CBRE

MARKETVIEW

European Hotel Investment, Q3 2015

Asian capital driving hotel investment to a record year

Hotel Investment Volume
+42% Q3 Y-o-Y

All Sectors Investment Volume
+24% Q3 Y-o-Y

Hotel Transaction Volumes

Investment market (€ millions)	2015 Q3	2014 Q3	Y-o-Y % Change	YTD Q3 2015 as % of previous full year
United Kingdom	2,323	1,927	+21	196
Germany	1,380	574	+140	94
France	244	22	+1009	124
Spain	155	108	+44	139
Italy	253	35	+623	102
Ireland	74	72	+3	704
Nordics*	94	258	-64	26
CEE**	148	281	-48	38
Benelux***	60	41	+46	120
European Total****	4,800	3,318	+53	127

*Consists of Denmark, Finland, Norway, Sweden. ** Consists of Austria, Poland, the Czech Republic, Hungary, Slovakia, Romania, Estonia, Latvia, Lithuania, Russia, Ukraine, Bulgaria, Croatia, Serbia. *** Consists of Belgium, Netherlands and Luxembourg. ****The country/regional volumes provided do not add up to the European Total.

Source: CBRE, 2015

The all-real estate deal volume through the first three quarters of 2015 has reached €185.7bn and will be a cause of concern for some given that it's a mere €10bn short of the YTD volume recorded in the heady-days of 2007 (the peak of the former cycle). Nonetheless, in '07 offices dominated real estate acquisitions (55%) and hotel deals had amounted to a proportionally shallow €5.2bn – 3% of the all-real estate total. Fast forward to 2015 and the hotel volume has more than trebled to €16.1bn and accounts for 9% of capital invested into real estate, rising above its industrial counterpart. Based on marketed stock and the progress of current transactions, CBRE remain firm on their view that the hotel deal volume in Europe will surpass €20bn for full year 2015 – considerably higher than any year previous. These statistics demonstrate that the formerly low levels of liquidity in the sector should no longer present a barrier to the investment community when considering activity in the hotel space.

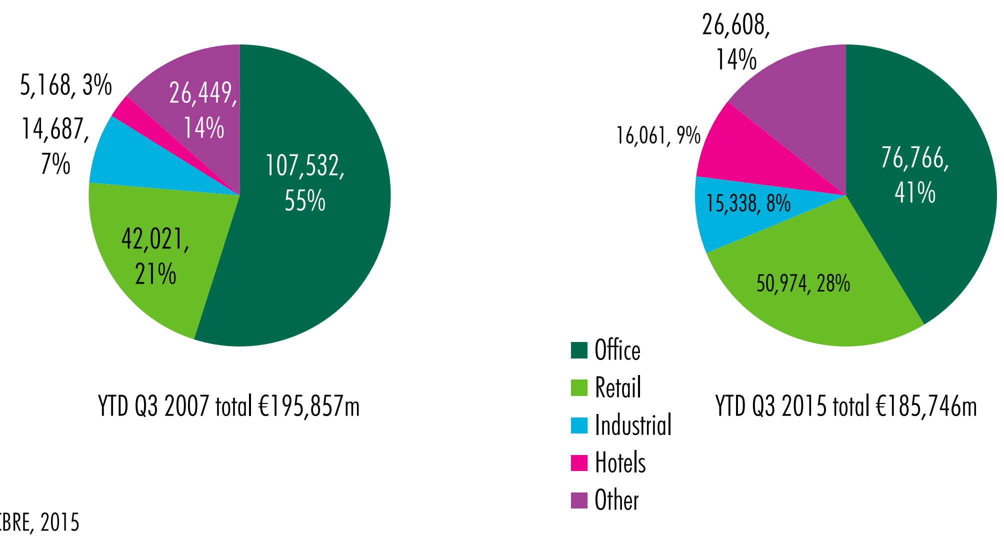
Availability of stock has unquestionably been a catalyst in the growth of hotel investment volumes; however, the heightened allocation of capital into the space has ensured the realisation of strong pricing and yield contraction against a backdrop of operating performance recovery.

North American capital deployed mainly by the private equity funds has represented 41% of hotel investment so far in 2015 – typically targeting value-add opportunities. European hotel investment (18%) has included a growing amount of institutional capital and Middle Eastern (28%) investors continue to target luxury assets in capital cities for the preservation of wealth.

Most notably, Asian capital flowing into Europe's hotel landscape has accounted for 13% of the deal volume YTD which represents a 393% increase on full year 2007 – considerable growth in recent years has resulted from the bulging insurance and pension funds that have swollen with the increasing Asian middle-class. They are looking to deploy capital into real estate and are now free to invest anywhere in the world after liberalisation of investment laws in many Asian nations.

Hotels are the asset class of choice for Asian investors owing to a confidence in the growing mobility of the Asian travel market. The economic shift in China at present, from a manufacturing to a consumer-driven economy, aims to increase spending and European travel is high on the agenda of the increasingly affluent Asian population. Many Asian investors buying hotels now are looking to reap the rewards of this trend over the mid-to-long term and observations show that some are also investing in tour operations to benefit from vertical integration.

Figure 1: European real estate transaction volumes, YTD Q3 2007, YTD Q3 2015, EUR (millions)



Source: CBRE, 2015

HIGHLIGHTS

CBRE Hotels are delighted to include yield analysis on Istanbul and Athens for the first time in this series of Hotel Investment MarketView reports – Turkey and Greece will respectively form the focus of the highlights within this edition. The addition of these two cities reflects the growing network of CBRE hotel experts throughout the EMEA region in markets of increasing interest to the hotel investment community.

All of the published yields are for indicative purposes and emphasis should be given to the relative movement of yields, not each data point in isolation. In producing and publishing yields, CBRE rely on the expert interpretation of deals, valuations and sentiment within each given market.

TURKEY

Hotel deal activity remains relatively low compared to many of the key European markets – there continues to be very little cross-border inbound investment due to a shortage of investible stock, lack of transparency and thus a perceived difficulty in doing business. However, international hotel operators are looking to build their presence in the key markets and data availability is improving which should open the door to greater inbound capital flows.

The domestic hotel purchases dominating the deal landscape of late are made up of private Turkish investors and Turkish institutional investors. Activity suggests that the institutional purchasers with a generally lower appetite for risk have targeted opportunities in the key cities of Ankara and Istanbul where hotel consumer demand is diverse and operating income has proved more stable. Private investors, however, have been most active in resort destinations such as Antalya, Bodrum and Izmir – purchasing assets either for prestige and/or looking to capitalise on an increasingly mobile European leisure market.

That said, security concerns in the wider region are threatening to derail the tourism growth that Turkey has enjoyed over recent years and operators are hopeful that a degree of stability will now resume following the election in which a majority government has gained power. Particularly in the run up to the polls there was a notable slowdown in domestic tourism; however, the impact on internationally branded hotels remained limited. Inevitably the escalation of terrorist attacks and inflow of refugees still pose a considerable threat to the political and economic stability of the country.

Taking a view on Istanbul, the most developed and international hotel market in Turkey, this is where the appetite for hotel brand development is arguably the greatest following the city's emergence as the world's sixth-most visited destination in 2014. Almost 13,000 additional hotel rooms (75 properties) are planned for the banks of the Bosphorus which will realise a 26% increase on existing supply – most of which are being constructed by local development firms and will be operated under globally-recognised brands. Historically, local developers have built hotels for prestigious reasons and with a view to hold long-term; however, it is believed that a proportion of current developers are looking to dispose on completion and therefore liquidity in Istanbul's hotel market could increase substantially in the coming years.

Total hotel revenue for branded, full-service properties in Istanbul is up almost 7% YTD Y-o-Y and profitability has increased by 6% Y-o-Y in the same period. This admirable performance has resulted in yields reaching a level comparable with many Western and Northern European markets, yet Istanbul has been the only city to see yields expand in the last two quarters owing to the uncertainty surrounding the election. This is likely to have been a temporary blip as mega infrastructure projects are now set to resume and include Istanbul's third airport, the Eurasian tunnel and third bridge over the Bosphorus – all of which will drive hotel demand and offset supply increases.

GREECE

Few real estate transactions have been noted of late due to the current debt crisis and economic slowdown. Wider business conditions have suffered and consumption has stagnated at low levels – as a result the performance of the retail sector is down and office take-up has been negatively impacted. All of the aforementioned has been compounded further by Greek capital controls and the threat of a banking liquidity crisis – which has limited spending and the access to debt for real estate investors. Unsurprisingly, domestic tourism has also taken a hit; however, inbound international travel has not abated – largely the result of a leisure segment that has grown with the escalating safety concerns in competing destinations.

Taking a view on the Athens' hotel market, which is arguably more exposed to Greece's financial woes due to the make up of demand, relatively stable hotel revenues have been witnessed which appear lacklustre in a European context, but are admirable given the local circumstances. Hotel profitability for the market has indeed grown by +6% Y-o-Y for the 12-months to September 2015 – this is the result of decreasing costs, namely a decline in payroll due to a slack labour market (Greek unemployment was at 25%, as of June 2015). As a result of this income-resilience, property yields for hotel assets are comparatively lower than other real estate classes in the Greek capital.

Whilst the Greek economic situation remains particularly fragile, there has been a considerable shift in the geographical interest of hotel-buying private equity funds that are now targeting Southern Europe in the search for yield – following Spain, Portugal and Italy, Greece would seem the next natural market of focus for this opportunistic capital. Lack of product and debt present two major barriers to this development; however, successful recapitalisation of the Greek banking sector will hopefully re-open the lending market and could spin out some non-performing loans with a hotel component.

Asian capital has recently shown notable interest in acquiring resort properties and portfolios in recovering Southern European markets, such as Portugal, to integrate with their wider interests in the tourism industry. No Asian purchases have yet been observed in Greek resort locations, despite their commonly equity-rich circumstances. This is perhaps a result of the on-going migrant crisis, which could be considered detrimental to the touristic appeal of the Aegean islands.

On a positive note, the Greek government recognises the importance of tourism such is its considerable contribution to GDP and has established it as key driver for economic recovery. As a result, there is an anticipated focus of investment and expertise into the tourism industry going forward, which in turn should drive further demand for the country's hotel market and will eventually benefit those that hold a stake in the sector.

CBRE House Hotel Yields

Hotel operational lease yields*	2015 Q3	2015 Q2	2014 Q3	Q-o-Q change (BPs)	Y-o-Y change (BPs)
Germany (Top 5)	5.00	5.00	5.25	0	-25
Vienna	5.00	5.00	5.05	0	-5
Warsaw	6.00	6.00	6.00	0	0
Paris	5.00	5.00	5.00	0	0
Regional UK (Prime)	4.50	4.75	5.50	-25	-100
London	4.25	4.25	5.00	0	-75
Dublin	6.00	6.00	6.50	0	-50
Madrid	6.25	6.50	6.50	-25	-25
Barcelona	6.00	6.25	6.25	-25	-25
Oslo	5.00	5.25	5.75	-25	-75
Rome	6.00	6.00	6.00	0	0
Milan	6.25	6.25	6.50	0	-25
Amsterdam	5.60	5.60	5.75	0	-15
Brussels	5.50	5.50	6.00	0	-50
Athens	8.00	N/A	N/A	N/A	N/A
Istanbul	5.50	5.00	N/A	+50	N/A

*Based on upscale assets, hotels operated by internationally renowned brand under a management agreement , non-guaranteed variable income stream, typical cap rates.

Source: CBRE, 2015

Hotel management contract yields*	2015 Q3	2015 Q2	2014 Q3	Q-o-Q change (BPs)	Y-o-Y change (BPs)
Germany (Top 5)	6.00	6.00	N/A	0	N/A
Vienna	6.00	6.00	6.00	0	0
Warsaw	7.25	7.25	7.25	0	0
Paris	5.25	5.25	5.50	0	-25
Regional UK (Prime)	7.25	7.25	7.50	0	-25
London	5.75	5.75	6.00	0	-25
Dublin	7.25	7.25	7.50	0	-25
Madrid	7.00	7.25	7.50	-25	-50
Barcelona	6.75	7.00	7.00	-25	-25
Oslo	7.50	7.50	7.75	0	-25
Rome	7.00	7.00	7.25	0	-25
Milan	7.25	7.25	7.50	0	-25
Amsterdam	6.10	6.10	6.50	0	-40
Brussels	7.25	7.25	7.75	0	-50
Athens	8.75	N/A	N/A	N/A	N/A
Istanbul	7.50	7.25	N/A	+25	N/A

*Based on upscale assets, hotels operated by internationally renowned brand under a management agreement , non-guaranteed variable income stream, typical cap rates.

Source: CBRE, 2015

Hotel vacant possession yields*	2015 Q3	2015 Q2	2014 Q3	Q-o-Q change (BPs)	Y-o-Y change (BPs)
Germany (Top 5)	5.75	5.75	N/A	0	N/A
Vienna	5.75	5.75	N/A	0	N/A
Warsaw	7.00	7.00	N/A	0	N/A
Paris	5.10	5.10	5.50	0	-40
Regional UK (Prime)	6.50	6.50	6.50	0	0
London	5.00	5.00	5.00	0	0
Dublin	6.25	6.25	6.75	0	-50
Madrid	6.50	6.75	6.75	-25	-25
Barcelona	6.25	6.50	6.75	-25	-50
Oslo	6.50	6.50	6.75	0	-25
Rome	6.50	6.50	6.75	0	-25
Milan	6.75	6.75	7.25	0	-50
Amsterdam	5.85	5.85	6.25	0	-40
Brussels	6.75	6.75	7.50	0	-75
Athens	6.50	N/A	N/A	N/A	N/A
Istanbul	6.50	6.25	N/A	+25	N/A

*Based on upscale assets, hotels unencumbered and operated independently or under a franchise agreement, non-guaranteed variable income stream, typical cap rates

Source: CBRE, 2015

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