
EMERGING DESTINATIONS FOR SERVICE APARTMENT IN INDIA

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Abstract: Serviced apartments, mainly in the form of Extended Stay Hotels, are now proliferating in countries such as Australia, Singapore, Thailand, South Africa, Germany, Brazil, Dubai, France and India, all places where there is room for substantial future growth. In the USA, which currently accounts for 77% of world stocks, the extended stay product is the fastest growing and a highly profitable sector of the US lodging industry. The top serviced apartment brands are operated mainly by mainstream hotel chains that looked to lower their operating costs and to reduce their staff/guest ratios. To add to this mix, over the last thirty years, the worldwide trend of companies going - and growing - globally has lead to greater staff mobility resulting in the requirement for them to stay away for longer on business trips or on temporary assignments. Expatriate populations have grown strongly too as well due to growth in corporate relocations.

India is emerging into a huge travel destination and serviced apartments, though still in the nascent stage, are gradually evolving into the ideal choice for both corporate and leisure travelers. With the increasing number of MNCs and IT companies and a growing number of expat professionals, the serviced residences industry is all set to grow at a phenomenal rate over the next 4-5 years. This paper details the current profile of the serviced apartment sector in India by considering the factors influencing the potential supply of units and the future drivers of demand.

Keywords: Service Apartments, potential supply, future demand, opportunities.

Introduction: The term 'serviced apartment' is traditionally used to describe an apartment alternative to hotel accommodation for long stay leisure or business travellers. A serviced apartment is often a fully furnished accommodation which is available for short-term or long-term stays. These apartments come with basic amenities for daily use, which include a kitchen with cooking range, kettle, microwave, a washing machine etc. The guest can also go for a complimentary breakfast, laundry etc. Recently there have been few alternatives to hotels for business or leisure travellers seeking longer-term accommodation in India. While serviced apartments are well established in the USA and the Far East, the Indian sector is in an embryonic stage. The current supply is dominated by higher-end accommodation, with Corporates providing the core area of demand. However experience in other countries suggests

that the scale and profile of the market may be considerably broader.

Service apartment can be described as 'a home away from home that offers end users with a cost-effective, convenient and comfortable accommodation.' It provides the opportunity to enjoy five-star luxury at almost three-star prices. With India embracing globalization over the last decade and the subsequent huge influx of MNCs, top executives, business travelers, skilled professionals, expats and leisure travellers into the country, service Apartments are the latest trend that's taking the domestic Hospitality industry by storm in recent times. Ideally suited for medium-to-long staying guests, these Apartments are thus a natural choice for corporate employees or expats relocating to a particular city, who want to combine the privacy and comfort of their home with the services and amenities provided by a top-class hotel.

A recent Knight Frank report defines 'service Apartments' as those 'offering more personalized services in tune with the requirements of the occupant. But by and large all service Apartments will be furnished with furniture, soft furnishings, linen, cutlery, crockery, kitchen utensils and gadgets to cater to the everyday needs of the user. This would also include TV, air conditioning, telephones and maybe an internet connection. Housekeeping facility and in some cases, a concierge service, are also provided.' The benefits that service Apartments offer are basically a 'home away from a home'. Hotels have a formal atmosphere and are a bit stifling for a prolonged stay. Added to this, couples with children would prefer a more homely and less formal atmosphere during extended stays. The biggest advantage in service Apartments is that self cooking facilities exist coupled with the facility to order for food.

The concept of serviced apartments was started in the US and was adapted in India by the early 2000s, as more and more expatriates started to live in India for a medium-term period. The concept was easy to handle as India has a legacy of high-quality services and excellent hospitality. Most obviously, the concept was implemented first in locations like Delhi, Mumbai, Bangalore and Chennai.

The market segmentation for the same is almost entirely corporate, who engage serviced apartments for their managerial staff and long-stay expatriates. Key demand drivers for service apartments are IT/ITeS, biotechnology, services sector, BFSI and medical tourism. Even while the concept of serviced apartments is well understood, the actual number of serviced apartments is fewer than the actual market potential in India.

Review of literature:

- Accommodation is an important aspect of a destination's offering (Henning and Willemse, 1999) and plays an important role in the destination experience. Lodging

options for a tourist range from traditional hotels to alternative accommodations. The increasing role of alternative accommodation providers was predicted by Reynolds and Emenheiser (1996). Changing preferences of customers (Dawson and Brown, 1998), increase in competition, fragmented market, and growth in communication technology (Novelli, 2005; Scarinci and Richins, 2008) were the reasons cited for the growth of alternative accommodations.

- An understanding of the alternative accommodation and classification of the same has been provided by researchers (Foxley, 2001; Canwell and Sutherland, 2003; Professional Association of Inn keepers International (PAII), 2009). There are three types of Alternative Accommodation: Service Apartments, Guest houses and Commercial homes. Commercial homes have been further classified into Home Stay, Bed and Breakfast Inn, Bed and Breakfast Cottages, Bed and Breakfast Hotels and Country Inn. Service Apartments are self contained units with additional services and aim at providing short term stay (Foxley, 2001).
- Charles Mc Crow, CEO, The Apartment Service in his "New Horizons: The rise of the Serviced Apartment" has stated that Serviced apartments, mainly in the form of Extended Stay Hotels, are proliferating in countries such as Australia, Singapore, Thailand, South Africa, Germany, Brazil, Dubai, France and India, all places where there is room for substantial future growth.
- L.N. Fukey (2012) in his study titled "Occupancy improvement in Serviced Apartments: Customer Profiling" has studied on sustaining and improving higher occupancy and generating steady revenue by bringing the experience of 'Home away from Home'. The research suggests that the Serviced apartment should practice Customer Profiling which results in improving

occupancy levels in order to survive among the competitors.

Need for the study: As India's economy expands, the demand for serviced apartments will increase along with the floating population. These apartments can also become a preferred choice for those seeking a luxurious lifestyle. With demand rising, more developers will start offering facility management services, either directly or in collaboration with hospitality firms. The concept will grow as India becomes more global and offers career opportunities on a par with the developed world. There are not much studies found with regard to this sector. This study on emerging destinations for Service apartment in India concentrates on the growth of service apartments in key cities of India and their future demands.

Significance of the study: International travel is on the up, and many of the world's major cities are investing in infrastructure projects. The Demand for serviced Apartments is outstripping supply in many countries, especially in India the growth in awareness and understanding of the serviced apartment model is still a long way to go before the sector is fully embraced by business users. In India there are more than 295 new hotels planned and 2,900 up-market hotels operating at average of 61% occupancy. (Source: www.tophotelprojects.com). The tourism sector in India also experiences continued growth. The 1,000 existing first class and luxury hotels will be supplemented by 295 new properties and 48,000 hotel rooms. With a booming economy and IT and ITeS sectors being in demand, a growing number of expat professionals are looking to oversee business operations in India. And this is exactly the fraternity that is pushing the growing demand for service apartments in India. There is a good demand for well-run serviced apartments in India, particularly in the six major metros in India which can easily absorb the current supply of service apartments. This study emphasize on

the cities which are performing well in this sector. The areas which can be utilized and concentrated more for the growth of this sector are also discussed.

Objectives:

- To study the alternative accomodation industry in India
- To understand the Growth Potential of Service Apartments
- To highlight the developments and Challenges of Service Apartment Business
- To elicit the various factors which influence the growth of Service Apartments

Research methodology: This is a descriptive study based on secondary data collected from Global Service Apartment report which has been compiled from primary and secondary sources. The primary source includes survey and TIN (Travel Intelligence Network) amongst service apartment operators worldwide. The other sources used in this paper are articles, journals and Interviews of commentators around the world together with other research.

Limitations of the study:

- Dearth of studies in the area Service Apartments
- Only the metro cities are concentrated
- The study is limited only to India

Analysis and interpretation of Findings:

Cost Factor: The data used for this study reveals a huge variance in average rates between regions and also in length of stay. For example a studio apartment in Africa in 2013 costs between US\$71 - 306 for stays of less than one week, rising, compared to the Middle East where the same stay costs between US\$82 - 545. Australasia emerges as the most expensive regional in which to stay in a serviced apartment, with the studio apartment starting at US\$114 a night. However at the upper end of the pricing scale a studio apartment in the Middle East can cost up to US\$545, where as in India it is US\$ 46 - 88. This shows that the rates are affordable in India when compared to the other regions.

Demand for Service apartments:

Table 1: No. of Organizations in each sector (key metro cities)					
S.No.	Cities	Sectors			No. of Hotels
		No. of IT/ITES	No. of Educational Institutions	No. of Hospitals - Medical Tourism	
1	Bangalore	1245	885	32	412
2	Chennai	4021	303	29	212
3	Delhi	12630	264	39	861
4	Mumbai	10381	654	43	245

(Source: Based on compilation from various websites)

Despite the ongoing expansion of the Indian economy, increasing number of multinationals coming into India, medical tourists, education purpose and a surge of single woman travellers, serviced apartment are currently available only in few Indian cities. The major metros in India can easily absorb anywhere between 300-600 apartment units at the moment. Interestingly, in these metros, 12-18 per cent of the hotel business is extended stay. The sectors generating this demand are IT, ITes, Education sector, BPO, KPO, bio-technology, Medical Tourism. This demand is expected to rise with the projected growth path of the Indian economy, further penetration in other aspects of the services sector, setup of operations across secondary and tertiary cities and fast increasing domestic leisure travel, where people/families prefer to rent apartments rather than stay at hotels. Health tourists from the US, Europe, the

Middle East or Africa, who come for a medical procedure lasting a month or two, are often accompanied by family members. In some cases, the tourist has to stay back for a few more weeks after the operation for recuperation. For these people, a serviced apartment offers an ideal alternative to an expensive hotel.

The Indian market in this sector is emerging where there are more than 295 newhotels planned and 2,900 up-markethotels operating at average 61% occupancy. The 1,000existing first class and luxury hotels will be supplemented by 295 new propertiesand 48,000 hotel rooms. The number of Hotels in the key metro cities will not be able to accommodate the people in number of projected organization in each sector. There is a huge scope for the service apartmentindustry to make business by accommodating the projected group.

Table 2: Expected Growth rate of Sectors by 2015		
S.No	Sectors	Growth rate
1	IT/ITes	13% - 15%
2	Education	10% - 15%
3	Medical Tourism	30%

(Source: Nasscom, OIFC, Ministry of Tourism)

The above data gives a clear picture on the future market of the service apartment industry in India. The projected growth rate of each sector is expected to grow and hence, this would bring in business for service apartment sector as

they are the sectors which utilize this kind of accommodation. When compared to other sectors, Medical Tourism in India has huge potential for growth of Service apartment business.

Table 2: Average Stay for different sectors

S.No	Sectors	Average Stay
1	IT/ITes	6 –36 months
2	Education	24 – 60 months
3	Medical Tourism	Based on the treatment

(Source: Based on compilation from various websites)

The sectors which utilizes Service apartment are mostly working people, Students, Medical Tourists. The stay of these sectors in a service apartment will not be less than 6 months. When it comes to medical tourists, the length of their stay cannot be determined. It is always based on the treatment they undergo and their recovering speed. These groups will always look for affordability and comfort in their stay. Unlike Singapore, where a minimum seven-day requirement is mandatory for a product to be classified as a serviced apartment, the rule of length of stay is non-existent in India, and it is possible to stay in many serviced apartments on a daily basis.

Future Challenges and Opportunities:

- The supply of branded serviced apartments is very scanty when compared to the Demand from various sectors.
- Technological advances in booking capability, access to new segments and increasing capabilities to meet guest expectations are driving the industry into more sophisticated and advanced areas.
- while innovation and adaptability are critical, the established success criteria remains constant for operators and providers to deliver the right product, in the right place, for the right price at the right time and

deliver it in an efficient, friendly and welcoming manner.

- Since current trends indicate that increasing residential values will decrease the serviced apartments in size, making spaciousness and design will become a challenge.
- The existing properties of individuals can be converted into Serviced apartments by providing expected services by the guest as each sector requires customized service.
- Equally, the growth of long term rentals and planning restrictions will also continue to limit the developments.

Conclusion: Serviced apartments are starting to open in secondary cities like Gurgaon and Noida in the National Capital Region (NCR) due to availability of large land parcels and the active demand from multinationals, some of which have relocated their corporate base outside New Delhi. Along with Gurgaon and Noida, Bangalore and Hyderabad have surfaced as major markets for serviced apartments; these cities have also seen a few independent, unbranded serviced apartment players active. Serviced apartments usually have better occupancy rates and there is 10-12 per cent difference in the bottom line, compared to hotels. The nature of operations and design are totally different. The cost of operations is also

low when compared to hotels.

The market segmentation for this sector is almost entirely Corporates, who utilize serviced apartments for their managerial staff and long-stay expatriates. Key demand drivers for serviced apartments are IT/ITeS, biotechnology, services sector, BFSI and Medical tourism. Even while the concept of serviced apartments is well understood, the actual number of serviced apartments is fewer than the actual market potential in India. The range of amenities, innovative facilities and personalized services give guests the opportunity to enjoy city living while relaxing in a private residence.

Banks and MNCs prefer residences in suburban hotels, where the rates are lower and the

location is closer to the newly-sprung business districts and commercial centers. Leading hotel chains such as Hotel Leela Venture, Grand Hyatt and Marriott International, run several serviced apartments in the country. Ascott, which claims to be the world's largest serviced residence owner-operator, has been expanding in Mumbai, Delhi and Pune, to cash in on the opportunity offered by the demand-supply gap. Operators of serviced apartments say that the industry in India is yet to achieve the levels of the European market, which has been aggressively marketing the concept of serviced apartments. Barring a few players, the industry in India is yet to evolve to those standards.

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