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Hospitality

Hospitality Investor Sentiment Index

**Gauging the sentiment of equity investors
active in the hospitality sector.**

RESULTS FOR Q2 2024



Executive Summary

According to our proprietary Hospitality Investor Sentiment Index, in Q2 2024, the sentiment of our equity investors has moved to a position of **OPTIMISM** about the hospitality sector.

With an overall score of 60.2, the index's momentum towards positive territory has quickened. Our investor audience's sentiment has been lifted by the sustained growth in market performance, along with notable landmark transactions which have fuelled their optimism for what lies ahead in 2024.

Despite a number of headwinds remaining, such as the looming major and potentially contentious elections in Europe and the US, along with the escalating fragility in the Middle East, there's a noticeable resurgence of interest from mainstream institutions in the sector, which, coupled with a rapidly shifting debt market and the noteworthy deal activity initiated by two pivotal market leaders, could set the stage for the floodgates to open.

The overall survey score for Q2 2024 has increased by 7.2 pts to 60.2, which is the highest overall score recorded in the survey since it was relaunched almost two years ago, with the highest previous score at 52.9 in Q1 2024.

The table below presents the key indicators from Q2 2024. An index score above 50 indicates positive sentiment and below 50 indicates negative sentiment.

Positive Key Indicators	Index Score Q2 2024 v Q1 2024		Negative Key Indicators	Index Score Q2 2024 v Q1 2024	
	Q2 2024	Q1 2024		Q2 2024	Q1 2024
Your investment focus on development	50.0	+10.0pts	Your confidence in long-term total accommodation demand growth (through the cycle)	76.8	-3.2pts
Your confidence in profitability growth (next 12 months)	52.4	+12.4pts	Your expected hospitality investment returns	59.8	-6.0pts
The time to close a deal	63.4	-9.4pts	The price of hospitality investment opportunities	51.2	+11.2pts
The availability of investable hospitality stock	61.0	+6.7pts	Your unallocated capital to invest in hospitality (dry powder)	52.4	-6.1pts

Methodology

The Hospitality Investor Sentiment Index gauges the sentiment of equity investors active in the hospitality sector, by polling their opinions on a quarterly basis across consumer demand and operational performance, the demand for, and availability of stock, appetite for risk and the pricing of investment opportunities.

The key elements to the methodology are:

1. A questionnaire answered by senior decision makers, that are members of Questex's Investor Council, representing the leading investment firms.
2. Responses are based on whether confidence levels are 'higher', 'the same' or 'lower' than the previous quarter based on a particular outcome.
3. A diffusion index method is used to arrive at the index score. The resulting index values are bound between 0 (all investors respond lower) and 100 (all investors respond higher), with a theoretical no-change mark at 50 (all investors respond 'the same' or equal proportions respond 'higher' as do for 'lower'). Values above 50.0 indicate an increase and below 50.0 indicate a decrease. The distance from the 50 no-change mark signals the implied rate of change in the variable, the further from 50.0 the greater the rate of change.

Example: Take a movement from 60.0 in Q1 to 55.0 in Q2. Although the level of the index has fallen, it has nonetheless posted above 50.0 in both quarters. The correct interpretation is that the sentiment increased in both Q1 and Q2, but that the rate of increase was slower in Q2 compared to Q1.

4. The overall Questex Hospitality Investor Sentiment Score is based on a weighted average of the quarterly results.

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Panel Composition: Investor Council

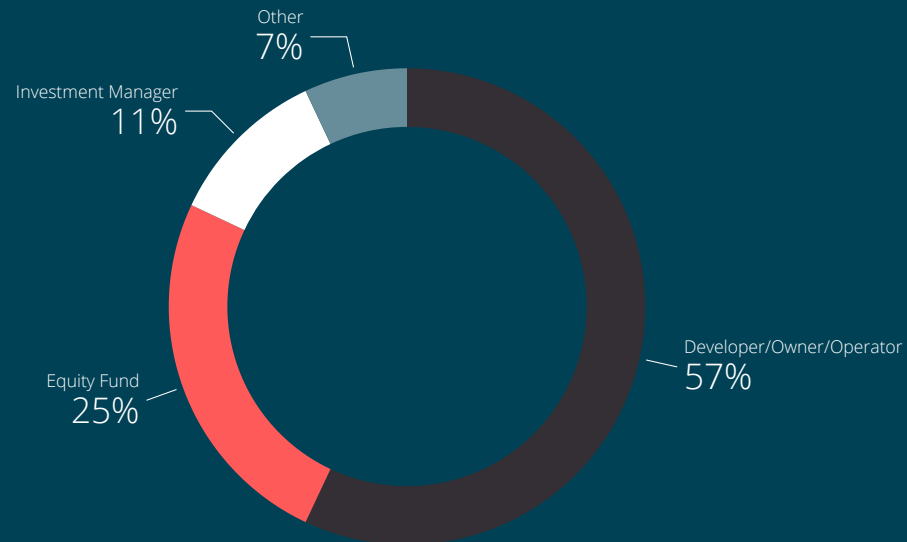
Our respondents are senior decision makers representing the leading investment firms across the world. The diverse representation from an investment and geographical perspective is reflective of the ownership/investment structure of the market and supports the validity of the results.

For this survey, we have seen engagement from large institutional investors and diversified real estate players, as the professionalisation of the sector continues, and does not appear to have been significantly hampered by the current and sustained headwinds.

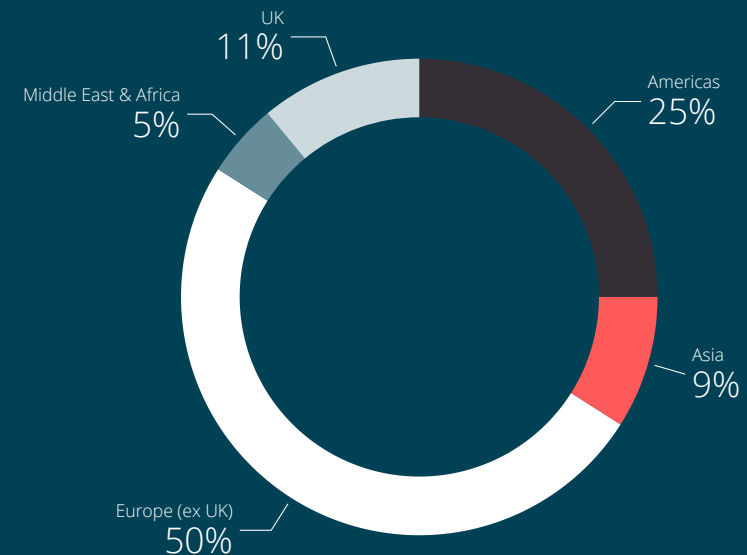
We have seen an extraordinary level of engagement from our global audience for this second survey of 2024, with an ongoing robust response rate as investors start to see green shoots of recovery spurred by significant moves by major players in the industry.

This quarter, the survey saw engagement from investors in the Americas (25%), Asia (9%), Middle East & Africa (5%), the UK (11%), as well as Europe (ex UK) (50%), demonstrating the international, cross-border nature of hospitality investment.

What best describes your organisation?



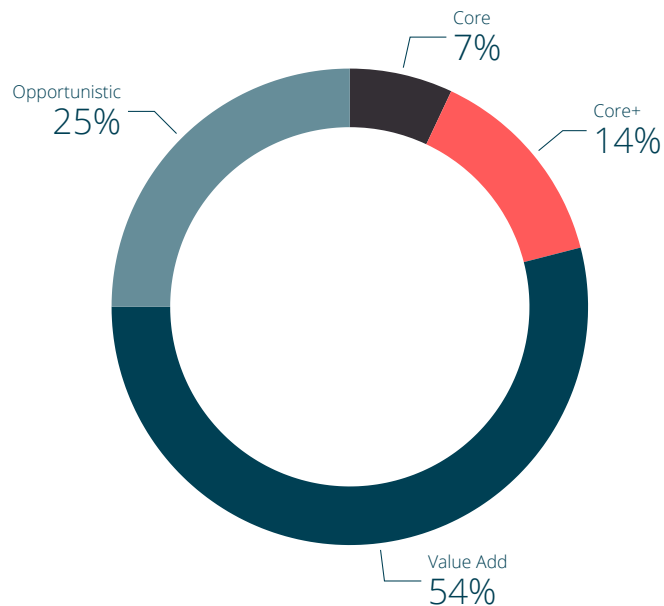
From where does your capital predominantly originate?



Panel Composition: Investor Council

Historically, the hospitality industry was a sector which only appealed to owner-operators, hotel specific investors and opportunistic funds. Core and Core+ participants, which in Q2 2024 comprised 21% of our panel, are becoming more prevalent as the sector continues to become more transparent, liquid and therefore appealing relative to other more traditional property types. For many, hospitality remains an important value-add component of a diversified real estate portfolio.

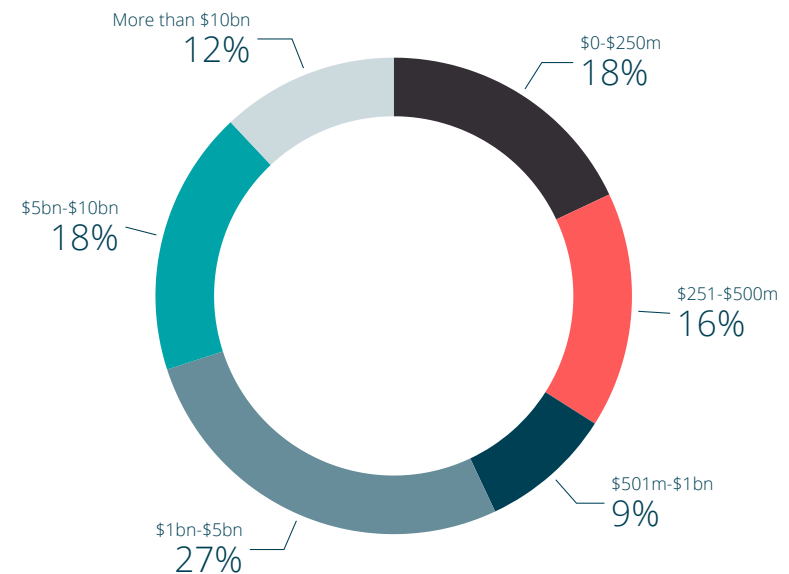
What best describes your investment strategy?



Additionally, it's seen as a sector with asset management potential, where investors can be rewarded and add value with almost immediate results – a benefit of nightly rent reviews. The range of different operating structures and markets also means that it appeals to a wide range of investors with different strategies and return requirements.

There is a broad representation of investor size on our panel, with 57% of investors having allocated over \$1bn in Real Estate, of which 12% have more than \$10bn invested. The total amount of capital under management by our respondents is in excess of \$406.58bn (MSCI).

What is the approximate value of your total Real Estate assets under management in USD\$?



Consumer Demand

This quarter, it's the confidence in corporate demand which is showing promise, with the index score surging by 14.6 points to reach 64.6. This marks the highest score in this measure since Q3 2022.

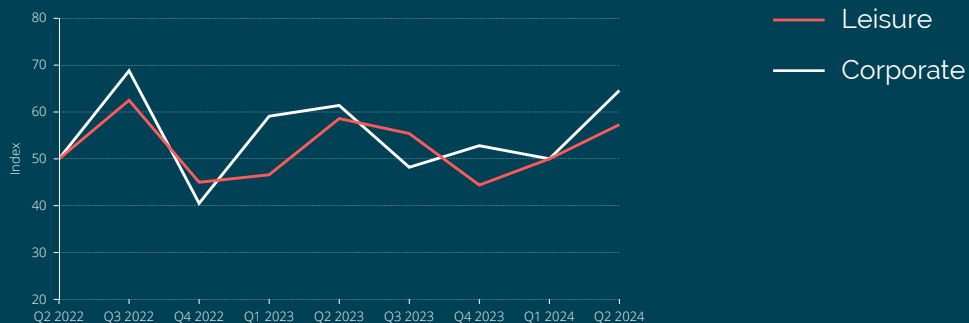
The recovery in confidence in the corporate segment is reflective of the GDP growth being recorded in major territories, with many narrowly averting recession. It is also a measure of major corporates getting back to business as usual, as well as the ongoing recovery in the meeting and events segment.

The confidence in the corporate segment is coupled with a positive outlook on the leisure segment illustrated by the index score growing by 7.3 pts to 57.3 this quarter, against 50.0 in the last period.

The leisure segment continues to be buoyed by the long-awaited return of the Asian markets, which Oxford Economics predict could see a doubling of the number of international outbound trips taken by Chinese travellers in 2024, against 2023.

Although the easing of inflation across the major economies in late 2023 will be seen as a positive signal for demand levels, it is clear that we are not out of the woods just yet.

Your confidence in demand growth (next 12-months)



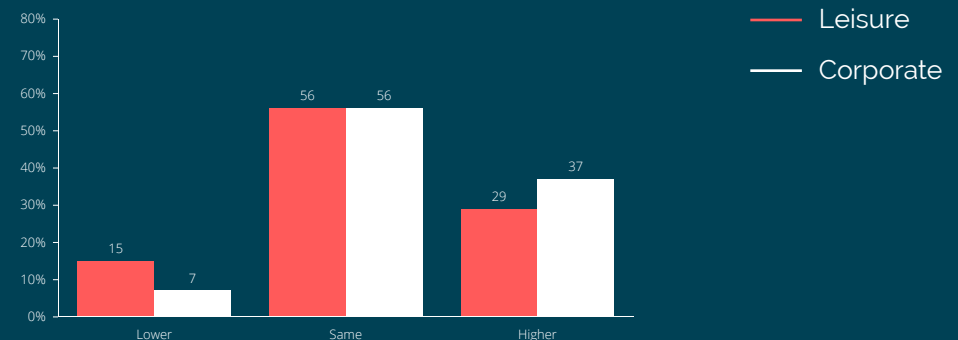
With recent statistics suggesting stickier inflation than anticipated, markets have become somewhat less optimistic of material cuts to lending rates in the short-term.

Hospitality Investor Snapshot

While major elections in the UK, Europe, and the US have historically caused substantial disruptions to international travel, there's a prevailing sense this year that they will likely amount to nothing more than minor inconveniences for operations. After enduring far greater challenges in recent years, the industry has developed a resilience to such disruptions.

As a result, our investor audience are projecting a positive outlook on leisure and corporate demand over the next 12 months.

Q2 2024: Your confidence in demand growth (next 12-months) - Q-o-Q



Operational Performance

As a result of two consecutive quarters of strong growth, the positive sentiment regarding revenue growth projections for the upcoming 12 months has surged by 22.8 percentage points from an index score of 43.1 in Q4 2023 to reach 65.9 this quarter.

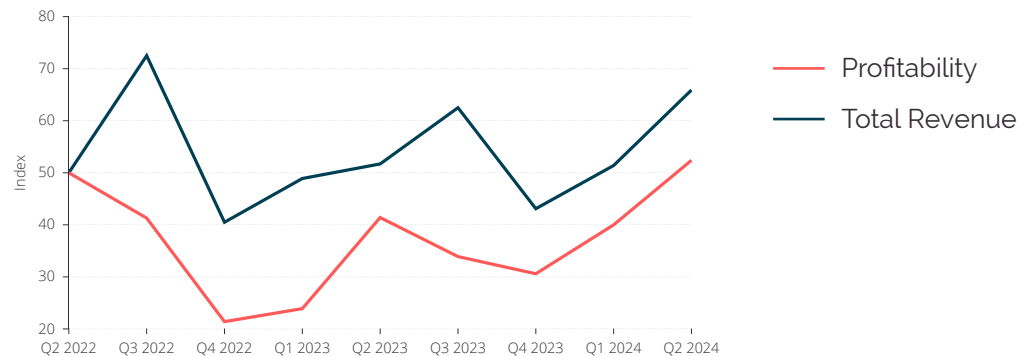
The index score for the confidence in profit growth over the next 12 months has been equally strong since the beginning of 2024, increasing by 21.9 pts from a lowly 30.6 in Q4 2023 to 52.4 this quarter.

At 52.4 pts, this is the first time since the pandemic that the sentiment for the growth in profit has tipped into positive territory, which speaks volumes about the overall shift in sentiment of our investor panel.

While this shift may partially stem from the recovery in demand, it's also attributable to a scarcity of new supply. The hotel development pipeline has been hindered by challenges to development dynamics since the end of the pandemic.

For investors, developers and hotel groups which have managed to navigate their way through the recent challenges, 2024 should prove to be the strongest (and most stable) year of operation for a good while.

Your confidence in performance growth (next 12 months)



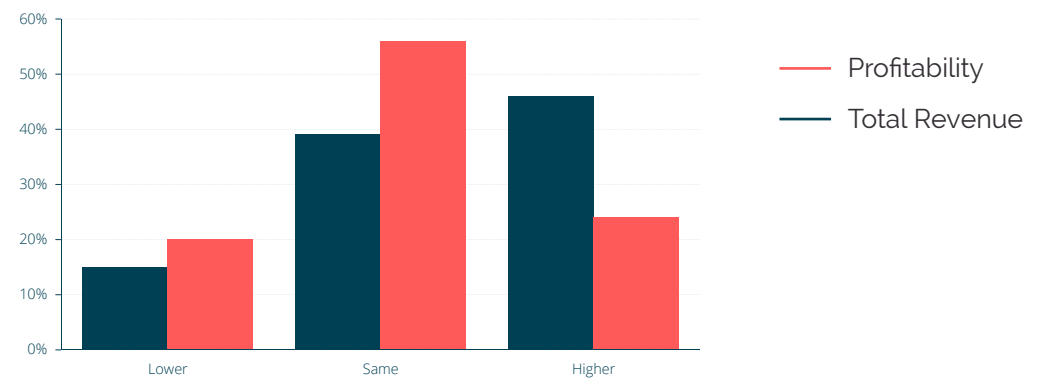
Dalata Hotel Group's expansion strategy, for example, aims to deliver 5,000 operational rooms by the end of 2024, focusing on prominent European cities with a strong mix of corporate and leisure demand.

Hospitality Investor Snapshot

For the first time since the survey was relaunched in 2022, the confidence in profit growth is in positive territory this quarter.

For a significant portion of our investor audience, this indicates confidence in revenue growth being robust enough to outpace the ongoing rise in costs. However, while payroll levels continue to climb steadily, the seemingly relentless surges in energy and cost of sales that were experienced this time last year seem to have abated, at least for the time being.

Q2 2024: Your confidence in performance growth (next 12 months) - Q-o-Q



Investment Focus

While the index scores for investor focus on urban and resort locations are both showing signs of stabilising, it's noteworthy that the urban (corporate/conference) segment maintains a lead of almost 15 points over the resort (leisure) market.

This is reflective of the more positive outlook on the growth in the corporate segment, but also the unwavering appetite for investment in major city centres, such as London, Paris and Rome.

These major markets, exemplified by their robust top-line performance in 2023, have a history of being relatively resilient and low-risk investments. This is owing to their diverse demand mix and attractiveness to both leisure and corporate markets.

In contrast, resorts are constrained by their dependence on the leisure segment and are susceptible to external factors that lead to fluctuations in demand. The investor audience's focus on resort markets has declined by 1.4 points this quarter, resulting in an index score of 50.0, indicating a sense of ambivalence toward this segment.

In the last quarter, Travelodge secured a 25-year lease with Unex Group for east London office building Gredley House and is set to turn the property into a hotel.

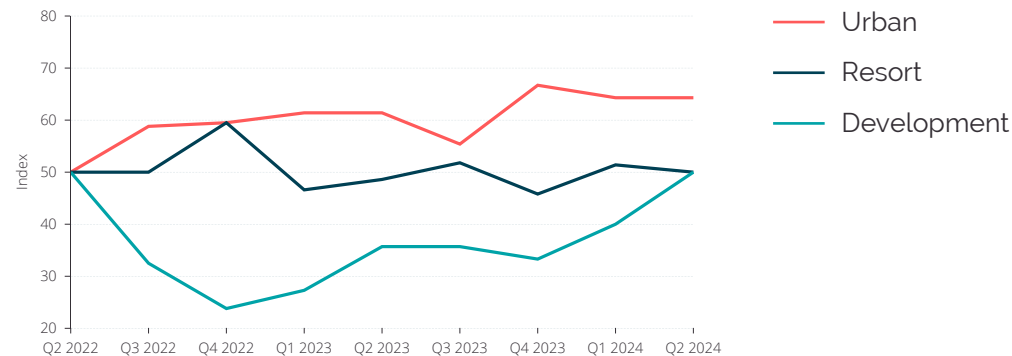
Additionally, ECE Work + Live has acquired a former office building in Copenhagen Frederiksberg district from TPG Angelo Gordon, with plans to convert it into a 210-bedroom hotel. The €65 million scheme is expected to be complete in 2027.

Hospitality Investor Snapshot

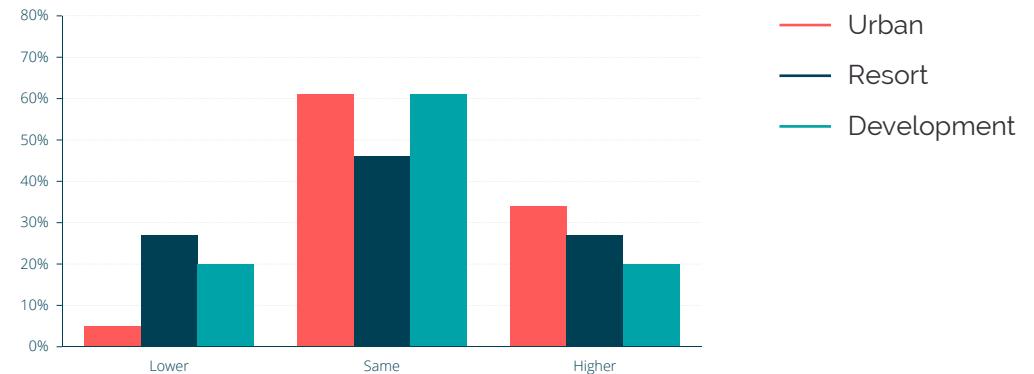
The index score for the focus on development opportunities has made a significant recovery in recent quarters to hit 50.0 in Q2 2024 from just 33.3 in Q3 2023.

Whilst there has been an easing in the dynamics of development due to a more stable (and predictable) environment for hotel operations, development finance and construction costs, adaptive reuse currently remains a stronger option for brands to get a flag in the ground.

Your investment focus (next 12 months)



Q2 2024: Your investment focus (next 12 months) - Q-o-Q



Investment Demand and Supply

For Q2 2024, the focus of our investor audience on limited-service hotels has increased by 7.1 pts to an index score of 58.5.

Although this seems contrary to the positive response on leisure and corporate demand growth in the next 12 months, our survey suggests that the froth has come off the confidence in long-term accommodation demand this quarter, which dropped by 3.2 pts, but remains robust at an index score of 67.8.

The index score for the investment in full-service hotels fell slightly this month, by 2.5 pts, to 56.1, but this remains well above the low recorded in Q3 2022 at 43.8.

Full-service hotel investment encompasses the upscale/luxury segment, which, as noted by Mark Hoplamazian, President and Chief Executive Officer of Hyatt Hotels, has consistently emerged as the star performer in the aftermath of significant events, playing a pivotal role in "leading the industry's recovery in the wake of several notable events, the first Gulf War, 9/11, the Global Financial Crisis, and most recently, the post-pandemic."

European hostel chain A&O is set to invest €500 million to aid its expansion in key cities, such as London, Paris, Rome, Madrid, Lisbon, Berlin, Munich, Prague and Amsterdam.

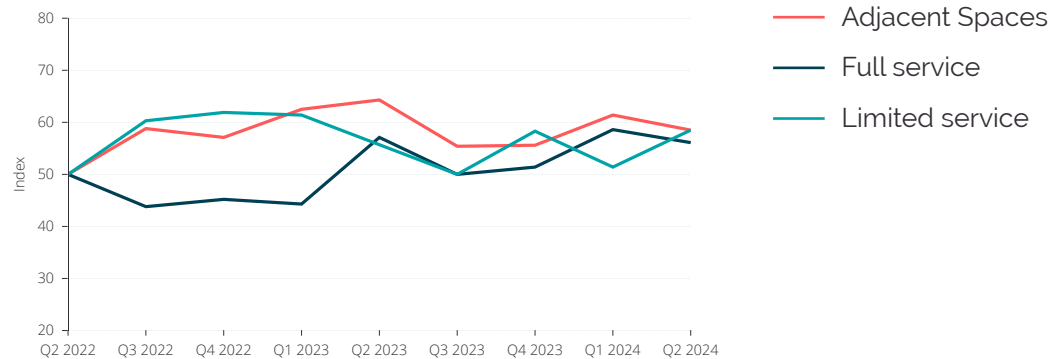
A&O's strategy of focusing on converting existing office and retail properties into hostel accommodation also aligns with the wider industry trend towards adaptive reuse of buildings.

Hospitality Investor Snapshot

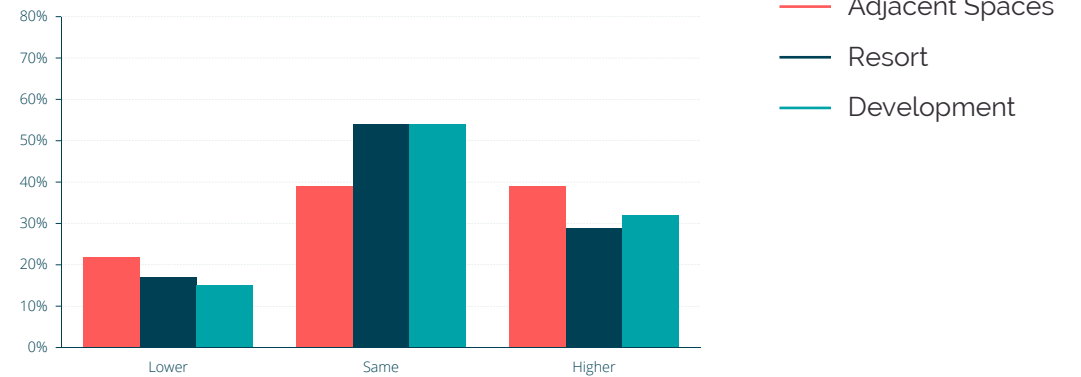
The index score for investment in adjacent spaces (ie extended stay, hostels, co-living) has dropped marginally, by 2.9 pts in Q2 2024, to 58.5.

Whilst traditional hotel investment opportunities are returning, there is no doubt that alternative accommodation types have had a strong post-pandemic recovery with traits typically including lower cost operating model and premium occupancy performance. As a result, they remain an attractive option away from the crowded hotel market.

Your investment focus (next 12 months)



Q2 2024: Your investment focus (next 12 months) - Q-o-Q



Acquisition and Asset Management Strategy

For the first time since our survey was relaunched, the expected hospitality investment returns for our investor audience has seen a sharp decline, falling by 6.0 pts to 59.8.

That said, 100% of our Opportunistic investors are still expecting their returns to increase or remain the same in the next 12 months. In contrast, 20% of Core+ investors are expecting their returns to drop.

Furthermore, regionally, 100% of contributors to our survey who have capital originating in Asia and Europe (excl UK) are expecting their returns to increase or remain the same, with 20% of funds from the UK expecting returns to be lower.

Further evidence of an easing in market tension is the index score for the anticipated hold period in Q2 2024, which has seen a slight increase for the third consecutive month, to hit 56.1.

In line with the decline in expected hospitality returns, the index score for the appetite for risk fell for the first time since the survey relaunched in Q2 2024, by 1.5 pts, to 58.5.

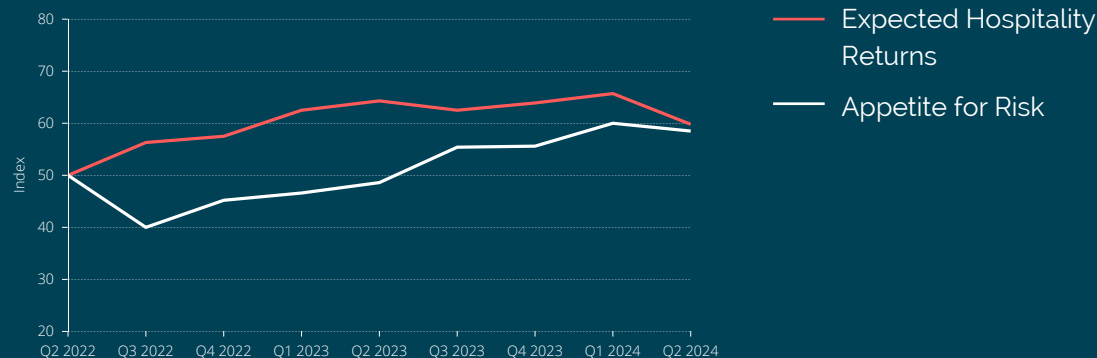
In contrast to previous quarters, it is 100% of Core and Core+ investors who have stated that their appetite for risk has increased (25%) or remained the same (75%) – this could be a sign that they are pushing deeper into the hospitality sector as allocations move away from traditional property types with a weaker performance outlook.

Hospitality Investor Snapshot

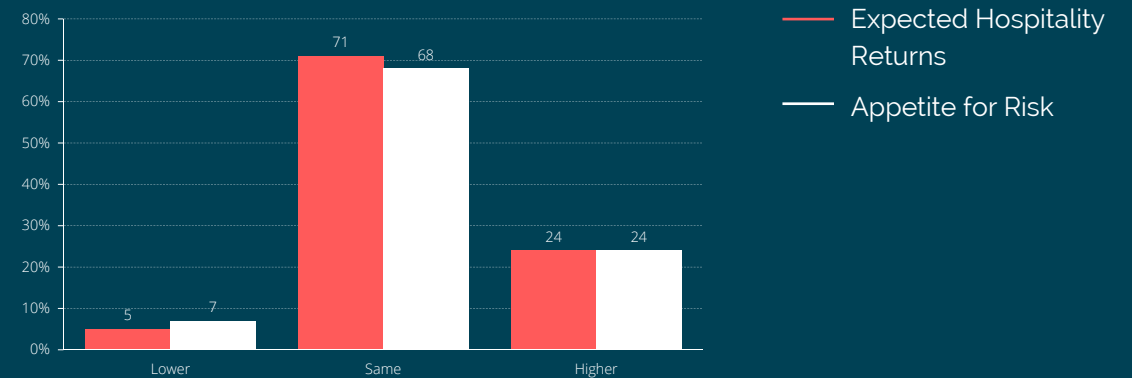
Until now, the increasingly positive sentiment on hospitality returns did seem at odds with the increasingly challenging transaction environment, so it is unsurprising to see it finally hit a wall.

Albeit, rising return expectations were perhaps driven out of necessity over recent quarters given the rising cost of capital, and are now starting to subside as expectations are for capital costs to subside.

Acquisition and Asset Management Strategy (next 12 months)



Q2 2024: Acquisition and Asset Management Strategy (next 12 months) - Q-o-Q



Acquisition and Asset Management Strategy

For our investor audience, the index score for the hurdle rate (total cost of capital) has come down by 8.2 pts to 64.6, which is the lowest this measure has been since the survey relaunched.

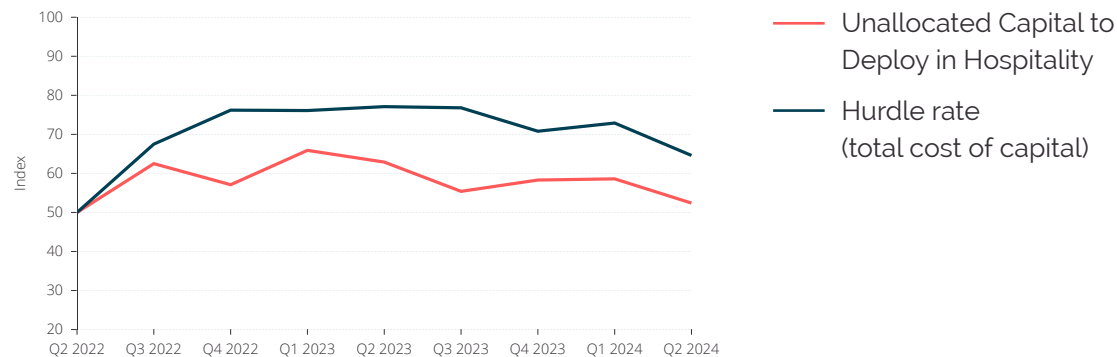
The significant drop suggests that the key challenge of the last few years, raising funds – both equity and debt, may be easing.

This is supported by the sentiment regarding the price of debt (margin) falling by a further 17.5 pts in Q2 2024, to just 43.9. This is from a high of 93.2 in Q1 2023.

And as the price of debt comes down, the appetite of our investor council to use leverage has increased further, to an index score of 52.4, which is a significant recovery from the low of 30.0 in Q2 2023. This is unsurprising considering that more traditional lenders appear to be (finally) stepping back into the market with more competitive offers.

Aareal Bank continue to be extremely active in the hospitality market with their 'green' loans. Most recently with a loan to Pro-Invest Group to enable the refinancing of five hotels in the APAC region operating under the Holiday Inn Express brand.

Acquisition Strategy (next 12 months)

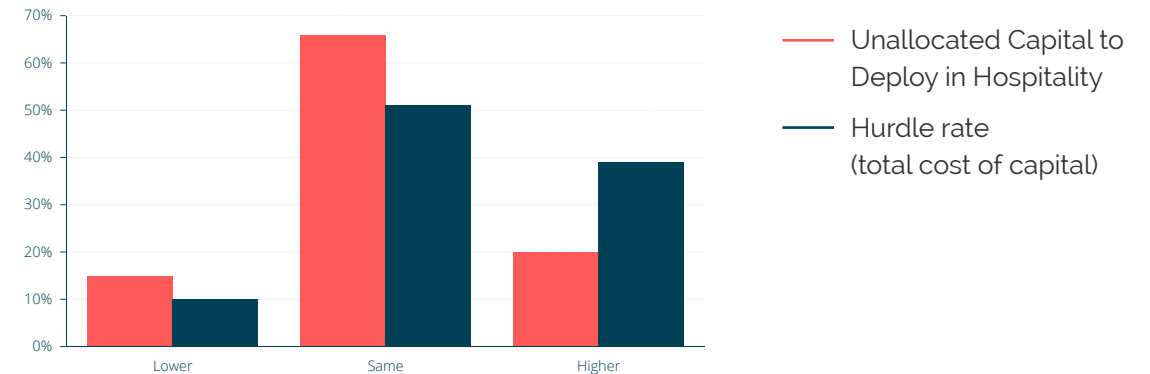


Hospitality Investor Snapshot

The index score for unallocated capital to deploy in hospitality (dry powder) has fallen to its lowest level since the survey relaunched, at 52.4 in Q2 2024.

Whilst initially this would suggest a weakening in the appetite for hospitality investment for our investor panel, it may also be reflective of the shifting dynamics of investment. As funds struggle to raise equity amidst a scarcity of relevant 'prospective' opportunities, they are instead raising finance against 'live' opportunities, therefore resulting in a reduction in the amount of raised yet unallocated capital.

Q2 2024: Acquisition Strategy (next 12 months) - Q-o-Q



Acquisition and Asset Management Strategy

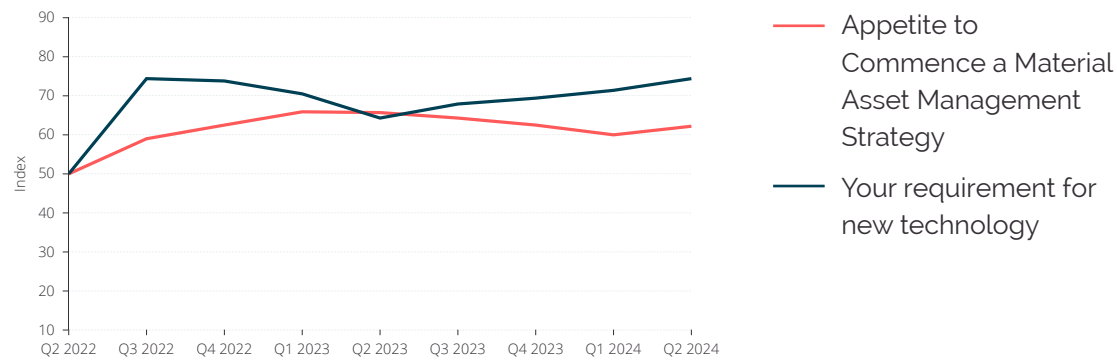
The index score for the appetite to commence a material asset management strategy remained relatively stable this quarter at 62.2, increasing by 2.2 pts against Q1 2024.

Although this strategy seemed to be on an unstoppable upward trajectory this time last year, by now, many asset managers have burned through their matches and according to our '5 big challenges for asset managers in 2024' the key challenges include top and bottom line growth, customer perceptions catching up to hotel pricing and decisions around the timing of deployment of capital, which is becoming essential for products which have not seen investment since pre-pandemic.

For hotel owners and operator, the Splendid Hospitality Group, the time to invest is now and with a £232m club loan from OakNorth, the group will invest in future capex works, including a 76-bedroom extension of Hilton London Bankside based in Southwark.

The investment in tech to streamline operations continues apace, illustrated by hospitality cloud provider Mews recently announcing they have raised an additional \$110m of funding.

Asset Management Strategy (next 12 months)



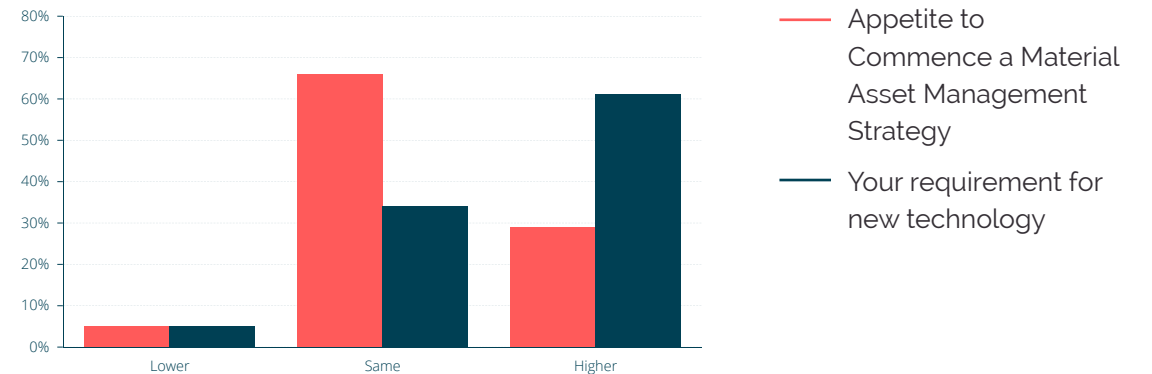
The index score for the application of ESG within an asset management strategy remained resolute at 78.0 in Q2 2024, following a 0.9 pts increase.

Hospitality Investor Snapshot

The appetite for new technology from our investor panel is continuing to grow, hitting a new height at an index score of 74.4.

Alongside tech contributing to enhance hotel value through operational efficiency, with PMS platforms like Mews, prop-tech platforms are becoming more widely used to streamline site searches, conduct site analysis, and assess project viability. These tools not only help in cost reduction but also enable resources to be focused on projects with the highest potential for success.

Q2 2024: Asset Management Strategy (next 12 months) - Q-o-Q



Pricing

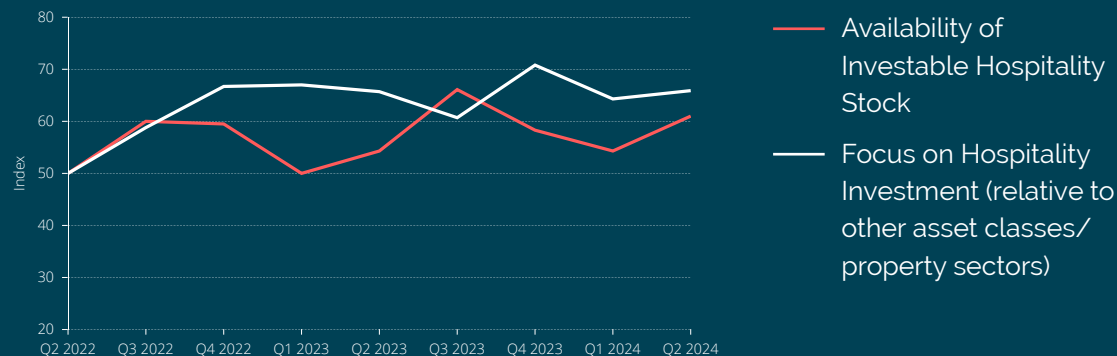
According to our investor panel, the index score for the availability of investable hospitality stock has recovered this quarter, to increase by 6.7 pts to 61.0.

Whilst there was an expectation that 2024 will see an increase in the availability of investable hospitality stock due a significant level of distressed stock coming to the market with a requirement for refinancing, this has yet to play out.

The recent increase may have been spurred by heightened trading activity in the market and falling capital costs, providing brokers with the opportunity to leverage this momentum. This has prompted sellers who have been sitting on the fence for some time, to now take another look.

The general easing in market conditions has also resulted in the index score for the time to close a deal falling to its lowest level since Q3 2022, at 63.4, further to a 9.4 pts drop.

Investment Supply and Demand (next 12 months)



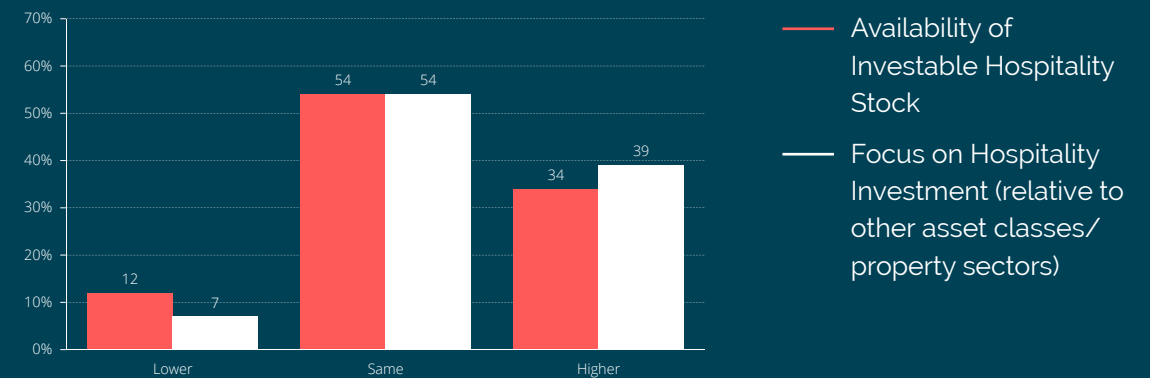
Hospitality Investor Snapshot

The sentiment score for the focus on hospitality investment (relative to other asset classes/property sectors), has remained relatively stable at 65.9, following a minor increase of 1.6 pts.

For Vincent Mezard, global head of living & hospitality at AXA Investment Managers, hospitality remains a strong hedge, and a fortunate industry and asset class.

Speaking at IHIF, he suggests that with hotels *“never going through the extremes of yield compression that we saw in offices and residential; we have these strong, structural tailwinds post-Covid; there is still capital available, and transactions are happening – there is equity out there.”*

Q2 2024: Investment Supply and Demand (next 12 months) - Q-o-Q



Pricing

Unsurprisingly, the recent uptick in activity in the hotel investment market in early 2024, has resulted in a sharp increase in the index score for the competition to acquire hospitality investment opportunities (+4.8 pts) as well as the price of hospitality investment opportunities (+11.2 pts).

The big moves so far this year, by Starwood Capital and Hilton in particular, have got pulses racing, hinting that their wading into the market might signal a pivotal moment in the cycle. If these key players are calling the bottom of the market with values at their greatest strain, others taking their lead could see the floodgates finally open.

An uptick in the competition to acquire and price of opportunities may also be coupled with major investment firms gearing up for action, including Schroders Capital committing an initial £100m to a dedicated UK Operating Hotels strategy.

With an overall score of 60.2, the index's momentum towards positive territory has quickened. Our investor audience's sentiment has been lifted by the sustained growth in market performance, along with notable landmark transactions which have fuelled their optimism for what lies ahead in 2024.

Investment Pricing (next 12 months)



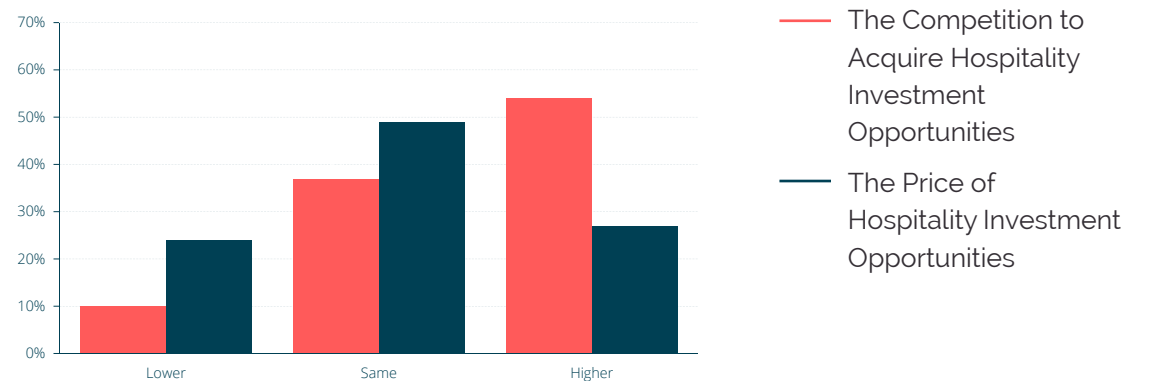
Hospitality Investor Snapshot

Just over a decade after Hilton's IPO on the NYSE, despite nearly doubling its global property and room count and significantly expanding its brand portfolio, there had been no brand acquisitions.

However, in just a few short weeks at the beginning of 2024, Hilton made significant moves by acquiring a majority controlling interest in Sydell Group, known for creating the NoMad and The Ned hotel concepts, and purchasing the Graduate Hotels brand for \$210 million from Adventurous Journeys Capital Partners.

These substantial acquisitions in the lifestyle sector are clear indication of the direction of travel Hilton is expecting in the hotel market over the next few years.

Q2 2024: Investment Pricing (next 12 months) - Q-o-Q



Appendix: Table of Results

The following table presents the full index results for all survey questions.

Index Score	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
Your confidence in leisure accommodation demand growth (next 12-months)	62.5	45.0	46.6	58.6	55.4	44.4	50.0	57.3
Your confidence in corporate accommodation demand growth (next 12-months)	68.8	40.5	59.1	61.4	48.2	52.8	50.0	64.6
Your confidence in long-term total accommodation demand growth (through the cycle)	70.0	64.3	67.0	71.4	69.6	65.3	80.0	76.8
Your confidence in total revenue growth (next 12-months)	72.5	40.5	48.9	57.1	62.5	43.1	51.4	65.9
Your confidence in profitability growth (next 12-months)	41.3	21.4	23.9	41.4	33.9	30.6	40.0	52.4
Your investment focus on urban markets	58.8	59.5	61.4	61.4	55.4	66.7	64.3	64.6
Your investment focus on resort markets	50.0	59.5	46.6	48.6	51.8	45.8	51.4	50.0
Your investment focus on development	32.5	23.8	27.3	35.7	35.7	33.3	40.0	50.0
Your investment focus on alternative accommodation types (extended-stay, hostels, co-living, etc.)	58.8	57.1	62.5	64.3	55.4	55.6	61.4	58.5
Your investment focus on full-service hotels	43.8	45.2	44.3	57.1	50.0	51.4	58.6	56.1
Your investment focus on limited-service hotels	60.3	61.9	61.4	55.7	50.0	58.3	51.4	58.5
Your expected hospitality investment returns	56.3	57.5	62.5	64.3	62.5	63.9	65.7	59.8
Your appetite for risk	40.0	45.2	46.6	48.6	55.4	55.6	60.0	58.5
Your focus on hospitality investment (relative to other asset classes/property sectors)	58.8	66.7	67.0	65.7	60.7	70.8	64.3	65.9
Your unallocated capital to invest in hospitality (dry powder)	62.5	57.1	65.9	62.9	55.4	58.3	58.6	52.4
The availability of investable hospitality stock	60.0	59.5	50.0	54.3	66.1	58.3	54.3	61.0

Appendix: Table of Results

The following table presents the full index results for all survey questions.

Index Score	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
The competition to acquire hospitality investment opportunities	66.7	38.1	46.6	61.4	55.4	56.9	67.1	72.0
The time to close a deal	60.0	73.8	64.8	77.1	75.0	79.2	72.9	63.4
Your appetite to commence a material asset management strategy	59.0	62.5	65.9	65.7	64.3	62.5	60.0	62.2
The application of ESG within your asset management strategy	85.0	73.8	80.7	81.4	82.1	77.8	77.1	78.0
Your anticipated hold period	53.8	54.8	53.4	55.7	51.8	55.6	55.7	56.1
Your hurdle rate (total costs of capital)	67.5	76.2	76.1	77.1	76.8	70.8	72.9	64.6
Your use of leverage	43.8	33.3	42.0	30.0	41.1	37.5	47.1	52.4
The price of debt (margin)	92.3	92.9	93.2	84.3	82.1	77.8	61.4	43.9
The price of hospitality investment opportunities	43.6	28.6	37.5	44.3	37.5	26.4	40.0	51.2
Your requirement for brokerage services	47.4	50.0	42.0	48.6	44.6	51.4	51.4	50.0
Your requirement for valuation/advisory services	59.0	47.6	55.7	50.0	50.0	48.6	55.7	57.3
Your requirement for legal services	55.1	50.0	53.4	52.9	51.8	52.8	54.3	53.7
Your requirement for a new brand/operating partner	59.0	61.9	53.4	55.7	53.6	55.6	54.3	52.4
Your requirement for architecture/design services	50.0	45.0	45.5	54.3	50.0	58.3	48.6	52.4
Your requirement for new technology	74.4	73.8	70.5	64.3	67.9	69.4	71.4	74.4
Questex Investor Intention Index Overall Score (weighted)	51.0	44.3	48.2	51.9	51.2	49.5	52.9	60.2

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