

# **SERVICED APARTMENT**

## **1. INTRODUCTION:**

The hospitality industry, in contemporary times, offers a wide range of products – luxury hotels, budget hotels, mid-market hotels, boutique hotels. They cater to varied needs – business, relaxation and leisure (resort), MICE (meetings, incentives, conventions, exhibitions) social events (banquet). Depending on the felt needs of customers, the industry innovates new products.

In recent times, there have emerged streams of customers whose needs are not fulfilled by conventional hotels. They need to stay at a destination for long time, a few weeks or even months. Given the duration of stay, they are likely to feel cramped. They become, because of stay-length, dissatisfied with restaurant/hotel food and crave for homely food. Sometimes, they wish to invite colleagues/friends over to hold a small party and hence need space. Then, there are families, which find it inconvenient to accommodate children in a hotel-room, who make demands in terms of food and recreation which cannot be met through the format of a conventional hotel. It is in response to needs of long-stay customers, families and such other groups that the concept of providing apartment space, backed by many of the facilities which the hotels provide, has grown in recent years. The facility is called “serviced apartment.”

## **2. PROJECT PROPOSAL**

The proposal means either acquiring some ready apartments or commissioning construction of these through a residential project under construction, furnishing these and operating a serviced apartment facility. Alternatively, the promoter can rent out the apartments, furnish these and operate the facility. We propose a facility on rental basis model.

The apartment will have the following facility.

- ✓ A single Bedroom
- ✓ Small lounge or living room
- ✓ Kitchenette
- ✓ One bathroom
- ✓ Hot water facility
- ✓ Air-conditioning
- ✓ Cable television

- ✓ Internet connection
- ✓ Cutlery and crockery
- ✓ Gas/electric stove
- ✓ Fridge
- ✓ Microwave oven
- ✓ Tea/coffee maker
- ✓ Painting/artwork
- ✓ Meeting rooms/gym (outside the individual apartment but in the building)
- ✓ Security/surveillance

The operator will look after housekeeping – cleaning, mopping, change of linen, supply of towels and toiletries. The food and beverage will be supplied on demand during regular hours. The operator would outsource food supply, which means he would depend on external supplier rather than run own kitchen.

Depending on the nature of the market, the operator may or may not stipulate minimum stay-length. If the market is entirely long-stay, a stay less than a week may not be permitted. However, if a significant part of the market is families, there may not be restriction in terms of minimum stay.

The operator will set up rules in order to ensure that the facility is not used for unlawful or undesirable activity and the occupants do not cause inconvenience to others in the building.

### **3. DESIRABLE PROMOTER BACKGROUND**

The required promoter competencies are locating and tying up well-located apartment facility, furnishing it, marketing and operating it. On the whole, the promoter needs marketing (web-based) and facility-operation competency. The promoter should have a hands-on approach; which means devoting sufficient time and solving problems.

### **4. INDUSTRY OUTLOOK AND TREND**

There are 8.28 lac serviced apartment units in the world now. In recent 18 months (2016-17), the industry grew @10.5%. America dominates, its shares being almost 5 lac apartment units.

The growth in business travel, travel for project/assignment work and relocation of employees impact the service apartment market favourably. In addition,

increasing aspirations and declining airfares have contributed to leisure/holiday market expansion and in the process spurred demand for serviced apartments. The aggregators offer a choice of serviced apartments at a given location, thus facilitating market-expansion. There are however, issues of recognized brand, inconsistent service, shortage of apartments at some locations and not-so-friendly booking process. However, facility-operators, those who manage several apartments across locations, and offer an identical brand and standard, have entered the service apartment business. Now, 15 global operators manage over five lac apartments.

In India, the leisure/holiday market is characterized by some features, particularly in the upper-end segment. The holidayers crave for luxury/opulence experience, resort ambience, lavish food-spreads, group-activity. This is likely to restrict the demand for serviced apartments. On the other hand, business travelers are endeavouring to optimize cost and convenience. They increasingly prefer a set-up which caters to their customized needs-check in, food, amenities, living habits. Serviced apartments are equipped to cater to such customized needs. On the whole, we expect moderate growth in demand.

## **5. MARKET POTENTIAL**

The key ingredients of serviced apartment proposition are:

- ✓ Larger space than hotel room
- ✓ Nearly hotel like facilities in terms of house-keeping and ambience

The market for serviced apartment in India is growing @15% to 20% per year. The development commenced on the strength of IT/ITes business, which needed to deploy on-site professionals for a few weeks or months. The early hubs, therefore, were Bangalore, Pune, Hyderabad, Gurgaon.

In addition to IT/ITes, the following five streams of demand are driving the serviced apartment market.

There are areas where industrial projects and/or new corporate offices are coming up and the executives/vendors need to stay, in spells, for considerable length of time. The growth of facility in such cities as Ahmedabad and Manesar has been driven by such traffic.

There are families/couples/single tourists who wish to spend long period (week or longer) at such leisure destinations at Goa and Kochi and demand decent, home-like facility rather than a hotel.

Next, there are medical tourists, who spend a few days or weeks in a hospital; are accompanied by relatives who would like to stay in a serviced apartment.

Many cities, e.g., Jaipur now attract “event” business, e.g., fashion-pageants, sports meet, cultural meets literary fest. Those responsible for organizing such events have to stay in the city on an extended basis.

There are also such groups as Arabs (Mumbai, Kerala, Goa) and non-resident Indians (Gujarat, Andhra Pradesh, Punjab) who make periodic and extended trips to home-towns and are interested in utilizing serviced apartment facility.

There are real estate developers, e.g., Radha Krishan Hospitality (1000 apartments) and Nitesh Estates who have entered serviced apartment business.

On the other hand, there is Oakwood, which have made serviced apartment as mainline or core business and operate large facilities in Bangalore, Pune and other cities.

The hotel groups have also entered serviced apartment business. Lower tariff than hotel for comparable space is a major selling point.

The nature of business, however, is such that a small entrepreneur can easily enter it. The facility promotion can be done in web/social media mode; it does not entail much expenditure. The customer-reviews, among other things, drive business volume. Many customers are repeat customers and so happy experience contributes to business build-up.

There is excellent scope for tie-up with corporates.

## **6. PROPOSED SIZE OF THE PROJECT**

We envisage the project to consist of five apartments, each apartment will admeasure approximately 750 sq. ft. of built up area. It will consist of one bed

room, lounge and kitchenette. However, one of the five apartments will be remodeled to work as a common facility. It will be a common facility for guests as well as the operator.

- ❖ Two meeting rooms
- ❖ A treadmill
- ❖ A massage chair
- ❖ Washing machine (mini laundry)
- ❖ A snack / beverage bar (ready, no cooking)
- ❖ Storage for housekeeping equipment and supplies and desk for the attendant

The facility will be in a position to take maximum 4 guest-units at a point in time. The maximum allowable occupancy will be two adults and two children or three adults per apartment.

## **7. MANUFACTURING PROCESS**

This is a service sector project and hence the following is pertinent.

### **TECHNICAL REQUIREMENT**

The facility needs a reliable supply of basic amenities – water supply, electricity. The apartments, however, will be a part of larger building. Thus, the facility will depend on the building management for security/surveillance, elevator, common area lighting and garbage disposal. At the apartment level, it is a water-heating, stove, air conditioning, fridge, television/cable TV and internet which are crucial. The combination of high-grade quality of equipment and dependable arrangement for repair and maintenance will meet the requirement.

### **OPERATIONAL REQUIREMENT**

We have already discussed this above. The guests would expect all equipments to function efficiently and reliable housekeeping. They will have access to the common facilities maintained by the building, e.g., children play area.

## **8. MANPOWER REQUIREMENT**

The owner will manage the business from home; it does not justify establishing an office. He will spend some time every day in the common facility apartment, meeting interested guests, solving problems. In addition, he will supervise the overall operation of serviced apartments in a discreet way. A pair of

housekeepers will carry out the job during a fixed time-slot, say, 9 am to 12 am. There will be just one employee round the clock to attend to complaints, emergencies and to keep a discreet watch in order to ensure that the property is not misused. The promoter will undertake marketing, promotion, purchase, supervision and accounting tasks on his own.

## 9. COST OF THE PROJECT

This is estimated below (Rs. in lacs)

1. Three month rent deposit for a set of five apartments; including property tax and building maintenance charge	3.0 0
2. Hard-furniture and furnishing	15.00
3. Bathroom fittings/fixtures	2.00
4. Airconditioning/waterheating/TV/iron/cutlery/crockery/stove/fridge/oven/room heater, etc.	8.00
5. Furniture, treadmill, washing machine, massage chair, shoe-polish machine and housekeeping equipment for the common apartment	3.00
Preliminary and pre-operative expenses @10% of 1 to 5	3.10
Working Capital Margin	0.90
<b>Total</b>	<b>35.00</b>

The preliminary and pre-operative expenses are substantially on account of interest on loan during project establishment period. The working capital margin is ascribable mainly to expenditure on utilities and staff.

## 10. WORKING CAPITAL REQUIREMENT

This is estimated at Rs. 0.90 lacs and we do not envisage working capital loan.

## 11. MEANS OF FINANCE

The promoter is not to own the apartment. The project cost is on account of furniture and equipment; which is significantly portable. In view of this, we assume a debt equip ratio of 1:1. Thus, the promoter contribution will be Rs.17.50 lacs. The loan will carry interest @ 11% per annum and will be repaid in five years after a moratorium period of six months.

## MACHINERIES & ILLUSTRATIVE LIST OF SUPLIERS

This is not relevant. It will need some housekeeping and minimal kitchen equipment.

## 12. PROFITABILITY

We expect three streams of income.

- ✓ First, apartment tariff
- ✓ Secondly, commission on food and beverage (10%) which the guests order from tied-up sources
- ✓ Thirdly, meeting room tariff

❖ Number of maximum apartments available for occupancy: 4  
The assumptions are as follows:

### **Estimated Performance in Second Year**

- ❖ Apartment occupancy: 60%
  - Apartment Tariff: Rs.4000 per day
- ❖ Daily Order of food and beverage from tied-up sources @ Rs.1000 per occupied apartment.
  - Available Meeting Rooms: 2
  - Actual Occupancy 50%
  - Meeting Room Tariff: Rs.2000

Thus, the annual operating income will be as follows during the second year.  
**(Rs.in lacs)**

Apartment Tariff	35.04
Commission on F&B Meeting Room	00.88
	7.30
<b>Total</b>	<b>43.22</b>
Rent	12.00
Repair and Maintenance of Apartments	2.00
Equipment upkeep	2.00
Utilities	5.00
Housekeeping and other staff	5.00
Laundry/housekeeping	2.00
Toiletry/tea-coffee supplies	
Admin/Marketing	2.00
Operating Expenditure	30.00

### **Profitability over Five Years (Rs. in lacs)**

Sr. No.	Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
1.	Total annual income before expenses , term loan interest and depreciation	38.90	43.22	45.38	47.65	50.03
2.	Total annual expense	30.00	30.00	30.60	31.21	31.84
3.	Income less all expenses except interest and depreciation	8.90	13.22	14.78	16.44	18.19
4.	Term loan interest	1.83	1.54	1.16	0.77	0.39
5.	Income less all expenses except depreciation	5.12	5.12	5.12	5.12	5.12
6.	Depreciation	1.95	6.56	8.50	10.55	12.68
7.	Profit before tax	0.59	1.97	2.55	3.17	3.80
8.	Tax (30%)	1.36	4.59	5.95	7.38	8.88

We have assumed operating income growth @5% per annum, beginning third year and operating expense hike @2% per annum from third year onward. The operating income during the first year will be 10% lower than second year but operating expense will be identical.

The unit cost of power is taken at Rs. 6. The depreciation is taken at the rate of 15%.

### **13. IMPLEMENTATION SCHEDULE**

Once the apartments are acquired, the facility will become operational in four months.

- ❖ Interior design and plan
- ❖ Execution of interior plan
- ❖ Hiring of manpower
- ❖ Pre-opening promotion
- ❖ Trial Run
- ❖ Opening

### **15. BACKWARD AND FORWARD LINKAGES**

The project can take up housekeeping management for offices and institutions on one hand and management of corporate guest houses on the other hand.

### **16. STATUTORY / GOVERNMENT APPROVALS / CLEARANCE**

The project needs to carry out general formalities pertaining to firm establishment, tax registration and shops/establishment registration. The fire safety clearance is the specific requirement. Entrepreneur may contact State Pollution Control Board where ever it is applicable.

### **17. TRAINING / COURSES**

Udyamimitra portal ( link : [www.udyamimitra.in](http://www.udyamimitra.in) ) can also be accessed for handholding services viz. application filling / project report preparation, EDP, financial Training, Skill Development, mentoring etc.

Entrepreneurship program helps to run business successfully is also available from Institutes like Entrepreneurship Development Institute of India (EDII) and its affiliates all over India.



Source:- Udyami Mitra/Sidbi