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Hotel-Branded Residences Thrive During Housing Market Downturn

Buyers snatch up homes connected to luxury hotels and branded stand-alone properties

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A rendering of one of the branded residences at Montage Cay in the Bahamas. PHOTO: THE RESIDENCES AT MONTAGE CAY

Higher mortgage rates and recession fears have upended the high-end housing market, but buyers are still paying up for residences affiliated with luxury hotel brands. Even when there is no hotel attached.

Construction of branded residences worldwide has boomed over the past dozen years. The U.S. had 38,900 branded residences across more than 200 developments at the end of last year, a 40% increase from 2010, according to real-estate firm Savills PLC.

Buyers pay an average 30% premium to purchase hotel-branded residences, said Rico Picenoni, a director in the Savills global residential development consultancy team. In exchange, they receive luxury hotel services in their homes, such as in-room dining, butler services, housekeeping and babysitting.

About 80% of branded residences are affiliated, and usually co-located with, a hotel, Mr. Picenoni said. But fashion and other types of companies have ventured into branded residences, too. Italian fashion house Diesel is building a 159-unit branded residences tower in Miami's Wynwood neighborhood with interiors designed to evoke "haute couture meets well-worn denim," according to the brochure.

Luxury hotel group Mandarin Oriental opened two stand-alone residences last year in Beverly Hills, Calif., and Barcelona. In Barcelona, about half of the project's 34 units have sold, including the penthouse, said Adelina Wong Ettelson, global head of residences marketing for Mandarin Oriental. A third stand-alone residence, on Fifth Avenue in Manhattan, will be Mandarin's first fully furnished offering and is scheduled to open later this year.

The company considers stand-alone properties in markets where hotels aren't possible or feasible, whether that is due to high costs or zoning restrictions, Ms. Wong Ettelson said.

Luxury hotel brand Four Seasons has started sales for a lakefront private residence resort with 179 homes and nine villas near downtown Austin, Texas, its sixth residence without an accompanying hotel. Jonathan Coon of Austin Capital Partners, which is developing the project with Hines, said it includes 53 private pools, a lake club with more than three dozen boat slips and 100,000 square feet of indoor amenities, and is scheduled to finish construction in 2026.

Mandarin Oriental opened a stand-alone residence last year in Beverly Hills, Calif. PHOTO: DBOX

The project offers residents all the same amenities of a five-star St. Regis hotel without the comings and goings of hotel guests, he said.

Hotel operators that offer residences connected to hotels have also had recent success, despite the broader housing downturn. Montage International, which sells homes attached to Montage or Pendry luxury hotels in the U.S., Caribbean and Mexico, posted $1.1 billion in branded residences sales last year, the company said, its biggest year ever for these sales.

That was up from just over $800 million in 2021 and $100 million in 2018, a sign that turmoil in the financial markets and economic uncertainty haven't deterred the ultrarich from investing in amenity-rich real estate.

"We're still seeing a really good segment of our market that's insulated from the volatility that's going on around us," said Tina Necrason, executive vice president of Residential for Montage.