

Hotel transactions on the up as improved trading performance brings investors back to the sector

Total European hotel transaction volume rose to ?7.1 billion in 2011, an increase of 9% on the ?6.5 billion recorded in 2010 indicating that investment activity in the hotel sector is improving, despite the continuing scarcity of debt funding.

However, according to the annual European Hotel Transactions report, published this week by HVS London, total volume remains well below the 2006 peak of ?20 billion and the 10-year average since 2002 of ?9.9 billion.

The European Transactions report charts each year's single asset and portfolio hotel transactions, identifying the top buyers and sellers, the sale price and price per room, as well as the geographic regions proving popular with investors. The report was first published in 2002.

?In 2011 there was a growth in both trading performance and hotel values across Europe indicating that recovery is under way. Despite this, bank debt remains scarce making it hard for investors to secure financing outside major gateway cities,? said Charles Human, managing director of HVS Hodges Ward Elliott, the hotel brokerage and investment banking division of HVS.

The increase in investment activity seen in 2011 can be attributed to improved leisure and business demand, triggering a rise in trading performance across Europe making hotels a more attractive investment. In addition, a number of distressed assets came to the market in 2011 including the von Essen portfolio of 28 hotels (26 across the UK), and many listed hotel companies have continued their programmes of selective asset disposals.

Last year's activity involved some 116 transactions (of more than ?7.5 million per property) with 264 hotels and more than 43,200 rooms.

The total figure for 2011 was strengthened by a number of large transactions, such as the sale of the Ritz-Carlton Moscow for US\$600 million (?411 million) on the single asset side and Blackstone's acquisition of the Mint Hotels portfolio for £600 million (?691 million) on the portfolio side.

Single asset activity accounted for 54% of the total transaction volume; despite this increase of 15% on 2010 levels, the average price per room declined by 27% to ?190,000. This is the result of fewer high-end assets changing hands in 2011 compared with the previous year.

The UK remains the most active hotel investment market with a total transaction volume of around ?2.7 billion. Other key markets were France (?1.3 billion), Germany (?817 million) and Spain (?601 million).

In terms of single asset transactions, the hotel investment market was dominated by institutional investors, hotel operators and real estate investors, accounting for 78% of total volume. In 2011, private equity companies more than doubled their investment in single assets, albeit from a low base.

Investment from high-net-worth individuals (HNWIs) declined in 2011 due to the lack of landmark hotels on the market compared with previous years.

Portfolio investment painted a similar picture, with institutional investors, hotel operators and real estate investors accounting for a significant 72% of total volume. Just a handful of transactions were private equity funded; however, the size of these investments meant that private equity accounted for a significant 16% of transactions, while HNWIs accounted for 12%.

?In 2012 we are likely to see a marginal increase in the number of distressed sales but, with debt so hard to find, it will be some time before we see transaction volumes return to pre-credit crunch levels,? added Charles Human.

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To download a free copy of the 2011 European Hotel Transactions report please click onto <http://www.hvs.com/Content/3232.pdf>

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