

Despite headwinds, positive outlook for European hotels

▶ €3.1bn

Q1 Hotel investment

▲ +1.9%

YoY Hotel investment

▶ €58.1bn

All Q1 commercial sectors investment volumes

Note: Arrows indicate change from previous year

EXECUTIVE SUMMARY

- A number of high-quality assets were brought to market in Q1 and are already gaining interest from international buyers, including sovereign wealth funds and UHNWIs.
- Good financing conditions for core and high-quality assets are still available, despite the recent movements in interest rates.
- Potential headwinds are expected throughout 2022 from higher operating costs, including wage inflation.

In the 12-months to Q2 2022, European hotel investment volumes reached €17.6bn, spurred by a strong final quarter in 2021. Hotels accounted for 5.3% of all capital deployed to European commercial real estate in Q1 2022, which is well below pre-Covid-19 levels of 10%. Nevertheless, there are a number of portfolio sales in the pipeline which are expected to close in Q2 which will give a boost to investment volumes. Pricing discounts to pre-Covid-19 values for well-located hotels is minimal if any. As international travel returns, investors are optimistic this will translate into renewed investment activity in the hotels sector across Europe. So far, the war in Ukraine has had limited impact on capital flows in Central and Eastern Europe (CEE) where hotel investment activity is historically fairly subdued.

Figure 1: Hotel transaction volumes, twelve months to Q1 2022 (EURbn)

Note: volumes indicate Q2 2021-Q1 2022

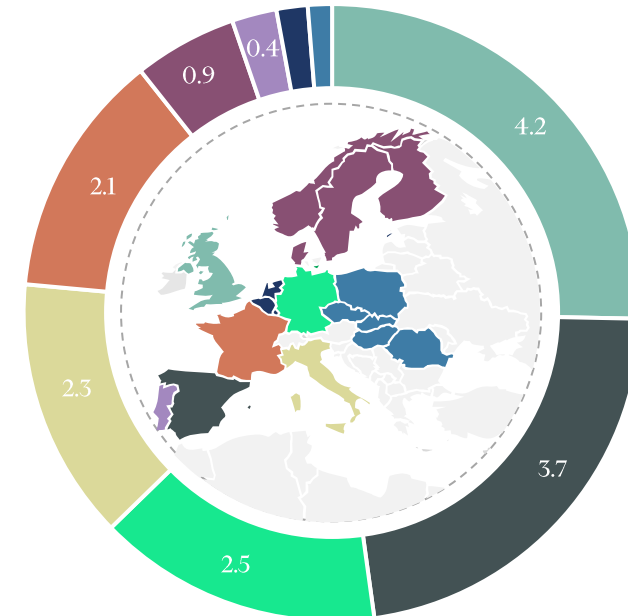


Figure 2: Hotel Management Contract Yields

	April 22 (%)	Trend		April 22 (%)	Trend
London	5.50	Stronger	Budapest	7.50	Stable
Germany (Big 5)	5.25	Stable	Oslo	7.00	Stable
Madrid	5.50	Stable	Lisbon	5.75	Stable
Paris	5.65	Stable	Warsaw	7.00	Stable
Milan	6.00	Stable	Amsterdam	6.00	Stable
Vienna	5.25	Stable	Prague	6.25	Stable

Source: CBRE 2022

*Includes hotel investment and owner-operator deals.

Thus, investment volumes can differ from other volumes reported by CBRE Ltd.

UK

- Despite disruption, the UK hotel market has seen pricing recover to near pre-Covid-19 levels.
- Operators are expecting a return to 2019-level RevPARs in 2022, with potential headwinds for profit expected from higher operating costs and inflated labour costs.

France

- There has been sustained investor appetite for both resort and urban hotel assets in 2022. Investors will continue to target value-add opportunities through the repositioning of assets.

DACH

- Core assets remain attractive through security of income and strong operating revenues.
- Despite a slow first quarter, the DACH hotel market is forecasted to have a strong year due to a large pipeline of pending transactions. Recent transactions suggest that investors are willing to pay prices similar to pre-Covid-19 levels.

The Nordics

- There has been significant interest in the Nordic region among international hotel investors and operators with investors targeting core assets. The buoyant investment volumes are expected to continue for the remainder of 2022.

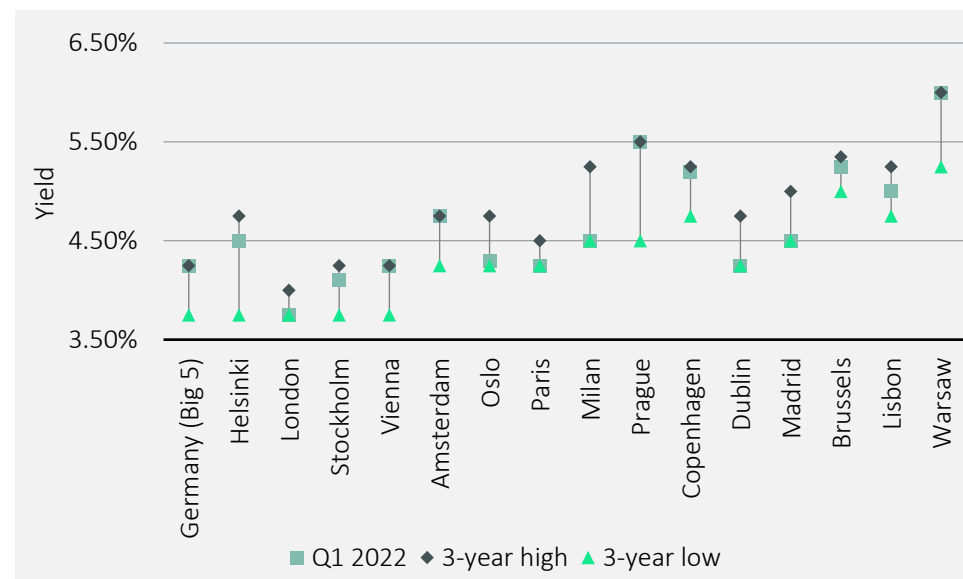
The Netherlands

- Increasing investor appetite is expected throughout 2022 as investors seek to add hotel assets to their portfolios. A series of large hotel transactions in the pipeline is expected to boost confidence in the market and ensure investment volumes rebound to pre-Covid-19 levels.

Southern Europe

- Investor confidence in the Spanish hotel market is high as the country's holiday destinations look to benefit from the return of international travel. Q1 2022 volumes were significantly ahead of Q1 2021 figures. Despite rising inflation and energy costs, the outlook for Spain as a hotel investment destinations remains strong.
- In Italy, investors are seeking opportunities to refurbish existing hotels in prime locations, as a response to increasingly diversified demand.

Figure 3: Hotel Operational Lease Yields



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