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Spain Hotel Market Report 2015

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Hotel Real Estate Market...

Spain is the third most important tourist destination in the world - 65 million overseas visitors, a record number, visited Spain in 2014. We expect this trend to follow this year as the economic conditions in their neighboring countries (namely, France, Germany and UK) continue to improve and displacement of tourists from other popular tourist destinations (Tunisia and Egypt for example, due to political turbulence). The Spanish tourism sector witnessed a growth rate of 2.9% last year, which is double that of the national GDP (1.4%), not only due to the overseas demand but also the increased domestic demand. Domestic demand, both inland and on the coast, rose by 10% due to increased household income and the general improvement in the Spanish real economy. The aforementioned, coupled with a depreciating Euro and falling oil prices, making travel cheaper, have resulted in the recent success seen in the Spanish hotel sector.

1. SUPPLY & DEMAND DYNAMICS

First and foremost, the hotel market is highly fragmented with varying quality of assets. 58% of the existing hotel supply is independently operated, many of which are family owned, with the remainder consisting of domestic and international hotel operators meaning that the discrepancy of standards can be very apparent. Accordingly, the need for consolidation across the sector as well as the asset repositioning presents a significant opportunity for investors with a value-add investment strategy.

Varying supply of Spain's hotel stock:

- **5-star hotels:** 3% of total stock, average investment of €262,000 per room generating €29,600 per room/year, RevPar is €117. Represents 7% of total overnight stays (81% foreigners, 19% locals)
- **4-star hotels:** 26% of total stock, average investment of €135,000 per room generating €14,800 per room/year, RevPar €60. Represents 51% of total overnight stays (64% foreigners, 36% locals)
- **3-star hotels:** 32% of total stock, average investment of €89,000 per room. Represents 28% of total overnight stays (53% foreigners, 47% locals)
- **Budget hotels:** 39% of the total stock of the market. Represents 14% of total overnight stays (39% foreigners, 61% locals)

Increased tourist levels across Spain as a result of the Spanish and wider European economic recovery have fed into the hotel sector. RevPar growth and healthy occupancy rates have made the asset class appealing for new investment.

In 2014 Spain witnessed a RevPar growth of 10% across the sector that has made the asset class all the more appealing for international investment. Additionally, in spite of its seasonal behavior, the hotel resort market has performed well over the last couple of years with average occupancy rates well above the average for urban centres.

2. DEMAND OUTPACING SUPPLY

The outpacing of demand over supply in the hotel sector means that the key markets have recorded an increase in occupancy rates. Most transactions have taken place in Madrid, Barcelona and Mallorca, although over the last months there has been increased demand in the Balearic (especially Ibiza) and Canary Islands, as well as some other costal areas. The current yield levels in Madrid and Barcelona for trophy assets hover around 4-5.5% whilst city centre hotels yield in the region of 6-8%. Demand mainly comes from Private Equity and Real Estate Funds from the US who have significant capital to deploy. Additionally, interest from international brands in Spain continues to be at high levels and is focused particularly on upscale and luxury segments in Madrid and Barcelona.

The trend over the last 2 years in Madrid and Barcelona has been to convert empty buildings into hotels and follow change-of-use strategies where office buildings have also been converted into hotels. This has been the route chosen by many investors to obtain greater pricing power and hence greater return on their investments compared to acquiring existing hotels that are offered at very high asking prices. Finally, the large supply of assets in both cities has

Madrid prime location hotel yields: 6-8%

Madrid trophy asset yields: 4-5.5%

Value added strategy:
Purchase of empty buildings and renovation into new hotels is more economical than acquiring existing hotels outright.

resulted in a fall in land prices, making the reconversion strategy of existing buildings into hotels over buying existing hotels outright all the more interesting for investors.

3. FINANCING & INVESTOR SENTIMENT

Banks have been encouraged by local authorities to clean up balance sheets and recapitalize by offloading hotel sector debt. The main purchasers of these securities have been Private Equity Funds that have the capacity to take on the underlying hotel assets and manage them until the values improve. This has been one of the routes for overseas institutional investors to enter the Spanish hotel sector. Furthermore, the financing of hotel assets by institutional investors, as opposed to banks, is on the rise and represents an alternative strategy for investment in hotel properties.

Institutional funds are increasingly showing interest for portfolio deals consisting of the physical assets (hotels) as opposed to loan portfolios that are secured against the hotel properties. Investing directly into the hotel assets allows investors to create synergies between hotels, a component that may not be applicable to those acquired indirectly through the purchase of loan portfolios that are secured by hotels. Furthermore, investors may actually achieve a higher value than the sum of its parts following this strategy.

As has been prevalent over the last 2 years, SOCIMs (Spanish equivalent of REITs) have been active in the entire real estate market and all the more so in the hotel sector lately. SOCIMs rely on stable income-producing properties and as operator rental agreements in the sector begin to phase-out, this creates a problem for the SOCIMs. Nevertheless, we are witnessing the rise of intermediaries who provide stable income to the owner (the SOCIMs) by entering into a rental agreement, whilst taking on management contracts with recognized hotel brands to run the properties. The success of this structure has led to the creation of hotel-focused SOCIMs in 2015 that will also allow them to diversify their portfolio of assets whilst taking advantage of the generally strong hotel real estate environment.

Banks' focus on cleaning up balance sheets has opened up investment opportunities for both underlying hotel assets as well as financing by institutional investors.

Intermediaries willing to provide stable rental income to hotel owners/investors whilst taking on management contracts have created alternative ways of entering the hotel sector.

KEY TAKEAWAYS

We witnessed good levels of activity in 2014 and expect this to continue. Occupiers will be focused on opening new establishments in the very best locations in the main cities. Existing hotels will reposition themselves. Reconverting vacant office buildings is a more profitable strategy. We believe that the sale of government buildings will present opportunities.

Contact us

If you would like to discuss this report or the investment opportunities for your institution in further detail, please email the team or call us directly.



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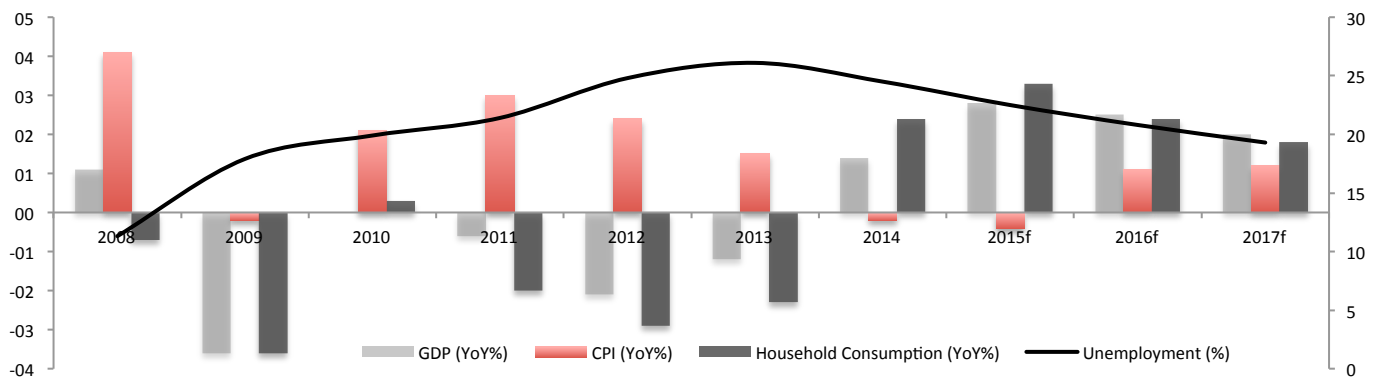
Appendix (i) – Economic Indicators

Macroeconomic backdrop, Spain:

SPAIN	2008	2009	2010	2011	2012	2013	2014	2015f	2016f	2017f	GDP (% YoY change)
GDP (YoY%)	1,1	-3,6	0,0	-0,6	-2,1	-1,2	1,4	2,8	2,5	2,0	Spain 2,7 Eurozone 1,0 Germany 1,0 France 0,8 UK 2,4 Italy 0,1
Industrial Production (YoY)	--	--	--	--	--	--	1,5	2,5	2,6	--	
Household Consumption (YoY)	-0,7	-3,6	0,3	-2,0	-2,9	-2,3	2,4	3,3	2,4	1,8	
CPI (YoY%)	4,1	-0,2	2,1	3,0	2,4	1,5	-0,2	-0,4	1,1	1,2	
Unemployment (%)	11,3	17,9	19,9	21,4	24,8	26,1	24,5	22,5	20,8	19,3	
Central Bank Rate (%)	2,50	1,00	1,00	1,00	0,75	0,25	0,05	0,05	--	--	
3-Month Interest Rate (%)	2,89	0,70	1,01	1,36	0,19	0,29	0,08	0,01	--	--	
2-Year Note (%)	2,29	1,85	3,44	3,16	2,78	1,41	0,38	0,37	--	--	
10-Year Note (%)	3,81	3,97	5,44	5,04	5,23	4,13	1,60	1,93	--	--	
EURUSD	1,40	1,43	1,34	1,30	1,32	1,37	1,21	1,05	1,10	1,13	

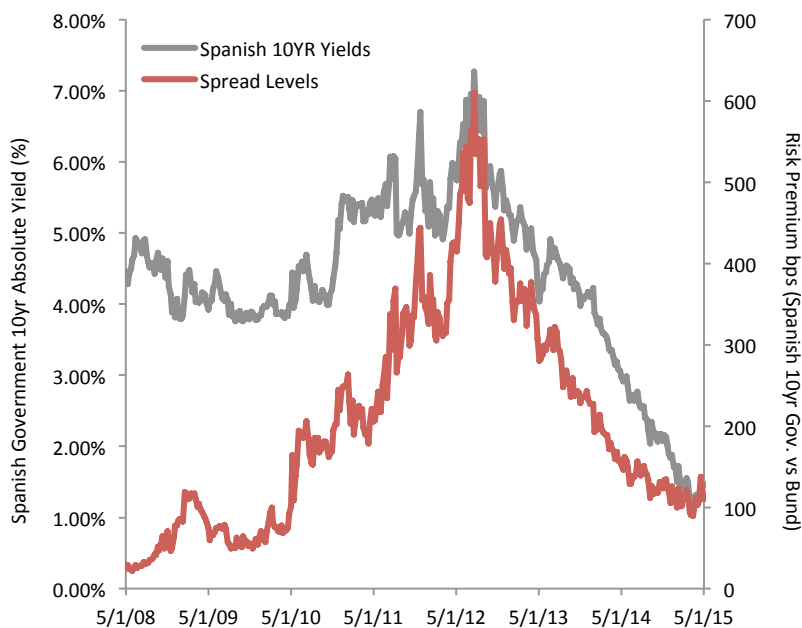
Source: Bloomberg, Optimus Capital

Key Economic Indicators, Spain:



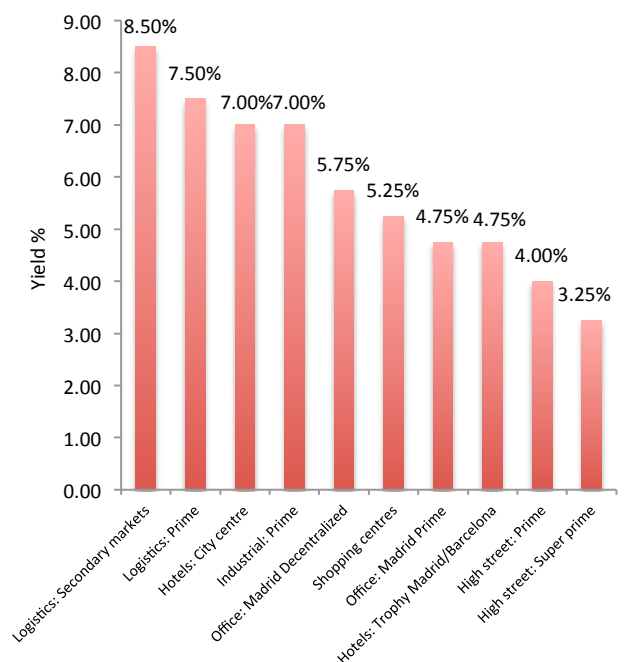
Source: Bloomberg, Optimus Capital

Spanish Yield Premiums:



Source: Bloomberg, Optimus Capital

Yield by Asset Class:



Appendix (ii) – Market Transactions 2014 (>€100m) & 2015 YTD

2014	Asset Class	Asset	Location	Transaction Value (€m)	Vendor	Purchaser
2014	Offices	70 Andalucian government buildings	Several locations	300	Junta de Andalucía (Gov. entity)	W.P. Carey (US REIT)
2014	Retail & Hotel	Marineda City Complex	La Coruña	260	Invest Cos (Fund)	Merlin Properties (SOCIMI)
2014	Retail	Islazul	Madrid	232	Grupo Lar & Ivanhoé Cambridge (Fund)	TIAA Henderson Real Estate (Fund)
2014	Hotel	Resort Sotogrande	Cadiz	220	NH (Hotel Group)	Cerberus (Fund)
2014	Offices	13 Generalitat buildings	Barcelona	201	Generalitat de Catalunya (Gov. entity)	Zurich (Insurance)
2014	Offices & Retail	Four office buildings & one retail warehouse	Madrid, Barcelona & Tarragona	180	Credit Suisse (Bank)	Axia Real Estate (SOCIMI)
2014	Vastned Portfolio (8 centers)	Several locations	Several locations	160	Vastned (RE Group)	Baupost Group (Fund) / Green Oak Real Estate (Fund) / Grupo Lar (RE Group)
2014	Retail	El Boulevard	San Sebastian	157	CBRE Global Investors (RE Group)	REI Investment IBV (Fund)
2014	Office, Retail & Hotel	Paseo de la Castellana, 200	Madrid	140	Reyal Urbis (RE Group)	Drago (RE Group) + PSP Investments (Canadian Pension Fund)
2014	Offices	Santa Hortensia 26-28	Madrid	130	Morgan Stanley (Bank)	Finaccess (Fund)
2014	Industrial	Six logistics assets	Madrid & Guadalajara	133	Gran Europa (RE Group)	Logicor (RE Group)
2014	Offices	Levitt Portfolio	Madrid	130	Levitt (RE Group)	Merlin Properties (SOCIMI)
2014	Offices	Eight buildings	Madrid & Malaga	120	Oncisa (RE Group)	Hispania Activos Inmobiliarios (SOCIMI)
2014	Offices	Avenida de America 115	Madrid	117	Solvía (RE Group)	London Regional (Fund)
2014	Retail	Gran Vía de Vigo	Vigo	115	ING Real Estate developments	Oaktree (Fund)
2014	Industrial	Portfolio SABA	Madrid & Barcelona	100	SABA (Interparking)	Prologis (Logistics)

2015	Asset Class	Asset	Location	Transaction Value (€m)	Vendor	Purchaser
January	Retail	Building on Gran Vía 30	Madrid	42	N/A	Talus Real Estate (RE Fund)
January	Retail	Building on Gran Vía 32	Madrid	N/A	Drago Capital (RE Group)	Pontegadea, Amancio Ortega (Retail)
January	Offices	Torre Eterra	Madrid	N/A	BBVA (Bank)	GMP (RE Group)
January	Offices	BMW Offices	Madrid	41	Gecina (RE Group)	SOCIMI managed by IBA Capital Gecina
January	Residential & Commercial	11 plots in Madrid	Madrid	64	Sareb (Restructuring fund, Spain banks)	N/A
January	Office	Office buildings on Goya 29	Madrid	27	N/A	Realia (Fund)
January	Residential & Commercial	RE complex 'Golf Hills Village'	Madrid	N/A	N/A	CTH Capital (Fund)
January	Offices	Building in Barcelona	Barcelona	37	UBS (Bank)	Merlin Properties (SOCIMI)
January	Retail	Ten Consum Supermarkets	Valencia & Castilla-La Mancha	N/A	A group of investors	Meridia (Fund)
January	Residential, offices & nursing homes	18 buildings	Barcelona	90	La Llave de Oro (Developer)	Goldman Sachs (Bank)
January	Offices	Office building in Barcelona	Barcelona	10	Sareb (Restructuring fund, Spain banks)	Colonial (Fund)
January	NPL portfolio	NPL Portfolio "Aneto"	Madrid	250	Sareb (Restructuring fund, Spain banks)	Blackstone (Fund)
January	Offices	Tripark Business Park (Las Rozas)	Madrid	N/A	N/A	IBA Capital Partners (Fund)
January	Residential & Commercial	Real Estate complex	Madrid	35	Cevasa (RE Group)	AKM Arganzuela (RE Group)
February	Residential	Plots in Madrid	Madrid	13	Sareb (Restructuring fund, Spain banks)	Castlelake (Fund)

February	Hotel	Hotel Solvasa	Barcelona	N/A	N/A	Eurohotel Group (Hotel Group)
February	Industrial	Gescobro (Collection company)	Madrid	N/A	Miura (Fund)	Cerberus (Fund)
February	Offices	Building at Gran Vía 14	Madrid	21	N/A	Private Mexican Investor
February	Residential	Building at Calle Juan Bravo	Madrid	120	N/A	Lar España (RE Group) & PIMCO (Fund)
March	Residential & Offices	Principe de Vergara & Sanchinarro	Madrid	86	N/A	Hispania (SOCIMI)
March	Offices	11 office buildings	Barcelona (7) & Madrid (4)	100	GE Capital RE (Fund)	Meridia (Fund)
March	Retail	Airesur Shopping Centre	Sevilla	77	N/A	CBRE GI (RE Group)
March	Retail	Plenilunio mall	Madrid	375	Orion Cap Managers (Fund)	Klepierre Acquires (RE Group)
March	Self storage & Offices	Self-storage	Madrid	8	Baraka Global Invest (RE Group)	Bluespace (Self-storage Group)
March	Retail	Zielo Shopping Centre	Madrid	73	Hines (RE Group)	UBS (Bank)
April	Offices	Revlon's HQ	Barcelona	30	Morgan Stanley (Bank)	Standard Life (Fund)
April	Retail	As Termas' shopping mall	Lugo	67	N/A	Lar España (SOCIMI)
April	Offices	The 'Torre Norte' building	Barcelona	15	CaixaBank (Bank)	SegurCaixa (Insurance)
April	Logistics	Logistics Plot	Guadelajara	N/A	N/A	Montepino (RE Group)
April	Student Accomodation	Two Halls of Residence	Barcelona	N/A	N/A	The Student Hotel
May	Land	Private plot of land	Mallorca	6	Ministry of Defence (Gov. entity)	La Llave de Oro subsidiary (RE Group)
May	Logistics	3 Logistics Platforms	Madrid & Valencia	19	UBS (Bank)	Lar Group (SOCIMI)
May	Retail	68 Gran Vía	Madrid	45	Carlyle (Fund)	FMS Wertmanagement (German 'Bad Bank')
May	Retail	Puerta del Sol 9	Madrid	30	Auction	Kennedy Wilson & Renta (Fund)
May	Retail	3 land plots in Arroyo del Fresno	Madrid	50	Madrid City Council (Gov. entity)	CP Grupo Inmobiliario (RE Group)
May	Offices	Paseo de la Castellana 89	Madrid	147	N/A	Corporacion Financiera Alba (March Family)
May	Logistics	Logistics Platform	Meco	22	Kefren Capital (RE Group)	Merlin (SOCIMI)
May	Retail	Shopping centre	Leon	N/A	CG Malls Europe (RE Group)	Blackstone (Fund)
May	Hotel	Ritz hotel	Madrid	130	Belmond Spanish Holdings & Landis	JV - Olayan (Fund) & Mandarin Group (Fund)
June	Hotel	Villa Magna Hotel	Madrid	190	Sodim (HoldCo of Queiroz Pereira family)	Jaime Gilinski (Colombian individual)
June	Loans	NPL Portfolio - 'Project Gaudi'	Madrid	260	FMS Wertmanagement (German 'Bad Bank')	Oaktree (Fund)
June	Offices	2 office buildings (Las Rozas & Cristalia BP)	Madrid	55	Deka (Fund)	Hispania (SOCIMI)
June	Logistics	5 Logistics Platforms	Madrid	75	N/A	GreenOak (Fund)
June	Retail	Plaza Éboli Shopping Center	Madrid	30	Doughty Hanson (Fund)	HIG Capital (Fund)
June	Hotel (Trophy assets)	2 Hotels In Canary Islands	Canary Islands	105	N/A	Hispania (SOCIMI)
June	Offices	Offices in Madrid	Madrid	51	Sareb (Restructuting fund, Spain banks)	Axiare (SOCIMI)
June	Offices	Office Building	Barcelona	20	N/A	Lar Group (SOCIMI)
June	Supermarkets	Eroski Hypermarket	Alicante	7	Altadena (Fund)	Lar España (SOCIMI)
June	Residential-Hotel	Condominas Building	Barcelona	N/A	N/A	Manel Adell (Private investor)
June	Trophy asset	Building In Puerta de Alcalá	Madrid	80	Auction	Mapfre (Insurance)
June	Company	Subsidiary Testa	Madrid	1800	Sacyr (Construction)	Merlin (SOCIMI)
June	Loans	Hotel Loan Portfolio (Project Castle)	Madrid	N/A	Bankia (Bank)	UBS (Bank)
June	Retail	Zielo Shopping Centre	Madrid	70	Hines (RE Group)	UBS (Bank)
June	Port	50% Of Puerto Venecia	Zaragoza	225	Intu	CPPIB (Canadian Pension Fund)

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