



# AHV

ASSOCIATES

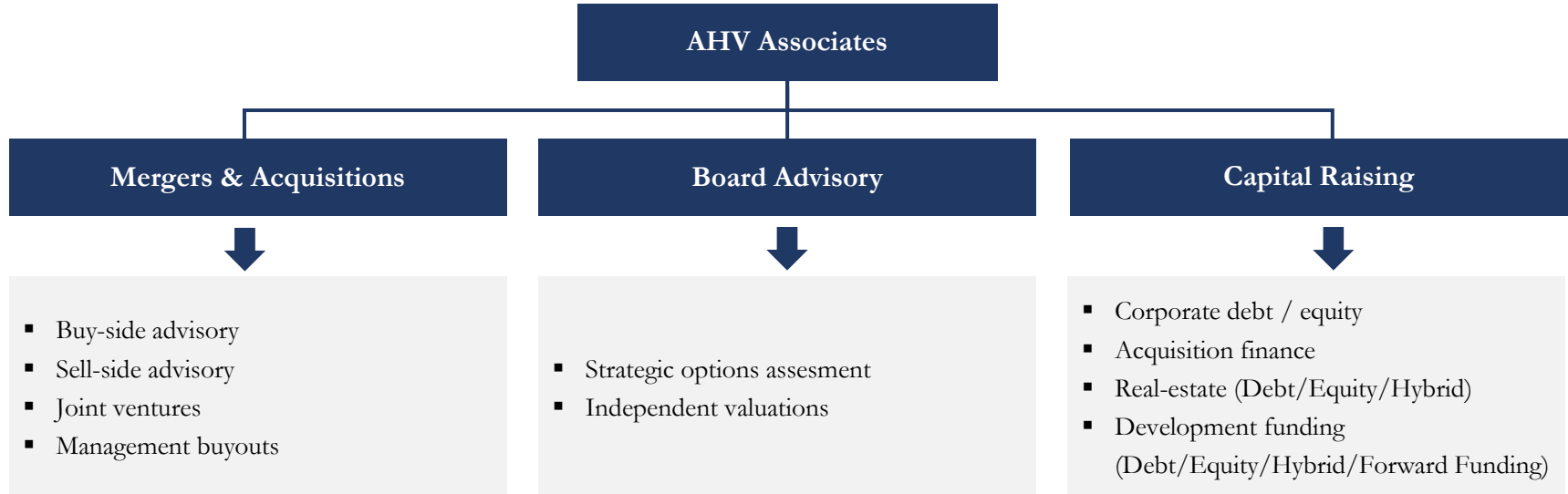
*Hospitality M&A and Capital Raising Specialists*

The Financing Landscape in 2024

March 2024

# AHV Associates – An Introduction

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



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- Hotel trading performance
- Transaction activity
- Macroeconomic indicators
- Public capital markets







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# European Hotel Operating Performance

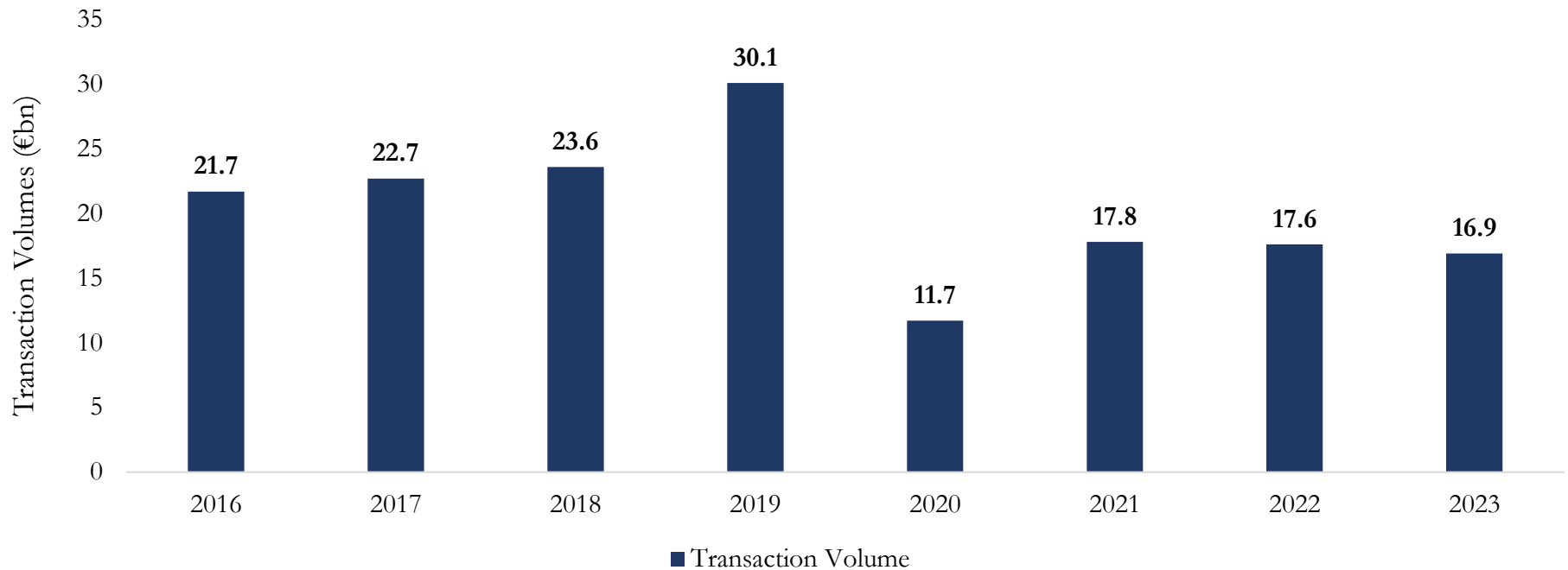
## FY2023 vs FY2022 Earnings Results

	ADR	Occupancy (absolute)	RevPAR	Hotel EBITDA
 ACCOR	+11.8%	+6.0%	+22.7%	+23.3%
 DALATA HOTEL GROUP PLC	+5.8%	+3.7%	+11.0%	+21.6%
MELIÀ HOTELS INTERNATIONAL	+6.8%	+6.1%	+17.3%	+13.7%
 NH   HOTEL GROUP	+13.1%	+7.0%	+27.0%	+14.8%
 Pandox™	+12.0%	+7.9%	+24.0%	+11.9%
 pphe HOTEL GROUP	+4.0%	+12.4%	+25.5%	+35.5%
 Scandic	+7.6%	+3.7%	+14.5%	+13.3%
<b>Average</b>	<b>+8.7%</b>	<b>+6.7%</b>	<b>+20.3%</b>	<b>+19.2%</b>

- The European hotel industry continued to strengthen throughout 2023, with consumer appetite for leisure stays and robust business demand remaining resilient amidst inflationary pressures and macroeconomic uncertainty
- The falling inflation rate has resulted in stabilising operating and capital costs for hotels; this along with strong RevPAR growth in several European cities has been translated into respectable GOPPAR growth
- In the UK, the strength of RevPAR had a significant positive impact on GOPPAR; London's full-year 2023 profits were up by 17.5% PAR vs 2022, and Regional UK recorded GOPPAR growth of 11% PAR YoY

# European Hotel Investment Activity – Current Status

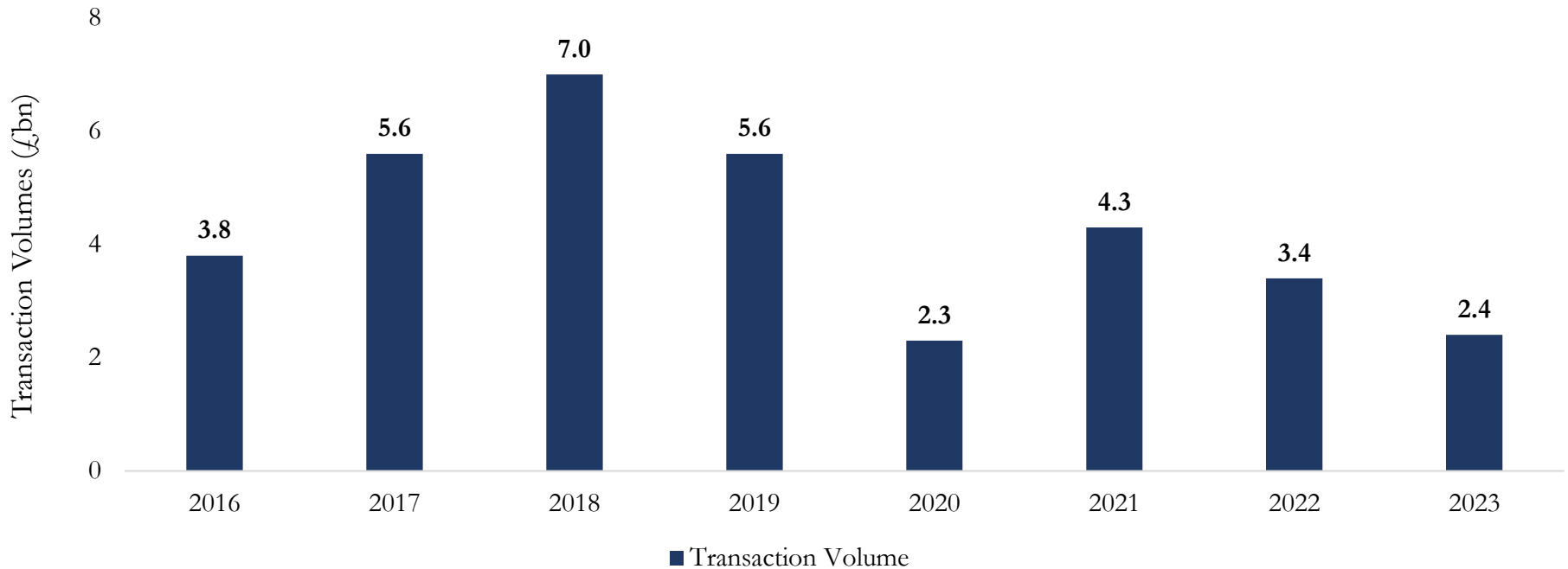
## European Hotel Investment Volume 2016 – 2023



- Transaction volume across Europe in 2023 was relatively subdued at €16.9bn with 787 properties transacted; total volumes were down 4% YoY and 44% compared to 2019
- However, investment volumes in Q4 2023 totalled €5.4bn, a c.13% increase from €4.8bn in Q4 2022; this was attributed to improving capital market conditions leading to increased clarity on price levels and improved investor sentiment
- It is evident from recent transaction activity that traction in the market has continued to increase, including Gruppo Statuto's €205m acquisition of the Mandarin Oriental Paris, and the €150m acquisition of the Sofitel Lisboa Liberdade & Roma Villa Borghese in Jan 2024, along with Banco Santander's purchase of a 38.2% stake in three Melia Hotels for €300m in Feb 2024

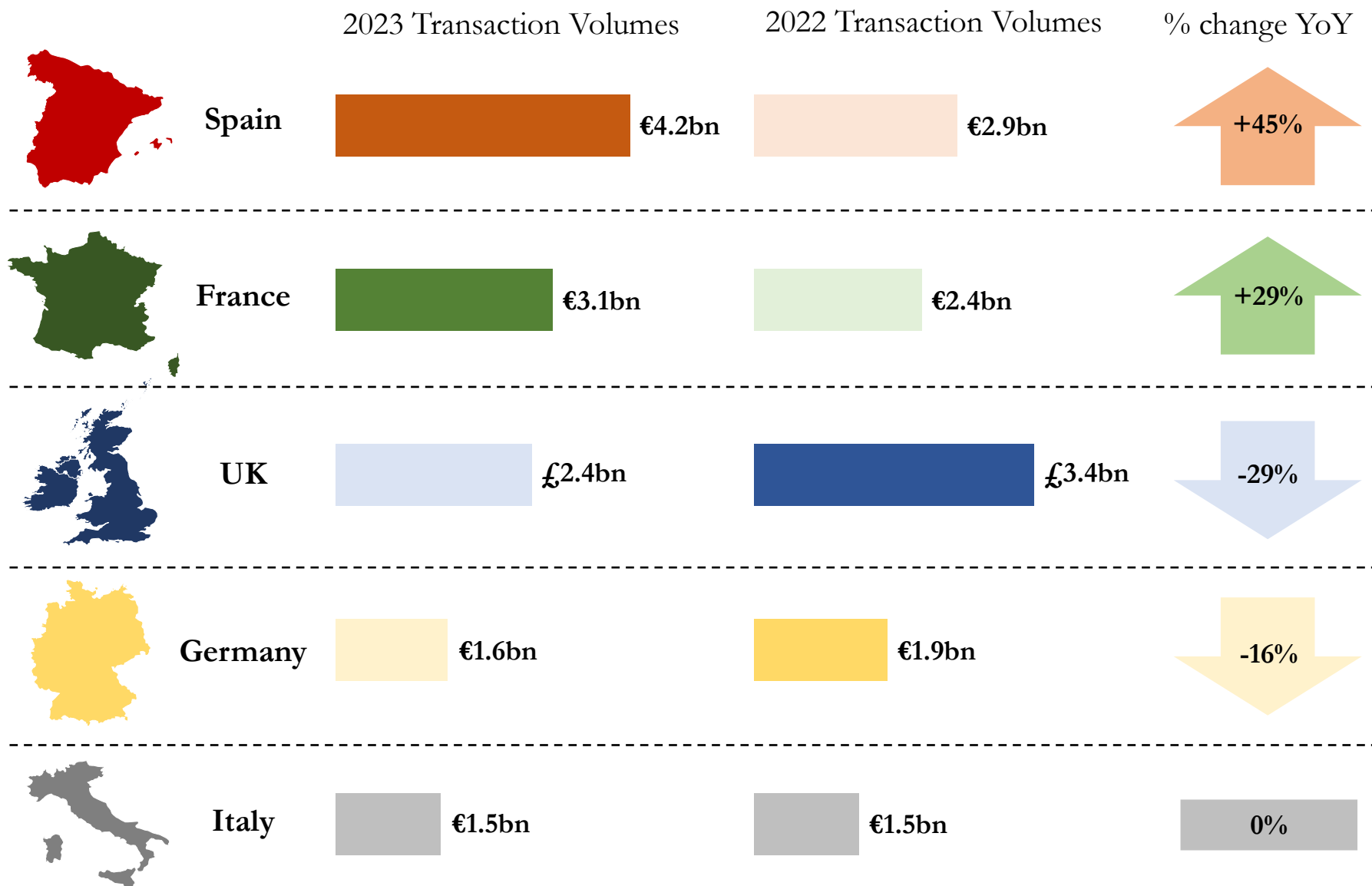
# UK Hotel Investment Activity – Current Status

## UK Hotel Investment Volume 2016 – 2023



- In 2023, investment volumes in the UK stood at £2.4bn with 149 properties transacted; total volumes decreased by 29% YoY and 57% compared to 2019
- The market experienced constrained deal flow due to the mismatch between buyer and seller price expectations throughout the year; however, base rates are widely expected to be lowered in H2 2024, which is expected to result in a significant uptick in deal activity
- The bid-ask spread is already showing signs of narrowing as macroeconomic uncertainties dissipate, as recently seen by Starwood's £800m acquisition of 10 Radisson Blu Hotels, Travelodge's €246m acquisition of 66 hotels from LXI REIT in Jan 2024, and MCR Hotels £275m purchase of the BT Tower London for a hotel conversion in Feb 2024

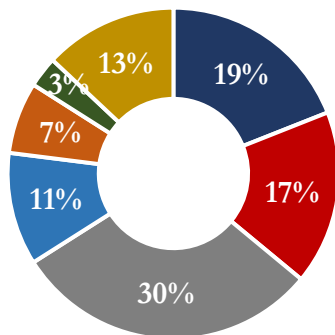
# European Hotel Investment Activity – Core Markets





# European Hotel Investment Activity – Nature of Investments

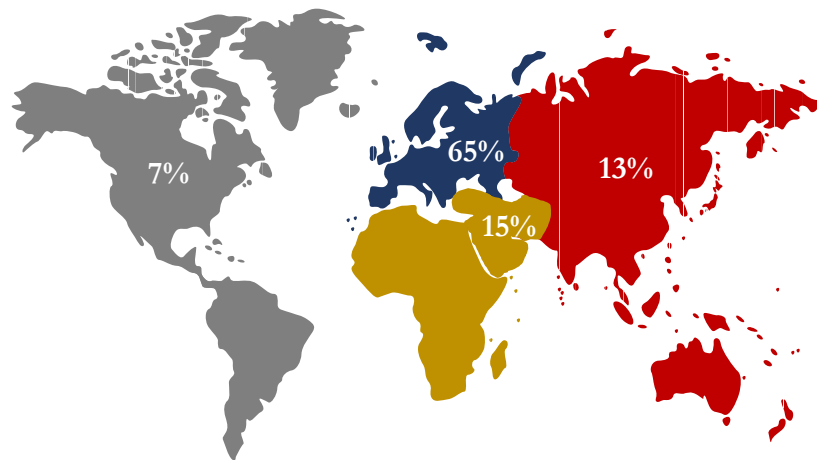
## Transaction Volume by Purchaser Type 2023



- Investment Manager
- Institutional Funds
- Private Investor
- Other
- Developer
- Listed / REIT
- Sovereign Wealth Fund

- In 2023, HNWIs, family offices and owner / operators dominated the hotel investment market and sourced growth opportunities for their existing portfolios; these buyers are well capitalised and non-reliant on sourcing funding through debt markets
- Hotel groups such as Whitbread, Dalata and Fattal, in particular, were highly active; for instance, Dalata deployed €156m during 2023 to invest among others in freehold acquisitions and development opportunities e.g. Maldron Finsbury Park, Apex Hotel London Wall, and to a building conversion to hotel in Edinburgh

## Transaction Volume by Source of Capital 2023



- Europe
- MEA
- APAC
- Americas

- The proportion of transaction volumes with capital sourced within Europe stood at 65% in 2023, decreasing by 13 percentage points from 78% in 2022 – this is largely attributed to macroeconomic uncertainty within the region posing significant funding challenges to investors
- Overseas investors continued to look favourably towards the European hotel sector; c.28% of hotel investment in 2023 came from the Middle East (6% in 2022) and APAC (4% in 2022), where access to capital was more readily available with interest rates relatively lower than compared to Europe and the USA – this capital was mainly directed to high-quality properties located in prime European cities

## European Hotel Investment Activity – Recent Notable Transactions

Location	Date	Hotels	Buyer(s)	Seller	Price	# of Keys
Spain & UK	Feb 2024	3 Melia Hotels in Tenerife, Menorca, London	Banco Santander	Melia Hotels International	€300m (38.2% stake)	1,099
Turkey	Feb 2024	Amanruya Bodrum	Undisclosed Turkish Asset Management Company	BLG Capital	€69m	36
Portugal & Italy	Jan 2024	Sofitel Lisboa Liberdade & Sofitel Roma Villa Borghese	Undisclosed French Investor	AccorInvest	€150m	241
France	Jan 2024	Mandarin Oriental Paris	Gruppo Statuto	Mandarin Oriental Hotel Group	€205m	136
Portugal	Dec 2023	5-Hotel portfolio in Portugal	NH Hotel Group	Minor Hotels	€133m	974
Croatia	Nov 2023	Suncani Hvar Portfolio	Eagle Hills	CPI Property Group	£200m	n/a
Portugal	Nov 2023	Palmares Ocean Living & Golf	Arrow Global	King Street & Kronos Homes	€115m	612
Italy	Oct 2023	Six Senses Rome	Gruppo Statuto	Orion Capital	€245m	94
Spain	Sep 2023	17-Hotel portfolio in Spain	ADIA	Equity Inmuebles	€600m	2,500
Spain	Jul 2023	Mandarin Oriental Barcelona	The Olayan Group	Farallon & Reig Capital	€240m	120

### Featured Investors





# UK Hotel Investment Activity – Recent Notable Transactions

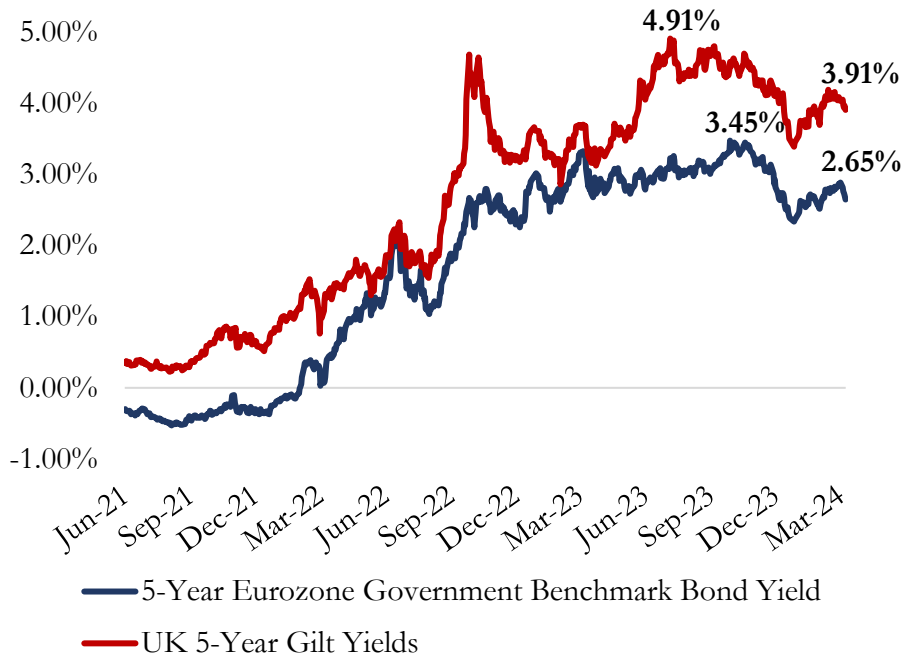
Location	Date	Hotels	Buyer(s)	Seller	Price	# of Keys
UK	Feb 2024	BT Tower London (Hotel Conversion)	MCR Hotels	BT Group	£275m	n/a
UK	Feb 2024	Hyatt Place London City East	Sun Venture	Resolution Property	£100m	280
UK	Feb 2024	Ruby Zoe Hotel & Bar Notting Hill	Deka Immobilien	Frogmore Real Estate Partners	£53m	173
UK	Jan 2024	Hoxton Shoreditch & Hoxton Holborn	Archer Hotel Capital	Norlake Hospitality	£215m	430
UK	Jan 2024	10 Radisson Blu Hotels	Starwood Capital	Edwardian Group	£800m	n/a
UK	Jan 2024	66 Travelodge-branded Hotels	Travelodge	LXi REIT	£210m	n/a
UK	Dec 2023	49% of Rocco Forte Hotels	Public Investment Fund	Rocco Forte	£570m	n/a
UK	Dec 2023	Haymarket House (Hotel Conversion)	Criterion Capital	Hermes & CPPIB	£135m	n/a
UK	Nov 2023	Hilton Hyde Park	Dubai Family Office	Aroundtown SA	£50m	136
Ireland	Oct 2023	Dean Hotel Group	Lifestyle Hospitality Capital Group	McKillen Family Office	€350m	950

## Featured Investors

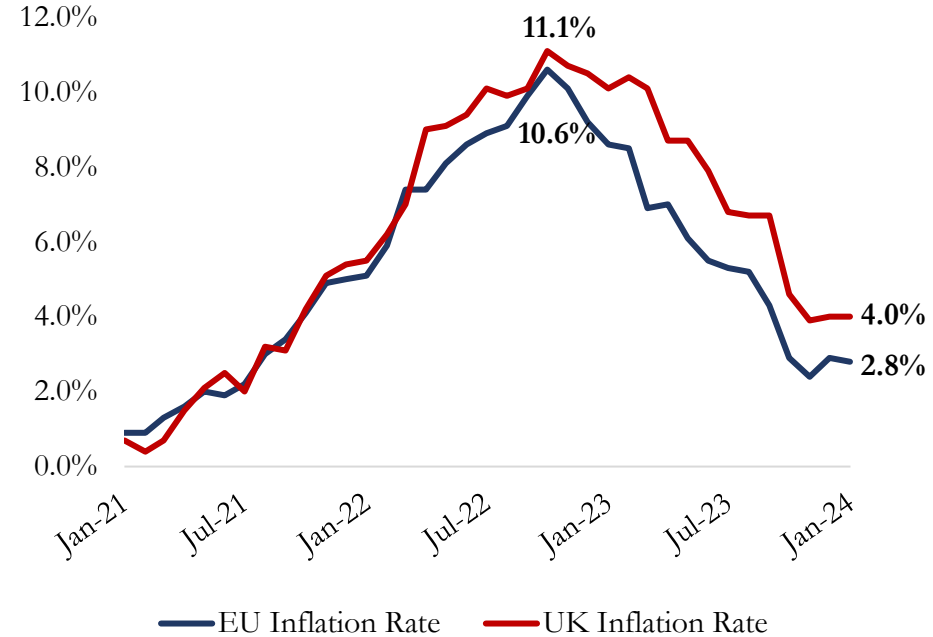


# European Interest Rates

## Eurozone Bond & UK Gilt Yields 2021 – 2024



## Eurozone & UK Inflation Rate 2021 – 2024



- The decrease in European hotel investment volumes YoY was attributed to rapidly rising interest rates throughout 2023; the ECB raised interest rates to 4.50% in September 2023 – the highest level since the launch of the Euro in 1999
- However, due to falling inflation rates across Europe and the UK, interest rates have reached their peak and investors are becoming increasingly positive that rate cuts will commence during H2 2024; according to Bloomberg, economists forecast that the Bank of England and the European Central Bank will deliver four quarter-point interest rate cuts this year, with the first beginning in June
- This is underpinned by the European Government Bond Yields declining from their peak in October 2023 and UK 5-Year Gilts falling from their peak in August 2023, both of which are expected to continue to gradually decline throughout 2024

# The lack of Private Equity investment in Hospitality in 2023

Private Equity firms were largely absent from the Hospitality investment market in 2023, due to the following reasons:



**Tight lending conditions**

- Tight lending conditions were an important factor contributing to the lack of investments, as private equity firms are heavily dependent on leverage to boost their equity returns
- Several PE firms moved towards the senior/mezzanine debt spectrum as a means of capital deployment



**Lack of exits**

- Some Private equity firms faced pressure from LPs to refrain from making investments until they secure exits from existing holdings; this constraint on capital deployment hindered real estate investment activity
- However, Net Asset Value (NAV) lending, which is becoming increasingly prevalent in the industry, has helped alleviate this pressure by unlocking capital that was previously tied up in illiquid investments



**Short-term horizon**

- Private equity firms have a relatively short-term holding period of 5-7 years; economic uncertainty has a disproportionate impact on valuations, given the sensitivity of terminal values to interest rate fluctuations
- Institutions with longer-term investment horizons adopt a more forward-looking approach, and so are able to navigate through interest rate uncertainty to optimise returns over a longer period

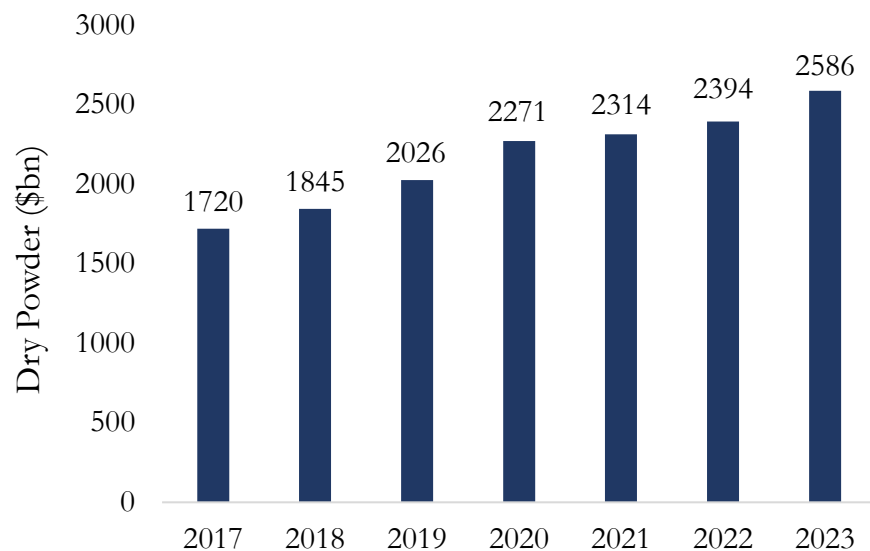


**Inability to hedge**

- Private equity firms are unable to hedge interest rates, leaving them vulnerable to interest rate volatility, which negatively impact the valuation of potential investments, given their relatively short holding periods
- This was particularly significant in 2023 when 5 interest year rates were very volatile – unable to hedge against this risk, PE firms have struggled to support market-based valuations

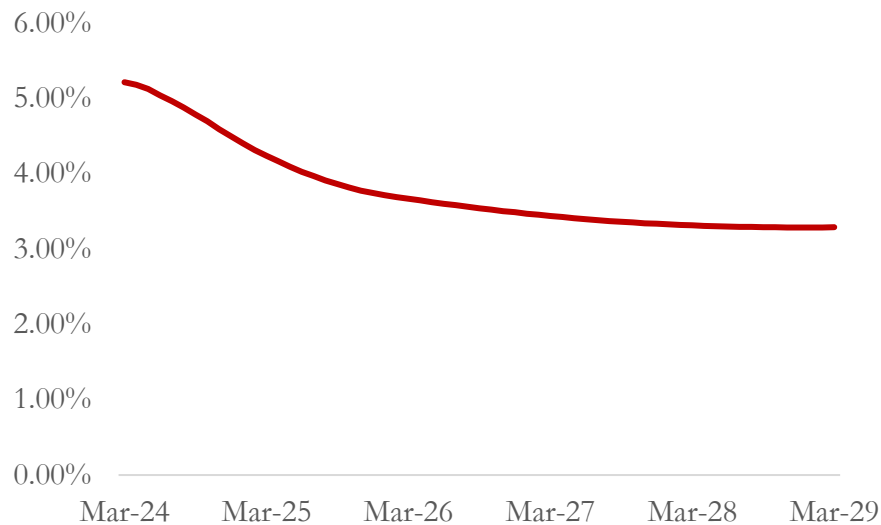
# European Hotel Investment Activity – Private Equity Investment

Global Private Equity Dry Powder 2017 – 2023



■ Aggregate Dry Powder of Global Private Equity Funds

3-month SONIA Forward Curve 2024 – 2029



— 3-month Compounded SONIA

- A resurgence in real estate investment by private equity firms is widely expected as global dry powder soared to an unprecedented \$2.59tn in 2023, an 8% increase YoY
- Therefore, PE firms are set to return to the market as inflation abates and interest rates fall and become less volatile – this is demonstrated by Starwood Capital’s £800m acquisition of 10 Radisson Blu Hotels in January 2024
- S&P Global forecasts that pressure dynamics will also drive private equity firms to seek deal opportunities and work with sellers to overcome the buyer-seller pricing disparity, leading to a significant uptick in deal activity in 2024
- Additionally, private equity firms are also expected to return to the market as sellers, as they seek to return money to investors after a challenging period for exiting holdings

# Conclusions

## Strong Trading Performance



- Europe's hotel sector is poised to benefit from a rise in leisure travel from Asian markets, a gradual recovery of corporate and group travel, as well as a continuation of the remote working/bleisure trend
- Several major sporting and entertainment events such as the 2024 Paris Olympics and the UEFA Euro 2024 in Germany are also expected to increase ADR and Occupancy rates in host and gateway cities
- Investors forecast an increase in RevPAR in 2024 despite its outsized growth of 22% in 2023, due to a favourable supply-demand balance, as supply is constrained by high construction and financing costs

## Increased Investment Activity



- Falling and less volatile inflation and interest rates throughout 2024 will support valuations and increased investment activity
- Private Equity is expected to return to the market both as a seller due to a recent stall in exit transactions required by their funders, as well as a buyer in an attempt to deploy the record amounts of dry powder
- Furthermore, the trend of office-to-hotel or Co-living conversions in key European business districts such as London, Edinburgh, Paris etc., is set to continue in 2024

## Sectors to watch in 2024



- The luxury and resort segments are expected to continue performing better relative to other segments, as consumer demand from high-income groups is less vulnerable to macroeconomic headwinds
- South Europe's hotel sector is forecasted to see a relatively few new hotel developments and the highest number of international inbound visitors in 2024 and beyond; the favourable supply-demand balance highlights the potential for further gains in RevPAR and operating income
- Demand for extended stay (serviced apartments / aparthotels) is soaring as business travellers mix business with leisure and seek longer stays
- Adjacent real estate classes (e.g. PBSA and Co-living) are also expected to flourish from increased capital allocation, supported by growing student numbers, and demand for flexible tenancies and shared amenities

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