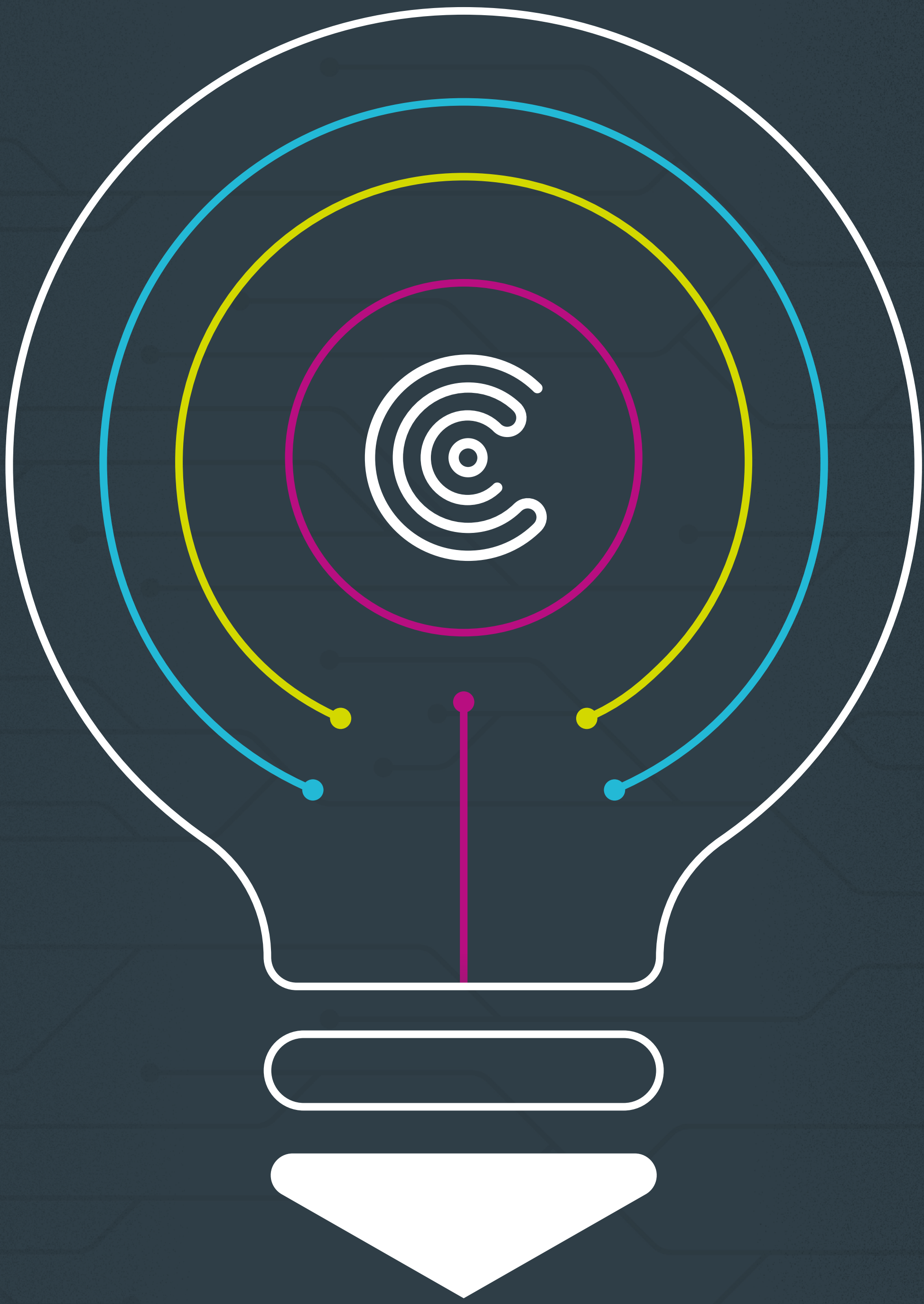

BUSINESS OUTLOOK 2024

HOTELS

CHRISTIE & CO

christie.com

INTRODUCTION

While hotel performance in most U.K. and European hotel markets has recovered much faster than expected post-pandemic, operators faced ongoing challenges in 2023, from an uncertain economic climate, inflation and high interest rates, to labour shortages, and increased utility and operating costs.

As a result, the ongoing buyer-seller pricing misalignment, financing challenges, and the lack of stock has impacted deal flow in most European countries.

Overall, almost €13bn worth of hotel assets were transacted across Europe in 2023, a 15% decline on 2022 levels.

However, the majority of the top five UK and European hotel investment markets, including the UK, France, Germany, Spain and Italy began to see an uptick in activity by year-end, painting a more positive picture for 2024.

The year promises to bring more opportunities and a definite call for action from owners, investors and lenders. More stock will come to market in the coming months, satisfying the appetite of frustrated buyers.

Lowering inflation, coupled with stabilising interest rates and progressive base rate cuts on the horizon, have given more impetus to the market.

Additionally distressed activity is picking up, notably in the UK and many owners will have to refinance during the year, both of which should signal a good vintage for hotel transactions in 2024.

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In recent years, UK hotels have proven to be a strong, inflation-hedging asset class in comparison to other commercial real estate, such as office or retail. This has solidified the sector in the eyes of investors, with an increasing number expected to redirect capital towards hotels in the year ahead.

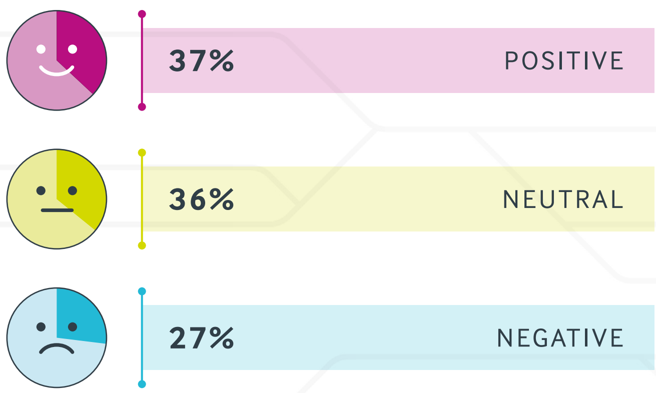
There were signs of rebalancing across the UK hotel sector in 2023, with trading performance maintaining its upwards, albeit decelerating, trajectory. Transaction volumes progressively improved from the summer onwards and resulted in a stronger second half, in line with our mid-year market predictions. In addition, the bid-ask spread is narrowing.

The outlook for the UK hotel sector remains positive and we expect to see increased buoyancy in the market in 2024.

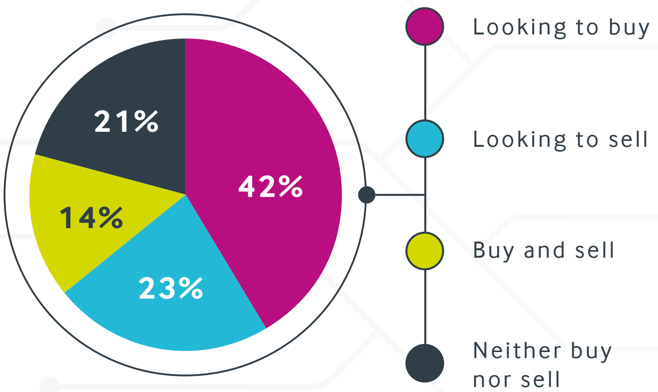
SENTIMENT SURVEY

We anonymously surveyed hotel stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



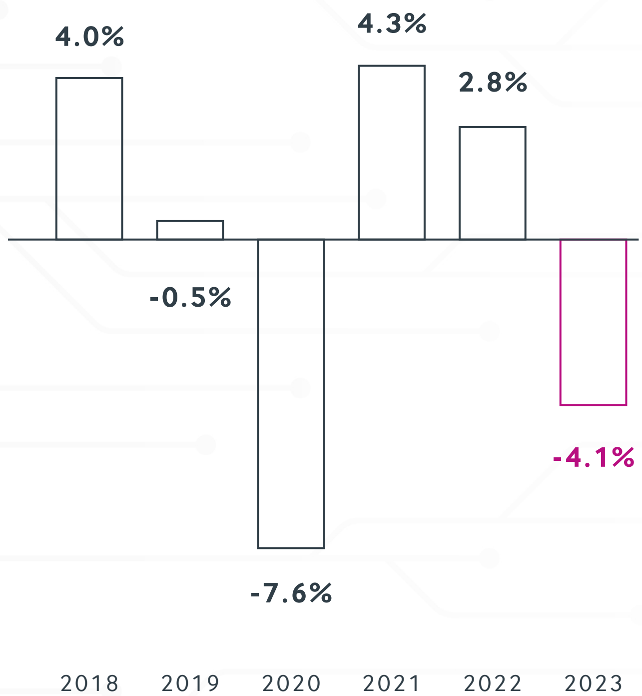
When asked about their sale and acquisition plans in 2024:



MARKET PREDICTIONS

- Continued uptick in stock levels and transactional volumes driven by a wave of refinancings and government contract withdrawals
- Notable increase in distress both through consensual and forced sales which in turn, will lead to further brand consolidation through conversion brands
- Plateauing of performance particularly in leisure-led destinations as household disposable income is under pressure and will drive guests towards the value-for-money accommodation offering
- Further polarisation of the market towards economy and luxury segments with a squeezed midscale segment
- Yields softening to reflect stabilising yet high interest rate environment and pricing finally adjusting
- Development pipeline still at risk in key markets due to increased debt and construction costs

PRICE INDEX



There was a noticeable decline in transaction volumes across Austria and the Central and Eastern Europe (CEE) region in 2023, as buyers and sellers adopted a 'wait and see' approach due to the disparity in pricing expectations, driven by escalating capital costs.

Budapest was the only market to see a significant surge in activity, particularly marked by the sale of two large hotels, namely Gellert and Sofitel. In Austria, the total transactional volume stood just above €200m as of October 2023, a striking contrast to the €400m recorded in 2022.

From a trading perspective however, there has been a rebound in tourist demand across the entire region, with many markets surpassing pre-pandemic levels and recording considerably higher ADRs.

Consequently, operators have realised gratifying results and are actively seeking opportunities to expand their portfolios in 2024.

Christie & Co played a key role in facilitating some of the most prominent transactions in the region. Notably, we were instrumental in the sale of two vacant business hotels in Vienna and Graz. Additionally, we contributed to the successful sale of a student apartment building in Vienna, which was acquired by a care operator. These achievements have solidified our position as the most active hotel broker in Austria.

MARKET PREDICTIONS

- Higher number of insolvencies or fire-sales of real estate companies
- Reduced numbers of new developments due to increased building /financing costs
- Approximating pricing expectations as a compromise between buyers and sellers leading to an increase in real estate transactions
- Record-breaking tourist demand measured by number of overnight stays in large parts of Austria and CEE

CASE STUDY

FORMER ROOMZ HOTELS IN VIENNA AND GRAZ

Acting on behalf of an Austrian institutional owner, we successfully identified a German owner-operator to acquire these shuttered business hotels in Vienna (150 rooms) and Graz (130 rooms). The transaction reached its conclusion in August 2023, with a scheduled reopening slated for early 2024.

SENTIMENT SURVEY

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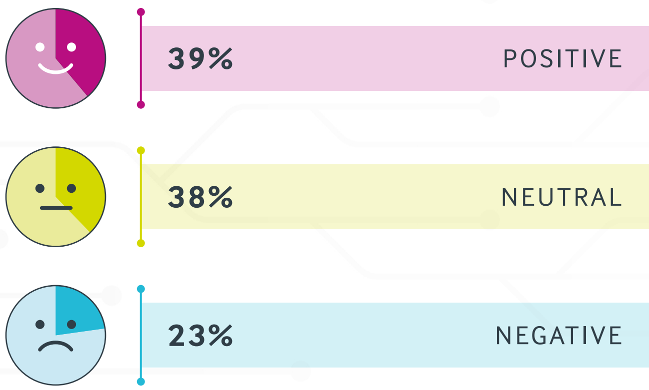

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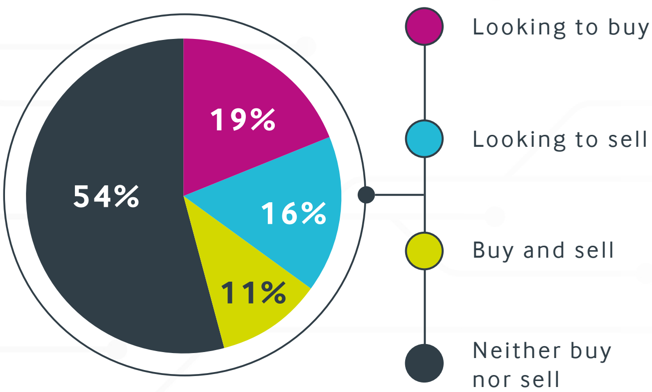

2023 was a remarkable year for the Iberian hotel industry with demand levels back to pre-pandemic standards. This recovery has been accompanied by record-breaking ADRs in most destinations. Several Spanish hotel groups reported record results, underlining the sector's ability to convert a strong top-line into a healthy bottom-line.

Demand wise, European and US markets are back, and we are expecting Asian markets to gradually recover. Segment wise, Meetings, Incentives, Conferences, and Exhibitions (MICE) signify a positive shift towards pre-pandemic norms.

The first quarter of 2023 was relatively quiet for the investment market, aligning with expectations. The situation later improved and allowed for an historic year in Spain. However, transactions predominantly focused on primary destinations, encompassing urban and resort locations, with record-breaking prices per room. The market saw notable trophy deals, and the emergence of new players from the Middle East and Asia is creating a new investment landscape with different dynamics.

Our engagement in the market has been multifaceted. With a primary focus on consultancy, our team undertook over 35 projects, contributing to due diligences, strategic designs, feasibility studies or valuations for a number of loyal customers ranging from hotel chains to investment funds and owners.

On the investment front, our team remained proactive, securing mandates and actively pursuing operator searches to align with evolving market dynamics. Noteworthy is our expanding footprint in Portugal, a strategic move reflecting the country's growing significance in the regional hotel market.

SENTIMENT SURVEY

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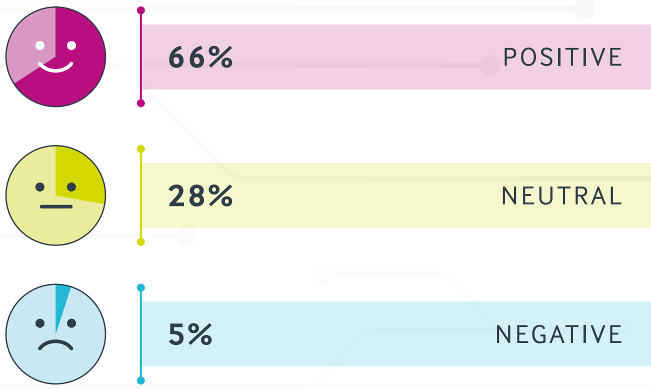
When asked about their sentiment in 2024:



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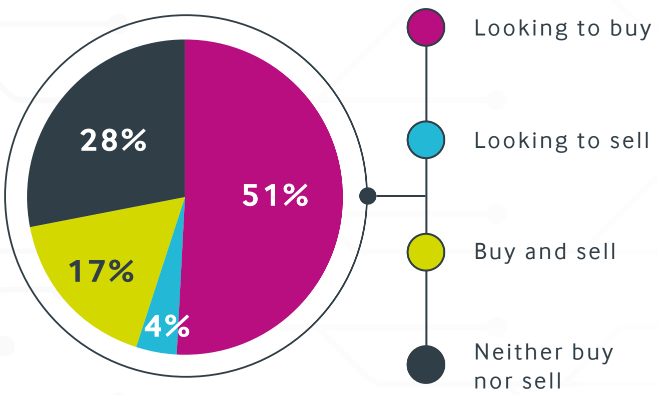


MARKET PREDICTIONS

- Hotel performance will remain strong with international demand continuing to boost destinations and anticipating a gradual return of the Asian market
- ADRs will not see significant moves next year and we do expect some price stability
- Brands will sustain momentum in both ends of the hotel spectrum: Luxury and Economy
- Spain and Portugal will continue to be top priority markets for investors, and we do anticipate some divestment by funds who invested back in 2016-2017
- We will see an increased interest from non-European buyers in primary destinations

CASE STUDY

TRAVELODGE SPAIN DEVELOPMENT

We have been assisting Travelodge in defining their development strategy in Spain. To do so, we analysed 16 urban markets in Spain and developed a model to seize the market potential in each of them. We also provided the client with clear recommendations regarding a development model.

The French hotel market was one of the key transactional markets in 2023 and we have seen strength and consistency with positive trading following the post-COVID recovery we saw in 2022.

Despite a more challenging financing environment, 2023 was a good year in terms of completed transactions and amongst the high volume of deals, two Parisian deals were particularly notable; the Hotel California (€125m) and the Westin Paris Vendôme (€650m). 2023 was a strong year for Christie & Co, with over 70 hotels brought to the market and 23 completed transactions.

The institutional market has weakened as investors wait for more stability and softening of pricing while seller expectations are still high.

In 2024 we expect to see more institutional investors bringing non-strategic hotels in the budget segment to the market as they look to meet their cash requirements. AccorInvest has already done so, and we expect more high-profile names to follow suit.

Hoteliers were able to achieve a marked increase in ADR thanks largely to the return of international tourists (+16.3% in YTD from January to September 2023 vs. the same period in 2022 and +127% in 2022 vs. 2021) whilst occupancy rates approached pre-COVID levels (68.1% in January to October 2023 vs. the same period in 2019 of 70.3%) through the combination of these visitors and a dynamic domestic market.

MARKET PREDICTIONS

- We can expect France to continue to consolidate its attractiveness and international reputation off the back of events such as the Olympics, whilst delivering robust trading for the year-end a positive outlook for performance into 2024
- Sellers will have to accept some new pricing considering the financial environment. There is less cash and less leverage so less global money available for real estate on the market, however hotel industry is one of the assets of the moment and remains attractive for investors
- Some SCPI investments in France have lost value and are becoming less attractive to private investors, some investors are asking to exit and SCPI has to sell some assets. At this stage, we don't know what will be arbitrated in 2024 by these companies and what will be their capacity of investment
- Financing and refinancing will be a major issue for owners in 2024 and the ISR could have an important role. We expect to see more institutional products on the market

CASE STUDY

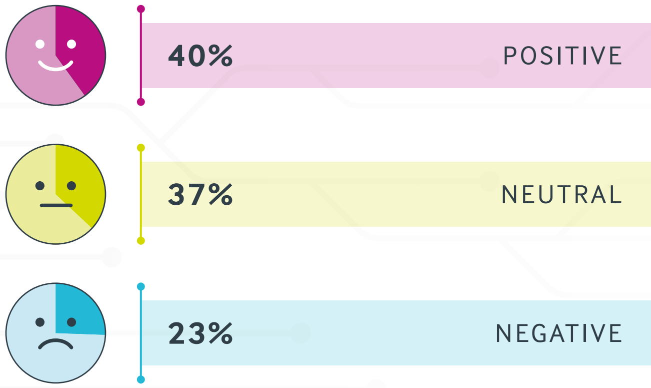
B&B ARRIVES IN DEAUVILLE

In July 2023, our Rennes office completed the sale of the leasehold hotel Deauville, built in 2019 under the Holiday Inn Express brand. The 3-star hotel with 107 rooms is in the Deauville suburbs, a very famous seaside resort located two hours from Paris in Normandy. The hotel offers great open spaces and comfortable rooms. The sale was completed within five months.

SENTIMENT SURVEY

We anonymously surveyed hotel stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



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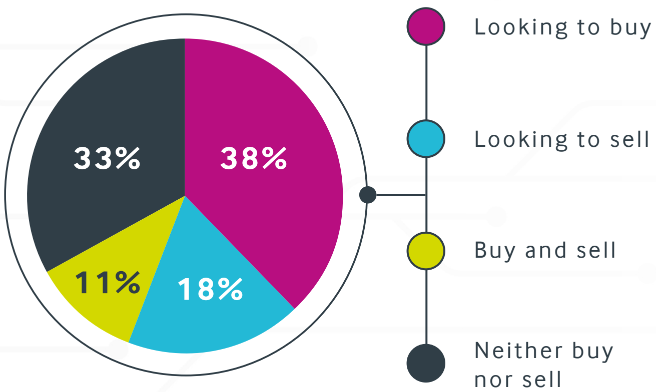


The German hotel investment market has been significantly influenced by macroeconomic and geopolitical events, particularly those impacting Europe.

In the five years preceding the COVID pandemic, the average transaction volume in Germany stood at approximately €5 bn. However, during and post-COVID this figure plummeted to around €2.3 bn, reaching a new low of about €1.5 bn in 2023. This represents one of the lowest results in recent history, reminiscent of the aftermath of the Global Financial Crisis (GFC).

Interestingly, the scarcity of transactions does not stem from a lack of interested buyers or sellers, nor does it reflect a weak hotel market with low key performance indicators (KPIs). In reality, hotels managed to achieve double-digit RevPAR growth rates in 2023, following a remarkable increase of over 100% in 2022 compared to 2021.

This allowed them, in many instances, to offset rising operational costs such as energy, payroll, and cost of goods sold. The improved KPIs underscore the market's resilience and the sustained demand from both business and leisure travellers for hotel accommodation and make the hotel market a more appealing asset class in comparison to offices, for example.

The primary obstacle hindering more transactions seems to be the gap between sellers' and buyers' pricing expectations. Despite the gradual lowering of asking prices by owners, in tandem with interest rate hikes from the European Central Bank, the Bank of England, and the Federal Reserve, the reductions have not been sufficient to attract a larger pool of investors currently seeking opportunities.

We anticipate that by the end of the first quarter and into the second quarter of 2024, the hotel investment market will regain momentum. This is expected for two reasons: firstly, there should be more clarity on the economic trajectory, and secondly, deal parties are likely to narrow the bid-ask gap, reaching mutual agreements that enable both parties to pursue other investments or developments in their pipelines.

MARKET PREDICTIONS

- Pipeline of new hotels will shrink due to high construction and financing costs
- Highly (expensively) leveraged developers will need to sell assets to gain liquidity
- Low-leveraged operators and owner/operators may emerge as opportunistic buyers
- ESG/sustainability will become mainstream for corporate investors
- Digitalisation will become ever more important for hotel operators to compensate costs increases without sacrificing service to the client

CASE STUDY

DAS SEIDL HOTEL & TAGUNG

Christie & Co has successfully closed the transaction of the "das seidl Hotel & Tagung". Being one of the most established hotels in the north of the Munich metropolitan region, the hotel has 96 rooms, four conference rooms with state-of-the-art conference technology and its own restaurant "das seidl Restaurant & Bar". From now on, the hotel will be operated and owned by Coffee Fellows Hotel GmbH.

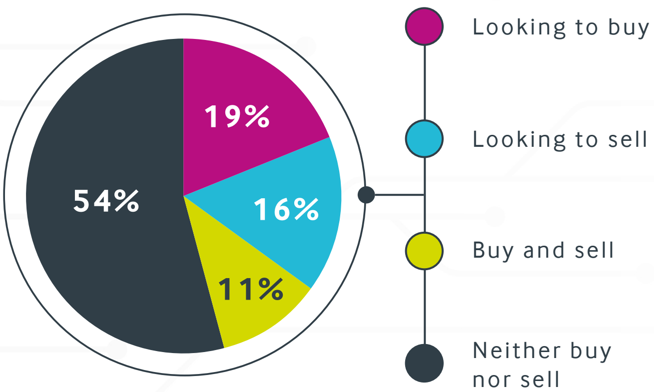
SENTIMENT SURVEY

We anonymously surveyed hotel stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:

39%	POSITIVE
38%	NEUTRAL
23%	NEGATIVE

When asked about their sale and acquisition plans in 2024:

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CHRISTIE INSURANCE

Part of the Christie & Co Network

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