HOTELS: NEWS

Outlook for London transaction market

By Jeff Weinstein on 5/24/2021

With the second half of 2021 expected to show even greater signs of increased transaction volume in Europe with forbearance giving way to greater lender expectations, HOTELS asked two industry leaders based in London to talk about the marketplace for deals in the months ahead, especially in the London market.

HOTELS asked HVS London Chairman Russell Kett and Avington Financial's David Mongeau to forecast the road ahead for transaction activity in their home market.

HOTELS: Offer your general outlook for increased transaction activity in London, and what will drive it.

Russell Kett: This all hinges on London's recovery and how quickly this happens. Nothing has really started yet. Most people – HVS included – are confident of a recovery. There is a huge appetite to buy and very little is for sale. London has never been a liquid market for hotel sales – most people hold on to their investments for a while.

David Mongeau: M&A remained muted in the space for most of 2020 as a result of COVID-related uncertainty and depressed 2020 results. From the corporate standpoint, there have been boutique operator mergers across all geographies [in Europe], as companies strived to maintain liquidity and cut costs. Little real estate volume actually transacted, but we saw several portfolios and single assets quietly sounded in the market, which turned out to be owners wanting to have 'free appraisals' given the ongoing uncertainty.

The year 2021 started slow, but has gained meaningful momentum on the back end of Q1 as COVID restrictions subside and focus turned to re-opening and post-COVID operating environment. We expect a return to the consolidation trend at the multi-branded operator level, to be followed by an emergence of a plethora of regional boutique players across all segments (select-service, full-service, luxury and hostels) who have private capital sources and are pushing for rapid growth.

H: How will improving performance fundamentals impact M&A?

RK: As London gradually opens up – theatres, attractions, events and so forth – the leisure market in particular will be attracted back. Likewise, the return of international travel will follow. The return of business travel will be a key factor – thereafter there should be improvements in the MICE sector. Hotels should gradually reopen for business, not necessarily all in one go, and gradually bring back their staff from furlough. Banks need to start lending again, once the fundamentals improve.

DM: Ample equity and debt capital availability following the initial COVID shock may drive a continued strong M&A environment. Strong operating performance on the back of meaningful pent-up demand across all customer groups (including corporate, which may come back much earlier than all initial expectations) may dictate a move to forward transaction multiples (as opposed to pre-COVID multiples).

In April, Indian billionaire Mukesh Ambani's Reliance Industries acquired the 49-room Stoke Park Hotel in Buckinghamshire, southwest of central London, from Hong Kong-based developer International Group, for £57 million (£1.2 million per room).

H: How will current pipeline expectations impact M&A?

RK: Not at all.

DM: We expect existing pipeline and the emergence of meaningful privately-funded competition to drive a return to the consolidation trend. Additionally, post-COVID we may see asset owners and operators moving away from large, big-box single assets, which would be sized down or partially reconverted (residential, office, etc.) to a larger number of diverse, small-scale assets in the same markets.

H: Any further comments on issues like bid-ask spread, etc.?

RK: Given that there is always more demand than supply, the bid-ask spread should be no different than before.

DM: Expect bid-ask spreads to vary extensively across transactions. Sellers will be unwilling to trade for smaller multiples unless forced too, to avoid missing out of the re-opening recovery. The abundance of capital and liquidity, as well as the number of players sitting on significant dry powder, is expected to put a floor on prices, but is unlikely to drive any excesses given the uncertainty that still abounds.

Bid-ask spreads may also be bridged by a combination of creative transaction structuring or buyers inviting sellers to keep some 'skin-in-the-game'. For example, consider the recent Sunstone-Montage Healdsburg transaction.

We have seen a recent surge in interest by North American F&B operators (and their private equity firm backers) in large format and luxury London restaurant real estate and operators (who have survived). Clearly, this indicates that they believe that those businesses will come back and perhaps have some of the 'roaring '20s' exuberance.