

Primotel backs Europe

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Aviva Investors and Algonquin have launched Primotel Europe, a new fund aimed at institutional investors.

The fund, which aims to invest EUR240m over the next three years, is looking to three to five star hotels across Europe.

The fund will be structurally agnostic, with Jean-Philippe Chomette, founder & chief investment officer, Algonquin SA, telling Hotel Analyst: “We have everything can be found in the deals we do, we have hotels which are branded, we have hotels with leases, we have hotels under our own brand. Every kind of structure we will do; it depends on the opportunity.

“There are many opportunities now, we have invested for 15 years and there are still many opportunities for value creation.”

The portfolio will be composed of prime French and European city hotels from three to five stars, with a participation in either real estate only or both real estate and operations.

Aviva France is the first investor into the fund. Primotel Europe said that it would “offer its investors an attractive diversification of assets (geographical diversification and segment diversification) in a very competitive European real estate market”. Algonquin will remain a minority equity investor and will be the operating partner of the fund.

The fund has already made its first acquisition, with the EUR40m purchase in December last year, of two hotels in Brussels: the Renaissance Brussels and the Marriott Executive Apartments Brussels, both situated close to the European Parliament.

Algonquin’s 15 years’ investing in Europe has seen it make a number of purchases in the hotel sector, both alone and with partners, with its portfolio currently consisting of 41 properties in Europe, comprising more than 7,100 hotel rooms, valued at EUR1.3bn. Half of these hotels are

managed through Algonquin's own brands or franchises while the other half are operated under management agreements, leases or managed lease agreements with international operators. December saw Algonquin, in partnership with a joint venture between Benson Elliot and Walton Street Capital, acquire a pan-European hotel portfolio comprising of eight hotels in seven major cities across five countries, for approximately EUR420m, from Host Hotels & Resorts' European joint venture. Chomette said that the portfolio would see its value enhanced through "material refurbishment programmes and enhanced operational efficiencies".

Robert Bloom, senior principal at Walton Street, described the portfolio as representing "a high-quality collection of full-service branded assets that is being acquired at both an attractive yield and significant discount to replacement cost, at what we believe is an opportunistic point in the investment cycle".

Earlier in the year Algonquin bought the Radisson Blu Astrid Hotel and the Park Inn Hotel in Antwerp, in a joint venture with KKR, a first for the two, which Chomette said he hoped would be "a long and successful partnership with KKR".

Chomette was confident of being able to find suitable properties for the fund, despite strong competition for properties in Europe. A report from HVS, released mid-January, suggested that, as with Algonquin, diversity was likely to be this year's investment theme in Europe.

The company said that property in London, Paris, Rome and Amsterdam was expected to be most in demand, but increasingly hotel investors would start to look at secondary and tertiary cities. HVS London chairman Russell Kett expects demand for hotel acquisitions in Europe to continue as investors, particularly those in the US and Asia, continue to diversify their investments globally.

"Some have already shown their desire to sell the hotels they have only recently acquired – well before the usual five to seven-year time normally sought. The trend towards early checkout will continue as long as there is a queue of investors still seeking to acquire hotels and portfolios." With new investors viewing Europe - even with current concerns following terrorist attacks in Paris and Istanbul and issues around integration of Syrian refugees - as a safe haven for money, the competition for properties is growing. Established investors such as Algonquin, with the ability to diversify across ownership structures, continue to find themselves in a strong position amongst the debutantes.

HA Perspective [by Chris Bown]: Algonquin appears, in a similar fashion to AXA-IM Real, to have sufficient scale that it can invest across the piece, not being tied down to a segment of the market, or to a particular type of lease or management agreement.

And with this scale and flexibility come opportunities. Study after study has told us that the European market has low brand penetration, making for great opportunities to buy out independent or weakly branded properties, and reposition them with a brand flag over the door. While the private equity buyers look for the big portfolio opportunities, and the sovereign wealth funds pick over the trophy five star properties, investors such as Algonquin and its partners demonstrate that there remain plenty of opportunities in the middle of the market, and usually not in those properties which have been formally placed up for sale.