Hotel Investment Outlook 2020
Global hotel transaction volumes in 2019 reached US$66 billion, bolstered by a resilient global economy, strong employment markets and demand from domestic and international travelers. However, the length of the current market cycle, global trade tensions and the ongoing uncertainty surrounding Brexit gave investors cause to feel more cautious last year, which led to a six percent decrease in total hotel market liquidity compared with 2018.

Factors that will influence investor behavior in 2020

- Stagnant economic growth: global GDP is expected to remain at 2.5 percent
- Political fatigue: unrest in major parts of the world is making investors cautious
- Global trade tensions: tariff uncertainty between major trading blocs and countries is unnerving investors
- The epidemic risk of the coronavirus will impact travel volumes and, in turn, investor appetite
2020: optimistically cautious

International, political and economic dynamics are unlikely to shift significantly in 2020 and the global economy and real estate markets can expect slower growth as a result. The deal pipeline in 2020 is strong across all regions but the amount of capital available is unlikely to match the amount of stock and, consequently, pricing will remain tight this year.

Global hotel liquidity is expected to decrease by approximately 10-15 percent as investors adopt an optimistically cautious approach. Portfolio volumes will struggle to grow through 2020 but the single asset market will remain buoyant.

Transaction activity will be driven by

- A record level of dry powder being raised and pressure to deploy capital in a low-yield environment
- New hotel buyers emerging in search of attractive yield
- Capital outflow from geopolitically challenged countries
Regional snapshots

**Investors pursue high-profile properties in the Americas**

Fewer portfolio and entity-level sales in 2019 pushed hotel transaction activity down 21 percent to US$28.7 billion. In 2020, year-end hotel transaction volumes across the Americas will be supported by the sale of Anbang’s luxury portfolio to South Korea’s Mirae Asset Management for US$5.8 billion, which is expected to close during the first half.

Single asset sales will also support volumes throughout the year as investors pursue high profile properties in the region’s most liquid markets – New York, Florida and California. Additionally, investors are keen to acquire assets that offer attractive yields, such as hotels in the upper tier of the select service segment in high growth secondary markets and affordable lifestyle branded hotels. Despite this activity, transaction volumes across the Americas are expected to decline by six percent to close the year at US$27 billion. The 2020 U.S. election may result in increased investor caution.

Lodging performance across the Americas peaked in 2019 and will therefore remain flat in 2020 as recent hotel openings leave little room for occupancy growth. Supply growth will sit around the long-term average of two percent.

**A remarkable year for Asia Pacific**

Hotel transaction volumes in Asia Pacific rose by 44 percent in 2019, relative to 2018, exceeding previous projections of a 25-30 percent increase. This marks the second time that regional hotel transactions surpassed the US$12 billion mark. The region’s remarkable performance was supported by several high profile deals, including the 615-room Grand Hyatt Seoul, which sold for US$481 million and the 342-room Andaz Singapore, which sold for US$344 million, the highest single asset transaction in the country’s history.

Australia, too, proved popular. Dunk Island in the Great Barrier Reef was acquired by London-based group Mayfair 101 for US$21 million, while The NEXT Hotel in Melbourne and Brisbane were acquired by domestic investors in two separate deals.

Investment trends in 2020 and 2021 are expected to mirror those seen in 2019, with core plus and value-add assets in markets such as Japan and Singapore proving popular given the masterplan-led growth drivers in these markets, including the 2025 World Expo in Osaka or Terminal 5 at Changi.
In 2020, EMEA transaction volumes are expected to fall by around 20 percent to US$20.5 billion as fiscal issues and sluggish economic growth are expected to dampen investment activity across Germany, Italy and Ireland. Fewer portfolio deals are expected during the year as major deals have already traded over the last two years, including the acquisition of the 3,611-room QHotels portfolio by Aprirose and the acquisition of the 7,797-room Jury’s Inn portfolio by Pandox, both in the U.K. As a result, liquidity will be compressed across EMEA so investors will need to look at alternative ways to enter the hotel space, either through debt strategies, joint ventures or financing structures.

After a quiet 2019, the U.K. is expected to step back into the spotlight and observe notable hotel investment activity in 2020 given the opportunity for moderate yield compression in certain markets and the significant level of capital seeking to invest in real estate globally. Overall, 2020 lodging performance across mainland Europe should hold steady as key markets such as London, Paris and Rome continue to experience RevPAR growth off the back of strong demand.
Generalist investors target hotels

In 2020, private equity and institutional investors will continue to be the largest hotel investor groups as they remain under pressure to deploy capital. As the lodging industry matures and becomes more sophisticated, generalist investors’ - those who invest in multiple asset classes as opposed to specialist hotel investors - share of total global hotel acquisitions will continue to rise.

Cross-border competition heats up

International capital remains a key provider of liquidity in hotel real estate. In 2019, Europe was the largest recipient of foreign investment, stemming from North America and Asia, with investors expanding their footprint through portfolio deals.

In 2020, cross-border investors will remain active participants in hotel real estate, particularly supported by South Korea’s Mirae Asset Management’s acquisition of Anbang’s luxury portfolio. The closing of this deal, anticipated in the first quarter, will make North America a front runner in 2020 for the largest recipient of cross-border investment.

Currency advantages will encourage capital to flow out of North America and Asia. In Mainland China, the government’s continued restrictions on foreign investments and uncertainty surrounding the trade deal with the U.S will influence investors’ ability to deal cross-border. In the Middle East, investors are expected to adopt more conservative investment strategies as a result of the region’s sluggish economy.
3 Hotel Market Trends for 2020

1. The rise of affordable lifestyle brands
Hotel parent companies are investing in brands that appeal to changing guest demands and compete with the alternative accommodation space. Smaller, more technology-focused hotels in densely packed urban areas will appeal to business and leisure travelers in the traditionally underserved economy segment. Meanwhile, capital is finding its way into a rising number of start-ups, which compete with the hospitality sector; hotel brands should be aware of emerging disruptors from outside the industry.

2. First time hotel buyers emerge
New investors are gravitating towards hotel assets for the first time, driven by mounting pressure to deploy capital. While some are experienced real estate investors new to the sector, others’ core business sits outside of real estate. In addition, experts from other sectors such as residential are turning their attention to the hospitality market in search of diversification.

3. More real estate with hospitality at the core
A more diverse pool of buyers recognize that the tried and tested hospitality operating model offers attractive yields compared with other asset classes. While investing in such operational real estate is not new for institutional investors, they currently have limited exposure to hotels. The emergence of several asset types operating under one roof is transforming space across sectors and encouraging more generalist investors to enter the hotel market. As a result, we will see more real estate offerings with hospitality at the core.
Rise of affordable lifestyle brands

Over the past five years, the affordable lifestyle brand sector has experienced significant growth with the total global number of rooms more than doubling to approximately 55,000 since 2015. This trend is driven by three factors: major parent hotel companies are launching new brands in response to changing guest expectations; traditional hotel real estate is adapting to fit increasingly cluttered urban areas; and hotel operators are looking to compete with the alternative accommodation space.

The sector is being cultivated by hotel parent companies that traditionally focused on both upper and lower-tier hotel segments. Companies such as Marriott International, Hilton Worldwide and InterContinental Hotel Group, are behind affordable lifestyle brands, including Moxy, Tru and Avid. At the other end of the spectrum, Best Western has launched brands Vib and Glo to compete in the sector. This level of commitment from the industry’s major players demonstrates the long-term demand among guests for more affordable, relatable products and therefore the viability of this growing segment.

In addition, a growing number of start-ups with hospitality offerings are competing in the real estate space and attracting an increasing amount of capital, for example, Oyo Hotels and WeWork. However, the strength of execution and the pace of growth is key if these companies are to succeed and compete directly with major hotels. While some start-ups may struggle, it doesn’t mean that their goals and vision is wrong and major hotel brands should be concerned about the weight of capital out there ready to compete. Eventually, one of them is likely to break through.

Common features of affordable lifestyle brand hotels

• Efficient, technology-enhanced room design
• Contemporary lobbies with open space to encourage guests to mingle or work
• Grab-and-go FF&B options, with greater emphasis on beverage sales
• Smaller rooms ranging from 180 sq. ft. to 275 sq. ft.

Why affordable lifestyle brand hotels appeal to investors

• Smaller rooms create the flexibility to situate a hotel in denser urban areas, which benefit from higher footfall and are locations generally favored by investors.
• Potential for shorter construction timelines
• Smaller rooms allow more space for the amenities and features that guests increasingly demand such as open lobbies for working and lounging which, in turn, encourage greater F&B spend.
• Hotel product appeals to both leisure and business travellers with most brands reporting demand evenly split between both guest types.

As the affordable lifestyle brand space continues to expand, traditional economy hotels will be pressured to innovate or risk losing guests who may be willing to pay a bit more for an enhanced experience, particularly in the economy sector.

Affordable lifestyle region-by-region

In the Americas, the total number of affordable lifestyle brand rooms has increased by 40 percent on 2015 levels. This is the market with the widest gap for an affordable product with modern features and amenities.

In EMEA, growth in the sector is more subdued largely as a result of the well-established hostel market. However, the region currently has the greatest construction pipeline of affordable lifestyle branded hotels in the world.

Asia Pacific saw a 15 percent rise in the affordable lifestyle segment, influenced by the expansion ambitions of major parent hotel companies in previously untapped markets in the region.
First-time hotel buyers emerge

New investors are gravitating towards hotel assets for the first time, driven by mounting pressure to deploy capital. While some are experienced real estate investors new to the sector, or exploring new geographies, other buyers whose core business sits outside of real estate are riding on the booming hospitality sector.

A number of investors are entering the hotel market for the first time through joint ventures. The 368-room Oakwood Premier OUE Singapore was sold to Dorsett Hospitality International and AMTD Group for US$209 million in November 2019. While the former is an experienced hotel investor and operator, the latter is a financial services firm making its first foray into hospitality investment.


Hedge funds and high-net-worth individuals are also gravitating towards hotels in search of diversification and stable cash flow. In August 2019, hedge fund Elliot Management bought the JW Marriott Phoenix Desert Ridge Resort & Spa for US$605 million.

Experts from other sectors such as residential and commercial real estate are also turning their attention to the hospitality market.

Hoi Hup Realty, a mid-scale property developer invested in the luxury 342-room Andaz Singapore for US$344 million in November 2019, in what was the largest single asset transaction in the city-state’s history. This marked Hoi Hup Realty’s second venture into the sector after developing the 250-room Courtyard by Marriott Singapore Novena in 2017.

AroundTown SA, a residential and commercial real estate investment company listed in Germany, increased its stake in the hospitality sector in September 2019 when it paid over US$1 billion for a portfolio of seven Center Parcs Europe holiday parks from Blackstone across Germany and the Netherlands.

The positive outlook for the travel and tourism sector and the potential for higher return on investment compared to other asset classes will continue to push major, institutional investors towards hotel real estate in 2020.

AXA Investment Managers, the real estate investment arm of insurance giant, AXA, announced its acquisition of four hotels in Australia for approximately US$236 million in February 2019. It was among the group’s first few deals in the Asia Pacific region. Mirroring this move, Blackstone reportedly made several investments in the Maldives last year.
As the world adopts flexible living and working, all sectors of real estate are witnessing a blend of spaces. Last year saw growing investor interest in the ‘bed’ sector, which broadly comprises student housing, healthcare, hospitality and residential assets. Collectively, it now represents the second largest real estate sector after offices.

While investing in such operational real estate is not new for institutional investors, they currently have limited exposure to hotels. The sector secured just six percent of total global real estate investment volumes in 2019. This is beginning to change, however, as a more diverse pool of buyers recognize that the tried and tested hospitality operating model offers attractive yields compared with other asset classes.

The result is more real estate products with hospitality at the core as real estate owners and landlords acknowledge that their tenants and end-users – whether hotel guests, retailers or corporate occupiers – expect a certain level of service and, ultimately, want a memorable, enjoyable experience.

Hotels offer co-working spaces, the residential sector has adopted co-living and some flexible office providers are recruiting employees from international hotel schools in order to deliver exceptional service.

Investors are also becoming increasingly conscious of the social and environmental impact of their investment decisions and their financial returns. Pressure is mounting on corporate entities to reduce carbon emissions and adopt more socially responsible practices and, while there are existing benchmarks in real estate on Environmental, Social and Governance (ESG) pillars and sustainability ratings, this is just the beginning. The focus on sustainability and community, coupled with record levels of dry powder, will lead to an increasing number of investors looking for opportunities that have a positive social and environmental effect. This will become a key issue in the hotel industry over the next two years.

Delivering hospitality-style experiences

No segment of the hotel industry is immune to the multi-service shake-up as products from hostels to high-end hotels begin to adapt to customer expectations for work-life blend.

**Selina** is a leading developer and operator of design-led hostels that combine co-working space, mainly across Latin America but with a growing footprint in Europe and...
North America. The brand monitors guest and employee satisfaction through its own bespoke index.

In Europe, Hobo in Stockholm markets itself as a new design hotel for business and leisure travelers, “a meeting point, a workplace, an office or just a nice place to visit and hang out”.

Hong Kong headquartered Ovolo Hotels, which has a presence in Asia and Australia, launched Mojo Nomad in 2017, which claims to 'go beyond traditional hospitality concepts', providing travelers with a digital community to live, work and travel.

At the higher end of the hotel industry, NEST was one of the world’s first fully integrated co-working spaces within a luxury branded hotel. Located in the TRYP by Wyndham Dubai Hotel, the space is designed for comfortable flexible working and networking for business travelers. Marriott International has also implemented co-working space in their Moxy Hotels, which doubles up as party space by night.

Many of these major brands are merging such services to capture millennial traveler spend.

In 2019, serviced residence brand The Ascott Limited opened its first lyf property. Not only is it designed for millennials and the millennial-minded, it's also managed exclusively by millennials.

Similarly, in 2016, Accor launched a millennial-focused hybrid brand Jo & Joe, which blends elements of private rental, hostel and hotel. More recently, Accor launched WOJO – a new co-working product and plans to be the largest co-working brand in Europe by 2022 with 1,200 spaces opening in under three years.

Taking the trend a step further, Zoku is an aparthotel product that creates a new category in the hotel industry: a home-office hybrid, which is marketed as a relaxed place to live, work and socialize.

**Short-term rentals and emerging disruptors**

There has been an increasing amount of fundraising in branded real estate within the past year, which is largely trickling into a rising number of short-term rental brands. Through their use of technology, they offer investors real opportunity for differentiation.

Stay Alfred, an apartment rental platform, says it brings hotel-like service and scale to the short-term rental market. Sonder, another apartment rental company, says it combines the best parts of a hotel and a private home. Domio is a platform for affordable short-term rentals targeted at group travelers, while Podshare straddles the line between a hostel, an apartment and a hotel.

Over the last two years each of these startups have received multiple rounds of funding as the private accommodation sector grows.

While they all claim to target a different corner of the short-term rental market, they share one commonality: the use of technology. The digital transformation in this sector surpasses what traditional hotels can offer, despite much of the innovation originating in hotels.

For example, digital keys and electronic locks are becoming commonplace in aparthotels and short-term rentals. Apps that control quality of housekeeping are emerging as well as websites that offer direct booking with the owner of a property to create a more personal customer experience.

Platform solutions are also emerging to help travellers find a wider variety of space to suit their needs. For example, Spacemize is an app that allows business travelers, entrepreneurs and corporate employees to search and book space in luxury hotels and other venues on a flexible, cost-effective basis.

Major hotel brands are now playing technological catch up to align with the expectations of the more digitally minded consumer.
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