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Hospitality

Hospitality Investor Sentiment Index

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

RESULTS FOR Q3 2024



Executive Summary

According to our proprietary Hospitality Investor Sentiment Index, in Q3 2024, the sentiment of our equity investors has maintained a position of **OPTIMISM** about the hospitality sector.

The overall index score hit 62.9 this quarter, reflecting continued upward momentum.

However, it is noteworthy that this rise was largely driven by the increasingly favourable sentiment of our investor panel towards the stability of the financial markets, rather than any significant improvement in the index scores associated with hotel demand or operating performance.

The long term trend continues to shift from a position of volatility to one of stability. However, **as fiscal tensions ease and the number of well-positioned buyers continues to grow, the competition for opportunities in the relatively sparse market has intensified.**

The overall survey score for Q3 2024 has increased by 2.8 pts to 62.9, which is once again the highest recorded since the survey was relaunched almost two years ago.

The adjacent table presents the key indicators from Q3 2024. An index score above 50 indicates positive sentiment and below 50 indicates negative sentiment.

Patrick Whyte

Positive Key Indicators	Index Score Q3 2024 v Q2 2024		Negative Key Indicators	Index Score Q3 2024 v Q2 2024	
	Q3 2024	Change		Q3 2024	Change
Your expected hospitality returns	67.2	+7.4pts	Your confidence in long-term total accommodation demand growth (through the cycle)	70.3	-6.5pts
Your unallocated capital to invest in hospitality (dry powder)	70.3	+17.9pts	Your confidence in profitability growth (next 12 months)	48.4	-4.0pts
The time to close a deal	59.4	-4.0pts	Your investment focus on development	35.9	-14.1pts
Your investment focus on alternative accommodation types (extended-stay, hostels, co-living, etc.)	65.6	+7.1pts	The availability of investable stock	53.1	-7.9pts

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

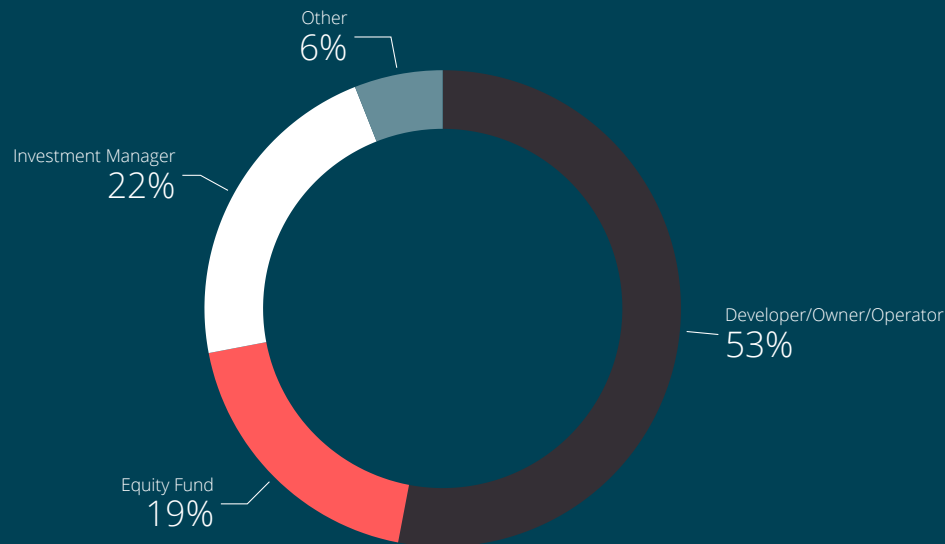
Our respondents are senior decision makers representing the leading investment firms across the world. The diverse representation from an investment and geographical perspective is reflective of the ownership/investment structure of the market and supports the validity of the results.

For this survey, we have seen engagement from large institutional investors and diversified real estate players, who each have an appetite for a deeper understanding of what can be expected in the market as we enter an active period for dealmakers.

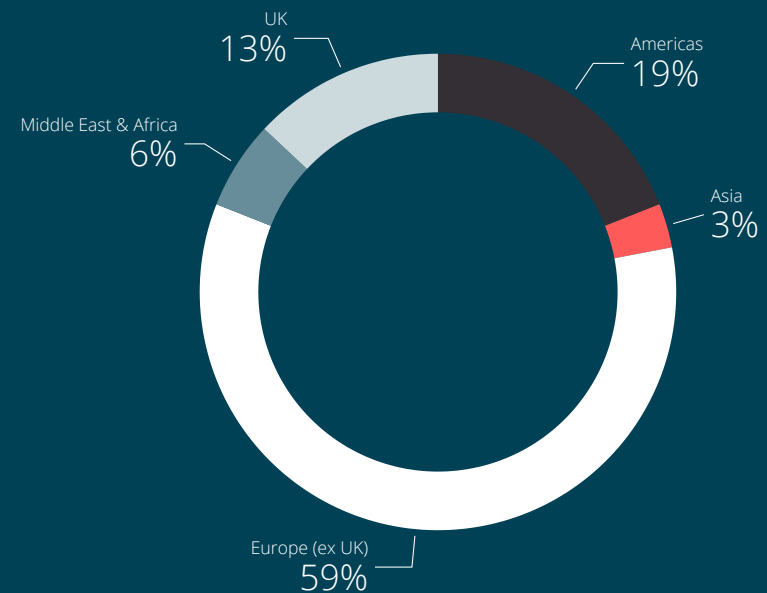
We have seen an extraordinary level of engagement from our global audience for our Q3 2024 survey, with an ongoing robust response rate as 2024 continues to prove to be a year of recovery for the segment, with further significant moves by major stakeholders in the industry.

This quarter, the survey saw engagement from investors in the Americas (19%), Asia (3%), Middle East & Africa (6%), the UK (13%), as well as Europe (ex UK) (59%), demonstrating the international, cross-border nature of hospitality investment.

What best describes your organisation?



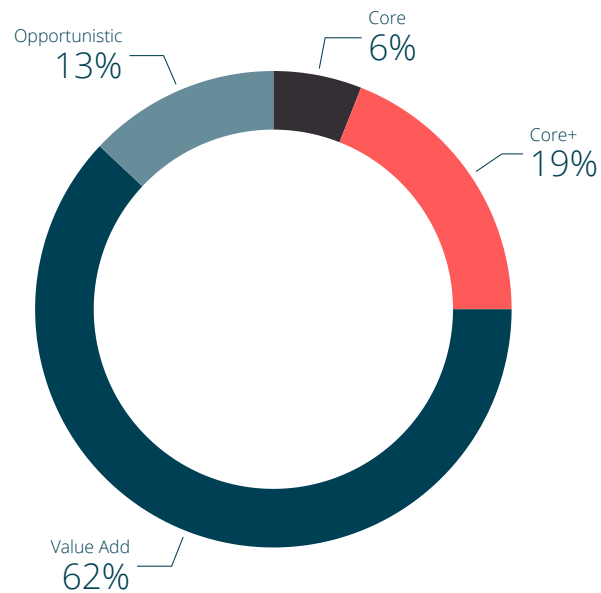
From where does your capital predominantly originate?



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 Q3 2024 comprised 25% 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.

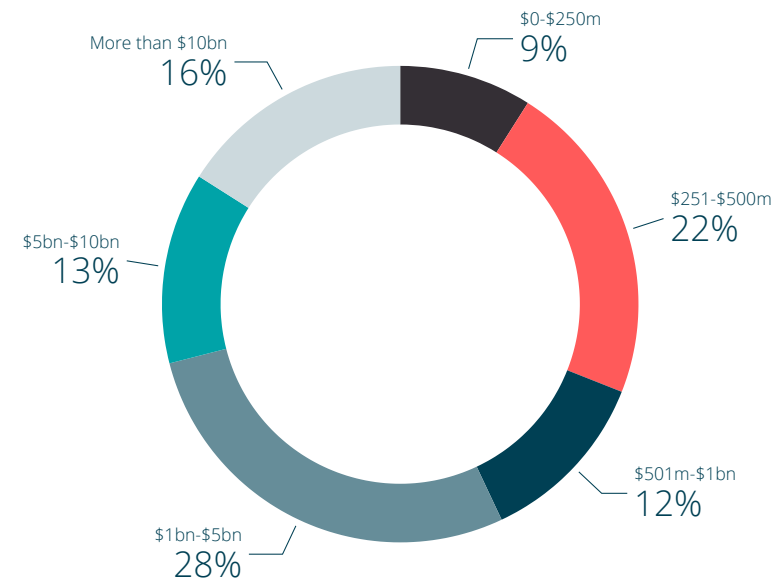
What best describes your investment strategy?



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 56% of investors having allocated over \$1bn in Real Estate, of which 16% have more than \$10bn invested.

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



Consumer Demand

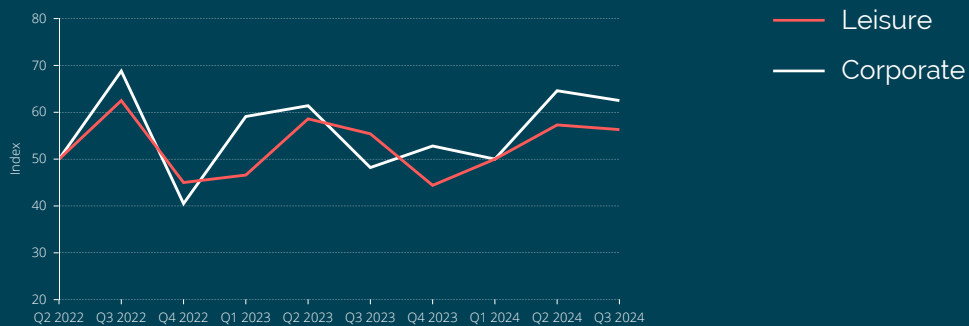
The index score for the confidence of our investor audience in growth in accommodation demand over the next 12 months took a hit in both the corporate (-1.1 pts) and leisure (-2.1 pts) segments this period.

That said, in both measures, the index score remains above the average since the survey relaunched in Q3 2022 and the slight downward movement is, arguably, more a reflection of our investor audience anticipating a more muted level of growth over the next year, when compared to the substantial growth/recovery we have become accustomed to post-pandemic.

In addition to the drop in the outlook on demand in the short term, the confidence of our investor panel in long-term accommodation demand (through the cycle) has now fallen for the second period in a row, to 70.8 pts, with a cumulative decline of 9.7 pts since Q1 2024.

However, this measure also remains in positive territory, suggesting a reasonable level of sustained growth is anticipated.

Your confidence in demand growth (next 12-months)



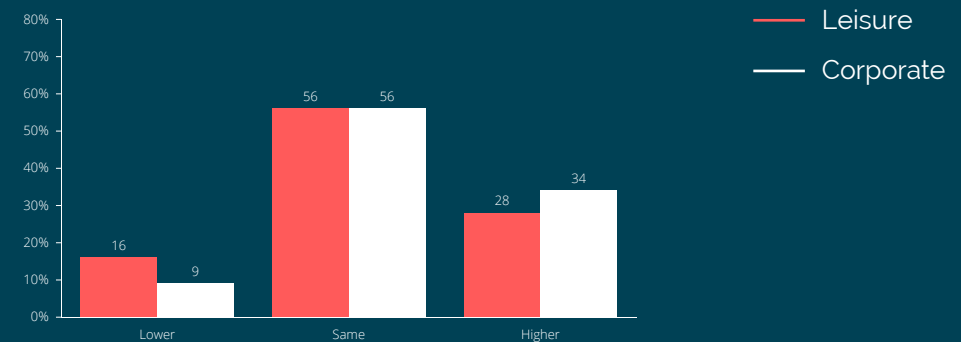
QUESTEX – ONE BIG QUESTION

For this quarter’s survey, we asked our investor panel “to what extent they think major regional elections will impact their investment strategy in 2024?”

Most respondents anticipated no significant impact on their investment strategy. However, a minority expressed concerns about short-term effects on corporate demand, evolving interest rates, potential changes in fiscal and hotel policies, and short-term market volatility.

Although the UK elections largely met expectations, with power now resting with the socially liberal and fiscally sensible left, the prolonged resolution of a fragmented and paralysed French parliament could impact the functioning of the wider European Union. Meanwhile, the political situation in the US remains precarious.

Q3 2024: Your confidence in demand growth (next 12-months) - Q-o-Q



Operational Performance

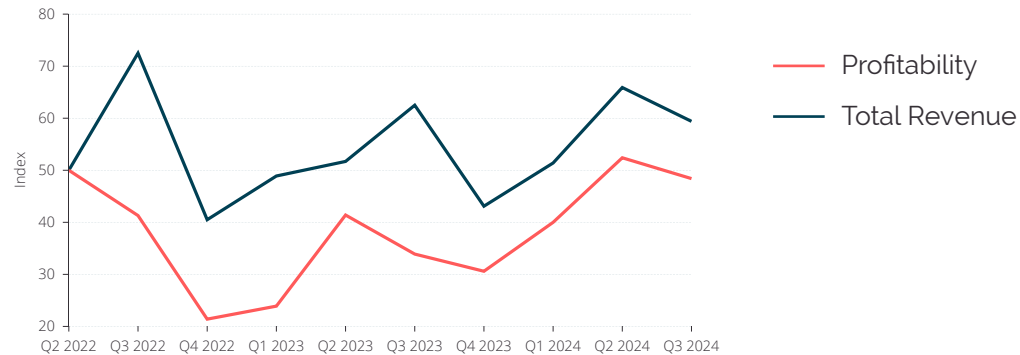
In contrast to the positive growth in investor confidence in revenue and profit since the beginning of the year, Q3 2024 saw a slight decline in these measures.

For the outlook in revenue growth, this meant a 6.5 pts decline in the index score to 59.4, albeit this measure remains in positive territory. And after a period of strong growth in recent years, this sentiment is justifiable with a backdrop of falling inflation and the already punchy post-pandemic price increases.

While the index score for profit showed positive growth in Q2 2024, it fell by 4.0 points to 48.4 in Q3.

Despite the previously volatile cost of goods and energy now stabilising, payroll continues to put significant pressure on the bottom line. In the UK, this is due to substantial increases in the National Minimum Wage, while in the US, hotel companies are grappling with strike action as workers demand higher wages and better workplace conditions.

Your confidence in performance growth (next 12 months)



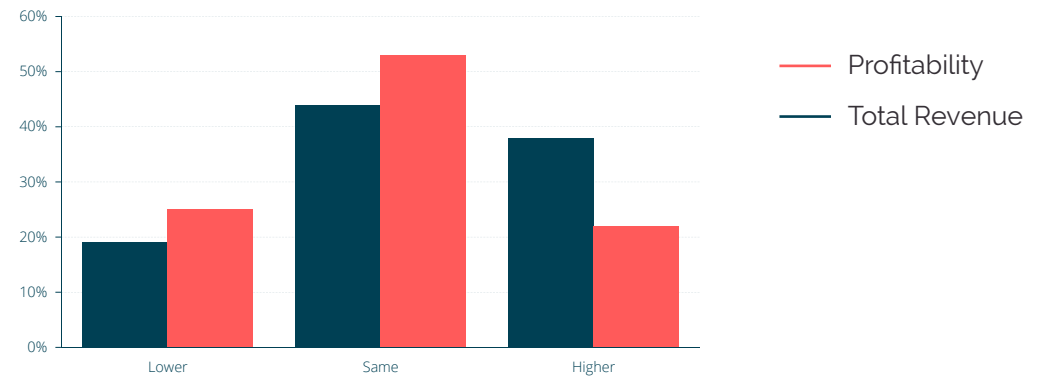
QUESTEX SNAPSHOT

The muted view of our investor audience on hotel top and bottom line performance is mirrored in the outlook of the experts, with STR recently downgrading their forecasts for RevPAR growth in the U.S. to 2% in 2024, and 2.6% year in 2025, which is compared to its previous forecast which projected 4.1% growth in 2024 and 3.5% in 2025.

According to STR President Amanda Hite, higher cost of living is impacting lower-to-middle-income households' ability to travel, which is lessening demand for hotels in the lower price tier, and increasing operating expenses, impacting hotel profit margins.

Despite this, demand remains healthy at upscale to luxury tiers.

Q3 2024: Your confidence in performance growth (next 12 months) - Q-o-Q



Investment Focus

For Q3 2024, the focus of our investor panel has flipped from urban investments to resort led opportunities as leisure led locations continue perform well.

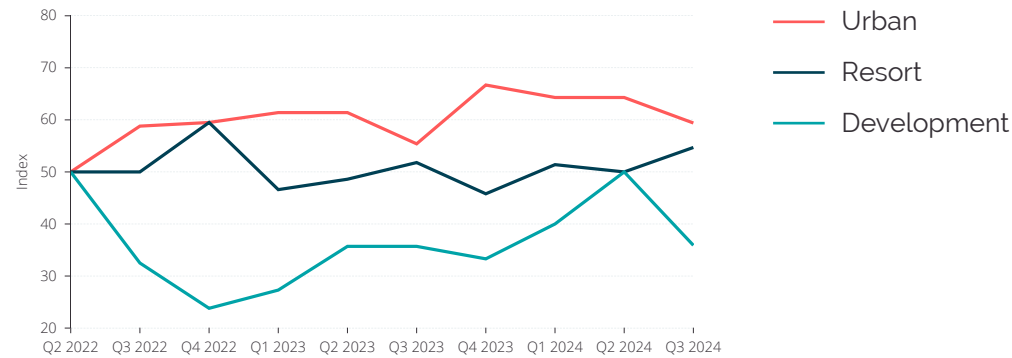
Despite the outlook for corporate demand remaining relatively stalwart, the index score for the focus on urban markets has dropped by 5.3 pts this quarter to 59.4.

In contrast, the index score for the focus on resort developments has increased by 4.7 pts to 54.7, which is only slightly below its peak recorded in Q4 2022.

This sentiment is reflected in the growing investment interest in Southeastern Europe, where countries like Albania offer significant development opportunities, bolstered by a projected 67% increase in tourist arrivals from 2019 to 2030, according to Tourism Economics.

Greece and Croatia also offer significant opportunities, especially in the upscale segment, as evidenced by Valamar Riviera's recent announcement of a €450 million investment cycle, which includes the development of a 500-key five-star resort.

Your investment focus (next 12 months)



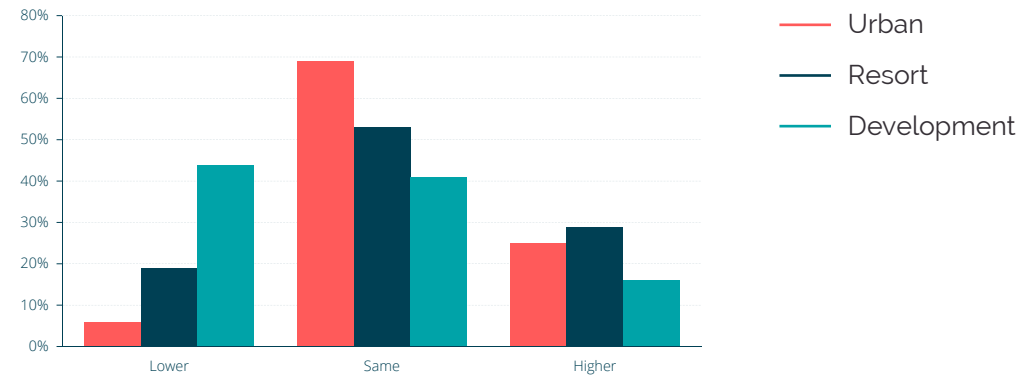
QUESTEX SNAPSHOT

After peaking in Q2 2024, the index score for development opportunities has declined by 14.1 points to 35.9 in Q3 2024, as the focus shifts from construction to a renewed emphasis on conversions.

This is echoed in Marriott's recent announcement of Project Mid-T, which will focus on conversion opportunities across the U.S. and Canada, targeting the middle tier segment and offering a fast and affordable alternative to new construction.

Meanwhile, in Europe, by the end of 2026, Marriott plan to add nearly 100 properties and over 12,000 rooms to its portfolio through hotel conversions and adaptive reuse projects, primarily through their Four Points Express by Sheraton brand.

Q3 2024: Your investment focus (next 12 months) - Q-o-Q



Investment Demand and Supply

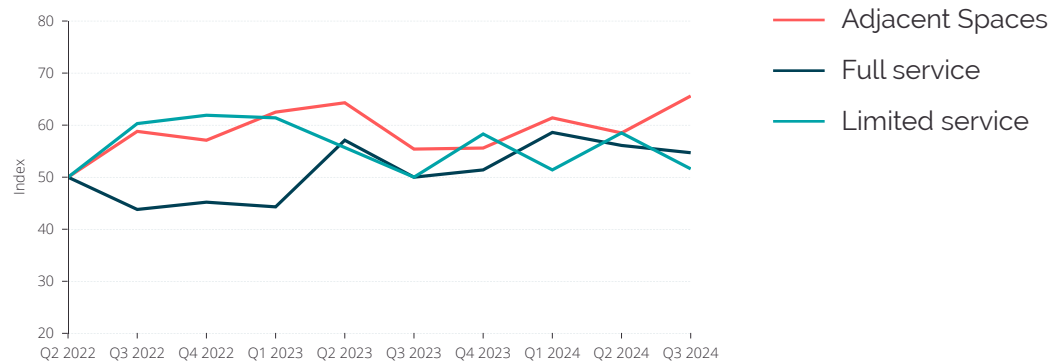
For the second consecutive month, the focus of our investor audience on full-service hotels has dropped and whilst still above the long-term average and in positive territory, the score has now dropped to 54.7 in Q3 2024.

Furthermore, the index score for limited-service hotels has decreased by 7.0 points to 51.6, indicating that the post-pandemic trend of flight to value for hotel consumers may have ended.

This is in stark contrast to the focus on alternative accommodation types (extended-stay, hostels, co-living, etc.), which hit an index score high of 65.6 in Q3 2024, as investors seek new and more innovative investment opportunities.

There are plenty of concepts ready to be deployed into the market, but according to Jarkko Harmala, development at VALO Hotel & Work, a hybrid bedroom and office concept, "the capital is always a challenge; finding the right partners to share what we are doing and believe in the story."

Your investment focus (next 12 months)



QUESTEX SNAPSHOT

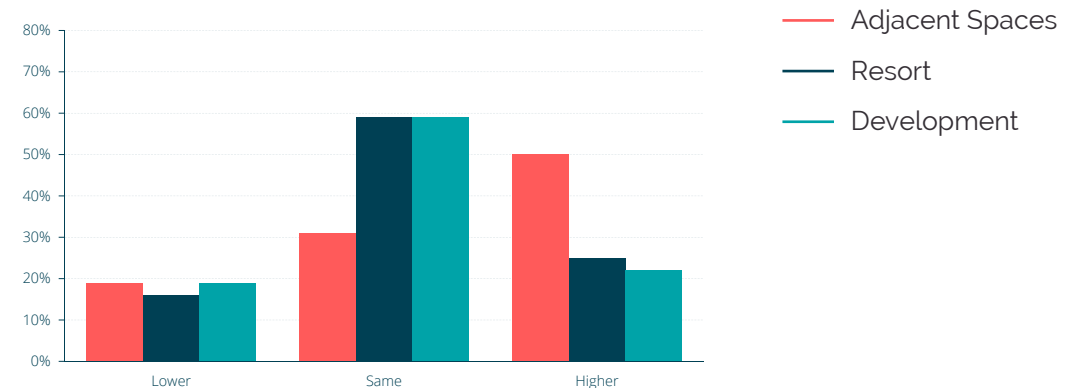
Despite the index score dropping by 3.9 points in the last two periods, the luxury lifestyle sector remains strong in an otherwise challenged full-service hotel investment market.

Last quarter it was Hilton, but for Q3 2024, Accor are leading the way.

Their activity has not only included a move to acquire luxury hospitality company Our Habitas, which has roots in the Burning Man Festival, via their Ennismore vehicle; but Accor and luxury hotel brand LVMH have also entered into a strategic partnership to accelerate the development of the Orient Express brand.

These strategic moves by Accor, and others, align with the growing trend of "slow luxury" where high-net-worth individuals prefer more immersive, slow-paced travel experiences that emphasise quality over quantity.

Q3 2024: Your investment focus (next 12 months) - Q-o-Q



Acquisition and Asset Management Strategy

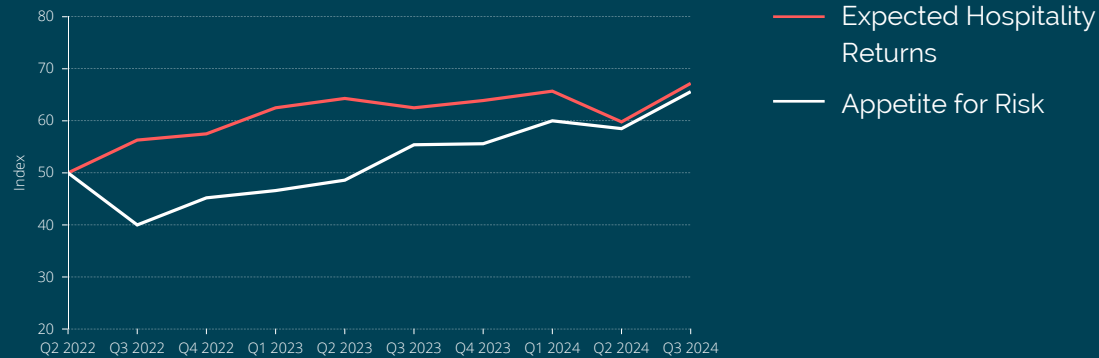
The expected hospitality investment returns for our investor panel hit an index score high of 67.2 this quarter, further to a 7.4 pts increase.

In line with the uplift in expected hospitality returns, the index score for the appetite for risk increased by 7.1 pts in Q3 2024 to reach 65.5, also a high score.

The increase in these two measures is a clear illustration of the confidence of our investor audience in the hospitality market, which is in spite of the mixed views on demand and operating performance.

On a regional level, members of our investor council with capital originating in the UK are the most pessimistic about hospitality returns, with 25% expecting lower returns. In contrast, 100% of our panel from other regions, including Europe, anticipate their returns to remain the same or improve.

Acquisition and Asset Management Strategy (next 12 months)



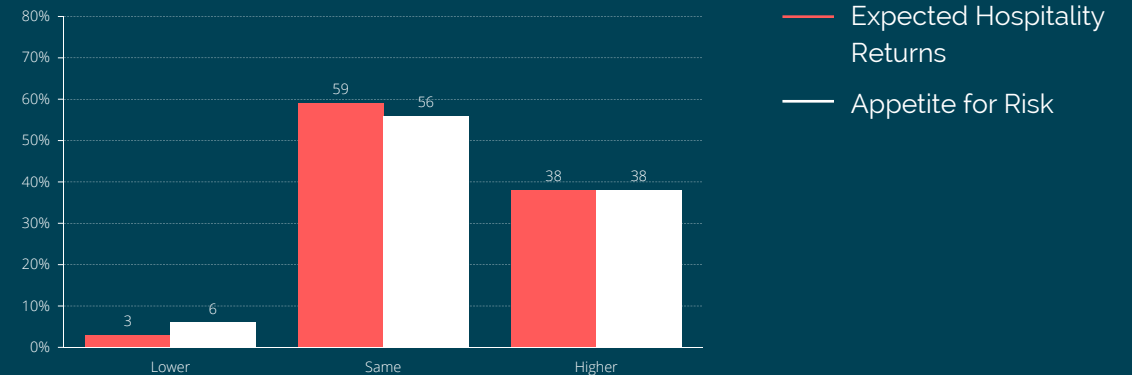
QUESTEX SNAPSHOT

The uplift in the expected hospitality returns is in line with the increasing use of debt, with the index score for the use of leverage increasing by a further 6.9 pts this quarter to hit 59.4.

This increase from an index score low of just 30.0 in Q2 2023 is significant, but unsurprising, as highlighted by Joe Delli Santi, chief investment officer of MCR, an easing in the debt market has made a huge contribution to the growing confidence in returns with "a debt market that is now fully cooperating."

Santi added that his company has executed deals in recent times at debt costs in which "many debt funds are willing to lend into any transaction. And with a bid-ask spread which is narrowing between buyers and sellers and comparable to pre-Covid spread levels."

Q3 2024: Acquisition and Asset Management Strategy (next 12 months) - Q-o-Q



Acquisition and Asset Management Strategy

The index score for unallocated capital available to deploy in hospitality (dry powder) showed one of the most significant growth levels among all key measures this month, rising by 17.9 points to 70.3.

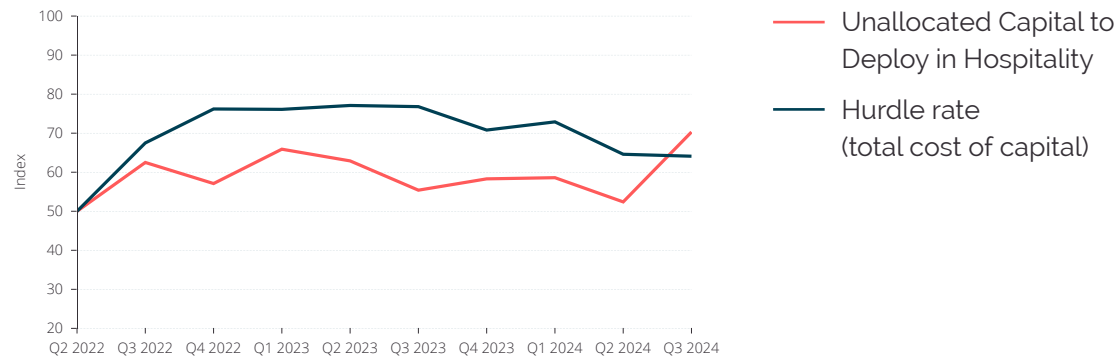
Further to the decline in this measure in Q2 2024, this growth indicates a renewed confidence in in, and strong demand for, investments in the hospitality sector.

This is no better illustrated that with Covivio Hotels successful issuing of a €500 million green bond with a nine-year maturity, which was nearly four times oversubscribed.

The proceeds of the issue will be used to finance or refinance the company's portfolio of eligible green hotels, contributing to the company's sustainability goals and strengthening its balance sheet.

A contributing factor to the ongoing drop in the hurdle rate is the clarity on debt, which has greatly improved over the last 12 months. This is reflected in the index score for the price of debt, which has made another significant downward drop, by 11.1 pts to hit 32.8.

Acquisition Strategy (next 12 months)

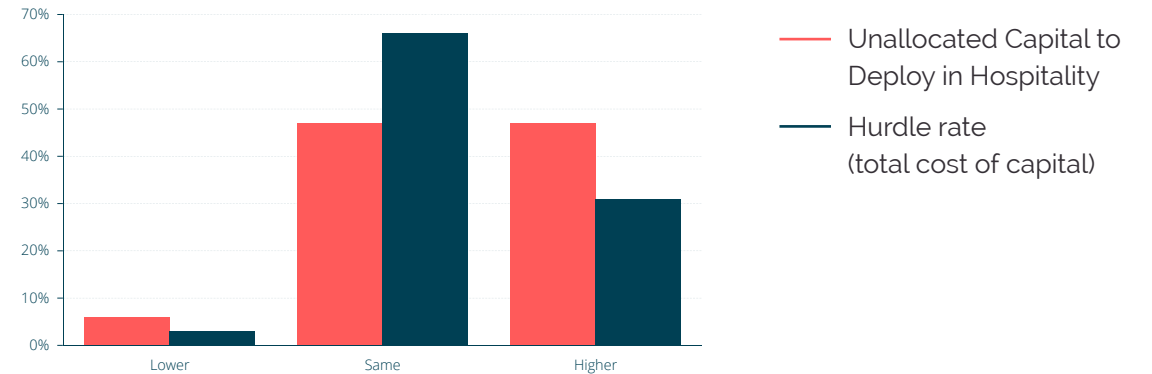


QUESTEX SNAPSHOT

The hurdle rate for our investor panel has further declined this quarter, decreasing by 0.6 points to an index score of 64.1, with responses pointing to a period of stability.

For Sean Gormley, managing director at Morgan Stanley, now is as good a time as any to invest in the hospitality sector as he suggests that *“rates have certainly gapped out on an overall basis relative to 36 months ago, but on a historical basis it's attractive. I think there's an expectation that it's going to be at this level - maybe a little bit tighter - for a period of time.”*

Q3 2024: Acquisition Strategy (next 12 months) - Q-o-Q



Acquisition and Asset Management Strategy

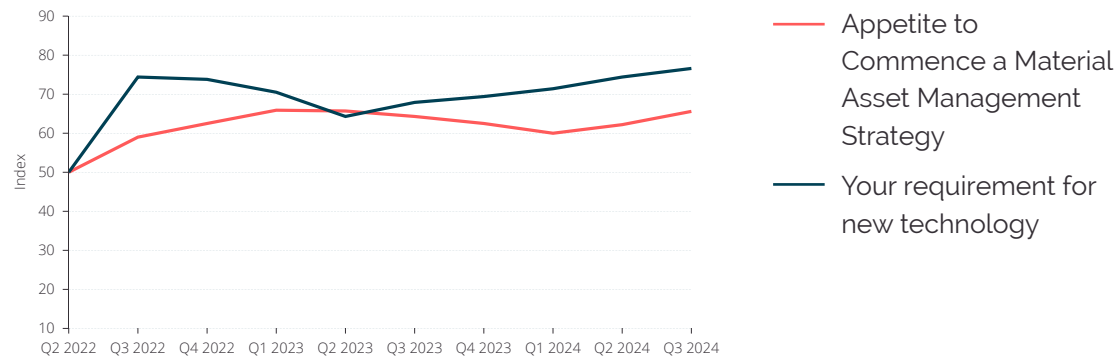
After falling out of favour earlier this year, the index score for the appetite to initiate a material asset management strategy increased by 3.4 points this quarter to 65.6, bringing it close to the previous high of 65.9 in Q1 2023.

As development ideas have been placed on the back burner, conversion and asset management strategies are coming to the forefront once again.

According to Neil Kirk, COO at L&R Hotels, asset management continues to offer significant opportunities to drive profits. He notes that the relationship between hotel owners and operators has evolved over the years—from hotel brands owning hotels 10, 15, or 20 years ago, to the rise of third-party owners, and now to a sophisticated ownership model where hotels are viewed as a specialty asset. This relationship will likely continue to evolve.

The index score for the application of ESG within an asset management strategy continued its upward march to hit 82.8 in Q3 2024, following a further 4.8 pts increase.

Asset Management Strategy (next 12 months)

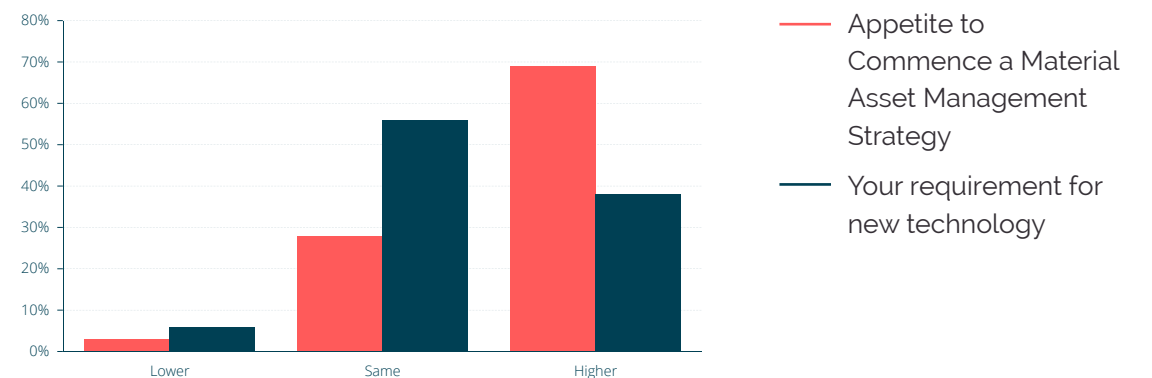


QUESTEX SNAPSHOT

The demand for new technology from our investor panel is high, with the index score hitting 76.6 this quarter, further to an additional 2.2 pts increase.

And whilst major tech companies are finally recognising the benefits of allowing hardware to be used in hotel operations, with Google Wallet finally adding digital hotel key card support to its functionality; for Accor, their recently announced partnership with Amadeus is focused on maximising the benefits of software, with the intention of boosting revenues, maximising distribution strategies, and building deeper and more personalised connections with guests.

Q3 2024: Asset Management Strategy (next 12 months) - Q-o-Q



Pricing

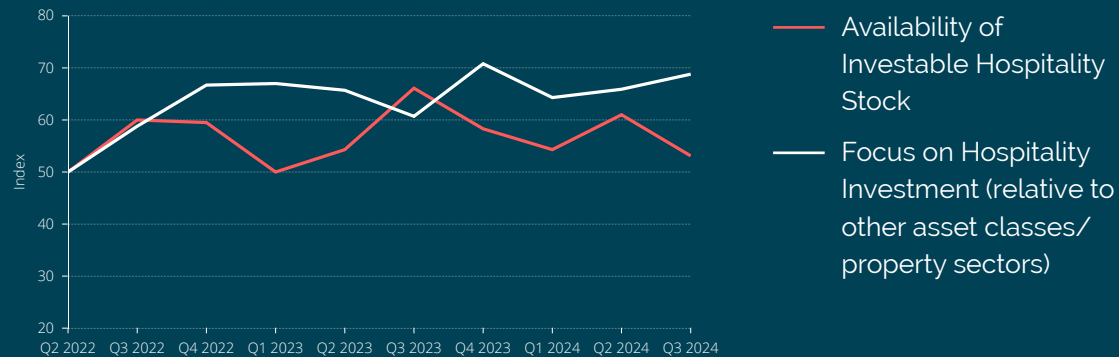
The increasingly positive conditions for investment have meant that the index score for the focus on hospitality investment (relative to other asset classes/property sectors) has continued to grow to hit 68.8 in Q3 2024.

Despite the lack of positive sentiment from our investor panel regarding future demand and performance, the investment proposition in the hospitality sector continues to be highly favourable. Growing stability in financial markets more than mitigates any risks related to hotel operating performance.

This is further supported by the index score for the time to close a deal, which has fallen to its lowest level since the survey was relaunched post-pandemic.

At 59.4, following a 4.0 pts quarter-on-quarter drop, this measure is now almost 20.0 pts below Q4 2023, when investor frustrations were at an all time high.

Investment Supply and Demand (next 12 months)



QUESTEX SNAPSHOT

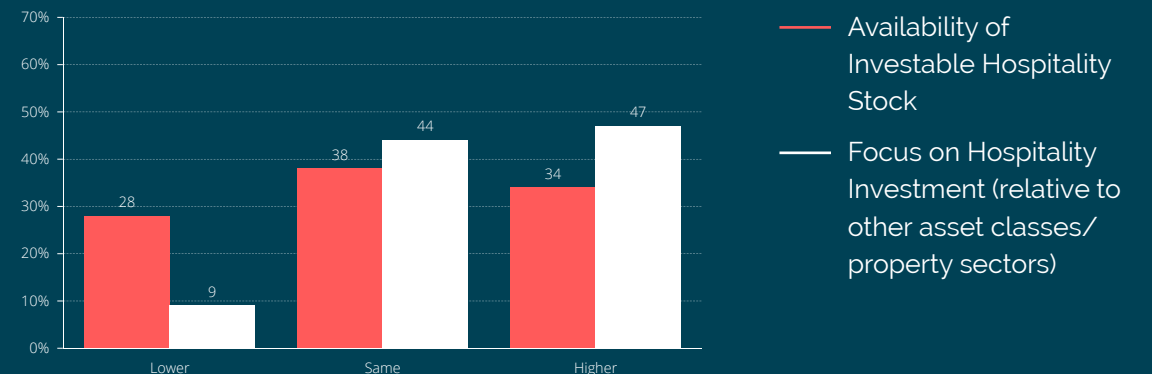
The index score for the availability of investable hospitality stock has fallen this quarter, by 7.9 pts to just 53.1.

However, a recent report from JLL suggests this measure is likely to increase significantly by the end of the year as their research suggests that, in the U.S alone, \$5.8 billion worth of securitised loans will come due for repayment later this year, requiring full payment, refinancing, extension or a sale.

As a result of a number of financial stressors, including high interest rates, according to the report by JLL, c.70% of the maturing loans coming due for repayment are in "critical stress," which means that these loans will be unable to "generate sufficient net operating income to meet their debt obligations."

Whilst this research is U.S. specific, this is likely to be a trend with a global reach.

Q3 2024: Investment Supply and Demand (next 12 months) - Q-o-Q



Pricing

As a result of the ongoing increase in market activity, the inextricably linked measures of competition and price have both seen a notable increase this quarter.

The index score for the competition to acquire hospitality investment opportunities increased by 6.2 pts to 78.1 in Q3 2024, meanwhile, the price of hospitality investment opportunities, increased by 8.2 pts to 59.4.

The tension in the market is no better illustrated than by private equity firms KKR, CVC and PAI Partners all lining up to table offers to purchase B&B Hotels from Goldman Sachs for a guide price of €3.5 billion.

The current list price is c.84% above the 2019 purchase price of €1.9 billion, which is reflective of the increased demand levels as much as any growth in the size of the portfolio or uplift in operating performance.

QUESTEX SNAPSHOT

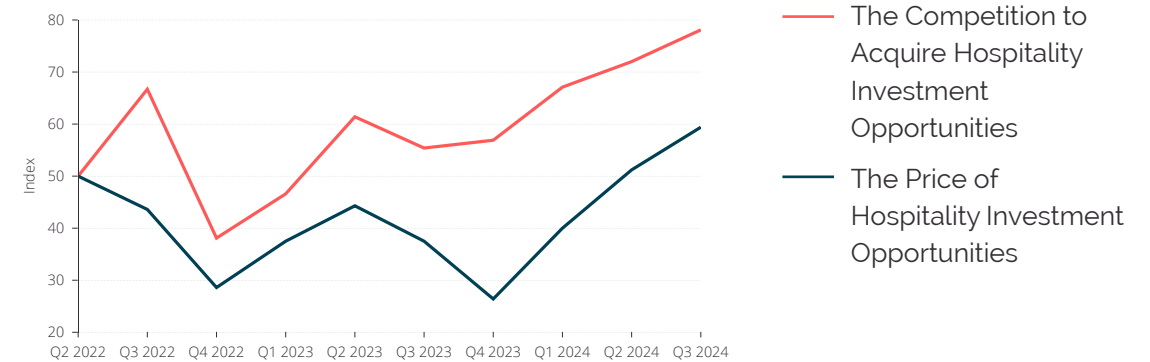
Further to the uptick in activity in previous quarters with Starwood and Hilton leading the way, a number of major transactions this period focused around KSL Capital Partners disposing of assets.

In addition to Blackstone acquiring the Village Hotels portfolio in the UK, Leonardo Hotels entered into a purchase agreement to acquire the Zien Group and its 12 hotels in the Netherlands from affiliates of KSL Capital Partners, as well as its partner Garden Capital Group.

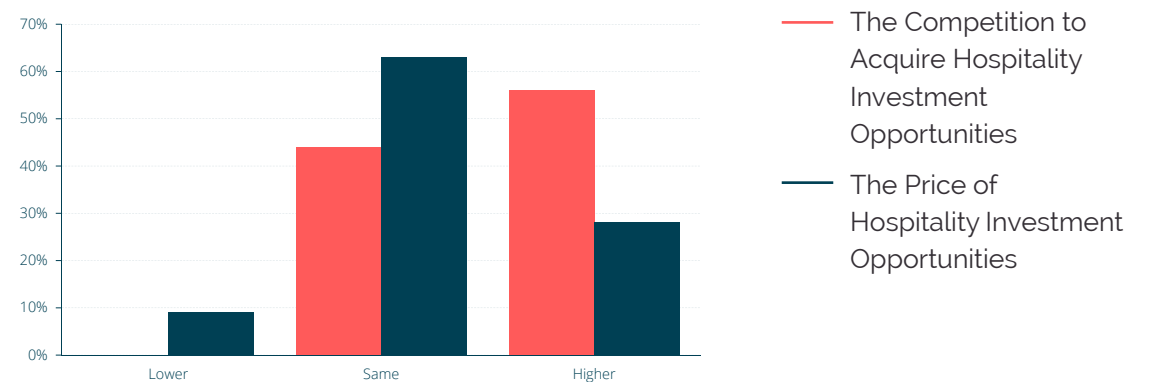
According to Savills, in the UK, investment transactions reached an estimated £3.08 billion in the first half of 2024, which is 35% up on full year 2023. Additionally, volumes are almost double the H1 average seen since 2020.

The overall index score hit 62.9 this quarter, reflecting onward and upward momentum. However, it is notable that the overall index score was almost entirely driven by the increasingly favourable sentiment of our investor panel on the stability of the financial markets rather than any uplift in the scores relating to hotel demand and operating performance.

Investment Pricing (next 12 months)



Q3 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	Q3 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	56.3
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	62.5
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	70.3
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	59.4
Your confidence in profitability growth (next 12-months)	41.3	21.4	23.9	41.4	33.9	30.6	40.0	52.4	48.4
Your investment focus on urban markets	58.8	59.5	61.4	61.4	55.4	66.7	64.3	64.6	59.4
Your investment focus on resort markets	50.0	59.5	46.6	48.6	51.8	45.8	51.4	50.0	54.7
Your investment focus on development	32.5	23.8	27.3	35.7	35.7	33.3	40.0	50.0	35.9
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	65.6
Your investment focus on full-service hotels	43.8	45.2	44.3	57.1	50.0	51.4	58.6	56.1	54.7
Your investment focus on limited-service hotels	60.3	61.9	61.4	55.7	50.0	58.3	51.4	58.5	51.6
Your expected hospitality investment returns	56.3	57.5	62.5	64.3	62.5	63.9	65.7	59.8	67.2
Your appetite for risk	40.0	45.2	46.6	48.6	55.4	55.6	60.0	58.5	65.6
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	68.8
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	70.3
The availability of investable hospitality stock	60.0	59.5	50.0	54.3	66.1	58.3	54.3	61.0	53.1

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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	Q3 2024
The competition to acquire hospitality investment opportunities	66.7	38.1	46.6	61.4	55.4	56.9	67.1	72.0	78.1
The time to close a deal	60.0	73.8	64.8	77.1	75.0	79.2	72.9	63.4	59.4
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	65.6
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	82.8
Your anticipated hold period	53.8	54.8	53.4	55.7	51.8	55.6	55.7	56.1	51.6
Your hurdle rate (total costs of capital)	67.5	76.2	76.1	77.1	76.8	70.8	72.9	64.6	64.1
Your use of leverage	43.8	33.3	42.0	30.0	41.1	37.5	47.1	52.4	59.4
The price of debt (margin)	92.3	92.9	93.2	84.3	82.1	77.8	61.4	43.9	32.8
The price of hospitality investment opportunities	43.6	28.6	37.5	44.3	37.5	26.4	40.0	51.2	59.4
Your requirement for brokerage services	47.4	50.0	42.0	48.6	44.6	51.4	51.4	50.0	43.8
Your requirement for valuation/advisory services	59.0	47.6	55.7	50.0	50.0	48.6	55.7	57.3	53.1
Your requirement for legal services	55.1	50.0	53.4	52.9	51.8	52.8	54.3	53.7	54.7
Your requirement for a new brand/operating partner	59.0	61.9	53.4	55.7	53.6	55.6	54.3	52.4	50.0
Your requirement for architecture/design services	50.0	45.0	45.5	54.3	50.0	58.3	48.6	52.4	53.1
Your requirement for new technology	74.4	73.8	70.5	64.3	67.9	69.4	71.4	74.4	76.6
Questex Investor Intention Index Overall Score (weighted)	51.0	44.3	48.2	51.9	51.2	49.5	52.9	60.2	62.9

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Contacts



Alexi Khajavi

President, Hospitality & Travel
Questex
akhajavi@questex.com



Joe Stather

Market Leader
Questex Operational Real Estate
jstather@questex.com



Patrick Whyte

Editor in Chief
Hospitality Investor
pwhyte@questex.com



Julie Rey-Gore

Content Director
Questex Operational Real Estate
jreygore@questex.com



Kirsty Joynson

Marketing Director
Questex Operational Real Estate
kjoynson@questex.com