



Hotels & Hospitality Group

# A Guide to **Branded Residences** for Developers and Investors

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November 2022

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## Introduction

Over recent years, there has been a rapid increase in interest from hotel developers/investors looking to include branded residential components to their mixed-use developments. This is particularly significant in the luxury segment, where the synergies between the hotel and residences can improve the overall experience for both guests and residents and the profits from the residential portion of the project can enhance investor returns. Given the demand for this offering as well as brand companies continuing to seek ways to expand their business, we are also seeing growth in 'standalone' branded residential projects, attracting developers/investors looking to achieve premium pricing and accelerate the pace of sales.

Why brand a residential project? The brand equity and reputation help the developer/investor quickly define the experience and differentiate the project in an increasingly crowded market. Branded residences are not a new concept, with projects dating back to the 1920s in New York, when the Sherry-Netherland hotel opened with luxury apartments facing Central Park. In Asia, the first branded residence project dates back to 1988 with the development of Amanpuri in Phuket, an iconic resort in Southeast Asia.

Fast forward thirty years and now an increasing number of luxury developments across the globe are associated with a branded residential program.

In this paper, JLL aims to provide a comprehensive guide to branded residential projects and share an overview of the sector across the globe.

For the purpose of our report, the term 'branded residence' refers to residential premises available for sale that are managed and branded by a well established hotel management company and/or high-end residential properties under designated brands.



Layan Residences By Anantara - Pool View

A Guide to Branded Residences for Developers and Investors

## Key players and trends

Historically, luxury hotel brands have been the pioneers and leaders of the branded residential environment. Today's market leaders include Marriott International (Ritz Carlton and St. Regis), Four Seasons and Accor (Fairmont and Banyan Tree). Mandarin Oriental and Rosewood represent the fastest growing operators in the space with 17 and 18 properties in the pipeline, respectively. In recent years, consumer brands have also begun to enter the space. Automobile companies such as Porsche Design and Aston Martin and fashion companies such as Armani and Missoni emerged as luxury branded residence players, seeking to expand their product offerings.

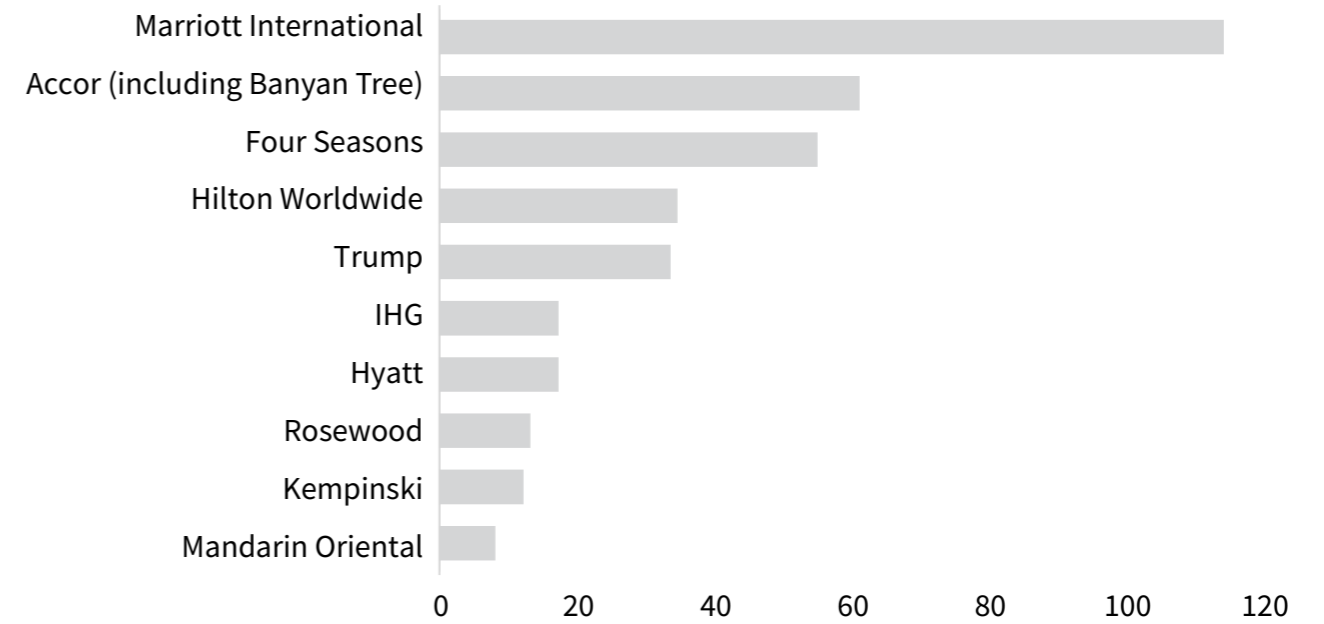
Branded residences are concentrated in the luxury and ultra-luxury segment as the target consumer is typically high-net worth individuals (HNWIs). These units can be used as primary or secondary homes, with the use being influenced by the location of the property.

Branded residences for primary use often are situated in urban/dense markets, where residences used as secondary homes tend to be in more resort-oriented destinations. The shift in more flexible working arrangements following COVID-19 has supported the proliferation of branded residences in leisure focused markets, a trend we expect to continue long after the pandemic is over. Moreover, the branded residence sector stands to benefit from the growing number and wealth of HNWIs over the last few years. Between 2013 and 2019, the global HNWIs population increased at a compound annual growth rate (CAGR) of 6.1%, while the period between 2019 and 2021 witnessed a 7.1% increase across regions. Forbes' 2021 list of the world's billionaires reported that the wealth accumulated by those featured totaled \$13.1 trillion up from \$8 trillion the year prior.



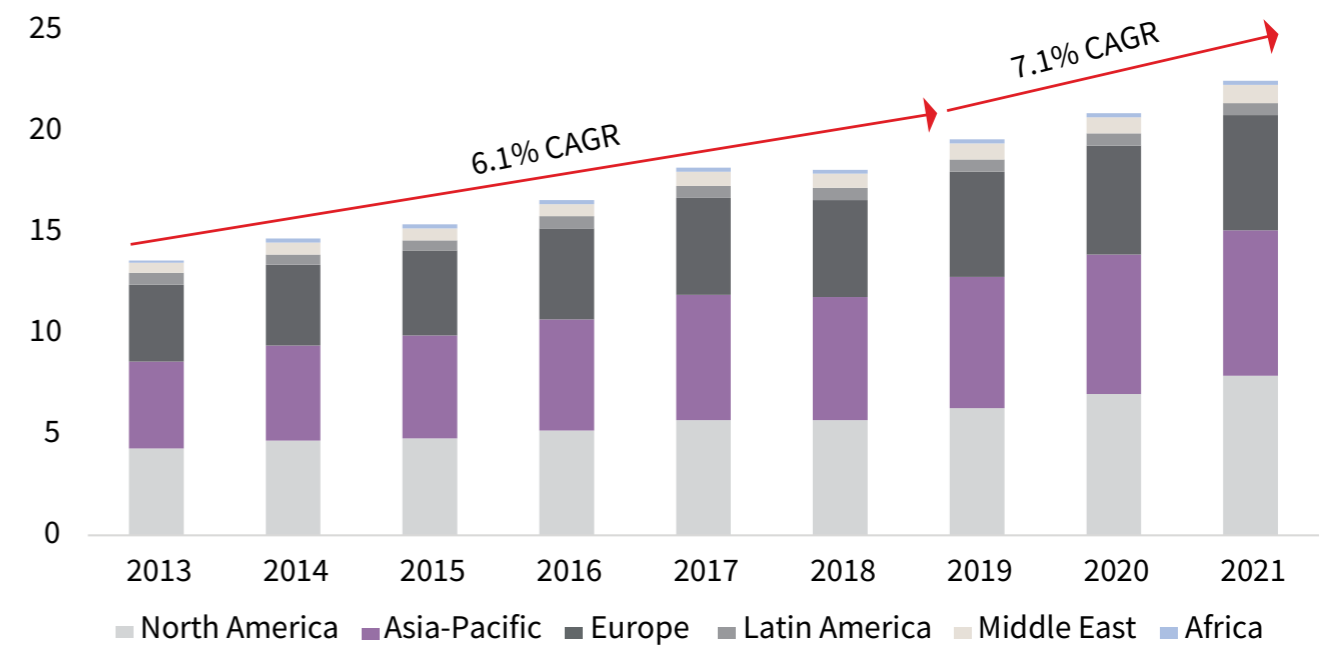
Fairmont Marrakech outside view

### Existing Branded Residential Developments by Company



Source: Hotel company websites & JLL

### Number of HNWIs by Region, 2013 – 2021



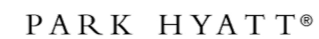
Source: Capgemini Research Institute for Financial Services Analysis



685 Fifth Ave - Rooftop Pool

### Representative hotel and consumer brands

#### Hotel brands



#### Consumer brands





Aman Niseko - Japan Villa Exterior

## Benefits



### Benefits for the Developer/Investor

Brand association and enhanced services in branded residences allow developers/investors to benefit from solid price premiums compared to unbranded, high-quality residential projects. When developed in conjunction with a hotel property, branded residences allow developers/investors to rely on purchase deposits by future residents to fund the completion of the project's development, depending on local rules and regulations. This is particularly attractive in markets where access to debt is limited, and interest rates are high.

Additionally, residential projects tend to generate higher returns than stand-alone hotel projects. Branded residences may improve the returns of cost-prohibitive five-star hotel developments and create premium returns for the overall project.

In markets where the supply of quality condominium development is considered saturated, residential developers/investors can also look for a brand association to differentiate their product from the competition and increase sales velocity.



### Benefits for the Purchaser

Purchasers are the ultimate beneficiaries of branded residences. Branding is a form of quality assurance for purchasers and buying into a branded residential property can represent an emotional purchase of a 'trophy' asset. There is also less perceived risk knowing the brand vetted the developer/investor before granting them a license. This saves the purchaser valuable time by reducing the need for due diligence.

Furthermore, branded residences offer an elevated lifestyle, convenience and amenities. Purchasers have access to the concierge services, wellness facilities and various 'A la carte' services offered by the brand. They also enjoy hassle-free ownership with brands handling maintenance, security and various legal obligations during their absence.

In some cases, unit purchasers benefit from rental programs, generating income to offset the service charges and producing a financial return when leasing out their units. Finally, purchasers see the branding of the residence as a way to preserve the long-term resale value of the unit considering its positioning above the traditional residential market.



### Benefits for the Brand

Many brand companies have spent decades and made significant investments in defining their brand's position and growing loyalty and recognition among their customers. Expanding into the residential market is a natural path to expand and diversify their income streams.

In the case of hotel companies, the pipeline for standalone luxury hotels is challenged by high development costs and extensive operating models necessary to deliver appropriate services. By collocating a luxury hotel with a residential component, developers/investors look to achieve premium sales and profits from the residential portion of the development which can help them meet their overall investment goals.

Given these benefits, some hotel companies are choosing to reserve their luxury brands for collocated projects to encourage hotel development.



Layan Residences By Anantara - Guest Room Amenity Pool

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## Purchaser benefits & services offered



### Benefits and Services

Upon purchase, branded residence purchasers are provided with a variety of exclusive benefits such as highest tier loyalty program status for a number of years and discount privileges for the brands' other accommodations, restaurants, spa services and more. The purchaser benefits vary depending on the brand and may include additional benefits such as invitations to exclusive brand events.

Branded residence purchasers also benefit from a vast variety of services and amenities offered at the property. The range of amenities and services varies greatly depending on the location and type of branded residence development.

The services offered by the brand generally include base services - included within the purchase price and annual service charge - and 'a-la-carte services' which are available at additional charges and are either provided by the adjoining hotel or the residential management team.



### Base Services

Concierge Services: bookings (airline, restaurant, theatre, transport, activities, etc.), business center services, etc.

General Maintenance: common area upkeep, pool and gym cleaning and servicing, 24-hour security, landscaping, etc.

Recreational: locker rooms, sauna, steam room, swimming pool, access to spa, fitness center, tennis and other sports amenities, towels and refreshments, etc.

Doorman Services: mail/package assistance and delivery, move-in logistics, etc.

Other Services: trash removal, key card services, etc.

## A la carte services



### Personal services

Nanny, Childcare arrangements  
 Personal shopping  
 Business equipment, Rental  
 Administrative, Personal arrangements  
 Assistant services  
 Laundry, Dry cleaning  
 Car washing, Detailing  
 Computer technology assistance  
 Translation services



### Household & engineering

Housekeeping services (daily, weekly or as needed), including:

- Vacuum and mop floors, Dust interior
- Strip beds, Change sheets, Wash dishes
- Clean bathrooms, Clean patio, Clean mirrors, Oven/cooktop cleaning
- Refrigerator cleaning
- Laundry

#### Handy-Man services

- Minor electrical, Plumbing
- Picture hanging
- Fluorescent tube/bulb replacement
- Simple electronic hook-up
- Furniture assembly
- Touch-up paint
- HVAC filter change
- Bulk trash removal
- Move-in trash removal

In-residence pest control  
 Mail and package shipping  
 Arrival prep, stocking



### Event & food services

Personal chef  
 Grocery and food delivery  
 Party, function and event planning  
 Meeting and conference rooms through hotel



### Recreation

Personal trainer  
 In-residence spa treatment/services





685 Fifth Ave - Restaurant - Vignette - Fireplace

## Purchaser considerations



### FF&E Package

When purchasing a branded residence product, purchasers often have the opportunity to either buy the unit furnished in accordance with the brand standards and design (this can include two or three options to choose from) or unfurnished, allowing for personal customization and the hiring of private designers. Offering various options to purchasers has proven to be successful, albeit more onerous. HNWI's are typically more likely to appoint their own designer to customize the unit to their liking and incorporate art.

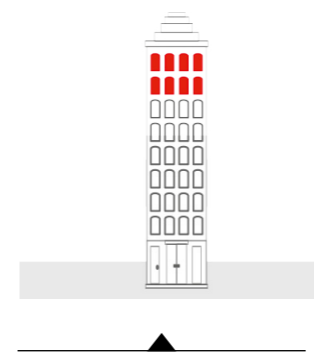
If branded residence purchasers want to include their units in the rental program, the brand-suggested furnishing in accordance with the brand standards and design is often mandatory. Our experience has shown that HNWI's prefer to buy residences in developments that restrict rental programs to ensure occupiers are only other HNWI's and that traffic from outside and short-term guests is limited for enhanced privacy.

## Types

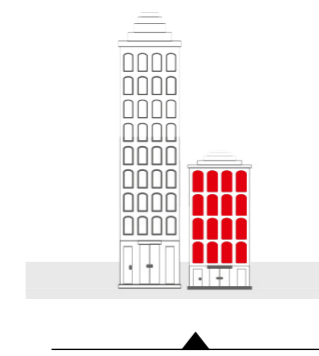
### Types of Branded Residences:

Traditionally, branded residences were hotel-led developments with a portion of the development area allocated to a for-sale residential scheme linked to the hotel facilities and branded under the hotel brand. As the general population is increasingly brand-conscious, consumer brands from the fashion or car industry, have also entered the sector.

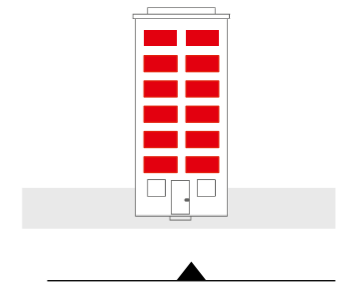
### There are a number of variation on the Branded Residences Model :



residences **located within a hotel** often on the hotel's upper floors



residences **in mixed-use neighborhoods**, where the hotel and branded residences are located in different buildings



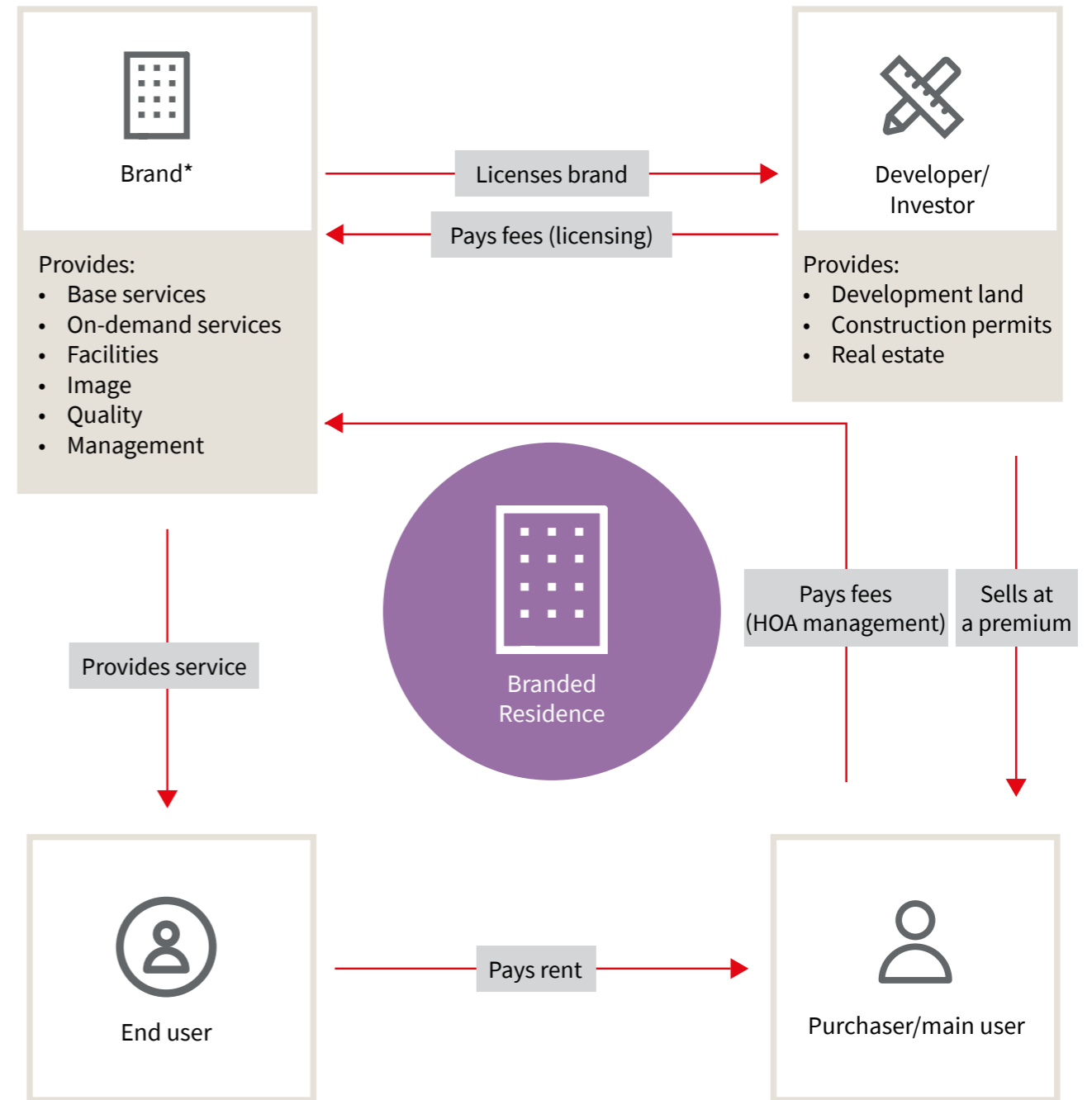
**standalone schemes** without a hotel nearby



Layan Residences By Anantara - Guest room -Ocean View

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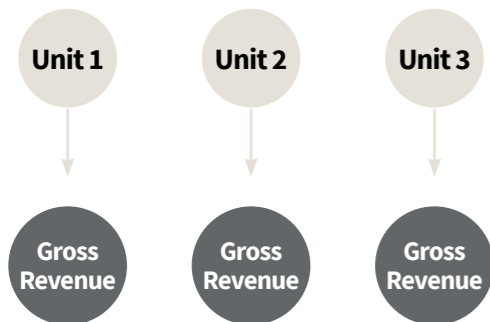
# Structure



\*In some parts of the world (i.e. the Americas), the brand and operator of the development may be of different entities due to the selection of a white-label operator.

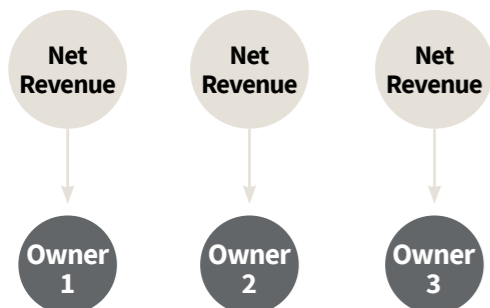
# Rental program vs. rental pool

## Rental program



For Each Unit - Less Deductions for:

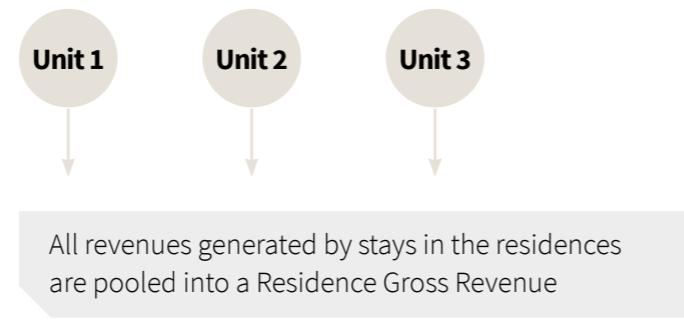
- Commissions (agents, metasearch, etc.)
- Credit card fees
- Potential rental program management fee from the operator
- Reservation & Loyalty Program fees
- Other 'off the top charges'



In rental programs, each unit has its own P&L. In order to ensure fairness among owners of the units, the brands usually implement a priority rotation of units within the same room categories to prevent two very similar units from resulting in vastly different returns.

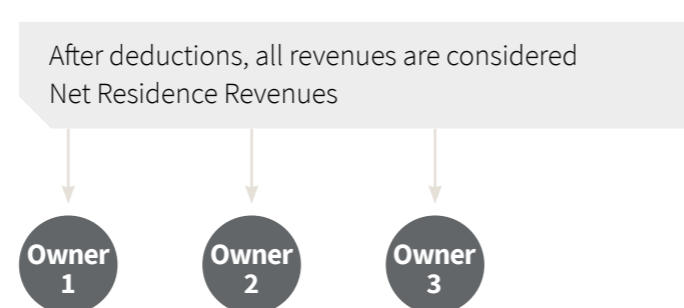
Some brands only offer rental programs as rental pooling may result in the selling of units being classified as a sale of a security under some jurisdictions (i.e. considering this would be similar to owning a share in a hotel owning and operating business, as opposed to owning a real estate asset), therefore attracting a different set of regulations.

## Rental pool



For Each Unit - Less Deductions for:

- Commissions (agents, metasearch, etc.)
- Credit card fees
- Potential rental pool management fee from the operator
- Reservation & Loyalty Program fees
- Other 'off the top charges'



In rental pools, revenues are pooled and distributions are made across the entire ownership pool. In most jurisdictions, these structures are highly regulated and require registration as an investment, adding time and cost to the project. The distribution to unit owners is typically done on a monthly or quarterly basis based on a distribution formula considering the unit size, potential views, number of bedrooms, etc.

In some cases, the return distribution happens after the accounting of operating (rooms and overheads) expenses. However, purchasers generally like the transparency of an 'off-the-top' return distribution.

Hotel brands offer purchasers that have purchased a brand-approved FF&E package to participate in the rental program or rental pool scheme. The brand reserves the right to decide how many units may be placed in the rental program/rental pool according to market demand and to avoid cannibalizing the adjoining hotel.

Hotel brands manage the units participating in the rental program/rental pool and commercialize them along with the hotel rooms in the system. The branded residence rooms revenues flow within the hotel P&L, however the revenues are also accounted for separately for each unit. All F&B and other revenues generated by the branded residence occupiers flow into the hotel P&L.



Fairmont Marrakech Palm Residence

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## Standalone branded residences



### New Trend in Standalone Branded Residences

Standalone branded residences have become increasingly popular over the years. Living in a hotel environment affords residents a lavish lifestyle, often in one-of-a-kind locations, with exclusive access to on-site restaurants, spas, golf courses, private cinemas, and more.

Licensing their brands to standalone residences allows hotel brand companies to tap into a new world of partners and real estate developers/investors whose business model does not include hospitality. At the same time, real estate developers/investors can enjoy price premiums and higher velocity of sales with a brand partnership. It also serves as a product differentiation in markets saturated with condominiums and high-end residential projects.

Standalone branded residences generally require the development of ample leisure amenities such as a gym, spa, lounge areas, libraries, and pet facilities. While standalone projects provide residents with more privacy than mixed-use developments with a hotel and residential component, standalone projects do require some additional thought from an operational and design planning perspective to maximize the revenue generating opportunities of the project's spaces. In order for brand standards to be met, developers/investors must hire professionals that can deliver the level of service hotel employees are accustomed to providing. As such, standalone projects are often signed with a brand with an existing presence in the market the development is planned for, allowing for synergies and support.

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## Key fees involved

There are several fees affiliated with developing a branded residential project. Below is a summary of the primary fees developers/investors should take into consideration.

### Residential Marketing License Fee

The license fee is charged by the brands for the benefit of branding the residences and marketing the sales of the residences under their brand. The fees can vary significantly depending on distinct factors and can range from 1% to 4% of the sales price for a consumer brand and 2% to 6% for a luxury hotel brand. In general, larger projects can translate into lower license fees. In certain circumstances, brands are willing to lower fees to establish flagship properties in prime locations.

### Brand Commitment Fee

The commitment fee is generally a flat fee payable to the brand upon signing of definitive agreements. It is sometimes considered an advance license fee payment and therefore credited against initial license fees.

### Technical Service Fee

The technical service fee is for the brand to review the drawings and interior design of the units as well as provide guidance throughout the development phase. Brands typically command a flat consulting fee for these services, which generally is paid upon completion of development milestones.

### Homeowners Association (HOA) Management Fee

In locations where the brand manages the HOA, the HOA will pay the brand a fee to manage the residences. This fee will form part of the annual association budget and will be included in the service charge paid by individual owners. Generally, brands command a flat fee or a percentage (10% -15%) of the annual association budget.



Fee	Range*
Residential Marketing License Fee	1-6% of Unit Sales Price
Brand Commitment Fee (typically credited against due License Fee)	USD \$200,000 - \$250,000
Technical Services Fee	USD \$150,000 - \$250,000
HOA Management Fee	USD \$1,000 - \$2,000 per Unit OR 10-15% of HOA

\*Ranges of fees based off JLL experience

## Other commercial considerations



### Development phase

To ensure that the project reaches completion and that purchasers are satisfied with their branded units, the brand will include a number of provisions during the development phase. This includes financing requirements to ensure the project is funded and can reach completion even if sales velocities are below expectations. This can also include a reserve fund and warranties requirements to ensure that construction defects are appropriately corrected and the purchasers are satisfied. Ultimately, these requirements are set to minimize any potential reputational and image damage for the brand. This also ensures that the brand carries an outstanding reputation across all developments worldwide, which drives purchaser confidence and price premiums.



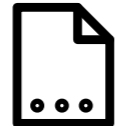
### Owner split

For branded residential units participating in rental programs/rental pools, the unit owners typically receive between 40%-60% of Net Revenue (less 3%-5% of Gross Revenue for FF&E reserves) that's generated from hotel night stays at the branded residential units.



### Brand exclusivity

Developers/investors and brands can agree to brand exclusivity for the marketing of residential products within a market. This exclusivity is generally either limited in time or expires once a satisfying level of sales has been reached.



### Term of Residential Marketing License Agreement (RMLA)

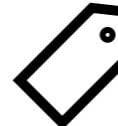
The term of RMLAs are set-up to be the earlier of:

- 1) the sale closing of all the branded residences and
- 2) a set number of years (usually between 5-7 years).



### Bulk Buy restrictions

Brands will generally restrict the number of units an individual owner can purchase. This is to avoid one owner gathering significant decision power within the HOA and allow the brand to only deal with either the developer/investor or the HOA (if the developer/investor has fully exited the project).



### Unsold residences

Upon expiration of the RMLA, the brand and developer/investor can agree to a solution for unsold branded residences. In the case of residences collocated with a hotel, furnished and unsold units will either be placed in the hotel inventory or leased separately, generating either a management or a leasing fee for the brand.



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## Developer/Investor considerations



### Pre-design

#### Positioning

Early thought should be given to the target market and positioning of the residences (i.e. lifestyle, luxury, etc.) and the product mix and unit layout. It is important to engage with brands early in the process to allow for design changes.

#### Market Study

Brands may require the developer/investor to provide a market study showing competing schemes, residential sales pricing and other benchmarking after signing heads of terms. Such market studies are typically required for emerging markets and brands may not require these for sites in more established locations.

#### Pricing & Impact on HOA Fees

Input from the residential sales agent should be taken at the earliest stage and a likely increase in the HOA fees versus an unbranded scheme should be considered.



### Design

#### Back-of-house Provision & Guest Amenity

The brands may have different back of house and guest amenity requirements than a non-branded development. The configuration of these areas may need to be amended from brand to brand to accommodate considerations such as the provision of staff areas, food preparation areas, allowance for goods delivery, enhanced security, etc. This should be given consideration at an early stage by the developer/investor at the product positioning and design phase.



### Contract Terms

#### Construction Defects

The brand will require the developer/investor to provide a program for managing and reducing risks of claims for design or construction defects in the residences. This can be approached through the brand requiring that a percentage amount of each sale shall be held in reserve for a period to cover construction defects liability. This should be considered in conjunction with the requirements of debt providers for the project.

#### Short-Term Letting Restrictions

Brands are likely to seek protection against short term lettings at the residences through platforms such as Airbnb.

#### Sales & Marketing Material

Brands will require approval rights to the developers/investors sales and marketing material as they will be using the brand's brand equity.





Domaine Fairmont Royal Palm Marrakech Residence

## Conclusion

Branded residences are gaining traction as an essential component to consider for mixed-use developments. While the interest in branded residences started off only among hotel brands and as a development adjacent to or as part of a hotel development, we are seeing consumer brands entering the space and developers/investors considering standalone branded residential developments due to the financial benefits delivered to all relevant stakeholders.

With the significant increase in interest rates and construction costs due to global economic uncertainty caused by the pandemic and geo-political tensions, branded residences have driven appealing returns for developers/investors' mixed-use developments due to the premium and upfront sales proceeds from branded residential units.

As developers/investors gain concern of the feasibility of traditional hotel projects and steer their interest towards branded residential projects, the hotel brands have been able to drive their fees and pipeline while the interest in traditional hotel developments remain tepid during these times of global economic uncertainty.

Given the recent trends we have seen across the industry, we expect branded residences to become increasingly an integral business model across all parts of the world. While hotel brands have already established a strong presence of branded residences in specific markets such as the Americas and Asia, we expect significant growth in the coming years in markets such as Europe, the Middle East and Africa.

At JLL, we have a team of global professionals that specialize in branded residential developments with numerous years of experience working with all of the aforementioned brands. We are available to assist and address any questions or inquiries related to branded residential developments.

# Get in Touch

For any questions or inquiries related to branded residential developments, please reach out to the following regional teams

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