So what happens now?

AHV Associates' Semi-Annual Research Report

July 2021

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Table of Contents

Executive Summary	a. So what happens now?	5 – 7
Macroeconomic Overview	a. GDP & Fiscal Stimulus	9
	b. Government Debt & Interest Rates	10
Industry Overview	a. Key Performance Indicators – Europe vs US & APAC	12 – 13
	b. Valuation Analysis	14
Public Markets	a. Market Indices Performance	16
	b. Performance of Major Public Hotel Companies	17
Capital Markets	a. Debt Capital Market Activity	19
	b. Equity Capital Market Activity (SPACs)	20
	c. Capital Raising Deals for Private Companies	21
	d. Hospitality Funds	22
Green Finance	a. Introduction	24
	b. Operational & Financial Benefits	25
	c. Green Transactions: Movement Towards Sustainable Travel	26
Transactions	a. European Investor Trends	28
	b. Sale and Leaseback	29
	c. Holiday Parks & Resorts	30
	d. Extended Stay	31
Appendix	a. Corporate Transactions	33
	b. Real Estate Transactions	34

AHV Associates - An Introduction

Founded in 2001 by Andrew Harrington, AHV Associates LLP (AHV) is an award-winning boutique investment bank focused on advising private companies across a range of M&A and advisory assignments

AHV Associates LLP

Mergers & Acquisitions

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

Board Advisory

- Strategic options assesment
- Independent valuations

Capital Raising

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

AHV specializes in hospitality and has worked with companies that own and/or operate hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts

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

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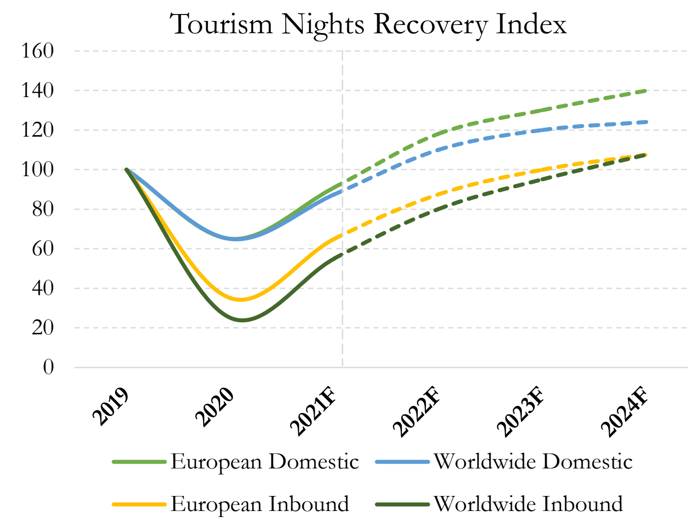
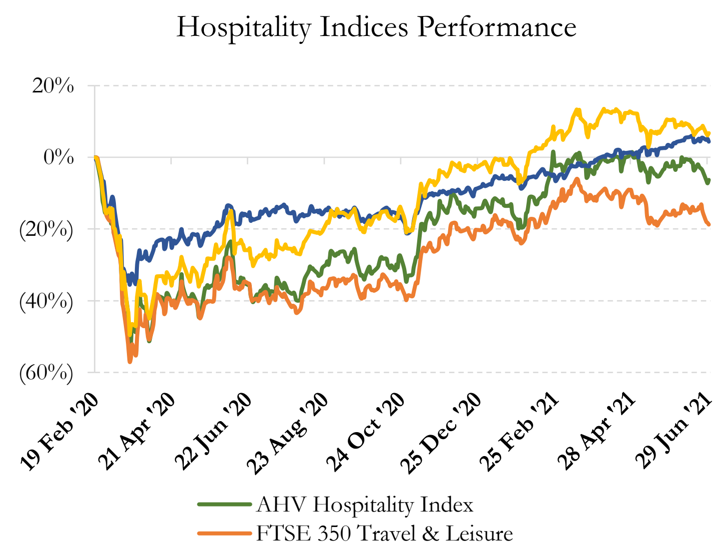
Executive Summary

Market & Industry Outlook - Real World Metrics Support Optimistic Outlook

- An economic recovery has been aided by the speed of vaccinations, especially in the UK and North America, promising the end of national lockdowns
- Central banks' market intervention has resulted in all-time-low interest rates, with only modest increases expected in the next few years; thus, businesses' cash position and investment decisions should be mainly supported by lower borrowing costs. Additionally, the OAS[1] S&P Eurozone Investment Grade Corporate Bond Index has decreased by ten basis points since the start of the year, confirming investor confidence in the outlook for the economy
- With the recent record-high consumer savings, and the natural pent up demand following a prolonged period of travelling restrictions and ban on social gatherings, the hospitality industry is well-positioned to benefit from the gradual return to normality
- Due to Europe's lagging vaccine rollout, we expect it to follow North America and China, currently experiencing a solid recovery trend as occupancy rates have rebounded to over 60% by June in both areas. Positive signs also stem from global bookings and rising confidence among hotel operators who believe that leisure travel will fuel their recovery. It is expected that business travel will recover more slowly than leisure travel. However, business travel has recovered faster than expected so far, and Hilton CFO Kevin Jacobs estimates it will be 70-75% of 2019 levels by the end of 2021
- On the operational side of the businesses, the pandemic had a positive side effect as hotel managers everywhere have identified an opportunity to reduce costs through increased operational efficiencies and a more flexible approach in the utilisation of space
- Some of those changes will have a permanent effect, helping businesses to navigate the period from the moment governments start lifting the temporary measures aiming to support the hospitality industry until the hotel demand fully recovers to pre-Covid levels. We expect overall margins to be higher in the future at any given level of RevPAR
- Public markets provide a readily available source of investors' sentiment for the market's outlook, and by examining the trading performance of all hotel companies with significant European exposure over the last 12 months, we concluded that our view is in sync with that of the public market
- The AHV Hospitality Index, which is a market-cap-weighted index of 18 hotel companies with a significant European presence, managed to surpass its pre-pandemic levels for the first time on the 24th of February 2021 and is currently at only 5% below that level





Source: IMF, OECD, Trading Economics

[1] Option Adjusted Spread

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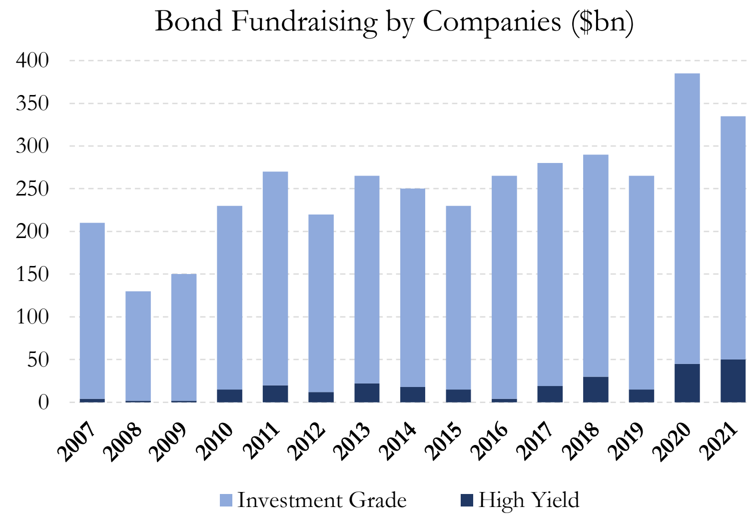
Capital Markets Supporting Hotel Companies and the Green Revolution

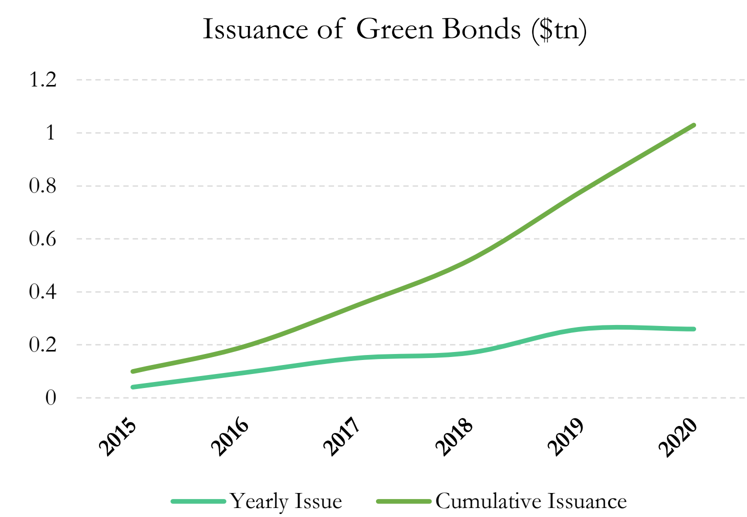
Capital Raising Activity

- Throughout the Covid-19 pandemic, capital markets have supported hotel companies as significant capital has been raised through debt or equity offerings to repay debt or fill liquidity gaps
- Recent activity indicates strong demand from private equity firms and asset managers looking at equity and debt opportunities. Over a third of the $364bn of dry powder for real estate is currently in distressed or opportunistic funds. We are sceptical that there will be much in the way of distressed assets but are confident that there will be a lot of attractive opportunities
- Debt issuances have mainly been used to pay off existing debt. Some major hotel chains have borrowed at lower rates, highlighting confidence amongst lenders. For example, Hilton has issued bonds cumulatively worth around £2.5bn with yields between 3.63-4% to pay off senior notes with yields of 4.25-5.13%
- Equity issuances have been used to strengthen balance sheets due to losses caused by lockdowns. We continue to see the revival of Special Purpose Acquisition Companies ("SPACs") in the wake of market volatility. Accor has raised roughly €300m from its SPAC listing in order to acquire other hospitality businesses

Green Finance

- A trend that we are very bullish on is the impact of the green revolution in hospitality. Alongside the environmental benefits, hotels can benefit from cost savings from sustainable buildings, which are 20% more resource-efficient than regular buildings. We fully expect business customers to increasingly select 'green' hotels, which should result in higher ADR and occupancy compared with the others
- In the market as a whole, the yield for green bonds is 15-20 basis points lower on average than non-green bonds. However, it looks like there could be a higher yield discount for green finance in hospitality, e.g. the recent issue of two green bonds by Whitbread was at a 70-130 basis point discount to an equivalent non-green bond. We fully anticipate that green finance volumes will increase, and the yield reduction will be sustained over the next few years as the green revolution accelerates





Source: Refinitiv, Sustainable Hospitality Alliance, ESGToday, Chartered Banker Institute, Climate Bonds

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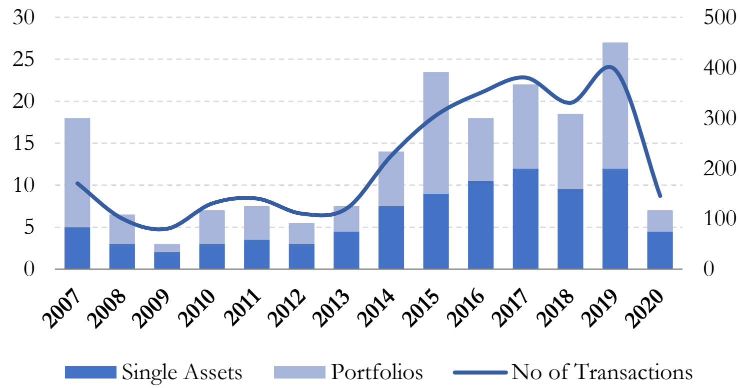
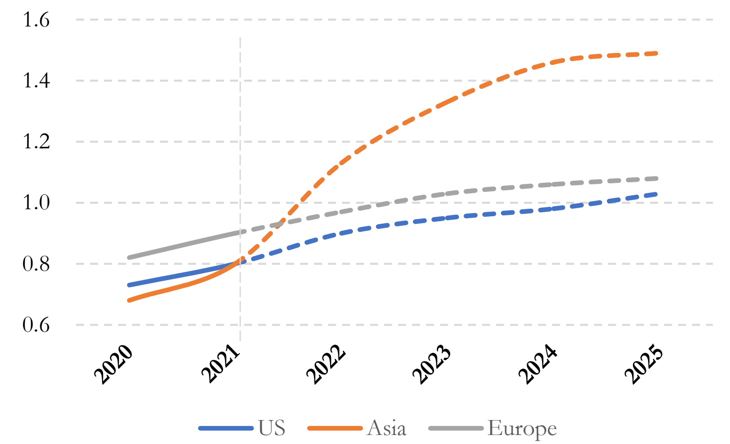
Transactions - New Trends Emerging from the Pandemic

- European investors accounted for 74% of European hotel transactions in 2020
- Portfolio transactions experienced an 80% decline in 2020 compared to a 54% decline for single assets in Europe. This discrepancy is likely due to the difficulty of undertaking complex portfolio transactions during a pandemic with restraints on capital and industry uncertainty. The UK and Germany extended their lead in transaction volume; cities such as London and Munich accounted for a significant amount of transactions. Investors were cautious in 2020 and focussed on core assets in key cities to minimise risk
- The three key sectors within the hospitality sector that we have noticed significant transaction activity in during the last six months are: Sale & Leaseback ("S&LB"), Holiday Parks & Resorts and Serviced Apartments
- Even before Covid-19, S&LB transactions volume increased as this model offers a win-win scenario: investors gained access to a guaranteed income stream with limited landlord responsibilities; businesses can convert locked up real estate value into working capital. Transactions should increase in 2021 as hotels struggle to generate cash due to record-low occupancies for over a year. Key transactions included Baglioni Hotels & Resorts undertaking a €100m S&LB of the Baglioni Luna in Venice
- Last summer, holiday parks capitalised on their naturally socially distanced accommodation. Holiday park operators experienced occupancy rates of 99% in July & August 2020, indicating pent up demand from domestic tourists. We should see similar high rates this year due to travel restrictions on European countries. Key transactions include Blackstone's £3m acquisition of Bourne Leisure which has 56 vacation sites' and the acquisition of Landal by Roompot in the Netherlands
- The extended-stay model benefits from lower operating costs due to longer average stays and minimal daily management and has performed very well throughout the pandemic. We expect to see more alternative concepts, such as the co-living model merging with the serviced apartment concept, creating new living arrangements that will meet flexible demand requirements, e.g. varying occupancy lengths and sociable spaces. Key transactions include Blackstone's and Starwood Capital's $6bn acquisition of Extended Stay America

Single Assets, Portfolios & Transactions (€bn)



Hotel Values Recovery Projections



 Source: Savills, STR, HVS

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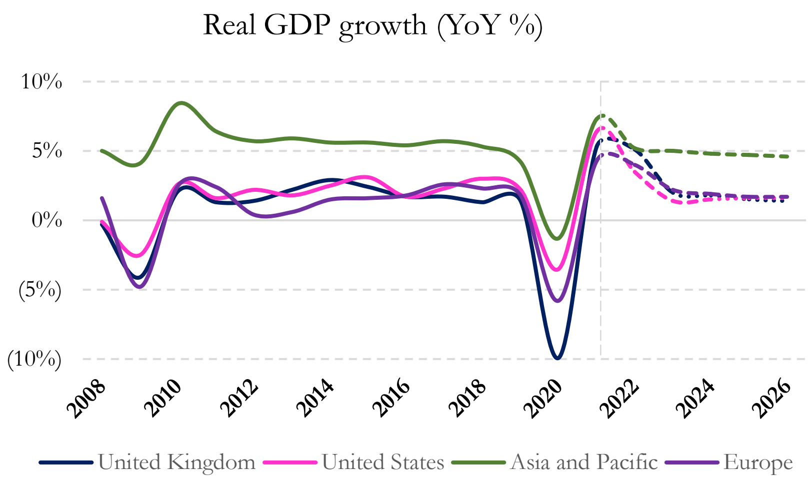
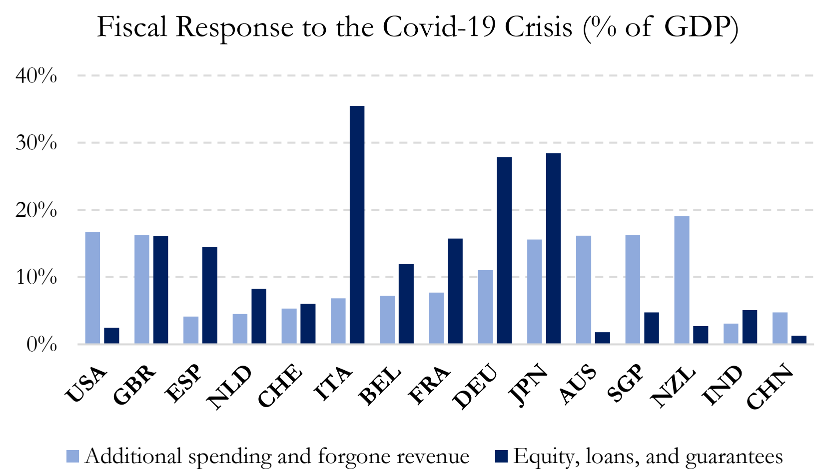
Macroeconomic Overview

GDP & Fiscal Stimulus - US & China lead the way

- The US and China have led the economic recovery as they suffered less severe lockdowns and reopened their economies much faster than Europe and the UK. That is reflected in the Real GDP growth forecasts for 2021 from the IMF, which was revised in April 2021:
  - United Kingdom: +5.3%
  - United States: +6.4%
  - Asia and Pacific: +7.3%
  - Europe: +4.3%
- Total global fiscal stimulus is now c. $14 trillion, roughly 16% of global GDP, compared to 12% last November. This is the largest fiscal support package since the Second World War. The US alone has injected $1.9tn this year, which will have spillover effects for the rest of the world as US consumers spend money on imported goods
- Developed countries have accounted for 80% of the global stimulus. Ongoing support for households and businesses has increased investor confidence across Europe and North America over the past year. The IMF is continuing to advocate expansionary fiscal policy to avoid a slowdown in growth
- Speedy vaccine programs, especially in the UK and the US, have foreshadowed a strong recovery. The news of potential new variants has threatened this prospect; however, early data indicates vaccines are effective against these variants
- The UN is predicting a divide in growth projections, with the US and China expected to make the quickest recovery due to a combination of lockdown restrictions easing and fiscal support. Developing countries will experience the slowest recovery as they struggle to control the pandemic





Source: IMF, UN ESCAP, New Scientist

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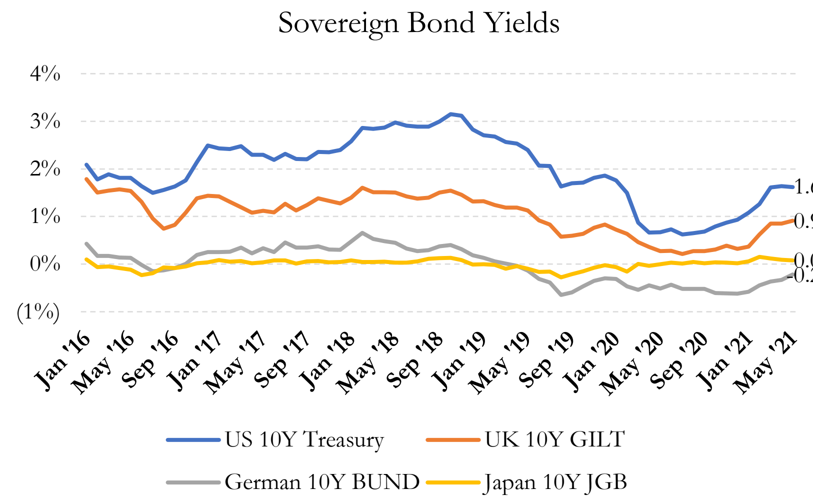
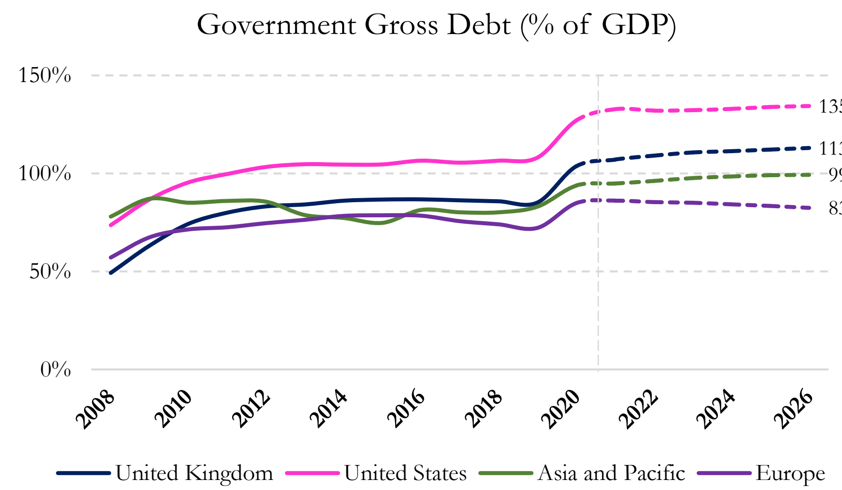
Government Debt & Interest Rates - Debt High and Rates Low

- Sovereign bond yields are near 12-month highs, with the US 10Y Treasury around 1.62% and the German 10Y Bund around -0.22%. The vaccine rollouts and strong fiscal support improved expectations of a strong economic recovery. This increased investor risk appetites, who switched to riskier assets such as equities to take advantage of the growth. This will continue so long as the recovery persists. Inflation expectations have also risen, which has reduced the demand for government debt
- Credit spreads peaked only one month into the recession and have continued their downward trend to pre-Covid levels indicating confidence in the economy's prospects
- Interest rates have remained at record lows over the last year: FED (0.25%), ECB (-0.50%), BoE (0.10%), BoJ (-0.10%). Central bankers want to be certain of a strong recovery before considering a rate hike
- The US saw its biggest rise in prices since 2008, with inflation at 4.2% as consumers started spending excess savings. The FED seems more concerned with inflation over time as opposed to individual monthly deviations from the 2% target. However, the FED has signalled a rate hike may occur in 2023
- As a result of the pandemic, sovereign debt worldwide has risen and the UK's public debt is forecasted to be 107% of GDP by the end of the year, up from 100.2% last December. This is not a serious cause for concern as the UK has seen much higher debt ratios in the past, government borrowing costs are low, and institutions remain credible. Our view is that the UK government will continue resisting the urge to impose austerity measures in order to pay off debt and focus on growing the economy in contrast to their response to the Global Financial Crisis ("GFC")





Source: IMF, OECD, ONS, FRED

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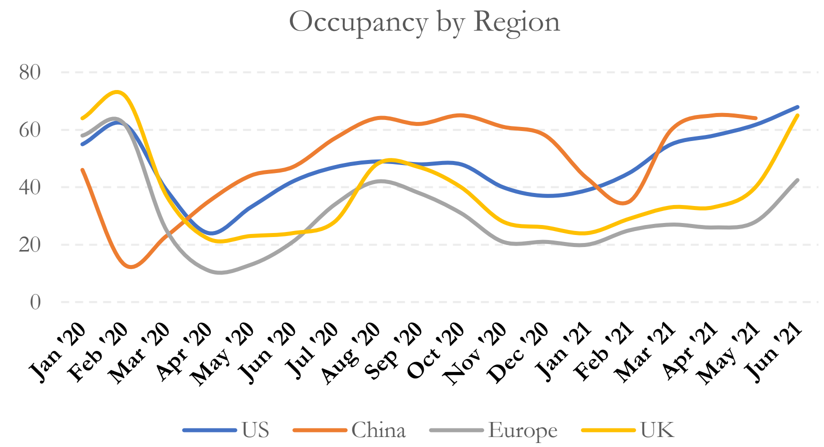
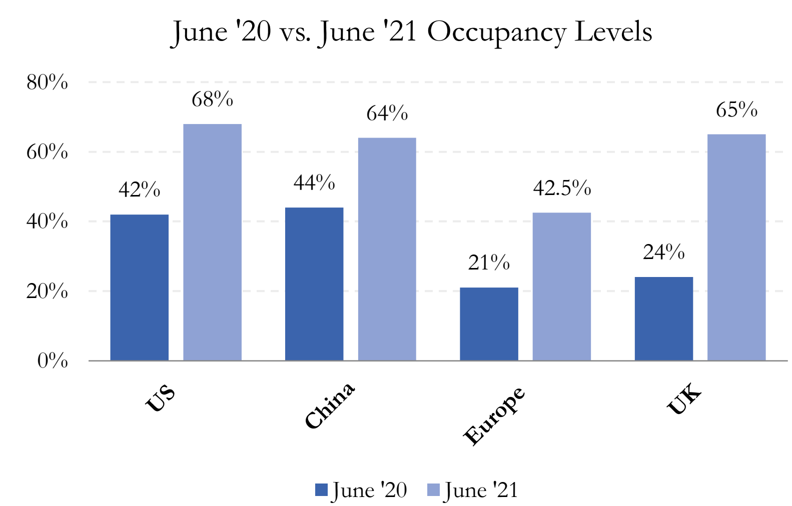
Industry Overview

Key Performance Indicators (Europe vs US & APAC) - Hotel Performance Improvements

- Hotel occupancies have experienced a strong recovery in the US and China. Europe has started to follow this trend as travel restrictions begin to ease:
  - US Occupancy: 68% (Week ending 19th June 2021)
  - China Occupancy: 64% (May)
  - Europe Occupancy: 42.5% (Rolling 7 days Occupancy to 6th June)
  - UK Occupancy: 65% (Rolling 7 days Occupancy to 6th June)
- The US has seen a quicker recovery than Europe as covid restrictions have been less harsh, enabling individuals to travel around the country more freely. The US hotel industry has been led by holiday markets such as Florida
- China saw its peak in cases far before the rest of the world, and occupancy levels started to recover in February 2020, compared to July 2020 for Europe. Tourism in China has been fuelled by domestic travel and has subsequently reached pre-pandemic occupancy levels
- Europe suffered at the beginning of 2021 due to extended lockdowns, seeing occupancies of 13% in May 2020. Whilst Europe has recovered slower than the US and APAC, the relative success of vaccination campaigns in Europe is a good indicator that the continent will follow their lead, and we have already seen an uptick in occupancy as we approach summer
- The UK has seen occupancy levels surge to 65% in recent weeks, partly caused by the school holidays, but also due to confidence in the UK's recovery from the pandemic, especially when compared to Europe
- The ending of national lockdowns and revival of international travel will enable European and UK occupancy levels to consistently be on par with those seen in the US & China



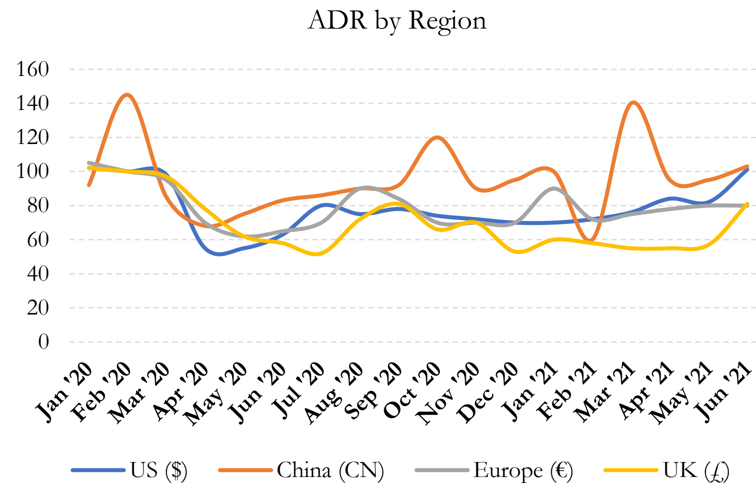


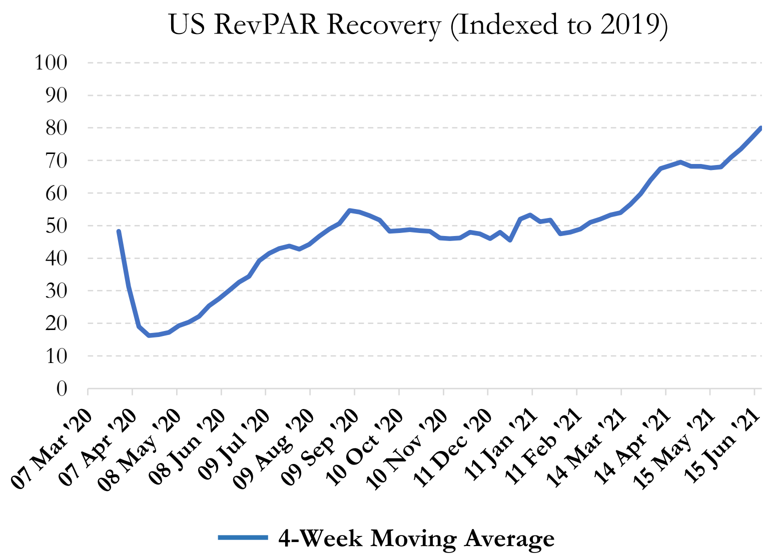
*Data for China is May '20 vs. May '21

Source: CoStar, STR, UNWTO Tourism Recovery Tracker

Key Performance Indicators (Europe vs US & APAC) - RevPAR, ADR & Construction

- More lenient travel guidelines have spurred on tourism in the US compared to Europe. China experienced its peak in cases early in 2020, so travel has had more time to recover. Europe lags due to lower occupancy rates which have been suppressed by harsher travel restrictions that will soon ease
- Changes in Average Daily Rate ("ADR") declined less than Revenue Per Available Room ("RevPAR") throughout 2020; the latest data shows the UK & Europe slightly below 2019 levels:
  - US ADR: $125.16 (June)
  - China (Beijing) ADR: CNY 603.19 (March)
  - UK (London) ADR: £67.13 (April)
  - Europe (Berlin) ADR: €70.53 (May)
- RevPAR is recovering significantly in the US and China, while Europe lags:
  - US RevPAR: $82.65 (June)
  - China (Beijing) RevPAR: CNY349.45 (March)
  - UK (London) RevPAR – £19.23 (April)
  - Europe (Berlin) RevPAR: €11.99 (May)
- RevPAR and ADR in the US and China serves as a leading indicator for Europe and the UK who will follow a similar recovery path once national lockdowns end and travel increases to the levels we see in the US and China
- As of March 2021, Europe is the only region that reported increased hotel construction year-over-year. Rooms in construction increased 26.9% in Europe and fell 11.6% and 3.4% in the US and APAC. Investors have long-term confidence in the European hotel market compared to other regions





Source: STR

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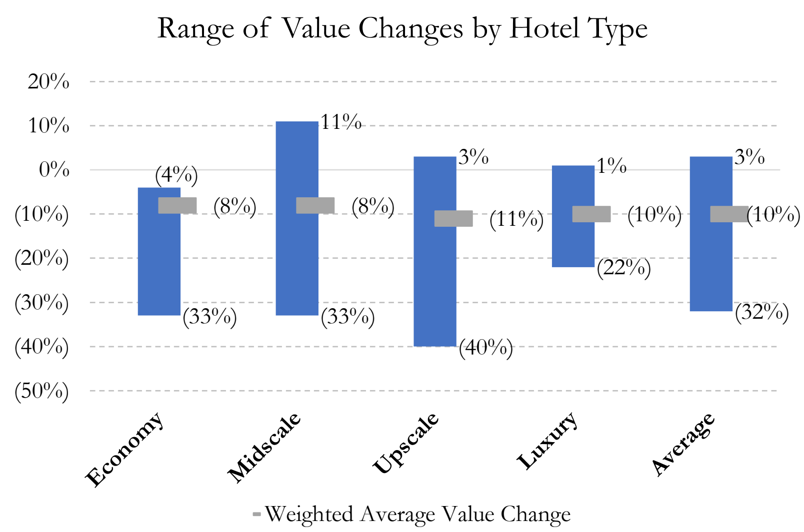
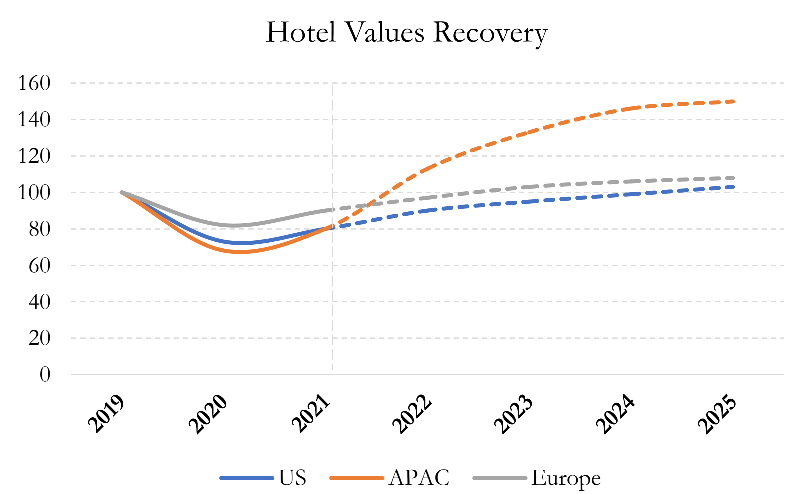
Valuation Analysis - European Values Fared Better than Expected

- Across 350 hotels in Europe since the start of the pandemic, valuations have declined by c. 11% from €10.4bn to €9.3bn. The drop in valuations is due to the widespread closure of Hotels across Europe; however, the impact of this was somewhat alleviated by government support
- Valuation changes varied immensely from -40% to +11%. Upscale and luxury hotels experienced the most significant decline; this accommodation relies more on group and convention demand, international leisure and corporate travel, which have been impeded by social distancing guidelines and restrictions on foreign travel. Some sectors even found growth opportunities in the pandemic, such as resorts that profited from less crowded accommodation offerings
- Hotel valuations in the APAC region will recover much faster than Europe and the US as domestic tourism has had a strong rebound due to significantly lower Covid cases in 2021. There is well-established confidence in the European hotel market, and as a result, valuations for European hotels took the smallest dive and will recover before the US market
- Lockdown restrictions have had a significant impact on cash flows in the hospitality industry. RevPAR decreased by 70% in Europe, although the exact effect has not been observed in valuations. This is due to governments supporting the industry via payroll subsidies and lenders widely agreeing to waive covenants and payment defaults for several months to soften the blow
- Hotels in gateway cities (such as Paris or Amsterdam) with strong fiscal support, high barriers to entry and consistent demand have experienced far less of a decline in value than peripheral cities that rely on seasonal tourism in less developed economies such as Sofia or Bucharest



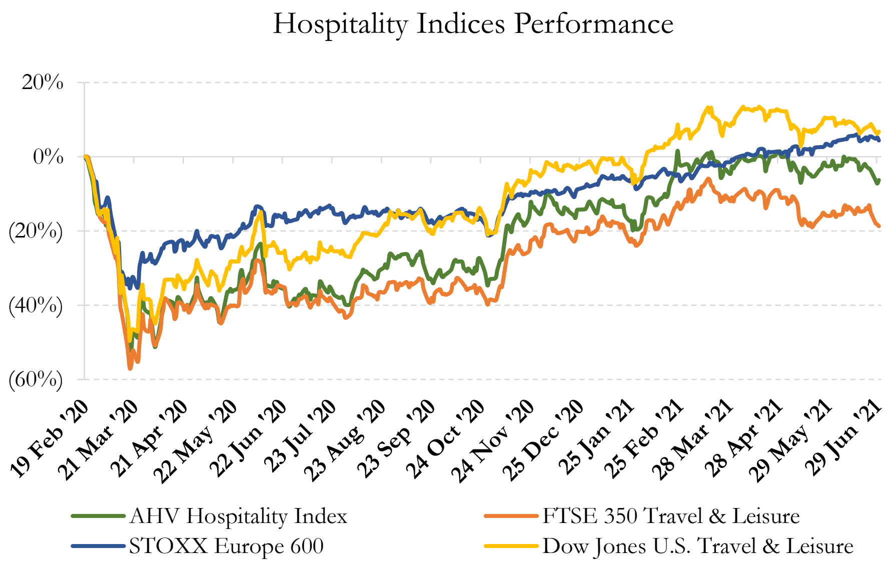


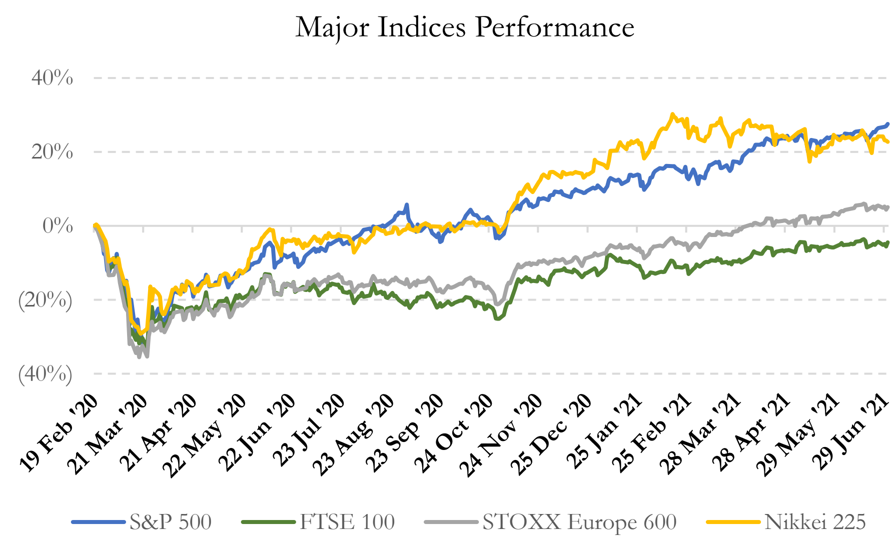
Source: HVS

Public Markets

Market Indices Performance - Hospitality Outperforms Since November

- Vaccination programs have progressed considerably since November 2020, and travel demand has been accelerating since February. As a result, the consensus in the investment community is a lot more positive than a year ago, and hospitality market indices have risen notably. This has been seen more markedly in the US and China. However, the FTSE 350 travel and leisure index has almost recovered and is currently 83% of the pre-pandemic high. This is a sign of optimism in the long term prospects of the European hotel market amongst investors. The next boost in hospitality market indices will come from a revival of business travel as well as increasing rates of international tourism
- Despite suffering an initial steep decline, share prices were left relatively unscathed by the pandemic, especially when compared to the broader economy. The S&P 500 had recovered to pre-pandemic levels by August 2020 and is currently at an all-time high. The Nikkei 225 followed the same trend although experienced a slightly slower recovery than in the US
- The AHV Hotels Index is a market-cap-weighted index of 18 hotel companies with a significant European presence, and its performance is compared to the broader hospitality industry index performance (FTSE 350 Travel Leisure Index and Dow Jones US. Travel & Leisure) and overall market (STOXX Europe 600 Index) in Europe. The AHV index managed to surpass its pre-covid-19 performance and recover from the losses it caused for the first time on the 24th of February 2021 and is currently at only 5% below that level. This confirms the overall market's confidence about the future of hospitality





Indices as of 02/07/2021

Source: Capital IQ. AHV Index includes 18 hotel companies shown in the table on pg. 30

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Performance of Major Public Hotel Companies - Valuations Rise Before Revenue

- Large hotel companies have seen significant gains over the past year and have made good progress in recuperating the losses caused by the pandemic. However, most publicly listed hotel companies have not reached pre-pandemic highs. Share prices recovering faster than hotel revenue has led to these companies trading at slightly higher multiples:

Company	Price Change (6M)	Price Change (1Y)	Market Cap (€,m)	EV (€,m)	EV/ Revenue (NTM)	EV/ EBITDA (NTM)	Net Debt/EV (Excl. Leases)
Accor	14.2%	49.6%	8,206	9,656	4.1x	109.4x	11%
Dalata Hotel Group	17.5%	50.7%	875	1,547	6.6x	29.7x	24%
Hilton Worldwide	21.9%	64.7%	29,057	36,447	7.6x	30.3x	18%
IFA Hotel & Touristik	35.3%	52.4%	308	334	N/A	N/A	4%
Fattal Holdings	(4.2%)	122.7%	1,205	5,737	N/A	N/A	50%
IHG	8.7%	45.9%	14,158	17,142	11.0x	27.4x	15%
Les Hôtels Baverez	8.8%	6.7%	132	140	N/A	N/A	6%
Mandarin Oriental International	14.9%	35.8%	2,143	2,732	N/A	N/A	17%
Marriott International	19.7%	66.1%	38,264	47,126	4.2x	28.1x	17%
Meliá Hotels International	18.8%	104.0%	1,412	4,046	4.4x	51.1x	64%
NH Hotel Group	16.9%	44.5%	1,451	4,240	4.4x	19.3x	41%
Pandox	16.6%	33.8%	2,662	5,998	19.0x	30.2x	53%
Pierre et Vacances	0.4%	(20.9%)	104	3,610	3.2x	NM	89%
PPHE Hotel Group	24.7%	57.9%	836	1,990	8.7x	59.2x	45%
Safestay	22.9%	53.6%	16	101	16.7x	NM	64%
Scandic Hotels Group	12.0%	16.4%	657	4,312	4.2x	12.4x	53%
Whitbread	14.7%	46.6%	7,488	11,301	6.2x	30.8x	2%
Wyndham Hotel & Resorts	25.4%	65.2%	5,751	7,535	5.7x	18.1x	23%
Average					**7.6x**	**37.2x**	
Median					**5.9x**	**29.9x**	

As of 02/07/2021

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Capital Markets

Debt Capital Market Activity - Hotel Chains Refinance

- Debt investors have bet on a revival of the hotel industry and have continued lending. Hotel operators have been able to source additional debt to repay existing debts and help fund their return to full operations

Company	Offering Date	Security	Location	Amount (m)	Yield at Issuance	Latest Yield	Capital Uses
NH Hotels	16/06/2021	Senior Notes	Spain	€400	4%	4%	▪ Repay existing notes due in 2023 and extend syndicated revolving credit facility
Marriott International	03/03/2021	Corporate Debentures	US	$1100	2.85%	2.72%	▪ Repayment of outstanding debt and general corporate purposes
Whitbread	10/02/2021	Corporate Debentures	UK	£300	2.38%	2.38%	▪ Half carbon emissions by 2025 and increase sustainable construction, operations and procurement
	10/02/2021	Corporate Debentures		£250	3%	3%	
Hilton Hotels & Resorts	19/01/2021	Corporate Debentures	US	$1500	3.63%	3.63%	▪ Redeem outstanding notes due between 2024 - 2026
	16/11/2020	Corporate Debentures		$800	3.75%	3.75%	
	16/11/2020	Corporate Debentures		$1100	4%	4%	
Accor	07/12/2020	Corporate Convertible	France	€500	0.7%	0.7%	▪ Refinance senior bonds due February 2021 and for general corporate purposes

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Equity Capital Market Activity - Hotels Sell Equity to Repay Debt and Fund Growth

- There has been continued demand for equity investments in hotel companies. We also see a continuation of the SPAC trend, which has had a resurgence since the onset of the pandemic, as it allows companies to get an influx of capital more quickly than the traditional IPO process
- We are sceptical of SPACs, which have been around for more than 30 years, and seem to resurge after every economic crisis, only to disappear when their inherent weaknesses become apparent. However, they are currently flavour of the month, and there is much capital looking for a home so expect capital raisings via the SPAC route to increase in the hospitality industry, at least in the short term

Company	Date	Security	Location	Amount (m)	Capital Uses
SOHO HOUSE & CO	21/06/2021	IPO	UK	$100	▪ Money raised will be used mostly to repay $826m debt
ATOUR	08/06/2021*	IPO	China	$100	▪ To take advantage of the travel rebound in China
ACCOR	01/06/2021	SPAC	France	€300	▪ Acquire hospitality businesses operating in the leisure and lifestyle sectors
Sonder	30/04/2021*	SPAC	US	$650	▪ Invest in tech, expand to new regions, and sign more properties
Wynn Resorts	11/02/2021	Follow-on Offering	US	$748	▪ General corporate purposes
TUI	20/01/2021	Follow-on Offering	Germany	€545	▪ Repay a €300m loan and to improve their liquidity position
PLAYA HOTELS & RESORTS	11/01/2021	Follow-on Offering	Caribbean & Mexico	$125	▪ Repay existing debt and for general corporate purposes

*announced

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Capital Raising Deals for Private Companies - Fund Raising Supporting Recovery

- Many private companies in the hospitality industry have been raising funds to pay off debt

Company	Date	Security	Location	Amount (m)	Capital Uses
Graduate HOTELS	24/05/2021	Preferred Equity	US & UK	$200	▪ Support loan paydowns in exchange for maturity extensions and to improve their liquidity position
BOYNE RESORTS EXPERIENCE THE LIFESTYLE	26/04/2021	Senior Notes	US	£540	▪ Pay off $580m of existing debt due in 2025
SOHO HOUSE & CO	12/04/2021	Facility A Notes	UK	£560	▪ Repay an existing loan and provide capital for growth
Generator Group	10/03/2021	Debt Restructuring	UK	£428	▪ Queensgate Investments has completed a debt restructure to support Generator Group through the pandemic

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Hospitality Funds - Plenty of Capital to be Deployed

- Real estate investment managers raised $123bn in 2020, compared to $196bn in 2019. Moreover, European & Asian investors spent 87% and 86% of their funds in their home territory, respectively, possibly due to the convenience of investing locally. There have been a range of investment strategies used, from opportunistic to focusing on core assets

Name of the fund:
All Iron Re I

Capital raised:
€120m (planned)

All Iron Group is to raise up to €120m to invest in tourism related real estate assets. The new REIT will invest in prime Spanish cities such as Madrid and Barcelona as well as additional cities in the South of Spain. The group targets existing buildings and aims to convert them into aparthotels, hostels or hotels as well as student or corporate residences

Name of the fund:
ACORE Hospitality Partners

Capital raised:
$1bn

Acore Capital announced in February that they are launching a hospitality fund to solve the liquidity crisis in the hotel industry. The lender plans to acquire senior loans, mezzanine debt and preferred equity from North American hotel owners. Acore is targeting hoteliers who can no longer extend their existing debt with their creditors

Name of the fund:
Pygmalion European Opportunistic Hotel Fund II

Capital raised:
€400m (planned)

Pygmalion Capital Advisors has held the first close for the PEOH II which is backed by a private European bank and a European pension fund. PEOH II is targeting an unleveraged equity volume of €400m. The funds strategy is devoted to opportunistic European hotel investments expected to net an annualised internal rate of return of over 15%

Name of the fund:
COIMA ESG City Impact Fund

Capital raised:
€400m

Italy's first urban regeneration ESG fund has achieved equity commitments of around €400m and is aiming to raise a total of €1bn. Combined with leverage and partnerships, the fund will have an investment capacity of over €4bn. The fund will acquire sustainable urban regeneration projects. There will be a strong focus on the hospitality and residential sectors

Name of the fund:
Signal Santander European Hospitality

Capital raised:
€200m (planned)

Santander Asset Management and Signal Capital Partners are joining forces to launch a fund aimed at the hotel sector in Southern Europe. Banco Santander and Signal will each commit €100 million into the joint venture. The fund is aimed at institutional investors and will have a five-year investment period

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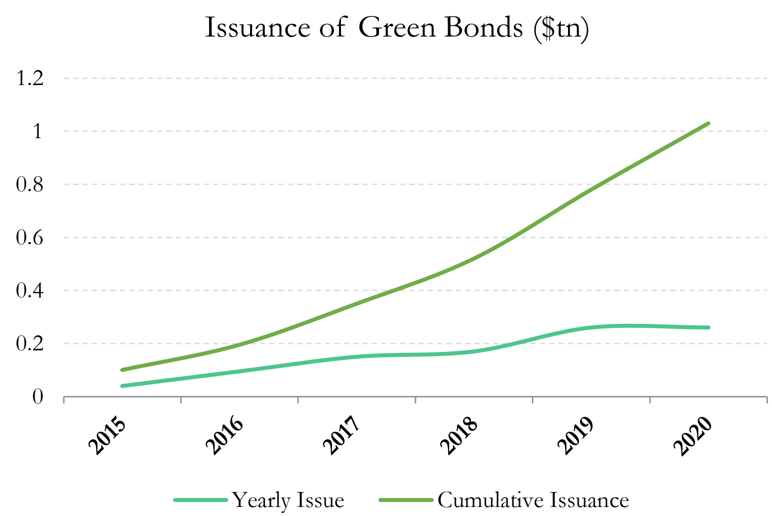
Green Finance

Introduction - The New Green Revolution

- Consumers have become increasingly concerned about the impact of their choices on the environment, leading to the rise of ESG standards. Company's use these standards to measure their sustainability, which is particularly appealing to younger generations
- The key stakeholders in the ESG movement include:
  - Consumers – Consumers are increasingly likely to stay in ESG-compliant hotels, and many are willing to pay a premium to do so
  - Governments – Governments have issued green bonds to help them reach net-zero emissions. The EU has stated that 30% of its €750bn recovery budget will be green bonds. This is indicative of their ongoing and increasing commitments to sustainability
  - Businesses – Many hotels have realised the cost-savings that can be made when becoming more efficient and have also started issuing green bonds. For example, the Radisson Blue Hotel in Frankfurt has implemented fuel cells which will save €750k over ten years in energy costs
  - Investors – Several funds have been launched with the sole purpose of investing in sustainable assets. In November 2020, Destination Capital announced the launch of Descap I, the world's first green hotel fund. This fund will renovate hotels and utilise green technology in Thailand
- Green finance is "the financing of investments that provide environmental benefits". Green debt and equity funds have been the investment vehicles of choice for environmentally conscious investors
- The first-ever green bond was issued in 2007 by the European Investment Bank, and in 2020, cumulative global issuance reached $1tn, of which 20% has come from corporations, with the rest coming from a range of sources, including commercial banks, development banks and governments

Environmental	Social	Governance
▪ Climate Change ▪ Ecological Footprint ▪ Resource Use ▪ Pollution	▪ Working Conditions ▪ Diversity ▪ Local Communities ▪ Health & Safety	▪ Tax Transparency ▪ Executive Pay ▪ Board Diversity ▪ Bribery & Corruption



Source: Sustainable Hospitality Alliance, ESGToday, Chartered Banker Institute, Climate Bonds

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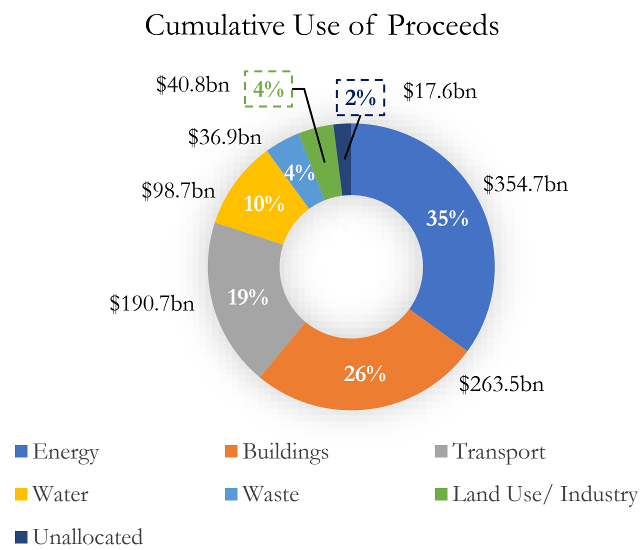
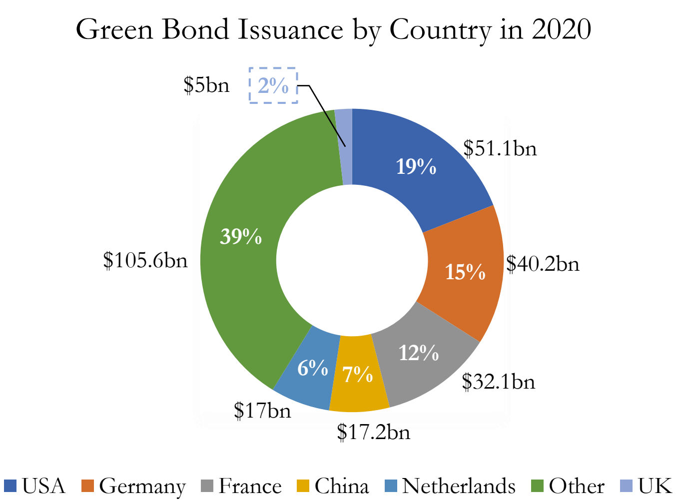
Operational & Financial Benefits

- The yield for green bonds is 15-20 basis points lower on average than non-green bonds. The green bond premium indicates:
  1. Growing investor interest in green assets
  2. A lack of representation of environmental projects in capital markets, causing demand to outweigh supply
- Whitbread's green bonds had interest rates of 2.4% and 3%. The average coupon rate for non-green debt, with the same rating, is 3.7%. This suggests that the spreads between green and non-green bonds in hospitality could be higher than the general market
- Green finance can fund a wide variety of projects that meet specific ESG criteria. Of the total $1tn raised in green finance (2007-2020), $354.7bn has been invested in the energy sector, $263.5bn in low carbon buildings and $190.7bn in sustainable transport
- Sustainable buildings are 20% more resource-efficient than regular buildings. Furthermore, many hotel operators overestimate the upfront cost of sustainable buildings due to a lack of awareness of the rapidly decreasing costs of green technology. This is an excellent opportunity for hotel operators who can reduce utility costs by becoming energy efficient and improve their public image
- The latest evidence suggests that companies with high ESG scores have a 10% lower cost of capital. This is possibly due to increased transparency in their business operations due to higher reporting standards to meet ESG criteria. From this, investors are willing to accept a lower rate of return as unknown risks are reduced
- Despite the US being the world's largest issuer of green bonds ($51.1bn in 2020), European countries outperform their size relative. Germany, France and the Netherlands issued $89.2bn in green bonds last year. Since sustainability has been on the political agenda, European countries and companies have been much better at implementing eco-friendly policies than their American counterparts





Source: Eurasian Economic Review, Sustainable Hospitality Alliance, Climate Bonds

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Green Transactions - Movement Towards Sustainable Travel

- We believe that the trend of companies and consumers being environmentally conscious will extend deeper into the hotel market. We expect to see an acceleration of consumers favouring ‘green hotels’. We also predict a rise of ‘green business travel’; many companies looking to improve their green credentials will insist that their employees stay in eco-certified hotels. This will lead to higher occupancies and ADR’s for hotel operators providing an opportunity for hotel investors to take advantage of the growing demand for green hotels in Europe

Relevant Transactions

QATARI DIAR الديار القطرية

- **Date:** May 2021
- **N. Of keys:** 139 rooms
- **Location:** London, United Kingdom
- **Type of transaction:** Green Bond
- **Amount Raised:** £450m
- **Comments:** Qatari Diar has obtained a £450m green loan to fund the development of the Chancery Rosewood, which is expected to open in 2024. The former US embassy is being converted into a luxury 139-room hotel and retail site in Mayfair. Funding is being provided by a consortium of banks, including HSBC and Credit Suisse. The project must meet specific environmental criteria for the financing to qualify as a green loan. The site will minimise water consumption, implement energy efficiency measures and have extensive green roofs

WHITBREAD

- **Date:** February 2021
- **N. Of keys:** 800 hotels (78,500 rooms)
- **Location:** United Kingdom
- **Amount Raised:** £550m
- **Type of transaction:** Green Bond
- **Series A Notes:** £300m, yield 2.375%, due 2027
- **Series B Notes:** £250m, yield 3%, due 2031
- **Comments:**. The funds will be focused on three key areas: green construction, sustainable procurement and green operations. New buildings will be constructed to BREEAM excellent standards or above, and they will be installing solar panels on UK sites. Electric vehicle charging points will be introduced, and waste sent to landfill sites will be minimised. Whitbread is also looking to improving its sustainable procurements standards, especially in relation to timber, cotton and fish. This is in line with the company's targets to half carbon emissions by 2025 and reach net zero by 2050

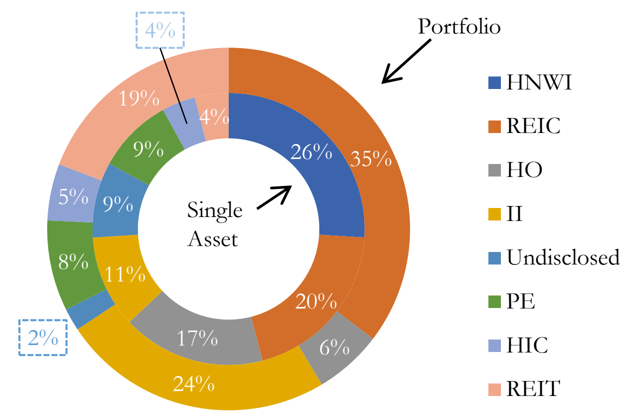
Source: Whitbread, THPT

Transactions

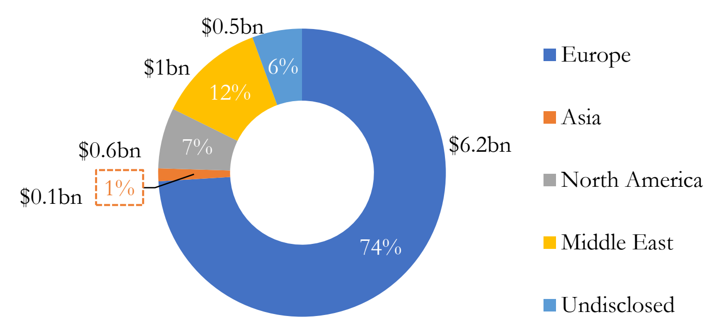
European Investor Trends - European Investors Dominance

- Real Estate Investment Companies ("REICs") were the largest buyers of European hotels in 2020, responsible for 25% of all acquisitions, despite recording a 72% decrease in acquisitions compared to 2019. High-Net-Worth Individuals were the only buyers that saw an increase in acquisition volume in 2020 compared to 2019. This is heavily skewed by the acquisition of The Ritz in London, which had an estimated sale price of between £700-800m (the exact value is undisclosed)
- Real Estate Investment Trusts ("REITs") had the highest positive volume of €499m in net transaction volume. The largest net sellers were Hotel Operators, which disposed of €560m
- European investors accounted for 74% of European hotel transactions in 2020, investing €6.2bn in total, down from €23bn in 2019. Total investment volume from Asia and North America into Europe fell 90% and 71%, respectively
- A decline in foreign investment is no cause for concern because most funds raised worldwide were spent locally during the pandemic due to convenience. International investments will return to normal within a couple of years as the disruption caused by covid diminishes
- Investment managers raised €123bn of new capital to put into non-listed real estate investments in 2020; this is down 59% from 2019. Of the funds raised, 41% was allocated to Europe, 24% to North America and 17% to APAC vehicles. In parallel to the boost in European construction, the focus on European real estate assets is a positive sign that investor demand for real estate on the continent will rise substantially over the next few years

Main Buyers of European Hotel Assets



European Hotel Investor Origin 2020



HNWI: High-Net-Worth Individuals
REIC: Real Estate Investment Companies
HO: Hotel Operators
II: Institutional Investors
PE: Private Equity
HIC: Hotel Investment Companies
REIT: Real Estate Investment Trust

Source: HVS, Hotel Analyst, Hospitality ON

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Sale and Leaseback - Owners Swap Real Estate for Cash

- The volume of S&LB transactions is accelerating and attributable to the financial pressures hotels are facing. Cash-strapped hotel chains are looking for liquidity and this allows them to convert capital from real estate assets into cash for improving business operations and strengthening solvency
- The S&LB model will become increasingly popular over the next few years. The combination of rising prices increasing owners' interest in selling properties and the need for businesses to access quick cash to prop up balance sheets has made this an ideal time for S&LB transactions

Relevant Transactions

Fattal International Hotels & Resorts

- **Date:** April 2021
- **N. Of keys:** 2 hotels (368 rooms)
- **Location:** Munich, Germany
- **Deal Size:** €77m
- **Comments:** Israeli owned Fattal Hotels agreed on a sale and leaseback with a combined annual lease of €3.45m for both hotels over 25 years. Due to the coronavirus, the company has received a discount and will pay just €1.78m annually for the first 21 months. The agreement includes €4m to be spent on renovations for the two properties

BAGLIONI HOTELS & RESORTS

- **Date:** March 2021
- **N. Of keys:** 1 hotel (93 rooms)
- **Location:** Venice, Italy
- **Deal Size:** €100m
- **Comments:** Baglioni Hotels & Resorts have completed a sale and leaseback of the Baglioni Luna in Venice with British investors, the Reuben Brothers. This transaction is part of a strategic partnership between Baglioni and the Reuben Brothers' aim to expand the Baglioni brand internationally

CLAYTON HOTELS

- **Date:** April 2020
- **N. Of keys:** 1 hotel (187 rooms)
- **Location:** Dublin, Ireland
- **Deal Size:** €65m
- **Comments:** Dalata Hotel Group announced its intention to sell and leaseback its Clayton Charlemont Hotel to real estate investment group Deka Immobilien last April. Dalata will pay just over €3m a year in rent on a 35-year lease. As part of the deal, Dalata will fund the final part of the hotel development, which will convert 38 Charlemont street into three extra Clayton Hotel rooms and a café. This deal has strengthened Dalata's cash balance during the COVID crisis

Source: JLL, Hospitality Insights, THPT

Holiday Parks & Resorts - Domestic Tourism Boom

- We should see a considerable rise in transactional activity for holiday parks and resorts in 2021. Investors will be encouraged by high occupancy rates, growing domestic demand and ongoing concerns over foreign travel. It is estimated that 40% of average yearly leisure spending abroad will be redirected to the UK as domestic travel spending gains at foreign travel expense. This amounts to an additional **£22bn** of domestic tourism spending in the UK. Hotel operators have a chance to attract domestic tourists who previously did not see the UK as a viable holiday destination
- Only 5% of UK Holiday Parks are owned by the three largest operators, this highly fragmented market provides opportunities for larger chains to consolidate. As a result of increased domestic tourism, we expect to see more competition in this space, which offers fertile ground for M&A opportunities

Relevant Transactions

Roompot → Landal GreenParks

- **Date:** June 2021
- **N. Of keys:** One hundred holiday parks
- **Location:** Mainly in Northern and Central Europe e.g. UK, Belgium and Germany
- **Deal Size:** Undisclosed
- **Comments:** The acquisition will enable Roompot to expands its Pan-European portfolio

CVC Capital Partners → Away Resorts

- **Date:** June 2021
- **N. Of keys:** Nine holiday parks
- **Location:** United Kingdom
- **Deal Size:** £250m
- **Comments:** Minority stake acquisition will help company meet surging demand for UK holidays

awaze → Portfolio of 3 holiday rental firms in the UK and Denmark

- **Date:** May 2021
- **N. Of keys:** Three holiday rental firms
- **Location:** United Kingdom & Denmark
- **Deal Size:** Undisclosed
- **Comments:** Purchase of 2 cottage companies in the UK

Park Holidays UK → blp bridge leisure parks

- **Date:** May 2021
- **N. Of keys:** Nine holiday parks
- **Location:** United Kingdom
- **Deal Size:** Undisclosed*
- **Comments:** Acquisition provides strong platform to serve the staycation market

*recently exchanged & subject to regulatory approval

Blackstone → Bourne Leisure Limited

- **Date:** February 2021
- **N. Of keys:** 56 vacation sites
- **Location:** United Kingdom
- **Deal Size:** c. £3bn
- **Comments:** This acquisition deepens Blackstone's involvement in the UK leisure sector

Source: CBRE, Hotel Analyst, Park Holidays, CVC, Travel Weekly, Colliers

Extended Stay - Pandemic-Friendly Accommodation

- Serviced apartments can be one of the leaders in the recovery of the hotel market, driven by the factors that enabled the sector to outperform others in 2020. This includes the ability for occupants to self-isolate and accommodating various lengths of stay. Our view is that growth in demand for serviced apartments and subsequent deal opportunities will be attractive for investors in the next few years. Particularly in regional areas as domestic leisure demand picks up as well as around central business districts as corporate demand grows

Relevant Transactions

Blackstone, Starwood Capital Group → Extended Stay America

- **Date:** June 2021
- **N. Of keys:** 630 hotels (69,000 rooms)
- **Location:** USA
- **Deal Size:** c. $6bn
- **Comments:** Blackstone and Starwood Capital have completed their acquisition of Extended Stay America in an all-cash transaction. J.P. Morgan Chase Commercial Mortgage Securities is going to market with $4.65 billion in commercial mortgage-backed securities tied to its financing of the acquisition. The offering will be the largest CMBS deal since October 2019. The collateral for the Extended Stay CMBS transaction is a loan that was co-originated by JPMorgan Chase Bank (50%), Citi Real Estate Funding (35%), and Deutsche Bank AG (15%)

BC Partners → Edgar Suites

- **Date:** June 2021
- **N. Of keys:** TBA
- **Location:** France
- **Deal Size:** €104m
- **Comments:** Edgar Suites is known for converting office buildings into high-quality apartments located in 19 French cities. The funds raised will allow Edgar to expand its portfolio over the next few years significantly

Hines → Bluenoble

- **Date:** May 2021
- **N. Of keys:** 70 serviced apartments
- **Location:** Milan, Italy
- **Deal Size:** €70m
- **Comments:** This investment will create 70 serviced apartments in the exclusive Via Borgospesso and was completed by Antirion SGR via the Smart Stay fund. This partnership has invested roughly €200m in the living sector in Italy

Source: Globe Newswire, THPT, CoStar

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Appendix

Corporate Transactions

- In the last six months, there have been a considerable number of corporate transactions. Few acquisitions so far have been distressed sales, and many are taking advantage of an upcoming boom in European tourism

Date	Acquirer(s)	Location	Target	Location	N. Of keys	Price
Jun' 21	CVC Capital Partners	US	Away Resorts	UK	9 sites	£250m
Jun' 21	Roomport	NL	Landal GreenParks	EU	100 sites	Undisclosed
Jun' 21	BC Partners	UK	Edgar Suites	FR	TBA	€104m (Investment)
May '21	RIU Group	ES	RIU Hotels	ES	36,000	€670m
May '21	Awaze	UK	Portfolio of 3 holiday rental firms	UK & DN	c. 1000	Undisclosed
May '21	Park Holidays UK	UK	Bridge Leisure Parks	UK	9 sites	Undisclosed
Apr '21	Vici Properties and Apollo Global Management	US	Operating company of the Venetian Resort and the Sands Expo Center	US	7092	$6.25bn
Mar '21	Orca Holding	ES	Zetter Group, Hotel and Townhouses	UK	Unknown	Undisclosed
Mar '21	Eagle Hills Zagreb Real Estate	AE	Sunce Hotels	HR	11 hotels	£87m
Feb '21	Blackstone	US	Bourne Leisure	UK	56 sites	Undisclosed
Jan '21	Activum SG	EU	Odyssey Hotel Group	NL	c.5000	Undisclosed

Real Estate Transactions

- Whilst volume of transactions for single assets decreased significantly in 2020, we have already seen a strong rebound with several prime assets being acquired around Europe

Date	Acquirer(s)	Location	Target	Location	N. Of keys	Price (m)
Jun ’21	Cerberus Capital Management & Highgate	US & UK	Dorsett City hotel	UK	267	£115
May ’21	ECE Real Estate Partners	LU	Hotel Bonvecchiati	IT	191	€100
May ’21	Union Investment	DE	Turm am Mailänder Platz	DE	429	€137
May ’21	Serani Hotels	UK	Hilton Warwick	UK	181	Undisclosed
Apr ’21	Legal & General	UK	Yotel London Clerkenwell	UK	212	£70
Apr ’21	Reliance Industries	IN	Stoke Park Country Club, Spa & Hotel	UK	49	£57
Apr ’21	Pygmalion Capital	UK	Two Hilton hotels	IT	545	Undisclosed
Mar ’21	Conren Land AG	DE	Villa Kennedy hotel	DE	163	€95
Feb ’21	Archer Hotel Capital & APG & GIC	NL	Edition Hotel Madrid	ES	200	€205
Feb ’21	Reuben Brothers	UK	Baglioni Hotels	IT	93	€100
Jan ‘21	Kerbler Group	AT	Portfolio of 3 Hotels & 611 Serviced Apartments	DE	403	Undisclosed

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