

HOTEL INVESTMENTS: THE ART OF FINDING THE RIGHT LOCATION

Hotels have gained considerable favor among investors in recent years. Investors in Germany alone funneled around EUR 1.9 billion into hotels in the first half of this year, more than doubling the average of the last ten years. In North America, experts at real estate consulting firm JLL even expect a transaction volume of around 28 billion US dollars for 2018, and hotels are also sought-after investment properties in Switzerland. The well-known Hotel Widder in Zurich, for example, recently hit the headlines and is now owned by Swiss Life.

The fact that hotels tend to produce higher returns than office or retail properties is a factor in favor of hotels from the point of view of investors. Real estate consulting firm Colliers International reports that investors in Germany's major cities currently obtain a gross prime yield of between 4 and 4.85% from hotels. The yield on first-rate office properties in optimal locations only amounts to approximately 3%. Returns are attractive in the United States as well: The average cap rate for all U.S. hotels was 8.8% in 2017, according to information from Cushman & Wakefield.

In addition to experienced hotel investors operating in the segment, this has led to an influx of real estate companies that had stayed well clear of hotels just a few years ago. As classic managed properties, hotels are by no means unproblematic investments, instead posing a number of challenges for investors. The credit rating and quality of the operator are critical factors in the success of the investment. Arranging contracts with operators also requires proven expertise.

However, in the case of hotels, location is key. Long-term success comes from unique locations with clear selling points that attract guests. The ACRON Group has identified sites like this for its hotel projects in the United States: In Atlanta, the Group completed the Solis Hotel Two Porsche Drive, which is well situated in two respects: It is located directly adjacent to Atlanta Airport and next to Porsche North America's headquarters. In July of this year, ground was broken on the ACRON Navy Pier Hotel in Chicago, which unlocks access to Navy Pier, a tourist hotspot in the third largest city in the United States. This approximately one-kilometer-long pier on Lake Michigan is a Chicago landmark. In addition, the performance of Chicago's hotel market is outstanding: The city saw 55.2 million visitors in the past year with the hotel industry reporting growth of 6.3%.

Other investors are also prime examples of the fact that experienced market participants primarily focus on top-grade locations. For instance, German investment firm Union Investment has added a boutique and lifestyle hotel in downtown Portland, Oregon, to its portfolio this year. This property, like its counterpart ACRON Navy Pier Hotel in Chicago, will be operated under the Curio Collection by Hilton brand. In Hamburg, the Zurich Group snapped up the Courtyard by Marriott under construction in a central location near the main train station. And Deka, the investment firm serving Germany's savings banks, joined ACRON in choosing Chicago and purchased a four-star hotel there.

Experts believe that the hotel market will continue to be stable in the future in strong locations such as these. The most recent figures are definitely a reason for optimism: According to real estate consulting firm CBRE, the key performance indicator for hotel operations, called RevPAR (Revenue Per Available Room) rose 4% over the prior-year quarter in the United States in the second quarter of this year.

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