



cutting through complexity

BUILDING, CONSTRUCTION & REAL ESTATE

Hotel Real Estate

Our services



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Your requirements – our services

Tailored and multidisciplinary advice from KPMG: One-stop shopping

Are you looking for an experienced business partner who is specialized in hotel real estate and has comprehensive knowledge of the national and international hotel markets? Or do you require expertise for the acquisition, sale, development or restructuring of hotel real estate or hotel companies?

We give you a team of specialists from the hotel and real estate businesses, tax advice and auditing who can provide you with this expertise. Our specialists will advise you across the board in all the issues involved in the

lifecycle of a hotel property and regarding hotel companies, in particular for:

- Planning and development of hotel projects
- Market and location assessments
- Acquisition and sale of hotels and hotel companies
- Strategic and operational portfolio and asset management
- Valuation of hotel real estate and hotel companies
- Restructuring of hotel companies

To accomplish this, we bundle the corresponding services from our Audit, Tax and Advisory units and our affiliated law firm, KPMG Rechtsanwalts-gesellschaft mbH, to provide a package of services from a single shop – to the advantage of owners and operators of hotels, strategic and financial investors, institutional investors, banks, real estate and project developers.

Our services are based on the client's particular requirements and tailored to suit their specific needs.

Bundled sector and market expertise

Cross-sector industry specialization

It is hard to beat the hospitality industry when it comes to diversity. The hotel market is extremely dynamic and dependent on both general economic developments as well as the tourism and travel sectors. Long-term success can only be achieved with a proper interaction or well-planned combination of the success factors location, concept and operator.

To meet the multi-faceted requirements of our clients, KPMG combines expertise from its Audit, Tax and Advisory units with a high degree of industry and market specialization for the hospitality sector. For legal questions we cooperate closely with the specialists in our affiliated law firm, KPMG Rechtsanwalts-gesellschaft mbH.

This allows us to lead multidisciplinary projects in a manner appropriate to their specific demands.

KPMG's networks

Transport & Leisure and Building, Construction & Real Estate

Internationally, our specialists in the hospitality sector work closely together in global networks. Their wide-ranging knowledge and experience are in especially great demand in cases of cross-border real estate management and hotel operations issues. Our teams work hand-in-hand and support you with tailor-made services for fiscal, accounting and legal* issues.

You profit from KPMG's worldwide networks with project management from a single shop and qualified support even with complex projects involving your hotel real estate.

* Legal services are provided by KPMG Rechtsanwalts-gesellschaft mbH.

Hotel investment market

Asset class: hotel

Hotels have established themselves – along with conventional types of real estate usage such as residential, office or logistics – as an independent category of assets. Due to the complexity of the prevailing drivers, however, hotel real estate must be considered in a different manner.

Of particular interest for hotel real estate is the management agreement concluded between the owner and the operator, due to the fact that it defines the allocation of risk. A lease represents a more passive investment, although the rental payments arranged must always be analyzed to determine if they are in line with the prevailing market prices. The management agreement represents an active investment in which the real estate owner assumes operational risk, but also participates in the profit stemming from hotel operations. In practice a mixed form is frequently arranged, the so-called “hybrid contract”, allowing

a balanced distribution of the operational risk between the operator and the owner of a hotel. In general, it is worth noting that hotel operators are increasingly less willing to conclude leases due to, amongst other things, the changing international accounting standards.

Opportunities and risks of hotel real estate investments

Even in challenging market conditions, hotel real estate still offers promising potential returns for investors. The crucial factors for the success of an investment are the selection of a suitable location, the overall hotel concept regarding the competitive environment as well as the operator of the hotel and the economic conditions of the contract concluded with the management. Inappropriate space allocation concepts, the selection of an unsuitable brand or insufficient reserves for maintenance and modernization often endanger the desired long-term success of the investment.



Specialized transaction services

To be able to successfully conduct a hotel real estate transaction, whether it is the sale – or purchase – of portfolios, single assets, sale-and-lease-back or joint ventures, requires not only extensive knowledge of the market and explicit expertise, but experience and a professional approach.

KPMG's M&A advisors, specialists in the hotel real estate market segment, accompany you along the entire transaction process: from its initiation right through to the final closing.

As M&A advisors, we coordinate the entire transaction process for you – we handle the organization, the schedule as well as the content and serve as the link between you and all the other parties involved in the project. It goes without saying that we will support you during the individual phases of the transaction process, both on the buyer as well as the vendor side.

Buy side

Starting with the preparatory phase of the transaction, we assist you in the definition of the goals and determining the structure of the transaction. We support you in the process planning as well as regarding strategic issues at the asset and portfolio levels as well as the company level. The real estate management, financial, fiscal and legal* analysis of the transaction property, the management company, the management concept as well as the management agreement are all part of the range of services which – to the extent that you desire them – belong to the compilation of value indicators at the portfolio or property level or the support for financial modeling. KPMG also supports you in the preparation of (indicative) offers and provides assistance during negotiations with vendors. And of course, we will advise you regarding the integration of the target into your existing real estate or corporate portfolio.

Vendor side

On the vendor side, KPMG also assists you in all the strategic, organizational and content aspects of the entire sales process. Our service commences with the definition of the transaction target and the determination of the transaction property with the – if necessary – separation of the specific object of the transaction. This is followed by an indicative appraisal of the object of the transaction and the compilation of the sales documents required (teaser, information memorandum, etc.). It would be our pleasure to accompany you in the selection and addressing of potential buyers, obtaining and evaluating the offers, in the preparation and performance of management presentations and the transaction-tactical considerations. KPMG possesses extensive experience in the structuring and coordination of data rooms and question & answer processes. And, of course, we are able to assist you in compiling and preparing any transaction-relevant documents or information. We would be happy to accompany you in the contract negotiations with potential buyers.

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Due diligence

The success of hotel real estate is determined to a large degree by the management agreement, in particular by the allocation of risk between the owner and the operator. Additional factors, such as the fluctuations in the overall economic climate, impact directly on the performance of hotels and may result in a relatively high volatility in the success of hotels managed on the basis of management agreements. However, there is also no guarantee of secure earnings for owners in the case of long-term leases, for instance, if the operator has losses over an extended period. With hybrid contracts it is possible to allocate the risk between the operator and the owner by means of special provisions in the contract. In addition, the long-term earning power of a hotel is influenced by the position of the hotel property in the competitive environment.

In view of this, a systematic analysis of the strengths, weaknesses, opportunities and threats of the specific object, the real estate or company portfolio with a focus on the analysis of the hotel management agreement are of essential importance in hotel transactions. It is therefore recommended to perform a due diligence examination in advance of a planned transaction (buy side: buy side due diligence; vendor side: vendor assistance, vendor due diligence, financial fact-book). We support the vendor in particular in the preparation and provision of reliable financial and real estate data.

A detailed analysis, evaluation and documentation of the object of the transaction, on both the real estate as well as company level, including the market and location, should also serve as the basis of investment decisions and strategic action.

In the context of a transaction-preparatory accompaniment, we analyze the projections on the basis of the historical financial statements, the current development of the results and the market environment. We consider the financial, fiscal and legal aspects* associated with the acquisition or sale of a hotel property and examine the economic consequences resulting thereof. In close cooperation with you and your other advisors, we investigate the opportunities and threats of the transaction. We document these for you and your financiers or – if desired – for possible investors. We show the influences and the necessary actions for your transaction team. The resulting, comprehensive view of the target company serves you in the determination of value, development of the offer, determination of the negotiating points and the initial steps for the integration.

The result of our work is a wide-ranging transparency of the object of the transaction.

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Valuation of hotels and hotel companies

Knowledge about the value retention of a hotel, hotel real estate portfolio or a hotel company plays a key role in decisions regarding the sale or acquisition of an object.

The knowledge of the value of a hotel or hotel company is just as necessary in the context of a planned transaction and the possibly resulting financing/refinancing needs as in the accounting, fiscal and legal requirements.

KPMG's specialized staff has the relevant experience in the appraisal of hotel real estate in accordance with national and international appraisal standards. Amongst these are the structuring of investment alternatives for inventory and project developments, feasibility studies of investments, purchase price allocation, financial modeling and qualitative and quantitative assessment at the corporate, portfolio and real estate levels.

A specialized focus may, in this case, be the independent determination of the market value of the specific hotel/hotel portfolio with special consideration of the management agreement and the income structure at the management level.

At the corporate level, our services consist of compiling indicative or strategic valuations or expert opinions and the support of corporate planning and its plausibility.

Of course you will receive a transparent and comprehensible presentation and documentation of the method and the results of real estate and corporate valuations.

Strategic advice

Project development

Two critical factors for the success of hotel projects – the location and the concept – are stipulated by the project development of a hotel real estate and characterize the hotel operations and therefore the earning power of the real estate for the entire lifecycle of the object. Subsequent influences are generally only possible with great difficulty and also associated with high costs.

It is therefore necessary that a careful analysis of these factors is performed as early as the planning phase of a hotel property. Amongst the factors to be investigated are, above all, the macro and micro-location of the project property, the economic concept of the hotel, the room and function program, the layout and architectural design of the real estate. Our specialists support you in these specific issues from the initial project idea to the opening of your hotel. One focus should be the feasibility and the long-term economic basis of the development measures, whereby the cost structure of the hotel's operation as well as customary remuneration structures for the hotel's operator must be taken into account. In the framework of the feasibility study we also illuminate the market environment and model a possible future market development. We determine the most suitable product type (hotel category and furnishings) for the specific site. We assess the architectural concept and analyze the usage compatibility. If needed, we accompany you during the construction phase with the building audit.

Search for hotel operator

Along with the location and concept of your hotel property, a third success factor – the hotel operator – should be investigated with regard to its economic success and experience, the market connection of the hotel and the operator's credit-worthiness. We would be happy to address your potential hotel operators and accompany you through the entire approval process up to the submission of contractual offers for the operation of the hotel. Following the evaluation of the offers, we present you with the relevant details and support you in the negotiations right up to the signing of the management agreement.

Naturally we support you in the operational phase of hotel with business and fiscal analyses as well as with internal and external benchmarking of the critical success factors of the hotel.

Further services

In addition, our services also include:

- Support regarding the value-oriented management of hotels
- Advice in the portfolio strategy
- Advice in investment strategy
- Advice in location strategy
- Advice in market entry and exit strategies

Restructuring

Of course we support you in crisis situations with expert advice. In such cases a quick implementation of the required restructuring measures is absolutely necessary so as to avoid a further loss of value. To be able to reliably make the decisions, which may have wide-ranging consequences, it is important for all the parties involved to have access to robust and solid information, to recognize the possible alternatives for action and to be able to assess these. Here our services are directed at the owners and operators of hotels, strategic investors and financial investors as well as institutional investors and banks.

Our approach

The initial situation is often characterized by a distressed profit and liquidity situation combined with an urgent need for action. In many cases the information basis needed for the particular crisis is insufficient. Our activities begin with a comprehensive assessment of all the material real estate management, fiscal, legal* and financial conditions. The transparency generated serves to determine the stage of the crisis and identify the causes of the crisis. Depending on the situation, we design immediate measures to secure the current value of the invested capital and to avoid further erosion. On the basis of the analysis and the immediate actions required, we develop various mid-term alternative actions for increasing value. The focus of the alternative actions is the reinstatement of the earning power and performance of the hotel property.

The operative measures form the basis for the supplementary financial measures. With the subsequent assessment of the alternative actions, the stakeholders obtain a basis for making decisions about the ongoing engagement. We involve the stakeholder groups in the restructuring processes at an early date so as to assure the acceptance for a rapid and target-oriented restructuring. If necessary, we provide detailed documentation of the restructuring concept and restructuring process to fulfill the legal* and formal requirements for the reduction of liability for the management, creditors and shareholders.

KPMG provides you with comprehensive services adapted to the specific crisis so as to support you in making the right decisions quickly and to limit loss of value. In addition, we support you in the implementation of restructuring measures.

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Our services at a glance

Range of Services Offered

Transaction services

- Advice for vendors/buyers of companies, portfolios and individual objects (M&A) and drafting of contracts*
- Asset and share deals
- Sale and lease back transactions

Due diligence

- Buy-side due diligence, vendor due diligence, vendor assistance, financial fact-book
- Strengths, weaknesses, opportunities and threats analysis; documentation of hotel real estate and hotel companies as a basis for valuation and purchase price negotiations
- Identification of upside and downside potentials of the target company
- Analysis of the documentation of the hotel's revenue structure on asset level as well as aggregation of information on company level
- Assessment of the hotel operator's creditworthiness, of the location's attractiveness and market conditions
- Analysis of drivers potentially impacting the contract as well as the related negotiations*

Valuation

- (Indicative) Valuation of single assets, portfolios or hotel companies according to national and international standards for purposes of transactions, portfolio analyses, financial statement audits and investigations of creditworthiness
- Survey reports for the market value and lending value, feasibility studies including scenario analyses as well as financial modeling
- Expert and strategic appraisal of hotel companies
- SWOT analyses of hotel real estate as well as support regarding plausibility checks of corporate forecasts
- Purchase price allocation

Strategic advice

- Project development advice (feasibility studies, project analyses, auditing of construction projects)
- Search for operators, support regarding the negotiation of management agreements*
- Advice on portfolio strategy and investment strategy
- Advice on location strategy
- Advice on market entry and exit strategies

Restructuring

- As a basis for decisions in situations of crisis
 - Brief hotel analyses, plausibility checks, analyses of potential
 - Independent business review
 - Preparation of comprehensive restructuring concepts (according to standards of Institut der Wirtschaftsprüfer IDW S6)
 - Preparation of insolvency plans
- Implementation of restructuring processes
 - Support regarding negotiations with stakeholders, especially with regard to extension of credit/ refinancing and with basic financial restructuring
 - Active development and implementation of measures, subsequent controlling
 - Implementation of an efficient and effective reporting system
 - Cash management/monitoring
 - Immediate measures to stabilize earnings and liquidity
 - Support regarding exit strategies
 - Support regarding insolvency and liquidation

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Our locations – our know-how

- National team with more than 40 professional staff in six locations
 - Team members hold degrees in business, engineering or real estate management and have years of experience
 - Qualifications as real estate experts, tax advisors, auditors, members of the Royal Institution of Chartered Surveyors (RICS)
 - Close collaboration with KPMG’s worldwide Building, Construction & Real Estate network
- Cross-functional cooperation in KPMG’s international Transport & Leisure network
 - Team members with years of professional experience
 - Cooperation with generalists and specialists in the hospitality industry
 - Global project experience in the hotel sector

Competence in the hotel real estate market

More than hardly any other real estate investment products, hotels are subject to the direct influences of the market environment and the general economic situation. In contrast to conventional types of usage such as residential or office buildings, the long-term earning power of the real estate is based on the hotel operations and its competitive environment.



With hotel companies the long-term success results from a combination of location, real estate and market-specific aspects.

We will accompany you as a reliable and competent partner in this sensitive market. Our sector-experienced advisors help you to take advantage of general conditions for your success. We would be pleased to assist you in any issues regarding hotel real estate.

Please get in touch with us – we would be happy to advise you!



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