Investment opportunities in Extended Stay in Europe

AHV Associates LLP

Presentation for the Serviced Apartment Summit Americas

New York, 11 April 2017

DRAFT AND CONFIDENTIAL
Founded in 2001 by Andrew Harrington and Hanif Virji, 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 throughout UK and overseas.

AHV Associates

Introduction

Based in Mayfair, London we offer a distinctive partner-led service supported by a team with significant transaction experience. Since our inception, AHV have completed more than 75 transactions for private companies.

AHV Associates

AHV Corporate Finance

- Mergers & Acquisitions
  - Acquisitions & Mergers
  - Company Sales & JV’s
  - MBO
  - Transaction Structuring

- Board Advisory
  - Strategic Options Assessment

- Raising Finance
  - Real Estate Finance
  - Acquisition Finance
    - Equity
    - Debt
  - Dev/Exp Capital
  - Buy out

AHV Financial Markets

- Advisory
  - Derivatives
  - Loans & Currencies
  - Interest Rate Hedging

- Therium AHV Financial Markets
  - £200 million Litigation Funding

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Alternative Hospitality sector refers to Boutique Hotels, Mixed-Use Resorts, and Student Accommodation which are now reasonably established in Europe, as well as Extended Stay and Hostels which are the ‘up and coming’ opportunities in the sector.

AHV Associates
Alternative Hospitality-Europe

- Traditionally, the vast bulk of institutional investment in the European hospitality sector has gone into mainstream sectors - Hotels/Resorts and Pubs & Bars /Restaurants.
- Over the last 15 years, the sector has diversified and a number of subsectors have emerged which are not yet mainstream but have in principle very attractive investment characteristics.
- Latterly, there has been increasing institutional investment and M&A activity in Alternative Hospitality ranging from Extended Stay to Student Accommodation.
- Shift in consumption patterns after the economic crisis, growing millennial travel and the growth of the sharing economy led to a rise in demand for non-conventional accommodation.
- In recent years once untouched and undesirable emerging accommodation submarkets such as Extended Stay and Hostels are now attracting investors attention, as evidenced by the growing public and private investments taking place in these areas.
Named Boutique Firm of the Year at Dealmakers Global Awards 2016, AHV is a boutique investment bank which operates across a range of industry sectors with a specialty in Alternative Hospitality sector.

**AHV Associates**

Specialists in Alternative Hospitality

We work closely with leading entrepreneurs, growth-oriented private companies, operators and financial investors.

*We offer:*

- Deep in-house knowledge and understanding of alternative accommodation markets worldwide.
- Ongoing dialogue and extensive relationships with key industry participants including emerging companies, and financial investors.
- Extensive transaction experience and understanding of value drivers across sector and geographies.

*Selected recent relevant transaction experience:*

- $130m Sale of CLC’s European hotel and resort management business to Florida based Interval Leisure Group
- £10m Investment in Safestay Hostels by Turnberry Investment Group
- Lead advisor on $140 international IPO for US Extended Stay operator - **Current**
- $20m Acquisition of US company and debt financing for European Extended Stay company – **Current**
- £10m Forward Funding of UK Extended Stay development - **Current**
- Sale of stake in European resort company - **Current**
- £10m Expansion of Boutique Hotel company - **Current**
IN SUMMARY

Agenda

- Introduction to AHV
- Extended Stay in the US and Europe
- Supply and Demand in Europe
- Transactional Environment
- Q&A
The rapidly growing European extended stay market is overcoming issues related to lack of awareness and consistency, and following the North American market, is becoming an established segment of the lodging industry.

EXTENDED STAY
US and Europe

The Extended Stay sector in the US is well understood, mature and a mainstream asset class:

- US based global brands like Marriott, Intercontinental Hotel Group, and Oakwood have significant exposure.
- Large nationwide private companies, like Woodspring Suites, National Corporate Housing and AKA have emerged.
- Institutional investment is commonplace.

The Extended Stay sector in Europe is emerging:

- US global brands have started to gain presence. Asian and Australasian operators such as Adina, Ascott and Frasers have been present for some years.
- A large number of local private companies dominate the market.
- Institutional investment is starting to emerge.
- Still viewed by investors as a non-mainstream asset class.

The dynamics of the sector in Europe are compelling:

- Significant growth driven by increased travel.
- Demand for non-hotel accommodation and limited supply.
- 25% of room nights are 5+ nights with only 6% of existing hotel supply is Extended Stay.

There is an opportunity to capitalise on the emergence of the sector as a significant force in Europe.

Business travel expenditure, 2015:
North America: $296 billion
Europe: $395.7 billion

Extended Stay Units by World Region
1. North America, 55.2%
2. Europe, 13.1%
3. Asia, 9%
4. Australasia, 7.3%
5. Middle East, 6.9%
6. Africa, 1.1%

484,594 Extended Stay Units & 6,426 locations in North America
114,012 Extended Stay Units & 1,889 locations in Europe

Sources: World Travel and Tourism Council, U.S. Travel Association, The Apartment Service, AHV Analysis
A handful of principal operators dominate the North American market. However, Europe’s largest players only have c50% of total market share, in terms of location and number of units.

EXTENDED STAY
US and Europe

- The number of locations of the top 10 principal operators in Europe accounted for just 32% of the total number of Extended Stay units in Europe, a vast difference compared to the 75% in North America.
- In Europe the number of units of the top 10 principal operators accounted for 52% of the total units in Europe, significantly lower compared to both their North American* (72%) and Global (61%) counterparts.
- The absolute figures for both number of locations and units are c3.5 to 4.0 times lower for Europe compared to North America.

* The figures for North America do not include the 70,300 Corporate Housing units.

Source: The Apartment Service, AHV Analysis
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The major European cities have not yet caught up in the supply of inventory to meet the increasing demand, compared to major destinations in Asia and North America.

SUPPLY AND DEMAND IN EUROPE
Growing Demand - Shortage of Supply

Extended Stay, Unit Supply Relative to Visitor Number, 2014 - 2016

- In Europe the market is still considered undersupplied with London having 2.9 units per 1,000 business visitors compared to New York (5.7), Hong Kong (5.6), Singapore (3.6), and Sydney (3.1).

- In Europe about 25% of room nights are 5+ nights with only 6% of existing hotel supply is Extended Stay.

Source: JLL, AHV Analysis
An increasingly mobile workforce that is driving business travel and relocation has resulted in growing demand and there is currently an under supply of Extended Stay units in Europe.

SUPPLY AND DEMAND IN EUROPE
Growing Demand - Shortage of Supply

Europe – Supply, Demand % Change, RevPAR, Dec 2005 – May 2016

- Demand for Extended Stay is growing faster than new supply is coming on-stream, as an increasingly-mobile global workforce drives business travel and relocation activity, therefore supply gap opportunities exist.
The UK, Germany and France dominate the European Extended Stay market, with a booming pipeline to follow in the next three years.

SUPPLY AND DEMAND IN EUROPE

Booming Countries

Pipeline/New developments by Country, 2016 - 2019

The UK, followed by Germany and France dominates the European landscape when it comes to existing and upcoming pipeline.

Source: JLL, HVS, AHV Analysis
The European market has grown over the past years, and some brand names have emerged as dominant players. However, the market remains highly fragmented, and is ripe for consolidation.

SUPPLY AND DEMAND IN EUROPE

Dominant Brands

Pipeline/New developments by Brand, 2016 - 2019

- European market growth dominated by small players
- Highly fragmented existing and projected market

Source: JLL, HVS, AHV Analysis
Despite the fact Europe is the second largest global region for Extended Stay, the sector is still relatively fragmented with supply largely dominated by local operators.

## SUPPLY AND DEMAND IN EUROPE

Pipeline in established and emerging cities

<table>
<thead>
<tr>
<th>Opening Date</th>
<th>Country</th>
<th>Brand</th>
<th>City</th>
<th>Units</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>France</td>
<td>Staycity</td>
<td>Lyon</td>
<td>144</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2017</td>
<td>United Kingdom</td>
<td>Staycity</td>
<td>Manchester</td>
<td>182</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2017</td>
<td>United Kingdom</td>
<td>Marlin Apartments</td>
<td>London - Lambeth North</td>
<td>220</td>
<td>Under Construction</td>
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<td>Liverpool</td>
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<td>Planning</td>
</tr>
<tr>
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<td>Glasgow</td>
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<td>Under Construction</td>
</tr>
<tr>
<td>2017</td>
<td>Germany</td>
<td>Adagio City Aparthotels</td>
<td>Bremen</td>
<td>98</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2017</td>
<td>Germany</td>
<td>Vision Apartments</td>
<td>Frankfurt am Main</td>
<td>130</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2017</td>
<td>Germany</td>
<td>Vision Apartments</td>
<td>Berlin</td>
<td>55</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2018</td>
<td>France</td>
<td>Residence Inn by Marriott</td>
<td>Toulouse</td>
<td>147</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2018</td>
<td>United Kingdom</td>
<td>SACO</td>
<td>Edinburgh - Erskine House</td>
<td>180</td>
<td>Planning</td>
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<tr>
<td>2018</td>
<td>Germany</td>
<td>Fraser Suites</td>
<td>Hamburg</td>
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<tr>
<td>2018</td>
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<td>Vienna</td>
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</tr>
<tr>
<td>2018</td>
<td>Ireland</td>
<td>Staycity</td>
<td>Dublin</td>
<td>165</td>
<td>Planning</td>
</tr>
<tr>
<td>2018</td>
<td>Germany</td>
<td>Adina Apartment &amp; Hotels</td>
<td>Munich</td>
<td>230</td>
<td>Planning</td>
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<td>2018</td>
<td>France</td>
<td>Citadines Apart'hotels</td>
<td>Paris</td>
<td>70</td>
<td>Planning</td>
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<tr>
<td>2018</td>
<td>France</td>
<td>Element Hotels</td>
<td>Roissy-en-France</td>
<td>105</td>
<td>Planning</td>
</tr>
</tbody>
</table>

Source: HVS, AHV Analysis
Focus on development, particularly driven by major national and international brands of the sector, will result in increased brand penetration. We see that large US brands will continue to expand their European portfolio.

## SUPPLY AND DEMAND IN EUROPE
### Pipeline in established and emerging cities

<table>
<thead>
<tr>
<th>Opening Date</th>
<th>Country</th>
<th>Brand</th>
<th>City</th>
<th>Units</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>United Kingdom</td>
<td>Go Native</td>
<td>East Croydon</td>
<td>189</td>
<td>Under Construction</td>
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<tr>
<td>2018</td>
<td>France</td>
<td>Residence Inn by Marriott</td>
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<td>Under Construction</td>
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<tr>
<td>2018</td>
<td>Germany</td>
<td>Residence Inn by Marriott</td>
<td>Hamburg</td>
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<td>Planning</td>
</tr>
<tr>
<td>2018</td>
<td>United Kingdom</td>
<td>Staycity</td>
<td>Edinburgh</td>
<td>165</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2018</td>
<td>Austria</td>
<td>SMARTments business</td>
<td>Vienna</td>
<td>162</td>
<td>Planning</td>
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<td>United Kingdom</td>
<td>element Hotels</td>
<td>London</td>
<td>77</td>
<td>Planning</td>
</tr>
<tr>
<td>2018</td>
<td>United Kingdom</td>
<td>Adagio City Aparthotels</td>
<td>London - Stratford</td>
<td>137</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2018</td>
<td>United Kingdom</td>
<td>Urban Villa</td>
<td>Aberdeen</td>
<td>182</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2018</td>
<td>United Kingdom</td>
<td>Go Native</td>
<td>London - Aldgate East</td>
<td>178</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2018</td>
<td>United Kingdom</td>
<td>Marlin Apartments</td>
<td>Dublin</td>
<td>190</td>
<td>Planning</td>
</tr>
<tr>
<td>2018</td>
<td>France</td>
<td>Adagio Access</td>
<td>Montpellier</td>
<td>102</td>
<td>Under Construction</td>
</tr>
<tr>
<td>2019</td>
<td>Germany</td>
<td>Residence Inn by Marriott</td>
<td>Frankfurt am Main</td>
<td>152</td>
<td>Planning</td>
</tr>
<tr>
<td>2019</td>
<td>Poland</td>
<td>Residence Inn by Marriott</td>
<td>Warsaw</td>
<td>100</td>
<td>Planning</td>
</tr>
<tr>
<td>2019</td>
<td>United Kingdom</td>
<td>SACO</td>
<td>London - Buckle Street</td>
<td>78</td>
<td>Exchanged</td>
</tr>
<tr>
<td>2019</td>
<td>Germany</td>
<td>Residence Inn by Marriott</td>
<td>Munich</td>
<td>72</td>
<td>Planning</td>
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<tr>
<td>2019</td>
<td>United Kingdom</td>
<td>Citadines Apart'hotels</td>
<td>London</td>
<td>108</td>
<td>Planning</td>
</tr>
</tbody>
</table>

Source: HVS, AHV Analysis
Extended Stay generally has higher operating margins and higher return on capital than traditional hotels, driven by longer length of stay, lower guest turnover, and lower operating expenses and efficient use of space.

### SUPPLY AND DEMAND IN EUROPE

#### Economics

**Extended Stay - Operating Performance**

- Longer Length of Stay
- Comparable ADR
- Lower Operational Cost
- Higher Unit Density

**Extended Stay - Economics**

<table>
<thead>
<tr>
<th>Profit and Loss accounts</th>
<th>Extended Stay</th>
<th>Full Service Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Room Revenue</td>
<td>99%</td>
<td>64%</td>
</tr>
<tr>
<td>Food &amp; Beverage Revenue</td>
<td>0%</td>
<td>32%</td>
</tr>
<tr>
<td>Other Operated Departments Revenue</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>DEPARTMENTAL EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rooms Expenses</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Food &amp; Beverage Expenses</td>
<td>0%</td>
<td>71%</td>
</tr>
<tr>
<td>Other Operated Departments Expenses</td>
<td>13%</td>
<td>60%</td>
</tr>
<tr>
<td>Total Departmental Expenses</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Net Departmental Income</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td><strong>UNDISTRIBUTED EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative &amp; General</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Property Operations and Maintenance</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Utilities (in rooms)</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Total Undistributed Expenses</td>
<td>10%</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Gross Operating Profit</strong></td>
<td>60%</td>
<td>41%</td>
</tr>
</tbody>
</table>

**STATISTICS, 2015/16**

<table>
<thead>
<tr>
<th>Yields</th>
<th>Extended Stay</th>
<th>Full Service Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>88%</td>
<td>80%</td>
</tr>
<tr>
<td>ADR</td>
<td>£135</td>
<td>£145</td>
</tr>
<tr>
<td>RevPAR</td>
<td>£119</td>
<td>£116</td>
</tr>
</tbody>
</table>

- Extended Stay usually offers rates that are comparable with hotels.
- High occupancy levels and lower operating costs, GOP and NOP margins are significantly higher in the serviced accommodation sector when compared to full service hotels.

Source: Hotel Analyst, JLL, AHV Analysis
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Transaction volume has experienced high growth over the last years with total Extended Stay deals reaching £325m in the UK alone in 2015, a 114% uplift compared to the prior year.

TRANSACTIONAL ENVIRONMENT

Recent Notable Institutional Transactions

### REAL ESTATE TRANSACTIONS

<table>
<thead>
<tr>
<th>Date</th>
<th>Buyer</th>
<th>Seller</th>
<th>Property</th>
<th>Price (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr-16</td>
<td>Osprey</td>
<td>JV - Reef Estates &amp; Sharma Family</td>
<td>Go Native Aldgate</td>
<td>£80</td>
</tr>
<tr>
<td>Mar-16</td>
<td>Schroders Real Estate</td>
<td>Ballymore</td>
<td>Staycity Heathrow</td>
<td>£32</td>
</tr>
<tr>
<td>Feb-16</td>
<td>PSD Bank</td>
<td>J. Molitor Immobilien</td>
<td>Aparthotel Parkallee, Mainz</td>
<td>€7.4</td>
</tr>
<tr>
<td>Dec-15</td>
<td>Oman Investment Fund</td>
<td>JV - Westmont &amp; Baupost Capital</td>
<td>Aparthotel Zurich</td>
<td>CHF 18.4</td>
</tr>
<tr>
<td>Jan-15</td>
<td>Starwood Capital</td>
<td>Undisclosed</td>
<td>Think Portfolio</td>
<td>£206</td>
</tr>
<tr>
<td>Jan-15</td>
<td>Deka Investment</td>
<td>GBI AG</td>
<td>Adina-Frankfurt</td>
<td>€39</td>
</tr>
</tbody>
</table>

### OPERATOR TRANSACTIONS

<table>
<thead>
<tr>
<th>Date</th>
<th>Investor</th>
<th>Operator</th>
<th>Ownership %</th>
<th>Price (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-17</td>
<td>Ares Capital</td>
<td>Go Native</td>
<td>70%</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Jan-17</td>
<td>Rasmala</td>
<td>Orchard Apartments</td>
<td>68%</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>Mar-15</td>
<td>Oaktree Capital</td>
<td>SACO</td>
<td>Undisclosed</td>
<td>£60</td>
</tr>
<tr>
<td>Mar-15</td>
<td>Proventus Capital</td>
<td>Staycity</td>
<td>Undisclosed</td>
<td>£20</td>
</tr>
</tbody>
</table>

Source: HVS, AHV Analysis
As the sector has started tracking trading performance data, potential investors are now able to understand key metrics such as occupancy, ADR and RevPAR, which addressed the issue of industry transparency and thereby provides more clarity on the sector.

TRANSACTIONAL ENVIRONMENT

Increased Institutional Interest

Ownership of active development pipeline, 2014 & 2016

- **Public Sector**: 6% in 2014, 5% in 2016
- **Other**: 10% in 2014, 8% in 2016
- **UK Institutions**: 3% in 2014, 11% in 2016
- **UK Owner occupier**: 13% in 2014, 14% in 2016
- **UK Private Equity**: 19% in 2014, 14% in 2016
- **Overseas investor**: 10% in 2014, 19% in 2016

- **UK Institutions’ pipeline quadrupled within 2 years**
- **Overseas Investors’ pipeline doubled within 2 years**

- **Institutional Investors**, domestic and overseas, are realising the opportunity that the sector provides and sophisticated capital flows are transforming the sector.

- Despite the small drop in UK PE investment, the interest from **UK institutions** as well as **overseas investors** has doubled in the last 2 years.

Source: Savills, AMPM, AHV Analysis
More and more hospitality brands are planning to capture a share in this growing market, and one of the most effective ways is through acquisition of smaller players. We expect to see brand consolidation in the near future.

**TRANSACTIONAL ENVIRONMENT**

**European Market – Ripe for consolidation**

- **Growth via Mergers or Acquisitions the next logical step for established and emerging players**

- **Consolidation in the Extended Stay Sector**
  - Unfolding now
  - The market reached this point in 2016/17
  - This has been happening for the past few years
  - We have observed this trend since 2011

- **Increased demand that has not been met by supply**

- **Fragmented market – Small, new brands are entering the sector**

- **Booming pipeline/new developments**

- **Growing interest from overseas investors**

- **Our combined 100 years of experience in the M&A markets enable us to recognise the signs of a sector ripe for consolidation.**

- **For the Extended Stay sector, the signs are clear.**
IN SUMMARY

Agenda

Introduction to AHV

Extended Stay in the US and Europe

Supply and Demand in Europe

Transactional Environment

Q&A
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