

THE PROPERTY REPORT

Hotels see beyond real estate

Sites go on market as chains seek cash to fund expansion

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Europe's hotel sector is wooing investors as operators put properties up for sale to fund expansion into emerging markets such as Asia and South America.

"Owners see operating hotels as their core business, not owning the real-estate assets," says Stewart Coggans, a director in real-estate advisory firm Cushman & Wakefield's Central and Eastern European hotel team in Prague. "They are selling hotels and leasing them back, using the capital raised to fund expansion into other markets."

U.S. hotel companies over the past decade also have been selling their real-estate holdings and recycling capital into their brands and management expertise. Franchising and managing hotels have higher profit margins than the capital-intensive real-estate business.

One European hotel operator taking this approach is French chain Accor SA. Last week, it

agreed to sell 72 hotels in Germany and 19 in the Netherlands to London-based real-estate group Moor Park Capital Partners LLP for €863 million (\$1.14 billion), including a €43 million renovation project. The Novotel, Mercure, Ibis and Etap Hotel properties in the portfolio represent 12,000 rooms. Accor will continue to operate the hotels under 12-year, variable-rent leases.

The sale is part of Accor's strategy of selling some properties in more mature markets to fund expansion in emerging markets, such as China, India and Brazil, says Accor Chief Executive Gilles Pélisson.

"We intend to sell another €1.9 billion of hotel assets in countries such as France, Spain and Germany by the end of 2008," he says. This follows Accor's disposal of about €3.2 billion in hotel assets since mid-2005.

For Moor Park, the Accor acquisition is part of its strategy of acquiring real-estate assets that are not part of companies' core business, such as leisure properties, says Jagdeep Kapoor, one of Moor Park's three founding partners.

"In the hotel sector, we focus on budget hotels because we think they are typically recession-proof," he said, adding, "We are interested

in Germany, as these acquisitions show, because we think that assets there are undervalued at the moment, which creates good investment opportunities. We expect to invest at least another €2 billion in European real estate this year."

Accor's portfolio wasn't the only sizeable sale this month. Hilton Hotels Corp. sold its Scandic Hotels AB chain to Northern European private-equity firm EQT for around €833 million.

And there are other assets on the market. Hilton International, the international arm of Hilton Hotels, is in the process of selling a pan-European portfolio of 10 hotels, in countries including Germany, France and Spain.

A sale is likely to go through by the end of the second quarter, says London-based Mark Wynne Smith, the European chief executive of Jones Lang LaSalle Hotels, which is advising on the sale.

So far this year, 36 hotel properties including the Accor and Hilton transactions have been sold across Europe, with a total value of €4.61 billion. That includes €1.91 billion of sales in the U.K. and €1.86 billion in pan-European portfolio sales of properties in several countries, according to Jones Lang LaSalle Hotels, the hotel arm of real-estate ad-

Hotels for sale

European hotel sales, by country

COUNTRY	2006 VOLUME, IN BILLIONS OF EUROS	2005 VOLUME
U.K.	€13.61	€6.49
Pan-European*	3.81	0.62
Germany	2.01	0.79
France	1.16	3.87
Spain	0.94	0.50
Italy	0.61	0.34
Ireland	0.33	0.54
Finland	0.31	n/a
Czech Republic	0.15	0.13
Netherlands	0.10	0.04

*Refers to hotel portfolio sales that included properties in several countries.

Note: Includes sales of €10 million and above; excludes Hilton Hotel Corp.'s February 2006 acquisition of the lodging assets of Hilton International for €4.83 billion (or €3.3 billion)

Source: Jones Lang LaSalle Hotels

visory firm Jones Lang LaSalle.

Hotel properties in the U.K., particularly London, Paris and Amsterdam are popular with investors because they attract tourists and business travelers alike, says Martin Armitstead, head of hospitality in Europe, the Middle East and Africa at advisory firm DTZ Holdings PLC in London.

Investors who are willing to take on more risk in the hope of getting higher returns are likely to target hotel properties in cities such as Istanbul and Ankara in Turkey or

Russia's capital city Moscow, he says.

Yields for hotel properties in London are typically around 4.5%, compared with between 8% and 10% in Istanbul and Moscow, according to DTZ. (The yield is the annual percentage return, expressed as the ratio of annual net income to the capital value of a property.)

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contributed to this article.

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