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Hotel Investment and the Role of Private Equity

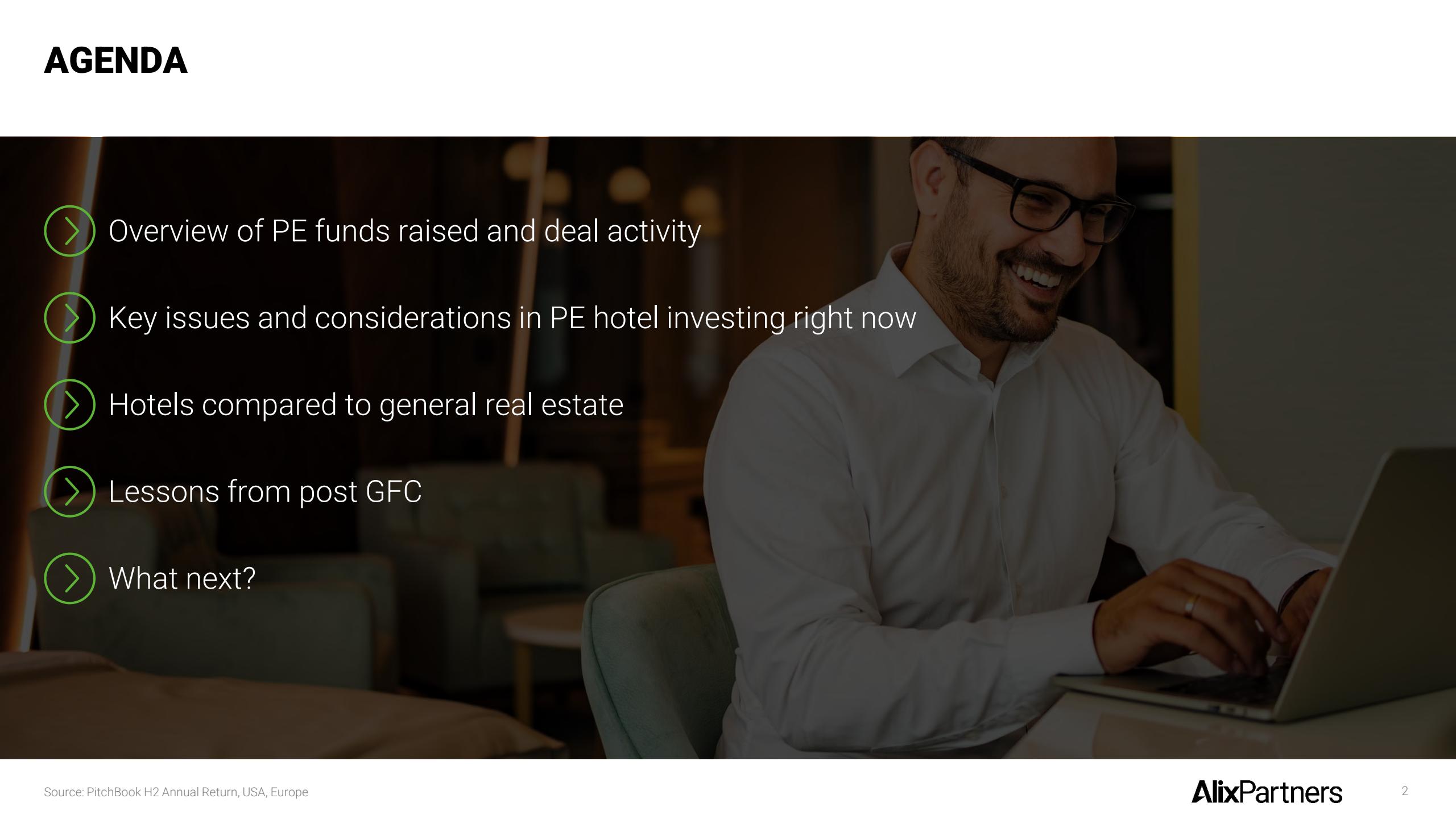
Thursday 27th April 2023

PRIVATE EQUITY INVESTMENT IN THE HOTEL INDUSTRY

Market perspectives

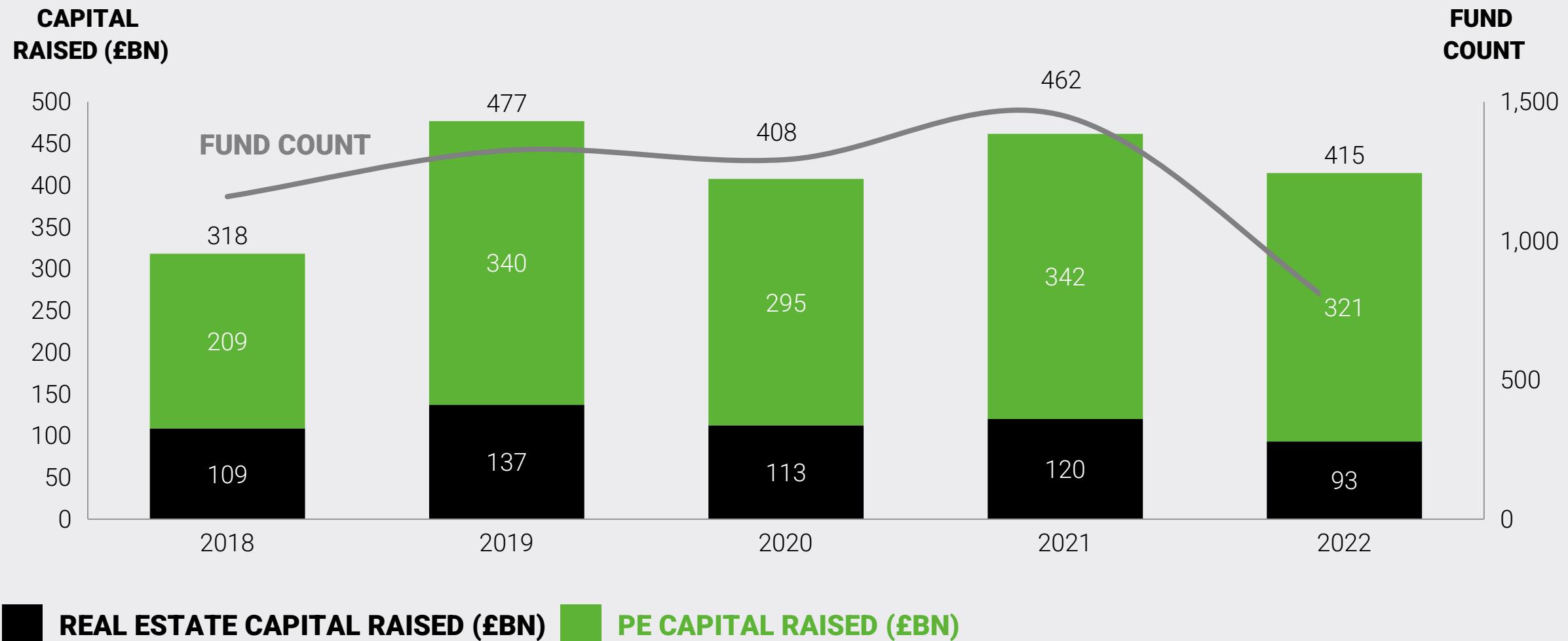
APRIL 2023

AGENDA

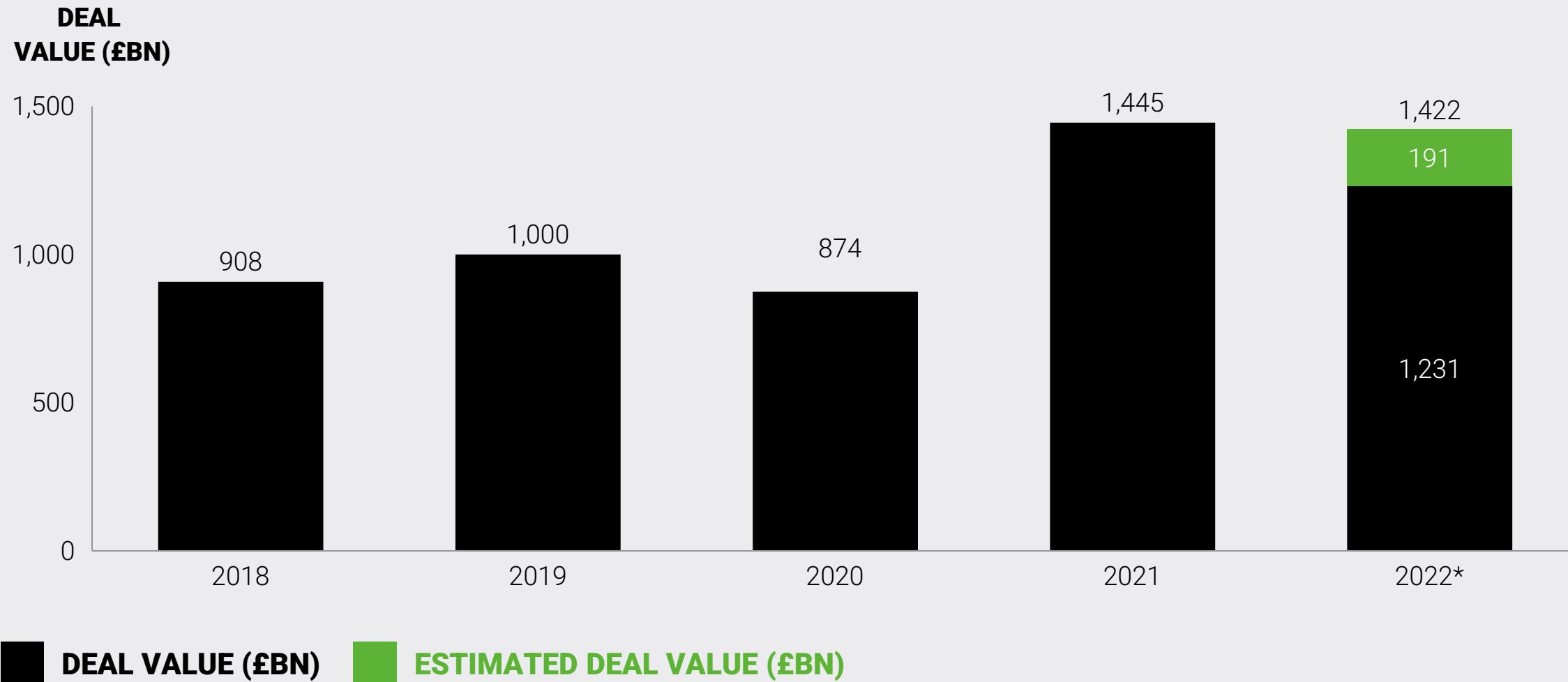


- Overview of PE funds raised and deal activity
- Key issues and considerations in PE hotel investing right now
- Hotels compared to general real estate
- Lessons from post GFC
- What next?

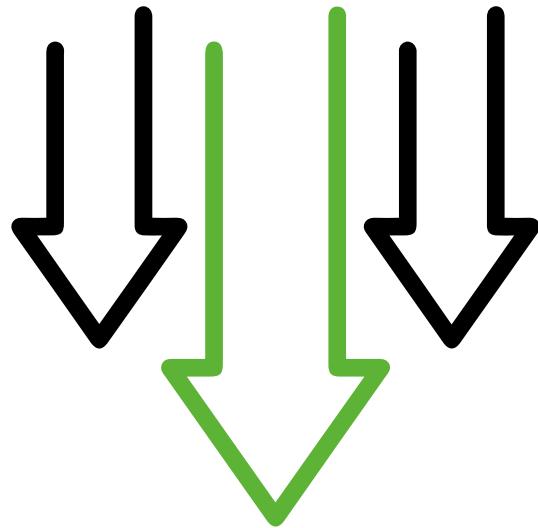
OVER £2 TRILLION RAISED (US + EURO) BY PE AND REAL ESTATE FUNDS IN THE PAST 5 YEARS – THERE IS SIGNIFICANT DRY POWDER FOR INVESTMENT



THIS HAS FLOWED THROUGH INTO DEAL ACTIVITY WHICH STEPPED UP FOLLOWING THE IMPACT OF THE PANDEMIC, BUT...



...ACTIVITY GROUND TO A HALT FOLLOWING THE SUMMER OF 2022 AS ECONOMIC UNCERTAINTY TOOK HOLD



PRIMARILY TRIGGERED BY

1. Operational uncertainty caused by energy costs, availability and cost of people, general inflationary pressures and the cost-of-living-crisis
2. The increased cost and reduced availability of debt finance



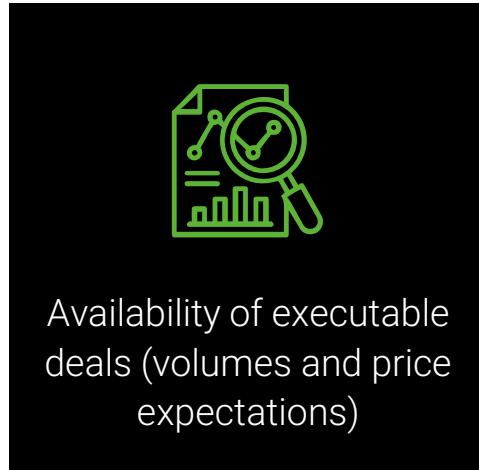
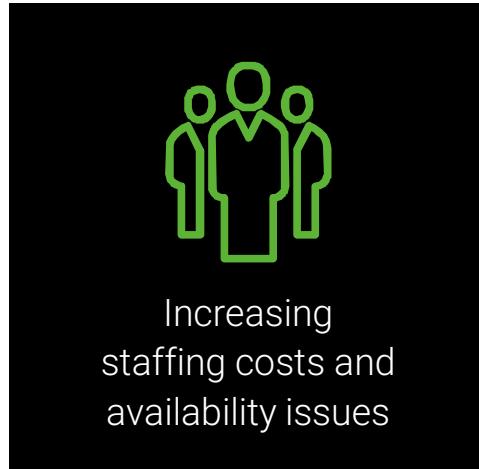
SIGNIFICANT DEAL VOLUME REDUCTION IN H2 2022

Deals completed in H2 were those that were well-progressed already, new processes on-hold as **"WAIT AND SEE" BECAME THE ACCEPTED WISDOM**

PE AND HEDGE FUND MONEY PIVOTED TO "LIQUID"
opportunities as deep-value became available in public markets and traded credit

THERE ARE A NUMBER OF KEY ISSUES IN THE HOTEL MARKET FOR PE INVESTORS BUT ALSO A NUMBER OF POSITIVE CONSIDERATIONS

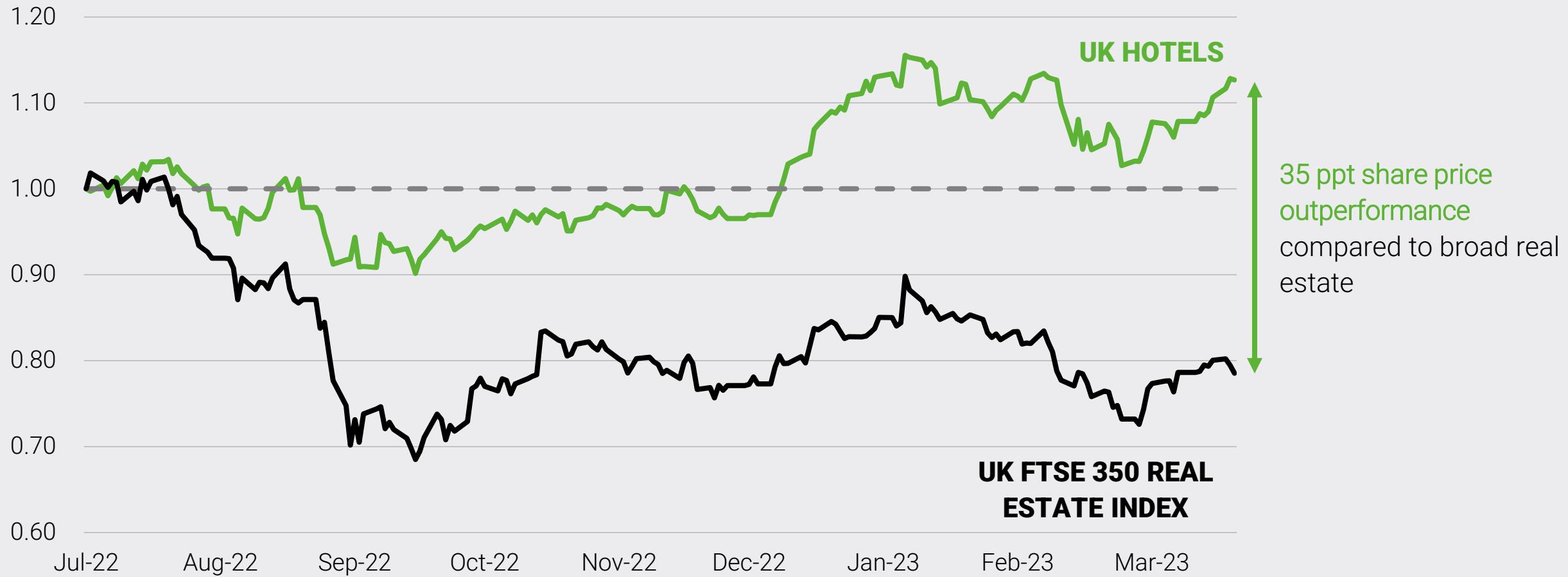
KEY ISSUES



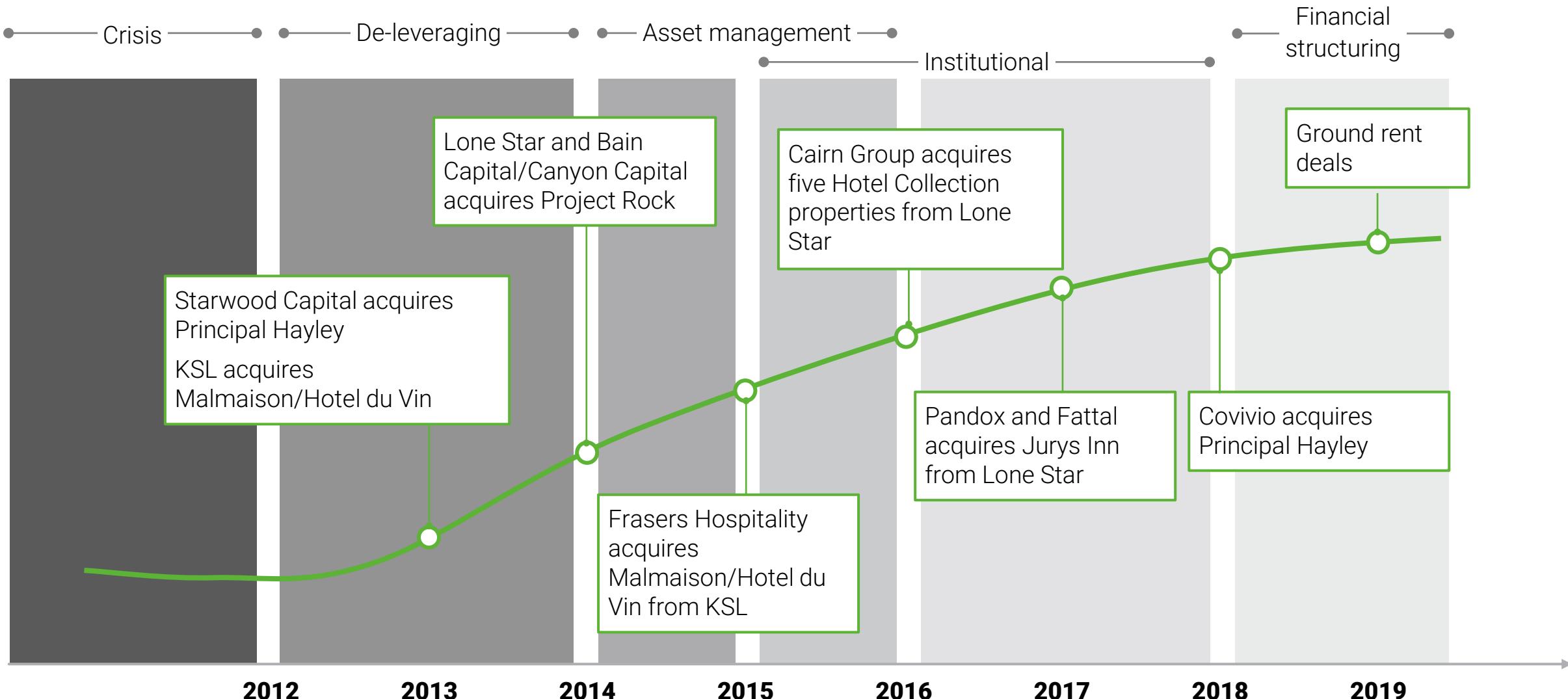
POSITIVE CONSIDERATIONS

- Yield management allows pricing to respond to inflation
- Demand for travel, particularly leisure and domestic corporate, remains as strong as ever
- Full re-opening of all long-haul routes (China) still to come
- Greater ability for strong management to differentiate due to operational disruption
- Need for investment in assets drives demand for capital
- Technology continuing to drive efficiencies which also requires capital

THESE POSITIVE CONSIDERATIONS HAVE DRIVEN IMPROVED SHARE PRICE PERFORMANCE OF UK HOTEL GROUPS COMPARED TO BROAD REAL ESTATE



POST THE GFC, THE UK HOTEL DEAL MARKET DEVELOPED THROUGH A NUMBER OF PHASES



DEAL PIPELINE IS GROWING BUT IS YET TO CONVERT INTO A FULL RECOVERY IN ACTIONABLE DEALS – ALL EYES ARE ON H2 2023

CURRENT POSITION



Significant dry powder remains ready to be invested



Volatility has subsided in operations and financing



Conditions are appearing to make deals possible again



Seller value expectations adjusting, slowly, for cost of finance and profitability pressures



Key catalyst for deals may be upcoming debt maturities and the presence of any funding gap

WHAT NEXT?



Deal types will be very situation specific due to the combination of operational and financing disruption



1. **De-leveraging:** Some banks may look to reduce exposure to the sector through refinancing, asset sales or debt sales



2. **Asset management:** Capital and enhanced operational skills may be necessary to recover value in some situations



3. **Financial structuring:** Creative solutions may be needed to plug funding gaps, bridge to recovery or fund growth



The catalyst may be uncertain, but in recoveries once the first deal happens many more typically follow



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WHEN IT REALLY MATTERS.



Hotel Investment and the Role of Private Equity

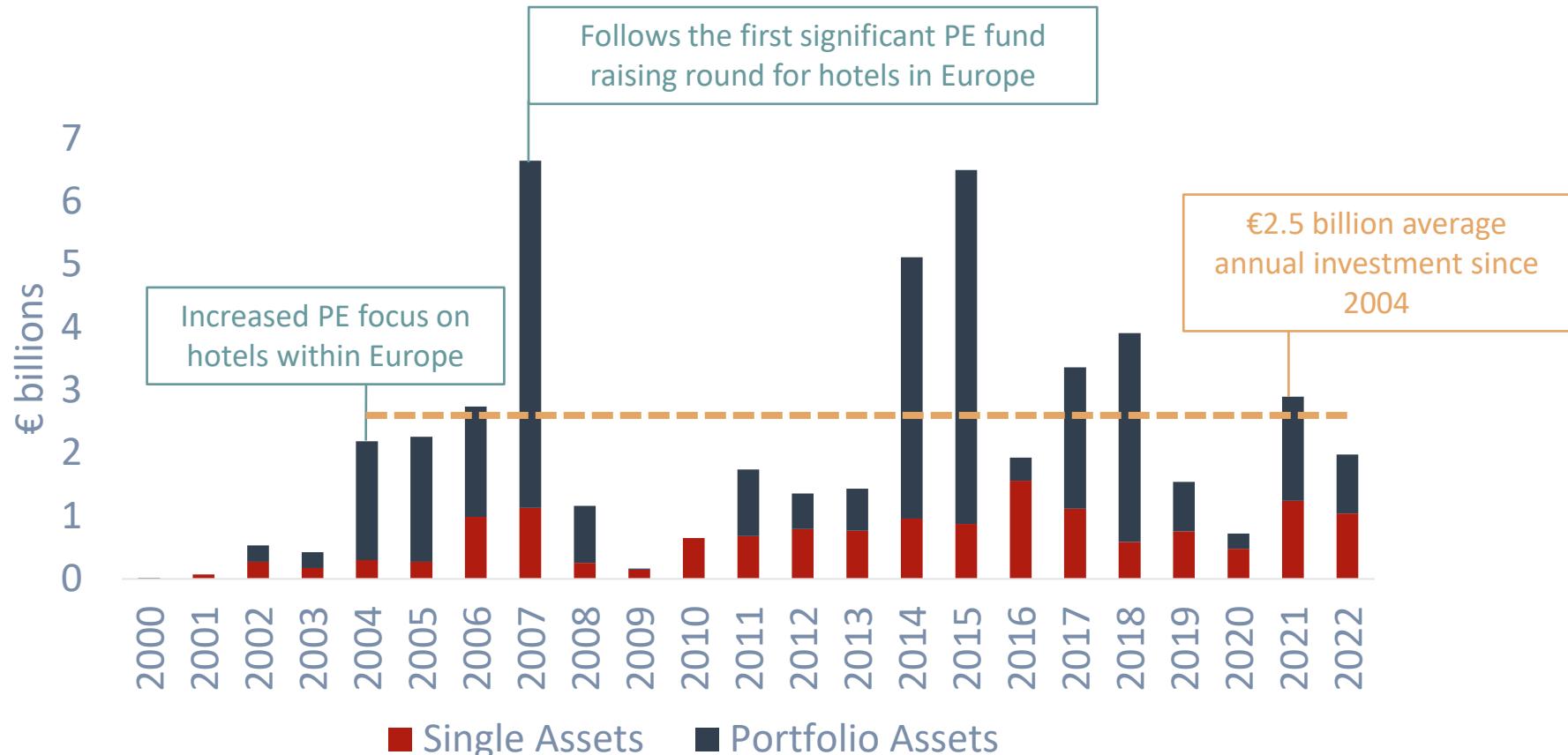
Presenter: Charles Human

Date: 27 April 2023

PE averaged €2.5 bn in hotel purchases p.a. since 2004

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Dominated by significant portfolio activity pre- and post-GFC



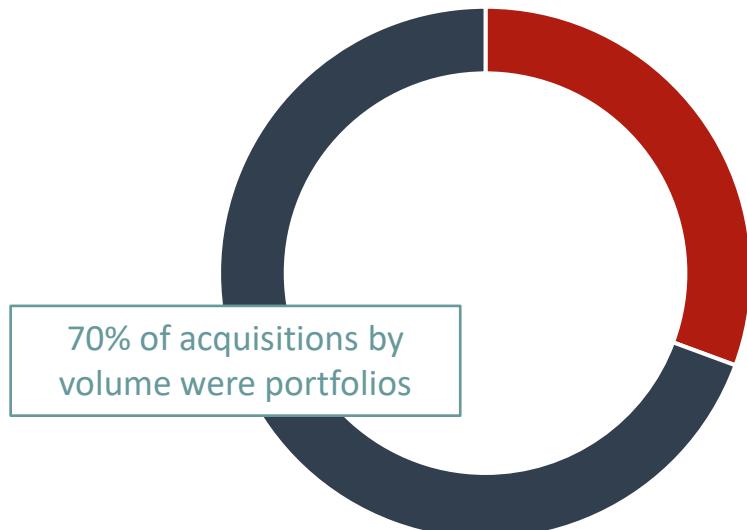
Source: HVS, Real Capital Analytics

Portfolios make up the majority of acquisition volume

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Single asset hotels vs hotel portfolio acquisition by deals and by volume since 2000

By Volume (€) since 2000



■ Single Asset ■ Portfolios

Average Deal Size

€120 million

Sweet Spot (70% of deals)

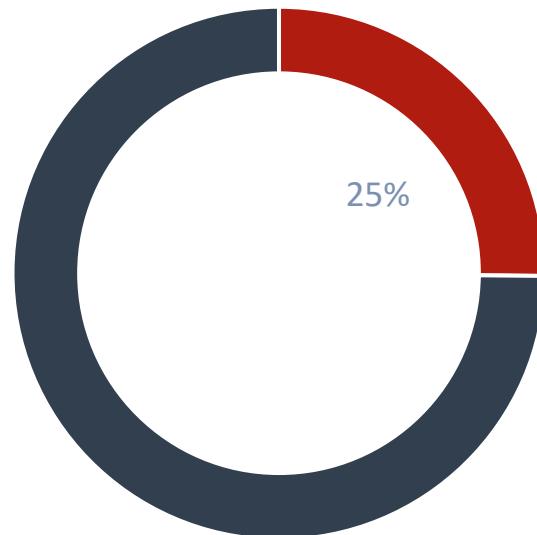
€45 - 170 million

PE bought 25% of hotel portfolios since 2004

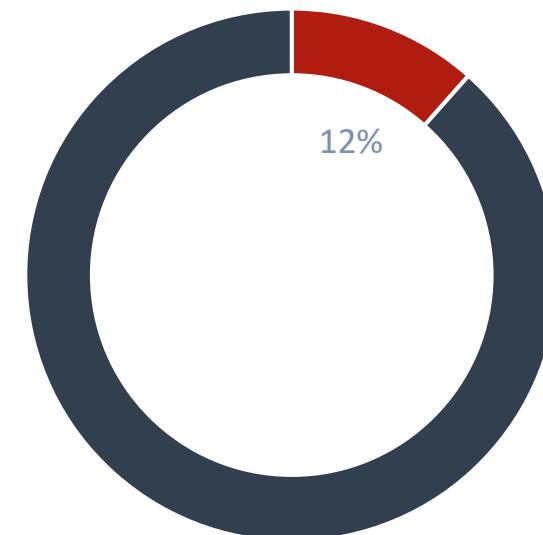
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Proportion of single asset and portfolio acquisitions completed by PE funds since 2004

Portfolio Acquisitions



Single Asset Acquisitions



20% of hotel acquisition
volume in Europe since
2004 completed by PE funds

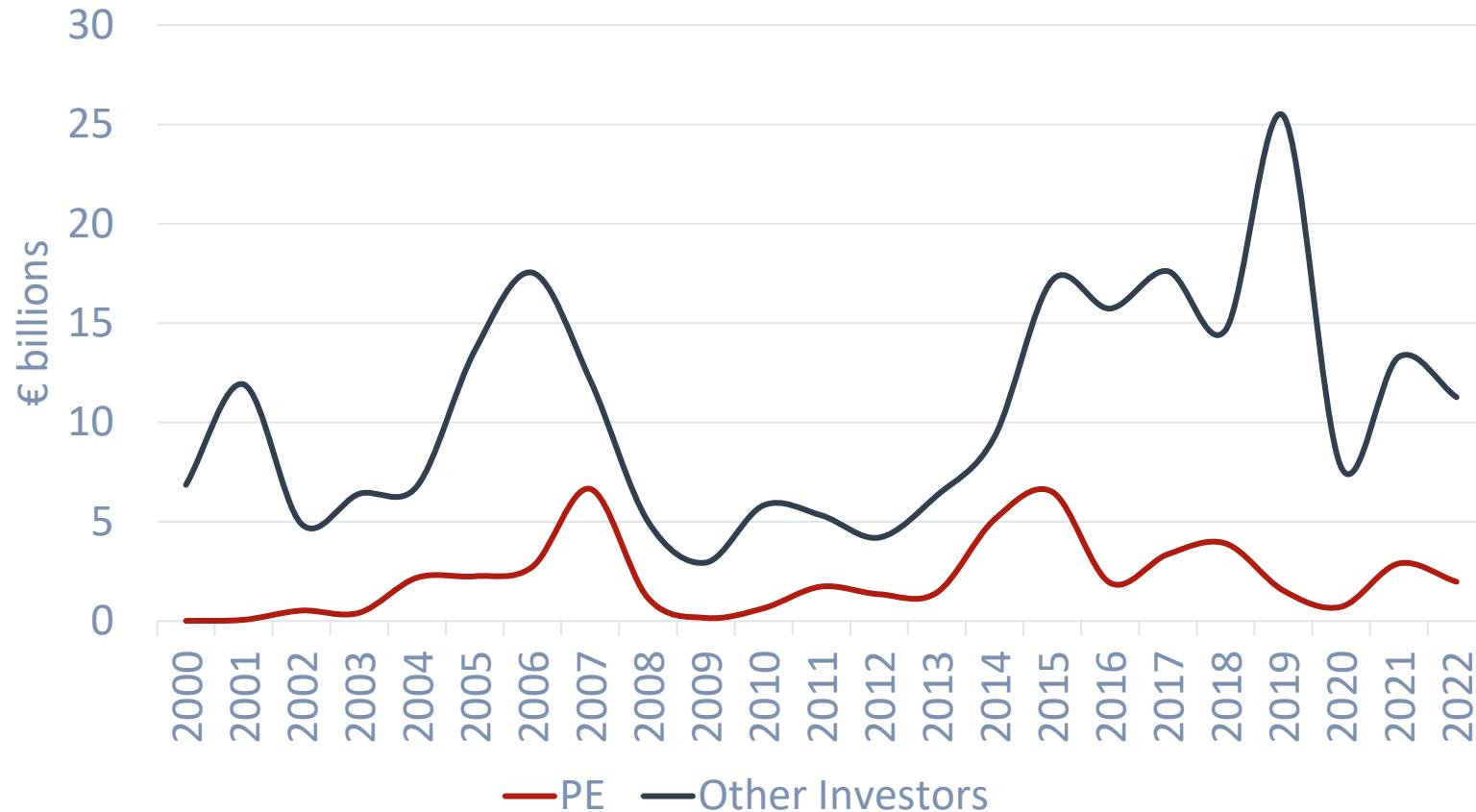
■ Private Equity ■ Other Investors

■ Private Equity ■ Other Investors

PE funds catch the hotel cycle slightly earlier

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PE and non-PE hotel investments in Europe by volume (€)



Source: HVS, Real Capital Analytics

Top 10 PE firms accounted for 70% of PE acquisitions

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Top ten PE players in Europe over the past five years

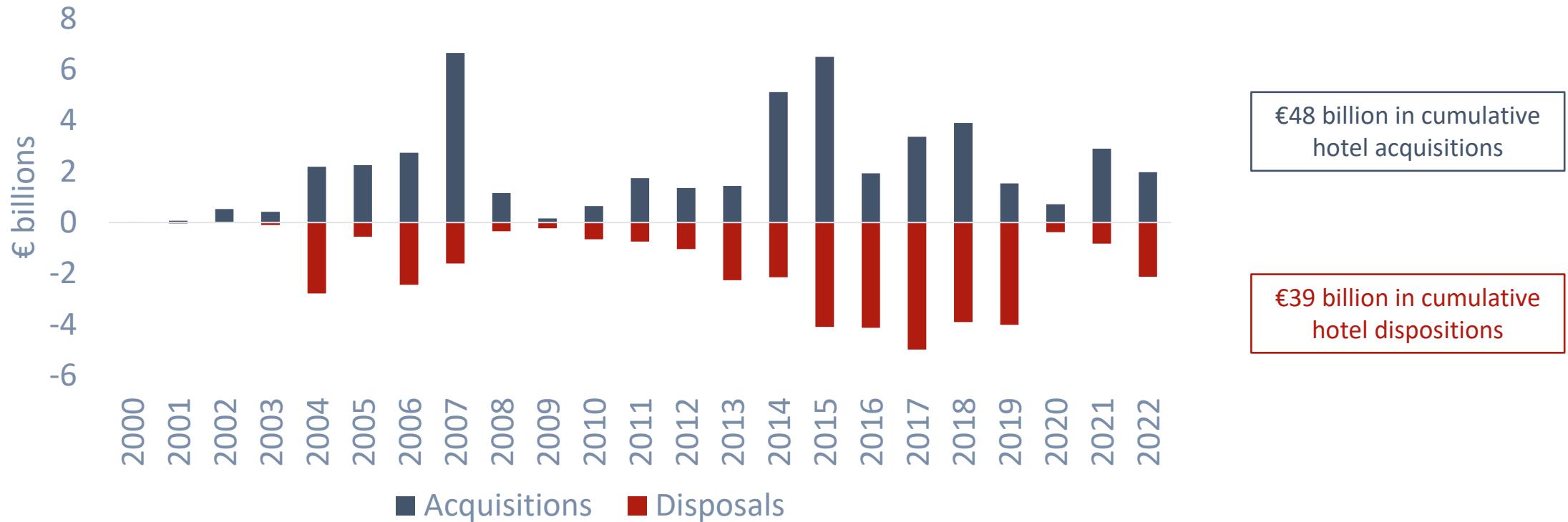
Company	Hotel Acquisitions 2018-22 (€ millions)
Blackstone	2,453
Brookfield AM	1,379
Henderson Park	720
Tristan Capital Partners	672
Apollo Global RE	554
Starwood Capital	355
Alchemy Partners	351
Oaktree	300
PineBridge (Benson Elliot)	190
Angelo Gordon	181
Total	7,155

Source: HVS

PE firms are active sellers as well as buyers

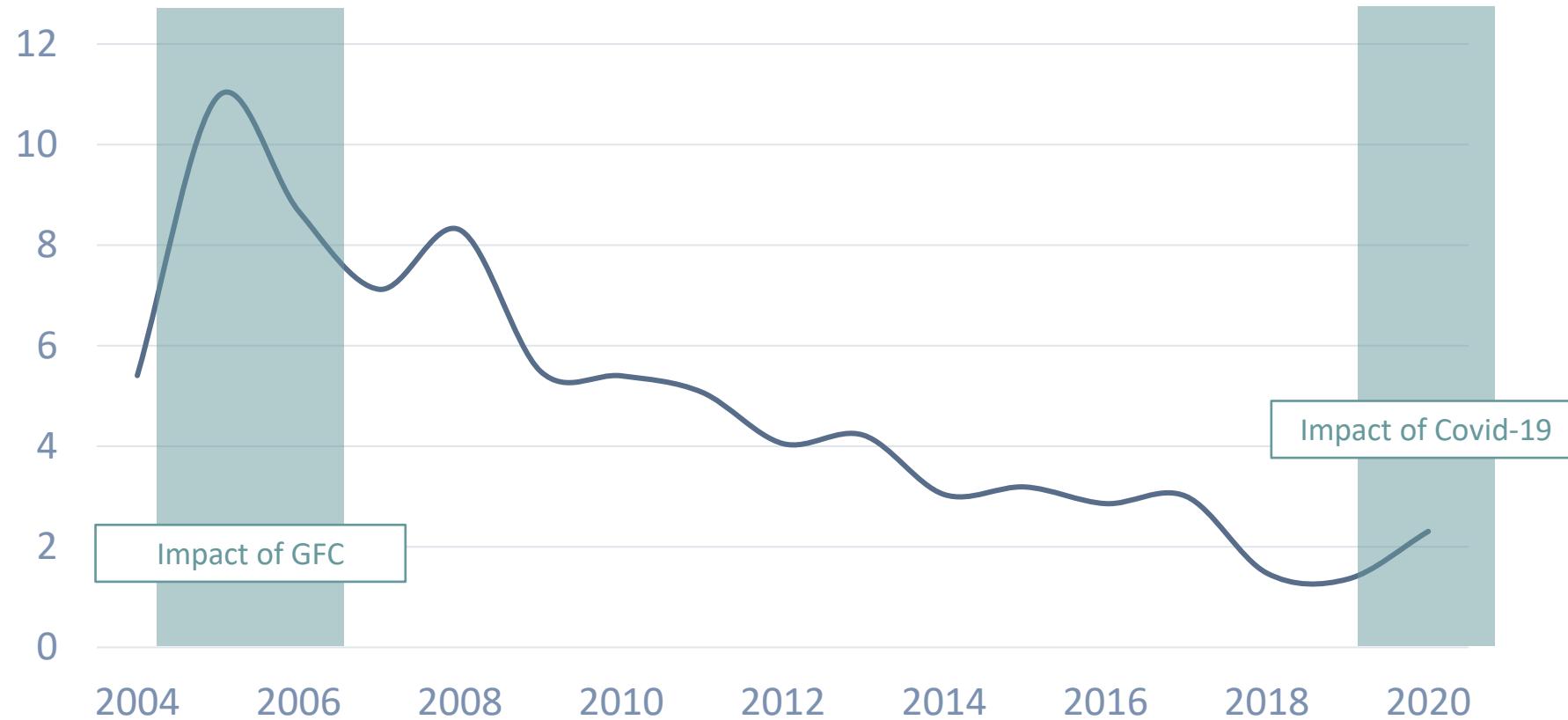
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PE hotel acquisitions and disposals in Europe since 2000



Holding periods have reduced

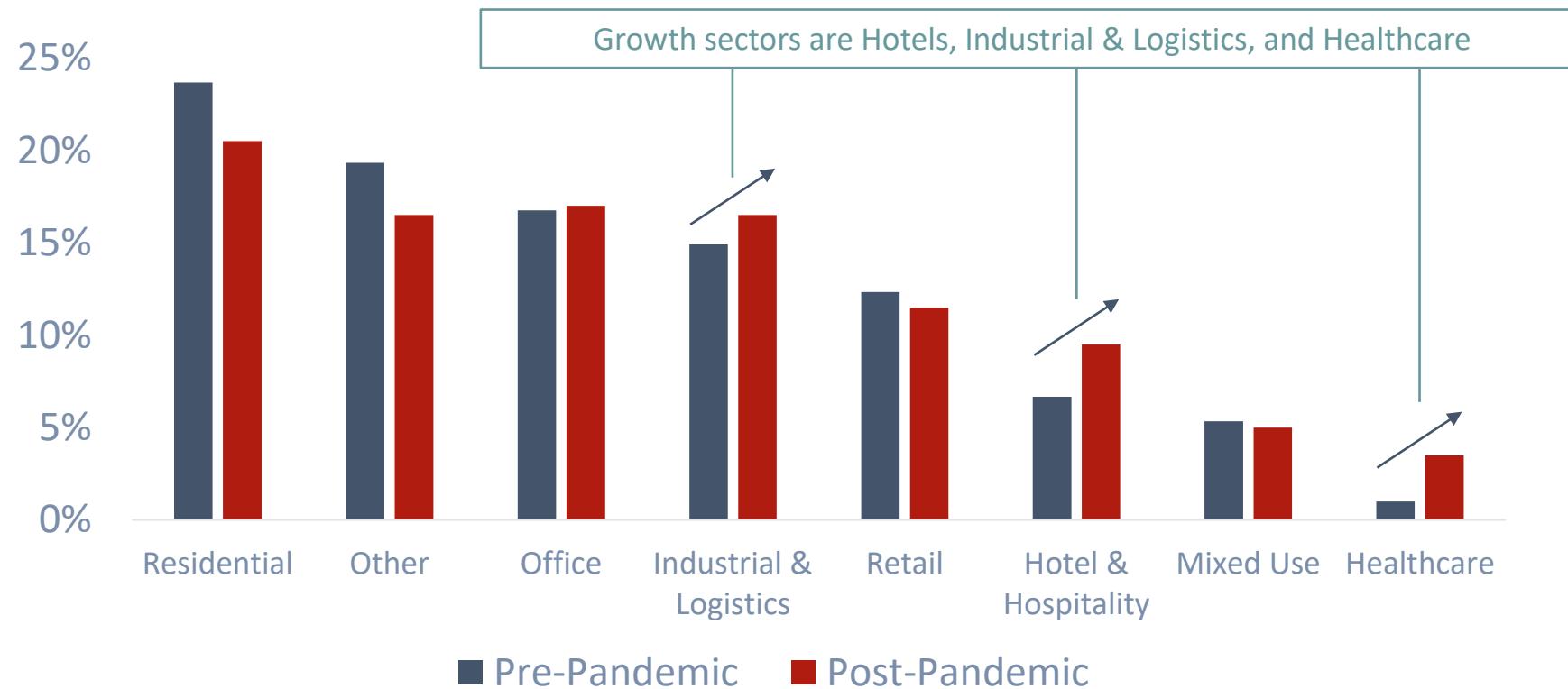
Average holding period by vintage year for European hotels purchased by PE firms



Allocation within real estate funding

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Real estate funding raised by PE firms in Europe

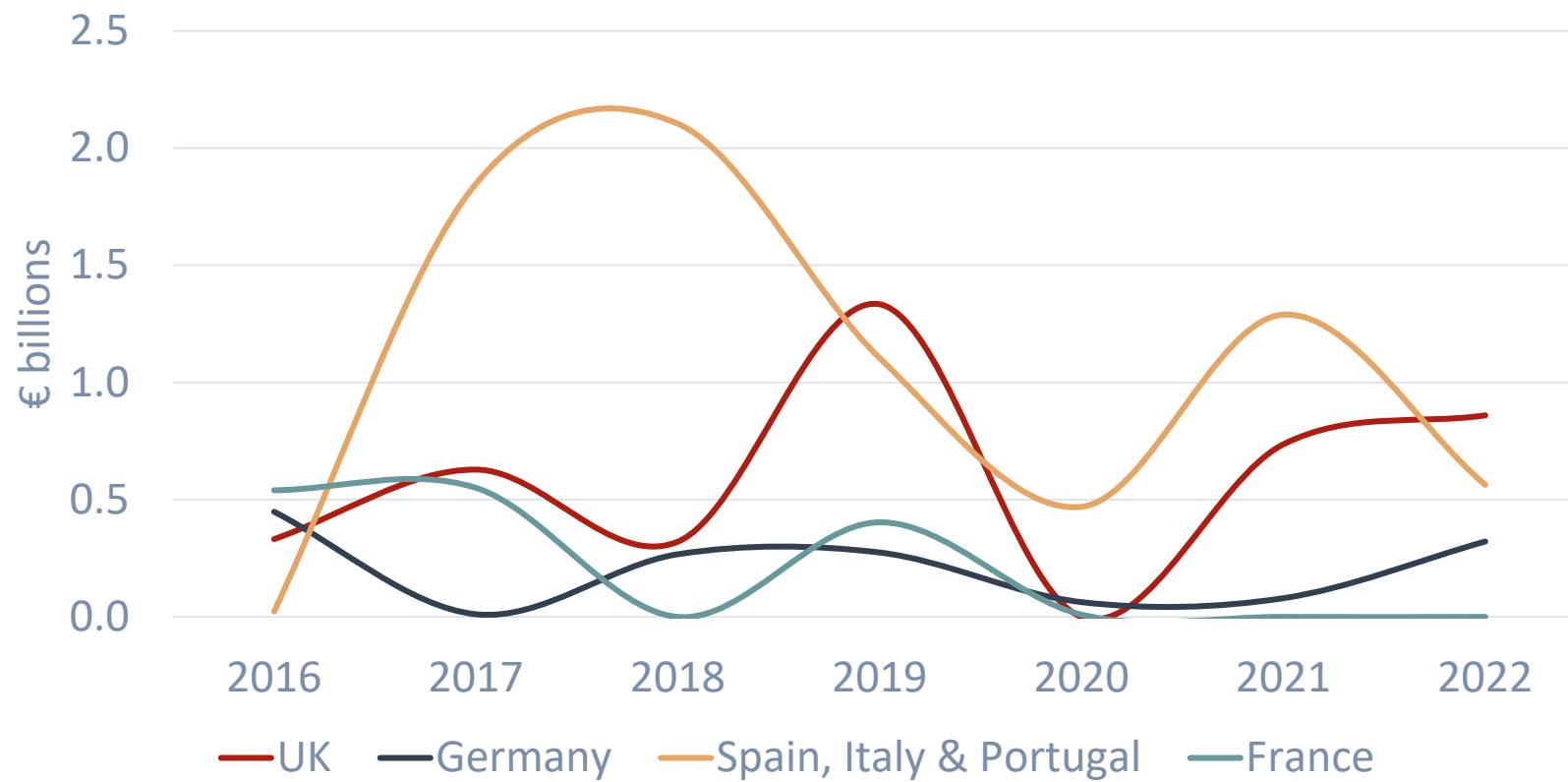


Source: Preqin

UK and Southern Europe are key acquisition markets

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PE hotel investment volume in Europe (€)

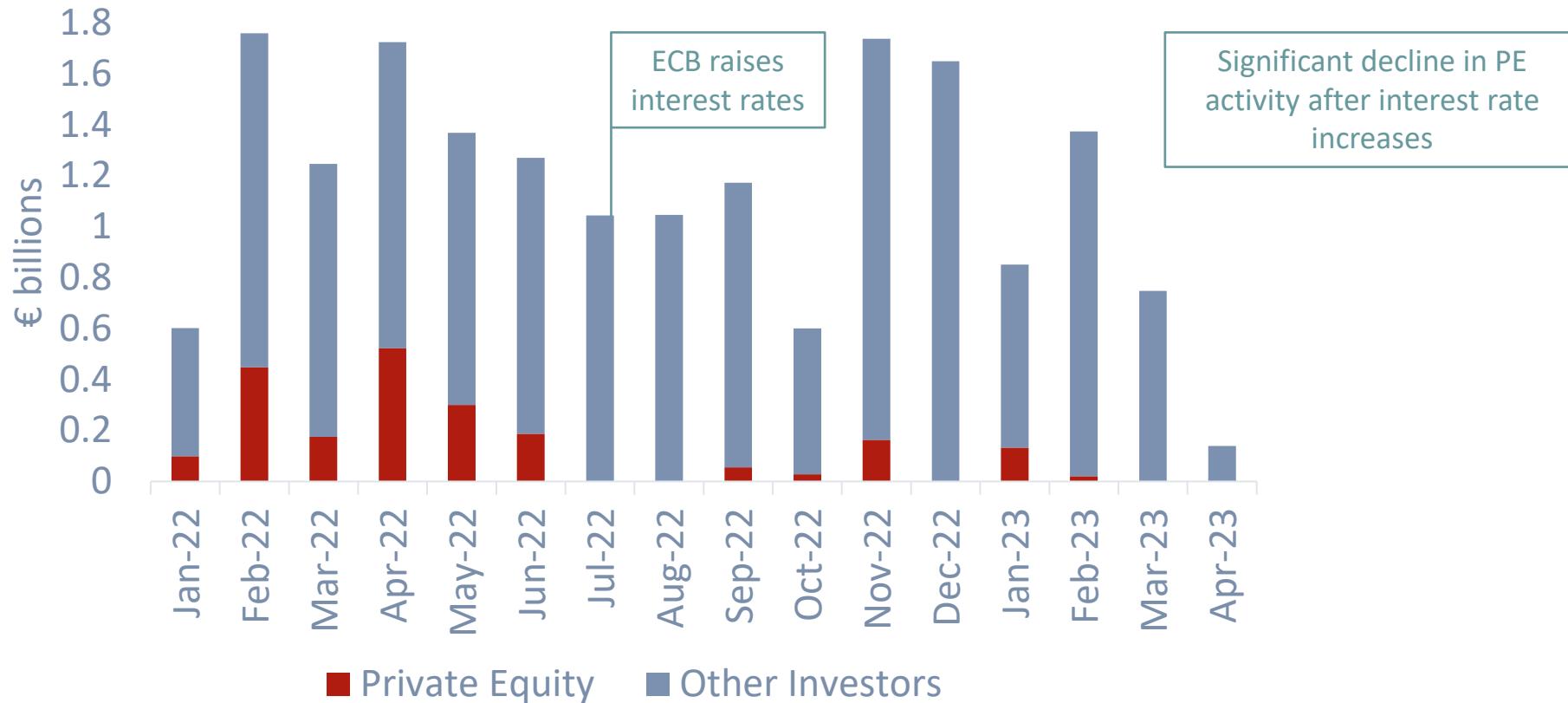


Source: HVS

Reduction in PE acquisitions since interest rate hikes

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PE hotel investment volume in Europe (€)

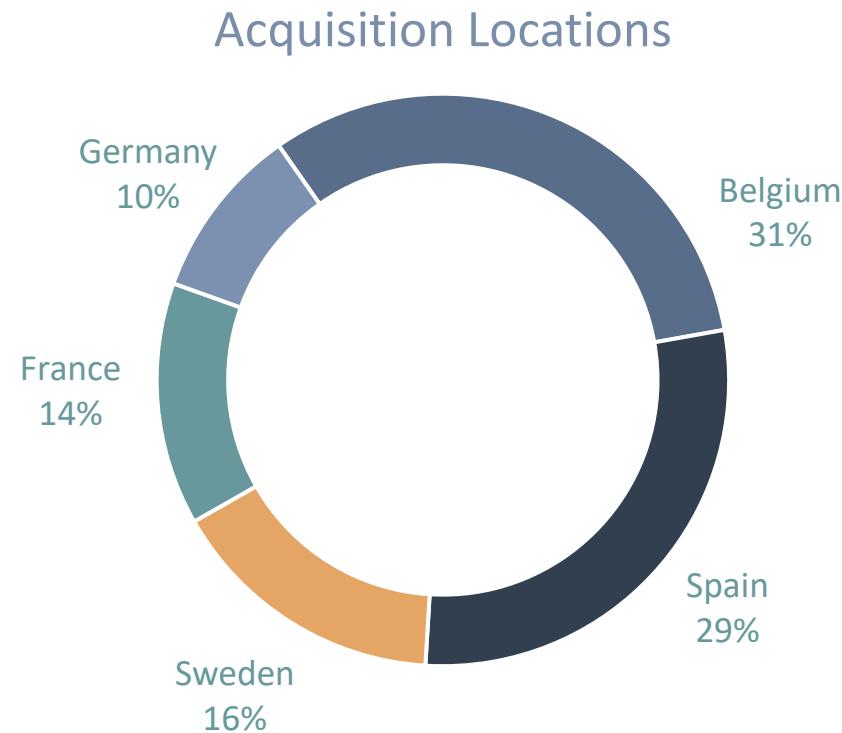


Source: HVS, Real Capital Analytics

Which PE firms are buying hotels and where?

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Since rate hikes in July 2022



Notable Active Buyers

Lone Star
Stoneweg Hospitality
CapMan
Ardian
Apollo Global RE



Challenging market conditions for PE funds

Low debt availability

Significantly higher costs

Pricing remaining High



PE firms active with debt funds



Signs of seller price expectations reducing



Debt maturities likely to present opportunities / activity