

**AN ASSESSMENT OF THE GROWTH AND THE PERFORMANCE OF  
SERVICED APARTMENTS IN KENYA  
A CASE STUDY OF KILIMANI AREA**

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award of the Degree of Masters of Arts in Valuation and Property Management  
Department of Real Estate and Construction Management  
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## DECLARATION

### Candidate's Declaration:

I, **Kinyagu John Kinuthia**, hereby declare that this project is my original work and has not been presented in this or any other University for award of a degree.

**Signature**.....

**Date**.....

**Kinyagu John Kinuthia**

### Supervisor's Declaration

This project has been submitted for examination with my approval as the University Supervisor.

**Signature**.....

**Date**.....

**Dr. Winnie Mwangi**

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*Thank you all!*

*God bless you all.*

## **DEDICATION**

This research project is dedicated to my loving God for his guidance throughout my life. To my mum and late dad I will never get anything adequate to repay you. To my loving wife, Jane Muthoni, you came at the most opportune time and will always treasure you. Special dedication is to my priceless daughter, Shirleen Njoki. May the almighty God favour you in all ways.

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## **ABBREVIATIONS AND ACRONYMS**

ADR.....Average Daily Rate

BOP.....Balance of Payment

CBD.....Central Business District

EBITDA.....Earnings Before Interest Tax Depreciation and Amortization

E&Y .....Ernst & Young

GDP.....Gross Domestic Product

ICT.....Information Communication Technology

IT.....Information Technology

JKIA.....Jomo Kenyatta International Airport

KNBS.....Kenya National Bureau of Statistics

MTP.....Medium Term Plan

NGO.....Non-Governmental Organization

RevPar.....Revenue Per Available Room

VAT.....Value Added Tax

WTO.....World Trade Organization

## ABSTRACT

Serviced apartment is a contemporary accommodation product that has gained significant popularity in recent years. However, the rate of expansion globally varies from one place to the other and from time to time. The product is a hybrid of the residential apartment subsector and the hotel market. Serviced apartments have received limited research attention despite their growing growth. The study therefore sought to determine the growth and the performance of serviced apartments, key drivers, challenges and constraints of serviced apartments development in Kenya and recommend appropriate mechanisms of enhancing serviced apartments development in the country.

The researcher selected Kilimani as the study area. The study targeted the serviced apartments developers or property managers and in their absence the caretakers or any other developer's representatives were selected. The study also captured the guests' perceptions. In order to enable comparison of the serviced apartments returns with other investment options, performance information of the unfurnished apartments, furnished apartments, offices and hotels was also collected. A combination of primary and secondary data collection instruments were utilised during collecting of the necessary information. The data gathered from the field survey was thoroughly analyzed using qualitative and quantitative methods and then clearly presented in form of percentages, frequencies, figures, photographs, written texts, pie charts, bar graphs and tables.

The findings depict proliferation of serviced apartments in a highly fragmented subsector that is still evolving. The key demand drivers include individual business travellers; expatriates, diplomats and corporates; meetings and conference groups, returning residents and leisure travellers. Its growth is mainly linked to the expansion in extended stay global business travellers, increasing cost saving initiatives, globalization, increasing international conferences, changing employment structure, infrastructural development and economic growth. The main challenges and constraints to serviced apartment include competition, financial constraints, health and insecurity concerns, changing guests' requirements, poor infrastructure and lack of awareness about the product. To address these challenges and constraints, this study recommends intensifying marketing and awareness creation, enhancement of the ease of financing, resolution of the current security and health concerns, infrastructural development, response to the changing guests' requirements and enhancement of the ease of doing business in the country.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Serviced apartments are part of the relatively recent accommodation products in the hospitality industry that have attracted huge popularity in the recent past, thereby creating enormous competition to the conventional hotels. They have emerged as an appealing alternative to the standard hotel product especially to the corporate guests and personnel relocating temporarily or permanently (LaSalle, 2013). 62.9% of the 656,000 serviced apartment units in the world are in the US and Canada while 13% of current supply is located in Europe. Despite this current geographic imbalance, serviced apartments are gaining attraction globally as travellers continually seek accommodations that contain basic travel necessities while also offering a sense of personal space in a comfortable atmosphere (E&Y, 2014). This increased growth momentum has existed in the face of accelerating geopolitical instability, health and terrorism concerns.

Changing preferences of customers (Dawson and Brown, 1998), increase in competition, fragmented market and growth in communication technology (Novelli, 2005; Scarinci and Richins, 2008) are some of the reasons cited for the growth of alternative accommodations such as serviced apartment. By use of IT, the visibility and accessibility of alternative accommodation in remote areas and not in the mainstream are significantly enhanced.

Behind the growth lies gradually increased product knowledge and concept awareness, an understanding of the benefits serviced apartments can provide for corporates' employees, improved standards of apartments and the arrival of large chains into the sector. Demand for serviced apartments is outstripping supply in many territories, due in part to the above but also to more apartment operators taking short-stay business (i.e. less than a week) away from traditional hotels (GSAIR, 2013-2014).

Serviced apartments are a hybrid of the residential apartment subsector and the hotel market. Their aim is to fill the gap between a short hotel stay and longer-term rental accommodation. One of the keys to its success is the ability to generate a higher gross operating profit and net operating income than the average hotel. This is achieved through lower guest turnover

because the length of stay is longer than that of regular hotels and lower operational costs are achieved by providing fewer and less frequent services (E&Y, 2015).

The concept of serviced apartments is said to have originated in the USA to serve as an alternative for business and leisure travellers and subsequently expanded into Europe and Asia (Poon, 2005; Vanichvatana 2006a, b; Phadungyat, 2008). Despite still being a relatively unfamiliar concept to both investors and customers in Kenya, HVS (2015) notes that the outlook of serviced apartments in Nairobi is extremely exciting and with the continued growth of the city as a regional hub and the increasing investment by multinational companies comes demand. Serviced apartments in Nairobi are very popular in Kilimani, Westlands, Upperhill, Valley Arcade, Lavington, CBD, Kileleshwa and Gigiri. Moreover, compared to hotels, serviced apartments have not been greatly affected by the security concerns afflicting the country, indicating it's growing preference especially by business travellers and there is an immense likelihood of this continuing into the future.

Geieregger and Oehmichen (2008) points out that whilst a hotel and a serviced apartment share the same objective of selling rooms for a night, serviced apartment providers attempt to provide a home away from home, personalised service and larger living spaces. Most of the serviced apartments are located within high-rise apartment buildings and have a communal garden or park space. In addition, it is common for such apartments to have a patio or balcony with outdoor seating. Overall, the layout and size of the apartments tend to be larger and more functional than that of a typical hotel room, thus adding to the appeal of this type of lodging (Geieregger and Oehmichen, 2008). Although not common, certain amenities, such as found in traditional hotels, also may be available to guests (Henderson and Smith 2012). These could include concierge and valet services as well as recreational facilities such as a gymnasium and swimming pool (Greenberg and Rogerson, 2015).

To achieve continuous growth, serviced apartments have to consider a combination of financial and non-financial performance measurement. Brown (1996) further argues that measuring performance offers an effective method of determining whether or not an organization is meeting its goals and achieving its mission. Serviced apartments performance measurement appears to be a complicated task due to the complexity and the existence of multiple factors to consider. This study aims at providing an in-depth evaluation of the growth and the financial performance (occupancy, ADR, RevPar etc.) of serviced apartments

including the underlying challenges and the constraints. The study then makes appropriate recommendations on how serviced apartment subsector can be enhanced.

## **1.2 Problem statement**

Changing work practices and the increased globalisation of business are increasingly requiring that business professionals work away from home on a short to medium term basis. In addition greater international leisure travel, efficiency in air travel, globalisation of industries, visiting family members and a growing trend towards taking extended breaks between jobs, sabbaticals and working-holidays are also impacting on the demand for temporary accommodation. The serviced apartment subsector is an established facet of the market in the Far East and USA. The attraction of serviced apartments is that they offer the comfort and facilities of a hotel, with the privacy and facilities of home (Foxley, 2001).

The serviced apartments sector has expanded significantly over the last 30 years, although the expansion rate has varied from region to region, city to city, and from year to year. In 2011, The Global Serviced Apartments Industry Report put the number of extended stay apartment units globally at 599,187 in 8,362 locations, increasing inventory by 34% and locations served by 17.5% over 2010 levels. In 2013/14, the updated report estimated that there were 655,911 units in 8,802 locations, suggesting that supply has increased by 9.4%, however the picture in individual regions, or even destinations, inevitably varies (E&Y, 2015).

In Africa, the serviced apartment industry is relatively undeveloped, as the majority of the regions supply is represented by unbranded and low quality stock. Limited quality serviced apartments (those with a 2-star rating or above) are available across Africa. Some examples include Arabian Nights Villas & Apartments (Dar es Salaam, Tanzania), La Maison Royale (Nairobi, Kenya), and Bricks Point Boutique Apartments (Abuja, Nigeria). In early October 2015, Marriott International successfully opened Africa's first Marriott executive suites featuring 108 keys of 1 and 2 bedroom units in Addis Ababa, Ethiopia in partnership with Sunshine Business. The operator is planning to launch an additional 12 properties across the continent featuring a variety of its brands by 2020. This indicates the potential of the African market as international operators are considering the region as an important location for development. As African economies grow and develop, demand for long-stay accommodation is expected to rise, highlighting the opportunity for international operators to enter partnerships with local and regional developers, in an effort to cultivate and improve the quality of long-stay accommodation in Africa (Colliers International, 2015).

The Kenyan serviced apartments subsector just like in other countries in the continent is at an early stage of development but phenomenal development has recently been witnessed despite the huge security concerns afflicting the country. According to HVS (2015), serviced apartments will continue to grow in popularity as geographical and economic fundamentals are maintained and improved specialised management emerges. Furthermore, as macroeconomic and political factors improve overall demand for long term accommodation will further improve. Serviced apartments in Nairobi are prevalent in Westlands, Kilimani/Ngong Road and Upper Hill. Recently, other new areas such as Valley Arcade, Kileleshwa and Gigiri have also witnessed the emergence of serviced apartments. This study is aimed at providing an in-depth analysis of serviced apartments in Kilimani area so as to establish a model that can be applied in developing serviced apartments in Kenya and beyond.

As serviced apartments subsector evolve, challenges and constraints are inevitable. The Apartment Service (2014) notes that serviced apartments growth opportunities are frequently restricted due to the stiff competition from other residential developments and even hotels. It is also difficult for the serviced apartments developers to put up new projects since financiers have not yet fully realised the huge potential of serviced apartments and therefore are not willing to finance such projects. E&Y (2014) adds that poor transportation infrastructure, high cost of construction and lengthy processes (e.g. licenses and customs), have also historically restricted connectivity of certain areas such as sub-Saharan region. According to the KNBS (2015), external and internal shocks, specifically insecurity concerns, negative travel advisories by some key trade partners and the perceived health risks in Kenya due to the countries geopolitical location and connectivity with West Africa have also affected the Kenyan accommodation and food service activities in the past. This has in turn adversely affected the serviced apartments market. Due to the challenges enumerated above and the high serviced apartment's operational costs, serviced apartments have keenly focused among other things on the financial and non-financial performance measurement in order to maintain competitive edge, efficiency and continuous growth.

This study notes that serviced apartments have in the past attracted limited global consideration from the property and tourism researchers, despite their huge significance and growing popularity. Most of the studies in the hospitality and the housing industry have concentrated on traditional accommodation such as hotels and residential dwellings.

According to Poon (2005) one of the under-researched sectors in real estate is the serviced apartment sector. Fleischer and Pizam (1997) have called for a comprehensive study on this accommodation segment. McIntosh, Lynch and Sweeney (2007) have endorsed this view taking into consideration this segment's relatively underexplored nature, growth, popularity and appeal. Research on any aspect of serviced apartments has, therefore, been long overdue.

This research aims at extending the existing literature on serviced apartments. It seeks to provide an in-depth assessment of the serviced apartments in Kenya. Specifically, it provides an analysis of the growth and the financial performance of serviced apartments in Kenya, drivers of serviced apartments growth, challenges and constraints of the sector. The study then proposes appropriate recommendations on how the sector can be enhanced in the country.

### **1.3 Objectives of the study**

This research is guided by both general and specific objectives.

#### **1.3.1 General objectives**

The overall objective of this research is to evaluate the growth and performance of serviced apartments in Kenya.

#### **1.3.2 Specific objectives**

The specific objectives of this study are as follows:

- a) To determine the growth and performance of serviced apartments in Kenya.
- b) To determine the key drivers of serviced apartments growth.
- c) To establish the challenges and constraints of serviced apartments development in Kenya.
- d) To recommend appropriate mechanisms of enhancing serviced apartments development in Kenya.

### **1.4 Research questions**

The study is guided by the following questions:



- a) What is the extent of serviced apartments growth and the performance in Kenya?
- b) What are the key drivers of serviced apartments growth?
- c) What are the challenges and constraints of serviced apartments development in Kenya?
- d) What are the appropriate mechanisms of enhancing serviced apartments development in Kenya?

## **1.5 Hypothesis**

Changing work practices is not the only driver of the rapid growth of serviced apartments in Kenya.

## **1.6 Justification of the study**

After a thorough examination of the existing literature, it has been revealed that there is a huge deficiency of information on serviced apartments. Most of the studies have focused on traditional forms of accommodation such as hotels, motels and the usual residential dwellings and little effort has been shown to study serviced apartments sector. In fact, various scholars established this problem and indicated the need for a thorough research on this accommodation segment taking into consideration the segment's growth, popularity and appeal (Fleischer and Pizam, 1997; Dawson and Brown, 1988; Ingram, 2002; Morrison, 2002; PAII, 2005). Serviced apartments are part of the alternative accommodation segment that is relatively underexplored (Sweeney and Lynch, 2007; McIntosh, Lynch and Sweeney, 2007). There is a likelihood that the situation is even worse in Kenya especially considering the fact that serviced apartments is a contemporary accommodation concept that is still evolving. This stimulated the urge of conducting this research.

## **1.7 Significance of the study**

This research will go a long way in reviewing and widening the existing literature on serviced apartments. It will specifically establish the extent of serviced apartments growth and the performance in Kenya, drivers of serviced apartments growth, challenges and constraints facing the sector and will also propose the necessary recommendations of enhancing the sector. Most of these aspects have not yet been adequately addressed.

The end results will be of incredible benefit to various parties especially the real estate stakeholders such as real estate professionals, policy makers, general public, private sector and foreign investors. It will also serve in a great way the various target groups of the serviced apartments such as individual business travellers, expatriates and diplomats, corporate segment, meetings & conference groups, returning residents and leisure travellers. Of critical essence is that it will provide a model that can be used in developing serviced apartments subsectors elsewhere.

## **1.8 Scope of the study**

As a result of the envisaged financial and time constraints, formulating a manageable geographical and conceptual scope is paramount before undertaking the research. This study is limited within Kilimani area in Nairobi. This is due to the emergence of this area as one of the main serviced apartments market in the city. This research specifically explores the serviced apartments growth and the performance in Kenya, drivers of serviced apartments growth, challenges and constraints of the sector and also recommends appropriate measures of addressing the issues raised.

## **1.9 Definition of key terms**

### **a) Serviced apartments**

HVS (2015) describes serviced apartment as a product offering a residential like accommodation mainly characterised with 30 days stays or more. The units are normally furnished with a fully equipped kitchen, living and working area, bedroom and internet connectivity. Additionally, common area amenities provided include gym, swimming pools, steam rooms, saunas and an occasional restaurant that may be leased out. Unlike typical and furnished apartments, reception and housekeeping services are provided but this may be on alternate days to weekly.

### **b) Performance measurement**

The widely accepted definition of performance measurement is that of Neely (1998): “the process of quantifying the efficiency and effectiveness of past actions through acquisition, collation, sorting, analysis, interpretation and dissemination of appropriate data” (as recorded in Moullin, 2003). Moullin (2002) has expounded the definition of performance measurement in regard to its purpose stressing the evaluation of how best organisations are managed and the value delivered by the organisations to the stakeholders.

**c) Occupancy**

According to the American Hotel and Motel Association (1996), occupancy is the measure of room supply efficiency or capacity utilisation. It is determined by dividing the sold room nights by the available room nights, expressed as a percentage (Taha, 2000).

**d) Average Daily Rate (ADR) or Average Room Rate (ARR)**

Average Daily Rate (ADR) is defined by Slattery (2002) as the disaggregated measure of room demand value and is calculated by dividing rooms turnover by room nights sold during the considered period. This Key Performance Indicator (KPI) is a measure of financial profitability and performance.

**e) Revenue per available room (RevPar)**

Revenue per available room (RevPar) is one of the first and most important performance measure utilised in assessing the financial performance in the hospitality industry since it demonstrates the ability to increase the average rate and as well realise higher volume and occupancy so as to maximise revenue.

**1.10 Organization of the study**

The study report is organized in five chapters discussed as follows:-

Chapter one is an introductory chapter incorporating background of the study, statement of the problem, research questions, study objectives, research hypothesis, justification of the study, significance of the study, scope of the study and research project structure.

Chapter two constitutes a review of published and unpublished literature concerning serviced apartments. A conceptual framework has been established at the end of the chapter.

Chapter three constitutes the research methodology including a description of the study area, study population, sampling techniques and sample size, data categories, research instruments, data analysis and presentation techniques, ethical issues and limitations of the study.

Chapter four incorporates the data presentation and analysis section.

Chapter five highlights the summary, conclusions and the recommendations of the study. It also tests the hypothesis and gives areas of further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter incorporates a review of literature consisting of studies conducted worldwide in the related area so as to identify the gaps and the best practices in the research area. The aspects reviewed include the serviced apartment concept, drivers of serviced apartments demand, classification of serviced apartments, serviced apartments operating model, key considerations, merits and demerits of serviced apartments and the serviced apartments global outlook. This segment also provides a discussion of the Kenyan serviced apartments market including the policy, legal and institutional framework. The section concludes with a summary and conceptual framework.

#### **2.2 Serviced apartments concept**

From country to country or from one region to the other, different versions of serviced apartments definitions are adopted. In fact, several scholars admit the absence of universal serviced apartment definition (Poon, 2005). Nonetheless, Foxley (2001) notes that it is widely agreed that serviced apartments provide short stay self-contained accommodation comprising a fully equipped small kitchen, living room and bedroom(s) or a studio bedroom.

According to CBRE (2010), serviced apartment business comprises of a professionally managed operation with the key intention of ensuring provision of serviced apartment accommodation to the public for a duration ranging between one night and one year. The serviced apartment product consists of at least a studio apartment containing both sleeping and living areas. Food preparation areas, catering facilities and bathrooms are required in each apartment with self-service laundry facilities provided either in apartment or within the premises. Daily room servicing must be available although servicing may not necessarily occur daily.

Whilst a serviced apartment and a conventional hotel have the same objective of disposing accommodation rooms for a night, serviced apartments offers personalised and customised, 'home away from home' and spacious living environment. Generally, the size and the layout of the serviced apartments are usually larger and more functional than that of a normal hotel room (Geieregger and Oehmichen, 2008).

HVS (2015) describes serviced apartment as a product offering a residential like accommodation mainly characterised with 30 days stays or more. The units are normally furnished with a fully equipped kitchen, living and working area, bedroom and internet connectivity. Additionally, common area amenities provided include gym, swimming pools, steam rooms, saunas and an occasional restaurant that may be leased out. Unlike typical and furnished apartments, reception and housekeeping services are provided but this may be on alternate days to weekly. In short, the key differentiation between serviced apartments and typical and furnished apartments is the fact that more services are provided and that the length of stay is shorter. However, compared to hotels fewer services are provided and the length of stay is longer than that of hotels. Serviced apartments are very popular with expatriates and corporate seeking flexible and ‘home away from home’ accommodation for the period of their stay.

### **2.3 Drivers of serviced apartments demand**

Colliers International (2014) segments the serviced apartments demand based on length of stay: *Short Stay Guests* – guests with a length of stay of less than 1 month, *Medium Stay Guests* – guests with a length of stay of between 1 and 6 months and *Long Stay Guests* – guests with a length of stay of over 6 months. One of the major strengths of the Serviced Apartment Business Model which is critical in its success is the ability to switch the target market profile (i.e. to change between long and short stay demand) in order to suit market conditions so as to maximize revenue.

Bell and Ward (2000) notes with respect to the diverse mobility forms that serviced apartments primarily target those who are production-related rather than consumption related. Production-related mobilities mainly include business people whose nature of work demands periodic travel while meeting with clients, colleagues or suppliers.

Beaverstock (1994, 1996, 2005), Williams and Hall (2000) and Beaverstock and Boardwell (2000) highlight the mobilities of the growing numbers of transient professionals working and living abroad which forms critical target market for the serviced apartments. There are also growing mobilities of service workers and flexible work practices representing the basis of demand for serviced apartments. Geieregger and Oehmichen (2008) adds that professions such as management consultants, IT consultants, legal practitioners, project managers and senior management personnel are at times temporarily assigned work in a foreign base or out

of their work station. There are also instances whereby staff and their trainers attend specialised training sessions thus requiring short to long term accommodation alongside a range of other people.

The connection between the growing business tourism and the increasing serviced apartments development is evident. Beaverstock and Budd (2013) and Beaverstock et al. (2009) stipulates that domestic and international business travel is currently an omnipresent work practice characteristic for a huge number of people and that many individuals are engaged in undertaking work outside their formal workplace in an irregular pattern which has become an ordinary and normal aspect of their working life. Beaverstock (1994, 1996, 2005), draws attention to the existence of internal labour markets within large organisations which result in the circulation and movement of highly skilled professional and managerial workers between and within countries for short duration work assignments. Beaverstock and Boardwell (2000) emphasizes that expansion of transient professional migration is a critical globalization tendency especially in advanced producer services. In regard to Aberdeen, Scotland, Geieregger and Oehmichen (2008) indicates that serviced apartments market is predominantly driven by the oil and gas companies requiring project oriented work for a few weeks or for personnel to attend training courses. Poon (2005) applying Hong Kong as an example emphasizes the salience of business travels in driving the demand for serviced apartments specifically for those who have to spend a few months in Hong Kong and those visiting frequently and prefers to stay in an apartment instead of hotels or motels all the time. The cost saving initiatives by a large number of multi-national organisations has also been cited as a vital driver of the increasing market for serviced apartments across South East Asia. Demand for serviced apartments also includes relocating individuals residing in temporary accommodation until long-term private dwelling can be acquired.

Serviced apartments are also ideal for the leisure travellers interested in long stay breaks or shopping trips. Leisure travellers especially families are said to appreciate serviced apartments due to their spacious environment, good value for money and the opportunity to “eat in” with their kids (Geieregger and Oehmichen, 2008). Furthermore, Henderson and Smith (2012) adds that serviced apartments can be appealing for family parties, those desiring the freedom and independence offered by serviced apartments accommodation, and individuals on extended holidays. Other strong markets for serviced apartments accommodation include visiting relatives and friends or medical tourists (Geieregger and

Oehmichen, 2008). As a result of the efficiency in air travel, globalisation and the changing business practices, it has become increasingly necessary for business professionals and consultants to undertake work abroad for an extended duration. This coupled with extended leisure breaks, visiting family members and other forms of extended stay travels renders serviced apartment as a highly attractive accommodation, alternative to a conventional hotel. Furthermore, changing employment structure, expansion of global corporate and an increase in international conferences are the other three key trends that have positively driven serviced apartments growth (Foxley, 2001).

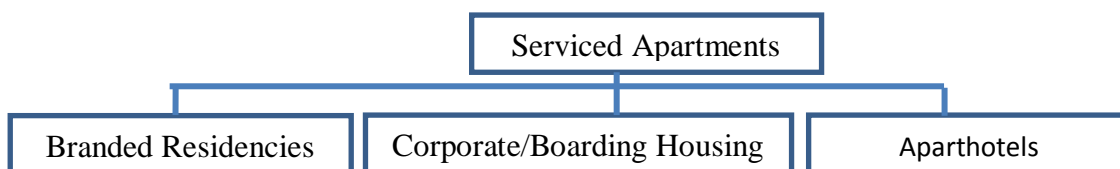
In regard to Scarinci and Richins (2008) and Novelli (2005), alternative accommodation popularity can be attributed to the increased market fragmentation and competition, growing communication technology and more discerning and difference seeking customers. By use of communication technology, visibility and accessibility of alternative accommodation are greatly enhanced. The growing demand for alternative accommodation is also due to the recent global socio-cultural changes culminating in greater appreciation and interest in cultural lifestyles, heritage and environmental concerns (Ibrahim and Razzaq, 2010).

Phadungyat (2008) while assessing the growth of quality serviced apartments in Thailand maintains that their growth is as a result of the increasing cross border trade and business investments in the country. The development of the serviced apartments in Asia and Europe is also associated partly to higher demand fuelled by budgetary constraints facing companies during periods of economic downturn(Poon, 2005).

#### 2.4 Classification of serviced apartments

HVS (2013) considers the term serviced apartments to be an umbrella term that can be broken down into three categories: branded residencies, corporate housing and aparthotels.

**Figure 2.1: The three types of serviced apartments**



Source: (HVS, 2013)

**a) Branded residencies**

According to HVS (2013), branded residences are an amalgam of a typical real estate investment grouped with the elusive concept of 'lifestyle'. They tend to fall into the upscale and luxury category and attract cash rich and time poor individuals who are constantly globetrotting and enjoy having their 'home' looked after.

Branded residences are characteristically managed by well-known hotel operators and are therefore usually located adjacent to a hotel. This allows the resident owners to benefit from the hotel services, facilities and amenities. Recently residents are demanding much more than simply the enjoyment of hotel services and facilities. Wealthy consumers are craving art and design which has allowed high end fashion labels to enter the market. Branded residencies are usually located in international city centres as well as in resort destinations. When they are located in prime holiday destinations they often target the ultra-rich by including even more astonishing features.

A simpler model has, however emerged, whereby an affiliation to a hotel operator alone is enough to create an identity for the development (i.e. physical attachment to a hotel property not required). By creating a feel of exclusivity, branded residences focus on architecture and design in order to differentiate the product from regular residential developments in the operating market (Colliers International, 2015).

The strong growth in branded residences has been spurred by its attractiveness to both developers and investors. Compared with unbranded residential properties developers of branded residences have been observed to demand some premiums in the main key cities around the world. What drives this premium is innovation in terms of concept (a mix of hotel rooms and residential investment, the convenience of onsite services, design and security of buying into a brand). Similarly investors see branded residences as a relatively safe investment as it is a tangible asset attached to a well-known luxury hotel brand. Moreover, the concept is also popular to investors due to its high quality services and design.

**b) Corporate/ Boarding housing**

HVS (2013) views corporate housing as a product that resulted from the short term apartments rental market. It facilitates the stay in residential like accommodation for periods of typically anywhere between 30 days and 2 years and, therefore, provides a 'home away



from home'. It smoothen the process of finding an apartment abroad, dealing with rental contracts and all of the other administrative work related to acquiring a temporary home. The corporate housing concept is, therefore, particularly successful in areas where residential vacancy is low and it is difficult to find short term lets.

Corporate housing is used for relocations, business assignments, as a temporally home during remodelling, when attending courses/education or by the military. These apartments are usually furnished, with a bedroom, living and working area, fully equipped kitchen and function as regular apartments in that almost no services are provided. Therefore skeleton staffing is in place, allowing the underlying business model to achieve high profit margins. The following terms also refer to the same concept: corporate housing, boarding housing, furnished rentals, vacation rentals and even serviced apartments.

### **c) Aparthotels**

HVS (2015) states that aparthotels are often called extended stay hotels, but what differentiates them from hotels are the kitchenette or kitchen and slightly more spacious rooms although unlike hotels fewer services are provided. The apartment unit products themselves are similar to the other products. The key differentiation in aparthotels is in the services and amenities offered; you frequently find 24-hour lobby receptions, daily housekeeping services, laundry services, self-managed on premise restaurants and amenities in the form of swimming pools, gyms, health clubs and steam rooms/saunas. The complex target a mix of daily stays to monthly stays as reflected in rates charged to guests. The complexes also target the relocating corporate, but those seeking extended stay in hotel like accommodation. They often carry hotel licenses as cited in the 'Hotels and Restaurants Act' under the laws of Kenya.

According to HVS (2013), unlike hotels fewer services are provided. Cleaning for example usually occurs weekly rather than daily (unless at an extra charge) and all day dining facilities are not always provided although breakfast often is. When a client does require additional services most aparthotels can provide them for a fee. Pricing strategy is similar to that of hotels as prices tend to fluctuate daily. However owing to slightly longer stays, pricing is regressive in function of the length of stay. They are usually more affordable than full service hotels since they only provide limited services. Low operating cost structure permits this type of pricing.

The Association of Serviced Apartment Providers argues that some of the main drivers of aparthotels include price, option to self-cater and space. It is also attractive during times of economic uncertainty, where corporate budgets are cut and leisure spending has decreased.

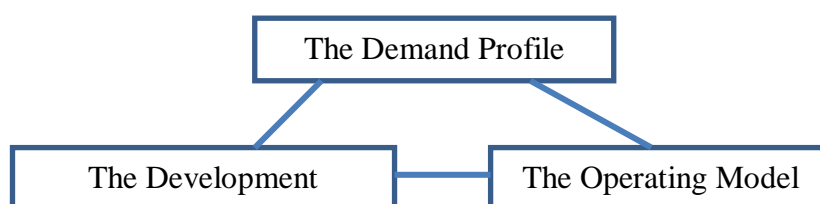
Foxley (2001) has also classified serviced apartments based on the nature and quality of the services/facilities provided as follows:

- i. Luxury apartments** –This are usually sited in prime localities and are equivalent to a four to five star hotel. They are characterized with a high quality and a range of services/facilities such as a 24-hour reception and a daily maid service.
- ii. Mid-range accommodation** –Equivalent to a three star hotel, offers a good quality accommodation with a 24-hour reception and a daily maid service. The services offered to guests are generally more restricted compared to that of luxury apartments. They may be sited in a fairly prime or off-prime locality.
- iii. Budget apartments** - Equivalent to a one to two star hotel and offers more basic accommodation with a 24 hour reception but the maid service may only be offered on a weekly or bi-weekly basis. The variety of the services or facilities offered to guests is generally more limited. The location of the apartments may vary from poorer to prime quality areas.

## 2.5 Key considerations of serviced apartment investment

According to Colliers International (2014), there are three main considerations for the success of serviced apartment developments; the demand profile (i.e. targeting the right clientele), the development (i.e. building to optimal specifications), and the operating model (i.e. how the development is managed on a day-to-day basis):

**Figure 2.2: Serviced apartment investment key considerations**



Colliers International (2014)

CBRE (2010) has elaborately discussed the three considerations as follows:

**a) The Demand Profile**

The core function of traveller accommodation is to satisfy basic human needs for shelter, security and a place to sleep and rest. The purpose of travel (Leisure & Corporate) acts as the driving force. Broadly split between corporate and leisure, traveller accommodation customers seek a range of product, service, location and cost attributes that vary depending on the purpose of travel. The serviced apartment product was borne from such segmentation, and it is the augmentation of the segment which is driving growth of the industry.

The CBRE Hotels Serviced Apartment Operators Survey (2010) studied Australia's serviced apartment sector and uncovered various characteristics of the typical customer of Australia's major serviced apartment operators which are very relevant all over the world including Kenya. These characteristics relates to accommodation product, location and operating costs.

In regard to accommodation product, CBRE (2010) observed that serviced apartment product provides the flexibility sought by customers through the provision of in-room cooking, washing, working and living space that is typically not offered in other forms of traveller accommodation. Concerning property location, it was noted that location needs of the serviced apartment guest are not as demanding as those of traditional hotels. A convenient location central to desired attractions or places of work is important. However, the serviced apartment consumer, especially the business portion of the segment, is not necessarily concerned with a prime property location. Convenience and ease of access are important, however, are not critical to their purchasing decision. Finally, in regard to operating cost it was observed that flexible cost travel matches customers' needs for flexibility and customisation. Serviced apartments, with a lower cost base and less restrictive brand standards relative to many full-service hotels, are able to tailor service provision to best suit each property according to guest segmentation. Above all else, the serviced apartment customer is found to seek independence to take charge of their holiday or business trip. Out of this independence the customer's flexibility and autonomy are guaranteed. Figure 2.3, presents a generalised summary of the key serviced apartment consumer requirements in a simplified manner but does not represent full consumer profiling.

**Figure 2.3: Serviced apartment customer profiles**

	<b>Corporate</b>	<b>Leisure</b>
<b>Product attributes</b>	Home away from	Home away from
	Living and relaxing	Self-catering and other self-service domestic services
	Work space	Leisure and relaxing space
<b>Location</b>	Convenience to business locales	Access to attractions
<b>Other needs</b>	Private vehicle access	
	Flexible cost/ balance between convenience and cost control	Information: attractions, food and beverage, other services
	Independence	Independent access to leisure facilities

Source: CBRE 2010

To better understand the operating cost equation, CBRE (2010) interpolated data released by Horwarth HLT in their Key Market Reports 2009. From interpolation, it was observed that serviced apartment model produces significant cost benefits with Gross Profits of 64.5% compared to that of hotels 54.3%., Income Before Management Fees and Fixed Costs of 50.1% compared to that of hotels 36.3% and Income Before Fixed Costs of 45.7% compared to that of hotels 34.1%.

It was also noted that there is need to understand customer mix (domestic and international) as they have different requirements. The mix varies by location and operator focus. In addition demand benchmarking is paramount. Demand needs to be quantifiably defined for the purpose of forecasting and assessing development feasibility. Understanding the origin, purpose of travel and needs of the modern serviced apartment customer presents an opportunity to define demand. There are an almost limitless number of potential economic, demographic, infrastructural and political elements to serviced apartment demand.

#### **b) The Development**

At a time when it is widely accepted that to build new hotels in one line are extremely difficult if not impossible to economically support, the emergence of the serviced apartment has seemingly bridged the feasibility divide. Distinct characteristics of this product have required a re-think of operating systems to produce a financially feasible operating model. The key elements of this feasibility and the ways in which the serviced apartment product evolved to meet today's investment environment are construction cost (research has found that serviced apartment developments are able to achieve greater efficiencies), availability

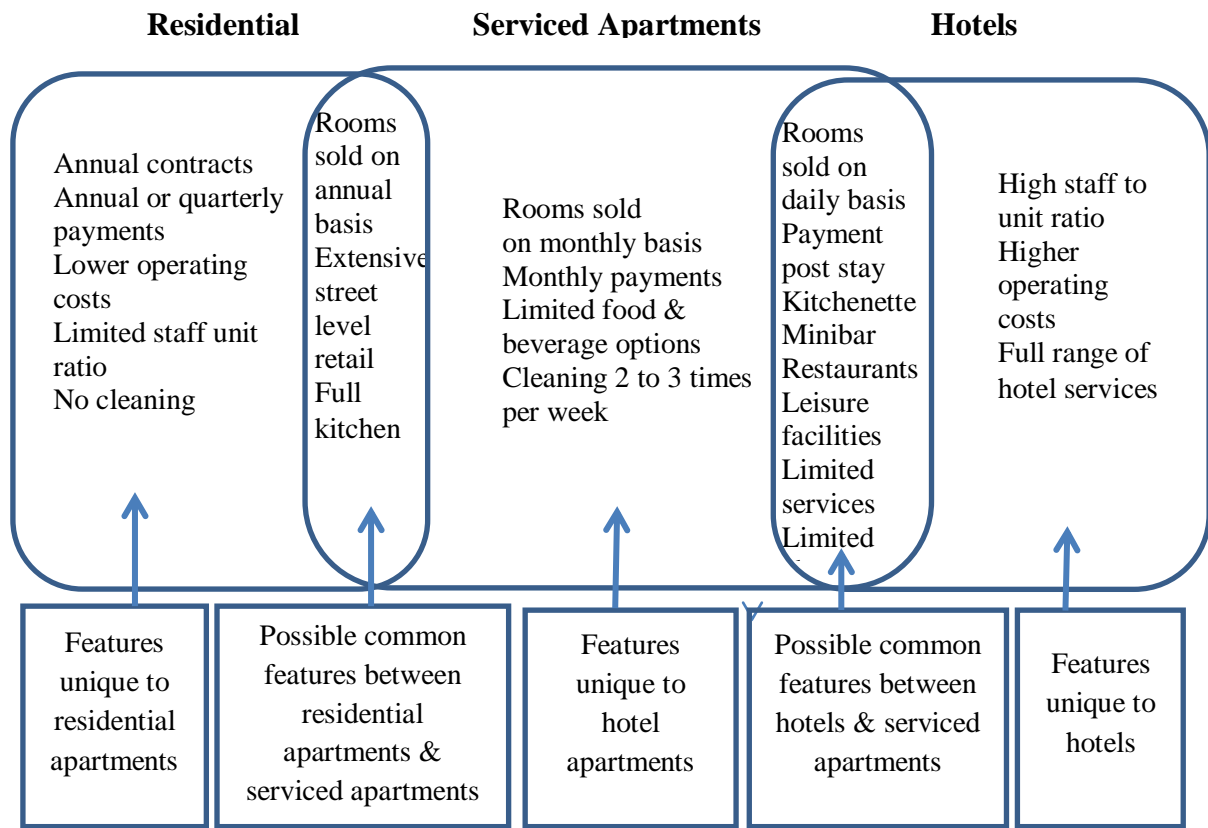
and land values (the availability and cost of land suitable for traveller accommodation development has been a major factor disrupting the feasibility of hotel development). The other problem is in relation to financing the development.

### **c) The Operating Model**

Business mix largely determines operating structure and methodologies along with operators core competencies. The business of the serviced apartments, including promotion and distribution channels and operating structure, can vary significantly between organisations depending to a large extent on whether the business is primarily targeting leisure or corporate customers. Other business structure determining variables include property location, target markets, specifics of the on-site service offering, and the core competencies of the owner(s) and operator organisation. The business activity is focussed on the major profit centre – accommodation. The relative absence of non-core revenue centres such as food and beverage and recreational facilities in some serviced apartments enables operators to greatly focus on the promotion of the profit driver, accommodation. Where these non-core revenue departments are included, the businesses tend to perform very close to traditional hotel product.

According to Colliers International (2014), the serviced apartments' business model has similarities with both the hotel and residential business models. Serviced apartments typically benefit from a superior product to residential apartments, while benefiting from lower operating costs than hotels. They are able to offer guests larger rooms than hotels, while saving operating costs due to their limited service models. The Serviced Apartment business model is characterized by a lean operating structure, with limited amount of staff compared to hotels. The lower staff ratio in branded properties translates into lower operating costs. Branded serviced apartments have on average 29% fewer staff than unbranded ones, as they benefit from standardized lean operations and centralized clustered services. The key differentiating features between the three operating models is shown below.

**Figure 2.4: Differentiating features between the three operating models**



Source: Colliers International 2014

## 2.6 Serviced apartments performance indicators

The widely accepted definition of performance measurement is that of Neely (1998): “the process of quantifying the efficiency and effectiveness of past actions through acquisition, collation, sorting, analysis, interpretation and dissemination of appropriate data” (as recorded in Moullin, 2003). This definition does not indicate what the nature of the data collected should be ( financial or non-financial) but it looks more concerned with the performance measurement process in management accounting rather than its purpose, and is limited to quantitative measures instead of the qualitative ones. Therefore, Moullin, (2002), has expounded the definition of performance measurement in regard to its purpose stressing the evaluation of how best organisations are managed and the value delivered by the organisations to the stakeholders.

Hospitality industry enterprises have always been assessed by performance measurement models stressing on financial aspects of performance (Brander-Brown and Harris, 1998;

Neely, 1999). Such performance measurement criteria have been criticized for lacking neutrality and balance as well as encouraging short-termism (Kaplan and Norton, 1992). Nevertheless, in evaluating performance of organisations there is need for the industry to take into account not only financial aspects but also non-financial parameters. Neely (1998) and Daly (1996) provides that a thorough performance evaluation system has a greater predictive validity compared to the one based largely on financial aspects. Kaplan and Norton (1992,1993, 1996a, 1996b, 2000) noted that long-term organizational excellence can only be achieved by taking a broad, holistic, and balanced approach rather than by concentrating purely on the financial measures. The management should take a balanced approach across a variety of performance measurement aspects (Amaratunga et al., 2001) such as financial and non-financial measures concerning the organisation's critical success factors.

Historically, organizations in the hospitality sector have emphasized on the use of financial performance measurement aspects. The contribution of non-financial indicators namely customer satisfaction, quality assurance, productivity, employee development among others has become necessary as they determine the enterprise's competitiveness and the capability of sustaining future profitability. Non-financial indicators incorporation in performance measurement is critical especially in the midst of huge competition, shorter product/service life cycle and drastic advancement in technology, characterizing the current business environment. In addition, performance measurement practices changes should take into account the changes in business environment and environmental variables in Kenyan hospitality industry.

Organization's performance measurement has historically been by assessment of the revenues or the profit generated by the end of the year, or by use of the key financial ratios. Venkatraman and Ramanujam (1986) examined ten diverse types of performance measurement and categorised findings into three dimensions namely financial performance, business performance and organization effectiveness. Ryan and Trahan (1999) applied three main dimensions of performance including profit margin, equity multiplier, and total assets turnover.

According to Harris and Mongiello (2001) and Atkinson and Brander-Brown (2001), several studies in performance management are emphasis on the need to consider a combination of financial and non-financial parameters such as competitiveness, customer satisfaction, service quality, resource utilization, organizational flexibility, and technology. In addition, there is a

growing recognition in the hospitality industry of the necessity and value of people, employees and guests in service provision leading to the argument that hospitality industry should develop better performance aspects concerning areas such as employee satisfaction and morale (Fwaya, 2006; Fitzgerald et al., 1991).

Harris and Mongiello (2001) further stress that even though hotels including other accommodation products are though in a service context, they encompasses three different types business activities (rooms, beverage, and food) exhibiting diverse business orientations. These orientations require different set of performance measurement indicators.

This study however concentrates on the financial performance indicators. The key performance indicators widely accepted and used as proxies for performance in the hospitality sector according to Damonte et al (1997) include: Occupancy (%), Average Daily Rate (ADR), and Rooms revenue per available room (RevPar)

### **Occupancy**

According to the American Hotel and Motel Association (1996), occupancy is the measure of room supply efficiency or capacity utilisation. It is determined by dividing the sold room nights by the available room nights, expressed as a percentage. Occupancy rates less than the hotel capacity indicates existence of lost selling opportunities, leading to depletion in the hotel revenue (Taha, 2000).

$$\text{Occupancy \%} = \text{Rooms Occupied} / \text{Rooms Available, or}$$

$$\text{Occupancy \%} = \text{Revenue per Available Room} / \text{ADR}$$

Hotel occupancy rate is based on external and internal factors. The external factors include the state of economy, politics, technologies, demographic and legislation (Malaysian Association of Hotel, 2004). Internal factors on the other hand relates to the hotel management challenges; quality of service, variety and quality of food, pricing and fees, entertainment, accommodation, facilities and location (Lau et al., 2005). Low level of service quality which is an indication of poor performance leads to the problems in the internal factors (Lau et al., 2005).

Among the positive factors contributing to the occupancy rate success include cleanliness (Saleh & Ryan, 1992; Lockyer, 2005), spacious and well maintained rooms, comfort (Salleh



& Ryan, 1992) and room facilities (Ruys & Wei, 1998). The key success factor in ensuring a high occupancy rate is by providing guests with an experience that truly satisfying (Crown Plaza Hotels and Resorts Standard Manual, 2000).

### **Average Daily Rate (ADR) or Average Room Rate (ARR)**

Average Daily Rate (ADR) is defined by Slattery (2002) as the disaggregated measure of room demand value and is calculated by dividing rooms turnover by room nights sold during the considered period. This Key Performance Indicator (KPI) is a measure of financial profitability and performance.

$$ARR/ADR = Total Room Revenue / Paid Rooms Occupied, or$$

$$ADR = Revenue per Available Room / Occupancy \%$$

### **Revenue per available room (RevPar)**

Revenue per available room (RevPar) is one of the first and most important performance measure utilised in assessing the financial performance in the hospitality industry since it demonstrates the ability to increase the average rate and as well realise higher volume and occupancy so as to maximise revenue. If just one these performance measures is used, it will not be able to assess if the enterprise is maximizing room revenues. RevPar is calculated in two (2) ways:-

$$RevPar = Total Room Revenue / Total Rooms Available, or$$

$$RevPar = Occupancy \% \times Average Daily Rate (ADR)$$

### **Cost per Occupied Room**

Cost per Occupied Room is another KPI which indicates the average cost per room. This KPI measures the operating efficiency of a hotel and can be used to demonstrate whether the cost base of the hotel is reasonable.

$$Cost per Occupied Room = Total Rooms Department Cost / Number of Rooms Sold Cost$$

## **2.7 Merits and demerits of serviced apartments**

Geieregger and Oehmichen (2008) and The Apartment Service Worldwide (2015) indicate that serviced apartments offers business users a couple of benefits compared to that of the conventional hotels. To begin with, guests staying in serviced apartments for extended duration end up paying significantly less for accommodation compared to those staying in a conventional hotel due to the absence of additional costs such as the ones accruing from bar and room services. Secondly, Gustafson (2014) adds that serviced apartments offer a comfortable environment to the business travellers and hence guests feel more relaxed and are likely to be more productive. Foxley (2001) reiterates that serviced apartments provide the comfort and facilities of a hotel and the facilities and privacy of home. Thirdly, guests are enabled to use the fully equipped kitchen and prepare their own meals. They can conduct small business meetings and entertain guests (The Apartment Service Worldwide, 2013). Finally, business travellers in serviced apartments can customise or personalise the required services (The Apartment Service Worldwide (2013).

Various room options with the ability of accommodating more than one guest are offered in serviced apartments (guests from the organization and staying for the same duration) which make the choice of serviced apartments economically viable. It is observed that about half of major international organizations currently prefer to accommodate senior staff in apartments rather than the traditional hotels during extended stays (The Apartment Service Worldwide, 2013 & 2015).

To the investors such as property developers, Henderson and Smith (2012) stipulate that serviced apartments investment has been noted to be attractive and profitable. Rental revenues are maximised in serviced apartments by ensuring that turnover costs and vacancy rates are minimised including revenues lost due to vacancies and search costs for the new tenants. It has been observed globally that while most of the serviced apartments allow at least 1 day stay, the most popular leases vary from 1 to 24 months (Poon, 2005). Younes and Kett (2007) consider serviced apartments in commercial term as of medium risk concerning start up, operating and obsolescence costs. Compared to hotels, serviced apartments use less personnel and amenities or services which add to its operational efficiencies. Henderson and Smith (2012) also notes that considering serviced apartments configuration, serviced apartments business exit strategy is fairly simple as individual apartment units may be disposed to individual buyers which may not be possible for the hotels.

Despite those advantages, serviced apartments have their own challenges. Firstly, locating a serviced apartment that suits one's requirements may be a challenge as they may not be listed in online portals or other sources. Secondly, reliable information about specific serviced apartment properties persists as yet another challenge. There is also a lack of standardized quality assessment in this sector, like star ratings in hotels. Thirdly, the terms and conditions of serviced apartments vary greatly from property to property and from location to location. Additionally, the procedure of booking can be quite tedious and even require signing leases and bulk payment, including deposits for stays shorter than six months. Fourthly, Interpreting Check-In and Check-Out Instructions can lead to confusion. Many serviced apartments have a self-check in process where there are no front desk personnel to assist with the check in and check-out. Fifth, if there is breakdown in an amenity such as internet access, it may lead to inconvenience for the business traveller. Without the right support in the event of a breakdown in amenities it can be a bad customer experience. This leads to the question "Do the advantages outweigh the challenges?". The increasing popularity does seem to suggest this. Many of these challenges can be mitigated.

## **2.8 Global outlook of serviced apartments**

The global overview of the serviced apartments sector is elaborately presented by The Global Serviced Apartments Industry Report, 2013-2014. The report notes that the number of serviced apartments in their network globally has drastically increased from about 447,000 units in 2010 to about 656,000 units in 2014 (47% increase). These are well developed in countries such as USA, Australia and the Far East with many different brands catering for different niches markets. Even the European markets in the UK, France and Germany has matured significantly over the last few years.

74 % of the serviced apartment units are in North America, 10% in Europe, 7% in Australia and 7% in Asia while serviced apartments market in Africa is perceived as small. (Henderson and Smith, 2012). The market in UK according to Foxley (2001) is viewed as 'embryonic'. However, the outlook of the demand for serviced apartments in UK looks good due to the existence of key global business drivers such as rampant corporate globalisation, increase in business travel and a continued need for face-face meetings.

The African continent is drastically changing into an attractive investment opportunity for the business, tourism and hotel operators but the market apart from South Africa is devoid of

recognised brands and inventory. The continent also needs to enhance its investment climate so as to attract investment. The World Bank indicates that Africa has the worst investment climate globally. Investors need to be assured of good governance in the countries they intend to invest in, that inflation is well control and that there is a positive investment opportunities (The Apartment Service, 2012). Other challenges that have adversely hit the sector in the past include insecurity threats such as in Kenya and health problems such as in West Africa during the outbreak of Ebola.

Serviced apartment clusters are often located in capital cities and other major business centres attracting multi-national and large organizations/enterprises with their associated mobile expatriate and professional populations. Serviced apartments guests at the intra-urban scale, prefer locations offering a good living environment and accessibility to work and entertainment. Serviced apartment units thus in some cases situated in residential zones instead of business districts of cities like parts of Hong Kong (Poon, 2005).

Geieregger and Oehmichen (2008) highlights critical location criteria in selection of developable sites for serviced apartments at the intra-urban scale to include proximity to airports, commercial demand drivers (corporate business or office parks), accessibility to public transport, proximity to restaurants shopping and nightlife, road access and parking facilities and individuals relocating for long durations and access to international schools. However, according to The Apartment Service Worldwide (2013 & 2015), it is generally acknowledged that the service apartment subsector is heterogeneous with diverse products and mainly dependent on place and visitor profiles.

The dramatic expansion of serviced apartments demand over the last 10 years has predominantly been occasioned largely by the gradual understanding of the benefits of serviced apartments amongst corporates, increase in product knowledge, improvement of the standards of apartments and entry of popular brands into the market. However, stiff competition from residential developers and financial constraints limits development opportunities for the serviced apartments (The Apartment Service, 2014).

A couple of scholars have indicated that the growth of serviced apartments supply is as a result of large hotel corporations and smaller independent operators and individual owners (Henderson and Smith, 2012). Geieregger and Oehmichen (2008) in regard to Europe and USA argue that global hotel enterprises operate as many brands in the serviced

accommodation sector as the classic hotel sector. Some of the main enterprises include Marriott, Hilton, Starwood, Intercontinental Hotel group, Accor and Ascott group. In Europe, a couple of smaller European-based enterprises have emerged and established serviced apartments portfolios. Henderson and Smith (2012) notes that international firms such as Ascot specialising in serviced apartments have emerged in Asia while hotel chains continue to expand. Furthermore, attention is drawn to the increasing growth across major Asian cities for ‘the favouring of mixed-use projects which combine business and entertainment space with temporary and permanent accommodation’ (Henderson and Smith, 2012). In regard to Hong Kong, serviced apartments are largely provided by large local developers rather than large hotel groups (Poon, 2005) while in Thailand, growth is as a result of organised enterprises in the hospitality industry and local builders and entrepreneurs (Vanichvatana, 2006a, b; Phadungyat, 2008).

## **2.9 Kenyan context**

### **2.9.1 Kenyan serviced apartment market overview**

Serviced apartments is a relatively a recent product in the Kenyan hospitality industry. Traditional accommodation products such as hotels, motels and lodges have for a long time dominated the sector. However, the product in recent years has continued to position itself as a viable accommodation option in the hospitality industry thereby significant competition to the traditional hotels. This type of accommodation is very common especially for business or corporate guests including staff re-locating temporarily or permanently. The product has been viewed as a possible alternative to the conventional hotel.

In Nairobi, the most popular zone for serviced apartment complexes is in Westlands, followed by Kilimani. However, the highest growth has been found in upperhill at 20% compound annual rate. Gigiri, Runda, Muthaiga and Kasarani remain the lowest in concentration of units. The total number of apartment complexes in the market has seen tremendous growth since 2011 at 25 % compound annual rate. The outlook for serviced apartments sector is therefore extremely exciting. With continued growth of the city as a regional hub and continued influx of long term projects and international companies comes demand. In addition, the political and terrorist threats that have affected the traditional hotels have not affected serviced apartments demand, indicating a growing preference for the product type by business travellers, and we see this continuing into the future (HVS, 2015).

## **2.9.2 Policy, legal and institutional frameworks**

Some of the laws, regulations, policies, blueprints and programmes developed by the Kenyan Government in order to improve the overall housing situation include:

### **i. Constitution of Kenya 2010**

The Kenyan Constitution in Article 43 1 (b) recognizes housing as a social right. Kenya has also ratified most of the international housing right instruments making them operational in the Kenyan sphere which is further reinforced in Article 2 (6) of the constitution that makes treaties or conventions ratified by Kenya part of the law of Kenya. According to Article 21 (1), it is a fundamental duty of the State and every State organ to observe, respect, protect, promote and fulfil the rights and fundamental freedoms in the Bill of Rights. The state is required in Article 21 (2) to come up with the necessary policy, legislative and other measures, including setting of standards, to acquire progressive realisation of the housing rights.

The function of the national government according to the Forth Schedule of the Constitution in regard to housing is housing policy, general principles of land planning and the co-ordination of planning by the counties including capacity building and technical assistance to the counties. The counties are mandated to take charge of planning and development including land survey and mapping, statistics, housing, boundaries and fencing; and ensuring that the necessary social amenities, public transport, electricity, street lighting and schools, are available to residents. In regard to tourism and hospitality to which serviced apartments partly fall, one of the mandates of the National Government is tourism policy and development while the County Government is in charge of the local tourism.

### **ii. Housing Act Cap 117, 1953**

The Act aims at providing for loans and grants of public moneys required for the construction of dwellings and to create a housing fund and a housing board for these purposes and for other related purposes.

### **iii. National Housing Policy, 2004**

This policy is aimed at facilitating provision of adequate shelter and a healthy living environment to all socio-economic groups in Kenya in order to foster sustainable human

settlements. The key elements of the policy are policy targets namely poverty alleviation, urban housing, public housing, rural housing and vulnerable groups; and housing inputs namely land use planning and management, infrastructure, building materials and research, legislative and institutional framework, financial resources for housing, and the management. The reviewed draft National Housing Policy is now ready for adoption by Parliament.

#### **iv. The Kenya Vision 2030**

In the vision, Kenya aims at becoming an adequately and decently housed nation in a sustainable environment by 2020 and increase the annual production of housing units from the current 35,000 annually to over 200,000 by 2012. In addition, high quality urban planning initiative will be conducted beginning with adequate housing for the slum dwellers and the rest of the population, enhanced access to adequate finance for developers and buyers, and targeted key reforms to tap the housing sector potential through private public partnerships.

The vision also identified tourism sector as one of the six priority sectors with high potential of spurring the country's economic growth and development. By focusing on the tourism sector, Kenya aims to be among the 10 long haul tourist destination in the world offering a high-end, diverse, and distinctive visitor experience that few of her competitors can offer. The Kenya Vision 2030 was to be implemented in successive five-year Medium-Term Plans (MTP).

#### **v. The Housing Bill, 2014**

The objective of the Housing Bill is to create an Act of Parliament to provide for the effective coordination, facilitation and monitoring of the housing and human settlements sector; to provide for capacity building within the housing sector and to establish the National Housing Development Fund for the provision of the right to accessible and adequate housing. The bill is in the process of being enacted.

#### **vi. Sectional Properties Act, 1987**

As a result of shortage of land designated for housing, it become critical for developers to put up high-rise apartments or flats. This mode of development calls for establishment of a structure of property ownership in order to address the interests of individual apartment or flat owners and the jointly owned common space. It is on this realization that the Sectional

Properties Act was enacted in 1987. The Act provides for the division of buildings into units to be owned by individual proprietors and common property to be owned by proprietors of the units as tenants in common and to provide for the use and management of the units and common property and connected purposes. The Act has provided for efficient ownership of apartments in urban areas and has also encouraged the formation of communities, through the management companies in new settlements.

## **vii. Approved Housing Sector Incentives**

The Government over the years has come up with a number of incentives aimed at attracting investment from the private sector. These are intended to spur growth in the housing sector and to encourage partnerships. The incentives include incentives under the income tax, assignment of retirement benefits and incentives under Value Added Tax (VAT) Act.

In conclusion, it is worth noting that the housing sector has for decades depended on out dated & fragmented policy and legal instruments. There have also been problems associated with low budgetary allocation and weak institutional framework at times with conflicting duties. At times there has been attempts aimed at addressing these strategic issues haunting the sector. However, most of the strategies and initiatives have been ad hoc, reactionary, at best fragmented. Often it is the lack of proper implementation framework that frustrates otherwise good intentions. Usually, each initiative has fundamental shortcomings that undermine its ability to achieve desired results, especially when benchmarked against best practice.

### **2.10 Summary and conceptual framework**

Serviced apartments provide self-contained accommodation to short, medium and long stay guests. Fewer amenities than those found in a hotel are provided. They can broadly be classified into branded residencies, corporate housing and aparthotels. They originated from the need to serve the business and leisure travellers and also to fill the gap between a short hotel stay and longer term rental accommodation. Various components must be present for serviced apartments with advantages such as comfort and facilities of a hotel, with the privacy and facilities of a home; low operating expenses; relaxing environment; attractive and profitable investment; ability to personalise or customise the services required and larger rooms than hotels to be established.

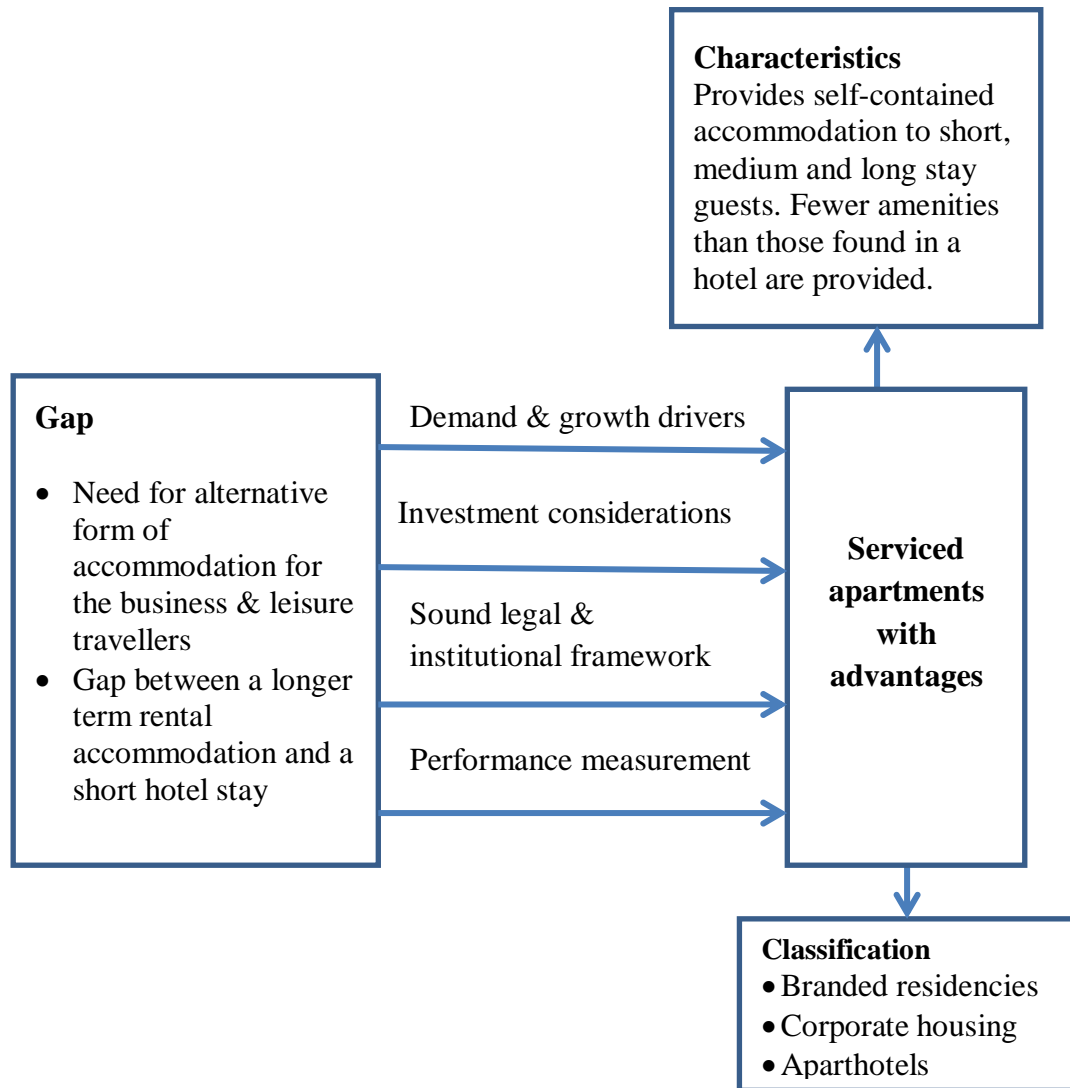


These components include demand and growth drivers, investment considerations, performance measurement and sound legal and institutional framework. Demand and growth drivers include changing employment structure, global social and cultural changes, globalisation, increase in international conventions and meetings, expansion of leisure & corporate travellers, infrastructural development, economic growth, macroeconomic and political factors, increasing cost saving initiatives of many multi-national corporations, market fragmentation, and more discerning and difference-seeking customers among others. The key investment considerations to be considered include the demand profile, the development and the operating model.

Challenges and constraints such as poor infrastructure, competition, financial constraints, lack of awareness about the product, political instability, insecurity and health risks, changing customers' requirements, economic recession, shortage of land, need for brand and management are inevitable in the entire serviced apartments development. Therefore, there is need to come up with appropriate ways of dealing with these hurdles.

Diagrammatical representation of the conceptual framework is drawn in Figure 2.5 below.

**Figure 2.5: Serviced apartments development conceptual framework**



Source: Author 2016

## **CHAPTER THREE**

### **STUDY AREA AND RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section provides a brief study area description and the methodology applied by the researcher. The first section is on the study area while the second section is on the research methodology incorporating the research design, study population, sampling techniques and sample size, data collection instruments, data analysis and presentation techniques, ethical issues and limitations of the study.

#### **3.2 Description of the study area**

Kilimani estate is located 6 km West of Nairobi City Centre. The area lies within the borders of Ngong Road, Ole Odume Road, Kirichwa Kubwa River, Dennis Pritt Road and Ralph Bunche Road. It neighbours Kileleshwa to the North, Lavington to the West and Milimani to the East. Kilimani is accessible by public means, through Ngong Road and Argwings Kodhek.

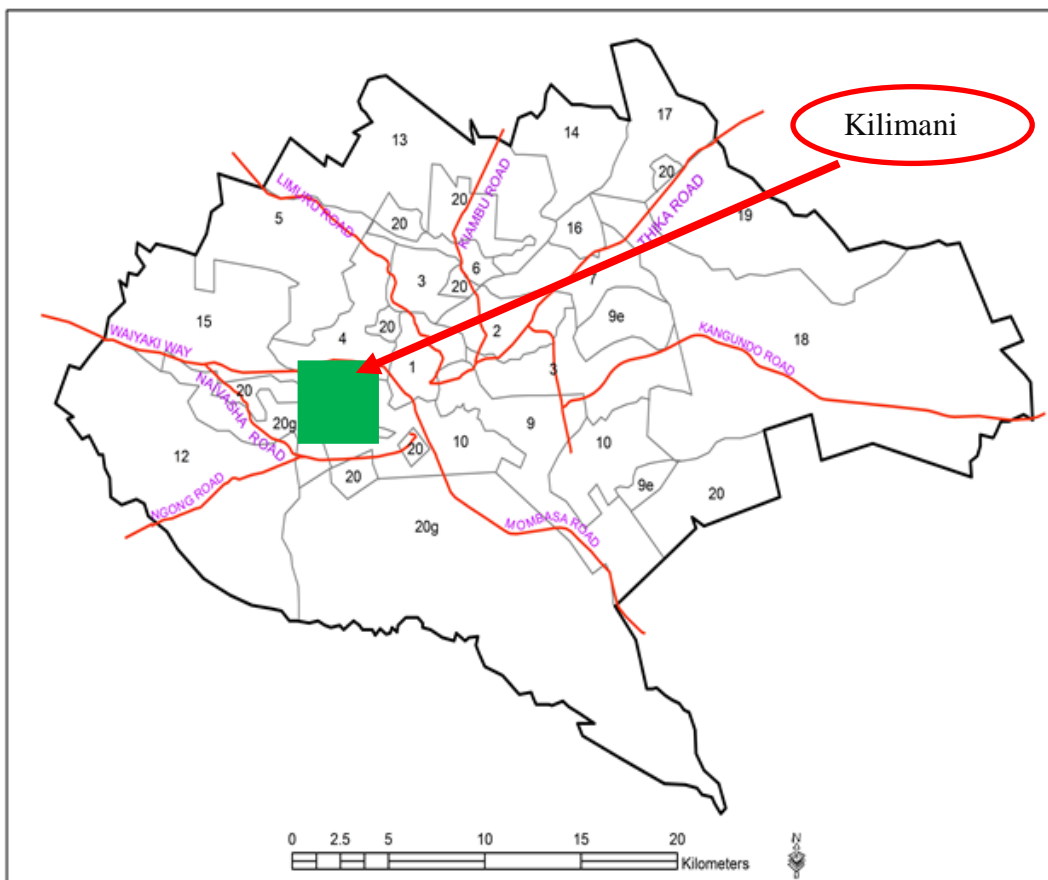
Kilimani lies in Zone 4 of Nairobi City County Planning Regulations which traditionally used to be predominantly a low density residential area housing mostly maisonettes and townhouses. However, the area can now barely accommodate a low density residential development due to the appreciated land prices over time. Due to this, the area is now transitioning to a mixed user area. It is evident that the old maisonettes, bungalows and townhouses are now being converted to apartments and commercial complexes as supported by the rezoning of the area.

Kilimani area is bound to open up to the neighbouring areas like Kileleshwa, Westlands, CBD, Upperhill, Lavington and Ngong Road. This is because of the good progress in infrastructure development in the neighbourhood. The link road from James Gichuru Road passing through Kileleshwa to Kilimani's Likoni Lane is now complete. The Westlands Ring Road – Gitanga Road link road is also complete. Construction is still on-going for Southern By-pass which joins Ngong Road to Mombasa road to City Carbanas near JKIA.

The main landmark in Kilimani comprises Yaya Shopping Mall and Apartments. Other notable landmarks include Prestige Plaza Shopping Mall, Uchumi hypermarket, Hurlingham

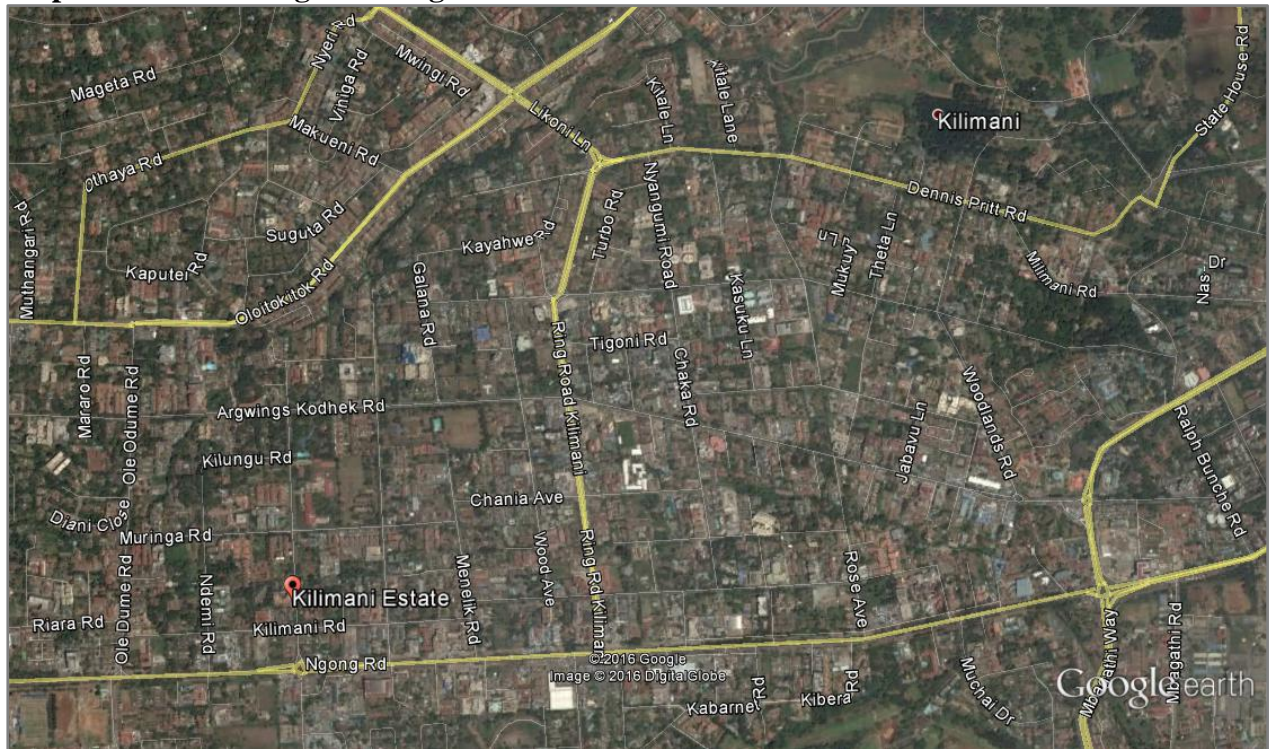
Shopping Centre and Adams Arcade. The malls and shopping centres offer facilities such as supermarkets, clothing, beauty and home furnishing stores, food courts, banks/ATMs, restaurants, movie theatres, medical clinics and various other entertainment facilities. The area is home to a wide variety of restaurants and pubs offering continental, Ethiopian, Chinese, Oriental and African cuisines. There are a large number of public and private elementary schools in the area as well as some satellite college campuses. There are also many businesses in the area.

**Map 3.1: Map of Nairobi showing the location of Kilimani in Zone 4 of Nairobi City Planning Regulations**



Source: Nairobi City County

**Map 3.2 Satellite image showing location of Kilimani**



Source: Google Earth, 2016

### **3.3 Research Methodology**

#### **3.3.1 Research design**

A research design can be viewed as the structure of research. It is the “glue” holding the key research project elements together. A design helps in structuring the in order to demonstrate the key parts of the research work together in addressing the central research questions (Kombo and Tromp, 2006). Orodho (2003) further defines research design as the scheme, outline or plan used to generate answers to research problems. It can be viewed as arrangement of conditions for collection and analysis of data in a manner aiming at combining relevance with the purpose of the research. Furthermore, it is the conceptual structure within which the research is conducted. It offers the necessary blueprint for the collection, measurement and analysis of data (Kothari, 2003). Kombo and Tromp (2006) categorises research designs into various types including descriptive designs, experimental design, correlation design, case study design and cross cultural design.

This study adopts a case study design which seeks to describe in detail a unit not only in detail but also in context and holistically. It is a means of organizing educational data and

examining as a whole the object to be studied. In a case study, a great deal can be learned from a few examples of the phenomenon under study. The case study design is, therefore, selected in order to provide an in-depth investigation of the problem at hand. In this study, the case study selected is Kilimani area in Nairobi. The emergence of Kilimani as one of the zones with the highest growth of serviced apartments in Nairobi City offers a golden opportunity for serviced apartment accommodation analysis. A reconnaissance visit was conducted before the researcher commenced the actual execution of the study with intent of familiarizing with the study area.

### **3.3.2 Study Population**

Mugenda & Mugenda (1999) describes target population as the complete set of individual cases or objects with some common characteristics to which the researcher wants to generalize the results of the study. According to Kombo and Tromp (2006), it is important for the researcher to find out as much as possible about the study population. This includes demographics such as age, gender, sex and class of the population. The greater the differences and diversity that exists in the population, the greater the researcher's sample size. Taking into consideration the population's variability ensures the study's reliability.

The study sought to analyse the serviced apartments in Kilimani. Going by HVS (2015), Kilimani was second in serviced apartment development with 23 serviced apartment complexes in 2014 after Westlands. These 23 serviced apartments were taken in this study as the target population for the purposes of computing the sample size. From the researcher's preliminary drive - by survey of the area, Kilimani also has about 60 high end unfurnished apartments, 10 upscale furnished apartments, 37 office complexes and 6 hotels also considered in order to gather information required in the comparison of the serviced apartments investment performance with the other available real estate investment options.

### **3.3.3 Sampling techniques, sample size and distribution**

Orodho and Kombo (2002) views sampling as a procedure used by researchers in gathering people, things or places to study. It involves selection of a number of individuals or objects from a population, containing elements representative of the characteristics found in the entire group. Mulusa (1988) emphasizes that a sample must represent the target population or the universe in all aspects. Sampling is significant since it is not possible to study every

member in the whole population. By studying a few representatives of the population, one is able to learn a number of things about a large group hence saving time and money.

Sampling designs can broadly be categorised into probability and non-probability designs. Probability design involves randomly sampling people, things places or things. Within the population, each unit is granted an equal chance of being selected. In non-probability sampling, all individuals in the entire population are not giving an equal chance of being selected. Simple random sampling, systematic random sampling, stratified random sampling, mixed/multi-stage random sampling and cluster random sampling are the typical techniques for probability samples (Sarantakos, 2005). The various methods of non-probability sampling include quota sampling, convenience sampling and purposive sampling.

The sample size is computed based on the population estimated by HVS (2015), which ranked Kilimani as the second zone in Nairobi in serviced apartment development after Westlands with 23 serviced apartment complexes. For this study, a well representative sample size was arrived at using the formula below.

$$n = \frac{Z^2pqN}{e^2 (N-1) + Z^2pq}$$

(Chava and Nachmias, 1996)

Where: N=Number of households; n=sample size; p=sample population assuming a 95% confidence level of the target population; q=1-p, e=Acceptable error i.e. 5% while Z=the standard normal deviate at the required confidence level i.e. 1.96.

$$n = \frac{1.96^2 * 0.95 * (1-0.95) * 23}{0.05^2 * (23-1) + 1.96^2 * 0.95(1-0.95)}$$

n= 17.6 or say 18 serviced apartments (Sample Frame used is 18 serviced apartments)

Simple random sampling was adopted in distributing the questionnaires. By use of simple random sampling, researchers are enabled to use statistical methods to analyze sample results. Each of the identified serviced apartment complexes in Kilimani was allocated a number and placed in a box and shaken properly so as to give each complex a chance of being selected. Most of the data sought in the survey related to the performance, services offered, challenges,

constraints and drivers of serviced apartments growth. The most resourceful respondents with this information for the selected complexes, therefore, constituted the developers or property managers and in their absence the caretakers or any other developer's representatives were issued with the questionnaires. In order to gather the guests' perceptions towards serviced apartments, each of the selected serviced apartment complexes was also issued with an extra questionnaire for the guests or occupants to fill.

The primary reason for a rational investor investing in serviced apartments is the hope that he or she stands to gain more by investing in serviced apartments rather than other available investment options. In order to facilitate comparison with other related investment option such as residential and hotel developments, the researcher also collected the performance data for furnished but not serviced apartments, unfurnished apartments and hotels in Kilimani by interviewing the management of the selected developments. As noted earlier, the researcher conducted preliminary drive - by survey of the area and observed that Kilimani has about 60 high end unfurnished apartments, 10 upscale furnished apartments, 37 office complexes and 6 hotels. Questionnaires were designed for these respondents and distributed using simple random sampling just like the serviced apartments questionnaires. According to Mugenda and Mugenda (2003), a sample size of between 10 and 30 % offers a good representation of the target population and hence a 30% sample size was considered adequate. The sample sizes were calculated as follows:  $30\% * 60 = 20$  unfurnished apartments complexes,  $30\% * 10 = 3$  furnished apartments,  $30\% * 37 = 11$  office complexes and  $30\% * 6 = 2$  hotels.

#### **3.3.4 Data Categories**

Both primary and secondary data were collected during the study. Secondary data comprises a thorough literature review of documented information from publications, journals, reports and case studies amongst others. The aspects reviewed include the serviced apartment concept, classification of serviced apartments, serviced apartments operating model, key considerations and the serviced apartments' global outlook. The Kenyan guests' accommodation highlighting its structure and the policy, legal and institutional framework was also reviewed. This assisted in developing the conceptual framework. The field survey of Kilimani area assisted in the collection of primary data. The primary data sought include determination of the growth and the performance of serviced apartments in Kilimani, drivers of serviced apartments growth, challenges and constraints associated with serviced apartments development and the avenues of strengthening the serviced apartment sector.



### **3.3.5 Data collection instruments**

Both primary and secondary instruments were employed in collecting the necessary information. Questionnaires administered to the selected respondents were used during collection of primary data. Clarification was given to questions where respondents had difficulties. Kothari (2004) states that a typical questionnaire comprises of couple of printed and typed questions in a definite order on a form or set of forms. Both structured and open ended questions were used. The close-ended questions provided more structured responses while open -ended questions helped in testing the rating of various dimensions.

In order to gather detailed information that cannot be obtained through administration of questionnaires, both oral and written interviews were also applied. This was undertaken by identifying the various key informants and seeking their indulgence. Appointments were booked for the interviews and the researcher ensured that he honours all the appointments.

Personal observation and photographs also served a very useful purpose. Personal observation involve information sought through the investigator's own direct observation without asking the respondents while photographs captured information as it is on the ground. This was used in capturing existing serviced apartments conditions in the area of study. Direct measurement was also used especially in determining the sizes of the serviced apartments and the distance of the complexes from amenities among others.

Secondary data was compiled through review of both published and unpublished literature relevant to the study. These include books, position papers, articles, internet, magazines, newspapers, reports, journals, legislations and government policies. Maps and physical development plans of the area from the relevant authority constituted secondary data as well.

### **3.3.6 Data analysis and presentation**

The collected data was analyzed using both qualitative and quantitative methods. Qualitative data was analyzed manually by first summarizing the information gathered, followed by categorization and coding into emerging themes and presenting in a narrative form. The results were presented in terms of percentages, frequencies, figures and tables so as to facilitate easy interpretation and understanding of the information by the users. A brief explanation of each was then offered. Likert scale was used for the data.

Quantitative data was organized, coded, standardized and then descriptive statistics was used in the analysis aided by Microsoft office programmes such as word and excel. The reason for choosing these programmes is because they are user friendly, can easily be used to answer multi-response questions and the fact that they can relate two or more sets of variables. Descriptive analysis was carried out to provide simple summaries about the sample and the measures e.g. the distribution, the central tendency and the dispersion. Tables were used in the data presentation. Inferential statistics were then used to make inferences from the data. The findings of the study formed the basis of coming up with the conclusions and recommendations.

### **3.3.7 Ethical issues**

Permission to carry out the study was sought from the relevant authorization bodies. Informed consent was sought from all the study participants and all subjects were made to participate voluntarily. Confidentiality was assured and maintained at all times. The researcher accepted individual responsibility for the conduct of the research and as far as foreseeable the consequences of that research.

### **3.3.8 Limitations of the study**

The researcher experienced a couple of challenges while carrying out the research. To begin with the study was undertaken while still working and therefore most of the data collection had to be undertaken during the weekends and odd hours. To address these issues, the researcher worked on a tight program often requiring adjustment and sacrifice of even part of the social life. In some cases the required respondents were away or engaged in their work. In such cases the researcher left the questionnaires for filling and then picked them later. Access to the complexes was a challenge especially where security guards and the respondents were suspicious of the motives of the survey. Other suspicious respondents refused to answer the questionnaires fearing that the research might expose them to threats. It was also very difficult to gather some data especially the financial performance information which is held with a lot of secrecy. These problems were easily solved through adoption of appropriate interpersonal skills in persuading and correcting such misperceptions. The researcher tried to address such problems by ensuring careful personal introduction and attentive introduction of the purpose of the study. A few respondents could not fully comprehend some of the issues. In such instances the researcher had to provide assistance in interpreting the issues.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION

#### 4.1 Introduction

This chapter gives a detailed presentation of the data and information that the researcher collected from the field. Data collected was analyzed using both qualitative and quantitative methods and presented in form of percentages, frequencies, figures, photographs, written texts, pie charts, bar graphs and tables so as to facilitate easy interpretation and understanding of the information by the users. A brief explanation of each was then offered.

As discussed in the previous chapter, this data was collected mainly by use of questionnaires administered to the sampled population together with interviews to clarify issues raised in the questionnaires thereof. Observations, street surveys as well as photographs were also used to capture the real life situations and features in the case study area pertinent to the study. Data analysis and production was done with aid of a computer.

Six categories of questionnaires and one category of interview guide were designed for the purpose of data collection. Questionnaires targeted the developers, property managers, caretakers and guests of the serviced apartments including the management of the furnished apartments, unfurnished apartments, hotels and offices in Kilimani. Analysis of the collected data was guided by the objectives and hypothesis of the study.

**Table 4.1: Distribution of the questionnaires and the response rate**

Respondents		Questionnaires issued	Questionnaires Received	Percentage Response
Serviced apartments	Developers, property managers and caretakers	18	15	83%
	Guests	18	15	83%
Unfurnished apartments		20	14	70%
Furnished apartments		3	2	67%
Offices		11	8	73%
Hotels		2	2	100%
<b>Total</b>		<b>72</b>	<b>56</b>	<b>78%</b>

Source: field survey 2016

From the above table, it can be noted that there was a 78% response rate and only 22% formed the non-respondent. Mugenda (1999) underscores the fact that a response of 50% is adequate for analysis and reporting. A response rate of 78% was, therefore, considered adequate enough to give valid and reliable results.

## **4.2 Serviced apartments growth and performance in Kilimani**

### **4.2.1 Serviced apartments supply**

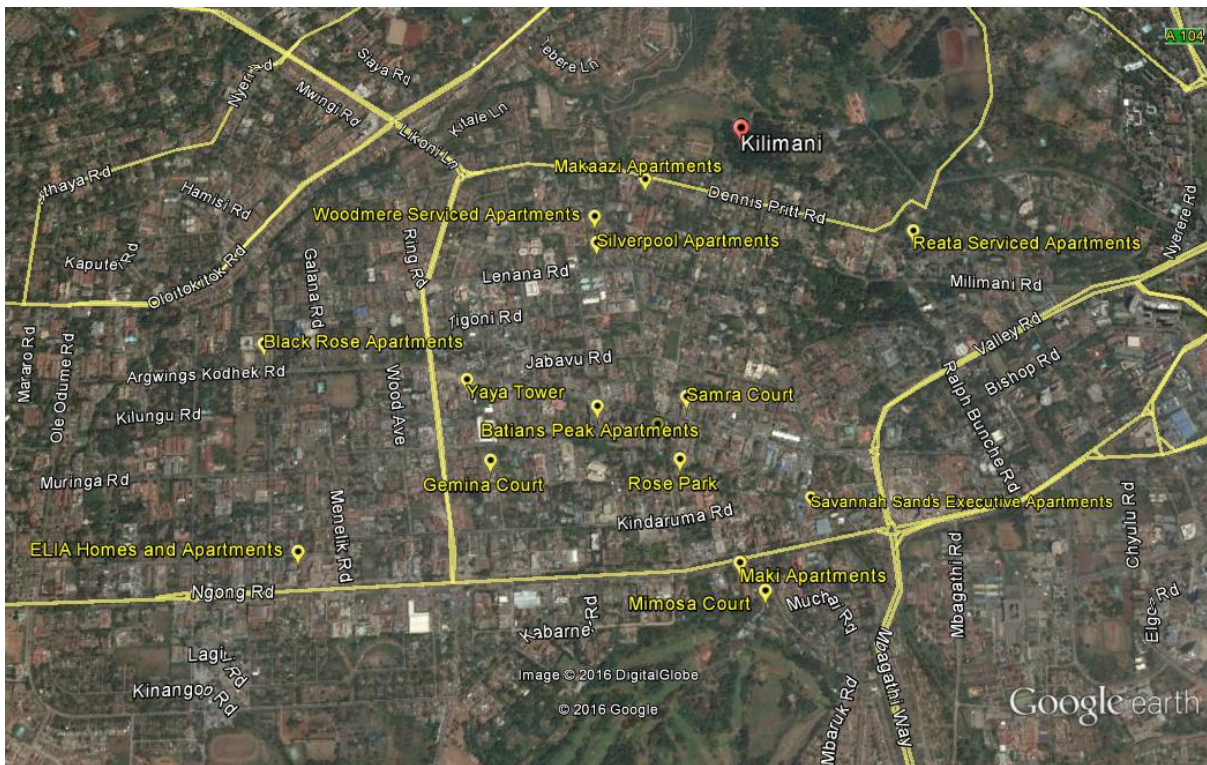
The serviced apartment market in Kilimani and in most of the popular zones of Nairobi is a highly fragmented real estate sub-sector. The supply of serviced Apartments in Kilimani has been on the rise for the last five years. Our study estimates that Kilimani has over 24 serviced apartment complexes with approximately 808 units which include properties located along Dennis Pritt, Lenana Road and Ngong Road. The area boasts one of the highest rental rates of serviced apartments in the city mainly driven by its close proximity to the CBD, hospitals, schools and shopping malls while augmented by an open road network providing easy linkages and great access to public transport.

**Table 4.2: Serviced apartments in Kilimani**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>No. of Complexes</b>	17	18	19	23	24	24
<b>No. of Units</b>	518	537	625	710	808	808

Source, Field Survey 2016

**Map 4.1: Location map of serviced apartments in Kilimani**

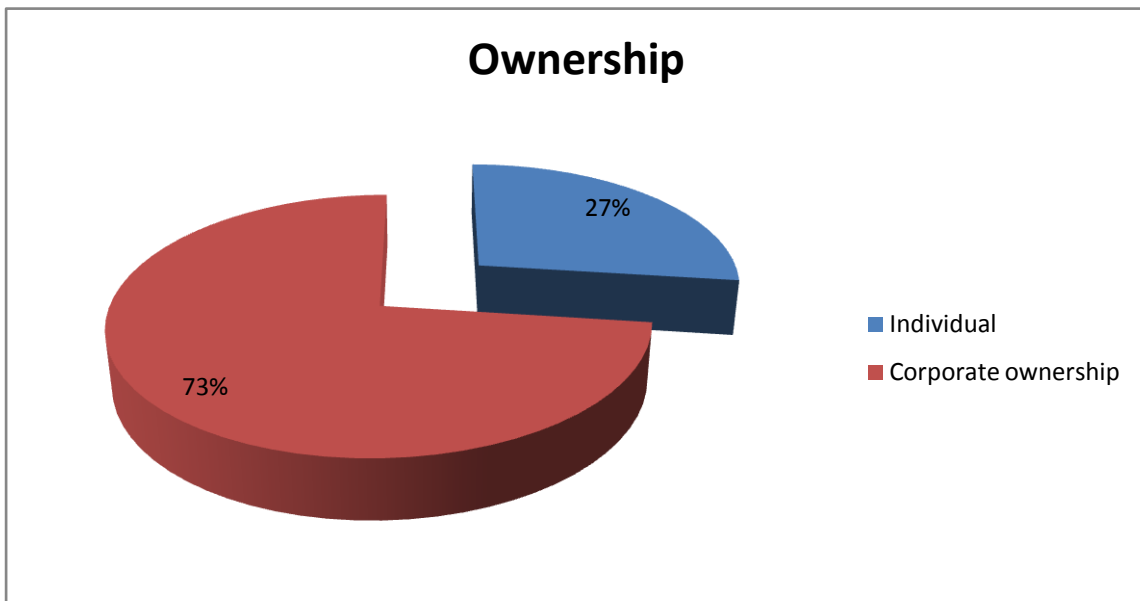


Source, Google Earth 2016

As can be seen in the map above, Kilimani's serviced apartment market is very vibrant and is still growing. The serviced apartments enjoy all mains water, electricity and public sewer including social economic amenities such as shopping malls, churches, schools and entertainment areas. Most of the new and coming up complexes are more upscale with more amenities in order to meet the clients' requirements in a better way. Accessibility is good owing to the areas good road network. The area is bound to open up to the neighbouring areas like Kileleshwa, Westlands, CBD, Upperhill, Lavington and Ngong Road. This is because of the good progress in infrastructure development in the neighbourhood. The link roads from James Gichuru Road passing through Kileleshwa to Kilimani's Likoni Lane are now complete. The Westlands Ring Road – Gitanga Road link road is also complete. Construction is still ongoing for the Southern By-pass which joins Ngong Road to Mombasa Road to City Carbanas near the Jomo Kenyatta International Airport. However, most of the serviced apartments are located on the second row plots and, therefore, provided with feeder roads some of which are very narrow and in a poor state which calls for urgent expansion and renovation.

This study found out the mode of serviced apartments' ownership in Kilimani. The chart below shows the mode of ownership of serviced apartments in Kilimani.

**Figure 4.1: Serviced apartments ownership**

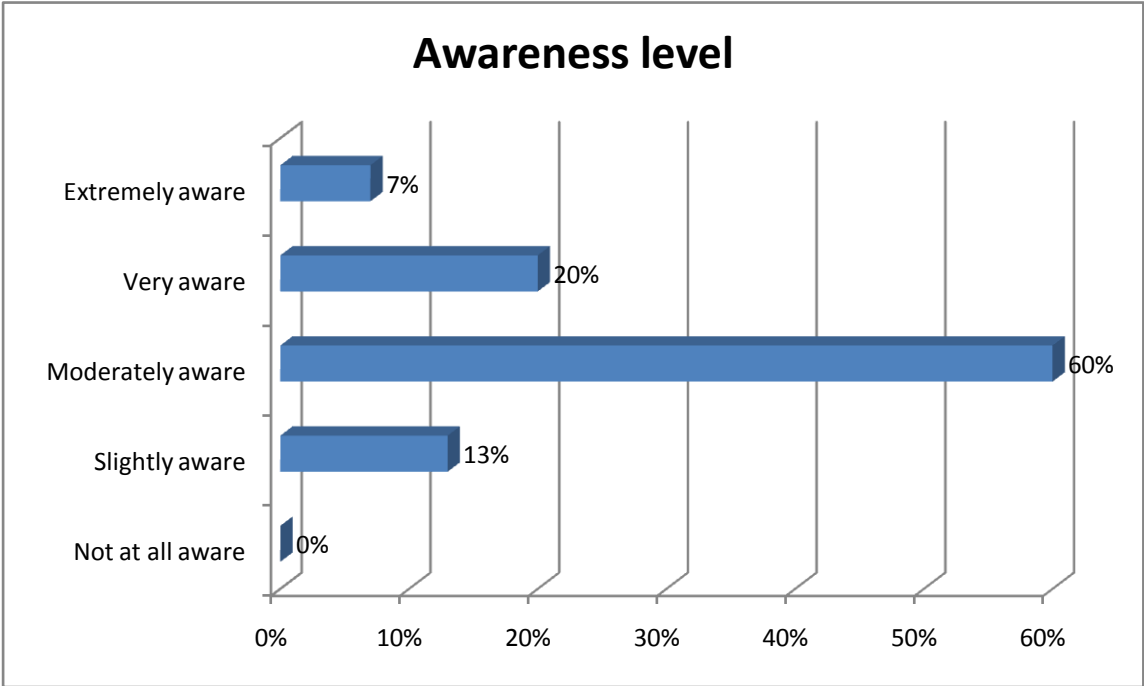


Source, Field Survey 2016

27% of the serviced apartments in Kilimani were found to be individually owned while 73% are corporate owned. The largest portion of the apartments under corporate ownership is for individuals who have registered the properties in the name of their companies leaving a very negligible portion of the apartments owned by hotel chains. This is an indication that the serviced apartment industry is relatively undeveloped, as the majority of apartments are under unbranded operators.

The researcher also noted that although serviced apartment is a contemporary accommodation concept, its awareness level and popularity is rapidly growing especially amongst the extended stay travellers. The chart below shows the serviced apartments awareness level in Kilimani.

**Figure 4.2: Serviced apartments awareness level**



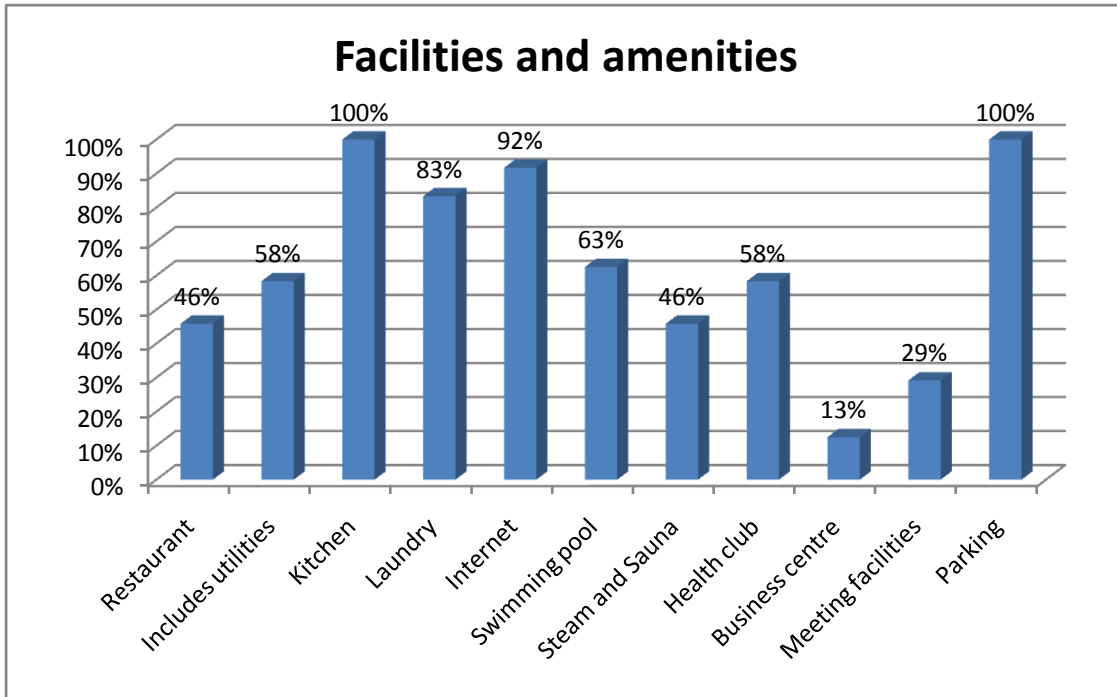
Source, Field Survey 2016

Most of the respondents rated serviced apartments awareness level as moderate (60%) which is good. However, it was noted that there is need for robust marketing using the modern mode of communication such as ICT in order to create the necessary competitive edge. Branding is necessary while developers should come up with products that meet the guests’ requirements.

**4.2.2 Facilities and amenities**

The survey found out that serviced apartments units are furnished with a fully equipped kitchen, bedroom, living and working area with Wi-Fi internet access. There are also common area amenities such as swimming pools, gyms, steam rooms, saunas and an occasional restaurant including reception and housekeeping services. For aparthotels which is a new concept in Kenya such as Waridi Paradise Apartment Hotel, the services offered resemble the hotel product. The apartment unit products are similar to the furnished and serviced units. The key differentiation in aparthotels is in the services and amenities offered. There is usually a 24 hour lobby receptions; daily housekeeping services; laundry services; self-managed on premise restaurants; and amenities in the form of swimming pools, gyms, health clubs and steam rooms/saunas. The chart below shows the facilities and amenities ranking in Kilimani.

**Figure 4.3: Serviced apartments facilities and amenities**

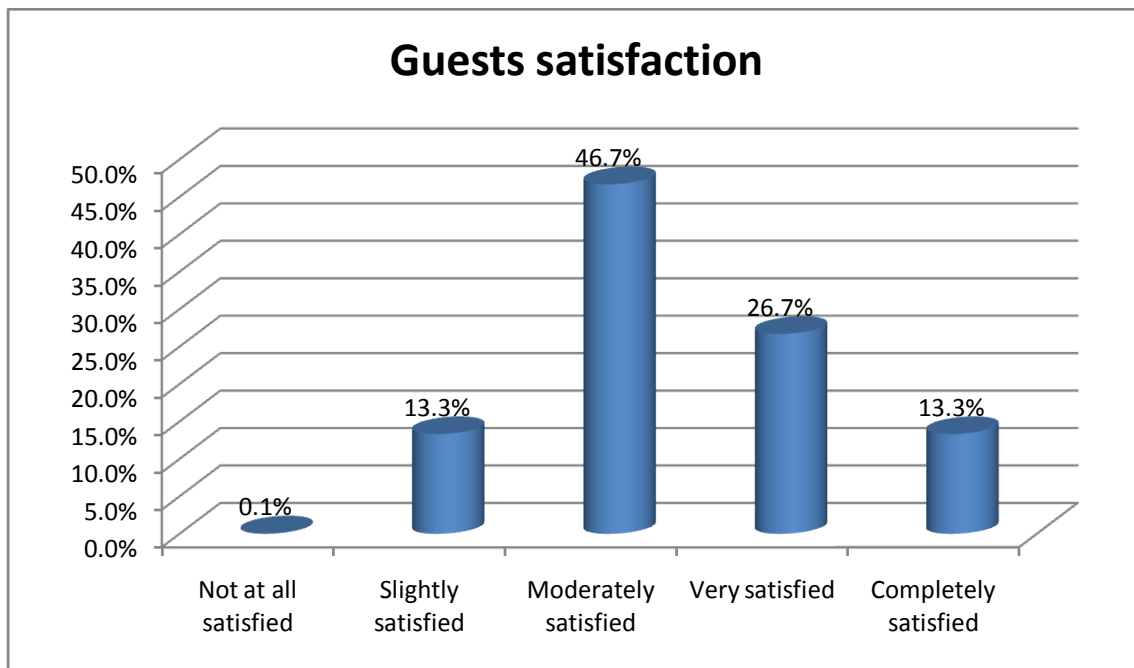


Source, Field Survey 2016

100% of the serviced apartment complexes in the area offer a kitchen and parking facilities, 92% offer internet, 83% offer laundry, 63% offer swimming pool, 58% offer health club and includes utilities, 46% offer a restaurant, steam and sauna, 29% offer meeting/conference facilities and 13% offer a business centre. It is imperative for any developer to analyse the guests' requirements and seek to incorporate those requirements in the development and operational processes. Units offering quality facilities and amenities fetch higher rentals, record lower vacancies and in return are able to fetch a higher return which is the primary objective of any investor. Guests also expect value for their money. The study also analysed the guests' satisfaction with the services offered and came up with the following findings.



**Figure4.4: Guests satisfaction level with the services offered**



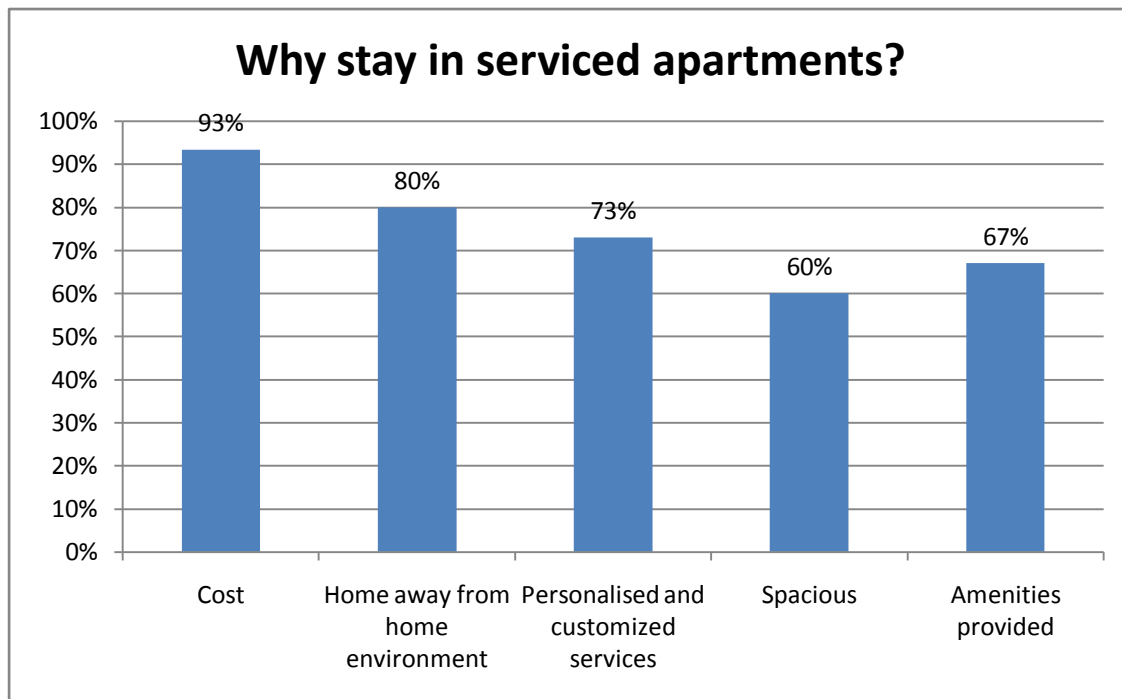
Source, Field Survey 2016

The chart above indicates that majority of guests (46.7%) are moderately satisfied with the services and facilities offered by serviced apartments. Guests were found to be highly concerned with the quality of customer service rendered from the security guard, reception, kitchen staff and waiters to the management; spacious and clean rooms; nice flower gardens; quality of meals, relaxation comfort, nice views and the availability of amenities such as swimming pool and health club. Some guests also value the ease to commute to meetings around town and accessibility to social economic amenities such as shopping malls.

As modern apartments continues to be developed and as competition continues to grow from similar serviced apartments and from other accommodation options such as hotels, the quality of services and facilities is expected to improve even further as developers seek to improve their competitive edge. Guests are also becoming more informed especially with the enhanced information communication technology while branding is also expected in the near future. These factors will in return enhance the guests' satisfaction. Serviced apartments that are not capable of meeting guest requirements have no business being in the market.

The other aspects analysed are the reasons why guests seek serviced apartments instead of other forms of accommodation such as hotels. The findings are as reflected in the chart below.

**Figure 4.5: Benefits of serviced apartments**



Source, Field Survey 2016

93% of guests prefer serviced apartments due to their cost saving aspect compared to traditional hotels and motels. Serviced apartments benefit from the lower operating costs than hotels arising from the limited amount of staff and the fewer services offered. As a result they are able to charge lower room rates than hotels. 80% of guest choose serviced apartments due to their home away from home environment such privacy, 73% due to the ability to personalise and customise the services to suit the guests requirements, 60% because serviced apartments offers spacious rooms and 67% since serviced apartments offers amenities close to those found in a hotel. Cost saving aspect took the lead mainly because most of the guests are business travellers who are usually given per diem allowance rate for lodging, for meals and incidental expenses and hence tend to be conscious about their expenses.

### **4.2.3 Serviced apartments performance**

The study found out that serviced apartments units in Kilimani are categorised into studios, one bedroom, two bedroom, three bedroom, four bedroom and penthouses. These units have different sizes. Of all the six units one bedroom and two bedrooms are more popular. This classification is the same for unfurnished and furnished apartments. On average the room sizes and the rentals for different units is as follows.

**Table 4.3: Serviced apartments sizes and rentals comparison**

	<b>Studios</b>	<b>One Bedroom</b>	<b>Two Bedroom</b>	<b>Three Bedroom</b>	<b>Four Bedroom</b>	<b>Penthouse</b>
<b>Size (Sqft)</b>	750	950	1,350	1,900	2,300	2,600
<b>Serviced Apartments</b>	140,000	190,000	230,000	270,000	350,000	520,000
<b>Furnished apartments</b>	100,000	120,000	150,000	180,000		
<b>Unfurnished apartments</b>	70,000	80,000	90,000	105,000	120,000	135,000
<b>Hotels</b>		250,000	280,000			

Source, Field Survey 2016

The table above indicates that the unit sizes increase from studios to penthouses and as a result the rentals also vary. It also indicates that hotels fetch higher rentals followed by serviced apartments, furnished apartments and unfurnished apartments in that order. The rental variation is mainly due to the differences in the services and facilities offered by the different forms of accommodation. However, apartment hotels such as Waridi Paradise located along Rose Avenue have a rate tariff almost similar to that of hotels which can be attributed to the level of services offered.

**Plate 4.1: Waridi Paradise Apartment Hotel**



Source: Field Survey 2016

The apartment hotel offers 46 units in three different categories - single hotel rooms, one bedroom apartments and two bedroom apartments. Guests amenities comprises Wi-Fi internet connection; mini bar; in-room safe; DSTV; well-appointed furniture; conference facility with fast internet connection, a large LCD screen for projection with VGA and HDMI connectivity; health club with a gym, steam and sauna room; free Parking; kitchenette; Restaurant; receptionist; laundry and a solar heated pool for a warm water dip even during a dull weathered day.

It should also be noted that operating expenses also increases from unfurnished apartments to hotels due to the higher staff ratio and more facilities and amenities offered. The study also analyzed the 2015 financial performance of serviced apartments in comparison with hotels and came out with the following information.

**Table 4.4: Serviced apartments performance in comparison with hotels**

<b>Performance measurement criteria</b>	<b>Serviced apartments</b>	<b>Hotels</b>
<b>Occupancy (%)</b>	80%	60%
<b>Average Daily Rate (ADR) (Kshs)</b>	4,800	9,000
<b>Revenue per available room (RevPar)</b>	3,840	5,850
<b>Operating expenses</b>	40%	70%
<b>EBITDA</b>	60%	30%

Source, Field Survey 2016

In comparison with hotels serviced apartments were found to record higher occupancies (80%) than hotels (60%). This is because of the expanding long stay guests in the Nairobi currently requiring favorable rental rates. The ADR for serviced apartments(Kshs. 4,800/-) is lower than that of hotels (Kshs.9,000/-) which is mainly because of the lower rates charged by serviced apartments. The revenue per available room (RevPar) is also lower due to the same reason above. It should however be noted that the 2015 ADR and RevPar for both serviced apartments and hotels were low which can be attributed to the security and health concerns that adversely hit the country. As a result hotels, serviced apartments and other forms of accommodation were forced to lower their daily rates so as to attract visitors. As the industry normalize it is expected that the hotels average daily rate will increase towards Kshs.15,000 while that of serviced apartments to be at least Kshs.5,000/-. The occupancy and the RevPar for both are also expected to improve.

The higher incomes in a hotel also come with higher operating expenses. Hotels for instance have a higher staff ratio and also offer more services and facilities which add on the operating expenses. The study estimates that operating expenses for hotels and serviced apartments ranges between 70% and 40% of the total revenue respectively. This demonstrates the cost saving benefit of serviced apartments which leads to lower room rates. In regard to serviced apartments, some of the major expenses include salaries (5%), power (10%), DSTV (3%), cleaning and supplies (1%) and laundry at 3%. For hotels, payroll and related expenses alone forms about 20% of the total expenses while payroll contracted expenses are about 22%.

**Table 4.6: Serviced apartments returns in comparison with other development options**

<b>Investment type</b>	<b>Yield/return</b>
Serviced apartments	8%
Furnished apartments	7%
Unfurnished apartments	6%
Offices	8.5%
Hotels	12%

Source, Field Survey 2016

The study found out that hotels are the real estate investment vehicle with the highest returns (12%). Of course the higher the returns the higher the risk. In Kenya, the hotel industry for instance is currently witnessing a high level of uncertainty due to security and health concerns afflicting the country. Despite these concerns hotel development in Kenya has been high perhaps due to saturation in other real estate investments and the emergence of Nairobi as a business hub and the gateway to Africa.

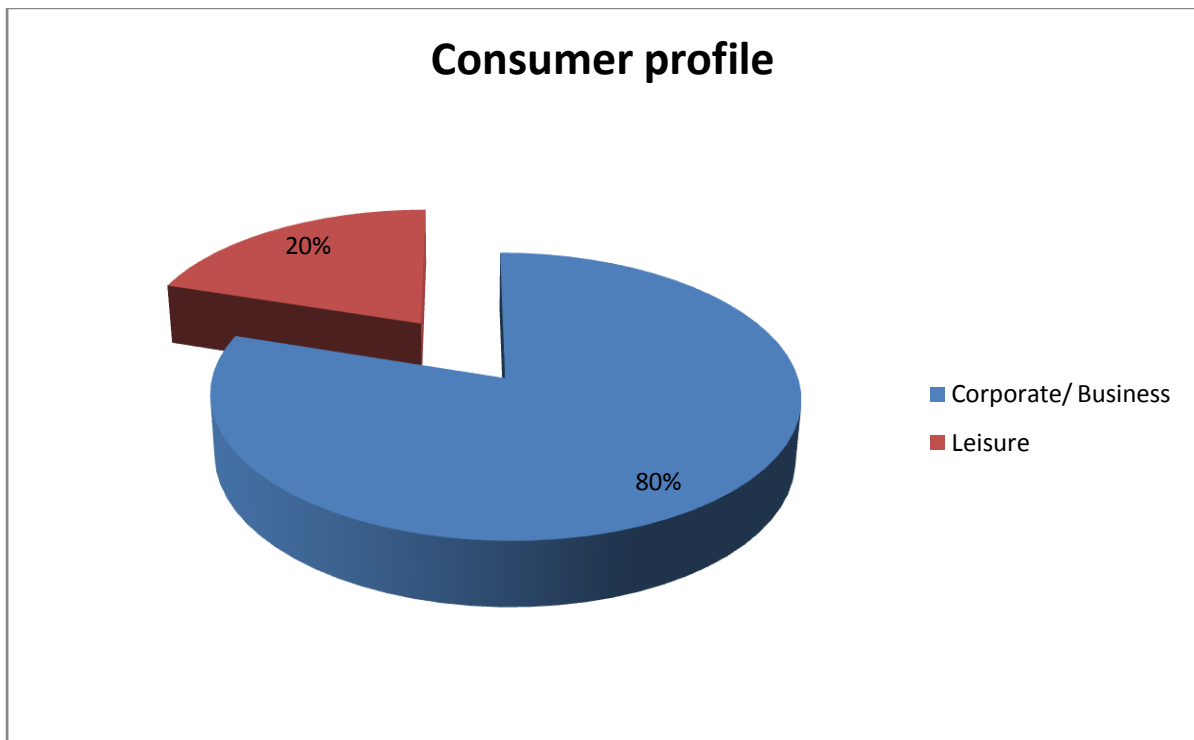
The returns from offices follow at 8.5% followed by that of serviced apartments (8%), furnished apartments (7%) and unfurnished apartments (6%) in that order. For the available accommodation options, serviced apartments returns came second after hotels ahead of the furnished and unfurnished apartments which demonstrates the viability of serviced apartments as an investment option. Serviced apartments have grounded themselves as an alternative to hotels. They also seek to fill the gap between hotels and residential developments. Furthermore, relies heavily on tourism and hospitality industry. This sector cannot grow without development of a variety of accommodation options for the guests to choose from. Therefore, investment in this product should be encouraged.

### 4.3 Demand and growth drivers

#### 4.3.1 Consumer profile

Understanding the consumer profile of any business is very important. For the serviced apartments, this assists in planning how the requirements for the different demand segments will be met. It assists in determining the extent to which different factors affects the performance. The chart below shows the serviced apartments consumer profile.

**Figure 4.6: Serviced apartments consumer profile (business and leisure)**

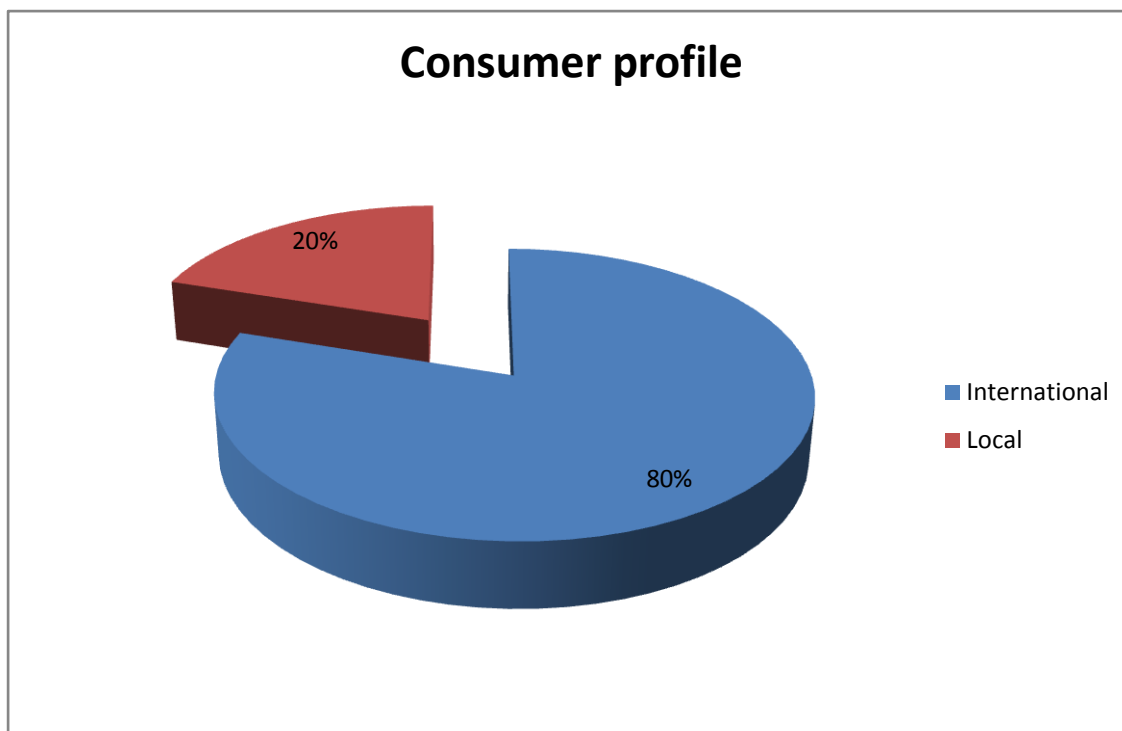


Source, Field Survey 2016

From the chart above, 80% of the serviced apartments guests are corporate/business travellers while only 20% are leisure travellers. Traveller accommodation customers seek a range of product, service, location and cost attributes that vary depending on the purpose of travel. The serviced apartment product was borne from such segmentation, and it is the augmentation of the segment which is driving growth of the industry.

It is also necessary to understand the consumer profile in line of the origin of the guests (international and local). This research established that international customers make up to 80% of the serviced apartments business while local customers make up to 20%. The chart below clearly depicts the analysis of the consumer profile based on the guests' origin.

**Figure 4.7: Serviced apartments consumer profile (local and international)**



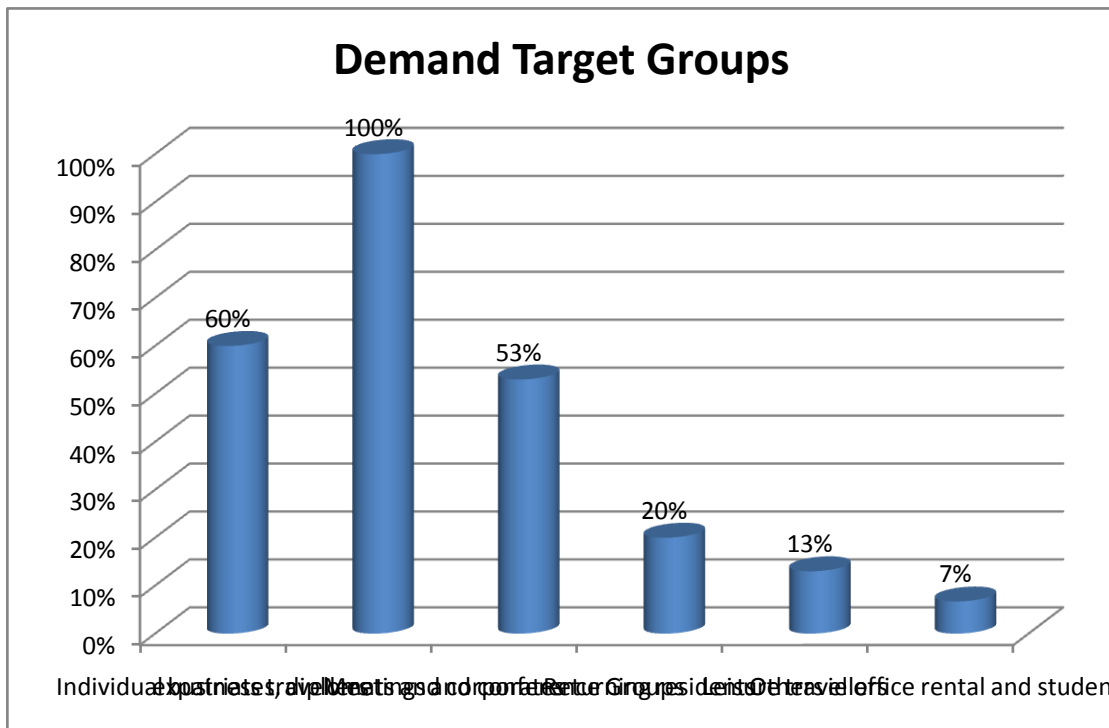
Source, Field Survey 2016

#### **4.3.2 Demand drivers**

Serviced apartments have become very popular with corporates and expatriates who have relocated and are looking for flexible accommodation which offers a ‘home away from home’ accommodation for the duration of their stay. According to the study’s findings, serviced apartments demand target groups can broadly be categorized as follows.

- Individual business travellers
- Expatriates, diplomats and corporates
- Meetings and conference groups
- Returning residents
- Leisure travelers

**Figure 4.8: Key demand target groups**



Source: Field Survey 2016

100% of the respondents said that they target expatriates, diplomats and corporates; 60% targets individual business travellers; 53% targets meetings and conference groups; 20% targets returning residents; 13% targets leisure travellers and 7% targets other segments such as office rental and students. This indicates that the key market for serviced apartments are extended stay expatriates, diplomats, corporate clients and people coming in the country to attend meetings and conferences. This people mainly come from the local private and public organizations, foreign missions, regional and multinational organizations. The presence of a large number of foreign missions in Kenya results in high demand for diplomat housing. These groups of people are usually given per diem allowance rate for lodging, meals and incidental expenses. They therefore tend to prefer cheaper accommodation options such as serviced apartments so as to save some money. Some organizations also put caps on their personnel expenses depending on their job group. Other people tend to travel with their families or as a group and therefore need more spacious accommodation. Serviced apartments therefore tend to be ideal for these groups.



**a) Individual business travellers**

Individual business travellers come to Nairobi to undertake business or seek business opportunities in their own personal capacity. The demand, whether local or international, is from corporations, institutions, governments and universities comprising of persons travelling alone or in small numbers, typically less than five people. A large number of international visitor arrivals at JKIA come for business. The number of individual business travellers is expected to continue increasing as Nairobi increases in significance as a regional hub and realizes its potential as a gateway city for Africa.

Individual business travellers demand is based on the proximity of their accommodation to the area they are conducting business, mainly generated on weekdays for short periods of time ranging from 2 nights to several months. Their demand is very similar to expatriate demand; however, their unique requirements include: preference for a bed and breakfast package; single units for all members in one group, seldom sharing rooms or apartments; convenience of an onsite dining venue; multiple security features; business related facilities such as a business centre; a small meeting room on site offered complimentary or for a nominal fee.; and a fast internet connectivity, preferably complimentary.

**b) Expatriates, diplomats and corporates**

Expatriates, diplomats and corporates, whether travelling alone or with family, demand upscale, fully furnished and serviced homes with some touch of value addition; multiple security features; a rental rate inclusive of all utilities and communication services; power and water back-up options to mitigate against down time caused by fluctuations; fast Internet connectivity on complimentary basis; TV channels with international programming or DVD players; in unit washing and drying machines or in-house laundry services at nominal costs; recreation amenities such as a gardens, fitness rooms, swimming pools, steam, sauna, residents clubs etc.; and maximum privacy and seclusion.

**c) Meetings and conference groups**

Demand in this segment is generated primarily by local, regional, international companies, government and other public institutions holding training sessions, conferences, product launches or small meetings, as well as government and association meetings. In 2015 a couple of international conferences were held in the country which was a major boost to the

industry. As Nairobi continues to strengthen its position as a regional hub for both private and public institutions, the need for conference facilities is expected to greatly increase, boosting the demand for quality meeting space. Future demand potential in the meetings and conference segment is closely related to the growth trend expected for the corporate segment since most meetings have either direct or indirect business purpose. The economic considerations that have an impact on business travel also affect meeting and conference demand.

**d) Returning residents**

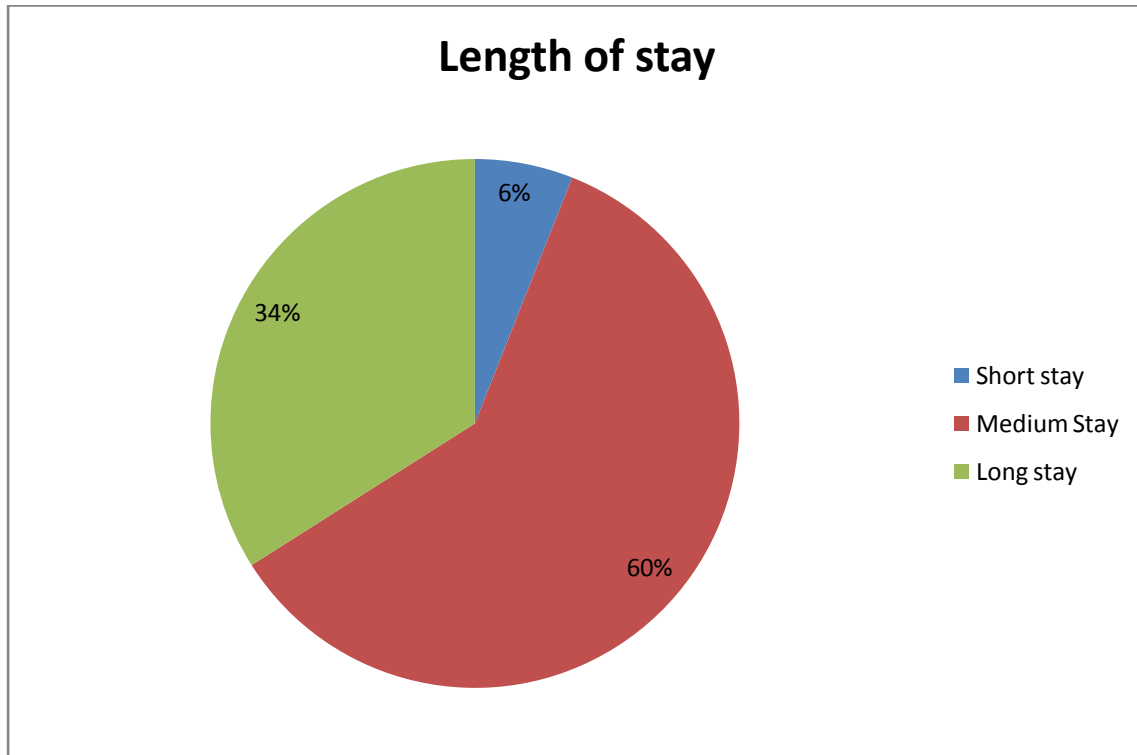
A small section of demand comes from returning residents who are relocating back to Kenya from a period of time spent abroad. The returning residents may be alone or with immediate family. They seek a temporary home while they settle and look for a permanent home or while they await their items to be shipped home. They demand: flexible accommodation, preferably in a single hotel room or apartment; local news from TV and newspapers as they seek to reconnect with current affairs; an onsite dining venue or a private lounge for entertaining guests; taxi or car rental services; multiple security features; fast Internet connectivity; and recreation amenities such as a gym, pool, steam, sauna etc.

**e) Leisure travellers**

The leisure segment comprises mostly foreigners. Leisure demand is strongest during the peak tourism months of November to March and July to August. These peak periods are negatively correlated to commercial visitation, underscoring the stabilizing effect that the capture of holiday travel has. The typical length of stay ranges from one to two days in Nairobi often at the start or end of a safari itinerary. Ease of access to roads and retail centres are important considerations. Leisure demand is particularly susceptible to any kind of security disruptions. Due to fresh insecurity incidents with terrorism, grenade attacks and tribal clashes, leisure demand has slowed down in the recent past sub-segment of leisure demand comes from diaspora residents on vacation. Demand from this segment peaks in the July-August period and again in December. Diaspora members are either travelling alone, as a couple or as a family; hence they demand a single unit or a three bedroom family unit and heavy discounts. Serviced apartments do not largely target leisure travellers apart from the extended leisure travellers.

This study also analyzed the guests' length of stay. To begin with, it was found out that most of the rate tariffs for the different complexes incorporate a daily rate, weekly rate, monthly rate and annual rate. The monthly rates were noticed to be more popular. Our interview of the guests established that their length of stay is as follows.

**Figure 4.9: Length of stay**



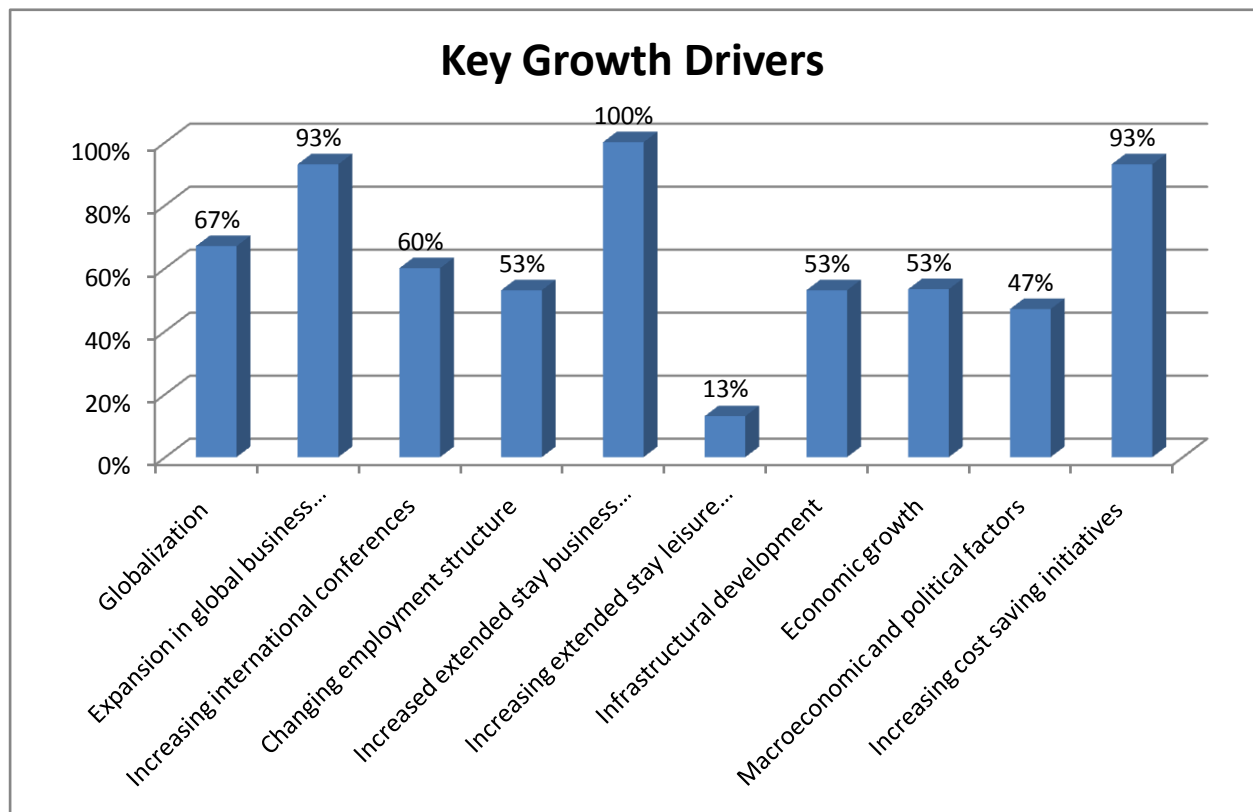
Source, Field Survey 2016

60% of the guests were medium stay travellers (guests with a length of stay of between 1 and 6 months), 34% were long stay travellers (guests with a length of stay of over 6 months) while 6% were short stay travellers (guests with a length of stay of less than a month). These three segments have different objectives. The extended stay travellers (medium and long stay) have a budget to stick to, are very conscious about their expenses, prefer personalized and customized services, and often require some discount unlike short stay guests. However, short stay guests demand a higher level of services. These are some of the reasons why serviced apartments are very popular to the medium and long stay travellers.

### 4.3.3 Key growth drivers

This research analyzed the key growth drivers of serviced apartments development and identified the following factors as the force behind serviced apartments establishment in Kilimani.

**Figure 4.10: Key growth drivers**



Source, Field Survey 2016

The survey established that the key driving factors behind serviced apartments establishment are increasing extended stay business travels (100%), expansion in global business travellers (93%), increasing cost saving initiatives (93%), globalization (67%), increasing international conferences (60%), changing employment structure (53%), infrastructural development (53%), economic growth (53%), macroeconomic and political factors (47%) and increasing extended stay leisure travellers.

To elaborate the factors above, it is worth noting that Nairobi remains the gateway to East Africa and the region's primary business hub. Despite various challenges, the city still remains one of the most attractive cities to invest in. The growing investments by local and multinational companies are a testament to this rapidly expanding city. These factors can be

said to be the main causes of the expansion in extended stay business travels to the country. These business travellers come to make deals and not for leisure and therefore accommodation option with cost saving benefits is preferred. Serviced apartments cost saving advantage boosts the product's popularity amongst the corporate/business travellers especially those paid per diem allowance for their accommodation and other expenses. These travellers tend to prefer serviced apartments so that they can cut expenses and in return save some few coins.

Globalization as a result of the modern information communication technology has also contributed to the serviced apartments' expansion. The world has indeed become a global village whereby people can easily connect with each other regardless of the geographical space between them.

International meeting and conferences are increasing. Nairobi, for instance, hosted a couple of conference in 2015 such as the 2015 Global Entrepreneurship Summit and the 10<sup>th</sup>WTO Ministerial conference. There were also a number of world's dignitaries such as President Obama and the Pope. These conferences and visitation by global leaders comes with huge delegation requiring temporally accommodation. During their stay in the country, serviced apartments and hotels usually record very high occupancy levels.

Changing work practices are increasingly requiring that business professionals work away from home on a short to medium term basis. For instance some work requires periodic travel for meetings with clients, suppliers or colleagues which represent the basis of demand for serviced apartments. Staff attending training sessions and people providing training courses also require longer-term accommodation alongside a range of other individuals.

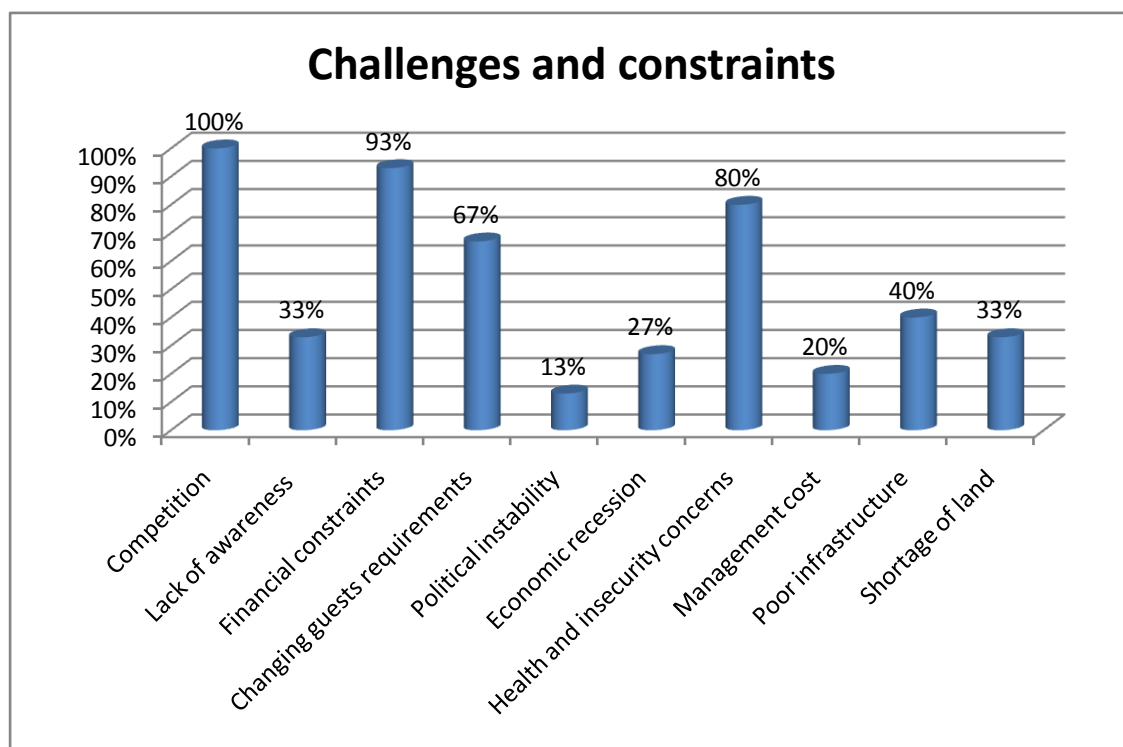
The massive infrastructural development such as the enhanced road network and increased air travel undertaken in the last few years have opened up even remote areas for development and have also connected the country to the rest of the world which is very critical for the growth of serviced apartments sector. Lastly, the Kenyan economy has remained resilient despite the various shocks that have hit the country. The Kenyan economy is the biggest in East Africa and is among the biggest in Africa which makes the country attractive for investment. With over 5% annual economic growth, the Kenyan economy is firmly on the rise which is an indication for further growth in sectors such as real estate where serviced apartments falls. Other factors that have contributed to the growth though not to a greater

extent include increased leisure travellers. Leisure travellers in particular families are considered to appreciate serviced apartments.

#### 4.4 Challenges and constraints facing serviced apartments development

As serviced apartments sector evolve, challenges and constraints are inevitable. This study, therefore, could have been incomplete without analysing the challenges and constraints encountered in the serviced apartments’ development journey. The chart below presents the challenges and constraints associated with serviced apartments’ establishment.

**Figure 4.11: Challenges and constraints**



Source, Field Survey 2016

The challenges and constraints facing the sector include competition (100%), financial constraints (93%), health and insecurity concerns (80%), changing guests’ requirements (67%), poor infrastructure (40%), lack of awareness about the product (33%), shortage of land (33%), economic recession (27%), management cost (20%) and political instability (13%).

As a result of the many modern serviced apartment complexes in the pipeline, the risk of oversupply and stiff competition is real. Hotels also take part of the serviced apartments’ market share. ICT has also changed in a great way the things used to be done in many sectors

including serviced apartments. For instance Airbnb offers a website for people to list, find and rent lodging in over 190 countries. As a result, many houses in various parts of the country including Kilimani have converted their houses to homestay accommodation and listed them under this platform which has a global coverage. Airbnb has listed very many properties such that it has been grown to be nicknamed as the “biggest hotel in the world”. The major advantage of Airbnb accommodation is that lower rates are charged than hotels and serviced apartments. The platform has generated incredible competition in the accommodation sector.

Financial constraints have also affected the sector. The high interest rates charged by the Kenyan commercial banks (over 20%) and the requirement for collateral have inhibited access to financing. Some financiers also don't fully comprehend the commercial potential of the serviced apartment sector which can make it harder for developers to raise the money to build new apartments.

External and internal shocks, specifically insecurity concerns, negative travel advisories by some key trade partners and the perceived health risks in Kenya due to the countries geopolitical location and connectivity with West Africa have also affected the Kenyan accommodation and food service activities in the past. This has in turn adversely affected the serviced apartments market.

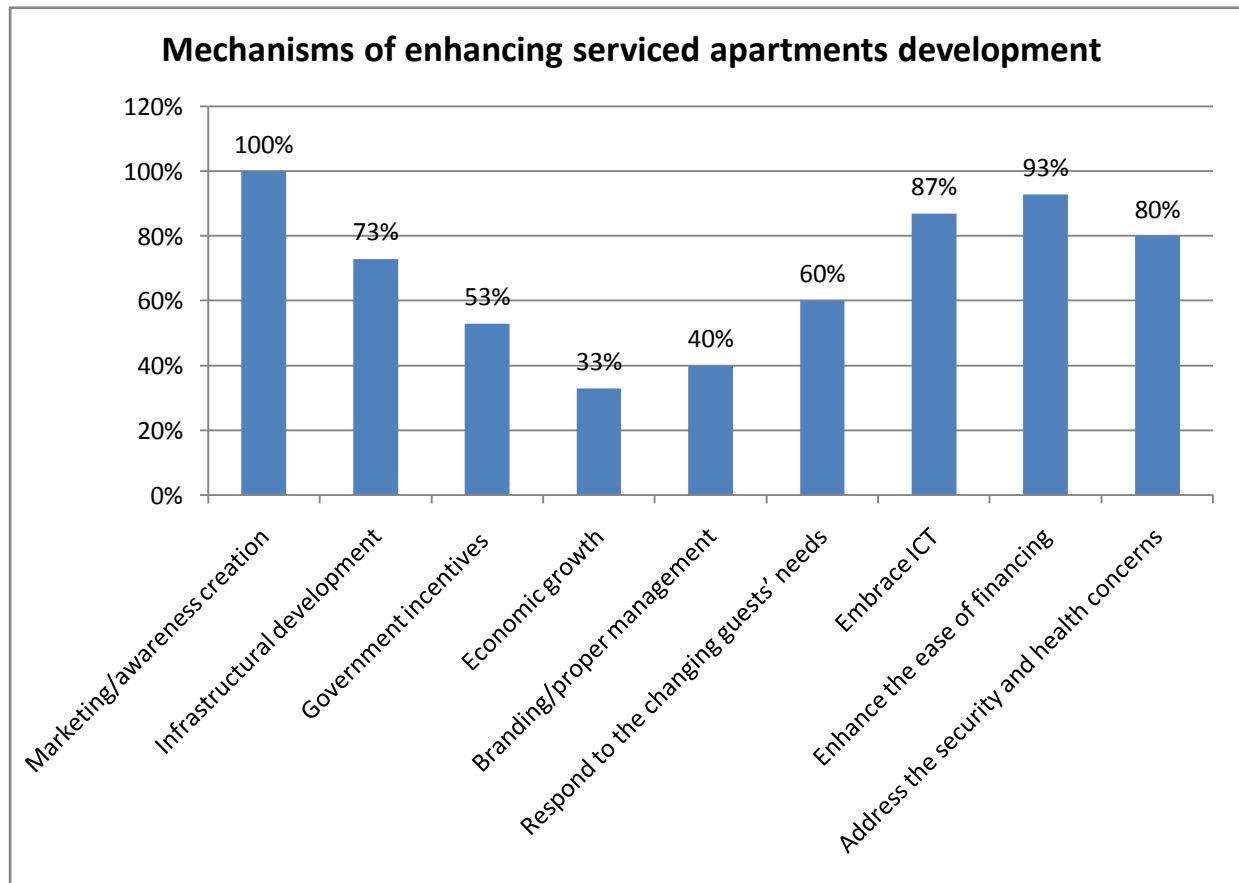
Guest requirements are changing very fast which has complicated the business. For the complex to remain competitive, the developer needs to be abreast with the changing guests' requirement. Poor infrastructure has also been identified as a hurdle especially for apartments located in interior and remote areas. Some serviced apartments are located on very narrow roads and in need of renovation.

Other challenges and constraints include lack of awareness about serviced apartments especially for those accustomed with the traditional accommodation options, shortage of land which has also greatly increased the land prices in Nairobi, economic recession, management cost which have been estimated to be higher than that of furnished and unfurnished apartments and political instability especially during the election period.

#### 4.5 Mechanisms of enhancing serviced apartments' development

The respondents inputs on how to deal with the challenges and constraints identified above were also sought. The chart below presents the proposed mechanisms on how to strengthen serviced apartments sector.

**Figure 4.12: Mechanisms of enhancing serviced apartments development**



Source, Field Survey 2016

The appropriate measures of strengthening the sector as highlighted by the respondents include marketing and awareness creation (100%) to remain competitive and also deal with the problem of lack of awareness, enhance ease of financing (93%) so as to alleviate the existing financial constraints, embrace ICT (87%) so as to remain competitive, address the current security and health risks (80%) so as to alleviate their adverse implications, infrastructural development (73%) in order to enhance connectivity, respond to the changing guests' requirements (60%) to remain in business, offer government incentives such as tax rebates (53%) so as to encourage investment and branding/proper management (40%) to enhance competitive edge and also improve management. Economic growth should also be promoted.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This study was aimed at determining the growth and performance of serviced apartments in Kenya, key drivers of serviced apartments growth in Kenya, challenges and constraints of serviced apartments sector in Kenya and recommendation of appropriate mechanisms of enhancing serviced apartments sector in the Kenya. This study was limited within Kilimani area in Nairobi whereby various respondents were interviewed, their views analysed and then presented in form of tables, percentages, frequencies, figures, photographs and written texts. This section summarizes the key findings of the study from which conclusions are drawn. The study then suggests appropriate recommendations on how serviced apartments sector can be enhanced. Areas of further studies are then presented towards the end of the chapter.

#### **5.2 Summary of findings**

The serviced apartment market in Kilimani is a highly fragmented real estate sub-sector. The supply of serviced Apartments in Kilimani has been on the rise for the last five years and there are still indications that the trend is going to continue as we go to the future. Most of the coming up complexes are more upscale with more amenities in order to meet the clients' requirements in a better way. Serviced apartments in Kilimani boasts of high rental rates driven mainly by its good connectivity and its close proximity to the social-economic amenities.

There is a predominance of individual private operators and management with no branding. Most of the units are owned by individuals who have registered the properties in the name of their companies. This is an indication that the serviced apartment industry is relatively undeveloped, as the majority of apartments are under unbranded operators.

The awareness level and popularity of serviced apartments is growing but it was noted that there is need for robust marketing using the modern ICT in order to create the necessary competitive edge. Competitive edge can also be enhanced through provision of quality customer service.

Common facilities and amenities that need to be provided include a kitchen, parking facilities, internet, laundry, swimming pool, health club, utilities, restaurant, steam and sauna, meeting/conference facilities and business centre. Units offering quality facilities and amenities are able to fetch higher rentals, record lower vacancies and in return are able to fetch higher returns.

Serviced apartments units in Kilimani are categorised into studios, one bedroom, two bedroom, three bedroom, four bedroom and apartments. Of all the six units one bedroom and two bedrooms were found to be more popular.

Some of the reasons for choosing serviced apartments instead of the traditional accommodation options according to the survey include cost saving advantages arising from the lower operational costs, home away from home environment such privacy, ability to personalise and customise the services to suit the guests requirements, spacious rooms and amenities close to those found in a hotel.

Serviced apartments development was found to be a viable real estate investment option whose 2015 returns were estimated to be 8% compared to that of hotels (12%), furnished apartments (7%) and unfurnished apartments (6%). In comparison with hotels serviced apartments were found to record higher occupancies (80%) than hotels (60%), lower ADR (Kshs. 4,800/-) than that of hotels (Kshs.9,000/-), lower RevPar(Kshs.3,840/-) than that of hotels (Kshs.5,850/-) and lower operating expenses (40% of the total revenue) than that of hotels (70% of the total revenue). These figures were however low which can be attributed to the security and health concerns that adversely affected the hospitality industry in 2015. Serviced apartments have grounded themselves as an alternative to hotels. They also seek to fill the gap between hotels and residential developments.

This study further established that serviced apartments are very popular with extended stay corporate/business travellers while leisure travellers segment is very small. They cater mainly for the medium and long stay travellers. Most of the demand is from outside the country and a small portion from within. The key demand drivers established include individual business travellers; expatriates, diplomats and corporates; meetings and conference groups, returning residents and leisure travellers. The survey also established the key serviced apartments' growth drivers to include increasing extended stay global business travels, increasing cost saving initiatives, globalization, increasing international conferences, changing employment

structure, infrastructural development, economic growth, macroeconomic and political factors and increasing extended stay leisure travellers.

The challenges and constraints facing serviced apartments development as per the findings of the study include competition (100%), financial constraints (93%), health and insecurity concerns (80%), changing guests' requirements (67%), poor infrastructure (40%), lack of awareness about the product (33%), shortage of land (33%), economic recession (27%), management cost (20%) and political instability (13%).

The measures recommended by the respondents so as to strengthen the sector include marketing and awareness creation, enhance ease of financing, embrace ICT, address the current security and health concerns, infrastructural development, respond to the changing guests' requirements, offer government incentives such as tax rebates, encourage branding/proper management and facilitate economic growth.

### **5.3 Conclusion**

From the findings of this study, the researcher concluded that serviced apartments continues to evolve in Kenya and are now an acceptable accommodation option especially for the extended stay corporate/business travellers. They are preferred because of their cost saving benefits, home away from home environment, spacious rooms and services close to those of a hotel among others.

Although serviced apartments market is highly fragmented, its demand and supply has steadily increased over the past five years. The key serviced apartments demand drivers include individual business travellers; expatriates, diplomats and corporates; meetings and conference groups, returning residents and leisure travellers. On the other hand, the growth drivers include increasing extended stay business travels, expansion in global business travellers, increasing cost saving initiatives, globalization, increasing international conferences, changing employment structure, infrastructural development and economic growth. As the health of the Kenyan economy continues to grow and as Nairobi continues strengthening its position as a business hub and the gateway to the region, business related travels are set to continue growing and as such it is envisaged that demand for temporally accommodation will continue to grow.

The need for the various market segments remains varied, but overall all travellers seek comfort, convenience and security. Some of the basic features expected in the market include high quality, durable furniture pieces, high-speed internet access, premium TV packages with a variety of international TV channels, daily housekeeping services, round the clock reception and security services, power and water supply back up options. Common amenities include a well-equipped fitness centre, an outdoor swimming pool, dining venue or lounge area preferably with garden seating and a water feature and convenient meal service such as onsite restaurant or a delivery service. The range of services to be offered is based on positioning of the serviced apartments, the proposed management style and the pricing.

As the serviced apartments market matures, challenges and constraints are inevitable. Some of the key challenges and constraints likely to arise include competition, financial constraints, health and insecurity concerns, changing guests' requirements, poor infrastructure and lack of awareness about the product.

To deal with these hurdles, there is need for marketing and awareness creation, ease of financing, alleviation of the current security and health concerns, infrastructural development, response to the changing guests' requirements and enhancement in the ease of doing business in the country.

#### **5.4 Recommendations**

One of the objectives of this research is to recommend appropriate mechanisms of enhancing serviced apartments sector in the Kenya. This cannot be achieved without understanding the underlying challenges and constraints of serviced apartments investment. As highlighted previously in the body of this chapter, the main challenges and constraints facing serviced apartments development in Kilimani include competition, financial constraints, health and insecurity concerns, changing guests' requirements, poor infrastructure and lack of awareness about the product. To deal with these problems so as to facilitate the growth of the sector, this study proposes the following recommendations.

- *Marketing and awareness creation*

Competition arising from other serviced apartments and other forms of accommodation such as hotels and homestay accommodation is real. There is also the risk of oversupply in the near future due to the large number of serviced apartments in the pipeline. A huge group of people are not aware about serviced apartments or have not embraced this product. To remain

competitive, it is imperative to enhance the marketing and awareness creation especially through the modern ICT.

By use of IT, the visibility and accessibility of alternative accommodation in remote areas and not in the mainstream are significantly enhanced. Conversely, it also increases competition. For instance through Airbnb website platform people are able to list, find and rent lodging in over 190 countries. As a result, many houses in various parts of the country including Kilimani have converted their houses to homestay accommodation and listed them under this platform generating stiff competition in the accommodation industry. Therefore, there is need to consider the benefits of the modern ICT and to embrace it in the serviced apartment sector.

- *Enhance ease of financing*

Financial constraints have adversely affected the sector. The high interest rates charged by the Kenyan commercial banks (over 20%) and the requirement for collateral have inhibited access to financing. Some financiers also don't fully comprehend the commercial potential of the serviced apartment sector which can make it harder for developers to raise the money to build new apartments. These issues must quickly be dealt with. Some of the options that can be considered include regulatory measures and incentives to encourage the lenders to lower their interest rates. The Central Bank of Kenya has already laid down radical measures geared towards forcing commercial banks to lower interest rates such as publication of the lending rates by financial institutions in the country. These measures and others need to be implemented so as to increase the ease of financing in the country.

- *Infrastructural development*

In order to enhance connectivity of serviced apartments zones, it is imperative to upgrade our roads and airports. Projects such as the link road from James Gichuru Road passing through Kileleshwa to Kilimani, Southern By-pass which joins Ngong Road to Mombasa road near JKIA and the expansion of Ngong Road will go a long way in boosting connectivity of the area and its environs. There is also need to expand and renovate even the minor roads especially considering that most of the serviced apartments don't front the main roads. Furthermore, all mains water, electricity and public sewer including other social economic amenities needs to be provided.

- *Address the current security and health concerns*

Both external and internal shocks, specifically insecurity concerns, negative travel advisories by some key countries and the perceived health risks in Kenya due to the countries geopolitical location and connectivity with West Africa have in the past adversely affected the sector. It is therefore paramount for the government to find a long lasting solution to this menace. There is also need for the leadership to address the uncertainties that characterise the election period in Kenya which threatens the country's political stability. Political stability is critical for the growth of the serviced apartments sector.

- *Increase the ease of doing business in the country*

The government needs to offer various incentives geared towards improving the business climate in the country. These incentives include tax rebates, subsidies, improvement of the infrastructure and removal of the existing bureaucracies some of which originates from poor regulatory and institutional framework. These incentives will encourage investment by both local and foreign investors which will consequently facilitate economic growth. The assurance of economic growth is also necessary for investment. With the Kenyan economy estimated to be the largest economy in East Africa growing at a rate of over 5% and the many mega infrastructural projects currently underway in the country, Kenya seems to be on the rise. This momentum needs to be sustained so as to encourage investment in real estate sector.

- *Respond to the changing guests' requirements*

This can be achieved through development of quality products with all the necessary facilities and amenities. The developer should also be flexible to the changing guests' requirements over time. Market research should be undertaken overtime and evaluation of the extent to which the guests' needs are being met should be undertaken over time. Professionals should also be engaged in the development and operational process so as to ensure that quality standards and guests requirements are not compromised. As the market matures there will be need for specialised management leading to emergence of branded operators as seen in more developed markets such as USA, Europe and Middle East which will improve the property management and standardisation of products from its present lack thereof. Similarly, the pricing should also be well thought.

## **5.5 Areas of further studies**

Due to the extensive nature of the subject and limitations of this survey, a number of areas critical to serviced apartments development have not been comprehensively covered.

Therefore, this study suggests further research to be done on:

- i. Serviced apartments development investment risks.
- ii. The impacts of internal and external factors such as health and insecurity concerns to the performance of serviced apartments.
- iii. Emergence of homestay accommodation such as the ones facilitated by Airbnb website platform and the competition if any generated to serviced apartments and hotels. While evaluating this topic, it is also paramount to look at the ways of enhancing serviced apartments competitiveness.

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**APPENDIX 1: QUESTIONNAIRE ADMINISTERED TO KILIMANI'S SERVICED APARTMENTS DEVELOPERS, PROPERTY MANAGERS, CARETAKERS OR ANY OTHER DEVELOPERS' REPRESENTATIVES**



**Masters Research Project**

This questionnaire is in aid of research being conducted by *Kinyagu John Kinuthia*, a masters student from the University of Nairobi, Department of Real Estate and Construction Management on *“Evaluation of Serviced Apartments as Alternative Guests Accommodation”*.

Any information you give as well as the identity shall be treated confidential and will be used only for the purpose of the research. Your assistance and cooperation will highly be appreciated.

- 1) Name of the respondent (optional).....
- 2) Name of the serviced apartment complex (optional).....
- 3) Age of this serviced apartment.....
- 4) Initial project development cost.....
- 5) Mode of ownership of this serviced apartment complex?

<b>Ownership</b>	<b>Please tick either</b>
Individual ownership	
Corporate ownership i.e. international hotel chain	

- 6) What are the facilities and amenities provided in this serviced apartment?

<b>Facilities and amenities</b>	<b>Yes (Y)</b>	<b>No (N)</b>
Restaurant		
Utilities		
Kitchen		
Laundry		
Internet		
Swimming pool		

<b>Facilities and amenities</b>	<b>Yes (Y)</b>	<b>No (N)</b>
Steam and Sauna		
Health Club		
Business Centre		
Conference facilities		
Parking		
Others		

7) What is your consumer profile?

<b>Consumer profile</b>	<b>Allocate percentage</b>
Corporate/business	
Leisure	
<b>Total</b>	<b>100%</b>

<b>Consumer profile</b>	<b>Allocate percentage</b>
International	
Local	
<b>Total</b>	<b>100%</b>

8) What are the sizes and the rentals of the following classes of units in your serviced apartments?

<b>Unit</b>	<b>Number</b>	<b>Unit Size (sqft)</b>	<b>Unit Monthly Rent (Kshs)</b>
Studio			
One bedroom			
Two bedroom			
Three bedroom			
Four bedroom			
Penthouse			

9) What is the average performance of this serviced apartment complex based on the following criteria?

<b>Performance Measurement Criteria</b>	<b>Performance</b>
Occupancy (%)	
Average Daily Rate (ADR) (Kshs)	
Revenue Per Available Room (RevPar) (Kshs)	
<b>Comment:</b>	



10) What are your average operating expenses as a percentage of the total revenue?

11) What are your key demand target groups?

<b>Demand Target Groups</b>	<b>Select with a tick</b>
Individual Business Travellers	
Expatriates and Diplomats	
Meetings & Conference Groups	
Returning Residents	
Leisure Travellers	
Others:	
<b>Total</b>	

12) How do you rate the awareness level of serviced apartments in Kenya?

<b>Awareness Level</b>	<b>Select either with a tick</b>
Not at all aware	
Slightly aware	
Moderately aware	
Very aware	
Extremely aware	

13) What are the drivers of the rapid growth of serviced apartments?

<b>Key Growth Drivers</b>	<b>Extremely influential</b>	<b>Very influential</b>	<b>Moderately influential</b>	<b>Slightly influential</b>	<b>Not at all influential</b>
Globalization					
Expansion in global corporates/business travellers					
Increased extended stay business travels					
Increasing international conferences					
Changing employment structure					
Increasing extended stay leisure travellers					
Infrastructural development					
Economic growth					

Macroeconomic and political factors					
Increasing cost saving initiatives of many multi-national corporations					
Others:					

14) What are the challenges and constraints (if any) affecting the serviced apartment sector?

<b>Challenges and constraints</b>	<b>Extremely influential</b>	<b>Very influential</b>	<b>Moderately influential</b>	<b>Slightly influential</b>	<b>Not at all influential</b>
Competition					
Lack of awareness about the product					
Financial constraints					
Changing guests requirements					
Political instability					
Economic recession					
Health and insecurity concerns					
Need for management					
Poor infrastructure					
Shortage of land					
Others:					

15) What mechanisms do you think needs to be put in place so as to strengthen the serviced apartment investment in Kenya?

<b>Mechanism</b>	<b>Most important</b>	<b>Moderate importance</b>	<b>Least important</b>
Marketing/awareness creation			
Infrastructural development			
Government incentives such as tax rebates			
Economic growth			
Branding/proper management			
Respond to the changing customers' needs			
Promote communication technology			
Enhance the ease of financing			
Address the security and health concerns			
Others:			

**Thank you for your cooperation**

**APPENDIX 2: A QUESTIONNAIRE ADMINISTERED TO GUESTS OF THE  
SELECTED SERVICED APARTMENTS**



**Masters Research Project**

This questionnaire is in aid of research being conducted by *Kinyagu John Kinuthia*, a masters student from the University of Nairobi, Department of Real Estate and Construction Management on *“Evaluation of Serviced Apartments as Alternative Form of Guests Accommodation”*.

Any information you give as well as the identity shall be treated confidential and will be used only for the purpose of the research. Your assistance and cooperation will highly be appreciated.

- 1) Name of the respondent (optional).....
- 2) Name of the serviced apartment complex (optional).....
- 3) Guest profile:

<b>Guest profile</b>	<b>Tick accordingly</b>
Local	
International	

- 4) Purpose of your travel

<b>Purpose</b>	<b>Tick accordingly</b>
Corporate/Business	
Leisure	
Other	

- 5) For how long are you planning to stay in this serviced apartment?
- 6) Why stay in a serviced apartment rather than the traditional accommodation options such as a hotels and motels? On a scale of 1 to 5, please also rate the reasons.

<b>Benefits</b>	<b>Extremely influential</b>	<b>Very influential</b>	<b>Moderately influential</b>	<b>Slightly influential</b>	<b>Not at all influential</b>
Lower operating cost than hotels					
Home away from home environment					
Ability to personalize or customize the services required					
Spacious					
Amenities close to that of hotels					
Others:					

7) To what extent are you satisfied with the services offered in this serviced apartment?

<b>Satisfaction level</b>	<b>Select with a tick</b>
Not at all satisfied	
Slightly satisfied	
Moderately satisfied	
Very satisfied	
Completely satisfied	

8) Are there any challenges that you face as a guest in the serviced apartments?

9) What do you think needs to be done to make serviced apartments better or more popular?

**Thank you for your cooperation**

**APPENDIX 3: QUESTIONNAIRE ADMINISTERED TO THE MANAGEMENT OF FURNISHED APARTMENTS IN KILIMANI**



*(All information provided will be treated with strict confidence and for academic purpose only)*

- 1) Name of the respondent (optional).....
- 2) Name of the apartment complex (optional).....
- 3) Age of this apartment complex.....
- 4) Initial project development cost.....
- 5) What are the sizes and the rentals of the following classes of units in your apartment complex?

<b>Unit</b>	<b>Number</b>	<b>Unit Size (sqft)</b>	<b>Unit Monthly Rent (Kshs)</b>
Studio			
One bedroom			
Two bedroom			
Three bedroom			
Four bedroom			
Penthouse			

- 6) What are the average occupancy and the operating expenses for this development?
- 7) What services are offered in your apartment complex

**Thank you for your cooperation**

**APPENDIX 4: QUESTIONNAIRE ADMINISTERED TO THE MANAGEMENT OF UNFURNISHED APARTMENTS IN KILIMANI**



*(All information provided will be treated with strict confidence and for academic purpose only)*

- 1) Name of the respondent (optional).....
- 2) Name of the apartment complex (optional).....
- 3) Age of this apartment complex.....
- 4) Initial project development cost.....
- 5) What are the sizes and the rentals of the following classes of units in your apartment complex?

<b>Unit</b>	<b>Number</b>	<b>Unit Size (sqft)</b>	<b>Unit Monthly Rent (Kshs)</b>	<b>Price per sqft</b>
One bedroom				
Two bedroom				
Three bedroom				
Four bedroom				
Penthouse				

- 6) What are the average occupancy and the operating expenses for this development?
- 7) What services are offered in your apartment complex

**Thank you for your cooperation**

**APPENDIX 5: QUESTIONNAIRE ADMINISTERED TO THE MANAGEMENT OF  
UPSCALE HOTELS IN KILIMANI**



*(All information provided will be treated with strict confidence and for academic purpose only)*

- 1) Name of the respondent (optional).....
- 2) Name of the apartment complex (optional).....
- 3) Age of this apartment complex.....
- 4) Initial project development cost.....
- 5) Kindly provide the following details for your hotel.

<b>Room sizes (sqft)</b>	<b>ADR (Kshs)</b>	<b>Occupancy</b>	<b>RevPar</b>	<b>EBITDA</b>

- 6) What are the guest services offered?
  
- 7) Do you think serviced apartments will pose competition to hotels?

**Thank you for your cooperation**



**APPENDIX 6: QUESTIONNAIRE ADMINISTERED TO THE MANAGEMENT OF OFFICE COMPLEXES IN KILIMANI**



*(All information provided will be treated with strict confidence and for academic purpose only)*

- 1) Name of the respondent (optional).....
- 2) Name of the office complex (optional).....
- 3) Age of this office complex.....
- 4) Initial project development cost.....
- 5) Kindly provide the following details for your office complex.

<b>Lettable space (sqft)</b>	<b>Rentals (Kshs)</b>	<b>Expenses</b>	<b>Occupancy</b>	<b>Price per sqft</b>

- 6) What services are offered in your office complex

**Thank you for your cooperation**