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M&A IN 2022: HOW MUCH ACTIVITY HINGES ON COVID?

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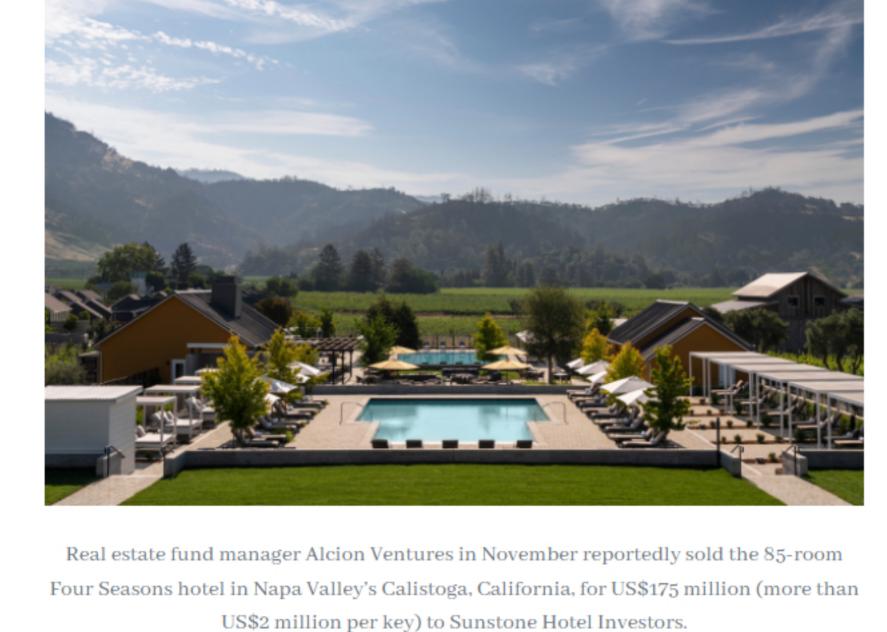
Merger and acquisition activity in the hotel world rebounded in 2021 as the outlook for returning demand started to become more clear and net operating income started to accelerate. If the rebound in business holds and grows in 2022, with so much at-the-ready cash still on the sidelines and continued distress among asset types, the expectation is for even more buoyant M&A activity.

Generally speaking, the general sentiment is that 2022 will be a strong transaction year, accelerating in the first half of 2022, said Geraldine Guichardo, global head of research for hotels at JLL. She said global hotel transaction volume surpassed expectations through

the first three quarters of 2021, with US\$41.4 billion in total sales – up 86% year-over-year and down only 20% to the same period in 2019.

"Hold onto your hat. The 'Diamond Age' of travel is going to create a surge in travel demand and robust KPIs for hotel assets, creating elevated valuations and transaction activity," said Guy Langford, partner, M&A, at Deloitte.

Avington Group, London, stated it is a strong believer in the long-term outlook for the hospitality industry globally. Avington Chairman David Mongeau and Managing Director J. Pedro Petiz said, "Quick, resolute governmental action in the face of an unprecedented crisis enabled the global hospitality industry to endure the pandemic and to be in a firm footing for the recovery that is expected to ensue. As in any previous cycles, there will be winners and losers, but we believe that the global industry is well positioned today to thrive in a post-COVID world."



Avington leadership went as far as to say it believes the hospitality industry is at the beginning of a new seven- to nine-year cycle of growth. "How quickly the cycle will launch depends on COVID remission or resurgence, but for 2022 we expect M&A activity to continue to

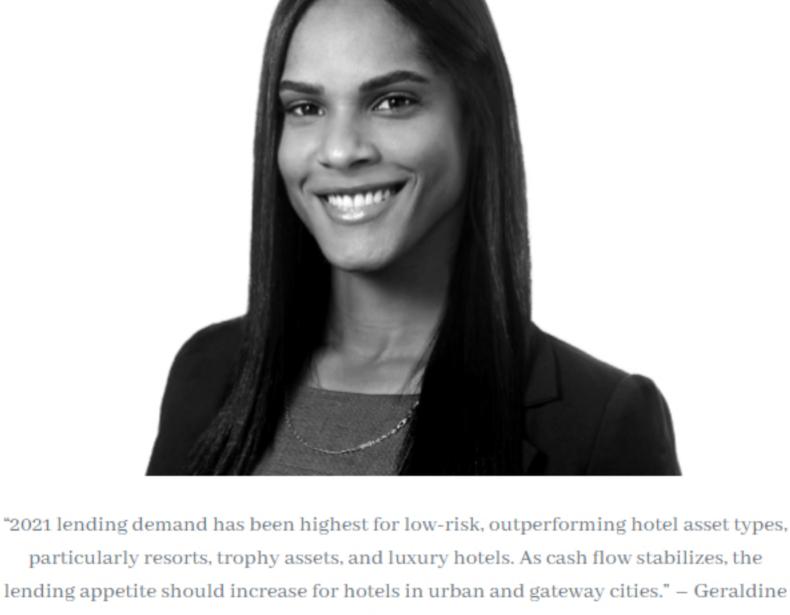
improve," Mongeau said. "The global recovery and industry consolidation themes should be the key drivers of continued transaction activity across all sub-sectors of the industry aided by unprecedented (albeit tightening) levels of central banking intervention."

Avington cited the luxury segment, which has already seen a significant pick-up in activity, with the bellwether indicator being the recently announced acquisition of a controlling stake in Four Seasons Hotels & Resorts by the interests of Bill Gates at an enterprise value

pointed to record prices being paid for luxury resorts, such as the Four Seasons Napa Valley, which reportedly transacted at US\$2.1 million per key, or the Montage Healdsburg (US\$2 million per key).

Guichardo said the U.S. accounted for nearly half of transaction volume for the first three quarters of 2021 and was pacing ahead of YTD 2019 by 15%, adding that the continued push toward industry consolidation should make 2022 an active year of hotel investment.

of US\$10 billion (Avington acted as exclusive financial advisor to the selling shareholder, Kingdom Holding Co.). Similarly, Avington



Kyle Stevenson, managing director at Berkadia Hotels & Hospitality, said they expect that public entities will continue to look to grow by portfolio and company-level corporate acquisitions.

Another way of looking at the M&A outlook might be to ask how conservative investors might be coming out of the pandemic, said Evan

Hurd, Stephen O'Connor of RobertDouglas. They said deferred PIPs and other capex and FF&E expenditures might induce some owners to

transform properties into boutique hotels or other property types, all of which could lead to asset sales.

the hotel sector in 2021, but the return of international travelers might be a welcome COVID booster."

equity.

Guichardo, JLL

"So, the real question is whether it will be a flight to the new perceived safe haven, drive-to, resort and select-service, or will we see meaningful investments in trying to expand the horizons of a hotel experience," Hurd and O'Connor said. "Domestic tourism really drove

asked, will the brands try to re-invent the sharing economy with what they can do best - a safe, clean, consistent experience?

Hurd and O'Connor also see continued strong interest in experiential lodging and hybrid concepts like apartment-hotel platforms. They

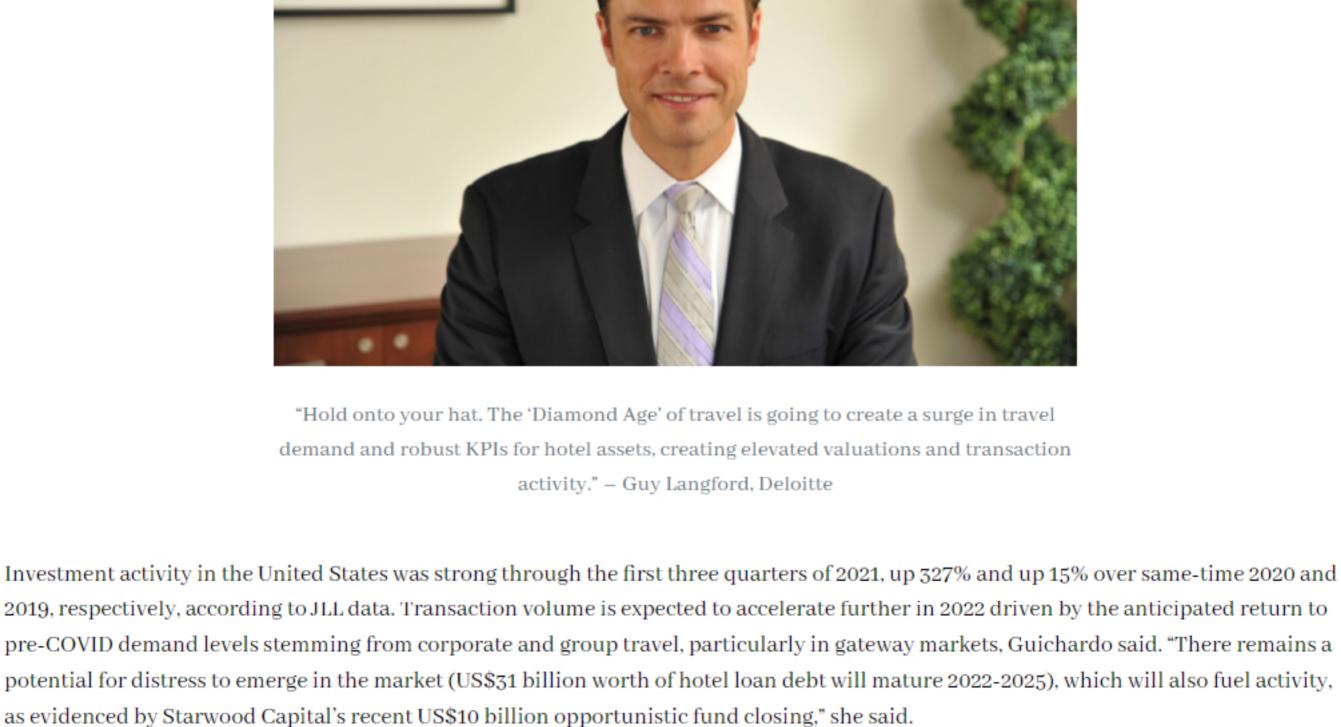
In Asia Pacific, Guichardo said, 2021 investment activity was on track to reach US\$7 billion by year-end, which was in line with expectations. She adds that transaction volume is expected to increase in 2022, stemming from a renewed confidence as borders gradually

reopen and new capital sources emerge. Private Equity is expected to continue to chase hotel opportunities in Japan and Australia, with

new pools of capital emerging from EMEA that are on the hunt for lodging acquisitions. In addition, China's "three red lines" campaign is

expected to drive a wave of hotel sales as cash-strapped developers divest non-core assets to improve balance sheets.

In Europe, 2021 investment activity rebounded compared to 2020 (+26%) through the first three quarters, Guichardo continued. However, sales volume remained down, -38% compared to 2019. She says the appetite for acquisition is high 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\$86 billion in dry powder in September 2021, driven by private



portfolio deals had accounted for 47% (US\$19.4 billion) of global hotel transaction volume. This follows the 2020 trend in which portfolio deals contributed 43% of all investment activity, up from 39% the year prior. "This trend is expected to continue in 2022 as consolidation across the industry continues," she said. "While a deal the size of Blackstone's Extended Stay acquisition is unlikely in 2022 (US\$6 billion), expect small portfolio acquisitions to accelerate, driven by an uneven recovery and ownership desires to stabilize cash flow."

The biggest barrier to getting deals done, Guichardo said, is that many hotels continue to operate in a zero-cash flow environment. This

When asked what types of deals are most likely to get done in 2022, Guichardo pointed to the fact that through the third quarter of 2021

has hampered investors' ability to accurately value assets and close deals. "As the industry continues its recovery, cash flow should begin to stabilize, which will increase confidence and should accelerate transaction activity," she added. "With plenty of capital available in 2022, investors will need to adopt a strategic approach to identify quality assets for acquisition."

On the financing side, Guichardo said hotel debt markets have improved significantly over the past few months as banks, debt funds, and even CMBS lenders have selectively returned to originating hotel loans. "Lenders remain keenly focused on the quality of sponsorship,

outperforming hotel asset types, particularly resorts, trophy assets, and luxury hotels. As cash flow stabilizes, the lending appetite should increase for hotels in urban and gateway cities."

That said, Guichardo added that with continued uncertainty regarding the outlook for global lodging demand post-COVID, the global financing market is not expected to normalize in the short-medium term. "Akin to the post Great Financial crisis, the financial landscape

with the wider lending community supporting the top sponsors," she said. "2021 lending demand has been highest for low-risk,

is being dominated by debt funds, which are quoting up to 70% LTV, while banks are quoting 55% to 60% LTV. This is expected to continue in the near-term."

If interest rates start to rise in 2022, Guichardo pointed to history, which has shown an associated increase in hotel transaction volume.

activity into 2022.

HOTELS reached out to multiple analysts, brokers and consultants around the world to ask for their forecast for M&A for 2022. Over the

transaction volume year (US\$34 billion) over the same period. Therefore, she said, rising interest rates should further boost investment

She said over the past decade, the 10-year U.S. Treasury Yield peaked at 2.9% in 2018, which corresponded to the second-highest

next few days, we will offer regional transaction outlooks for North America, Europe and Asia Pacific.