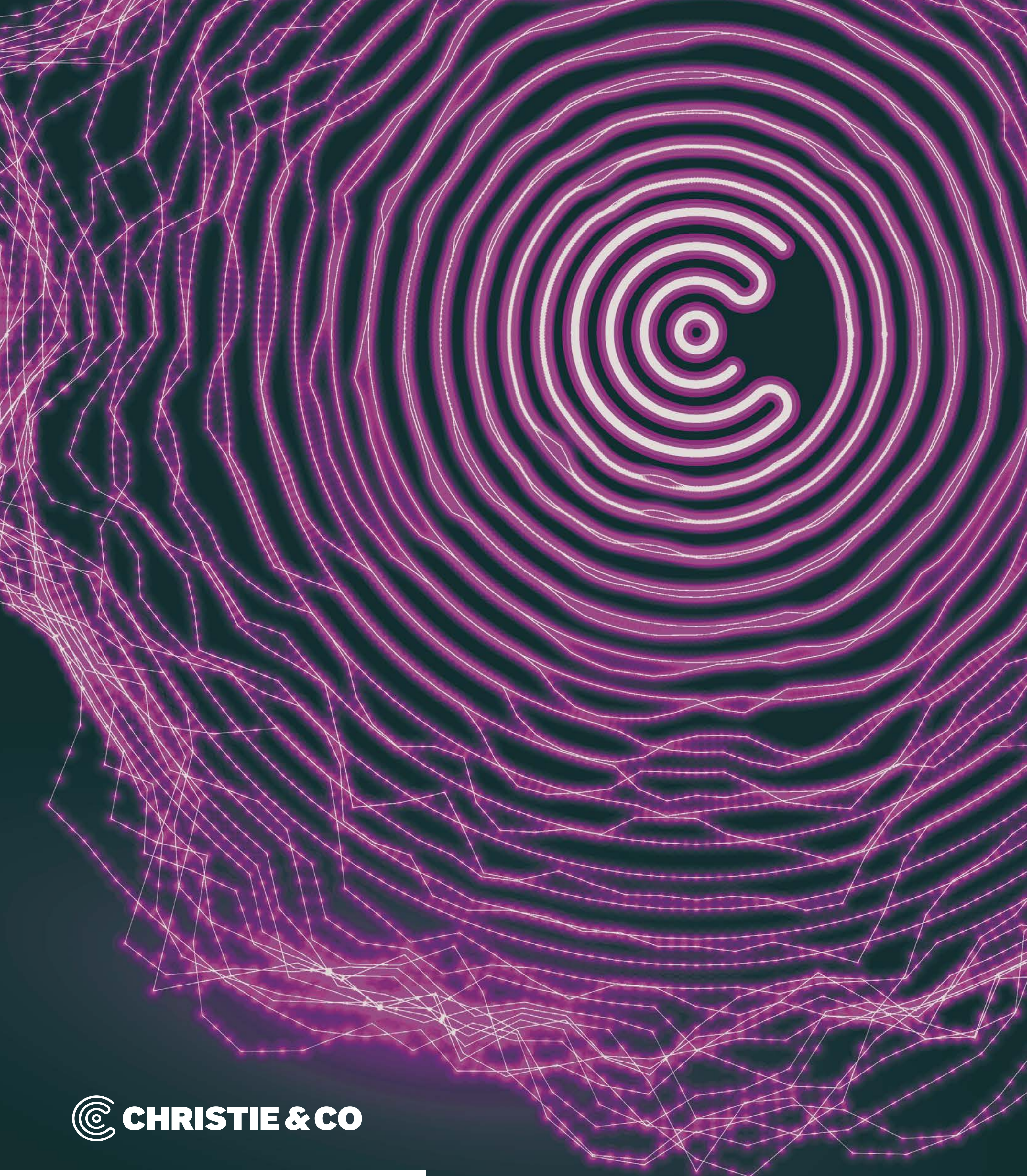


CHRISTIE & CO

BUSINESS OUTLOOK 2023

FINDING CLARITY

HOTELS & INTERNATIONAL

HOTELS

CARINE BONNEJEAN
Managing Director - Hotels

JEREMY JONES
Head of Brokerage - Hotels

MARKET PREDICTIONS

The hotel sector is procyclical and RevPAR will soften in 2023 as the recession impacts discretionary spending and corporate activity

The market will become more polarised with luxury and economy faring better compared to the mid-market which will be squeezed

Pricing will have to adjust to reflect increasing debt costs and eroding profits. The softening in yields observed in Q4 2022 will continue

A wall of capital is waiting for distressed opportunities to emerge; however, based on historical evidence, there may be a lag of up to 24-36 months

Development will be challenged by the limited debt financing, rising interest rates, and volatility of construction costs

INTRODUCTION

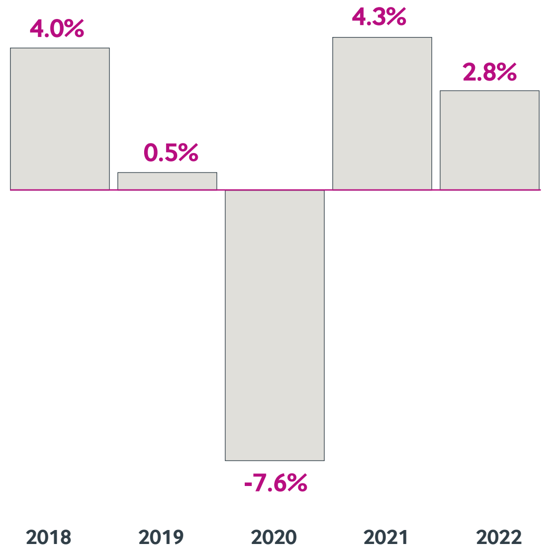
There were positive signs of recovery across the UK hotel sector in 2022, amidst challenging trading conditions. The rebound in consumer demand from March onwards gave hoteliers a much-needed boost as they emerged from the pandemic.

However, the sector is facing a new wave of challenges in 2023, with a confluence of headwinds expected to exert pressure on hotel owners and operators, including not just the well-publicised increasing operational costs but also the cost of debt and the maturing of loans granted under the Coronavirus Business Interruption Loan Scheme (CBILS).

Whilst the Autumn Budget provided some relief in relation to skyrocketing energy costs and business rates, margins are likely to be under significant pressure in the new year but we are confident the sector will remain resilient.

PRICE INDEX

A story of two halves. Strong appetite, low stock and good prospects were positively impacting pricing during H1 but the deteriorating climate and the increasing cost of financing impacted in H2.



4.4%

Up to 30,000 hotel rooms (4.4% of UK room supply) are being requisitioned by the Home Office every day to house asylum seekers.

MARKET OUTLOOK

The UK hotel market was certainly a tale of two halves in 2022 and 'heaven and hell' is a good representation of where the market currently is.

During H1, occupancy levels recovered at a much faster rate than first anticipated, backed by a strong rebound in consumer demand. This drove a healthy level of transactional activity to be recorded across the market. Overall performance neared or surpassed 2019 levels from May onwards, and regional UK markets such as Edinburgh, Birmingham and Liverpool saw the highest increase in RevPAR, surpassing 2019 levels. In comparison, London was slower to recover as the capital relies on international source markets and business travellers.

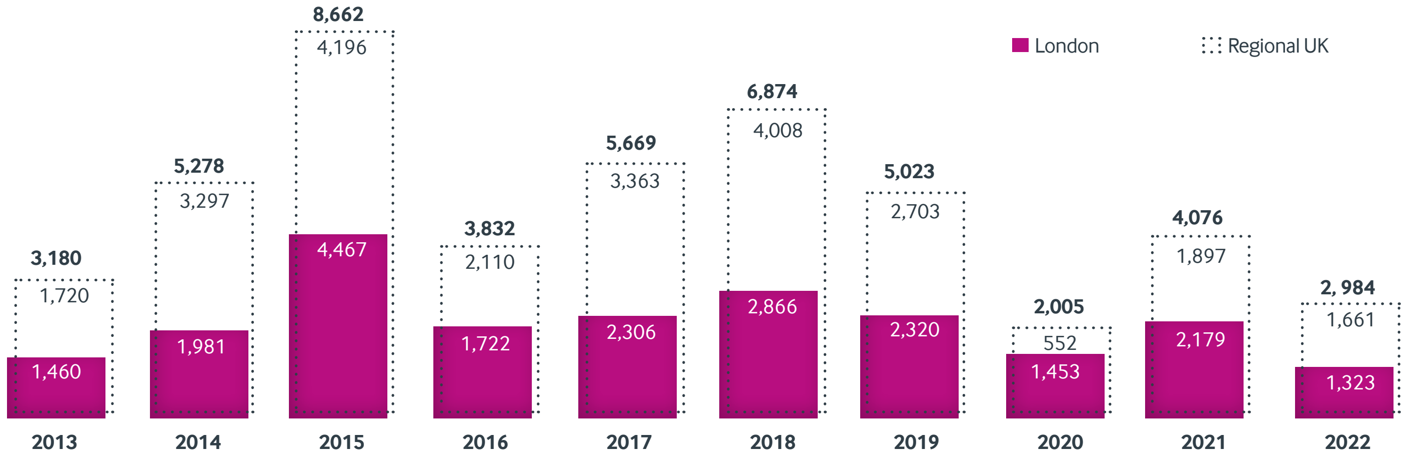
At the same time, hoteliers were forced to navigate intensifying operational headwinds and a period of political chaos. The effects of this uncertainty began to creep in and slowed transactional activity in Q4, with many hotel operators choosing to hold off on selling and buyers adopting a 'wait and see' approach, in anticipation of a price correction and an increased volume of distressed assets coming to market in 2023.

Domestic buyers were far more active in the market in 2022 compared to 2021, where cross-border investors represented 52% of buyers. Yet this number dropped to 23% in H1 2022, likely due to international Covid-19 travel restrictions imposed over the past few years. However, more recently, the drop in the British Pound has positively impacted international travel and stronger buying power, especially for American funds.

Throughout the year, operators maintained high ADRs to offset some of the growing cost pressures and protect their profit conversions.

This was widely accepted by consumers, who are increasingly prioritising holiday spending despite rising household costs. Whilst this is expected to reduce in 2023, not all levels of the market will be impacted to the same degree. The luxury segment will fare better as affluent consumers are generally less focused on price. So too will the economy segment, as less affluent travellers may choose to trade down. Therefore, mid-market hotels are likely to be most impacted, albeit there will be an opportunity for these hotels to capture the many consumers who choose to holiday in the UK over a trip abroad, in order to spend less.

HOTEL INVESTMENT VOLUMES IN THE UK BY YEAR (£M)



Sources: MSCI Real Capital Analytics and Christie & Co Research and Analysis

CASE STUDIES

PREMIER INN GLASGOW CITY CENTRE, CHARING CROSS

Sold off a guide price of £8.5 million, this 278-bedroom hotel was acquired by one of Europe's largest private hotel groups, Britannia Hotels. This was a prime example of the buoyancy across the Glasgow and wider Scottish hotel market.

THE METROPOLE HOTEL & SPA, LLANDRINDOD WELLS

This iconic Welsh hotel was sold to Crest Hotels Limited. Regarded as one of the pre-eminent hotels in Wales, with extensive function facilities, the 109-bedroom property has been independently owned and operated by the same family since 1897.

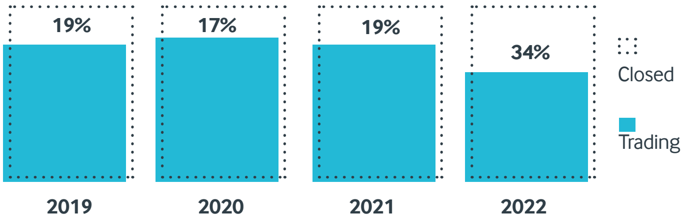
INDEPENDENT OPERATIONAL REVIEW, REGIONAL UK

We were appointed by a lender to undertake an independent business review of a small hotel group with a strong emphasis on F&B, in order to ascertain the financial viability of the group, prepare a cost restructuring plan to return to profitability and inform the corporate workout.

OUR ACTIVITY

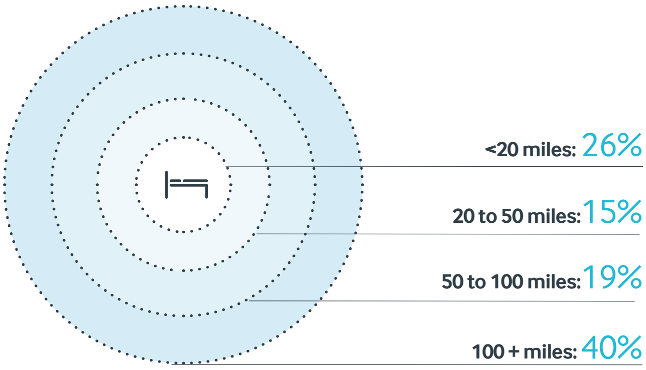
On average, we **sold two hotel businesses per week in 2022**, a level slightly behind 202, maintaining our position as the market-leader for hotel deals by volume. We also observed a notable increase in closed assets being sold – about a third of all transactions compared to less than a fifth pre-COVID, albeit the vast majority of deals are for continued hotel use.

PROPORTION OF CLOSED HOTELS SOLD*



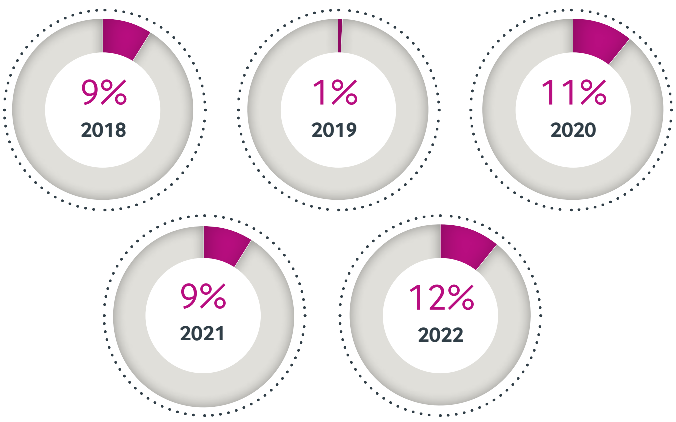
Our market activity was dominated by individual asset sales across the regions due to more liquidity in the regional market. The buyer appetite for quality assets in regional cities, semi urban or coastal locations remains strong, and we noticed that buyers have been expanding their radius search to find the right opportunities. On the other hand, there was little in the way of corporate deals, particularly post summer due to the challenges around debt financing and the unsettled economic environment.

HOTELS SOLD BY DISTANCE FROM BUYER*



Our valuation team was extremely busy in 2022, notably for refinancing valuations, and consultancy activity has started to pick up for independent business reviews initiated by lenders, a potential early sign of distressed activity, which remains at an all-time low. We anticipate an uptick from the second half of 2023, as the main pinch point for owners will be their next refinancing, which will drive restructuring activity and deal flow.

PROPORTION OF DISTRESSED TRANSACTIONS BY YEAR*

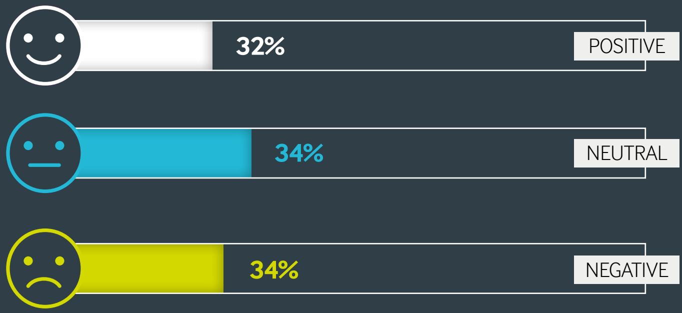


Source: Christie & Co Research and Analysis

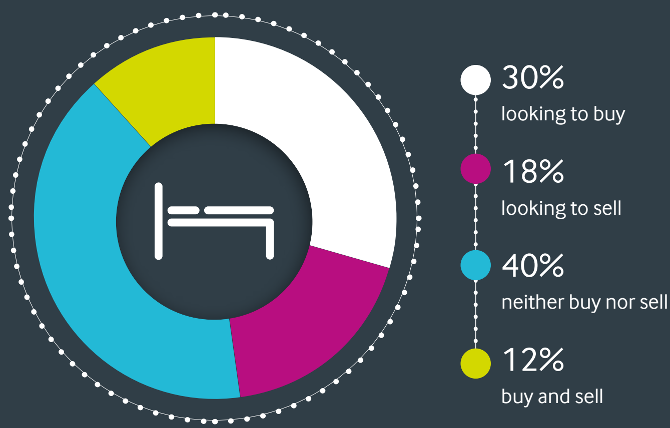
SENTIMENT SURVEY

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

When asked about their sentiment for 2023:



When asked about their sale and acquisition plans in 2023:



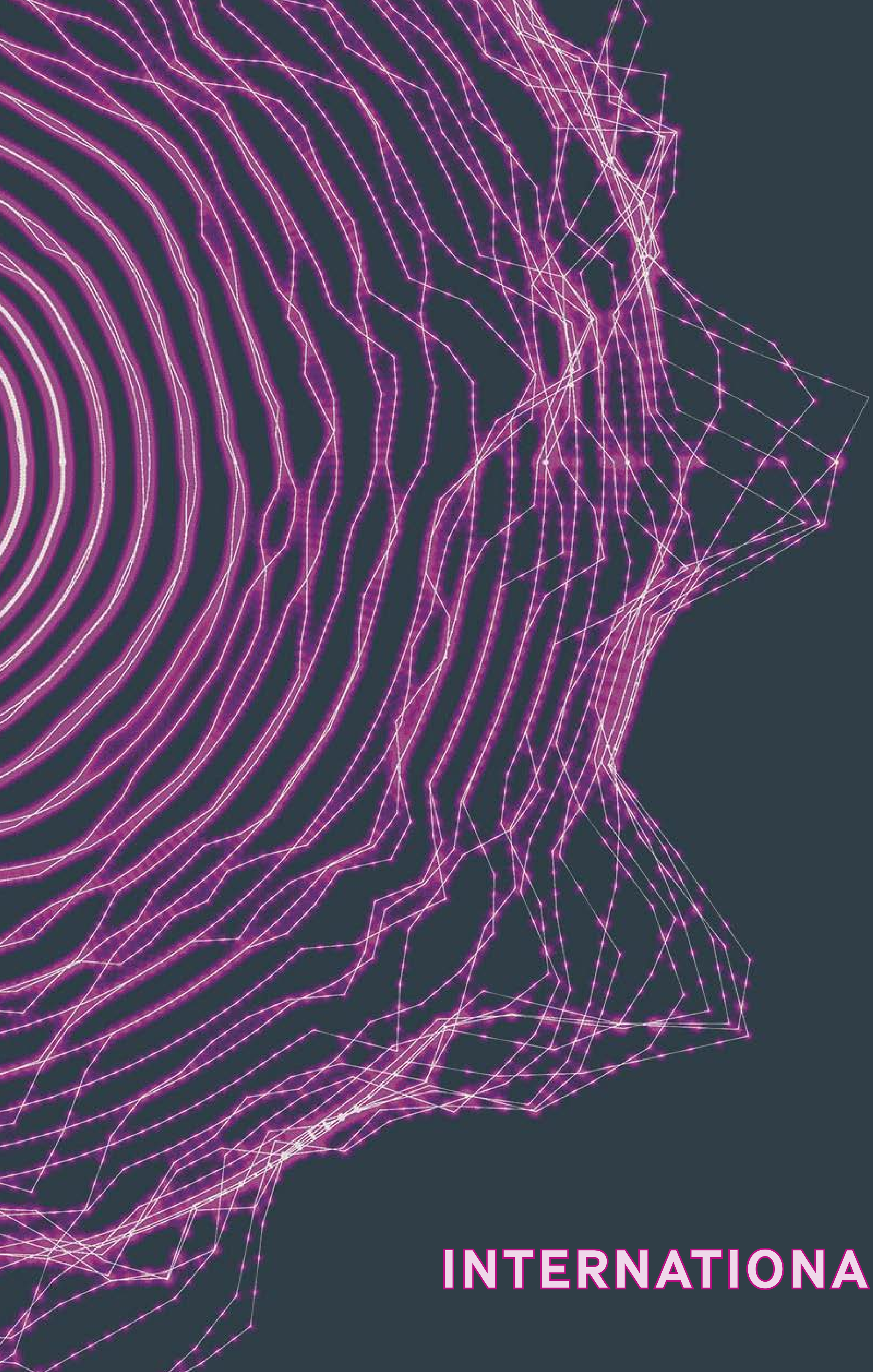
Encouragingly, the majority of respondents indicated plans to buy and/or sell in 2023, suggesting the market will remain buoyant.

THE FUNDING LANDSCAPE

The hotel funding landscape was complex in 2022 however, the recovery of occupancy levels helped to maintain lender appetite. The high-street lenders that we traditionally work with became less active and an ever-increasing number of challenger banks entered the market, with competitive terms for existing operators and new entrants.

Lenders are focused on the borrower's experience and capability of running a hotel business, favouring hotels that have bounced back well since the pandemic. Although lenders have a more cautious approach than we have experienced in previous years, there is a real focus on affordability, ensuring hotels can carry more expensive debt as base rate increases and energy bills grow. Looking ahead to 2023, it is important to ensure operators have a solid business plan demonstrating their hospitality experience.

Emma Vanson
Finance Consultant, Christie Finance



INTERNATIONAL

AUSTRIA & CEE

LUKAS HOCHEDLINGER MRICS
Managing Director
- Central & Northern Europe

SIMON KRONBERGER
Director
- Austria & CEE

MARKET PREDICTIONS

Less pandemic interferences should allow many European markets to continue their recovery to meet pre-pandemic demand figures

Strongly increasing ADR levels will compensate for higher operational costs

The lender market will be more challenging due to rising interest rates putting financial pressure on owners with high portion of variable financing, especially among Austrian private hotels, potentially leading to insolvencies

Softening yields across all markets caused by alternative investment options will impact real estate values

Growing uncertainty for ski-destinations in the Alps due to high energy costs, general climate issues, and less demand from high-spending feeder markets Russia and Ukraine

Current development on the energy market with Austria, as well as CEE, being highly dependent on Russian gas, will open gaps for new trends in travel habits especially regarding sustainability and energy saving

Opportunity for new asset-classes or hotel-like conversions such as care, senior living, or medical use

ACTIVITY OVERVIEW

In line with current market dynamics, we have seen a shift from large investment deals to smaller, mainly privately owned value-add hotels.

We have therefore adjusted our activities to support private hotel owners who own businesses that are suitable for conversions to care, residential or serviced apartment uses. In addition, the formerly empty development pipeline due to the pandemic standstill picked up again in 2021 and 2022, with some significant hotel constructions and openings expected in 2023.

This has led to an increased demand for advisory work, especially in early stages of developments, such as market and positioning studies as well as operator searches. Lastly, the strong performance of resort hotels during the pandemic has made many investors look at this sector with the aim to diversify their portfolios.

Union Investment's acquisition of a hotel at Lake Tegernsee, brokered by Christie & Co, is a prominent example and we expect this trend to continue in 2023.

The strong performance of resort hotels during the pandemic has made many investors look at this sector with the aim to diversify their portfolios.

MARKET LANDSCAPE

The overall market sentiment in Austria, as well as emerging markets in CEE, has shown a growing gap between operators and investors. While hotels in cities like Vienna, Prague, Budapest, and Krakow have seen a strong recovery in demand and record-breaking ADR levels in large parts of the region, investors have become restrained and observant of current market dynamics, caused by increasing financing costs and prediction of lowering values.

In the near future financing will be more and more connected with ESG criteria which are becoming one of the most critical factors in EU taxonomy. While the current state can be seen as 'adaption', ESG will very soon be a 'must-have' for investors to meet internal as well as external standards for investments.

From an operational perspective, top line KPIs (mainly ADR) have shown stable growth throughout the past year and are expected to grow further in the upcoming year. In 2022, most destinations were able to recover their RevPAR significantly above 2020 and 2021 levels, partly even reaching pre-pandemic levels. This has compensated operators for some inflationary cost increases, mainly in the energy and labour sector.

The pandemic and war in Ukraine have also had an impact on the labour market for hospitality. Lots of seasonal destinations have strongly relied on temporary staff from Eastern Europe. Travel restrictions, health-risks in specific winter destinations and unstable markets have reduced this workflow in Austria and the region. In addition, the share of Ukrainian seasonal workers was growing over the past years but abruptly stopped this year. A general recovery in other sectors caused many to leave the tourism industry, resulting in recruitment to become one of the main difficulties for hotels and restaurants throughout Europe. It is expected that staff shortages will also be one of the most urgent issues for 2023.

CASE STUDY

HOTEL BASSENA VIENNA KAGRAN, VIENNA

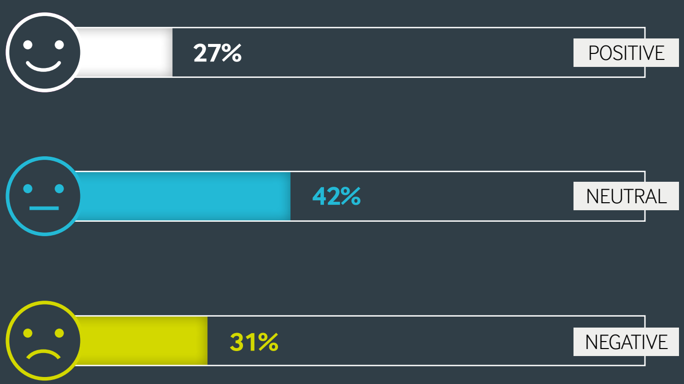
Before COVID hit Central Europe, we were instructed with the sale of Hotel Bassena Kagran by way of a forward deal. We identified a buyer, who paused due to the first lockdown in March 2020. The deal was signed in March 2022 with that same buyer at the price we agreed in 2020.

MARKET SENTIMENT

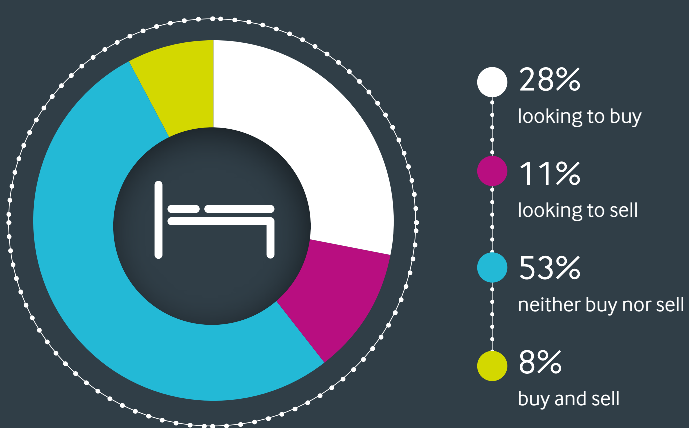
We anonymously surveyed sector professionals from across the country to gather their views on the year ahead. While the sentiment is quite balanced between positive, neutral, and negative, there is a slight tendency towards a neutral or negative position. While last year, the sentiment was more positive due to a foreseen end of the pandemic cycle, we now see that political and financial insecurities have changed perceptions.

However, this does not negatively affect portfolio strategies, where almost half of participants neither plan to sell nor buy. Over a quarter still plan to buy, versus only just over a tenth planning to dispose of assets. We interpret that, in the current state of uncertainty, real estate is seen as a consistently secure form of investment.

When asked about their sentiment for 2023:



When asked about their sale and acquisition plans in 2023:



THE NORDICS

KIMMO VIRTANEN
Director – Scandinavia, Russia and the Baltic States

> Domestic tourism will continue to drive recovery, with hotels in the provincial areas outperforming pre-pandemic levels.

MARKET PREDICTIONS

Domestic tourism will continue to drive recovery, with hotels in the provincial areas outperforming pre-pandemic levels

Assuming the war between Ukraine and Russia sets the stage for peace, currently closed airspace will re-open, and higher demand for outbound travel is forecasted. This is important for Helsinki and its airport which, before the COVID-19 pandemic, served as an important gateway between Asia and Europe

A further surge in branded hotel stock is anticipated as the Nordic region continues to remain an alluring destination for major international chains

Despite the Scandinavian hotel market being prevalent to lease agreements, there is no shortage of investors wishing to expand in the region

Rising construction and building material costs coupled with expected inflation will lead to increases in workforce payroll with more developers turning to the modular-based construction models

We expect to see a rise in select-service and apartment hotel products throughout the region. Furthermore, there are still vast opportunities in the luxury segment, e.g., Lapland

THE MARKET LANDSCAPE

With its extensive social welfare and efficient economic model, the Scandinavian region fared well throughout the pandemic compared to other European states in terms of both public health and overall economic performance.

As the pandemic fades into the background, newly emerged challenges – inflation rates and energy cost hikes – present obstacles to anticipated economic recovery.

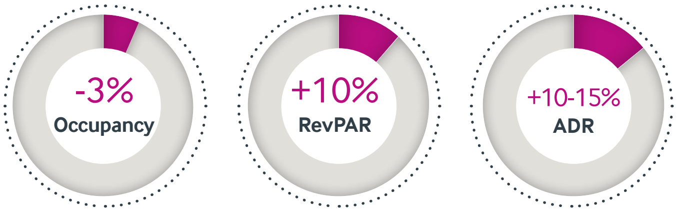
Nevertheless, over the last decades, Nordic states have created ways to become more energy self-sufficient and are endowed with ample renewable energy resources. This forward-thinking approach, coupled with energy-saving construction methods that the Nordics have long been utilising will not only help the region to better tackle these issues, but also to remain leaders in ESG (environmental, social, governance) matters. The latter is rapidly becoming a win-or-lose point in attracting a larger pool of hotel investors for acquisition and/or exit.

Tourism in Scandinavia continues to show strong signs of recovery largely driven by local and intra-Nordic demand.

Hotel overnight stays produced by locals have exceeded pre-pandemic levels with Iceland outperforming by 120% and the rest by 5-20%.

The share of foreign stays and passenger traffic to the airports of capital cities are still 10-30% below 2019 figures. We have observed distinct differences between the performance of capital markets and provincial areas. Thus, up-to-date data (YTD October 2022) provided by Benchmarking Alliance illustrate that: capital cities are 10-15% below in occupancy levels, 5-10% below in revenue per available room (RevPAR), however, 5-10% above in average daily rate (ADR) versus the same period in 2019.

The provincial market picture is a bit rosier with these indicators exceeding 2019 levels: occupancy by some -3% pp, RevPAR by +10% and ADR by +10-15%



On the operational side, the shortage of staff remains a principal issue which is further exacerbated by increasing living costs. This puts strong cost pressures on the bottom line, taking into consideration that the aggregate labour costs in Scandinavia are in the top quartile in Europe. Due to the large collective salary agreements within the region (Scandinavia has a relatively high unionised workforce), there are fears that payroll inflation will drastically increase the cost of operations and may not be met by equal opportunities to raise prices, both in hotel accommodations and restaurants. This cost rise may not be imminent but will need to be faced during the next round of collective agreement negotiations.

In the Baltic market, the escalation of the war in Ukraine had an immediate adverse impact on the travel scene of all three states (Estonia, Latvia, Lithuania). Hotel performance increased in 2022 compared to the last two years, but is still somewhat behind pre-pandemic numbers. Like the Scandinavian region, the rural areas of the Baltics performed considerably better. Year-to-date October ADR and RevPAR in secondary and tertiary destinations of Estonia, for example, grew by 25% compared to 2019, while occupancy rates were on par. Despite the less mature hotel market and proximity to Russian borders, we noticed an increasing number of regional and international investors convinced of the potential and upside of these markets. Apart from solid economic fundamentals, and improving performance indicators, there are a great number of large-scale developments emerging in the region, such as Rail Baltica, Riga Port City, and RIX Airport City to name just a few.

CASE STUDY

ARENA 3.3, FINLAND

Area 3.3 is probably the largest indoor arena-style project in the Nordic region, with a maximum capacity of 33,000 pax. Together with a proposed conference centre next door and a 310-room internationally branded hotel, it will create a major addition to the hotel and event space supply of Helsinki and Vantaa. We conducted a Feasibility Study for the hotel together with an Operator Search. We are now seeking investor(s) for the entire complex.

OUR ACTIVITY

Our recent activity has concentrated on consultancy projects for provincial market opportunities in Finland and the Baltics.

There are several developments that require conceptual tightening to counterbalance the increasing costs, both development and operational.

Furthermore, we have been assisting several developments to find the right type of operating company to maximise the earning potential and to deliver international branding/products to the market.

The transactional market is becoming slightly more fluid, as an aftermath of the prolonged pandemic period some owners have decided to sell their real estate/operations. We have sold an investment in Tallinn, have several opportunities on the market elsewhere in the Baltics, and have some operating opportunities available on the Scandinavian side.

Some of the developments that were put on hold during the pandemic have now progressed beyond attracting the right operators, and we are currently seeking investors to reach the latter stages of the development path.

> The transactional market is becoming slightly more fluid, as an aftermath of the prolonged pandemic period some owners have decided to sell their real estate/operations.

FRANCE

CARINE BONNEJEAN
Managing Director - Hotels

> Despite the first quarter of 2022 being affected by the Omicron wave, the recovery of hotel performances in France was dazzling.

MARKET PREDICTIONS

Hotels will remain a strong asset class as the resilience of the hoteliers during the COVID crisis and the V-shaped market recovery have demonstrated

In 2023, we anticipate a larger number of transactions pushed by two large upcoming events; the Rugby World Cup and the Paris Olympic Games

CASE STUDY

MERCURE LIBOURNE SAINT EMILION, LIBOURNE

In May 2022, our Bordeaux office completed the sale of the Mercure Libourne St Emilion, a 4-star property with 81 rooms, located in the centre of Libourne and in the immediate vicinity of the Saint-Emilion and Pomerol vineyards. The sale was completed in less than five months, demonstrating the appetite of investors for the region and this type of asset.

THE MARKET LANDSCAPE

Hotels across all segments, including large and medium cities, mountain resorts, Mediterranean and Atlantic coasts have achieved RevPARs above 2019 levels with historically high ADRs.

This high demand recorded during the second quarter was fuelled by domestic and European travellers and has been reinforced during the summer by international inbound tourism, such as American and Middle Eastern travellers attracted by the low euro exchange rate. The level of bookings remained high until the end of the year, confirming a V-shape recovery, in contradiction to the majority of post-COVID predictions announcing a recovery in 2024 or even 2025.

This travel euphoria didn't fall in its entirety into hotel operators' bottom line. During the second quarter, the war in Ukraine provoked a rise in energy prices and also in construction materials and other supplies revealing a level of inflation we haven't seen in Europe for many years. As a consequence, the Central Bank had to increase interest rates which is adding uncertainty to the already complex economic and geopolitical outlook.

> This travel euphoria didn't fall in its entirety into hotel operators' bottom line.

THE INVESTMENT LANDSCAPE

The first half of 2022 showed a good volume of hotel transactions in France, with €1,075 million compared with €978 million for the first six month of 2021. The volume of transaction during the third quarter seemed to slow down a little, with only €293 million in 2022, versus €322 million in Q3 2021.

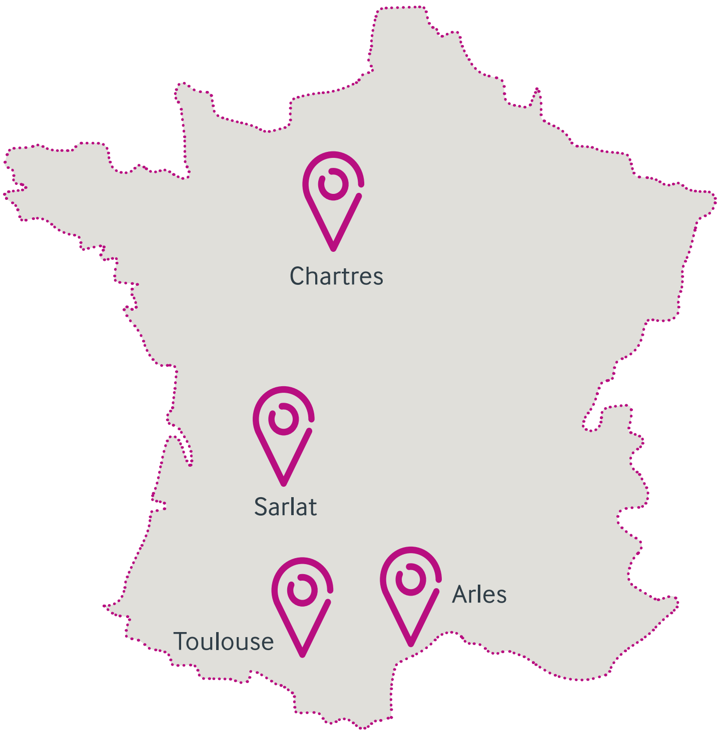
The increase in interest rates has not yet affected the appetite of the investors for hospitality investments. The demand for prime assets in Paris and French getaway cities remains high as well as economic and mid-scale regional assets which have proven the most resilient and stable during the COVID-19 crisis.

OUR ACTIVITY

The appetite of investors for hotels remains high, particularly for operators aiming to consolidate their portfolios. The best illustration of this is in the Auvergne, Rhône Alpes, Bourgogne, and Franche-Comté areas. Indeed, in 2022, our Lyon office recorded seven sales, demonstrating strong demand for the French eastern region.

We were active in the mid-range or economy segment, with an investment volume of €24 million, across 405 rooms, and of €37 million in the upscale segment, with sales of properties in Arles, Chartres, Sarlat, and Toulouse.

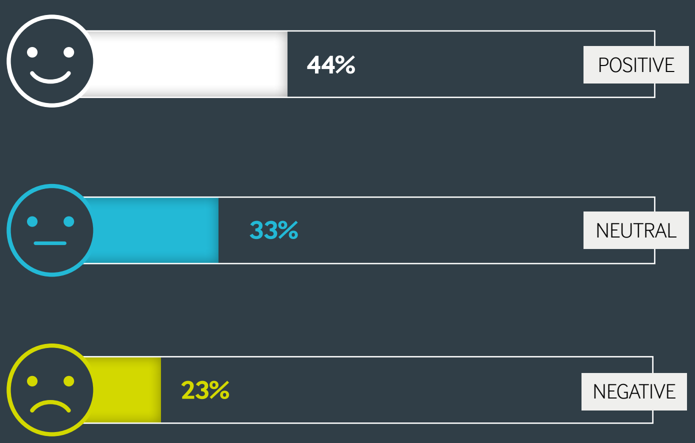
Another good example of this market activity is the sale of the Hôtel de France in Valence, a 4-star hotel with 50 rooms located in the heart of the city which will be fully renovated to join the upcoming brand You Urban Home Hotels collection, which opened its first hotel in Deauville in 2021.



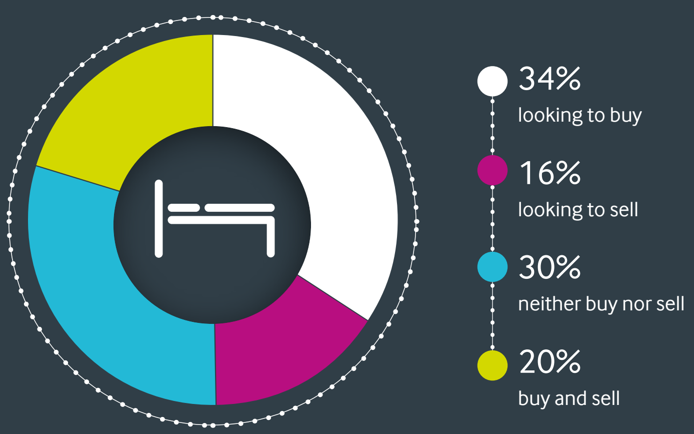
MARKET SENTIMENT

Our market sentiment survey confirms the trends we observed during the third quarter of 2022; that there are more buyers than sellers despite the economic conjuncture and there is an overall positive sentiment due to the good results of the last eight months.

When asked about their sentiment for 2023:



When asked about their sale and acquisition plans in 2023:



SPAIN & PORTUGAL

NICOLAS COUSIN
Managing Director
– Spain & Portugal

The overall picture is still positive for hoteliers and most of them feel reasonably optimistic for the coming months.

MARKET PREDICTIONS

We expect demand to remain strong in the leisure segments and prices to stabilise after a year of important growth. Coastal destinations will likely see another successful summer season

Corporate and MICE demand will continue to recover and should be close to 2019 levels by year end. Most destinations will see record RevPar performance

Luxury brands will keep opening at a strong pace in top destinations like Madrid, Barcelona, Marbella, and the Balearics

We will see intense demand for hotel franchising and operators' searches

On the transaction side, we expect a "wait and see" period in the first quarter of the year due to interest rate rises, difficult access to financing, and good business on the books for the operators. The situation will eventually evolve and should lead to strong transactional activity in the second part of the year when loans and state help will need to be reimbursed and when investors who bought in 2017/2018 start to implement their exit strategies

ACTIVITY OVERVIEW

For Christie & Co Spain and Portugal, 2022 was a pivotal year with a very strong performance from the investment team, with more than 10 operations completed during the year and four successful operators searches in Spain and Portugal.

Our advisory team has also been very active, with more than 50 assignments completed which included Commercial Due Diligences, Feasibility Studies, Asset Valuations.

In 2023, we are expanding the team in order to keep providing our clients and partners with best-in-class services.

CASE STUDY

EXPLORER INVESTMENTS, LISBON

In 2022, we successfully assessed Explorer Investments, a private Portuguese equity fund, to sign a franchise with Intercontinental Hotel Group under the Crowne Plaza brand for the Aldeia dos Capuchos Golf & Spa, located 15 minutes away from Lisbon.

THE MARKET LANDSCAPE

2022 was a year of contrasts and challenges. On the one hand, we noticed the return of international travellers and confirmation of the strength of local demand, while, on the other hand, the international situation is more complex than ever.

COVID-19 is still around and inflation is reaching historical levels in Europe driven by utility costs and political instability in Europe.

These elements have led to an interesting situation where operational performances have reached record levels driven by both ADR and occupancy uprises. Although P&Ls have been impacted by increases in both staff and utility costs, the overall picture is still positive for hoteliers and most of them feel reasonably optimistic for the coming months, especially considering that some markets markets, including the USA and Asia, are not back yet.

We have noticed that the energy costs rise has drawn a lot of attention towards sustainability and efficiency and that both operators and owners are seriously working on this topic.

This optimism will be questioned if energy costs remain out of control and if the labour situation continues to deteriorate with difficulties to find qualified employees in some destinations.

On the transactional side, the first three quarters of the year were exceptionally active with transactions reaching more than €2 billion in value.

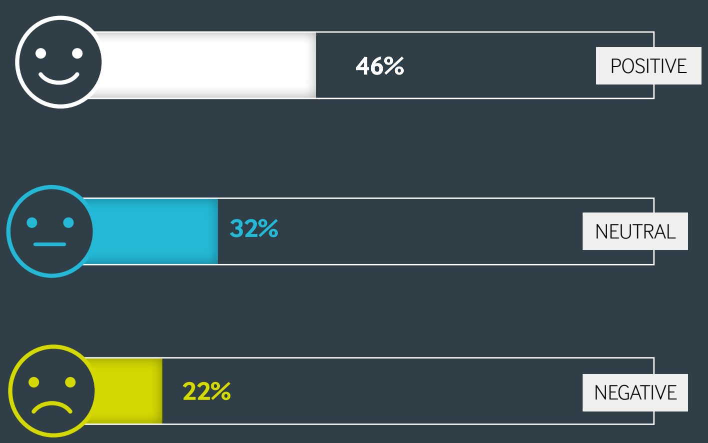
We noticed a clear pause in the last quarter of 2022. The rise in interest rates is clearly a concern for investors as their required profitability is increasing while asking price remain stable. Most investors adopted a "wait and see" attitude and some operations have been put on hold or discarded recently, waiting for vendors to reconsider asking prices.

All these elements will lead us to an interesting 2023, where we expect operational performance to remain strong and where sellers and buyers to get closer after the first quarter.

MARKET SENTIMENT

We anonymously surveyed sector professionals from across the country to gather their views on the year ahead.

When asked about their sentiment for 2023:



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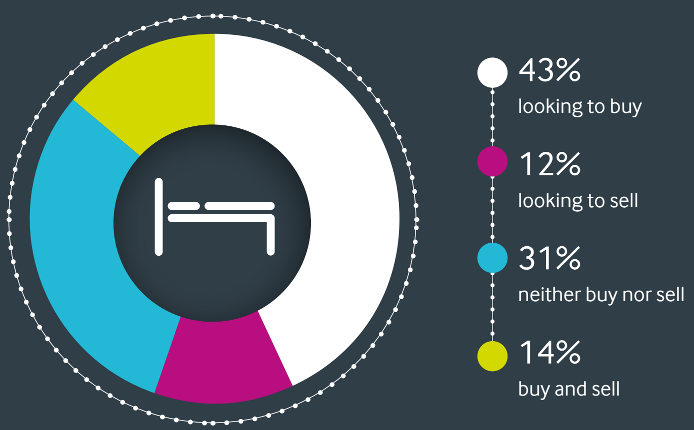


Results of the survey demonstrate confidence and resilience in the market, with about two thirds of the respondents feeling either positive or neutral.

Another key takeaway of the survey is that most stakeholders are planning on continuing being active in the transactional market either as buyer or seller.

GERMANY

LUKAS HOCHEDLINGER MRICS
Managing Director
- Central & Northern Europe

BENJAMIN PLOPPA
Director
- Head of Hotels Germany

MARKET PREDICTIONS

The general volatility of hotel investment markets seen in 2022 will go into "extra time" in 2023 due to a variety of reasons including a negative macro-economic outlook, declining real wages, high inflation and lower consumption

Hotels will struggle to cope with inflation, high energy costs and talent shortages, limiting their ability to be profitable

Despite the negative macro-economic trends, we expect ADRs to remain strong and increase further in 2023 in most key cities, especially for business hotels. Certain hotels will be able to compensate the higher operating costs

The additional difficulties and challenges for operators as well as higher interest rates will lead to more hotel owners being motivated or forced to sell their hotels later in 2023. Whether their pricing expectations meet the investors' view of values remains to be seen

MARKET LANDSCAPE

We have noticed a big divide between the reported operational KPIs on the one hand and the investment market on the other hand over the last year. Pent-up demand and 'revenge travel' led to increasing ADRs and occupancy rates across the country in 2022, but hotels struggled and are still struggling to find enough staff to serve their guests. However, political uncertainty, soaring inflation and energy costs as well as high interest rates, have put a break on investors' appetite to buy hotels now. Nevertheless, transactions are still taking place, with all-equity buyers and owner-operators being in a favourable position.

As there is no real systemic issue with the hotel sector itself, products and concepts are evolving, partially accelerated by COVID and the energy crisis, with owners and operators trying to be more competitive and meet today's and future travellers' needs.

One clear trend is focused on digitalisation, which ranges from easier, better and more targeted bookings to an enhanced digital hotel stay experience to meet the guests' desires, but also reduce payroll and operating costs.

The lack of greenfield plots will further increase mixed-used assets as modern urban developments combine living, working, shopping, fitness, gastronomy, leisure and even education. From an investor's perspective, round-the-clock use of an asset with multiple usages can increase returns and, at the same time, mitigate risk.

Another trend is conversions, again as a result of the lack of suitable development sites. Developers are increasingly looking for assets that could be converted into hotels or mixed-use properties. However, it is not just hotel developers that are looking to convert office buildings, schools, or other assets such as prisons and warehouses, real estate developers are increasingly interested in buying hotel real estate to open senior homes or transform assets into residential units.

ESG will become a central component of each hotel investment; EU-Taxonomy/ESG has to be implemented more thoroughly, otherwise hotels will be sold at discounts.

OUR ACTIVITY

2022 was a good year for us, with various sales of independent hotels as well as larger corporate deals.

Examples include the sale of Euro Park Hotel Hennef (78 rooms) sold to a local hotelier in a four-month sales process, as well as Forsters Posthotel Donaustauf (73 rooms) bought by the French investor ExtendAM together with owner operator somnOO. The sale of Moxy/Residence Inn Hamburg Altona (264 rooms) and Hotel Caro & Selig Tegernsee Autograph Collection (126 rooms), both bought by institutional investors, underpin the continued interest in the hotel asset class from institutional buyers.

In 2023, we predict that conversions will play an increasingly important role in the transactional market. Through search mandates, we are supporting hotel groups with the expansion of their portfolios while explicitly looking for suitable properties (office, retail, residential) that can be converted into hotels.

CASE STUDY

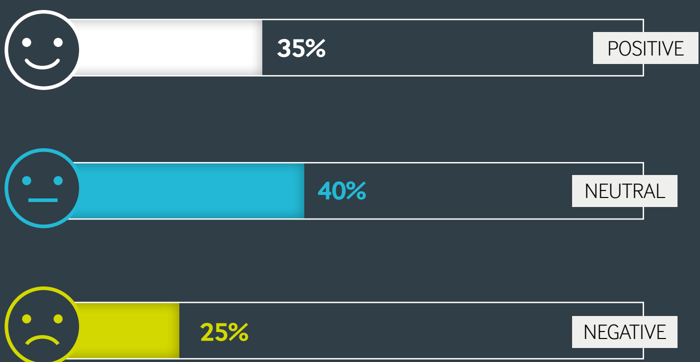
RESIDENCE INN/MOXY, HAMBURG ALTONA

Sale of the newly built Hamburg Residence Inn/Moxy on behalf of a German developer. The hotel opened during the pandemic within a new neighbourhood development in Hamburg Altona. The challenge with this transaction was a deteriorating macroeconomic outlook and increasing interest rates. We successfully identified a European institutional investor as a buyer for the hotel.

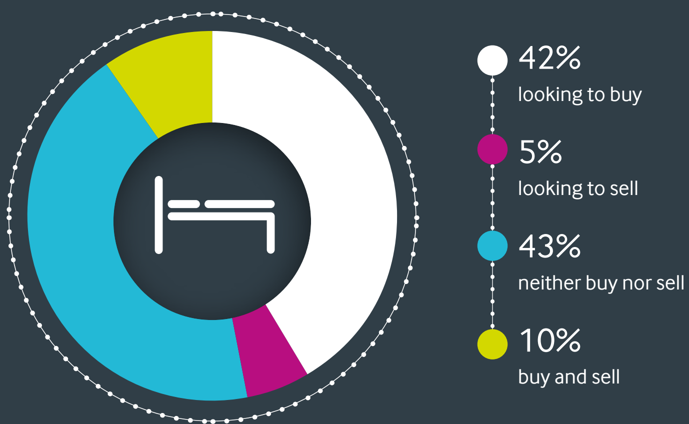
MARKET SENTIMENT

We anonymously surveyed sector professionals from across the country to gather their views on the year ahead.

When asked about their sentiment for 2023:



When asked about their sale and acquisition plans in 2023:



The overall sentiment underpins the continued confidence in hotels as an asset class. Despite the additional difficulties and challenges for operators over two thirds of respondents have a positive or neutral sentiment about the year ahead and confirms the resilience of the industry after its above-average recovery during the summer.

The sentiment furthermore shows that investors are still motivated (42%) to purchase assets.

Challenges for the year ahead are therefore the number of available assets on the market, with only 5% willing to sell in the current market environment. A reason for the retrained behaviour could be the difference between the expectations of the seller as well as the buyer. Whereby investors hope to get hold of bargains, sellers are not ready to reduce the price as several hotels had a strong 2022.

CHRISTIE & CO