

# HVS Webinar: Private equity steps up its interest in hotel assets

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In the latest of HVS's series of webinars attendees heard a topical discussion from a line-up of expert speakers on the increasing participation of private equity in the hotel investment landscape, the outlook for these investors and what private equity investors are looking for in the hotel sector.

Organised by HVS with, Bird & Bird, AlixPartners and EP Business in Hospitality, the latest in our series of webinars kicked off with positive feedback from an audience poll in which 41% of attendees said they expected investment in hotels to grow by 10% or more over the next 12 months with city centre, full service hotels and resort leisure hotels the sectors most likely to attract investor interest.

AlixPartners' managing director **Graeme Smith** outlined the significant funds being raised by private equity although the rising price of labour, energy and the cost of living had prompted investment activity to drop off over the second half of 2022. Careful yield management in hotels, which had off-set cost inflation as the demand for travel rebounded strongly, made the sector a good investment prospect, he said. *"The deal pipeline is starting to grow – there is significant dry powder to be invested. We also have a wave of debt maturities coming up that might create a funding gap which may trigger refinancing or transactions."*

Charles Human, president of **HVS Europe**, then illustrated the growing role private equity was playing in the hotel investment landscape, averaging deals worth €2.5bn per year since 2004 and representing about 18% of total volume. Private equity investment was dominated by significant portfolio activity, he said, with an average deal size of €120m.

*"There have been very active private equity buyers and sellers, reflecting the short-term activity of a private equity investment with holding periods of three to five years, which have typically come down from around 11 years in 2004. Holding periods have become shorter, but they're now likely to rise because of market conditions,"* he said, adding that he expected investment activity to pick up by 2024.

*"Hotels are one of three real estate sectors in which private equity investment has increased,"* added Human, *"although it's a tough time for private equity with investors currently waiting for values to reduce or debt markets to improve. There are signs of sellers reducing their price expectations to get deals across the line."*

A lively panel session followed, chaired by HVS chairman **Russell Kett**, which kicked off with a debate about the type of asset class most likely to interest private equity investors. **Tina Yu** of KSL Capital Partners opted for city centre properties and resorts, while **Dr Sabine Schaffer** of Pro-Invest Group said urban hotels as they offered the possibility of alternative use if necessary. **Chris Penny** of Starwood Capital opted for MICE and convention hotels.

The panel were more aligned on factors currently discouraging hotel investment – namely the availability of debt finance, geopolitical issues and rising costs. While panellist **Jan-Willem Terlouw** of Amante Capital was concerned about the

European markets that hadn't experienced strong recovery such as Germany, Switzerland and pockets of the Netherlands, Sabine Schaffer said that some institutional investors were starting to come into hospitality for the first time, a sign that once investors understood the operations side of the business, hotels were a strong asset class for investment.

However, the outlook for private equity investment was mixed, according to the panellists. *"In a rising market it was quite easy to make investments and returns but there are suspicions that over the next two or three years that is going to be difficult to achieve,"* said Bird & Bird's **James Salford**, adding that it might be different sort of investments such as co-living or serviced apartments that attract more interest. Jan-Willem Terlouw expected investors to buy smaller acquisitions and put them together in portfolios, while Sabine Schaffer said there was value in converting independent hotels into branded ones.

On the impact of Environmental, social, and governance (ESG) on the investment market, the panel were unanimous: *"It's increasingly more important,"* said Chris Penny. *"It's now more upfront in our analysis as otherwise there is a risk of obsolescence in our assets,"* adding that there was now a big focus on ESG in operations, using it to drive returns and lower costs. *"ESG helps on so many levels such as energy costs, refinancing, staffing and retaining – the next generation are taking these things very seriously as well as there being tax breaks, so it makes sense commercially and you are also doing the right thing for the environment,"* said Penny.

ESG is tougher to implement in existing properties, however, and there is a risk they would fall behind as they are expensive to convert. The panellists, including **Louise Gillon**, head of hotel finance at Bank Leumi, agreed, but stressed that ESG was a vital component, and that there may come a time investors have a capital allocation specifically for green hotels.

Watch the the full discussion below:

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