HOTEL INVESTMENT MARKET AUSTRIA 2022

JANUARY 2023

CHRISTIE & CO

PREAMBLE

Dear reader,

Once again, the past year was marked by global economic events that had significant consequences for the (hotel) real estate industry. While a positive mood prevailed at the beginning of 2022 with the decline of the pandemic effects, the Ukraine war and its consequences again led to unrest on the domestic hotel investment market. Rising energy prices, staff shortages and the changing interest rate landscape were among the factors responsible for a sharp decline in transaction activity, especially in the second half of 2022.

At the same time, for the first time since the start of the pandemic, rising demand from tourists has led to an increase in demand for city hotels, especially in the federal capital Vienna. It also became apparent that, in addition to the investment trends that developed in 2020/21, some investors are also returning to the tried and tested. In 2022, for example, the focus was once again on traditional investment products in cities, in addition to the increased demand for leisure and value-add properties in recent years.

We are pleased to provide you with a detailed insight into what has happened on the transaction market in 2022 on the following pages.

We hope you enjoy reading!

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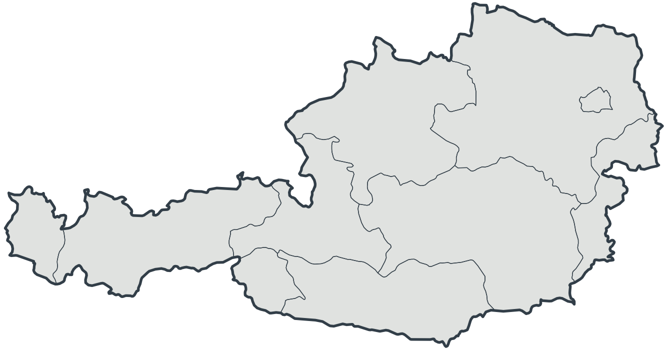


Source: Christie & Co Research

HOTEL TRANSACTION VOLUME AUSTRIA

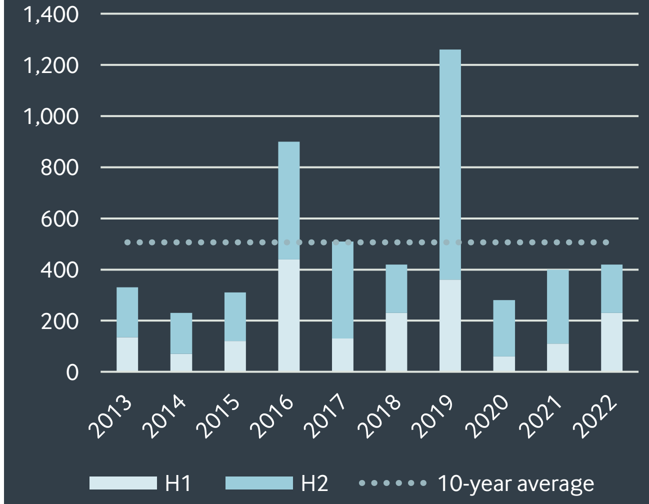
After strong recovery tendencies were already visible on the Austrian hotel real estate market in 2021, this trend was also continued in 2022. In the first half of the year alone, hotels with a total value of over EUR 230 million were sold. Compared to the same period in 2021, this meant a doubling of the transaction volume.

The supposed end of the COVID-19 pandemic, and events and congresses taking place again meant that the city hotel industry also experienced an upswing. For example, WienTourismus announced that demand last year partially returned to 2018, and pre-crisis, levels. Accordingly, for the first time since the onset of the pandemic, city hotel transactions were also on the rise again, with leisure hotels equally remaining high in demand. Some resort hotels were even sold to institutional investors, who had previously been very cautious in this area.

In the second half of the year, however, the investment market was held back by the ongoing war in Ukraine. The associated rise in energy prices, as well as inflation and high financing costs, had a significant impact on transaction volumes.

Nevertheless, 2022 closed with a transaction volume of over EUR 400 million, which is roughly in line with the 2018 result and only slightly below the long-term average.

HOTEL TRANSACTION VOLUME AUSTRIA 2013-2022 (IN MILLIONS)



Source: Christie & Co Research

SELECTED TRANSACTIONS 2022

CITY	HOTEL	ROOMS	TYPE OF CONTRACT	SELLER	BUYER
Vienna	Austria Trend Hotel Savoyen	309	Lease contract	CA Immo AG	Horn Grundbesitz KG
Vienna	ex Leto Motel Vienna	211	Vacant	Lunzer Steinbauer Errichtungs GmbH	Fattal Hotel Group
Vienna	Bassena Hotel Vienna Donaustadt	198	Lease contract	SIGNA / ARE	Raiffeisen Immobilien KAG
Ehrenhausen	LOISIUM Südsteiermark	105	Vacant	Hans Kilger	Loisium Group
Hinterstoder	ALPRIMA Aparthotel	73	Vacant	Hinterstoder-Wurzeralm Bergbahnen	C&P Immobilien
Spielberg	Grand-Prix-Hotel	39	Vacant	Private	Dietrich Mateschitz Liegenschaften GmbH

The return of investors to the city hotel sector is particularly evident when looking at selected individual transactions from last year. For example, the MEININGER Hotel Vienna Sissi (102 rooms) changed hands and was purchased by GalCap Europe in the first half of 2022. A transaction that was already in the offing in 2020 but then had to be paused due to the pandemic was the sale of the Bassena Hotel Vienna Donaustadt (198 rooms) in 22nd district. The hotel part of the project development "Project 22" was finally sold to Raiffeisen Immobilien KAG in early 2022. Christie & Co accompanied the transaction. Also in Vienna, the transaction around the 211-room hotel behind Otto-Wagner-Bridge (15th district), formerly planned as Leto Motel, took place. The asset was acquired by Leonardo Hotels in 2022, which also took over 9 Star Inn operations in Austria.

In the leisure hotel sector, the ALPRIMA Aparthotel (73 rooms) in Hinterstoder, among others, changed hands and has since been part of the portfolio of C&P Immobilien. After Hans Kilger had acquired the LOISIUM Wine & Spa Hotel Südsteiermark (105 rooms) only at the beginning of 2020, he handed it over to the operator, the Loisium Group, in 2022. Also in Styria, the Grand Prix Hotel (39 rooms) in Spielberg, as well as the thermal spa hotel "Das Sonnreich" (197 rooms) in Loipersdorf changed hands.

Source: Christie & Co Research

WHO INVESTS IN AUSTRIA?

Similar to the two previous years, Austrian investors were the most active on the domestic transaction market. Accordingly, 44% of the transaction volume was generated by Austrians. Only just behind in 2022 were German investors, who more than doubled their share compared to 2020/21 with just under 30%. This shift shows that the Austrian hotel real estate market was again in much stronger demand from international investors, after almost two-thirds of the volume was still generated by Austrian buyers in 2020/21.

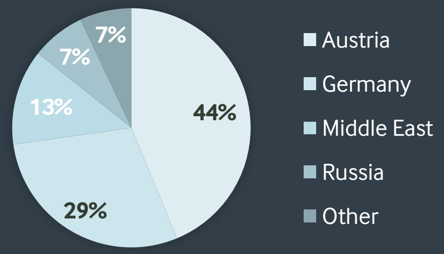
One group of buyers that was particularly active last year were investors from the Middle East, including buyers from Israel, for example. This group accounted for 13% of the transaction volume, or more than EUR 50 million.

Looking at the investor type, real estate companies continue to be the most strongly represented, accounting for just over a quarter of the total volume, but have declined significantly compared with previous years. This may be due to the fact that the market for value-add products has now been exhausted, or to the fact that investors are saturated for the time being, having been the most active buyer group for over 2 years.

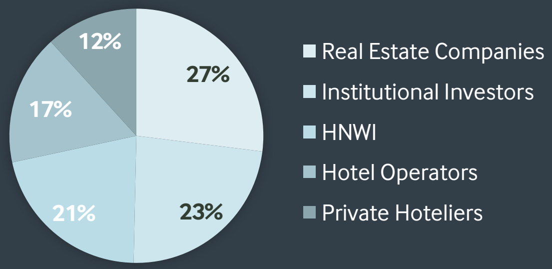
Institutional investors and HNWIs (high net worth individuals) were almost equally active, accounting for 23% and 21% of the volume respectively. This shows that hotels have also moved back into the focus of buyers as an investment product.

Finally, with buyers such as Leonardo Hotels or Valamar Riviera, hotel operators were also particularly active last year. They also accounted for almost 20% of the transaction volume in 2022. The remaining 12% was achieved by private hoteliers.

BUYER'S ORIGIN



BUYER'S TYPE



Source: Christie & Co Research

WHAT DID INVESTORS BUY?

Interestingly, although the transaction volume increased last year, the number of individual transactions decreased. Thus, for the first time, fewer, larger assets were sold again, which was to be expected due to the investor profile already described (more HNWIs and institutional investors).

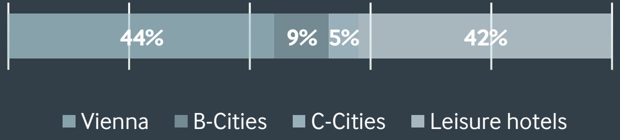
After a strong trend towards leisure hotels in the last two years, Vienna was again narrowly ahead for the first time since the outbreak of the pandemic, with 44% of the total volume. However, there were hardly any transactions in the other cities in 2022.

A slow return to those pre-pandemic levels is also evident in terms of the contract types of hotel properties sold, again no doubt influenced by the type of investors who increasingly bought investment products. For example, the share of hotels sold on a leasehold basis multiplied from 4% (in 2020/21) to 40% last year, or over one-third of total transactions. This shift was primarily at the expense of operator-free hotels, which declined from 2/3 of the total to about 50%. However, this still means that significantly more hotels were sold without a valid contract than before the pandemic, where the share was vanishingly small at 15%.

From the breakdown of the categories, hardly any significant changes can be derived compared to recent years, neither to the period before the pandemic, nor to the last two years.

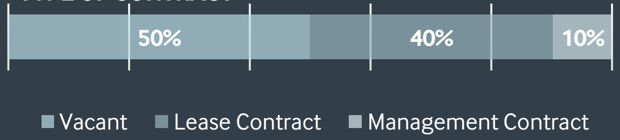
Overall, it can be seen that with the return of asset investors, demand has also returned strongly to those segments that were in demand in 2019. Thus, city hotels (in Vienna), as well as long-term leased products, are increasingly seen on investors' shopping lists again.

LOCATION

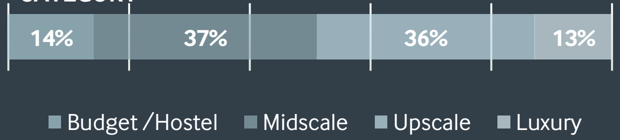


**B-Cities: Graz, Linz, Salzburg, Innsbruck C-Cities: other cities*

TYPE OF CONTRACT



CATEGORY



Source: Christie & Co Research

YIELD DEVELOPMENT

In our consideration of yields, the starting point is 2019, which was the last full year before the COVID-19 pandemic, a historically record result in the transaction market. This also resulted in the lowest recorded levels of prime yields for hotels as an investment product, which were around 4% and in some cases just below. Apart from trophy assets in other locations, these were achieved almost exclusively in Vienna.

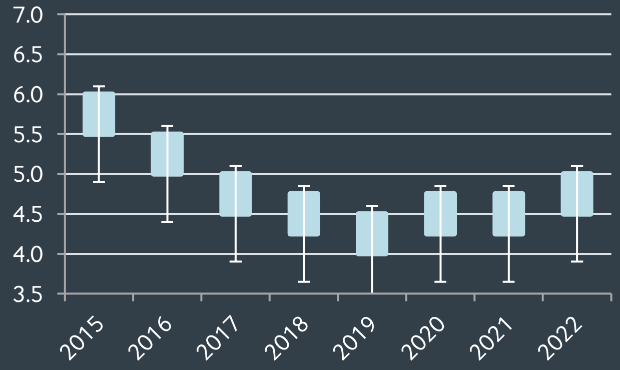
A first slight increase in yields was observed due to tourism uncertainty, which was pandemic-related in 2020 and 2021. However, this increase was also due to the change in available, or actually sold products, as more leisure hotels and value-add assets were purchased, which generated different returns due to the risk profile.

While tourism has largely recovered in 2022, and a renewed "yield compression" could be expected from this, there have been other influencing factors over the past 12 months that have had an impact on the yield environment. For example, operators have come under pressure from the current high inflation in several respects. The cost of goods, as well as energy and personnel costs are rising, while rates are growing only with a lag, and rarely to the same extent.

In addition, the interest rate policy of the ECB, which has raised the key interest rate in several stages to 2.5% most recently, has significantly changed the financing environment. In particular, the increased cost of debt (see following page) has had an almost immediate impact on yields, resulting in a renewed increase in prime yields compared with previous years.

As this affects all types of leveraged properties, there are no differences here between city or leisure hotels, but rather affects the market as a whole. The extent to which these trends will continue or whether prime yields will settle at the current level of around 4.5% will have to be observed in 2023.

PRIME YIELDS 2015-2022 (IN %)



Source: Christie & Co Research

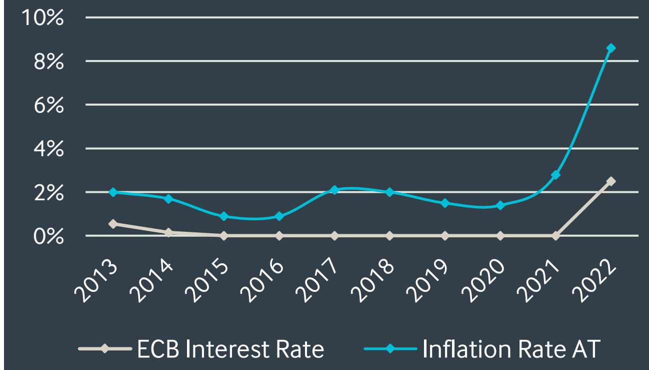
CURRENT FINANCIAL ENVIRONMENT

The dominant topic of 2022, which will continue to preoccupy hotel operators, owners and investors alike in the new year, is the ever-changing financing environment. While at the beginning of the year one might have been optimistic about the end of the pandemic, this was quickly followed by the invasion of Ukraine, energy crisis, wave of inflation and significantly rising credit interest rates. This presented new challenges, not least for investors.

In recent years, interest rates had been comparatively low, enabling investors to obtain financing on attractive terms even with a small amount of equity. However, the Ukraine war in 2022 triggered a chain reaction: rising gas and electricity prices caused inflation to skyrocket. To counteract this, the key interest rate of the ECB was increased, which in turn affected the financing costs of domestic banks and drove up interest rates.

In addition, the hotel asset class is known to have suffered the most from the pandemic, and in the past 2 years a certain restraint was felt among financing banks anyway. These two components in combination are causing problems for some real estate investors who cannot handle pure equity transactions.

INTEREST RATE AND INFLATION RATE 2013-2022 (IN %)



Heribert Gangl, Director Hotels & Tourism - Group Commercial Real Estate at Erste Group Bank AG

"In real estate financing, Erste Group Bank's main focus is on well-managed, established city and resort hotels with strong operators and sponsors. Financing decisions are made on a case-by-case basis; due to the current situation, such financing considerations also take correspondingly longer."

Source: Christie & Co Research

CURRENT FINANCIAL ENVIRONMENT

Most banks cannot make a general statement. For many, the individual case decides whether financing is provided and at what conditions. What is clear is, that concepts and operator profiles in particular are subject to stricter scrutiny. For some time now, it has no longer been pure performance that counts; instead, greater attention is being paid to how the respective lessee came through the crisis, how sustainable the lease rate is, and whether sufficient reserves are available for an emergency.

It is particularly interesting to note, that there has been a certain trend away from city hotels and towards leisure hotels in recent years, not only among investors but also among many financing banks. As these hotels came through the crisis much better than city hotels due to strong domestic tourism and government subsidies, banks are now also increasingly willing to finance properties in these locations.

Austrian banks are therefore not completely averse to financing hotels, although the internal review processes have become correspondingly more stringent and prolonged. Another important topic that is also becoming increasingly relevant in the financing sector is sustainability - both operationally and structurally. Due to the EU Taxonomy Regulation, sustainability criteria will also be included in lending in the future, which will be particularly relevant for new construction projects. However, aspects such as construction methods will also become increasingly relevant for valuations of existing properties.

Markus Zwölfer, Deputy Head of Department Corporate & International Finance at Oberbank AG

"Oberbank had a comparatively selective risk policy even before the crisis. For us, the focus is clearly on well-positioned operations with sustainable operating concepts. The issue around sustainability, both in operations and in construction, is also becoming increasingly relevant to valuation."

Max Zechmann, Key Account Manager – Real Estate Project Financing at Raiffeisenlandesbank Niederösterreich-Wien-AG

"Financing in the hotel real estate sector is currently being examined by Raiffeisenlandesbank Niederösterreich-Wien mainly for existing customers. New customers are only financed very selectively and with a correspondingly good credit rating. In any case, a close examination of the operators and their strategy is necessary."

Source: Christie & Co Research

SUMMARY & OUTLOOK

Even though the year 2022 was marked by some unrest, clear recovery trends can be seen on the Austrian transaction market. Thanks to the lifting of all Covid restrictions to the greatest possible extent, tourist demand from foreign guests almost returned to pre-crisis levels. This did not go unnoticed by investors, and for the first time since 2019, transactions were again predominantly in city locations. However, leisure hotels also remained in strong demand, continuing the investment trend from previous years.

There were also shifts within the investment product and buyer profiles. After the majority of transactions were carried out by national investors in 2020/21, international investors, predominantly from Germany, have been increasingly active on the Austrian real estate market again since last year. While transactions by real estate companies declined significantly, presumably due to a lack of value-add products on the market, this share was well absorbed by institutional investors as well as high net worth individuals.

Despite these positive developments, the bitter aftertaste of the Ukraine war and its effects remains. The issue of rising financing costs in particular will be with us for some time to come. It remains to be seen to what extent these will affect the transaction market in the long term. However, it can be assumed that equity transactions will increase in the future and that alternative forms of financing, such as crowd funding or mezzanine capital, could also experience an upswing.

In general, however, it can be stated that hotel real estate continues to be a popular asset class and continues to generate great interest among real estate investors. Therefore, it can be assumed that the market will recover accordingly, albeit at a somewhat slower pace than expected a year ago.

Source: Christie & Co Research

WHAT CAN CHRISTIE & CO DO FOR YOU?

- Understanding Challen-ges and Strategic Planning
- Market Entrance Studies and Business Plan Reviews
- Industry Analysis and Market Intelligence Studies
- Development Advice and Feasibility Studies

- Acquisition Support
- Acquisition Target Search and Site Identification
- Buyer Due Diligence and Pricing Advice

- Strategic Repositioning
- Identifying Performance Improvements
- Independent Business Reviews
- KPI Development and Benchmarking
- Rent and Contract Advice
- Operator Search & Selection

- Owner and Operator Advice
- Fully RICS „Red Book“ and IVSC Compliant Valuations
- Rent Review Negotiation
- Expert Witness and Litigation Support
- Identifying Market Trends & Value Curves
- Strategic Disposals

- Achieving a Successful Exit at the Best Possible Price
- Vendor Due Dilligence
- Marketing, Sales and PR Strategy
- Route-to-value Planning

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