Hotel Investment Overview

Spain 2020

CHRISTIE & CO

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INTRODUCTION

In 2020, Christie & Co planned to celebrate its 20th anniversary of opening our first office in Spain in a big way. We started the new decade with a high volume of investment in the sector during the first quarter, with a highly consolidated team and eager to share the success with our clients.

Then the pandemic arrived. The impact felt around the world and, especially, in the tourism sector, shows us how unprepared we were to face a challenge such as Covid-19. With the hotel sector suffering the consequences of a closure, first forced by the necessary containment measures and with low levels of subsequent opening due to the evolution of the pandemic and the subsequent mobility restrictions, the hotel investment volume has been strongly affected, with three consecutive quarters showing investment levels comparable to those of the first years of the new century. Our mature industry showed its strength after two years of record investment, with yields reaching historical levels of compression, which demonstrated its increasing attractiveness for the core capital, which was taking over the value add capital. The latter was finding fewer and fewer opportunities adjusted to the prices they were willing to pay.

Resort markets had already established themselves as a product as important for investors as urban assets, both in main destinations and secondary destinations, to which was added the revolution of hostels and the growth of serviced apartments, in addition to the growing interest in luxury assets, which are in a development boom both in the resort segment and in the urban segment. Before the pandemic arrived, we were already observing an incipient hybridization in the sector, which saw how coworking and co-living broke into its sphere, responding to the changing demands of regular travellers, who wanted to balance leisure and business. Covid-19 seems to have accelerated this mix, but it will be necessary to observe how the recovery of the sector evolves to see if these changes can be consolidated.

We do not know for sure when the recovery will begin, although vaccination plans provide light at the end of the tunnel, and the sector is confident that recovery could begin this summer, and it is expected to accelerate quickly, especially in the leisure sector. The situation of the airlines and TTOOs, as well as the fact that vaccines are extended to both developed and developing countries, will be factors to take into account as they will affect the general recovery of the economy.

While this recovery emerges, hotel owners will try to hold their cash to avoid being forced to sell at prices well below their expectations. It will also be necessary to recover traditional bank financing since the double-digit alternative is inefficient for closing operations in the sector. As soon as it arrives, the investment sector will be one of the brave ones who dare to offer lower discounts in a market that, once again, will be very competitive given the high liquidity and the attraction that Spain exerts on investors, both national and international.

We are therefore pleased to share our market knowledge with the sector once again and we hope that this new report, developed from public information sources, in addition to those of Christie & Co, will be of interest to all the actors that make up a vital sector for the Spanish economy: the hotel sector, on which millions of jobs depend.

> “2020 will be remembered as a “horrible” year for the world as a whole, but we are convinced that 2021 will offer us all the beginning of the long-awaited recovery. We need to travel and be tourists again, whether for business or leisure, to recover our lives with certain normality”

Inmaculada Ranera
Managing Director Spain & Portugal

HOTEL INVESTMENT IN 2020

MAIN INDICATORS

Investment Volume*	900M EUR
Number of Hotels	67
Number of Rooms	8,300
Average Price per (Existing) **Room**	125,000 EUR
Investment in Urban Destinations	33 %
Investment in Resort Destinations	67 %
Domestic Investment	27 %
International Investment	73 %

Hotel investment in 2020 returned to levels seen in 2013 and 2014 due to the global Covid-19 crisis, and was reduced by 62% compared to 2019

2020 registered a total investment volume in the hotel sector of EUR 900 million, **barely 40% of the EUR 2,375 million of investment in 2019**. This sharp fall, caused by the Covid-19 crisis, represented a decline of investment activity at levels that the market had not experienced in five years. In this sense, the total number of rooms transacted was 8,300, distributed in 67 assets, including existing assets, conversions and development projects (vs 16,400 rooms and 114 assets transacted in 2019).

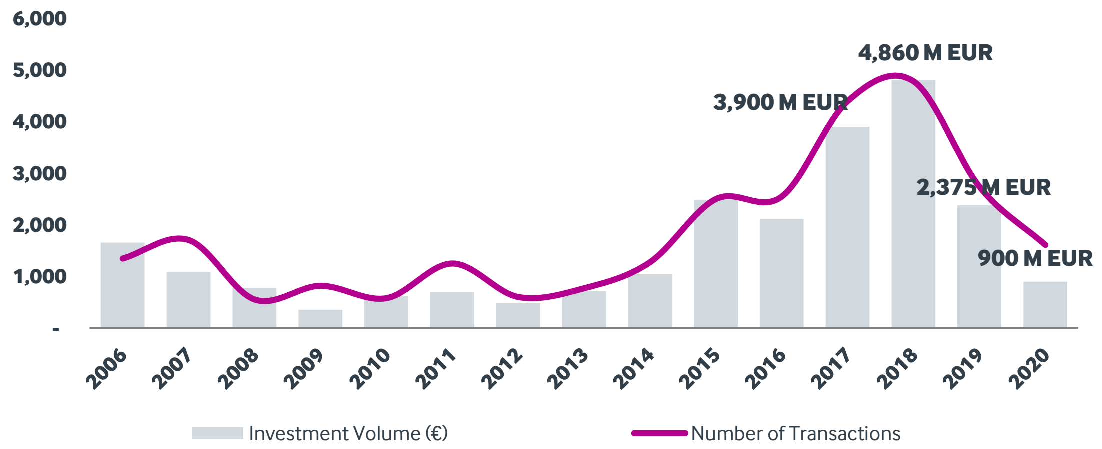
Discounts in purchase prices applied by investors during 2020, together with particularly intense activity in secondary markets (where the price per room is always lower), **caused a 12% drop in the average price per room** compared to the previous year**,** standing at EUR 125,000.

On the other hand, **almost 70% of the investment was concentrated in the resort markets in a very similar way to 2018**, assuming, however, a significant change compared to 2019, in which investment in urban destinations dominated.

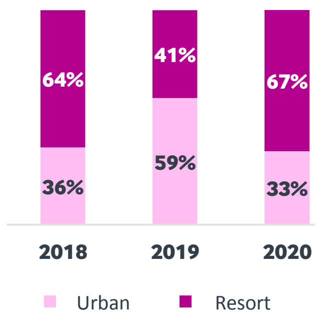
Lastly, **the domestic investor, probably more concerned with safeguarding its treasury, accounted for only 27% of total investment in 2020**, representing a 57% decrease compared to 2019.

** Does not include the Edition Madrid transaction or the Urban BCN 22 @ Hotel project, as they are turnkey operations with delivery scheduled for 2021.*

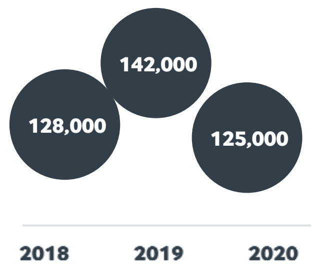
Hotel Investment 2006 - 2020



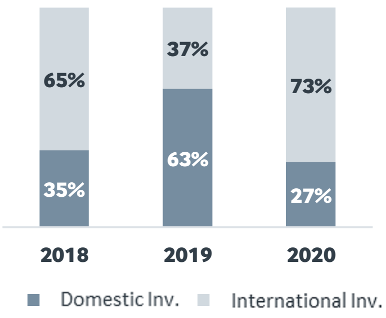
Investment Evolution per Destination Type



Average Price per Room Evolution



Investment Evolution per Investors' Origin



MAIN HOTEL TRANSACTIONS IN 2020

PORTFOLIO / ASSET	KEYS	LOCATION
Portfolio Elaia – Swiss Life	485	Menorca, Mallorca and Gerona
Portfolio Gema Playa Hoteles	1,216	Tenerife
Portfolio Stoneweg – PortBlue	465	Menorca
Portfolio Thomas Cook – LMEY	NA	Cadiz, Mallorca, Ibiza and Gran Canaria
Formentor Hotel	123	Mallorca
Nobu Hotel Barcelona	259	Barcelona
Cristina Hotel	308	Gran Canaria

DESTINATIONS AND INVESTOR PROFILE

URBAN DESTINATIONS

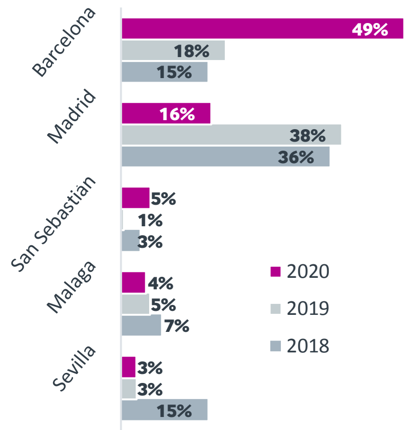
In 2020, urban destinations accounted for around EUR 300M of investment, 33% of the total volume, which represents a significant change compared to the previous year (59%)

Barcelona accounted for half of the investment in urban destinations, thanks mainly to the sale of the Nobu Hotel Barcelona (almost 10% of the total investment for the year, 80M EUR). **Madrid, however, saw its key player status reduced**, as the majority of transactions were of buildings to be converted and land for development.

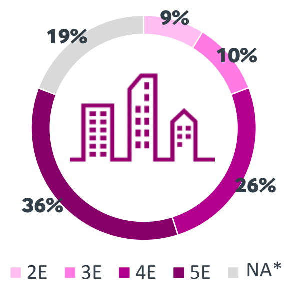
There were no hotel transactions in Valencia in 2020, despite the fact that in 2019 it had represented 13% of total urban investment. San Sebastian and Seville, which in 2019 were not among the most prominent destinations, jointly accounted for a 8% of the total.

The weight of four-star hotels was reduced by half, from 52% of total investment in urban destinations in 2019, to 26% in 2020, while the five-star hotels grew from 30% in 2019, to 36 % in 2020.

Urban Destinations with Higher Investment Volume



Investment per Category in Urban Destinations



**NA includes those plots or buildings for conversion to a hotel of which the category of the future hotels is unknown*

RESORT DESTINATIONS

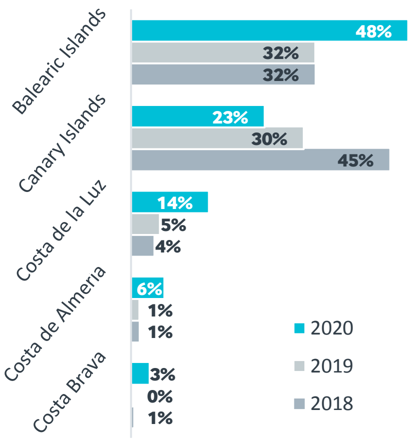
Resort destinations accounted for two thirds of total investment, recovering in 2020 the prominence lost during 2019

Island destinations, especially the Balearic Islands, were once again the major tagets of resort destinations' investment, jointly accounting for 67% of the total, thanks to the portfolios transacted in these destinations.

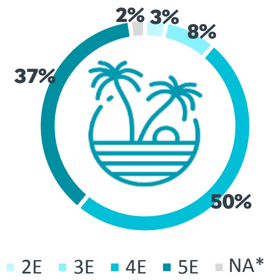
The lack of transactions on the Costa del Sol stands out, a destination that a year earlier had attracted 8% of the total resort investment, as well as the increase in investment on the Costa de la Luz of +9 bp compared to 2019.

4-star hotels continue to account for 50% of total resort investment (58% in 2019). **The most notable change occurred in the 3-star** (which fell -9 bp vs. 2019) **and 5-star categories** (which grew +16 bp vs. 2019).

Resort Destinations with Higher Investment Volume



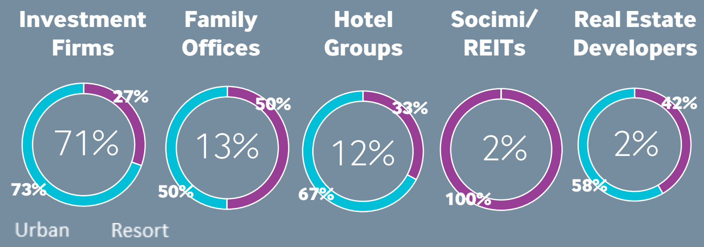
Investment per Category in Resort Destinations



**NA includes those plots or buildings for conversion to a hotel of which the category of the future hotels is unknown*

INVESTOR PROFILE

Investment firms, accounting for two-thirds of total investment were once again the major players in 2020 in detriment of hotel groups and Socimis/REITs

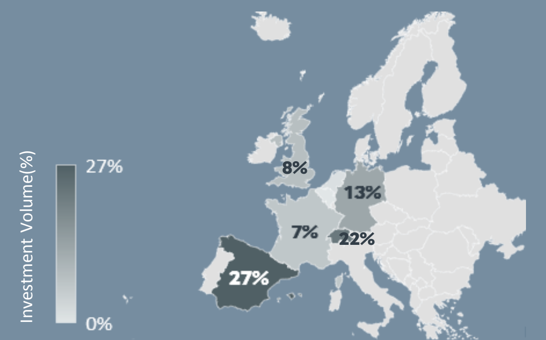


Investment firms (private equity and core funds) starred in the majority of the most relevant transactions, both for portfolios and individual assets. **On the other hand, the impact of Covid-19 on hotel groups and their need to safeguard their treasury has reduced their investment activity by 60%** compared to 2019.

Socimis registered significantly lower investment activity, in contrast with recent years, probably due to the uncertainty regarding the recovery of the sector and the reluctance of most operators to sign lease contracts in the current context.

On the other hand, **the relative weight of individual investors and family offices grew in 2020.**

The national capital was reduced by more than half compared to 2019, representing only 27% of the total investment. Swiss capital (22%) and German capital (13%) stood out in portfolio transactions. It is worth mentioning the purchase of the Formentor Hotel by a fund based in Andorra (20%).



OUTLOOK 2021

> We expect a strong recovery in investment levels in 2021, mainly from value-add funds. We will see the purchase of medium-sized portfolios, the entry of financial partners in several hotel companies and the beginning of a process of consolidation of the sector

Coré Martín
Head of Investment Spain & Portugal

All international organizations and institutions agree to forecast a rapid economic recovery for 2021, supported by strong aid from governments and central banks, and the administration of the various approved vaccines. However, **it also seems clear that the recovery will be asymmetric in the different countries and economic sectors.**

Spain has the worst recovery forecasts among developed countries for 2021, among other reasons, due to the economic collapse in 2020, the enormous dependence on tourism and the very high level of public debt.

Spain's tourism sector is probably suffering the worst crisis in its history. ERTEs (furloughs) and ICO loans have been insufficient shock absorbers and the lack of direct aid and poor political management have put the sector in check during 2020. **After a lost year for practically the entire industry, the hopes of the resort segment are set in the summer season and the second part of 2021**, despite the uncertainties about the survival of TTOO and airlines. In the urban segment, doubts regarding the return of corporate and the disappearance of MICE activity will continue to weigh down the activity of many large cities.

The survival of many companies will depend, while the long-awaited recovery does not arrive, on the capacity of their treasury, the support of the banking system and the extension of the ERTEs (furloughs) until the reopening of establishments, now extended until the end of May.

Our forecast, in light of the facts, is that many hotel companies will look to the sale of assets and/or the entry of financial partners into their capital to survive this situation. Countless assets and companies are already on the market, in a more or less professional way, and, as has become customary in the national market, the first sales attempts are made off-market, unprofessionally and at not very realistic prices. The very few transactions registered in the second half of 2020 despite the amount of assets in the market are a clear example of this.

However, we are convinced that the pressing need for liquidity and the banks' incentive for some of their clients to improve their balance sheets will make many sellers adjust their expectations and will boost hotel investment in 2021. Likewise, some formal and well-structured financial partner search processes started before the end of 2020 and a handful of well-capitalized hotel companies now have their eyes open to consolidation opportunities in the sector.

On the buyer side, there is enormous liquidity waiting to find the right opportunity. Traditional fund managers have raised, or are raising, additional capital and new managers have launched hotel funds for the first time. This capital has to materialize in purchases, and pressure and competition between investors can encourage the market and even limit discounts in many cases.

During 2020, the buyer expectation for discounts between 30% and 40% did not find a match with the sellers' expectations. **We would expect a price adjustment in 2021, although we do not anticipate it to exceed 15-20% for prime assets and locations, while it may reach high levels for less strategic assets in less privileged locations.**

Likewise, **several fund managers of a certain size are looking to buy an operator or to become a shareholder in a chain** to turn it into the platform with which to carry out acquisitions in the sector, with an eye on its expansion. Although transactional and M&A activity seems to be concentrated at the moment in the resort sector, perhaps because it is the most atomized, we do not rule out that this activity will spread to the urban sector.

This great liquidity and the prospects for operational improvement with the arrival of vaccines, have facilitated the return to the market of some portfolios that were withdrawn at the beginning of the pandemic, as well as that, some new portfolios have left or are going to leave in the near future looking for an investor.

Be that as it may, **2021 will be a year for the brave, for private equity and value add.** Of course, we do not expect happiness for core funds or for the more traditional family offices, accustomed to the security provided by the rental contract. The very future of this formula is yet to be defined. **It seems unlikely to continue to see long, enforceable contracts with fixed rental formulas. Variability will probably be the way out.**

In short, **we would expect a 2021 with hotel investment volumes more similar to those achieved between 2016 and 2019, once the expectations of buyers and sellers approach, the financing tap opens and the light is seen at the end of the tunnel of the pandemic**. 2021 may be the year of the beginning of a process of consolidation of the sector, as a result of the repositioning of many assets and the possible absorption of some small and medium chains, accelerating the technological and brand modernization, as well as the professionalization of our sector.

BARCELONA

Paseo de Gracia, 11
Escalera B, 4º 3ª
08007 Barcelona

E: barcelona@christie.com
T: +34 93 343 61 61

es.christie.com

MADRID

Paseo de la Castellana, 45
Bajo
28046 Madrid

E: madrid@christie.com
T: +34 91 045 98 76