JLL | Achieve Ambitions

Firm foundations

Hotel Investment Outlook 2019

Hotel investment defies global caution

Liquidity for hotel investments in 2018 was bolstered by a healthy global economy fuelling growing traveller volumes.

Some markets, like the US, enjoyed more positive sentiment over the past 12 months. With this, global hotel transaction volumes totalled nearly US$68 billion, holding steady on 2017's strong levels.

Global hotel transaction volumes forecast

Volumes (US$Bn)	2017	2018	2019F	Var % 2018 vs 2019
Americas	28.2	36.5	36.5	0%
APAC	13.5	8.3	9.5	15%
EMEA	24.7	22.9	21.2	-5% -10%
Total	**66.4**	**67.7**	**67.2**	**Flat**

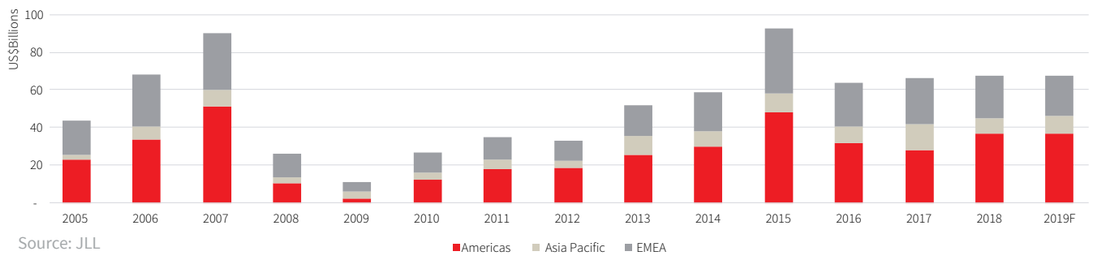
Source: JLL

The global economic and real estate markets are expected to move towards slower growth in 2019. A number of catalysts have emerged which will test investors' sentiment throughout the year, including:

- Increasingly volatile equity markets
- Slower economic growth projections
- An uncertain pace of future interest rate hikes
- Trade tensions between the US and China
- Political uncertainty in the UK, France, and Italy

At the same time, hotel occupancy and underlying property performance remain strong, with travel and tourism slated for another record year. 2019 is expected to represent another strong year — perhaps the last of this growth cycle — to dispose of investments and benefit from competitive bidding.

Global hotel investment volumes 2005 - 2019F



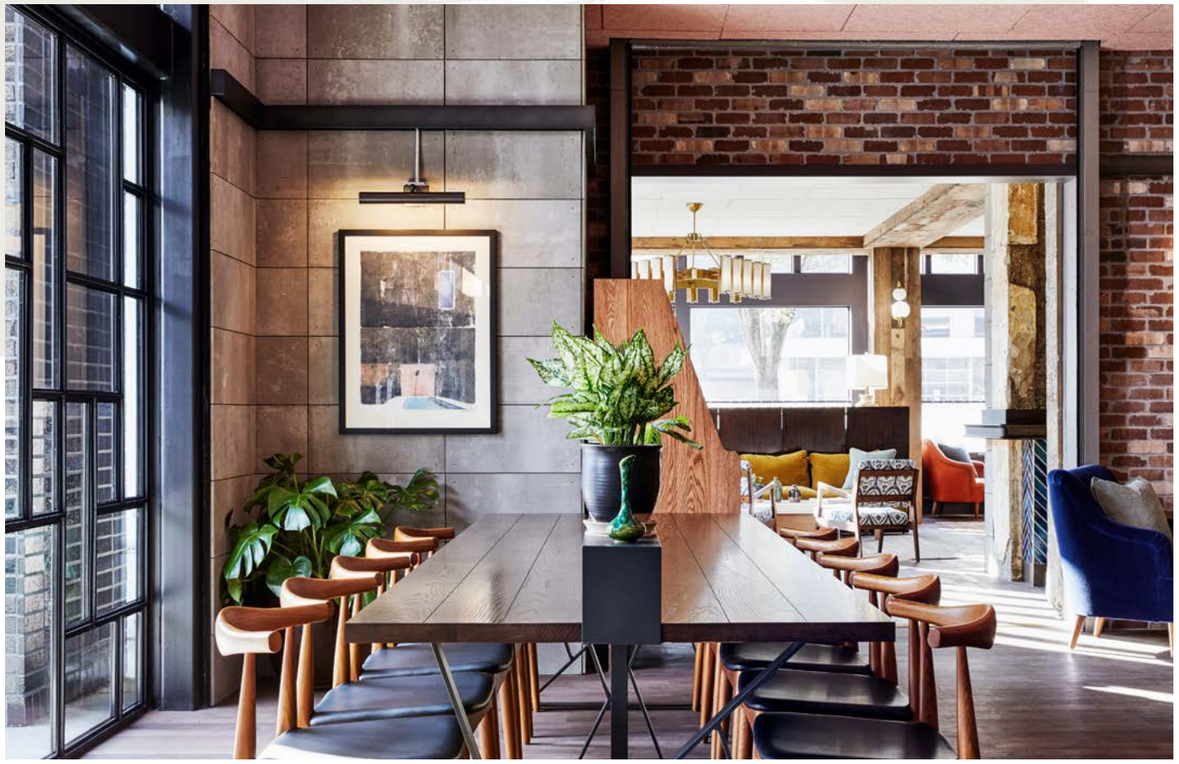
Source: JLL

Slower growth notwithstanding, we expect global hotel investment volumes to hold steady on 2018 levels, thanks in part to:

- Record levels of dry powder raised for acquisitions
- Investors' pressure to deploy capital
- Hotels' attractive yield profile compared to other sectors
- Ongoing large portfolio and entity-level activity

Recent years have seen new investors and investment strategies emerge, enabling investors to enter hotel real estate in ways beyond direct acquisition of assets. These can take the form of debt investments, strategic joint ventures, recapitalizations, and real estate and brand M&A activity, which are expected to continue to be prevalent in 2019.

Regional snapshots



Transaction volume holding steady in the Americas

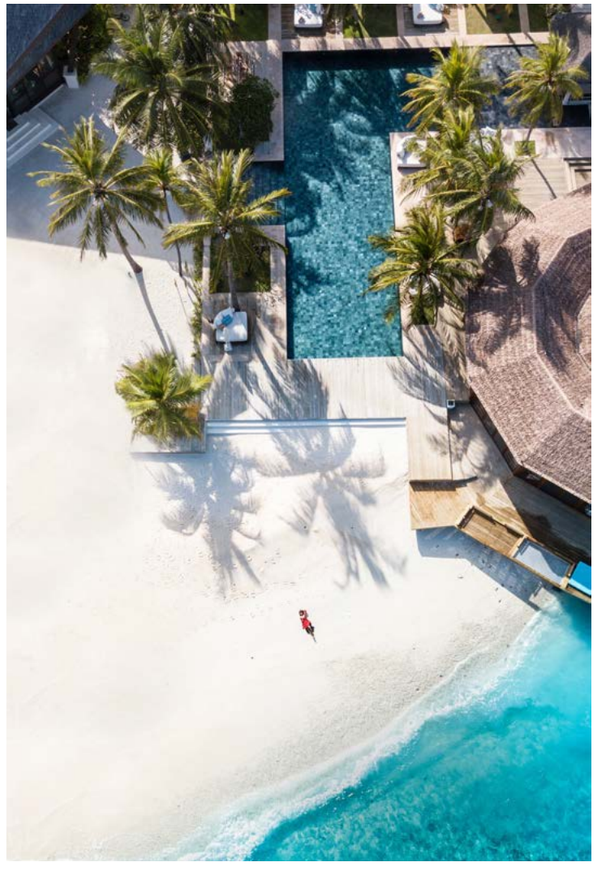
In the US, the outlook for hotel investments is relatively positive, with the market upholding 2018's level of transactions.

While hotel operating fundamentals in the US began to show some signs of slower growth in the fourth quarter of last year, a significant weight of capital seeks to access the sector. Liquidity trends remain favourable and receptive to transactions of high-profile resort hotels, and portfolios of upper-tier select service hotels.

In addition, large scale portfolio activity, related to both assets and entities, is expected to remain at the forefront.

Europe driven by single-asset deals

For 2019, investment volumes across EMEA are expected to soften by between 5-10%. The market will be driven mostly by single-asset deals and less by portfolio trades, given the sheer volume of such transactions during the past two years.



Diverse sources of core and core-plus capital are increasingly evaluating investment into hotels.

Private equity groups and other yield-driven investors will face more competition from investors with a lower cost of capital, therefore continuing to move into more secondary markets like Portugal and Italy.

Political uncertainty in the UK, France, and Italy is expected to continue to distract investors, but tourism and business fundamentals remain solid thanks to strong infrastructure developments in the region. Therefore, we expect to see investors still seeking strong assets and opportunities in these markets.

Transaction activity set to rise in Asia Pacific

APAC is expected to be the standout region from a growth standpoint, with hotel investment volumes forecast to grow 15% year-on-year in 2019.

Among the most active markets in 2019 will be Japan, with investor sentiment buoyed by the Rugby World Cup in September 2019 and the Tokyo Olympic Games in 2020. Investment momentum is expected to build as investors explore selling their hotel assets to ride the anticipated tourism boom.

Singapore is also on investors' radars, and hotel transactions activity in China continues to rise. The positive trend in hotel trading performance will continue to push pricing higher.

This, together with a favourable tourism outlook, sets the scene for a more liquid marketplace in 2019.

What will drive liquidity in 2019?

Global fundraising at multi-year high

Funds raised to invest in hotels continue to rise. 2018 saw US$28.8 billion in closed-end private funds raised globally in both hotel-focused vehicles and diversified funds which invest in hotels.

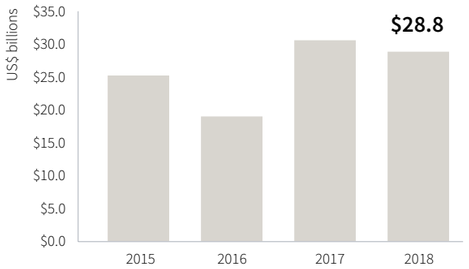
The composition of this fundraising is shifting to debt strategies, with 21% comprised of debt funds in 2018, up from 17% in 2017. This presents an alternative way of accessing the sector, allowing investors to achieve favourable risk-adjusted return throughs loans secured by the underlying hotel real estate.

The strategy has become more attractive as interest rates rise and property yields come under pressure. Investing through debt can also provide better protection against a potential fall in property values.

While banks still account for most real estate lending, we are seeing a strong flow of debt funds coming to the market. According to Preqin, the first three quarters of 2018 saw US$21 billion raised through 40 real estate debt funds across commercial real estate.

The amount of dry powder ready for debt funds to deploy across all asset classes reached an all-time high of US$57 billion as of October 2018, up approximately 46% from five years ago.

Closed-end fund with hotel focus



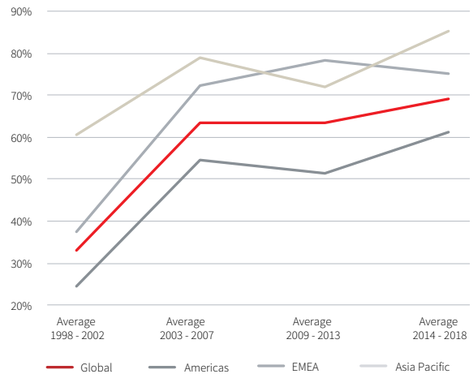
Source: Preqin, JLL

More multi-sector investors target hotels

With continued pressure to deploy capital at scale, investors are seeking alternative investments to fulfil their return requirements. The positive outlook of the travel and tourism sector, promising hotel operating revenues together with potential higher return on investment vs other asset classes, continue to push investors towards hotel real estate. In the past five years, approximately 70% of global hotel investments were made by generalist investors, those who invest in multiple asset classes as opposed to specialist hotel investors.

In 2019, private equity groups and institutional investors will continue to drive hotel transaction volumes, given their capital to deploy. Focus will be on portfolios and larger single-asset transactions, as this can help deploy capital more efficiently. Hotel REITs are also anticipated to be active in the US as high-quality assets come to market.

Share of hotel acquisitions by generalist (multi-property type) investors



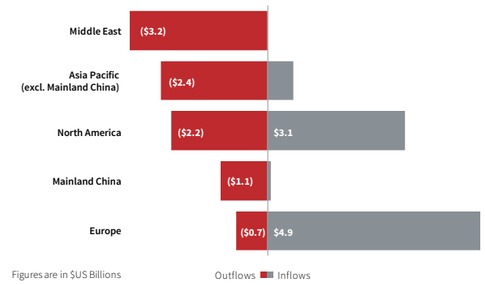
Source: JLL

Cross-border investors boost bidder pools

International capital forms a key part of the hotel investment market; we expect this to increase in 2019 as investors look beyond their home countries for investment diversification.

In 2018, Europe received the largest amount of cross-border investment, largely stemming from the Middle East and Asia. Looking forward, the region will continue attract international capital, notably from Asian investors who benefit from currency advantage.

Hotel transactions: Capital outflows and inflows FY 2018



Source: JLL

At the same time, the strengthening US dollar presents American buyers a currency hedging opportunity to invest in Asia. Cross-border investors are also expected to increase focus on portfolios of assets, including investments outside of primary markets, to access the sector and benefit from a higher yield profile.

Composition of cross- border capital for hotel acquisitions 2019 forecast

Source: JLL

M&A targets smaller platforms

The hotel investment landscape continues to evolve, with a rise in mergers and acquisitions over recent years, driven by the ambition to gain global market share and distribution strength.

Hotel companies can acquire market share within a short period of time through brand acquisition, which is generally viewed as more efficient than organic development.

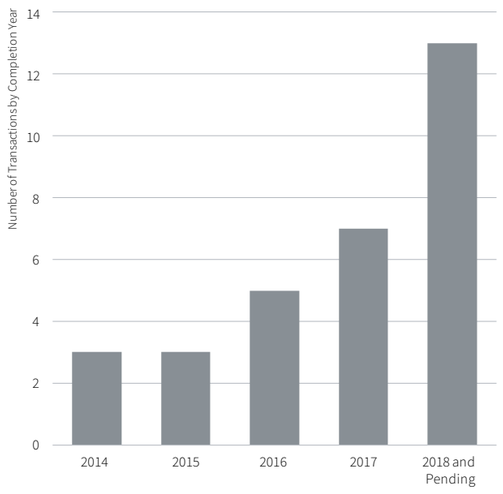
The past 12 months saw a notable 13 M&A transactions relating either to global brands or publicly-traded companies. On top of these headline-grabbing deals, numerous smaller, private trades were also in the offing.

During 2018, AccorHotels made several investments in hotel companies such as the Mantra Group, Mövenpick Hotels & Resorts, Atton Hoteles, Mantis Group and SBE Entertainment Group. Meanwhile, Thailand's Minor International seeks to expand its European reach with plans to acquire the NH Hotel Group.

Acquisitions will continue in 2019, as top brands still only account for around a third of all hotel rooms around the world. Focus will turn to smaller platforms as companies look for unique concepts and locations to complement their existing product offerings.

Also, investment funds are looking for more efficient ways to deploy capital, and high-profile deals or M&A transactions will help achieve this.

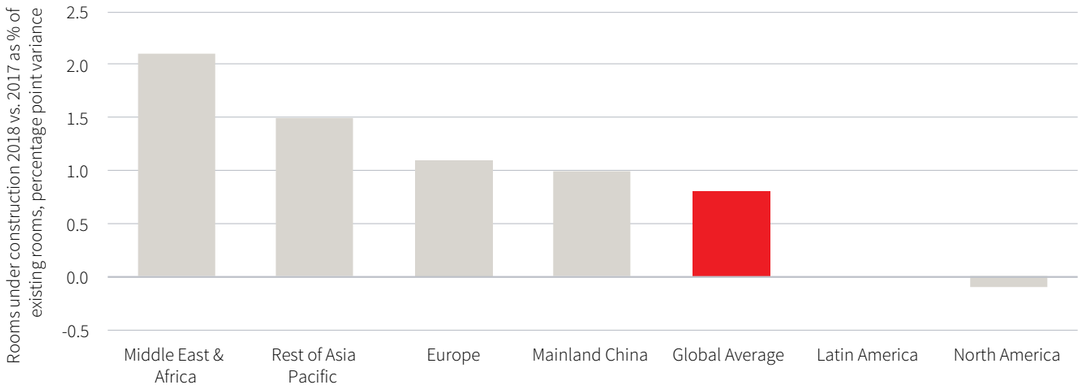
Brand/ parent company M&A transactions involving publicly-traded and/ or large global hotel companies



Source: JLL

Supply pipeline dynamics

Supply pipeline momentum



Source: JLL

Globally, with hotel demand continuing to rise, developers continue to deliver new hotel properties. Compared to last year, the proportion of rooms under construction as a proportion of existing supply has marked a slight increase. Regions where the pipeline has increased as a share of existing hotels include the Middle East, Africa, and Asia.

Europe as a whole has also seen some acceleration in hotel development activity, with Germany and the UK accounting for nearly 60% of pipeline rooms currently under construction. These markets are expected to absorb the additional supply in the medium term due to the strong tourism growth forecast.

North America, now in its tenth consecutive year of growth in hotel performance, appears to have passed the peak in room deliveries, with the pipeline slowing moderately over the past year. This is expected to lead to some increased confidence among investors, particularly in markets like New York.

3 top trends

1 Experience economy reaches the luxury sector

Modern-day luxury consumers are increasingly seeking out experiences, placing less emphasis on acquiring material goods. Hotel markets are seeing strong demand for high-end experiential luxury travel, demonstrated by RevPAR growth in the US luxury resort market, as well as in Paris, Rome, Florence, Bangkok, Maldives, Singapore and Tokyo to name a few.

According to Grand View Research, the global luxury travel market is forecast to reach US$1.1 trillion by 2025, a compound annual growth rate of 4.3% between 2017 and 2025. Hotel companies are responding by launching new unique experiences and products:

- InterContinental Hotels Group's acquisition of Regent Hotels & Resorts strengthens the company's luxury offerings
- Hilton Worldwide has launched LXR Hotels & Resorts, providing a network of remarkable luxury properties
- The Unbound Collection by Hyatt offers river cruises and one-of-a-kind dining experiences

In the US, luxury hotel transactions rose by 76% year-on-year in 2018. In Europe, there has been a heightened level of investor interest in luxury resorts located in the Mediterranean. All of the above demonstrates both investors' hoteliers' focus on the luxury travel sector.

The trend is now going a step further, with companies whose previous focus lay outside the travel sector paying close attention to luxury hotel brands. The motivation is often to move into adjacent spaces and be able to add luxury hospitality to complement existing luxury brands. LVMH's proposed acquisition of the Belmond Ltd. demonstrates this strategy. Experiential luxury travel is a key trend in 2019 and hotels are definitely part of the journey.

2 Hotels embrace co-working

Also riding on the experience economy is the increase of co-working space in hotels. There has been a strong demand for communal workspace as more and more companies have flexible working policies.

These spaces, if designed aptly, can be the perfect place for the new generation of consumers to socialise and work. Hotel operators can maximize real estate and boost revenue by creatively repurposing existing, under-utilised spaces.

Those who opt to work from hotel lobbies tend to order food or drinks. Also, it can help hotels to strengthen branding among guests and the local community. A number of hotel brands have embraced this trend, attracting guests through various co-working offers:

- The Virgin hotel in Chicago charges a membership fee for its co-working space which includes a bar, private meeting areas, free tea and coffee, a library, Wi-Fi and wireless printing
- The Curtain hotel in London offers co-working facilities exclusively for hotel guests and members
- French hotel brand Mama Shelter and Latin America-based Selina are both developing their own co-working product, building on their brand and hospitality expertise

We foresee other hotel companies, especially brands targeting the younger generation, to follow suit and use their public space to invite more digital nomads.

3 New brands a beacon for growth

Between higher development costs, the density of existing full-service branded hotels in major markets, and the higher operating costs of full-service vs select service hotels, the road to growth is changing for top global brand companies.

These companies have grown the portfolios of hotel brands they offer over 30% during this cycle, penetrating more markets and offering guests greater choice. In mature economies, branded full-service hotels represent around 32% of existing rooms, but just 19% of rooms under construction, driven in part by the aforementioned economics.

Top companies are therefore launching new brands, focusing development effort on their select service brands to drive distribution. In mature economies, 33% of rooms under construction are in hotels that will be flagged by brands launched during this cycle.

In emerging economies, where opportunity exists to grow brands across all categories, focus remains on full-service hotels, where just 9% of rooms under construction pertain to new brands.

With operating costs for full-service hotels continuing to inch up, and development costs for those hotels with vast facilities dampening investment returns in many markets, we expect to see a continuation of these trends going forward.

JLL | Achieve Ambitions

Contacts

Lauro Ferroni
Global Research
JLL Hotels & Hospitality
lauro.ferroni@am.jll.com

Eva Chan
Global Research
JLL Hotels & Hospitality
eva.chan@eu.jll.com

Jessica Jahns
EMEA Research
JLL Hotels & Hospitality
jessica.jahns@eu.jll.com

Geraldine Guichardo
Americas Research
JLL Hotels & Hospitality
geraldine.guichardo@am.jll.com

Sze-min Tay
APAC Research
JLL Hotels & Hospitality
szemin.tay@ap.jll.com

www.jll.com/hio

Photo credit with thanks to Hoxton Hotels
and photographers Travis Yewell, Mohammed Ajufaan, Nathan Van-Egmond and Justin Schuler