

A Study on the Emerging Opportunities and Scope of Serviced Apartments in Tamilnadu

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Abstract

Traditionally, a Serviced apartment is a term considered to illustrate as a substitute to hotel accommodation for long stay guests whose purpose of visit is for business. However the term now has various sub-categories and there are new brands approaching the market makes this a well known and simplified definition. Serviced Apartment is now a generic term used for furnished accommodation that provide services for long term staying guests. It provides services at par with a star categorized hotel, which includes separate kitchen, laundry, dining area, housekeeping and other services for the guest on request. The prices include taxes and utilities which are quite affordable. These are considered to be alternative accommodation as they provide services like a hotel but they do not operate like them. Hotels are always known as Primary accommodation. India is a country which is globally integrated and has executives of MNCs frequently visiting the country; these executives require a high-end accommodation with affordability. The Extended stay market in India consists of Two segments namely Star categorized hotels and Economy or Budget Hotels. The Country has large number of single property like Motels and Guest houses catering to budget travellers. Apart from these properties, there is an emergence of Serviced Apartment units and chains in all the metro cities of the nation. Initially this concept started in Delhi, Mumbai, Bangalore followed by Chennai and other metros. Now it has the scope of operating in tier II cities of the country. Chennai being an upcoming investor's destination in the state of Tamilnadu, this industry has huge scope to concentrate on various cities and sectors in the state. This study deals with the emerging opportunities in Chennai and the scope of operating in tier II cities of Tamilnadu and also the sectors which can be concentrated for their potential business development.

Key Words: Service Apartment, Opportunity, Tamilnadu, Emerging sectors

Introduction

A Serviced Apartment is often referred as 'a home away from home' that provides the guest with accommodations at affordable prices. Service companies and housing developers let out fully furnished apartments as corporate housing units. Few companies manage owned properties and they are furnished by individual real estate investors. The Serviced Apartment includes studio units, or two or three bedrooms, which are furnished with all modern amenities like refrigerators, kitchenettes, microwave ovens, televisions and internet facilities (Wi-Fi). It also includes full housekeeping facilities which are mostly outsourced. They also provide other additional services like gyms, conference rooms and party halls which are not mandatory. All these are offered at prices lesser than 5-star hotel tariffs including the taxes. Universally, Serviced Apartment is the terminology that had been used to portray an alternative accommodation for long stay guests in urban locations. However there are three types of accommodation which falls under the category of Serviced Apartment with sub-categories of list that is ever-growing list.

TABLE 1: Types of Accommodation with Description

Extended Stay Hotels	Corporate Housing	Condo - Hotels
En-suite bathrooms	Furnishings	Provision to own a full-service vacation home
Fitted kitchen or kitchenette	Weekly cleaning	prospect to receive five-star luxury services to the prices of three-star
Lounge or a dining area which at times include a pull down or sofa bed	Utility charges	When the unit is not utilized, it can be rented out or can be managed by hotel chains
Working area including office chair with desk, wifi & direct telephone line.	Local municipal taxes	-
24hrs or limited hours operating Front Office	Telephone, WiFi and TV channels	-
Daily or weekly cleaning & laundry service	Services for Guest with support for maintenance and telephone related issues etc	-
Provision of laundry services either on sharing basis or built inside the apartment unit	Units rented and maintained by the operator on daily basis	-

SOURCE: AUTHOR’S COMPILATION USING LITERATURE

Literature Review

The Serviced Apartment is a well known concept which was started over 30 years ago in the United States. There were various demand and supply factors that lead to the development of Serviced Apartments:

Demand

- Convenience of the Tourists

During the process of Tourism, tourists wants to stay in a place where there is a laundry facility to wash their clothes and an attached kitchenette to cook whatever they feel like. They also had the convenience of getting groceries and vegetables nearby so that they can cook according to their preference which can directly be related to the concept of ‘home away from home’.

- Tourists want to save Money

Serviced Apartments helps tourists to save money. The rates offered by them are less when compared to the hotels. But they enjoy the services which are equal to hotels at lesser cost.

- Emergency Accommodation

These Serviced Apartments can also be utilized for temporary accommodation. For example, at times of emergency or when the landlord of the place needs their property but the tenant could not find an available house to shift immediately.

Supply

- Developers own unoccupied apartment units which is considered as loss to them

During late 1980's, the concept of Apartments were not a popular and preferred choice for people to reside and only limited Apartments were purchased by the people. Real estate investors then decided to convert those unsold units into a Serviced apartment by providing additional services with nominal cost.

- Investors want to gain rent and capital
- The buyers will gain capital if the investors decide to sell out the units. The Prices can also be fixed or changed based on the demand, supply and market conditions. Many investors have now started to invest in Serviced Apartments in order to gain income.

Objectives

- To Understand the varied characteristics of Serviced Apartment industry
- To Highlight the changing scenario of the competitive landscape in the sector
- To analyze the emerging opportunities for Serviced Apartment in Chennai/Tier II cities of Tamilnadu

Methodology

This is a descriptive study based on Secondary data collected from various reports which has been compiled from industry research reports, government publications and articles from reputed financial dailies.

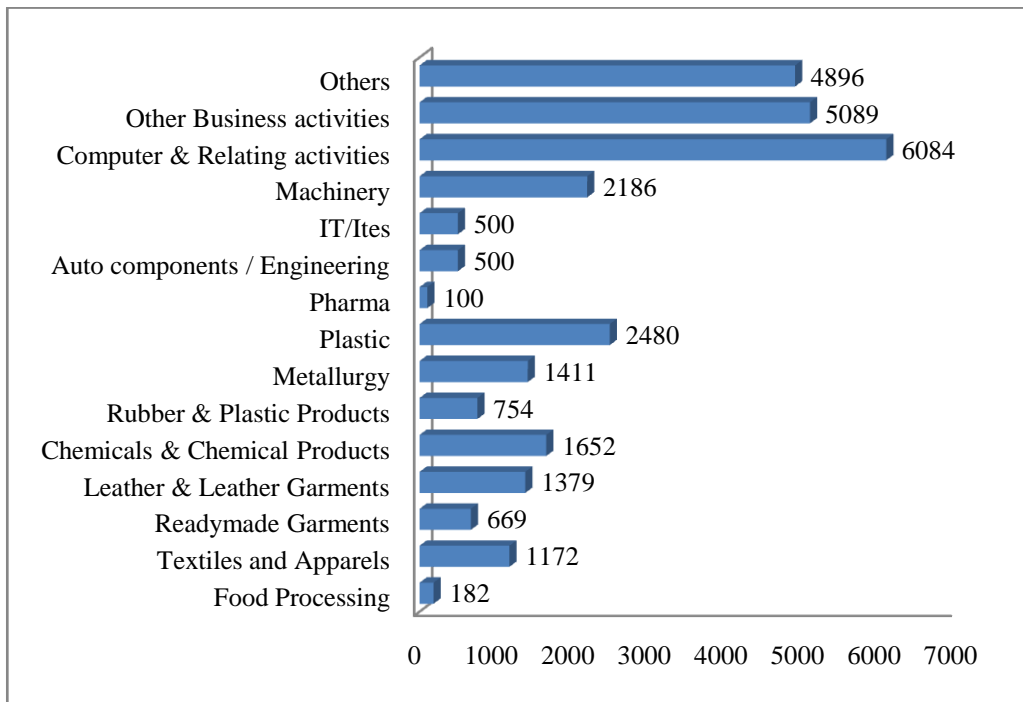
Tamilnadu – Increasing Industrial Investments Catalyzing Serviced Apartment Demand

Tamil Nadu is one among most developed states economically in India. It stands 3rd in terms of industrial units in the country. During the year of 2005-10, the state has increased twice the time with 18.6 CAGR. This urbanized state is also an ideal choice for leading investors in industries, which has been reflected in its industrial output, total unit of working factories, growth of manufacturing sector, performance of service sector and development in infrastructure. In the year from 2000-14, the state has received around FDI of USD 12.5 billion among 35 of the 500 fortune companies in the state. Potential sectors for investment in Tamil Nadu are the Aerospace, Auto & Auto Components, Agro& Food Processing, Biotech and Pharma, Chemical & Petroleum, Electronics & Hardware, Heavy Engineering, Infrastructure, IT & ITes, Renewable Energy, Skill development and Textiles. The state is a home to major manufacturing plant like Nissan, Daimler, Renault, Hyundai and Ford. The recently held Global Investors Meet in Chennai had attracted Rs.2.42 lakh Crore investments to the state which includes Rs 10,950 Crore in IT sector, which is the prime driver of demand for Serviced Apartment. This shows that there is lot of opportunities available for this Serviced Apartment sector to grow in the state as these industrialists have to travel to and fro for their business development.

Chennai Scenario

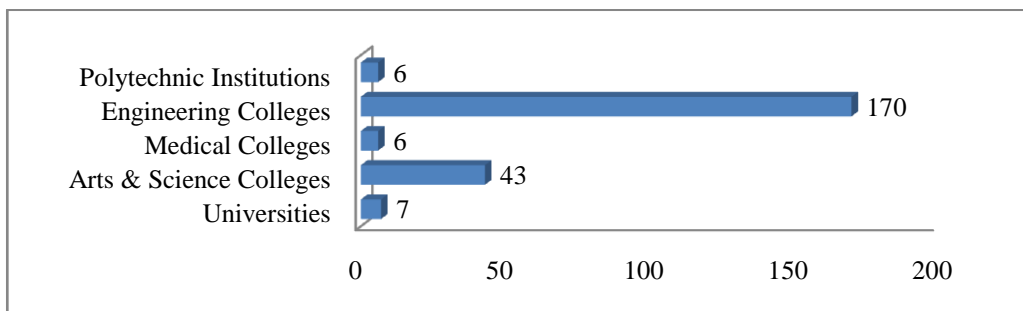
Chennai being the metro city of the state has emerged as the largest electronic hardware manufacturing and exporting hub. The city ranks 4th in terms of employment opportunity in the country for IT/ITes sector and it is said to be the Detroit of Asia. It has also got the highest resource pool in the form of graduating students and 4th highest in holding the number of higher education institutes.

FIG. 1. Industrial Scenario - MSME Units in Chennai



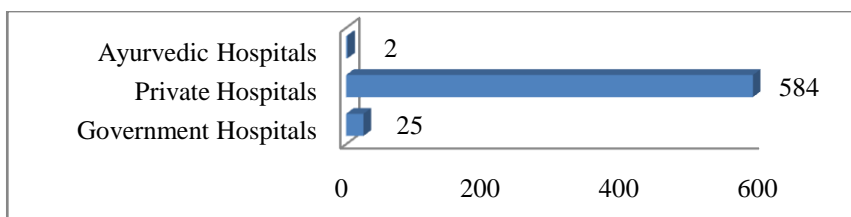
SOURCE: MINISTRY OF MSME, CHENNAI DISTRICT 2012-13

FIG. 2. Education and Skill Development Sector



SOURCE: CHENNAI DISTRICT, STATISTICAL HANDBOOK, 2012-13

FIG. 3. Health Care Sector



SOURCE: HEALTH & FAMILY WELFARE DEPT., GOVT. OF TAMILNADU 2012-13

The above figures show that the three sectors have provided Serviced Apartment a great opportunity to operate in the city. The working professionals in the industrial sector pour into the city from various places. Expansion of Serviced Apartments can cater to the need of these professionals. Students in the educational sector require a peaceful environment with basic facilities at a lesser cost. The Serviced Apartment business has spawned an unexpected beneficiary due to a boom in Medical tourism in the city. These apartments are coming up in locations close to hospitals, making it convenient for patients and their families to stay there and commute without spending much on transportation. The leading hospitality and real

estate investors have targeted projects across metros like Bangalore, Chennai, Delhi, Pune, Kolkata and Kochi. Serviced Apartments are nowadays becoming a preference for guests looking for a ‘home away from home’ and has a great opportunity to operate in Chennai.

TABLE 2: Classification of Service Apartments Based On Tariff

Minimum Tariff per Day	No. of Serviced Apartments
>500	1
500 - 1000	11
1000 - 1500	25
1500 - 2000	45
2000 - 2500	35
2500 - 3000	23
3000 - 3500	6
3500 - 4000	2
4000 - 4500	-
4500 - 5000	1
Total	149

SOURCE: WWW.HOLIDAYIQ.COM

Demand for Serviced Apartments in Chennai

The demand for Serviced Apartments has grown drastically in the past 10 years by improving the knowledge of the product, considering the benefits of Serviced Apartments amongst Corporates, improving standards of apartment and the arrival of major brands into the sector. The gradual easing of the impact of the worldwide recession is illustrated by improving occupancy figures – up year- on-year for 65% of operators during 2012 and unchanged for 23% over 2011, compared to 59% and 22% respectively in 2010. 94% of operators report that demand for Serviced Apartments in their regions is increasing. This compares to 77% in 2011, further evidence of optimism comes from a 2013 survey of the Association of Serviced Apartment Providers which revealed that 74% of operators in the UK and Ireland expect their business to increase during 2013.

Scope for Serviced Apartments in Tier II Cities of Tamilnadu

Apart from Chennai, Tier II cities like Coimbatore, Salem, Trichy and Madurai, will be the emerging hotspots and drivers of Tamil Nadu economy in the coming years. With the availability of conducive ecosystems in these cities and the government planning major infrastructure push in the form of industrial corridors connecting these cities, real estate would also see impressive growth in the near future, the report which was released at the state conference of Confederation of Real Estate Developers' Association of India (CREDAI) had identified these cities as the upcoming investing cities next to Chennai. Not only the start ups, IT giants are like HCL, Cognizant are investing in these tier II cities. Officials with the state IT department said a large portion of the Rs 10,950 crore in IT investments will go into smaller cities and towns in the state. The expansions are in Coimbatore, Madurai, Trichy, Tirunelveli, and Salem, where the state government has managed to sell land to IT firms. The other sectors that could attract investments in various cities are: industrial, IT/ITES and agro-based industries in Coimbatore, textile and rubber manufacturing in Madurai, heavy industries and

IT/ITEs in Trichy, and heavy industries, textiles and agri-based industries in Salem. In future, Service Apartment can also concentrate on these cities for their growth.

Conclusion

The Developing economy of India has led to a booming tourism sector and with many families travelling; they feel that Serviced Apartments are more of a home away from home. This may also be an important sector influencing the expansion of service sectors. The other main sector which acts as a push for progress of the Serviced Apartments is identifying the destination as an investment opportunity by various sectors. The number of industries, educational institutions and hospitals have increased multi-fold in cities like Chennai and this is also now witnessed in the Tier II cities of the state of Tamilnadu. This is also reflected in the fact that apart from the major players in Serviced Apartment industry, even property developers are eyeing to enter into the Tamilnadu market. Major Serviced Apartment chains have already started investing in Chennai. These investments are expected to increase in the coming years. Apart from Chennai, they can also concentrate on the tier II cities of the state.

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