



Horwath HTL

Hotel, Tourism and Leisure

The emergence and growth of serviced apartments in Brazil

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Introduction

The hotel and real estate market has been undergoing constant change, mainly with the emergence of new startups, stimulating the consolidation of large hotel chains and their wide ranges of products and services, together with a huge revolution in the lifestyle and consumption of new generations, providing the emergence of new short- and long-term rental platforms, as well as specific real estate products. We present below such changes and opportunities for the Brazilian market.

The Brazilian market for residential rental properties has been developing over the last few decades in a fragmented way, in its vast majority, and dependent on small savers – rentier owners. Until a few years ago, the financial market did not have advantageous options for those who wanted to incorporate for income, so there were few players in Brazil with relevant Real Estate operations focused on income.

We had the “fever” of flats, apart hotels and condo-hotels in the 90s and 2000s, but years later they did not prove to be an advantageous model for the investor, who has been looking for new, more profitable investment options. It is a fact that the condo hotel market is more mature with the recent regulations required by the CVM, but we

are witnessing the increase and consolidation of serviced apartments, as a different proposal for both the investor and the resident, largely supported and led by startups, or proptechs.

Interestingly, this movement in the Brazilian market for the development of serviced apartments, which has been resilient, even during the pandemic, where products present in the hospitality market were put to the test. The models that surprisingly showed resilience both in Brazil and abroad, were vacation rentals and serviced apartments.

However, the profile of properties mainly sought during the pandemic was accommodation away from large centers and non-traditional (staycation), such as: houses, chalets and apartments. In the large centers, the change that was seen was the decline of short stays and the search for longer stays in properties with a residential profile. The corporate travel industry ceased and the client profile that rented, wanted a place not just to sleep, but to live.

This last point helps us to explain why the traditional hotel sector has suffered much more than serviced apartments, which managed to stay open for the most part during the height of movement restrictions as demand kept their financial operation positive.



What are serviced apartments?

Serviced apartments is a type of furnished residential property, which can offer different levels of services, depending on the operator, and is intended for lease.

Leases can be short, medium or long term, with greater emphasis on stays of weeks or months. However, there are also operators that work with daily stays and, in this case, they are an option to traditional hotels.

A serviced apartment can vary in size (from 20sqm to more than 60msqm in São Paulo alone) and the level of furniture and amenities offered inside, depending on the brand, category and product. In general, what you can expect as a market standard in these units is an equipped kitchen, hotel amenities with bed and bath items, a place to work with wi-fi, in addition to including or optional room service, cleaning and concierge. Its buildings also usually offer common areas such as a gym, laundry, living spaces, conference rooms, among others.

This accommodation profile generally offers facilities very similar to a standard hotel, but with a less corporate atmosphere, more services and privacy. The purpose of this property profile is to accommodate stays of a few weeks or months, unlike hotels that have a shorter average stay in Brazil.

Because of the longer period, this traveler is also looking for more warmth and character than a traditional hotel, while at the same time wanting the convenience of more flexible policies than renting a residential property.

An important point of this lease model is the ease and low bureaucracy. Most players allow the process to be carried out online with an agile process, in some cases even without proof of income and with card payment. This model is especially sought after by foreigners who do not have the necessary documents for the traditional rental, travelers who will stay for a short time, but seek a more personal environment than hotels and people who intend to rent the property for a short time without having to pay the termination fine of the traditional 30-month contract (Brazil's rental law).

The customer profile that opts for serviced apartments usually values having the experience of living like a local inhabitant. As a result, they choose to leave the corporate environment of a hotel. They also value the good location of the property, so that they can enjoy the conveniences of the neighborhood and its surroundings, being able to combine many leisure options (Bleisure) in a business trip. Recent research shows that 70% of business travelers in the US are already looking for leisure alternatives during their travels.

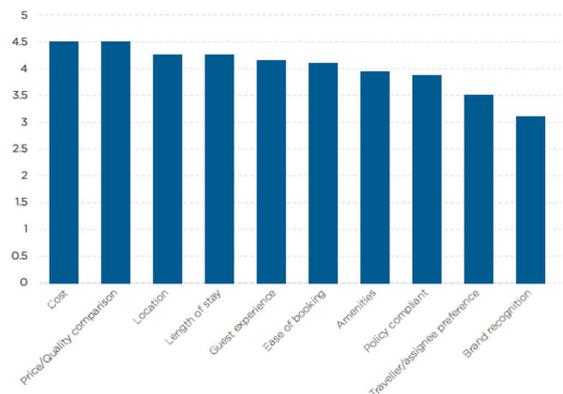


Another favorable point for the serviced residential business model would be that the new generations (Millennium, Generation X, Y, Z) are not interested in acquiring their own properties, opting for greater mobility, experience and interconnectivity in their future work, combined with a reduction in the size of their families and a healthier lifestyle, giving rise to countless products with these characteristics.

With a wide range of accommodation profiles, serviced apartments conquer different audiences, from corporate travelers, executives in relocation, students, families on vacation, families who are traveling and who need structure to work or study online, the contemporary “nomads”. digital”, among others. Precisely this versatility implies demand stability, regardless of market fluctuations as seen in the pandemic. Below are the most important items in the comparison between serviced apartments or hotels and the most desired items by corporate customers when they are looking to book their accommodation, according to a survey carried out.

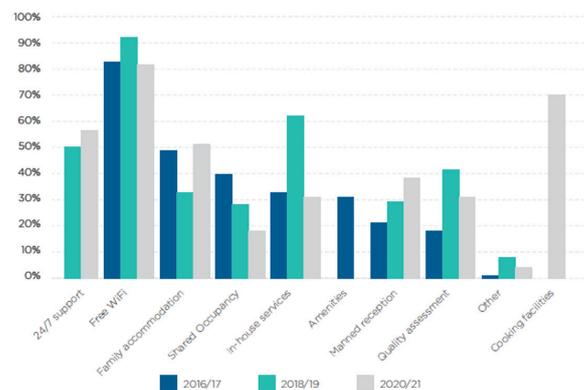
“The serviced apartment industry is rapidly expanding worldwide, as more travelers, both business and leisure, recognize the benefits of this dynamic sector.”
The Association of Serviced Apartment Providers (ASAP)

Hotel/Serviced Apartment - factors in order of importance to corporates



Source: GSAIR – The Global Serviced Apartments Industry Report 2021

What travellers and assignees want in a serviced apartment



Source: GSAIR – The Global Serviced Apartments Industry Report 2021

What to expect when renting a serviced apartment?

In general, the facilities and services offered by serviced apartments follow a market standard, although it is not formalized as in the model of hotel stars. According to Association of Serviced Apartment Providers (ASAP), what is expected of a serviced apartment is:

- Equipped kitchen with appliances, utensils and crockery
- Washing machine and dryer
- One or more separate bedrooms, or a designated sleeping area in studio apartments
- A living room
- One or more bathrooms
- TV, Wi-Fi and other technologies
- All utilities included, such as water, electricity and gas
- Cleaning service at least weekly

In addition to these attributes, it is desirable to have an appropriate workspace within the accommodation and/or shared coworking or conference room in the building. The need to think about a place to work is mainly due to the growth of the home office as a result of the pandemic, and which should remain a trend. Depending on the development proposal and its location, it is also possible to find a series of spaces for common use and coexistence, such as:

- Lobby and/or Academy
- Pool and/or Playroom
- Coworking and/or conference rooms
- Bar and/or Restaurant

Apartments with services

In addition to the name 'serviced apartments', there are also other names belonging to the category that are commonly used. Below are the most common types and a brief explanation of each.

- **Apartment with services or housing:** these are fully furnished apartments, similar in size to a normal residential unit, which can be a studio, or have one, two or three bedrooms. They may have decoration that is more reminiscent of a residence or keep colors and design common to hotels. They usually have a fully equipped kitchen, on-site or shared laundry facilities and much more space than a hotel room. The common areas follow the profile of residential buildings, with a gym and swimming pool when space allows. The services included or pay per use can be daily or weekly housekeeping, gym, valet (Q Apartments).



- **Aparthotel/flat:** usually suites or 1-bedroom apartments with furniture and services similar to a traditional hotel, such as daily housekeeping and room service. They usually have a small poorly equipped kitchen, with the aim of supporting the guest, they also do not have a washing machine. The common areas have a lobby, conference room, and in some cases a bar and/or restaurant, gym and swimming pool. This accommodation profile is usually found under the brand name of a hotel or flats residence.
- **Corporate Housing:** an apartment/house furnished and available for long-term or temporary rental, usually for 30 days or more. Very similar to the first two, the difference is that your ideal customer profile is corporate.
- **Co-living:** can be students or not, with shared or private room, including in some cases needing a document proving to be a student. Buildings usually provide many common areas, such as living spaces, study space, outdoor areas, rooftop, cafeteria, bike rack, etc. Its audience is mostly young students or recent graduates (Uliving).
- **Branded Residences:** These are residential units that are part of or attached to a hotel, most often in the premium segment, with strong architectural appeal, distinctive interior design and really special facilities and services. The term Branded Residences has been used by developers, construction companies and hotel managers in projects, generally located in large international metropolises, which seek greater profitability of their products, adding value to their assets, associating themselves with hotel brands in the segment of Lux. Widely used by a wealthy public, attracted by the exclusive services, security, concept and brand recognition.



Market Opportunities

The operational profitability of serviced apartments has attracted a lot of attention from investors, developers and hotel chains, due to the lower operating cost due to the low turnover of guests, evidenced by longer stays, smaller range of services offered, fees and charges involved, greater flexibility the adoption of new technologies, cost of distribution and ease of automation, making it a more resilient model in times of crisis, compared to the traditional hotel model.

In line with the growth of a greater demand for long stays with hotel services, easier credit for new incorporations, available through a structuring and creation of some FII's (Real Estate Investment Funds / REITS), we are witnessing the emergence and consolidation of new ventures (multifamily for income) fully leasing and managed by private labels such as JFL LIVING. This business model has some benefits in relation to the standardization of services and products offered, as they are concentrated and managed by a single administrator.

Some hotel assets, flats and apart hotels, which, due to the economic crisis and the mismatch of supply and demand in the hospitality industry, evidenced in past decades, which suffered even more with the pandemic, ended up migrating to a residential model. This change provided, even if in a fragmented way, the management of some units by new seasonal rental platform managers, specialized real estate agents or even small or traditional hotel chains that saw fertile ground for the growth of their business. The ease of access to technology and distribution in its sales channels (OTA's, TMC'S, GDS), aligned with a know-how of hotel services, has facilitated the immersion of some hotel players in the Short-Term Rentals segment.

With an eye on these opportunities and market share, some traditional hotel managers are already operating in this residential segment with hotel services and Short-Term Rentals, such as Atlantica Residences recently created by Atlantica Hotels International, City Home by Intercity and Atrio Hotels together with XTAY.

The construction potential in São Paulo represents a clear development opportunity for non-residential properties with hotel services, without the requirement of several apartments for a minimum scale that makes the business viable, according to the recent review and approval of the Master Plan, which stimulated the creation and implementation of NR's, in line with a greater interest on the part of builders and developers in launching new studio products (from 20 to 30m²) in strategic and revitalized places in the city, further favoring the emergence of new players in this residential market with services.

Another company that has been innovating in this market is the construction company VITACON, which created in 2018 the startup Housi, which through an application it is possible to subscribe to a house. This planned housing platform combines the on-demand concept, which brings a disruptive vision to the market, integrating services, providing experiences and living in the community. The company assures that this is an alternative to the traditional lease management model for real estate investors, who can count on more efficient asset management, providing more profitability and peace of mind. During the pandemic, the company turned into a Marketplace, opening space for other rental brands and then for hotel groups, which already have 50,000 rooms on the platform. "We take housing to idle assets,

Another major construction and developer in São Paulo that also aims to expand its core business in the segment is Gafisa through its real estate platform, through Viver Bem by Gafisa. The objective is to offer assets that meet the different needs of consumers and investors, such as sale and purchase, condominium management, decoration and renovations and various other services related to the property, for example short, medium and long season rentals. To make this new business pillar possible, Gafisa entered into a partnership with the startup Nomah, which offers furnished, comfortable residential apartments with flexible leases, for those who want to stay, live, in order to offer complete solutions to real estate investors, enhancing profitability. of these residential assets.



Outside Brazil, normally all serviced apartment profiles are located in buildings where there is only one operator, or administrator, responsible for leasing and managing the day to day of all units. In Brazil, however, the market has developed in a peculiar format, where most of the apartments with services available today are dispersed in several locations and projects, where the owners look for specialized administrators for the management and rental of their apartment, not following a standardization of products offered.

Regardless of whether these new hosting services are linked to new products (greenfield) or retrofit of some assets (brownfield); we are witnessing the emergence and growth of an increasingly diversified spectrum of players (builders, developers, hotel managers, seasonal rental platforms, investment funds, start-ups, among others), making investors and consumers seek more and more qualified information, so that such opportunities do not suffer as the Flats market suffered at the end of the 90's and beginning of the following decade.

Much greater market intelligence is required, with data monitoring at all ends, new revenue management and distribution practices, investment in technology and product renewal.

What is the difference to vacation rentals?

First, we need to clarify that Temporary Rental is one of the types of rentals of residential properties provided for by the Tenancy Law 123/123 in Brazil. The law considers Vacation Rentals to be rentals of up to 90 days and was initially created to provide regulatory support for vacation home rentals. This framework provided the creation of numerous portals aimed at rental of vacation properties with strong leisure appeal, such as ALUGUETEMPORADA, and massified with the enormous growth of AirBnB.

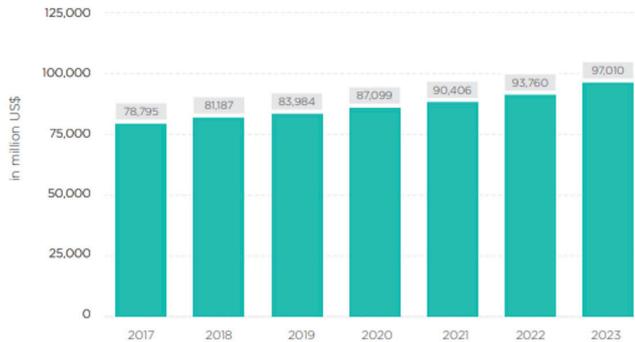
Where initially it served the leisure traveler, today the seasonal rental platforms serve the most diverse audiences, who are looking for short or long-term accommodation, with or without services included and increasingly eager for experiences.

With the arrival of Airbnb in Brazil around 2015 and its strong expansion from 2018 boosted mainly by the World Cup, where it was initially used as a means of making extra income with a room or vacant property, it became popular with Brazilians and became a billionaire business, making the vacation rental segment a market desired by many, but increasingly competitive and professionalized.

Today Brazil is the 7th country in number of active listings on Airbnb worldwide, with approximately 241,000 units listed (source). They are houses, apartments, inns, boutique hotels and alternative accommodations that are part of the platform, which connects travelers to property owners, in the search for more and more experiences in the chosen destination.

In recent years, we also had the development of the Brazilian market for compact apartments in large centers - the famous studios - following a trend already consolidated abroad. Allied to the economic moment in the country with interest rates at historic lows, we had as a result the exponential growth of the launches of this property profile in capitals throughout Brazil with substantial sales to the public focused on income.

Global vacation rental market revenues



Source: Statista

The result of this new offer of rental property on the market was the popularization of its rental by Airbnb. With studios and other properties being rented both short and long term by Airbnb – and later also by other OTAs such as Booking.com that opened a channel for rental – there was a gradual migration of guests to the vacation rental platforms, losing reservations. Not only hotels and flats/apart-hotels, but also traditional real estate companies with 30-month contracts.

Until recently, the only option to rent furnished apartments for a few months, avoiding 30-month contracts, were flats or apart-hotels. Seeing the growth of this market, many companies specialized in operating these properties in seasonal rentals emerged, which helped to professionalize the service and evolve the quality of this accommodation profile.

Although this market has matured its provision of services, however, its proposal remains very different from the management of serviced apartments. Due to the lack of regulation of the shared economy industry of which the vacation rental is part, as well as the lack of accreditation that can assess the competence of the operation of this service, the difference in quality and hygiene that can be found from one accommodation to another it's alarming. There are several reviews and stories of rental properties in deplorable conditions, in addition to the lack of support during the stay. Consumers require confidence in what they will find when booking and are willing to pay a premium not only for the conveniences of serviced apartments but also for the security that a recognized brand brings.

The seasonal rental model refers to the phenomenon of apart hotels in the 1990s, as already mentioned here, which were responsible for a large offer, but suffered from the economic crisis of the time. But today the model and market dynamics are different, the country has grown, along with its demand for hosting. There are types of innovative businesses and high investment in technology, in addition to the availability of capital, which can certainly dictate the success and profitability of these new ventures, it does not mean that infinite buildings can be launched. Understanding the size of the market is essential to not run the risk of an oversupply.

Other players in the Brazilian market for serviced apartments and seasonal rentals

Operator	Interviewed	Services and Products Offered	Number of Apartments	Funding Model	Pipeline	Opportunities
Charlie	Allan	Property Retrofit, Hospitality Services, Short Stay & Long Stay, Breakfast, Own App	2000 Apartments by end of 2022	Individual Investor, Developer, Real Estate Fund with Vertis	São Paulo, Rio de Janeiro and Porto Alegre	Experience in hotel management, partnership with Cyrela, Management of entire Buildings and Studios.
Selina	Flávia	Short Stay & Long Stay, Coworking, Beach Club, Surf Club, Food and Beverage, Retail, Wellness, focus on Digital Nomads	1,600 Apartments	Mogno & BTG Real Estate Investment Trust	Florianópolis, Paraty, Bonito, Foz do Iguaçu, 3,000 rooms estimated by end of 2023	Brand appeal for big cities and small leisure tourist destinations. Ease of managing small businesses.
Yuca	Rafael	Short Stay & Long Stay, Furnished Apartment Rental (Single / Shared), Pay Per Use Services	500 Apartments	Crowdfunding, REIT and Private Investors	São Paulo and Rio de Janeiro, 2,000 rooms estimated in 2 years	Affordable housing in large urban centers, privileged location, model of coliving, multifamily for income.
Carpediem	-	Short Term Rental Platform	300 Apartments	Madeira Madeira Angel Investor	Total of 3000 rooms in 2025	Partnership with developers and builders in secondary cities
Casai	Luís Pimentel	Short Stay & Long Stay, Concierge, Pay Per Use Services, Own App, focus on living as a local	200 Apartments	REIT	Total of 1000 rooms in 2022	International Experience (Mexico Origin). Partnerships with local businesses.
JFL Realty	Carolina Terpins	Apartments with 1,2 or 3 bedrooms, fully furnished, Long Stay, Hospitality Services, Wellness and Sports Activities	500 Apartments	Private Investors & REIT	Total of 900 Apartments only in São Paulo	Multifamily for income, standardization of services offered, Complete management of the own enterprise, privileged location, accommodation and housing.
Anylife	Henrique Yunes	Short Stay & Long Stay, Concierge, Own App	150 Apartments	Private Investors & REIT	500 rooms in 2 years	Startup rents properties for the season with concierge pampering.

Source: ???



Conclusion

With increasingly globalized markets, improved air mobility, new technologies and the demystification of remote work, the demand for serviced and long-stay apartments will continue to grow, especially in large urban centers. With the wave of mergers and acquisitions that the large hotel chains have gone through in recent years, and the real need to differentiate and create new products and services, we are witnessing a strong increase in long stay and apart hotel products in more mature markets, as a loyalty and growth strategy for these hotel chains, providing a standardization of services and products offered.

The lack of this standardization of services in less mature markets, due to market sprawl and fragmentation, opens a huge opportunity for the growth of operators and managers specialized in this segment, which can benefit from a possible increase in scale in their operations. Some brands have opted for hybrid models, combining different target audiences within the same enterprise, such as seniors, students, shared spaces, as a commercial strategy and the search for greater profitability.

We conclude that there is enormous potential for new disruptive products that can offer short and long-term accommodation, within the most diverse real estate models, aligned with technology and new consumption patterns by combining different target audiences within the same enterprise, such as seniors, students, shared spaces, as a commercial strategy and the search for greater profitability.

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