THE EUROPEAN SHORT-STAY ACCOMMODATION INVESTMENT REPORT

AUTHOR: MACY MARVEL

Published by

hotelanalyst

www.hotelanalyst.co.uk

SAMPLE PAGE

The European Short-stay Accommodation Investment Report

Introduction

This report provides an overview of short-stay accommodation in Europe and evaluates the climate for investment in the sector. Part I briefly summarises the economic outlook and discusses key issues impacting the sector. Part II details the short stay accommodation landscape in Europe by category. Part III investigates recent hotel performance expected yields on hospitality assets by major European country and compared to other classes of commercial real estate. In a final section, the outlook for investment in short accommodation assets is evaluated.

Key Findings

- About 13% of European hotels and 38% of rooms are chain-affiliated, according to Horwath. Italy has the lowest level of chain penetration of any European country at about 16% of rooms.

- Accor is by far the largest hotel operator in Europe with a number of rooms almost equal to the sum of the 2nd, 3rd and 4th ranked operators. Of the major international chains, Accor has also gone furthest in developing its offering of alternative accommodation.

- Two Asian- based chains, Jin Jiang (2nd ranked) and Minor (in 10th place) have entered the ranks of the top-10 hotel groups in Europe, due mainly to acquisitions.

- Marriot grew its European room capacity by over 20% in 2020.

- The pandemic has boosted the share of direct bookings (at the expense of OTAs) at hotels, due to the staycation trend.

- The biggest hotel owning groups in Europe are AccorInvest, Covivio Hotels, Aroundtown, Pandox and London & Regional, the market leader in the UK

- The branded hostel market in Europe is dominated by two German-based companies, a &o Hotels & Hostels and Meininger Hotels, which have expanded rapidly across Europe in recent years.

- There are an estimated 204,733 serviced apartments across Europe in 4,068 locations, according to The Global Serviced Apartments Industry Report 2020-2021, which represent an increase of 42,039 units and 1,076 locations since the prior year GSAIR, which amounts to an increase of 25.8% in total capacity and 36.0% in the number of locations in Europe.

- Adagio, Ascott and Frasers are the leading serviced apartment groups in Europe, although edyn’s Locke brand and Staycity have significant pipelines.

-

SAMPLE PAGE

- Serviced apartments are attractive to investors, as they generate high revenue and GOP per sq m of built space, can operate with minimal staff and have proved resilient during the Covid crisis. It is also easier to convert other forms of real estate like offices or retailing space to this format than to a full-service hotel.

- Airbnb's profitability will be constrained due to significant competition and increasing regulatory restraints, especially in key European cities.

- Europe is the leading region for managed holiday rentals. Several of the major players are owned by private equity funds.

- Cruising will take more than two more years to return to 2019 levels.

- The outlook for investment in short-stay accommodation assets in Europe will depend on reduced buyer expectations (in terms of expected discounts), more willingness on the part of lenders and the timing of the phasing out of government support programmes in conjunction with the rebound in tourism demand for accommodation.

SAMPLE PAGE

Table of Contents

SAMPLE PAGE

Part I

Economic Outlook

European economies suffered greater drops in GDP during 2020 than developed economies elsewhere in the world. The French, Italian, Spanish and UK economies were especially hard hit and will struggle to reach 2019 levels of GDP even by the end of 2022. Meanwhile, the US economy, along with those of other advanced economies, should bounce back to above 2019 levels by the end of 2021. Overall nominal worldwide GDP should also easily exceed the 2019 level in 2021, boosted in particular by China, which even recorded positive growth in 2020 and is projected to grow by over 8% in 2021.

FIGURE 1: WORLD ECONOMIC OUTLOOK (WEO) UPDATE FOR 2021 & 2022, JANUARY 2021 (PERCENTAGE CHANGE)

Region/country	Actual	Estimate	Forecast		Difference with October 2020 WEO forecast	
	2019	2020	2021	2022	2021	2022
Nominal World Growth[1]	2.4	–3.8	5.1	3.8	0.3	0.0
Eurozone	1.3	–7.2	4.2	3.6	–1.0	0.5
Germany	0.6	–5.4	3.5	3.1	–0.7	0.0
France	1.5	–9.0	5.5	4.1	–0.5	1.2
Italy	0.3	–9.2	3.0	3.6	–2.2	1.0
Spain	2.0	–11.1	5.9	4.7	–1.3	0.2
Japan	0.3	–5.1	3.1	2.4	0.8	0.7
UK	1.4	–10.0	4.5	5.0	–1.4	1.8
US	2.2	–3.4	5.1	2.5	2.0	–0.4
Canada	1.9	–5.5	3.6	4.1	–1.6	0.7
Other Advanced Economies[2]	1.8	–2.5	3.6	3.1	0.0	0.0
Emerging Markets	3.6	–2.4	6.3	5.0	0.3	–0.1
China	6.0	2.3	8.1	5.6	–0.1	–0.2
India	4.2	–8.0	11.5	6.8	2.7	–1.2
Russia	1.3	–3.6	3.0	3.9	0.2	1.6

Note: [1]Based on market exchange rates; [2]Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, UK, US) and Eurozone countries.

Source: IMF

Inflation, Interest rates & currencies

SAMPLE PAGE
Outlook for Air Travel in Europe

Europe's air travel and hospitality sectors have been especially hard hit by border closures, due to Covid-both within the region and with overseas countries. Most air travel within Europe is cross – border and the region lacks the large domestic tourism markets found in elsewhere in the world, like Brazil, China or the US. Thus, it is no surprise that the YOY drop in revenue passenger-kilometres in late 2020 was greater in Europe than the worldwide average. Overseas routes with the exception of those to Africa showed sharper declines than for intra-regional flights. Meanwhile, the Russian domestic market held up the best, as it is not subject to cross-border constraints, according to IATA (International Air Transport Association) data.

FIGURE 7: TREND IN REVENUE PASSENGER KILOMETRES, 2019-2020

Revenue passenger-kilometers (RPKs)

% change on a yr ago	2019	Sep-20	Oct-20	Nov-20
Region (registration basis)				
Europe	4.2	-74.8	-77.6	-82.2
World	4.1	-72.2	-70.6	-70.3
Routes (segment basis)				
Russia domestic	6.7	2.7	-10.0	-23.0
Within Europe	5.5	-71.7	-76.5	-84.7
Europe - North America	4.3	-92.5	-92.0	-90.3
Europe - Asia	6.7	-92.9	-92.9	-93.2
Europe - Middle East	4.4	-89.1	-87.5	-87.1
Europe - Africa	4.5	-83.0	-76.3	-79.1
Europe - South America	8.0	-90.0	-87.8	-85.8

Source: IATA Economics   Note: historical data may be subject to revision

Passenger load factors in Europe, which had exceeded the worldwide average in 2019, crashed to levels below the global average in late 2020. Capacity, as expressed by ASKs (available seat kilometres), also fell precipitously, which could be a worrisome factor in the short to medium term, as travel demand rebounds. In fact, it is probable that travel growth will be constrained by lack of available seats, as it will take time to rebuild capacity to pre-Covid levels, especially given the dire financial state of the airlines.

FIGURE 8: TREND IN CAPACITY AND LOAD FACTORS, 2019-2020

SAMPLE PAGE

Hotel chains Offering Serviced Apartments and Rentals

There is convergence occurring in the short-stay accommodation sector in Europe and worldwide. The hotel chains are diversifying their offer through adding serviced apartment and accommodation rentals to their portfolios. At the same time, the rental platforms and property managers, like Airbnb, Vrbo, Booking.com and Sonder are seeking to make their accommodations more similar to hotels in terms of quality, consistency and reliability, as described in the section below. In fact, these trends, which were already present prior to the pandemic, have accelerated, as lodging customers increasingly seek out self-contained units where they can isolate themselves, control their own hygiene and food and beverage preparation and consumption. The hotel groups have realised that there is a growth market to be tapped into. Thus they have moved decisively to broaden their offerings to capture the growing demand for alternative accommodation. Also, investors are flocking to serviced apartment, which achieve more stable revenue and a higher return on investment than most conventional hotels.

Accor's new website

Of the top-ten chains worldwide, Accor has gone furthest to develop alternative lodging in its portfolio. Already 5 years ago, it acquired the luxury accommodation rental platform, onefinestay. In early December 2020, the group launched a new website, Apartments & Villas, to centralise the promotion and distribution of its 15 alternative accommodation brands. The Apartments & Villas website lists more than 50,000 apartments, villas and chalets, including extended stay from Adagio, Mantra, and HYDE Living, its private rental portfolio, plus privately owned apartments that are often included in rental programmes, across Raffles Residences, Banyan Tree Residences, Delano Residences, Fairmont Residences and SLS Residences.

At the same time Accor is actively developing branded residences, with a pipeline of 70 projects globally to add to the 30 already open. Of these, six open sites and 18 pipeline projects are under lifestyle brands, with SLS the leader in that category. Branded residence units are sold as a property investment to private individuals. Typically, owners can put their units into the hotel's rental pool when they are not in residence in which case, they will be listed on the new website. Currently under development is Raffles London, which will occupy the Old War Office building on Whitehall, that is being transformed into a Raffles hotel featuring 125 guestrooms, 85 private residences, restaurants and spa. Opening is scheduled for 2022.

Accor's 13 extended stay brands

Accor has jumped headfirst into the extended stay /serviced apartment market and now boasts 13 distinct brands targeting sector. Admittedly, most of them, with the exception of Adagio, which is the market leader in Europe, are at a nascent stage of development with only a few properties up and running. In fact, most are just add-ons to already existing hotel brands, like Raffles, Fairmont Sofitel, Pullman, swissôtel, Orient Express, Mövenpick ,Novotel, etc. and were launched relatively recently – mostly in late 2019.

At the beginning of February 2021, Chicago-based Hyatt launched its new offering for remote

SAMPLE PAGE

Part II

The European Short-Stay Accommodation Landscape

The European short-stay accommodation landscape extends beyond hotels and includes hostels, serviced apartments, private membership clubs, online accommodation rental platforms, vacation rental management companies, interval ownership (timeshare), vacation villages, camp sites and cruise lines.

Hotels

There are almost 150,000 hotels offering over 6mn rooms in 22 European hotel markets. About 13% of these hotels are chain-affiliated; however, due to the fact that the average chain hotel has three times the room capacity, 38% of total rooms are in branded properties. Italy is Europe's biggest hotel market, either in terms of total properties or rooms. However, chain penetration is the lowest in Europe with only about 16% of rooms in chain-affiliated hotels.

The average hotel size tends to be quite small in the older mature hotel markets like the UK, Italy, France and Switzerland. Meanwhile, the average sized hotel in countries with an extensive beach resort sector like Cyprus, Spain, Portugal, Turkey or Croatia tend to be quite large, as is also the case in Scandinavia.

FIGURE 11: HOTEL STOCK AND CHAIN PENETRATION IN 22 EUROPEAN HOTEL MARKETS*, 2019

Country	Chain hotels	Total hotels	% penetration	Chain rooms	Total rooms	% penetration	Rooms/ Hotel overall	Rooms/ chain hotel
Albania	12	622	1.9%	736	12,400	5.9%	20	61
Croatia	186	724	25.7%	33,939	58,437	58.1%	81	182
Cyprus	51	236	21.6%	9,701	56,245	17.2%	238	190
Denmark	133	570	23.3%	23,377	47,500	49.2%	83	176
France	3,885	18,079	21.5%	320,060	652,698	49.0%	36	82
Germany	2,217	20,029	11.1%	317,325	827,861	38.3%	41	143
Greece	766	9,874	7.8%	101,021	425,993	23.7%	43	132
Hungary	159	1,049	15.2%	22,093	61,213	36.1%	58	139
Ireland	185	834	22.2%	24,927	60,222	41.4%	72	135
Italy	1,584	32,988	4.8%	171,845	1,086,910	15.8%	33	108
Montenegro	25	327	7.6%	4,113	16,576	24.8%	51	165
Netherlands	663	3,503	18.9%	76,133	129,479	58.8%	37	115
Norway	299	1,100	27.2%	49,335	88,200	55.9%	80	165
Poland	366	2,592	14.1%	50,484	136,080	37.1%	53	138
Portugal	336	1,309	25.7%	43,069	98,960	43.5%	76	128
Serbia	22	372	5.9%	3,520	18409	19.1%	49	160
Slovenia	78	327	23.9%	8,590	19,519	44.0%	60	110
Spain	2,488	7,401	33.6%	392,331	695,949	56.4%	94	158
Sweden	429	2,045	21.0%	63,388	124,000	51.1%	61	148
Switzerland	312	4,261	7.3%	33,775	129,174	26.1%	30	108
Turkey	942	4,910	19.2%	177,785	487,027	36.5%	99	189
UK	3,610	33,364	10.8%	384,223	797,998	48.1%	24	106
Total	**18,748**	**146,516**	**12.8%**	**2,311,770**	**6,030,850**	**38.3%**	**41**	123

SAMPLE PAGE

Hotel Owners

The biggest hotel owners in Europe include: AccorInvest, the biggest owner of Accor hotel properties; the French REIT (real estate investment trust), Covivio Hotels, with a portfolio of 333 hotels; Aroundtown, Germany's largest owner of commercial real estate with a portfolio of 176 hotels and Stockholm-based Pandox with a portfolio of 156 hotels. Otherwise, London & Regional is the biggest hotel owner in the UK.

AccorInvest

AccorInvest is the former property arm of Accor which was spun out in a private sale in 2018, when the chain sold a 57.8% stake in AccorInvest to: sovereign wealth funds, Saudi Arabia's Public Investment Fund (PIF) and GIC (Government of Singapore Investment Corporation) and institutional investors, Colony NorthStar, Crédit Agricole Assurances and Amundi, as well as other private investors. A further 10.2% was subsequently sold, leaving Accor with a 30% interest in AccorInvest at the present time, which is the lock-up minimum Accor agreed to maintain until May 2023, at the time of the initial AccorInvest spin-off in 2018. Accor, furthermore, sold an 85.8% stake in Orbis hotels, the leading chain in Poland with 74 properties and some 14,000 rooms to AccorInvest for €1.06bn, in a transaction that closed in March 2020. Accor, however, acquired the hotel services business for approximately €286 million, thus retaining the operating contracts on the hotels formerly owned and leased by Orbis.

As of 31 December 2019, AccorInvest had a portfolio of 846 owned and leased Accor-branded hotels with a total of 122,000 rooms. Of these, 348 were wholly owned by AccorInvest and 498 operated under fixed- and variable-rent leases contracts. Of this total number of hotels, 90% or 761 were located in Europe and 294 were owned and 467 were leased. As of March 2021, according to, the group's website, the AccorInvest property portfolio comprises 882 owned or leased hotels located in 28 countries, totalling more than 131,189 rooms. Of the total hotels 92%, (811) are located in Europe, but no further breakdown by sub-region or between owned and leased hotels is provided.

FIGURE 19: ACCORINVEST'S PORTFOLIO BY REGION WITH BREAKDOWN BETWEEN OWNED AND LEASED HOTELS, 31 DECEMBER 2019

European region	Owned hotels	Leased hotels	Total hotels
Northern Europe	35	98	133
Central Europe	81	133	214
Southern Europe	178	236	414
Total	**294**	**467**	**761**

Source: Beyond Walls, 2019

As stated above, all AccorInvest hotels operate under Accor brands. About 95% of the group's hotels are in the midscale and economy market segments. Accor has management contracts for its AccorInvest hotels of 50 years for luxury and premium hotels (including a 15-year renewal option) and of 30 years for the midscale and economy segments (with a 10-year renewal option). This is quite advantageous for Accor, as it's possible that the company could not get such long term contracts with other property owners.

FIGURE 20: ACCORINVEST BRANDS BY CATEGORY

Economy brands	Midscale brands	Luxury & Upscale brands
hotelF1	Adagio	Pullman
Jo&Joe	Mercure	swissôtel
Ibis	Novotel	M Gallery
Ibis styles		Fairmont
Ibis budget		
68% of European hotels	27% of European hotels	5% of European hotels

Source: Beyond Walls, 2019

Covivio Hotels

Covivio Hotels (formerly Foncière des Mûrs) with its portfolio of 333 hotels and 45,768 rooms is one of Europe's largest hotel owners in terms of total hotels and rooms. The biggest chunk of the group's portfolio consists of Accor-branded properties operating mainly under the ibis, Ibis Budget, Ibis Styles, Novotel and Mercure brands. Covivio's second biggest operator in terms of rooms is the French budget hotel group, B & B. Together, these two operators account for over 69% of rooms held by Convivio. However, it can be noted that IHG is actually second-ranked for revenue, as its portfolio consists of more upscale brands like Kimpton and Voco. Otherwise, a small proportion of Convivo's portfolio was devoted to 54 Courtepaille restaurants and 22 Jardiland garden centres.

FIGURE 21: CONVIVIO HOTELS' PORTFOLIO BY HOTEL OPERATING COMPANY, 31 DECEMBER 2019

Hotel group	Hotels	Rooms	% of rooms	Rent revenue 2018 (€mn)	Rent revenue 2019 (€mn)	% of 2019 rent revenue
Accor	110	17,590	38.4%	68.5	77.8	25.4%
IHG	14	2,625	5.7%	45.8	51.0	16.7%
B&B	159	14,148	30.9%	41.4	36.2	11.8%
Radisson	4	1,657	3.6%	22.7	26.5	8.7%
Marriott	5	1,320	2.9%	23.1	20.4	6.7%
NH Hotel Group	11	1,914	4.2%	18.2	19.6	6.4%
Hotusa	3	671	1.5%	8.3	8.4	2.7%
Barcelo	3	641	1.4%	7.8	7.4	2.4%
Club Med	2	792	1.7%	5.9	7.5	2.5%
AC Hotels	1	368	0.8%	6.1	6.1	2.0%
Melia	3	534	1.2%	4.4	4.3	1.4%
Motel One	3	712	1.6%	4.3	4.3	1.4%
Louvre Hotels	0	0.0	0.0%	2.4	0.0	0.0%
MEININGER	3	598	1.3%	0	6.2	2.0%
Sunparks	2	877	1.9%	6.5	7.1	2.3%
Independents	9	1,201	2.6%	7.5	11.1	3.6%
Commercial properties	76	n/a	n/a	12.7	12.1	4.0%
Total	**409**	**45,768**	100.0%	**285.4**	**306.0**	**100%**

Source: COVIVIO HOTELS DOCUMENT D'ENREGISTREMENT UNIVERSEL 2019

SAMPLE PAGE

Although Covivio's portfolio is centred on French chains, the portfolio is well diversified from a geographical point of view. The total value of Covivio's hotel investment was estimated to be €5.8bn at yearend 2019. Given that the shares are trading at a roughly 25% discount to book value, they may represent an opportunity to acquire hotel assets at discount via the financial markets.

Hostels

Given their offering of shared accommodation and emphasis on partying and events, hostels have been particularly hard hit by the pandemic. According to Statista, there are 4,378 hostels in Europe. However, for the purpose of this report, traditional non-profit youth hostels are excluded and the focus is entirely on the newer branded hostel chains, which tend to operate like hybrids, i.e. offering single and double en-suite rooms, in addition to dormitory accommodation. In the pre-Covid era, the profit potential of the segment attracted the interest of private equity funds, which have purchased several of the chains.

One indicator that the hostel sector has entered the mainstream of the lodging sector universe is that STR, the leading provider of performance data for hotels and other transient accommodation, tracks the segment. In fact, the consultancy issued STR hostel data reporting guidelines already in 2016, which provide the following definition of what is to be considered a hostel for company's reporting purposes:

- A minimum of 30 beds;
- Bookings available on a per-bed basis (with per-room bookings sometimes available;
- Provides guests with the option to share a room7dromitory with a stranger;
- Provides accommodation for guests 365 days a year, with some seasonal exclusions; and
- Social space provided by way of designated lounges, restaurants and bars.

It can be noted that STR differentiates between hostels and hybrid hotels. Hostels can include both private and dormitory-style rooms. While all hybrid hotels are considered to be hostels by STR, not all hostels are hybrid hotels. For example, a traditional hostel with only dormitories would not be considered to be a hybrid hotel.

Revenue management

Just as in hotels, revenue management techniques can be applied to hostels in order to maximise revenue and profit. The first step, as with hotels, is to properly segment the customer base, including studying behavioural patterns, price elasticity (willingness to pay) and booking lead time (how far ahead do different customer segments tend to book).

Besides customer segmentation, the physical product attributes need to be taken in to account so as to effectively differentiate the accommodation offer. Each category (mixed dorms, male-only dorms, female-only dorms, private single or double room with en-suite shower + WC, etc.) will have different price structures. Product price increments should be demand driven; people are willing to pay more for popular preferences.

Hostels tend to sell from the bottom up, according to Patrick Landman of Xotels, a revenue management consultancy, meaning that the cheapest (large mixed) dorm rooms sell first, and private rooms are the last to sell, or go unsold, during lower-demand days. This is something that can easily be leveraged into profit maximisation so as to boost yields on cheaper beds during high-demand times, through striking the correct balance between supply and demand.

Major branded hostel groups

Serviced Apartments/Extended Stay

Serviced apartments have been around for decades, but until recently were a very fragmented sector in Europe. Serviced apartment is an umbrella term for a type of furnished apartment available for short-term or long-term stays, which provides amenities, housekeeping and a range of services for guests and where most charges, such as taxes and utilities, are included in the rental price.

Serviced apartments offer facilities similar to those of a traditional hotel, but with more space, convenience and privacy. They feature private cooking facilities - either a kitchenette or a full-size kitchen with dishwasher and washing machine - larger living/sleeping areas than most standard hotel rooms and frequently offer access to gyms, restaurants, meeting space, concierges and other hotel-like services. In contrast to the unregulated home rental sector, as exemplified by Airbnb, which list people's homes for short term accommodation, serviced apartments are subject to higher standards in terms of health and safety.

A serviced apartment should normally include:

- A fully equipped kitchen, usually with both dishwasher and washer/dryer;
- One or more separate bedrooms, or in studio apartments, a designated sleeping area;
- A living area;
- A bathroom;
- TV, Wi-Fi and the latest in-room technology:
- All utilities included i.e. water & electricity; and
- A weekly housekeeping service (many operators offer a more frequent service if required).

Distinguishing serviced apartments, aparthotels and corporate housing

Serviced Apartments

They are self-contained apartments normally within a residential building. There may or may not be staff on site, so the operator may arrange to meet guests on arrival or make keys available via a safety deposit box. Some may even offer keyless entry access via smartphones or other technology. And guests will have access to a 24-hour helpline.

SAMPLE PAGE

Aparthotels

They are serviced apartments within a dedicated building, offering hotel-like services with a 24-hour reception. These may also offer additional facilities like a communal lounge or an on-site gym. Some operators call their apartments 'suites' within an aparthotel. They typically offer: 24/7 manned reception on site - room telephone connection to the front desk; food and beverage outlet on-property or within close proximity (either operated or outsourced); and laundry services if not provided in the units.

Attractiveness of the serviced apartment business model

There are several points that can be noted in favour of the serviced apartment business model as compared to that of standard full-service hotels. First of all, a much higher percentage of built square metres are devoted to accommodation and much less to lower-margin food & beverage and conference facilities. Secondly, the cost per overnight of rooms' division staff is likely to be substantially lower than in full-service hotels due to a longer average length of stay in serviced apartments.

Lower operating expense per night

A longer average length of stay lowers the per-night operating expense, especially for housekeeping, laundry and front desk. Commissions paid to distribution intermediaries can also be amortised over more overnights.

FIGURE 37: OPERATING EXPENSE PER NIGHT, ACCORDING TO LENGTH OF STAY

Length of stay /type of expense	1-4 nights	4-27 nights	+28 nights	Average
Energy, payroll, fix costs, bank charges	14	14	14	14
Housekeeping, laundry, front desk	22	6	5	9
Commissions	8	7		4

Source: Adagio

Also, the conversion of non- hospitality real estate, including residential, offices or industrial space is typically easier and less costly than for standard hotels. The table below well illustrates the superior profit potential of an aparthotel compared to a traditional full-service hotel. The higher proportion of rooms revenue and lower per night operating costs yield higher profits for the aparthotel, even though the ADR and total revenue are lower than for the full-service hotel.

FIGURE 38: PROFITABILITY COMPARISON BETWEEN A 4-STAR FULL-SERVICE HOTEL AND A 4-STAR APARTHOTEL

	4-star full-service hotel	4-star aparthotel
Occ. rate	80%	88%
Average daily rate	£145	£135
RevPAR	£116	£119
Room revenue %	72%	93%
Total revenue	£9.5mn	£7.8mn
GOP	49% - £4.6mn	63% - £4.9mn
NOI	40% - £3.8mn	53% - £4.2mn
Profit/sq m	£442	£488

Source: Adagio

Furthermore, serviced apartments' lean operating structure, which is characterised by limited staffing and services, due to a longer average length of stay, allows for an attractive gross operating profit margin of about 45-65%. During a demand shock like Covid, revenue can fluctuate significantly in a short period of time. A low operating expense structure helps to adjust rapidly to falling demand. Despite temporary furlough schemes that most European governments put in place during the crisis, the traditional hotel industry was obliged to cut its operating expenses much more drastically than serviced apartments in order to avoid large operating losses.

SAMPLE PAGE

Adagio, the market leader in Europe, has the largest pipeline across the continent with around 35 projects and almost 5,000 units. The UK (with over 1,000 units), Russia (940 units) and Germany (800 units), together, account for over half of the chain's future supply. Adagio continues to expand its horizons outside of Europe (detailed below on pages 56-59) expanding to destinations, including UAE, Qatar and the Ivory Coast. Staycity is second-ranked, with 20 projects in the pipeline, ten of which are expected to open in 2021. More than half of the units in the pipeline will be located in the UK, and the rest spread out over Ireland, France and Germany. Third-ranked is the edyn group's Locke brand, which is expanding in the UK as well as in continental Europe, with a pipeline of over 2,500 units. Marriott's Residence Inn brand is fourth ranked with a pipeline of 1,900 and is followed by Adina (1,300), the extended stay brand of Sydney-based TFE Hotels. Six of Accor's extended stay brands (excluding Adagio) have a pipeline of 1,200. Accor's extended stay offering has increased from just three brands in the midscale and economy segments in 2015 to 13 brands in 2020, ranging from economy to luxury (please see discussion on pages 13-14).

FIGURE 46: SERVICED APARTMENT PIPELINE (UNITS) IN EUROPE BY LEADING OPERATORS, 2020-2024

Brands	2020	2021	2022	2023	2024	Total
Adagio[1]	136	955	1,472	1,692	714	4,969
Staycity[2]	0	2,083	775	616	803	4,277
Locke	284	1,185	545	279	235	2,528
RIBM[3]	347	1,022	230	192	145	1,936
Adina	0	868	169	257	0	1,294
Accor[4]	87	0	208	924	0	1,219
Ascott[5]	0	166	623	240	0	1,029
room2	0	93	514	0	0	607
Stay Kooook	0	0	230	127	68	425
Zoku	0	420	0	0	0	420
Other	270	587	338	0	0	1,195
Total	**1,124**	**7,379**	**5,104**	**4,327**	**1,965**	**19,899**

[1] Adagio Aparthotels, Adagio Access Aparthotel

[2] Staycity Aparthotels, Wilde Aparthotels by Staycity

[3] Residence Inn by Marriott

[4] Hyde Living, Mercure Residences, Mövenpick Living, Novotel Living, Pullman Living, Swissôtel Living

[5] Ascott The Residences, Citadines, Le Clef

Source: HVS Research

SAMPLE PAGE

Private Members Clubs

The archetypal stuffy London men's clubs of yore have evolved in recent decades, as they have become more inclusive and their facilities are even accessible to non-members, in some cases. At the same time, members clubs are being sought after as niche alternative places to stay, offering an atmosphere of exclusivity in a less commercialised environment. The members clubs that offer accommodation have varying rules and regulations concerning membership and allowing non-member guests. Below are some examples of private clubs in London that have accommodation facilities.

Soho House Group

Soho House is an example of the modern version of a private club having been founded only 26 years ago. Furthermore, the club promotes itself as a place where its "diverse membership can connect, grow, have fun, and make an impact". From its London base, the club has also spread its network worldwide with properties in continental Europe, North America and Asia.

Soho House has 28 properties offering accommodation around the world, eight of which are in London, with one in the pipeline. However, non-members can only stay in 13 of them, most which are located outside the UK. Soho House has two types of membership. Either one becomes a member for 'every house' or for one 'local house'. For example, to become a 'local house' member at Electric House in London, the annual fee for a person over 26 years old is £660, plus a one-off registration fee of £500 (inclusive of VAT).Meanwhile, 'every house' membership, which provides access to all Soho Houses worldwide (with the exception of Little Beach House Malibu, that requires an additional Malibu Plus Membership) costs £1,750 in annual fees, plus the one-off registration charge of £500.

FIGURE 55: SOHO HOUSE'S LODGING PORTFOLIO, 2021

SAMPLE PAGE

Short-Term Accommodation Rental Platforms

Short-term accommodation rentals have been increasingly consolidated onto major online platforms which include Airbnb, Booking.com and Expedia's Vrbo, as the leading companies serving the European market.

Airbnb's market size estimates

Airbnb estimates that the total available market (TAM) for short term rentals, long term rentals and experiences is worth $3.4 trillion, including $1.8 trillion for short-term stays, $210bn for long-term stays, and $1.4 trillion for experiences. Meanwhile, the firm estimates its serviceable addressable market (SAM) (i.e. the market it's actively targeting) to be worth $1.5 trillion, including $1.2 trillion for short-term stays and $239bn for experiences. To arrive at its estimate of the short-term stays market size, Airbnb used its own estimates based on available regional data on overnight paid trips, nights per trip, and ADR. Otherwise, Euromonitor estimates of tourist spending on attractions and experiences, including spas, but excluding casinos, were used to estimate the size of the experiences SAM of $239 billion. Airbnb defines short-term stays as those of fewer than 28 nights and long-term stays as those of more than 27 nights. Although 14% of nights booked on Airbnb in 2019 and 24% for the nine months ended 30 September 2020 were for long-term stays, the company has excluded long-term stays from its SAM calculation, so as to provide a more conservative estimate of the group's near term potential.

For short-term stays, Airbnb assumes an increase in trips per capita in line with expected travel market growth. For long-term stays, the company calculates that it can address the entire $48bn global serviced apartment market and 10% of the $1.6 trillion global residential rental market (about $162bn). For experiences, Airbnb adds $1.1 trillion of non-tourist recreational spending, as estimated by Euromonitor, to the $239bn of experience spending by tourists included in its SAM estimate. Furthermore, Airbnb estimates that its $3.4 trillion TAM includes $1.5 trillion in the Asia Pacific region, $1.0 trillion in EMEA, $700bn in North America, and $200bn in Latin America.
In a November 2019 report, The World Travel and Tourism Council (WTTC) estimated that travel spending would grow at a 3.5% compounded annual rate from 2019 to 2030. Thus, it should be noted that Airbnb's TAM estimates are based 2019 data, which don't reflect the impact of the Covid pandemic on the travel market.

Underlying assumptions

Airbnb's estimate of its potential market includes spending on short and long-term accommodation for both leisure and business travel in more than 220 countries and regions worldwide. To arrive at an estimate of its potential market Airbnb used third-party data where available, and where not available, its own estimates based on the group's experience in the travel market. The TAM estimate is based on the company's belief that evolving travel patterns will expand its market over time, which seems to be a considerable leap of faith, especially given the ageing of the population in all major European, North American and Asian counties.

SAMPLE PAGE

SAM calculation

Source: AllTheRooms.Analytics

Average Daily Rate (ADR) on Airbnb

Average Daily Rate (ADR) is the average price a guest pays to stay at an Airbnb property for one night. Understandably, ADRs vary widely for different Airbnb properties, from $10/night for a spare room, to mansions that cost thousands of dollars a night. In July 2020, there was a significant jump in the global average – probably driven either by higher cleaning fees and/or by hosts looking to capitalise on the post-lockdown boom in staycations. As of August 2020, the global average ADR on Airbnb was $137.

Revenue Per Available Room (RevPAR) at Airbnb

Revenue per available room (RevPAR), is defined as the ADR multiplied by the coefficient of the occupancy rate, for a given time period. Otherwise said, it's the revenue that a host should make on average for every day that their property is active and available to book on Airbnb. The global average RevPAR in August 2020 was a paltry $20. As can be observed on the chart this figure is sharply down from prior summer season peaks, which were in the range of $30 or more. In fact, a downtrend was already evident in 2019, well before the onset of the pandemic. This could indicate that certain markets were experiencing oversupply, which was pushing down rates and occupancy. In any case, the average occupancy rate in August was below15% based on the RevPAR and ADR figures: $20/$137 = 0.146 or 15% rounded to the nearest percent.

FIGURE 61: TREND IN AIRBNB'S ADR

SAMPLE PAGE

Managed Vacation Rentals

Europe has a highly structured vacation rental market, far more developed than in North America. In fact, according to Barcelona-based Rentals United, who operate a distribution platform for vacation rentals, 80% of the leading accommodation rental management companies across Europe and North America are European-based, as are 8 of the top-10 groups by number of listings. In contrast to the mega-rental platforms like Airbnb or Booking.com, the companies reviewed below actively manage the properties they list – often with staff and branch offices present in the destinations to assist both guests and property owners.

Top five European accommodation rental managers

Awaze

Lancashire-based Awaze, the former Wyndham European vacation rental business, was acquired by Platinum Equity in 2018 for $1.3bn. The company has a rental portfolio of 110,000 properties across 36 countries and operates with the following brands: Cottages.com (over 21,000 holiday homes across the UK and Europe); Hoseasons (over 31,000 self-catering places in the UK and Europe; James Villa Holidays (over 3,000 villas and apartments across 60 destinations; Landal (over 90 holiday resorts in 9 European countries); and Novasol (over 43,000 holiday homes in Europe). The group's CEO, Henrik Kjellberg, was the former CEO of Hotwire, a unit of Expedia.

OYO Vacation Homes

Zurich-based OYO Vacation Homes (OVH) was founded in 2017 and is a division of OYO Hotels & Homes, a fast growing Indian hotel chain that is now ranked in the top-ten in the world. The company is specialised in leisure rentals of villas, chalets and cottages and offers two levels of service to homeowners.

Full-service

The full-service businesses manage the entire rental process for homeowners, from attracting bookings to key handling, cleaning services and check-outs. Homeowners and guests can contact the group's international customer care team.

Self-service

Via OVH's self-service brand Traum-Ferienwohnungen, homeowners can list their property on the OVH website and, using OVH's online software, can manage their properties and bookings, which allows guests to book directly with homeowners.

OYO Vacation Homes acquired TUI's vacation rental business

SAMPLE PAGE
Cruising in Europe

Of all sectors of the hospitality and tourism sector, cruising has probably been the hardest hit by the pandemic, as activity was brought to a virtual halt worldwide. Until the Covid pandemic struck in early 2020, cruising was one of the fastest growing segments of the European leisure travel market. Indeed, both ocean cruising and river cruising have gained popularity at a rapid pace over the last two decades. Although efforts have been made to attract younger demographic segments, cruising remains essentially a pastime for the middle-aged and elderly.

Ocean

The number of passengers on European ocean cruises grew smartly from 2016 to 2019, rising by13.5% over the period, while the average length of a cruise remained just under 9 days. Although Germany and the UK/Ireland were the leading source markets with 2.6mn and 2mn passengers, respectively, in 2019, the Italian, Spanish, Portuguese and Russian markets were the fastest growing, registering increases of 26.5%, 15.2%, 56.8% and 108.3%, respectively, over the period 2016-2019.

FIGURE 82: TREND IN PASSENGER VOLUME ON EUROPEAN OCEAN CRUISES, 2016-2019

Year	2016	2017	2018	2019
Passenger volume in '000's	6,789	6,938 (2.2% ▲)	7,170 (3.3% ▲)	7,707 (7.5% ▲)
Average age of passengers (years)	49.7	49.8	49.9	49.7
Average length of cruise (days)	8.8	8.7	8.7	8.8

Source: CLIA "2019 Europe Market Report"

European cruise fleet

During 2015 (the last year for which statistics are available), there were 39 cruise lines domiciled in Europe, which operated 123 cruise ships with a capacity of 149,123 lower berths – an increase of 2% over the prior year. In addition, there were 23 cruise operators domiciled outside Europe active in the European cruise market. These lines – predominately North American – deployed 73 vessels in the region with a capacity of 100,420 lower berths, which was an increase of 13% from 2014 and marked a recovery from the fall in the previous year. In all, there were at least 164 cruise ships active in the Mediterranean and 104 in Northern Europe during 2015, some of which were repositioned from the Mediterranean for the shorter Northern season. These ships ranged in size from the 5,408-passenger Allure of the Seas to ships with a capacity of less than 100 passengers.

The Mediterranean

In 2015, 164 cruise ships plied Mediterranean waters with a total capacity of 222,554 lower berths, with an average of 1,357 berths per ship. Collectively these ships offered capacity for 3.71 million passengers on 2,692 cruises, which amounted to total capacity of 29.67 million passenger-nights, giving an average cruise length of eight nights. There was a further 550,500 of potential passenger capacity on ships that cruised on routes to the Atlantic Isles (for example Madeira and the Canaries).

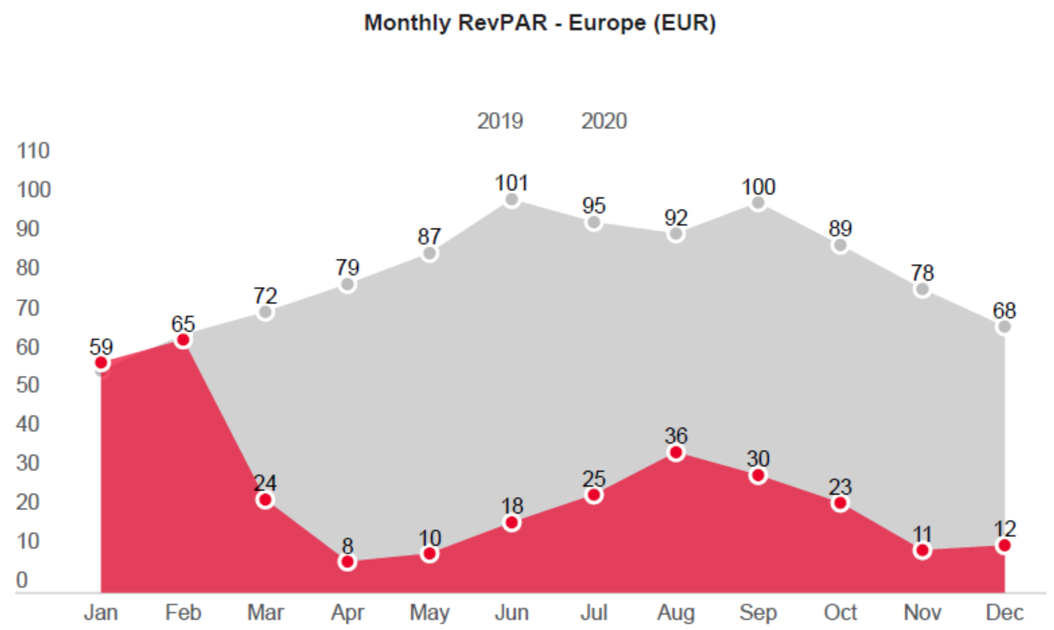
SAMPLE PAGE
Part III

Recent Performance

Hotels

According to STR, average occupancy across Europe in 2020 was 33% for hotels that remained open, but only was only 25% for total room inventory (TRI) (i.e. all hotels including those that remained closed). Meanwhile, RevPAR for open hotels was down by 62% and by 72% for TRI. Hotels that remained open throughout outperformed those that closed in terms of RevPAR. As can be seen below, RevPAR bottomed out in April 2020.

FIGURE 84: MONTHLY REVPAR PERFORMANCE OF HOTELS IN EUROPE, 2019 VS 2020



Source: Cushman & Wakefield

Performance in Europe for the year 2020 lagged that of other regions, due essentially to stricter restrictions and lockdowns across the region during the latter part of the year, according to HotStats, leading aggregators of hotel performance data. Europe was the one region that did not record positive GOPPAR (gross operating profit per room) for the month of December, which, at -€7.33, was down by 113% YOY. With GOPPAR at -€071 for the full year, it was also the only region that did not either break even or record a positive profit.

SAMPLE PAGE

Weak occupancy and rate both contributed falling RevPAR which cascaded by down 85% YOY to €15.50 for the month of December. For the full year, RevPAR was recorded at €32.84, a decrease of 72.7% YOY. Weak rooms revenue coincided with falling revenue from other outlets, including food and beverage, which was down by 70.6% in 2020 v. 2019 to €14.55. TRevPAR (total RevPAR) for December was only €2.54 - an 82.7% decline YOY. For the year, TRevPAR amounted to s €53.48 - down by 70.1% YOY.

Lower costs followed the downward trend in revenue. Total overhead for the year was down by 41.7% for the entire year versus the prior year and labour costs fell by 49.3% YOY, the result of hotels closures and large staffing cuts at those hotels that did manage stay open. Profit margin in December was negative for the third consecutive month at -24.7% and was negative for the entire year 2020 at -1.3%.

FIGURE 85: PROFIT & LOSS PERFORMANCE INDICATORS — TOTAL EUROPE (IN EUR)

KPI	Dec. 20290 v. Dec. 2019	Full-Year 2020 v. Full-Year 2019
RevPAR	-85.4% to €15.50	-72.7% to €32.84
TRevPAR	-82.7% to €29.54	-70.1% to €53.48
Labor PAR	-65.5% to €18.76	-49.2% to €27.79
GOPPAR	-113% to -€7.33	-101.1% to -€0.71

Source: HotStats

Most hotels are open

Despite a resurgence of Covid cases during the winter of 2020-2021, accompanied by a second round of lockdowns, roughly 80% of hotels remained open across Europe as of late January. While this figure is down from a 90% open rate in October, it is up substantially from the early months of the pandemic when roughly two-thirds of hotels in Europe were closed. In some countries, up to 90% of hotels were closed during the first wave of the pandemic.

Europe worsens

Ongoing lockdowns and border restrictions across Europe have impacted hotel performance in the region, which worsened in January 2021, as governmental authorities consider how to deal with the virus amid its new variants. EU leaders could announce further restrictions on non-essential travel, thus impeding any rebound for the region's hotel performance for the time being .

In a worrisome sign, GOPPAR across Europe in January 2021 decreased its most on a YOY basis since the start of the pandemic, dropping by 144.9% to €-13.06, the lowest recorded number since June. Unsurprisingly, profit margin was well down at -70.3%, a 92.3-percentage-point drop over the same time a year ago.