THE EUROPEAN HOTEL INDUSTRY REPORT **2022**

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Macy Marvel is a Geneva-based journalist/consultant and is a frequent presenter at international hospitality and tourism industry conferences. For 20 years, he was professor of economics at the Ecole hôtelière de Lausanne (EHL), the world oldest and largest hotel management school. He has also authored dozens of hotel industry studies for Mintel International in London, as well as numerous journalistic articles for HospitalityInside.com. and industry reports for Hotel Analyst. Mr Marvel has also performed hotel valuations and market studies for EHL Advisory services, the consulting division of the Ecole hôtelière de Lausanne.

Part I

Introduction

This report provides a current overview of the European hotel industry and projects future trends and developments. The report begins with a review of key issues impacting the industry and moves on to detail the presence of chains across the continent and by major country. Branding, distribution trends, the importance of ESG for attracting financing, as well as the outlook investment in the sector are also discussed and analysed.

This report looks at the following areas:

- Key issues facing the European hotel industry now
- The biggest hotel chains in Europe and their prospects
- The major hotel owning groups in Europe
- The important trends regarding hotel distribution in Europe
- The newest hotel brands in Europe
- The trends regarding lease structures in Europe
- How short term accommodation rental platforms are impacting the European hotel industry
- How ESG (environmental, social and governance) concerns are impacting the European hospitality sector
- he recent trend in performance in European hotels and what is the outlook?
- The latest developments regarding investment, transactions & M&A in the European hospitality sector

Key Findings

- **Accor heavily dominates the European hotel sector, being the leading chain by room count not only in France, but also in Belgium, Germany, Poland and Switzerland. Due to its 50% stake in Adagio, it is also number one Europewide in the growing serviced apartment/extended stay segment**.
- **Otherwise, five of the top-10 chains in Europe are headquartered outside the region- three in the US (Marriott, Hilton and Best Western), one in China (Jinjiang) and one in Thailand (Minor). The Asian-based chains have established their presence in Europe mainly through acquisitions.**
- **Chain penetration varies considerably by major European country – from 58% of rooms in Spain to only 17% in Italy, for example.**
- **Franchising has become the preferred brand affiliation structure, while management contracts are increasingly restricted to the luxury and upper-upscale segments**.
- **Owner operator and third-party (or white label) management groups, which typically make use of major brand franchises, are expanding their portfolios rapidly in Europe.**
- **Cloud-based PMS and upgraded bookings engines are the top priority categories for technology purchases by hotels; meanwhile guest-facing technological gadgets like in-room voice commands are accorded relatively low priority.**
- **Hopes are high that value add acquisition possibilities will emerge in the coming year in the European hotel sector, as state support schemes come to an end and bank loans have to be refinanced. Rising interest rates will put downward pressure on hotel values, however.**

- **London & Regional, one of the UK's biggest hotel owners, has formed a joint venture with a Dutch pension fund to put to work €1bn of debt and equity in the European sector, targeting hotels with a minimum of 100 keys in the select service to upper upscale categories, located in the top-30 cities in France, Germany, Benelux, as well as in Spain and Italy.**
- **ESG criteria are impacting the ability of hotels to attracting financing and investment.**

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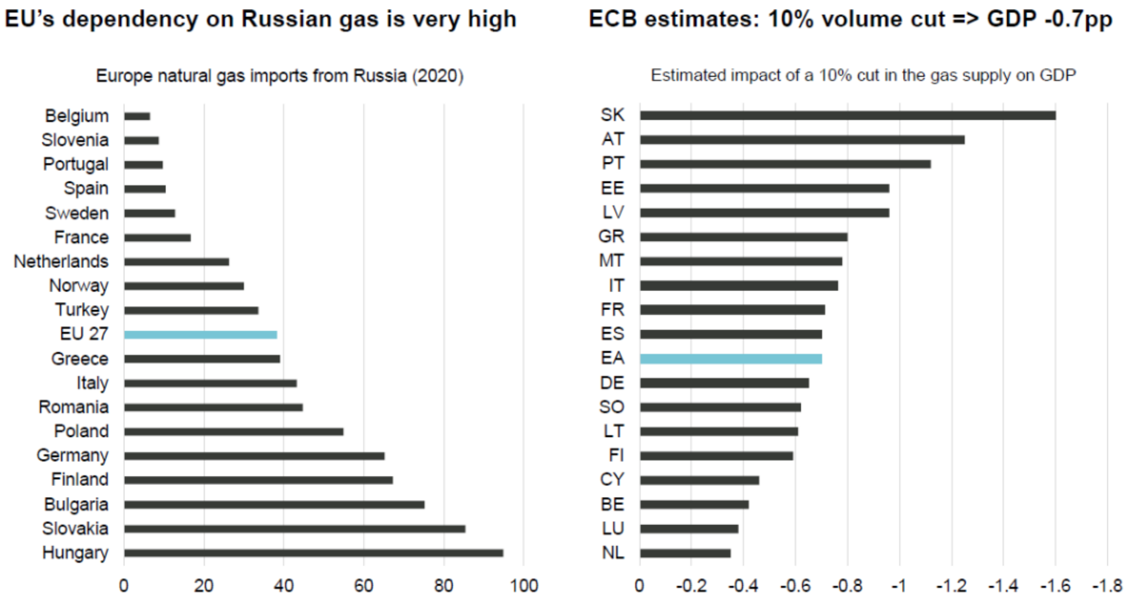
Economic outlook for Europe

The outlook for GDP growth has been distorted by the pandemic lockdowns which has resulted in dramatic downswings and sharp rebounds in the world economy. While the impact of the Covid epidemic seems to be receding, the Russian attack on Ukraine, which began in earnest on 24 February, has raised the spectre of stagflation, i.e., lower growth accompanied by higher inflation than previously forecast. Commodity prices, including those for energy, food and metals are soaring, which will clearly affect hotels and tourism. Air travel is to be impacted – not only by higher fuel prices - but also the need to reroute flights away from Russian and Belarussian airspace, a particular factor for European routes to Asia. Europe's high dependency on Russian natural gas is well known, but varies considerably from country to country.

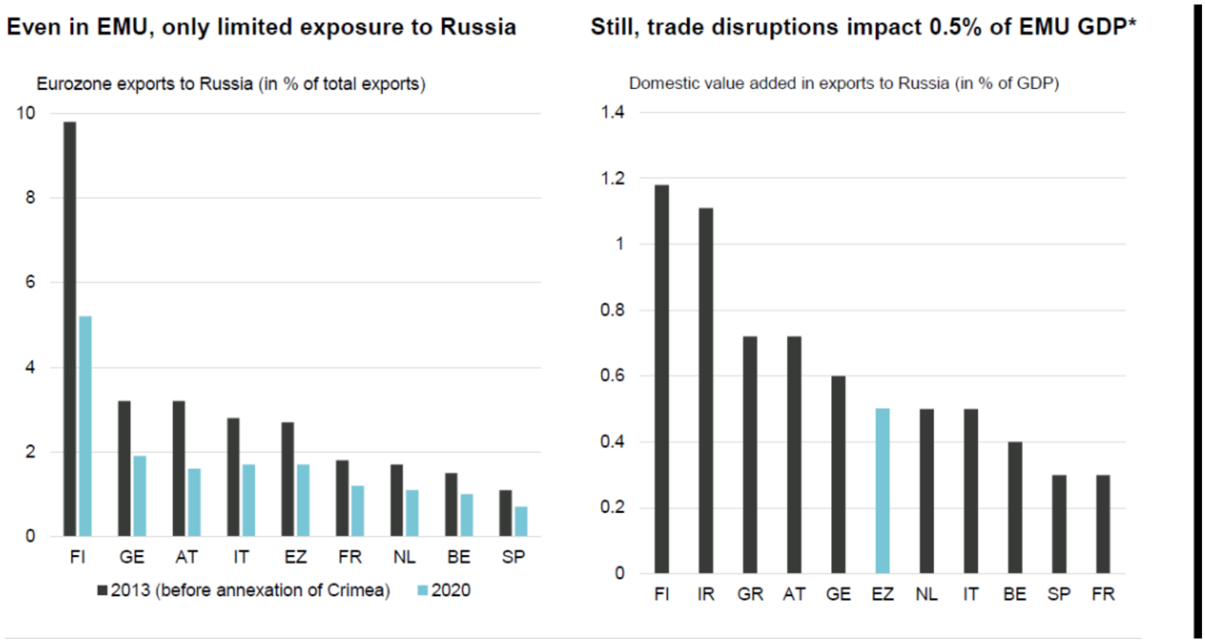
FIGURE1: EUROPEAN DEPENDENCY ON RUSSIA GAS AND THE POSSIBLE IMPACT ON GDP BY COUNTRY, MARCH 2022



Source: Refinitiv Datastream

Looking on the bright side, it's possible that the prices of oil and gas are getting close to a near term peak. Also, the exposure of European economies to Russia is, in fact, relatively limited and has fallen noticeably since 2013 (prior to Russia's annexation of Crimea). Nevertheless, trade disruptions relating to the sanctions could reduce Eurozone GDP by about 50 basis points.

FIGURE 2: IMPACT OF TRADE DISRUPTION ON EUROPEAN ECONOMIES, 2022



Source: IMF, Refinitiv Datastream

There is also the silver lining of a probable slowdown or delay in central bank tightening, which could, at least temporarily, result in lower interest rates than would have been the case otherwise. In addition, the high level of private sector savings built up during the pandemic should provide support for economies going forward.

Figure 3: Current market expectations for Fed interest rate rises, March 2022

Out of 400 global business travellers polled, 86% report that they need travel to accomplish their business goals. A majority (81%) believe that their volume of domestic business travel will be greater or on par in 2022 than it was prior to the pandemic. Over half (54%) miss traveling and hope to travel more often in the future. However, 43% wouldn't mind traveling less in the future. Four in five (81%) of business travellers say their company requires vaccines for travel and in-person meetings. However, given the war in Ukraine and the accompanying sanctions, the current outlook is somewhat less favourable than forecasted at yearend 2021.

Outlook for air travel

The International Air Transport Association (IATA) projects that overall air passenger numbers will reach 4 billion in 2024, about 3% above pre-Covid levels of 2019, according to a report published on 1 March 2022. IATA's new forecast was not negatively affected by the Omicron variant as compared with its previous forecast in November and it should be noted that this latest forecast does not take into account impact of the Russian attack on Ukraine, which among other things, will likely boost the cost of kerosene over the medium term. Thus, the numbers cited in the table below can be considered to be overly optimistic.

FIGURE 9: IATA FORECAST FOR AIR PASSENGERS FOR THE YEARS 2022-2025, COMPARED TO 2019

	2022	2023	2024	2025
International	69%	82%	92%	101%
Domestic	93%	103%	111%	118%
Total	***83%***	***94%***	***103%***	***111%***
North America	94%	102%	107%	112%
Europe	86%	96%	105%	111%
Asia-Pacific	68%	84%	97%	109%
Africa	76%	85%	93%	101%
Middle East	81%	90%	98%	105%
South America	88%	97%	103%	108%
Central America	96%	102%	109%	115%
Caribbean	72%	82%	92%	101%

Source: IATA, Tourism Economics

In 2021, the total number of air passengers was only 47% of the 2019 level. But IATA projects that figure to reach 83% in 2022 and 94% in 2023. Meanwhile, the group forecasts that international passenger numbers, which for 2021 were down to 27% of 2019 levels, to reach 69% in 2022 and to fully recover in 2025.

The IATA's (pre-Ukraine crisis) international forecast was "slightly more optimistic" than the previous one, based on the relaxation or elimination of travel restrictions in many areas, particularly in major North Atlantic and intra-European markets. Recovery varies by region, however, with Asia-Pacific expected to continue to lag.

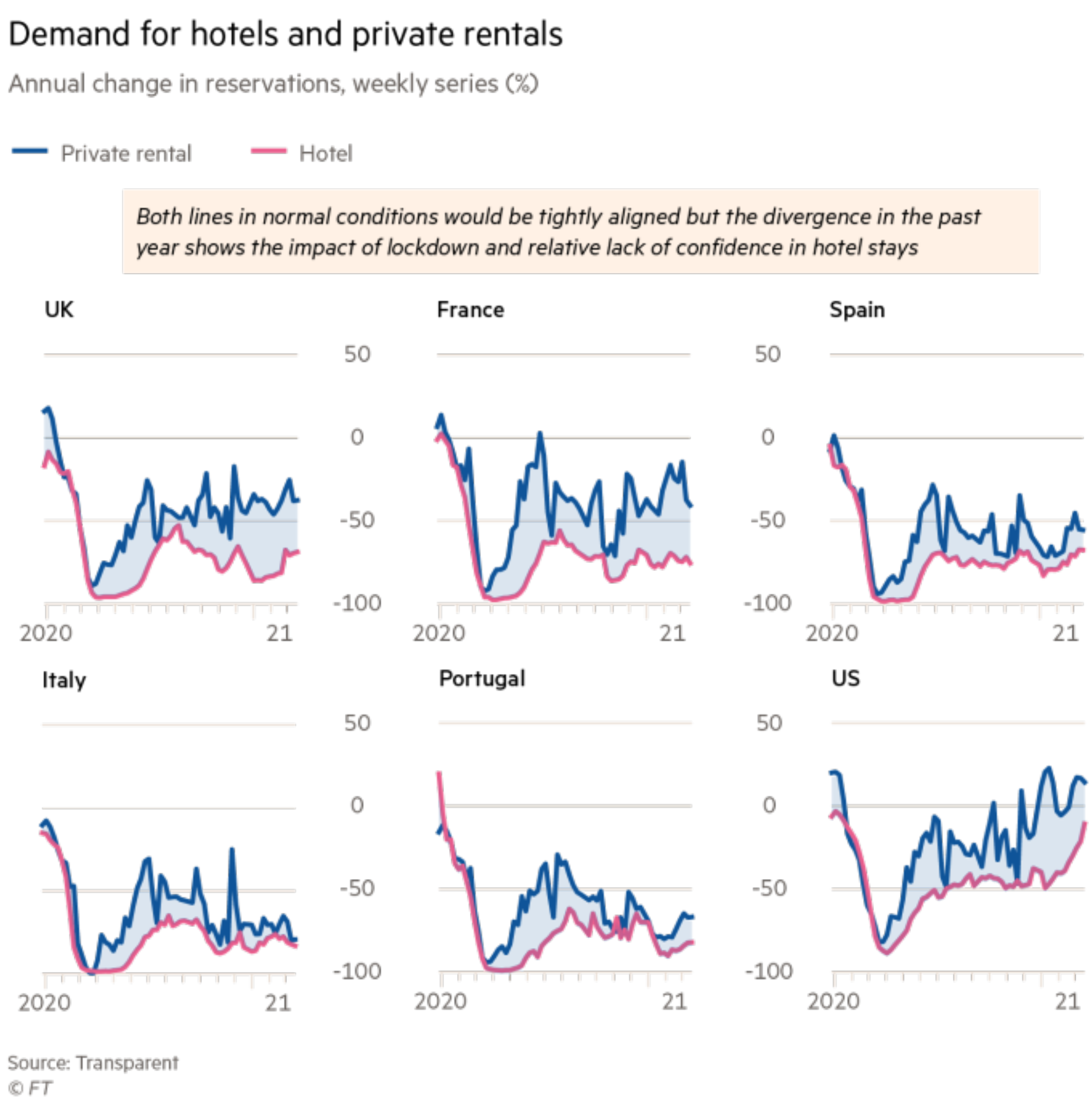
"In general, we are moving in the right direction, but there are some concerns," notes IATA director general Willie Walsh, who adds that, "Asia-Pacific is the laggard of the recovery. While Australia and New Zealand have announced measures to reconnect with the world, China is showing no signs of relaxing its zero-Covid strategy. The resulting localised lockdowns in its domestic market are depressing global passenger numbers even as other major markets like the US are largely back to normal."

IATA expects travel to and from North America to continue to perform strongly in 2022 as the domestic market "returns to pre-crisis trends" and international improves. The group projects passenger numbers for the region to reach 94% of the 2019 level in 2022 and to exceed it in 2023, ahead of other regions.

Short-term rentals growing faster

While total hotel reservations still well exceed those of short-term rentals, the growth rates for hotels lag behind rental accommodation in key European markets.

FIGURE 13: YEAR-ON-YEAR PERCENT CHANGE IN WEEKLY BOOKINGS FOR HOTELS AND RENTALS, 2020-2021



SOURCE: TRANSPARENT

What's driving short-term rentals in Europe?

Founded in 2015 by Alexander Lyakhotskiy and Zoe Vu, Pass the Keys is a property management company, specialising in the short-term rental market. With headquarters in London and satellite offices in many cities in the UK, the firm assists owners in listing, marketing and maintaining their properties. The company claims that property owners can make between 50% to 100% more than traditional long-term lets with short-letting and offers the services of a property calculator to estimate how much a property could earn over a 12-month forecast period. The group started by just listing properties on Airbnb, but now has listings on more than 25 platforms, with a variety of tenancy lengths.

res:harmonics

The res: harmonics apartment management system is a software platform that is specifically designed for serviced apartment and co-living providers. The Birmingham, UK-based company's customer base now extends to the operators of some 5,500 serviced apartments. The cost of the service is from £250, plus VAT per month for professional operators with 20-plus apartments. The plan includes: direct booking engine; channel manager; enquiry management and sales pipeline; reservation system; service delivery and housekeeping automation; billing and finance automation; dashboards and reporting; mobile app; and automation of the customer journey.

Part II

Top-Ten Integrated Hotel Chains Worldwide

The ranking of the world's largest hotel chains by number of rooms shows virtually no change for the top ten, according to *Hotels* Magazine's July/August 2021 edition.

Oyo excluded from ranking

However, the publication's editors have chosen to exclude the hitherto fast-expanding Indian upstart, Oyo, from the ranking. Last year, the chain was in third place with over one million rooms; but this year *Hotels* dropped the chain from its listing due to difficulty in substantiating the group's data and to the fact that, "the business model is a bit of an outlier, making it hard to compare to other hotel companies", according to the magazine. In any case, Oyo's network seems to have shrunk, as it claimed only some 43,000-member hotels, with over 1m rooms, whereas in the prior year's *Hotels* ranking it was listed with 45,600 affiliated properties. One indication that Oyo is indeed a quite different type of business from the rest is the average number of rooms per hotel, which in 2020 was only 23, as compared to an average of 119 for the top-ten, as shown in the table below.

Oyo targeting a US$9bn IPO

It was reported by Bloomberg on 17 January 2022 that the hard-driving Indian lodging group was seeking to list its shares on the Indian stock exchange. The timing of such a move seems hardly optimal, since the company's operations have been dented by the pandemic. In addition, previously high-flying technology shares are struggling in the market due to surging bond yields.

Indeed, Oyo has had to pull back operations in many markets and has laid off thousands of employees. But the group has overhauled its business model and is now focused on selling software and support services to hotel operators, resorts and home owners, while providing a platform for travellers to book lodging. Importantly, the company no longer offers its franchisees guaranteed revenue. Group revenue plummeted during the fiscal year ended in March 2021, but Oyo was able to pare losses from (INR 128bn (€1.5bn)) for fiscal year 2020 to only (INR 39.3bn (€0.46bn)) for fiscal year 2021.

The valuation Oyo is targeting would be lower than the US$12 billion initially reported in local media in 2021 and probably lower than the US$10 billion level the startup reached in 2019. Now Oyo's founder and CEO, Ritesh Agarwal, has discussed offering a discount of as much as 15% on the US$10 billion suggested by bankers during early discussions. However, a sign of confidence in the group's future is that existing shareholders, including Agarwal, himself, who owns a third of the company, as well as investors Sequoia Capital, Lightspeed Ventures and Greenoaks Capital Management, do not intend to sell shares. Otherwise, Masayoshi Son's SoftBank, which holds about 47% of the equity, intends to sell only a small percentage of its shares.

A 7,000-room minimum

Beside the exclusion of Oyo, there were no changes in the order of the current top-ten from the prior year, although the third to tenth-ranked for 2021 all moved up a notch, due to the exclusion of Oyo. One change in *Hotels'* overall list is that the total number of chains ranked has been reduced from 320 to 220. Now the cut-off to make the list is at a minimum of 7,000 rooms, as opposed to about 4,000 previously, according to magazine's editor-in-chief, Jeff Weinstein.

In general, it can be seen that the fundamentally pure franchise groups, targeting essentially the economy to midscale segments, like Wyndham and Choice, have substantially lower average sized properties than the chains with significant upscale-to-luxury capacity like Marriott, Hilton and IHG.

Andorra	1	60	1	60	1	60	1	60	1	60
Austria	7	1,340	7	1,340	7	1,340	7	1,340	7	1,340
Belgium	14	2,314	13	2,265	13	2,265	13	2,265	13	2,265
Czechia	3	581	4	733	4	733	4	733	4	733
Denmark					1	394	1	394	1	394
France	5	871	5	871	6	1,023	6	1,023	6	1,023
Germany	56	10,425	54	10,046	57	10,532	59	11,335	59	11,335
Hungary	1	160	3	483	3	483	3	483	3	483
Ireland	1	187	1	187	1	187	1	187	1	187
Italy	52	7,934	57	8,495	61	8,922	62	9,022	62	9,022
Luxembourg	1	148	1	148	1	148	1	148	1	148
Netherlands	35	6,782	34	7,233	34	7,233	34	7,233	34	7,233
Poland	1	93	1	93	1	93	1	93	1	93
Portugal	17	2,809	17	2,809	17	2,809	17	2,809	17	2,809
Romania	2	159	2	159	2	159	2	159	2	159
Slovakia	1	117	1	117	1	117	1	117	1	117
Spain	102	12,381	96	11,709	98	11,836	98	11,836	98	11,836
Switzerland	3	382	3	382	3	382	3	382	3	382
UK	2	311	2	311	2	311	2	311	2	311
Europe	**304**	**47,054**	**302**	**47,441**	**313**	**49,027**	**316**	**49,930**	**316**	**49,930**

Source: Minor Hotels Annual Report 2020

Meliá Hotels International

Amongst the major chains in the world, Melia is exceptional in that it traces its origins to the leisure and holiday market, having been founded on Majorca. Meanwhile all of the top-20 hotel groups in the world (Melia is ranked 21st), were developed originally in an urban context targeting especially business travellers and MICE. As Spain's largest hotel group, which has a dominant leisure component, it's not surprising that the lion's share (70%) of its room capacity is located in the home country, which is one of the world's leading holiday destinations. Otherwise, Portugal, in particular, is being targeted for new development.

FIGURE 27: MELIÁ'S EUROPEAN PORTFOLIO, 2020

Country	**2020**		**Next openings**		**Future projects**	
	Hotels	**Rooms**	**Hotels**	**Rooms**	**Hotels**	**Rooms**
Albania	-	-	-	-	1	400
Austria	1	253	-	-	-	-
Bulgaria	6	2,378	-	-	-	-
Croatia	10	2,942	-	-	-	-
France	6	682	1	266	-	-
Germany	27	4,407	1	430	-	-
Greece	1	136	-	-	-	-
Italy	5	657	1	145		
Luxembourg	1	161	-	-	1	123
Montenegro	1	114	-	-		
Netherlands	-	-	-	-	1	328
Portugal	14	2,027	-	-	5	804
Spain	143	34,114	1	247	1	164
UK	4	1,026	2	368	-	-
Total	**219**	**48,897**	**6**	**1,456**	**9**	**1,819**

Source: Meliá Hotels International

FIGURE 46: LONDON & REGIONAL'S HOTEL PORTFOLIO, 2022

Location	Hotels	Rooms
London	*8*	*3,108*
Regional UK	*64*	*7,969*
UK	72	11,077
Europe (ex UK)	14	4,732
US & Caribbean	19	5,600
Total	105	21,409

Source: London & Regional

L & R targets the continent with a €1bn JV

In late January 2022, London & Regional (L & R) announced the formation of LRO Hospitality, a value-add joint venture (JV) with PGGM, a large Dutch pension fund covering healthcare sector employees. The JV was founded by John Ozinga, former CEO of AccorInvest, and L & R Hotels with the goal of investing up to €1bn (€500mn in equity and €500mn debt) in European hotel assets. John Ozinga is to be CEO and Henri Wilmes, the group's CIO (chief investment officer). Wilmes was formerly CIO at the German group, A&O Hotels & Hostels, and prior to that Vice President Acquisitions - Hotels at L & R.

The fund's objective is to acquire hotels freehold with the potential to generate significant added value through improving the quality and performance of the properties. According to Desmond Taljaard, managing director at L & R, LRO Hospitality is targeting hotels with a minimum of 100 keys in the select service to upper upscale categories, located in the top-30 cities in France, Germany, Benelux, as well as in Spain and Italy. Ozinga notes that the hotel sector has been through tough times, due to the pandemic, and now offers the possibility of attractive returns once the industry returns to its pre-crisis strength in a couple of years (i.e., by 2023-2024). According to Ozinga and Wilmes, there are
attractive investment opportunities, given the cashflow problems encountered currently by some hotel owners and operators. Target properties have already been identified and the first two deals were to be announced in February 2022.

Desmond Taljaard, director general of L + R Hotels, said: "We are delighted to collaborate with PGGM in this new hotel investment initiative, as we believe in the resilience of the hotel market and its recovery in the future. PGGM's commitment demonstrates its confidence in our ability to create as operations providers, hotel operators and asset managers, as well as their interest in the European hotel sector as an institutional asset class, despite the short-term negative impact of the Covid crisis."

Meanwhile, Tinka Kleine, senior director of private real estate at PGGM, stated: "We have added hotels to our city-focused investment programme, because it offers attractive investment opportunities, both to achieve financial returns and to improve the sustainability performance of well-located assets."

Pandox

Pandox, which is quoted on the Stockholm stock exchange, is a major owner operator of hotels in Europe. As of the end of September 2021, Pandox's hotel portfolio consisted of 156 properties with 35,226 hotel rooms, located in fifteen countries, including the UK sub-regions of England, Scotland, Wales and Northern Ireland. Over half of the group's room capacity is in three countries, including Sweden, Germany and the UK.

Deutsche Hospitality launched its new upscale lifestyle brand House of Beats brand at the beginning of September 2021 and two properties are already scheduled – one each in Hamburg and Milan. House of Beats sits alongside its sister brand 'Jaz in the City', which targets music lovers. "Fashion, music and art are the elements that combine to form House of Beats", according to the chain. House of Beats also includes a gastronomic concept called "The Beast", which caters to both vegetarians and carnivores. "Our goal is to grow into one of the leading hotel brands in Europe by 2026", remarks Marcus Bernhardt, the group's CEO, an ambitious goal, to say the least.

FIGURE 54: DEVELOPMENT SPECIFICATIONS FOR A 'HOUSE OF BEATS' PROPERTY

Locations	Vibrant urban locations, City and Beach
Category	Upscale / Lifestyle
Rooms	100+
Room size	35 sq m
Gross area per room	45 sq m
FF&E costs per room	€21,000
Conference area	Multifunctional concept & Coworking, subject to market
Restaurant and bars	1 outlet
Wellbeing/relaxercise	200+ sq m
Business model	Lease, management or franchise agreement

Source: Deutsche Hospitality

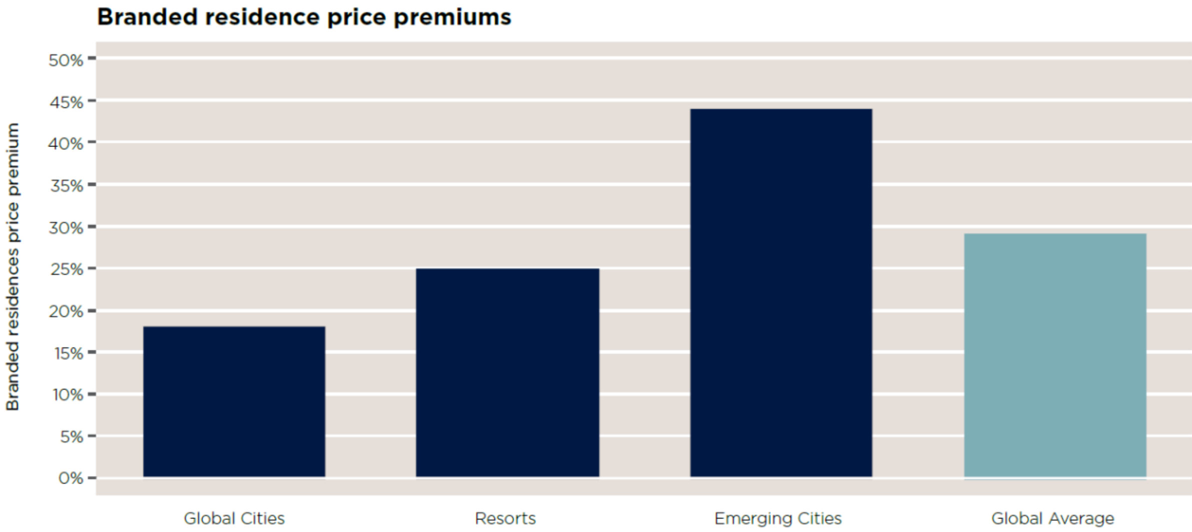
Soft brands accelerate chain expansion

Soft brands have come into their own over the past ten years. Now most of the big western chains offer soft brand alternatives to both their customers and to potential franchisees. This type of affiliation is less demanding in terms of brand standards that must be adhered to, which allows independent hotels to join the powerful distribution networks of the big chains, including notably their frequent guest schemes, while at the same time minimising the initial investment necessary to conform to the stricter standards of the chains' 'hard' brands. From the point of view of the big chains, soft brands offer a way to speed up the expansion of their portfolios, particularly in a region, such as Europe, where there are many old, iconic hotel properties that would have difficulty meeting the criteria of the chains' more standardised brands. Most soft brands operate in the upper upscale and luxury segments of the lodging market.

Since the pandemic began, many independent hotels have been stretched financially and subject to staffing shortages, which has made it harder for them to implement marketing strategies and negotiate more flexible terms with suppliers. This has led to a growing number of independent hotels adopting a soft brand affiliation for greater financial security. The association can be mutually beneficial for both parties. The chain's cash reserves and marketing muscle can boost an independent hotel's financial position. The partnership can also raise an independent hotel's profile and potentially bring in more business through new channels, such as the chain's loyalty programme, and reduce reliance on OTAs for bookings.

Most of the major western chains have introduced soft brands (or collections) over the past decade or so, including: Choice's Ascend Collection; Hilton's Curio a Collection; Marriott's Tribute Portfolio and Autograph Collection; Hyatt's Unbound Collection; Louvre's TemptingPlaces; Radisson's Radisson Collection and Radisson Individuals; and Accor's recently announced Emblems Collection

Ascend Collection



Source: Savills Research and Savills Global Residential Development

The demand for branded residences is being driven by time-poor, footloose high net worth individuals (HNWI), who seek not only real estate, but guaranteed access to the high-end amenities offered by a luxury hotel group. Philip Bacon notes that "the pandemic has also accelerated the desire for residential-style accommodation, whether urban or non-urban, and this has played into the hands of those with knowledge and experience of the branded residential business model". Purchasers of branded residences vary by location type and wider market characteristics, but there are some common aspects. Based on a survey of Savills' global network, compared to buyers of nonbranded offerings, branded residences buyers tend to be slightly older, with most buyers being over 40, compared to a much wider age range for non-branded properties.

There are notable exceptions, however. Greece and Portugal are both key resort markets and tend to attract younger buyers. Also, branded residence buyers tend to be international according to the Savills survey, with respondents citing an average of 76% of their branded residences buyers as international. However, as pandemic-related travel restrictions have kept many potential buyers from travelling internationally, increasing numbers have been looking for branded residences closer to their home markets, rather than in far-flung locations.

Buyers are especially attracted by the following features: prestige, trophy property benefiting from brand association; quality fit out, turnkey; professionally managed, suitable to lock up and leave; and rental potential, self-contained unit with hotel offer.

FIGURE 57: TYPICAL SERVICE OFFERED BY BRANDED RESIDENCES

Base services	On demand services
Use of hotel amenities (or dedicated amenities for residences)	Housekeeping
24/7 security	Laundry services
Valet parking	In-home dining service
Elevated status in loyalty scheme	Personal shopping
Concierge services:	Personal trainer
Mail and package delivery	In-home spa treatments
Travel and restaurant reservations	Childcare services
Spa and salon reservations	Pet services
Golf and entertainment reservations	Meeting room services / office equipment
Wake-up calls	Use of guest suite
Mail and package delivery	

Source: Savills Research and Savills Global Residential Development

With offices in London and Amsterdam, Mews is a leading European-based player in cloud-based PMS technology for the hotel sector. Founded in 2012 by a team of former hoteliers, Mews' client base includes over 2,200 properties across 62 countries which run their hotel operations, booking, payments and guest management on Mews systems. Customers include Accor, Autocamp, The Student Hotel, Generator-Freehand, Life House, and the Wythe Hotel. On November 2021, the group announced 100% growth in cloud subscriptions over the pandemic, i.e., for the period March 2020 through September 2021. Mews' partnership with Accor, announced in early November 2021, presents a major growth opportunity for the company to grow rapidly through serving the chain's 5,200+ hotels. According to the company, Mews can be rolled out in Accor properties in a matter of days or weeks. Mews also claims that their product has been built to operate effectively with minimal training of staff and support. Mews has integrations with 600 hotel technology providers and is ready for use in more than 60 countries worldwide, with guests able to choose from over 20 languages and currencies. Several Accor brands and management companies have already installed the Mews property management system, including ibis, Mercure, Novotel, Mövenpick, Greet, HotelF1, JO&JOE; other client groups include: Dalmata Hospitality Group, RBH Group, AGO Hotels, Schwartz Family Hotels, MOA Group and WIN Hotel Group.

Booking engines

The goal of attracting direct bookings has often been impeded by clunky websites, that are difficult to navigate or poorly designed for mobile. Such drawbacks have made consumers less likely to book direct and stand in contrast to the smooth user experience generally enjoyed by travellers on OTA websites. Thus, 9% of respondents to the Hotel Tech Report survey expressed an interest in acquiring new booking engines, the second most cited product category. To succeed at direct booking, hotels must have functional websites geared towards conversion. Also, hotel marketers see rising search and social media marketing campaigns as additional tools.

Partnerships with technology providers

Hotel groups are signing new partnership deals with technology partners, as they look to benefit from the knowhow of

external service providers, while retaining a light corporate structure. In late 2021, Marriott agreed a new technology partnership with Amadeus, Wyndham reinforced its distribution and technology arrangement with Trip, the giant Chinese OTA (formerly C-Trip) and TUI signed a deal with Sabre. The new Marriott agreement will see the chain deploy the Amadeus Central Reservations System (ACRS) across its portfolio. ACRS will replace Marriott's proprietary reservations system, with the goal of enabling Marriott to personalise guest offerings, allowing guests to choose room attributes and book add-ons directly during a stay. The cloud-based system should also streamline data management, by ensuring that it is all maintained in a single, universally accessible system. For Amadeus, the Marriott deal means a broader roll-out of a system that it has spent the last few years developing in partnership with InterContinental. According to Paco Pérez-Lozao Rüter, president hospitality at Amadeus, ACRS "impacts first and foremost the PMS, overlapping with the CRS – then we will impact other systems, such as revenue management. It impacts the whole ecosystem." As for artificial intelligence, Rüter sees that as the next major area for development and for the exploitation of the mass of hotel and guest data: "We've just started talking about this." And having cut overhead during the downturn, the cloud-based model offers a variable cost with a pay-as-you-consume model: "That's a very powerful model, now. We are convinced that cloud gives the ideal solution. The problem of data consistency goes away," with the potential to build on new technologies such as artificial intelligence."

The big tour operator, TUI, has signed a long-term agreement with the travel distribution group, Sabre, to use its platform to manage around 70 of its hotels. The properties, including TUI Blue, Robinson and TUI Magic Life brands, will use Sabre's SynXis reservations system and the Channel Connect distribution module. "Sabre's technology will help enable us to fully automate our guest operations – including booking, setting up and amending guest offers – enabling our staff to focus on providing unique, personalised stays," remarks Martin Schreck, CIO

In recent years and decades, the investor market for hotels has broadened considerably to include large institutions which acquire assets across a wide spectrum of commercial real estate. Thus, hotels are competing against other categories of commercial property for investment capital - hence the importance of tracking the yields on other forms of commercial property, compared to hotels. Student accommodation and care homes, which embody a hospitality component are especially relevant in this context.

Yields in Germany & the Netherlands

The yields in the table below reflect the portfolio of Aroundtown, a large, publicly quoted Berlin-based property group, which has holdings across the major cities in Germany and the Netherlands. The hotel yields, which primarily concern 4-star urban properties on a fixed lease, are currently the highest of the five sectors tracked by Aroundtown. It is, nevertheless, surprising that yields on office space remain so relatively low, given the threat of reduced take up, due to the ongoing trend toward distance working.

FIGURE 84: RENTAL YIELDS BY TYPE OF PROPERTY IN GERMANY & THE NETHERLANDS, 2021

Type of property	Rental yield
Office	4.1%
Residential	4.5%
Hotel	5.2%
Retail	4.8%

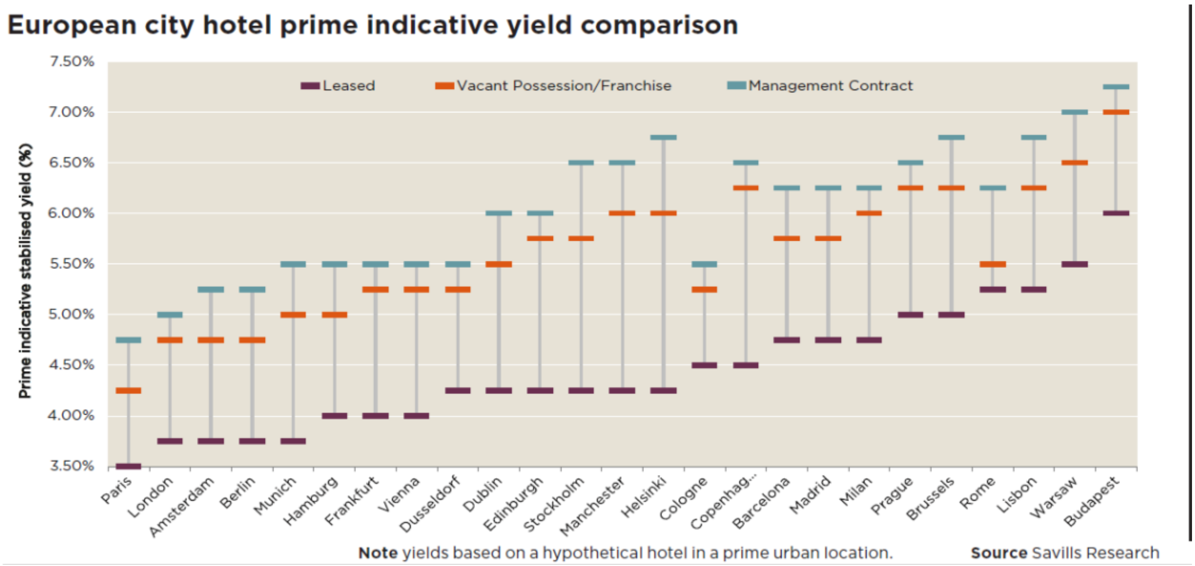
Source: Aroundtown

Yields in the UK

What's surprising in the UK is that, despite soaring rates over the past year- both at the short tend and the long end of the curve - property yields have remained relatively stable. Indeed, budget hotel yields, whether in London or in the provinces, have remained flat at 3.5% and 4.0%. respectively. Meanwhile, the 5-year swap rate has risen 6-fold over the period and the 10-year gilt yield has almost quadrupled. Otherwise, it can be seen that yields on budget hotels, leased student accommodation and care homes are roughly the same.

Figure 85: Trend in rental yields by type of property in the UK, 2020-2021

Sector	Nov-20	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21*	Trend
Bond Street Retail	2.75%	2.75%+	2.75%+	2.75%+	2.75%+	2.75%	2.75%	2.75%	Stable
Oxford Street Retail	3.25%	3.50%+	3.50%+	3.50%+	3.50%+	3.50%+	3.50%+	3.50%+	Stable
Prime Shops (Oxford, Cambridge, Winchester)	6.25% -6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	Stable
Regional Cities Retail (Manchester, Birmingham)	6.25% - 6.50%	6.50%+	6.50%+	6.50%+	6.50%+	6.50%+	6.50%+	6.50%+	Negative
City Prime Office Space (Single let, 10 years)	4.00% - 4.25%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75% - 4.00%	3.75% - 4.00%	Positive
Major Regional Cities Office Space (Multi-let, 5-year WAULT**)	5.50%	5.75%	5.75% -	5.75% -	5.75% -	5.75% -	5.75% -	5.75% -	Positive
Budget Hotels London (Fixed /RPI uplifts 20 year+ term, strong covenant)	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	Positive
Budget Hotels Regional (Fixed / RPI uplifts 20 year+ term, strong covenant)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	Positive



Source: Savills Research

Consolidation/transactions/M & A

Hotel investment activity in Europe rebounded by 26% year-on-year in for the first three quarters of 2021, according to Geraldine Guichardo, global head of research for hotels at JLL. However, sales volume remained 38% below the 2019 figure. She notes that there is a strong appetite for acquisitions and transaction volume is expected to increase in 2022, driven by a renewed interest from international investors, particularly coming from Asia Pacific and the Middle East. There is significant pent-up demand for real estate investments, with US$86bn in dry powder as of September 2021, driven by private equity, according to her. In three major European markets, Germany, Spain and the UK, the total value of hotel transactions in 2021 well exceeded that of 2020 and most sales values were at or above 2019 levels across the major European markets.

Investment climate in France

The French hotel investment market should continue to be dominated by single asset transactions over the coming year, according to Philippe Bijaoui, managing director France at Christie & Co in Paris, who covers Francophone Europe, which includes Belgium and the French-speaking part of Switzerland, in addition to France. Over the past year, most
transactions have been concentrated in the economy and mid-market sectors, though Bijaoui sees the prospect of returning interest in the luxury sector, which has been relatively dormant since the onset of the pandemic. Surprisingly asset values have been well supported and some transactions in Paris and on the seacoasts have exceeded 2019 values.

Typical buyers in the market are HNWI (high net worth individuals) and range of small to medium sized owner operators, as well as major private equity backed investors, all of which typically franchise their properties to major brands. Examples include Alboran, Somnoo and Grape Hospitality, which owns and operates 106 hotels (10,000 rooms) and is controlled by the private equity group Eurazeo and Accor (Please see discussion on page 51.)

Founded in 2016, Alboran owns and operates a portfolio of 13 hotels (1,400 rooms), with a presence in 9 French cities, including Paris. The hotels are mainly franchised to Accor brands, including: Mercure (4 hotels); ibis (1 hotel); ibis Budget (2 hotels); ibis Style (1 hotel); and Novotel (1 hotel). There are also 3 Moxys and 1 one independent property. In addition, there are three hotels (350 rooms) in the pipeline, to be located in Bordeaux, Lille and Reims. Meanwhile, Somnoo owns and operates 43 hotels (3,254 rooms) in France and Germany, most of which are franchised to Accor brands, as well as 29 restaurants.