HOTELS & BUSINESS

CUSHMAN & WAKEFIELD

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REPORT

INVESTMENT, a key differentiator in tackling the recovery

REPORT

Hotel strategies for a new era

INTERVIEW

Gabriel Escarrer, President of Exceltur and CEO of Meliá Hotels International

round-up

AT THE CENTER OF WHAT'S NEXT

A SECTOR PUT TO THE TEST

In March of this year, the French president stated that "the virus is the real master of time". Macron made these declarations whilst studying new lockdown measures due to the evolution of the pandemic. The expression is well chosen in that, even after one year following the WHO's declaration of a pandemic, we often stubbornly set timetables that later have to be modified according to the behaviour of the virus.

A number of messages have been launched within the Spanish tourism market aimed at "saving" certain holiday periods such as Christmas and Easter. In reality however, the healthcare situation is determining progress and the goals of the sector are moving towards a medium-term strategic outlook with a view to a proper restart when the vaccine rollout ensures herd immunity, not just in Spain as a destination, but also within our demand generating markets.

The efforts of the majority of the firms linked to the hotel sector, whether from an operational or investment point of view, must be focused on this strategic outlook. Every possible scenario must be analysed in order to act at all times in accordance with the circumstances. The progress of the virus has been changeable and more gradual than most of us first imagined, and now is the time to contemplate a range of action plans.

The main challenge in operational terms has been the need for liquidity, closely tied to the challenge of managing teams of professionals. Support to the sector from central and local government in Spain has lacked specificity. General economic measures have helped to prop up businesses, the original and extended periods of furlough being noteworthy in this respect. However, the majority of the sector, including travel agencies, cruise lines, airlines, etc., have publicly deplored the lack of more direct assistance to guarantee the sustainability of a sector that contributes more than 12% to Spain's GDP under normal circumstances.

The present crisis will undoubtedly transform the hotel industry. Although we may see mergers and acquisitions due to the high degree of fragmentation of the sector, these are yet to be confirmed as a result of the lack of bank financing and demands on the part of investors for price cuts. Investment funds continue to study the market and their interest in hotel assets remains healthy despite the crisis. In contrast to other crises, this time we see that the commitment of funds to the industry is more strategic than opportunistic. We will also see variations in the pace of recovery that will frame the financial well-being of businesses. It is quite possible that the holiday segment will enjoy an earlier and more vigorous arrival of tourists, whereas the recovery could prove slower in urban destinations. Even so, it will undoubtedly arrive because the desire to recover a degree of normality is also building up in the corporate world.

Tourist experiences will also be transformed. Sustainability and digitalisation already form part of the strategy of all businesses. Along the same lines, it will be necessary to optimise resources and await the arrival of European funds to incentivise improvements. Although it is a huge challenge for everyone, the sector has always shown tremendous resilience.

ALBERT GRAU
Partner and Co-head of C&W Hospitality Spain

BRUNO HALLÉ
Partner and Co-head of C&W Hospitality Spain

UNDER WHAT CONDITIONS DO YOU BELIEVE THAT **RENT RENEGOTIATIONS SHOULD BE DISCUSSED AT PRESENT?**

Carlos Pérez-Baz
Real Estate Investment Director at Mutualidad de la Abogacía

under consideration

The negotiation of a lease contract for hotel activities is somewhat different to other asset types with which property managers are more used to negotiating. In contrast to the fixed rent contract model much sought after by those seeking secure and certain rental income, variable rent formulas have for some time been commonplace in these contracts (at least that was the intention on the part of lessees). Just as it seemed that things were getting back to normal, variable rent formulas returned to the stage as a consequence of the extended period of uncertainty for the industry due to the healthcare crisis and its direct impact.

Those of us who are linked to hotel operators through a fixed rent lease contract (plus variable component, in some cases) have, in the face of the forced closure of the business activities of our tenants, been left with no option but to negotiate temporary rebates, often in exchange for extensions to the contract term. Negotiations or, at a minimum, the scope of negotiations, have consequently been unequal according to the time of year in which they were undertaken. From March 2020 and up to the end of the first State of Alert, during which time activity was prohibited, negotiations could not be of the same scope as those subsequent to this forced closure. As of the aforementioned date, operators were free to choose whether to continue operating, although in many cases the numbers did not add up to justify opening. Financial losses were greater due to the lack of guests. This was particularly the case where a significant, non-recoverable economic outlay was necessary in order to ensure a degree of safety when opening the business.

Asset managers are duty bound to maximise profit. Nevertheless, it is essential to empathise and put ourselves in our tenants' shoes, endeavouring to make operations viable at present and in the future, temporarily modifying contracts to fit the current situation so that, when the recovery comes, we are able once again to revert to the previous contract terms. The foregoing is clearly applicable to those operators who, with reciprocal assistance, are able to survive. Where this is not the case, it is better to arrive at agreements for premature termination rather than pursuing insolvency proceedings that could entail a worse outcome for all parties.

Marlén Estévez
Partner in the Litigation and Arbitration Department - Roca Junyent

The COVID-19 crisis is forcing a reconsideration of practically every lease contract and we are witnessing a generalised trend throughout the hotel sector.

2020 closed with a severely impacted tourism industry, revealing an unprecedented challenge faced by the sector. Leading hotel businesses are fighting to continue the transformation and rejuvenation of the industry in order to escape from this crisis. This battle unavoidably includes renegotiations between tenants and landlords. As lawyers, we attempt to find the most suitable mechanism to create robust, legally sound propositions that bring counterparts to the negotiating table.

Within this context, it is important to point out that there was a first phase, from the declaration of the state of alert on March 14, 2020 and up to the summer, in which the majority of cases centred around mitigating the negative effects of the total closure of hotel establishments. Generally speaking, the sector faced up to the circumstances in a highly constructive frame of mind due to the fact that, at this time, it was thought that the situation would be short term (three months) and then everything would get back to normal. The terms under negotiation during this phase included the suspension or reduction of rent payments for the time period in which hotels were legally required to remain closed.

In contrast, the second phase has been moulded by the more complex limitations of the 'new normal', the fact that the consequences of the economic crisis unleashed by the pandemic are beginning to be felt and that the performance of those hotels that are open is very poor, with a resulting fall in profitability and a severe impact on the economic foundations of businesses. In other words, it is becoming ever more evident that the economic crisis is now following on the heels of the healthcare emergency. Major hotel businesses are struggling to pay rents at levels agreed prior to the pandemic, necessitating new renegotiations. We therefore consider that the real challenge is coming now as situations are redefined within a context of greater uncertainty and with expectations for rent recovery deferred over the long term.

There are extensive options on offer and the passing months have thrown greater light on the possibilities that hoteliers have available. These options include:
1. the renegotiation of the contract, eliminating fixed rent and changing to variable rent for a specified period where the variable component can be related to occupancy or gross operating profit,
2. rent reductions according to the % fall in sales, comparing the current and previous financial year,
3. rent remissions for a specified period of time, with the condition of extending the contract for a greater number of years and,
4. payment deferrals until such time as hotels begin to be operational,
Nonetheless, we have scarcely seen any examples of the discharge of lease contracts over these months. This is undoubtedly due to the fact that contracts in this sector are usually of continuing performance and major investment has been made in the adaptation of hotels. As a result, the will of the parties lies in continuing to operate the business wherever possible.

Although it is true that the aforementioned options can be achieved through negotiation, by initiating precautionary measures or through the modification of the rent pursuant to the rebus sic stantibus clause, with the latter it is important to bear in mind that to date solely a Court of First Instance has made a judgement, the court system is overwhelmed and there is a dire need to reach agreement in the short term. I consider it essential to re-establish the role of dialogue and consensus. With this in mind, and in the words of Otto Scharmer, it is essential to listen with all of our mental faculties, as well as with our hearts and in good faith.

CUSHMAN & WAKEFIELD'S VIEWPOINT

A DUAL-SPEED RECOVERY

A number of surveys, among them the "Hotel Operator Beat", show that 46% of operators on the Iberian peninsula consider that the indicators achieved by the holiday segment in 2019 can be recovered by 2022. Despite the healthcare setting, half of hotel operators consulted by Cushman & Wakefield stated that either all or the majority of their development projects continue to follow their initial planning.

Hotel Riu Palace Oasis, Gran Canaria

Performed at the close of 2020, the Hotel Operator Beat survey included the participation of 50 hotel companies active in Spain and Portugal, representing a total of 200,000 rooms. The purpose of the report was to gain insight on the outlook for recovery and the strategic planning of businesses in the context of the inflection point brought about by the pandemic.

THE VACCINE ROLLOUT WILL BE KEY TO DRIVING THE FIRST STEPS TOWARDS RECOVERY

VARYING PACE OF RECOVERY

he outlook in terms of the recovery varies significantly between the various destinations on the Iberian Peninsula. In general terms, hoteliers consider that holiday destinations (coast and islands) will be able to recover in advance of the major cities. As we can see from the diagram, some 46% of the interviewees believe that, in coastal areas, 2022 will see the achievement of the figures posted in 2019. This percentage dips slightly to 41% in the case of the islands, although some 9% are more optimistic, believing that there will be a full recovery there in 2021. Current progress evidently depends to a large extent on the vaccine rollout in Spain and in the main demand generating markets. Whilst the UK appears to be racing ahead, other European countries such as France, Germany and Italy remain stuck as a result of a lack of vaccine distribution.

According to Bruno Hallé, Partner and Co-head of Cushman & Wakefield Hospitality Spain, "mobility during summer will undoubtedly be subject not only to the capacity of countries to make progress in terms of the vaccine rollout, but also depend on the implementation of a European vaccine passport or rapid testing to enable mobility. Whilst Spain is not currently optimising these processes, other competing markets such as Greece are being highly proactive and may be able to divert part of potential tourism".

Some 60% of the survey respondents considered that Barcelona will not achieve the record figures posted in 2019 until 2023. The survey was slightly more optimistic with respect to Madrid, some 23% considering that full recovery could be achieved in 2022, whilst 48% feel that this will be delayed until the following year. The first step towards recovery will be the arrival of leisure tourism.

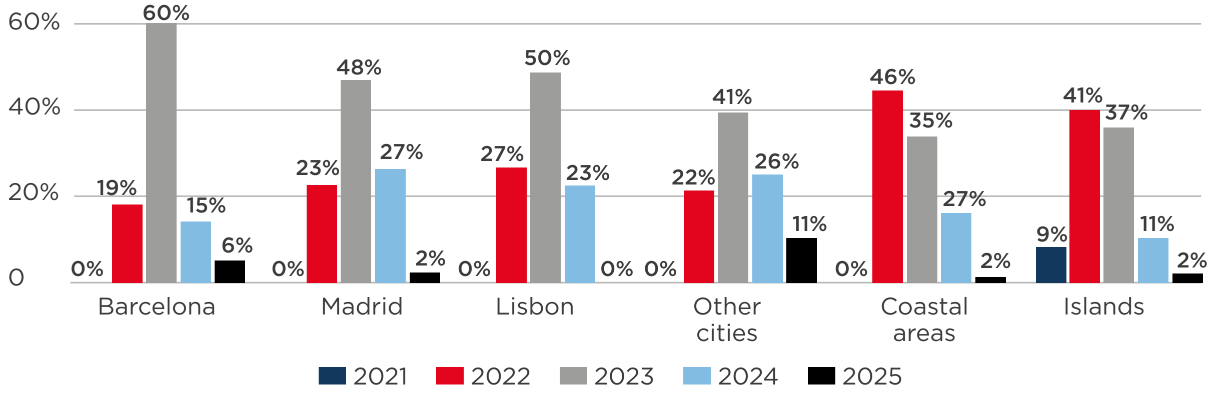
The outlook for Madrid and Barcelona is similar to that of Lisbon, a destination experiencing extraordinary evolution in 2019, prior to the pandemic. In this case, full recovery is expected in 2023 by 50% of operators, whereas some 27% feel that this may come about one year previously and another 23% believe that it will be necessary to wait another year, i.e. 2024.

THERE IS INTEREST, THE FIRST STEP IN DISCERNING THE FUTURE

A number of studies performed in recent months clearly show that the recovery would arrive immediately if it were in the hands of the public. A study from the beginning of this year by Phocuswright shows that three quarters of the interviewees expect their companies to allow them to travel as soon as the opportunities arise. Undertaken in the United States, it was possible to see from this survey that people would prefer corporate travel within the country and that international travel will require more time. In the opinion of Albert Grau, "the global crisis is a factor making all of us more responsible in the sense that the recovery must be consolidated through coordination between all players. At a European level, the EU must be capable of developing the necessary policies to ensure vaccination and, from that point, establish the necessary protocols to ensure the real opening of borders, if possible by this summer".

The Canary and Balearic Islands are already working towards the coming summer season. As an example of this, Meliá has reported that it is activating a plan for the reopening of 29 of its hotels, primarily in the above two destinations and on the mainland coast. Riu and Iberostar have made similar announcements. Progress over the coming months is, however, uncertain. There are undoubtedly two positive factors: demand is on the up and interest is growing continually, whilst hotel chains are acting with the utmost diligence in order to ensure safe opening. Aside from that, it will be necessary to watch the progress of the pandemic along with the rollout of vaccines, the latter of which everybody hopes will speed up.

WHEN WILL THE MARKET RECOVER (REACHING LEVELS SIMILAR TO THOSE OF 2019)?



interview

GABRIEL ESCARRER

PRESIDENT OF EXCELTUR AND CEO OF MELIÁ HOTELS INTERNATIONAL

How does Exceltur see the outlook for the 2021 summer season?
The level of uncertainty is limiting our vision. With the utmost prudence, our forecasts (in line with those of airlines) point towards the vaccine rollout, together with improved international coordination to ensure safe travel (such as the digital Health Passport, etc.), enabling the lifting of the indiscriminate restrictions on travel (ineffective due to the fact that transmission is largely community-based) and allowing us to see the beginning of recovery in the third quarter, as of the months of June or July.

The earliest recovery is expected within domestic travel on the part of the Spanish. We are, however, hopeful of a strong uptick in bookings in markets such as the UK, once the possible lifting of prohibition on travel is announced. This will confirm the solidity of pent-up demand in our main markets. The market consensus is that an optimum scenario would amount to reaching 50% of the occupancy recorded in the third quarter of 2019, mainly from the Spanish and UK markets.

The tourism industry has been the most severely impacted by the healthcare emergency. Do you consider that the necessary measures have been taken to protect it?
In Exceltur, we understood from the outset the seriousness of the impact on the sector, many calling it “the great tourism and transport crisis”. We set out before the Authorities the need to act on various fronts in order to avoid the wholesale destruction of the tourism industry and employment and, meanwhile, to strengthen the competitiveness of a sector that has been a global leader in recent years, Firstly this entailed the deployment of business rescue and employment protection measures, followed by measures needed to incentivise the recovery of activity and mobility and, finally, measures to enable transformation and drive competitiveness.

Gabriel Escarrer represents the second generation of the family that founded what is today Meliá Hotels International, a multinational business with more than 390 hotels in over 40 countries on 4 continents, and which is listed on the Ibex 35. Having graduated from the Wharton School of Business, Gabriel Escarrer Jaume worked at Salomon Brothers investment bank in New York, where he participated in the successful IPO of Meliá Hotels International, the firm founded in 1956 by his father, Gabriel Escarrer Juliá. In 2009 he was named Group CEO and Vice-Chairman and has driven unprecedented cultural and organisational change, with a clear focus on corporate responsibility. In 2016 and following the founder's resignation of his executive powers, he became the chief executive.

We can say that the management of furlough has been very positive in avoiding the immediate, wholesale destruction of employment. Assistance to businesses (which will have to sustain this employment over the long term) has, however, been very inadequate. Credit packages through the ICO are insufficient in a crisis lasting this long, and over-indebted businesses now have no recourse to these. There have been no real non-recoverable tax breaks and the regulatory framework has not been favourable towards reducing rents and mortgages. Above all, there has scarcely been any direct assistance which, in neighbouring countries, has proved essential.

Consequently, in answer to your question and bearing in mind the strategic contribution of tourism to the national economy and its "pull" effect on other economic sectors, it is evident that insufficient priority has been given to the sector and the measures taken to protect it have been inadequate.

Exceltur is advocating a scheme of direct assistance to the sector. Broadly speaking, how should this scheme be implemented? What is the probability of this being pursued?
In Exceltur we have once again done our homework, analysing the worst impacts and quantifying the most urgent and significant needs. We have compared the assistance offered in other countries and made a highly detailed proposal to the Government. This amounts to a total of €5.318 billion (rising by a further €3 billion if we include the entire restaurant sector).

The goal of this assistance is to cover costs that cannot be adjusted to the fall in revenue suffered (hovering around an average of -70%). These include overheads and non-adjustable variable costs, with a proposed financing framework covering between 60% and 80% of the aforementioned costs during the first six months of 2021. Although the priority target for this rescue plan would be SMEs, we have also advocated for the maintenance and prioritisation of the SEPI support package for large strategic businesses.

Although we are yet to see whether the plan announced by the Government, of up to €11 billion, will properly target these goals, we have made ourselves available to the Authorities to discuss and share in a process that will be crucial to the survival of many businesses. These are uncertain as to whether they will be able to cover the last mile of the marathon which the pandemic is proving to be for the tourism sector.

One of the key measures since the beginning of the pandemic has been furlough. What is your appraisal of this measure and how long do you think it should last?
As I said, furlough has played an essential role in avoiding the large-scale destruction of employment over the short term (even though hundreds of thousands of jobs have been lost). Having said that, the unexpected length of this crisis and the severity of the recovery process that businesses are facing, with a reactivation that is expected to be both partial and slow within a context of worldwide economic contraction, requires a rethinking and reorientation of furlough. This needs to become a structural rather than circumstantial measure in the context of the occurrence of a series of events. It needs the utmost flexibility, such that businesses are able to adapt and resize their workforces according to the evolution of demand over the coming months.

In terms of a cut-off date, we have a commitment on the part of various ministers that it will be maintained "while it remains necessary". That is a lot to say in such a volatile situation whose end is as unpredictable as the pace of recovery.

The vaccine rollout is now fully underway. How could it improve in order to guarantee influxes towards the main tourist destinations, whether holiday-oriented or urban?
In terms of vaccinations there are a number of levers that could be pulled in order to improve the situation. These revolve around international relations, healthcare organisation, logistics networks, etc. Nevertheless, I believe that policy at a national level should, within the vaccination rollout strategy, take into account a sector which, though it is neither healthcare, teaching, nor security, is responsible for the health of a major chunk of our economy, namely workers within the tourism sector. I believe that the vaccination of these workers would be a vital contribution to the image and reality of Spain as a safe tourist destination, as well as to saving an upcoming summer season that is crucial to the survival of thousands of businesses and jobs.

Along the same lines, how do you feel that major hotel firms have performed in the face of this huge challenge? How have they faced up to the challenge of cash flow? In terms of strategic plans, do you feel that these will remain unchanged or will they need adapting to a large extent?
From the very beginning of this crisis it was clear to us in MHI that we would have to work on two fronts and in tandem: with a contingency plan enabling us to prevent and mitigate the worst impacts of the crisis, being vigilant with regard to the safety of customers and employees, the liquidity and solvency of the Group, the maintenance of operations and the reputation of the Group and its corporate responsibility commitments.

In addition, and as I have already mentioned, we focused on resetting ourselves by undertaking an operational reorganisation to increase digitalisation and efficiency and we decided to take advantage of the quieter months to revisit our strategic plan, strengthening and refining some of critical areas such as digitalisation, whilst developing other areas in order to respond to the challenge of the new, post-Covid context in terms of expansion, digitalisation, sustainability, etc.

In terms of the liquidity challenge, we first launched a cost reduction plan, achieving a cut of 50.6% in operating expenses to mitigate the impact of a fall in revenue of -70.7% during the financial year 2020. Thanks to extensive collaboration on the part of our banks and the fact that we are underpinned by the value of our assets (more than €3.7 billion according to the most recent valuation by Jones Lang Lasalle in 2018), we managed to attract sufficient financing, closing December 2020 with €316m in cash and unused credit facilities. In addition, and until such time as cash flow recovers following the crisis, we will

“INSUFFICIENT MEASURES HAVE BEEN TAKEN TO PROTECT THE TOURISM SECTOR”

continue exploring other funding and debt reduction streams, possibly including the sale of some assets.

There is a lot of talk about European funds as a mechanism for recovery. How has the hotel and tourism industry acted in order to be able to access these funds? What should be the main goal?
European funds are not going to “save” companies that are at severe risk of going out of business due to Covid (for that it is necessary to implement other measures at a state level, such as the rescue plans that I have been explaining). They can and must, however, act as a key lever in the competitive transformation of this country, taking advantage of the recovery and reconstruction period. I believe that the economic modernisation of many sectors will depend on these funds (tourism being a priority among these). That is why we are placing our trust in public-private collaboration to present and assign the funds to those projects that are most necessary and productive and which will have the greatest pull and multiplier effect on the economy as a whole.

I must say here that I feel extremely proud of the hotel industry in that four large hotel companies have led more than 70 businesses and public and private entities in presenting two initiatives that should take shape in the form of dozens of highly significant projects with the capacity to lead to a major transformation of our tourism model, guaranteeing the maintenance of the global leadership position held by our country until the present day.

Aiming to attract a combined total of some €8 billion, the two most important initiatives are aimed at “Tourism of the future - responsible and smart” and the “Regeneration of mature tourist destinations”. Aside from being an example of unity and public-private collaboration, these initiatives bring together an extraordinary degree of know-how and I hope that our country proves capable of supporting them in Europe and of effectively and efficiently managing the historic opportunity offered by the Next Generation EU funds.

In terms of the recovery, do you think that we will see this at two different speeds, one for the holiday sector and another, slower pace, for urban tourism? What are your expectations?
That’s right; we feel that holiday tourism will recover soon because its crisis is entirely circumstantial - it is due solely to the restrictions placed on travellers by the pandemic and the response to the pandemic. The strength of holiday demand has been evident every time that restrictions have been lifted, such as when bookings from British travellers soared following the announcement by Boris Johnson’s government that the travel ban would be lifted as of this May.... Urban tourism, however, is facing a more structural crisis and could take up to two years to achieve results similar to those of 2019. This is due to the fact that both individuals and businesses have profoundly embraced digital communication and video-conferencing, whilst virtual and hybrid events have enabled the vast majority of business activities and meetings to continue regardless. Although these will never fully replace interpersonal relationships and travelling in person, we believe that the restoration of confidence in these will take time.

You have been critical of the Government during the management of this pandemic. Do you feel that the position of Spain as a brand will suffer? Should measures be implemented with respect to this?
The pandemic has been a global problem, in the face of which some countries have responded better than others. The results demonstrate that in many countries our handling of the situation could have been better. Our first big mistake was a lack of coordination. Spreading responsibilities among the 17 Autonomous Regional Authorities was not helpful in terms of an effective and efficient fight against an enemy such as Covid-19. Another major error was the failure to prioritise the tourism sector in the rollout of assistance to offset the loss of business revenue. Assistance packages have become a key factor in conserving the competitiveness of our sector and maintaining, according to the World Economic Forum, the leadership position held by our country for many years. If we fail to prioritise tourism, there is a risk that we will slip down the ranking of the major demand generating markets in favour of competing tourist destinations.

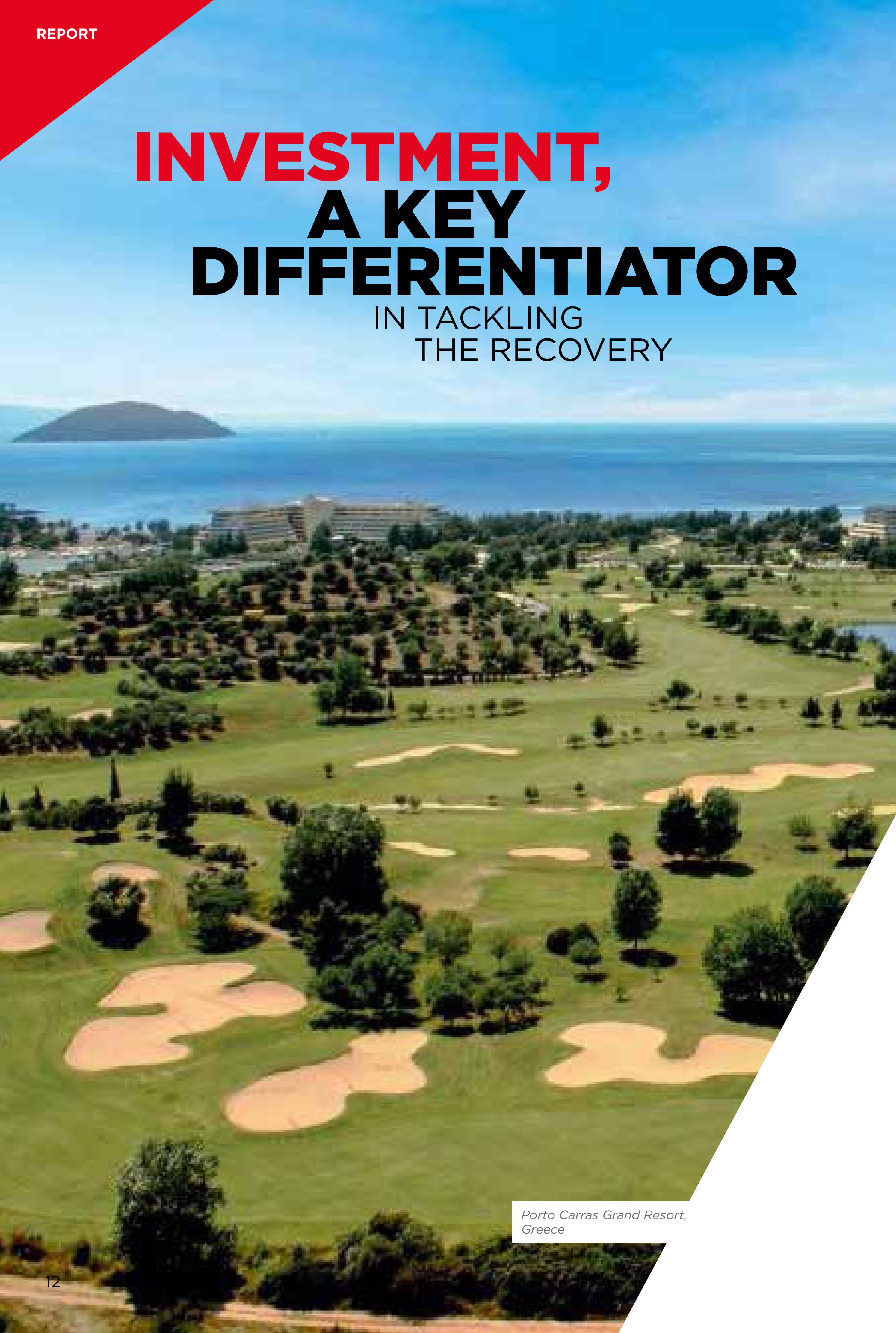
As already mentioned, priority must also be given to assigning a significant portion of European funds to the competitive renewal and improvement of the tourism sector in terms of quality and sustainability, particularly with respect to the large, mature destinations on the Spanish coasts.

The balance sheet for the sector presented by Exceltur showed that tourism’s share of Spain’s GDP dropped from 12.4% in 2019 to 4.3% in 2020. What is the possible outlook for 2021?
2020 was undoubtedly the worst year in the history of tourism, with falls that we would scarcely have ever imagined. However, due to the specificity of the pandemic, it is not comparable to any preceding or, we hope, future year.

Dealing with 2021, the first thing that needs highlighting is the poor visibility. The evolution of the sector will depend on factors that are out of our hands, such as the pace and effectiveness of the vaccine rollout, the establishment of common control systems to enable safe mobility and the opening of borders, etc., as well as the degree to which businesses survive and the extent to which employment in tourism can be maintained. The first quarter of 2021 was disastrous due to restrictions on mobility that blocked more than 85% of tourism demand for our country.

In general terms, if we are able to match our expectations of a strong recovery in the second half of the year, the sector believes that it could achieve a sales level amounting to 50% of the figure for 2019. This would represent a fall in tourism GDP of approximately -40% in comparison with pre-pandemic levels. We anticipate a faster recovery for coastal destinations, particularly those that are more dependent on domestic demand. We also hope to welcome tourism from markets such as the UK which, listening to business people such as Michael O’Leary, the CEO of Ryanair, would be open for travel to Spain as of June, provided that the conditions for safe travel exist. Since the beginning of the pandemic, the entire sector has striven to create protocols and systems that guarantee health protection throughout the tourism value chain. I must say that this has been a great success as no significant outbreaks have been recorded.

INVESTMENT, A KEY DIFFERENTIATOR IN TACKLING THE RECOVERY



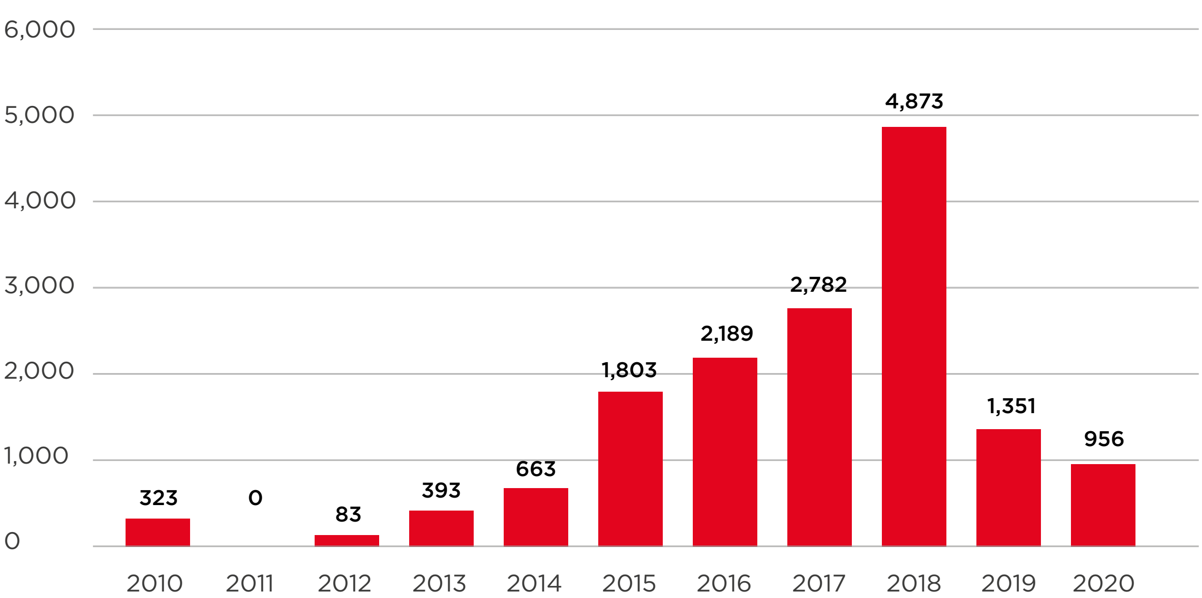
Porto Carras Grand Resort, Greece

In 2018, Spain broke its record for hotel investment, achieving a figure of €1.3 billion in transactions. This dropped to 1.351 billion in 2019 and, in 2020, the figure contracted further to around 1 billion due to the pandemic. The dynamics of investment are currently at a crossroads due to the lack of activity and visibility in the sector. Nevertheless, every indicator is pointing towards an upsurge in deals in 2021.

The up-cycle in the tourism sector was endorsed during the past decade, with significant growth in hotel investment in Spain. This trend led to a record-breaking 2018 which saw price growth in specific markets, particularly Madrid and Barcelona, the latter of these being highly impacted by the moratorium. As a consequence of this overheating, 2019 and 2020 saw a slowdown in investment due to two factors. On the one hand the market lacked the attractive portfolios and products seen in previous years, whilst prices were also jeopardising future yields. Within this context of price rationalisation and selective deals, with hotel companies financially unencumbered, we entered the healthcare crisis and this has completely transformed the economic map.

HOTEL INVESTMENT VOLUME - SPAIN 2010-2020

in million Euro



Barcelona Edition Hotel

HOW WILL THE SPANISH MARKET EVOLVE?

The uncertainty surrounding the market will not prevent a resurgence in investment during 2021. Deals valued at 1.5 billion Euro are currently in the pipeline in Spain and this figure may grow during the coming months. A figure of 800 million Euro for the whole of Spain has already been achieved in terms of deals signed off during the first quarter.

Figures at the close of year could reach those of 2018, depending on the ability to reach agreement in the case of the largest deals. This will depend upon bank and alternative funding, as well as the discounts that owners are willing to accept. Although international investment funds remain interested in Spanish destinations in spite of the crisis, deals have made slow progress in recent months due to the gap between the expectations of buyers and sellers. In short, the price factor will determine whether some transactions are completed, although the lack of visibility due to successive waves of the pandemic and the difficulty in obtaining funding from financial institutions will also have an impact.

In the main, buyers are waiting for bigger discounts. Currently these are not exceeding 10% - 15% due to the fact that, despite the severe lack of visibility in the hotel industry, companies are in better financial health than during previous periods such as the financial crisis that began in 2008. ICO credit packages, furlough and lower levels of indebtedness explain the reluctance to lower prices.

According to Albert Grau, Partner and Co-Head of Cushman & Wakefield Hospitality, "we find ourselves in a changing scenario in which the only certainty is that investors remain interested in hotel assets. We will see deals making progress and coming to fruition once tourism returns, possibly with discounts exceeding 15% in the majority of destinations".

Owing to the fact that investors also anticipate a more rapid recovery in activity in the holiday segment, it is here where the possibilities of attracting investment are higher. For their part, major cities will have to wait a little longer and there is no certainty regarding MICE travel, the recovery of which may prove more troublesome. What is clear according to many surveys is that the demand side is hungry for travel and this will improve the results and expectations of all parties.

A GLANCE AT EUROPE

For Europe as a whole, Cushman & Wakefield Hospitality participated in the sale and acquisition of 19 hotel assets between March and December 2020. This figure represents more than 3,000 rooms in 8 countries, with notable deals such as the Porto Carras luxury resort in Greece, the Hotel Boulevard Victor in Paris and the sale of the hotels belonging to the B&B chain in Prague and Budapest. The Hospitality department has been present in all segments, from luxury to limited service, and the goal for 2021 is to see a rise in these figures. 48% of the deals in which the firm has participated were situated within the holiday segment.

Similar dynamics can be seen in the various country surveys produced by Cushman & Wakefield. Although the UK investment Marketbeat for 2020 showed a fall in transaction volume since 2018, an upsurge is also expected in 2021. A total of 21 deals were struck in London in 2020, representing a figure of around £1.8 billion. In terms of sectors, forecasts point towards the possibility of those cities that are more attractive to domestic travellers as being the greatest beneficiaries of the resurgence, whereas London may take longer for the same reasons as Madrid and Barcelona. The mix of corporate and leisure tourism, as well as the importance of international travel, mean that major cities are somewhat more exposed to the current situation.

For Europe as a whole, the fall in investment in 2020 amounted to 63%. Although the presence of institutional investors was important, private investors also played their part, the two representing 48% and 40% of the total respectively. The lion's share of these investors were European, with a clear reduction in activity on the part of American and Middle Eastern funds.

According to Bruno Hallé, "the current dynamics get in the way of drawing any conclusions based on the 2020 data. All deals are being studied in depth prior to any decision-making owing to the uncertainty regarding future yields. Once the industry gets back on its feet we will see greater willingness to close deals and the search for creative solutions to debt renegotiation, etc. Within this context, institutional investors looking at the long-term may prove to be the greatest beneficiaries of the new market conditions".

This in-depth analysis of possible deals entails the outsourcing of the corresponding technical, commercial and legal due diligence processes to experts. The Hospitality Department of Cushman & Wakefield offers the best guarantees in the production of these independent reports.

The entry of investors into the market will energise corporate strategies. We may also see hotel chains studying mergers and acquisitions through investments that enable them to improve their financial capabilities and, from there, grow their competitiveness in key destinations.

INVESTMENT DEALS MUST BE EXAMINED DOWN TO THE LAST DETAIL, BASED ON INDEPENDENT REPORTS THAT PROMISE GUARANTEES

Hotel Único, Madrid

HOTEL STRATEGIES FOR A NEW ERA

Hotel businesses are facing an unprecedented challenge from multiple angles. Following 12 months of the pandemic and restricted mobility, we now find ourselves in the most convulsive environment imaginable. Whilst occurring at a varying pace according to country, the vaccination rollout should lead us consider this a positive turning point. The steady upturn will take us back to the levels enjoyed by the industry in 2019. The unknown quantity is how long this will take.

The goal of the majority of businesses in tourism, the worst affected sector overall, has been none other than survival during a year in which activity has been drastically curtailed. According to data from the Hotel Industry Barometer for Spain, produced jointly by STR and Cushman & Wakefield, revenue per available room (RevPAR) fell by some 67.8%. Although a certain degree of activity was registered in some specific destinations during the summer months thanks to domestic tourism, the arrival of subsequent waves of the pandemic in autumn and following Christmas and Easter closed hotels and limited the movement of people.

THE FINANCIAL CHALLENGE

This lack of revenue has a direct impact in terms of the maturity of short-term debt and on the liquidity required to pay unavoidable overheads despite the absence of activity. Though part of the sector fortunately went into the crisis in good financial health, this may deteriorate rapidly in the event of a lack of revenue. We have sought out a number of solutions in order to reverse this situation.

One consists of the refinancing of this debt. In order to provide the hotel industry with the fuel that it needs, it has been necessary to study multiple options with the financial sector on board as a key player. The policy of “amend & extend” represents one of the most commonplace options, requiring the willingness of both parties to achieve a balance, along

Room Mate Alba, Madrid

with solid agreements that ensure viability over the short term as well as the capacity to restart business as soon as the demand side returns to the market. Another option consists of the restructuring of hotel asset portfolios, enabling the sale of some assets in order to tackle the issue of operational survival, debt repayment terms and the renegotiation of debt itself. Along the same lines, the entry into company equity capital of new partners in the form of investment funds also represents an option. These have the capacity to inject short-term capital with a view to future recovery. This entry of new partners may take the form of a Propco with investment in real estate assets, or through an Opco format, conducting hotel operations. Additionally there are investors that enter as OpCo and PropCo, firstly in order to control the management of the assets and, secondly, as a platform with which to grow and acquire more hotels in the future.

DESPITE THE HURDLES, THE SECTOR HAS COME UP WITH FORMULAS TO GUARANTEE LIQUIDITY

Sale and leaseback and sale and manage back deals represent other possible solutions for improving liquidity and meeting cash flow demands. These enable the former owner to hold onto the management of the asset following its sale.

The severity of this crisis leads us to think that some companies will not be able to survive on their own and to anticipate corporate mergers that will possibly reduce the fragmentation of the sector and even improve its competitiveness in the near future. The entry of international partners in the stock of Spanish companies may offer operational advantages, improved sales channels and better penetration in key demand generating markets in which Spain has room to grow These include particularly Asia, as well as America and the Middle East.

SUPPORT TO THE INDUSTRY

From an institutional point of view, the hotel industry has also called on the authorities to consider its needs. Although on the one hand the general framework of furlough and ICO credit packages has been positive, the implementation and scope of these have not always been appropriate. Meliá, Barceló and Riu have committed to furlough at least until the end of May, and perhaps beyond that point in the likely event that it is extended. According to data from the Ministry of Labour, there were still some 440,000 employees linked to tourism on furlough in January 2021, of which some 25% of the total correspond to hotels.

In terms of ICO packages, a number of voices within the sector have claimed that these are insufficient in that they are far removed from the true needs of the industry. The use of ICO credit packages is also limited insofar as they cannot serve, for example, as surety in a lease contract. Alternative funding options have also appeared within this context, an example being the issue of bonds on alternative markets. The price of this cash is, however, high, and may put future yields at risk. It is important to properly study these operations and, on occasion, hotel companies do not possess financial departments with the essential expert know-how regarding alternative exchanges. External advice is crucial to avoid entering into unwanted scenarios at such difficult times as these.

EUROPEAN FUNDS IN THE REVIVAL OF THE SECTOR

Digitalisation, sustainability, safety and marketing represent the four often interconnected challenges in the revitalisation of the hotel sector. At a national level, it will be important to work on the branding of destinations, both in terms of the country and each of the various locations. According to reports such as that of the Instituto Mesias, an independent think tank dedicated to monitoring Spain as a brand, or the Country Brand Awards, the image of Spain has deteriorated during the pandemic, particularly in Scandinavia.

This overseas perception of the brand requires intense promotional work necessitating public-private collaboration in order to create inspirational messaging based on well-known values as a successful destination. To the aforementioned it will be necessary to add a clear vision regarding safety and hygiene, values that will be key when deciding upon a holiday destination. The tourism brand messaging will be key to consolidating the recovery and trust in the coming months and years.

To maintain its second place worldwide as a tourist destination, Spain needs to continue working on the aforementioned aspects of its tourism offering. The fact that sustainability must be a strategic focus at every level has been adopted as a key challenge by the hotel industry.

The tourism sector has submitted its projects in order to procure Next Generation EU funds and these must form part of the roadmap for recovery. These projects are Smart Hotels (for digital transformation, sustainability and the energy efficiency of hotel establishments); a platform for the Development of the Smart Tourism Ecosystem and Fast-tracking of E-Commerce Solutions; the creation of a Experience Centre for the sector, aimed at sustainability; Sustainable Urban Tourism Mobility and a Cybersecurity Centre of Excellence specialising in the accommodation industry.

These proposals have been submitted by CEHAT and are derived from a report produced in collaboration with the Hotel Technology Institute (ITH) and PwC.

These are not the only projects that have been submitted by the hotel sector in the hope of receiving European funds. An example of this is "Towards Smart, Sustainable Tourism 2021-2026" sponsored by the FI Group and supported by 70 companies in the tourism sector. This seeks €5.8 billion to be assigned to four vectors: smart tourism, circular economy, carbon footprint reduction and sustainable construction.

An exclusively hotel-oriented project brings together the chains Riu, Iberostar, Meliá and Barceló in a proposal for the restructuring of mature destinations with anticipated investment of €2 billion in 12 regions that comprise 25% of tourism in Spain, such as Magaluf, Adeje and Torremolinos, among others.

The bailout funds of the State-Owned Industrial Holding Company (Sociedad Estatal de Participaciones Industriales - SEPI) represent another possible source of financing. Businesses belonging to the tourism sector have to date applied for around €13 billion, some 13% of the total funds that the Government has made available.

In short, the sector is hopeful that these European funds can be assigned to operational improvements for the sector as a whole and the hotel industry in particular. The share-out and timing of the arrival of the funds will be known during the second half of 2021.

A notable aspect of the handling of the crisis is the fact that major companies have shown themselves capable of reaching agreements and proposing projects and solutions that guarantee the continuity of business and employment. With this in mind, exiting the crisis may strengthen strategic ties within the sector around a series of common goals such as digitalisation and energy efficiency, without which it will be be impossible to guarantee competitiveness in the future.

MEASURES PROPOSED BY THE BOARD OF TOURISM

The Board of Tourism is a meeting, dialogue and opinion forming group comprising fifty prominent individuals, businesses and professionals from the private sector of Spain's tourism industry. Bruno Hallé, a partner at Cushman & Wakefield, is a board member and has submitted a series of specific measures aimed at the reactivation of tourism:

- Speeding-up of the vaccination rollout with a target of vaccinating 70% of the population by summer, using creativity and every resource in the service of this.
- Creation of vaccination passports.
- Acceptance of antigen testing for arrivals in Spain.
- Coordination between authorities in order to avoid restrictions on mobility throughout the country.
- Coordination with the European Union in the application of common criteria.
- Relaunch of the Spain Brand as a safe, sustainable tourist destination.
- Inclusion of the entire tourism sector in a Spanish Recovery and Resilience Plan in order for it to benefit from European funds (Next Generation)
- Reduction in VAT to 5% for all sectors until the end of 2022.
- Extension of furlough throughout 2021 and removal of the job retention clause, along with the preservation of the corresponding assistance to the self-employed (provision for cessation of trading).
- Direct assistance to offset the fall in business activity, along with a reduction by law of the rent of premises by 50% for a period of 12 months.
- Assistance in the funding of the sector through greater flexibility and the extension of free-rent periods and credit repayment time frames.
- Sufficient funding of municipalities by central government through rebates, such that town and city councils, particularly those with greater volumes in terms of tourism, are able to write off or provide rebates for local taxes to various players in the tourism industry, particularly hotels and restaurants.

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With more than 30 years' experience in Spain, Cushman & Wakefield covers the entire country. The head offices are located in Madrid (Edificio Beatriz, José Ortega and Gasset, 29, 6º) and Barcelona (Passeig de Gràcia, 56, 7º). For further information, please visit www.cushmanwakefield.es or follow us @CushWakeSPAIN on Twitter.

agenda

MAY 2021

▸ XVI HOSTELTUR FORUM 2021
May 13 / Madrid
www.hosteltur.com/foro/2021

▸ FITUR
May 19-23 / Madrid
www.ifema.es/fitur

▸ IMEX /
Int'l Exhibition for Incentive Travel, Meetings and Events
May 25-27 / Frankfurt
www.imex-frankfurt.com

JUNE 2021

▸ B-TRAVEL
June 11-13 / Barcelona
www.b-travel.com

SEPTEMBER 2021

▸ IHIF
September 1-3 / Berlín
www.hospitalityinsights.com/ihif

NOVEMBER 2021

▸ WORLD TRAVEL MARKET
November 1-3 / London
https://www.wtm.com/london/en-gb.html

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