

Hotel Investment Overview

Spain 2018



Introduction

According to data provided by the World Tourism Travel Council (WTTC) on its recent report “Travel and Tourism, Economic Impact 2018 Spain”, the total contribution of the tourism sector to Spanish GDP grew 4.5% in relation to previous year, with an estimated total contribution of around 15%, including direct, indirect and induced. It is not surprising then that the positive evolution of one of the main sectors of the Spanish economy is attracting investment appetite, especially foreign investors. Also, Spain is positioned after the United Kingdom, but before Germany, in terms of total hotel investment volume, reaching a new record of over €4.8bn, placing Spain as the top country in continental Europe.

Europe continues to be the most popular destination around the world, as indicated in our recent report “European Hotel Investment Trends 2018: Connectivity, Hospitality & Opportunity”, and received more than half of the global arrivals in 2017, according to data provided by United Nations World Travel Organization (UNWTO). Europe is also the largest tourism entry market in the world and continues also to be the largest outbound tourism region, with almost half of the international travellers.

The Spanish hotel industry continues to prove its resilience to the economic and political uncertainties that now drive the global agenda and, despite noticing the effects of the recovery of Mediterranean resort destinations such as Turkey, Egypt or Greece, the main coastal destinations in Spain continue to maintain their main KPIs (occupancy, ADR and RevPAR). Similarly, urban destinations are also solid markets resisting uncertainty related to security and cities such as Madrid, Malaga or Valencia move rapidly towards improvement on the key indicators, whilst Barcelona seems to have slightly recovered the growth experienced during the last decade. Secondary destinations, both urban and coastal, experienced a significant growth in 2018, mainly due to the fact that some hotel assets included in sold portfolios were located in those areas.

We are pleased to share again our market knowledge with the sector and we hope this new report, based on public data as well as Christie & Co sources, will be of interest for you and all parties within the sector which remains key for the Spanish economy, the tourism industry.



Hotel investment exceeds a record €4.8bn in 2018,
positioning Spain as the top market in hotel investment
volume in continental Europe



Inmaculada Ranera
Managing Director Spain & Portugal

2018 – Another record year

€4.8bn

Total investment volume

€128,000

Average price per room

53%

Acquired by investment companies

40%

Investment from US capital

64%

In resort locations

23%

In secondary markets

In 2018 the total investment volume registered in Spain reached €4.8bn, which represented an estimated 24.6% increase on the previous year. With a total of 223 hotels transacted in 2018, the 4-star category accounted for 58.3% of the total assets, followed by the 3 and 5-star categories which represented 16.1% and 13.5%, respectively.

Whilst the source of capital was mostly domestic in 2017, international investment represented 66% of the total investment, with the United States (40%), Thailand (8%) and Mexico (4%) being the main nationalities. Overall, the largest players were investment companies (53%), hotel companies (24%) and REIT's (14.6%).

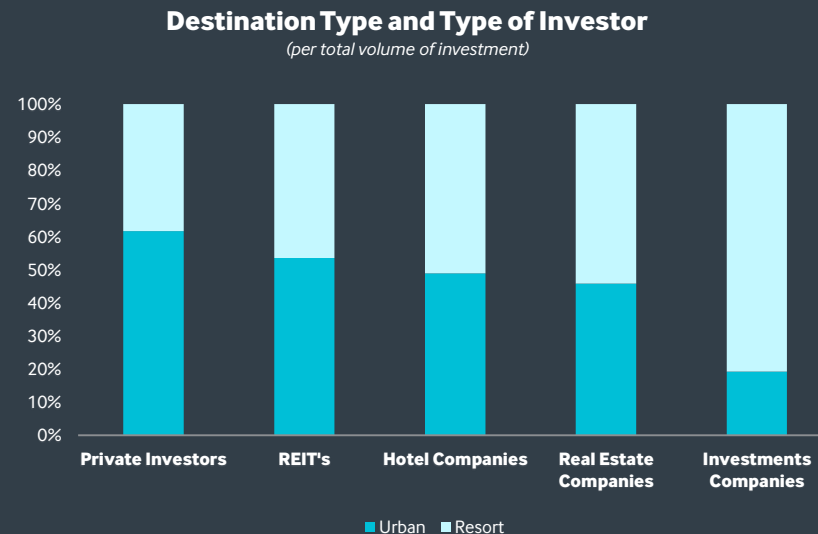
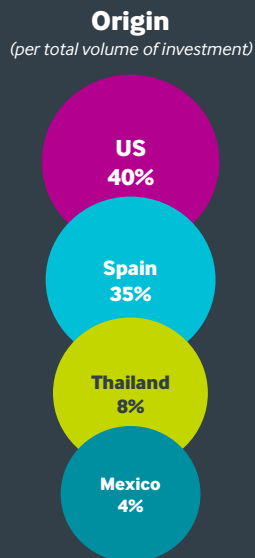
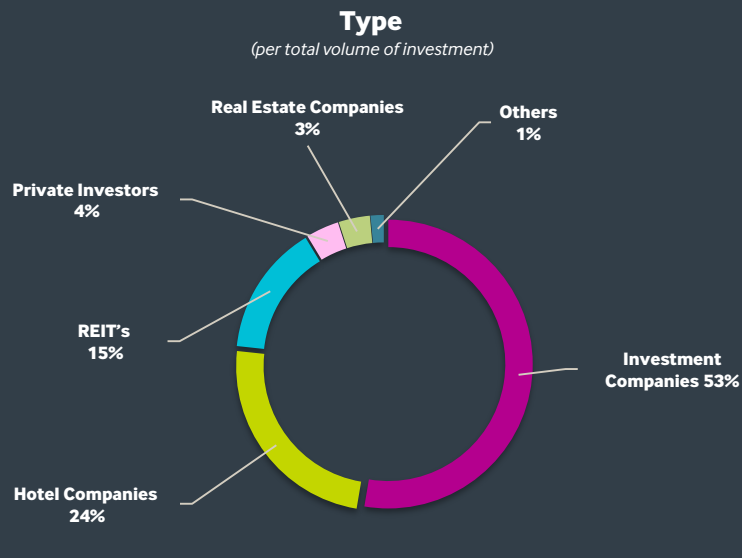
It is estimated that three large transactions generated more than half of the total invested (56%). These include the acquisition of the Hispania portfolio by Blackstone (€1.9bn); the purchase of 24 assets by the REIT Atom Hoteles (€426m); and the integration of NH Hotel Group into the Thai hotel company Minor International (€385m).

In line with the results of the previous year, the interest for secondary destinations in 2018 remained on the rise, reaching a total investment volume 65% higher than the 2017 results.

From a geographic perspective, investors favoured holiday destinations (64% of the total investment), reflecting Spain's position as a leading investment destination within the Mediterranean resort market. In addition, 93% of hotel investment was concentrated in six regions, with the Canary Islands (29.6%) at the top, followed by the Balearic Islands (21%) and Andalusia (16.5%).

Investor Profile

With over €2.6bn, investment companies represent the main source of capital



For the second consecutive year, **investment companies** (including both corporate and private equity firms) represented **the top source of capital** in 2018, with over 50% of the total investment. Following last year's trend, Blackstone was the largest player accounting for 42% of the total investment in the country, with the acquisition of the Hispania portfolio and the remaining 50% of The Ritz-Carlton, Abama hotel (through HI Partners). In second place, CBRE Global Investment Partners, together with Pygmalion Capital Advisers LLP, acquired a portfolio of 9 Silken hotels (1,650 rooms). It is also worth mentioning the purchase of the AccorInvest urban hotel portfolio by different international funds.

The second largest group of investors were **hotel companies**, Minor International (portfolio of NH Hotel Group), Blue Sea Hotels, Hotusa, Ikos Resorts, Riu Hotels & Resorts and Meliá Hotels International the main players. On the other hand, **REIT's** contributed more than 14.7% to the total investment, with Atom Hoteles (21 hotels portfolio) and RLH Properties (Hotel Villa Magna) as the main buyers. With more than 20 deals, **private investors** (including both individual investors and family offices) recorded 3.7% of the total investment.

The proportional volume transacted by **foreign investors** reached 68% (vs. 49% in 2017), with the United States, Thailand and Mexico as the main sources of capital. Moreover, most of the investment in 2018 was focused on resort destinations (64%), with **investment companies** being the most active players in this segment (80.8% of their total invested), **real estate firms** (54.2%) and **hotel companies** (51.1%). On the other hand, it is interesting to highlight the role of private investors (61%) and REIT's (53%) in the urban segment.

Main Transactions: Single Assets & Portfolios

Blackstone, once again, a main player of the Spanish hotel investment scene

The investment in portfolios reached almost €3.0bn, which represented more than 60% of the total 2018 investment.

In 2017, Blackstone was the main player in the investment market with the acquisition of the HI Partners platform. In 2018, the American investment fund led the market again with the purchase of 48 hotels from the REIT Hispania, for €1.9bn. This transaction itself represented 40% of the total investment in Spain.

On the other hand, REIT's and international funds were also very active. Main transactions included: the portfolio of Atom Hoteles (REIT of Bankinter), which portfolio floated on the stock market with 24 assets and a value of over €425m; the joining of the Chinese group Gaw Capital and the increase of the participation of Omega Capital in Hospes hotel chain, transaction with an approximate value of €82m; and the 9 urban hotels Silken portfolio acquired by CBRE Global Investment Partners and Pygmalion Capital Advisers LLP.

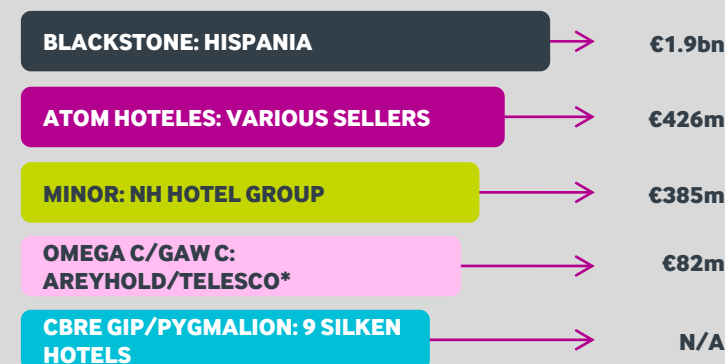
It is worth noting that Minor International won Hyatt in the dispute of acquiring the majority within NH Hotel Group, well-known hotel group consolidated in the urban sector.

Data analysed by Christie & Co reveals that around 100 individual hotel assets were sold in 2018, with five of these transactions surpassing €70m.

The purchase of Hotel Villa Magna by the Mexican REIT RLH Properties for €210m broke all the registered records in the Spanish hotel market with a price of €1.4m per room. This is the first transaction where the prestige or the location have been as important as the deal's profitability.

Besides the transactions already shown in the table, there was one for which price has not been disclosed: the sale of 50% of The Ritz-Carlton, Abama hotel to HI Partners that would, without doubt, be among the most important deals of 2018.

Main Portfolios



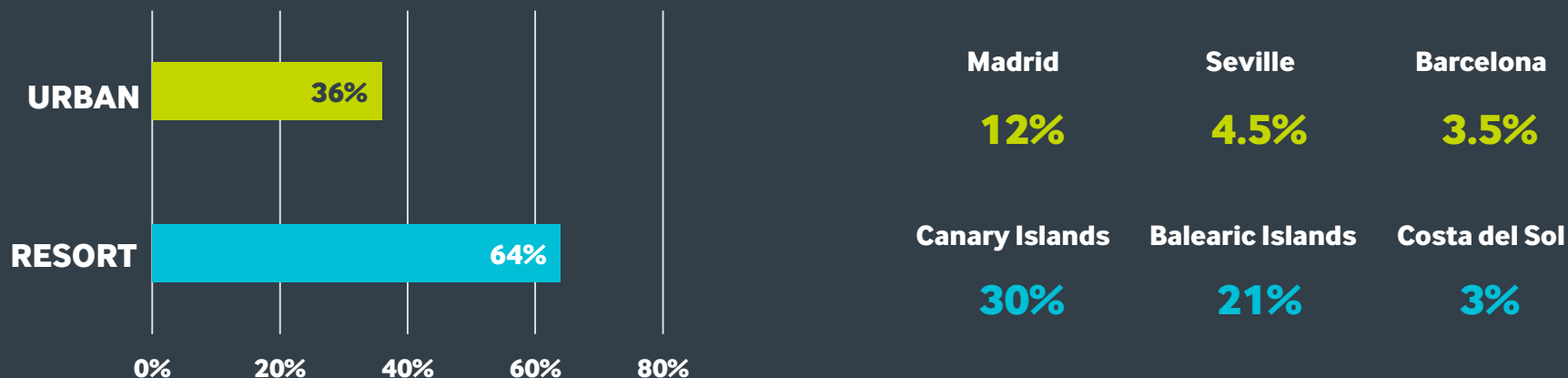
Main Single Assets



*Estimated Price

Investment in Primary Locations

The Canary and Balearic Islands account for more than 50% of the total investment



Regarding the target destinations for investment, both the acquisition of the Hispania portfolio by Blackstone and the growing interest of the REIT's and the institutional investors in assets to be repositioned drove **investor appetite** to be focused again **in the resort destinations**, which represented 64% of total transactions.

Following 2017 trends, most transactions were concentrated in the islands, together **representing more than 50% of total investment**. **The Canary Islands** were the main market within the resort segment with more than €1.5bn, which represented an 85% increase over 2017. Secondly, **the Balearic Islands** accounted for 20% of total investment volume, driven by the acquisitions included in the Atom Hoteles portfolio. Nevertheless, although Costa del Sol remained one of the most attractive destinations for investors, the lack of opportunities in its main locations led the resort segment, in this area, to retain only 3% of the total investment.

Regarding urban hotels, **Madrid** was again the main city for investment, consolidated with significant transactions such as the Hotel Villa Magna acquisition, which reached a new record on price per room (€1.4m/room). The main surprise in the urban scenario was the city of Seville which, thanks to large hotel portfolios transactions, represented 4.5% of total investment. However, Barcelona was the city that suffered the most when compared to last year, dropping from 9% in 2017 to 3.5% of investment volume in 2018.

Investment in Secondary Locations

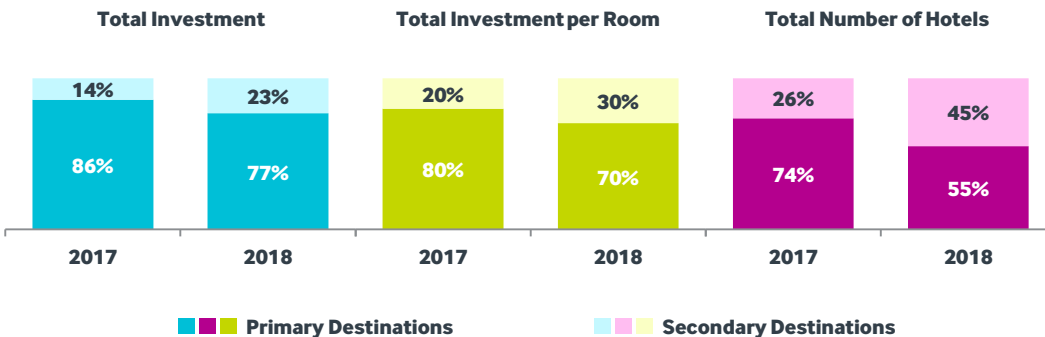
Total investment increased by 65%

Following a similar trend of the previous year, the hotel investment record positively affected many secondary destinations. While in 2017 these destinations (all the urban markets except Barcelona, San Sebastian, Madrid, Malaga, Seville, Bilbao and Valencia) together with resort destinations of second-order (all resort markets except Canary Islands, Balearic Islands and Marbella) concentrated 14% of the total investment, in 2018 this grew to 23%.

Regarding those hotels located in secondary cities that were sold in 2018, the 5-star assets had a major impact. The acquisition of 50% of Hospes Hotel Group, the hotel chain with most of their establishments located in secondary cities such as Salamanca, Caceres or Alicante, was one of the main reasons why 19% of the investment in secondary locations was related to 5-star hotels. On the other hand, 4-star hotels represented two thirds of the hotel investment while lower categories (1, 2 and 3-star) comprised 15% of the total investment.

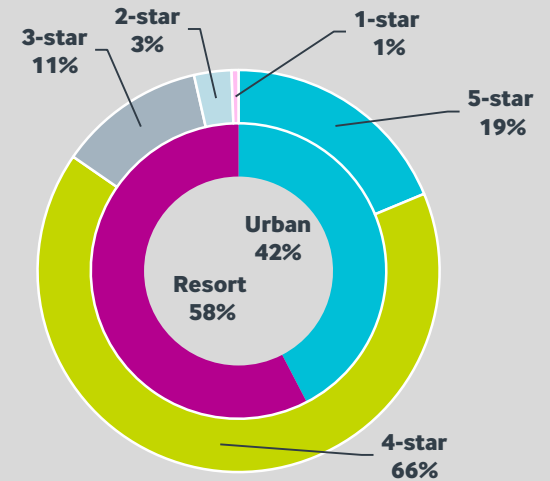
Portfolio transactions, which also included assets located in urban and resort markets in second-order destinations, mainly carried out by international investors (B&B Hotels, Blackstone, CBRE GIP, Minor International etc.), demonstrate that almost half of the total investment volume in secondary destinations were from foreign capital (47%).

Regarding the number of hotels transacted, the urban segment was higher than the resort segment, representing 56% and 44% respectively, due to the portfolio transactions (AccorInvest, Atom Hoteles, Silken, NH Hotel Group, etc.) that included urban assets. On the other hand, total investment was focused on the resort segment (58%), as transactions included were larger individual assets, avoiding a possible discount on price.



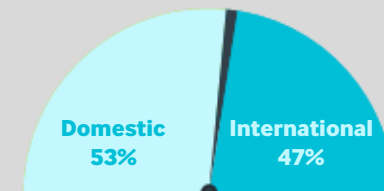
Investment per Category and Location

(per total volume of investment)



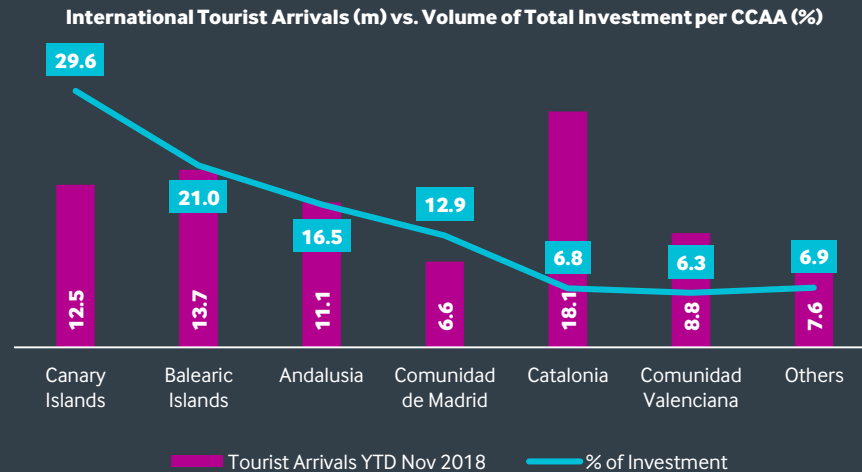
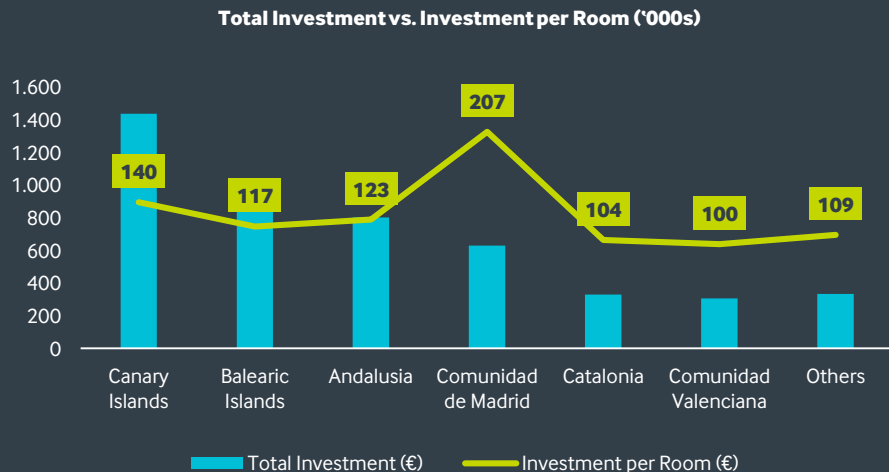
Origin

(per total volume of investment)



Transaction Volume by Regions (CCAA)

Six regions gathered more than 93% of the total hotel investment in Spain



Sources: INE, Frontur, Christie & Co

In 2018, more than 93% of hotel investment volume was concentrated in six regions, with the Canary Islands in the lead position (29.6% of total amount), followed by the Balearic Islands (21%), Andalusia (16.5%), Madrid (12.9%), Catalonia (6.8%) and Comunidad Valenciana (6.3%). The rest of regions accounted for the remaining 6.9% of the total investment amount.

With regards to average price paid per room, the Canary Islands led the resort market, in front of Andalusia and the Balearic Islands with an average price of €140,000 per room, whilst Madrid stood out on the urban market, with an average price per room above €200,000. In Catalonia and Comunidad Valenciana, the mix amongst coastal and urban markets placed the average price per room above €100,000.

By crossing the data related to tourist arrivals (available YTD Nov 2018) with the percentage of the total investment volume received, the region that led the total tourists arrivals was Catalonia, with similar data in comparison with 2017, but at the same time, the region experienced the most significant decrease in terms of the investment received (10 pp) with regards to the previous year. It was followed by the Balearics Islands, which maintained its stability in terms of number of arrivals as well as in terms of investment percentage vs. 2017. The Canary Islands, despite being in third position in terms of tourist arrivals (with 3.6% decrease vs. 2017) was the region that received the highest investment volume, with 10% growth in comparison to 2017 data.

The Comunidad de Madrid region saw an increase of 4% in terms of investment volume, in parallel with 6% growth in relation to number of tourist arrivals. On the other hand, Andalusia experienced an increase of 1pp in terms of investment and maintained stable numbers of arrivals. In relation to the Comunidad Valenciana, tourist arrivals grew 3% whilst the volume of investment remained in line with the previous year.

2019 – 2020 Outlook

Spain will continue attracting investor interest in a more volatile and competitive environment

Spanish Economy Forecast

The global economic outlook shows a light slow down on GDP's growth, without an imminent recession in 2019 and 2020. The positive results on employment and consumers, consolidated inflation, low interest rates, favourable financing conditions and the fast development of the Asian economies, indicate a continuation of the cycle, at least until 2020. According to the IMF, global growth should remain in 2019 (+3.5%) and in 2020 (+3.6%), and it is expected that this increase will be lighter in Europe and China, balanced by the recovery of Japan and Brazil, while the US will slow its growth to a 1.8% increase due to the dissipation of the fiscal impulse.

In Spain, GDP growth has begun to slow down due to the lower contribution of exports and tourism, as well as the higher cost of energy. Growing job creation, favourable credit conditions and real estate recovery should drive economy growth in 2019 by 2%, similar to the expected inflation, which will affect the purchasing power of families which do not benefit from salary increases and face saving rates at historical minimums.

The Spanish Hotel Sector

As the economic cycle matures along with the emerging markets, tourism growth in line with the global economy looks to slow down. In Spain, we can expect growth of the contribution of tourism to GDP, close to 2% in 2019 and 2020, above the total GDP, both aligned after the stabilisation of tourism flows.

As we anticipated last year, the Spanish hotel sector, after a strong start of the cycle in 2014 caused by the crisis of Mediterranean competitors, the improvements in the competitiveness of the sector and the weakness of the Euro, is now registering an adjustment in occupancy and rates.

In terms of demand, during the last few years we have witnessed an impressive growth of international tourism in Spain, largely motivated by the so-called "borrowed tourism" that, now, due to a lower perception of insecurity and the improvement of competitiveness in Turkey, Egypt and Tunisia, will have a minor impact. On the other hand, since the United Kingdom is the main Spanish source market, the effects of Brexit on the British economy and on the exchange rate, may have negative effects, in addition to competition and the effects of climate change, which has already affected 2018.

Investment Trends

The excellent performance of the hotel industry in Spain during the few last years will continue to attract large flows of investment to our country in 2019. The liquidity of the capital market will keep the strong buying pressure on the hotel owners. However, we expect an increase in investment opportunities in resort destinations, which could reduce the pressure on prices.

One of the most significant investment trends for 2019 is the increase in interest for fixed income hotel assets, mostly urban, in primary and secondary locations, preferably subject to a lease contract with a hotel operator that offers sufficient guarantees. For these assets, the returns have been compressed in recent years in cities such as Madrid or Barcelona.

Many opportunistic or value-added investors, after benefiting from the cycle in Spain, are now focused on less mature and more price competitive European countries (Croatia and Greece) or less distorted in 2017-2018 (France and Italy). For Spanish urban destinations, the main threat is the emergence or recovery of new competitors both in Spain and in the rest of the European countries, destinations more accessible to many investors and international operators, which offer higher returns, and in some cases, better administrative facilities.

Glossary

ADR	Average Daily Rate. It is defined as the income per room for the period divided by the total number of rooms occupied during the mentioned period	N/A	Not Available
AENA	Aeropuertos Españoles y Navegación Aérea (Spanish Airports and Air Navigation)	Occ	Occupancy. Proportion of occupied rooms over the total number of rooms available in a given period
CAGR	Compound Annual Growth Rate. Accumulated annual growth rate recorded from 2011 to 2017	REIT	Real Estate Investment Trust
CCAA	Autonomous Region	RevPAR	Revenue per Available Room. Defined as room occupancy multiplied by the average achieved room rate or rooms revenue divided by the number of available rooms
C & Co	Christie & Co	TTOO	Tour operators / Tour operation
GDP	Gross Domestic Product	var	Variation
IMF	International Monetary Fund	YoY	Year-on-year
INE	Instituto Nacional de Estadística	YTD	Year-to-date: At 30st November 2018
k	Thousand	vs.	Versus
KPI	Key Performance Indicator		
m	Million		

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Largest Single Asset Transactions

Per total volume of investment

#	Hotel	City	Province/Island	Keys	Category	Estimated Price (€)	Price per Key (€)	Buyer	Seller
1	Hotel Villa Magna	Madrid	Madrid	150	5-star	210,000,000	1,400,000	RLH Properties	Family Office Sahenk
2	Hacienda La Boticaria	Alcala de Guadaira	Seville	133	5-star	84,500,000	635,338	SPV Reoco 30	Sansan Hoteles
3	Costa del Sol Princess	Estepona	Málaga	400	4-star	75,000,000	187,500	Ikos Resorts	Princess Hotels & Resorts
4	Riu Buena Vista	Adeje	Tenerife	509	4-star	71,000,000	139,489	Riu Hotels & Resorts	Paraíso Dunas
5	Meliá Valencia Palacio de Congresos	Valencia	Valencia	269	5-star	50,000,000	185,874	Various Family Offices	Colony Capital
6	Denia La Sella Resort & Golf	Denia	Valencia	186	5-star	18,000,000	96,774	Alantra REIM	Grupo La Sella & Amazona Investments
7	Edén Binibeca	San Luis	Menorca	150	3-star	17,500,000	116,667	Elaia Investment Spain	Banc Sabadell
8	Hotel Koral	Oropesa del Mar	Castellon	220	2-star	15,000,000	68,182	Servigroup	Bankruptcy
9	Hotel Abba Centrum	Alicante	Alicante	148	4-star	13,500,000	91,216	Hotusa	N/A
10	Hotel DO	Barcelona	Barcelona	18	5-star	12,000,000	666,667	Al Rafidain	Family Office Majó

Largest Single Asset Transactions

Per average price per room

#	Hotel	City	Province/Island	Keys	Category	Estimated Price (€)	Price per Key (€)	Buyer	Seller
1	Hotel Villa Magna	Madrid	Madrid	150	5-star	210,000,000	1,400,000	RLH Properties	Family Office Sahenk
2	Hotel DO	Barcelona	Barcelona	18	5-star	12,000,000	666,667	Al Rafidain	Family Office Majó
3	Hacienda La Boticaria	Alcala de Guadaira	Seville	133	5-star	84,500,000	635,338	SPV Reoco 30	Sansan Hoteles
4	Hotel Wittmore	Barcelona	Barcelona	22	5-star	6,600,000	300,000	Family Office Figueras	Narcís Barceló
5	Costa del Sol Princess	Estepona	Málaga	400	4-star	75,000,000	187,500	Ikos Resorts	Princess Hotels & Resorts
6	Meliá Valencia Palacio de Congresos	Valencia	Valencia	269	5-star	50,000,000	185,874	Various Family Offices	Colony Capital
7	Soho Boutique Salamanca	Salamanca	Salamanca	20	4-star	2,900,000	145,000	PSN Gestión	Soho Boutique Hotels
8	Riu Buena Vista	Adeje	Tenerife	509	4-star	71,000,000	139,489	Riu Hotels & Resorts	Paraíso Dunas
9	Hotel Valparaíso	Cala Murada	Mallorca	48	4-star	5,700,000	118,333	Elaia Investment Spain	N/A
10	Edén Binibeca	San Luis	Menorca	150	3-star	17,500,000	116,667	Elaia Investment Spain	Banc Sabadell

Largest Portfolio Transactions

Per total volume of investment

#	Portfolio	Keys	Estimated Price (€)	Price per Key (€)	Buyer	Seller
1	Portfolio Hispania	13,310	1,892,534,936	142,189	The Blackstone Group	Hispania Activos Inmobiliarios
2	Portfolio Atom	5,305	425,870,082	80,277	Atom Hoteles	Various
3	Portfolio NH	1,801	396,160,000	219,967	Minor International	NH Hotel Group
4	Portfolio Hospes	470	82,000,000	174,468	Omega Capital & Gaw Capital	Grupo Areyhold y Telescom
5	Portfolio Silken	1,654	N/A	N/A	CBRE GIP & Pygmalion Capital Advisers LLP	Bankruptcy

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