

BRANDED RESIDENCES: AN OVERVIEW

THIRD EDITION



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Supported by a strong partnership with a reputable luxury brand, there is little doubt that a well-packaged and professionally presented residential development will attract positive interest from potential buyers. Nonetheless, there are (inter alia) three certainties to bear in mind:

- The days of “*build it and they will buy*” are long gone; with ever-rising expectations, today’s affluent buyers are highly informed, spoiled for choice and bombarded with opportunities to invest in luxury homes in almost every corner of the world.
- There are innumerable and diverse elements to consider when planning, designing, building and marketing a branded development, and the cost of getting the formula wrong can be considerable.
- Competition will only get tougher.

As branded residences increasingly become the norm rather than the exception, in addition to the added value that a brand can deliver (not least to justify the price premium), above all a discerning buyer needs to understand *how* that brand will benefit his or her lifestyle and investment ambitions over another. First-hand experience of working with major residential developments around the world has continually reminded me of the importance of differentiation and standing out from the competition – and for the right reasons.

With so many companies from an ever-widening spectrum of sectors now active in the branded residential arena, relevance, differentiation and targeted promotion are crucial. Seeking expert advice from experienced professionals is strongly recommended, which should be viewed as an investment rather than a cost.

I hope you enjoy reading this report. If you have any questions, observations or would like to discuss a project - whether planned, in development or operational - please feel free to contact me (and if I can’t assist, I probably know someone who can!).

My sincere thanks to all those who have generously contributed their time, insights and experiences.

Foreword



Muriel Muirden
Executive Vice President &
Managing Director, Strategy at WATG

Back in 2015, when Chris Graham initiated the first Branded Residence report, the luxury residential market was beginning to fire up once more after the consumer timidity brought on by the slings and arrows of a prolonged period of economic uncertainty. Projects that had lain fallow were finding new investors, urban mixed-use sites were being identified and older resorts were being given a radical makeover. The aspirational nature of the branded residence product, alongside the comfort factor it brought to prospective buyers intrigued investors.

Four years on, the branded residence market has gone into orbit in both an urban and resort context and with a wide spread of ambitious projects around the world. In 2019 we see a balanced development pipeline between North America, the Caribbean and LatAm, Middle East and Asia Pacific. Whilst Europe has been the slowest adopter, a number of exciting developments are coming online, and market uptake will be watched with great interest.

Over 50 percent of new resort projects taken to the hotel brands now have a branded residential component. Consequently, investors are selecting brands based not simply on their hotel operating credentials, but increasingly on their residential track record and expertise.

In response, the hotel operating companies are building teams of residential experts, placing more of their brands into the residence portfolio and investing in platforms to more effectively manage the inevitable rental programme.

In an increasingly congested market, the winning brands will be those that can seamlessly manage the residential experience for both the developer and the downstream homeowner. To stand out from the crowd, brand differentiation tactics and strategies will need to be employed that have strong buyer resonance. We see this as the most vital challenge for the sector going forward.

We also see opportunities for greater innovation in design and service and welcome Chris Graham’s deeper dive into market trends and industry observations on this topic and many others.

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Branded Residences: A “Win-Win-Win” Formula

It is generally accepted that the first branded residential development appeared in the 1920’s on New York’s Fifth Avenue, where the Sherry-Netherland Hotel operated successfully alongside its own cooperative serviced apartments. This was followed in 1929 with the opening of The Carlyle Hotel and private residences in nearby Madison Avenue. Thereafter, the branded residence concept as we know it today did not catch on for several decades until, in the mid-1980’s, Four Seasons sold out its hotel condominiums in Boston, soon after which the first international project appeared when, in 1988, 30 branded villas were launched at Amanpuri Resort in Thailand.

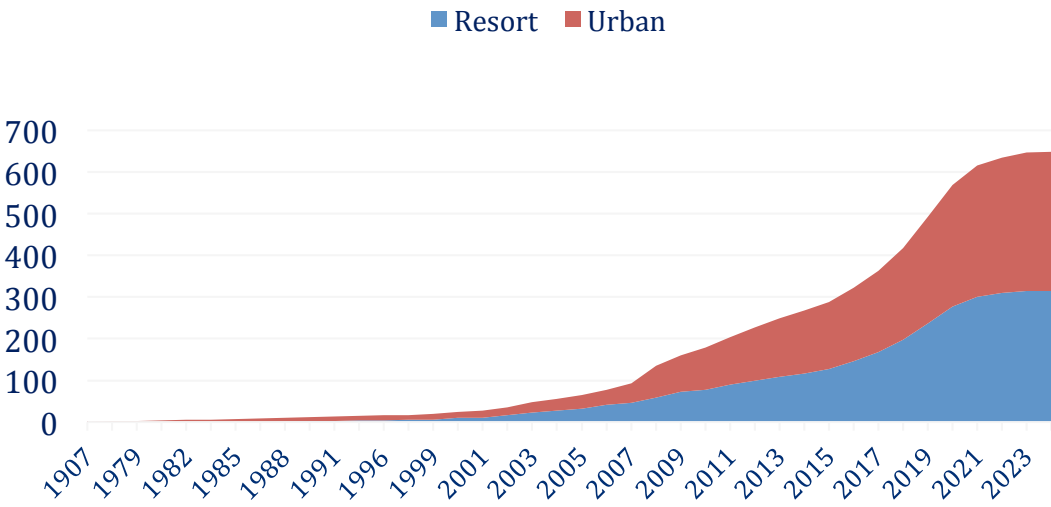
Recognising the potential, Four Seasons seized the opportunity to expand its portfolio in North America, soon establishing an international presence through the purchase of Asia-based Regent Hotels in 1992. A relative latecomer, Ritz-Carlton only entered the market in 2000 with the launch of its Washington DC residences. Today, with around 80 completed projects between them, these two brands continue to dominate the global hotel branded residences market – although others are gaining ground.

the attention of many others and the resulting market growth over the past two decades has been astonishing:

- During the decade 2002-2012, the number of hotels increased tenfold (Maxmakers).
- In only 2 years between publication of the 1st and 2nd editions of this report (2015-17), the number of hotel brands increased by 27%.
- The sector has grown nearly threefold in the last decade (+198%) and is forecast to grow by a further 27% in the next three years. Average annual growth since 2009 is 9% (Savills).

What is perhaps surprising is that it took so long to become a mainstream model. Javier Serrano at STR Global, a respected source of historical hotel performance, explains that the delay in serviced apartments and branded residences becoming an established concept 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

Evolution of Branded Residences



Source: Savills

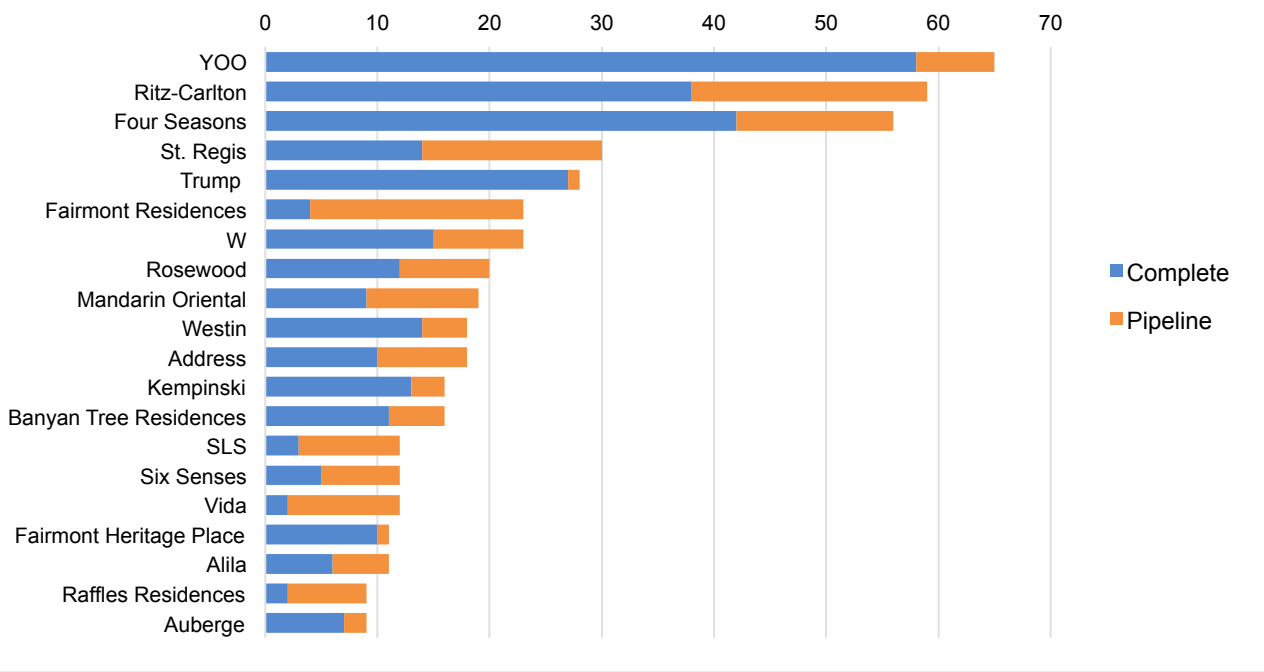
The turn of the millennium saw a flurry of market entrants, led by Starwood and Fairmont and quickly followed by several others.

Since then, the global hotel branded residences market has grown exponentially. The proven success of this “win-win-win” formula (i.e. that offers manifest benefits to buyers, brands and developers) attracted

branded companies, had limited access to this important information.”

Arlett Hoff, co-author of HVS Global’s early paper on branded residences, agrees that there was a scarcity of reliable, consistent and extensive operating data which could be used to benchmark the sector’s performance.

Top 20 Individual Brands - Number of schemes



Source: Savills

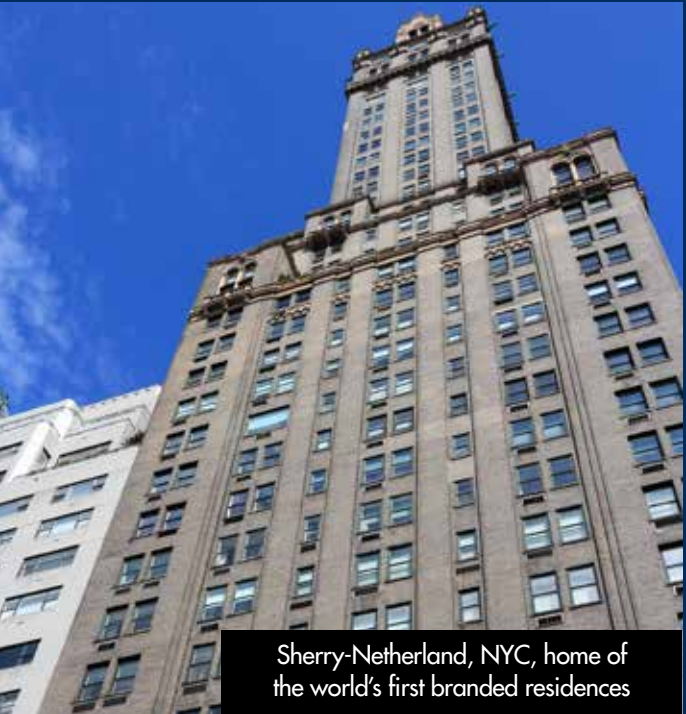
Muriel Muirden, Executive Vice-President of Strategy at WATG, surmises that growth has been driven by a few key factors on both sides of the equation:

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.
- 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).
- “Lock up and leave” capability/option.
- 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.



Sherry-Netherland, NYC, home of the world’s first branded residences

A snapshot of global branded residences

- There are 435 branded residence schemes (64,800 residences).
- 283 projects are in the active pipeline, adding a further 38,500 residences.
- Marriott is the leading developer and, due to its large pipeline, Accor will soon overtake YOO into 2nd place.
- North America remains the largest market.
- The fastest growth regions are MENA (pipeline +148%) and Europe (pipeline +80%); from a lower base, Latin America (+119%) and the Caribbean (+131%) follow.

Source: Savills

Jumping on the B®andwagon

"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."

Interbrand's Rebecca Robins
'Meta-Luxury: Brands and the Culture of Excellence'

The sector remains dominated by hotel brands (86% of all schemes) but, not surprisingly, such strong growth attracts the attention of fashionable brands in other sectors, encouraging them to 'jump on the b®andwagon'. "Given the proven success of the model, it is no surprise that developer and designer brands are increasingly competing with established hospitality brands, notably those luxury brands that are experienced in pioneering new locations and applying global standards to local markets," comments Daniel von Barloewen, Marriott's Head of European Residential Development. Categories include:

- *Automotive:* Examples include Aston Martin Residences (NB the penthouse comes with a \$2.5m supercar) and Porsche Design Tower in Miami, and the Bugatti Villas and Tonino Lamborghini Residences in Dubai. Aston Martin has recently announced a design service that enables buyers to create bespoke luxury residences 'in which their car takes centre stage'.
- *Fashion and jewellery:* High-end consumer brands such as Bvlgari, Versace, Missoni, Fendi, Ferre, Baccarat, Moschino and Armani have licensed their names (and design expertise) to developers.

- *Developers:* Companies with a track-record of distinctive high-profile projects behind them can become established as 'the brand'. Examples include Candy & Candy, Related, Trump, Berkeley Group and UAE based Emaar and Nakheel. This is a good status to achieve since it can add a healthy premium to selling prices, without having to pay large license fees / royalties to a third party.
- *Interior designers:* A leader in this sector is YOO, with a stable of top designers that includes Philippe Starck, Jade Jagger and Kelly Hoppen (supermodel Kate Moss was even commissioned on a project). Other stars include Yabu Pushelberg, Hirsch Bedner, Pierre Yves Rochon and United Designers, although it is a sizeable (and expanding) list.
- *Architects:* The influence of "Starchitects" as a major USP is now well established and having a prominent practice like WATG, HKS or Gensler involved certainly adds value. High profile examples include Armani Residences in Miami by César Pelli, the apartments by Norman Foster and Frank Gehry at Battersea Power Station in London, The Chedi Residences in Andermatt by Jean-Michel Gathy and Daniel Libeskind's Zlota 44 in Warsaw.

Now restaurants are getting in on the act, such as Nobu and Hard Rock. We are even seeing media / entertainment companies including Walt Disney and Fashion TV (in India), and global publisher Condé Nast is entering the market with branded residences linked to its high-end titles (see page 50).

Other brand affiliations that add to the offer include spas (e.g. Elemis, Six Senses), celebrity chefs (Ritz-Carlton's Abama in Tenerife has two Michelin-starred restaurants) and concierge services (e.g. Quintessentially, Harrods).

The sector experienced another first this summer when Dubai-based developer DAMAC bid for the Cavalli brand itself, with which it has a partnership to develop five 'AYKON' hotels with interiors by Roberto Cavalli, and the 'Just Cavalli' villas that launched in 2017. "The intentions of DAMAC are clear and the deal marks a new milestone in the history of property," observes Piers Schmidt of Luxury Branding Consultancy. "It was surely only a matter of time before a cash-rich developer determined to buy its way into the elite club of luxury brands."

Inevitably, each of these elements plays an active role in shaping the design and décor of the residences, since the completed units must accurately reflect the chosen brands and convey their brand values,

License Fees

With mixed-use branded projects, companies license their brands to developers in return for fees, which typically cover Royalty, Management, Trademark, Design, Technical and Marketing. Savills' Alexandros Moulas, Co-Head of Savills International Development Consultancy, explains.

"There is no 'hard and fast' formula and operators are putting forward many different permutations. The most common one I have seen involves an incremental fee, but this can end up costing developers a lot more."

- *Royalty fees* range between 1% and 6%, with non-hotel brands typically charging between 1% and 2.5% and hotel brands between 2.5% and 6% depending on location, brand (e.g. Upper Upscale are generally lower than Luxury brands) and GDV (the higher the GDV the lower the fee brands could accept). If in a prime sought-after city location, brands may well accept lower fees in order to have a 'flagship' property there.
- *Brand Commitment or Advance or Sales & Marketing Advisory fee*, which more and more operators have started requesting. They range between USD\$250k and \$500k+ charged upfront and are 100% credited against royalty fees from future sales.
- *Design or T&S (Technical & Services) fee*, which ranges between \$200k-\$500k or \$1k-\$2k per unit paid monthly, quarterly, annually or according to project's progress. Depending on whether there is a Management Agreement or Franchise Agreement in place, this relates to the operation

sometimes down to the finest detail. To ensure this happens, a brand partner will provide comprehensive guidelines and design specifications to the developer that (normally) must be applied (which often presents challenges for architects and developers). This is especially true with more established hotel brands, although increasingly some are taking a more flexible approach and assessing each scheme on a case-by-case basis. For example, as Bill Barnett at C9 Hotelworks observes in a recent article on Phuket, "Accor has taken a soft brand approach with their MGallery collection, which somehow addresses brand standard issues and allows more diverse properties into a chain scenario."

Savills predicts that new brands will give hoteliers a run for their money and there is little doubt that the list will continue to grow, although its latest research confirms that hotel brands continue to dominate (96% of pipeline) and are expanding faster than non-hotel brands.

of the HOA and normally the fee will be the highest amount from either:

- a) a 12%-15% share of the HOA annual fees,
- b) a fixed fee of up to \$300k, or
- c) a charge of, say, \$2.5k per unit.

Moulas elaborates on how this is calculated: "If, for example, the HOA running costs are \$1.5m per annum, then the fee would be between \$180k-\$225k. On the basis of a 'per unit' formula, if there are 100 residences at \$2,500 each then the fee is going to be \$250k. The fixed fee - as stated - is \$300k. As such, the applicable fee is usually the highest of the three calculations, namely \$300k."

Extra services offered may include a dedicated in-house team to train and assist developers, such as a marketing and sales support division. "The majority of operators show a consensus that the license/royalty fee covers the use of the brand name and approval of marketing material," comments HVS' Arlette 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." (See above).

It is the developer's responsibility to promote and sell the real estate units, covering the promotional costs and fees, usually working with a real estate agent(s) and specialist marketing and lead generation companies. The brand operator will generally assist in this process via their customer network and marketing channels (such as advertising in their house magazines, on their website, in hotel/store etc).



The residences at St. Regis, Astana by WATG

Adding Residences to the Mix

In many cases, mixed-use development involves the addition of branded residential units to a standard resort concept simply as a means to finance (some of) the development.

“There is a high dependency on achieving off-plan sales, often coupled with promises of rental guarantees, which can present a significant business risk,” observes Philip Bacon of Horwath HTL. “With branded residences, sales prices are at a substantial premium and must be supported through the creation of genuine added value. This will also be reflected in the hotel operation, which will be inextricably linked to the residential component in creating a community of like-minded people.”

With branded residences, developers and operators need to deliver facilities and amenities that go beyond those offered at a hotel, supporting the idea of ‘living’ rather than just ‘staying’ (e.g. activities for the entire family, health and wellness programmes, facilities to enable you to work from home, etc).

As the success of the residential component can be a key driver of value for mixed-use projects, Bacon recommends a bespoke approach aimed at creating tangible “layers” of value, which will allow the marketing and sales process to reflect the true benefits of the project, differentiate it from competing properties and support sales prices.

10 key things to consider when developing a mixed-use resort:

1. Place (not just anywhere - a place with a story to be told)
2. Land (with the right views and at the right cost)
3. Scale (in line with proper market depth analysis)
4. Phasing (without undue disruption of the resort experience)
5. Business Model Mix (balance risk with reward, build in a fallback position)
6. Legal structure (be conscious of over-lapping interests of all stakeholders)
7. Financing structure (adequate equity and debt structured in line with business model risk)
8. Real experiences (this is what people buy, not suites or square metres)
9. Marketing strategy (as always, know your customer today and your customer of tomorrow)
10. Operators (choose your brands carefully, all have both strengths and weaknesses)

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.”

Zoe Dare Hall, real estate writer

A few years ago, Hotelhomes.com summarised the benefits of branded residences 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 non-branded property. The fact that they are limited in supply (and thereby more exclusive) helps to maintain property values.

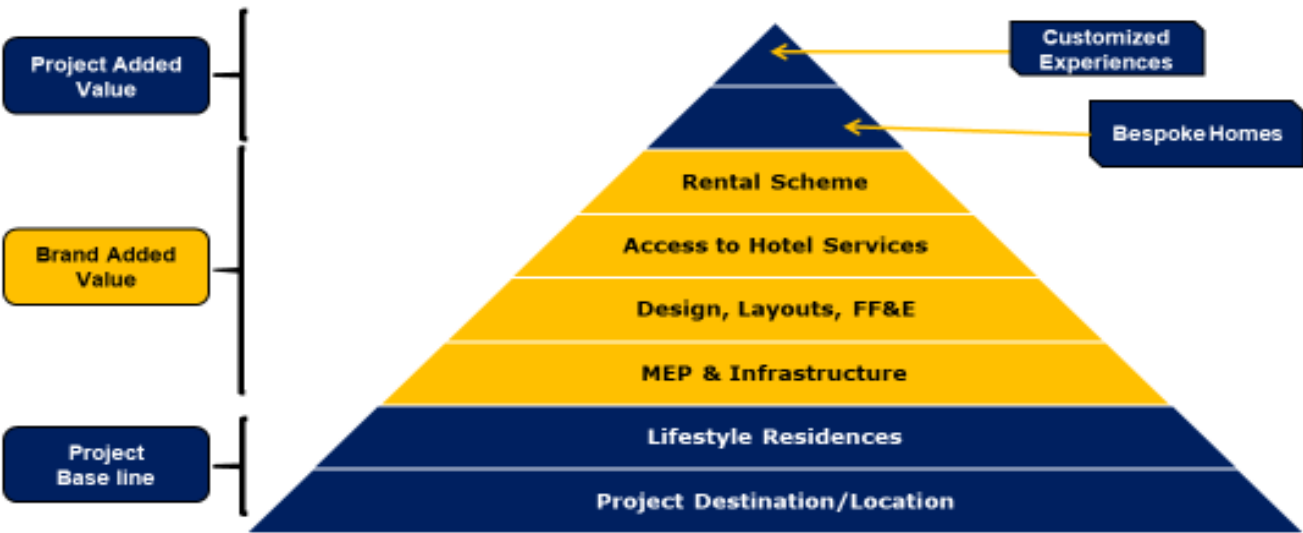
Today, with the possible exception of the last point about limited supply (in some developed markets), these still underpin the list of benefits, but as the market has matured it has evolved to satisfy buyers’ aspirations. The list of benefits are discussed throughout this report.

The first point is an interesting one, since this was ranked (intentionally or otherwise) at the top of the list: Colliers International also sees the ‘trophy’ status as an important factor, while Four Seasons certainly recognises the ‘trophy’ characteristic amongst its buyers, stating that its brand attracts “... loyalists and trophy collectors who identify with the Four Seasons lifestyle”.

WATG’s Muriel Muirden confirmed that their research supports this, also observing that in general unit sizes of branded residences are larger, especially in comparison to European standards, reflecting this trophy positioning. Robert Green at Sphere Estates agrees that branded residences are generally larger than their non-branded equivalents, “with some offering trophy-style’ properties of 1,000+ sq m²”. However, he notes a 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/m² to sell the units.”

Marriott’s von Barloewen emphasises 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 long-term residential use.

Residential Value Proposition



©2019 Philip Bacon

Benefits to buyers include:

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

1. Marc Finney 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 associated costs 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 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. YOO’s John Hitchcox believes that the communal areas should 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.”

Spotlight on Marriott International

Since it launched its first branded residences in 2000, today Marriott has a global market share of 35% of all hotel branded residences, with nearly 100 branded residential projects open (c.13,000 residences) and 75 (c.9,000 residences) under development across 14 of its 30 brands. Daniel von Barloewen, Regional Senior Director of Mixed-Use Development, Europe, discusses how the company works with developers to ensure an optimum outcome for all parties.

How do you choose the most suitable Marriott brand for a residential development?

We work closely with the Owner/Developer through a comprehensive due diligence process, examining a range of key factors to ensure that the project is commercially feasible and that we arrive at the optimum brand fit for both the hotel and the residences.

We evaluate the specifics of the site and the proposed concept in order to determine which category (Luxury or Upper Upscale) would be most appropriate; then, based on the location's tourism profile and the specifics of the site, we choose which brand within that category would fit best.

We also consider the main source markets and buyer profiles (age range, nationality, budgets, purchase motivations) of the projected residential buyers to choose the brand that best resonates with those markets.

How are brands differentiated and how is this communicated to buyers?

Each Marriott brand specifically targets different guest profiles. The most obvious differential is between our 'traditional' and more design-led 'lifestyle' brands. Helping buyers understand the specifics of a particular brand is achieved through a combination of marketing collateral and brand immersion training that we provide to the developer's sales agents. Additionally, buyers may visit one of nearly 100 completed projects around the world and see for themselves.

Marriott differentiates itself from its branded residence competitors by promoting the following benefits:

- With 14 brands available for branded residences, Marriott is well placed to offer the most suitable brand for both hotel and residential.
- Wherever we manage the co-located hotel (or standalone projects) we also manage the residences; this includes (where allowed by local law) management of the Home Owners' Association and all governance related matters.
- Marriott has a residences Owner Recognition Program, as well as the Bonvoy loyalty program.
- Our Residential Marketing team provides developers with considerable support and works alongside their marketing and sales agents; they understand the markets and customer demands in each market.



The Ritz-Carlton Residences, Sunny Isles

How do you 'steer' a developer away from one brand to another if the project is not suited to the developer's preferred brand?

It is only natural that developers have their own vision of the brand that they feel most suitable, typically from personal experience. However, there can often be a mismatch between this and the realities of the market, the site or the construction budget.

Above all, the brand must be the most relevant choice from the hotel perspective, the location, and well-known in the major home buyer source markets. When we have a situation where we feel that a developer's preferred brand is not the correct one, we explain the rationale in detail and emphasise that our interests are always aligned: both parties want to create the optimum project in order for the hotel and residences to succeed from operational and sales angles.

How rigidly are the brand's guidelines imposed on residential developers?

Whilst we always ensure that the residential common areas are in line with our brand standards (and the interiors of the residences when part of a rental programme), we offer some flexibility on sizing to allow them to be tailored to each market and therefore well positioned against competitors.

Do the brand license fees and terms vary from brand to brand?

Yes. There are a range of factors that determine the brand royalty fee such as location, number of residences, likely sales prices, category (luxury or upper upscale).

In what circumstances are you receptive to operating standalone residences?

We offer standalone residences across all our residential brands. These are entirely self-sufficient, and all are managed by Marriott, each with a dedicated concierge and an array of services that you would expect at a luxury residential project. Typically, standalone residential projects are in urban locations, as resort locations tend to focus on a rental program, which is not feasible in standalone branded residences. The main criterion is to have enough residences so that the service charge, when apportioned across all residences, is not too high as to impact the saleability of the units.

Any specific challenges that arise in working with developers on a new project?

Managing expectations of the role the Operator will play in the marketing and sales, and the legal and insurance provision requirements needed to protect the Operator from potential litigation.



The St. Regis Residences, Boston

Motivations

Brands 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. Inevitably, the motivations for investing in a branded residence span a range of criteria and vary from buyer to buyer, but these can be summarised under two principal factors: confidence and convenience.

1. Confidence

For many real estate purchasers the most important factor is trust, especially when buying off-plan; they seek assurance in terms of the delivery and quality of the development, as well as its ongoing management, rental potential and resale value.

On the assumption that top international luxury brands - all fiercely protective of their reputations - would surely associate only with proven developers with an excellent track record, buyers can more confidently expect that the building will be delivered, built, fitted, managed and maintained to the world-class standards that are synonymous with that brand.

"The right branding will give consumers confidence that the development will be of a certain quality that they can relate to, and standards of service and amenities that they require or desire," says Adam MacLennan of PKF hotelexperts.

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 it 'gives added confidence in the delivery of the development, its ongoing property management and the sustained value of the real estate.'

Trust also guarantees consistency in terms of the quality of the service, facilities and experiences, whether in Beijing, Dubai, Paris or New York. Gary Grant, MD at property marketing specialist YOU 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.

Branded residences are considered a relatively safe investment, again in part because they are a physical asset that is associated with a respected and desirable brand. "Buyers remain driven by both investment and personal use and, for the very best projects, usually a combination of these," observes Four Seasons' James Price.

In effect, the brand is giving its 'stamp of approval' by lending its name to a development.



Sapphire Residences with interiors by YOO Inspired by Starck, Colombo, Sri Lanka



Raffles Boston Back Bay Residences

Riyan Itani, Co-Head of Savills International Development Consultancy, points out that with the prime residential markets in leading world cities slowing across the board, investors increasingly have to hunt for growth: "Branded product may be perceived as a 'safer bet' as buyers focus on best-in-class."

This is especially true when buying abroad, particularly in emerging destinations where a brand association offers greater security to buyers. "Buyer confidence is even more important in less-established destinations," explains Joachim Wrang-Widén 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."

The Address magazine also highlighted this 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".

Marc Finney, Head of Hotels & Resorts Consulting at Colliers International, adds that the confidence and cachet added by associating 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." Four Seasons certainly recognises this and actively promotes this as a major benefit to its developers, being able to present empirical evidence that its brand supports lead generation, generates sales and enhances absorption rates by lending the

project credibility, endorsement and identification. Not surprisingly, YOO's John Hitchcox 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." James Price also recognises the importance of design: "At the upper end of the market buyers demand unique qualities of the project itself; this could be through the architecture creating a statement building. Whether these are resorts or serviced city centre residential buildings, it is important to ensure that a project remains rooted in its local culture and design."

In summary, buyers of branded residence can have more confidence about what they can expect in terms of location, comfort, amenities, security, peace of mind, design and the level of service they will receive - and the emotional benefits associated with kudos of owning a 'trophy' home.

Footnote: Inevitably there have been some notable exceptions, such as the widely reported Four Seasons' Barbados resort at Clearwater Bay* and the Tiger Woods golf course and residences at Dubailand (subsequently rebranded as Trump World Golf Club), both 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).

2. Convenience

Wealthy individuals are typically cash rich and time poor, often with homes in other 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, a 24/7 concierge service allows them to enjoy a hotel lifestyle in their own homes.

There is no doubt that buyers prefer the hassle-free option, minimising the responsibilities and challenges of owning and maintaining an overseas home. "Being able to 'lock-up-and-go' - or at least have professional property managers look after the property - is important," remarks Christie's Joachim Wrang-Widén. Indeed, Four Seasons promotes 'worry-free living in well-appointed residences' to its potential homeowners.

Most schemes offer owners a comprehensive range of integrated hotel-style services (and, increasingly, experiences), which include 24-hour concierge and security, transport, secure parking, porters, communications and entertainment systems, cleaning, babysitting, in-home dining, laundry and even shopping and fridge-stocking services. Smart homes are becoming universal. 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, entertaining areas, residents' lounge/library, wine storage and, with the rise in home working, business centres and meeting rooms.

However, it is crucial to consider carefully the list of amenities that will most appeal to your audience: they will not want to pay high service charges for facilities that they will not use, so this could work against you.

Investors & Developers

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. As Steven Pan, Chairman of Regents Hotels Group, observes; "The development of a luxury hotel is a long-term investment; using the Regent brand as an anchor, we can deliver exceptional products and provide immediate capital return through residential sales." Furthermore, it provides access to the brand's loyal customer base and marketing channels.

"Brands provide buyers with perceived insulation against risk."

Paul MacSherry, Real Estate Consultant

Operators & Brands

Four Seasons' James Price believes that success is not simply based upon assuming an appeal for buyers that will automatically follow a link with the hotel brand. "The residences need to be carefully planned in tandem with the hotel development; 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. A mixed-use project requires a holistic approach and perspective throughout."

Frederic Simon, CEO Asia at Commune Hotels & Resorts, considers that a developer needs to incorporate the operator's core brand values in the design and development from the very start of the project. "The hotel component has to come before the real estate," he comments. "The destination, design ethos and quality of the development are essential to the partnership. When executed properly, there are many benefits to a hotel operator, not least the additional stock that offers an alternative to standard hotel accommodation."

So what are an operator's motivations when considering whether to include real estate alongside a hotel? In its 2018 report Savills lists the following:

- Income generation from licensing and management fees
- Diversification of scheme can improve viability
- Short-term returns from sales
- Helps meet planning requirements (where a single use may not be granted)
- Additional and varied rental product
- More brand 'flags' (where standalone)
- Deepens customer relationships

Equally, operators need to be aware of a developer's differing perspectives. "Real estate developers are mostly focused on maximising saleable space, whereas hotel-type developers in resort markets understand the need to sacrifice some space for aspect, green and inherently lower-density," observes C9 Hotelworks' Bill Barnett.

Above all, it is crucial to ensure that both parties are aligned in their respective objectives and ambitions: "As in any long-term partnership," concludes Simon, "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." Wise words.

Designed for Living

"Design is a critical part of the creation of a brand. The use of well-known architects and interior designers 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. He believes that this has led to the huge increase in branded (or 'design-led', as he prefers to call them) residences over 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."

An architect or designer adds a distinct identity, style and positioning that resonates (or doesn't) with audiences; these are measured by each individual's understanding, perception and experience of that designer or brand. "Respected architects and interior designers certainly add value, enabling purchasers to further identify with the type of lifestyle and environment a development will deliver," comments Robert Green of Sphere Estates.

John 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."

Adam MacLennan at PKF hotelexperts agrees: "It is important for brands to offer something tangible

and design can be an important differentiator." Accor certainly believes the key to differentiation is in design and is reassessing its brand standards to deliver the mission of "1 brand, 1 identity, 1 design".

And it's not only about ergonomic and aesthetic comforts for residents and guests; as predicted in this report, eco/sustainability credentials will rank increasingly higher. "Designing in harmony and with regard for the natural environment and its limited resources is a significant design consideration," writes Don Harrier at HKS in hotelsmag.com.

Whilst it is evident that superior interior design is a major attraction for all parties, it may on occasion deter wealthy buyers, as Lynn Villadolid of Capital Lifestyle Partners points out: "Some HNWIs prefer surroundings designed to their own style and taste rather than 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."

Regarding the evolving attitudes towards design, Richard Candey at Cushman & Wakefield observed that developers have become more flexible in terms of design and accommodation layout requirements, which he believes can result in 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 other uses."

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

"Hospitality design is beyond lifestyle ... it's all about creating memories."

Kevin Underwood, HKS Architects



Rosewood Residences Mayakoba, Mexico

Spotlight on Accor

Accor has been on a roll these past two years, doubling its branded residences to 40 schemes and a further 80 underway. With a portfolio that includes Raffles, Banyan Tree, Fairmont, Sofitel, SO/, MGallery Delano, SLS, Mondrian, Hyde, Mövenpick and Orient Express and branded residences being developed under 16 brands, how do Accor's development partners select the right brand, and how is the process managed? Jeff Tisdall, SVP of Development for Residential and Extended Stay, discusses the company's approach.

As most of Accor's branded residences are co-located with a hotel and managed under that brand, it is important to propose recommendations that are optimized from both a hotel and residential development perspective; by aligning the branding in this way, Accor believes it is easier to unlock synergies and "bring a truly branded residential experience" to life during the operating phase. Tisdall references the natural ability of Accor's classic luxury brands like Raffles, Fairmont or Orient Express to add value to heritage conversion projects. "These brands have rich histories, which reinforce the qualities of historically significant assets whilst preserving their personalities. Raffles emphasizes elegance with legendary service and aims to create a residential oasis that caters to connoisseurs; by contrast, Fairmont is more overtly charismatic and the residences form part of developments with unrivalled presence."

Sometimes a developer's initial preference is to use a different brand for the residences. "There is no shortcut," says Tisdall, "but the advantage of having 16 distinct brands makes it much easier to find one that is right for both. It's a collaborative process and we consider a number of criteria: What buyer needs are we targeting? Do they live locally or overseas? How will they use their homes? Supply factors, the competitive set, location and architecture all need to be considered."

While Fairmont and Raffles residential projects often feature modern architecture, Tisdall says luxury lifestyle brand SO/ is a perfect fit for some developments, such as its latest Dubai project: "Our development partner DMCC is targeting a fashion conscious and sophisticated buyer, who we felt would respond well to a vivid and playful design that conveyed Dubai's energy. We worked closely with DMCC and their interior designers to ensure the brand's personality is captured."

To differentiate its brands, Accor looks to design and service. "Considerable thought goes into the service offering. For example, at an upcoming Raffles Residences project we are creating a private dining room and show kitchen within the lounge, where the concierge can arrange a personal chef for intimate private dining. In contrast, the clubhouse at Hyde Residences features a resident DJ, so design and services need to facilitate a sense of community," says Tisdall.



Currently under development, Raffles London will reside within the Old War Office building on Whitehall, which is being transformed into a flagship Raffles hotel featuring 125 guestrooms, 85 private residences, restaurants and spa.

Furthermore, brand leadership is carefully mapped to each region where brand, design and operational leaders ensure that the residences reflect a design and service offering in keeping with each brand's unique character. "This requires dedicated brand teams, clearly defined governance and discipline," says Rick Harvey LAM, SVP Global Brand Management, Luxury & Premium Brands at Accor. "Global brand leaders are appointed for each brand, who are responsible for brand insights, strategy, positioning, communication and experience; they enjoy a high degree of autonomy when it comes to developing new concepts, whilst following a common methodology to ensure significant and sustainable differentiation." In addition, he adds, ongoing qualitative and quantitative testing ensures each brand delivers a proposition and experience which is relevant, significant, credible and ultimately own-able.

Occasionally developers expect that branding the residences may subject them to inflexible standards, but Tisdall believes the key is to select the right brand in the first place. "As the objective is to sell luxury residences then minimum expectations must apply in terms of areas, ceiling heights, finishes, appliances, technology and overall design - but if we agree upfront on appropriate branding, we usually find there is natural alignment." Accor allows some latitude for customization: "Space and volume are certainly keys to creating a sense of luxury, but we recognize that expectations and norms vary by market."

Purchaser requirements need to be considered and Accor occasionally observes significant variation in design and features within the same brand: "Our MGallery Residences in Phuket will cater to second home buyers who may only spend a few weeks a

year in residence, so extensive kitchens and storage are less important while outdoor living areas are vital. By contrast, the MGallery Residences in Dubai are designed for primary homeowners, so the apartments there are larger."

Accor's portfolio includes several stand-alone residential projects, notably a Fairmont in San Francisco and Telluride, a new Banyan Tree in Bangkok, and Pullman Residences Newton in Singapore has just launched: "As our partner EL Development is targeting high-performing professionals seeking a distinctly modern and global lifestyle, we knew the Pullman brand would resonate." Accor applies a range of criteria including scale, the relative maturity of the luxury residential market, the strength of Accor's broader footprint in that market, and the potential to integrate relevant F&B and spa concepts. "In the right markets, we see stand-alone residences as an exciting growth opportunity. We evaluate each scheme carefully to ensure we can bring the brand to life successfully in the absence of a co-located hotel."

Tisdall predicts enduring growth. "Our branded residential activity continues to accelerate," he says, citing Australia, Brazil, Israel and South Korea as showing strong interest from developers, while established markets in Europe, North America and the Middle East continue to perform well. But it is not simply geography that is driving growth - Accor's rapid expansion into lifestyle segments is another important catalyst: "Our classic luxury brands hold a firm position and are clearly right for certain developments, but we saw an unmet need in the residential markets that we are addressing with brands like Delano, Mondrian, Hyde and SO/ Residences."



Sofitel Residences, Limassol, Cyprus

A Brand Premium for a Premium Brand

Branded properties normally sell at a considerable premium over comparable non-branded residential real estate products.

The growth in branded residences has been spurred by its attractiveness to operators, developers and investors, described earlier in this report as a “win-win-win” scenario. “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,” comments HVS’ Arlett Hoff. James Price at Four Seasons is in no doubt that leading brands today can add value and assist greatly in the marketability of new projects. “However,” he concedes, “they must offer tangible benefits for the residents.”

“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 WATG’s Muriel Muirden. “In both instances they are sold at a premium to other comparable residential real estate products on the market.”

In 2012, Knight Frank reported that luxury branded residences commanded an average premium of 30% compared with non-branded schemes - which, interestingly, remained the benchmark figure until the most recent research by Savills reveals it has increased slightly to an average uplift of 35%. Other experts concur:

- “Operators have indicated that typically a price premium can be expected over identical non-branded products of between 20-35%.” Muriel Muirden, WATG
- “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 traded with a premium of up to 30% compared to a similar sized apartment in the tower that did not carry the Armani brand.” Joachim Wrang-Widén, Christies’ International
- “A globally recognised 5* brand has proven consistently to deliver a 25-50% premium over prevailing market values.” Robin Paterson, CEO, Sotheby’s Realty UK
- “Anything between 20-30% normally, but occasionally they can completely re-set the benchmark for a location.” Marc Finney, Colliers
- “Hotel residences affiliated with international brands have demonstrated pronounced premiums

in selling prices by 25%-35%.” Bill Barnett, C9 Hotelworks

- The Address Magazine reported a premium between 20% and 40% over comparable unbranded developments and, in exceptional cases, as much as 50% to 100% higher.

Indeed, on this last point the real estate market continually raises the bar to new levels and there are several examples where “a dream” mix of brand, design, facilities and location has delivered an even more substantial premium.

In addition to the many benefits associated with branded residences, a brand can:

- Enhance sales velocity by as much as 30%.
- Maintain resale values.
- Deliver higher rental returns as a result of fewer voids in rental periods.

As such, the price premium can be easily justified to both developer and purchaser, with neither requiring too much convincing of the benefits. Rod Taylor, Director of International Residential Sales at Savills, comments, “If you have two developments sitting side by side and one has a recognisable global brand, it sells a bit faster and at a premium.” Marriott’s Daniel von Barloewen agrees: “Branded residences typically sell faster than unbranded properties, and for significant price premiums,” while Jay Parker, CEO at Douglas Elliman in Florida commented: “Our buyers recognize the value of hotel-branded residences, which typically retain their value and prove to be an excellent investment opportunity over non-branded condominiums.”

Branded developments also tend to command a premium on both rentals and resale, so buyers can feel more confident that their purchase of a branded residence will sustain its value. “Absolutely,” echoes Joachim Wrang-Widén. “Branded residences also achieve higher liquidity on the resale market a few years down the line.” Indeed, resale values have traditionally been higher than the non-branded alternative over a medium term or longer holding period; however, the premium between branded and non-branded homes is narrowing and the significant increase in branded competition and supply will inevitably put further pressure on premiums, especially in well-supplied markets. “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,” warns Lynn Villadolid of Capital Lifestyle Partners.



Alexandros Moulas at Savills points out that there is also a risk of depreciation unless the development 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 highest premiums are generally seen in emerging markets, where owning a branded residence is a sign of success and status (kudos), as well as a secure investment (also more attractive to rent to overseas visitors and businesspeople). “Lower premiums tend to be achieved in more mature luxury markets where stock is of very high quality and location is a major factor,” comments Savills’ Riyan Itani. “Our research found that comparing equivalent branded and non-branded developments in London the premium was only 8%, whilst in New York in some cases it was even trading at a discount of 15%.”

The lower price premiums that are 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. “I think it has simply been a question of both opportunity and brand positioning,” comments real estate veteran 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, a brand is usually brought in to “add value” by giving a distinctive design style, to provide comfort to attract a specific international HNWI target audience, or simply due to convenient proximity for servicing the residences.

London is an interesting case. Due to a tough economic landscape (e.g. higher stamp duty/taxes, Brexit) resulting in lower demand, the city is now seeing more new branded developments at the prime end of the market, along with their associated price premiums. “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,” comments Dominic Grace, Head of London Residential Developments at Savills. “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, echoing James Prices’ comments above, Lodha Sales Director Charlie Walsh warns that the premium charged for these benefits must be justified to buyers: “In mature markets like London, domestic buyers still want to understand the true added-value they will receive for paying the price premium.”

Key Drivers of Premium

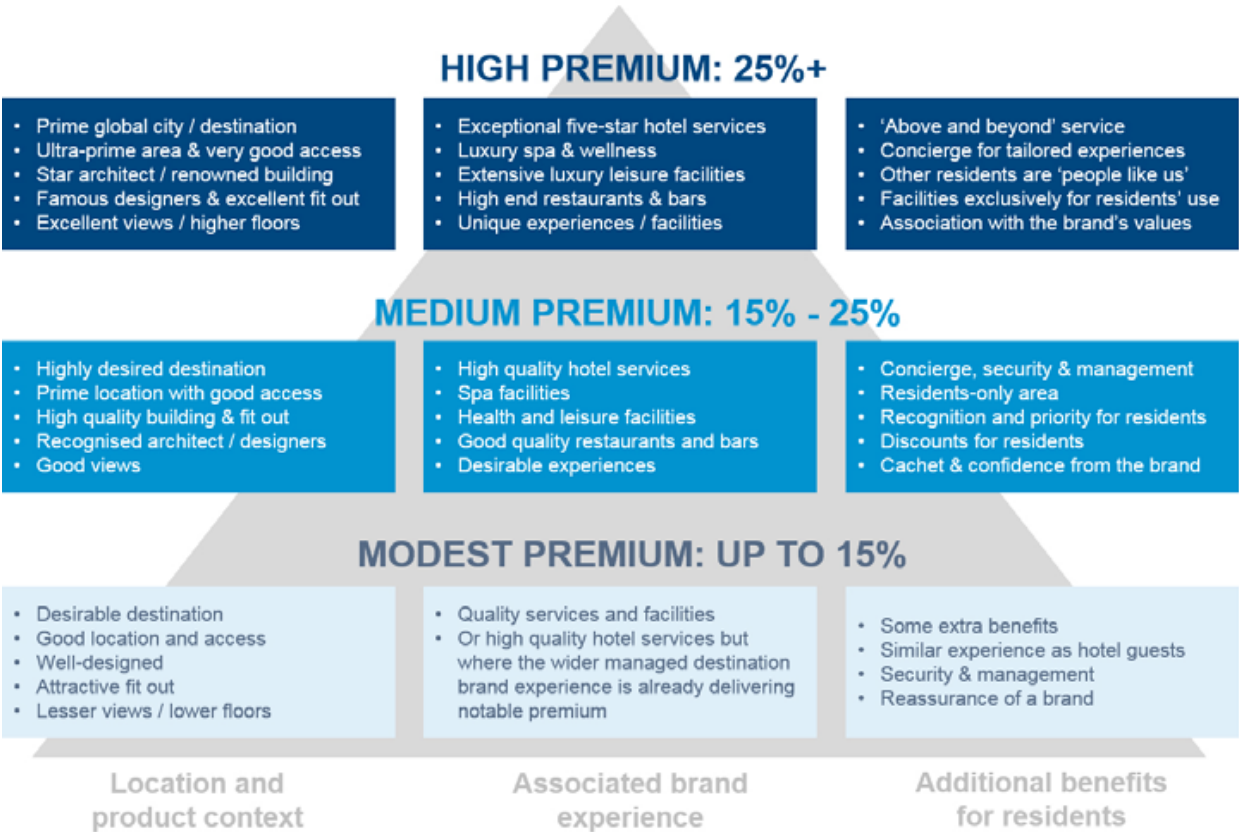
When compared against similar prime residential developments, Colliers International found that a premium is highly correlated with brand positioning, services and amenities and has created the segmented pyramid shown below.

“The price premium for branded residences can be significant,” observes Marc Finney, “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 influencing factors to calculate the price premium on a branded 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.

Branded Residences - Drivers of Premium

Factors commanding price premium above unbranded residential product



The Influence of Brands on Destinations

Well-known 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 area or 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 premium tourism offering and attract other brands as well as wealthier visitors – and, since there is a strong correlation between repeat visitors to a destination and their propensity to purchase a property, it follows that attracting more wealthy visitors should lead to more people buying property there. However, HNWIs rarely purchase a property without having a good understanding of the local environment; 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 marketing teams to communicate this effectively.

Whilst the average global price premium on a branded residence is around one-third higher than a comparable non-branded home, this figure should be viewed judiciously as it varies significantly according to location and other influencing factors such as operator/brand, design and amenities (see p.19).

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, HKS

Choosing 'the right' brand partner can be crucial to a development's success. The branded residential element is such a fundamentally important part to the project (often financially), it is essential to give this equal consideration when choosing the optimum hotel/operator brand partner for your development. The brand chosen for the residences must appeal to target buyers, be able to justify the projected price premiums, and deliver strong absorption rates.

Buyers of branded residences generally identify with a certain lifestyle and taste that are closely associated with the brand. Developers must therefore ensure that their chosen brand partner 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.
- **Sofitel** promises the opportunity to live 'the French way', **Sofitel Legend** offers 'a more traditional sense of luxury with gestures of romance and history,' while **SO/** is 'an energetic lifestyle brand featuring avant-garde design, capturing the essence of each destination.

However, with more and more brands entering the marketplace it is inevitable that some will be less widely known, in which case it becomes vital to 'educate' audiences by explaining clearly the benefits associated with that brand and how it differs from competitors down the road (cue marketing teams).

It boils down to personal choice; consumers are now more empowered than ever and are spoiled for choice in terms of brands. A study by Shullman Research Centre highlighted wide disparities in brand perception among affluent older and younger generations in the USA; not unexpectedly, such inconsistency among consumer segments applies equally to real estate brands.

It can be argued that 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, as a result of alienating potential buying audiences to a greater degree than non-branded residences.

"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, Real Estate Consultant



Pullman Residences Newton, Singapore

Choosing ‘The Right’ Brand Partner

The choice of brand has a significant influence on a project’s performance, so selecting the most suitable brand should always involve thorough diligence to deliver the best match. Getting it wrong can prove extremely costly. Tea Ros at Zurich-based Strategic Hotel Consulting offers some insights on guiding developers through a process that helps to ensure the right boxes get ticked.

It is not unusual to hear developers choosing brands on an emotional basis (“I had a great holiday with this brand”, “my wife says they run the best spas”, etc), which can lead to uninformed decisions. When it comes to operator selection, the key is to stay objective. This means keeping personal preferences in check, to ensure that the operator that ultimately is selected best fits with the project. With the branded residence marketplace becoming increasingly crowded, convoluted and confusing, it is the job of consultants to implement a clear, step-by-step selection process to create some method in the madness.

First, an initial list of candidate operators is formed, which requires a clear understanding of each brand and its DNA as well as an in-depth concept, positioning and vision for the project. These candidates are then presented to the developer with a detailed rationale for their inclusion. Once these are agreed, a project brief is shared with the chosen operators inviting their interest and offers. After many calls, meetings and discussions during which the offers are each refined, it is time to rank them - which is when things get interesting!

We employ a “competitiveness matrix”, which ranks operators against defined criteria using a points system. Obviously the most important element is the commercial terms, which therefore accounts for approximately 60% of the total points. Other crucial factors include local / regional presence, brand awareness, buyer demand, experience of managing key components (e.g. spa), technical capabilities and marketing track-record. We listen closely to the developer (our client) and also include aspects that are important to them; for example, some prefer more personal relationships with smaller operators. In these instances, we rank topics such as operator stability (i.e. likelihood of acquisition/merger).

Based on the final ratings, operators with the highest scores are shortlisted and detailed discussions follow, involving extensive meetings with both parties. At this point it is time for the operators to impress and demonstrate why they are the most suitable partner.

The process and competitiveness matrix bring the right operators in front of the developer - but the final decision always has some emotional aspects. Above all, for things to work out in the long run both parties must have a good feeling about each other with mutual interests, trust and respect.

Before recommending any appropriate brand for a project, we first carry out in-depth research. We look at how the residences fit in to the overall scheme of the development; determine the economic, demographic, political and geographic influencing factors, and evaluate the optimal positioning for the overall scheme and its individual components. We also determine what type of sales model might be most appropriate: are the branded residences for use by the owner only, or included in a rental pool? Does the brand offer a value proposition to the development that would

- a) make the units easier to sell,
- b) provide a price premium,
- c) create the destination,
- d) make the project easier to finance, and
- e) deliver a specific brand promise to the consumer?

Every project has its own specific challenges. When helping developers find a suitable brand and management company for their hotels and residences, we try to make sure that all parties interests are aligned and that each party is confident that the other will deliver on its promises. Any number of things can get in the way of a successful project and relationship, not least the integrity, personality, energy levels and enthusiasm of the people on each side of the deal.

Adam Maclellan, PKF hotelexperts

When things don’t go to plan...
A development may find itself hostage to fortune for many reasons, notably if its associated brand experiences a PR crisis, since this is very likely to impact desirability and therefore performance.

Whilst established brands may be robust enough to weather a storm (that very often passes), negative PR and public sentiment can very quickly damage its status and reputation and therefore hit sales and values - and the stronger the negative sentiment, the harder the impact and speed of recovery; as such, access to effective PR support can be invaluable to enable you to respond proactively.

This applies especially to developments that are associated with a high-profile individual; it pays not to forget that we are all subject to human frailties!

In severe situations this may even necessitate rebranding, which is normally a highly disruptive and complex process (especially dealing with numerous individual residence owners). There may be a myriad of reasons for this, driven by any of the parties involved. “Quite often it is the brand that initiates termination of a contract, because the developer has not built the residences to its standards or has not provided the necessary facilities to allow the brand to meet its service standards,” says Katrina Craig of Hotel Solutions Partnership. “The starting point is to scrutinise the signed agreements and determine if the brand has met all the specified performance tests. If any are not met, there may be grounds for renegotiation or even termination.” (See also *Loss of the Brand* on p.48).

These tests could be commercial (e.g. an operator managing a residential rental programme missing revenue targets) or qualitative (e.g. the property and the service not achieving a minimum rating from a panel of residents, or on TripAdvisor). “Usually there is a ‘cure’, where a brand foregoes fees or guarantees meeting forecasted targets for a specified period,” adds Craig. “Alternatively, if the brand is part of a ‘family’ with multiple brands, instead of terminating the contract entirely it may be possible to re-brand the property with an affiliated brand that may have a better fit with the property.”

A topical example of a brand’s ‘value’, as influenced by 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 on Trump branded residences had fallen. After Mr Trump was elected President, enthusiasm for the brand faded further as he moved to enact controversial policies, notably a travel ban on several predominantly Muslim nations. A press article at the time (*‘Muslim Business World to Trump: ‘You’re Fired!’*) reported negative sentiments towards Trump projects in Turkey, Azerbaijan and UAE, so much so that the brand was removed from all marketing for a \$6 billion golf complex in Dubai, and Indian developer Lodha suspended sales at Trump Tower in Mumbai. Closer to home in New York City, condo boards at several buildings voted to remove Trump’s name (some even going to court), and it was reported recently that Columbus Circle Tower is set to re-brand its residences as owners voiced frustration that the association with Trump diminished the value of their homes. Separately, The Washington Post reported ‘...some negative connotation that is associated with the brand.’

Brand Misalignment

Case Study 1: Sun Gardens Dubrovnik, Croatia. Julian Houchin, Former Commercial Director at iO Resort Management

We inherited a well-known European hospitality brand at Sun Gardens that was already under contract to the resort, so naturally we planned to feature it as a major added-value benefit for buyers. We had believed that it resonated well in target markets, notably Russian speaking, and provided confidence for prospects buying in an emerging market. When we launched our residential sales, we quickly discovered this was not the case:

1. It became clear that the brand was of limited importance to potential buyers; their decisions were much more about the destination, on-site management and the resort offering.
2. We realised that the brand would impede our ability to achieve higher projected price points over the course of the residential sales programme.
3. The market fundamentals shifted away from our prime Russian speaking target markets and the brand did not resonate as strongly in other markets.

Fundamentally the operator did not understand the concept of resort based real estate and did not want their brand associated with real estate sales. They couldn’t understand that we were selling freehold ownership, assuming instead that we were selling timeshare and that it would tarnish their brand! Therefore, as early as was practicable, we stopped using the brand in our sales materials and re-branded as an independent resort destination, The Residences at Sun Gardens. As a result, we sold out Phase 1 to over 15 different nationalities and, through the effective repositioning of the resort, it was subsequently sold successfully to overseas investors.

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

I first experienced the impact of a ‘branding mismatch’ several years ago, when we were invited to develop a repositioning strategy for a residential golf resort where sales had slumped. There was a good Westin hotel and spa at the hub of the resort although, at that time, it was a relatively unknown hotel brand in Europe. Our research confirmed emphatically that many potential buyers were not familiar with Westin and in fact many had it confused with Best Western!

“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 Sales Director. “It transpired that rather than the hotel brand adding value, it was simply the fact that there was a 5* hotel on site that offered a degree of comfort to buyers. However, this lack of brand appreciation certainly did not support expected sales levels.”



Waldorf Astoria, Miami Hotel & Residences, Miami

Spotlight on Hilton

Hilton is sharpening its focus on branded residences. With 33 mixed-use properties, 5,600+ residences and more than a dozen projects in the pipeline, over US\$5 billion of residential real estate will come to market over the next five years alone, the majority under its flagship brands Waldorf Astoria and Conrad. The company will continue to introduce mixed-use residential projects as a key component of steady global growth.

Offering residential branding through 9 of its 17 hotel brands, each positioned to appeal to different audiences, Hilton's portfolio spans some of the world's most sought after locations. "We are incredibly proud to bring a portfolio of absolute convenience and comfort to the hearts of key getaway destinations," says Jonathan Wingo, Global Head of Residential Programs. "Exclusive benefits offered to owners play an integral part of the lifestyle: Elite Hilton Honors status, preferential hotel room rates, travel concierge services and home property benefits are widely valued by our branded residence owners."

To support its ambitious residential growth plans, as well as to assist developers, Hilton has established a dedicated in-house team offering expertise in operations, development, architecture design & construction, finance, legal and marketing, to ensure that the residences combine the full range of services and amenities found in a luxury hotel with the privacy and comforts of home. Its stated approach to residential development 'embraces the company's owner-centric philosophy and focuses on achieving the developer's goals by including their private residence or hotel residence (rental program eligible) model, or a combination thereof, with a hotel development'.

There is also a strong focus on understanding the developer's desires and needs, while providing expertise and support throughout the process. "This begins with deal negotiations and extends through the building design and sales stages, including open dialogues, residential immersions and consultative workshops that facilitate positive collaboration

amongst the project team," adds Wingo. "This yields exceptional results for all stakeholders, and especially for the residence buyers."

Hilton places high importance on relationships with developers. It strives to deliver quantitative results through marketing and sales processes that include marketing strategy assistance, brand training for sales and marketing teams, brand toolkits, in-hotel and partnership marketing opportunities. "Our focus with the development team throughout the marketing and sales phase is to unlock opportunities for partnership that are mutually beneficial to the project and to the brand," comments Joe Haughney, Director of Residential Development and Operations.

Architecture and design are critical to the success of the development, as well as key elements to the branding. "Our brands provide an 'insurance policy' that we've virtually thought of everything via programming, planning, design, and quality of product delivery, elevated to the same level of detail we undertake for our hotels; be it the owners' shared amenity spaces, support spaces, or their private residences – each being compelling, engaging, and

thoughtful," says David Oswald, VP of Architecture & Design for Hilton's Luxury Brands. "Our robust brand standards for residential projects serve as a guide to providing a first-class product with an approach that always accounts for local market and cultural considerations, to ensure that the end product is both relevant and successful."

When choosing the most appropriate brand for a residential development, key factors such as project location and demographics of prospective residents play a large role. Brand selection is also often influenced by the vision of the project developer. "We decided to partner with Waldorf Astoria as we believe that they are the only globally relevant luxury brand suitable to represent Miami's iconic residential tower," said Ryan Shear, Principal at Property Markets Group. "Hilton's reputation for excellence conveys in all respects to the residential and hotel components of the property. Working with them has elevated the execution of everything from development to design in order to achieve a shared vision that is truly stunning. We've enjoyed the collaboration with Hilton immensely and are honored to continue the Waldorf Astoria brand legacy."



The Waldorf Astoria, Park Avenue, NYC

Standing Out from the Crowd: The Importance of Differentiation

Developers recognise the value-add of a brand, but in an increasingly competitive and crowded global marketplace it's no longer a guarantee of success. Investing in professional marketing to ensure that your project is packaged and presented effectively, thereby delivering a successful launch and ensuing sales cycle, is a drop in the ocean compared to the potential cost of getting it wrong. There is only one chance to make a good first impression.

With branded residences increasingly becoming the rule rather than the exception in some markets (consider Phuket, where a staggering 50% of all new residential developments are branded), marketing's pivotal role in the effective positioning, packaging and promotion of a residential development has never been more important to ensure standout and clarity in the marketplace. This applies especially to branded residences as HNWI buyers are among the most discerning and informed, their expectations are high, and they are bombarded with opportunities to invest.

This being the case, for the added price premium to be paid it is essential to effectively communicate the value-added benefits that the brand delivers

to buyers. The days of 'build it and they will come' have been confined to history (at least in established markets): it is now essential to educate, inform and convince target audiences why your project merits their serious attention against the competition, conveying the lifestyle and investment benefits that it will deliver.

There is little doubt that differentiation – or a lack of it – can have a significant commercial impact on the success of a project. Francesco Cefalu, VP of Development at Mandarin Oriental, cites marketing and solid financials as the key factors to underpin a successful branded residences project:

- 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 solid marketing strategy with a clear and realistic understanding of target markets.

"Having the right development partner that understands our brand values, or has hired experienced marketing consultants to convey them, are key to marketing



Rosewood Residences Sao Paulo, Brazil

luxury branded residences successfully," adds Adelina Wong Ettelson, Mandarin Oriental's Head of Residences Marketing, whilst hospitality expert Larry Mogelonsky writes, "Brands without marketing support are merely exercises for marketing gurus who like to play with logos and interior designers."

Horwath HTL's Philip Bacon echoes the importance of expert marketing: "As always, know your customer today and your customer of tomorrow." However, this only tells half the story; as the marketplace has become more and more congested with brands of all sectors and sizes, differentiation is now a crucial consideration, as Muriel Muirden highlights in her Foreword to this report, describing it as 'the most vital challenge for the sector going forward'.

Developers must consider how to make their project 'stand out from the crowd', in order to attract relevant buyers and ensure that units sell quickly and at the desired price. A proven way of achieving this is to partner with an established luxury brand; this 'elevates' the offer by piggybacking on the brand's status and, by association, delivering a range of experiential, lifestyle and investment benefits. In an ideal world, the selected brand will occupy a unique and distinctive position in the market, with a large audience of loyal customers who can see themselves living within this branded space (see also Choosing 'The Right' Brand Partner on p22).

However, with so many brand operators ticking all the same boxes and making similar lifestyle, service and quality promises, this is no longer as straightforward as it used to be. "Luxury consumers are looking for high-integrity brands that deliver on their promise," comments Anna Bjurstam at Six Senses. In order to justify the higher price tag (i.e. over non-branded), the list of pre-packaged benefits must demonstrate tangible added value to attract discerning buyers

who are spoiled for choice about where to put their money. Citing Dubai as a mecca for real estate brand licensing arrangements, Luxury Branding's Piers Schmidt comments that these "...are driven by the need for property developers that are ostensibly selling more or less identical rectangular boxes (tower block apartments) to differentiate themselves to a status hungry target audience."

There is certainly less appetite for "me too" products which, without attractive pricing and buyer incentives, may languish unsold on the market. In a scenario where buyers have a wide range of analogous branded residence options available to them, inevitably it becomes more difficult to choose between them. It may be argued that, in such cases, the brand itself may assume a less important influencing role and purchasers will revert to conventional buying criteria such as location, pricing and value. Adam MacLennan at PKF hotelexperts certainly thinks so: "The proliferation of brands – including many operating in the same space – can make it confusing from a consumers' perspective. A typical buyer will often make up their mind based upon location, unit size, price, design and amenities before they look at the brand."

Additionally, Bill Barnett at C9 Hotelworks observes that in destinations that are 'saturated' with branded residences, "...the reality is that well-managed hotels with key aspects and location win, while for others having the name is not an assurance of success, given you are just one of many in a playing field that is continually stretched. Brands in many cases are a good choice, but it's not always a given."

In short, presenting a clear, differentiated and distinctive offer will help to ensure standout, delivering a stronger competitive position in the marketplace; conversely, not to do so risks putting your development at a significant commercial disadvantage before your residential sales have even launched.



Fairmont Residences Royal Palm, Morocco

Brand or Bland?

"80% of CEOs believe their brand differs from the competition, but only 20% of their customers agree with that."

Ricco de Blank, CEO of SHKP Hotels (owns two Ritz-Carltons, a St. Regis and a W Hotel)

A brand says a lot about the person buying it; it offers a distinct identity, positioning and lifestyle with which that individual willingly becomes associated. As such, it either resonates with a particular audience or it doesn't. And just because a brand is well established in one region does not mean that it will enjoy the same success in others. Developers must therefore ensure that their chosen brand partner reflects the demographic profile and lifestyle aspirations of their intended buyers.

PwC's 'Hospitality & Leisure Trends 2019' report observes that, not long ago, marketing campaigns focused on presenting an image designed to distinguish a company's hotels; consumer choice was based on personal perceptions about specific brands and they selected the one that most closely matched their personalities and inclinations. However, today the goalposts have shifted: 'To succeed in this new and difficult environment,' it concludes, 'hotels should reimagine the notion of brand loyalty, which must now be built on unique and unexpected conveniences and amenities,' adding that they should go beyond the tried and tested, take risks with new ideas and anticipate what will appeal most to their target customers.

An obvious starting point is that the brand must complement the location. 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

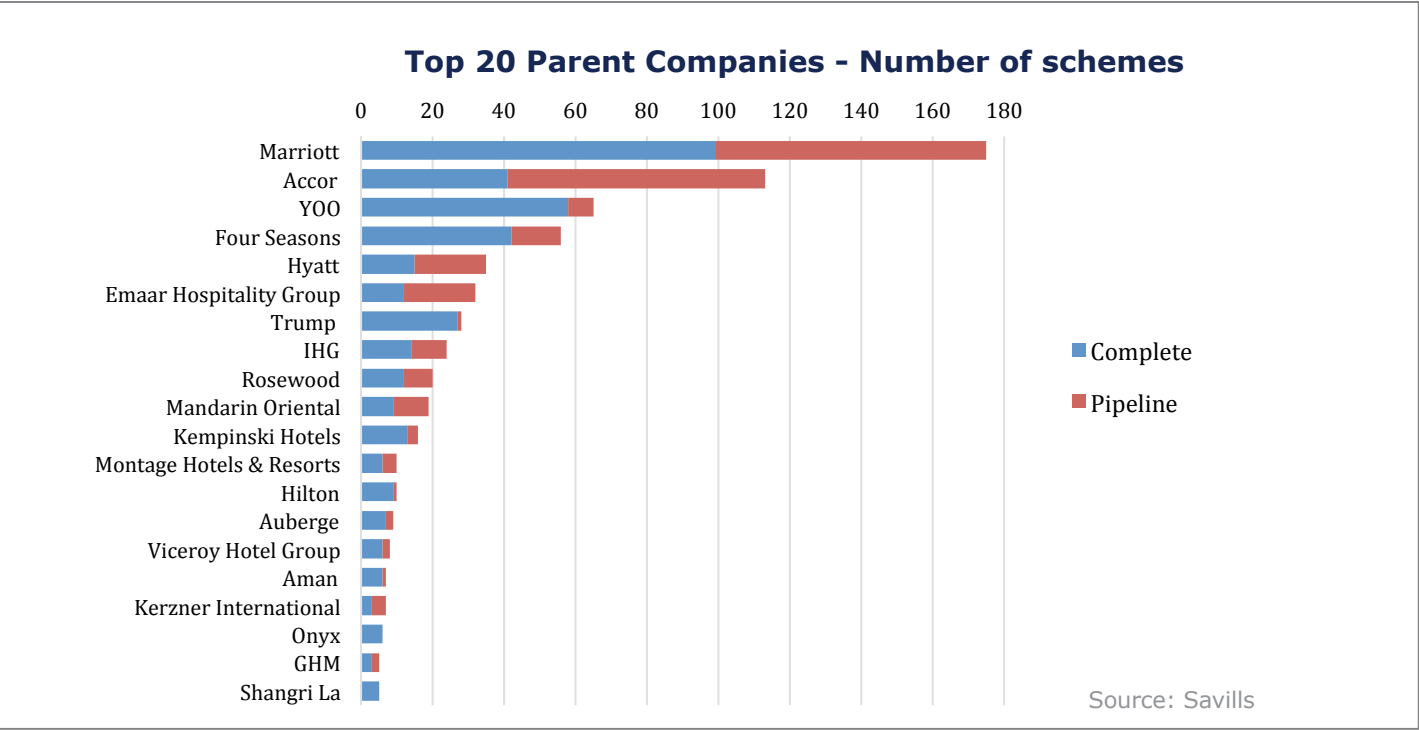
conferred by a hotel or designer name alone; the location itself will ultimately be the most important factor."

Extensive research confirms that the lifestyle experience is an increasingly important factor in brand differentiation. Four Seasons' James Price concurs: "It is a very specialised experience which is set up, one that sets Four Seasons apart from other branded residences in the market," while Accor's Jeff Tisdall comments, "As important as the bricks and mortar, it's our suite of hotel and residential services that really differentiate our offerings."

You may argue that most brands would say this. Frank Schuetzendorf at Ecole Hôtelière de Lausanne observes that brands have struggled to transition from 'simply' delivering a product to now being forced to provide new customer experiences. "Luxury is all about experiences and experiences stem from service," he writes. Meanwhile the Skift report 'Building Brand Love and Loyalty in Luxury Hospitality' points out that "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." (See p29 below).

Let's look at a snapshot of three leading hotel operators:

- Following its merger with Starwood, **Marriott International's** 30 brands cover 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 explained: "Classic brands represent time-honoured hospitality for the modern traveller, while Distinctive brands provide memorable experiences with a unique perspective." Since the merger she 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."
- The addition of Fairmont, Raffles, Swissôtel and Banyan Tree to its portfolio makes **AccorHotels** one of the world's largest hospitality groups with 26 brands. CEO of Luxury Brands Chris Cahill 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." As previously mentioned, the company recently reassessed its brand standards to ensure the mission of "1 brand, 1 identity, 1 design".



- The world's most valuable individual hotel brand ('Brand Finance Hotels 50' ranking), **Hilton** has 17 brands, each designed to occupy a specific, non-competing space in the portfolio. At the top end, flagship brand Waldorf Astoria offers 'the highest standards of facilities and service' and reflects 'the culture and history of their extraordinary locations, as well as fresh, modern expressions of Waldorf Astoria's rich legacy,' while Conrad promotes 'smart luxury' and offers 'one-of-a-kind experiences, service that's intuitive and connections to people and places near or far.'

Savills latest research confirms that Marriott remains global leader, whilst with its significant pipeline Accor overtakes YOO into 2nd place, with Four Seasons ranked 4th and Hyatt 5th. "Having entered the sector at scale five only years ago, Emaar Hospitality ranks 6th, notably through its Address and Vida brands. Definitely one to watch," observes Riyan Itani. In terms of individual brands' completed schemes, YOO retains the top spot followed by Ritz-Carlton, Four Seasons and Trump.

However, 'with so many soft and hard brands associated with the biggest hotel names these days,' reported Top Hotel News, 'it can often be impossible to distinguish one from the other.' Since this observation was aimed at seasoned industry practitioners, how easy then is it for HNWI consumers to differentiate between the plethora of luxury hotel brands in the market?

Reading through the positioning statements of leading hotel brands the lines of differentiation become pretty blurred, even to seasoned practitioners (indeed, in some cases it can be difficult to spot how they actually differ!). Luxury branding expert Piers Schmidt analysed 81 hotel brands in the burgeoning 'lifestyle' category and found some 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 soundbites; 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 travellers". This is buzzword bingo at its best!"

"If Nike opened a hotel, I think we would be able to guess pretty accurately what it would be like. If Hyatt came out with sneakers, we'd have no clue because Hyatt doesn't have a brand, they have a logo. If I swapped the signs on a hotel at that price point you couldn't tell if you were in a Marriott, if you were in a Hilton, a Hyatt; the hallway, the room - I don't know, where am I? No brand."

Marketing guru and best-selling author Seth Godin

In summary, as previously stated in this report, if a project is not effectively differentiated, it risks being seen as a "me too" product. Above all, it is *the buyer* who needs to understand the specific attributes that apply to your brand, to fully appreciate the added-value benefits it promises to enhance his/her lifestyle and investment aspirations.

To achieve this, and thereby enable your project to stand out in a manner that resonates with HNWI target audiences, if you lack the requisite in-house expertise it is strongly recommended that you obtain professional marketing support (ideally experienced in luxury real estate/branded residences) to help to define, design, package and communicate your offer in a clear and distinctive manner.

The challenge for today's luxury brands is a considerable one. They need to demonstrate their value in an ever-increasingly competitive marketplace.

'10 Top Luxury Brand Experiences', Luxury Society



W Singapore by WATG

The Evolution of Luxury: Tangible vs. Emotional vs. Experiential

"The definition of luxury isn't static. It shifts with the times. What was once considered appropriate for the high-end traveler can quickly fall out of fashion as tastes change.....How do you adapt while also staying true to what made you popular in the first place?"

Patrick Whyte, Editor, Skift

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."

"The meaning of luxury is constantly evolving," writes Frank Schuetzendorf of Pariscape Consulting in Hospitality Net™. "When thinking about luxury in hospitality, it helps first to define what luxury is. Luxurious experiences are often associated with premium-priced products or services. Luxury, therefore, is perceived as something that adds value to people's lives via upgraded quality or service, normally in exchange for premium pricing."

So, 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 described the 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* accurately predicted that service would become a strong differentiator for luxury brands, highlighting a growing requirement for personalisation in the search for exclusivity and uniqueness.

Luciano Mazza at HKS, who ranks among the world's most prolific designers of luxury branded resorts, agrees: "The moments we get to spend with family, friends or even business partners can be a precious luxury," he says. "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." Adelina Wong Ettelson at Mandarin Oriental concurs: "Luxury is about time, having time to do things that are meaningful to you."

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 (Harvard Business Review observed that "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 to outperform competitors.

Indeed, 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 strive to deliver cutting-edge design and innovation along with 5* hotel and concierge services, so the bar gets raised higher and higher as developers compete to 'outgadget' each other, searching for new and original amenities to offer in their luxury residential units.

However, there is no 'checklist' for qualifying a property as 'luxury'; indeed, many features that were associated with high-end properties - good location, high-end interiors and FF&E (furniture, fixtures and

equipment), Kids' Club, concierge services, a state-of-the-art spa, pool and fitness centre, are now fairly standard offerings. It is increasingly those individual/ unique/ bespoke elements that can help to differentiate a luxury development from its competition, e.g. a celebrated architect, a wellness programme, a concierge service, a famous interior designer, a Michelin chef, a branded spa (see p.6).

Additionally, bespoke facilities like smart home controls, wine cellar, cinema, cigar lounge, entertaining spaces, chauffeur and staff accommodation (notably in Middle East/Asia) are offered and on-site salons, dry cleaners and delicatessens are also increasingly common.

"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..."

Luxury Portfolio International

There is little 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 are very different from even just a few years ago and, rather than simply providing more marble, gold-plated taps and 5* facilities, the focus is more about creating a truly personal and emotional engagement with customers. Furthermore, there is no point in installing amenities that might tick a lot of boxes but which won't be used by residents (not least as potential owners will be put off paying for these in their service charges).

Most experts agree that it is no longer simply about delivering good design and top-range fixtures and fittings. "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, wellness activities - rather than Grohe taps or Gaggenau kitchens."

Whilst buyers' priorities remain consistent in terms of location, design and access to world-class amenities, it is now more about the intangible 'added value' lifestyle benefits associated with a brand. Four Seasons states that what appeals most to their buyers is "...a distinguished and personalised service experience that a homeowner can't get anywhere else... which ultimately transcends into a lifestyle," while YOO's John Hitchcox adds that emotional attachments lead to much higher consumer engagement. Robert Green at Sphere Estates sums it up: "The branded residences 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."

A report in 2017 by Horwath HTL concluded that experiential luxury was growing faster than personal luxury goods purchases in all key markets, highlighting an accelerating shift from "having" to "being", with consumers seeking emotions and experiences rather than status. Similarly, Mansion Global observed 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." A concurrent report from Wealth-X looked at the changing face of luxury and the emergence of a new, younger generation of UHNWIs focused on pursuing rare, tailored experiences over accumulating replicable 'things.'

Today, these sentiments apply equally to branded residences. However, it is important to remember that, whichever elements a residential developer chooses to offer, first and foremost these must be tailored to appeal to the profile, lifestyle and tastes of the target buying audiences.



Fairmont Heritage Place Mayakoba



The Residences at Mandarin Oriental, Moscow

Spotlight on Mandarin Oriental

With 7 operational residences across three continents and a further 12 in development, Mandarin Oriental Hotel Group (MOHG) is expanding its residential offering, driven by strong developer demand for the brand. Global Head of Residences Marketing Adelina Wong Ettelson provides some insights.

What factors influence the choice of destination?

We are approached constantly by developers. We focus on opportunities that allow us to bring the best of both worlds to our clientele - the comforts of an exceptional private home combined with legendary hospitality. We seek out the best locations in prime city centres and resorts where our unique mix of service, hotel and residential management expertise will provide the best luxury experience.

What factors influence the choice of development partner?

We like a partner who shares our unwavering commitment to quality, service, lifestyle and distinctive design. For a project to be successful it must have the right mix - a good development partner, desirable location, buyer profile and the potential to sell-out.

What benefits are offered to developers?

Our hotels, resorts and residences have their own personality with a distinctive sense of place, reflecting the best of the city or country. This is important for a developer who needs a brand partner that will be flexible to the local market needs. We offer proven operations management from HOA's to resident lifestyle services and programmes, as well as access to the Group's marketing resources, including a dedicated and experienced marketing team for brand support and guidance during the pre-launch & launch phases. Additionally, the Mandarin Oriental brand consistently achieves premium pricing for both new and re-sales.

How does MOHG differentiate its offer?

In many ways - not only impressive global brand recognition, but also a strong Asian heritage and culture and strong financial resources. Nor are we just operators; we also own brand-defining properties. Our aim is not to be the biggest, but to be the best luxury hotel and residences brand. In addition to Exclusive Residents only facilities, best in class security, Residences Elite recognition programme and 24/7 dedicated residential staff, we boast accolades such as 25 Michelin restaurant stars and more Forbes 'Five Star Spa' awards than any hotel group in the world.

In what circumstances are you receptive to standalone serviced branded residences?

We already have two projects in our pipeline; one in Barcelona, located six blocks from our hotel there, and on New York's Fifth Avenue, our second in the city.

How rigidly are the brand's guidelines imposed on residential developers?

As with any premium international brand, we have stringent brand guidelines to ensure proper representation. The strength of our brand comes from global recognition of our fan logo symbolising our Oriental heritage and service excellence, 'to delight our residents every day'. We provide a comprehensive set of guidelines, best practice examples and insights from an experienced marketing team. However, each market is different so we allow for flexibility to adapt to cultural and local sensitivity.

Any challenges that arise with developers?

The main challenge is maintaining a high level of marketing standards with local developers, who may often not be experts in marketing a luxury brand. Our globally celebrated brand values need to be interpreted for a residential setting in each location, keeping in mind cultural differences and expectations. Having a development partner that understands this (or has hired experienced marketing consultants) is key to marketing luxury branded residences successfully.

Designing for Health and Happiness

The industry buzz is all around wellness. With hotel operators competing to expand their offerings, WATG's Muriel Muirden sees exciting times ahead as wellness influences how we design homes for health and harmony.

When did we become preoccupied with wellness? Is it driven by the Peter Pan boomers or health obsessed millennials, or maybe a combination of the two? Hands up if you have not dabbled with yoga (or a bit of enthusiastic stretching) or decided to throw your hat into the ring for a 10k charity run, or a wild swim in a distant Scottish loch. Outraged by fat and sugar content we scrutinise supermarket labels, and obsessively monitor our sleep quotients. Statistics indicate water is the new wine and research tells us sitting is the new smoking. Wellness is truly part of our lives and our psyche.

Hotel operators have responded by creating, curating and acquiring wellness brands to add to their heaving portfolios, and we observe wellness design strongly influencing the development and refurbishment of urban and resort hotels. It therefore seems inevitable that wellness residences will soon take off into orbit

as design innovation becomes a key differentiator in an increasingly congested luxury residential market. Wellness design focusses on making the occupants of a building happier and healthier. Sensory management is crucial with consideration given to natural light, air circulation, a soothing palette of colours and textures that induce a sense of calm. The internal features of the building also need to work seamlessly with colourful and fragrant outdoor landscape features.

What features and innovations within the branded residential sector might we begin to see that play strongly into the wellness culture?

- **Nourishment:** Dedicated juicing stations, old fashioned larders for storing fresh food in a non-refrigerated environment, communal vegetable gardens and allotments forming integral parts of the residence community landscape.
- **Brain Power:** The return of the library, as reading in solitude is increasingly seen as a luxury and digital detox takes hold. Homeowners will seek refuge in their own private spaces where they can relax, think and learn; this could be an art studio or personal hobby 'snug'.

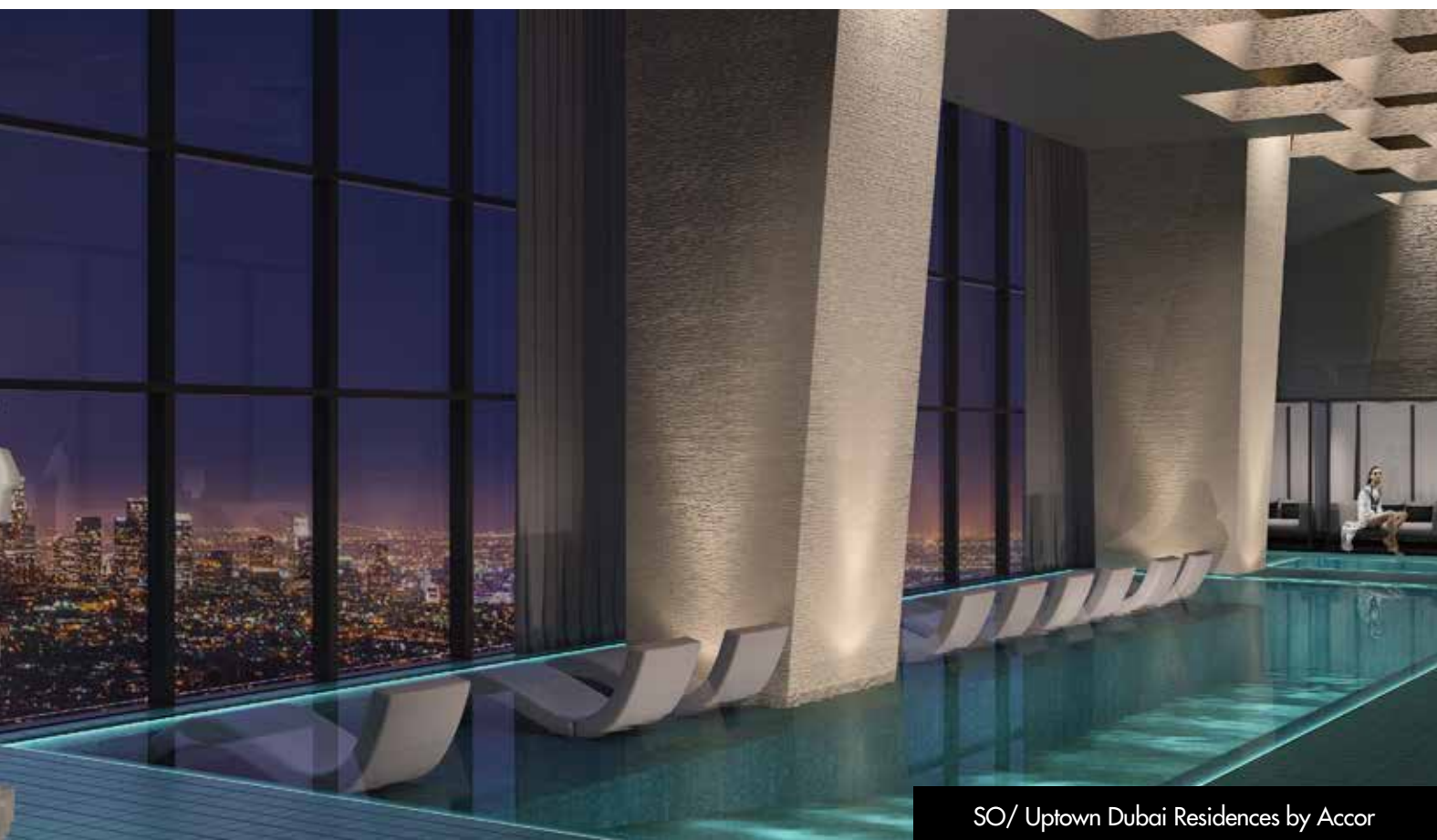


The Residences at The Westin Costa Navarino

- **Community:** As loneliness is declared a global epidemic and sharing quality time with family and friends grows in importance, branded residence developments will need to design for community and privacy in equal measure – think village social spaces and fragrant gardens for community exercise and interaction. Homes need to be designed with large ‘wow’ factor social spaces for indoor and outdoor dining and entertaining.
- **Holistic Indulgence:** In-home micro yoga studios and massage rooms and a menu of in-home services provided by the hotel’s wellness centre will become more prevalent.
- **Fitness:** As physical activity across all age groups grows in importance, dedicated storage space in residences for athletic equipment, micro gyms and bike repair stations in the garage will become standard. Personal trainers on hand from the hotel to personalise a fitness regime for homeowners.
- **Simplification:** The movement towards less cluttered contemporary indoor spaces – interiors should focus on less distraction and creating a calming environment.
- **Breathe Deeply:** Built-in air purifying systems, thoughtful indoor planting, and homes designed for natural ventilation with biophilic floor coverings that minimize dust.
- **Green Power:** Energy efficient design, maximising natural ventilation and incorporating eco-energy solutions will soon be a standard feature in luxury residences.
- **Circadian harmony:** Alongside maximising natural

light, adjustable colour lightbulbs will reinforce the body’s circadian rhythm and enhance mood and productivity.

- **Recycle, Repurpose, Refresh:** Furnishings and fittings made from repurposed natural materials, strong on texture and with origins anchored in the destination plays to both the therapeutic impact of biophilic design and demonstrates the eco integrity many buyers aspire to. Developers should embrace innovations that demonstrate eco-integrity in tandem with a strong wellness theme; thoughtful details that reflect evolving buyer aspirations are not necessarily high capex items, but these can certainly command premiums, create differentiation and help developments to stand out.



SO/ Uptown Dubai Residences by Accor



Grand Hyatt Residences, Manila

Spotlight on Hyatt

With over 1,100 hotels around the world, Hyatt is a relative latecomer to the branded residential market and the group currently has only 11 residential projects in its portfolio. However, this is set to triple within the next 5 years. Felicity Black-Roberts, VP of Development, offers some insights into the group’s approach.

How are Hyatt’s residential brands segregated in its portfolio?

In line with the market, our branded residential portfolio follows the luxury and upper-upscale segments across our Timeless and Boundless Portfolios, notably Alila, Grand Hyatt, Hyatt Regency, Park Hyatt and Andaz. We expect to expand into other brands over time.

How do you choose the most appropriate brand for a residential development?

As Hyatt does not offer branded residences without a hotel, this is driven by location, facilities, culture, market characteristics and, of course, expected demand for that brand. We obtain specialist advice for every scheme to ensure that the offer reflects the residential demand drivers specific to each market, examining how the residences will interact with the hotel and whether the Hyatt brand will add genuine value for the developer and future residents.

Resort or urban locations for Hyatt residences?

Our residential strategy differs slightly from our hotel strategy in that it is focused more on major urban hubs and high-end resort destinations, the rationale being that these support the operations of our luxury and upper-upscale brands and are more likely to generate sales at premium prices.

How rigidly are the brand’s guidelines imposed on residential developers?

Rather than imposing rigid brand guidelines, Hyatt works with “brand touchpoints” to ensure that all properties keep their own original character. We work closely with developers to ensure that this is delivered for the benefit of owners and guests alike.

If a developer signs with a particular brand, he evidently sees value in that brand and therefore wishes to ensure that its essence is maintained, both in terms of the physical product and ongoing service.

How does Hyatt differentiate its residential offer to developers from its competitors?

We believe that our competitive advantage and USPs for Hyatt branded residences include:

- Diverse luxury and lifestyle brand choices
- Proven track record with strong brand loyalty
- Healthy and growing pipeline
- HOA management expertise (USA)
- Support from concept development to pre-opening

Any notable challenges that arise when working with developers?

We work collaboratively and constructively with each of our developers, from designing the residences, finalizing the homeownership/condominium regime documents, developing the sales and marketing strategy, structuring any rental program, constructing the residences and the opening and turnover of the residences. There are certain challenges that may arise when working with developers, particularly those that are unaccustomed to working with a hotel brand. These challenges may include:

- We always require developers to commission an independent feasibility study for the real estate component, to enable them to plan the most relevant unit mix that will sell well and maximize returns.
- We do not permit developers to market based on a promise of certain return on investment and we do not guarantee any price premium.
- Whilst a developer is entirely responsible for residential sales and marketing, Hyatt must pre-approve all sales and marketing collateral.
- Rental pool considerations:
 - Mandatory or not? Pre-defined usage annual. Protections against short term rentals (i.e. to avoid competition with the hotel).
- The inclusion of required disclaimers in marketing collateral.

Urban vs. Resort

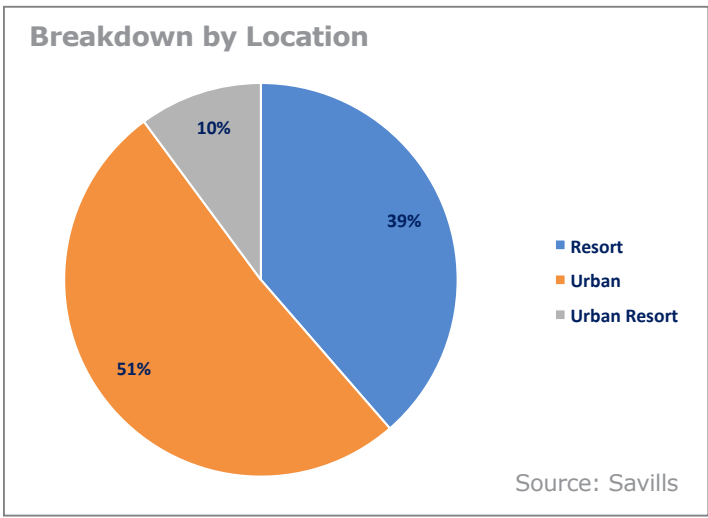
Latest data from Savills confirms that most global branded residences (Urban and Urban Resort) are in city locations, which remains the favoured model due to higher occupancy and stronger ROI. Nonetheless the scarcity, high costs and challenges (e.g. planning) of securing prime urban land and buildings has seen resort-located branded residences increase its market share from 32% in 2015 to 39% today.

WATG’s research found that operator appetite is increasingly greater for urban rather than resort locations. “Primary/secondary residences in core urban locations have shown increased attention from HNWIs, due to their perceived ‘safe haven’ investment credentials,” observed Muriel Muirden. “Operators are doing deals where development is taking place,” adds Sphere Estate’s Robert Green, “and prime urban branded developments have greater appeal because they are perceived as less risky.”

Muirden accurately predicted that, as a positive development climate returns to Western Europe, branded residences in both an urban and resort context would gain traction, having been unrepresented for so long. She also expected 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.

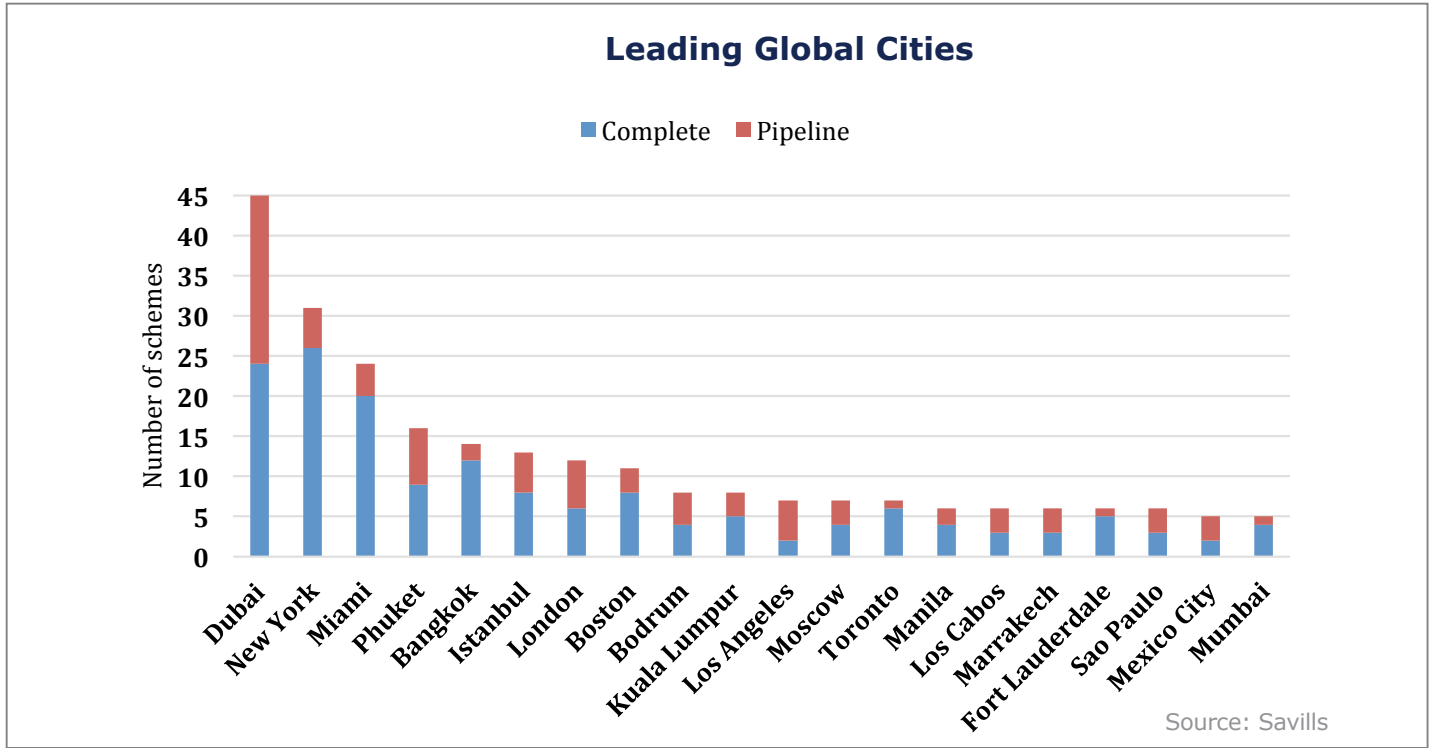
Urban

Location continues to be a major influencing factor. WATG’s research found a unanimous sentiment among operators for a focus on exceptional sites in prime locations, rather than in secondary or tertiary



destinations. Savills also supports this, commenting that the success of branded residential development, notably in mature first-world markets, is down to a combination of factors of which location is the primary one. “The more established the residential market is in a particular location, the greater the importance of selecting the best sub-location within that area. The potential for development of branded residences in main cities in emerging markets with strong household income (or domestic spending power/wealth) is significant, due to limited or no supply and sufficient underlying demand,” comments Alexandros Moulas.

Savills research reveals that New York is the #1 city with 26 complete schemes and 5 in the pipeline; however, Dubai (24 completed schemes and 21 pipeline) will take the top spot in 2020. Miami is in 3rd place (20 complete, 4 pipeline), while Phuket (9 complete, 7 pipeline) will soon overtake Bangkok (12 complete, 2 pipeline) into 4th place.

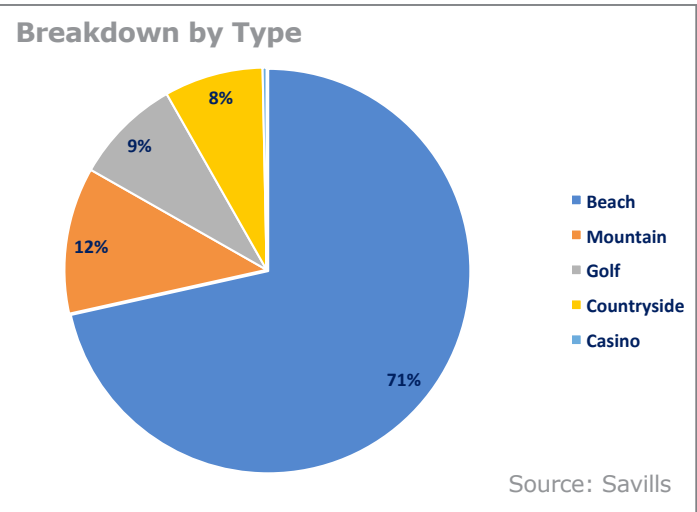


Amanyara villa

Resort

The number of luxury branded real estate projects in resort locations continues to rise (consider Phuket, where half of new developments are branded) and, as mentioned above, global market share has increased to 39%.

“In terms of the types of resorts around the world, the vast majority are located within a beach setting, followed by mountain (primarily ski), golf, countryside, and a small number include a casino element,” reports Savills’ Riyan Itani. “Central and Latin America have the most beach resort projects, MENA has the most golf projects, while North America has the most mountain and countryside projects.” He points out that almost one-third of completed global resort stock is in the USA, although the pipeline is split equally between USA and Indonesia. Currently Ritz-Carlton, YOO and Four Seasons are the only brands that operate across all these location settings.



However, in emerging locations branding could become a double-edged sword as the local market matures: “Some investors will view market-entry in the early stages as advantageous to benefit from value increase as the market develops,” says Christies’ Joachim Wrang-Widén. “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.”

So 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, with the risk of drastic changes in regional weather, taxes or politics? “Well, simply because they can,” says Lynn Villadolid. “Let’s face it, if money was no object who wouldn’t want to spend time in the familiar comfort of their own homes while enjoying temperate weather, snorkelling with turtles, feeling sublime white sand under our feet, 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.”

Standalone Residences

It was only five years ago that HVS reported, “The majority of operators do not operate standalone residential products and it is not a major consideration for the future.”

How quickly things change in this sector: in a relatively short period, this trend has picked up considerably and most major operators are now embracing it. For example, in the previous edition of this report, Marriot operated 9 standalone residences – all Ritz-Carlton – with a further 5 (Ritz-Carlton and St Regis) in the pipeline, yet today they offer standalone residences across all their residential brands. Equally, other leading hotel groups interviewed for this report are actively developing or looking at these.

The Robb Report recently addressed the desirability of these in a recent article: “Living in a hotel entails a gorgeous, often exotic location, a like-minded community and exclusive access to on-site spas and restaurants. With a standalone residence, it’s much of the same. The chief distinction is a heightened sense of exclusivity, as there’s no adjoining hotel with which to share space. Instead, the brand — be it Four Seasons or otherwise — acts as a sort of property manager, attending to each residence and offering the same amenities and concierge services one would find in a five-star hotel.”

Managed Rental Programmes

Owners can benefit from the option to rent out their properties through a managed rental programme, in which the revenue generated is shared between the owner and the operator. Target returns typically range from 3-5% net yield (6-9% gross).

Research from WATG found that a significant majority (80%) of owners participate in rental programmes (although it varies by destination). “Even HNWI’s are attracted by rental pools as a means of covering running costs whilst getting, in effect, ‘free’ stays,” says Sphere’s Rob Green. “Increasingly buyers want some level of rental return, especially in resort locations where they tend to visit their homes less frequently.”

Latest research by Savills finds that 67% of global second home buyers place a heavy weighting on the investment angle, with only 32% buying purely for private use. “Naturally these statistics vary from location to location,” comments Alexandros Moulas, “but in virtually all cases the investment angle will still be a fundamental driver for most purchasers, especially in second home markets. Depending on the type of property, this will either include a strong net yield as well as capital growth potential, or at least enough net yield to cover the annual running costs of the property.” Colliers’ Marc Finney agrees that the income generated should cover the running costs and ideally generate a 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. There is also the expectation that the income from renting will cover most if not all of the annual maintenance costs.”

At Marriott, around one third of open residential projects (and nearly half of pipeline) have a rental

programme. “From initially being almost entirely in resort locations, the number of branded residential projects with a rental programme in urban locations is also increasing,” comments Daniel von Barloewen. “Most buyers, including HNWI’s/UHNWI’s, 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.” von Barloewen 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 standalone branded residences.”

An operator requires both certainty of income and availability of the residences; as such, many offer a mandatory rental programme with a sweetener of a guaranteed or non-guaranteed rental return. The attractiveness of rental returns - particularly when guaranteed - has been proven to have a positive impact on residential sales absorption rates (e.g. Marriott’s Luxury Collection at Pine Cliffs Algarve offered 5% for 5 years, resulting in strong sustained sales). However, it should be noted that there are legal restrictions (notably in US and UK) that need to be considered carefully, as these are classed as collective investment schemes and therefore subject to tighter regulations as financial instruments.

Savills’ Riyan Itani observes that mandatory rental programmes tend to generate the best yield returns



The W Residences Bali

for the unit owners, whether guaranteed or not. “These often run between 4-7% net yield after operator’s fees, share of income (40-70% is paid to the owner), FF&E reserve (c.5%), plus service charges and utilities.” He points out that there are instances, primarily with luxury brands, where owners are restricted in their ability to rent out units for less than 1 year to avoid transient occupancy, “although this is often at odds with achieving higher yields,” he explains.

Some managed rental programmes restrict personal usage to a few weeks each year but, given the cosmopolitan nature of owners and the fact that they often have other homes, this is not generally seen as a hindrance (especially in resort locations).

Itani believes that the choice of whether to offer a rental programme is determined by a number of factors: “First and foremost it is the size of the hotel element. Mandatory rental programmes are most commonly seen where the dedicated hotel facilities are on the small side so, for example, a hotel of only 50-70 keys would most likely have additional keys to supplement the hotel suites.”

However, there’s often a caveat: “The reality is it’s very difficult to rent those (branded residential) units as hotel rooms in a downturn because the level of fixtures, the amount of cleaning, the time to service them is much greater and the margins become that much thinner,” says Sean Hennessey of Lodging Advisors hotel consultancy in Hotelsmag.com, emphasising that it’s also a matter of timing: “If the developer builds a branded residential project and sells them before a down market hits, it becomes a problem for the individual owners. If a downturn hits before the developer sells the units, it may be

possible to rent the units on a short-term basis until the market swings back.”

It should also be noted that generally only branded properties that are furnished by the operator are permitted to participate in a rental programme, to ensure consistency in terms of FF&E and interior design (i.e. complementing the brand style) and that high-quality standards are maintained.

Rental Programme Structures

Branded residences ownership frameworks and rental programme structures generally fall into one of the following categories:

Ownership Framework 1

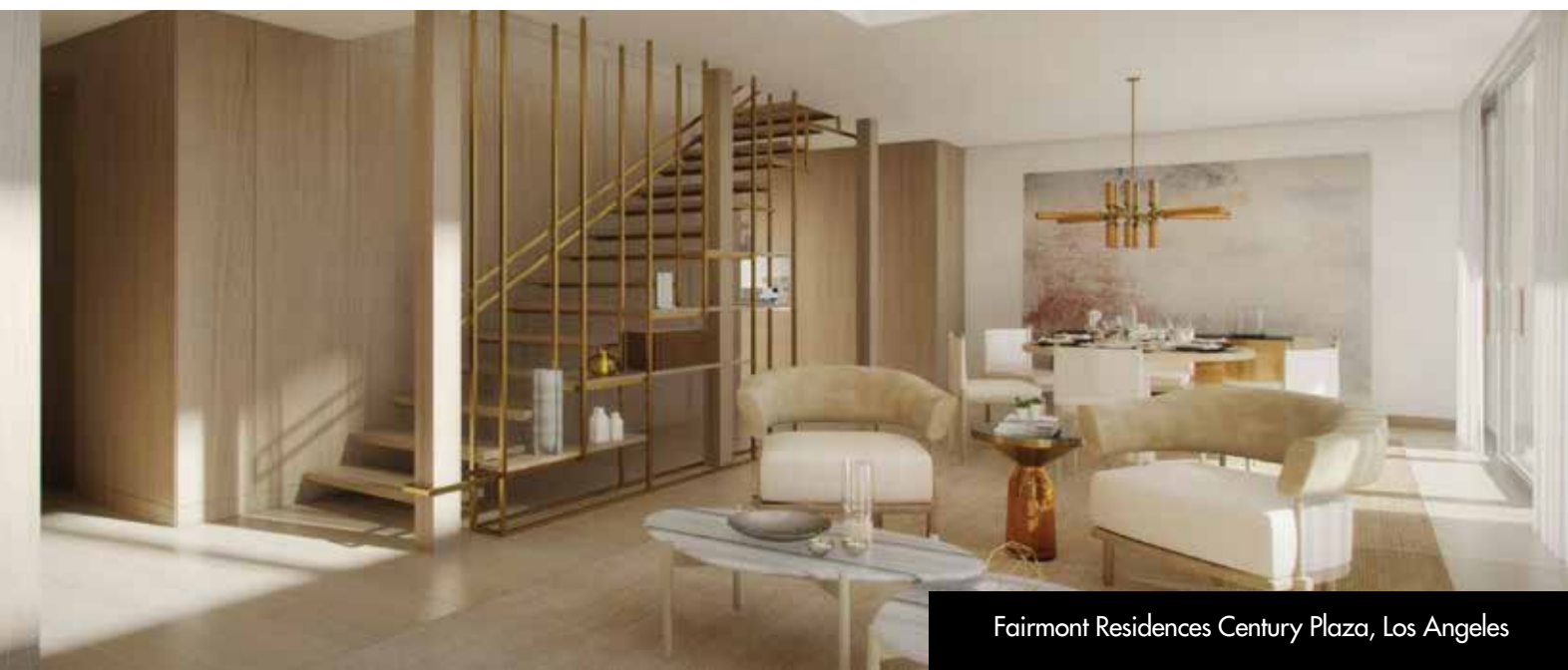
The development consists of a hotel component and a branded component of fully furnished residential units for sale, with a ‘mandatory’ rental programme. The residences are managed by the operator as serviced apartments in a ‘hotel + serviced apartments’ structure.

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 programme requirement. The other part will form a guaranteed number of units for the operator’s management, regardless of the rental programme. 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 programme, all in a ‘serviced apartments’ structure.

Ownership Framework 3

Residences are branded and sold to owners but with no mandatory rental programme or agreement. This is the most common structure in established urban markets.



Fairmont Residences Century Plaza, Los Angeles

Rental Programmes: Some Legal Considerations

The branded residences model can deliver strong growth potential and solid financial rewards, but it also comes with some business risks - especially those associated with rental programmes - which, if not addressed at the outset, can seriously impair the project outcomes. Hotels and hospitality experts Lada Shelkovnikova and Robert William at Withersworldwide in Singapore list some common considerations from a legal perspective.

It is often beneficial to include branded residences as part of a bigger mixed-use development alongside a hotel; on the one hand, this ensures that the operator has an ongoing business interest in the management of the project and, on the other, it facilitates a rental programme.

The structure that is ultimately selected will depend on a variety of issues, such as market fundamentals, the developer’s risk appetite, the strength of the overall offering and the risk profile of the target individual buyers (every investor’s motivation is different, as are the benefits they seek from owning a branded residence).

Offering a managed rental programme expands the audience of potential investors to include those looking at branded residences as an investment vehicle which, in a mixed-use project alongside a hotel, offers myriad advantages:

1) In a hotel rental programme, the residences can be used to generate income as the unit becomes part of the hotel inventory and is managed by the operator in the same way as the hotel rooms. The rental programme can be structured with a fixed rent, variable rent (based on the gross revenue or net operating profit), or a combination of both. To enhance the appeal of the residences to buyers, some developers offer guaranteed returns during stabilisation period; however, this model has several

reservations from both commercial and legal perspectives, which should be carefully considered.

2) The operator can maintain the residences all year round, which saves hassle for individual owners and ensures that their residence is ready for use at any time.

3) Investors are usually entitled to use their unit on a free of charge (or heavily discounted) basis, e.g. for up to 30 days per year, whilst the property is generating revenue for the investor during the remaining months. Destinations which combine both business and leisure tourism can potentially benefit from the branded residences models even more.

4) If investors follow a “buy-to-sell” strategy, the branded residences also have an edge where the profile (and usually location) of the project generates a resale premium over and above the market price of unbranded peers in the same location.

It is important to note that, in some markets, a rental pool may be considered to be a collective investment scheme (or similar local equivalent), which can therefore be subject to strict compliance and reporting standards and require approvals from local regulatory authorities (see also p.44).

Where branded residences are part of a larger mixed-use project, hotel operators will require the developers to ensure that shared facilities (e.g. pool, gym, spa) are placed in the title of the hotel component, or are otherwise under control of the developer/hotel owner to the maximum extent permitted by law. This way the responsibility of compliance with the operator’s brand standards (including any changes thereto) will lie with the developer/hotel owner, with whom the operator has a direct contractual relationship.



Jungle Reserve villa at Soneva Fushi, Maldives



Rosewood Residences Baha Mar, The Bahamas

Spotlight on Rosewood

For the past 25 years Rosewood has been active in the branded residences arena, albeit in the typically understated manner that defines the brand. Now they are upping their game, as Irene Hoek (VP, Global Residential Development) explains.

Rosewood is currently defining and streamlining its branded residential offer – why now?

The Rosewood brand has been involved with residences since the 90’s and today has 11 hotels with a residential component. Interest in the Rosewood brand has grown intensely in recent years as we have added one-of-a-kind hotels in some of the most coveted destinations, which has also driven demand for residences. About 50% of our pipeline has a residential component and we expect this percentage to increase substantially. For this reason, we are expanding our residential resources so that we can better support our owners and developers with their sales & marketing processes and strengthen our relationship with buyers.

How many projects are planned in, say, the next 5 years?

We currently have 10 branded residence projects in our pipeline that we expect to launch in the next five years.

How will Rosewood differentiate its offer from other high-end operators?

We set ourselves apart via a combination of design leadership that reflects our *A Sense of Place®* philosophy, as well as our signature residential style hotel experience, and we translate this philosophy of customization into our residential offering. True luxury is a feeling that everything can be designed around you, both physically and experientially: that is the feeling we want to inspire.

What are the benefits offered to encourage developers to partner with Rosewood?

Our brand attracts a very select following that seeks uniqueness, discretion and, to some extent, scarcity. This enables our brand to command substantial price premiums and, in some locations, increased sales velocity. Beyond that, we provide robust marketing support and our services include

property management and maintenance as well as HOA management. In certain cases, we offer buyers the chance to participate in a rental program. We also offer an exclusive club membership for residence owners, giving privileged access to all our hotels as well as special events.

How do your royalty/license fees compare with other high-end operators? Are you flexible on these?

We understand each project and each market is different and seek an equitable fee structure, taking into account market and project dynamics. We therefore price according to each market and approach licensing fee structures with an open mind.

In what circumstances would you be receptive to operating standalone serviced branded residences?

We are open to branding and servicing standalone residences, with the caveat that our primary focus will always be to carefully and strategically grow our hotel portfolio. If a standalone residential development in a location where we already operate a hotel would drive further brand loyalty, or generate additional revenue to an existing hotel, we would definitely consider this.



Rosewood Residences Sao Paulo, Brazil

Providing a Legal Framework

Often wrought with complexities and pitfalls, proper governance for branded residence owners is a pre-requisite to ensure a well-planned, well-managed and harmonious project. Some key issues to consider are summarised below.

Branded residences are regularly a component of a mixed-use project, which might include a hotel, retail, commercial, common areas and supporting infrastructure. “In this context,” declares Thailand-based lawyer and real estate veteran Paul Dean, “governance necessitates the adoption of much more complex provisions designed to ensure the integrated operation of the entirety of the development’s individual components.” He emphasises that, depending upon the jurisdiction, governance can be a legal minefield: “To eliminate the risk of potential problems downstream, there is no substitute for seeking expert advice when planning mixed-use projects, especially those which incorporate branded residences.”

Richard Bursby, legal expert on branded residences at Taylor Wessing in London, agrees: “Where there is only a hotel, the structure is pretty straightforward: one hotel, one owner, one operator and one Hotel Management Agreement (HMA). Where there are branded residences, the legal complexity increases exponentially, and the legal framework needs to be bespoke to each country. I can’t emphasise enough how the legal regimes around the world vary from country to country. A cookie-cutter approach is simply

not possible; each branded residences scheme must be considered on a case by case basis involving experts who know what they are doing. Bringing in expertise is essential.”

Bursby stresses that governance must work throughout the project’s lifecycle (not least as over time there may be hundreds of individual owners). “Branded residences are legally very complex, so they require many more legal agreements than simply an HMA,” as he lists the following examples:

- Sale and Purchase Agreement for the branded residences.
- Agreements between the Operator and Owner (and/or Homeowner’s Association (HOA)) for managing the residences.
- A marketing licence agreement for the sale of the residences.
- Rules and Regulations for the Resort.
- Agreements between the Resort Owner and residence owners to ensure compliance with Rules and Regulations.
- Shared Facilities Agreements for use of infrastructure infrastructure and common areas.
- A la carte agreements for the provision of services by the Hotel to the Residences.
- Rental Programme Agreement (if relevant). The legal complexity is further increased by the fact there will likely be a voluntary and / or mandatory rental programme (some jurisdictions require a mandatory rental programme).



One Hyde Park by Candy & Candy, serviced by Mandarin Oriental



Raffles Residences at PALM360, Dubai by Nakheel

Paul Dean believes that the most critical governance issue is the balancing of control between the mixed-use components and residential owners, who will be concerned with the maintenance, repair and replacement of the common areas, dispute resolution procedures and what may be termed “quality of life” operational issues. “Complex mixed-use developments adopt layered (or tiered) Associations, which typically sit under a Master Association composed of representatives from each of the uses represented within the project, with sub-Associations established to govern each specific use.” He cites as an example the Lotte World Tower in Seoul which, over 123 floors, incorporates Observation Deck (7 floors), Private and Prime Offices (34 floors), Hotel (25 floors), Residences (29 floors), Podium (12 floors) and 6 storey underground parking. “This level of complexity requires very specialised legal advice, and the documentation requires careful consideration and drafting. Differing approaches are also mandated if it is a horizontal or vertical development, as mistakes in design or operation within a mixed-use project are often multiplied many times over.”

In conclusion, a branded residence model may not be quite so straightforward to get off the ground but, when structured properly, it can create ample synergies and benefits for all stakeholders involved – developer, operator and buyers. To ensure that it is structured properly, a professional market study and due diligence should always be undertaken to minimise risk and determine:

- the target investors’ profile, their investment motivation and risk appetite;
- the appropriate brand to deliver the desired premium pricing;
- accurate space layout, to ensure developer’s control over shared facilities;
- the optimal rental programme structure based

on market and project fundamentals, legal restrictions and requirements.

Prior to finalising the branding arrangement with the operator, the developer must thoroughly consider the local law. Lada Shelkovnikova at Withersworldwide lists some important considerations:

1) Disclosure requirements

In some markets, local law places extensive disclosure requirements on the developers in cases of offering of proprietary interests in real estate. Hotel operators typically require the developers to include in the disclosure statement/offering plan/prospectus a full disclaimer with respect to the limited scope of the operator’s involvement in the project development.

2) Sale of residential units off-plan

There is often a special legal framework for off-plan sales and respective local law requirements should be considered from transaction timeline perspective, which may need to be aligned with a wider suite of documents with the operator.

3) Strata regulations

Special attention should be drawn to the strata laws (if any) and the powers of owners’ association/ management corporation (or similar governing body under the local law), particularly in respect of their right to terminate the operator and appoint an alternative manager and brand. Where the branded residences form part of a mixed-use project alongside a hotel, this can become a major concern for the operator. However, the risks related to the strata regime can be potentially mitigated through project structuring; to achieve this, the project structure has to be carefully curated with due consideration of the physical layout, the physical location of shared facilities, and the developer’s/hotel owner’s continuing interest in the project.



The Residences at Mandarin Oriental, Honolulu

4) Foreign ownership restrictions

If, under local law, foreign investors are prevented from acquiring an ownership title, the developer may need to structure the project via a long-term lease arrangement, which may adversely impact the sales premium and may not be quite as appealing to investors.

5) Collective investment scheme

In certain markets, the rental pool arrangement can amount to a collective investment scheme / RE syndication regime / managed investment scheme (or similar local equivalent); this requires special approvals from regulatory authorities and becomes subject to various compliance standards and reporting requirements.

6) Requirement to build affordable housing

There may be a requirement to build affordable housing or supporting infrastructure for the government or municipality when developing a strata “for profit” project.

7) Licensing requirements

The asset management of residential projects may be subject to special licensing requirements, under which an operator may need to have a local presence/local entity.

Home Owners Associations

“Government oversight of Home Owners Associations (HOA) varies from one jurisdiction to another, especially in Asia,” observes Paul Dean. “An HOA or Residents’ Association is sometimes ‘a creature of statute’ or, in jurisdictions that do not have applicable regulatory regimes, it may be entirely contractual. Many HOA’s are incorporated and subject to specific laws: for example, in the USA typically the HOA will be a corporation formed by the developer for the purposes of marketing, managing and selling of homes or the plots in a residential subdivision.”

“An HOA may be created by law in the jurisdiction representing the interests of all individual owners of branded residences in respect of these common areas,” explains Richard Bursby. “This will be the entity that the operator will contract with. In this event, both the owner and the operator will be very concerned to ensure the owner still “controls” the whole resort and the HOA, even after the owner will have sold some or all of the branded residences.”

Paul Dean adds that 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).

Dean points out that more significant challenges may need to be addressed in jurisdictions where condominium law is either not yet established or is in its early stages, especially with branded villas or apartments in larger mixed-use resorts. “In these situations, the governing documents run with the land – which means that they ‘touch and concern’ the land and there is no mutual agreement between the seller and subsequent buyers regarding their terms. These are ‘adhesion contracts’ – a condition of ownership that a prospective buyer must sign up to.”

Why is a Homeowners’ Association necessary? Real estate lawyer Paul Dean of Dean & Associates explains.

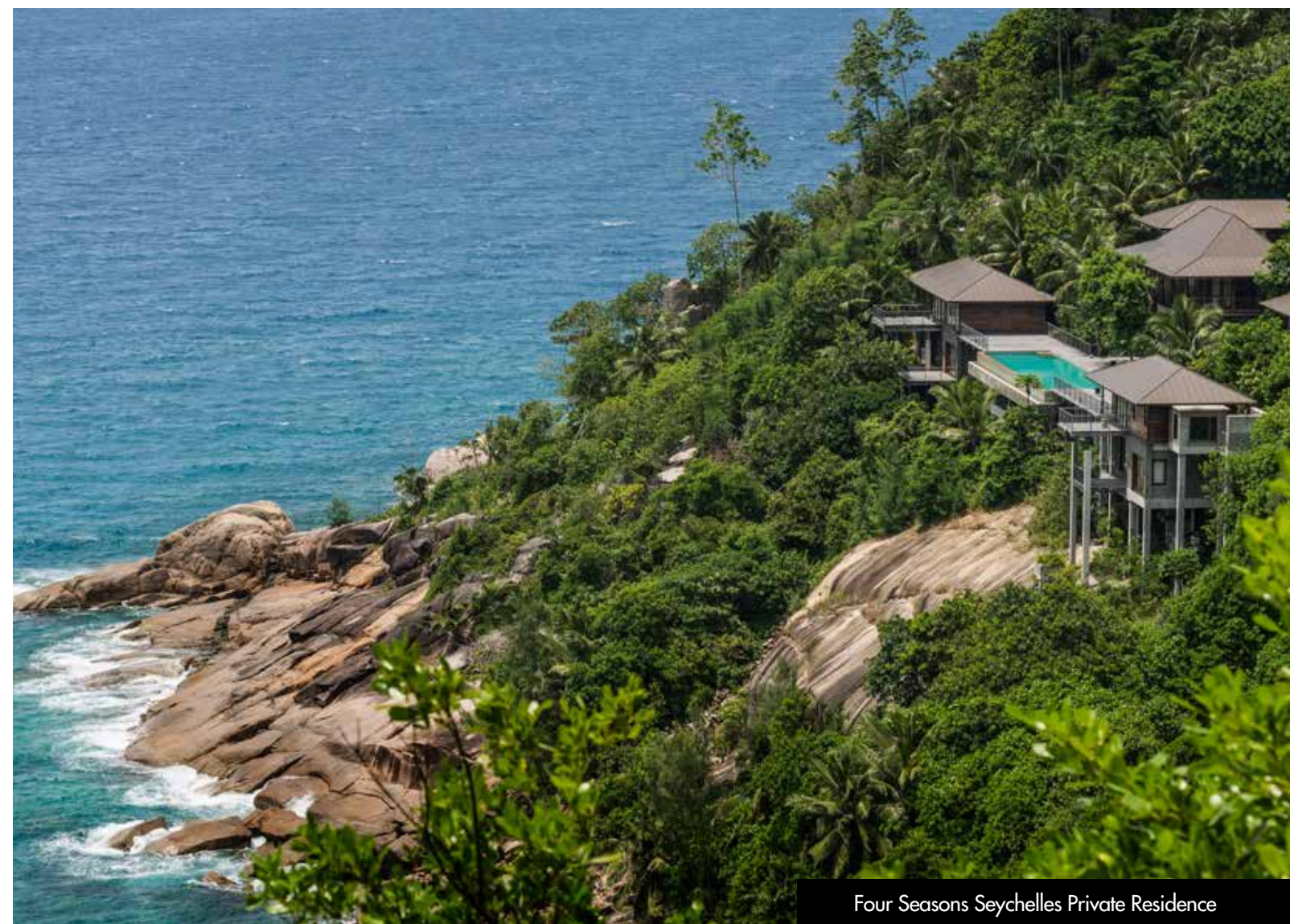
In the context of branded residential projects, governance typically determines control and responsibility - who makes, monitors and implements decisions, and accountability. It should cover the establishment of policies and the monitoring of their implementation. To facilitate this process efficiently, the creation of a representative entity is a necessary first step - usually a Home Owners’ Association or Condominium Juristic entity.

When developing the 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”, which usually include 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. HOA membership is usually a mandatory condition of purchase for a residential buyer, who must pay assessments to and abide by its governing documents. When an owner sells, he/she is replaced in the HOA by the new owner who automatically assumes all obligations.



Four Seasons Seychelles Private Residence

Addressing the Legal Aspects

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

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.

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

Usually not, because 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.

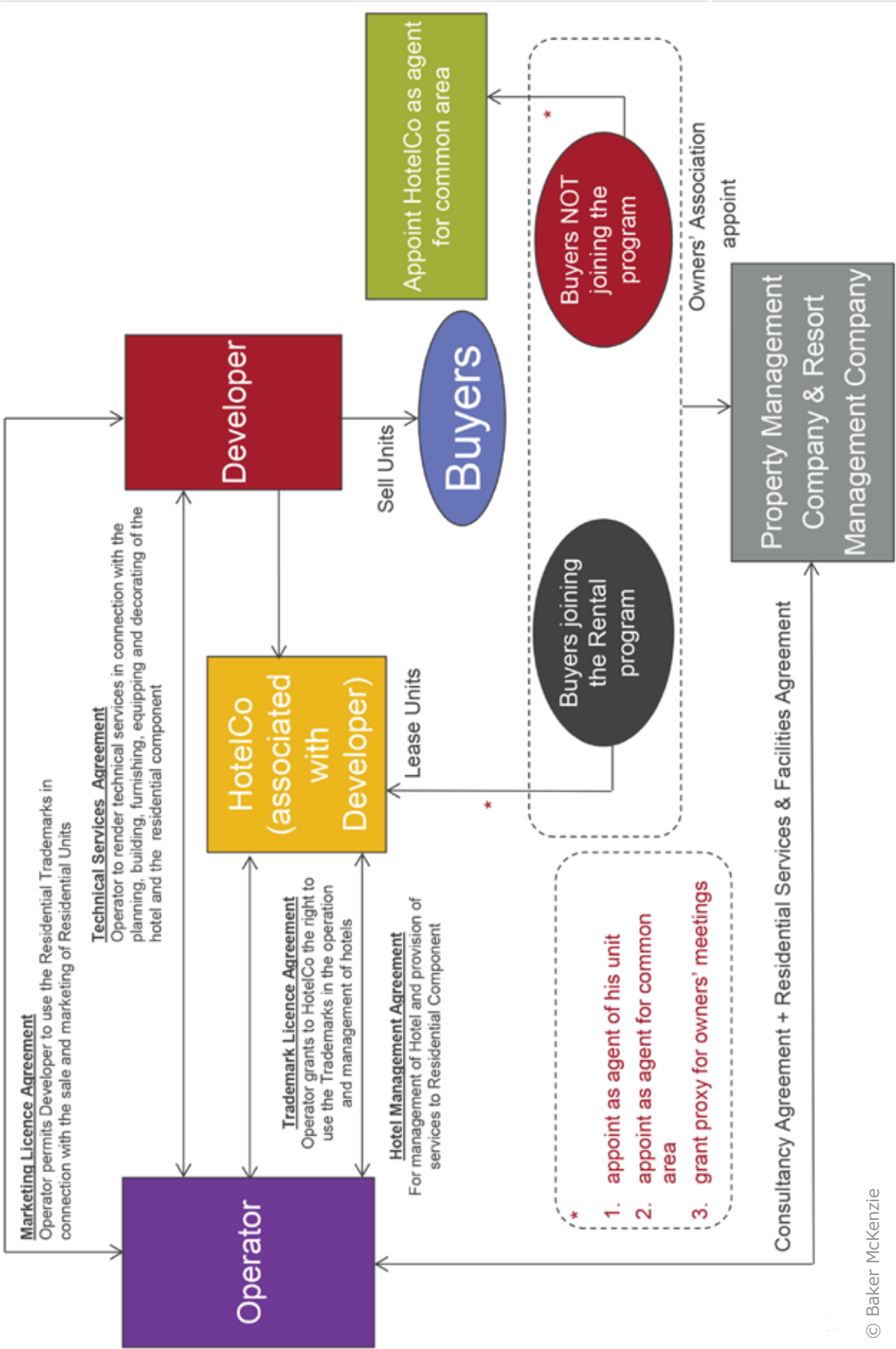
Do issues arise if the branded residences share facilities with the hotel?

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



Accommodating Conflicting Interests

In preparing the structure, it is worth considering that tensions can exist between the interests of the developer, the operator and owners as the project matures, advises Felicity Jones, Head of Hotels and Leisure at Watson Farley & Williams LLP.

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.

Matters of Concern to Developers and Operators

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

- Some jurisdictions do not have a legal structure or regulatory framework that accommodate common issues 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 this can be completed quickly (it cannot!).
- Developers often fail to consider that they may want to sell the hotel component in the future.
- Risk of termination of the management contract while allowing the branded residences to retain use of the brand (e.g. China).
- Developers often commence planning and construction without addressing fundamental questions relating to sharing facilities and costs, nor what happens if there is a disagreement in the future.
- If a rental pool is offered, care is needed as this has investment product connotations in several jurisdictions and is therefore subject to strict regulations.

Matters of Concern to Buyers

Buyers of branded residences want to be clear about ongoing financial obligations after completion of their purchases - notably how annual HOA dues are calculated; whether there are caps on annual increases; the Operator’s ability to raise special assessments; whether the Operator’s reserve funding arrangements are adequate, and wider obligations and related management fee entitlements.

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 leads 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 (see example on p.23); 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.

Some Common Legal Considerations

In many cases, a brand will have more experience than a developer and will have given a lot of thought to protecting its interests when structuring the branded residential offering. In several respects, those interests will be aligned with those of the developer and buyers. Similarly, a developer will need to ensure they retain value, both as owner and in terms of their offer to potential buyers. It can become a legal minefield. Naya Boltetsou at Watson Farley & Williams LLP presents some topical considerations highlighting why all parties should seek experienced legal advice, to ensure they achieve the expected value and entitlements. Her first advice is "better safe than sorry!"

Developers / Owners WITH prior legal advice		Developers / Owners WITHOUT prior legal advice	
Understand the restrictions on the site and local laws that may affect price, e.g. the condominium regulations and what elements of ongoing cost they may or may not be able to recover through service charges/ proportions retained from income (assuming local law does not prohibit collection in full). Ensure that the operating contracts and rental programs are balanced and recognise the legal and commercial interests and safeguard long term effective co-operation between the site owner, the buyers and the brand. Recognise the concerns of the brand in terms of the site and facilities, and address at an early stage issues relating to different uses of the site, e.g. by accommodating rental programmes that are voluntary or mandatory and/or addressing the respective rights to use the various facilities (and the extent to which the facilities have to serve both hotel guests and the occupants of the branded residences).	Buyers WITH prior legal advice	Run the risk that the property's legal title has deficits, "promised use" of the residence is blocked and in the worst case the seller was not the (real) owner (!) of the property... which leaves the buyer with very limited means to recover money invested. Furthermore, the buyer may find himself under construction or maintenance standards that are too burdensome to be met. May be trapped in a rental program that may: (a) not allow the buyer to use the property as expected; (b) not allow the buyer to visit the property during desired periods; (c) Impose high "daily rates" and "charges" when staying in the property. Ideally a buyer of a branded residence needs to understand the steps an operator will wish to see imposed to protect the brand, and also the exclusivity of the site, which in turn feed into the anticipated (or promised) return on investment and value. May face unpleasant surprises when discovering for example that they have no right to use their property when they expected to (e.g. high season), their guests are not entitled to use all facilities or the beloved puppy is not welcome either in the Branded residence or the resort! Risk finding themselves: (a) facing substantial restrictions when they would like to sell the property; (b) blocked from terminating participation in the rental program and appointing a different operator; (c) unable to exit when the resort owner and/or the operator are under insolvency and the rental program is in the hands of 'non-experienced' liquidator.	Buyers WITHOUT prior legal advice

Caveat: *If you are the operator of the branded residences, we trust that you act only on legal advice given the complexity of the operator’s role, which is beyond the scope of this article.*
Source: Watson Farley & Williams LLP



Spotlight on Condé Nast

An interesting new entrant into the sector is publisher Condé Nast. The company's diverse portfolio of magazines including Vanity Fair, Vogue, Tatler and GQ promises to bring an exciting new dimension to branded residences, offering developers an opportunity to create unique spaces that are 'luxury, relevant and dynamic', styled around selected high-end titles.

What persuaded Condé Nast to enter this crowded marketplace now?

Condé Nast has been extending its core brands into the hospitality space since 2003 with Vogue Cafés and GQ Bars. Despite multiple requests over the years, we have been cautious about entering the sector without a clear understanding of how our brands translate into bricks and mortar.

We now view this evolving and expanding Branded Residential marketplace as a natural next step for our global lifestyle media brands, and a key part of our strategy for developing our business outside of core publishing brand and lifestyle extensions.

Reading vs Living: Why do you think Condé Nast's magazine brands will resonate with real estate buyers?

Condé Nast brands are portals into a world of aspiration and lifestyle, offering a curation of the most inspiring and compelling content from the fields of art, culture, design, fashion and luxury. We want our guests to always feel like they are stepping into the pages of our titles. Our iconic brands such as Vanity Fair, Vogue, Architectural Digest and Wired have prestige, global appeal and a long-established heritage. We believe these values and our commitment to quality and excellence will resonate with developers and buyers.

What are the unique elements that will differentiate Condé Nast from other players in the market?

Condé Nast is a truly modern global company working at the forefront of rapid changes in fashion, culture, social dynamics and technology. We want to offer spaces that are luxury, but also relevant and dynamic. With our networks across fashion, design and technology, we hope to offer spaces that give access to the lifestyle experiences our media brands offer.

How will you handle the management of the residences or will this be outsourced?

The representation of our brands will always be paramount. We will be partnering with premium management and concierge companies that understand us and will operate within our guidelines and brand standards in each territory. This will undergo a rigorous selection and will be continually audited.

How rigidly will brand guidelines be imposed on developers or do they allow for some flexibility?

Whilst we are very precious about our brand IP and will incorporate some signature looks, we are keen to have a flexible design ethos working alongside developers. We want to approach each space differently and within the context of its environment - the likely guest, and local culture, incorporating the use of local materials and architecture. Each brand reflects its own market's culture and trends. We want to ensure that each residence incorporates the style and taste of its location too.

Any specific challenges that you foresee in working with developers on a new project?

In-depth project feasibility, partner selection and engagement throughout the process will be key. We will remain engaged throughout the lifecycle of the project and carry out full due diligence.

Emerging Markets

In the previous edition of this report, Africa and South America were highlighted as markets with potential future growth in branded residences, and greater expansion in Europe was predicted. Some market leaders with fingers on the global pulse share their insights.

"We actively try to identify and pursue newly emerging markets," comments YOO's Business Development Director James Snelgar. "However, they are not always entirely obvious." His team has been focusing time and attention on East Africa, notably Kenya, Uganda and Tanzania. "There is a clear demand for great design, plus these markets are noticeably brand conscious, so we would expect to see some progress there in the near future," he explains. Indeed, as Euromonitor reports, the world's fastest growing economies to 2030 are in Africa and countries across the globe are already scrambling to invest there, so it may be expected that branded residences will become more established, catering for increasing affluence and demand for luxury goods as the region develops. According to the 2019 *Jumia Hospitality Report*, Africa is now the second-fastest growing tourism region in the world, while recent data from JLL reveals that developers seeking finance for new hotel projects in the region are more successful if it is part of a mixed-use development.

Katrina Craig at Hotel Solutions Partnership also highlights North Africa and she predicts exciting growth in Saudi Arabia, where there are massive urban and resort branded projects underway, such as Amaala. "MENA represents 21% of the global pipeline, with the

UAE and Egypt accounting for most of this," adds Riyan Itani.

South America continues to open up. "We currently have projects in Argentina, Peru, Uruguay and Ecuador, and in Brazil we are delivering 5 projects each year, mainly in Sao Paulo and Rio," reports Snelgar. "We certainly expect many more opportunities across this vast continent." Newcomer brands are also announcing mixed-use projects in popular destinations on the continent, such as Cipriani in Uruguay's Punta del Este hotspot. "Latin America is a major growth market," reports Savills' Riyan Itani. "The number of schemes in Mexico is set to more than double in the coming years as Marriott International, Accor, Hyatt (among others) open new projects in both resort and city locations." Dana Jacobsohn, SVP Global Mixed-Use Development at Marriott, echoes this: "We are also seeing growth in South America, specifically Brazil and Argentina."

India is another vast market that continues to grow in line with its expanding wealthy population. YOO has several projects here and notable brand collaborations (beyond hotel groups such as Four Seasons, Hyatt and Marriott) include Versace, Armani, Trump, Quintessentially, Fashion TV and Walt Disney. "India's HNW population continues to grow and we expect to see parallel growth in this niche market, with more developers partnering with diverse international brands to differentiate and elevate their projects and appeal to wealthy buyers," comments Amit Goyal, CEO Sotheby's International Realty India.



Banyan Tree Residences Riverside, Bangkok

In Europe, the trend appears to be moving eastward. Marriott's Daniel von Barloewen observes: "It has moved from being just focused in the main Western European international cities and resort locations towards secondary major cities and expanded into emerging markets such as Central Eastern Europe, the Balkans, Russia, Kazakhstan, Georgia and Azerbaijan. We already have 3 projects in Kazakhstan and 2 in Russia and expect to sign more in the region." Snelgar agrees, highlighting Kazakhstan, Georgia and Kyrgyzstan as markets with exciting potential. Savills highlights potential in markets such as Latvia, Slovenia, Slovakia and Turkmenistan as all currently unserved and with no pipeline.

Iran may prove to be an interesting market if and when the political tensions and economic sanctions are

settled. Elsewhere, Snelgar reports a spike in interest from Pakistan, which has seen the success of branded residences in neighbouring India. "We hope to be underway with its first project near Islamabad later this year," he adds.

From this snapshot, it is evident that the branded residences behemoth is unlikely to slow down anytime soon. There is considerable capacity for continuing global expansion into many new and exciting locations, with a widening range of brands and the emergence of lower star-rated offerings predicted. Savills anticipates that branded residences will continue to have significant and growing importance for newly wealthy buyers and in emerging economies, although it agrees that in saturated markets brands alone will no longer continue to command high premiums.



BVLGARI Resort & Residences, Dubai



Crown Residences at One Barangaroo, Sydney

Australia

For such a vast and established residential market, it is remarkable that there are so few branded residential developments on the continent. The first brand affiliation occurred in 2000 on the Gold Coast, with the world's first 'fashion hotel', the Palazzo Versace, which was part-funded by the sale of 72 apartments. Since then there has been little activity, and currently Crown Resorts is building a six-star hotel with 82 branded residences at One Barangaroo in downtown Sydney, Banyan Tree is marketing a riverside project in Brisbane and there is a proposed Mandarin Oriental scheme in Melbourne.

"Over the past year there have been a couple of rumours floating around for branded residences earmarked for Sydney, Melbourne and Perth, none of which have progressed any further than chatter," comments Michelle Ciesielski, Head of Residential Research at Knight Frank Australia.

So why haven't branded residences caught on here? From discussions with various informed parties, the author concludes that until late 2017, when prices in the main cities began to fall, demand was so consistently buoyant that there was really no need or incentive for developers to brand their residences - especially with the high cost of land and the associated premium branding would add to the price - since they were selling very well anyway. Additionally, the quality and finishes in these top-end residential developments are very high, and most offer many of the same

services and facilities as a leading luxury hotel brand. But there is also a suggestion that the concept has not yet entered the HNWI buyers' psyche. "High land and construction costs are certainly a factor, but Australia is not alone in these respects," observes Baker McKenzie's Graeme Dickson. "Essentially, the vast majority of Australian HNWIs are yet to be sold on the fundamental concept of branding and the service proposition that underlies it, let alone the higher pricing it entails. Market demand cannot be totally reliant on foreign purchasers."

However, with tighter lending, higher taxes on foreigners and an oversupply of apartments driving the steepest price drops in a generation, the residential market has cooled significantly in the past two years, foreign buyers have declined, and competition to attract buyers is intense. As such, branded residences may now begin to find traction as they bring added value and differentiation to developments. Certainly Savills highlights this market as having 'relatively little supply but positive prospects', whilst Knight Frank is leading the charge to promote branded residences and educate the market here: "We anticipate the branded residences sector will grow," predicts Sarah Harding, Knight Frank Australia's Head of Residential. "Products such as Crown Residences at One Barangaroo are putting Australia on the global map for branded residences, offering a new level of luxury, lifestyle and service that is highly in demand."



Waterfront villa at LUX* La Baraquette Resort, France.

Absorption rates

A frequent question from developers concerns sales velocity. This varies widely across markets, not least due to specific influencing factors such as location, urban/resort, type of development, brand appeal, competition, number of units, marketing and, of course, price. Savills was invited to share some key data from its global branded residences database.

The overall global absorption rates for luxury residential developments (branded and unbranded) averages 25 sales p.a., although in some cases annual urban sales can exceed 100 units and resorts up to 60 units.

“Urban projects generally perform better as a result of stronger demand, higher rental potential, year-round activity and easier connectivity,” explains Alex Moulas, “Also, typically they have fewer units than resorts, which results in faster sell-out periods – sometimes as much as three times faster.”

Branded residential schemes often show slower absorption rates than non-branded, but this is due principally to higher prices and therefore a smaller buyer pool.

“Our data reveals that in well established markets branded schemes average 20 sales p.a., while non-branded schemes average 31 units,” reports Moulas. “In prime markets, however, the numbers can be much higher; branded schemes we’ve been monitoring have sold up to 78 units p.a., with non-branded schemes selling up to 120.”

Author’s predictions on future trends.

- *The emergence of lower star-rated hotel brands:* 28% of Marriott’s residential pipeline are ‘upper upscale’ brands, and Savills latest research reveals that this category now represents 22% of the total global pipeline. “Luxury hotel brands still dominate, but ‘upper upscale’ brands are increasing their share as the market matures and diversifies into new cities and regions,” comments Riyan Itani. Expect to see it to drop another level soon.
- *Price premiums:* Expect continuing and increasing pressure on price premiums, notably in mature markets and Tier 1 cities.
- *Eco-friendly and sustainability credentials will feature much more prominently:* “Sustainability is the new luxury”, said former Mexican president Felipe Calderón recently. There are more and more examples of companies ‘walking the walk’ and not just talking it: e.g. globally renowned for outstanding green credentials, ITC Hotels promotes “Responsible Luxury” on its branded residences in Sri Lanka, Viceroy Residences at the Algarve’s Ombria Resort feature “Sustainable Luxury”, and the world’s largest floating solar system has just been installed at a LUX* Maldivian resort.
- *Interactive community living:* Live/Work/Play environments in modern and vibrant settings, designed around communal spaces that encourage greater interaction between like-minded residents (see also p.34).
- *The continuing broadening of market participants,* notably non-hospitality luxury brands.
- *Greater focus on wellness:* Highlighted by Muriel Muirden in this edition, we can expect to see this gather even greater momentum. There are numerous examples of this growing trend: Mandarin Oriental collaborated with The Mayo Clinic, Westin with Peloton and Shangri-La with Lululemon, Accor bought Banyan Tree, IHG recently took over Six Senses, and USA developer Related is building Equinox branded residences.
- *Technology:* The use of cutting-edge technology to enhance residents’ comfort and convenience will become increasingly standard, extending well beyond basic “Smart Homes” using voice activated systems like Alexa and Google. For example, Four Seasons’ new App enables bespoke concierge/ on-or-off-site services on a mobile device. Might we one day see tech-branded residences - the ultimate smart homes, e.g. Apple (iHomes)?
- *Branded ‘retirement’ communities:* These are lifestyle villages for the Baby Boomers and GenX segments, many of whom remain highly active. “There is a growing wealthy and ageing global demographic and I would not be surprised to see a move into more branded retirement and senior living residences,” predicts Adam MacLennan at PKF hotelexperts. For example, St. Regis Residences Rye is a gated community with the

comforts of a five-star hotel, where at least one person in each household must be 55+.

- *More Standalone Residences:* A relatively new phenomenon, the major hospitality brands are increasingly open to these and several are expanding their pipelines. A key reason is the challenge and cost of securing space (and planning) adjacent to their hotels in prime urban locations.



Four Seasons Resort and Residences Anguilla

About the Author

With a marketing career spanning 35 years, Chris Graham gained his real estate experience as Group Marketing Director at Hamptons International real estate agency. In 2008 he founded Graham Associates, a London based branding, marketing and lead generation consultancy that specialises in promoting residential real estate and resort developments around the world.

Chris and the property team at YOU have won several prestigious industry awards including:

- 7 x Best Development Marketing (International Property Awards)
- Gold Award for Best Marketing (Overseas Property Professional Awards for Excellence)
- Best Marketing (International Building Press Awards)
- Best Integrated Campaign (International Building Press Awards)
- Best Marketing (National Housing Awards)
- Best Property Website (International Property Awards)
- Best Estate Agency Marketing (International Property Awards)
- Chartered Institute of Marketing's Excellence Awards (Finalist, Digital Media and Hotels & Leisure)

Many client projects over the past two decades have involved a branded residential component, highlighting first-hand the benefits of this thriving sector and inspiring Chris to research and write the first edition of this report in 2015.

"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.



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