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The Emergence of Serviced Apartments/Apart-Hotels and Opportunities Post COVID-19

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By

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Abstract

Serviced apartments are becoming more mainstream as people become more aware of this asset class. Since the onset of Covid-19, people have opted for serviced apartments instead of a hotel for self-contained, typically with more space with a living area, kitchen and access to laundry facilities throughout the pandemic. Combined with lower operating costs, higher profit margin, and lower cost per key at development revealed the financial resilience of this asset class as most serviced apartments operated at a higher occupancy than hotels. With renewed interest from developers and owners keen to build or convert their existing properties to serviced apartments, This paper shows the financial success of serviced apartments over the pandemic and why the asset class is most successful. We will also identify some of the opportunities that lie ahead for the serviced apartment industry in the future.

Keywords: apart-hotels, condotels, corporate housing, Covid-19, corporate housing, lodging, serviced apartments, serviced residences, short-term rental and temporary living

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Chapter One

Background Information

Serviced apartments and corporate housing surfaced between the later 1960s and early 1970s in the United States of America and the United Kingdom in response to increased mobility of employees across the countries. Unlike in the United States of America and the United Kingdom, where serviced apartments are more ad-hoc with accommodations adapted for short stays with hotel-like conveniences such as housekeeping and laundry services. Asia's serviced apartments are typically high-rise mixed developments with a shopping mall (Hirsch, 2015). A serviced apartment development would also typically offer fully furnished studio units, one-bedroom, two-bedroom, and three-bedrooms with modern appliances, world-class entertainment amenities, internet, concierge and daily housekeeping services. In addition, residents would have access to gyms, meeting rooms and resident lounges (Deepeka, 2019).

Serviced apartments globally operate at a higher occupancy than traditional full-service hotels (Arvidsson, 2015). The Global Serviced Apartment Industry Report 2022 suggests that the number of serviced apartments has grown more than 300 per cent over the last 14 years, from about 401,977 units in 2008 to 1,299,328 units in 2022 (Harris, 2022). Compared to the previous report about one and a half years ago, in 2020/2021, serviced apartments grew by about 11%. However, this was slower than before the pandemic, with a 15% growth the year before (Harris, 2022).

The hospitality industry has rapidly changed since the infectious disease, COVID-19, caused by the SARS-CoV-2 virus, began in 2019. The changes related to housing have included new hotel brands, conversions from hotels to new uses, including co-living, serviced apartments or even offices and consolidations of hotel groups (Flannery, 2020). For example, in July 2022, Singapore-based serviced apartment chain The Ascott Limited announced the acquisition of Oakwood Worldwide, a serviced apartment chain with 81 properties and about 15,000 units, expanding The Ascott Limited's global portfolio to over 900 properties with 150,000 units. Before this, The Ascott Limited also had recent investments and acquisitions in Quest Apartments Hotel, a serviced apartment operator in Australasia in 2017, Synergy, a corporate housing supplier in the United States of America in 2017 and Tauzia, a mid-scale hotel chain in Indonesia in 2018 (Laforga, 2022). In addition, Hong Kong's Hotel Chain Dorsett Hospitality launched its first serviced apartment brand, Dao by Dorsett, with plans to convert its existing hotels in Asia to it (Lee, 2022).

After an influx of extended stay options such as serviced apartments and apart-hotels in the 90s and 2000s, which did not perform to the investor's expectations in terms of profits (Feller, 2022), hotel developments have been the preferred hospitality asset class. It is mainly due to hotels being able to secure higher average room rates (ARR) due to the nighty stay and can achieve alternative income from events, food and beverage and ancillary ("Hospitality development scenario: Hotel versus a serviced apartment," 2018). Pan Pacific Hotel Group's Chief Executive Officer, Mr Choe Peng Sum, highlighted the lower revenue per square foot for serviced apartments. For example, a serviced apartment with a separate living room is equivalent to two standard hotel rooms, which could generate $200 per room, while the one bedroom could only earn $300 for the same night. However, he emphasised that a serviced apartment business would be more stable (Hamdi, 2022).

While hospitality properties across the globe have suffered a significant loss of revenue and a reduction of staffing due to the lack of international travel, serviced apartments remain resilient throughout the pandemic. It is because serviced apartments could attract a varied combination of extended-stay guests who requires a self-contained unit with hygiene assurance. In addition, serviced apartments have a larger space, a living room, kitchen, washer/dryer, or access to one that allows this asset class to survive as most extended stay properties remain inhabited, although with a reduced occupancy. Serviced apartments also operate on a leaner model with fewer employees in the front office, housekeeping and food and beverage. As a result, many serviced apartments remained open throughout the Covid-19 lockdown (Goldstein, 2020), allowing the serviced apartment to retain most of their staff and continue trading while hotels furlough their employees (Hoff, 202).

Euromonitor International's Travel 2022 edition revealed that hotels global value sales dropped sharply by over 50% in 2020 when the lockdowns started globally from nearly 600 billion to under 300 billion and continued to remain depressed through 2021. In comparison, as short-term rentals are less exposed to the corporate travel segment, it took a short hit in 2020 before returning to almost pre-Covid levels in 2021. In 2022, short-term rentals will likely outperform hotels and swiftly return to pre-covid-19 levels this year in 2022, two full years ahead of hotels (Harris, 2022). Management company McKinsey & Company also predicted, and global leaders agreed that Global Tourism, including hotels, is forecasted to return to 2019 levels only by 2024, with some countries possibly recovering faster than others (Tan, 2021).

Since Covid-19 started, 9% of companies have added non-hotel options such as serviced apartments to their travel programs, according to The Global Serviced Apartment Industry Report. The report also discovered a higher usage of the serviced apartment could be due to an increase in length of stay, where 39.2% of business trips in 2021 had a length of stay of eight nights or more (Harris, 2022).

While thousands of hotels worldwide closed unprecedently, Oakwood Worldwide's global portfolio of 80 properties operated at an occupancy close to 70 per cent in 2020, as per Dean Schreiber, Chief Executive Officer of Oakwood Worldwide. He also shared that developers and real estate owners had continued interest in converting their hotels to serviced apartments or new development opportunities with Oakwood Worldwide (Tomlinson, 2021).

As serviced apartment and extended stay assets have shown strong fundamentals and resilience during the pandemic, more institutional investors find this asset class more compelling. It is because serviced apartments have some intrinsic straits, such as higher operating margins due to the significant contribution from room revenue, as shared by Kevin Goh, Chief Executive Officer of The Ascott Limited. He emphasised the strategic positioning of serviced apartments to offer investors attractive returns with the flexibility to cater to different lengths of stay. Serviced apartments could maximise yield by selling more long stays during a down-cycle to provide income resilience and promote short holidays. Lastly, Mr Goh shared about the emerging trend where hotel investors are converting hotel assets to apartments with co-living apartments that are popular in gateway cities such as Hong Kong and Singapore. (Goh, 2022).

At the time of writing (November 2022), most travel restrictions have eased in many destinations as countries embrace endemic to living with Covid, leading to a rapid recovery from pent-up travel or revenge travel. However, we do have to note that some countries continue to have border restrictions, testing or quarantine requirements. In contrast, countries like China continue to battle Covid-19 with cities under lockdown to contain outbreaks("Where can I travel to? travel restrictions by country," n.d.).

Purpose of the Study

The purpose of this professional paper is to focus on serviced apartments, which signifies a further broadening of literature in the housing and lodging sector to understand and explore if there are any growth opportunities for serviced apartments. Accordingly, we are exploring the following research questions:

RQ1: Which lodging asset class was the most financially successful from 2019 to 2022?

RQ2: Why was the asset class identified by answering RQ1 the most financially successful in Asia from 2019 to 2022?

RQ3: What opportunities are there for serviced apartments to excel financially post-2022?

Conceptual Framework

This research is done by thoroughly reviewing the literature using several available databases, including Emerald Library, Hospitality & Tourism Complete, Google Scholar, JSTOR and the Digital Scholarship @ the University of Nevada, Las Vegas. In addition, the writer will contact some experts and industry insiders for comments on this paper's research question.

The keywords used in this paper included apart-hotels, condotels, corporate housing, Covid-19, corporate housing, lodging, serviced apartments, serviced residences, short-term rental and temporary living.

Problem Statement

COVID-19 has impacted every industry, with the hospitality industry hitting the hardest (Krisnan, 2020). With serviced apartments looking unscathed and appearing to be in the correct position, property owners and operators need to understand the landscape so they can pivot the property to the best possible positioning to gain the maximum market share and financially rebound soon as possible.

Summary

The main objective of this research paper is to identify the asset class that was most successful during the pandemic and the reasons why it is so. We will then determine future opportunities for this asset class when the pandemic is over. Understanding the performance, prospects and traits of serviced apartments could benefit property operators and owners to position their investments better.

Limitations

Although serviced apartments are a mature asset class, there is little research and literature as most tourism and hospitality research focuses on traditional lodging asset classes such as hotels. Serviced apartments do not have a standard industry definition and vary by operators and region, especially with the inclusion of "corporate housing" in this sector. Information will typically be from industry reports or reports by corporate housing, such as The Apartment Service, now known as Silverdoor's Global Serviced Apartment Industry Report (Greenburg, 2019). As information gathered is limited by the cooperation of the sources or expert witnesses, it may contain bias as they may have financial interest due to their position. Lastly, the interpretation of the information could be influenced by the personal and biased judgement of the writer.

Although Covid-19 has been around for more than 30 months at the time of writing (September 2020), there are still limited data on guests' sentiments and if the intention and preference for a serviced apartment are temporary or extended. Further research would be required later to ascertain the study.

As Serviced Apartment performance is strongly contingent on the choice of branding, target customer, positioning, room size and facilities offered, there can also be a lack of transparency regarding benchmarking. Lastly, property owners should note that serviced apartments may not be ideal in locations with minimal corporate demand. Serviced apartments tend to perform better in financial hubs with large global headquarters of companies or with a high volume of business travels. ("Hospitality development scenario: Hotel versus a serviced apartment," 2018).

Delimitations

This study will focus on before and after the onset of the Covid-19 pandemic. Due to the wide range of extended stays, the research will focus only on serviced apartments where there are typically reception, restaurant and other hotel facilities such as a pool and gym. We will be excluding basic corporate housing, such as built-to-rent (BTR), with a lower barrier of entry. These are units rented or purchased for short-term rental with only essential services. This paper will not be including homestays such as Airbnb, VRBO and onefinestay.

Definitions

The association of serviced apartment providers (ASAP) – A non-profit association for serviced apartments.

Asia Pacific (APAC) – part of the world and generally includes East Asia, Russian Far East, South Asia, Southeast Asia, Australasia and the Pacific Islands.

Average Room Rate (ARR) - can be calculated by the total number of room revenue for the day divided by the total number of occupied rooms. ARR is typically a dollar amount.

Covid-19 – Covid-19 is an infectious disease. While most have minor to modest respiratory symptoms, some may get seriously ill and die, especially those of older age or with underlying medical conditions (World Health Organization, n.d.).

Environmental Sustainability and Governance (*ESG)* – a non-financial factor to identify risks and growth opportunities.

Occupancy – Calculated by occupied rooms divided by the total number of rooms and is typically a percentage.

Per square feet (PSF) – Calculated by rental yield divided by the square feet to determine return per square foot. It may also be expressed per square metre and is typically a dollar amount.

Smith Travel Research (STR) – a hospitality analytics firm that provides reports with market data for hotels to compare and benchmark their performance.

Travel Management Company (TMC) – Travel Management Companies is a company appointed by the employer to provide travel services to the employee. Services may include and are non-exhaustive – travel management from procuring to securing flights, hotel, land transfers, travel insurance and expense management.

Relocation Management Company (RMC) – Relocation Management Companies is a company appointed by the employer to provide relocation services to the employee. Services may include and are non-exhaustive – household goods, temporary accommodation, orientation to the country, home search, school, rental cars and tax liabilities.

Revenue Per Available Room (REVPAR) – Revenue Per Available Room is calculated by the total number of room revenue for the day divided by the total number of rooms and is typically a dollar amount.

Yield – Return on investment, calculated by the rental income for the year divided by the cost of the property and is typically a percentage.

Chapter Two

Accommodation Choice Literature

The literature on how guests select accommodations – hotels, serviced apartments or others is extensive. The behavioural intention has been considered a precursor and the most significant predictor of travel motivation (Li, 2012). Two categories of factors that motivate guests' accommodation behaviours are personal and interpersonal factors. Personal factors include needs, wants, motivation, perception, learning, personality, lifestyle, and self-concept, while interpersonal factors come from culture, sub-culture, group references, social classes, opinion leaders and family. There are generally five stages of the buying decision process, but some guests may not follow through with all of them (Oktadiana, 2011). It starts with awareness, where the guest recognises their need; they begin their consideration by looking for information, indicating their preference and evaluating alternatives. They then purchase, which triggers what, where, when and how to buy. Lastly, there will be a post-purchase evaluation (Morrison, 1996).

Most scholars have applied unidimensional criterions such as pricing or customer service to determine guests' decision-making process regarding an accommodation. However, this appears to have evolved, underlining the multidimensional nature of numerous factors in decision-making. Examples of factors include the property's quality, location, and customer service (Tajeddini, 2021).

It is thus vital to understand guests' behavioural intentions to gain more knowledge of the psychological factors that influence the customer to revisit an accommodation context (Tajeddini, 2021). For example, customers who experience a superior value after consumption would likely be return guests in the long run with positive behavioural intentions (Jin, 2015).

The Rise of Serviced Apartments as an Accommodation Superpower

Serviced apartments first appeared in the late 1960s to meet the mobility of employees moving internationally and domestically. The sector then grew exponentially to provide guests and their families with home-away-from-home accommodation (Hirsch, 2015; Deepeka, 2018; Greenberg, 2019). Besides corporate clients, Dr Hirsch also included students staying in serviced apartments in the interim before moving to permanent residences and middle, and upper-income individuals who could also choose to stay in serviced apartments for one month to several years (Hirsch, 2015).

Serviced Apartments have grown tremendously by more than 300 per cent over the last 14 years, from about 401,977 units in 2008 to 1,299,328 units in 2022 since The Global Serviced Apartment Industry Report started tracking (Harris, 2022). However, there is still a lack of standard industry definitions for serviced apartments with varying terms such as aparthotels, long-stay hotels, extended-stay hotels, corporate housing, and serviced apartments.

What Is a Serviced Apartment

A serviced apartment is essentially a residential accommodation under standardised management with hotel typed service built for rent and investment (Shen, 2013). In essence, serviced apartments are self-contained, fully furnished with private bathrooms typically bigger than typical hotel accommodations with a kitchen, laundry facilities and varying levels of services such as housekeeping, internet services and front desk. In addition, shared facilities such as a resident lounge, pools, gym, restaurants, and steam and sauna rooms could be provided but are not mandatory. It is also important to note that serviced apartment is not residential land but with a commercial title developed for business ("The beginner's Guide to Serviced Apartments," 2022).

A serviced apartment would typically have a separate living room from the bedroom and could be in a studio, one, two- or three-bedroom configuration. (Arvidsson, 2015; Deepeka, 2018; Greenberg, 2019; Harris, 2022). The lack of an official classification scheme confused many customers between a hotel and serviced apartment due to the lack of clarity (Arvidsson, 2015; Deepeka, 2018). Arvidsson stressed the industry must address the fragmented nature of serviced apartments to align with corporate traveller's programmes and travel policies (Arvidsson, 2015). The Association of Serviced Apartment Providers (ASAP) also shared the potential unknowns and risks from the unregulated serviced accommodation industry ("About us," 2021).

Benefits of Serviced Apartments to a Guest

Serviced Apartments continue to grow as more understand the benefits of a serviced apartment over a hotel and the improved standards of serviced apartments over the years. (Arvidsson, 2015). Travellers tend to choose serviced apartments over hotels due to price, location, and accessibility and accept weaknesses in the attributes of service and facilities (Deepeka, 2018). Arvidsson shared a similar result of cost, length of stay and location and highlighted a significant change in sentiments as corporate and leisure guests realise the advantages of an apartment over traditional hotels. Serviced apartments are also taking short-stay business away from conventional hotels. Other than more space, the second reason a guest would prefer a serviced apartment over a hotel is to cook (Arvidsson, 2015). Greenberg's research also gave a similar finding where the appeal of serviced apartments is cost efficiency, ability to cook, space and privacy (Greenberg, 2019).

Service Apartment's Target Market

The primary market for serviced apartments is the corporate market, whether it's a business trip, a short/long-term project, or a permanent relocation (Arvidsson, 2015; Deepeka, 2018; Greenberg, 2019). After corporate segments, serviced apartments also welcome guests for medical and leisure tourism, a growing sector (Deepeka, 2018). Furthermore, as Johannesburg has excellent medical facilities, a growing segment of wealthy Africans are coming for medical treatment or shopping (Greenberg, 2019).

Locations of Serviced Apartments

While a hotel near tourist hotspots or a festival site would likely do very well, serviced apartments will ideally do better or near central business districts, metro stations, conference centres (Packer, 2022) or upscale residential areas (Deepeka, 2018). Property owners should know that serviced apartments will be less suitable in locations with minimal corporate demand. Serviced apartments tend to perform better in financial hubs with large global headquarters or with a high volume of business travel (Deepeka, 2018; "Hospitality development scenario: Hotel versus a serviced apartment," 2018).

The Financial Appeal of a Serviced Apartment to Investors

As serviced apartments have higher occupancy with leaner staffing needs due to lower turnover of rooms, the property has a higher profitability than a traditional hotel which could lead to a higher potential for further growth in the serviced apartment sector (Arvidsson, 2015). In addition, serviced apartments serve a perennial demand (Hamdi, 2022) and have a lower vacancy rate where the room would be left empty as it is less likely due to the flexibility to take in a shorter stay compared to a residential lease (Packer, 2022). Hence, serviced apartments worldwide operate at a lower vacancy rate than traditional full-service hotels (Arvidsson, 2015). For example, the serviced apartment revenue per available room in India has been growing over the last five years and is not slowing down, giving excellent returns to its investors (Deepeka, 2018).

Dean Schreiber, Chief Executive Officer of Oakwood Worldwide, also shared that serviced apartments are mainstream now thanks to Airbnb, which has shown the world that there is an alternative accommodation other than hotels. He also shared that serviced apartments returns do outweigh the returns of a hotel due to lower operating costs (Harris, 2022) and lower maintenance and running costs, which leads to a better margin in the gross operating profit (Goh, 2022). On a per-key basis, serviced apartments can save with a reduced front of the house with a smaller lobby, luggage area, food and beverage space, and reduced facilities. A serviced apartment typically does not have a spa, meeting room, or executive lounge (Hospitality development scenario: Hotel versus a serviced apartment," 2018), have a lower cost of interior renovation and mechanical and electrical services (M&E) compared to a hotel (Goh, 2022).

Although serviced apartments worldwide operate at a higher occupancy than hotels (Arvidsson, 2015) with more stable occupancy (Hamdi, 2022), it does lack alternative income streams from food and beverage, events and nightly stay. Furthermore, serviced apartments also have lower returns per square foot than hotels. For example, a serviced apartment has an additional living room equivalent to two standard hotel rooms, which could yield $200 per hotel room, while a service apartment could only make $300 the same night (Hamdi, 2022).

Who Is Travelling During COVID-19 and Why?

Relaxing of border restrictions and testing requirements

At the time of writing in November 2022 and as per KAYAK, an online travel agency, 194 countries are open for travel where there is no need for Covid-19 testing or quarantine, and 16 countries are available for travel, but a Covid-19 test is required. Only two countries, namely the Federated States of Micronesia and Macau, needed a Covid-19 test and quarantine. In comparison, 15 countries remain closed and only returning citizens or guests on exceptional cases can travel to them. The 15 countries are Cameroon, China, Eswatini, Kiribati, Libya, Marshall Islands, Mayotte, Montserrat, Nauru, North Korea, Turkmenistan, Tuvalu, Wallis and Futuna, Western Sahara, and Yemen ("Where can I travel to? travel restrictions by country," n.d.).

Motivation to Travel

As of June 2021, people were motivated to travel with increased confidence due to vaccination (Bhatta, 2021; Elliott, 2021), wanted a break after a prolonged time of 18 months of the pandemic (Elliott, 2021) and for mental well-being (Çolakoğlu, 2021). In addition, many were motivated to travel to reunite with their family and see their loved ones. Other motivation factors include travel for academic studies, work, business, compassionate reasons, medical reasons, or legal obligations (Lin, 2021). In a study released in October 2022, unwinding and destressing is the number one motivation in APAC to travel. According to Google and Kantar (Yuvaraj, 2022).

The Rise in Revenge Travelling

"Revenge Travelling" is a buzzword that appeared in 2021 when people wanted to travel again to compensate for lost time and experience due to the prolonged Covid-19 pandemic (Marcus, 2022). According to the latest study from Google and Kantar in October 2022, revenge travel will continue in the APAC traveller mindset, with 75% of respondents eager to take a trip as many times as possible. Moreover, 30% to 60% of travellers based in

APAC countries are already presently travelling more and paying more compared to pre-covid times (Yuvaraj, 2022).

Furthermore, 66% of 2,000 Americans that have travelled internationally in the last 14 months have the desire to revenge travel in a survey conducted in October 2022 by OnePoll and commissioned by Exodus Travel, a Tour Operation. The survey also reviewed that 57% of the respondents plan to take a once-in-a-lifetime adventure (McLaughlin, 2022).

The Rise of Bleisure Traveller

While many travelled on international business travel for a corporation, "bleisure travellers" travel for work by mixing them with leisure trips. This trend of hybrid travelling has been growing since Covid-19 (Lichy, 2018, Morgan, 2022) and has boomed recently, with 89% of respondents planning to add some leisure time to their business travel, with lots of them bringing family and friends along. As they can work remotely, they would likely spend an extended vacation in the area after the conference or event. Due to the portmanteau of business and leisure travel, the bleisure guest would be residing in the same accommodation and stay longer and through the weekend (Morgan, 2022).

Similarly, Parker Stanberry, Chief Executive Officer and co-founder of short-term home rentals Oasis Collection shared that travellers are now travelling for extended periods. They want to combine business trips with leisure experiences and like the flexibility to travel with buddies and families. Therefore, even though their travels are for work, they are looking for more residential accommodations and homes away from home (Harris, 2022).

The Emergence of Covid-19 and Its Effects on Serviced Apartments

Covid-19 revealed the advantages of extended stay accommodations with more personal space, productivity, and sustainability (Tomlinson, 2021). When Covid-19 started, hospitality properties across the globe suffered a significant loss of revenue. However, a serviced apartment can attract a varied combination of extended-stay guests who requires a self-contained unit with hygiene assurance (Goldstein, 2020)

Serviced apartments are more resilient throughout the pandemic than hotels, which depend more on the short-term corporate travel segment (Harris, 2022). For example, when hotel occupancy plummeted globally, Oakwood Worldwide's global portfolio of 80 properties operated at an occupancy close to 70 per cent in 2020 (Tomlinson, 2021). Similarly, Oakwood Premier AMTD Singapore operated at about 50% occupancy throughout the pandemic (Lee, 2022).

Growth in Market Appeal

The adoption of serviced apartments by corporates has grown, with 9% of companies adding non-hotel options such as serviced apartments to their travel programs since Covid-19 started, according to The Global Serviced Apartment Industry Report. The report also discovered a higher usage of the serviced apartment could be due to an increase in length of stay, where 39.2% of business trips in 2021 had a length of stay of eight nights or more (Harris, 2022). Synergy Global Housing, a corporate housing provider and member of The Ascott Limited, shared that more than 33 per cent of travel buyers intend to raise their spending in serviced apartments instead of hotels due to Covid-19. The travel manager of AIG shares similar thoughts and predicts that the total serviced apartment accommodation in AIG will increase from 10 per cent to 20 per cent (Hoskin, 2020).

While serviced apartments depend on a solid corporate base, there has been an uptick in leisure travellers booking a serviced apartment for the feeling of being home, having more space, and a separate living area with less crowd (Siow, 2020). Serviced apartments are also extra appealing as guests look to stay longer during these pandemic times. In addition, serviced apartments are typically more cost-effective and more comfortable for extended stays with fewer public spaces than a traditional hotel, and guests have lesser or no contact with staff members (Hoskins, 2020). AirDNA, a vacation rental data analytics company, projected short-term rentals in the United States to increase by 20.3% in 2022 when compared to 2021 (Jelski, 2022)

A travel survey conducted by Cheval Collection, a hospitality group with twelve luxury apartment properties in London and Edinburgh, revealed that serviced apartments had found a permanent place in traveller's hearts. The survey published in June 2022 showed 68% of respondents were likely or very likely to choose a serviced apartment when travelling to London or Edinburgh (Sandlin, 2022).

Flexible Work Arrangements.

As flexible work arrangements continue, guests are reacting to the new realities of work by preferring serviced apartments with more usable space, in-unit amenities such as a kitchen to prepare light meals and higher internet bandwidth. Similarly, as more leisure travellers experience the product, they would likely recognise the advantages of being in a serviced apartment instead of a traditional hotel or an Airbnb, which may not be as reliable (Hanton, 2022).

The Flexibility of a Serviced Apartment

Serviced apartments can maximise yield by securing more long stays during a down-cycle to provide income resilience and promote short stays when there is a high demand to enjoy income upside (Goh, 2022). Roy Liang, General Manager of Dao by Dorsett AMTD Singapore, a 268 units apart-hotel, shared similar sentiments about the hybrid model of an apart-hotel. He shared that the property can be very flexible in uncertain economic flexibility, shifting between short and long stays to increase occupancy or ARR in a shorter lead time. (Lee, 2022)

Leaner business Model

Serviced apartments operate on a leaner model with lesser manning from the front office and housekeeping to food and beverage. Hence, a significant percentage of serviced apartments could continue running throughout the Covid-19 lockdown (Goldstein, 2020), allowing the serviced apartment to retain most of their staff while hotels furlough their employees (Hoff, 2020). In addition, serviced apartments' intrinsic straits, such as higher operating margins due to the significant contribution from room revenue, also contribute to resilience (Goh, 2022).

Commercial Interest

Increase in Interest From Developers in Serviced Apartments

Despite the pandemic, one of the most challenging years for commercial real estate, serviced apartments returned a decent and healthy return to owners and investors (Tomlinson, 2021). The strategic positioning of serviced apartments offers investors attractive returns with the flexibility to cater to different lengths of stay. Serviced apartments are also not subject to rent control or residential-related policy risks, which is excellent from an investor's perspective. In addition, there are a broad array of exits for investors. Investors may exit through private equity real estate funds, private family offices, listed real estate investment trusts or business trusts (Goh, 2022). Dean Schreiber, Chief Executive Officer of Oakwood Worldwide, shared about the resilience of a serviced apartment during a pandemic or recession, as investors have ready-made exit strategies by selling the units or converting them into residential apartments (Harris, 2022).

In June 2021, Blackstone and Starwood Capital acquired the Extended Stay America chain for 6 billion USD in June 2021, followed by a portfolio of WoodSpring Suites in the

United States for 1.5 billion USD in February (Goh, 2022). In July 2022, The Ascott Limited acquired Oakwood Worldwide, a serviced apartment chain with 81 properties and about 15,000 units, for an undisclosed amount (Laforga, 2022), renewing investor's interest in serviced apartments and extended stay assets (Goh, 2022).

Dean Schreiber and Kevin Goh, Chief Executive Officer of The Ascott Limited, shared continued interest from developers and real estate owners considering converting their hotels to serviced apartments or new development opportunities (Goh, 2022; Tomlinson, 2021). There are also increasing investors' intentions to convert hotel assets to apartments with co-living apartments. According to a report by Real Capital Analytics, 27% of hotel investors are planning to convert or tear down their assets for other uses, such as offices or apartments (Goh, 2022).

Pilar Morais, Chief Executive Office of CHI International, a luxury Asia-wide hospitality company with serviced residences in Hong Kong, added that there is a lot of investor interest focusing on Singapore. He said that more prominent and international funds previously not interested in residential real estate are now keen to invest in serviced residences due to the stable returns (Harris, 2022).

In the first half of 2022, The Ascott Limited announced opening 20 properties with more than 4,500 units globally, a 56 per cent increase from the prior year. The serviced apartment chain also signed over 7,500 units in H1 2022, a 32 per cent year-on-year increase ("Ascott opens over 56% more units in 1H 2022 and acquires first Lyf property in Tokyo via its serviced residence global fund," 2022). In 2021, The Ascott Limited had a record opening of over 8,200 units and signed new franchise or management contracts for 15,100 units ("Ascott achieves record growth in 2021 with 15,100 units signed and highest-ever property openings of over 8,200 units," 2022).

Increase in Interest From Hotel Management Providers in Serviced Apartments

To cater to growing interest in serviced apartments, the world's largest hotel chain Marriott International with almost 8,200 properties worldwide, has announced its foray into the apartment-style accommodations in the premium and luxury segment with a new brand - Apartments by Marriott Bonvoy on 9 November 2022. Each room will feature a separate living room, bedroom, and fully equipped kitchen with an in-unit washer and dryer. Marriott International shared that the new brand responds to growing consumer demand as families and friends look for more spacious accommodations. The blending of work and leisure travellers and travellers on long business trips propelling this consumer demand. Marriott International also cited research by Phocuswright that the top 3 of the top 5 reasons a traveller would choose a rental apartment are a larger space in the room, access to a full kitchen and laundry facilities and a home-like feel. Apartments by Marriott Bonvoy offer owners and investors the flexibility to opt for new builds or convert their existing development. The new brand does not require developers to provide standard hotel amenities such as food and beverage, conference and retail space ("Marriott International Introduces Apartments by Marriott Bonvoy, responding to growing consumer demand as travellers increasingly blend work and leisure," 2022).

Furthermore, this will also be an owner-friendly development attractive to investors as it will offer shorter agreements allowing marketing competitiveness. The model requires only light staffing, allowing operational efficiencies and reduced operating costs. The property will need only one host and can offer weekly cleaning instead of daily cleaning like a traditional hotel. ("Introducing apartments by Marriott Bonvoy," 2022).

Before this, BWH Hotel Group launched a new extended-stay brand named Home by BWH on 31 October 2022. The new brand is positioned as a midscale segment, sitting between BWH's existing Executive Residency in the upper midscale and the four SureStay brands in the economy segment. The new brand will be lean, strictly for new builds, with optional meeting rooms and a pool. Brad LeBlanc, Senior Vice President and Chief Development Officer of BWH Hotel Group, shared that they had been inundated with leads as owners and developers have been interested since the launch. The hotel group targets to open 200 Home by BWH "fairly quickly" (Simon, 2022).

A few months before Marriott and BWH Hotel Group's new launches, Europe's largest hotel chain Accor, with over 5,300 properties, introduced Novotel Living, an extended stay brand designed for the new era of travel in July 2022. The first property in Singapore was converted from 8 on Claymore by Royal Plaza on Scotts, Singapore. The hotel opened with 85 keys, offering studios, two and three bedrooms, a separate living area, a study with an ergonomic Herman Miller chair, an adjustable height table, a fully equipped kitchen and an in-room washer and dryer.

Garth Simmons, Chief Executive Officer of Accor Southeast Asia, Japan & South Korea, shared that the new brand is looking to meet guests' evolving needs and offer a sense of home ("Newsroom: Asia & Pacific: Novotel introduces the first 'Novotel living' in Asia to be launched in Singapore," 2022). Mark Willis, Chief Executive Officer of Accor India, Middle East, Africa and Turkey, shared separately in October 2022 with the signing of Novotel Living Riyadh that there has been an increase in guest and investor interest in extended stay products in the Kingdom (Corder, 2022). Philip Lassman, Vice President, Head of Development, Northern Europe, Accor, also shared about Accor's Adagio Aparthotels and extended stay labels, such as Movenpick Living and Pullman Living to present investors with more possibilities to select from (Nicholls, 2022).

Earlier in the year and closer to Asia, Hong Kong founded Dorsett Hospitality International with 54 operating hotels introduced Dao by Dorsett, a new 4-star apart-hotel brand. The new brand will offer units in one or two-bedroom layouts, a separate living area, and a multifunctional kitchen for more extended stays (Sandlin, 2022). The company shared that the new apart-hotel model is due to a trend identified during Covid-19, as serviced apartments and apart-hotels reported a decent 65.8% occupancy. In comparison, hotels were operating at 48% occupancy in the United States in the second half of 2020, as reported by STR (Jarett, 2022). The brand is a post covid solution to provide more extended stays and an apartment completely serviced with hotel amenities. Dorsett Hospitality International launched Dao by Dorsett Singapore by converting the former Oakwood Premier AMTD Singapore. In addition, it opened a newly built Dao by Dorsett West London, a new wing with 74 units attached to the existing hotel complex – Dorsett Shepherd's Bush, earlier this year (Nicholls, 2022). Another hotel will be opening in London early next year with plans to convert existing Dorsett-owned hotels in China, Hong Kong, Malaysia, Japan and Australia to Dao by Dorsett before starting to pursue management contracts aggressively. The hotel company shared its confidence that the new brand will be the most resilient asset class of hotels moving forward (Lee, 2022).

Concerns

Return on Investments

There is a need to improve the yield per square foot basis. As Pan Pacific Hotel Group's Chief Executive Officer, Mr Choe Peng Sum, highlighted, the revenue per square foot for serviced apartments is less than a hotel. The one-bedroom in a serviced apartment with a living room and bedroom is equivalent to two standard hotel rooms. (Hamdi, 2022). BWH Hotel Group's new Home by BWH will be lean and focus on the crucial metric of square footage and return on investment (Simon, 2022).

Weaknesses

Serviced apartments' weakness in service and facilities is also a concern that operators need to work on (Shen, 2013; Deepeka, 2018). Lack of staffing is also one of the most considerable challenges faced by serviced apartments as hospitality professionals would be targeting to work in hotels as they are unaware of the potential being in the serviced apartment sector. (Deepeka, 2018). Although the serviced apartment is leaner in the workforce, there is an increase in cost and lack of labour across the entire hospitality ecosystem. Currently, 97% of hotels are understaffed, 49% are facing severe shortages, and 58% state the lack of housekeeping employees as their greatest challenge per the American Hotel & Lodging Association (AHLA) study conducted in May 2022 (Heflin, 2022).

The second and third most improvements that serviced apartments buyers such as travel management companies (TMC) and relocation management companies want to see that could potentially increase serviced apartment usage is add-on service and faster response time. As serviced apartments typically operate on a lean and optimised model, they usually cannot add on services on short notice. They would also take longer to respond to requests or escalations. The top improvement that they like to see is cheaper rates (Harris, 2020)

External Threats

The rising prices of a serviced apartment are a risk, as one of the main drivers a guest would choose serviced apartments is the lower costs (Shen, 2013). Co-living, a "low maintenance" form of a serviced apartment, has also been gaining traction recently and getting crowded. Co-living can be cost-effective as it is about staying in the same unit and sharing common facilities. It is also gaining traction with large hotel management companies such as The Ascott Limited, with its co-living Lyf brand with eight operating properties and four more to open in 2022 and Europe's largest hotel chain, Accor's Jo and Joe brand (Hamdi, 2022). Another threat serviced apartment operators may face is when owners convert empty apartment units to short-term rentals to compete for the same guests at a lower price point (Deepeka, 2018).

Summary

In summary, serviced apartments have grown significantly and have become mainstream competing directly with hotels for short stays while dominating extended stays. As the quality continues to improve, more people appreciate and book serviced apartments for their many benefits, such as larger space, lower cost, and the option to cook. In addition, it remains popular with investors due to its lower build cost and superior gross operating profit margin.

The serviced apartment continued to show resilience during the extended pandemic by performing financially better than hotels, as most guests stay longer. At the same time, corporate guests reacting to the new realities of work and leisure travellers started to recognise the advantages of being in a serviced apartment instead of other lodging options such as hotels and Airbnb, which may have lesser assurance in quality and hygiene (Tomlinson, 2021). With more investors and developers interested in building serviced apartments or converting their hotels, we research further into what serviced apartments can do to increase profit and remain competitive in the challenging landscape.

Chapter Three

Purpose of the Study

The primary purpose of this study is to understand serviced apartments as an asset class Serviced Apartments and their financial success. This lodging asset class that offers more self-contained lodging has grown significantly by more than 300 per cent over the last 14 years. It has proven to be an excellent lodging asset class out of the ever-expanding array of investments (Harris, 2022). We look to address the three following research questions.

RQ1: Which lodging asset class was the most financially successful from 2019 to 2022?

RQ2: Why was the asset class identified by answering RQ1 the most financially successful in Asia from 2019 to 2022?

RQ3: What opportunities are there for serviced apartments to excel financially post-2022?

This chapter will further detail and interpret some of the literature reviews. We have also reached out to industry leaders for comments. As a result, we are pleased to have two industry experts share valuable perceptions that support and add new insights to this paper. The two experts are Arthur Kiong, Chief Executive Officer of Far East Hospitality, with 16,500 rooms and over 90 hotels and serviced residences and Vernon Lee, Senior Vice President, Head of APAC Operations and Projects of Frasers Hospitality, with 21,000 rooms in over 120 hotels and serviced residences. This chapter will also discuss the overall performance of serviced apartments before and after the onset of Covid-19, commercial interest and growing competition. The author also identified the potential of renewed focus on core fundamentals, the fragmentation of serviced apartments, further segmentation of serviced apartments, and adopting or further enhancing loyalty programmes to allow the sector to continue flourishing.

Summary of Literature Results

In the literature review, it is clear that serviced apartments are becoming a mainstream asset class and the value they can bring to the guests. As more guests become aware and know about serviced apartments, it will likely influence them to revisit the property or choose a serviced apartment in their next stay.

We have better defined a serviced apartment and shown its many traits revealing its value to guests. Serviced Apartments also showed their financial potential for investors with a lower cost per key, lower vacancy rate and higher stability allowing this asset class to prosper. However, the lack of a clear and consistent classification scheme confuses clients and companies.

After Covid-19 started, there has been an increase in demand for serviced apartments with the relaxation of border restrictions and testing requirements, change in motivation to travel, revenge travel and rise in bleisure travellers. Flexible work arrangements, more extended stays and the ability to provide high-quality service compared to Airbnb or short-term rental also accelerated the adoption rate of serviced apartments by corporates. Serviced apartments' flexibility and leaner business models allowed serviced apartments to continue operating through the pandemic showing resilience to owners and investors.

Hence, there was an increase in interest from investors and developers in this extended stay asset class with a series of high-profile transactions and a record number of management and franchise signings for new builds or conversions. In addition, many hospitality management companies have also taken this time to launch new brands in different segments to cater to the new investor's demands. Some companies include Accor, BWH, Dorsett Hospitality and Marriott International.

Serviced apartments have disadvantages such as lower returns per square foot, poorer service due to the leaner business model and lesser facilities and amenities. However, there is an apparent demand for more add-on services and faster response time. The rising prices and continued labour shortage in the hospitality industry are one of the serviced apartment's most significant challenges.

Reviewing Research Questions

Research Question 1

The first research question is about which lodging asset class was the most financially successful from 2019 to 2022. When hotel occupancy globally plummeted due to Covid-19 and was closing, serviced apartments could maintain their occupancy at a decent level of 65.8% in the United States in the second half of 2020, as per STR (Jarett, 2022). For example, Oakwood Worldwide's global portfolio of 80 properties was also able to operate at an occupancy close to 70 per cent in 2020 (Tomlinson, 2021). Goldstein & Goldstein (2022) state that the regional UK serviced apartment industry maintained a sizable profit for the entire years of 2020 and 2021, obtaining a GOP of £25.40 PAR for the year 2021, beating the more significant regional UK hotel sector by 40%.

Although the majority of serviced apartments in the world had outstanding occupancy rates, according to an HVS survey, serviced apartment providers saw their great performance fall by 25% to 50% in comparison to 2019, and a third of operators experienced decreases of up to 75%. According to the data, despite lower margins, those enterprises were still mainly lucrative, with operators profiting from the fact that serviced apartments are self-contained, making it simpler for visitors to maintain social distance. Additionally, leaner operational models have made it possible for them to reduce expenses effectively and respond quickly to new difficulties.

Research Question 2

The second research was why the asset class – serviced apartment, in this case, was so successful in Asia from 2019 to 2022. The author has reviewed related literature thoroughly, and the author came out with two sets of overviewing reasons before and after the onset of Covid-19

Overview Before Covid-19.

Before Covid-19, the serviced apartment was growing thanks significantly to increasing awareness of this asset class as more people understood the benefits of serviced apartments and as the quality improved (Arvidsson, 2015). Travellers are increasingly attracted to the flexibility of serviced apartments where they can meet their routine personal preferences without compromising on the quality of hospitality (Tomlinson, 2021). The customers were those here for corporate relocation, business trips, tourism and medical (Deepeka, 2018). As a result, the number of serviced apartment units grew 23.7% between the year before and 2018/19 and 17.5% in 2019/2020. Accor also grew its extended stay portfolio by a whopping 48% in 2019/2020 compared to the previous year (Harris, 2020).

As serviced apartments attend perennial needs (Hamdi, 2022), the asset class proved itself with higher occupancy (Arvidsson, 2015), a more stable business throughout the year (Hamdi, 2022) when compared to a hotel. Serviced apartments also had higher gross operating profit margins, lower operating costs, and a lower per key cost as less space and facilities are required ("Hospitality development scenario: Hotel versus a serviced apartment," 2018). Serviced apartments could also blend short and long stays according to demand (Goh, 2022; Lee, 2022). Serviced apartments proved to be a lucrative business and an ideal investment for developers and real estate owners due to the strategic positioning of the serviced apartment and the comprehensive array of exits for investors. (Goh, 2022).

Overview After the Onset of the Covid-19 Pandemic

While the hotel industry suffered worldwide as travel halted because of the Covid-19 outbreak, the serviced apartment market held up relatively well. At the height of the crisis, serviced apartment businesses in the Asia-Pacific region experienced occupancy rates of 80% because they had modified their service model to match the evolving needs of their customers. Due to the serviced apartment industry's ability to provide self-contained long-stay lodging, local governments in the region were able to secure quarantine contracts, helping to offset the drop in business and leisure travel during the peak of the pandemic. In addition, branded serviced apartments, subject to stringent regulations, provide a safer option to traditional hotels and alternative accommodation platforms like Airbnb since they adhere to strict sanitary requirements that offer clients peace of mind.

Large-scale service providers responded by developing and releasing niche brand concepts like Lyf by Ascott, which targeted specific customer demographics. Serviced apartments are a very versatile real estate property enabling an easy transition to many alternative uses such as strata-named apartments, residential and student accommodation, co-living, and restaurants. Investors have historically relied on operators of serviced apartments to sign long-term leases on the properties they manage (Leelapanyalert & Migliorati, 2022). This shifted the burden of operational and market risk on the hotel operator, which was good news for those seeking a steady stream of income over the long term and a high rate of return.

According to Condon (2022), high occupancy rates (over 80% annually) and healthy average daily rates (ADR) (about $280 per night) for Singapore's extended stay properties were attained prior to 2019 thanks to the influence of premium brands like The Ascott, Frasers Hospitality, and Shangri-La. Market occupancy remained above 75% despite significantly impacting 2020 performance due to restraints on international flights and the transfer of long-term occupants. Occupancy will increase to over 85% by 2021, thanks to the state's massive quarantine program bringing in new customers and keeping expats in the country despite the closure of international borders. The ADR in the industry fell sharply to $180 as a result. However, it is anticipated to rebound quickly by the second half of 2022 as operators actively push rates on the return of open foreign travel and as the segment reaps the rewards of those taking protection from COVID-19.

Covid-19 revealed the resilience of serviced apartments with privacy, productivity, and sustainability from the self-contained units with separate living spaces, kitchen and laundry facilities (Goldstein, 2020). As serviced apartments operate on a lower staff-to-guest ratio than hotels with lesser manning from the front office and housekeeping to food and beverage, they can retain their staff and continue running the serviced apartment. (Hoff, 2020). Serviced apartments could be ready when the demand returns instead of like hotels, which had to scramble to hire new employees to replace those that they have furloughed or terminated during Covid-19 (Bhutia, 2022)

After nearly three years of Covid-19, with increased confidence from vaccination (Bhatta, 2021; Elliott, 2021), borders finally relaxing and ending testing requirements, people are more motivated to travel than ever. From reuniting with friends and families, academic studies, employment, business trips, compassionate reasons, medical reasons, legal obligations, and the list goes on (Lin, 2021). There was a rage of revenge travel in the market, with people travelling more and paying more compared to 2019 before the pandemic. The Bleisure trend seems to be accelerated by Covid-19, seeing more business travellers mixing leisure into their trips by bringing their friends and families for a more extended stay (Morgan, 2022), resulting in a preference towards booking a serviced apartment rather than a hotel.

In a reach out to industry leaders for comments, Arthur Kiong shared that Far East Hospitality's serviced apartments have exceeded 2019 levels as there was pent-up demand from expatriates, and wealthy Chinese was leaving China to escape the zero-covid policy. However, he cited that the cost of owning and operating serviced residences has increased disproportionately, where the cost is higher than revenue (A. Kiong, personal communication, 19 November 2022). Due to pent-up demand, Vernon Lee shared that Fraser Hospitality's serviced apartments performed better than pre-Covid-19. Singapore, particularly, is benefiting from its unique strategic positioning despite geopolitical tensions. He also shared that rates have risen beyond 2019 without new supply in serviced apartments (V. Lee, personal communication, 20 November 2022).

Research Question 3

The third and final question was discovering possible opportunities for serviced apartments to excel commercially post-2022. Based on the associated literature, the author has identified a series of prospects that serviced apartments may enjoy.

Opportunities

Serviced Apartments for Working Space

As more residents and foreigners are expected to work from home, more people are eager to upgrade to larger homes with a workspace. Apartments with two bedrooms are increasingly the norm for single people and three bedrooms for couples. Due to the increase in self-cooking and living space use, as well as the blending of work and leisure time zones, serviced apartments are becoming more and more popular because of their flexibility to enhance the space without incurring additional costs and their on-demand house cleaning assistance. Future work-from-home habits and trends will make it economically advantageous and sane to have additional assistance from a service apartment.

Nomadic travel has also become a possibility for many, just as remote employment has become a realistic choice in the shape of digital nomads, who eschew regular office employment (or even a permanent home) and work remotely from wherever their activities take them. Nomadic travel, once associated with prolonged vacations, now includes a business element. The advantages of serviced apartments and the many ways they support remote working and "bleisure" travel are becoming increasingly apparent as the world of business travel develops (Content, 2022). Though the future of business travel is yet unknown, the best predictions indicate that corporate travellers will travel less frequently but for longer distances. There will be a significant increase in business travellers who work remotely due to the ensuing corporate sector investment in remote work and the emergence of full-fledged digital nomads.

Commercial Benefits

Serviced apartments, the hybrid between residential apartment and hotel, have shown their resilience to investors and developers and is becoming a mainstream investment asset class. The strategic positioning of a serviced apartment provides investors with stability during an up or down cycle and lower risk with a comprehensive array of exits. There has also been renewed investor interest and transaction volumes in extended stay products, such as the recent high-profile transactions of Extended Stay America chain, WoodSpring Suites Properties and Oakwood Worldwide in 2021 and 2022 (Goh, 2022).

27% of hotel investors plan to convert or close their properties to other uses, such as offices or apartments (Goh, 2022). The Ascott Limited, Oakwood International and CHI International have shared increased investor interest keen to invest in living sector products such as serviced apartments (Goh, 2022; Harris, 2022; Tomlinson, 2021). In the first six months of 2022, Ascott opened 4,500 units, a 56 per cent year on year increase and signed over 7,500 units, a 32 per cent year-on-year increase ("Ascott opens over 56% more units in 1H 2022 and acquires first Lyf property in Tokyo via its serviced residence global fund," 2022).

In response to these investors and developers, large international hotel chains have also launched new brands to secure market share. Some key launches this year include the following:

- Apartments by Marriott Bonvoy by Marriott International
- Home by BWH by BWH Hotel Group
- Novotel Living by Accor
- Dao by Dorsett by Dorsett Hospitality

In a reach out to industry leaders for comments, Arthur Kiong and Vernon Lee revealed that their respective serviced apartment's financial performance had exceeded 2019 levels. However, they do not see a disproportionate interest from investors and developers and cited high land and conversion costs (A. Kiong, personal communication; V. Lee, personal communication, 20 November 2022). Mr Lee added that investors and developers saw the resilience of serviced apartments during the pandemic. However, it could be because the market is in a property cycle where property prices are at an explosive phase where conversion doesn't make commercial sense now (V. Lee, personal communication, 20 November 2022). Mr Kiong also emphasised that operating costs have skyrocketed and an increased borrowing cost of around 3.5%. In addition, the maths don't make good business sense as the yield of serviced apartments is about 2% now. (A. Kiong, personal communication, 19 November 2022).

Challenges

Bringing Together the Fragmented Industry of Serviced Apartments

One of the most significant challenges is the fragmented nature of serviced apartments, with independent operators accounting for a sizeable amount of the serviced Apartment (Arvidsson, 2015; Goldstein, 2022). and the lack of an official classification. It is vital to address this to get into corporate travellers' programmes and align with the policies (Arvidsson, 2015). Jan Jacobsen, Travel Manager of AIG, also highlighted the need for serviced apartments in the more fragmented long-stay sector to have genuinely global, sector-wide industry standards that help build traveller confidence for the sector to continue its development. He also highlighted that AIG only works with accredited providers by ASAP or an equivalent body (Hoskins, 2020). As more associations such as ASAP comes together, there is a chance that serviced apartment could be less fragmented in the coming years.

Silverdoor Apartments, a corporate housing provider, also integrated their serviced apartment booking tool Orbi with SAP Concur (Hoskins, 2020). SAP Concur is a travel management solution used by 75% of Fortune 500 companies to expense their stay ("SAP Concur Solutions: KPS certified implementation partner," 2022). In addition, MYSA, another serviced apartment platform, is launching a new sourcing and reservation tool to allow corporate clients to manage their serviced apartment accommodation programme. (Hoskins, 2020). These moves will also help bring serviced apartments into more corporate programmes, increasing further awareness while getting more centralisation into the service industry.

Loyalty and Reward Programme

While hotels have generously rewarded guests with points and status, serviced apartments haven't. Like the Airbnb effect, the value of serviced apartments' larger home-like spaces at a lower price was undeniably attractive to travellers (Connolly, 2022). Serviced apartment, after all, serves a perennial need (Hamdi, 2022) and most guests may not stay as frequently as they would only use the serviced apartment for, say, the relocation.

Hotel management companies operating serviced apartments have also not been rewarding guests who choose to stay in their apartments on equal standing. For example, Marriott Executive Apartments gives you 2.5 Marriott Bonvoy Points per USD compared to

10 points in a hotel brand. The brand also offers only one elite night for every three nights consumed (Genter, 2022). As guest behaviours progressively shift more distant from brand loyalty to rewards, companies managing serviced apartments would now need to innovate (Harris, 2020).

Frasers Hospitality moved its loyalty programme from a recognition-based program to a rewards programme giving points that could be redeemed for award nights or lifestyle vouchers, becoming one of the first serviced residence loyalty programmes (Doner, 2017). In 2019, The Ascott Limited launched Ascott Star Rewards (ASR), one of the most flexible programmes with no minimum points for redemption and no blackout dates. After three years, ASR members now contribute to 90% of The Ascott Limited's direct online bookings, and 50% of ASR members booked more than once, revealing the value of the hotel chain and loyalty programme (Seet, 2022).

A loyalty programme is also crucial for the serviced apartment to blend short and long stays to achieve a higher ARR. For example, Dao by Dorsett also has plans to implement a Dorsett Loyalty Programme soon (Lee, 2022). Hence, serviced apartments need to study this or offer instant gratification. An example is Far East Hospitality's new single-tier membership Far East Insiders, for travellers that occasionally travel to enjoy exclusive deals instantaneously and lowest online rates of up to 12% lower ("What type of Hotel Membership Suits You Best?," n.d.).

Potential of further segmentation in the industry of serviced apartments

As shared in the previous chapter, the serviced apartment has grown significantly in market appeal as customers become more aware of this product. As a result, there will be a growing need for stratification for concepts ranging from economy, upscale, upper upscale, luxury or lifestyle to target different groups of customers (Goldstein, 2022). We have seen Marriott International introducing Apartments by Marriott Bonvoy positioned in the premium and luxury segment, which is a new focus of their extended stay brand. The new brand will join Marriott Internationals's extended stay brands Element, Residence Inn, Towneplace Suites and Marriott Executive Apartments, which are positioned in the upper-midscale and upscale (Jelski, 2022). Similarly, BWH's new midscale Home by BWH would be sitting between their existing upper midscale and economy segment, namely the Executive Residency and SureStay brands (Simon, 2022). Accor's new extended-stay labels to their existing brands, such as Movenpick Living, Novotel Living and Pullman Living, also target different brand audiences. Hence, there are opportunities for a serviced apartment to further diversify into specific segments as it continues growing.

Concerns

Although the future of serviced apartments does appear bright as per the literature, the author would like to add the three following sections that serviced apartments need to take note of to continue their growth trajectory.

Growing Competition

Serviced apartments need to be very concerned about competition, not just within serviced apartments but other growing types of lodging. Airbnb offerings typically include practical residential amenities such as a full kitchen, washer/dryer living space and amenities usually not found in a hotel (Zhang, 2019; "The beginner's Guide to Serviced Apartments," 2022). Airbnb looks similar to a serviced apartment ("The beginner's Guide to Serviced Apartments," 2022), hence serviced apartments must also be very wary of this threat as over 700,000 companies have signed up with Airbnb as of 2018, a massive jump from 250 companies three years prior in 2015 (Castillo, 2022). However, Airbnb still lacks reliability (Hanton, 2022) and sustainable quality ("The beginner's Guide to Serviced Apartments," 2022). Serviced apartments are managed professionally with standardised hotel services (Shen, 2013), and guests do not need to look for the right quality like they do when searching for an Airbnb ("The beginner's Guide to Serviced Apartments," 2022). Serviced apartments need to take advantage of this during the marketing and consider improving their service offering as this is also one of the weaknesses identified in a service apartment (Shen, 2013; Deepeka, 2018).

Other than Airbnb, serviced apartments must be very careful of their backyard as co-living is growing very aggressively, albeit targeting a different audience willing to give up space and privacy for significantly more cost-effective options. Industry experts such as Arthur Kiong, and Robert Hecker, Managing Director, Horwath, the world's largest hospitality consulting company, do not see co-living as a more favourable investment when compared to a service apartment. However, Mr Kiong added that the company is still monitoring co-living with an open mind (Hamdi, 2022). Similarly, serviced apartment providers should too.

Lastly, there is a continued concern when owners or investors convert their empty residential units to compete for short-term rentals (Deepeka, 2018). As a result, serviced apartments would need to stay alert and innovate to continue their current growth path.

Renewed Focus on Core Fundamentals

While Covid-19 have highlighted the need for elevated cleaning procedures, serviced apartments must focus back on core fundamentals more than ever for the sector to continue flourishing. There is a need to have knowledgeable and friendly staff, quality furnishings (Goldstein, 2022), and quality amenities with attention to maintenance and upkeep.

Branding

Lastly, there is a growing need for a trusted operator and brand moving forward. Due to Covid-19, a brand is more significant now due to the competitive landscape and shift in customer attitude as it helps assure guests that the accommodation is safe, clean and valuable for money (Goh, 2022; Goldstein, 2022; Harris, 2022). Branding also adds a layer of depth that elevates the customer and business relationship (Goldstein, 2022), making branding ever more critical today.

Recommendations

Updating this research after the world returns to pre-covid-19 normality is recommended to reflect future travellers' sentiments. In addition, future scholars may wish to study customer satisfaction in serviced apartments and what needs to be improved.

Conclusion

Serviced apartments have proven themselves as a financially successful lodging asset class before the pandemic and have excelled in establishing themselves as stable and have a great future ahead and are on pace to achieve a sizable market share. However, serviced apartments must take extra note of competition and keep innovating. First, the industry needs to continue to centralise and be less fragmented—the need to further embrace corporate clients with consistent offerings from service to invoicing. There is also an imminent need to balance the lean cost with more service as the two of the top three improvements that could further increase serviced apartment usage that buyers of serviced apartments cite are add-on services and faster response time (Harris, 2020). Now more than ever, the serviced apartments need to deliver timely, minimise administration, show flexibility and resolve any issues that arise (Sell, 2016).

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Appendix

Quotes from industry leaders

Arthur Kiong

Chief Executive Officer, Far East Hospitality

19 November 2022

1. How are your serviced apartments performing financially today compared to before the COVID-19 pandemic, and why?

   "Serviced Residence has surpassed 2019 levels. However, before celebrating, the costs of owning and operating Serviced Residences has increased disproportionately; costs increasing higher than revenue. The reasons for increased demand include: wealthy Chinese escaping the zero covid policy, pent-up demand for foreign PMET talent, HDB upgraders and displaced residents from en bloc sales, and gov's ABSD policy restricting the supply of private apartments for rent."

2. Has there been an increased interest from investors and developers for new builds or conversions into serviced apartments compared to before the COVID-19 pandemic?

   "No. There isn't a disproportionate increase in developers wanting to build serviced apartments. The lackluster response is because serviced residences only generate a property yield of less than 2%. High land and operating costs are the reasons. The yield of 2% is less than borrowing costs with is currently around 3.5%. The math does not make good business sense."

Quotes from industry leaders

Vernon Lee

Senior Vice President, Head of APAC Operations and Projects, Frasers Hospitality

20 November 2022

1. How are your serviced apartments performing financially today compared to before the COVID-19 pandemic, and why?

   "Today, our serviced apartments are performing better than before the covid 19 pandemic due to the pent up demand in expat movement as well as unique strategic position of Singapore that allows it to benefit from the geopolitical tensions. Our rates have risen beyond precovid 19 due to demand squeeze in the absence of new supply."

2. Has there been an increased interest from investors and developers for new builds or conversions into serviced apartments compared to before the COVID-19 pandemic?

   "While investors and developers saw the resilience of the serviced apartments during the pandemic as compared to hotels, this has not resulted in increased interest for conversion or new builds. However this could be because of where the market is in the property cycle as well as high cost of conversions at this point."