REAL ESTATE FUNDS SPECIALISED IN THE ITALIAN HOTEL INDUSTRY: A CASE STUDY ANALYSIS

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Abstract

Real estate industry is looking for new asset classes characterised by a different risk-return profile with respect to standard classes (offices, retail, residential, etc…) and the hotel industry represents a new asset class where the real estate funds are looking for new investment opportunities. The performance analysis of the hotel industry shows that hospitality assets perform differently than other real estate asset classes and significant differences are detected based on the location and the quality standard of the hotel structure.
The performance in the hotel industry is significantly affected by the hotel reputation and its capability to maximize the RevPAR (through the optimization of the ADR and Occupancy rate) of the hospitality infrastructure. The performance drivers of this asset class are not comparable to other types of real estate, as the skills and information needed to evaluate the investment opportunities in the hospitality industry are unique and not frequently available for fund managers operating in other real estate segments.
Literature on the diversification strategies in the hotel industry is still limited and there is scarce evidence outside the US about the performance of real estate portfolios specialised in the hotel industry. This paper analyses the Italian industry and provides evidence on the performance achieved by the opportunities related to the hotel industry by considering the case study methodology. The results highlight that the performance of the hotel industry is different than other real estate asset classes and the portfolio composition criteria normally adopted for specialised real estate funds are unique and focused prevalently on the revenues forecast and the rent sustainability.

Keywords: Hotel investment, Real estate funds, Performance analysis

1. Introduction

Hotel industry is significantly heterogeneous and its assets, specialised on different customers' segments (i.e. casino vs commercial), are characterised by different business models and practices. However, there is a unique consensus if it has a direct and significant effect on the yearly performance (Jang and Yu, 2002). Moreover, differences in the business strategy adopted by the hotel company (i.e. manager's features, type of location, brand, etc..) may have a significant effect on the performance achieved and its stability over time (Xiao, 2011). The existence of differences among hotel types and locations may justify the choice of the hotel companies' owners to diversify their investment strategy and empirical evidence demonstrates that a diversification strategy allows achieving a more stable performance in the long-term horizon (Lee and Jang, 2007).
During the last decade, the REIT industry increased the attention given to the hotel sector as a new asset class that can be included in a diversified portfolio of real estate assets and/or can be used for constructing fully specialised real estate investment (Jackson, 2009). The main motivation related to the increase of interest is the existence of significant differences in the hotel performance with respect to other real estate classes – empirical evidence show that hotels are characterised by a lower risk exposure and a faster capability to recovery in a downturn market scenario (Petersen, 2003). Specialised hotel REITs represent a fast-growing market especially in the US and preliminary evidence on their stock performance demonstrate a higher exposure to systemic risk with respect to other REITs (Kim, Gu and Mattila, 2002).

Over the years, starting from the beginning of 2000 when the real estate funds were introduced into the Italian legislation, only eight real estate funds fully dedicated to hotels were launched. Literature do not provide evidence on the performance of these funds and there is no information about their investment and portfolio strategy.
This paper analyses the Italian real estate funds specialised in the hotel industry taking into account the supply and performance of the hotel structures in the area compared with the European average standard. Once identified the key features of the Italian market, the paper evaluates two case studies of real estate funds specialised in the hospitality industry and provides data about their distinctive features in comparison with other Italian real estate funds.
The paper is structured as follows: section two provides an overview of the literature on the role of real estate investment vehicles focused on the hospitality industry; section three discusses the main data related to the Italian market; and section four presents the analysis of the two case studies selected.

2. Literature review

Hotel investment in a real estate portfolio could be an interesting solution for exploiting the diversification advantages among asset classes due to the low correlation among different real estate types. Empirical evidence on the construction of multi-type real estate portfolios shows that the role of this special real estate asset class is expected to grow for high-risk profile investors, while portfolios targeting low-risk profile investors may be less interested in including hospitality among the assets (Firstenberg, Ross and Zisler,1988).
The performance analysis to evaluate the investment in the hospitality industry is not easy due to the lack of reliable benchmarks to compare the available investment opportunities. The main issues to apply a benchmark in the hotel sector are related to the lack of standardised criteria for evaluating this special type of real estate assets and the low number of year-by-year transactions in the market (DeRoos and Corgel, 1996).
The performance analysis in the hotel sector showed that the expected return may be significantly different according to the type of service mainly offered (standard, casino, restaurant, theme parks, etc…) (Chen, Kim and Kim, 2005). Moreover, for the same type of assets, the market features may affect the average performance and lower the seasonality of the income and the occupancy rate. Literature shows that among the main drivers there are the local GDP, the employment rate and the most relevant industry in the area but there is still no consensus on the weight to assign to each driver for measuring the expected performance and risk of the hotels in the area (Gallagher and Mansour, 2000).
The comparison of the return achieved by hotel REITs is different than other specialised real estate vehicles and, especially in the long term, they are able to outperform in the market (Jackson, 2008). The criteria adopted to build up the hotel portfolio may affect the overall performance and risk: the higher the homogeneity of the hotels, the higher the average return achieved as well as the risk of losses or variability of returns that will increase proportionally (Lee and Jang, 2007).
Literature about the performance and the strategy adopted by real estate vehicles specialised in the hospitality industry is still limited and prevalently focused on the US hotel REITs. Empirical evidence shows that the risk of the indirect investment in the hotel market is prevalently a specific and diversifiable risk and the role of the systematic and not diversifiable risk is limited (Kim, Gu and Mattila, 2002b). The evidence supports the hypothesis that each hospitality REIT is unique and the performance and risk analysis of the product cannot provide generalised results.

The main features that may have a direct impact on the hotel REIT's specific risk are the leverage and the size. Moreover, the less risky hotels are usually the biggest and invest without an excessive usage of leverage. The higher risk of levered REITs has to be ascribed to the higher incidence of fixed costs for firms (like the hotel) that are exposed to income seasonality that may result into a liquidity risk, while the lower risk for bigger real estate investment vehicles is mainly driven by the economies of scale that characterises the market (Kim, Gu and Mattila, 2002a).
Literature shows that those that do not directly own real estate assets but manage assets owned by specialised investors (REITs) normally outperform in the market given the higher average income level and the lower variability of returns. The evidence is normally justified by the opportunity for hotel companies that rent the real estate assets to focus on their core business without the risks and costs related to the real estate asset ownership and the fact that they can minimise their financial needs as well as their cost of capital (Lee and Jang, 2012).

3. Performance analysis for hotel real estate in Italy

The hotel market in Italy has unique features compared with the international benchmarks in Europe and the main differences are related to the type of hotel, the performance and the type of users.
The Italian market is one of the most important tourism destinations in Europe and the number of hotels based in Italy is higher than the average in Europe, even if the role of the international hotel chains is still limited (Table 1).

Table 1. The Hotel industry in the main European countries in 2017

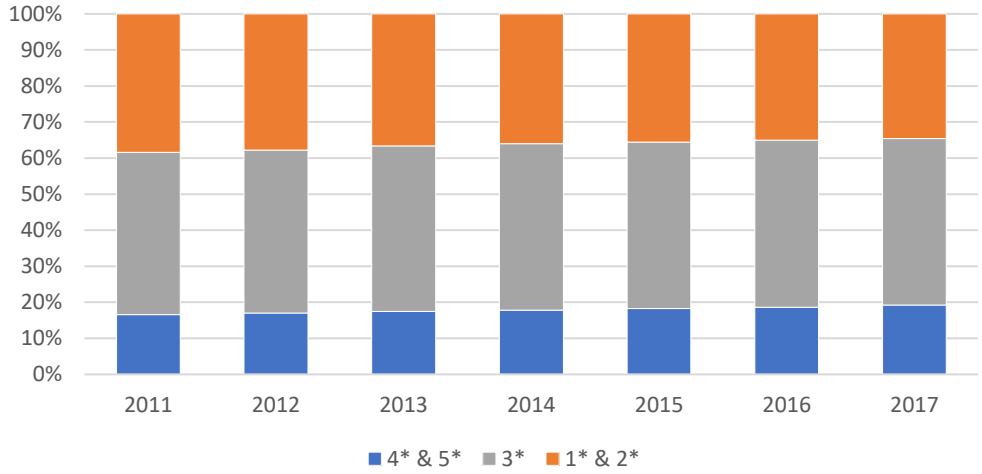
	Hotel chains	Overall Hotels	Percentage of hotel chains
UK	3,610	33,464	10.79%
Italy	1,584	32,988	4.80%
Germany	2,217	20,029	11.07%
France	3,885	18,079	21.49%
Greece	766	9,874	7.76%
Spain	2,488	7,401	33.62%
Switzerland	312	4,261	7.32%
Netherlands	663	3,503	18.93%
Poland	366	2,592	14.12%
Sweden	429	2,045	20.98%
Portugal	336	1,309	25.67%
Norway	299	1,100	27.18%
Hungary	159	1,049	15.16%
Ireland	185	834	22.18%
Croatia	186	724	25.69%

Source: Statistic data processed by the authors

The Italian market is one of the leading European markets due to the number of hotels and the supply of lodging opportunities is not concentrated only in the main cities (Rome and Milan) but there are also facilities in other historical areas and in the main holiday destinations. The role of the international hotel chains is the lowest of the European market because there are a lot of small hotels that are usually family owned and active in the Country.

Hotel sector dynamics are different depending on the target customer of the hospitality service. The literature shows that the revenues per available room and the occupancy rate are different on the basis of the star rating (e.g. Beracha, Hardin and Skirba, 2018). The Italian market offers different quality standards in order to satisfy the needs of several segments of tourism demand, which ranges from the low cost to the exclusive hospitality (Graph 1).

Graph 1. Italian hotels classified on the basis of the star rating



Source: Istat

The hotels supply is quite heterogeneous given the quality standard of the service offered and could be accessible for all types of customers (three stars) and the number of high-quality hotels (four or five stars) has ranged from 15% to 20% in the last years.
The Italian market shows significant differences in the performance and risk of the hotel investment, which is measured, respectively, by the revenue per available room (RevPAR) and the occupancy rate (Table 2).

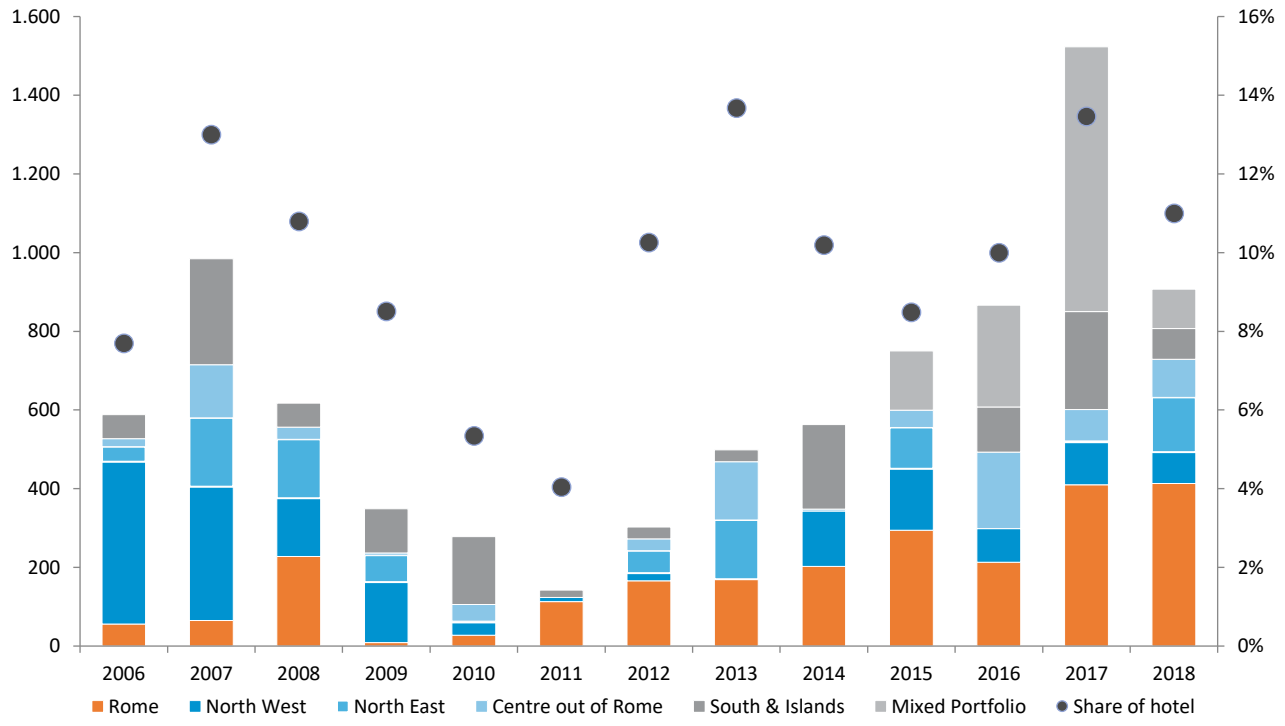
Table 2. Statistics on the Italian hotel industry

Occupancy rate									
		2011	2012	2013	2014	2015	2016	2017	2018
Italy	All	61.4%	60.1%	62.5%	64.5%	67.1%	66.8%	68.8%	70.0%
	*****	61.0%	59.5%	61.8%	63.8%	65.8%	66.0%	67.1%	67.9%
	****	61.0%	59.5%	62.2%	64.3%	67.2%	66.6%	68.8%	70.4%
	***	63.6%	63.8%	64.0%	64.5%	67.0%	68.5%	69.3%	68.3%
Europe		66.1%	65.8%	67.4%	68.6%	70.0%	70.2%	71.9%	72.4%
Revenue per available room									
		2011	2012	2013	2014	2015	2016	2017	2018
Italy	All	77.0 €	77.5€	82.2 €	86.6 €	100.8 €	93.3 €	100.9 €	105.0 €
	*****	197.3 €	194.3 €	216.3 €	224.0 €	250.2 €	236.7 €	260.7 €	274.1 €
	****	58.6 €	57.6 €	60.0 €	63.4 €	73.8 €	68.8 €	73.7 €	76.6 €
	***	33.7 €	33.9 €	33.3 €	33.6 €	37.5 €	35.6 €	38.1 €	39.6 €
Europe		92.4 €	86.3 €	91.8 €	83.2 €	83.5 €	80.5 €	85.0 €	100.9 €

Source: Statistic and STR data processed by the authors

The Italian market is characterised by an occupancy rate lower than the average in Europe due to the high heterogeneity of the assets available and the higher occupancy rate is related to hotels with lower quality standards (3 stars) but in the last years the gap has significantly decreased with respect to the European benchmark (from 4.7% in the 2011 to 2.4% in 2018). The revenues per available room are significantly heterogenous depending on the quality standards of the hotel structure, ranging from 275,1 € for a 5 stars hotel to 39.6 € for a 3 stars hotel in 2018. In 2011, the Italian market was performing less than the average of the European market, but from 2014 on the revenues per available room became higher in Italy than the international benchmark. Considering jointly the occupancy rate and the RevPAR results, there is evidence to support the hypothesis that the hotel market in Italy is appealing and allows to earn revenues for occupied rooms that are significantly higher than the average of the European market. Anyway, the existing facilities (especially those that are family owned) are not able to maximise the occupancy rate.
Over the last years, in conjunction with the high volumes invested in the Italian real estate, an increasing interest in the hotel sector was recorded arriving to account for 13% of the market. This was mainly given to two reasons. On the one hand, considering the scenario of high liquidity and lack of "traditional" product, investors were seeking new products to acquire. On the other hand, good performance of the Italian tourism sector highlighted the lack of an adequate supply of hotels able to meet the new tourists' demands.
Investors are taking into consideration existing hotels that are partly to be refurbished, as well as properties to be converted, especially in the old town centres. If these are not located in the major shopping streets, their conversion into residential or hotel use can be evaluated. In the first case, the strategy would involve a split sale, which is not in line with the investor mindset. In fact, the residential leasehold market managed by institutional investors has not developed yet. However, the second case would maintain an investor logic with a long-term horizon, given the duration of the hotel lease agreement.

Graph 2. Hotel investment in Italy by destination (€ million)



Source: Colliers International Research

In 2018, investments in the hotel sector amounted to € 900 million, declining sharply by 40% compared to 2017. However, an analysis of the data shows that 2017 was an anomalous year, as the 2018 results were better than those of the previous years. The biggest transactions involved office properties in Rome to be converted into hotels; two properties in *Piazza Augusto Imperatore* and *Piazza San Marcello*, specifically in the old town centre but far from the traditional luxury hotel streets.
In between 2013 and 2015, the investment market focused on historical and important hotels of the Capital, such as the Hotel Eden and the Regina Hotel Baglioni. In more recent years, however, an increased number of transactions have involved office assets with the intention of converting these properties into hotels. The uncertain performance of the office market, in fact, makes these conversion projects more appealing - especially in the cities' old town centre - since the demand for new hotels is higher than that for office premises.

4. Hotel real estate funds in Italy: an analysis of multiple case studies

Even if the first real estate fund was established in 2001, the Italian real estate fund managers have also begun to invest in assets intended for tourist accommodation since 2003. However, the percentage of assets managed was still rather small, especially if related to the volume dedicated to the office sector – in 2003, in fact, offices were the most sizeable percentage share (over 50%) whereas the hospitality was only 3.2%.
Anyway, the creation of a specialised real estate fund entirely dedicated to the hospitality sector will see the light only in 2005, year when BNPP REIM SGR launched the Italian Business Hotel fund. Indeed, despite the growing interest shown by institutional investors for this type of product over the years, at the end of 2005 the investments in this specific asset class accounted for just above 2% of the total real estate asset allocation of funds in Italy (Assogestioni). This value seems even more limited especially if related not only to the offices (which represented almost 60% at that time) but also to "minor" or "alternative" asset classes like the industrial that reached almost 4% in those years.

Table 3. Real estate funds investing only in hotels

Fund name	SGR name	Tipology	Starting date	Closing date	Expected yield
Italian Business Hotel	BNPP REIM SGR	Institutional investors	2005	2019	n.a.
Delta	Fimit SGR	Retail investors	2006	2017	5%
Hospitality & Leisure	Prelios SGR	Institutional investors	2006	Active	n.a.
Baglioni	Sorgente SGR	Institutional investors	2006	2012	7.7%
Cosimo I	Castello SGR	Institutional investors	2008	Active	7%
Tiziano – Comparto San Nicola	Sorgente SGR	Institutional investors	2011	Active	n.a
Antirion Global - Comparto Hotel	Antirion SGR	Institutional investors	2015	Active	5%
Commerz Real European Hotel Fund	Commerz Real	Institutional investors	2018	Active	5.5%

Source: Colliers International Research

An analysis of real estate funds active in Italy between 2003 and 2018 allowed the identification of eight specialised funds in the hospitality sector. In all cases they were reserve funds, with the sole exception of the Delta that was an ordinary collection fund with retail customers managed by Fimit SGR. From 2005 onwards, both the interested institutional investors and the managed assets have been steadily increasing. A peak was registered in 2006, when three specialised funds managed by three of the most important asset management companies operating in Italy were created - Fimit SGR (now Dea Capital Real Estate SGR), Pirelli SGR (now Prelios SGR) and Sorgente SGR.
After a first phase of great activity, the situation has stabilised and it was not until the transition of the 2008 economic-financial crisis that new dedicated funds were born. Indeed, with the exception of the Cosimo I Fund managed by Castello SGR (which was created in 2008), it is possible to detect a second phase initiated by Sorgente SGR in 2011 with the Tiziano Fund – Comparto San Nicola, followed by the Antirion Global - Comparto Hotel Fund managed by Antirion SGR. The fund managed by Commerz Real has been recently created (end of 2018).

To analyse the investments in the hotel asset class through the dedicated real estate funds instrument, two specific experiences have been selected. The Baglioni Fund managed by Sorgente SGR and the Antirion Global - Comparto Hotel Fund managed by Antirion SGR.

The two cases are very different from one another in various aspects:

- Temporal: the two experiences belong to two different phases of the specialised real estate funds (pre and post crisis of 2008);
- Status: in one case the experience is finished, whereas in the other the Fund activity is still in place;
- Asset allocation: one had an international profile including also France in its investments, whereas the other only invested in the Italian national territory;
- Vehicle: one also invested in shares of management companies or with property rights, whereas the other is mainly oriented to the sole ownership of the property;
- Asset management: one fund has a low level of asset management, whereas the other mainly dealt with the search for new operators, the refurbishment and reconversion of some structures;
- Performance: they both have a core profile but with a different level of risk.

4.1 Sorgente SGR and the Baglioni Fund

Sorgente SGR is an asset management company founded in 1999. In June 2018, 23 real estate funds were operational, with a 2.5 billion euros managed real estate portfolio.
The Baglioni Fund was established in 2005 and started its activity in 2006, managing to close the subscriptions of the fund shares even earlier than the maximum time limit. The initial duration of the fund was set at thirty years with the possibility of asking the Bank of Italy for an extension of three years for the disposal of assets. Within its regulation, the fund envisaged investing a share of not less than 2/3 of the overall value not only directly in real estate for mainly hotel use but also in immovable property rights and in real estate company holdings.
The first takeover originated from the agreement between Sorgente Group and one of the most renowned hotel management companies in Italy, namely the Baglioni Group. The agreement provided for the contribution to the real estate assets owned by the hotel company. The Fund's first investments also included the takeover of an hotel structure in France (although in this case it was

done through participation in a French investment company) and a resort in Tuscany. The French experience was then replicated during the years of activity of the fund.

4.1.1 The fund's investments

The Baglioni Fund provides an interesting overview of the asset allocation strategies of a specialised fund in the hotel sector, considering the assets in which the SGR decided to invest.
It is therefore possible to differentiate according to the investment vehicle. Over the years, in fact, the fund's activities have mainly consisted of:

- Direct investments in real estate properties: these are specifically two assets, one in Rome and the other in Tuscany;
- Holdings in real estate companies, which in turn own property rights: this strategy was adopted for two assets located in Venice and France
- Holdings in leasing companies for an hotel structure in France (this type of investment, however, was shorter than the others)

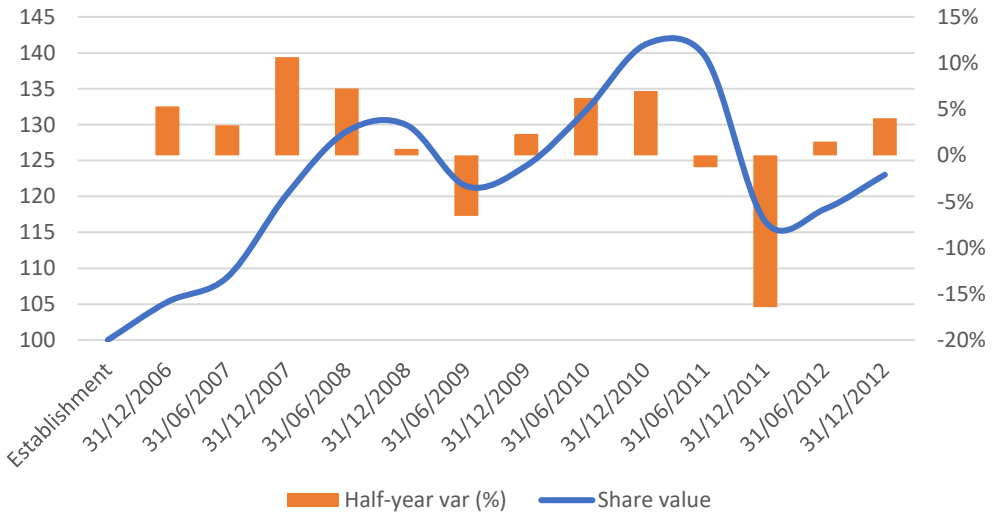
The risk diversification was also carried out by location and type of accommodation activity. From a geographical point of view, the fund has invested in two different countries, namely France and Italy. Even within the two countries, the fund has been exposed to different geographical areas. In Italy, it has chosen two of the four main Italian cities in terms of tourism – therefore, these are destinations with a seasonality that manages to cover almost the entire year with the highest volumes of tourist flows in Italy. Furthermore, the selected assets are in prime location. The third structure in Italy, though not located in one of the main Italian cities, is certainly not outside the tourist flows as Tuscany is undoubtedly among the most popular leisure destinations for tourists coming to Italy. Even for France, very different locations have been chosen. On the one hand, we find a structure inserted in a more urban context, while the other is located in a more naturalistic context, being inside one of the most important natural parks of France. Therefore, the diversification has been conducted based on the type of structure – to simplify we can identify three "urban hotels" and two structures with all the "resort" features.
However, all the selected structures share the hotel positioning and the choice of mainly leisure facilities. The Baglioni Group is characterised as an operator in the luxury segment and the properties belonging to the Baglioni chain are all of the highest quality and located in the main hubs of urban tourist flows. Even the structure in Tuscany is of high standing being a luxury 5-star resort. Same choice also for the structures in France, both of the highest standing and positioned in the luxury segment.

4.1.2 The fund's economic performance

The fund's economic performance has been analysed based on the unit value fluctuations of the shares subscribed for the fund.
Graph 2 shows its trend on an index base 100 (i.e. the share value at the subscription moment). Together with the share trend, the percentage variations on a six-monthly basis have been calculated. The study detected three phases: the first goes from the vehicle establishment to 2008; the second from 2008 to mid-2011; the third from 2011 to the closing of the fund.
The first phase was featured by a constant and significant increase in the value of individual shares, with a peak especially at the end of 2007. In fact, at the end of the second year of activity, the recorded yearly variation was over 14%. Also 2008 was a positive year for the fund management, with an 8% yearly growth rate.

The economic crisis certainly had a negative impact on the shares value (approximately -4%). Indeed, the 2008 crisis produced a general economic and financial slowdown. This circumstance also affected the tourism as it led to a general lower spending capacity. However, if the 2009 result is compared with the year in which the fund was established, it is clear that the careful management of the fund's underlying property has in any case made it possible to maintain a much higher shares value compared to that of the year of subscription.
The most significant negative variation occurred in 2011 (-17% yearly variation), the year in which the so-called "sovereign debt crisis" was recorded in Europe, which affected Italy more than France. The 2011 crisis was not due to speculation and capital circulation like that of 2008, but it nevertheless had a direct repercussion on the real estate world in Italy, which was then considered as a country with a default threshold. The perception of Italy as an economically unstable country directly affected the rates. Increasing the risk attributed to the investments on the Italian territory, the investors demanded necessarily higher rates of return thus decreasing the value of the underlying property. Also in this case, however, the choice of capital allocation by the fund manager allowed the maintenance of the subscription shares value, which managed to remain above this value even after this second crisis phase.
The fiscal year was closed positively in 2012, with an important capital gain: the share value increased by over 20%.

Graph 3. Fund's share value



Source: Financial Statement

4.2 Antirion SGR and the Antirion Global - Comparto Hotel Fund

Antirion SGR is an asset management company founded in 2009. At the end of 2018, it managed seven real estate funds that own 43 properties (both in Italy and abroad) for a total of about 3 billion euros of AUM. The Antirion Global - Comparto Hotel Fund is the result of the transformation of the Antirion Core Fund, which was operational since December 2012 and was then divided into three segments: Core, Hotel and Value Added (the latter has not started yet). This organisation allows the management of a separate real estate portfolio within a single vehicle, which is based on different investment, management and risk policies. Like the fund, the segment has a twenty-year duration with an extension option for a further three years.
At the time of the launch, the Comparto Hotel hosted a real estate portfolio consisting of eight buildings for hotel use, which were all contributed by the single shareholder ENPAM Foundation. The properties are all located in Italy and, specifically, in Lombardy, Lazio, Sardinia and Valle d'Aosta,

for a total of 3.428 rooms (See Table 4). The hotel structures provided are quite diversified, both in terms of location and type: there are, in fact, assets in the city, in the mountains and at the sea, both hotels and resorts.

Table 4. Hotel investments at end 2015

Asset	Address	Rooms
Hotel Executive	Via Don Sturzo – Milano	420
Hotel Villa Pamphili	Via della Nocetta – Roma	247
Tanka Village	Viale degli Oleandri – Villasimius (CA)	903
Hotel Quark	Via Lampedusa – Milano	282
Hotel Planibel	Località Entreves – La Thuile (AO)	470
Residence De Angeli	Via Trivulzio – Milano	68
Residence Ripamonti	Via dei Pini – Pieve Emanuele (MI)	916
Hotel Tocqueville	Via A. De Tocqueville – Milano	122

Source: Financial Statement

Finally, during 2017 two real estate buying and selling were finalized. On the one hand, after a deep analysis of the Milan market it was decided to sell the "Hotel Executive" property to the Core segment for its conversion into offices. On the other hand, a property for office use was purchased in Via dell'Umiltà in Rome. The asset location, together with its architectural features, have made the operation interesting for a change of use in a 5-star hotel.

4.2.1 Fund enhancement strategies

Already since the beginning of 2016, the SGR has organised the properties handover and has taken steps to identify the best strategies for enhancing each individual asset with the aim of relaunching the hotels and generating revenues again.
The SGR focused both on the development of repositioning and redevelopment projects and on the search for new tenants. In the first case, in-depth evaluations of the works to be carried out have been launched in order to align the characteristics of the property to the best standards of the hotel market. From the commercial point of view, on the other hand, an operator search and selection activity was started and was concluded between 2016 and 2017 with the signing of framework or lease agreements.
As shown in Table 5, at the end of 2018, all the buildings underwent an enhancement strategy that can be summarised in three macro-categories:

- Divestment for change of use destination;
- "Soft CapEx" strategy;
- "Total Renovation" strategy.

It was a divestment in the case of the former Executive Hotel and the De Angeli residence. The logic was that of protecting and enhancing the real estate assets value contributed by the shareholder. Indeed, after a commercial and technical feasibility study, or rather an Highest Best Use Analysis, the SGR has decided to proceed with: i) the conversion into offices of the Executive hotel due to the location and the office market trend in that Milan area; ii) the transformation of the accommodation facility into a residential one in order to build apartments to be sold later by instalments.
The "Soft Cap-Ex" strategy includes those structures for which more precise refurbishment works have been planned, proceeding through partial closures and continuing the trend of the previous management. However, even in the cases where there has not been a change of operator, the terms

of the lease agreement have been renegotiated and the works to be carried out with the operator have been arranged.

Table 5. Hotel Investments at end 2018

Asset	Address	Rooms	Tenant	Lease start
Hotel Villa Pamphili	Via della Nocetta – Roma	247	Agreement (ongoing refurbishment works)	Q1 2020
Tanka Village	Viale degli Oleandri – Villasimius (CA)	951	Rented	Q2 2018
Hotel Quark	Via Lampedusa – Milano	282	Agreement (works not yet started)	Q3 2020
Hotel Planibel	Località Entreves – La Thuile (AO)	510	Rented	Q2 2016
Residence De Angeli	Via Trivulzio – Milano	68	Vacant	Converted into residential
Residence Ripamonti	Via dei Pini – Pieve Emanuele (MI)	916	Rented	Q1 2016
Hotel Tocqueville	Via A. De Tocqueville – Milano	122	Rented	Q4 2016
Asset Via dell'Umiltà	Via dell'Umiltà – Roma	48	Agreement (ongoing refurbishment works)	Q1 2020

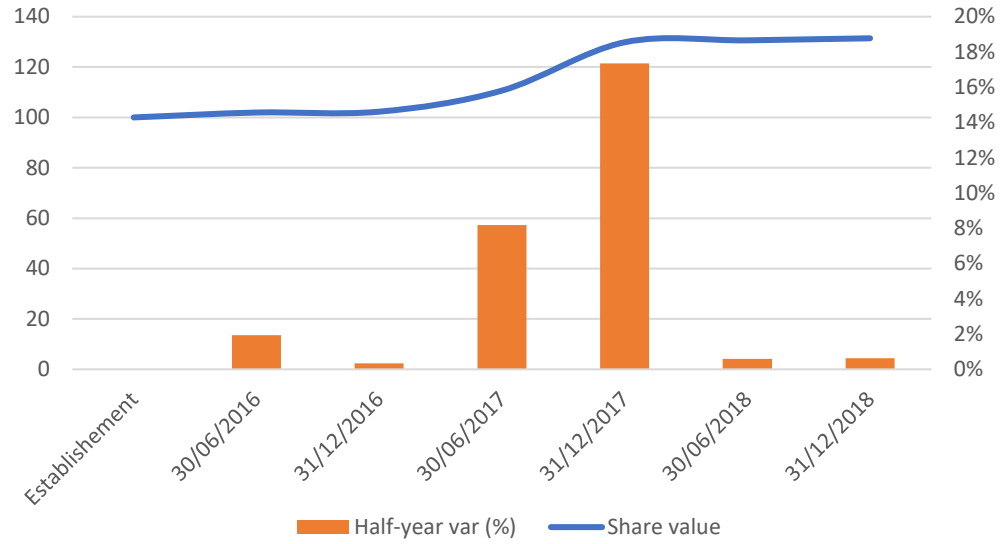
Source: Financial Statement

Finally, a strategy that can be defined as "Total Renovation" has been adopted for some structures. In these cases, the structure was totally closed in order to proceed with important refurbishment works. Furthermore, the enhancement strategy for this group of structures provided for a careful research and selection activity of the right operator with whom a negotiation process was developed both for the contract and the works to be carried out on the asset.

4.2.2 The fund's economic performance

When the segment operations started, the AUM of the fund was equal to 245 million euros while at the end of 2018 it reached 341 million euros. In terms of NAV, the values are not very different as the fund is not indebted. Thanks to the sale of the Executive Hotel, the liquidity obtained was partly used for the purchase of the property in Via dell'Umiltà, but especially to carry out the refurbishment works without having to contract debt with the banks.
In terms of rents, the situation has considerably improved. In three years, the received rents passed from almost zero to 12.9 million euros, thus increasing the fund's profitability. However, the total rents is set to increase once all the contracts are fully implemented.
Therefore, the combined effect of the adopted strategy produced the results shown in the above graph. Observing the results in terms of fund's economic performance, in fact, an improvement of the share value is noticed especially in 2017, year in which the two buying and selling operations were made. To date, considering the share value at 100 at the establishment of the fund in 2015, the share value has increased by over 30%.

Graph 4. Fund's share value



Source: Financial Statement

5. Conclusion

The hospitality in Italy is a unique market segment that is attractive for both national and international investors due to the high number of tourists who choose one of the main Italian cities as holiday destination. The market offer services are affordable for every type of customer but the occupancy rate and the revenues per available room are significantly different depending on the hotel quality standard and the return of investment is higher than the average of the other European markets, especially for four- and five-star hotels.

The analysis of the two case studies allows us to make some considerations. From one side, a differentiated investment strategy is important and can create value for the quota holders. On the other, an intensive asset management through the change of the operator and/or the hotel refurbishment can increase the value of the asset. These two approaches can increase the fund profitability.

In the first case, the fund diversified in two ways: the location and the vehicle. The geographical differentiation allows to minimise the "country risk" as the fund was economically exposed in two different European countries. Moreover, the use of different investment vehicles, namely share and asset deal, has a different financial and economic impact on the value of the fund shares. As a direct consequence, the aggregate value of the fund was protected.

In the second fund, the asset management strategy was more intense. Indeed, new leases were signed and refurbishment works were agreed with the new operator. Contrary to the office segment, it is important to realise the refurbishment works with the tenant that will occupy the asset. What emerges for the hotel industry is that there must be a strong relationship between the landlord and the tenant, since both have to move together in the same direction in order to maximise the profitability of the hotel.

Endnotes

This project would have been impossible without the support of Antirion SGR and Sorgente SGR that provided us with all the necessary information.

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