BRANDED RESIDENCES: AN OVERVIEW

FOURTH EDITION

GRAHAM ASSOCIATES
GLOBAL MARKETING SOLUTIONS

A member of YOU agency group

"It is a really good and comprehensive report. I have recommended it to many clients and industry colleagues."

Tea Ros, Managing Director, Strategic Hotel Consulting

"It is rare to see a publication that analyses the market, reflects the market norms, and ensures its readers understand the technical issues that need to be addressed to achieve a healthy balance between branded residence operators and owners. From its first edition this report has been ahead of the game. Essential reading."

Felicity Jones, Partner, Watson Farley & Williams LLP

"Chris Graham's reports are the most comprehensive publications on this fast-growing sector, covering a wide range of topical issues and considerations. People often think only of brand price premiums, but Chris has painstakingly assembled expert opinions from a wide range of industry leaders in the branded residential field, to discuss many other related key aspects. A must-read for any real estate developer or investor looking to do a branded residential or mixed-use project."

Daniel von Barloewen, VP Residential Development, Accor

"The ideal guide to branded residences - essential reading for anyone wanting an independent view."

Richard Bursby, Partner, Taylor Wessing LLP

"Chris Graham is a master at corralling the trends within the branded residential sector, and his reports represent a go-to reference for anyone new to the concept or wishing to keep their finger on the market's pulse."

Ben Martin, Principal, HKS Advisory

"Recommended reading for anyone wishing to get a comprehensive summary of the key issues to consider when researching the branded residence sector."

Philip Bacon, Director of Planning & Development, Horwath HTL

"Renowned as a go-to expert for those embarking on the development of branded residences, Chris' insights go far beyond the realm of marketing. He has proven to be a highly valuable collaborator on global projects with WATG over the years and his early-stage involvement helps to frame the storytelling and market positioning of a concept from the outset."

Rob Sykes, Associate VP & Director of Strategy, WATG

About the Author

With a successful sales and marketing career spanning 35 years, Chris Graham entered the real estate sector in 2000 as Group Marketing Director at Hamptons International. In 2008 he founded Graham Associates, a London based marketing and lead generation consultancy that specialises in global residential real estate and resort developments. In 2009, the company joined the You Agency Group.

Over the years, Chris and his team have picked up several prestigious industry awards including:

- 7 x Best Development Marketing (International Property Awards)
- Gold Award for Excellence - Best Marketing (Overseas Property Professional Awards)
- 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 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, which remains the most in-depth study of the sector.

Foreword

Chris Graham, Report Author
Managing Director, Graham Associates

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 some key certainties to bear in mind, such as:

- The Covid-19 pandemic has forced people to reevaluate their lives and to consider how and where they choose to live.
- 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.

Seeking expert advice from experienced professionals is strongly recommended; applying proven feasibility and validation processes help to de-risk your project, and should be viewed as an investment rather than a cost.

First-hand experience of working with major residential developments around the world continually highlights the importance of differentiation and standing out from the competition – and for the right reasons. As branded residences increasingly become the norm, above all a discerning buyer needs to understand *how* that brand will benefit his or her lifestyle and investment ambitions over another.

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.

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

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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. The first international scheme followed in 1988, when 30 branded villas were launched for sale at Amanpuri Resort in Thailand.

Recognising the enormous potential, Four Seasons seized the opportunity to expand its portfolio across North America; in 1992, the company established an international presence through its purchase of Asia-based Regent Hotels. A relative latecomer, Ritz-Carlton only entered the market in 2000 with the launch of its Washington DC residences. Today, with over 80 completed projects between them (and a further 40 in the pipeline), these two brands continue to dominate the global hotel branded residences market – although others others (notably Accor) are gaining ground.

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.

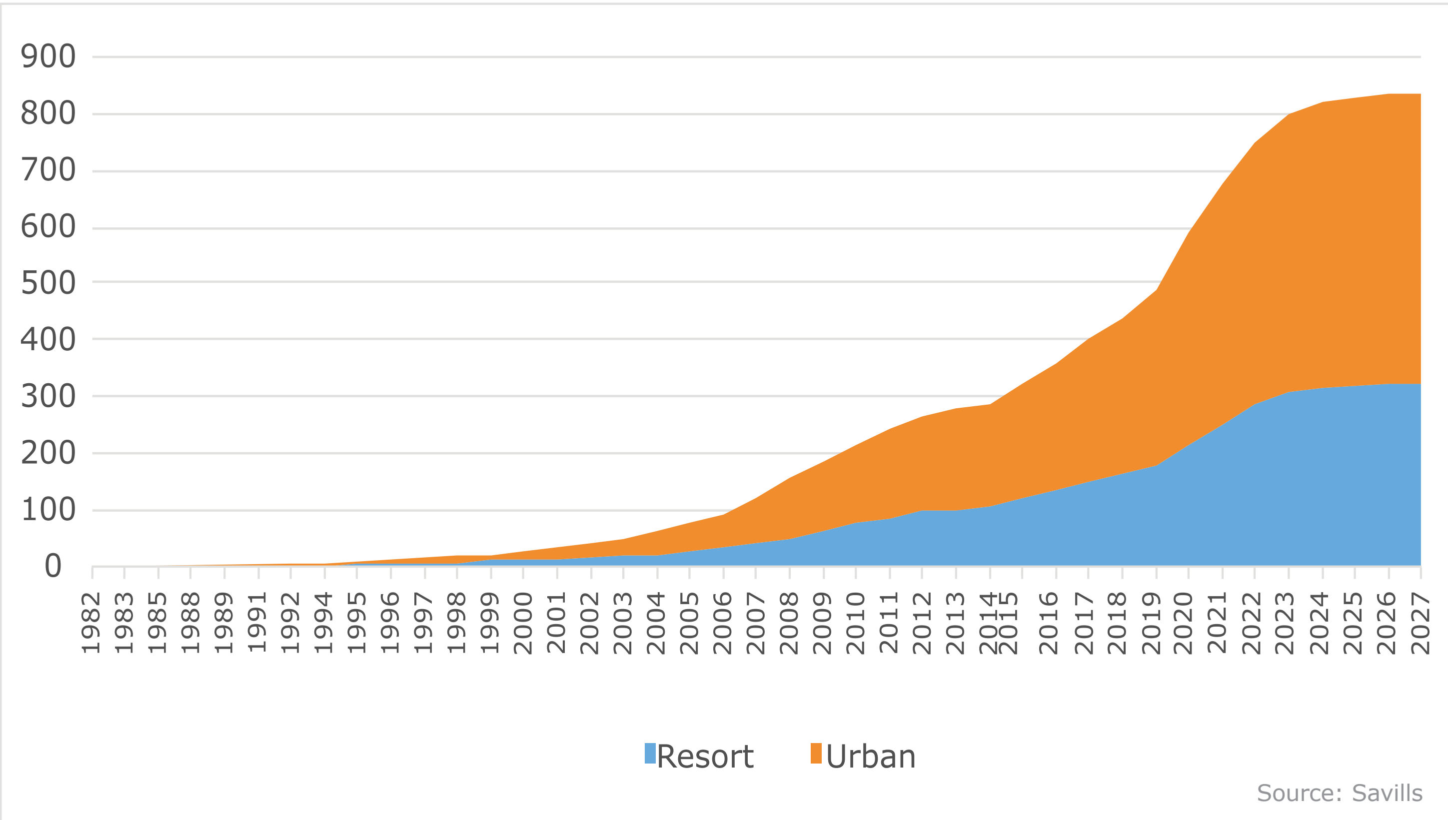
The proven success of this “win-win-win” formula (i.e. that offers manifest benefits to buyers, brands and developers) attracted the attention of many others and the resulting market growth over the past two decades has been astonishing:

- During the decade 2002-2012, the number of participating hotels increased tenfold (Maxmakers).
- In the decade 2011-2021 the sector has grown by over 170%, which is forecast to continue (Savills).

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

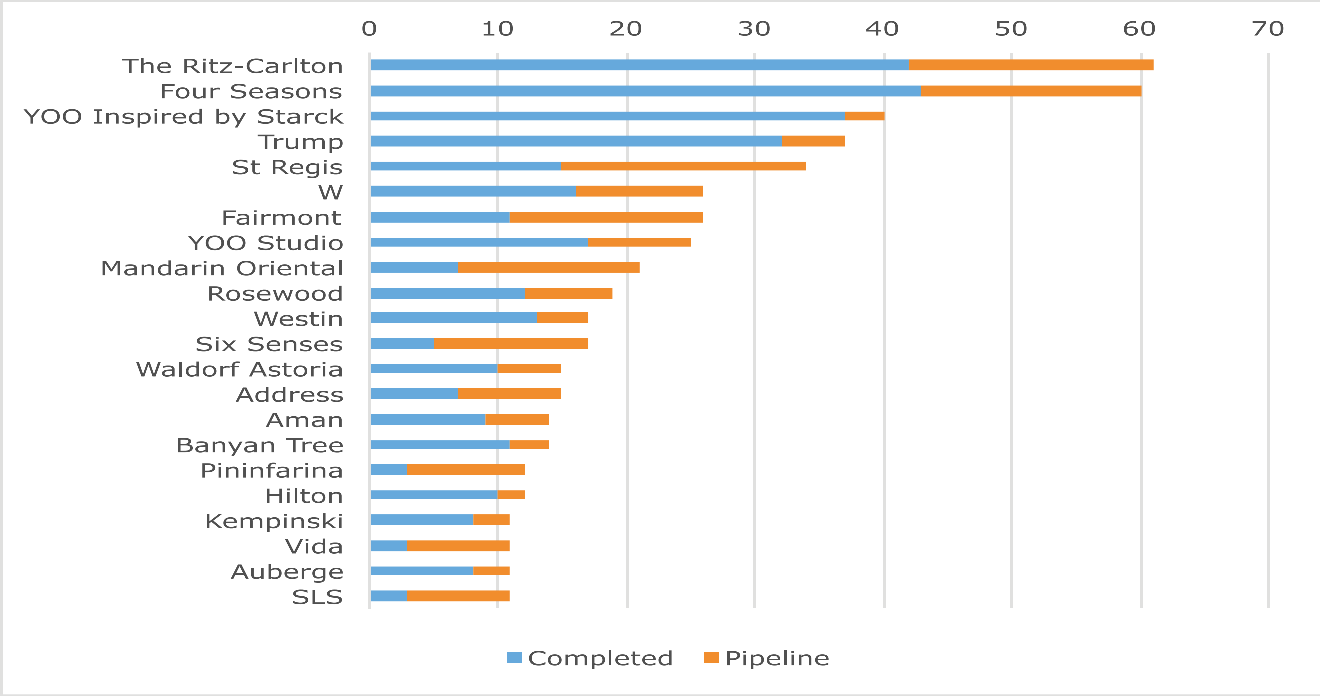
Arlett Hoff, co-author of HVS Global’s early paper on branded residences, agrees that there was a scarcity of reliable, consistent and extensive operating data which could be used to benchmark the sector’s performance.

Evolution of Branded Residences



Source: Savills

Top 20 Individual Brands - Number of Schemes



Source: Savills

In the first edition of this report, Muriel Muirden, former EVP Strategy at WATG, surmised that growth has been driven by a few key factors on both sides of the equation, all of which remain as relevant today (we will study these - and others - in more depth in the ensuing chapters):

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 well over 800 branded residence schemes (operational and pipeline) in over 180 locations across 64 countries.
- Over 500 completed schemes globally with over 75,000 residences.
- The sector has grown 170% over the past decade.
- The number of brands has more than doubled.
- The pipeline represents c.75% sector growth.
- Hotel brands dominate, accounting for almost 9 out of 10 schemes.
- The average price premium over the past decade hovers consistently around 30%.

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."
'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 branded residences expert Daniel von Barloewen, who recently joined Accor as VP Global Residential Development. Adelina Wong Ettelson at Mandarin Oriental agrees: "It is a natural evolution and a way for brands to tap into their loyal customer base and expand their portfolio. As long as the brand extension is relevant and offers something unique, it is a chance for customers to associate themselves with the brand prestige that comes with ownership."

Talk about a diversified sector. Categories now include:

- *Automotive:* Examples include Aston Martin Residences (NB buyers of Signature condos receive a free car), Porsche Design Tower, and Bentley Residences were recently announced, all in Miami, and the Bugatti Villas and Tonino Lamborghini Residences in Dubai (and reportedly soon in Phuket).
- *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. The sector experienced another first in 2019 when Dubai-based developer DAMAC bid for the Cavalli brand, having already launched its 'Just Cavalli' villas in 2017. "It was only a matter of time before a cash-rich developer determined to buy its way into the elite club of luxury brands," commented Piers Schmidt of Luxury Branding Consultancy.
- *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 as it can add a healthy premium to selling prices, without having to pay 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 Goddard Littlefair, although it is a sizeable list.
- *Architects:* The influence of "Starchitects" as a major USP is now well established. High profile examples include Armani Residences in Miami by César Pelli, 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, and no list could be complete without Zaha Hadid. Having a prominent practice like WATG, HKS, SAOTA or Gensler involved strengthens the offer.
- *Landscape designers:* With the increased focus on engagement with nature and the environment, the importance of resort landscape architects should not be overlooked in creating beautiful public spaces. Renowned firms include EDSA, AECOM, Bensley, Andrea Cochran, Artifex10, Balmori, GGN.

We are seeing *media / entertainment* companies including Walt Disney and Fashion TV (in India), while global publisher Condé Nast is offering branded residences linked to its high-end titles, and Miami's hedonistic E11even nightclub is reportedly launching a branded residential project. Even pop singer Pharrell Williams has thrown his hat into the ring.

The residences at St. Regis, Astana by WATG

Now *restaurants* are getting in on the act, such as Nobu (Nobu in Toronto is one of the fastest selling branded developments in the past decade) and Hard Rock. Indeed, a new breed of luxury residences with celebrated restaurants attached further enhances the brand offer. Examples include Four Seasons (27 Michelin stars) and Mandarin Oriental (17 Michelin stars); The Palm Jumeirah has Michelin star chefs Heston Blumenthal and José Andrés; The Edition in Bodrum hosts Diego Muñoz (formerly of the world's most celebrated Michelin-starred restaurants El Bulli and Mugaritz), while Ritz-Carlton's Abama offers two Michelin-starred restaurants. Other celebrity chef associations with branded residences include Nobu Matsuhisa (see above), Dani Garcia, Wolfgang Puck, Romain Fornell, Gordon Ramsey and Giorgio Locatelli.

With culinary experiences now ranking as the #1 choice among HNWs (Savills research), expect to see more *celebrity chefs* adding flavour to the lifestyle offer. "Offering globally renowned chefs and world-class restaurants within luxury residences creates a level of exclusivity for purchasers that cannot be found elsewhere," says Knight Frank Partner Erin van Tuil.

Other notable brand affiliations include *Spas* (e.g. ESPA, Elemis, Shiseido, Caudalie, Guerlain, Givenchy) and *Concierge* services (e.g. Quintessentially, Innerplace, One Concierge, Velocity Black).

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, 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, "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."

New brands will give hoteliers a run for their money and there is little doubt that the list will continue to grow, although Savills latest research confirms that hotel brands continue to dominate. Similarly, as predicted in previous editions of this report, expect to see the share of non-luxury brands continue to rise (these now represent around one-third of the global pipeline). *See inset.*

Non-Luxury Brands

Whilst historically the branded residential sector has been dominated by luxury brands, previous editions of this report have predicted growth in the non-luxury (Upper & Upper Upscale and midscale) segments. And why not? Luxury is relative depending on the audience, and there are some very good brands in these categories.

These brands present a strong opportunity by providing much broader market appeal, due to lower costs for developers and lower purchase prices for buyers.

- Today the pipeline of non-luxury brands accounts for 31% of the total market compared to 23% of such schemes operating today – an impressive 35% increase in market share.
- North America leads with 43% of completed schemes; Asia Pacific is predicted to become the largest region for the non-luxury segment.
- Leading the charge are Hilton/Curio (13 projects) and Marriott (Westin, Autograph & Marriott) with 14, followed by Accor's Angsana and Movenpick (8).

"Luxury is now accessible to everyone who wants it…and it should be. It's egalitarian and democratized." Ian Schrager, creator of the lifestyle/boutique hotel concept.


Lucia by Bespoke, St Lucia

License Fees

With mixed-use branded projects, companies license their brands to developers in return for fees; these can vary greatly and depend on several factors, including the prevailing market norms in the given location, the scale of the gross development value (GDV) of the project, and the strategic importance of the development / location to the Operator's expansion plans. Riyan Itani, Head of Consultancy at Savills Global Residential Development, helps to shed some light on this complex area.

Royalty fees

These can vary depending on location and the GDV of a project (the higher the GDV the lower the fee):

- Luxury hotel brands charge anywhere from 3.5% - 6%.
- Upper Upscale hotel brands charge between 2.5% - 5%.
- Non-hotel brands typically charge between 1% - 4%.

- If in a prime sought-after city location, brands may well agree lower fees in order to have a 'flagship' property there.

Brand Commitment or Advance or Sales & Marketing Advisory fee

Most operators will have an upfront payment upon signing of the contracts and upon certain milestones. These payments are sometimes in addition to, sometimes recoverable from, the royalty fee. They can range between USD$250k and USD$500k+ charged upfront and are normally credited against royalty fees from future sales.

"The rationale for these fees is that, after the contract has been signed but before the first sales occur, the Owner/developer will be receiving marketing and residential operational support. This requires considerable time spent by the Operator's teams, and the brand will also be used publicly, without any fees having been paid," explains Itani. "It should be remembered that the brand is the Operator's equity - in many ways its source of income. Therefore, in the event the project stalls or is cancelled, if there is no upfront payment the Operator would be left 'high and dry' with no remuneration, despite the time spent by its project teams and its brand being used by the Owner."

Residential Management Fee

On deals where the hotel operator will be fully managing the residences including governance matters, the Home Owners Association (or Owner, depending on the local residential real estate legal framework) will pay the Operator a fee for managing the Residences.

The residential management fee is paid for through the service charge and allocated to each unit based on typical fair mechanisms to ensure proportionality to the unit size/type.

The management fee will also typically cover accounting, development of training programs and corporate marketing and PR promotion as well as a variety of other corporate support functions.

SLS Dubai Hotel & Residences, UAE

Rosewood Residences Baha Mar, The Bahamas

Operators have various ways of calculating the residential management fee, but it is based on (often the highest of):

a. 12%-15% share of the HOA annual budget, or
b. a fixed fee of up to $300k, or
c. a charge of, say, $2.5k per unit (growing annually at either a fixed percentage or inflation).

As an example, if the HOA running costs are $1.5m per annum:

a. The share of the HOA annual fees would be $180k-$225k.
b. The fixed fee would be $300k.
c. Based on a 'per unit' formula, if there are 100 residences at $2,500 each then the fee would be $250k.

The applicable fee is usually the highest of these three calculations, namely $300k fixed fee.

"There is typically a minimum amount required as, given the Operator's overhead costs, it may not otherwise be financially viable for them to manage the residences," comments Itani. "Also, it is important to note that the management fee is typically calculated based on the total number of Residences, not just those that have been sold up to the point that the Residences open."

Residential Trademark Licence Fee (Franchised/'White Label')

On deals where the Residences will be franchised (i.e. the HOA is branded but a la carte services will be provided by staff wearing the Operator's branding, yet the actual residential management and governance will be delivered by an (unbranded) third-party manager), the Operators will normally charge a Residential Trademark Licence Fee.

Design Review Fee / Technical Services Fee

Operators have in-house design teams comprising a range of disciplines, including project management, QS, Fire Life Safety (FLS), MEP, architecture, interior design, IT, and F&B. The Owner will be required to pay a fee to the Operator for the work undertaken by the Operator's design team, which is typically phased across the course of construction in line with certain milestones.

Their level of involvement depends on whether the project is going to be managed or franchised, "but they will always have to at least review and approve all the work done by the Owner's design team to ensure compliance with brand standards and will also inspect during the course of construction and prior to completion in order for the "Authority to Open" being provided by the operator to the Owner," explains Itani. "As ever, other fees and costs may apply depending on the type of brand, their level of involvement in the project and the specificities of the individual scheme," concludes Itani. "Above all, we negotiate these fees to ensure that the Owner and the Operator are aligned from the outset and there are no hidden surprises further down the line!"

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 is inextricably linked to the residential component."

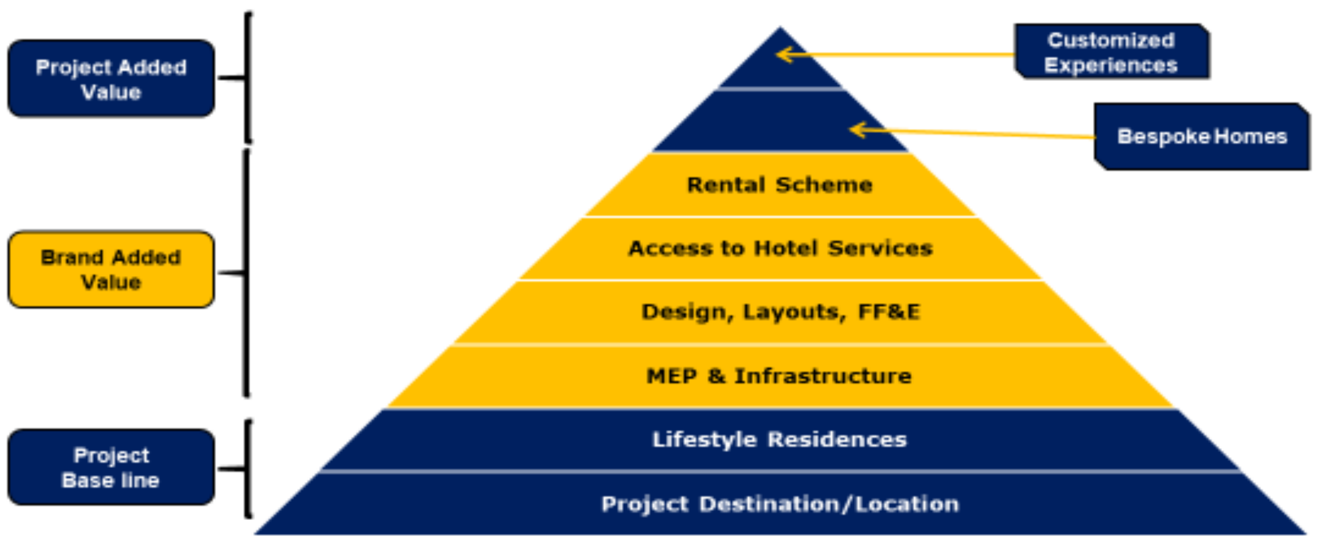
With branded residences, developers and operators need to deliver facilities and amenities that go beyond those offered at a hotel, supporting the idea of 'living' rather than just 'staying' (e.g. activities for the entire family, health and wellness programmes, work from home facilities, etc). Addressing these needs is even more important in a post-COVID environment, with major changes in consumer values and behaviour.

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)

Residential Value Proposition



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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 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 (normally) limited in supply - and thereby more exclusive - helps to enhance 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' ever-changing 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 research supports this, finding 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 m^2". For example, he cites the new Six Senses in Ibiza which has 5 trophy villas of around 1,200 sqm. 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/m^2 to sell the units."

Daniel von Barloewen, VP Residential Development at Accor, 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: "Unlike hotel rooms and serviced apartments, these products are ultimately for long-term residential use."

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 107 branded residential projects open and 76 under development. Jaidev Menezes, VP Development - EMEA, Marriott International, SVP Mixed-Use Development, discusses how the company works with developers to ensure an optimum outcome for all parties.

How do you choose the most appropriate brand for a project from Marriott's broad portfolio?
Our team works closely with owners and developers to understand their goals and key milestones for the project. Then we consider the specifics of the market, the site and the proposed concept for the residences and hotel to discuss and identify the right brand fit for a project.

Is it easy to 'steer' a developer away from their preferred brand to one more suited to the project?
Given the breadth of Marriott's portfolio, which now comprises 16 brands across both the Luxury and Premium tiers, including The Ritz-Carlton, St. Regis, W, and EDITION, Marriott can offer a suitable brand for just about any project. Most often, our interests align well with our development partners and we agree on the best brand based on the location's key source markets, target buyer profiles and purchase motivations.

How is Marriott adapting its residential offering in a post-Covid world?
Our branded residential business proved very resilient in 2020 and into 2021. Branded residences offer a win-win for both Developers and home purchasers. Developers realize the benefits of Marriott brands in delivering higher price premiums and faster sales velocity. Purchasers know that our brands are professionally managed and maintained, thereby increasing their trust and confidence and making the buying decision easier. Marriott branded residences offer certainty in an otherwise uncertain time. In general, buyers have been interested in more space and more access to the outdoors via balconies, patios and courtyards. People are also looking for homes that allow them to live, work, play comfortably and productively in the same space.

Are Marriott's residential brand's guidelines imposed rigidly or do they allow some flexibility?
Though we adhere to unwavering quality and safety brand standards across all of our branded residences, localization is very important. For example, we work closely with developers to interpret and execute our brand design guidelines in a way that is relevant to their individual project whether its an urban or resort location. Marriott's Global Design team includes architects, designers and engineers that provide developers expert guidance as needed throughout their projects. While every project is unique, there are several key design considerations at the start of every project regardless of the brand. First, we ensure that the entire project, hotel, residences and public spaces share a cohesive design that integrates well with the destination and project site. Second, we consider the lifestyle preferences of prospective buyers in that market to inform choices about architecture, interior design and the amenities and services each project will offer.


The St. Regis Residences, Boston


Grand Marina - The largest Marriott and JW Marriot Residences in the world, developed by Masterise Homes in Vietnam

Do brand license fees and terms vary much from brand to brand?
Several key factors determine the license fee associated with each project including location, number of residences, likely sales prices, category (luxury or premium).

Your thoughts on Managed vs Franchised Residences, notably management of the HOA?
Our residential operations approach focuses on several key elements of success - Service, Product and Profit Leadership - while also making the connection to what is our most important priority: the genuine care and comfort of our Owners and Residents. Our focus is on providing outstanding service while being the best operators in the luxury residential business. With that in mind we welcome the opportunity to manage all our luxury branded residential projects. Wherever we manage a co-located hotel or standalone projects, we also always manage the residences, including (pending local law) the Home Owners' Association and all governance related matters. Marriott's best-in-class, turn-key Association management is comprehensive including: Pre-Opening Support, Residential Specific Training Programs, Condominium Association Turnover from Developer to Owners, New Owner Orientation, Association Governance and Meeting Management, Financial Excellence, Property Asset Management, and Resident Experiences and Engagement.

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 broad range of criteria and vary from buyer to buyer. However, the author has distilled these down into 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 at 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.

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

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.


Four Seasons Private Residences Nashville


Raffles Boston Back Bay Residences

Riyan Itani, Head of Savills Global 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 certainly proved to be the case during the Covid crisis, during which branded residences performed well, due to a 'flight to quality' among purchasers.

Branded developments also command a premium on both rentals and resales, so buyers can feel more confident that their purchase of a branded residence will deliver increased income and sustain its value.

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 (see next section). "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." 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 the kudos of owning a 'trophy' home.

2. Convenience

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

Furthermore, 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.

"Buyers seek brands that appeal to them on a very personal level, yet also want to be assured the operator has long track record of delivering hospitality services to private residences." Jeff Tisdall, SVP Residential Development, Accor

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 an elevated focus on wellbeing, access to an on-site gym and/or fitness centre has become standard, often with a spa, swimming pool, sauna and steam rooms. Other premium amenities frequently include a golf simulator, cinema, entertaining areas, residents' lounge/library, wine storage, business facilities and meeting rooms. With the onset of Covid-19, personal security, hygiene, access to private outside areas and home working spaces are essential considerations.

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.

Operators & Brands

Branded residences can offer greater financial security for hoteliers. "The reliance on more stable income through sales, rental and management fees from branded residences, for developers and brands alike, has meant that 70% of all luxury hotel developments now include a residential component," says Riyan Itani. As mentioned above, this has been highlighted in the hospitality sector, which has been especially hard hit by Covid-19, as a 'flight to quality' has seen branded residences perform well during the pandemic.

Four Seasons' James Price cautions 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 2020 report Savills lists the following:

- Income generation from licensing (and management) fees
- Additional rental product
- Deeper customer relationships
- Can help meet planning requirements (where single use may not be granted).

However, operators need to be aware of a developer's (often conflicting) 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.

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 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.

Above all, it is crucial to ensure that 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 sees design as a key to differentiation, as evidenced by its recent reassessment of its brand standards to deliver "1 brand, 1 identity, 1 design".

And it's not only about ergonomic and aesthetic comforts for residents and guests; as previously 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.

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."

Operators can also capitalise on their design expertise in the luxury market by advising developers on how best to bring the product into alignment with their brands, to the benefit of both parties.

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

Four Seasons Private Residences at 706 Mission, San Francisco

Spotlight on Accor

Accor has been on a roll these past four years, doubling its branded residences to 28 schemes and a further 56 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.

Where do you see growth opportunities for branded residences?
Lifestyle, lifestyle & lifestyle. No question classic luxury brands like Raffles, Fairmont and Sofitel will continue to be in high demand, but we are seeing explosive growth in lifestyle branded residences. There is an important segment of residential buyers who are seeking design-led brands, with unique personalities that celebrate modernity, creativity, F&B and experience. The growth of SO/ Residences with its playful, energetic personality is evidence of this trend. We just helped our partner, the Vitale Property Group, launch Mondrian Residences on Australia's Gold Coast. The project has been extremely well received. As further evidence of the momentum of our lifestyle brands, Savills International Development Consultancy's most recent report identified SLS Residences as the fastest growing brand in its segment. 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.

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. "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.

Does the strength of lifestyle branded residences mean interest in classic luxury brands is softening?
No question classic luxury brands like Raffles, Sofitel and Fairmont will continue to be sought after. If you consider a project like The OWO Residences by Raffles in London, with its location in the heart of British Royalty and government and all of the rich history which surrounds it, the timeless elegance of Raffles is absolutely perfect.

We don't see the lifestyle trend taking away from classic luxury, but rather that lifestyle brands address previously unmet needs and appeal to new segments of buyers. What remains true of both segments is that buyers seek brands that appeal to them on a very personal level, yet also want to be assured the operator has long track record of delivering hospitality services to private residences.

Raffles at The OWO, Whitehall, London

How do you select the most appropriate brand for a project from Accor's portfolio?
It is very much a collaborative process with our development partners. In a co-located scenario where the hotel and residences will be managed under the same brand, it is important to propose recommendations that are optimized from both a hotel and residential development perspective. Obviously, we want to make sure the hotel brand addresses an under-served market segment. But it is also important residential branding resonate with targeted buyers and we think a lot about key source markets of those buyers. It is really about balancing the needs of the residential and hotel components, in order to ensure the overall success of the Project.

Is it easy to 'steer' a developer away from their preferred brand to one more suited to the project?
Yes and no. Like any partnership its important both sides consider multiple perspectives. With more than 40 brands we are very often looking at more than one option. And when we put forward a recommendation with a clear rationale that considers all the needs of a project, it is not uncommon for a partner to reconsider their initial instinct. At the same time our residential development partners are almost always leaders of their respective markets. So we also need to listen carefully and make sure we are not overlooking an opportunity.

How is Accor adapting its residential offering in a post-Covid world?
Not surprisingly, our initial focus has been the needs of Residence owners in projects we operate today. In this regard, our ALLSAFE program has been very well received. Our residence teams have played an important role in supporting Residence owners throughout an unprecedented time – going so far as to deliver "care packages" to Raffles homeowners during a strict lockdown in Manila.

From a development perspective, the pandemic has further emphasized the importance of privacy and outdoor living areas. We are also seeing strong interest in resort developments and locations enabled by remote working. While traditional hospitality segments will recover more slowly, many residential markets are already performing very strongly. So our focus is also on helping our partners get new residential offerings to market. How residences are sold has also been impacted by the pandemic and we are finding that many of the techniques used historically by international property teams are now very relevant to branded residence projects marketed domestically.

How does Ennismore relate to your branded residence development plans?
The recently announced merger with Ennismore adds The Hoxton and Gleneagles brands to our lifestyle portfolio. But there is more to it than that - the dedicated platform we have created for our lifestyle hotel brands brings together an unrivalled portfolio and will take on the Ennismore name. Ennismore as a platform ensures our lifestyle hotel, residence and F&B offerings continue to benefit from the focus, brand management capabilities and talent necessary to ensure their success. Branded residences will be a real growth driver for Ennismore going forward. In addition to Hyde, Mondrian, Delano and SO/ Residences, we see a very interesting opportunity for 25hours, Tribe, Mama Shelter and The Hoxton to enter the branded residence segment.

How does Faena fit into this?
Alan Faena is the visionary and founder of the Faena brand, and we are thrilled to have entered a strategic partnership to extend the Faena experience globally. Alan Faena will continue to drive the expansion of Faena though this partnership with Accor – collaborating with super star architects and designers to create inspired cultural districts , event and art centers that animate and sustain communities, celebrated hotels and of course, incredible private residences. Underlying this passion for creating almost other-worldly settings is bold design, exceptional service, culture and community. Faena District, an ultra-hip living, dining and entertainment concept that was pioneered in Buenos Aries and Miami, is the ultimate expression of the Faena brand and coming next to Dubai. As you can imagine, as these Faena Districts are rolled out globally they will offer an inspired setting for Faena Residences.

Do you normally require an independent feasibility study prepared for a new project?
Feasibility studies are important and groups like Savills International Development Consultancy bring a lot of value to branded residences projects. Certainly it is important to know the comp set, get the unit mix and pricing right and program private facilities for residence owners that really add value. But insights from the feasibility study also help customize service and benefits offerings and guide decisions as to whether or not managed rental programs are likely to be appealing to buyers.

Thoughts on Managed vs Franchised Residences, notably management of the HOA?
Generally, in luxury and premium segments we feel it is important to manage residential common areas and work directly with residence owners and their associations or representative bodies. A la carte or optional services typically offered from a co-located hotel are important – but truly bringing a brand to life in a residential context requires a deeper commitment. For us, this means playing a role in the design and servicing of areas which will be created exclusively for residences.

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.

In 2012, Knight Frank reported that luxury branded residences commanded an average price premium of 30% compared with non-branded schemes - which, despite the numerous developments in this sector, still remains the benchmark figure today (latest research by Savills puts it at 31%). 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, former EVP Strategy at 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.

However, the premium varies enormously by location, even within the same country. As such, it is inadvisable to apply this global average to your sales price projections. Every project should be evaluated and assessed on the basis of its individual merits to accurately determine the appropriate selling prices.

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.

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, former Director of International Residential Sales at Savills, commented, "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." Accor'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 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."

As mentioned above, branded developments also tend to command a premium on rentals and resales, so buyers can feel assured that purchases will maintain their 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.

'Gimmicky' facilities can become outdated if the owners/operators do not adapt with changing residential needs and protect the underlying property asset. There is also a risk of depreciation if a development is not well maintained. Once it becomes a bit tired or dated, price depreciation can become exacerbated as demand diminishes and the buyer market shrinks as desirability wanes.

Urban Premiums

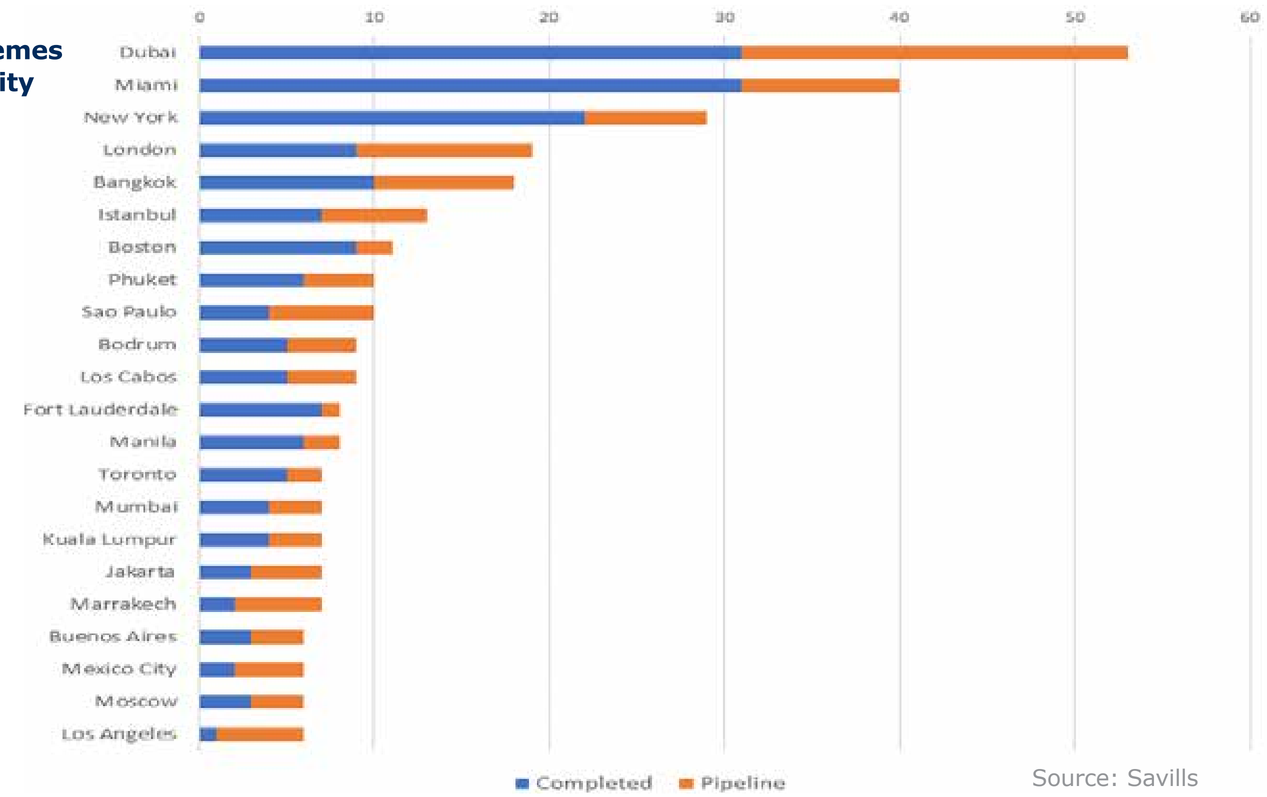
The highest premiums are generally seen in emerging markets, where owning a branded residence is seen as a sign of success and status (a "Trophy" home), as well as a secure investment (also they are typically more attractive for rental by overseas visitors and expats). Lower premiums tend to be more prevalent in mature luxury markets where stock is very high quality and location is a major factor. Savills research recently compared equivalent branded and non-branded developments in major cities; in London it found that the premium was less than 10%, whilst in New York prices were in many cases trading at a discount.

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 and proven hospitality offer, to provide confidence to international HNWI buyers. Additionally, brands can be used to elevate real estate in secondary locations, such as Versace apartments in London's Vauxhall regeneration area.

London is an interesting case. Due to the challenges presented by a tough economic landscape (e.g. higher stamp duty/taxes, Brexit), the city is now seeing a surge in new branded developments at the prime end of the market, principally as a point of differentiation and to support premium prices. "There is undoubtedly a broadening trend of cross-branding emerging here 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 an international buying audience, which often values a premium brand association in a way that domestic buyers may not." He adds that another key factor is the rise in demand for personalised services; "Wealthy buyers want the 5* services they know they can get from an established hospitality brand and are prepared to pay a premium to get these."

James Price at Four Seasons is in no doubt that the leading brands today can add enormous value and support the marketability of new projects. However, he concedes that for the added premium buyers pay, "they must be seen to offer tangible benefits for the residents." Sales Director Charlie Walsh at Raffles OWO agrees, warning that the premium charged for these benefits must be easily justified to buyers: "In mature markets especially, wealthy buyers still need to understand the true added-value they will receive for paying a price premium."

Schemes by City



Source: Savills

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, Head of Hotels & Resorts at Colliers. "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.

The Influence of Brands on Destinations

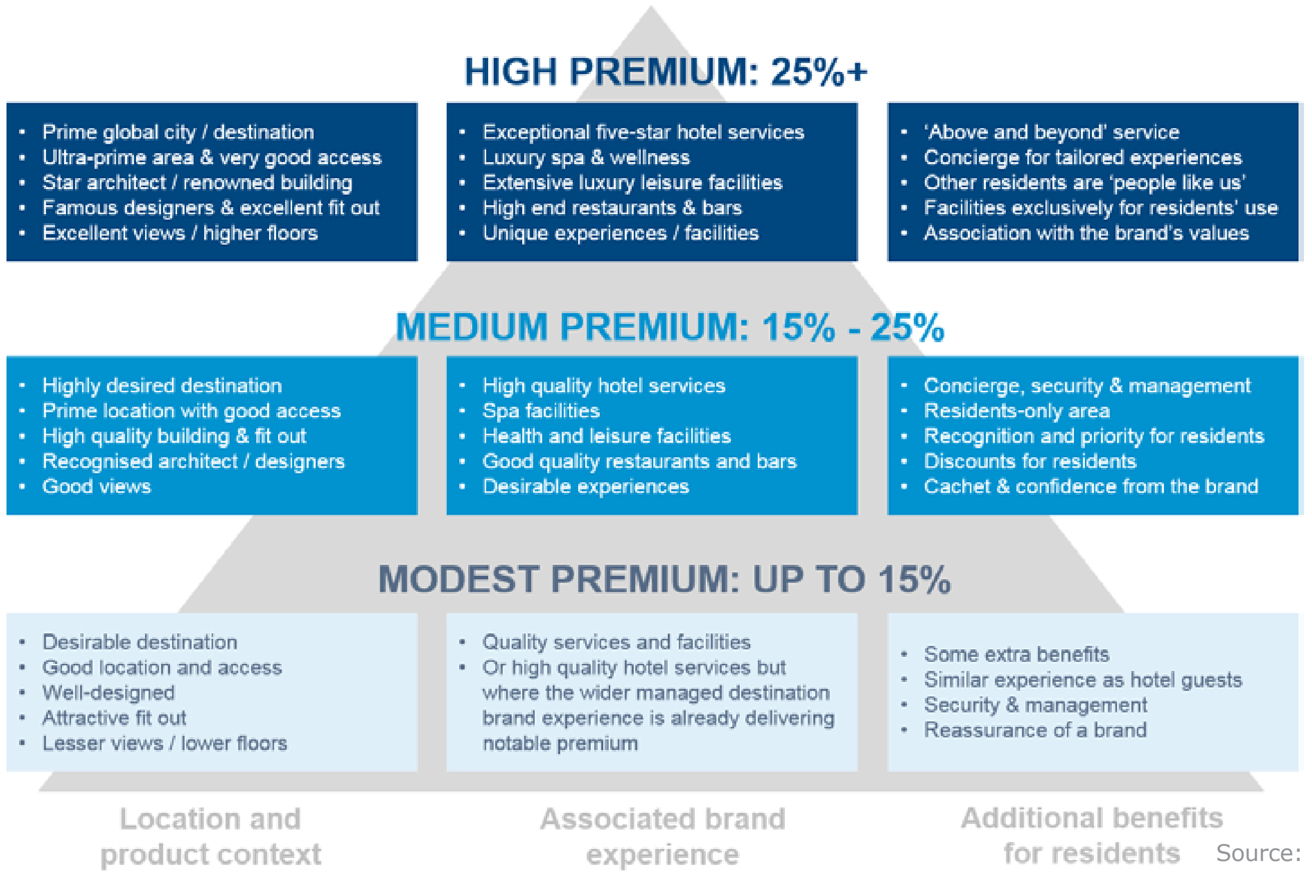
Well-known brands can have a positive impact on a destination. This is particularly true in emerging locations as, when a leading luxury brand chooses to 'plant its flag' in a particular area or region, this can significantly elevate the perception of that location in the marketplace.

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.

Branded Residences - Drivers of Premuim

Factors commanding price premium above unbranded residential product



Source: Colliers

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 (notably 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.

And so on. 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).

A study by Shullman Research Centre a few years ago 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 today, so it is essential to understand who your target buyers will be, and what motivates them, in order to ensure that your choice of brand and your offer are fully aligned with their aspirations.

It can be argued that properties with a highly 'distinctive' or niche brand attached will never appeal to certain audience segments. As such, partnering with one such brand may present a risk by reducing the size of the market by alienating potential buying audiences. This applies especially with most non-hospitality brands, as these are not built on the success and reputation of their proven services but rather rely on public perception and aspiration for that brand which, in the main, has been created in the High Street.

"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, Luxury Real Estate Consultant

Mandarin Oriental Muscat

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).

> "Every project has its own specific challenges. When helping developers find a suitable brand and management company for their hotels and residences, make sure that all parties' interests are aligned, and that each 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 and enthusiasm of the people on each side of the deal."
>
> **Adam Maclennan, PKF hotelexperts**

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.

10 developers were asked about their brand selection process:

	How many brands did you consider?	How many made it onto your shortlist?	What are the main reasons for your final brand selection?
Sapphire Residences, Sri Lanka – YOO Inspired by Starck	5	2	Reputation as the world's best
Brisen Group, Vienna - Mandarin Oriental	6	2	Commitment, Speed, Professionalism, Track record
Ombria, Portugal – Viceroy	20	5	Sophisticated, Intuitive, Proud
Toro Bahia, Jamaica - St Regis	5	1	People, People, People; it's the team that made the difference
Limassol, Cyprus - Ritz-Carlton	4	2	Legacy, Lifestyle, Moments
La Zagaleta, Spain – Six Senses	6	3	Rooted in Nature/Sustainable, Experiential, Avant-garde concepts
Botanika Costa Rica - Curio Collection by Hilton	4	2	Size, Flexibility, Local pipeline
Jnan Amar, Morocco - Ritz-Carlton	4	2	Personal and impeccable service, Luxury, Reputation
Eagle Hills, UAE - Mandarin Oriental Muscat	Many	3	Legendary service, Unsurpassed amenities, Unique lifestyle
Masterise, Vietnam - JW Marriott & Marriott	Many	3	Value for targeted customers

Who Owns What?

	Luxury	Premium	Midscale	Economy	Extended stay /Other
Accor 40 brands (Classic, Collections, Lifestyle & Resorts)*	Raffles, Orient Express, Banyan Tree, Delano, Sofitel Legend, Fairmont, SO/, Sofitel, The House of Originals, Rixos, SLS	Mantis, MGallery, Mondrian, Pullman, Movenpick, Swissotel, Angsana, 21C, Art Series, 25 Hours, Hyde, Grand Mercure	Novotel, Mercure, Adagio, Mama Shelter, Tribe	Ibis, Ibis Styles, Ibis Budget, Greet, Jo & JOE	Onefinestay (NB 14 of Accor's brands also offer extended stay/aparthotels)
Marriott International 31 brands (Luxury, Premium, Select & Longer Stay)	Edition, The Ritz-Carlton, JW Marriott, The Luxury Collection, W Hotels, St Regis, Ritz-Carlton Reserve, Bvlgari	Marriott, Sheraton, Marriott Vacation Club, Delta, Westin Hotels & Resorts, Le Meridien, Renaissance, Autograph Collection, Tribute Portfolio, Design Hotels, Gaylord	Courtyard by Marriott, Springhill Suites, Four Points by Sheraton, Fairfield by Marriott, Protea, AC, Aloft, Moxy		Residence Inn, Towneplace Suites, Marriott Executive Apartments, Element by Westin, Homes & Villas
Hyatt 19 brands	Park Hyatt, Grand Hyatt, Alila, Unbound Collection, Miraval, Andaz	Hyatt Centric, Hyatt Regency, Caption by Hyatt, Destination,	Hyatt Zilara/Hyatt Ziva, Hyatt Place, Hyatt House, Joie de Vivre		Exhale, Hyatt Residence Club
Hilton 18 brands (Luxury, Upscale & Mid-Range/Extended)	Waldorf Astoria Hotels & Resorts, Conrad Hotels & Resorts, LXR Hotels & Resorts	Curio Collection, Hilton Hotels & Resorts, Canopy, DoubleTree, Tapestry Collection, Signia Hilton.	Hilton Garden Inn, Hampton, Tempo, Tru, MOTTO		Hilton Grand Vacations (home ownership club), Embassy Suites, Homewood Suites, Home2 Suites
Intercontinental Hotels Group (IHG) 16 brands (Luxury and Lifestyle, Premium, Essentials & Suites)	Six Senses, Regent, Inter-Continental, Kimpton, Indigo	HUALUXE, Crowne Plaza, EVEN Hotels, VOCO	Holiday Inn Hotels & Resorts, Holiday Inn Express, Avid		Atwell Suites, Staybridge Suites, Holiday Inn Club Vacations, Candlewood Suites

* Ennismore and Faena not included here

The Residences at The St. Regis Los Cabos

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!

Mandarin Oriental, which uses celebrity endorsement very effectively, recognises that for any brand-collaboration to be successful, the personal reputation of the celebrity is crucial: 'Credibility is defined here as the celebrities' perceived expertise and trustworthiness.'

In severe situations this may even necessitate rebranding, which is 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', p.52).*

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 change in 'value' in the court of public opinion is **The Trump Organisation**. In the months preceding the US election in 2016, 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 enacted controversial policies, notably a travel ban on several predominantly Muslim nations. A press article *('Muslim Business World to Trump: 'You're Fired!')* reported strongly negative sentiments towards Trump projects.

Closer to home, between 2016-2020 prices in NYC's nine Trump developments fell 25% (CityRealty) and several condo boards voted to remove Trump's name, while nationally Trump-branded condo prices fell 17% (Redfin).

But it's not all bad (at the time of writing); reportedly the organisation is looking at further deals in India, home to the largest portfolio of Trump properties outside North America, and sales in Florida are holding up.

Spotlight on Rosewood

For the past 20 years Rosewood Hotels & Resorts has been active in the branded residential arena, albeit in the typically understated manner that defines the brand. As they continue to grow, Brad Berry, VP Global Residential Development, explains.

What factors influence the choice of destination?
Rosewood takes a measured approach to ensure each Rosewood Residences is truly a "special edition" to drive desirability and exclusivity. To remain true to the definition of luxury, Rosewood's expansion is highly selective, and the brand's footprint is deliberately scarce. As such, Rosewood's presence is largely limited to the world's wealthiest cities, providing credibility with genuine luxury consumers, especially with key residential buyer segments.

What benefits are offered to developers?
Rosewood has more than 20 years of experience in managing residences and provides extensive residential development and operational supports. Beyond that, from deal execution through residential delivery, Rosewood delivers robust and strategic sales and marketing services. One of the most powerful advantages of partnering with Rosewood Hotel & Resorts is being able to position your development alongside a luxury brand with media channels that have authority in the global market. The brand's expanding ecosystem gives developers exclusive access to a highly branded community of global aesthetes who are passionate about a Rosewood luxury lifestyle.

Rosewood Residences Mayakoba, Mexico

How is Rosewood different from other luxury hotel brands?
The definition of luxury is changing and Rosewood is at the forefront of the conversation by constantly evolving and creating a unique position in the progressive minds of today's consumers. More than homes, Rosewood Residences creates spaces that exist on purpose and meticulously crafted to facilitate "Enriched Living" – expressed via purposed design, bespoke experiences and category defying innovations.

In what circumstances are you receptive to standalone serviced branded residences?
A key factor to our sustained growth is its approach to creating strong, modern, and differentiated brands, its focus on design and innovation, and a commitment to a very bespoke and personal approach to hospitality. We search out standalone opportunities in mature, competitive luxury Residential Real Estate markets, with our unwavering dedication to a careful and strategic growth of our portfolio. We believe that branded Rosewood Residences provide a competitive advantage to the project in these markets during that sales phase and long after sales are finished.

How rigidly are the brand's guidelines imposed on residential developers?
Rosewood understands every project, and each market is different. The brand therefore adopts a market-driven approach with an open mind when curating specific design, services and amenities, residences, with the caveat that the primary focus is to ensure each residential product is top-of-market and drives maximum results for the developers. Taking into account market and project dynamics, its pricing strategy and licensing fee structures are tailored to each market and each partner.

Common challenges that arise with developers?
While the challenges are great, so are the opportunities. Our brand attracts a very selective 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, by empowering our developers and their sales and marketing agencies to understand the brand and identify with the Rosewood lifestyle, our developers capitalize on the brand value and differentiated benefits of Rosewood from the sales program through to completion.

Rosewood Residences Baha Mar, The Bahamas

Standing Out from the Crowd: The Importance of Differentiation

Developers recognise the value of partnering with a suitable brand, but in an increasingly competitive and crowded global marketplace it's no longer a guarantee of success. Considering the enormous potential cost of 'getting it wrong', investing in professional branding and marketing advice is strongly recommended to ensure that your project is well packaged and presented to appeal to defined target audiences, to deliver a successful launch and ensuing sales cycle. You have 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.

Developers must therefore 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.

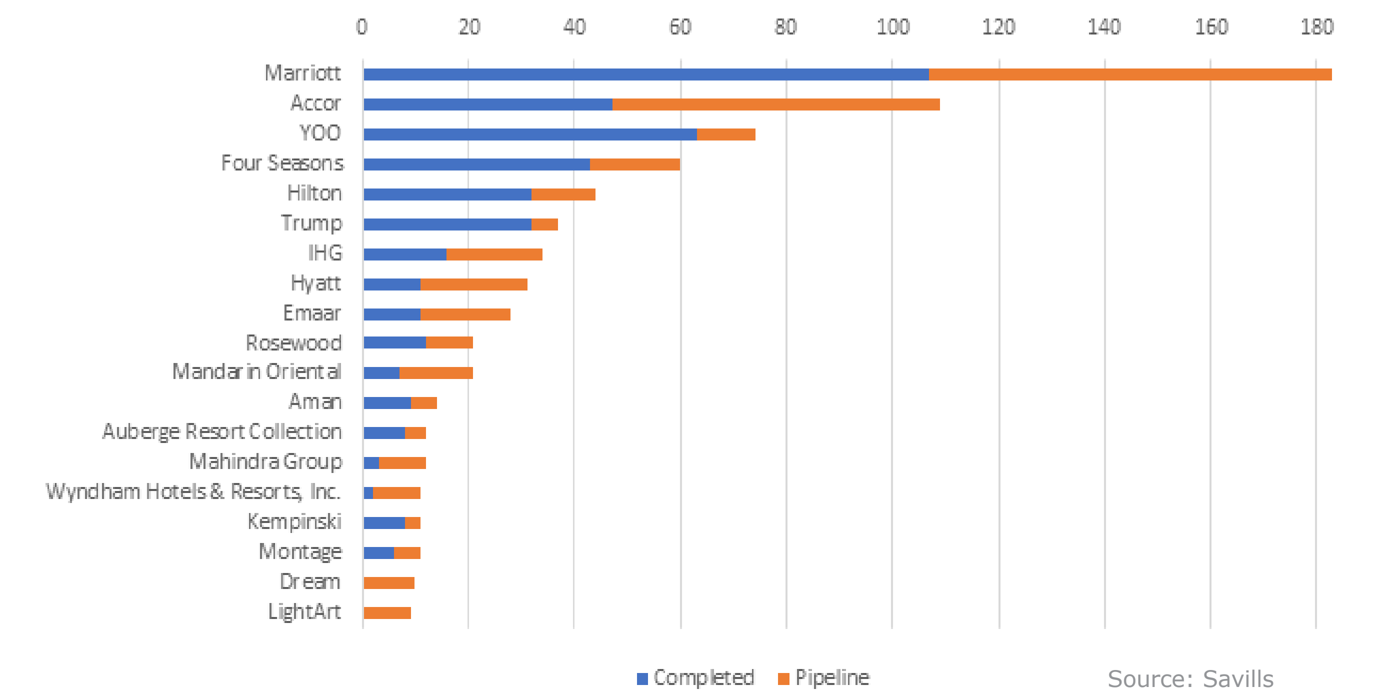
This being the case, for the added price premium to be paid it is essential to effectively communicate the value-added benefits that the brand delivers to buyers. The days of 'build it and they will come' have been confined to history (at least in established markets): it is now essential to educate, 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.

> *Differentiation is absolutely vital and price cannot be the only thing that is different. There has to be a lot of self-challenge ... it's the difference that provides the foundations for genuine growth. Newness is not enough.*
> 'Post Covid-19 Luxury' report

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.

Top Parent Companies - Number of Schemes



Source: Savills


The W Residences Bali

"Having the right development partner that understands our brand values, or has hired experienced marketing consultants to convey them, are key to marketing 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; with an abundance of brands in the marketplace, differentiation is a crucial consideration. "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," comments industry guru Muriel Muirden. Adelina Wong Ettelson agrees: "Developers and brands will need to differentiate their product offering and provide buyers with a strong reason to purchase."

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.

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."

> *"Luxury consumers are looking for high-integrity brands that deliver on their promise."*
> Anna Bjurstam, Six Senses.

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.

"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."
Muriel Muirden, former Chair and EVP Strategy, WATG

Spotlight on Hilton

Hilton is sharpening its focus on branded residences as a key component of steady global growth. With more than a dozen projects in its pipeline, the majority under its flagship Waldorf Astoria and Conrad brands, Jonathan Wingo, Global Head of Hilton Residential Programs, offers some insights.

How is Hilton adapting its residential offering in a post-Covid world?

The pandemic highlighted the importance of health and safety protocols which we expect to remain a long term priority across both our residential and hotel portfolios. Hilton has always prioritized all aspects of safety including high standards of cleanliness and will continue to make enhancements to provide assurance and peace of mind. Our residential properties swiftly adapted to incorporate public health official guidance and mandates to operational procedures and physical assets.

As we advance towards a new normal, we are retaining certain enhancements that our residents desire on a longer term basis. Some of these relate to sanitation protocols and others to the design of residential amenities which offer larger areas to accommodate a changed perspective on social distancing and personal space. Within the residences, our design team is more mindful of home office space and other design features, such as Concierge Closets, that were already included in some of our properties and allow delivery of parcels and other items to residential units without requiring face-to-face interaction with the resident.

Is it easy to 'steer' a developer away from their preferred brand to one more suited to the project?

It's not uncommon for a developer to come to Hilton seeking a specific brand. However, it is important that we collaborate in arriving at a brand agreement because the brand is synonymous with the positioning of the development. The location or developer's investment objectives are typically what causes a misalignment between the brand and the developer; with the later of those being the easiest to overcome. Aligning with a developer on an alternative brand from what they had originally envisioned is not always an easy route to take, however, in the end it is really about aligning on the overall positioning and business plan for the property.

Do you normally require an independent feasibility study prepared for a new project?

We encourage all of our development partners to obtain a third-party project analysis through independent, market experienced consultants to validate feasibility and provide, as much as possible, a heightened level of assurance that the project is underwritten realistically. We don't always require this, depending on a variety of factors including market maturity.

How do you choose the most appropriate brand for a residential project from Hilton's portfolio?

Akin to the selection process for branding of a hotel, we partner with developers and engage in a thoughtful collaboration to select the right brand for their specific development. Across the Hilton portfolio, we are pleased to have residential projects represented in eight of our brands, each offering unique attributes and targeting diverse demographics of potential buyers. The deciding factors when selecting the brand range from the developer's vision and investment objectives, to site location, and anticipated resident profiles. Usually the location and developer's vision are the largest drivers, and sometimes more than one brand could work within those criteria. In that case, the buyer profiles become the driving factor for selecting the brand.

Are Hilton's residential brand's guidelines imposed rigidly or do they allow some flexibility?

Hilton has developed brand standards for residential properties that ensure the physical product is aligned with the lifestyle represented by each individual brand. Similar to the approach we take when developing hotels, we're mindful of our partners' goals and the residential standards afford appropriate flexibility based on market, resident demographics, and unique attributes of each development. Along with the foreseeable requirements for core facilities, each project has the ability to consider the appropriateness and added value of additional offerings.

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

We have a consistent commercial model which applies across Hilton's portfolio of brands. With that said, some variation in business terms exists across different projects; there are several factors that play into these fluctuations including project type, location, and overall deal economics.

What are the 3 most common issues that arise with developers?

As discussed earlier, selection of the brand that best fits a project is an important driver for a project and thus may require time and energy to solve. Once a project has been confirmed and binding agreements are in place, there are two particular work streams that require cooperation and partnership to drive success. Product Development encompasses everything from collaborative design and programming of services to development of legal structure and governing documents. Marketing and sales of branded real estate is another area that requires extensive cooperation to build a strategy and activate a comprehensive program to drive strong results. We are fortunate to work with strong development partners on these, and many other aspects of the project to achieve our mutually beneficial objectives.

As discussed earlier, the brand selection process is an important driver for every project and thus may require time and energy to solve. Once a project has been confirmed and binding agreements are in place, there are two particular work streams that require cooperation and partnership to drive success. Product Development encompasses everything from collaborative design and programming of services to development of legal structure and governing documents. Marketing and sales of branded real estate is another area that requires extensive cooperation to build a strategy and activate a comprehensive program to drive strong results. We are fortunate to work with strong development partners on these projects to achieve our mutually beneficial objectives.

Your thoughts on Managed vs Franchised Residences, notably management of the HOA?

Within many jurisdictions, Hilton offers a comprehensive program for branding and management of the residential property (inclusive of association governance) as well as alternative options for licensed (franchised) opportunities for developers that wish to manage or engage third-parties, provided they are qualified. We've found that if there is an adjoining hotel that Hilton manages, it usually makes the most sense for Hilton to also manage the residences. To that end, we are pleased to have a few properties recently switch from a third-party HOA manager to Hilton HOA management upon the request of the residents.

Waldorf Astoria, Miami Hotel & Residences,

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, former CEO of SHKP (owns a St. Regis, W, Four Seasons and two Ritz-Carltons).

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 observed 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, Accor's 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."

"As competition increases, luxury residential projects are having to differentiate their offer to stand out to potential buyers, and the usual range of amenities is seen as 'standard'." WATG

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."

Ritz-Carlton Residences, Bodrum

Mandarin Oriental Hotel & Residences, Vienna

'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 can it be for HNWI consumers to differentiate between the plethora of luxury hotel brands in the market?

In 2016 Forbes observed that over 130 new hotel brands had launched during the previous decade, and that 'getting the word out' was becoming more difficult (i.e. in a crowded marketplace). However, 'as the sector matures, operators are finding ways to stand out from the crowd,' observes WATG in its recent branded residences report.

Legendary luxury hotelier Horst Schulze (founder of Ritz-Carlton and Capella) commented that many brands were poorly positioned, principally a way for management companies to operate multiple, similar hotels in markets where they have competitive restrictions with existing brand partners: "A brand is a promise, and when you start making exceptions, you stop keeping the promise to the customer," he says.

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 repeatedly stated in these reports, if a project is not effectively differentiated, it risks being seen as an indistinctive "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

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, Former 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. "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." Luxury author Professor Daniel Langer agrees: "The willingness to pay for a luxury item depends on the value we perceive."

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.

The traditional meaning of luxury is under threat. As a new generation of affluent consumers has emerged globally, the old ideas of luxury seem to have less meaning and relevance.
State of Luxury 2021 Report

The recent State of Luxury Report emphasises this: 'It is a call for high quality and being a brand with a purpose, not just displaying huge logos and calling that luxury.'

Legendary hotelier Ian Schrager recently described the ultimate luxury as 'the freedom of time': "Luxury today is about how something makes you feel, it's emotional and visceral, and about comfort, ease, convenience, as well as being freed from distractions and hassles and allowing more free time to do the things you really care about."

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."


SLS Dubai Hotel & Residences, UAE

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.

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 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."

"The entire brand experience is what drives the value proposition, which goes far beyond the product."
Luxury Expert & Author Daniel Langer

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.


Hale Nani Penthouse, The Residences at Mandarin Oriental, Honolulu

Spotlight on Mandarin Oriental

With 7 operational residences across 3 continents and a further 16 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 benefits are offered to developers?
We have never operated on a "one size fits all" model and fully recognise that flexibility and understanding the local target market are key to a successful partnership. Our hotels, resorts and residences each have their own distinctive sense of place, reflecting the best of the city or country.

Mandarin Oriental branded residences tend to be positioned at the top of the market and garners strong premiums for both development and re-sales. Our development partners have access to the Group's robust marketing resources, from a dedicated and experienced marketing team for brand support and guidance throughout the entire marketing process to an extensive photo and video library. On the management side, we offer proven operations management of HOA's to resident lifestyle services and programmes.

How is MOHG different from other luxury hotel brands?
Over the years, we have built a strong brand globally recognized for our Asian heritage, legendary service and extraordinary hotels in key destinations. Our mission is simple, to completely delight each guest and resident at our hotels and residences. Our long running advertising Fan campaign is a critical driver in maintaining and increasing our brand recognition worldwide. It simply and elegantly connects our well-recognized symbol - the fan - with international celebrities who regularly stay at the hotels and are true fans of the Group. Our aim is to create a world of Fans at every touchpoint; hotels, residences, 16 Michelin stars restaurants and our award-winning spas.

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. More to come as developers are seeing the value of having a five-star hotel manage a top luxury building.

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 and dedicated marketing team. 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.

Expert Perspectives

For most of the past two decades, industry veteran and consultant ***Barry Landsberg*** *has overseen branded residential projects for leading operators including Four Seasons, Accor, Trump, Fairmont, Raffles, and Swissotel. Former Head of International Development Consultancy at Savills,* ***Daniel von Barloewen*** *has worked on branded projects across the world; recently joining Accor as Vice President of Residential Development, he was previously Head of Residential Development (Europe) at Marriott. With arguably unparalleled branded residences expertise between them, they were invited to share their insights on some topical issues.*

How are buyer motivations for branded residences evolving?

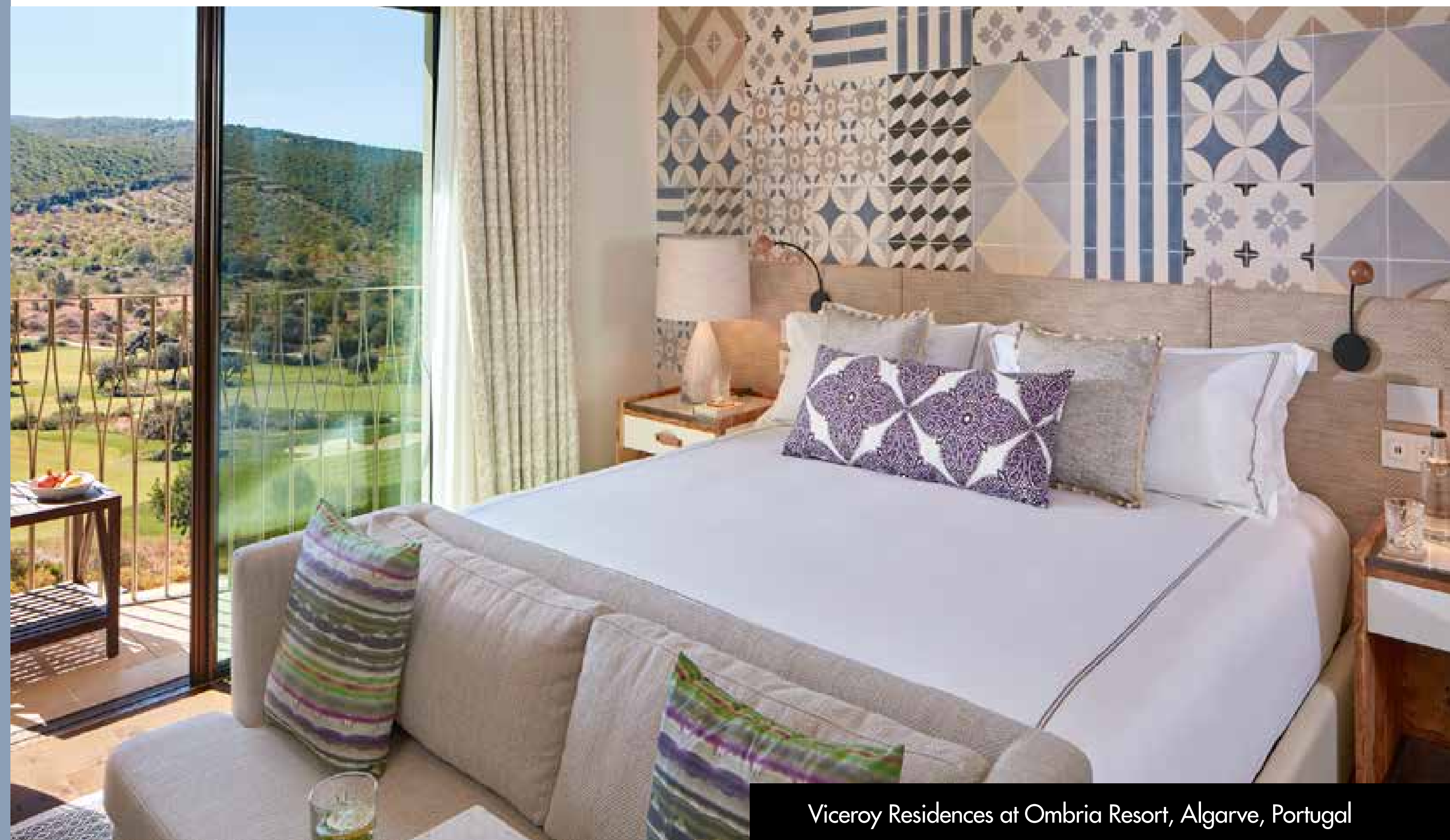
DvB: In EMEA, historically purchasers fell into two categories: those buying as owner occupiers (typically urban), and those buying holiday homes (typically resorts) with c.70% of these placing their residence in a managed rental programme. The past decade has seen continuous growth among buyers with an investment focus, even in urban locations, ranging from pure investment to lifestyle-investment. Managing the balance between providing for such purchasers, whilst maintaining the privacy and exclusivity for those who are buying to reside (or rent out on a long-term basis), requires close involvement of all parties from the early design stages, including – crucially - the hotel operator who will be managing the residences.

BL: In North America, with more than a third of the world's branded developments, the most pronounced evolution is non-hospitality brands entering the landscape. As these brands grow in this space, a buyer's motivations are more closely linked to the attributes of the brand (e.g. design, craftmanship, technological innovation), rather than the service drivers that hospitality brands bring to the owner experience. Non-hospitality brands will therefore need to invest in the hospitality and governance ingredients that have been a mainstay of the industry, or potentially risk tarnishing their brand equity.

How have Developers' expectations of the support they receive from Operators changed?

With the ever-growing number of Operators in the residential space creating intense competition for premium residential products, Developers recognise that they cannot simply stick a label on their residences. They must engage Operators that are invested in mutual success, providing support through the design process, operating model, service offering, integrated rental offering (where applicable), and support the real estate sales and marketing efforts.

This has made the Operator selection process much more important. For mixed-use projects, the days of the hotel being the primary driving force for Operator selection are over, and the need to equally evaluate both components is critical.


Viceroy Residences at Ombria Resort, Algarve, Portugal

Kempinski Bangkok Residences

Thoughts on Managed vs Franchised Residences?

Branded residences currently follow 4 main models:

- *Fashion/Lifestyle brands*: The management of the residences and provision of services is outsourced to a third-party company.
- *Franchise*: The hotel and residences are managed by a third-party company.
- *'Manchise'*: The hotel is managed by the hotel Operator, but aside from providing services to the residences on a 'cost-plus' basis, the Operator does not manage the residences association and governance, which is left to a third-party company.
- *Managed*: The hotel and residences are fully managed in all respects by the Operator, which ensures a seamless residence owner experience and accountability.

Sophisticated HNW purchasers expect that, when they buy into a brand, the Operator will manage all components of the Residential experience:

- From the Operator perspective, there is brand equity risk if a third party controls the management of assets carrying your name.
- From a Developer's perspective, they have aligned with the brand so their reputation can be impacted by a negative consumer experience.

As the market continues to grow, awareness of these different models will increase and purchasers will increasingly enquire about the entity that will be managing the HOA, its finance and accounting, and asset protection, which are essential factors underpinning the long-term value of the residences.

Where do you see branded residential growth in the coming years?

DvB: In Europe, there are still many cities with untapped potential such as Paris, Berlin, Frankfurt, Warsaw, Rome, Milan, Stockholm, as well as prime second home resort markets that are (e.g. Sardinia, Cote d'Azur, Tuscany). In MEA, South Africa and Nigeria have significant untapped potential. Across EMEA I also predict significant growth in standalone residences.

BL: Over here, new markets are emerging that have not been traditional branded luxury second homes markets - destinations that require either short-haul flights or a short drive from major East Coast hubs. Mid to longer haul destinations with established infrastructure are already seeing higher demand for luxury residential offerings, such as Puerto Rico, Hawaii, and Barbados. Standalone projects traditionally had price point and budget considerations that made it difficult to bring these to secondary and tertiary urban markets, but Operators have refined the model while consumers have become more sophisticated, resulting in a significant opportunity for North American developers.

What typically are the main legal issues faced when structuring branded residential products?

Essential aspects of a branded residential project are

- to ensure that the ongoing quality of the operations and overall standards remains as high as it was on the day of opening;
- that there is security of duration of the brand.

The latter can cause consternation with purchasers who are buying into a project because of the brand but are worried that, once the HOA is handed over to the residence owners, the quality assurance for which they paid a premium may vanish. This is because unless appropriate measures are established from the outset when agreements are drawn up, in some markets the HOA may even decide to terminate the management agreement (e.g. to save costs). Purchasers in emerging branded residential markets (e.g. LATAM, EMEA) have not been exposed to the same level of restrictions on use, rental, community standards, etc. that are prevalent in more mature markets, which are required to ensure that the branded residential experience and quality endures.

This creates challenges for both sales teams and purchasers. To create a project that will be a lasting success, it is essential for the Developer and Operator to engage experienced legal, development, HOA Budget and marketing & sales consultants, to create the optimum structure for project governance, a defendable HOA Budgeting, market and consumer aligned rental programme structure, and to arm the sales team with the relevant attributes required to sell the branded lifestyle experience and achieve the desired sales rates and premiums.

Your Top 3 tips for a Developer mitigate to risk?

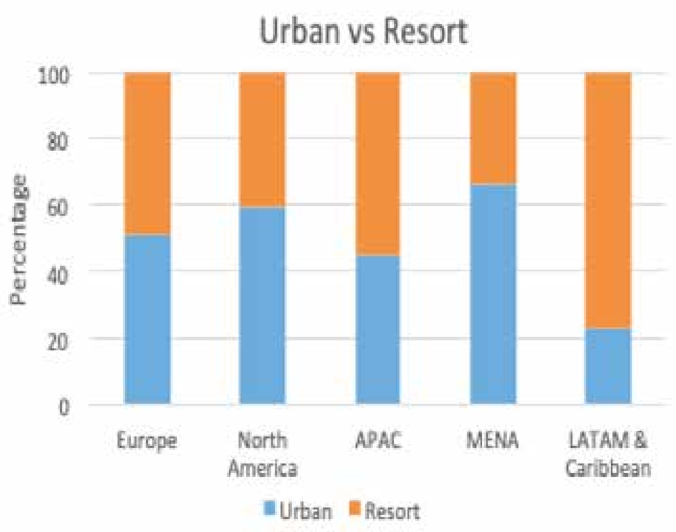
1. Appointing an experienced multi-disciplinary advisory team that complements the Developer's team is essential to mitigate risk. Experienced consultants understand how to engage with Operators to maximise brand value through each step of the pre-development process.
2. Engage with the brand/Operator and understand their design guidelines, space requirements, before developing your architectural design. Getting ahead of the brand creates delays and has negative cost implications.
3. The brand alone does not produce sales: it brings cachet, awareness and attracts buyers, but a sales and marketing strategy with appropriate funding is essential.

Mondrian Residences Burleigh Heads, Gold Coast

Urban vs. Resort

The majority of global branded residences are located in major cities.

In the 2019 edition of this report, Savills research revealed that the ratio of Urban vs Resort/Urban Resort schemes was 51%/49%, which reflected the (predicted) growth in urban branded developments. However, their latest data reveals it is 42%/58% - a noteworthy trend reversal within a relatively short period - although urban located projects overall are expected to continue to dominate (see p.4).

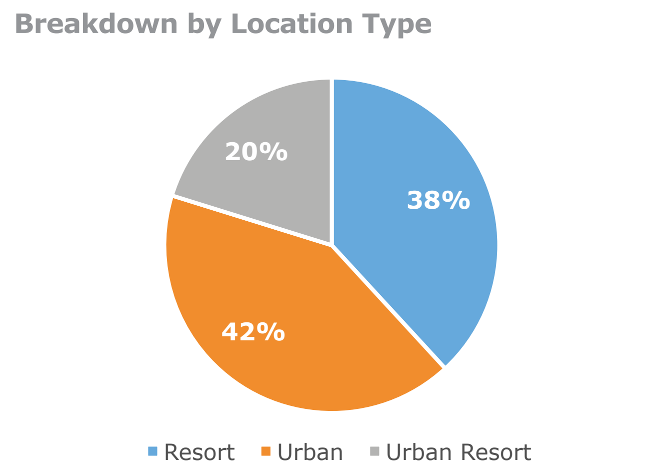


Source: Savills

WATG's also finds that operator appetite is greater for urban rather than resort locations - but only marginally: their 2020 study gives the Urban/Resort ratio at 51%/49%, although their data excludes non-hospitality brands. "Primary/secondary residences in core urban locations have shown increased attention from HNWIs, due to their perceived 'safe haven' investment credentials," observed WATG's former EVP of Strategy 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."

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 mature and established the residential market, the greater the importance of finding (and usually competing for) the best available site for development within that city, which may even be in a secondary location.



Source: Savills

Conversely, in emerging urban markets with rising domestic spending power and personal wealth but a limited supply of luxury homes, the potential for developing branded residences in prime locations is significant, due to strong demand, a lack of competition, and (usually) access to the best locations. WATG observes that branded residences in prime cities are also frequently acquired by international HNWIs as pieds-a-terres and for investment.

Dubai is set to become the #1 city globally with 24 complete schemes and 21 in the pipeline; New York has 26 completed schemes, but a pipeline of only 5. Miami remains in 3rd place (20 complete, 4 pipeline), while Phuket (9 complete, 7 pipeline) will overtake Bangkok (12 complete, 2 pipeline) into 4th place. (Source: Savills)

Resort

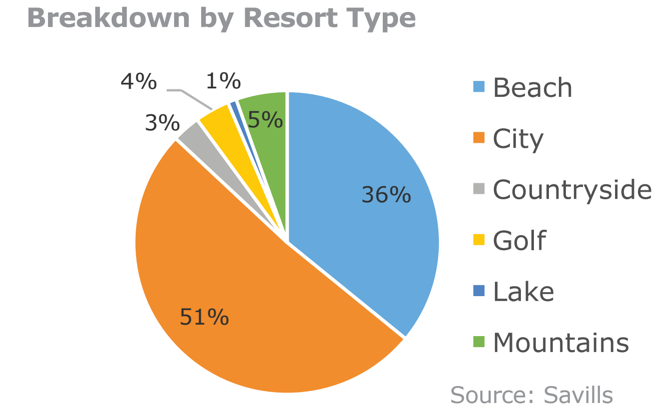
The number of luxury branded real estate projects in resort locations continues to rise (consider Phuket, where half of new developments are branded) and, as mentioned above, global market share has increased to 58%.

"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."

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."


Amanyara villa

Philip Bacon at Horwath HTL believes that in a resort environment, especially when families are involved, what people want is a much more independent, residential style of accommodation, combined with excellent service when and where it is needed. "It is time to give people what they want, not what you happen to have available," he says. "It is no surprise that we are now seeing 'residenceonly' resorts being demanded by operators in some locations. The impact of coronavirus has simply helped people to appreciate the value of this approach." He also reports rising interest in private residential members clubs in both urban and resort destinations.



Source: Savills

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

'The brands will become more daring when considering standalone branded residence projects, potentially even in locations where no hotel flag is present.' WATG, Global Branded Residences report

It was only seven 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, Marriott 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. Whilst other leading operators like Four Seasons, Accor and Mandarin Oriental are expanding in this segment, Marriott remains by far the most active operator; indeed, WATG reported that 80% of the live standalone branded residences it identified in its recent report are Ritz-Carlton, which also has another 8 projects in the pipeline and several deals under negotiation.

The Robb Report addressed the desirability of these in a 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."


Standalone Residences at Mandarin Oriental Mayfair, London

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).

Owners
Research from WATG reports a significant majority (80%) of branded residence 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."

Savills found that two-thirds of global second home buyers place a heavy weighting on the investment angle, with only one third buying purely for private use. "Most buyers, including HNWIs/UHNWIs, want their purchases to be a good investment, to provide rental income, generate capital growth and be a property they can use at various times during the year," explains Accor's Daniel von Barloewen. Naturally these statistics vary from location to location, but the investment angle remains a fundamental driver for most second home purchasers.

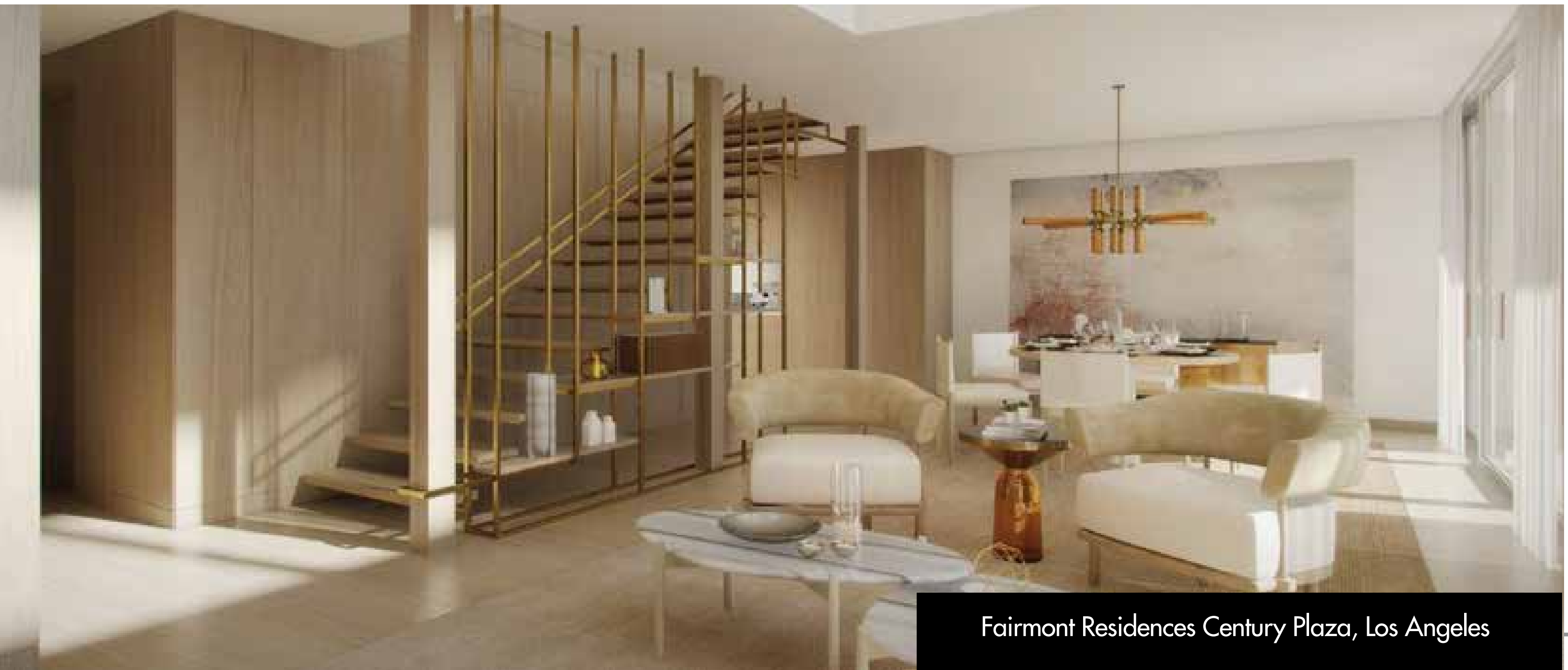
Depending on the type of property, in addition to capital growth potential this should mean a strong net yield, at least sufficient to cover the annual running costs of the property. Colliers' Marc Finney agrees that the income generated should cover the running costs and ideally generate a surplus: "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 income from renting will cover most - if not all - the annual maintenance costs."

von Barloewen believes that a wise developer should therefore give as much consideration to achievable net rental yields as they do to their sales price/ sq m target, especially for 1- and 2-bedroom (i.e. investment) units.

Riyan Itani at Savills observes that mandatory rental programmes tend to generate the best yield returns 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).

Operators
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 and Viceroy's Ombria Resort in the Algarve have benefited from offering 5% guaranteed yield for 5 years, resulting in strong sustained sales).



Fairmont Residences Century Plaza, Los Angeles

Kempinski Hotel & Residences, Barbaros Bay, Bodrum

"From initially being almost entirely in resort locations, the number of branded residential projects with a rental programme in urban locations is increasing," comments von Barloewen. Indeed at Marriott, more than one third of residential projects offer a rental programme - and, driven by demand, this figure is rising rapidly.

However, it should be noted that there are legal restrictions (notably in US) that need to be considered carefully, as these are classed as collective investment schemes and therefore subject to tighter regulations as financial instruments.

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, 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 a common structure in established urban markets.

Rental Programmes: A Legal Perspective

The branded residences model can deliver strong growth potential and solid financial rewards, but it also comes with some risks - especially those associated with rental programmes - which, if not addressed at the outset, can seriously impair the project outcomes. Hospitality legal specialists Lada Shelkovnikova and Robert William at Watson Farley & Williams list some common considerations.

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.

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.

Kempinski St Moritz Residences

Spotlight on Kempinski

Created in 1897, the Kempinski portfolio is a collection of historic landmark properties, comprising award-winning urban lifestyle hotels and resorts, and 23 residences across 14 countries. A pioneer in the sector, the company is a partner of choice for developers seeking a proven European luxury hospitality operator to drive brand premium. We caught up with Chief Development Officer Christophe Piffaretti for an update on the company's plans.

Kempinski was an early adopter and market leader in branded residences, but since 2010 market share and pipeline have declined. Was this a strategic move away from residential offerings?

Not at all. We see continued potential and are actively seeking new opportunities to complement our existing presence. In the last 12 months, we have celebrated the opening of Kempinski Residences in Bangkok, as well as in Guangzhou in China.

Kempinski has always been a pioneer, championing new destinations and creative business models. In 1991, we were one of the first to propose a residential offering, introducing the first branded serviced apartments to Beijing, followed by our second opening on the Costa del Sol in 1997. This enabled us to analyse the market and gain an in-depth understanding of the various options, building the foundations for the development of real estate projects in Europe, Asia and the Middle East.

Today, we offer a variety of business models, from standalone residences with private units solely for residential use, to fully serviced residential projects with a managed rental programme. We also understand how to leverage the strong synergies presented by mixed-use developments incorporating a hotel and adjacent residences.

What are your future plans for the branded residences sector?

Our proven heritage in this market gives us a competitive edge, allowing us to secure new projects and to diversify our portfolio. For this reason, we continue to pursue significant growth in the branded residences sector. The continued strong demand from private investors who wish to establish their permanent residence in a luxury property supported by high-end services, or simply to own a hassle-free holiday home, confirms our belief in the model. Furthermore, we anticipate that developers will continue to be interested in generating equity through the sale of residences, since it increases their returns while providing comfort to financing institutions, which are likely to continue imposing stricter loan requirements on real estate developments going forward.

How is Kempinski adapting its residential offering in a post-Covid world?

Covid has stimulated further interest in second homes and residential products that offer greater privacy, space, and access to facilities such as a separate room to work from home. For our operational residences, we have adjusted our standards to these new realities. We expect interest in branded residences to continue, so complementing our residential offer with second home resort destinations will be a clear response to the post-Covid world. We will also seek to offer a greater variety of locations, responding to guests' desire to seek options outside of city centres, in more secluded destinations.

Do you normally require an independent feasibility study prepared for a new residential project?

The feasibility study is a very important first step that we require each developer to undertake, as it validates the financial viability of the project and, consequently, supports the quest to secure financing. A comprehensive demand and supply analysis also helps our team to define the optimal area programme of the project and tailor the bespoke guest journey. The appointment of a reputable company with a deep understanding of the local market, real estate regulations, and required legal framework is essential when selecting a third-party consultancy to drive this process.

What are the most common issues that arise with developers?

As a pioneer in luxury hospitality, we have endeavoured to open iconic properties in emerging markets, positioning Kempinski as a first mover and leveraging the right asset to unlock opportunities. Unfortunately, in our quest to secure a sustainable business model for all stakeholders, sometimes developing jurisdictions simply do not have the necessary legal structure and regulatory framework to accommodate our requirements for residential developments. Also, ensuring that the long-term goals of the developer are aligned with those of the buyers and the operator is critical. For this reason, we do not collaborate with investors or companies seeking short-term gains by developing, selling and then stepping out of the project.

Are the residential brand guidelines for Kempinski imposed rigidly or do they allow some flexibility?

The quality of a project must be in line with our brand standards and positioning, since these are the foundations of our brand premium. Nevertheless, as a human-sized hotel company, Kempinski can allow a certain degree of flexibility, and our teams are always on hand to find creative solutions that satisfy developers' requirements and adhere to country-specific regulations. With this region-specific, tailor-made approach, we work side-by-side with developers to craft the residential concept and guest journey. This alignment and close collaboration ultimately ensures that the positioning meets the customers' demand, thus delivering the expected brand premium.

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 compensation is payable to the operator with respect to the branded residences?

The operator charges a percentage of the sale price of each residence and if the selling campaign stalls or is put on hold for any reason and the residences are rented out then the operator may seek to charge a percentage of the rent (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 is it is a precondition that the developer guarantees that the branded residence owner will not contravene the terms of the licence. Of course the developer is often reluctant to provide such a guarantee, especially as it would likely continue to operate after all residences have been sold and the developer has effectively moved on.

Conversely, the operator will provide the developer (and in turn the branded residence owners) with the right to refer to the building in a way which identifies the branding without the grant of any intellectual property rights - for example, when an owner wishes to sell his or her residence, a right to refer to it as being located within the [relevant brand] building or complex.

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

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

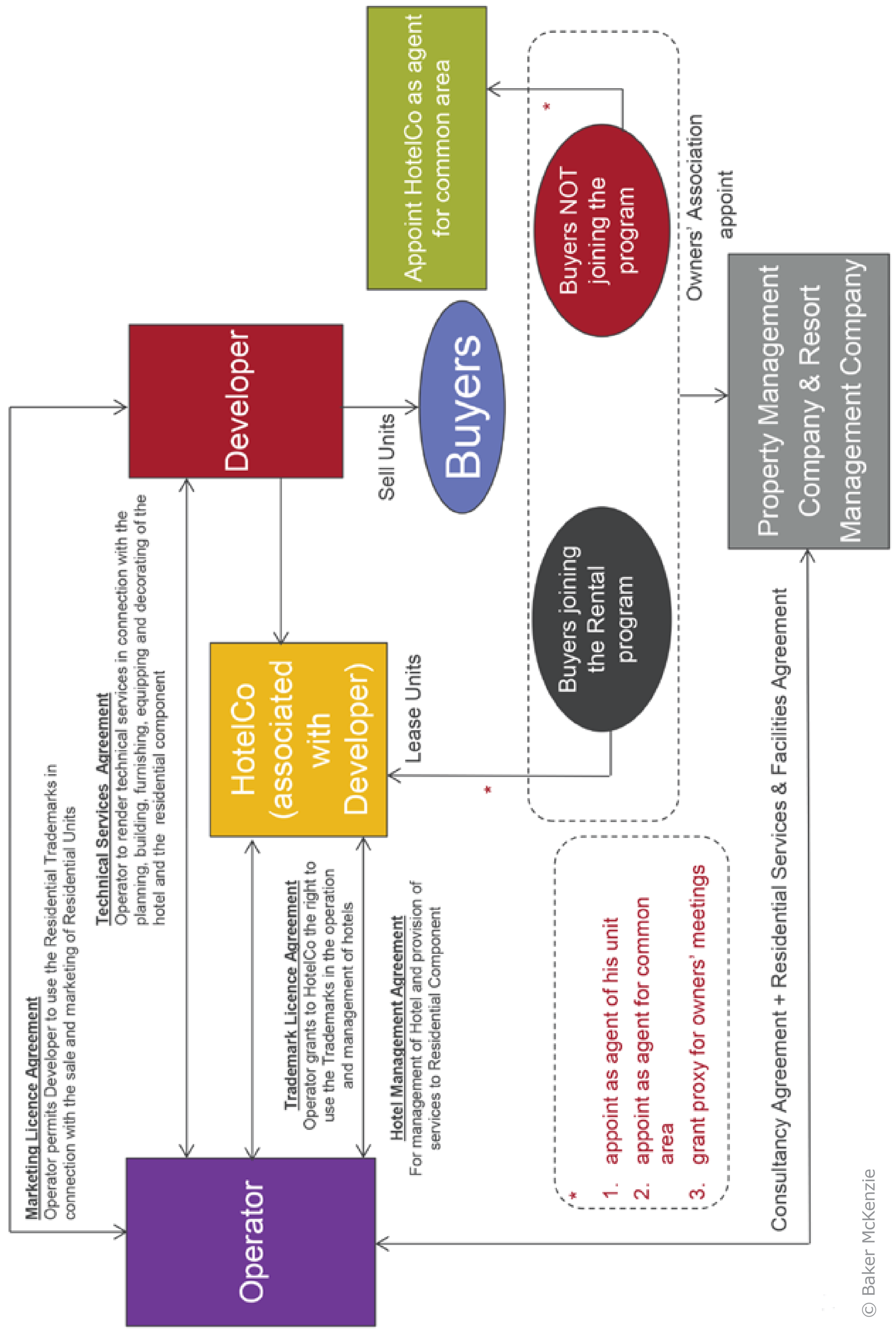
Do issues arise if the branded residences share facilities with the hotel?

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

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

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

Structure of a Typical Branded Residences Project



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."

'If the service agreements that are linked to these branded residences cannot survive legal scrutiny, operators will begin to retreat, consumer confidence will erode, and the brand equity of hotel/resort residences models may be irreparably damaged.'
PKF hotelexperts

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."

One size doesn't fit all

Where only a hotel is being developed, the structure is pretty straightforward – one Hotel, one Owner, one Operator, and one Hotel Management Agreement (HMA). However, where the development includes Branded Residences, the legal complexity increases exponentially; a cookie-cutter approach is simply not possible as the legal framework needs to be bespoke to each jurisdiction. Richard Bursby and Rebekah Prince at Taylor Wessing LLP highlight some key considerations.

"Branded Residences are legally very complex, so it is essential to ensure that the governance works throughout the duration of the project," says Bursby. "A major contributing factor to the complexity is that Branded Residences require many more legal agreements than a standalone Hotel development." These include:

(i) Hotel Management Agreement (HMA)
(ii) Sale and Purchase Agreement for each Branded Residence
(iii) Marketing Licence Agreement for the sale by the Developer/Owner of the Branded Residences
(iv) Residences Management Agreement between the Operator and Developer/Owner (and/or Home Owner's Association) for managing the Branded esidences

Villa at W Residences, Cairo

Raffles Residences at PALM360, Dubai by Nakheel

(v) Rules and Regulations for the Resort
(vi) An agreement between the Developer/Owner and each individual owner of a Branded Residence to ensure compliance with the Rules and Regulations
(vii) An á la carte agreement for the provision of services by the Hotel to the Branded Residences
(viii) Rental Program Agreement if there is a rental pool; and
(ix) Shared Facilities Agreement if the Hotel and Branded Residences share infrastructure and common areas.

There may be dozens (if not hundreds) of individual Branded Residences owners (many of whom will change over time, as residences are sold). Each of these individual owners will, in addition to the ownership rights they acquire in respect of their Branded Residence, have rights and obligations in respect of the common areas. A Home Owner's Association (HOA) may be created (often required by law) to represent the owners' interests, which will be the entity with which the Operator will contract to manage the common areas. (see below)

"Sometimes developing jurisdictions simply do not have the necessary legal structure and regulatory framework to accommodate our requirements for residential developments."
Christophe Piffaretti, CDO, Kempinski

Developers can often underestimate issues arising from the intersection of three separate, but overlapping, areas:

(1) *Zoning:* A Developer will always need to satisfy the local planning laws for the Project. The Branded Residences may have to satisfy "hotel" use or show "touristic exploitation" in order to comply with the zoning requirements. This can lead to the need for a Voluntary or Mandatory Rental Program.

(2) *Rental Program:* As well as the zoning potentially influencing whether a Rental Program is offered, the target buyers will also play a key part in the decision making. Some buyers will be motivated by investment and will not wish to spend much time (if any) in their Branded Residences. Others will view their Branded Residences as a second/holiday home and will require the ability to stay in it at their discretion, thereby requiring more flexibility in respect of the FF&E package. There are different forms of Rental Program (see above):

a. Voluntary Rental Program: A buyer can decide the period (if any) that their Branded Residence is rented out.
b. Mandatory Rental Program: The Branded Residences must be in the Hotel inventory for at least a significant (usually defined) part of the year.

(3) *Regulatory:* Issues often arise out of the marketing and selling of Branded Residences with a Rental Program in key feeder markets. Depending on the nature of the Rental Program offered and the jurisdiction in which it is being promoted, the marketing and selling of a Branded Residence with a Rental Program may be a regulated activity if it constitutes selling "securities" or comprises a "collective investment scheme", so stringent regulatory requirements can apply. The law in this area is complex, so it is imperative to seek legal expertise at an early stage to avoid costs and delays.

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.

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?

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.

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.

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.


Faena House, Miami Beach

Local Regulations

Prior to finalising the branding arrangement with the operator, the developer must thoroughly consider the local law. Lada Shelkovnikova at Watson Farley & Williams 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 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 requirements should be considered from transaction timeline perspective.

3) Strata regulations
Special attention should be drawn to the strata laws (if any) and the powers of Owners' Association* (or similar governing body under the local law) ("OA"), particularly in respect of their right to terminate the operator. Where the branded residences are developed 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 exercise; to achieve this, the project structure has to be carefully curated with due consideration of the physical layout, location of shared facilities, and the developer's continuing involvement in the project.

In many jurisdictions the powers of OA are supreme rights, which means that the law prioritises such voting powers over individual contractual arrangements (e.g. Rental Pool Agreement), the validity of any provisions in the project governing documentation that conflict with such statutory powers of OA, may be challenged in court.

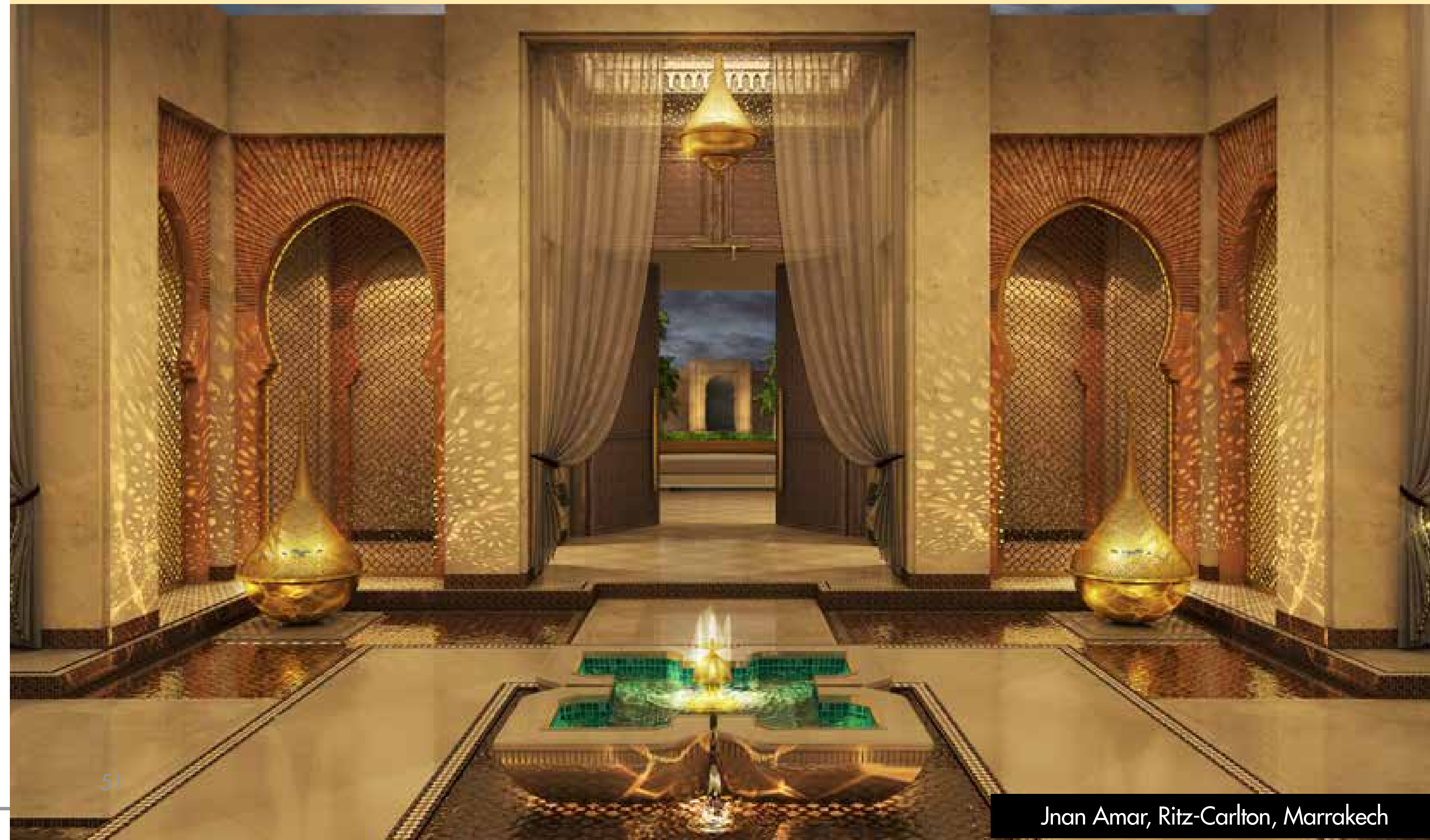
In many jurisdictions, it is permitted for the first OA rules to be prepared and adopted by the developer. This allows that, to the extent permitted by law, such rules provide for a maximum control over decision making by setting higher voting thresholds.

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.

6) Licensing requirements
The asset management of residential projects may be subject to special licensing requirements.

*generally referred to as Home Owners Association (HOA)


Jnan Amar, Ritz-Carlton, Marrakech

Accommodating Conflicting Interests

The importance of a structure that can drive the best value and quality is important to all stakeholders. In developing the structure it is important to bear in mind that inherent tensions exist between the interests of the developer/owner, operator, and the owners of the residences advises Felicity Jones, Head of Hotels and Hospitality at Watson Farley & Williams LLP.

Two key examples of the tensions to be addressed at the outset relate to the implementation of brand standards (and the capital expenditure that usually entails) and the potential exit of an operator – the relevance of these tensions becomes increasingly important as the project matures.

Implementation of Brand Standards
The operator's priority is to ensure that its brand standards are maintained throughout the development and that, over time, those standards stay up-to-date in the market place. A developer, keen to sign up with a brand to support its initial funding and marketing of the residences, should consider the capital expenditure required and the general and brand maintenance charges that will fall to the developer or the then owners of the hotel, commercial units and /or residences (and the extent to which these are fair and equitably apportioned and collectible).

Irrespective of whether the developer is planning to maintain an ongoing interest (for example in the Hotel) there should be a strong incentive to ensure its arrangements with the brand (and the structure itself) are balanced in the interests of all potential stakeholders in terms of costs for common spaces or facilities, implementation of brand standards and capital expenditure. Care should also be taken to ensure that the local laws do not prohibit the ability to enforce the regulations necessary to maintain the quality and appeal of the location.

Given the potential premium paid for the branded residences and the confidence they will be placing in the brand, the owners of the residences will want to see that the structure is suitable for a continuing brand presence capable of maintaining a premium position in the market place.

At the same time those owners will not expect to write a blank cheque to the operator or developer (particularly if standards are not being maintained or the expenditure is not subject to objective scrutiny). Whether or not there are plans to include private residences in hotel room inventory, owners should expect the developer to have negotiated certain provisions in the hotel and/or residences management agreement (and other relevant documentation), for example in relation to, maintenance, re-equipping and refurbishment, in a manner which give the residence owners a sufficient voice whilst still supporting the ability of the operator to enforce appropriate standards.

Loss of the Brand
In order to maintain and protect their standards many brand operators resist flexibility and termination rights. In some jurisdictions it has proved easier for the interested parties to terminate a brand than in others but a balance needs to be struck here too. Any change of brand will be an expensive and disruptive exercise.

Any owner will have taken a view on the brand and its quality in investing and will want to be comfortable that there is some security and commitment in the relationship. The problems are more likely to arise if the brand lacks experience or the structure has not been designed to fit both the location and the brand. It is one thing for owners to seek rights to modify or scrutinise excessive capital expenditure demands but quite another to put a brand in a position which means it has to significantly compromise its operational or property brand standards, underwrite the capital expenditure or terminate.

It is in the interests of all parties to ensure that owners of the individual residences, hotel or other commercial units cannot behave in a way that is contrary to the branded offering but, at the same time, to ensure there are checks and balances in respect of the activities of the operator. In some jurisdictions owners of residences cannot be legally obliged to abide by management regulations and fee or capital expenditure requirements. This is a challenging situation to resolve but the risk can be reduced by the use of a structure which balances the approach of the operator with the interests of an owner and take steps to limit the exposure to owners of residences that may result from the behaviour 'rogue owners' and incentivises the operator to deliver to an objective standard which reflects the style and quality in which the owners have invested.

Provided that the operator continues to maintain its brand position and provides the appropriate level of services for the category of brand, and charges for those services in a fair and equitable manner, the aim should be to enable the operator to operate and contribute the brand value throughout the term.

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.

Paul Dean, Dean & Associates

Four Seasons Seychelles Private Residence

W Singapore by WATG

4 Factors that Define a Project

THE PERMITTING

What can be delivered in terms of maximum buildability, use-class, height restrictions, setbacks and density?

THE MARKET

What is the supply/demand backdrop in the local market? What does this mean for the optimum development mix and residential typologies?

THE SITE

What are the site-specific opportunities and constraints that shape the development potential? Views, aspects, topography, eye-sores, neighbouring development, etc?

THE BRAND

Who will the hotel brand be? What are their own brand standards? Is there a specific design style?

The Design is in the Details

WATG's strategic advisory and design teams work closely together on branded residence development projects, guiding stakeholders through the various stages from the initial feasibility and master planning through to architecture and interior design, helping clients navigate numerous complexities that inevitably arise. Director of Strategy Rob Sykes provides a useful checklist.

In an increasingly competitive market, it is no longer enough simply to offer an enhanced residential project. Developers must take branded residences seriously as a typology, with its own range of unique planning and design considerations.

Client discussions around the branded residences concept tend to focus on supply dynamics, and the price premiums that attract the headlines, usually supported by a growing compendium of successful case studies (although the less successful ones are usually ignored!).

We encourage developers to think beyond the price premiums, as it is easy to focus on these uplifts while ignoring the broader complexities of the branded residence model. To fully understand these (and thereby minimise risk for both developer and brand), market dynamics, strategic planning and design must all be considered from the start. These important processes feed into and influence each other.

As a leading designer of destinations, we continually face a multitude of factors that merit exploration and analysis, many of which stem from four fundamental areas (see inset above). These demand considerable debate between stakeholders and sector specialists to define, and refine, the branded residence concept for every project to ensure that the resulting product and offer will resonate with potential buyers.

Hotel design requires an understanding of complex operational issues and back-of-house requirements, but in many branded residences schemes these issues are often overlooked. Hotel brands are certainly proven to add value, but this must mean more than simply flying the flag above the front door. The brand name alone does not add value; the product itself must stand apart from the competition in terms of design style, construction quality and lifestyle attributes.

There are a myriad of market-led and design-led questions that require careful consideration during the pre-development stage. The skill is in aligning these – often conflicting - aspects. When executed well, the commercial results are proven to be impressive.

Key Questions for Developers, Designers & Brands

Master Plan

- What is the right balance of residential GFA versus hotel GFA?
- How to balance privacy of the residences with the convenient access to the hotel?
- What are the operational considerations in terms of housekeeping and room service?
- How is security built-in to the master plan?
- How are views optimised to elevate price premiums?
- Must residences have on-plot parking or can this be combined with the hotel's?
- Which amenities can be shared with the hotel, and what should be exclusive to the residences?

Architecture

- How does the unit mix and sizing respond to market demands and the brand's standards?
- Indeed, should units be scaled as 'trophy' homes or a highly rentable hospitality product?
- Operationally, how can units be designed for ease of housekeeping/speedy changeovers?
- Will the smaller residences compete for roomnight demand with the hotel's suite inventory?
- How can flexibility be built-in, through the creation of 'lock-off' units, to balance the optimal for-sale typology with the most rentable hospitality units?
- At the top-end of the market, how can the architect deliver the necessary 'wow' factor?
- What are the implications of Covid-19 on home-working and home-wellness spaces?
- What lockable storage requirements will owners have whilst out-of-residence?

Interior Design

- Should the units be sold fully fitted-out?
- Should buyers be offered furniture packages?
- What level of consistency is required for FF&E/OS&E?
- How does the interior design style relate to that of the hotel?
- What level of customisation should buyers be afforded?
- What is the added cost of a hotel-standard fit-out versus unbranded fit-out?
- What will the owners obligations be in terms of FF&E reserve payments?

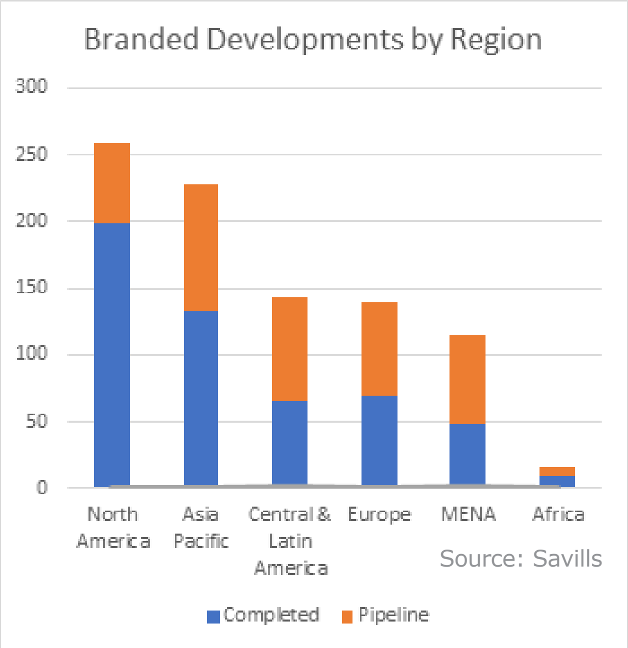
Landscape

- How can external areas be used to deliver a premium experience?
- How can innovative landscape design add value to the branded residences?
- Should residences have private pools and/or shared pool concepts?
- How can biophilic principles be incorporated into a project?
- How can landscape elevate the lifestyle proposition through wellness/fitness concepts?

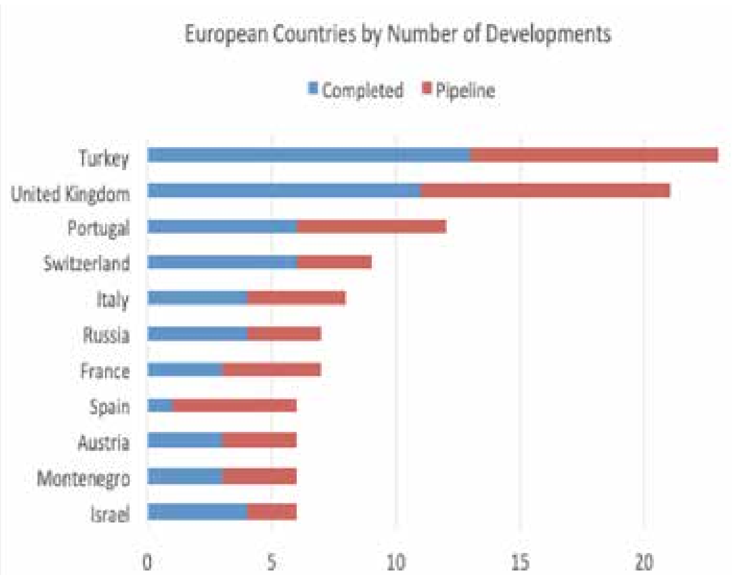
Europe

2020 set another record with over 100 new schemes launching around the world, of which Europe is increasing its market share - albeit from a surprisingly low base.

As the chart below shows, pipelines are building in some of the hitherto less active regions, notably fast-growing emerging markets including Vietnam, Morocco, Malaysia, Australia, and Saudi Arabia:



Europe is an interesting case. The region has some of the most evolved real estate markets yet accounts for only around 13% of the world's completed branded schemes. However, with 17% of the global pipeline its market share is set to increase and is expected to gain further momentum in the next few years. "Despite initial resistance to the concept and higher barriers to entry, branded residences are becoming increasingly common in Europe. In the next five years, the level of branded residence supply in Europe will grow substantially as the concept takes hold," observes Rob Sykes at WATG.



Source: Savills

Turkey dominates the region with 13 completed projects and a further 10 in the pipeline – almost 3,000 branded residences. The UK ranks second with 11 completed and 10 pipeline schemes; although comparable in number to Turkey, it has less than half of Turkey's total residences (c.1,400). This is due to these developments being located in super-prime London, where large developments are restricted by planning, high costs and space availability, whereas many of Turkey's are in resort settings.

Sitting some way behind the two dominant regional leaders in 3rd place is Portugal, followed by Switzerland.

What is perhaps most surprising is how Italy, France and Spain are such late adopters of the branded residences concept; they each have large, populous cities with high priced real estate, long coastal areas, and are magnets for international travellers. And Germany doesn't even make this list.

However, as markets face more challenging conditions, we are now seeing a corresponding increase in branded residences, which offer a strong point of differentiation to elevate these properties above the mass of unbranded homes.

'European markets are often considered as a 'safe haven' for savvy investors given the relative economic and geopolitical stability.'
WATG, Global Branded Residences

They are also considered to present a more secure investment with higher returns (although, like everything in life, it's not a panacea and the pendulum can swing back, for example with oversupply of high-end properties; both the UAE and New York have seen significant discounting).

For some of the world's most established and mature markets, why are the numbers so low? Let's look at London, a leading global city and home to a large and wealthy international population: notwithstanding economic influences, this is principally a result of a strong market with ever-increasing prices being achieved for super-prime real estate, driven by sustained buyer demand; as such, there was really no need to add a 3rd party brand along with the associated royalty fees and price premium. They sold well enough without. However, as the market became more challenging (e.g. Brexit, taxes), high-end developers turned to brands to elevate their value propositions.

It isn't all about size either. A distinctive trend in Europe is the emergence - and success - of strong regional hospitality brands selling resort residences, such as Falkensteiner (Austria, Italy and Croatia), Martinhal (Portugal), Club Med (French Alps) and Lefay (Italy, Austria).

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 here occurred in 2000 on the Gold Coast, with the world's first 'fashion hotel', the Palazzo Versace. Since then there has been minimal activity and a handful of projects include Crown Resorts at One Barangaroo in Sydney, Banyan Tree in Brisbane, Seafarers by 1 Hotel in Melbourne, and Mondrian on the Gold Coast (which sold out in 6 months). A 5/6-star hotel with only 16 branded residences on Sydney's Phillip Street was announced recently, whilst the Mandarin Oriental in Melbourne is reportedly not now progressing. "There have been rumours floating around for branded residences earmarked for Sydney, Melbourne and Perth, none of which have progressed any further than chatter," comments Michelle Ciesielski at Knight Frank.

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, foreign buyers have declined, and competition to attract buyers is intense.

As we have seen in other cities like London, branded residences may now 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."

Crown Residences at One Barangaroo, Sydney

Luxury Real Estate in a Post-Pandemic World

'There will be other pandemics and other major health emergencies…. The question is not if, but when.'
Joint statement from 23 Heads of State, March 2021

Covid-19 has shifted the focus about the way we will choose to live in the future. According to WARC (and others), optimising the home lifestyle is now a priority for consumers as home working, home entertainment, home fitness and even home schooling are likely here to stay, made possible by fast broadband. When forced, we have learned that we can work, study, and play effectively from almost anywhere.

The pandemic has especially impacted urban living. Being stuck en famille in a high-rise city apartment getting cabin fever during a series of protracted lockdowns, the thought of access to a garden or outside space – in an area offering better value for money - is very appealing. Additionally, many of the urban amenities and attractions for which we pay a sizeable premium (temporarily) disappeared.

It isn't only about seeking a healthier environment. One of the consequences of home working is that it gives people more options to choose where and how they want to live, so buyers are seeking 'sanctuary' homes to escape to, to live, work and play in comfort with their families: if you have to be in lockdown, why not make the best of it? "The pandemic has made buyers and homeowners re-evaluate their wants and needs within a home," comments Adelina Wong Ettelson, Global Head of Residences marketing at Mandarin Oriental. "Our homes have become our offices, gyms, schools, etc., and developers and brands alike are pausing to reimagine their programming to meet the changing demands. Now more than ever, buyers are looking to upgrade their homes and lifestyles with one key word in mind: flexibility."

It is therefore no surprise that demand for rural and suburban property surged due to the pandemic, as buyers seek more space in less built-up areas for a healthier, more relaxed family lifestyle.

- USA studies reported one-third of buyers were considering moving to less populous areas.
- Savills Buyer Sentiment Survey found 40% of buyers more likely to seek a village location.
- UK property portal Rightmove saw searches for homes in small towns and villages double.
- Coutts Bank reported that the largest increase in client purchases was vacation homes (+43%).
- Knight Frank's Global Buyer Survey found 26% more likely to buy a second home, to enhance their lifestyle and use as a retreat during future outbreaks.
- Savills research found that 23% will plan to spend at least 2-3 months p.a. in their second homes.

'The pandemic has not dampened the desire for high-net-worth individuals to own second homes around the world.' CNA Luxury

"We're seeing an inevitable up-tick in demand for non-urban product, be that in 'easily accessible' countryside or more remote resort environments," says Ben Martin at HKS Advisory. To illustrate this, London's population plunged by 700,000 (-8%) during the pandemic, its first fall in over 30 years, while across the globe in Phuket C9 Hotelworks reports bumper sales as 'expansive tropical island mansions ... struck a chord with wealthy Thai's, who have been unable to travel overseas and are fatigued by mounting air pollution issues in the nation's capital.'

The pendulum may yet swing back, as buyers who fled to the suburbs get withdrawal symptoms from the urban vibe; it will be interesting to see if they take their families with them, or simply opt for a pied-a-terre.


Four Seasons Private Residences Los Cabos at Costa Palmas

'The luxury market is entering a new age of conscientious luxury, as opposed to conspicuous luxury, which has been the driving force in the luxury market for the last 50-plus years. Luxury companies will be forced to adapt or be left behind.'
State of Luxury 2021 Report

Pre-Covid, luxury was already shifting towards a modern, affluent, and more 'aware' consumer with an ever-growing variety of tastes and inspirations. "Consumers across the board are going to be more thoughtful in their decisions. For the ultra-wealthy, this means allocating their resources toward luxury goods and experiences that prioritize values like privacy, wellbeing, and family," commented Tina Edmundson, Global Brand Head at Marriott. "That shift is now non-negotiable, as luxury is more designed by the individual."

Traditionally, luxurious amenities had been a driving motivation as buyers would go down a 'shopping list' of product features and facilities. "As the pandemic plays out, there is increased emphasis on unit design modification and refined operating procedures across the luxury residential market," reflects Ben Martin at HKS Advisory. "All these new ways to live in our homes have brought new ways to design them," adds HBA's Cristian Rubio. "Mixed-use buildings will turn into combined-use developments where a small office will be adjacent to our home."

"As we begin contemplating our post-pandemic (or next-pandemic) world.... health, safety, and resilience will become one, and we'll see designers collaborating more freely with new and unexpected industries and professionals."
Margaret McMahon, Wimberly Interiors

With a focus on wellbeing and work/life rebalancing ("Wellbeing and amenities are now increasingly at the top of our buyers list of considerations," says Maria Morris at Knight Frank), buyers also ask about space and personal privacy, and principal criteria now include:

- Access to open spaces and green areas - a reconnection with nature.
- Working space away from family and noise, with 'Zoom friendly' environments and excellent broadband (including access to on-site business and secretarial services).
- Secure, self-contained homes, notably in complexes and gated communities with controlled access.
- Access to non-public leisure facilities (gym, sauna, pool, hobby room etc).
- Where there are shared facilities, contactless access and kiosks, grab-and-go marketplaces.
- Hygiene-friendly surfaces and touch points, particularly in common areas. A Tripadvisor study found that over 90% of travellers now rate cleanliness as the most important factor. As Marriott's SVP of Luxury Chris Gabaldon commented, "Guests want visual cues. Clean can no longer be behind the scenes." This is now a key consideration, which impacts peoples' desire to rent and rent out homes*.
- Bicycle friendly zones and storage.
- Sustainable practices with air and water purification and energy-efficient systems.

Technology

"The pandemic has only accelerated consumer expectations in technology and innovation and offering unparalleled convenience at speed has become an essential part of people's lives."
Kyla Jacobs, WPP

Many HNW buyers are looking beyond their national borders. Mansion Global reported that demand for vacation properties grew twice as fast as for primary homes, as people 'look for more space to ride out the pandemic', also noting that as travel restrictions prevent them from visiting properties, the situation has convinced many buyers to invest. "A number of people are making offers sight unseen," comments Eric Johnson at Four Seasons Nevis. Dino Michael, SVP of Hilton's luxury brands, echoes this: "We've had contracts being executed for units sight unseen," while James Burdess, head of Savills Caribbean sales, reports, "inquiries are up threefold and sales have been sight unseen, which was unheard of before."

This has been made possible by the widespread and rapidly elevated reliance on AR/VR marketing tools such as 3D models, Matterport, video walkarounds, and computer-generated walkthroughs used by agents and developers. Research by Knight Frank found that almost two-thirds of respondents see sales geared towards virtual offerings from now on. "The pandemic has accelerated the already growing role these technologies play in property marketing," says Savills Riyan Itani, "and we find that webinars offer buyers the opportunity to tour a project remotely with an agent and engage with a panel of mortgage brokers, lawyers and tax experts at the same time."

'Live virtual viewing and 3D layouts have allowed sales to flourish.'
Headline in The Sunday Times

Sphere Estates' Rob Green adds, "Virtual tours can help buyers reach a point where they are 75% or more certain to buy, which speeds up the process considerably once they are able to visit." Spanish developer Aedas confirms this, reporting that 50% of its sales were made after virtual tours.

What does this mean for branded residences?

"In any crisis, people always turn to brands they know and trust. Because it's a branded residence, they want that relationship."
Dino Michael, SVP of Hilton's luxury brands

Most commentators agree that a 'flight to quality' during the pandemic has seen them continue to perform well. "Branded residences have been booming due to the private amenities, space and services that they provide," explains Savills Riyan Itani. Akash Puri at Sotheby's International Realty adds: "The pandemic has allowed many HNWIs to reflect on their life choices of 'where is home' as it's now the most important lifestyle choice, with working from home the new normal. We have especially noted increased demand for branded residences with superior amenities that include private recreational areas."

Arlette Hoff at HVS believes that branded residences are among the winners of the current pandemic: "People have realised how important their home is as they are spending so much more time in it, and hence are appreciating and valuing features such as technology, high quality fit-out and outdoor space." Sphere Estates' Rob Green agrees: "In the post-Covid world, many of the attributes offered by branded residences are now more important to buyers than ever, and we are seeing developers and brands evolve to provide safer and more secure homes for affluent buyers and their families."

The benefits aren't limited to purchasers. Branded residences tick many boxes for all parties (hence why I coined this as a 'win-win-win' scenario). "With a branded residence, there's a lot more confidence because you know the ownership of the hotel and the strength of the brand," comments Eric Johnson at Four Seasons Nevis. Edelman's recent "Brands Amidst Crisis" report even attributed buoyant sales at St. Regis Residences Rye during the pandemic to the value a brand can add in a crisis. "Whilst Covid-19 may have affected vertical living, with buyer priorities shifting to an ease of life with an increased focus on improved well-being, the idea of five-star hotel living is only increasing in appeal," points out Mandarin Oriental's Adelina Wong Ettelson. "In fact, we have increased interest as more buyers - and therefore developers - recognise the benefit of having a five-star hotel manage their home, ensuring and executing the highest level of safety protocols."

'Pandemic highlights the growing importance and surge in popularity of branded residences.'
Headline on Zaywa.com

"2020 was a year like no other in the international second home market but, despite the initial pandemic-related challenges, enquiries for branded residences rose around 160% over the previous year, with actual sales up by around two-thirds," reports Rob Green of Sphere Estates.

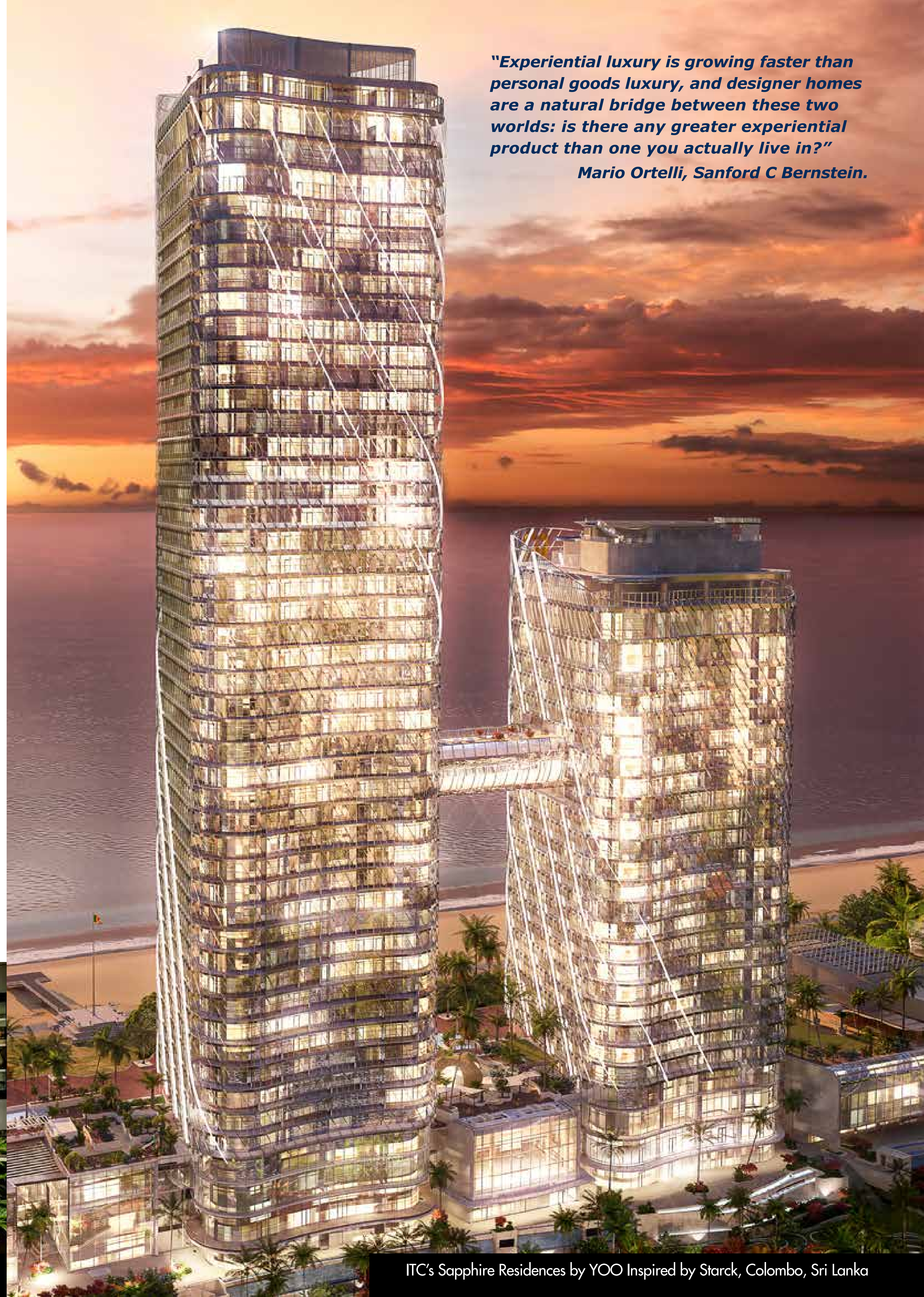
Alejandro Aljanati at Aston Martin Residences in Miami has also witnessed this: "The pandemic didn't really affect us. We sold more units this year than last year." Meanwhile in Europe, luxury branded schemes continue to sell well (e.g. in Marbella where five projects are launching, and W Residences Algarve is reportedly the continent's fastest selling scheme), while in Dubai the new Four Seasons residences sold out in just three months.

From a legal perspective, Richard Bursby at Taylor Wessing cautions, "Covid-19 has served to remind us that anything can happen, so all stakeholders – Developer, Branded Operator and Buyers – need to consider a range of scenarios in addition to the optimistic 'best case' outturn. It is important to ensure the interests of all parties are aligned when things may inevitably change after the contracts are signed."

*It is worth noting that during the pandemic the major hospitality players focused on rental offerings, which present an added option for branded residences owners: Marriott launched its Homes & Villas platform, Accor launched Apartments & Villas (which includes One Fine Stay), and Mandarin Oriental invested in Stay One Degree.

Rosewood Residences Baha Mar, The Bahamas

"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.



ITC's Sapphire Residences by YOO Inspired by Starck, Colombo, Sri Lanka

Waldorf Astoria Residences will dominate the Miami skyline

Future Trends: Author's Predictions.

- *An increase in lower star-rated hotel brands:* As predicted in previous editions of this report, expect to see this trend continue to expand into upper-upscale and even midscale. Savills latest research reveals that this category now represents 31% 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 regions," comments Riyan Itani, while PKF hotelexperts reports, 'The next wave of developers will seek to tier branded residences by engaging operators with boutique or even midscale brands.'
- *Price premiums:* Expect continuing pressure on price premiums, notably in mature markets and Tier 1 cities. Premiums will be greatest in emerging markets where branded residences are a rarity.
- *Eco-friendly and sustainability credentials will feature much more prominently:* "Sustainability is the new luxury", said former Mexican President Felipe Calderón. Not unexpectedly, the major players are embracing this, e.g. Accor offers its Planet 21 environmental and social sustainability initiative, while Marriott has its Serve 360 program, but there are more and more examples of companies 'walking the walk' and not just talking it - even more so since the pandemic, as hygiene becomes an important criterion and differentiator. An industry leader is India's ITC Hotels, an eco-pioneer that promotes prominently "Responsible Luxury" on its branded residences in Sri Lanka, and which is the first hotel chain in the world to recently receive WeAssure Platinum Level Certification. Other examples (and it is a growing list) include Viceroy Residences at the Algarve's Ombria Resort feature "Sustainable Luxury", and Soneva Resorts (set up by the founder of Six Senses). Additionally, the world's largest floating solar system has just been installed at a LUX* resort, and Silent Resorts is rolling out an innovative concept for fully solar-energy powered resorts and yachts.
- *Live/Work/Play:* The rapid growth in popularity of these environments in modern and vibrant settings, designed around communal spaces that encourage greater interaction between like-minded residents, will drive the emergence of global brands specialising in this sector.
- *The continuing broadening of market participants,* notably non-hospitality luxury brands.
- *Greater focus on wellness:* With a shift in consciousness caused by Covid-19, we expect to see this gather momentum: 'As more customers look to branded residences for a retreat or second home away from urban hustle, wellbeing needs to be a focal selling point,' trumpets the Bangkok Post recently. Whilst a pioneering Six Senses built its brand on this, there are now many other examples of hospitality brands collaborating with established fitness and wellbeing brands, e.g. Mandarin Oriental with The Mayo Clinic, Westin with Peloton, Shangri-La with Lululemon; additonally, Related is developing Equinox branded residences, Hyatt bought fitness & spa brand Exhale and teamed up with Headspace - and, of course, IHG acquired Six Senses and Accor bought Banyan Tree. "We must look beyond material luxuries to experiences that balance the mind, body and spirit," says Accor's GVP of Well-Being Emlyn Brown.
- *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. The author is aware of plans for new tech-branded residential projects; indeed, might we soon see the ultimate smart homes, e.g. Apple iHomes? Technology extends to the sales process; with travel restrictions and lockdowns, Covid-19 forced sales agents to offer a full range of virtual experiences to enable buyers to view - and in many cases purchase - their new homes. Expect to see a flurry of innovative digital tools appearing.
- *Branded 'retirement' communities:* These are lifestyle villages for GenX and Baby Boomers, many of whom stay highly active and social. "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. Ramsay Ritchie at CallisonRTKL agrees: "We see the branded residential independent living sector as a major growth area in the post-pandemic arena." An example is St. Regis Residences Rye, a gated community with the comforts of a five-star hotel, where at least one person in each household must be 55+.
- *Dual-branded properties:* A growing trend that typically combines a hotel with extended stay accommodation under separate brands, this may yet extend to incorporate private residences.
- *More Standalone Residences:* As predicted in previous editions, major hospitality brands have become increasingly receptive 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.
- *Lifestyle:* This sector has accelerated in the last 10 years, driven largely by millennials and their quest for experiences. "The big brands have realised that cool design, funky interiors and innovative, contemporary offerings such as a bowling alley or a grab and go burrito restaurant, can attract a crowd that they previously didn't appeal to, providing a valuable secondary source of income," comments Richard Bursby of Taylor Wessing. As demonstrated by recent tie-ups with Ennismore and Faena, Accor clearly sees this as a growth area that now accounts for 25% of pipeline fees, while Hyatt's expanding Boundless portfolio seeks to offer compelling experiences 'designed to excite and inspire'.
- *Blockchain:* A St. Regis Hotel in the USA sold a sizeable equity stake based on a blockchain approach, a Lake Tahoe property was purchased in Bitcoin, and UK developer Nick Candy recently told Bloomberg News that he will consider offers for his £175m penthouse at One Hyde Park in cryptocurrency such as Bitcoin. In May the UK's Daily Telegraph reported that mortgage brokers are seeing a growing trend of homebuyers looking to finance property purchases with cryptocurrency. "It probably won't be long before a developer will adopt a blockchain approach for the sale of luxury properties, especially within a jurisdiction which has issues with foreign ownership of real estate," observes Paul Dean.

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Cover image: Waldorf Astoria Hotel & Residences, Miami