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Our point of view

We think...

Let's discuss investment opportunities of the emerging asset class

Increased asset quality resulting from a growing interest of investors, rising construction activities, professionalization and the boom of international operating suppliers lead to a significantly higher transaction volume while showing lower returns, compared to previous years.

But consider student, business and serviced apartments still represent a niche product on the international commercial real estate market. Overall, transaction activities remain non-transparent, even in established European markets such as Germany, UK or France. Especially in the highly fragmented German market, real estate cycles are characterised by the imbalance of demand/ supply.

Capital flows accelerate the real estate cycles additionally. In times where debt and equity are affordable and accessible, real estate investors tend to overpay and overleverage. Especially for investment opportunities which promise stable returns in the investment market of the future.

The rise of micro-living as an asset class is highly related to the question of "how we will live and work in the future". A highly globalized, digitalized and urbanized future in which micro-living apartments seem to be the solution for most of the challenges the current housing and hospitality market is facing.

To keep up with changing needs, these two markets are currently re-inventing themselves. Airbnb turns from "enemy" to the "new standard" of the hotel industry and minimal/ co-living is becoming the new life style for digital natives and urban single households.

Micro-living a future-proof investment?

We can't predict the future of the real estate market cycle but history shows that every period of growth is eventually followed by a downturn. What we observe, is a steadily growing investment community focusing on new innovative concepts, that are trying to solve current challenges such as urbanization and shortage of building sites in large cities. Micro- living can solve those issues and therefore grows in popularity with investors globally. Due to the complexity of this asset class it is essential to understand all critical parameters involved in a potential investment.

Deloitte can guide and support your investment decisions with our long-lasting experiences in the housing and hospitality market as well as our expertise in real estate transactions, digitalization and current market trends.

Understand the investment

Micro-living characteristics

The target groups of micro-living are mainly tourists, students and business travelers

- The micro-living concept is positioned between traditional residential and hotel usage concepts, i.e. combines the fit-out and furniture (and thus comfort) of a residential apartment with the convenience and flexibility (to a limited extent) of a hotel
- Micro-living usages are (typically) deemed as commercial concepts to achieve VAT refunds and avoid the regulatory framework imposed on traditional residential leases
- Compared to a hotel, services offered are limited with a strong emphasis on self-sufficiency. Additional services, such as more frequent cleaning cycles, can be purchased on-demand
- Unlike traditional hotels, micro-living apartments are equipped with a kitchen. They serve to accommodate private individuals mostly on holidays, students and business travelers
- Stays in micro-living concepts range from 1 day (short stay) to several month (long stay). Gross rents are payed by its residents
- The micro-living concept also enables corporations to reduce travel expenses compared to hotel stays and, to offer the guests a higher degree of privacy, comfort, and independence
- The USPs of micro-living are high flexibility of space and a more preferable focus on location, compared to the traditional residential usage concepts

Target Groups



Private individuals

Tourism, visiting family & friends, change of residence, temporary living arrangements



Students

Doctoral & Erasmus students, temporary residence during probation period, internships



Business travelers

Project work, temporary engagement, interim solution after starting new job, advanced training/ education, conferences/ trade fairs

Classification of stays

Short stay 1-6 nights

Medium stay 7-27 nights

Long stay 28+ nights

Micro-living usage concepts

The segment of temporary living is divided into residential and commercial usage concepts

	Residential Usage Concept		Commercial Usage Concept	
Sub Usage Type	Apartment house /Boarding house		Aparthotel /Apartment-Hotel	
Concept	standardized, multipliable	individual	standardized, multipliable	
Locations	focus on central inner-city locations in major cities	primarily located in urban areas including both A-cities (i.e. Hamburg, Frankfurt) as well as B-cities (i.e. Heidelberg, Koblenz, Wiesbaden)	focus on central inner-city locations in major- tourist cities	
Units	> 150 apartments	< 100 apartments	> 100 apartments	
Operator	private individuals and property managers	typically owner-management	chain operators	
Purpose	predominantly residential purpose	predominantly residential purpose	predominantly residential purpose but stronger focus on needs of short-term guests, hotel atmosphere	
Length of stay	focus on long-term stays 6months+	focus on long-term stays 28days+	focus on short- and mid-term stays	
Reception	no	limited opening hours and typically key safes	24-hour reception	
In-house-facilities	no	small- and limited breakfast offers, no restaurant, bar, gym or conference areas - these services are typically covered by external third parties	(small) fitness- and wellness areas, typically at least one conference room for min. 10 people, in-house bar and restaurant	
Self-sufficiency	typically fully functional kitchen unit	typically fully functional kitchen unit, complemented by vending machines	typically smaller kitchenette units, complemented by room service	
Services	no	limited services, specially tailored for long-term guests (i.e. shopping services)	hotel-like services are accompanied by special services for long-term guests (shopping service, laundry service, etc.)	
Share of long stay	typically 100%	typically more than 50%	typically 10-15%	

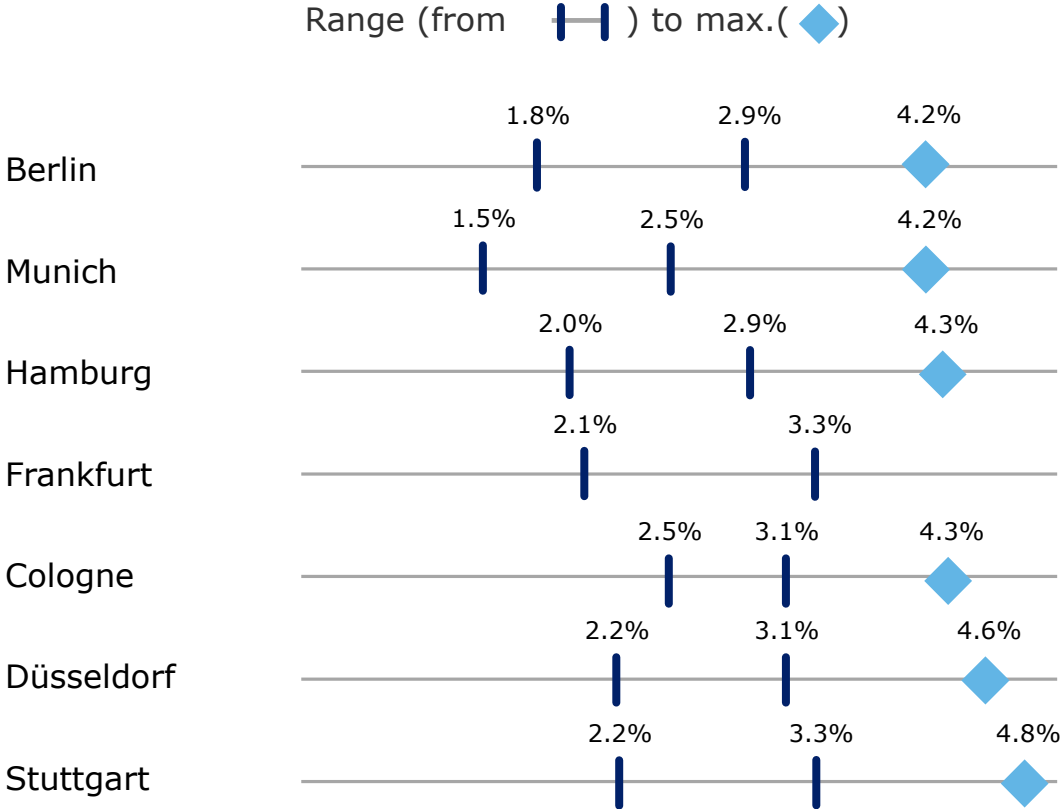
Overview micro-living apartments market

German investment market – micro-living

Investment attractiveness in German A-locations



A-Locations** Core-Investment (IRR* diff.)



*IRR (Investment perspective): Discount factor. When used, discounted future payments are equivalent to the current price respectively initial return
 **A-locations: Most important German hubs with national and partially international relevance. Within all segments performing markets

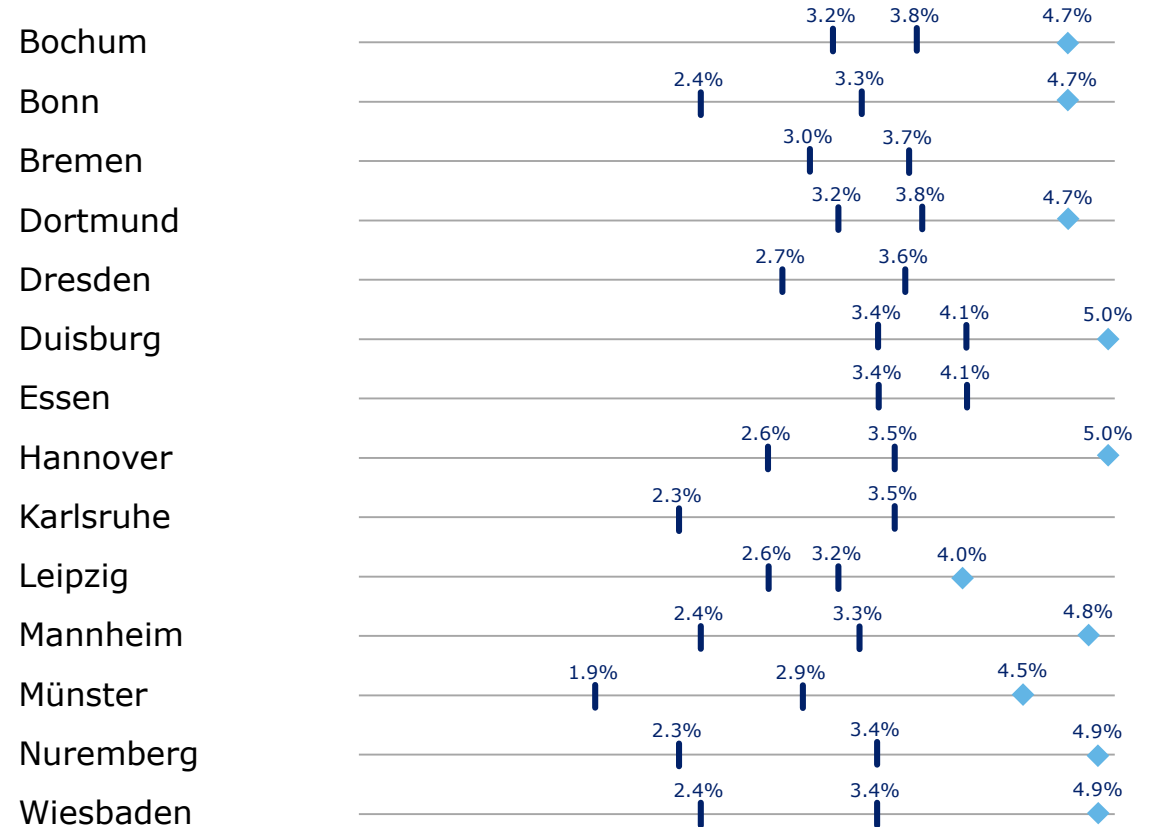
German investment market – micro-living

Investment attractiveness in German B-locations



B-Locations** Core-Investment (IRR* diff.)

Range (from) to max. ()



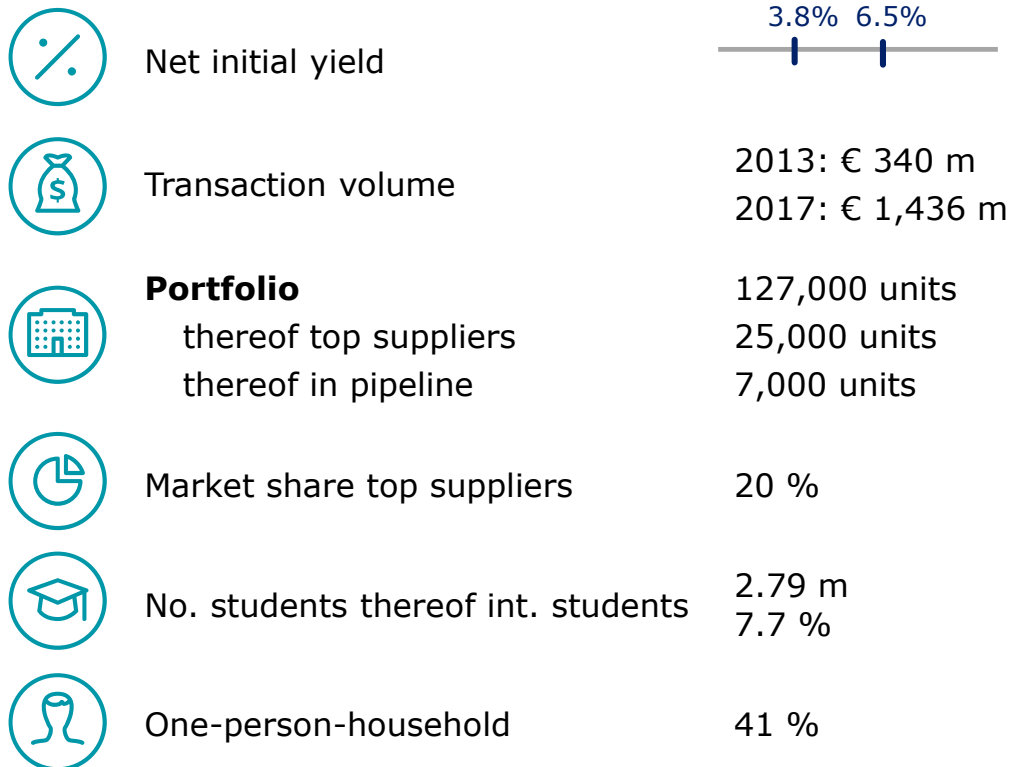
***IRR (Investment perspective)**: Discount factor. When used, discounted future payments are equivalent to the current price respectively initial return

***B-locations**: Major cities with national and regional relevance

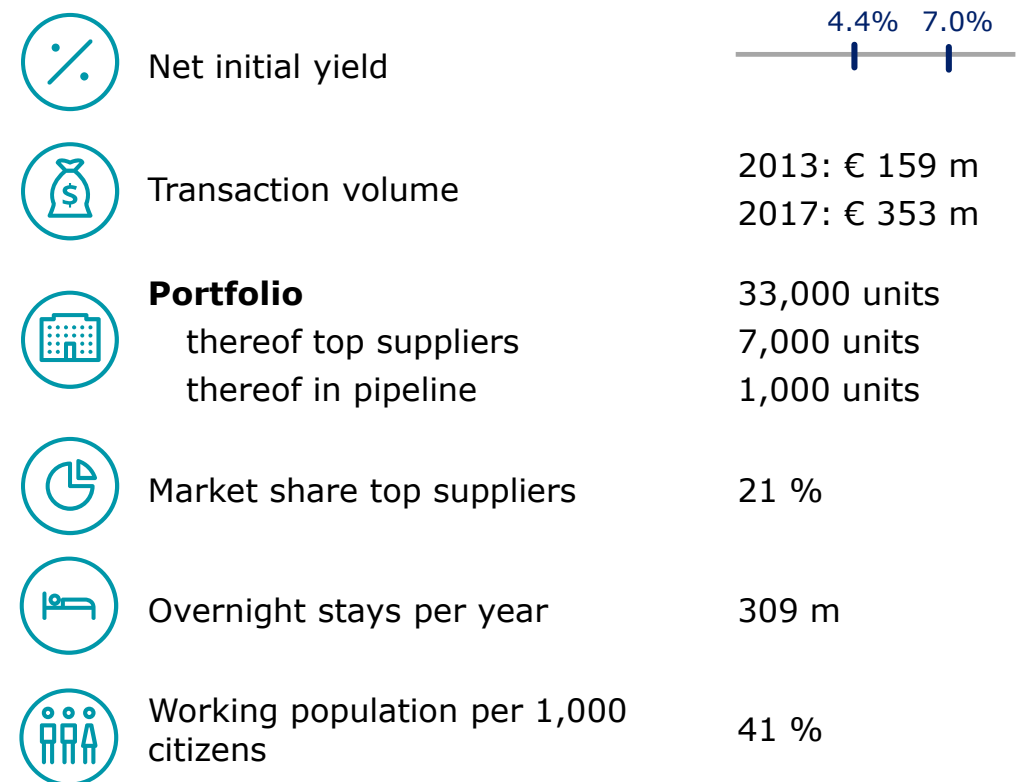
German investment market – micro-living

Key facts residential and commercial usage concepts

Residential usage concept



Commercial usage concept

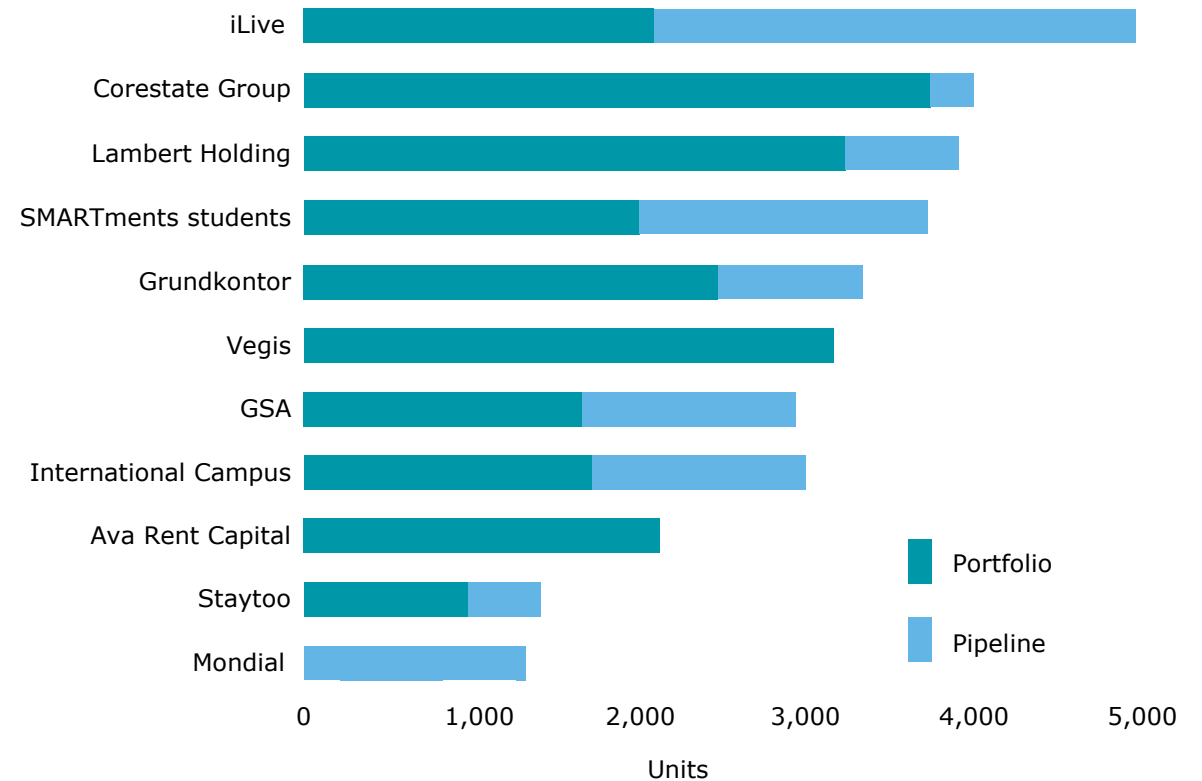


German investment market – micro-living

Operator segment residential usage concepts

- 58 student unions + further public authorities as well as private suppliers (owner respectively property manager) shape the market
- SMARTments, Corestate Capital Group (incl. Yuniq and Linked Living), Grundkontor and the property managers Vegis and Lambert (also project developers) have currently a larger portfolio compared to iLive
- However, iLive belongs to the most important German players due to the big pipeline of approx. 2,900 units (planning horizon until 2023)
- Cost per month (selected providers):
 - iLive: € 400 – 1,150 (All-in)
 - Corestate Group: € 390 – 1,100 (All-in)
 - Lambert Holding: € 450 – 850 (warm)
 - SMARTments students: - 500 (All-in)
 - Avia Rent: € 400-3,000 (All-in)

Current portfolio and pipeline



International investment market – residential concepts (1/2)

Investor's point of view

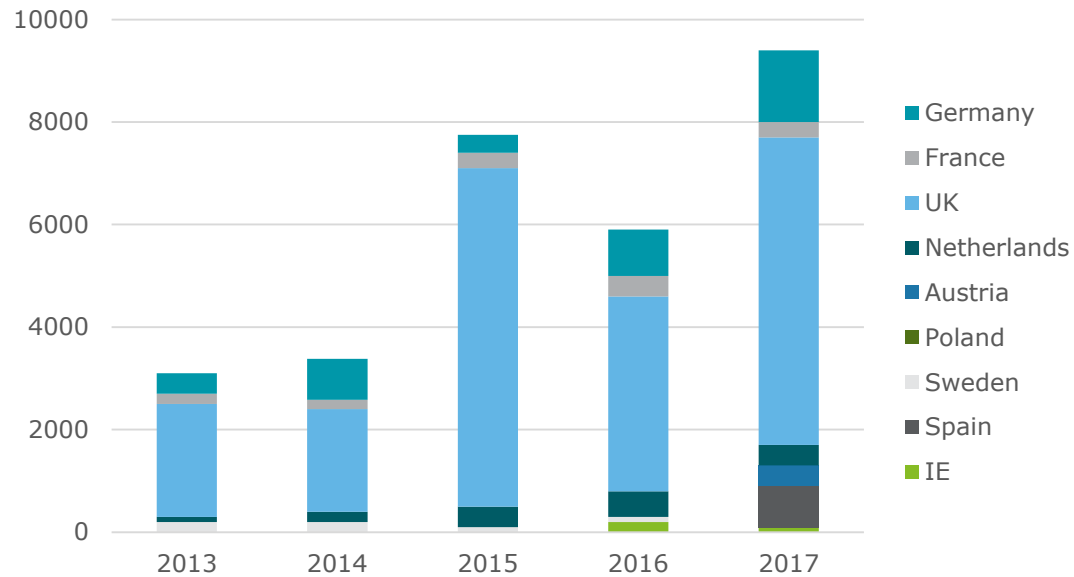
- Compared to serviced-apartments, the student/ business apartment market differs in regards to transaction volume and market transparency – it is in a higher stage of development
- Established student/ business apartment markets in the UK (>660,000 units), Germany, France and the Netherlands. These markets can be characterised by a high activity of private investors and a multitude of projects. Due to the fragmentation of these markets, market entry is simple
- The significant increase of the transaction volume since 2013 emphasizes the great importance of student / business apartments in the established core-markets for investors



International investment market – residential concepts (2/2)

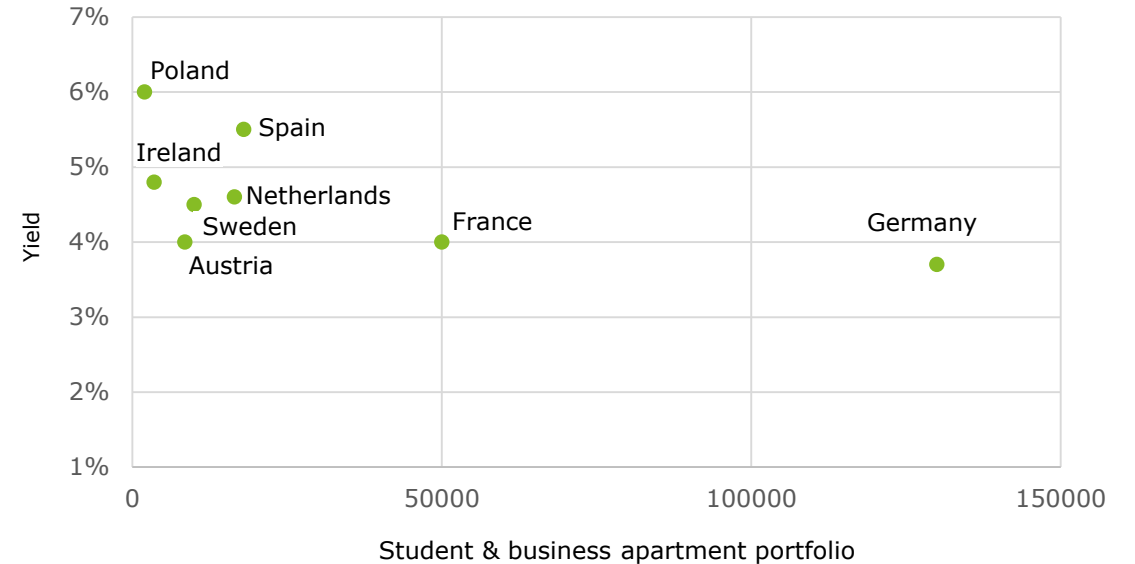
Investor's point of view

Transaction volume (€ m)



* approx. 662,000 student & business apartments in the UK; unconsidered in the above graphic for a better readability

Yield (%) and no. of apartments

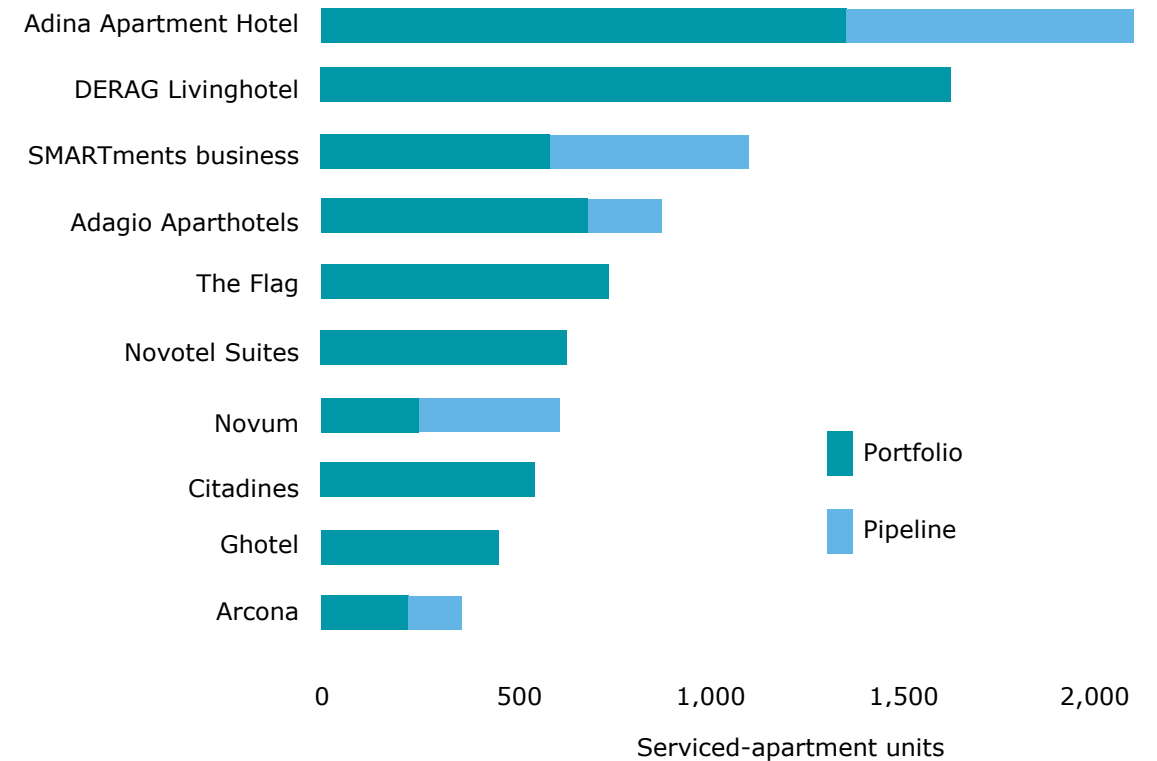


German investment market – micro-living

Operator segment commercial usage concepts

- The serviced-apartment market is relatively small compared to the student/ business apartment sector
- Continuous professionalization of the supplier structure
- Largest supplier is the international supplier Adina Apartment Hotels which belongs to the Australian TFE Hotels
- Derag Livinghotel is the largest national supplier
- Accumulated portfolio of the largest supplier: 7,100 units, mainly in A-locations
- Cost per night (for stays of 28 nights or more):
 - Adina Apartment Hotels: € 90 -450
 - DERAG Livinghotel: € 80 – 400
 - SMARTments business: € 40 – 90
 - Adagio Aparthotels: € 80 - 180
 - The Flag: € 60 – 110

Current portfolio and pipeline



International investment market – commercial concepts (1/2)

Investor's point of view

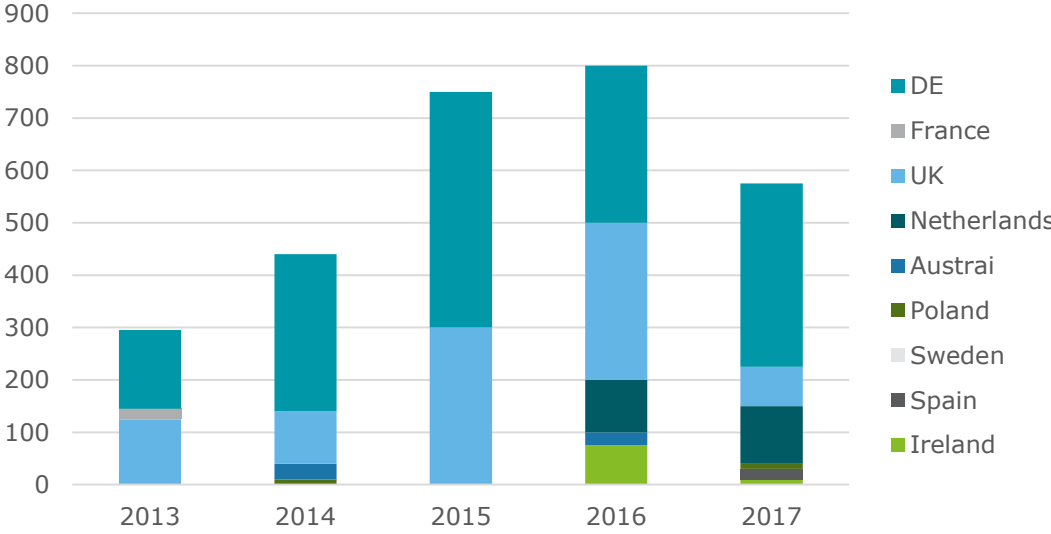
- Serviced-apartments still represent a niche product on the international commercial real estate market. The transaction activity is quite non-transparent
- Established serviced-apartment markets can be found in Germany, France, the UK and the Netherlands. The German and UK market are highly fragmented, whereas only a few big national suppliers dominate the French market
- However, rising construction activities, professionalization and the boom of international operating suppliers lead to an increase in quality and therefore an ascending interest of investors. As a result, a significantly higher transaction volume compared to previous years and a decreased return level can be observed.



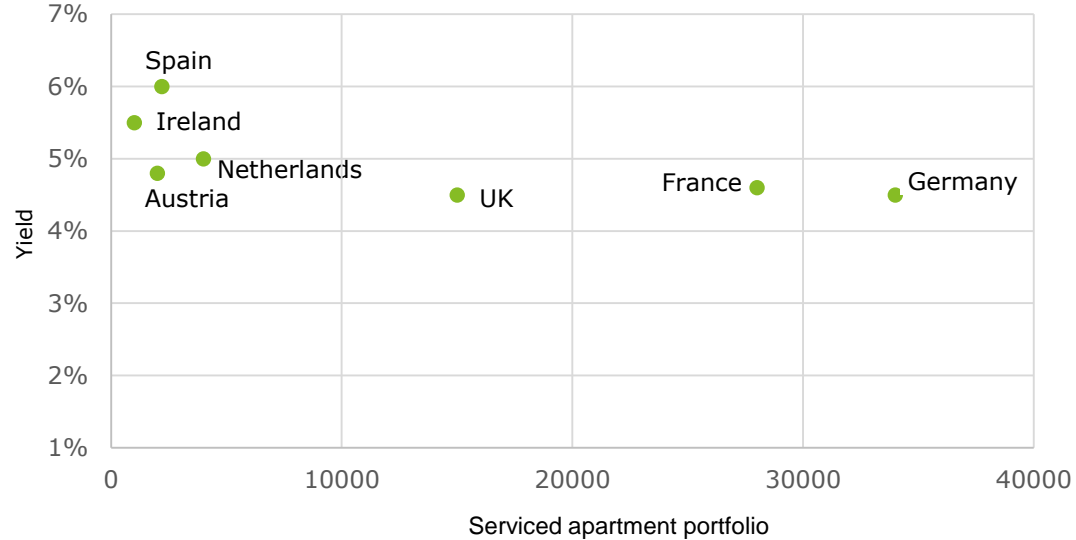
International investment market – commercial concepts (2/2)

Investor's point of view

Transaction volume (€ m)



Yield (%) and no. of apartments



Our consulting approach

Wrap-up

Deloitte provides profound market knowledge in the micro-living sector

Market situation in a nutshell

- Analysis of micro-living market conditions and trends, including forecast of future demand, etc.
- Regional competitive analysis of the relevant micro-living markets
- Operator analyses regarding economic key figures of the relevant operating companies and groups
- Review of concepts (strategic, operational, fit out and area review)
- Financial modelling & real estate valuation
- Preparation, review and 2nd opinion regarding operators' asset business plans from a market and real estate perspective
- Benchmarking of key figures including occupancy rates, investment costs, etc.
- Location, site and property analyses, SWOTs, lease reviews, market rental assessment, operating costs benchmarking
- Analysis of potential savings and revenue enhancements in personnel and material costs, in connection with outsourcing concepts

Consulting approach and service offering

- We focus on the factors which are critical for success for the micro-apartment sector

Our service for investments in single properties and portfolios cover, among others:

- Real estate valuation & due diligence
- Real estate transaction advisory
- Financial due diligence
- Commercial due diligence
- Profitability assessment from an operator perspective

Benefit from the experience we gained through previous projects – and from the insider knowledge of a thought leader in the real estate sector!

Our consulting approach

We focus on relevant parameters, critical for success in the micro-living sector and help you to assess every single one of them in order to make solid investment decisions



Government

- Regulation
- VAT refund
- Taxation



Competition

- Online potential
- Disruptive business models



Business model

- Type of use



Operator

- Owner operator
- Management company



Asset categories

- Residential usage concepts
- Commercial usage concepts



User

- Private individuals / tourists
- Students
- Business travelers



Non-recoverable costs

- Private investor
- Institutional investor



Owner



Competition

- Top supplier



Globalization

- Change of workplace



DIGEX*

- Technical infrastructure, building automation & connectivity

Our consulting approach

Our service portfolio from an investor/ operator perspective

Typical components of our micro-living M&A transaction & due diligence services include:

- Analysis of micro-living market conditions and trends, including forecast of future demand, etc.
- Regional competitive analysis of the relevant micro-living markets
- Operator analyses regarding economic key figures of the relevant operating companies and groups
- Review of concepts (strategic, operational, fit out and area review)
- Financial modelling & real estate valuation
- Preparation, review and 2nd opinion regarding operators' asset business plans from a market and real estate perspective
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Core Services



Financial DD



Commercial DD



Real Estate DD & Valuation

Our consulting approach

Our team set up combines experienced transaction advisors and experts from the micro-living sector

Central contacts



Jörg von Ditfurth
Partner

Deloitte Consulting GmbH
Schwannstraße 6
40476 Düsseldorf

Phone: +49 (0) 211 87724160
Mobile: +49 (0) 151 58000260
jvonditfurth@deloitte.de



Nina Schrader
Director

Deloitte Consulting GmbH
Franklinstr. 46-48
60486 Frankfurt

Phone: +49 (0)69 97137345
Mobile: +49 (0)173 2585554
nschrader@deloitte.de

Experts*



Petra Rösner
Manager

Deloitte Consulting GmbH
Kurfürstendamm 23
10719 Berlin

Phone: +49 (0)30 25468149
Mobile: +49 (0)151 58000894
proesner@deloitte.de



Nadine Schmitt
Senior Consultant

Deloitte Consulting GmbH
Franklinstr. 46-48
60486 Frankfurt

Phone: +49 (0)69 97137171
Mobile: +49 (0) 151 58071408
naschmitt@deloitte.de

*Selected experts; our project teams have multiple members



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