Global | January 2022

Research Hotels & Hospitality

Global Hotel Investment Outlook

Lodging demand elevated to unexpected heights

Executive summary

The global lodging industry demonstrated its resilience in 2021, following the drastic and immediate shock demand observed in 2020 with the onset of the COVID-19 health crisis. Increasing vaccination rates, tremendous amounts of government economic stimulus, coupled with lockdown fatigue elevated lodging demand to unexpected heights, helping accelerate the industry's recovery. At year-end 2021, the proportion of RevPAR recovered relative to 2019 by region ranged from 50% to 79%, with the Americas leading the way. That said, performance was uneven with markets heavily dependent on business and group demand more slowly progressing towards a full recovery than markets reliant on leisure demand. Similarly, markets that historically relied on international demand faced greater challenges than those dependent on domestic demand.

In 2022, the make-up of demand and the progression of the recovery will continue to be top of mind for hotel owners, operators, and investors. Additionally, the industry will have to navigate operational hurdles brought on by labor shortages, rising inflation, supply chain issues and the impact on service levels given the difficulties operating in such an environment. With ESG evolving beyond corporate statements, sustainability will also be a key focus as failure to commit to both short and long-term sustainability goals have the potential to decrease asset value, increase operational costs, and discourage consumer demand. Furthermore, the lodging industry will have the opportunity to capitalize on the growing trend of "hotelization of commercial real estate" as traditional real estate sectors rethink how individuals experience their spaces. At the same time, markets that are leveraging the current operating environment to transform and augment their position in the tourism marketplace stand to see outsized demand and investment growth. With an increasing number of investors eagerly seeking assets that can generate income and simultaneously serve as a formidable hedge against inflation, the lodging industry will benefit from the plentiful capital on hand ready for deployment.

Key takeaways

1. Global transaction volume increased 131% year-over-year, totaling $66.8 billion in 2021
2. Investment dollars to chase markets that have augmented their profile since the pandemic
3. Post-covid headwinds threaten operating margins and may hinder RevPAR growth
4. The industry's commitment to sustainability can lead to higher asset values, decreased operational costs, and increased consumer demand
5. Physical use of spaces to evolve with growing trend of hotelization of commercial real estate and blurring of sectors

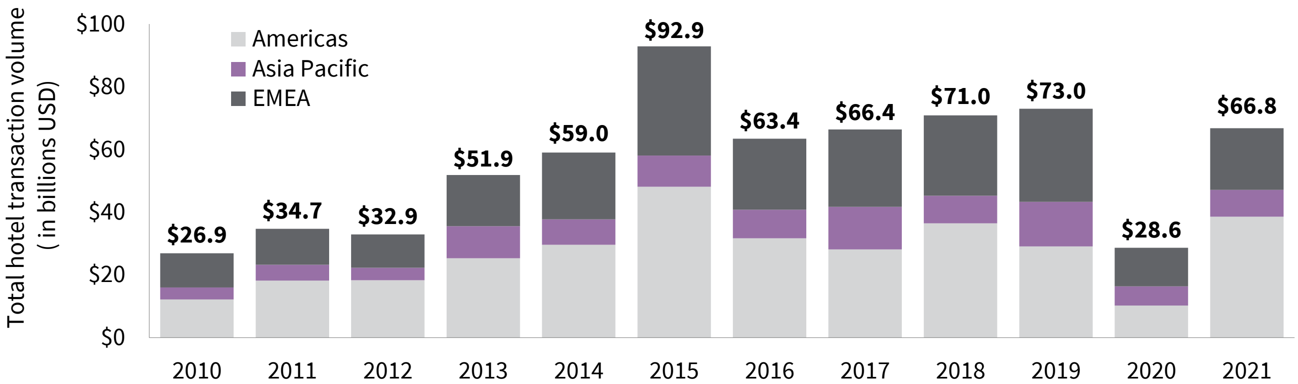
1. *Global transaction volume increased **131%** year-over-year, totaling **$66.8 billion** in 2021*

Despite the emergence of new COVID-19 variants, fresh surges in case numbers coupled with inconsistent global travel policies enacted throughout the year, investors learned to navigate the capital markets. This in turn lead to a flurry of activity relative to 2020, resulting in global transaction volume of $66.8 billion. This level of activity was supported by multiple M&A transactions involving publicly traded and large global hotel companies, including three transactions valued at more than $2.5 billion each across the Americas and EMEA. Demand's uneven recovery across urban and resort markets meaningfully impacted investment appetite, with investors keen on acquiring resort or luxury assets best positioned to be the first to benefit from pent-up travel. It is true that assets situated in urban locations remained the most liquid, but the level of activity achieved in 2021 marked a 22% decrease relative to 2019 levels. On the other hand, assets situated in resort locations, achieved $9.2 billion in sales globally, representing a 17% increase relative to 2019 levels. With remaining uncertainty surrounding the full recovery of corporate travel, hotel investors will continue targeting leisure and resort markets in 2022, as these markets will see outsized demand given current market conditions.

Massive amounts of dry powder on hand by private equity investors coupled with the emergence of new and traditional hotel acquirers stimulated the consummation of transactions globally. In fact, in 2021 private equity investors acquired $32.5 billion in hotel assets, representing 50% of all transaction activity. Notably, this level of investment represented an increase of $25.4 billion over 2020 levels and also an increase of approximately $8.4 billion over 2019 levels of investment. Foreign capital and REITs made a powerful comeback in 2021 as well, each source of investment increasing their acquisitions of hotel real estate by $4.2 billion and $2.9 billion, respectively relative to 2020 investment levels.

Throughout the year, the debt markets improved significantly with banks, debt funds and even CMBS (in the U.S.), selectively originating hotel loans. Lenders remained keenly focused on the quality of the sponsorship, with lending demand focused on low-risk, outperforming assets, such as resorts, trophy assets, and luxury hotels. That said, with continued uncertainty regarding the outlook for global lodging demand post-COVID, the global financing market is not expected to normalize in the short-medium term.

Global hotel investment volumes 2010 – 2021 (in billions USD)



Source: JLL Research
Note: Pertains to transactions worth $5 million and above. Includes entity-level transactions.

Pace of transaction activity uneven across regions and influenced by strictness of COVID related lockdowns

The Americas was the most liquid region and accounted for nearly 60% of global hotel transaction volume, reaching $38.6 billion in hotel sales. This level of activity marked not only a 269% increase in volume over 2020 but also a 32% increase relative to 2019 activity. Driving this extraordinary level of investment in hotel real estate across the region included:

- Fourteen luxury hotels or resorts acquired at $1.0M+ per key
- Robust portfolio activity totaling $20.4 billion in volume or 57% of total regional volume

EMEA was the second most liquid region and accounted for nearly 30% of global hotel transaction volume, reaching $19.7 billion in hotel sales. While this level of volume represents a 60% increase over 2020 volume, transaction activity in 2021 remained nearly 35% below 2019 transaction levels. The region was plagued with renewed lockdowns implemented throughout the year across major economic centers in the region, such as the U.K., Germany, Italy, and Spain. Liquidity in the region was supported by:

- Nine luxury/upscale urban hotels acquired at $1.0M+ per key
- Strong portfolio activity totaling $8.4 billion in volume or 53% of total regional volume

Transaction volume in **Asia Pacific** equaled $8.5 billion, accounting for 13% of total global hotel volume. This level of activity represented an increase of 39% over 2020 volume, albeit sales remained 40% below pre-COVID levels achieved in 2019. Several economies in the region experienced the fallout from ongoing pandemic restrictions and border controls coupled with a wide bid-ask spread, ultimately hampering investment appetite. Nevertheless, new market entrants were eager to capitalize on burgeoning opportunities, with activity in the region supported by:

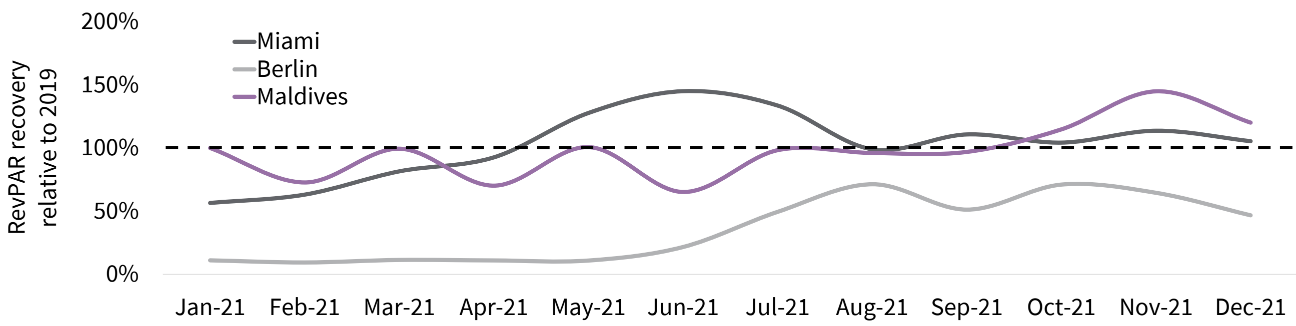
- Five higher-end hotels situated in urban markets with strong domestic or leisure demand transacting at $1.0M+ per key
- Stable single-asset transaction activity, which accounted for 85% of total volume in the region

Following the tremendous progress made in 2021, transaction activity in 2022 is expected to accelerate even further with global transaction volume to increase between 35% to 40% from 2021 levels. This would effectively make year-end 2022 volume equal to peak 2015 sales volume. Activity at this height is supported by several factors, including private equity's record level of capital on hand, China's "three red lines" campaign, which should drive a wave of hotel sales as cash-strapped developers divest non-core assets to improve balance sheets, and potential for distress to emerge across markets in the Americas as $31.0 billion of hotel loan debt is set to mature between 2022 and 2025.

2. ***Investment dollars*** *to chase markets that have augmented their profile since the pandemic*

Destinations that have reinforced their competitive advantage and successfully augmented their profile in the tourism marketplace should also record significant interest from investors. A few select markets that embody these characteristics, include Miami as a growing tech hub, Maldives as a key leisure gateway destination, and Berlin as a strong global office market.

RevPAR recovery relative to 2019 in selected destinations



Source:STR

Miami to remain major destination in the U.S. and benefit from enhanced profile as growing tech hub

- Miami has always benefitted from its traditionally low reliance on business travel, high concentration of resorts, and proximity to South America. Since the onset of the pandemic, the market's limited COVID-related restrictions, good weather, and no personal state income tax has made it a hot-spot for vacationers looking for an easily accessible destination or for individuals looking for more permanent moves. As a result, in 2021 the market observed extraordinary lodging demand growth of 73% year-over-year and positive population migration trends. Moreover, Miami is witnessing a real tech boom, with start-ups in the market raising $2.4 billion during the first three quarters of 2021, triple the amount raised over the same period in 2020. Mami has also become an attractive city for cryptocurrency investors and companies: the city hosted the world's largest Bitcoin conference in June 2021. Collectively, these attributes have accelerated Miami's premier status across the region and confirmed the destination's growing dynamism.

- These advantages have enabled Miami to record a notable recovery in hotel performance. At year-end 2021, Miami RevPAR finished 2021 1% above 2019 levels, mostly driven by a significant level of ADR, surpassing 2019 levels. The market's tremendous performance has attracted a notable level of investment, with 2021 total transaction volume equaling $1.3 billion, making the market the second most liquid in the region. This trend confirms Miami's attractive investment profile, with no expectations to cool down in 2022.

Maldives poised for renewed investor interest as global travel slowly returns

- The Maldives saw a resurgence in visitation in 2021, with international arrivals in YTD November 2021 growing by 152% year-over-year, 76% relative to 2019 levels. The rebound in visitation was supported by the market's ability to successfully attract strong demand from Western Europe, Russia, and several Middle Eastern countries, as it shifted focus from former top source markets in Mainland China. Healthy gains in international visitation translated to a notable improvement in lodging performance. Specifically, Maldives upper upscale and luxury hotel RevPAR performance ended 2021 24% above 2019 levels.

- In 2021, three resorts transacted after a quiet 2020, resulting in an average price per room of $860,000. All three resorts sold to cross-border capital sourced from Italy, Singapore, and the Middle East, underscoring strong foreign investment interest in the market. The Maldives is expected to record higher investment volume in 2022 than in each of the last five years before the pandemic, as performance improves with increased visitation expected from a broader group of source markets.

Berlin to rebound notably in 2022 off the back of a resilient office market

- Berlin has become one of the fastest growing start-up hubs in Germany. The city's dynamic business environment has propelled demand for office space which has driven prime rents to grow by 4.1% between Q3 2021 and Q3 2020 – the highest growth among the main German cities - making offices a highly sought-after investment product. With the ease of COVID-19 related restrictions in the European Union before the summer holidays, Berlin RevPAR took off in July, albeit still at a lower level than 2019. RevPAR for the period between July and December 2021 was 59% recovered relative to the same period in 2019.

- Meanwhile in 2021, investment volume in Berlin registered record levels after a soft 2020, with investors looking to increase their participation across the space and benefit from the much-awaited lodging recovery. Total transaction volume totaled $726 million, making the market one of the top three most liquid markets in EMEA. This level of activity represented a 36% increase over 2019 sales activity, with liquidity in the market primarily driven by private equity and institutional investors. Berlin is expected to continue to attract investment interest in 2022, in tandem with solid economic growth anticipated in the country and in the greater European Union.

3. *Post-covid headwinds threaten operating margins and may* ***hinder RevPAR growth***

Hotel operators continue to face headwinds as they navigate the lodging industry's recovery in a post-Covid-19 world. In 2022, the primary challenges hoteliers will need to monitor closely, include labor shortages, supply chain issues, and inflationary pressures, all of which pose a threat to attaining material profit growth in the year ahead.

Labor shortages expand, exacerbating skills shortages

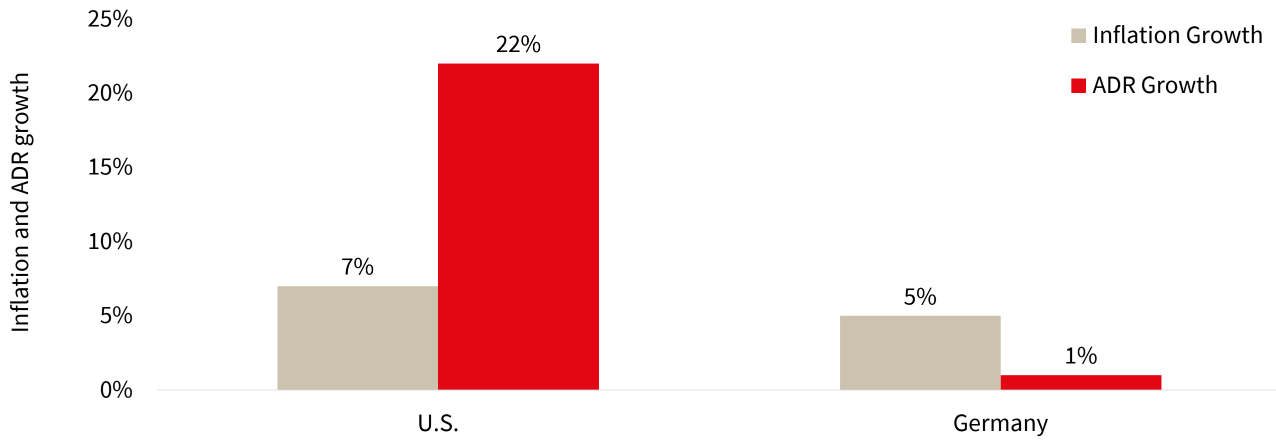
At the height of the pandemic, the WTTC reported that one million jobs were lost daily in the travel and tourism industry. Many of those who were laid off or furloughed left the industry to work in other sectors, exacerbating the skills shortage already prominent in the sector. When the sector reopened, hotel owners faced significant challenges hiring back staff, which resulted in many hotels unable to operate at full capacity due to a lack of labor rather than a lack of demand. More concerning, however, is that many hospitality workers are unwilling to return to the sector given low wages, heavy workloads, concerns over childcare and feelings of burnout. As the recovery accelerates in 2022, hotel operators will have to be intentional in hiring skilled labor that can meet the quality and experience standards guests expect, while balancing the needs of a transformed workforce post-COVID.

When formulating future labor strategies, hotel owners should focus on the "employee experience" and adopt a holistic approach when recruiting, hiring, and training both lower wage and supervisory level employees. Collectively, these efforts would lead to higher retention rates in the sector and pay long-term dividends, while focusing solely on pay-rate will likely only achieve short-term results with a detrimental long-lasting impact on the bottom line.

Supply chain bottlenecks cause operational issues

Throughout the world there has been an increase in supply chain bottlenecks that have directly impacted the hospitality sector as a significant purchaser of a wide range of goods and services. Scarcity of materials, factory shutdowns due to Covid outbreaks and transportation issues are additional hurdles the sector will need to face on the path to recovery. A recent survey undertaken by the American Hotel & Lodging Association (AHLA) discovered that 86% of 500 hotel operators surveyed reported that supply chain disruptions were having a moderate to significant impact on operations, with 75% stating these were having a negative impact on business revenue. In Asia Pacific, several resorts have had to reevaluate their F&B menus, sourcing local produce to mitigate the issues of delays and increased costs. With supply chain issues likely to continue into 2022, this is a real concern for hotel owners who are already navigating choppy waters.

2021 Inflation growth vs ADR growth



Source: JLL Research, Oxford Economics, STR

Average rates expected to rise, but operators should manage their expectations

Global inflation has intensified in recent months, with rates in some of the world's largest economies climbing to their highest levels in decades according to Fitch Ratings' latest 20/20 Vision released in December 2021. In the U.S., inflation rose to a 39-year high of 6.8%, with Germany also recording a new high in inflation at 5.2%. Rising inflation coupled with supply chain challenges and ongoing labor shortages already outlined are expected to push operating expenses up throughout 2022.

Average room rates will increase in 2022, as hotel operators look to pass on additional costs to hotel guests and hope to recover some of the revenue lost from the pandemic. One of the most attractive qualities of the lodging sector is that hoteliers can adjust room prices on a real-time basis, helping to hedge against inflationary pressures. In estimating future ADR, it is important for hotel operators to forecast average rate growth in real terms, considering the effects of inflation and adjusting their pricing strategy accordingly.

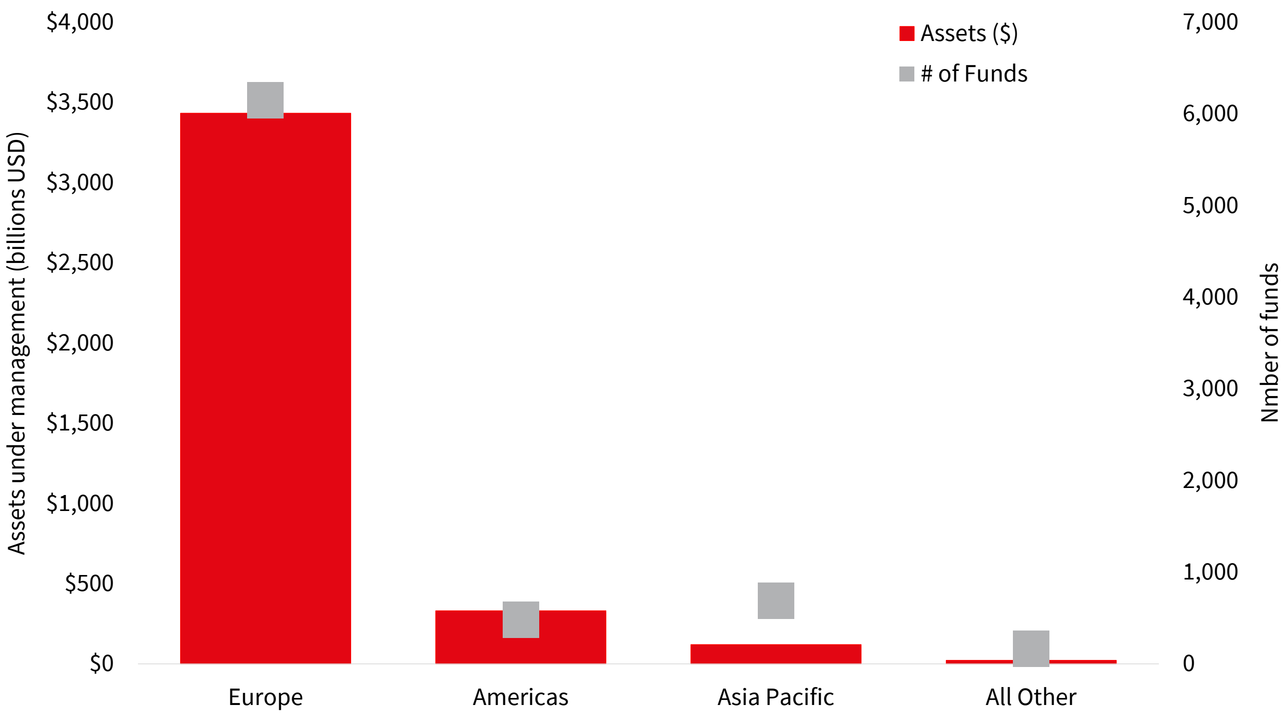
Another important factor to consider when determining a property's 2022 ADR strategy, is the hotel's ability to deliver on its service promise. Guest expectations have reset, with many expecting to receive a more thoughtful and improved level of service than pre-Covid, which many operators are struggling to provide with a skeleton team. While hotel owners are looking to push rates and reach pre-Covid levels as soon as possible, they'll have to remember to deliver a quality of service and experience that matches the higher rates being charged, while also adapting to a changing consumer purchasing power.

4. *The industry's **commitment to sustainability** can lead to higher asset values, decreased operational costs, and increased consumer demand*

Following COP26 in November 2021, it's increasingly clear that the "built environment", of which real estate constitutes the majority, needs to take the lead on implementing sustainability measures as it accounts for 40% of the world's carbon emissions. Hotels play a big role in that as they use the most energy and water of any commercial building type globally. The hotel industry's opportunity to enact real change requires a holistic approach that addresses three key stakeholders: consumers, operators, and investors. Each constituent plays a role in helping the industry to reduce its carbon footprint and any measures enacted should be done with at least one of them in mind. All three groups have voiced support for a concerted industry focus on sustainability, perhaps none as important as the global investment community.

Institutional investors are increasingly divesting of companies that do not have a clear commitment to sustainability and are instead injecting capital into those that do. Impact investing is poised to be the largest asset growth sector globally, with $3.9 trillion in sustainable fund assets under management reported as of Q3 2021. Europe continues to lead the way, with 88% of global sustainable fund assets held in the region. The Americas rank second globally; however, 38 funds with sustainable mandates were launched in Q3 2021, bringing the region's total to 484.

Sustainable fund assets under management as of Sept 2021



Source: JLL Research, Morningstar

Investor risks

Beginning in 2024, the U.S. will require disclosure of sustainability metrics as part of USALI. This is anticipated to create increased transparency across the industry with respect to energy, waste, and water usage. With nearly 2,000 financial incentives already in place for energy-efficient real estate, this change is expected to result in additional sustainably focused investments with investors potentially shying away from hotels that do not meet certain criteria. This has already begun to take place in Europe following the EU's Sustainable Finance Disclosure Regulation in March. As the data becomes more available, it's likely that hotels will follow the trend of other real estate classes with green hotels achieving an investment sale premium. Since 2016, green certified commercial real estate assets have sold for an average of 11.5% more than those without such certifications.

Operator opportunities

On an individualized hotel level, the implementation of these sustainability measures is incumbent on operators. Not only will employing such measures result in long-term asset preservation and enhancement, but they will also result in increased profitability. Aside from labor, utilities represent the highest variable cost in hotels (7.8% of sales globally). The implementation of even the simplest sustainability measures (e.g., LED lighting, smart thermostats, etc.) have the potential to reduce utility costs up to 40%. With margins increasingly tight, hotel operators are leery of taking on assets that lack sustainability due to their increased costs.

Changing consumer preferences

In addition to higher costs, operators risk losing revenue as consumers are increasingly gravitating to hotels that have a stated commitment towards sustainability. In June, Booking.com surveyed 29,000 travelers of which 64% said they prefer a sustainable accommodation, if given the choice. This prompted the OTA to implement a "sustainability badge" for hotels that meet certain standards. Other third-party distribution sites have followed suit and have integrated sustainability metrics into their platform, such as Google now displaying carbon emission data for its flight searches and marking some hotels as "eco-certified." In both instances, hotels that meet these criteria are given preferential sort-order and thus have a higher likelihood of being booked.

With nearly 230,000 hotels around the world, the lodging industry presents an opportunity to enact real change in global sustainability. Driven by changes in consumer preferences, a desire for increased profitability, and the injection of capital aimed at impact investing, the industry is poised to undergo a transformation in 2022. Many of the world's largest hotel brands (Marriott, Hilton, IHG, Hyatt) have already committed to cut their carbon footprints by at least 25% within the next three years. Expect investors to increase the degree to which they seek out hotels that are committed to sustainability and actively avoid assets that are not.

5. ***Physical use of spaces to evolve*** *with growing trend of hotelization of commercial real estate and blurring of sectors*

COVID-19 has had a mental, physical, and emotional toll on people across the world. To better accommodate employees, shoppers, and residents during these stressful times, traditional real estate sectors, such as office, industrial, retail, and multi-housing are offering more hospitality-like amenities to enhance the wellness factor of their spaces. By adopting a consumer-first mindset, these sectors are accelerating the "hotelization of commercial real estate" and effectively shifting focus to how individuals experience physical spaces, from what they do in physical spaces. For example, OurDomain, a multi-housing asset in Amsterdam features work and study spaces, gyms, bars, and restaurants to create a more welcoming ambiance. In California, Salesforce has added meditation rooms in its San Francisco offices to encourage creativity and inspiration through a contemplative space of silence.

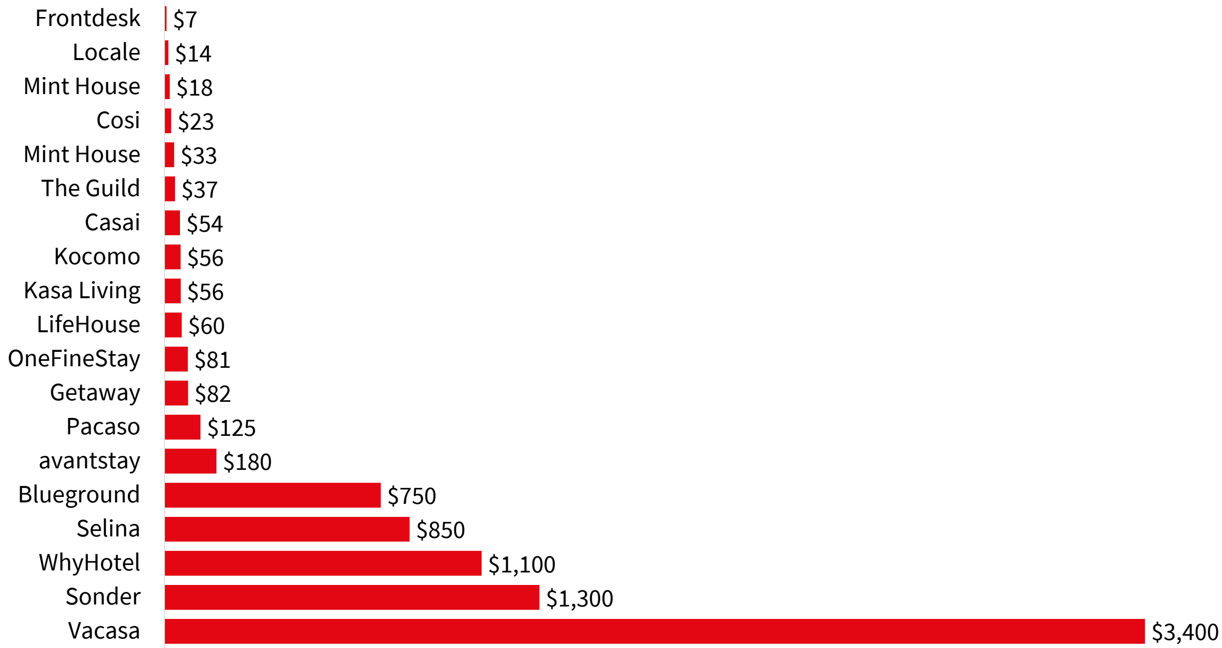
Blurring of real estate sectors accelerating growth of alternative accommodations across all regions

Investors are becoming more creative with the use of their real estate spaces as a way to maximize their income potential. As such, there is strong optimism surrounding real estate uses that have proved to be resilient in generating stable income throughout the pandemic, with investors incorporating different real estate uses into one space. Despite the challenges COVID-19 has brought on, the alternative accommodation sector has proven to be a profitable use of real estate space, with the segment observing growth across each region.

Across APAC and EMEA, the co-living sector is observing notable growth and is emerging as a popular alternative accommodation type. This use of space is prevalent across many vibrant urban cities, where younger, value-oriented travelers can enjoy lodging that features a place to eat, sleep, work, and socialize for as long as one day, a month or longer. Investor confidence across the co-living sector is evident, as the Butterfly on Prat Hong Kong traded for $127 million to be converted into a co-living product managed by Dash Living. The sector also provides an opportunity for investors to diversify their portfolio. In EMEA, the co-living trend has experienced a surge in new schemes featuring a diversity of shared spaces with the goal of enabling an active community. For example, Netherland's Fizz Cobana targets those with a busy work schedule by providing workspaces with cooking studios and far-reaching views. In Germany, Quarters manages various communal areas such as co-working spaces, a theatre, and outdoor spaces to promote networking.

In the Americas, there is an emergence of new alternative accommodation disruptors such as Sonder, Mint House, WhyHotel, and Blueground. The new players manage and lease flexible spaces, while adhering to hotel level standards. Investors are attracted to these companies given their innovative tech-enabled operations, featuring smart home devises and keyless check-ins that provide a convenient, digital experience. In December 2021, Silverstein Properties acquired its first residential building in New York for $247.5 million with Sonder as one of the major lessees. Sonder is famed for its tech-enabled guest experience and continues to expand its footprint in the Americas with recent openings in Montreal and Toronto.

Total Market Cap by Global Alternative Accomodation Company (in USD millions)



Source: Crunchbase, Pitchbook, JLL Research
Note: As of January 2022.

Overall, global alternative accommodation companies accrued a combined market cap of $8.2 billion in 2021. With alternative accommodations providing portfolio diversification and high returns, as well as meeting the demands of new consumer preferences post-COVID-19, the segment will continue to attract investment in 2022.

Final thoughts

The lodging industry is in the midst of one of the most profoundly transformative periods of its history. COVID-19 has accelerated and brought to the forefront important and urgent changes the industry must act upon. With lodging demand recovering at a quicker pace than expected, hoteliers will need to adapt and create a working environment that supports the health and wellbeing of its workforce. Moreover, with more and more guests occupying rooms, prioritizing efforts that lower the industry's carbon footprint and reduce climate risk will be key in managing operational costs and more importantly, in helping protect our communities. Tech-enabled solutions coupled with strategic leadership will help advance these critical industry goals in the year ahead.

Contributors:

Gilda Perez-Alvarado
Global CEO
JLL Hotels & Hospitality Group
Gilda.Perez-Alvarado@am.jll.com

Kevin Davis
CEO, Americas
JLL Hotels & Hospitality Group
Kevin.Davis@am.jll.com

Mike Batchelor
CEO, APAC
JLL Hotels & Hospitality Group
Mike.Batchelor@am.jll.com

Nihat Ercan
Senior Managing Director,
Head of Investment Sales, APAC
JLL Hotels & Hospitality Group
Nihat.Ercan@ap.jll.com

Will Duffey
Managing Director, EMEA
JLL Hotels & Hospitality Group
Will.Duffey@eu.jll.com

Geraldine Guichardo
Global Head of Research, Hotels
Director, Americas Living Research
JLL Hotels & Hospitality Group
Geraldine.Guichardo@am.jll.com

Jessica Jahns
Head of EMEA Hotels Research
JLL Hotels & Hospitality Group
Jessica.Jahns@eu.jll.com

Zachariah Demuth
Head of Americas Hotels Research
JLL Hotels & Hospitality Group
Zachariah.Demuth@am.jll.com

Marina Bracciani
Senior Associate Asia Pacific Hotels
Research
JLL Hotels & Hospitality Group
Marina.bracciani@ap.jll.com

Ophelia Makis
Senior Analyst Americas Hotels Research
JLL Hotels & Hospitality Group
Ophelia.Makis@am.jll.com

jll.com