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Branded Residences: A Luxury Trend On Fire?

All signs indicate that the branded residence sector is experiencing a renaissance, as wealthy property buyers and luxury brands alike flock to make the most of this trend becoming ever more appealing.

Over the years, the branded residence sector has continued to intrigue developers, investors and real estate advisors, offering buyers both security, an element of prestige and a hassle-free holiday home.

As Muriel Muirden Executive Vice President & Managing Director, Strategy at WATG enthuses, if executed correctly, branded residences also offer developers attractive price premiums and accelerated sales velocity, whilst the hotel operator gets rewarded for the marketing muscle their brand brings to the development.

> *" For luxury brands who have dappled in the sector, branded residences offer an opportunity expand into new arenas, in exchange for lending their prestige "*

For luxury brands who have dappled in the sector – including Bulgari, Versace, Moschino and Armani – it offers an opportunity expand into new arenas, in exchange for lending their prestige – and in some cases, their unique design touch.

In recent times, the positives offered by branded residences has become even more appealing to the ultra-wealthy which has led to a reigniting of confidence and awareness in projects, with many set to launch in the coming months or years — including the Bulgari Resort and Residences in Dubai, which is set to launch in 2017 and will be the brand's fifth foray into the branded residences sector.

With this in mind, Chris Graham, a property expert and resort real estate devotee, has collated and supplemented existing research into the sector and undertaken interviews with those researching, developing and selling branded residences to present a report examining this luxury trend picking up speed.

Here, we provide an executive summary of his detailed research into this rising trend in the luxury property sector.

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Behind The Growth Of Branded Residences

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

According to Dan August Cordeiro at Maxmakers, a property development advisory firm, the number of hotels offering branded residences increased tenfold during the decade to 2012. The evidence suggests that the rate looks set to continue to rise in line with growing consumer demand (indeed the author is aware of several new market entrants not listed on the above chart at the time of going to press).

Additionally Dr. Andrew Harrington at AHV Associates believes that "….Serviced Apartments (Europe) and Mixed Use Resorts (outside of USA) are amongst the most exciting areas for investment and will likely become mainstream in the next 5 years."

Javier Serrano at STR Global, a leading source of historical hotel performance, explains that the delay in serviced apartments and residences becoming mainstream is because the operational costs and implications involved were unknown and these were therefore not recognised as a profitable option: "Any property which was not purposely built as a hotel or hostel, or was managed by real estate companies, private owners or agencies and hotel branded companies, had limited access to this important information."

Arlett Hoff, coauthor of HVS Global Hospitality Services' report on branded residences, agrees: "There is a dearth of reliable, consistent and extensive operating data which can be used to benchmark the sector's performance." Maria Pajares, MD of Mason Rose (a specialist hotel and luxury travel marketing and PR agency), remarks on the evolution in the industry:

"Since we launched over 22 years ago we've witnessed sustained patterns of growth in branded residences, particularly in the luxury hotel sector where more and more brands are diversifying into residential developments." Muriel Muirden, VP of Strategy at WATG (and a leading expert on branded residences), argues that the growth has been driven by several 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.

> *" According to Knight Frank's Wealth Report 2015, residential property is the most popular sector for UHNWI's to invest in "*

Demand Side (buyers):

• Assurance of quality in construction, design, servicing and amenities.

• "Lock up and leave" capability/option.

• The 'brand kudos' or 'bragging rights' associated with a premium branded address.

• The potential for investment returns from a rental pool (notably in a resort context).

• An increase in the number of global UHNWIs who wish to live in, or use, a

secure environment, for which branded residences tick many boxes. (Indeed according to Knight Frank's Wealth Report 2015, residential property is the most popular sector for UHNWI's to invest in, with 81% of wealth advisors saying their clients are becoming more interested in it).

> *" Strong growth in branded residences has been spurred by its attractiveness to both developers and investors "*

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

Whilst Hoff accepts that the strong growth in branded residences has been spurred by its attractiveness to both developers and investors, she highlights the following benefits to buyers that she believes underpin the demand-driven growth in the market:

• Innovation in terms of concept (i.e. a mix of hotel and residential).

• The convenience of onsite services.

• Design.

• Security (i.e. buying into a trusted brand).

Cushman & Wakefield's Head of Hospitality Richard Candey adds: "It would appear that hotel guests are becoming more familiar with the concept of branded residences and serviced apartments in preference to hotels. The expansion of sector brands is certainly helping to proliferate the product."

Armani Residences: Sunny Isles, Miami Beach

How Is The Trend Manifesting Itself In The Luxury Sector?

The shift in preference among consumers stems from a desire for greater independence and flexibility from their
accommodation, but with the same levels of service and convenience.

Not surprisingly, such strong growth in this sector has attracted the attention of luxury brands, encouraging them to jump onto the bandwagon.

"We would expect developer and designer brands to emerge in competition to established hotel brands, notably those which are most experienced in pioneering new locations and applying global standards to local markets," says Savills Head of International Development Consultancy Daniel von Barloewen.

" Luxury Brands such as Bulgari, Versace, Moschino & Armani have licensed their names & design expertise to developers "

These include:

• Fashion and jewellery companies: Luxury Brands such as Bulgari, Versace, Moschino and Armani have licensed their names (and design expertise) to developers. This segment is expanding into other sectors, e.g. the Porsche Design Tower with its luxury residences in Miami and Mercedes-Benz's 'Living @ Fraser' partnership offering branded serviced apartments in London and Singapore.

• Developers: Those with a track-record of distinctive and high profile projects behind them can become 'the brand' itself. Examples include Trump and Candy & Candy. (NB a good status to achieve, since it adds a healthy premium to the selling price of their own products that they don't have to pay out to a third party!)

• Interior designers: Commissioned to use their design skills to create distinctive bespoke interiors. A leading company in this sector is Yoo, with a portfolio of around 80 projects around the world and a stable of top designers including Anouska Hempel (a pioneer of the concept), Philippe Starck, Marcel Wanders, Jade Jagger and Kelly Hoppen (NB Kate Moss was recently announced as an interior designer at the Lakes by Yoo). Another example is Karma Royal Group,which uses celebrity designer Nicky Haslam for some of its interiors.

" Luxury hotel residences are now even offering cuisine by celebrity chefs & eco/green credentials will be promoted

more prominently ”

The important influence of “Starchitects” as a major USP is also noted. Examples are the Chedi Hotel & Residences in Andermatt designed by JeanMichel Gathy of Denniston International, Daniel Libeskind’s Zlota 44 in Warsaw, WATG’s St. Regis Hotel & Residences in Singapore and the distinctive residences by Norman Foster and Frank Gehry at Battersea Power Station. (NB 8 Spruce Street in Lower Manhattan is even being marketed as “New York by Gehry”).

The list will undoubtedly continue to grow: Luxury hotel residences are now even offering cuisine by celebrity chefs, and eco/green credentials will be promoted more prominently. These all play an active role in shaping the design and décor of the residences, in order that the completed units accurately reflect their brands down to the finest detail and experientially convey their brand values.

To ensure this, the brand owners provide detailed guidelines and design specifications to the developer that must (normally) be applied rigidly. These companies license their brands to developers for a royalty fee (typically between 3-5% according to HVS, although some operators charge more) and there can be additional costs for related activities such as marketing.

The Bulgari Hotel in Milan hosted the second season of gastronomic festival Epicurea within its walls from January to July 2015

“The majority of operators show a general consensus that the license/royalty fee covers the use of the brand name and approval of marketing material,” comments HVS’ Hoff.

“However, certain operators consider it their USP to offer additional sales and marketing services to third-party developers, which may be included in the license/royalty fee but, more likely, will come at an additional cost.”

Extra services may include a dedicated in-house team to train and support developers, such as a marketing and sales support division. However, it is normally the developers’ responsibility to promote and sell the real estate units, covering all of the promotional costs and fees, usually working with a real estate agent and specialist marketing company.

> *“ Marketing plays a pivotal role in the effective positioning, presentation and communication, particularly for branded residences ”*

An operator will generally assist in this process via their network and marketing channels (such as advertising in their house magazines, links/sections on their website etc). Whilst marketing plays a pivotal role in the effective positioning, presentation and communication of any real estate project, this applies especially to branded residences since the buyers are among the most discerning and their expectations are high.

Francesco Cefalu, VP of Development at Four Seasons, cites this within three key differentiators that he believes underpin successful branded residences projects:

i) The financial sustainability of the hotel itself.

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

> *“ Gone are the days that the primary motivation for buying ‘branded’ was the status symbolism ”*

The Future: UHNWIs Want More Tailored Experiences & They Want Them Now

HNWIs have high expectations – and these are rising all the time. Indeed they are spending more time researching products and services than ever before – and this is in a time where the ability to research, question and compare has become easier than ever.

As a recent article on luxury brand experiences published by Luxury Society stated, ‘They want cool, they want fun and they want experiences.’ As such, the quality and range continually evolves upwards.

However, many experts believe it is no longer simply about delivering good design and attractive FF&E (furniture, fixtures & equipment).

Bulgari Hotels & Residences: Knightsbridge, London

"Gone are the days that the primary motivation for buying 'branded' was the status symbolism and the assured quality of the furniture, fixtures and equipment. There is now 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, former Director of Six Senses Private Residences.

"The experiences offered by the brand are now far more important in the consumer's eyes – the personalised service, the kids' programmes, the bespoke events centred on their favourite wine or cuisine, the wellness activities – rather than Grohe taps or Gaggenau kitchens." Yoo's founder John Hitchcox spotted a gap in the market for design-led interiors around 15 years ago, when he launched into this sector: "Consumers are more home and design conscious than ever before," he observes.

"They want to work in creative spaces and to holiday in beautiful hotels, and they want that design aesthetic to continue through their personal lives into their homes."

" Branded properties normally sell at between 20-30% more than non-branded equivalents "

Choosing The Right Venture Partner

There is little doubt that doubt that leading brands today can add value and assist greatly in the marketability of new projects.

In 2012 Knight Frank research found that luxury branded residences around the world commanded an average uplift of over 30% compared with non-branded

schemes.

Joanna Leverett of Cluttons attests to this and says: “Branded properties normally sell at between 20-30% more than non-branded equivalents, even if they are only just round the corner from each other.”

> *“ Finding the right balance of collaborators for the project will make a difference to its success & appeal for UHNWIs ”*

Robin Paterson, Sotheby’s International Real Estate Leverett adds: “A globally recognized five-star brand such as Four Seasons, Ritz Carlton, or Aman have proven consistently in all economic circumstances, both regionally and internationally, that there is a 25-50% premium over prevailing market values.”

However, they must offer tangible benefits for the residents, and finding the right balance of collaborators for the project will make a difference to its success and appeal for UHNWIs – also depending on who is being targeted.

“The level of the premium varies from market to market. It also depends on what the brand is and how importantly it is valued. A good example is Burj Khalifa in Dubai, where an Armani residence trades with a premium of up to 30% compared to a similar sized apartment in the tower that does not carry the Armani brand,” says Joachim Wrang-Widén, Christies’ International Real Estate.

Yoo Nordelta: Buenos Aires, Argentina

Buyers of branded residences generally identify with a certain lifestyle and taste that are closely associated with that particular brand. As such, the perception of the operator’s brand itself is a key influencing factor, since individual brands inevitably appeal to different demographic audiences.

For example, looking at a snapshot of competing brands in this sector:

• 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 reflective 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" and their focus is on delivering service excellence and not merely meeting but exceeding guests' expectations.

• 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. In other words, an operator's brand offers a distinct identity, style and market positioning that resonates (or not) with defined audiences; these are measured by individuals based upon a personal understanding, perception and experience of that brand.

" It is critically important for a developer to partner with a brand that will resonate with the desired target audiences "

Renowned property developer John Hitchcox acknowledges this point with respect to each of Yoo's designers.

"For example," he comments, "as well as being an accomplished designer, 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 but also a slice of a lifestyle they aspire to."

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

"Associating with a particular brand may risk a detrimental effect by reducing the size of the market "

Commune Hotels & Resorts operates four different brands to serve a range of lifestyles and client's requirements, suited to both urban and tropical locations. "Most importantly, it is the destination and locality that dictates the project," says CEO Frederic Simon.

However, it is critically important for a developer to partner with a brand that will

resonate with the desired target audiences and aligns with their lifestyle aspirations. It can be argued that those properties with a highly 'distinctive' or niche brand attached will never appeal to certain audience segments.

As such, associating with a particular brand may risk a detrimental effect by reducing the size of the market by alienating some potential buying audiences to a greater degree than non-branded residences.

Higher Income Consumers' Top Luxury Brands

Rank	All Adults HHI: $75k+	Millennials (18-34) HHI: $75k+	Gen Xers (35-49) HHI: $75k+	Boomers (50-68) HHI: $75k+
1	Rolls Royce	Gucci	Mercedes Benz	Rolls Royce
2	Rolex	Lexus	BMW	Rolex
3	Mercedes Benz	Louis Vuitton	Lexus	Tiffany
4	Lexus	BMW	Rolex	Coach
5	BMW	Coach	Rolls Royce	Cadillac
6	Coach	Ferrari	Cartier	Cartier
7	Tiffany	Rolls Royce	Tiffany	Chanel
8	Gucci	Chanel	Coach	Mercedes Benz
9	Louis Vuitton	Rolex	Chanel	Gucci
10	Cartier	Mercedes Benz	Prada	Lamborghini

Source: Shullman Research Center. Based on a survey of 1,665 US adults; unprompted responses.

Savills Daniel von Barloewen points out that a development may find itself hostage to fortune if, for example, the brand experiences a PR disaster, since this is likely to impact the desirability of the residences. The chart above highlights the broad disparities in brand perception among affluent older and younger generations in the USA.

For example, Lexus and BMW rank in the Top 5 brands among both Millennials and Gen Xers, yet neither of these makes it into the 50+ Boomers' Top 10.

Such inconsistency among consumer segments applies equally to brands associated with real estate developments. As such, developers must ensure that their chosen partner brand reflects the demographic profile and aspirations of their intended audience.