HOTELS & BUSINESS

CUSHMAN & WAKEFIELD

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REPORT

Investors drawn to property assets in holiday destinations and the luxury segment

HOSPITALITY LAB

The third edition of the Lab gets underway

INTERVIEW

Salvador Pastor, Partner Debt & Structured Finance EMEA

round-up

HOTEL ASSETS REMAIN ATTRACTIVE TO INVESTORS

Some ten months ago we began the year with the uncertainty generated by the Omicron variant delaying exit from the pandemic. Easter marked the beginning of the recovery, speeding up and consolidating over the summer season. In such an unpredictable year, caution understandably tempers optimism when considering what is to come in 2023.

Optimism is entirely justified given that the year is coming to a close having almost fully recovered the performance seen up to 2019. We have witnessed holiday destinations exceeding pre-pandemic revenue figures and a resurgence in activity in terms of corporate tourism, gingerly at first buttressed by major events, though becoming steadily more widespread and at a pace to which we had become accustomed. Following a 2022 with levels 8 percentage points below the figures recorded in 2019, 2023 should see a full recovery in occupancy as a consequence of the arrival of travellers from source markets such as the Americas (who began to arrive this year) and Asian countries where there are still severe restrictions on movement, such as China or, for obvious reasons, Russia.

In addition to hotel operations, the investment market has also proven itself energetic, with a number of significant deals that help to continue the transformation of the Spanish hotel stock, the distinction between owners and operators becoming ever clearer. The entrance of major investment funds has speeded up this process in tandem with circumstances that force increased professionalisation at every level so as to remain competitive within the global context. The Annual Hotel Investment Conference that we organised in October in Madrid demonstrated that investor appetites remain focused upon the Iberian peninsula. These investors are particularly open to studying opportunities in the upscale and upper upscale segments and, at the opposite end of the scale, economy hotels. The major national and international chains are making huge efforts in these segments in terms of positioning, launching new specialised brands and increasingly seeking to customise the experience of each traveller, a common element throughout the industry.

Such an attractive outlook is offset by the uncertainty created by the current political-economic situation. Among the main issues favouring caution is, logically, the war in Ukraine, as well as the rising price of energy and other utilities paired with increases in other fundamental operating expenses. Insofar as the Spanish market is concerned and due to the fact that it is one of our main source markets, the economic situation and political instability in the United Kingdom may also impact the arrival of tourists. In contrast, the strength of the dollar against the Euro makes travelling to Europe highly attractive for anyone using the greenback. Economic indicators such as rising interest rates point us in the direction of considering a degree of slowdown or softening for the economy as a whole during 2023, leading to an impact on spending.

Although the extent of this tailing-off in spending will set the trend over the coming months, the demand and appetite for travel remains intact not only amongst leisure travellers, but also in terms of corporate travel, with ever more conferences, meetings and trade fairs in the diaries of numerous professionals.

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

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

HOW DO YOU SEE THE DEVELOPMENT OF THE HOTEL INVESTMENT MARKET IN THE CURRENT ECONOMIC CLIMATE?

Carlos Molina
Business Editor of the newspaper Cinco Días

under consideration

Hotel investment never stopped growing during the two years of the pandemic, the worst crisis in the history of tourism. Although seemingly paradoxical, the dizzying pace of asset acquisition deals may speed up as a result of the invasion of Ukraine, the slowdown in the global economy and, above all, the inexorable rise in interest rates. The latter has struck a number of overleveraged businesses below the waterline due to the lack of normal activity since March 2020, possibly forcing them to divest assets in order to grow liquidity.

The calculations made by many of these companies were based on repaying the principal of loans taken on during the pandemic, using an explosive resurgence in tourism that has led to the large majority of hotels seeing a return to pre-crisis turnover and profit levels this past summer. These calculations are no longer worth the paper they are written on given that the extraordinary cash flows generated will have to be assigned to repaying the interest on loans that will most likely require refinancing over the coming quarters.

There are already companies putting the finishing touches on the sale of hotel portfolios for the sole purpose of reducing their liabilities, particularly those that are publicly listed and whose share price is beginning to suffer in a similar manner to that experienced in 2020. Investment and venture capital funds are, meanwhile, waiting expectantly with bids in order to continue expanding their portfolios. Just behind them, sovereign wealth and international pension funds, such as the Singaporean and Dutch funds, remain poised to speed-up their entry into hotel acquisition.

Benito Badrinas
Editor - EjePrime

The lockdowns arising as a consequence of Covid-19 hit the hotel industry hard, both in terms of city and holiday establishments. Hotels closed, workers were put on furlough and, in general terms, activity came to a standstill. Emergence from the pandemic was less than swift in general, particularly for the service sector.

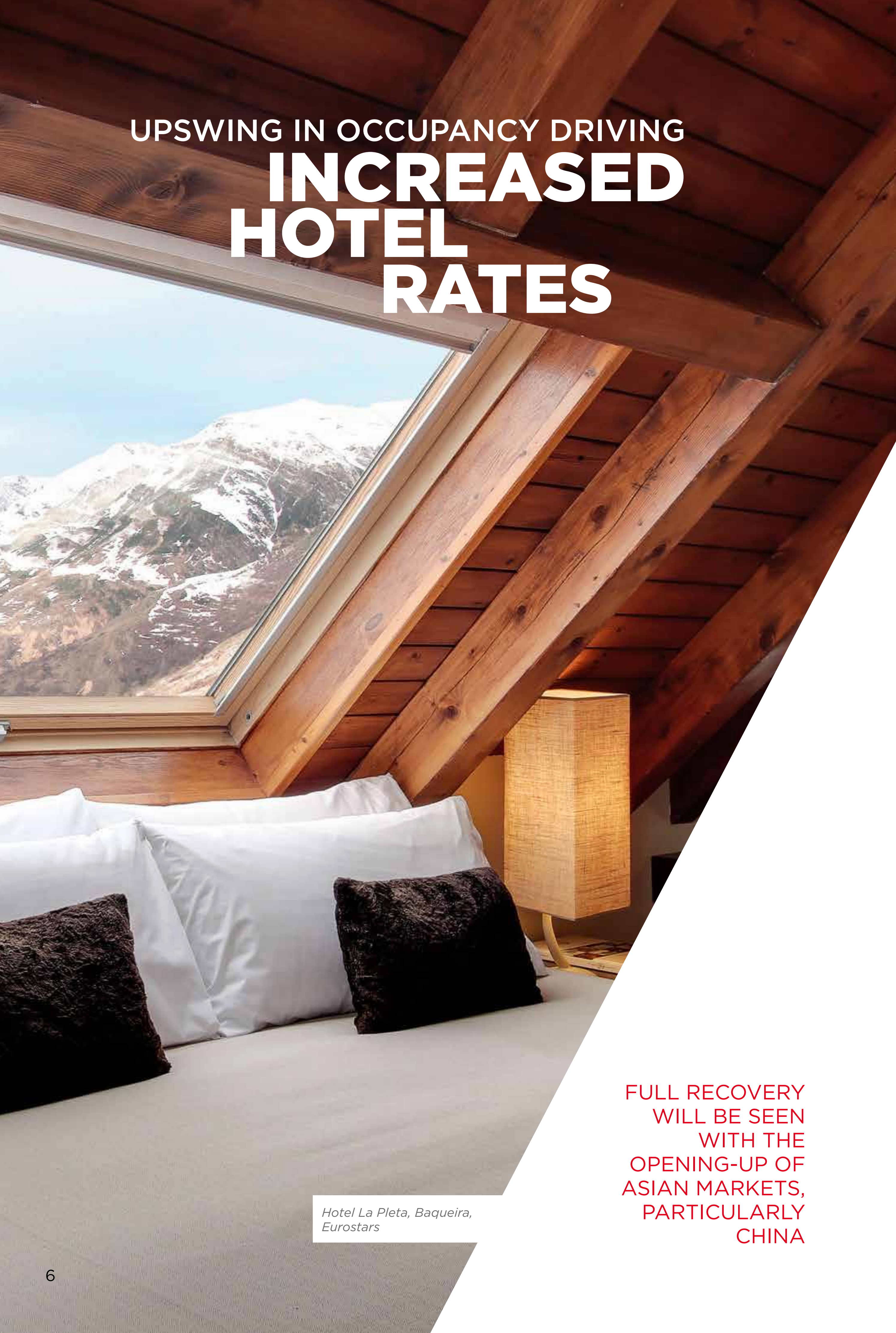
Major investor appetite in hotel assets was visible from the outset. Establishments that came onto the market were transacted at prices that barely included significant discounts. Although abundant liquidity contributed to this, there was also a global perception of tourism in Spain as being of high quality and that the industry would recover from Covid-19 sooner rather than later.

The figures achieved this past summer bear this out. A clear recovery in terms of visitor arrivals and increasing RevPAR (revenue per available room) have enabled the offsetting of rising energy prices and increased costs applied by suppliers.

Major hotel brands and leading investment funds remain interested in positioning themselves in the main Spanish tourist destinations, such as the Balearic Islands, the Costa del Sol and the Canary Islands. These tourist destinations have become global icons and, as a result, their hotel assets are considered core by the industry and investment groups, as is the case with Barcelona and Madrid as prime destinations within city tourism.

The economic slowdown and increased financing costs as a result of rising interest rates will obviously have an impact on the hotel sector. Although it is possible that arrivals will fall and that asset prices will soften as a consequence of higher financing costs, activity will remain healthy. As well as liquidity because the appetite for a presence in the Spanish hotel industry is very substantial.

UPSWING IN OCCUPANCY DRIVING INCREASED HOTEL RATES



Hotel La Pleta, Baqueira, Eurostars

FULL RECOVERY WILL BE SEEN WITH THE OPENING-UP OF ASIAN MARKETS, PARTICULARLY CHINA

Average occupancy of Spanish hotels during the first nine months of the year reached 68.3%, some eight percentage points below the figure for 2019 (76.3%). Nevertheless, in comparison with 2021, occupancy grew by some 70.8%, driving up both ADR (average daily rate) and RevPAR (revenue per available room) to levels equal to or exceeding those prior to the pandemic.

The Occupancy, ADR and RevPAR indicators of the Hotel Sector Barometer, produced jointly by STR and Cushman & Wakefield, show clear recovery at the close of the third quarter, with rates exceeding those of 2019 and an improvement in occupancy (though yet to achieve the levels seen in 2019).

At the end of the summer season it was possible to see that destinations with a greater leisure component, such as the Costa del Sol and Balearic Islands, produced results that equalled or exceeded those recorded in 2019. During the worst months of the pandemic we asked ourselves how traveller habits would be affected, however these doubts have evaporated with the return of mobility. Demand is highly energetic, an illustration of the famous "Champagne effect". A number of changes have, however, been noted in some items relating to sales, with a greater number of decisions being taken at the last minute and generally shorter stays.

The figures for occupancy bear out this recovery. On the Costa del Sol, Malaga was the leading destination in terms of occupancy during the first nine months of the year, achieving 79.7%. Hot on its heels was Marbella, achieving 65.6% despite having the highest ADR in Spain. . The remaining top spots over the first three quarters of the year were taken by Valencia and Alicante, with 75.4% and 75.0% respectively.

Turning to the major cities, Madrid garnered 64.7% over the first nine months, whilst the figure for Barcelona rose to 72.1%. Although both are some 10 percentage points adrift from occupancy levels in 2019, they have almost doubled the figures achieved in 2021. As in the case of Madrid, Barcelona benefits from its mix of both leisure and business tourism. Since Easter, the indicators for Barcelona have shown a restart in corporate tourism as trade fairs, conferences and meetings gradually return. These are key to the performance of many of the city's hotel establishments. The situation is similar in Madrid. Whilst the recovery in leisure tourism in the capital is very clear, the resurgence in corporate travel is somewhat slower in anticipation of the reactivation of a number of key markets such as Latin America and Asia. Although the latter of these is certainly the worst affected by restrictions on mobility, it is to be hoped that these restraints will be lifted during 2023 and drive an improvement in figures.

THE MAJOR CHALLENGE IS OPERATING MARGIN

Despite the recovery in activity, hotel companies are faced with the challenge of profitability in that rising costs are impacting margins. We are dealing with energy bills that are almost double or treble those of previous years and an inflation rate on basic necessities in double figures. Rising labour costs and difficulties in covering posts in some destinations must also be added in. The ability to adapt to these circumstances will define competitiveness between hotel businesses. During the pandemic, a number made investments in technology and energy savings and these now represent a competitive advantage in the face of ever more exacting demand.

In situations such as the present, the first balancing tool is to adjust prices upwards in order to safeguard margins. It is possible that strong demand will still tolerate a moderate, though limited, rise on 2023, particularly in upscale and upper upscale segments where the weight of North American tourists and strength of the dollar offset this rise. The comparison with neighbouring countries that act as direct competitors, such as Italy and even Turkey, shows that Spanish hotels may still have some upward room for manoeuvre on prices without jeopardising demand. Developments in source countries such as the United Kingdom and, clearly, in the war in Ukraine, will also prove important.

The Hotel Sector Barometer brings together data from 1,200 hotels and around 180,000 rooms on the Iberian Peninsula. The study is the product of an alliance between STR, a worldwide provider of benchmarking, analytics and market knowledge specialising in the hotel sector, and Cushman & Wakefield Spain, the world leader in real estate services.

SALOMON 1965 ACQUIRES **THE HISTORIC HOTEL LLEVANT IN LLAFRANC**

At the end of the summer season, ownership of the Hotel Llevant passed to Salomon 1965 and Grupo Isabella's, Salomon 1965 having a holding in the latter. Grupo Isabella's will be in charge of managing both the hotel and restaurant. Cushman & Wakefield's hospitality division advised the owners of the Hotel Llevant on the sale of the establishment to Salomon 1965 and Grupo Isabella's. The Hotel Llevant is located in Llafranc, one of the most emblematic destinations on the Costa Brava.

In the words of Bruno Hallé, Partner and Co-head of Cushman & Wakefield Hospitality, "transactions such as this demonstrate that the investment market is highly alert to the holiday hotel segment in top destinations in Spain. To quote just a few, the Costa Brava, Costa del Sol and Costa Blanca are generating interest and we may see more deals over the coming months".

THE HOTEL LLEVANT, PART OF THE COSTA BRAVA'S HISTORY

The 24-room Llevant hotel was founded in 1935 by the Farrarons family and is currently managed by the third and fourth generation. Thanks to this acquisition deal, Salomon 1965 continues with the rollout of its strategic plan in an unbeatable destination.

Salomon 1965 is a family investment vehicle with a national and international presence in the real estate, financial, services and venture capital sectors. Some 28% of the firm's investments are assigned to real estate, the focus being on the acquisition and repositioning of many asset classes. Salomon 1965's strategy consists of adding value in contemplation of subsequent sale or the maintenance of the asset for lease. Among other projects, Salomon 1965 has already invested in the aforementioned Grupo Isabella's, Chic&Basic, Good News, Crep Nova and Glovo.

CUSHMAN & WAKEFIELD HOSPITALITY PRESENT AT **THE TIS AND THE DISTRICT FORUMS**

Cushman & Wakefield Hospitality was present at the most noteworthy Spanish hotel sector events and conferences in recent months.

In Seville, Bruno Hallé participated as a moderator in four of the round tables within the schedule of the Tourism Innovation Summit, held November 2 - 4 in the Andalusian capital. The goal of the TIS is to assist the tourism industry in facing up to current challenges such as digitalisation, sustainability and inclusive tourism. The topics dealt with included trends, innovation, investment and the views of CEOs.

Both Albert Grau and Bruno Hallé were members of the expert panels of the first edition of The District, an event aimed at real estate investment professionals and which took place in Barcelona from October 18 - 20. Among other topics, opportunities for global hotel growth within a context of more volatile demand were analysed, along with proposals for short-stay apartments in the corporate area, a trending lodging model in some destinations.

CUSHMAN & WAKEFIELD HOSPITALITY RECRUITS **THREE SENIOR PROFILES TO STRENGTHEN ITS STRUCTURE IN SPAIN**

Víctor López-Peña
Isabel Fernández-Valencia
Daniel Caballero

With the recruitment of senior consultants Isabel Fernández-Valencia, Daniel Caballero and Víctor López-Peña, Cushman & Wakefield Hospitality Spain consolidates its commitment to the Valuation, Consultancy and Capital Markets areas.

The Hospitality division demonstrates its strategic commitment to continue growing in the provision of global advisory services for hotel investment. The activity of the investment market in Spain stands at a crucial juncture and we have strengthened our team to offer the best possible service to both investment groups and hotel operators.

Víctor López-Peña joins the firm as an Associate following a professional journey that includes his role as head of expansion at BeMate and expansion analyst at Room Mate. Prior to joining Cushman & Wakefield, López-Peña was Director of Expansion for the chain Pure Salt Luxury Hotels.

In her role as Valuations Associate, Isabel Fernández-Valencia will contribute her extensive experience spanning more than twenty years in positions of a similar level of responsibility in other real estate businesses.

Following experience in investment groups such as Excem RE and consultancies including Hotel Factory, Daniel Caballero joins us as Senior Hospitality Consultant in order to lead the advisory area.

They join the Cushman & Wakefield Hospitality Spain team, comprising a total of eight professionals. Created in 2019, Cushman & Wakefield Hospitality Spain is led by the Partners and Co-heads of the firm, Albert Grau and Bruno Hallé.

ADVISORY SERVICES ON THE SALE OF ROOM MATE **TO ANGELO GORDON AND WESTMONT HOSPITALITY GROUP**

Cushman & Wakefield Hospitality Spain advised Room Mate on the sale of its business to Angelo Gordon and Westmont Hospitality Group, announced some months ago.

The transaction affects the group of 28 hotels in 5 countries operated by Room Mate, amounting to more than 2,000 rooms. All of the hotel assets are managed under lease contracts. Cushman & Wakefield advised Room Mate Hotels on the design of the transaction, which culminated with the recapitalisation of the hotel chain.

Following a search for the ideal investor, Cushman & Wakefield proposed the bid submitted by Angelo Gordon and Westmont for the acquisition of Room Mate, a leading hotel brand with properties located in prime city destinations such as Madrid, Barcelona, Rome, Milan, Florence and Amsterdam.

Angelo Gordon and Westmont made an initial investment in April 2022 to ensure the continuity of the business and extend the professional team. With the goal of fully restructuring its debt, Room Mate entered into insolvency proceedings on June 24, 2022 before Mercantile Court 14 in Madrid. The latter approved the sale of the productive unit to Angelo Gordon and Westmont on July 21.

ANNUAL CUSHMAN & WAKEFIELD HOTEL INVESTMENT CONFERENCE

INVESTORS DRAWN TO PROPERTY ASSETS IN HOLIDAY DESTINATIONS AND THE LUXURY

Sponsored by IHG Hotels & Resorts and Vignette Collection and held at the Hotel Intercontinental Madrid, the Annual Hotel Investment Conference was attended by more than 250 professionals belonging to the sector who shared analyses and debate on trends in the hotel investment market.

According to Albert Grau, partner and Co-head of Cushman & Wakefield Hospitality Spain, "the recovery of hotel activity following the pandemic has also served to reactivate interest on the part of investors. Although many deals were studied and analysed during that time, decisions remained pending. Conditions are now more propitious for transactions, particularly in those destinations that are more attractive to investors, such as coasts, islands and cities with a mix including leisure". This conclusion was shared by the majority of the participants in the Annual Hotel Investment Conference, held in Madrid on October 25.

Over five hours, representatives of both national and international investment funds, family offices, hotel operators and managers, etc. shared a lively debate on the current trends in the investment market in Spain. Jon Hubbard, Head of Cushman & Wakefield Hospitality for EMEA, wished to highlight the fact that "Spain is a key market for hotel investment in Europe and, as a result, the Cushman & Wakefield team has grown in this country in terms of the valuations, transactions and consultancy business lines, recruiting professionals with an extensive track record that are comfortably able to respond to market needs". For Hubbard, "there are clear signs of recovery, with a positive outlook for business and growing demand in Europe. The first half of the year has been highly positive, with investment levels similar to those of 2019 and in which Spain placed second in terms of the receipt of funds, behind only the UK".

INVESTMENT PLANS REMAIN IN PLACE

In their presentation, Albert Grau and Bruno Hallé, Partners and Co-heads of Cushman & Wakefield Hospitality Spain, threshed out the main elements comprising the current hotel investment market in Spain, as largely covered in the Hotel Investor Beat report. Some 38% of the investors interviewed state that they will invest more capital than anticipated prior to the pandemic, whereas 41% are keeping their plans in place. This means that some 79% of investors are either maintaining or expanding their hotel asset investment strategy for Spain, a reality borne out by the level of activity in a market where capital is on the lookout for opportunities.

According to Bruno Hallé, "the circumstances are favourable for investors given that hotel assets are retaining profitability. It is, however, important to remain cautious insofar as it may prove difficult to acquire financing for projects in the current climate. Opportunities exist as a consequence of the characteristics of Spain's hotel stcck, which remains highly atomised. This could lead to deals provided that there is creativity and solutions are offered to family owners".

In terms of segments, the majority of investor interest points towards luxury and economy. By asset type, resorts and serviced apartments are the most sought-after by potential buyers. For their part, Madrid and Barcelona remain among the top-5 cities in Europe in terms of investor interest. The data presented by Robin Rossmann, Managing Director of STR (CoStar Group Company), fully endorsed this perception in that luxury hotels in Spain achieved 143% growth in ADR on the figure for 2019, with occupancy slightly lower than that year.

The investment round table confirmed these trends, adding the nuance that strong hotel operating results are limiting market opportunities. On the flipside, inflationary pressures, interest rates for some indebted assets and generational changes represent some of the motives driving new transactions.

According to David Rico, Managing Director of CaixaBank Hotels & Tourism the strong operating results may hold as a result of three active growth levers. Firstly, the recovery in British and German tourism, which suffered from overburdened airports during the summer months; secondly, the normalisation of long-distance mobility, supported by the depreciation of the Euro; and, finally, the fact that the high proportion of proximity tourism within the EU is likely to remain due to increased costs and the depreciation of the Euro.

The Partners of Cushman & Wakefield Hospitality also highlighted that ESG criteria (sustainability, social responsibility and corporate governance) are increasingly important in the evaluation of projects and represent a competitive advantage.

OPERATORS AND INVESTORS SEEKING TO GROW IN THE LUXURY AND ECONOMY SEGMENTS

The operators' round table included María Zarraluqui, Global Development VP at Meliá Hotels International; Jerome Lassara, Development VP for Southern Europe in Accor; Hylko Versteeg, Head of Development for Southern Europe at IHG Hotels & Resorts and Carlos Ortega, Head of Global Development of the Palladium Hotel Group. With their own specific nuances, each in general committed to the upscale and upper upscale segment and to low cost hotels as the segments of greatest interest and in which investors are interested in developing new projects. In terms of operations, the outlook points towards full recovery in 2023 in expectation of a response on the part of corporate clients beyond the major events that have already returned.

The debate among investors included Felipe Klein, Managing Director Investments at HIP; Alberto Nin, Senior VP at Brookfield Asset Management; Miguel Casas, Managing Director Hospitality at Stoneweg SA and Jacopo Burgio, Director Europe Real Estate at Angelo Gordon. Although the approach in general amounted to "wait and see" up to the close of year, participants did not rule out the appearance of opportunities linked to the difficulties that inflation and interest rates could cause with respect to the mortgages and debts of a number of asset owners. Nevertheless, the majority acknowledged that strong operating performance was reducing the supply of assets on the market whilst maintaining prices that require a thorough analysis of every deal.

In the closing speech of the Annual Conference, Oriol Barrachina, CEO of Cushman & Wakefield Spain, underlined the paradigm shift experienced by the real estate sector, in tandem with new lifestyle and working trends. According to Barrachina, this shift also represents a major opportunity for the hotel industry to transform every aspect in terms of both investment and management.

You can download the presentation by Robin Rossmann
from the following link

You can download the presentation by David Rico
from the following link

You can download the presentation by Albert Grau and Bruno Hallé
from the following link

interview

SALVADOR PASTOR

PARTNER DEBT & STRUCTURED FINANCE EMEA

How is the rise in interest rates driven by the inflationary climate affecting the financing of developments in the real estate market?
The most obvious consequence is the fact that the rise in interest rates (more costly debt) reduces the room to leverage projects. However, more relevant than the rise (consequence of the current inflationary situation) is the existing market uncertainty with respect to future trends in terms of interest rates, inflation and demand. The foregoing will lead to more conservative approaches on the part of all players, including financiers.

Within these overall impacts, are there any differentiating elements for the hotel industry?
All of the aforementioned factors directly affect the hotel market. The rise in prices, particularly energy prices, is putting a strain on the results of hotel establishments. As a differentiating factor of the hotel market with respect to other assets, we could highlight growing interest on the part of the investment and debt markets in hotel assets following the complex years of 2020 and 2021 and despite the current economic climate. The pandemic has led to hotel owners considering selective divestments that were less common in the past in terms of assets with high potential. Although as in other sectors there is greater caution when it comes to analysis, there is also an opportunity cost consisting of the possibility of acquiring certain assets that under normal circumstances would not come to market. This means that discounts on transactions are more restrained than was initially hoped for.

With such a high inflation rate and interest rates on the rise, how may the current economic situation affect the value of hotel assets?
It is obvious that the rise in interest rates together with greater uncertainty are putting downward pressure on asset prices. The arrival of an economic recession will also reduce the capacity to generate leisure and tourism demand. Having said that, other specific elements, such as the aforementioned opportunity cost, play a part in the hotel market. A lower Euro against the dollar may increase demand on the part of North Americans and domestic clients

“We are witnessing the development of alternative financing in Europe”

Salvador Pastor joined C&W in January 2022 as a Partner in the EMEA team of the Debt and Structured Financing department, from which he provides services related to the search for the financing or refinancing of real estate assets. He previously worked at JLL, Banco Santander, Banesto and Riofisa, where he occupied various positions of responsibility within the areas of Corporate Finance, Debt and Investment.

tend to seek more affordable options or shorten their stays in worsening economic times, rather than forsake their holidays altogether.

What are the funding tools that may be considered most attractive at this time for investors in hotel projects?
During the worst of the pandemic, the debt market for the hotel sector was severely affected. Although it is true that ICO credit lines gave a degree of relief, in general terms financial institutions adopted a highly selective or even restrictive posture. Since last year we have seen an opening and growth in sources of financing via traditional banks or through alternatives, particularly debt funds. Although at the beginning there was widespread ignorance of the structures used by these funds and the fact that the cost, in comparison with banks, was much higher, in recent times we have seen deals being struck, either down to necessity or because some of the conditions/structures have been made more flexible. This has led to this form of alternative financing becoming a more attractive option.

Banks have reported on the increase in financing to the hotel sector and tourism in general over the past year. Is this position likely to change in the current climate?
It is true that financial institutions have committed more to the sector over the past year in order to meet new refurbishment and acquisition needs. This positive view on the credit side has appeared in tandem with good occupancy figures and a strong growth outlook. Within the current context, the uncertainty created by the war in Ukraine, inflation and the weakening of economic growth are factors that demand a more careful analysis of financing deals in the sector. Nevertheless, it is possible to state that Spain’s tourism sector performed positively during the previous financial crisis (2008-2012), growing its percentage share of GDP year-on-year.

Given these circumstances, in which variable mortgages will penalise owners, are the prospects more interesting for investment funds specialising in debt?
Considering that the Euribor is the benchmark rate for both traditional and alternative financing, the total cost of debt has increased regardless of the source chosen. Alternative funding is still embryonic in Europe compared with, for example, the United States. We are, however, witnessing the continuous development of this form of financing through the creation of new players, the diversification of sources, specialisation and, lastly, greater competition leading to more affordable funding. In my opinion, the advantage of debt funds is the greater leverage that they can offer and flexibility in the manner in which they can customise financing to an investor’s specific needs, thus covering situations that are more troublesome for traditional banking. In any event, not all funds are alike and it is important to properly understand this segment of the market in order to access the best options.

Bearing in mind the current political-economic situation, could Spain represent a safe haven for hotel property investment?
Not just as a consequent of its climate, Spain is and will continue to be a leader in tourism due to the quality of the offerings and professionalisation of the sector. Madrid and Barcelona are among the favourite cities for investors and our beach hotels are undoubtedly attractive to investors. I consider that under the current macroeconomic conditions, Spain is it an advantage compared with other destinations.

THE THIRD EDITION OF THE GETS UNDERWAY

WITH A SESSION ON THE FINANCING OF HOTEL PROJECTS

Only You Hotel, Malaga

The first session of the 2022-2023 Hospitality Lab was held at Cushman & Wakefield's Madrid offices on November 10. Following a hiatus during the pandemic, this third edition is able to get back to face-to-face encounters for the four meetings anticipated up to June 2023. The Hospitality LAB is a private forum focused on the analysis of the hospitality market at both national and international level. It comprises 15 professionals of proven track record with links to various areas of business and hotel investment.

This first meeting analysed financing conditions for hotel businesses within the current climate of rising interest rates and how this may affect both investors and operations.

The debate kicked off with a brief presentation by Salvador Pastor, MRICS (Cushman & Wakefield Debt & Structured Finance EMEA), setting out the current macroeconomic context. Given the rise in financing costs, the effects of rising interest rates, anticipated to peak in summer 2023, has a direct impact on the investment market with respect to both greenfield projects and asset transactions. The consequences of increasing financial costs on yields are already patent. Investors are seeking discounts on the part of vendors in the case of existing hotel assets, a strategy that is not coming to fruition in many cases or is relatively insignificant.

As a whole, the current situation points towards reduced leverage (also as a result of the low anticipated yield) and greater volatility when setting interest rates (Swaps). Certain types of investors are meanwhile tending towards safer, more liquid bond-type assets. In short, the context is one of reduced yield on the hunt for lower prices.

BUSINESS IS BACK TO 2019 LEVELS

Following the presentation, the debate focused on the situation in terms of operations. There was full consensus with respect to the upsurge in business following the pandemic having accelerated beyond expectations. Despite the fact that the first quarter was affected by the Omicron variant, as of Easter tourism returned to hotels, taking a major share of leisure and a significant chunk of corporate travel.

Although this recovery had been seen earlier in destinations where the weight of domestic tourism is greater, it is now seen throughout the country, even in cities such as Barcelona where international tourism is of major importance.

LAB DEBATES ENABLE ANALYSIS OF KEY ASPECTS OF THE SECTOR WITH A CROSS-CUTTING APPROACH

Looking to forecasts for 2023, the majority of participants agreed that the recovery in corporate travel will continue, particularly in the case of XL events that are essential to major cities. Despite optimism with respect to operational recovery, it is important not to forget other aspects that invite caution. By way of example, it appears difficult to forecast any recovery in tourism from Asia (particularly China) for 2023, even though some flights have been announced. Another cause for concern within the industry relates to attracting talent. Some of the hotel operators

Sofitel Barcelona Skyper, Accor Hotels

present at the meeting acknowledged the difficulty in offering the quality service demanded due to this lack of talent, along with the fact that a part of cost reductions in human resources is down to the lack of staff and an inability to hire more people.

2023 promises to be complicated in terms of costs given that the major challenge will be operating profit. The increase in energy costs and the application of new employment agreements with rising salaries will put pressure on the P&L which, additionally, could be impacted by financing conditions as a result of increasing interest rates. In short, there is optimism given that tourism has returned in strength and, in turn, caution because the economic and political climate is generating uncertainty.

HOTEL ASSETS ARE ATTRACTING CAPITAL

The second part of the LAB focused on the investment market situation. Financial institutions acknowledged that the situation required a more thorough analysis of risks and, in the case of hotel assets, a profound understanding of operational performance. This is in contrast to other real estate assets.

Although they remain open to funding projects, a lower degree of leverage is being offered. The members of financial institutions that attended the LAB (Banco Sabadell and Société Générale) confirmed that not only do they have teams specialising in the hotel sector working on transactions, but also that their risk teams are aware of the sector's characteristics.

Investors are conscious of this situation and, although they remain on the lookout for interesting assets within the market, decision-making has slowed down in general. The projects generating the greatest interest are those requiring major CAPEX injections linked to product repositioning. Despite the fact that Spanish hotel stock is of very high quality, there remain interesting assets that may prove interesting in terms of repositioning. These are located both in holiday destinations (most common) and cities (where the offerings are reduced due to the fact that many 3 and 4-star establishments have already undergone transformation).

According to the participants there is abundant capital on the market and this situation is leading to discrepancies with respect to prices. On the one hand, potential buyers are holding out for discounts because financial costs are reducing yields, whilst vendors are still thinking of high prices given that an investor always appears on the market.

MEMBERS OF THE HOSPITALITY LAB

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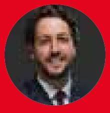

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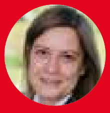

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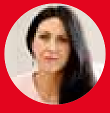
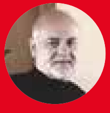
CONTINUUM HOTEL SERVICES
Managing Director – Asset Management



Mar de Miguel
AEHM
Executive VP

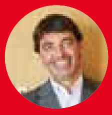
Miguel Casas
STONEWEG
Managing Director - Hospitality

Diego Navarro
MAZABI GESTIÓN DE PATRIMONIOS
Senior Advisor Corporate Business Development



Francisco Fernández
CANARIAN HOSPITALITY
Managing Partner & CEO

Bruno Hallé
Partner and Co-head of C&W HOSPITALITY SPAIN



Albert Grau
Partner and Co-head of C&W HOSPITALITY SPAIN

agenda

JANUARY 2023

▸ HOTUSA EXPLORES
January 16 / Madrid
https://www.forohotusaexplora.com/

▸ FITUR
January 18-23 / Madrid
https://www.ifema.es/fitur

MARCH 2023

▸ HIP – HOSPITALITY INNOVATION PLANET
MARCH 6-8 / Madrid
https://www.expohip.com/

▸ B-TRAVEL
March 10-12 / Barcelona
https://www.b-travel.com/

MAY 2023

▸ IHIF (INTERNATIONAL HOSPITALITY INVESTMENT FORUM)
May 15-17 / Berlin
https://www.ihif.com/

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