

Buyers boost Spanish outlook



Spanish hotels are accelerating moves to align with international brands, as they navigate their way out of the covid-19 pandemic.

Repositioning is emerging as the value-add opportunity, as fears of a recession in Spain recede. As a result, locals suggest there will be lower levels of distressed sale activity than some had hoped for.

In Tenerife, AM Resorts, part of Apple Leisure Group, has signed up to operate four hotels in Tenerife, under its Alua brand. The agreement was lined up with investor Blantyre Capital, which has acquired the properties hotels that previously traded under the GEMA Hotels brand, via owners Jacamar and Tenesur. The new owners plan a EUR20m repositioning of the properties.

And on the island of Majorca, investor Emin Capital has bought the Hotel Formentor for EUR165m, with plans to upgrade the property and rebrand it under the Four Seasons banner ready for a 2023 relaunch. The hotel has been owned by the Barcelo group since 2006, and comes with substantial grounds.

CBRE advised Jacamar and Tenesur on the disposal, which the consultant's Jorge Ruiz, head of hotels Spain and Portugal, said "confirms the appetite from international investors for the Spanish hotel market and the islands, in particular." While Miguel Cass, hotel of hotel investment properties for continental Europe at CBRE added: We anticipate that the leisure market will recover sooner than other segments of the hotel sector – and this sale supports that."

"This is a big campaign that AM has in Europe, trying to replicate their success in the Caribbean," said Ivar Yuste, Madrid-based partner of PHG Hotels & Resorts. He notes the pandemic has focused minds on extracting value from properties, by aligning with an international brand. With around 70% of Spanish hotels still independent, there is a long way to go.

For AM, the Tenerife additions build on other recent deals in Spain that include a management deal with Roc Hotels, announced in December. It will rebrand and operate 16 Roc properties, across Majorca, Menorca, Torremolinos, Marbella, Roquetas de Mar and La Manga del Mar Menor, totalling 4,200 rooms.

"The typical play of any investment fund is to rebrand and turn a property around – it works very well." But he said that, as recession fears recede, and banks continue to be understanding, the outcome for vulture funds is likely to be disappointing. "There are quite high expectations, with lots of vehicles being set up. But my guess is that many of these will not buy anything."

“In terms of distress, the expectation of hotel groups is that we are not going into a huge recession.” There has been no over-extension of leverage, as happened in the previous financial crisis. “Hotel developers have a reasonably good cash position.” But pressure remains on the large rump of privately owned hotels, notably on the islands, where a commodity-driven market that has seen little brand penetration “means they are in the hands of the tour operators”.

“There is an official government programme to provide loan support, this is working and so the banks are pushing these loans.” Banks are still financing projects, but with approvals on a case-by-case basis.

In the case of the Hotel Formentor, Yuste said the deal makes good sense for Barcelo, who can redeploy the cash elsewhere in their business. “Majorca was already positioning itself at the high end,” and the Four Seasons deal aligns with this strategy. For Barcelo, it was an opportunity to sell the asset at a value their own operation could never yield. “For them this makes sense. This hotel is in a unique secluded location, but in the hands of a brand with weak international recognition, it was impossible for them to get the return the Four Seasons can expect.”

Yuste said that leases have been the preferred contract in the Spanish market, and that is forcing landlords and tenants to negotiate individual agreements on sharing the burden of lost cashflow. Leading Spanish brands are sitting on major liabilities: Barcelo faces around EUR90m of payments in 2021, while Hotusa has more than EUR750m of bank debt against which payments are due

For those who are financially sound, lockdowns have proved the ideal opportunity to smarten up properties. “Many owners with a good cash position are taking the opportunity to refurbish.” Around 15 hotels in Benidorm, said Yuste, are currently having refit work undertaken.

HA Perspective [by Andrew Sangster]: The pandemic is providing an opportunity for resort hotels to break free of the shackles of tour operators. The relationship between tour operator and hotelier has at times taken on the character of that between lord and serf.

The outbreak of the Black Death in the mid-14th Century is thought to have led to the end of serfdom within a century. Covid could well end serfdom within the resort hotel market given the weakness of the tour operators.

Prior to Covid, the opportunities for resort hotels to loosen their ties with tour operators were already being explored. This was particularly the case in Spain but further East in places like Greece too. A number of small chains and individual hotels were looking at signing deals with brands to enable them to increase their share of fully independent travellers (FIT).

There is more risk in breaking free of the tour operator relationship – an annual contract guaranteeing a certain volume of sales is hard to resist – but there is more potential gain as well. Given the broken promises of the tour operators in the past year, hoteliers are now much more willing to consider alternatives.

Perhaps a sign of what can be achieved is the relaunched OKU Hotels, created out of the ashes of Thomas Cook. Originally planned as Casa Cook, a hotel on Ibiza, costing EUR20m according to press reports, is due to open this summer. Already trading is a similar property on Kos that was also a Casa Cook.

The properties, owned by Swiss group LMEY Investments, have already made the lists of “hot hotel openings” in the style and travel press. LMEY has other hotel properties, including some under Tui’s Robinson and Sunwing brands, but now plans a chain of its own OKU branded properties in the Med.

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