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AsianProperty REVIEW

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BRANDED RESIDENCES

ASIA'S ULTIMATE TROPHY PROPERTIES

The rising number of HNWIs is fuelling demand for globally recognised branded residences with all its accompanying prestige and bespoke services.

There are now 2,000 billionaires in the world, growing at 13% per annum, according to Forbes. Many of them have homes all over the world and typically stay in different countries in a year. Their choice of homes – global branded residences. This is why the number of such residences has increased tenfold over the past decade.

These are homes in prime locations that offer bespoke luxury services and prestige associated with an established brand. Branded residences started about 100 years ago in New York but only became a trend in the mid-1980s beginning with Four Seasons followed by Ritz-Carlton. When it became a success, other hotel brands came in such as Starwood, Fairmont, Kempinski, Aman, St. Regis, Hyatt Regency, Six Senses, Banyan Tree, W Hotels, Viceroy and Mandarin Oriental.

However, it is in Southeast Asia and the Far East that resort branded residences have reached a matured phase and become the ultimate in luxurious accommodation.

In Southeast Asia, Thailand leads the way with Amanpuri Phuket in 1988 followed by The Four Seasons Chiang Mai in 1995. Thailand still leads today with the biggest number of such residences in the entire SEA region.

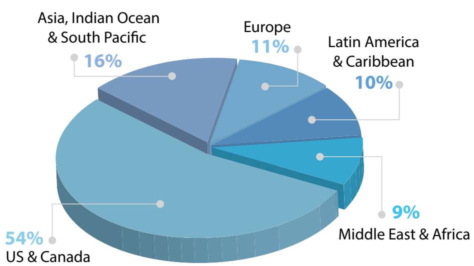
According to Bill Barnett, Managing Director at C9 Hotelworks, large luxury hotel brands like Ritz-Carlton and Four Seasons are seeing a high proportion of their hotel pipeline being generated in mixed use or project with branded residences; they tend to favour gateway cities and key well-known leisure destinations with strong airlift.

"Japan has been active in top end projects like the Four Seasons Kyoto or Park Hyatt Hanazono near Niseko. Overall, the urban push is strong, interestingly two key Asian resort brands, Aman and Six Senses, have city branded residences coming up in New York City."

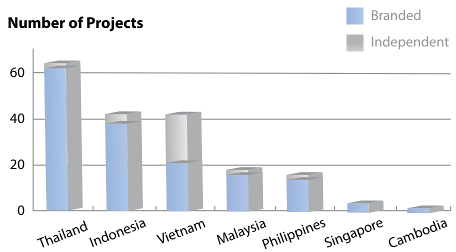
According to research by Barnett's C9 Hotelworks, the hotel branded residences market in Southeast Asia has now topped US$16 bil and is still growing at an unprecedented rate. Across the region, C9 Hotelworks estimates there are about 94 mainstream hotel residence projects with more than 21,000 units on line, with 78 properties expected to complete between 2018 and 2020, representing an 83% increase over the inventory in 2015.

"Asia is also the testing ground for pioneering iterations of the concept with regards to scale, business models and levels of servicing/supporting amenities," according to Bruce Wright, Senior Vice President and Principal of SB Architects.

BRANDED RESIDENCE DEVELOPMENTS BY REGION



BRAND AFFILIANT VS. INDEPENDENT



Room angle, Anantara Phuket Layan

Joanne Kua

Bill Barnett

Dato' Sri Gavin Tee

Bruce Wright

WHY BRANDED?

Branded residences tick all the right boxes – for the buyers, there is assurance of quality in construction, design and service; secure environment, bragging rights, "Lock up and leave" capability and the potential for investment returns from a rental pool (notably in a resort context).

Says Joanne Kua, CEO of KSK Group Berhad and Managing Director of KSK Land Sdn Bhd: "Ultimately, when people buy a branded residence, they are looking at buying more than just a property, they want unique experiences that are often anchored on four key attributes –

- Opulent design by a renowned designer
- Luxury services and facilities offered by a 5-star hotel brand
- Unique architecture by a celebrated architect
- Brands associated with a level of quality and trust these brands can deliver"

"Expatriates or HNWIs prefer branded residences, particularly famous international brands because these brands inspire confidence and provide the kind of bespoke services that they are used to. The brand carries the guarantee of quality and services as well as safety and security," affirms Dato' Sri Gavin Tee, President of Swhengtee Group.

Adds Wright of SB Architects: "Usually the access to ownership comes at a higher cost, but the return is a deep emotional connection to the brand philosophy, culture and often the related hotel amenities."

Other reasons include hassle-free ownership, owner benefits, e.g. residents' discount card, access to the operator's properties in other locations and like-minded neighbours. Indeed, some leading designers such as Luciano Mazza at HKS and John Hitchcox at YOO are talking about creating "modern day communities" of like-minded people – a sort of exclusive residents club.

From the standpoint of the developer, having a brand associated with its property enhances sales by as much as 30%. The resale value is higher or maintained while at the same time, it can fetch higher rentals.

Furthermore, these residences yield a typical premium of between 20% - 40% with some fetching as much as 50% - 100% more, for example, the branded residences at The Ritz-Carlton Dorado Beach in Puerto Rico sold at up to 250% above the average per sq foot price of non-branded units in the same development. The Armani Penthouses in Dubai were selling at more than 50% higher than when they were launched five years previously, according

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


Chris Graham


Glen Chan


Arianna Leopard

to a report by Chris Graham, Founder and MD of Graham Associates.

Interestingly, it is not just hotel brands which are the players, luxury brands from the fashion and jewellery industry such as Bulgari, Versace, Moschino and Armani and those from the automotive sector such as Porsche and Mercedes Benz have also licensed their names to developers. Royalty fees typically range between 3-5%, according to HVS and Savills.

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. "Prime urban branded developments have greater appeal because they are perceived as less risky," observes an insider.

However, Wright from SB Architects believes that despite the urban-centric focus, there is a growing number of thriving ultra-luxury branded resort real estate in destinations like the Maldives, Caribbean or Turks & Caicos.

THE DESIGN FACTOR

Apart from location which is the most important factor for branded residences, architects and interior designers are also a critical part of the mix. "Branded residences need to have a high-degree of personalization and the accent is on interiors that tag the buyer's lifestyle and wrap around emotion and feelings. We seamlessly merge architecture, interior design, and lifestyle in a way that speaks to the aspirations of the buyer, explains Arianna Leopard, Director of SB Architects.

Wright concurs: "Consumers are more design conscious than ever before; they want to work in creative spaces and holiday in unique hotels. They want that bespoke design aesthetic to continue through their personal lives into their homes."

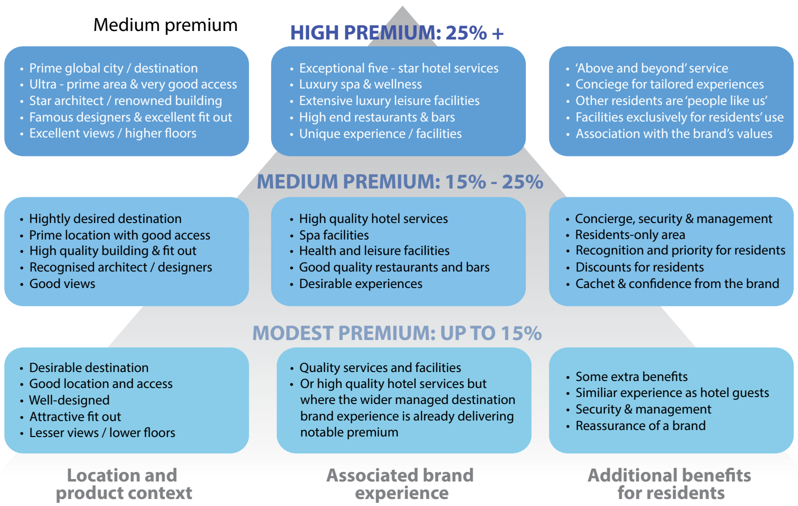
Yoo's founder John Hitchcox says: "This can really be attributed to the growth of the design savvy consumer, the ever increasing importance of brand trust in our society and ultimately, developers recognising the importance of the home as a high involvement purchase."

Yoo is a leading designer in this sector with a portfolio of over 80 projects around the world and a stable of top designers including Philippe Starck, Jade Jagger and Kelly Hoppen.

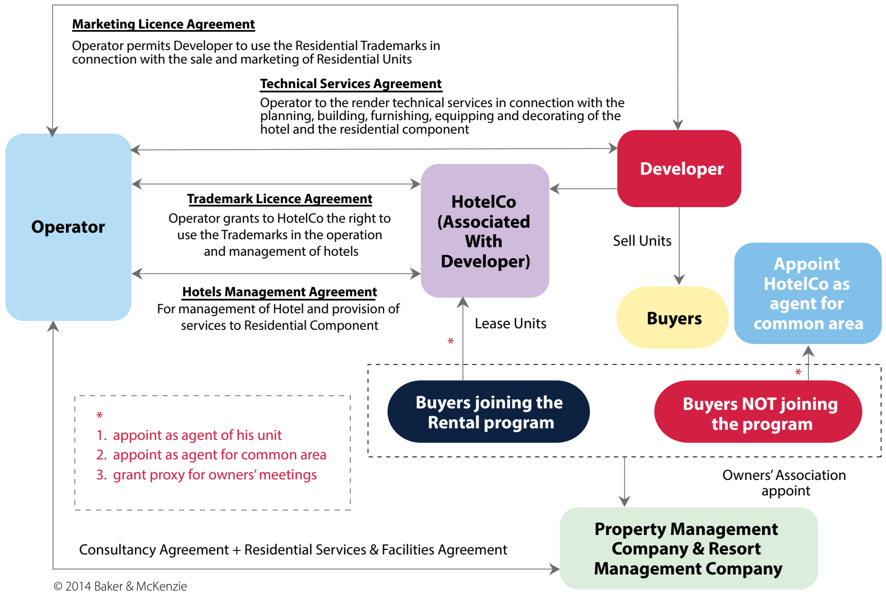
The ultimate design differentiation is of course to engage "starchitects" for example WATG's St. Regis Hotel & Residences in Singapore and the residences by Norman Foster and Frank Gehry at Battersea Power Station in London.

BRANDED RESIDENCES - DRIVERS OF PREMIUM

Factors comanding price premium above unbranded residential product



STRUCTURE OF A TYPICAL BRANDED RESIDENCES PROJECT



© 2014 Baker & McKenzie

Clearly, the quest to differentiate is a constant race to imbue the residences with the best and most unique qualities – this has shifted to more experiential lifestyle.

Says Graham: "Whilst buyers' priorities remain consistent in terms of location, design and access to world-class amenities, very much in line with trends in the hospitality sector, it is increasingly more about the intangible 'added value' lifestyle benefits associated with a brand. Increasingly, the shift is towards creating an emotional connection with residents through experiences."

An example is a residence with access to a private marina a few steps away. Pan Pacific Serviced Suites Puteri Harbour together with Puteri Cove Residences and Quayside, are the only luxury waterfront project with both private-marina (300 berths) and sea views in Iskandar. Developed by Pearl Discovery, a joint venture by Singapore-based real estate developers Pacific Star and DB2, the 205-suite Pan Pacific Serviced Suites Puteri Harbour is scheduled to open in the third quarter of 2018. The marina facility will be managed by Singapore's award-winning Marina and Lifestyle operator, One 15 Marina.

In fact, says Glen Chan, President and CEO of Pacific Star Development: "The private marina in Iskandar will be modelled after the one in Sentosa Cove which is also managed by One 15 Marina."

WHAT'S NEXT?

The supply of branded residences is currently limited around the world. However, given that more and more of such residences are being built, it runs the risk of oversupply. That has already happened in Thailand and Vietnam, where branded residences are now becoming so engrained and numerous in the market that they risk being the norm rather than the exception, cautions Graham. Barnett agrees saying that there will be more and greater diversity in real estate grade from luxury to entry level. "Even budget chain YOTEL is talking branded residences."

This then is the challenge for the branded residences segment today – to push that differentiation factor even further as competition begins to heat up. ■

Unless otherwise stated, all charts and tables are courtesy of Chris Graham.


Pan Pacific Serviced Suites Puteri Harbour

BRANDED RESIDENCES

THE INSIDER'S VIEW

Asian Property Review talks to Chris Graham (Founder and MD of Graham Associates), who is regarded as one of the world's foremost specialists on branded residences.

100 Las Olas

1 Does the shift of consumer preference for more independence through branded serviced apartment spell the beginning of the demise for the pure stand-alone hotel set-up?

There will always be strong demand for stand-alone hotels. Whilst branded residences and serviced apartments certainly add to the range of accommodation choices available to travellers, in reality these still represent a relatively small percentage of the market. In many cases – notably prime urban locations – the lack of availability and the high cost of land are key factors that can inhibit the opportunities to include a branded residential component alongside a hotel. Many travellers seeking greater independence are of course turning to AirBnB – although currently most branded operators do not permit their homeowners to use this platform to rent out their residences, which must instead be put into the operator's managed rental programme.

2 Apart from concierge and butler services, celebrity or Michelin chef restaurants, in-house cinemas, branded spas, golf simulator, wine storage, award-winning designers and even starchitects, what other distinctive services or characteristics mark the branded service residence?

There is a long list of facilities and services that developers are incorporating in their branded residences (including those listed above). In addition, there is the convenience of owning a "lock up and go" home, that will be kept secure and professionally maintained – and possibly earn valuable income - when the owner is not in residence.

Above all, rather than simply providing more 5*+ facilities, the focus is more about creating a personal and emotional engagement with customers. Some leading branded residences designers such as Luciano Mazza at HKS and John Hitchcox at YOO talk about creating "modern day communities" of like-minded people – a sort of exclusive residents club. Whilst buyers' priorities remain consistent in terms of location, design and access to world-class amenities, very much in line with trends in the hospitality sector, it is increasingly more about the intangible 'added value' lifestyle benefits associated with a brand. Increasingly, the shift is towards creating an emotional connection with residents through experiences.

> "I have seen cases where high-end developments use celebrities such as footballers to promote 'the exclusiveness' of their offer, yet in reality many HNWIs do not wish to have these types of high profile individuals as their neighbours, so this can in fact sometimes have a negative impact."

Chris Graham

3 What are the most common challenges faced by developers when building a branded residence?

There are innumerable challenges that a developer faces and every project brings its own unique set. I would say generally that securing the best locations and ensuring that branded residences are designed for the local marketplace rank quite high. On this second point, most branded operators have rigid guidelines about FF&E, room sizes and facilities so in some cases these may, for example, require that units will be too large – and therefore expensive - for the local market, when priced on a per sq m basis. Many developers today will appoint an operator once the design concept for the residences is already well developed, so marrying up the design to the brand guidelines in such circumstances can be an issue. Another challenge is financial – notably achieving sufficient off-plan pre-sales, since construction is often only triggered once a specified number of units has been sold.

> Increasingly, the shift is towards creating an emotional connection with residents through experiences.

4 In terms of the buyers, are they filtered to create an exclusive community of persons of a certain standing, yet free of scandals or drama – for some developments that you are aware of?

When there is a committed buyer with money on the table sitting in front of a sales negotiator, it is very difficult for him or her to find reasons not to make a deal! However, I certainly know of situations where potential buyers have been politely turned away. In upper-upscale developments especially, most developers and their sales teams recognise the importance of maintaining an exclusive residential community and are well aware of the negative sentiment that one 'less-than-desirable' resident can attract.

Similarly, I have seen cases where high-end developments use celebrities such as footballers to promote 'the exclusiveness' of their offer, yet in reality many HNWIs do not wish to have these types of high profile individuals as their neighbours, so this can in fact sometimes have a negative impact.

5 How much higher can we raise the bar for luxury or is it a meaningless word now, being overused and made up of standard offerings?

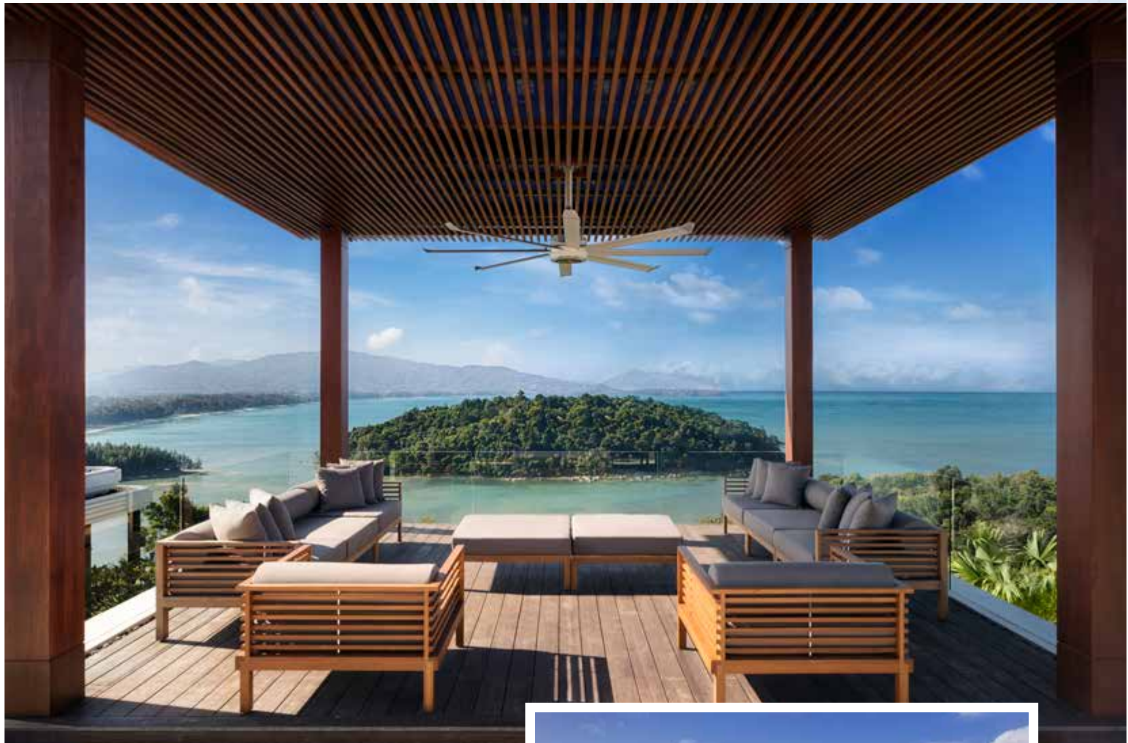
Interbrand's Rebecca Robins was spot on when she observed that the definition of luxury has become so diluted that it is becoming meaningless. This is particularly true in real estate, as almost every residential development that launches is promoted as "luxury". Design, technology and innovation all continue to expand the boundaries and opportunities for developers, notably around sustainability and Smart Homes, which are fast becoming standard.

6 Should branded residences adapt to their local environment by incorporating local elements such as local design and architecture, and materials - without diluting the world class standard of the branded hotel operator?

There is no right or wrong way, as every situation is different. It depends on several things, for example the location, the intended target audience, and the brand. Some brands such as W have a very distinctive design style, which is either suited to a particular location and lifestyle or it isn't. Generally, architects are pretty sympathetic to the local environment and prefer to use locally-sourced materials. I recently heard about an extreme example in which a developer moved an entire village across to his new resort site for total authenticity.

7 What are the common challenges faced by luxury hotel brands when dealing with local developers as their partners?

Ensuring that the developer designs and builds the property to satisfy its brand standards, and then subsequently maintaining the property to the highest standards. It is important to remember that a local developer may be seeking an earlier exit from the project than the international brand operator, so the operator needs to ensure that its interests – and those of the residence owners – are adequately protected over the longer term.



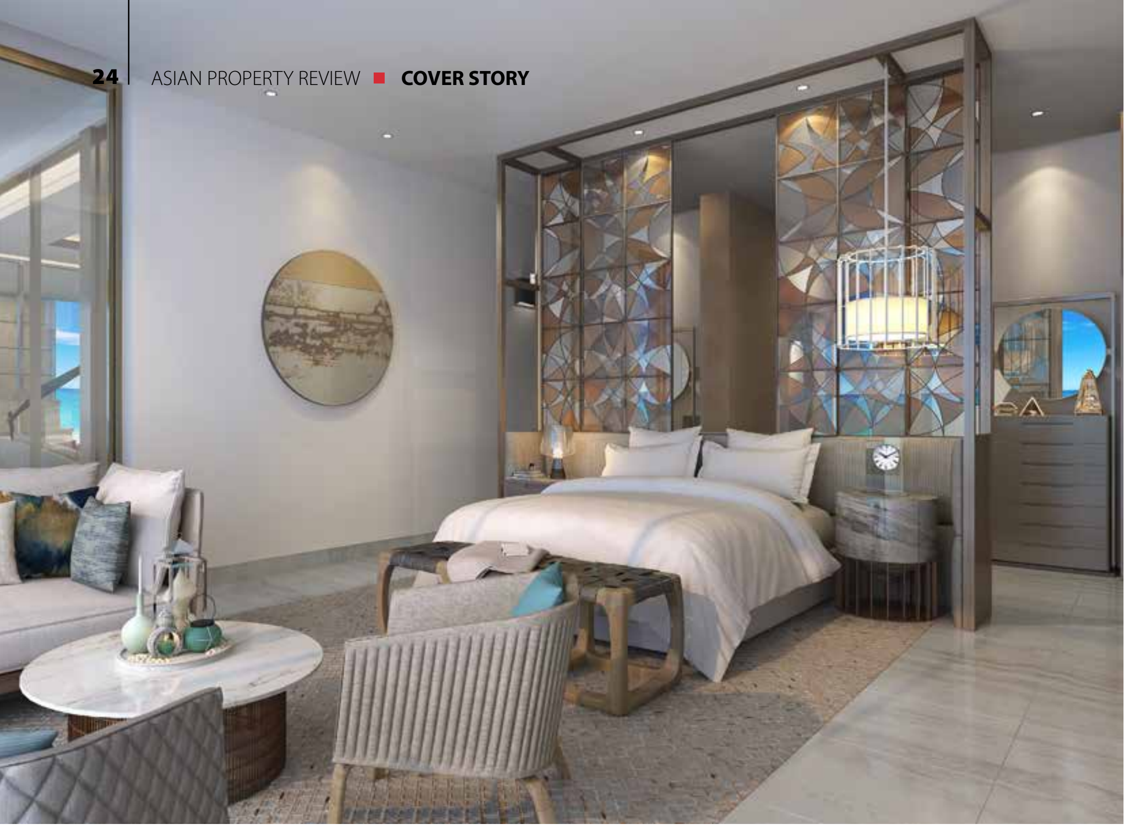
Upper Deck Sala View, Anantara Phuket Layan

8 "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)

The above seems like a big disconnect in perception. How should the hotel CEOs rethink their brand differentiation?

Yes, this quote neatly emphasises a key point I highlighted in my report. There is such a proliferation of brands competing at various levels of the market and to different audience segments, all trying to differentiate themselves by carving out a unique identity and positioning in the marketplace. Yet reading through many brand positioning statements is pretty confusing, even to industry professionals - and if we cannot understand what a particular hotel

Anantara Phuket Layan



Ocean Drive Residences

> “I recently heard about an extreme example in which a developer moved an entire village across to his new resort site for total authenticity.”

brand represents, then how can consumers and potential purchasers be expected to do so? Piers Schmidt at Luxury Branding Consultancy undertook a study on this last year in which he found that a significant proportion of hotel brand slogans actually employ very similar sound bites, which he describes as “buzzword bingo at its best!”

Branded residences that present a clearly defined and offer an attractive lifestyle which genuinely resonate with buying audiences, will succeed to a much greater degree than those that do not stand out for anything distinctive.

This is where good marketing can really make a difference, by effectively packaging, presenting and communicating the offer to differentiate the development, so that it truly stands out from its competitors.

9 With so many branded residences in the market, do you think it will reach a saturation point where the customer can no longer see the differentiation?

In the Southeast Asian market, notably Thailand and Vietnam, branded residences are now becoming so engrained and prolific in the market that they risk being the norm rather than the exception. Branded residences achieve a generous price premium over comparable non-branded homes because of the exclusivity and kudos that the association with the brand offers to owners; as such, in a market that is becoming ‘saturated’ with high-end branded residences, exclusivity can really only be defined by the desirability of the location and the perceived status of the brand itself.

10 Any examples where the arrangement between the owner/developer and the brand operator is terminated. Usually, what are the reasons for the termination?

Normally this is caused by a failure by the developer or operator to perform its obligations, a breach of contract, or any risk of causing damage to the brand. For example, if the common areas of the branded residences are not maintained to the required standards, e.g. due to insufficient funding, this usually gives the brand operator the right to terminate the association. Of course, this has significant repercussions for the residents and the value of their properties.

11 Why is there a worldwide shift from branded resort residences towards branded urban mixed-use developments?

Branded residences had been established in North America for many years before the global industry woke up to the benefits that they offer – not least as developers realised that they could benefit from a substantial price premium and (generally) faster sales absorption rate by partnering with a respected brand. This has been driven largely by increasing demand among HNWI consumers seeking high-end residences with the convenience of hotel services in their own homes, together with the confidence that the association with an established luxury brand delivers. Previously, with the high cost of purchasing prime central urban land combined with strong demand for luxury homes sustaining prices, urban developers did not see the need (along with the added costs) to bring on a brand; however, as markets soften, competition increases and the bar is raised, the branded option presents a very compelling route for more quickly achieving differentiation, status and sales.

GRAHAM: TRENDS IN THE NEXT 10 YEARS

From my research and discussions with eminent market professionals around the globe, I predict the following trends during the next decade:

- Continuing expansion in the sector in terms of the number and range (i.e. sectors) of market participants.
- Broader quality of branded units for sale (i.e. lower star rated hotel operators).
- Less focus on ‘tangible’ elements, more on emotional connections.
- Wellbeing and positive ‘healing’ environments will become mainstream.
- The emergence of residential lifestyle brands for specific demographic segments (e.g. retirement).
- The expansion of branded residences into exciting new destinations across the globe, including South America and Africa.
- More branded residences across Europe, both urban and resort.
- Premiums being squeezed in developed markets with more competition.
- More standalone branded residences, mostly in an urban environment. ■

Editor’s Note: A free copy of the second edition of Chris Graham’s report “Branded Residences: An Overview” can be downloaded at www.gagms.com