

Hospitality maintains investment case amid bond yield volatility

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Making the cut. (Jake Greenhalgh)

The prospect of interest rate cuts around the globe has cheered real estate and bond investors in equal measure. While hospitality investors see lower capital costs supporting further investment activity and asset values, for bond backers, fixed income is typically a safe place to be during rate declines.

Yet a volatile period for bond yields – and particularly the US 10-year Treasury note – has altered the fixed-income outlook. While the fourth quarter of 2024 saw the yield on the bellwether bond move from 3.8 percent to 4.5 percent at year end, it spiked at 4.8 percent in mid-January. Fears over excessive government spending, and inflation and interest rates staying higher for longer in the US, are rather supporting investment and asset management strategies that involve “hands-on” operational expertise to extract profit.

CBRE research furthermore identifies a “soft-landing scenario” this year which “should support resilient commercial real estate fundamentals that drive rent growth and returns from income, putting additional downward pressure on cap rates”. On the other hand, the firm believes that the US economy should find an equilibrium later this year, predicting that the 10-year Treasury yield will ultimately drift down to the mid-3 percent range later in 2025.

The case for hospitality

In Europe, divergent macroeconomic policies are expected to keep a series of interest rate cuts on the table, further backing the case for real estate.

In fact, the recent volatility of yield spreads doesn’t alarm Saul Goldstein, CEO, [ActivumSG](https://www.hospitalityinvestor.com/northern-europe/activumsg-and-global-hospitality-investment-buy-london-mixed-use-asset-ps21m) (<https://www.hospitalityinvestor.com/northern-europe/activumsg-and-global-hospitality-investment-buy-london-mixed-use-asset-ps21m>), who says that the private equity investment manager remains confident about its exposure to hospitality.

“We operate with a flexible investment mandate that allows us to access opportunities at multiple entry points across the capital stack,” he notes. “We can offer investors hospitality exposure across equity in direct asset investments, subordinated debt secured at an asset level, corporate bonds in the public markets, and through investments in corporate platforms, as we have done through our majority stake in pan-European hotel operator Odyssey Hotel Group.

“There should be more deals coming to the fore this year despite the yield dispersion, though it reinforces the importance of operating with discipline in terms of your deal sourcing. We believe our proven track record and local expertise puts us in an advantageous position to do so.”

European yield outlook

Data for 2024 demonstrated overperformance in the European hotel sector, which translated into significant attention from investors at all levels. Research from Christies shows that European hotel transactions in 2024 were up over 50 percent versus 2023, on par with pre-pandemic levels. The UK lead the market, making up 36 percent of the total deal volume, followed by Spain and France. This year,

the broker envisages further yield compression amid ongoing transactional growth.

Goldstein suggests that this year’s evolving macroeconomic climate should in fact support investment strategies further down the risk spectrum. “There is currently a gap in the market for investors to own a high-quality portfolio that has been significantly de-risked but still offers the potential for strong capital growth,” he says. “We are considering opportunities to access longer-duration capital to capitalise on secular tailwinds, particularly in areas like Southern Europe where the demand for tourism is most acute.”

ActivumSG has been a conspicuous player in markets including Spain, returning to Barcelona during the pandemic to buy the Nobu Hotel Barcelona, and since [cashing in on other smart investments in Malaga \(https://www.hospitalityinvestor.com/asset-management/activumsg-sells-palacio-solecio-hotel-malaga-eu51-million\)](https://www.hospitalityinvestor.com/asset-management/activumsg-sells-palacio-solecio-hotel-malaga-eu51-million) and Madrid. Next up is the development of the SLS Barcelona into a unique, five-star destination. Goldstein underlines: “We are very focused on location. Strategically located assets offer the most opportunity to capture secular tailwinds that will drive growth.”

In terms of adding value, the firm has a well-developed playbook. “We initially unlock value through asset re-positioning, but location and continued asset management help us to sustain growth for the long-term,” he says.

“Certain locations present interesting situations where you can capitalise in this regard. For example, The SLS Barcelona, a five-star hotel we are developing set to open in the city this year, occupies the last available site on the Barcelona waterfront available for development due to the implementation of new regulations. This is a feature that has added to its attractiveness as an investment proposition.”

The team approach is also key to maintaining that value in the long-term. “After that, we rely on our technical, boots-on-the-ground expertise to create appealing destinations for travellers. We have to consider what will make an asset special within the specific market in which it sits.” He adds: “For the Nobu Hotel in Barcelona, which we bought amidst a hospitality market experiencing significant disruption following the pandemic, we created the city’s highest rooftop pool and bar post-acquisition, which has made it a landmark destination both within Barcelona and the wider Southern European market.”

Southern Europe appeal

Southern Europe is likely to be part of this year’s strategic focus, although Goldstein doesn’t rule out other growth markets. “Our investments will be asset- and situation-specific, though Southern Europe has been, and will likely continue to be, a big focus for us as the market is supported by long-term fundamentals in the form of longer summer seasons and increasing visitor numbers,” he says.

“We have local expertise across the European countries in which we invest, which allows us to be agile. We expect a more diverse range of deals to become viable this year, with easing interest rate pressures, but also some more distress coming to the fore as the market reaches an equilibrium.”

He also notes that the [European hospitality market \(https://www.hospitalityinvestor.com/strategy/how-urbanisation-reshaping-hospitality-formats?itm_source=parsely-api\)](https://www.hospitalityinvestor.com/strategy/how-urbanisation-reshaping-hospitality-formats?itm_source=parsely-api) continues to shine for its long-term resilience.

“After the pandemic, there has been a really impressive recovery for European hospitality assets in the more sought-after travel destinations across Europe, allowing for some regional variations,” he says.

Yet ActivumSG is counting on prospects for some distress emerging in the capital markets, particularly as refinancing events stack up this year. “Many assets have been under-capitalised,” he says, “due to financing pressures after the steep reversal in global monetary policy that arrived in 2022.” Looking forward, “interest rates and inflation remain headwinds, and this has created opportunity to consolidate and re-capitalise assets where owners are struggling with financing or refinancings.”

Goldstein concludes with a prediction for 2025: “Much of the work we do will be situation and asset specific, where we believe we can unlock upside potential in well-located assets that maybe have not been living up to their full potential.”

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