52.370216° N
4.895168° E
AMSTERDAM

51.507351 ° N
-0.127758° W
LONDON

48.135125° N
11.581981° E
MUNICH

52.229676° N
21.012229° E
WARSAW

48.856614° N
2.352222° E
PARIS

45.465422° N
9.185924° E
MILAN

41.385064° N
2.173403° W
BARCELONA

HOTELS
EUROPEAN INVESTOR INTENTIONS SURVEY 2017

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CBRE

Executive summary

The CBRE Hotels European Investor Intentions Survey was developed to assist hotel property stakeholders with their business planning at a time of widespread uncertainty. Many of the events that shaped investor decisions through 2016 will continue to unfold in the months ahead. The results of our survey are therefore reflective of the intentions of the hotel investment community based on the anticipated impact of events not limited to Britain's EU exit, Dutch, French and German elections, and Donald Trump's US presidency.

Encouragingly, the majority of survey respondents responsible for deploying capital aim to invest the same or more into hotel real estate in 2017. This would suggest that hotels have become more attractive relative to other asset classes in the midst of global market unpredictability. Investment into hotels in 2016 saw a marginal decline on a record 2015 at a European level; however, there was a significant re-ordering on a country level as Germany took the UK's long-standing mantle of 'most liquid market'. Is this a title that will be retained, will Britain regain its popularity or will a new European hotspot come to the fore?

The results of this survey are based on answers from 485 respondents – all of which are real estate investors with a particular interest in hotels. This level of engagement has provided a solid foundation from which to draw credible findings.

Most attractive countries for hotel investment in Europe in 2017

#1 UNITED KINGDOM
#2 GERMANY
#3 SPAIN
#4 FRANCE
#5 ITALY
#6 THE NETHERLANDS
#7 IRELAND
#8 PORTUGAL
#9 BELGIUM
#10 POLAND

Already invested in other sectors

25% OFFICES
13% RETAIL HIGH STREET
13% SHOPPING CENTRE
11% LOGISTICS
8% PRIVATE RENTED SECTOR
3% OTHER
2% RETAIL WAREHOUSE
1% OTHER INDUSTRIAL

Investor capital originates from

53% EUROPE
18% AMERICAS
18% ASIA PACIFIC
11% MIDDLE EAST & AFRICA

Do you plan to invest in hotels in 2017?

87% YES
13% NO

Do you plan to divest of hotels in 2017?

31% YES
69% NO

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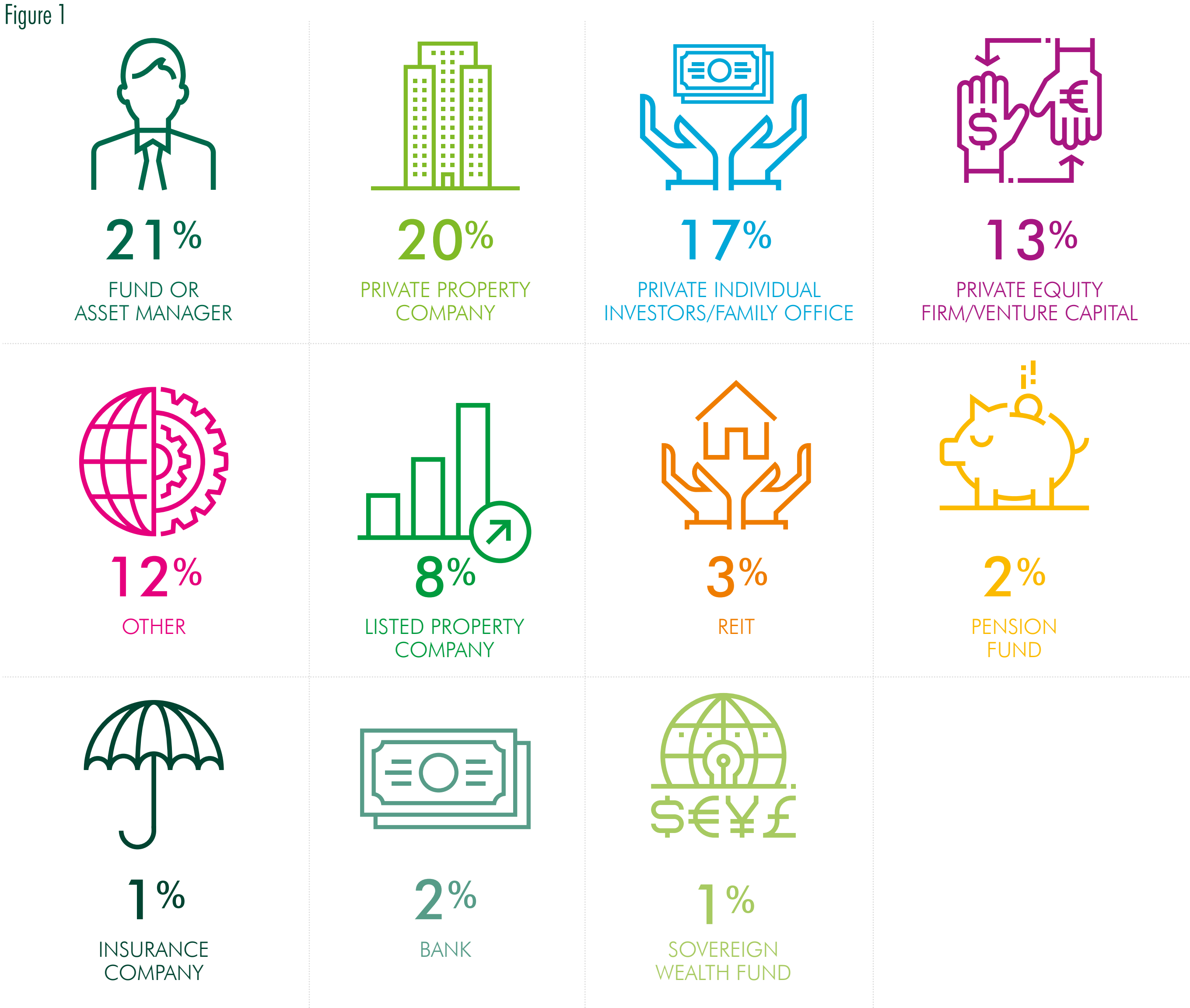
Which business sector best describes your organisations main activity?

Recognising that the type of capital seeking hotel investments is far from homogenous, figure 1 provides a breakdown of the different organisation types reflected in the sample. With limitations, the apportionment of respondents provides an indication of the most and least active type of capital in the hotel sector. Pension funds and insurance companies represent a small share given their preference for fixed-income real estate of which the hotel sector has a relatively low supply. Private equity funds, asset managers and many private investors, on the other hand, relish the opportunity of operational exposure offered by hotel investment as a means to drive returns through both business income and capital value appreciation.

Figure 1



Source: CBRE 2017

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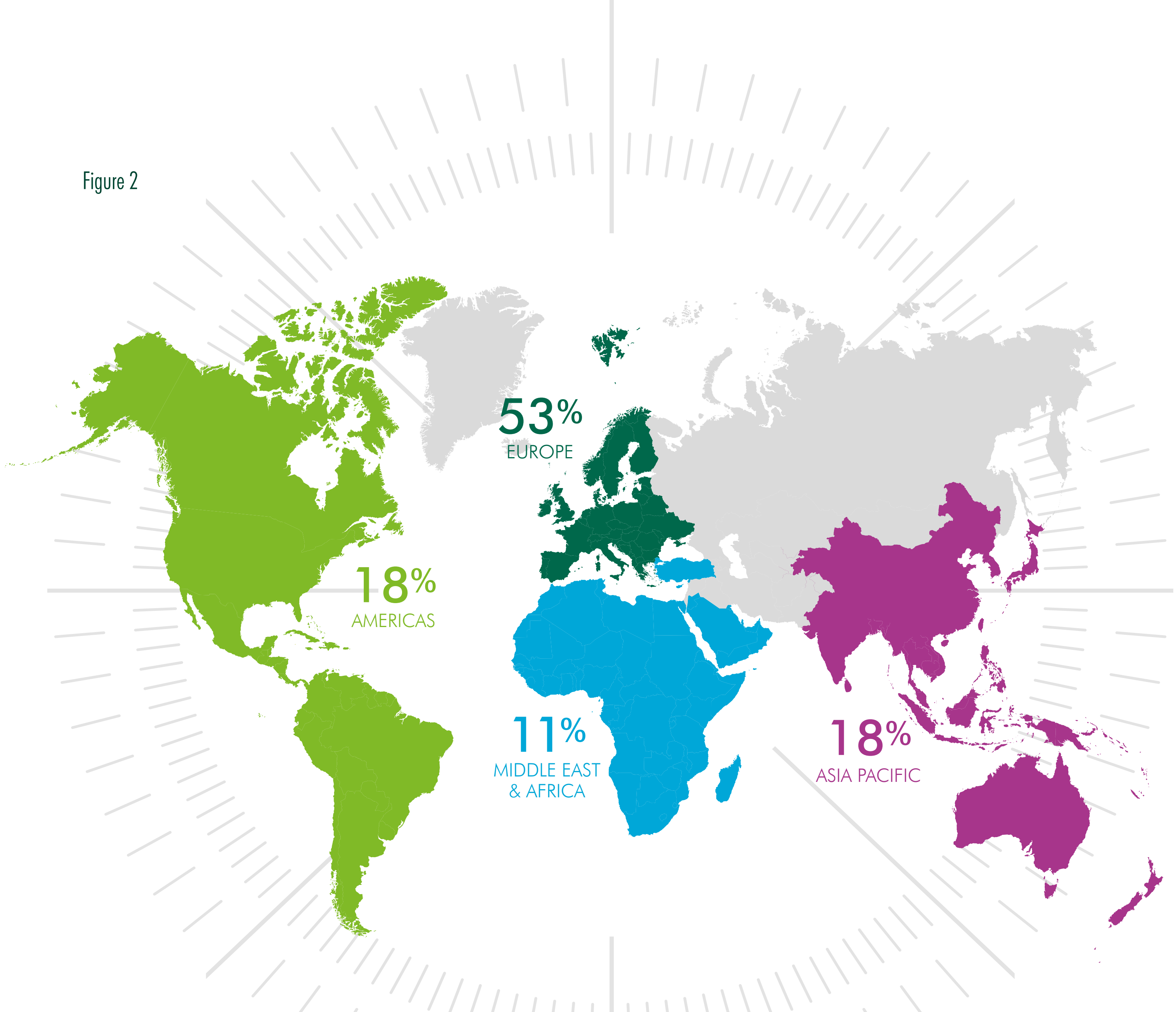
HOTELS European Investor Intentions Survey 2017

Where does your capital originate?

Investors were asked where their investible capital originates (figure 2). The results show a geographical distribution that largely mirrors the volume breakdown of European hotel investment in 2016. Those responsible for deploying European capital represent the lion's share of responses (53%), whilst the increasingly active investors out of Asia Pacific and those from the Americas both represent 18%. The remaining 11% of respondents are seeking opportunities to place capital from the Middle East and Africa, most of which originates from the oil-rich GCC nations.

The type of capital seeking hotel investments is far from homogenous.

Figure 2



Source: CBRE 2017

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Are you already invested in any other sectors?

Hotels had once been considered a niche asset class and therefore appealing only to specialist investors. Greater transparency and a better understanding of the hotel sector, along with a shortage of investible stock across other asset classes, have resulted in interest from a broader range of investor types. Investors previously known for acquiring traditional commercial real estate are adding hotels to their diversified property portfolios. Figure 3 highlights this trend showing the breadth of asset types that the respondents are currently invested in.

Institutional investors, including insurance companies and pension funds, have the most diversified portfolios, with hotels representing on average between 0% - 10% of their overall real estate holdings. Hotel sector exposure increases slightly further when looking at private equity funds and private property companies; however, many private individual investors and family offices have portfolios where hotels represent over 30% of their real estate investments.

"Research has played a pivotal role in shedding a new light on hotel investment. Innovative ways of presenting intellectual capital has created greater transparency and opened up the sector to a broader range of investor types."

*Catherine Latzenhofer,
Hotels Research, EMEA*

Figure 3

25%
OFFICES

13%
RETAIL
HIGH STREET

13%
SHOPPING
CENTRE

11%
LOGISTICS

8%
PRIVATE RENTED
SECTOR

3%
OTHER

2%
RETAIL
WAREHOUSE

1%
OTHER
INDUSTRIAL

Source: CBRE 2017

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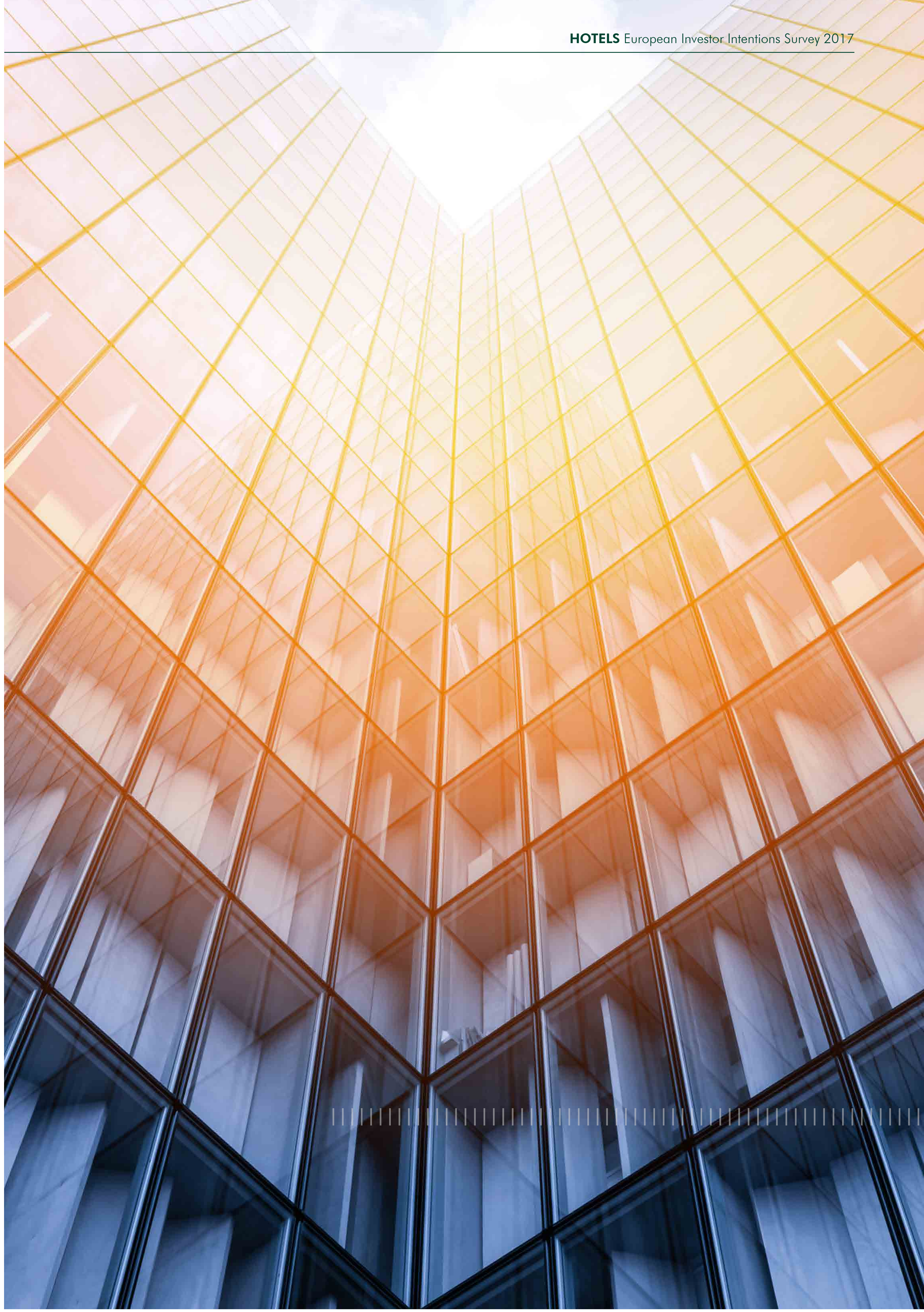

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Compared to 2016, do you expect your investment activity in 2017 to be…?

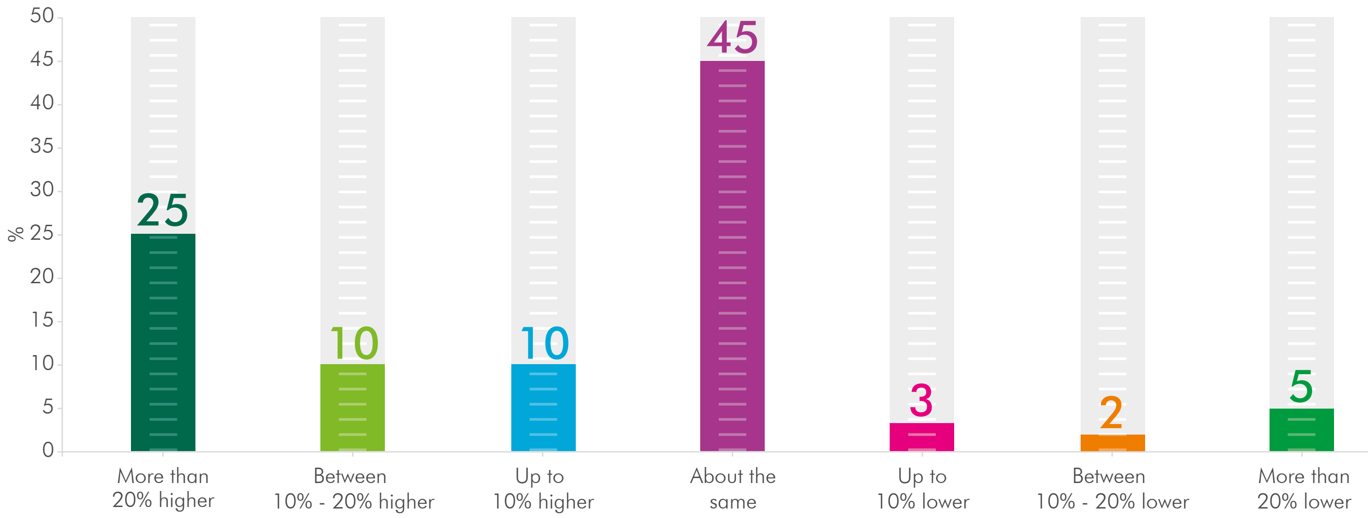
When asked about their expected level of investment activity in 2017, the majority of survey respondents claimed to aspire to deploy the same or a greater amount of capital into the European hotel arena than in 2016 (figure 4). This would suggest that those already invested in the space are pleased with the performance of their investments and are motivated to increase their hotel exposure.

One likely challenge in 2017 will therefore be the supply of hotel investment opportunities. The European hotel deal volume in 2016 was considerably above the long-run average, yet activity in many countries was tempered by a lack of stock coming to market. Only 31% of the surveyed investors said that they would consider divesting of any of their hotels in 2017. This presents a significant imbalance between demand and supply and could result in a general increase in hotel asset prices across Europe.

The investor types most considering divesting of their hotel holdings includes the private equity firms and private property companies. These investor types are typically the most opportunistic and are now looking to sell having acquired their assets in the early phases of economic recovery post-recession. Those least likely to sell are the insurance and pension funds; generally invested in long-income, liability matching leased hotel stock.

Those already invested in the space are pleased with the performance of their investments and are motivated to increase their hotel exposure.

Figure 4



Source: CBRE 2017

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How long do you typically plan to hold your hotel real estate investment/s?

Those that do make a hotel acquisition in the coming months expect to hold their investments on average between 5 - 10 years (32%) with a further quarter of respondents looking to exercise a holding period of over 10 years (figure 5). 17% even said that they would keep their investment indefinitely – the so-called generational purchasers. These results represent a shift away from a shorter holding period (<5-years) which was highly prominent in the immediate aftermath of the global financial downturn when the opportunistic funds dominated hotel investment.

Only 5% claimed that they intend to spend in excess of €500m, making the demand for the most part thin for the larger ticket portfolios.

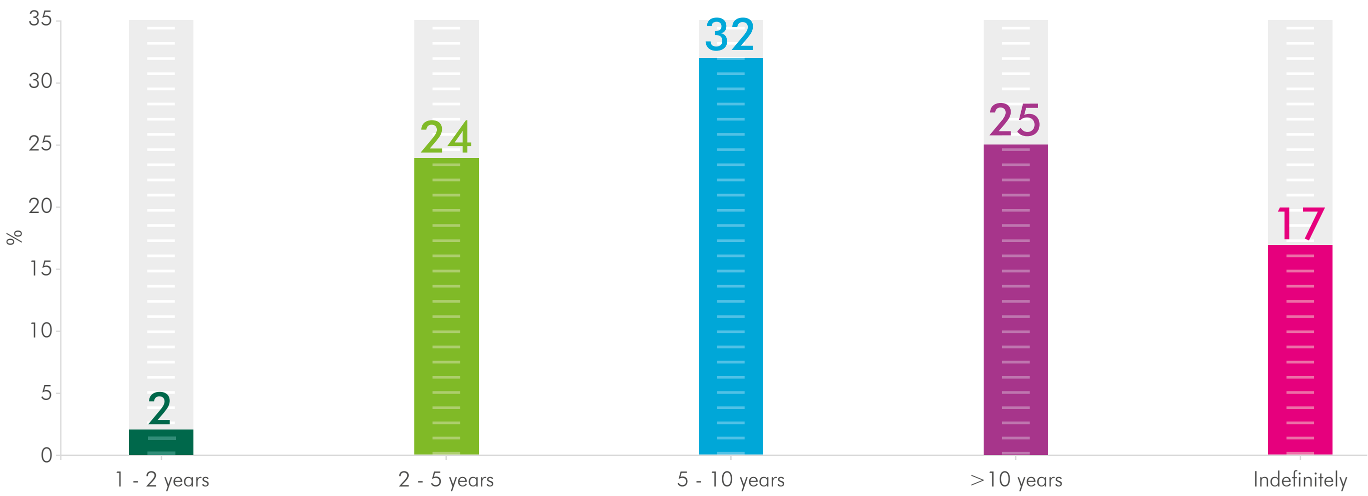
When asked what their organisation's main motivations for investing in hotel real estate in 2017 were, the respondent's mainly cited an expectation of capital value growth and a steady income stream. Other common, but less popular responses, included attractive hotel yields relative to other real estate asset classes and portfolio diversification.

The survey also asked investors to indicate the quantum of capital that their organisation hoped to deploy in 2017. €10m - €50m was the most popular bracket for response (32%), closely followed by €100m - €500m (28%) and €50m - €100m (24%). Only 5% claimed that they intend to spend in excess of €500m, making the demand for the most part thin for the larger ticket portfolios.

"In this record low interest rate environment, the hunt for investments that provide balanced risk adjusted returns is creating insatiable demand in the sector. Investors are hesitant to sell because they recognise it will be difficult to achieve the same return on redeployed capital, so there will be a limited supply of hotels coming to market in 2017. This is likely to cause demand and pricing to further increase, especially for core assets in primary markets."

Dominic Murray,
Head of Investment Properties,
EMEA Hotels

Figure 5



Source: CBRE 2017

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What level do you intend to leverage your hotel aquisitions in 2017?

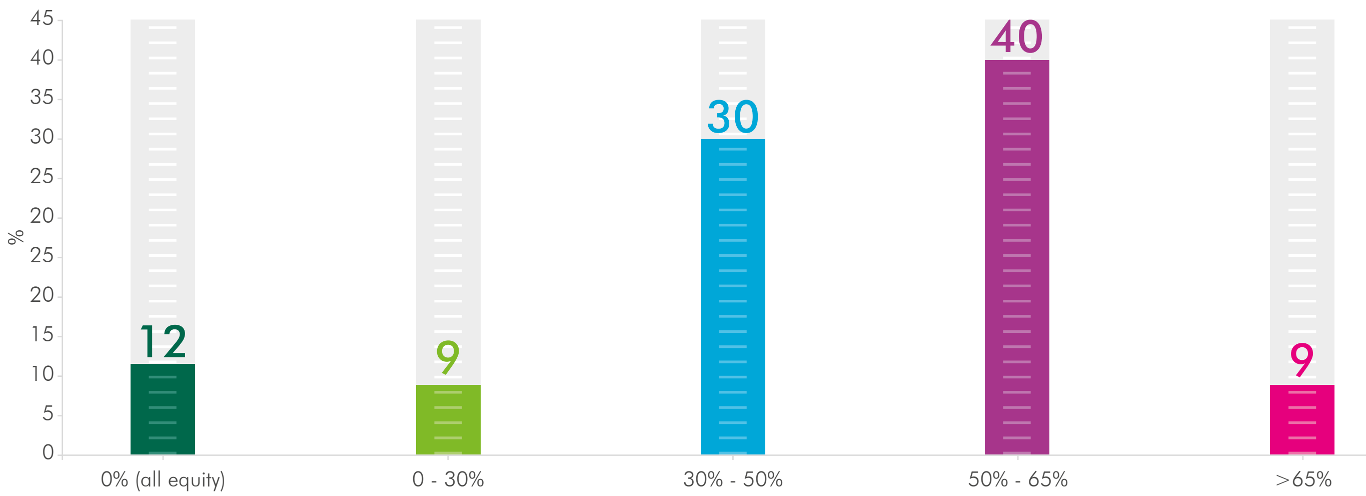
In regards to debt (figure 6), 30% of our surveyed investors intend to use leverage at a 30 - 50% loan-to-value (LTV) level, with 40% favouring a more aggressive 50% - 65% LTV. The use of finance for acquisition is clearly commonplace as many investors are still looking to benefit from the low-interest rate environment and competitive debt market to amplify their returns. 9% of respondents are looking to finance their acquisitions with loans in excess of 65% LTV; suggesting that there is some demand for the generally more expensive mezzanine finance.

On breaking down the responses by investor type, those looking to utilise the highest levels of leverage are the private equity funds and private property companies. REIT's, private individuals and family offices are planning to leverage their acquisitions at an average 30% - 50% LTV, whilst the pension funds and institutional funds intend to use the lowest levels of leverage.

"We find that the bulk of investors focus on a leverage point that is well catered for by traditional lending and there is seemingly no disconnect between investor and lender intent for 2017. However, historic low interest rates should not influence investment into the sector."

Georgia Contogoulas, Senior Director, Debt & Structured Finance

Figure 6



Source: CBRE 2017

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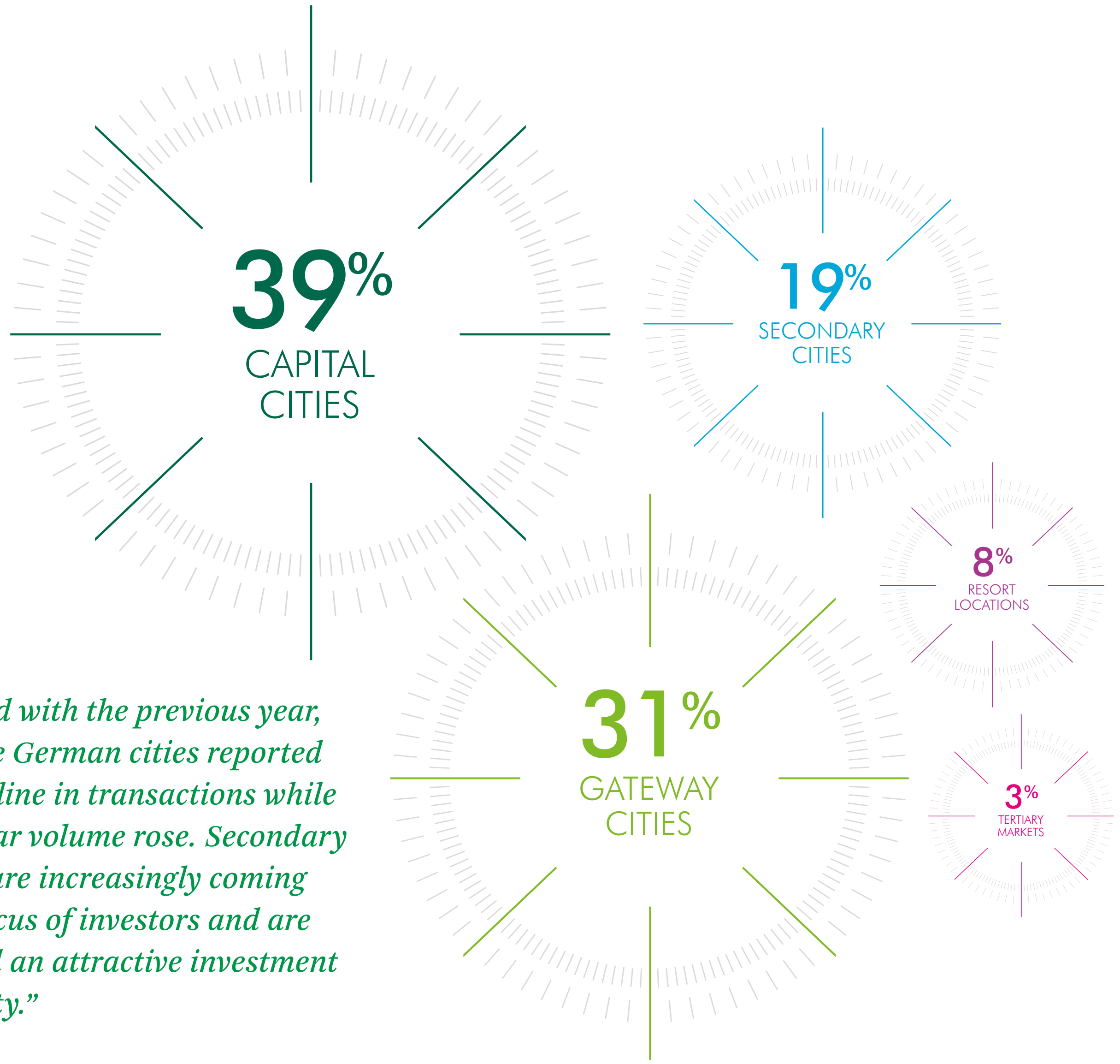
In Europe, what locations are you targeting for investment in 2017?

Geographically, the majority of investors intend to search for product in Europe's capital and gateway cities (figure 7). Such markets benefit from a more diverse build-up of accommodation demand and hotel operating performance is therefore more stable, relatively speaking. Few investors expressed an interest for tertiary markets; however, secondary cities and resorts represent 19% and 8% of responses respectively, as some investors look further afield in their search for yield.

Figure 7



"Compared with the previous year, the top five German cities reported a 12% decline in transactions while the full-year volume rose. Secondary locations are increasingly coming into the focus of investors and are considered an attractive investment opportunity."

Olivia Kaussen,
Head of Hotels Germany, EMEA

Source: CBRE 2017

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Which countries are you targeting for investment in 2017?

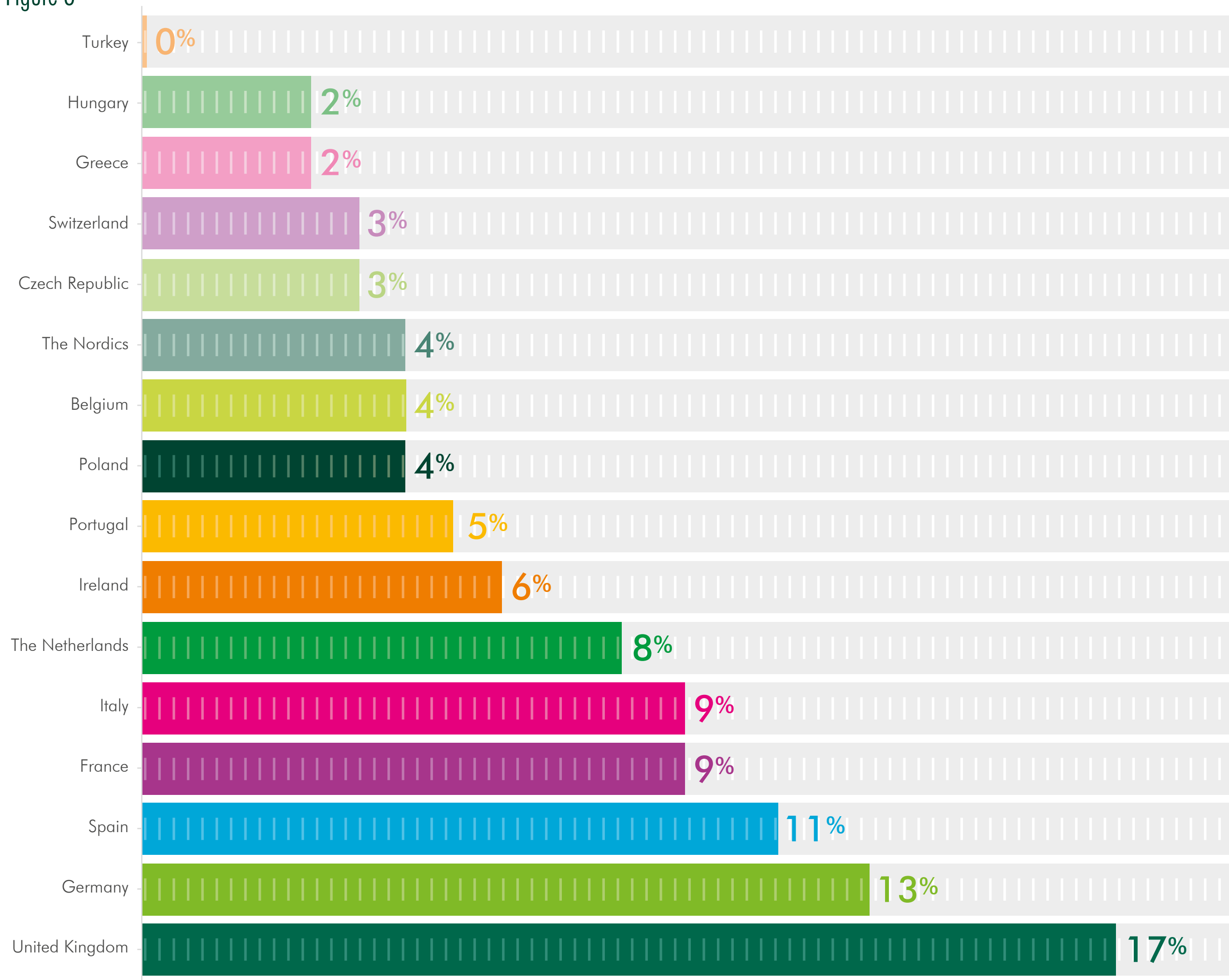
On a country basis, perhaps surprisingly, the UK is the most popular target for 2017 hotel investment. Germany gazumped the UK in terms of market liquidity in 2016, with many industry commentators feeling that the Brexit vote had deterred investors from considering opportunities in Britain. The results of this survey suggest that the yearly decline in the 2016 UK investment volume was more a result of low supply than the demand for hotel stock – particularly given that the UK's exit terms are no clearer now than at the time of the referendum. Other popular target markets (in rank order) include Spain, France, Italy and The Netherlands.

"2017 will see some complex opening manoeuvres in the Brexit negotiations, following the service of Article 50, not least because of the potential for some twists and turns in European politics too.

Brexit will take time, but the wheels of the economy will still turn. There is no doubt that UK's particularly strong economic fundamentals will further underpin investor confidence in purchasing UK property."

Miles Gibson, Head of UK Research

Figure 8



Source: CBRE 2017

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What operating structures are you targeting in 2017?

In recent times, hotel yields have suggested lower investor appetite for hotel management agreements – a result of their perceived inflexibility. At a headline level the survey findings suggest that hotel management agreements may be coming back into favour (figure 9); however, the questioning split franchise agreements and vacant possession into two categories. Given the operational flexibility of a franchise agreement, many consider this equal to vacant possession. Adding the responses across both categories together makes it very clear that most investors are still seeking flexibility.

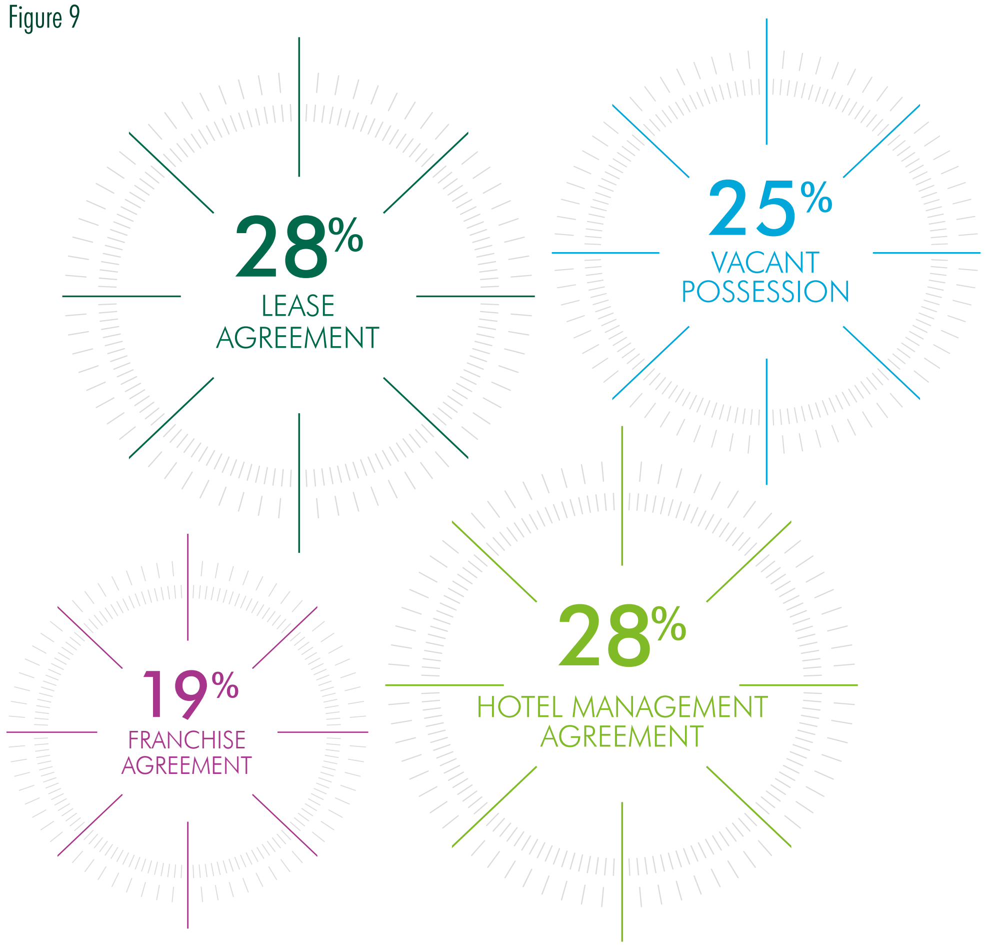
The proportion of investors seeking lease agreements (28%) is much higher than the share of leased hotel stock in Europe. Outside of Germany and the Nordics, assets encumbered by a lease agreement are in low supply given that many of the global brands have chosen to avoid this structure. Thus, leases are unlikely to ever be the most popular operating agreement. Yields in the leased space have fallen sharply in recent years and this trend could continue through 2017 given the high demand and scarcity of this product type. It should also be noted that new operators are using lease agreements as a way to increase their European presence, such is the investor demand.

The survey also asked the respondents to select the tier of the market that they are targeting for their 2017 hotel investments. The majority selected the upscale and midscale tiers; however, what was most noteworthy was the proportion of those that selected serviced apartment/aparthotel, which equalled the level of responses for budget and limited service tiers. This is clearly indicative of the serviced apartment sector gaining recognition and popularity amongst the investment community – a trend which is also reflected in the development pipeline throughout Europe.

"Investment appetite is evident across all operating structures with some expected geographic differences. Operators continue to demonstrate increased flexibility with respect to deal structures. Many hotel companies will now offer a franchise for brands at the higher end of their portfolios and some are aligning with operators who will lease to grow distribution in countries where a lease is the preferred operating structure."

Owen Pritchard, Head of Advisory Services, EMEA

Figure 9



Source: CBRE 2017

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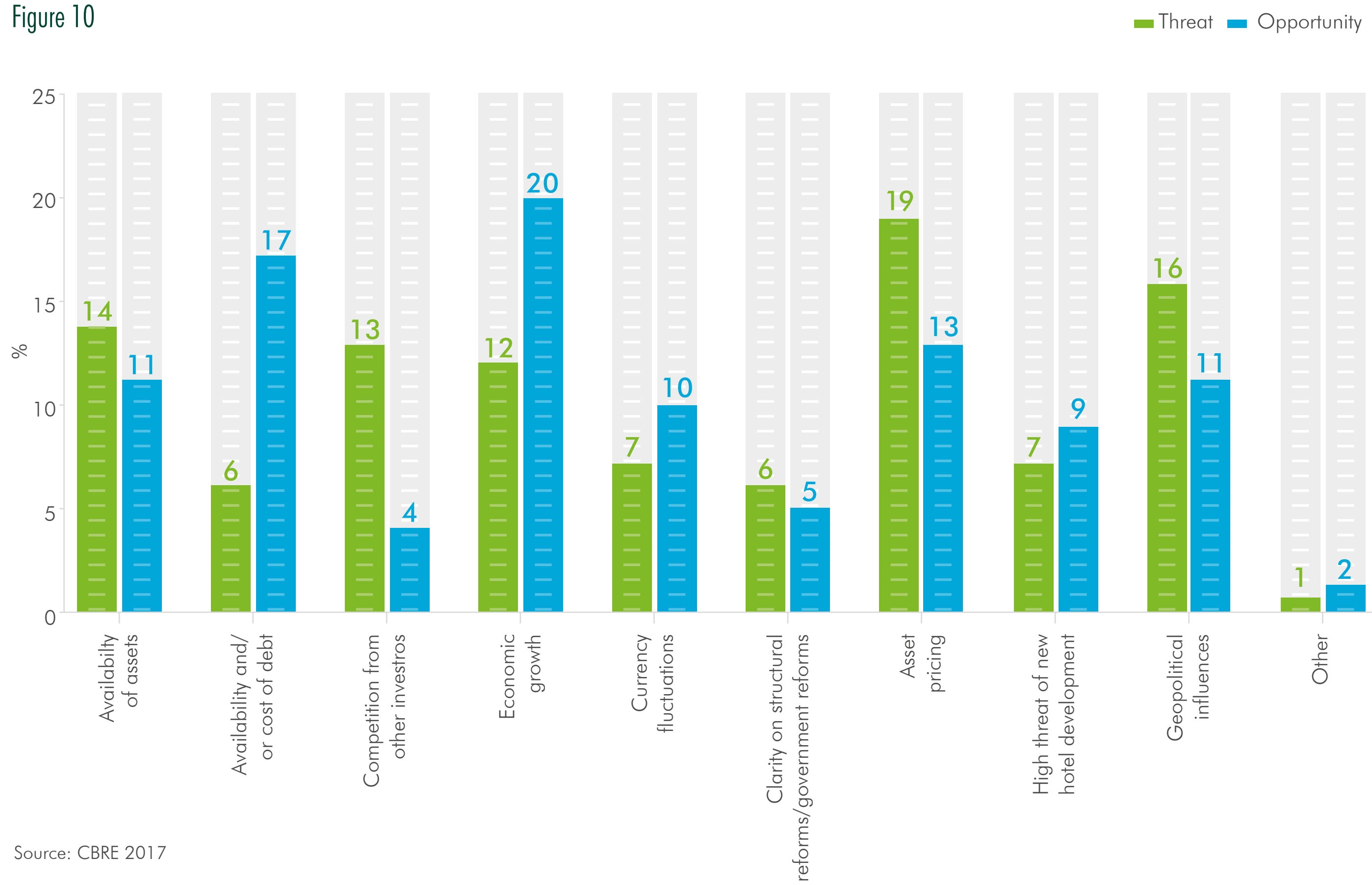
Which of the following do you believe poses the greatest opportunity/threat to European hotel investment in 2017?

When considering the opportunities and headwinds due to impact the hotel investment landscape in 2017, the majority of participants are concerned about an overheating of asset prices and geopolitical influences. Having already touched on the potential supply and demand imbalance, it is unsurprising to see asset availability also ranking highly. In contrast, a low number of investors claimed to be concerned about the threat of new hotel development and currency fluctuations.

Hotel investors believe that economic growth presents by far the greatest opportunity in 2017, notwithstanding some of the major political events that could bear a significant impact on the economic growth prospects of many countries. Those that cited this as the largest opportunity also claimed to be most focussed on the United Kingdom, Germany, Spain and Italy. The only other key opportunity recognised by our respondents was the availability and cost of debt.

Figure 10



Source: CBRE 2017

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In 2017, do you intend to invest outside of Europe?

When asked whether they intend to invest outside of Europe, 37% of respondents replied yes – highlighting the Americas as the most popular region. Asia Pacific is also considered a popular place for investment, whereas the Middle East and Africa has the lowest degree of interest.

“US economic fundamentals will remain strong and continued RevPAR growth in most US markets will remain attractive to European investors.

The forecasted national ADR increase of 3.3% coupled with limited supply threat will drive profitability in 2017. Lodging will remain a cyclical business whilst US hotels will continue to sit at the peak of the cycle.”

Jamie Lane, Senior Economist, Hotels US

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Conclusion

The wide-ranging appeal of hotels as an investment asset class, shown through the multitude of investor types that participated in the survey, clearly illustrates hotels’ transition into the mainstream.

Overall, the general investor appetite to invest more into the sector through 2017 should result in an increase in the Europe-wide hotel deal volume; however, growth in deal activity will face the headwinds of limited supply.

Many of the investors surveyed identified economic growth and low interest rates as the key drivers of opportunity in the sector, both of which remain exposed to a changing political landscape throughout Europe.

Whilst the survey responses have shed some light on their intentions, there remains a pertinent need for investors to be fluid with their strategy setting.

The results of the survey also show that the strategies of these investor groups are far from homogenous. There appears to be further polarisation of investor demand, with opportunistic capital scouring resort locations and secondary markets for yield, whilst core funds focus on finding fixed-income stock in capital and gateway cities.

The responses would also suggest a growing confidence in the UK following the post-referendum slowdown in investment activity, although Britain’s journey out of the EU is still changeable and unclear.

The rest of the industry will wait with interest to see how these intentions align with the reality by the close of the year.

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