hotelanalyst

The intelligence source for the hotel investment community

Narrow margins

Colliers' Chris Moore says volumes are up but investment decisions remain finely balanced

At the end of 2010, hotel investment activity across European markets had seen a significant increase, and in the UK alone, the number of hotel transactions completed by Colliers was up by 40% compared with the previous year. Those increased volumes are reflected in the healthy number of sales reported in our deal table, at the centre spread of this annual bulletin.

Those results suggest that industry fundamentals are moving in the right direction. But for each one of those completed transactions, there were many others which were frustrated, often late in proceedings, and which ultimately did not cross the line at all. The dividing line between success and failure is wafer thin.

In the hotel sector, investment decisions are becoming ever more finely balanced. It is an environment where the success of acquisitions, disposals and new developments depend upon increasing levels of judgement, intuition and old fashioned common sense.

2011 and beyond is not the place for sweeping generalisations or rules of thumb. What works in one country or city will fail in another, and circumstances that defeat one project can be overcome in another.

Nowhere are those margins thinner than in London which will continue to dominate headlines and debate. The market in the UK capital is so very sensitive that the smallest variation to an appraisal will make a big difference to anticipated value and the likelihood of success.

Colliers' view is that the highest prices will continue to be paid by investors from abroad, who see London as a safe shelter. Such buyers are here for the long term (the very long term) and they are investing primarily in prime global real estate, regarding yield structures as being of secondary importance. The influence of the Asian investor in particular is set to continue.

David Faulkner, Colliers' executive director in Hong Kong, confirms that: "With the weakness of the pound, and with increasing numbers of Asians travelling to Europe, London in particular is attracting a lot of interest from Asia."

However, investors in this class define 'London' in the narrowest terms, contemplating only the more established heavyweight properties and trophy assets associated with the dark blue squares of a monopoly board. It is revealing to question representatives of such buyers as to the area of their search, and often it comes down to just a few square miles. Stray outside that boundary and even in London the sentiment changes.

Outside the prized hotel quarters such as Mayfair and Park Lane, trading performance will continue to influence investors and the prices they pay for hotel assets, this to meet internal requirements or to secure funding. And that is a different scenario altogether. Yields of 5-6% provide owners with perhaps a 400 point premium over provincial destinations, but at the same time prospects for growth are steady rather than exciting.

Steady of course might be the new exciting, but because occupancies in central London are in many cases running in the high 80%'s, they cannot be improved materially until someone converts Sunday night to Wednesday. Growth is more likely to be achieved through improving room rate, which is likely given anticipated visitor demand, but finite too.

So in London, being on the right side of the street makes a huge difference to investor attitude. ▶

Deals in EMEA during 2010 worth more than €5m:

- More than 40,000 rooms sold
- Average reported price per room was €300,000
- Total transaction volume in excess of €6bn

Hotel name/brand	Location	Country	Classification	Number rooms	Tenure	Date	Price (local currency)	Price (€)*	Price per key (€)*	Seller	Buyer	Notes/comments
Next Hotels Portfolio	Various	Finland	Midscale	331	Unknown	February	Undisclosed	Undisclosed	Undisclosed	Next Hotels Finland Oy	Scandic Hotels	Deal included: Scandic Paasi, Helsinki (under development), Hotel Linnea, Hotel Rivoli and Hotel Salpaus.
Novotel	Porto Vermar	Portugal	Midscale	208	Unknown	February	Undisclosed	Undisclosed	Undisclosed	Accor	Axis Group	
Tigerlilly	Edinburgh	UK	Luxury	33	Unknown	February	9,600,000	10,960,320	332,131	Alliance Trust Real Estate Partners	Lothbury Property Trust	
Southwark Rose Hotel	London	UK	Limited Service	84	Unknown	February	15,100,000	17,239,670	205,234	Lotta Properties / Vistra	Syndicate of Investors	
Premier Inn Tower Hill	London	UK	Limited Service	165	Unknown	February	26,000,000	29,684,200	179,904	Whitbread	Standard Life Long Lease Fund	
New Northumberland Hotel	Newcastle	UK	Midscale	57	Unknown	February	6,500,000	7,421,050	130,194	Ernst & Young as Administrators	Private buyer	*Price estimated
Accor Portfolio	Various	Various	Various	553	Unknown	March	57,000,000	57,000,000	103,100	Accor	Invesco Real Estate	Novotel Munich City, Novotel Roma la Rustica and Mercure Corso Trieste.
Pullman Paris La Defense	Paris	France	Upscale	384	Unknown	March	80,000,000	80,000,000	208,300	Accor	Invesco Real Estate	Sale and manageback
Mercure Zabatova	Bratislava	Slovakia	Midscale	175	Unknown	March	17,000,000	17,000,000	97,150	Accor	Invesco Real Estate	Still under construction. Sale & variable leaseback
Sungate Port Royal	Antalya	Turkey	Upper Upscale	1,108	Leasehold	March	190,000,000	190,000,000	171,500	Consortium of Investors	Mirax Group	
The Bridge Complex (Missoni)	Edinburgh	UK	Luxury	136	Unknown	March	41,000,000	45,447,270	334,171	Unknown	SWIP Property Trust	
Queen's Gate hotel	London	UK	Midscale	90	Freehold	March	35,000,000	39,952,500	444,000	Abba Hotels	Mazabi Gestion de Patrimonios	*Price estimated – sale and leaseback deal
Husa Paseo del Arte	Madrid	Spain	Upscale	260	Unknown	March	50,000,000	50,000,000	192,308	Metrovacesa	Cesar Losada	
Katerina Park	Moscow	Russia	Midscale	260	Unknown	March	Undisclosed	Undisclosed	Undisclosed	Consortium of Investors	Umaco	
Motel One	Berlin	Germany	Midscale	303	Unknown	March	23,000,000	23,000,000	75,908	GBI AG	Commerz Real	
Movenpick	Zurich	Switzerland	Upscale	149	Unknown	April	Undisclosed	Undisclosed	Undisclosed	Clair	Helvetica Property Investors	
Etap Manchester	Manchester	UK	Limited Service	210	Unknown	April	10,000,000	11,261,000	53,624	Unknown	Prupim	
Premier Inn	York	UK	Limited Service	91	Unknown	April	10,450,000	11,767,745	129,250	Helmsley Group	Prupim	
Husa Princesa & Husa Moncloa	Madrid	Spain	Upper Upscale	323	Unknown	May	122,000,000	122,000,000	377,700	Metrovacesa	Continental Property Investors	Deal and price quoted included 5,000sqm of office space, some retail and a car park
Four Seasons Hotel Cairo	Cairo	Egypt	Luxury	269	Unknown	May	1,425,000,000	197,650,000	734,758	First Arabia Company	Qatar Investment Authority	
St Ermin's Hotel	London	UK	Upscale	275	Freehold	May	65,000,000	73,196,500	266,000	NH Hoteles	Angelo Gordon Co & Gracemark Investments	Intention is to completely refurbish and reposition the hotel
Travelodge Norwich	Norwich	UK	Limited Service	102	Unknown	May	6,500,000	7,570,420	74,220	Dencora Group	Aviva Investors	
Travelodge Bournemouth	Bournemouth	UK	Limited Service	110	Unknown	May	6,860,000	7,989,705	72,634	Unknown	Aviva Investors	
Holiday Inn Amsterdam Schiphol	Amsterdam	Netherlands	Upscale	342	Freehold	May	30,000,000	30,000,000	87,700	Melbourne Onroerende Zaken	Park Plaza Hotels & Elbit Imaging	To be rebranded as Park Plaza Amsterdam Airport
Maçka Hotel (Development)	Istanbul	Turkey	Luxury	Unknown	Freehold	May	166,000,000	76,851,852	Undisclosed	Social Security Corporation	Demsa Group	
Chief O'Neills Hotel	Dublin	Ireland	Midscale	73	Unknown	May	14,000,000*	14,000,000	191,750	Unknown	Unknown	*Asking Price Quoted
Abba Castilla Plaza	Madrid	Spain	Upscale	228	Sale & Leaseback	June	33,000,000	33,000,000	144,737	Abba Hotels	Consortium of Investors led by Grupo Milenium	
Bailli de Suffren	Paris	France	Midscale	25	Freehold	June	Undisclosed	Undisclosed	Undisclosed	Philippe Voigt	Algonquin Group	
Marriott Marble Arch	London	UK	Upscale	240	Freehold	June	50,000,000	59,750,000	248,958	Private Family Trust	London & Regional	Subject to lease to Marriott
Hilton Leicester	Leicester	UK	Upscale	179	Freehold	June	16,000,000	19,120,000	106,816	RBS	Gulshan Bhatia	
Jerusalem Regency Hotel	Jerusalem	Israel	Upscale	505	Unknown	June	177,252,500	38,097,157	75,440	Unknown	Dan Hotels	
Columbus Hotel	Monaco	Monaco	Luxury	181	Unknown	June	Undisclosed	Undisclosed	Undisclosed	Consortium including David Coultard	London & Regional	
Park Inn Hyde Park	London	UK	Midscale	188	Freehold	July	Undisclosed	Undisclosed	Undisclosed	Gresham Hotel Group	Undisclossed	Offers in the region of £35m were sought.
Cumberland Hotel	London	UK	Upper Upscale	1,019	Leasehold	July	215,000,000	Undisclosed	Undisclosed	Royal Bank of Scotland	JV: London & Regional and Starwood Capital	Thought to have sold near the asking price of £215m
Le Meridien Piccadilly	London	UK	Upper Upscale	266	Leasehold	July	64,000,000	75,800,000	285,000	Starman Hotels	Host Hotels & Resorts	
Schlosshotel Bühlerhöhe	Bühl	Germany	Upper Upscale	90	Unknown	July	Undisclosed	Undisclosed	Undisclosed	Dietmar Hopp	ANNA MARIA Vermoegensverwaltung GmbH	Lease to NH Hoteles terminated. Hotel now closed for major refurbishment. Total purchase price and refurbishment estimate €100m
Bodrum Princess Hotel	Bodrum	Turkey	Luxury	500	Freehold	July	183,600,000	85,000,000	170,000	National Holding	ISR Group	
Lutetia Hotel	Paris	France	Luxury	230	Freehold	August	150,000,000	150,000,000	652,000	Starwood Capital	Alrov Properties and Lodgings	Sale price is rumoured and not confirmed.
Holiday Inn Genoa	Genoa	Italy	Midscale	134	Unknown	August	15,000,000	15,000,000	111,940	Sviluppo Cantore	Socrate	
Legoland Hotel (Development)	Windsor	UK	Unknown	150	Unknown	August	19,000,000	22,490,300	150,000	Merlin Entertainments Group	Aprirose	Forward sale of the development. Hotel to be leased to Merlin Entertainments for 35 years.
Novotel Edinburgh Park	Edinburgh	UK	Upscale	170	Unknown	August	12,300,000	14,559,510	Undisclosed	KPMG as adminstrators for EBH Ltd	Algonquin & Benson Elliott Capital Management	
Cricklade Hotel and Country Club	Wiltshire	UK	Upscale	46	Unknown	August	Undisclosed	Undisclosed	Undisclosed	Private Individual	Ambienza Hotels	On market for two years with offers in the region of £5 to £6m sought.
Norgani Hotels portfolio	Various	Europe	Various	12,884	Unknown	August	8.3bn	903,000,000	70,000	Norgani Hotels	Pandox	73 Hotels in total, located in Sweden, Norway, Finland & Denmark.
Portfolio of 48 Accor hotels	Various	Europe	Various	6,300	Unknown	August	367,000,000	367,000,000	Unknown	Accor	Credit Agricole and Fonciere des Regions	Located in France, Belgium & Germany. Accor to operate under 12-year, renewable, variable lease
Marconi House Hotel Scheme, The Strand	London	UK	Luxury	170	Freehold	September	97,000,000	115,764,650	680,969	Banco Bilbao Vizcaya Argentaria	Sol Meliá	
Holiday Inn Express	Liverpool	UK	Limited Service	100	Unknown	September	Undisclosed	Undisclosed	Undisclosed	Centre Island	Peel Leisure	
Novotel	Munich	Germany	Upscale	307	Sale & Leaseback	September	39,000,000	39,000,000	127,000	Accor	Invesco Real Estate	
Two Scandic Hotels	Karlskrona & Helsingborg	Sweden	Midscale	Unknown	Unknown	September	SEK276m	30,030,000	Unknown	Dagon	Tastsinn	
Splendid Group Portfolio	London	UK	Midscale/Limited Service	846	Various	September	106,300,000	125,800,000	149,000	Splendid Hotel Group	Redefine International	5 Express by Holiday Inns, 2 Holiday Inns. 6 Freeholds, 1 Leasehold
Hilton Hotel	Brussels	Belgium	Upscale	432	Unknown	September	29,000,000	29,000,000	67,000	Unnamed US Investment Company	Pandox AB	€25million refurbishment planned.
Ramada Gloucester	Gloucester	UK	Midscale	97	Unknown	September	Undisclosed	Undisclosed	Undisclosed	Jarvis Hotels	Hallmark Hotels	Hotel to be refurbished and rebranded a Hallmark Hotel
Jurys Inn (Development)	Gateshead	UK	Midscale	204	Unknown	September	19,000,000	22,500,000	110,000	McAleer and Rushe Group	Aviva Investors	Forward sale of the development. Completion due September 2011.
Holiday Inn Express (Development)	Dresden	Germany	Limited Service	218	Unknown	September	Undisclosed	Undisclosed	Undisclosed	Foremost Real Estate Dresden GmbH	Union Investment	Forward sale of the development. Completion due Summer 2011.
Hilton Hotel (portfolio of three)	Bracknell, Maidstone & Avisford Park	UK	Upscale	500	Leasehold	September	Undisclosed	Undisclosed	Undisclosed	Royal Bank of Scotland	Private Investor	
Intercontinental Hotel	Prague	Czech Republic	Upscale	372	Freehold	September	110,500,000	110,500,000	297,000	Strategic Hotels & Resorts Inc.	Westmont Hospitality Consortium	Includes €9million of debt and interest rate swap liability
Park Inn Solna	Solna	Sweden	Midscale	247	Freehold	September	205,000,000	22,000,000	89,000	Unibail-Rodamco	Pandox	Expected to complete in November 2010
B&B Hotels	Various	France + others	Economy	Unknown	Unknown	September	480,000,000	480,000,000	Undisclosed	Eurazeo	Carlyle	Hotels mainly located in France, but also Germany, Portugal, Italy & Hungary
Hilton London Hyde Park Hotel	London	UK	Upscale	129	Freehold	October	25,000,000	28,900,000	224,000	Royal Bank of Scotland	Cowell Group	Subject to a lease to Hilton Hotels until December 2021
Blakes Hotel	London	UK	Luxury	51	Freehold	October	20,000,000	23,130,000	454,000	Deloitte as Adminstrators	Meir Abutbul and Navid Mirtorabi	Planned refurbishment at a cost of £2.5million
Travelodge, Edmonton Green	London	UK	Limited Service	73	Unknown	October	4,500,000	5,135,175	70,000	Travelodge	St Mowden	
Park Plaza Riverbank Hotel	London	UK	Midscale	394	Ground Lease	October	16,000,000	18,258,400	NA	Consortium of Investors	Pramerica Real Estate Investors	
Hotel de Crillon	Paris	France	Luxury	147	Freehold	November	250,000,000	250,000,000	1,701,000	Starwood Capital	Unnamed Saudi Investors	Sale has not been confirmed by Starwood Capital. Kempinski to manage. €100 million refurb planned.
Berners Hotel	London	UK	Upscale	193	Freehold	November	60,000,000	Undisclosed	Undisclosed	JLL as Adminstrators	Marriott International	Currently closed. To be refurbished & re-opened under Marriott's Edition brand
St. James Hotel and Club	London	UK	Luxury	60	Unknown	November	60,000,000	69,390,000	1,157,000	Mountain Capital	Mansha Family	Sale price is estimated. Rumoured to be between £55m and £60m.
Ritz-Carlton Hotel, IFC	Dubai	UAE	Luxury	465	Unknown	November	1,000,000,000	195,010,000	419,000	Union Properties PJSC	Unidentfied	Scheduled to open in December 2010.
Holiday Inn Hotel	Male	Maldives	Midscale	117	Unknown	November	Undisclosed	Undisclosed	Undisclosed	Unknown	Shangri-La Hotels & Resorts	To be converted to upscale Traders Hotels by Shangri-La brand.
Travelodge	Cambridge	UK	Limited Service	138	Freehold	November	11,720,000	13,600,000	99,000	Unknown	Staffordshire County Pension Fund	Forward sale. Construction to commence shortly. Lease, 25 years.
Novotel Bristol Centre	Bristol	UK	Midscale	131	Freehold	November	14,500,000	16,800,000	128,000	Grant Thornton, Receivers for Pedersen Hotels UK Ltd	Invista Real Estate Investment Management	Hotel itself is not in receivership. Hotel leased to Accor. Net initial yield of 7%.
Eton Hotels porfolio	London, Leeds, Edinburgh	UK	Upper Upscale	271	Unknown	November	Undisclosed	Undisclosed	Undisclosed	KPMG as adminstrators	Westmont Hospitality	Price reported at an estimated £55 million
Llangoed Hall Hotel	Powys	UK	Upscale	23	Freehold	November	7,500,000	8,900,000	387,000	The estate of the late Sir Bernard Ashley	Von Essen Hotels	
Hotel Symphony	Amsterdam	Netherlands	Midmarket	205	Unknown	November	Undisclosed	Undisclosed	Undisclosed	Philips' Pension Fund	UBM Realitätenentwicklung	To be operated as a Crowne Plaza Hotel from Autumn 2011
Accor Hotels – Sweden	Various cities	Sweden	Limited Service	1,760	Unknown	November	Undisclosed	Undisclosed	Undisclosed	Accor	JV between Sveafastigheter and Event Holding	14 Ibis Hotels and 4 Formule 1 hotels, sale & franchise-back
Atlantic Congress Hotel	Essen	Germany	Upscale	250	Sale & Leaseback	November	Undisclosed	Undisclosed	Undisclosed	Zech Group	Deka Immobilien	
Park Inn Hotel	Frankfurt	Germany	Midmarket	209	Unknown	November	27,500,000	27,500,000	132,000	Lang & Cie	Fondhaus Hamburg	The property is leased with a 20-year rental agreement
Best Western Cumberland Hotel	Harrow	UK	Midmarket	84	Freehold	November	Undisclosed	Undisclosed	Undisclosed	Private Investor	Private Investor	Sold for in excess of £5million (€5,900,000)
Hilton Hotel	Valencia	Spain	Upper Upscale	304	Unknown	November	40,000,000	40,000,000	132,000	Lebanese Boutros El-Khouri	Continental Property Investment	
Hotel Tryp Ambassador	Madrid	Spain	Upscale	183	Unknown	November	Undisclosed	Undisclosed	Undisclosed	Reyal Urbis	Millennium Group	
NH Hotel Deutscher Kaiser	Munich	Germany	Midscale	173	Unknown	November	38,500,000	38,500,000	223,000	Fundus Gruppe	Inka Holding GmbH & Co. KG	
Ege Palas	Izmir	Turkey	Economy	116	Freehold	November	19,500,000	9,027,778	168,103	Mazhar Zorlu Holding	Açilim Construction	
Portfolio 5 German hotels	Munich, Hanover, Braunschweig	Germany	Midmarket	Unknown	Unknown	December	Undisclosed	Undisclosed	Undisclosed	Deutsche Annington	Aurelius	Hotels to be operated under the Ghotel brand.
Portfolio of 49 Accor Hotels	France, Belgium & Germany		Various	Unknown	Sale & Leaseback	December	378,400,000	378,400,000	Unknown	Accor	Predica and Foncière des Murs	Includes €47.6million refurb programme, of which buyer will fund €33million.
Bedford Lodge	Newmarket	UK	Upmarket	55	Freehold	December	Undisclosed	Undisclosed	Undisclosed	Private consortium of investors	Review Hotels Ltd	Planning consent to add 21 bedrooms and spa treatment rooms
Courtyard by Marriott	Saint-Denis, Paris	France	Mid-market	150	Unknown	December	Undisclosed	Undisclosed	Undisclosed	Affliliate of Marriott	Algonquin and Very SAS	Opened mid-2009. Marriott will continue to manage.
Grosvenor House Hotel	London	UK	Luxury	494	Leased to Marriott	December	470,000,000	554,900,000	1,123,000	RBS	Sahara India Pariwar	
Mövenpick Hotel Stuttgart Messe	Stuttgart	Germany	Midscale	229	Unknown	December	16,000,000	16,000,000	70,000	Union Investment	Grand City Hotels & Resorts	
Hyatt Regency	Mainz	Germany	Upper Upscale	268	Unknown	December	Undisclosed	Undisclosed	Undisclosed	Mainzer Aufbaugesellschaft (MAZ)	Azure Property	
Novotel	Hannover	Germany	Midscale	206	Leased to Accor	December	Undisclosed	Undisclosed	Undisclosed	Ebertz & Partner	Invesco Real Estate	
Le Richemond	Geneva	Switzerland	Luxury	109	Unknown	December	Undisclosed	Undisclosed	Undisclosed	Rocco Forte and Family	investment-holding company represented by Cedar Capital Partners	

*Exchange rate used is the average for the month given for the transaction

Source: Colliers International

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Investor confidence is at the heart too of the significant number of deals we report in Germany. Andreas Erben, managing director of the Colliers office in Berlin, considers this a 'Flight to Stability', as investors take comfort in a market which benefits from a range of positive influences.

Income streams in some cities, notably Munich, show genuine growth. Post credit crunch, more sites have been freed up, at a time when tax concessions have helped to attract investors. Those conditions have also encouraged international brands, notably Hilton and IHG, to drive growth into territories that so far have been under developed. Those factors have combined here to make further success likely in 2011.

As importantly, and true of all European markets, underlying profits (and hence value) are increasingly dependent upon delivering a positive experience for guests whether on business or leisure. This is a point picked up by Chris Larsen, managing director of Blu Sky Marketing, which specialises in online hotel guest experience surveys, "Stunning images on sophisticated hotel web sites escalate guest expectation", he says, "which means things like the warmth of welcome, connections to Wi-Fi and speed of check-out are vital. It is elements like these which make the margin for error very slight between keeping and losing business".

And that is an observation which is important as we look for continued health of the industry fundamentals referred to at the beginning of this article. Only by succeeding in the smaller detail, will occupancy and rate continue to grow, to better cover fixed costs and to provide cash surpluses that will themselves improve the margin for success.

Looking forward, the Colliers International view predicts that in 2011, the UK hotel market will again be the focus of investment activity in Europe with London continuing to dominate, but that strong markets such as Germany and France will also hold significant investor interest.

Whilst share and loan transfers will form part of many deals, we also expect an increase in sales driven by portfolio restructuring, including sales by funds as they approach target exit dates. Where fundamentals are sound, we also expect to see further growth in transaction prices.

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