HOTEL INVESTMENT OVERVIEW

Spain 2022

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Introduction

Key Factors:

A record year in investment volume and average price per room transacted

Hotel investment in Spain reached a total volume of €3.23bn in 2022, becoming the third-best year behind 2017 (€3.9bn) and 2018 (€4.86bn), both impacted by the sale of several large portfolios, such as the acquisition of HI Partners and later Hispania by Blackstone, the portfolio purchased by Atom Hoteles, Barceló's divestment from REIT Bay, etc.

On the other hand, 2022 achieved a new record in the price per room transacted (€170k), driven by the sale of trophy assets in prime locations, such as the acquisition of 51% of the Bless Hotel Madrid and Rosewood Villa Magna hotels by Sancus Capital, the purchase of the 7Pines Resort by Engels & Völkers and the sale of the Hotel Iberostar Las Letras.

Growth of the leisure segment and superior categories

The willingness to travel, higher savings, and the reduction of restrictions led to the recovery of international demand in Q2 2022. The resort market reached record RevPAR levels, resulting in a boom in hotel investment in sun and beach destinations, which accounted for 56% of the total volume invested during 2022.

The entry of international brands and the repositioning of hotels increased investors' interest in the 4-star and 5-star categories, which registered c. 80% of the total investment volume. The resilience demonstrated by the superior categories in periods of crisis and the new trends focused on experiences, gourmet cuisine, and personalised service, among others, suggest that the luxury segment will continue to play a major role in the investment landscape over the next few years.

The role of prime assets in mitigating uncertainty

In 2022, the weight of the 5-star category decreased significantly versus 2021. However, 25% of the rooms transacted exceeded €400k. Likewise, we note an increase in the investment volume in prime destinations; Madrid went from 28% of total urban investment volume in 2021 to 55% in 2022, Malaga from 1% to 4%, the Balearic Islands from 22% of resort investment volume in 2021 to 45% in 2022 and the Costa del Sol from 16% to 28%.

Overall, more core assets led the investment landscape, highlighting a change in the investor profile from "value-add" or opportunistic, to "core" profile. This transition is mainly due to the increase in construction costs, the difficulties in projecting the future performance of hotels, the barriers in obtaining bank financing, and the gap between the expectations of buyers and sellers.

Potential decompression of yields as a result of the current macroeconomic context

In 2022, the tourism recovery consolidated. However, the general uncertainty did not allow the compression of yields as expected at the beginning of the year. In 2023, we expect a further decompression of yields due to the rise of interest rates in the Eurozone.

> "2022 experienced a turbulent start due to the Omicron variant and was affected by the strong uncertainty in the investment environment. However, Spain experienced a strong recovery in tourism demand and registered a record in the price per room transacted. In our opinion, all of these factors reflect the strength of our industry and the leadership of the Spanish hotel sector in Europe."

Nicolas Cousin
Managing Director Spain & Portugal

Hotel Investment in 2022

In 2022, the Spanish hotel sector demonstrated its strength as a leading investment destination, surpassing the levels of 2021 and breaking records of average price per room.

Spain achieved a record level of investment, with a total of €3,230m transacted, a figure only surpassed in 2017 and 2018 due to the sale of the Hispania portfolio and HI Partners to Blackstone. Despite the low tourism activity during Q1 2022, caused by the Omicron variant, Spain benefited from the strong liquidity in the market, the high interest from international investors, and the recovery in the operating performance of the hotels.

With 131 transactions (c. 20k rooms), Spain registered the highest average price per room of €170k, 16% higher than 2021 and 20% above 2019. These record levels were achievable, mainly because of the large number of trophy assets transacted and the strong investor appetite.

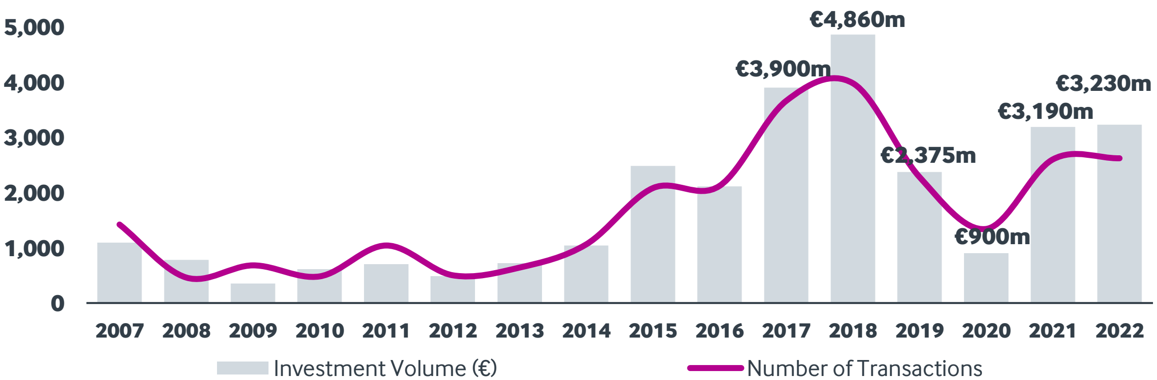
Contrarily to 2021, **investment in 2022 was geared towards the leisure segment, representing 56% of the total volume (vs. 44% in urban destinations).** The Balearic Islands were again the region with the highest investment volume at €822m, 113% above 2021 and 195% higher than 2020. We highlight the strong performance of Madrid as an investment destination, which reached €784m driven by 17 transactions.

Investment firms accounted for 59% of the total investment volume, followed by hotel groups (25%).

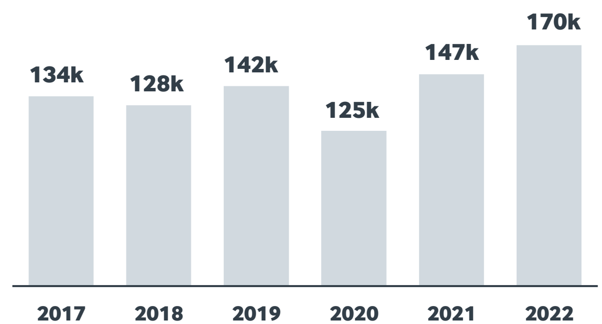
Main Indicators

3,230	€ m
170k	€ per Room
131	Hotels
19,861	Rooms
56%	Resort destination
44%	Urban Destination
72%	International Investment
28%	Domestic Investment

Hotel Investment Evolution in Spain 2007 - 2022



Average Price per Room Evolution 2017 - 2022



Destination Typology

RESORT DESTINATIONS

More than half of the assets transacted are located in resort destinations, representing a total of €1,796m of investment.

The Balearic Islands led hotel investment in the leisure segment, accounting for about 50% (€822m) of the total invested in resort markets (+113%/2021). Some of the most relevant acquisitions were the 7Pines Resort Ibiza, the Ikos Porto Petro (as part of a portfolio), and the Alua portfolio (assets in Mallorca and Ibiza).

The Costa del Sol continued its rising trend of recent years, accounting for 28% (€505m) of total investment in the resort segment (+16%/2021).

Compared to the previous year, the Canary Islands lost prominence, **with only 6 transactions for a total value of €193m, which accounted for 11% of investment in leisure destinations (+47%/ 2021).**

URBAN DESTINATIONS

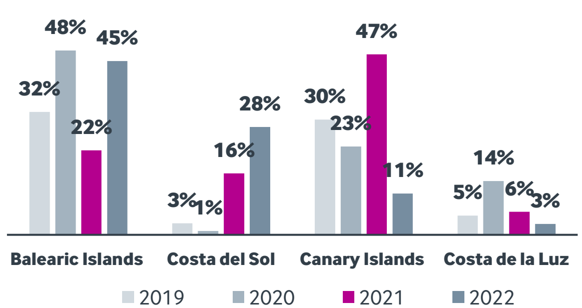
The investment in urban destinations accounted to €1,434m in 2022, accounting for 44% of the total investment.

Madrid accounted for 55% (€784m) of the total investment in urban destinations, representing 24% of the total volume. Large transactions include the Hotel Princesa Plaza, 51% of the Bless Hotel Madrid, 51% of the Rosewood Villa Magna, the Hotel Iberostar Las Letras and the Hard Rock Hotel Madrid.

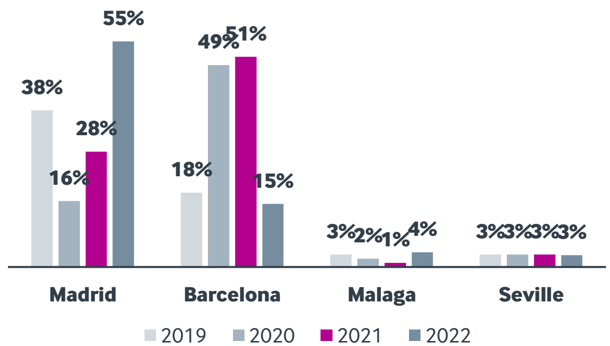
Barcelona, after a record year in 2021, demonstrated that it is still on investors' radars, even though it only registered 8 transactions for a total value of €219m (vs. 20 transactions for a total value of €872m in 2021).

On the other hand, **the city of Malaga reached its highest level in the last years, with a total of €52m**, which represented a strong growth compared to the previous year (+37%).

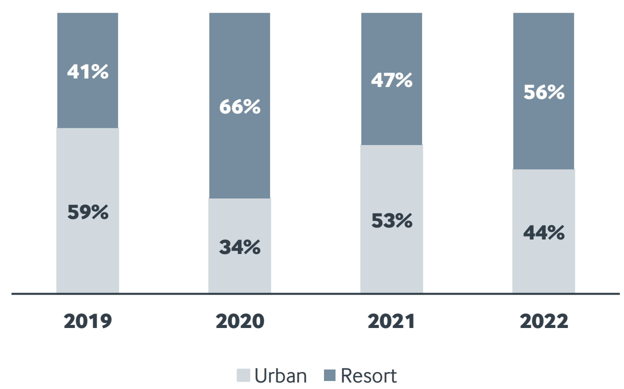
Resort Destination with the Highest Investment Volume



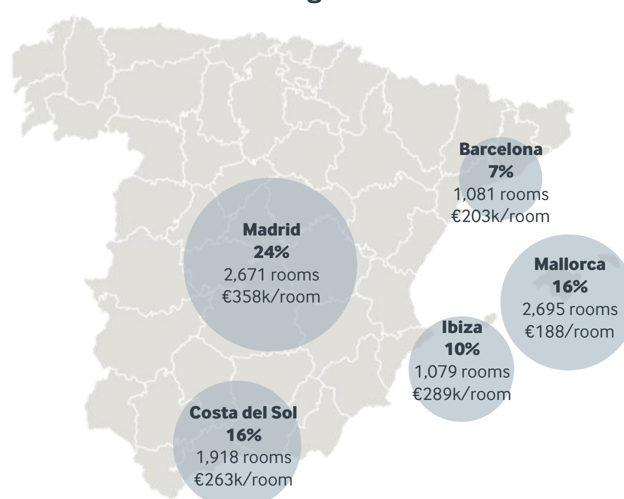
Urban Destinations with the Highest Investment Volume



Investment Evolution per Destination Type



Destinations with the Highest Investment Volume



The size of the bubble is proportional to the volume of investment.

Investor Profile and Asset Type

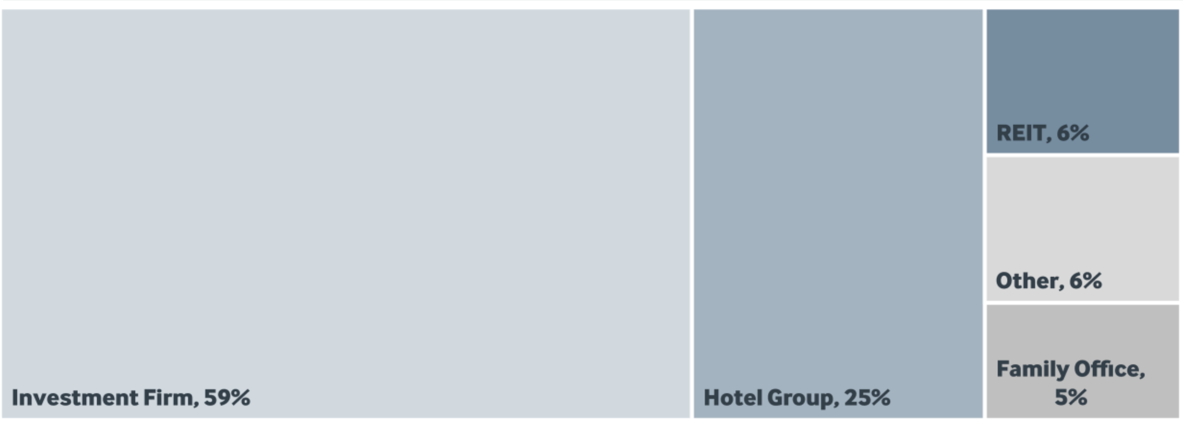
Investment firms were once again the main players in 2022, with 59% of the total volume invested. Hotel groups were also particularly active, with 25% of the total (vs. 16% in 2021).

Investment firms accounted for the majority of the most significant transactions, both in terms of portfolios (around 80% of total investment in portfolios) and individual assets (around 44% of total investment in individual assets). On the other hand, **hotel groups**, particularly cautious during 2020 and 2021, recovered to pre-COVID investment levels, with 25% of the total invested. **Family Office and individual investors were somewhat more conservative, reducing their 11% in 2021 to 5% in 2022**. REITs, remained in line with the previous year and accounted for 6% of total investment.

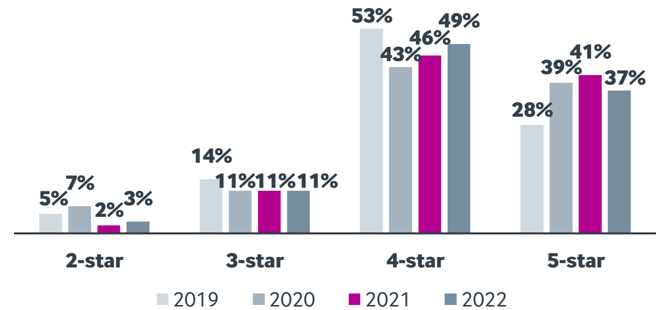
In terms of the category of assets transacted, **the 4-star category was again the leading category, accounting for 49% of total investment. The 5-star category accounted for 37%, which translated into a total of 17 transactions.** The lower categories accounted for the remaining 14% of investment, very similar to previous years' figures.

In 2022, the percentage of investment allocated to portfolios was the highest in the last four years, accounting for almost half of the total investment. Among the largest portfolio deals were the acquisition of the Ikos group by GIC, the takeover of 51% of the Rosewood and Bless Madrid hotels by Sancus Capital, the purchase of the 5 assets of Alua by Fattal Hotel Group and the transaction of the Ayre hotel portfolio by Eurazeo.

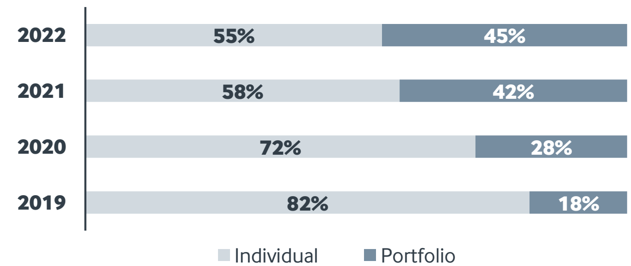
With regard to the origin of the investments, the weight of international capital was particularly significant, accounting for 72% of the total amount invested in Spain in 2022, **mainly due to the fact that the main portfolios and individual assets with the largest volume were acquired by international investors.**



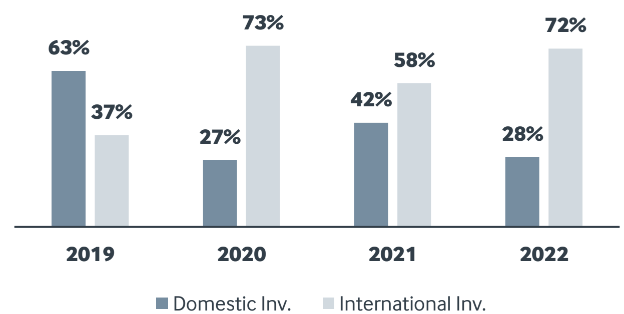
Asset Category Evolution



Investment Evolution per Transaction Type



Investment Evolution per Investors' Origin



Main Transactions

Portfolio Ikos
Hotels: 2
Rooms: 855
Location: Mallorca and Costa del Sol

Portfolio Sancus (51%)
Hotels: 2
Rooms: 265
Location: Madrid

Portfolio Alua
Hotels: 5
Rooms: 1,119
Location: Ibiza and Mallorca

Portfolio Ayre
Hotels: 5
Rooms: 808
Location: Madrid, Barcelona,
Cordoba and Oviedo

Portfolio Invesco
Hotels : 2
Rooms: 258
Location: Barcelona and Malaga

7Pines Resort
Category: 5-star
Rooms : 185
Location : Ibiza

Princesa Plaza
Category: 4-star
Rooms: 409
Location: Madrid

La Caleta Resort & Spa
Category: 5-star
Rooms: 284
Location: Tenerife

Faranda Florida Norte
Category: 4-star
Rooms: 400
Location: Madrid

Barcelona 1882
Category: 4-star
Rooms: 182
Location: Barcelona

Outlook 2023

After a record year, both in terms of investment volume and price per room transacted, it seems that 2023 starts with the same level of uncertainty as 2022 ended with. We expect this sentiment to continue throughout the first quarter, possibly slowing investment in the first few months of the year until there is more visibility from all market players.

The general cautiousness expected during the first period of 2023 will naturally be reinforced by the high interest rates and the difficulty in obtaining access to traditional bank financing. However, there were **several transactions initiated in 2022, which are now in the final stages, allowing us to forecast a pipeline of transactions worth at least €1,000m during the first four months of the year**.

If 2022 was the year of the recovery of tourism demand, **in 2023 we expect a consolidation of hotel performance in both leisure destinations and urban markets**. In the first case, we predict a stabilisation of ADR levels, after a significant increase over the past year, and a return to normality in terms of occupancy. **For cities, 2023 will be the year of their full recovery**; the MICE segment will return to pre-pandemic levels and the bleisure trend will continue to drive tourism demand in the main urban destinations.

Last year we saw the return of hotel groups to the investment landscape, rising from 16% of total investment in 2021 to 25% in 2022. Considering a gradual recovery of cash levels thanks to the expected return of long-haul tourists, especially the Asian market, and a gradual stabilisation of operating costs from the second half of 2023, **we expect hoteliers to maintain the same pace of investment over the next year**, despite the growing asset light trend.

Likewise, investment firms were once again the main players, as they have been in recent years, accounting for almost two thirds of the total invested. The undisputed confidence of **international investors** in the Spanish hotel market and the resilience shown by the prime assets and the most consolidated holiday destinations **will continue to increase the weight of these sources of capital in the investment landscape in 2023**.

Those investors with a more **core profile will continue to be very active, investing in prime products, and are likely to be positioned in the luxury segment**. However, from the second half of the year onwards, we could see a **resurgence of value-add transactions**, especially from those players with a higher cost of capital and strong investment pressure. In addition, **interest in lower category assets, also known as limited service, will continue to grow**, a segment that offers many opportunities which will continue to be boosted by the new brands created by the main international hotel groups to cover this niche market.

In 2023, **strategic alliances and corporate transactions will most likely continue to take place** in an increasingly global and competitive environment. **Inorganic growth will become common among hotel groups and even by investment groups**. This strategy allows them to accelerate expansion, generate significant economies of scale, increase their brand portfolio, expand their customer base and become much more competitive.

We also foresee a **strong role for international brands in 2023**, as they have shown in recent years that Spain is one of their main areas of interest. These groups, often accompanied by investment partners, will be responsible for the exponential growth of management and franchise contracts in Spain over the next year. On the other hand**, sale & leaseback transactions will continue to take place**, allowing national groups to reduce their real estate exposure, accelerate their growth and meet possible financial obligations arising from the Covid period.

In conclusion, we expect an intense year, full of challenges but also of infinite opportunities: the consolidation of the tourism recovery, the unquestionable need to implement ESG criteria in our industry, the acceleration of certain consumer and hotel trends, the strong transactional activity and the changes in the ownership structure. **In addition, the strengthening of Spain as a leading tourist destination for travellers, investors, operators and brands.**

> “We expect a final recovery in all destinations by 2023, as well as the start of a new generalised growth path. Investment volume will again exceed €3 billion and HMA and franchise contracts will grow in double digits.”

Nicolas Cousin
Managing Director Spain & Portugal

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