

# Hotel Investment Overview

## Spain 2017



## Introduction

In line with the country's wider economic sustained recovery, the hotel investment sector reached a new record in 2017. With a transaction volume totalling 3.9 billion euros, Spain has positioned itself as the third largest hotel investment market in Europe, below the UK (£5.4bn) and Germany (€4.2bn) - countries which recovered more rapidly from the economic downturn and traditionally receivers of high hotel investment volumes.

As indicated in our recent study "European Travel Trends & Hotel Investment Hot Spots", Europe is the most visited region in the world and Spain, below Germany and France, occupies the third position in total overnight stays, and the leading position in Southern Europe. The Spanish Market consolidates as one of the key investment hot spots in Europe, attracting a large range of investors in both the urban and the leisure segments, as well as reaching higher levels of returns in recent years, proving the resilience and strength of the hotel sector.

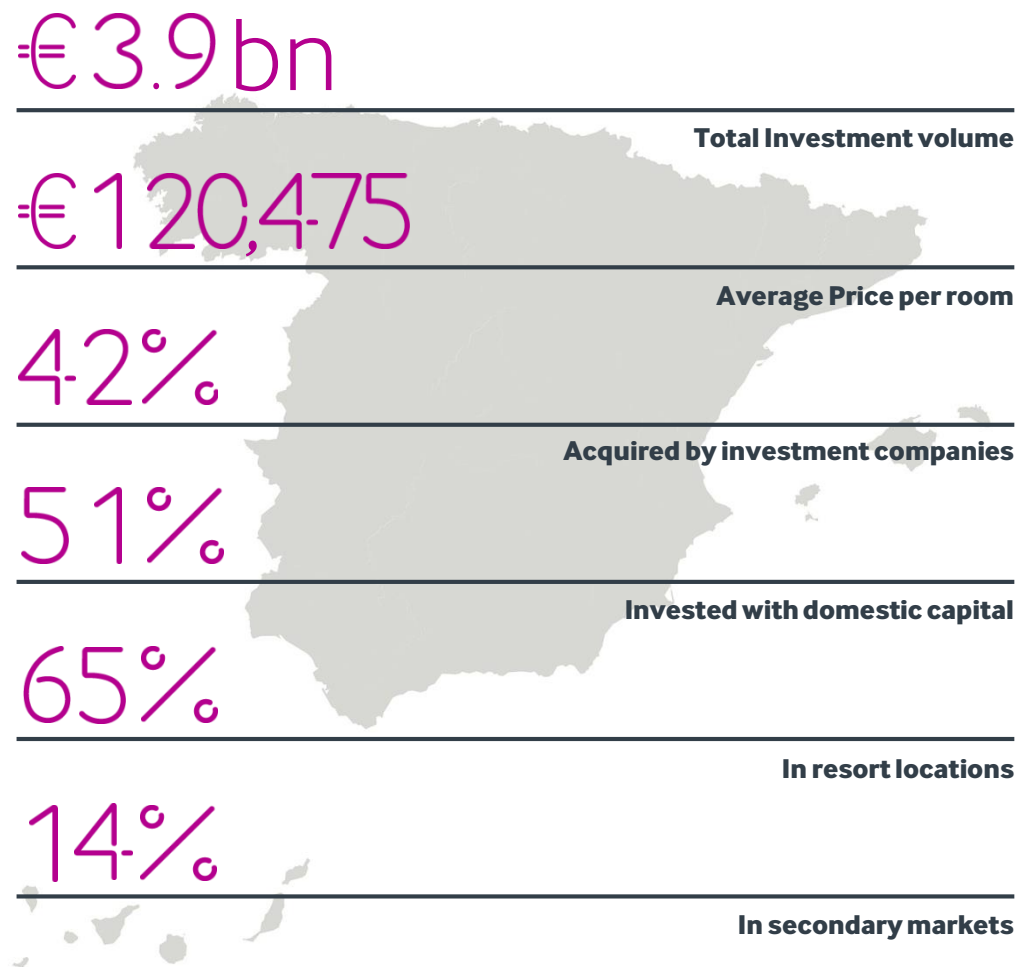
This study, based on public data as well as Christie & Co sources, provides further examination of the hotel capital market performance during 2017, including a detailed analysis of the total volume of transaction, the source of capital, the largest transactions (both single asset and portfolio), the investment geography and a 2018 performance outlook.

“ The hotel investment transaction volume reached €3.9bn in 2017, establishing a new record that positions Spain as the third largest hotel investment market in Europe ”



**Inmaculada Ranera**  
Managing Director Spain & Portugal  
Barcelona

## 2017 – A year of Record



In 2017, the total hotel investment volume in Spain reached €3.9 billion, an estimated 81% increase on 2016. Three and four-star hotels are the predominant hotel category, and have concentrated almost the 84% of a total of 185 transactions analysed in this report (28.1% and 55.7% respectively), followed by five-star hotels (7.5%) and two-star hotels (3.4%), the rest corresponding to one-star hotels and hostels.

Whilst the source of capital was mostly domestic (51%), foreign capital accounted for 49% of the total volume of investment with the US, the UK and France as most active investing countries. Representing over 90% of the investment, the largest players included investment companies (42%), hotel companies, REIT's (16%) and real estate companies (15%).

It is estimated that nine large transactions contributed to almost half of the total investment. This included, amongst others, the acquisition of the HI Partners platform by The Blackstone Group (€630m), the purchase of the Edificio España by Mallorca-based hotel group Riu Hotels & Resorts (€272m), and the incorporation of the Starmel properties into the London & Regional portfolio (€230m).

While primary destinations accounted for the largest part of the investment, we have witnessed a notable interest for secondary locations which represented 14% of the total investment volume.

From a geography perspective, investors favoured holiday locations (65% of the total investment volume), reflecting Spain's position as a leading investment market within the Mediterranean resort market. In terms of number of transactions, 90% were completed in the six regions receiving the largest number of international visitors (91.7%).



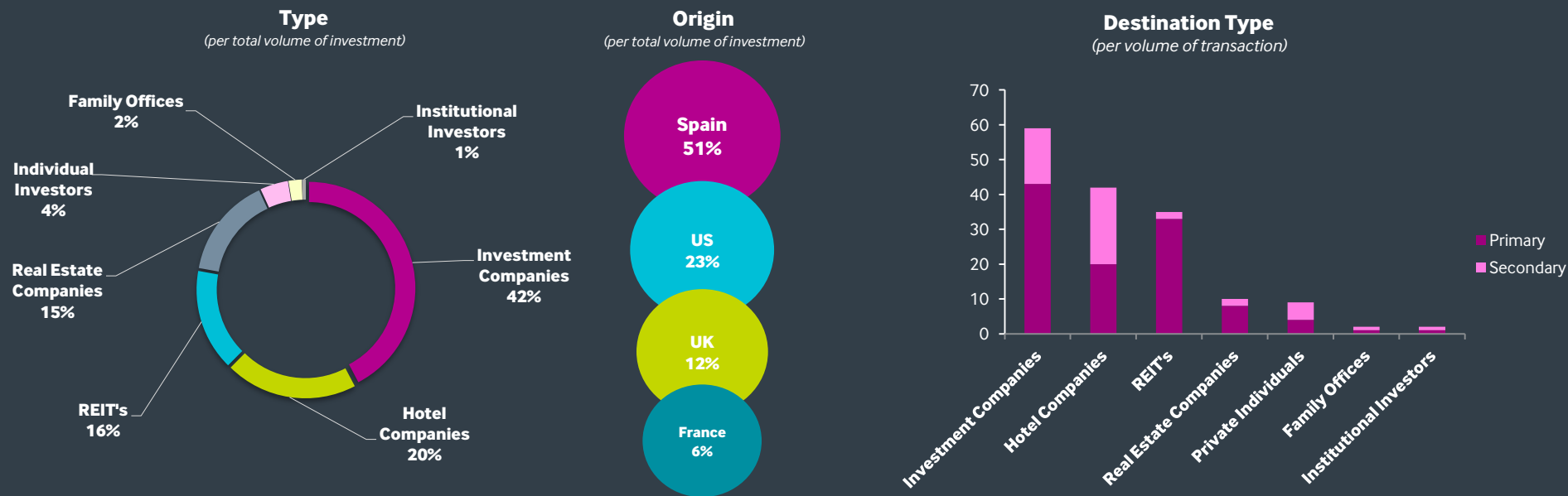
**Joan Bagó**  
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**Pol Fabregat**  
Intern Analyst  
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# Investor Profile

With over €1.3 billion, investment companies represent the main source of capital



Capital spent by investment companies was four times the proportion seen in 2007



**Guillemette Briard**  
Consultant  
Barcelona

**Investment companies** (investment funds and private equity firms) represented the first source of capital to the country, four times the proportion seen in 2007. Best players included The Blackstone Group (with the €630m acquisition of the 14-hotel HI Partners portfolio, the largest transaction recorded which accounted for 16% of the total volume of investment), Dunas Capital and KKR (five Intertur Hotels, €110m), HI Partners (IFA hotels, €102m) and lastly Benson Elliot and Walton Capital with the purchase of the Silken Diagonal Mar (€150m). Albeit recording smaller transactions, the **second largest group of investors** were the hotel companies with Riu Hotels & Resorts recording the largest single asset transaction (Edificio España, €272m) followed by SMY Hotels, Best Hotels and Melia Hotels International. With Hispania as the primary actor (33 transactions), **REIT's** contributed to over 16% of the investment in Spain. Recording a dozen operations, **real estate companies** invested c. €481m with AXA and London & Regional being the two most active parties. **Private individuals** recorded 4% of the total volume of investment which included noticeable transactions such as the future Four Season hotel in Madrid (€60m) acquired by Israeli entrepreneur Mark Scheinberg, MiM Sitges acquired by Leo Messi (€30m), the Petit Palace Barcelona (€15m) and the Silken Ciudad de Vitoria (€13m), both acquired by undisclosed buyers.

Overall, **foreign capital** represented 49% of the investment with the main player being the US (€718m), the UK (€363m) and France (€190m). However, it is important to note that a number of Spanish-based investors are financed through international capital. Finally, appetite for **primary locations** remained high across all groups, and interest was observed in **secondary locations** by hotel companies (as part of their development strategy) and investment companies (as part of their distressed assets portfolio). REIT's almost exclusively invest in primary locations.

## Main Transactions: Single Assets & Portfolios

### Blackstone, main protagonist of the Spanish hotel investment scene

With the acquisition of the HI Partners portfolio to Banco Sabadell, a transaction valued at 630 million euros, **The Blackstone Group** has been the main protagonist on the Spanish hotel investment scene in 2017. Acquiring in the same time, the necessary platform to manage other hotel assets acquired in 2017 (i.e. Banco Popular's real estate assets).

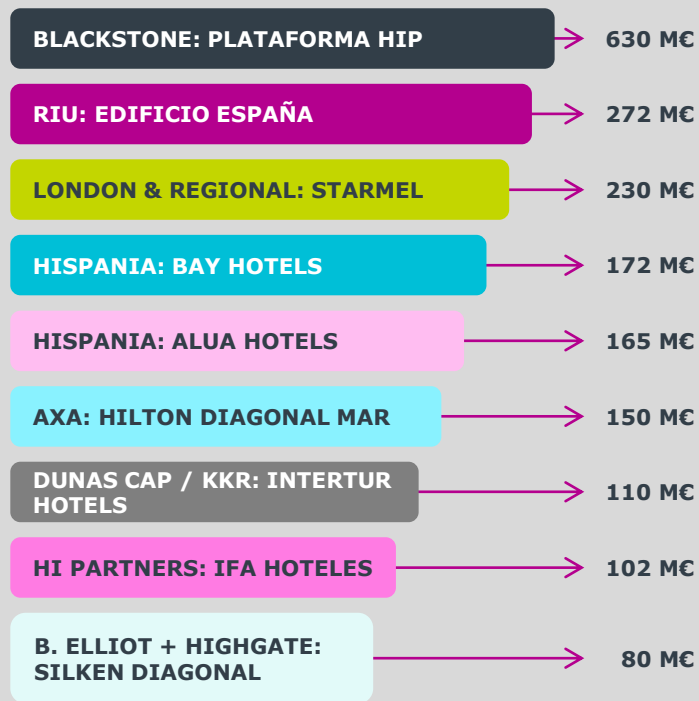
Whilst at a lower level, it is necessary to look at an additional eight key transactions, which for most cases, included a repositioning strategy consisting of a full refurbishment or a change of operator. The major players in these repositioning-oriented transactions have been **HI Partners, KKR & Dunas Capital, Riu Hotels & Resort, London & Regional, Benson Elliot & Highgate and Hispania**. Except in the case of **Riu Hotels & Resort** (Mallorca-based hotel group which acquired the "Edificio España" in Madrid), all of these transactions were completed by investment companies, real estate firms or REIT's, highlighting the fact that while domestic family hotel groups remain the largest group of hotel owners in Spain, they have been losing weight in favour of these strategic investors in the market

On another hand, domestic REIT **Hispania** ended the year (and its planned investment period), with the closing of two major transactions: the acquisition of the hotel portfolio managed by **Alua Hotels & Resorts** and **Bay Hotels & Leisure** (part of **Barceló Group**).

Other key actors included **KKR**, which together with **Dunas Capital**, acquired the **Intertur Hotels** portfolio (five properties) managed by **Alua Hotels & Resorts** and **London & Regional**, with the purchase of the **Meliá/Starwood Capital "Starmel"** platform, four assets located in the Balearic Islands (Majorca and Ibiza), Lanzarote and Torremolinos.

Finally, the **Benson Elliot, Highgate** and **Walton Street Capital** joint venture, together with French insurance company **AXA** continued to bet on Barcelona with two major single asset acquisitions: the Silken Diagonal hotel, an asset located next to the iconic Torre Agbar, and the Hilton Diagonal Mar Hotel.

**Together, these nine transactions represented almost half (49%) of the total investment volume in 2017.**



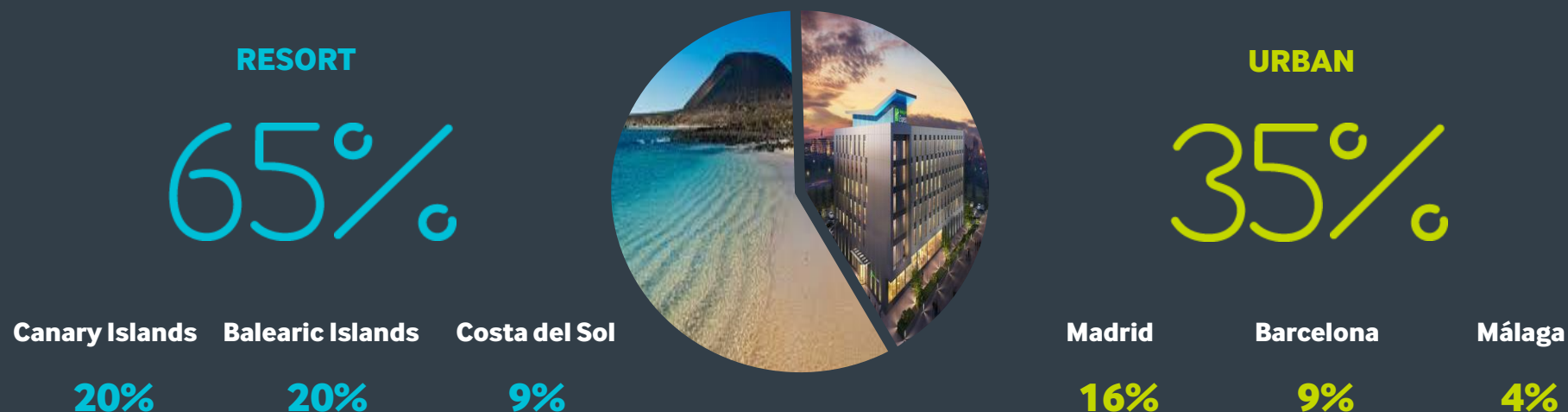
Institutional investors looking for high returns in Spain have understood that they should look at "added value"



**Carlos Nieto**  
Associate Director  
Madrid

## Investment in Primary Locations

The Canary and Balearic Islands account for 40% of the total investment



The lack of opportunities in major cities, as well as a steady increase in tourism in key resort locations, drove investor interest in **holiday destinations** across Spain.

**The Canary and Balearic Islands** are clear examples of this investor appetite, together representing 40% of the total investment. The acquisition of large portfolios such as HI Partners by Blackstone, Bluesea by Portobello or Intertur by KKR & Dunas Capital have had a great impact in both archipelagos. Single assets also played an important role with key transactions such as the Ritz Carlton Abama (€50m, 50%) the Sol House Ibiza Mixed by Ibiza Rocks (€30m) and the Steigenberger Golf & Spa Resort (€30m), transactions which all achieved a price per key above 100k.

Despite recording fewer transactions than previous years, Madrid and Barcelona remained the most attractive markets within the urban segment. On the other hand, markets like **Malaga** (with the sale of Vincci Posada del Patio, €27m) and **Valencia** (with the acquisition of Parque Central Hotel, €15m) grew in importance in 2017.

Resort locations lead the investment, once again positioning Spain as a key market within the Mediterranean resort market



**Javier Bravo**  
Hotel Broker  
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## Investment in Secondary Locations

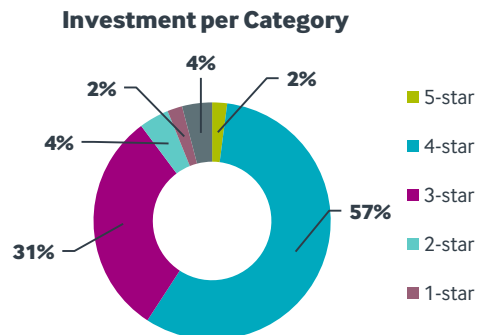
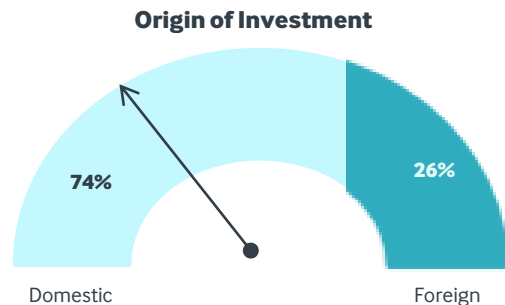
### Representing 26% of the total volume of transactions

Secondary markets had a notable role to play in the record achieved by the hotel investment sector in 2017. A total of 49 hotels were transacted in secondary markets, amongst which seven cities (Alicante, Gerona, Lugo, Almeria, Lleida, Cádiz or Granada) witnessed the most appetite. It is estimated that **over one of every four hotels or two of every ten bedrooms** sold in 2017 were not located in either the key Spanish cities (Madrid, Barcelona, Malaga, San Sebastian, Bilbao, Valencia, Seville), nor in the major holiday destinations (Canary Islands, Balearic Islands, Costa del Sol). While more attractive yields in these locations created a more favourable environment, it is more importantly the significant recovery of the RevPAR levels which generated this increasing appetite for investment.

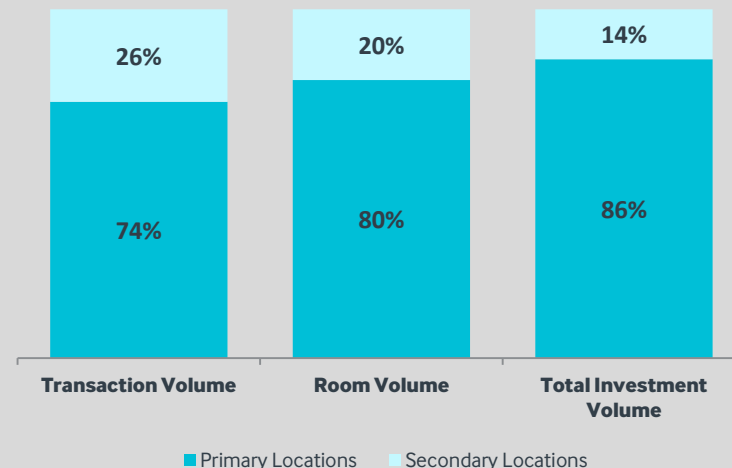
From a **room volume perspective**, the impact observed is minor (only representing 20%) which is mainly explained by the fact that these secondary markets hold smaller assets. In terms of **total volume of investment**, the amount invested in secondary locations equalled 15%, reflecting that the price per room has been lower compared to that achieved in primary locations.

Not taking into consideration smaller operations sold in locations such as Torremolinos, Alicante, Cádiz, Vitoria or Granada, or tertiary locations such as Gerona, Lérida, Albacete, La Rioja or Asturias, it is estimated that the price per room in the secondary locations has been between **€70,000 - €75,000**.

On the other hand, we observed that **domestic capital** accounted for 74% of the investment in these secondary destinations, higher than the wider market at 51%. Looking at the category of interest, the major part of the investment was concentrated in the **three-star and four-star segments** which together represented 88% of the investment in secondary locations.



**Investment per Location Type**  
(per number of transactions, room volume and total volume of investment)



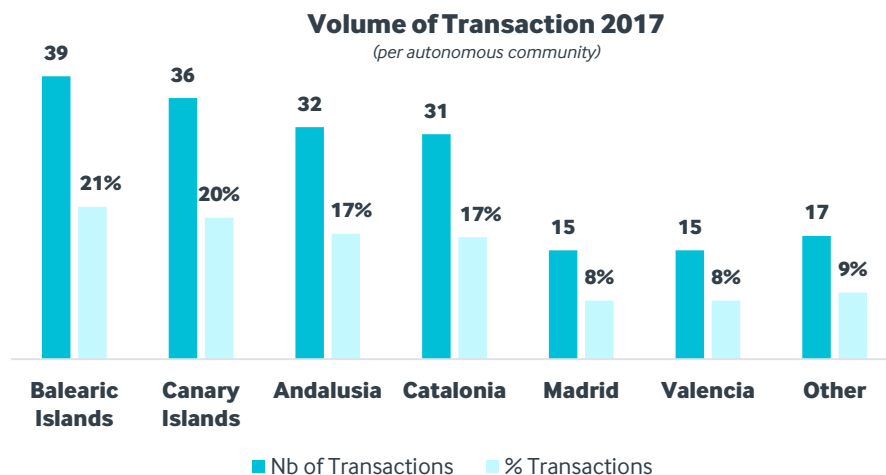
Continuous return compression in primary locations pushed investors to consider more opportunities in secondary markets



**Íñigo Cumella de Montserrat**  
Senior Hotel Broker  
Barcelona

## Transaction Volume by Regions (CCAA)

**Almost 90% of hotel transaction activity took place in the six regions which recorded 92% of overseas tourism**



In 2017, almost 90% of the hotel acquisitions were concentrated in the top six regions (CCAA) visited by overseas visitors. The highest percentage was obtained by the Balearic Islands (20.7% del total), followed by the Canary Islands (19.6%), Andalusia (17.4%), Catalonia (16.4%), Madrid (8.2%) and Valencia (7.1%). The rest of autonomous communities gathered the remaining 10.6%.

By crossing this data with the overseas visitor arrivals by autonomous communities in Spain, we can see that the same six regions have received the highest number of international arrivals (FRONTUR 2017).

Catalonia occupies the first position (23.8%), followed by the Balearic Islands (18.0%), the Canary Islands (16.8%), Andalusia (14.1%), Valencia (10.4%) and Madrid (7.4%). Those communities should continue developing touristic policies oriented to improve and/or maintain hotel supply. That will allow them to remain in a privileged position with regards to hotel investment attractiveness.

**BB** The volume of overseas tourists is a key element driving greater transactional demand **DD**



**Inmaculada Ranera**  
Managing Director Spain & Portugal  
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## 2018 Outlook

### Similar returns are expected in the main urban and holiday destinations

#### Spanish Economy Forecast

According to the International Monetary Fund (IMF), the global GDP forecast for 2018 is close to 4.0%, outperforming last year's results (+ 3.7%). The IMF, however, grants a special mention to Spain as the only developed economy for which growth forecast have been reduced. The Spanish Government advised that while the country is on track to achieve a four-year recovery, the Catalan crisis could harm the economy if the downward risks materialise.

In January 2018, the IMF forecast that the Spanish economy will grow by 2.4% in 2018, one tenth below the October forecast, and 2.1% in 2019, one tenth above the previous projection, probably under the premise that the political uncertainty will have decreased by then.

#### The Spanish Hotel Sector

2018 began with a significant volume of hotel investment at an advanced state of negotiation, which makes us predict similar levels of investment, however it's unlikely to exceed the 2017 levels. The excellent performance of the Spanish tourism industry during the last three years will continue to attract large flows of investment to the country, and the abundant liquidity of the capital market will maintain a robust pressure on sellers.

#### Industry Trends

Opportunistic investors and the consolidation of the hotel sector will continue to gain strength, partly as a result of to the resources and expenses optimisation strategy put in place by hotel operators as well as the significant investment appetite observed from a number of opportunistic investors including investment firms and REIT's. The maturity of the country's tourism industry and the solidity of its growth will push the hotel sector to new challenges including repositioning and deseasonalising strategies, as well as alternative business models (serviced apartment, hostels).

#### Foreign Factors

Levels of profitability will be threatened by a number of external factors including Brexit, the recovery of key competitive leisure destinations in the Mediterranean resort market (Turkey, Egypt), as well as the non-regulated accommodation offer. According to Exceltur, both Turkey and Egypt experienced exponential increases during the summer months of 2017; + 46.4% during the months of July and August in Turkey and + 47.6% in July in Egypt. Simultaneously, Spain has witnessed a drop in number of overseas arrivals in holiday packages users (July and August accumulated a -4.2% decline). The notable depreciation of the Pound has begun to affect the UK segment which registered a 4.5% decrease in hotel overnight stays.

#### Profitability and Lending

Similar returns are expected in the main urban and holiday destinations; the price relay in hotel assets will mainly be generated by operational improvements and profitability both at a income and GOP level. The scenario for secondary destinations is expected to be slightly different, where returns could be compressed by 1-2% in the coming years.

The end of the era of cheap money in Europe is becoming apparent (interest rates will not remain at historically low levels in the long term), however, investors looking at Spain will continue to benefit from attractive lending terms over the next 12 months, being able to secure financing for their hotel investments.



Price relay in hotel assets will mainly be generated by operational improvements and profitability



**Xavier Batlle**  
Associate Director  
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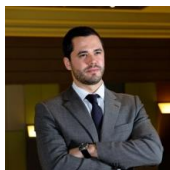
## Our team



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## Largest Single Asset Transactions

### Per total volumen of investment

#	Hotel	City	Province	Keys	Category	Estimated Price	Price per Key	Buyer	Seller
1	<b>Edificio España</b>	Madrid	Madrid	600	5-star	€ 272,000,000	€ 453,333	Riu Hotels & Resorts	Wanda - Grupo Baraka
2	<b>Hilton Diagonal Mar</b>	Barcelona	Barcelona	433	4-star	€ 150,000,000	€ 346,420	AXA	Iberdrola Inmobiliaria
3	<b>Silken Diagonal Barcelona</b>	Barcelona	Barcelona	240	4-star	€ 80,000,000	€ 333,333	Benson Elliot + Walton Street Capital + Highgate	Bank of America
4	<b>Riu Club Romántica</b>	Porto Cristo	Mallorca	267	3-star	€ 70,000,000	€ 262,172	Batipart	Riu Hotels & Resorts
5	<b>Hotel Velazquez</b>	Madrid	Madrid	156	4-star	€ 60,000,000	€ 384,615	Grupo Drida	Corporación Hispano Hotelería
6	<b>Ritz-Carlton Abama Resort (50%)</b>	Guía de Isora	Tenerife	230	5-star	€ 50,000,000	€ 216,920	HI Partners	Grupo Prisa
7	<b>Pueblo Camino Real de Torremolinos</b>	Torremolinos	Málaga	524	4-star	€ 42,000,000	€ 80,153	SMY Hotels (Logitravel)	N/D
8	<b>NH Málaga</b>	Málaga	Málaga	245	4-star	€ 41,000,000	€ 167,347	Hispania	NH Hotel Group
9	<b>Dolce Sitges</b>	Sitges	Barcelona	263	5-star	€ 40,000,000	€ 152,091	Talus Real Estate & Angelo Gordon	Oaktree
10	<b>Aptos en el complejo Valle Romano Golf</b>	Estepona	Málaga	430	4-star	€ 32,000,000	€ 74,419	HIG Capital	Neinor Homes
11	<b>MiM</b>	Sitges	Barcelona	77	4-star	€ 30,000,000	€ 389,610	Leo Messi	Francisco Sánchez
12	<b>Exe Moncloa</b>	Madrid	Madrid	161	4-star	€ 30,000,000	€ 186,335	Grupo Signal Capital	N/D
13	<b>Steigenberger Golf &amp; Spa Resort</b>	Camp de Mar	Mallorca	164	5-star	€ 30,000,000	€ 182,927	ZIBA Leisure Ltd	Dr Ebertz & Partner OHG
14	<b>Posada del Patio</b>	Málaga	Málaga	106	5-star	€ 26,750,000	€ 252,358	Internos Global Investors	Dos Puntos
15	<b>Innside Madrid Génova</b>	Madrid	Madrid	65	4-star	€ 26,000,000	€ 400,000	Grupo Sardinero	Grupo Solaria

Source: Christie & Co

## Largest Single Asset Transactions

### Per average price per room

#	Hotel	City	Province	Keys	Category	Estimated Price	Price per Key	Buyer	Seller
1	<b>Edificio España</b>	Madrid	Madrid	600	5-star	€ 272,000,000	€ 453,333	Riu Hotels & Resorts	Wanda - Grupo Baraka
2	<b>Innside Madrid Génova</b>	Madrid	Madrid	65	4-star	€ 26,000,000	€ 400,000	Grupo Sardinero	Grupo Solaria
3	<b>MiM</b>	Sitges	Barcelona	77	4-star	€ 30,000,000	€ 389,610	Leo Messi	Francisco Sánchez
4	<b>Hilton Diagonal Mar</b>	Barcelona	Barcelona	433	4-star	€ 150,000,000	€ 346,420	AXA	Iberdrola Inmobiliaria
5	<b>Silken Diagonal Barcelona</b>	Barcelona	Barcelona	240	4-star	€ 80,000,000	€ 333,333	Benson Elliot + Walton Street Capital + Highgate	Bank of America
6	<b>Petit Palace Barcelona</b>	Barcelona	Barcelona	50	4-star	€ 15,150,000	€ 303,000	Inversor particular Madrid	N/D
7	<b>Gran Hotel Sóller</b>	Sóller	Mallorca	38	5-star	€ 10,000,000	€ 263,158	Sermeta (Joseph Le Mer)	Andreu Gelabert
8	<b>Riu Club Romántica</b>	Porto Cristo	Mallorca	267	3-star	€ 70,000,000	€ 262,172	Batipart	Riu Hotels & Resorts
9	<b>Posada del Patio</b>	Málaga	Málaga	106	5-star	€ 26,750,000	€ 252,358	Internos Global Investors	Dos Puntos
10	<b>HCC Open</b>	Barcelona	Barcelona	100	3-star	€ 22,500,000	€ 225,000	Leonardo Hotels	HCC
11	<b>Ritz-Carlton Abama Resort (50%)</b>	Guia de Isora	Tenerife	230	5-star	€ 50,000,000	€ 216,920	HI Partners	Grupo Prisa
12	<b>Room Mate Mario</b>	Madrid	Madrid	30	2-star	€ 6,000,000	€ 200,000	N/D	Room Mate
13	<b>Barcelona Go</b>	Barcelona	Barcelona	19	2-star	€ 3,800,000	€ 200,000	N/D	Victor Beckers (particular)
14	<b>Live &amp; Dream</b>	Barcelona	Barcelona	13	Limited Service	€ 2,380,000	€ 183,077	Marrio Romero	Nuria Riu
15	<b>Steigenberger Golf &amp; Spa Resort</b>	Camp de Mar	Mallorca	164	5-star	€ 30,000,000	€ 182,927	ZIBA Leisure Ltd	Dr Ebertz & Partner OHG

Source: Christie & Co

## Largest Portfolio Transactions

### Per total volumen of investment

#	Portfolio	Keys	Estimated Price	Price per Key	Buyer	Seller
1	<b>Blackstone: Plataforma HIP</b>	3.647	€ 630,000,000	€ 172,745	Blackstone Group	HI Partners
2	<b>London &amp; Regional: Starmel</b>	2.070	€ 229,999,770	€ 111,111	London & Regional Properties	Starwood Capital
3	<b>Hispania: Bay Hotels</b>	2.975	€ 172,400,000	N/D	Hispania	Barceló Hotels
4	<b>Dunas Capital/KKR: Intertur Hotels</b>	1.126	€ 110,000,051	€ 97,691	KKR & Dunas Capital	Intertur Hotels
5	<b>HI Partners: IFA Hoteles</b>	866	€ 103,999,982	€ 120,092	HI Partners	Lopesan Grupo
6	<b>Portobello: Blue Sea</b>	2.446	€ 69,999,767	€ 28,618	Portobello Capital	Blue Sea Hotels & Resorts
7	<b>Meliá/London &amp; Regional: Acciona</b>	312	€ 49,999,942	€ 160,256	Meliá Hotels International, London & Regional Properties	Acciona
8	<b>Corum AM: B&amp;B Hotels</b>	760	€ 30,299,952	€ 39,868	Corum AM	B&B Hotels
9	<b>Blue Sea: Evenia Hotels</b>	422	€ 10,999,991	€ 26,066	Blue Sea Hotels & Resorts	Evenia Hotels
10	<b>Blue Sea: Playa Senator</b>	483	N/D	N/D	Blue Sea Hotels & Resorts	NA & Playa Senator

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