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Hotels outlook 2024: “A balance between recovery strides and lingering caution”

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Key players from the sector are upbeat about the prospects for European markets



The Pullman Paris Tour Eiffel hotel was sold by Amundi for €330m this year

Will “bleisure” be the hospitality word of the year? If we measure it by the number of times industry leaders told *React News* that the portmanteau of business and leisure will be the most attractive hospitality asset type for 2024, the answer is **yes**.

Pure leisure and business leisure assets are performing well in terms of occupancy rates and average prices as corporate travellers extend their trips and appetite for travel shelved by the pandemic appears not yet satisfied. In Europe, 2023 flight numbers returned to pre-pandemic levels in many countries and are likely to continue to grow in 2024.

With the EU and local governments putting pressure on short-let apartments and performance of hotels outpacing inflation, there are reasons to invest in hospitality. The sun always shines on the roofs of Spanish hotels, less on Germany's in the past year, but investors have not lost their confidence in hospitality asset as a hedge against inflation.

React News asked sector leaders about their expectations for Europe's hotel markets for 2024.

Tugdual Millet, chief executive, hotels, Covivio

2023 was a historic year in terms of operating performance. It exceeded all expectations – RevPAR Europe at the end of October was up 22% compared to 2022. This was driven particularly by the major European capitals and tourist destinations: Paris, London, Madrid, Rome, Nice, Barcelona and so on. 2024 looks promising for several reasons.





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TUGDUAL MILLET, COVIVIO

First of all, even if 2023 succeeded in reaching new heights in most European countries, both in terms of occupancy rates and average prices, there are still reservoirs of growth. This is

the case particularly in France, thanks to the impact of the Olympic Games, and in Germany, which has not yet returned to its 2023 performance levels and therefore still has significant room for improvement in occupancy rate and average price. The other countries should see their performances stabilise at high levels.

In 2024, the investment market is expected to return to more sustained dynamic (2023 volume estimated at €12/13bn, down 55% compared to 2019). This will be bolstered by excellent post-Covid performance, the normalisation of financing conditions and the convergence of expectations between buyers and sellers. Indeed, in most countries, the increase in interest rates has been largely offset by improved performance. Valuations have therefore been little affected by the rise in yield requirements.

Lastly, with the future supply of new hotels still limited (less than 2% of the existing stock) and growing regulatory pressure on short-term rental platforms, the supply/demand equation will continue to benefit existing hotels, where numerous renovation projects are under way.

Expected revenue growth, limited competition and an investment market that should bounce back: everything to be confident in 2024, even if we must remember that today, more than ever, forecasts are only binding on those who believe them...

Vincent Mezard, global head of residential and hospitality, Axa IM Alts

In 2024, the European hotel real estate market will continue to be shaped by the dichotomy of rapid recovery and lingering uncertainty. The rebound we saw in 2023 defied expectations, primarily propelled by the resurgence of leisure travel and short-haul trips. However, the full resurgence of business and long-haul travel segments is yet to materialise, largely due to ongoing geopolitical tensions, including the conflict in the

Middle East. Such conflicts may continue to bolster demand for trips closer to home for tourists, supporting local and regional hospitality markets.



"The ability to reduce energy intensity is now key in reducing carbon emissions as well as improving profitability, providing direct financial incentive to modernise assets"

VINCENT MEZARD, AXA IM



Looking ahead, the enduring drivers of long-term demand, such as the expansion and wealth accumulation of the global middle class, remain steadfast. The hotel sector has demonstrated its ability to act as a hedge against inflation, with RevPAR outperforming inflation in many markets.

Hotel profitability has shown resilience, nearly recovering to pre-pandemic levels. The normalisation of job vacancies has alleviated some of the pressures stemming from wage cost inflation. However, the lasting effects of energy price hikes remain visible, posing an ongoing hurdle. In response, the pursuit of operational efficiency gains will remain pivotal to sustainably reinstating pre-Covid bottom lines. Furthermore, the ability to reduce energy intensity is now key in reducing carbon emissions as well as improving profitability, providing direct financial incentive to modernise assets and giving an advantage to asset owners with strong expertise and exposure.

Supply risks remain strained and project deferrals are likely to continue as financing and construction costs escalate and land becomes scarce, calling future pipeline projects into question. Specifically, European gateway markets are anticipated to see a deceleration in growth of total hotel beds in the market, influenced by sustained declines in listings for short-term holiday and apartment rentals that further increase the gap between supply and demand, to the benefit of hotel occupancy.

On the investment side, hotel yields have shown relative resilience and, at Axa IM Alts, we have been able to mitigate yield expansion with income growth through active asset management.

In summary, our 2024 outlook for hotel real estate is one of balance between impressive recovery strides and lingering caution. Specialised asset management fostering industry knowledge, adaptability and strategic planning is necessary to mitigate this dynamic asset class and investors who are willing

to deepen their operational exposure and who have the expertise to successfully adopt a higher risk-reward strategy stand to benefit.

Lauren Okada, head of European hospitality, Brookfield

Over the last several years we have witnessed a shift in consumer behaviour – from people spending time and money on goods to a focus on travel and experiences. This has created positive tailwinds in the hospitality and hotel segments particularly in the luxury and upper upscale space, which have also benefited from this higher propensity to spend in the form of higher average daily rates.



"We expect to identify well-located hotels and reposition their offering to create new, refreshed products that will deliver the unique, premium experiences that guests are seeking"

LAUREN OKADA, BROOKFIELD

While demand is robust, the supply side remains at record lows due the higher cost of land, rising construction costs and labour shortages. In the luxury end of the market, which is experiencing the strongest ADR growth, this demand-supply imbalance is particularly pronounced. In Europe, only one in 10 hotels is classified as luxury, versus three in 10 in the US. With guest expectations at an all-time high, it is critical for hotel operators to ensure that their products are modernised and refurbished with the amenities to meet these requirements.

Cashflow struggles during the pandemic and increased operating costs have put pressure on European hotel owners, creating a need for further capex investment. Over the next several years, we see strong potential to acquire high-quality assets for value as a result of underinvestment and/or highly levered capital structures. We expect to identify well-located hotels and reposition their offering to create new, refreshed products that will deliver the unique, premium experiences that guests are seeking. We believe opportunities will emerge across Europe to employ our local presence, scale, and operating experience to grow our existing operating platforms.

Javier Arus, senior partner, Azora

2023 can be viewed through two contradictory lenses: operationally, it was a very strong year in the leisure segment. On the one hand, quite a few companies registered record results; however, it was also a very frustrating investment

environment. Except for a few large portfolio deals and a handful of transactions in the ultra-luxury space, the investment market has been very dry. The main reason for this has not been the lack of investment appetite but the large gap between buyer and seller price expectations.



"Credit funds remain very interested in financing this industry and, in the current market, they are becoming more competitive versus traditional bank financing"

JAVIER ARUS, AZORA

Buyers are pricing in the increase in financing costs and to some extent a moderate cap rate expansion due to the prevailing economic uncertainty. Whereas most sellers are sitting on record GOP per room apart from some corporate-driven markets which have not yet recovered back to 2019 numbers, and they are not willing to take any hit on the value of their assets.

That said, our outlook for 2024 is positive. Tailwinds in the underlying hospitality asset class look very solid over the medium and long term and this attracts more interest and capital to the asset class. In Europe, this asset class is underrepresented in institutional real estate portfolios. There is significant space to increase allocations especially since other real estate categories have less visibility on their medium- and long-term performance now.

As the macroeconomic scenario normalises, there will be more certainty, or at least less uncertainty, on the assumptions underwritten in 2024. The operating results of hotels should moderate their growth and inflation and interest rates should be more predictable. Reducing the unknowns on the table should help reactivate transactionality, narrowing the existing price gap. Today, there is strong investor interest in the sector and there is financing available to support deals. Credit funds remain very interested in financing this industry and, in the current market, they are becoming more competitive versus traditional bank financing.

The extraordinary recovery of the industry since April 2022 has been founded on the domestic European market and boosted by high-end US travellers. There are also very large tourist markets (China, Southeast Asia) which are very far from their 2019 levels but we should see them back this year. As such, we believe the leisure segment will remain strong in 2024, and the indicators (rooms on books, booking pace) signal a solid

season with moderate increases in ADR and recovery of occupancies.

Will Duffey, senior managing director and head of hotels and hospitality, JLL

In 2024, the European commercial real estate market will face a mix of challenges and opportunities. The high cost of debt, currency fluctuations and ongoing geopolitical tensions are expected to impact cross-border investments. However, there may be more certainty in the cost of debt compared to 2023 as central banks like the ECB, US Federal Reserve, and BoE may opt for more stable rates.



"Foreign investment is expected to increase, with some green shoots emerging in luxury assets in urban gateway markets"

WILL DUFFEY, JLL

A key challenge for the sector is the ongoing skills shortage, particularly in the hotel industry. Attracting and retaining talent will require investment in training and development programmes, competitive compensation and creation of a positive work culture.

Despite these challenges, there are several market drivers and opportunities to look out for in 2024. Foreign investment is expected to increase, with some green shoots emerging in luxury assets in urban gateway markets. Cash-rich Middle Eastern investors are likely to deploy capital in Europe and select US markets. Investors are gravitating towards safe-haven markets, especially in urban areas, due to ongoing economic headwinds. London and Paris are expected to see increased liquidity as pricing remains below pre-pandemic levels and international demand surges.

Luxury hotels are also attracting investor interest, particularly from high-net-worth individuals and family offices, accounting for a significant portion of global hotel liquidity.

Increased tourism across Europe is another driver. Major European domestic travel markets are projected to fully recover to pre-pandemic levels in terms of spending. France and Spain are expected to be the two largest destination countries for inbound leisure trips in 2023, with Turkey and Croatia seeing the highest growth in inbound spending.

Additionally, the wellness and lifestyle travel sector is gaining popularity. Hotels catering to this growing segment will benefit

from increased demand.

Paris stands out as an interesting market, with a 15% increase in average daily rates compared to pre-pandemic levels, driven by the luxury segment. Germany presents opportunities for investors in the value-add space due to expiring financing, fund terms, and capex requirements. Spain is experiencing growth in the luxury segment, driven by the entry of high-end international brands. The UK remains an active hotel transaction market, attracting capital for high-quality and value-add opportunities. In the Nordics, the Swedish, Danish, and Norwegian hotel markets have exceeded 2019 levels, providing potential opportunities for investors in equity and debt.

Miguel Casas, managing director, Stoneweg Hospitality

The recovery of the hotel sector consolidated in 2023 and has occurred in a pronounced V-shape from 2020, when Covid-19 forced most hospitality businesses to shut down. This does not mean all the segments or micro markets have recovered in the same way: for example, the rebound in the leisure market has outpaced the corporate travel market and has proved more resilient, while the meetings, incentives, conferences, and exhibitions segment has seen an uptick in demand and should be one of the strongest performing parts of the market in 2024.





"The meetings, incentives, conferences, and exhibitions segment has seen an uptick in demand and should be one of the strongest performing parts of the market in 2024"

MIGUEL CASAS, STONEWEG

While it's easy to make predictions for 2024 based on the sector's current upward trajectory, the structural changes

impacting demand, together with the current macroeconomic volatility, create an element of uncertainty.

The hotel industry, particularly in Europe, has several long-term tailwinds which we expect to drive new levels in terms of operational metrics and investment KPIs, compared to the past decade:

A lack of new supply coming on to the market, including potential regulation of short-term rental markets, will continue driving RevPAR and gross operating profit. Inflationary effects on supply chains, especially in utilities, will be softened by monetary policy and the rapid growth of environmental-focused and impact-based investment strategies.

The recovery of long-haul travel, including travel from Asia, where countries have favourable demographics and growing middle classes, will drive hospitality occupancy in city destinations (both leisure and corporate).

The emergence of more flexible working patterns will continue to boost average stay and lengthen the season in previously seasonal leisure destinations.

We remain cautiously optimistic. Higher borrowing costs continue to significantly impact transaction liquidity and while it has started to narrow as vendors become more realistic, the bid-ask spread remains relatively wide. This will remain the biggest challenge for the wider CRE market in 2024 and while the hotel sector will not be immune, the resilience of the market in 2023 means the outlook is more encouraging. For investors seeking attractive returns relative to the broader CRE sector, we believe the hotel sector offers a compelling investment opportunity. As a result, we are forecasting a reallocation of equity from other parts of the market into the sector.



Goldstein, chief executive officer and founder,
rumSG

Everybody is hoping that investment activity will pick up in 2024 but you need stability before you see a significant increase in activity. Until there is more certainty on interest rates, transaction volumes will be low.



"The most attractive hospitality asset type in 2024 will be properties that can be refurbished and transitioned – for instance, a three-star hotel that can be turned into a four-star or rebranded"

JL GOLDSTEIN, ACTIVUMSG

As opportunistic investors, we need to find situations where there is either some element of distress or financing required, or an opportunity to improve an asset. This is much more likely to be a single asset, rather than a portfolio.

For large-scale refurbishments, there is more flexibility in terms of access to financing because revenues have gone up significantly – in the case of higher-end products, more than enough to offset the cost increases resulting from inflation.

Lenders will continue to squeeze but, hopefully, that will lead to more product being put on the market. There will be situations where loans are due and banks aren't willing to extend them. I expect sales but don't think they will be massively distressed because average daily rates (ADRs) and occupancy rates have been growing.

The most attractive hospitality asset type in 2024 will be properties that can be refurbished and transitioned – for instance, a three-star hotel, which can be turned into a four-star or simply rebranded. Southern Europe is an interesting space. Global hospitality brands are expanding into Spain, where they don't have a huge presence, as it is still a very domestically driven market.

As work patterns change and there are more digital nomads, hotels that have a strong leisure component will continue to do well. Classic business hotels will continue to suffer but they will become interesting for investors when the price gets really low and there is a possibility for renovation. Business leisure and pure leisure assets tend to be fully priced now.

We have made a lot of plans and I hope that we will be able to execute some of them in 2024. Our focus is on more tourism-oriented locations. We have been cautious because the environment has been challenging. It is hard to go against the trend unless you find something unique and special. But that is possible in real estate where you can come across something nobody else has or where there is information asymmetry.