Momentum for UK hotel investment in 2023 remains strong. Price sensitivity and the availability of debt will be key challenges for the year ahead.

Knight Frank

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UK Hotel Capital Markets

Investment Review 2023

TRANSACTION OVERVIEW

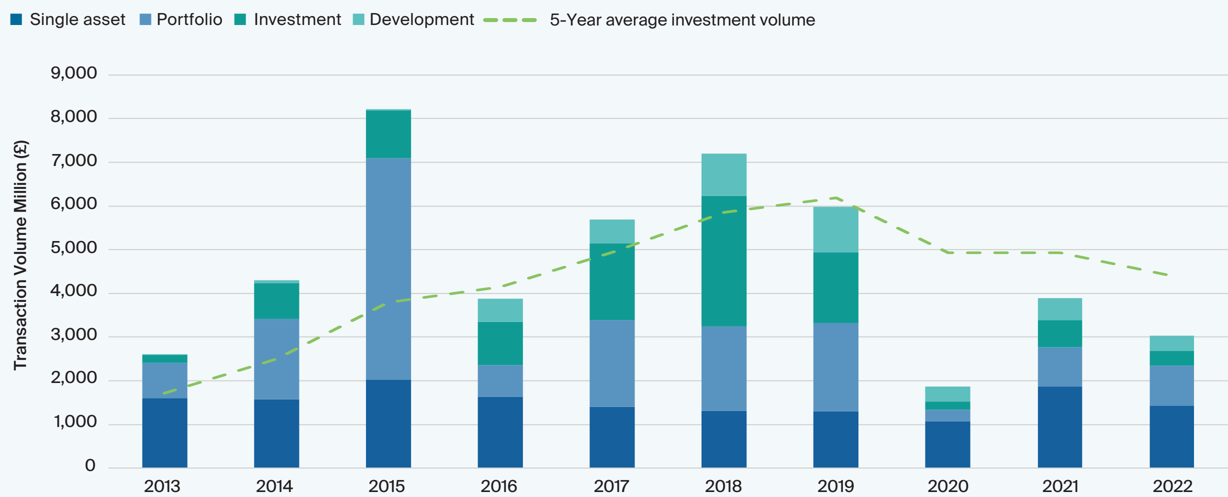
The UK hotel market recorded over £3.0 billion of hotel transactions in 2022, 31% below the five-year average and 22% below 2021 investment levels.

2022 was a year of vastly changing circumstances, with the strong momentum from Q4-2021 leading to a robust first half of the year accounting for 70% of the total annual investment. But the effects of the war in Ukraine, combined with worsening economic headwinds and domestic political turmoil all proved too strong during the second half of the year, suppressing deal volumes significantly.

This subdued investor sentiment contrasts sharply with the strong growth and recovery of trading performance in 2022 (albeit with increasing cost pressures), reinforcing the resilience of the UK hotel sector and its ability to bounce back. This has resulted in far fewer distressed asset sales than the market first anticipated. Combined with the ongoing availability of lucrative government Home-Office contracts providing alternative short-term income streams, a lack of investment opportunities further hampered transactional activity.

In 2022, there were far fewer sizeable assets that transacted but by contrast there was an increase in the volume of lower valued stock, with some 76% of single asset hotels transacting below £10 million, at an average lot size of £4.3 million. There also continues to be a structural change in the hotel sector, with over 22,000 rooms permanently closing over the past three years, many of which being converted to alternative use.

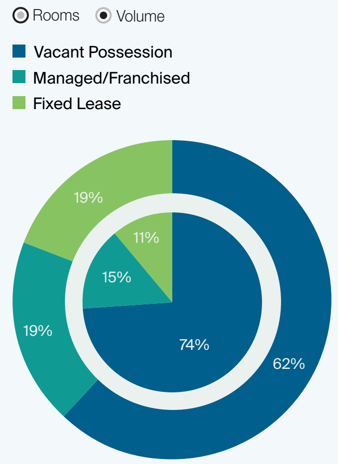
1 | UK total hotel investment volumes 2013-2022



Source: Knight Frank Research

Premier Inn and Hub by Premier Inn hotel investment totalled over £230m in 2022. (Image Premier Inn Paddington Basin, opened March 2022, 393 rooms).

2 | Operating structure
% share by transaction volume & share of rooms transacted 2022



Source: Knight Frank Research

In regional UK, there were no single asset transactions above £50 million in 2022, compared to 2021 when three such assets transacted. Meanwhile, London recorded six single asset hotel transaction to have completed above £50 million.

With the economic and market volatility threatening the returns and yields achievable in core commercial real estate, investors have pivoted more towards alternative real estate assets. These assets have provided investors with compelling propositions, but with a strong year of investment in the student and healthcare sectors, UK hotel real estate has seen its share of the alternative investment volume in 2022 falling to approximately 17%.

Fundamentals for the UK hotel sector remain strong, with VisitBritain forecasting 35.1 million inbound visits to the UK in 2023, with visitor numbers forecast to be 18% higher than the previous twelve months. This will particularly benefit those hotels in markets with strong overseas demand, such as London and Edinburgh.

In 2023, UK Hotels share of the transaction volume within the alternative asset class is expected to grow, driven by more stable market conditions with the UK base rate considered to have broadly peaked or be not far off the peak.

2022 HOTEL INVESTMENT AT A GLANCE

£3bn

TOTAL TRANSACTION VOLUME

Equal split of transactional activity between London and Regional UK.

London

RESILIENCE IN PRICING FOR SINGLE ASSET HOTELS. AVERAGE PRICE PER ROOM £315,000, +5% V 2021.

HOTELS TRANSACTING IN RESORT / COASTAL / RURAL DESTINATIONS ACCOUNTED FOR

55%

OF DEAL ACTIVITY AND

43%

OF TRANSACTION VOLUME IN REGIONAL UK.

INSTITUTIONAL INVESTMENT £485m OF WHICH 37% OF INVESTMENT TARGETED DEVELOPMENT PROJECTS.

45%

SHARE OF OVERSEAS INVESTMENT ORIGINATED FROM USA

TRANSACTION VOLUME -55% VERSUS 2021.

Regional UK

APPROXIMATELY £650M OF SINGLE ASSET HOTELS TRANSACTED, CHARACTERISED BY LOWER VALUE, SMALLER LOT SIZES. AVERAGE PRICE PER ROOM £111,000, -6% V 2021.

INDEPENDENT HOTELS (SINGLE ASSET AND PORTFOLIOS) REPRESENTED

£850m

ALL PORTFOLIO ACTIVITY TOOK PLACE IN H1-2022, EQUATING TO OVER

£900m

OF INVESTMENT.

PRIVATE EQUITY INVESTORS RANKED AS THE TOP UK BUYER, WITH MAJORITY OF INVESTMENT TAKING PLACE IN Q1-2022. TRANSACTION VOLUME

£1.3bn

UK CORPORATE INVESTORS RANKED AS SECOND MOST ACTIVE INVESTOR, SOME

£450m

OF INVESTMENT.

HOTEL INVESTMENT REVIEW – 2022

Investment momentum slowed as the year progressed

Despite the strong recovery in trading performance in 2022, fears of a further period of volatility significantly reduced investment into the UK hotel market, particularly during the second half of the year.

Following the strong momentum at the end of 2021, deal activity in 2022 was strongest in Q1, in terms of the number of deals completing – recording 30% of the deals taking place, comprising a strong mix of both single asset and portfolio transactions. This momentum continued into Q2, which pipped ahead of Q1 to record the strongest level of investment, with some £1.1 billion of transactions completed, equating to 35% share of the annual transaction volume.

◆◆

Some of the trends which began in 2021 continued through 2022, with retirement sales or owners choosing to exit the sector cited as the stimulus behind many hotels which transacted at a price point below £10 million.

◆◆

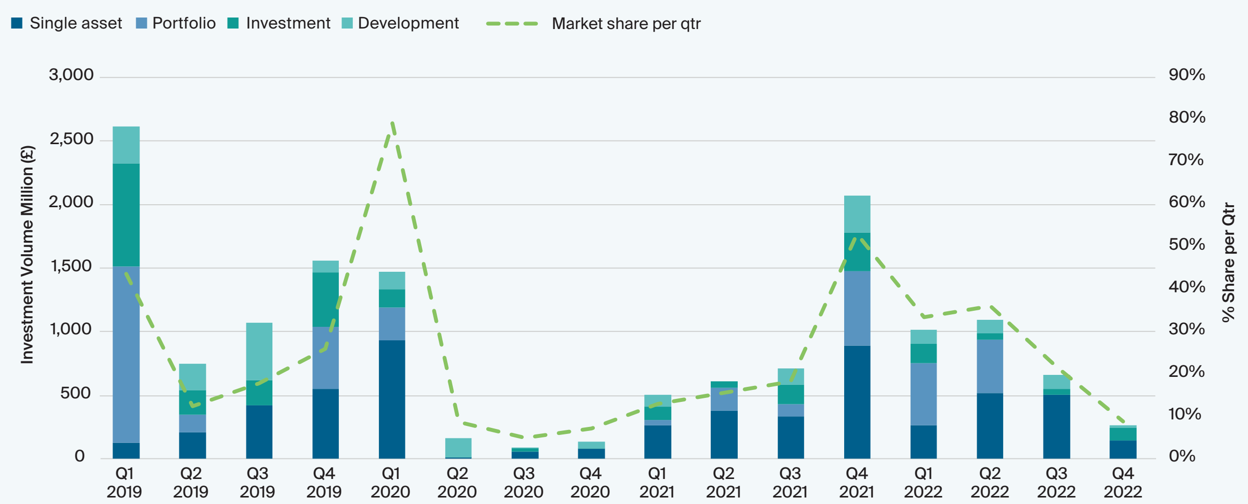
The need to improve liquidity or to reduce debt or where an asset needed significant capital investment, all provided further motivation for transactional activity to take place.

◆◆

Q3 continued to see a robust level of single asset transactions, with over £500m of assets changing hands, but with no portfolio activity completing during the second half of the year, investment volumes began to weaken. Q3 accounted for 22% of the total annual investment volume.

The "mini-budget" in September was the catalyst for substantial economic turmoil, leading to an immediate increase in the cost of borrowing. With many deals thwarted by the sudden unprecedented market turbulence, by the end of Q3, some 91% of the total annual hotel investment had taken place. Q4 witnessed less than £270 million of investment, which equated to just 13% of the transaction volume achieved in Q4-2021, a disappointing low end to the year.

3 | UK hotel investment volume per quarter 2019-2022



Source: Knight Frank Research

London's investment volumes weaken, but strong resilience in pricing for hotels sold as going concerns

- A 30% decline in the number of single asset hotels transacted, totalling 19 assets.
- The average size of hotel asset to transact increased to 135 rooms, helping to restrict the fall in transaction volume which fell by 18%.
- The rebound and strong recovery in trading performance served to protect values, with average transaction price per room for single asset deals rising by 5% to £315,000.
- Four-star and five-star hotels accounted for 75% of hotel rooms which transacted.

Weakened by significantly fewer fixed lease, income strip, ground lease and development deals as the UK bond market underwent a major repricing in the autumn, London's total annual transaction volume declined by 31% in 2022 compared to the previous year, with investment of £1.5 billion. After a supercharged £1.1 billion of transactions in Q4-2021, the first quarter of 2022 accounted for just 15% of London's total annual transaction volume.

Recording 75% of its annual investment volume in Q2 and Q3-2022, the London market witnessed a strong pickup in investor activity, with approximately £1.1 billion of investment during these two quarters. The £420 million sale of the 'Point A' portfolio, with seven out of the ten hotels located in London, certainly provided a strong boost to London's overall transaction volume.

Hotels which sold as going concerns (single asset and portfolio transactions) saw investment volumes some 13% lower than achieved in 2021, recording £1.1 billion of total investment. The continued strong investor demand for these assets, however, resulted in the average transaction price per room of £312,000 remaining on par with 2021 asset pricing.

The two largest single asset deals taking place in London each transacted for a reported £130 million.

- The Hilton London Olympia was acquired by a joint venture between Frogmore and C1 Capital, transacting at £321,000 per room.
- The Trafalgar St James London, Curio Collection by Hilton, was acquired by the Crimson Hotel Group at £992,000 per room, the largest price per room paid for a London hotel since 2018.

Five development deals completed in London in 2022, all targeted at the budget sector, totalling £240 million - a 46% year-on-year decline. With Whitbread

The Trafalgar St James London, Curio Collection by Hilton, was acquired by Crimson Hotels for a reported £130 million, adding to its collection of eight hotels in the UK.

The 13-storey, 294-bedroom hub by Premier Inn Marylebone, is currently under construction and due to open in winter 2023. The freehold site, a former office building, was acquired by Whitbread for £31.25m in 2016 and is located adjacent to Marylebone Magistrates Courts.

involved with three of these deals, the respected operator has shown the power of its balance sheet, with its ability to secure key sites and move quickly on deals. At the same time, the group has further reinforced its balance sheet by releasing value created from various freehold development sites, to raise capital to fund the development of new growth opportunities.

These developments included:

- Whitbread acquiring the freehold interest of 5 Strand for the development of a 200-bedroom Hub by Premier Inn. Located near Trafalgar Square and subject to planning, the reported £100m site was funded from Whitbread's own cash resources.
- Whitbread entering into a sale and leaseback agreement with RPMI, selling the freehold interest in a site, receiving proceeds of £46.4 million. A 13-storey, 294 room hub by Premier Inn, London Marylebone is currently under construction and due to open in the autumn 2023.

REGIONAL UK INVESTMENT TRENDS

>1,800
A higher number of smaller hotels and 1,800 fewer rooms transacted.

$\bar{x}$ 60
A 60-bedroom property was the average size of hotel transacting (average 90-rooms in 2021).

£111,000
Resilience in pricing of single assets, with an average price per room of £111,000, 6% below the average transaction price in 2021.

28%
Shortfall in larger, corporate single assets resulting in a 28% decline in single-asset deal volume

41%
Budget, three-star and four-star hotels accounted for 95% of bedroom stock transacting, of which four-star hotels dominated with 41% share.

£40m
The highest value transactions were all around £40 million, with four deals transacting. (By contrast, in 2021, six deals transacted at or well above £40m)

Continued strong demand for regional hotel assets, which benefit from a well-balanced mix of business and leisure guests, and with a propensity to spend more on quality experiences.

- Citygrove securing forward funding on a site in Lambeth, with planning consent to develop a 137-bedroom hotel, pre-let to Whitbread. Currently under construction, the 12-storey hotel is due to open later in 2023.

Nevertheless, whilst rising interest rates and high build inflation throughout 2022 caused development deals to slow, the main driver impacting the market was the rise in gilt yields following the mini-budget. As such, over 90% of the development activity completed prior to the summer.

Meanwhile, the reduced volume of fixed-lease and ground rent deals, impacted by the same factors which caused the slowdown in development deals, further weakened London's transactional volume. With several deals put on hold due to the heightened economic volatility, yields moving out and the increased pricing of debt, investment deals into London's hotel real estate declined by over 70% in 2022.

Two fixed-lease investment deals did, however, complete during Q4, including M&G disposing of the freehold interest of the Premier Inn Holborn, which the operator holds on a long-term lease. This deal is an example where certain institutional funds have been forced to sell off prime assets to raise sufficient capital in a short period to meet redemption requests. The hotel sold for approximately £245,000 per room.

Regional UK transaction volumes

The total volume of hotel transactions in regional UK equated to over £1.5 billion, a 7% decline compared to 2021 and 29% below the five-year regional average (2018-2022).

Some £850 million of regional UK, independent hotels transacted in 2022. This represents a 55% increase compared to 2021, with an average selling price of £7.1 million (compared to £9.5 million in 2021), and with the average room count considerably lower at 43 rooms (70 rooms in 2021).

Regional UK portfolio transactions

There were four sizable portfolio transactions which took place in 2022 (of more than five assets), with their share of the transaction volume equating to around £550 million. This represented 36% of the total regional UK transaction volume, on par with 2021 volumes, but there was a key difference in the types of portfolios transacting compared to previous years.

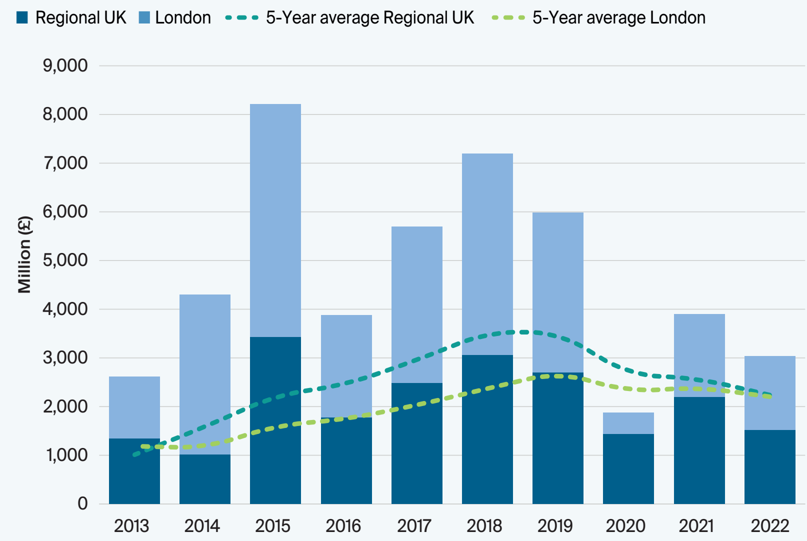
Two regional portfolios dominated investment activity in 2022, the sale of the Inn Collection Group and The Pig Hotel Group. Both collections, very much niche businesses, have sought to capture the growth in demand for quality, local, sustainable, destination-led experiences, with an exceptionally strong focus on the food and beverage offering. Post-acquisition these investors will be looking to expand these portfolios.

Whilst the number of portfolio rooms transacting declined by over 2,000 rooms, of significance was the reduction in the size of hotel asset transacting, averaging 44 rooms in 2022 (compared to an average of 150 rooms in 2021). The sale of the PIG portfolio, where all assets comprise fewer than 32 bedrooms, significantly influenced these numbers. The only branded, city-centre hotels to have transacted in a portfolio were the six Holiday Inn Express hotels in the Chardon portfolio, all of which were all located in Scottish cities.

4 | Single Asset UK Hotel Transactions 2022 - Key Indicators

SINGLE ASSET TRANSACTIONS	TOTAL TRANSACTION VOL (£M)	ANNUAL % CHANGE	PRICE PER KEY (£)	ANNUAL % CHANGE	NUMBER OF HOTELS	AVERAGE BEDROOM SIZE
LONDON	£810m	-18%	£315,000	5%	19 ▼	135 ▲ 10%
REGIONAL UK	£630m	-28%	£109,000	-8%	95 ▲	62 ▼ -32%

5 | UK Hotel transactional volumes (million)
London v Regional UK 2013-2022



Source: Knight Frank Research

ACTIVE INVESTORS

Private Equity investors were ranked as top UK buyer in 2022 - but with first six-months accounting for 93% of investment

Continued strong levels of private equity investment was deployed into the UK hotel market in 2022, with capital flows totalling over £1.3 billion, accounting for 42% share of the total UK hotel investment volume.

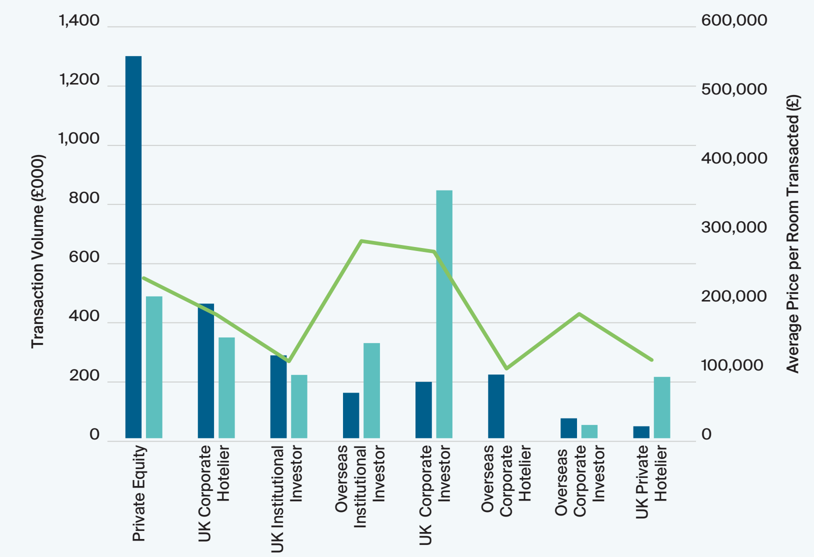
The largest deal to transact involved Tristan Capital Partner's £420 million acquisition of a majority stake in Raag Hotels, the owning company of the predominantly London based budget boutique operator Point A hotel group. The acquisition of The Pig Hotel Group by KSL, together with the sale of The Inn Collection Group (albeit a blend between private equity and a family trust investment) were also significant contributors to this total.

With strong sector fundamentals in terms of leisure trends, unique boutique assets in attractive locations, which offer lifestyle hospitality experiences are in vogue and currently have strong investor appeal. Strategic growth with high quality, differentiated assets with distinctive hotel design, the latest technology and operating culture are all means of generating superior returns and unlocking enhanced value. Understanding the potential of these properties and how best to drive strategic value for all stakeholders will be essential to their success going forward.

Meanwhile, private equity investment into the London hotel market totalled more than £610 million, accounting for over 49% share of the total funds expended by this investor group and represented 41% of London's transaction volume in 2022. Whilst the sale of the Point A Hotel group dominated, other deals involving private equity capital included:

- Frogmore & C1 Capital's joint venture to acquire the 405-bedroom Hilton London Olympia, in a deal worth £130 million, as well as acquiring two additional regional UK assets, the Park Inn by Radisson Northampton and Stifford Hall, Thurrock for a further £22 million. The three hotels form part of the second tranche of acquisitions for its value-add residential and leisure fund, FREP IV.
- The £62 million sale of the 121-bedroom NH Hotel London Kensington was acquired by the serviced apartment operator edyn group, backed by the private equity group Brookfield Asset Management. The hotel is set to become the sixth Locke branded property in London and is due to reopen in June 2023.

6 | Total UK hotel investment volume 2022 - by investor profile
Buyers v Sellers



Source: Knight Frank Research

UK corporate hoteliers seek out opportunities for investment

The second most active group for hotel investment in 2022 was the UK Corporate Hotelier, with around £450 million of investment, accounting for 15% share of the total UK transaction volume. Whilst Whitbread and Crimson Hotel Group were significant contributors to this total, most deals transacted at or below £10 million. AG Group's £20 million purchase of the 152-room Clayton Crown Hotel in London was the only other sizeable single asset transaction to take place by this investor group. Meanwhile, Young's, the pub and hotel operator, acquired the Lucky Onion Group for a reported £25 million, which comprised of three hotels in the Cotswolds as well as three standalone pubs.

Other smaller but notable transactions from UK corporate hoteliers included:

- 4C Hotel Group's £10 million purchase of The Exhibitionist Hotel in South Kensington.
- Crest Hotels acquiring the 140-room Avisford Park for £8 million.
- Nine Hotel Group acquiring the 86-room Holiday Inn Basingstoke.
- Away Resort's purchase of the Best Western Plus Kenwick Park Hotel.

OVERSEAS INVESTMENT

Overseas investment falls far short of pre-pandemic and pre-Brexit investment levels, with transaction volumes down by 58%, measured against 2019

- Overseas buyers invested approximately £880 million (42% decline versus 2021), with the share of overseas investment equating to 29% of total UK hotel transactional volumes (38% in 2021).
- Some 79% of overseas investment took place in H2-2021, by contrast, in 2022, some 71% of overseas investment occurred during H1-2022. This demonstrates that overseas investment was recovering until various factors slowed the pace considerably during the second half of 2022.
- Over 45% of overseas capital originated from North America, with a total investment volume of some £400 million. KSL Capital Partner's acquisition of The PIG Hotel Group represented over 30% of this investment.

£880m
INVESTED BY OVERSEAS BUYERS

- Capital originating from Europe more than doubled in 2022, with investment of over £250 million, representing some 29% of overseas investment activity. The Dutch hotel real estate group, Vertiq Capital, contributed significantly to the European tally, with the purchase of The Bankside London.
- 21% of overseas investment came from the Middle East, with the Israeli-based Fattal Group particularly active.
- Investment coming out of Asia, representing just 3% of the annual overseas investment volume, was disappointingly low after a very strong year in 2021.
- Regional UK attracted 51% of the overseas transaction volume, compared to just 25% in 2021, which equated to over £500 million of investment (a 19% increase versus investment levels in 2021).
- Overseas investment targeting London was 62% below 2021 levels, totalling around £430 million.

There is no doubt that the recent economic and political turbulence weighed on investment activity and with only 2% of overseas transactions taking place during the final quarter of 2022, investors were clearly unsettled by the turmoil created following the "mini-budget". Earlier in the year, there was a

Avisford Park, Arundel, 140 rooms, acquired by Crest Hotels, sold by Knight Frank off a guide price of £8.5 million.

The leasehold interest of the 283-bedroom "The Dilly" was acquired by the Fattal Group in September 2022 for £90 million, with a further £75m of investment planned. The group forecast an NOP of £18.5 million in a stabilised year.

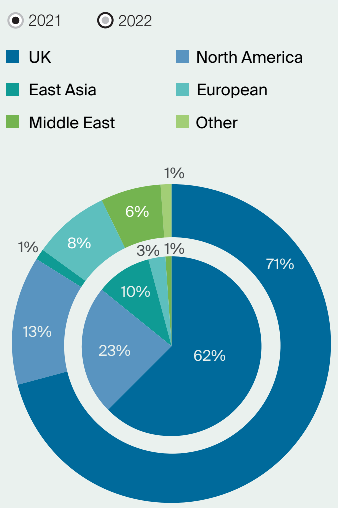
general expectation in the market that there would be significant volumes of capital originating from North America, but the increasing cost of capital and general nervousness from investment committees stalled plans for many potential investors.

In the short-term, the UK's reputational standing has been negatively impacted, but overseas investors remain important players within the UK hotel market. Once the mist settles and the landscape for economic growth becomes more certain, we envisage strong flows of overseas capital to return, particularly as the ongoing recovery in hotel trading performance strengthens even further and with overseas purchasers benefitting from currency plays.

Examples of transactions made by overseas hotel investment companies during 2022 include:

- The acquisition by Pandox of The Doubletree by Hilton Bath for £40 million (£227,000 per room), provided the investor with a well invested asset, in an exceptionally strong strategic location in central Bath, with exposure to domestic and international visitors and a broad mix of business and leisure demand.
- The £100 million acquisition of the 161-bedroom, luxury, design-led Bankside Hotel, under franchise with Marriott's Autograph Collection, formed part of Vertiq Capital's group's strategy to acquire attractive upscale, lifestyle hotels located in urban markets across Europe. The deal was completed, with the hotel having qualified to receive a Green Loan through Aareal Bank's Green Finance Framework.
- The Fattal Group extended its portfolio of London hotels with the £90 million purchase of The Dilly Hotel. It has been reported that a further £75 million will be invested to reposition this landmark property into a leading luxury hotel.

7 | Buyer origin
2022 vs 2021



Source: Knight Frank Research

INSTITUTIONAL HOTEL INVESTMENT

A tumultuous 12 months, with rising inflation and interest rate hikes made 2022 one of the most challenging years for institutional investors, with total institutional investment into the UK hotel market declining by 38% compared to 2021, recording approximately £485 million of investment.

In total, institutional investors (UK and overseas) accounted for just 12% of total UK hotel investment, with a 33% to 67% split between London and regional UK. Institutional capital slipped down the rankings to become the third most active investor group in 2022. Whilst investment by this group typically targets fixed lease interests, ground rents and income strips, it does also include a few deals which were sold as going concerns or hotel assets acquired on a vacant possession basis, with opportunity for redevelopment.

The "mini-budget" brought an abrupt halt to most institutional investment activity, as the rapid increase in UK government bond yields and the run-on sterling caused significant problems for the UK pension funds and spooked both domestic and global investors. The heightened volatility which ensued, caused many investment deals to be pulled from the market. Q4-2022 recorded just 11% of the annual transaction volume from institutional investors.

The months which followed have further signified a new era of greater macro and market volatility, with structural trends such as higher energy costs, increased labour costs and supply chain shortages all fuelling continued higher average inflation. Despite the aggressive monetary policy measures currently in play, living with and learning to navigate the oscillations of persistent inflation, will be an important consideration in 2023.

As a new year unfolds, there remains a relatively quiet and somewhat uncomfortable period, as investors continue to assess market conditions considering the market volatility. However, new stock is likely to become available as funds may seek to discreetly off-load certain hotel assets, in their efforts to rebalance their investments and reduce their exposure in real estate. Whilst such action could serve to act as a brake by some institutional investors, with the diverse investor base attracted to fixed-lease hotel assets, this will bring enhanced opportunities for other committed buyers.

The "mini-budget" brought an abrupt halt to most institutional investment, as the rapid increase in UK government bond yields caused significant problems for the UK pension funds. The months which followed have further signified a new era of volatility. Learning to navigate the movement in inflation will be an important consideration in 2023.

Well-performing hotel assets in prime destinations, remain highly sought after, but the selection criteria may become more rigid. The level of interest and pricing will become increasingly dependent upon the quality of the asset, its location, historical trading performance, future proofing requirements from an ESG perspective and the potential for high value creation.

Over time, investment managers have boosted and broadened their exposure in hotel real estate, having built-up considerable expertise in both hotel operations and real estate, but their focus remains strongest in the branded economy and midscale markets. Over the past six years, the fixed-lease model has continued to thrive, with some 55% of the UK's new hotel supply coming from branded hotels targeting the economy, midscale, and upper midscale sectors (equating to over 75,000 new rooms).

Although the market witnessed M&G's expedited sale of the Premier Inn Holborn in December 2022, with the sales proceeds to be used for redemptions, most UK property funds have now restricted withdrawals. In doing so, this is limiting liquidity pressures and allowing fund managers to test the market without the need for a forced sale. Whilst the illiquid reality of hotels as an asset class makes them more susceptible for disposal during periods of financial market stress, in the longer term, hotels as an asset class that are on fixed lease interests will continue to be sought-after, offering great scope for a secure and sustainable income stream.

The continued outperformance of the branded budget hotel sector in its recovery post-COVID, underpins the strong fundamentals that attract investors to this sector. A robust and lean operating model, the scale, strength and consistency of the leading brands, the provision of affordable, quality, and well-invested hotels positioned in structurally attractive markets, are all factors that continue to drive competitive advantage. These dynamics will serve to support the sector's credentials as having countercyclical opportunities as well as having strong growth during more buoyant times. Despite the ongoing sector headwinds, combined with strong competition for investment from other alternative asset classes, institutional demand for prime hotel stock is anticipated to bounce back more strongly as 2023 progresses.

In 2022, a total of five development deals completed, totalling approximately £170 million, which represented 37% of institutional investment. With the cost of debt to fund new development projects having doubled since the autumn, exit yields revisited and continued cost inflation in labour and construction materials, many development deals are now unviable. Whilst there may be some appetite for operators to accept higher rents, particularly in a higher inflationary environment, realistically fewer development deals will happen, and a reduced hotel pipeline is the more probable outcome until interest rates start to be pared back.

As such, Institutional investment volumes for 2023 are anticipated to be somewhat restricted, particularly given the constraints on development deals.

Despite the ongoing sector headwinds, combined with strong competition for investment from other alternative asset classes, institutional demand for prime hotel stock is anticipated to bounce back more strongly as 2023 progresses.

Travelodge Cameron Toll, Edinburgh, 115 rooms, sold by Knight Frank for £10 million, 5.5% NIY.

REGIONAL UK HOTEL TRANSACTIONS – LOCATION ANALYSIS

In 2022, the top six cities for hotel investment accounted for just 31% of the total regional UK hotel transactional volume, emphasizing the dearth of city centre transactions taking place.

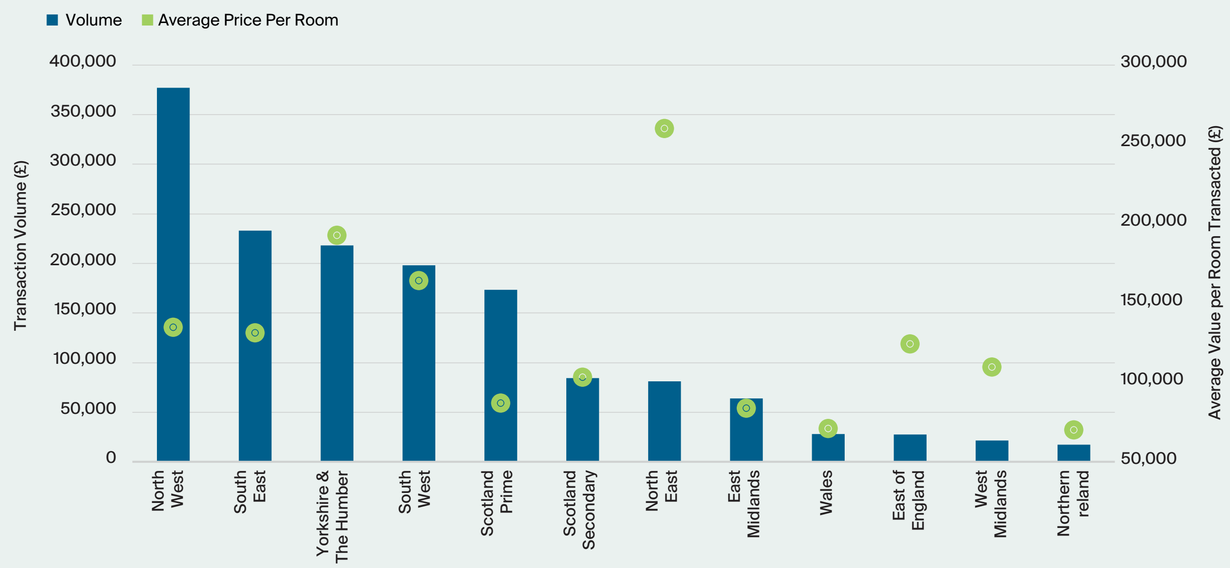
From a location analysis of over 160 hotels transacting in regional UK in 2022 (excluding developments and ground lease transactions), our research indicates that some 55% of hotels were in a rural/resort/private estate/coastal settings, up from 45% in 2021. The average size of hotel transacting, meanwhile reduced to 36 rooms, (45 rooms in 2021).

A further 40% of hotels which sold were situated in regional UK city and town centre locations, on par with 2021 in terms of the proportion of hotels transacting, but with fewer deals taking place and the smaller property size, this led to a 11% decline in the transaction volume of town and city-centre hotels.

Manchester saw the most investment activity taking place, with 9% of the transaction volume. The prime Scottish cities of Edinburgh and Glasgow combined accounted for a further 11% of regional UK investment.

The biggest variation with respect to location in 2022 came from a significant reduction in the number of properties transacting which were located nearby or adjacent to a motorway, arterial road, or an airport. In 2021, these hotels accounted for 19% of the transaction volume and 12% of the number of deals. Fast forward twelve months and these hotels, often deemed to be situated in periphery locations, accounted for minimal investment, less than 2% of the transaction volume.

8 | Regional UK hotel transactions 2022 by UK region



Source: Knight Frank Research

North-West of England regains top UK region for hotel investment in 2022

Regionally, the North-West of England was ranked as the most liquid region for hotel investment, having last held this position in 2019, recording an estimated £400 million of investment. Manchester was ranked as the regional UK city with the greatest volume of hotel investment, with some six deals completing, recording over £140 million of transactions. Manchester's hotel transactions included:

- The £30 million forward funding investment, provided by CBRE Investment Management, for the development of the 188-room, 17-storey, Maldron Hotel in Manchester city centre, with Dalata Hotel Group having agreed a 35-year lease.
- Following the project completion of the new 275-room Leonardo Hotel Manchester Piccadilly, ownership of the hotel was transferred to the Fattal Hotel Group for a reported £41 million.
- Following completion of a forward funding commitment, BAE Systems Pension Fund acquired the ground rent investment of The Holiday Inn and Ibis Hotels, Manchester Airport, for a sum of £42 million, let on a new 250-year lease.
- The long-leasehold interest in the Brooklyn Hotel, was acquired with a fixed lease in place by the Singaporean investor CDL Hospitality Trust for £25 million.

The sale of the Mere Golf & Spa resort, acquired by the Select Group for an undisclosed price, was the only other sizeable single asset to transact in the North West region, above a guide price of £40 million and was the largest hotel resort to transact in the UK in 2022.

REGIONAL UK HOTEL INVESTMENT BY LOCATION TYPE 2022

	CITY	RESORT/PRIVATE OR COUNTRY ESTATE	MOTORWAY/ ORBITAL	RURAL TOWN OR SETTING/ NATIONAL PARK	COASTAL TOWN/ SEA FRONT	RETAIL/BUSINESS PARK	TOWN CENTRE/ URBAN
NO. OF HOTELS TRANSACTED	43	10	2	56	23	4	25
AV TRANSACTION PRICE PER ROOM	£115,000	£206,000	£105,000	£185,000	£134,000	£100,000	£126,000
ROOMS	4,600	500	200	1,800	900	300	1,400
VOLUME	£530m	£103m	£21m	£333m	£121m	£30m	£177m

HOTEL INVESTMENT OUTLOOK – 2023

With a milder and shorter economic downturn now anticipated, combined with a positive trading outlook for the year ahead, momentum in the UK hotel sector remains strong. A challenging operating environment exists, but as headwinds ease, we expect the market for hotel assets to become increasingly active.

HENRY JACKSON,
PARTNER, HEAD OF HOTEL AGENCY

At the start of 2023, enquiries from potential buyers seeking to enter the UK hotel sector or expand their existing estates have increased. As confidence in the direction of the UK economy is further restored, there will come a greater urgency and decisiveness to execute a transaction. Currently, a heightened level of price sensitivity continues, yet the lack of quality branded stock available, may serve to increase competition for assets, thereby protecting or even driving-up values in the short-term. Narrowing the gap between buyer and seller expectations, as well as securing affordable and sufficient debt to reach a positive outcome for both parties, remain key challenges.

Market forces come to play – potential for increased funding led sales

During the pandemic, lenders demonstrated leniency, deferring testing of net debt to EDITDA and interest cover ratios. With increasing pressure on profit margins, mindful of protecting downside risk, lenders are now far more focussed on debt serviceability and are deploying more stringent borrower qualification requirements. For loans reaching maturity in 2023, considering the increase in swap rates, we anticipate interest cover ratios could drive lower loan to values ratios. This is likely to impair certain borrowers from refinancing, driving selective or more forced asset disposal programmes, thereby bringing more hotels to the open market, with opportunistic cash-rich investors likely to move quickly.

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Under these current market conditions, those assets most likely to transact will need to be offered at realistic pricing and for sellers to partake in a proper marketing campaign. Not all owners, however, will be committed sellers, whilst forced perhaps to engage in a sales process, they may simultaneously seek out other possible outcomes. Refinancing with an alternative lender or through the passage of time seek to take advantage of the recovery in trading performance, thus allowing debt service obligations and compliance with financial covenants to improve.

Subdued investment levels during H1-2023

In the event of further interest rate rises in 2023, the injection of further equity may be required to service loans. With more capital tied up and more challenging requirements to secure acquisition finance, this may result in strategic investment plans changing. As such, many owners may seek to hold onto their investment until such time that financial conditions improve. Looking at the year ahead, we do not anticipate a significant volume of distressed assets coming to the market, particularly with ongoing government contracts in place and the rebase of business rates serving to help alleviate the hike in energy costs as fixed contracts come to an end. Furthermore, with the continued recovery in trading performance anticipated, and headwinds likely to ease, with inflation having peaked and wholesale energy prices expected to reduce in 2023, where a sale is executed, it is likely to be at or around fair value.

For these reasons, hotel transactional volumes are expected to remain subdued during the first six months of 2023, most in part due to a lack of quality and sizeable corporate stock. Where opportunities do arise, those buyers not dependent on debt to execute a transaction, such as private wealth and the increasing

Lender appetite for hotel financing has improved markedly since the pandemic (albeit recognising, that was a low base). Well located hotels, particularly trophy assets are now attracting significant lender interest, with both banks and debt funds providing terms. The rising cost of debt has placed pressure on interest cover ratios which will need to be factored into forthcoming refinancing events, and whilst this may well drive selective asset disposal proceeds, there will also be further optionality in the shape of adding mezzanine debt into the capital stack.

Lisa Attenborough, Partner, Knight Frank Debt Advisory

institutionalisation of family offices, are likely to be most active. Those deals which do complete, are likely to be from buyers often driven by emotive reasons, or familiar with the market and consider there to be a perceived premium in the purchase, often with a long-term play. An example of which and where Knight Frank advised the seller, is the recent acquisition of the 62-room, Grade-II listed, Ansty Hall in North Warwickshire, by the Exclusive Collection, where further investment is planned to reposition the hotel. Corporate hoteliers or other strategic purchasers are most likely to fall into this buyer group, particularly on occasions where assets of lower value or assets available at a perceived discount, allow a prospective purchaser's pricing to be more aggressive.

Resilience in hotels as an asset class – leading to greater transactional volume in H2-2023

Already at the start of 2023, there are signs that the UK hotel investment market is becoming more settled, with various deals having recently completed, including the £53 million acquisition by Pandox of the 232-room Queens Hotel in Leeds and Dalata's £44 million purchase of a newly-built 192-room hotel, to open later in the year as the Maldron Hotel London, Finsbury Park. With interest rates potentially reaching or near their peak, there is a greater sense of urgency for investors to get back to more normal levels of investment activity.

As the economic outlook brightens and growth forecast to return later in the year and into 2024, inflation is projected to fall back but remain at a historically high level. As such, revenues are likely to remain more robust than in a deflationary recession and as consumers show a greater appetite to spend more, confidence in the hotel sector's outlook is set to strengthen considerably.

The weight of capital seeking to target the hotel sector is expected to drive increasing transactional volumes, particularly during the second half of the year. There remains no shortage of buyers seeking out hotels which offer value add opportunities and with many hoteliers having benefitted from robust trading off the back of a strong leisure market, more stock is likely to come available as exit strategies are deployed. Yet, price sensitivity is likely to remain a characteristic of the investment market in 2023, particularly with the availability of debt remaining challenged.

The recent £200 million senior loan provided by M&G to refinance the Vivion Group's UK hotel portfolio, provides evidence that underwriting big-ticket loans is achievable, so long as trading remains resilient. We envisage a greater number of larger transactions, be it single asset or portfolio transactions to complete in 2023. Capital from overseas is anticipated to return in greater volumes later in the year, and London will remain a key investment target, as well as prime city-centre hotels and destinations, given their long-term appeal to a wide base of domestic and international visitors.

The Jamaica Inn, Cornwall – 18th Century, 36-bedroom, coaching inn, acquired by The Coaching Inn Group. Sold by Knight Frank off a guide price of £8 million.

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11 | Leading hotel transactions

BY INVESTMENT STRUCTURE

	LARGEST PORTFOLIO TRANSACTION	JOINT LARGEST SINGLE ASSET TRANSACTION LONDON		LARGEST SINGLE ASSET TRANSACTION REGIONAL UK	LARGEST FIXED LEASE TRANSACTION	LARGEST GROUND LEASE TRANSACTION	LARGEST DEVELOPMENT TRANSACTION
ACQUISITION	Raag Hotels – acquiring majority shareholding in Point A Hotels*	Hilton London Olympia	Curio Collection by Hilton, The Trafalgar St James London	Leonardo Hotel Manchester	Premier Inn London Hammersmith	Holiday Inn & Ibis Hotels – Manchester Airport	5 The Strand Proposed Hub by Premier Inn
INVESTOR	Tristan Capital Partners	Frogmore & C1 Capital	Crimson Hotels Group	Fattal Hotel Group	La Salle Investment Management	BAE Systems Pension Fund	Whitbread PLC
INVESTMENT	£420m*	£130m (£321,000/room)	£130m (£992,000/room)	£41m (£149,000/room)	£50m (£263,000/room)	£42m (£77,000/room)	£100m (£488,000/room)
ROOMS	1520	405	131	275	189	542	205
INVESTOR ORIGIN	UK	UK	UK	Israel	USA	UK	UK

Source: Knight Frank Research
*A collection of 10 hotels, comprising 9 UK hotels, 1 in Ireland.
Note: Knight Franks acknowledges the ground lease transaction of the Butlins Hotel sites, acquired by Bourne Leisure, but this deal has been excluded from our UK hotel transaction analysis.

BY TYPE OF INVESTOR

	PRIVATE EQUITY	UK CORPORATE HOTELIER	OVERSEAS HOTEL FOCUSED INVESTMENT COMPANY	OVERSEAS CORPORATE HOTELIER	UK INSTITUTIONAL INVESTOR	OVERSEAS INSTITUTIONAL INVESTOR
LEADING INVESTOR 2022	Tristan Capital Partners	Crimson Hotel Group	Vertiq Capital	Fattal Hotel Group	UK Commercial Property REIT	La Salle Investment Management
TOTAL INVESTMENT	£420m*	£130m	£104m	£90m	£63m	£50m

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

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: The former Macdonald Ansty Hall Hotel. Knight Frank advised The Macdonald Hotel Group on the sale of the property to the Exclusive Collection. The hotel sold off a guide price of £9.75m.

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