

Service with an edge

With everyone looking to cut costs, serviced apartments can provide a cheaper alternative to ritzy hotel rooms.
Report: Jeanne-Vida Douglas

● As falling occupancy rates in hotels force hoteliers to increase room rates, three and four-star serviced apartments continue to do well, picking up business travellers and holiday makers looking to shift down the value chain.

With a just over 70 furnished serviced apartments on the outskirts of Melbourne's central business district, the managing director of City Edge Serviced Apartments, Peter Cushen, is expecting strong growth this year.

"We're very confident for the first half of the calendar year, and we've already got strong bookings stretching out to about May," Cushen says, his outlook buoyed not only by strong demand but also by opportunities emerging from falling real estate prices.

"A year back, nobody wanted to talk to us. We weren't a big enough customer, we were looking for long-term leases and there were too many investors in the market. Now we're being approached by developers with long-term lease arrangements which suit our business perfectly."

Research from the Australian Bureau of Statistics in late 2008 shows the first downturn in hotel and serviced apartment occupancy rates since the 2004 bird-flu scare. However, strong forward bookings for serviced apartment operators suggest hotels are accounting for the bulk of the slump.

The national director of Meriton Serviced Apartments, Matthew Thomas, saw his division's gross room sales increase by more than 20 per cent throughout 2008 as businesses began substituting the larger and less expensive serviced rooms for traditional hotel suites.

"We believe that serviced apartments offer better comfort and more value for money than traditional hotels so, while the hotels may be all doom and gloom, the serviced apartment sector has a superior product that is in demand and in line with consumer needs," Thomas says.

"The weaker Australian dollar currently means that our international guests have a financial incentive to travel and enjoy our great country and accommodation, also domestically, leisure guests may opt for an internal holiday to a major city or a coastal getaway as opposed to an overseas holiday."

The managing director of Toga Group, Allan Vidor, expects demand for city-based serviced apartments to remain strong throughout this

Forward march:
Business traveller on the move in Melbourne and, below, Punt Hill, North Sydney hotel, Artarmon



year, although he expects occupancy rates in holiday spots to soften.

"Leisure destinations will experience some softening in demand, as will marginal areas based on specific industries like mining," Vidor says. "But so long as the corporate sector continues to rely on interstate travel, serviced apartments will continue to be in demand and even benefit as corporate customers move more towards more cost-effective travel."

With a shortage of hotel rooms in many capital cities, successful serviced apartment operators are even looking at expanding

throughout the year. The director and general manager of Melbourne's Punthill Apartment Hotels, Robin Caras, expects to open three new properties in 2009, bringing 70 apartments into the Punthill portfolio.

"There are specific industries which are being effected by the downturn, like mining and finance, but there's still strong demand coming from engineering, and Melbourne is shielded to a certain extent because we have huge peaks of demand around major sporting events," Caras says.

"We're not reducing rents or putting off staff, our staff are the core of our business and they are crucial to our success, although we are watching our costs and we are making sure we are not wasting a cent."

Most serviced apartments groups also draw their stock from diverse sources, owning apartments directly, holding others on long-term leases and serving as brokers for apartments owned by third parties.

It is an approach that enables serviced apartment operators to spread their risk and keep costs low, a partner at Sydney's Furnished Properties, James Parsons, says. **BRW**