A promising start to the year for hotel investment

Investment in hotels came to €354m over the first quarter of 2019, up 84.4% vs. the year-earlier period. This recovery was mainly thanks to the acquisition by Primonial of a portfolio of 59 B& Bs spread around the country.

In 2018, investment came in at €1.7bn, driven mainly by deals for single assets in Île-de-France such as the Westin Paris Vendôme, SoSoftel Morland (off-plan sale), the combo of Hyatt place and Hyatt House CDG (off-plan sale) and Hotel Lancaster.

France remains one of the most buoyant European countries in terms of hotel investment after the UK (€5.8bn) and Germany (€4bn). Investor appetite for hotels in France should remain keen in 2019 thanks to the continuation of historically low interest rates and restricted high-quality supply for this type of asset.

The strong investment figures are underpinned by solid fundamentals in terms of hotel performance. Overall RevPAR in France increased slightly by +1.2% in Q1 2019 compared to the first quarter of 2018, up to €53.7. The regional cities are driving this trend (+15.5% in Lyon, +6.6% in Marseille, +4.7% in Lille). This positive shift is driven solely by the average daily rate, showing that the market has reached a certain maturity. In Paris, the negative impact of the yellow vests movement hit the upscale clientele (occupancy rate down -3.0 points in Q1 2019 vs. Q1 2018).

Tourist footfall should continue to increase in the coming months thanks to several international events (75th anniversary of the Landings, the Rouen Armada and the Contemporary Art Biennale in Lyon). More generally, international tourist arrivals should continue to grow by between +3.0% and +4.0% according to the World Tourism Organisation in 2019.
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**Arrivals** : number of persons arriving in a country over a given period.

**Average daily rate (ADR)** : Net room revenue (excluding breakfast), divided by the number of rented rooms.

**Average duration of stay** : the ratio between the number of overnight stay and arrivals. It indicates the number of average overnight for a given stay.

**Business premises** : the building in which a hotel business is operated.

**Hotel business goodwill** : legal term used mainly in commercial matters referring to a set of tangible items (stock inventories, equipment) and intangibles (clientele, reputation, leasehold rights, etc.) formed with a view to running a professional hotel activity.

**Investment funds** : body with collective ownership of financial or real estate assets managed by a regulated and certified structure (fund manager).

We distinguish between:

- **Open-ended funds** : these have no limit on the issuance of shares.
- **Closed-ended funds** : the shares of a closed fund are only traded by the fund manager during the subscription period. A closed fund has a set duration.

**Pension funds** : financial body that manages savings from the pension system through capitalisation. These are savings by employees from the private and public sectors over their professional lifetimes to constitute or enhance their retirement pension.

**Opportunistic funds** : funds that target yields of over 17%, with gearing exceeding 60% of the gross value of the asset.

**Leverage effect** : increased profitability of an investment thanks to borrowing.

**OAT (Obligation Assimilable du Trésor)** : French government bonds. They serve as the reference for the long-term risk-free yield.

**Occupancy rate** : The ratio between the number of occupied/rented rooms and the number of rooms available.

**OPCI (Organisme de Placement Collectif Immobilier)** : real estate funds, with two legal formats.

Real estate investment fund (FPI) whose distributed revenues are taxable like traditional property revenues, and predominantly real estate variable capital funds (SPPICV) for which distributed revenues are taxed as dividends and gains on equities.

**Overnight stays** : number of arrivals multiplied by the number of nights spent in a hotel establishment for a given period. It is a more accurate indicator for a hotel business than arrivals.

**Portfolio** : set of several assets located on different sites.

**Property company** : company whose purpose is the acquisition or construction of buildings with a view to their rental, or the ownership of stakes in companies with the same purpose.

**Purpose-built building** : designed and built for a particular activity, without which the building must be entirely redesigned or even rebuilt to undertake another activity. This type of premises is subject to a de-capping clause in the context of commercial lease legislation upon renewal of the lease.

**RevPAR (Revenu Per Available Room)** : Net room revenue (excluding breakfast) divided by the number of rooms available. The RevPAR can also be calculated by multiplying the average daily price by the occupancy rate. RevPAR is a comprehensive indicator of the hotel business climate as it measures the impact of the change of the two indicators on the total net revenue.

**Risk premium** : spread between the profitability of an asset or a portfolio and the risk-free asset (government bond).

**SCPI (Société Civile de Placement Immobilier)** : company whose purpose is the acquisition and management of a rental real estate asset.

**Tertiary real estate** : tertiary real estate includes all property assets related to service businesses. It includes assets such as offices, shops, warehouses, hotels or even hospitals.

**Tourist** : Any person away from their usual place of residence for a period of at least 24 hours (or one night) and a maximum of one year, for the following reasons:
- leisure (holidays and weekend breaks);
- business trips, professional travel.

**Yield** :

- **Net** : ratio between the net income (excluding operating costs) and the purchase price including all the acquisition costs.
- **Initial** : ratio between the annual net rental income and the gross purchase price on the date of the sale.
- **“Prime”** : lowest yield obtained for the acquisition of a building of standard size in relation to demand within the market segment, of excellent quality and offering the best services, in the best location for a given market.
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