Newsletter (26) - Redeveloping Historic Property for Hospitality

(1) Introduction

In this week's newsletter, we examine how value can be created through the redevelopment of historic properties, also known as heritage assets, into hotels and branded residential. Heritage assets are structures of historical, artistic or cultural significance, and are frequently protected. This trend is not new, dating back centuries to when convents would be converted into inns. However, recent years have seen an acceleration in the trend especially within the luxury sector attracting capital from opportunistic investors.

(2) Appeal of Historic Assets

Today, major private equity and real estate investors are converting these unique properties into luxury hotels and branded residences with F&B offerings to unlock substantial value. The main questions are therefore what is bringing these assets to market and why are investors seeing opportunities in their redevelopment.

Following the COVID-19 pandemic, publicly owned real estate disposals and office obsolescence are bringing heritage assets to market in prime locations, particularly in European capitals. This has generated opportunities for investors to reposition these assets to unlock value in markets where real estate is scarce, trades at low cap rates and faces regulatory restrictions on new development. However, barriers to entry are high. Redevelopment often requires a change of use, whether to convert obsolete office space or give a new purpose to buildings whose original function is no longer viable. This limits the opportunities to investors willing to bear the costs and uncertainty of securing approvals, and with the creativity and expertise to envision and execute the redevelopment. Such assets are therefore particularly relevant to opportunistic investors. Despite these costs and constraints, such investors also see upside in preserving the features that make the buildings historic, such as their distinctive architecture. Renovation also reduces material use and embodied carbon compared with demolition and rebuilding, while technological progress can facilitate the integration of modern services. Fiscal incentives for qualifying works may further improve these projects' viability.

In this context, luxury hospitality is a particularly suitable use as it generates commercial value from both the location and the historical character. Central locations provide access to cultural attractions, F&B outlets and luxury boutiques, while distinctive architecture makes the building itself part of the experience being sold. Grand reception rooms can become restaurants and lounges, while other historic spaces can accommodate suites or shared amenities. Features that may be difficult to use in a modern office can therefore help attract hotel guests and command a premium, making their preservation central to the revenue case. This fit is strengthened by wealthy travellers' demand for distinctive stays and cultural experiences, which Europe's historic cities are particularly well placed to offer. The potential customer base is also expanding: Knight Frank estimates that the global population worth over $30 million grew by around 29% between 2021 and 2026 while European hotel demand grew by 5% in 2025, against supply growth of only 3.3%. Together, these conditions create an opportunity for investors to turn underused historic buildings into distinctive luxury hospitality assets in supply constrained locations, generating value from the very features that make their redevelopment complex.

Orion's investment in Palazzo Salviati Cesi Mellini, a former bank in central Rome, illustrates this process of value creation. Acquired for €95 million in 2018, it was transformed into Six Senses Rome, with interiors by Patricia Urquiola, before being sold for €245 million in 2023, approximately 2.6 times the acquisition price. The purchaser, Gruppo Statuto, is one of Italy's premier luxury real estate investors who have cornered the market of heritage assets, the group's portfolio features operators such as Four Seasons, Six Senses and Mandarin Oriental.

Investors extend this strategy through mixed-use projects combining hotels with serviced apartments, branded residences, F&B and ancillary services. These uses provide different sources of demand and routes to capital recovery, although they also add complexity. London's Old War Office (The OWO) is a good example, combining a Raffles hotel with 85 branded residences. Accor reported one turret residence selling for more than £118,000/m² in 2021, compared with an average of approximately £10,900/m² across Pimlico, Westminster and Victoria in Q2 2026. This shows the immense pricing potential of a historic property with exceptional architecture and luxury branding.

(3) Leveraging Historic Properties to Anchor Lifestyle and Luxury Portfolios

From the operator's perspective, the investment case becomes more than acquiring a historic building. Operators are seeking distinctive assets in established markets where demand is strong and new hotel supply is constrained. CBRE's 2026 outlook on European hotels shows that inbound travel is expected to grow by 6% and the projected five-year CAGR on room-night demand and travel spend significantly outweighs the same-period predicted supply growth. This constrained supply increases the value of existing buildings in prime locations, particularly where new development is difficult due to land scarcity or heritage restrictions. This requires operators to preserve the building's identity while using its character to support brand differentiation, premium pricing, multiple revenue streams, and demand revenue from both hotel guests and local customers. SAX Paris exemplifies how this can be done.

SAX is a 118-room hotel that was converted from a 1899 telephone exchange in the 7th arrondissement of Paris. Hilton's LXR brand opened the property as its first hotel in France. Its central location in Paris and historical background provide differentiation, but do not automatically result in commercial value. The operator combined accommodation with several complementary uses, including Restaurant Le SAX, rooftop Kinugawa, a garden, outdoor pool, spa, fitness facilities, and event spaces. These uses broaden the asset's potential customer base, creating revenue opportunities beyond room sales. Hilton describes the SAX as "a refined gathering place where travellers and Parisians come together." In May 2026, SAX was refinanced with €102 million from Natixis CIB and Generali Real Estate SGR, with financing having a term of up to five years. While refinancing does not prove profitability or successful stabilized operations, it does indicate that the asset has become financeable and was considered sufficiently valuable to support institutional lending.

Hôtel de la Cité is a 19th century neo-Gothic hotel located in Carcassonne's medieval fortress. It includes 46 rooms and 13 suites, spa, gardens, and Michelin-starred La

Barbacane. The property's value is closely linked to its setting and historical identity. Guests are purchasing access to a distinctive cultural destination, not only a room. The hotel operates within Accor's MGallery Collection, which comprises 128 hotels and 14,843 rooms as of June 2026. MGallery operates as a collection rather than a conventional chain. This scale gives the property access to infrastructure such as loyalty programs, marketing and reservation systems, and international distribution, while allowing the hotel to retain its own architectural and historical identity. The value of the model is therefore not that it makes every hotel identical but that it standardizes the platform around the property while keeping its unique aspects intact. The same model that makes historical properties commercially scalable also creates a requirement for careful execution. The brand must add value to broaden its consumer base without making the property feel generic.

Operators create value through positioning, customer acquisition, F&B programming, revenue management, and service delivery. SAX creates an urban destination from a historic building, while Hôtel de la Cité uses a collection brand to distribute a heritage experience. The operator's contribution is to increase the building's earning capacity by aligning its physical characteristics and location with an appropriate brand, target customer, and revenue model. Heritage alone does not generate value automatically. Its uniqueness and differentiability must be translated into occupancy, room rates, F&B income, event demand and other measurable revenue sources. However, preserving the character that attracts customers can also introduce operational complexity, higher maintenance, difficulty standardizing the property, and possible pressure on margins. These tensions determine whether the additional value from history and heritage can justify the technical, regulatory, financial, operational and ESG risks of redevelopment.

(4) Unlocking Value Through Branded Residences and Mixed-Use Plays

Branded residences and mixed-use redevelopment are increasingly used to unlock value from existing assets. By combining luxury hotels with private residences, F&B and leisure facilities, developers can diversify revenue streams while creating differentiated destinations. Heritage assets are particularly attractive for this strategy, as their architectural character and locations can provide a competitive advantage in established luxury markets.

The OWO in London's Whitehall illustrates this approach. The Grade II* listed government building was transformed into Raffles London. The Grade II* designation identifies buildings of particular historical or architectural importance, requiring their significant features to be preserved. For residential buyers, the appeal extended beyond the property itself to hotel-style services and amenities. For developers, selling individual residences provides an alternative to retaining the entire property as an income-producing asset, generating substantial upfront proceeds.

Branding can also translate into higher residential sales prices. In a February 2026 analysis, Savills reported an average global price premium of 33% for branded residences compared with comparable non-branded properties. In global cities, where buyers have greater access to competing luxury developments, the average premium was lower, at 30%. These figures suggest that established brands can create measurable value, although the premium varies by location, brand and scheme.

Moreover, higher sales prices do not automatically translate into superior investment returns: luxury amenities and ongoing service provisions increase costs, meaning the additional value generated must justify the associated expenditure. A complementary example is The Whiteley in Bayswater, formerly London's first department store. Its redevelopment combines private residences with a Six Senses hotel and spa, retail, restaurants and leisure facilities. Rather than simply converting a historic commercial building into residential accommodation, the project aims to create an integrated destination serving residents and visitors alike.

From an investment perspective, mixed-use developments can combine upfront residential sales with recurring hotel and commercial income. Complementary uses may also reinforce one another, as hospitality services enhance the residential proposition and retail facilities contribute to the wider destination. Nevertheless, these projects involve considerable complexity. Heritage restrictions, restoration costs and the integration of modern infrastructure can increase development expenditure, while multiple uses require distinct operating models. Ultimately, heritage-led redevelopments offer investors alternative ways to monetise established assets. The OWO demonstrates the potential of combining heritage with luxury branding, while The Whiteley illustrates the broader opportunities of adaptive reuse. Both strategies depend on whether the value created through repositioning and diversification sufficiently compensates for the associated costs and risks.

(5) Risks, Regulations & Returns

Heritage assets offer an attractive investment opportunity, but they come with several layers of risk. Their success depends on whether the value created by the asset's location, heritage and positioning exceeds the cost and complexity of adapting an older building to modern hotel standards.

Historic assets may contain technical risks such as structural defects, outdated MEP systems, inefficient layouts or insufficient back-of-house space, potentially making them less compatible with current hotel standards. These uncertainties increase the likelihood of budget overruns compared with new-build assets as integrating modern systems into an older structure may also require bespoke and expensive solutions. Furthermore, many nations have planning regulations specifically addressing heritage assets. In France, works affecting a classified or registered Monument Historique, or a property located within a protected area known as a Site Patrimonial Remarquable, may require specific heritage authorisation in addition to ordinary planning permission. Applications may be reviewed by the Architecte des Bâtiments de France (ABF), a state-appointed heritage architect responsible for assessing whether the project preserves the architectural, urban and landscape qualities of the site. In the UK, a historic building may be listed, meaning that it is officially recognised as having special architectural or historic interest. Altering such a building may require both ordinary planning permission and Listed Building Consent. These requirements can restrict façades, windows, interiors, extensions, signage, rooftop additions and building services. The key financial risk is not only outright refusal, but also conditional approval, which may reduce the number of rooms or amenities delivered and therefore limit future revenue.

These challenges frequently cause delays, during which the investor continues to incur interest, financing fees and other holding costs without receiving operating income. A late opening can postpone the hotel's occupancy and ADR ramp-up, reducing IRR and weakening debt-service coverage. Delays may also result from planning amendments, heritage conditions, construction complexity or the limited availability of specialist contractors. Moreover, the aforementioned delays shift the calculations regarding construction-cost inflation, interest-rate movements and changes in exit yields. Cost overruns or higher financing expenses increase total development cost and reduce the yield on cost. The project must therefore generate a sufficient spread between its stabilised yield on cost and expected exit yield to compensate investors for the additional redevelopment risk.

Operational and market risks are closely interconnected in heritage assets. The selected hotel segment must be compatible with the building's physical constraints and supported by a sufficiently demanded location. A luxury positioning may generate a higher ADR, but it also requires larger rooms, high-quality F&B and leisure facilities, greater staffing levels and significant capital expenditure. Knight Frank's H1 2026 French Hotel market report, stated that upscale and luxury hotels in the Greater Paris region achieved 76% occupancy, a €309 ADR and €236 RevPAR, up 3.6% YoY. In Central London, Knight Frank's Q2 2026 Hotel Dashboard reported Q2 RevPAR of £335 and GOPPAR of £151 for Luxury hotels, compared with £100 and £55 respectively for Select-Service hotels. The report also highlights the contribution of F&B and leisure revenues to TRevPAR (Total Revenue Per Available Room) growth across several segments. For developers and investors, this means that segmentation must be determined during the feasibility and design stages. The proposed concept should be tested against local ADR, occupancy and RevPAR benchmarks, while the building's ability to support the required operating model should be assessed before committing to the redevelopment plan. A mismatch between the building, the positioning and the market could result in higher costs, weaker margins and lower exit value; conversely, a well-matched concept can convert heritage and location into pricing power, stronger NOI and more resilient investment returns.

Developers and investors must also reconcile heritage preservation with modern energy and sustainability requirements. Historic hotel conversions can retain their architectural identity while achieving recognised sustainability standards such as BREEAM. However, protected façades, windows and interiors can restrict conventional energy-efficiency interventions, making bespoke and potentially more expensive solutions necessary. This challenge is becoming more significant under the EU's revised Energy Performance of Buildings Directive, which requires Member States to target the worst-performing 16% of non-residential buildings by 2030 and 26% by 2033. ESG upgrades increase upfront capital expenditure, but can reduce energy costs, improve operating margins, support access to green financing and protect the asset from future obsolescence. ESG should therefore be viewed not only as a compliance obligation, but also as a value-protection strategy.

(6) Conclusion

Historic properties have emerged as a valuable asset class for opportunistic investors in many European capitals. The cases examined demonstrate how opportunistic investors can use heritage assets to unlock substantial value. Primarily, by redeveloping them into luxury hospitality assets such as hotels and branded residences, given that they have the creativity

and expertise to envision and execute the redevelopment while leveraging the unique nature of the property. In the examined cases, this has been done through common factors such as experienced operators and prime locations. Redevelopment does not come without the challenges and capital expenditure required to undergo such restoration due to the quality clients have become accustomed to within this market segment. With prime real estate becoming scarce in major European markets, redevelopment remains as one of the few opportunities to add value to protected assets such as heritage properties.