Sep | 2022

Research Hotels & Hospitality

Global hotel investor sentiment survey

Global investor profile

52% private equity, institutional investors, and investment fund entities

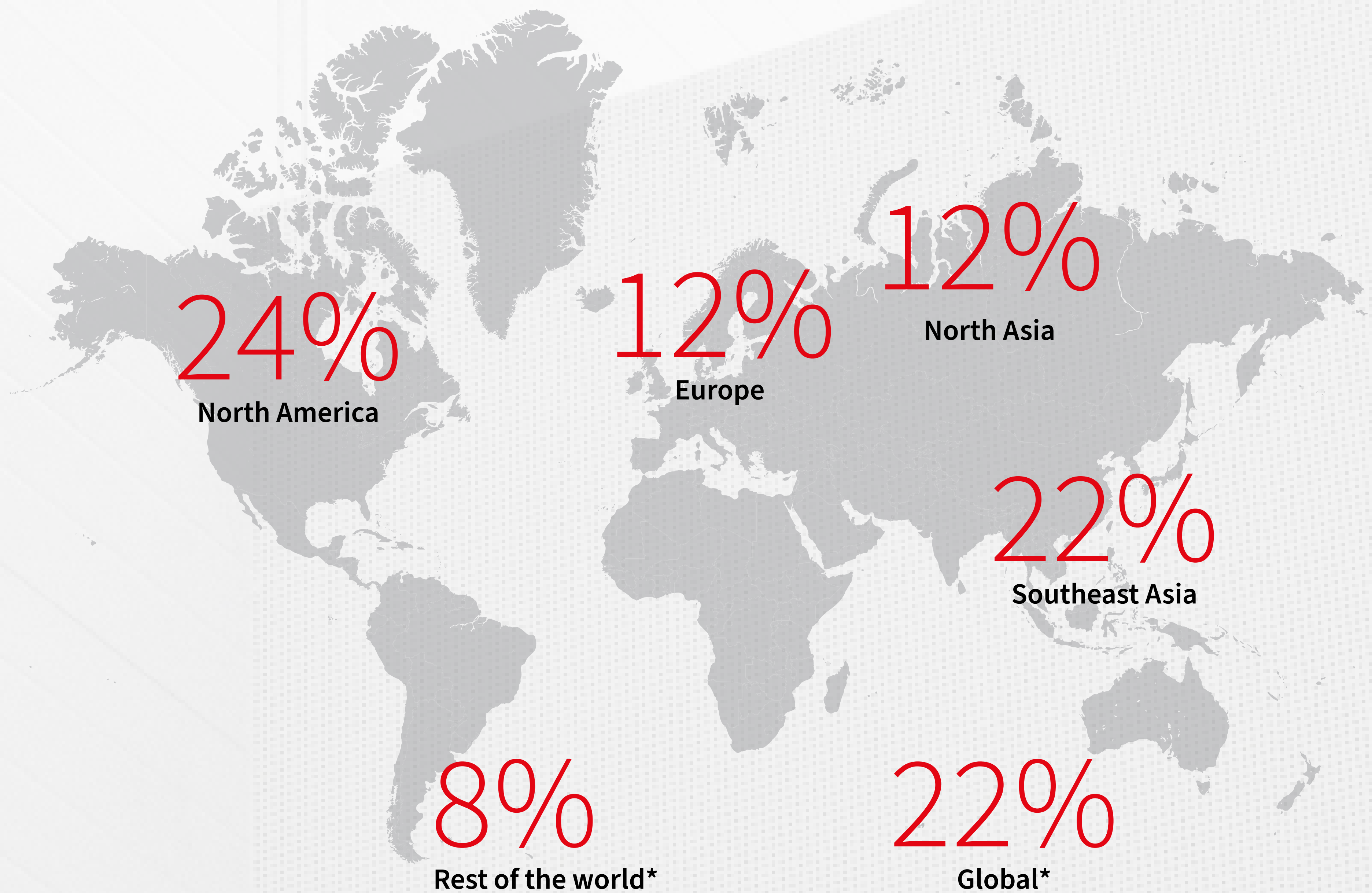
26% developers

15% hotel operators

5% sovereign wealth funds, corporate venture capital

2% REITs

Regions typically sourced for funds



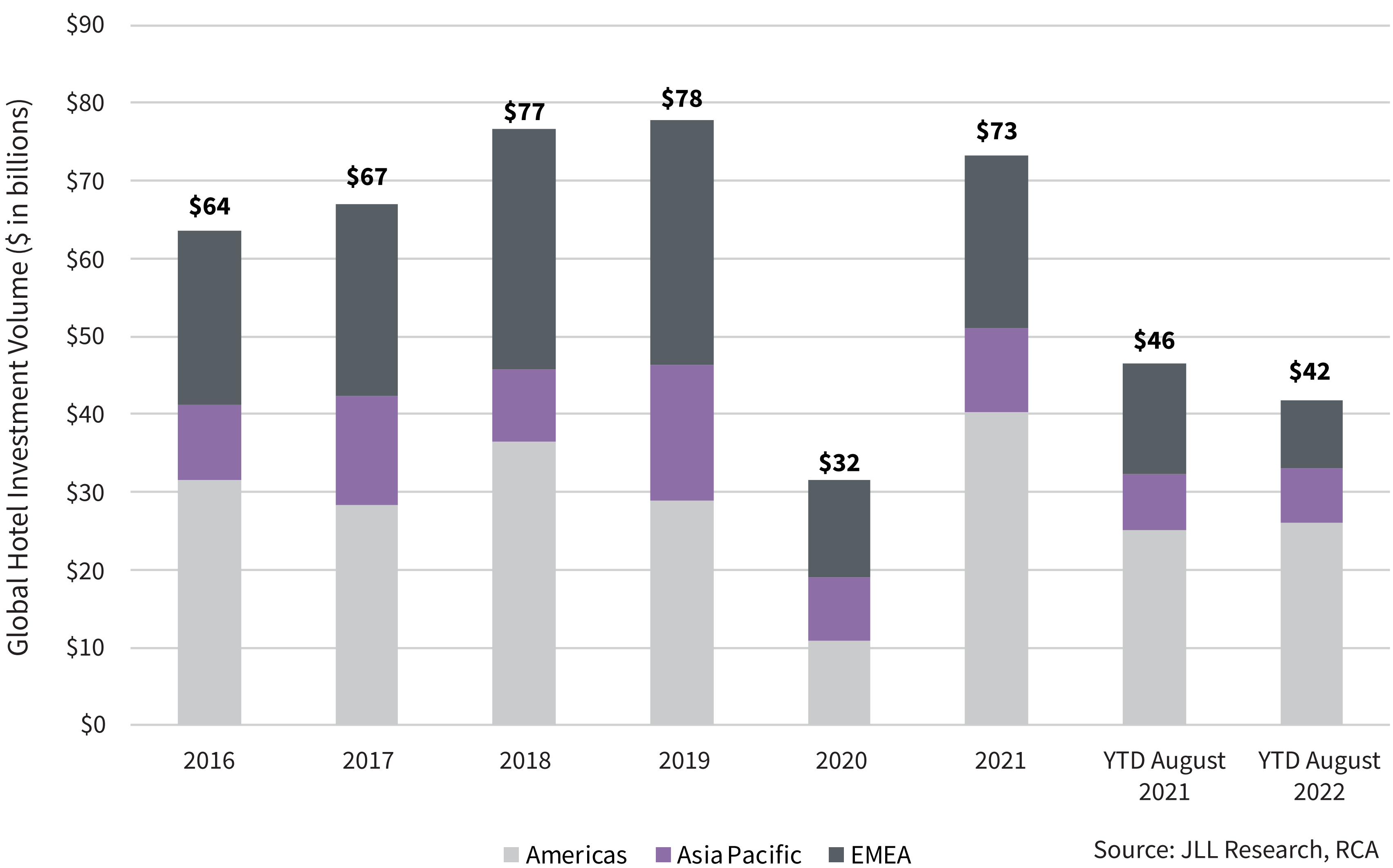
*Rest of world pertains to funds sourced from emerging countries.
Global pertains to funds sourced from across the world.

Global hotel investment activity resilient despite economic uncertainty and a staggered regional market recovery

Global hotel investment activity YTD August 2022 reached $42 billion, representing a moderate decline in sales volume of 10% year-over year. This level of sales volume is also 10% down relative to the same period in 2019. The level of activity observed during the first eight months of 2022 was primarily driven by an extraordinary boost in Q1 transaction volume resulting from The Blackstone Group and Starwood Capital Group's acquisition of WoodSpring Suites for $1.5 billion and Highgate Holding's $1.5 billion acquisition of CorePoint Lodging's 124-property portfolio, both of which occurred in the Americas. The Americas accounted for over 60% of total global hotel investment volume YTD August 2022, as the region benefited from robust demand levels following the end of all testing and quarantine travel restrictions for domestic and international visitors. Activity across APAC and EMEA remained more subdued given ongoing COVID-19 related travel restrictions and the devastating Russia/Ukraine war.

Given the current disconnect between strengthening lodging fundamentals across most regions and global economic uncertainty, JLL decided it would be an appropriate time to survey global hotel investors to further understand their evolving investment appetite, expectations around the industry's recovery timeline, and industry outlook. Major takeaways from our Global Hotel Investor Sentiment Survey (HISS), include:

Global hotel investment volume 2016 - YTD August 2022



Source: JLL Research, RCA

Major takeaways

20%

of investors responded that they would be looking to deploy between $501 million to $1 billion+ worth of capital into the hospitality sector, up from 7% of investors in 2021. This is the highest proportion of investors wishing to deploy this level of capital since the pandemic started.

82%

of investors indicated that they are targeting value-add investment opportunities.

Nearly 80% of investors revealed that they will be net buyers in 2022.

57%

of investors expect the best investment opportunities over the next 6 months to emerge across more traditional hospitality property types, including full-service and select-service hotels.

London, Tokyo and Boston emerged as the top three markets for hotel investment in this year's survey, pointing to the resurgence of investor interest in urban markets.

Over the next six months, 35% of investors expect average yields to expand 50 bps or more.

Access to the debt capital markets may present a challenge in consummating transactions, with 55% of hotel investors indicating that they expect their all-in cost of debt to increase 50 to 100 bps relative to the beginning of the year.

High inflation coupled with uncertainty surrounding lodging demand's full recovery are the top two biggest challenges investors indicated facing in today's environment.

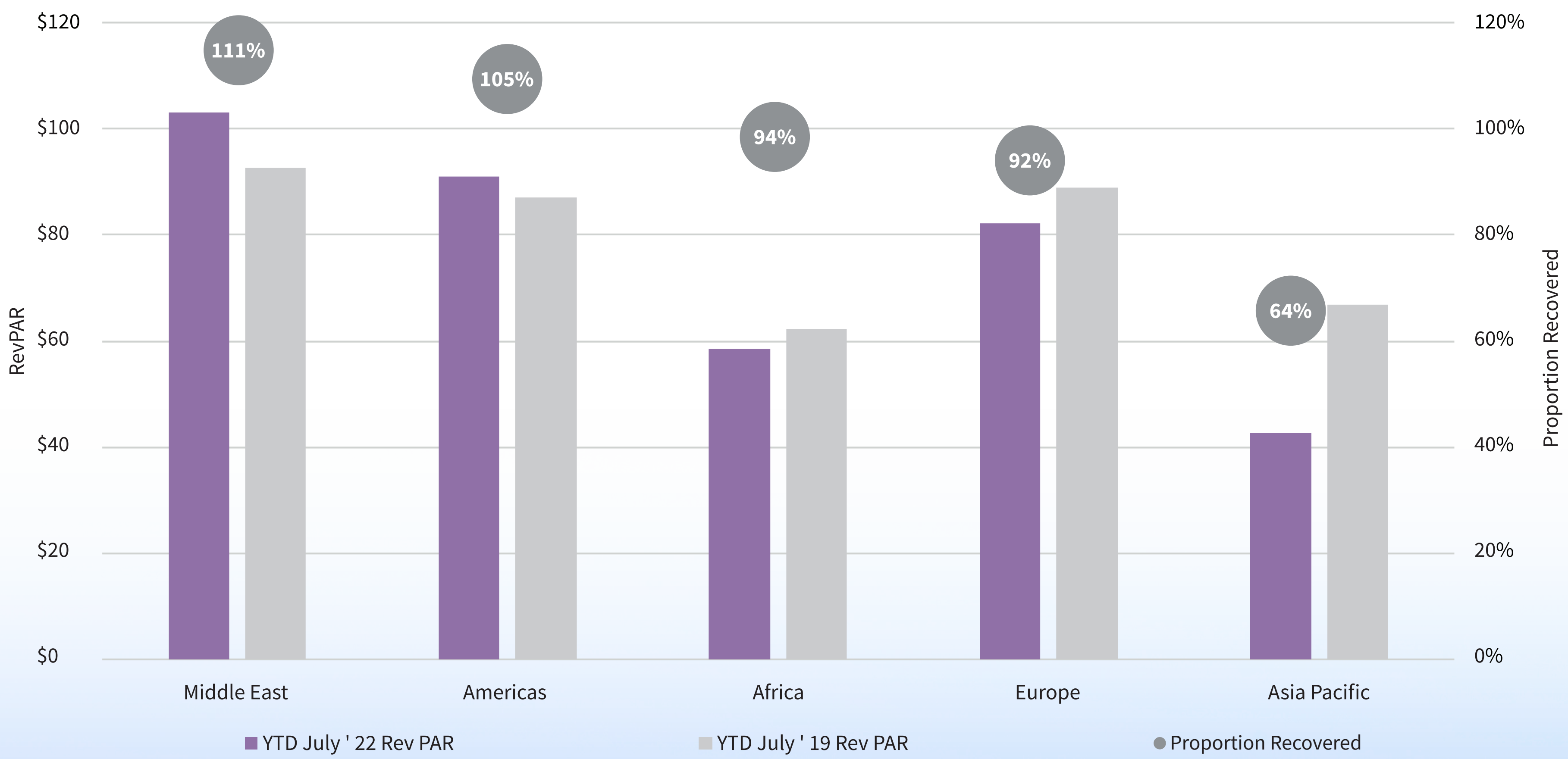
Hotel investment appetite strengthens as fundamentals continue to recover

Investors expressed a renewed sense of optimism surrounding hotel investment activity, as evidenced by their higher expected acquisition levels. In fact, in the most recent survey administered, 20% of investors expect to spend $501 million to $1.0+ billion on acquisitions in 2022, up from 7% and 16%, respectively in each of the previous two years. While the improvement in investor sentiment is encouraging, these proportions remain significantly below pre-COVID sentiment, when 60% of investors surveyed indicated that they would spend more than $500 million on hotel acquisitions.

Nevertheless, JLL expects hotel lodging fundamentals to continue recovering at a strong pace given the significant pent-up demand for travel and experiences, albeit the pace of recovery will vary by region. This coupled with increasing proportions of corporate and group demand will help drive the recovery to new levels. Moreover, as broader global economic volatility wanes, we expect investor sentiment to improve with transaction activity picking up in the medium term.

82% of investors targeting value-add investments

RevPAR recovery analysis by region

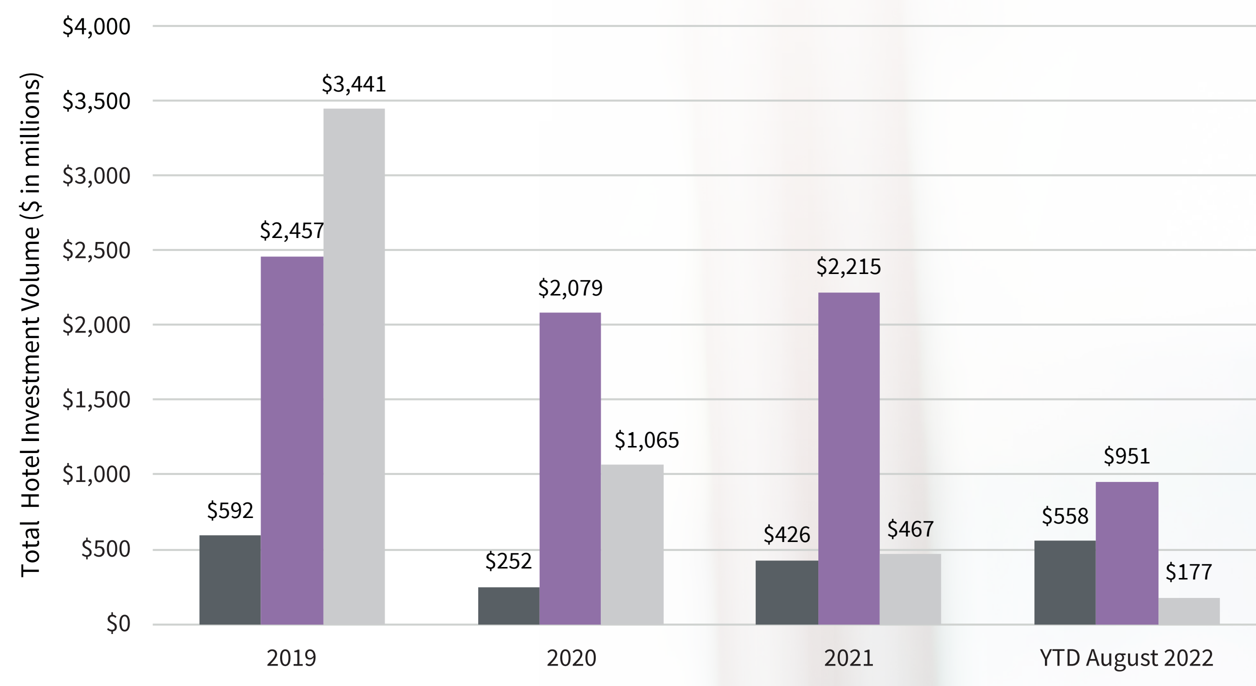


Source: JLL Research, STR

London, Tokyo and Boston emerge as top-three target markets for hotel investment

As investors look to deploy an increased level of capital towards hotel assets, London, Tokyo and Boston emerged as the top markets for hotel investment in this year's survey. London continues to reign as a renowned global gateway market, demonstrated by its relatively stable level of hotel investment activity above $2.0 billion annually, in each of the past three years. The market's performance recovery accelerated following the lifting of several COVID-19 related restrictions, with RevPAR reaching record highs in July at $227, attributable to strong rates exceeding $268 coupled with a solid rebound in demand. London's recovery is expected to see greater momentum during the remainder of 2022 and in to 2023 – notwithstanding airport disruptions – as a weak sterling against the dollar is set to attract overseas visitors from major international source markets, including the U.S. and the Middle East.

Investor surveyed top - 3 markets for investment in 2022

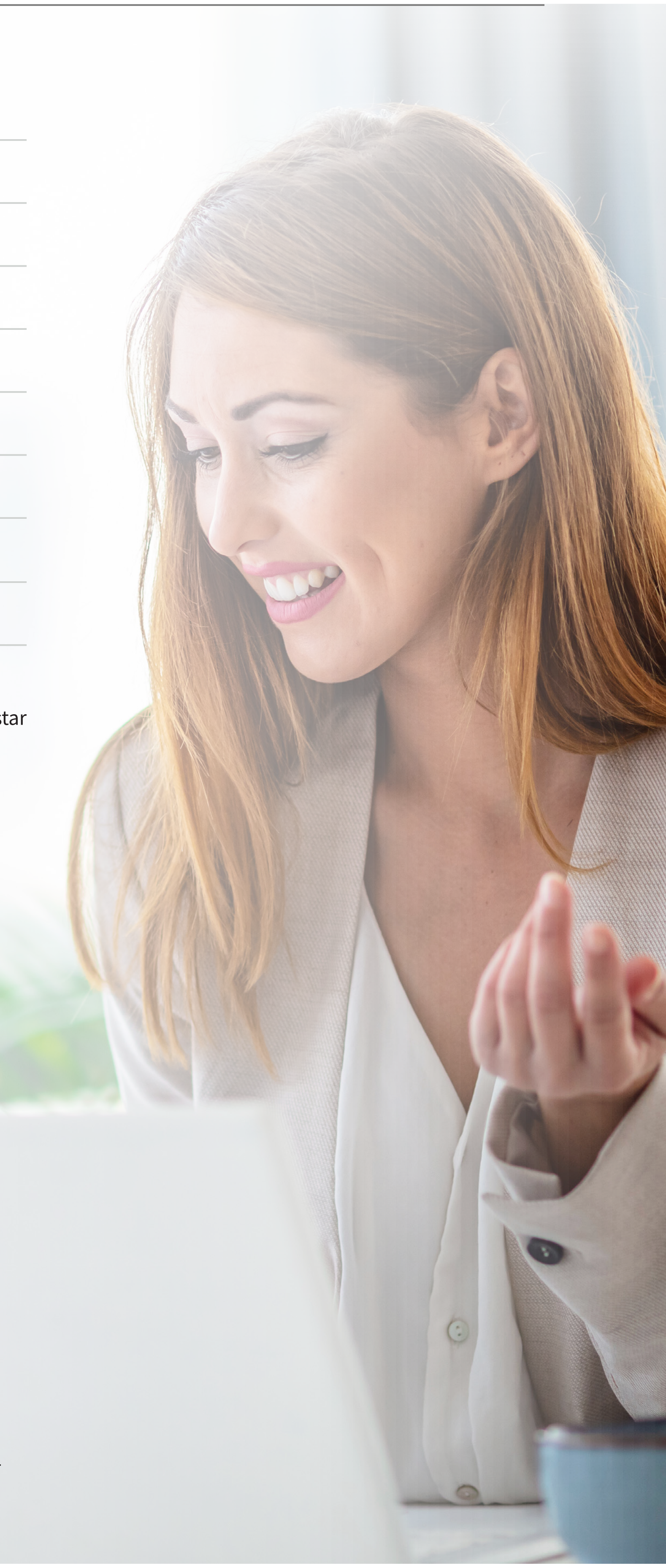


Source: JLL Research, RCA, Costar

Tokyo's market is observing green shoots in performance in 2022, albeit it is recovering at a slower pace than the aforementioned markets due to ongoing border control restrictions. Nevertheless, the primary catalyst behind Tokyo's recovery is high levels of domestic demand. Room-nights sold as of YTD July 2022 grew 66% relative to the same period in 2021, with the upscale hotel segment accounting for the highest growth. RevPAR for the overall market totaled $54.11 YTD July, which represents a 45% increase relative to the same period in 2021. Tokyo's slow recovery is hindering investment activity, but investors are encouraged by the market's long-term upside. The market is set to outperform greater Japan in terms of population and economic growth over the next five years, which should encourage greater strength in lodging demand fundamentals. Muted supply growth over the next two years – CAGR 0.9% - will further Tokyo's performance recovery. Moreover, the depreciation of the JPY versus the USD by nearly 20% will attract foreign investment in the market in the near-to-medium term.

78%

of investors will be net buyers

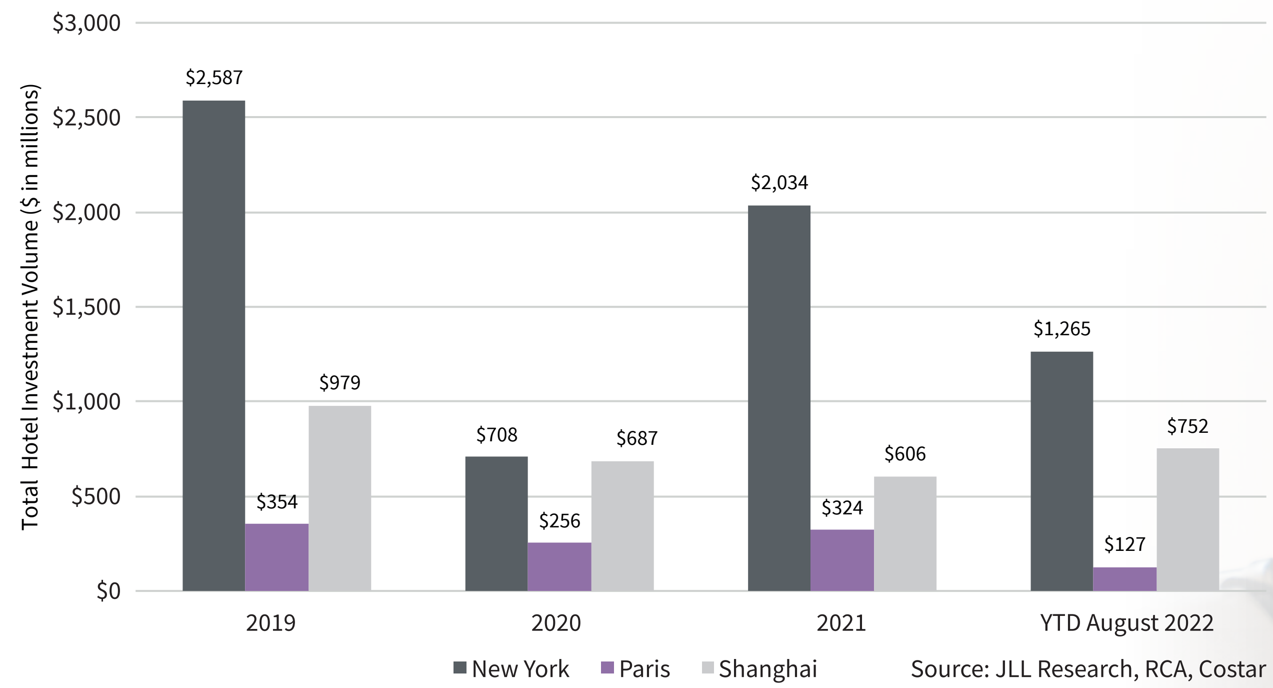


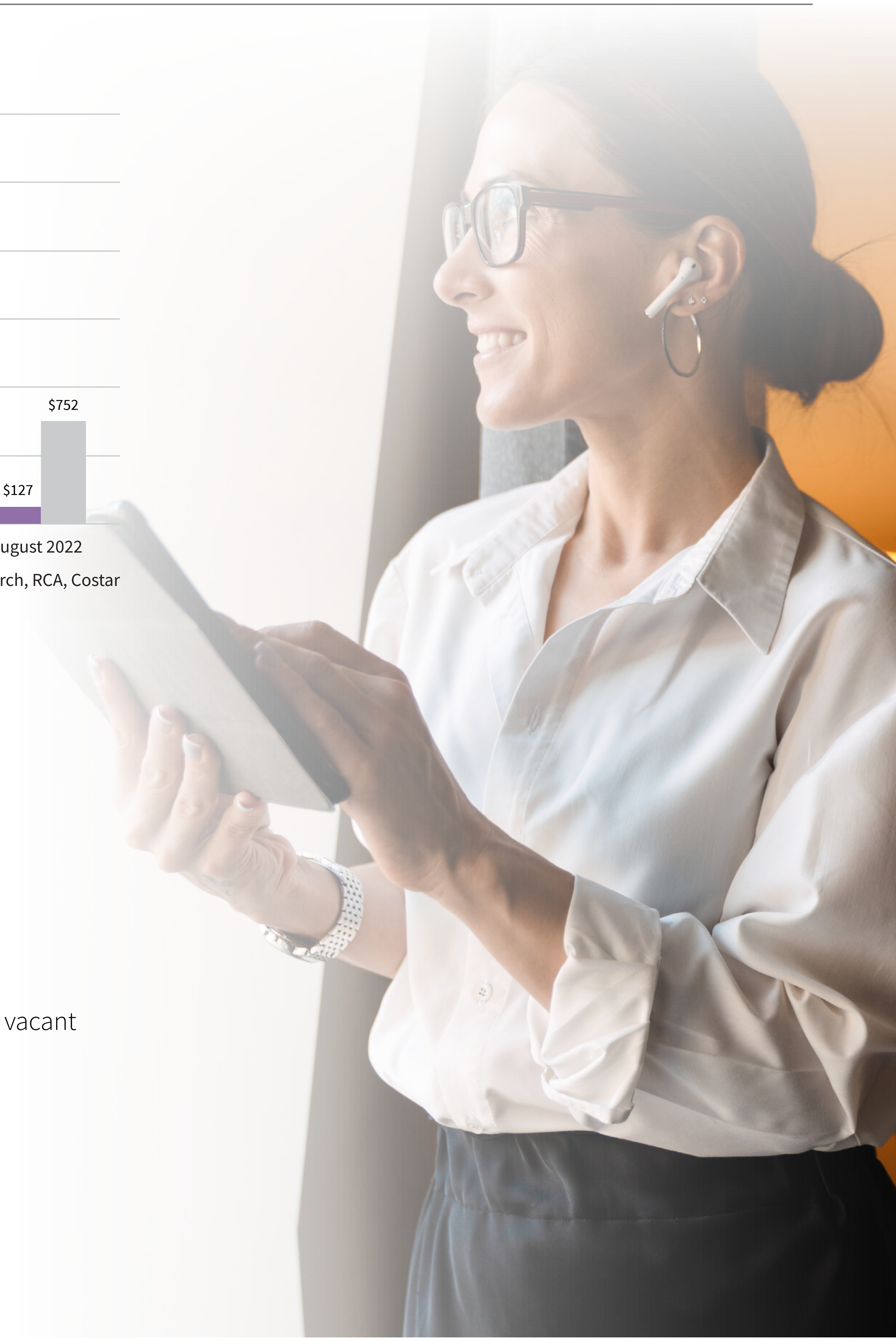
Investor interest in Boston is spurred by the market's improved operating performance, supported by increasing leisure visitation, convention conferences and some corporate travel. Boston has also benefitted from a burgeoning life sciences sector, further driving the market's economic diversity. As evidence, performance in 2022 has improved each month, with the market achieving 78.1% occupancy in July, the highest since the start of the pandemic. Further, Boston's YTD July 2022 RevPAR was 90% recovered relative to the same period in 2019. Higher quality stock entering the market, including the Raffles Boston Back Bay, will help elevate the rate ceiling in the market, which bodes will for continual RevPAR recovery. Investors' long-term confidence in Boston is evident in the market's investment activity with YTD August 2022 volume already surpassing full-year 2021 volume. Moreover, this level of activity makes Boston the 17th most liquid market globally under the analyzed period, an impressive feat considering the market is home to approximately 63,000 rooms, less than half the number of existing rooms in London and Tokyo.

New York, Paris and Shanghai poised for increased transaction activity

Investors indicated that the top-three markets they would divest hotel real estate assets, include New York, Paris, and Shanghai. While New York is seeing increasing momentum behind its recovery, occupancy in the market remains 17.2% below 2019 levels, which is keeping RevPAR suppressed despite rates being approximately 8% higher over YTD July 2019. The higher cost of doing business in New York – unionized labor, state taxes, and higher wages – relative to Sun Belt markets, could be motivating investors to dispose of assets in the market. Across Paris, performance to-date is above 2019 levels from a RevPAR and rate perspective. Improving fundamentals coupled with a lack of quality product available for sale is motivating owners to consider putting their hotels on the market, as these dynamics may encourage buyers to meet their pricing expectations. In Shanghai, performance remains significantly challenged given COVID-19 related restrictions being enforced across China. YTD July 2022, RevPAR was down approximately 33% relative to 2021 and down 44% relative to the same period in 2019. Hotel owners that are struggling to remain cashflow positive after two years of a challenging operating environment may be looking to exit their positions.

Investor surveyed top - 3 markets to divest in 2022





Nearly

60%

of investors expect the best investment opportunities to emerge across full-service & select-service hotels over the next six months

34%

of investors are targeting vacant possession or unencumbered hotels

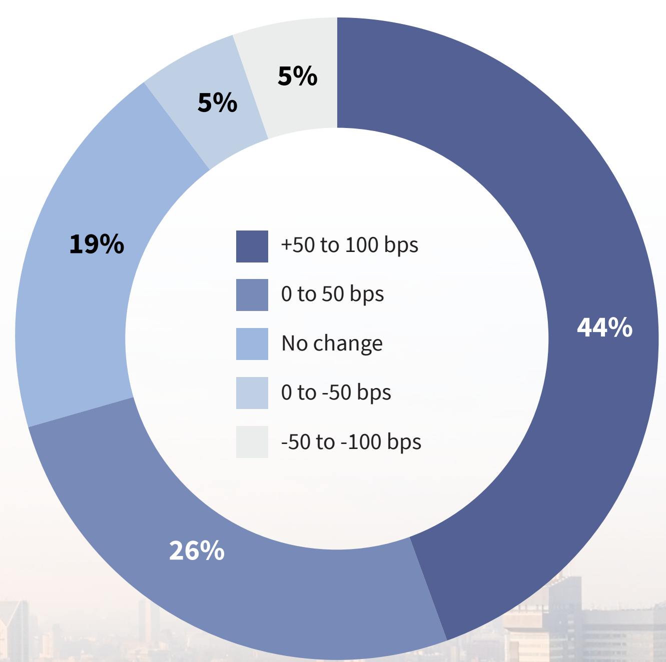
Global investors expect cap rates to expand, with the majority anticipating at least a 50-bps increase

It is true that global lodging fundamentals have turned a corner in 2022, as a result of increasing demand from leisure, group, and even business travelers but the operating environment still remains volatile. Across the Americas and EMEA, surging inflation has resulted in rising interest rates and additional economic tightening measures. In Asia Pacific, China and Japan are reversing interest rates to stimulate their economies. The overall region's recovery continues to be dampened by China's restrictions surrounding COVID-19. All in all, investors are accounting for these risks with expectations for higher cap rates over the next six months.

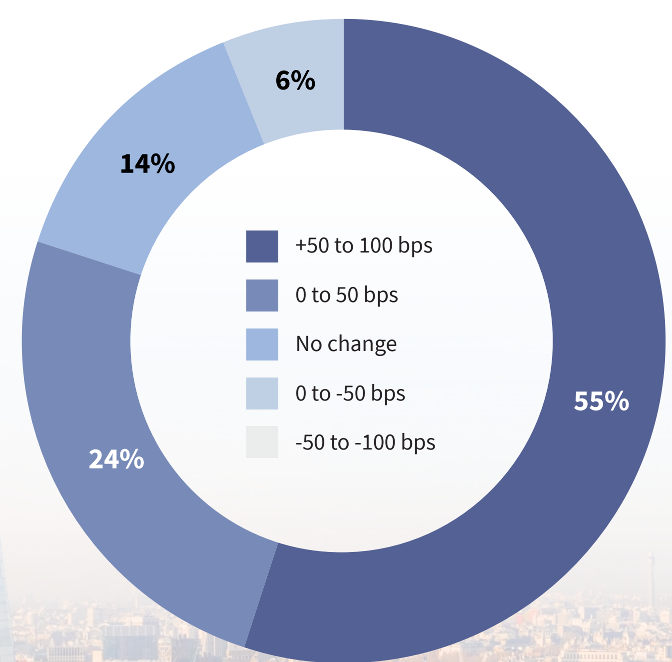
Investors expect cost of debt to rise relative to the beginning of the year

While investor sentiment has improved significantly in the first six months of 2021, approximately 43% of hotel investors surveyed indicated that for existing or new acquisitions, their access to debt financing compared to pre-COVID-19 is weaker. Additionally, those who can access debt noted that their all-in cost of debt has changed relative to pre-COVID-19, with 70% of those surveyed experiencing some level of increase in pricing.

2021 Expectations for change in all-in cost of debt



2022 Expectations for change in all-in cost of debt



Top three challenges in navigating the Hotels Capital Markets

While hotel investors are closely monitoring the RevPAR recovery profile of their hotel portfolios, many are also aware of the broader challenges in the market that will impact the sector's performance and overall liquidity. In this year's survey, investors/owners/operators indicated that the top-three challenges they are facing in navigating the hotels capital markets, include:

1	2	3
High inflation	Uncertainty surrounding demand's full recovery	Cost of capital/ Geopolitical issues

Nearly

57%

of investors expect distressed hotel activity in their regions to pick-up in 1-2 years

Final thoughts

Over the past year, the lodging industry has made tremendous progress towards a full recovery. The pace at which group and business demand is returning in most parts of the world is encouraging and unexpected, which will help boost demand levels to new heights. Broader economic headwinds, including concerns of a recession in the U.S., the ongoing Ukraine/Russia war in Europe – and the impact the conflict will have in the coming winter months - growing geopolitical tensions between the U.S. and China, coupled with supply chain disruptions exacerbated by China's zero-COVID tolerance policy, will undoubtedly impact the global lodging industry.. With that said, the disconnect between the strength in current fundamentals and economic volatility suggest that the industry will remain resilient, even if the recovery becomes more protracted. Hotel owners, investors and operators that remain nimble will better weather the storm and identify opportunities to drive value for their hotel portfolios.

About the survey

JLL's Hotel Investor Sentiment Survey is the only truly global survey of its kind and has been referenced by the global hotel investment community since its inception in 2000. Responses for JLL's most recent survey were collected From July to August 2022. This survey represents a compilation of 7,800+ data points from hotel investors on future hotel operating performance expectations, yield requirements and future cap rate trends.

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