CASTLEFORGE

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INVESTORS RUSH TO AFFORDABLE HOUSING

Throughout advanced economies, and especially in America and Britain, the last several decades have been defined by widening economic inequality. Housing markets offer an instructive vantage point for this trend. Over the last quarter-century, house-price inflation has significantly outpaced wage growth in the UK. During that period, the ratio of the median house price to the median annual wage roughly doubled in England; in London, it tripled. As a result, young people who earn median wages (or less) can no longer afford to purchase houses, especially if they live in cities. While more than half of British baby boomers owned homes by the age of 30, fewer than 30% of British millennials do. As you would expect, that's led to surging demand for rental housing that low-income and middle-income households can afford.

But the supply of affordable rental housing has not kept pace. Indeed, affordable housing supply has consistently fallen short of the estimated need for well over a decade now. The basic numbers paint a dismal picture. While 1.2 million people sit on waiting lists for local authority housing in England, there were just 58,000 affordable housing completions nationwide from April 2019 to March 2020. Meanwhile, the National Housing Federation reckons that, on net, England must add 145,000 affordable houses each year for the next decade in order to satisfy ongoing and backlogged needs.

Although quantity is a problem, so too is quality: the existing stock of low- and mid-priced housing scores notoriously poorly on this count. A third of rented homes fail the government's Decent Home Standard threshold, and about 9% of households in social housing and 7% of households in privately rented housing live in conditions the government regards as overcrowded.[1] The NHS figures that illness caused by substandard housing costs the UK £1.4 billion per year, in first-year treatment costs alone.[2] Setting the economics aside, there's a serious social problem here, too: the UK requires a lot more decent-quality budget housing.

In the last few years, institutional property investors have started to pay closer attention to this shortage. Blackstone entered the regulated affordable housing market in 2018, when it acquired a majority stake in the London-based social housing provider Sage Housing, which now boasts a development pipeline of 12,600 units. A year later, Legal & General announced that it would commit £750 million to the development of affordable housing projects in the UK. Partnering with 14 housing associations, it intends to churn out 3,000 units each year by 2023. Earlier this year, M&G Real Estate announced that it had also raised £215 million for a fund focused on developing affordable homes. The list goes on.

This surge of institutional interest in affordable housing has a few causes. First, investors are attracted to the economics of the sector. As we suggested above, years of undersupply have made it possible to add value by developing affordably priced housing of decent quality. That's potentially lucrative. At the same time, residential real estate provides a stable source of inflation-linked income. As pension funds and other long-term investors move to protect their portfolios from the risks of inflation, affordable housing has seemed like an appealing allocation.

[1] The Health Foundation
[2] BRE Group

On a different note, investors are increasingly sensitive to environmental, social, and governance (ESG) considerations. PwC expects half of all European mutual funds to self-describe as ESG by 2025, and real estate funds face mounting pressure to follow suit. Investment in affordable housing offers a path in the right direction: real estate investors can add a great deal of social value by helping to ameliorate Britain's housing problems. Institutional investors probably recognise that point.

We launched Ocasa several years ago to capture similar themes. (Ocasa is our residential platform that operates flats in the UK regions, at price points affordable to lower- to middle-income workers in those places.) Over the last three years, we have expanded the platform, confident that it adds both economic and social value, especially in parts of the country that were historically deprived. Ocasa now manages about 2,300 units[3] across 38 assets in or near Leeds, Sheffield, Birmingham, Norwich, Durham, Liverpool, and Manchester (among other places).

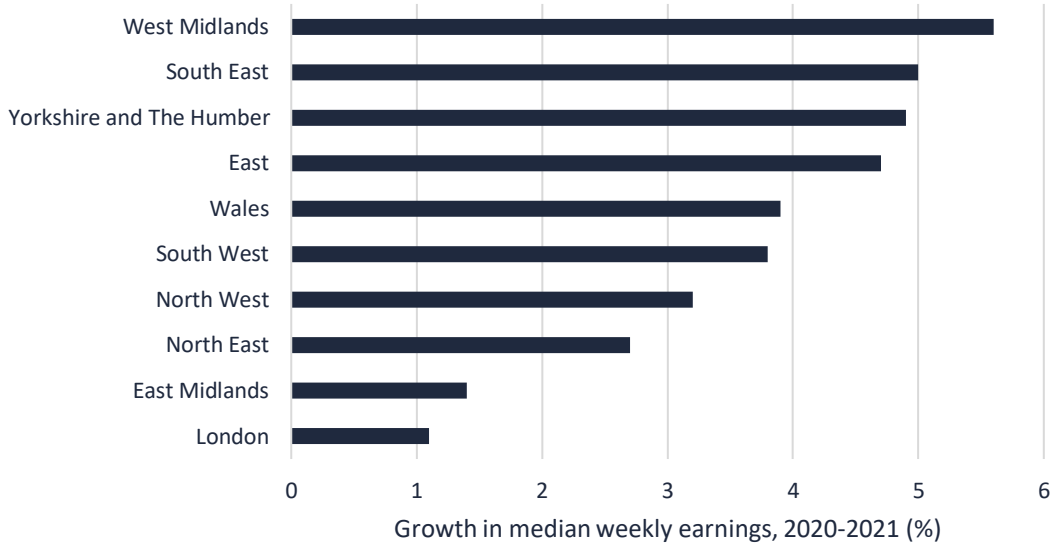
Unlike many of the private investors we cited above, Ocasa focuses squarely on what we call the "unregulated affordable housing" sector, which is higher quality and slightly more expensive. As investors flooded into "regulated affordable housing", particularly in Greater London, we believed that well-priced, higher-quality housing outside of London would remain undersupplied. We think this is still true. At the same time, we figured that these sub-markets would enjoy particularly robust demand growth as secondary and tertiary cities in Britain's regions underwent economic revivals and as low- to middle-income workers in these places achieved rising incomes as a result.

Indeed, as we explained in our latest white paper, we think that secondary cities throughout the UK will grow stronger over the coming decade, as communications technologies increasingly enable people to engage in productive work and consume high-quality entertainment in a far greater number of locations than before. We believe that housing in the UK regions will remain undersupplied until developers catch up with this emerging trend. This will take time.

Although it's still too early to tell, recent wage data (shown in Figure 1) appear to support our view.

[3] This reflects the number of expected units at stabilisation.

FIGURE 1: WAGE GROWTH REMAINS ESPECIALLY STRONG IN THE UK REGIONS[4]



If wage growth for low- to middle-income workers in Britain's regions boosts local demand for higher-quality affordable homes, then rents in these markets should rise. As that happens, we expect to see investors increasingly flock to this asset sub-class. This would help remedy Britain's affordable housing shortage, too. As the post-pandemic recovery unfolds, we will continue to watch.

EVEN BITS NEED A PLACE TO WORK: THE RISE OF THE DATA CENTRE

As we've discussed before, the office has changed a great deal in the last quarter-century. Our views about that transformation are structured around a broader narrative about the evolution of information and communications (ICT) technologies. We'll start by laying out that narrative, since it is crucial to understanding the rise of the data centre.

Where did all the paper go?

Thirty years ago or so, electrons started to push atoms out of the workplace, as paper documents and filing cabinets were gradually replaced by digital forms of communication and information storage. Office workers got desktop computers, and the information now displayable on their monitors was mostly stored in private servers, which sat in dedicated rooms on-site. By the early aughts, most workplaces operated with that type of technology set-up. As computer usage proliferated and information storage further digitised, physical ICT infrastructure swallowed up more and more office space. We wound up with crowded, open-plan offices with lots of servers. The paper was effectively transferred out of office filing cabinets and put in office server cabinets.

In the past decade, and particularly within the last few years, that paradigm evolved. While the first phase of the computing revolution saw workplaces swap paper files for digital ones, the second phase delivered significant changes to computing infrastructure itself. Although the volume of stored information has exploded – a major trend in its own right – physical ICT

[4] Office for National Statistics

infrastructure consumes much less office space today than it did ten years ago. That's mostly due to the fact that enterprise computing operations increasingly shifted to the cloud.[5]

Where did all the servers go?

With the introduction of the cloud, computing infrastructure could be hosted remotely, managed by specialised operators, and consumed "as a service" (and therefore upsized or downsized easily) by end users located anywhere. About 70% cheaper than traditional storage,[6] cloud computing presented a compelling value proposition, particularly during a period in which high-growth technology companies were multiplying at a rapid pace. This was because high-growth firms typically (1) aimed to minimise fixed investment in costly hardware; (2) wanted the flexibility to adjust computing capabilities in lockstep with business growth; and (3) tried to keep their teams lean, devoting as few resources as possible to non-core business functions, like technology infrastructure.[7] The sheer volume of content that internet companies increasingly needed to store and deliver also made it infeasible to host that content in-house. As a result, enterprise spending on cloud infrastructure services increased from $1.5 billion in 2010 to $129.5 billion in 2020.[8] As organisations migrated their digital operations to the cloud, they started to abandon the private servers that they had previously crammed into on-premises server rooms. This meant that offices could now fit more people.

But all that physical computing infrastructure did not vanish. It just moved. After all, the cloud doesn't actually float in the sky – it takes up real space on the ground. More specifically, the cloud is housed within millions of servers that sit inside thousands of specialised warehouses called data centres. We like the title that one Wall Street analyst uses for his semi-annual research report on the sector: "The Cloud Has Four Walls." Very roughly: add a roof, a raised floor, adequate, redundant power supply, plenty of cooling capacity, network connection points, and thousands of servers, and those four walls form a data centre.

Migration to the cloud led to the physical consolidation of computing infrastructure. When companies relocated their digital operations to the cloud, they usually traded server rooms in their own office buildings for rack space in third-party warehouses,[9] owned primarily by cloud service providers (like Amazon Web Services and Microsoft Azure) or multi-tenant data centre operators (like Equinix and Digital Realty). In short, servers left offices and moved into data centres.

Like many structural trends in real estate, the rise of the data centre is partly a simple compositional story: it's about the movement of digital information out of private servers in office buildings and into vast "server farms" in data centres. This adjustment was borne out in

[5] "Cloud computing" refers to the delivery of infrastructure, platforms, and software via the internet.
[6] Based on the total cost of ownership for a typical enterprise user, as estimated by Credit Suisse in 2018.
[7] It's not a coincidence that analogous considerations have propelled the rise of flexible offices, as we have noted before: both cloud computing and flexible offices operate by turning the provision of capital goods, which were historically owned or leased by users, into pay-as-you-go services. As a result, they attract customers for similar reasons.
[8] Synergy Research Group
[9] Hardware stored in data centres is held in metal cabinets or "racks", and customers often effectively rent units of rack space.

real estate markets. The data centre sector realised double-digit compound annual total returns between 2014 and 2020, outpacing office returns by a wide margin.[10] These gains were achieved in tandem with a massive increase in supply. Annual capex investment in hyperscale data centres tripled between 2014 and 2020 (from $30 billion to $94 billion).[11] In Europe's "Tier 1" markets (Frankfurt, London, Amsterdam, and Paris), third-party data centre capacity almost quadrupled between 2010 and 2020.[12]

So, in certain ways, what's bad for the office is good for the data centre. Some of the forces that have dragged down aggregate demand for office space – in particular, the growing adoption of cloud computing – have pushed up aggregate demand for data centre space.

Where are all the people going?

This conclusion underscores a more general theme. As we explained above, data centre growth was partly driven by the mass migration of enterprise ICT infrastructure to the cloud. Yet the rise of the data centre also reflects more fundamental changes in the ways we use physical space. Over the last two decades, ICTs have digitalised a growing portion of our everyday activities. The point most relevant to real estate is that digitisation has changed where those activities take place, and it has created massive volumes of data that must sit somewhere.

Consider remote, or hybrid, work. At the margin, Zoom is replacing in-person meetings (synchronous communications), and Slack is replacing ad hoc conversations in office corridors (asynchronous communications). (As many observers, including ourselves, have already pointed out, this adjustment started well before the pandemic, although the pandemic has surely accelerated it.) Think about a two-way videoconference between a worker in an office building and a worker at home. Where does that act of communication take place? Or, equivalently: what are the basic real estate requirements of that activity?

When two office workers meet in-person, they communicate by producing a bunch of soundwaves that are completely contained in a meeting room. That room is the only physical space their interaction requires. When the workers' meeting moves to Zoom, however, the picture gets more complicated. Although a portion of their now-virtual meeting still takes place in the physical locations that each speaker occupies (i.e., an office building and a home), the meeting also "takes place" on Zoom's platform. Zoom's platform, in turn, is hosted on servers, which are themselves located in various data centres around the world. Thus, in a sense, their meeting is also located inside these data centres. (As well, the videoconference's content needs to get to those servers in the first place, so the network infrastructure along which that content travels, in the form of data packets, also comprises part of the virtual meeting's physical home.) In short, the shift to Zoom means that certain real estate requirements expand, even if office requirements shrink.

Digitalisation has produced similar outcomes in other contexts. Amazon changed where shopping takes place (moving it from retail stores to wherever Amazon customers use their devices, last-mile distribution warehouses, and data centres), and Netflix changed where film-watching takes place (moving it from cinemas to homes and data centres). As a result, people

[10] Calculated using NAREIT's total returns indices for office REITs and data centre REITs.
[11] Credit Suisse
[12] PGIM Real Estate

now spend less time in retail stores and cinemas than they did a decade or two ago. Yet the technologies that brought shopping and film-watching online created new sets of real estate needs. So, contrary to conventional wisdom, digitalisation doesn't necessarily reduce physical space requirements in aggregate. However, it certainly *changes* those requirements – and data centres are consistent beneficiaries of that change.

Where will all the data go?

As "software eats the world", more data gets created, processed, and delivered. All that data must go somewhere. In the past decade, organisations started to solve this challenge by migrating their digital operations to high-capacity data centres, including both hyperscale centres and large-scale multi-tenant centres. These data centres are (1) typically located away from the centres of major population clusters and (2) relatively few in number. Such a centralised network works fine in a world where (1) latency minimisation isn't paramount and (2) digital information flows are also relatively centralised – for example, where billions of end users engage with comparatively few social media, entertainment, and e-commerce platforms. This basically captures the so-called "Web 2.0" world, and it still has plenty of runway, with only between 20% and 30% of enterprise workflows already on the cloud.[13]

However, the world is changing fast. Technological innovation continues to push ahead, conquering old activities (like medical imaging analysis and manufacturing processes) and creating new modes of virtual activity altogether (like spending time in the metaverse). Crypto-networks enable users to communicate and transact directly with each other, without intermediary platforms. Autonomous vehicles, augmented reality (AR), and smart cities could be on the horizon, enabled by the introduction of 5G networks, which will bring high-speed internet connectivity to more locations. Some of these technologies – particularly ones that involve manipulating the proximate physical environment – will require ultra-low latencies, often lower than 10 milliseconds. At the same time, content-intensive technologies, like high-resolution gaming and AR, will consume enormous volumes of bandwidth, potentially straining the internet's network infrastructure. Finally, as cybersecurity threats and data-privacy concerns both intensify, organisations and individuals may not wish to concentrate all of their highly sensitive information in just a few locations.

As a result, a web dominated by centralised data centres – ones located relatively far from end users and connected to those users via highly trafficked pathways – may no longer suffice. A larger and more distributed network of local, micro-sized ("edge") data centres will likely be required to accommodate emerging technologies, including those enabled by 5G. What might that look like? Perhaps servers will increasingly return to the office in the end. (In fact, this has already started: see Amazon Web Services' "Outpost" product.) Or perhaps they will be stuffed into the ground space of cellular towers or the basements of apartment buildings. We're still in the very early days of this transition.

The property sector is notoriously slow to respond to technological change. That's a mistake. While it's impossible to predict the exact trajectory that innovation will take, technology plays a central role in shaping how we use physical space. Real estate investors should pay attention.

[13] Gartner

ESG: COMING SOON TO AN OFFICE NEAR YOU – EVEN SOONER THAN YOU THINK

A scramble for sustainable buildings – on the parts of both occupiers and investors – will define London's office market in the next decade. That was the unanimous consensus of a panel we recently attended on the future of London offices. We agree. In fact, we think this trend has already started to take shape. As one of the speakers on that panel, an investor active in Central London, remarked (roughly): "A decade ago, when I'd meet with prospective tenants, I would meet with CFOs, who were mainly concerned with negotiating rents. Now, I'm meeting with heads of people and heads of sustainability strategy, who want to determine whether our buildings can provide best-in-class workspaces and meet rigorous environmental standards. In the minds of many tenants, the office has gone from a required cost item to a potential value driver." His comment resonates with our own observations.

As we have noted in previous letters, we believe that occupiers are increasingly demanding office spaces that advance broader corporate goals, like attracting and retaining the best talent, enabling that talent to collaborate in productive ways, and delivering on environmental, social, and governance (ESG) targets. In this section, we focus on the first letter of that acronym. As firms adapt to a lower-carbon world – something they are now doing more aggressively than ever – their real estate requirements will have to evolve, too. This shift is bound to disrupt office markets in many cities, especially ones with office stocks that are old and (environmentally) dirty. That means London, where between 80% and 90% of office buildings have EPC ratings of C or below.[14] (The government is weighing new legislation that would make buildings with such ratings unlawful to let by 2030.)

What's happening in London's office market is part of a global transition. Indeed, in the last couple years, more and more companies have turned their attention to ESG priorities. In 2011, about 20% of S&P 500 companies included disclosures on sustainability in their annual filings; in 2019, about 90% of them published such disclosures.[15] Three years ago, only 14 S&P 500 companies mentioned the term "ESG" in their fourth quarter earnings calls; last year, 129 did.[16] Two-thirds of these organisations have now set explicit targets for reducing their greenhouse gas emissions, and many of the remaining third will probably follow in short order.[17] The bottom line is that business as usual is changing.

The underlying dynamic that's driving this change is pretty simple. Companies have to answer to various constituencies – including their employees, their customers, government authorities, and (perhaps ultimately) their shareholders – and, as each of these groups agitates for lower carbon emissions, company leaders are falling into line. Consider the fact that 77% of institutional investors "plan to stop purchasing non-ESG products" by 2022.[18] When BlackRock – which holds at least a 5% stake in more than 97% of S&P 500 companies[19] – describes climate change as "a defining factor in companies' long-term prospects", corporate executives listen.

[14] Great Portland Estates
[15] Governance & Accountability Institute
[16] FactSet
[17] Morgan Stanley
[18] PwC
[19] American Economic Liberties Project

Ditto, when 2,300 members of Google's most important asset, its workforce, sign an open letter demanding "zero emissions by 2030".

Real estate is notoriously carbon-intensive; it accounts for some 40% of global carbon emissions.[20] Without a transformation in the way that real estate is built and operated, net-zero emissions goals will remain pipedreams. Although many property owners continue to dawdle, occupiers now grasp that point, particularly the blue-chip ones. They are leading the way. Major knowledge-sector tenants are embedding green real estate policies into their wider initiatives to reduce their carbon footprints. In many office markets, they are now engaged in their own "race to zero [emissions]", trying to outcompete each other to win the most extravagant sustainability credentials.

A few examples. Looking ahead, McKinsey intends to only occupy buildings with LEED Gold or Platinum ratings (or equivalents), aiming for "the highest environmental standards for new offices and major renovations". PwC's newest UK office, which opened in July in Belfast, was Northern Ireland's first BREEAM Excellent building. The firm's new Milan office, which also opened earlier this year, was outfitted with 270 sq m of solar panels. Facebook's stated policy calls for the company to "achieve LEED Gold certification at [its] larger offices globally – and strive beyond where possible". Google tripled its LEED-certified office space between 2014 and 2019, and its London office at 6 Pancras Square was the first building in the world to receive the International Living Future Institute's Zero Carbon Certification. The tech giant's new headquarters in London, currently under construction, will have solar panels and infrastructure for collecting and recycling rainwater on-site. We could go on.

We are starting to see occupiers' ESG priorities reflected in rents, too. A study published by Knight Frank in September finds that Central London offices with BREEAM Outstanding (the highest level) ratings achieve rental premiums of 12.3% on average, even controlling for characteristics like building age and grade, floorplate size, proximity to public transport links, and the presence of retail amenities nearby. Buildings with the second-highest ("Excellent") and third-highest ("Very Good") BREEAM ratings achieve rental premiums of 4.7% and 3.7%, respectively. These figures are significant, but we're still in the very early days of de-carbonisation. They will grow even larger.

As governments get their acts together, new regulations may effectively compel property owners to de-carbonise their buildings. (What happens at that point, when, by law, thousands of buildings cannot be leased unless millions of pounds are poured into "de-carbonisation capex"?) And de-carbonisation is the right thing for the real estate sector to do anyway. But the market is already forcing the sector's hand, and this is happening more quickly than many supposed. Well before the office market has a chance to de-carbonise, millions of square feet in London will be practically unlettable to the blue-chip tenants that historically occupied them. This means that a rude awakening looms for many office landlords.

Yet there's also a flip side. Sustainable office space is precious. BREEAM Outstanding buildings represent the top 1% of buildings by sustainability performance, and BREEAM Excellent buildings represent the top 10%. What's more, as we noted above, between 80% and 90% of London's office buildings have EPC ratings of C or below. As more and more tenants try to

[20] Deloitte

squeeze into a scarce supply of green offices in gateway cities, we think that the most sustainable buildings will achieve even thicker rental premiums. That should bode well for their owners.

LONGER-STAY HOTELS MAY HAVE A BRIGHT FUTURE

Mike and Iris were recently catching up about business travel plans for the Castleforge annual meeting in late May. Iris mentioned that she was considering staying in the UK for a few weeks after the meeting, and that it might make sense for the whole family to travel to London because of the US summer break for schools, and the adults' ability to get by with videoconferencing and remote working meant that everyone had a lot more flexibility.

If this sounds familiar, it is probably because it is the umpteenth time you have heard a story of one person taking a business trip for an extended period of time only to have a partner or family come along and (relatively) seamlessly carry on their lives as if they were at home. Despite the potentially weak outlook for business travel as a result of videoconferencing and remote working, demand for short-term rentals or for hotels that cater for longer stays is going strong, and a lot of this seems to be business related. Along those lines, most of us here at Castleforge are saying goodbye to the single-night overnight stay, and instead grouping our travel into longer chunks of time. Without the irrational *need* to be back at the desk the very next day (or even the same day), we are cutting down on the back-and-forth travel that wasted so much time previously. We are not so sure about the "obvious" death of business travel demand.

Indeed, well-known investors are jumping into the longer-stay hotel market. Last year, Blackstone bought back into Extended Stay America along with Starwood, and this year have grown the portfolio with the recent WoodSpring Suites acquisition. We believe that these acquisitions play into a trend of business travel demand not necessarily falling, but shifting. And it is not only the length of stay that seems to be increasing, but the number of people per room. Pre-Covid, business travel usually meant being away from your family for a short period of time. Now, increasingly, it could mean the whole family coming along for a more extended period of time.

It is ironic that Starwood Capital is part of the investor group leading the charge into extended stay hotels. After all, it was Starwood Hotels that really took the baton from the likes of Ian Schrager, and launched the entire industry into the "lifestyle" hotel concept with the opening of the W Hotel on Lexington Avenue nearly 25 years ago. Mike remembers staying in the W when he went to meet Blackstone for interviews at their offices just across the street – it was perfect for a 22-year-old in town for business for the night who just needed a bed to sleep in. Fifteen years on, Mike and his family stayed at a hotel while in New York for a week, and what a different experience that was. Where does one put the pack-and-play in a 205 square foot room? Where can two adults productively work on a laptop when the lobby is buzzing? Where can one cook or heat up dinner?

It seems the two-decade-long trend towards smaller room sizes, fewer in-room amenities and the assumption that business travel was short in duration and/or involved a single individual, needs a re-think. A whole different type of hotel product could be needed, and we here at Castleforge believe that this makes for an exciting opportunity in the sector. Here is how we see hotels needing to change if customers are (1) increasingly staying for more nights, (2) need to work productively for the entire time, and (3) may be bringing along other members of the family.

As we have suggested, the first problem with most hotel products today is that they are obviously not optimised for long-duration stays. Consider what the standard hotel product includes: a small studio, with a bed, a toilet, a shower, a few towels, a television, a Wi-Fi connection, an electric kettle or a coffee maker (if you're lucky), and perhaps a mini-fridge – fully stocked with marked-up liquor and bags of mixed nuts.

This type of product works well if in town on business for a night or two, on the kind of quick trip that many people frequently took pre-pandemic. Your flight lands (let's say) Monday morning and you go straight to the client's office, for a day full of work and then a take-out for dinner. By the time you checked in to your hotel, you go straight to bed. First thing Tuesday morning, you Uber back to your client's office and remain there all day for meetings. At night, you return to your hotel and order room service, which you eat on the edge of your bed, while you call your family and chat for a few minutes before dozing off. Then you go back home on a Wednesday morning flight. That was it: all told, you probably spent about 15 hours – 14 of which were unconscious – in your hotel room during this two-night trip.

When people travel for week-long periods, rather than just a night or two – and possibly with their partners and children, rather than alone – their lodging requirements change drastically. For one thing, they now spend more time in their hotel rooms. This is partly because trips literally last longer, but it is also partly because longer trips usually mean less crammed itineraries. When in town for a night or two, a lot of activity needs to be squeezed into a short period of time – plus, all the other office projects can be dealt with via smartphone or just left until back in the office. Alternatively, when a trip lasts a whole week, the itinerary is probably less full. If there were previously 10 meetings into two days, that might now be 15 meetings spread over five days. A two-night trip may have meant one work dinner; now there are two work dinners, but over five nights. And putting off all other work projects for a whole week is not possible, so working from "home" (the hotel room) for a few hours each morning and evening becomes a requirement.

This all implies a lot more time spent in the hotel room.

A tiny room, where the main piece of furniture – the bed – doubles as a surface to sleep on and a place to sit while you eat room service or clear emails, no longer cuts it. To work effectively, real workspace is needed: a well-lit desk and a comfortable chair. Also, you probably should not order room-service burgers three times per week. You may want to cook dinner yourself once or twice, and that requires an equipped kitchen or kitchenette. At the very least, you probably want to stock your room with cereal or yoghurt for breakfast. This means plates, bowls, cutlery, and a real fridge.

What's more, when travelling for weeks at a time, your partner – and possibly very young children – may come along too. (As we have said, your partner can probably work remotely now.) Larger groups impose new sets of lodging requirements. You surely need more space, but you also need *separation* of space. You and your partner do not want to shout over each other on videoconference calls, and neither of you wants to turn the lights out and sit in silence the moment you put your child to bed. As a result, a one-bedroom works significantly better than a studio. And since you are traveling with a child, kitchen equipment takes on even greater importance. Even if you wanted, you are not going to dine out with the whole family at 5:00 pm

every evening: you need the ability to prepare food without leaving your room. You almost certainly want a laundry machine, too.

In short, as people travel for longer durations and in larger groups, they want to stay in places that feel more like homes than hotel rooms, and, of course, Airbnb has achieved considerable success by attempting to cater to precisely this demand.

Yet Airbnb's model has several shortcomings. As much as Airbnb tries, it cannot guarantee a consistent quality of product. (Perhaps this is the point, actually: Airbnb wants to provide guests with unique stays, not necessarily consistent ones.) More importantly, Airbnb cannot guarantee a consistent level of service. This creates problems. The last thing that a weary business traveller wants to deal with at 10:00 pm on a Tuesday is a lost Wi-Fi connection or a broken hot water tank. While hotels have maintenance staff on-site, Airbnb guests have to hope that their hosts will respond quickly and somehow fix the problem. Good luck. Ultimately, business travellers want convenience and comfort, not a grand adventure. Airbnb provides the home-like feel that many extended-stay travellers want, but in too large a dose. Most travellers want some kind of compromise – something that combines home-like comfort with hotel-like service.

We believe that extended stay hotels provide just that. As demand for this product started to expand in recent years, several players entered the European market, including Quest, Sonder, Adagio, Residence Inn, Wilde, and Staycity. While the sector grew by about 5% per year between 2014 and 2019, it is still in its early days, and the market remains highly fragmented. We are confident that the sector will continue to grow in the coming decade. Additional supply will be needed to meet that demand. As a result, we believe there could be an opportunity in this sector, and we will be exploring that opportunity further in the months ahead.