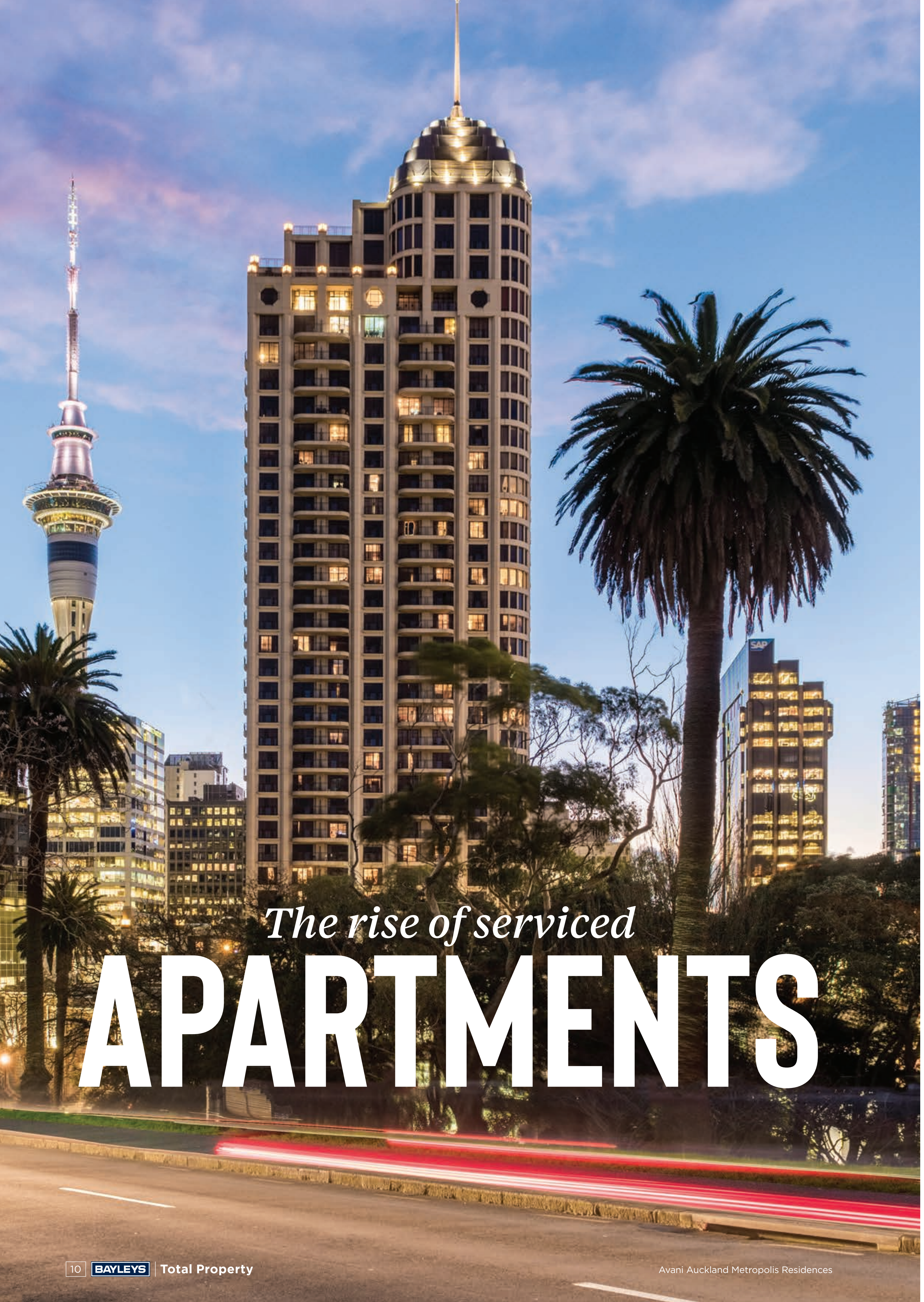

The rise of serviced APARTMENTS

Avani Auckland Metropolis Residences

AS TRAVELLERS ADJUST TO CHANGED GLOBAL FUNDAMENTALS, THE INDEPENDENCE AND SECURITY OFFERED BY SERVICED APARTMENTS IS PROVING POPULAR.

IN THE PANDEMIC'S WAKE, travellers are showing a preference for affordable, well-located, self-contained accommodation which allows for complete independence and flexibility – something that a traditional hotel offering cannot always deliver.

Consequently, the serviced apartment market in New Zealand is primed for growth according to Bayleys national director hotels, tourism & leisure (HTL) Wayne Keene.

"There's been a big uptick in occupancy levels for the serviced apartment segment of the commercial accommodation sector, with people booking well-priced options that allow for a home-away-from-home experience," says Keene.

"There's a real benefit in having technology-enabled accommodation complete with dedicated kitchen and laundry facilities as travellers and guests are shying away from communal amenities and facilities given health and safety concerns post-pandemic.

"This offering also appeals to the extended-stay corporate market, which is active again as face-to-face dealings become more widespread and the business sector recalibrates."

Many of the main players in the serviced apartment sector, both here and offshore, are on a proactive acquisition trail in New Zealand and Keene says Bayleys' HTL team talks regularly to operational representatives seeking management rights for conveniently located short-term accommodation properties to strengthen their portfolios.

"Operators look to us for market intel which is particularly relevant for those based outside of New Zealand, wanting to get a gauge on trends and activity.

"We have a very clear idea of what they are looking for, what type of property would suit the management structures that different brands champion and have eyes and ears across all regions of New Zealand."

Keene says it's a volume game for operators, who need to make the managed serviced apartment model work efficiently and cost-effectively.

"In the main metropolitan centres, and given economies of scale, around 100 apartments is the sweet spot to make it a viable proposition for an operator to consider.

"OPERATORS LOOK TO US FOR MARKET INTEL WHICH IS PARTICULARLY RELEVANT FOR THOSE BASED OUTSIDE OF NEW ZEALAND"

WAYNE KEENE, BAYLEYS NATIONAL DIRECTOR HOTELS, TOURISM AND LEISURE

"However, there are always exceptions and in smaller centres around New Zealand, more modest apartment developments of fewer than 30 units could be considered by some brands."

Bayleys' HTL team tends to broker the operational business or management rights of existing apartment complexes, although occasionally, new-build developments are sold outright.

Keene says the Gold Coast market provides a good example of the management model widely used for serviced apartments and he says this sets a sound benchmark for operators in this country.

"Yes, it's a much smaller market in New Zealand, but it's a sector that has potential to grow on the back of changing accommodation preferences of independent travellers.

"There is also scope for new developments to take off in centres that have evolving central business districts, limited serviced apartment stock, and appeal for short-term visitor stays – like Tauranga and Hawke's Bay."

There's also evidence of changing property use to meet the demand for serviced apartment stock, with the conversion of a former strata-titled luxury residential apartment complex into the 4.5-star Nesuto Stadium Hotel and Apartments in Auckland's CBD one example.

"Now, this largely serviced apartment facility, with some hotel rooms, and added dining and conferencing amenities to boost the offering, is filling a gap in the market, but there are also other ways to ringfence existing apartments for the commercial accommodation pool.

"In some instances, serviced apartment operators can acquire the management rights for a bulk number of apartments within established buildings, enabling them to offer these to the short-term occupation market alongside privately owned and occupied residences."

To demonstrate, Keene points to the Avani Auckland Metropolis Residences, professionally managed by international hotel owner, operator and investor Minor

Avani Auckland Metropolis Residences

Hotels, which operates an apartment business in the flagship Metropolis tower in central Auckland via a licence agreement with the body corporate.

"Under a section of the Unit Titles Act 2010, the Avani brand occupies parts of the common property of the ground floor lobby and basement of the building for among other things, the provision of reception and concierge services to support the 111 apartments it controls."

Keene says investors are attracted to serviced apartment assets because of the cost-effective operational models and higher margins.

"Serviced apartment offerings by nature require fewer staff and this proved invaluable at the height of the pandemic when the labour market was squeezed.

"Further efficiencies are likely to roll out, too, and as the international travel market resumes post-COVID, we expect to see more efficient and streamlined guest processing operations with technology enabling touchscreen check-in/check-out kiosks, code-activated entry points and online concierge services."

NESUTO LOOKS TO EXPAND

Daiwa House Group is a diversified global real estate business spanning development and construction, property investment and hotel management.

In New Zealand, Daiwa operates under the Nesuto umbrella which includes a number of serviced apartments in Auckland namely Nesuto Stadium, Nesuto St Martins, Tetra Apartments by Nesuto, along with Nesuto Newhaven Apartments in East Tamaki.

"WE WORK WITH OUR OWNERS TO DESIGN PROPERTIES, ROOMS AND APARTMENTS THAT SUIT THE AREA THEY ARE OPERATING IN."

JOHN BRISTOWE, NESUTO DIRECTOR OF OPERATIONS AUSTRALIA AND NEW ZEALAND

John Bristowe, Nesuto's director of operations Australia and New Zealand says it's looking for both serviced apartment and traditional hotel products to add its portfolio nationwide.

"We are currently exploring several locations and projects to bring the Nesuto brand to more parts of New Zealand," he explains.

"We recognise opportunities for serviced apartments in regional areas as we foresee future tourists wanting to stay longer and have more space while visiting New Zealand.

"In addition, we'll be looking to expand into Wellington and Christchurch in the coming years as well as expanding our footprint in Auckland."

Bristowe says it is prepared to look at operating properties under either hotel management agreement in the form of a lease or hotel management agreements (HMAs).

"We have a very simple, transparent, and low fee structure that makes Nesuto a good choice for owners looking to maximise their returns."

By choice, Nesuto does not have a definitive "look" to the properties it brings under its brand which allows for greater flexibility when adding to its portfolio.

"That's the great part of the Nesuto brand – we are flexible with our design requirements and don't operate a 'cookie-cutter'-type company where all our properties look the same.

"We work with our owners to design properties, rooms and apartments that suit the area they are operating in and which accommodate the needs o f the travellers that will be staying in that location.

"We don't ask for any specific brand requirements and instead offer a collaborative process with the owner to help bring their vision for the property to life."

Bristowe says generally they would only consider properties with a minimum of 100 rooms or apartments, but are happy to look at any opportunity.

"We can turn around feasibilities quickly to show investors what returns we think the asset will generate.

"Nesuto has some businesses operating under fixed-leases that we essentially see ourselves as owners of, and we also have businesses where we operate on a revenue share with the owner of the asset that we view as a business partnership.

"Meanwhile, we operate other buildings under HMAs where we manage the asset on behalf of the owner."

With rising construction costs having a significant impact on the new-build market, Bristowe says astute owners will partner with smart operators.

"This will ensure new developments meet the expectations of guests, and owners have the assurance that their asset will deliver above-market returns.

"In all our businesses, we think like an owner – we facilitate the best rate we can while keeping costs low with our centralised services of sales, revenue and finance management and also invest in technology to drive the guest experience and reduce operating costs.

"Most importantly, we offer our owners flexibility in how they can set up and run their asset".

Bristowe says Nesuto is seeing more robust demand for its serviced apartment offerings over hotel rooms.

"This is mainly driven by travellers wanting to stay longer in their destination rather than overnight trips, with many of our guests booking for three-plus nights.

"Also, with current air travel disruptions and increasing costs, many corporate clients are tending to stay for around a month at a time to complete projects.

"The global pandemic has also reduced the number of Airbnb operators in major cities which is again increasing the demand for our serviced apartment product.

"Additionally, our serviced apartments offer guests assurance that the apartment has been professionally cleaned before their arrival, something that Airbnbs cannot guarantee."

Bristowe said looking at the figures, around 25 percent of its market comprises corporates that have booked directly with the accommodation provider.

"Then we have other guests travelling for business that will book via our various online partners, and we also receive large long-stay and group enquires as we have room categories that appeal to these markets."

REGIONAL GROWTH FOR MINOR HOTELS

Global hotel operator and investor Minor Hotels has a diverse portfolio of more than 530 properties across 50-plus countries with brands including Anantara, Avani, Elewana, Oaks, NH Hotels, NH Collection, nhow and TIVOLI properties, and an active forward pipeline.

In New Zealand, Minor Hotels' affiliate Oaks Hotels, Resorts and Suites operates the Avani Auckland Metropolis Residences, Auckland Harbour Suites, Oaks Wellington Hotel, and in the South Island, Oaks Queenstown Club Suites and Oaks Queenstown Shores Resort.

"KEY MARKETS WE HAVE IDENTIFIED ARE AUCKLAND, ROTORUA, TAURANGA, HAMILTON, WELLINGTON, CHRISTCHURCH AND QUEENSTOWN."

CRAIG HOOLEY, CEO OAKS HOTELS, RESORTS AND SUITES AUSTRALIA AND NEW ZEALAND

Having launched the first Oaks property on Australia's Sunshine Coast in 1991, Oaks Hotels, Resorts and Suites' portfolio is rapidly growing in core global destinations both in central business districts as well as key regional locations.

Aiming to combine the convenience of a hotel with the flexibility of an apartment, Oaks targets business and leisure clientele and offers flexibility around length of stay.

It has a broad range of operational models within its international business, however in New Zealand and Australia, Oaks tend to operate under a management-letting rights structure or a franchise model with a proven reputation for effectively converting properties into attractive, on-brand assets.

Craig Hooley, chief operating officer Oaks Hotels, Resorts and Suites Australia and New Zealand says it is proactively working within the New Zealand market and scoping future prospects to add to its portfolio.

"We are constantly seeking and assessing serviced apartment opportunities for our Oaks Hotels, Resorts and Suites and Avani Hotels and Resorts brands, as well as opportunities to bring our NH brand into the New Zealand market.

"Key markets we have identified are Auckland, Rotorua, Tauranga, Hamilton, Wellington, Christchurch and Queenstown with our ideal property having 100-150 rooms with facilities including a restaurant and bar, gym and meeting facilities."

Stressing that when adding properties to its portfolio they look for high quality products in premium locations, Hooley explains they also have quite specific spatial and tenure requirements.

"For our Oaks product, we seek properties with a room size of 40sqm and for the NH and Avani brands, we look for room sizes of 25sqm.

"While we are currently focusing on the mid-scale market, we could consider luxury offerings however it would need to be a unique, high-quality property in a superior location.

"We see the biggest opportunity in New Zealand for properties we can lease, as this provides security to owners and sufficient flexibility to us as the operator."

Hooley says there has been strong growth in demand for its serviced apartment product after the pandemic as travellers seek space, independence and security.

"Guests are wanting access to fantastic in-room facilities including full kitchens and laundries, allowing for privacy and safety.

"Our hygiene program, Oaks SureStay, ensures that guest rooms are cleaned and sanitised to impeccable standards, so that guests can feel safe and completely comfortable in their own, self-contained space."

Nesuto Stadium Hotel and Apartments