

ISHC Annual Conference  
Hospitality in a Changing World

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Global Investment Update

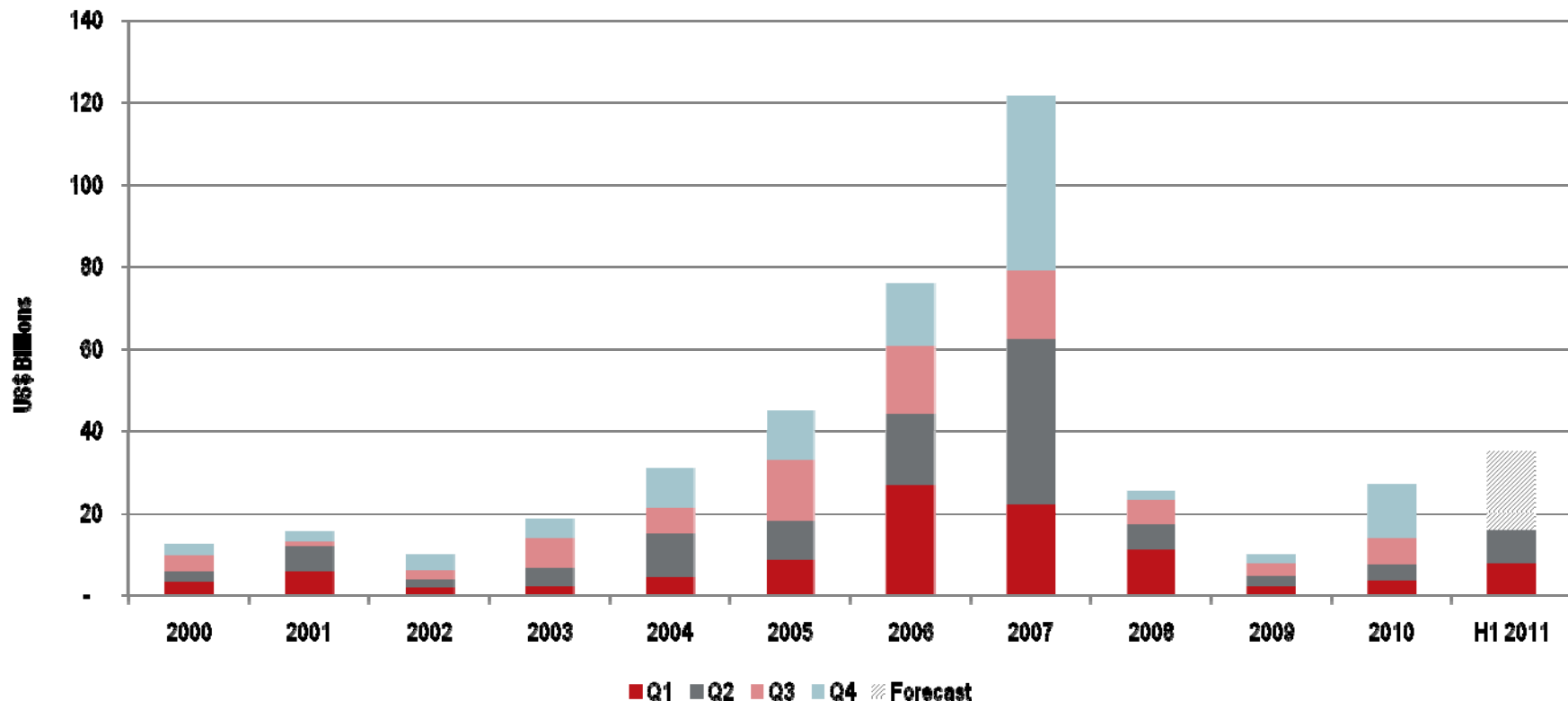
Mark Wynne Smith  
Jones Lang LaSalle Hotels

Ceylan InterContinental Istanbul, Turkey

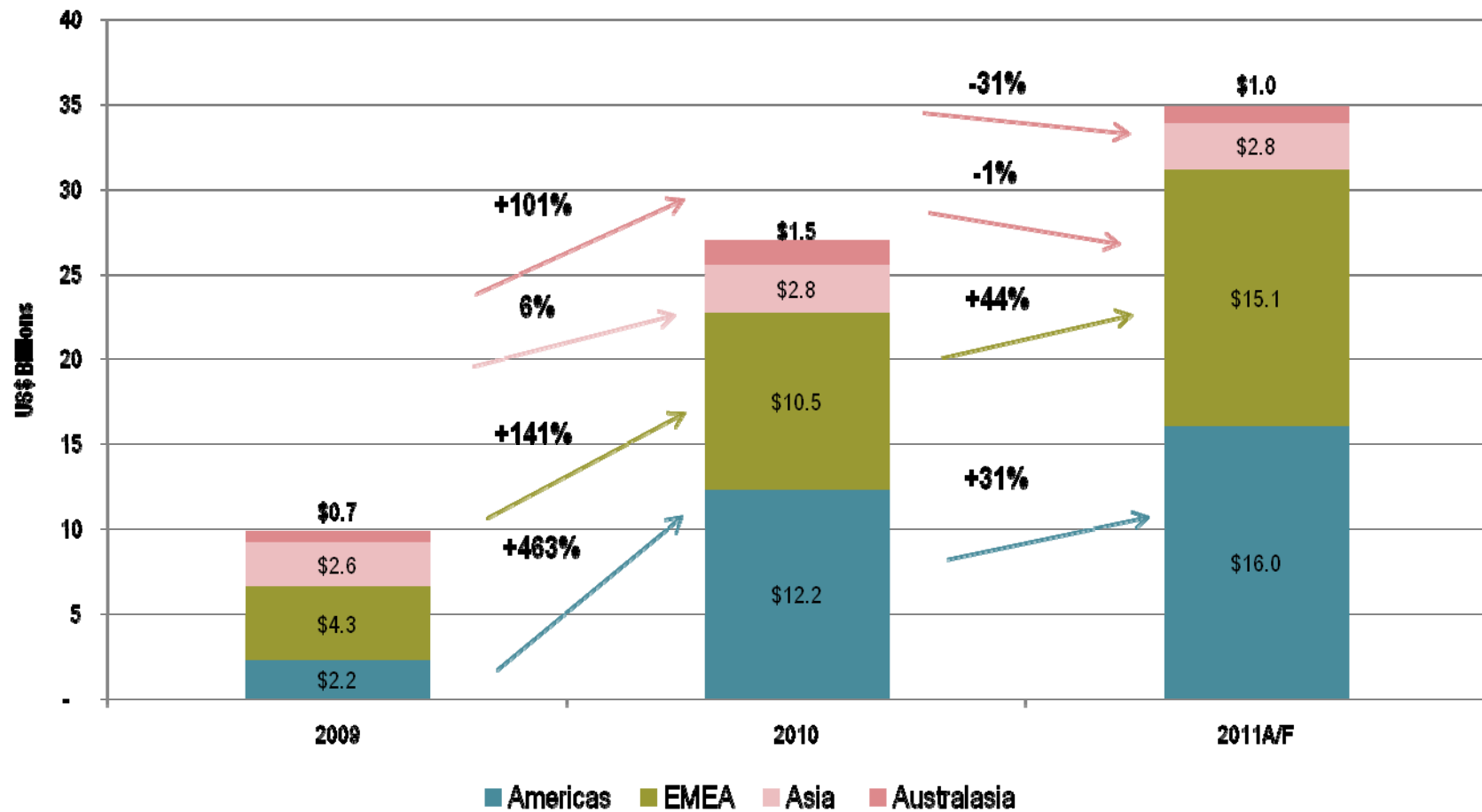
20 – 23 October 2011

# Global Hotel Investment Volumes H1 2011

*“Global hotel investment volumes **more than doubled** in the first half of the year compared to the same period one year earlier”*

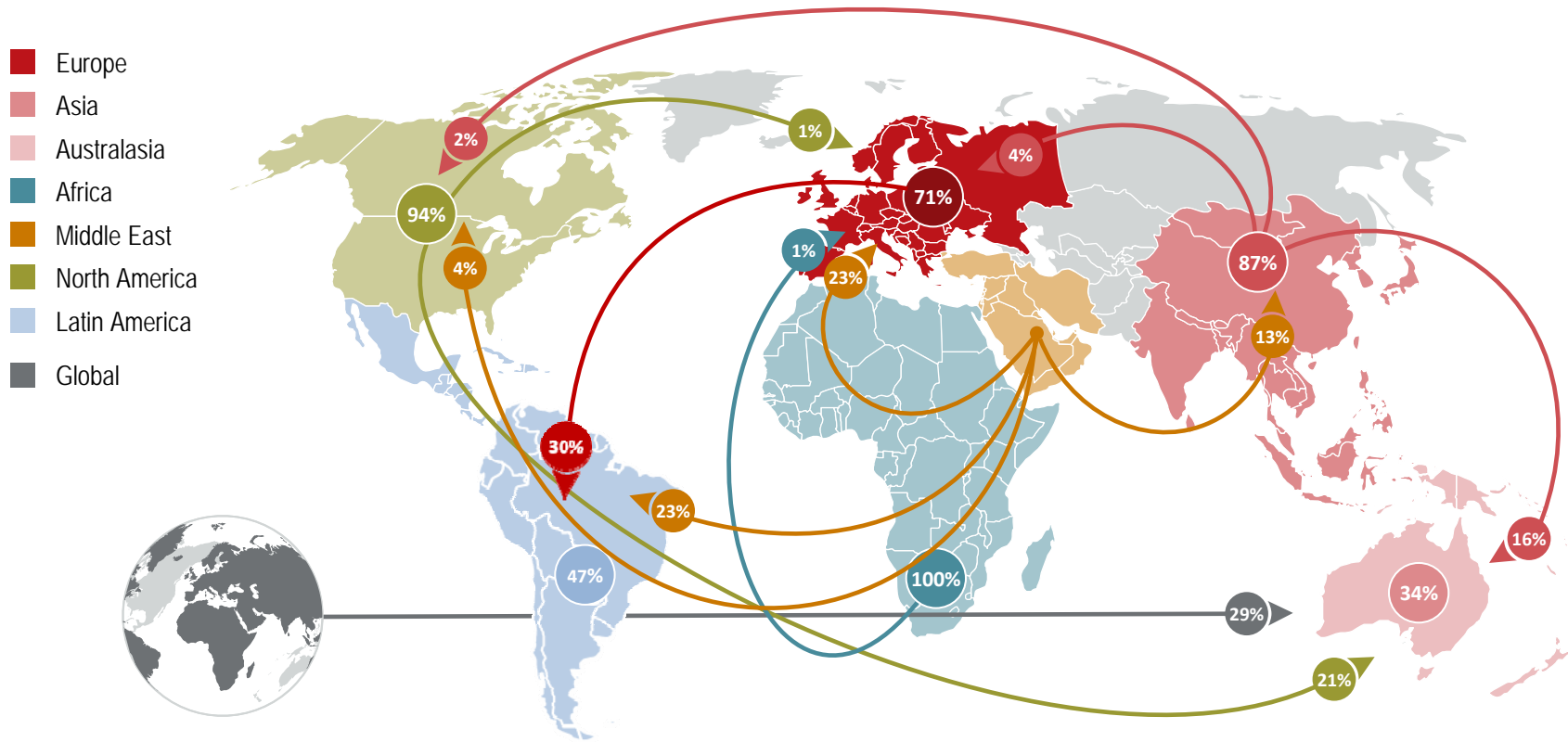


# Regional Investment Volumes



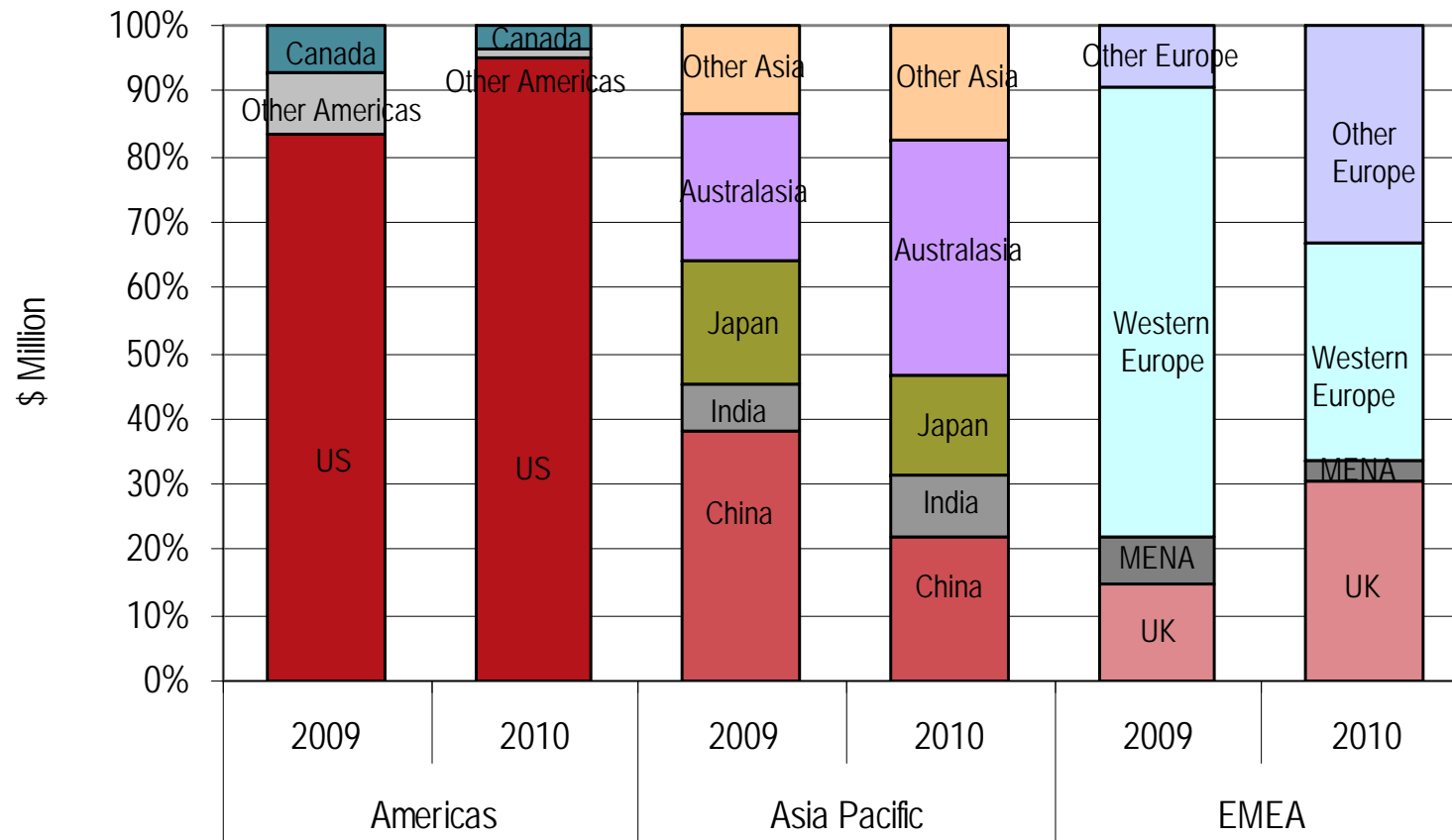
# Cross Regional Investment H1 2011

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Source: Jones Lang LaSalle Hotels

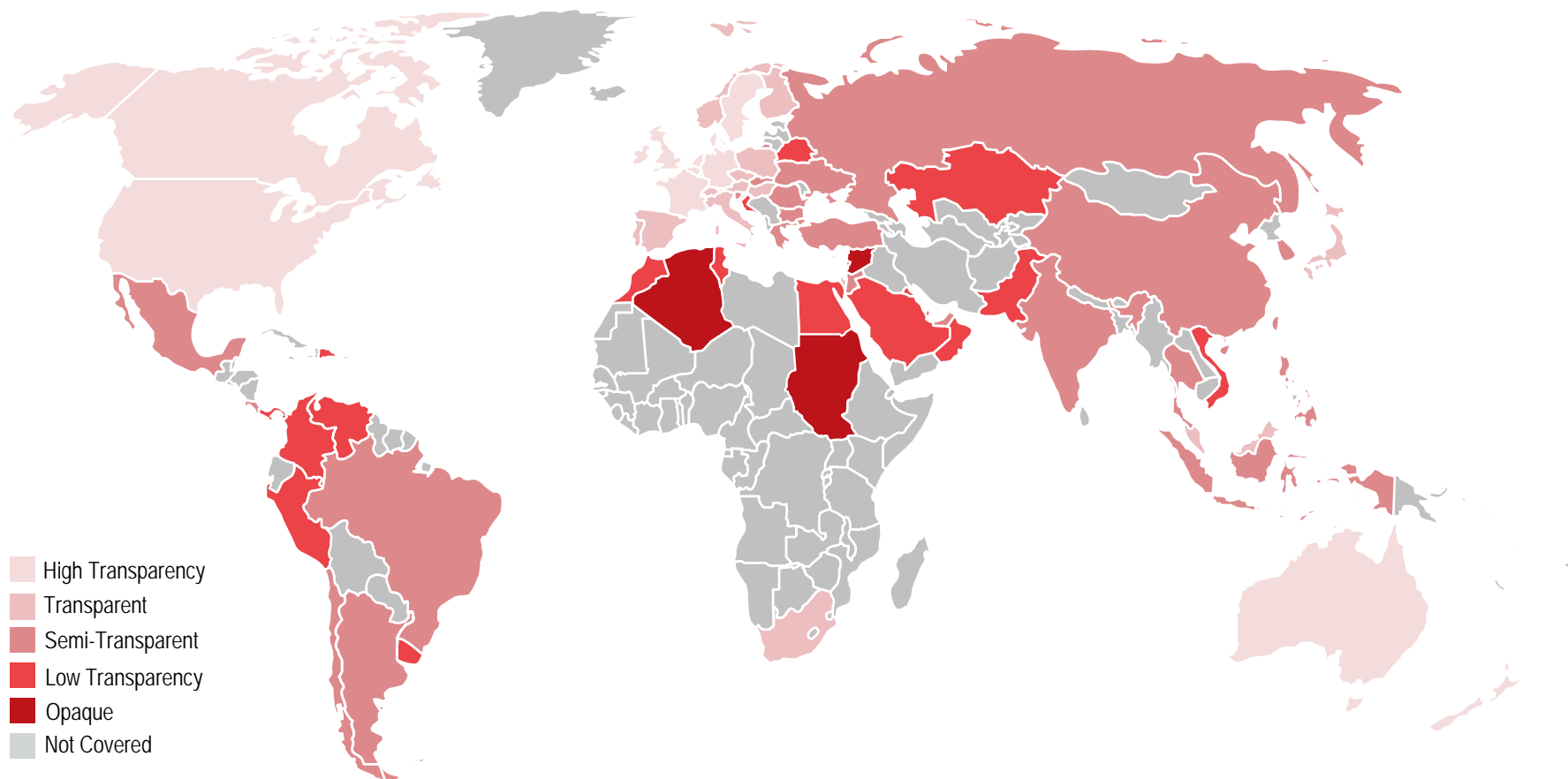
# Deal Geography



Source: Jones Lang LaSalle Hotels

# Transparency Driving Investment

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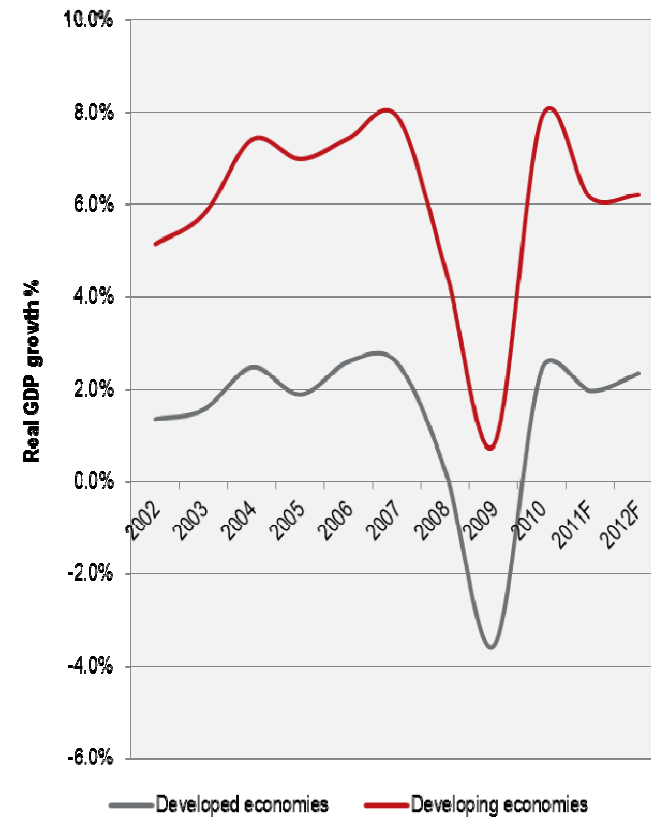
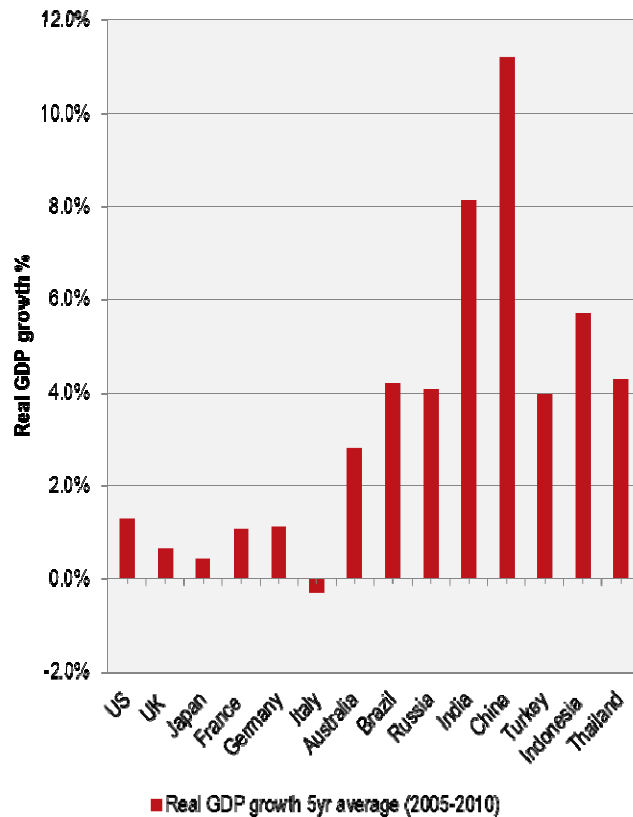


Source: [Jones Lang LaSalle](#) Real Estate Transparency index

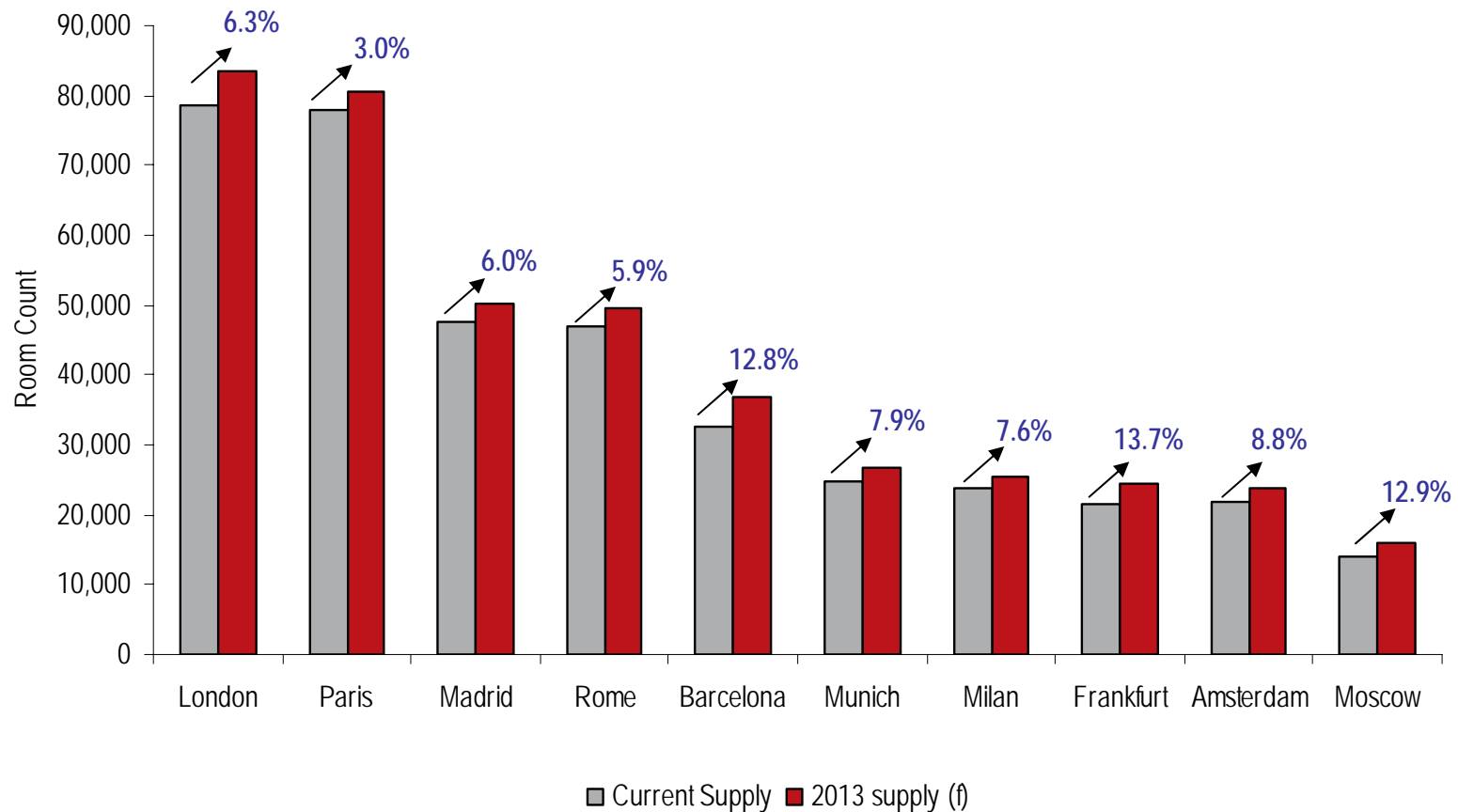
**2011 ISHC Annual Conference – Hospitality in a Changing World**

# Global Macro Economic Outlook

*“The two-speed economic recovery that began in 2009 still describes the 2011 outlook, with emerging markets growing three times faster than developed markets”*



# Supply Growth – Forecast 2013



Source: Jones Lang LaSalle Hotels



# Availability and Cost of Debt



## Americas

*Two steps forward, one step back...*

- Borrowers can still obtain fixed-rate financing at obtainable pricing with LIBOR / treasury bills at historical lows offsetting increase in spreads
- Debt still scarce / expensive in South America with Chile as an exception

## EMEA

*Hotel lending remains constrained*

- Appetite for hotel lending hasn't returned to EMEA yet and banks continue to be cautious with lending terms

## Asia Pacific

*Increase in choice of parties from who to obtain debt*

- Leverage less important in this region
- The cost of currency hedging major factor in decision making

# Investment Market Sentiment



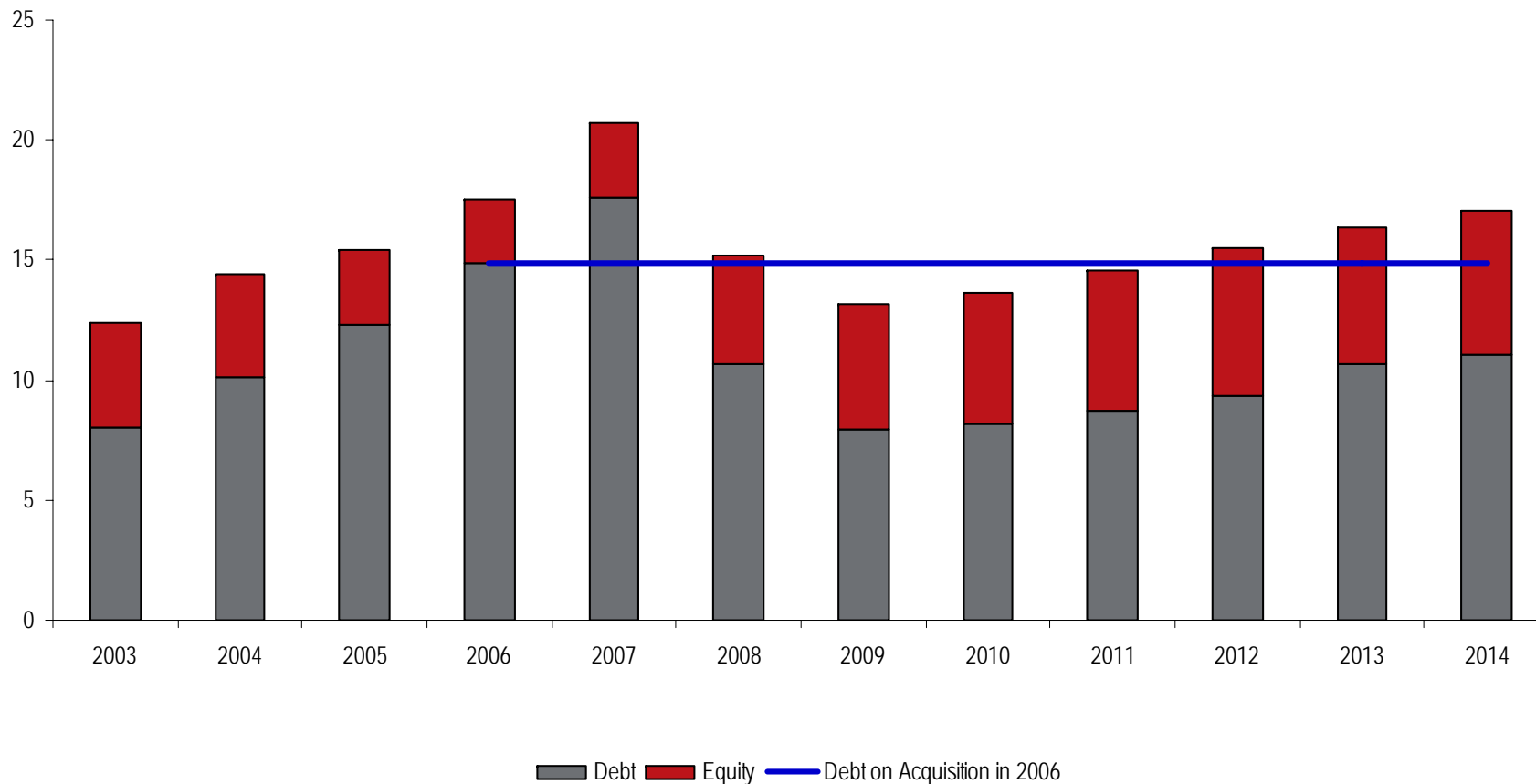
- Trading market is now stable but will plateau over the 2<sup>nd</sup> half and into 2012;
- 1<sup>st</sup> half 2011 consensus - lenders would drip feed stressed assets into the market to avoid a glut of assets for sale which will keep supply and investor demand in balance;
- This assumption looks wrong as some €4 billion will appear for sale in September alone;
- Risk of oversupply which could adversely affect pricing of secondary hotels – secondary is a growing segment;
- Gap between prime and secondary is wide and increasing – London, Paris, Hong Kong, Singapore are hot markets – New York a close 2<sup>nd</sup>;
- Real estate will not be isolated from the turmoil but it may also be a beneficiary.

# Transaction Supply



- **Banks – recovery departments**
  - Are working at the same speed on recovery tasks which is leading to a lot of stock becoming available at the same time;
  - Assets are a mixed bag but portfolio activity is their main focus;
  - US/UK/ Ireland are seeing the most determined activity – Spain / Italy / Portugal / Greece / Central Europe / Dubai have big problems but they are being handled in private;
- **Administrators**
  - Subdued activity in 2010 as the extend and pretend strategy was widespread;
  - Pick up in market activity has led to more assets going into administration where cooperation agreements have been hard to secure e.g. Marriott UK portfolio of 42 hotels;

# Value Evolution vs Original Lending



Source: Jones Lang LaSalle Hotels

# Transaction Demand (I)



- **Corporates**
  - Activity is picking up due to growth demands in the public markets
  - Subdued development pipeline will mean consolidation of medium sized opco's e.g. Rosewood sale to New World, sale of Regent brand
  - Several operators are now willing to use their balance sheets to buy product capable of carrying a brand in key cities.
- **Developers / property companies**
  - Sale of non core assets was addressed quickly e.g. Norgani in Scandinavia
  - Certain opportunist buyers are still active but developers of prime assets are taking the opportunity to exit and churn capital;
  - Development cycle is restarting but in a very slow manner;
  - Activity mostly in emerging markets.

# Transaction Demand (II)



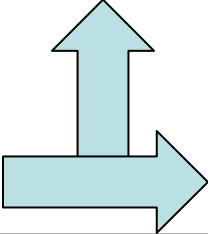

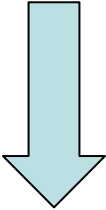
- **HNWI**
  - Big pick up in activity in 2010 and continuing into 2011 – driven by an increase in the number of trophy hotels for sale in London and Paris;
  - As the best has been sold first, participation may slow down as available product becomes less sexy.
- **Institutional Investors**
  - EMEA demand is driven by fund inflows which have been constant over past 2 years as have the portfolio allocation to hotels;
  - Still a stalwart of the market and continue to buy well leased new product;
  - Activity will not grow unless inflows increase
  - Non leased buyers are exiting e.g. SITQ of Canada who purchased a lot of assets at the peak of the market;
  - Increased interest in leased hotels or assets with minimum guarantees from insurance companies.

# Transaction Demand (III)



- **Investment Funds / Private Equity**
  - Confidence is building and management contract assets are becoming sought after in prime locations;
  - VP / franchised portfolio are drawing the highest level of demand;
  - Market share excitement is building amongst these groups as their model requires them to spend.
- **REITS**
  - US REITs have suffered a rocky few months;
  - French SIIC's are starting to have impact in the leased market – e.g. Societe des Murs.
- **Sovereign Wealth Funds**
  - Abu Dhabi / Qatari funds have been very active recently but GIC, Oman remain committed to the sector.

# Pricing Outlook – next 2 years

	Genuine trophy hotels, VP / franchise assets in gateway cities with low capex
	Leased assets
	Secondary assets – weak location, facing increase in supply, heavy capex, old style management contract, portfolios;



# Some Top Deals



Property name	Location	Rooms	Buyer	Seller
<b>Price: \$200m and above</b>				
Ritz-Carlton Moscow	Russia	334	Verny Investments	Capital Partners
Marriott Champs Elysees	France	192	Middle East	Union Investments/Strategic Hotels
Piccadilly Estate	United Kingdom	126	Reuben Brothers	Lloyds Bank
<b>Price: \$100m - \$200m</b>				
Pullman Bercy	France	396	Host Hotels & Resorts, Inc.	Accor
Radisson Blu Frankfurt	Germany	428	Swedish Order of Freemasons	Home Properties AB
Macka Hotel (Development Site)	Turkey	120	Local	Social Security Corporation

Source: Jones Lang LaSalle Hotels

# Issues for the next 3 years



- Investors will spend time on high quality assets with good upside or well priced secondary hotels;
- Risk of oversupply has increased - assets will stick;
- Banks will need to provide staple finance to get the market recovery more firmly established;
- Meaningful income growth may be limited to emerging markets;
- Brand proliferation;
- Asset lite becomes asset fight:
- Owner / operator alignment;
- Cost management.

**Thank you**

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