

Hotel transactions reach post downturn peak as Middle Eastern investors step up interest

European hotel transaction volume in 2013 reached a new peak since the onset of the global financial crisis, signalling a comeback of the hotel real estate market.

The **2013 European Hotel Transactions** article, published by **HVS London** to coincide with the International Hotel Investment Forum [Berlin, 3-5 March], reports that total transaction volume across Europe reached ?7.7 billion in 2013, a 39% increase on the ?5.6 billion recorded in 2012. The first quarter of 2013 accounted for more than half of the year's total transaction volume, totalling ?4.2 billion.

The European hotel industry has signalled positive trends throughout 2013. Most markets have seen occupancy and average rates grow with hotel transaction volume reaching its highest point since 2007. Financing for prime assets has become more readily available, both from domestic as well as overseas banks, changing the hotel investment landscape, commented report co-author Veronica Waldthausen, associate, HVS London.

The UK was, again, the most liquid market in Europe, with transaction volume reaching ?3 billion, accounting for 39% of total sales, while The Netherlands had the greatest increase in transaction activity in Europe last year with volume totalling nearly ?500 million, compared with ?118 million in 2012.

Portfolio and corporate activity

Transaction activity was driven by portfolio deals in 2013, recording 48% growth on 2012 levels, totalling ?3.3 billion. The most notable transactions included Constellation Hotels' acquisition of the Groupe du Louvre Portfolio (four hotels) from Starwood Capital for ?700 million, ADIA's (Abu Dhabi Investment Authority's) purchase of 42 Marriott hotels in the UK for ?640 million, and the purchase of the Malmaison and Hotel du Vin portfolio by private equity firm KSL for ?234 million.

While portfolio transactions in the UK accounted for just under 60% of the total rooms sold in portfolio deals, this only translated into 48% of the volume, with an average price per room of ?122,000. France ranked second at ?1 billion, with a price per room of around ?292,000. Germany's hotel investment market saw an increase in portfolio activity of almost 400% on 2012, reflecting the demand to invest in a stable and growing economy and where average daily rates have growth potential, given their low base compared with the rest of Europe.

Single asset transactions

Single asset sales accounted for 57% of total transaction volume in 2013, amounting to ?4.4 billion, an increase of 32% on 2012. The sales price per room grew by 13%, averaging ?208,000, reflecting an improvement in investor sentiment and the quality of assets coming on to the market.

In the UK, single asset sales totalled ?1.4 billion, higher than any other European market. Some 60% of transactions were in the capital, including the sale of the InterContinental Park Lane to Constellation Hotels for ?463 million (?1 million per room).

So who's buying?

In 2013 Middle Eastern buyers played a significantly larger part in the hotel transactions market. Capital from the region averaged some 12% of total volume in 2012, while in 2013 it reached 30%, growing in absolute terms from ?646 million to ?2.3 billion.

Transactions of single assets from high-net-worth individuals (HNWI) showed 70% growth in 2013 to ?982 million, as investors, including those from the Middle East, displayed a growing interest in acquiring key assets throughout Europe.

Institutional investors, including sovereign wealth funds, accounted for approximately 42% of portfolio buyers and 19% of single asset purchasers. Hotel operators have shown an interest in purchasing strategic assets as part of their expansion plans, including Mandarin Oriental acquiring the Mandarin Oriental in Paris from their joint venture partner Société Foncière Lyonnaise for ?290 million, and The Dorchester Collection purchasing the Eden Hotel in Rome for ?105 million from Starman.

Private equity companies such as Starwood Capital, Blackstone and AXA Real Estate Investment Managers demonstrate an on-going interest in hotels.

?We expect HNWI's and sovereign wealth funds from both Asia and the Middle East to continue to play an even more important role in the European real estate market as they seek to invest in prime assets,? commented co-author Louise Fury.

?Additionally, North American investors - primarily private equity companies, real estate investors and institutional investors - will eye Europe as an attractive region with continuous growth potential and comparatively better value for money.

?The question now is whether there be enough assets available for sale to meet investor demand??

2013 European Hotel Transactions, by Veronica Waldthausen and Louise Fury can be downloaded at
<http://www.hvs.com/article/6811/2013-european-hotel-transactions/?campaign=email>

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For further information, or to arrange an interview contact:

Linda Pettit, Tilburstow Media Partners

Linda@tilburstowmedia.co.uk

Tel: +44 13 4283 2866 / +44 79 7378 9853

Veronica Waldthausen, Associate

vwaldthausen@hvs.com

Tel: +44 (0) 20 7878 7721 / Mob: +44 (0) 75 6810-8874

Louise Fury, Senior Editor

lfury@hvs.com

Tel: +44 (0) 20 7878 7750

Charles Human, Managing Director

chuman@hvs.com

+44 20 7878 7700

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