HOTELS & BUSINESS

CUSHMAN & WAKEFIELD

MAY 2023 **No. 11**

BY C&W SPAIN - EXTENDED EUROPEAN COVERAGE

REPORT

Demand driven innovation in hotel sector

TREND

Why hotels are increasingly an attractive part of real estate investment strategies

INTERVIEW

Kike Sarasola, president and founder of Room Mate Hotels

round-up

BERLIN TAKES THE HOTEL INDUSTRY'S PULSE

The Berlin IHIF is the perfect opportunity to share ideas with leaders in the hotel sector and gain first-hand knowledge of the trends and strategies that we will see in the coming months. Questex is the event organiser for the forum, held at Berlin's InterContinental hotel as in previous years. This year will also see the return of Adjacent Spaces at The Pullman Hotel. This pop-up event will analyse alternative proposals and trends in the industry, including hostels, co-working, co-living spaces and serviced apartments.

The themes that will be debated at Adjacent Spaces superbly illustrate how the lodging industry has been evolving over recent years, seeking to offer travellers options with the greatest added value through specialisation and advances in technology.

The topics for IHIF'23 are an excellent barometer to ascertain the health of a sector for which a number of events invite a degree of caution. It is important to analyse matters such as inflation, rising interest rates, difficulties in procuring finance, capital market volatility, geopolitical instability and staffing problems, all of which are impacting the market. We are seeing a slowdown in terms of deals and increased operational complexity when it comes to safeguarding profit margins. Although the climate is real, it is also true that hotel operations are showing outstanding performance following the pandemic, recouping and even surpassing 2019's price thresholds. Occupancy levels are very high notwithstanding that the MICE segment and Asian tourism, particularly Chinese demand, has yet to fully return.

The expectations for the Spanish market in 2023 are optimistic in terms of operations, with occupancies during the opening months of the year exceeding those of 2022 (impacted by the Omicron variant) and prices that, step-by-step, are approaching a a historic peak. The level of bookings recorded for the summer season from traditional feeder markets is already significant and a very strong third quarter is predicted. Turning to the investment market, and although the level of activity has dropped from the frenetic pace of 2022, we continue to see deals, particularly for assets where product repositioning requires investment. In the case of the majority of transactions closed to date, prices remain within the upper range and investors view Spain as one of the most attractive markets in Europe, for both the holiday or urban segments. Although the hurdles in accessing finance are hindering the closure of deals, there are a number of active players who are benefiting from more nimble decision-making and the reduced competitiveness for certain types of assets. This is the case with family offices operating with a lower degree of leverage.

The Cushman & Wakefield Hospitality team has consolidated its presence in Europe, expanding the number of offices and offering a comprehensive advisory service to both investors and hotel chains within a particularly complex climate for strategic decision-making. The firm's commitment enabled it to advise on transactions amounting to more than 2 billion Euro in 9 European countries during 2022.

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

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

WHICH IS THE MAIN TREND IN HOTEL INVESTMENT IN YOUR REGION?

under consideration

The hotel investment market in Europe experienced moderate growth in 2022 with a year-on-year increase of 2%, reaching €17.9 bn. As usual, the main driver was the United Kingdom. This is despite the fact that the country's investment volume has halved since 2019, losing market share to France and Spain. Transaction volumes in France were on a par with 2019 thanks to several large single asset deals. Spain is the clear winner in terms of growth, almost doubling the volume achieved in 2019. These changes reflect the influence of macro-economic parameters and a growing focus on the part of investors towards leisure and resort hotels. This is expected to continue in the coming years with resorts achieving record performance in 2022 and with strong business on the books for 2023. Investors are confidently moving towards other markets such as Italy, Greece and the Adriatic region, which should see gradual growth in investment activity. Nevertheless, investors will have to focus on the ESG parameters of these assets, as resorts are frequently associated with high energy and water consumption as well as a significant impact on the environment and local communities.

With the cost of debt increasing, investors are focusing on the long-term fundamentals of trading assets. The pricing gap between buyers and sellers has yet to crystallise in valuations, resulting in a slower investment market at the start of 2023. In spite of the above, hotel assets are benefiting strongly from the structural shifts in the real estate market. Investors continue to raise funds to invest in hospitality and the focus of traditional investors in retail and offices is shifting slowly but surely into alternative sectors, including hotels. This is due to the fact that hotels are an excellent hedge against inflation and also thanks to the strong fundamentals of the industry following a rapid recovery from the COVID-19 lockdowns.

Investor creativity and determination will remain key to finding solutions and bridging the gap to move deals forward. Existing hotel owners are reviewing their portfolios and are ready to sell non-core assets which should support transaction volumes in 2023.

European Vision
Frederic Le Fichoux
International Partner
Head of Hotel Transactions
at Continental Europe

Europe

HOTEL TRANSACTION ACTIVITY IN 2022

€17.9 BILLION TRANSACTED

823 PROPERTIES SOLD

91,846 ROOMS SOLD

78% OF CAPITAL WAS FROM EUROPEAN BUYERS

50% OF VOLUME WAS INVESTED IN UPSCALE & UPPER UPSCALE HOTELS

TRANSACTION VOLUME PER HOTEL CLASS

(% CHANGE, 2022 VS 2021)

HOTEL CLASS	% OF TOTAL VOLUME	% CHANGE
LUXURY	17%	▼ -5%
UPPER UPSCALE	29%	▲ 60%
UPSCALE	21%	▼ -43%
UPPER MIDSCALE	11%	▼ -28%
MIDSCALE	10%	▲ 13%
ECONOMY	12%	▲ 38%

AVERAGE PRICE PER PROPERTY
€24M

AVERAGE PRICE PER ROOM
€206K

Note: the data are updated as in April 2023, and may differ from previous publications

When comparing the UK hotel transaction market to its Continental European counterparts, it can be said that on this side of the Channel the effects of the ongoing macro-economic headwinds have had a significantly greater impact on liquidity and access to debt. That said, the trading market has been positive with most UK sub-markets indexing above 2019 levels during 2022, and GOPPOR in London and the regions up c. 8% and 2% respectively.

Despite the strength in hotel trading, the constriction of the debt markets has continued to limit transactions in the UK as question marks remain on true value – forming a persistent catch-22 situation. As valuers present value declines through periodic reporting, owners' views will gradually shift, and the spread of expectations will converge. However, this process will take time. All in all, the change in debt cost and risk-free returns indicate a decline in value in the region of 15%. However, and as mentioned above, there is no homogenous approach and each asset has its nuances. Prime London yield profile and pricing is expected to hold, more so when compared to the regions due to the scarcity and perceived security offered by this market. Nonetheless, it is difficult to envision the maintenance of such tight yields while five-year SONIA swap rates sit above c. 3.5%.

Investment market trends appear to be less aggressive than in the aftermath of the GFC, but also less apparent. We are seeing more creative solutions and deal structuring, supported by a wall of capital poised for deployment within the sector in the UK, combined with increased comfort in the asset class and a wider buyer pool when compared to the late 2000s and early 2010s. As transaction evidence comes through, we expect to see an uptick in activity in the back end of this year.

UK

Rob Seabrook

International Partner

Head of Hotel Transactions EMEA

United Kingdom

HOTEL TRANSACTION ACTIVITY IN 2022

€3.72 BILLION TRANSACTED

236 PROPERTIES SOLD

22,315 ROOMS SOLD

31% OF CAPITAL WAS FROM INTERNATIONAL BUYERS

42% OF VOLUME WAS INVESTED IN LUXURY & UPPER UPSCALE HOTELS

TRANSACTION VOLUME PER HOTEL CLASS

(% CHANGE, 2022 VS 2021)

HOTEL CLASS	% OF TOTAL VOLUME	% CHANGE
LUXURY	13%	▲ 8%
UPPER UPSCALE	29%	▼ -24%
UPSCALE	16%	▼ -63%
UPPER MIDSCALE	11%	▼ -63%
MIDSCALE	4%	▲ 18%
ECONOMY	27%	▲ 43%

AVERAGE PRICE PER PROPERTY

€19M

AVERAGE PRICE PER ROOM

€198K

Note: the data are updated as in April 2023, and may differ from previous publications

Following a record year in terms of investment volumes, the rapid recovery in tourism activity is maintaining market dynamism. Taking into consideration business on the books, 2023 will see a return to the rates and occupancy levels preceding Covid-19, or perhaps even higher thanks to the impact of inflation and the recovery of urban markets that rely on the MICE segment.

Although investors continue to have a strong appetite for hotel assets, we can expect a lower investment volume this year due to the lack of major portfolios being brought to the market (which accounted for 42% in 2022) and fewer transactions in the luxury segment. This will reduce the average price per key registered last year (€203,000). Economic uncertainty and the rise in debt costs are also putting the brakes on real estate investor strategies in the hospitality sector. Nevertheless, the leisure markets will remain interesting for international buyers and the limited-service segment is again one of the priorities for major foreign chains. The appetite for urban hotels is still solid, Madrid consolidating as the alternative to Barcelona and Malaga as the place where everybody wishes to get into bricks and mortar.

Foreign capital was the leading source of investments last year (72%), with domestic operators again moving to the buyer side. The key performance indicators are the best sign of the robust health of the industry and the best argument to maintain investment appetites. The search for competitive financing and the gap between sellers' and buyers' expectations represent the two main challenges faced by the Spanish hotel investment market this year.

Spain
Víctor López-Peña
Associate
Capital Markets

Spain

HOTEL TRANSACTION ACTIVITY IN 2022

€3.1 BILLION TRANSACTED

108 PROPERTIES SOLD

15,188 ROOMS SOLD

72% OF CAPITAL WAS FROM INTERNATIONAL BUYERS

50% OF VOLUME WAS INVESTED IN LUXURY & UPPER UPSCALE HOTELS

TRANSACTION VOLUME PER HOTEL CLASS

(% CHANGE, 2022 VS 2021)

HOTEL CLASS	% OF TOTAL VOLUME	% CHANGE
LUXURY	17%	▲ 1%
UPPER UPSCALE	33%	▲ 93%
UPSCALE	15%	▼ -68%
UPPER MIDSCALE	14%	▲ 92%
MIDSCALE	16%	▲ 166%
ECONOMY	4%	▲ 84%

AVERAGE PRICE PER PROPERTY

€37M

AVERAGE PRICE PER ROOM

€203K

Note: the data are updated as in April 2023, and may differ from previous publications

2022 saw a strong level of hotel investment in France at €2.6bn, catching up from the previous, quieter years during Covid. Despite a beginning of the year still impacted by Covid-19, 2022 trading results exceeded 2019 levels even in the absence of the MICE segment and Asian tourists. As a consequence, in 2023 the hotel market is now witnessing a strong dichotomy between the operational market and hotel values neither declining nor increasing, whereas the hotel investment market is much more cautious due to a number of factors such as inflation, energy costs, staffing costs, interest rates and debt availability.

The outlook for France is highly positive with the Rugby World Cup in 2023 and the Olympic Games in 2024. Although a lot of capital remains to be invested in hospitality assets, investors are seeking greater visibility with respect to the levels at which interest rates and inflation will stabilize. Hopefully this will appear in 2023 and investors will adapt to a new investment environment, enabling transaction activity to resume. This should at least be the case for existing assets, whereas forward fundings with 24-month delivery horizons remain more challenging.

France
Katell Bourgeois
International Partner
Head of Hospitality France

France

HOTEL TRANSACTION ACTIVITY IN 2022

€2.6
BILLION TRANSACTED

111
PROPERTIES SOLD

9,612
ROOMS SOLD

AVERAGE PRICE PER PROPERTY
€24M

AVERAGE PRICE PER ROOM
€273K

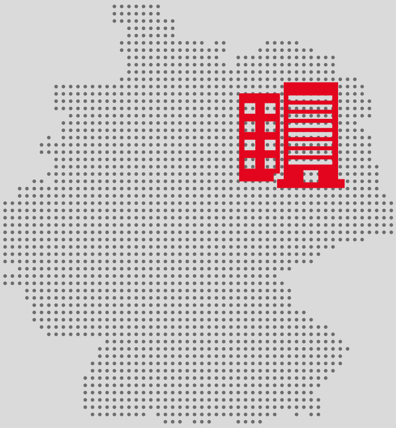
Note: the data are updated as in April 2023, and may differ from previous publications

Subdued transaction activity whilst operating markets continue their strong recovery.

In 2022 hotel transaction volumes amounted to €2 billion in Germany. This is 20% below the previous year's figure and falls almost 60 percent short of the 10-year average. The year was again characterized by single-property deals, contributing approximately 85% of transaction volume. Only four portfolio transactions were recorded, reflecting the challenge of financing larger volume deals. The weak momentum was due to a changing macro-economic environment with higher interest rates, inflation and fears of a recession. Investors and owners were also challenged by uncertainty around pricing.

In contrast, in operating terms markets recovered significantly in 2022 from the effects of the Covid pandemic, with the country wide RevPAR already at 85% of 2019 levels. This was driven by a strong rise in average room rates. As a consequence of this, operators recorded highly positive results in the final quarter of 2022 with a renewed focus on expansion and development. Ongoing strong demand growth is expected to have a positive knock-on effect on investor sentiment going forward.

Germany
Josef Filser
Head of Hospitality
Germany



Germany

HOTEL TRANSACTION ACTIVITY IN 2022

€2.04 BILLION TRANSACTED

88 PROPERTIES SOLD

13,306 ROOMS SOLD

42% OF CAPITAL WAS FROM INTERNATIONAL BUYERS

68% OF VOLUMEN WAS INVESTED IN ECONOMY, MIDSCALE AND UPPER MIDSCALE HOTELS

TRANSACTION VOLUME PER HOTEL CLASS

(% CHANGE, 2022 VS 2021)

HOTEL CLASS	% OF TOTAL VOLUME	% CHANGE
LUXURY	12%	▼ -41%
UPPER UPSCALE	8%	▲ 35%
UPSCALE	12%	▼ -77%
UPPER MIDSCALE	20%	▲ 28%
MIDSCALE	27%	▲ 41%
ECONOMY	21%	▲ 31%

AVERAGE PRICE PER PROPERTY
€23M

AVERAGE PRICE PER ROOM
€153K

Note: the data are updated as in April 2023, and may differ from previous publications

In Italy, the second half of 2022 saw hotel transaction activity hampered as a result of rising debt costs and economic instability. Transaction volumes declined by 32% compared to H1 2022, resulting in a yearly volume 15% lower than in 2021, at €1.5 bn.

Looking ahead, we expect a slow start in 2023, with an uptick in transaction activity within the second half of the year, underpinned by rising investor interest and a healthy pipeline of deals.

Trading performance for the full year was a positive story for Italy as a whole and its major markets surpassed 2019 benchmarks (2022 RevPAR 17% above 2019). This was driven by sharp ADR growth, while occupancy was almost in line with 2019 figures. Milan made a strong comeback in 2022 thanks to the recovery in business travel. Looking to the future, growth in ADR will help absorb increases in both utility and staffing costs.

Italy
Alessandro Belli
Head of Hospitality Italy

Italy

HOTEL TRANSACTION ACTIVITY IN 2022

€1.5 BILLION TRANSACTED

58 PROPERTIES SOLD

5,756 ROOMS SOLD

66% OF CAPITAL WAS FROM INTERNATIONAL BUYERS

73% OF VOLUME WAS INVESTED IN LUXURY HOTELS

TRANSACTION VOLUME PER HOTEL CLASS

(% CHANGE, 2022 VS 2021)

HOTEL CLASS	% OF TOTAL VOLUME	% CHANGE
LUXURY	73%	▲ 53%
UPPER UPSCALE	2%	▼ -89%
UPSCALE	10%	▼ -74%
UPPER MIDSCALE	7%	▼ -67%
MIDSCALE	4%	▲ 232%
ECONOMY	5%	n/a

AVERAGE PRICE PER PROPERTY

€27M

AVERAGE PRICE PER ROOM

€268K

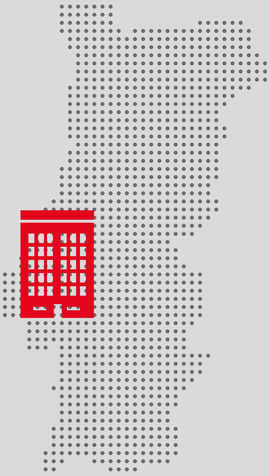
Note: the data are updated as in April 2023, and may differ from previous publications

Hotel investment activity in Portugal enjoyed its best ever year, with large single assets, operating platforms and portfolios being transacted in 2022. Hotels represented circa 30% of the total investment volume, totaling around €1 Billion. The numbers are, however, strengthened by the closing of the CROW Portfolio, the largest deal in the country for the year, with an allocation of between €550m and €650m. Discounting the effect of this transaction, the investment volume would have been in line with the figures recorded in previous years, showing that hotels are becoming a regular asset class in which to invest in Portugal.

The recovery of market performance was indicated in terms of the main KPIs recorded. Although the Occupancy Rate and Overnight Stays figures were down -6% and -1% on the 2019 indicators, ADRs and turnover were 6% and 15% above pre-Covid respectively. This is the result of strong take-up from the main feeder markets, in particular Europe, but also North America driven by the increase in families moving permanently to the country. The inflation rate combined with the concentration of demand from March onwards produced a strong year in operating terms. The early indicators for 2023 point towards maintenance of the positive trend observed last year.

Hotel performance should continue to recover during 2023, with a pickup in bookings producing high levels of demand. Driven by deals currently underway, the investment market should likewise witness another very strong year and the foreseeable short-term sales of non-strategic hotels out of the Crow Portfolio.

Portugal
Gonçalo Garcia
Head of Hospitality Portugal, Capital Markets Group



Portugal

HOTEL TRANSACTION ACTIVITY IN 2022

€1.02
BILLION TRANSACTED

42
PROPERTIES SOLD

4,881
ROOMS SOLD

AVERAGE PRICE PER PROPERTY
€25M

AVERAGE PRICE PER ROOM
€197K

Hotel investment activity was limited during 2022 in CEE, with a transaction volume totaling €409m amounting to a 70% decline in comparison with 2019. Numerous factors (including the Russian invasion of Ukraine, energy costs, Hungary's posture towards the European Commission, rising inflation and interest rates in the banking sector, the lack of qualified labour, concerns around a recession and the upcoming presidential elections in the Czech Republic) contributed to a climate of uncertainty in CEE and prompted investors to adopt a wait-and-see approach. Looking ahead to 2023, transaction volumes should recover thanks to the increase in off-market deals and the necessity for owners to refinance or dispose of core as well as non-core assets. The ability of hotel real estate to adjust to inflationary pressures, combined with the volume of equity accumulated by investors and outstanding strong recovery in key KPIs growth rates should also facilitate hotel transactions in CEE.

Q4 2022 recorded an improvement in revenue per available room (RevPAR) throughout the CEE-6 region (Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia). The increase in RevPAR across the region (+104% compared to Q4 2021) was mostly driven by the impact of inflation on average daily rates (ADR) and the recovery in occupancy post-COVID-19. Despite a clear improvement in the KPIs, the region's RevPAR was 21.3% lower than the European average, a gap that increased by 3.7% in comparison with 2019. The slower recovery of CEE compared to the rest of Europe is largely due to the geopolitical turmoil taking place in the region following the commencement of Russian aggression and the invasion of Ukraine.

Central & Eastern Europe (CEE)
David Kath
Head of Hospitality CEE & SEE

CEE-6 Region

HOTEL TRANSACTION ACTIVITY IN 2022

- **€439** MILLION TRANSACTED
- **25** PROPERTIES SOLD
- **3,354** ROOMS SOLD
- **18%** OF CAPITAL WAS FROM INTERNATIONAL BUYERS
- **78%** OF VOLUME WAS INVESTED IN UPSCALE & UPPER UPSCALE HOTELS

TRANSACTION VOLUME PER HOTEL CLASS

(% CHANGE, 2022 VS 2021)

HOTEL CLASS	% OF TOTAL VOLUME	% CHANGE
LUXURY	2%	-93%
UPPER UPSCALE	41%	140%
UPSCALE	37%	210%
UPPER MIDSCALE	8%	-60%
MIDSCALE	13%	143%
ECONOMY	0%	-100%

AVERAGE PRICE PER PROPERTY

€82M

AVERAGE PRICE PER ROOM

€134K

Note: the data are updated as in April 2023, and may differ from previous publications

agenda

MAY 2023

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

JUNE 2023

▸ Phocuswright Europe 2023
12–14 June / Barcelona
https://www.phocuswrighteurope.com/

SEPTEMBER 2023

▸ The AHC 2023
11 – 12 September / Manchester
https://www.theahc.co.uk/

▸ IDEEA Forum - Hospitality Investment Forum
18-20 September / Prague
https://www.ideea-forum.com/

OCTOBER 2023

▸ RESORT&RESIDENTIAL HOSPITALITY FORUM
17-19 October / Lisbon
https://www.randrforum.com/

▸ TOURISM INNOVATION SUMMIT
18-20 October / Seville
https://www.tisglobalsummit.com/

NOVEMBER 2023

▸ WORLD TRAVEL MARKET LONDON
6-8 November / London
https://www.wtm.com/london/en-gb.html

CUSHMAN & WAKEFIELD'S VIEWPOINT

HOTELS IN SPAIN GET BACK TO 2019'S ACTIVITY LEVELS

WITH PRICE INCREASES AND REVENUE GROWTH

Spanish hotels recorded average occupancy of 65% during the first quarter of 2023, a rise of 26.4% on the figure for the same period the previous year when the Omicron variant was impacting results. The recovery in demand has driven rises in average daily rates (ADR) to €120, whilst revenue per available room reached €78, representing growth of some 43% on the figures for 2022. Looking back to average rates in 2019, Spain as a whole has seen growth of 15%, with Madrid standing out at 20% (€129 this year compared to €107 in 2019).

Produced jointly by STR and Cushman & Wakefield, the Spanish Hotel Sector Barometer shows a full recovery in hotel trading activity following the restrictions imposed during the pandemic. This recovery is embodied by a strong figure of 65% for first-quarter occupancy, some 26.4% more than last year and only two percentage points below the figure achieved in 2019.

IN ITS PEAK SEASON, THE CANARY ISLANDS HEADED UP THE RANKING IN TERMS OF OCCUPANCY (82%) AND REVPAR (€119)

Turning to the ADR (average daily rate), the Q1 2023 of €120 is some 13% above the figure for 2022, whilst RevPAR has benefited both from the improvement in occupancy and from price increases, leading to an average of €78 for Spain, some 43% more than the €54 for the same period last year. The ADR for Spain as a whole stood at €103 in 2019, along with a RevPAR of €69, meaning that growth in Q1 2023 amounts to some +16% and +13% respectively.

As is expected owing to the fact that the first quarter represents its peak season, the Canary Islands headed up the ranking in terms of occupancy (82%) and RevPAR (€119) (79% and €95 respectively in 2019). In terms of cities, Barcelona is showing the greatest improvement in comparison with Q1 2022, with growth of 43% in occupancy (67% vs. 47%) 27% in ADR (€143 vs. €113) and 81% for RevPAR (€96 vs. €53).

OCCUPANCY

Hot on the heels of the Canary Islands, Malaga takes second place with occupancy of 74.3%. This is 12 percentage points over the figure for 2022 and just ahead of 2019 and demonstrates that the capital of the Costa del Sol is attracting tourism throughout the year in response to its commitment to reduce seasonality. Amongst other cities, Barcelona has shown significant improvement by achieving occupancy of 67% during the first three months of the year in comparison with 47% in 2022 (growth of 43%).

In the opinion of Bruno Hallé, Partner and Co-head of Cushman & Wakefield Hospitality Spain, "we have witnessed a V-shaped recovery since the end of the pandemic, with price increases responding to the strength of demand and inflationary pressures. The real challenge now is to ensure that operating profits do not suffer as a result of cost increases".

AVERAGE RATE - ADR

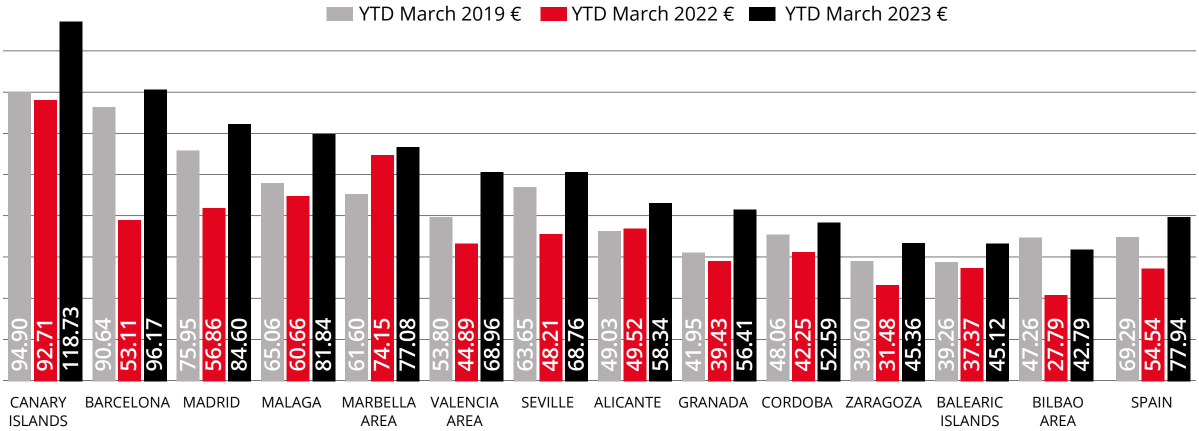
Room rates continue to trend upwards, benefiting from the strength and consistency of demand but also under the impact of inflation. At €152, Marbella tops the ranking of average room rates despite low occupancy. It is followed by the Canary Islands at €145 and Barcelona at €143 (7.5% more than in 2019), both benefiting from international tourism. For its part, Madrid recorded an ADR of €129. This excellent figure is some 20% up on the €107 for the same quarter in 2019.

According to Albert Grau, Partner and Co-head of Cushman & Wakefield Hospitality Spain "the hotel industry has demonstrated that improving product quality represents a safe bet in that it strengthens demand, grows loyalty and enables price increases in line with market conditions".

The rise in occupancy and price increases have enabled hoteliers to grow RevPAR (revenue per available room). Thanks to the Q1 coinciding with its peak season, the Canary Islands topped the RevPAR rankings during the first quarter, achieving a figure of €119. This is some 28% above that achieved last year and even 25% above 2019's figures (€95). Although the first quarter is traditionally low season for the majority of destinations in Spain, RevPAR grew very significantly in cities such as Barcelona (+81%), Valencia (+54%) and Madrid (+49%). Once again, we find the lowest figures for RevPAR in Bilbao (€43), Zaragoza and the Balearic Islands (€45 both), in the latter case due to low occupancy as a result of the degree of seasonality.

The Hotel Sector Barometer brings together data from 1,200 hotels and around 150,000 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, a leader in real estate services.

Market RevPAR Comparison Q1 2019 vs Q1 2022 vs Q1 2023



DEMAND DRIVING INNOVATION IN HOTEL SECTOR

by **Daniel Caballero**
Senior Hospitality Consultant, Spain

Profound developments in terms of customer profile in both holiday and urban segments are leading to the rapid, continuous evolution of the country's hotel stock. Whereas a few years ago it appeared sufficient to simply differentiate oneself through innovative design and a better F&B offering, nowadays a greater degree of differentiation in terms of product and experiences is essential to stand out within a much more competitive market.

Whilst customer expectations have risen since the pandemic, the process of choosing travel and a hotel increasingly takes up more time and greater dedication on the part of consumers given the highly differentiated offerings available to choose from. Given the increased attractiveness of Spain in the hotel investment market, particularly at an international level, the leading destinations have seen relatively obsolete offerings displaced by the entry of new products and brands and the repositioning of existing establishments.

It is difficult to stand out within a universe of ever more differentiated products and brands with increasingly specific identities. Each brand needs to target their niche market group and have its own identity.

Brands generating the greatest hype in recent years include Edition Hotels, belonging to the Marriott International group, with two hotels in Spain, in Madrid and Barcelona. With a luxury "lifestyle" concept, it has managed to position itself within the high purchasing power segment and become a meeting point for local artists. Contemporary design and a high degree of comfort, music as a guiding theme and a disruptive F&B offering have enabled it to energise its establishments and use this energy to strengthen the long-awaited concept of a hotel as a nerve centre.

Cubanito Hotel, Concept Group


Cubanito

The focus towards a younger audience has provided greater lifespan to the Edition Hotels (important factor also from an investment point of view). Nevertheless, gaining the affections and loyalty of a younger demographic with significant purchasing power will not be easy due to the high degree of competition beginning to appear in this product profile. Noteworthy in this context is the expansion in Spain of the leading brands belonging to the Ennismore portfolio (Accor), the Mondrian Ibiza and SLS Barcelona projects being the most striking in this respect.

The recent entry of Universal's UMusic brand in Spain is also worth highlighting, with a versatile concept for both holiday and urban segments. This is underscored by the UMusic Hotel Madrid in the Albéniz Theatre, where the lodging experience will be complemented by a musical offering from some of the country's best-known artists. The aim is to seek F&B revenue strengthened by a new rooftop venue in the city, along with other income that will compete directly with room revenue, thus maximising the hotel's GOP and, consequently, its value.

Among the new openings for summer 2023, the latest offering from the Concept Group is giving rise to high expectations. Following the openings of Cubanito and Romeo's in recent years, the group will present its latest establishment - the Mongibello Ibiza, following the refurbishment of the former Palladium Don Carlos in Santa Eulalia (Ibiza) acquired by Stoneweg and Bain Capital for 30 million Euro. As

Hotel Mongibello Ibiza


Hotel Edition Madrid


We Camp

UMusic Hotel Madrid

with the rest of its portfolio, we are invited to travel in time, not just geographically.

This journey through time will take us to 1960s Italy in the "spirit of the eternal Mediterranean holidaymaker". The group's success is based on the integration of these international concepts within a sense of place rooted in the Balearic Islands.

Also with a highly experience-based of hospitality products component, though entirely in contrast to the foregoing examples, We Camp's portfolio is transforming and professionalising the Camping segment in Spain. With offerings aimed at customers with significant purchasing power, in stark contrast to the audience that traditionally frequented these products in Spain, it has understood how to get the most out of exceptional locations in spectacular natural surroundings to develop and reposition products in tandem with Meridia Capital, and at prices that compete with the levels of Upscale hotels.

In short, we are witnessing an era in which the hotel category is shifting to the background whilst the personality and identity of hostelry products is enabling them to maximise rates and, consequently, returns for ever more professionalised owners.

With a pipeline including a large number of highly differentiated establishments in the country's leading destinations, we anticipate that secondary destinations will begin to experience this transformation of their hotel stock, enabling the country to better compete with international destinations in terms of price rather than volumes.

THE LEADING DESTINATIONS IN SPAIN HAVE SEEN RELATIVELY OBSOLETE OFFERINGS DISPLACED BY THE ENTRY OF NEW PRODUCTS AND BRANDS interview

KIKE SARASOLA

PRESIDENT AND FOUNDER OF ROOM MATE HOTELS

Room Mate Hotels has been through a period of two years in which its viability has come into question. How does one emerge from this process and what is the short-term strategy?
The exit needs time and patience, though with the pride of being able to say that we have saved the company and held onto our staff thanks to Angelo Gordon and Westmont Hospitality Group.

Our short-term strategy involves improving internal resources, processes and infrastructure in order to better serve our landlords, suppliers and customers. We also want to grow. We are open to considering the acquisition, leasing or management of hotels, hotel chains, apartment buildings and hostels, mainly within Europe.

How does Kike Sarasola feel about this new stage?
Now I'm delighted. The truth is, we've really suffered. These two years have been awful because I didn't know whether I would be able to save either the company or the jobs of my roomies. Everyone has had a terrible time of it. I'd like to take the opportunity to thank the roomies for their attitude and commitment throughout this.

I would sum up by saying that I now feel calm and cheerful and I'm focusing on the present. I'm very happy with, and have hig expectations, for my position as executive president and I'm grateful for the trust placed in me.

The entry of Angelo Gordon and Westmont Hospitality Group has enabled a new chapter to begin. What will be left of the Room Mate that we knew?
Everything. The new Room Mate will conserve the values and the DNA of the business that we all knew and loved. Among other things, this means that we will remain generous, responsible and supportive. We will continue to commit to our customers, the brand and being disruptors.

Angelo Gordon and Westmont Hospitality Group are fully in agreement on this point. This is one of the rea-

“Room Mate’s DNA will remain unchanged”

Given his visionary, disruptive, maverick nature, Kike Sarasola is an icon within the Spanish tourism sector. Having participated in three Olympic Games and won both national and international competitions, his past as one of Spain’s highest achieving equestrians has left its mark on both his career and character:
Based on the idea that every hotel should be a friendly face in the city, in 2005 he founded Room Mate Hotels, an affordable luxury chain for city centres. In 2014 he challenged the sector and created Be Mate to combine the freedom of an apartment with the security, quality and services of a hotel. Kike is an influential, inspirational leader and pioneer who sets trends in the sector.

sons why the transaction has been so smooth for all parties involved: we share the values that have made us a benchmark within the sector.

The new Room Mate will continue as before. We will continue to put people at the heart of all decision-making because that has always been our priority and we want it to stay that way. Although we are embarking upon a new phase, it’s clear to me that we don’t want to lose either our aspirations or our smiles. Room Mate’s DNA will remain unchanged.

What is the relationship with Angelo Gordon and Westmont Hospitality? Why have they committed to Room Mate?
The relationship with Angelo Gordon and Westmont Hospitality Group is excellent. Both are fully committed to Room Mate and have high expectations of the project. What is more, thanks to their entry we have been able to hold on to our people and teams.

We share not only the vision for the new Room Mate but, more crucially, we share the chain’s values and DNA. Undoubtedly this was the decisive point. As I mentioned before, we have a lot in common: we are committed to being generous, supportive and responsible and we always put people at the heart of all of our decision-making.

When you share with someone the reasons for doing what you do, the allocation and integration process becomes much simpler.

The business continuity negotiation process was accompanied by Cushman & Wakefield. What was the role of the consultancy during this time?
Cushman & Wakefield played a crucial role in the negotiating process for the continuity of the business. It provided us with expert analysis, viable options and advice throughout the negotiating process.

Speaking of business, how was 2022 and what is the outlook for 2023?
Even though the beginning of the year was impacted by the appearance of the Omicron variant, 2022 was a positive year for Room Mate. In all, we managed to close the year with figures very similar to those of 2019. As with the rest of the sector, results were excellent from rather than the month of April.

The year also involved new inclusions, opening a total of five Be Mate apartment buildings in Turkey, Mexico and Colombia, along with the creation of a new line of hostels, Wabi Sabi, in Turkey, which has been well received by customers.

It is difficult to speak in terms of the outlook for 2023 due to the changeable, volatile circumstances brought about by external factors. For that reason, in Room Mate we are working with short-term forecasts of three to six months. What I can say is that we are looking forward to very strong results for the first quarter. With respect to the rest of the year, and although there is great uncertainty, we expect the outlook to remain positive, particularly thanks to the gradual reappearance of Asian guests, especially the Chinese.

The hotel industry is getting back to the indicators seen in 2019. Is that the case in every country in which Room Mate has a presence? Do you see any differences?
Not only are the results for 2019 being matched, they are even being exceeded in every country in which Room Mate is present. In general terms, I can say that without exception every country will surpass 2019’s

results. Perhaps the most outstanding is Italy, where growth has been particularly strong.

The main difference that we currently find is the continued trend towards last-minute booking seen prior to the pandemic.

Your business vision led you to launch Be Mate back in the day. How do you believe that the industry will evolve over the coming years? What are the expectations for the demand side in the hotel industry?
Given that it depends on a number of factors, such as the global economy, changes in preferences and consumer behaviour, it's tricky to predict with any degree of certainty how the industry will evolve over the coming years.

Even so, we expect that demand will increase as the economy recovers and markets such as Asia continue to open up. These will further drive accommodation demand.

That's why I believe that the hotel industry will commit to high quality customers in different markets and to the professionalisation of the sector. This is something that I have mentioned on a number of occasions: we have to commit to customer diversification, offering the possibility for everyone to travel and find their own space.

The same idea led us to open our first hostel, Wabi Sabi in Istanbul. With 148 beds and located in the city centre, it has modern fittings, co-working space and rooftop to enjoy the city. Our idea is to also expand this business line and grow.

In short, I believe that demand within the industry will continue to grow during the coming years, though travel patterns and consumer preferences may change. It is important that everyone is able to choose the type of accommodation that they prefer for their stay.

Spain continues to attract hotel investment funds. Where do you consider that opportunities lie currently?
Spain remains an attractive destination for hotel investment funds due to the favourable climate, cultural heritage and well-developed infrastructure. Undoubtedly it remains one of the world's most important tourist destinations.

We believe that a number of areas may prove attractive in terms of investment opportunities in the sector. Investment in hostels and in luxury and high quality products in a number of destinations may prove to be profitable options.

Founded in 2005, Room Mate is still a young company. In this short period it has gone through a major financial crisis and a pandemic and, in turn, through periods of extraordinary activity. What will stay with you from this period? (The best and worst memories, and why)

We have experienced so many things over these years that it is almost impossible for me to single out just one. However, if I had to choose just one thing, I would remember the work that we undertook during the pandemic. During this most difficult period, we made twelve hotels and four apartment buildings available to the authorities.

"WE EXPECT THAT DEMAND WILL INCREASE AS THE ECONOMY RECOVERS AND MARKETS SUCH AS ASIA CONTINUE TO OPEN UP"

That, for me, was wonderful. Firstly, to see how my roomies got on board with the project, displaying generosity and support at all times. It was also incredible to witness the gratitude, affection and appreciation offered by healthcare staff, the elderly and fire service personnel who stayed with us throughout this time. Many of them arrived broken, in tears, depressed and following a series of strict protocols that prevented them from getting together with others due to the risk that it represented. Nonetheless, we managed to make them a little happier during the time they were with us.

I will always remember those months. Not only due to the harshness of the situation, but also for the incredible sensation of having helped out. It gave me the feeling that solidarity is contagious and that we were all able to show this in the most difficult times. People still stop me in the street to thank me for the help given. We were delighted to do it and we'd do it all over again!

Turning to the worst memory, well I would prefer to stay with the positive side of things. I have always been positive by nature and all that we went through will end up being merely anecdotal.

KATELL BOURGOIS AND BORIVOJ VOKRINEK, SPEAKERS AT THE IHIF

Cushman & Wakefield Hospitality will play a leading role in the IHIF with the participation of Katell Bourgois, Head of Hospitality France, and Borivoj Vokrinek, Partner - Strategic Advisory & Head of Hospitality Research EMEA.

Bourgois will participate in the round table entitled "Can Hospitality still work for core investors?", held on Tuesday, May 16 from 12:00 to 12:45, accompanied by David Kellett, Managing Director, Invesco; Andreas Löcher, Head of Investment Management Hospitality, Union Investment Real Estate GmbH and Philippe Rossini, Hotel Portfolio Management, Swiss Life Asset Managers France.

For his part, Vokrinek will be involved in the "Aligning Owners and Operator's Sustainability Strategies" round table on Wednesday 17 (13:00 to 13:45), alongside Henning Schneekloth Plöger - Director Tenant Relations Management Europe, Union Investment; Paulina Godfrey, Senior Director, Energy & Environment, EMEA, Hilton; Inge Huijbrechts, Global SVP Sustainability, Security and Corporate Communications, Radisson Hotel Group; Thomas Page, Partner, CMS and Capucine Pedrazzini - Director, Alternative Investments, Invesco.

Throughout the three days of the forum, Cushman & Wakefield Hospitality will also be present in the exhibitors area inside the InterContinental Hotel Berlin.

HUELVA, AN EVER MORE ATTRACTIVE DESTINATION FOR HOTEL INVESTMENT

The leading players in the sector gathered together at the Hotel Investment and Tourism Business Forum (Investur Huelva) held in Punta Umbría. Held at the Barceló Punta Umbría Beach Resort hotel and with the collaboration of the Provincial Council, the Board of Tourism and the Huelva Hoteliers Association, the meeting shed light on the business and investment opportunities offered by Destination Huelva, aimed at promoting its development.

Albert Grau participated on behalf of Cushman & Wakefield, analysing the strengths of Huelva as a tourist destination and magnet for hotel investment. The factors driving growth include the value of the tourism product itself, encompassing beaches and an extensive offering of cultural and culinary experiences, etc. In contrast, communications with the airport and AVE high-speed rail station must be improved in the coming years.

CUSHMAN & WAKEFIELD ORGANISED A SERIES OF DEBATES **ON HOTEL INNOVATION, INVESTMENT AND ESG AT THE HIP TRADE FAIR**

Kike Sarasola, founder and executive president of Room Mate Hotels & Be Mate, was one of the leading guests invited to the session on new hotel industry trends, organised by Cushman & Wakefield within the framework of the HIP (Hospitality Innovation Planet) fair.

Aside from Albert Grau and Bruno Hallé, Cushman & Wakefield also benefited from the experience in the field of hotel industry ESG of Miquel Estelrich, senior sustainability consultant at Cushman & Wakefield and Laura Danzig, Associate, Head of Sustainability & Wellbeing, Spain & Southern Europe.

Held annually in Madrid, this year HIP brought together a total of 43,794 professionals from every link in the hostelry value chain, sharing opinions on the Horeca trends for the coming months, whilst studying the current condition of the market.

WHY HOTELS ARE INCREASINGLY AN ATTRACTIVE PART

OF REAL ESTATE INVESTMENT STRATEGIES

The Social Hub Barcelona

Investment in hotel assets in Spain has grown significantly in recent years. The increasing professionalisation of all areas of the business and the transformation of hotel management itself have given rise to a new context in which an increasing number of investors are conscious of the potential of a property asset that enables them to achieve returns exceeding others.

The specific characteristics of a hotel property asset attract interest on the part of a wide range of investor profiles. In contrast to other properties, such as offices, hotels offer a wider spectrum of operational structures from fixed income to fully variable income based on daily demand.

In terms of the Spanish market, the figures in the Cushman & Wakefield study indicate that 2022 closed with estimated real estate investment of €13.7 billion, of which some 20% corresponded to the hotel sector. With an overall figure some 22% over that for 2021, investment in other sectors was assigned to retail (38%), residential products (22%) and offices (20%). The weight of hotel investment demonstrates that investors of a certain profile put a high value on this increased potential yield whilst conscious of assuming a different risk profile.

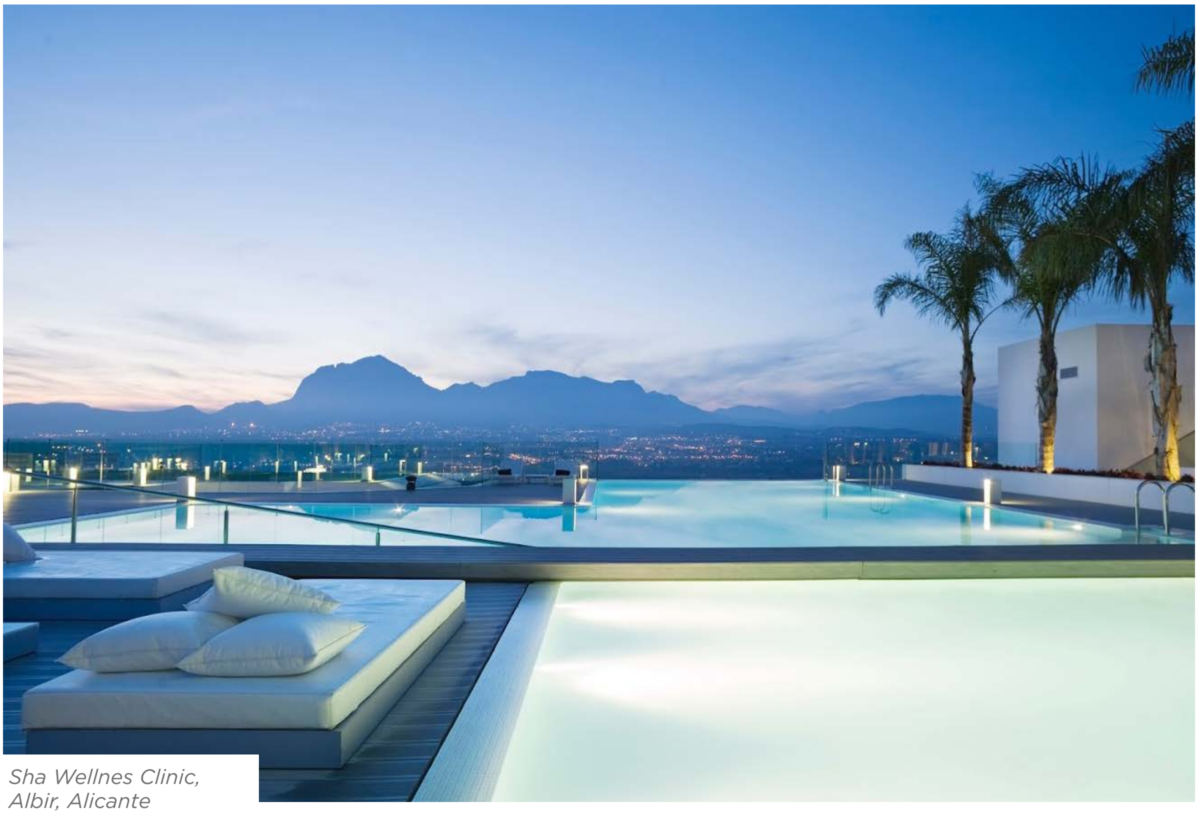
MUCH MORE THAN A HOTEL: HYBRID MODELS

An aspect favouring hotel assets in comparison with other investment properties is the evolution over recent years of the lodging concept itself. As a target for investment, hotels require specialised operators that know how to get the most out of a space that no longer represents solely accommodation. Whilst it is necessary to add food and beverage offerings to the equation, many other services such as coworking, events, wellness, retail and even residential models like serviced apartments may be considered.

MARKET SURVEYS SHOW THAT THE COMING GENERATIONS OF TRAVELLERS WILL NATURALLY TAKE TO THESE HYBRID MODELS OF HOTELS

Far removed from the traditional hotel model, this hybrid concept is more attractive to investors in that it improves the asset's potential, pushing it towards returns that exceed those of other properties. This greater potential is evidently linked to a different level of risk given that every activity requires a degree of knowledge and specialisation to attract consistent demand.

It is important to remember that as the asset's potential increases, so does the complexity of its management. Not all hotel operators or managers have the capacity to offer optimal service in every area. Complementarity in terms of management can be achieved in a number of different ways. The hotel operator itself may enter into management contracts with external parties in the area of restaurant operation and catering, these being adapted to the clients towards whom the project is focused. They



Sha Wellnes Clinic,
Albir, Alicante

can likewise establish lease contracts for other activities such as coworking, residential or any other type.

Market surveys show that the coming generations of travellers will naturally take to these hybrid models. Trends include that of travelling more frequently to any corner of the world, particularly where this is connected to longer stays and greater expenditure. The nature of accommodation will have to adjust to their needs in order to remain relevant in the market and latch onto this trend in terms of new traveller habits.

THE ROLE OF EXPERT CONSULTANTS

The know-how of an expert consultant is key to defining the best options for a real estate asset when considering possible investment. On many occasions, the product repositioning plan is the key moment for the entry of new partners or changes in shareholding in order to fund new needs. Identifying the ideal combination of uses depends on a wide range of factors, from the investment capacity itself to an analysis of the anticipated levels of demand, involving a detailed study of the potential client profile and the context of the hotel.

Within any plan aimed at transforming a hotel towards a hybrid model it is important to share the vision of the business and define a strategy that aligns with all of the leading players, i.e. Investors, operators, shareholders, etc. In order to achieve this, it is essential to design a business plan demonstrating the business potential and growth in returns following the transformation of the property and, consequently, the increased future value of the asset.

WHICH ITEMS MAKE A DIFFERENCE IN THE INVESTMENT MARKET?

Although there are worrying indicators at a macro level, the hotel investment market is currently in robust health following the rapid recovery of operations following the pandemic. This capacity to generate recurring revenue is attractive to investors and is particularly evident at the two extremes: the luxury segment and economy segment, whether city or holiday destinations.

The responses from professionals in the most recent Cushman & Wakefield hotel investment study showed that holiday resorts currently represent the most attractive types of establishment.

Among the most sought-after are those properties that, due to their characteristics, are able to generate multiple revenue streams. The corresponding service provision may already be ongoing or simply able to be created through reasonable investment, thus inviting a search for funding and the entry of capital into the project. Hotel operators are increasingly experienced and knowledgeable in the start-up and coordination of revenue streams that optimise the value per square foot. Together with the recovery in activity per square meter and the low level of indebtedness, the foregoing fact is certainly the reason why a number of hotel chains are returning to asset acquisition. Within this context, hotel projects appear relatively complex, requiring good decision-making and a high degree of flexibility in terms of the various business formulas that may be implemented. It is fundamental to seek out every option offered by the market when funding represents such a challenge due to rising interest rates.

Last but not least, investors are increasingly placing greater value on ESG criteria that, where they exist in terms of a property, increase its value or, where they need to be implemented, require significant investment. Whilst some years ago this would have amounted to mere anecdote, ESG criteria currently represent a clear driver in investment terms given that there are funds specialising in these types of deals where the criteria play a leading role.

WHY IS SPAIN A KEY DESTINATION FOR HOTEL INVESTMENT IN EUROPE?

Positioning:
It is currently the global leader in tourism with superb infrastructure, global connectivity and a wide offering of tourism products. Factors such as security and the healthcare system also make Spain a safe haven destination.

Demand:
Due to the attractiveness of the product, the Spanish hotel industry soaks up major volumes of demand with a high degree for potential segmentation (city, holiday, etc.)

Added value:
The country boasts a historic hotel offering with good location and the space to enable product repositioning projects.

A mature sector:
Tourism and hotel activity benefits from the professional evolution of all players (owners, managers and investors), meaning that challenges can be taken on assuredly.

Location:
The country offers investors attractive destinations in terms of both urban locations with a strong leisure mix (Barcelona, Madrid, Sevilla, Malaga, Valencia, San Sebastián...) and pure holiday destinations with top-rated products (Balearic and Canary islands and Costa del Sol).

Diverxo en NH Collection Madrid Eurobuilding

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 52,000 employees in over 400 offices and approximately 60 countries. In 2022, the firm had revenue of $10.1 billion across core services of property, facilities and project management, leasing, capital markets, and valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

LIFE IS WHAT WE MAKE IT

CONTACTS

Jonathan Hubbard
Head of Hospitality EMEA
M: +44 79 2149 2681
jonathan.hubbard@cushwake.com

Carl Ridgley
Head of Hospitality Valuation & Advisoriy EMEA
M: +44 77 1015 3982
carl.ridgley@cushwake.com

Frederic Le Fichoux
Head of Hotel Transactions EMEA
M:+42 07 2431 9802
frederic.lefichoux@cushwake.com

Richard Candey
Head of Investor& Developer Services Hospitality EMEA
M: +44 77 02759173
richard.candey@cushwake.com

Brien Giuntini
Hospitality Debt & Structured Finance EMEA
M:+49 1511 8830 936
brien.giuntini@cushwake.com

Borivoj Vokrinek
StrategicAdvisory & Head of Hospitality Research EMEA
M: +420 727 906 030
borivoj.vokrinek@cushwake.com

Graphic design and layout:
www.creandovisual.com
Cover photo: Hotel Edition Madrid

@CushWakeSPAIN

CUSHMAN & WAKEFIELD

cushmanwakefield.es

José Ortega y Gasset, 29
Floor 6
28006 Madrid

Paseo de Gracia, 56
Floor 7
08007 Barcelona