

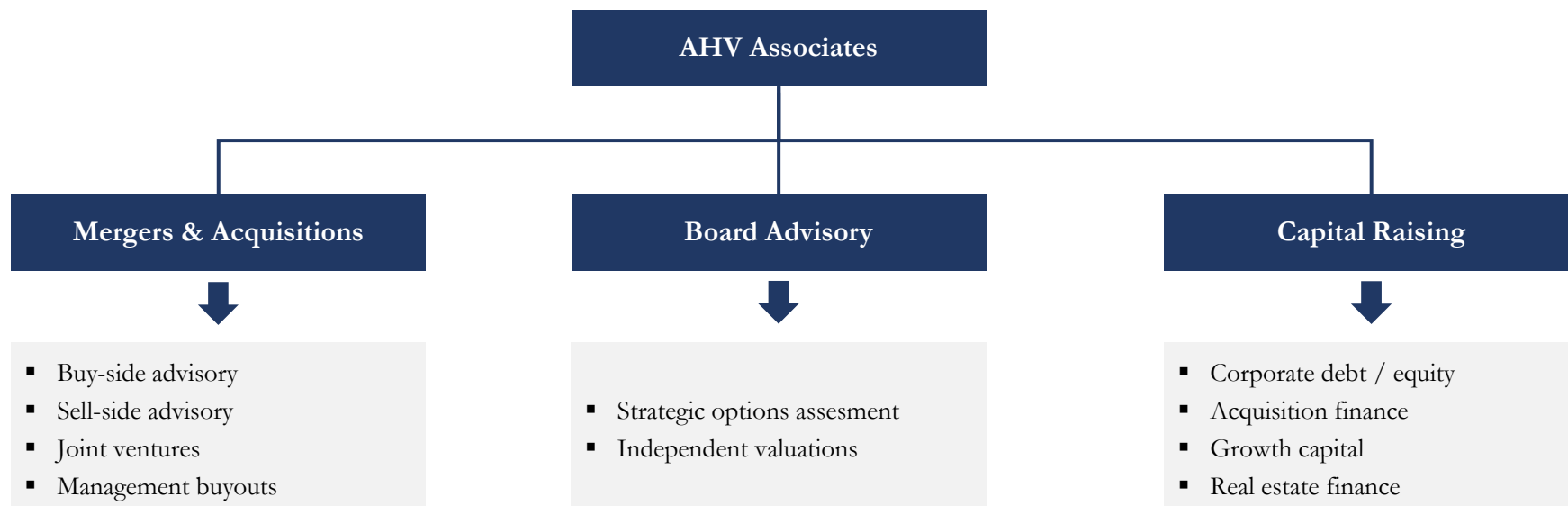
Living – The Future of Hospitality Investment

27th September 2023

AHV
ASSOCIATES

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

We produce a free monthly newsletter which gives information on latest trends in the market, recent transactions as well as hotel performances. This can be found on our website. Feel free to [subscribe](#)

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An Introduction to the Living sector

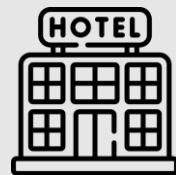
Definition

- Living real estate involves proactively managing properties that offer customised services and amenities to tenants / clients
- The owner generally has direct exposure to the risks and rewards of the operational activities, via direct ownership of the operating company, management contracts or hybrid leases
- The business model often requires adequate scale to ensure size economies, client affordability and hence business viability

Differences with Traditional Real Estate

- Traditional real estate relies primarily on rent, with direct exposure to tenant(s)'s financial covenant quality, economic and credit market conditions
- Living real estate focusses on creating an enhanced and more versatile product to a targeted group, and ancillary services which open up additional revenue streams. As the owner has a business-type P&L exposure, asset management style is more active, requiring enhanced skills and larger reliance on operators' ability to deliver.
- Owner's compensation comes in the form of enhanced expected yields and total investment returns

Sub-sectors



Hotels & Extended Stay



BTR



PBSA



Senior-Living



Co-Living



Co-Working

Extended Stay - Why is it attractive?

Product Differentiation

- Taps on unmet demand for a specialised product

Flexibility

- These properties provide versatile options for both leisure and business travellers, catering to a wide range of customer preferences, allowing them to compete with hotels and Airbnb

Rising Demand

- Increasing global mobility and leisure pursuits underpin the popularity of extended stay hotels and serviced apartments

Business Model

- Extended stay properties ensures steady revenue generation and high margins, through higher occupancy rates, longer stays (and hence lower sales costs) and lower operating costs. It is very often its purely accommodation focussed, hence providing less volatile returns to investors

Supply Growth Potential

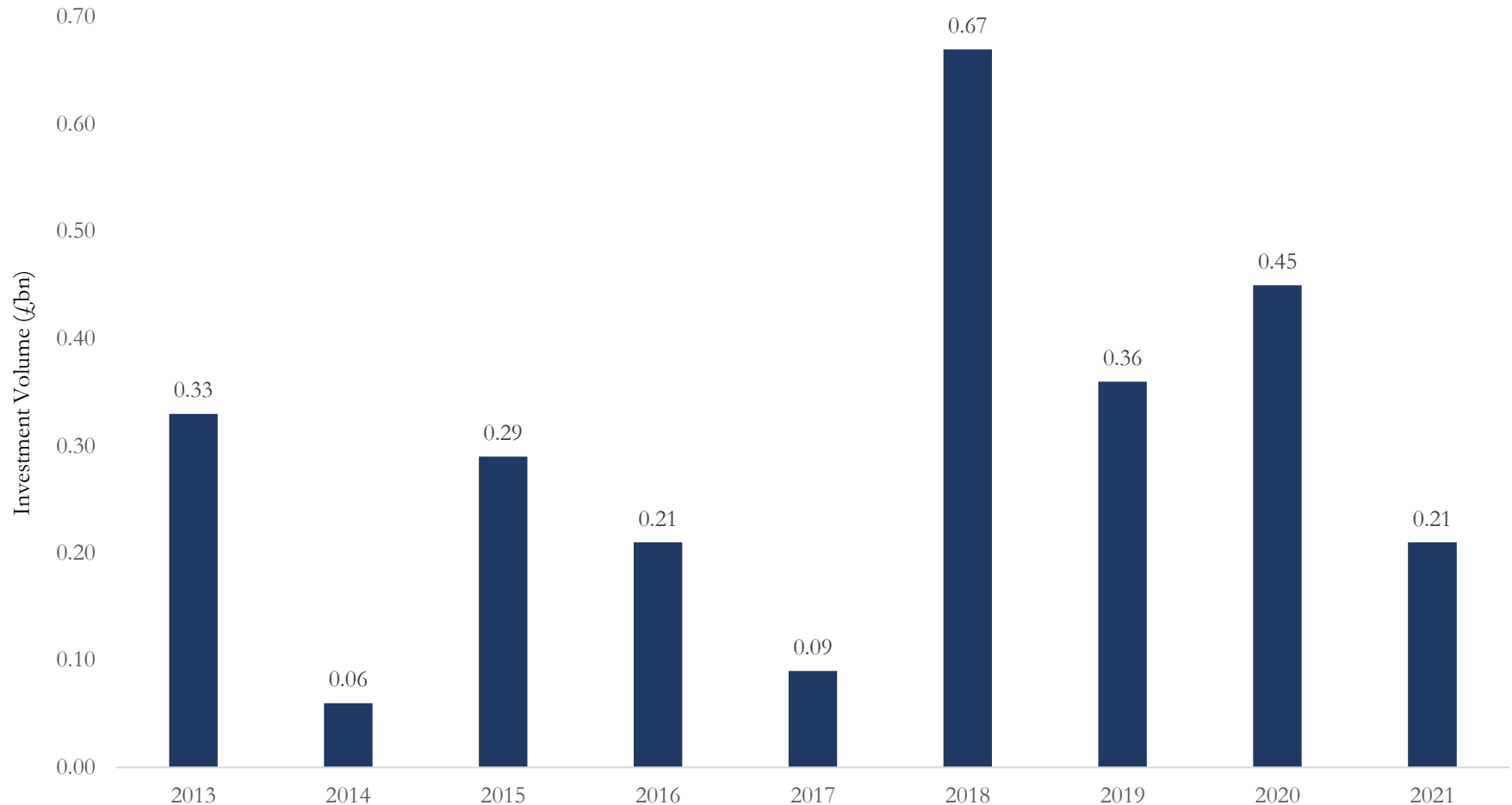
- Supply in Europe has been growing rapidly but stands well below US levels and has not been matching the growing demand for extended stay accommodation. Serviced apartments are just 7.9% of total room supply in Europe. This situation creates ample opportunity for expansion and development

Alternative Use

- An unsuccessful serviced apartment operation could be easily converted into residential usage, providing solid downside protection

UK Investment Activity in Serviced Apartments














UK Serviced Apartments investment activity peaked in 2018 reaching £670m



UK Investment Activity for 2022: According to recent reports from industry experts and market analysts, the UK Investment activity in serviced apartments has seen a significant rebound in **2022**

Source: Savills, Association of Serviced Apartment Providers (ASAP), HotStats, GSAIR

Recent Transactions in the Serviced Apartment Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
	SevenCapital	Jan-23	Debt Funding	Royal Angus Hotel, Birmingham (converted into a 174-bed Aparthotel)	£13.5m
		Nov-22	Forward Purchase	Staycity Dublin	€100m
		Jul-22	Asset Acquisition	6 Spanish Properties / 2 Aparthotels	€160m
	Private Individuals	May-22	Corporate Acquisition		Undisclosed
 	Publicly Listed	Jun-21	Platform Acquisition		\$6bn
numa	Private Individuals	Jun-21	Corporate Acquisition		Undisclosed
		Jan-21	Sale & Leaseback	room2 Southampton homotel	£10m

Notable Participants in the Serviced Apartment Market

Equity Investors



Asset-light Operators



Asset-backed Operators



PBSA - Why is it attractive?

Growing International Market

- International students of particular importance as 60% of them are more likely to live in PBSA than domestic students
- The number of international students increased by 117,500; the influx from India and China has more than offset the fall in EU students in the wake of Brexit

Falling Build Costs

- Latest forecasts from the Building Cost Information Service and a range of quantity surveyors suggest that tender price inflation will decrease from 10% in 2022 to 2-3% per annum for 2023/24, which is expected to bring some confidence and increased viability back to the development of new PBSA stock

Regulation and Tax of HMOs

- The withdrawal of HMO landlords from the private rented sector due to changing regulations and the steep rise in mortgage rates is adding to the supply shortfall
- PBSA assets in towns and cities home to top universities such as Bristol and Glasgow are best placed to benefit from this imbalance

Strong Rental Growth

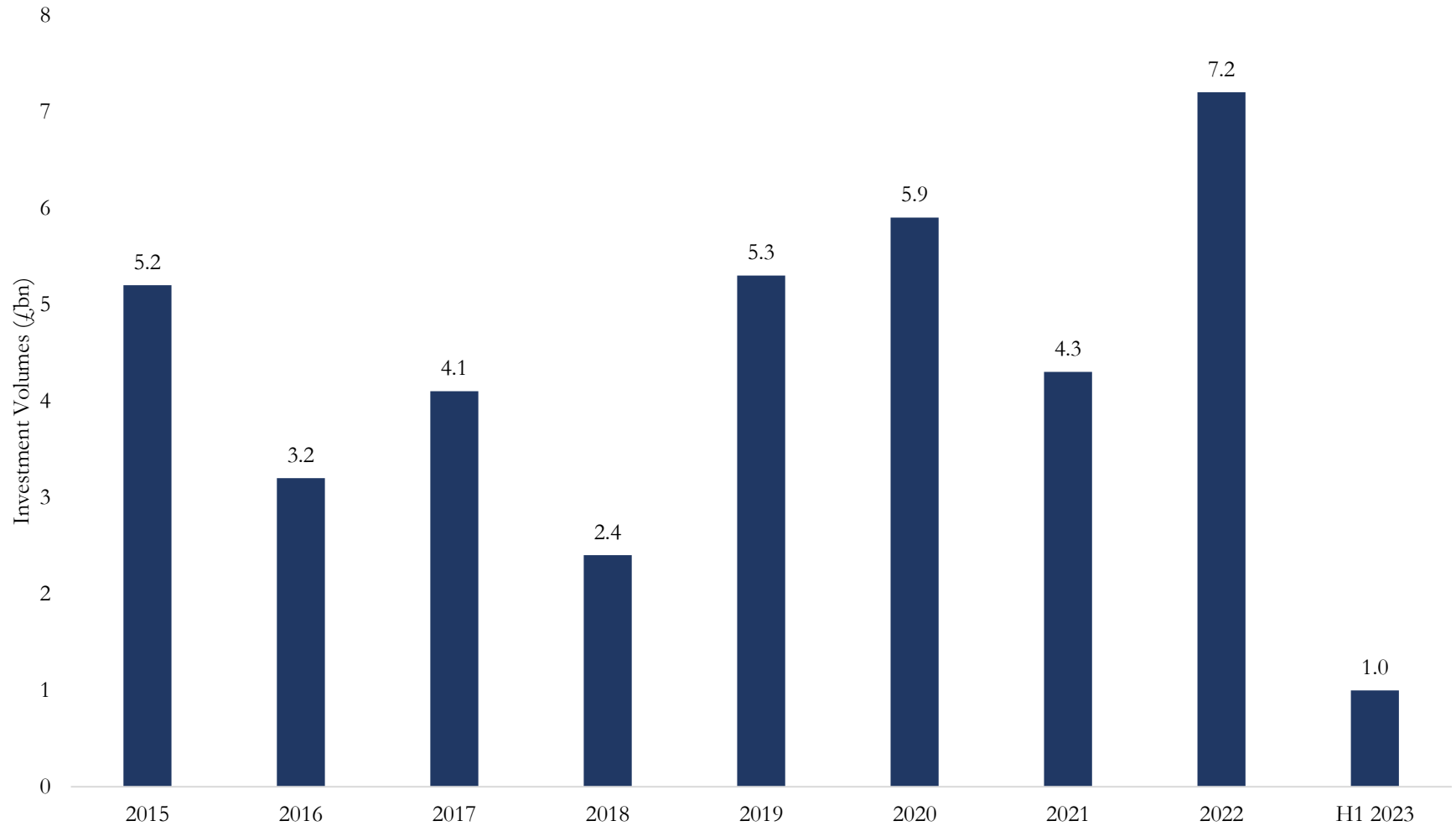
- The fall in supply combined with the rise in student numbers is expected to result in strong rental growth of 7% for 2023/24, according to Savills

Countercyclical

- Economic downturn has resulted in increasing demand for higher education
- PBSA is a good opportunity for investors to balance their portfolio with demand feeding through to high occupancy levels and resilient income streams

UK Investment Activity in PBSA

UK PBSA investment activity reached its highest level with £7.2bn in 2022, and recorded £1.0bn in H1 2023



Source: Knight Frank

Recent Transactions in the PBSA Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
	Ottoway Portfolio Holdings	May-23	Portfolio Acquisition	8 PBSA assets	£300m
 	 	May-23	Forward Funding	1,209-bed student accommodation and co-living campus in Coventry	£160m
 		Apr-23	Asset Acquisition	522-bed PBSA asset in Nottingham	£68m
 	Brookfield	Dec-22	Platform Acquisition		Undisclosed
	N/A	Dec-22	Asset Acquisition	5 PBSA Assets	£215m
		Dec-22	Asset Acquisition	PBSA scheme in Lewisham	Undisclosed
		May-22	ESG-linked Development Funding	Essex PBSA	£40m

Notable Participants in the PBSA Market

Specialist Developers



Godwin
Developments

HG
LIVING

MELBERRY
DEVELOPMENT MANAGEMENT

OLYMPIAN

southern
grove

WATKIN JONES
plc

Equity Investors

abrdrn

AXA Investment
Managers

Brookfield

CITY
DEVELOPMENTS
LIMITED

CURLEW

DEUTSCHE FINANCE INTERNATIONAL

GIC

Moorfield
Group

maple^{tree}

TRISTAN
CAPITAL PARTNERS

Branded Operators

fresh.

Host.
Where students are at home.

iQ Student
Accommodation

scape

THE
STUDENT
HOTEL

STUDENT
ROOST[®]

UNITE
STUDENTS

VITA GROUP

Co-living - Why is it attractive in the current market?

Increasing population

- The growing population of 18–35-year-olds in the UK has contributed to increasing demand for co-living; CBRE estimates the potential demand pool for co-living to be c.515k people in London

Specialised product

- Co-living schemes contribute to optimal utilisation of space in densely populated urban areas, and could offer one potential solution to the UK's housing shortage problem

Business mix

- Balance between short-term and long-term accommodation opens up yield management opportunities and hence offers a yield premiums around 25-50 basis points against traditional residential assets, according to Invesco Real Estate

Huge growth potential

- There has been a significant surge in co-living pipeline activity since the onset of Covid-19; a survey conducted by Savills revealed that 51% of investors plan to target co-living assets in the next three years, an increase of 13% from 2022 and the highest growth rate among all 'Living' subsectors

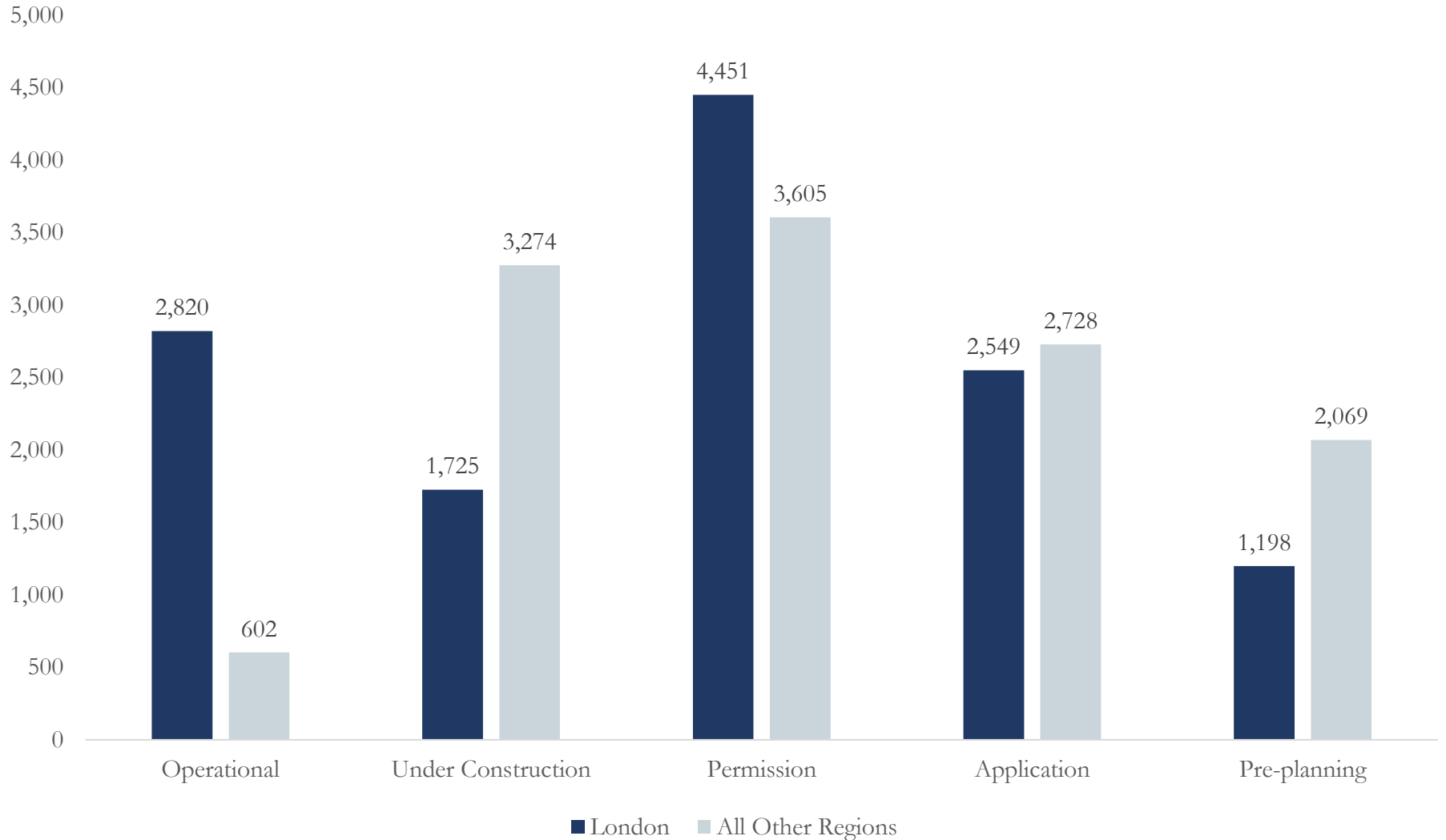
Countercyclical demand

- Strong demand, above average residential rental growth, and the cost of living crisis is driving renters to choose smaller homes in and around city centres
- In London, this quarter was marked by a series of planning permissions, new openings, and new market entrants

UK Existing and Proposed Co-Living Units















The total size of the UK's co-living sector, combining both operational and pipeline units, has trebled since 2019

Total Co-living Beds in the UK (2023 YTD)



Source: Savills

Recent Transactions in the Co-Living Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
		May-23	Funding	210-unit Co-living scheme in Kingston	£80m
		Jan-23	Development Debt	1,790-unit Co-living development in Manchester	£227m
PUMA PROPERTY FINANCE		Jan-23	Development Debt	East London Co-living development with Co-working space	£50m
	URBANE-LONDON	Feb-22	Forward Funding	81-bed premium Co-living Scheme in Ealing	£20m
		Oct-21	Asset Acquisition	6 Co-living assets from The Collective	£140m
		Sep-21	Forward Funding	133-unit Co-living scheme in Exeter	£17m
		Jun-21	Corporate Acquisition	Starcity's management contracts	Undisclosed
		Mar-21	Development Debt	49-storey premium residential building in Croydon	£200m

Notable Participants in the Co-Living Market

Indicative Examples

Specialist Developers



OLYMPIAN



Equity Investors



Investing in homes since 1912
grainger plc



Gravis



WARBURG PINCUS

Operating Platforms



FOLK.



scape



BTR - Why is it attractive in the current market?

Secular growth trends

- The Greater London Authority anticipates that London will grow by 700k people between 2021-31, which would result in the need for a further 500k homes
- Current average home supply levels would only meet 58% of this requirement, which should incentivise investors to capitalise on the supply-demand imbalance

Robust rental growth

- The undersupply of housing combined with rising demand has contributed to a period of exceptionally strong rental inflation over the last 18 – 24 months
- JLL forecasts rents to increase by 4.0% by the end of 2023

Rising house prices

- Average house prices in London have increased by 83% since 2011 whilst average gross pay has risen by a mere 24% in the same period, according to JLL
- These sky-high prices along with high mortgage rates and the end of Help to Buy will force prospective homeowners to rent instead

Economic downturn resilience

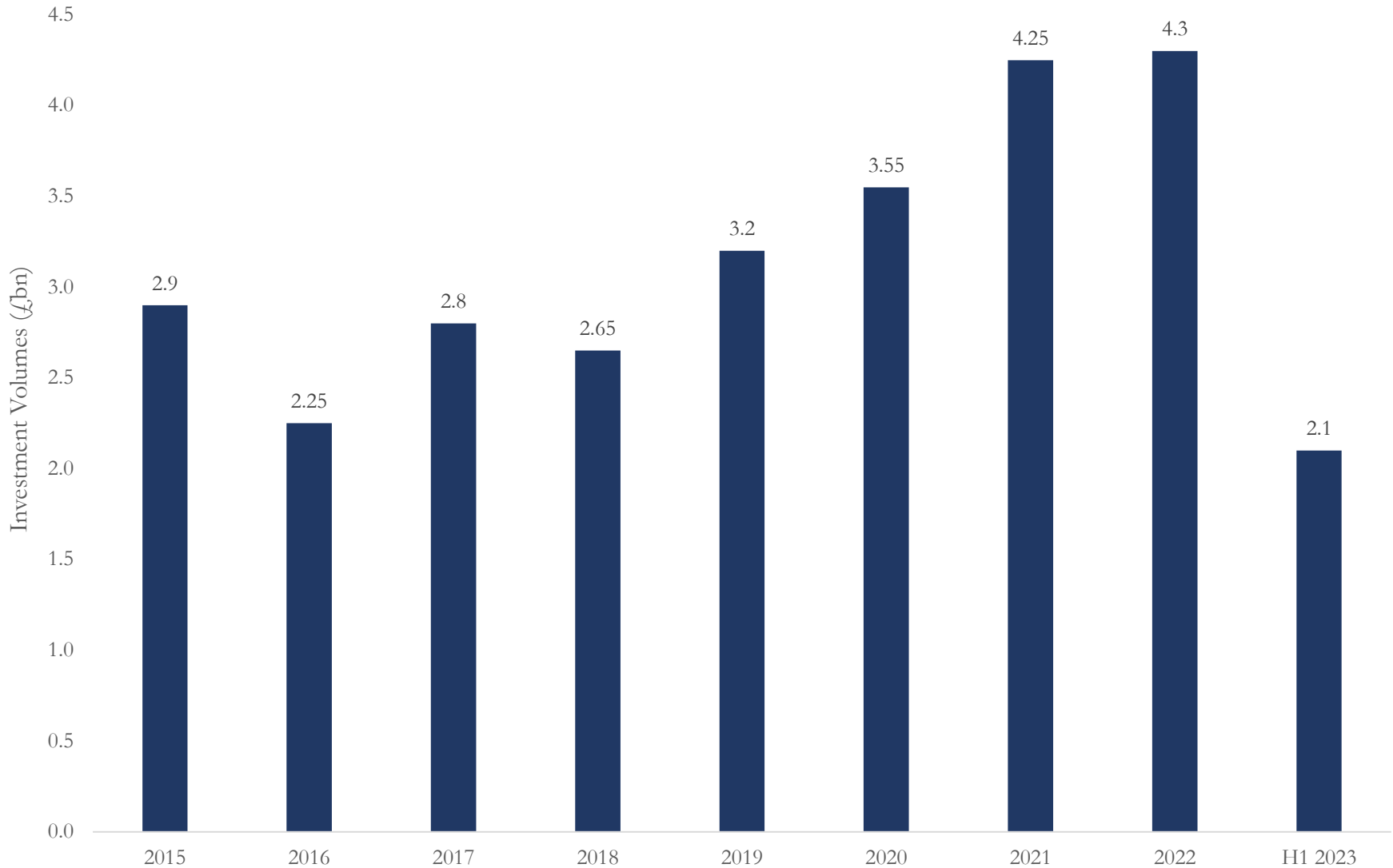
- BTR pricing has been less volatile and impacted by a challenging economic environment compared to other commercial sectors
- Despite high interest rates, BTR's fundamentals have allowed it to absorb external pressures, with prime London yields slightly increasing by 25bps at the end of 2022

ESG profile

- Certain investors require investments to meet key ESG criteria in order to be approved by a company's investment committees
- Investors in BTR are prepared to pay a premium for schemes with strong ESG credentials




















UK Investment Activity in BTR

UK BTR investment activity reached its highest level with £4.3bn in 2022, and recorded £2.1bn in H1 2023



Source: Savills, CBRE

Recent Transactions in the BTR Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
 		Jun-23	Portfolio Sale	604 homes on individual sites	£168m
 	 	Apr-23	Forward Funding	628-home BTR development on Lower Essex Square, Birmingham	£140m
		Apr-23	Forward Funding	500-home residential development in Whitehall Riverside, Leeds	£140m
		Mar-23	Joint Venture	Thematic Partnership starting with a project in London	£100m
		Nov-22	Forward Funding	Birmingham (tallest UK BTR project outside London)	£200m
		Nov-22	Site Acquisition	150-unit development on West Way Square, Oxford	£62.8m
		Sept-22	Forward Funding	BTR scheme in Bath	£100m
		Jan-22	Site Acquisition	Single Family Rental Community in Great Haddon	£25m

Notable Participants in the BTR Market

Indicative Examples

Specialist Developers

AVANTON:



BARRATT
DEVELOPMENTS PLC



COUNTRYSIDE
Places People Love

GodwinGroup

L&Q



telfordhomes
A TRAMMELL CROW COMPANY DEVELOPER

Equity Investors



GREYSTAR®



realstar group



Specialist Property Managers



allsop

liv



Vertically Integrated Platforms

getliving

grainger plc
Investing in homes since 1912



MODA

QUINTAIN LIVING



UNCLE

Way of Life.

Living Real Estate's Future Outlook

AHV predicts that the sector is poised for significant growth in the coming years

Positive Demand Trends

- Demand growth for Living assets is underpinned by a severe supply-demand imbalance, broad demographic trends (e.g., increasing student population), and changing consumer preferences that necessitate a more tailor-made offering

Unique Operational and Investment Characteristics

- Several Living assets possess unique characteristics which help owners employ a yield management strategy. Benchmarking tools and availability of comparable data underpin investors' confidence in taking a more active investment approach

Large Expected Supply Growth

- Robust underlying fundamentals support the case for a huge increase of supply in specialist segments. Emergence of specialist operating partners reflect this expectation and will result in accelerated growth once more stability returns in the development market

Enhanced ESG Credentials

- Effective supervision and management of daily activities can lead to the mitigation of environmental impact and ultimately enhance the asset's ESG profile

Strong Institutional Interest

- JVs between institutional investors, operators and the establishment of vertically integrated platforms are becoming more common. Hybrid leases and management contracts are gaining popularity among traditionally conservative hotel and extended-stay property investors

Enhanced Planning Regulations

- As new operational models emerge, evolution of the planning framework and asset classes definition, as well as education of planning committee members will be the catalysts of enabling some sub-sectors to grow their footprint

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