Here to stay: why guests are choosing aparthotels in the Covid era

19 February 2021 by Rosalind Mullen

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The self-contained, long-stay flexibility of aparthotels has arguably enabled operators to better navigate the nightmare of Covid-19 than their hotel competitors – and it could mark a more pronounced shift in consumer tastes. Rosalind Mullen reports.

Aparthotels have been around for a while, spearheaded by brands such as IHG's Staybridge Suites and Homewood Suites by Hilton, and now joined by young, sexy players such as design-led Edyn. But until recently they had never quite moved out of the shadow of hotels. That is until Covid-19 came along and shone a light on everything they offer that today's consumer is looking for.

Of course, Airbnb deserves some credit. Even before Covid-19 broke, it was giving tourists and business travellers a taste for self-contained accommodation, driving up demand.

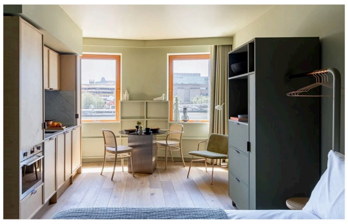
A Lambert Smith Hampton report last year found that serviced apartments and aparthotels were the fastest-growing segment of the UK's hospitality accommodation market, representing 13% of active pipeline. And as LSH hotels director Simon Stevens pointed out: "While the rise of the Airbnb sector is sometimes viewed as a threat to more traditional types of accommodation, it is actually benefiting aparthotels by making consumers more receptive to alternatives to conventional hotels."

Airbnb certainly cleared the way for aparthotels by tapping into consumer demand for a more local, boutique experience. But in the current climate, aparthotel operators argue that they can go one better.

"The problem with Airbnb is that it's like hospitality roulette," says Edyn chief executive Stephen McCall. "You don't know how clean the apartment is."

Merilee Karr, founder and chief executive of Under the Doormat, agrees: "People don't know what standards an Airbnb property might have and are not willing to take risks now. Consumers are looking at the professional end of the home sector, whether that is aparthotels or professional home management companies – they want quality and standards."

As an indicator of how buoyant the short-term rental sector is, data from STR shows that in October 2020 occupancy in the sector in London was 62.4%, up 5.9% from 58.9% in September – noticeably higher than the 29.2% occupancy level for hotels.



Locke at Broken Wharf, London

A home from home

With the pandemic doing its worst, consumers clearly prefer the experience of fully equipped kitchens and self-contained dining and lounge areas, where they can more easily socially distance. Some aparthotels even offer a lobby shop for basics, reducing the need to go out, and unlike Airbnb there are staff on-hand should they need help.

"We are definitely promoting the benefit of aparthotels," says Staycity Group commercial director Paula Mullaney. "In particular, the flexibility of our offer and the ease of social distancing. Consumer confidence is vital and we have stringent safeguarding measures in place covering apartments, public spaces and staff, as well as the way the apartments are serviced and sealed ready for each new guest."

Encouraged by how well the business model is weathering the Covid storm, several aparthotel operators are ploughing on with expansion plans. Staycity is one of them, having concluded a €70m (£62m) debt and equity refinancing deal to ensure it will emerge from the impact of Covid-19 fully capitalised and ready to continue with its European rollout. The privately owned company, which has 21 properties under two brands – Staycity Aparthotels and its premium Wilde Aparthotels by Staycity – is to open another 10 aparthotels in the UK, France, Germany and Ireland in the next 18 months and will almost double its operating estate to more than 15,000 keys by 2026/27.

All of Staycity's properties across its 12 locations have been trading, and chief executive and founder Tom Walsh says: "Despite unprecedented challenges, we have achieved occupancies above 50% year to date. This is significantly ahead of traditional hotels and underpins the robustness of the aparthotel model."

Mullaney adds that the four London properties are recording occupancies this year collectively at 50%, although that ranges from 27% in central London to 70% in Greenwich.

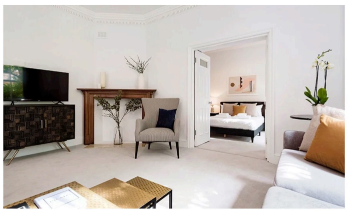
Like some of its competitors, Staycity has been promoting its aparthotels as home offices available from 8am to 6pm for £50. The offer includes bottomless tea and coffee and complimentary healthy snacks, along with ample workspace, comfortable living space, high-speed WiFi, kitchens and private bathrooms.

Safe haven

Many aparthotels have rolled with the pandemic because they are equipped to offer longer-term accommodation to key workers, those who have to work away from home and people self-isolating. Out of lockdown, aparthotels have even attracted new domestic guests, such as families wanting staycations without the constraints of hotels.

Adagio, a joint venture between Accor and Pierre & Vacances Center Parcs Group, has three brands from budget to upscale and is opening its sixth UK property in London Stratford in March. The model allows it to offer discounts of 35%-45% on longer stays, and while virtual meetings are keeping many business travellers at home, minimum occupancy rates have been ensured by bookings from workers who still need to travel. "Some sites, such as Brentford, are maintaining occupancy rates of more than 90%, which is positive given the current situation," says chief executive Karim Malak.

But while aparthotels are able to flex around the requirements of the pandemic, they still face challenges. "The customer [base] most affected are international leisure customers because of quarantine [restrictions]," says Malak. "Only the domestic market remains, but it doesn't compensate for the losses. The domestic leisure clientele was well-represented this summer but has been much less present since September."



3 Sloane Gardens

Malak says the logistics of procuring supplies in lockdown and implementing stricter cleaning protocols have been overcome, but adds: "The challenge is mainly commercial, in a market where competition is even tougher and the pressure on prices is even greater."

Even so, travel trends in the past year will have brought aparthotels further into the consumer conscience. McCall at Edyn says: "I have to believe that 'once tried, never forgotten' and that we will have a retention and return rate. Demand for mainstream hotels won't dry up overnight but it will change over time and we will have our moment in the sun when the virus goes."

Case study: Locke

The cool, trendy Locke brand has opened seven aparthotels in London, Edinburgh, Manchester and Dublin in the past four years, with eight further openings planned in Europe by 2022.

The potential is a no-brainer for Stephen McCall, chief executive of Edyn, which operates a portfolio of designer-led aparthotels and serviced apartments in Europe, including Locke.

"The economics of the business model are compelling and its flexibility means it can be offered to a wide demographic of guests depending on where the individual wants to stay and for what reason," he says. "Add to that the increasing desire for guests to have a genuine experience in design-led vibrant hotels and you have a compelling offer in long stay."

McCall, whose background was in big hotel brands such as IHG, is amazed that the extended-stay market is not more widely understood, despite being the fastest-growing sector pre-Covid.

"People stick with what they know, the big brands – they are the bigger market and grab more attention," he says.

But he believes attitudes are changing. "If I said to anyone: 'Do you want a room or an apartment for broadly the same price?', they would choose the apartment. Then I say: 'It's in a thoughtfully designed hotel with a restaurant, bar, gym and co-working space, as well as a kitchen of your own and the opportunity to live for a while as a local.' You would definitely say, 'Why would I choose a big brand [hotel]?'. If I go a step further and say, would you choose to stay one day or three months? Well, that is the decision matrix for any guest, whether corporate or leisure."

> **"At the peak of the crisis we had 75% of rooms open. Our lowest occupancy was 35%-40% during the first lockdown"**

Thanks to this flexibility, McCall says he has been "staggered" by the resilience of the business model during Covid-19. In March, when most hotels closed, Locke stayed open to essential workers and those with no other abode as a short-term residential option. "We did it to provide a service in the community," says McCall. "At the peak of the crisis we had 75% of rooms open. Our lowest occupancy was 35%-40% during the first lockdown, compared with other models that were doing 10%-20%."

Out of lockdown, it attracted leisure guests with a lower appetite for risk who didn't want to go out to a restaurant: "Since June, Locke has maintained 70%-80% occupancy, which is staggering as traditional hotels are at 30%-40% – and luxury hotels are less than that," he says.

However, the swing away from corporate and international business has inevitably reduced length of stay. "Our sweet spot for Locke is seven to 28 days. That fell a bit. We are still a multi-day stay, but we are taking plenty of one-nighters. It has fluctuated a lot during the crisis between London and the provinces. But is better than expected."

Rates are not where he would like to see them, but again he says the occupancy levels prove the model is resilient.

"The test of any business model is how it performs in a time of stress and there aren't any bigger examples of stress than what we are facing at the moment. Covid-19 has shone a light on the sector," says McCall.

The third London Locke opened as Bermonds Locke in September and within two weeks had 80% occupancy, which McCall describes as "exceptional even in normal times".

A second Locke in Dublin opened in December of last year, followed by Kingsland Locke in London's Dalston in January. The next two years will see two Lockes in Munich, and others in Berlin, Lisbon, Copenhagen, London Aldgate and Cambridge – and the company is on the hunt.

"We have a major growth trajectory," says McCall. "If we meet the criteria of a branded hotel and offer the vibrancy of a cool independent hotel – which is our model with Locke – there is massive potential. But we need more people to experiment with alternative accommodation and that will come over time." And he welcomes more competition.

"There is a large market out there and we are still a small brand – though growing fast. It's a big needle to swing on our own, but the investment model is attractive. A lot of brands and investment funds are looking for models like us."

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