



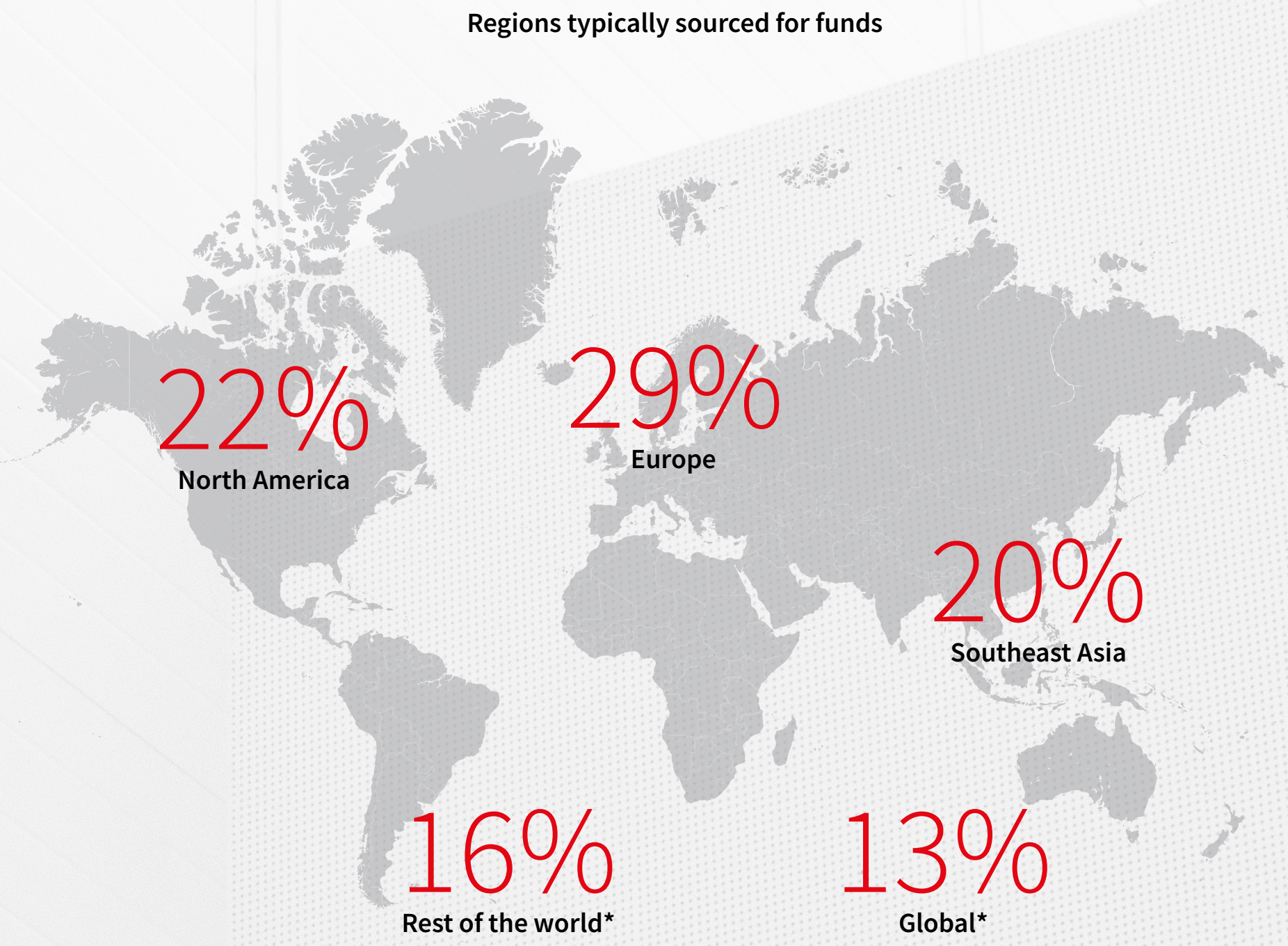
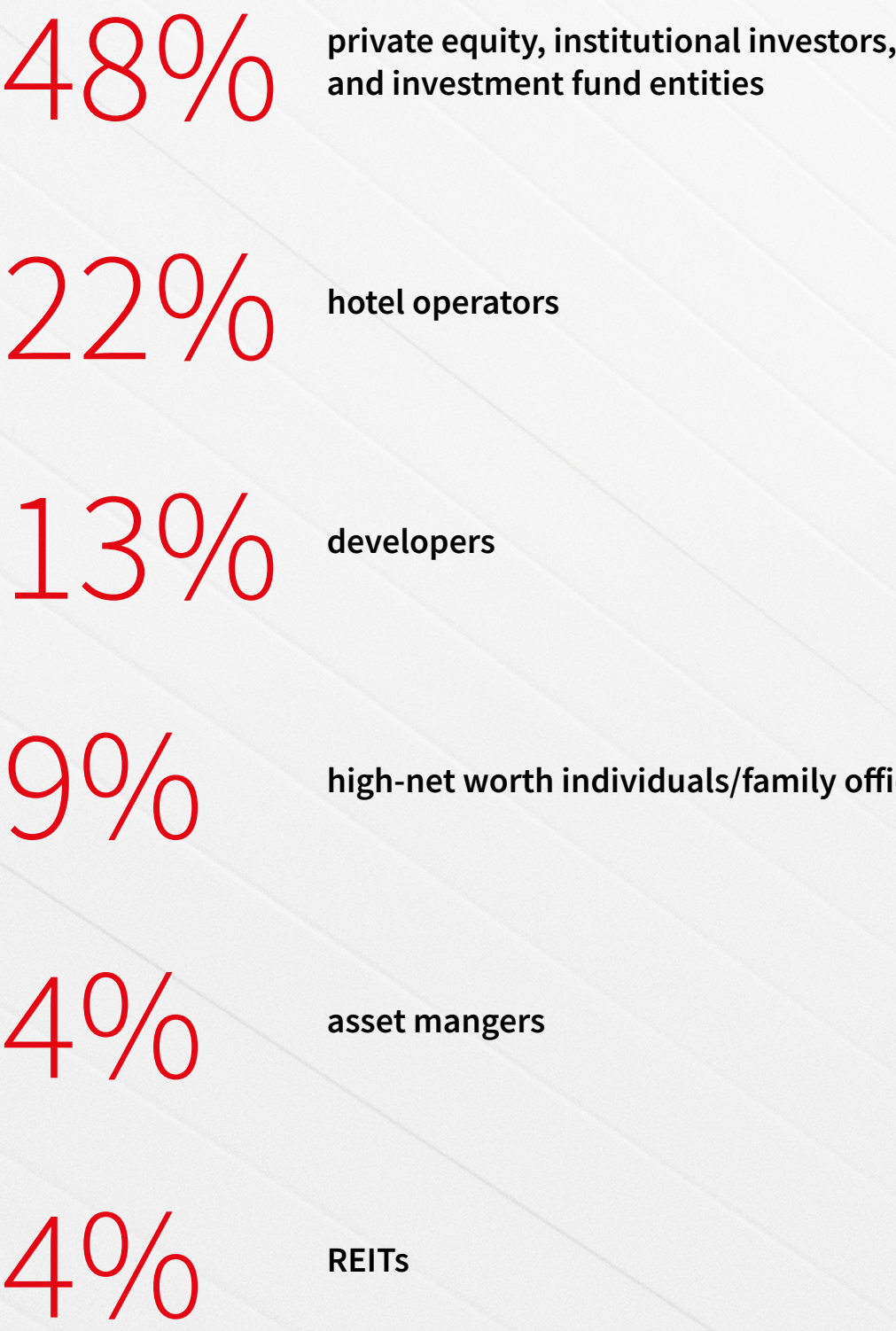
July | 2021

Research Hotels & Hospitality

Global Hotel Investor Sentiment Survey



Global investor profile



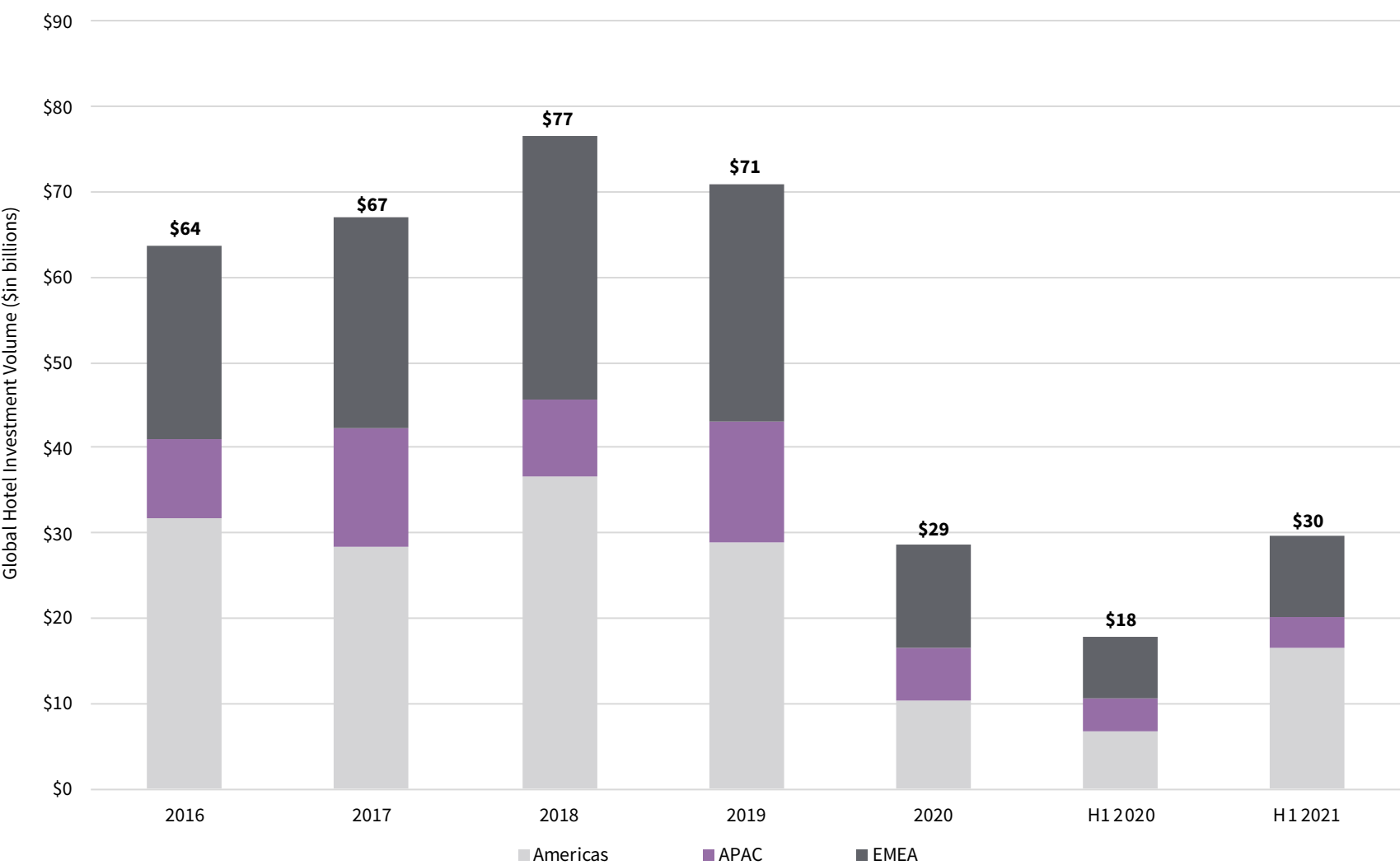
*Rest of world pertains to funds sourced from emerging countries.
Global pertains to funds sourced from across the world.

Global hotel investment activity picking up, albeit a staggered regional market recovery is expected

Global hotel investment activity in H1 2021 reached \$30 billion, representing a strong increase in sales activity of 66% year-over-year, and only 4% less than the level achieved over the same period in 2019. The level of activity observed during the first half of 2021 was primarily driven by an extraordinary boost in portfolio activity driven by entity-level deals, including The Blackstone Group’s acquisition of Borne Leisure in the United Kingdom for a rumored \$3.9 billion and The Blackstone Group and Starwood Capital Group’s acquisition of Extended Stay of America for \$6.0 billion in the Americas. The Americas accounted for nearly 70% of total global hotel investment volume in H1 2021, as the region benefited from a high proportion of the population being vaccinated and demand ramping up faster than expected upon cities lifting their restrictions. Activity across APAC and EMEA remained more subdued given lower vaccination rates, recent COVID-19 outbreaks and renewed lockdown and travel restrictions.

Nevertheless, with the pace of hotel investment activity expected to accelerate in H2, we decided it would be an appropriate time to survey global hotel investors to further understand their evolving investment appetite, expectations around the industry’s recovery timeline, and industry outlook.

Global hotel investment volume 2016 - H1 2021



Major takeaways

51%

of investors responded that they would employ a substantially increased to aggressive investment acquisition strategy in 2021, up 16 percentage points from 2019 and 2020.



Europe, North America, and Southeast Asia emerged as the top three regions for hotel investment in this year’s survey.

71%

of investors revealed that they will be net buyers in 2021.



In 2021, the Americas and EMEA observed surveyed cap rates compress 18 and 42 basis points, respectively relative to prior year survey expectations, while in APAC, surveyed cap rate expectations remained largely unchanged.



Access to the debt capital markets may present a challenge to consummating transactions, with 44% of hotel investors indicating that for existing or new acquisitions, their access to debt financing compared to pre-COVID-19 is weaker.

70%

of investors anticipate their property/portfolio RevPAR will return to 2019 levels in three to four years.

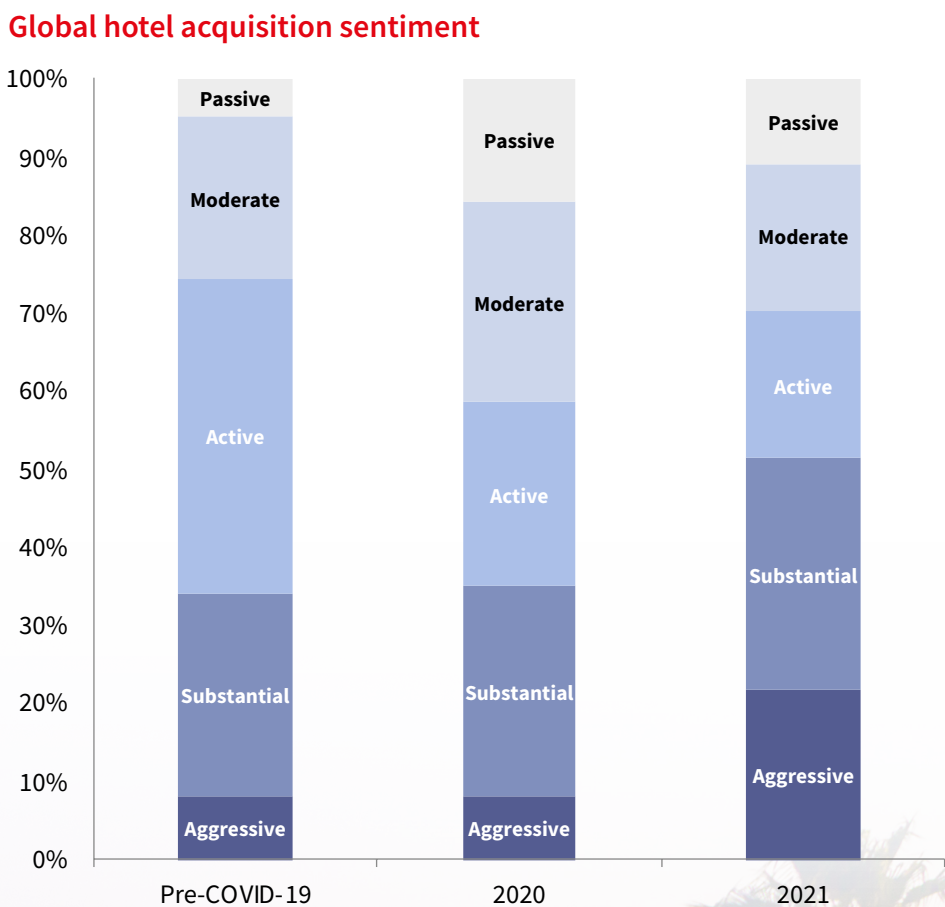
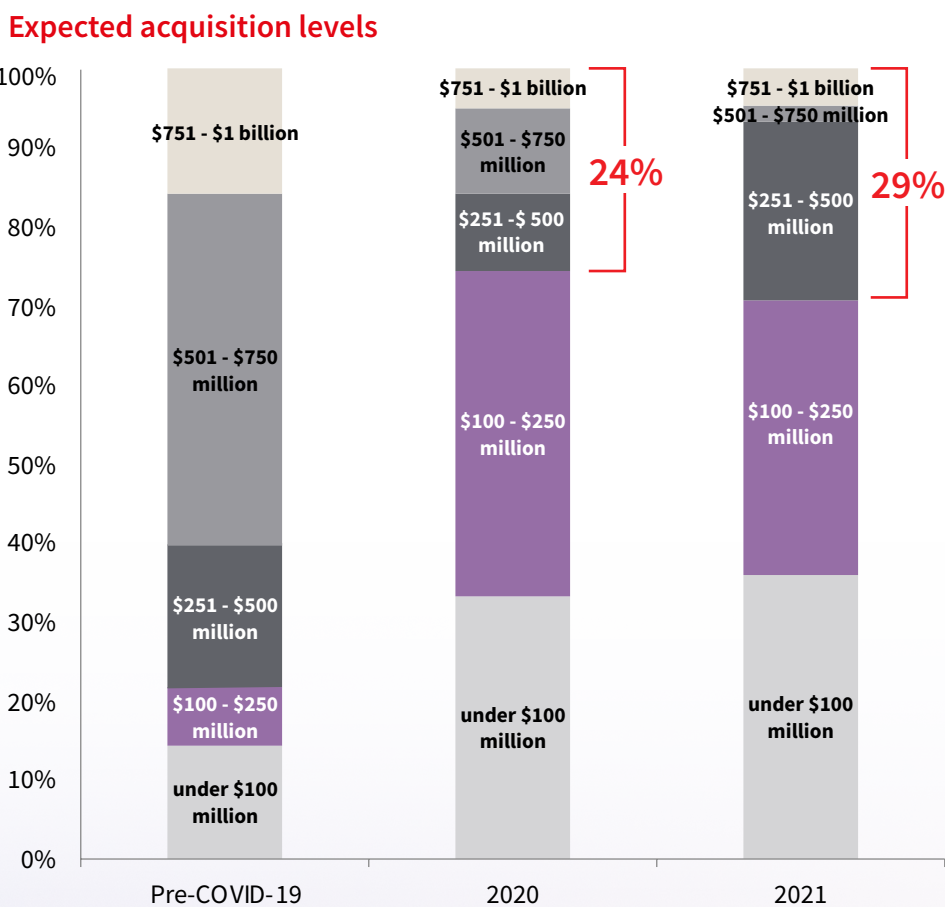


Sustainable operating programming named one of the top three operational priorities over the near-term by hotel investors.

Hotel investment appetite growing with investors keen to capitalize on unique opportunities in the market

Investors expressed a renewed sense of optimism surrounding hotel investment activity, as evidenced by their higher expected acquisition levels. In fact, 29% of investors indicated that they are interested in acquiring over \$200 million worth of assets, up from 25% in 2020. These expectations are influenced by the enhanced level of clarity we now have on the industry’s recovery.

Moreover, 51% of investors responded that they would employ a substantially increased to aggressive investment acquisition strategy in 2021, up 16 percentage points from pre-COVID-19 and 2020 levels. Investors believe that in today’s lodging market, more attractive buying opportunities will emerge relative to 2019 and 2020, due to the industry’s growth slowing as it entered its tenth consecutive year of growth and the onset of the pandemic, respectively.

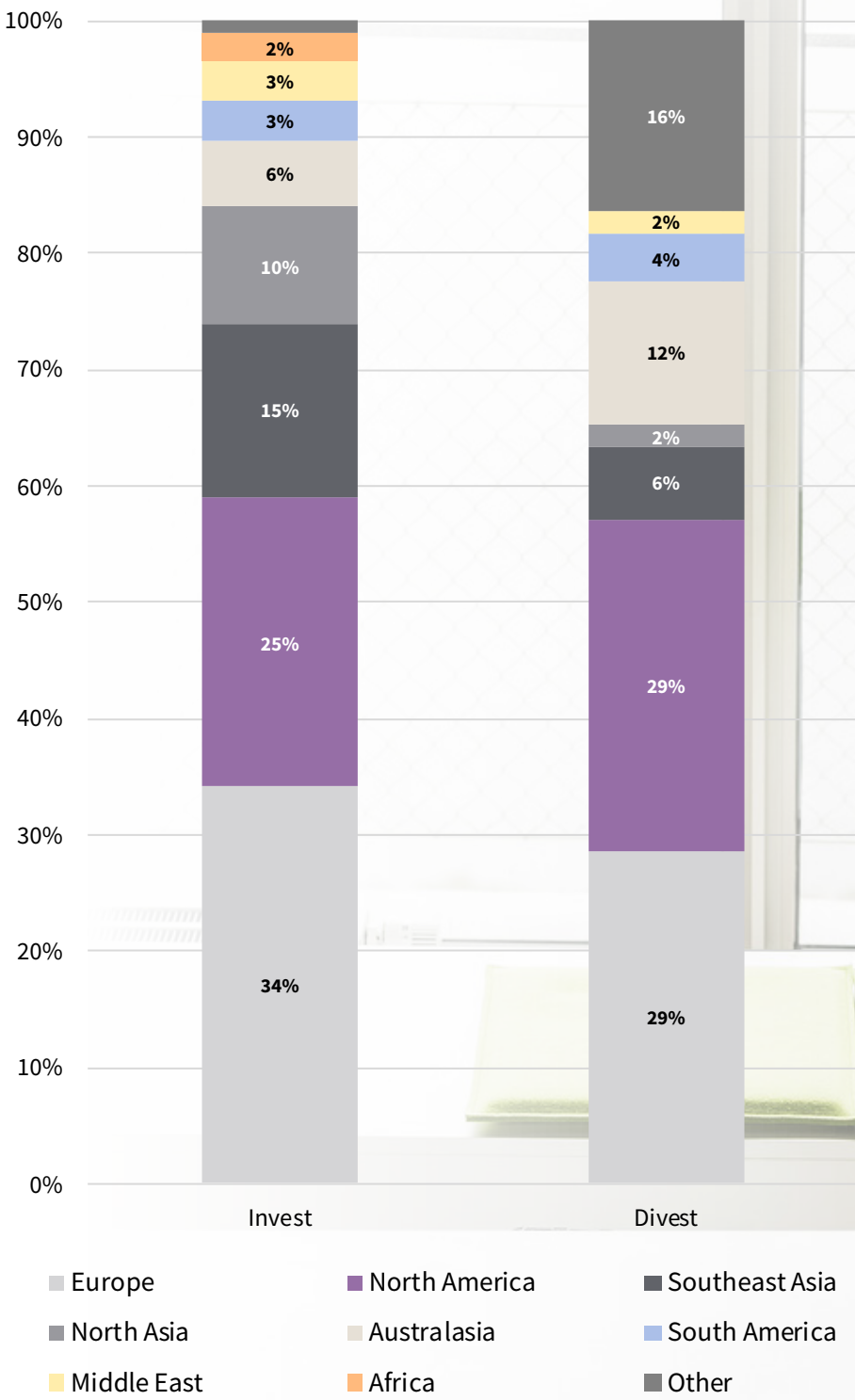


Europe, North America, and Southeast Asia will be top of mind as investors seek hotel investment opportunities

As investors look to deploy an increased level of capital towards hotel assets, Europe, North America, and Southeast Asia emerged as the top three regions for hotel investment in this year's survey. Investor interest in North America is spurred by an increasing proportion of the population being vaccinated, loosening COVID-19 restrictions and strong domestic consumer travel sentiment in the United States. Across Europe and in particular, the U.K., vaccination rates are improving, which bodes well for the acceleration of domestic demand. Investors in Europe are looking at the lodging industry more holistically and evaluating less dense and remote markets for investment as they aim to diversify their strategies. Southeast Asia, on the other hand, is grappling with a resurgence of COVID-19 cases, with vaccination rates largely trailing Europe and the United States. Investors however remain optimistic for a strong rebound in recovery and an eventual opening of the Southeast Asian markets to inbound tourism, in particular to the lucrative Chinese market. The region's key resort markets are set to also benefit from the pent-up leisure demand and buyers continue to monitor opportunities in this space.

Nearly 60% of investors also indicated that Europe and North America are the top two regions where they will be divesting assets, which should accelerate the pace of transaction activity in H2 2021. The survey results suggest that there will be more product available in the market for those investors seeking to expand their hotel portfolios. Moreover, across different hotels types, investors expect the best investment opportunities to emerge across the full-service sector. Investors are likely to find the deepest discounts in pricing across this type of lodging product relative to other hotel types, such as select-service and economy hotels. Unlike full-service hotels, the performance of select-service and economy hotels was less impacted during 2020, as these hotels were able to fill rooms with first-responders, essential workers and transient leisure demand and tend to operate more efficiently with leaner staffing models.

Expected investment activity by region

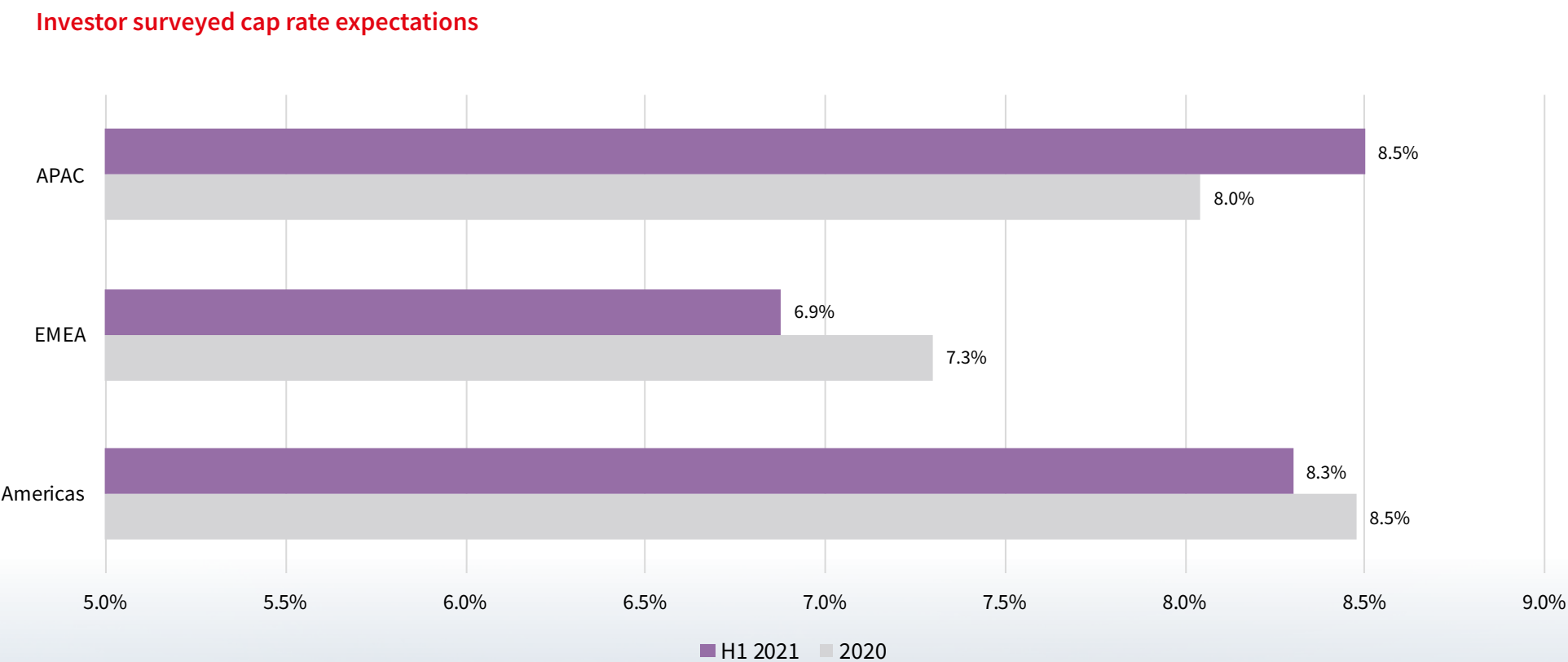


70%
of investors will be net buyers

Nearly
50%
of investors expect the best
investment opportunities to
emerge across full-service hotels
over the next six months

Global investor cap rate expectations compressed an average of 30 basis points in 2021

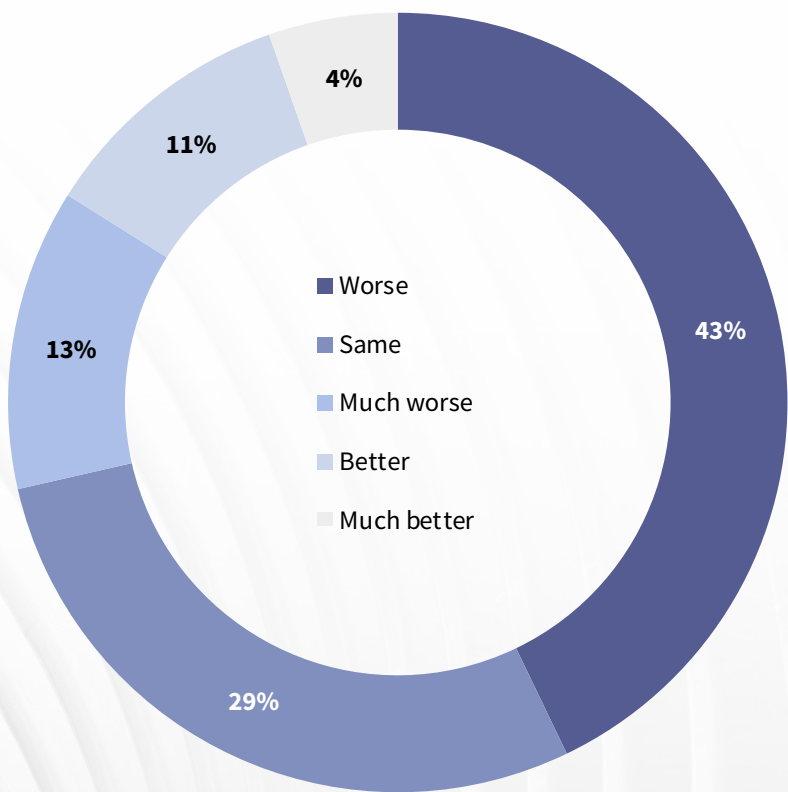
In 2020, amid limited hotel trades coupled with a zero/negative cashflow environment, investors struggled to underwrite hotel acquisitions. The high level of uncertainty resulted in increasing cap rate expectations, with JLL's HISS – which was administered four months after the beginning of the global COVID-19 pandemic – revealing an average increase of 120 basis points globally relative to 2019. In this year's survey, investor cap rate expectations compressed an average of 30 basis points globally, driven by a decrease in cap rates in the Americas and EMEA.



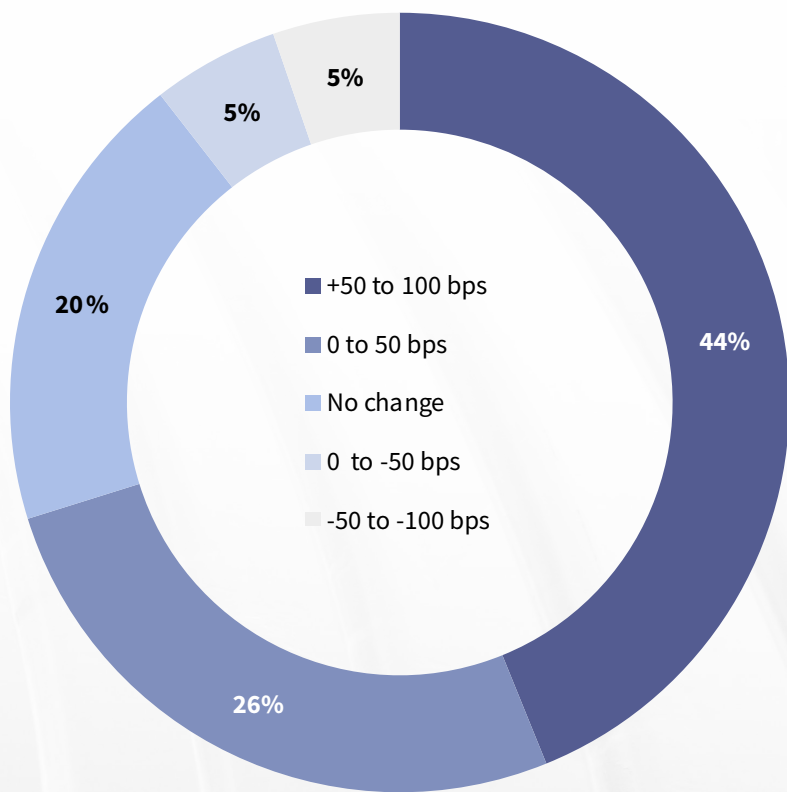
Limited access to debt financing may be an obstacle to increased transaction activity

While investor sentiment has improved significantly in the first six months of 2021, approximately 43% of hotel investors surveyed indicated that for existing or new acquisitions, their access to debt financing compared to pre-COVID-19 is weaker. Additionally, those who can access debt noted that their all-in cost of debt has changed relative to pre-COVID-19, with 70% of those surveyed experiencing some level of increase in pricing.

Access to debt financing relative to pre-COVID-19

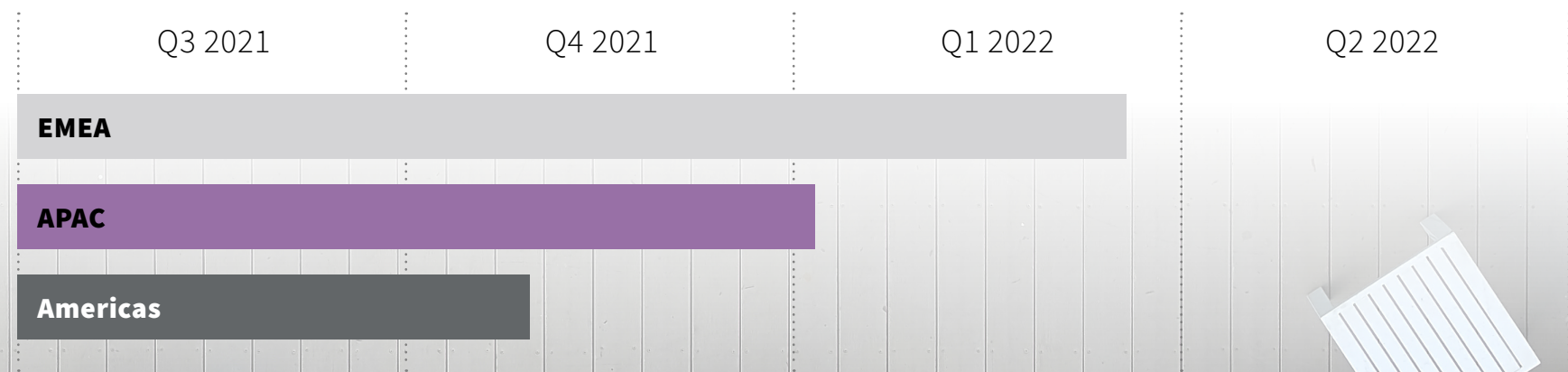
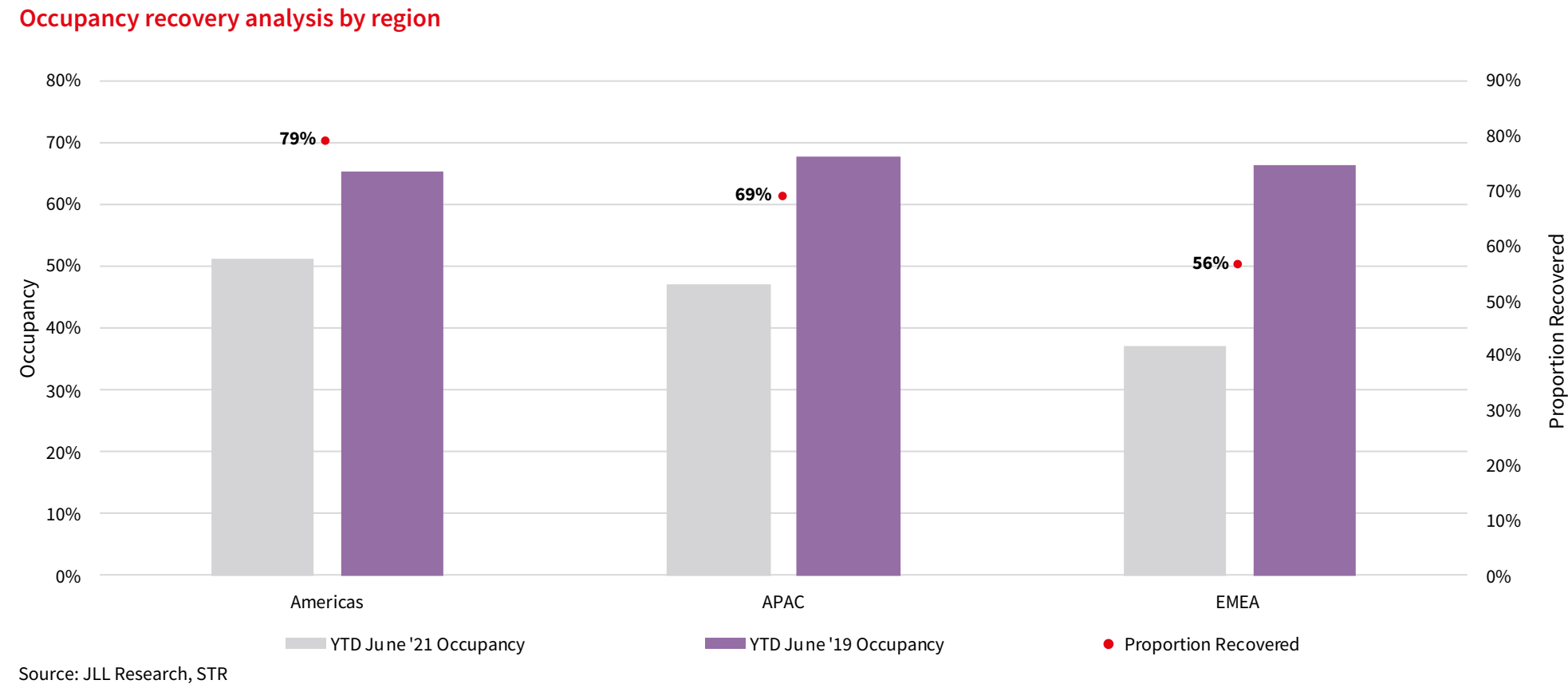


Change in all-in cost of debt



Pace of hotel investment recovery tied to improvement of lodging fundamentals

Survey results revealed that the top two indicators that investors are monitoring as a signal to participate more actively in the hotel investment space are a wide dispersion of a vaccine and occupancy within 60% to 70% of 2019 levels. In the Americas, where a higher proportion of the population is vaccinated and domestic leisure travel remains red hot, investors are much more optimistic surrounding the pace of activity, with 70% of investors expecting activity to increase in Q3 and Q4 2021. Investors in APAC were slightly more conservative in their hotel investment expectations, with 61% of those surveyed expecting activity to increase in the second half of 2021 driven by sales activity in Australia, Japan, China, Thailand, and the Indian Ocean. As the APAC region's most liquid investment market in the first half of 2021, China continues its impressive rebound as a result of increased domestic leisure and corporate travel coupled with the country's encouraging economic recovery. Similarly, in EMEA, recent outbreaks and renewed lockdowns are hampering investor sentiment and as such, the recovery of hotel investment is expected to be more protracted.



Top three hotel investor operational priorities

While hotel investors are closely monitoring the RevPAR recovery profile of their hotel portfolios, many are also keen on making operational changes that can strategically drive value over the long-term and serve as a hedge against any future demand shocks to the industry. As such, throughout the COVID-19 pandemic, hotel owners and investors have been hyper-focused on asset management. We expect this approach to continue with investors noting the following to be their top three operational priorities:

1

Profitability improvement measures, including service offering/amenity reduction and labor optimization

2

Sustainable operational programming

3

Guest facing and back of house technology implementation

Nearly

70%

of investors anticipate their property/portfolio RevPAR will return to 2019 levels in 3-4 years.

Final thoughts

Over the past year, the lodging industry has made tremendous strides and is inching closer to a full recovery. As vaccination rates around the world continue trending up, we expect to see significant improvements in both leisure, business, and group demand. These positive trends will translate into an accelerated pace of hotel investment activity. It is true that the road ahead will be challenging as hotels adapt to post-COVID-19 guests' needs and hire new employees in a complex labor market. Nevertheless, hotel owners, investors and operators that remain nimble and embrace this new era can find ways to creatively drive value for their hotel portfolios.

About the survey

JLL's Hotel Investor Sentiment Survey is the only truly global survey of its kind and has been referenced by the global hotel investment community since its inception in 2000. Responses for JLL's most recent survey were collected during May and June 2021. This survey represents a compilation of 7,800+ data points from hotel investors on future hotel operating performance expectations, yield requirements and future cap rate trends.

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