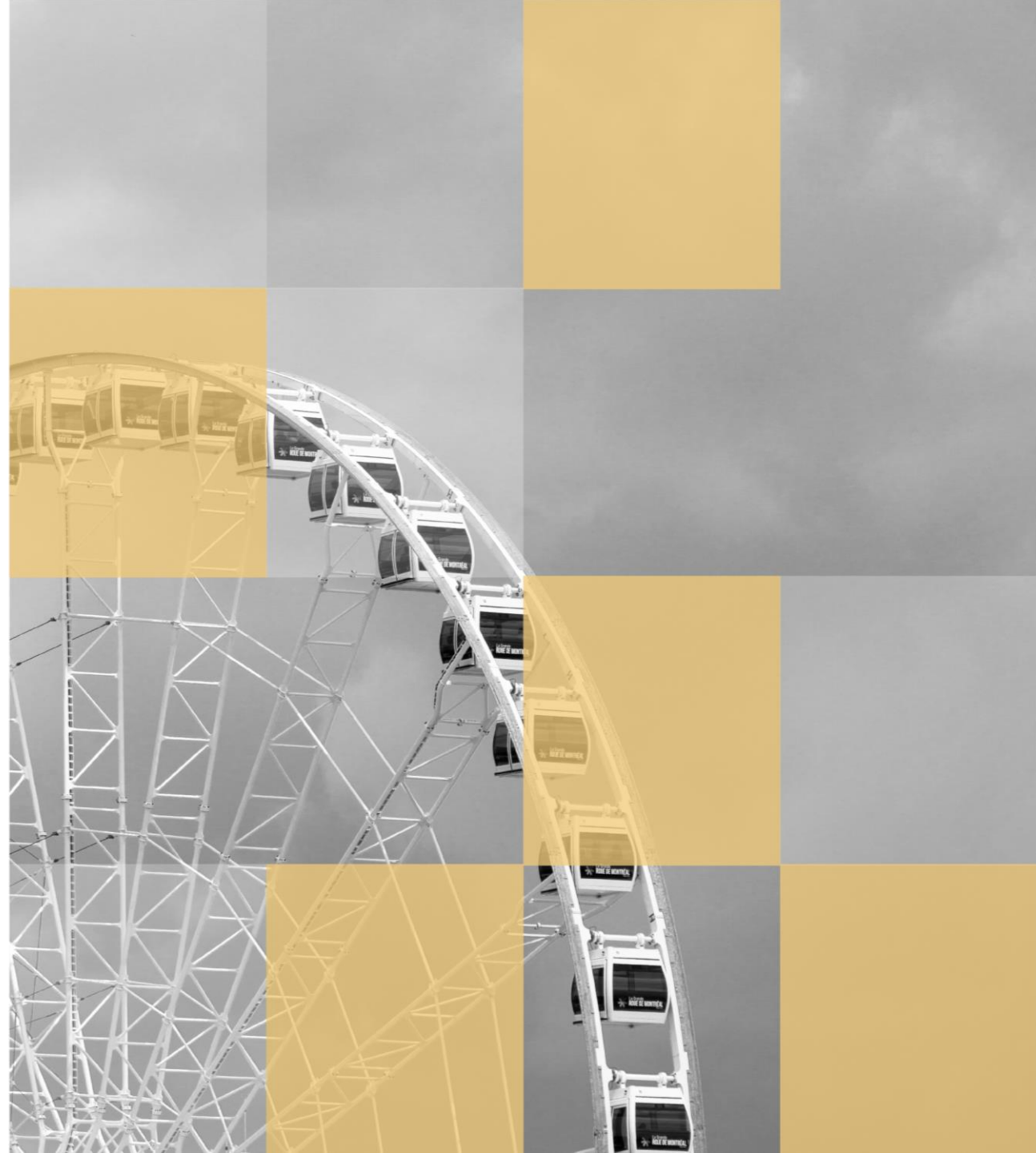


Fund^otels

Regional Hospitality Financing

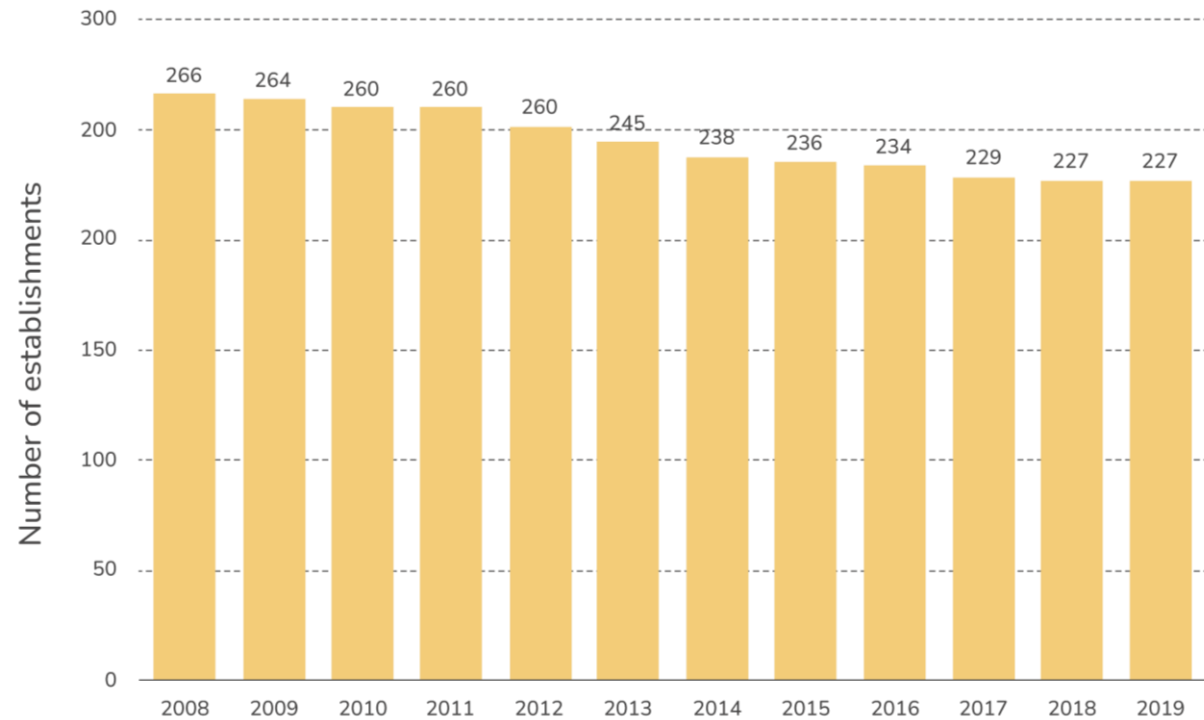




The Current Situation

- Regional hotels are arguably some of the most important buildings within the rural community; a place to eat, meet and celebrate for the local population. Hotels also create jobs both internally, through the supply chains and the wider economic benefits of providing patrons for local businesses.
- While there are no authoritative studies on the regional hotels of the Grand Duchy of Luxembourg, a report commissioned by the IHK of Koblenz concerning Rheinland Pfalz was completed in October 2018 (please see the attached presentation)

Number of Hotels and Similar Establishments in Luxembourg 2008 - 2019



The graph only tells half the story given that hotel accommodation was growing during the period in Luxembourg city while hotels were closing in the countryside.

This graph represents the pre-Covid hotel scene in the Grand Duchy, the post-Covid impression will not look the same as a number of properties in the 227 of 2019 no longer operate.

Average room sizes of accommodation outside of Luxembourg city is 27 rooms per unit.

Travel Trends for 2023 and beyond

Air-Travel costs will remain consistently higher than pre-covid levels for the foreseeable future owing to the oil price.

Disposable income for leisure will continue to be a challenge owing to inflation.

Ecological concerns will continue to drive low environmental impact travel.

The travel experience is taking precedence over the mere function of accommodation.

Regional and cross-border tourism will continue to be the dominant tourism for the majority in Europe.

Why are hotels ceasing operations?



Without proper training in the processes and procedures of how to attract the business, it is difficult to adjust to the world of online distribution for hotels.

A great many hotel owners may have children that do not want to take over the businesses that they saw struggle.

Those same children would have worked without pay for years and seen fit to take on another career path.

How many hotels are concerned?

Further to discussions with the ORTs of the differing regions in the Grand Duchy there are on average four hotels per region that are either looking to sell or have no succession plan

With five regions taken into account and six hotels per region, this is potentially 30 hotels that are not certain of being operational in 2024.

30 hotels represents just under 20% of the current hotel inventory in the regions of Luxembourg

For an impact assessment of what happens when the hotels close or are converted into Senior Homes / apartments / offices one needs only look at Echternach and what has happened to the local commerce and tourism offering

The Goal



Small regional hotels need to stop closing thereby creating opportunities for regional tourism to continue and develop while providing jobs.



The jobs that are existing in the regions need to be maintained.

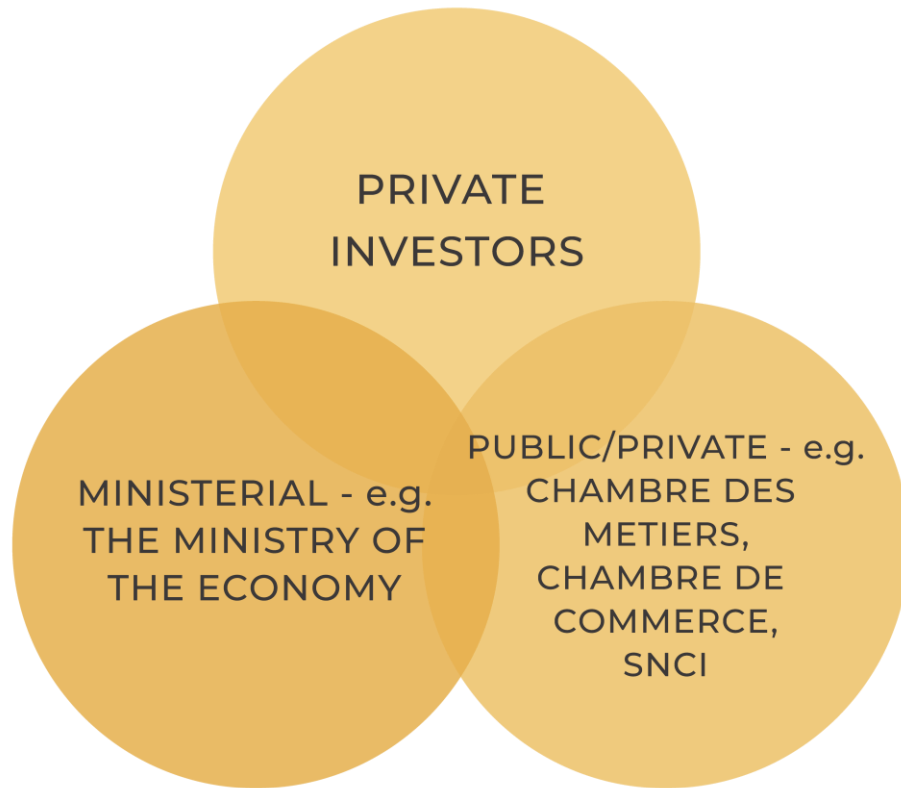


Investment needs to be made in regional hotel infrastructure to ensure a desirable product is available.



A self-sufficient and sustainable future for Luxembourgish tourism needs to be established.

How will this be achieved



A fund will be created in conjunction with various state entities and the private sector.

Each party contributing 1/3rd to create a fund capable of making an impact.

Whatever sums are raised by the Private Investors are matched by the Ministerial and Public/Private entities.

How much money is necessary

1

The target for the fund is to raise EUR 50 million in private money meaning that the fund would generate EUR 150 million to commence operations.

2

There would be no 'shares' as such but instead, 'units' enabling dividends to be calculated on a quarterly basis with the first payments established 18 months post creation of the fund and proceeding every 6 months thereafter.

3

Once invested, money cannot be extracted for ten years for the general public.

What are the Estimated returns of the fund?

- There are two measures : Financially and the greater good
- Financially, the monthly rent of each property will represent 25% of total turnover (*while this is at the higher end of the scale, savings will be made elsewhere in the P&L through the consolidated purchasing and RegiÔtels support*)

- The average country hotel in Luxembourg has:

AVERAGE NO OF ROOMS		32
AVERAGE RATE	€	90.2
AVERAGE OCC		53%
AVERAGE ROOM REV	€	457,778.8
AVERAGE F&B REV	€	438,162.6
AVERAGE TOTAL REV	€	895,941.4

- Based on these figures, one could expect:

AVERAGE ANNUAL RENT	€	223,985.4
AVERAGE MONTHLY RENT	€	18,665.4

- Naturally, this is the current status per hotel, not including revenue optimisation.

Average Purchase Price of a Hotel in Luxembourg

- As a hotel entity, the hotels are less valuable than a residential building. It is for this reason that hoteliers when they can, either transform their hotels into refugee centres (as in the case of Hotel des Cascades, many years ago, or Graace Hotel more recently).
- A hotel with 44 rooms in Remich will sell for more than a 150 room hotel in central London simply because the 'PAG' is more flexible in Luxembourg as is the case with the Saint Nicolas (in Remich)
- The fund has to account for the fact that the long-term investment is just that and a minimum of 20 years is expected to recover the full costs, hence the unusual nature of the make up of the fund





How will the fund be managed

- The Fund Manager will be Gregory Tugendhat.
- There will be management support from Simmons & Simmons for compliance, regulatory and structure optimisation and Dupong Immobilier advising on property acquisition.
- The fund will be an open-ended fund with a minimum deposit term of ten years.
- The fund's investments will focus solely on the Grand Duchy of Luxembourg.
- 50% of the portfolio will be hotels that are currently closed and require renovation, 50% will be going concerns to ensure an income.

Why is Gregory Tugendhat a suitable Fund Manager?

- Gregory has a unique knowledge of the Luxembourgish hospitality market from leading the Sales, Marketing & Distribution for Accor over three years when the portfolio represented more than 33% of the county's hotel inventory
- For the past five years, Gregory was General Manager of the largest private hotel group in Luxembourg while simultaneously establishing RegiÔtels
- This project requires an expertise in Operational Management of small independent hotels, the digitalisation and revenue optimisation of such hotels as well a profound understanding of the challenges facing the industry with the ability to bring solutions
- The hotel sector in Luxembourg needs a dynamic paradigm shift to ensure survival for which Gregory has been at the forefront for over 8 years
- Through his involvement in the creation of the MICE cluster, and by extension, the LCB; the collaborative authoring of the report on Circular Economy renovations for hotels; his continued work teaching the next generation of hoteliers at the EHTL and the work in conjunction with the Ministry of the Economy to digitalise the hotels within the Grand Duchy, Gregory is uniquely placed to deliver on this completely innovative solution

What will the Alternative Investment Fund do?

▶ The fund will focus on buying depressed or closed assets in the communities as determined by both the ORT and the analysis of the asset in question.

▶ The fund will pay for the renovation of hotels using circular economy principles (*please refer to the attached presentation 'Circular Hotel Interiors' from May 2019, created by +ImpaKT Luxembourg Sàrl and RegiÔtels Sàrl*) and where possible, Luxembourg suppliers

▶ Trophy assets such as the Hotel Oranienburg in Vianden or the Hostellerie de la Basilique in Echternach will be targeted throughout the Grand Duchy – key properties in key locations

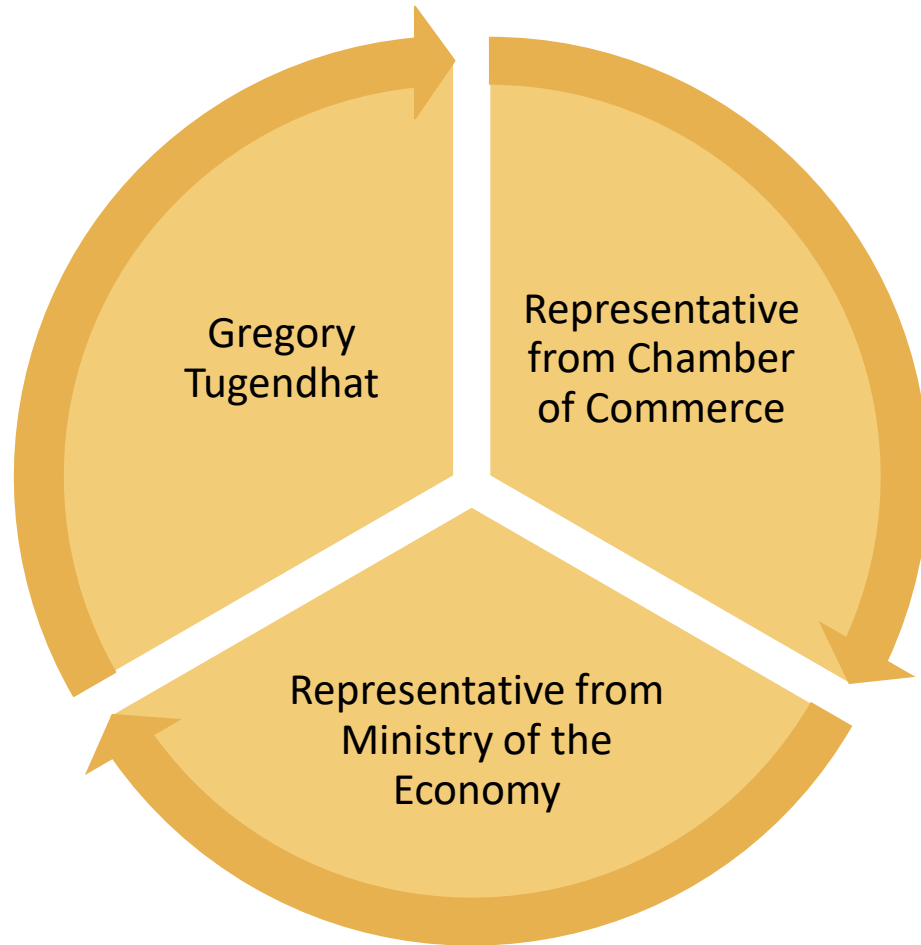
▶ Create a grouping of loosely affiliated properties benefiting from economies of scale will ensure a survival of the rural hospitality sector and ensure that tourism can continue to thrive in Luxembourg

How will the fund be different?

- ▶ The fund will be focussed on **Impact investment**
- ▶ A critical mass of hotels will enable the fund to make a visible influence on 'greening' renovations – clean energy (solar and wind), water capture & treatment and geothermal heating options integrated into the renovations
- ▶ Again, a critical mass of hotels would enable the circular economy initiatives to be adopted on a large enough scale to be considered best practise throughout Luxembourg and beyond



What are the stages to get to an Impact Fund?



From the outset, a Joint Venture (JV) would be created with each party putting in €10,000 in share capital and a board comprised of equal shareholders formed in July 2022

The JV would then be funded by an alternative investment fund (AIF) managed by Gregory Tugendhat with an impact investment strategy in the Luxembourg hospitality sector

It is expected that private investors will be indirectly onboarded in the JV through the AIF by September 2022 with a 1/3 of the JV being funded by these private investors

How would the Joint Venture be structured?

A board would be established with the purposes of ensuring that the JV adheres to the goals of the government of the Grand Duchy of Luxembourg and then proceeds to establish an AIF to drive the impact desired

All fund investment decisions would be taken with initial JV board approval

Operators would need to present their case to the board to manage the businesses

Oversight of the fund returns would be by the board

How would the hotels function?

1

Once renovated and open to receiving guests, each hotel would be independently run. To make the prospect of running the hotel more profitable and therefore more appealing, the purchasing would be consolidated – bedding for one hotel would not be the same price as for ten hotels.

2

Through the assimilation of ownership, economies of scale would be achieved for purchasing of materials, fixtures, fittings and even insurance. The consolidated purchasing is vital to keep costs low and assist in ensuring the profitability of the hotels

3

The Sales, Marketing and Distribution would be managed by RegiÔtels to ensure optimal profitability from a revenue perspective

Who would rent the hotels?

Couples and Individuals wishing to change careers without a vast sum of money being put at risk (normally one would need to purchase the asset prior to commencing).

A combination of those seeking to diversify their skills, graduates of EHTL, individuals wishing to have an on-the-job training experience prior to launching their fully independent selves.

Regional hotel management companies hoping to expand and develop or even a hotel d'Application for the EHTL



What would the hotels look like?

01. There would be no branding of hotels, they would appear as independent unaffiliated properties to ensure the character and feel is unaltered.

02. In each hotel, there will be a focus on the regional Luxembourgish products: local honeys, and jams such as framboise, quetsch, pear, mirabelle..etc liqueurs, home made quince jams and jellies, roses and rose artistic soaps, hand knitted objects.
Lux. Art, pottery, boosting also handicrafts

03. In short, hotels would appear much as they do today only fully upgraded for the digital world and appealing to a new generation of traveller.

Why Should This plan be Adopted?

This plan:

- Encourages, stimulates and maintains regional employment.
- Maintains rural tourism and its affiliated benefits for the regions of Luxembourg.
- Provides numerous opportunities for those new to Luxembourg wishing to settle in and make a contribution by finding readily available work in entry-level sectors.
- Ensures that the buildings do not fall into ruin and maintains the status of each location.
- Promotes Luxembourg as a centre for Circular Economy hotel transformations.
- Ensures that the wider benefits of retaining jobs in the regions is encouraged.

Where is the precedent?

The Ville de Luxembourg established a fund to redevelop the city centre and buy out all of the 'indivisions' from the owners to renovate the dilapidated buildings.

That fund is still running and is in profit from the rents generated through gentrification.

An example of a success story is the Parc Beaux Arts hotel managed by Goeres Hotels, owned by the Ville de Luxembourg.

The initial stages of the fund will be as a Joint Venture – a private and public collaboration. The precedence here is the **Bettembourg Logisitcs Park** – a successful and pragmatic approach to creating a logistics hub and adding value throughout the distribution chain



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