim is not only to sell a villa or a lifestyle, but also an exclusive community that will benefit them beyond the tangible rewards of their property purchase. Potential buyers are not only scrutinised for their finances, but also for their family history, reputation, etc. For example, celebrities and, in particular, footballers, are politely refused.

This could be a unique and extreme case, but it indicates just how important it is to create the right ambience. Bearing this in mind, I see this "Owners' Club" becoming much more significant within branded residential developments, an increasingly essential and vital part of the luxury offer and not merely a nice "complement" to the estate.

The Evolution of Luxury: Tangible vs. Emotional

"What passed as a luxury experience even five years ago, today feels tired and uninspired. The principle of luxury that matters today is emotional connection, which starts with human interaction and transparency in the process."

Stephanie Pfeffer Anton,
Luxury Portfolio International

Interbrand's Rebecca Robins commented that the definition of luxury has become so diluted that it is becoming meaningless. Alison Gilmore at International Luxury Travel Market agrees: "After decades of over-use we should be happy to see the term 'luxury' being refreshed with new meaning."

In the context of hospitality and branded real estate, how do we benchmark luxury? For decades 5* was accepted as the pinnacle, yet now we are up to 7*. How long perhaps until we reach 10* - and what will it look (or feel) like?

Luxe Hub Consultancy describes the new hallmarks of luxury as "seamlessness, convenience, speed and quality of personalised service" (NB no mention of any tangible element); indeed the *World Ultra Wealth Report 2017* predicts that service is likely to become a strong differentiator for luxury brands, highlighting a 'growing requirement for personalisation in the search for exclusivity and uniqueness'. It also observes that the motivation behind the purchase of a desirable luxury asset is just as likely to reflect an increasing focus on a lifestyle experience and personal enjoyment as a show of wealth.

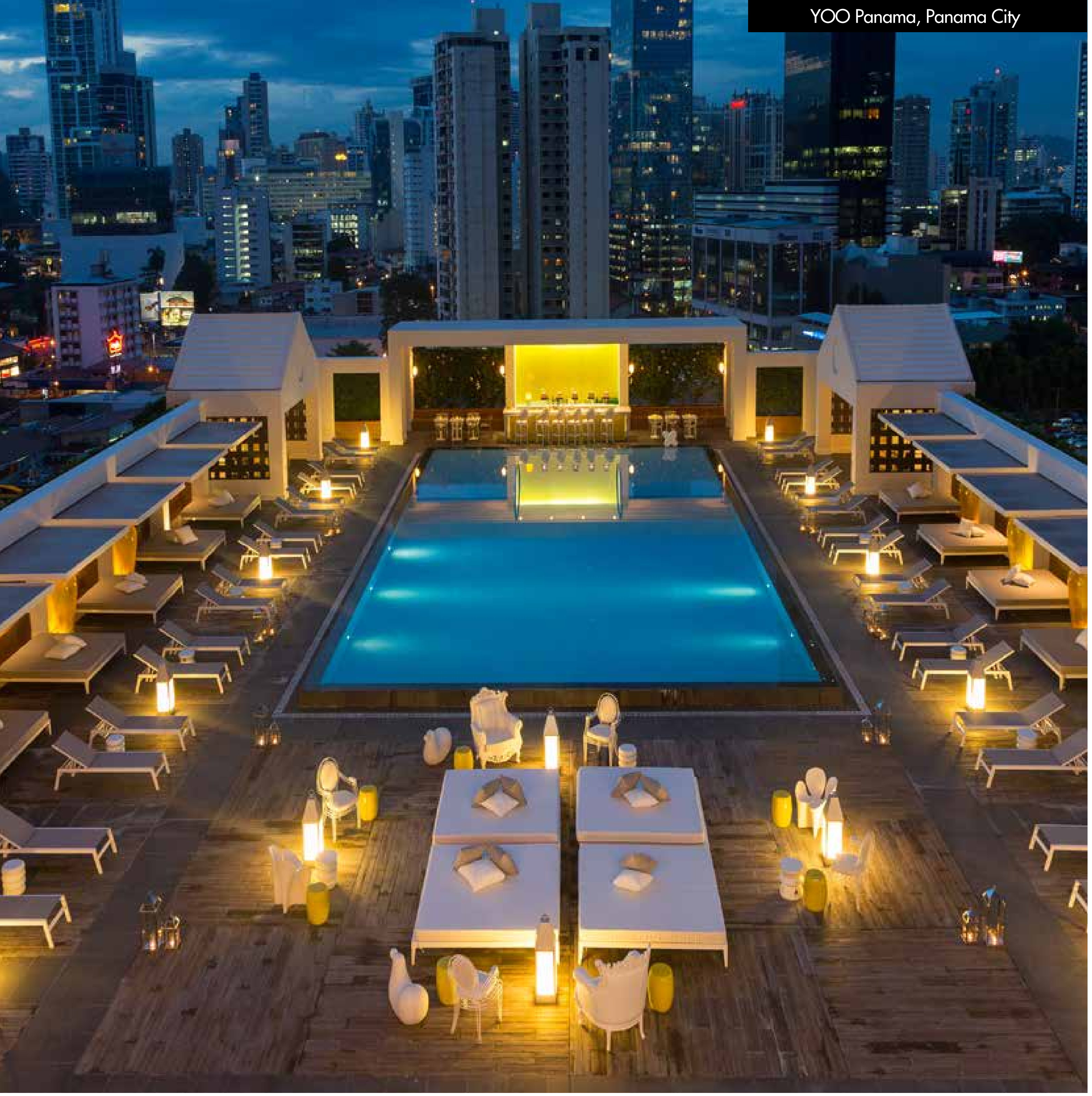
One thing is certain: HNWIs have high expectations and these are rising all the time. They are spending more time researching products and services than ever before - and their ability to research, question and compare has never been easier (an article in Harvard Business Review observes: "The explosion of digital technologies over the past decade has created empowered consumers so expert in their use of tools and information that they can call the shots."). As such, the quality and range continually evolves upwards, both to satisfy ever-rising customer expectations and outperform competitors.

When residential developers plan their projects, much thought goes into the amenities and features that will most entice buyers and offer 'more' than the competition. Developers, designers and hotel operators must continually raise the bar by delivering cutting-edge design and innovation along with 5* hotel and concierge services. An article in Mansion Global outlines how the bar gets raised higher and higher as developers compete to 'out-gadget' each other, searching for new and original amenities to offer in their luxury residential units. It highlights four distinct trends for marketers to focus on:

- Health & Wellness - Personal training, nutrition, spa, yoga, pilates and meditation (see p.13).
- Facilities for teens/older kids.
- Smart technology - Intelligent security, lighting, music streaming, auto curtains/blinds, heating.
- On-site personal and concierge services - Convenience and personalised services. On-site salons, bakeries, dry cleaners and delicatessens are also becoming increasingly common.

However, there is no 'checklist' for qualifying a property as 'luxury'; indeed many features associated with upscale properties - prime location, high-end interiors and FF&E, Kids' Club, concierge services, a state-of-the-art spa, pool and fitness centre, are now standard. It is therefore increasingly the individual/unique elements that differentiate luxury real estate from the competition, e.g. a celebrated architect, a famous interior designer, a Michelin chef, a brand-operated spa (see p. 7). Additionally, bespoke facilities like smart home controls, wine cellar and tasting room, cinema, cigar lounge, entertaining space, chauffeur service and staff accommodation (notably in Middle East and Asia) are being included.

The Bvlgari Residences, Bali



YOO Panama, Panama City

There is no doubt that purchasers at the pinnacle of the market expect something special in terms of the tangible elements described above. However, it's no longer enough to include a wider range of features that 'tick all the boxes'; the level of luxury hospitality and real estate today is very different from even just a few years ago and, rather than simply providing more 5* facilities, the focus is more about creating a truly personal and emotional engagement with customers. Whilst buyers' priorities remain consistent in terms of location, design and access to world-class amenities, many feel that it is now much more about the intangible 'added value' lifestyle benefits associated with a brand. Indeed Four Seasons states that what appeals most to their (U)HNWI buyers is "…a distinguished and personalised service experience that a homeowner can't get anywhere else... which ultimately transcends into a lifestyle." YOO's John Hitchcox adds that "emotional attachments lead to much higher consumer engagement, even after returning home."

Many experts believe it is no longer simply about delivering good design and attractive furniture, fixtures and equipment (FF&E) either. "Gone are the days that the primary motivation for buying 'branded' was the status symbolism and the assured quality of the furniture, fixtures and equipment. There is a myriad of top hotel brands all offering supreme quality FF&E, so the choice is much more about how the brand's values appeal to the decision-maker's emotions, intellect and soul," comments Lynn Villadolid. "The experiences offered by the brand are now far more important in consumers' eyes – the personalised service, the kids' programmes, the bespoke events centred on their favourite wine or cuisine, the wellness activities - rather than Grohe taps or Gaggenau kitchens."

A recent article in 4Hotelier ("*Crafting the Perfect Guest Experience*") points out that it's no longer enough merely to provide a guest with a room to sleep in; "…savvy hoteliers are realising that by creating remarkable experiences on property, guests are more likely to return and become loyal customers as well as write positive online reviews about your brand." Mansion Global agrees that "it is the authenticity of experiences for residents and the meaningfulness of the spaces and living environments that have now become more important than the amenity itself", whilst '*Luxury Brand Experiences*' (published by Luxury Society) states that consumers 'want cool, they want fun and they want experiences.' These sentiments apply equally to branded residences.

According to Horwath HTL's 2017 BCG report, experiential luxury is growing faster than personal luxury goods purchases in all key markets. It highlights an accelerating shift from "having" to "being", with consumers seeking emotions and experiences rather than status. Similarly, a recent report from Wealth-X looks at the changing face of luxury and emergence of a new, younger generation of UHNWIs focused on pursuing rare, tailored experiences over accumulating replicable 'things.'

In short, expect less of the tangible and more of the experiential. However, it is important to remember that whichever elements a residential developer chooses to include, first and foremost these must be tailored to appeal to the profile, lifestyle and tastes of the target buying audiences.

"Experiential luxury is growing faster than personal goods luxury, and designer homes are a natural bridge between these two worlds: is there any greater experiential product than one you actually live in?" Mario Ortelli, Sanford C Bernstein

Escalating Demand for Wellness

According to HVS, the global spa movement (which includes wellness) is valued at over $3 trillion dollars p.a. No surprise then that hotel brands are developing 'wellness retreats' offering diet, nutrition, spiritual counselling and naturopathic health and prevention services alongside their traditional spa services. The latest white paper "*Anatomy of a Trend*" by WGSN even talks about the influx of hotels featuring "rooms that have been holistically and technically designed for optimum well-being and stress relief."

Some hotels are partnering with leading wellness brands to attract health-conscious clientele, e.g.: Mandarin Oriental and The Mayo Clinic launched a series of Healthy Living Programs, AccorHotels has formed a partnership with Banyan Tree, Westin announced a partnership with cycling company Peloton and Shangri-La collaborated on a yoga video with Lululemon.

However, several experts feel that this 'commoditisation' of specialist wellness brands dilutes their value. "Hotel companies have no business doing the wellness programs we're doing," said Six Senses Hotels CEO Neil Jacobs. "Wellness is more than just having a spa… it's about having a truly integrated wellness program that's meaningful. To do this well, you've got to do the right thing and know that you've got the opportunity to change people's lives."

Private residences at Four Seasons Seychelles

Buyer Benefits

"Branded residences are more popular than ever among wealthy international buyers as a property investment that offers the best in prestige, convenience and innovative design. They come with a name that buyers trust, first class facilities and, crucially, they can be a good investment."
UK property writer Zoe Dare Hall

According to Hotelhomes.com, the benefits to owners can be summarised as follows:

- *Trophy Status*: The kudos of owning a home in a prominent development like a Ritz-Carlton or Four Seasons, with the prestige commonly associated with that brand. Often the most desirable properties in their respective areas.
- *Superior Services & Amenities*: 24/7 access to a variety of 5* hotel services and facilities.
- *Stronger Resale Values:* Branded residences are positioned to outperform the prices of the non-branded property market. The fact that they are limited in supply (and thereby more exclusive) helps to maintain property values.

Four Seasons recognises the 'trophy' characteristic amongst its buyers, noting that their brand attracts "… loyalists and trophy collectors who identify with the Four Seasons lifestyle".

Colliers International also regards 'trophy' status as an important consideration, achieved through recognisable elements such as high floors and views, quality of location, quality of design, the "Starchitect" effect, hotel services and facilities and brand exclusivity. (See 'Key Drivers of Premium' on p.31).

WATG's Muriel Muirden confirms that their research supports this, also observing that in general unit sizes of branded residences are larger, especially in comparison to European standards, reflecting the premium (trophy) positioning.

Robert Green at Sphere Estates agrees that branded residences are generally larger than their non-branded equivalents, with some offering what he too describes as 'trophy-style' properties of 1,000+ sq m. Conversely however, he sees a growing trend for smaller unit sizes, especially in urban locations: "Even allowing for the inbuilt premium, commercial pressure is on the developer to maintain a competitive price/m^2 to sell the units quickly, but I also think this reflects a decline in demand for excessive, oversized homes."

On the issue of unit sizing, Marriott's von Barloewen advises that room sizes and the mix of room types should be driven by market fundamentals based on empirical research of the local residential market, rather than by the design team or the hotel operator's room size standards as, unlike serviced apartments, these products are ultimately for longer-term residential use.

Benefits to buyers include:

- Prime locations
- Cutting-edge interior design, technology and architecture [1]
- Professional management
- Hassle-free ownership
- Premium/luxury lifestyle
- Owner benefits, e.g. residents' discount card, access to the operator's properties in other locations [2]
- Trust and credibility
- Like-minded neighbours [3]
- Stronger resale values
- Higher rental income with professional operator management
- 'Trophy' status

1. Marc Finney, Head of Hotels and Resorts Consulting at Colliers International, highlights the need to combine cutting-edge technology with good design and luxurious spaces. "Buyers are increasingly mixing work and pleasure. Technology generally is important, as is genuine luxury - but not just marble and brass rails." Of course providing these facilities doesn't come cheap: the furnishing, fixtures, fittings and fit out of both the units and the common parts must be of the highest quality and design. As a result, the costs associated with a branded residences development are inevitably higher.

2. Increasingly with international resort and hotel groups, owners can exchange usage of their residences with similar standard properties located elsewhere in the group's network through their loyalty programmes. As Charles Weston-Baker, former Director of Residential International at Savills, mentions, "Buying into a brand with many locations gives the owner flexibility to 'swap' with other equal quality properties, which removes potential boredom factor of always going to the same place."

3. John Hitchcox's philosophy came from a belief that the communal areas in any high-rise should also provide a stimulating environment for all who live there and that buyers in a particular building are likely to have common values, like members of a club. "I put our success down to our ability to craft design-led communities that offer a sense of place, where like-minded people choose to live - a sort of modern day village." (See also Luciano Mazza's interview on p10).

Alila villa, Koh Russey, Cambodia

Motivations

Inevitably the motivations for purchasers of branded residences cover a range of criteria and will vary from buyer to buyer, but these can be summarised around two principal factors:

1. Confidence

For many buyers, the most important factor is the trust associated with buying into a reputable brand, since this offers reassurance in the delivery and quality of the development, as well as its ongoing management and potential resale value. Branded residences are considered a relatively safe investment since they are a physical asset associated with a respected and desirable brand. This is especially true when buying abroad, particularly in emerging destinations where a branded residence offers greater security to buyers.

Brands also give reassurance in terms of quality, design, maintenance and management; they give a level of protection and comfort against risk, since a respected brand's involvement gives confidence to buyers, e.g. that an off-plan property will be completed, fitted and furnished to the high standards commensurate with that brand. Buyers can expect that the building will not only be well-managed but also built and fitted to world-class standards, on the basis that leading international brands - fiercely protective of their reputations - would associate only with proven developers able to demonstrate an excellent track record. As such, they are in effect giving their 'stamp of approval' by lending their name to the development.

Ritz-Carlton President Hervé Humler commented that affluent customers choose its branded residences because of the assurance that their homes will be managed in the same exceptional way as their hotels, while Four Seasons claims that its brand 'gives added confidence in the delivery of the development, its ongoing property management and the sustained value of the real estate.'

This trust also guarantees consistency in terms of the quality of the service, facilites and experiences, whether you are in Beijing, Paris or New York. Gary Grant, Managing Director at You, a leading UK property marketing agency, comments, "The importance of a strong, consistent brand is paramount when talking to a sophisticated target audience. Branding lends credibility, endorsement and identification and gives a buyer confidence in their investment, since it is based upon proven fundamentals, not merely promises." He adds that if an audience identifies with your brand then they are, in effect, willingly inviting you to interact with them.

Inevitably there have been exceptions, including the widely-reported Four Seasons' Barbados resort* and the (now resurrected) Tiger Woods golf course and residences planned for Dubailand, both of which were high profile casualties of the global economic downturn. (*Arlett Hoff at HVS observed that following the onset of the global economic crisis many planned Caribbean projects were put on hold, so this was by no means unique - it was just the highest profile as it involved many celebrity buyers).

Not surprisingly, John Hitchcox firmly believes that confidence extends into design. "Our projects offer purchasers the confidence that comes with recognisable design quality. The aesthetic is well considered and attention to detail is guaranteed with more consideration given to the design, finishes, furnishings and fixtures, with a better understanding of how that impacts how we feel and live in a space. Our brand is synonymous with this ethos."

Buyer confidence is even more important when selling in less-established destinations, explains Joachim Wrang-Widén, senior VP at Christie's International Real Estate: "For locations that are not yet well-established, prospective buyers feel much more comfortable buying a property that carries a well-known brand. Without this brand association they will most likely need a good deal of reassurance."

Leisure real estate specialist Paul MacSherry agrees: "Brands provide buyers with perceived insulation against risk."

Marc Finney, Head of Hotels and Resorts Consulting at Colliers International, considers that the cachet added by an association with a respected brand also delivers added value in terms of marketing momentum: "A trusted brand can set the market level for the properties quicker and more firmly than any campaign." However, he warns that this must come with an understanding that the focus should be all about the real estate sales. "Not all operators get this and try to confuse matters with irrelevant operational issues."

Four Seasons certainly recognises this point and actively promotes it as a major benefit to developers, being able as a market leader to present empirical evidence that their brand actually drives lead generation, creates sales and marketing efficiencies and enhances absorption rates by lending credibility, endorsement and identification.

So in summary, with branded residences buyers feel greater confidence about what they can expect in terms of location, comfort, convenience, security, peace of mind, design and the level of service they will receive and increasingly, wealthy buyers are influenced by the emotional benefits associated with kudos. Robert Green sums it up: "The concept has evolved from simply providing 5* facilities for wealthy, time-poor individuals to a greater focus on architecture, interior design, personalised services and lifestyle experiences."

From an investor/developer perspective, adding a branded residential component to a project can accelerate capital return and improve the overall IRR, with revenues from residential sales helping to monetise land and infrastructure costs much faster.

Steven Pan, Chairman of Regents Hotels Group, observes; "The development of a luxury hotel is

Amanyara villa

a long-term investment; using the Regent brand as an anchor, we can deliver exceptional products and provide immediate capital return through residential sales."

What are a hotel operator's requirements when considering whether to include a real estate offering alongside their hotel? "The hotel component has to come before the real estate. If there is good tourism potential with a well-designed hotel, it will boost the real estate and in turn bring value to the overall development," comments Frederic Simon, CEO Asia at Commune Hotels & Resorts, an international management company with a portfolio of brands comprising Alila, Thompson, Joie de Vivre and tommie. "It will not work if the hotel development is dependent on sales of the branded residences to finance the project. The destination, design ethos and quality of the development are essential to the partnership."

Simon states that, when executed properly, there are many benefits to a hotel operator, not least the additional stock that offers an alternative to standard hotel accommodation. "The residential component offers us a diversified portfolio of multi-bedroom accommodation that is favoured especially by high-end travellers who desire the luxury of private space. These clientele become good brand ambassadors and repeat customers."

Simon believes that the developer needs to incorporate the operator's core brand values in the design and development from the very start of the project. "As in any long term partnership, success is built on mutual respect between the developer and the hotel operator and an understanding of the latter's brand ethos and core values."

On the other side of this equation is Paris-based investor CityStar, Commune's development partner in Alila Villas Koh Russey, incorporating Cambodia's first luxury branded residences. "Working with Alila allows CityStar to ensure that the development meets the highest standards in terms of quality and design," comments President Jean-Louis Charon. "Alila has consistently provided the most thorough and accurate technical support to reach a common objective. Our partnership with Alila also serves as the guarantee that our resort will provide the highest levels of service to clients."

James Price, VP Residential (EMEA) at Four Seasons' (formerly Head of International Residential Developments at Knight Frank) believes that the success of branded residential projects is based upon not simply assuming an appeal for buyers that will automatically follow from the link with the hotel brand. "The residences need to be very carefully planned in tandem with the development of the hotel; this relates to all aspects including design and space planning, back of house infrastructure, services and residences designed around local residential market requirements and buyers/homeowners rather than for hotel guests, amenity mix etc. Essentially a mixed-use project requires a holistic approach and perspective throughout." (See also Marriott on p.23).

"Residents demonstrate a commitment to our destinations and to our brand. They are the ultimate brand ambassadors."

Kristie Goshow, Viceroy

2. Convenience

Wealthy individuals are typically cash rich and time poor, often with homes in several locations around the world. They prefer to be surrounded by personal effects in their own homes (or wouldn't they simply stay in a hotel?) and they certainly don't want to worry about maintenance and security when not in residence. Furthermore, when they are in residence, a 24/7 concierge service allows them to enjoy a hotel lifestyle whilst in their own homes.

"Buyers remain driven by both investment and own use and, for the very best projects, usually a combination of these," observes James Price. "At the upper end of the market buyers also demand unique qualities of the project itself; this could be through the architecture creating a statement building." He adds that whether these are resorts or serviced city centre residential buildings, ensuring that a project remains rooted in its local culture and design is also important.

Most offer owners a comprehensive range of integrated hotel-style services, which usually include 24-hour concierge and security, CCTV, secure underground parking, porters, communications and entertainment systems, cleaning, laundry and even shopping services.

With the high demand for wellbeing, access to an on-site gym and/or health centre is now standard, with a spa and associated treatments, swimming pool, sauna and steam rooms.

Other premium facilities regularly include a golf simulator, screening room, even wine storage and, with the rise in home working, some offer business centres and meeting rooms.

Christie's Joachim Wrang-Widén has noticed how buyers are focusing increasingly on a wider range of amenities as well as convenience, adding that "being able to 'lock-up-and-go' - or at least have professional property managers look after the property - is important."

The Address Magazine also highlights this last point: "Hotel branded residences offer a sense of reliability, especially when purchasing homes in foreign countries, since buyers are assured the property will be taken care of, whether it is rented out or left vacant for occasional use".

Joanna Leverett, Head of International Residential Markets at Cluttons, agrees that buyers increasingly prefer this as it offers a hassle-free option, compared with the responsibilities - and challenges - of owning and maintaining a standalone overseas home, whilst Four Seasons promotes "worry-free living in well-appointed residences" to its potential homeowners.

"Our branded residences give buyers the opportunity to experience the best aspects of their favorite brands while simultaneously enjoying the peace of mind that comes with a project developed by Related Group. We look forward to announcing future branded collaborations and once again raising the bar for luxury living."

Jon Paul Pérez, Vice President, Related Group (Brand partnerships with Armani, Auberge Resorts, sbe, St. Regis, SLS LUX and Hyde).

W Singapore by WATG

Managed Rental

Owners can normally benefit from the option of renting out their properties through the hotel or operator's managed rental pool, although which can often (but not always) restrict personal usage to defined periods amounting to a few weeks each year. However, given the cosmopolitan nature of owners and the fact that they may have several homes around the world, this is not seen as a hindrance. Furthermore, the income generated (which is shared with the operator) can cover the running costs of the property, often even generating a welcome surplus.

"There is a growing realisation that owning property abroad can be a hassle, so having it 'brand managed' solves a lot of these issues," observes Colliers' Marc Finney. "There is also the expectation that the income from renting will cover most, if not all of the annual maintenance costs." "Even HNWI's are attracted by rental pools as a means of covering running costs whilst getting, in effect, 'free' stays," adds Robert Green. "Increasingly buyers want some level of rental return, especially in resort locations where they tend to visit their homes less frequently." WATG's research supports this, finding that although it varies by destination, the percentage of resort branded residences entered into a rental pool has risen to between 70-80%.

Research by the International Development Consultancy at Savills found that found that over 60% of its global second home buyers place a heavy weighting on the investment angle of their property purchases, with only 34% buying purely for private use. "Naturally these statistics vary from location to location," comments Alexandros Moulas, "but the investment angle will still be a fundamental driver for the majority of purchasers in virtually all cases, especially in second home markets. Depending on the type of property, this will either include both a strong net yield as well as capital growth potential, or at least enough net yield to cover the annual ownership costs of the property." Target returns typically range from 3-5% net yield (6-9% gross).

"Most buyers, including HNWIs/UHNWIs, want their purchases to be a good investment, to provide rental income, generate capital growth and be a property they can use at various times during the year," says Marriott's Daniel von Barloewen. He recommends that a wise developer should give as much consideration to achievable net rental yields - in particular for 1 and 2-bedroom units - as they do to their achievable sales price/sq m target. "It may therefore prove to be the case that for many resort locations, when analysed on a Cashflow Present Value basis, that an upper-upscale hotel with branded residences linked to its managed rental programme will ultimately produce a better financial viability than a luxury hotel with fully stand-alone branded residences."

The attractiveness of the rental yields - particularly when guaranteed - has also been proven to have a direct impact on the annual sales absorption rate of the residential units (e.g. Marriott's Luxury Collection at Pine Cliffs Algarve offered 5% for 5 years, which resulted in achieving rapid annual sales of the residences).

It is worth emphasising that generally only properties furnished by the operators are permitted to participate in the rental pool, in order to ensure that there is consistency in terms of FF&E and interior design (i.e. that complements the brand style) and that high quality standards are maintained.

Rental Pool Structures

The majority of branded residences ownership frameworks and rental pool structures fall into one of the below categories:

Ownership Framework 1
The development consists of a hotel component and a branded component of fully furnished residential units for sale, with a 'mandatory' rental pool. The residences are managed by the operator as serviced apartments in a 'hotel + serviced apartments' structure.

Ownership Framework 2
The development consists of branded, fully furnished residential units. Part of these will be sold to private investors with a mandatory rental pool requirement. The other part will form a guaranteed number of units for the operator's management, regardless of the rental pool. Sold branded residences will be managed by the operator as serviced apartments, to the extent and as long as these are kept in the rental pool, all in a 'serviced apartments' structure.

Ownership Framework 3
Residences are branded and sold to owners but with no mandatory rental pool, programme or agreement. This is the structure mostly in place in established cities.

Source: Savills

Brand or Bland?

"It isn't enough for brands to trade on what the label used to stand for. They need to demonstrate their value in an ever-increasingly competitive marketplace. The challenge for today's luxury brands is a considerable one. Not only do they have to contend with being challenged by the customer they thought they knew, they are also having to deal with new audiences and their accompanying behaviours."
'10 Top Luxury Brand Experiences', Luxury Society

A brand says a lot about the person buying it, as it offers a distinct identity, positioning and lifestyle that becomes associated with that individual. As such, a specific brand either resonates with a particular audience or it doesn't. Developers must therefore ensure that their chosen brand partner reflects the demographic profile and lifestyle aspirations of their intended buyers.

An obvious starting point is that the brand must also complement the location, as Frederic Simon at Commune Hotels & Resorts emphasises: "Most importantly, it is the destination and locality that dictates the project."

On this point, Daniel von Barloewen observes, "As markets mature over time, any brand will have to become synonymous with the quality of a particular location as a destination or address. With real estate, value cannot be sustainably conferred by a hotel or designer name alone; in the long term, the location itself will ultimately be the most important factor."

Extensive research confirms that the lifestyle experience is an increasingly important factor in brand differentiation. Four Seasons' James Price explains that at each development "…it is a very specialised experience which is set up, one that sets Four Seasons apart from other branded residences in the market."

Jeff Tisdall at Accor concurs, adding: "As important as the bricks and mortar, it's our suite of hotel and residential services that really differentiate our offerings."

But how easy is it for customers to differentiate between the plethora of luxury hotel brands in the market today? Let's look at a snapshot of three leading players:

- Following its merger with Starwood, **Marriott International** has 30 brands covering separate market segments, including eight in the luxury tier which are categorised into two main types of luxury 'personas': "Classic Luxury" and "Distinctive Luxury." Interviewed in Elite Traveler, Marriott's Global Chief Brand Officer Tina Edmundson explains: "Classic brands represent time-honoured hospitality for the modern traveller, while Distinctive brands provide memorable experiences with a unique perspective." Since the merger she has worked on setting the hotel brands apart by "highlighting nuanced differences"; for example, "Ritz-Carlton truly facilitates the destination in extraordinary ways, while the St. Regis is the destination, and should be the best of that location."

- **Hilton** has 14 brands, each designed to occupy a specific, non-competing space in the portfolio. At the top end, Waldorf-Astoria is the flagship brand with hotels that offer 'the highest standards of facilities and service' and deliver 'unforgettable experiences at iconic destinations around the world.' Conrad, which was the luxury flagship brand until 2006, offers 'access to a world of infinite connections, intuitive services, and inspired experiences along our guests' journeys.'

- With 23 brands, **AccorHotels** is now one of the largest hospitality groups in the world. Following its acquisition of FRHI which added Fairmont, Raffles and Swissôtel to its portfolio, as well as its strategic partnership and equity stake in Banyan Tree, Accor has become a major player in the luxury sector. Chris Cahill, Accor's CEO Luxury Brands, prioritises the autonomy and distinctiveness of each brand. "We are careful to avoid brand bleed, where the qualities of one brand start to merge with another", he comments. To achieve this, Cahill maintains distinct brand teams and encourages his directors to develop their own programs. Each brand is given enough space to maintain its own personality and unique appeal.

"80% of CEOs believe their brand differs from the competition, but only 20% of customers agree with that."
Ricco de Blank, CEO of SHKP Hotels (owns two Ritz-Carltons, a St. Regis and a W Hotel)

Reading through the positioning statements of some hotel brands the lines of differentiation become pretty blurred, even to seasoned practitioners; indeed in some cases it can be difficult to determine how in reality they differ from one another, as the 2017 Skift report *(Building Brand Love and Loyalty in Luxury Hospitality)* observes: "There is diminishing competitive advantage for hospitality brands to trumpet themselves as 'experiences' when so many brands in almost every market segment are saying the same thing."

On this point Piers Schmidt, founder of Luxury Branding consultancy, analysed 81 new hotel brands in the burgeoning so-called 'lifestyle' category and found a series of interesting correlations. "If we look at the taglines employed by these lifestyle brands, the lack of differentiation becomes apparent," he comments. "A significant proportion of their slogans employ similar sound bites; for example, four of these each claim they are "designed for the modern traveller", "hotels designed for the modern traveller', "created for a new generation of travellers" and "unique hotels for unique travelers". This is buzzword bingo at its best!"

With this rapid proliferation of brands, Schmidt adds that "there will quickly come a point when the promise, look, feel and experience they offer becomes (and is found to be) as generic and bland as the regulation Sheratons, Hiltons and Hyatts they were designed to supersede. From that point, the only way is down."

Above all, it is *the buyer* who needs to understand the differences and specific attributes that apply to each brand if they are to fully appreciate the added-value benefits that each brand promises, that will enhance his or her lifestyle experience.

It is therefore a key role for professional marketers to ensure that the offer communicated is distinctive and differentiated – otherwise it risks being simply another "me too" product. And just because a brand is well established in one region does not mean that it will enjoy the same success in other regions.

"Your brand is what people say about you when you're not in the room."

Jeff Bezos, Amazon

The Ritz-Carlton Residences, Key Biscayne

Spotlight on Marriott International

Following its merger with Starwood, Marriott International became the largest branded residential operator in the world, representing 56% of high-end branded residences globally. Marriott's portfolio includes almost 90 residential projects, with another 55 in the pipeline. Dana Jacobsohn, Vice President of Mixed Use Development, explains how the company helps developers to select the right brand and the key factors that influence this.

The Residences at The Miami Beach Edition

With such an impressive array of brands to choose from, how do you and the Owner/ Developer decide on the most appropriate brand?

Typically, when an Owner/Developer approaches us they have an idea which Marriott brand they want for both the hotel and the residences. However, the initial brand requested is not always the brand that will ultimately be selected. We work closely with the Owner/Developer through a comprehensive due diligence process to examine a range of key factors to ensure that the project is feasible and that we arrive at the optimum brand fit.

What are these key factors?

We evaluate a range of criteria including a review of the regional and local economy, tourism, corporate demand generators, buyer profile, existing supply, future pipeline and pricing / pace of residential sales. One of the crucial elements that underpins our decision is the site itself. We have very skilled teams in house at Marriott that complete a full feasibility analysis and site analysis for the hotel and the residential, to ensure each component is sustainable and successful. We also have a dedicated residential team that understands the markets and demands of the customers in those markets.

Are the branded residences considered secondary to the hotel?

Branded residences are an equally important and valuable component in mixed-use developments. The basic upfront considerations to be vetted are the financial feasibility of each of the components. The most successful mixed-use projects are ones where each component can sustain itself independently and then combined they all complement each another and create a successful mixed-use project. On the residential side, we need to be mindful of the potential residential pricing and pace of sales compared to the cost to development.

Do the brand license fees vary from brand to brand?

Branded license fees are often subject to some negotiation depending on the nature of the project itself and the intended brand.

Is Marriott receptive to operating standalone branded residences, i.e. not located directly adjacent to one of its hotels?

Not unexpectedly many hotel operators shy away from standalone residences, so Marriott is a bit unusual as we currently operate 9 standalone residences – all Ritz-Carlton – with a further 5 (Ritz-Carlton and St Regis) in the pipeline. These are entirely self-sufficient and all are managed by Marriott International, each with a dedicated concierge and an array of services that you would expect at a luxury residential project. Typically these need to be quite large complexes with a minimum of 100 residences (and typically at least 200 residences), in order to spread the costs of providing these professional, bespoke services affordably among its residents.

"Branded Residences is a high priority for Marriott, the leader in the hospitality industry by number of properties and brands. With 13 luxury and upper upscale brands in our portfolio available for branded residences, we are uniquely able to deliver the optimum brand for each development that best suits the site and the residential buyer profile to maximise the success and profitability of a project."

Tim Grisius, Global Real Estate Officer, Marriott International

Aligning a Residential Project with the Right Brand

"When a developer is choosing which hotel operator would be the best fit, whilst he can expect some guidance from the major operators, there is no substitute for good old fashioned research. Take time to understand the philosophy and positioning of each of your shortlisted brands to ensure that their values and strengths align with yours. This way, everybody is on the same page from the get-go."

Ben Martin, AECOM Economics

Choosing the right brand partner is critical to a development's success. The branded residential element is such a fundamentally important part to the financial viability of the project, it is essential to give this equal consideration when choosing the optimum hotel/operator brand partner for the development.

The brand chosen for the residential element must also be one that is recognised and respected among the target buyer markets and will be able to command both the expected price premiums and strong absorption rates. Buyers of branded residences generally identify with a certain lifestyle and taste that are closely associated with that particular brand. Developers must therefore ensure that their chosen partner brand reflects the demographic profile and aspirations of their intended purchaser audiences, resonating and aligning with their lifestyle aspirations. In other words, the buying audiences' perceptions of the operator brand is a key influencing factor, since individual brands inevitably appeal to different demographic audiences. For example:

- W Residences promote their brand as "vibrant, inspiring, iconic, innovative and influential", citing its "passion for fashion, music and design".
- Compare this to Mandarin Oriental's more 'genteel' brand offer, where "each hotel has its own individual charm with oriental touches that reflect Mandarin Oriental's heritage". For their residences they promote "the comforts of a private home combined with the unsurpassed amenities and legendary service of Mandarin Oriental".
- Yoo, as an interior design-led brand, promotes their residences through the style and reputation of their impressive stable of designers, each bringing a unique identity to individual projects.

It can be argued that those properties with a highly 'distinctive' or niche brand attached will never appeal to certain audience segments. As such, associating with a particular brand may present a risk by reducing the size of the market by alienating some potential buying audiences to a greater degree than non-branded residences.

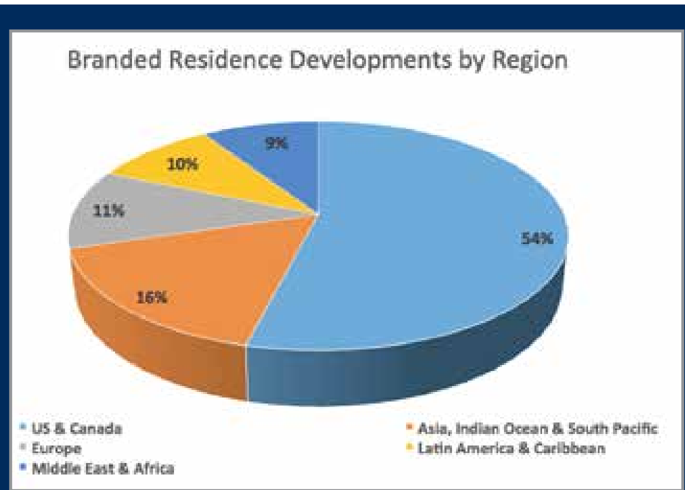
It boils down to personal choice; consumers today are more empowered than ever before and are spoiled for choice in terms of brands. A study by Shullman Research Centre highlighted the broad disparities in brand perception among affluent older and younger generations in the USA. For example, Lexus and BMW ranked in the Top 5 brands among both Millennials and Gen Xers, yet neither of these made it into the 50+ Boomers' Top 10. Not unexpectedly such inconsistency among consumer segments applies equally to brands associated with real estate developments.

Both Marriott's von Barloewen and Savills' Dominic Grace point out that a development may find itself hostage to fortune if, for example, the brand experiences a PR disaster, since this is likely to impact the desirability of the residences. A topical and highly relevant example of a brand's 'value' in the court of public opinion is Trump:

In the months preceding the US election, a study commissioned by Yahoo! Finance found that the price premium attached to Trump branded residences had fallen, while New York Times reported that hundreds of Trump tenants in NYC signed a petition to "Dump the Trump Name" from their buildings. After Donald Trump was elected President, enthusiasm for the brand faded as he moved to enact controversial policies, notably a travel ban on several predominantly Muslim nations. A press article *'Muslim Business World to Trump: 'You're Fired'* reported the ensuing negative sentiments towards Trump developments in Turkey, Azerbaijan and UAE and the Trump name and image were removed from the marketing for a $6 billion golf complex in Dubai. Similarly, Indian developer Lodha suspended sales at Trump Tower in Mumbai.

Whilst established brands may be strong enough to weather a storm (that very often passes), negative PR can quickly damage the status and reputation of your development and therefore hit sales and values so effective PR management is essential. And the worse the scandal, the harder the impact; remember, people are only human!

The right hotel brand will deliver a valuable short-cut for developers, particularly for off-plan developments, but it must be able to retain its promise in real estate. It can also greatly help create the context for buyers - it's just got to be the right brand for them." Paul MacSherry



Source HotelHomes.com/Savills

Not unexpectedly over half are in North America, where the branded residences concept originated. It is interesting that the developed European markets account for only around 10% (although we expect this to grow). If we separate the Middle East from Africa the figure in the latter would be quite low, just as it would be if we remove the Caribbean from Latin America. However, with the rapid increase in HNWIs and the many benefits that branded residences provide, it can only be a matter of time before we see more of these appearing across these vast emerging continents.

Brand Misalignment

Case Study 1: Sun Gardens Dubrovnik, Croatia.
Julian Houchin, iO Resort Management.

When we launched our residential sales programme at Sun Gardens, we had inherited a leading European hospitality brand that was already under contract to the resort so naturally we wanted to feature this well-known brand as a major added-value benefit for buyers. We believed that it resonated well in our target markets, notably Russian speaking, and would provide confidence for prospects buying into a mixed-use resort in an emerging market. What we very quickly discovered was quite the contrary:

1. The brand operator did not understand the concept of resort based real estate and consequently did not want their brand associated with real estate sales. They couldn't understand that we were selling whole ownership, in effect freehold, which - importantly for a buyer - can be part-funded with a mortgage. They assumed we were selling timeshare and that it would tarnish their brand!
2. It became clear that this hotel brand was of limited importance to our potential buyers; their decisions were much more about the destination, on-site management and the resort offering.
3. We realised that the brand would in time impede our ability to achieve higher projected price points over the course of the residential sales programme. Furthermore, following the slump in the oil price the market fundamentals shifted away from our prime Russian speaking target markets, and the brand did not resonate as much in other markets.

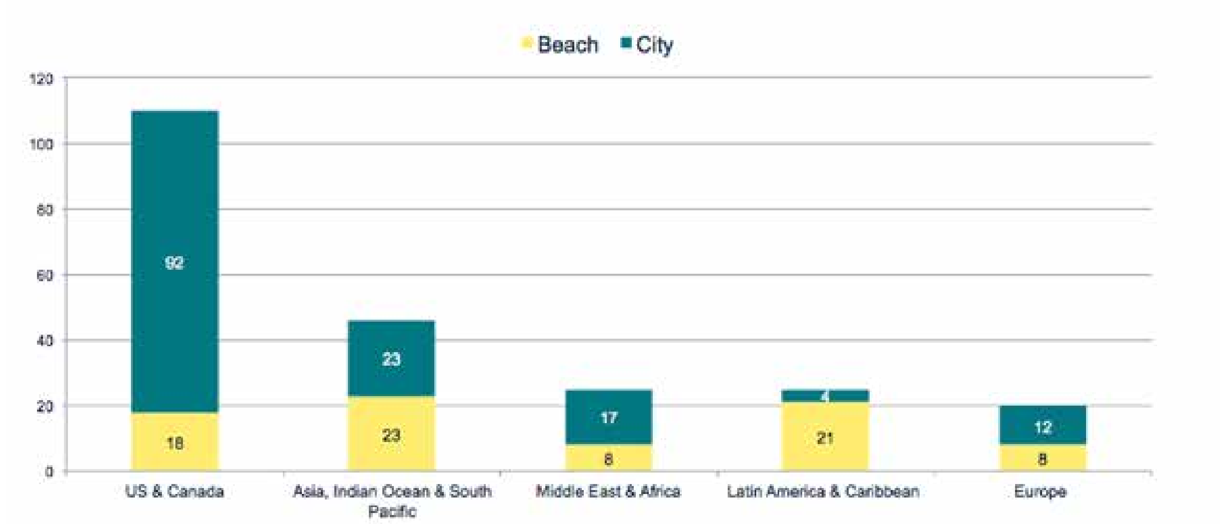
Therefore, as early as was practicable, we stopped using the brand in our sales materials and instead started to market an independent resort destination, re-branding as The Residences at Sun Gardens. As a result, despite this being a highly seasonal resort destination we have now sold out Phase 1 to over 15 different nationalities and created a rental management platform generating 7%+ gross yields for owners.

Case Study 2: Golf Resort, Portugal
Chris Graham, Graham Associates.

I first experienced the impact of a 'branding mis-match' several years ago when my team was invited to investigate a repositioning strategy for a residential golf resort north of Lisbon, where sales had slumped. There was a good Westin hotel and spa at the hub of the resort but, at that time in Europe, Westin was a relatively unrecognised hotel brand; indeed our customer research confirmed emphatically that many potential buyers were not familiar with Westin - and in fact many had it confused with Best Western!

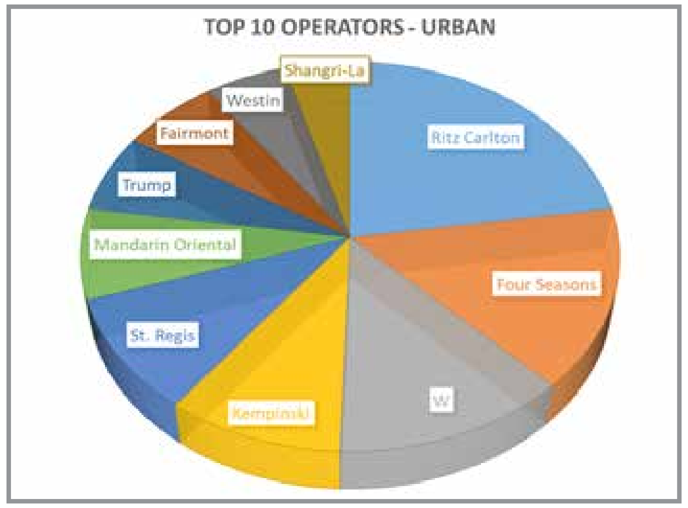
"There's no doubt that having a 5* hotel in the resort appealed to buyers at the time, but Chris Graham's research was a real eye-opener as it was completely at odds with the development team's previous beliefs about customer awareness of the Westin brand and the value it would add," comments Paul MacSherry, the resort's UK Sales Director at the time. "It transpired that, rather than the hotel brand itself, it was simply the fact that there was a 5* hotel on site that offered a degree of comfort for many of our buyers. However, this lack of brand appreciation certainly did not support the level of sales that had been expected."

Urban vs. Resort



Source HotelHomes.com/Savills

Branded residences are found in both urban and resort locations. In urban locations, these tend to be apartments and penthouses located in the upper floors of a (hotel) complex, whereas in resort locations residences usually comprise apartments, penthouses, townhouses and villas, all in close proximity to the operator hotel.

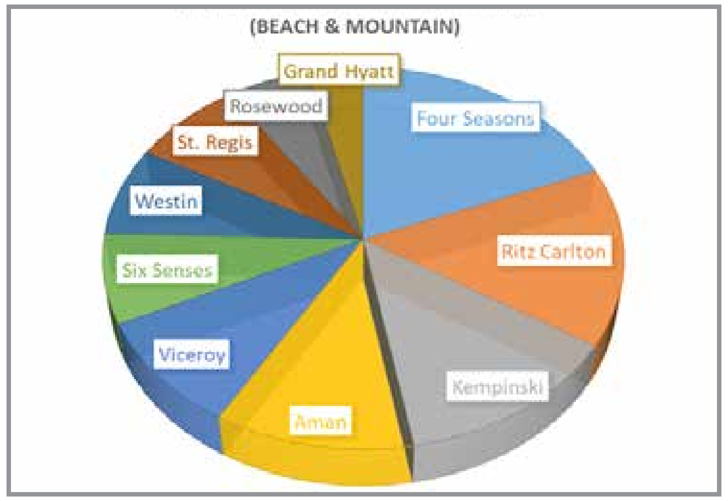


Source HotelHomes.com/Savills

The majority of branded residences today are located in major cities; according to data from Savills, 65% of branded residences around the world are located in urban locations and 35% are in beach/resort locations. Many experts believe that this urban-dominant trend will continue; as Robert Green points out; "Ritz-Carlton's branded urban products are expected to represent two thirds of its inventory in the future." However Four Seasons, which has an increasing proportion of its pipeline with a residential component, sees equal demand and growth in both urban and resort settings.

With almost 40% of the Viceroy Hotel portfolio involving mixed-use developments (both urban and resort), the organisation actively embraces opportunities to operate residences alongside hotel rooms. "There is a distinct synergy that unfolds when we have traditional hotel rooms alongside residences," observes Viceroy's Kristie Goshow. "The resulting experience in each product, whether room or residence, is better, more intuitive, more sensational, had the counterpart never been there."

"Our research found that operator appetite is increasingly greater for urban rather than resort locations," reports WATG's Muriel Muirden. This is largely thought to be a reaction to basic demand patterns of the recent past, she explains. "Primary/secondary residences in core urban locations have shown increased attention from HNWIs of late, due to their perceived 'safe haven' investment credentials. The operators are doing deals where the development is taking place. Going forward, as resort demand - and therefore development - returns, branded residences will also be expected to feature."

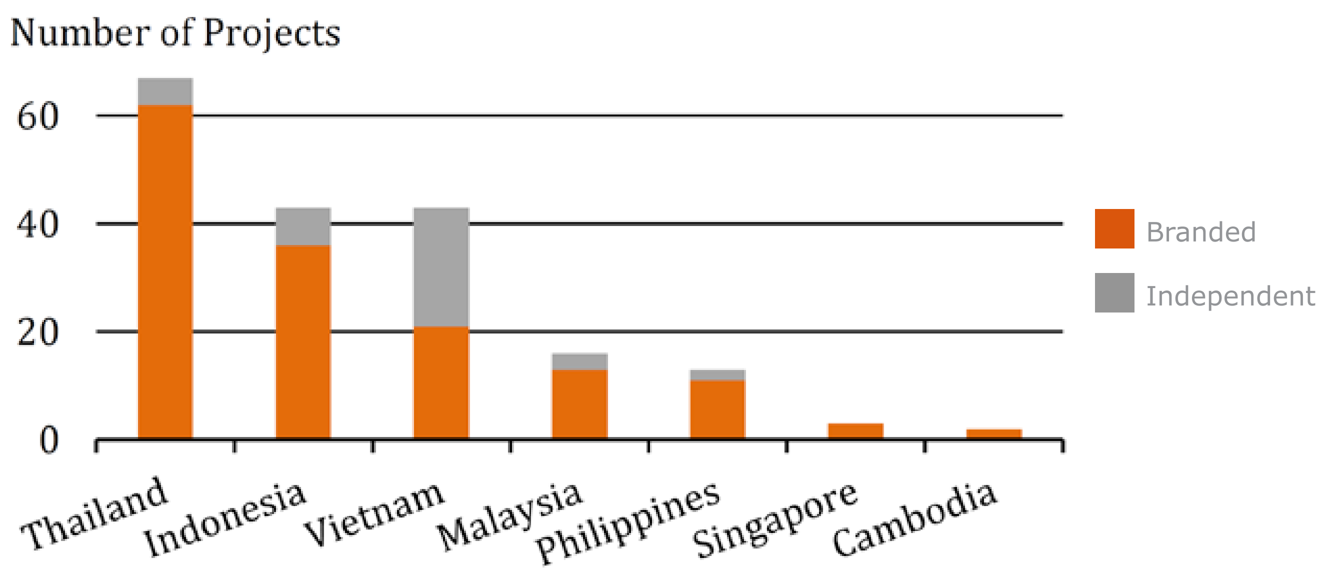


Source HotelHomes.com/Savills

"Prime urban branded developments have greater appeal because they are perceived as less risky," observes Robert Green. However, in emerging locations it could become a double-edged sword: "Some investors will view market-entry in the early stages as advantageous to benefit from value-increase as the market develops," says Joachim Wrang-Widén at Christie's. "However the risk is then trying to sell a comparatively older asset in a market that has subsequently developed and where newer - possibly better - products are, relatively speaking, at a similar price level."

In line with the explosive demand in emerging markets for luxury branded items, the concept of branded residences is an effective way to sell top-end real estate in these expanding markets and Savills anticipates that branded residences will continue to have significant and growing importance for newly wealthy buyers and in emerging economies. "They also have a significant and ongoing place in resorts," adds Marriott's Daniel von Barloewen.

Brand Affiliated vs. Independent



Source: C9 Hotelworks

South East Asia

Today the Far East branded residences resort market is arguably the most developed in the world. The concept began in Thailand in 1988 with the Amanpuri Phuket, where private residences were launched alongside the hotel. The Four Seasons Chiang Mai (launched in 1995) introduced Thailand's first branded residences to be associated with an international hotel chain. According to research by C9 Hotelworks, the hotel branded residences market in Southeast Asia has now topped US$16 billion and is still growing. (NB Thailand leads the way with branded residences accounting for around one-third of its total projects).

As reported in the 2015 edition of this report, in line with the wider market C9 Hotelworks' research found that combined hotel and residential projects were shifting from resort to urban locations. However, the company's latest research finds that today's investment buyers are back heavily in resort destinations (although MD Bill Barnett reports that this is driven by domestic demand), with many attracted by high guaranteed yields (that may prove to be unsustainable).

C9's earlier research also highlighted a 'refocus' by

The Ritz-Carlton Residences,Baltimore

One Hyde Park by Candy & Candy

global hotel chains, which recognised 'an essential need to partner with property developers in creating hotel residence offerings in order to spur pipeline growth'. This has certainly proven to be correct: currently across Southeast Asia, there is an estimated 94 mainstream hotel residence projects with more than 21,000 units on line, with 78 properties expected to complete between 2018 and 2020, representing an 83% increase over current inventory.

Urban Location

Location continues to be a prime factor. Savills research has shown that the success of branded residential development, in particular in established first-world cities such as London and New York, is down to a combination of factors, of which location is the primary one. "The potential in prime city urban locations is significant, although the more established the residential market is in a particular location, the greater the importance of selecting the best sub-location within that area," comments Alexandros Moulas.

WATG's research also found that operators are unanimous that there is now a focus on exceptional sites in prime locations, rather than in secondary or tertiary destinations. "North America remains the stalwart of the branded residence sector, with the big players heavily embedded and seeking new opportunities," observes Muriel Muirden. "The land use came to prominence just in time to ride the coat tails of the Asian development boom, where brand power resonates strongly." Muirden points out that, as a positive development climate returns to Western Europe, branded residences in both an urban and resort context are expected to finally start gaining traction, having been unrepresented for so long. She also predicts continuing growth in Asia, highlighting the region as a testing ground for pioneering iterations of the concept with regards to scale, business models and levels of servicing/supporting amenities.

HVS reports that operators generally do not operate standalone residential products (i.e. not immediately adjacent to one of its hotels), nor is this a major consideration for the future. However, Four Seasons is introducing standalone residential projects, typically located in vibrant urban markets with strong demand characteristics. "We are exploring standalone branded residential projects in major urban centers where we already have an existing hotel," comments James Price, citing Four Seasons' first standalone development at Twenty Grosvenor Square in London. "These are designed to offer a differentiated homeownership experience with a full range of amenities and services within the context of an efficient building operation." (See also Marriott on p.23)

Although the sector focus is currently shifting towards prime urban locations, we cannot ignore the number of thriving ultra-luxury branded resort real estate in far-flung locations like the Maldives, Caribbean or Seychelles. The question therefore is, why do HNWIs choose to invest in a far-away home at a high brand premium, probably visited only a couple of times per year and often requiring upfront cash payments, combined with the risk of drastic changes in weather and unstable politics?

"Well, simply because they can," says Lynn Villadolid. "There are now 2,000 billionaires in the world, growing at 13% per annum, according to Forbes. Such immense wealth has rendered their spending virtually untouchable by changes in share prices, interest rates or currencies. Let's face it, if money was no object such that we would worry about spending US$5-20M on a faraway holiday home, who wouldn't want to spend time in the familiar comfort of their own homes enjoying temperate weather, snorkeling with turtles and dolphins, feeling sublime white sand under our feet, sipping Nespresso served by a discreet butler while hearing the lapping of the waves and being tanned under a magnificent sun? I know I would."

Colliers International's Marc Finney takes a rather less romantic view: "People drop their guard when they are on holiday and can make irrational decisions."

A Brand Premium for a Premium Brand

What is clear is that, whether in an urban or resort location, branded properties sell at a considerable premium over comparable non-branded residential real estate products.

"In an urban location these properties are often apartments on the top two or three floors of the hotel, whilst in a resort context these units are, in most cases, detached villas," explains Muirden. "In both instances they are sold at a premium to other comparable residential real estate products on the market."

In addition to the numerous benefits associated with branded residences discussed above, a strong brand:

- Enhances sales velocity by as much as 30%.
- Maintains resale values.
- Delivers higher rental returns as a result of fewer voids in rental periods.

As such, the significant price premium can easily be justified to both developer and purchaser, with neither requiring too much convincing of the benefits - and this in turn has led to the popularity of this formula. "The growth in branded residences has been spurred by its attractiveness to both developers and investors," comments HVS' Arlett Hoff. "Compared with unbranded residential properties it is proven that developers of branded residences can demand premiums in cities around the world by simply having a brand affiliation."

James Price is in no doubt that leading brands today can add value and assist greatly in the marketability of new projects. "However," he adds, "they must offer tangible benefits for the residents."

Leverett adds that these developments also tend to see a similar premium for rentals and on resale, so buyers can feel confident that their purchase of a branded residence will hold its value. "Absolutely," echoes Joachim Wrang-Widén. "Branded residences also achieve higher liquidity on the resale market a few years down the line."

Muriel Muirden argues that a unique combination of a world-class hotel brand with a top global destination can, in special cases, add even higher premiums, citing the example of the (now dormant) Four Seasons at Clearwater Bay on Barbados' much sought-after Platinum Coast, where off-plan prices were considerably higher than comparable luxury homes further up the coast, most of which were in better locations.

In 2012 Knight Frank research found that luxury branded residences around the world commanded an average uplift of over 30% compared with non-branded schemes. Most experts still agree with this benchmark figure, as the following soundbites confirm:

- "Branded residences tick all these boxes. Add the fact that (they) yield a premium estimated to range between 20% and 40% over similar unbranded residential developments and, in exceptional cases, as much as 50% to 100% more, it becomes clear why this is one of the fastest growing asset classes." The Address Magazine
- "Operators have indicated that typically a price premium can be expected over identical non-branded products of between 20-35%." Muriel Muirden, WATG
- "Anything between 20-30% normally, but occasionally they can completely re-set the benchmark for a location." Marc Finney, Colliers
- "The level of the premium varies from market to market. It also depends on what the brand is and how importantly it is valued. A good example is Burj Khalifa in Dubai, where an Armani residence trades with a premium of up to 30% compared to a similar sized apartment in the tower that does not carry the Armani brand." Joachim Wrang-Widén, Christies' International
- "A globally recognized 5* brand such as Four Seasons, Ritz-Carlton or Aman have proven consistently in all economic circumstances, both regionally and internationally, that there is a 25-50% premium over prevailing market values." Robin Paterson, Sotheby's International
- "Hotel residences affiliated with international brands have demonstrated pronounced premiums in selling prices by 25%-35%." C9 Hotelworks

Never short of surprises, the real estate market continually raises the bar to new levels and there are some extreme cases that demonstrate the substantial premium that the 'right' mix of branding, design, facilities and location can deliver:

- Palazzo Versace and D1 in Dubai are neighbouring developments on Dubai Creek, yet apartments at Palazzo Versace (branded) achieved an uplift of over 100% against comparable D1 (unbranded) apartments next door.

- The branded residences at The Ritz-Carlton Dorado Beach in Puerto Rico sold at up to 250% above the average psf price of non-branded units in the same development.

So will the premium on branded residences continue to thrive? Most experts believe it will - not least, as Lynn Villadolid points out, because financial resale values have traditionally been at least up to 1.5x higher than the non-branded alternative over a medium term (c.5 years) or longer holding period. To illustrate this, Wrang-Widén reports that The Armani Penthouses in Dubai were selling at more than 50% higher than when they were launched five years previously.

However, Villadolid warns that the premium between branded and non-branded homes is narrowing. "The supply of non-branded alternatives with top quality FF&E and bespoke services on offer, and the advent of mediums like Airbnb (or such equivalent for UHNWs) have started to erode this premium and will continue to do so." Alexandros Moulas at Savills agrees, pointing out that if a brand commands a premium at the point of initial sale, there is a risk of depreciation unless it is well maintained over time. "There is certainly potential for short-lived brand reputation. Once a scheme, block, or property type becomes a bit tired or unfashionable, the inevitable price depreciation can become exacerbated as demand diminishes and the market shrinks. 'Trendy' facilities become outdated and undervalued if they do not adapt with changing occupier needs and the nature of the underlying property asset."

Urban Premiums

The lower price premiums that are generally being achieved in some major cities is most likely due to a combination of already very high prices for super-premium real estate and strong buyer demand, leaving little room - or requirement - for a 3rd party brand along with the significant price premium that needs to be added. For example, Knight Frank's report on branded developments found that the average uplift in London was just over 11% and 12.4% in New York.

"I think it has simply been a question of both opportunity and brand positioning," comments Charles Weston-Baker. "New development deals in major cities like London and New York are in great demand and therefore require a very full price for the opportunity; as such, supported by strong end-user demand, branding has not been necessary." He observes that where branded residences have occurred in London, the brand is usually brought in to "add value" by giving a distinctive design style (e.g. Bulgari), to provide comfort to attract a specific international HNWI target audience, or simply due to convenient proximity for servicing the residences (e.g. One Hyde Park/Mandarin Oriental).

However, due to the changing economic landscape (e.g. higher stamp duty/taxes, Brexit) resulting in lower demand, London is seeing an increase in the number of luxury branded developments at the top of the market, along with the associated higher price premiums. Dominic Grace, Head of London Residential Developments at Savills, comments on this trend: "Notwithstanding the tougher market conditions, there is undoubtedly a broadening trend of cross-branding emerging here, that originated in the USA as a proven way of adding value and differentiating a residential development. This is tied in with a more international buying audience, which values a premium brand association in a way that many domestic buyers do not." He adds that another key factor is the rise in demand for personalised services; "Wealthy buyers want the 6* services they know they can get from an established hospitality brand and are prepared to pay a premium to get these."

However, the premium for these benefits must still be justified to buyers warns Charlie Walsh, Sales Director at Lodha: "In mature markets like London, domestic buyers still want to understand the true added-value they will receive for paying the price premium."

The Influence of Brands on Destinations

Premium brands can have a positive impact on a destination. This is particularly true in emerging locations as, when a leading luxury brand chooses to 'plant its flag' in a particular region, this can significantly elevate the perception of that location in the marketplace. This in turn creates a robust platform on which to build a luxury tourism offering and attract other brands as well as wealthier visitors.

Since there is a strong correlation between repeat visitors to a destination and their propensity to purchase a property there, it follows that attracting more wealthy visitors should in turn lead to more foreigners buying property. People rarely purchase a property without having a good understanding of the local market; they therefore need to be aware – and convinced - of the benefits, attractions, security (financial and personal) and lifestyle, especially when compared against other destinations on their shortlists. It is the responsibility of the marketing team to communicate this effectively. (See also p.21).

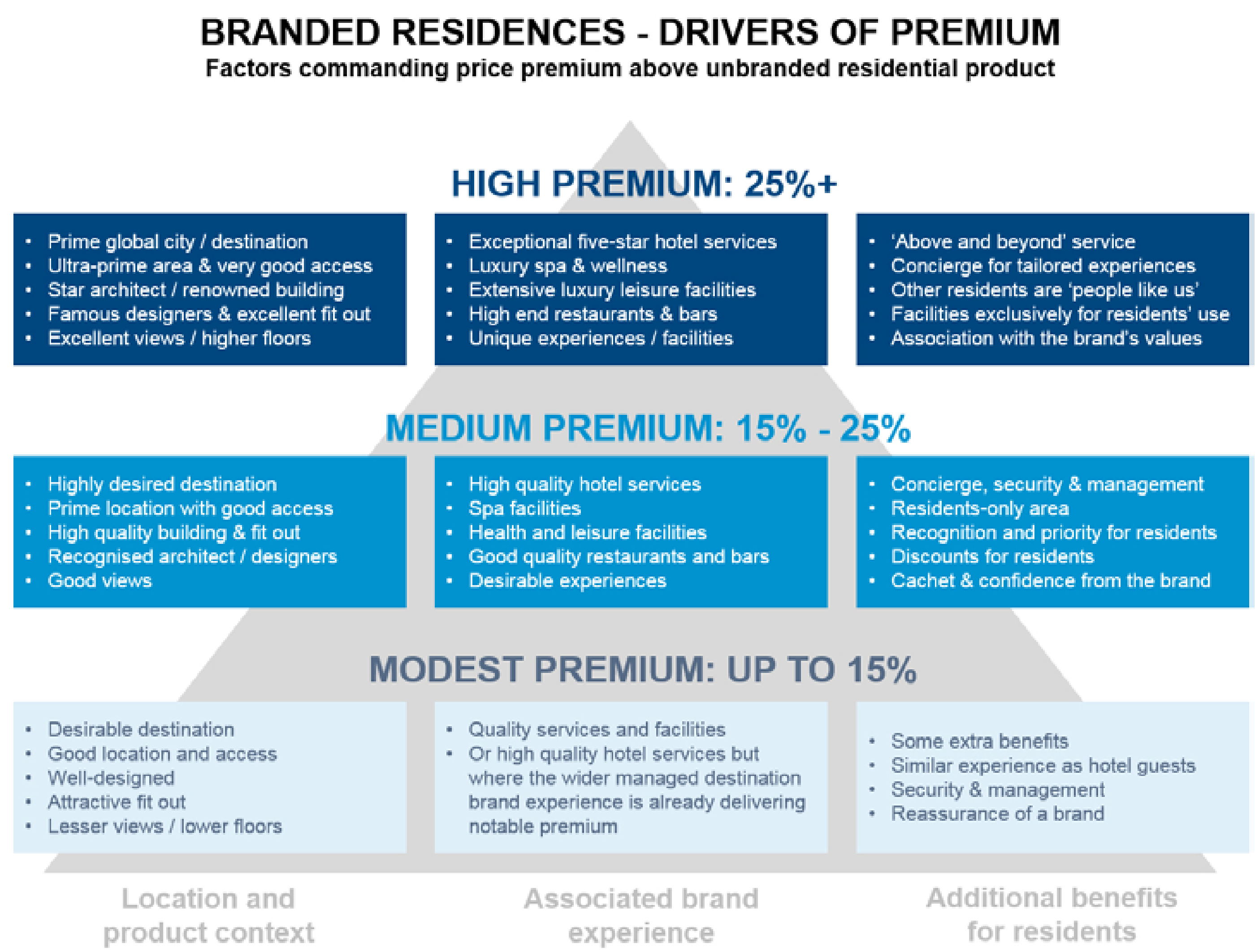
Key Drivers of Premium

When compared against similar prime residential developments, Colliers International found that premium is highly correlated with brand positioning and experiences and has created the segmented pyramid shown below.

"The price premium for branded residences can be significant," observes Marc Finney, Head of Hotels & Resorts Consulting at Colliers International. "We have found the extent of the premium relates to several factors combined, including the hotel brand, design, location, range of services and exclusivity of the experience for residents. Of course, some of this comes at extra cost to the developer."

In determining the premium level, Colliers assesses the combination of several influencing factors to calculate the price premium on a branded residential development, such as (inter alia):

- Brand positioning – The more prestigious an operator brand, the higher the premium.
- Range of hotel services and facilities offered.
- Rental pool with a proven operator, to appeal to the investor market.
- Exclusivity, service and benefits to residents – creating an 'experience' premium.
- Location and neighbourhood.
- Quality of design and the "Starchitect" effect.
- High floors and views – units on higher floors achieve a premium over similar residences on lower floors.



Addressing the Legal Aspects

Graeme Dickson is a Partner in the Hotels, Resorts & Tourism Group at Baker & McKenzie.

How does the branding work for the residences?

Usually the operator grants the developer a licence to sell the residence incorporating reference to the brand. Additionally, the operator grants a licence to the developer to refer to the brand for a defined term (usually the same as the hotel management agreement).

What fees are charged by the operator with respect to the branded residences?

The operator charges a percentage of the sale price of each residence (NB there is no "standard" fee as this can vary from operator to operator). The licence usually contains provisions to the effect that:

- The operator is entitled to terminate the licence if the developer does not sell a specified number of residences within a specified time period;
- Residences must be sold for their market value;
- The operator has stringent rights to vet information provided to prospective purchasers and may anonymously attend sales presentations to ensure that there are no misrepresentations being made about the brand;
- The developer may seek to negotiate a concession to the effect that a certain number of the residences be held back by the developer or sold for less than the market price.

What is the relationship between the hotel management agreement and the branding agreement?

If the hotel management agreement terminates for any reason then usually this automatically terminates the branded residences licences. Conversely however, if the branded residence licence terminates then this does not automatically see a termination of the hotel management agreement.

How does the operator ensure that the residences are maintained to its brand's standards?

Usually the operator contracts with the developer to maintain the common areas of the branded residence component, consistent with their brand standards. The operator produces an annual budget and the developer is then required to levy the branded residence owners (normally based on unit size). If the common areas of the branded residences are not maintained by the developer to the required standards, e.g. due to insufficient funding, this usually gives the operator the right to terminate the association. (See also p.35)

Does the operator provide the residence owner with any IP rights attached to the brand?

Usually not, because is it is a precondition that the developer guarantees that the branded residence owner will not contravene the terms of the licence. Of course the developer is often reluctant to provide such a guarantee, especially as it would likely continue to operate after all residences have been sold and the developer has effectively moved on. Conversely, the operator will provide the developer (and in turn the branded residence owners) with the right to refer to the building in a way which identifies the branding without the grant of any intellectual property rights - for example, when an owner wishes to sell his or her residence, a right to refer to it as being located within the [relevant brand] building or complex.

What if an owner wishes to offer their branded residence as part of the hotel's inventory in the rental programme?

The residence owner is usually required to acquire the standard furniture pack and make the residence available to the hotel for a specified period. The hotel usually frowns on residences being offered independently for short term rental as effectively this is in competition.

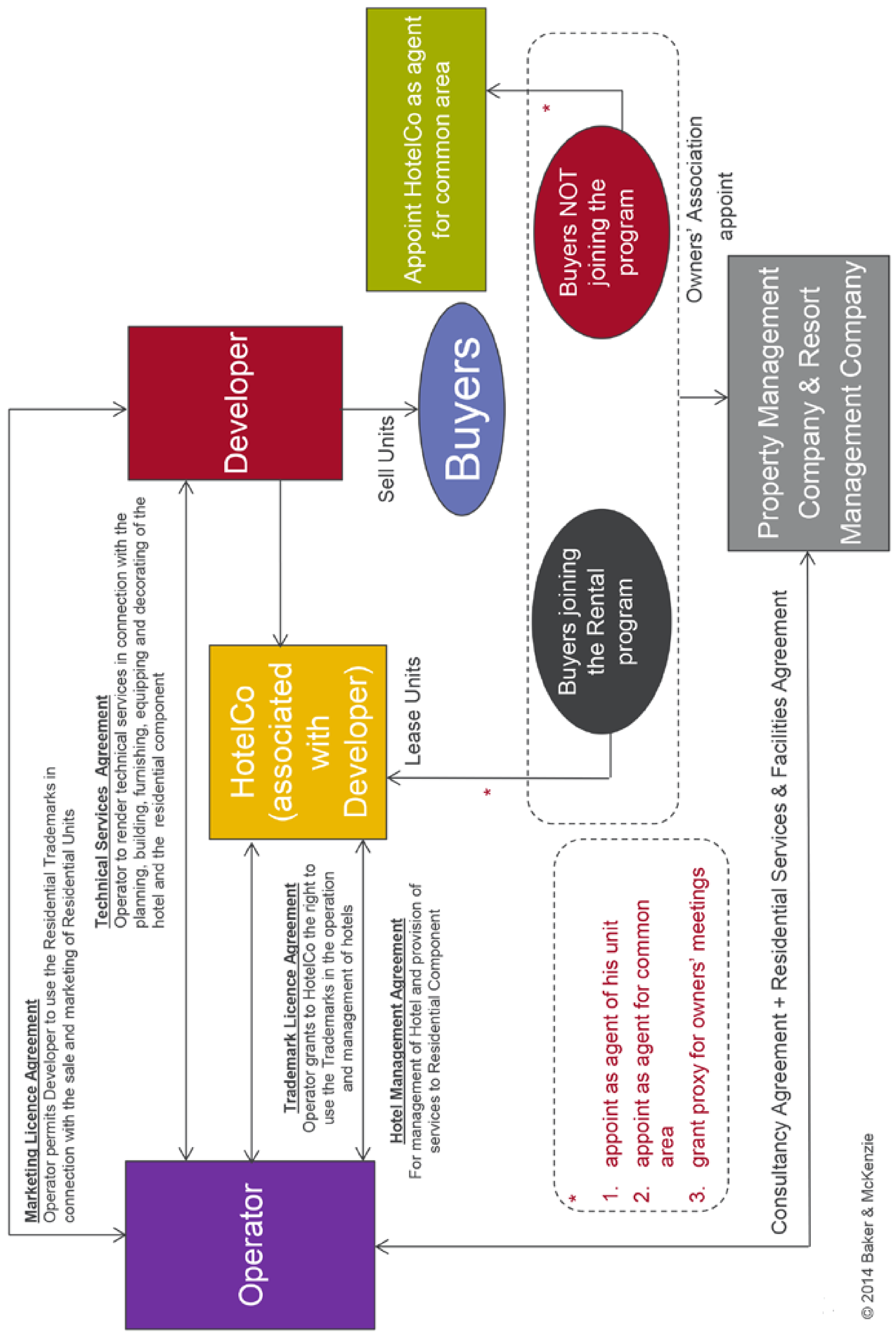
Do issues arise if the branded residences share facilities with the hotel?

This can be contentious as the standard requirements of the hotel may be greater and hence more expensive than for residential accommodation (e.g. concierge services).

What hotel services are usually made available to the residence owners and occupants?

Residence owners and their guests are usually treated the same as hotel guests, although in some instances they may receive benefits not available to hotel guests, such as discounts.

Structure of a typical Branded Residences project



Governance: Providing a Legal Framework

It is important to consider the legal documentation and the overall transparency of dealings. In circumstances where a branded residential development is being created, proper governance for the Residential Owners is a pre-requisite to ensure a well-managed, maintained and harmonious project. In this section, former lawyer, hospitality and real estate industry veteran Paul Dean provides some valuable insights.

What do we mean by "Governance"?

In the context of branded residential projects, governance typically determines control and responsibility – i.e. how stakeholders can have their say; who makes, monitors and implements decisions, and accountability. It should cover the establishment of policies and the monitoring of their implementation. To facilitate this process efficiently, the creation of a representative entity is a necessary first step - usually in the form of a Home Owners' Association (HOA).

Is Governance standard across all markets?

Some jurisdictions legislate that Property Owners must become part of the HOA; however, Government oversight of HOA's varies from one jurisdiction to another, especially in Asia, and often this can be minimal. More significant challenges may therefore have to be addressed in jurisdictions where condominium law is either not yet established or is in its early stages of development, especially regarding Branded Villas or Apartments in resort destinations where larger mixed-use development sites are available.

In these situations, the governing documents "run with the land" – which means that the documents "touch and concern" the land and there is no mutual agreement between the seller and subsequent buyers regarding their terms. In essence, these are "adhesion contracts" – a condition of ownership and a prospective buyer has to take it or leave it.

Many HOA's are incorporated and are subject to specific laws within the applicable jurisdiction that govern HOA's and non-profit corporations. In the USA for example, typically the HOA will be a corporation formed by the real estate developer for the purposes of marketing, managing and selling of homes in a condominium or the plots in a residential subdivision.

Why is a Home Owners' Association necessary?

When developing the branded residential component of a mixed-use development, it is vitally important to focus on how the residences will operate in practice. The building's operational management will most likely be the subject of a Property Management Agreement with the appointed Hotel Operator but there is still a requirement to establish a set of rules to:

- Provide a framework for the Property Owners, particularly regarding their specific rights and obligations as they relate to the common property elements within the development.
- Define how those common property elements will be maintained over time.
- Specify how the maintenance costs are to be met by the Property Owners in a fair and equitable way.

The authority of the HOA may be determined by the local real estate laws and by the project's "governing documents". These documents usually include the Covenants, Conditions & Restrictions [C.C.&R.'s], the corporate documents (Articles and Bylaws) as referenced in the C.C.&R.s, and any HOA governing body-enacted rules and regulations as authorised (expressly or implicitly) by the C.C.&R's.

HOA membership is usually a mandatory condition of purchase for a residential buyer; all members must pay assessments to it and abide by its governing documents. When an owner sells the encumbered property (and any improvements thereon), the seller ceases to be a member of the HOA and the new owner automatically becomes a member and assumes all obligations.

An HOA may grant the developer privileged voting rights in the HOA, while still allowing the developer to exit financial and legal responsibility of the organisation (normally by transferring ownership of the HOA to the homeowners after selling a predetermined number of residences or plots).

What things should a developer or operator think about?

When undertaking a branded residential project overseas (especially in emerging markets) consideration must be given to specific issues and challenges, for example:

- Many jurisdictions do not have a legal structure or regulatory framework that can accommodate issues that are common in mixed-use projects.
- Many foreign developers have little idea how to legally structure a mixed-use project and their legal counsel may be inexperienced.
- Developers frequently leave legal issues to the end, assuming that this work can be completed quickly (when in fact it cannot!).
- Developers often fail to consider that they may want to sell the hotel in the future.
- Risk of termination of the management contract while allowing the branded residences to retain use of the brand (e.g. China).
- All too frequently developers commence planning and construction without addressing fundamental questions relating to sharing facilities and costs, nor consider what happens if there is a disagreement in the future.

Final words of wisdom?

Depending upon the jurisdiction, governance can be a legal minefield. To eliminate the risk of potential problems downstream, there is no substitute for seeking early expert advice when planning mixed-use projects, especially those that incorporate branded residences.

Accommodating Conflicting Interests

There is plenty of sound advice as to the need for a significant upfront investment in establishing an effective legal structure to govern the relationship between the developer, operator and branded residence owners; however, in preparing the structure it is worth keeping in mind the tensions that can exist between the interests of the developer, the operator and owners as the project matures. Felicity Jones, Head of Hotels and Leisure at Watson Farley & Williams LLP, addresses a couple of key issues relating to the interests of the residence owners, the hotel owner and the brand operator that the developer will need to balance.

Implementation of Brand Standards

The operator's priority is to ensure that its brand standards are maintained throughout the development during the term of the operating agreement and that, over time, those standards stay up-to-date in the market place. A developer keen to sign up with a brand to market the residences should consider the costs of the brand maintenance charges that will fall to the hotel and individual residence owners (and the extent to which these are fair and equitably apportioned).

If the developer maintains an interest in the development there is (usually) a stronger incentive to ensure that costs for common spaces / facilities are contained, brand standards maintained and regulations properly implemented. However, since it is more likely that the developer will want to exit the project in due course, given the potential premium paid for the branded residences the owners should seek assurances that there will be a continuing brand presence capable of maintaining a premium position in the market place, and that associated future costs will not be disproportionately high.

When a hotel is including private residences in its room inventory, owners should expect the developer to have negotiated provisions in the hotel management agreement (and other relevant documentation) in terms of re-equipping and refurbishment, which give the residence owners sufficient rights to ensure their homes are being appropriately and collectively protected.

Loss of the Brand

In some jurisdictions it has proved easier for the interested parties to terminate a brand than in others. Whilst it may be the actions of the hotel owner that lead to the loss of the brand (i.e. due to a failure to perform its obligations), more frequently it is down to the residence owners; in some jurisdictions they cannot be forced to join (or remain in) the Home Owners Association, which can lead to problems such as unpaid management and maintenance fees. This is a more challenging situation to resolve. As such, the developer must balance the approach of the operator with the interests of an owner and take steps to limit the exposure to residents that may result from the behaviour of one or more 'rogue owners'. Similarly, the rights of the operator to continue to operate should be addressed - provided of course that it provides the agreed services and charges for them in a fair and equitable manner. Failure to do so can result in the loss of the brand and potential claims from owners and/or the operator - in which case it is all parties who will suffer.

Spotlight on AccorHotels

AccorHotels' 2016 acquisition of Fairmont, Raffles and Swissôtel, as well as its strategic partnership and equity stake in Banyan Tree, has significantly enhanced the company's residential portfolio to provide a comprehensive suite of branded residence solutions spanning midscale, luxury and ultra-luxe segments. It has also created a dominant new player in the market. In this interview, Jeff Tisdall, VP Residential Development, summarises Accor's approach to branded residences.

With a strong track record of pioneering the development of branded residences in new markets, Accor has demonstrated that its model can be replicated across diverse geographies and segments. From lifestyle brands like So Sofitel Residences to the elegance of a Raffles Residence, and an operating portfolio and development pipeline which extends to markets as varied as Los Angeles, Vancouver, Istanbul, Sofia, Bulgaria, Abu Dhabi, Marrakech, Kuala Lumpur and Chengdu, China, it's a concept that has proven highly adaptive.

Accor's experience in branded residences dates back to the late 90s with the launch of a ground breaking project in Acapulco, Mexico under the Fairmont Heritage Place (FHP) private residence club brand; today there are 10 FHP projects operating worldwide. Whole ownership Branded Residences and luxe Serviced Residences (operated on an extended-stay basis) were subsequently introduced under most of the company's midscale through ultra-luxe brands. Today the company's portfolio of Residences has grown to more than 20 properties worldwide, with another 40+ in the development pipeline. Generally the for-sale Branded Residences are presented as lifestyle/ owner usage focused offerings, with rental programs common in resort destinations.

The company's typical branded residences model assumes a mixed-use development in which the residences are co-located with a hotel asset. It stresses the importance of effective development planning, to ensure hotel services and facilities are appropriately leveraged to maximize the residential experience, while design safeguards privacy and exclusivity. As Jeff Tisdall explains: "The co-location model serves a number of objectives - notably enhancing the economics of hotel ownership, but also by creating a value proposition for Residential purchasers that is extremely compelling. As important as the bricks and mortar, it's our suite of hotel and residential services that really differentiate our offerings."

Accor sees constant innovation as a key to its success in this sector. "Purchasers of branded residences are typically participating at the very highest end of their respective residential markets," comments Tisdall. "Consistently we see that they seek out leading edge design and first-of-a-kind features and benefits".

To find out what their target customers (i.e. from source markets) really want, the approach is research led. "We listen to the market. Today we are managing relationships with more than 3000 residence owners worldwide, and their feedback has helped us immensely. In addition to expert interviews and feasibility studies, we also encourage focus groups as a means of identifying and prioritising buyer requirements for each project. This enables us to get close to our customer and develop facilities and service offerings that anticipate consumer needs in a very fast a moving market segment."


So Sofitel Residence, Kuala Lumpur


Residence at Banyan Tree Laguna, Phuket

Collaboration is another key element that Accor emphasises; the company feels it is critical to leverage the insights of all project stakeholders - the marketing agency/consultancy, designers, sales teams and, most obviously, development partners. "Key elements of our residential offering are designed to appeal broadly to HNW and UHNW buyers, across varying markets and geographies - a good example being our Global Residential Owners Benefits Program which ensures our Residence owners are extremely well taken care of whenever and wherever they travel with us," comments Tisdall, "but our product design process is open and collaborative and that helps us ensure we adapt properly to local contexts."

Tisdall notes that Accor's developments' partners are often key to this process. "Our typical partner is a leading developer in the markets in which they operate - often having developed several successful residential projects before introducing a branded residence. At Accor, our role is to integrate our services, brands and insights - with the unique qualities our partners bring to the table - to create truly innovative and compelling residential environments." He adds that this sort of partnering is essential when entering new or emerging markets.

With a wide array of mixed-use solutions to offer, it is crucial for Accor to help its developers select the brand that is best suited to market characteristics, thereby delivering optimal returns. "We assess very carefully whether it's an upper-upscale brand like Pullman, or a proven luxury brand like Sofitel or Fairmont that is best positioned to unlock value. In some markets we are finding the right fit is a midscale brand like Novotel". Furthermore, Accor places a lot of emphasis on alignment and vision. "At the end of the day it's a partnership - we need to understand what makes a branded residential development successful from the perspective of our partner, and ensure we align ourselves with those objectives. We have also been very fortunate to work with residential development partners who understand the importance of branding and work closely with us to protect and enhance the brand throughout the development and marketing process".

While most of Accor's residential developments are co-located with one of its hotels, the group will selectively pursue standalone opportunities. As Tisdall notes, "we think standalone branded residences can be a very successful model, when the right conditions are in place". He adds that the viability of standalone branded residences needs to be examined carefully - and that a key is to find a way of recreating the economy of scale that would otherwise be provided by integrating hotel and residential operations. With an eye on the future he notes, "With the right partner and strategy, a standalone development in London, Paris or Hong Kong would be very interesting".

Conclusions

"Overall we believe there is strong potential for the right brands to perform well and to continue to command significant residential price premiums, although in our opinion there is a risk of this window of opportunity lasting only a couple of decades. Notwithstanding this, the potential returns and improved rate of sales for developers and increased non-hotel room revenue can be high and therefore eminently worthwhile, particularly in high quality resort locations and emerging markets."
Daniel von Barloewen, Marriott International

"As a real estate investor, it is critically important to deliver an uncompromising product in terms of location, architecture, interior design, art, amenity and service. Partnering with an existing brand with a strong reputation and experience in delivering the highest levels of service has been shown to achieve significant premium pricing in the market, making it a very compelling economic option."
Paul Vollman, Managing Partner,
Yorktown Partners LLP

There is little doubt that the concept of branded residences has become a mainstream, expanding and evolving part of the real estate industry. We are seeing unprecedented levels of branded residences across Far Eastern markets and the evidence is that the formula is expanding rapidly in other emerging markets (as well as more established ones).

From the findings of this report, in the future we might expect to see:

- Continuing expansion in the sector in terms of the number and range of market participants.
- A shift in the balance from resort residences towards branded urban mixed-use developments.
- Less focus on 'tangible' elements, more on emotional.
- Wellbeing and positive 'healing' environments will become standard.
- Broader quality of branded units for sale (i.e. lower star rated hotel operators).
- The emergence of residential lifestyle brands for specific demographic segments (e.g. retirement).
- The emergence of exciting new destinations across the globe offering branded residences, including South America and Africa.
- More branded residences in Europe.
- High premiums being squeezed in developed markets with more competition.
- More standalone branded residences, mostly in an urban environment.

Finally, a brief word on the importance of positioning and differentiation: branded residences that present a clearly defined offer and attractive lifestyle, which resonate with buying audiences, will succeed to a much greater degree than those that do not stand out for anything distinctive.

In conclusion, as with any sector, a successful real estate development must be driven by satisfying (even exceeding) customers' ever-evolving requirements and desires. Increasingly, these have been shifting with growing impetus towards the convenience, security and confidence that are associated with branded residences - and, from the evidence presented in this report, this trend looks set to continue.

There are numerous elements to consider when planning, designing and building a branded mixed-use development. However, one thing is certain: the days of "*build it and they will come*" are long gone. Today's affluent buyers are spoiled for choice and bombarded with opportunities to invest in luxury homes across the globe.

It is the role of professional marketers to advise on how best to package and promote a residential development effectively, in order to target and attract discerning international buyer audiences. Having worked on many projects around the world, I am continually reminded of the importance of standing out from the herd - and for the right reasons. As the evidence in this report (which has been compiled from extensive published research, articles and industry sources) reveals, when residences are well presented and appropriately branded it can provide elevated levels of distinctiveness and desirability that deliver confidence and boost sales momentum.

If you would like to discuss any aspects of a project (whether planned, in development or operational) please feel free to contact me - and if I can't help with the answers you seek, I probably know someone who can!

I hope you enjoy reading this report. My thanks to all those who have contributed their time, insights and experiences.

Chris Graham

About the Author

With a career spanning over 30 years in sales and marketing, Chris Graham first gained his real estate experience as Group Marketing Director at leading estate agency Hamptons International. In 2008 he founded Graham Associates, a London based branding, marketing and lead generation consultancy, to specialise in international real estate developments and residential resorts.

In 2009 Graham Associates joined You Group, a central London agency with 38 full-time staff, with annual billings exceeding £40 million and an impressive client portfolio including many of the UK's top real estate brands.

Chris and his team work closely with leading real estate and resort clients around the world, for whom they develop bespoke marketing strategies, sales collateral and lead generation campaigns. Many of the projects undertaken in the past two decades have involved a branded residences component, highlighting first-hand the benefits and growth potential of this exciting sector of the market.

Chris and the property team have won several industry awards including *Best Development Marketing* (x7), *Best Property Website* and *Best Estate Agency Marketing* (International Property Awards); *Best Marketing Campaign* and *Best Integrated Campaign* (International Building Press Awards); *Best Marketing* (National Housing Awards) and the *OPP Gold Award for Marketing Excellence.*

"Experiential luxury is growing faster than personal goods luxury, and designer homes are a natural bridge between these two worlds: is there any greater experiential product than one you actually live in?"

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