Emerging strong – £4 billion of hotel transaction in 2021, demonstrates resilience and long-term well-being of the UK Hotel sector

Knight Frank

knightfrank.com/research

UK Hotel Capital Markets

Investment Review 2022

TRANSACTION OVERVIEW

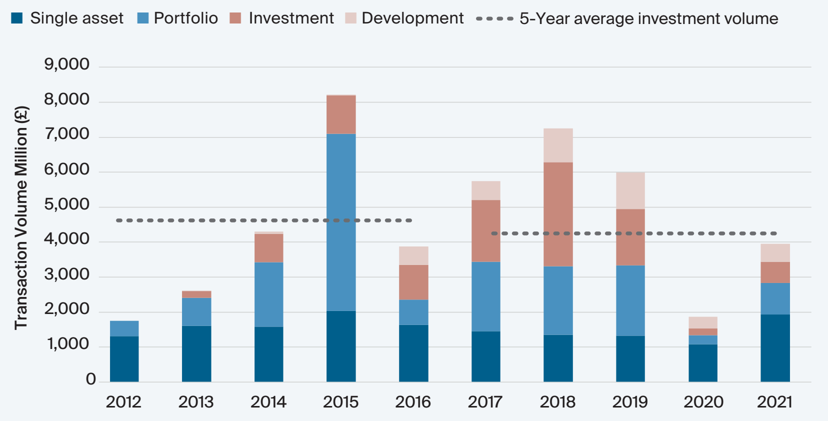
The UK Hotel Market recorded an impressive £4 billion of transactions in 2021, with growing investor sentiment and optimism over the long-term prospects for the sector. Backed by improving trading performance and a faster sector recovery than initially expected, we anticipate a robust and active year ahead for investment in hotel real estate.

Note: excludes the acquisition by Blackstone of Bourne Leisure for a reported £3 billion

This past year has illustrated the strong resilience in the UK hotel sector, from both an operational and property perspective, but has also magnified the importance of investing in well-located assets, benefitting from multiple demand generators, combined with strong management and leadership.

Given the uncertain trajectory of Covid-19 throughout 2020, the reduced investment activity was to be expected (£1.9 billion). Yet investor confidence started to return, with year-on-year hotel transaction volume more than doubling and investment volumes increasing by over £2 billion in 2021. Whilst the weight of capital invested into alternative property during 2021 remained relatively static, at approximately £14 billion, as an asset class Hotels increased its share, representing 28% of investment in the UK Specialist Property Sector, compared to only a 13% share the previous year.

1 | UK total hotel investment volumes 2012-2021



Source: Knight Frank Research

At the start of the year, opportunistic investors scoured the market keen to capture assets at a discount to pre-pandemic values, but with extended government financial aid and banks supportive to their existing clients, very little distress emerged amongst assets that traded strongly pre-pandemic.

Instead, reputable hotel owners and operators focused on pro-active cost control measures, protecting cashflow through strong operational management, collaborating and communicating effectively with stakeholders and making full use of government support. Asset sales of higher-value, full-service city-centre hotels have been relatively few, whilst hotel companies of all sizes sought valuable time to refinance their existing debt facilities or extend the maturity of existing loans and formalise additional flexibility to their facility agreements.

Where quality assets have appeared for sale, the shortage of available stock, improving trading conditions in strong staycation-led markets and a healthy pool of buyers sought only to maintain or, in certain circumstances, increase values.

Luton Hoo Hotel & Spa. Acquired by the Arora Group. Confidential marketing campaign which resulted in multiple offers.

KNIGHT FRANK 2021 PREDICTIONS

PREDICTIONS	OUTCOME
COVID-INDUCED HOTEL SALES EXPECTED TO INCREASE FROM Q2-2021	✓ Transactional activity improved following lifting of restrictions, Q4 strongest with investor sentiment improving.
OVERSEAS INVESTORS TARGET QUALITY ASSETS IN LONDON AND OTHER GATEWAY CITIES	✓ Overseas investment focused towards London, Edinburgh and Manchester.
INVESTOR PREFERENCE FOR LEANER BUSINESS MODELS	✗ Strong investor sentiment towards quality assets and best in class assets with value-add opportunities.
REPURPOSING OF ASSETS AND LAND SOLD FOR ALTERNATIVE USE	✓ Hotels sold for alternative use such as residential, student housing and last mile logistics. Demand for local authority housing and accommodation for asylum seekers has provided short-term cash-flow.

UK HOTELS – INVESTMENT SUMMARY FOR 2021

110%
UPLIFT ON 2020 TOTAL UK HOTEL INVESTMENT VOLUME

£4.9bn
5-YEARLY AVERAGE ANNUAL VOLUME UP 20% COMPARED TO 2012-2016

£1.5bn
INVESTED BY OVERSEAS BUYERS AN UPLIFT OF 31%

74%
OF OVERSEAS INVESTMENT TARGETED TOWARDS LONDON

58%
OF OVERSEAS CAPITAL INTO UK HOTELS FROM NORTH AMERICAN INVESTORS (US INVESTMENT £850 MILLION)

Private Equity Investors
RANKED AS TOP UK BUYER IN 2021 (£1.5 BILLION OF INVESTMENT)

UK HOTEL CAPITAL MARKETS 2022

KNIGHT FRANK 2022 PREDICTIONS

UK HOTEL INVESTMENT ANTICIPATED TO RISE TO

£5bn

INCREASED VOLUMES OF PORTFOLIO TRANSACTIONS / HIGHER PRICED ASSETS COMING TO MARKET

SIGNIFICANT VOLUMES OF GLOBAL CAPITAL, BACK TO PRE-PANDEMIC LEVELS. TOP INFLOWS OF CAPITAL FROM THE USA AND ASIA

Values to remain stable in 2022

AS MORE NORMALISED MARKET CONDITIONS RETURN

HEIGHTENED DEMAND FOR HOTELS FROM PRIVATE EQUITY INVESTORS AND DEBT FUNDS

environmental considerations

SET TO DRIVE CHANGE IN HOTEL INVESTMENT AND LENDING

for sale

INCREASE IN FUNDING LED HOTEL ASSETS MARKETED FOR SALE, BUT NOT NECESSARILY DISTRESS

HOTEL INVESTMENT TRENDS – 2022

Current market dynamics will ensure a positive year for the UK hotel market, with transaction volumes anticipated to rise to £5 billion in 2022.

HENRY JACKSON,
PARTNER, HEAD OF HOTEL AGENCY

With the setback of the Omicron variant having now peaked and managing to ride out the pandemic with continued vaccine efficacy, the strong flurry of transactional activity that occurred during the final quarter of 2021 is expected to continue in the months ahead. Facilitated by an extended period of uninterrupted trading in 2022, improving debt markets and attractive sector diversification, these are all factors that will help lure investment, with best in class assets offering strong liquidity and competition in the market.

Increased portfolio activity is expected, with several opportunities currently progressing, as investors reignite stalled exit plans or implement new strategies, in order to take advantage of an upturn in the investment cycle.

Market forces come in to play – increased funding-led sales

The level of transactional activity in 2021 was held back by a lack of suitable hotel stock, which is likely to continue at the start of 2022. Yet market forces are expected to come into play, leading to improved availability of assets for sale.

As government subsidies come to an end and whilst cash flows are not yet fully recovered, lenders will seek to exert greater control and housekeeping over their loan books. Government secured loans, taken out during the height of the pandemic, will need to be repaid or refinanced on revised terms. Owners, often guided by their lenders, will need to take a strategic look at the level of indebtedness in the medium to long term. Funding-led sales may be an inevitable outcome, as owners are forced to prioritise their investment plans and to preserve long-term relationships with their financial backers.

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With assets likely to have been held back from sale due to the pandemic, for certain investors, executing the planned exit strategy as the market recovers, will become a priority.

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The ongoing unwinding of cost pressures coming out of the pandemic is continuing to drive up inflation in the short-to-medium term, which is expected to lead to moderate increases in interest rates during 2022, back to pre-pandemic levels. As pressures on cashflow tighten and the ability to service debt becomes increasing more difficult, this is likely to drive asset disposal programmes, opening the door for opportunistic cash-rich investors.

Increased asset rotation

The average hold period of an asset for institutional capital and private equity has extended over recent years, but with assets likely to have been held back from sale due to the pandemic, for certain investors, executing the planned exit strategy as the market recovers, will become a priority.

Asset rotation is likely, particularly when there is increasing demand for global branded, regional UK hotel stock, with competitive bidding processes driving prices upwards. As the pandemic struck, several transactions were not advanced, due to offers falling short of a seller's price expectations. As we emerge from the pandemic, several of these assets may once again resume marketing campaigns for a potential sale. The weight of new capital looking to invest in operational real estate, should help bridge the gap in price expectations between buyers and sellers.

Trading outlook obscured by headwinds

Unequivocally, it has been a testing time for hotel owners and operators as the pathway out of the pandemic has taken many unpredictable turns. Had the level of government support not materialised, the dialogue concerning distress could have been very different, with the level

of distress mirroring the aftermath of the global financial crisis.

Looking ahead investors will need to remain increasingly alert to the various headwinds affecting the hotel sector, specifically the upward pressure on wages brought about by the ongoing shortage of labour and the forthcoming rise in the National Living Wage; the increase in the cost of sales and rising energy costs, all have the potential to adversely impact profits and the ability to drive high level of returns.

With the pressure to ramp up occupancy during the recovery in 2022, it is difficult to predict just how successful operators will be in passing on rising operational costs and the planned 7.5% increase in VAT. How much will the tightening of household budgets impact on leisure spend? Will the return of overseas visitors recover quick enough to counterbalance the rebound in outbound travel? And, will the grey pound seek more localised holiday destinations and increase its weight of support to UK Staycation?

For those owners and operators who through the course of the pandemic have learnt to drive the business forward by simplifying and streamlining operations to reduce costs, invest in technology and their people, and had the belief and conviction in the management strategies employed, these businesses are likely to emerge more strongly and embrace the challenges ahead on a much securer footing.

Repurposing of assets drives investment

The repositioning of well-located, underutilised business hotels can lend themselves for repurposing - an example being the recent sale of the Croydon Park Hotel with plans for a new build-to-rent development to comprise 600 units. Non-performing hotel assets pre-pandemic, which were unable to sustain the impact of the extended lockdowns, or where the cost to achieve carbon neutrality for under-invested assets, may also lead to a rise in investment for alternative use.

Changes brought about by the pandemic, such as the need to unlock liquidity, evolving requirements of occupiers and the drive to operate sustainable assets, has brought repurposing of mainstream assets to the fore. The availability of non-core assets suitable for conversion or repurposing into desirable hotel assets is a trend likely to strengthen later in the year and into 2023 as the recovery in the hotel market progresses. With the ongoing drive by hotel operators to expand their market presence, demand for development will be strong. As a result, development funding will be stepped up as the sector recovers post pandemic, supported further by the availability of green finance, to encourage and support efforts to build and operate sustainably.

Hilton Bracknell Hotel, 215 Rooms, acquired by KSL Capital Partners and VUR Village Properties, sold off a guide price of £20 million.

CASTLEFORGE

Matt Lederer, Hotel Acquisitions Director

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Our focus is on ensuring our hotels are well placed to recover quickly. In fact, in our hotels, ADRs and weekend occupancy have recovered to pre-pandemic levels.

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Why invest in the UK hotel market today?

As a company we have been active in the UK property market for more than a decade and we have applied our deep research into global trends and local market insight as we moved into the UK hotel market. We also have strong experience in other operational real estate sectors where value is heavily tied to operational success.

In what timeframe do you consider that both London and Regional UK will return to pre-pandemic trading levels?

We expect London to continue to lag the UK's broader recovery, but that said, when it does recover, London could see a quicker recovery than many currently predict. No pandemic can take away London's status as a prominent destination of interest for leisure and corporate travellers alike.

In the Regional UK market, recovery will not be uniform, but based on the performance of our hotels in H2 2021, we are cautiously optimistic about the potential for 2022 trading. Markets predominantly reliant on corporate demand will take longer to recover than those that are skewed towards leisure guests. Indeed, within each market the asset by asset recovery will vary depending on the key fundamentals – location, product quality, distribution system and service quality. Our focus is on ensuring our hotels are well placed to recover quickly. In fact, in our hotels, ADRs and weekend occupancy have recovered to pre-pandemic levels.

What are your biggest concerns for 2022?

Staff shortages, the increase of VAT for hospitality in April, cost inflation and potential renewal of Covid-19 related restrictions all remain a concern for 2022. Working with our hotel operating partner, Axiom Hospitality, we are already taking steps to anticipate and address many of these concerns. We are in a market where operational attention to detail and quick decision making are paramount. For example, realising the full trading potential of our hotels was only possible through our responsive action to secure agency housekeeping staff, despite the cost implications, allowing us to operate at 100% capacity during busy periods, while competitor hotels had to cap occupancy.

On a positive note, the staff shortages should see owners and operators invest more heavily in staff retention and development, benefitting both employees and the wider hospitality industry longer term. Supply chain challenges have led many hotels to source produce more locally, benefitting the local economy, while also adding to the guest experience.

What key drivers will boost hotel liquidity in 2022 and beyond?

Interestingly, liquidity has not necessarily been the issue over the last 12 months, as there are large numbers of investors looking to deploy capital into the sector. The issue has been a lack of investment opportunities and this has pushed up pricing. Improved visibility and trading predictability will likely boost liquidity in the short term. The relatively quick recovery of some markets, demonstrated the robust nature of the sector and this may ultimately attract new investors, further boosting liquidity beyond 2022.

What actions have you undertaken to mitigate financial challenges?

We did not own any hotels before May 2020, so avoided many of the financial challenges brought on by the initial Covid-19 lockdown period. Alongside our current operating partner, we continually explore ways to improve operating efficiency to mitigate future financial challenges. Technology plays a significant part in this, as does proactive asset management.

What long-term opportunities do you consider have arisen from this pandemic?

Prior to Covid-19, the year-on-year growth in global leisure travel was substantial. People's desire to travel has not diminished and the level of frustrated demand is now more than ever. In addition, the number of people financially able to travel internationally continues to rise sharply, not least from the growing middle class in China.

With people now more confident to work remotely, the work trip that includes a longer stay and travelling with others (friends and /or family), will become more popular. The converse is also true, with leisure trips being extended for work purposes. The challenge will be creating a product and environment that works equally well for work and leisure.

From a property perspective, ESG has continued its rise to the top of the agenda, and we are no exception. Guests are making booking decisions based on how green travel to a particular destination may be and for many institutional investors ESG has become the most important criteria in evaluating a potential opportunity. For all these reasons, future proofing our assets from an ESG perspective is a key focus throughout the hold period.

What are your key investment criteria and how has this evolved following the crisis?

Given that we started investing in hotels post the onset of Covid-19, our investment criteria has remain unchanged. We seek to invest in historically strong regional UK cities that benefit from robust/growing leisure demand and established corporate demand. Underinvested assets and assets where the operating structure can be changed are of particular interest, due to the significant value-add opportunity via repositioning, rebranding and strategic asset management.

We are confident that our current hotel investment strategy will allow us to secure strong returns for our investors, at or above our return targets. We are currently in the process of finalising our European hotel investment strategy and this will include core pillars of our UK strategy, while also adjusting to the specific market dynamics within the Eurozone. This is an area we expect to begin investment within the very near term.

The Crowne Plaza Edinburgh - Royal Terrace, acquired by Castleforge in September 2021. The hotel is under franchise with IHG, and managed by Axiom Hospitality

HOTEL INVESTMENT REVIEW – 2021

Favourable investment opportunities fuelled by the pandemic

Whilst it is undisputed that the UK hospitality industry has been one of the hardest hit sectors throughout the pandemic, the trade-off is the potential for more promising investment opportunities, that would have remained dormant had this health crisis not prevailed.

Throughout the successive phases of the pandemic, each with their own level of uncertainty, the liquidity position and access to capital has been a determining factor for many owners and operators. For many of the smaller, independently owner-operator hotels, of which there are over 10,000 hotels trading in the UK, equivalent to 40% of the total hotel supply, the loss of income endured throughout the crisis has been significant.

Pre-pandemic, many under-invested hotels continued to trade, but the

The combination of lockdowns, stay-at-home orders and tight restrictions on travel have heightened consumers' interest and desire to travel in the UK market and their propensity to spend more on quality experiences.

resultant effect of this extended crisis has forced many hotel owner-operators to close. The investment required to rebuild and maintain the business, combined with severe operational challenges such as staffing and rising costs, has forced many experienced owner operators to make a lifestyle choice, choosing to retire and/or exit from the sector.

Similarly, difficult decisions have been made by businesses that own and operate collections of hotels either independently or under franchise. As a result, various hotels changed ownership in 2021 following decisive action taken to reduce debt, support cashflow, or raise capital for investment in their wider portfolio. Furthermore, with the pandemic fuelling changing investment strategies, various quality assets previously marketed for sale pre-pandemic have now successfully transacted during 2021.

Strong uplift in hotel investment as recovery in trading performance strengthens

The underlying drivers of increased hotel demand, the continued improvement in profitability and visibility for future trading, have contributed to growing optimism amongst investors and banks improved sentiment towards lending to the sector.

With the UK in full lockdown at the start of 2021, it is no surprise that only 13% of the total annual transaction volume took place during Q1-2021. Once the government announced a clearer roadmap out of lockdown, hotel investment gradually rebounded, with approximately £1.3 billion of hotels sold during the first six months, equivalent to 32% of the total transaction volume. With the recovery in trading performance faster and stronger during the summer and autumn months, this led to considerably higher levels of investor sentiment, resulting in 52% of the annual transaction volume completing during the final quarter of the year, equating to over £2 billion of hotels sold.

Our research, however, reveals that the makeup of transaction activity was vastly altered compared to historical trends. In total, some 150 single asset hotel transactions took place in the UK with a guide price of around £2 million, equating to approximately £1.9 billion. This represented a 60% increase in the number of deals and 46% increase in transaction volume, compared to 2019 and is the highest level of single asset activity to take place since the record-breaking year for hotel investment in 2015. This demonstrates that the pandemic has acted as a catalyst for hotel investment at the lower end of the market with a diverse range of investors, both domestic and from overseas, with capital to invest for the right asset.

Portfolio activity accounted for just 23% of the total UK hotel transaction volume, with two-thirds of the investment taking place in the final quarter of the year and positioned largely in the upper midscale sector. Portfolio transactions totalled approximately £900 million, less than half the level of portfolio investment achieved pre-pandemic in 2019. With few Upscale and Upper-Upscale hotels transacting as part of a portfolio sale, the average transaction price per room declined by 44% in London to £346,000 per room and by 16% in Regional UK to £123,000 per room, compared to 2019.

Across the UK, for all hotels sold as going concerns in 2021 (single asset and portfolio hotel sales, but excluding investment sales and developments), the average transaction price per room equalled £163,000, a decline of 26% when compared to 2019 transaction prices. This is due largely to the scarcity of certain assets transacting, in particular trophy assets and hotels positioned in the branded Upscale and Upper-Upscale segments.

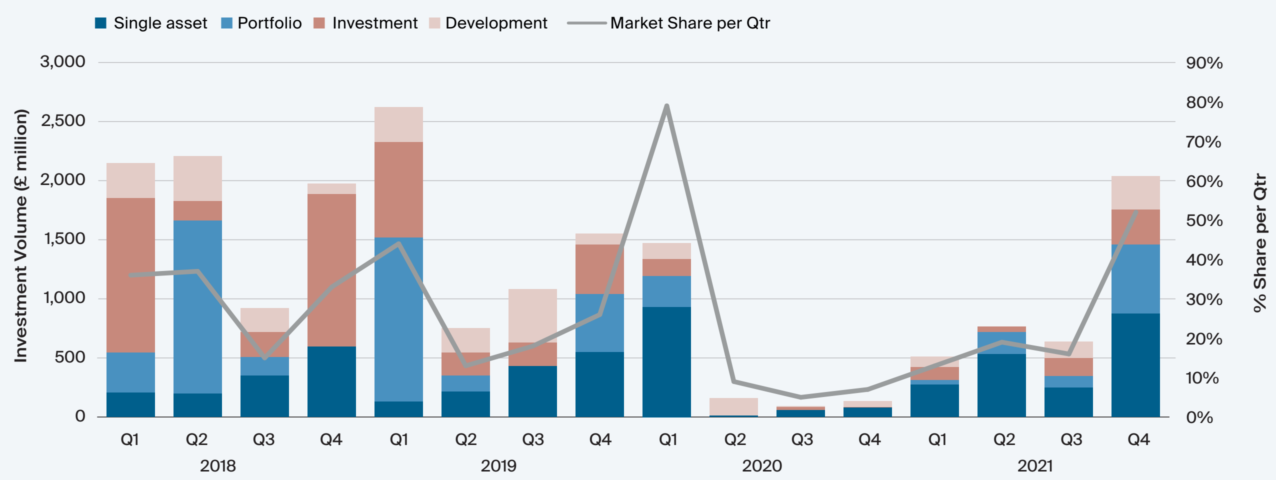
Strong domestic-leisure demand drives hotel transactions

The combination of lockdowns, stay-at-home orders and tight restrictions on travel have heightened consumers' interest and desire to travel in the UK market and their propensity to spend more on quality experiences. As the sector continued its early recovery, hotel trading was driven by strong domestic leisure demand, with many hotels in coastal and country locations witnessing exceptional levels of revenue generation, reaching heights beyond that achieved during summer 2019.

Whilst a strong rebound in outbound leisure travel is anticipated, the desire for a UK staycation is expected to remain robust, fuelled by shorter but more frequent domestic leisure breaks and if disposable incomes are squeezed, holidays abroad may be put on hold. Transactional activity during 2021 illustrates the intense demand for quality hotels in strategic, strong leisure-based locations, with investors seeking opportunities to reposition a business and take advantage of its trading position in the longer-term.

Best Western Hotel Bristol, Newquay, purchased by Salboy Ltd, a UK developer. Acquired for its current trading business, combined with its future development potential. Sold off a guide price of £5 million, receiving strong interest and second round bids.

2 | UK hotel investment volume per quarter 2018-2021



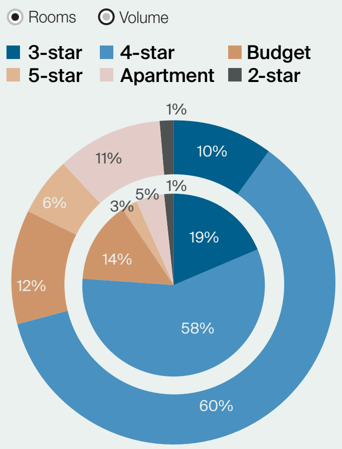
Source: Knight Frank Research

Whilst most traditional high street banks have taken a cautious approach to new lending, emerging challenger banks have shown a much greater appetite, growing their loan books considerably during the pandemic. Several existing owner operators have capitalised on this opportunity, allowing them to pursue their vision for organic growth.

A select number of specialist inns and pub operators have emerged, seeking to capitalise on the growing lifestyle trend, by offering quality, local, leisure experiences, food-driven pubs with a comfortable overnight stay. UK domestic owner-operators such as The Inn Collection Group, Chestnut Group, RedCat Pub Company, Cameron Ventures and Butcombe Brewery, have all expanded in size, by sourcing unique venues in popular locations, steeped in character and history and which benefit from sympathetic restoration and remodelling.

Because of the strong domestic leisure demand there has been an exceptional level of distinctive assets being sold, in terms of their unique location, heritage, building fabric, history and positioning relative to their local environment. Our research indicates some £625 million of hotels, independently operated, transacted in regional UK during 2021.

3 | UK hotel investment 2021 by grade volume v rooms



Source: Knight Frank Research

The Winchester Hotel, acquired by UK domestic buyer, Jastar Capital. Competitive bidding process, resulting in a sale at 10% above the guide price.

This represented an astounding 385% increase compared to transaction volumes in 2019.

The sale of Barnsley House Hotel, a Cotswold country house hotel, where Knight Frank acted on behalf of the Calcot Collection, demonstrates the demand for quality hotel assets located in strong leisure-based destinations. The 24-bedroom property was sold to a Hong Kong-based HNWI, with the achieved price per key at a record price for regional UK hotels.

London investment levels hold up with a sharp rise in activity in Q4

Despite the recovery only properly commencing in the autumn, once international travel restrictions were eased and working from home guidelines ending, investment levels in the Capital have been resilient. Investor confidence grew stronger as the year progressed, with the final quarter of the year witnessing 50% of London's total annual transaction volume. With over £2.1 billion of hotel transactions, accounting for a 54% share of total UK transactions (declining to 49% when excluding hotel development), the sales activity increased by 50% compared to 2020. Still, it represented a 20% decline when compared to 2019 – which at the time was considered a year of subdued activity due to a scarcity of assets for sale.

London witnessed some 38 hotels deals completing (excluding developments), greater than the number of deals which completed in both 2019 and 2020. But with the absence of any trophy assets transactions, the average transaction price per room decreased by 27% compared to 2019, to £302,000 per room (excluding developments).

In total, some 29 London hotels transacted as going concerns, representing 33% of the total UK transaction volume. Transacting at around £392,000 per room, London's largest hotel deal at £355 million, involved the sale of the 906-room Holiday Inn Kensington Forum, acquired by The Fragrance Group, a private Singapore property company.

Institutional investors were most active in the London market, notable transactions and where Knight Frank advised the vendors, included the sale of Yotel London Clerkenwell to LGIM Real assets at a guide price of £70 million and The East London Hotel, sold to Avelios Property Group & Crestline Investors, the latter, a Texan-based US fund. Meanwhile, the sale of Dorsett City London Hotel for £115 million, acquired by Cerberus Capital Management & Highgate Hotels for £431,000 per room, represented the largest deal acquired by a private equity investor.

Despite, over 5,000 new hotel rooms under construction and due to open in London in 2022, the pandemic-induced development pause, has resulted in a slowdown in the city's future pipeline of new supply. Nevertheless, the London market attracted 88% of the hotel development finance in 2021, with five development deals completed during the year. This equated to £450 million of funding raised to service 1,200 new hotel rooms, with investors focused almost exclusively on developing budget hotels or serviced apartments. Competition for prime central London stock suitable for conversion to serviced apartments, is compelling.

In conclusion, there remains a high number of well-funded investors keen to acquire prime hotel assets and London is set to be a major beneficiary of this capital as the global city recovers. With the best assets enjoying high levels of liquidity, Knight Frank is aware of several of high-end London hotels currently being prepared for sale in 2022. Strong levels of demand are expected, and it will be interesting to see how these sales progress.

Regional UK – liquidity boosted by single asset hotel transactions

With the pandemic stimulating significant investment activity, the volume of transactions in regional UK totalled almost £1.8 billion, this follows a dearth of investment the previous year, due to the lack of stock available in the market. Regional UK's market share of the total UK transaction volume increased to 51% (excluding developments), more in line with historical trends. The market share typically ranges between 55% to 58%, depending upon the volume of portfolio transactions.

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With the pandemic stimulating significant investment activity, the volume of transactions in regional UK totalled over £1.8 billion

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In contrast to transactional activity pre-pandemic, in 2021 regional UK has witnessed a substantial decline in both development and investment activity. The number of single asset hotels transacting in Regional UK represented over 80% of the total deals but accounted for only 53% of the total Regional UK transaction volume. Approximately one quarter of single asset transactions were attributed to independent hotels at a price point of less than £10 million.

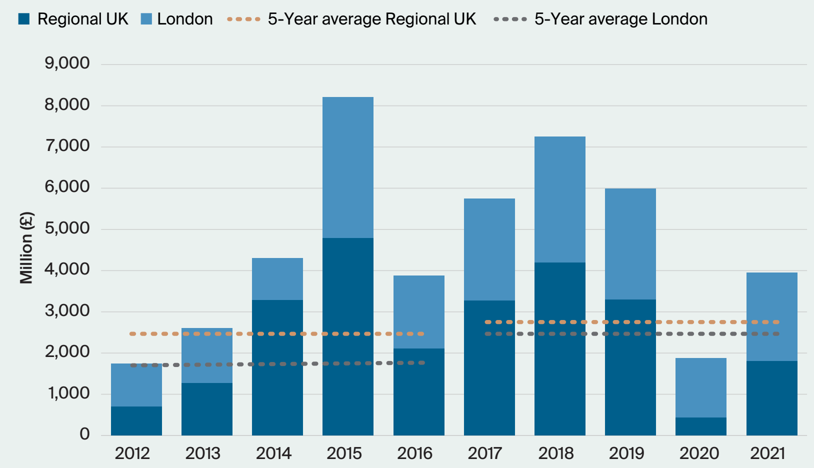
By comparison, in 2019 single asset hotels represented just over 30% of deals and 25% of the total Regional UK transaction volume. In 2019, 15% of the single asset transaction volume was attributed to the sale of independent hotels. This variation resulted in the average transaction value per room for all hotels sold as a going concern falling by 24% compared to 2019, to approximately £118,000 per room.

Portfolio transactions accounted for a further 32% of regional UK hotel transactions, with 64% of the total portfolio transactional activity taking place in regional UK.

Whilst hotel investment into fixed lease assets by institutional investors has grown in recent years, these institutions are typically well-capitalised, allowing them to face contingent situations and ride through such periods of challenge. In 2021, the budget hotel sector, which historically has made up the bulk of fixed lease investment activity, accounted for just 10% of the regional UK transaction volume, recording approximately £180 million in transaction volume, a decline of almost 76% compared to investment in 2019.

In 2022, the liquidity of the UK hotel market is expected to be much stronger, with regional UK seeing a higher proportion of portfolio activity, together with a rebound in the fixed lease investment market.

4 | UK Hotel transactional volumes (million)
London v Regional UK 2012-2021



Source: Knight Frank Research

ZETLAND CAPITAL PARTNERS

Lily Wecker, Vice President

Why invest in the UK hotel market today?

We are optimistic about the macro prospects of UK gateway cities. UK cities have strong fundamentals with population growth (7.6% p.a.*) and job creation (10 largest cities accounted for 46% of job creation in 2013-19**). While the pandemic continues to hinder international and corporate travels, we expect this demand to fully recovery by end of 2024. We see the current environment an opportunistic window for acquiring sound assets and repositioning them in the next 1-2 years.

How would you consider the recovery of London and Regional UK to pre-pandemic trading levels?

We are more confident in London and gateway cities, such as Manchester and Edinburgh, given their long-term appeal to a wider base of international and domestic guests. Although Regional UK performed superbly in the summer of 2021 boosted by domestic tourism, we are cautious whether they could sustain this demand or not. As the recovery continues, we expect a bifurcation between well-located and recently refurbished hotels and those that have secondary locations. Well-located regional hotels could benefit from a balanced mix of leisure transient demand and corporate & MICE demand, whereas those with a secondary location may struggle to diversify from groups and attract transient traffic in the long-term.

What key trends do you envisage will evolve in 2022?

The rise of ESG coupled with accelerated cost inflation will likely continue. ESG is now front and centre to our hotel staff, guests as well as shareholders. Above

Zetland Capital Partners acquired The Macdonald Manchester Hotel (338-bedrooms) and The Macdonald Holyrood Hotel, Edinburgh (157 bedrooms) from Macdonald Hotels in November 2021.

We are more confident in London and gateway cities, such as Manchester and Edinburgh, given their long-term appeal to a wider base of international and domestic guests.

all, we at Zetland emphasize the "S" (social) aspect and prioritize taking care of our team members both in terms of their physical and mental well-being as well as their job stability and income security. 70% of employees now demand purposeful work*** and younger consumers increasingly pay a premium for sustainable products. It's a win-win to invest in ESG.

The inflationary environment has encouraged us to think creatively about increasing efficiency across our portfolio. For instance, installing energy-efficient M&E, up-skilling the workforce and adopting re-usable or bio-degradable materials are just a few initiatives we have rolled out.

What key drivers will boost hotel liquidity in 2022 and beyond?

We saw a lot of capital deployment from equity investors in 2021. The return of credit will be key to further liquidity in 2022. While alternative lenders remained throughout the year of 2021, we expect senior lenders to return to prime hospitality assets in the second half of 2022 in a meaningful way.

What long-term opportunities do you consider have arisen from this pandemic?

This pandemic could serve as an opportunity to re-think guest experiences and employee well-being. Guests and employees are now more acutely aware of safety measures, air ventilation, fair treatments, and mental health.

Hospitality hasn't been known as an industry generous to its staff, and here we have an opportunity to improve working conditions, invest in diversity recruitment initiatives, and develop the next generation of talents.

What are your key investment criteria and how has this evolved following the crisis?

Zetland invests in complex, special situations where capital is urgently needed or scarce. Our core thesis is to invest in quality assets and strong management teams in prime leisure destinations or city-centre locations. We strive to understand our partners' needs and provide creative capital solutions. During the pandemic, we closed multiple investments where we provided rescue financing and growth equity funding to family-owned groups.

Sources:

* www.gov.uk - trend deck 21:Urbanisation

** www.centreforcities: why cities will be our main job creators post covid

*** www.mckinsey.com - help your employees find purpose or watch them leave

OVERSEAS INVESTMENT

London a key target for safe-haven investment

In 2021, overseas buyers invested almost £1.5 billion into the UK hotel market, an uplift of 31% compared to the previous year, but off a relatively low base, this represented a 28% decline compared to 2019. Some 74% of overseas investment was targeted towards London, this is a complete reversal of the investment focus in 2019, where regional UK attracted 73% of overseas investment.

With over £1.1 billion of investment injected into the London market, overseas capital represented 51% of the total London hotel investment. In contrast, only 21% of the investment volume in regional UK originated from overseas. Despite the unprecedented challenges and uncertainty endured by the sector, it is apparent that global investors seek post-pandemic safe havens and London's hotel real estate is a certain target and beneficiary.

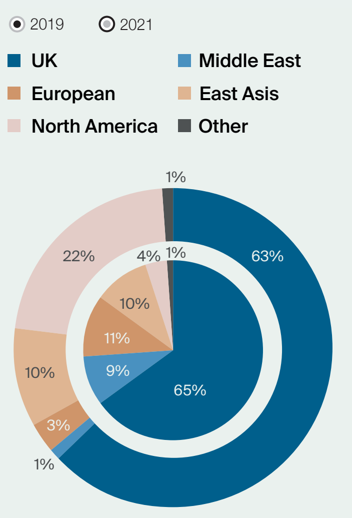
Almost 58% of overseas capital injected into UK hotels originated from North America, with a total investment volume of more than £850 million, of which 75% of the investment volume targeted London. A further 27% of overseas investment came from Asia, equating to over £400 million. Over 90% of this capital originated from the Singaporean investor, the Fragrance Group, following the purchase of the Holiday Inn Forum Kensington Hotel and Aloft Liverpool Hotel, which together accounted for 25% of the total overseas investment. Even without this transaction, still some 66% of the overseas capital flow was targeted towards London.

Prior to the sudden arrival of the Omicron variant, London continued to deliver its highest level of profitability since the start of the pandemic, boosted by an uplift in the UK domestic market and overseas visitors. Despite the temporary set-back of Omicron, London's recovery is expected to gather pace, boosted by the return of key sources of demand, notably corporate, group and international overnight stays. Hotel trading performance underpins the transaction market, and as London's trading performance strengthens, we envisage an increase in hotel assets marketed for sale.

The investment made by the Fragrance Group, endorses the group's commitment to the UK, having previously acquired five operational hotels and a further six development sites, in strategic resort and city centre locations, since 2017. Such investment is testament to the optimism that committed overseas investors have on the future of the UK hotel property market. For HNWIs, with access to patient capital, the UK hotel sector offers the opportunity to look beyond traditional asset classes, providing access to prime real estate and land, with the potential to reposition, extend or develop the assets. Investments of this scale have potential to offer these investors stable, resilient cashflows and high returns over the long-term.

Barnsley House Hotel, acquired by Halo HP Hong Kong Ltd. The 24-bedroom hotel, sold for a record price per key for Regional UK.

5 | Buyer origin
2021 vs 2019



Source: Knight Frank Research

MOST ACTIVE INVESTORS

Private Equity investors ranked as top UK buyer in 2021

Capital flows from private equity investors totalled almost £1.5 billion in 2021, representing a 39% share of the UK's total investment volume. Regional UK was a strong beneficiary of this capital, with approximately £950 million invested, representing 54% of the total regional UK investment and 62% share of total private equity investment.

The two largest portfolio deals to transact in 2021 – Henderson Park's acquisition of 12 Hilton hotels (Project Conrad) and MCAP Global Finance's acquisition of 17 Holiday Inn and Crowne Plaza branded hotels (Project Horizon) – were both acquired using private equity, accounting for approximately 44% of the investment secured by this investor type.

The strong level of investment in the UK hotel sector by private equity investors verifies the weight of capital seeking investment opportunities. They partner with experienced operators, aiming to create quality portfolios with growth potential. Other significant Private Equity investors active in the sector during 2021 included:

- Zetland Capital Partners, who acquired the Macdonald Manchester Hotel and Macdonald Holyrood Hotel in Edinburgh for a sum in excess of £100 million, as well as acquiring the De Vere Staverton Hotel in Daventry. The group also acquired The Morrison a DoubleTree by Hilton in Dublin for approximately €65m.
- Conker Dawn, a new investment vehicle, acquired the Hampton by Hilton Waterloo and the Doubletree by Hilton York from privately-owned, UK-based Shiva Hotels, for approximately £95 million.
- Goldman Sachs & Cedar Capital Partners acquired The Belfry Hotel & Resort for £140 million from US Private Equity firm KSL Capital.
- Brookfield-backed, serviced apartment operator, edyn group signed a £195 million debt facility with Blackstone's Global Real Estate Debt fund (BRED) and KSL Capital Partners, with the funds used to support its expansion into Europe and to develop its newly launched brand, Cove. The facility contributed to the £62.5 million funding arrangement to secure the acquisition of Cove Landmark Pinnacle Canary Wharf, where 162-units will operate as serviced apartments, within the new 75-storey luxury residential tower.
- Cerbereus Capital Management and Highgate Hotels purchasing the Dorsett City London Hotel for £115 million.

UK domestic buyers seek out opportunities to drive organic growth

A growing number of domestic operators have succeeded in raising debt finance and/or are well funded and are capitalising on opportunities the pandemic has presented. UK corporate hoteliers and corporate buyers represented 17% of the total UK transaction volume, but almost 30% share of the total rooms transacted.

Knight Frank has been instructed on several deals where the successful purchaser is a reputable UK domiciled buyer, already with a strong presence in the UK Hotel sector. These well-capitalised buyers have acted quickly and purchased assets which directly complement or diversify their existing hotel portfolio, possessing the market knowledge and expertise to acquire the asset based on the current trading performance. Deals where Knight Frank acted on behalf of the owner included: the Arora Group's acquisition of the 5-star, Luton Hoo Hotel, Golf & Spa; Kaleidoscope's purchase of Bishopstrow House Hotel in Wiltshire; Jastar Capital completed on The Winchester Hotel & Spa and the acquisition of the Bentley Hotel & Spa in Lincoln and Stanton House in Wiltshire to the same private owner.

The strong level of investment in the UK hotel sector by private equity investors verifies the weight of capital seeking investment opportunities. They partner with experienced operators, aiming to create quality portfolios with growth potential.

Assets which have been marketed for sale, following action taken as a result of the pandemic, have continued to fuel this trend for domestic buyers to acquire attractive assets on a selective basis, with some £400 million of hotels transacting in 2021 to a UK Corporate Hotelier. Other examples of sales include the acquisition of the Hilton Warwick/Stratford-Upon-Avon by Serani Hotels; the purchase of Five Lakes Resort in Colchester to Potters Leisure; Lakeside Newby Bridge in the Lake District to Classic Lodges; and Bredbury Hall & Country Club to Vine Hotels.

AVELIOS ALTERNATIVE ASSETS

Guido Lang, Chief Investment Officer

Why invest in the UK hotel market today?

We are positive on the UK hotel market post Covid-19 and eager to deploy capital into the market at an attractive point in the recovery cycle. We target high quality assets, in good and rapidly improving locations, benefitting from strong fundamentals, at an attractive entry basis with value-add potential from repositioning or stabilisation.

Our aim is to reposition and stabilise the hotel in the short to medium term before considering a sale.

What is your view concerning the long-term prospects of the UK hotel market?

In the long-term the UK, and particularly London, will continue to benefit from a combination of strong domestic and international leisure and corporate hotel demand. We are particularly positive on efficient and well-located urban city centre hotels, that provide flexible and good value accommodation to a variety of guest types, and which have great transport links.

We consider that both London and Regional UK will return to pre-pandemic trading levels between two to three years.

What are the key attractions for overseas investors to invest in the UK hotel market?

Overseas investors are attracted to the UK as it is among the most liquid and transparent commercial real estate markets globally. London will remain one of the most visited and culturally vibrant cities in the world thanks to its deep history, arts and culture and position as global economic centre.

What key trends do you envisage will evolve and what are your main concerns in 2022?

Whilst the domestic leisure and corporate travel markets are likely to recover soonest, we expect the international market to recover rapidly as travel restrictions ease and people crave a return to physical connections.

◆◆

We are positive on the UK hotel market post Covid-19 and eager to deploy capital into the market at an attractive point in the recovery cycle.

◆◆

Cost inflation, including rising energy prices and the cost of supplies remain key concerns in the current trading environment. Similarly, impacting across the sector, staff shortages will remain a challenge, and the return of VAT back to 20%.

What key drivers will boost hotel liquidity in 2022 and beyond?

There is pent up investment demand from hotel investors, following years of market disruption and we expect to see more disposals as owners look to unload assets, they were unable or unwilling to sell during the pandemic. We also expect an increase in forced sales as lenders are likely to become less forgiving for struggling hotels and any covenant breaches.

There is no doubt that Covid-19 has stimulated an interesting landscape for investment. We focus on future-proof assets in liquid markets across Europe that provide attractive, uncorrelated, risk-adjusted returns. The East London Hotel presented an opportunity to acquire a quality asset in a rapidly developing London submarket, well positioned to benefit from a post-Covid market recovery.

What actions have you undertaken to mitigate financial challenges?

Our underwriting assumes a conservative and gradual market recovery and we have appointed a market leading professional advisor team and a leading firm as our white label hotel manager to help us reposition and stabilise the asset.

◆◆

Overseas investors are attracted to the UK as it is among the most liquid and transparent commercial real estate markets globally.

◆◆

The East London Hotel, acquired in a joint venture agreement between Avelios Alternative Assets and Crestline Investors in October 2021.

INSTITUTIONAL INVESTMENT

The Continuing Appeal of the Hotel Sector

Diversification in investment-grade stock drives growth in the average transaction price per room

In pursuit of available investment-grade bedroom stock, institutional investors seek to diversify their investment in the sector. The £10 million sale-and-leaseback transaction of the Lamington Group's Room2 Southampton asset, to Aberdeen Standard Investment, where Knight Frank advised the purchaser, is considered to be a real test of the operator's covenant strength, with the deal having completed in January 2021, at the start of England's third lockdown, when visibility for the recovery of the sector was extremely opaque.

Serviced apartments have remained profitable throughout the pandemic, thereby proving their resilience and robustness. The inclusion of serviced apartments as investment-grade product is a trend that will continue well beyond 2021 and will serve to elevate the average transaction price per room further. In 2021, with a notable absence of Travelodge stock transacting, following the operator's Company Voluntary Arrangement (CVA), combined with a substantial uplift in pricing in the broader investment market (comprising fixed lease, ground lease and income strip transactions), investment sales transacted at an average transaction price of £172,000 per room, an uplift of 46% compared to the 2019 transaction price.

Institutional investments target development sites, focusing on forward funding deals

Total institutional investment into the UK hotel market totalled approximately £750 million in 2021, with an 88% to 12% split between London and Regional UK. In total, institutional investors (UK and overseas) accounted for 19% of total UK hotel investment and was ranked as the second most active investor group to invest in the sector.

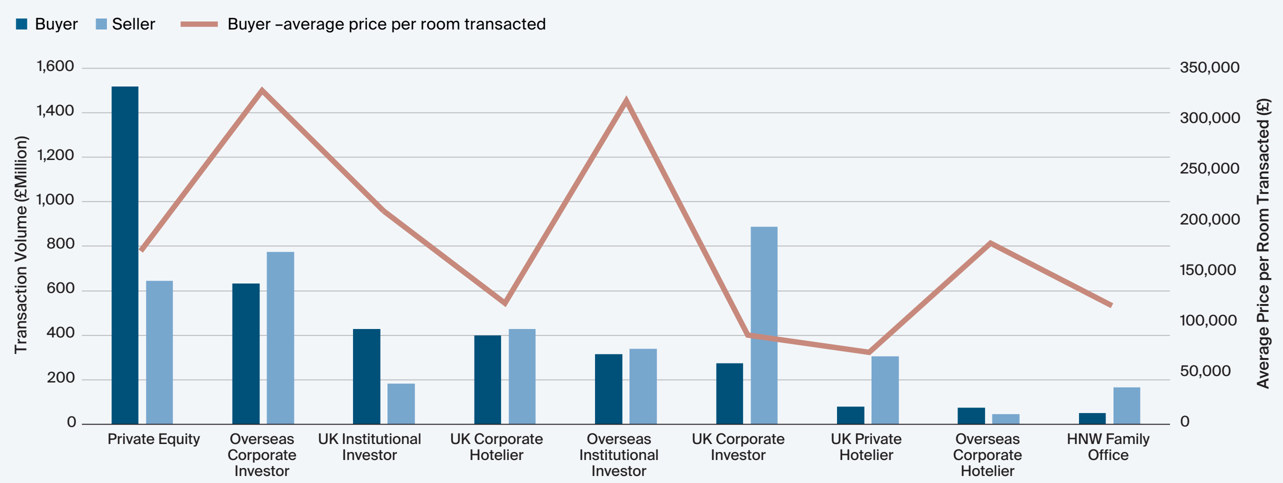
UK institutional investment totalled £430 million, despite being 80% below the level of investment in 2019, this investor type recorded positive annual net capital inflows of around £250 million since the pandemic began. This demonstrates that most fund managers were well capitalised and positioned to ride out the storm, but an increase in portfolio churn by institutional investors will be expected as the recovery takes place.

The sale of the 212-room Yotel London Clerkenwell, which sold off a guide price of £70 million to LGIM Real Assets, was one of the first central London hotels to transact following the onset of the pandemic. Knight Frank acted for the administrators responsible for the sale, achieving the highest value per room for a trading asset made by a UK Institutional investor and represented the Fund's first operational hotel acquisition.

Institutional investors provided over £300 million of development funding, representing 42% of this buyer group's investment volume. The deals involved three London sites, totalling some 900 rooms, let to Whitbread and a fourth site let to Dalata, for the 260-bedroom Maldron One Park Lane Liverpool development.

The largest transaction involved the UK's largest private pension scheme, Universities Superannuation Scheme, entering into a forward funding agreement to acquire the 369-bedroom Premier Inn Paddington development from Invesco Real Estate and London-based developer YardNine, for a reported £143 million (£388,000 per room). Meanwhile, Federated Hermes entered into two forward funding agreements, a £97.5 million agreement with developer Dominvs, for the 400-room Premier Inn Hammersmith and a £35 million agreement with Citygrove Securities for the proposed 137-bedroom Premier Inn Lambeth development.

6 | Total UK hotel investment volume 2021 - by investor profile Buyers v Sellers



Source: Knight Frank Research

Whitbread-let investments are experiencing the highest level of demand and yields are predicted to sharpen further for the most sought-after assets. We are experiencing renewed demand for Travelodge-let investments and this will continue to build as the year progresses.

Charles Fletcher, Partner, Specialist Property Investment

What does the future hold for the Fixed Lease Market?

Historically, Travelodge let-investments have been the most frequently traded fixed-lease hotel assets. The impact of the Travelodge CVA in 2020 dented investor confidence however, and we saw a fall in demand which resulted in limited activity in 2021, with only seven Travelodge assets trading during the year.

Conversely, we saw very strong investor demand return for Whitbread / Premier Inn-backed assets, with institutional investors leading the charge. Pricing achieved on assets in December was at levels higher than pre-pandemic.

It is clear, that many now interested in the sector are not purely focussed on covenant strength, but they are also considering the stability of the rental income stream and predictability of future cash flows far more closely. The property fundamentals are key.

Operationally, the two largest operators in the fixed-lease market, Whitbread and Travelodge, have both rebounded strongly post lockdown as seen in their recent trading updates and they continue to be recognised as two of the most defensive operators, with an ability to drive occupancy and reduce overheads. The opportunity to offer a durable long-term income stream, hedged against inflation, will continue to drive investor interest.

As evidenced in 2021, an increasing number of operators are competing in the occupational lease space, including Dalata, edyn Group, StayCity, Melia and Lamington Group, who are all committed to forging strong relationships with institutional investors. AGO Hotels, which offers a hybrid lease, equity stake and profit participation, evolved out of the turbulence of the pandemic and will seek to expand its portfolio further, but its ability to become an investment-grade product, will be subject to the quality and location of the stock, as well as institutional investors becoming more accepting of variable occupational turnover-based leases.

As we enter 2022, fixed lease hotel transaction volumes are expected to increase, with the sector offering portfolio diversification and value compared to other asset classes, on a risk-adjusted basis. But with the development pipeline slowing, the fixed lease market may continue to be constrained by a lack of stock.

We anticipate a rise in hotels funded via a forward funding structure as schemes on hold over the term of the pandemic are revisited, as well as the continuing ground rent trend which allows owner operators the opportunity to access relatively low-cost capital in exchange for around 15% of their EBITDA, but still retain full operational control of their business.

Charles Fletcher, Partner, Specialist Property Investment

Hilton Maidstone, the 146-bedroom hotel was acquired by Orida Group, on the basis of obtaining vacant possession at the end of the lease. The hotel will complement the group's expanding collection of hotels and prestigious golf clubs, all regionally located in the South East of England.

BLACKROCK

Sam Farquharson, Vice President, BlackRock Real Assets

Why invest in the UK hotel market today?

Sectors of the UK hotel market offer a strong opportunity to capitalise on a period of growth, with the opportunity to obtain significant reversion through improved occupancy and strong room rates as we emerge from the Pandemic. This is not true of the whole sector and so there needs to be a significant amount of caution and a detailed underwrite when assessing opportunities but, in my opinion, the right assets will offer a durable long-term income stream for investors.

Whilst historically hotels have been considered within the alternatives umbrella, the gap between traditional sectors and alternatives is becoming ever closer. This could continue to become less of an issue, as the more traditional sectors experience ever increasing amounts of operational leases.

Getting comfortable with operational real estate is a must across all sectors now and so that is becoming less of a hindrance for potential investors which may lead to increased demand and yield compression over the medium term. The medium to long term returns UK hotel investments offer can be very favourable when compared against other sectors.

What are your biggest concerns for 2022?

As with most sectors, there will be winners and losers. An increased widening of the gap in terms of performance between certain locations and sectors seems inevitable within the hotels market. Emerging from various lockdowns over the last two years has given investors some clues as to the speed in which certain hotels can bounce back, but selecting the right product will be key to long-term investment performance in the hotels sector.

There appears to be no quick fix for the ongoing labour shortages that the hospitality sector is grappling. Equally, increasing operational and construction costs, as well as rising inflation, all remain significant concerns for 2022.

Supply continues to be an issue in certain markets, whilst development might stall in the short to medium term, this remains on the radar. This is particularly pertinent in city centres which have seen significant vacancy and redevelopment opportunity. With large department stores being repurposed and hotels often at the forefront of this, barriers to entry are lower and certain hotel markets could potentially see large amounts of new supply.

What learning experiences have come out of the pandemic?

One of the overwhelming positives to come out of the pandemic is that hotel operators have understood their cashflows better than ever. Operators and owners have learnt to manage what may have historically been considered fixed costs. Going forward, cashflows are likely to be managed more efficiently, which should help improve margins.

Whilst the past two years have been extremely difficult for the leisure and hospitality sectors, it has also provided incredible insight into which sectors of the hotels market, and even which individual assets, are the most defensive and have the strongest pools of demand. The pandemic has also shown which assets can minimise costs when required and withhold what has been an unprecedented impact on trade.

This insight has allowed investors to really focus in on the right assets and get live visibility on how specific assets trade in times of turbulence. The strong bounce back in performance during H2-2021 demonstrates the robust nature of the sector, providing investors with improved optimism for the year ahead.

Hilton Garden Inn, Birmingham Airport, 178-bedrooms, owned by BlackRock, operated by Castlebridge

REGIONAL UK HOTEL TRANSACTION VOLUME BY GEOGRAPHY AND BY REGION

With many indicators suggesting that transactional activity's makeup in 2021 was different from recent pre-pandemic investment activity, our detailed, analysis of where investors targeted their capital confirms this understanding.

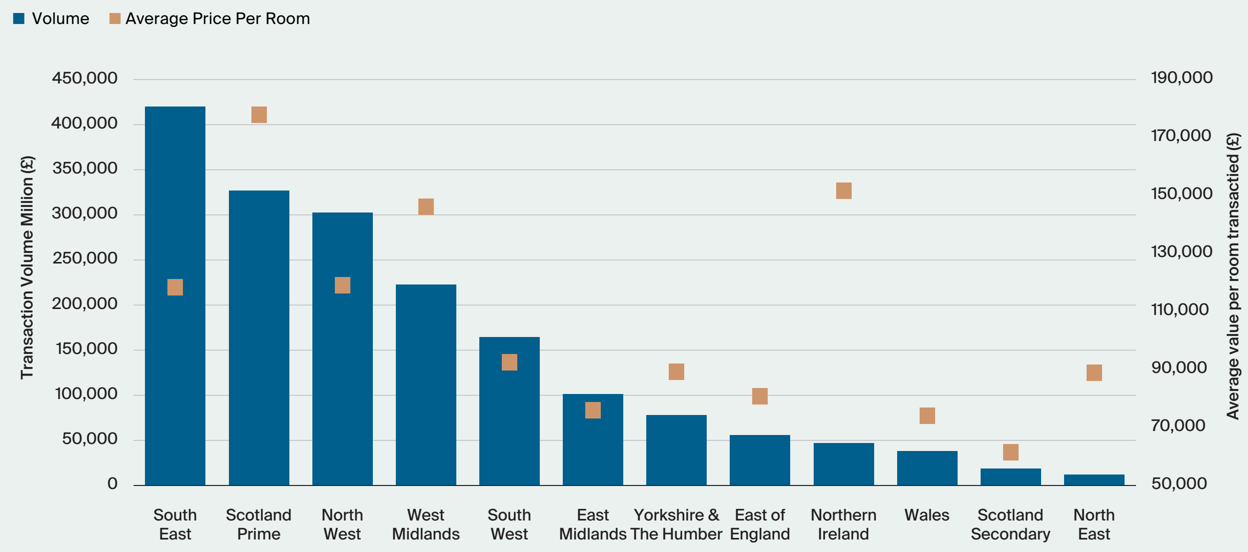
From a location analysis of over 170 hotels transacting in regional UK in 2021 (excluding hotel developments and ground lease transactions), our research indicates that approximately 46% of hotels which transacted, were located in a rural/resort/coastal setting, whilst city/urban/orbital/business park locations accounted for the remaining 56% of completed hotel sales. Hotels which transacted in these city/urban/orbital locations accounted for 69% of the investment volume, due largely to their increased size and greater value. A review of top regional UK cities is somewhat meaningless in a year where certain cities have seen very low numbers or a complete famine in transactional activity.

Edinburgh ranked as the most liquid city in regional UK for hotel transactions

Regionally, the South East of England was ranked as the most liquid region for hotel investment, with transactions of approximately £420 million. Knight Frank acted on behalf of the seller for the asset sales of the 5-star, 228-bedroom Luton Hoo Hotel, Golf & Spa to the Arora Group and the 215-bedroom Hilton Bracknell sold to KSL Capital. Together with the luxury 49-bedroom Stoke Park Country Club, these three assets were significant contributors to the total transaction volume in the South East of England. However, the strong number of smaller valued deals, with an average transaction price of around £6 million, led to the South East Region securing the highest number of hotels transacting.

Scotland's prime cities were ranked as the second-highest region, recording over £335 million of transactions. Edinburgh is the most liquid city in regional UK, with some eleven deals transacting at an estimated volume of around £260 million. Edinburgh accounted for a 78% share of investment in prime Scotland and a 15% share of the total Regional UK hotel market, whilst the city of Glasgow accounted for a further 21% of the regional investment. Three of the largest hotels to transact

7 | Regional UK hotel transactions 2021 by UK region



Source: Knight Frank Research

included the long leasehold interest of the 240-bedroom Courtyard by Marriott Edinburgh, acquired by Marathon Asset Management; Pandox AB acquiring the 146-apartment Adagio Aparthotel Edinburgh and Zetland Capital Partners acquiring the 157-bedroom Macdonald Holyrood Edinburgh. Together, these three assets accounted for almost half of the transaction volume for the Edinburgh hotel market.

The North West of England recorded the third-highest level of investment, recording an estimated £300 million, of which the city of Manchester accounted for 73% of the region's investment, with some seven hotels transacting, totalling around £220 million. Hotels transacting included the 338-bedroom Macdonald Manchester Hotel sold to Zetland Capital Partners and Tristan Capital Partners' EPISO 5 Fund acquiring the 261-bedroom Qbic Hotel Manchester, since rebranded to Yotel Manchester Deansgate.

Liverpool attracted a further 18% of the transaction volume in the North West, with three deals transacting, which included a forward funding agreement between Aviva Investors and Valorem Investment Partners for the £37.5 million development of the proposed Dalata Maldron One Park Lane Hotel. Meanwhile, the Lake District National Park in Cumbria contributed to almost 6% of the region's investment volume, with some eight hotels transacting, totalling over 250 rooms.

In 2021, the cities of Edinburgh and Manchester accounted for 26% of the total Regional UK hotel transaction volume. Certain cities have witnessed very low or a complete famine in hotel transactional activity.

The investment volume of the top four regional UK cities equated to a 35% share of the total volume of regional UK hotel transactions, which substantiates the view that in times of economic uncertainty, it is these prime cities that investors target, deemed to have strong fundamentals and a broad and diverse appeal, whilst positioning themselves strategically to take advantage of the sector's recovery.

HOTEL INVESTMENT BY LOCATION TYPE 2021

	City (excluding London)	Resort/Private or Country Estate	Motorway/Orbital	Rural Town or Setting/National Park
No. of hotels transacted	44	18	21	40
Av transaction price per room	£132,000	£202,000	£105,000	£83,000
Rooms	5,300	1,930	2,850	1,200
Volume	£700m	£390m	£300m	£100m

	Coastal Town/Sea Front	Retail/Business Park	Town Centre/Urban
No. of hotels transacted	22	7	21
Av transaction price per room	£74,000	£60,000	£62,000
Rooms	1,350	670	1,200
Volume	£100m	£40m	£74m

MEDIUM TO LONG-TERM INVESTMENT

The appetite for hotel investment witnessed during the final quarter of 2021, is testament to the level of interest and capital available from well-funded investors, eager to establish a presence in a sector that has proven its resilience.

PHILIPPA GOLDSTEIN
SENIOR ANALYST – HEAD OF HOTEL RESEARCH

During this past year, we observed the different perceptions buyers hold concerning the sector's recovery. Those most bullish in their pricing, to push a deal over the line, are likely to reap the reward as recovery in trading gathers pace. Looking ahead in 2022, with the recovery period expected to be shorter than first envisaged, investor confidence to buy off current trading performance will deepen. Increased competition in the sources of debt open to new business will further boost transactional activity.

We anticipate that 2022 will see an increase in quality stock becoming available, both single asset and portfolio activity, leading to some big-ticket sales. Private Equity investors are expected to play a major part of the capital flow into the sector and HNWIs are also expected to feature more strongly.

London's reputation as one of the world's most transparent and liquid real-estate markets, will resonate strongly with overseas investors, who seek to invest in safe-haven destinations, with potential for greater inflows of capital than recorded over the past three years. Meanwhile, with continuing recovery in the corporate market, those hotel assets, with strong fundamentals and located in large regional gateway cities and towns, with repositioning or rebranding potential are likely to benefit significantly from the current favourable and opportunistic investment window.

Looking at historical trends, the cycle of increasing hotel investment volumes is likely to follow a similar trajectory to that which followed the global financial crisis. If this proves to be the case, we envisage buoyant levels of transactional activity to take place well beyond 2022.

With many hotel companies choosing this current year to actively implement their ESG strategies and integrate sustainability plans throughout their estates, we anticipate that increasingly investors will look to de-risk their portfolios where there are sustainability concerns, thereby creating investment opportunities for others.

The current market conditions offer great opportunity for acquisitions, with the hunger to invest and capital available certainly not in short supply. But creativity will be crucial for both sourcing opportunities and overcoming the complexities – defining those players most active in the market.

Knight Frank advised on the sale of Chicheley Hall, sold to Pyrrho Investments Ltd to extend their existing hotel portfolio. Sold off a guide price of £7m. An open-market sales campaign generated substantial interest from new entrants and existing UK hoteliers, both domestic and overseas.

We continue to see strong demand for trophy hotel assets from family offices in the Middle East and Asia. The challenge remains finding viable investment opportunities. With the UK perceived by some to offer good value, HNWIs and family offices are expected to take advantage of the economic recovery, utilising their disciplined approach to long-term investing in hotel real estate.

Emma Winning, Partner, Knight Frank Capital Advisory

8 | Leading hotel transactions

BY INVESTMENT STRUCTURE

	LARGEST PORTFOLIO TRANSACTION	LARGEST SINGLE ASSET TRANSACTION LONDON	LARGEST SINGLE ASSET TRANSACTION REGIONAL UK	LARGEST FIXED LEASE TRANSACTION	LARGEST GROUND LEASE TRANSACTION	LARGEST DEVELOPMENT TRANSACTION
ACQUISITION	LRC Hotel Portfolio	Holiday Inn Kensington Forum Hotel	The Belfry	Adagio Aparthotel Edinburgh	St Martin's Lane Hotel	40 Eastbourne Terrace PROPOSED PREMIER INN & HUB BY PREMIER INN
INVESTOR	Henderson Park	Fragrance Group	Goldman Sachs & Cedar Capital Partners	Pandox AB	La Salle Investment Management	Universities Superannuation Scheme
INVESTMENT	£555m*	£355m	£140m (£430,000/ROOM)	£40m (£275,000/ROOM)	£55m (£270,000/ROOM)	£143m (£388,000/ROOM)

BY TYPE OF INVESTOR

	PRIVATE EQUITY	UK INSTITUTIONAL INVESTOR	OVERSEAS INSTITUTIONAL INVESTOR	OVERSEAS HOTEL FOCUSED INVESTMENT COMPANY	OVERSEAS CORPORATE HOTELIER	OVERSEAS CORPORATE INVESTOR	UK CORPORATE HOTELIER	UK CORPORATE INVESTOR
LEADING INVESTOR 2021	Henderson Park	Universities Superannuation Scheme	Federated Hermes	Pandox AB	Orca Holding	Fragrance Group	Gem Hotels	Heven Holdings
TOTAL INVESTMENT	£555m*	£143m	£132.5m	£40.5m	£33.5m	£367m	£70m	£40m

Source: Knight Frank Research * total investment includes a Dublin hotel asset.

Despite the pandemic's impact on tourism, debt providers' appetite to lend against UK hotel assets is returning. With the lifting of travel restrictions, the sector is expected to make a full recovery in the next 18-24 months, this is acknowledged by lenders and is reflected in the softening of margins.

Lisa Attenborough, Partner, Knight Frank Debt Advisory

RECENT HOTEL TRANSACTIONS

Yotel London Clerkenwell
Sold March 2021, 212 Rooms
Guide price: £70 million

The East London Hotel
Sold October 2021, 161 Rooms
Guide Price: £40 million

Luton Hoo Hotel, Golf and Spa, Bedfordshire
Sold December 2021, 228 Rooms
Guide Price: Confidential

Hilton Bracknell, Berkshire
Sold May 2021, 215 Rooms
Guide Price: £20 million

Premier Inn Maidenhead, Berkshire
Sold July 2021, 124 Rooms
Guide Price: £14.5 million

Hilton Maidstone, Kent
Sold June 2021, 146 Rooms
Guide Price: £12.5 million

Barnsley House Hotel
Sold November 2021, 24 Rooms
Guide Price: Confidential

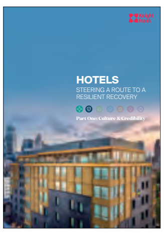
The Winchester Hotel & Spa
Sold June 2021, 98 Rooms
Guide Price: £8 million

Chicheley Hall, Buckinghamshire
Sold March 2021, 50 Rooms
Guide Price: £7 million

Note: For assets which form part of a portfolio transaction, on the occasion where an asset's value is not reported or it has not been possible to verify an individual asset's value, an allocated amount of the total portfolio transaction will have been apportioned to each asset included in the transaction. Knight Frank uses this information in order to undertake further analysis, such as to determine the attractiveness and liquidity of a hotel market.

Front cover photo: **Yotel, London Clerkenwell.** Knight Frank advised the administrators responsible for the sale. The hotel transacted off an asking price of £70 million.

Recent Publications



Hotels – Steering a route to recovery

UK Hotel Trading Performance Review

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