THE

APARTMENT SERVICE

WORLDWIDE

The Global Serviced Apartments

Industry Report 2011-12

a TIN report

The Apartment Service has continued throughout 2011 to successfully offer its clients an extensive one stop shop accommodation service assisting companies of all sizes with their requirements no matter how big or small.

With 30 years of experience and as this report clarifies an extensive knowledge of the industry, we understand fully the trials and tribulations of arranging corporate accommodation. After initial consultation with our clients we are able to propose efficient and cost effective solutions to a diverse range of accommodation requirements. We don't stop there! Management information is available ensuring that our clients have a quick and clear picture of who is staying where and cost details at the touch of a button as and when needed!

We hope that this report proves to be an invaluable source of information and point of reference for you and welcome the opportunity of offering a consultation with you or the person within your company responsible for accommodation requirements in order for us to propose a no obligation solution for your accommodation requirements.

Please contact our sales team on 0208 944 3612 or email Sara our Sales Manager at SaraC@apartment.co.uk or myself at MelanieD@apartment.co.uk

We look forward to hearing from you and working with you in the future!!

Melanie

Melanie Degand
Director of Sales

The Global Serviced Apartments
Industry Report 2011-12

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a TIN report

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Contributors Charles McCrow & Bard Vos

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Report methodology

The 2011/12 edition of the Global Serviced Apartments Industry Report has been compiled from primary and secondary sources. Primary sources include a survey undertaken by The Apartment Service and TIN amongst serviced apartment operators worldwide.

The other primary sources used in this report included articles contributed by, and interviews with commentators from around the globe, together with other research.

The regional reports include, where available, information specific to individual countries which up-dates the information given in previous Global Serviced Apartments Industry Reports. Where no new information has been available to up-date a previous report, that country is not featured in this edition.

ACKNOWLEDGEMENTS & SOURCES

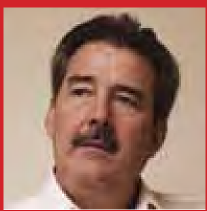
Travel Intelligence Network and The Apartment Service would like to thank the following for giving up their time to be interviewed for this report, and wish to acknowledge the following sources of information.

Contributors

Mark Harris edits the Global Serviced Apartments Report, he has been a communications specialist in the business travel industry since 1990 and is a partner in Travel Intelligence Network. A former Marketing Director of Expotel and First Option, from 2003 to 2008 he combined the role of Head of Marketing at ITM with launching TIN with Maggy Sainsbury. Mark was voted the Business Travel Industry's Personality of the Year in 2006 and was closely involved in creating & launching Business Travel Market between 2009 & 2010.

Gavan James is president & CEO of Nomad Temporary Housing. Nomad is an international temporary housing firm providing 42,000+ temporary apartments via a partner network in the US, Canada and the United Kingdom. Prior to creating Nomad, Gavan was senior VP/GM of worldwide operations for Oakwood Temporary Housing, where for 30 years he helped Oakwood grow from a small outfit to over $600M in annual revenues.

Martin Kubler has held senior management roles in hotels in Europe and the Middle East and has worked for operators such as Accor, Wyndham, Thistle, and the Bonnington Group. He now heads up Iconsulthotels FZE, a consulting firm specialising in assisting small & medium hospitality companies and international hospitality professionals to achieve their business goals through innovative use of PR, social media and customised CRM strategies.



Charles McCrow has worked in the extended stay market since the 1980's when he joined Expotel's fledgling extended stay business. In 1992 he led a management buy-out of The Apartment Service, and as MD has overseen the expansion of the company. A pioneer of the sector, he was responsible for introducing the corporate housing concept to the UK in the 1990's. Today he is a Director of the UK's Association of Serviced Apartment Providers and a long-standing member of the Corporate Housing Providers Association in the USA.

Fiona Murchie is managing editor at Re:locate magazine, which she launched in 2004. A former publishing manager for the Chartered Institute of Personnel and Development (CIPD), she founded relocation company Profile Locations in 1989 to serve the oil industry in Aberdeen and pioneered location guides for the relocation industry during the 1990s. The driving force behind the Re:locate Awards, her latest initiative is Smart Move, a website that takes knowledge and resources direct to relocatees and their families.

Mark Skinner is a partner with The Highland Group, which provides consulting services on all types of hotels but is perhaps best known for their work in extended-stay lodging including corporate housing. A noted expert on extended-stay lodging, Mark has completed extensive research into this segment since 1995. He has researched more than 170 extended-stay hotel markets in the US, Canada and in three European countries.

John Smith is Chief Executive Officer and Principal of three Sydney-based companies active in Australia, across the region and beyond; Horwath HTL (Asia Pacific's largest hotel consultancy), Horwath HTL Capital Advisors and The Hotel Events Company. John has acted for owners, investors and lenders on property related transactions in Australia, New Zealand and Asia Pacific worth over A$5 Billion. During the 1990's John was the leading hotel Receiver & Manager in Australia. John also runs the Serviced Apartments Summit, which will next be held in Sydney on Wednesday 25th July 2012.

Kimberly Smith is CEO/Founder of AvenueWest Global Franchise Inc, which she co-founded in 1999 and which provides corporate housing and property management services to upscale business travellers. In 2006 she launched CorporateHousingbyOwner.com, the first portal connecting furnished rentals and the travelling public. Kimberly serves as the 2011 elected President of the Board of Directors for the Corporate Housing Providers Association (CHPA).

Tony Soh is Chief Corporate Officer at The Ascott Limited, overseeing the company's global operations and corporate services. He joined Ascott in 2007 as Chief Strategy and Planning Officer, prior to which he served as Senior Director, Policy and Operations in the Singapore Civil Service. He has also held senior appointments at the Ministry of Defence, Singapore Tourism Board and National Heritage Board.

Maggy Sainsbury is contributing editor to the Global Serviced Apartments Report and an industry specialist with over 25 years business travel experience. The founding partner of Travel Intelligence Network, she also created www.traveljargon.org. Prior to her current role she held Global and European management roles in the corporate, GDS, agency and airline sectors based in the UK, Europe and USA working for Diageo, Unisys, Galileo and British Airways.

Bard Vos has worked at The Apartment Service for 15 years, formerly as their Reservations Manager and now as Marketing Executive responsible for press releases, monthly newsletter and the company's partner programme. His previous roles include Reservations Manager at Jurys Kensington Hotel and the Delmere Hotel.

Interviewees

Sicco Behrens, Amsterdam Housing
Kristynne Byers, Hilton Worldwide
Geraldine Dunford, Tamarind Village
Linda Knoetze, West Point Exec Suites
Vangelis Porikis, Adagio
Jo Redman, Saco Apartments
Ruthie Shiraishi, Space Design Tokyo
Roland Tanner, Lanyon
Sergio Velasquez, Travel Solutions

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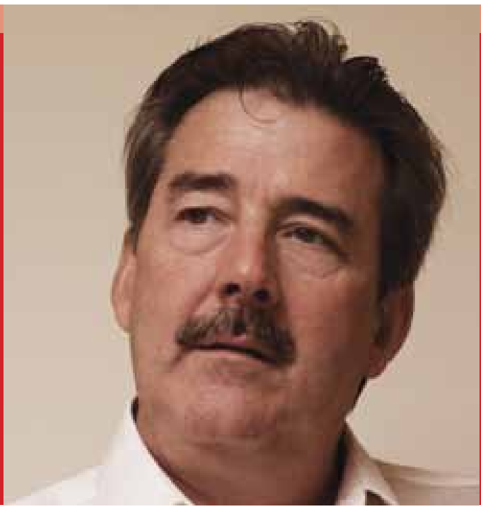


Commentary

By Charles McCrow
Managing Director, The Apartment Service

Welcome to the third edition of the Global Serviced Apartments Industry Report, which coincides with the 30th birthday of The Apartment Service.

When we published the first edition of this report in 2008, it was the first survey of demand and supply trends for the sector. The second edition, published in 2010, looked at how the industry was coping with recession and also provided a summary of the key global markets for serviced apartment operators.

In this third edition we look at how these trends have evolved over the last three years, and at what apartment operators believe the immediate future holds. We look at how corporates are using apartments, and in particular at the natural synergy between the relocation market and serviced apartments. We also examine the mechanics of the corporate housing market, long established in the US, but now making ground in Europe.

This year's report includes contributions from a dozen experts on their local serviced apartment markets, together with our own Apartment Service-researched summary of rates, new market entrants and estimates of total supply by region. This local knowledge brings a new dimension to the Global Serviced Apartments Report, and one which I believe corporate procurement, training and HR functions alike will find invaluable when making informed purchasing decisions.

We further shed light on how the different sectors in the serviced apartment world work and how these sub categories address the wide range of corporate accommodation needs.

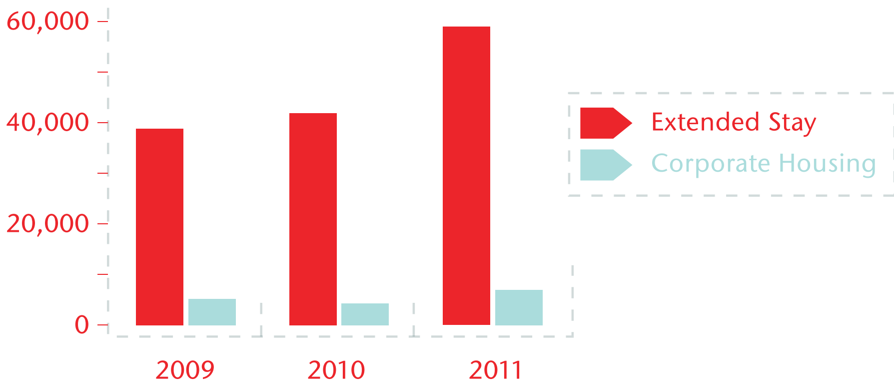


Fig.1: **Global serviced apartment availability** (Source: The Apartment Service)

Supply & demand

Despite the recession and attendant collapse of worldwide property markets, the global serviced apartments industry continues to expand. In 2010 we estimated that there were 446,996 Extended Stay/Apart-Hotel apartment units in 7,119 locations. Today, we have identified 599,187 units in 8,362 locations – an increase of 34.1% in inventory and 17.5% in coverage. Similarly, corporate housing identified in the US and Canada has risen from 44,469 units in 2010 to 70,557 units in 2011 – an increase of 58% year on year.

Although partly attributable to the completion of apartments already in the pipeline before the recession struck, this growth reflects the increasing popularity of serviced apartments with operators and users alike.

The perception amongst operators in all the regions covered by this report is that competition is growing. 77.4% of operators who took part in our survey confirmed that local inventory is increasing.

Interestingly, although inventory has grown the major global operators remain largely unchanged. Marriott and Intercontinental continue to dominate the supply chain, together with Extended Stay Hotels following the latter's successful exit from Chapter 11 insolvency, albeit they are mainly located in the US. The only new entries in this year's top 15 are Pierre & Vacances (Europe's largest property developers) and Value Place, who operate 27,633 and 20,300 units respectively. Our survey found that just over half of respondents reported that the number of serviced apartment operators was growing locally.

In the last edition of this report, buyers and operators alike were optimistic about the year ahead, despite hotels in almost every global region reporting reduced occupancies for 2009 compared to the previous year.

Our latest figures suggest that this optimism was well-founded, with operators out-performing their hotel counterparts in all key areas. In contrast

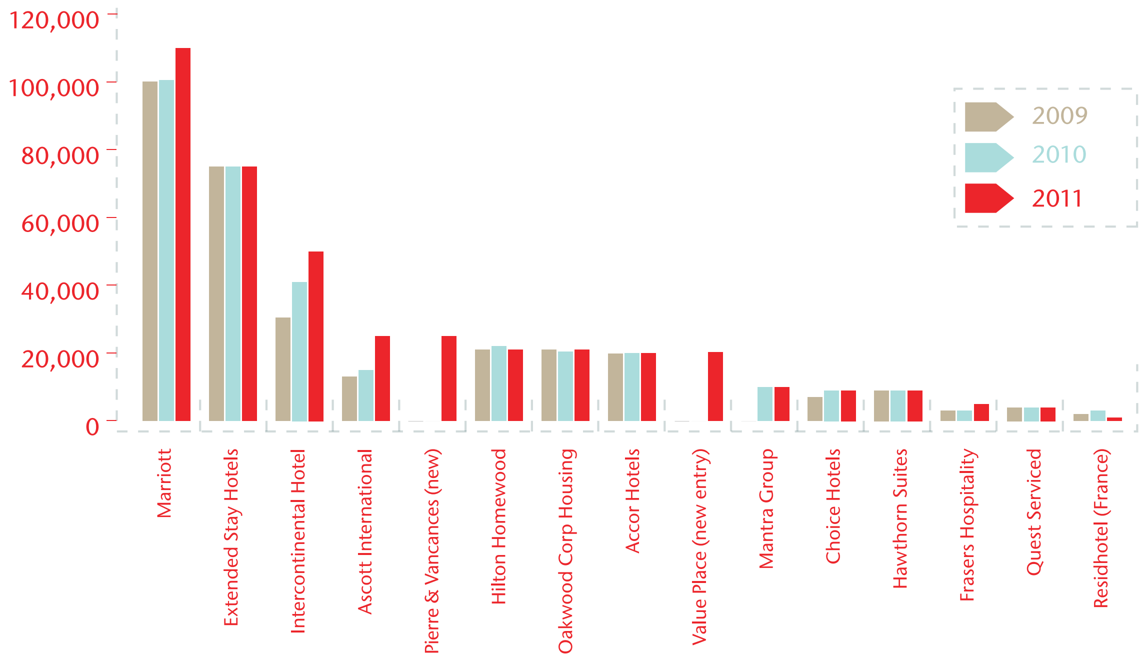


Fig.2: **Top 15 global serviced apartment suppliers by numbers of apartments** (Source: The Apartment Service)

to hotels' slow recovery from global recession, members of UK's Association of Serviced Apartment Providers (ASAP) have reported substantial growth in the last year.

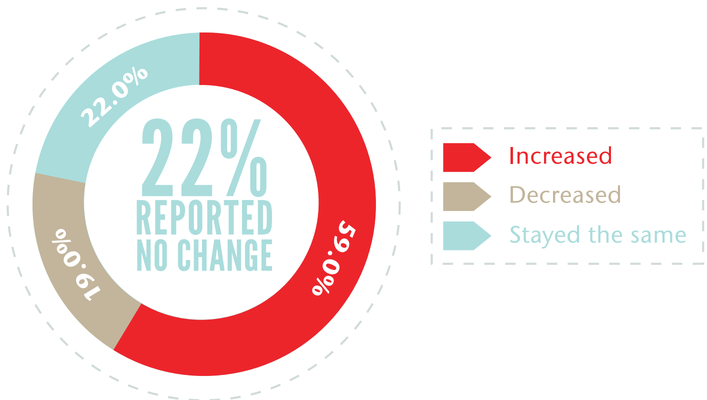


Fig.3: **Extended stay occupancy - 2010 vs. 2009** (Source: The Apartment Service)

In 2009, up to 70% of apartment operators reported increased occupancy levels. In 2010, this fell to 59%, with 22% reporting no change. Operators have seen occupancy rise over the last 12 – 18 months to almost record levels, with average lengths of stay also increasing. Although almost all operators are seeing longer average lengths of stay, those in the corporate housing sector have a much higher average of 80 nights (according to The Relocation Report), compared to Extended Stay offerings because of the different character of the two products.

In our survey, a third of operators reported increases in length of stay, with over half reporting no change to 2009 levels. Less than 20% reported average length of stay to be falling.

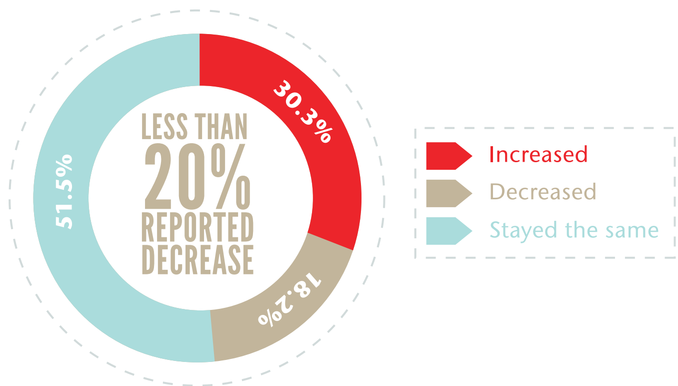


Fig.4: **Extended stay length of Stay - 2010 vs. 2009** (Source: The Apartment Service)

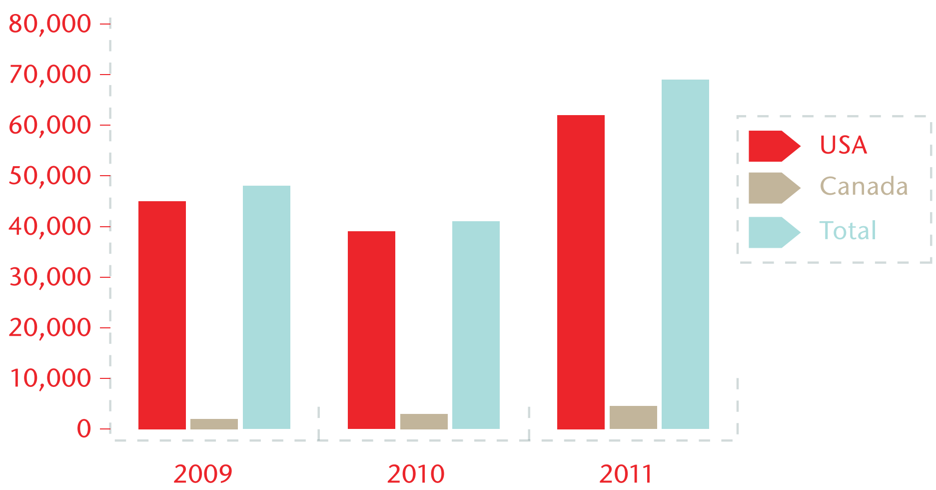


Fig.5: **Growth of corporate housing units** (Source: The Apartment Service)

Corporate Housing

Although the growth in corporate housing inventory over the last three years has not been as dramatic as the extended stay sector (partly due to the lack of any registration or classification scheme through which to audit our research), the trend is upwards here too.

The corporate housing sector has unique characteristics to those found in the hotel world. For example, corporate housing operators have greater flexibility in their inventories, being able to add or drop inventory, thereby keeping their occupancies higher by reducing the number of available rooms.

In that respect, corporate housing is more recession-proof than extended stay hotels, although the model seems to work best in the US where the approach to leasing is much more flexible than in the UK. Here six months to a year is the minimum period most landlords would want to rent. British landlords also tend to be private individuals, with few investment funds or US style apartment communities with hundreds of apartments in one development which are purpose built and operated as rental communities.

There is greater mobility in the US; land is more readily available, and construction costs are lower which has allowed residential rental specialists to spring up in metropolitan areas where there is a lot of movement. We've not yet seen these rental communities appear in the UK, although some real estate investment trusts (REITs) with special tax status are now expressing interest in applying the US model in the UK. However, I believe most of the housing they would provide would be social or low cost housing, rather than an executive standard of apartment that would appeal to the corporate market.

Property market trends

When the collapse of Lehman Brothers triggered the recession, banks stopped lending on new residential developments and were cautious of any further input of funds into projects that had already been started.

This meant that many developments were either left unfinished or not readily available for occupancy, whilst the property rental market boomed. Developers have been reluctant to rent their properties either because of the tax implications that could make renting unprofitable or because renting would leave them with second-hand units worth less than a new build. Some smaller operators have opted for the serviced apartment model simply to generate some return on their investments whilst the sales markets pick up.

Extended stay

Overall these different forces have combined to increase the number of serviced apartment operators, however the recession has slowed the expansion of hotel operators into the extended stay market.

In the US, a lot of new extended stay hotels have come onto the market in the last few years, and have posed a major threat to the corporate housing model, because of the prices that they were offering and the availability, flexibility and on-site services they provide.
The tipping point at which an extended stay property becomes viable for an operator is probably about 50 apartments. At this point an operator has sufficient volume to provide the kind of on-site services usually found in a hotel, which is when the building starts to fit into the apart-hotel or extended stay hotel category. In the UK, very few purpose built apart-hotels have appeared although some buildings that were built for residential use have been converted.

Currently, only a few extended stay hotels are planned to be opened in the UK. This is bound to change, but the development cycle is a drawn-out one and it will take time for the extended stay sector to recover lost momentum.

Olympic factor

It is unlikely that the Olympics will have much effect on the serviced apartments sector. The problem is that few operators want to provide availability over such a relatively short period as the six weeks of the Games. Hotel operators are already complaining about lost profits as a result of committing rooms and low rates to LOCOG, but most apartment operators prefer to retain their regular corporate clients who might otherwise move their usual hotel business elsewhere. Many banks are doing this with their 2012 graduate programmes.

Neither are apartment operators prepared to provide cheap rates to the travel industry to sell-on. Most have already been approached several times over to rent their apartments to journalists, spectators and others. However it is inevitable that increased demand from the Olympics for apartments will drive up rates. As hotel rates double in convention cities when major conferences are being staged, many serviced apartment operators will put their rates up for the Olympic period, but others will want to keep their regular clients happy.

A bigger problem will appear after the Games, when I predict there will be tough times for hotels that need to fill the extra inventory they have brought on line. By contrast, the 6,000 new apartments estimated by LOCOG as coming onto the London market have taken a long time to complete, which accounts for a near-shortage of residential property we are seeing in the capital.

Special events like the Olympics pose challenges to serviced apartment operators. They take up a huge amount of apartment space (especially two-bedroom apartments); everybody arrives at once and leaves at once, leaving the operators with a big occupancy void either side of a two-month rental.

Furthermore, just three months separate the end of the Games from December, which traditionally sees a big dip in serviced apartment occupancy as people on long stays and assignments return home for two weeks over Christmas. With a lot of apartment inventory becoming available in October, I think some operators may raise their rates beforehand to compensate.

Reasons to be cheerful?

The drivers behind serviced apartment usage are space, the ability to self-cater and price. Three years ago, the main factors were independence, comfort and the ability to entertain friends. This reflects the growing maturity of the sector and the steadily increasing understanding amongst travellers and corporates of the benefits apartments can offer over traditional hotels. However there is still much work to be done in educating users about what they should expect from a serviced apartment.

Awareness amongst corporates of serviced apartments as a viable alternative to hotels has been a consistent feature of our last two reports. Thankfully, there are signs that the penny has finally dropped within corporates – or rather nearly dropped!

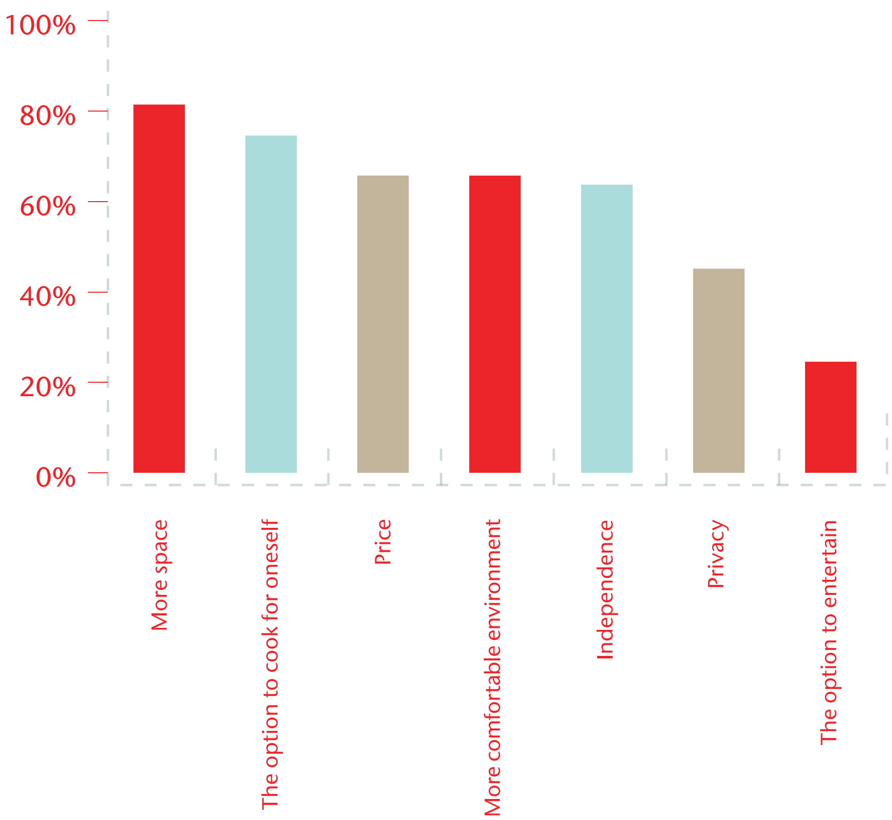


Fig.6: **Reasons for choosing serviced apartments over hotels** (Source: The Apartment Service)

One of the barriers to greater understanding of the sector is its fragmented nature. The extended stay operators are yet to make any real impact in the UK, but when they do these products will be purpose-built apart-hotels and hotels converted into apart-hotels. These operators will come from the hospitality sector, whereas the serviced apartments market has a large share of operators from a property background who create different types of developments in different locations for residential use, but with contrasting concepts of what is and isn't included.

Most residential rentals only cover the space involved; the tenant has to buy everything else. In the serviced apartments market operators have to provide not only a high standard of furnishing, equipment and facilities, they also have to meet levels of service expectation born out of regular hotel stays.

Although the umbrella title 'serviced apartment' sits comfortably above both extended stay and corporate housing, the term is becoming so generic that operators of both categories are applying the general description rather than differentiating between the two products. As a result, no-one knows quite what constitutes a serviced apartment - despite attempts to the contrary.

In the next section of this report we will offer our own definitions and look at how the extended stay operators are using brands to differentiate between different standards of serviced apartment.

Thankfully corporates are starting to understand that there are different types of serviced apartment and that the most suitable option depends on whether tthe requirement is travel or HR-led. A travel enquiry is usually, for anywhere from one week to three months. An enquiry from HR is likely to be for an assignment or relocation lasting for several months or over a year.

Special Agent

This growing understanding of the differences in serviced apartments has given rise to specialists like The Apartment Service guiding clients through a diverse market with lots of different options possible in different locations. There are actually two main types of agent; those (often a relocation company or TMC) retained by the corporate to provide a professional sourcing service (often a relocation company or a TMC), and those who fulfil booking requests and receive a commission from the property booked. The Apartment Service, as an agent, not only provides a booking service, but also acts as an operator, negotiating preferential terms & conditions on clients' behalf to lay on longer term property 'to order' complete with the necessary hospitality support and management services. For example, an organisation may need to take – say – 20 apartments for five months for a specific project, after which they are no longer needed. The Apartment Service will fully manage these apartments from start to finish; which is where the operational capability as a corporate housing provider comes in.

The trend of operators becoming agents, highlighted in last year's Global Serviced Apartments Report, shows no sign of abating. It is being fuelled by a wish to fulfil clients' needs, although in doing so operators are entering a high-turnover/low-margin market which requires extensive research and product knowledge. If an operator wants to add value to a client relationship by sourcing accommodation for them in other locations, that's understandable. However, unlike the agent whose business it is solely to be aware of what apartment inventory is available in all major locations, the same focus may not apply to the operator-turned-agent.

Relocation market

Relocation, or the long term assignment, is a core market for serviced apartments, but the relocation market is changing too.

Political crises around the world have made it harder to relocate employees, and shorter term assignments (which can take up to two years) are replacing longer-term ones in order to cut costs. However there is no sign that short term assignments will diminish. Tax considerations for expatriates are also of increasing concern. For operators, two-year rentals are highly attractive, and businesses are seeing serviced apartments as their preferred housing solution because of the cost benefits and flexibility.

The informed traveller vs. managed travel programmes

Despite the influence of the trends highlighted in our research, the biggest driver of market share into the apartments sector has to be the traveller.

Ask yourself whether, on a long-term basis, you want to be in a space measuring 20 - 25^2 metres containing a kitchenette in the corner, bathroom, lounge and bedroom when for the same money you can have a 40 - 45^2 metre one bedroom apartment with a separate lounge that provides more space in which you can actually live comfortably.

In these days of managed travel programmes, in theory the traveller has little say in choices of accommodation, unless apartments are included in the programme, which is of course what we would regard as best practice as best practice – providing the need is there. But I have to ask how successful these policies are in practice, because despite mandation there is still significant leakage in most of them. However the more enlightened organisations are listening to feedback from their travellers and deciding that, if someone is staying for longer than 30 days they can book outside the normal transient travel programmes.

It's a case of horses for courses. In the case of an executive on assignment, accompanied by wife/husband and children, a hotel or even extended stay product won't work because the rooms are too small, whereas a two bedroom apartment fits the bill perfectly. The challenge is that whilst the traveller is happier, the travel buyer or TMC isn't because the apartment doesn't fall into policy and they don't understand how their rate structures work. Far too many TMCs and hotel booking agents try to commoditise apartments in the same way as they do hotels, and expect the same level and consistency of service to be provided.

Grading

Although there are challenges over consistency of facilities, service and standards facing the international serviced apartments sector, significant progress is being made.

Part of the problem is that grading apartments should have nothing to do with price. It's about the overall quality of the apartment, standards of cleanliness and service, the experience of getting into the apartment and so on. Standards can also vary because of the perspective of the person conducting the grading, which is an issue many hotels are facing with tools such as Trip Advisor.

Things are not always what they seem, but there are some basics that should be applicable across international boundaries, such as the quality of the furnishings, the size of the apartment, cleanliness and clarity about the service levels provided. In an industry increasingly populated with people with a property (as opposed to hospitality) mind-set, we have to work harder to get them to recognise the value of providing services for issues as mundane as replacing a light bulb for instance.

Distribution

In contrast to serviced apartment standards, the shortcomings of travel industry distribution where serviced apartments are concerned, have not eased. Attempts to create a GDS for serviced apartments have foundered on the fundamental issue of recognising an apartment. The lack of brand recognition and inconsistencies between extended stay products doesn't help matters, and without a classification scheme for apartments the task facing TMCs and leisure travel agents becomes virtually impossible. That's why The Apartment Service website only features apartments with full kitchens or kitchenettes.

The internet is the distribution mechanism of choice for apartment operators because they don't actually want to be on the GDS unless they have sufficient inventory to juggle with. Most operators are only interested in being on the GDS for last-minute sales or to fill gaps in occupancy, and even then the kind of short-stay bookings the GDS deliver are at rates the operator would not want to extend on a regular basis. Their worry is that clients will get into the habit of using apartments for five nights or less.

To work efficiently, the GDS model requires accommodation to be commoditised. However this requires serviced apartments to be readily available, in numbers, in all major locations. Other than in the US – and increasingly the Far East - the sector is not yet that mature.

Once apartment operators become large enough, with recognised brands in locations where they have sufficient units, small allocations may be made available on the GDS. But as a sales tool the GDS are not currently suitable for most apartment operators' needs.

With corporate housing, the trigger is for stays of more than a month. However from a distribution perspective, at this point the end user wants to know where they're staying; ideally they're going to want to see it - and that's a concept that can't work on the GDS.

Ironically, distribution actually distinguishes the apartment sector from the rest of travel because the agent is the ideal distribution mechanism. We know what is available, and where, because we are specialists.

"We are a growing sector and the market is becoming increasingly educated as to the benefits we offer over a traditional hotel room. We know we are onto something because the hotel sector is moving towards serviced apartments either by acquiring or developing their own brands or by offering certain service elements that we already provide."

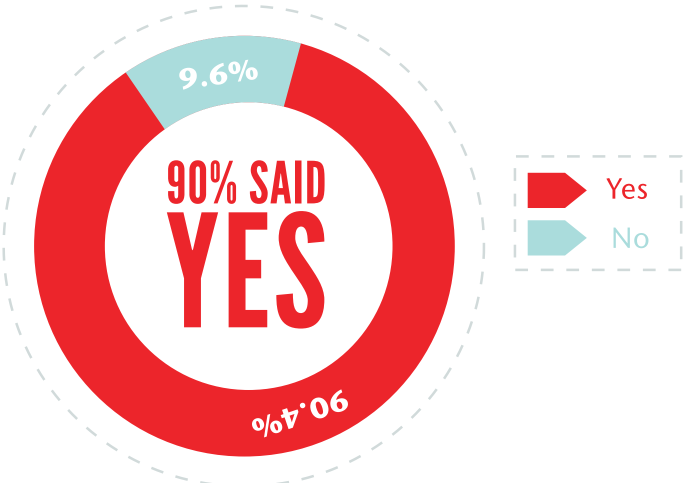


Fig.7: **Operator optimism for 2012 & beyond**

(Source: The Apartment Service)

2012 and beyond

The optimism we found across the serviced apartments sector a year ago has been dented by the slow and fragile recovery from recession. However that optimism has not disappeared completely. A staggering 90% of respondents to our survey believe that business will continue to improve in 2012 and beyond.

The reasons cited by operators vary from location to location. Some point to growing disenchantment amongst business travellers with traditional hotels; many cite the cost benefits to the corporate of serviced apartments. *"The cost of maintaining consistent standards is rising at the same time as more serviced apartment providers, which is likely to reduce income as clients search for bargain prices instead of quality"* reports one survey respondent.

With the recent growth of debt in the US, and the debt problems of the Eurozone, the western economies will face a difficult 12 – 24 months. The Olympics may delay a slowdown in the UK's recovery, but the fortunes of all western economies are interlinked.

Despite this uncertainty there is a huge amount of international mobility going on that shows no sign of stopping, regardless of the health of stock markets or investments. Corporations are investing more money and energy in their people, and in moving them from place to place. The serviced apartments market will inevitably pick up a large proportion of that business because apartments are recognised as the better option for longer stays.

I don't see the operator/agent trend being reversed. It's not even to do with ruining the agent's impartiality (which is spurious anyway), but more to do with apartment operation being a very hands on business that demands a different mentality and approach.

Extended stay vs. corporate housing

The proliferation of extended stay hotels has been slowed by the recession, but the future respective market shares of extended stay and corporate housing products will be decided by a combination of availability (which will drive price) and the locations in which the major brands build in future. As well as the established brands like Ascott and Staybridge, the tipping point will come when mainstream US hotel providers like Intercontinental and Marriott roll out their extended stay hotel brands.

I suspect that anybody staying for less than a month would automatically gravitate to extended stay products because they will fit into managed travel programmes and be managed via the GDS. The difference with stays of longer than a month is that they require local knowledge and familiarization before booking.

The corporate housing sector may also be hampered by the complications that arise from converting residential properties such as health & safety compliance and by resistance from local communities operators turning homes into hotels. That aside, it's relatively easy to take a residential property and put a label on the door claiming it's now a serviced apartment. There have to be real concerns that rogue operators might come into the sector and cause reputational damage. However the Corporate Housing Providers Association, the Association of Serviced Apartment Providers (ASAP) and its regional counterparts are now bringing much-needed clarity to both the corporate housing and extended stay sectors.

However it is awareness of the different categories of product within the serviced apartments sector that is, I believe, the biggest challenge facing our industry. This lack of clarity is damaging because apartment users are expecting the same level of service they might enjoy in a hotel from corporate housing and even extended stay products. We have to convey to serviced apartment users what they have a right to expect from different categories of apartment, and then ensure that operators deliver against those expectations consistently.

"A staggering 90% of respondents to our survey believe that business will continue to improve in 2012 and beyond."

Future challenges

The challenges facing serviced apartment operators fall into a number of categories.

- **Economic** – at macro level an uncertain economic outlook (especially in the western world), oil prices, rising rental rates and customer price sensitivity. On a micro level, operators report 10 -12% rent increases on renewals, rising distribution and operating costs.
- **Political** – although currently limited to the Middle East, political unrest poses a substantial threat.
- **Product** – obtaining inventory, a shortage of landlords due to stagnation of housing market and increased competition from hotel operators vie with apartment maintenance, standardisation of service levels in multiple locations, staff recruitment & training.
- **Sales** – the lack of apartment product knowledge amongst TMCs and leisure travel agents is mirrored by confusion amongst operators regarding different agency business models and especially varying commission levels.
- **Marketing** – there are few surprises here. Generating new business locally and internationally, long stay guests, regular repeat business and more leisure customers to fill low periods all reflect operators' preoccupation with maintaining high occupancy.

Global Industry Overview

By Mark Harris

Travel Intelligence Network

Definitions - corporate housing vs. extended stay

The term 'serviced apartment' is traditionally used to describe an apartment alternative to hotel accommodation for long stay leisure or business travellers. However there are two types of accommodation to which the description serviced apartment applies, with an ever-growing list of sub categories.

1. **Extended stay hotels** –mainly studios, one bedroom with a few two bedroom apartments typically found in urban locations, ranging in standard from budget to deluxe. All are fully furnished and include -
   - En-suite bathrooms
   - Fitted kitchen or kitchenette
   - Lounge/dining area sometimes including a sofa bed or pull down bed
   - Working area, desk, office chair, internet access & direct telephone line

   The hotel services usually available from extended stay hotels include -
   - Reception desks – some manned 24hrs, others on limited hours (e.g. Travelodge), or none at all
   - Daily or weekly cleaning. & laundry service. (Most properties have either shared laundry facility or an in-apartment washing machine)

There are typically no restaurants, bar or lounge areas, although the level of services is generally higher than those found in hybrids Apart-hotels or Apartotels, which are usually a leisure or resort based product, and also come in standards of accommodation and range of services from budget to deluxe

2. **Corporate housing** - residential apartments up-graded for stays of 30 days or more and packaged together with services such as:-
   - Weekly cleaning
   - Utility charges
   - Local taxes
   - Telephone and TV
   - Guest services - telephone support for maintenance etc

This type of product - also referred to as suite living, residence living and condotel - works as company apartments for either regular visitors or those on extended projects. There are two types of corporate housing:-

- Apartments rented and maintained by the operator on an on–going basis
- Those rented specifically for a particular housing requirement and length of time, after which they are handed back to the owner. This is also referred to as *virtual housing*.

Extended stay vs. corporate housing

Here are some of the considerations when deciding which option to select.

- **Minimum stay** – typically 30 days or more with corporate housing providers, although there are exceptions. Extended stay hotels usually have no minimum lease term.
- **Lease agreements** – there could be cancellation charges if a stay in cut short as the rate offered is based on the expected length of stay. Different areas have laws covering occupancy and sales tax as it relates to furnished rentals.
- **Services** – in corporate housing you are more on your own and with less hotel feel.
- **Space** - corporate housing provides more space than extended stay.
- **Rates** – it's a matter of the location required, length of stay and what facilities you want.
- **Amenities** – remember, you get what you pay for!

Brand as differentiator

Many extended stay providers are using brand as a means of differentiating their product from the competition. However those differences can be so slight as to render the distinction pointless.

For example, Ascott operates the four-star equivalent Somerset serviced apartment and five-star equivalent The Residence brands. Frasers Hospitality operates Fraser Place and Residences in the same categories. All four products are found in city or business locations; have fully equipped kitchens (or kitchenettes), laundry and reception facilities. At first glance, the only difference between the four star and five star products is the frequency of housekeeping.

The problem is that the serviced apartments sector does not yet enjoy a level of product awareness that consumers can discern the subtle differences between their brands. Apartment marketers need to ensure that the differences between their brands are clear, recognisable and priced accordingly.

Economic impact on supply & demand

With the global economy teetering – seemingly perpetually – on the proverbial precipice, the serviced apartments sector has proved remarkably resilient, despite the future outlook being brightest for the emerging countries rather than the heartland of the apartments sector – the USA and Europe.

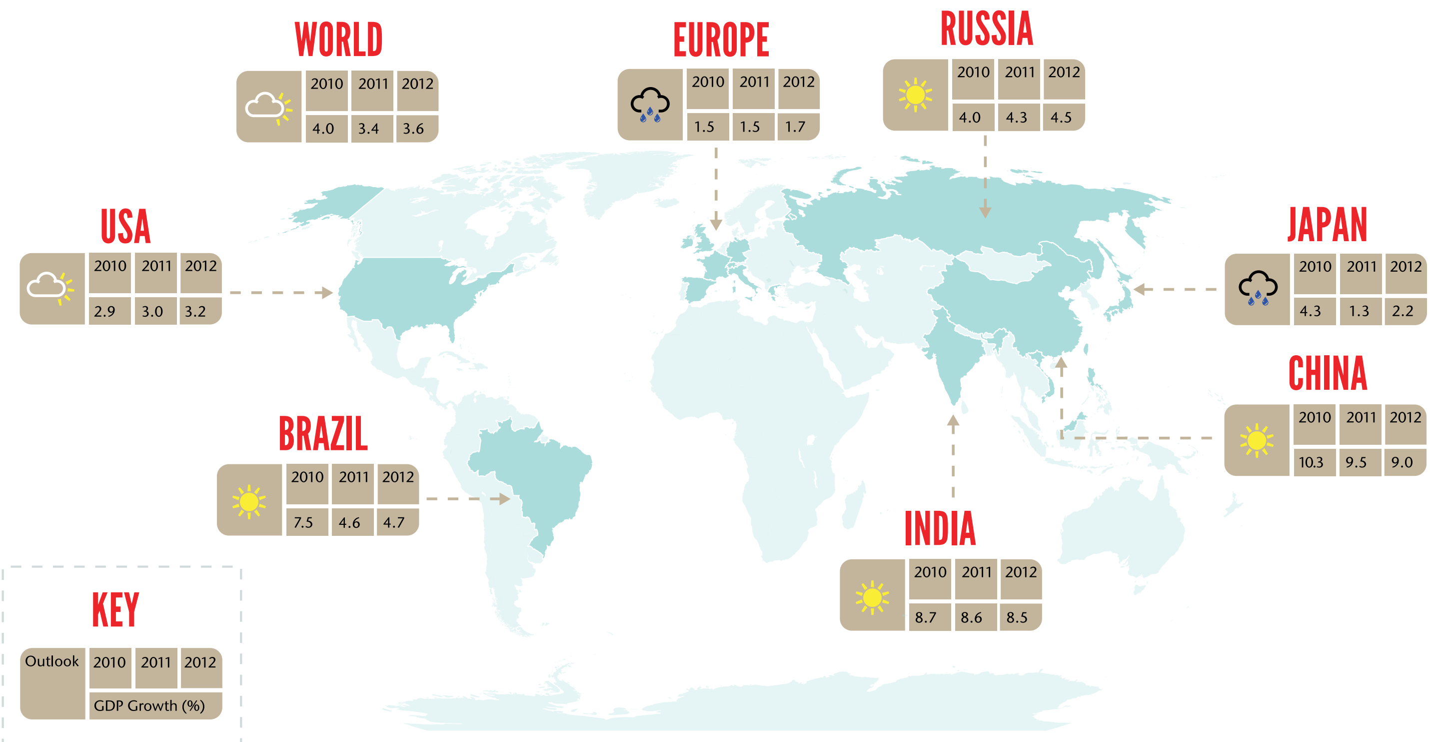


Fig.8: **Global economic outlook 2011/12** (Sources: PwC/ITM)

Across the worldwide lodging industry STR Global points to the Asia Pacific (ASPAC) region leading a global recovery driven by returning demand and a steady supply of rooms in all regions except the Middle East and Africa. However the apartments sector's performance has been characterised by the lack of new apartments coming on to the market because of the shortage of development finance. This has characterised up both occupancy and average rate.

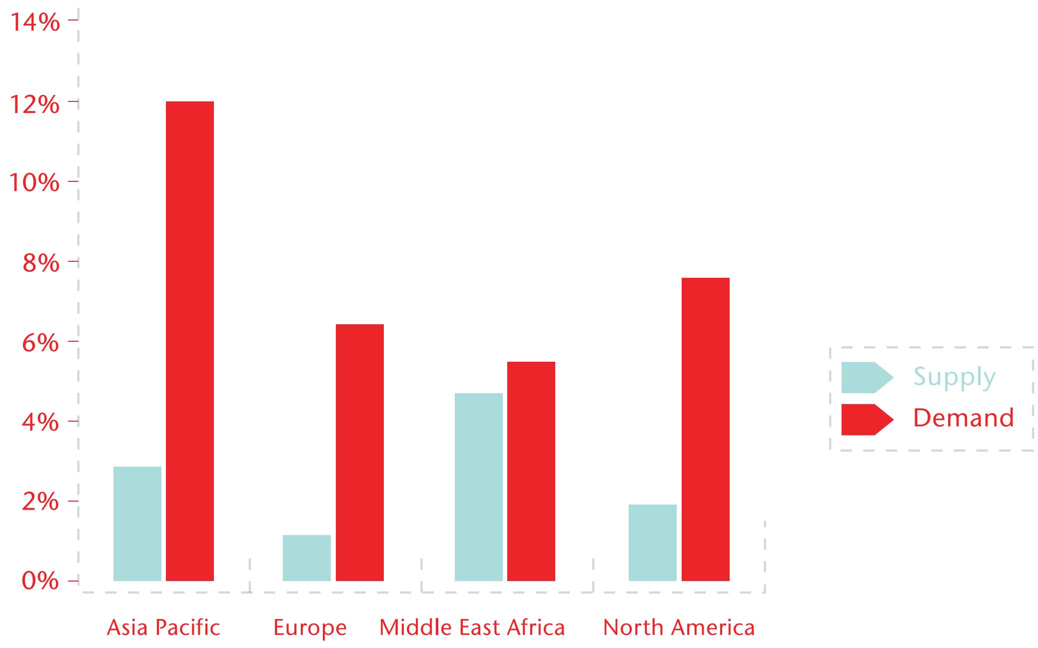


Fig.9: **Global lodging supply vs. demand – year on year change 2010 vs. 2009** (Source: STR Global)

In 2011, most categories of global serviced accommodation are growing occupancy, and STR predicts that average daily rate will follow suit.

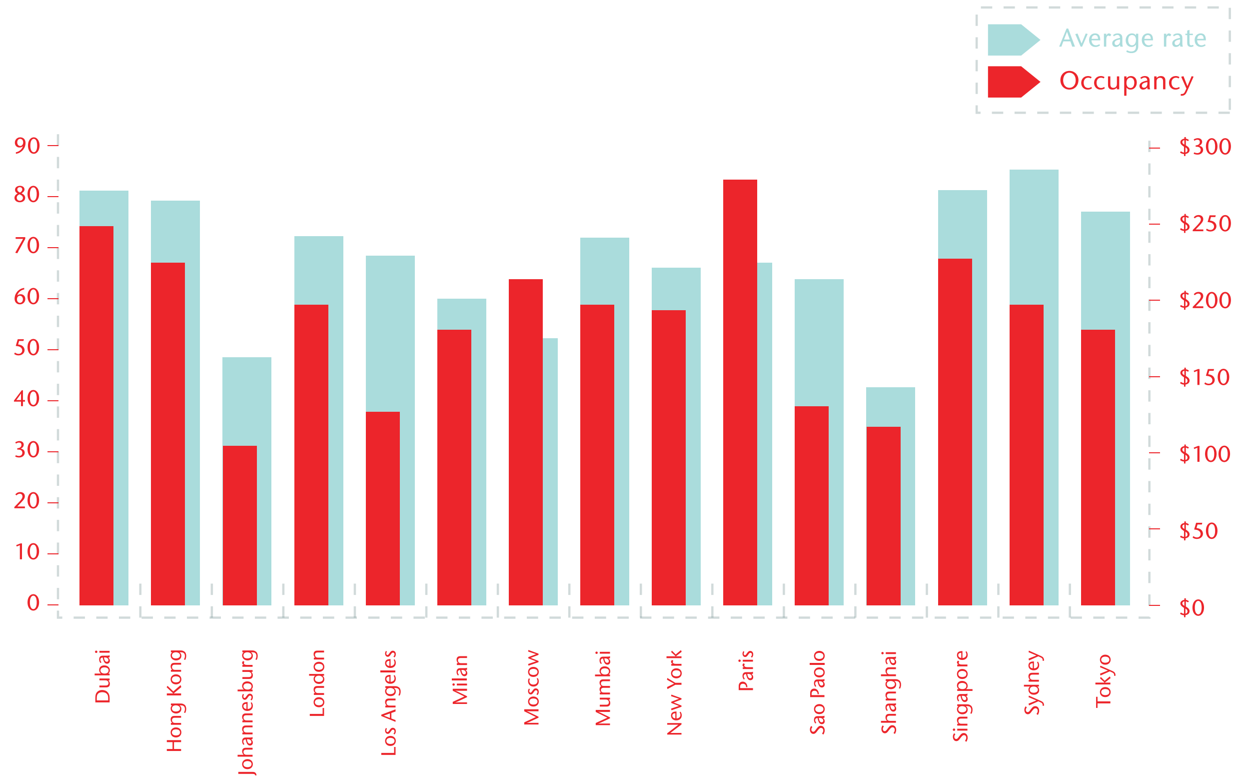


Fig.10: **Global lodging actual occupancy & rate – February 2011 YTD** (Source: STR Global)

The fortunes of the serviced apartments sector across all international markets will inevitably vary with local and regional circumstance. The Middle Eastern apartments sector has undoubtedly suffered due to the political unrest in Egypt and neighbouring countries. However the impact on the region has been that demand has shifted to other destinations such as Dubai.
The disasters in Japan have thrown the spotlight onto corporate contingency planning, but the knock-on effect on demand for serviced apartments has been far from cataclysmic. According to research by PwC and SLH Research, the first priority for 63% of people looking for a hotel is searching for the best price. The legacy of the recession may be the continuation of recessionary behaviour amongst business and leisure buyers, but the signs are that the apartment sector will out-perform the rest of the lodging industry in 2011 and beyond.

Extended-Stay Hotel Recent History and Forecast

	2009(1)	2010(1)	2011(2)	2011(3)
Room Supply	6.7%	2.2%	1.8%	1.3%
Demand	0.4%	13.4%	7.0%	7.2%
Average Rate	-10.2%	-2.0%	3.0%	4.3%
Occupancy	-5.8%	11.0%	5.0%	5.8%
RevPar	-15.4%	7.1%	8.0%	10.3%

Notes: (1) Actual year end
(2) Projected 1st qtr. 2011 compared to 1st qtr 2010
(3) Projected year end

Fig.11: **History & forecast for US extended stay sector** (Source: The Highland Group)

In November 2010, STR Global predicted that extended stay hotels would see a double-digit growth in revenue per available room during 2011. By the end of the first quarter in 2011, these estimates had been downgraded, but STR still predicts that, overall, average hotel rates will increase by 4.2% in 2011 compared to 2010.

Demand for Serviced Apartments

According to research by The Apartment Service, 53% of serviced apartment users worldwide travel from overseas to take up their tenancies. 67% of operators say that their international business grew in 2010 compared to 2009.

Within Europe, the biggest source market is Europe itself, accounting for a third of customers. 19% of clients come from the US, with central Asia, Australia and the Middle East accounting for 35%.

What do overseas customers expect that is different from what you provide to the domestic market?

Higher level of service	43%
More extras included in the room rate	27%
Higher level of cleanliness	13%
Special items –i.e. cooking equipment	13%
More flexibility	10%
More space	7%
Higher levels of security/safety/advice	7%
Higher quality overall	7%

Fig.12: (Source: The Apartment Service)

The corporate sector

Although operators' business mixes vary, the corporate market is the principal source of occupancy and revenue whether for business travel, long term assignment or relocation purposes. Most serviced apartment operators in business locations regard leisure bookings as a means to fill gaps when corporate bookings are down.

A picture of growing demand is backed up by research from the Institute of Travel and Meetings. *"Serviced apartments have become an integral part of many company accommodation programmes over the past two years,"* says ITM's chief executive, Paul Tilstone. *"48% of our members said that demand for these products has been increasing and 57% of buyers stated that this type of accommodation is being used to reduce costs and provide alternatives to hotels for short-term stays of five days or less."*

Serviced apartments' increased share of the corporate travel market is also being driven by greater consistency of product, although there is still a lot of work to be done in this area. *"People not used to them can have some pre-conceived ideas about the level of services provided"* says one buyer. Hotel groups' expansion into extended stay products is another factor in driving adoption, brand recognition making users and agents more receptive to their products.

Corporate business is worth having too. Participants in the survey for this year's Global Serviced Apartments Report confirm that average achieved rates continue to hold up. Despite customers being very price sensitive, most operators are achieving published rates, most of the time. A third of them report that they realise above published rates in 30% of cases, although the swings and roundabouts principle kicks in with over half of operators having to drop their rates below the published tariff to convert a third of their enquiries.

Despite the appeal of corporate business, only 38% of apartment operators feature on the Global Distribution Systems (GDS) used by most Travel Management Companies (TMCs) and Hotel Booking Agencies (HBAs). However those who have embraced the GDS feature on multiple systems... as well as on-line distributors such as Laterooms and Lastminute.com.

GDS is not geared to booking corporate housing because of often unknown lengths of stay. And whilst extended stay is easier, the reality is that most serviced apartment bookings require a phone call and separate negotiations to be transacted.

As a result, each booking can take up an amount of time disproportionate to its commercial value to the agent. Consequently more and more TMCs and HBAs are partnering with serviced apartment agencies to provide specialist expertise and systems.

The distribution issue is undoubtedly impacting on corporate adoption of serviced apartments. Procurement teams' natural instinct to commoditise means that buyers want to be able to compare hotels and serviced apartments side by side and to have a one-stop-shop for their travel needs. As another buyer puts it, *"There is a lack of availability and late check-in can be challenging. Consistency of product is lacking and the booking process often confusing and complex."*

> **"This is a reasonable approach for procurement professionals to take" comments Charles McCrow "however it can really only include Extended Stay Hotel options with the present systems available, which are unlikely to change in the short term. Also you need to take into account the fact that not all accommodation options are actually available until they are defined and negotiated by the provider due to the nature of and constraints in the residential markets that feed stock to the corporate housing sector"**

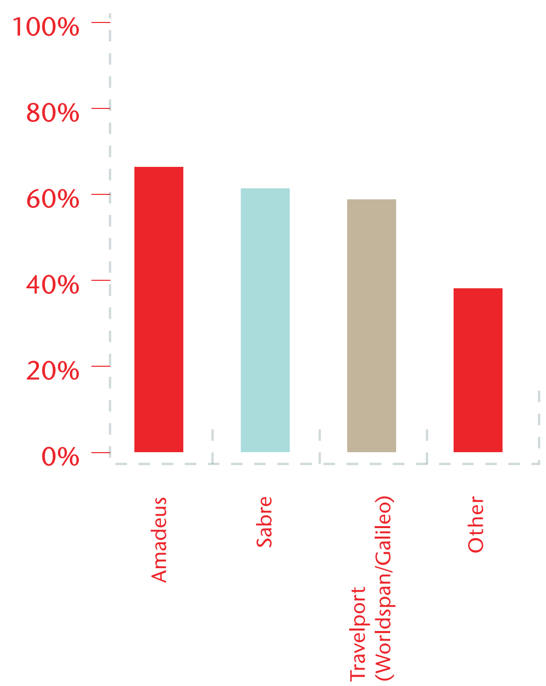


Fig.13: **GDS providers used by apartment operators**
(Source: The Apartment Service)

Accreditation schemes – vital or pointless?

Not only corporate consumers have identified quality control as a barrier to serviced apartment adoption. Most apartment operators agree that a grading system for apartments is essential because, as one respondent to The Apartment Service survey says, accreditation is *"a fantastic tool for companies wanting to evaluate what is available and helps operators to compare like with like."*

Apart from the inherent problem of variations in product and categories of serviced apartments, another barrier to the establishment of any robust accreditation scheme is the lack of industry representation regionally. Trade associations for the serviced apartments sector are only established in the US, the UK and also now in the Netherlands.

"The star rating has not yet shaken out the cowboys, but it has given corporate buyers a Plimsoll line by which to evaluate quality and legitimacy" David Smith, the chairman of UK's Association of Serviced Apartment Providers (ASAP), told Buying Business Travel magazine in late 2010. *"It is pretty clear that the legitimate operators are involved with the programme, bar two or three."*

"Some of the bigger operators are struggling to justify the cost of the programme because they would claim they have a quality programme implemented through their global brands and we are trying to make it more viable for them," he says.

The ASAP has a reciprocal and information sharing agreement with the Corporate Housing Providers Association (CHPA) which has championed the development of the sector in the US. ASAP membership represents 9.100 apartments in over 400 locations, 72% of which are in London.

The Apartment Service's research confirms that the serviced apartments industry recognises the need for consistency of product and service. 71.3% believe that a global code of conduct is feasible, although the argument is far from won.

Those in favour cite the need to raise the visibility of the sector and the opportunity to create a consistent level of expectation amongst customers. Those against the concept of a code of conduct cite the practicalities who will audit and enforce such a code?
Will smaller operators with small numbers of units be able to meet the cost of compliance?

Increase business	48%
Quality of products/gradings	39%
Higher level of Networking	22%
Learning from each other	22%
Higher product awareness	17%
Code of conduct	9%
Uplifting sector public image	9%

Fig. 14: **Why join an association for apartment operators?** (Source: The Apartment Service)

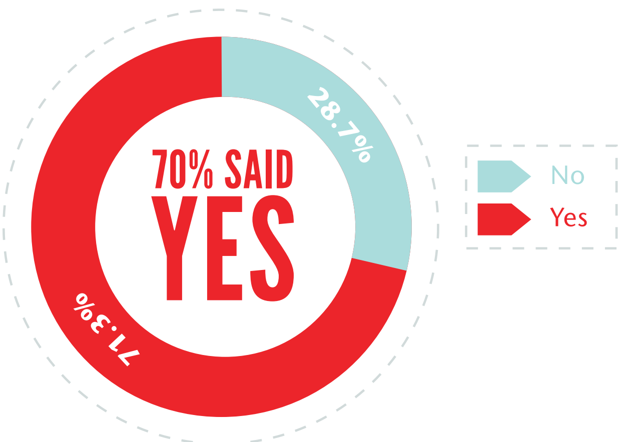


Fig.15: **Is a global code of conduct for apartment operators feasible?** (Source: The Apartment Service)

Operator challenges

Although the main issues facing serviced apartment operators vary little from region to region, the importance attached to each one does change. The question of standards and a classification system tops the list for European operators, fourteen points ahead of the economy, whereas globally these two challenges are ranked almost equally.

Price sensitivity is the other major contrast. Globally, only 18% of operators worldwide see discounting rates as a major issue, compared with a quarter of operators in Europe.

Fig. 16: **Issues facing serviced apartment operators**

	ALL	EUROPE
Product inconsistencies	28%	40%
Economy	27%	26%
Price reductions	18%	25%
Trade Association needed	14%	6%
Non-hospitality focused providers	13%	15%
Increased legislation	9%	13%
TAX rises (IVA/VAT)	5%	7%

(Source: The Apartment Service)

Fiona Murchie
Managing Editor at Re:locate magazine

Market profile – the Relocation perspective

We have already looked at how the serviced apartment sector is making inroads into the corporate travel market. The relocation or assignment market is also a major source of demand for serviced apartments. Here the editor of Re:locate magazine ***Fiona Murchie*** explains why, and what lies ahead.

As the global recovery moves ahead, the UK's fast-growing serviced accommodation industry is meeting the needs of companies relocating employees around the UK or sending assignees overseas.

Serviced accommodation fits the relocation need perfectly, being ideal for:

- International assignees on short-term assignments
- Commuters and business travellers
- Long-term assignees requiring temporary accommodation until they find a property to rent
- UK movers who have sold, or let, their property and need temporary accommodation
- Weekly commuters

Supporting employees is essential in a successful relocation or international assignment, and finding suitable accommodation, which will allow the employee to function effectively in the new location from the start, is a fundamental part of such support.

Managing relocation

The way in which relocation is managed is complicated. Many corporates have an in-house team managing their international assignments and outsource some or all of the functions to external relocation management companies (RMCs). These can be global organisations or operate in a particular country or region.

There are also destination services providers (DSPs), which concentrate primarily on finding homes for relocating employees. Their clients can be either the corporates HR teams or the relocation management companies, who outsource home finding to them. Many DSPs work in networks, across a country or internationally, to provide coverage and consistency of service.

In addition, there are increasing numbers of companies whose expansion overseas is business and project-led. New to managing international assignments, their executives are learning 'on the job' how to cope with tax, immigration, social security and employment law issues, as well providing employee support in areas such as accommodation, culture and language training, and schools.

Main cities and countries for relocation assignments

The London 2012 Olympic Games will showcase the UK's expanding serviced accommodation sector, but how serviced apartment providers handle demand and availability will be under the spotlight too.

There is no doubt that the area around Stratford will be regenerated as a result of the Olympics, but it remains to be seen if it will be as successful as Canary Wharf. However, it is clear that, as West London is somewhat overdeveloped, London business expansion will have to be to the east – and serviced accommodation, as an industry, is quick to find developing markets.

One complaint from the relocation perspective is that serviced accommodation does not offer nationwide coverage. Admittedly, properties are opening in new locations, but there is plenty of scope to fill in the gaps.

The BBC's move to Salford, outside Manchester, is a prime example of the public sector leading regeneration, drawing in other businesses and services, and causing demand for serviced accommodation. Public-sector cuts may result in more moves and resulting regional development, either around existing offices or in new locations.

Beyond the UK, Mobility Challenges in Emerging Markets, a recent Pulse Survey Report by Cartus, reveals the new destinations to which corporates are sending their employees. From a list of 37 countries, China, India, Russia and Brazil were the most frequently named.

More than 50% of respondents named China as one of their top three emerging markets, and nearly half named India. These are the destinations to watch, and certainly there is evidence that serviced accommodation providers are expanding into these regions.

Respondents identified 44 countries as key emerging markets, which indicates the scope of global growth and the challenges faced by multinationals. There is also the tide of political unrest, as revealed by recent events in countries like Saudi Arabia, Libya, Indonesia, Bahrain, Egypt and Qatar, which will have affected their ranking as emerging relocation markets.

For the second year, respondents to Brookfield Global Relocation Services' 2011 Global Relocation Trends survey cited the United States (20%) followed by China (14%) and the UK (14%) as the top three relocation destinations since 2000.

Countries moving up the ranks included Australia, up from 10 to 7; Brazil, up from 20 to 9: and Canada, up from 19 to 12, which was put down to the relative robustness of the energy and mining sector.

Trends and patterns

When asked about measures to deal with geopolitical upheaval or instability, 28% of respondents to the Cartus survey had implemented an increase in commuter or business travel options to avoid longer-term relocations, with 20% placing temporary delays on new assignments. Obviously, the serviced apartment option fits the bill for this adjustment, if it is picking up some of the capacity destined for longer-term rental.

Trends reflected in a number of surveys during the economic downturn have indicated that short-term assignments are replacing long-term ones, primarily to reduce costs. The short-term assignment need for serviced accommodation is obvious, and there are no signs that this will decrease.

However, the Cartus survey reveals that long-term assignments are used significantly more than other types on a regular basis. There is also a trend for basing families in more established locations, with the assignee shuttling back and forth to remote areas. Again, the longer-term serviced accommodation option may be the solution for resident families.

According to the Brookfield survey, the number of female expats has stayed at around 17–20%, with 18% recorded in the 2011 report. Women may particularly appreciate the comfort, flexibility and home-from-home aspects of serviced accommodation, plus the security of 24-hour receptions and airport pickups.

The survey found that 80% of married or partnered assignees were accompanied by their spouses or partners. Therefore, serviced apartments, which can offer space, well-equipped kitchens, dining facilities and comfortable living areas, are likely to be popular. Two-bedroom apartments provide the option for an additional room to be used for family members or friends visiting, or as extra space for working.

The only way is up

Serviced accommodation has grown hugely in the UK in recent years, and the potential for growth is vast. Providers who are seriously going after the relocation sector may well find there are some gaps that they can meet.

Currently, there is very little accommodation suitable for housing families comfortably for more than a short period. Additional family accommodation – particularly houses with gardens, more space, and so on – is needed.

Also required is more accommodation in the regions – and not just the popular locations.

Another challenge for providers is that serviced accommodation is, in a way, the victim of its own success; new users won't come on board if the perception is that the properties are always full and they have to book far in advance. Relocation is business driven, and all too often there is not a long lead-time on moves.

Corporates and relocation professionals require accommodation for a variety of durations, including very short stays, and have to accommodate people at different levels within the company. They are prepared to be flexible, as long as they understand exactly what they are getting.

The star rating system helps with this, providing reassurance that what has been booked will meet the requirements and giving companies confidence to keep booking even though they haven't seen the property, but there is still work to be done. It's clear that, from the relocation perspective, the only way for serviced apartments is up.

Fig 17: Top 25 Relocation Destinations 2010 (2009 positions in brackets)

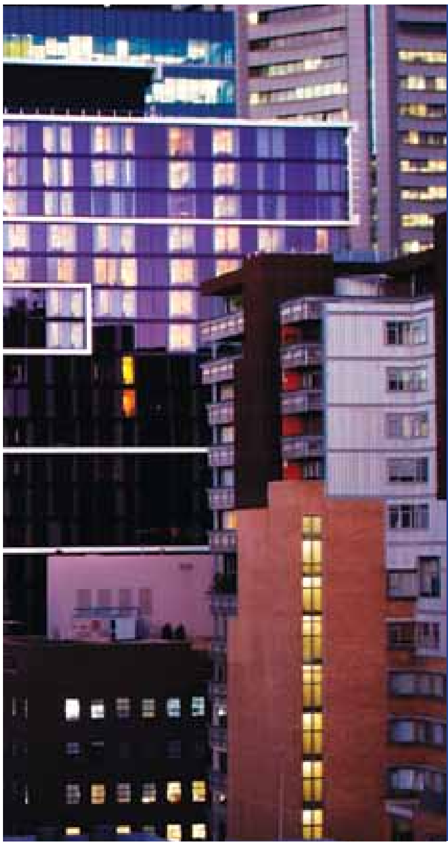
1.	United States	(1)
2.	United Kingdom	(2)
3.	Singapore	(7)
4.	China	(3)
5.	Switzerland	(4)
6.	India	(9)
7.	Germany	(5)
8.	Hong Kong	(11)
9.	Japan	(6)
10.	Canada	(8)
11.	France	(10)
12.	Australia	(13)
13.	United Arab Emirates	(19)
14.	Brazil	(24)
15.	Belgium	(16)
16.	Italy	(15)
17.	Netherlands	(12)
18.	Panama	New entry
19.	Malaysia	(18)
20.	Ireland	(14)
21.	Mexico	(20)
22.	Spain	(17)
23.	South Korea	New entry
24.	Sweden	(21)
25.	Poland	New entry

(Source – Cartus)

Association of Serviced Apartments Providers - Code of Conduct

The purpose of the Association is to promote the role of the UK Corporate Housing and Serviced Apartment Industry through increased awareness whilst maintaining the highest standards. In order for a serviced apartment provider to become a member of the association it is necessary for the officers of the company to sign up to the Association's Code of Conduct as laid out below:

- Every member shall abide by the Association's Code of Conduct. If a member is found in breach of the Code of Conduct, the member must abide by the findings of any disciplinary hearing.
- Members must have all relevant insurances.
- A member shall not seek business or conduct business by improper or illegal means.
- Members must accurately represent their properties in any given media and ensure that it is clear that they are the owner/operator.
- Members shall not misrepresent the Association.
- Members shall ensure each customer is aware of their terms and conditions and ensure that they are easily understood.
- All members will indemnify and hold harmless the Association against any claims arising from their activities.
- In the event of a member becoming bankrupt, insolvent or making an arrangement with their creditors their membership of the Association will be terminated.
- Members must provide information to enable any customer to communicate with the Association to provide feedback on their experience of a member company.
- Members must partake in a quality programme to ensure the continual maintenance and improvement of the service that they provide.
- Members must do all they can to promote the Serviced Apartment industry by any means and support the aims of the Association.



Corporate Housing Providers Association - Code of Ethics

Members in good standing of the Corporate Housing Providers Association subscribe to the following code of ethics:

- We will be mindful of the trust placed in us by our customers and of our responsibility to render professional corporate housing products and services in accordance with applicable laws and regulations.
- We will employ and practice legal and truthful advertising of our products and services.
- We will fairly disclose the obligations of both the company and the customer and fulfil company obligations in an expeditious and equitable manner.
- We will respond within a reasonable period of time to any customer service complaint and make every effort to satisfy the needs and concerns of our customers.
- We will further the public interest by contributing to the development of a better understanding of the corporate housing industry.
- We will exercise corporate social responsibility.
- We will not deal in a discriminatory manner and will treat our customers and employees equally.
- We will respect our relationships with the communities in which we conduct our business and we will respect the natural and physical environments of those communities.

Regional Report - Africa

The tourism and hospitality industry is one of Africa's most under-invested assets. The Africa Investor 2010 Wealth Cheque Report estimates that the tourism market today is worth $49.90 billion, but has $203.7 billion of untapped potential.

Africa is rapidly becoming a more attractive proposition for business, tourism and for hotel operators. Although the market (outside South Africa) lacks inventory and recognised brands, finance is readily available.

A 2011 survey by Lagos-based W Hospitality Group reveals that 20 of Africa's most active hotel operators plan to grow their portfolios by more than 30,000 rooms across the continent over the coming years. And this expansion is likely to bring greater focus on serviced apartments.

In Africa, the funding of many new hotel build projects depends as much on the quality of the operator as the quality of the project itself, because red tape can stall building projects for years. Branded properties' facilities tend to be of good quality whilst, according to STR Global, markets with a greater proportion of internationally branded hotels hold their rates better than others.

Investment Climate

Delegates at the Hospitality Investment Conference Africa (HICA) in November 2010 agreed there is a lot of money waiting to be invested in Africa's hospitality sector. However the continent needs to improve the investment climate in order to attract that investment.

The World Bank says that Africa has the worst investment climate in the world. The Bank believes investors need to be convinced that there is good governance in the countries they enter, that inflation is under control and that they receive a positive message of opportunity.

In response, African governments have realised that international hotel brands help attract foreign investors. As a result they are cutting red tape and offering tax incentives and grants to woo hotel developers.

Many investors claim there is a lack of robust information. *"The lack of sufficient information about a potential investment destination in Africa is often a huge challenge and it should not be too difficult to solve,"* says Andrew McLachlan, VP for business development in Africa at the Rezidor Hotel Group.

Hospitality operators seem to have a long term plan for Africa, but there seems to be a dis-connect somewhere along the new build pipeline. For example, there is an acute shortage of economy hotel rooms in Africa but the tendency is to build larger, luxury hotels instead.

Opportunities

A key opportunity for Africa as a business and leisure destination is the 150 million Chinese people, who are likely to become international travellers in the near future. Africa is already seeing rising numbers of Chinese tourists – 126,000 in the first quarter of 2010 compared to 380,000 in all of 2009.

South Africa remains the most developed country in the region for hospitality. However having seen the global recession cause significant declines in foreign and domestic travel, and despite the temporary respite of the FIFA World Cup in 2010, PwC predicts that average rates, stay nights and room revenues will fall locally in the short term.

However hotel supply in South Africa is growing. The World Cup prompted major expansion of the local lodging industry. Over the next two years, the number of hotel rooms rose by 1,600. Between 2008 and 2010, approximately 9,700 additional rooms were added, creating capacity to house an additional 3.5 million visitors annually. In 2010, there were 58,800 hotel rooms in South Africa.

The bad news was that by the time these new hotels began to open, economic conditions had worsened, tourism slowed and supply was outstripping demand. The inevitable consequence of this has been falling rates.

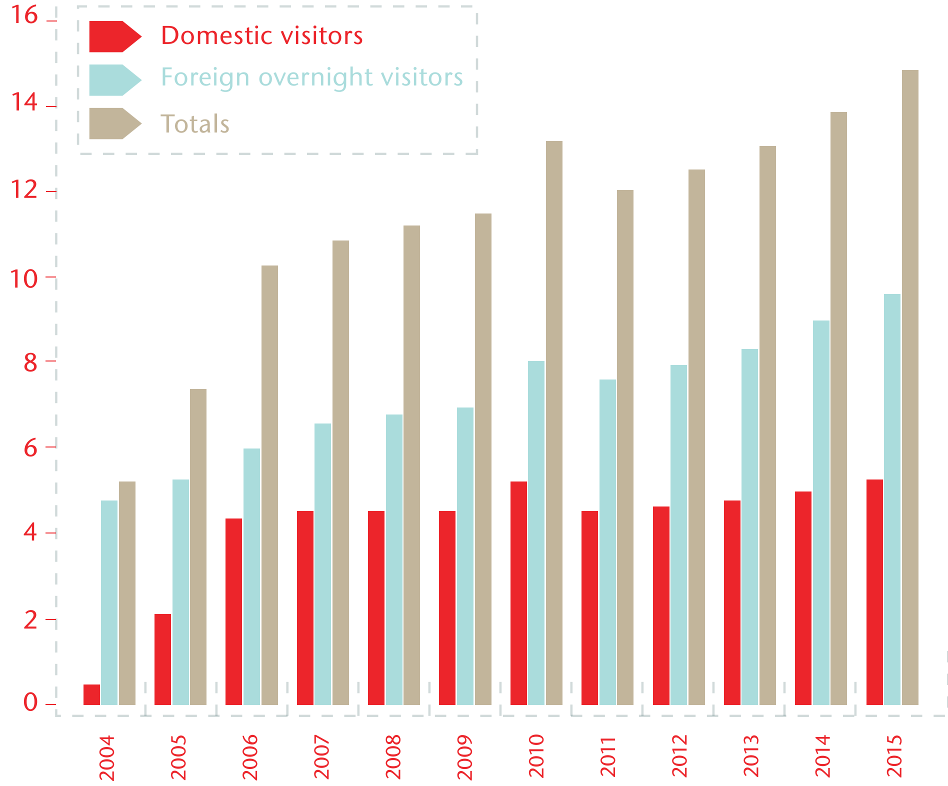


Fig.18: **Domestic & foreign visitors to South Africa**
(Source: PwC/Wilkofsky Gruen Associates)

World Cup lessons

The impact of the World Cup on the South African lodging industry was underlined by occupancy in some Cape Town hotels falling to as low as 10% after the tournament. As Arthur Gillis, CEO of Protea – (one of South Africa's biggest hotel businesses) told the South African Association for the Conference Industry, *"That's what happens when stupidity meets greedy bankers!"*

"We failed to learn our lessons with the Cricket World Cup, the Rugby World Cup and now the Soccer World Cup. Doubtless we will also be ripped off by the IOC if the Olympics come here. We are offered hotels to take over every day. Clients need to be careful who they pay deposits to – they might find they won't get them back from the liquidators!"

SAACI Chairperson Nina Freysen-Pretorius said: *"We have not used the World Cup platform to market our destination, the tourism industry and our products for future business to the best of our ability."*

Supply Trends

In contrast to the rest of Africa, the international chains dominate in South Africa, with Rezidor, Hyatt, Hilton and Sheraton all having opened new properties in recent years. In the extended stay market, Wyndham's Hawthorn Suites brand operates in Cape Town, Durban and other key business destinations, as does IHG's Staybridge.

Expatriates living in South Africa often choose the option of serviced apartment rental as a cost effective solution and an effective means of feeling at home in South Africa more quickly.

Over the next four years, PwC predicts that stay nights will increase by only 1.8% annually, reaching 21.6 million in 2015, because further hotel expansion is not warranted. However PwC expects supply to increase by 1.5% annually until 2013 when demand will again grow faster than supply and occupancy rates will start to increase, averaging 48.5% by 2015.

The fluctuating state of the market is reflected in the average rates being charged by African operators. The nightly rate for a studio in 2010 ranged from R630 in low season to R2,500 in high season. A studio apartment in Cape Town at low season cost the equivalent of US$127 – more than twice that of the same product in Nairobi.

90% of our guests are medium to long term corporate travellers here on contract work or others staying on average for a business trip 3 to 4 nights

Rwanda

Rwanda's tourism is experiencing a boom because of the government's deliberate policy to develop the sector. Its hotels have a capacity of 1,153 rooms with three-quarters of them located in the capital Kigali. The current capacity in hotels and accommodation could be increased to host various categories of tourists including high-end business travellers and eco-tourists.

South Africa

A perspective on the South African serviced apartments sector comes from Linda Knoetze of Executive Suites, situated in the business centre of Sandton within walking distance from most of the international companies.

She confirms that the recession has hit the sector hard, forcing apartment operators to price keenly, and that the principal effect of the World Cup in 2010 was to reduce average length of stay. However she reports that business is climbing once again, particularly into Johannesburg.

"Most of our business is corporate" says Linda. *"90% of our guests are medium to long term corporate travellers here on contract work or others staying on average for a business trip 3 to 4 nights."*

As with other territories, the South African serviced apartment sector is setting out to provide a solution to corporates' overall accommodation needs, with the two main selling points being the workspace available to guests and the corporate's Duty of Care. *"The serviced apartment sector here is becoming a viable alternative to traditional short term accommodation options, especially when two colleagues share a two-bed apartment,"* says Knoetze.

Africa Region Rates

NB the rates are from the lowest to the highest across all property types

Africa (ZAR)	Studio					One Bedroom					Two bedroom				
	2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09	
	Low	High		Low	High	Low	High		Low	High	Low	High		Low	High
1-6 nights (nightly rate)	630	2,500	94 - 374	5%	-9%	645	3,700	97 - 554	4%	-6%	900	4,600	135 - 688	0%	-7%
7 nights + (nightly rate)	530	2,400	79 - 359	6%	-3%	600	3,600	90 - 539	8%	0%	800	4,800	120 - 718	0%	2%
1 month + (monthly rate)	14,000	60,000	2,095 - 8,979	-7%	-11%	16,000	77,500	2,394 - 11,597	-5%	-2%	22,500	75,000	3,367 - 11,223	-8%	-7%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used date 7th July 2011

Rates in Key Cities

Africa (ZAR)	STUDIO				ONE BEDROOM				TWO BEDROOM			
	Q2 2010 Rate - Studio			Variance 10/09	Q2 2010 Rate - One bedroom			Variance 10/09	Q2 2010 Rate - Two bedroom			Variance 10/09
	Local currency	US$	Euro		Local currency	US$	Euro		Local currency	US$	Euro	
Cape Town												
1-6 nights (nightly rate)	ZAR 872	$127	€ 89	-5%	ZAR 898	$131	€ 92	-5%	ZAR 1,510	$220	€ 154	-5%
7 nights + (weekly rate)	ZAR 5,371	$780	€ 548	-8%	ZAR 5,657	$822	€ 577	-5%	ZAR 9,513	$1,383	€ 971	-5%
One month + (monthly rate)	ZAR 13,350	$1,941	€ 1,363	1%	ZAR 12,700	$1,846	€ 1,296	1%	ZAR 16,800	$2,442	€ 1,715	-3%
3 month + (monthly rate)	ZAR 11,800	$1,715	€ 1,205	4%	ZAR 12,450	$1,842	€ 1,271	1%	ZAR 16,050	$2,333	€ 1,638	-1%
Nairobi												
1-6 nights (nightly rate)	KES 5,300	$58	€ 41	-5%	KES 8,000	$88	€ 62	-13%	KES 9,900	$108	€ 76	-2%
7 nights + (weekly rate)	KES 33,000	$361	€ 254	-6%	KES 54,500	$597	€ 419	-4%	KES 62,200	$681	€ 478	-2%
One month + (monthly rate)	KES 120,000	$1,314	€ 923	-1%	KES 180,000	$1,970	€ 1,384	-9%	KES 205,000	$2,244	€ 1,577	-2%
3 month + (monthly rate)	KES 111,500	$1,220	€ 857	-1%	KES 175,000	$1,916	€ 1,346	-7%	KES 192,900	$2,112	€ 1,484	0%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of staysRates quoted are based on average 4 star extended stay properties and exclude taxes
Rates quoted are based on average 4 star extended stay properties and exclude taxes
Exchange rates used July 2011

Regional Report - Asia

Ruth Shiraishi
Director of Space Design

In this edition of the Global Serviced Apartment Industry report we have invited industry experts in every region to provide an overview of their local market. Ruth Shiraishi, Director of Space Design Inc gives her perspective on the Asian serviced apartments sector.

For the serviced apartment industry in Asia, 2010 was the beginning of revival following the long-term effects of the global financial crisis.

Serviced apartments in the region accommodate mainly business and corporate requirements so despite the shock of the financial crisis to companies in general, client firms actually looked to reduce costs by increasing the amount of extended stay single business travellers as opposed to footing the bill for full family travel on ex-pat packages.

The number of corporations bringing over whole families with a parent in upper management became less, so serviced apartment operators catering to the upper end long term family-size user suffered increased competition and price pressure.

Studio and one bedroom apartment operators who cater for the single-travelling business person were surprised as operators of larger apartment facilities (for families etc), came down in price almost to the same level of the compact apartment operator.

For instance, from the end of 2009 to mid-2010, a business traveller could get a two bedroom fully furnished serviced apartment for about the same rate as a studio or one bedroom would have cost before the financial crisis hit.

Service providers in Hong Kong were able to maintain cash flow with guests from mainland China who wanted to keep long term furnished apartments in Hong Kong as a sign of prestige and clout.

Up and coming markets in Vietnam, the Philippines and Thailand benefitted from an influx of business users along with a limit in serviced apartment supply, so operators in those countries were able to benefit from multi-national corporations (MNCs) market entrance as part of an overall global cost-cutting strategy.

Restructuring

For Japan and Australia, the two most developed markets in the region, the financial crisis meant severe price pressure and more competition because of a shrinking potential client pool.

Over the two years after the collapse, we have witnessed a severe restructuring in the market with some operators taking on more hospitality responsibility to function more like a hotel and other operators opting to take a long term furnished apartment approach with much less service support and lower price points based on stays of one or more years.

Operators in Japan that focused on studio and one bedroom executive serviced apartments or those who targeted the lower-end price ranges of 5000 yen to 8000 yen per day were able to bolster occupancy as high-end clients in spacious apartments had business travel budgets cut and thereby started using more economy class properties.

As a mid-size serviced apartment player and a strong growth economy, Korea was able to weather the storm because of less market players and a relatively steady flow of business users.

Rising Demand

Beginning in June of 2010, the number of business travellers began to increase and companies that were not as visible before the crisis started taking advantage of new business opportunities and demand for serviced apartments rose.

With the rise in demand, operators forced to slash rates by up to 40% found it easier to get by with discounts of 20% or less. However, compared to an average stay of 3 to 6 months pre-crisis, average stays went down to 1.5 to 2 months. Shorter average stays meant increased efforts to secure more clients via advertising campaigns and a stronger effort in terms of actual building operation to shrink the gap between visitors as much as possible with better housekeeping management.

Despite a slight downturn in occupancy in January and February of 2011 due to longer New Year's holidays for the West and for China, the industry as a whole seems to be coming out of the downturn and operators that could not survive the crisis are no longer in the market. As business travel increases and the trend from expat family to extended stay single travel grows, serviced apartment operators are in a position of strength in almost every respect. However, price points remain about 15 to 20% lower than pre-crisis levels.

Overall, business travel is increasing across the region. In fact, since the number of long-term expats is going down (many international schools in the region are seeing a decrease in student populations) the opportunities for serviced apartment operators remain huge and relatively untapped.

Many MNCs and small to medium businesses are still unaware of the advantages of using serviced apartments and still have staff staying in hotels for one month or more. Also, many serviced apartment operators still try to attract short term visitors (less than one month) instead of focusing on the one to three month group.

In terms of daily rate, serviced apartment operators can offer lower rates than hotels so many operators attempt to attract very short term stays. Stays of under one month makes for much more expense in terms of client turnover, human resource expense because of frequent billing, check-in, check out and so on. Operators that stick to the over one month stay model seem to do better in protecting their bottom line.

Most serviced apartment operators without hotel licenses have realised that stays of less than one month should be left to the professional hotel operators. Focusing on stays of one month or more helps streamline cost and manpower. The operator functioning as an accommodation solution for a stay of more than one month can wholly focus on efficiency in terms of staff numbers and service level, while the same operator trying to function as an extended stay hotel would need to place much more emphasis and resources into staff numbers and hospitality level.

Usage profile

There is a clear trend toward single use apartments across Asia. However, with natural resource procurement being a vital interest for China, Korea, Japan and others, business users from the Middle East are more visible than ever. Joint ventures and projects with Qatar, UAE and others bring young, single Middle Eastern engineers to the facilities and these guests require more space than business visitors from the West.

The business coming from the Middle East may be enough to fill the gap created by the diminished expat population. In Japan alone there are currently some 200 Middle Eastern engineers staying in serviced apartment facilities for terms of one year or more since June 2011.

For Asia, the main cities catering to the serviced apartment guest would be Shanghai, Beijing, Hong Kong, Taipei, Seoul, Brisbane, Melbourne, Hanoi, Manila, Bangkok, Tokyo, Yokohama, Osaka and Nagoya.

Crisis Impact

For the serviced apartment industry in Asia, the earthquake and tsunami disaster and ensuing nuclear problem wrought the greatest challenge to date to providers in Tokyo and Yokohama but at the same time incited a rush of business to Osaka, Fukuoka, Hong Kong and Singapore. Due to the disaster and the high probability that Tokyo itself could suffer a significant earthquake in the next 30 years, corporations are moving staff offshore and to other areas of Japan.

The events of March 11, 2011 brought business continuity planning into the spotlight and many firms will move certain vital-function divisions to Hong Kong, Singapore or Osaka. Although Tokyo remains an integral part of Asia strategy for most firms, the amount of staff in this location will decrease significantly going forward.

At the same time, since those stationed permanently in Tokyo will decrease, the number of short term travellers engaged on projects will grow. Japan is also making strenuous efforts to attract tourists back to the nation which will allow hotels to return to regular rates and thereby reinstate serviced apartments as the viable and affordable choice for the extended stay business traveller.

As Japan rebuilds, assisted by labour brought in from overseas, the number of people searching for extended stay accommodation with a kitchen will grow. The transfer of head office and other functions offshore will spur number growth in Hong Kong and Singapore as well so these areas should enjoy a period of growth and healthy price points as well.

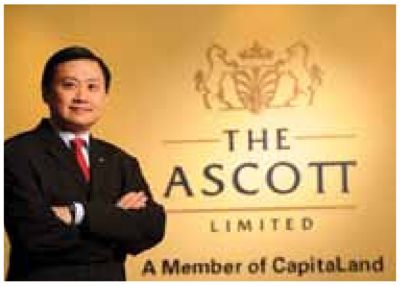
The nuclear issue will not disappear in the next two years, so it is envisaged that the permanent transfer of families to Japan and surrounding regions will decrease. However, with increased localization and cooperative relationships between various companies and with the active procurement efforts by area nations of raw materials and energy resources, there will be a continued and growing exchange between Asian and non-Asian nations.

The demand for English language hospitality services is set to grow and serviced apartment operators who can provide efficient, affordably priced English-language based accommodation services will benefit.

Business Continuity Planning

The biggest challenge to the industry going forward will be Business Continuity Planning (BCP). Each service provider will need to understand the requirements of their clients and ensure smooth continuity of service even in moments of crisis or disaster. Based on the experience of Japan on March 11th, serviced apartment managers in the region will need to develop best practice in terms of crisis response.

BCP will become a criterion in any RFP or RFI and more than an added value, the existence and implementation of such policy will be an expected facet of overall service.



Tony Soh
Chief Corporate Officer
of The Ascott Limited

Another perspective on the Asian serviced apartments market comes from Tony Soh, Chief Corporate Officer of The Ascott Limited.

While the global financial crisis created a lot of business uncertainty and volatility, it also brought about new opportunities for the serviced apartment sector. At Ascott, we managed to secure a steady stream of bookings from multinational corporations and small & medium enterprises because of our flexibility and superior value.

Rather than committing to long rental apartment leases during a period of business uncertainty, companies preferred to book with us so as to have more flexibility for project teams and staff on temporary assignment.

Today, travellers are savvier and looking for more choices and flexibility, and besides business travellers, more leisure travellers are now choosing serviced apartments. As vacationers often travel with families and friends, a serviced apartment with individual bedrooms offers cost savings and greater convenience compared to booking separate hotel rooms.

With the proliferation of internet usage and popularity of social media, travellers have higher expectations on efficient access to information and user-friendly booking capabilities. We currently have more than 20,000 fans across our 4 Facebook pages

Asia is the fastest growing region in the world today. The high level of foreign direct investments in countries like China, India and Singapore will continue to generate strong demand for serviced apartments.

In Asia, there is strong demand in gateway cities such as Beijing, Shanghai, Bangalore, Chennai, Jakarta, Kuala Lumpur and Singapore where many multinational corporations have set up operations. There is also growing demand in other emerging cities, like Chengdu, Chongqing, Wuhan and Xi'an in China, as they are attracting more foreign direct investments.

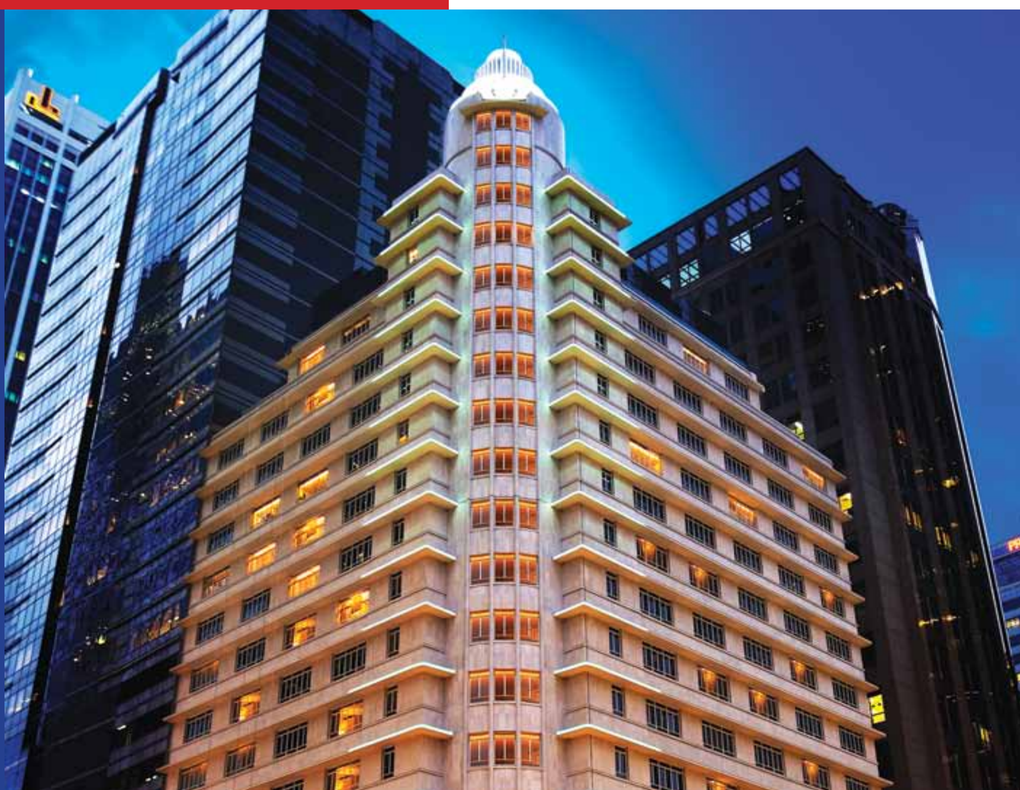
China

The extended stay segment in China presents big opportunities for hospitality brands. *"We are getting interest in this segment - especially to have a serviced suites and hotel product in the same development,"* said Pan Pacific Hotels Group CEO A. Patrick Imbardelli.

"Our own extended-stay product focuses on developments that offer both a standard hotel product plus a serviced suites component to gain maximum synergies. Customers who stay in the serviced suites can benefit from the services and expertise that they can enjoy with a hotel. And at the end of the day, there is more value to owners too; the numbers for them are just more favourable."

The Hong Kong expat market is booming too as the financial sector relocates out of Japan following the tsunami and earthquake. The consequence of this has been a boosting rental market for serviced apartments, with occupancy rising as high as 98% and enquiries for average stays of four to five months.

"Around 40% of serviced apartment users in Hong Kong are Japanese, with the remainder coming from other international markets."



India

With room supply growing at 15% a year, India is one of the few global serviced apartment markets where supply is expected to exceed demand in most Indian cities by 2013. In December 2010 the mid-market Keys Hotels brand announced it is expanding into serviced apartments in India

With hotel rates predicted to fall as a result of increased competition from the serviced apartment and budget hotel sectors, local corporates are being advised not to commit more than 75% of their overall requirement advance purchasing of room nights at discounted corporates rates.

More and more Indian corporations have switched to serviced accommodation. In contrast to Europe and the US, whilst service apartments are preferred for long-stays, booking of these apartments is left to individual travellers to arrange instead of being managed centrally.

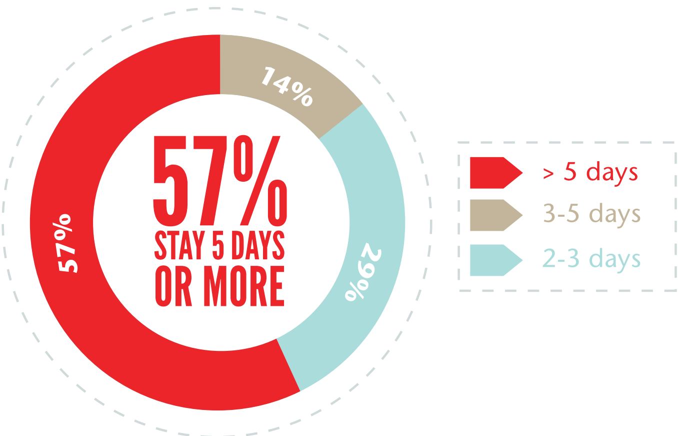


Fig.19: **Average length of stay in India's hotels**
(Source: Thomas Cook Corporate Survey 2011)

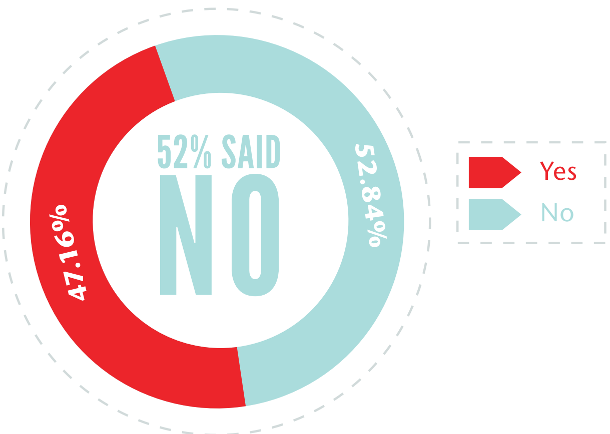


Fig.20: **Managed serviced apartment programmes**
(Source: Thomas Cook Corporate Survey 2011)

Indonesia

Indonesia's plans to transform its economy into one of the world's 10 largest (US4 trillion to US$4.5 trillion) by 2030 has seen direct foreign investment – vital to expansion of the serviced apartments sector – rising 52% to US$16.2 billion in 2010.

Indonesia's economy expanded during the global recession and grew by a further 6.1% during 2010. The Economic Intelligence Unit forecasts that GDP will grow by 6.3% a year up to 2015.

Against this background Frasers Hospitality has invested US$30 million in Jakarta and will open another three properties in the Indonesian capital over the next three years, adding a further 500 serviced residences to their existing portfolio of 108.

Jakarta alone has a population of over 8 million and Indonesia is aiming for 7.7 million tourist arrivals this year, although there are less than 4,500 serviced apartments. However serviced apartments have enjoyed average occupancy of 80% compared to 73% for hotels.

Singapore

According to the Urban Redevelopment Authority, the property market in Singapore has reached a 15 year peak. Rents are high and the trend is predicted to increase into 2012. In the serviced apartments sector rates are rising between 5 – 10% per annum, with eight new serviced apartment buildings opening in the city by 2015.

Singapore districts 9, 10, 11 and 15/16 are the most popular expatriate housing areas and are located centrally close to international schools and embassies. Demand for two and three bedroom apartments is particularly strong. Typical lease terms are between two and three years.

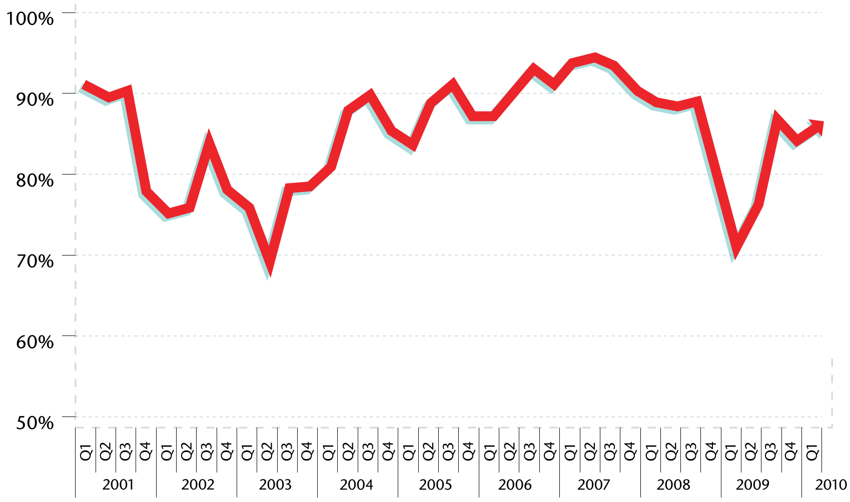


Fig.21a: **Singapore serviced apartments high end and mid-tier occupancy**
(Source: Oakwood Temporary Housing)

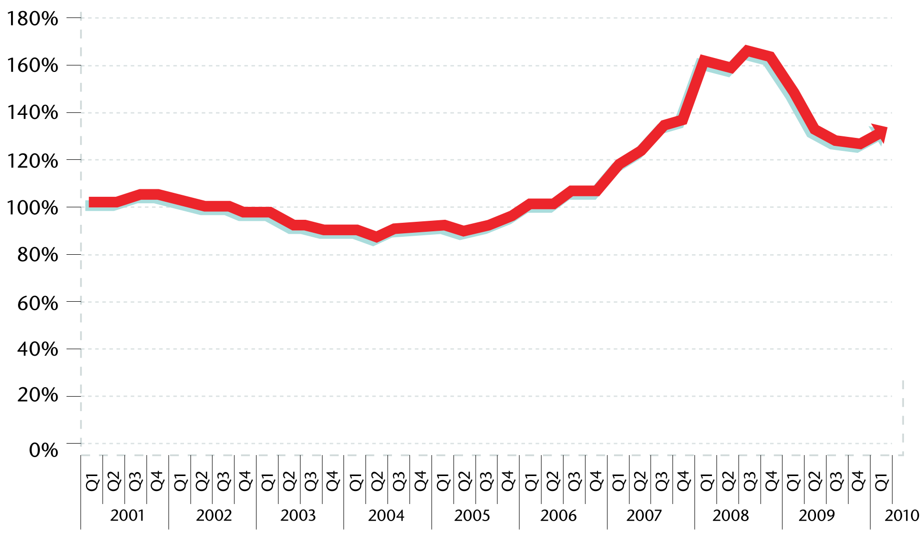


Fig.21b: **Singapore serviced apartments high end and mid-tier average daily rates.**
(Source: Oakwood Temporary Housing)

Thailand

As in other parts of the region, and despite decreasing expatriate numbers, supply of serviced apartments in Thailand continues to grow in all locations.

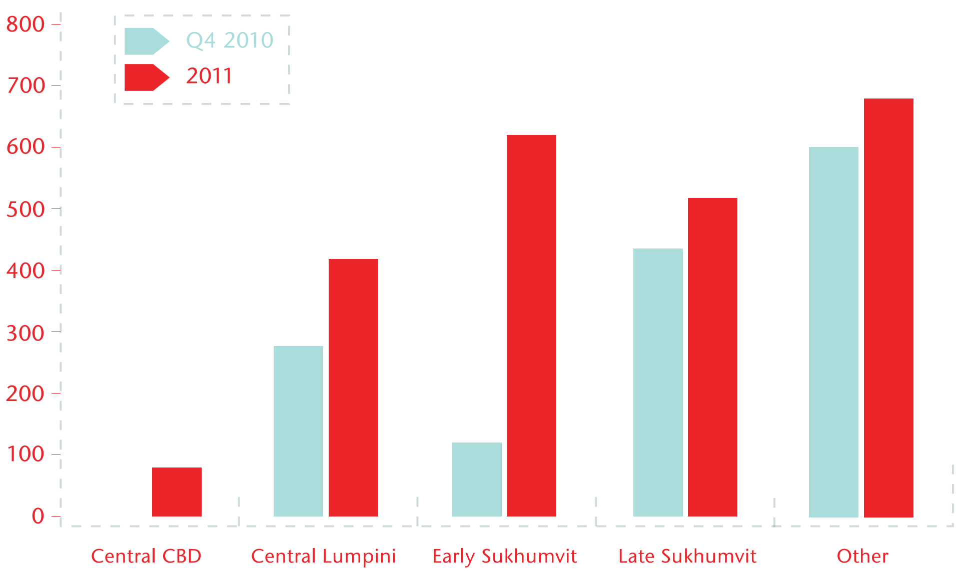


Fig.22: **Serviced apartments supply in Thailand** (Source: Oakwood Temporary Housing)

Vietnam

Increasing supply is affecting the Vietnamese property rental market, forcing landlords to fight for business. A key factor in rising supply is a vibrant serviced apartment sector.

The number of expatriates coming to Ho Chi Minh City (HCMC) and the capital Hanoi is a major source of income for the serviced apartment market, which has seen growing occupancy levels, especially in prime central business district locations. The effect of the Japanese disasters will reduce demand for serviced apartments in the short term as Japan expatriates are the major tenants of serviced apartment buildings in Hanoi.

According to Knight Frank Vietnam there are 3,300 apartment units in HCMC and 2,250 in Hanoi. With demand coming traditionally from foreign workers. A recent trend is for wealthy Vietnamese entering the serviced apartment market (it is expected that up to 15,000 apartment units will join the HCMC market and 17,000 units onto the Hanoi market in 2011).

The serviced apartment market in HCMC has recorded an average rent from US$30 to US$32 per square metre and from US$22 to US$25 per square metre for Grade B facilities.

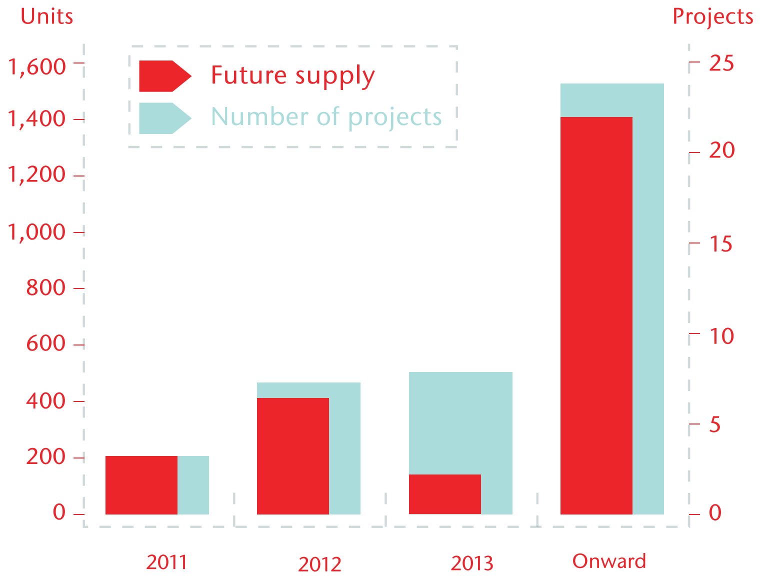


Fig.23: **Planned serviced apartment projects in Vietnam** (Source: Savills Research)

New properties in Asia

Country	City	Group	Name	Units	Bedrooms
China	Hong Kong	Ovolo	Ovolo Kowloon	63	Two and three
China	Hong Kong	Oakwood	Oakwood Apartments	24	One bedroom
China	Shanghai	Shangri-la Group	Kerry Hotel Pudong	182	One, two, three and four
China	Shenyang	The Ascott Ltd	Somerset Heping Shenyang	270	One, two and three
China	Shenzen	The Ascott Ltd	Ascott Maillen Shenzhen	199	Studios to Penthouses
China	Suzhou	Frasers Hospitality	Fraser Suites Suzhou	276	One, two and three
Indonesia	Jakarta	Frasers Hospitality	Fraser Residence Sudirman	108	One, two and three
Indonesia	Jakarta	The Ascott Ltd	Citadines Quartier Jakarta	135	Studio, one and two
Japan	Osaka	Frasers Hospitality	Fraser Residence Nankai Osaka	114	Studio, one and two
Singapore	Singapore	Frasers Hospitality	Fraser Residence Orchard	72	One, two, three, four and five
Singapore	Singapore	Preferred Hotel Group (Summit Serviced Residences)	8 on Claymore Serviced Residences	85	Studio, two and three
Thailand	Bangkok	Shama	Shama Sukhumvit	90	One two and three
Vietnam	Nha Trang	Sheraton	Sheraton Nha Trang Hotel and Spa	7	One and two (incl 2 penthouses)

(Source: Travel Intelligence Network)

Asia Region Rates

NB the rates are from the lowest to the highest across all property types

	Studio					One Bedroom					Two bedroom				
	2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09	
	Low	High		Low	High	Low	High		Low	High	Low	High		Low	High
Asia (USD)															
1-6 nights (nightly rate)	80	250		7%	-1%	170	300		6%	3%	215	430		2%	1%
7 nights + (nightly rate)	70	230		0%	5%	150	270		4%	4%	200	400		5%	3%
1 month + (monthly rate)	2,000	4,500		5%	2%	2,725	4,600		9%	5%	3,500	5,000		6%	1%
Indian Sub Continent (INR)															
1-6 nights (nightly rate)	2,350	4,500	53 - 101	-6%	2%	2,900	9,000	65 - 203	-3%	3%	4,000	16,000	90 - 360	4%	3%
7 nights + (nightly rate)	2,200	4,750	50 - 107	-2%	6%	2,700	7,450	61 - 168	0%	-2%	3,500	13,000	79 - 293	1%	-2%
1 month + (monthly rate)	50,000	72,500	1,125 - 1,632	-9%	2%	60,000	116,000	1,351 - 2,611	-3%	0%	61,000	110,000	1,373 - 2,476	-2%	0%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used date 7th July 2011

Rates in Key Cities

	STUDIO				ONE BEDROOM				TWO BEDROOM			
	Q2 2010 Rate - Studio			Variance 10/09	Q2 2010 Rate - One bedroom			Variance 10/09	Q2 2010 Rate - Two bedroom			Variance 10/09
	Local currency	US$	Euro		Local currency	US$	Euro		Local currency	US$	Euro	
Bangalore												
1-6 nights (nightly rate)	INR 2,275	$51	€ 36	-9%	INR 2,725	$61	€ 43	-9%	INR 3,610	$80	€ 56	-6%
7 nights + (weekly rate)	INR 16,000	$356	€ 250	-9%	INR 20,100	$447	€ 314	-4%	INR 26,200	$582	€ 409	-3%
One month + (monthly rate)	INR 46,900	$1,042	€ 732	-2%	INR 60,200	$1,338	€ 940	-3%	INR 82,900	$1,842	€ 1,294	-2%
3 month + (monthly rate)	INR 44,000	$978	€ 687	-2%	INR 55,000	$1,222	€ 859	-3%	INR 74,200	$1,649	€ 1,158	-2%
Hong Kong												
1-6 nights (nightly rate)	HKD 1,450	$186	€ 130	7%	HKD 1,550	$199	€ 140	7%	HKD 1,765	$227	€ 159	7%
7 nights + (weekly rate)	HKD 9,000	$1,155	€ 812	7%	HKD 10,275	$1,319	€ 927	1%	HKD 11,800	$1,515	€ 1,064	2%
One month + (monthly rate)	HKD 31,250	$4,012	€ 2,818	0%	HKD 40,000	$5,135	€ 3,607	0%	HKD 43,000	$5,520	€ 3,878	2%
3 month + (monthly rate)	HKD 29,500	$3,787	€ 2,660	0%	HKD 37,500	$4,814	€ 3,382	0%	HKD 40,000	$5,135	€ 3,607	0%
Mumbai												
1-6 nights (nightly rate)	INR 8,800	$196	€ 137	1%	INR 12,400	$276	€ 194	2%	INR 21,150	$470	€ 330	1%
7 nights + (weekly rate)	INR 55,000	$1,222	€ 859	0%	INR 76,000	$1,689	€ 1,187	0%	INR 121,000	$2,689	€ 1,889	0%
One month + (monthly rate)	INR 100,000	$2,222	€ 1,561	0%	INR 116,500	$2,589	€ 1,819	0%	INR 130,500	$2,900	€ 2,037	0%
3 month + (monthly rate)	INR 91,000	$2,022	€ 1,421	0%	INR 104,000	$2,311	€ 1,624	0%	INR 116,000	$2,578	€ 1,811	0%
Shanghai												
1-6 nights (nightly rate)	CNY 1,100	$170	€ 119	10%	CNY 1,420	$219	€ 154	9%	CNY 2,000	$309	€ 217	5%
7 nights + (weekly rate)	CNY 6,825	$1,054	€ 740	5%	CNY 9,345	$1,443	€ 1,014	5%	CNY 13,020	$2,011	€ 1,412	5%
One month + (monthly rate)	CNY 26,026	$4,020	€ 2,823	8%	CNY 34,000	$5,251	€ 3,688	17%	CNY 44,500	$6,873	€ 4,827	13%
3 month + (monthly rate)	CNY 24,000	$3,707	€ 2,603	7%	CNY 32,000	$4,942	€ 3,471	16%	CNY 40,000	$6,178	€ 4,339	11%
Singapore												
1-6 nights (nightly rate)	SGD 371	$300	€ 211	6%	SGD 424	$343	€ 241	6%	SGD 511	$413	€ 290	4%
7 nights + (weekly rate)	SGD 1,860	$1,504	€ 1,056	1%	SGD 2,375	$1,921	€ 1,349	3%	SGD 2,850	$2,305	€ 1,619	2%
One month + (monthly rate)	SGD 7,750	$6,268	€ 4,402	0%	SGD 8,840	$7,150	€ 5,021	0%	SGD 9,500	$7,683	€ 5,395	0%
3 month + (monthly rate)	SGD 7,260	$5,872	€ 4,123	0%	SGD 8,600	$6,955	€ 4,884	0%	SGD 9,000	$7,279	€ 5,111	0%
Tokyo												
1-6 nights (nightly rate)	JPY 13,000	$161	€ 113	-7%	JPY 17,000	$211	€ 148	-3%	JPY 23,000	$286	€ 200	-2%
7 nights + (weekly rate)	JPY 72,000	$894	€ 628	0%	JPY 94,000	$1,167	€ 820	-1%	JPY 118,000	$1,465	€ 1,029	0%
One month + (monthly rate)	JPY 203,000	$2,521	€ 1,770	0%	JPY 218,000	$2,707	€ 1,901	0%	JPY 253,000	$3,141	€ 2,207	0%
3 month + (monthly rate)	JPY 195,000	$2,421	€ 1,701	0%	JPY 200,000	$2,483	€ 1,744	0%	JPY 230,000	$2,856	€ 2,006	0%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of staysRates quoted are based on average 4 star extended stay properties and exclude taxes
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used July 2011

Regional Report - Australasia

Over the last twenty five years the serviced apartment sector has made significant inroads into the short, extended stay and residential-style lodgings.

This has led to an increase in purpose built apartment accommodation against a fall in the number of new hotels due to funding and land becoming harder to come by. Whereas hotels are purpose built, the Australian serviced apartment industry has been conceived from the development of private ownership and early investment.

Serviced apartments have been funded and bought for either leisure use, accommodation or for investment purposes. The Australian public effectively funded the development of the industry because hotels were less commercially attractive.

The industry growth is also the result of an increase in the number of corporate travellers choosing serviced apartments over hotels because of competitive pricing, high quality amenities and the option of short and long-term housing.

Between 2005 and 2008, the sector's value grew from $1.5 billion to $2.2 billion, and growth has continued ever since. The serviced apartment sector now accounts for 25 per cent of the total market.

Demand for serviced apartments is predicted to grow in 2011. Occupancy rose by 5% in the first quarter of the year, whilst average room rates increased by 3%. However supply may struggle to match that demand. Quest Serviced Apartments' chairman Paul Constantinou said *"Over the past few years, we've witnessed a change in where business takes place, away from city centres to suburban business parks and regional areas."*

The importance of long-term assignments to the serviced apartments industry is growing in Australia too, as Constantinou confirms. *"Over the past year, we've seen a shift in the perception of serviced apartments particularly from businesses and travel management companies which need to accommodate people working on projects, away from home for extended periods, in regional locations or near suburban business parks. This is why we now have a constant flow of properties opening in these high-demand suburban and regional areas."*

"In just over 25 years, the serviced apartment sector has grown in Australia from nothing to over 1,000 properties and over 50,000 keys and now represents almost a quarter of all accommodation demand"

John Smith, Horwath HTL Australia

John Smith, Chief Executive Officer and Principal at Horwath HTL Australia

Market profile - by John Smith, Horwath HTL Australia

In this edition of the Global Serviced Apartment Industry report we have invited industry experts in every region to provide an overview of their local market. John Smith, Chief Executive Officer and Principal at Horwath HTL Australia charts the rise and rise of serviced apartments in Australia.

Whilst the USA may be the birthplace of serviced apartments and remains the largest market in terms of room numbers, Australia has grown rapidly to become the second largest market in the world by room count and is by far the most successful market in terms of hospitality market share and market penetration.

In just over 25 years, the serviced apartment sector has grown in Australia from nothing to over 1,000 properties and over 50,000 keys and now represents almost a quarter of all accommodation demand – in Queensland it accounts for over one third of guest accommodation demand.

How this remarkable growth story came about is due in part to the opportunity created by the lack of new hotel construction in recent years and in part due to individual investor appetite for serviced apartments that has driven developers to build large numbers of apartments. Funding for the investors has mostly been through retail debt from Australian banks and has often been additionally secured by an individual investor's equity in his/her home.

Whilst hotel investors have been reluctant to commit to new construction in the face of high site and construction costs, individual retail investors and their self-managed pension funds have been prepared to accept low investment returns in the hope of also benefiting from capital gains and to also take advantage of tax concessions in a country where alternative personal tax concessions are few and far between. The provision of minimum return guarantees by developers to underwrite returns in the initial years of ownership has also encouraged investor interest, even though the underwrite cost has inevitably been built into pricing for the apartments.

Also assisting the process has been Australia's "strata title" system that enables an apartment purchaser to obtain a freehold interest in a property that a bank can lend against. A further feature has been the creation of "management rights" whereby the right to manage an entire serviced apartment building (for a fee), together with an apartment for the manager to live in, is sold by the developer, thereby securing both on-site management of the building and a tradeable asset in the form of the management rights for the investor.

The management opportunity created by the growth of the serviced apartment sector in Australia has mostly been taken up by local companies including Mantra (10,000 keys), Quest and Oaks (5,000 keys each) and Toga and Mirvac (2,000 keys each) – although almost half of serviced apartments remain unbranded.

The major international hotel companies have generally been reluctant to take their apartment brands to Australia, in part due to the difficulties in managing properties involving multiple owners. Occupancy and room rates for the accommodation sector suggest that this has resulted in a missed opportunity given that in many Australian markets, serviced apartments have outperformed hotels in terms of revenue per available room. For example data provided by STR Global suggests that in 2011 serviced apartments have outperformed hotels in Sydney in terms of both occupancy and room rate.

While serviced apartments have therefore generally been a success story in Australia, unfortunately in some respects they have also proven to be what one observer described as a "flawed product".

As the industry has grown rapidly there have predictably been periodic failures due to both developer inexperience and investor naivety regarding potential returns and the risks of ownership. The expiration of performance guarantees and the subsequent reduction in returns to much lower levels has been a particular cause for difficulty for some investors. Growing lender reluctance to lend against new projects and a recent decline in apartment sales also loom as a threat.

Overall however, the sector has been successful in bringing about much-needed new room supply and the outlook for the sector, particularly in Australia's capital cities, appears to be bright given the continuing strength of the accommodation markets. This has led market analysts IbisWorld to forecast further solid growth for the industry before a slowdown.

New Zealand

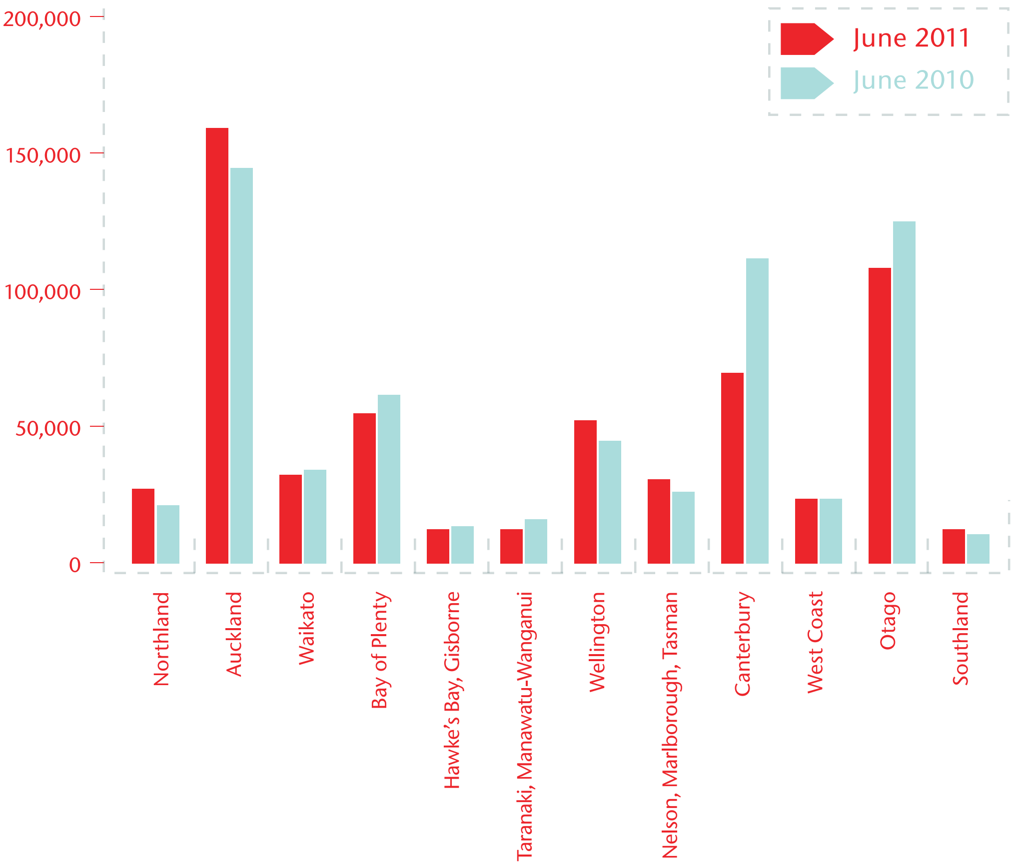


Fig.24: **International guest nights by region, June 2011 vs. June 2011** (Source Statistics New Zealand)

Supply within New Zealand's serviced apartments sector is expanding thanks in part to the impending arrival of the Rugby World Cup.

Quest and the Waldorf Group are the country's biggest operators of serviced apartments. Quest's $6m Albany Village on the North Island is scheduled to open just before the World Cup and will comprise 38 apartments in one location and is the second premises developed for Quest by Auckland based property company Direct Property Fund.

Serviced apartments, also known as...

- ***Temporary Housing***

New properties in Australasia

Country	City	Group	Name	Units	Bedrooms
Australia	Darwin	Quest	Quest Parap	84	Studio, one, two and three
Australia	Hawthorn, Melbourne	Quest	Quest Hawthorn	119	Studio, one and two
Australia	Melbourne	Quest	Quest Moorabbin	60	Studio,
Australia	Sydney, Bondi Junction	Quest	Quest Bondi Junction	82	Studio
New Zealand	Auckland	Quest	Quest Albany Village	38	Studio, one and two
New Zealand	Cheltenham, Melbourne	Quest	Quest Cheltenham	49	Studio, one, two and three

(Source: Travel Intelligence Network)

Australasia Region Rates

NB the rates are from the lowest to the highest across all property types

	Studio					One Bedroom					Two Bedroom				
	2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09	
	Low	High		Low	High	Low	High		Low	High	Low	High		Low	High
Australasia/New Zealand (AUD)															
1-6 nights (nightly rate)	100	190	108 - 204	11%	6%	140	245	151 - 264	4%	4%	180	300	194 - 323	0%	7%
7 nights + (nightly rate)	80	170	86 - 183	-1%	6%	125	230	134 - 247	3%	1%	165	265	177 - 285	2%	4%
1 month + (monthly rate)	2,125	4,450	2,286 - 4,786	-6%	-1%	3,000	5,000	3,227 - 5,378	0%	-9%	3,100	5,500	3,334 - 5,916	0%	-4%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used date 7th July 2011

Rates in Key Cities

	Studio				One Bedroom				Two Bedroom			
	Q2 2010 Rate - Studio			Variance 10/09	Q2 2010 Rate - One bedroom			Variance 10/09	Q2 2010 Rate - Two bedroom			Variance 10/09
	Local currency	US$	Euro		Local currency	US$	Euro		Local currency	US$	Euro	
Sydney												
1-6 nights (nightly rate)	AUD 148	$156	€ 109	10%	AUD 190	$200	€ 141	9%	AUD 285	$300	€ 211	10%
7 nights + (weekly rate)	AUD 779	$820	€ 576	7%	AUD 872	$918	€ 645	8%	AUD 1,058	$1,114	€ 782	6%
One month + (monthly rate)	AUD 2,750	$2,895	€ 2,034	3%	AUD 3,020	$3,179	€ 2,234	1%	AUD 3,693	$3,888	€ 2,731	0%
3 month + (monthly rate)	AUD 2,500	$2,632	€ 1,849	4%	AUD 2,725	$2,869	€ 2,015	3%	AUD 3,310	$3,484	€ 2,448	3%
Auckland												
1-6 nights (nightly rate)	NZD 115	$93	€ 66	5%	NZD 158	$128	€ 90	5%	NZD 210	$171	€ 120	5%
7 nights + (weekly rate)	NZD 750	$609	€ 428	1%	NZD 900	$731	€ 514	1%	NZD 1,210	$983	€ 691	1%
One month + (monthly rate)	NZD 2,910	$2,365	€ 1,662	1%	NZD 3,550	$2,884	€ 2,028	2%	NZD 4,700	$3,819	€ 2,684	1%
3 month + (monthly rate)	NZD 2,750	$2,234	€ 1,571	3%	NZD 3,250	$2,641	€ 1,856	3%	NZD 4,350	$3,534	€ 2,485	2%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes
Exchange rates used July 2011

Regional report – Central & South America

Latin America escaped the effects of the world recession almost unscathed (with an average 5% growth between 2005 and 2009). During 2010 its hospitality industry started to bounce back in every key destination except Brazil which experienced consistent expansion during 2009.

Although accurate figures are hard to come by in this region, 2010 occupancy increased by a healthy 10% over 2009, whilst corporate housing rates showed moderate increases over 2009 nightly rates.

In a relatively under-developed and immature serviced apartments sector, extended stay products and private landlord rentals dominate. Corporate housing in the region is mainly configured by the recognised hotel brands, a small number of apart-hotels and by private landlords letting their property through relocation agents who provide a one-stop-shop for expats and corporate accounts.

Business travellers who visit the region are wary about security issues and consequently when booking accommodation tend to sacrifice marginal savings (hotel rates are moderately reasonable compared to serviced apartments) for the security of staying in a major hotel. Kidnapping is still not uncommon in countries like Colombia, Mexico, Brazil and Venezuela.

The region is fertile ground for indigenous corporate groups such as Ecopetrol (Colombia), Petrobras, Embraer, Vale and EBX (Brazil), Pemex (Mexico) Enersur (Peru) and PDVSA (Venezuela). Many have announced investments in the region's economy during 2011 of $224 billion.

Investment on this scale will generate a steady demand for specialised qualified project workers and therefore for the relocation market. Corporate travel is booming too, with volumes similar to Asia Pacific and well ahead of those in the domestic US market. Inbound and outbound activity is increasing rapidly as a result of more direct flights from key European cities.

Currently Brazil, Mexico and Argentina generate approximately two thirds of all corporate travel in the region, all with strong travel markets and world-class multinationals. The demand is there, but the main challenge is an under-developed infrastructure compared to Europe or the US.

2011 GDP growth rates are expected to be similar to those of 2010, when Peru and Chile both grew 6%, Brazil by 4.5%, Argentina by 4.4% and Colombia by 4%. However the MasterCard Index of Global Destination Cities study has forecasted that Caracas - along with Quito and Santo Domingo - will suffer a contraction in both number of arrivals and visitors expenditure in 2011.

Argentina

The concept of serviced apartments is well established in Argentina thanks to a very strong and proactive tourism industry that has positioned itself as a relatively safe, economic and pleasant destination for expats.

There are many relocation agencies offering serviced apartments in Buenos Aires and the standards are competitive in relation to the diminishing hotel equivalent in the area. The third biggest economy in Latin America is currently experiencing a boom in tourism and import activities fuelled by the strong Brazilian economy despite inflation running at 25% (though officially 10%).

Brazil

Repeatedly cited as the most important emerging market, the major airline players are regularly announcing new and more frequent flights to Brazil's main destinations.

Brazil's job market is booming, with the Labour Ministry reporting that 280,799 jobs were created in February 2011 alone. The new posts have included foreign workers too, with companies hiring 30% more in 2010 than in 2009.

Sao Paulo is the focus of the serviced apartments sector, with the Brazilian government due to invest over $1 trillion in infrastructure to support the staging of the 2014 FIFA World Cup and the 2016 Summer Olympics. According to Ernst & Young, half of investors in Brazil have focused on hotel developments due to domestic and international demand for rooms across varied lodging segments.

Accor is spending US$200m to add nearly 5,000 rooms in Rio de Janeiro as part of an expansion plan that will see 300 hotels in full operation by 2015. throughout Latin America with particular focus on their Ibis and Formula 1 brands.

Although Brazil is ranked #79 in the in the Travel & Tourism Competitiveness Index for business environment and infrastructure, there is no formalised corporate housing sector, with serviced apartments rented direct from private landlords or through an agency. The demand for accommodation is increasing, resulting in very little availability which suggests a bright future for the serviced apartments sector in Brazil.

Chile

Chile has recovered quickly from the devastating earthquake of February 2009, partly because of its major reconstruction programme efforts to rebuild the damage, and partly because of strong export performance. The OECD predicts that Chile's GDP will expand by 6.5% in 2001 and by 5% in 2012. There is a surprisingly ample selection of serviced apartments but standards are low and there is a sense of product misrepresentation among those who have sampled them.

Colombia

Civil conflict has long marred the prospects for Colombia's hospitality industry, but the country is making strides to redress the problem, evidenced by a tripling of in-bound arrivals and associated expenditure figures over the last decade. Further evidence comes from the arrival of multinationals locating their Spanish-speaking HQ's in Colombia as part of move away from the less stable neighbour Venezuela.

Mexico

The hospitality industry in Mexico is slowly returning to pre-2008 levels, having been hardest hit in the region by the recession due to its proximity and ties to the US, the swine flu and increased organised crime violence over 2009.

Mexico is, however, the second biggest corporate travel market in the region and has a strong MICE industry after recently opened convention centres in Cancun and Queretaro, with another facility planned for Puebla in 2011. Emerging business destinations include Zacatecas, Queretaro, San Luis Potosi and Tampico, while Puerto Vallarta, Mazatlan and Acapulco have all invested in their meeting infrastructure. Mexico's 32 states now boast 495,000 hotel rooms for conventions and 71 venues for conventions and exhibitions.

Panama

Panama is regarded in most hoteliers' eyes as a sleeping giant similar to Costa Rica before the boom in ecotourism. The expansion of the Panama Canal has brought an influx of capital and specialised labour in areas such as engineering, architecture, law and design, a trend that is expected to persist long term.

Peru

Lima is an increasingly important hub for business travel due to its convenient location and stable economy. Peru's meetings and conventions market is underdeveloped and meeting spaces are scarce despite heavy demand. In the capital Lima business tourism represents 80% of the city's hotel occupancy.

Puerto Rico

Closely linked to the US market, Puerto Rico has not been immune from the recession, but in 2010 the Puerto Rico Convention Bureau confirmed 202,000 room nights – only just down on the previous year. Coupled with prospective business for 2011 this means that the Puerto Rico meetings industry alone now brings $97m into its economy.

Venezuela

Venezuela is facing mounting economic problems with negative growth, 30% inflation and a currency that has halved in value since the start of 2010. In Caracas the average hotel rate is down to $211 from $273 as the city exited the corporate travel index.

Four and five star hotels are heavily discounting to maintain occupancy levels, whilst over 180 two and three star hotels and apart-hotels (90% of which are located in the capital) were ordered by the government to house to people left homeless after 2009's floods. Corporate Housing is limited to a handful of apart-hotels and a couple of properties managed by relocation agents.

1	Sáo Paulo	US $3.1 billion	6	San José	US $1.1 billion
2	Buenos Aires	US $3.0 billion	7	Caracas	US $1.0 billion
3	Bogotá	US $2.1 billion	8	Santo Domingo	US $1.0 billion
4	Mexico City	US $1.7 billion	9	Rio de Janeiro	US $0.9 billion
5	Lima	US $1.6 billion	10	Quito	US $0.4 billion

Fig.25: **Top 10 destination cities in Latin America** (Source: MasterCard)

Growth rates of visitor arrivals in top ten destination cities in Latin America (2011*)

Destination cities	Rank 2011	Growth rate 2010 to 2011
Rio de Janeiro	8	+27.5%
Lima	4	+20.3%
Sáo Paulo	1	+17.1%
Buenos Aires	3	+15.2%
Bogotá	5	+15.2%
Mexico City	2	+5.9%
San José	6	+2.0%
Caracas	9	-1.6%
Quito	10	-2.7%
Santo Domingo	7	-9.4%

*forecast

Growth rates of visitor spending in top ten destination cities in Latin America (2011*)

Destination cities	Rank 2011	Growth rate 2010 to 2011
Lima	5	+27.5%
Rio de Janeiro	9	+20.3%
Bogotá	3	+17.1%
Buenos Aires	2	+15.2%
Sáo Paulo	1	+15.2%
San José	6	+5.9%
Mexico City	4	+2.0%
Quito	10	-1.6%
Caracas	7	-2.7%
Santo Domingo	8	-9.4%

*forecast

Fig.26/27: **Growth in visitor attractions & spend** (Source: Mastercard)

Central & South America Region Rates

NB the rates are from the lowest to the highest across all property types

	Studio					One Bedroom					Two Bedroom				
	2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09	
	Low	High		Low	High	Low	High		Low	High	Low	High		Low	High
Central & South America (USD)															
1-6 nights (nightly rate)	60	160		0%	0%	90	190		0%	-5%	130	300		0%	-6%
7 nights + (nightly rate)	55	145		10%	0%	80	180		-1%	0%	120	350		-1%	1%
1 month + (monthly rate)	1,650	2,325		0%	3%	1,650	3,125		-6%	4%	2,000	4,000		5%	5%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used date 7th July 2011

Rates in Key Cities

	STUDIO				ONE BEDROOM				TWO BEDROOM			
	Q2 2010 Rate - Studio			Variance 10/09	Q2 2010 Rate - One bedroom			Variance 10/09	Q2 2010 Rate - Two bedroom			Variance 10/09
	Local currency	US$	Euro		Local currency	US$	Euro		Local currency	US$	Euro	
Buenos Aires												
1-6 nights (nightly rate)	ARS 250	$61	€ 43	1%	ARS 340	$83	€ 58	0%	ARS 500	$122	€ 86	1%
7 nights + (weekly rate)	ARS 1,600	$391	€ 274	-0%	ARS 2,210	$539	€ 379	0%	ARS 3,200	$781	€ 549	0%
One month + (monthly rate)	ARS 6,840	$1,670	€ 1,173	0%	ARS 7,345	$1,793	€ 1,260	0%	ARS 8,400	$2,050	€ 1,441	0%
3 month + (monthly rate)	ARS 6,445	$1,573	€ 1,105	0%	ARS 6,610	$1,613	€ 1,134	0%	ARS 7,650	$1,867	€ 1,312	0%
Rio de Janeiro												
1-6 nights (nightly rate)	BRL 140	$88	€ 62	17%	BRL 215	$135	€ 95	13%	BRL 245	$154	€ 108	17%
7 nights + (weekly rate)	BRL 840	$528	€ 371	5%	BRL 1,350	$848	€ 596	13%	BRL 1,505	$945	€ 664	8%
One month + (monthly rate)	BRL 3,300	$2,073	€ 1,457	6%	BRL 4,750	$2,984	€ 2,097	4%	BRL 6,300	$3,971	€ 2,756	4%
3 month + (monthly rate)	BRL 3,000	$1,885	€ 1,324	7%	BRL 4,300	$2,701	€ 1,898	4%	BRL 5,800	$3,643	€ 2,560	7%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used July 2011

Regional report – Europe

Economic outlook

Although the global picture is favourable, collectively the debt-laden Eurozone's economic prospects are uncertain. The EU27 is made up of the biggest economies amongst the European Union's 47 member countries and accounts for 80% of the Europe's total population. Collectively the EU27's gross domestic product (GDP) is comparable to that of the US. Within the EU27, the largest economies are Germany, followed by the UK, France, Italy and Spain.

Serviced apartments, also known as...

- Serviced or Corporate Apartments (UK)
- Short-lets (UK)
- Apartment/Apart-Hotels (Europe-wide)
- Boardinghouse (Germany)
- Residence (France)

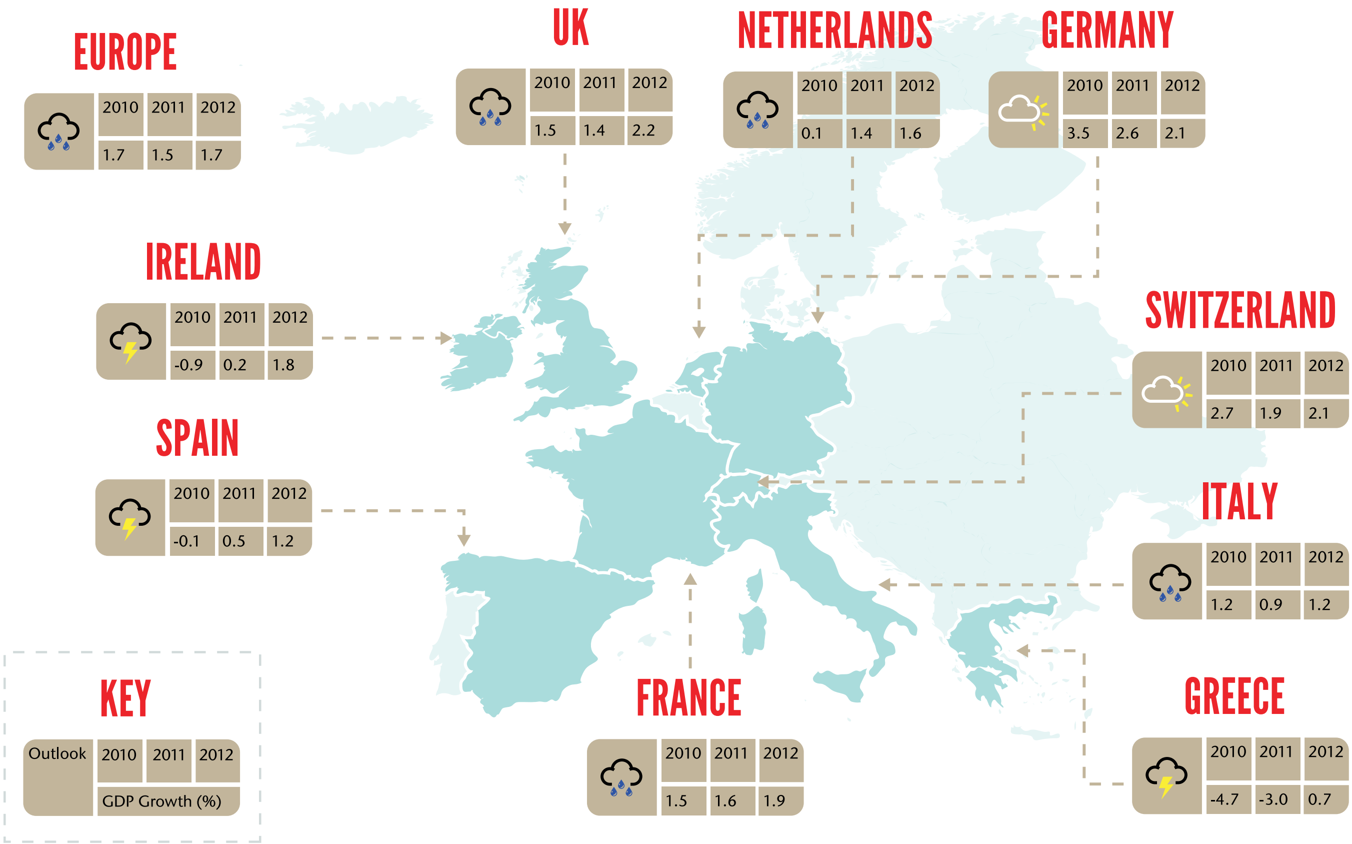


Fig.28: **European economic outlook 2011/12** (Sources: PwC/ITM)

Market profile

The Apartment Service estimates that the European serviced accommodation sector (including hotels) was worth €150 billion in 2009, a fall of 18.9% on the previous year. In the same period the extended stay sector increased its market share by over 6% whilst average hotel room rates fell by 13%.

"Despite the gloomy economic outlook and shortages of finance, serviced apartments supply in Europe is still growing."

		2008		2009	
Revenue *	Euros in millions	€184,463		€149,620	-18.9%
Non Residents demand *	Euros in millions		44.0%	€65,833	-9.1%
Residents demand *	Euros in millions		56.0%	€83,787	-1.6%
Extended Stay market share+		0.76%		0.80%	6.2%
Average hotel room rate X	Euros	€117		€102	-13.0%

* Figures from Eurostat　+ The Apartment Service estimate　x Hotels.com

Fig.29: **European serviced accommodation sector** (Sources: Eurostat, Hotels.com, The Apartment Service)

However one of the most striking differences between the serviced accommodation sectors in Europe and the US is the lack of brands. 75% of US hotels belong to a brand; in Europe it is 25%, and most are independently operated. This is reflected in the serviced apartments sector too.

Despite the EU27 and the US being evenly matched at GDP level, Europe has around 15% of the stock of serviced apartments available in America. That stock is mainly in the extended stay category, with corporate housing being quite rare by comparison.

Properties offering serviced apartments tend to be permanent operations with a wide range of service levels provided. This is mainly due to the types of leases and rental terms demanded by property owners, Typically rental agreements are for 1 – 5 years, often without a break clause. Unlike the US there are few apartment communities.

Supply

Despite the gloomy economic outlook and shortages of finance, serviced apartments supply in Europe is still growing.

In 2011 Oakwood announced the addition of 48 units to their London portfolio to meet rising demand for corporate housing in the United Kingdom. Meanwhile Adagio has acquired Citéa to become European no.1 in the extended stay segment, with almost 10,000 apartments and revenues of around €160 million. The group aims to manage 130 aparthotels by 2015, generating €330 million in revenues.

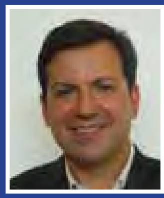
London is Europe's most expensive city for serviced apartments, ahead of Paris and Moscow. Based on rates for studio apartments, the major locations for serviced apartments in the region are as follows (in descending order of average weekly rate).

Most expensive European cities for serviced apartments

1. London
2. Paris
3. Moscow
4. Amsterdam
5. Frankfurt
6. Lisbon
7. Madrid

Jo Redman
Saco Apartments

Sicco Behrens
Amsterdam Housing



Vangelis Porikis
Adagio

Trends

We spoke to three European operators in-depth about market trends for this edition of The Global Services Apartments Industry Report; Jo Redman of Saco Apartments, Sicco Behrens of Amsterdam Housing and Vangelis Porikis of Adagio.

All highlight an increase in leisure demand as well as corporate, with the consequence of length of stay getting shorter. They agree that growing awareness and understanding of the serviced apartments product is building confidence in the product. *"If a corporate is really committed serviced apartments can take between 20 - 70% of a transient travel programme"* says Jo Redman. As in other regions, the need to re-educate travellers remains un-diminished. At corporate level, once this has been done, as Redman says *"adoption becomes pandemic."* Although lifestyle is driving serviced apartments adoption amongst the hotel-weary, the irregular hotel user often prefers the glamour of hotels instead. In Holland, Sicco Behrens reports that although there are many large multinationals with head offices. *"The use of serviced apartments for corporate use is not yet familiar."*

Vangelis Porikis believes that corporate demand has driven more long stay occupancy in the region, mainly influenced by new projects in the services, IT and banking industry, resulting in higher average length of stay compared to 2010. "We are also seeing an overflow of demand of the hotel transient sector due to high occupancies. This has created a trade–off between short and long stays in the aparthotel sector and requires more and more intelligence in the inventory decisions."

The relocation market remains strong in Europe, to where more employees have been relocating than other parts of the world, according to Atlas Van Lines' 2010 Annual Corporate Relocation Survey. Cost remains the tipping point for corporates when they consider serviced apartments, although with the residential rental market booming, it is becoming harder for operators to find stock - or the finance to buy it - and rates are going up as a result. *"There's a scramble going on in London to find apartments for the Olympics in 2012"* reports Jo Redman.

"The Association of Serviced Apartment Providers found average weekly rates in London during the January - March period [of 2011] to be up 6.8% on the corresponding period of 2010 at £904. The average weekly rental rate for the regions grew by a similar amount to £598."

Sicco Behrens says there is a growing demand from larger groups for serviced apartments, and for shared accommodation. *"This is coming from leisure customers and from corporates who want to accommodate trainees and contractors in shared housing. The budgets have been cut for contractors and relocation assignments, so stays are shorter."*

Challenges

Behrens and Redman agree on the main challenges facing the European serviced apartments industry - distribution, accreditation and standards. *"Awareness of the service needs to grow and we need to be clearer to all parties in what is on offer"* says Behrens. *"We need to self-regulate, creating standards and using consistent terminology for example."* Behrens has already set up the ASAP Netherlands.

"Serviced apartments need to be more commoditised within an accreditation scheme to enable people to understand the standards they are getting." summarises Redman.

Vangelis Porikis sounds a slightly different note of caution. *"There is a trend in key destinations like Berlin, Paris and Brussels towards furnished flats, which are getting more and more organised in terms of distribution & marketing. They represent a threat to serviced apartments in attracting long stay corporate and leisure demand."*

Long term projects

The lack of a single technology platform that brings together extended stay and corporate housing products is a clear barrier to greater adoption of serviced apartments. However 2010 saw the launch of a new corporate sourcing tool and a potential solution for RFP managers looking to include serviced apartments in relocation assignments or project activity not captured in normal T&E spend, such as audit teams and contractors.

Engagement projects involve long term stays, although the travel element of these projects is not regarded as spend but as a cost related to the project rather than the category of spend. Consequently in many corporates this represents un-managed spend.

Lanyon's Engagement & Project Sourcing™ tool forms the third sourcing element of the Lanyon Total Hospitality offering which provides a full picture of the three key segments in corporate travel – transient, engagement projects & group meetings. Users can make like-for-like comparisons between hotels and serviced apartments based on rates, amenities and locations. As such, the tool combines transient and meeting functionality and gives buyers the ability to track and manage a new spend category without intruding in the operation of the projects themselves.

Initially focussed on the chain-dominated US market, Lanyon is now rolling out the Engagement & Project Sourcing tool in Europe, where the extended stay sector is dominated by independents. Lanyon's Roland Tanner explains. *"In the US transient searching is largely proximity based whilst large external meetings are amenity based. In the US there is greater chain recognition so brand is a key part of the decision making process. In Europe, that rule doesn't apply so much. The wide range of product means we cover corporate housing too. This is a very grey market though; there is uncertainty about what's out there and how to engage with it."*

Tanner says that hotel chains in the US and Europe are keen to use the tool to promote their extended stay brands. *"This provides the opportunity to put corporate housing providers on the same shelf as extended stay. Historically they have not been distributed in the same way but had to develop their own technology. Now corporate apartments don't need to be treated separately."*

UK

At €17 million, the UK accounted for 11.3% of the revenue generated by the EU27 countries' serviced accommodation sector in 2009 – around twice that of Canada.

Compared to a Europe-wide average of 0.8%, the extended stay sector in the UK had a 1.96% share of the serviced accommodation market in the same year. This highlights the UK's position as the largest serviced apartments market in the region, due in part to London being home to the global banking industry.

Domestic UK demand for serviced apartments is also higher than the EU27 average; inbound travellers accounting for 34.5% of stays.

Data from the ASAP's members demonstrates London's dominance in a market that is growing steadily despite a shortage of supply. Although 6,000 new apartments will have been added to London's serviced apartments' inventory by 2012, this will still only represent 6% of the capital's serviced accommodation stock. In the meantime occupancy will reach an estimated 90% in 2011 having risen steadily throughout the recession. The average weekly rental will be £920, a rise of over 10% in three years.

Operators regard London as their foothold into the European market, and with an explosion predicted in the outbound Asian travel market, local planning restrictions will not prevent the focus for new supply being centred on buildings with fifty or more apartment units and on five-star, highly upscale boutique apartment brands.

Outside London occupancy in 2011 remains buoyant, but at 75%, this is 15% lower than in the capital. Average weekly rentals are a third lower than those in London.

"At €17 million, the UK accounted for 11.3% of the revenue generated by the EU27 countries' serviced accommodation sector in 2009 – around twice that of Canada."

Serviced Accommodation sector		2008		2009	
UK share of all EU27 Countries total		10.5%		11.3%	
Revenue *	Euros in millions	€19,757		€16,907	-14.5%
Non Residents demand *			34.5%		-7.8%
Residents demand *			65.5%		2.2%
Extended Stay market+		1.70%		1.96%	15.20%
Average hotel room rate X	Euros	€111		€96.6	-13.0%

* Figures from Eurostat

+ The Apartment Service estimate

x Hotels.com

Fig.30: **UK serviced accommodation sector** (Sources: Eurostat, Hotels.com, The Apartment Service)

			2008	2009	2010	2011 (Estimate)
Occupancy % - average	London	%	84	86	89	90
	Regional	%	71	72	76	75
	Y-o-Y change			0.8%	5.6%	0.6%
Average net weekly rental £ - average	London	GBP	887	843	907	920
	Regional	GBP	579	538	594	600
	Y-o-Y change			-7.1%	8.6%	1.3%

Sample represents about 35% (2008) rising to 65% (2010) of the known UK stock

Fig.31: **UK serviced apartments sector performance 2008 – 2011** (Source: ASAP)

> Deloitte estimates that in 2011 branded properties represent 64% of the total serviced apartment capacity in France

France

France is the only exception to a highly fragmented European serviced apartments sector dominated by private operators. The French market is characterised by brands and larger networks.

Deloitte estimates that in 2011 branded properties represent 64% of the total serviced apartment capacity in France, which has seen major consolidation. In 2011 Adagio, a joint venture between Accor and the Groupe Pierre & Vacances Center Parcs, acquired 100% of France's second largest operator Citéa. Adagio is now the largest operator in France and Europe managing 85 aparthotels in 6 countries, representing 10,000 apartments.

Germany

Germany is Europe's second largest serviced apartments market (after the UK), with inventory concentrated in Berlin, Munich and Hamburg. However Ascott Limited has announced plans to expand into Frankfurt as part of a strategy to have 7,000 units available in Europe by 2015.

Like the UK, the German serviced apartments market is dominated by individual operators, but the global aparthotels chains like Ascott, Marriott and Accor are entering the market with their extended stay brands.

Destinations like Berlin have seen many openings of branded aparthotels in the last couple of years driven mostly by a big development in real estate, increasing considerably the supply of serviced apartments. Meanwhile Citadines, Adagio and Residence Inn have all opened aparthotels in Munich.

Frankfurt is Germany's financial and transportation hub, and home to global organisations such as PricewaterhouseCoopers, BNP Paribas and J.P. Morgan. Frankfurt is also one of Europe's leading centres for international and regional trade fairs, attracting millions of visitors each year.

Citadines Messe Frankfurt is Ascott's fourth serviced apartment development and will increase Ascott's German portfolio to 550 apartment units, joining Citadines St Michaelis Hamburg (which opens in 2013), Citadines Kurfürstendamm Berlin and Citadines Arnulfpark Munich.

The addition of Citadines Messe Frankfurt brings Ascott's European portfolio to 5,300+ apartment units in 48 properties, across 22 cities.

Netherlands

The serviced apartments sector in Holland is dominated by smaller operators with less than 10 units - most relying on the internet for distribution. However the larger operators have captured the lion's share of a corporate market that delivers 70% of bookings.

The international extended stay chains have yet to make an impact in the key cities of Amsterdam, Rotterdam and the Hague, but with Amsterdam's city council reviewing their legislation covering short stay visits amidst growing awareness of the serviced apartment market, this could change.

Although Holland has slipped down the table of global relocation destinations (down five places to 17th in 2010), the growth of serviced apartments' share of the serviced accommodation market has seen the Association of Serviced Apartment Providers become established in Amsterdam.

Occupancy and rates have recovered to pre-recessionary levels and the ASAP predicts that the serviced apartments sector will grow. However there is a sense that the operator community does not work closely enough to spread the message about the benefits of services apartments. "*The hotels seem to organise an anti-serviced apartment lobby, so they see us as a true competitor*" says ASAP Netherlands Sicco Behrens.

New properties in Europe

Country	City	Group	Name	Units	Bedrooms
England	Bristol	SACO	SACO Bristol – Broad Quay	72	One two and three
England	London	SACO	SACO Spitalfields	11	One and two
England	London	SACO	Lanterns Court	27	One and two
France	Paris	Ascott Ltd	The Ascott Arc de Triomphe (Residence)	83	One bedroom Studios and Suites
Germany	Berlin	Adina Apartment Hotels	Adina Berlin Hackschermarkt	145	Studio, one and two
Germany	Hamburg	Adina Apartment Hotels	Adina Apartment Hotel Michel	128	Studio, one and two
Scotland	Inverness		Inverness City Suites	6	One and two

(Source: Travel Intelligence Network)

Europe Region Rates

NB the rates are from the lowest to the highest across all property types

	Studio					One Bedroom					Two Bedroom				
	2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09	
	Low	High		Low	High	Low	High		Low	High	Low	High		Low	High
Europe (EUR)															
1-6 nights (nightly rate)	65	275	93 - 393	8%	-4%	90	400	129 - 571	0%	-6%	135	550	193 - 786	8%	-4%
7 nights + (nightly rate)	55	280	79 - 400	6%	4%	80	375	114 - 536	0%	-3%	90	550	129 - 786	0%	-4%
1 month + (monthly rate)	1,300	4,500	1,857 - 6,427	-7%	2%	2,000	5,000	2, 857 - 7,141	0%	2%	2,500	5,500	3,571 - 7,856	-3%	4%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used date 7th July 2011

Rates in Key Cities in Europe

	Studio				One Bedroom				Two Bedroom			
	Q2 2010 Rate - Studio			Variance 10/09	Q2 2010 Rate - One bedroom			Variance 10/09	Q2 2010 Rate - Two bedroom			Variance 10/09
	Local currency	US$	Euro		Local currency	US$	Euro		Local currency	US$	Euro	
Amsterdam												
1-6 nights (nightly rate)	EUR 120	$171	N/A	4%	EUR 204	$290	N/A	5%	EUR 257	$366	N/A	5%
7 nights + (weekly rate)	EUR 798	$1,136	N/A	4%	EUR 1,356	$1,931	N/A	5%	EUR 1,709	$2,433	N/A	11%
One month + (monthly rate)	EUR 3,198	$4,553	N/A	5%	EUR 4,850	$6,906	N/A	8%	EUR 5,625	$8,009	N/A	4%
3 month + (monthly rate)	EUR 3,000	$4,271	N/A	3%	EUR 4,300	$6,122	N/A	4%	EUR 5,200	$7,404	N/A	5%
Frankfurt												
1-6 nights (nightly rate)	EUR 115	$164	N/A	0%	EUR 186	$265	N/A	0%	EUR 245	$349	N/A	0%
7 nights + (weekly rate)	EUR 725	$1,032	N/A	0%	EUR 1,171	$1,667	N/A	0%	EUR 1,543	$2,197	N/A	0%
One month + (monthly rate)	EUR 2,830	$4,029	N/A	0%	EUR 4,313	$6,141	N/A	0%	EUR 5,683	$8,092	N/A	0%
3 month + (monthly rate)	EUR 2,600	$3,702	N/A	0%	EUR 3,900	$5,411	N/A	0%	EUR 5,200	$7,404	N/A	0%
Lisbon												
1-6 nights (nightly rate)	EUR 105	$150	N/A	0%	EUR 140	$199	N/A	0%	EUR 225	$320	N/A	0%
7 nights + (weekly rate)	EUR 595	$847	N/A	0%	EUR 875	$1,246	N/A	0%	EUR 1,155	$1,645	N/A	0%
One month + (monthly rate)	EUR 2,320	$3,303	N/A	0%	EUR 3,412	$4,858	N/A	0%	EUR 4,504	$6,413	N/A	0%
3 month + (monthly rate)	EUR 2,100	$2,990	N/A	0%	EUR 3,250	$4,627	N/A	0%	EUR 4,250	$6,051	N/A	0%
London												
1-6 nights (nightly rate)	GBP 185	$296	€ 207	10%	GBP 264	$422	€ 296	10%	GBP 357	$576	€ 400	10%
7 nights + (weekly rate)	GBP 1,165	$1,863	€ 1,306	10%	GBP 1,663	$2,660	€ 1,865	10%	GBP 2,249	$3,597	€ 2,522	10%
One month + (monthly rate)	GBP 3,850	$6,157	€ 4,317	7%	GBP 5,800	$9,276	€ 6,504	4%	GBP 7,850	$12,554	€ 8,803	4%
3 month + (monthly rate)	GBP 3,600	$5,757	€ 4,037	6%	GBP 5,400	$8,636	€ 6,055	6%	GBP 7,250	$11,595	€ 8,130	5%
Madrid												
1-6 nights (nightly rate)	EUR 79	$112	N/A	5%	EUR 141	$201	N/A	4%	EUR 189	$269	N/A	5%
7 nights + (weekly rate)	EUR 540	$769	N/A	3%	EUR 910	$1,296	N/A	3%	EUR 1,145	$1,630	N/A	1%
One month + (monthly rate)	EUR 1,950	$2,776	N/A	1%	EUR 3,190	$4,542	N/A	3%	EUR 4,220	$6,009	N/A	1%
3 month + (monthly rate)	EUR 1,875	$2,670	N/A	4%	EUR 3,120	$4,442	N/A	3%	EUR 4,010	$5,710	N/A	3%
Moscow												
1-6 nights (nightly rate)	RUB 5,100	$181	€ 127	0%	RUB 5,582	$198	€ 139	0%	RUB 7,174	$254	€ 178	0%
7 nights + (weekly rate)	RUB 32,100	$1,138	€ 799	0%	RUB 31,634	$1,121	€ 787	0%	RUB 45,198	$1,602	€ 1,124	0%
One month + (monthly rate)	RUB 115,000	$4,076	€ 2,861	0%	RUB 116,505	$4,130	€ 2,899	0%	RUB 166,493	$5,901	€ 4,142	0%
3 month + (monthly rate)	RUB 110,200	$3,906	€ 2,742	0%	RUB 111,196	$3,941	€ 2,766	0%	RUB 161,278	$5,717	€ 4,012	0%
Paris												
1-6 nights (nightly rate)	EUR 161	$229	N/A	6%	EUR 249	$355	N/A	6%	EUR 424	$604	N/A	6%
7 nights + (weekly rate)	EUR 900	$1,281	N/A	6%	EUR 1,535	$2,186	N/A	4%	EUR 2,675	$3,809	N/A	6%
One month + (monthly rate)	EUR 3,425	$4,877	N/A	1%	EUR 5,300	$7,546	N/A	1%	EUR 9,250	$13,170	N/A	1%
3 month + (monthly rate)	EUR 3,190	$4,542	N/A	3%	EUR 5,000	$7,119	N/A	2%	EUR 8,800	$12,530	N/A	5%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes
Exchange rates used July 2011

Regional report – Middle East

Martin Kubler
Iconsulthotels FZE

In this edition of the Global Serviced Apartment Industry report we have invited industry experts in every region to provide an overview of their local market. Martin Kubler of Iconsulthotels FZE gives his analysis of the Middle East serviced apartments sector.

The year 2011, to date, certainly developed differently for the region's serviced apartments operators from what most industry professionals expected when 2010 drew to a close.

In the aftermath of the global financial crisis, which also affected many countries in the Middle East, serviced apartment operators had just started to look ahead to improvements in occupancy levels and, to a lesser extent, ADR, when the Arab Spring of 2011 suddenly changed the game plan completely.

Unfolding at a dramatic pace, the events in Egypt did not influence the serviced apartments industry in the Middle East too much, but mainly impacted hotel operators instead, as tour groups and tourists cancelled their Middle East itineraries often at very short notice. Apartment operators in locations perceived as "safe havens", such as Dubai and Abu Dhabi, even managed to pick up business from clients temporarily relocating out of Egypt and, later on, Bahrain.

As developments dragged on and started to affect other countries in the region, such as Syria and Yemen, some of these "temporary" arrangements seemed to become a little more permanent with international companies relocating entire offices from troubled regions to safer locations, particularly the United Arab Emirates and, to a lesser degree, Qatar.

In the United Arab Emirates, particularly in the two main business hubs of Dubai and Abu Dhabi, occupancy rates increased considerably due to an influx of guests from neighbouring countries, yet apartment rates remained very low which was mainly due to supply exceeding demand and a steep decline in residential property rents.

At the beginning of 2009, the Department of Tourism & Commerce Marketing (DTCM) in Dubai registered 165 serviced apartments properties offering 14,969 units. In June 2011, the DTCM statistics showed 189 properties with a total of 20,883 units.

Exact figures for the neighbouring Emirate of Abu Dhabi are not available, but data presented in SCAD's Statistical Yearbook - 2010 shows that the number of Abu Dhabi hotel establishments (of which serviced apartments are an increasingly important part) increased by 5.5% to 115 establishments in 2010. This was accompanied by a growth of 10.2% in the number of hotel rooms.

At the same time, residential rental prices dropped sharply in both Dubai and Abu Dhabi – a trend which is still on-going. In Abu Dhabi, for example, rents declined by 10% in Q4 2010, while many parts of Dubai recorded declines of more than 20%.

While the global financial crisis saw the influx of international corporate clients slow down, many existing residents in the region used the decline in rental prices to trade up and moved from residential apartments and villas into serviced apartments.

This also meant that not only the demand for different unit types, but also the guest mix in many properties changed. While in previous years, studios and one-bedroom units were in high demand, mostly by corporate executives on limited-term assignments, larger units now became more desirable as regionally-based clients and their families increasingly viewed serviced apartments as a viable long-term residential option.

Unfortunately, reliable statistics on guest segmentation in the region's serviced apartments properties are impossible to come by, but anecdotal evidence suggests that regionally-based, long-term clients now make up a good part of residents in such properties.

The market in most parts of the region is still very much controlled by smaller, independent operators, reflecting the history of serviced apartments in the Middle East, which were originally often chosen by Arab travellers who valued the extra space and privacy apartments afford over traditional hotel rooms.

Also the fact that, in the United Arab Emirates, serviced apartments properties are rarely able to obtain a license to serve alcoholic drinks (with very few exceptions, the licensing authorities will only allow properties classified as "hotels" to serve alcohol and there are hardly any stand-alone restaurants or bars), matters less to the mainly Muslim Arab guests.

"2011 has been a strong year for us so far attracting guests from our neighbouring countries, such as Saudi, Qatar and Kuwait, as well as the UK and Russia, who all enjoy the luxury of relaxed living. We expect a steady increase in both our occupancy and annual revenue as we approach 2012 and look forward to prolonged success in the ever-growing Dubai hospitality industry."

David Thomson, Regional General Manager, Jebel Ali International Hotels, talking about the performance of the company's serviced apartments property, Oasis Beach Tower in Dubai.

During the last two to three years, larger regional and international operators, did increasingly enter the market and introduce a variety of extended-stay and serviced apartments products ranging from Accor's SuiteNovotel (Dubai) to IHG's Staybridge Suites (Abu Dhabi) & Intercontinental Residence Suites (Dubai), Marriott's Executive Apartments (Dubai, Doha, Manama), and Rotana's Arjaan Hotel Apartments. The latter is growing particularly fast and currently covers the United Arab Emirates (six properties), Kuwait, Saudi Arabia, Qatar, and Syria (two properties).

Rotana is also the only internationally branded operator with properties in emerging business destinations like Erbil (Kurdistan) and Khartoum (Sudan). Mövenpick Hotels also entered the serviced apartments market recently with mixed use developments such as the Laguna Tower in Dubai. Outside the United Arab Emirates, EWA Hotel Apartments has a strong base in Saudi Arabia (four properties) and ambitious expansion plans which include Bahrain, Sudan, and Oman.

The United Arab Emirates still lead the regional development pipeline, with brands like Rosewood, Fairmont, and St. Regis scheduled to add more than 1,800 serviced apartments units to the existing inventory over the next two years. Qatar will also see a considerable inventory increase over the next two years including the opening of the Hilton Doha Residence and the Le Meridien Doha, which is projected to feature 100 serviced apartments in addition to hotel rooms.

Saudi Arabia, long seen as mostly a religious destination, is consistently increasing its profile as a regional business destination and operators like Kempinski, Hyatt (Summerfield Suites), and Golden Tulip are planning to open serviced apartments / extended-stay properties in the country over the next two years.

The global financial crisis saw serviced apartments in many Middle East destinations increasingly being seen as a viable alternative to hotel by travellers with families, who often prefer to use the kitchen facilities to eating out in restaurants in order to stretch their holiday budgets further.

"The Bonnington has enjoyed good levels of business for the first half of 2011. The improved levels, year on year some 50% increase, are due to our property & brand becoming established in Dubai (we officially opened May 2010), the fact that Dubai and "new" Dubai, including Jumeirah Lakes Towers in particular, are becoming more complete from a construction point of view and the increased demand from Abu Dhabi based guests . The turmoil in neighbouring countries has led to an increased interest in our Hotel Apartments both for short and long terms stays. Looking forward, we see that business will continue at a similar level after the summer with acceptable occupancy figures and rates stabilizing in spite of the introduction of a considerable number of new products in this market."

Alan Bostock FIH, Group Director of Operations, Bonnington Group, talking about the performance of the company's serviced hotel & hotel apartments property, Bonnington Jumeirah Lakes Towers in Dubai.

It is difficult to say where the sector will be in two years from now as much depends on when the current unrests in many countries in the region will settle down. Political and economic developments in countries bordering the region (such as Iran, India) are also worth keeping an eye on as these countries are traditionally strong feeder markets for many Middle East destinations both for business and leisure purposes.

The following trends are, however, clearly visible: In the United Arab Emirates. Smaller and independent operators are finding it increasingly difficult to sustain market share. Often without any F&B operations to speak of or membership in international distribution networks, such operators are still exposed to rising costs (such as charges for government transactions, staff housing, etc.), yet will be unable to open new revenue streams.

Many smaller operators in crowded market places like Dubai are already struggling and some serviced apartments properties in Dubai have even closed during the past 12 months. Larger operators, on the other hand, will increasingly embark on mixed-use projects featuring serviced apartments and hotel rooms and possibly even time-share elements. Time-share legislation and regulation was only recently introduced in the UAE market.

Classification and standardisation is still a major problem in many regions in the Middle East. The definition of what constitutes a serviced apartments property varies considerably not just between different countries in the region, but even between different Emirates in the UAE.

Additionally, unit-size requirements to achieve 'standard' or 'superior' classification also vary very much across the region. Dubai is currently rolling out a new classification system that will see serviced apartments being classified in three rather than the existing two categories. Currently only 'standard' and 'deluxe' categories exist – they will be joined by the newly created category 'superior'.

The differences between the three categories of the new classification system are currently still somewhat unclear. The new system will also see time-share properties, university housing, and self-catering accommodation being classified for the first time. The latter is particularly important and might have significant impact on serviced apartments operators in the UAE.

During the last two years and following complaints by serviced apartments operators, local authorities closed a number of unlicensed accommodation providers which had sprung up across Dubai and offered self-catering or B&B-style accommodation, without following existing operating regulations or paying tourism taxes. The revamped licensing & classification system would make such accommodation options official for the first time ever, thus also allowing service like Airbnb (a global network of accommodations offered by locals) to operate legally in Dubai. In other parts of the Middle East, licensing and classification systems increasingly stress "green" buildings and operating standards. With the regional development pipeline now being much clearer than in the last two years (as several major projects have been officially cancelled, e.g. Trump International Hotel & Tower in Dubai), it should be easier for owners and operators to assess the market place and identify areas that still provide growth opportunities, e.g. Saudi Arabia or Oman.

There is also a marked move away from the traditional leisure & business destinations in the region, e.g. Dubai, Doha, etc. and an emergence of a number of new regional players (Ras al Khaima in the UAE, Erbil in Irak/ Kurdistan, or the Red Sea coast in Saudi Arabia, for example). While some of these are still somewhat unstable, others offer substantial development & growth opportunities. This development is facilitated by the increasing popularity of budget airlines like Air Arabia or FlyDubai, which are constantly adding new regional destinations to their flight schedules.

Looking much further ahead, the Middle East region will see the (re)emergence of a regional train network, which may have an impact on business and leisure travel. The UAE, Saudi Arabia, and Qatar are all planning high-speed rail networks, which could eventually be linked with existing networks in Syria to provide an alternative transportation option to/from the region.

Strategically located between Europe and Asia, the Middle East should continue to benefit from its status as a business and tourism hub (albeit not all parts of the region) and with major events like Formula 1 in Abu Dhabi and Bahrain or the possibility of Qatar hosting the 2022 Football World Cup serviced apartments operators in the region should be able to attract good business in the years ahead.

"There can be no denying the past few months have been difficult trading times for everyone in the [Bahrain] Kingdom, not simply the travel industry. The unrest disrupted everyone's life [but] people can now plan their summer vacations and businesses their corporate travel with confidence and security."

Paul Clabburn, general manager of the Bahrain International Travel Group

"Strategically located between Europe and Asia, the Middle East should continue to benefit from its status as a business and tourism hub"

Bahrain

Expatriates and their families departed Bahrain in droves following news of a major clash planned between Gulf Cooperation Council-supported Bahraini forces and the anti-government movement, in March 2011.

Businesses that evacuated personnel following King Hamad al-Khalifa's institution of a "state of security" included HSBC, Credit Agricole, Norton Rose, Robeco, and Standard Chartered. Just two months later, Marriott announced plans to introduce its Residence Inn by Marriott lodging brand for extended stay travellers in the kingdom before the end of 2011.

Qatar

Serviced apartments already enjoy a substantial share of Qatar's lodging market. In addition to 66 hotels with 9,754 rooms, 24 hotel apartment buildings with 1,563 letting units were in operation at the end of 2010. 2011 will add 31 new hotels (with 6,978 rooms) and 11 new apartment buildings with 1,203 units.

Langham Hotels has announced plans to move into Qatar's capital Doha. Langham Place Doha will open in 2012 and will have 250 hotel rooms and 40 serviced apartments.

UAE

The hotel sector in UAE capital Abu Dhabi's increased by 1,740 new hotel rooms in 2010, while the total number of hotels operating in the emirate rose to 116, up 5.5% on 2009. The number of hotel rooms outstrips the number of apartments by a factor of 1.5.

The local serviced apartments sector enjoys average stays of two nights longer than hotels, as well as higher occupancy. This is attributed to the fact that average rents per room in hotel apartments are lower than those of hotels rooms.

Apartments are the preferred standard of accommodation for 19.8% of guests staying in the UAE. This compares to 34.3% who prefer to stay in five-star hotels and 20.7% in four-star hotels.

Dubai's Department of Tourism and Commerce Marketing (DTCM) has announced a new star ratings' hotel classification scheme with new criteria that better reflect the variety of the emirate's accommodation options.

In the first quarter of 2011, Dubai's hotels reported 13.6% growth in guests. Of the 2.38 million people who stayed in Dubai, 1.84 million guests stayed in hotels and 533,190 in serviced apartments.

Overall hotel revenues recorded a 16.3 per cent hike to AED4.36 billion, rising from AED3.75 billion. Of this, hotels generated AED3.73 billion and hotel apartments generated Serviced apartment occupancy increased by 5.5 percentage points to 78.5 per cent up from 73 per cent.

New properties in the Middle East

Country	City	Group	Name	Units	Bedrooms
Qatar	Doha	Bridgestreet	Les Roses Residence	29	Studio, one , two and three
Qatar	Doha	The Ascott Ltd	Ascott Doha	229	One, two and three
United Arab Emirates	Dubai	The Ascott Ltd	Ascott Park Place Dubai	118	One, two and three plus two-storey lofts

(Source: Travel Intelligence Network)

Middle East Region Rates

NB the rates are from the lowest to the highest across all property types

	Studio					One Bedroom					Two Bedroom				
	2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09	
	Low	High		Low	High	Low	High		Low	High	Low	High		Low	High
Middle East (AED)															
1-6 nights (nightly rate)	280	1,800	76 - 490	0%	3%	500	2,000	136 - 544	0%	5%	600	2,400	163 - 653	0%	4%
7 nights + (nightly rate)	265	1,600	72 - 436	0%	2%	450	1,650	123 - 449	0%	2%	550	2,200	150 - 599	2%	5%
1 month + (monthly rate)	8,000	42,500	2,178 - 11,570	0%	0%	7,750	44,000	2,110 - 11,979	1%	2%	8,500	60,000	2,314 - 16,335	0%	3%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used date 7th July 2011

Rates in Key Cities

	Studio				One Bedroom				Two Bedroom			
	Q2 2010 Rate - Studio			Variance 10/09	Q2 2010 Rate - One bedroom			Variance 10/09	Q2 2010 Rate - Two bedroom			Variance 10/09
	Local currency	US$	Euro		Local currency	US$	Euro		Local currency	US$	Euro	
Dubai												
1-6 nights (nightly rate)	AED 456	$124	€ 87	5%	AED 682	$186	€ 130	5%	AED 890	$242	€ 170	5%
7 nights + (weekly rate)	AED 2,830	$770	€ 541	3%	AED 4,175	$1,137	€ 798	2%	AED 5,500	$1,497	€ 1,051	3%
One month + (monthly rate)	AED 10,200	$2,777	€ 1,949	1%	AED 17,250	$4,696	€ 3,297	1%	AED 23,400	$6,370	€ 4,472	1%
3 month + (monthly rate)	AED 9,900	$2,695	€ 1,892	4%	AED 17,000	$4,628	€ 3,249	1%	AED 22,500	$6,125	€ 4,300	1%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes
Exchange rates used July 2011

Regional Report – USA & Canada

Mark Skinner
The Highland Group

In this section, we look at the extended stay and corporate housing markets across North America, including Canada, with contributions from experts in both sectors. First, Mark Skinner from the Highland Group provides an overview of both extended stay and corporate housing markets in the region.

With the number of corporate housing units and extended-stay hotel rooms approaching 400,000 North America is the world's largest region for extended-stay lodging product.

Although the supply of units is less than 7% of total lodging supply, annual room revenues approached $9 billion in 2010. Room night demand and room revenues at US extended-stay hotels reached all-time highs in 2010 as the segment rebounded strongly from the cyclical low point in 2009. Significant growth in US extended-stay room supply is very unlikely to occur before 2013. A RevPAR increase of 7% to 9% is expected in 2011 and the potential is high for a stronger RevPAR gain in 2012.

Because the great majority of US corporate housing units are leased inventory they can be adjusted quickly in response to changes in demand. Unit supply increased by 2,926 in 2010 and it is forecast to rise by another 2,000. That forecast is likely to be conservative if overall lodging demand growth projections for 2011 are accurate.

Slowdown or upswing?

The slowdown in new hotel construction in the US coincides with an upswing in the lodging business cycle. This gives the US corporate housing segment an opportunity to gain a greater share of overall lodging room revenues over the next few years. During the last expansionary period between 2002 and 2007, US corporate housing room revenues almost doubled.

"The demand for US apartments dropped 15% - 42% based on market during the recession. Although the rebound is happening, few markets have fully recovered because operators may be cautious on adding back inventory, and inventory in some markets like New York is scarce."

Gavan James of Nomad Temporary Housing

	2010	2009	2008
US Hotel Rooms	4.73 million	4.64 million	4.5 million
US Corporate Housing Units	66,147	61,280	73,385
US Extended Stay Units(ES)	322,184	315,357	295,707
Upscale ES Units	134,575	130,153	120,183
ES Growth 09-10	2.2%	6.6%	6.7%
ES Units Under Construction YE	6,211	11,456	26,160
Upscale Units	3,158	7,468	16,853
Projected 2010-15 Annual Growth Rooms	2.4%		

Fig.33: **The North American lodging market** (Source: The Highland Group, STR Global)

USA – Corporate Housing

In 2010 the US corporate housing rebounded from the deep recession the entire lodging industry experienced in 2009. Revenues increased by approximately 7.4% to $2.47 billion annually. Nominal revenues in 2010 were about equal to annual revenues in the 2005-2006 periods.

Managing inventory kept occupancy levels high relative to other lodging segments and helped US corporate housing providers avoid discounting average rate in 2010. At $115.88 in 2010, the corporate housing average rate was 1.3% higher than in 2009. This compares to the 0.9% decline in average rate for upscale extended-stay hotels, the lodging segment that is most similar to corporate housing.

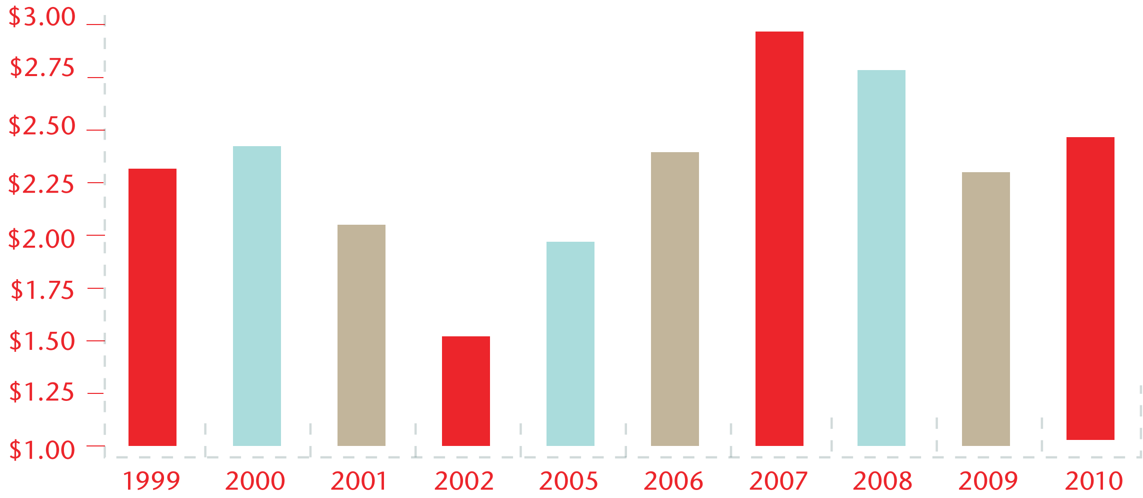


Fig.34: **US Corporate housing room revenues ($ billion)** (Source: The Highland Group)

NB - Data not available for 2003 and 2004

Serviced apartments, also known as

- *Corporate Housing (US)*
- *Temporary Housing (US)*
- *Temporary Accommodation (US)*
- *Furnished Apartments (US)*
- *Furnished Apartments (Canada)*
- *Short Term Rentals (Canada)*
- *Corporate Housing (Canada)*

Demand & Supply

In 2010 the US corporate housing market was estimated at approximately 65,396 units. Corporate housing provider companies project a 3% increase in units in 2011. This is a conservative estimate considering the more aggressive growth in overall lodging demand and the corporate housing industry's ability to make quick changes in inventory.

If the early indications of another strong increase in lodging demand continue in 2011, corporate housing can be expected to increase inventory by more than 3% in 2011.

With the contraction of the corporate housing inventory and growth in hotel supply since 1997, the industry's share of total US lodging inventory fell from 1.75% in 2007 to 1.33% in 2009, before increasing to 1.36% in 2010.

Due to the upscale extended-stay segment's rapidly expanding inventory, corporate housing's share of this comparable lodging segment declined from 42% to 33% over the same period. Restricted financing for new development means that the growth rate in hotel room supply will slow considerably in the foreseeable future and corporate housing's market share should increase as a result.

This trend occurred during the last post recessionary period as well. At that time, corporate housing inventory grew more than 42% in five years to peak at 78,036 units in 2007. According to Smith Travel Research (STR), the hotel room supply increased by just under 4% over this same period.

Most corporate housing units in the US are leased which makes it relatively easy for corporate housing providers to adjust inventory according to expected changes in demand. Consequently, there can be wide variations in inventory in specific markets and sub-markets. In 2010 five of the larger markets in the US (Austin, Baltimore, Miami, Northern New Jersey, and San Antonio) reported inventory growth of 20% or more. Conversely Charlotte, Memphis and Raleigh-Durham-Chapel Hill reported inventory loss ranging from 13% to 22%.

Average rates started to climb overall occupancy in the US corporate housing industry increased to 89.2% in 2010, up from 88.1% in 2009. Prior to the recession, occupancy trended closer to 90% each year. As the economy improves, occupancy is expected to return to this level.

Average rates started to climb in all sectors of the hotel industry around the middle of 2010 and this has continued into 2011. Corporate housing rates followed a similar trend. According to STR, hotels reported a 0.1% reduction in average rate over the same period. Corporate housing also fared better than extended-stay hotels which reported a 2% fall in average rate in 2010 from 2009.

USA – Extended Stay Hotels

Extended-stay room supply grew to over 322,000 in 2010 but the 2.2% increase was the slowest rate of supply growth for at least 20 years. Rooms under construction fell to 6,211 at the end of 2010 which was the lowest since the early 1990s. New room openings are expected to decline further in 2011 and possibly again in 2012.

Segment	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Economy	6,336	7,077	2,957	748	758	1,166	416	226	1,054	952	645	324	285
Mid-Price	19,294	11,413	7,395	4,617	3,954	2,261	1,812	2,735	5,145	8,697	8,116	3,664	2,768
Upscale	8,531	6,842	6,899	6,488	4,960	5,902	6,483	9,525	10,758	20,231	17,399	7,468	3,158
Total	34,161	25,332	17,251	11,853	9,672	9,329	8,711	12,486	16,957	29,880	26,160	11,456	6,211

Fig.35: **US extended stay rooms under construction (years ending)** (Source: The Highland Group)

The contraction in supply growth coincided with a 13.4% increase in demand which was the largest annual increase for a decade. Occupancy rose to 72.1%, its biggest one year gain ever reported but still short of the peaks attained in 2000 and in 2005. Extended-stay hotel average occupancy was 14.5 percentage points above the overall US hotel average as reported by STR in 2010.

Extended-stay hotel average rate declined 2% to $73.77 in 2010. This was the second consecutive year of decline as nominal average rate fell to a level last seen in mid-2006. Despite the decline in average rate, extended-stay room revenues climbed to a record $6.21 billion in 2010. This was almost twice the level reported 10 years ago.

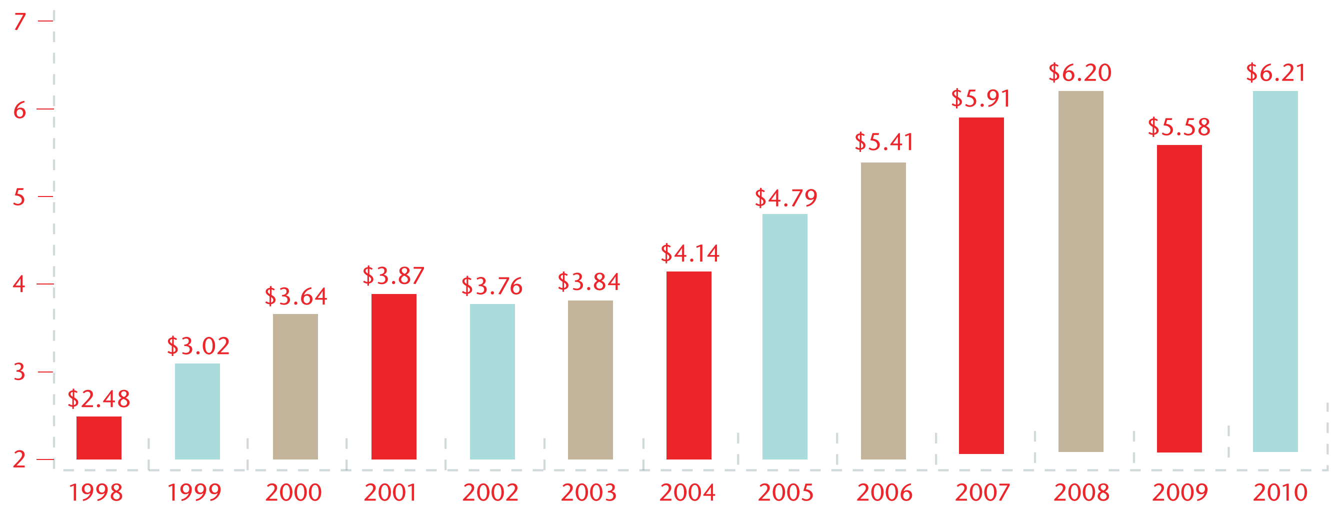


Fig.36: **US extended stay hotel annual revenues (£ billions)** (Source: The Highland Group)

Extended-stay hotel RevPAR was up 7.1% in 2010 compared to 2009 but it is still 12% short of the most recent peak set in 2007. Nominal RevPAR is unlikely to return to its previous peak until early 2012.

Main cities for business stays

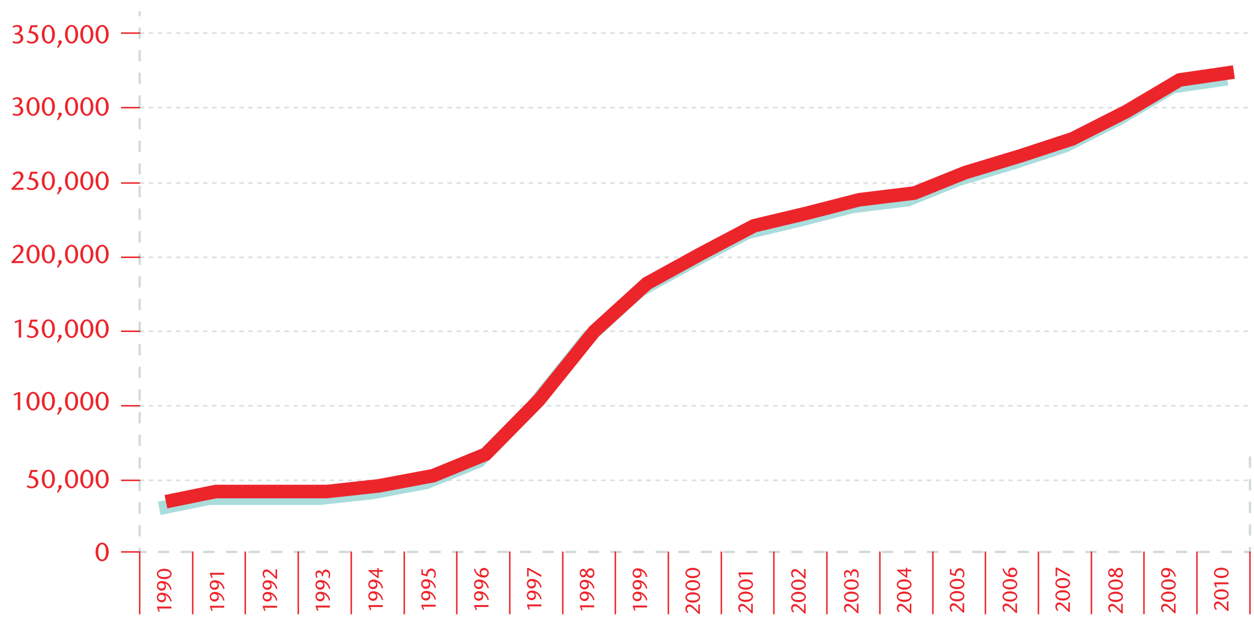
1 Washington DC
2 New York
3 Chicago
4 Atlanta
5 Philadelphia
6 Houston
7 Dallas
8 Baltimore
9 Texas East
10 Ohio Area

Source: Hampton, Hilton Garden Inn and Homewood Suites

US extended stay market summary

- There were 323,051 extended-stay hotel rooms at the end of the first quarter 2011
- Annual rate of increase in room supply is the slowest in 20 years
- Net increase in extended-stay supply since the end of 2010 was 867 rooms
- Extended stay demand increased 7% in the first quarter of 2011
- Mid-price extended-stay hotels are increasing rates at the fastest pace

Fig.37: **US extended stay room supply 1990 - 2010**



(Source: the Highland Group)

Fig.38: **Extended stay brands in the US by average daily rate range**

Upscale $90+	Mid-Price $40-$90	Economy Under $40
Homewood Suites by Hilton	Candlewood Suites (IHG)	Budget Suites
Hyatt Summerfield Suites	Chase Suite Hotels	Crossland Suites
Larkspur Landing	Crestwood Suites	InTown Suites
Residence Inn by Marriott	Extended Stay America	Lodge America
Sierra Suites	Extended Stay Deluxe	Savannah Suites
Staybridges Suites (IHG)	Hawthorn Suites	Studio 6
Woodfin Suites	Homestead Studio Suites Hotels	Suburban Extended Stay Hotels by Choice Hotels
	Home-Towne Suites	
	Home 2 Suites by Hilton	Sun Suites
	Mainstay Suites by Choice Hotels	Other Independents
	Studio Plus	
	TownePlate Suites by Marriott	

(Source: the Highland Group)

Canada

The Canadian accommodation market is estimated to be worth CAD$1.7bn in 2011, which shows overall growth of 5% on 2010. In-bound demand accounts for 25.8% of that demand, which is predicted to fall by 5.8% in 2011 over 2010. However this is offset by a 2.6% increase in domestic demand which accounts for three-quarters of all accommodation

The combined Canadian extended stay and corporate housing market is estimated to generate total revenues of CAD$376m in 2011, up on 2010. This means that serviced apartments enjoy a 3.2% of the overall Canadian accommodation market, although that share has grown by just 0.1% in each of the last three years.

Research on Canadian executive suites, or corporate housing, is relatively new and more providers are surveyed from this industry segment each year. From our research, the Canadian corporate housing market also rebounded in 2010. Occupancy rates grew, with average rates remaining similar to 2009 rates. With 5,200 units reporting, the Canadian corporate housing industry is estimated to generate $180 million (Canadian) annually. With only a portion of Canadian companies participating in this research, we believe the Canadian industry is significantly larger than $180 million a year.

We have been researching the Canadian corporate housing market for three years compared to more than a decade for the US. The Canadian research is evolving, with more corporate housing companies contributing data from more Canadian markets. The supply of units in Canada was estimated at 5,161 in 2010, an increase from the estimated 4,197 in 2009.

Most of this increase is attributable to greater participation in, and better understanding of, the survey this year. Respondents reported that the Canadian market is expanding and they expect a 1% increase in overall units in 2011 compared to 2010.

Location, Location

Canadian corporate housing in our research is concentrated heavily into three markets – Toronto (2,394), Vancouver (1,212) and Calgary (859). Vancouver reported a 46% increase in units in 2010 largely as a result of hosting the Winter Olympics. A decline in inventory of about the same amount is forecast for 2011. Calgary (8%) and Toronto (12% downtown and 7% suburbs) are forecasting strong growth in the number of units in 2011 compared to 2010.

Canadian occupancy rose 3 percentage points to 81% in 2010 compared to 2009 when it fell sharply from the previous year. The relatively high proportion of fixed (owned by the provider rather than leased) corporate housing inventory in Canada compared to the US results in lower average occupancy in Canada.

Average daily rates followed a similar trend as in the US, decreasing in 2009 and then growing slightly in 2010. Corporate housing average rate was $116.91 in Canada in 2010.

Accomodation Market	2008	2009	2010	2011	% Chg
(CAD expressed in millions)					
Total Revenues	11,584	10,854	11,180	11,739	0.4%
International Demand	3,737	3,298	3,170	3,088	-5.8%
Domestic Demand	7,847	7,557	8,010	8,651	2.6%
Extended Stay Market	336	326	347	376	3.0%

Fig.39: **Canadian accommodation market** (Source: CHPA Conference / Jeff Brookhouser, Premiere Executive Suites)

Canada – extended stay hotels

Extended stay hotels make up around 1% of the total hotel room inventory in Canada compared to 7% in the US (source: HVS). There are five main extended-stay brands, collecting operating 37 properties in Canada. These are as follows:-

- Candlewood Suites
- Extended Stay Deluxe
- Homewood Suites
- Residence Inn
- Staybridge Suites

In 2011, a further six properties will open, adding a further 767 guest rooms to an inventory that stood at 200,000 in July 2010,with many more extended stay hotels in the pipeline. This new supply will be operated by the brands listed above, and by new entrants Towneplace Suites, Suburban Extended Stay and MainStay Suites, which is the Choice Hotels International extended stay brand.

With most of the incumbent brands being upper-scale, Choice believes there to be a gap in the Canadian market for mid and economy products in secondary locations and plans to build 30 MainStay Suites and Suburban Extended Stay hotels across Canada over the next three years, starting in Sherwood Park, Alberta.

Suburban Extended Stay is Choice Hotels International's economy extended stay brand. To date, about half of the extended stay hotels planned for Canada fit this model.

Locations	Rooms	Occupancy (%)		Average room rate ($CAD)	
		2010	2009	2010	2009
Montreal	16,022	60.2%	56.1%	$131.87	$126.40
Toronto	28,983	67.4%	60.2%	$134.67	$129.50
Vancouver	17,887	68.5%	63.8%	$159.75	$135.90
PROVINCES					
Alberta	33,409	57.7%	59.7%	$134.49	$137.75
British Columbia	33,177	61.7%	60.0%	$151.34	$154.26
Ontario	80,329	59.7%	50.5%	$122.45	$121.11
The rest	9,796	325 (Northwest territories) to 6,900 (Saskatchewan)			
TOTAL	200,011	60.0%	58.2%	$129.51	$125.97

Fig.40: **Extended stay hotels in Canada (YTD at July 2010)** (Source: HVS/STR Global)

Kimberly Smith
Corporate Housing Providers Association

Corporate housing – another perspective

By Kimberly Smith, President, Corporate Housing Providers Association

In the United States, business lodging is generally referred to as corporate housing, however there are other terms used such as “temporary housing” or housing in various market segments, for example. insurance housing. All aspects of “furnished monthly housing” in the U.S. has seen an increase in demand over the last year and expectations and indicators point to increased demand in the next few years.

Corporate housing in the US has traditionally been divided into 4 supply segments:

- Service companies - these companies rent apartments, furnish and equip them, then offer the apartments as corporate housing rentals.
- Apartment companies – they own or manage large apartment complexes. These companies use some of their inventory as furnished corporate housing units.
- Management companies – which are real estate property management companies that manage properties owned and furnished by individual real estate investors.
- ‘By owner’ properties - where owners of furnished residential properties rent out their properties directly to travellers.

Corporate housing is a fluid and evolving industry as evidenced by the recent mergers and big project deals that have been in the headlines in the last few months. Moving forward, expanding and servicing new markets is prevalent throughout the industry. As business travel increases, so does the demand for housing.

However, as a result of the tight credit market, there is a significantly reduced supply of new hotels opening. This is just one opportunity for corporate housing to manage this spill-over demand and introduce more individuals and companies to this lodging choice.

Economic factors

There are two major economic factors affecting the U.S. corporate housing market: (1) Lack of access to development capital, and (2) Increased demand on apartment housing. As a direct result of the credit crunch from the past few years, developers have been unable to fund new hotel and apartment projects.

Demand for hotel rooms has continued to grow, and with no significant inventory hitting the market, the corporate housing industry has seen an increased demand from hotel overflow. Demand for apartments is also on the rise as homeownership has suffered in the U.S. and lack of new inventory has made apartment inventory hard to find and has caused rates to rise. Corporate housing providers are concerned about these inflationary market factors.

As recently featured on CNBC, another current trend impacting corporate housing providers is the re-emergence of the need for mobility. For years corporate housing was a part of any corporate relocation, but it later evolved into “lump sum” relocations where the employee could choose to stay in corporate housing or keep the cash.

Mobility

Today, the big question everyone is asking, “Is the lack of mobility one of primary factors stunting job growth?” As we move forward, how can corporate housing develop to better serve both the corporate relocation individual and the individual who just needs to move to find the next job and is no longer getting any relocation package?

While we can never predict the future, we do know that corporate housing in the U.S. is growing and the industry anticipates reporting good growth and revenue numbers for 2011. Further, corporate housing providers anticipate continued demand in 2012, however, they are a bit worried about possible inflation of rental rates on unfurnished supplies and stand alert for possible new regulatory and tax challenges.

Corporate housing at a glance

- Revenues increased by approximately 7.4% to $2.47 billion annually.
- Corporate housing average rate was 1.3% higher than in 2009, at $115.88 in 2010.
- US corporate housing market is estimated at approximately 65,396 units.
- Corporate housing provider companies project a 3% increase in units in 2011.
- Washington DC is the largest market with 5,962 estimated units followed by Los Angeles, New York and Houston.
- Occupancy in the US corporate housing industry increased to 89.2% in 2010, up from 88.1% in 2009.
- Average stay in a US corporate housing unit was 83 nights in 2010, down from the all-time high of 92 nights in 2009.

"There are two major economic factors affecting the U.S. corporate housing market: (1) Lack of access to development capital, and (2) Increased demand on apartment housing."

Key trends in the US serviced apartment sector

"The demand for temp apartments is sharply on the rise for most U.S. markets. Clients are focusing on location, then prices - people want the right location and options to choose from. Demand has rebounded sharply for New York, Los Angeles, Seattle, and Chicago. Chicago suffered deeply in the recession, but is finally coming back. Lengths of stay vary, but are increasing. We still have plenty of 30 day stay limits, policies set by employers and relo companies. However, we are seeing more and more 90 day allocations or longer. People travelling with household pets seems to be increasing."

Gavan James of Nomad Temporary Housing

Americas Region Rates

NB the rates are from the lowest to the highest across all property types

	Studio					One Bedroom					Two bedroom				
	2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09		2010 average rates Local Currency		US$	Variance Y-o-Y 10/09	
	Low	High		Low	High	Low	High		Low	High	Low	High		Low	High
North America/Canada (USD)															
1-6 nights (nightly rate)	85	200		-11%	-9%	130	350		-4%	-3%	175	450		-3%	-2%
7 nights + (nightly rate)	70	205		0%	-7%	130	330		2%	-1%	170	400		0%	-6%
1 month + (monthly rate)	1,750	3,200		-5%	3%	1,850	4,000		-5%	5%	2,250	4,750		-4%	4%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes. Exchange rates used date 7th July 2011

Rates in Key Cities

	STUDIO				ONE BEDROOM				TWO BEDROOM			
	Q2 2010 Rate - Studio			Variance 10/09	Q2 2010 Rate - One bedroom			Variance 10/09	Q2 2010 Rate - Two bedroom			Variance 10/09
	Local currency	US$	Euro		Local currency	US$	Euro		Local currency	US$	Euro	
New York												
1-6 nights (nightly rate)	USD 195	N/A	€ 137	2%	USD 270	N/A	€ 190	-4%	USD 385	N/A	€ 271	-1%
7 nights + (weekly rate)	USD 1,280	N/A	€ 899	1%	USD 1,880	N/A	€ 1,321	1%	USD 2,590	N/A	€ 1,820	-1%
One month + (monthly rate)	USD 3,275	N/A	€ 2,301	1%	USD 4,560	N/A	€ 3,204	1%	USD 5,000	N/A	€ 3,513	-2%
3 month + (monthly rate)	USD 2,975	N/A	€ 2,090	-1%	USD 3,800	N/A	€ 2,632	-1%	USD 4,800	N/A	€ 3,372	0%
Toronto												
1-6 nights (nightly rate)	CAD 101	$103	€ 72	2%	CAD 124	$126	€ 89	2%	CAD 150	$153	€ 107	3%
7 nights + (weekly rate)	CAD 670	$683	€ 480	2%	CAD 775	$790	€ 555	1%	CAD 975	$994	€ 699	1%
One month + (monthly rate)	CAD 2,345	$2,390	€ 1,680	2%	CAD 2,770	$2,824	€ 1,985	3%	CAD 3,400	$3,466	€ 2,436	1%
3 month + (monthly rate)	CAD 2,035	$2,074	€ 1,458	2%	CAD 2,400	$2,446	€ 1,720	1%	CAD 3,225	$3,287	€ 2,311	1%

Disclaimer: These rates are average rates and may vary per location, time of year, regional promotions and specific lengths of stays
Rates quoted are based on average 4 star extended stay properties and exclude taxes
Exchange rates used July 2011

Global Serviced Apartment Listings
by Bard Vos

		Locations	Apartments
Accor	Adagio (Europe)	35	4,593
	Mercure (South America+ Australia)	65	6,780
	Studio 6 (Americas)	62	6,883
	Suite Novotel (EMEA) (new entry)	28	3,529
	Total	**190**	**21,785**
The Ascott Ltd.	Ascott The Residence	23	4,378
	Citadines	71	9,988
	Somerset	53	8,984
	Other Serviced Residences	62	4,728
	Total (incl approx 6,000 prop under development)	**209**	**28,078**
Choice Hotels	Mainstay	40	3,098
	Suburban	63	7,351
	Total	**103**	**10,449**
Extended Stay Hotels	Crossland	34	4,400
	Extended Stay America	363	41,000
	Extended Stay Deluxe	109	11,200
	Homestead Suite Studios	131	17,000
	Studioplus	46	3,600
	Total	**683**	**77,200**
Frasers Hospitality	Fraser Residence	10	914
	Fraser Suites	21	3,895
	Fraser Place	12	1,591
	Modena Residence (new brand)	3	89
	Total	**46**	**7,089**
Intercontinental Hotel Group (IHG)	Candlewood Suites	300	28,972
	Staybridge USA	193	21,178
	Staybridge ROW	5	748
	Total	**498**	**50,898**
Marriott	Executay	186	5,500
	Marriott Executive Apartments	21	2,905
	Residence Inn	625	84,000
	Town Place Suites	198	19,500
	Total	**1,030**	**111,905**
Pierre & Vacances	Pierre & Vacances	80	9,059
	Maeva	177	13,193
	Citea	55	5,381
	Total	**312**	**27,633**

Top 15 Global Suppliers

1	**Marriott**	1,030	111,905
2	**Extended Stay Hotels**	683	77,200
3	**Intercontinental Hotel Group (IHG)**	498	50,898
4	**The Ascott Ltd**	209	28,078
5	**Pierre & Vacances (new entry)**	312	27,633
6	**Hilton Homewood Suites**	241	26,484
7	**Oakwood Corp Housing (estimated)**	1,895	25,873
8	**Accor Hotels**	190	21,785
9	**Value Place (new entry)**	175	20,300
10	**Mantra Group (formerly Stella Hospitality)**	67	12,800
11	**Choice Hotels**	103	10,449
12	**Hawthorn Suites (part of Wyndham Group)**	92	10,000
13	**Frasers Hospitality**	46	7,089
14	**Quest Serviced Apartments**	136	6,392
15	**Residhotel (France)**	33	2,437
	Sub Total	**5,710**	**439,323**

REGIONAL SUMMARIES

AUSTRALIA/NEW ZEALAND

		Locations	Apartments
Best Western Australia		19	300
Central Group		13	650
Citadines Aparthotels	The Ascott Ltd	1	380
Fraser Place	Frasers Hospitality	1	115
Fraser Suites	Frasers Hospitality	1	256
Mantra Group (formerly Stella Hospitality)		67	12,800
Medina Serviced Apartments	Toga Hospitality	25	2,176
Mercure Serviced Apartments (new entry)	Accor	30	1,600
Meriton Serviced Apartments		8	1,400
Mirvac Hotels and Resorts		36	2,000
Oaks Apartments		37	4,316
Punt Hill Serviced Apartments		15	707
Quest Serviced Apartments	Quest	136	6,392
Sheraton Mirage Port Douglas (new entry)	Sheraton (Starwood)	1	90
Somerset Serviced Residences	The Ascott Ltd	7	504
Terrace Villas (new entry)		1	50
Waldorf Serviced Apartments		40	2,800
Other		556	13,457
	Total	**994**	**49,993**

THE AMERICAS/CANADA

		Locations	Apartments
Bridgestreet (estimated)		130	2,145
Candlewood Suites	Intercontinental Hotel Group (IHG)	300	28,972
Chase Suite Hotels (new entry)		12	1,535
CitiSuites San Francisco		1	500
Conrad Miami (new entry)		1	76
Crossland (new entry)	Extended Stay Hotels	34	4,400
Element Hotels (new entry)	Starwood	1	100
Executay	Marriott	186	5,500
Extended Stay America	Extended Stay Hotels	363	41,000
Extended Stay Deluxe	Extended Stay Hotels	109	11,200
Fen Hoteles (new entry)		2	96
Four Seasons		5	650
Four Seasons Houston		1	64
Furnished Quarters		4	1,054
Hawthorn Suites	Wyndham Worldwide	92	10,000
Homestead Suite Studios	Extended Stay Hotels	131	17,000
Homewood Suites	Hilton	241	26,484
In Town Suites (new entry)		138	6,900
Korman Communities		10	1,890
LOI Suites (Argentina/Brazil) (new entry)	Hyatt	5	332
MainStay Suites	Choice Hotels	40	3,098
Mandarin Oriental New York (new entry)	Mandarin Oriental	1	65
Marriott Executive Apartments Sao Paulo	Marriott	1	114
Mercure Serviced Apartments	Accor	35	5,180
Oakwood (estimated)	Oakwood Corp Housing	1,850	22,800
Premiere Suites		15	750
Residence Inn (Marriott)	Marriott	625	84,000
Signature Properties (New York)		8	500
Staybridge Suites (Americas)	Intercontinental Hotel Group (IHG)	193	21,178
Studio 6	Accor	62	6,883
Studio Plus	Extended Stay Hotels	46	3,600
Suburban	Choice Hotels	63	7,351
Summerfield Suites	Hyatt	35	5,000
Temporary Living (new entry)		6	275
Today Living Group (new entry)		6	50
Value Place (new entry)		175	20,300
Town Place Suites	Marriott	198	19,500
Other		510	35,684
Total		**5,635**	**396,226**

ASIA

		Locations	Apartments
8 on Claymore Serviced Residences (new entry)	Summit Serviced Residences	1	85
Asahi Homes (Tokyo) (new entry)		6	185
Ascott The Residence	The Ascott Ltd.	18	3,669
Best Western	Best Western	2	162
Citadines Aparthotels	The Ascott Ltd.	26	4,554
Compass Hospitality		10	1,562
Easy Beijing (new entry)		1	200
Fraser Place	Frasers Hospitality	7	1,162
Fraser Residence	Frasers Hospitality	5	794
Fraser Suites	Frasers Hospitality	12	2,765
Green Tree Suites (China) (new entry)		1	200
Heritage Hotels		10	150
Kasemkij Properties (Thailand)		18	3,000
Kempinski Residences	Kempinski Hotels	6	500
Lanson Place (new entry)		5	705
Marriott Executive Apartments	Marriott	11	1,858
Modena Residence (new entry)	Frasers Hospitality	3	689
Oakwood	Oakwood Corp Housing (est)	17	2,700
Other Serviced Residences	The Ascott Ltd.	59	4,490
Ovolo Group (new entry)		5	237
Pan Pacific Serviced Suites (new entry)	Pan Pacific Hotels	1	126
Royal Comfort Apartments (Bangalore) (new entry)		2	19
Shama Group		13	1,552
Shangri-la Resorts and Apartments	Shangri-la Hotels	14	537
Sheraton Nha Trang Hotel & Spa in Nha Trang (new entry)	Starwood Hotels	1	7
Signature Crest (India) (new entry)		10	172
Somerset Serviced Residences	The Ascott Ltd.	44	8,162
Star City Hotels (Chennai) (new entry)		5	172
Other		16	1,945
Total		**329**	**42,359**

MIDDLE EAST

		Locations	Apartments
Arjaan Hotel Apartments (new entry)	Rotana Hotels	8	1,273
Ascott The Residence	The Ascott Ltd.	3	547
Bavaria Executive Suites (Dubai)		1	2,100
Bavaria Executive Suites (Sharjah)		1	400
Bonnington Jumeirah Lakes Towers		1	272
EWA Hotel Apartments		6	257
Fraser Suites	Frasers Hospitality	3	387
Golden Sands (Dubai)		1	600
Green Lakes (Dubai) (new entry)	Emirates Hotels & Resorts	1	181
Intercontinental Suites (Dubai) (new entry)		1	212
Layia Hospitality (new entry)		4	349
Marriott Executive Apartments (Dubai, Doha, Manama)	Marriott	4	526
Mövenpick Hotels & Resorts (new entry)		3	903
Nuran Serviced Residences (Dubai) (new entry)		2	320
Oasis Beach Tower (Dubai) (new entry)		1	180
Radisson Blu (Bahrain & Dubai) (new entry)		2	289
Residence Suites (Dubai) (new entry)	Intercontinental Hotel Group (IHG)	1	212
Somerset Serviced Residence	The Ascott Ltd.	2	318
Staybridge Suites	Intercontinental Hotel Group (IHG)	1	164
Suite Novotel Dubai	Accor	1	180
Other		172	16,259
Total		**219**	**25,929**

EUROPE

		Locations	Apartments
Achat Hotels		14	1,046
Acora Hotel und Wohnen (new entry)		4	627
Acorn (new entry)		10	163
Adagio	Accor	35	4,593
Adina Apartment Hotels (new entry)		7	895
Aedifica (new entry)		2	272
Altis Hotels (new entry)		2	120
Aparthotels & Residences (new entry)		2	60
Arass Suites (new entry)		1	83
Art Appart (new entry)		2	60
Ascott The Residence	The Ascott Ltd.	2	162
ATA Hotels		6	517
Babka Towers (new entry)		1	85
Best Western		20	500
Bridgestreet (estimated)		38	1,200
Buroma Apartsuites (new entry)		30	160
Centro Residence (new entry)		1	18
Cheval residences (new entry)		6	270
Citadines Aparthotels	The Ascott Ltd.	44	5,054
Citea	Pierre & Vacances	55	5,381
City Hotels (new entry)		9	719
Derag Apartmenthotels		11	1,465
Domus Residence (new entry)		1	38
Eden Hotels (new entry)		4	833
Erel Group (new entry)		2	16
ESPA Hotels (new entry)		4	240
Eurohotel & Suites (new entry)		1	137
Excellior (new entry)		3	210
Fraser Place	Fraser Hospitality	4	314
Fraser Residence	Fraser Hospitality	5	120
Fraser Suites	Fraser Hospitality	5	487
Freedom Serviced Apartments (new entry)		3	35
G-Hotel		8	717
Golden Leaf Hotels & Residences (new entry)		1	170
Grandom Suites (new entry)		1	9
Hellsten Hotel Apartments (new entry)		3	195
Hoteles Quo (new entry)		3	100
HSH Group - Germany (new entry)		2	60
Htel Serviced Apartments (new entry)		2	280
Innside Premium Hotels		10	1,412
Levante (new entry)		2	39
Lindner Hotels & Residences (new entry)		24	197
Maeva (new entry)	Pierre & Vacances	177	13,193
MaMaison (new entry)		6	279
Marlin Apartments (new entry)		8	600
Marriott Executive Apartments	Marriott	5	407
My Suite Apparthotels (Now: Park & Suites)		45	4,040
Oakwood - UK	Oakwood Corp Housing (est)	28	373
Old Town Apartments (new entry)		4	189
Other Serviced Residences	The Ascott Ltd.	3	238
Perfect Visit (new entry)		3	127
Pierre & Vacances (new entry)	Pierre & Vacances	80	9,059
Premier Group (UK & Ireland)		8	424
Properties Unique (new entry)		20	75
Residhome (France)		35	3,500
ResidHotel (France)		33	2,437
Roomspace Serviced Apartments		48	319
SACO Apartments		25	625
Senator Apartments (Ukraine) (new entry)		2	62
Sol Melia (new entry)		2	124
Solitaire Hotels (new entry)		1	106
Solplay Aparthotels (new entry)		1	142
Splendom Suites (new entry)		1	11
StayAt Hotel Apartments (Accome) (new entry)		3	428
Staybridge Suites - Europe	Intercontinental Hotel Group (IHG)	3	443
Suite Novotel	Accor	26	3,237
The Marmara Hotels (new entry)		4	218
The Spires (new entry)		3	95
Victor's Residenz-Hotels GmbH (new entry)		4	600
VIP Suites (new entry)		4	274
Sejours et Affaires (new entry)		42	2,520
Winter's Hotelgesellschaft mbH (new entry)		2	85
Your Home From Home (new entry)		4	92
Other		98	6,942
Total		**1,118**	**80,323**

AFRICA

		Locations	Apartments
Ambassador Hotel & Executive Suites (new entry)		1	97
Courtyard Apartments (South Africa)		6	451
Don Group (South Africa)		9	451
Executive Suites		1	75
Hermitage Gardens Resort (Lagos-Nigeria) (new entry)		1	17
Hydro Executive Apartments (new entry)		1	50
Palacina Apartments (new entry)		1	11
Palmeraie Village (Marrakech) (new entry)		1	30
Premiere Classe Serviced Apartments (new entry)		4	80
Protea Hotels		19	1,520
Relais Hotels (new entry)		4	116
Residence Casablanca Aparthotel (new entry)		1	50
Suite Novotel Marrakech	Accor	1	112
Southern Sun Resorts		4	610
Village and Life		6	221
YAYA Centre (new entry)		1	70
Other		6	396
Total		**67**	**4,357**

TOTAL LOCATIONS & SERVICED APARTMENTS WORLDWIDE	**8,362**	**599,187**

CORPORATE HOUSING

USA	65,396
Canada	5,161
Total Corporate Housing In USA/Canada	**70,557**

GRAND TOTAL	**669,744**

Disclaimer: Figures are not comprehensive and include estimates.

Report Conclusions

By Charles McCrow

In 10 years' time, when The Apartment Service reaches its 40th birthday, commentators will regard the recession of 2008/10 as a milestone in the development of the global serviced apartments industry.

I believe that the serviced apartments sector will gain a significant share of the global lodging market over the next decade and that this success will be driven by the following factors.

- Greater consumer awareness.
- A more detailed knowledge of apartments' facilities, pricing and benefits of the extended stay market.
- A slowdown in the expansion of serviced apartments' supply, caused by reduced investment in future developments driving rates upwards.
- Greater international mobility demanded by quickening global integration and a shift in the balance of world economic power towards the BRIC nations.

Although occupancies and rates vary between international markets, the overall picture is one of steady increases in every global region except those severely affected by political unrest.

Although the pace of rising demand may fluctuate with market sentiment, the trends demonstrated highlight the fact that serviced apartments have finally come of age. In this respect, there are clear parallels with the emergence of the budget accommodation sector in the early 1990's.

Demand

Demand for serviced apartments is on the increase, evidenced by the continuing and overriding optimism amongst apartment operators.

The relocation industry is placing more short (i.e. less than a year) term assignments; business travel has picked up and is seeing more trips of a week or longer; multi-cultural societies are travelling further and longer to spend time with friends and relatives. These disparate forces are all driving demand.

The variations in types of apartment are becoming clearer, although very slowly. Previously restricted to the US, corporate housing is establishing itself in Europe and Asia. India is a now a leading market source for corporate stays and Brazil for leisure stays, demonstrating the growing power of the BRIC countries.

Nevertheless product differentiation continues to be an issue, and in this report we have looked at how the sector is trying to make life easier for its customers. However I believe the main difference is a fundamental one.

Extended Stay hotel offerings are typically purpose-built properties catering for stays of five nights or more. The corporate housing industry provides residential apartments with added services, where the average stay is around three months.

Product differentiation

It is the length of stay that determines the product the customer actually needs, but there is no question work is needed to define apartment categories, and the major chains are trying to create brands to differentiate themselves from the competition.

This will help address issues such as consistency of product and included services, but what the industry still needs is a grading system based on room configuration, overall floor area (size), quality of furniture and equipment, service levels and on-site facilities. Only then will apartment users and buyers have a good idea of what they can expect from any particular brand.

An international accreditation scheme is an obvious option but has already proved to be impractical in the hotel industry, so I don't see the serviced apartments sector proving any more capable of implementing the concept, at least in the short term.

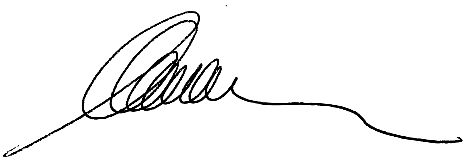
Supply

It has always been difficult to accurately quantify the size of the global serviced apartments market due to the difficulties in getting relevant and accurate data from many regions. Although the number of new apartments being built has slowed dramatically, The Apartment Service has seen the total count rising as we identify new operators who were previously below the horizon. There are also new entrants to the market.

It remains to be seen whether global growth of serviced apartments will match that of Australia, where the sector enjoys a 30% share of the total lodging market. By comparison, serviced apartments share of the US lodging market – including corporate housing and extended stay - is just over 8%.
In the UK it is around 2% and in Europe apartments have 1% of the market. There is real space for growth in the sector for most regions.

Over the next few years I hope that we see the emergence of more regional associations like the UK's ASAP and USA's CHPA representing their members and helping to address the issues summarised above.

Many of these problems are common to all operators regardless of location, so standardized codes of conduct and guidelines for all operator members will greatly help to develop the sector. I have been an active supporter of both of these organizations and I can confidently say this is the way forward for the industry and with the big brands taking an active role. The sector has to speak with one voice.



Charles McCrow
Managing Director
The Apartment Service Worldwide

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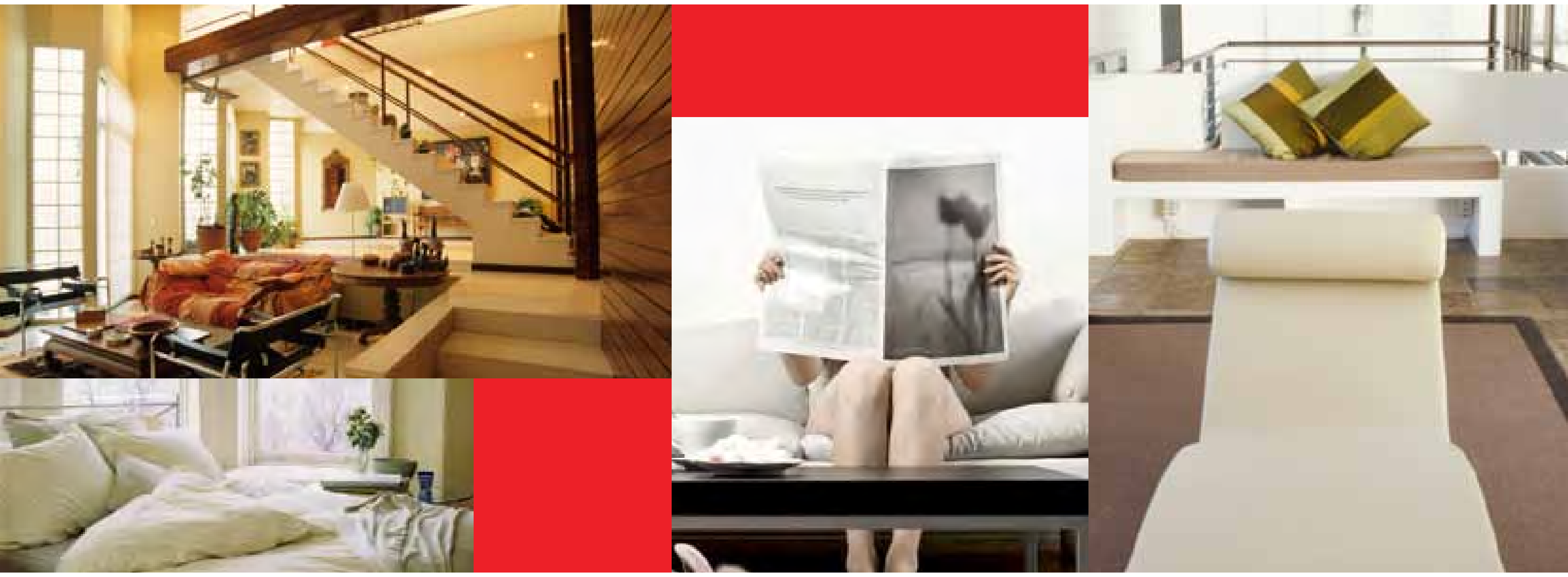

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