Emerging Accommodation Segments 2018

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Hotel Alternatives

The investment case for the emerging accommodation segments
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Emerging accommodation segments

INTRODUCTION

As the hotel sector headed into 2018, operators were starting to call the top of the market in terms of performance, while at the same time hotels were becoming more of a mainstream asset class.

One of the most striking shifts over the past year has been the growing interest of the institutions in the sector, with JLL's EMEA hotels & hospitality CEO Philip Ward telling us that interest was gaining momentum "driven by the increasing volume of capital targeting real estate overall, and the potential for stable, high-yielding returns".

With performance strong, so was appetite for transactions and investors looking for yield were being forced to the edges of Europe, as competition for sites in the UK and Germany builds.

In the UK, there were concerns that the impact of the fall in Sterling following the EU Referendum would make its presence felt in the performance of hotels in 2018, with increased pressure on costs.

Jonathan Langston, co-founder, Hotstats, commented: "There's lots of downwards pressure in profit and that yields are as low as they have ever been and interest rates rising means that this is likely to continue. I don't think I'm calling the top of the market, certainly in terms of performance, but if you're buying now you have to be sure there is some different way you're going to be operating if you want to show a profit on exit in three or four years' time."

Innovation was required, not only by existing hotel owners and operators, but by investors looking for returns. With the hotel sector becoming ever-more mainstream and, as a result, ever-more expensive, investors are focused more keenly than ever on the yield-per-square foot, to the advantage of the super-budget hotel operators and other groups on the periphery has grown. But with supply of these options limited, a thriving industry has grown up around the alternatives, those options which supply accommodation, be that for people, things or data. Anywhere which combines that which investors seek: revenue plus the possible of asset value uplift, is coming onto the radar of investors.

In this report we will look at some of the established players and the rising stars in the alternatives sector, including:

- Serviced apartments
- Student housing
- Residential education
- Co-living
- Self storage
- Retirement living
- Healthcare - including residential
- Data centres
- Car parks
- Pubs
- Nurseries

HOTEL ALTERNATIVES

Serviced apartments

Serviced apartments are a hybrid of two different asset classes: the residential apartment sector and the hotel market. Their aim is to fill the gap between a short hotel stay and longer-term rental accommodation.

The concept is well established in the US and Asia Pacific, and, despite still being a relatively unfamiliar concept to both investors and customers in Europe, the industry is growing and is now becoming an acceptable accommodation option.

One of the keys to its success is being able to generate a higher gross operating profit and net operating income than the average hotel. This is achieved through lower guest turnover because the length of stay is longer than that of regular hotels and lower operational costs are achieved by providing fewer and less frequent services.

While there is no official definition, the term ‘serviced apartment’ encompasses the three sub-categories: aparthotels, branded residences and corporate housing.

Categories of serviced apartments

Aparthotels/Extended Stay hotels

These extended stay hotels are mainly studios, one bedroom or two bedroom apartments usually found in urban locations, ranging in standard from budget to deluxe. All are fully furnished and include:

- Ensuite bathrooms
- Fitted kitchen or kitchenette
- Lounge/dining area sometimes including a sofa bed or pull-down bed
- Working area, desk, office chair, internet access and direct telephone line

The hotel services usually available from extended stay hotels include:

- Reception desks – some manned 24hrs, others on limited hours.
- Daily or weekly cleaning and laundry service.

There are typically no restaurants, bars or lounge areas, although the level of services is generally higher than those hybrid aparthotels, which are usually a leisure- or resort-based product, and also come in standards of accommodations and range of services from budget to deluxe.

Key players

Regardless of being considered a relatively new sector, there has been significant movement in Europe in the aparthotel sector over the past ten years. Multiple new, large international brands have entered the market, such as Residence Inn by Marriott (2011) and Staybridge (2012); there have also been a number of re-brandings, such as Suitehotel to Suite Novotel.

For the purpose of this report the focus will be on the key players in Europe.

Hotel brands

Adagio / Adagio Access

- A joint venture with Accor and Pierre & Vacances.
- The company acquired 100% of France's second largest operator, Citéa, in 2011 and is now the largest player in France.
- At mid-2017, the brand had 110 aparthotels with 11,488 apartments in 11 countries.
- Aparthotels Adagio, offers modern, spacious apartments with a fully equipped kitchen, as well as hotel services in urban locations for extended stays, based on tiered pricing from fourth night onwards.
- First established in 2007, the brand provides three product ranges: Adagio; contemporary midscale aparthotels in Europe's leading cities, and Adagio Access; economy range, functional aparthotels, which are only located in France and Adagio premium.
- Its development strategy is firmly focused on international expansion. Among the 31 projects with 5,147 apartment, the company is currently working on, some 1,115 apartments are in Europe. It is looking to develop in prime and secondary locations in international capitals, key cities and resorts and in just prime locations in major domestic destinations.
- Has started to franchise its concept, aiming to have 30% of its stock as franchises within three years. A master franchise agreement has been signed with Accor in Brazil which will enable Adagio to set up a network of 40 establishments.

In November 2017 AccorHotels signed a management agreement with Noral, a private group in Ivory Coast, for a combined 200-room Novotel and 110-apartments Adagio complex, in the capital city of Abidjan. Expected to open in 2020, it marked the introduction of the first Adagio Aparthotel in Africa. AccorHotels Middle East & Africa managing director and COO Olivier Granet commented: "While this project represents a lot of firsts, including the first complex of its kind in Africa as well as the first introduction of the Adagio brand, I am also proud that AccorHotels will continue being a leading hospitality employer in Ivory Coast, with hotels across all segments, from economy to luxury, representing more than 700 talented colleagues."

Element

- Launched by Starwood in 2008 as an eco-friendly, lifestyle-driven extended stay brand. The first European property opened in 2014 in Frankfurt and another in Amsterdam in 2016.
- There are currently 23 Element hotels worldwide. By 2018 there are expected to be 46. Some of the development will be dual-branded hotel developments with both the Element and Aloft brands
- Since the Marriott takeover of Starwood, the brand has attracted much attention and it is thought that the development of the brand will continue apace.
- Some of the Element properties opening in the next few years include Element Dar Es Salaam (January 2017); Element Dallas Love Field (February 2017); Element Austin Downtown (August 2017); and Element London Tobacco Dock (September 2017).

2017 saw the company announce its debut in Egypt, with the Element Cairo is being developed by Abraj Misr Urban Development and is owned by Middle East Real Estate for Development. The 344-room project is due to open in 2019. "Egypt is one of our key markets and we are excited to introduce a new brand to the capital's city centre," said Alex Kyriakidis, president & managing director, Middle East and Africa,

- Zoku was developed by Hans Meyer, co-founder of CitizenM Hotels and Marc Jongerius, former partner of a mid-sized private equity buy-out fund. The holding company Zoku and Beyond BV is backed by the Dutch families.
- It currently has one location with 133 units in Amsterdam and is looking to grow into a global chain within the next decade. It recently won two sites in Paris and other targeted cities include large international creative hubs such as London, Paris, Barcelona, Vienna and Berlin.
- Zoku is a re-invented apartment hotel brand facilitating global living and working. It is a hybrid between a home and an office with the services of a hotel topped off with the social buzz of a thriving neighbourhood.
- The concept drastically reduces the GFA/room by combining hybrid-living (living and working) with spacious micro-living in the same space. It encourages social connections with cool social areas and connects locals and internationals.

As of December 2017, the company was awaiting a planning decision for a site in Manchester.

Serviced apartments - where are we now?

One of the original of the alternative investment options, 2017 saw the sector expand rapidly and according to Knight Frank, the serviced apartment sector was one of the fastest growing sectors in the UK.

CAGR 6.8% pa between 2013 and forecast year end supply 2017, with the total units rising to over 21,500 units.

International branded supply accounted for 40% of the serviced apartment stock in London and 30% in regional UK.

Sector was set to expand by 21% between 2017 and 2020, equating to approximately 23,500 apartment units.

Approximately 2,000 branded apartments scheduled to open by the end of 2019 and a further 2,000 units in the pipeline. 1.

The growth attracted investment and one of the biggest deals of the year was Hua Kee, the Thai family office, acquiring a one-third share in Cycas Hospitality.

Cycas said that the investment would allow it to expand across Europe, and meant the business had not only additional working capital but also “a co-investment partner and potential for future deals”. The company said that its turnover under management was forecast to treble over the next two years from EUR38m to over EUR100m based on the business’s existing, secured and signed pipeline of hotels.

Cycas currently has 3,000 guest rooms either open and operating, or signed and in the pipeline; it intends to grow this to more than 10,000 in the next five years.

Eduard Elias, Cycas Hospitality’s co-founder, said: “Extended-stay accommodation, which includes serviced apartments and aparthotels, is a new and dynamic asset class in Europe and is evolving as a major subsector in the hotel industry as leisure and business travellers increasingly seek and value flexibility and independence.”

Erik Jacobs, on behalf of Hua Kee, added: “In comparison with the US, Europe is largely underdeveloped and undersupplied in the extended-stay sector and we are anticipating this sector to gain significantly more market share in the short, medium and long-term.”

John Wagner, founding partner, Cycas Hospitality, told Hotel Analyst: “We went looking for a partner. We have been reasonably successful over the years, but with not a lot of our own money we had missed out on deals because we weren’t able to write a cheque. We met Hua Kee through a European contact and the deal was very fast – from start to finish it was only three months.

"We now have the money for expansion and the money to hire for expansion and plenty of money to go out and take an equity position – in the form of a cash deposit for a lease or sliver equity – all of those things. We have aggressive and ambitious expansion plans and Hua Kee has bought into that.

"We are well established in the UK in the extended stay market. We are the largest operator of Staybridge Suites outside North America and the largest extended stay operator in London."

Wagner said that the group had deals in the Netherlands, France, Belgium and Germany in varying stages.

With expansion comes consolidation, with the maturing market expected to attract existing investors, but also hotel operators, looking to the model to fill out their brand stables.

Philippa Goldstein, hotel analyst, Knight Frank, told us: "The global hotel operators are heading that way, adding them to their family of brands, to suit all customers and to try and compete with Airbnb. Bank funding is also increasingly available to operators who can show a strong covenant.

"The greatest issue facing the sector and facing funding is the question of what a serviced apartment or an aparthotel is. The dedicated operators are those who find it easiest.

"The sector is increasingly attractive to investors, who like the fact that they are getting longer term clientele at the same rate during the week and, with less F&B are getting a lower variable cost. The returns for an investor are attractive and the sector is less volatile than other sectors, such as residential."

Goldstein added that the lines between serviced apartments and aparthotels and the traditional hotel sector were blurring. She said: "The operators are having to provide more services to meet the growing needs of the consumer, but it is done in a different way to the hotel sector – for example, the drinks in the evening which the GM organises so that people can be sociable."

As the serviced apartment market grows in prominence, the global hotel operators have started to appreciate the need to offer a competitor. The leisure sector consumer, trained by brands including Airbnb, has also started to utilise serviced apartments, meaning that the large hotel majors must offer them up as an option.

2017 saw AccorHotels acquire Travel Keys, the private vacation rental market, for an undisclosed fee. The company joined Marriott International, which is trialling communal rooms, as the sector continues to compete with Airbnb.

Sébastien Bazin, the company's chairman & CEO described Travel Keys as having "built a very robust business over the years that will be instrumental in our strategy to create the number one luxury private rental player in the world. Travel Keys brings an impressive portfolio of premium properties to our existing activities".

Founded in 1991, Travel Keys represents a luxury collection of over 5,000 villas across more than 100 destinations across the Caribbean, Mexico, the US, Europe, Asia and Africa.

The move is the latest in a series for AccorHotels into both luxury and the non-traditional hotels space. The company commented to us that it would not "buy for the sake of buying" when making purchases, but looked for deals representing a good investment and a further brand to offer loyalty members and developers.

AccorHotels said that the combination of Travel Keys with Onefinestay and Squarebreak would provide AccorHotels with a unique offering of about 8,500 addresses in the luxury private rental market, with highly-curated properties in both the vacation and urban segments.

Marriott International also signalled that it was thinking outside the traditional hotel box, trialling a communal room model for its Element brand – acquired through its acquisition of Starwood Hotels & Resorts, as part of its first pop-up hotel innovation lab. The company said that, with business and leisure travellers looking for

STUDENT HOUSING

Where are we now?

The student accommodation market is growing in interest for investors, as the global movement of learners beckons big business.

Student housing has been a key driver underpinning the total growth in Alternatives investment volumes and was expected to account for 34.7% of Alternatives investment volumes in 2017, according to JLL, which estimated that student housing would account for GBP1 in every GBP10 invested in commercial property in 2017. 1

The UK has some of the highest-ranking universities in the world, with three in the top 10 and seven in the top 50 in 2016/17 2. The UK higher education sector generates c.GBP73bn for the economy and contributes 2.8% of the nation's gross domestic product.3

Students have become increasingly globally mobile with, according to the OECD, over 4.5 million students studying abroad in 2014, more than double the 2.1 million internationally mobile students in 2000. This figure is forecast to reach 8 million by 2025. China, India, the Republic of Korea, Germany and Saudi Arabia are the top five countries with students going abroad, with almost one in six international students being Chinese, and Asian students accounting for 53% of all students studying abroad.

The world's population is increasingly becoming more educated. In many of the world's largest established economies nearly half of the population of 25 to 34-year olds has tertiary education.

The student body has also changed over the period, becoming younger and with a higher proportion of full-time students, as the decline in the number of part-time and mature students has continued since 2010. Full-time students now make up 74% of the student body, up from 62% at the start of the decade, and under-25s now make up three-quarters of all undergraduates and a third of postgraduates 4.

As well as changes in the age of students and their mode of study, the student body has become more cosmopolitan over the decade. In 2004/05, 4% of students came from the EU and 9% from outside the EU. By 2014/15, the numbers had increased to 5% and 14% respectively5. The US was the most popular market for international students, with the UK in second place, though significantly stronger on a per capita basis. One of the UK's advantages was its average cost of living and tuition, which was generally lower than in both the US and Australia.

Merelina Monk, partner, student property, Knight Frank, told the Hotel Alternatives conference in 2017 that student accommodation was now being "an asset class in its own right" which, recently, had "attracted overseas investment and new entrants, not least because of the weak currency". Funds were the most active investors, with 47% of the total investment, followed by PE with 24%, institutions (12%) then Reits. Monk said that yields were now 4.5% in London "and, since Brexit these yields have remained stable, unlike other traditional property".

The sector has evolved rapidly in over the past six years, with accommodation now including cinema rooms and gyms alongside bedrooms and studying rooms.

With growth, comes competitive market tension between investors for prime operational assets with aggressive bidding from North American private equity firms and institutions in particular

James Pullan, head of student property, Knight Frank, said: “We expect the market will increasingly be driven by the Reits and pension funds as economies of scale assist these institutional buyers to create increasingly large portfolios with efficiencies of operation, branding and marketing.”

According to a study from Knight Frank in 2017:

- A total of GBP3.1bn was invested in the UK student accommodation market in 2016
- Portfolio acquisitions accounted for around 60% of the total investment
- Funds invested around GBP1.4bn into the sector over the course of the year
- A key challenge for investors in was likely to be stock availability

Commenting in June 2017, JLL said: “Amid a slowdown in some real estate capital markets, the robust and defensive qualities of Alternatives assets remain highly attractive in the current climate, as demonstrated by the strong levels of investment in the Student Housing sector in the first half of 2017. This momentum is expected to continue into the second half of the year, when we expect to see a change towards a predominantly portfolio sales-led market.”

Some GBP3.1bn was invested in the UK Purpose Built Student Accommodation market in 2016, more than double the levels seen in 2013 and 2014.

Whilst total spend last year was lower than the record of GBP5.1bn seen in 2015, it demonstrated that demand for PBSA remained strong. Investment in 2015 was augmented by a number of exceptional deals on large portfolios made by new entrants to the market.

Purpose-built student accommodation has evolved as a product over the past 15 years. Over this period, and in particular, following the introduction of tuition fees, students have become consumers in their own right and are making their investment decisions for their higher education not just on course alone, but also on a mix of quality of the academia and the quality and location of accommodation.

Increasingly, students are demanding high-quality living space with clever design, quality materials, TV areas, communal kitchens and social areas in the buildings which provide opportunities for social groups to form and bond, centred around work and play spaces. Likewise, they are demanding services that create wider social engagement such as talks, events, workshops and tie-ins with local businesses and educational establishments.

The leading players in the market are now providing facilities which mix academia, co-working and social spaces, providing a true campus environment.

Joanne Winchester of CBRE, said that “suitable locations close to campus facilities and transport links will become more important than ever as competition increases over the next few years”.

According to Philip Hillman, chairman, JLL’s UK Alternative Division: “The provision of good quality student accommodation was traditionally the responsibility of the universities but in recent years, most new accommodation has been provided by private investors and developers.”

New investors are continuing to enter the sector and much of the activity last year has been a result of the continued trend for portfolio acquisitions. The data shows that, of the deals concluded in 2016 in the UK, portfolios represented around 60% of the total.

The biggest single transaction was by Singaporean real estate fund Mapletree which made its first foray into the sector following its acquisition of the Ardent Portfolio for GBP417m.

RESIDENTIAL EDUCATION

Where are we now?

Residential schooling has been a feature of the education system in the UK for over a thousand years, beginning with the foundation of The King's School, Canterbury, in 598 AD. The tradition is associated with elite education and, despite the focus on childrearing shifting from economic to emotional, boarding schools have never been more popular.

Within the UK, there were 478 independent boarding schools with an average of 444 pupils in 2017, making up making up 13.4% of total pupil numbers in the independent sector, a proportion which the Independent Schools Council said was largely unchanged for the past 17 years. The average boarding fee per term was GBP10,753, against an average day fee of GBP4,606.

There were also 40 state boarding schools, which provided free education but charged fees for boarding. Most state boarding schools were academies, some were free schools and some were run by local councils.

Boarders as a percentage of all pupils by region

Region	Number of ISC schools	Number of ISC schools with one or more boarders	Total number of pupils	Total number of boarders	Boarders as % of pupils
South West	97	62	35,968	9,151	25.4%
Wales	21	13	7,651	1,862	24.3%
South Central	206	105	76,150	18,347	24.1%
East Midlands	68	26	25,636	4,573	17.8%
South East	220	92	83,969	13,707	16.3%
Yorkshire and Humber	59	25	24,748	3,394	13.7%
West Midlands	92	29	35,911	4,835	13.5%
East	161	64	62,684	6,532	10.4%
Scotland	33	19	24,749	2,553	10.3%
North West	81	12	34,538	1,943	5.6%
North East	17	5	8,479	358	4.2%
London	228	20	87,877	2,590	2.9%
Total	**1,301**	**478**	**522,879**	**70,281**	**13.4%**

Excludes data for schools in Northern Ireland, the Channel Islands and the Isle of Man due to small sample size.

Source: ISC 2017 report

CO-LIVING

Where are we now?

The affordability of residential property has become an election issue in the UK, with the increase in support for the Labour Party in the June 2017 elections attributed in part to the difficulty of being able to get onto the housing ladder.

Sadiq Khan, mayor of London, made the city's shortage of homes his number one priority when he was appointed. Leading indicators suggested 41,000 homes were completed in 2016, the highest number of new homes built since the 1930s and close to the London Plan minimum target of 42,000 per year. However, these numbers were a long way short of the 64,000 new homes per year required to support forecast employment growth.

Savills reported that at the more affordable end of the market, the picture was even less optimistic. The company said: "Current delivery does not match the shape of demand, given a failure to meet targets in lower-priced markets. We estimate that 58% of demand is for homes costing less than GBP450psf, whereas only 15% of the five-year demand forecast is met by future supply." 1.

Savills added: "Policy intervention is required in order to reach the level of development needed as well as shift the focus to the lower-value markets. is must be a policy framework which encourages developers to maintain a London presence, at a time when other regional markets have begun to look comparatively more attractive, with more policy carrots than sticks, to ensure it is commercially viable.

"As well as policy, continued momentum in the delivery of Build to Rent is crucial, given the needs of younger private renters. More private and public-sector partnerships are needed to deliver more intermediate tenure, and ensuring land supply to allow this to evolve."

With the UK government having much of its time and energy consumed by Brexit, change is not expected soon. There has been a fall in house prices triggered by wider concerns as a result of a weakening economy in the shadow of Brexit, but no structural shift. The UK is not alone - many high-density cities have become increasingly out of the rich of the young and those of lower incomes. With a lack of people who would typically take on lower-paid but essential work, the matter is becoming less about ownership and more about how cities will function in the future.

Instead, the private sector has spotted a gap in the market with co-living, aimed at enticing young professionals with a sociable environment and lifestyle offering (such as access to games rooms, community events, cinema, sauna and spa), all with a hassle-free system of paying just one bill. The phenomena has risen alongside co-working, which provides flexible workspace, to travelling employees and anyone looking for desk space.

London was one of the first cities in the world to define co-living, in December 2017, when the new Draft London Plan recognised co-living as "a large-scale, purpose-built shared living sui generis use development, where of good quality and design, may have a role in meeting housing need in London if, at the neighbourhood level, the development contributes to a mixed and inclusive neighbourhood."

Last year saw one of the biggest brands in co-working, WeWork, branch out into shared living - WeLive - but also started offering accommodation at WeWork - becoming a hotel or private members' club by any other name. The company's first }disruptive alternative to the way people live", was launched in New York.

The company said: “Just as WeWork changed the way people work through its philosophy of shared space, services, community and social interaction. WeLive offers a disruptive alternative to the way people live. This concept is another layer of our platform focused on enabling people to live more fulfilling lives.”

For those looking for the ‘experience’ but who don’t want to forego personal space, some Build to Rent schemes are setting new standards for premium rental products, with amenities ranging from resident lounges to private dining facilities. Tenants want better quality and facilities, and they’re willing to pay for it.

China has been at the forefront of co-living in Asia, with Myles Huang, director of research in Asia Pacific capital markets, JLL, commenting: “Location is important, either in the city centre with a ready catchment of business travellers or close to university and technology hubs.

“Many co-living hubs are furnished and have communal facilities for residents to connect and collaborate. These spaces can be easily converted into zones for social activities such as talks, music and cooking sessions, or workshops. Some hubs further distinguish themselves by locating in lofts or heritage buildings.

“Many investors already actively pursue options in the market to create flexible co-living facilities. Given limited opportunities on the market and tight pricings, we expect value-add specialists, in particular, to devote more resources towards opportunities in co-living space.”2.

Huang added that co-living in ‘adult dorms’ appealed to the Millennial generation, who were more open to the idea of social networking and the sharing economy. Not surprisingly, we see very strong interest in the co-living concept in cities with growing wave of millennial workers and travellers, and hubs that attract technopreneurs, startups and the creative industries.

The end of 2016 Ascott, the company launched Lyf, a serviced apartment brand for Millennials, with more than a nod to co-living. The brand is run by Millennials, with plans to have 10,000 units under the Lyf brand globally by 2020. Unlike conventional serviced apartments, the properties will be managed by “Lyf Guards”, Millennials who, the group said, may be residents themselves, community managers, city and food guides, bar keepers and problem solvers “all rolled into one”.

Lee Chee Koon, Ascott’s CEO, said: “Millennials already form a quarter of Ascott’s customers and this segment is poised to grow exponentially. Lyf is a unique accommodation tailored for this demographic, including technopreneurs, start-ups and individuals from music, media and fashion. We do not define millennials by age but instead they are a social generation who crave discoveries and desire to be part of a community.

“Lyf will provide global jetsetters and trendsetters with the opportunity to ‘Live Your Freedom’ in a dynamic environment and network with like-minded creatives to bring more ideas to life. Most importantly, they can be assured of a consistent quality in products and services, given Ascott’s track record in managing award-winning properties worldwide.”

The company is looking for sites in key gateway cities and is open to both investment and management contracts. Locations being scouted include Australia, France, Germany, Indonesia, Japan, Malaysia, Singapore, Thailand and the UK.

The properties will offer a range of apartment layouts, from studios to twin rooms and larger units for groups. Instead of standard wardrobes, guests can hang their clothes on rails that suspend from the ceiling or put up a hammock.

Commenting on the co-living trend, Mindy Teo, The Ascott Limited’s VP for brand & marketing & digital innovation, said: “As our cities become denser and more expensive, co-living addresses some of the key issues of urban living, such as loneliness exacerbated by over-reliance on technology and social media. A lot of the people living at Old Oak had just moved to London; many went through major life changes such as

SELF STORAGE

Where are we now?

Ever-rising house prices, decreasing house sizes and growing urbanisation in the UK has meant a growing self-storage sector, which has started to attract the attention of global investors, including the institutions.

Nicholas Vetch, executive chairman, Big Yellow, one of the leading brands in the UK, said: “Demand for self storage is largely driven by need, with security, convenience, quality of product, service and location being key drivers. Awareness remains relatively low compared to commoditised products, such as hotel rooms or airline seats, albeit it is increasing slowly year-on-year with increased supply, marketing spend and customer use.

“There is a growing trend towards self-employment and smaller business start-ups in the UK, dynamics that are positive for self storage. Additionally, businesses in the UK are increasingly seeking flexible office and storage space as a means of operation, shying away from longer inflexible leases. The deindustrialisation of big cities with the conversion of commercial space into residential and other uses, is also a driver for demand from the SME market seeking flexible warehouse space.”

According to Cushman & Wakefield, 65% of self-storage customers in 2016 were aged between 40 and 65 years old, and 81% were between 35 and 70. This, the organisation said, could in part be attributed to the fact that Millennials were settling down later in life, in terms of establishing more permanent relationships, having children and moving from rented to permanent residences. These life changing moments were often a catalyst for people to use self storage. Divorced or separated people were also more than twice as likely to use self storage as a single person. 1.

The group’s survey of users highlighted that the most common reason given for taking a unit was lack of room or a need to create space at home (51%), followed by 21% saying they were between properties. The industry also had a high proportion of repeat customers with 39% having previously used self storage.

Oliver Close, partner in Cushman & Wakefield’s UK valuation and advisory team, said: “Whether it be moving house, downsizing, starting a family or having your children return home – it is clear the UK public relies heavily on self storage facilities to help ease major life events. Equally it seems, we all need more space to accommodate the growing number of possessions we have. This is reflected in continued buoyancy in the UK self storage market. The industry is flourishing and companies are expanding their portfolios, confident that the growth factors that underpin the sector are here to stay.”

Rennie Shafer, CEO, UK Self Storage Association, added: “It is a popular misconception that self storage is a response to our tendency to hoard things that are well past their sell-by date. While this may be true for a very small percentage of users, the vast majority do so at transformational times in their lives, both personally and commercially. Most new self storage customers initially take their unit for a short-term need, using it for two to six months on average, such as moving house or having work done at home, and then move out when that need is satisfied.

“However, a significant proportion become long-term customers. This is especially true for business users who grow with us from an initial start-up to a fully-fledged company. Some 44% of business customers have stayed for three years or more, compared with 31% of personal customers. Indeed, we estimate that more than 10,000 new businesses were launched last year in UK self storage units. Around 42% of all self storage space in the UK is rented to business owners and a big part of this is online retailers. Self storage offers the flexibility to scale up or down rapidly, giving businesses a cost-effective alternative to traditional leases on commercial premises. Many self storage stores also offer additional services to business customers such as use of office space, internet access and printing.”

According to the Self Storage Association UK's 2017 study, there were over 1,430 self storage sites in the UK covering approximately 42.2 million square feet of space. 317 of these sites offered predominately container-based self storage (typically converted steel shipping containers).

It was estimated that the industry added around 1.7 million square feet of space in 2016. Around

25% of this space was added through expansion of existing stores, or fitting out of previously unused space. Many of the new openings were smaller sites in regional locations. Approximately 25% of the new space was taken up by container-based storage. There were more new container storage businesses opened in 2016 than new purpose built or refit self-storage buildings, however the container sites were considerably smaller, so more space was added through self storage buildings. That being said, there were now a number of larger container-based storage operators with several hundred storage containers on site.

There were also operators who began with just container storage and were now adding purpose built or refurbished buildings with self storage offerings to their customers. There were 25 new substantial self storage sites opened in 2016, each having over 150 units in their opening stage. However, of these, two were essentially relocations where nearby older stores were closed and customers were moved to the new, larger, purpose-built stores. 2.

The organisation said that the structure of the sector had not changed over the past decade, with the balance between freehold/long leasehold and short leasehold (generally under 25 years) remaining relatively constant. Freehold or long leasehold was by far the most popular choice, with 78% of sites, with operators usually only considering short leaseholds where a freehold could not be secured, or where there was a constraint in funding.

Looking at performance, the SSAUK said that, despite an increase in supply for the industry, occupancy on increased from 73.1% to 75.8% in 2016, indicating that demand was continuing to grow at a faster rate than supply. With significantly more people using self storage and increased returns per sq ft, 2016 was a very positive year for the industry, set against a backdrop of heightened political and economic uncertainty. The domestic market continued to dominate over business users, with a quarter of the sites sampled having over 75% of space occupied by domestic customers.

The SSAUK said: "It should be noted that a successful mature self storage business would generally operate at around 85% to 90% occupancy to provide the best yield. But for the industry average, occupancy levels will be suppressed by new businesses and extensions that are in fill up stages and below their optimal or maximum achievable levels."

Rennie Schafer, SSAUK CEO said: "It is a positive sign for the industry that occupancy rates continue to increase, and while the current rate of 73% indicates there is still room for further improvement, returns per square foot also increased by more than 5%, showing businesses are not sacrificing revenue for occupancy."

RETIREMENT LIVING

Where are we now?

That the UK and much of the developed world is ageing is not news. Advances in science and more opportunities for women have contributed to a fall in the birth rate which has driven countries including Germany to encourage immigration to try and avoid a top-heavy population, where too many are being supported by too few.

Those at the top are living longer and, increasingly, more healthily. They are looking for somewhere to enjoy life and often have the money to do it.

The UK is undergoing a significant change in demographics. By 2066, one in four of the population will be aged 65 or over. The pace of population growth for over 65s is three times the pace of the overall UK population.

According to a study done by Knight Frank, the stock of private retirement housing accounts for just 0.6% of dwellings in the UK. The delivery of new units in 2016 was around 5,500, accounting for around 3% of estimated total housing delivery. 1.

There are political ramifications around the sector. With housing in general in short supply in the UK, it is hoped that encouraging those of retirement age to move into specialised housing would free up more larger family homes. In a white paper released in February 2017, the government announced plans to explore the issues around retirement housing.

The white paper said: "Helping older people to move at the right time and in the right way could also help their quality of life at the same time as freeing up more homes for other buyers. However there are many barriers to people moving out of family homes that they may have lived in for decades. There are costs, such as fees, and the moving process can be difficult. And they may have

a strong emotional attachment to their home which means that where they are moving to needs to be very attractive to them and suitable for their needs over a twenty to thirty year period. There is also often a desire to be close to friends and family, so the issues are not straightforward." 2.

Undersupply of retirement living accommodation in the mid to upper market tiers and increase in life expectancy is driving strong re-sale and price growth in the retirement living market, according to analysis undertaken by JLL into the performance of properties in the Housing with Care market, managed by members of the Associated Retirement Community Operators over the past 22 years. This form of housing comprises self-contained units with communal facilities and on-site care and is the fastest growing form of housing in the retirement living sector. 3.

The broker reported:

- Over 65s have as much as GBP1 trillion of combined housing equity, with almost two thirds owning their homes outright.
- The majority of these households are in the mainstream housing market.
- Over 65s account for 35% of all homeowners and 61% of households who own homes debt free.
- The next generation of retirees are even more affluent, providing further demand for the next 30 years.

source: JLL

The key finding was that this form of retirement living accommodation tended to follow UK house price growth. Since 1995 the compound growth rate for Housing with Care was 6.0%, with an average price difference between sales of just over GBP41,000. JLL predicted that based on this, a retirement home would double in value in 12 years.

Analysis into re-sales in the sector highlighted that 80% of sales from 1995 have seen an increase in price, tracking wider house price movements.

JLL estimated that almost 80% of over 65s could be classified as mid to high affluence by 2025, largely as a result of house price wealth. Already one in six of the over 65 population had a household wealth of in excess of GBP1m. At present, 75% of the existing market was provided on an affordable tenure, meaning that there was a significant gap in the market for new stock aimed at the mid to higher ends of the market. There are currently 170 over 65s for every housing in care unit in the UK. However, amongst the most affluent, there were 485 for every high end unit, and 535 for each mid-market unit. Housing equity was the main driver of household wealth and with JLL expecting housing wealth to become a larger proportion of wealth in future generations, the gap in the upper market was set to continue.

The limited number of institutional grade covenants within the care sector was helping to drive pricing in the retirement living market. Even though the sector is less exposed to the impact of increasing staffing costs than Care Homes, there are only a few operators that investors are comfortable working with.

Philip Schmid, director in JLL's retirement living team, said: "The housing with care market currently sits at 0.72% in the UK compared to 5% in countries like Australia and New Zealand. The single biggest challenge facing older people in the UK is a complete lack of appropriate housing choices to suit their lifestyle, care or support needs as they age. Our clients want to invest in the sector and evidence like this helps to show the long term performance encouraging investment and improving the choice and accommodation for our ageing population."

Anthony Oldfield, director in JLL's Retirement Living team, added: "While the untapped opportunities here is good news for owners, investors and developers, further growth in this sector will also ease strain on our overstretched health and social care service and could release thousands of family sized homes back into the market. At a time when the funding and future of the NHS and the housing market are at the top of the political agenda it makes social, political and economic sense to incentivise greater development and diversity within the retirement living market."

The healthy demand and lack of supply has drawn significant attention from investors. In August 2017 Legal & General took its first step into the retirement housing market by acquiring Inspired Villages - previously known as English Care Villages - for GBP40m.

The UK insurer said it planned to build 3,000 homes for older people over the next five years, estimating that 3.3 million people in the UK would like to downsize, while only 7,000 specialist homes for older people were built last year. L&G said Inspired Villages would acquire "several" sites per year, creating "vibrant" villages on the edge of and within the UK's towns and cities.

Nigel Wilson, L&G's CEO, said: "Despite the fact that the UK is a great place to invest, 30 years of chronic underinvestment have led to poor productivity, inadequate real wage growth, market failures and low economic growth."

Shortly after that deal, AXA Investment Managers - Real Assets completed the acquisition of Retirement Villages Group, a UK retirement village developer and manager, in a deal reported to be worth over GBP100m.

The deal included a portfolio of 14 retirement village properties, comprising a total of 1,274 purpose-built independent living units and 402 care beds, primarily located in the South East and South West of the UK,

HEALTHCARE

Where are we now?

The care sector in the UK is rarely out of the headlines and passions over it were the cause of a volte face in the run-up to the 2017 election, when the Conservative Party was forced to back down from its so-called 'dementia tax' which would have seen those who have care in their home governed by the same payment rules as those who receive residential care. With those helped at home typically doing so for a longer period, this was attacked as unfair.

Council funding is currently available when a person's savings and assets are worth less than GBP23,500. The charity Age UK has said the number of residents paying their own costs had risen by 28.5% in the last 10 years. 1.

Some 41% of residents in UK independent care homes were now paying the full cost of their own care. Self-funders on average pay between GBP603 to GBP827 a week, compared to councils paying between GBP421 to GBP624 a week because councils can use their buying power as block purchasers to drive down the prices they pay.

Age UK said the result was that self-funders were effectively subsidising the state.

Demand for care businesses in the UK is underpinned by an ageing population, with the number of people over 85 years old projected to increase from c. 1.4 million in 2010 to 4.4 million by 2046.

The spectrum of care provided by the private sector is therefore vast ranging from child care to care for younger adults, people with disabilities or complex health conditions and the elderly. Over many years private sector providers have developed a wide range of services to provide a complete care pathway, with investors being attracted to back these organisations by the needs driven nature of the industry.

With ongoing advances in medical treatment, people are also living longer and with increasingly complex health conditions. Given the pressure on the NHS, the private sector (including not for profit organisations) is now responsible for the delivery of a significant proportion of the care needed to look after the elderly population as well as people of all ages with long term health conditions.

In August 2017 JLL estimated that there would be a shortfall of nearly 3,000 care home beds in 2018 based on the current development pipeline and anticipated increase in demand due to growing demographics. 2.

Over the last 15 years, there have been approximately 7,000 new care home beds built each year. However, increasing demand from an ageing population means that 14,000 beds need to be built each year for the next decade. Even if this rate were to be achieved, the number of closures in the sector is making this task even more challenging. Since 2014, over 21,400 beds have closed across the UK.

Since 2002, one in five beds have been built in the South East, largely a result of the region having the fastest growing elderly population and high levels of wealth, in particular housing equity. Despite this, the number of new beds (743) has been offset by the number of closures (2,072) in 2016.

With about 77% of all care home beds across the UK built before modern quality standards were adopted in 2002, there is an urgent need for new development to meet demand and improve living standards for future care home residents.

James Kingdom, head of alternatives research at JLL, said: “Even before we take into account the impact of bed closures, the care home sector needs to double the delivery of new beds. Demand for private pay stock set to increase across all regions of the UK, not just the wealthy prime markets, as a result of historic house price growth and no change in the threshold for publicly-funded care since 2010. The election showed what an emotive subject social care and how it is going to be funded can be. But it is essential that the government reaches a sustainable solution as to how social care is to be funded in a way that doesn't pass the burden to a shrinking working age population.”

Demand is, therefore, strong. Knight Frank reported that, for 2017, occupancy rates increased for the fifth consecutive year and were at their highest level since 2006, at 89.2%. Average weekly fees increased by 7.4% to GBP746 in financial year 2016/17. The increase in fees was above RPI inflation of 3.1% for the corresponding period. 3.

Staff costs increased by 7% over 2016/17 to GBP22,512 per resident. This was the highest annual increase since 2009/10 and contributed to a fall in profitability from 27.5% in 2015/16 to 25.2%.

This upwards pressure on carer rates was due to the combination of NLW and high staff turnover. Knight Frank said: “Carers work in a challenging environment; looking after the frail, elderly and those with complex needs. For responsibility at this level, carers are paid a wage rate that many may argue is inadequate and which is certainly leading many staff to consider alternative careers. Staff retention is therefore a challenge and operators will need to provide an attractive wage rate to improve this.

“Government policy-making has also had an influence on the labour force. There was a fall in applications by students in England to nursing and midwifery courses at British universities, influenced no doubt by the Government’s decision to charge fees to nursing students and replace NHS bursaries with student loans. Of course Brexit is likely to only exacerbate the crisis, with a risk of qualified nurses who are EU citizens returning to the continent. The government has committed to invest an extra GBP2bn into the social care system, which will hopefully help mitigate the staffing crisis issue to an extent.”

The company said that, in the light of the nursing staff crisis, a shift towards personal care home developments - as opposed to those with a nursing element - representing 64% of all new care homes opened in 2016/17.

Julian Evans, head of healthcare, hotels & leisure, Knight Frank, said: “The entrenched crisis in UK care home bed provision shows no sign of abating. The issue will be further exacerbated as the baby boomer generation ages at a faster rate than new care homes can be developed. 2016 brought an annual net loss in UK care homes and beds of 11% and 5% respectively.

“We estimate that circa 6,000 care home beds are at risk of closure over the next 5 years. When coupled with an over 65 population that is forecast to rise from 11.6 million in 2016 to 12.9 million by 2021, investor and developer appetite will remain strong and will support further new entrants into the market.”

Michael Hodges, head of consultancy care, Christie & Co, described the most critical issues in the UK’s adult social care sector as “funding and staffing”. Exacerbating these was the issue of Brexit, which put the status of many overseas workers in the sector in doubt.

Despite the pressure, Hodges said: “There are positives to talk about although operators continue to grapple with many operational and asset-related challenges. The exciting point is that a significant number of new care homes are being developed and operators are very focused on asset specific strategies.

The company reported a 5% increase in pricing of assets in the sector in 2016, against a 4.7% rise in 2015. 4.

CARAVAN PARKS

Where are we now?

Holiday parks refer to parks or villages that are made up of purpose-built chalets/lodges. However, many holiday parks diversify their product offering to also include apartments, static caravans, pre-pitched tents and pitches for touring caravans and camping tents.

Camping and caravanning refers to holidays that use tents, trailer tents, touring caravans, caravan holiday homes (statics), park homes and motorhomes as accommodation. Holidaymakers may own or rent their equipment, and can travel to their destination carrying their tent or towing their caravan or trailer tent. Alternatively, they can stay in caravan holiday homes or tents that are already in place at the camping or caravanning park.

As there is so much overlap, for the purpose of this report, holiday parks, camping and caravanning will be discussed together.

As elsewhere in hospitality and elsewhere in the UK economy, Brexit is expected to play a key role in the success of the caravan market, with many observers anticipating a rise in staycations as leisure travellers are increasingly priced out of overseas holidays.

At the Hotel Alternatives Event 2017 Tom King, specialist markets, CBRE, told delegates: “The rise in quality of holiday parks means that more of a premium can be charged and is attracting more people to staycations”.

Brexit was expected to push the market higher, with 31% of all holidays in the UK pre-2009 in holiday parks, rising to 36% in 2016. King said: “People feeling they may not be getting value by going to Europe are driving growth and forward-booking numbers are far beyond what have been seen before.”

This was confirmed by Ortus Secured Finance, which reported that the 100 largest caravan and holiday park companies in the UK grew their turnover to GBP2.67bn in 2016, up 9% from GBP2.46bn five years ago.

Jon Salisbury, managing director at Ortus, said: “The recession and the ensuing trend for 'staycations' gave holiday parks, camping and caravan sites access to an even broader customer base, and they have been building on this ever since.”

The group said that continued investment in facilities is vital for caravan, camping and holiday park operators to stay ahead. This can be especially challenging for seasonal businesses and small or medium-sized enterprises. These types of businesses often struggle to set money aside for renovations and other amenities due to peaks and troughs in their income.

“Like many other businesses in the tourism, leisure and hospitality industries, operators need to commit to continued capital investment in order to maintain competitiveness and stay ahead of the game,” Salisbury added.

The domestic visitors will have to compensate for the drop-off in holidaymakers from overseas, as data released by the British Hospitality Association in December 2017 showed that the positive impact of the weak pound was waning.

The BHA's Travel Monitor reported a slight decline in visitor numbers to the UK for the month of September. Visitor numbers fell by 1% year-on-year, in contrast to increases of 6% and 5% seen in July and August, and to the 9% growth seen in the first half of the 2017.

This decline was driven by a sharp fall in visitor numbers from North America, down 8% in September year – on – year and compounding the previous fall of 8% seen in August. These falls come after a 28% rise in visitor numbers from North America for the first half of 2017.

Short haul travel numbers also declined by 0.3% year-on-year, despite the previous increase in August of 8%. Inbound holiday passenger numbers grew 1.7% year-on-year, but this still lags behind the 15% rise seen in the year to date.

Overall UK spend by overseas residents was up a further 2%, but business traveller numbers continue to decline, down 18% year- on-year for September.

Ufi Ibrahim, BHA CEO said: "It is disheartening to see visitor numbers decline after positive growth for the previous three months. This fall has been largely driven by a reduction in passenger numbers from North America and this demonstrates, in part, the knock-on effect that this year's tragic terror attacks have had on long haul bookings.

"The BHA travel monitor also notes that the number of business travellers to the UK again declined, falling by 18% year-on-year for the month of September. This is an important reminder to the government of the need to recognise the priorities of business when negotiating Brexit." 1.

This was backed up by ONS data for September 2017, but there was some hope for the staycation market as visits abroad by UK residents fell by 1% on the year to 7.8 million.

VisitEngland remained confident and in December 2017 forecast that overseas visits to the UK would break through the 40 million mark for the first time in 2018, reaching 41.7 million, up 4.4% on 2017 which is expected to see 39.9 million visits. Spending by overseas visitors to the UK was forecast to reach GBP26.9bn in 2018, up 6.8% on 2017 which was expected to total GBP25.1bn by year end.

Philip Camble, director, Whitebridge Hospitality, told us in December 2016: "Brits like to travel, it's in our DNA - we do both, we staycation and travel. It depends how weak the pound becomes when we leave as to how much staycation becomes more popular than travel. If the hard Brexit is shaping up to be a disaster then it surely has further to fall against the dollar. Against the Euro, I don't know, because the euro itself is under pressure and this pressure is likely grow if we see a Grexit or a Nexit or a Frexit or an Italeave. People are nervous of investing in Europe, whilst the UK remarkably is now being viewed as a relative safe haven because we're not about to go through an economic collapse like Europe might.

"In London the hotel business is a significant employer and generator of VAT income. What else do we have to sell, after Brexit? We risk becoming like Venice where tourism is the only source of economic activity. Thus if you start killing off the hotel industry in London you could get into all sorts of problems. Outside London, performances have improved in recent years after many years of stagnation and decline, if you're in Edinburgh the market has done well, they get some foreign visitation meaning the city is benefitting directly from the weaker pound. Longer term, maybe the staycation scenario will kick in before time, creating more domestic demand for the rest of the UK."

In the same month that Camble was commenting on the staycation market, there was furious activity in the boardrooms of some of the UK's most prominent holiday park operators. Within four days of each other in December 2016, Onex Corporation had agreed to acquire Parkdean Resorts for GBPP1.35bn, followed shortly after by the announcement that Intermediate Capital Group had agreed to acquire Park Holidays for GBP362m.