

2016 Mood of IHIF Survey

Hotel investors dismiss 'sharing economy' threat



Joe Stather
EMEA Hotels Intelligence Manager

INTRODUCTION

The 19th International Hotel Investment Forum (IHIF) brought together more than 2,100 people from 70, countries, for three days of insightful plenary sessions alongside ample networking and deal-making opportunities.

As Founder Patron of the event, CBRE Hotels took the opportunity to gauge the mood of IHIF delegates, through a survey that aimed to uncover some of the key trends and issues facing the international hotel sector.

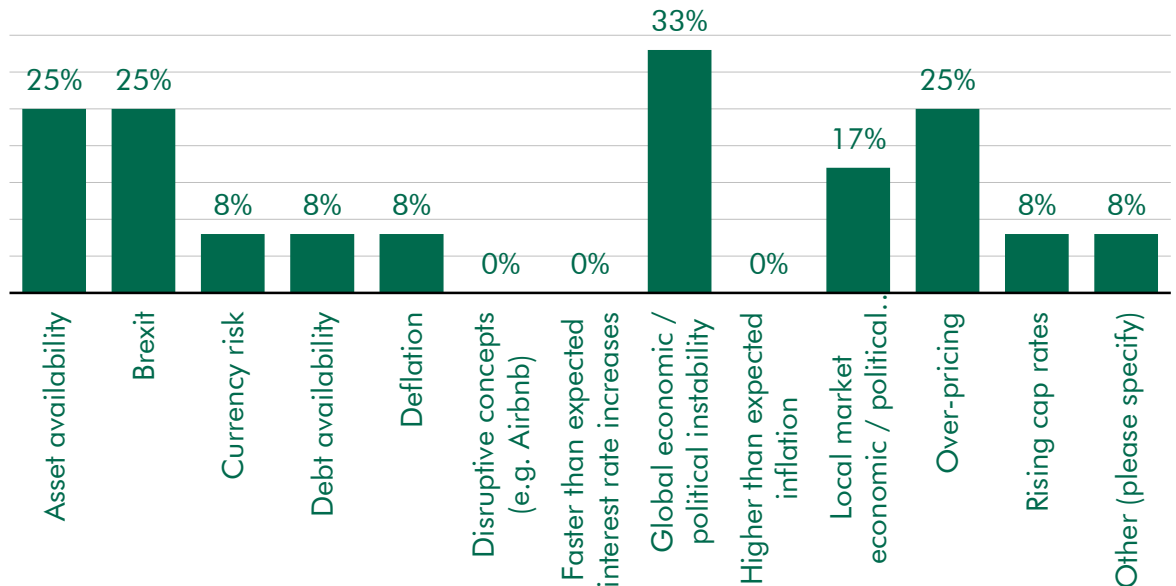
The results from this survey are summarised below. One of the most notable suggests that industry concerns regarding disruptive, 'sharing economy' concepts like Airbnb may have been overstated. The mood of IHIF also points to a strong year ahead for the European hotel investment market, but with a possible changing of the guard among the top target countries for global capital.

SUMMARISING THE KEY SURVEY FINDINGS

With so much talk in the media about the growing influence of peer-to-peer lodging concepts such as Airbnb, HomeAway and Wimdu, it would be easy to imagine the hotel industry seeing a significant risk of market disruption.

But when CBRE Hotels surveyed IHIF attendees, the response was a dismissal of the danger posed by these newer players. We asked investors to select their top three from a range of possible threats, with answers collated into the chart below:

Figure 1: Which of the following do you believe poses the greatest threat to investors in the EMEA hotel property market?



Source: CBRE, 2016

As can be seen, investors ignored disruptive concepts when highlighting what they regarded as the three greatest risks facing them. Instead, the overriding consensus revolved around external factors, notably global instability and the UK’s possible exit from the European Union (the so-called ‘Brexit’). Investors also cited market-specific threats, such as limited availability – and consequent overpricing – of stock.

Investors also cited market-specific threats, such as limited availability – and consequent overpricing – of stock.

Such findings beg obvious questions. Is the hotel industry too complacent in its reaction to the sharing economy? Or is it simply the case that the perceived threat is exaggerated?

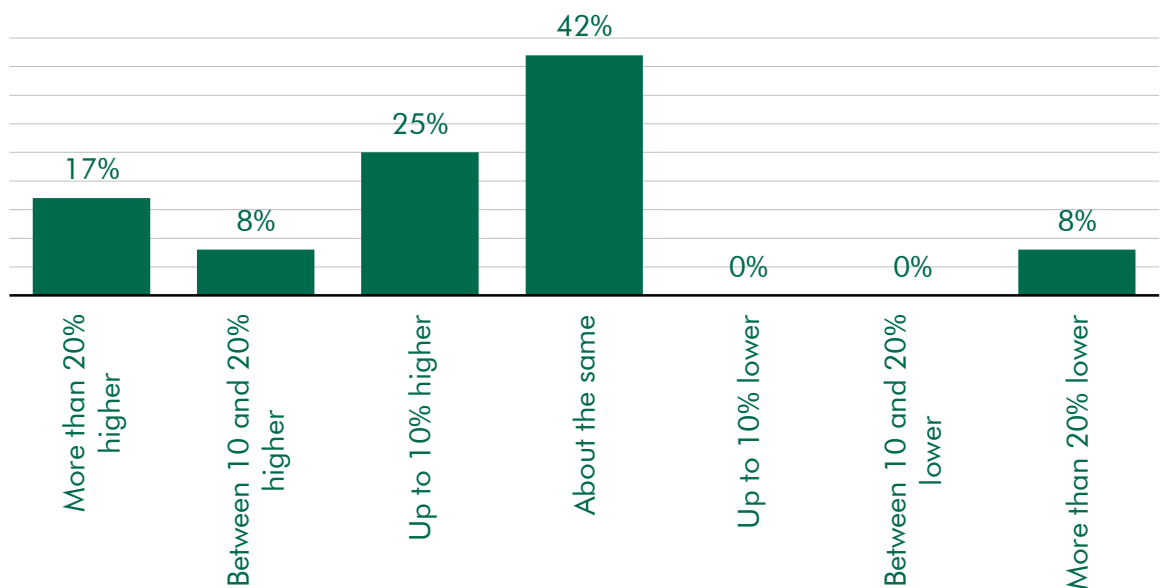
To add some perspective to this situation, it is worth considering the views expressed at the IHIF panel session which brought together CEOs from some of the world’s leading hotel brands.

These included Christopher J. Nassetta, President & Chief Executive Officer, Hilton Worldwide, who emphasised the distinction between the hospitality sector, in which his and other hotel groups operate, and the ‘no-frills’ lodging provision sector in which the ‘peer-to-peer’ brands are active. In Nassetta’s view, a relentless focus on service quality within the hotel industry will allow the two markets to maintain their separate orbits.

A STRONG 2016 IN PROSPECT FOR THE EMEA HOTEL INVESTMENT MARKET

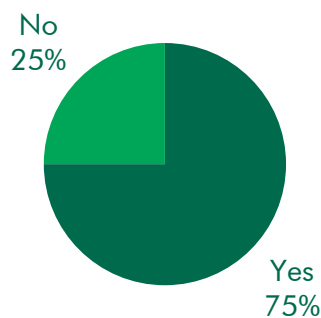
None of the threats cited above seem likely to deter investment activity across EMEA in 2016. In fact, responses to our survey indicate that fresh investors will be in the market looking to acquire hotel assets. Of the investors we polled, 100% stated an intention to commit capital, with a quarter of these having not previously been active in the hotel market.

Figure 2: Compared to 2015, do you expect your investment activity to increase or decrease in 2016?



Source: CBRE, 2016

Figure 3: Have you already invested in the hotel property sector?



Source: CBRE, 2016

Another positive market indicator was the fact that 92% of the investors we polled said they would commit either the same or greater volumes of capital to hotel real estate assets in the coming year. Of these, some 17% said they would invest in excess of 20% more compared with 2015.

Contrary to popular belief, investors also appear optimistic in the medium to longer term. The largest proportion of those polled (42%) said they intend to hold their hotel assets for between two and five years (with a further 25% anticipating longer tenures). When this number is combined with the 41% of respondents who cited expectations of capital value growth as their main motivation for investing in hotels in 2016, this extrapolates to a significant proportion of investors expecting hotel values to increase in the two-to-five year timeframe.

CAN GERMANY SUPPLANT THE UK AS EUROPE’S HOTTEST HOTEL INVESTMENT DESTINATION?

Table 1: European Hotel Transaction Volumes

Investment market (€ millions)	2015 Full Year	2015 Full Year, Y-o-Y % Change
United Kingdom	9,322	+134
Germany	4,449	+47
France	2,041	+96
Spain	2,241	+93
Italy	724	+35
Ireland	721	+70
Nordics*	1,329	+3
CEE**	163	-47
Benelux***	663	+79
European Total****	22,801	+79

*Consists of Denmark, Finland, Norway, Sweden. ** Consists of Austria, Poland, the Czech Republic, Hungary, Slovakia, Romania, Estonia, Latvia, Lithuania, Russia, Ukraine, Bulgaria, Croatia, Serbia. *** Consists of Belgium, Netherlands and Luxembourg. ****The country/regional volumes provided do not add up to the European Total.

Source: CBRE, 2016

As the table above indicates, the UK was the undisputed number one European destination for hotel real estate capital in 2015. But is it about to be knocked from its perch? The investors we surveyed at IHIF placed Germany at the top of their global target markets, ahead of the UK in second place.

These findings echo CBRE's all-real estate 2016 EMEA Investor Intentions Survey, which sampled 423 EMEA property investors. That report also saw Germany leapfrog the UK to be the number one target market; scoring 17% to the latter's 15.1%.

It's not hard to find potential reasons for this shift in sentiment. In the short-term, the risks posed by a possible 'Brexit' are weighing on investors' minds – as mentioned earlier, it was equal second in the list of threats identified by our survey. And with the UK's immediate future uncertain, this merely reinforces Germany's status as a European safe-haven for capital.

[Lease agreements] came second only to the perennial favourite 'vacant possession' scenario.

In addition, investors we surveyed expressed a significant appetite for 'lease agreement' operating structures when choosing target assets. In fact, such structures came second only to the perennial favourite 'vacant possession' scenario. Lease-based structures are common in the German hotel sector, further bolstering its comparative investor appeal.

CONCLUSION

Taking the pulse of investors, particularly in so focused an environment as IHIF, has provided interesting food for thought as we look to plot the future direction of the European hotel investment market.

The answers we received suggest that investors will continue to be active throughout 2016, with Germany a notable hot spot and a good appetite for both unencumbered and leased assets.

And while there was much talk of disruptive concepts in both the formal sessions at IHIF and the corridor chatter, few if any within the investment community appear to be losing much sleep over the threat – real or perceived – they pose.

Contact**Joe Stather***Manager**Hotel Intelligence – EMEA*

+44 (0)207 182 2523

joe.stather@cbrehotels.com

Catherine Rawanduzi*Senior Director**Head of Hotels – France, Belgium, Luxembourg*

+33 (0)1 53 64 36 93

catherine.rawanduzi@cbrehotels.com

Olivia Kaussen*Senior Director**Head of Hotels – Germany & CEE*

+49 (0)89 24206025

olivia.kaussen@cbrehotels.com

Francesco Calia*Senior Director**Head of Hotels – Italy*

+39 (0)02 655670610

francesco.calia@cbrehotels.com

Adamantia Phoca*Director**Hospitality and Special Assets – Greece*

+30 (0) 213 0169550

adamantia.phoca@cbre.gr

Ian Corfield*Head of Hotel Corporate Finance - EMEA*

+44 (0) 207 182 3058

ian.corfield@cbrehotels.com

Owen Pritchard*Head of Hotel Development - EMEA*

+44 (0) 207 182 3963

owen.pritchard@cbrehotels.com

Erik Myklebust*Senior Director**Hotels and Corporate Strategy – Norway*

+47 99 57 52 75

em@cbre.no

Paul Collins*Senior Director**Head of Hotels – Ireland*

+353 (0) 1 618 5518

paul.collins@cbrehotels.com

Jan Steinebach*Director**Head of Hotels – Netherlands*

+31 (0) 20 626 26 91

jan.steinebach@cbrehotels.com

Robert Seabrook*Executive Director**Head of UK Transactions*

+44 (0)20 7182 3867

robert.seabrook@cbrehotels.com

Jorge Ruiz*Senior Director**Head of Hotels - Spain*

+34 (0) 93 444 4267

jorge.ruiz@cbrehotels.com

Egemen Karabulut*Director**Hotels - Turkey*

+90 (0) 85 02006915

egemen.karabulut@cbrehotels.com

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at

www.cbre.com/researchgateway.