# A Review of the Investment Landscape in the European Hospitality Sector

July 2022

AHV
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# AHV Associates

- Co-founded in 2001 by Andrew Harrington, AHV Associates LLP (AHV) is a London-based boutique investment bank focused on advising private companies across a range of M&A and capital raising assignments.
- AHV specializes in hospitality and has worked with companies that own and/or operate hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts.

## WHAT WE DO

**AHV Associates**

**Mergers & Acquisitions**

- Buy-side advisory
- Sell-side advisory
- Joint ventures
- Management buyouts

**Board Advisory**

- Strategic options assessment
- Independent valuations

**Capital Raising**

- Corporate debt / equity
- Acquisition finance
- Growth capital
- Real estate finance

AHV Associates LLP is authorized and regulated by the **Financial Conduct Authority**


# Investment Activity Outlook Summary

# Investment Activity Outlook Summary

Whilst the current environment is challenging, we expect the tailwind dynamics to prevail and support the investment activity in the sector

- Emergence of Green Finance is establishing new valuation principles
- Increasing green credential requirements and refinancing risks will force cash-strapped owners to seek an exit
- Strong recovery in several European markets is boosting investment confidence – especially in those markets that are recovering quicker than expected, like the UK
- Consumer demand shift sees extended stay product gaining market share & attracting high interest from development lenders/ investors
- Re-emergence of OpCo M&A by hotel groups to capitalise on new trends
- Record amount of capital and interest for Value-Add / repositioning opportunities
- Thematic Partnerships between RE investors-operators has emerged as a new way to increase value extraction from hotel RE assets
- Tech-enabled hospitality concepts & hotel specialist software are attracting big investment interest from dedicated PropTech funds

**M&A and Capital Raising Tailwinds**

- Limited ability to pass on rising operating and energy costs to consumers in price sensitive niches will lead to poor trading performance and subsequently poor investment interest.
- Economic uncertainty creates a more conservative approach to lending and investment underwriting
- Increasing borrowing costs adding downward pressure to valuations
- Highly cautious approach by institutional investors in development funding due to rising and volatile construction and labour costs

**M&A and Capital Raising Headwinds**

- Whilst the current macro environment is challenging, especially for hospitality sub-sectors with price-elastic demand and some marginal new development projects, the tailwinds arising from the huge amounts of dry-powder in real estate funds, the strong market recovery, the Green Revolution, and the prospect of existing owners relaunching stalled exit plans will prevail
- Following last year’s strong pick-up of investment activity, which also continued over the first months of 2022, we anticipate M&A and capital raising activity to remain strong, but with activity concentrated in areas showing resilience in the face of the economic headwinds
- We also think that there will be increased investment activity by operators as the established players shift their focus from navigating the pandemic to positioning themselves ahead of the next market cycle through the acquisition of complimentary brands and businesses, or by working thematically as co-investors alongside thematic real estate partners to grow their managed / operated portfolio

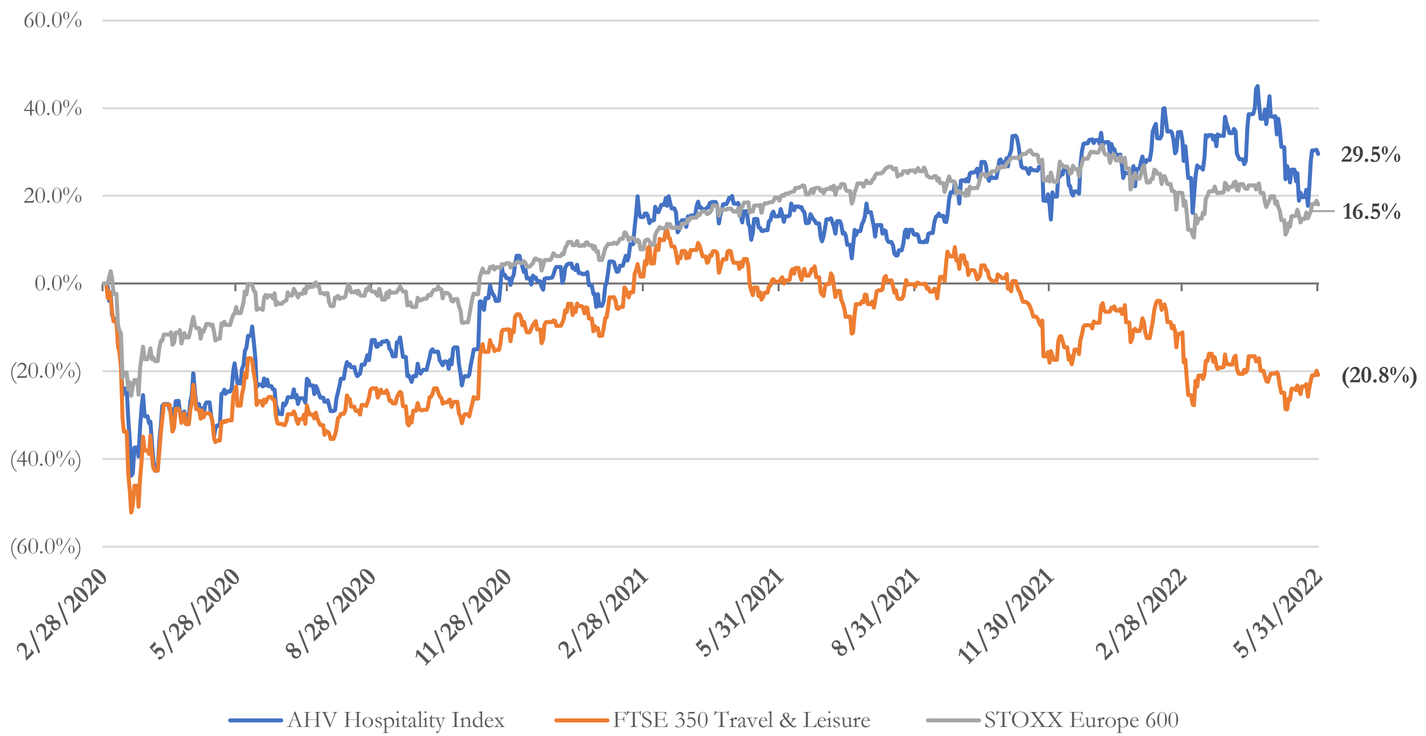
 Sources: HVS, Knight Frank, JLL, HVS

# Trading Performance

# Market Indices Performance

The hotel market has been an outperformer!

- Our hotel-focussed AHV Hospitality Index has greatly outperformed the overall market and the travel & leisure industry generally since Feb-20, highlighting the strong bounce-back of many parts of the overall lodging market post pandemic
- However, the recent significant drop in AHV Index's value clearly reflects the challenging macro-economic environment that prevails as a result of high inflation due to the imbalance between supply and demand post pandemic, exacerbated by the war in Ukraine and China's covid-free policy




 Source: Capital IQ, Indices as of 30/04/2022

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# Listed Hotel Groups Q1 Group Trading Performance (% Change)

Strong recovery but still some way to go to reach 2019 levels, especially for more Europe-dependent hotel groups

- There has been substantial uptick in trading performance compared to Q1 2021, but reported RevPaR is still, on average, almost a quarter lower compared to the pre-pandemic levels;
- Hotel groups with a greater presence in the US than the EU have achieved a quicker recovery; For example Wyndham, which is heavily US dependent, reported a Q1 2022 RevPaR that is just 4% below Q1 2019
- Within Europe, the UK is recovering quicker than any other market, mainly because of an earlier lift on restrictions compared to other countries; Whitbread is a perfect example as the UK division's reported RevPaR is only 17.5% lower than in 2019, while German division's REVPAR is 59.3% lower than in 2019
- Following some market disruption caused by the Omicron variant, forward guidance has been very positive; hotel groups are now seeing a significant demand increase with bookings stronger than in 2019 summer, and higher levels of RevPaR for April and May compared to 2019
- All in all, the average European RevPaR gap in 2022 vs 2019 is expected to narrow further, but certainly slower, than in the US

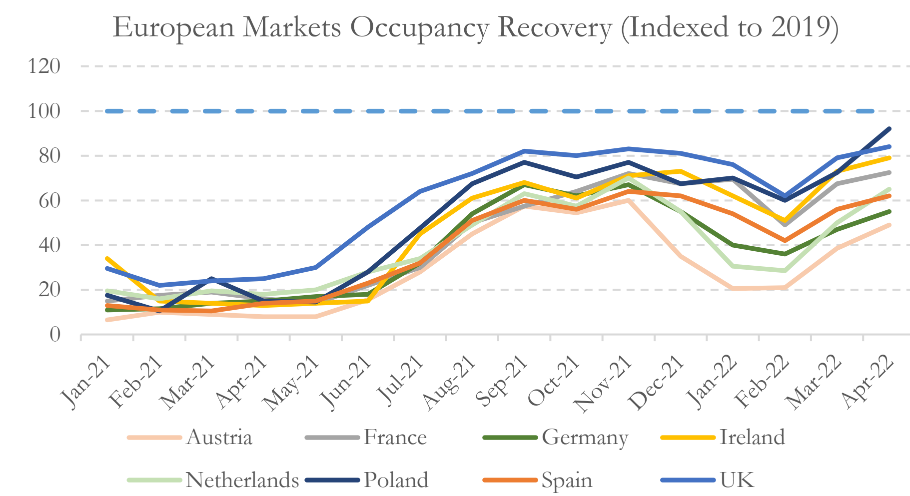
| | RevPaR | | ADR | | Occupancy | |
|---|---|---|---|---|---|---|
| **Q1 Results** | **'22 vs '21** | **'22 vs '19** | **'22 vs '21** | **'22 vs '19** | **'22 vs '21** | **'22 vs '19** |
| Hilton Hotels & Resorts | +80.5% | (17%) | +35.2% | (3%) | +32% | (18.6%) |
| Accor | +105% | (25%) | +33% | +3% | +57% | (17.9%) |
| IHG | +61% | (20.4%) | +26.3% | (1.5%) | +24% | (19%) |
| Wyndham Hotels & Resorts | +39% | (4%) | +24% | n/a | +12% | n/a |
| Marriott | +96.5% | (19%) | +36.5% | 2.1% | +44.6% | (20.7%) |
| Meliã Hotels International | +167.5% | (44%) | +31.6% | 7.6% | +104.6% | (36.9%) |
| Whitbread UK | +185% | (17.5%) | +22.7% | (7.8%) | +132.3% | (10.5%) |
| Whitbread GER | +82.8% | (59.3%) | +0.9% | (41.6%) | +80.9% | (30.2%) |
| NH Hotels | +288% | (44%) | +36.4% | (2.9%) | +121.4% | (54.9%) |
| **Average** | **+122.6%** | **(27.7%)** | **+27.4%** | **(5.6%)** | **+68%** | **(26.1%)** |

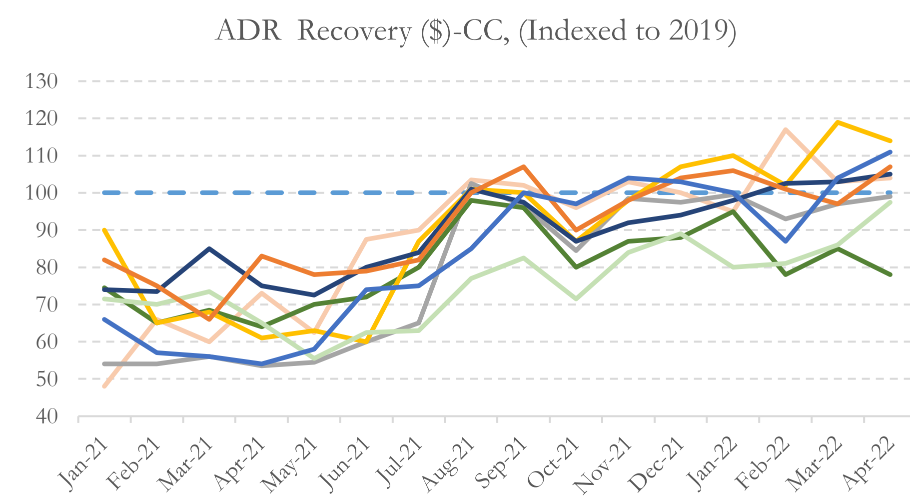
 Sources: Company Fillings

# European Trading Performance Stats

UK, Ireland, and key South Europe leisure destinations outshine!

- Recovery among European countries has followed different patterns since all economies started reopening gradually in the summer of 2021
- UK and Ireland have been leading the recovery in terms of occupancy, mainly due to a quicker vaccine rollout and an earlier lifting in restrictions
- Occupancy received a hit towards the end of 2021 due to the Omicron outburst causing a disruption in the traditionally strong festive period throughout Europe
- Central European countries like Germany, Austria, and the Netherlands, where restrictive measures remained for longer, have shown a weaker recovery compared to others
- Occupancy and ADRs have grown strongly in Poland during the last months, mainly due to the war in Ukraine that caused many people to seek shelter and aid in neighbouring countries




 Source: STR

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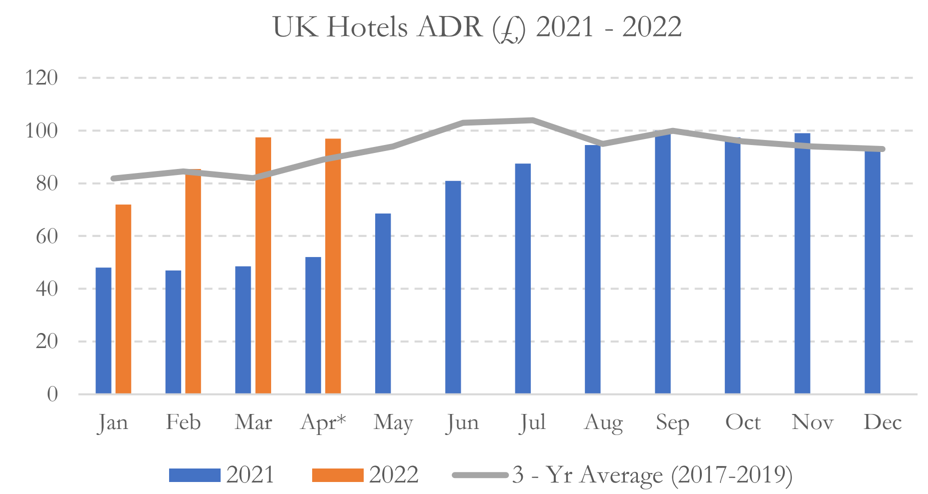
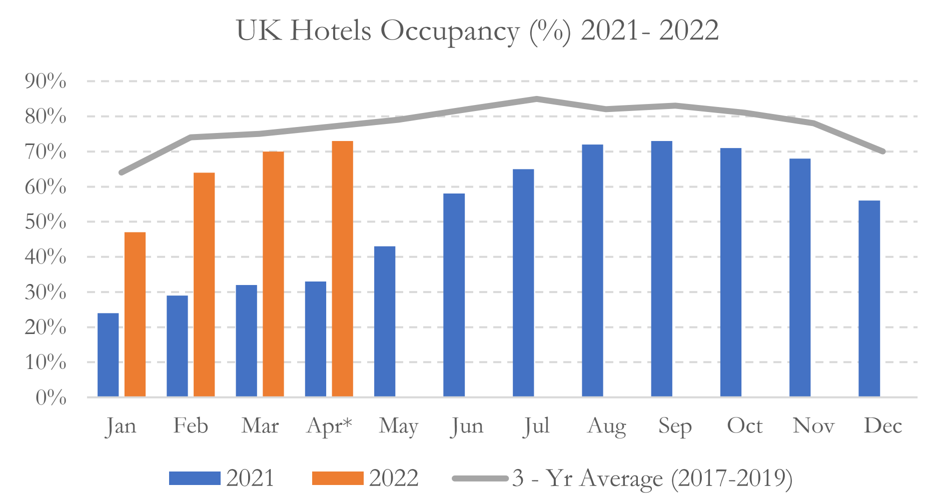
# UK Trading Performance Stats

UK Hoteliers facing increased operating costs are prioritizing rate increases to boost their hotels' top-line

- Towards the second half of 2021, ADR started approaching the pre-pandemic levels, though with demand still lagging behind due to international travel restrictions in place and the emergence of the Omicron variant right before Christmas
- The Omicron variant and mixed government messaging impacted occupancy and ADR until January, with KPIs starting to approach pre-pandemic levels from February
- With international travel restrictions fully lifted from March 2022, occupancy has been growing steadily, although it is still less than the levels in the 2017-2019 period. During the same period, ADR has been higher than the 3-year average in nominal terms – i.e. without taking into account inflation
- In a period where operational costs have proved to be an area of concern for the industry, hoteliers seem to be driving revenues through higher pricing instead of higher occupancy, in order to protect margins.




 Source: STR, * April is preliminary data

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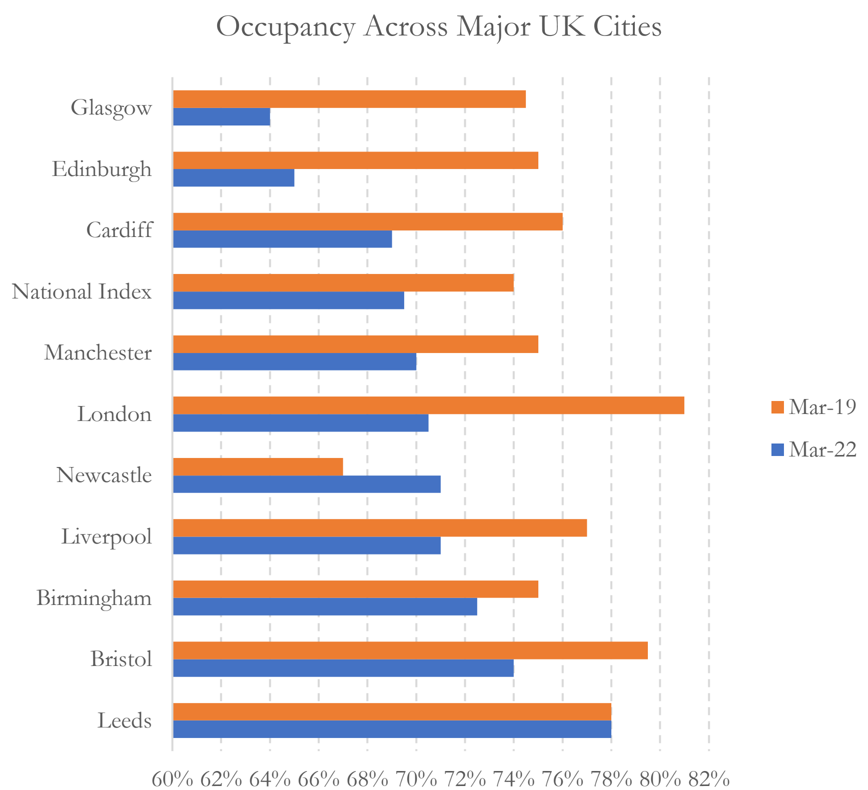
# Regional UK Performance

Staycation markets lead the way to strong recovery; with business demand to follow

- Staycation trends remain strong with the vast majority of leisure regional markets outperforming pre-covid KPIs. In addition, the key UK leisure destinations outperformed similar markets in other European countries
- As the economy opens up again and international travel restrictions are removed, destinations with a higher proportion of business customers should grow at a faster pace than the national average




ADR Comparison for UK Regional destinations

| City/Region | ADR Summer 2021 indexed to 2019 |
|---|---|
| Bath | 1.52x |
| Bournemouth | 1.68x |
| Cornwall & Devon | 1.62x |
| Dorset Regional | 1.42x |
| East & North Yorkshire | 1.51x |
| Harrogate | 1.43x |
| Lake District | 1.51x |
| Plymouth | 1.59x |

 Source: STR

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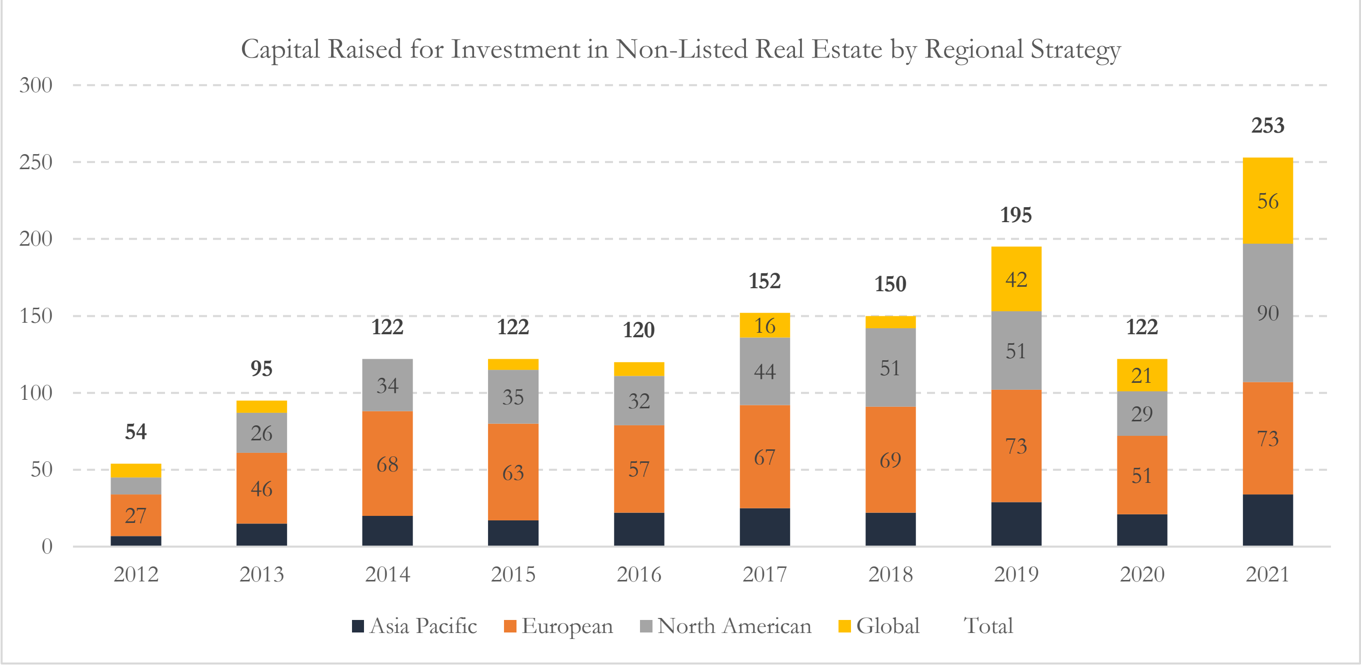
# Availability of Investment Capital

# Real Estate Fundraising Activity

Record amount of private real estate fundraisings should act as a tailwind for transactional activity

## Capital Raised Summary

- Capital raising activity reached a record high in 2021 with at least €254 billion raised worldwide for private real estate investment vehicles
- In Europe, total capital raised in 2021 for non-listed vehicles returned to the record-high €73 billion pre-pandemic level, sharply up from €51 billion in 2020
- Whilst historically Europe-focussed strategies attracted higher fundraising amounts than North America, 2021 was the first year that Europe lagged behind North America, underlining the relatively lower level of investment confidence in the region




 Sources: PERE, ANREV, INREV, NCREIF, Real Asset Insight

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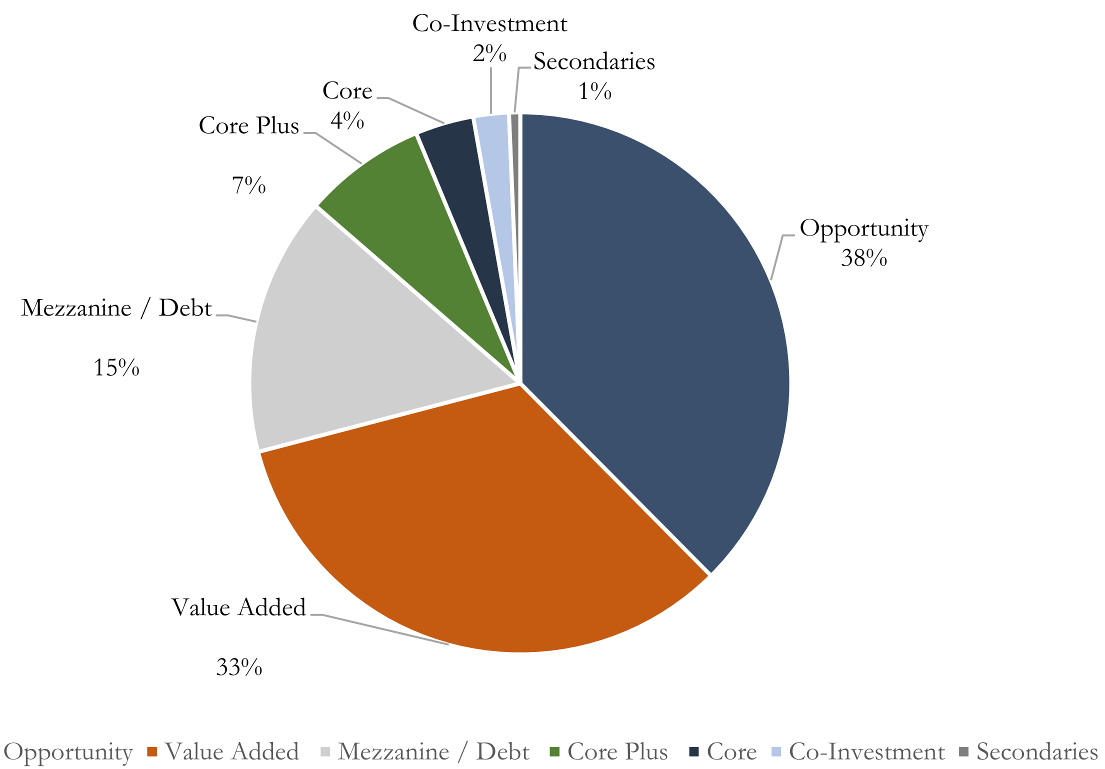
# Real Estate Fundraising Activity

Capital raised (in % terms) for value add strategies in 2021 was the highest in the last five years

- Value Added funds accounted for 33% of total capital raised in 2021, the largest percentage for this strategy in at least five years
- Opportunistic vehicles continued to prevail as the most popular strategy, representing 38% of aggregate fundraising
- As the most operationally intensive asset class, hospitality properties are well positioned to benefit from the deep pockets of those active investors looking for higher-risk, higher-return strategies during a time of market dislocation

Capital Raised by Investment Style in billions (2021)




- Investments in Real Estate are separated into various categories, given their risk/return profile
- Core and Core Plus strategies are more conservative, focusing on income generating assets with predictable cash flows and usually require very little asset management
- Value Added and Opportunity strategies have a moderate to high risk/return profile, focusing on assets with potential for significant improvement, renovations, or ground-up development

 Sources: PERE

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# Examples of equity funds raised since 2019 that invest in hospitality

New funds heavily focussed on hospitality have been particularly active since the beginning of 2021

| Firm Product | Investment Style/ Fund Structure | (Maximum) Fund Size | Market Focus | Property Type Focus | Relevant Transactions |
|---|---|---|---|---|---|
| Lone Star Real Estate Fund VI | Opportunistic | $4.6bn | Europe, Asia Pacific, North America, Latin America | Commercial Real Estate | Jurys Inn portfolio - UK |
| Blantyre European Special Situation Fund I | Opportunistic | €500m | Europe | Commercial Real Estate, **Hospitality** | Portfolio of three, LyvInn Frankfurt |
| Zetland Special Situations Fund I | Opportunistic | €372m | Europe | Commercial Real Estate | Morrison Hotel – Ireland, Macdonald Manchester & Holyrood Hotel Edinburgh, UK |
| Pygmalion European Opportunistic Hotel Fund II | Opportunistic | €400m | Western Europe | **Hospitality** | 2 Hilton hotels - Florence |
| Azora European Hotel & Lodging | Value Added | €750m | Western Europe | **Hospitality** | Acquired a portfolio of 7 hotels – Spain |
| Schroder European Operating Hotels Fund | Value Added | €500m | Western Europe | **Hospitality** | Hotel complex of 3 properties – Berlin |
| Strategic Partnership between:<br>• Menora Mivtachim<br>• Harel Insurance<br>• Leumi Partners<br>• Fattal Properties | Value Added | €315m<br>• €100m<br>• €100m<br>• €15m<br>• €100m | Europe | **Hospitality** | 2 Hotels in Malaga & Mallorca – Spain<br>➢ Any future hotels purchased from this fund will be managed by Fattal and its brands<br>➢ This movement comes after Fattal saw opportunities – created during the pandemic – to purchase hotels at attractive prices |

 Sources: Capital IQ, Hotels Mag

# Examples of Partnerships in Hospitality

Established investment managers are turning their eye in opportunities that have arise in the hospitality sector

| Partners | Investment Style/ Fund Structure | Investment Amount | Market Focus | Property Type Focus | Relevant Transactions |
|---|---|---|---|---|---|
| EURAZEO and PSP Investments | Large Assets or Portfolios | €300m | Europe | Hotel Assets or Portfolios | The partnership has already agreed on the acquisition of the venture's first investment, FST Hotels - a Spanish hotel group that owns and operates an 800-room portfolio across five hotels, primarily located in Madrid and Barcelona. |
| FREO | Opportunistic | €400m | Spain | Urban and Leisure Hotels | Closed €750 million in transactions as both co-investments and on behalf of institutional investors. |
| Boscalt and Edmond de Rothschild | Buy and Renovate | €500m | Europe | Urban Hotel | Boscalt and Edmond de Rothschild will invest in three and four star hotels in major European cities. The aim is to have a portfolio of eight to twelve hotels in Europe. |

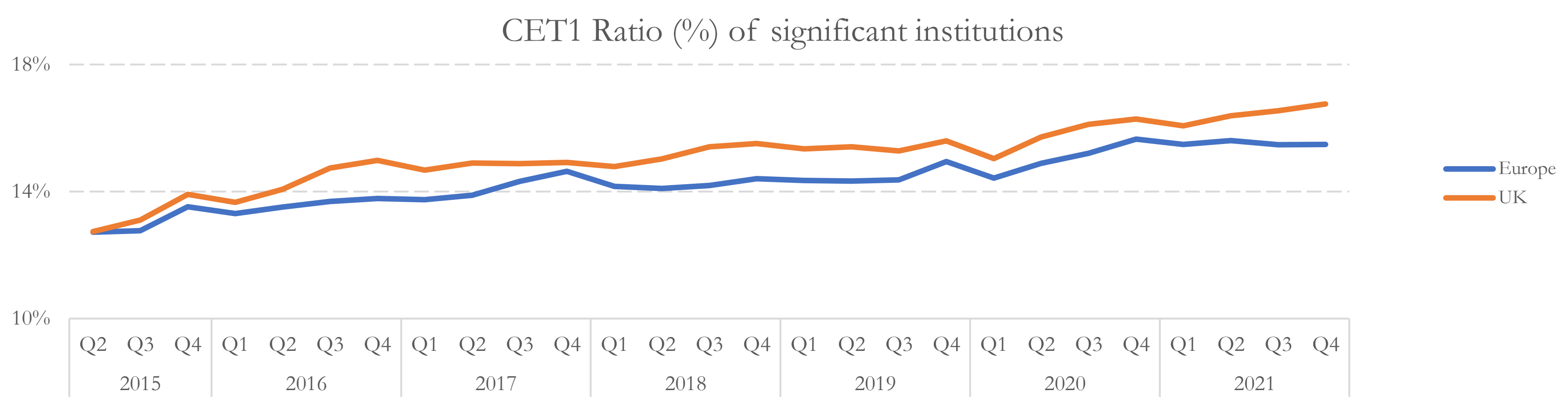


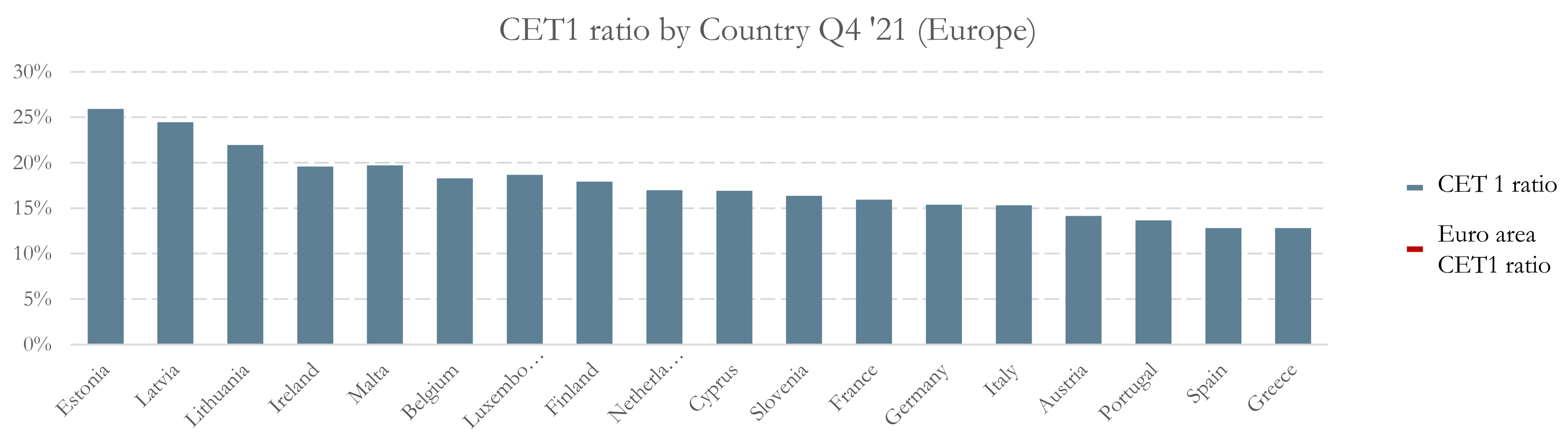
Sources: Boutique Hotelier, Hospitality Net, IREI

# Lending Market

# Bank Capitalisation and Appetite for Lending

Compared to the Global Financial Crisis, banks across Europe seem very well-capitalised



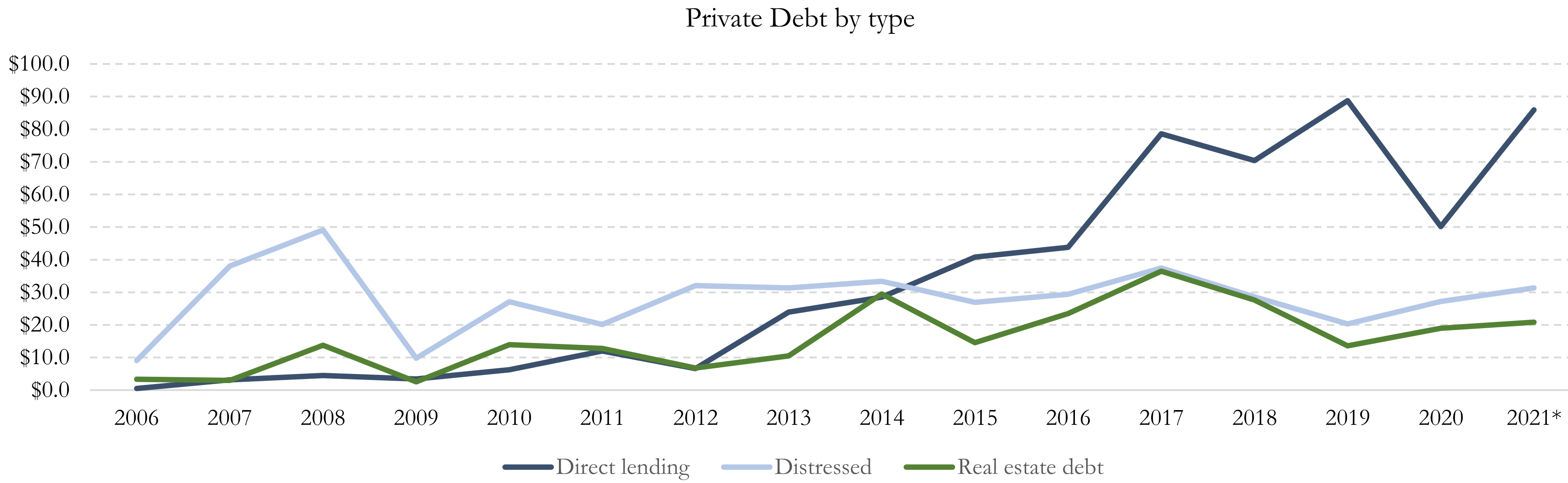



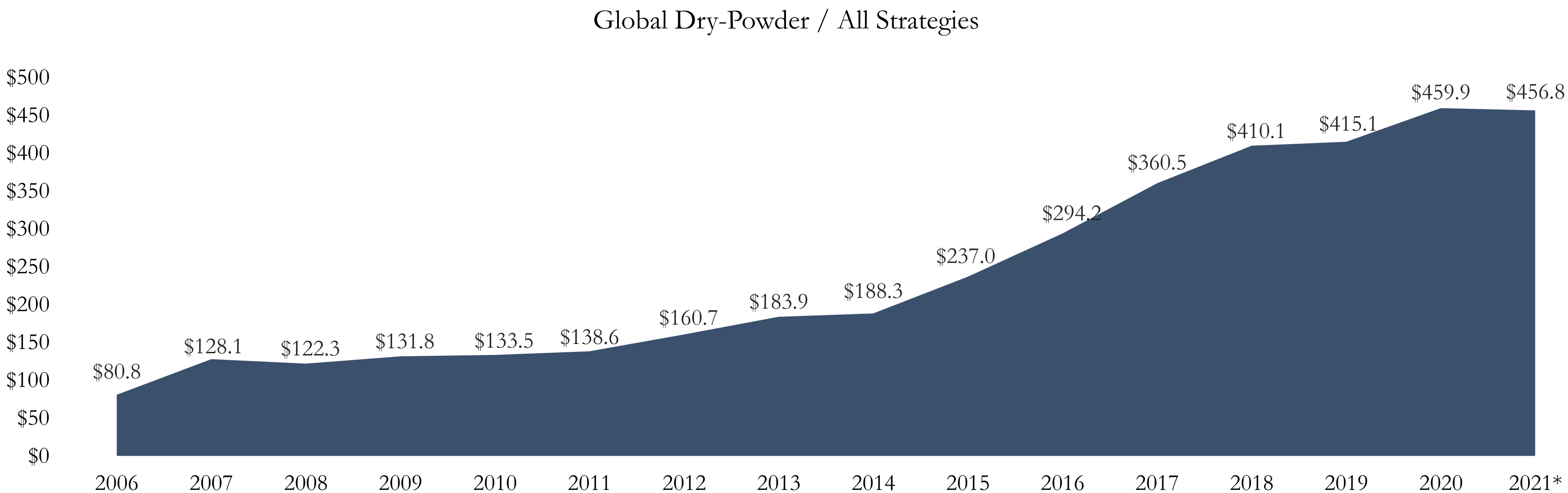

- Common Equity Tier 1 (CET1) is a component of Tier 1 capital, including ordinary shares and retained earnings
- The CET1 Ratio (%) is a measure of capital against risk-weighted assets, and is used to determine the ability to withstand financial distress

 Sources: Eurostat, BoE, ECB

# Abundance of Private Debt and Dry-Powder Waiting to be Deployed

Alternative sources of lending are stronger than ever, but can typically support higher return-seeking strategies




 Sources: Prequin, * Data as of June 2021

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# Interest Rate Trends

## Inflationary pressure is the key deterrent in deal making under the current investment landscape

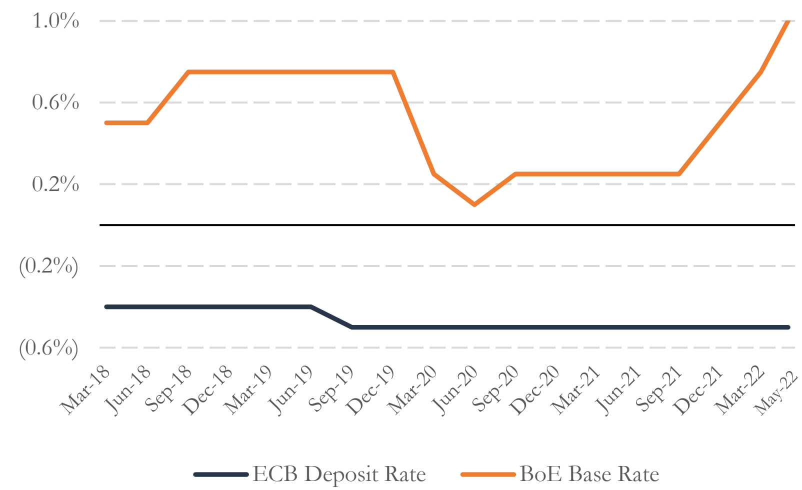
Inflationary pressures have been prevailing during the last few months due to a combination of increased aggregate demand post-pandemic and supply shortages arising due to the Russian invasion in Ukraine and the ongoing restrictions in China

Central banks around the world have already started increasing key interest rates to curb these inflationary pressures

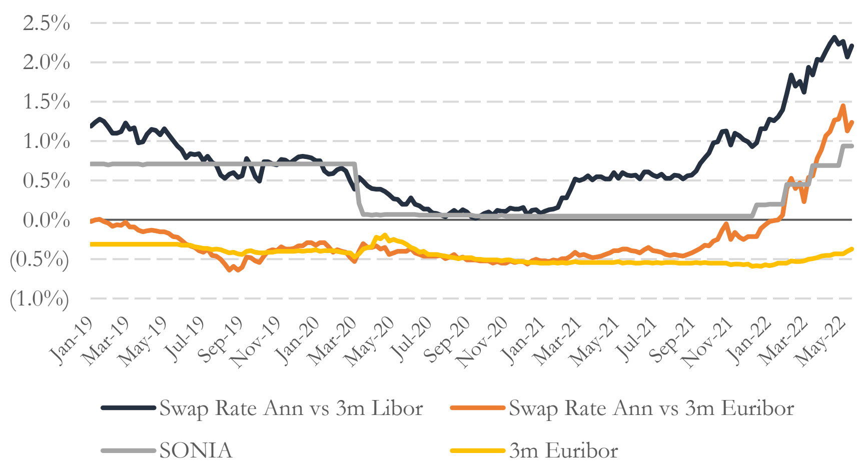
Interbank interest rates (i.e. Euribor and SONIA), which are also key components of the overall cost in corporate and real estate lending, have been following a similar upward trend that is expected to continue until early 2023.

Likewise, the corporate spreads above the base rates have exhibited an upward pressure, creating an even steeper increase in the total cost of corporate and real estate lending

ECB & BoE Interest Rates




Key Inter-Bank Lending Interest Rates




ICE BofA Euro High Yield Index OAS


Sources: Capital IQ, BoE, ECB, Note 1: ICE BofA OASs are the calculated spreads between a computed OAS index of all bonds (below investment grade corporate debt publicly issued) in a given category and a spot Treasure curve



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# Examples of Debt Funds Raised Since 2019 That Invest in Hospitality

Reduced appetite from traditional hotel lenders created an investment opportunity for fixed income investors

| Firm Product | Investment Style/ Fund Structure | Target Close Date | (Maximum) Fund Size | Market Focus | Property Type Focus | Relevant Transactions |
|---|---|---|---|---|---|---|
| BentallGreenOak Europe Secured Lending III | Value-added Closed-end debt Fund | N/A | €2bn | Europe with a focus on Ireland, Germany, the Netherlands, the Nordics | Office, logistics, residential, **hospitality**, retail, student housing, and other assets | N/A |
| BentallGreenOak Europe Tactical Lending II | Value-added Closed-end debt Fund | N/A | €700m | Europe with a focus on Ireland, Germany, the Netherlands, the Nordics, United Kingdom | Office, logistics, residential, **hospitality**, retail, student housing, and other assets | N/A |
| Tyrus Capital European Real Estate Finance III | Opportunistic Closed-end fund | 12 Dec '22 | €400m | Europe | CBD office, debt, **hotel**, mezzanine, multifamily, student housing | ▪ €15m preferred equity hospitality investment Malaga, Spain<br>▪ €30m mezzanine hotel investment – London, UK |
| Barings Real Estate Barings European Real Estate Debt Income Fund | Core-plus, value-added senior loans Open-end fund | N/A | N/A | Europe | CBD office, **hotel**, industrial, logistics, multifamily, retail, self-storage, senior housing, student housing, suburban office | The Niu Kettle – Germany |

 Sources: Capital IQ, Prequin

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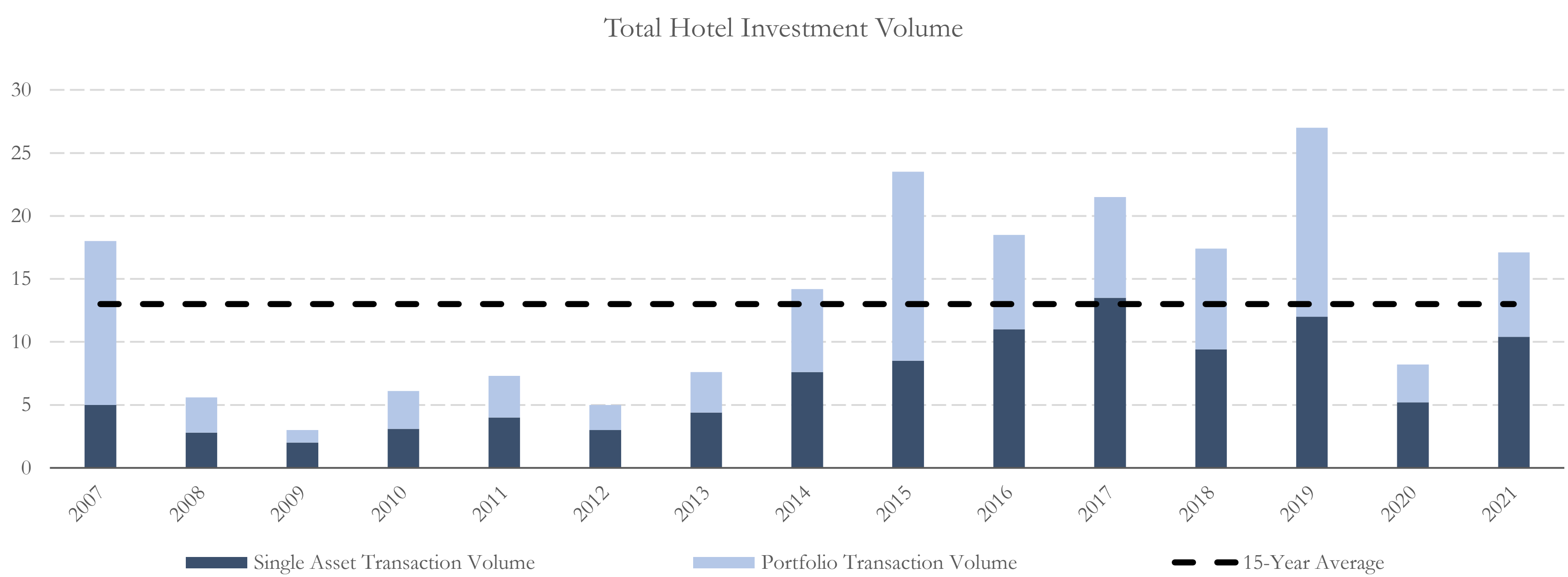
# Review of Recent Investment Activity

# Latest Transaction Volume Statistics

Transaction volume continues to recover strongly

## European Hotel Transaction levels, recovered in 2021

- Transaction volumes totalled €16.4 billion in 2021, representing a +102 % increase compared to 2020
- Single assets represented 65% of the transactions by monetary volume, while 35% were portfolios
- HVS reported that the average price per sold hotel room increased by 15% over 2020 and a +3% increase over 2019; Whilst it is difficult to draw concrete conclusions about hotel valuations from the HVS stats, due to relatively low volumes in 2020 and the heterogeneous profile of the average sold hotel, it is clear that valuations for the transactions that did close were supported by the availability of cheap financing, so the average reported valuations were very close to 2019 levels




 Sources: HVS, Knight Frank

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# Latest Transaction Volume Statistics

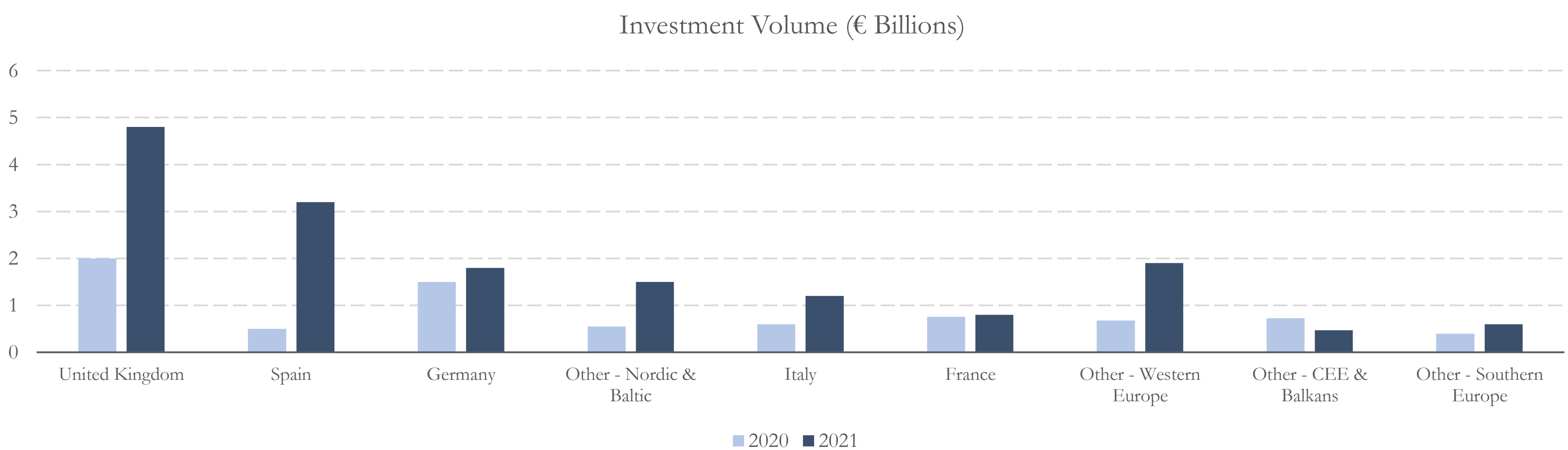
UK market recovers strongly and continues to dominate investments with London leading the way

## Regional stats

- The UK saw the largest volume of transactions, at €4.9 billion, a +146% increase compared to 2020. London's volume accounted for 53% of total UK transactions
- In the first 4 months of 2022, transaction volume in the UK was already 40% ahead of the first half of 2021 number
- Spain saw €3.2 billion in transactions, overtaking Germany as the second-highest volume for the year

## Even higher growth perspectives for the UK hotel sector

- UK Hotel Investment is expected to rise to £4 billion in 2022
- Significant volumes of global capital, back to pre-pandemic levels will drive this increase
- Environmental considerations are set to drive change in hotel investment and lending




 Sources: HVS, Knight Frank

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# Profile of investors

With large amounts of accumulated dry powder, private equity investors dominate the comeback in hotel transaction volumes

**Investors' Profile**

- With large amounts of capital in their hands, private equity investors demonstrated a strong comeback in 2021, amassing 48% of global hotel transaction volume and totalling $31.7 billion
- In Europe, Private Equity and Institutional Investors were the largest net buyers, collectively acquiring more than €3.8 billion more than they sold. The largest net sellers were Hotel Operators, with €2.3 billion in net disposals, probably in an effort to fund cash shortfalls, sometimes through sales and leasebacks or managebacks

# Hot Investment Themes - UK Staycation Transactions

Pandemic caused high growth in staycation transactions, as demand for domestic vacation increased substantially

- The falling value of the pound post Brexit saw more Britons holiday at home, thus making holiday parks and domestic resorts more attractive
- Covid-19 gave a significant extra boost to the domestic leisure destinations as overseas travel was restricted
- Recently published occupancy rates forecasts for 2022 have provided comfort that this trend will continue in 2022[1]

SUN Communities, Inc. → Park Holidays (Holidays & Short Breaks)

- **Date: April** 2022
- **Deal Size:** £ 950 million
- **Comments:** Park Holidays UK will use the support to continue to invest in its existing holiday centres and to further expand its portfolio of holiday parks

Sykes Holiday Cottages → Forest Holidays

- **Date: April** 2022
- **Deal Size:** £ 300 million
- **Comments:** The transaction is part of Sykes' ambition to become a leading UK-focused holiday group, with a diverse range of unique rental accommodation

ONEX → Parkdean Resorts

- **Date: November** 2021
- **Deal Size:** £ 1,500 million
- **Comments:** Canadian private equity firm Onex Corporation has gambled that the falling value of the pound post Brexit will further boost staycation numbers

KSL Capital Partners → The Pig (Rooms & Kitchen Garden Food)

- **Date: April** 2022
- **Deal Size:** Not disclosed
- **Comments:** KSL Capital Partners (KSL) has acquired the parent company of The Pig Hotels in partnership with its co-founder Robin Hutson, who will continue as Chairman retaining a stake in the business

 Sources: KSL Capital, Business Wire, PhocusWire, Globe News Wire, Note 1: PWC Hotels Forecast 2021-2022: "An emerging recovery"

# Hot Investment Themes – Serviced Apartments Transactions

Growth in Serviced Apartments investments triggered by appreciation of their lower costs and higher profit margins than traditional hotels

- Guest accommodation preferences have significantly changed in favour of the serviced apartment offering
- Investors appreciate that under normal trading conditions the business model is underpinned by lower sales and operating costs, and hence higher profit margins than traditional hotels

BOB W. → ESTONISHING STAY

- **Date:** May 2022**, Location:** Estonia, **Deal Size:** Undisclosed
- **Comments:** The alternative accommodation company has acquired the apartment operator marking the beginning of an acquisition strategy aiming to enter new markets in the Baltic region and beyond

Blackstone, Starwood Capital Group → Extended Stay America

- **Date:** June 2021, **Location:** USA, **Deal Size:** $6,000 million
- **Comments:** Blackstone and Starwood Capital have completed their acquisition of Extended Stay America in an all-cash transaction. The transaction involves 630 Extended Stay Hotels or 69,000 rooms

BC Partners → Edgar Suites

- **Date:** June 2021, **Location:** France, **Deal Size:** €104 million
- **Comments:** Specialised in creating apartments by converting office buildings, Edgar Suites, the French serviced apartments group, received a strategic investment from private equity investor BC Partners to roll-out Urban Suites in France

numa → Friendly Rentals (An Awaze Company)

- **Date:** June 2021, **Location:** Spain, **Deal Size:** Undisclosed
- **Comments:** Numa acquired Awaze's Friendly Rentals, a short-term rentals provider in Spain, in an effort to accelerate its expansion in the "Iberian Peninsula"

 Sources: Phocuswire, THPT

# Hot Investment Themes - Thematic Investment Partnerships

During the first half of the year, several investment partnerships have been announced between institutional investors and hotel operators

- Several professional real estate investors entered the hotel market alongside an operational partner with strong hospitality expertise
- Partnerships typically kick off with the acquisition of a seed asset or portfolio of assets and the signing of an operational and JV framework agreement that will dictate the key parameters describing the relationship between the two parties in follow-on acquisitions

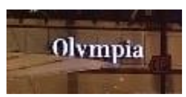
PGIM → Cairn Group

- **Date: May 2022, Deal Size:** Undisclosed
- **Comments:** PGIM Real Estate and Cairn Group formed a JV focusing on the acquisition, development, and repositioning of UK hotels in staycation and domestic leisure destinations with the group's first investment in Brighton

TRISTAN CAPITAL PARTNERS → POINT.a HOTELS

- **Date: April** 2022**, Deal Size:** £ 420 million
- **Comments:** The transaction provides an exit for the Welcome Trust whilst other shareholders, including Queensway, remain as minority partners: co-investing and acting as hotel operator, asset manager, and development partner for future sites.

C1 FROGMORE PROPERTY. PROPERLY. →




- **Date: April** 2022**, Deal Size:** £ 150 million
- **Comments:** Frogmore formed a joint venture with C1 Capital Partners to acquire Hilton Olympia, Park Inn by Radisson Northampton, and Stifford Hall near Thurrock.

LaSalle INVESTMENT MANAGEMENT + numa

- **Date: April** 2022**, Strategy Size:** £ 500 million
- **Comments:** LaSalle and NUMA launch €500m pan-European urban hotel portfolio strategy to acquire, refurbish, and operate hotels and serviced or extended stay apartments

Brookfield + EXPERIMENTAL Group

- **Date: November 2021, Deal Size:** € 380 million
- **Comments:** Brookfield and Experimental Group formed a €350 million hotel portfolio acquisition strategy focusing on Europe and the US, while an extra €30 million will be invested in accelerating the brand's development. Brookfield also acquired a minority stake in Experimental Group.

 Sources: Boutique Hotel News, Hospitality Insights, The Caterer, Hospitality-On

# Hot Investment Themes – Real Estate Investors getting in the PropTech space

Real Estate investors increase investment into the property technology sector with 2021 seeing record levels of investment

- The PropTech sector has been gaining a lot of interest in the last few years as industry participants have become increasingly aware of operational inefficiencies that can be addressed through technology
- Investment into the UK's property technology sector reached record levels in 2021 and more than quadrupled over last year

Starwood Capital Group → DoveVivo

- **Date:** January 2022
- **Location:** Italy
- **Deal Size:** €50 milllion
- **Comments:** Co-living company DoveVivo secured a strategic investment from controlled affiliates of Starwood Capital Group for a minority stake of 22%. This transaction follows another capital raising round of €72 million in 2019 where Tikehau Capital – among others – invested €29 million

Geolo Capital → Blueground

- **Date:** September 2021
- **Location:** Greece
- **Deal Size:** $180 million
- **Comments:** Blueground, offering a turnkey housing solution for renters globally, raised $180 in Series C financing to expand its presence further in Europe and the US

NREP → BOB W.

- **Date:** April 2021
- **Location:** Finland
- **Deal Size:** €10 million (Whole Round)
- **Comments:** The tech-driven hospitality provider, offering a smarter and more sustainable alternative to hotels and short-stay rentals, secured seed funding from various investors including NREP – a Danish real estate investor – through its 2150 investment wing

 Sources: Shorttermrentalz, BobW, Private Equity Wire

# Hot Investment Themes - Southern European Transactions

Transactions in Italy and Spain more than doubled as investors picked up opportunities with strong long-term fundamentals

- With the largest leisure hotel stock in Europe, and tourism representing a big chunk of its GDP, Spain has attracted high hotel investment
- Transactions in Spain and Italy have seen an approximately 350% and 100% surge YoY in 2021
- International investors have found great opportunities in assets where there is distress but also strong long-term fundamentals

| Buyer(s) | Country | Target | Country | Deal Size (mm) | No. Of Rooms |
|---|---|---|---|---|---|
| Brookfield AM | CA | Selenta ESP Hotel Portfolio | ES | € 440 | 2,236 |
| Bankinter | ES | Melia ESP Hotel Portfolio | ES | € 204 | 1,945 |
| Engel and Volkers | UK | 7 Pines Resort Ibiza | ES | € 130 | 185 |
| Santander AM & Signal CP | UK | Hotel Sheraton La Caleta Resort | ES | € 80 | 284 |
| Union Investment | DE | Hotel Barcelona 1882 | ES | € 74 | 182 |
| Arlaes Management | ES | Hard Rock Hotel Madrid | ES | € 65 | 161 |
| Plusell Blis | UK | Mutualidad de la Abogacía | ES | € 62.5 | 768 |
| NAOS Hotel Group | FR | Sheraton Hotel, Nice Airport | FR | € 62 | 235 |
| Relaxia - Grupo Perez Moreno | ES | Hotel Beverly Park | ES | € 51 | 469 |
| Cheyne Capital | UK | Hard Rock Hotel Marbella | ES | € 36.3 | N/A |
| Atom Hotels | ES | Hotel Senator Barcelona | ES | € 25 | 213 |
| Grupotel | UK | Nordotel Portfolio | ES | Undisclosed | 1,216 |
| Sixth Street | US | Hotel Portfolio | ES | Undisclosed | 1,039 |

# Hot Investment Themes - PE Investments in Hospitality Platforms

Private Equity investors back buy and build strategies to benefit from revenue and cost synergies

- Some private equity real estate investors with solid experience in the hospitality sector are increasingly seeking full control and exposure to the operational side of their acquired assets
- A buy-and-build PE strategy combines an asset acquisition platform with the revenue and cost synergies arising from a growing hospitality group, which potentially provides greater returns

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Selenta Group / Brookfield → Princesa Plaza Madrid

- **Date: June** 2022
- **Deal Size:** €175 million
- **Comments:** Brookfield acquires Princesa Plaza complex from Colony Capital via Selenta Group

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Kings Park Capital / Harris Charitable Trust → The Inn Collection Group

- **Date: February** 2022
- **Deal Size:** £ 300 million
- **Comments:** The Inn Collection Group has been acquired by the Harris family and Kings Park Capital, with plans to expand its "pubs with rooms" model across England & Wales

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LR Hotels → Chardon Hotels

- **Date: February** 2022
- **Deal Size:** £ 200 million
- **Comments:** The portfolio comprises of six properties totalling 569 bedrooms, including Holiday Inn Express hotels in Dunfermline, Edinburgh, Glasgow city centre, and Perth

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Fortress → PREM Group

- **Date: December** 2021
- **Deal Size:** Undisclosed
- **Comments:** The US Fortress Investment Group LLC has acquired a majority stake in Dublin-based serviced apartment and hotel company PREM Group, through an off-market acquisition of interests held by non-executive shareholders

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KSL Capital Partners → Eden Hotels

- **Date: December** 2021
- **Deal Size:** Undisclosed
- **Comments:** KSL Capital Partners acquires majority ownership of Eden Hotels in The Netherlands comprising of 14 hotels with 2,000 rooms

# Re-emerging Transaction Themes – Acquisitions by Trade Buyers

As businesses are exiting from the pandemic, they start focusing again on expanding through M&A and organic growth

- During the pandemic, reported acquisitions by existing businesses were limited as most were focusing on navigating through the challenging times
- As we are now firmly in the post-Covid era, we see businesses shifting their focus again on both organic growth as well as expansion through M&A
- The re-emerging trend is particularly relevant for those firms in highly fragmented sub-sectors of the hospitality industry, e.g. short-term rentals and PropTech, where some traditional property players are now looking at making investments
- Nevertheless the announced, but not completed yet, transaction that is capable of awaking other big players with a tradition in M&A is Choice Hotel's acquisition of RHG Americas for $675 million

CHOICE HOTELS → RH AMERICAS

- **Date:** June 2022**, Location:** USA, **Deal Size:** $675 million
- **Comments:** Choice Hotels bought Radisson Hotel Group Americas including operations and brands in the US, Canada, Latin America, and the Caribbean giving Choice 9 brands, 624 hotels, and more than 68,000 rooms

home to go. → amivac, e-domizil SUISSE

- **Date:** January and March 2022**, Location:** France and US
- **Deal Size:** Amivac – Undisclosed, E-Domizil - $45 million
- **Comments:** HomeToGo, a marketplace for vacation rentals, acquired Amivac and E-Domizil in an effort to enter new markets and increase its listings

ACCOR → ENNISMORE

- **Date:** October 2021, **Location:** UK, **Deal Size:** Undisclosed
- **Comments:** Accor acquired a majority stake in Ennismore (66.67%) in an effort to enter more lifestyle products in which Ennismore has a leading position. The founder and CEO of the business will maintain a 33.33% stake.

Away Resorts → ARIA RESORTS

- **Date:** August 2021, **Location:** UK, **Deal Size:** Undisclosed
- **Comments:** Away Resorts reached a deal to acquire Aria Resorts, forming one of the largest holiday resort brands in the UK.

 Sources: Away Resorts, Shorttermrentalz, Skift, Business Traveller, Pi Labs

# Construction Pipeline

Big brands continue to gain ground amid a period of strong hotel supply expansion; but rising costs could pose a risk on new pipeline

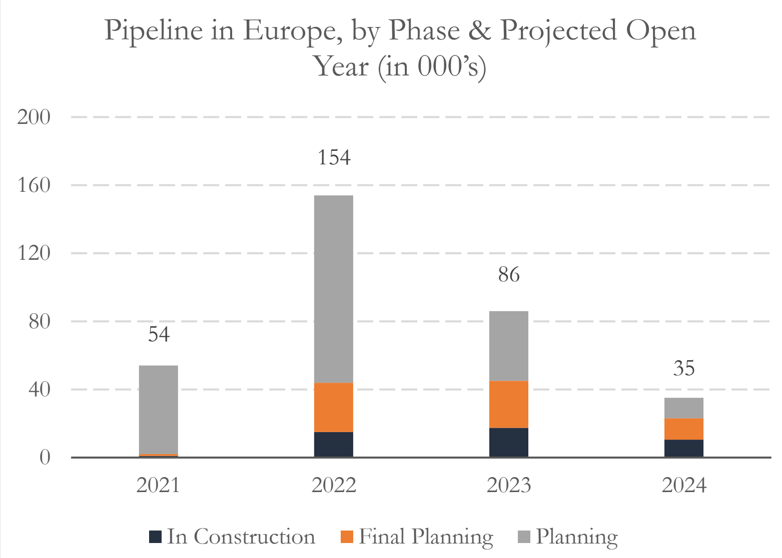
## Strong Construction Pipeline

In the 11 months up to November 2021, 67,840 rooms had opened in Europe, which was more than all of 2020 (51,701)

Global supply chain issues have significantly increased the cost of construction in 2022, which may lead to new hotel developments as well as major refurbishment capex being deferred or costing more to complete

Europe's serviced apartment stock is set to grow by 21.1% over the next three years. London, Munich, Istanbul, and Manchester will be the leading growth markets

London is the biggest growth market with the hotel construction pipeline summing up to 83 projects and 14,700 rooms




## Major Hotel Groups Worldwide Pipeline (as of March 2022):

| | Wyndham Hotels & Resorts | Hilton Hotels & Resorts | Accor | Marriott | IHG Hotels & Resorts | Meliá Hotels International | Whitbread |
|---|---|---|---|---|---|---|---|
| Pipeline in rooms ('000s) | 204 | 410 | 212 | 489 | 277 | 12.7 | 16.7 |
| % change from Q1 2019 | +12% | +10.5% | +6% | +2.9% | (0.3%) | (14.9%) | (23%) |

 | Sources: Lodging Econometrics, Savills, STR, Companies' Fillings

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# Review of Recent Lending Activity

# The rising importance of alternative sources of debt funding

Both traditional lenders and debt funds remained active in the space as shown from the landmark debt transactions in 2021

| Country | Town/City | Hotel | Lender | Borrower | Amount | Status |
|---|---|---|---|---|---|---|
| UK | Aldgate – London | Dorsett City | Aareal | Cerberus & Highgate | Undisclosed | Refinancing |
| Europe | Europe | Riu Hotels | Caixabank (Senior Loan) | Undisclosed | € 825 m | Financing |
| UK | The Strand – London | The Savoy | RB Capital | Kingdom Holding & Katara | £ 277 m | Refinancing |
| UK & Netherlands | London & Amsterdam | Edyn Group | Blackstone & KSL | Undisclosed | £ 195 m | Financing |
| UK | Liverpool, Dunblane, Syon Park | Three Hilton Hotels | Lonestar Funds | Ability Group | £ 95 m | Refinancing |
| France | Paris & Nice | Hotel du Couvent; Hotel le Pigalle | Cheyne Capital (Senior & Mezz Loan) | Perseus Group | € 93 m | Financing |
| UK | Whitechapel – London | Hyatt Place | KSL | Resolution | £ 85 m | Refinancing |
| UK | Edinburgh | Waldorf Astoria Caledonian | Oaknorth & Topland | Twenty 14 | £ 62 m | Refinancing |
| UK | City of London | Westin Hotel | Oaknorth | 4C Hotel Group | £ 52 m | Financing |
| Denmark | Copenhagen | Comfort Hotel, Vesterbro | Aareal (Senior Loan) | Starwood Capital | Kr. 40 m | Financing |
| UK | City of London | 15 Old Bailey | Oaknorth | Boscalt & Endurance Land | £ 34 m | Financing |

 Sources: Hospitality Insights, Iberian Property News, The Caterer, Boutique Hotelier,

# Green Finance Bonds Transactions in the Hospitality Sector

Demand for Green Bonds grow as investors seek to diversify towards ESG investments

- Large hotel groups that aim to adopt ESG practices are issuing publicly traded bonds with the commitment to use the proceeds to improve their environmental impact
- The demand for bonds linked to green practices is growing as investors want to allocate funds to ESG investments. This allows issuers to: achieve lower costs of financing compared to traditional bonds; improve their corporate profile; and waterproof against future "brown value discounts" to hoteliers not adopting sustainability objectives in their strategy

## Accor Issues Green Bond with Green House Gas Reduction Targets

- **Date:** November 2021
- **Deal Size:** €700 million
- **Comments:** The sustainability-linked loans involve Accor committing to key emission reduction targets by 2025, against a 2019 benchmark. Carrying a 2.375% coupon, the issuance was more than 3x oversubscribed

## Host Hotels & Resorts Completes a Green Bond Issuance

- **Date:** November 2021
- **Deal Size:** $450 million
- **Comments:** Host Hotels & Resorts completed a $450 million public offering of 2.90% 10-year senior notes at T+158. The net proceeds will be allocated to one or more eligible green projects

## First Green Bond Issue in UK Hospitality: Whitbread

- **Date:** February 2021
- **Deal Size:** £550 million
- **Comments:** Issued in line with the GBPs, the two bonds total £300 million and £250 million, with a 2.375% coupon rate maturing in May 2027 and 3.00% maturing in May 2031 respectively

 Sources: Hospitality Net, S&P Global, Business Green

# Green Finance Transactions in the Hospitality Sector

Hotel Groups focus on ways to improve their ESG credentials

- Hotels are among the most energy consuming asset classes in the real estate space
- Prior to the pandemic, lenders were active in supporting businesses on improving their ESG credentials. During the pandemic, green loans were removed from the spotlight, but some landmark transactions started taking place again from mid-2021

THE STUDENT HOTEL

## The Student Hotel Secured Green Loan for Two New Locations

- **Date:** February 2022, **Deal Size:** €145 million
- **Comments:** TSH reached an agreement with UniCredit for social and environmental impact financing for the development of two new locations in Rome and Florence, with the loans including the term of a BREEAM "Very Good" rating for both locations

Hines

## Hines Signed a Green Loan for the acquisition and repositioning of a mixed-use property

- **Date:** February 2022, **Deal Size:** €50 million
- **Comments:** Hines signed a green loan with Caixa Bank for a landmark property in Madrid – with a Class A certification for energy consumption – which comprises hotel and retail space

QATARI DIAR

## Qatari Diar Secure one of the UK's largest single property Green Loans

- **Date:** May 2021, **Deal Size:** £450 million
- **Comments:** The Syndicated Loan coming from HSBC and Credit Suisse among others is contingent on the former US Embassy development meeting pre-specified environmental criteria.

CERBERUS CAPITAL MANAGEMENT, L.P. & HIGHGATE

## Cerberus and Highgate Secure Green Loan for Dorsett City Purchase

- **Date:** September 2021, **Deal Size:** Undisclosed
- **Comments:** The 5-year senior loan is collateralised against the Dorsett City Hotel, London, and is contingent on the borrowers maintaining the sustainability of the asset that is currently BREEAM 'Very Good' certified.

 Sources: Global Capital, Hines, Property Week, Hospitality Insights

# Investment Activity Outlook

# Existing developments benefiting the transaction activity

Increased availability of capital, new investment strategies, and speed of recovery to determine the next winners in the hospitality landscape

| M&A Driver | Current Status | Impact on M&A and Capital Raising Activity |
|---|---|---|
| Availability of capital | ▪ During the last two years, fundraising activity increased materially as fund managers rushed to get prepared for a distress shopping spree, including in the hotel space, following the outburst of Covid-19<br>▪ Unprecedented support by governments and lenders prevented the distress bloodbath some expected, so the record amounts of capital raised for opportunistic strategies must now be deployed in more normal situations | ▪ The high-level and corresponding profile of capital in real estate fund managers’ arsenal can fuel the investment activity across real estate Value-Add strategies; operationally intense assets like hotels can be a target market for those investors<br>▪ We have observed that competitive sale processes have pushed successful bidders’ required returns down, resulting in sale valuations generally remaining close to 2019 levels, hence offering sellers a decent exit after two years of anxiety and low, if any, income return |
| Changing Consumer Demand | ▪ The never-ending process of evolving consumer needs and preference has materially accelerated since the pandemic<br>▪ Whilst “lifestyle” was the key word driving hotel groups’ expansion strategies pre-pandemic, we now see more sustained consumer trends such as longer stays requiring more space and self-catering facilities, wellness activities, and ESG considerations in choosing accommodation and workspaces in a period of rising leisure activity<br>▪ Big hotel groups were forced to allocate much of their available resources towards survival rather than expansion | ▪ Established hospitality players are now seeing the necessity to follow real estate owners’ and consumers’ changing requirements by either altering existing brands, creating new in-house brands, or pursuing M&A opportunities<br>▪ During the last months we have come across major OpCo transactions highlighting the return of big players’ appetite to grow through M&A into new sub-sectors which might broaden their client base, offer higher margins, and provide resilience under a new Covid-spread scenario |
| Markets Recovery | ▪ Robust staycation demand before and even after lifting most of the travel restrictions, and pent-up demand for leisure travelling supported by a period of record levels of household savings, have driven the strong recovery<br>▪ The hotel markets of the UK, Ireland, and southern Europe have particularly outperformed the rest of Europe | ▪ Drastically reduced market uncertainty affects forecasting and hence valuations, driving down bid-ask spreads between buyers and sellers and facilitating transactions<br>▪ We can reasonably assume from recent investment activity that future transactional activity will be stronger in regions with a track record of strong performance, e.g. UK leisure, aparthotels, South Europe resorts etc. |

Sources: HVS, Knight Frank, JLL, HVS



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# Existing developments benefiting the transaction activity

The rise of a "green agenda" between capital providers, regulators, and businesses will be a driving force of transaction activity

| M&A Driver | Current Status | Impact on M&A and Capital Raising Activity |
|---|---|---|
| Green Revolution | ▪ ESG considerations have been playing an increasing role in professional investors' underwriting process<br>▪ Lending institutions are pledging substantial amounts of capital to provide sustainable finance and increasing substantially the proportion of their loan book supporting ESG-friendly businesses and green projects<br>▪ There are strong market dynamics incentivizing hotel owners and operators to seek ways to improve the energy efficiency of their buildings with the most important being:<br>o Hotel electricity and gas costs rising at unprecedented paces, materially distorting profit margins<br>o Customer awareness of sustainable accommodation, especially from business travelers, factored in the accommodation selection process<br>o Upcoming valuation principles calling for a "brown discount" on properties that have a disproportionate carbon footprint for their size and use | ▪ Hotel owners unable to fund green conversions of their buildings will find themselves behind the curve as the regulatory, investors' and tenant/operators' ESG requirements become stricter; the threat of holding a property with a decreasing appeal and a corresponding "brown discount" will incentivize some owners to exit<br>▪ Someone's risk is someone else's opportunity; the risk of holding a relatively obsolete building is creating a lucrative opportunity for value-add investors that foresee a material pricing and risk divergence in favor of converted or new-build sustainable assets, to buy or retrofit those assets<br>▪ Undoubtedly, interest among lenders and borrowers for Green and Sustainability – linked finance will keep flourishing with prime assets in central locations being prominently the target, as in those locations attract more occupiers willing to pay the corresponding rent premium<br>▪ However, with retrofitting costs being unviable in many occasions, we anticipate the number of sustainable development projects to increase, which will support transaction activity especially where there is good visibility on the construction materials' costs |
| Refinancing risk | ▪ During the pandemic, lenders had a catalytic role in supporting existing clients with loan term extensions and covenant waiving<br>▪ As we have now exited from the pandemic, lenders have started focusing again on undertaking new financing projects and seek to exert greater control over their loan books | ▪ As the extended loan maturities are approaching an end, hoteliers could come across situations where they are unable to secure new credit facilities on favourable terms<br>▪ As a result, some assets that are not yet in distress might face a refinancing risk in the short-term, forcing owners to bring them to market over the next months |

# Macroeconomic risks that could impact transaction activity

The current environment with rising inflation and interest rates can decelerate the recovery of transaction activity in European markets

| Areas of Concern | Current Status | Impact on M&A and Capital Raising Activity |
|---|---|---|
| Inflationary Pressures | ▪ Prevailing inflationary pressures throughout the economy have had a subsequent impact on rising hotel operational costs such as salaries, F&B, and other supplies, as well as energy prices imposing a pressure on profitability<br>▪ In an effort to counteract the rising costs, hoteliers have been increasing their prices, but similarly to the stagflation debate for the overall economic activity, it is uncertain if hotel price hikes will or will not hinder demand<br>▪ Inflationary pressures driven by increased built-up demand post-pandemic, supply shortages, and logistic issues are also apparent in the construction sector, resulting in an unprecedented increase in the prices of materials | ▪ We expect a considerable negative effect in profitability within those subsectors with relatively high price elasticity i.e. hostels, budget, and up to midscale hotels, as rising costs will be more difficult to be passed onto consumers without affecting occupancy levels. This situation will deter many hoteliers from exiting under this market environment<br>▪ Operating in an uncertain environment with volatile profitability causes anxiety for investors - particularly traditional lenders who take a more conservative stance in their offers, i.e. lower LTV, personal guarantee requirements, higher debt covenants, and cash movement restrictions<br>▪ Rising construction costs are having an unquestioned effect on the appetite to fund new developments, especially for more speculative projects, including for hospitality assets |
| Rising Interest Rate | ▪ Over the last months, Central Banks across the world have started introducing tighter monetary policies in an effort to curb inflation. Interest rate hikes have been continuous over the last months and are expected to follow this trend until the end of the year<br>▪ Rising benchmark rates have both increased the interbank lending rates that act as a base rate in both corporate and real estate lending, as well as the asked spreads amid a period of heightened macroeconomic risk | ▪ Rising interest rates are pushing down the valuation of investment properties that are not adequately inflation proof, hence negatively impacting owners' desire to sell<br>▪ In this environment, deals relying heavily on debt for funding will start looking less attractive, hindering the much-desired leverage effect that PERE investors are looking for<br>▪ Although the more flexible terms of the debt fund route will continue to exist, it usually comes at a higher cost, restricting investors to mostly look at investment opportunities that could exhibit capital appreciation through very heavy asset management or redevelopment plans |

# Investment Activity Outlook Conclusions

Whilst the current environment is challenging, we expect the tailwind dynamics to prevail and support the investment activity in the sector

**M&A and Capital Raising Tailwinds**

- Emergence of Green Finance is establishing new valuation principles
- Increasing green credential requirements and refinancing risks will force cash-strapped owners to seek an exit
- Strong recovery in several European markets is boosting investment confidence – especially in those markets that are recovering quicker than expected, like the UK
- Consumer demand shift sees extended stay product gaining market share & attracting high interest from development lenders/ investors
- Re-emergence of OpCo M&A by hotel groups to capitalise on new trends
- Record amount of capital and interest for Value-Add / repositioning opportunities
- Thematic Partnerships between RE investors-operators has emerged as a new way to increase value extraction from hotel RE assets
- Tech-enabled hospitality concepts & hotel specialist software are attracting big investment interest from dedicated PropTech funds

**M&A and Capital Raising Headwinds**

- Limited ability to pass on rising operating and energy costs to consumers in price sensitive niches will lead to poor trading performance and subsequently poor investment interest.
- Economic uncertainty creates a more conservative approach to lending and investment underwriting
- Increasing borrowing costs adding downward pressure to valuations
- Highly cautious approach by institutional investors in development funding due to rising and volatile construction and labour costs

- Whilst the current macro environment is challenging, especially for hospitality sub-sectors with price-elastic demand and some marginal new development projects, the tailwinds arising from the huge amounts of dry-powder in real estate funds, the strong market recovery, the Green Revolution, and the prospect of existing owners relaunching stalled exit plans will prevail
- Following last year's strong pick-up of investment activity, which also continued over the first months of 2022, we anticipate M&A and capital raising activity to remain strong, but with activity concentrated in areas showing resilience in the face of the economic headwinds
- We also think that there will be increased investment activity by operators as the established players shift their focus from navigating the pandemic to positioning themselves ahead of the next market cycle through the acquisition of complimentary brands and businesses, or by working thematically as co-investors alongside thematic real estate partners to grow their managed / operated portfolio

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