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Opinions

Branded residences benefit from upfront planning

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While going the branded residence route seems like a surefire win, there are a number of details to consider first.

By Scott Antel

The increasingly popular branded residence concept, where a private residence (flat or villa) is marketed and sold typically in conjunction with and adjacent to the similarly branded hotel product has come a long way since its advent with The Sherry-Netherland hotel and apartments in Manhattan in the late 1920s.

Today nearly 50 hotel brands (typically luxury but also lifestyle and mid-range brands) offer branded residence products, with the market leaders, Four Seasons Hotels and Resorts, having a branded residence component in 70% of their new hotel openings.

At face value, combining a private residence with a hotel and its amenities would appear to offer a “win-win-win” proposition for all stakeholders.

For the developer, those alleged wins include: upfront cash flow from residence sales to finance the hotel, a potential sales premium of 20% to 40% than if sold unbranded, the quality and style assurances that a brand brings to the project and the ability to leverage the hotel’s ancillary facilities (pool, spa, other services) to a captive residence audience.

For the operator, the wins are: an expanded business line and customer base for its brand, a 3% to 5% license fee on the residence gross sales price for lending its brand to the residence sales, fees for managing the residence common areas, a captive audience for the hotel’s ancillary facilities and potentially greater control over shared front and back of house facilities.

For the buyer, the wins are: the prestige of buying into a lifestyle brand, assurances that the product design and operation will be delivered as advertised, high levels of security, “lock and go” convenience of a second home, access to the hotel’s luxury amenities, a potential investment element, whereby the project has a rental pool option where the resident can place his property for rent as part of the hotel's inventory and a potentially enhanced resale value.

Sounds great at the outset, but for the model to work successfully long term, the project concept and the legal structure and documentation supporting the project must be well thought through in advance. Most importantly, there must be an effort to ensure an ongoing alignment of the respective stakeholders' interests over the life of the project given that the respective participants' interests and motivations change over time (e.g., the developer's interests may dwindle after selling the residences, etc.).

Matching the residences' target audience (retirees, families, professionals) to the hotel brand's audience, and right-sizing the type and level of amenities provided (which will be shared or remain separate from the hotel) also will affect the success of the project. For example, retirees desiring a small community-type atmosphere are not likely to welcome an investment residence product where the residences are let out as hotel inventory and the "neighbors" are constantly changing. Nor would they likely warm to a residence under a trendy "nightclub" brand, such as Morgans or W.

Investing in the legal structure and documentation with advisors who have experience with branded residence schemes is equally important to a successful project. A well-designed and -documented hotel and branded-residence project can have up to 20 or more agreements documenting the various parties rights and obligations not just from the outset but over the life of the project, including assigned obligations binding future stakeholders.

Scott Antel is hospitality and leisure partner with Berwin Leighton Paisner LLP. He has more than 20 years' experience advising both owners/developers and international operators in the Middle East, Russia/CIS, Turkey, the Baltics and Asia on hotel, branded residence and mixed use developments. A senior partner in BLP's Abu Dhabi and Dubai offices, Scott recently joined BLP to lead the firm's "tier one" global Hospitality Practice in the Middle East as well as focus on developing the Russian, African and Asia Pacific practices.