

Hotel Investment Scene in CEE

Overcoming the Pandemic and
Bridging the Financial Gap



3	Introduction
4	Highlights – Hotel investment trends in the CEE-6 region
6	How much and where?
9	Not your regular crisis
10	What's Next: Revving up the engines
12	Interview with Karl Wilson, Aareal Bank AG
14	Key recent transactions
17	Interview with Kirill Zavodov, PIMCO
18	Where is the money coming from?
19	Institutional investors will continue to thrive
20	Interview with Kurt Werth, Revetas Capital
23	Interview with Václav Vochoska, AHG and CIMEX GROUP
24	Where are the yields?
25	How did the markets perform?
28	2020 CEE Hotel Market Performance by Thomas Emanuel, STR
30	Interview with Przemysław Wieczorek, Puro Hotels
32	Bridging the Financial Gap: Solutions for Hotel Owners
36	Interview with Andreas Deutsch, Raiffeisen Bank International
38	Debt Restructuring in the Hotel Industry in CEE

Introduction

Welcome to our third edition of the joint Cushman & Wakefield–CMS report on the Hotel Investment scene in CEE: *Overcoming the Pandemic and Bridging the Financial Gap.*

In 2020, as with the rest of the hospitality market globally, hotels in the CEE-6* were hit hard by the COVID-19 pandemic, which unsurprisingly led to a sharp fall in hotel investment activity. Many deals were put on hold or withdrawn, which resulted in a 74.2% fall in transaction volume to EUR 370m, compared to 2019's record-breaking EUR 1.4bn.

With ongoing vaccination rollouts and signs of optimism for the remainder of 2021, investor interest has been picking up and the gap between buyer-seller expectations has been gradually narrowing, reinvigorating investor activity in the region. This is underpinned by the long-term fundamentals of the hotel sector, which remain positive. This is especially evident for the CEE-6 hotel markets, which have seen transaction volumes more than triple over the last two decades, and still boast significant room for growth.

While hotel bookings and investor appetite are improving, the crisis might not be over for some owners, who may still be facing or will face financial challenges, especially as government subsidies taper off and their loans come to term, while cash flows have not fully recovered. In this year's report, we share our insights into the various options that hotel owners may consider to resolve these challenges and bridge the financial gaps. To delve deeper into this topic, we are delighted to share insights from our CEE hotel survey, which assessed owners' financial positions and considerations. We are also pleased to bring you insider perspectives from interviews with a select group of lenders, hotel owners and investors active in the CEE-6.

We do hope you will find the report interesting; please do not hesitate to contact us to discuss any of these topics further.



Lukáš Hejduk
Partner, Head of Real Estate and Hotels, Central and Eastern Europe
CMS
E lukas.hejduk@cms-cmno.com



Frederic Le Fichoux MRICS
International Partner, Head of Hotel Transactions, Continental Europe
Cushman & Wakefield
E frederic.lefichoux@cushwake.com



* Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia

Highlights

Hotel investment trends in the CEE-6 region

2016 – 2020



EUR 4.0bn transacted over the last five years with an average deal size at **EUR 26.5m**



EUR 791m average annual volume, **up 49%** compared to the previous five years (2011 – 15)



The large majority (**85%**) of deal volume was closed in three countries: Czech Republic, Poland, and Hungary



Institutional and listed investors accounted for **over half (55%)** of total volume



72% of volume transacted was in the region's **capital cities**



European investors (incl. domestic) represented **69%** of deal volume

2020



Despite the pandemic, transaction volume reached **370m**, **down 74%** from 2019



18 hotels comprising 2,072 rooms were sold, with prices averaging €179,000 per room



88% of deal volume was committed to before the pandemic outbreak



Majority (64%) of deal volume concluded was under **lease agreements**



Nearly all (99%) of volume transacted was in the region's **capital cities**



European investors (incl. domestic) accounted for **92%** of deal volume

2021 Outlook



EUR 320m representing **2,362 rooms** are expected to close in 2021, with **43% of volume** already completed



Transaction activity is currently led by the Czech Republic (**48% of forecasted volume**)



Nearly half (47%) of estimated transaction volume is in **upper midscale and midscale hotels**



Parisi Udvar Hotel Budapest. Courtesy of Hyatt

How much and where?

Over the last two decades, over EUR 9.5bn has been transacted in the CEE-6 hotel market, with nearly 400 properties comprising 74,000 rooms changing hands. The region has undoubtedly been gaining traction amongst investors, with five-year average annual transaction volumes more than tripling from EUR 236m twenty years ago (2001–2005), to EUR 791m today (2016–2020). On average, 36 hotels with over 6,700 rooms have been sold each year (2016–2020).

Over the last five years, hotel transaction activity in the CEE has been led by the Czech Republic, which has accounted for nearly 40% of average volume, followed by Poland (25%) and Hungary (24%). At the city-level, the top five cities were Prague (32%), Budapest (23%), Warsaw (9%), Bucharest (7%), and Kraków (6%).

This buoyant activity was halted in 2020, like the rest of the hotel markets globally, with hotels in CEE hit hard by the COVID-19 pandemic, which has expectedly led to a sharp fall in transaction activity.

Transaction activity amid COVID-19: Restrained but not decimated

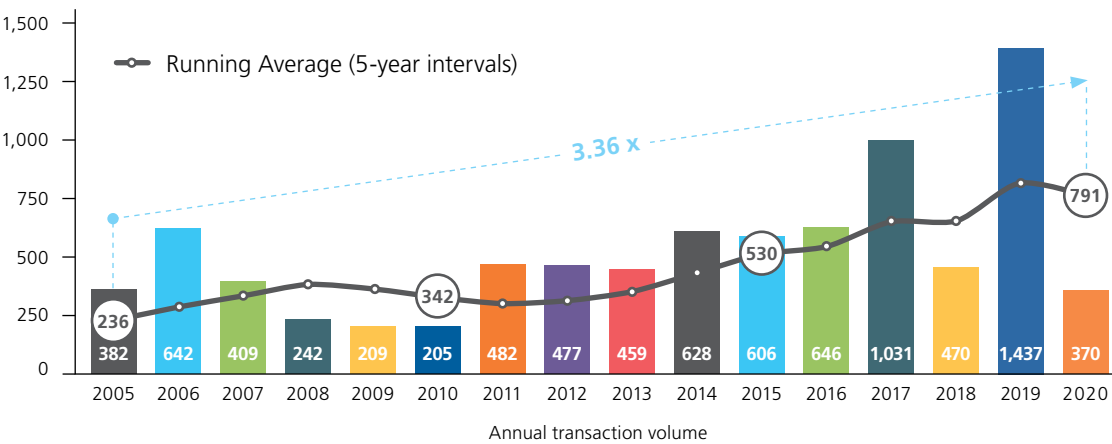
Despite the pandemic, EUR 370m* were transacted in the CEE-6 in 2020. However, this was far below initial expectations for the year (EUR 1.8bn), as many deals were put on hold or withdrawn, and transaction activity was brought to a near sudden halt at the onset of the pandemic. In fact, the large majority of volume transacted in the last year (87.6%) comprised of deals that were already committed to before the pandemic outbreak.

The volume transacted last year represents a 74.2% fall from the record-breaking EUR 1.4bn closed in 2019. This was a steeper decline compared to the overall European market, which saw transaction volume fall by 62.8%, as the uncertainty caused by the pandemic led many investors to retreat to their core markets and focus on more familiar ground. The CEE markets observed a similar trend, as nearly all deals closed in the region in 2020 were in capital cities (98.6%). This was a significant shift from 2019, when only 72.2% of transactions closed were in the capitals, signalling that investors who continued to invest in the region in 2020 preferred to stay within the comforts of the key gateway cities. In terms of the type of location, the overall European market saw an increased trend towards non-urban locations, especially resorts, as investors were attracted by the potential of leisure destinations, which are believed to recover more quickly in the short-term. However, this trend has not yet been seen in the CEE, partially due to a lack of resort destinations as well as the limited availability of quality hotel assets outside capital cities.

Notwithstanding the fall in volume transacted, it is interesting to note that transaction activity in 2020 was still considerably higher than the last downturn during the Great Financial Crisis (GFC), when only EUR 209m was transacted in 2009. This points to the fact that regardless of the stage of the economic cycle, the CEE region has become significantly more attractive and active than in the past.

*Excludes AccorInvest's acquisition of an 85.8% stake in the Polish Orbis S.A. from Accor for c. EUR 1.06bn.

CEE-6: Annual hotel transaction volume (EUR, m)



Source: Cushman & Wakefield / RCA



A growing number of investors are scouting the market, but opportunities remain few and far between, partially due to owners' misconceptions that now is not an appropriate time to sell. While most investors understandably want to see some discounts to reflect the reduced income in the short-term, owners who are attuned to the potential trade-offs may realize that the benefit of selling today, even if at a slightly reduced price, could outweigh the costs and risk of managing constrained cash flows during an uncertain recovery.

What caused the fall in transaction activity?

As occupancies fell into single digits and the short-term outlook for many hotels remain rocky, it would be natural to assume that the decline in transaction volume was simply due to the perceived risk of the hotel sector amid the pandemic. However, this does not paint the full picture as to why transaction activity fell to such an extent in 2020. The first key factor is one that is often overlooked: a temporary shift in priorities as borders were abruptly closed and cash flows plunged into the red, prompting owners/investors to focus on rescuing the emergency than considering new acquisitions or dispositions. The second factor is that even in pre-pandemic times, activity in the region has typically been hindered by the lack of assets on the market – but in 2020, this phenomenon was exacerbated by the widened gap in buyer and seller expectations, which was caused by factors on both sides:

Buyer Perspective

Uncertain and lower cash flows

In 2020, travel restrictions and the short-term outlook for hotels remained volatile, with RevPAR plunging by -68% (Sofia) to as much as -85% (Prague) in the CEE-6 capitals. In fact, according to a Cushman & Wakefield survey conducted last year, hotels in CEE suffered an average EBITDA loss of EUR 30 per room per day during the peak of the crisis in 2020. Unsurprisingly, many investors were thus awaiting greater visibility on the market recovery before making commitments.

Restricted access to financing

Lenders began holding out on financing hotels or requiring higher returns to compensate for the perceived risk, making some projects less financially viable.

Expectations for greater pricing discounts

Looking to the Great Financial Crisis (GFC) as a reference, when average transaction prices in Europe fell by nearly 40%, investors have been expecting steep pricing discounts – but have thus far been left largely empty-handed. Accordingly, many investors are continuing to play the waiting game, expecting more distress to come onto the market as the pandemic wears on.

Seller Perspective

Greater government support and loan moratoriums throughout this crisis have put owners in a better position to weather the storm, and is a key reason why little distress has yet been seen on the market.

Banks have been adopting a more cooperative approach with their clients, awaiting more clarity on the pace of recovery. Lower loan-to-value (LTV) ratios compared to the GFC also mean that banks have been under less pressure to prematurely recover their loans.

Impact denial and optimism for a quick recovery: There is a general lack of acceptance amongst owners that they have 'missed the boat' to sell during the peak of the cycle in 2018/2019. As many remain optimistic for a quick recovery, especially as tourism saw positive upticks during summertime in 2020 (average occupancy in the CEE-6 capitals rebounded to 20.0% in August, up from the lowest point of 3.8% in April), many have been holding out on selling their assets, harbouring hopes of selling at 'pre-COVID prices' once the market shows stronger signs of recovery.



The Marmorosch, Autograph Collection. Courtesy of Apex Alliance

Not your regular crisis

Although the impact of the pandemic on the hospitality industry was hard, fast, and unlike any other calamity this sector has seen, this crisis and its impending recovery path are distinctly different from the last crisis (the GFC). The stronger support network and underlying fundamentals of the hotel sector suggest that although the road to recovery will be bumpy, it will most likely be peppered with more positivity than what some may expect. This is due to:



Healthy government support: Strong policies implemented by governments have seen large amounts of liquidity being pumped into the market to stimulate the recovery. Oxford Economics is forecasting GDP in the CEE-6 region to return to 2019 levels by 2021/2022, while travel demand is expected to recover by 2023. Comparatively, following the impact of the GFC, it took the region about 10 years for nominal GDP to fully recover its peak levels achieved in 2008.



Better support from financial institutions: Banks are naturally expected to exercise more caution in assessing hotels' business plans and require strong covenants to finance hotels. However, unlike during the GFC, which was a financial crisis led by the collapse of financial institutions, banks have been better able to support their clients during this crisis – and more importantly, are already coming back onto the market to lend capital. In addition, the low inter-bank lending rates are encouraging banks to lend as they have access to capital from central banks at lower costs. In CEE, several banks have already expressed interest in continuing to finance hotels, as they are focused on the positive long-term outlook of the hotel sector. For example, a large hotel in Prague had secured financing from a major regional bank already in 2020.



Consumer confidence: Unlike the GFC, the current crisis is not an economic crisis, but a health one. Consumer confidence today is undoubtedly higher than during the GFC, with the low economic activity being primarily due to non-market factors, and is expected to make a significant recovery as soon as the pandemic is contained. In addition, savings rates in the EU are at record-high levels (approx. 17.5%), most of which are attributed to forced savings, indicating significant pent up demand that is waiting to boost the economy once the market conditions clear up.



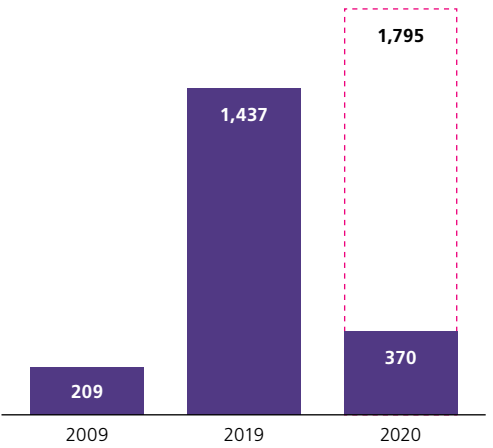
The changing nature of investors/owners: There has been growing participation in hotel investment by institutional investors, who have lower costs of capital require lower LTVs, and are thus less dependent on the availability of financing. They are also typically well-capitalised, allowing them to tide through short-term challenges. In CEE, this trend is becoming increasingly prominent, as seen from the presence of institutional investors like the German open-ended fund Union Investment and the French REIT Covivio. In addition, well-capitalised private investors such as high-net worth individuals and family offices also remain active in the region.



Shifts in the relative attractiveness of asset classes: The acceleration of online shopping and remote working trends has challenged the outlook for some traditional property classes. Meanwhile, other sectors such as industrial, residential, and healthcare have become popular targets as they share limited threat from virtual substitute and benefit from long-term structural drivers. This also applies to the travel and hotel accommodation sectors that have a limited virtual pivot, healthy long-term demand prospects, and major opportunities for efficiency gains through technology and automation. The CEE hotel market has remained particularly attractive, with its capitals recording a strong 6.2% CAGR in RevPAR over the last years (2015-2019) – a far more robust showing than the European market, which recorded a 0.9% CAGR over the same period – pointing to its continued growth potential on the region's path to recovery.

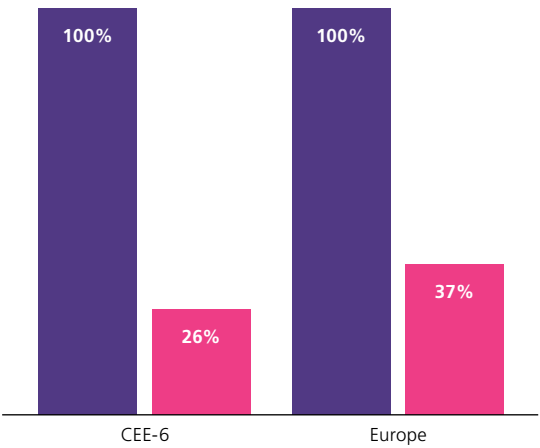
Overall, the decline in transaction activity was driven by a combination of factors, of which there appears to be one common thread that runs through them: the lack of visibility on when and how the market will recover. While the industry players have been patient thus far, however, the clock continues to tick: Some owners are still facing or may soon face financial challenges, especially as government subsidies subside or their loans come to term; and similarly on the investor side, significant capital has been raised, which will need to be deployed sooner rather than later, in order to deliver the required returns. These factors combined with improving cashflows when the market starts to recover should help bridge the gap in expectations between buyers and sellers, leading to more transaction activity.

CEE-6: Annual transaction volume (EUR, m)



Initial expectations Actual

CEE-6 vs. Europe: Volume index



2019 2020

Source: Cushman & Wakefield / RCA

¹ European Central Bank. [COVID-19 and the increase in household savings: precautionary or forced?](#)

What's Next: Revving up the engines

A gradual restart of investor activity

Despite the relatively low volume transacted in the past year, particularly with only EUR 46m in transactions committed to after the pandemic outbreak in 2020, it is evident that investor activity in the region has restarted, with nearly EUR 140m in transactions already closed in 2021.

Nonetheless, the short-term outlook for hotel transaction activity this year remains muted, given the still somewhat restricted access to financing and continued lack of assets on the market. Although investor interest is returning and the gap in buyer-seller expectations is gradually narrowing, it will still take time for assets to come back onto the market and for transactions to close, especially for larger deals. Total transaction volume for 2021 is thus forecasted to be similar to 2020 levels (approx. 320m).

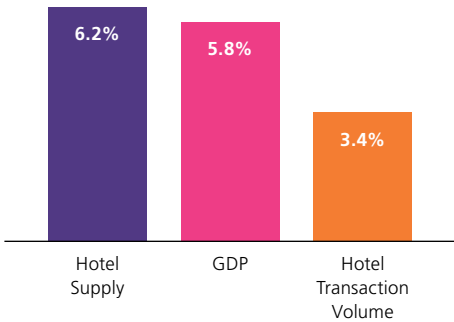
Activity is expected to pick up more significantly when lenders have greater visibility on the market recovery and gain greater confidence in financing hotels. Meanwhile, more owners may begin considering selling their assets if they foresee difficulties in meeting their loan obligations, or face challenges with tenants or operators, as the pandemic wears on and cash flows remain below peak levels.

Long-term potential rages on

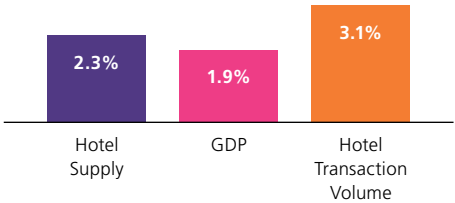
On a long-term horizon, the potential of the region's hotel transaction market remains robust: The average annual transaction volume over the last five years (2016–2020) reached EUR 791m, which is more than triple what was achieved twenty years ago (EUR 236m, 2001–2005). This reinforces the fact that the overall fundamentals of CEE's investment market have grown stronger over the years, and this has been reflected in the increasing investor interest and activity in the region.

In fact, hotel transaction volume in the CEE-6 markets still has significant room for growth. For example, the hotel transaction volume in the CEE-6 represents only 3.4% of total volume in Europe, while generating 5.8% of European GDP and comprising 6.2% of hotel supply. (2015–2019). Comparatively, in Austria, hotel transaction volume was slightly higher than its share of GDP and hotel supply in Europe. Accordingly, for the CEE-6 to be achieving its fair market share, hotel transaction volume should average over EUR 1.5bn annually, nearly double the current average of EUR 0.8bn. The CEE-6 had already almost achieved this figure in 2019, and was on track to exceed it based on 2020's initial expectations. Therefore, an average annual transaction volume of EUR 1.5bn is not a far-fetched dream for the CEE-6, and such flourishing activity may well be where the region is currently headed on the road to recovery.

CEE-6 vs. Europe (% share, 2015–2019)

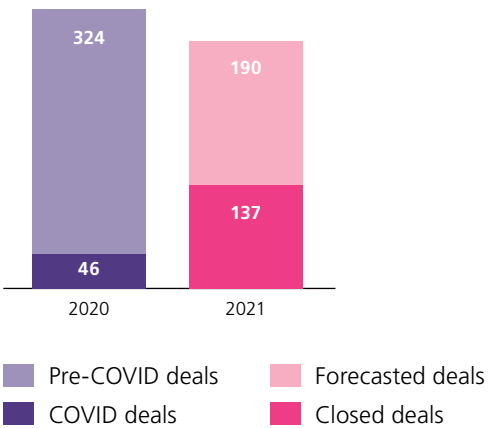


Austria vs. Europe (% share, 2015–2019)



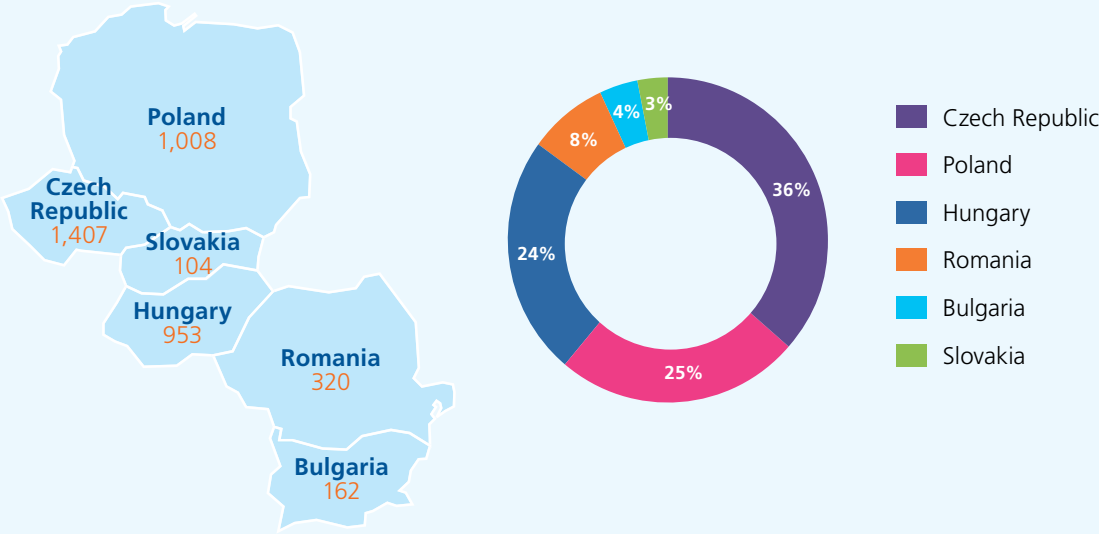
Source: STR, Oxford Economics, Cushman & Wakefield, RCA

CEE-6: 2020 vs. 2021 transaction volumes

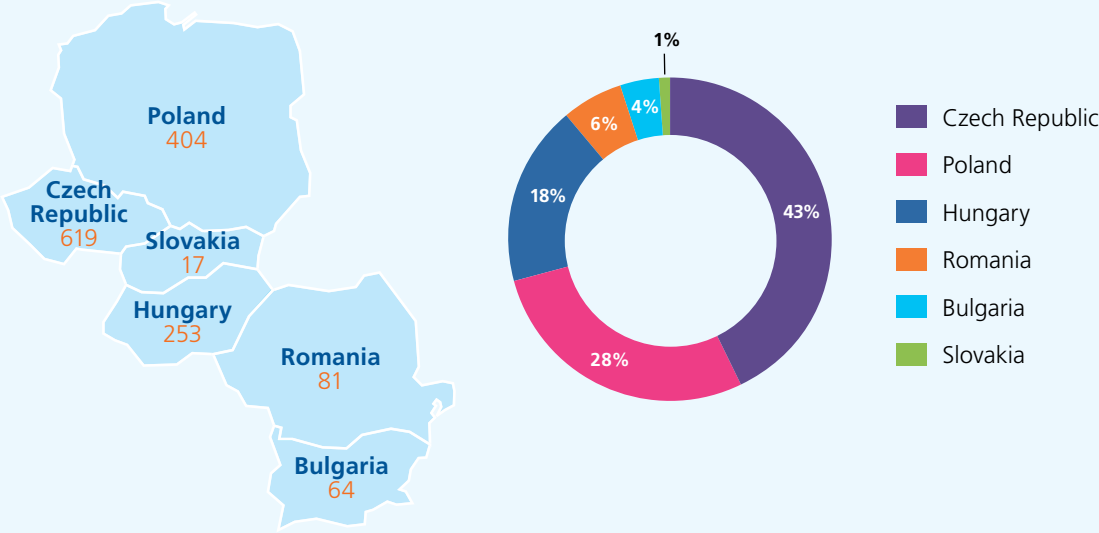


Source: Cushman Wakefield.
Note: 2021 forecast as of May 2021.

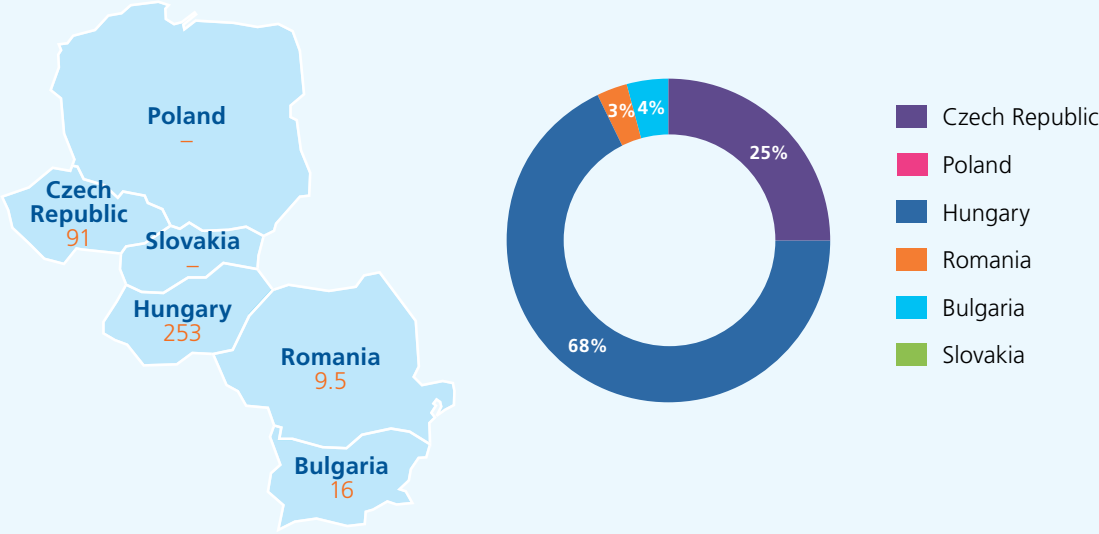
Hotel transactions 2016–2020 (EUR, m)



Hotel transactions 2019 (EUR, m)



Hotel transactions 2020 (EUR, m)



Source: Cushman & Wakefield / RCA



Aareal Bank AG

Karl Wilson
Managing Director

What is your view on the long-term prospects for the hotel real estate sector in general and more specifically in the CEE region? How has this changed due to COVID-19?

We remain optimistic about the long-term prospects, and as a global hospitality lender we have already seen a rapid recovery in China and the far East, and the ongoing recovery in parts of North America. Yes, while there will be changes to the way people live after COVID-19, we remain convinced that people will still travel for both business and pleasure, so in relation to CEE we expect a bounce back and COVID-19 has not impacted our view on hospitality.

Have you seen or do you expect to see cases of hotel owners facing financial difficulties in general and in the CEE region due to COVID-19? What are the main reasons causing these financial challenges?

Yes, we have. Clearly, the key reason for financial distress has been the significant reduction in revenue combined with ongoing operational costs/debt service and management fees, which still need to be managed, as well as negative valuation movements.

What is your recommendation for owners facing liquidity/financial challenges currently – what are the right steps and best practices? What are the options that should be considered to resolve financial challenges?

I do not want to give any recommendations per se, as hotel owners know this better than I do, but from the debt prospective I would say that banks and other lenders need to be agile and support their clients during this difficult period.

Do you offer any specific solutions for hotel owners in financial challenges? What are they and why should hoteliers consider them?

We have supported and will continue to support our borrowers as needs be because the hotel lending business will remain a key focus for us. This support can vary from a very simple confirmation that we remain committed to the hotel sector, which a number of our borrowers find very reassuring in these times, to the temporary

waiver of certain covenants/loan repayments as well as the extension of some of our loan maturity dates. We also have the advantage that all our clients are all hospitality experts, so they are likewise very committed to the asset class.

Are you offering financing and/or refinancing for hotels currently and how has this been affected by COVID-19?

Absolutely, we continue to stand by our clients in these challenging times and will finance selected projects. We are also looking to grow our book and expand our client base in this segment. A recent example has been the closing of a deal just last month in London with L&R hotels, secured by the “The Mayfair Townhouse”; for us, a trophy asset in a prestigious market segment. In terms of the CEE region, our focus remains on Poland and the Czech Republic.

» Aareal Bank is a leading provider of financing solutions and services with a focus on the real estate industry in Europe, North America and Asia/Pacific.

“ We remain optimistic about the long-term prospects, and as a global hospitality lender we have already seen a rapid recovery in China and the far East, and the ongoing recovery in parts of North America.



Marriott Warsaw. Courtesy of Aareal Bank

Key recent transactions

Looking back, 2019 saw a number of major transactions, including the historic sale of the iconic InterContinental Prague for EUR 225m to the family office and wealth management firm R2G. Other notable deals included the acquisition of the Sheraton Warsaw by Patron Capital, a UK private equity real estate fund, and the purchase of the 440-room Panorama Hotel in Prague by the Austrian S+B Gruppe.

In 2020, notable transactions closed include the acquisition of the Barcelo Budapest by DWS Group, as well as an 8-hotel portfolio by Covivio, Europe’s fourth-largest REIT, of which 3 assets are in the CEE (New York Palace Budapest, New York Residences Budapest, and the Carlo IV Prague). A portfolio of two B&B hotels in Budapest and Prague was also purchased by Primonial REIM, marking the French real estate investment firm’s first foray into the CEE-6.

2021 has been off to a promising start, with several transactions underway, while a few deals have already been closed. This includes the sale of the 246-key Regent Warsaw to Polish investors Polski Holding Hotelowy, kickstarting transaction activity in Poland, which saw no major deals closed in 2020. The acquisition of the W Hotel Evropa development in Prague by FJ Investment was also completed in March 2021.

CEE-6: Selected major hotel transactions 2019-YTD 2021

Year	Property	Market	Keys	Buyer	Buyer Origin	Seller	Seller Origin
2021	W Hotel Evropa (Development)	Prague	165	FJ Investment	CZ	Julius Meinl	AT
2021	Regent Warsaw	Warsaw	246	Polski Holding Hotelowy	PL	Cosmar Polska	PL
2020	NH Hotels Portfolio (8-hotel portfolio, 3 in CEE-6)	Budapest, Prague	475	Covivio	FR	Varde Partners	US
2020	B&B Hotel Portfolio (2-hotel portfolio)	Budapest, Prague	374	Primonial REIM	FR	B&B Hotels	FR
2020	Barcelo Budapest	Budapest	179	DWS Group	DE	Sunbelt	HU
2019	Victoria Palace Hotel	Burgas	585	S.B. Royal Hotels	BG	HNWI	BG
2019	UBM Hotel Portfolio (2 hotel portfolio)	Katowice Kraków	527	Union Investment	DE	UBM Realtaetenentwicklung AG	AT
2019	K+K Portfolio (10 hotel portfolio, 4 in CEE-6)	Bucharest, Budapest, Prague	523	InterGlobe Enterprises; Event Hotels	IN DE	Goldman Sachs; Highgate Holdings	US
2019	Panorama Hotel	Prague	440	S+B Gruppe	AT	Corinthia Hotels International	MT
2019	Hotel Don Giovanni	Prague	412	Wenaasgruppen	NO	Mornington Capital	GB
2019	InterContinental Prague	Prague	372	R2G	CZ	Best Hotel Properties; Westmont Hospitality	SK CA
2019	Sofitel Budapest Chain Bridge	Budapest	357	Indotek Group	HU	Starwood Capital	US
2019	Sheraton Warsaw	Warsaw	350	Patron Capital	GB	Benson Elliot; Walton Street Capital; Schroders	US GB
2019	Radisson Collection Warsaw	Warsaw	311	Wenaasgruppen	NO	Europa Capital	GB
2019	Danubius Hotel Gellert	Budapest	234	Indotek Group	HU	CP Holdings	GB
2019	Penta Hotel Prague (part of 19-Hotel portfolio)	Prague	227	Aroundtown	DE	New World Development	HK

Note: Major transactions with a total value of above EUR 25m. Price as estimated or reported in public sources.
Source: Cushman & Wakefield / RCA



MOXY Bucharest Old Town. Courtesy of Apex Alliance



PIMCO

Kirill Zavodov

Co-Head of Real Estate Equity,
EMEA

What is your view on the long-term prospects for the hotel real estate sector in general and more specifically in the CEE region? How has this changed due to COVID-19?

Although hotels were one of the worst impacted real estate sectors by the COVID-19 pandemic, we believe that the long-term fundamentals of the hospitality sector remain sound. We expect demand to recover to pre-COVID levels, but part of business-related travel may be lost to videoconferencing, the use of which has grown since the onset of the pandemic. Our outlook for the CEE region is constructive and whilst parts of the region saw increased supply before the pandemic, it is likely to be absorbed during the recovery phase.

Have you seen or do you expect to see cases of hotel owners facing financial difficulties in general and in the CEE region due to COVID-19? What are the main reasons causing these financial challenges?

Various government support measures across Europe helped to limit the number of acute distress situations in 2020. Since early 2021, we have seen an increasing number of hotel owners facing or anticipating financial difficulties over the next 12 months, as government support tapers off, whilst recovery remains gradual

and asynchronous across various hotel segments and geographies. In our view, liquidity is the main pressure point, both for standing assets and recently completed development projects.

What is your recommendation for owners facing liquidity/ financial challenges currently – what are the right steps and best practices? What are the options that should be considered to resolve financial challenges?

In most cases, hotel owners will struggle to raise capital from their existing lenders or investors. In assessing their options, hotel owners could focus on short-term cash needs, liquidity requirements throughout the recovery phase and overall capital structure sustainability, with an emphasis on potential downsides. In particular, we believe it is critical for owners to assess whether their capital sources are sufficiently flexible to navigate a potentially disorderly and volatile recovery trajectory, especially for hotel segments that are likely to take longer to stabilise.

Whilst pursuing selective asset disposals and obtaining new debt may be the right options for some sponsors and may solve their short-term liquidity needs, preferred equity or hybrid instruments will likely prove to be more sustainable forms of capital in the current environment.

» PIMCO is one of the world's premier fixed income investment managers. With its launch in 1971 in Newport Beach, California, PIMCO introduced investors to a total return approach to fixed income investing. In the 50 years since, the firm has continued to bring innovation and expertise to our partnership with clients seeking the best investment solutions. Today PIMCO has offices across the globe and 3,000+ professionals united by a single purpose: creating opportunities for investors in every environment. PIMCO is owned by Allianz SE, a leading global diversified financial services provider. PIMCO invests actively in real estate debt and equity with expertise across all major assets classes and geographies.

“ Hotel owners could focus on short-term cash needs, liquidity requirements throughout the recovery phase and overall capital structure sustainability, with an emphasis on potential downsides.

Where is the money coming from?

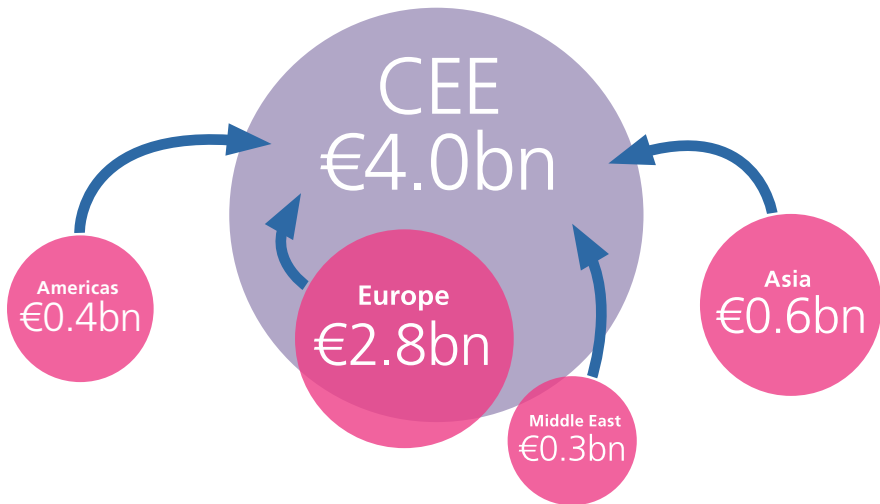
European capital is king

Up until 2017, the CEE-6 markets had been seeing a growing diversity of buyers, both in terms of origin and type. Since 2018, however, European investors have been dominating the investment scene in the region, accounting for over 80% of transaction volume on average. This was especially prominent in 2020, as overseas investors retreated to more familiar ground amid the uncertainty caused by the pandemic. In fact, nearly all deals in 2020 were closed by European investors (92%), including Covivio and Primonial REIM from France, as well as DWS Group from Germany.

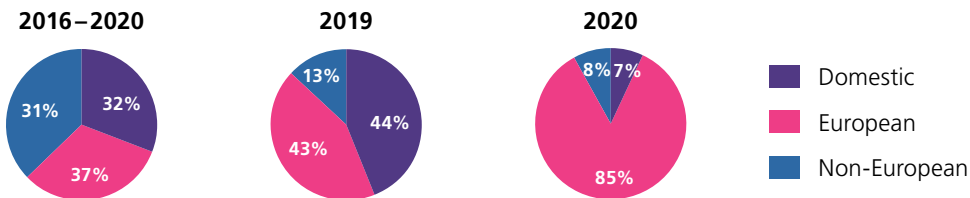
European investors are closer to the market, have a strong network with local players and trusted advisors, and tend to have a better understanding of the region, lending them greater confidence to make superior offers quickly. These factors were important in pre-pandemic times, given the highly competitive environment – and have become especially important in 2020 and 2021, as assets on the market remain few and far between, leaving the upper-hand to the players with stronger networks.

European investors took the lion’s share of transaction volume in the region in 2020, temporarily reversing the trend towards a healthy diversity of capital sources in the earlier years. Nonetheless, overseas capital is expected to return once the pandemic is contained and these investors begin actively pursuing opportunities in the region again.

Total transaction volume invested in CEE-6 hotels; 2016–2020 (EUR, cumulative)



Origin of Capital (share in % based on transaction volume)



Source: Cushman & Wakefield / RCA



Anantara New York Palace. Courtesy of NH Hotels

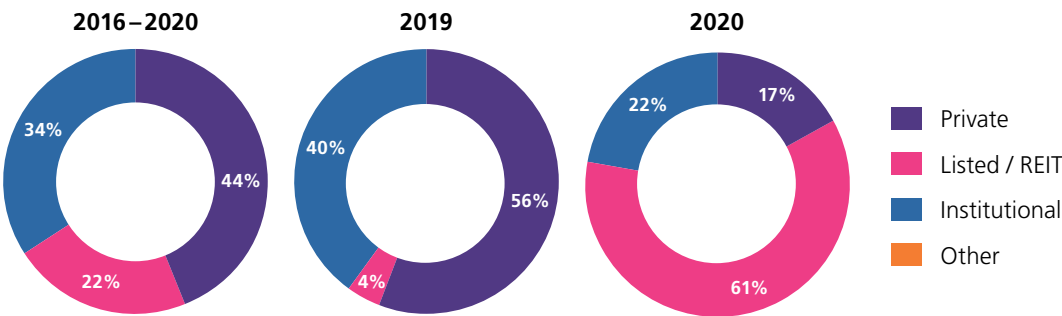
Institutional investors will continue to thrive

The 2020 edition of the CEE Investment Scene paper explored the details of why the presence of institutional and listed investors is important for the market’s liquidity, as they tend to be active buyers regardless of the stage of the cycle, thus representing a critical exit consideration for hotel owners. They also typically have a lower cost of financing and need to deploy capital, as well as have longer-term investment strategies that make them less concerned with temporary headwinds – factors which will be especially important in the short-term.

Therefore, although private investors have typically accounted for majority of transaction volume in the region (56% of volume in 2019), it would be unsurprising to see institutional investors continue to gain a foothold in the region, such as through larger pan-European deals. Examples include the 19-property Penta Hotels portfolio acquired by Aroundtown, which included the purchase of the Penta Hotel Prague; the K+K portfolio sale to InterGlobe Enterprises and Event Hotels, where 4 of the 10 properties sold were in the CEE; as well as the aforementioned 8-property portfolio acquired by Covivio, which accounted for majority (55%) of deal volume in CEE-6 in 2020.

Going forward, the establishment of private equity funds aimed at capitalizing on distressed hotel opportunities, such as the EUR 300m ECE European Lodging Recovery fund, as well as the launch of the EUR 500m Velvet Hotel Fund managed by Ott Ventures, are a strong indication that institutional investors have a keen eye on this sector and the region. However, little distress has yet been seen on the market, and it remains questionable whether significant distress will even be seen, enough to satisfy the growing appetite and expectations for such opportunities. As the clock ticks on these funds and capital needing to be deployed, it seems that the competition amongst buyers for the limited number of assets will only intensify.

Structure of CEE-6 Hotel investment by Investor type (share in % based on transaction volume)



Source: Cushman & Wakefield / RCA



Revetas Capital

Kurt Werth
Senior Advisor

What is your view on the long-term prospects for the hotel real estate sector? How has this changed due to COVID-19?

COVID 19 has had a sudden and profound adverse impact on the global travel and hospitality industry. CEE has not been immune to this global trend, perhaps suffering more as domestic guests have historically been a smaller portion of total guests and cross-border travel restrictions in a very geographically intertwined region have been significant and prolonged. Our view is that the recovery process will take a number of years and is dependent on (1) the speed of vaccination, (2) easing of travel/border restrictions, (3) back to office/business travel policies and (4) the return of air travel. We anticipate the short-haul leisure segment (especially driving to destinations) to return the fastest as pent up demand will likely lead to a short-term surge, however we expect the long-haul segment to take longer to return as vaccination (outside Europe) and return of air

“ We recommend owners take action early and not leave the difficult decisions to 2022/23, when the market is likely to be more crowded with stakeholders seeking solutions.

travel will take longer to rollout. With respect to the business segment, we expect a new normal with structural changes affecting business travel volume and spending going forward. We do not expect business volume and spending to return to 2019 levels in the medium term. The same is true for the MICE segment, our view is that large-attendance events will be slow to return but we can forecast a return of smaller localised events in the medium term. As a result of these trends, we believe that we are likely to see a surge in investor demand for leisure assets in the short-to-medium term coupled with strong demand in the medium term for dominant city centre assets where leisure demand is likely to partially make up for likely weaker business demand.

Have you seen cases of hotel owners facing financial difficulties in general and in the CEE region due to COVID-19?

Financial difficulties in CEE have been severe but have been partially mitigated by a combination of government schemes. The varied schemes have been more generous in some countries than others but it is widely expected that governments will start phasing these schemes out in 2021 as the cost of maintaining them is exorbitant. We therefore expect 2021/2022 to be a watershed year for the sector in CEE as a slow uptick in demand coupled with the phasing out of government sponsored schemes will require stakeholders to make and execute strategic decisions in order to survive and prepare them for 2022/2023.

What is your recommendation for owners facing liquidity/ financial challenges?

We recommend owners take action early and not leave the difficult decisions to 2022/23, when the market is likely to be more crowded with stakeholders seeking solutions. Despite challenging market dynamics, there is still considerable appetite to invest across the capital stack and owners should avail themselves of these opportunities before serious distress. We are of the view that owners should act early



Radisson Complex Bucharest. Courtesy of Revetas Capital



Radisson Complex Bucharest. Courtesy of Revetas Capital

to spur recovery through investment across the capital stack, debt restructuring, operator realignment and active asset management, in particular in green and sustainable initiatives. Undoubtedly the time to get deals done will be longer than 2019 but an early start is essential if serious distress is to be avoided.

Do you offer any specific solutions for hotel owners in financial challenges? What are they and why should hoteliers consider them?

We are prepared to offer and discuss varied solutions including partnership with owners who may not be ready or willing to exit (fully), but need a partner to assist them with the challenges provided by current market dynamics. We have a long and deep track record in debt restructuring as well as value-added asset management initiatives which have resulted in the turnaround of a significant number of hospitality assets in the past. Our relationships and track record with key banking and operator groups in successfully restructuring complex deals is a unique selling point for Revetas in being a partner in emerging Europe.

What are the actions you have taken to mitigate financial challenges? Do you see any long-term benefits or opportunities from this crisis?

Our current hotel portfolio, Radisson Blu and Park Inn by Radisson in Bucharest, which consists of 900 keys, has seen its performance impacted by the crisis due to its high dependence on international travel business. The COVID-19 pandemic certainly transformed the way in which people live, travel and work as well as their expectations from the hospitality industry, therefore the need to react and adapt came fast. It was an incredible team-effort and our strategy consisted of minimizing expense levels to the lowest possible points in order to mitigate negative impacts going through every single cost line and setting priorities in the context of an unprecedented crisis whilst catering and maintaining our team.

At the same time, we focused first on supporting the local community by hosting medical staff, developing new income streams such as the launch of attractive food delivery offerings, extending staycation promotions, catering

to the local community, as well as developing new ways of organizing events, Radisson Blu biggest ballroom being currently converted into a state-of-the-art hybrid studio, all of this executed in compliance with the strictest cleanliness and safety protocols. Hence, the pandemic presented a unique opportunity to optimize our cost structure for the long term whilst also reconnect and strengthen our bonds with the local community through our unique hotel amenity offering and the warm hospitality extended by hotel employees throughout these difficult times.

» Revetas is a real estate investment advisor executing a specialised strategy targeting distressed, undervalued, value-add and opportunistic assets in Central and Eastern Europe (CEE). The firm was founded in 2012 and is led by Managing Partner Eric Assimakopoulos together with his senior management team, who have been operating in the region for over 18 years.



AHG and CIMEX GROUP

Václav Vochoska
Private Equity Investment

What is your view on the long-term prospects for the hotel real estate sector in general and more specifically in the CEE region? How has this changed due to COVID-19?

The road to recovery will be marked by several “tranches” reflecting some of the specificities of the region and global trends in hospitality, domestic and international travel. First, resorts and “leisure guest” oriented assets, defined as domestic drive-in destinations, will recover. We saw that in the summer of 2020. Wellness and Spa, R&R and other packages will help attract guest to those assets.

Second, international leisure and international individual business will follow. This will be governed by the local/regional epidemiological situation and also closely linked to the mandatory restrictions on travel and business.

Third, the MICE segment will take the longest to recover. With that being said, I believe that the entire hospitality sector will prove to be cyclical and will show resilience leading to a full market recovery.

Have you seen or do you expect to see cases of hotel owners facing financial difficulties in general and in the CEE region due to COVID-19? What are the main reasons causing these financial challenges?

I have not seen any major dramatic irreversible distressed situations, although many assets are facing significant financial difficulties. What I have seen (and see daily) is an innovative, progressive and creative effort to limit operating

expenses and cut costs. The ability to carry out hospitality operations with limited services and cost-cutting initiatives is unparalleled to any other industry.

The real financial challenges for hotel owners/investors are on the debt/institutional finance end. While we see some solidarity from lenders and institutional partners, we also see limits on aid packages from governments, which in some places do not address revenue displacement to the levels that would cover debt service obligations on asset or portfolio levels.

What is your recommendation for owners facing liquidity/financial challenges currently – what are the right steps and best practices? What are the options that should be considered to resolve financial challenges?

The recommendation would be simple: be diligent, progressive and innovative while trying to limit operating expenses on all levels. Work closely with your associates and staff to position and prepare your asset/portfolio for the recovery phase. Find ways to carry forward some of the savings initiatives into your operations after business resumes. This will allow you to become more efficient and profitable after the revenue displacement period ends.

Simultaneously, work closely with lenders, institutional and private capital entities in order to isolate long term value and create a healthy, sustainable leverage on both the asset level and the operating company level.

What are the actions you have taken since the pandemic outbreak to mitigate financial challenges? Do you see any long-term benefits or opportunities that have come out of this crisis.

I believe that the discovered efficiencies at both the property level and the the operating company level will create a solid and stable platform moving forward into the recovery phase. What we now see as mandated disruptions may convert into desired efficiencies and even new trends and standard best practices.

» CIMEX GROUP is a consortium of entities with a 30-year market experience both in the Czech Republic and in global markets. As an opportunistic investment/private equity firm managed by Cimex Invest s.r.o. and AHG Hospitality s.r.o., CIMEX GROUP affiliates invests into hospitality real estate assets with area focus on the Czech Republic and North and Central America.

“ The discovered efficiencies at both the property level and the the operating company level will create a solid and stable platform moving forward into the recovery phase.

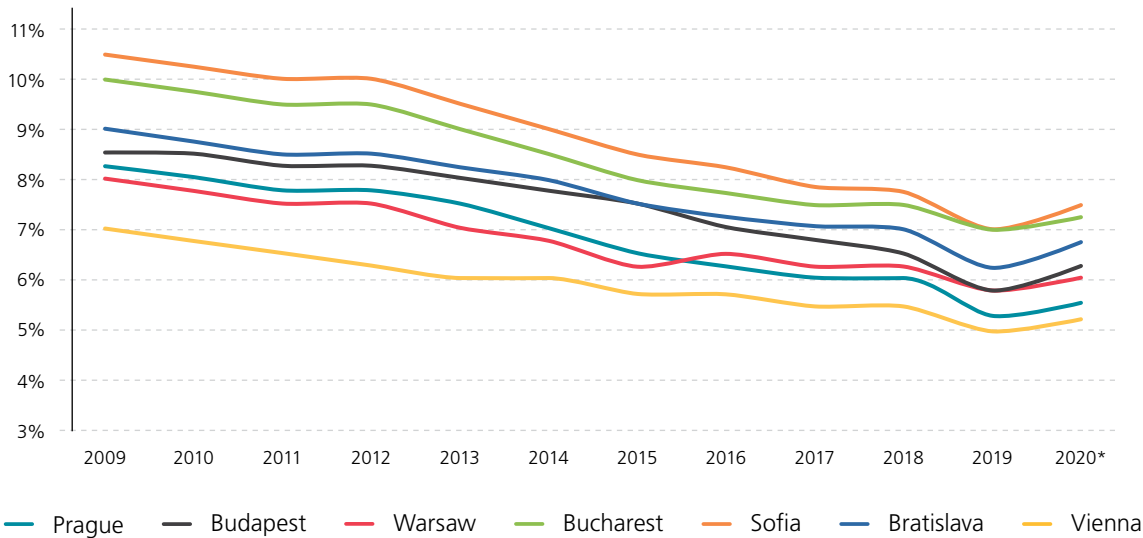
Where are the yields?

Over the last decade, the CEE markets have been growing in maturity and yields have compressed considerably since the GFC in 2009. Expectedly, the three largest hotel markets in the CEE region – Prague, Warsaw, and Budapest, have been seeing the lowest yields over the last years. In particular, yields in Prague have compressed to the lowest levels in the region after overtaking Warsaw in 2016, to the extent where there is a gap of only about 25 basis points from neighbouring Vienna.

The lack of transactions in 2020 make it difficult to determine whether yields have shifted considerably due to the pandemic. Nonetheless, the general sentiment is that yields have remained largely stable in the core markets, with only a slight decompression.

Going forward, the short-term market challenges should be counterbalanced by the large amount of capital chasing the limited number of opportunities, which will help to keep yield levels stable.

Yield trends 2009–2020: CEE-6 capitals and Vienna



*Based on stabilized income levels

Note: The yields are based on actual transactions where available as well as the sentiment indicated by investors. The initial yield may vary widely in the region particularly depending on the location, hotel quality/type, deal type, operating structure and upside potential (applicable to the Management Contract operating structure).

Source: Cushman & Wakefield



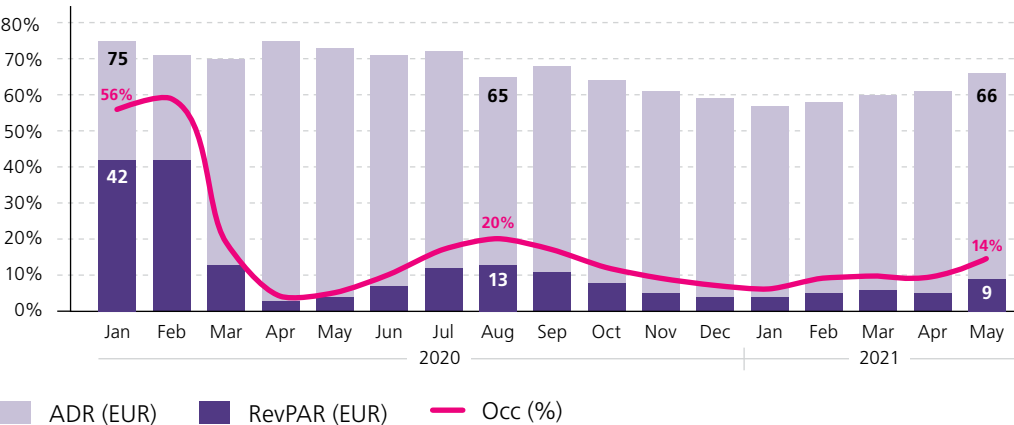
How did the markets perform?

The COVID-19 situation in Europe turned dire in mid-March 2020, resulting in a sudden, sharp fall in hotel occupancy from the remaining month of March. In April 2020, occupancies bottomed out, averaging about 4% in the CEE-6 as each government closed their respective countries' borders to international travellers, with some countries such as the Czech Republic and Poland even mandating the closure of hotels.

Hotel performance began to pick up in the summer in 2020, averaging about 20% occupancy and an ADR of EUR 65 at its peak in August, as the number of cases began slowing down and government restrictions were eased. However, this easing of restrictions and false sense of returning to normalcy in the summertime quite inevitably led to the second wave of the pandemic, which once again led to the tightening of restrictions and closure of hotels towards the end of the year.

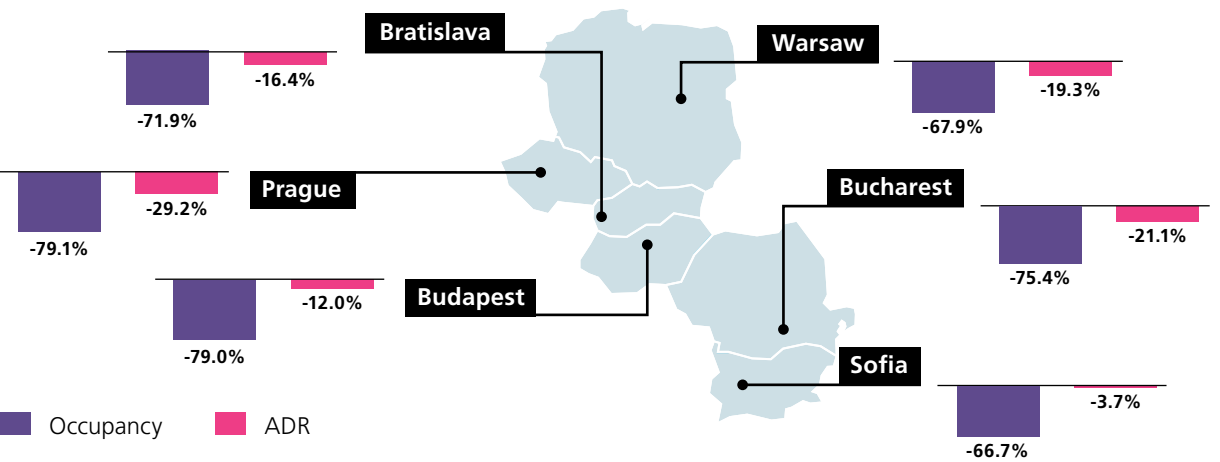
Over the first quarter of 2021, there has been a slight positive trend in both occupancy and ADR, which reached about 9% and EUR 60 respectively in the CEE-6 in March. Ongoing vaccination programs have been projecting signs of optimism, with more hotels preparing to re-open and booking patterns picking up, especially for the summertime.

Monthly performance trends, CEE-6 capitals average (2020 – YTD May 2021)



Source: STR. Republication or other re-use of this data without the express written permission of STR is strictly prohibited.

Annual ADR and occupancy performance in 2020 (% change vs 2019)



Note: Occupancy figures quoted in this section are based on STR's total room inventory (TRI) methodology, which takes into account the total rooms available in a market, regardless of its operational status (i.e. even if the hotel is temporarily closed). TRI occupancy figures are thus lower or equal to standard occupancy figures, which exclude rooms from hotels that are temporarily closed.

Source: STR. Republication or other re-use of this data without the express written permission of STR is strictly prohibited.

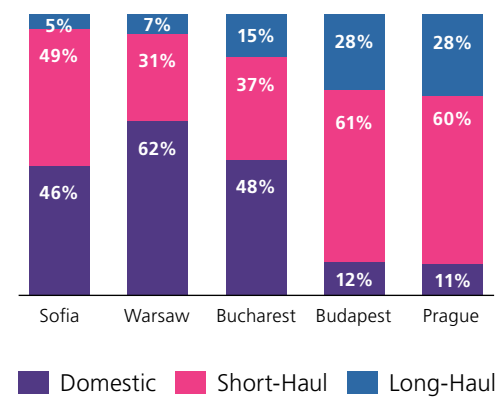
Robust fundamentals for a positive recovery

Before the pandemic, the CEE-6 markets had been some of the fastest growing in Europe, recording annual growth rates of 2.8% to as high as 11.3%, far above the European average of 0.9% (2015-2019 CAGR). There is no reason why this should not continue after the pandemic is contained, especially considering that domestic and short-haul travel to the CEE-6 capitals ranged from over 71% in Prague, to up to 95% in Sofia (2019).

As vaccination programs continue and signs of optimism begin to show, it is apparent that the central location of the region within Europe, coupled with its affordability and rising prominence as a tourist destination, will aid a quick market recovery.

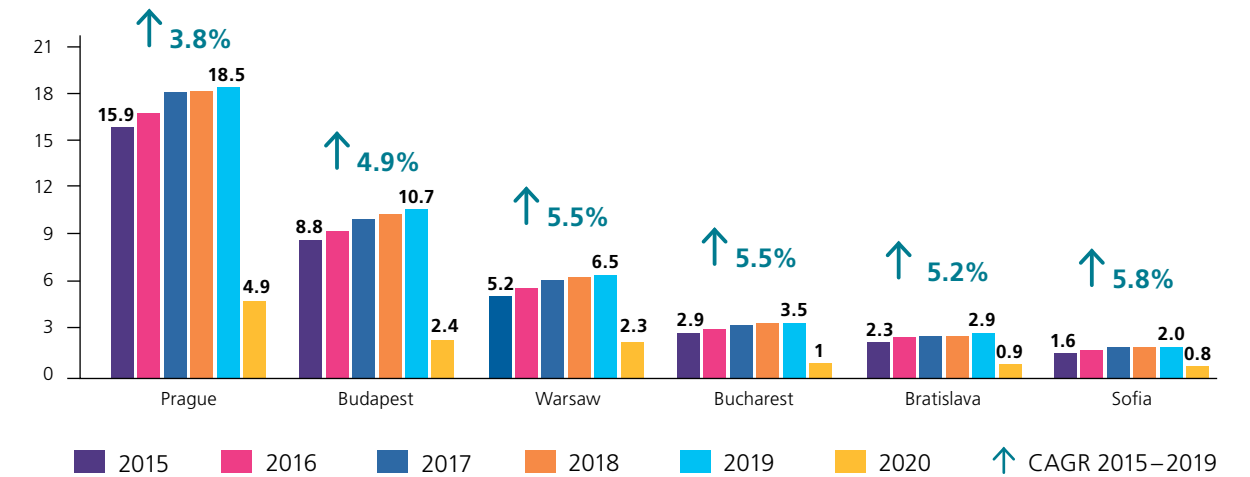
On a country level, Oxford Economics forecasts the CEE-6 countries to reach pre-COVID levels by 2023, beginning with Poland and Romania, which are expected to return to 2019 levels already by 2022.

CEE-6 capitals demand source markets (2019)



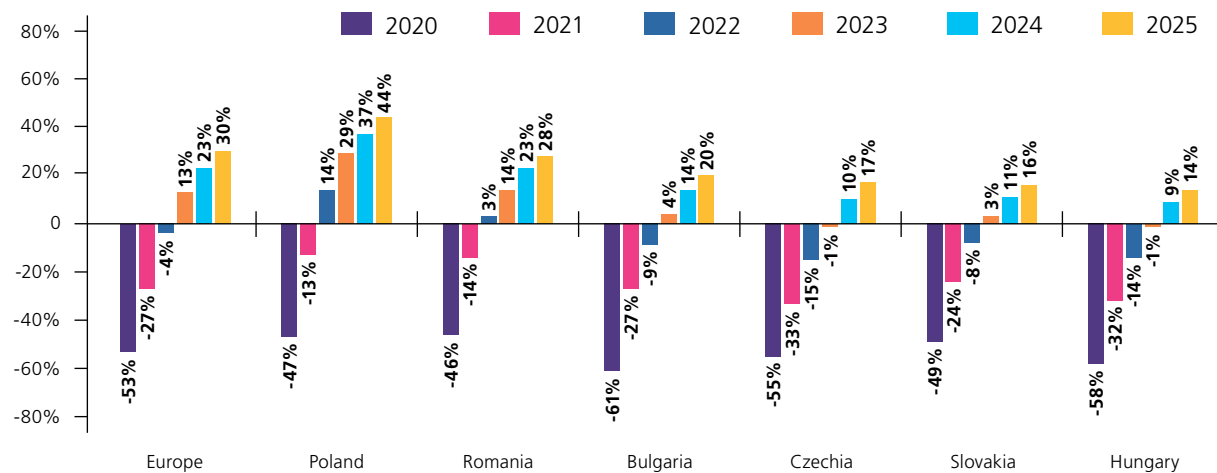
Note: Based on nights in paid accommodation.
Source: Oxford Economics

Overnight Stays (millions) – CEE-6 Capitals (2015–2020)



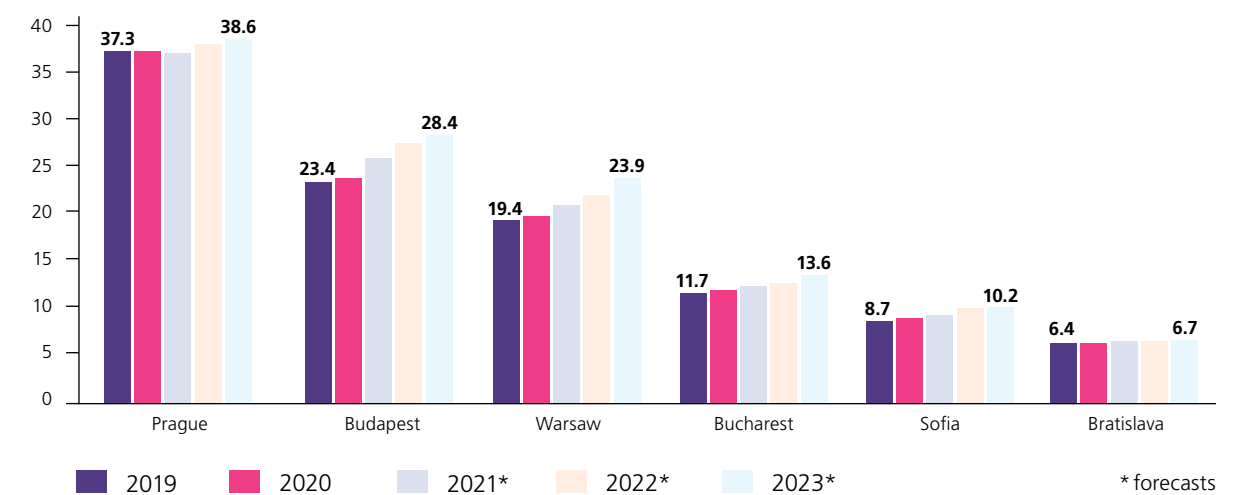
Source: Respective statistical offices and Cushman & Wakefield

Hotel nights* in CEE-6 countries (2019–2025F)



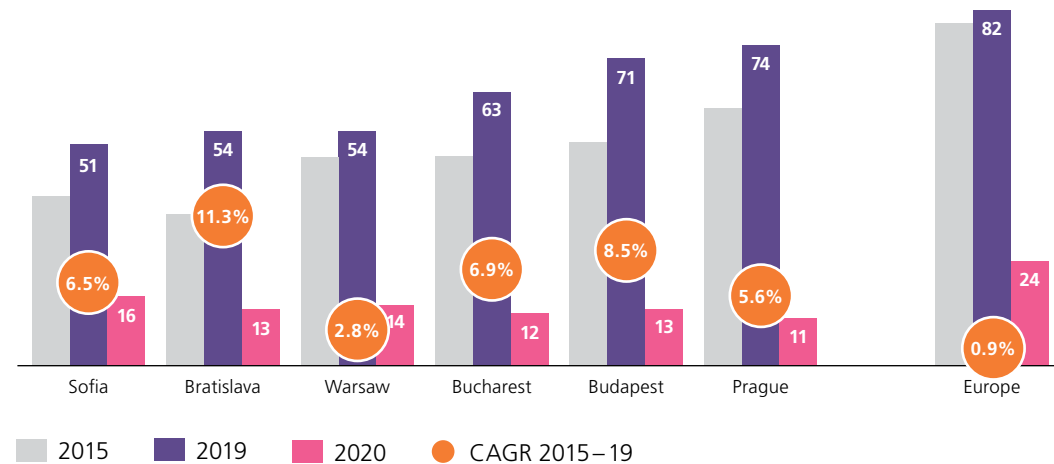
*Forecasted domestic and international nights in hotels. Source: Oxford Economics

CEE6-Capitals – Supply Growth Historical & Forecast (000's rooms available)



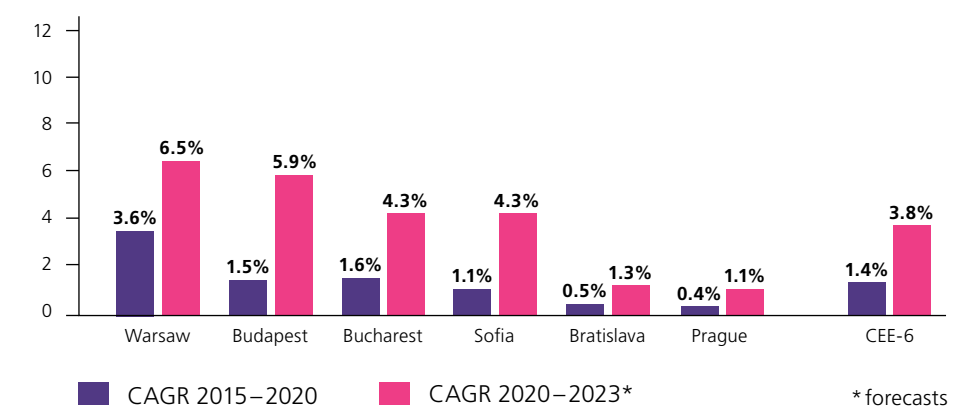
Source: Cushman & Wakefield

Annual RevPAR trends in CEE-6 capitals vs Europe (EUR)



Source: STR. Reproduction or other re-use of this data without the express written permission of STR is strictly prohibited.

CEE6-Capitals – Supply Growth Forecast (% change, based on number of rooms)



Source: Cushman & Wakefield



2020 CEE Hotel Market Performance

Thomas Emanuel, STR
Director

Like the rest of the world, hotels across Central and Eastern Europe (CEE) would consider 2020 a year to forget. The impact of the COVID-19 pandemic was felt across all markets, and performance declines reached unprecedented levels. CEE performance was unfortunately amongst the lowest that STR measured, but results did vary by market.

Starting in Poland and its capital, Warsaw, achieved an occupancy of 27% for 2020, which was a decline of 63% from the prior year. Average Daily Rate (ADR) fell a steep 18%, which actually was better in comparison with other markets in the region. Warsaw is a market that relies predominately on corporate demand, which effectively ceased during the pandemic. Thus, the occupancy decline was not a surprise. Occupancy challenges were exacerbated by new openings in 2020. Despite the pandemic, an additional seven hotels opened, representing a total of 1,277 rooms.

When looking to the Tricity (Gdansk, Gdynia, & Sopot), we do see a slightly stronger occupancy performance of 35%. This was driven by domestic leisure demand – a common trend from 2020 was better performance in markets with higher reliance on this source of business. The peak of this domestic demand came in Sopot during the long weekend for Corpus Christi, when occupancy reached 81% (Friday 12 June).

Moving to Prague, which attracts many leisure visitors as well as corporate, the city was amongst the lowest occupancies of any

major European market due to the lack of international visitors. Full-year occupancy reached just 21%, a decrease of 74%. Looking across the year, there were six months where market occupancy was in the single digits. ADR also declined 28%, which equated to a revenue per available room (RevPAR) of CZK348, down 81%. The city of Brno fared a bit better with occupancy levels of 24%, but more surprisingly, ADR grew 6.5% year over year. With ADR declines across the majority of global markets, Brno stood out very much as an exception to the rule. This would have undoubtedly been assisted by the VAT reduction on hotels in the Czech Republic.

In the Slovak capital of Bratislava, there were similar performances, with declines of 64% in occupancy to 24% and 17% in ADR to EUR66. The hotel market in Bratislava was effectively closed in April, with only two properties in STR's sample remaining open. Whilst hotels reopened over the course of the year, there were a number that remained closed, or subsequently closed again after reopening post-first lockdown.

Budapest, with a similar demand mix to Prague, also experienced challenging occupancy levels at just 22%. Interestingly though, ADR fell only slightly (-5.8%), again aided by VAT reductions in Hungary. At the peak of the first COVID-19 wave in April, occupancy across the city was just 2.9%, which was a simply astonishing data point to report. Think in absolute terms. Roughly 97 of every 100 rooms in the market were empty.

In Romania, we saw the inverse, however marginally, of the patterns that normalised in 2020. The largest city, Bucharest, showed occupancy of 21%, which outperformed the regional markets of Cluj Napoca and Timisoara (both at 19%). ADR, however, fell to a greater extent in the capital with declines of 21% as opposed to less than 10% in the regional markets.

Finally to Sofia, where once again we saw a familiar demand picture. Occupancy was 22%, falling 64% year on year. ADR fell far less, with a decline of just 3.5%, finishing the year at BGN155.

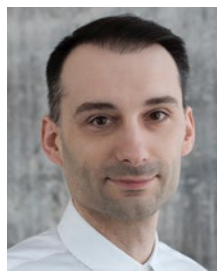
The seasonal pattern we saw in Sofia was mirrored in all other markets in the region – a standard start, the bottom of the market being hit in the spring, some improvement in summer, and then the second wave hitting and impacting the final quarter of the year. As we leave 2020 behind, we are anxious to look to the future. Vaccinations will be rolled out, domestic demand will recover first, and restrictions will be lifted. We know that once there is perceived certainty, bookings will return, and ultimately our industry will recover in the coming years, as it always has done before.

» **STR provides premium data benchmarking, analytics and marketplace insights for global hospitality sectors. Founded in 1985, STR maintains a presence in 15 countries with a corporate North American headquarters in Hendersonville, Tennessee, an international headquarters in London, and an Asia Pacific headquarters in Singapore.**

“ We know that once there is perceived certainty, bookings will return, and ultimately our industry will recover in the coming years, as it always has done before.

Thomas Emanuel, STR





PURO Hotels

Przemysław Wieczorek

Investment Director,
Management Board Member

What is your view on the current situation and long-term prospects for the hotel real estate sector? How has this changed due to COVID-19?

The COVID-19 crisis has put enormous pressure on the hospitality sector globally, both in terms of operations and real estate. We have observed many investors and developers in the CEE region putting their hospitality projects on hold, or simply changing their function to residential or office use. Many hotel projects will never be built, especially those that were not attractive in objective terms. 'Wait mode' is on among investors. We have not observed any real opportunities with a reduced price tag on hotels so far. This is a positive sign for the market, as it shows that there is no panic effect yet. Regarding prospects, according to most analyses 2023 or 2024 is expected to be when the market will return to pre-COVID levels.

From a long-term perspective, the hotel business is still attractive. People still want to travel and will do so for sure. But as projections are showing, this will be a long process for the whole tourism industry. Businesses need to be prepared for a few lean years ahead.

What are the possible consequences of pandemic for the sector?

There might be consequences for hotels' guests mix. International companies will try to reduce their carbon footprint and will utilize online tools. This means a lower corporate guest share. We expect this 'online meeting' effect to be less visible among individual business travelers. Leisure tourists will come back quicker. As for business travelers, we believe the CEE region's decent development pace will compensate global companies' new travel policies.

Have you seen cases of hotel owners facing financial difficulties in general and in the CEE region due to COVID-19?

Yes, definitely. Hotels recorded huge losses in 2020, with a 60–80% fall in revenue; and losses will continue in 2021. No business can run with only a fraction of normal revenues over long period. There were government rescue plans that covered part of the losses, but these are time-limited. Depending on the country's policies, different tools were implemented with different results. While western countries were able to cover 80% of fixed costs, unfortunately Poland could not offer such extensive support. So far, we have not seen many hotel bankruptcies in the region, and I hope this will not change.

What is your recommendation for owners facing liquidity/ financial challenges?

This needs to be dealt with on a case-by-case basis. Hotels operate in different ways, whether in terms of operating structure or financial structure. Some hotels are financed only with equity and some are heavily leveraged with external debt. Obviously, when demand plummets, there should be a mechanism to cut all possible expenses to limit losses. Another thing is to have support from the owner, which is needed in such a challenging environment. The final issue is to agree new repayment schedules with creditors to limit financial obligations. We know this is long-term crisis and sufficient long-term solutions should be implemented in response.



PURO Warsaw. Courtesy of PURO Hotels

What are the actions you have taken to mitigate financial challenges? Do you see any long-term benefits or opportunities from this crisis?

We started by limiting operating costs. We had a flexible structure with external contracts in the housekeeping department and some personnel costs on a casual basis because of which we did not terminate any employment contracts in the hotels. We had to implement flexible and multitasking working schemes to protect workplaces. We applied for all possible financial support from the government in Poland and we agreed to reschedule our loan obligations with our banks. We still operate hotels during the pandemic to limit our losses.

There's not much positive news in this crisis for hospitality players. What we try to do is to prepare future projects (we have over 1,000 rooms in the pipeline) and launch them when the crisis is over and financing available. We are still actively looking for new projects for future PURO hotels and we hope to sign a few transactions this year. Maybe we can say as a small benefit that some hotels that

„ We have not observed any real opportunities with a reduced price tag on hotels so far. This is a positive sign for the market, as it shows that there is no panic effect yet.

» PURO Hotels is a forward-thinking hospitality brand that offers guests a contemporary, design-led hotel experience, without compromising on local culture or creativity. Since its inception in Wrocław in 2011, PURO Hotels has changed the hospitality landscape in Poland with unique new hotels in Kraków, Poznań, Gdańsk and Kraków Kazimierz, Łódź and the newest one, in Warsaw. Nested in the centre of each city, PURO Hotels draws upon local artistic and culinary inspirations to craft a holistic experience encompassing rest, work and play. PURO Hotels offers discerning guests the most original way to meaningfully explore the culture of their chosen destination.



PURO Warsaw. Courtesy of PURO Hotels

Bridging the Financial Gap: Solutions for Hotel Owners

Even as hotel performance begins to pick up and cash flows start improving, owners may still face financial challenges that need to be resolved. According to our survey conducted amongst 33 owners of hotels in CEE, representing approximately 150 hotel assets in the region, nearly half (42%) of them indicated that their hotels face notable financial challenges due to COVID-19 – with almost two-thirds (63%) of owners expressing that their hotels would not be able to last more than a year without additional capital.

These challenges may be exacerbated as government support tapers off – this includes employment benefits, which an overwhelming 85% of owners have been using to reduce losses. On the other hand, banks may also begin asking owners to pay their deferred loan payments or even repay the whole loan. At the same time, about half (49%) of respondents are expecting to refinance within the next three years (2021-2023). While banks continue to be open to financing hotels, they have understandably become more cautious, such that owners seeking refinancing in these times are likely to be met with lower LTVs, leading to financing gaps in the hotel market.

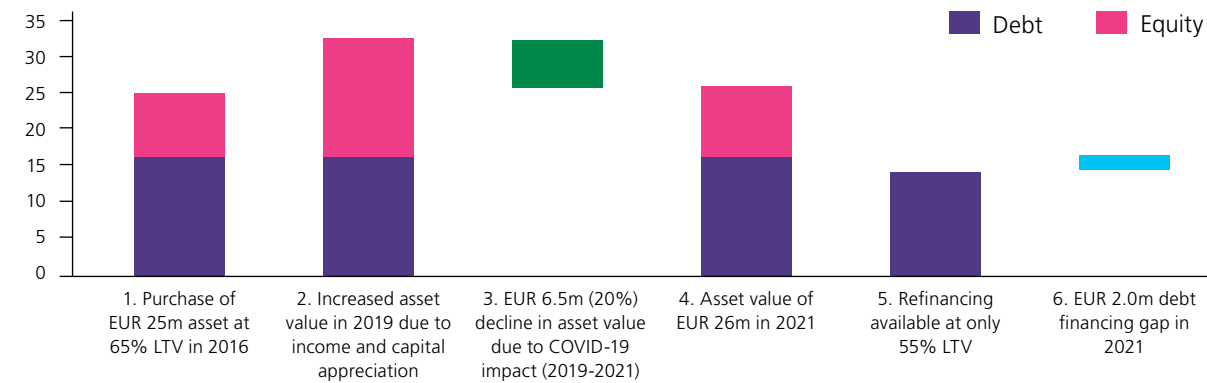
What is the financing gap?

To understand this financing gap that owners may face, we assess the following scenario:

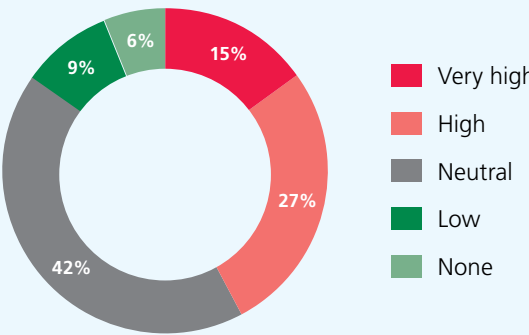
- 1. We assume that an investor acquired an asset for EUR 25m at 65% LTV in 2016, based on the average deal size in the CEE-6 countries over the last five years (2016–2020) and market-level LTV ratios at the time.
- 2. The owner would have likely benefited from an increase in hotel value, due to the capital and income appreciation between 2016 and 2019. The extent of this can range widely based on product and location, but we have assumed a 30% increase based on the average yield compression and RevPAR growth in the CEE-6 capitals between 2016 and 2019.
- 3. We then assumed a decline in value between 2019 and 2021 due to COVID-19. For the purpose of this scenario, we assumed a 20% decline. However, it should be noted that the this may vary widely within the CEE region, especially with quality assets in core locations likely to experience only a soft pressure on values.
- 4. This brings us to an asset value of EUR 26m, which is still higher than the initial purchase price.
- 5. As the five-year loan comes to term in 2021, the owner is looking to refinance – but given the uncertainty caused by COVID-19, the banks are willing to lend capital only with a more conservative LTV ratio, This will range based on the specific project and bank, but we have assumed 55% for the purpose of this scenario.
- 6. The lower LTV creates a financing gap of approximately EUR 2m or 8% of the asset value. Although this may seem like a relatively small amount, it in fact equates to 22% of the initial equity investment, which might be challenging to bridge for some owners that are cash-strapped due to the pandemic.

The financial gap can be much more significant in case of larger assets or portfolios. In fact, assuming that most deals closed in the CEE between 2016–2018 might need to be refinanced within the next 3 years, the cumulative financial gap across the region can reach over EUR 170m. This will need to be resolved and will most likely involve various measures on the equity or debt side.

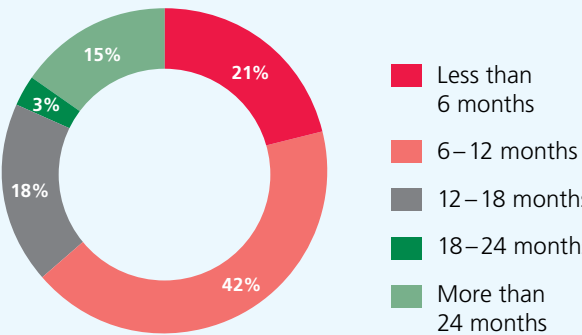
Financing Gap Scenario – CEE (EUR, m)



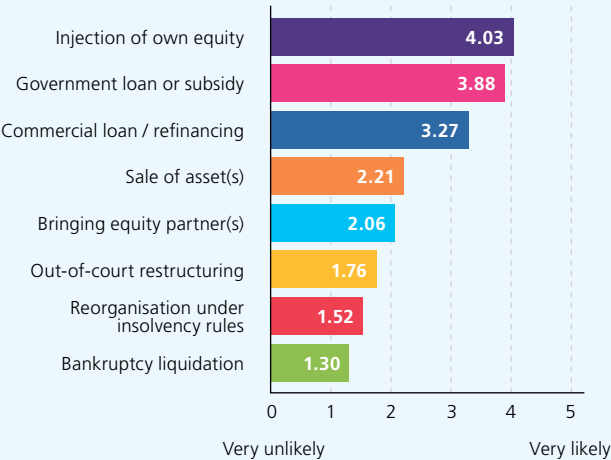
What is the general level of financial challenges faced by your hotel assets in CEE?



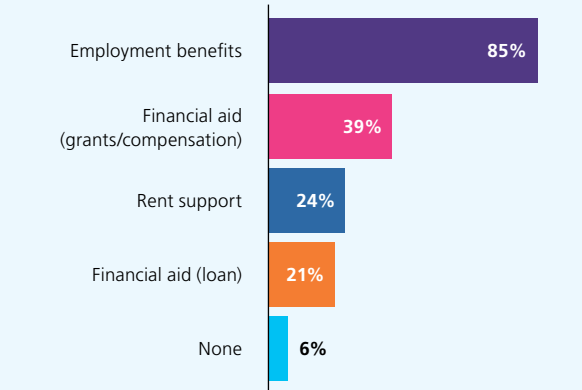
At present, how much longer do you think your hotel asset(s) can survive without additional capital?



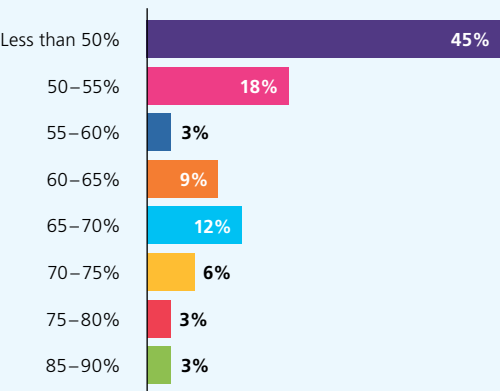
On a scale of 1-5 (5 being most likely), what are the options you would or might consider to resolve your hotel's financial/liquidity challenges due to COVID-19's impact?



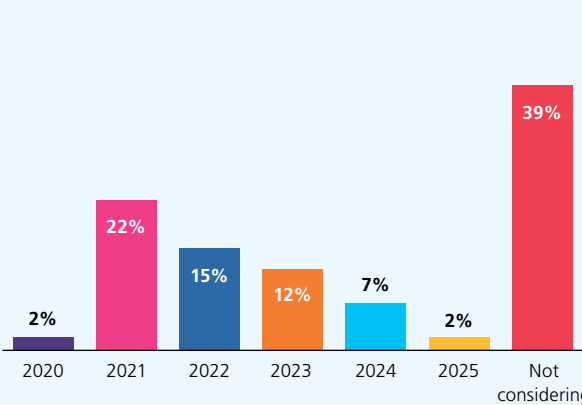
What kind of government support have you applied to/benefited from?



What is the average LTV associated with your hotels in CEE?



When do you primarily expect to refinance your asset(s)?





Sheraton Grand Krakow. Courtesy of Invesco and Sheraton

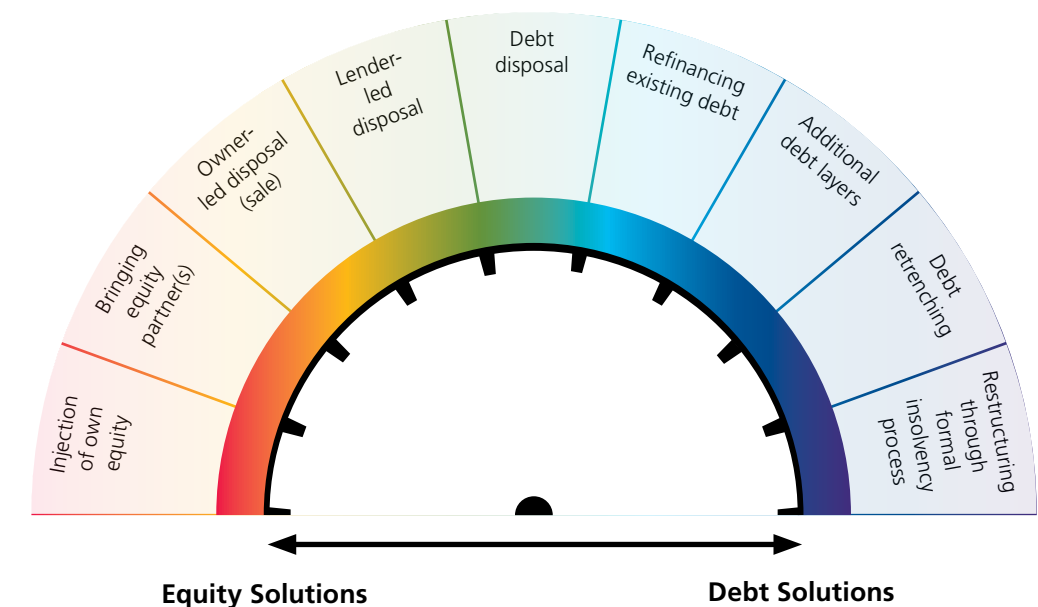
Overcoming challenges: What are the options?

To ease these financial challenges and bridge the gap, there are more options that owners may consider than simply selling their asset(s), which, interestingly, is a scenario that most owners surveyed (64%) currently view as an unlikely solution.

Within the capital stack, owners can consider solutions on either side of the coin:

1. **Debt:** Options include restructuring through an insolvency process, or even layering on additional debt – in fact, nearly a quarter (21%) of survey respondents indicated that they had taken on financial aid from governments in the form of loans during this crisis
2. **Equity:** Owners may look into injecting more of their own equity, which was the most popular option amongst the survey respondents, or bringing on an equity partner

Each of these options differ in their pros, cons, and level of owner's involvement – all of which must be carefully considered to determine the optimal solution for the owner's specific needs and situation. In particular, the debt perspective is an especially tricky terrain to navigate, given the more complex legal implications that may be involved, which are further illustrated in the next section.





Raiffeisen Bank International

Andreas Deutsch

Deputy Head of Department –
Real Estate Finance International

What is your view on the long-term prospects for the hotel real estate sector in general and more specifically in the CEE region? How has this changed due to COVID-19?

The hotel industry in general and city hotels in particular are hit hard at the moment. However, the tourism industry was one of the fastest growing industries in the region before the pandemic. For example, in my hometown Vienna total overnight stays dropped as a consequence of the global financial crisis to 9.8 mm overnight stays in 2009. From 2010 onwards the city hit every year a fresh record high peaking in 2019 at 17.6 million overnight stays. We have seen a similar development in major cities across CEE with strong RevPAR-growth over recent years. Once travel restrictions are lifted, and particularly international air travel is re-established, we will see demand picking up quickly. Markets with a higher share of domestic demand will recover faster than markets with a dependency on international and business travel.

In addition, there are a lot of hotel development projects currently being converted into other asset classes, such as residential projects. This will also help to reduce the strong supply pipeline which has been built up in recent years. It is also worth mentioning that hotel operators have been able to reduce costs as never before. This lean management will help hotels reach the profitability levels much faster than before the crisis, once demand picks up.

Have you seen or do you expect to see cases of hotel owners facing financial difficulties in general and in the CEE region due to COVID-19? What are the main reasons causing these financial challenges?

Currently, we are experiencing the worst impact on the hotel industry by far. We have also noticed that there are already investors who are looking actively for distressed hotel assets. However, we have seen little distress and no “fire-sales” so far. The main reason for this is a combination of government support packages, state moratoria (i.e. Hungary, Romania), hotel operators cutting costs dramatically and hotel owners having built up reserves in the past to overcome short-term cashflow shortages. We in RBI have always followed a very selective approach when it comes to hotel financings. High-quality assets in top locations have showed limited value declines so far, due to investor’s “flight to quality” sustaining interest for prime city centre trophy assets with a higher degree of capital preservation.

Are you offering financing and/or refinancing for hotels currently and how has this been affected by COVID-19?

Not surprisingly, new hotel financings are difficult to structure

at the moment due to the volatile recovery outlook. Nevertheless, we were able to arrange financings in every crisis for our clients and the right hotel products. We have seen many crises impacting the hotel industry, but we have always proved to be amongst the first movers, particularly in the CEE region, which has always been our core-market and as we do believe in the hotel sector in the long run.

Will COVID-19 impact your view on the hotel contract models when arranging hotel financings?

Our view on the different hotel contract models has not changed. Our due diligence always includes a feasibility study analysing the fundamentals of the underlying operating model, meaning the sustainability of the original cashflow source. Therefore, we will continue financing hotel projects based on all contract types.

» Raiffeisen Bank International AG (RBI) is a leading universal banking group in CEE and corporate and investment bank in Austria with a real estate exposure to corporates and project finance of approximately EUR 10.9 bn (as of 31/12/2020). The bank looks back on more than 30 years of experience in CEE.

“High-quality assets in top locations have showed limited value declines so far, due to investor’s “flight to quality”.



The Marmorosch, Autograph Collection. Courtesy of Apex Alliance



Nobu Hotel Warsaw, Courtesy of Nobu Hotels

Debt Restructuring in the Hotel Industry in CEE

As shown in the report, the hotel industry across the globe has been strongly impacted by the COVID-19 pandemic, and the CEE countries have been no exception.

For the last year, hotel owners and operators have had to focus their efforts on weathering the immediate effects of the pandemic resulting from lockdowns and travel restrictions, by making use of legislative support in deferring debt service and employee furlough schemes, which were the immediate measures enacted by governments across the region, as well as extending liquidity lines from generally supportive lenders. Now, given the availability of vaccines and current discussions about vaccine passports to permit international travel, hotel owners and operators can review their assets and capital structures in-depth and plan for financial restructuring. In many cases, deferral measures coming to an end – even where already extended – is also a key pressure point.

The key elements that would enable longer term restructuring plans to be implemented are greater predictability as well as the ability to formulate new business plans and perhaps new business models to sustain a longer term recovery (and a longer period for recovery).

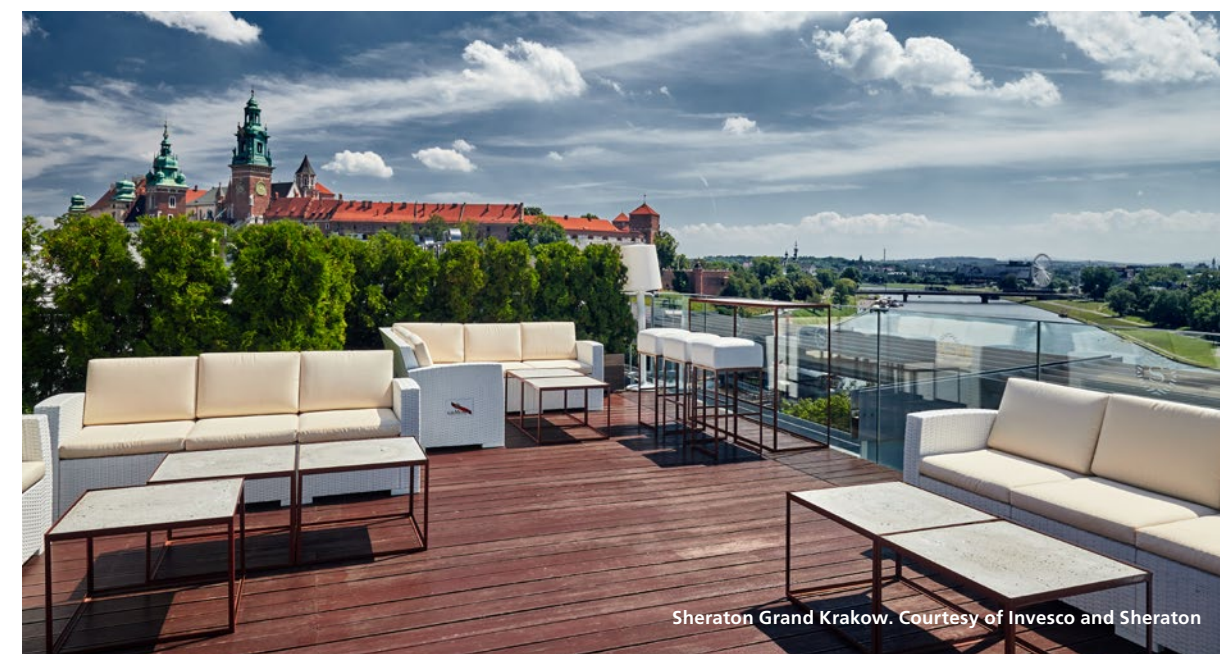
In most cases, hotel businesses will be looking not only at ways to reset the terms of existing financing, by remodelling the amortisation plan, adjusting pricing and extending maturity, but also at additional liquidity and financing and available sources for that liquidity. In this context, the debt restructuring of a hotel business will require complex agreements between existing lenders, sponsors and new financing providers, with existing lenders being willing to accommodate the sharing of security or even prior ranking. The dynamic of discussions is growing ever more complex, where state-backed financing instruments are used (as part of the EU approved state-aid package). The departure point should be to establish the key stakeholders, the main creditor-pool (including trade-creditors), and an analysis of the existing documentation.

Preparation is essential to achieve a negotiated solution.

Most large hotel businesses across the region are financed by a club of lenders or larger syndicates, and most decisions in a restructuring, such as rescheduling, debt write-offs and pricing changes, are unanimous-lender decisions, giving the option of lender hold-outs, unless workarounds such as making use of structural adjustment wording, voting exceptions or more formal tools can be used to pass these decisions. There is also a legislative impetus across the CEE region to implement formal pre-insolvency tools which would support out-of-court restructurings, based on the EU Directive on preventive restructuring frameworks. This should be implemented by members states (CEE included) this year. While the progress of implementation across CEE jurisdictions differs, there is clearly a focus on out-of-court restructurings based on the understanding of these generally being the solutions that preserve value.

Transfer provisions in existing finance documents are also key as these can also form the basis of a restructuring option, through loan-to-own strategies based on the acquisition of loan claims. These can be of particular interest where there is a disparate lender group, with several lenders lending under bilateral facilities, which is not uncommon in CEE/SEE. This may be a challenge but also an opportunity in a loan-to-own restructuring strategy.

Sustainability matters will become more relevant in lenders' decision-making, and therefore the availability of refinancing and restructuring options, as ESG criteria are becoming integrated in credit and due diligence processes, with lenders favouring the deployment of resources to sustainable businesses based on identified ESG related KPIs that can be reported on and monitored.



Sheraton Grand Krakow, Courtesy of Invesco and Sheraton



How could a hotel business be restructured?



Refinancing the existing debt

Refinancing the existing indebtedness could be the most straightforward solution without involving the existing lender group, to the extent the business model supports refinancing at par. This would enable the replacement of the existing debt with financing on new terms, a new debt service model and maturity based on a revised business model. It has the advantage that it does not generally require consent of the existing lender group. Generally, because of how security is created and registered across CEE, existing security is deregistered once existing lenders have been repaid and new lenders usually have to accept second ranking before disbursement. Across the region, lenders have remained mostly supportive, however favouring amending and extending to full refinancing (and accommodating perhaps additional lenders in the structure instead of increasing exposure) until better visibility on the longer term recovery becomes available.



Additional debt layers

A financial debt restructuring of a hotel business often requires additional financing, be it for working capital purposes or for additional capex and investments, especially where the recovery plan is based on a changed business model or repurpose. The additional financing could be provided pari-passu, in terms of payments and security, with existing lenders, or could be junior to the existing debt, be it contractually or structurally (i.e. provided at a level in the holding structures above the existing lenders) subordinated. Payment-in-kind (PIK) or other quasi debt or other quasi-debt instruments are often used to provide additional debt capacity, and generally intercreditor arrangements have to be negotiated among the existing and new lenders. There is an appetite across the region among non-bank lenders and special situation lenders to provide financing to existing structures or perhaps even to enable a full restructuring, however this generally requires existing lenders to take a hair-cut on their exposure.



Debt retrenching

Where the restructuring solution requires the existing lenders to accept a haircut rather than write off the existing debt, this could be retrenched with the haircut restructured as a separate junior subordinated debt tranche, which can then be later disposed of/converted.



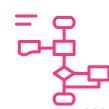
Debt disposal

Often, where existing lenders do not support a longer term restructuring of their debt, one of the strategies is the disposal of their debt (at below par) to new investors that are then willing to implement a restructuring strategy (which could be a loan-to-own strategy). Generally, lenders are able to do this without borrower consent, but this depends on what had been agreed in the underlying loan agreement. Formal debt disposal processes are run by the lenders.



Accelerated M&A process

A debt restructuring solution may involve a lender-led disposal of the entire or parts of the business, with proceeds being used to repay the existing debt. Where existing lenders do not support a longer term restructuring of their debt and there are no practical refinancing solutions, an accelerated M&A process could be the better value creative solution. This, however, assumes that there is sponsor support throughout the process. Given the context of the disposal process, buyers could expect a minimum recourse and therefore for a successful process, due diligence is key (and perhaps coupled with title or W&I Insurance policies).



Restructuring through a formal insolvency process

While most successful debt restructuring solutions are negotiated solutions implemented out of court through contractual arrangements among the stakeholders, with restructuring or reorganisation plans being available in most CEE jurisdictions, a formal restructuring through insolvency proceedings can also be achieved. As noted above, preparation is key. Generally when restructuring scenarios are being formulated, insolvency and its impact is always considered – because a consensual process can always be derailed by filings for insolvency proceedings, be it because of directors' duties to file or by dissenting lenders. Keeping control of the filing is important and especially so in cross-border situations where recognition issues can arise. The following issues would have to be considered when assessing the applicable insolvency regime: stay of enforcement procedures, who has control over the process and who can appoint the administrator/insolvency officer, ability to provide new financing, voting and cram-down options.

With expectations of longer term recovery in the hotel industry, we anticipate debt restructuring to pick up, along with existing interest and appetite from investors and both existing lenders and investors evaluating their options.

About the authors

Cushman & Wakefield



Kimberly Yoong
*Analyst, Capital Markets
Central & Eastern, South-Eastern Europe*
T +420 720 935 588
E kimberly.yoong@cushwake.com



Bořivoj Vokřínek
*Strategic Advisory and Head of
Hospitality Research, EMEA*
T +420 727 906 030
E borivoj.vokrinek@cushwake.com



About Cushman & Wakefield

We are a force for action

Fuelled by ideas, expertise and dedication across borders and beyond service lines, we create real estate solutions to prepare our clients for what's next.

Who we are

Our purpose is simple: to put our clients and our people at the centre of what's next in the world of real estate.

Our promise is consistent throughout sectors, services and the world. Cushman & Wakefield clients benefit from the best insights, which come from:

- an understanding of changing markets and opportunities
- an agile approach to every opportunity that guarantees adaptable, client-centric solutions
- an unwavering dedication to the business of exceeding the expectations of our clients
- and a collaborative culture that empowers our people and creates new solutions others cannot see
- 4.1bn square feet managed
- USD 7.8bn revenue (2020)
- 50,000 people
- 400 offices and 60 countries

Visit <http://cushwk.co/hotels>

CMS



Ana Radnev
*Partner, Finance
Central & Eastern Europe/CIS*
T +40 21 407 3862
E ana.radnev@cms-cmno.com



Lukáš Hejduk
*Partner, Head of Real Estate & Hotels.
Central & Eastern Europe*
T +420 296 798 892
E lukas.hejduk@cms-cmno.com



About CMS

CMS is a top six global law firm, with 70+ offices in 40+ countries. With over 2,500 lawyers in the UK and a global team of over 5,000 lawyers, we have world-class bench-strength.

CMS advises businesses in all aspects of the hotels and leisure sector. We advise on more hotels and leisure transactions than any other law firm and work with hoteliers, restaurateurs, investors and developers.

Please visit Hotels & Leisure sector page at cms.law to download a *Hospitality Matters* newsletter.

Visit cms.law



This market overview has been prepared solely for information purposes. It is not intended to be a complete description of the market or developments to which it refers. The information on which this report is based has been obtained from sources we believe to be reliable, but we have not independently verified such information and we do not guarantee that the information is accurate or complete.

©2021 Cushman & Wakefield, s.r.o. All rights reserved.

The information held in this publication is for general purposes and guidance only and does not purport to constitute legal or professional advice.

CMS Cameron McKenna Nabarro Olswang LLP is a limited liability partnership registered in England and Wales with registration number OC310335. It is a body corporate which uses the word "partner" to refer to a member, or an employee or consultant with equivalent standing and qualifications. It is authorised and regulated by the Solicitors Regulation Authority of England and Wales with SRA number 423370 and by the Law Society of Scotland with registered number 47313. It is able to provide international legal services to clients utilising, where appropriate, the services of its associated international offices. The associated international offices of CMS Cameron McKenna Nabarro Olswang LLP are separate and distinct from it. A list of members and their professional qualifications is open to inspection at the registered office, Cannon Place, 78 Cannon Street, London EC4N 6AF. Members are either solicitors or registered foreign lawyers. VAT registration number: 974 899 925. Further information about the firm can be found at cms.law

CMS Cameron McKenna Nabarro Olswang LLP is a member of CMS Legal Services EEIG (CMS EEIG), a European Economic Interest Grouping that coordinates an organisation of independent law firms. CMS EEIG provides no client services. Such services are solely provided by CMS EEIG's member firms in their respective jurisdictions. CMS EEIG and each of its member firms are separate and legally distinct entities, and no such entity has any authority to bind any other. CMS EEIG and each member firm are liable only for their own acts or omissions and not those of each other. The brand name "CMS" and the term "firm" are used to refer to some or all of the member firms or their offices. Further information can be found at cms.law