CHRISTIE & CO

HOTEL INVESTMENT OVERVIEW

Spain 2021

This is how we closed our outlook for 2021 in the last report :

'In short, we expect a 2021 with hotel investment volumes more similar to those achieved between 2016 and 2019, once the expectations of buyers and sellers come closer, the financing tap is opened and the light at the end of the pandemic tunnel is close. 2021 could be the year of the beginning of a process of consolidation in the sector, as a result of the repositioning of many assets and the possible absorption of some small and medium-sized chains, accelerating technological and brand modernisation, as well as the professionalisation of our sector.'

And so it was, a **2021 full of changes, transactions and a transformation of the tourism industry** thanks to the repositioning of assets and technology. A 2021 that marked the beginning of the recovery thanks to the expected vaccinations but that was twisted twice by the appearance of different variants, Delta at the beginning of the year and Omicron at the end. Even so, the **sector proved to be very resilient** and handled each of the situations in the best way, being able to see results similar or superior to 2019 in some destinations and some moments of the year, demonstrating that it is a strong and pioneering industry when circumstances demand it.

At the **investment** level, we saw a **rebound compared to 2020**, outperforming 2019 and even **reaching similar levels to 2018**, a record year. Our mature industry showed its strength, often reaching historically low yields, demonstrating its **ability to attract increasingly core capital. The pure value add investor, however, saw his expectations frustrated** during the year as prices did not fall as much as expected.

Numerous government support measures, such as ICO loans, ERTE's, SEPI loans and regional aid **contributed to reducing the pressure on hotel companies' balance sheets and conditioned sales decisions** in many cases. The **absence of traditional bank financing** was another determining factor throughout the year and led to the **introduction of alternative financing**, which fortunately has been gradually reducing its cost and is now relatively competitive.

The most professionalised hotel companies, such as Meliá Hotels Int. and NH Hoteles, took advantage of 2021 to carry out **sale & leaseback and sale & management back operations** and strengthen their balance sheets. **TUI divested two major hotel holdings in Spain** and the Selenta Group took advantage of investor appetite to place its portfolio on the market.

On the other hand, the growing interest in combining leisure and business and the normalisation of teleworking increased the **appetite among investors for business models such as serviced apartments or long stay, as well as for luxury establishments**, both resort and urban, due to their good performance during the pandemic.

In conclusion, **2021** can be considered **a very good investment year** in our industry**. In 2022, many challenges remain**, such as the arrival or not of direct aid, the adaptation of the offer to the new needs of the client, the level of vaccination in the different countries, travel restrictions and health protocols, but **the improvement of the indicators and the expected market conditions make us think of another historic year** of hotel investment.

We are pleased to share our market knowledge with the sector once again this year and hope that this new report will be of interest to all those involved in **a sector that is vital to the Spanish economy:** the hotel sector, on whose health millions of jobs in our country depend.

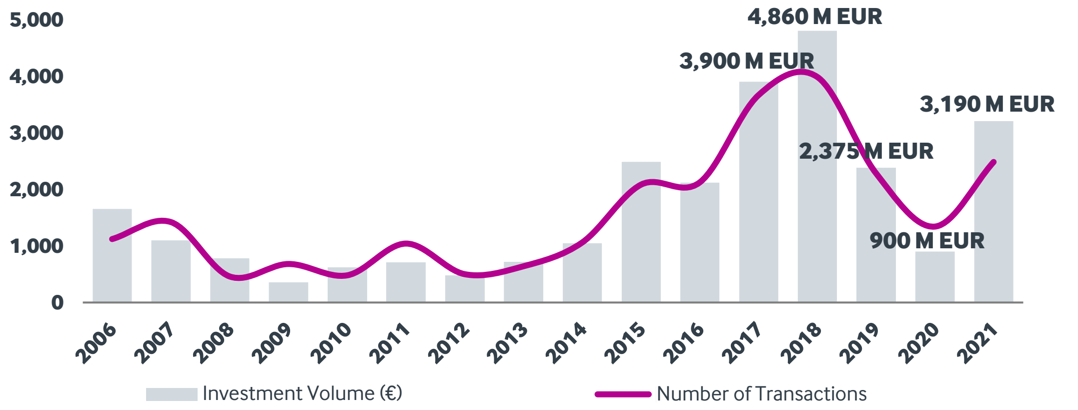
> "2021 will be remembered as the year of the beginning of the recovery of tourism, the growth of hotel investment, the return of portfolio transactions and prime transactions at record prices per room. In our opinion, 2021 marked the definitive institutionalisation of the hotel sector as an international investment product"

Edgar Ollé
Managing Director Spain & Portugal

MAIN INDICATORS

Investment Volume	3,190 M EUR
Number of Hotels	130
Number of Rooms	22,523
Average Price per Existing Room	141,715 EUR
Investment in Urban Destinations	53 %
Investment in Resort Destinations	47 %
Domestic Investment	42 %
International Investment	58 %

Hotel Investment 2006 - 2021



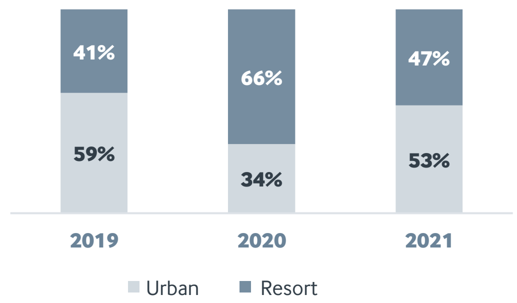
Investor trust in the Spanish hotel sector and the gradual return to normality allowed for a return to pre-Covid investment levels in 2021, exceeding 2020 figures by 255%.

2021 recorded a total investment volume in the hotel sector of EUR 3,190 M, 3.5 times higher than the investment in 2020. This strong increase represented a recovery to pre-covid-19 crisis levels, coming closer to 2017 and 2018 figures and even surpassing 2019 data by 35%. On the other hand, a total of **22,523 rooms were transacted, spread across 130 assets**, including both existing and future rooms in conversion and development projects (vs. 8,300 rooms and 67 assets transacted in 2020).

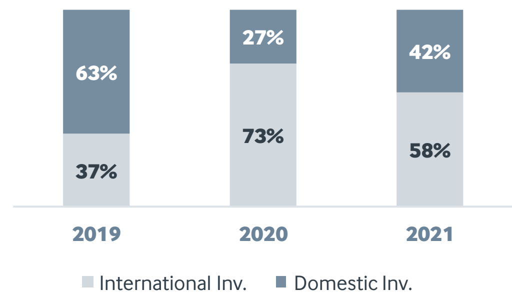
The high volume of liquidity available in the market, together with unsatisfied investor demand and a high component of transacted prime assets, caused the **average price per room to increase by 17% compared to the previous year** to EUR 147,000. Moreover, in contrast to the previous year, investment in 2021 was **more concentrated in the urban segment**, accounting for **53% of the total volume,** picking up the trend of 2019, albeit in a more balanced manner.

The weight of transacted portfolios stood out, equivalent to 42% of total investment, well above the levels of the previous two years and more similar to the data for 2018, a record year for transacted portfolios. Finally, **the domestic investor regained some of the prominence lost in 2020, with 42% of total investment**, although it did not reach the pre-Covid levels of 2019.

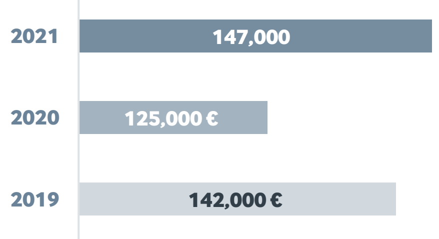
Investment Evolution per Destination Type



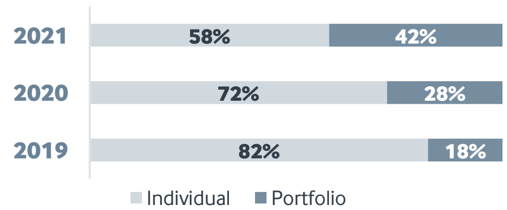
Investment Evolution per Investors's Origin



Average Price per Room Evolution

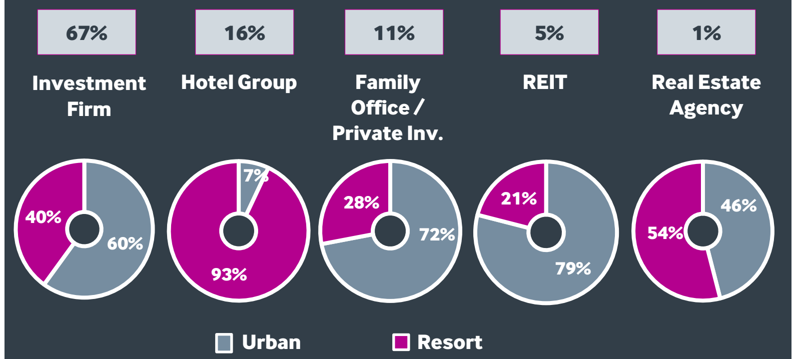


Investment Evolution per Transaction Type

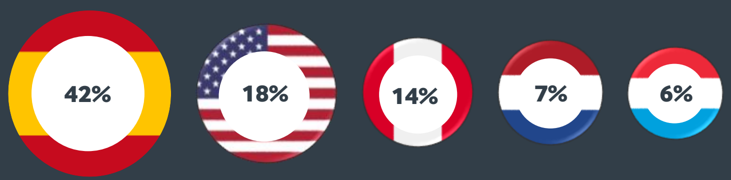


INVESTOR PROFILE

Investment Firms and Investment Management Companies, with almost 70% of the total volume, were once again the major players in 2021.



Investment firms and Investment Management Companies accounted for the majority of the most significant transactions, both in portfolios (around 70% of total investment in portfolios) and in individual assets (around 65% of total investment in individual assets). On the other hand, the gradual **recovery** during the year led to an increase in investment activity **by hotel groups** (+33%) and **REITs** (+150%) compared to 2020, especially focused on the resort segment in the first case and on urban assets in the second.



In 2021, domestic equity regained some of the prominence lost in 2020, with 42% of the total volume invested, 55% more than in the previous year, when it reached 27%. American equity also stood out (18%), with the portfolios acquired by Sixth Street and Castlelake, and Canadian equity (14%), due to the Selenta portfolio acquired by Brookfield.

URBAN DESTINATIONS

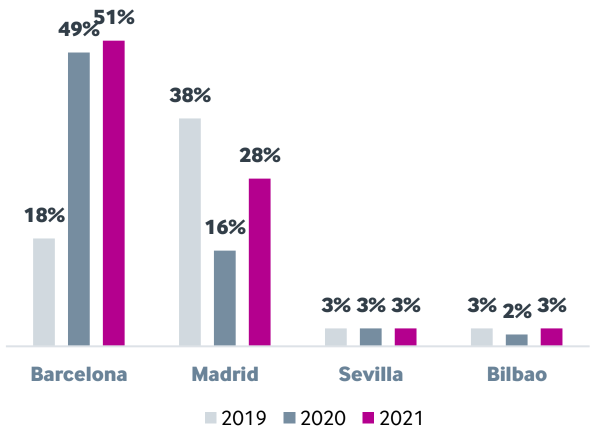
In 2021, they accounted for around EUR 1,7 billion of investment, 53% of the total volume, which was a return to the pre-covid trend.

Barcelona once again accounted for half of the investment in urban destinations for the second consecutive year, thanks to the sale of important assets such as the NH Presidente, the Gran Hotel Central and the NH Collection Barcelona Gran Hotel Calderón. **Madrid, meanwhile, increased its share of investment in urban destinations by 75% compared to 2020, with some transactions exceeding €1 million per room.**

Seville reappeared in the ranking of top urban destinations in terms of investment, with 3% as in 2020. **Bilbao** also remained relatively **stable**, with 3% of total investment in urban destinations, slightly higher than in 2020 (2%).

Other top urban destinations, such as **Malaga or San Sebastian**, experienced a **decrease** in terms of investment, with 2% in the first case (vs. 4% in 2020) and less than 1% in the second case (vs. 5% in 2020).

Urban Destinations with the Highest Investment Volume



RESORT DESTINATIONS

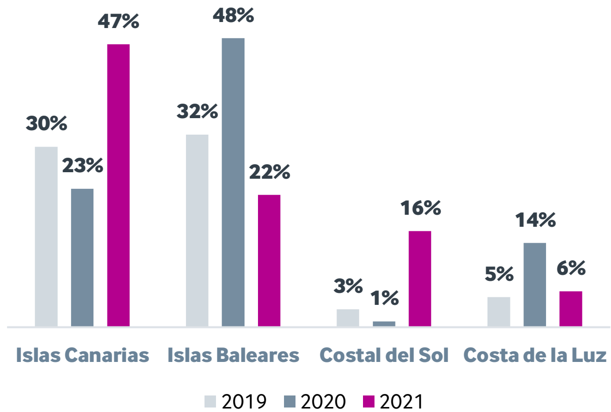
They reduced their weight compared to the previous year, accounting for 47% of the total invested instead of 67% as in 2020.

Island destinations were once again the main players in resort investment, together accounting for 69% of the total, thanks mainly to the portfolios transacted, most of which included assets located on the islands.

However, the prominence of the archipelagos changed in 2021 compared to the previous year, with **the Canary Islands accounting for almost half of the total amount invested in resort destinations** and the Balearic Islands 22%, significantly lower than the figure achieved in the previous year (48%).

The **Costa del Sol,** which had practically no hotel transactions in 2020, accounted for 16% of total resort investment, due to large transactions, such as that of the H10 Andalucía Plaza. As for the rest of the Spanish coast, investment activity on the Costa de la Luz **continues to surprise, although it decreased compared to 2020, specifically by 8 points.**

Resort Destinations with the Highest Investment Volume



MAIN PORTFOLIO TRANSACTIONS IN 2021

PORTFOLIO	ROOMS	LOCATION	PRICE	PRICE/ROOM
TUI – Riu Hotels & Resorts Portfolio (49%)	2,938	Fuerteventura, Gran Canaria, Lanzarote, Málaga	Confidential	
Selenta – Brookfield Portfolio	2,235	Tenerife, Barcelona y Marbella	340 M EUR	152,125 EUR
Melía Hotels International – Bankinter Portfolio (92,5%)	1,822	Cádiz, Granada, Mallorca, Menorca, Gran Canaria, Lanzarote, Zaragoza	205 M EUR	112,513 EUR
Millenium – Castlelake Portfolio (48%)	1,287	Madrid, Alicante, Bilbao, Sevilla, Córdoba, Madrid, San Sebastián, Cádiz	180 M EUR	139,860 EUR
TUI – Grupotel Portfolio (50%)	1,232	Gran Canaria, Lanzarote	Confidential	
Sixth Street Portfolio	1,039	Roquetas de Mar, Salou, Benidorm, Lloret de Mar	Confidential	
Ola Hotels – Globales Portfolio	536	Mallorca	Confidential	

MAIN INDIVIDUAL TRANSACTIONS IN 2021

ASSET	ROOMS	LOCATION	PRICE	PRICE/ROOM
Tryp Apolo	314	Barcelona	96 M EUR	305,732 EUR
NH Collection Barcelona Gran Hotel Calderón	255	Barcelona	125.5 M EUR	492,156 EUR
The Edition Madrid	200	Madrid	205 M EUR	1,025,000 EUR
Hesperia Presidente	156	Barcelona	125 M EUR	801,282 EUR
Gran Hotel Central	147	Barcelona	93 M EUR	632,653 EUR
H10 Punta Negra	137	Mallorca	90 M EUR	656,934 EUR
Bless Hotel Madrid	111	Madrid	114 M EUR	1,027,027 EUR

Undoubtedly one of the reasons for the high investment volume achieved in 2021 was **the return of portfolio transactions**, which had been rare since 2018.

Both hotel chains and international funds were the protagonists of these transactions. Among the operators, Riu acquired TUI's 49% stake in 19 of its hotels and Grupotel also bought TUI's stake in Nordotel's Canary Islands portfolio from TUI. Among the international funds, Brookfield closed the largest deal with the purchase of Selenta Group for 340M euros with the clear objective of repositioning the assets. Castlelake took a stake in Millenium Group for 180M and Sixth Street closed the purchase of five resort assets for Pierre & Vacances.

It is worth mentioning the originality of the sale of Meliá's assets to a fund formed by Bankinter's private investors for more than 200M.

The high number of core transactions and prime assets sold, mainly in sale & leaseback and sale & management back structures, was another reason for the large volume of investment.

These transactions attracted the **interest of international funds**, such as RLH Properties in the Bless Madrid, Schröders in the Tryp Apollo and La Salle Investment Management in the NH Collection Barcelona Gran hotel Calderón, as well as **family offices** such as the Grifols family in the Hesperia Presidente.

The strong competition for this type of high quality assets meant that **prices per room reached historically high levels** in all cases, even exceeding €1 million in the two transactions registered in Madrid.

In our changing world it is increasingly difficult to make forecasts, but there is no doubt that the circumstances suggest a **clear improvement for the tourism and investment sector in 2022**.

Despite geopolitical instability with the threat of conflict between Ukraine and Russia, the instability of the British government and the upcoming elections in France, **the economic growth forecast for European countries in 2022 is good.**

Moreover, after the economic slowdown in December 2021 and January 2022 caused by the omicron virus, the lower severity of this variant, the speed with which it seems to be deactivated and the lifting of travel restrictions by European governments, raises hopes of a **strong recovery in tourism, especially leisure tourism, from March 2022 onwards**. It is true that **the recovery may be uneven** and some cities or destinations with a greater dependence on the international business, MICE and long-haul segments may see a slowdown in the pace of growth.

In any case, operators' cash generation forecasts for 2022 are higher than those obtained in 2021. This will definitely start to alleviate the stressed situation of many hoteliers. However**, it is expected that many hoteliers and operators, especially medium-sized ones, will think about selling some of their assets as a way to strengthen their balance sheets quickly** and we do not doubt that, on many occasions, the banks will push for this accelerated strengthening.

Thus, the **strong sale & leaseback activity** experienced in 2021 is expected to continue and intensify in 2022, not only in the prime segment of the market as in 2021 but also in lower segments and in resort destinations.

In addition, an **increasing amount of activity is expected in free assets**, especially those with significant capex needs and with the potential for rebranding or repositioning. The first quarter of 2022 has already seen the closing of many deals carried over from last year, some of them slowed down by covid, which anticipates strong investment activity for the rest of the year, especially in the second half.

Available liquidity is at levels never seen before and the appetite for all types of hotel assets, from budget to luxury, and in all destinations, urban and resort, has never been greater. The low yields provided by other real estate sectors and other European destinations have made the Spanish tourism sector one of **the priority real estate investment targets of the international investment community**.

Already in 2021, competition between investors has pushed up sales prices in orderly intermediated processes and much liquidity remains frustrated waiting for opportunities. Thus, if no significant discounts were seen in 2021, there is no reason to believe that this year, 2022, they should start to happen. On the other hand, the anticipated recovery of operating results and the foreseeable extension of ICO's and ERTE's, in addition to SEPI's loans, will ease the pressure on the need to sell.

Similarly, the **return of traditional banks to tourism financing and the cheapening of alternative debt** are already contributing and will help investors in the coming months to obtain their target yields, reducing pressure on sale prices and facilitating the agreements between buyer and seller.

Likewise, **corporate transactions** in the Spanish hotel sector were already being discussed in 2021 and are expected to arrive in 2022. The availability of capital, financial stress in some operators, generational change in others, as well as the predisposition of the banks, seem to be a suitable breeding ground for this type of operation, opening a **cycle of consolidation among market players.**

In recent years, there has been a disintermediated transactional activity with a direct relationship between seller and potential buyer, which has generated disorder and has sometimes hindered the proper development and closing of transactions. However, in 2021 the number of intermediated transactions increased **and it is expected that this increase will continue in 2022 and in the future, due to the international profile of the investor**, who is highly professionalised and with strong demands for information and transparency.

In conclusion, everything suggests that **in 2022 the levels of investment reached in 2021 will be repeated or even surpassed, consolidating the Spanish hotel market as an international investment product** on a par with the hotel sectors of the United Kingdom and Germany, traditionally leaders in Europe. A year of great activity for all types of investors, in all segments and product types, where agility in decision-making, flexibility in requirements and creativity in value generation will determine the most successful players.

> We expect 2022 to be another year of intense investment activity in the hotel sector for all players and in all segments, with possible corporate transactions and an increasing institutionalisation of the activity.

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