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HOTEL SECTOR, REAL ESTATE INVESTMENTS AND COVID-19 IMPACT

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Abstract

The present thesis has the aim of showing and analyze the hotel asset class under an investment opportunity point of view, being also one of the most dynamic real estate markets. Indeed, especially in crisis context, as the one we are living due to Covid-19 pandemic, the hospitality sector is one of the first to be affected and , often, it experience exponential impacts, both positive and negative, with the urge, if negative, of fast changes coinciding also with a reshuffle of the players acting on the market.

The assessment starts from an overview of the tourism industry, with a worldwide positive trend along the years that made the market grow in an exponentially manner becoming one of the main drivers sector for many Countries' economies, Italy included, with a two ways relationship with both macro and micro economy.

Although the market is in a steady rise, the properties and assets need to be constantly refurbish and kept up to date to meet the need and increase the appetibility towards the customers since the high competition level present in the market and the common risk of losing profitability.

Along the text, the hotel sector is analyzed under the investor eyes with a focus on the most common evaluation techniques used, the main tool to manage the hotels and the explanation of the main key performance indexes. After a general view of the sector, a deeper analysis has been carried out on the main European cities and, in particular, on how the pandemic and restrictions affected at first KPIs and afterwards the investment indexes with a change in the investors behavior.

The Italian hotel market has been studied in more detail with a map of the assets and their level / quality on the territory and the values of the main data regarding the sector has been illustrate with a subdivision of the market in Primary (Milan, Rome, Venice, Florence) and Secondary.

Once analyzed in a "as-it-was" situation (pre pandemic period), the consequences of government's restriction in the attempt to limit the Covid-19 pandemic have been taken into account with the consequences of change in the investors' behavior and the lower liquidity in the market that opened the doors to more opportunistic and private players.

To conclude, a forecast about future scenario is carried out about the tourism industry in its whole making assumption on how and at which speed it is going to fully recover with possible change in trends that are likely to take place or, others, that have been speed up by the pandemic. In particular two different views have been taken into examination:

- Alternative fundraising and management of the asset
- Alternative conception of the hotel as asset class to enhance customers' experience.

The two paths, before little used, are becoming, and will become, more and more used to answer to the increase needs of the guests and to the pandemic crisis used as means toward a fast recovery.

New technologies, in this scenario, are going to be fundamental as new generations start to travel with the "classical" holiday out of trend in favor of a more dynamic and more "social" and "linked" experience. This created context is favorable to value-add investors entering the market that can leverage on both the discounted price as pandemic results and on the need of refurbishment of the many dated properties all around the Country, often run by small families.

The peculiar characteristics of the sector give the possibility to sought these increase in performance and experience in multiple factors such as location, view, interaction, disposal, furnishing, technologies and so on with the scope of finding the so called "blue ocean" to place themselves in a desirable and unique position to decrease competition's risks and to be little concern about new entrants.

1.TOURISM OVERVIEW

Italy is well known for its tourist vocation and it is one of the most popular destination worldwide since the beginning of the concept of tourism.

Italy, in fact, was one of the pillars for the origin of the modern tourism: it was the key destination for the so-called *Grand Tour* carried out by the European aristocrat between XVII-XVIII for the personal growth and learning. Born in England, this phenomenon begun soon to spread and to attract wealthy people and, in 1841, the first travel agency was fund: The Thomas Cook & Son.

With the first travel agency, the interest on the tourism took an exponential growth and so Italy as destination due to its offers which covered all kind of demand: leisure, study, historic, artistic, etc.. Once aware of these potentialities, the Italian government tried to maximize the underneath possibilities instituting the ENIT (Ente Nazionale del Turismo) in 1919 and, in the following year, the CIT (Compagnia Italiana del Turismo).

In these years, coinciding with the end of the war, most of the world experienced an economic boom and Italy begun to be the target destination for foreign tourists.

In the same years the UNWTO (Organizzazione Mondiale del Turismo) was founded and the firsts tourism's reports were published: Europe was the first destination by arrival going from 16,8 million to 151,5 million in the years 1950-1975.

In the '70s Italy become famous for its holiday resorts attracting tourist of the middle-upper scale with an average stay of 28 days, it was characterized by strong seasonal demand with the seaside that covered almost the 60% of the total demand and reaching, between 1960 and 1975, the first ranking position in overnight stays with about 292 million.

In the '80s, a shift of the holiday concept took place moving, from a holiday resorts, to organized vacation increasing once more the Italian appeals from foreign tourists and, increasing also the internal demand, reaching the record number of 337 million overnight stays.

As described, the importance of the sector had an exceptional growth in the years and, in the '90s, arrived at the point to be fundamental for the nation's economy, growing its weight and importance year after year.

In 1995 Europe was still the first continent by destinations but, due to other nations outbreak, Italy slid down to the fourth place in the ranking by destination and appeal passing from 337 million of the 1985 to 286 million of 1995.

Starting from the new millennial, a new tendency took place with the self-organized travel that become viral thanks to the breakthrough of internet and the introduction of low-cost offers both for transportation and for accommodation, together with the growth in income levels that enlarged the potential travelers. All these factors led to the reach of the 1 billion threshold in 2012 and, until nowadays, Europe confirmed to be the first location both for arrivals and overnight stays with the sector representing the third economic activity generating about 10% of the GDP and 12% of employees.

Figure 1 – Number of tourists, World Tourism Organization, 2020

The world is going through a period of wealth increase in the last 30 years and, in combination with the drop of prices for transportation, the tourism is growing year after year touching new record, stopped only by the Covid-19 crisis. In 2019 tourist arrival, according to World Tourism Organization (UNTWO), reached 1,5 billion increased by 4% with respect to 2018 which was already 6% above the previous year. The positive trend is true also for air travel which doubled in the last twenty years at the expense of land transport.

In this new scenario, Italy's market share, such as the one of other mature destination, experienced an inevitable contraction because of the emergence of new destinations, passing from over 7% in the 1990s to slightly more than 3% in 2019.

Also the international tourism suffered a break both from the 11-11-2001 first and the 2008 crisis later but, starting from 2010, some sign of recovery have been recorded with foreigners' spending that returned to growth at a pace of 4,3% /y on average versus the negative results of the previous decade that was, on average, equal to +0,8% /y.

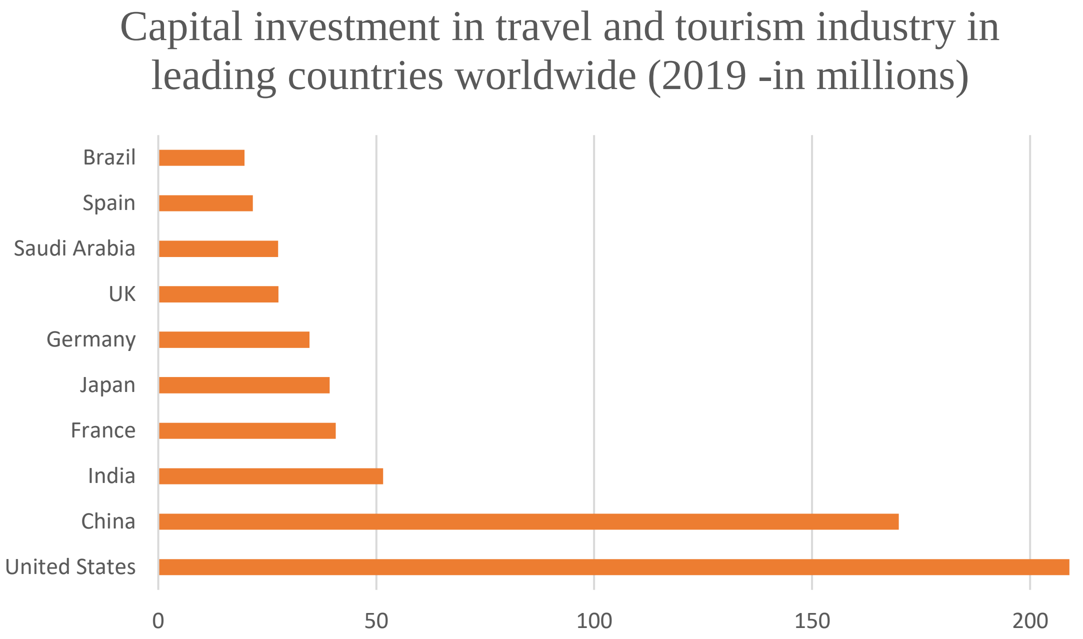

Figure 2 – Capital investment in travel and tourism industry in leading Countries, Statista.com, 2020

In the last years, the market faster the growth with the total exports from international tourism that reached 1.8 USD trillion in 2018, almost 5 billion a day, and the international tourism business that reached 29% of world's service exports and 7% of overall exports of goods and services; moreover, growth in tourism sector exceeded, for the 8th year in row, the growth of merchandise export, respectively equal to +4% and +3%.

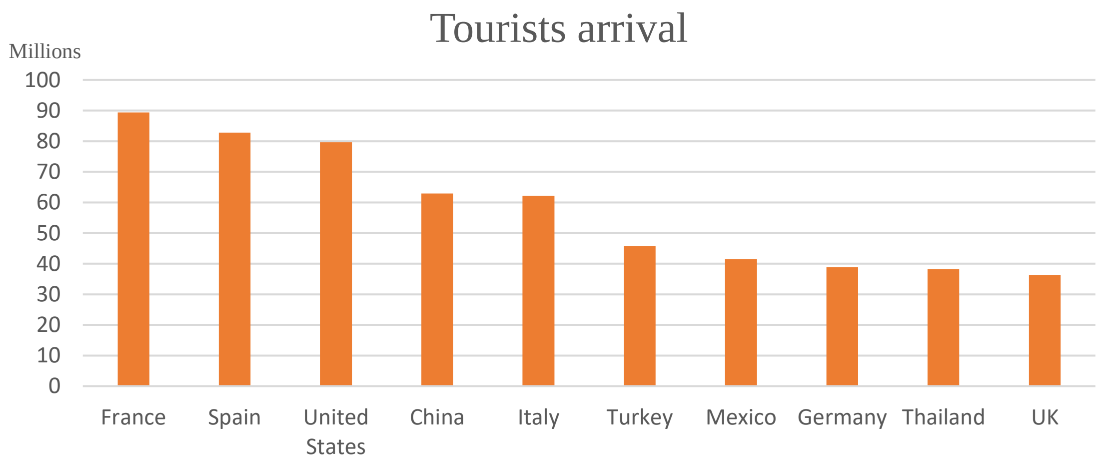

Figure 3 – Tourists arrival, World Tourist Organization, 2019

These changes led to a virtuous circle for which the more the travel industry grew, the more the countries spent to develop the sector and attract visitors. In the previous graph is shown the top ranked country's capital investment by all industries related (directly and indirectly) in travel and hospitality such as passenger transport, leisure facilities, restaurants, and accommodations.

Although Italy is not in the top position for capital investments in tourist sector, it has a great appeal worldwide placing itself in the 5th position regarding tourist arrival, surpassed only by France, Spain, USA and China.

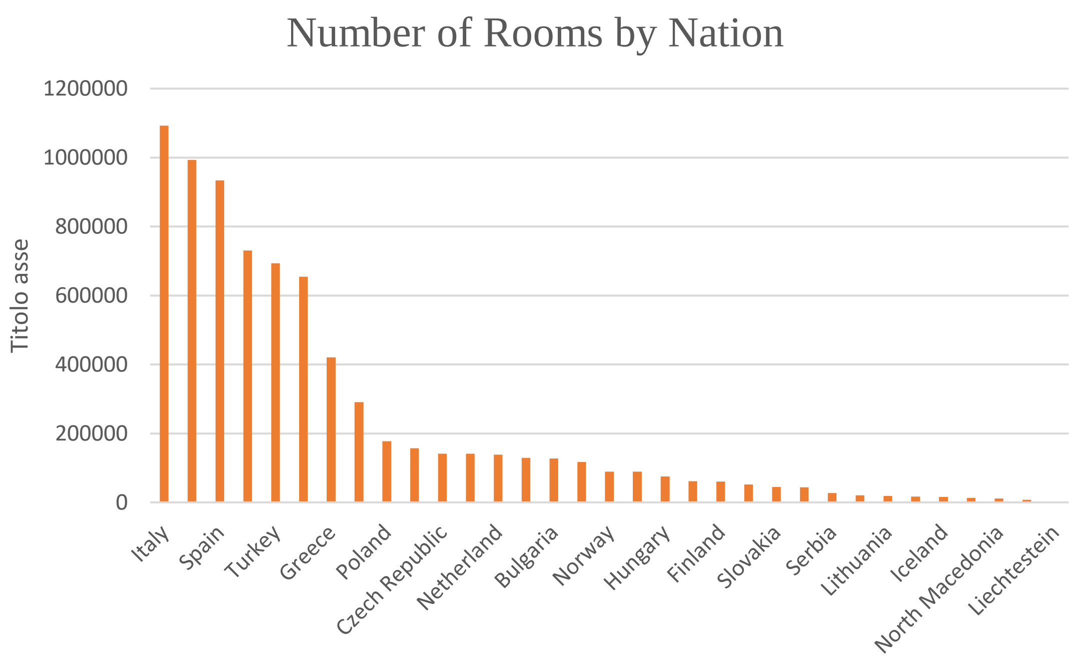

Figure 4 – Number of rooms by Nation, Eurostat, 2020

The total number of rooms[1] worldwide is about 25 million and Europe has the biggest slice counting about 45%, North and South America count for the 35%, East Asia and Pacific for the 15% and Africa for about 5%. Although, if looking at rooms affiliated to

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[1] *Number of bedrooms: "A bedroom is the unit formed by one room or groups of rooms constituting an indivisible rental whole in an accommodation establishment or dwelling. Rooms may be single, double or multiple, depending on whether they are equipped permanently to accommodate one, two or several people (it is useful to classify the rooms respectively). The number of existing rooms is the number the establishment habitually has available to accommodate guests (overnight visitors), excluding rooms used by the employees working for the establishment. If a room is used as a permanent residence (for more than a year) it should not be included. Bathrooms and toilets do not count as a room. An apartment is a special type of room. It consists of one or more rooms and has a kitchen unit and its own bathroom and toilet. Apartments may be with hotel services (in apartment hotels) or without hotel services. Cabins, cottages, huts, chalets, bungalows and villas can be treated like bedrooms and apartments, i.e. to be let as a unit." Source: Statista.it.*

branded hotel chains, US and Canada have around 70%, Asia, Africa, Middle East and Pacific above 25%, South America 18%, Oceania 1% and Europe slightly above 17%.

Number of Rooms by Nation

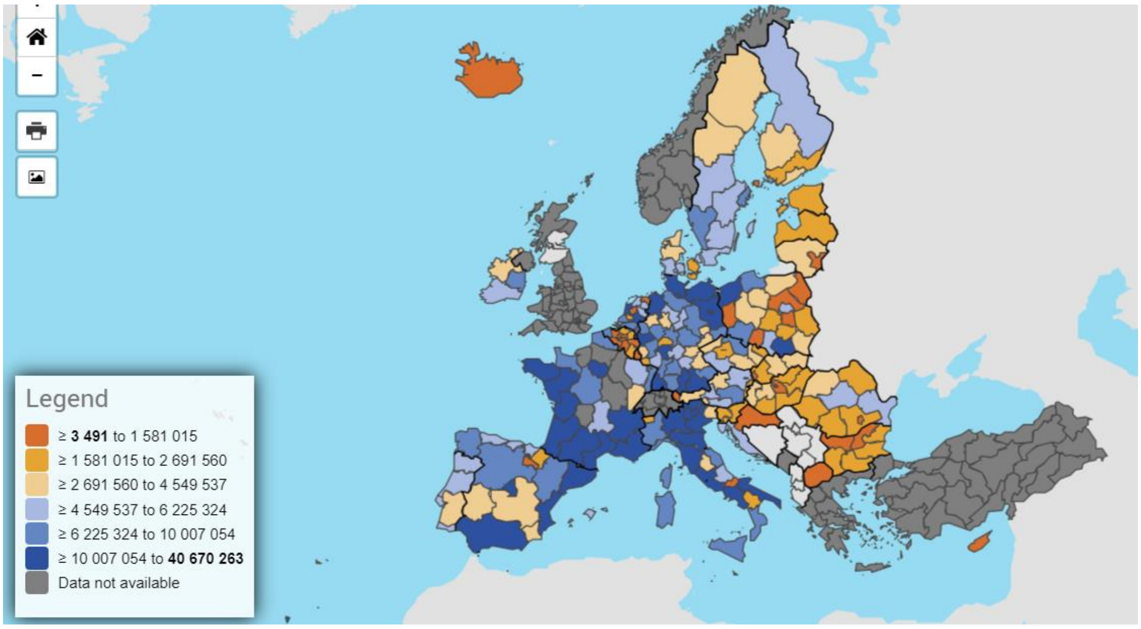

Figure 5 – Map of Number of rooms by Nation, Eurostat, 2020

2.HOTEL SECTOR

The Hotel sector is a peculiar sector which differs from all the other Real Estate one since it lays mainly upon a marketing strategy, this means selling the right product, to the right customer, at the right price and in the right moment. In the Hotel business is present a person in charge of meeting all these need: the Revenue manager which is "the professional who supports the sales and marketing director in defining the strategic and operational plan and in drafting the revenue budget. The goal of the revenue manager is to optimize the volume of business through the integrated control of rooms still available for sale" (Marone, 2010), for these reasons, it has to have access to database that must be always updated about new stocks, analysis of different customers expenditure and willingness and carrying out benchmarking.

The first step is to divide the target into subcategories, this means to divide the customers group in four macro areas: leisure tourists, business clients, leisure group and business group. The first one is the one travelling for cultural, leisure, religious or friends/relative motives and, it is usually represented by one or a limited group of people, often booking in advance with respect to all the other categories and it is the most affectable by price, marketing, world of mouth and online reviews. It travels mainly on weekends and / or during holidays.

The business client is the one travelling for work and it is characterized by fix night stays, a low sensitivity to the price and it has low flexibility about location and room typology. It travels mainly during the week days booking at the last minutes.

On the contrary, the group categories are used to increase the occupancy and they are usually charged with a lower fee (always below the Best Available Rate) and are considered so when at least five rooms have been booked.

The leisure group can be divided in "series group" and "ad hoc group". For the first one the stay is booked at least one years before with a constant fee while the latter are occasional group and, for this reason, the fees are decided from time to time. Business group, instead, are group of people travelling for work reason and comprehend the MICE segment (Meetings, Incentives, Conferences and Exhibitions). Meetings are about conferences and training courses, exhibitions refer to fairs and showroom, incentive travels comprehend travels offered by the company to its employees as bonus while conferences travel have to do with organized events for clients and commercial partners. The fee reserved to these two different groups (leisure and business) can be of four types:

- Yield: it is a dynamic fee which change with the change in demand;
- non-yield: it is a static fee independent to the demand value;
- Catch: it is a fee based on negotiation;
- complimentary-house: it is a fee reserved to the internal stuff.

The different kind of fees and the ability to forecast the demand based on past data, taking into consideration as many variables as possible, are a key elements for the revenue management with the end of maximizing profit avoiding discounted prices in correspondence with peaks in demand and vice versa.

The KPIs used in the hotel sector are different, both to evaluate the investment and to manage the potential revenue of the management. The main ones, that are also the basis of the analysis of this thesis, are:

- Occupancy rate refers to the ratio between the sold unit over the total number of available units at a precise time, highlighting how many available rooms are actually contributing to the revenue and, it is expressed in percentage term.
- ADR (Average Daily Rate) is the total net amount collected by each room adding taxes, meals and discounts. The formula to calculate it is the ratio between the sum of the revenue obtained by each room divided by the number of rooms sold in the same period. This is one of the main indicators also to evaluate the price for selling / dismiss a hotel and, it refers to the average daily selling price. It is possible to increase this value by offering complementary service respect to the just night stay such as lunch/dinner, tickets for events, priority in site visits etc. The unit of measure used is in monetary terms (Euros regarding analysis carried out in Europe).

  Starting from the ADR is possible to obtain a second tier of indicators such as ARI (Average rate Index) calculated as the ratio between the ADR of the hotel analyzed and the average ADR of hotel under consideration. In this case, as the name suggests, we are referring to an index and so expressing it in percentage terms.

- RevPAR indicate the ability of a hotel to sell its available room at an average rate. An increase of performance of this indicator underlie an increase of performance of at least one between ADR or Occupancy rate. There are two different ways to calculate it, the first one is dividing the Total Room Revenue by the Total Room Available while the second one takes into consideration the Occupancy rate multiplied by the ADR. Analyzing the two formula, is possible to say that RevPAR represents the volume obtained per available room independently whether they are occupied and it is used also as comparative elements to benchmark competitors. RevPAR is considered one of the main indicator by the experts but it presents some drawdown such the fact that it does not take into consideration neither the cost per occupied room (CPOR) nor the other possible source of revenue that an hotel can have such as parking and catering services, just to quote some of them. For these reasons, in the last years, new indicators have been introduced in order to have a more transparent view about performances. Here below the main ones are reported:

  TrevPAR (total revenue per available room) calculated as total revenue divided by the total rooms.

  ARPAR (adjusted revenue per available room) which subtract all variable costs and adds all additional revenue per occupied room to the ADR, multiplying the results by the Occupancy. This indicator is similar to RevPAR, but it is better suited in order to check the effectiveness and efficiency of a hotel policy.

  GOPPAR stands for Gross Operating Profit Per Available Room and differs from all the other since it does not make differences of whether the rooms are occupied or not and, on top, it includes all variable costs relating to rooms.

In order to maximize as much as possible these KPIs, it is essential to observe and analyze historical data, compare them to the present one, understand trends going on and, to conclude, try to make forecast elaborating future strategies without forget to take into consideration external variable influencing the model created such as weather, economic factors, events and holidays that change period (Easter for example) and so on.

A precise forecast is essential for the management of an hotel because it gives the possibility to increase the performance here above mentioned and to control phenomena as no-shows (people that book, do not cancel and do not show up), walk-in (people that show up without booking) and overbooking (the decision to sell un-existing room forecasting the canceling / no show of a certain number of customers) which, the latter, that can lead to an oversale if the forecast fail with the consequence of having more customers than rooms.

This last phenomena has both direct and indirect costs for the hotel: the cost of an alternative accommodation of the same level or higher and the cost of their transportation and refund are part of the first type of costs while the negative image and the negative world of mouth are part of the latter one.

Hotel sector differs from all the other real estate categories because of its intrinsic characteristics that make it the most dynamic and ready to changes. Usually, when referring to residential, office or retail, there are medium to long term contracts and lease agreements that are not so dependent on marketing strategy but, on the contrary, when referring to hospitality, the contracts are based on short term (daily basis) and depend on whether someone booked a room. This could be seen either as a weak spot, because of the uncertainty that comes with it and for the fact that, when some unfavorable events happen, it is affected almost on real time or, as the strongest side of the sector making it able to adapt and responds to changes in a very short time acting on prices and influencing the market with marketing actions. It is possible to say that these two sides of the coin cancel out each other in theory since they result in an immediate effects on the sector due to market changes, weather they are good and bad, but, in practical term, they open up to the opportunity to exploit the good effects and to mitigate the bad one, resulting in a positive delta.

As all the asset classes, also the hotels are divided into different group to better identify the levels they belong to. There are numbers of different variety in the hotel sector depending on many different factors such as the structure of the building and the service quality. Here below, a first classification provided by STR (data solution) is shown grouping hotels in eighteen segments:

1. All-Inclusive: Property with rooms sold only as a complete package, including accommodation, amenities and value-added services (e.g. food, drinks, activities and tips, etc.)

2. All-Suite: Property with inventory consisting exclusively of rooms with more spaces and furnishings than typical hotel rooms, including a living room and multiple bedrooms.
3. B & B / Inn: Properties with independent ownership and management that offer a price per room generally including breakfast, a maximum of 20 rooms and have a resident manager / owner.
4. Boutique: Property that attracts guests for the convenience of the structure and configuration of the rooms. Boutique hotels are generally independent (with fewer than 200 rooms), have high average prices and offer high-end services. Boutique hotels often offer authentic historical-cultural experiences and attractive services for guests.
5. Condominium: Condominium units whose entire property is owned by a single owner. The inventory is included in a timeshare managed by a management company.
6. Conference: Properties that focus their offer on conference services. This type of hotel must adhere to the guidelines of the IACC (International Association of Conference Centers).
7. Convention: A property with a minimum of 300 rooms and large meeting areas (for a minimum of 1,800 square meters) that is not part of the CCG (Conference Center Group).
8. Destination Resort: Property intended for leisure travel, generally located in resort areas and considered a destination in its own right; offers a great variety of attractive facilities. These properties are typically larger and full-service.
9. Gaming / Casino: Properties that focus the offer on casino services.
10. Golf: Property including a golf course. The qualification is not attributed to facilities close to external golf courses.
11. Hotel / Motel: Hotel or motel with standard services.
12. Lifestyle brand: Group of hotels under the same brand that are adapted to reflect current trends.
13. New Build: Property built from scratch, not a conversion from another hotel or use.
14. Ski: Property with on-site access to ski runs.

15. Soft Brand: A collection of properties that allow owners and operators to join a major chain while maintaining their name, design and orientation. Soft Brand properties include Ascend Hotel Collection by Choice Hotels International, Autograph Collection by Marriott International and The Luxury Collection by Starwood Hotels & Resorts Worldwide. See Boutique, Brand lifestyle.
16. Spa: Property with on-site spa and full-time staff.
17. Timeshare: A property that is generally a condominium unit in which multiple parties hold rights of use and each owner can use them in specific periods of time.
18. Waterpark: A resort with indoor and outdoor water park consisting of a receptive building complete with an aquatic structure (minimum 900 square meters) and attractions (slides, tubes and a series of other water games).

All these classifications can be summarized into five categories (Full service, select service, limited service, extended stay and budget hotels) based on the services and quality offered and also on the brand equity strength and perception.

The most exclusive are the Full-service hotels (ranging from luxury to mid-scale hotels) that offers all the kind of complementary services asked by the market such as in-place restaurants, retails, room service, meeting rooms and amenities such as spas. These hotels group rely mainly on their brand image and are characterized by large stuff and high fixed cost, basing their competition on the quality provided. Example of this category are the Four season, Aman, Marriotts, Hiltons etc.

The second ones are the so called select-service hotels, born to fill the initial empty gap between full services and limited services. They are basically hotels which have some extra services and characteristics respect to the basic one. Example of this category are Aloft, Hilton Garden and Indigo hotels.

At the lower level we found the Limited-service hotels (like Fairfield and Hampton) that differ from the previous two because of the absence of restaurants or catering even though other services or amenities, of the same level of the upper categories, may be present such has fitness rooms, meeting rooms and pools.

A peculiar class is the Extended Hotel that, as the name point out, addresses customers with bed night-stays longer than average, with the demand mainly composed by family that, for a reason or another, cannot stay at their homes. For this reason, “exceptional features” for a hotel, that normally are not present, are offered, examples are very large rooms, presence of a kitchen and laundry system and a grater discounted charge the longer the stay. They serve every customers' typology but, it has to say that the major offer is for mid class people. To this category belong chains like Extended Stay America, Embassy Suites and Hilton's Homewood.

At lowest level in terms of complementary services provided there are the so called Budget Hotels that have as the main target to lower as much as possible all kind of costs (both variable and fixed) resulting in less services offered since the competition, in this case, is based totally on price.

2.1. Hotel characteristics

The sector, in the last years, is attracting more and more investors of different nature, slowly changing the view of the market from high risk to secure. However, the change in the perception is given by the fact that the management is taken under a scientific point of view stressing the knowledge of the markets, the management operation and the financial concepts.

Hotel investment, as all types of investment, respond to the economic law of "there is no such thing as a free lunch" meaning that, if a lack of knowledge or management skills is present, the investment can lead to great losses as reported by Eli Segall of the Las Vegas Review Journal that reported the story of an hotel purchased in 2004 for 50 million and sold twelve years later for 13,6 million. The transaction underline the fact that the sector, as all sectors, has some risks that became grater if not familiar with the specific practices used.

The concept of risk is seen as the uncertainty, un-foreseeable or neglected effects of an activity or process that can lead, in theory, to both opportunities or negative effect. However, especially in Italian background, it has a negative meaning indicating mainly possible negative outcome.

The level and kind of risk accepted depends mainly by the kind of investor and / or portfolio composition with different length of business plan. In particular, the market, is composed by mainly four type of investor that are, from the most risk adverse to the risk lover, Core, Core Plus, Value Added and Opportunistic. In particular, Core investments are the one concerning assets in prime location and of top quality with a stabilized and long-term rent. This type of investment is usually characterized by a low use of the leverage and a long term view having the main profit coming from the cash flow generated by the rent without substantial changes in the value of the asset. Value Added investments comprehend assets with no tenant that need to be refurbish. In this investment type, the objective is to increase the value of the asset in the short term usually finding also new tenants to sell the property to a Core fund at a lower yield. Between these two, the Core plus investment is positioned that is characterized by a mix of characteristics that can change.

The opportunistic, the most risk lovers, are usually distinguished by investment on area under redevelopment and / or refurbishment of crumbling building.

There are three main project period in which these risks can occur in a hotel investment: development, operating and exit time. The first one include risks of having a final product that differs from the one envision, to have a time schedule stretched incurring in higher costs or penalties or underbudgeting the resources needed. Most of the these issues can be overcome by a detail program and high skilled expertise but some can not be predicted and a reasonable mitigation budget is usually introduced to be prepared in case. Operating risks, instead, are all the possible risks that can be faced from the first full operating year, usually corresponding to the forth year, up to the twenty-fifth year. In this case the risk is based mainly on whether the level of EBITDA is constant or volatile: if volatile, a possible problems in cash flow could emerge with the necessity to open a line of credit that, paying the interests, would further erode the Profit. Moreover, investor interested in the property, would see it as riskier and so the bid price would be affected in a negative way. The last type of risk, the exit risk, is subjected to both micro and macro factors such as the physical state of the building, global economy's heal, grade of the nation's political uncertainty etc.

Location is a key element for every real estate asset class and in a particular way for hospitality sector. In fact, this factor, is one of the main drivers for demand influencing both revenue and customers' appeal through better performances of ADR, RevPAR and Occupancy. Multiple theories and methods have been developed in the last year such as the one described in the paper "Theoretical, Empirical, and Operational Models in Hotel Location Research" in which authors successful linked the location of an hotel with the possible results achieved. The text explains that not only the location differs from a city to another, but it is also completely different within the same city in terms of type of customer and successful rate.

The main areas identified are "traditional city gates, railway station/approach roads, main access roads, 'nice' locations, transition zones and urban periphery on motorway, and airport transport interchanges". Each of them targets a different customer segment meaning that also the services and amenities provided has to differ for different typologies. The model used by the authors is built under the assumption that a city is monocentric and the hotel price is directly linked to its distance from the center: this means that, for the model, luxury hotels are located in the very center with the levels decreasing going farther from it. Moreover, they state that hotels cluster would allowing them to offer exclusively service not possible otherwise with benefits overcoming the negative component of higher competition.

As regarding the investment cycle of hotels, it is possible to surely state that it is cyclical since mainly linked to macroeconomic factor (although micro economic ones can also influence it). The cycle usually starts with a positive economical factor that drives higher expenditure in all the sector increasing revenue (and occupancy in hotel market). The higher profitability attracts new investors with higher number of properties' buying and selling and many new developments entering in the market, at the same time, with a large amount of stock moving the equilibrium point of the offer/demand graph towards a lower price, crashing income and values. The size of this last event determines the recovery time starting again the cycle. Hotel sector, as the major of businesses, is characterized by four different sequential stages:

- Economic expansion: the sector experiences a sharp increase in demand and, as consequence, an increase of price and / or occupancy leading at higher level of revenue and profit in accordance to the base economic rule of offer/demand. New investors start to see the market as an opportunity investing in new projects.
- Maturity: increase in revenues and profit level down passing from a stable period to a slow decrease. It starts with the firsts new stocks entering the market increasing competition.
- Recession: Profit and revenue curves are characterized by a negative slope. The starting point is the one of maximum competition with the highest stock present in the market.
- Recovery: it is the turnaround point in which profit and revenue pass from a negative grow to a positive one.

Each cycle differs from the others for both duration and intensity since it depends on countless variables ranging from macroeconomic factors to public policies. The main challenge for investors is to identify the right moment to enter the market (Recovery) and, in the same way, the best moment to disinvest (Maturity) following the basic economic rule of buying at low and selling at high price.

However, as explained in the book *"Timing the market: You don't have to be perfect"*, it is improbable to exactly identify the top and the low point of the cycle since it is impossible to foresee the economic climate. The knowledge of being at the highest / lowest point, usually, arrives years later with respect to that point and factors influencing the market are not predictable, examples are the house crisis of 2008 and the Covid-19 pandemic. This means that it makes no sense to have a pre-determined timing for invest / disinvest but it should be evaluated situation by situation.

The book's authors also provide an example stating that, despite monitoring the market and picking the right time to take decisions has its advantages, it is not of fundamental importance proving that being late (or early) brings still benefits. The example provided is based on supposing to invest at the lower cycle point in 1991 and disinvest at the higher point in 2001 or, on the opposite side, missing the peaks anticipating the investment and delays the sell by one year. In the first case the return would have been of 10,53% while, in the second case, the return would have been of 9,1% with a difference of just 142 basis points but still with a more than positive return.

Hospitality sector present many risks for the owner or the management company and, among them, the competition is one of the most difficult to overcome having the negative impact of cut financial performance of the existing ones.

Base competition is the one consisting in new available rooms entering the market of any levels that would take away at least part of the customers impacting both Occupancy and RevPAR unless new strategies are put in place to maintain existing customer and to better attract new customer with respect to the new competitors. The other main risk of competition is the so called "incremental impact" which consists, as the base impact, of new rooms entering the market with the difference that, in this case, the new stock is of the same brand of the existing one using also the same reservation system but usually is at higher level in terms of furniture's quality, building quality and design. This coopetition would force existing hotel structure to have some capital expenditure (CapEx) to increase the quality of the asset and compete, at least, at the same level.

It is possible to have a sort of reliable forecast about the impact of these two scenarios from consulting firm specialized in the sector that are mainly based on the following methodologies:

- Percentage take, as the name suggest, estimates the volume, in percentage terms, that the new competitor will take from the existing one starting from the impact the new hotel have on national level. The macro view is needed to calculate the real impact of the new hotel on the existing one since the ratio is never 1:1.
- Segmentation analysis start dividing different customers into sub-group (segments) and analyze which group is more affected by the new opening. This particular methodology is useful to understand the impact on ADR. In fact, if the new hotel is successful targeting the higher segments (the one spending the most) the impact on the existing one would be of lowering all keys hotel KPIs while, conversely, if the new hotel target is based on the lower customers segment, the result would be of an increase of ADR for the existing one.

These analyses are fundamental for existing hotels and / or investors present / entering the market since new opening can change the "competitive arena" and the market dynamics changing strategies and business plans previously made.

The impact's effect of new hotels entering the market is based on multiple variables that has to be compared with the existing hotel such as proximity, size, price, number of visitors, segmentation, distancing, brand, amenities, current average level of Occupancy and RevPAR, geographical origin etc. All of these variables contribute to the impact of new hotels entering the market over the existing one with a different weight based on the peculiar situations. For example, a small size hotel entering the market has a little impact since the limited capacity or, if a new franchise hotel enter in an area full of other franchises, the impact would be limited for each of the existing ones since the share taken away is spread on all the existing ones (all of them share the same customer). On the contrary, if the situations were opposite were a new franchise enter an area with few existing structure, the impact would be severe.

2.2. Revenue Manager’s tools

For the purpose to fully exploit all the hotels’ potential, a key element is the property management system, i.e. the hospitality management program which allows to view reservations, check the rooms availability in a given period, to apply changes for a specific day or period and all the other management issues, creating a database with all the historical data and capable of process them to have as an output a reliable forecast (with the exception of the so called “black swan”).
The process is called Property Management System and it relates directly with both the front and back office. There are three different typologies of the system:

- Hotel located system that consists in a software installed in an internal computer present within the asset;
- Hybrid-hotel/remote system which storage part of the data in a local computer and part on online server;
- Web-only system in which data are stored exclusively on-line and can be accessed through the browser.

Starting from the data gathered and processed by the Property Management System, a wide numbers of software has been developed through the years, combining and putting in relations internal data with external variables (such as competitors’ price and strategy) giving back statistics, availability, update tariffs and suggestion about the management of fees, prices and strategies to follow.
With the spread of internet and the assert of the self-organized travel, two new technologies entered the market increasing both the competition and the offers: the Online Travel Agent (OTA), which have a contract with the hotels, and the metasearch engines which are basically aggregators of different offers such as Trivago, with the peculiarity of being totally independent without the presence of any contracts.
Since OTA have contracts that regulate the relationships with hotels, they have access to sensible data and information such as rooms availability and rooms charging asked, through the hotel personal CTS (Cloud Technology System).
The main OTA on the market are Booking.com and Expedia and the main contracts present are of two nature:

- the preferred contract, a fee is recognized to the OTA for each customer reservation in exchange of high visibility and gives the possibility to integrate the offers with other services such as the flight;
- the Non-preferred one, is based on a lower fee but the hotel, in this case, has less visibility on the web site or application and there is no possibility to complete the offer with complementary services.

As we will see in the next chapters, the OTA had the positive effect of increasing the occupancy of hotels along the years but, with the Covid-19 situation, they had the negative effect of cancel out the profit of the occupiers with their reservation fee and discounted prices due to the fall in occupancy.

2.3. Hotel valuation techniques

Hotel valuation, as the one for every asset class, try to estimate a value, or a small range, of a unique building within a specific context. These valuations are peculiar because there is no such thing as standard and identical object and, as consequence, valuations should be made case by case. Appraisers are used to deal with three main approaches: the sales comparison approach (which can be direct or indirect), the Income capitalization approach and the cost approach using as data in values taken by the market (the so called market indicators) while, on the other hand, investors, refers to specific data belonging to their own company as the possible leverage level to use, the personal level of acceptable risks, the cost of capital required and the level of return (IRR and equity multiple). These factors are dynamic and change over the time also modifying the value attributed to the asset taken into consideration, or more precisely, the willingness to pay by the different investors.

1- Sales Comparison Approach: this estimation method tries to find the "most probable market value" of an asset through the comparison of its characteristics with similar properties having, usually, as result, a range of prices within which the building in consideration is placed. The choice of the comparable buildings must be made based on a homogeneous market, i.e. an urban area in which real estate properties have precise and common characteristics. The variable considered can be multiple and can be grouped into four main components:

a. Location, which comprehend the distance to the city center, the accessibility, presence of facilities/services/amenities easily reachable, quality of the external environment.
b. Positioning of the asset, which is about exposure of the asset/rooms, presence of panoramic view, rooms' brightness, height of the building, distance from the road and the traffic level of it;
c. Typological characteristics such as age of the building, architectural features with relative maintenance costs, technological system in place and possible ESG certification, especially required by foreign investors.
d. Production characteristic which refers to the economic factors in place related to the building such as the current rental situation, the presence of any third party rights on the building (or on a portion of it), temporary exception from taxation, usually temporary, legal status of the seller, payment terms, presence of tax breaks at the transaction time.

It has to say that the characteristics and features of a building do not weight in the same way in different areas. The method requires the appraiser to attribute to each characteristic an influence value in the most objective way possible.

Comparison approach methodology, however, is not widely used for this particular asset class due to its shortcomings such as the need of up to date and comparable properties' transaction in recent period and in similar location and, moreover, to the subjectivity of the obtained result. The approach, though, is still valid and widely used to have a first glimpse about the price range about the property's value.

2- The Income Capitalization approach is a mathematical-financial operation that, starting from net income coming from the asset, calculate the value of the property or, as also called, the present worth of future benefits.

To calculate the value, it is necessary to sum all the forecasted net income discounting each of them and capitalizing the result. The estimation of future net income (difference between income and expense) does not take into consideration possible drastic change in demand-supply relationship and other non-recurring (extraordinary) expenses and / or income.

The technique is considered “the most persuasive” and the one that generates “the most supportable conclusions” in hospitality valuation process as written by Stephen Rushmore and Erich Baum in the text “Hotels and Motels: Valuations and Market Studies”. The text also affirms that the best time frame to consider is a window of ten years forecast with a cost of equity the closest possible to the typical buyers, which depend on their leverage and cost of debts.

The model incorporate numbers of assumptions and it requires experts to work on it in order to be reliable.

3- The Cost Approach reflects the cost needed to build the hotel from scratch plus the cost of the land. This particular technique is used for brand new buildings but it is rarely used for existing one since, the deterioration and the loss in value of a building are difficult to estimate and, in addition, the single components’ price are not static numbers but change over time. For these reasons, when used, a depreciation coefficient is multiplied by the obtained capital value, nevertheless, some short coming are present with the main one consisting in the fact that the depreciation coefficient above mentioned can be considered subjective even if calculated by experts, leading to questionable results.

3.INVESTMENT OVERLOOK

In the period that goes from 2016 to 2019 the hotel sector has reached outstanding performance driven by both real estate positive trend and by the willingness to diversify the investment by the operators. In the years considered, the investment volumes passed from ca 17 billion to ca 27 billion with the hotel market share, respect to the total real estate investment, passing from 6,3% to 8,2% respectively. As foreseeable, 2020 had a drop of investment indicator with the volume decreasing to 9 billion (one third of the previous year) and a market share equal to 3,4%.

Within the current year are expected to enter the market more than 100.000 new rooms all over Europe that are going to enhance the pressure on the market slowing down the recovery. However, the expectation are rising as the vaccine campaign goes on but the performances are not going to be equal for every location and, even in the same location, operational indexes are going to be better for the one able to adapt to the new need as digitalization and automation.

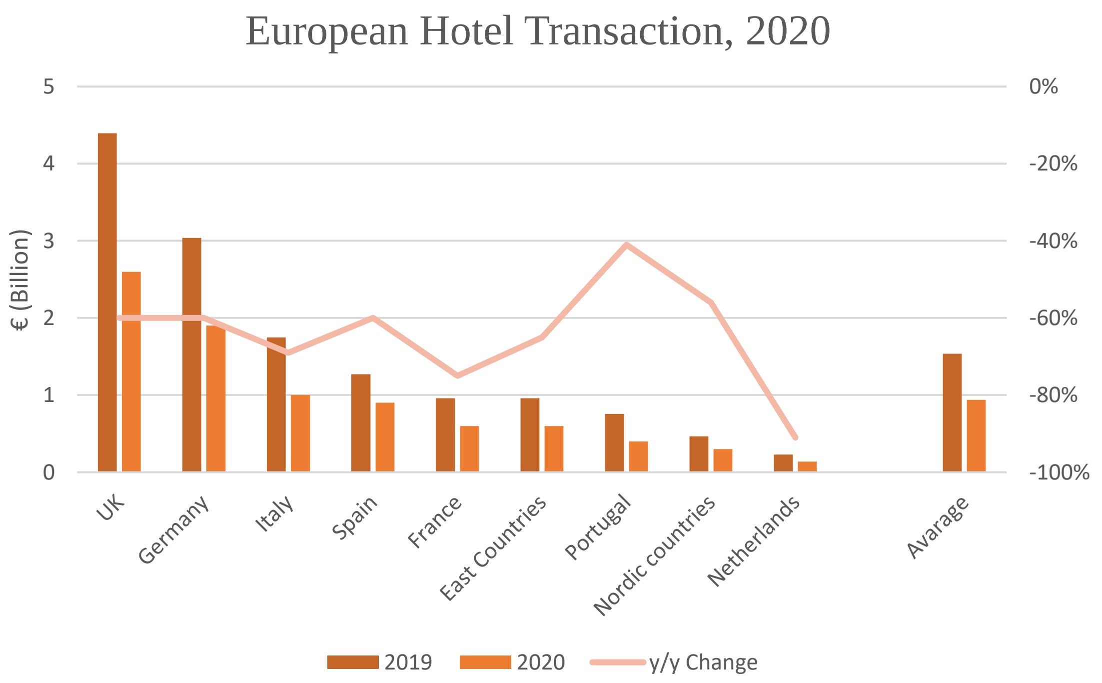

Figure 6 – European hotel transactions by Country, CBRE, 2021

The European outlook forecast a full recovery of the hotel sector possible from 2024 and, more in detail, Italian tourism sector have been struggling with a -70% of international demand and -30% of the domestic one saved, only partially, by the "proximity tourism". Although, investors are still having a strong interest in the sector.

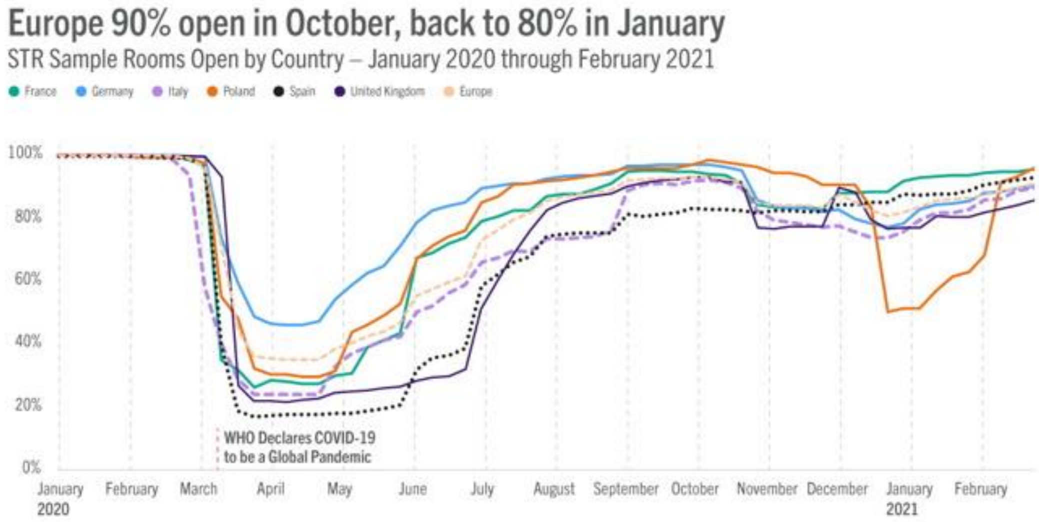

Figure 7 – Percentage of hotels open during the pandemic, STR, 2021

As far as Italy is concerned, the major companies dealing with tourism investments report that domestic demand has proved to be more resilient during the summer with the domestic bookings down "only" by 14% in the months between June and September and the international one down by 59% compared to 2019 (same months taken into consideration). The better performance of this period was due to the easing of the governments' restriction which gave a breath of fresh air to the sector. Overall, the international expenditure has been decreased by 57%, mainly due to the absence of American and Russian tourists.

Markets and hotels are unlikely to recover in a uniform manner and it is normal to have different recovery speed influenced by many macro and micro factors such as location, quality, target, segmentation, technological innovation, management skills, supply pipeline, line of credit and many others.

As expected, and introduced at the beginning of the chapter, Hotel performances and turnover had a sharp decrease worldwide in 2020 and early 2021 with a full recovery of the market not expected until 2024 with a dramatic impact of the pandemic on the industry.

A popular saying state that “before things get better, they’ll get worse” and this is what is happening in EU. Hotel sector will recover fully at some point, but the rising is going to be certainly slower than the descent.
The data of 2020 regarding the sector can be classified as pitiless with only few exceptions in all the European Region: Occupancy recorded an average value of 33,1%, ADR of € 90,89 and RevPAR fall to € 30,05.

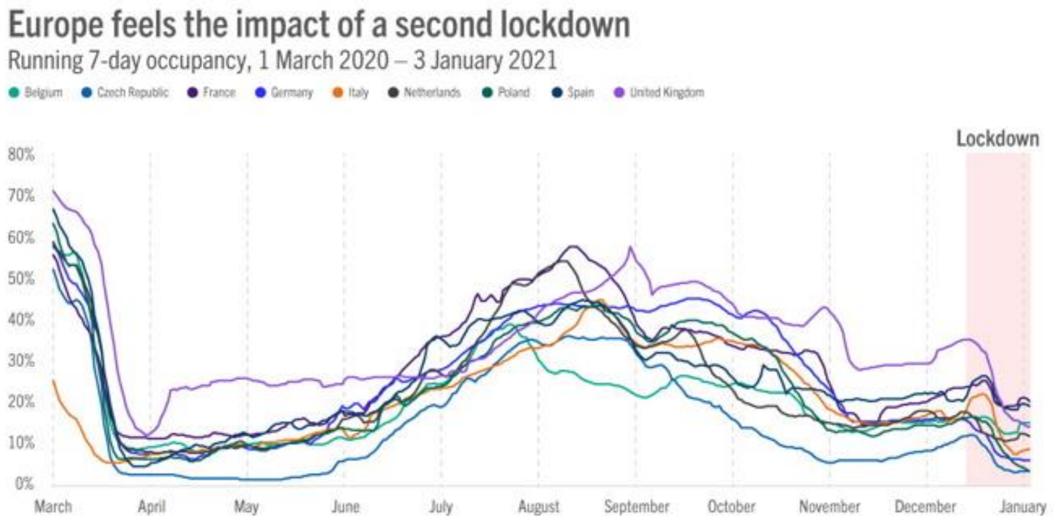

Figure 8 – Impact of lockdown on occupancy, STR, 2021

Even though 2020 has been a “black year” in overall, there has been some months, coinciding with the most restrictive government’s law, that recorded the worst performance such as April that saw an occupancy reaching one of the lowest point ever touched equal to 11,4% and, on the opposite side, months with highest values coinciding with government’s restriction ease such as August that touched the highest level of occupancy level in the year arriving at 43,3% , percentage that fell down again as new restrictions were put in place by most of the European state.
Among all the negative data, there has been some specific market that succeeded in contain the damage of the pandemic thanks mostly to both domestic leisure demand and not too restrictive government’s laws, reaching outstanding occupancy level performances for the time being such as Exeter (UK) and Marseille (FR) in Europe reaching 49% and 41% respectively and Baku, Moscow and Yekaterinburg outside Europe with values of 51%, 45% and 41%.

After more than a year, it is possible to come up with some conclusions about hotel reaction to lockdown:

During the first lockdown phase, coinciding with the late March / start of April, 90% of the hotel decided to close coinciding, not surprising, with the lowest month of the sector's performance.

As the graph shows, from May onward the curve start rising again reaching its maximum, non-unrelentingly, in August (the best performance's month).

During the second Covid-19 wave, in the opposite to the first one, most of the hotels, with the exception of Poland in which 50% closed, decided to remain open with an average of over 80%.

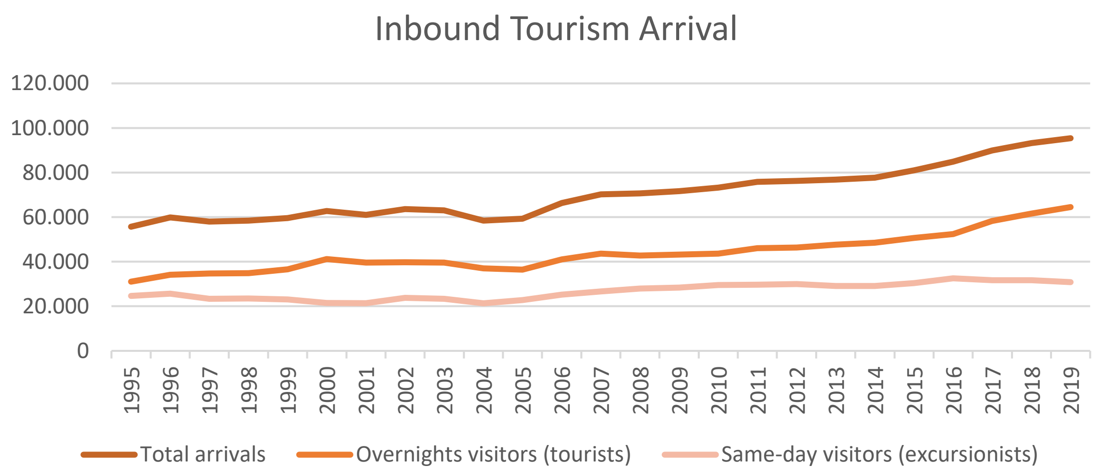

Figure 9 – Inbound tourism arrival, ISTAT, 2020

Covid-19 pandemic is severely testing the global hotel industry in ways which have never been seen before and, according to the United Nation of Tourism Organization, international arrivals has declined around 70% this year.

Figure 10 – International tourist arrivals by region, UNTWO, 2020

Since 1950, eight recession has been tracked and the last two (2001 and 2008) were by far the worst in terms of percentage decrease in which the main KPIs such as RevPAR took 4 to 5 years to recover to pre-recession levels following the global financial crisis but, what is possible to state, is that travel industry is one of the most important global economic driver and it always find a way to bounce back.

Long term growth has been supported by multiple drivers across the last decade including, among the others, rising income (mainly in emerging economies), increasing expectation, adoption of social media, enhanced connectivity (transports), travel as a means to escape because of the increasing level of stress in the urbanized world, increasing of globalized and dynamic sectors which will support business travel demand forward: while the debt of this recession will be extraordinary, the sector is going to be back at its maximum level in a relatively short time.

Europe is succeeding in remaining competitive and able to capture future demand for multiple reasons: first and foremost the abundance of cultural resources as the primary appeal but also all the other drivers and sub-drivers play a key role in the competitiveness such as good quality of transport, strong business environment, highly rated Regions by World economic forum for health and hygiene, (talking about tourism) which is going to be more and more important going forward, and ICT development which, nowadays, can be considered as a real infrastructure, allowing businesses and travelers to use online and digital platforms to facilitate tourism.

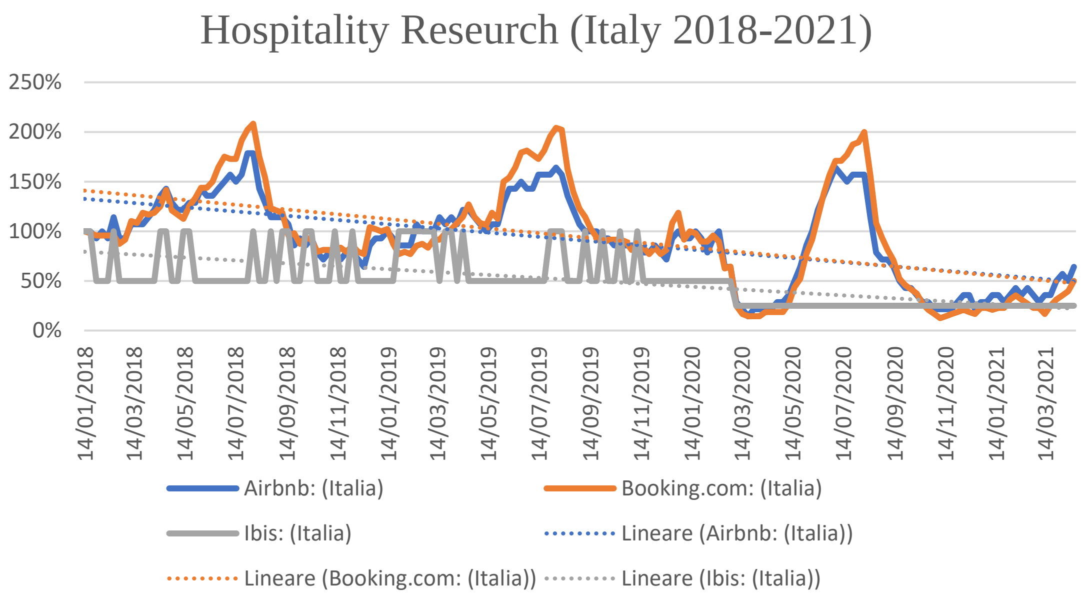

Figure 11 – Hospitality research 2018-2021, Google Trend, 2021

The way we travel in the long view can be reshaped by the current pandemic which means that tourism and services provider will have to adapt going forward. Even prior to Covid-19 we have seen a decrease in domestic and interregional air travel (nicknamed “the Greta effect”). The International Air Travel authority have included a scenario in the 20 years passenger forecast called climate sentiment intensify scenario since people become more environmentally conscious over the last years. Long distance travel, however, show to be not as much impacted as the inter-regional one due to the fact that there are no valid alternative options for the firsts while the latter can be substituted by train travel, bus or other means.

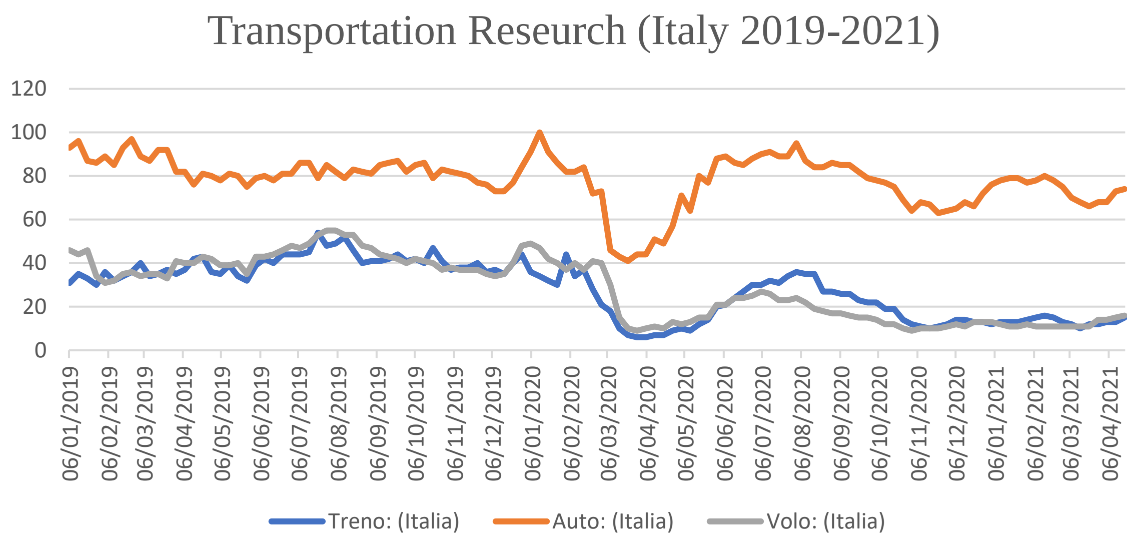

Figure 12 – Transportation research, Google Trend, 2021

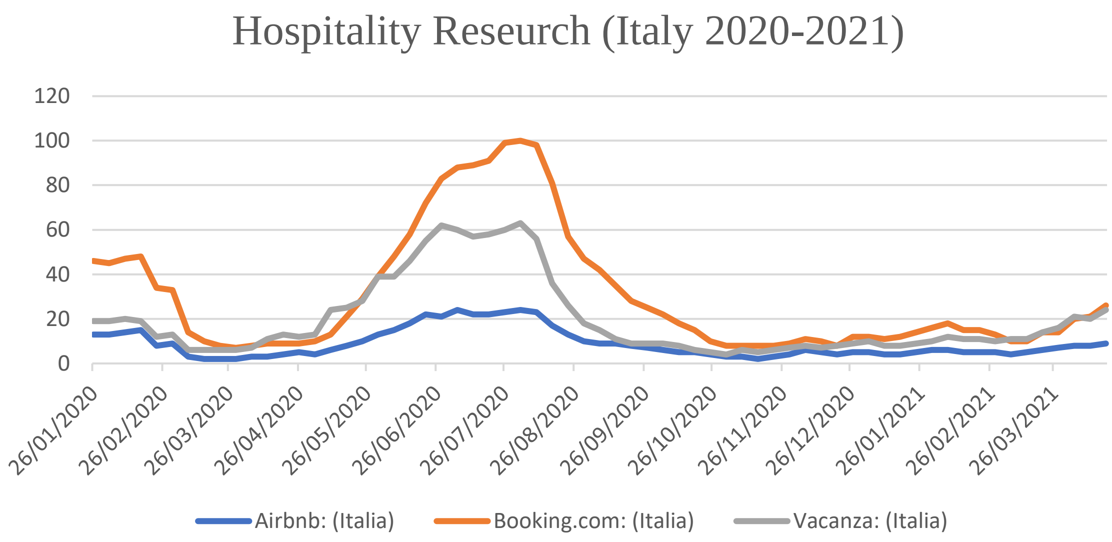

Figure 13 – Hospitality research 2020-2021, Google Trend, 2021

For example, according to Google trends search history, Booking.com and Airbnb searches skyrocket during summer restrictions ease confirming the feeling among the operators that tourist market is just waiting to rise as soon as Nations' regulation will allow to travel freely. In the same period also the public transportation suffered as confirmed by Google trend. The terms Train and Flight went down by circa one fourth respect to 2019 with a small recovery during the summer months. As foreseeable, instead, research related to private car transportation was not so much affected recording only a slightly decrease.

In general term, the actual decline of hotels' occupancy which have remained open throughout this period, have been significant short sharp and unprecedented. Going forward and with less restrictions, it is expected a bouncing in demand driven mainly by domestic leisure: recovery trajectory, after a first sharp rise, will flat off due to the fact that, to fully recover, it is necessary a fully vaccinated population in order to activity such as meeting, convention, group meeting and international travel take place.

Consumer confidence is the main driver for leisure demand. During this period, it has experienced a decrease but not a fall as happened at the time of the global financial crisis for example but, it must be kept in mind that, this particular indicator is a lagging one. Another important driver is the feel of security people experience when they travel that became even more fundamental after the pandemic situation we are experiencing.

Other factor that will delay the recovery are, for example, the new supply ready to enter the market: since the high level of performances experienced in 2018 and 2019 and the capital value that those performances were driving, a lot of development activity were carried out all over Europe, especially in UK and Germany. Many of those pipeline activities are going to be ready to enter the market in the very next future putting under pressure the hotel compartment slowing down the recovery of the main KPIs. Probably, but difficult to forecast, at least part of the stock may actually fall out of the market due to this pressure with a change in use towards offices or, more likely, towards residential.

There is also a further impact on travel suppliers and/or other travel services provider within the industry including tour operators with potentially a reduced capacity on some routes on the short to medium period.

Occupancy, as widely forecasted by the main institutions, will remain on lower level than average for some time and this is going to surely affect the profit. Looking at the revenues per available room in 2020, closed hotels have zero revenue per room and zero total revenue but they still have some fixed costs that are drawing the Gross Operating Profit and the Net Operating Profit below the zero line (such as property tax).

Burning cash (i.e. the cash spent) is, on average, about 95 euros per available room per week. This means that, for the owners with large hotels that have been at least partially closed and, potentially, they will still remain closed in the next future, is going to be a very costly decision draining much of the working capital. However, also for the one that opened, has been observed that both Gross Operating Profit and Net Operating Income are negligible and very close to the zero line due to the extra costs they have to face other than the fixed standard ones.

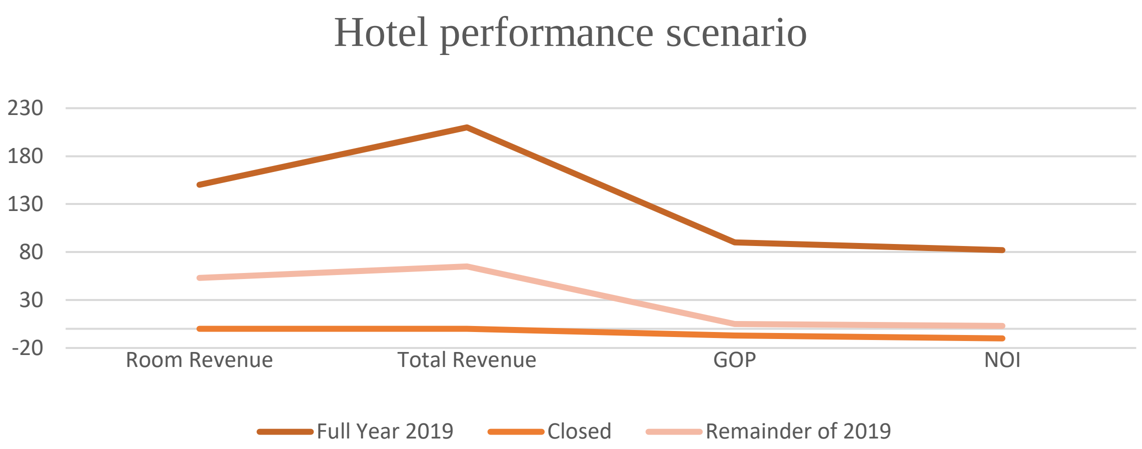

Figure 14 – Hotel performance scenario, CBRE, 2021

In many locations hospitality could be one of the latest business sector to recover and governments helps, even if extended, are likely going to end before hotel revenues will be recovered representing a risk of further financial liquidity challenge.

With a little surprise came across that, mainly among the non-diversified and small owners or operators with low cash resources and limited access to credit lines, in order to cover the price for re-opening ensuring the safety for guests and stuff, will lead to consider the sale of their asset/s. Due to these considerations, it is expected a degree of secondary hotel stock to be remain permanently closed which, it is not pleasant to say, will support the performance recovery of hotels that will remain open decreasing competitivity.

Figure 15 – European hotel investment volume, 2006-2020, CBRE, 2020

In the previous chart is possible to see that the hotel market has become one of the main investment class, demonstrated not only by the amount of institutional capital, active from 2015 with the classical institutional investors' view focused on a longer view, but also on the increasing trend of both the share and volume of the sector in relation to the others. Despite a contraction on the investment volume, for prime asset has being observed a keen investors interest asking, however, for a discount which, owner, are not willing to give. This bid-ask delta is however going to narrowing in the very next period.

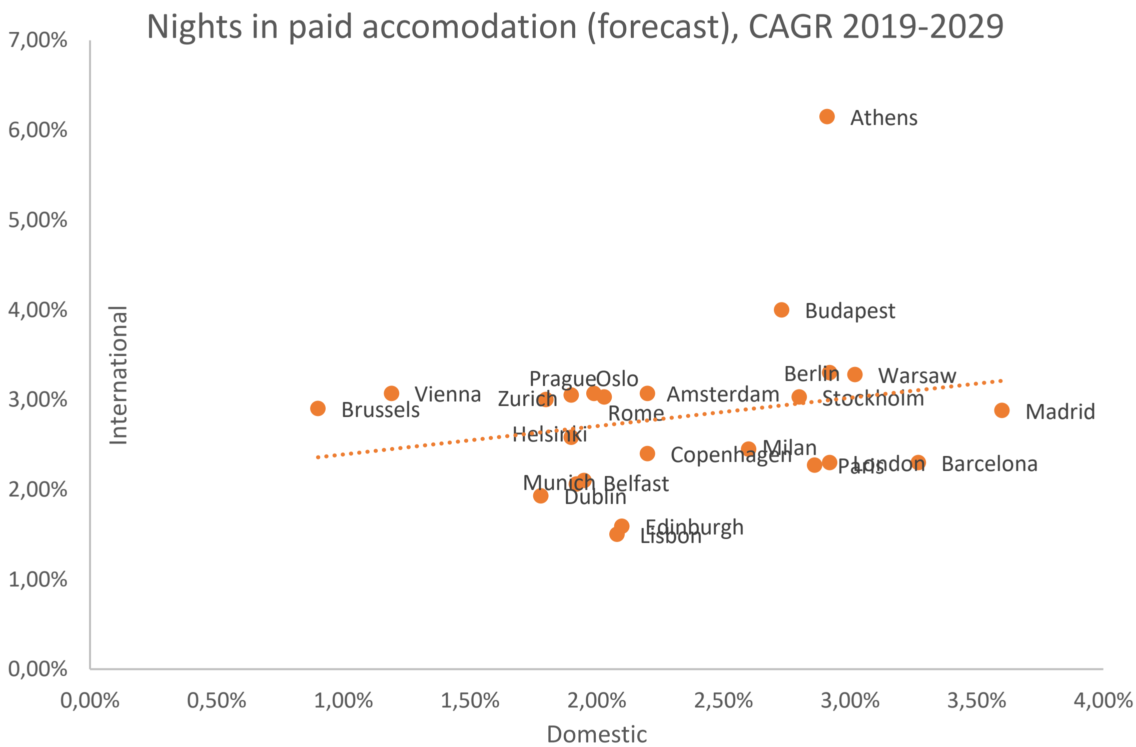

Figure 16 – Nights in paid accommodation (forecast), CAGR 20119-2029, Tourism Economics

Looking at the "Tourism Economics" data forecast 2019-2029, overnight stays in paid accommodation, considering the key European cities, are going to growth. This means that the Covid-19 crisis will not last forever and demand will return. However, the nature of the demand could be different from what has been seen from the past crisis with an interesting projective road of the typically international cities such as London, Paris, Barcelona. These lasts will probably be mainly driven by domestic demand meaning that hotels will be required to adapt in terms of focus market, customer segment and even the branding of their asset.

The drop of investment of 2020 seems not to worrying too much the expertise since it is considered as the result of three main trend which are going to be significantly reduced in the short term: the climate of uncertainty rising from the pandemic, a lack of stock on the market and a significant distance in the pricing expectations between sellers and buyers. All this condition made the transactions fall in 2020 but did not have the effect of eliminate the willingness but rather just to postpone them increasing the amount of potential capital and investors waiting for markets opportunities.

3.1. France

The impact of the pandemic in the France market in 2020 has been significant with performance indexes such as Occupancy and ADR that do not record any sign of fast recovery any time soon. During the period a shift of the nature of investors has been recorded too with a prevalence of two main player: the "cash-rich" groups using little to no leverage or the private French investor that took advantage on the price discount. In the meanwhile, the majority of institutional investors adopted a policy of "wait and see" due to their broad policy of risk aversion.

The key parameters considered by investors, both private and institutional, highlighted by the contraction of investment, are the quality of the asset, the location and the performance / return of the investment over the long period. In this particular context, despite it has recorded the highest drop of performances, Paris region fits perfectly as a "safe investment" remaining the preferred location for a hotel investment due to two natural entry barriers: first the high asked price and low availability making the products desirable and accessible to only a few players and, second, the long term forecast on the tourism market confirming the recovery of performance of the region.

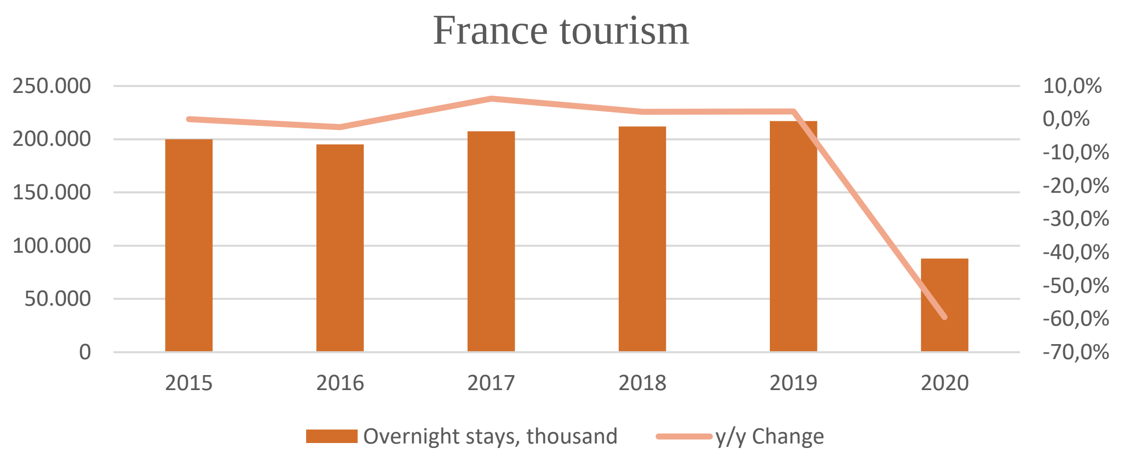

Figure 17 – Overnight stays in France, MKG, 2021

As above shown, 2019 was a record year for France with its 215 million overnight stays pointing out the resilience and the fast recovery of the national market after the terrorism facts happened few years before. In 2020, the overnight stays dropped to 90 million representing a decrease of 58.1 % with respect to 2019. Occupancy rate fall to 32.5% with a difference of 36.6 percentual point compared to the previous year.

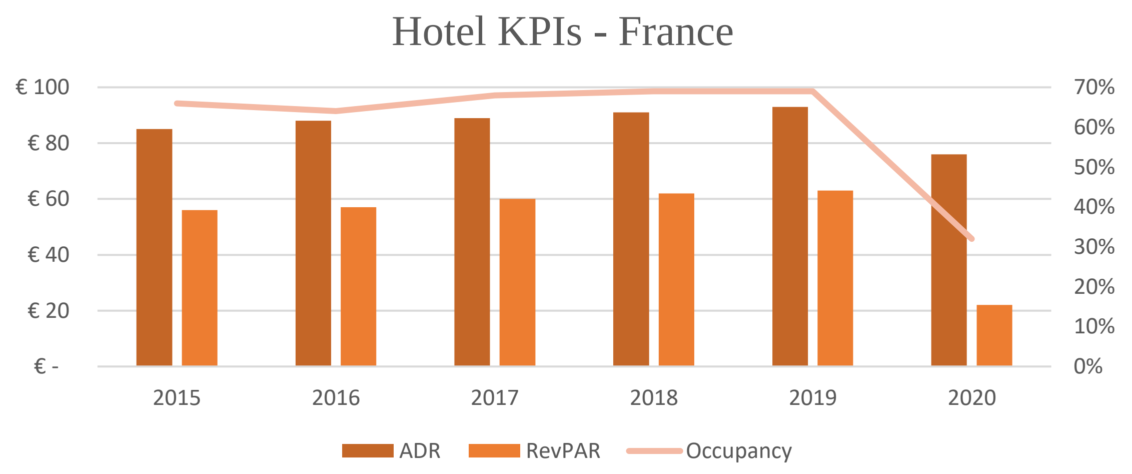

Figure 18 – Hotel KPIs in France, MKG, 2021

The most affected sub-sector was the upper-scale prime location hotel due to their dependency on international demand. Occupancy of low and mid-scale hotels were less affected relying on both domestic demand and mainly to domestic business workers that were allowed to travel. Additionally, thanks to the partial summer reopening, coastline hotels succeeded to mitigate the impacts while, mainly due to government restriction, mountain hotels were the one to suffer the most.

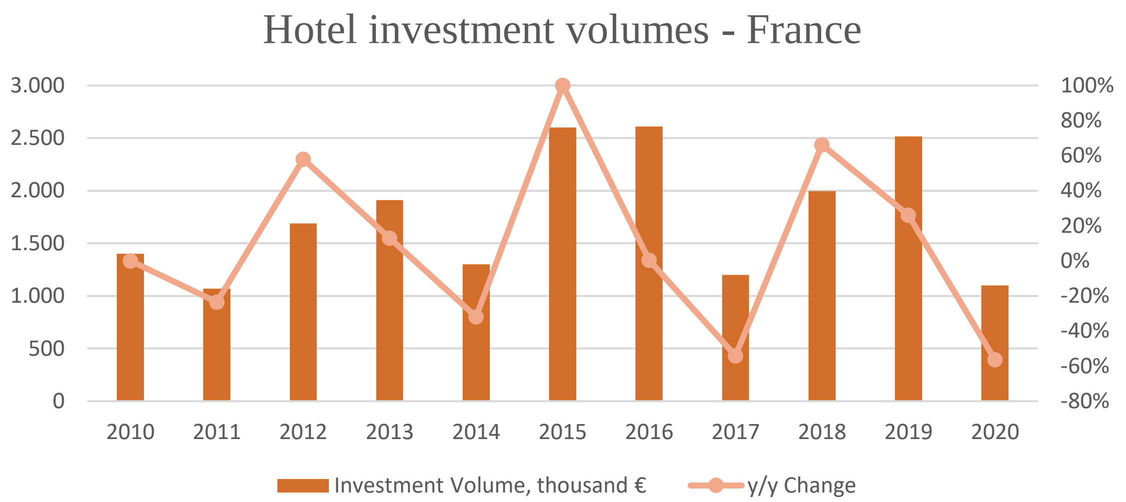

Figure 19 – Hotel investment volumes in France, CBRE, 2021

The reverse of the coin of the performance crisis in hotel lays in the fact that many (mainly local) investors that considered the market overpriced in the past years, will invest in the sector with discount prices, mainly with equity capital (not leveraging). The drop in both numbers and volumes of investment was due to the "wait-and-see" attitude adopted by both side (but mainly from the seller side), one trying not to sell at discount price, the other avoiding to buy at full price. This situation made the investment volume decrease by more than half passing from 2.5 billion (2019) to 1.1 billion (2020). Investors, however, are "at the window" waiting for opportunistic or value add deal, maximizing their return and betting that France will maintain its prime attractiveness.

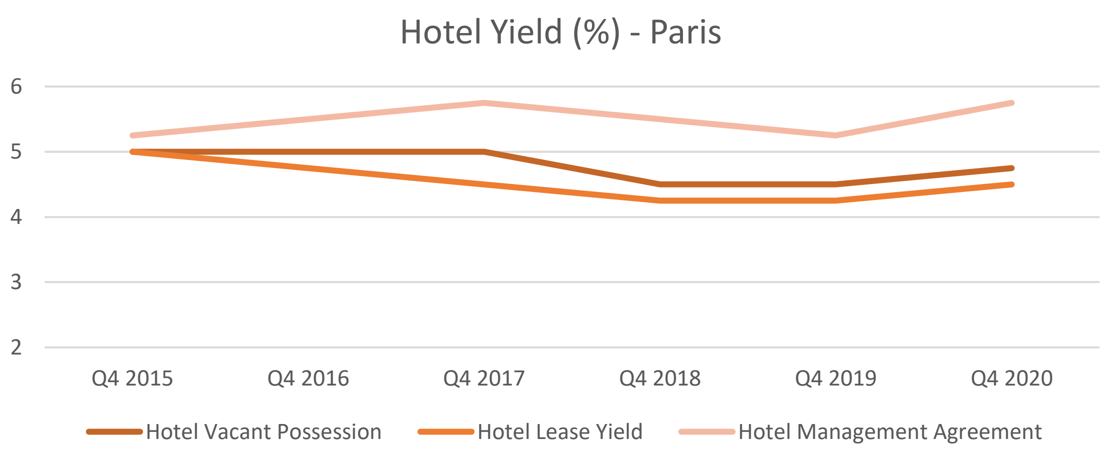

Figure 20 – Hotel yield in Paris, CBRE 2021

3.2. Germany

The Covid-19 year, together with restrictions put in place by the government had dramatic consequences on Germany with the months of major restrictions (lockdown) in which there has been a fall on the occupancy indicator to a value of less than 10%. As everywhere, the operators that has been the most affected are the one with fixed leases which saw their cash flow go negative from a month to another. However, the large part of the operators have been helped by both government support and by asset owners that agreed on rent defers or on discount understanding the difficulties faced by those operators.

Figure 21 – Overnight stays in Germany, Destatis, 2021

Given the uncertainty of the period, many operators are waiting for better period and more reliable forecast before investing in the market while, on the same time, other player, more favorable of taking risks, are looking at opportunity to buy asset in prime location at discounted price relying on the assumption that once the vaccine campaign will be finish, government's restriction would stop and people will start to travel again.

Overnight stays, in Germany, dropped by 33.7% in 2020 compared to 2019 despite the fact that German hotel market, in contrast to the major European country, is dominated by the domestic demand with the international component that covers "only" the 18% of the total.

This will give to Germany an advantage on recovery which is expected to be faster than other countries. Although these considerations, occupancy level fall down by more than 70% to a value close to 32% and ADR and RevPAr decreased respectively by 13% and 60%.

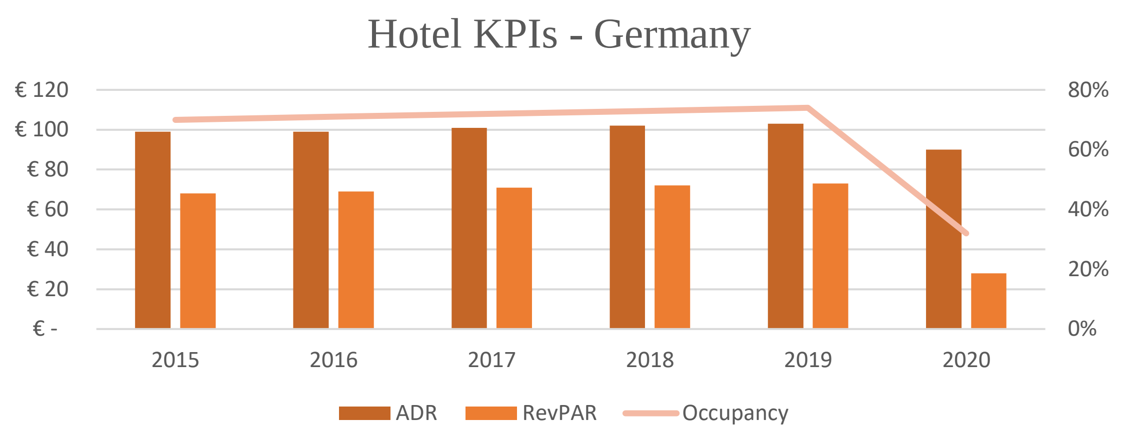

Figure 22 – Hotel KPIs in Germany, STR, 2021

The pandemic may bring some changes in plan by investors that have already invested in the hotel sector: Germany has in its pipeline 32 thousands rooms that will enter the market in the next three years and this could determine an over offer from the market. For this reason, investors are making some considerations to whether change the use of the project or not. Many opportunistic and value add international investors are overseeing the evolving of the situation ready to catch opportunities that the market will offer in the next future and, at the same time, core assets in prime location did not lose their appeal attracting mainly institutional investors. Despite the attractiveness is still strong, the investment in the country's sector dropped by 60% in the covid-19 year (2020) with a prime yield for leased hotel which increased by 50 basis point reaching 4.25%.

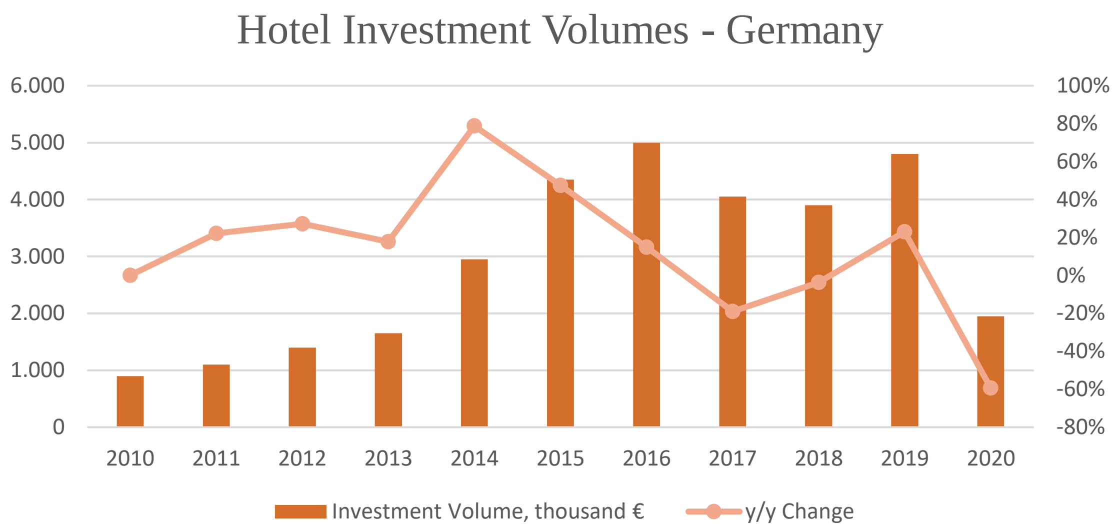

Figure 23 – Hotel investment volumes in Germany, CBRE, 2021

This negative trend is forecasted to last especially in less attractive areas but it is going to be stabilized in core and prime location and will start do decrease again once the national restriction will disappear. Tenants struggled throughout all 2020 and are still struggling during the first two quarter of 2021 leading to a closure of mainly the smallest ones and the ones without available liquidity.

The current year is expected to be driven by M&A process and in some cases, depending on costs, conversion to other uses such as student houses, care homes, residential or, in some cases, even offices.

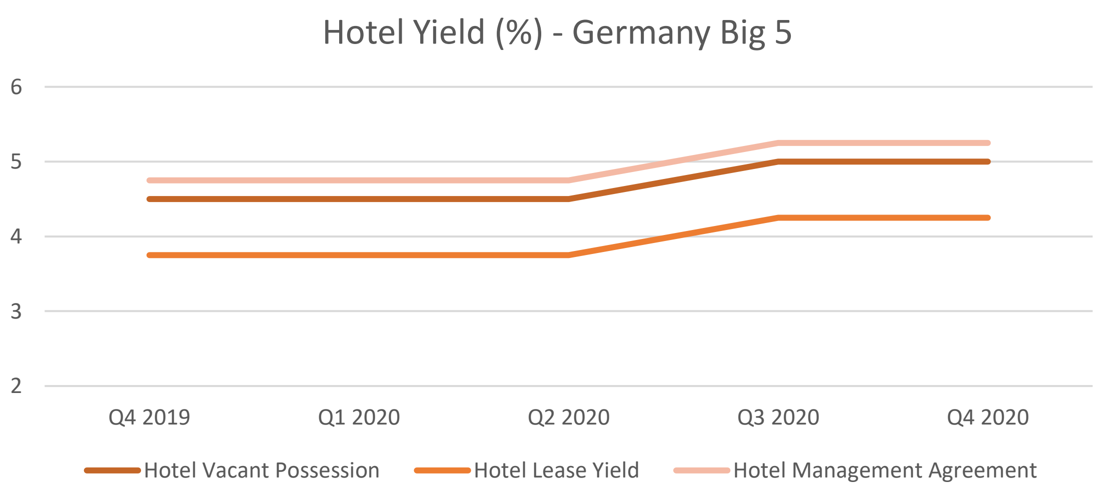

Figure 24 – Hotel yield in the "Big five cities" in Germany, CBRE, 2021

3.3. Spain

Before the Covid-19 outbreak, 2020 was supposed to be one of the best years for hotel transaction in Spain with Q1 above by 14% with respect to Q1 of 2019. However, the positive trend stopped with the pandemic outbreak which, together with market uncertainty and difficulty in getting bank financing, led to a slowdown in operating activities.

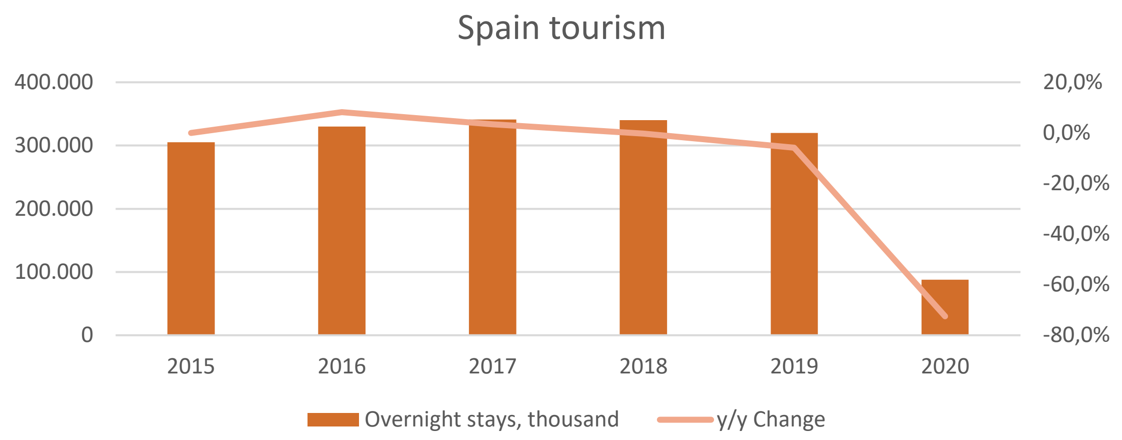

Figure 25 – Overnight stays in Spain, INE, 2021

In the last 5 years (2015-2019), there has been a clear positive trend in the Spanish Hotel Market, achieving the highest performance with 342.9 million overnight stays in 2019 (+0.9% with respect to the previous year). The trend has suddenly come to a halt with the beginning of the restrictions recording an exceptional drop of overnight stays of about 73% compared to 2019.

In the same years overnight stays had a positive trend, also the main KPIs were following the same direction reaching a difference of +4,8% in RevPAR's CAGR in the period 2015-2019.

Also in this case, COVID-19 pandemic had a dramatic impact on the RevPAR dropping to 31,1 €, corresponding to a decrease of 62,7%, value driven by a fall in Occupancy and ADR of 55,5% and 16,1% respectively.

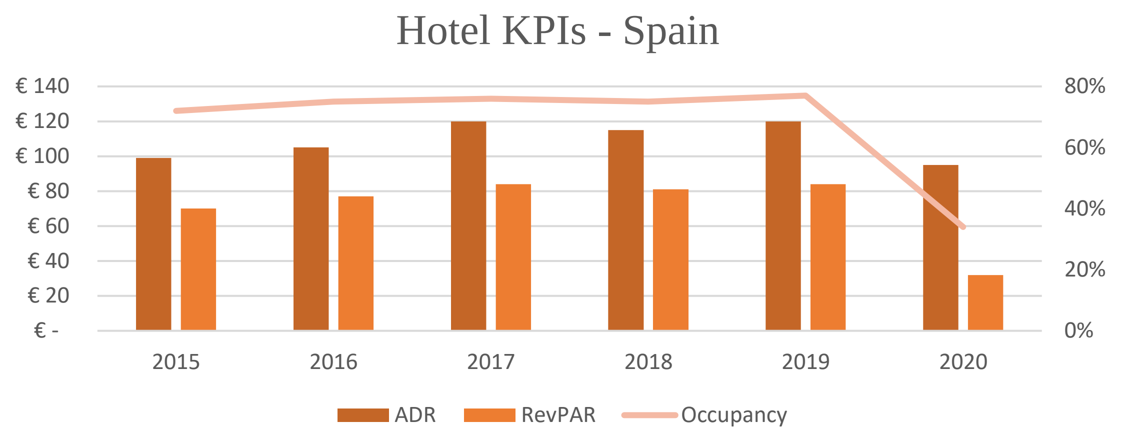

Figure 26 – Hotel KPIs in Spain, STR, 2021

Despite this drop of performance, hotel investors are still having a strong interest in the Spanish market pushed also by opportunity to acquire prime assets in prime locations at a discounted price facilitated by low interest rate in place.

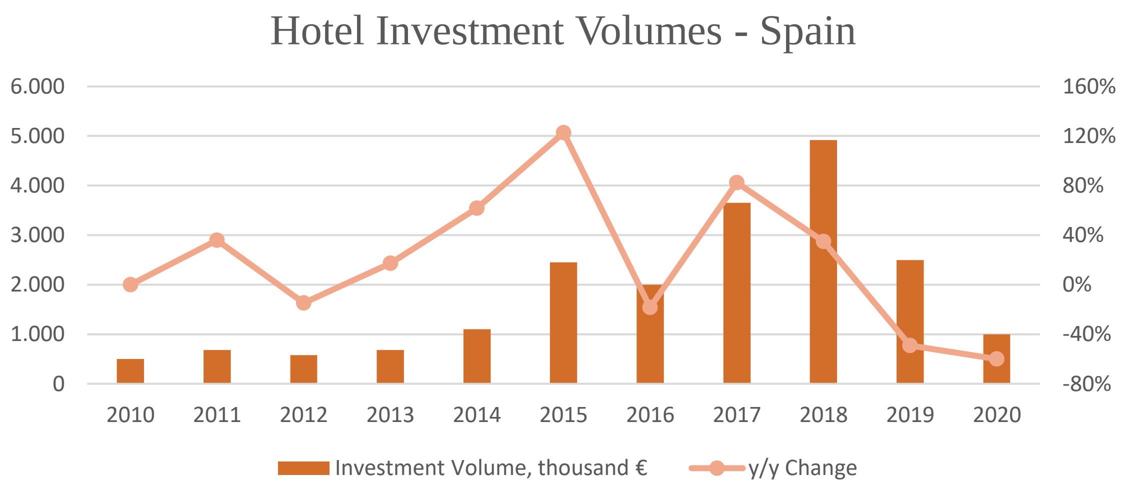

Figure 27 – Hotel investment volume in Spain, CBRE, 2021

In Spain, like many other countries, a large portion of hotels that were expected to open in 2020 was delayed to 2021 hoping for the ease of covid-19 impacts. In terms of volume, there are 198 hotels in the pipeline planned to open between 2021 and 2024, corresponding to 27.182 number of rooms.

In the Country, the investment peak happened in 2018 reaching an investment volume of almost 5.000 million, halved in 2019 at about 2.400 million, dropping in 2020 at a value slightly above 1.000 million (1.005 M) which, compared to past years, was -58,7% respect to 2019 and about -80% if looking back at 2018.

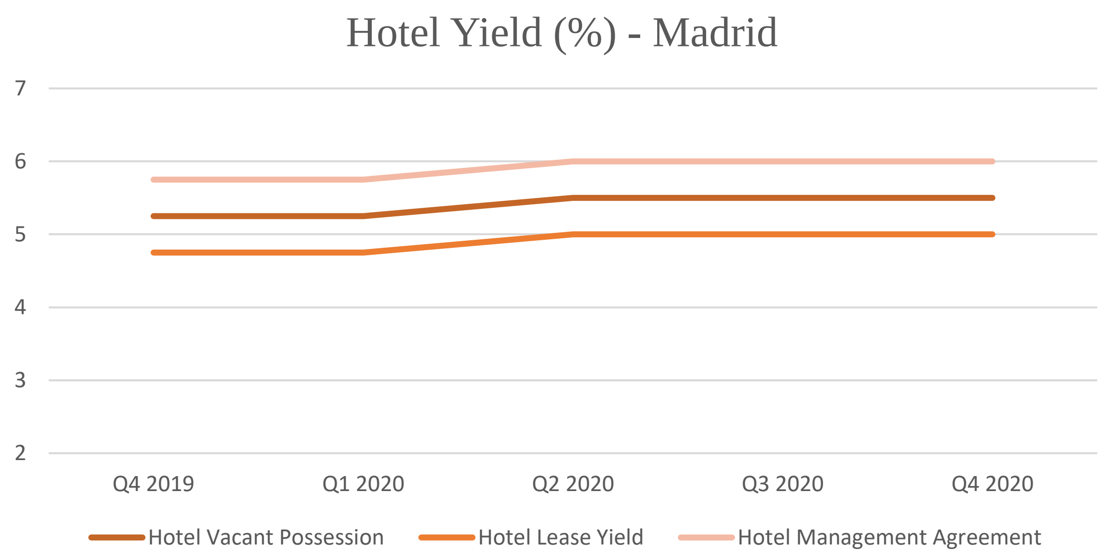

Figure 28 – Hotel yield in Madrid, CBRE, 2021

The overall yields, in the prime city in Spain, have been through a constant compression from 2016 onward strengthening investor demand but, due to pandemic, from Q2 2020, it has been observed an increase of 25 bps in the exit yield. Furthermore, the economic problems, uncertainty and market downturn have result in higher financial risk on transactions by investors, which opened the door of the market to "risk lover" investors becoming the key player and asking, naturally, for higher returns.

3.4. Netherlands

The year just finished (2020) was one of the worst years ever for Dutch's hotel sector with an overall volume of investment slightly above 300 million versus over than 2 billion of 2019 and a RevPAR which decreased to 30€.

From 2015 to 2019 there has been a clear positive trend in all the hotel sector's KPIs: the number of arrivals reached 30,8 million with an overnight stay of 54,8 million, increasing respectively by 3,9% and 6,3% compared to 2018. RevPAR trend, from 2015 to 2019, growth by 29,9% and a 2019 year of record showed value of ADR equal to 122,6 €, an occupancy of 75,6% and RevPAR reaching 93,06 €.

Figure 29 – Overnight stays in Netherlands, CBS, 2021

In the Covid-19 year, overnight stay declined by 51,8% loosing mainly the international leisure tourism while RevPAR decreased by 70% touching the value of 27,9 €, the biggest fall of the decade.

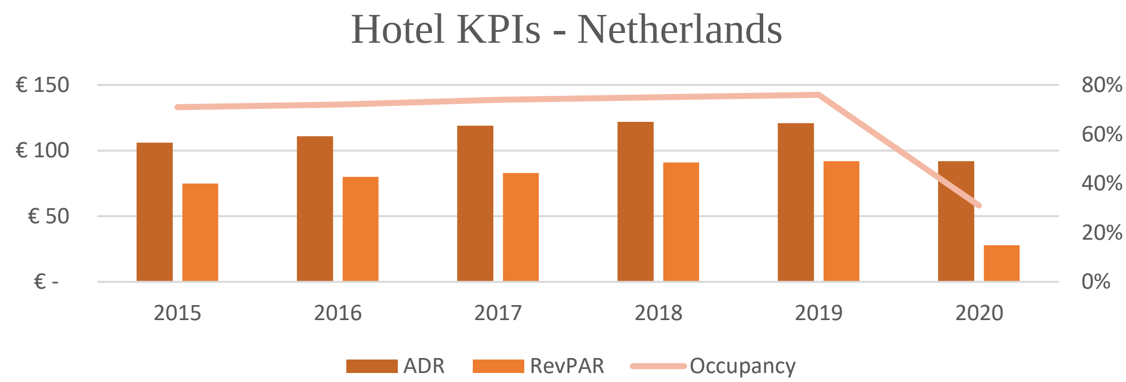

Figure 30 – Hotel KPIs in Netherlands, STR, 2021

Figure 31 -Hotel investment volumes in Netherlands, CBRE, 2021

Although, as shown in the graph, the volume of transaction dropped significantly, 2021 is slowly recovering from the hit of Covid-19 with off-markets deal and consolidation of operating platform. The recovery is also going to be helped by macro factors such as a robust demand, a stable political climate and a strong economy reinforced also by Brexit which is going to move many headquarters in the country.

Hotel supply is going to increase significantly only in the city of Amsterdam while is going to be limited in the rest of the country. This situation is going to fasting the recovery post pandemic since markets with high volume of recent and future pipeline supply are going to take longer in order to be back to pre-crisis KPIs values enlarging the gap between demand and offer, preventing a fast recovery.

However, experts are confident that the market will bounce back due to the reasons explained above. 2019 recorded a record in the yield value, particularly in Amsterdam, touching the lowest value recorded with an unprecedent demand for this particular asset class. During the Covid-19 restriction year of 2020 a pent-up demand from both leisure and business costumer has been developed and, together with economic stimulus, it is forecasted a bounce in demand and economic volume of the sector even higher than what initially expected.

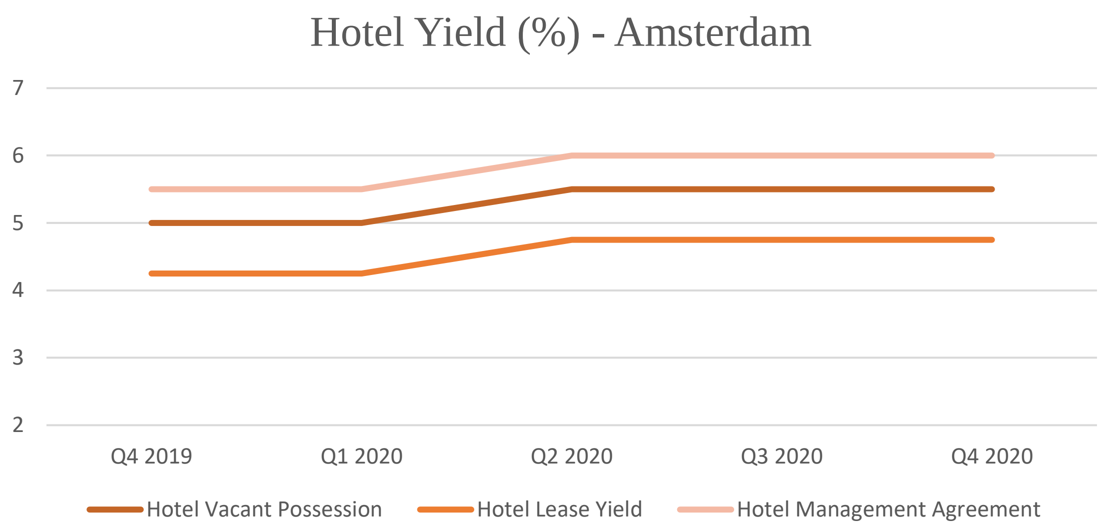

Figure 32 – Hotel yield in Amsterdam, CBRE, 2021

Looking at the last years, prime yields in Amsterdam have experienced continuous decreasing trend with an enhancement in the investor demand. This tendency, however, was stopped by the pandemic which made this value increase again at 4,75% for Lease contract, 6,00% for Management contract and 5,50% for Vacant possession structure.

3.5. United Kingdom

United Kingdom can be considered an outlier since the data, beside the Covid-19 situations, were already affected by the Brexit and macro factor such as US election.

Figure 33 – Overnight stays in UK, Visit Britain & Tourism Economics, 2021

The bounce back of the tourism values witnessed in the summer time demonstrate the willingness and desire of people to travel and, together with the increase of the main drivers and underlying fundamentals of the last years in the hotel sector in pre-pandemic period that brought the market to reach top-values, there is a general confidence by investors and experts that the sector will continue to be resilient and will return to its growth trend.

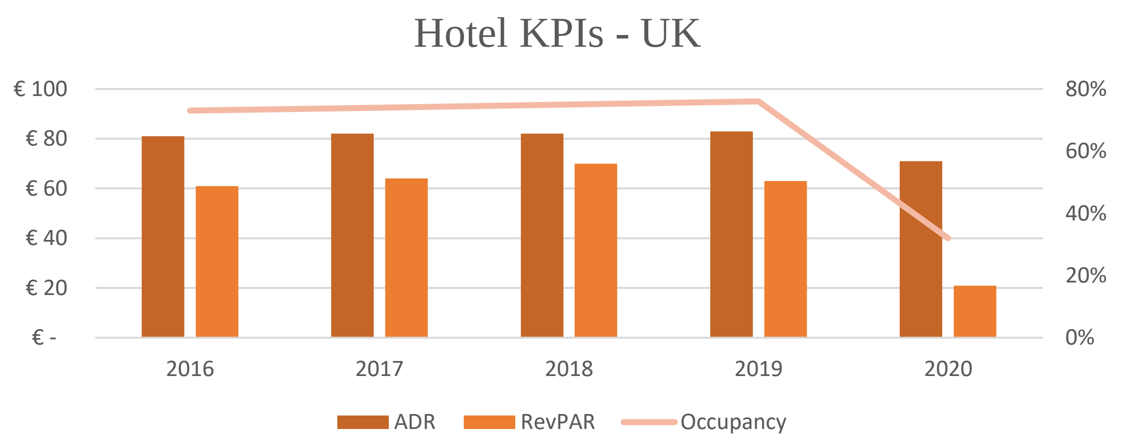

Figure 34 – Hotel KPIs in UK, HotStats, 2021

The UK market has always attracted high volume levels due to its history, the language and the economy of the Country relying mostly on international tourism. The data are largely negative recording a -47% in Domestic demand and -76% for inbound nights. The recovery is forecasted to be based on domestic leisure tourism with a forecast of CAGR 2020-2024 years registering a +57% for domestic nights and +35% in Inbound nights. The last to recover are those hotels thought to host mainly meeting, events, group and international business while the most resilient, in terms of revenue and profit, have been proved to be the one focused on leisure.

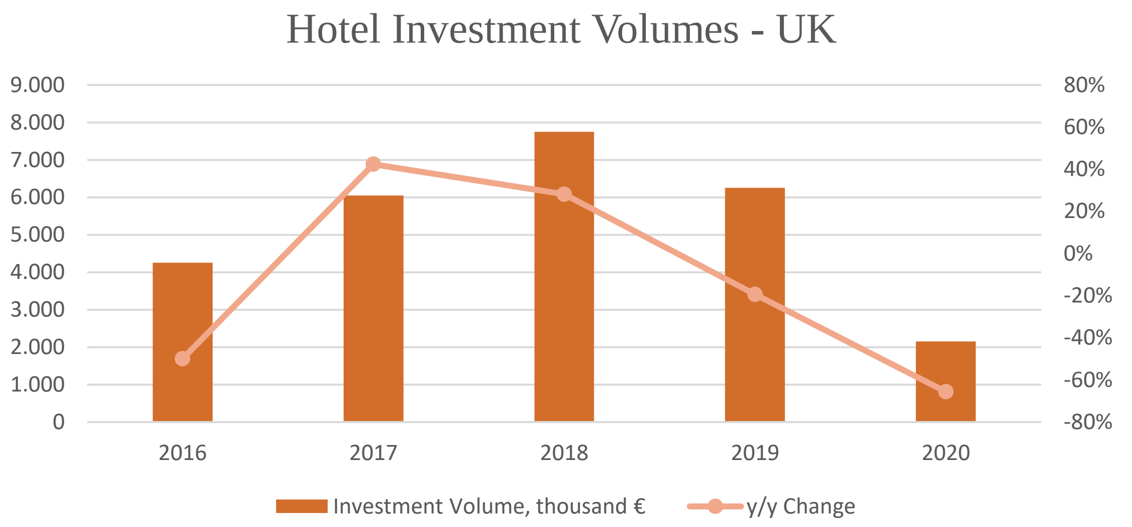

Figure 35 – Hotel investment volumes in UK, CBRE, 2021

As explained before, Covid-19 was the top of the iceberg but investment, after a growing period that lasted until 2018, started to decrease in 2019 with more than 15% and fall definitively in 2020 reaching -70% compared to 2019. Although the start of the year looked positive with the first quarter that closed with 1,4 billion of transaction volume, it suddenly stopped, totalizing a cumulated volume for the year slightly above 2 billion of pounds including small provincial deals.

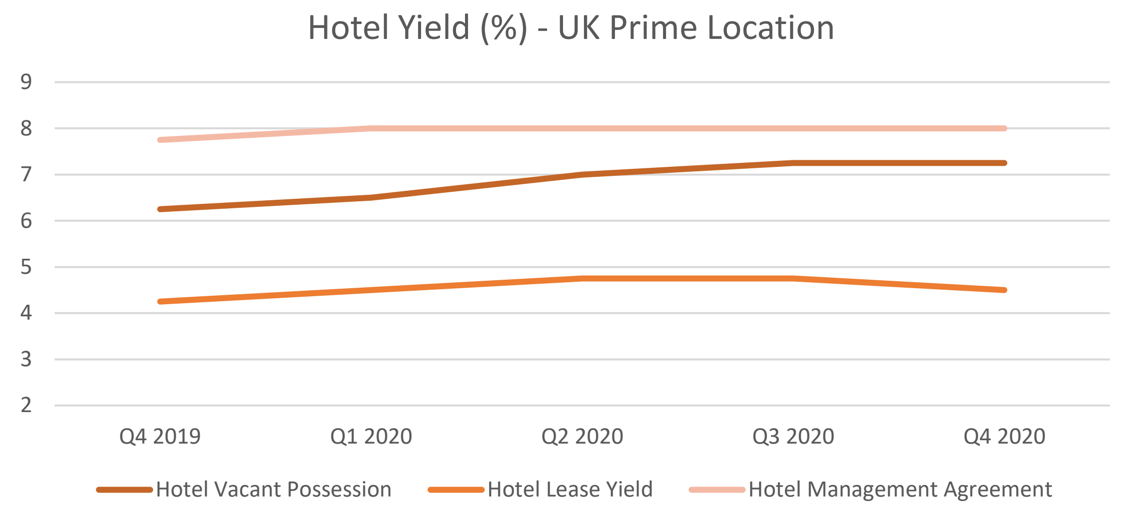

Figure 36 – Hotel yield in UK prime location, CBRE, 2021

All these reasons led to a shifting in the type of investors from core and core plus to opportunistic funds and family offices. Nevertheless, the recovery is going to be tough also because of the costs of finance and the gap between offer and asking prices. Especially for the latter, it is a common view between operators, that the gap is going to be narrowed by the mid 2021 with a partial reopening leading bid higher and lowering the expectation of asking prices.

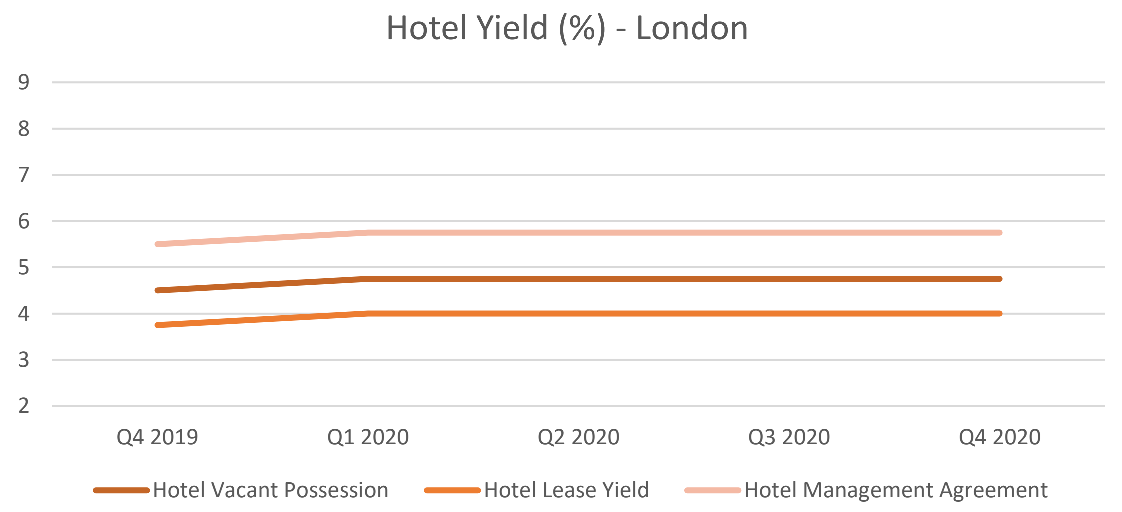

Figure 37 – Hotel yield in London, CBRE, 2021

The new supply, at least in the short time, is remaining uncertain with a stronger and wider sense for opting in a change of use for constructions supposed to be ready in the next two years while, on the other hand, investors remain confident for a recover and a bounce back in demand within 2024. The cities with the largest number of rooms in the

pipeline such as Liverpool, Manchester and Glasgow will slow down the recovery of performance KPIs putting pressure on peripherical properties due to higher competition.
Looking about yields in London, during 2019 it remained stable despite the Brexit situation but it started to increase in the second quarter of 2020 as the pandemic started to hit. Although many pessimistic views of some experts, London market remained and remains attractive even though the loss in performances of the sector. In particular both Hotel Prime Operational Lease Yield and Hotel Management Contract Yield slightly increased (by 25 bps circa) reaching about 4,25% and 8% respectively while the Hotel Prime Vacant Possession Yields has been the one suffering the most with an increase of 100 bps.
However, these data are not hundred percent reliable since are largely based on market sentiment and expectation given the fact that (i)there has been a limited number of transaction, especially regarding the period in which Covid-19 started to be a real problem for Europe, and (ii)the calculation takes into consideration the lower operating performances in the short term.
Comparing the two graphs, it is wide clear the difference between the prime Location of London and the rest of UK with a spread of the yield that vary from 50 bps and 225 bps.

4.ITALIAN MARKET

Covid-19 pandemic had and still has a giant impact on the lives and behavior of everyone and on all the country's economy. Since it is not possible to focalize on one sector without taking into consideration "the big picture" it is important to be aware of the macro economic factors going on and, in particular, the growth/recession of the country.
The impact on the labor market is not so clear yet being aligned with past years probably because of the temporary Government benefits and regulation.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP	1,60%	0,58%	-2,80%	-1,70%	0,10%	0,90%	1,30%	1,70%	0,80%	0,3%	-9,5%	6,5%

Figure 38 - Variation of the italian GDP, Istat, 2021

The real estate market, both European and Italian, was characterized by an expansion phase with an increase of the prices before the pandemic, which outbreak, made the investment fall down at the level of the 2012 crisis.

From 2012 to 2017 an upward trend of the investments took place in all the sectors passing from 4 billion to 11 billion with an increase of the investment towards all real estate typologies. In 2018, due to the political, social and economic uncertainty of the country there has been a stop with a diminishing of the investment by almost 25% which was recovered in the very next year with the record value of more than 12 billion. This number was driven by the record year of the hotel and office sector totalizing about the 70% of the total capital invested.

In terms of source of capital, foreign investors are the leader of the market with a share of over 69% in the last 5 years despite a small contraction in 2018 due to country's uncertainty. The main investors are from United States of America, Germany and Switzerland totalizing more than 75%.

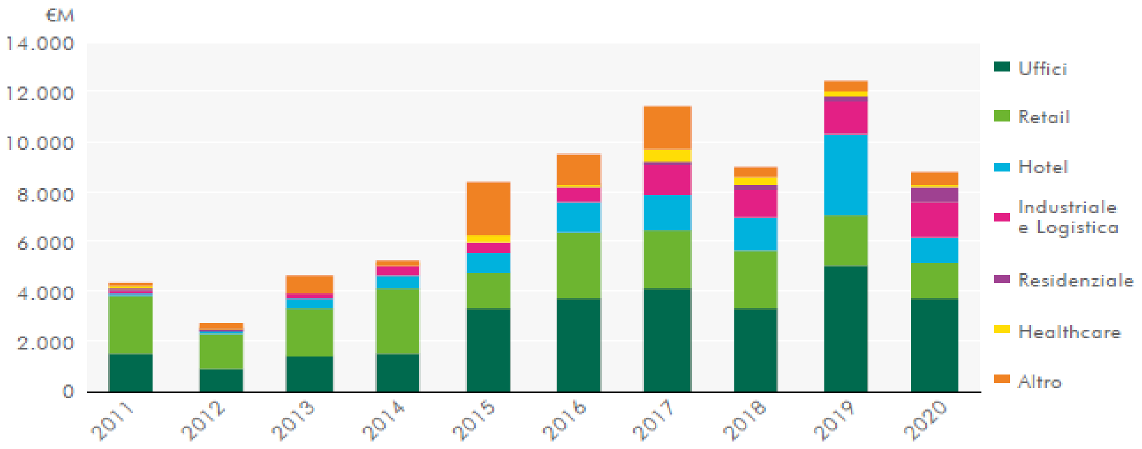

Figure 39 - Investment per asset class – CBRE, 2021

Total transactions in 2020 reached 8.8 billions, about 30% less than 2019 and around the value of 2012 and 2018, years characterized by a negative confidence from investors due to to the economic crisis before and the political uncertainty and the increase of the spread afterwards.

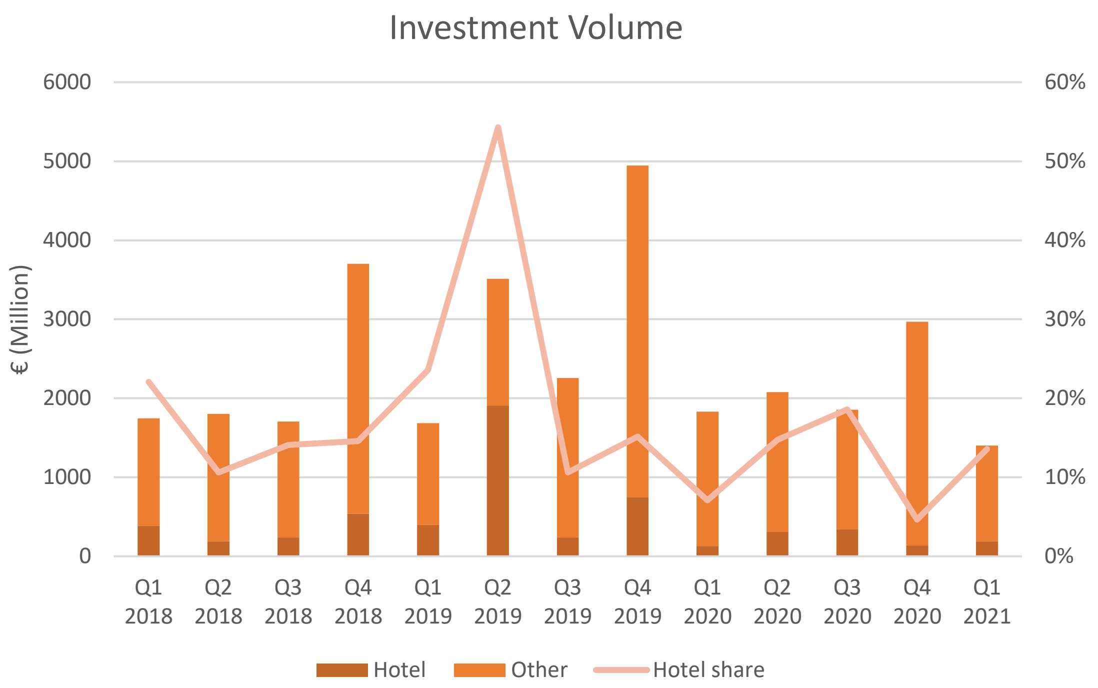

Figure 40 – Hotel share in the total investment volume, CBRE, 2021

The other trend taking place is the drop of ten points of the foreign investment which passed from 69% to 59% of the total and the increase of local investment respect to 2019, due to the fact that in a worldwide clima of uncertanty, a domestic investment looks safer. In this scenario the hospitality sector outstanded since, despite it decreased drastically in 2020, it remained with the same proportion of domestic and international investment.

However, the difference with respect to the economical crisis of 2008, which effects lasted for years, the Covid-19 negative peak should have a fast recovery and it also accellerated processes which were already in place such as smart-working and e-commerce. Looking at the single sector:

OFFICES: increase of the requests for large size building which respect workers need. During the year a process of price re-negotiation between tenants and landlords took place, the first askinf for a decrease of the overall costs, the latter trying not to loose the tenant. The sector is suppose to recover and come back at levels similar to the pre-pandemic as many companies are asking to workers to be back in offices.

RETAIL (not food related): the market is suffering the contraction of the good sold and the expansion of the e-commerce. In order not to run out of the business, where possible, there has been a re-negotiation of the contract. The emergency has accellerated the transaction towards the e-commerce and it is forcasted a decrease in the medium term. However, the restriction imposed, made re-discover the neighboorod shop.

LOGISTIC: The sector has been characterized by a sharp increase due to the push that covid-19 has given to the e-commerce, process which will last and increase in the medium term.

RESIDENTIAL: Decrease of the number of transaction in the year despite the low interest rate. The sector is suppose to recover with the differences of new need by the customer mainly due to the lockdown which made them "live the house". A major negative impact is due to students and workers offsite which made fall the demand for rent due to "DAD" and smartowrking respectively, trend which is already coming to an end.

HOSPITALITY: it has been the most impacted by the pandemic and by both the lockdowns and the norms which forbid to go outside the region/nation. It is supposed a full recovery within a couple of years and an increase in the transaction with respect to the level of pre-crise.

4.1. Italian Hospitality

Italy is the European Country with the highest number of hotel rooms and it is placed in the 5th position in the world regarding the number of arrival behind France, Spain, US and China but it is way below the average regarding international branded hotel penetration, which is slightly above 5%, versus the 21.1% of France or 12.2% of Spain. The percentages change if looking at the rooms branded which represent the 21% but still far from other European's country: UK 58%, Spain 41%, France 57% and Germany 46%. This means that, despite Italy is placed at the top levels of appealability, the accommodation supply is still rather fragmented and heterogeneous without a proper international brand penetration recognized worldwide.

Analyzing the data regarding the number of establishments by typology, Italy has still a strong presence of 3 stars hotel, far below the quality demanded by international tourists usually ranging from 4 stars on. Although the number of 3 stars establishments remained almost unchanged from 2016 to 2019, which passed from 15.347 (46,1%) to 15.128

(46,2%) and the 5 stars and 5 stars luxury from 428 (1,3%) to 534 (1,7%), the trend is moving (slowly) in the right direction if looking at the number of rooms.
A contraction of rooms have been registered for the one belonging to the 3 stars or lower category and, in the opposite direction, an increasing number of the 4 or plus stars ones: in 2016 the firsts where 449.263 representing the 46,1% of the total versus the 460.376 in 2019 corresponding to the 42,1% while the latter passed from 352.783 (36,2%) to 427.075 (39,1%) with an overall increase of more than 20%.
Broadening the view, Italy leads the European ranking about number of hotels with almost 33 thousand, followed by Germany with its 32,4 thousand and Spain with 19,7 thousand.
The cumulated number of hotels in EU28 slightly decreased in the last 10 years passing from 204.609 to 201.676 thousand with a strong concentration in few nations: the ten European Countries with the largest supply counts for more than 70% of the EU28 portfolio.
A mix of factors like the shifting of the demand and the development of assets of bigger size, lead to a drastic reduction of the numbers in the major European destination such as Germany with -3.380 units, Austria with -1.640 and Italy with a reduction of -1.070 hotels. This could be led to the wrong thought that the market is suffering but, on the contrary, the decrease in the hotel's number has been counterbalanced by the increase in size of the same with a positive delta about number of beds.
Italy had, historically, a great appeal in terms of tourism covering the 12,4% of the EU28 Market share ranking at the fourth position after Germany, France and Spain but, if looking at the international arrivals, it is placed second only after Spain.
In the last years the increase of the sector appeal has been pushed mainly by the international demand with a growth of CAGR +5% versus the domestic one going at a slower pace of CAGR +3,2%.

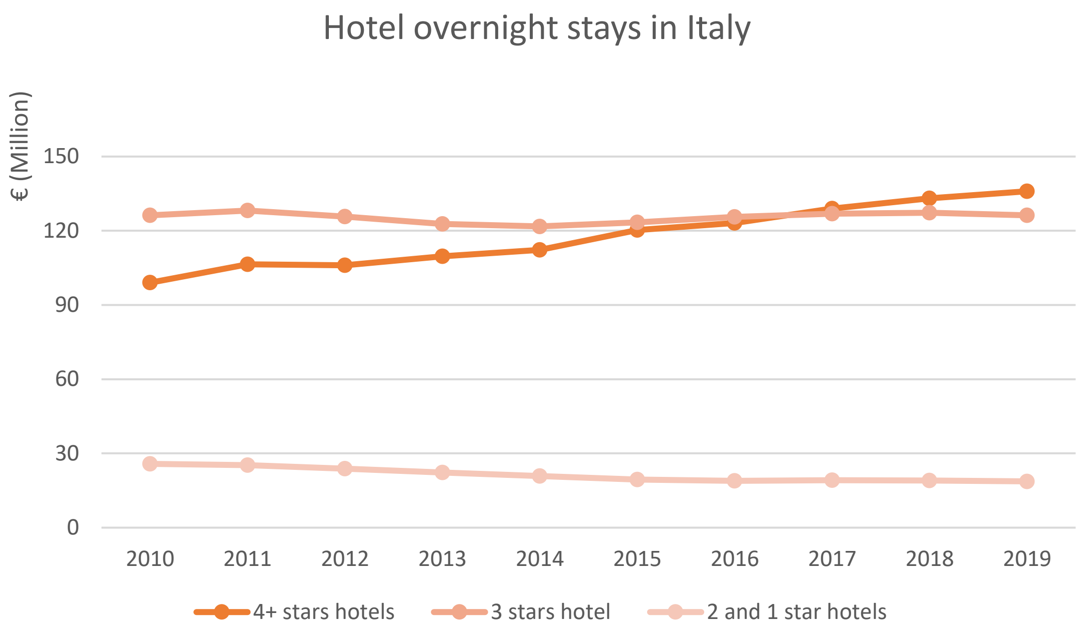

Figure 41 – Hotel overnight stays in Italy, Istat, 2021

Italian hospitality market, in particular, is relying more and more on international tourism which reached a + 30% in the last 10 years increasing the weight of the industry on the GDP composition in contrast with the domestic demand that remained almost unchanged. In the last years clear trends took place with chain penetration (mainly of upper scale) over 16% with a pace of about one new hotel a month helped by lease agreements that avoid a high money's disbursement at the start. More in detail, a +20% in seven years has been registered about the top 10 chain group present in the country. Among the deals typology, the preferred one, for the reason here above explained, are the lease contract with a share of 39% and the ownership one with 34% while, franchising share, seems to have lost their appeal with the share that fall from 25% to 19% in the last years.

Italian star ranking however is not reflecting the real position of the hotel (due to different national requirements) which is better described by international brand maintaining their standard all over the world and divided in luxury, upper and middle scale and economy according to the service provision.

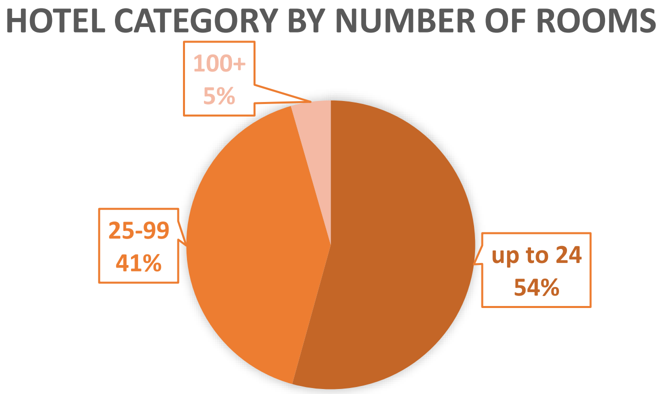

Figure 42 – Hotel division by room number, Istat, 2020

The period between 2015 and 2016 was the turning point in which overnights presence in 4+ stars hotel exceeded the ones in 3 stars hotel with a clear trend spreading the gap between them.

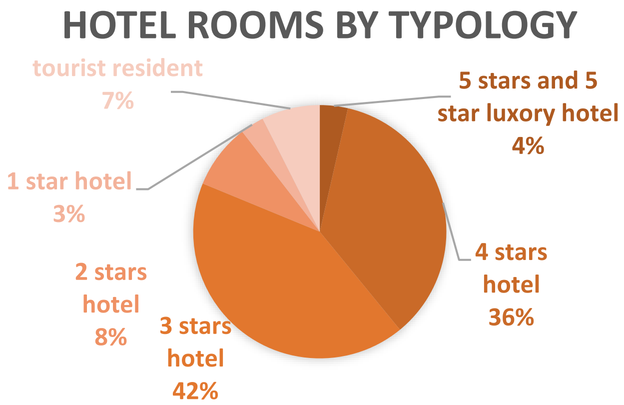

Figure 43 –Hotel share by rooms by rooms typology, Istat, 2020

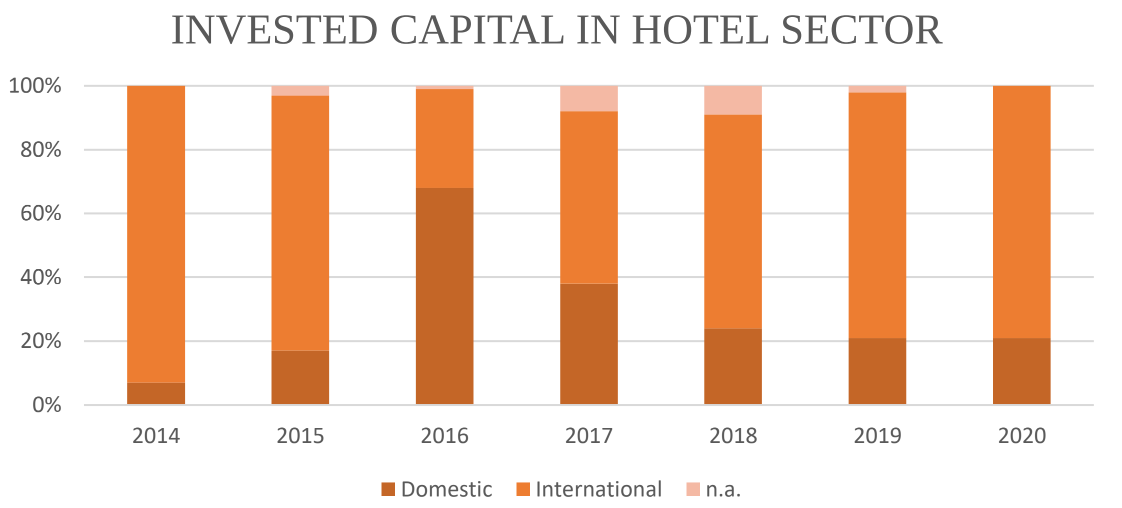

Figure 44 – Invested capital in hotel sector, Istat (2020)

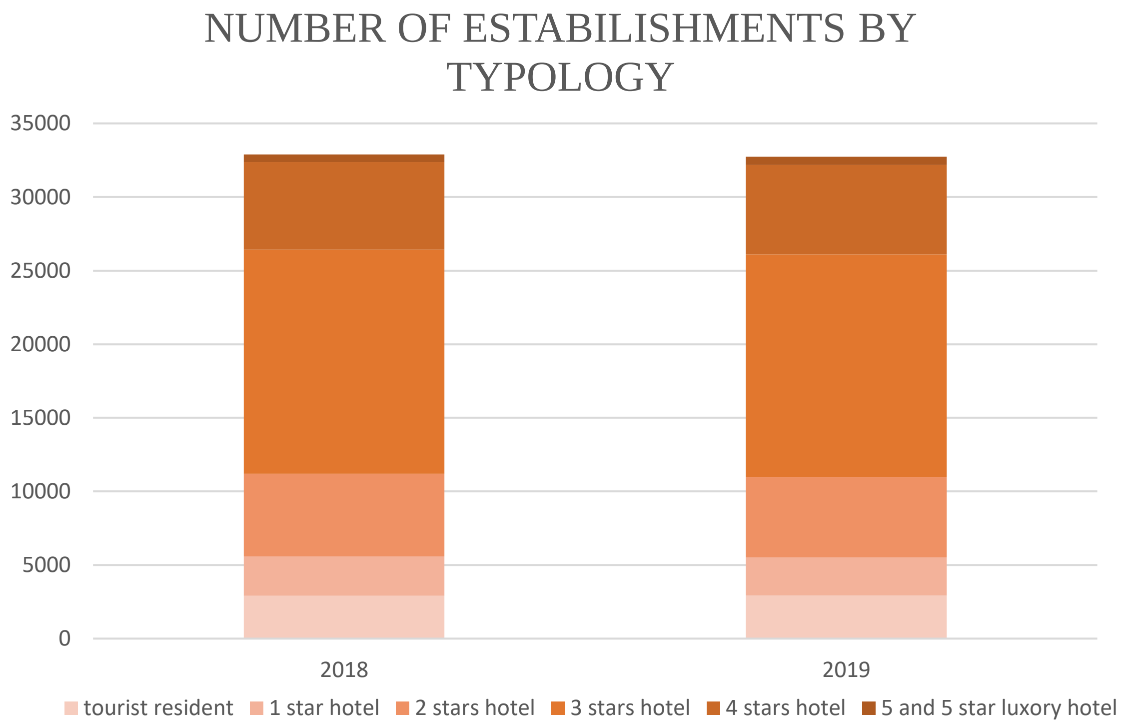

Figure 45 – Number of establishments by typology, Istat (2020)

There are two main type of investment in the hospitality sector: Hotel as direct investment and hotel as asset class.

The firsts are divided into three main categories:

- Vacant possession (or privately owned hotels) which are hotels owned by one person or multiple investors but managed and operated by an independent individual. Usually owner and operators coincide, i.e. it consists of family run business of medium-low capacity (direct operation). The advantage is the independency of day to day operations (with the exception of some particular decision) while the cons is that, not being part of a grater company / brand, volume discounts cannot be exploited from supplier and, moreover, the presence of lack of trust by tourists that prefer well known chains.

- Franchise agreement which consists of hotel brand chain providing protocols and management expertise to the asset's owner and the brand application on the property in exchange of a franchise fee, usually a percentage of the room revenue. The pros are the access to volume discount from suppliers (being part of a wide network), the availability of support services and a well-known central procurement. The disadvantages, instead, are the fact that the asset is linked to the name brand, which, if loose its appeal, also the property is going to be affected even if maintaining its standards; the other shortcut is the fact that the property has to follow the directive from the Brand in terms of service standards and even decoration / furniture.
- Management contract that consist in hiring employers agent to manage the asset in exchange of a Base Management fee plus incentives in order to maximize the return. The assets is owned and operated by different individuals. This contract is wide used for investors / owner with no experience which will take responsibility of day to day operations as salaries and maintenance leaving the management of the business to the agent. In this agreement, the contract plays a key role to regulate the relationship between the owner and the management company. The first crucial element is the duration which, usually, last between 15 and 25 (first break up option). In general, the higher the hotel's level, the longer the contract with an average, in Europe, of 21 years ranging from 20 years for Budget hotels to 22,6 years for the Luxury ones. The base fee, instead, is negotiated between the two players and can usually vary between 1,80% up to 4% of the gross operating revenue plus an incentive fee, calculated on the operating profit, to better align the interest of the manager with owner.

While the latter are classified as Hotel as an asset class called also "Property lease" where the hotel company (tenant) pays an annual lease to the owner of the property (or percentage of gross revenue). Usually this arrangement is carried out between a private owner and a corporation / hotel chain representing the safest investment (for the owner). Although, the level of risk can be increased by varying the fixed part of the compensation in favor to the variable one (percentage of the revenue). This particular type of contract is, usually, the most preferred by institutional investors.

In the Italian market vacant possession and leases are the main categories presented but there is a growing trend of franchised hotels and management agreements even though it represent a small share of the market.

The size of the average Italian Hotel is a further issue, with only less than 5% of establishments that go beyond the 100 rooms threshold while more than half (54%) have less than 25 room: these data remained substantially unchanged from 2016 where they were respectively 4,3% and 55%. There is to say that, with the latest acquisitions and expansion plans, these numbers were supposed to slowly change towards European standards (before Covid-19 outbreak).

The number of rooms in 2019 were above 1 million, in growth with respect 2017 and 2018, with an average of 33 rooms per hotel. However, the number of rooms do not have a clear trend being increased between 2007 and 2011 and decreased again between 2014 and 2017 to come back to grow until 2020. This seems to indicate a normalized situation in term of number of rooms with slight variance from year to year and the major variance concerning the quality of the offer.

The EU average occupancy rate registered by the EuroStats is about 7% higher with respect to the Italian one. The difference become greater if looking at the main European countries (average of 61.8% as highlighted by the chart) even if the gap is slowing narrowing passing from a difference of 13% in 2014 to 10% in 2019.

The main issues are probably the short stays of international tourists in the country and the inadequacy of many establishments to meet the tourists need used to high standards (especially coming from USA and Russia).

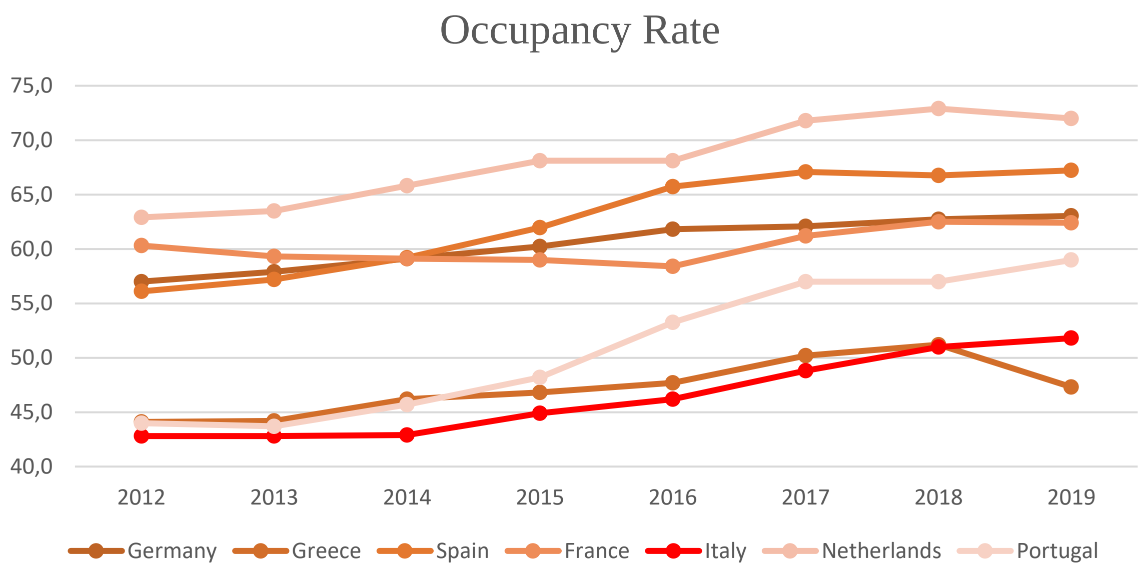

Figure 46 – Occupancy rate in the major European countries, Eurostat

Looking at the Hospitaly sector more in detail, from an import/export viewpoint, is possible to notice that it is following a positive trend leading to a higher difference between inflow and outflow (greater delta). It is clear, then, that the tourism sector plays a fundamental role in the country's economy with a weight of more than 13% of national GDP, growing on average by 2,1% / year in the last five years, in spite it is not exploited at its full capacity.

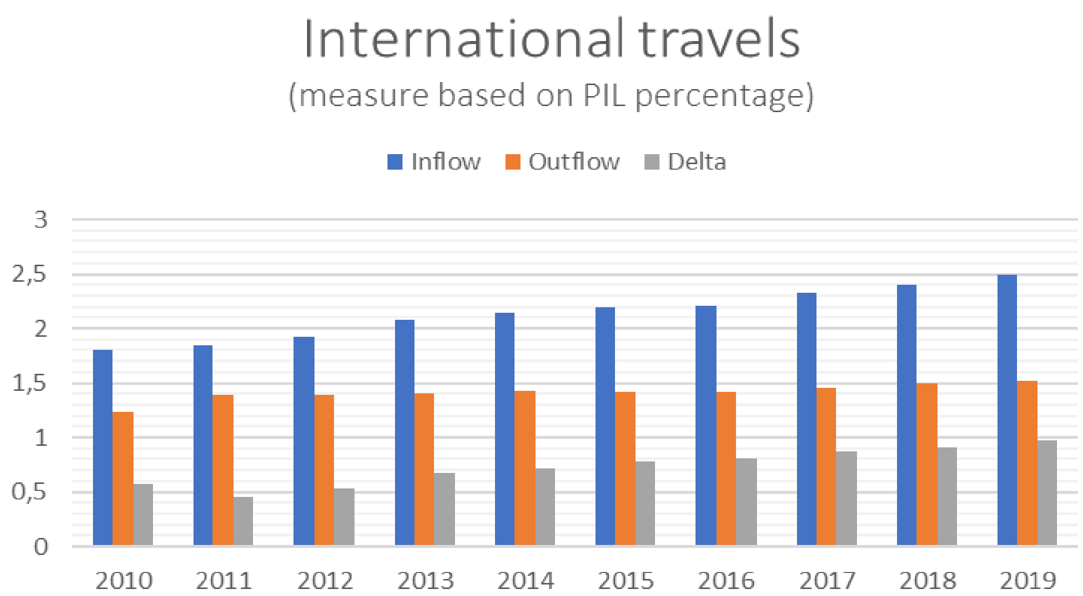

Figure 47 – International travels related to GDP percentage, Istat, 2020

Investment in the sector had a positive trend from 2012 till 2019, year in which it reached its peak of 3.2 billion, an increase of about 130% compared to the previous year with almost half of the number of transactions possible thanks to the sale of high quality and big size property transactions. The growth, however, experienced a sudden braking in 2020 due to the pandemic situation which made them fall by more than 2 billion with an overall value of about 1 billion.

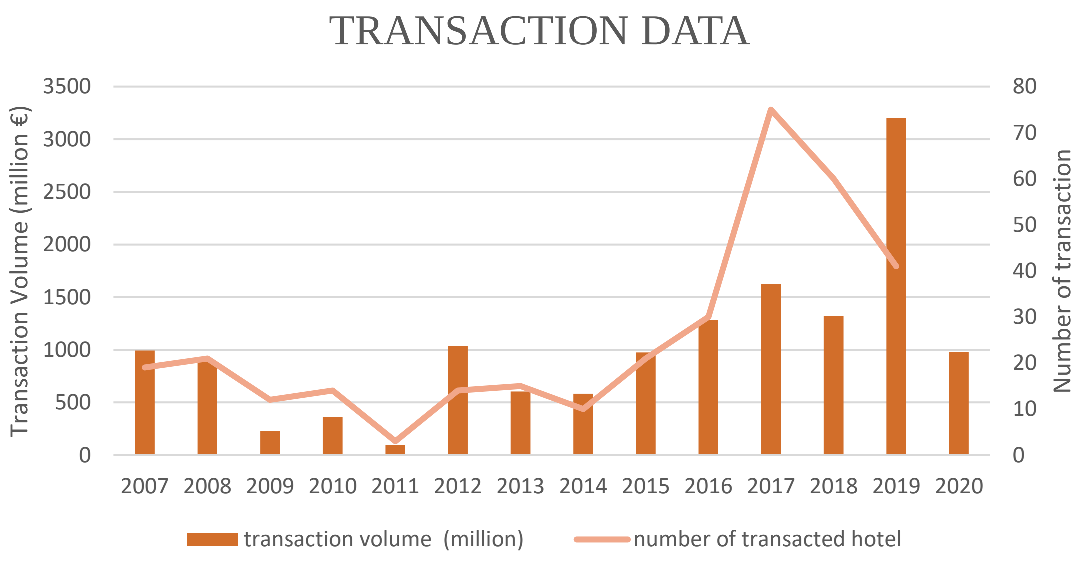

Figure 48 – Transaction volume and number of transacted hotel, CBRE, 2020

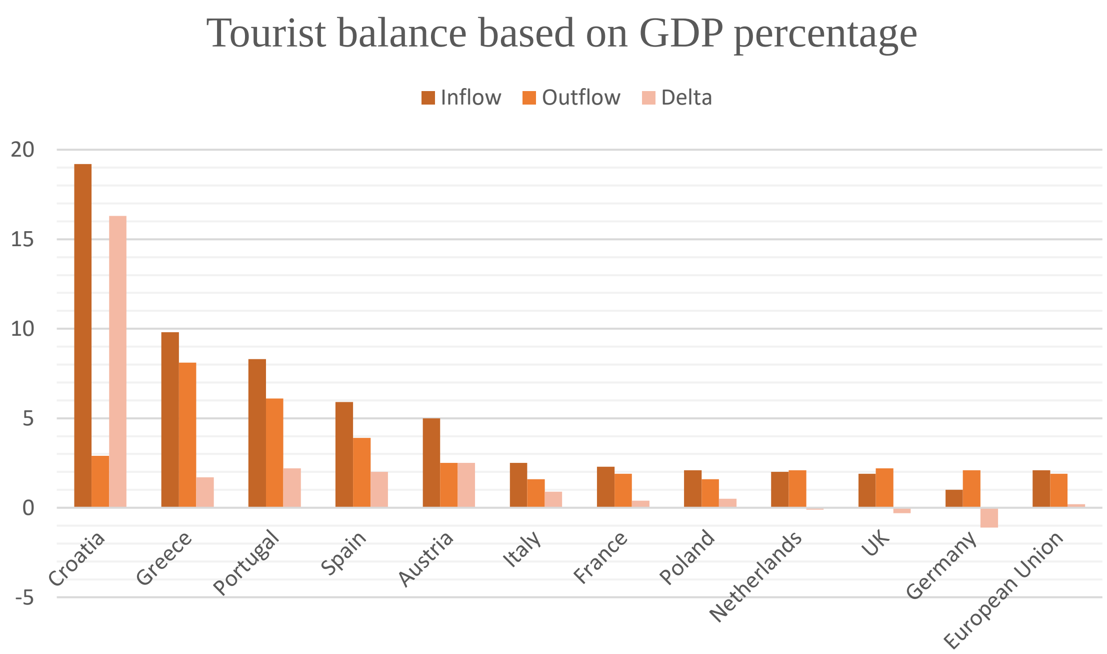

Figure 49 – OECD.Stat

The inflows from international tourists in 2019 reached 44,3 billion which is above the 40% of the services exports and about 8% of the total export while the outflow from international tourism touched 27,1 billion accounting for one fourth of services import and 5% of total import. The delta is structurally positive enhancing the gap every year in the last 10 years.

Positive is also the trend of both check in and overall number of staying, respectively equal to +29% and +17% compared to 2010. Despite these positive trends, the ratio between them, i.e. the average night spent, has a negative trend passing from 3,8 nights in 2010 to 3,3 nights in 2019.

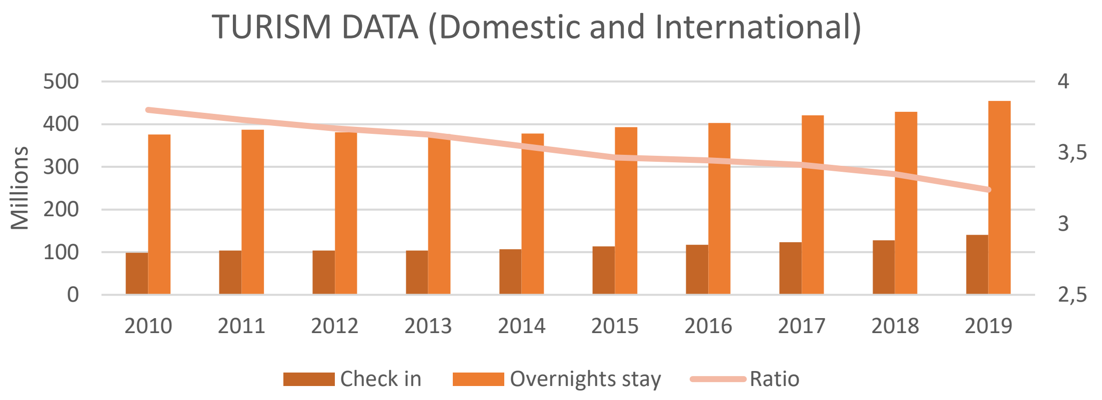

Figure 50 – Overnight stay and number of check-in, Istat, 2020

The positive trend of inflows in 2019 is mainly due to leisure tourists which had a positive variance of 6,4% with respect to 2018 but also the business travel played an important role counting for the 13% of the total with an increase of about 5%/year.

Travel reasons	**Overall expendture**				**Number of tourists**				**Number of nights**			
	2017	2018	2019	2019 var. %	2017	2018	2019	2019 var. %	2017	2018	2019	2019 var. %
Leisure	33.849	36.188	38.500	6,4%	75,4	78,9	80,5	2,1%	327,6	345,5	358,4	3,7%
Business	5.306	5.524	5.802	5,0%	15,3	15,2	15,6	2,9%	40,8	41,8	43,7	4,5%
Tot	39.155	41.712	44.302	6,2%	90,7	94,1	96,1	2,2%	368,4	387,3	402,1	3,8%

Data reported in millions and va. % calculated on 2018 – Istat

The average travel expenditure in Italy in 2019 was 391€ with a fluctuating trend, less than a half if looking at the foreign country which average is equal to 833€ with an increasing trend. The average daily expenditure, instead, is stable for both Italian and foreign tourist but still with a large gap of over 30% (126€ in foreign country and 85€ in Italy).

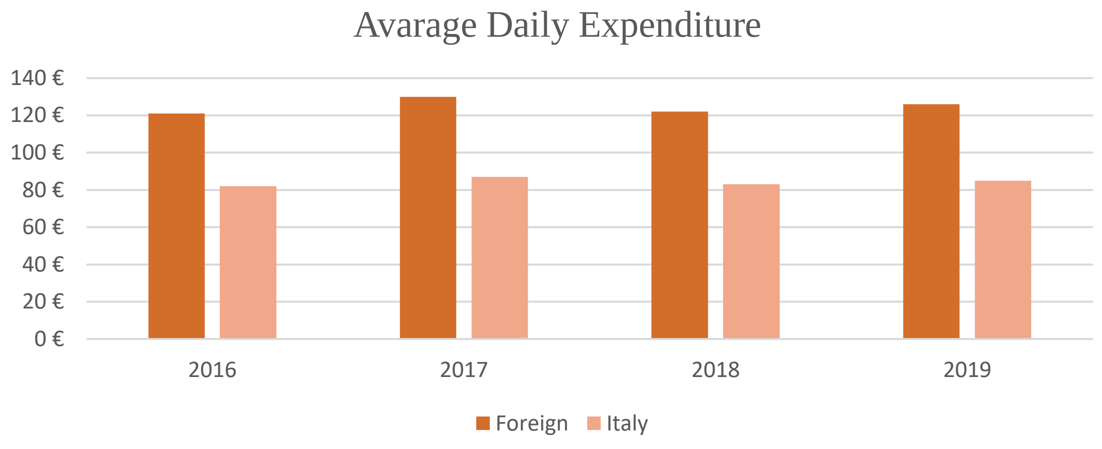

Figure 51 – Avarage daily expenditure, Istat, 2020

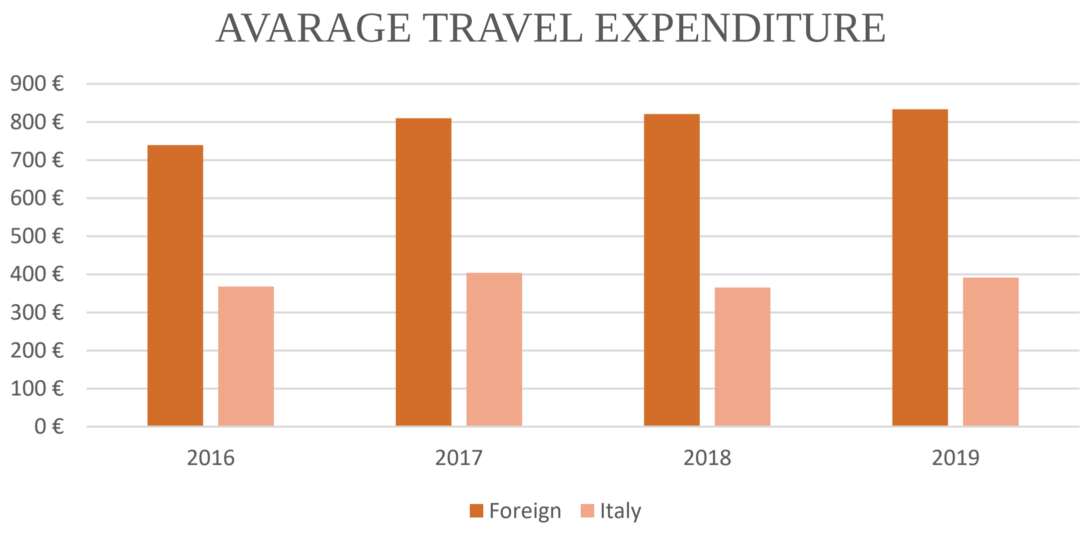

Figure 53 – Average travel expenditure, Istat, 2020

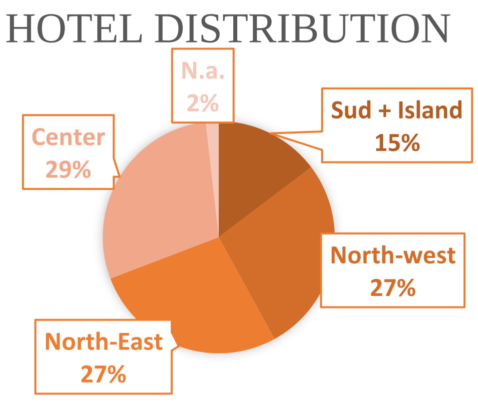

Figure 52 – Italian hotel distribution, Istat, 2021

4.2. Hotel Distribution and main cities (overview of the main cities Milan, Rome, Venice and Florence)

The main strength of the Italian Market is the heterogeneity of its tourist attractiveness offering a variegated offer, from mainly art cities such as Rome, Venice and Florence, to business cities as Milan and Turin and leisure destinations which comprehend mountain, seaside and lakes destination.

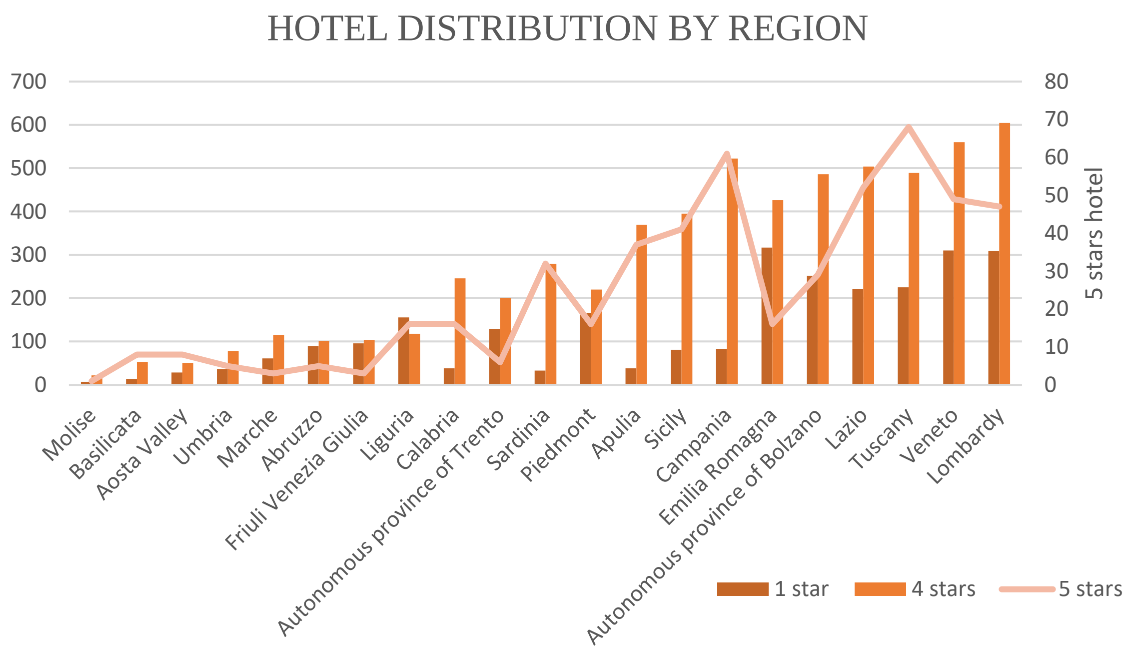

Figure 54 – Hotel distribution by Region, Istat, 2021

In the following map is possible to have a first look of the Hotel presence in Italy divided by geographical area.

Variance '13 – '19	Estabilishements number	Rooms' number
Milan	5%	6%
Venice	-1%	4%
Florence	1%	2%
Rome	13%	9%

Figure 55 – Key numbers of the Italian primary market, CBRE, 2021

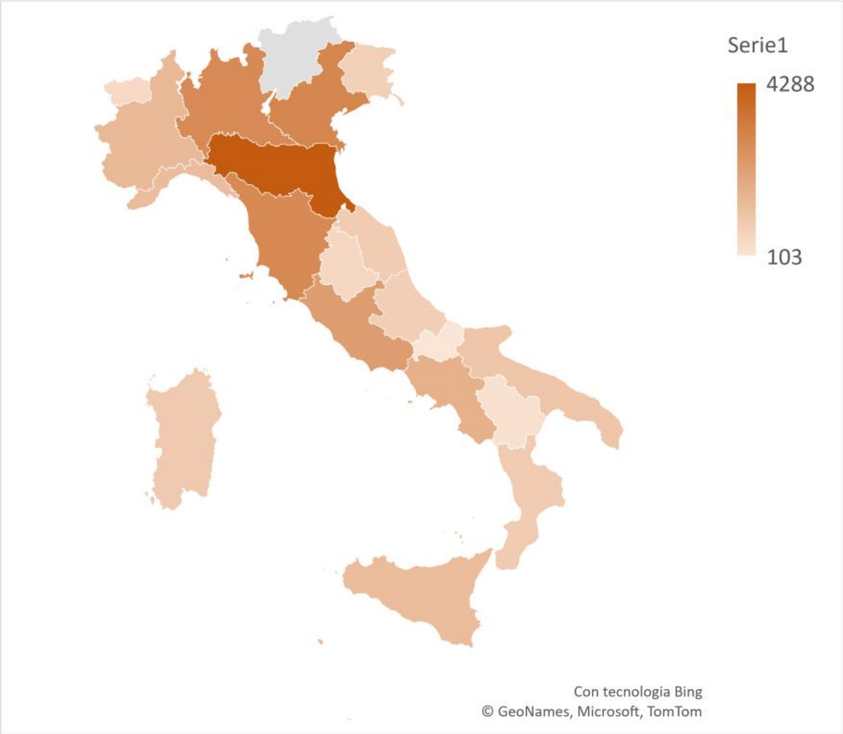

Figure 56 – Hotel distribution by region (Map), Istat, 2021

More than 16% of the hotels are located in Trentino Alto Adige (counting also the ones located in the autonomous province of Bolzano and Trento) reaching more than 5.500 establishments and more than 290.000 bed places. The second region by establishments number is Emilia Romagna with its 2.900 units (13% share) which is in the first place if looking at the number of beds with almost 300.000. Tuscany and Campania, instead, are the leading region in center and south Italy also leading the classification about the number of 5 stars hotels (luxury) respectively with 68 and 61 establishment. Lombardy, instead, is the region with the largest supply of 4 stars hotels with 604 units.

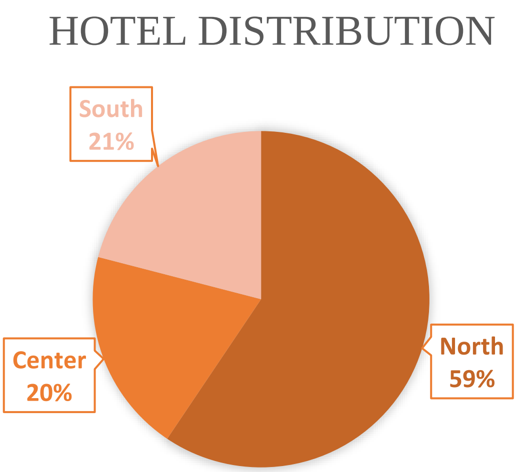

Figure 57 – Hotel distribution by macro areas, Istat, 2021

Regarding low quality hospitality, autonomous province of Bolzano and Trento combined leads the ranking of 1-star hotels with 381 units.

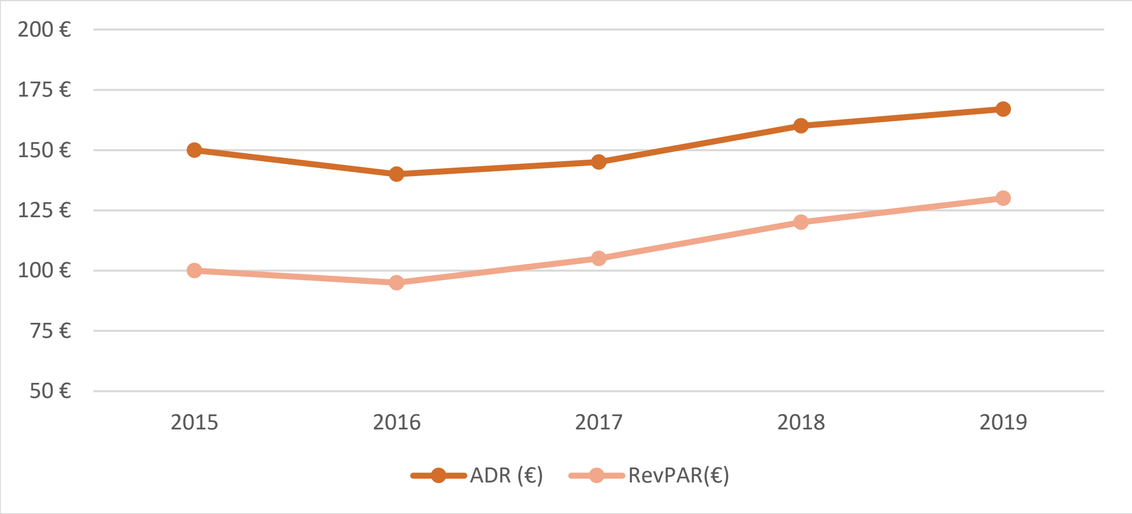

Figure 58 – Average ADR and RevPAR in Italy, CBRE, 2020

4.2.1. Milan

The city of Milan plays a key role on the national market: it is one of the biggest financial and business center in the world hosting also the Italian stock exchange and it is well known also for fashion, being one of the leader in design industry, not to mention the national leading position in technological and scientific research. Beside all these factors, it is carving out a place as leisure tourists place with its museums, theatres, nightlife for the younger and the international fair known worldwide such as Fashion week, Furniture Fair and EICMA. Since Expo took place in 2015, the Hotel sector had a strong push reaching the target of over 21 million visitors with an exponential increase of the number of both hotels and rooms giving to the city an higher level of visibility both for tourist and investors.

Suffice it to say that the average bed nights in 2008-2014 period was equal to about 8.5 million increased by about 15% starting from 2015 with an average of 11 million, relying on international tourists which represent more than 60% of the arrivals and bed nights.

These data are confirmed by the increasing trend of Occupancy rate and ADR exceeding the pre-crisis value of 2008. Also RevPAR, equal to 114€ has outweighed the value of 2007 (104€) and it is one of the Italian city with the highest increase in both the number of establishment (+5%) and number of rooms (+6%) pushed by a positive trend of both arrivals (+14%) and overnight stays (+12%).

Milan									
Tyoe of tourist \ Years		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**%**	**Difference '14-'19**
Arrivals	Domestic	1.802	1.961	1.725	1.794	1.894	2.008	38%	10%
	International	2.720	3.012	3.007	3.263	3.118	3.273	62%	17%
Bednights	Domestic	3.223	3.563	3.010	3.129	3.235	3.309	32%	3%
	International	5.812	6.745	6.448	6.966	6.700	6.924	68%	16%
Total	Arrivals	4.522	4.973	4.732	5.057	5.012	5.281	100%	14%
	Bednights	9.035	10.308	9.458	10.095	9.935	10.233	100%	12%

Figure 59 – Arrivals and bednight in Milan, Istat, 2020

4.2.2. Rome

Rome is by far the most visited city in Italy with its 12.9 million arrivals and about 30 million bed nights, increased by 15% in the last 5 years. It is the Capital of the Country and bases the roots of its appeal on the presence on the territory of national institutions, international and cultural organizations, embassies, cultural and artistic artifacts, without forgetting that is also present the Vatican Center which attracts Christian faithful from all over the world.

International tourists represent the biggest slice of both arrivals and overnight stays with values equal to 65% and 73% respectively. Looking at the trend, it has an overall positive slope especially for international data with increased value close to +20% regarding arrivals and +17% about bed nights: the main region of tourist's origin are United State of America, United Kingdom, Germany, Spain, France and Japan.

Occupancy rate is slightly below the main cities average (69% vs 71%) but it places itself in the second position considering both ADR (181€) and RevPAR (125€), values closer to Europea average, exceeded only by Venice in the Italian market.
From 2013 both the number of establishments and rooms increased by +13% and +9% highlighting once more the attractiveness of the city and the greater demand.

Rome									
Tyoe of tourist \ Years		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**%**	**Difference '14-'19**
Arrivals	Domestic	3.920	4.048	4.085	4.177	4.288	4.460	35%	12%
	International	6.894	7.250	7.451	7.715	7.982	8.461	65%	19%
Bednights	Domestic	7.221	7.409	7.452	7.612	7.804	8.038	27%	10%
	International	18.157	19.011	19.484	20.084	20.745	21.782	73%	17%
Total	Arrivals	10.814	11.298	11.536	11.892	12.270	12.920	100%	16%
	Bednights	25.378	26.420	26.936	27.696	28.549	29.820	100%	15%

Figure 60 – Arrivals and bednight in Rome, Istat, 2020

4.2.3. Florence

Florence is the 4th Italian city for tourism. It benefits by the enormous amount of art works, architecture and monuments present in the city especially from the Renaissance period but, it also host the headquarters of worldwide known luxury brands such as Roberto Cavalli, Ferragamo, Gucci) and produce quality wine such as Chianti. Suffice it to say that it is one of the cities with the highest number of world's most important artworks for UNESCO.
International tourists are the majority with 2.2 million arrivals and 7.8 overnight stays with a share of over 75% for both. In addition, this trend is following a growth path respectively of +9% and +13% in the last 5 years.
Occupancy rate is one of the highest in the country with an increase in RevPAR between 2018 and 2019 second only to Venice (looking at primary markets). The main foreign country's visitors are from Spain followed by USA, China, UK and France. Both the number of establishments and rooms are almost steady with a slight increase in the period 2013-2019 of respectively 1% and 2%.

Although the number are consistent, the city is not exploiting fully the potentiality it has, mainly due to the lack of an international airport nearby which would allow direct flights from/to over-sea cities.

Florence									
Tyoe of tourist \ Years		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**%**	**Difference '14-'19**
Arrivals	Domestic	747	731	731	751	759	768	25%	3%
	International	2.080	2.095	2.072	2.212	2.214	2.276	75%	9%
Bednights	Domestic	1.588	1.676	1.713	1.810	1.858	1.874	24%	15%
	International	5.193	5.427	5.328	5.739	5.837	5.954	76%	13%
Total	Arrivals	2.827	2.826	2.803	2.963	2.973	3.044	100%	7%
	Bednights	6.781	7.103	7.041	7.549	7.695	7.828	100%	13%

Figure 61 – Arrivals and bednight in Florence, Istat, 2020

4.2.4. Venice

Venice is one of the most iconic city in the world with its history and its canals attracting visitors from all over the world (5,5 millions in 2019) and placing itself at the second place for number of arrivals only beyond Rome. The international component represents the 88% of the total (4,9 millions) and the 90% about overnight stays (11,7 millions). In the last 5 years there has been an increase of circa 23% regarding arrivals and bed nights, growth sustained both from international and domestic component as shown in the chart. The number of hotel, from 2013 to 2019, had a slight decrease of about 1% meanwhile, the number of rooms, in the same period, has increased by 4% due to the merge and expansions of existing hotels.

Venice is the leading Italian city by ADR (235 €) and RevPAR (165€) which are 29% and 22% respectively above the national average; it also had the highest increase in RevPAR in the last full operating year ('18-'19) with a +13% enhancing its attractiveness for investors.

Venice									
Tyoe of tourist \ Years		**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**%**	**Difference '14-'19**
Arrivals	Domestic	464	473	525	570	607	647	12%	28%
	International	3.817	4.023	4.121	4.464	4.648	4.877	88%	22%
Bednights	Domestic	966	911	1.038	1.163	1.203	1.265	10%	24%
	International	9.017	9.271	9.474	10.523	10.915	11.684	90%	23%
Total	Arrivals	4.281	4.496	4.646	5.034	5.255	5.524	100%	23%
	Bednights	9.983	10.182	10.512	11.686	12.118	12.949	100%	23%

Figure 62 – Arrivals and bednight in Venice, Istat, 2020

4.2.5. Secondary cities

The secondary market, with only few exceptions, started to suffer a decrease of profitability and, consequently, of attractiveness from 2018 as shown in the table below. In particular, beside Bologna which registered an outstanding performance of +10% and Turin slightly positive (+2%), the other main secondary city recorded a negative CAGR RevPAR with Bergamo and Naples that had the worst results with -6%.
As foreseeable also the main hotel performance indexes are very different with ADR and RevPAR almost half respect to the primary market and the occupancy slightly below. In the following graph are reported the main Italian cities for each market and the respective values.

2019	**Occupamcy**	**ADR (€)**	**RevPar (€)**	**CAGR RevPAR (19-18)**	**CAGR RevPAR (last 5 yrs)**	**CAGR RevPAR (last 10 yrs)**
PRIMARY MARKETS						
Venice	70%	235	165	13%	5%	9%
Rome	69%	181	125	1%	4%	5%
Milan	72%	158	114	7%	5%	5%
Florence	74%	145	107	9%	7%	7%
SECONDARY MARKETS						
Bologna	68%	104	71	10%	10%	9%
Turin	69%	93	64	2%	4%	4%
Naples	65%	96	63	-6%	8%	5%
Catania	71%	88	63	-2%	6%	7%
Bergamo	75%	78	59	-6%	5%	1%
Genoa	65%	87	56	-5%	5%	1%
Verona	70%	63	44	-1%	10%	3%

Figure 63 – Hotel KPIs in the main Italian cities, CBRE, 2020

4.3. Italy: 2020 and Covid-19

As shown in the previous chapter, the Covid-19 pandemic has and still have a disastrous impact on the tourism sector with international tourists almost disappeared and many operators that will go out of business due to a fall of performances way worse than the one following the twins tower attack in 2001. The catastrophic situation, however, brings with it a reshaping of the concept of tourism with a path towards the built of a stronger, adaptive, and environmentally friendly hospitality experience. The main adjective that can be attribute to 2020 is “uncertainty”. The year has started with minor consequences with the restriction circumscribed to the people arriving from China and then, suddenly, the first lockdown has been announced. From that moment, uncertainty about future decision and scenario took over, and, with hindsight, no one would have foreseen multiple lockdowns caused by new pandemic waves, summer reopening, Covid-19 variants and delay in the vaccine campaign. Pandemic has pushed most of the world in an economic crisis with many nations that are going, or will going, through recession in the next years. The impact on hospitality have affected all workers typology since the sector provide jobs for investors, students, migrants, older workers etc. with contracts that vary from full time, part time and seasonal.

The suffering was emphasized in gateway, metropolis and art’s cities but a little more contained in rural and open-air destination. Losses have been recorded all along the travel chain such as tour operators, travel agencies, air transport, trade fair-congress operators, accommodation and restorations. The data about the real impact of the Covid-19 are not clear and are almost impossible to forecast until government’s support measure will be in place.

2020 is going to be a non-returning point for everyone and, especially, for hotel sector which experienced a break with the past. The year in question has been characterized by a change in vacation plan by tourists with a predominance of short distance travel, the so called “Proximity tourism”. The TCI investigation pointed out that, even in the opening months, 67% of the interviewees reduced participation in public events or museum and the 59% choose a non-popular destination to avoid crowd.

Seaside destinations has proven to be the preferred destination also in these conditions for the 44% of the respondent, followed by the mountain counting for the 26% meanwhile big and art cities recorded a significant draw back.

Also the way of transportation suffered an impact from this pandemic with a fall of airlines in favor of private transportation remarking once more the decision of short distance travel and a lack of international tourism. A clear point is that international tourism, and business one, has been the first ones to be affected and discouraged involving in person interaction and, likely, are going to be among the lasts to recover considering that the pandemic has changed behavior and confidence of the consumers (tourists). International tourism, during the partial re-opening all around the world, have been also discouraged by the restricted measures that different states put in place to contain the spread of the virous such as the 10 / 14 days of mandatory quarantine.

Although the close of the national border has been a painful but necessary measure, the full re-opening is going to be a challenging process in order to find the right time. In fact, if anticipated, it could lead to a new wave and new restrictions while, if postponed too long, would have the effect of never see open again many companies struggling to stay alive, in particular the so called Small and Medium Enterprises (SMEs).

The key point is than to have a co-ordination of measure at local, national, and international level having in mind the two main target of protecting people health and to stimulate the market and contain the number of job losses.

Due to all of these reasons, the Italian Government issued regulatory measure in order to try to save business severely impacted by the lockdowns as Cura Italia in March 17^{th}, Liquidity Decree in April 8^{th}, Relaunch Decree in May 19^{th} and refreshments Decree in October 28^{th} that gave an help in terms of access to loans guaranteed by the Government, fund extension, tax breaks and delays in payments.

Looking more precisely at the Italian hotel sector, 2020 is going to be remembered as the worst year with data that registered, regarding bed nights, a decrease of -70% and -30% of international and domestic demand respectively.

Starting from a broader view, it is possible to notice a trend towards higher level hotels. Looking at ten years variance between 2009 and 2019, five-star hotels has increased by 61% reaching the number of 554, same trend for the four star which registered a plus 24,2% achieving 6.074 number of building. Three-star hotels, instead, remained almost unchanged with a slight increase of 1,4% but still representing more than the half of the total offer with 18.054 units. Lower quality hotels, on the other hand, experienced an opposite trend respect of the first two with a number of two-star and one-star hotels that decreased by 21,1% and 35,3% respectively. Overall, the absolute number decreased by 3,6% meaning not necessary that the offer decreased but that the size of hotels increase at the expense of the number.

The demand, after years of positive trend, dropped dramatically in 2020 with presence in hotels down by 59,4%, data given by the decrease of both domestic tourism and international one respectively of - 45,1% and - 74,9%, confirming one of the worst year experienced by the sector.

The crisis is reflecting on the employees working on the sector with impressing data despite Government helps. If 2019 have registered almost 1.300.000 workers directly linked to hospitality, 2020 registered a cut of 36,3% of workers, in particular, a -26,1% for long term contract and -45,4% for short term.

Also the number of new firms linked to the sector registered a stop in the year with a -31,7% of new hotel opening with respect of 2019 and restoration activities down by 10% with a resulting delta, between permanently closed hotel and new opening, of -48 companies, confirming the contraction and the problems in the short term of the sector.

The negative data are the result of the contraction of the foreign tourists' expense that stopped at 9.161 million in the 3rd quarter of 2020, equal to a difference, in negative, of -45,5% with respect to 2019. Although, in the same time frame, the Italian expenses in foreign countries also diminished at 3.063 million with a decrease, respect to the previous year, of 66,3%. The two data combined results in an absolute positive surplus of 6.098 million but, on relative terms, it represents a decrease of -21% with respect to 2019, with data worsening in the last quarter registering a -70,4 % of international expenses.

The natural consequence is a sharp decrease of revenue, with respect to the same period of 2019, for all activities linked to the tourism such as restoration (-40%), Museum visits (-75%), total flights (-69,8%), given by National flights (-61,3%) and International flights (-72,7%) and bed night-stays down by more than 60%.

Domestic demand, as already said for other countries, was the main driver for 2020 with data, looking for summer months June to September, that suffered a drop of "only" -14% compared to the previous year while, the international one, in the same period, had a decrease of -59% and, together with it, also the international spending went down by almost 70% mainly due to the absence of American and Russian tourists.

Figure 64 – Domestic and international overnight stay in Italy, Istat, 2020

In terms of transactions, in contrast with respect the rest of Europe, Italy did not register a significant drop in volumes. Looking at the graph could be misleading since, if it is true that investments dropped by almost 70% with respect to 2019, this data cannot be considered without pointing out that 2019 was an outstanding year with a concentration of transaction never experienced before with a single deal of over 1 billion carried out by LVMH. In fact, if excluding it, the volume of transaction is comparable to the time period 2015-2018. The investor's confidence in the market is still strong confirmed also by the almost absence of repricing in 2020 transaction with Rome that confirmed his role of most dynamic city.

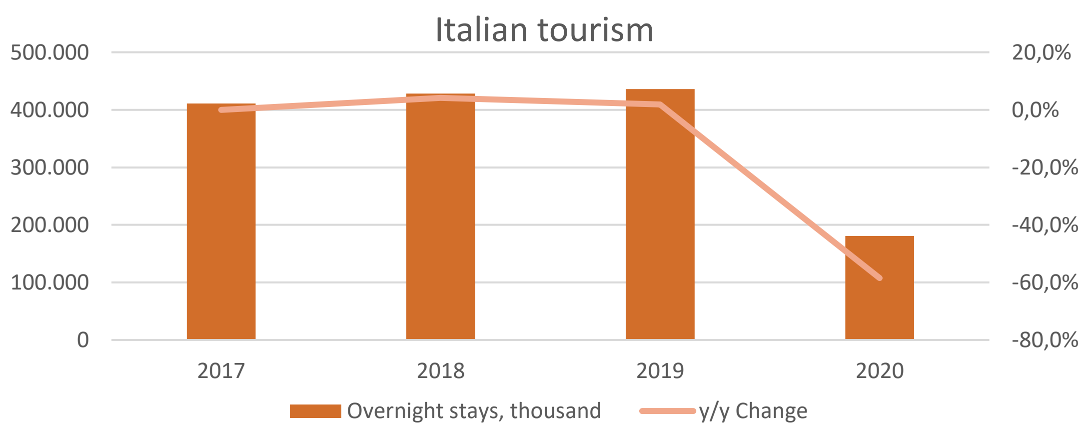

Figure 65 – Total overnight stay in Italy, Istat, 2020

New opening can be considered almost null with a common view of delaying it by at least one year looking for a more stable situation. Nevertheless, investors' interest remains very strong for both prime and secondary locations. More in detail, the two main Italian's cities Milan and Rome suffered a yield's increase of 25bps and 50bps respectively enhancing opportunity for international brands to enter in the market.

4.4. 2021 Forecast

Many companies working on the Real Estate sector are forecasting that the recovery of the Hotels market in Europe will, at least initially, be driven by the domestic demand and hotel performance across the region will not return to pre pandemic levels until 2024. From the "*Hotels Pan EMEA Report 2021*" published is inferred that European countries with a strong domestic demand, both composed by leisure or business indifferently, will have a faster growth reaching pre-Covid numbers in a shorter time. This is what happened during the hotel's partial re-opening on the second half of 2020: the hospitality's performance throughout Europe were mainly driven by domestic leisure tourism: when travel-related restrictions have been reduced, hotels with a high level of leisure offering obtained a good performance and apart-hotel (apartment with hotel services) outperformed the general market thanks to the ability to provide interpersonal distancing and compliance with Covid's prevention measure.

Market restrictions and uncertainty contributed to a decline in the volume of investment in the sector worldwide during 2020. In particular, in Europe, the total investment in the sector was 9.4 billion, a reduction of 66% with respect to 2019.

Nevertheless of this warning data, the sector continues to attract investors and many funds and international chains have raised additional capital to invest in hotel's opportunity.

CBRE 2021 report state that hotel European market will start to recover in 2021 with the major increase forecasted in summer and early autumn months. The situation will lead also to a change in the organizational and operational structure of the market with franchising that will be the main path to undertake for international chains' growth.

In addition, experts are expecting an asking for discount in price in 2021 since the lack of liquidity and the limitation by credit institution to access to line of credit / financing. The

average low size with the highly fragmentation of the market with the low penetration of international brands make the sector appealing for foreign investors which, having “deep pocket”, can catch the opportunities on the market collecting higher return than previous years or even expected.
This situation opened the investment door of the sector to different funds and private investors with many opportunities for repositioning the asset and / or affiliating it with international brand bringing the transaction volume of the year at higher level with respect to the previous one (2020) with the main driver based on high quality assets situated in prime location (so call flight to quality) for Core investors and assets with repositioning or refurbishment need for value-add investors.
So far, the only sub-market which gave a breath fresh air to the sector was the one of domestic leisure during the partial reopening along the year. For the same reason, and opposite to the initial forecasts, provincial market outperformed the gateway and capital-cities since the former relies mainly on local tourists while the latter on international and business-related ones.
These considerations have been made after the data collection process as the pandemic went by and not surprising but interested results have emerged. As already said, all the hotel sector has been heavily impacted at all location and all levels. It is possible to notice that almost all hotel sector’s KPIs have widely declined in the current year but, the intensity of this fall varied significantly based on differences in services level, location, price tier, chain scale and primary demand.
Medium to low hotels (i.e. midscale, economy, and lower tier hotels) have registered a lower impact by the pandemic in operation and value since they remained operating hosting the essential workers such as transporters, healthcare workers, construction crews and intra-region leisure guests which never stopped during the multiple lockdowns.
Serviced apartments and accommodations, in these conditions, even if penalized in absolute numbers, outperformed in relative numbers the traditional hotels, targeting longer stays and leveraging on lower operational gearing and larger spaces allowing self-isolation. These observations led to the conclusion that the initial phase will be driven by domestic demand, i.e. the countries that are historically known for domestic leisure demand and less linked to international tourism will have a faster recovery, at least initially, for the same reasons explained before. On the other side of the coin, instead,

upper scale and luxury hotels, depending mostly on convention, international travelers and high-profile business, have been the most impacted suffering a decline in revenue and operations never faced before.

It is possible to group the data in three major categories based on the impact they suffered: Low, medium or high.

	LOW	MODERATE	HIGH
Chain Scale	- Economy - Midscale - Upper Midscale	- Upper - Midscale Upscale	- Upper Upscale - Luxury
Market	Drive to markets	Primary and secondary drive to markets, including resorts	Primary, Gateway markets, Fly to Resorts
Location	- Suburban - Small Metro - Interstate	- Suburban - Small Metro - Interstate - Drive to Resort	- Urban - Fly to Resort
Service Level	- Non-Urban Limited Service - Extended stay	- Non-Urban Limited Service - Select Service - Extended stay	- Full Service - Convention Hotels
Demand source	- Essential travelers - First responders - Transportation industry - Construction crews - Temporary housing	- Essential travelers - First responders - Drive to leisure - Corporate	- Group - Convention - International fly to leisure - Corporate

With the strong assumption that the vaccine campaign will be widely administered by mid-late 2021, there is an expectation by hotel operators to have a fully recovery in revenue to pre-pandemic levels by 2024.

Hotels located in Urban, Gateway and fly-to-resort belonging to the upper Upscale and luxury chain scale are the one that suffered the worst impact with a negative performance two or three times worse than economy and mid-low scale hotels. The fall of the main KPIs are going to last for a relatively long time before coming back to pre Covid-19 values.

As foreseeable, an erosion of the hotel's value took place in the present situation but it is interesting to see what will happen in the medium to long term. In order to do that CBRE carried out an interesting analysis stabilizing the values to compare data from pre and post Covid-19 outbreak. They choose a "direct capitalization approach utilizing a capitalization rate to the net operating income of the first stabilized operating year".

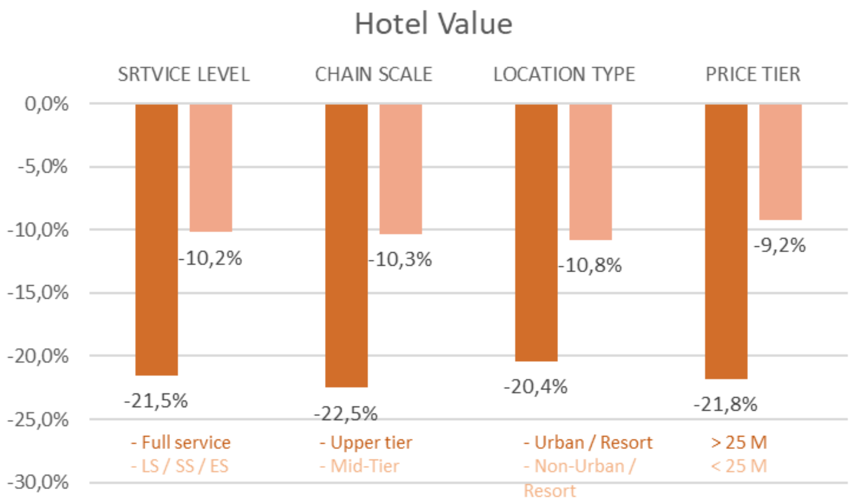

Figure 66 – Hotel value: Covid-19 stabilized value CBRE, 2020

It is possible to notice that the drop in value of full service level, upper tier hotels, urban location and higher price tier have been more than two times worse than Low service, Mid-Tier, Non-Urban and lower price tier hotels. The average impact for the overall hotel market is calculated as –15,1% in stabilized value, ranging from -21,5 % of the former and – 10,1% of the latter. Even if these values are catastrophic and totally unexpected just one year ago, they are better than the so called "as-is" scenario with an average of - 20,2%.

Comparing the share of international investors, there has been a significant increase in the presence of foreign capital representing the 83% in the first quarter of 2021 versus the 59% of 2020 enhancing the confidence of a fast recovery.

5.SOLUTION TO SUPPORT HOSPITALITY

Technological progress had an exponential grow in the last decade changing every aspects of our lives, from the behavior to the spaces we live in, no exception has been made for the tourism and hotel sector.

The first and main breakthrough is the introduction of the smartphone which become the only fundamental object for the majority of the travelers allowing to post on social media, connect with new people, find review on places / restaurants and create itinerary giving to the owner all the knowledge needed. The existing technologies and application present today on the market are infinite, with a different degree of complexity and usefulness, and can be divided in two main categories based on whether or not they impact on the physical aspects and / or disposition of the asset.

The main ones that does not have a fundamental impact on the physical structure of the asset are applications like TripAdvisor, Googlemaps, Uber, MyTaxi, Skyscanner, Triplt, Google translate and so on. Although they do not have an impact on the hospitality asset, they had a great impact under other points of view making unnecessary physical objects that were fundamental just some years ago such as maps, notebook, dictionary, cameras and documents holder bringing everything inside the smartphone allowing necessary tasks like booking hotels / flights and check-in / check-out. Other sector had suffered and will suffered even more in the next few years starting from travel agency that become almost obsolete with the self-booking trend and tourist guide that are being progressively substitute by virtual reality, as for example the majority of the museums are adopting.

Other innovation, instead, brought a radical change also on the concept of hospitality which has been stressed also by the Covid-19 situation. The main change, common for every kind of structure, is represented by the progressive elimination of the hall, which, is becoming obsolete and counterproductive with the formation of queues. An example in this sense is the five stars Jannah Hotels and Resorts in Dubai which eliminated the hall allowing customers to check-in directly from their smartphone with an instruction video that explain every function / amenity in the structure in every language. The online reception, moreover, also cover the main customers' request, from morning alarm to car rental service. The elimination of the hall spaces brings with it some opportunity for investors which could convert the area in rooms, enhancing the property availability or it could be used as complementary services, examples are restaurants and bars but also furnished for office space, especially for business hotels.

Other features that are entering the market are the "customization" of the offer for middle-up hotels: example is the four stars hotel Schani in Austria which gives the possibility to select floor, dimension, view and other details while booking. To simplify decision making the hotel also offers a Virtual Reality (VR) in order to show the possible upgrade experience and service obtainable. To complete, once the reservation has been made, the hotel sends directly on the smartphone the room number avoiding the check-in need.

Internet of Things (IoT) and Internet of Everything (IoE) are at the beginning in hotel sector utilization but are spreading fast allowing potential customer to take decisions based on more reliable and concrete data.

Although the exploitation of these technologies has taken giant leaps due to Covid-19, the implementation has started some years ago.

Figure 67 - Botlr robot, The New York Times

In 2014, the Mariott's affiliated brand Aloft introduced in its stuff for the first time a Robot (called Botlr) which had "basic" functions: it did not interact much with customers but it was able to understand and accomplish simple tasks such as bringing clean towels, new toothbrush, food or beverage at every moment arousing astonishment and curiosity among customers. These types of robots are able to go around the hotel autonomously recognizing the different rooms receiving as a tip a simple thank you tweet.

Figure 68 - Henn-na Chain, Hospitality.net

In the same time also in Japan new robots' stuff were experimented replacing almost completely the human variable. The examples are the hotel chains of Henn-na and Strange which rely mainly on artificial intelligence being able to check-in registering a passport, to escort guests to the corresponding room, to talk in every language and, least but not last, they are safe in terms of virus transmission.

These peculiarities spread very fast in the last years with upgrade. In New Otani Hotel (Tokyo) has been introduced an Artificial Intelligence that looks like a Teddy bear able to create an emotional connection with the guests responding to their moods while in Sky Hotel (Johannesburg), to prevent the diffusion of the virus, three new robots able to clean, to deliver dinner, to carrying up to 300 kg luggage and to give information have been introduced in the stuff members giving the possibility to the customers the type of service they prefer (robot versus human).

Robots can also scan guest faces to comprehend the degree of satisfaction during the stay, gathering keys information for the manager of the hotel. Although, a double effect has been experienced: if it is true that these robots are super efficient, 100% available and can gather an infinite amount of information, from the other side it must be said that they do not always comprehend and interpret the real customers' need making the human component still fundamental.

It can be said that all these factors represent a new technological revolution with hotels embracing it to speed up and simplify standard and routine actions such as booking or check-in allowing the stuff to have more time to create a more personalized experience for customers, enhancing their satisfaction and saving some costs for managers. As explained hereabove, all the emerging technologies i.e. Virtual Reality, Artificial Intelligence, Robots, Applications, 3D print, wearable technologies, etc., can be applied to the hotel sector with a huge impact on both managers and stuff understanding better the customers' need, and on guests who can satisfy their requests in a much shorter time and more effective manners. The future, in this sense, will go towards a more dynamic tourisms, skipping queues and "non value-add" activities such as check-in, pre-visiting sites or doing activities through Virtual Reality before doing them in reality while printing new accessories with 3D print and calculating calories burn and distances walked through a high-tech t-shirt.

5.1. Innovative hotels

As the demand trends are going towards the external levels of offering (Luxury/Super Luxury or Low cost), new hotels, less conventional started to came up using new technologies to provide unique experiences or to minimize costs and spaces.

The substantial difference between Italy and most of the other countries lays in the fact that, while the main hotel driver for other countries is to create experiences and attractiveness by building new and up to date buildings with all the new technologies available on the market, Italy has the “problem” that it already has plenty of built environment most of which under restriction. The aim is to take advantage of these restrictions of the territory and municipality turning them into opportunities with innovative ideas, examples are “Albergo Diffuso”, “Wine hotels” and historical building in which the experience is not replicable elsewhere because strictly linked to the territory. Starting from this point of view, many foreign countries, once ascertain the attractiveness and the success of these new structures, developed and are developing new buildings following the Italian trend adapting and integrating the structure to the territory.
Example of these kind of hotels are:

- Underwater Hotel: Poseidon Hotel, located in Fiji island, it is built at 12 meters under water with extra luxury rooms completely surrounded by glass. Designed by L. Bruce Jones, it is connected with the surface by two elevators and it comprehend 24 suites of 50 sqm each and it offers also several amenities such as the chapel, theatre area, library, conference room, spa and larger suits all situated underwater.

  

  Figure 69 - Poseidon Hotel, loveexploring.com

  The hotel, beside the atmosphere of being surrounded by the Pacific Hotel, offers also the experience of feeding fishes directly from the suit. The booking management requires a minimum stay of one week with a charge of about US 30.000 $ in order to increase occupancy and reduce turnover.
- Nature Hotel: This kind of hotel has the characteristic of being surrounded by nature and, often, it is located at the top of a tree as a Tree house. Examples are Canopy tower (Panama), Magic Mountain (Chile), Parrot (Belize), Glamping Ribno (Slovenia).

  

  Figure 70 - Magic Mountain Hotel, ar-tour.com

- Ice Igloo Hotel: Hotel placed in the middle of the nature which give the possibility to spend the night in a glass box and to admire at 360 degree the sky. In many cases, there is also the possibility to choose for rooms entirely made up by ice, even decorated with ice sculpture. Examples are Hotel de Glace (Canada), Iglu (Switzerland – Andorra) and Ice Hotel (Lapponian).
- Prison Hotel: Hotel that gives the possibility of passing one or more night in old prisons dismissed creating unconventional experience to share such as the old jail (Australia) or the Hostel Celica (Slovenia).
- Capsule Hotel: these particular Hotels were introduced in Japan but have rapidly took place all over the world. They consist of tiny rooms (called capsule) with a dimension of two meters length, 1 meter wide and 1,25 high in which there is no space but for the bed. In this kind of hotels check-in and check-out has to be done daily, there is no restaurant but vendor machines and there are lockers available to leave the luggage. Although the minimal space, all the rooms has all the comfort needed by a hotel such as television, Wi-Fi, charges and alarm service.


Figure 71 - Capsule Hotel, tokyocheapo.com

The common feature about all these hotels is the fact that they exploit the main characteristics of the territory they are located in: Underwater for seaside, threes for jungle and forest, sky and snow for north countries. This exploitation is used to meet client expectation and gives that unique opportunity and experience they are looking for which is not replicable in the same way in any other place. In this context Italy has plenty opportunity given the variety of its territory which can be grouped in three main features:

- History and cultural heritage of the different cities which have very different characteristics one from the other.
- Food and Wine which is by far the main strength of the country recognized all over the world.
- Unique landscape and variety of them based on where you locate the structure.

In this context the abandoned villages along the country have a huge potentiality in this sense attracting new tourists and exploiting the potentiality of the Italian assets. Just to

give some numbers, Italy has more than 15.000 villages / historical center, 20.000 fortress / castles, 1.500 convents and 1.300.000 abandoned historic assets.
Beginning from this numbers, Matteo Cerri, an entrepreneurship and Angel investor, started the ITS found (ITalianS) financed by i2i (Italians to Italians, a London venture capital company) which is basically a platform that tries to valorize the abandoned villages in Italy attracting foreign investors: "Imagine having the possibility to own a piece of Italy at a low cost". Born in 2018 with a partnership with Genoa municipality, the fund, at first, started to expand in Sicily and Sardinia in 2020 and nowadays it is spreading in all regions with the target to revive the historical center, not just under a tourism point of view but also with a perspective of living the center. The investment consists of a minimum of thirty residential units and a support for companies linked to the new business. The location to invest by the fund are decided based on the administration willingness to simplify the administrative process and on the level of municipality in terms of environmental sustainability, energy efficiency and connectivity. The benefits of this second life of the abandoned assets and villages have multiple benefits for both the villages and the new residents such as the redevelopment of the country with economical effect on the territory, the environmental protection with a higher landscape quality, the accessibility of building at discounted prices for new citizen, tax exemption and accessibility to financial services offered directly by ITS for Italy, without counting that every 100 jobs created in the tourism sector, 60 new jobs are created in other complementary sectors / services. The long term project of ITS also comprehend the refurbishment and reuse of Cantoniere houses, railway stations and state-owned properties with the objective of integrate them in a single network. (albergo diffuso)
Multiple research have been conducted on this issue and the results are that 56% of Italians would pay an overcharge up to 23% for staying in a historical building and 68% would purchase an historical building as a second house.
To have this upper kind of experience, a large amount of investment is needed whether it is to renovate the building installing new technologies and furnishment or to build up an innovative and unique building structure as for underwaters hotel.
Italy, under this point of view, is still beyond to the main Countries' destination slowed down by the high fragmentation present in the Nation in which most of the Hotel owners

are represented by small and private families that do not have the economic and technical capabilities to align the offer to European standard.

The brand-new technological hotels are often located in mature market and developed Countries where technological vocation and required standards are much higher than average since relying on high level customers charging high fee to cover all the costs needed. Starting from these considerations is easy to locate the majority of the “technological hotels” in Japan, United States and Dubai, countries which have a strong technological background, a mature economy and space to build new structures.

Examples are:

Figure 72 - Yotel, Yotel.com

- Yotel, born in New York it has expanded quickly with new opening in Boston, San Francisco, Singapore, Amsterdam, Paris and London. The peculiarity of this hotel is the fact that it is completely automatized starting from the self check-in and with robots that take care of every possible customers’ need, starting from the luggage.
- Henn na hotel, Sasebo, Japan in which the stuff is composed almost entirely by robots which offer to the guests multiple services, from the first welcome to services such as luggage transportation, tips about activities, event and place to visit and least but not last room service.
- Hotel 1000, Seattle (USA), is famous for its technological golf field that, thanks to sophisticated technological devices allow customer to practice golf on the best 50 field around the world with virtual reality and sensors that give a unique experience. Technological devices are used also for recurring tasks indicating missing items in rooms (personal bar), whether people are present in the room using heat sensor and they are used also as means of communication with the stuff through online chat.

Europe is trying to follow this path catching niche guests, examples are:

- Arcade Hotel in Amsterdam which is designed “ad-hoc” for video gamer with the rooms furnished with the main consoles, games and screen to play.
- KVi Hotel, Budapest, is famous to have all the services gathered in a single app in which it is possible to control every request.

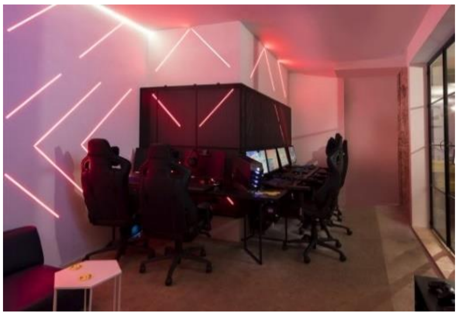

Figure 73 - Arcade Hotel, tripadvisor.com

- One Aldwych Hotel, London, is known for the experience offered: the whisky at the bar is accompanied by a virtual reality set that brings the client back in time offering a “vintage” experience.

Also Italy is moving towards thee trends as evidenced by the Parc Hotel of Peschiera del Garda and Aleph Rome Hotel in Rome which offer respectively a robot that gives all the information needed by customers and an application capable to perform simple tasks such as check-in and information research.
It is possible to notice that there is a wide gap between the level of technology of the Italian hotels compared to other developed Countries. The gap is partially due to the low liquidity of the many families’ hotel and partially because of the lower fees charged to the customer as highlighted in the previous chapters in which, on average, the daily expenditure is about 33% less for Italian accommodation (85€ vs 126€) which results in less possibility to innovate and refurbish the assets entering in a vicious circle and spreading the gap of the hotel quality with the competitor’s Countries.

5.2. Albergo diffuso

The “Albergo Diffuso” started its diffusion in 1989 when Giancarlo Dall’Ara developed the project “Turismo” for the municipality of San Leo (Montefeltro), recreating a hotel composed by different buildings around the central square with the following characteristics:

- Unitary management
- Same amenities and services for all the tourists independently on the building they are staying on

- Authenticity of the places, refurbished and furnished not as hotel but as local houses to give the feeling of authenticity, just as the tourist become citizen of the municipality fot the length of its stay
- A small municipality with all the basic services (pharmacy, newsstand, shopping, restaurants etc.)

This project was re-used in 1994 by the Mountai community of Marghine-Planargia and integrated with some more guideline:

- Entrepreneur view, professional management but avoiding standardization
- Common spaces for guests
- Maximum distance of 200 meters from the reception and the buildings.

Starting from this base, the first regulation on the Albergo Diffuso was created in 1998 in Sardinia which owns also the first one recognized by law.

This new typology spread very fast and nowadays it counts more than 90 units all over Italy. The main strength of this solution lies on the authenticity of the staying and experience felt by the guests, on the originality and uniqueness of the offer and the relatively new concept of sustainable tourism which base its fundamental on minimizing the environmental and cultural impact of the tourism optimizing the preservation of natural resource and properties.

This new typology of hotels has different goals beside the target of developing an environmental tourism:

- To preserve the socio-economic culture of the place with the conservation and share of local values creating touch points and integration between citizens and tourists
- To ensure an economic return to the villages through the turnover making the place attractive and counteracting the depopulation phenomena.
- Develop a network of services and increasing the attractiveness entering in a virtuous circle which would lead to a better offer, increasing the services offered, attractiveness and so on.
- Develop a tourisms consciousness about their key role on the territory and on the effect they could have.

There are four main characteristics in order to succeed in a sustainable develop which are cultural, economic, social and environmental. These are the pillars of what is called

“Durable tourism” which is based on the assumption that economic growth and increasing of free time of post-industrial society could focus on a better management of resources and environmental impact with investments aimed to satisfy the need without compromising any of the four pillars here below listed.

- The cultural level has the objective of developing a sense of belonging for the citizens living the territory but also particular characteristics / features recognizable by tourists.
- The social level concerns mainly the residents’ quality of life maintaining the “identity” that distinguish the territory developing attractions for tourists adding value to local product.
- The environmental level is focus on minimize the impact on the environment preserving the existence, both regarding buildings and landscapes.
- The economic level, instead, tries to take advantage of the here above pillars to make the area profitable and to maximize the potentiality of the territory.

These four points summarize the fact that the tourism present in a particular location should be compatible with the local culture and traditions avoiding major impact such as impoverishments of traditions or standardizations of places / locations, balancing also the tourism flow and the resources present on the territory, keeping in mind that the environmental quality is one of the main driver for people to choose a destination.
The Covid-19 situation had enormous impact on all the hotel sector but, in the other hand, it can be said that it stressed out even more the peculiar and innovative characteristics of the Albergo Diffuso with the distancing between guests and stuff which gave a further popularity to this typology.

5.3. Crowdfundme

Hemeras Boutique Homes is a successful chain hospitality company with around 150 luxury aparthotels in Italy (all located in Milan and Cervinia), Spain (Tenerife) and Switzerland (St. Moritz).
Despite the pandemic crisis, it closed 2020 with 2.3 million turnover and a positive Ebitda with a margin of 15% increasing its investment through a founding round on

CrowdFundMe (the only Equity Crowdfunding, Real Estate Crowdfunding and Corporate Debt listed in Piazza Affari) reaching the goal of 200 thousand euros in two days, covering the costs for new properties, the creation of an app and the digitalization and automation of the offer.

The current Hemeras property is opening new positions in Montecarlo this year estimating a ROI (return on investment) of 10% from 2022 to 2025 doubling also the number of guests with respect to 2020 (first year of the pandemic).

The company aims at becoming the Italian leader in the sector and to be listed on the stock exchange by 2023 also thanks to the European commercial real estate market which shows a trend of rapid recovery as pointed out by EMEA Real Estate Outlook 2021 of CBRE stating that a return to pre-covid volumes by 2022.

The pandemic has pushed rents down generating opportunities for companies that know how to move in the field of rent to rent who took and will take advantage of the circumstances in forecast of the recovery of tourism in 2022 (source: Wall Street Italy).

The company has suffered less with respect to its major competitors from the impact of the vertical drop in prices on OTAs (online booking platform which asks a fee for each book). This is due mainly because of its internal direct commercial sales department and a digital based structure with proprietary algorithm equipped with various cutting-edge technological solutions and many others under development.

In order to tackle the pandemic, the company has implemented an expenditure cut through rent downward re-negotiation and a conversion of over 45% of the leases from short-term to medium-stay pending the recovery of the sector. Although all the expenditure operation are freezed, the chain is looking at new spaces for rent to rent to embed in the portfolio as soon as the emergency will end giving a signal of confidence about the comeback of the hotel sector to its levels in a relatively short time.

CONCLUSION

Market at mature stage is characterized by the fact that hotel chains cannot growth by developing new hotels but they need to sustain their growth by means of acquisition of existing medium-small private hotels to incorporate while, in the growth phase, new development are preferred.

In 2020 the investment volume in Hotel sector has experienced a sharp decrease by nearly 70% compared to the previous year. This fall of investment is not attributable only to the uncertainty caused by the pandemic but also to the concentration of large portfolio transactions completed in 2019 which was an exceptional year (one single transaction of over 1 billion took place). In addition, the transactions observed in 2020 confirm the investors' confidence in the trophy assets with deals, started in pre-covid period, closed mainly without repricing.

In terms of new development, the majority of the pipeline is in Rome (58%) and many new hotels, which were supposed to open in 2020, postponed by 12 / 18 months due to suppliers and workforce issues, waiting also for a better opening time.

Looking at the offering, the pipeline includes mostly international brands, in a market that has limited penetration (10% of total in 2019) and returns that are generally returning to early 2019 levels for all types of operating structures (Leasing, VP and HMA).

The main trends observed from the beginning of Covid-19 were similar all over Europe and characterized by a "wait-and-see" approach regarding how long the situation would last and how strict the different government restriction would affect the hospitality sector. The time being opened the way for opportunistic investors asking for large discounts since the low liquidity and high uncertainty present on the market and, moreover, the difficulties faced by the small owners. Because of these risks and uncertainties, the investors are requiring higher return reflecting in a significantly increase in the yield with the bid – asking distance spreading. These factors contributed to the slowdown in investments which, however, are recovering starting from the first quarter of 2021 despite the liquidity in the market which is still low with many transactions carried on as full equity.

The key factors for the investment decisions and a full recovery are going to be based on multiple factors:

- Location: prime location, at least at start, will be preferred with a little or no interest at all in secondary ones. Even in prime cities, the positioning within it is becoming crucial for the investment decision.
- Market positioning: the quality of the building and the positioning of the hotel are key to attract investors with the major concentrated in the middle-high level and luxury hotels.
- Tourists exposure: the composition of the demand is going to be a main driver with hotels that prefer international tourisms penalized on both interest and price by investors.
- Bid-ask-gap: in the last year the market has experienced a growing bid-ask gap with owners asking for a full price allowing a minimum discount (in the region of 50 basis point) while the bidder, especially opportunistic ones, asked for a discount of over 100 basis points.
- Government support: initiative from the government helping the market to bounce back in a short time such as property tax relief, employee retention scheme and non-repayable grant.
- Pipeline: the higher the volume in pipeline entering the market, the harder would be the recovery due to an increasing level of offer and competition.

However, it is true that the longer this situation goes on, the more likely a greater number of owners will not have the needed capital and resources to meet the new need resulting in being forced to sale.

Beside these facts, although, it must be kept in mind that a key strength of the hospitality industry is its adaptive capacity which has supported the recovering from past global economic crisis and, surely, will support the recovery from this crisis. Those owners that can be flexible, creative and dynamic are certainly recover and capitalize the new shape of the situation with the demand fundamental that are still solid with a general stable spending power of potential suppliers and the desire for travel that has even increased with the emerging middle class and the social media, with its posts and directs, fueling interests in the industry.

Despite these positive trends, the mistake to avoid is to forget the main and general pillars on which the market and investors are based. In particular, for the successful investment in a hotel, it must be kept in mind that a constant study of the market and upgrade of the property is necessary in order to offer as much as possible a "fresh and modern" product (this means a product that follows the trends in place), aspect that has been exponentially stressed in the last years with the new generations that are more and more concerned about "the last update", putting pressure on hotels' owner and investor. The main aspects taken into consideration by these generations are the style, the atmosphere provided and the environmental impact of the product.

Trends are changing fast with new guests that turned out to be more needy and willing to spend more to meet their expectations. Service, atmosphere and multitasking are the key words for the new customers pushing hotel to update both the private rooms but also the common spaces, integrating them with technologies capable of increasing the performance of the property and to entertain people, enhancing services and giving information in a faster way. Also, what seems to be a second tier of features in the past become a discriminant for customers' hotel choice such as shower over tube, smart tv, bathroom size, led illumination etc.

The characteristics above mentioned are becoming a pre-requisite for potential customers and, existing hotels that do not offer them, are probably going to suffer and even going out of market in a short time since, together with the increasing demand for sophisticated features by customers, also the velocity of information and connectivity had increased with more and more people posting on real time their experience, conditioning the opinions of potential new customers.

Although these characteristics become fundamental, their implementation is costly and not always possible in existing hotels pushing investor to reconsider their strategies, either dismissing the asset and building a brand new one or, in alternative, offering different services and experience than the traditional ones as explained before.

Main objective for a hotels' investor / owner is to maximize revenues and profit decreasing, at the same time, both variable and fixed costs.

With the conditions and trends in place explained in this thesis, possibilities to do so are created but also the risks of failure are becoming greater and greater. The first thing to keep in mind in a connected world is that a key element is to act and not to react, meaning to stay update and embrace useful innovation that would affect, in a positive way, the customers' stay. Connectivity, social media, and word of mouth will do the rest.

There are many points to take into consideration and their importance vary also depending on the kind of customer the property is serving. A common path is to understand demand patterns and to have reliable forecast that are essential to schedule a price policy to be competitive and, at the same time, to maximize revenues.

Experience perceived is fundamental for the success since it is the base element on which most of the customers' decisions are made and it is the central element of marketing actions of every company. Increasing this element allow not just to create loyal groups but also it justifies a premium price with respect to competitors in the potential customers' eyes, avoiding the path of "static implementation" of the physical features that, once implemented, have much higher costs to upgrade/change in terms of both time and money. The fundamental concept that must be kept in mind is to reach at least the expectation. Offering a higher level of experience brings with it some benefits: beside the possibility to ask a premium price, also occupancy and ADR would increase since there would be an increase of both number of customers and of the average night stays, decreasing at the same time also the turnover and the costs associated to it.

The way to achieve these results pass through the offer which need to be innovative both in terms of "static features" but also in terms of novelty and technology, providing an unique and personalized service that would be perceived as a magic moment to be shared with social network and friends that, potentially, would become future customers.

Moreover, another tendency that will likely take place is to consider the hotel as an integral part of the urban life and no longer as an isolated asset as perceived today. With the tendency to scale down the hall size or to eliminate it in some cases, the base floor is open to new possibilities, in particular of two types: (i) enlarge the number of available rooms or (ii) open it to the people offering additional services that would benefit the profit such as bar, pools, gym or SPA, becoming a new center of aggregation. Although some hotels, especially in USA, already adopt this technique with casino and/or restaurants, it is still rare in Europe losing a great opportunity for owners and manager to increase revenues, KPIs and visibility.

In conclusion, the implementation of these new features would bring in contact tourists with local people creating that unique experience sought by guests creating complementary services that would attract new customers entering in a virtuous cycle.

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