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Serviced apartments
An emergent hospitality sector

Contents

Introduction

Despite the concept of serviced apartments originating nearly two centuries ago, it is only in the last fifty years that this asset class has gained significant popularity. In recent decades, particularly in major business destinations, operators and investors have begun capitalizing on the growing demand for residential solutions tailored to specific groups: tourists, young professionals, and short-term workers.

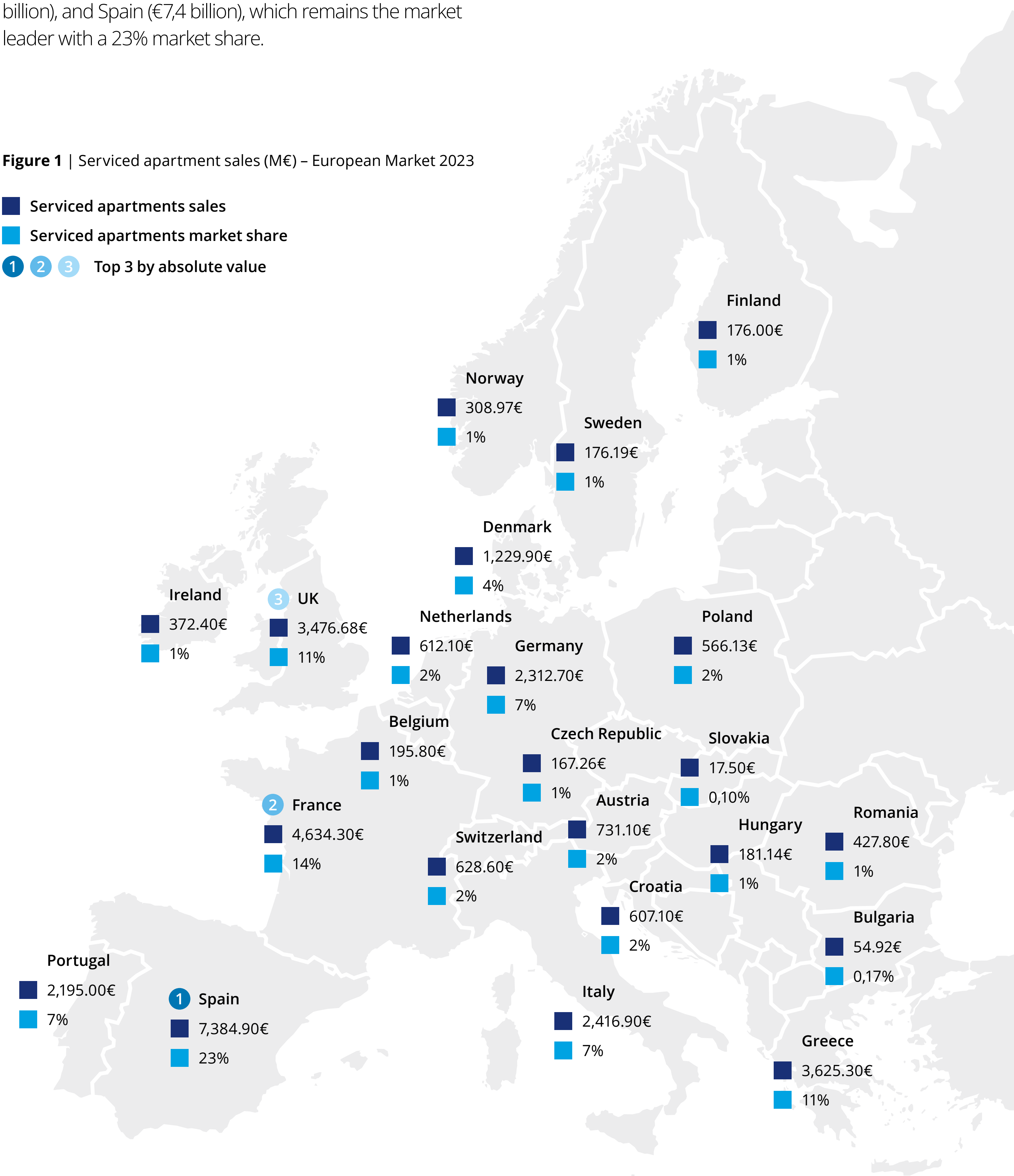
Providing a clear definition of serviced apartments is not easy, as it remains a topic of debate within the hospitality industry. The main reason for the debate is that this accommodation formula varies by country. However, it is possible to identify common characteristics that distinguish this asset class, such as cleaning services, kitchen facilities, and 24/7 customer support. From an investment perspective, serviced apartments are residential solutions equipped with personalized interior design elements and hotel-like facilities (housekeeping, concierge, room service, etc.), aimed at making the user's stay as comfortable as possible, regardless of the purpose of their stay. Typically, serviced apartments are located within a real estate complex (often owned by the same operator) that includes common areas similar to those found in hotels (fitness/spa area, swimming pool, etc.).

The demand has recently evolved significantly. From being primarily business-driven, there has been notable growth in leisure clients, especially families. One of the main boosts of this shift has been the

Covid-19 pandemic, which significantly contributed to the spread of serviced apartments due to the privacy and larger spaces these accommodations offer compared to hotels. Serviced apartments have shown superior economic resilience compared to hotels, especially in major European capitals.
For instance, the RevPar (Revenue per Available Room) for serviced apartments in London decreases by 18% during the pandemic, while hotels more than doubled that figure (-40%).

In terms of revenue generated by serviced apartments in 2023, the European market ranks Italy in fifth place with just over €2,4 billion. Italy follows the United Kingdom (€3,5 billion), Greece (€3,6 billion), France (€4,6 billion), and Spain (€7,4 billion), which remains the market leader with a 23% market share.

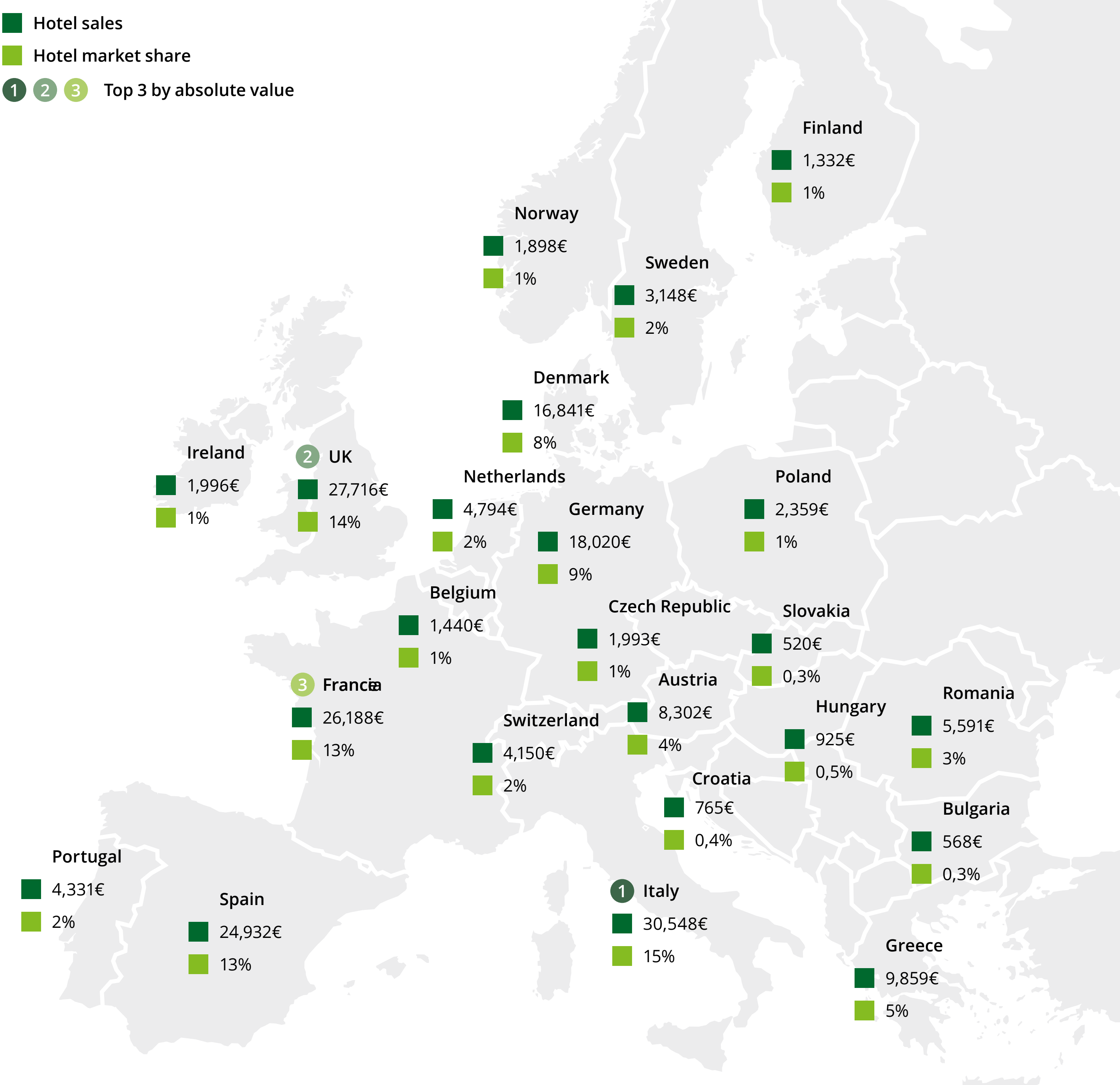
Figure 1 | Serviced apartment sales (M€) – European Market 2023



Source: Deloitte elaborations on Euromonitor data

This ranking is reversed when considering the European hotel market. In this case, Italy positions itself at the top with over €30 billion of revenues and 15% of market share. It is followed by the United Kingdom and France, while Spain is only in fourth place.

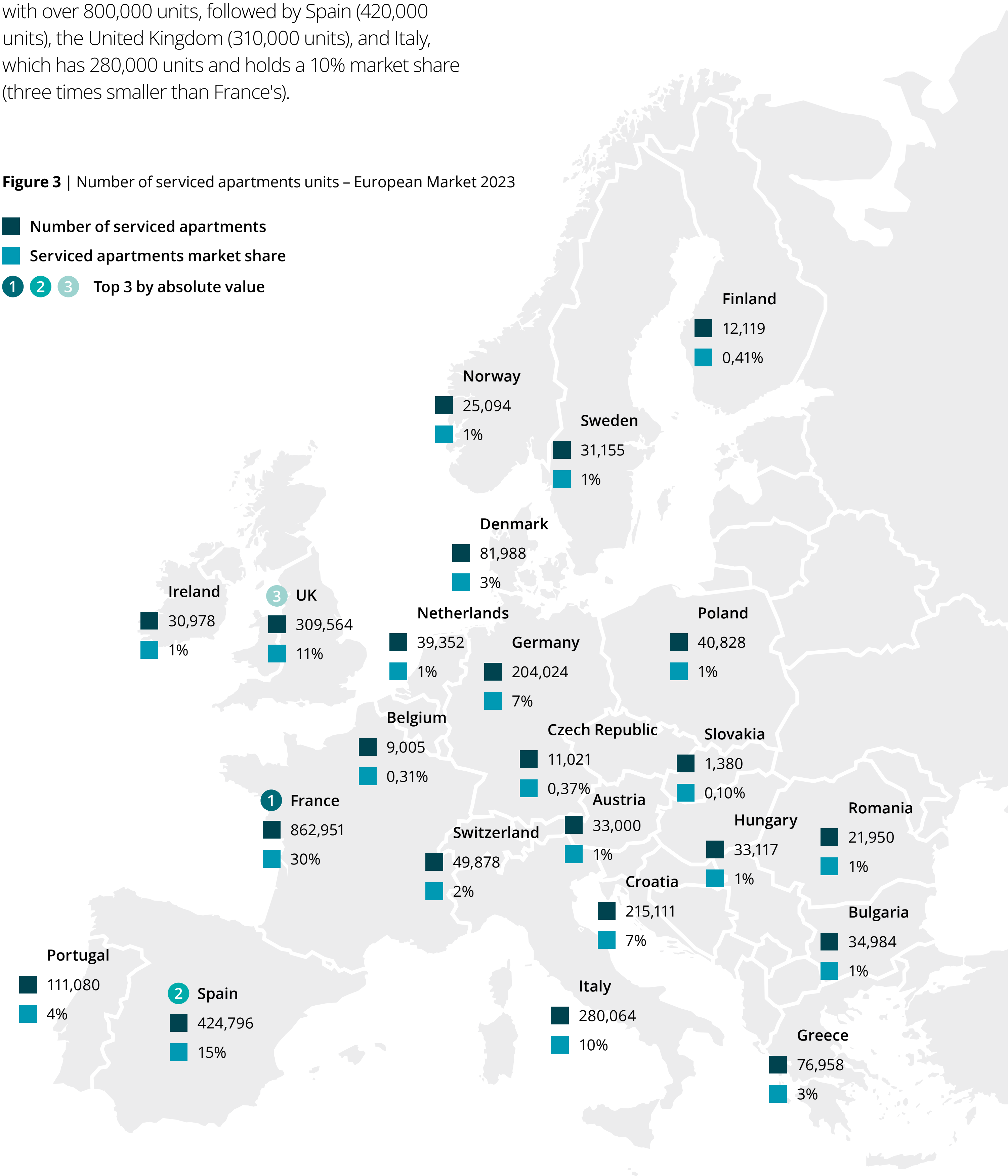
Figure 2 | Hotel sales (M€) – European Market 2023



Source: Deloitte elaborations on Euromonitor data

Shifting the analysis to the supply of serviced apartments in terms of units, the European market reached nearly 3 million units in 2023. The country with the highest number of serviced apartments is France with over 800,000 units, followed by Spain (420,000 units), the United Kingdom (310,000 units), and Italy, which has 280,000 units and holds a 10% market share (three times smaller than France's).

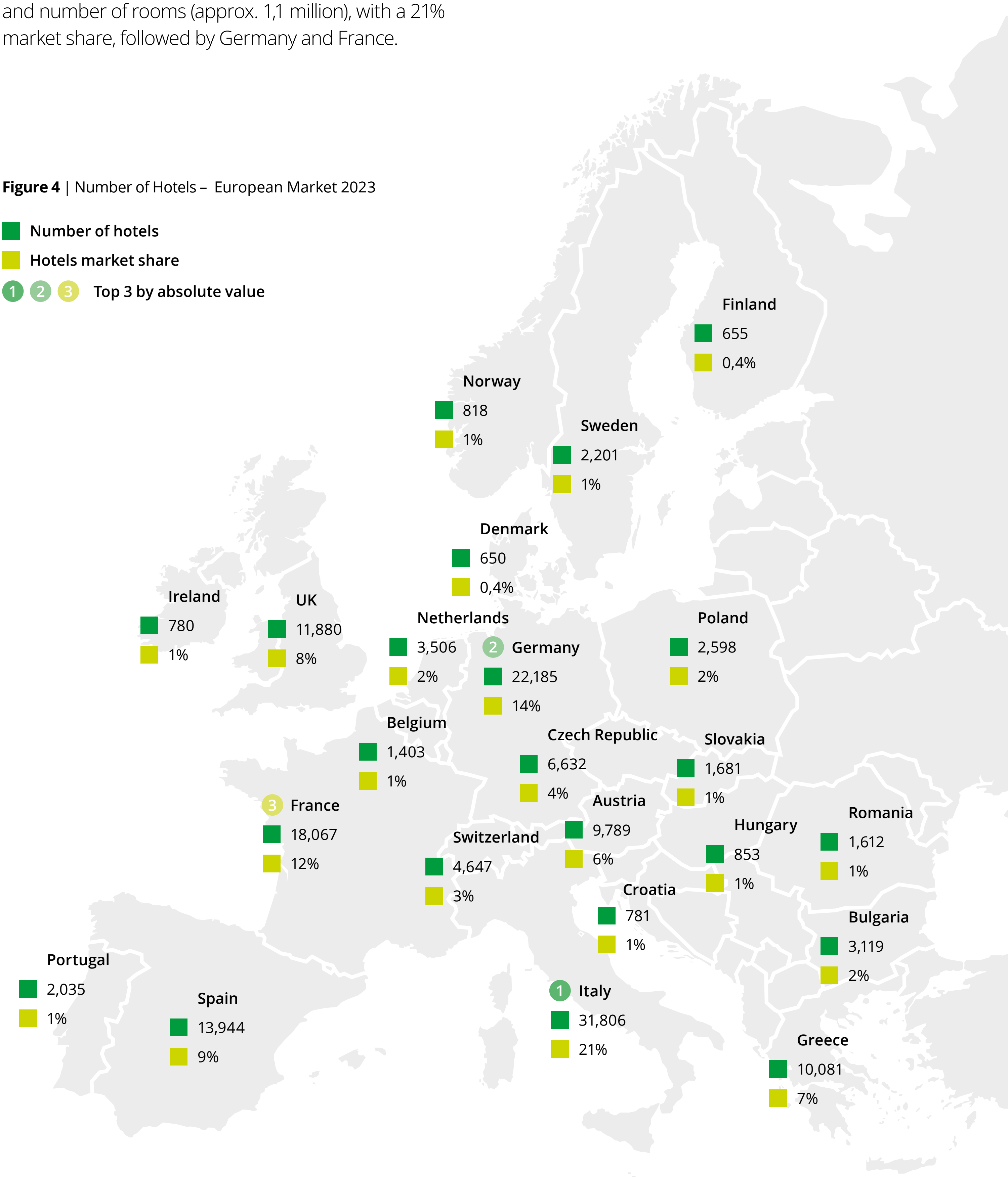
Figure 3 | Number of serviced apartments units – European Market 2023



Source: Deloitte elaborations on Euromonitor data

The situation varies considerably when examining the hotel supply. Italy is by far the top destination in Europe in terms of number of hotels (approx. 32,000) and number of rooms (approx. 1,1 million), with a 21% market share, followed by Germany and France.

Figure 4 | Number of Hotels – European Market 2023



Source: Deloitte elaborations on Euromonitor data

Methodology

The gap compared to the hotel sector led us to conduct a more in-depth analysis of the Italian serviced apartments market, in order to better understand the real potential of this asset class. Due to the lack of available information and data, we conducted a survey on a significant sample of actors (investors and operators) to provide a comprehensive overview of the market context and future prospects.

The data presented in this report refer to the results of a survey conducted by Deloitte in March and April 2024. The research focuses on analyzing respondents' sentiment regarding market trends, management models, economic and financial performance, and environmental sustainability policies, also exploring the current and future role of artificial intelligence (AI) in the serviced apartments offering.

Our survey was conducted through a closed-ended questionnaire using the CAWI (Computer Assisted Web Interview) methodology, involving nearly 400 actors in the Italian and European hospitality sector, divided into two categories:

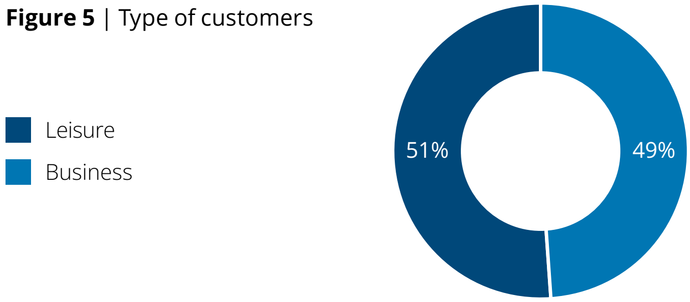
- **Investors** interested in purchasing real estate assets dedicated to serviced apartments, represented homogeneously by different types (HNWI - High Net Worth Individuals and family offices, institutional investors, generalist investors, and Investment Managers);
- **Operators**, of which 20% are exclusively specialized in serviced apartments

The response rate was significant, averaging 25% across both categories. The following sections summarize an aggregate analysis of the responses collected, divided by areas of investigation.

The serviced apartments' market

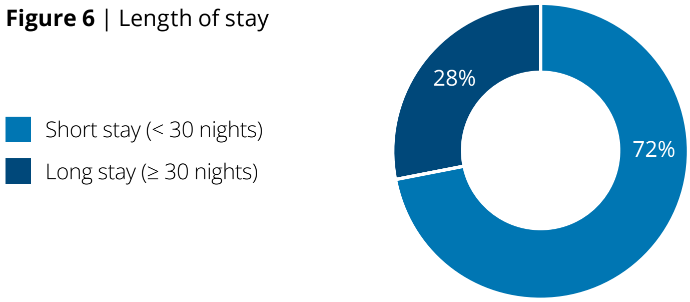
The results of the survey show how demand is evenly distributed between the two main macro-segments: business (49%) and leisure (51%). This data confirms the evolution of demand over recent years. Initially dominated by business customers, it is now moving towards a more balanced mix with the leisure ones.

Figure 5 | Type of customers



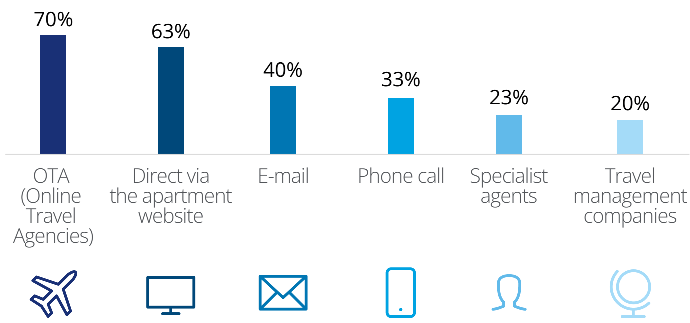
It is interesting to note that, despite short stays (shorter than 30 nights) are the most frequent (with an average stay of about one week), long stays (longer than 30 nights) constitute a significant portion of the demand, amounting to almost 30%.

Figure 6 | Length of stay



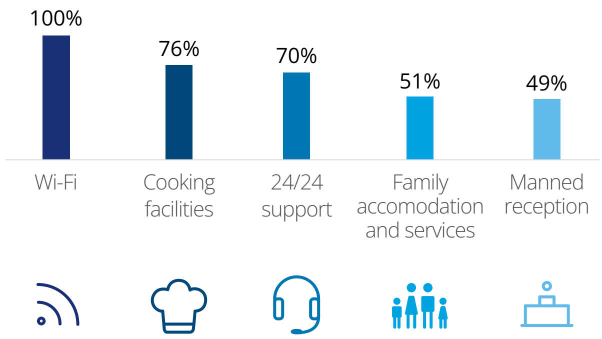
According to more than 6 out of 10 respondents, customers prefer to book their stay using Online Travel Agencies (OTAs) and apartment websites. Only 20% of travelers booking through travel management companies (travel agencies and tour operators) and specialized agencies for serviced apartments.

Figure 7 | Preferred booking channels by the customers



While the presence of a Wi-Fi connection is essential, and is the main feature sought after by customers, over 70% of travelers are also highly interested in apartments offering cooking facilities and 24/7 support if needed. The presence of family-dedicated areas and manned receptions is of lesser importance.

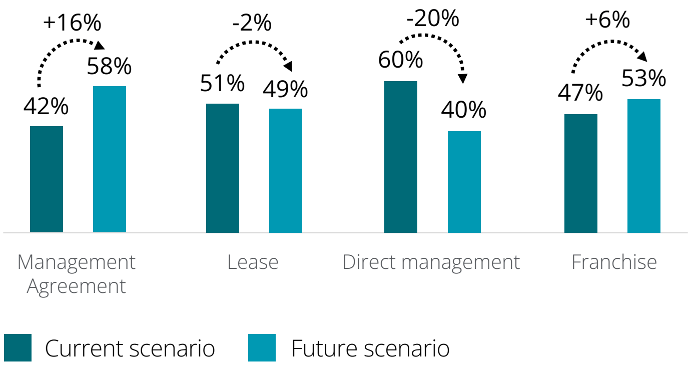
Figure 8 | Preferred services by the customers



A look at the future of the sector

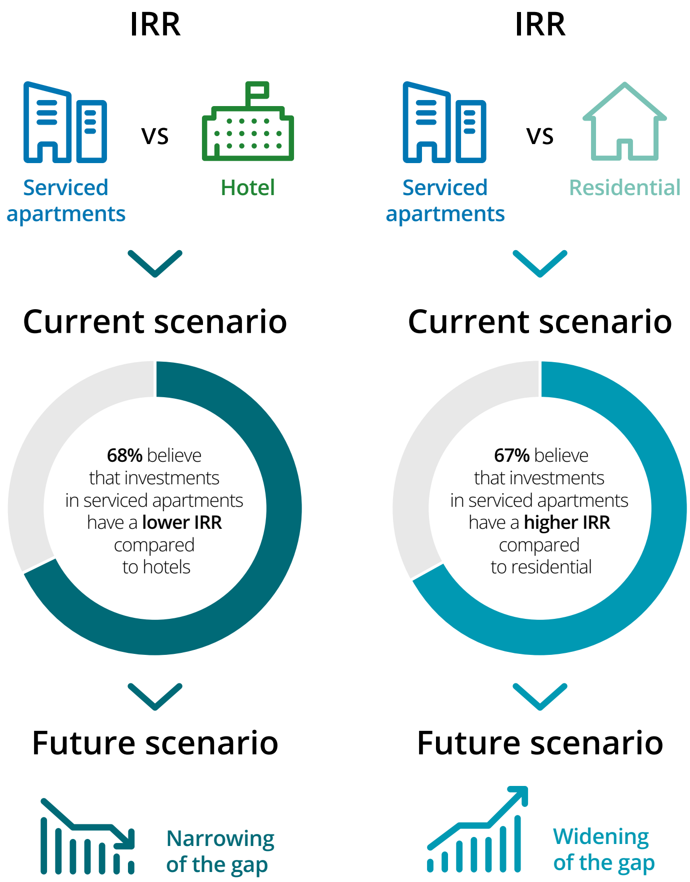
The market is characterized by a homogeneous presence of the main management models (Management Agreement, Lease, Direct Management), while Franchise currently plays a marginal role. In the next three years, the popularity of the Direct Management model is expected to decrease significantly in favor of Management Agreements and Franchises, while the market share of Leases is forecasted to remain constant.

Figure 9 | Prevailing management models in serviced apartments: current and future scenario

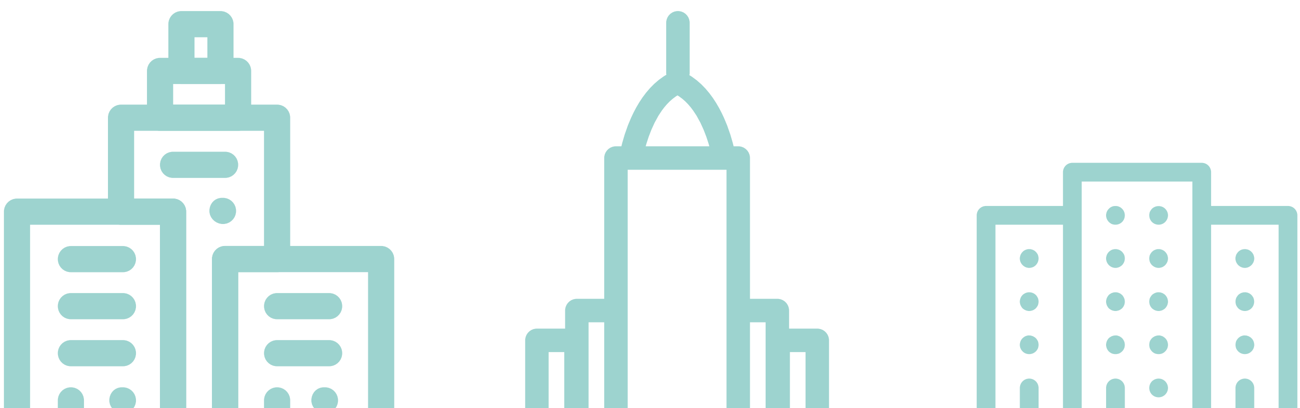


Almost 70% of the survey sample believes that investments in serviced apartments can produce a higher return (IRR - Internal Rate of Return) when compared to the residential sector, while the opposite is true when comparing the IRR of serviced apartments with that of hotels. In this case, almost 7 out of 10 respondents consider hotel investments to be more profitable. However, the future trend shows a reduction in this gap.

Figure 10 | Comparison of IRR for serviced apartments vs hotels and residential: current and future scenario



In the coming years, the Italian serviced apartments market will be characterized by an increase in investments. This will be generated by the development strategies of existing brands in the market, as well as by new international operators attracted by the economic growth forecasts for the Italian market.

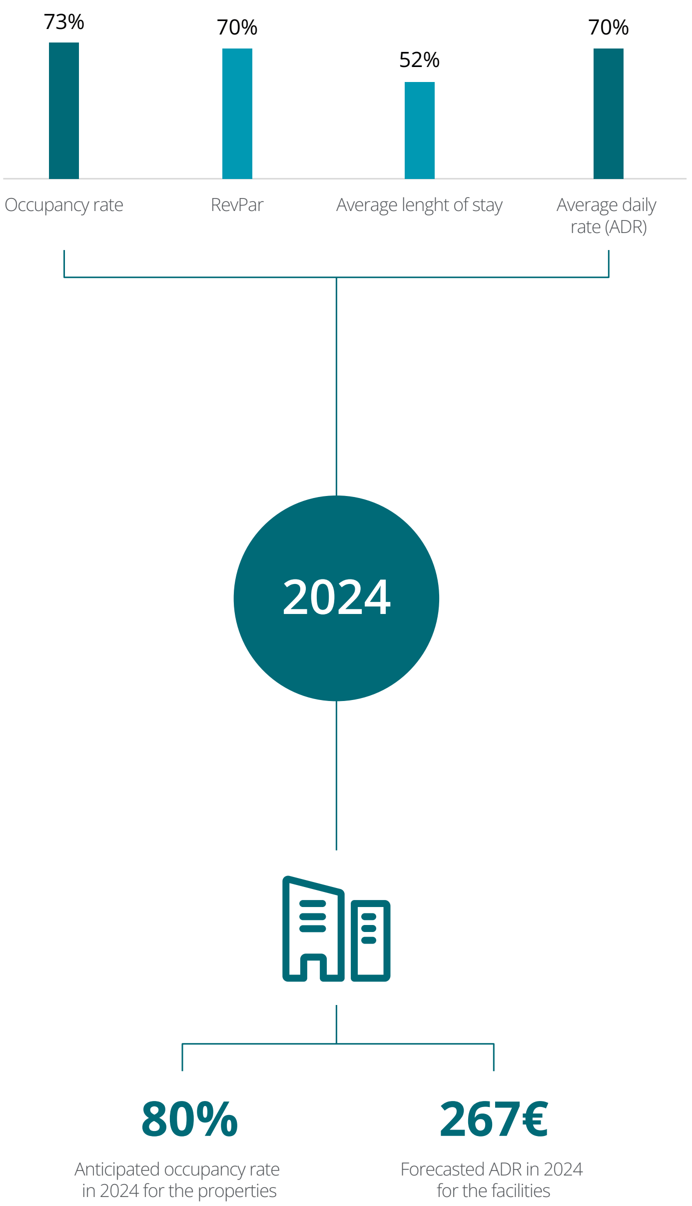


The 2024 estimates for occupancy (Room occupancy percentage) and ADR (Average daily rate) are 80% and €270 respectively. Over 70% of respondents believe in the growth of these figures, with an estimated revenue increase of around 15% on average over the next three years. The average length of stay is expected to remain stable at current levels.

+15%

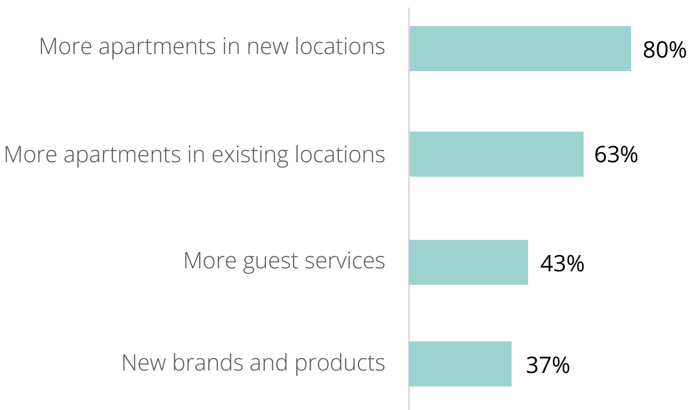
Average revenue growth rate of the italian market over **the next 3 years**

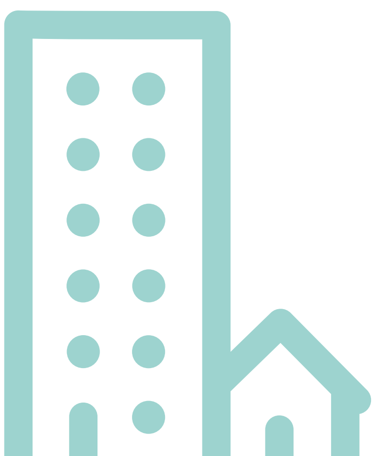
Figure 11 | Growth expectations for KPIs (Key Performance Indicators)



Regarding development plans, respondents prefer to enrich their asset portfolios by acquiring apartments in new locations, rather than focusing on the expansion of existing destinations.

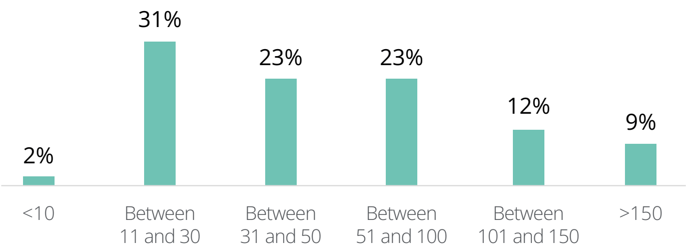
Figure 12 | Expansion goals





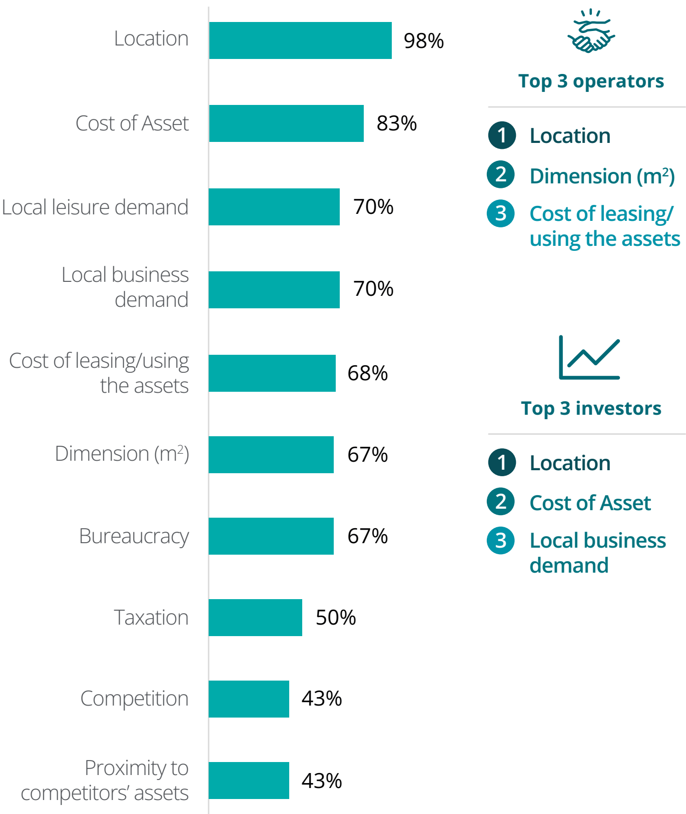
In terms of the minimum number of apartments per investment, over 30% of respondents have a threshold ranging from 11 to 30 apartments. Additionally, 23% indicated a range of 31 to 50 apartments, a percentage that similarly applies to those considering between 51 and 100 units.

Figure 13 | Minimum number of apartments per single investment



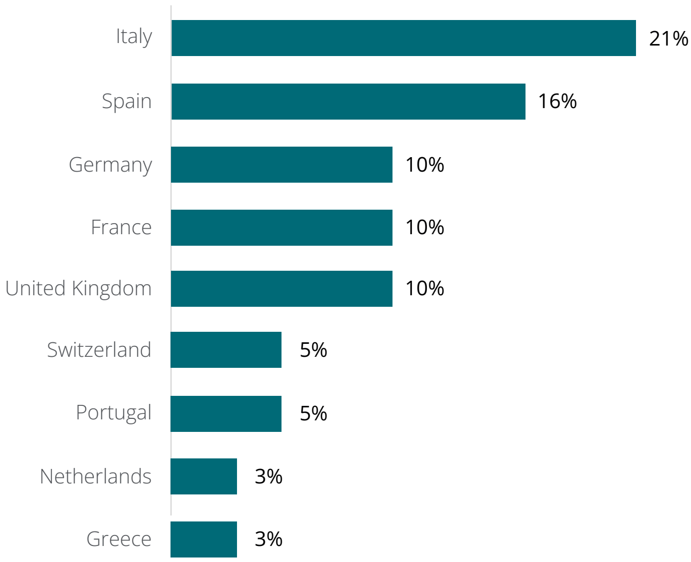
Focusing on the key elements affecting the selection of new assets, location emerges as the main factor influencing new openings. Other significant factors are the cost of the property, the target demand, the size, and, especially for investors, the bureaucracy for obtaining permits and tax incentives.

Figure 14 | Most relevant factors in selecting new assets



Looking at development forecasts for the next three years, Italy is considered a great opportunity according to the survey results. Respondents indicate our country as the European destination with the greatest growth potential (21%), followed by Spain (16%), Germany, France, and the United Kingdom (all at 10%).

Figure 15 | European countries with the highest development potential in the serviced apartments market over the next 3 years



This encouraging future is prompting several players in the hospitality industry to invest in serviced apartments in the Italian market, including those not yet present in this sector. In fact, over the next three years, nearly 58% of those already present in the serviced apartments sector plan to expand into the Italian market. A similar share (60%) of those not yet investing in this sector plan new openings in our country. An average number of new openings per operator is estimated at around 350 apartments by 2027.

Figure 16 | Expansion plans in the Italian serviced apartments market

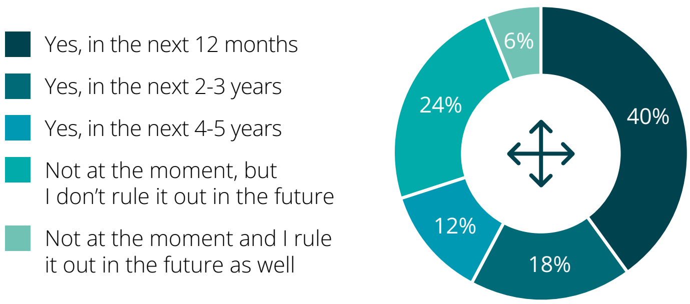
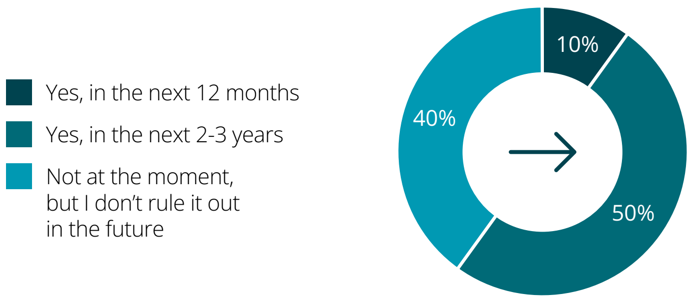


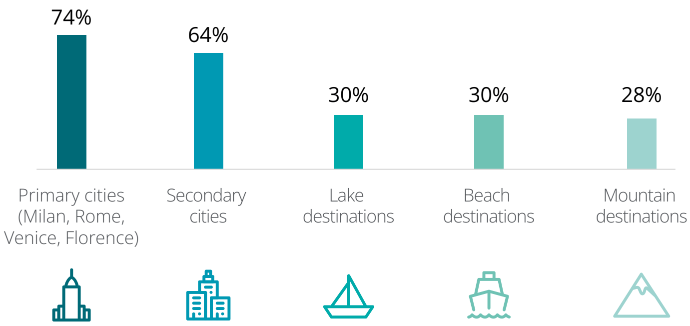
Figure 17 | Planned new entries by operators/investors in the Italian serviced apartments market



Average number of openings in Italy per operator expected **over the next 3 years**

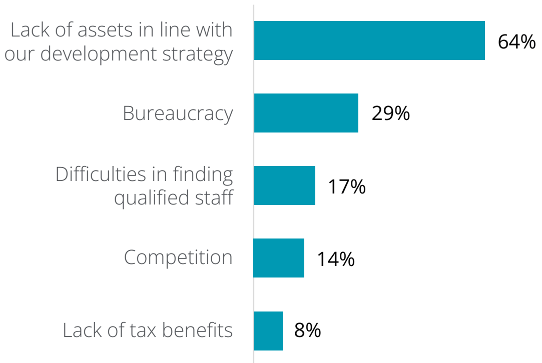
The driver of this enthusiasm for the Italian market is represented by the larger cities, which attract more than 6 out of 10 participants, compared to lake, seaside, and mountain locations, which are appealing to only about 30% of respondents interested in Italy. This percentage difference is mainly due to seasonality, as cities tend to be popular for the entire year.

Figure 18 | Italian destinations considered most interesting for investments in serviced apartments



Despite the positive outlook, some players are not interested in this market. Although they represent a small portion of the respondents, it is useful to examine the reasons behind their current decision not to expand in Italy. The lack of assets aligned with their development strategy is the most impactful factor, followed distantly by bureaucratic issues.

Figure 19 | Reasons for the decision not to expand in Italy at the moment

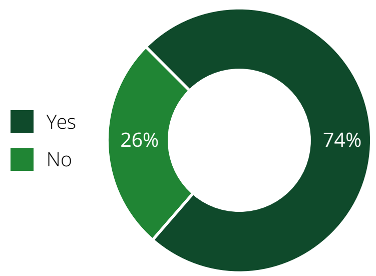


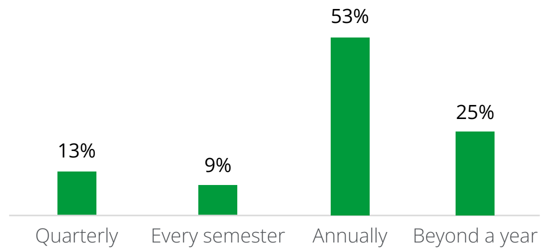
Environmental sustainability as a priority for the serviced apartments market

Environmental sustainability is a topic of extreme relevance for the respondents, who allocate about one-fifth of their budget for this purpose and publish an annual sustainability report that demonstrates their commitment to sustainability.

20% **Share of the budget allocated to maintenance on average each year to make assets more sustainable**

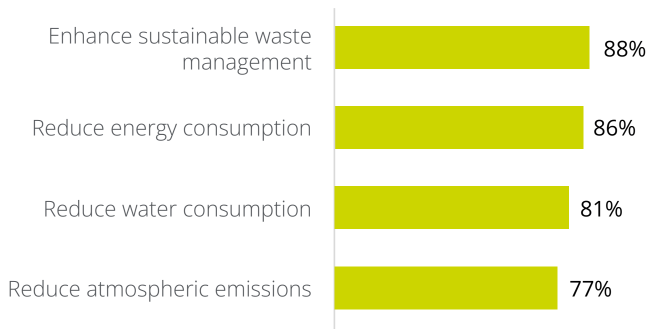
Figure 20 | Number of companies that release sustainability reports and frequency of publication





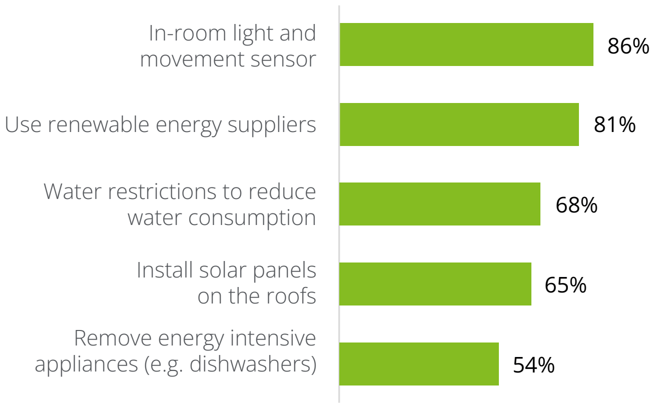
More than 8 out of 10 operators understand the importance of investing in sustainable practices and prioritize goals such as improving waste management and reducing energy and water consumption.

Figure 21 | Sustainability goals considered most important to achieve



Specifically, in the energy sector, measures to make serviced apartments more sustainable are primarily focused on the installation of light sensors and the use of renewable energy sources.

Figure 22 | Most popular measures aimed at making properties more sustainable



While the positive effect of such investments on revenue improvement and the reduction of operational costs is well established, it is extremely interesting to note that a significant portion of the survey sample believes that investing in environmental sustainability can lead to an increase in both rental value (+23%) and capital value (+18%).

Figure 23 | Impact of sustainability investments on the increase in rental value

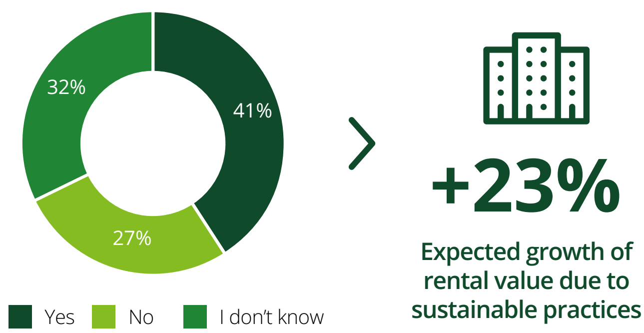
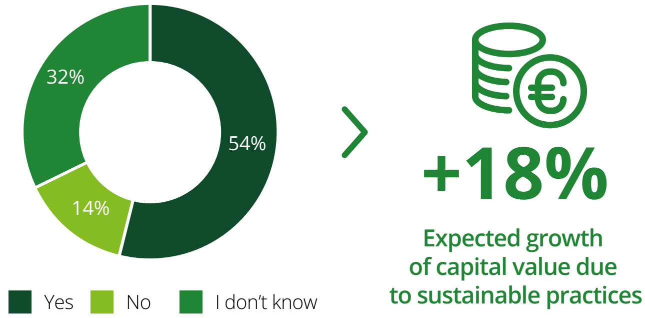


Figure 24 | Impact of sustainability investments on the increase in capital value



Hospitality 2.0: how AI is disrupting the market

Today more than ever, due to the rapid technological transformations underway, the hospitality sector is facing new challenges posed by the development and spread of AI.

The study highlights that about one-third of the survey sample has already implemented AI solutions in their operations, while an additional 19% intend to adopt these solutions by 2024. However, as reported by 64% of respondents, the main obstacle to the spread of this innovative technology remains the difficulty of integrating it with pre-existing systems.

According to over 40% of respondents, this will result in a significant reduction of staff, making it unnecessary for front office employees to perform the most repetitive tasks.

42% **Believe that AI will significantly reduce the number of employees for repetitive tasks**

Figure 25 | State of AI implementation in serviced apartments

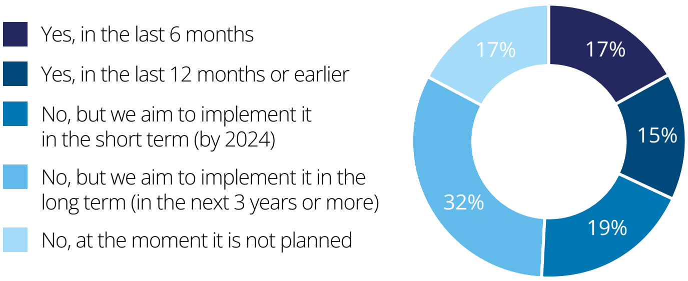


Figure 27 | Expected impact of AI on customer satisfaction in the coming years

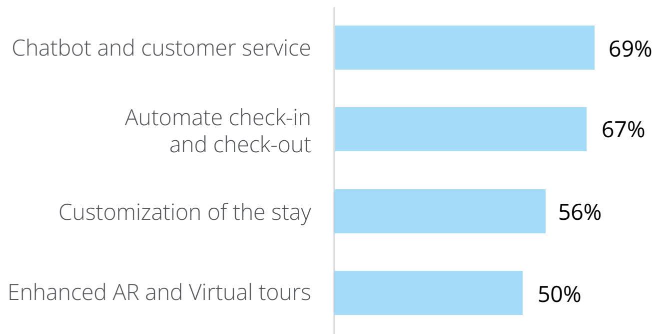
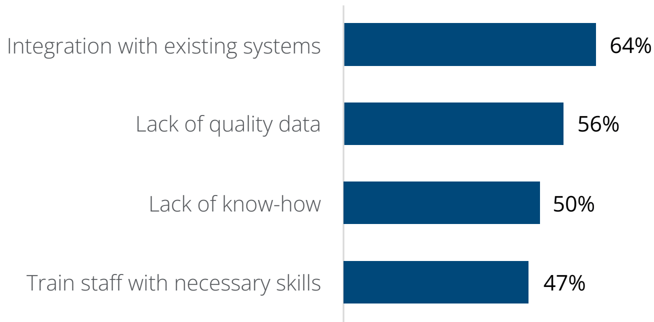


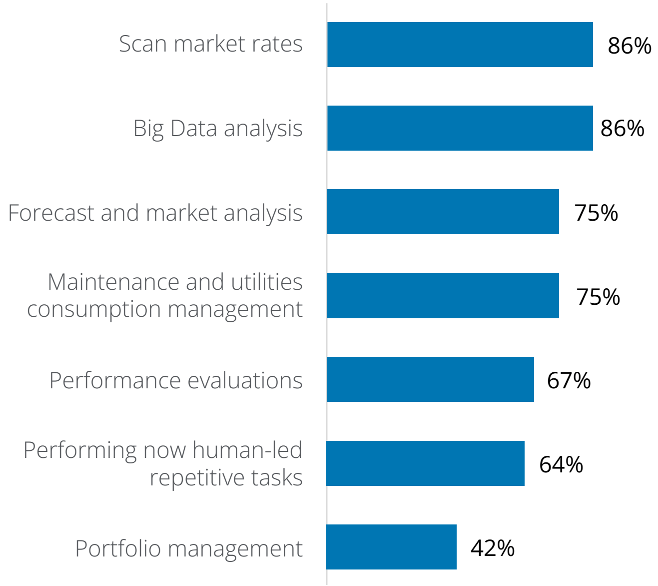
Figure 26 | Main barriers encountered in AI implementation



AI is expected to become indispensable in performing numerous tasks in the near future. AI will impact direct interaction with customers through chatbots, the automation of check-in and check-out procedures, and the personalization of the stay.

A widespread use of AI is anticipated in back-office activities, especially those related to analysis and consumption management, with the aim of improving operational efficiency.

Figure 28 | Expected impact of AI on operational efficiency in the coming years



Conclusion

The analysis shows that serviced apartments are one of the emerging sectors in Hospitality with the greatest potential for development in the coming years.

Italy is undoubtedly the most attractive European destination for investments, followed by Spain, Germany, France, and the United Kingdom.

Major cities such as Rome, Milan, Florence, and Venice are the most sought-after destinations by industry players, followed by secondary cities. This is mainly due to the possibility of attracting all target audiences of this specific market (tourists, young professionals, and short-term workers), as well as developing a customer base with about 30% having extended stay needs.

There is great optimism about market performance and expected returns. Most investors believe that investing in serviced apartments is much more profitable than investing in the residential sector.

In terms of revenue, the Italian market is estimated to grow by an average of about 15% over the next three years, with an annual occupancy rate of over 80% and an average ADR of around €300 per night.

In the coming years, the real estate market for serviced apartments in Italy will be characterized by an increase in investments generated by both the expansion policies of brands already present in the territory and new international operators encouraged by the growth forecasts of the main economic KPIs.

An average of about 350 new serviced apartments openings per operator is expected, with a minimum size per single investment between 11-50 units for over 50% of respondents. The majority of those who will not invest in Italy, highlight obstacles such as the lack of assets aligned with their development strategy (64%), while almost 30% are discouraged by bureaucratic difficulties.

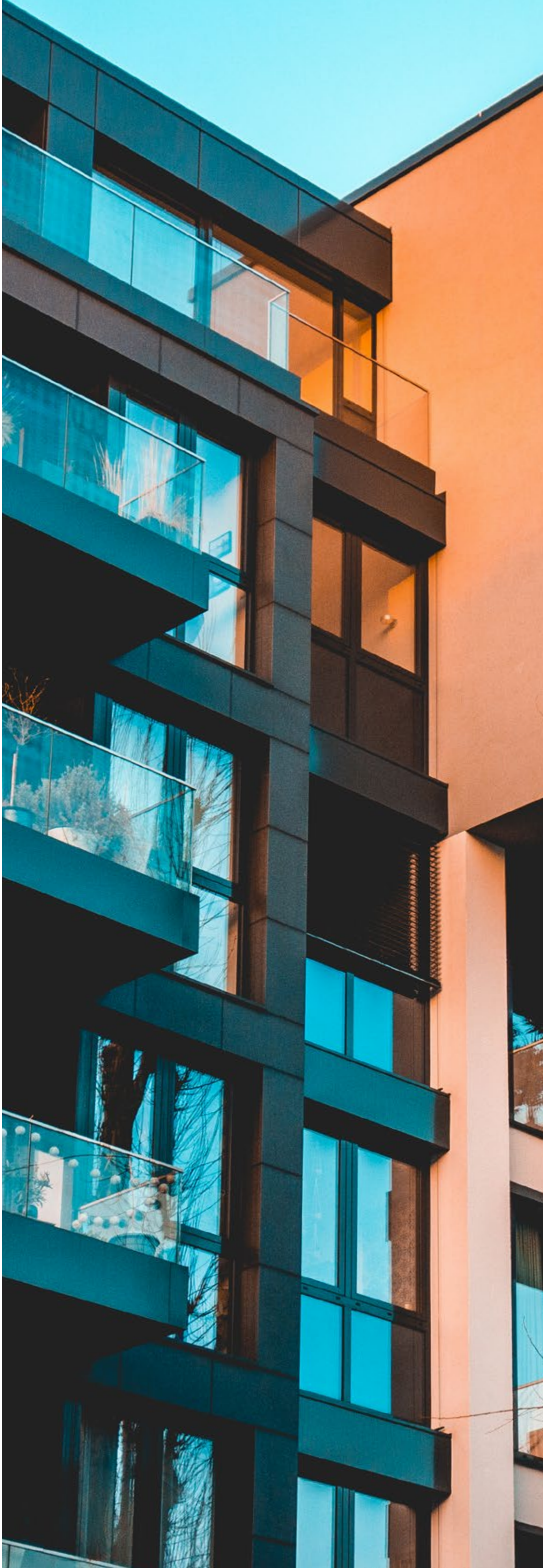
In this context, the issue of environmental sustainability assumes strategic importance in the asset selection and operational management. About one-fifth of the budget for routine maintenance is allocated to making properties more sustainable, particularly in terms of energy efficiency and waste management. More than 40% of the sample believes that these investments can lead to a significant increase in both rental value (+23%) and capital value (+18%).

Data analysis also reveals a strong connection between environmental sustainability policies and the implementation of Artificial Intelligence. AI is indeed shaping a new era in hospitality, promising operational efficiency, personalized stays, and facilitating the sustainable growth of the sector.

More than half of the respondents have decided to implement AI-related technologies or will do so by the end of 2024. Operators are in fact particularly focused on profiling targets, improving customer interaction and assistance, and managing and monitoring consumption (energy, water, etc.), to reduce waste. This leads to profit increases and operational cost reductions on one hand, and on the other, it impacts the reduction of certain roles dedicated to particularly repetitive and, thus, automatable tasks.

A balanced and conscious approach is therefore essential to shaping a sector where artificial intelligence is a driver of positive progress for all involved parties.

The future of serviced apartments in Italy looks promising, with a forecast of significant growth in supply and revenue. Environmental sustainability policies and the correct implementation of artificial intelligence will play a key role in this scenario. Therefore, the synergy between these two aspects will be pivotal in the evolution of a sector poised to become one of the most attractive asset classes in hospitality.



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