YOUR GUIDE TO INVESTING IN SERVICED ACCOMMODATION

Information on the benefits of serviced accommodation, along with how to purchase, set up and manage this type of property.
Information on the benefits of serviced accommodation and how to incorporate it into your portfolio.

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INTRODUCTION

• What You’ll Learn in this Guide
• What is Serviced Accommodation?
• Is Serviced Accommodation on the Rise?
Serviced accommodation is causing waves in property investment circles, but there is still little information out there on the investment process and what you can expect.

This guide aims to change that, with key information on serviced accommodation, including:

- The benefits of serviced accommodation
- What to expect when managing serviced accommodation
- How to convert an existing property
- Into serviced accommodation or set up a new one
- Tips on purchasing the right property for serviced accommodation

What You’ll Learn in this Guide
What is Serviced Accommodation?

Whether you’ve been involved in property investment for only a short time or you’re a seasoned pro, it’s likely you’ve heard about the growing demand for serviced accommodation.

Serviced accommodation is fully furnished property that provides short and long-term stays. Unlike traditional lets, though, serviced accommodation also comes with additional benefits, including housekeeping, communal areas and amenities such as:

- Wifi
- A fully equipped kitchen
- All linen and towels provided
- A TV, DVD player and/or TV package

If you’ve been on Airbnb, you might already have a picture in your head of what serviced accommodation looks like, but there are a variety of forms to choose from, including:

- **Residential serviced accommodation**: Long-term lets that provide communal areas such as a games room and additional benefits like a concierge.
- **Serviced hotel-style apartments**: Used by both tourists and business people who want a homelier experience than staying at a hotel, with facilities like a fully-fitted kitchen.
- **Serviced corporate lets**: Short and long-term lets directly targeted at businesses who require accommodation for travelling staff or visitors.
- **Retirement homes**: Unlike traditional retirement homes, this type of serviced accommodation can provide elderly people with a supportive environment with additional benefits like a concierge to organise medical care, without being in full-time care.
- **Holiday camps**: If you want to look at serviced accommodation at its most extreme, holiday camps can also qualify in the sense that meals, cleaning and other domestic considerations are provided.

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Is Serviced Accommodation on the Rise?

Serviced accommodation has been around for much longer than you may think, it just didn’t have a platform to showcase it. This meant fewer potential guests were even aware of its existence and therefore return on investment was limited for investors.

However, since the emergence of property hosting sites like Airbnb, serviced accommodation has seen a rapid growth in demand from both the corporate and tourist sectors. This, in turn, has created a surplus of potential guests, and investors have rushed to fill the void.

In London, the number of Airbnb listings has quadrupled since 2015, from 20,000 listings to 80,000. Likewise, Edinburgh has seen its listings double, meaning there is now one Airbnb for every 42 residents.

Of course, many of the listings are on sites like Airbnb come from small investors with one or two properties but does the sector work for professional investors with multiple properties?

Again, recent statistics show that, for example, Manchester, 22% of properties are owned by hosts with five or more properties. In fact, 1% of hosts are responsible for 10% of listings in Manchester.

As we’ve already discussed, there is more to serviced accommodation than Airbnb listings, but as one of the most prominent platforms for this type of property investment, it is a good indicator of the overall healthiness of the market.

What we can say is that the rapid growth over the last four years does not look set to drop or even slow down. There is now a massive demand for serviced accommodation and a massive opportunity for more investors to benefit.
What You’ll Learn in this Guide
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Is Serviced Accommodation on the Rise?
Increased Rental Yields

When talking about the benefits of serviced accommodation, it’s hard to start anywhere other than the excellent rental yields it can offer.

A typical buy-to-let (BTL) to property will provide a rental yield of around 3-4%, according to research from JLL. Comparatively, serviced apartments average a rental yield of 6.5-9% and can reach upwards of 12%. This even outperforms hotel rooms, which average a yield of around 5-6.5%.

Serviced accommodation can generate this level of return because it does not target the same type of tenant as a traditional long-term let. With corporate or tourist guests, investors in serviced apartments are actually competing with the hotel industry.

As such, serviced accommodation can typically undercut hotel prices and provide more space, plus other benefits such as a fully furnished kitchen. This works well for tourists who don’t want to eat out every night and businesses who want to reduce expense.

And these yields are important. Thanks to them, the increased number of void periods that comes with offering short-term lets won’t have a significant impact and can actually be built into your investment strategy.

Tax-Free Income

The fact that serviced accommodation can produce increased cash flow for investors is great, but even better is the tax advantages that come with this type of investment.

While you may think of serviced accommodation being similar to traditional buy-to-let property, it is actually closer to a seaside holiday home when it comes to the law.

What we mean by this is that serviced accommodation can qualify as a Furnished Holiday Let (FHL), so long as it meets the following criteria:

- The property must be furnished;
- It must be let on a commercial basis with a view to making profit;
- It must be available to let for 210 days a year;
- It must be let as a holiday let for 105 days*.

*If you let the property for a single period of more than 31 days, only these first 31 days will contribute to the letting condition. This means you couldn’t let the property once for 105 days straight to one person to qualify as an FHL.

So, why would you want your property to qualify as an FHL?

Well, the main reason is that FHLs are taxed in a way more similar to commercial property than residential. One of the main advantages of this is that FHLs can claim capital advantages on loose items of the plant (eg. furniture) and fixtures in the property.

All this means that a correctly supported claim for capital allowances can allow you years of rental profits without the tax that normally goes with it. In fact, the average capital allowances fixtures claim on an FHL makes rental profits tax free for as much as the first 2.25 years of operation, but it could be much more.
Reduced Maintenance Fees

Logic may tell you that the more people you have coming in and out of your property, the more you’re going to spend on maintenance, but this is not necessarily the case.

One of the common frustrations investors face is not being able to deal with minor maintenance issues before they become a real problem. This is because buy-to-let landlords usually only get access to their property once every six months and tenants are hesitant to highlight issues. The end result is that something that would have only cost a small amount to fix can grow into a far greater cost, all because the landlord didn’t know about it.

Serviced accommodation solves this problem, as short-term lets allow regular access to the property, even if it’s only to give it a clean. This means you can keep an eye on your investment and spot any minor maintenance items before they mutate into something much worse.

As such, you may find yourself spending more regularly on maintenance, but you should avoid large, unexpected costs.

Plus, many of the occupants of serviced accommodation are respectful of the fact they’re only guests, and so often treat the property with greater care than you’d find with a buy-to-let.
MANAGEMENT

- Finding the Time
- Building Trust
- Furnishing for Success
Finding the Time

By this point, you may be sold on the benefits of investing in serviced accommodation, but before you start calling property brokers, it’s worth double checking whether you this type of investment (and its management demands) suit you.

Essential to making this decision is examining whether you have the time to manage a serviced property. The number of guests you can let to will determine your rental yield, and so it’s important to be able to welcome as many as possible.

In an industry where someone could rent your property and want to be in it in the next hour, that means you may have to work some unsociable hours.

For many investors who try to run their property network during the nine to five business day, this can produce an unwanted stress. If you already have a team that manages your properties, you may need to consider adding to this staff to cover the increased demands that come with serviced accommodation.

If you’re worried that this makes serviced accommodation infeasible for you, then there is another option. You can hire a management company to look after your property for you. Of course, this comes at a price but it does take a significant weight off your shoulders.

Building Trust

If you want to be successful with serviced accommodation you have to have a strategy for attracting guests. Essential to this is building trust.

While hotel rooms may be more expensive, they are often viewed as reliable in the eyes of guests. After all, you know what you’re going to get with a Premier Inn.

Conversely, when it comes to serviced accommodation, guests often assume they’re renting from someone with no experience of hospitality. Therefore, they are, understandably, more careful when it comes to which property they choose to rent.

This is particularly important for corporate guests who may be staying for an extended period of time. Most of us can probably manage one or two nights in a flat that is less than attractive, but this becomes much harder when you have to stay there for a month.

In a digital world, building this trust needs to be done online and generating positive user reviews is essential to this. That doesn’t mean you can’t use offline means, though. If you have a serviced apartment that attracts a lot of tourists, including something as quaint as a guest book is a great way to gather positive feedback, which you could then post online.

Alternatively, for a more modern approach, you could email every guest after their stay and direct them to your chosen platform for reviews. If you’re struggling to generate these reviews, consider providing a low cost welcome gift for your guests. This could be as simple as some nice ingredients for their first breakfast and it will go along way to encouraging positive feedback.

Alongside reviews, there are other ways to build trust. You may consider becoming accredited with the Association of Serviced Apartment Providers (ASAP) to build trust in your properties and the industry as a whole. This is something that could help you land more corporate guests in particular.

The ways you can build are numerous, but it is something that many traditional buy-to-let landlords may have never considered before. Regardless, it is essential to serviced accommodation success.
Furnishing for Success

Other than reviews, the only information guests have to go on when deciding whether or not to book your property is what it looks like. That’s why you need to put extra effort into making sure yours stands out from the crowd.

We have a full guide on how to furnish your serviced accommodation here, but for now, here are the key points:

- **Prioritise Areas:** Guests rent serviced accommodation because they want to spend time in it, so make sure the kitchen is fully equipped (that means more than a microwave and a hotplate) and the living space is comfortable. Also consider what the guest will see when they first enter the property and make sure it is warm and inviting.

- **Exaggerate Character:** We all want to feel like we’re staying something special, so if your property has characterful features, make sure you showcase them. This could be as simple as painting mouldings a contrasting colour to the walls to help them stand out.

- **Add Home Touches:** One of the best things about serviced accommodation is that it provides a home away from home for guests. You can play on this by adding home touches to make the property more comfortable and inviting, just don’t go so far as to put your kids’ art of the fridge.

- **Integrate a Workspace:** Don’t exclude the market for corporate guests by failing to provide a workspace. You can use slim desks and well designed shelving to build a workspace that doesn’t take up loads of room.
3 SET-UP

- Finding a Mortgage
- Identifying Leasehold Restrictions
- Obtaining Planning Permission
Finding a Mortgage

If you’re convinced of the benefits of serviced accommodation and you’re comfortable with the management required, it’s time to look at some of the steps involved in either buying one, or converting a current property into one.

This is important, as owning a serviced apartment is more complicated than simply taking a buy-to-let property and putting it on Airbnb.

The first thing you’ll need to consider is the mortgage. As we mentioned earlier, serviced accommodation is more akin to commercial property, so your go-to buy-to-let mortgage isn’t going to be suitable.

In fact, if you do use a buy-to-let mortgage and your lender finds out, they’re likely to demand all the money back, so don’t do that.

Instead, you need a commercial mortgage and while it is possible to find some high street lenders that will offer these, you’re likely to have more success using a specialist broker.

This is especially important if you’re new to the serviced accommodation industry, as lenders may want in depth information such as your experience in the sector and previous yearly turnovers.

Clearly, if you’re inexperienced you won’t have either of these, but everyone has to start somewhere and a specialist serviced accommodation mortgage broker can help you take those first steps.

Identifying Leasehold Restrictions

Just as a typical buy-to-let mortgage contains restrictions on how you can use a property, so too may you be bound by leasehold restrictions. The majority of flats (and some houses) are sold as leaseholds as opposed to freeholds, meaning you lease the land the property stands on.

When signing the leasehold, you may have agreed to restrictions on the types of lets you can offer, as well as who you can let to. If this is the case, you may be unable to use the property as serviced accommodation, unless you can agree a modification to the leasehold agreement with your freeholder.

Before you let your property then, ensure you’ve reviewed your lease and are happy that you won’t be breaking it.

You can learn more about leasehold restrictions in our dedicated article here.
Obtaining Planning Permission

Alongside getting the right mortgage, you may find that you need to apply for planning permission to use your property as serviced accommodation.

For planning purposes, a dwelling (such as an apartment) is known as a C3, which identifies it as residential property to be used by either an owner-occupier or rented out.

In contrast, a hotel or serviced apartment which offers no “significant element of care” is categorised as a C1.

The perception for many people who wish to turn an existing property into serviced accommodation is that they have to obtain planning permission to change the classification of their property, but this is not always the case.

In reality, the guidance on whether you need to obtain planning permission is grey at best and differs from local authority to local authority.

However, the government did publish advice on short term lets in its Planning Practice Guidance document, which said:

“Planning permission is not required elsewhere in England to short-term let a dwelling house, so long as there is not a material change of use of the property. Where it is a change of use and planning permission has not been obtained, a local planning authority can consider whether to take enforcement action.”

So, it comes down to what constitutes a “material change of use of the property”? We do have some case law to help answer that question, which suggested a number of factors that may affect whether the character of the use has changed, such as:

- Parking and traffic movements
- Number of guests
- Patterns of arrival and departure
- Frequency of “party type activities”
- Refuse and recycling collection

As you can probably tell, though, there is no definitive answer to whether or not you need planning permission.

That said, if you plan to use the property as serviced accommodation throughout the year (and benefit from the tax advantages we discussed) it’s more than likely that you’ll need planning permission.

Just as with your mortgage, it’s worth seeking specialist advice.

Ensuring You’re Insured

The final consideration in setting up a property to be serviced accommodation is ensuring you have the correct insurance.

By now you’ll have guessed the theme of this section and worked out that the next thing we’re going to say is regular home insurance won’t cover you in the event that something goes wrong.

Congratulations, you’re absolutely right.

Like our previous points, you’ll need to seek specialist insurance solutions depending on the details of how you intend to use your serviced accommodation.
Choosing a Location
Finding the Right Property
Pros of Off-Plan
Choosing a Location

You may consider that rather than try to convert an existing property, it’s easier to buy a new property with the express intention of using it as serviced accommodation.

If that’s the case, you’ll want to think carefully about a few factors, starting with the location.

Choosing the right location can make or break your property goals. While you may be keen to find a property in an upcoming area that is low cost, serviced accommodation only works in areas with strong tourism and corporate trade. For that reason, serviced apartments are only really suited to locations that are already in demand, such as city centres. The result is that you’ll likely have to go in at a higher price point, but this is simply the cost of investing in an area that people want to visit.

If you don’t choose the right location, you may find that you struggle to let your serviced accommodation enough and can not generate meaningful returns.

Of course, city centres are not the only areas that serviced accommodation can be successful, but the point is that you need to approach location considering not just the property value, but also the commercial value surrounding.

This is exactly what mortgage lenders will be doing and if you buy in an area without consistent business or tourist trade, you may struggle to get finance.
Finding the Right Property

Aside from location, you’ll obviously want to give some thought to the type of property you buy. When it comes to serviced accommodation, an apartment is a strong place to start.

This will allow you to target tourists and business people alike, and buying a one or two-bed property shouldn’t break the bank (depending on where you’re buying of course).

Other than that, the type of property you choose should be based on your individual requirements. If, for example, you’re unsure whether you’ll be able to manage the property yourself, you may look for a property in a building with a concierge.

Likewise, you should consider whether there are any specific types of guest you want to target, and whether that will impact your choice of property. For a corporate clientele you may find that a studio apartment does not generate much demand.

Finally, you should always consider your exit strategy. If you want to sell, the market for one and two-bed apartments is strong, especially in city centres, so this may sway your decision.

Pros of Off-Plan

When you are looking for a serviced apartment, ensure you don’t just consider properties that have already been built.

Since you’re likely buying in a premium area, buying off-plan could be a way to get your ideal property for a great price, as you’ll have the chance to benefit from capital growth by the time your unit is actually built.

Think of it this way. If you buy an apartment in 2019 that doesn’t complete until 2021, you’ll potentially see two years of capital growth by the time your property is brand new.

Buying off-plan also comes with other benefits. Property developers (including ourselves) have recognised the demand among investors for accommodation and are now offering leasehold agreements that don’t restrict short lets.

There are also loads of other reasons buying off-plan can provide you with a great deal, which we’ve looked at here.
CONCLUSION

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- About Taylor Rhodes Group
- Get in Touch
Is Serviced Accommodation Right For You?

By this point, you’ve hopefully come to the same conclusion that we have - that serviced accommodation can provide excellent investment benefits, so long as you’re comfortable with some additional management and complexities.

Therefore, it is important that every investor thinks carefully about whether serviced accommodation will suit their lifestyle and portfolio.

Still, even if you’re not sure whether a serviced apartment is right for you at the moment, you can still keep your options open by ensuring the next property you buy allows the option for short-term lets in its leasehold.

So, if you’re sure serviced accommodation will be your next investment, or you just curious to learn more, get in touch with us to discuss your investment aspirations.

About Taylor Rhodes Group

The Taylor Rhodes Group was launched with one aim in mind, to make investing in high-quality property simple. That’s why we don’t take a back seat approach to property development and are always on hand to help any investor use their money well.

Our talented team of architects and designers pride themselves on producing properties that demand attention, while our extensive knowledge of property hotspots helps us secure property primed for investment.

“TRG kept us informed throughout the build and the final spec far surpassed our expectation. Really happy we made the decision to purchase with TRG and have advised many of our friends.”

Charles Rhodes
Director

Alex Taylor
Director
GET IN TOUCH

Learn more about investing in serviced accommodation and our current investment opportunities by getting in touch today.

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