Italy Hotel investment snapshot 2018

Highlights

-20% in investments volume	Top Deal 2018	Cross-border	Top City 2018
€1.3bn	**Piazza Augusto Imperatore - Rome**	**€650m (53%)**	**Rome (€500m)**
Hotel investment volume at €1.3bn in 2018, experiencing a slowdown compared to 2017 (ca. -20%), but with an increasing number of transactions	Largest acquisition ever for a hotel development project in Rome to be converted into a luxury hotel, managed by a prime international operator	Increased activity from domestic buyers reduced cross border investments down to 53% (70% in 2017) of total volume. International demand remains strong with increased activity from European institutional investors and hotel operators	Rome is the top destination in Italy for the second year in a row, recording investments in excess of €500 million (40% of total volume) followed by Milan (17%), Venice (11%) and Florence (10%). Top four cities account for 80% of total investments

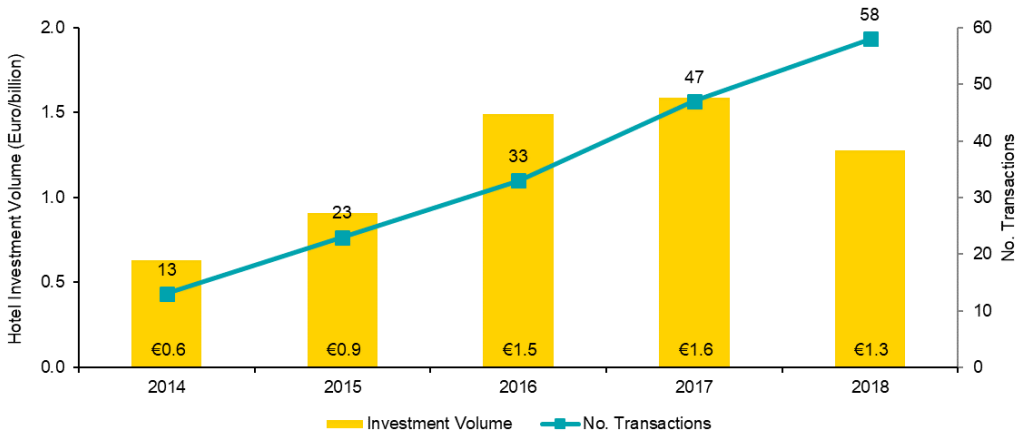
Transaction volume

Hotel investment market in 2018 marks a slowdown to €1.3bn, below the record of €1.6bn registered in 2017 (-20%) after a three years in a row of growth. We recorded an increased number of 58 hotel transactions involving approx. 7,400 rooms, with an increasing "per room" average value, confirming the momentum of the Italian hotel market.

Despite a number of single-asset transactions in excess of €40m have occurred in 2018, the lack of large portfolio sales inverted the investment trend. However the investment volume remains far above the levels before 2016, confirming that strong market fundamentals support the interest of both international and domestic investors.

Notably, 40% of the investment volume relates to the development of new hotels from the conversion of existing buildings in the city centers of Rome, Milan, Venice and Florence.

Hotel investments volume in Italy (2014-2018)



Building a better working world

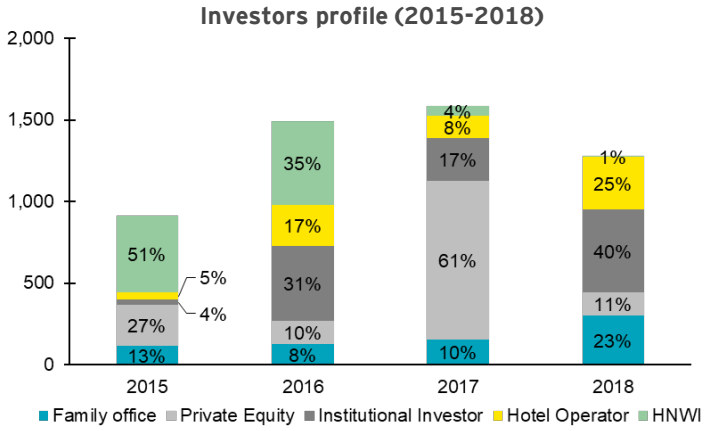
Italy Hotel investment snapshot

2018 (full year)

Investors profile

After a 2017 dominated by Private Equities (67% of investment volume), hotel investors in 2018 register a more balanced mix, with a slight prevalence of institutional investors (both domestic and international) followed by hotel operators and family offices, confirming the gradual shift from an opportunistic/high-yield approach to a more mature long-term and core perception of the Italian hotel investment market.

Domestic investors represent 44% of total volume in 2018, equally distributed between transactions of existing hotels and developments, while 35% of international buyers opted for a new hotel development.



Top destinations

Rome confirms itself as a capital also in the hotel transactions totalling 2,200 hotel rooms that changed hands in 2018 for a total investment in excess of €500 million (40% of total), followed by Milan (17%), Venice (11%) and Florence (10%).

Top four markets account for 80% of total investments.

Investments in hotel developments (conversion project or forward purchases) were concentrated in these four cities.

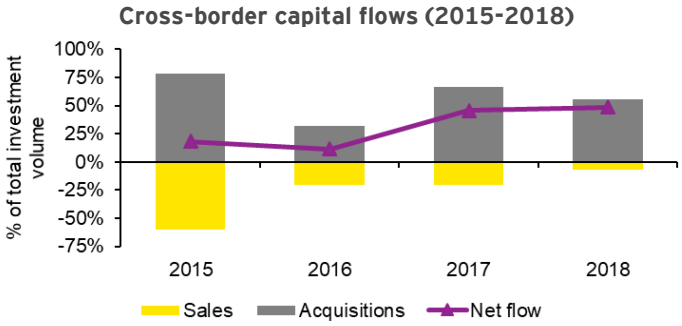
Venice – in terms of value per hotel room – is the most expensive city (€500k+ per room on average), followed by Milan (€245k/room) and Rome (€230k/room).

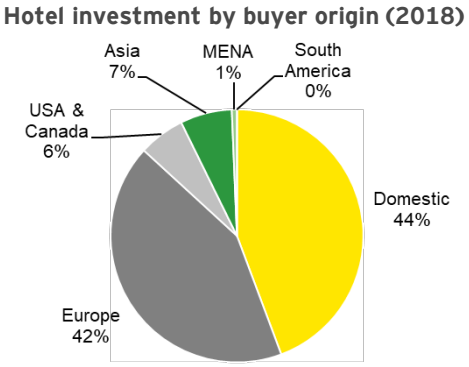
Both number of transactions and investment volume in resort destinations have significantly decreased compared to 2017, mostly due to the lack of prime resorts and portfolio sales. We register a steady interest from operators and investors towards resort destinations, but as the Mediterranean countries strengthen their recovery, players become more selective in terms of micro-location and quality of assets.

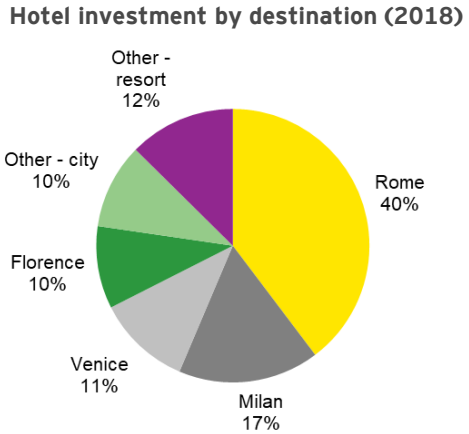
Cross-border capital flows

Cross-border interest has been historically high in the Italian hotel market. Except for 2016, acquisitions by international buyers accounted between 50%-75% of total investment volume across the period 2015-2018, while divestments (sales) by foreign vendors have been decreasing over the last 4 years.

In 2018, investors from Germany and France were the most active buyers of Italian hotel assets, while USA returned down to historical levels, after the boost registered in 2017 thanks to the acquisition of Boscolo Group by Varde Partners .







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2018 (full year)

Notable transactions (price in excess of €40m)

	Name	Location	Vendor type		Buyer type		Stars	Rooms
Q4	Proposed Luxury Hotel Piazza Augusto Imperatore	Rome	Institutional Investor	ITA	Family office	ITA	5	120
Q4	Proposed Luxury Hotel Piazza San Marcello	Rome	Family office	ITA	Confidential	N/A	5	86
Q4	MGallery Milano	Milan	Family office	ITA	Institutional Investor	GER	5	141
Q1	Hilton Lama EUR	Rome	Public entity	ITA	Hotel Operator	ITA	4	439
Q4	MGallery Cerretani	Florence	Private Equity	USA	Institutional Investor	SGP	4	86
Q4	MGallery Murano	Venice	Family office	ITA	Institutional Investor	GER	5	118
Q1	Castello di Casole	Tuscany	Institutional Investor	GER	Hotel Operator	UK	5	87

Hotel trading performance

According to AICA-Confindustria, in the 12-month period to November 2018, Italy has registered an increase in RevPAR (+3.8%) supported by both by ADR (+2.3%) and occupancy rate (+1.0 bps), marking a slowdown after a bumper 2017.

Growth in major markets is led by Rome (+6.5%) and Milan (+3.1%), while Venice marks a -10.1% in RevPAR compared to 2017 due to the absence of the Biennale Exhibition in 2018. Secondary destinations register a varied performance, from the double-digit growth in Padua and Bergamo down to modest increases in Naples and Catania.

The top 4 Italian markets confirm their momentum for corporate and leisure demand, fueled by a general recovery of the global economic situation, followed by the main secondary destinations in northern Italy (i.e. Bergamo, Padua and Bologna).

Economic analysts predict signs of an inversion in the recovery trend of the European economy – due to the monetary tapering from ECB, Brexit, expected weakening of the USD – that may negatively impact the spending capacity of incoming tourists.

City	Occupancy	ADR (€)	RevPAR (€)	RevPAR Change 2018 vs. 2017 (*)
Venice	73%	225	165	-10.1%
Rome	73%	179	131	6.5%
Florence	74%	142	106	0.6%
Milan	70%	149	104	3.1%
Naples	77%	88	68	0.5%
Catania	77%	87	67	0.6%
Genoa	70%	93	65	4.2%
Bologna	68%	94	64	9.0%
Bergamo	83%	77	63	10.1%
Turin	67%	93	63	4.9%
Padua	74%	70	52	11.1%
Verona	75%	65	49	4.9%
Italy	**71%**	**152**	**108**	**3.8%**

(*) Rolling 12 months to November

Source: AICA-Confindustria

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Outlook for 2019

Investment volume in 2018 registered a slowdown compared to 2017, mainly due to the lack of large portfolio sales, although maintaining a level amongst the highest in the last decade.

Despite the variable macro-economic indicators, 2019 presents a positive outlook, in consideration of both the solid market fundamentals and the massive pipeline of hotel sales started last year that are expected to be finalized in the first half of 2019.

We expect the total investment volume will exceed €2bn by the end of the year, due to the closing of the announced purchase of Belmond Hotels and Resorts by LWMH – the operator owns and operates 7 top luxury resorts in Italy, for an estimated allocated value of ca. €1bn out of at total enterprise value of €2.8bn – and the ongoing sale of a number of single asset hotels and portfolios in major Italian cities and prime resort destinations.

International buyers will likely increase their activism towards the Italian hotel investment market, with a predominant role of Institutional Investors (core assets) and Private Equity (value-add/developments) that are already positioned on the big tickets. Conversely, the NPL segment is expected to fuel further auction sales of small-medium assets, particularly in secondary destinations, where local domestic investors and operators play a prominent role.

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For more information, please contact:

Marco Zalamena
EY | Partner, Hospitality
Tel: +39 02 806693711
E-mail: marco.zalamena@it.ey.com

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