THE GLOBAL APPEAL OF HOSPITALITY REAL ESTATE: A PREQIN & PRO-INVEST REPORT

Contents

Preqin is proud to present **The Global Appeal of Hospitality Real Estate: A Preqin & Pro-invest Report**, published in partnership with Pro-invest Group.

About Pro-invest Group

Founded in 2010, Sydney-based Pro-invest Group (Pro-invest) is an asset manager and investment firm with close to AUD 2bn in assets under management. Pro-invest specializes in private equity real estate and real estate asset management, and has become one of the largest hotel investment platforms in Australasia. With more than 30 sector-specific specialists in its Sydney office, Pro-invest operates as a locally established, integrated private equity real estate business combining active asset management, development and operational capabilities, providing its investors with above-industry risk-adjusted returns in the hospitality, commercial and retail spaces. Under its unique structure, Pro-invest ensures full control of the entire value chain, allowing for effective sustainability management, risk mitigation and return optimization. Further, Pro-invest is a proud GRESB member.

www.proinvestgroup.com

Data Pack

The data behind all of the charts featured in this report is available to download for free. Ready-made charts are also included that can be used for presentations, marketing materials and company reports.

To download the datapack, please visit: www.preqin.com/GAHRE19

Global Tourism Trends

Global Growth

International tourist arrivals grew **5%** in 2018 to reach the **1.4 billion** mark. This figure was reached **two years ahead** of UNWTO's forecast.[1]

Record Investment

Over **$110bn** of private capital has been invested in the hospitality sector since the beginning of 2016, with a record **$28bn** invested in 2017.

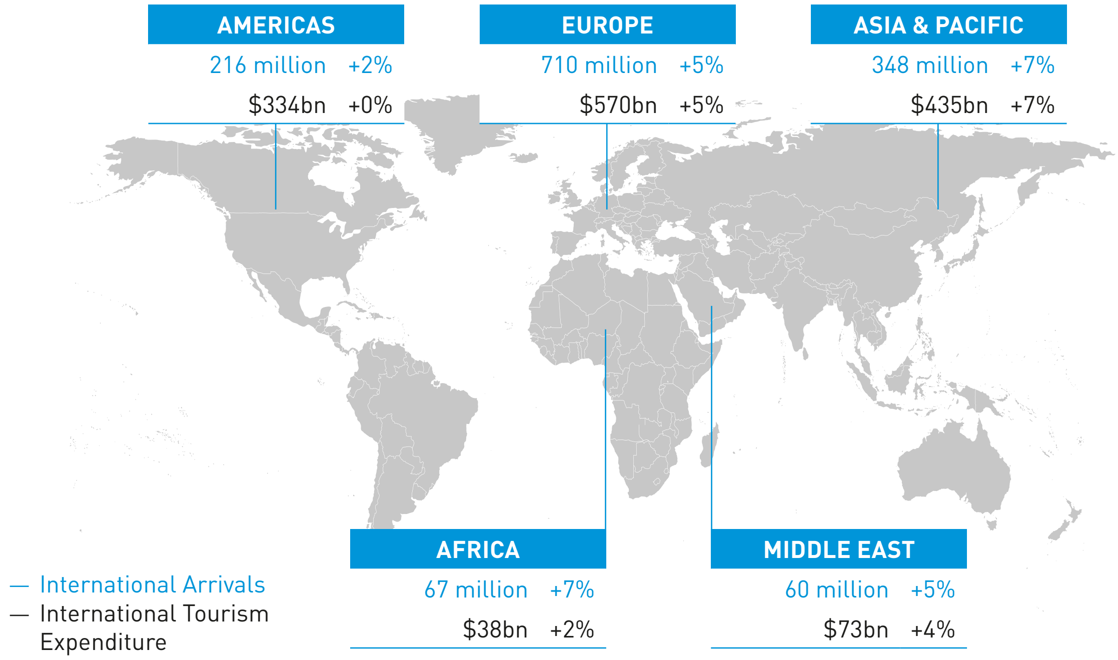
Asia-Pacific Growth

Growth in international tourism figures was seen in all regions shown in Fig. 1. But at an increase of **7%** from 2017 to 2018, Asia-Pacific represents the **highest growth market** for international tourism in 2018.[2]

Outperformance

The hospitality sector has seen strong performance in recent years. Median net IRRs in the **hospitality space surpassed** those for industrial, residential, retail and diversified funds for vintages **2011**, **2013** and **2015**.

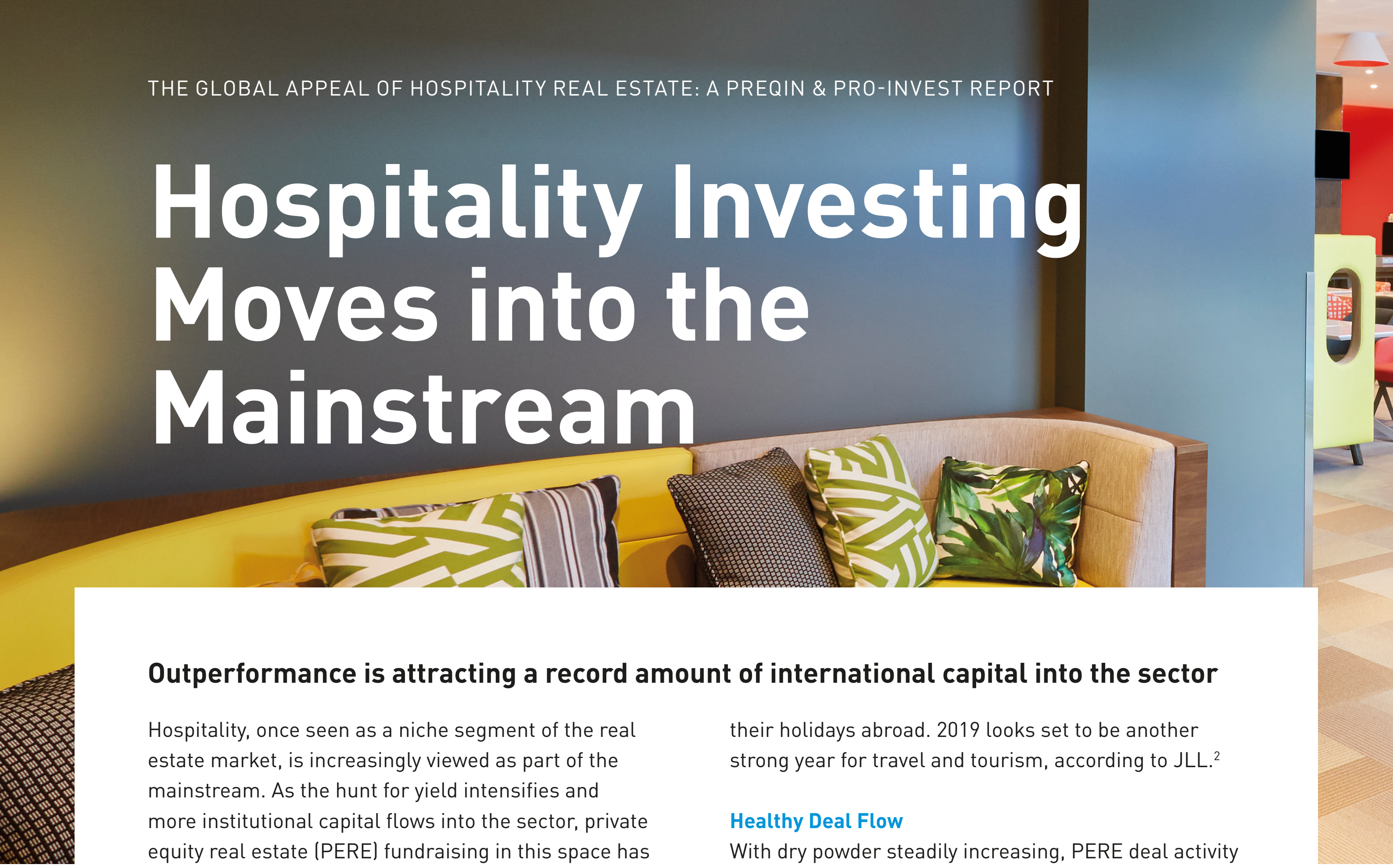
Fig. 1: Map of International Tourist Arrivals and Tourism Expenditure



Source: World Tourism Organization (UNWTO), July 2019

[1] *UNWTO. World Tourism Organization. International Tourism Highlights, 2019 Edition: http://www2.unwto.org/publication/unwto-tourism-highlights-2018*
[2] *Ibid.*

Hospitality Investing Moves into the Mainstream



Outperformance is attracting a record amount of international capital into the sector

Hospitality, once seen as a niche segment of the real estate market, is increasingly viewed as part of the mainstream. As the hunt for yield intensifies and more institutional capital flows into the sector, private equity real estate (PERE) fundraising in this space has been robust: the amount of capital secured by funds targeting hospitality has almost trebled (2.8x) since 2010, outpacing the global market (2.4x). The number of funds has grown as well. A record 62 funds targeting hospitality held a final close in 2018, highlighting strong investor appetite.

What's driving investor demand? In a word: outperformance. In recent years hospitality real estate returns have surpassed those of public market benchmarks such as the MSCI US REIT Index, for instance. Hotels have also outperformed other property types. Median net IRRs generated by vintage 2011 (+20.3%), vintage 2013 (+19.0%) and vintage 2015 (+14.7%) hospitality funds have exceeded those of residential, retail, industrial and diversified property funds, Preqin data shows.

A key driver underpinning hospitality's outperformance is the steady growth in international tourism, which is boosting hotel occupancy rates and revenue per available room (RevPAR). According to the World Tourism Organization (UNWTO), in 2018 international tourist arrivals rose by 5% to 1.4 billion, reaching this figure two years ahead of UNWTO's original forecast.[1] This rise is driven in part by the growing number of middle-class families in emerging economies such as China and Indonesia that are increasingly spending their holidays abroad. 2019 looks set to be another strong year for travel and tourism, according to JLL.[2]

Healthy Deal Flow

With dry powder steadily increasing, PERE deal activity in the hospitality sector has soared in recent years. Between 2012 and 2017, PERE deal value grew by more than 210% to hit a record $28bn, before slipping to $27bn in 2018. So far in 2019, there have been several PERE hospitality deals across the globe that are sized at $500mn or more.

These include Blackstone Group's €900mn portfolio sale of seven hotel properties in Germany, the Netherlands and Belgium to Aroundtown Property Holding; the JPY 62,400mn sale of the Hilton Tokyo Odaiba, located in Tokyo, by a joint venture between Fuyo General Lease and Hulic to Japan Hotel REIT Investment Corporation; and the $610mn sale of 1 Hotel South Beach, located in Miami Beach, Florida, by a joint venture of Starwood Capital Group, Ashkenazy Acquisition and LeFrak to Host Hotels & Resorts.

Hospitality's Growing Global Footprint

Funds investing in North American hospitality markets continue to dominate, with $24bn secured in 2018, comprising 84% of global fundraising. But other regions are attracting more capital as well. As of August 2019 hospitality funds investing in Europe have raised $3.0bn, which is more than the total collected last year ($2.9bn). Hospitality funds investing in North America have raised $3.9bn in the year to August 2019. While this does represent a decrease from previous

[1] *UNWTO. World Tourism Organization. International Tourism Highlights, 2019 Edition: http://www2.unwto.org/publication/unwto-tourism-highlights-2018*
[2] *JLL, Hotel Investment Outlook 2019*

years, several large funds are currently in market. Rockpoint Group's Rockpoint Real Estate Fund VI is seeking $3.3bn for investments principally in the office, multi-family and hospitality sectors in major markets across the US.

In terms of strategy, opportunistic and value added continue to account for most of the capital raised by hospitality funds, making up 58% of the total collected in 2018. At the same time, debt-focused vehicles are attracting more interest, comprising 39% of the total raised in 2018 vs. 31% in 2017.

While there are concerns that a weakening global economy may weigh on international tourism, factors such as destination appeal and currency valuation will continue to shape traveller behaviour.[3] The world's top 10 tourism destinations, as measured by international tourism receipts, generated close to 50% of total tourism receipts in 2018, according to the UNWTO. These 10 are the US, Spain, France, Thailand, the UK, Italy, Australia, Germany, Japan and China.

Given the sector's outperformance and positive outlook for tourism this year, it is no surprise that hospitality is attracting more and more investors from around the world.

[3] *World Travel & Tourism Council, Travel & Tourism Economic Impact 2019*

For hospitality funds, we generally look for managers with a strong track record in the sector, that have the ability to turn around the asset by improving asset quality, providing incentives to the local asset manager, maximizing food and beverage options, and optimizing revenue yield.

Navid Chamdia

Head of Real Estate Department,
Qatar Investment Authority

Opportunities in Hospitality and the Select Service Market

Pro-invest, on how the quality select service hotel segment offers attractive risk-adjusted returns

Amid a slowing global economy and falling interest rates, institutional investors looking for attractive risk-adjusted returns are increasingly targeting hospitality real estate. The sector has proved resilient over the last few years, offering consistent returns that have outperformed listed real estate indices.

The opportunity for returns has stemmed from the growing tourism market. In UNWTO's recent International Tourism Highlights, it was reported that international tourist arrivals reached 1.4 billion in 2018, two years ahead of its forecast.[1] Global economic growth and a growing middle class in emerging markets have been key drivers behind this activity, and as international tourism grows, so too do opportunities in hospitality.

Growing Popularity of Quality Select Service Hotels

Provided they are skilfully acquired and actively managed, investments in hotels can generate attractive yields and capital growth. Hotels also have the capacity to outperform Central Business District (CBD) office building investments on a risk-adjusted returns basis. Furthermore, as real estate investors increasingly target assets with impeccable sustainability credentials, the Oceania region – which has achieved higher Global Real Estate Sustainability Benchmark (GRESB) scores than any other region in the world – offers especially promising investment opportunities.

For private equity investors seeking stable returns, quality select service hotels offer an appealing investment opportunity. Catering to the short-stay guest who requires limited food and beverage, retail and recreational facilities, these hotels provide high-quality accommodation at an affordable price point. From an investment perspective, select service hotels tend to be more efficient than full service hotels, and in markets where labour costs are high, they also tend to generate higher Gross Operating Profit (GOP) margins. Quality select service hotels capitalize on several key growth trends in the hospitality space: rising demand for centrally located, affordable, well-appointed accommodation with a contemporary look and feel; and shifting consumer preferences in favour of hotels whose design and services reflect an emphasis on practicality and issues such as sustainability, health and wellness.

Brand recognition is key in this sector, as hotel guests – who are less impressed by star ratings and want to rely on trusted brands – want to know that they are making the smart choice no matter which city they are visiting. InterContinental Hotels Group's (IHG) Holiday Inn Express® is one of the world's most trusted brands in this space. The franchise started in the US and has since spread to Europe, Asia and Australasia.

The Australasian hospitality market is seeing growing appetite for quality select service hotels. The market is underpinned by robust tourism growth, driven in part by the depreciating Australian dollar, and some of the highest occupancy rates in the world, particularly in Sydney and Melbourne. Strong demand for well-designed amenities aimed at value-conscious visitors has made these hotels an increasingly popular option across Australasia.

[1] *UNWTO. World Tourism Organization. International Tourism Highlights, 2019 Edition: http://www2.unwto.org/publication/unwto-tourism-highlights-2018*

Developing and Operating a Quality Select Service Hotel Portfolio

The Pro-invest team is well versed with the mechanics of rolling out a select service hotel portfolio. Between 1995 and 2002, Founder and CEO Ronald Stephen Barrott worked in close collaboration with IHG to lead the roll-out of 15 quality select service hotels under the Holiday Inn Express® brand across the UK.

Pro-invest has a clearly defined site acquisition strategy, seeking prime sites with high market demand locations suitable for the roll-out of the Holiday Inn Express® product across Australia and New Zealand. Under its Australian Hospitality Opportunity Fund I and Australian Hospitality Fund II, Pro-invest has a portfolio of 12 hotels (amounting to over 2,500 rooms). To date, Pro-invest's portfolio is well positioned in the prominent locations of Sydney, Melbourne, Auckland, Brisbane, Adelaide, Newcastle, Queenstown, Parramatta and the Sunshine Coast. Within its current portfolio, four hotels are currently operational and have been well received by their respective markets, while the remaining eight hotels are under various stages of construction.

Under a Master Development Agreement with IHG, the Australian Hospitality Opportunity Fund I has laid the foundations for the Holiday Inn Express® brand's expansion, with approximately 50 prime target areas identified. Comprising eight hotels, the Australian Hospitality Opportunity Fund I is a widely held Managed Investment Scheme, allowing for a final withholding tax rate of 15%. Pro-invest's Holiday Inn Express® hotels are part of a hotel portfolio which is targeting an IRR of 20%. Australian Hospitality Opportunity Fund II builds on the success of Pro-invest's first fund, growing the quality select service hotel footprint in the region.

The first Australian Holiday Inn Express® opened to the public in Sydney Macquarie Park in April 2016. Centrally located in the commercial precinct of North Ryde Sydney, this 192-room hotel is Pro-invest's first operational asset. It has won multiple industry awards, and in 2018 was named the HM Hotel Award's Best Midscale Hotel in Australia for the second year running.

Integrating Sustainability Across the Group

Pro-invest is also a committed GRESB member, targeting a year-on-year score improvement as it seeks to continuously progress along a comprehensive set of ESG agendas. As of 2019, Pro-invest places first of the hotel groups in the Asia-Pacific region and fifth globally on the GRESB performance charts.

On an asset level, for instance, the Holiday Inn Express® Sydney Macquarie Park has also been recognized for its achievements in sustainability. As certified by the Australian Government's National Australian Built Environment Rating System (NABERS) – which measures a building's performance on a 6-star scale – the Sydney Macquarie Park asset has achieved a 4.5-star NABERS Energy and 4.5-star NABERS Water rating for two consecutive years. To date, the Sydney Macquarie Park-based hotel holds one of the highest NABERS Energy and Water ratings in Australia for the hotel asset class. Through continuous efforts to enhance the asset's efficiency, the hotel reduced its carbon footprint by 7% as demonstrated by its 2018 NABERS Energy certification.

On an operating front, Pro-invest's hotels additionally incorporate environmentally considerate initiatives such as the 'A Greener Stay' initiative, which enables guests staying two or more nights to opt out of housekeeping while in turn being rewarded with bonus IHG Reward points. This initiative engages carbon-conscious guests, assists the hotel in reducing its laundry, energy and water consumption, as well as its waste production, and enables continuous financial savings to be recorded month on month.

Taking Select Service Hotels to the Next Level

Pro-invest Group Founder & CEO Ronald Stephen Barrott discusses rolling out a quality select service hotel portfolio across Australia and New Zealand, capitalizing on active asset management and the impact of ESG

Ronald Stephen Barrott
Founder & CEO, Pro-invest Group

Why has Pro-invest chosen to focus on hotels in particular?
Hotels as an asset class are providing best-in-class investment returns with strong capital growth expectations. The risk/return profile of hotel assets has been shown to be superior to other asset classes, having similar volatility to industrial and office assets, but with higher returns. Regardless of movements in capitalization rate and economic conditions, the hotel asset class demonstrates consistency in income returns.

I have over 40 years of experience in the real estate investment, development and project management arena in markets across Europe, the Gulf Co-operation Council and Australasia, and I can confidently say that hotels have become an established, institutional-grade asset class, forming a significant part of many investors' portfolios.

Pro-invest Group focuses on developing and operating quality select service hotels. Could you tell us more about this segment of the hospitality sector, and why it's attractive for institutional investors?
Select service hotels don't have to offer all the usual amenities that full service hotels do, which means they require less capital expenditure, have lower fixed operational costs and enjoy higher margins. At Pro-invest, we focus on quality select service hotels, which are different from the more basic select service or budget hotels in a couple of ways. Quality select service hotels have strong brand recognition; there's more of an emphasis on up-to-date design in rooms and shared spaces; and in the case of Pro-invest's portfolio of hotels, they are rated 4.0-stars for their facilities.

The quality select service sector is one of the fastest-growing hotel segments globally, and it's popular with investors because it tends to be more profitable and more resilient to economic downturns.

What makes Australia and New Zealand attractive markets for quality select service hotels?
Australia and New Zealand offer competitive cash-on-cash yields when compared with global markets, and there's capacity for further yield tightening. For the seventh consecutive year up to 2018, we're seeing a tightening of yields for hotel assets, and there's more and more capital actively circling the sector. Although rates are now approaching record levels for Australia, they remain below those being achieved in international markets. Furthermore, the income returns of Australian institutional-grade hotels have continuously demonstrated low volatility over past years when compared to their peers.

What are the target markets for quality select service hotels, and how quickly are these markets growing?
At Pro-invest, our quality select service hotels principally target corporate clients as well as domestic and international leisure travellers. That said, our larger properties also cater to domestic and international tour groups as well as sporting groups. On average, 70% of our guests are domestic travellers, while corporate guests comprise approximately 40% of our total business mix.

Corporate travel in Australia remains robust due to a relatively healthy economic environment. As long as business activity continues on its current trajectory, demand for accommodation will continue to grow.

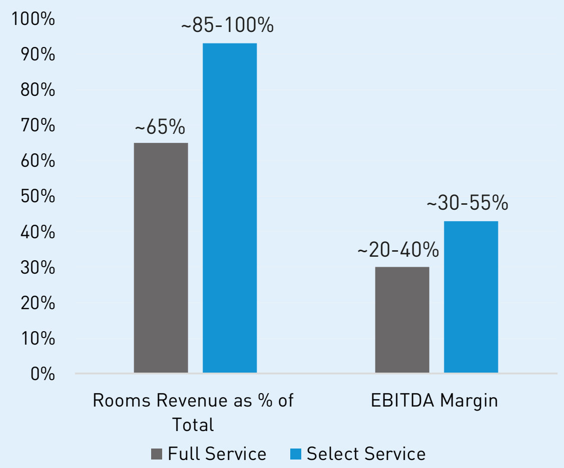
Both Australia and New Zealand have consistently posted healthy tourism growth figures along with hotel KPIs that rival other developed markets globally. The devaluation of the Australian dollar should make our shores more attractive to key source markets while also boosting domestic leisure demand.

This is good news for quality select service hotels, as leisure travellers are increasingly seeking value-for-money accommodation choices. The benefit of the Holiday Inn Express® brand is that it's a global hotel brand which provides travellers with "everything they need and nothing they don't" – a great sleep experience, decent shower, complimentary breakfast and free unlimited WiFi, all in a contemporary hotel setting. All our properties are located in prime locations close to commercial and leisure precincts and tourist attractions, enabling us to attract a variety of guests.

Most tourists nowadays know what they want and will not put up with sub-standard hotel accommodation or poor service. Their expectations are much greater today than say 20 years ago. Hotels that are able to cater to this clientele will outperform older 4.0- and 5.0-star hotels that have not bothered to renovate and keep up with consumer trends.

In 2016, Pro-invest was first to introduce the quality select service Holiday Inn Express® brand to Australia and New Zealand as part of its Fund I portfolio of hotels. Could you tell us how this came about?
Our team at Pro-invest has a long history of working with IHG for the roll-out of the select service Holiday Inn Express® brand – that history spans more than 25 years. Around the late 1990s, the UK company I was heading up partnered with IHG, which owns the Holiday Inn Express® brand. This was a brand that was

Fig. 2: Select Service Hotels Provide Superior Margins vs. Full Service



Source: Pro-invest Group Research

performing very well in the US, and we successfully launched it in the UK. Other members of our team – like our Managing Director of the hotels groups, Phil Kasselis – came to us from IHG, and he also worked to bring the Holiday Inn Express® to new markets around the world.

In 2013, when we were establishing Fund I, we signed a Master Development and Franchise Agreement with IHG for the roll-out of the Holiday Inn Express® brand across the Australasia region. Our first Holiday Inn Express® hotel, located in Sydney Macquarie Park, opened in Q2 2016. By the end of 2017, we had opened another two Holiday Inn Express® hotels in the key markets of Brisbane and Adelaide, with our fourth operational Holiday Inn Express® hotel opening in Newcastle during Q1 2019 – all hotels which have been very well received by their respective markets.

Taking a trusted brand and launching it in new markets is very much part of our ethos at Pro-invest. We were founded in 2010 with the vision to create an investment firm characterized by an entrepreneurial spirit and a global perspective, with the agility to effectively respond to market opportunities and challenges.

I should add that the Holiday Inn Express® hotels we manage are designed and developed to be the equivalent of 4.0-star rated hotels. As is often the case throughout the Asia Pacific region and following a detailed market study of the Australian and New Zealand hotel market and guest preferences, we ensured that our hotels are designed to be of a higher quality than a typical Holiday Inn Express® hotel in America or Europe.

How has the market responded to the roll-out of the Pro-invest hotel portfolio?
Our assets have consistently been achieving strong guest satisfaction scores relative to their respective benchmarks. Our Holiday Inn Express® portfolio has also been recognized by the hospitality industry. For instance, at the most recent 2019 Annual HM Hotel Awards, our Holiday Inn Express® Adelaide City Centre was voted 'Highly Commended' in the Best Midscale Hotel Category. Our Holiday Inn Express® Melbourne Southbank has also been listed as Finalist for the Urban Developer Awards for the category of Excellence in Sustainable Design. Further, to emphasize how well the roll-out of our portfolio is being received by the market, during 2018 we received several prestigious awards in categories such as Winner – Best Midscale Hotel, Highly Commended – Hotel Brand of the Year and Highly Commended – Best New Hotel at the 2018 Annual HM Hotel Awards.

These awards marked a significant milestone for Pro-invest's hotel portfolio, recognizing our team's ongoing efforts to exceed brand standards and deliver exceptional service since we introduced the Holiday Inn Express® brand to the Australian hotel market in 2016.

Pro-invest has a unique PERE business model that has several in-house services on offer for the roll-out of its hotel portfolio. Can you tell us about these and how they interrelate with one another?
While some financial investors regard developing property as a risk element, at Pro-invest we have come to see it as an opportunity to create additional upside and increase the return profile of an investment.

Furthermore, many large institutions have come to realize that they want people on the ground who can manage their assets for them. To take quality select service hotels to the next level, you need high-quality, proactive management capability. Through proactive management, allocations to alternative asset classes have the potential to outperform traditional equities and fixed income securities on a risk-adjusted basis over the long term.

Today, Pro-invest has grown to be a unique platform covering the entire hospitality lifecycle: from development to operations, and from hotel asset management to fund and investment management capabilities. Having control and oversight of the entire lifecycle of our portfolio of hotels, along with sustainability measures implemented throughout the life span of the hotels we manage, enables us to derive tangible advantages.

Offering a full suite of service capabilities for your clients, does Pro-invest focus on the roll-out of hotels only or does your business extend to other opportunities?
In addition to our efforts in developing hotels from the ground up to then operate and actively manage them across their full lifecycle, our service capabilities have evolved to identify and create off-market deals which extend to both hotel and commercial assets. With our in-house expertise, our service capabilities have expanded to acquiring assets which we then reposition, rebrand or refurbish, to then actively manage these assets to improve operational efficiency and asset quality. At Pro-invest, we approach every investment as unique and recognize that our clients' requirements may evolve during their investments and our services are tailored to specific investments, providing flexibility to achieve the best outcome.

What is the tangible value-add proposition that you believe sets Pro-invest apart from other firms operating in this space?
The Pro-invest team is focused on value-add across the asset lifecycle. Collectively, our team has an extensive track record in PERE with a team

Fig. 3: Active Asset Management from Pro-invest

Purpose	Geographic Investment Focus	Real Estate Asset Class Focus	In-House Team for Design & Development	In-House Team for Redevelopment	In-House Operations	In-House Asset Management
By acquiring new sites or well-positioned assets at a discount to replacement cost, Pro-invest Group actively creates value-add through in-house development, repositioning, operation and asset management capabilities.	Europe, Middle East, Asia	Hospitality, Commercial, Retail	✓	✓	✓	✓

seasoned in developments, operations and asset management which has spanned internationally. Our strong knowledge of the Australian and New Zealand real estate market and extensive national network of property owners and agents assist our team in acquiring predominantly off-market opportunities and at the right price. Our in-house development team is motivated to deliver the finest product in the least amount of time feasible. We have a network of specialized consultants with proven track records in the hotel industry, and we work with them on layout, space planning, design and procurement to ensure that every project is developed in the most efficient manner. We work with a number of pre-qualified builders to ensure that they comprehend the product and are 'on the same page' with respect to the design outcome objectives and associated costs.

Once operational, we continue to seek strategies to boost efficiencies and generate greater returns, and we leverage our strong relationship with IHG along the way. We leverage our expertise and proven track record in building hotel assets while establishing high market penetration and rapid ramp-up, supported the strong brand recognition of Holiday Inn Express® and IHG's strong system delivery.

The asset and fund management teams are also involved across the acquisition, development and operations stages to ensure that the best possible results are achieved for investors.

How have you incorporated ESG into your portfolio?
We recognize that investors are increasingly placing value on greater levels of transparency regarding the ESG performance of real assets portfolios. In line with strategic objectives, we are dedicated to optimizing the financial and social returns of the assets within both Fund I and II for our investors through a focus on ESG. We benchmark our ESG efforts against other real estate companies through leveraging our membership with GRESB, participating each year in GRESB's annual real estate assessment. Pleasingly, since becoming members in 2017 and with only a handful of assets at that point in time, our sustained ESG efforts across a growing portfolio have resulted in substantial year-on-year uplifts. This is a direct result of our commitment to factoring in ESG considerations across our entire business and respective hotels' lifecycles, while also having a full-time resource dedicated to ensuring our ESG efforts are executed and appropriately leveraged across the business.

Further, Pro-invest enhances its investments via yield-accretive ESG initiatives and mitigates resource price volatility on its fund returns by reducing consumption in areas such as energy and water use.

With ESG engrained throughout the lifecycle of each hotel, Pro-invest inherently strives to achieve excellence in sustainable design. Our typical base hotel is designed to achieve a 4.5-star NABERS in design. We collaborate with industry-leading institutions – such as the Clean Energy Finance Corporation[1] – to target even higher NABERS ratings, which translate to an enhanced efficiency of our hotels across design, development and operations.

As our hotel portfolio gains traction, so does our sustainability journey. For instance, on the operational front, our hotels have incorporated a host of initiatives targeting pressing issues such as energy and water consumption, and recycling efforts to minimize the assets' environmental footprint while ensuring the initiatives make commercial sense for all stakeholders involved.

We'd like to congratulate Pro-invest Group for the significant steps they have taken to manage sustainability-related risks, identify opportunities, and find ways to make positive real-world impacts.[2]

Ruben Langbroek
Head of Asia Pacific,
Global Real Estate Sustainability Benchmark (GRESB)

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[1] The Clean Energy Finance Corporation provided an AUD 39mn construction and term debt facility to partially offset the additional capital expenditure involved in uplifting the Holiday Inn Express Melbourne Southbank's NABERS rating from 4.5-stars to 5-stars.
[2] Pro-invest ranked number one among hotel portfolios in Asia-Pacific, and achieved a top-five position in the hotel sector globally, according to the 2019 GRESB benchmark results.

International Tourism in Focus: Australasia

Asia Drives Tourism Growth

Australia has sustained strong international visitation growth in recent years, having increased by a CAGR of 5.6% during the 9 years to 2018/2019 to reach 8.6 million.[1] During the period, Asia (including India) rose to be a significant contributor to the Australian tourism market, with visitors from Asia more than doubling from the 1.9 million visitors recorded in 2009/2010 to 4.2 million in 2018/2019, translating to a CAGR of 9.2%.[2] As at 2018/2019, Asia represents 50% of total international visitor arrivals to Australia.[3]

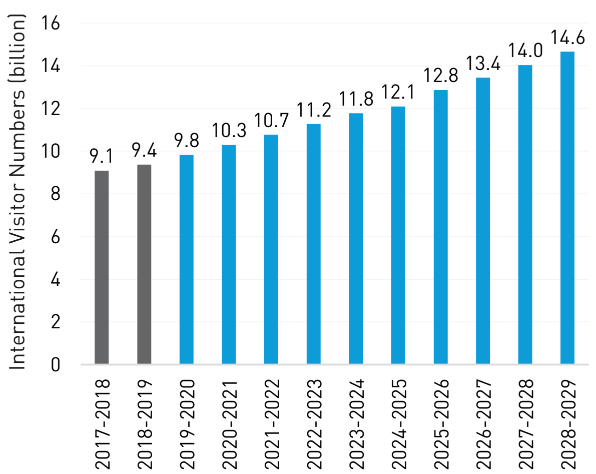
Demand from China Gains Momentum

China positions as Australia's top inbound source market following significant increases in visitor arrivals, which have climbed by 254% during 9 years to total to 1.3 million in 2018/2019.[4] To accommodate the surge in growth, direct flights from China to key Australian hubs have increased substantially. Airports across Australia's key cities have continued to form partnerships and develop campaigns with markets such as China and the US to further facilitate international tourism demand for Australia in a sustainable manner.[5]

Robust International Tourism Forecasts

Over the next two years, international visitor arrivals to Australia are forecasted to grow by 9.7% from 9.4 million in 2018/2019 to 9.8 million in 2019/2020 and 10.3 million in 2020/2021 (Fig. 4). Looking further ahead, Tourism Research Australia projects international visitor growth to Australia to remain robust, more than doubling (+56%) during the 2018/2019-2026/2027 forecast period to reach 14.6 million international visitors. During this period, international tourism spend is projected to more than double to AUD 94.9bn by 2028/2029, capturing a 40%

Fig. 4: International Visitor Forecasts to Australia, 2017 - 2029



Source: TRA / Austrade, International Visitation Forecasts, 2019

[1] *Tourism Research Australia, TRA Online, 2019*
[2, 3, 4] *Ibid*
[5] *Deloitte, Tourism and Hotel Market Outlook Edition 1, 2019*

share of the visitor dollar. The average visitor spend during the period is forecasted to lift from AUD 4,881 to AUD 6,484, marking a 33% growth.[6]

Demand For Hotels and Similar Accommodation

Hotels and similar accommodation forms reel in nearly half of all nights spent in Australia by international visitors, with this trend having been a constant for more than a decade.[7] The Australian hotel market performs strongly relative to international markets[8], recording an occupancy of 74% for the year to June 2019 and an Average Daily Rate (ADR) of AUD 187.[9]

International Tourism Growth in Australia

Looking forward, Australia's hotel market is anticipated to continue strong growth in the period 2019 to 2027, with ADR growth expected to lift by an annual average of 3.1% while revenue per available room (RevPAR) is to increase by 3.3% (Fig. 5). During this period, the market is forecast to continue to post high occupancy rates, circling the 80% mark.

International Tourism Growth in New Zealand

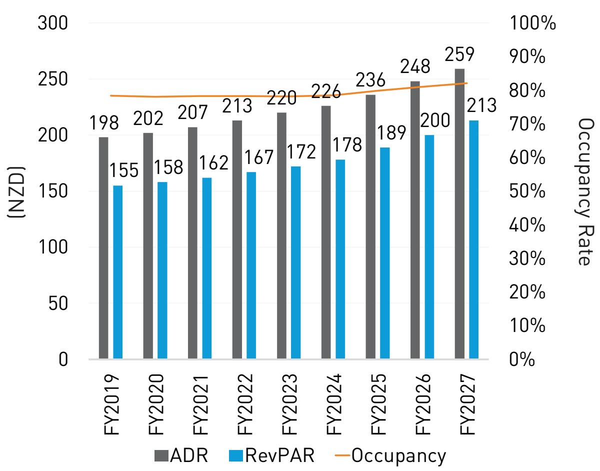
International visitor arrivals to New Zealand have increased by 32% (or c.1.3 million) between the year to August 2012 and August 2019.[10] Growth in New Zealand tourism is led by economic recovery in source markets, substantial increases in air connectivity and successful international marketing campaigns. Looking ahead, New Zealand has the aspirational target of boosting total visitor expenditure by 28% (+NZD 10.5bn) to total NZD 50bn by 2025 (Fig. 6).

[6] *Tourism Research Australia/Austrade, National Tourism Forecasts, 2019*
[7] *Tourism Research Australia, TRA Online, 2019*
[8] *STR, Global Hotel Results, 2019*
[9] *CBRE, Hotel Marketview, 2019*
[10] *NZTE, New Zealand Tourism, 2019*

Sustainable design and construction can improve the value of hotels by making them more resilient to climate change and save energy costs by making them more energy efficient. The CEFC's investments not only help increase the number of NABERS rated hotels, they can also demonstrate that energy efficiency initiatives deliver value to shareholders.

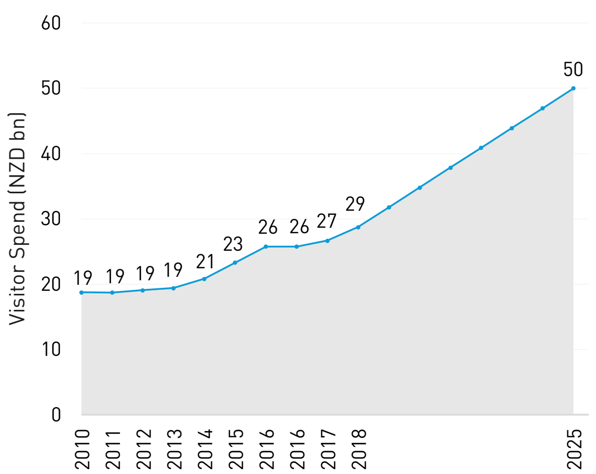
Chris Wade
Executive Director, Property Lead,
Clean Energy Finance Corporation (CEFC)

Fig. 5: Australian Hotel KPI Outlook, FY 2019 - FY 2027



Source: Dransfield, Hotel Futures, 2019

Fig. 6: Historical and Forecast Total Visitor Spend in New Zealand



Source: MBIE, Tourism Forecasts Dashboard, 2019

Funds Closed Hit Record High in 2018

Robust fundraising reflects healthy investor appetite for hospitality real estate

Thanks to consistent strong performance, investors are allocating an increasing amount of capital to global hospitality real estate. Indeed, capital secured by funds focused on the hospitality sector has more than doubled over the past decade, hitting $31bn in 2017 as seen in Fig. 7, the largest total in the years since the 2008 Global Financial Crisis (GFC). As more fund managers target the hospitality market, competition is accelerating: a record 62 hospitality real estate funds reached a final close in 2018.

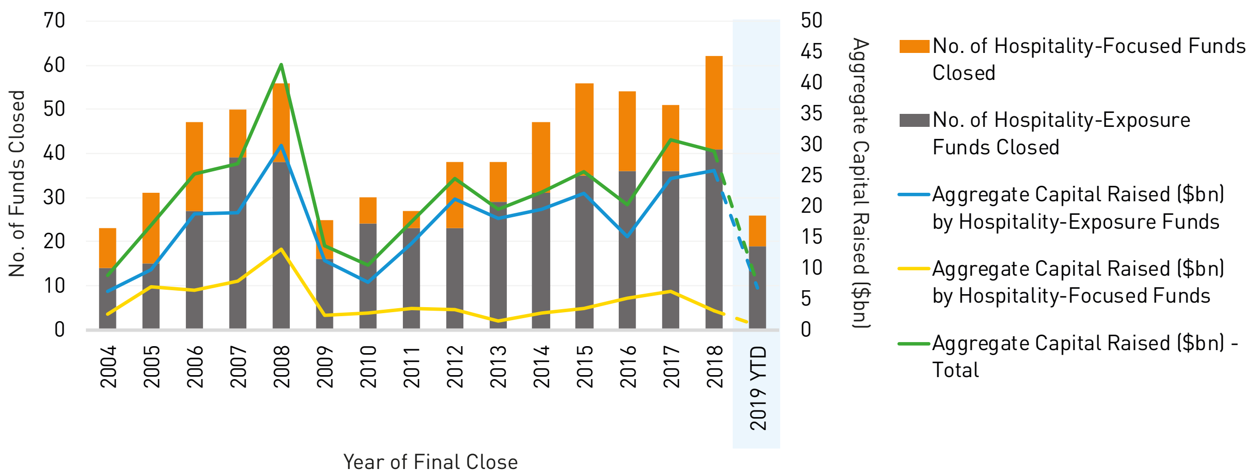
With the rise of the real estate mega fund (sized at $5bn or more), even more capital is likely to pour into the hospitality space. Three of the five largest real estate funds targeting hospitality property have closed since the beginning of 2017: Blackstone Real Estate Partners Europe V ($8.7bn), Starwood Global Opportunity Fund XI ($7.6bn) and Broad Street Real Estate Credit Partners III ($6.4bn). All three are 'hospitality-exposure' funds, which means they include hospitality as part of their investment strategy.

Appetite for Hospitality-Focused Real Estate is Growing

Along with rising demand for hospitality-exposure funds, there is growing appetite for 'hospitality-focused' funds (where hospitality is one of three types of property assets targeted). Among the hospitality-focused funds that have recently closed are Rockbridge Hospitality Fund VII, which closed on $417mn in 2017, and Magna Hotel Fund VI, which closed on $250mn in 2018 (Fig. 10).

Many more hospitality-focused funds are currently seeking capital. These include Odyssey Real Estate, which is targeting $500mn for its Odyssey Japan

Fig. 7: Annual Global Hospitality Real Estate Fundraising, 2004 - 2019 YTD



Source: Preqin Pro. Data as of August 2019

Boutique Hospitality Fund; Midas Hospitality, which is targeting $100mn for its Midas Hotel Fund; and Pro-invest Group, which is targeting AUD 500mn for its second hotel fund, Pro-invest Australian Hospitality Fund II.

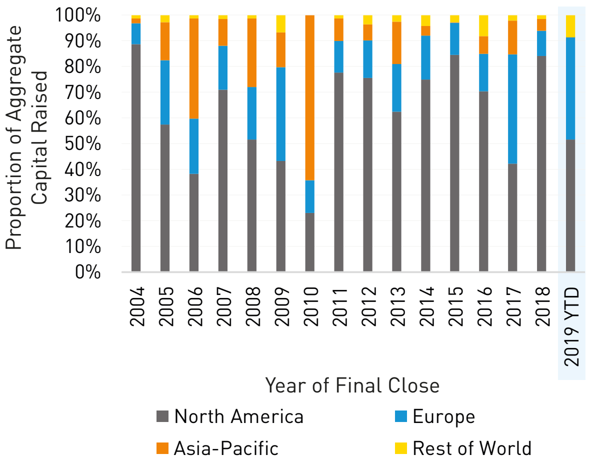
An Increasingly Global Footprint

While North America remains the dominant market for hospitality real estate, other regions are attracting growing amounts of capital. In 2017, Europe's share of global hospitality fundraising hit a post-GFC peak (Fig. 8), helped by Blackstone's $8.7bn Real Estate Partners Europe V. With increasing investor demand for hospitality markets across the Asia-Pacific region, large funds are being raised in this space. These include Secured Capital Real Estate Partners VI (SCREP VI) from Hong Kong-based PAG Real Estate, which closed on its hard cap of $1.9bn in 2017. SCREP VI undertakes an opportunistic strategy and targets a range of properties, including hotels, logistics, office and residential assets; the fund seeks to gain exposure to Japan, South Korea and China.

Healthy Demand for Opportunistic and Value-Added Strategies

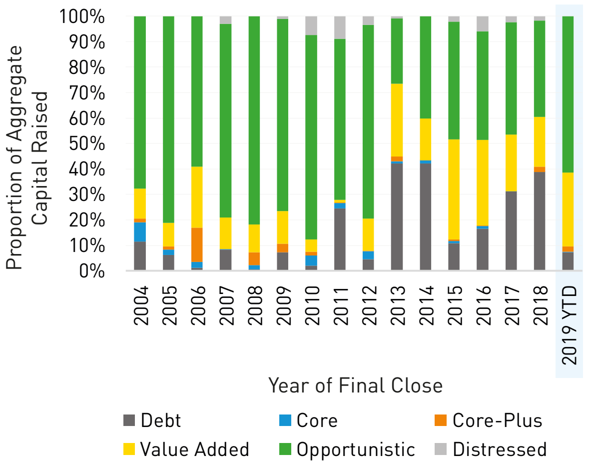
As Fig. 9 shows, opportunistic and value-added strategies comprise the vast majority of hospitality fundraising each year. Yet, as more investors look for stable returns, debt-focused vehicles are becoming increasingly attractive, with a record $11bn raised by funds targeting investment in hospitality debt in 2018.

Fig. 8: Aggregate Capital Raised by Hospitality Real Estate Funds by Geographic Focus, 2004 - 2019 YTD



Source: Preqin Pro. Data as of August 2019

Fig. 9: Aggregate Capital Raised by Hospitality Real Estate Funds by Primary Strategy, 2004 - 2019 YTD



Source: Preqin Pro. Data as of August 2019

Fig. 10: Notable Real Estate Hospitality Funds Closed

Fund	Firm	Firm Headquarters	Fund Size (mn)	Final Close Date	Sample Portfolio Property
Pro-invest Australian Hospitality Fund II	Pro-invest Group	Sydney, Australia	500 AUD*	Sep-19	Portfolio of Select Service Hotels throughout Australia & New Zealand
Starwood Global Opportunity Fund XI	Starwood Capital Group	Miami Beach, US	7,600 USD	Mar-18	UK Hilton Hotel Portfolio, UK, $135mn, Feb-18
Magna Hotel Fund VI	Magna Hospitality Group	Rhode Island, US	250 USD	Dec-17	Garment District Hotel, US, $274mn, Feb-19
Blackstone Real Estate Partners Europe V	Blackstone Group	New York, US	7,800 EUR	Jun-17	Greek Islands Hotel Portfolio, Greece, $197mn, Sep-19**
Pro-invest Australian Hospitality Fund I	Pro-invest Group	Sydney, Australia	380 AUD*	Mar-16	Portfolio of 8 Holiday Inn Express Hotels

Source: Preqin Pro

* *Including co-investment.*
** *Estimated portfolio property.*

Drivers of Growth: Outperformance

Hospitality real estate outperforms MSCI US REIT Index as well as other real estate segments

What is driving investor appetite for hospitality real estate? Strong, reliable performance is a key factor. For a start, the sector has outperformed the public market, beating the MSCI US REIT Index as measured by one- and five-year horizon IRRs (Fig. 11).

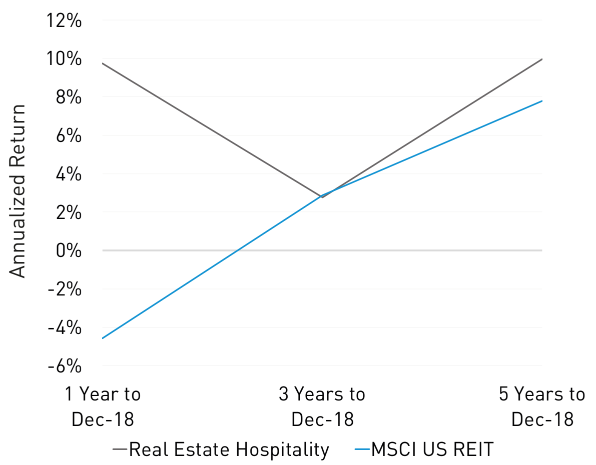
Hospitality Trumps Other Areas

The hospitality segment has also outperformed other real estate sectors across several vintage years. Median net IRRs in the hospitality space surpassed those for industrial, residential, retail and diversified funds of vintages 2011, 2013 and 2015, the most recent year for which data is available (Fig. 12).

Asian Hospitality Generates Top Performers

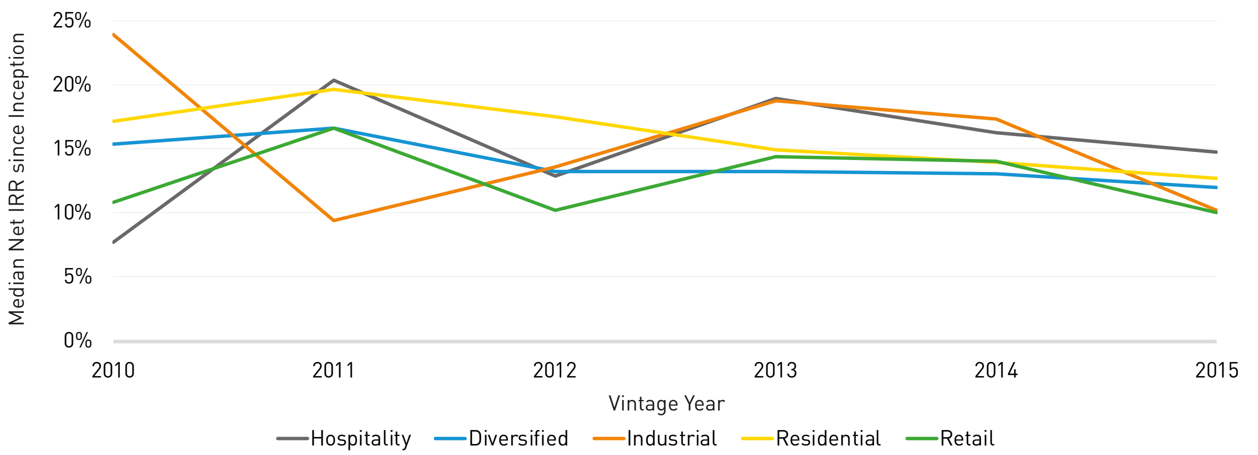
Regional performance data shows that real estate funds focused on Asia & Rest of World have

Fig. 11: Horizon IRRs: Real Estate Hospitality vs. MSCI US REIT



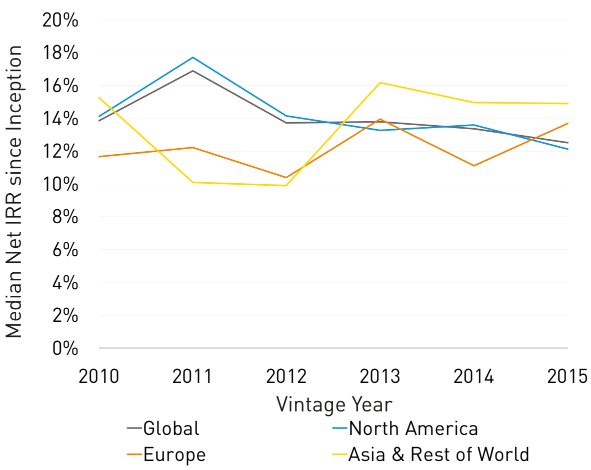
Source: Preqin Pro. Most Up-to-Date Data

Fig. 12: Median Net IRRs by Vintage Year: Real Estate Hospitality vs. Other Property Types



Source: Preqin Pro. Most Up-to-Date Data

Fig. 13: Real Estate Hospitality Funds: Median Net IRRs by Vintage Year and Geographic Focus



Source: Preqin Pro. Most Up-to-Date Data

outperformed funds focused on other geographies across several vintage years. Median net IRRs for Asia & Rest of World-focused funds of vintage years 2010, 2013, 2014 and 2015 have exceeded the global average and regional counterparts (Fig. 13). With more capital targeting high-growth Asian markets, funds are seeing strong returns.

Indeed, three of the five top performing funds active in the hospitality market invest in Asia. These are Gaw Capital Partners' Gateway Real Estate Fund V, GreenOak Asia's GreenOak Asia II and LaSalle Investment Management's LaSalle Asia Opportunity Fund IV. The top performing fund – Gateway Real Estate Fund V, which has an IRR of 51.4% – invests in a range of property types including hospitality in Greater China and the ASEAN region, with selected exposure in Japan, South Korea and Australia.

We have always considered hotels an integral part of any diversified real estate portfolio. It is not only about location, location, location: we search for qualified operators and managers who are able to run their hotels sustainably and profitably. The location, property, concept and operator all need to be aligned in order to deliver a successful and profitable investment.

Dirk Schuldes

Global Head Real Estate Markets Hospitality, Commerz Real AG

Global Investors Flock to Hospitality Real Estate

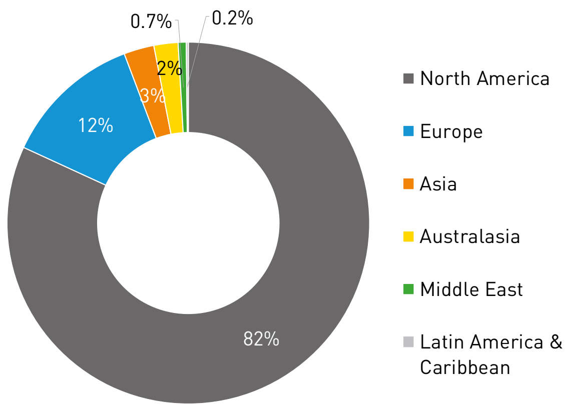
North America-based investors dominate, making up more than 80% of the total investor pool

Investors based in North America comprise the largest proportion of LPs active in real estate hospitality, with 82% of the total (Fig. 14). As they look to high-growth markets in search of yield, their geographic targets are increasingly global. For example, Arkansas Teacher Retirement System, a public pension fund, has a $30mn commitment to LaSalle Asia Opportunity V. This fund focuses on investment in a range of property types, including hospitality, and is primarily focused on Australia, Japan and China with a secondary focus on Korea, Singapore, Hong Kong and Taiwan.

Strong Demand for Value-Added and Opportunistic Strategies

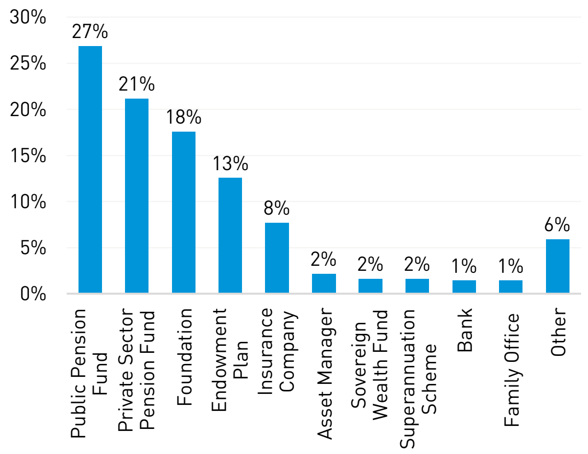
The largest share of investors opt for funds with value-added and opportunistic strategies (36% and

Fig. 14: Investors with a Preference for Real Estate Hospitality by Investor Location



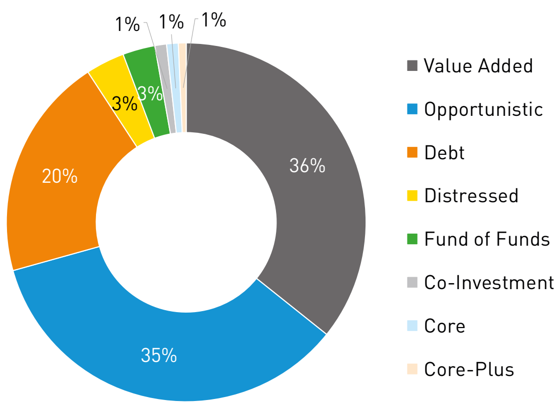
Source: Preqin Pro

Fig. 15: Investors with a Preference for Real Estate Hospitality by Investor Type



Source: Preqin Pro

Fig. 16: Proportion of Known Hospitality Real Estate Fund Commitments in 2014-2019 YTD by Strategy



Source: Preqin Pro. Data as of August 2019

35% respectively, Fig. 16). Historically, these strategies – which have a higher risk/reward profile when compared with core and core-plus investments – have made up most of the capital raised to target hospitality.

Also noteworthy is the prominence of real estate debt – just over one-fifth of investors have exposure to hospitality assets through debt vehicles. This type of investing is attractive for investors seeking greater capital protection and uncorrelated returns.

Fig. 17: Most Active Investors by Commitments to Hospitality-Exposure Funds

	Location	No. of Commitments	Aggregate Known Committed Capital ($mn)	Average Commitment Size ($mn)
New York State Teachers' Retirement System	US	16	1,253	78
Teacher Retirement System of Texas	US	16	2,460	154
California State Teachers' Retirement System (CalSTRS)	US	12	1,711	143
Missouri Local Government Employees Retirement System	US	10	505	63
Illinois Municipal Retirement Fund	US	9	415	52

Source: Preqin Pro. Data as of August 2019

Fig. 18: Most Active Investors outside of North America by Commitments to Hospitality-Exposure Funds

	Location	No. of Commitments	Aggregate Known Committed Capital ($mn)	Average Commitment Size ($mn)
State Oil Fund of the Republic of Azerbaijan	Azerbaijan	6	567	113
East Riding Pension Fund	UK	4	116	29
Merseyside Pension Fund	UK	4	37	12
Clwyd Pension Fund	UK	3	29	10
Environment Agency Pension Fund	UK	3	34	17

Source: Preqin Pro. Data as of August 2019

Hospitality Real Estate Sees Healthy Deal Flow

The hospitality sector has enjoyed over $110bn in private capital injection since 2015

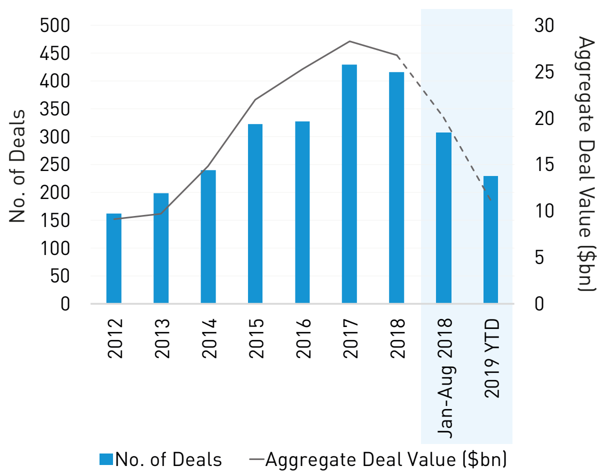
Buoyant fundraising, underpinned by strong performance, has resulted in large inflows of capital into the hospitality real estate market. Over $110bn of private capital has been invested in the sector since 2015. This is driving a healthy pipeline of deals.

Deal value hit a high of $28bn in 2017, more than 3x the level seen in 2012, before tapering off to $27bn in 2018 (Fig. 19). In tandem with deal values rising, the number of deals has increased. From 162 deals in 2012, the number of deals jumped to a high of 429 in 2017 before slipping to 416 deals in 2018.

From Mega Funds to Mega Deals

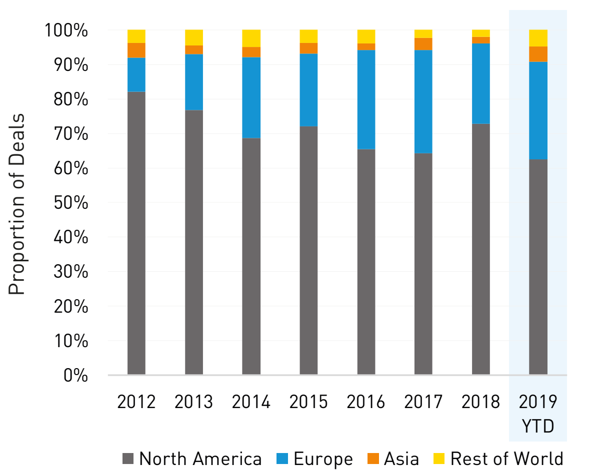
Following the rise of mega funds, an increasing number of mega deals are emerging in the hospitality real estate space.

Fig. 19: Annual Global PERE Hospitality Deals, 2012 - 2019 YTD



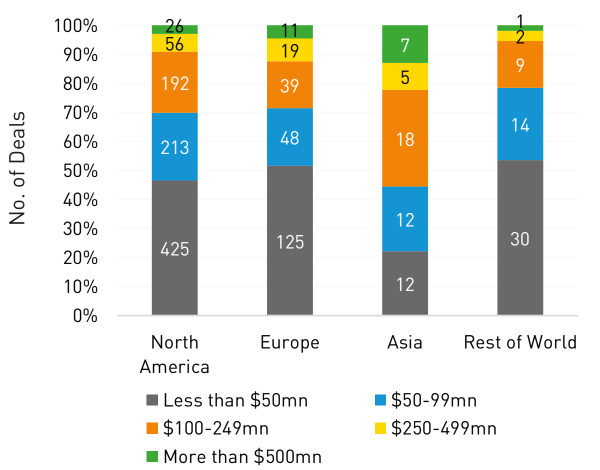
Source: Preqin Pro. Data as of August 2019

Fig. 20: Annual PERE Hospitality Deals by Region, 2012 - 2019 YTD



Source: Preqin Pro. Data as of August 2019

Fig. 21: PERE Hospitality Deals by Size and Region, 2012 - 2019 YTD



Source: Preqin Pro. Data as of August 2019

Of the 11 PERE hospitality deals sized at $1bn that have been recorded so far, six were completed in the past 18 months. The largest deal completed since 2018, valued at $1.53bn, involves a property located at 701 Seventh Avenue in New York City (Fig. 22). Indianapolis-based real estate firm Maefield Development acquired its partners' stakes and now owns the entire property, a 39-storey, 350,000ft^2 hotel and retail complex which includes the 452-room Marriott EDITION Hotel.

The UK has also been a hot market for hospitality deals. For example, in November 2018 a $1bn portfolio consisting of four Central London-based Grange hotels was sold to London-based real estate firm Queensgate Investments. And earlier in the year, French hotel investor Foncière des Régions acquired a portfolio of 14 hotels located across the UK for £830mn.

A Global Market for Deals

The US attracts the majority of PERE hospitality investment. Cities such as New York, Chicago, Miami and San Francisco – which are business hubs as well as global tourism destinations – are some of the most active locations for PERE hospitality investment worldwide. As of August, North America was responsible for 62% of global deals completed in 2019, Europe accounted for 28% and Asia & Rest of World made up 9%.

Since 2012, higher-priced transactions have accounted for a greater proportion of hospitality PERE deals in Asia as compared with North America or Europe. Deals of over $100mn represent around one-third of all deals completed in North America and Europe, while in Asia that figure is 56%. One of the largest recent hospitality deals in Asia involved Japan's Sheraton Grande Tokyo Bay Hotel, located close to the Tokyo Disney Resort. Singaporean sovereign wealth fund GIC and Japan-based REIT Invincible Investment Corporation acquired the 1,016-room hotel for JPY 100bn ($948mn) in 2017.

A key trend in this market is institutional investors' growing appetite for direct deals. While North America is the primary focus, hospitality investing is becoming increasingly global. Asia looks set for further growth, with Japan expected to benefit from an influx of tourists as the host of the 2020 Olympic Games in Tokyo.

Fig. 22: Largest PERE Hospitality Deals in 2017-2019 YTD

Asset	Deal Date	Deal Size ($mn)	Transaction Type	Buyer(s)	Seller(s)	Location(s)
China, Hotel Portfolio	Jul-17	2,804	Portfolio	Guangzhou R&F Properties	Dalian Wanda Group	Beijing & Wuhan, China
701 Seventh Avenue	Feb-18	1,530	Single Asset	Maefield Development	Witkoff, Ian Schrager Company, New Valley, Winthrop Realty Trust, Carlton Group	New York, US
London, UK, Hotel Portfolio	Nov-18	1,226	Portfolio	Queensgate Investments	Grange Hotels	London, UK
The Grand Wailea	Jan-18	1,100	Single Asset	Blackstone Group	GIC	Wailea, US
UK, Hotel Portfolio	May-18	1,018	Portfolio	Foncière des Régions	Starwood Capital Group	London & Manchester, UK

Source: Preqin Pro. Data as of August 2019

Fig. 23: Top Cities for PERE Hospitality Deals, 2017 - 2019 YTD

		2017		2018		2019 YTD	
City	Country	No. of Deals	Aggregate Deal Value ($mn)	No. of Deals	Aggregate Deal Value ($mn)	No. of Deals	Aggregate Deal Value ($mn)
New York	US	21	1,749	24	5,210	5	570
London	UK	10	1,348	10	521	2	20
Washington	US	8	319	6	404	2	253
Chicago	US	2	167	6	256	3	113
Tampa	US	1	-	5	119	3	223

Source: Preqin Pro. Data as of August 2019

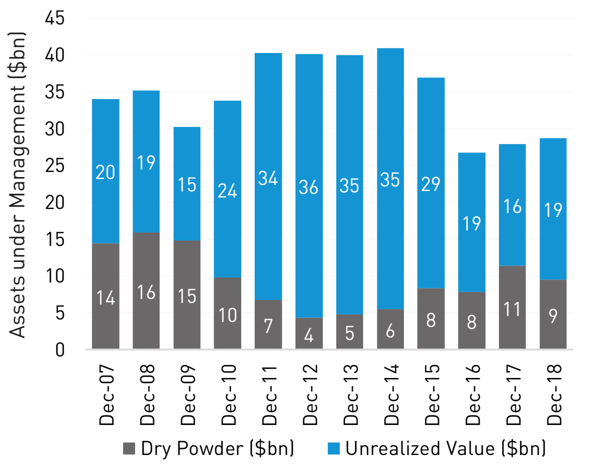
Rise of a Global Market

AUM inflates as appetite for hospitality real estate grows among investors

Since 2016, real estate hospitality assets under management (AUM) have posted steady growth: AUM rose by 7% to $29bn as of December 2018 (Fig. 24). However, the rising trend seen in the past three years follows a sharp decline of more than a quarter (28%) in 2016, when AUM slid from $37bn to $27bn in the previous year. This is due in part to the liquidation of several hospitality-focused funds that came the end of their life span in 2015. As the universe of hospitality-focused funds is still relatively small, single funds can affect the overall market trend.

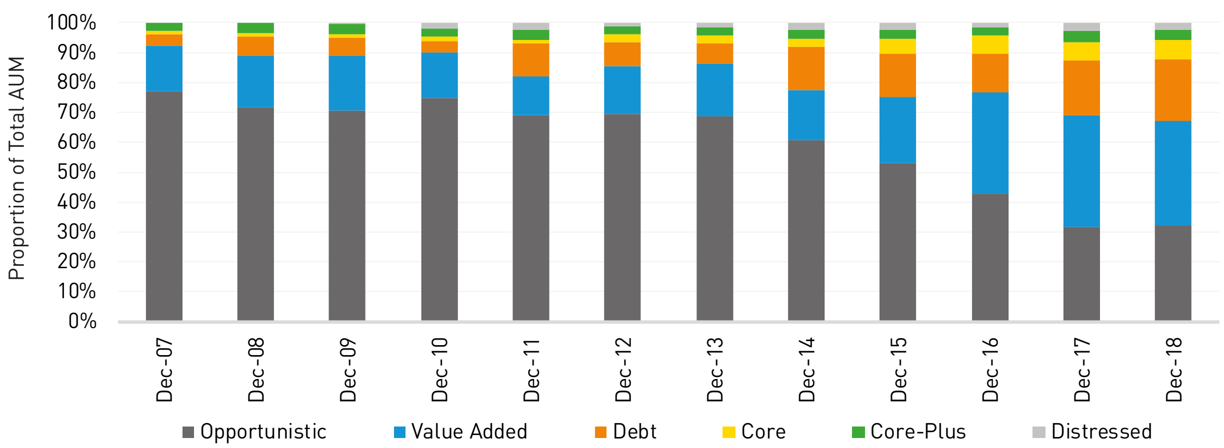
Value-added and opportunistic strategies made up the majority (67%) of hospitality AUM (Fig. 25), with $10bn and $9.2bn in assets respectively.

Fig. 24: Global Real Estate Hospitality Assets under Management, 2007 - 2018



Source: Preqin Pro

Fig. 25: Global Real Estate Hospitality Assets under Management by Strategy, 2007 - 2018



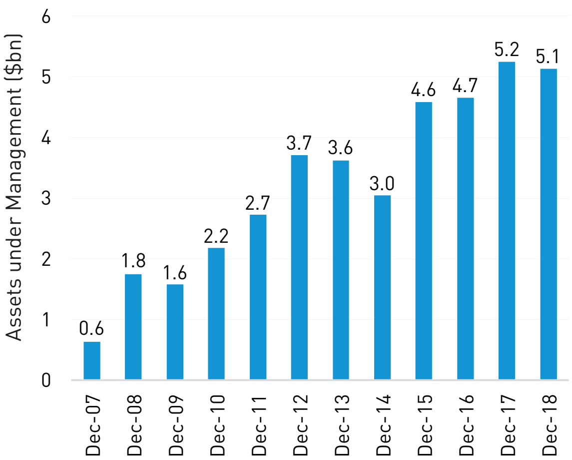
Source: Preqin Pro

Asia-Pacific Growth

Hospitality AUM reflects the growing investor appetite for global assets. Since the GFC, hospitality AUM involving investment outside of North America has more than doubled from $4.2bn in 2009 to $9.5bn in 2018.

As investor demand for exposure to hospitality assets in the Asia & Rest of World region has risen, Asia- & Rest of World-focused AUM has seen a steady increase. Hospitality AUM focused on the region has trebled from $1.6bn in 2009 to $5.1bn as of December 2018 (Fig. 26).

Fig. 26: Asia- & Rest of World-Focused Real Estate Hospitality Assets under Management, 2007 - 2018



Source: Preqin Pro

Hotels are an integral part of our operational real estate strategy. With our 'bed strategy,' we are tapping into the global trend of increasing middle-class and international travellers. However, as hotels are operation-intensive assets, requiring daily attention of the manager, the key to capturing growth and mitigating the operational risks of hotel property lies in the expertise of the fund manager.

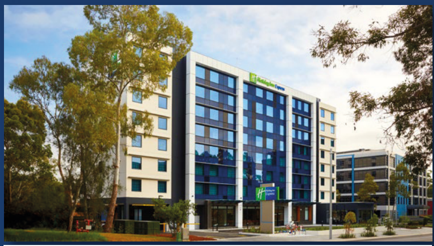
Chenhui Xia, CFA
Head of Real Estate Transactions,
Helaba Invest

Auckland City Skyline Featuring Pro-invest Group's Dual Branded Auckland City Centre Hotel


SKY CITY
HYUNDAI
The new Genesis.
Inbuilt Genius.

Pro-invest group

In collaboration with IHG®



Holiday Inn Express
Sydney Macquarie Park
192 Rooms | 2016

Holiday Inn Express
Brisbane Central
226 Rooms | 2017

Holiday Inn Express
Adelaide City Centre
245 Rooms | 2017

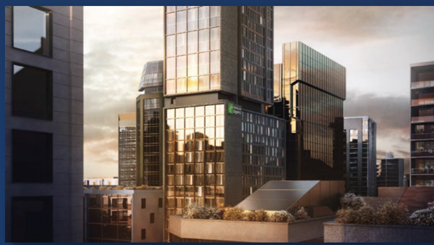
Holiday Inn Express
Newcastle
170 Rooms | 2019

Holiday Inn Express
Melbourne Southbank
345 Rooms | 2019

Holiday Inn Express
Sydney Airport
247 Rooms | 2020

Holiday Inn Express & Suites
Queenstown
227 Rooms | 2020

Holiday Inn Express
Melbourne Little Collins
312 Rooms | 2021



Holiday Inn Express
Auckland City Centre
294 Rooms | 2021

Holiday Inn Express & Suites
Parramatta
239 Rooms | 2021

voco
Auckland City Centre
200 Rooms | 2021

Holiday Inn Express & Suites
Sunshine Coast
167 Rooms | 2021