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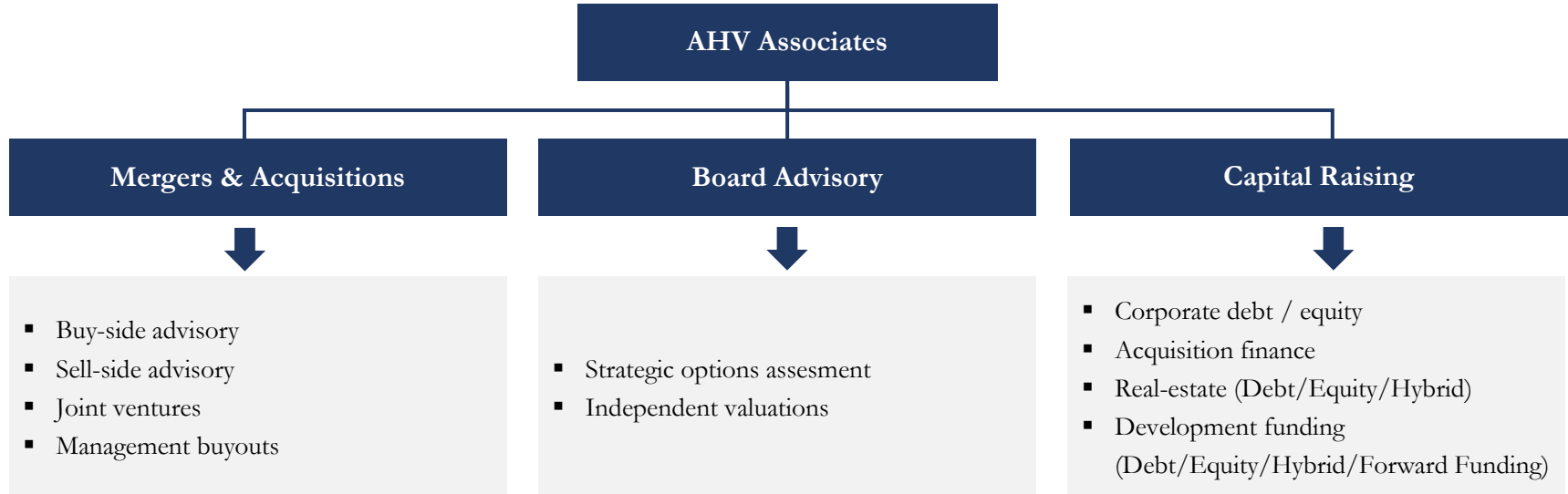
*Hospitality M&A and Capital Raising Specialists*

Investment Dynamics and Activity in the Living Sector

October 2024

# AHV Associates – An Introduction

Co-founded in 2001 by Andrew Harrington, AHV Associates LLP (‘AHV’) is an award-winning boutique investment bank focused on advising private companies across a range of M&A and advisory assignments



AHV specializes in hospitality and has worked with companies that own and/or operate hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts



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# An Introduction to the Operational Living Real Estate Sector

## Definition

- Operational living real estate involves proactively managing properties that offer customised services and amenities to tenants/clients
- The owner generally has direct exposure to the risks and rewards of the operational activities, via direct ownership of the operating company, management contracts or hybrid leases
- The business model often requires adequate scale to ensure size economies, client affordability and hence business viability

## Differences with Traditional Real Estate

- Traditional real estate relies primarily on rent, with direct exposure to tenant(s)'s financial covenant quality, economic and credit market conditions
- Living real estate focusses on creating an enhanced and more versatile product to a targeted group, and ancillary services which open up additional revenue streams. As the owner has a business-type P&L exposure, asset management style is more active, requiring enhanced skills and larger reliance on operators' ability to deliver.
- Owner's compensation comes in the form of enhanced expected yields and total investment returns

## Sub-sectors



(Apart)Hotels & Serviced Apartments



BTR



PBSA



Senior-Living



Co-Living

# Key Investor Trends in the Operational Living Real Estate Sector

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## 48% of Investors

are looking to increase allocation to the Living sector over the next 3 years

EU Investors identify **UK & Ireland** as the top Investment location followed by **Southern Europe**

Investors aim to deploy **€64bn in EU** up until 2027

## **BTR, PBSA, Hotels/Aparthotels/S**

**As<sup>1</sup>** can expect to see capital inflows of **+€16.0bn, +€12.1bn and +€12.0bn** respectively up until 2027

Investors are **now seeking higher returns**, with 25% of investors looking at **Opportunistic strategies**, up from just 10% in 2023

Investors identify **cost of finance and availability of operational stock** as the biggest challenges to invest in the living sector

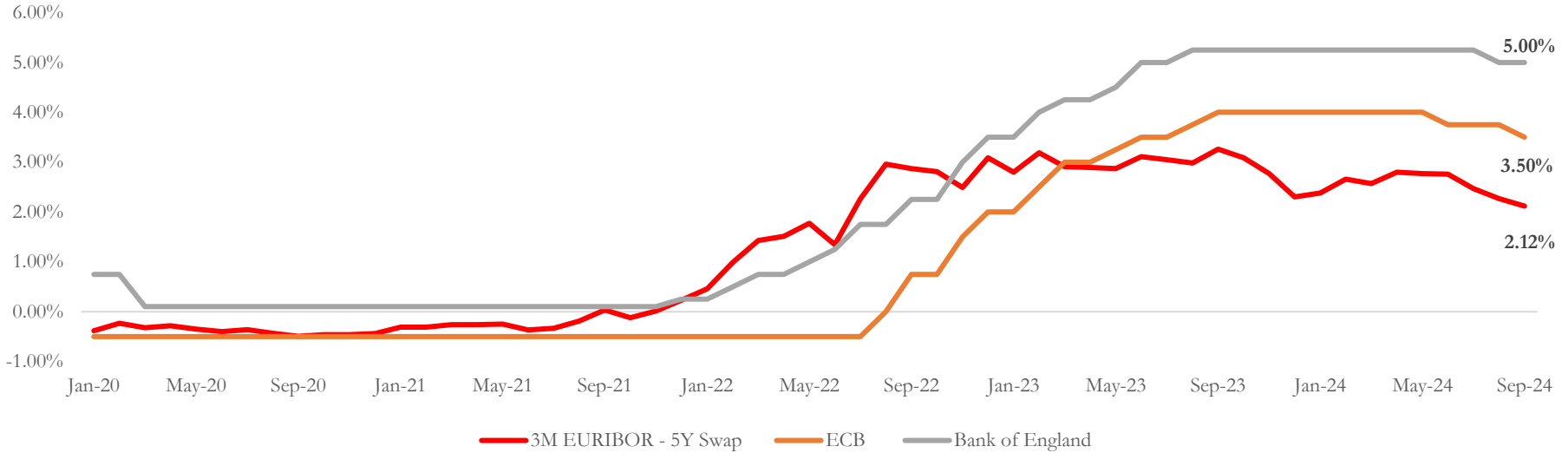
Source(s): Savills Research, Knight Frank and Press

<sup>1</sup>Serviced Apartments

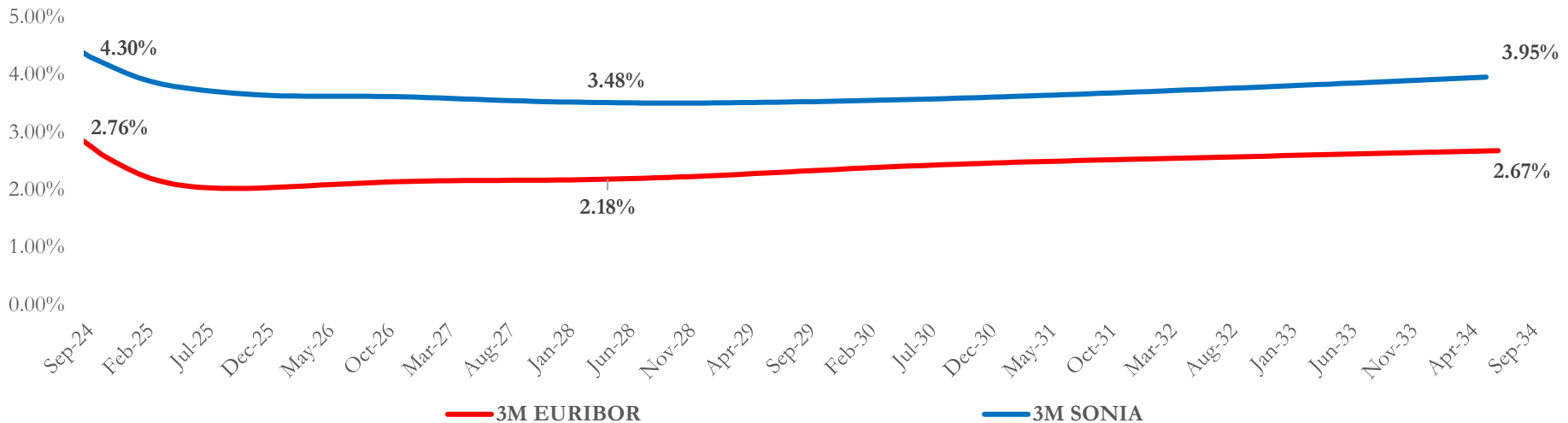
# Debt Capital Markets

The cost of debt has risen significantly in recent years, but a shift towards dovish monetary policy and forward curves indicating interest rate cuts across major economies suggest that rates will gradually decline over the next five years, creating a more favourable borrowing environment

## Benchmark Rates



## Forward Curves



Source(s): Chatham Financial, BoE, ECB

<sup>1</sup>ECB rate refers to the deposit facility rate

# Aparthotels & Serviced Apartments – Why is it attractive?

## Product Differentiation

- Taps on unmet demand for a specialised product

## Flexibility

- These properties provide versatile options for both leisure and business travellers, catering to a wide range of customer preferences, allowing them to compete with hotels and Airbnb

## Rising Demand

- Increasing global mobility and leisure pursuits underpin the popularity of Aparthotels and serviced apartments
- Demand for serviced apartments is rising due to stricter regulations on Airbnb and the growth of "bleisure" travellers – those combining business and leisure. These accommodations offer the flexibility and amenities suited for extended stays, making them an appealing alternative to hotels.

## Business Model

- Extended stay properties ensures steady revenue generation and high margins, through higher occupancy rates, longer stays (and hence lower sales costs) and lower operating costs due to lean operating structures compared to traditional full-service hotels.

## Supply Growth Potential

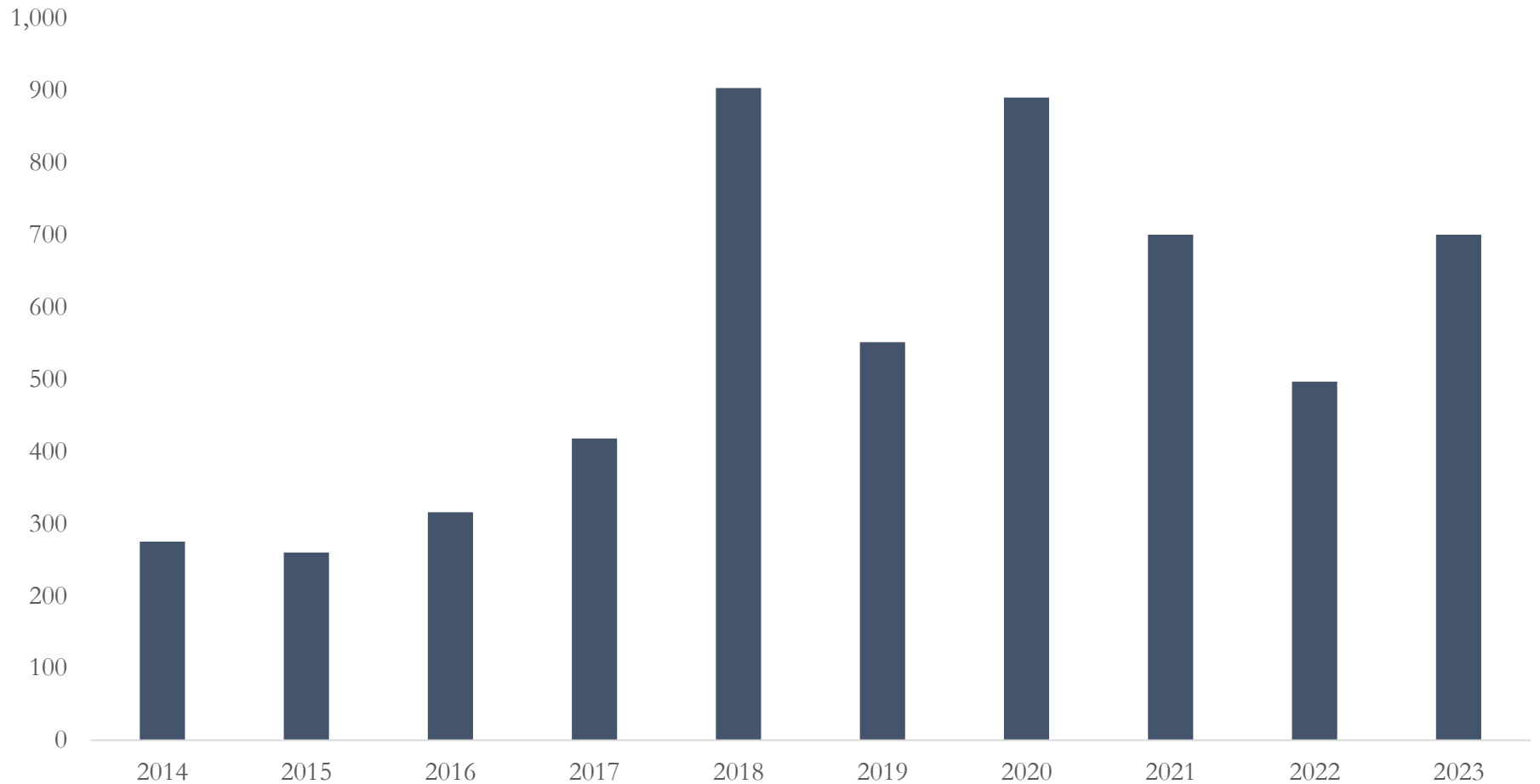
- There is a supply-shortage of aparthotels and serviced apartments to meet the growing travellers' demand and a large percentage of future supply is currently under construction.
- Yet, the market is still small and far from a saturation point (Aparthotel/Serviced Apartment transactions form less than 1% of real estate transaction volumes) given the strong demand dynamics

## Alternative Use

- An unsuccessful aparthotel/serviced apartment operation could be easily converted into residential usage, providing solid downside protection






















# European Investment Activity in Aparthotels & Serviced Apartments (in € mn)

EU Aparthotels/Serviced Apartments investment activity approaches pre-pandemic peaks



Source: Savills

# Recent Notable Aparthotel & Serviced Apartment Transactions in Europe

Acquirer	Vendor/Target	Date	Transaction Type	Asset(s)	Location	Deal Size
		Q3-24	Portfolio Acquisition	3 Aparthotels in Central London – 503 rooms		£230m
		Q3-24	Key-Money	Brand Agreement		c.\$50m
		Q1-23	Debt Funding	Royal Angus Hotel, Birmingham (converted into a 174-bed Aparthotel)		£13.5m
		Q3-24	Real Estate Acquisition	Staybridge Suites the Hague Parliament' hotel in The Hague		Undisclosed
		Q4-23	Acquisition	100% Corporate transaction		Undisclosed
		Q3-24	Brand Acquisition	800 units		Undisclosed
		Q2-24	Portfolio Acquisition	10 Properties - 400 units		Undisclosed



# Notable Participants in the Aparthotel & Serviced Apartment sector

## Equity Investors



## Asset-light Operators



## Asset-backed Operators



Operational Real Estate

# PBSA - Why is it attractive?

## Growing International Market

- International students of particular importance as 60% of them are more likely to live in PBSA than domestic students
- The number of students in Europe is expected to grow by a further 10% between 2021/22 and 2030/31, reaching 23.5 million students. This equates to an additional two million students by 2030/31

## Excess Demand present need for supply expansion

- Total unmet demand across Europe to reach 3.2m beds, up 8% compared to 2022/23, as the PBSA pipeline fails to offset growing demand
- In total, circa €450 billion of investment is required to meet current levels of unmet student demand across 16 key European countries, current investment volume stands at c. €13bn 34 times lower

## Regulation and Tax of HMOs

- The withdrawal of HMO landlords from the private rented sector due to changing regulations and the steep rise in mortgage rates is adding to the supply shortfall
- PBSA assets in towns and cities home to top universities such as Bristol and Glasgow are best placed to benefit from this imbalance

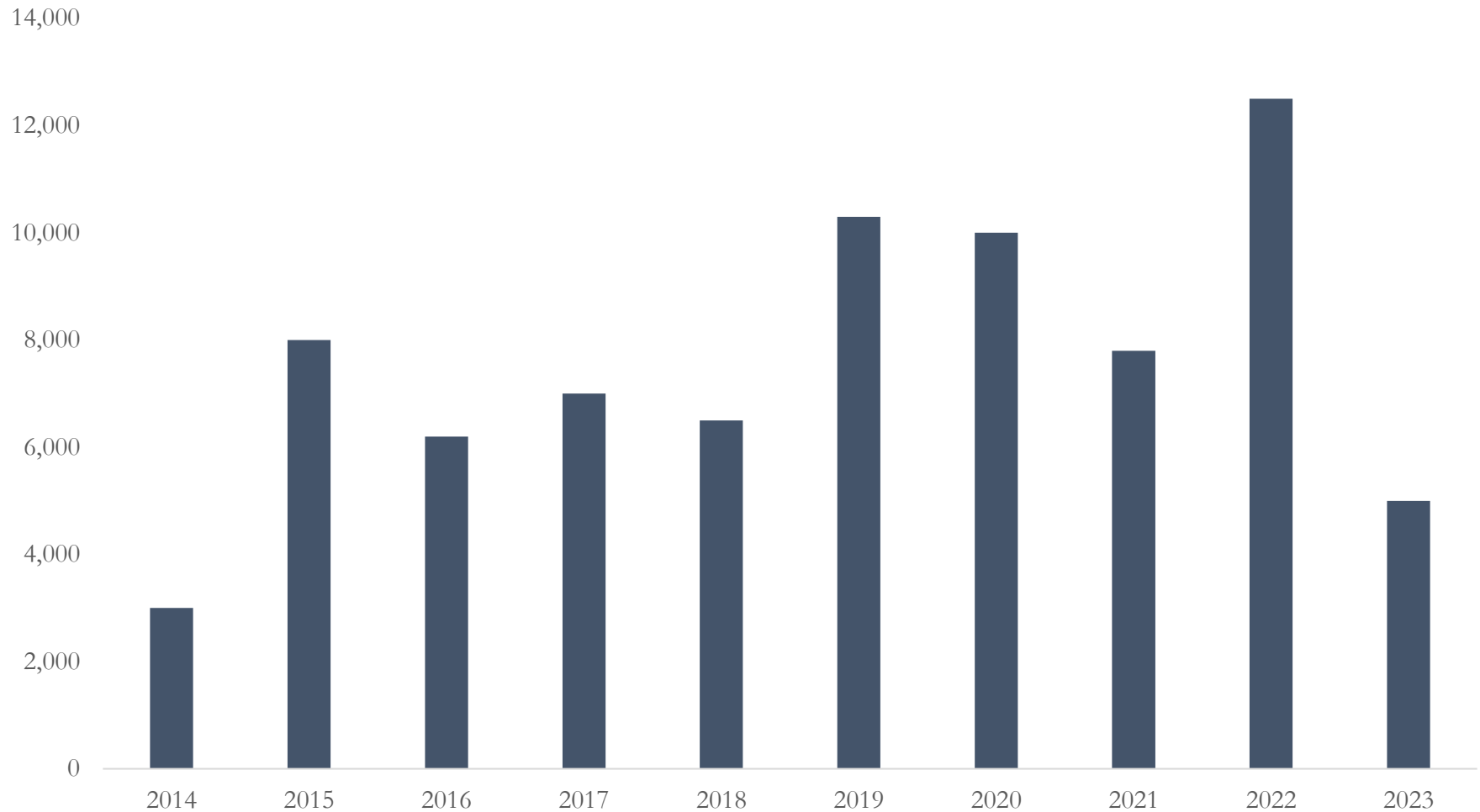
## Strong Rental Growth

- Average private PBSA annual rental growth reached 11% in 2023/24, allowing operators to absorb inflation-linked costs and keep NOI margins stable.

## Countercyclical

- Economic downturn has resulted in increasing demand for higher education
- PBSA is a good opportunity for investors to balance their portfolio with demand feeding through to high occupancy levels and resilient income streams























## European Investment Activity in PBSA (in € mn)



Institutions are increasingly turning to forward investment deals with local specialist developers due to limited available product, particularly in the most nascent markets. Between 2014 and 2018, 19% of direct European PBSA investment (ie excluding entity and land deals) was through forward funding and development transactions. In 2019-2023, that share grew to 26%, reaching 79% in Portugal

Source: JLL

## Recent Notable PBSA Transactions in Europe

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Location	Deal Size
		Q2-24	Asset-backed platform Acquisition	8,192 operational beds across 19 cities in the UK and Germany	 	£1,000m
		Q2-23	Forward Funding	1,209-bed student accommodation and co-living campus in Coventry		£160m
	 <b>Undisclosed</b>	Q1-24	Forward/Joint Venture	817 beds - 5 PBSAs in Leeds, Nottingham and Warwick		£147m
 	<b>Undisclosed</b>	Q1-24	Forward Acquisition	375 beds in London		£125m
		Q3-24	Real Estate Acquisition	1 PBSA – 282 beds in Dublin		€80m
		Q2-23	Asset Acquisition	522-bed PBSA asset in Nottingham		£68m
		Q2-24	Real Estate Acquisition	2 PBSAs-624 beds in Barcelona		Undisclosed

# Notable Participants in the PBSA Market

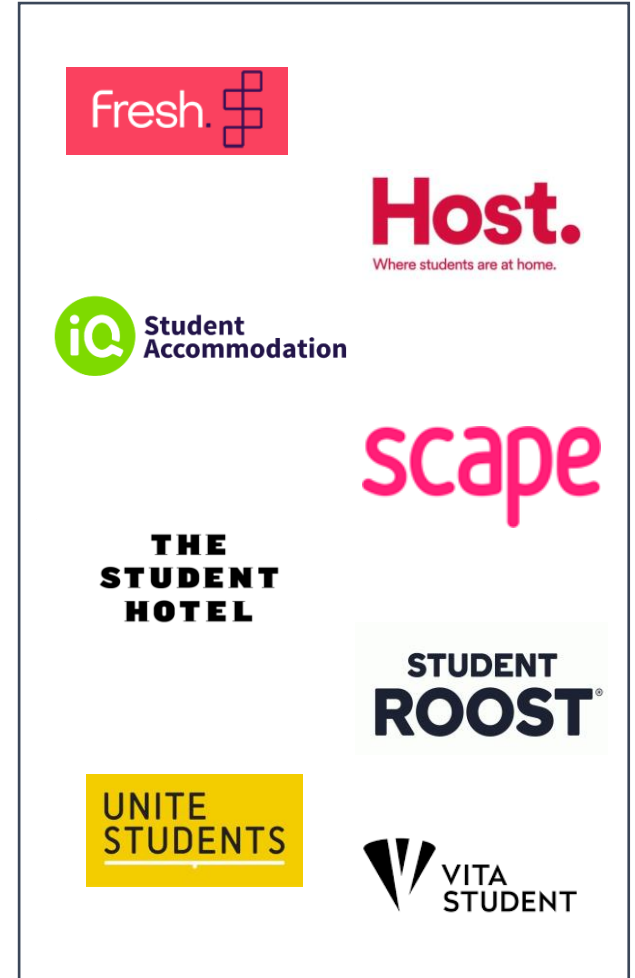
## Specialist Developers



## Equity Investors



## Branded Operators



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# Co-living - Why is it attractive?

## Increased Demand for affordable tenancy & extended stays

- Covid caused a sharp increase in demand for flexible and community led living products
- Cost of living crisis caused rental prices to skyrocket and demand for all-inclusive contracts to peak,
- Coliving is appealing to tenants who are struggling with high rents and homeownership barriers
- It's also a good option for working professionals in prime destinations like London, where high property prices make it difficult to find affordable housing and extended stay solutions.

## Specialised product

- Co-living schemes contribute to optimal utilisation of space in densely populated urban areas, and could offer one potential solution to the EU's housing shortage problem
- Balance between short-term and long-term accommodation opens up yield management opportunities and hence offers a yield premiums around 25-50 basis points against traditional residential assets, according to Invesco Real Estate

## Huge growth potential

- There has been a significant surge in co-living pipeline activity since the onset of Covid-19; a survey conducted by Savills revealed that 51% of investors plan to target co-living assets in the next three years, an increase of 13% from 2022 and the highest growth rate among all 'Living' subsectors
- European institutional investors are now considering flexible living as one of the top assets classes to invest in\*

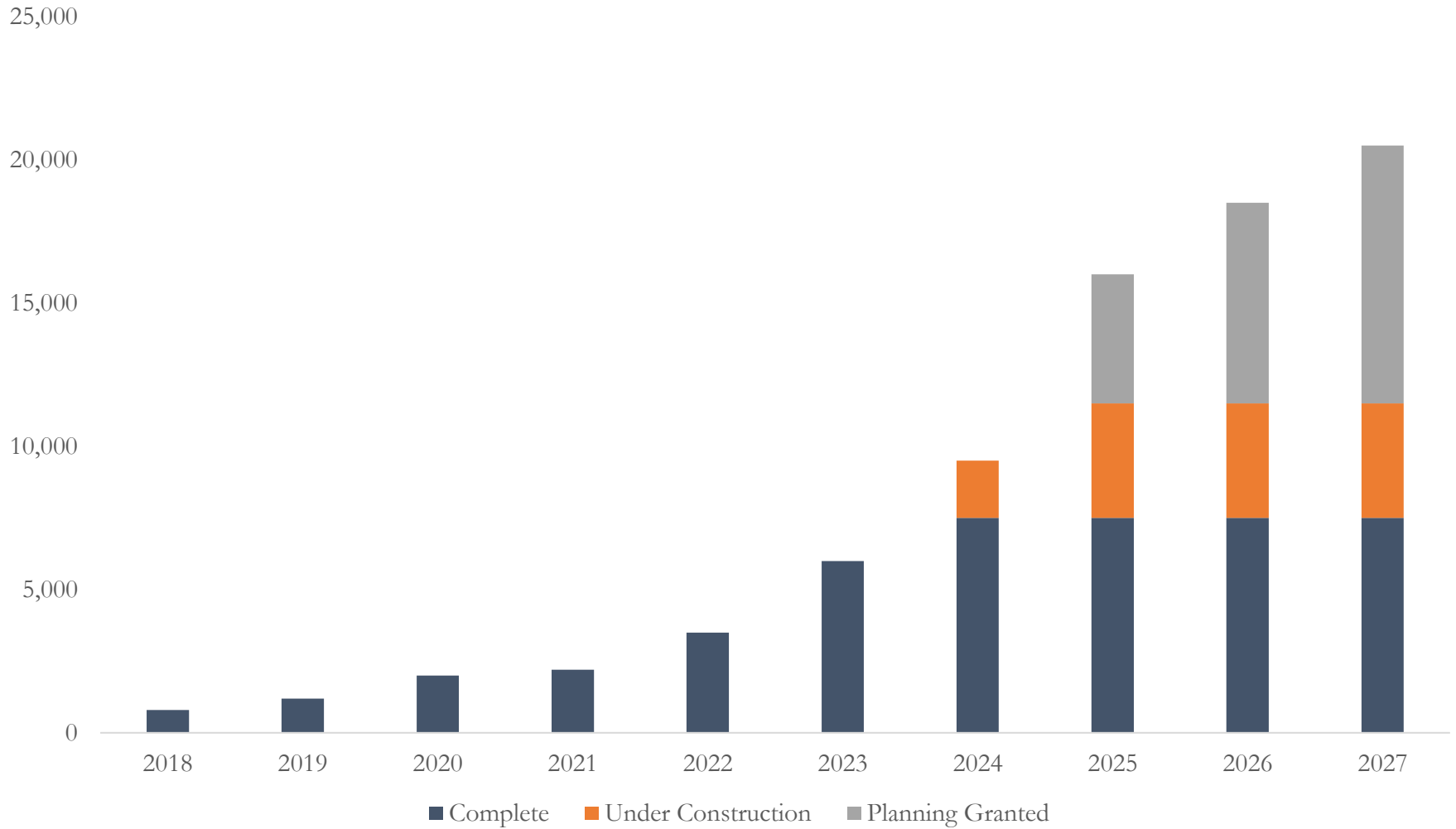
## Countercyclical demand

- Strong demand, above average residential rental growth, as the cost-of-living crisis is driving renters to choose smaller homes in and around city centers
- In London 2024 was marked by a series of planning permissions, new openings, and new market entrants

## Co-Living (UK)























The total units size of the UK's co-living sector (largest in EU) grows rapidly to tap on unmet demand on affordable and quality stay solutions

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Source: Savills

# Recent Notable Co-Living Transactions in Europe

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Location	Deal Size
 Stoneshield	 Madrid City Council	Q1-24	Land acquisition	3 plots of Land in Valdebas – 3,500 units		€500m
<b>NOMURA</b> <b>PREÇEDE</b>		Q1-23	Development Debt	1,790-unit Co-living development in Manchester		£227m
 Santander		Q3-24	Acquisition	3 Co-Living buildings in Madrid and Valencia		€100m
 CITY DEVELOPMENTS LIMITED		Q1-24	Forward funding	209-units on Wood Lane in London		£88m
 AMRO PARTNERS		Q2-23	Funding	210-unit Co-living scheme in Kingston		£80m
 re:shape	Undisclosed	Q1-24	JV-Development	3 sites in Woolwich, south east London; Bethnal Green, east London; and Watford – 1850 beds		£885m-GDV
 ADIB		Q2-24	Refinancing	270 unit Stay Club North Acton - London		Undisclosed
 BAM		Q2 24	Platform Acquisition	Undisclosed		Undisclosed



# Notable Participants in the Co-Living Market

## Specialist Developers



OLYMPIAN



## Equity Investors



WARBURG PINCUS

## Operating Platforms



re:shape



scape



Operational Real Estate

# BTR - Why is it attractive in the current market?

## Secular growth trends

- The Greater London Authority anticipates that London will grow by 700k people between 2021-31, which would result in the need for a further 500k homes
- Current average home supply levels would only meet 58% of this requirement, which should incentivize investors to capitalize on the supply-demand imbalance

## Rising house prices

- Average house prices in London have increased by 83% since 2011 whilst average gross pay has risen by a mere 24% in the same period, according to JLL
- These sky-high prices along with high mortgage rates and the end of Help to Buy will force prospective homeowners to rent instead. BTR schemes made up nearly half of new housing supply in London in 2023

## Robust rental growth

- The undersupply of housing combined with rising demand has contributed to a period of exceptionally strong rental inflation over the last 2 years
- JLL estimates an annual Y-o-Y rental growth of +8.3% from Q2-2024 to Q2 2023

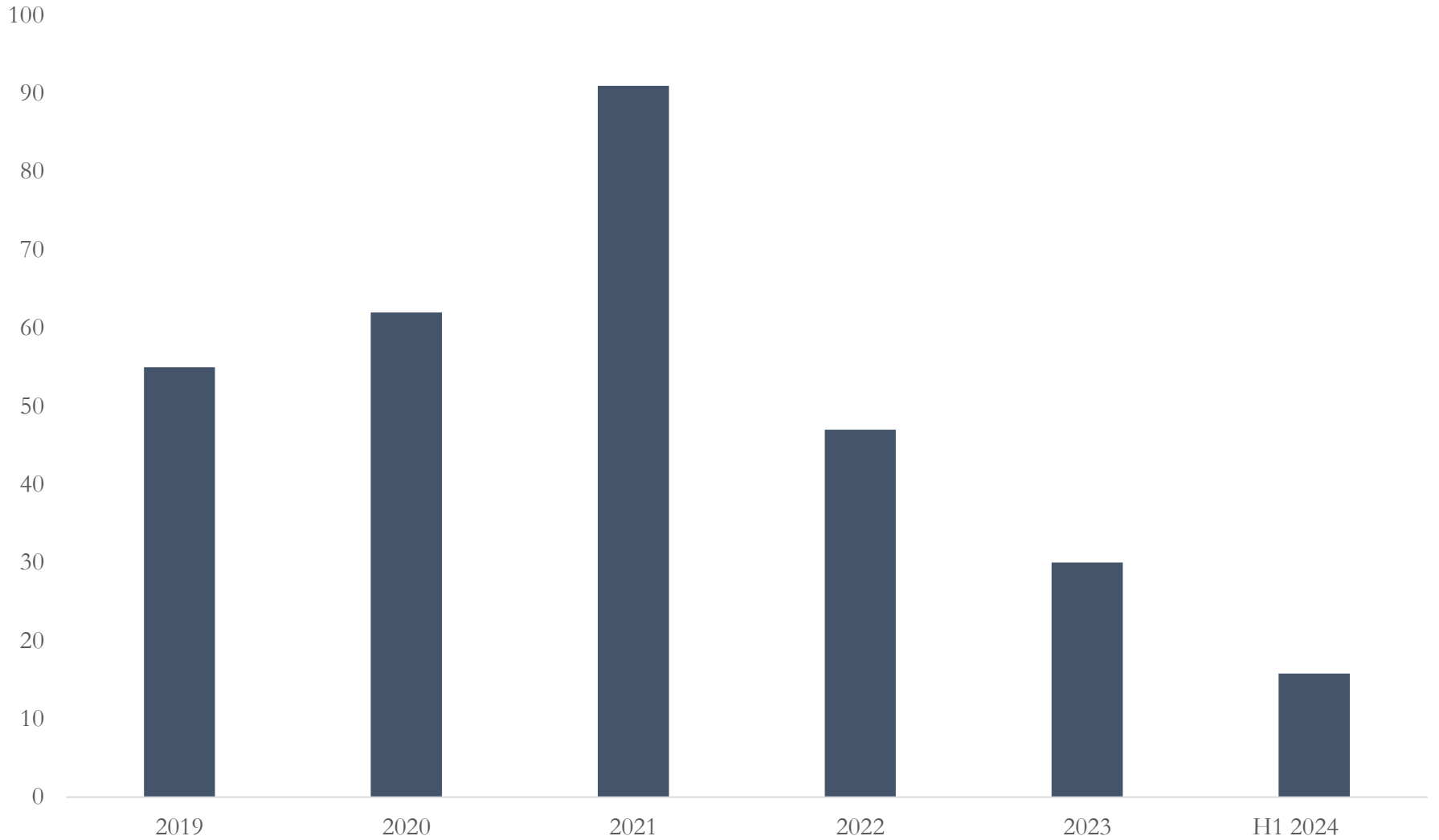
## Economic downturn resilience

- BTR pricing has been relatively less volatile during the challenging post-Covid economic environment compared to other commercial sectors

## Easy and quick financing









- BTR properties are perceived as lower-risk investments by banks and lending institutions due to their ability to generate multiple income streams, making it easier to secure financing compared to other types of real estate investment
- BTR provides economies of scale when it comes to property management and maintenance, which can make them more attractive to lenders

# EU BTR Investment Activity in BTR (€ bn)



Source: JLL

# Recent Notable BTR Transactions in Europe

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Location	Deal Size
Howoge (Berlin Municipality)	VONOVIA	Q2-24	Real Estate Acquisition	4,500 apartments in Berlin		€700m
MEAG	TREI	Q2-24	Real Estate Acquisition	3 Apartment Buildings – 544 flats in Berlin		€302m
SABLE CAPITAL	O'SHEA Galliard Homes	Q2-24	Real Estate Acquisition	BTR scheme 176 apartments in Wickside		£250m
RELATED ARGENT NTT UD	Undisclosed	Q2-24	JV - Development	BTR scheme in Brent Cross		£200m
Citra	LLOYDS BANKING GROUP BARRATT DEVELOPMENTS PLC	Q2-23	Portfolio Sale	604 homes on individual sites		£168m
BlackRock OUTPOST Management	APSLEY HOUSE CAPITAL PLC Galliard Homes	Q1-23	Forward Funding	628-home BTR development on Lower Essex Square, Birmingham		£140m
Weston Homes	ROYAL LONDON ASSET MANAGEMENT	Q4-24	Forward Funding	Bracknell Beeches conversion into a BTR scheme		£110m
PLATFORM	Undisclosed	Q3-24	Forward Funding	1.8-acre site – 300 Resi units in Bristol		Undisclosed

# Notable Participants in the BTR Market

## Specialist Developers

AVANTON:



BARRATT  
DEVELOPMENTS PLC



COUNTRYSIDE  
Places People Love

GodwinGroup

L&Q



## Equity Investors



GREYSTAR®



SABLE  
CAPITAL



realstar group



## Specialist Property Managers



allsop

liv



## Vertically Integrated Platforms

getliving

grainger plc  
Investing in homes since 1982



MODA

QUINTAIN LIVING



UNCLE

Way of Life.

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