HOTELS & BUSINESS

CUSHMAN & WAKEFIELD

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REPORT

Holiday and rural destinations, at the forefront of the recovery in tourism

REPORT

Operators and investors share their diagnoses and solutions for the recovery of the hotel industry

INTERVIEW

Matilde Almandoz, Chair Mice & OPC Forum Spain

round-up

AT THE CENTER OF WHAT'S NEXT

MAP OF OPEN HYPOTHESES

For two years, activity linked to the hotel industry has been heavily conditioned by a health crisis that remains unresolved, thus leading to uncertainty. Within this context, every player in the sector – operators, investors, managers, consultants, agencies, etc., are working from their various perspectives to maintain competitiveness and efficiency.

Due to the effect on demand, hotel operators have been the most directly impacted by restrictions on the mobility of travellers. What is more, these restrictions are unpredictable and, rather than their impact being simultaneous, depend on the evolution of various waves, therefore affecting destinations unequally. In Spain we witnessed positive results in summer in a number of holiday and inland destinations, whereas major cities continued to suffer due to the lack of a recovery in international and corporate demand, particularly within the MICE segment.

Measures such as furlough and the various extensions of this have enabled business continuity, as have a number of financial support instruments, in particular the Strategic Business Solvency Assistance Fund (Fondo de Ayuda a la Solvencia de Empresas Estratégicas), to which various hotel chains have turned. In comparison with 2008, the sector entered this crisis under less financial stress. Nevertheless, low occupancy levels are affecting RevPAR and cannot be sustained indefinitely. It is essential for the recovery to rapidly gather pace in 2022 in the worst affected destinations, these being mainly the major cities, but also holiday destinations with a significant international profile such as the Canaries and Balearics.

The investment market continues to closely follow events on the Iberian Peninsula. In fact, our Investor Beat 2021 report highlighted that Barcelona is the most sought-after city by investors at a European level. Up until 2019 there was an upward trend in prices that placed many hotel assets at levels jeopardising yields for investors. In contrast, the current circumstances enable a better approximation of buyer and vendor expectations and we will continue to see new deals throughout 2022.

Among other things, these two long years under the shadow of the pandemic have taught us that strategy entails responding rapidly to changing circumstances in order to minimise risk. We therefore recommend strategies that accommodate various open hypotheses, analysing in detail all of the existing options to enable us to adapt rapidly to that which is most appropriate at any time. As indicated by health experts, we know that 2022 may still turn out to be a complicated year, particularly in countries where the vaccination rollout is progressing very slowly. Having already begun in some destinations in 2021, the recovery will be gradual. We expect that this will be confirmed in 2023, with 2024 seeing full recovery. Until then, we need to continue preparing ourselves for all eventualities from an operational point of view and be on the lookout for the appearance on the market of assets that are attractive from an investor's viewpoint.

ALBERT GRAU
Partner and Co-head of C&W Hospitality Spain

BRUNO HALLÉ
Partner and Co-head of C&W Hospitality Spain

WHY ARE FUNDS SHOWING INTEREST IN THE HOTEL MARKET DESPITE THE HEALTH CRISIS?

Montse Llaberia Cots
Operations Director.
Clian Holding

under consideration

Clian is an investment vehicle that has been running since 2006, including a branch of diversified real estate activity in different segments. Hotel investment is considered to be a complex business that requires in-depth knowledge of the industry. In recent years, however, interest in investing in these assets has grown in tandem with the rise in the number of tourists, there has been an increase in the professionalisation of operators, brands have become more consolidated and progress has been made with respect to the separation between the ownership and operation of hotels.

Up to now we have been present in the sector through a hotel fund and with investments in tourist apartments. In the years running up to the pandemic we were interested in acquiring a prime city hotel or tourist apartments in Barcelona or Madrid. The scarcity of investment product of this type has, however, been noteworthy during recent years. For example, in 2019 only 7 hotels were sold in Barcelona. Owners opted to maintain these assets or divest solely in the case of exorbitant prices. Hotel investment in the city was an almost impossible task due to the lack of supply.

The pandemic broke like a tidal wave upon the hotel industry in 2020 and was entirely unprecedented. Following an initial standstill, many of us restarted our asset search with an opportunistic focus, on the lookout for significant discounts in the tourism sector. Discounts for high quality urban hotels have, however, proven to be more moderate owing to the aid received by the sector and the strong demand for hotel investment due to existing levels of liquidity. Although there is some way still to go with respect to Covid-19, thanks to the global vaccine rollout we are able to see recovery in the demand for travel to safe destinations over the medium term. As a result, and despite the severe impact of the health crisis, the resurgence of demand, in particular for this type of travel, indicates that assets within the leisure sector remain resilient and have potential for growth.

The experts believe that options for opportunistic acquisition will be even less common as of 2022, although it is highly probable that the supply of hotels for sale in the market will continue to increase due to the instability and financial requirements of some proprietors. At Clian we consider this to represent a window of opportunity to invest in a sector in which product offerings have traditionally been scarce.

Lucy Smith
Director, Head of Investments at Mazabi, Gestión de Patrimonios

During the years running up to the pandemic, Spain reinforced its tourism sector by growing both the number of tourists and their spending power. The share of tourism within Spain's GDP expanded progressively during this period, up to 2019 when it broke its record for revenue from overseas tourism. Conscious of the growth of tourism in Spain and its future potential, international funds have focused on the search for investment opportunities in the Spanish hotel market.

Hotels have suffered more than any other real estate asset during the months of the pandemic, both in terms of operations and investment volumes. The number of international visitors has dropped by more than 80% in comparison with 2019, leading to many hotels closing their doors and others needing to survive with no revenue. These circumstances have favoured a radical shift in trend, although many funds (general and specialised) are strengthening their focus on Spain and committing to a rapid, forceful recovery due to the strong fundamentals of the segment and a successful summer 2021 season. Given the limited number of deals in 2020, investment funds have available capital and we expect that, taking into account the foreseeable increase in the availability of bank financing, there will be even greater growth in investor activity in the future. In line with the assumption that prime hotels and destinations will recover sooner and more robustly, funds have focused their investments on these. We are in fact seeing that the interest of international investors in these types of assets (liquid, and of high quality) in the market is very high, as indicated by the prices (in some cases amounting almost to pre-Covid prices) and investment volumes (at almost 2019 levels) achieved.

For their part, high net worth individuals and family offices generally prefer to put their cash in low risk investments with a long-term wealth conservation strategy and, generally speaking, hotel assets do not fit well with this due to a volatile market cycle more dependent upon the underlying business. We are, however, of the opinion that by investing in good locations and liquid assets with long-term contracts and well-known operators, it is possible to mitigate this risk.

In Mazabi we began investing in hotels in 2006, with an establishment in Berlin. This was joined by another hotel in London in 2010. We have been present in the Spanish market since 2013 and have a portfolio of 21 hotels. Our investment focus is aimed primarily at "city tourism" hotels and holiday establishments on the seafront with long-term lease contracts.

A PARADIGM SHIFT BASED ON TALENT MANAGEMENT, MARKETING AND SUSTAINABILITY

Room Mate Hotels Team

THE MAIN GOAL OF HOTEL OPERATORS IS TO OFFER AN EXCEPTIONAL PRODUCT

A session of the Hospitality Lab takes place approximately every 3 months. This Cushman & Wakefield Hospitality initiative brings together 15 major players in the tourism and hotel industry to share their opinions on key aspects of the sector. At the meeting held in October we were able to see three points on which the majority of participants were in agreement. One consisted of the fact that the industry will increasingly need to make considerable efforts to attract and retain talent. This has been highlighted by the fact that the crisis has hindered the task of team management. Secondly, marketing will continue to be focused on the search for direct customers and, lastly, that sustainable management represents an unavoidable aspect of competitiveness.

Following more than a year in which the sector has been almost entirely invisible, talent management will play a crucial role in the recovery. Numerous hotel chains are currently facing difficulties in hiring professionals due to the fact that many workers changed sector during the pandemic in order to achieve greater job security.

Working hours and seasonality are aspects of hotel operations that represent drawbacks in terms of finding specific profiles and businesses are making efforts to recruit staff. Retention is also crucial given that the demand side is exacting with respect to the product and hotel business models are also committing to propositions with greater added value requiring high standards of service.

People are key and, although remuneration clearly represents a significant element, it is not the only factor in play. Product differentiation must also be made through the differentiation of professional profiles in order to offer quality services. Chains are conscious of the situation given that this is also occurring in nearby countries, where difficulties in hiring were already present prior to the pandemic, particularly in central and northern Europe.

Career plans and the development of a distinct corporate culture are two other factors that should encourage the hiring of professionals by hotel operators who are conscious of the fact that human resources will be one of the key elements in recovering from the health crisis.

SUSTAINABILITY, A COMPETITIVE REQUIREMENT

Hotel chains know that a commitment to sustainability is no longer a matter of choice. This sustainability must be understood in an economic, social and environmental sense. Investors clearly acknowledge that good strategy in this area is an increasingly important element in their operations. This they share with financial institutions, who consider it to be crucial to their valuations and project funding policies.

Given the fact that sustainability is linked to returns in themselves, there is no turning back from the transformation of the sector towards this. A commitment to sustainability is increasingly seen as a competitive advantage.

THE SEARCH FOR DIRECT CONSUMERS

Given that standardisation (very common in holiday-oriented products) nowadays confers few competitive advantages, the crisis has demonstrated that product differentiation is a key element in competing. Chains in the holiday business continue to value their strong relationships with tour operators and airlines that enable them to attract target consumers.

Nevertheless, the majority of the hotel market is focusing on sales and marketing policies aimed at direct consumers, with two goals in mind: growing revenue and boosting loyalty. According to Phocuswright data for 2020, OTAs enjoyed a market share representing 64% of hotel bookings in Spain. These figures illustrate the fact that there is still room for growth in the direct channel. The nature of the sector, with a multitude of small, independent hotel chains, makes it more difficult to compete with OTAs. As a consequence, we may see corporate deals that generate economies of scale and more competitive sales distribution. The circumstances surrounding the health crisis lead one to think that this may prove the case.

The forced shutdown in activity in 2020 and 2021 has enabled hotel chains to consider paradigm shifts in the face of these difficulties and to speed up transformations that were already under way and can no longer be deferred. We have seen multiple hotel chains investing in technology in order to better understand their customers and develop business strategies focused on the goals of customising their offerings and boosting loyalty.

HOLIDAY AND RURAL DESTINATIONS,
AT THE FOREFRONT OF THE RECOVERY IN TOURISM

The second Hotel Operator Beat report, produced in the last quarter of 2021, brings together the opinions of executives belonging to hotel businesses comprising 1,700 establishments and more than 127,000 rooms in Spain and Portugal. Among the conclusions we can highlight the fact that the recovery will be imbalanced and that much will depend upon the type of destination. Hoteliers are likewise registering delays in the growth of businesses as a result of the uncertainty brought about by the pandemic. Up until now, only 21% of hotel chains have been able to sustain their new project development schedules.

The latest Hotel Operator Beat, produced by Cushman & Wakefield Hospitality for Spain and Portugal, shows that the most optimistic forecasts made in the 2020 study were not met as a result of the global health situation.

According to Bruno Hallé, Partner and Co-head of Cushman & Wakefield Hospitality Spain, “Hotel chain executives consider that the pace of activity will not properly recover until 2023. It is anticipated that performance similar to the years preceding the pandemic will apply only to very specific destinations in 2022”.

Figure 1 indicates that Madrid inspires the most positive sentiment among destinations, with 81% of interviewees considering that tourism will recover in 2023. With respect to Barcelona, only 37% feel that this will happen prior to 2024. In terms of the speed of recovery, hoteliers consider that holiday destinations will begin to achieve good results in 2022 and be performing at full throttle in 2023.

Changes in demand side behaviour mean that other destinations may recover faster. According to Spanish and Portuguese hoteliers, these include rural and mountain areas and some coastal areas that had already achieved better figures in 2021. Some 65% of chains believe that inland destinations will get back to 2019’s figures between 2022 and 2023. At 63%, the percentage is similar for mountain destinations.

MasQi Energy House Rusticae

ACCORDING TO DESTINATION, WHEN WILL THE MARKET RECOVER?

DESTINATION:	2022	2023	2024	2025	2026 AND BEYOND
Barcelona	3%	34%	47%	13%	3%
Madrid	22%	59%	16%	0%	3%
Lisbon	16%	56%	25%	0%	3%
Other capitals	3%	44%	44%	6%	3%
Airports	0%	47%	38%	13%	3%
Inland	31%	34%	31%	3%	0%
Mountain	38%	25%	34%	3%	0%
Beach	34%	47%	19%	0%	0%

SOME 81% OF CHAINS HAVE EXPERIENCED DELAYS WITH SOME OF THEIR DEVELOPMENT PLANS

The Operator Beat survey also questioned hoteliers regarding the evolution of their business plans following the outbreak of the health crisis in March 2020. At the time of producing the report, only 19% of the chains declared that their plans had not been subject to any delay. In contrast, some 50% acknowledged delays of up to 30% and another 16% recognised that the progress of more than 50% of their projects had slowed.

Of these delayed projects, almost 3 out of every 4 were for a maximum period of 18 months, thus demonstrating the willingness of operators to push forward with their plans as soon as the opportunity presents itself.

According to Albert Grau, Partner and Co-head of Cushman & Wakefield Hospitality Spain, “given that the situation is entirely unprecedented, it is no surprise that projects have been subject to delays. On the other hand, we feel that it is highly significant that the vast majority of chains are willing to push forward with the bulk of their plans despite the hurdles, though at a more gentle pace”.

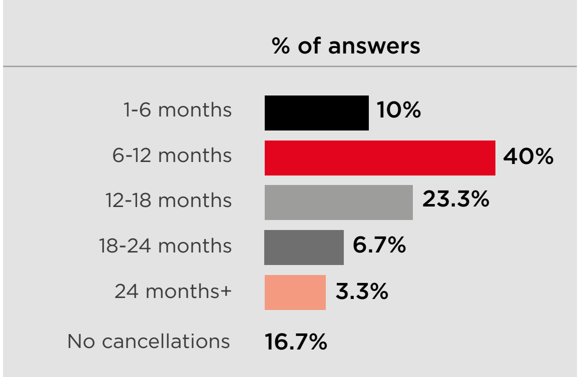
THE INSERTION OF COVID CLAUSES HAS ALREADY BECOME COMMONPLACE IN NEW CONTRACTS

CONTRACTS ARE TENDING TOWARDS GREATER FLEXIBILITY DUE TO THE IMPACT OF THE PANDEMIC

The context of uncertainty has led to a trend towards hotel contract renewal and new contract negotiations offering greater flexibility, such that risk may be better balanced between all parties. In keeping with this, the majority of contracts have seen the incorporation of articles that we could define as “pandemic” clauses, the purpose of which, following the experience that we have endured, is to ensure the absence of any need to reopen negotiations in the event of a lack of transparency such as that which appeared as of March 2020.

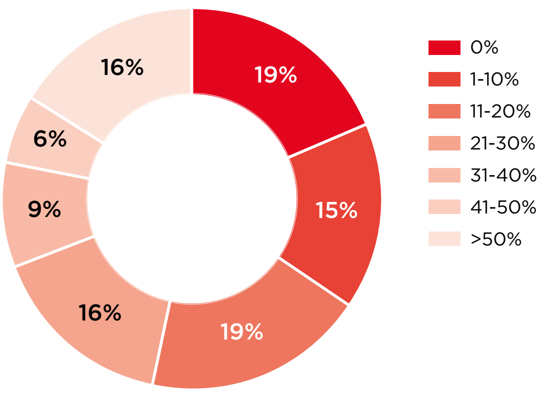
These trends are mirrored in new contract types, clear growth being evident in terms of variable rent. The hotel chains surveyed acknowledged that variable rent contracts have grown by some 63%, whereas fixed rent agreements are clearly on the decline due to the need for flexibility on the part of operators. According to Albert Grau, “given that the market was already evolving towards these types of hotel contracts, the aforementioned trend will remain in place, the pandemic merely having accelerated this transformation”.

AVERAGE DELAY

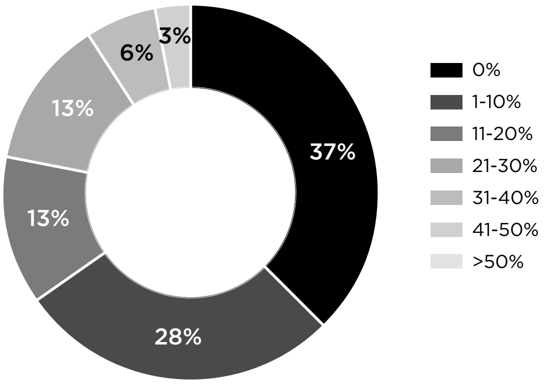


WHAT PERCENTAGE OF DEVELOPMENT PROJECTS ARE DELAYED OR ON STANDBY?

% of projects delayed



% of projects on standby

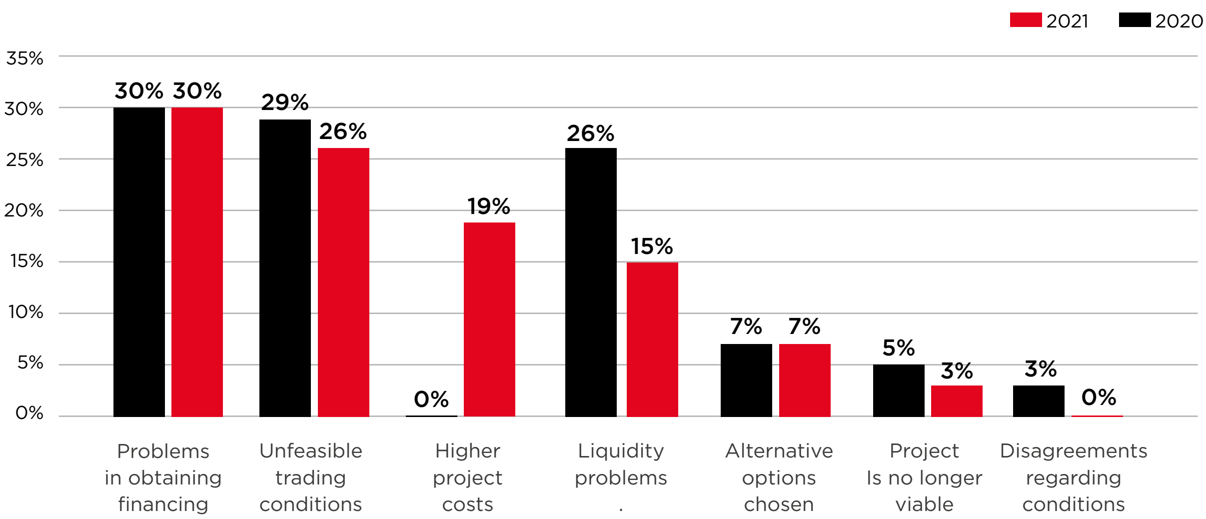


FINANCING IS THE MAIN CAUSE OF THE SLOWING DOWN OF PROJECTS

Some 30% of projects have been slowed as a result of difficulties in obtaining funding, whilst in the case of some 15% the problem is down to liquidity itself. Other major reasons include changes in the trading environment, at some 26%, along with increases in project costs (19%).

In the opinion of Bruno Hallé, "although hotel chains are making an effort to stick to their business plans, the market situation, financing, inflation and the availability of capital represent major challenges that must be tackled in order to pursue these".

WHAT IS BEHIND THE DELAYS IN TERMS OF PROJECTS? (Comparison 2020-2021)



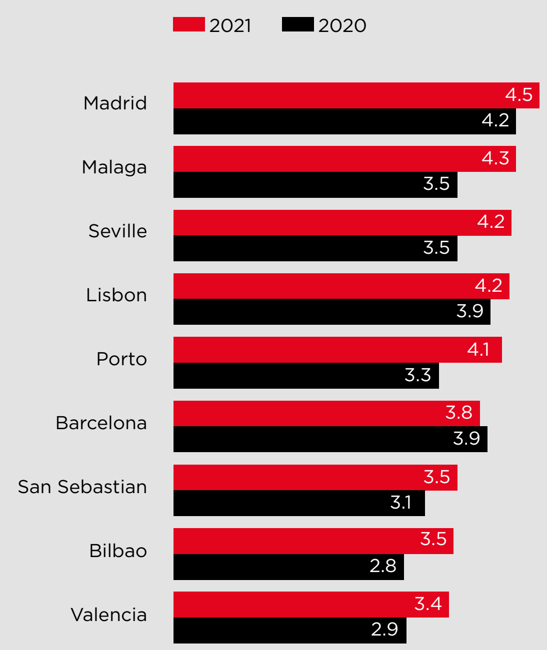
Source: Cushman & Wakefield

MADRID AND MALAGA LEAD THE RANKING OF MOST ATTRACTIVE DESTINATIONS FOR HOTEL CHAINS

Hotel chains feel that the most attractive destinations in Spain and Portugal, on which they are continuing to focus their growth, are, in sequence, Madrid, Malaga, Seville, Lisbon and Porto. Having suffered attrition of one tenth of a percentage point from the figure for the previous year (to 3.8), Barcelona sits in contrast to cities whose attractiveness has grown during 2021. The opinion of hotel operators regarding Barcelona contrasts with that of investors, in that the most recent Investor Beat report highlighted Barcelona as being the most attractive city in Europe for hotel investment.

The most notable item in comparison with 2020 is the fact that the consideration of practically all destinations improved, with hotel executives seeing increased growth potential. We may interpret this as optimism regarding the recovery of the sector. The cities seeing the most notable improvements in sentiment included Malaga and Seville, with rises of eight and seven tenths respectively above the figure for 2020.

10 MOST ATTRACTIVE CITIES FOR HOTEL CHAINS IN SPAIN AND PORTUGAL



Source: Cushman & Wakefield

interview

MATILDE ALMANDOZ
CHAIR OF THE MICE & OPC FORUM SPAIN

Through the wide range of her responsibilities, Matilde Almandoz has decisively driven the activities of trade organisations in order to generate synergies that add value for every player within a highly scattered business map. She currently chairs the Spanish OPC (Professional Congress Organiser) Federation, the goal of which is to raise the professional profile of the MICE sector. From her position, she has driven actions to raise awareness of MICE, an essential knowledge transfer and communications activity requiring all of tourism's resources and contributing wealth and a legacy to destinations. She has also put forward the activation of synergies between all of the players in a sector with a bright, innovative future.

Your outlook on the present is usually optimistic. How do you currently see the situation of the MICE sector and its importance within the tourism industry as a whole?
Reliable data for MICE immediately prior to the pandemic indicated that it represented more than 15% of the Spanish tourism industry. And we know that this figure falls short because our sector includes activities that tourism statistics do not always include. On the one hand this situation has confirmed that MICE activity is essential for businesses, organisations and participants and, in addition, that its absence does severe harm to destinations.

There remains a certain knowledge deficit with respect to what MICE is, what meetings, events, incentives and trade fairs represent, along with what they contribute to the Spanish tourism product.

In your experience, is this the most complicated period that the sector has endured?
Undoubtedly. I believe that that is spot-on in describing a perfect storm that has already lasted two years. The combination of a pandemic that has laid bare the vulnerabilities of advanced societies, the uncertainty and a lack of free movement and security

A graduate in Spanish Philology and with studies within the European Union, she entered the communications world by way of two major events: the organisation of the Tour de France departure stage and the San Sebastián Film Festival. She became an entrepreneur and businesswoman in 1993 with the creation of Presencia Internacional. As founding partner and director, she has pursued her activities along two lines: that of OPC as organiser of meetings, seminars and congresses and that of communications events, both with a clearly international vocation.

have impeded our normal activities. Being digitally more advanced than others, our sector understood from the outset how to respond, offering firstly virtual and then hybrid solutions. The MICE community has proven itself to be resilient and has maximised its capacity to adapt to new circumstances.

Spain is ranked among the top 5 MICE destinations worldwide. How has it achieved this position and what are the challenges it faces in the near future?
Spain has for many years been playing within the Champions' League in terms of MICE and is the undeniable leader in some segments such as medical conferences. The quality of its tourism resources and infrastructure, its territorial and technological connectivity, the diversity of its regions and the safety of Spain as a destination have contributed to achieving and maintaining this leadership position. The destinations that share the other top 5 places are also those which have been most severely impacted by the pandemic. We all share the same challenges for the immediate future: returning to in-person attendance of MICE with confidence, safety and certainty. The high quality of our human resources has also proved to be one of our strongest foundations in Spain. We have the material and human resources. We need support and commitment in terms of the ambitious promotion of Spain as a MICE destination.

Looking towards the longer term, the pandemic has accelerated the global strategy of companies to limit corporate travel, whilst at the same time they acknowledge that it is essential for the development of the business. How is it possible to find a balance in this area?
The balance will come with acceptance of the post-pandemic paradox: the intensive and, sometimes, excessive use of a number of tools has demonstrated that physical presence is irreplaceable. Audiences have been widened and made more universal through the use of digital tools. However, the limitations of these solutions have come to the surface. Mobility is essential for in-person MICE. MICE, whether we are talking about meetings, conferences, conventions, incentives, trade fairs or events, is defined by shared experiences and content communication.

What are the goals of the OPC Federation?
The Federation's main goal continues to be a demand for professionalism in activities within the MICE ecosystem in all territories. Our high degree of preparation has been visible throughout the pandemic in that for some time we have ensured the traceability of attendees at our events. We have fostered the community by promoting virtual, hybrid and, eventually, in-person events. We have worked on safety protocols and set an example in terms of trust and safety. Our challenge now consists of ensuring physical presence within a safe environment.

The hotel industry, along with lodging in general, plays a key role in the ultimate success of a congress or an event. What are your feelings concerning the current situation of the industry? In what areas is there room for improvement?
I believe that the lodging industry has also shown its resilience in the face of this problematic situation. As you know, within the world of congresses the hotel industry offers far more than accommodation. It is the leader in terms of venues, ahead of Conference Centres.

Adaptations have been made to new trends in terms of fitting out (sizing, versatility, natural lighting), with respect to services there is good tracking of client expectations.... Fortunately there is always room for improvement when attendees are actively listened to.

Notable within your CV is the organisation of events such as the Tour de France and the San Sebastián Film Festival. In terms of services, which events are the most important for the sector in Spain and in which industries is there room for improvement?
In terms of events, there is considerable room for growth in the world of sports, culture, science, professional specialisations and in every knowledge-based area. It is important to remember that events have a "pull" effect on a value chain, the contribution of which to the economy, as shown by the crisis, was more important than had been thought. They also generate a legacy creating wealth over the medium term.

Turning to the trade fair/congress world, Mobile is the guiding light with respect to what I said previously. In many sectors there are, however, areas to be developed. We need to commit to the creation of events in areas of content in which we wish to position Spain. Given that they consist of knowledge transfer, events represent an irreplaceable communications tool. As a first-rate destination, Spain should be ambitious and invest in the creation of Congresses and Events that aim to stay.

With respect to the FITUR trade fair, which proposals will be presented by OPC?
Given that its members are highly engaged in the activities of their autonomous regions and will be involved in the various institutional agendas, OPC Spain has a strong plan for this year's FITUR.

This year's event will also serve as the prelude to the thirty-fourth OPC'22 Congress. This will take place in Santander in February under the banner of sustainability and will be presented on January 20 at the Cantabria stand.

We will also participate in Fitur Woman in line with goal 5 of the SDGs, and will also attend to requests for information at our stand.

HOTEL INVESTMENT, **UNDER DEBATE AT HIP 2022**

On Tuesday, March 8 and within the framework of the HIP 2022 (Hospitality Innovation Planet) trade fair, Cushman & Wakefield will organise a debate around hotel investment. This will count on the participation of prominent representatives in this field, from financial institutions to institutional representatives and including academics, investment fund representatives, etc.

The session will begin with a presentation by Michael Nowlis, a speaker with more than 40 years' academic experience at Cornell University (of which he was dean), as well as having been the director of exceptional assets such as the Waldorf Astoria in New York and the Beau-Rivage in Lausanne. The participation of Inmaculada de Benito, Director of Tourism, Culture and Sports within the CEOE has also been confirmed, along with David Rico, managing director of CaixaBank Hotel & Tourism and David Hoys, consultancy director of Dyrecto.

The partners and co-heads of Cushman & Wakefield Hospitality Spain, Albert Grau and Bruno Hallé, will additionally be present Also representing the firm, the participation as moderator of the round table focused on European investment of Fred Le Fichoux, head of Hotel Transactions for Continental Europe, is anticipated.

ISABEL FERNÁNDEZ-VALENCIA JOINS CUSHMAN & WAKEFIELD HOSPITALITY AS AN ASSOCIATE IN THE VALUATIONS DEPARTMENT

The Hospitality Division of Cushman & Wakefield Spain strengthens its Valuations department with the recruitment of Isabel Fernández-Valencia (RICS) as an associate.

Throughout her extensive career she has undertaken duties involving property valuation in firms such as Hypothekenbank Frankfurt, Royal Bank of Scotland, American Appraisal Group, Gesvalt and Catella Property Spain, where she was the Head of Valuations & Advisory.

With Isabel Fernández-Valencia, the Hospitality division strengthens its talent base in order to face up to a year in which considerable activity in Spain's hotel industry is anticipated. This corresponds both to the situation generated by the lack of visibility of the sector due to the pandemic and its successive waves and, additionally, the attention that hotel assets are attracting among specialised investors, whether national or international. Given this context, the ability to offer a valuation represents a key aspect in decision-making.

OPERATORS AND INVESTORS SHARE THEIR DIAGNOSES AND SOLUTIONS FOR THE RECOVERY OF THE INDUSTRY

Grand Hotel Central, Barcelona

The Annual Hospitality Conference organised in November 2021 by Cushman & Wakefield Hospitality Spain shed light on the similarity of outlook of hotel operators and investors in terms of the keys to the reactivation of hotel and tourism activity. The circumstances at the time meant that the Conference was held remotely, benefiting from strong attendance on the part of professionals within the sector who attended the event by invitation.

During his intervention at the Conference, the managing director of STR, Robin Rossmann, reminded us of certain key aspects as to the nature of the much awaited recovery in activity. Firstly, he pointed out that this should prove faster than indicated by the majority of predictions given that OECD data showing forecasts of GDP trends for 2021 were being exceeded, the level of 2019 having been reached. This leads to a second conclusion related to the fact that hotel activity is intimately bound up with economic activity, particularly strengthening corporate travel.

In short, Rossmann's thoughts serve to remind us that the tourist industry is fully established in the vast majority of countries worldwide, such that the resurgence will be rapid as of the moment at which restrictions on mobility are lifted and the evolution of the pandemic itself permits. Inflation will prove to be a key element over the coming months in that historical records show that excessive inflation does not necessarily lead to disproportionate increases in ADR, therefore possibly impacting returns and hotel operations. It will be necessary to properly analyse the trend in inflation given that it could prove a challenge to operating margins.

SOME 40% OF INVESTORS HAVE STRENGTHENED THEIR BUYER POSITION DURING THE PANDEMIC

Indicators are already placing occupancy for the United States and Middle East at 90% of 2019's figures. This 90% had already been reached six months ago and, for the time being, it seems unlikely that 100% will be reached until such time as full normality is restored. In Europe we see that figures are hovering around 66% of the 2019 average, whereas in China, which started out with rapid recovery, figures have shifted in recent months due to the country's zero-Covid policy and a slower vaccine rolllout. In tandem with this recovery in occupancy, the ADR has returned to 2019 levels not just in both the United States and Middle East, but also in Europe. These operating indicators demonstrate the resilience of the hotel industry.

Mare Nostrum Resort, Tenerife

INVESTORS HAVE COME BACK TO LIFE FOLLOWING THE TOUGHEST MOMENTS OF THE PANDEMIC

During his presentation at the Conference, Borik Vokrinek, Hospitality Research Director at Cushman & Wakefield EMEA, reminded us of data from the Investor Beat report, in which some 40% of the investors interviewed acknowledged having increased their buyer positions during the pandemic, whilst solely 21% had reduced these. When analysing the market, 59% of investors expected discounts for hotel assets of between 10% and 20%, particularly in those areas in which the upward rally up to 2019 had hindered the appearance of assets that were attractive from an investment point of view. This situation has changed with the pandemic and the trend in prices may help to continue reducing the gap in negotiating positions between investors and owners.

At this time of uncertainty, investors acknowledge the fact that they are more alert to core markets such as the UK, Ireland, Germany, Spain and Portugal. Within the Iberian Peninsula, some 96% of investors are analysing the market on the lookout for good opportunities. With regard to asset type, resorts and buildings comprising entirely serviced apartments are the products currently awakening the greatest interest.

MAJOR HOTEL CHAINS WISH TO GROW SUSTAINABLY

The conference round table focused on hotel operators included Ramón Aragonés, CEO of NH Hotel Group; Amancio López, Chairman of Hotusa and José Ángel Preciados, CEO of Ilunion. Despite the extremely harsh conditions during the earliest stages of the crisis, major chains are optimistic in the sense of the market recovering and a return to something like 2019. Some trends, however, may endure, such as shorter, more frequent trips, particularly with respect to urban leisure. The corporate travel segment may also get back to normality, though perhaps opting for smaller groups over the coming years. At the end of the day, travel is social and therefore represents a human need.

All of the chains have had to manage uncertainty with the goal of getting through the pandemic with greater efficiency and strength, a major challenge being the area of team management. The need to reduce costs in order achieve efficiency improvements has led to the development of projects in many chains that will see continuity and which have served to transform organisations aimed at improving them. Although mandatory for all operators due to market and stakeholder requirements, sustainability is a priority that each participant is tackling from their own point of view. Along these lines, speakers highlighted not only the environmental, but also the social and economic aspects of sustainability as key to the solidity and attractiveness of their business projects.

Within the area of management models, the pandemic will drive a reduction in the fixed component and increase to the variable component of lease agreements. In the majority of cases, new agreements or the renegotiation of existing contracts will include a "Covid or pandemic clause", enabling the parties, both investors and operators, to share risk in the face of situations such as that which we have experienced over the past two years.

In terms of development strategy, executives concurred on the appropriateness of lines of selective growth in which each chain follows its own specialisation so as to ensure that growth impacts Ebitda rather than simply increasing turnover. True growth consists of the sustainability of the business project. Between leasing and management, hotel businesses many incline themselves more towards management due to the lower risk. Relationships between companies and the different types of investors and proprietors are more fluid given that the need to renegotiate has also strengthened shared confidence in spite of the difficulties.

In terms of product, the need for exceptional, differentiated products was highlighted and, in Spain, greater business concentration is visible, aimed at improving distribution.

INVESTORS REMAIN COMMITTED TO SPAIN

The Conference concluded with a round table comprising international investors, such as Neil Kirk, COO of London and Regional Properties; Stephane Obadia, Head of Investment at Schroders HEC and Nabil Aquedim, Executive Director at Goldman Sachs. Hotel investment is in good health as a whole in that firms consider that long-term profits will be consistent and exposure may still be increased in both Spain and Portugal. Although the market analysis is currently global, the spotlight is on more established destinations linked to the holiday segment, such as the Canary and Balearic Islands and the Costa del Sol.

Investors consider that, despite the health crisis, the Spanish market still has the fundamental ingredients that make it attractive in terms of operations and the robustness of tourism products. Nevertheless, there is also a perspective that this market knowledge is shared by an ever greater number of investors. This may whet the appetite for acquisitions, impact asset prices and threaten subsequent yields. The executives consider that the key to the coming years will lie in this balance, where, undoubtedly, we will see major deals due to current market conditions.

Forecasts for 2022 point towards vigourous investment activity. It is possible that transactions may reach EUR 3 billion, similar to the figure achieved in 2021. Although this would represent an all-time record, the forecast may prove different in the event of having to backtrack in terms of the management of the health situation. The signs of exhaustion seen in 2019 due to the increase in asset prices in destinations such as Barcelona have changed as a result of the pandemic. This may mean that 2022 sees transactions thanks to the fact that prices, although not highly discounted, once again become attractive for medium and long-term investment.

Bless Hotel, Madrid

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APRIL 2022

▸ AAHOACON22
April 12-15 / Baltimore
https://aahoacon.streampoint.com/

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