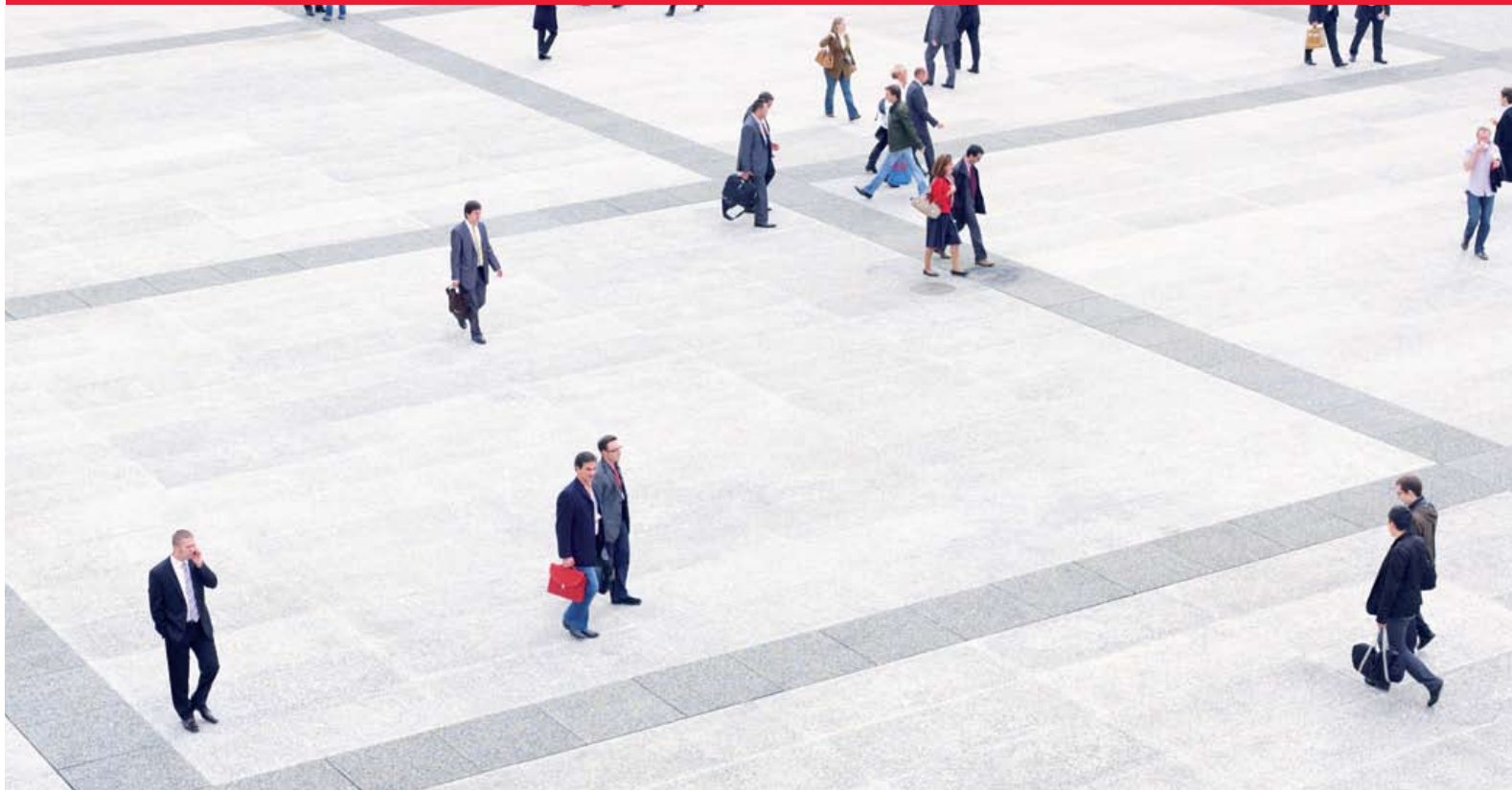


# *Best placed to grow*

## European cities hotel forecast 2011 & 2012

**October 2011**

*NEW hotel forecast for  
17 European cities*





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# Introduction

Europe has the biggest hotel and travel market in the world, but its cities and its hotel markets are undergoing change. Countries and cities alike are being buffeted by new economic, social, technological, environmental and political currents. Europe has already begun to feel the winds of change as the old economic order shifts eastwards and economic growth becomes more elusive. While some cities struggle, hotel markets in other, often bigger and better connected cities prosper. For many countries provincial markets have been hit harder than those in the larger cities.

In this report we look forward to 2012 and ask which European cities' hotel sectors are best placed to take advantage of the changing economic order. Are these the cities of the so called 'old' Europe or the cities of the fast growing 'emerging' economies such as Istanbul and Moscow? What will be driving the growth? What obstacles do they face? Will the glut of new hotel rooms built in the boom years prove difficult to digest?

The 17 cities in this report are all important tourist destinations. Some are capitals or regional centres, some combine roles as leading international financial and asset management centres, transportation hubs or tourism and conference destinations. Some like London and Paris are major economies in their own right, of a size larger than medium-sized national economies such as Sweden or Switzerland. We have provided some city rankings for comparison, but of course it's not just about growth rates. Each city operates at differing levels of maturity and profitability and they are all at different stages in the hotel cycle, reflecting wider global and domestic macroeconomic drivers as well as demand elements specific to that city.

This report combines PwC's\* recognised econometric forecasting and macro-consulting expertise with its extensive hotel and travel capability across Europe. We have forecast the outlook for demand, average daily rates (ADR) and revenue per available room (RevPAR). The economic forecasts were generated based on PwC's own economic forecast scenarios (September 2011). Details of the method and assumptions used to compile the forecasts can be found in the appendix. We have used a variety of reputable statistical sources which include: hotel benchmark data series and supply data from STR Global; other supply and tourism data from national tourism organisations, Lodging Econometrics, Euromonitor International and other commercial sources; and economic data from Eurostat, Turkstat, National Central Banks and Thomson Reuters DataStream.

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## Key findings

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“Most markets bounced back in 2010 and 2011, although many still remain below their pre-recession RevPAR peaks”

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## 10 key findings

1. Despite unsettled times hotels remain a bright and resilient sector.
2. Different themes play out across the cities but most have bounced back from the past downturn, when declines in RevPAR of 20% or more were common.
3. Still, hotels in many cities remain below pre-recession RevPAR peaks.
4. Cities like London, Paris, Istanbul and Amsterdam stand out from the crowd with strong recoveries.
5. The five cities forecast to show highest annual RevPAR growth from 2010 to 2012 are: Stockholm (11.3%), Istanbul (10.0%), Amsterdam (9.0%), Dublin (8.8%) and London (8.3%).
6. For 2011, Istanbul, Dublin and Amsterdam will enjoy double digit RevPAR growth but by 2012 only Stockholm is expected to see growth in double figures.
7. In other cities where the economic outlook is less bright we see a less inviting outlook for the hotels sector.
8. A word of caution: the star quality of the cities analysed may not be indicative of the state of the hotel sector in the country as a whole – key cities tend to perform better than provincial locations.
9. There will be support for those cities with relatively resilient domestic economies and in some cases geo-political events such as the ‘Arab Spring’ may continue to benefit alternative tourism destinations, such as Istanbul or Barcelona.
10. The impact of austerity measures on consumer, corporate and government spending on travel is a concern. A continued business travel recovery is crucial to deliver the growth we forecast, but inevitably the economic slowdown and sovereign debt crisis will weigh on this sector.

# Setting the scene: recent European trading

## 2011: H1 rebound and H2 slowdown

*Each country has its own unique hotel sector characteristics and Europe-wide metrics pose almost as many questions as answers. We hope that by focusing on European cities this report provides readers with some interesting comparisons.*

### 2010

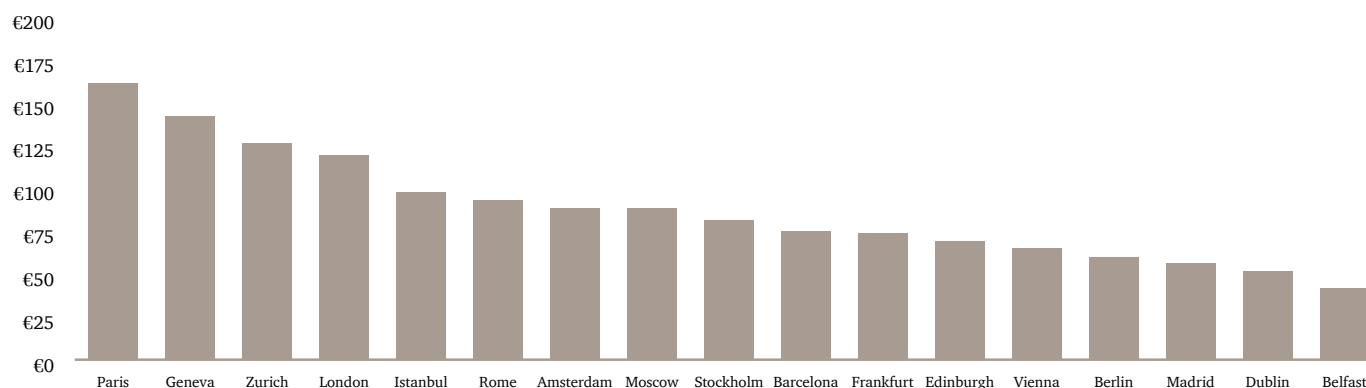
That said, it's useful to try to draw together the recent European trading scene. The financial downturn in 2008 and 2009 hit the hotel sector badly and in many cities hotels saw demand slump and prices tumble. For many countries their provincial hotel sectors saw, and continue to see, harsher trading conditions than the key cities. Chart 1 shows the RevPAR picture in the cities in this survey in 2010, a year of steady recovery for many cities and of very robust growth for others. London topped the occupancy league at over 83%. After converting ADR and RevPAR from local currencies to Euros, Geneva had the highest ADR at €217.5 and Paris the highest RevPAR at €161.6. A more detailed historical trading picture can be found in the Cities Forecasts on pages 22 to 42.

### 2011 to date

2011 is almost over and trading has enjoyed a strong first half for many. But performance has started to reflect the economic mood swing since August and according to data from STR Global, European RevPAR was materially weaker in August than in July. Occupancy remained firm, but for many countries rates weakened.

According to a report from Citi Group based on data from STR Global, core European countries appeared to perform most strongly e.g. France and Spain delivered strong performances in August (+8.5% and +8.8%) while Germany was +3% and the UK was +4.5% in sterling terms. Weaker performing countries were Turkey, Hungary and Israel.

**Chart 1: 2010 RevPAR in the 17 cities**



Source: STR Global 2011

Note: Calculated from local currencies, except Istanbul which has been converted from Euros.



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***The cities best placed to grow***

# 2011 forecast: waving the recession goodbye?

*Many of the cities have managed to wave goodbye to the recession as they continue to recover at their own pace and pattern. Some global cities such as London and Paris have thrived.*

We expected all but one city to see further growth in 2011. Many, like Amsterdam enjoyed a robust 2011 H1 performance. Some, including London and Barcelona enjoyed an exceptionally strong Q2. Yet, others benefitted from political events. Others saw stronger growth potential blocked by over supply. Table 4 shows the full 2011 and 2012 forecast. Key results include:

## Double digit RevPAR growth for a few...

- We expect four cities to see double digit RevPAR growth in 2011. These are Istanbul (by a large margin and with its second successive year of double digit growth), Dublin, Amsterdam (also its second year of double digit growth) and Barcelona.

## ... and good RevPAR growth for many...

- 8-10%: London (double digit growth in 2010) and Rome manage strong growth even if RevPAR doesn't get into double figures.
- 6-8%: Vienna and Paris (double digit growth in 2010).
- 4-6%: Moscow, Madrid, Edinburgh and Stockholm.
- 2%-4%: Zurich, Geneva and Berlin (double digit growth in 2010).
- Less than 2%: Frankfurt (following spectacular 22% RevPAR growth in 2010).

**Declines:** Belfast where hoteliers could see their third year of RevPAR declines – albeit the rate of decline appears to be slowing.

**Table 1: the 2011 cities forecast**

% change on previous year (ranked by RevPAR % growth)

	Occupancy	ADR	RevPAR
Istanbul	-1.8%	21.7%	19.5%
Dublin	6.1%	5.7%	12.1%
Amsterdam	4.2%	7.0%	11.5%
Barcelona	8.5%	1.7%	10.4%
Rome	3.7%	5.5%	9.4%
London	-0.8%	8.9%	8.1%
Paris	-1.0%	7.5%	6.4%
Vienna	1.7%	4.5%	6.3%
Stockholm	1.8%	3.7%	5.6%
Edinburgh	3.9%	1.1%	5.1%
Madrid	3.7%	0.9%	4.6%
Moscow	0.4%	3.7%	4.1%
Zurich	1.9%	1.3%	3.2%
Geneva	3.1%	-0.2%	2.9%
Berlin	3.3%	-0.8%	2.5%
Frankfurt	0.1%	1.5%	1.6%
Belfast	0.1%	-7.6%	-7.5%

Note: Percentage change calculated from local currencies, except Istanbul which has been converted to Euros.



# 2012 forecast: lonelier at the top

*Despite considerable uncertainty around the economic outlook, the road ahead still looks positive for most of the cities we have analysed, although the rates of growth are slowing. But the risks are firmly to the downside.*

## By 2012 it's likely to become more lonely at the top as double digit RevPAR growth eludes most cities ...

In 2012 we anticipate only Stockholm will manage double figure RevPAR growth, reflecting the Swedish economy's strong recovery from recession, although it is expected to slow markedly in 2012.

### ... and more will see lower RevPAR growth than in 2011

- 6-8%: London and Amsterdam.
- 4-6%: Berlin, Madrid, Moscow and Dublin.
- 2-4%: Vienna, Barcelona, Paris, Geneva.
- Less than 2%: Istanbul, Edinburgh, Zurich and Frankfurt. The specific reasons are discussed in detail in the City sections but include considerable new openings and some challenging comparisons with 2011.

**Declines:** marginal declines for Rome and Belfast.

### Best placed to grow 2010-2012

Looking across 2011 and 2012\*, the five top performing cities are Stockholm (11.3%), Istanbul (10.0%), Amsterdam (9.0%), Dublin (8.8%) and London (8.3%).

**Table 2: the 2012 cities forecast**

% change on previous year (ranked by RevPAR % growth)

	Occupancy	ADR	RevPAR
Stockholm	8.6%	9.5%	17.3%
London	1.7%	5.7%	8.3%
Amsterdam	2.0%	4.4%	6.5%
Madrid	3.2%	2.3%	5.6%
Moscow	2.5%	3.0%	5.6%
Dublin	2.8%	2.6%	5.5%
Berlin	1.4%	3.6%	5.0%
Geneva	2.4%	0.9%	3.3%
Paris	0.6%	1.9%	2.6%
Barcelona	1.1%	1.3%	2.4%
Vienna	1.4%	0.6%	2.1%
Frankfurt	0.9%	0.8%	1.7%
Edinburgh	0.5%	1.1%	1.6%
Zurich	0.8%	0.3%	1.2%
Istanbul	3.1%	-1.8%	1.2%
Rome	-3.4%	3.4%	-0.1%
Belfast	6.1%	-6.5%	-0.9%

Note: Percentage change calculated from local currencies, except Istanbul which has been converted to Euros.

# Which European city markets are best placed to grow in 2012?

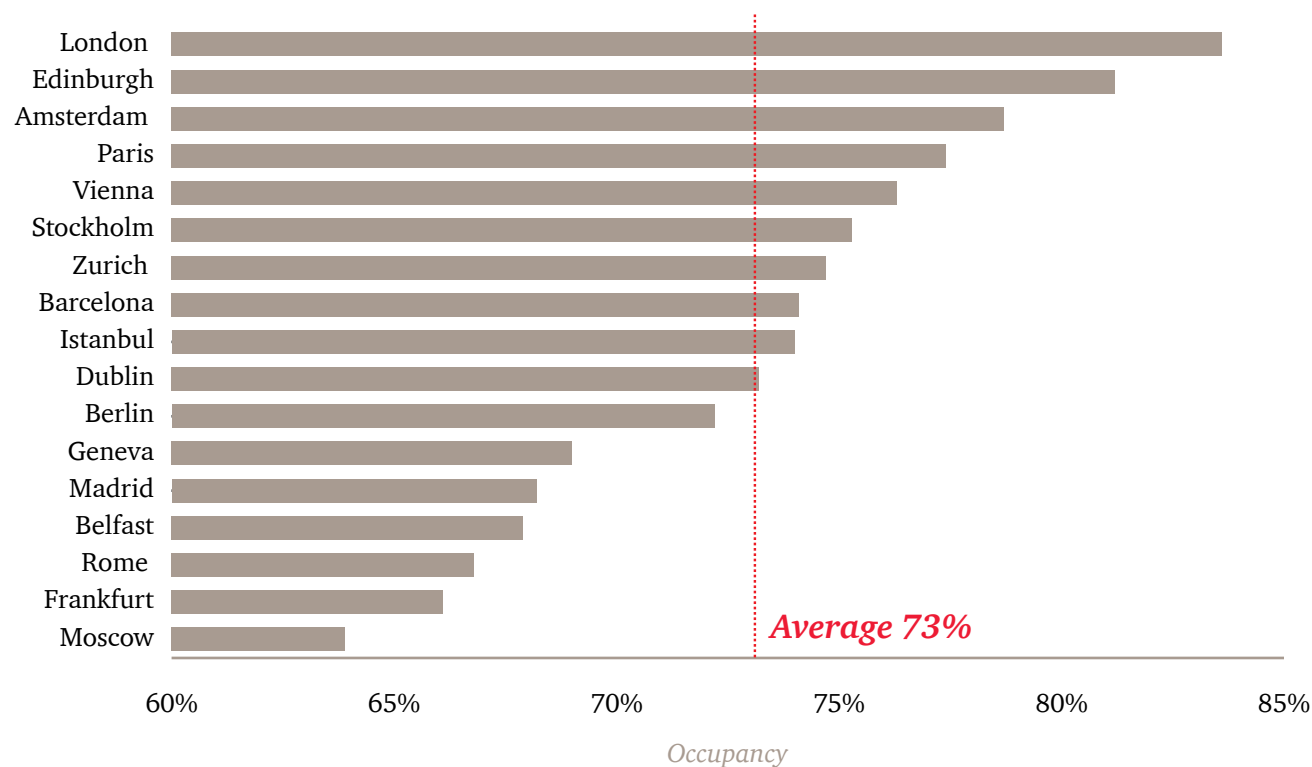


Forecast RevPAR growth 2012

● >16% ● 6-16% ● 4-6% ● 2-4% ● 0-2% ● <0%

# The fullest cities: London, Edinburgh and Amsterdam

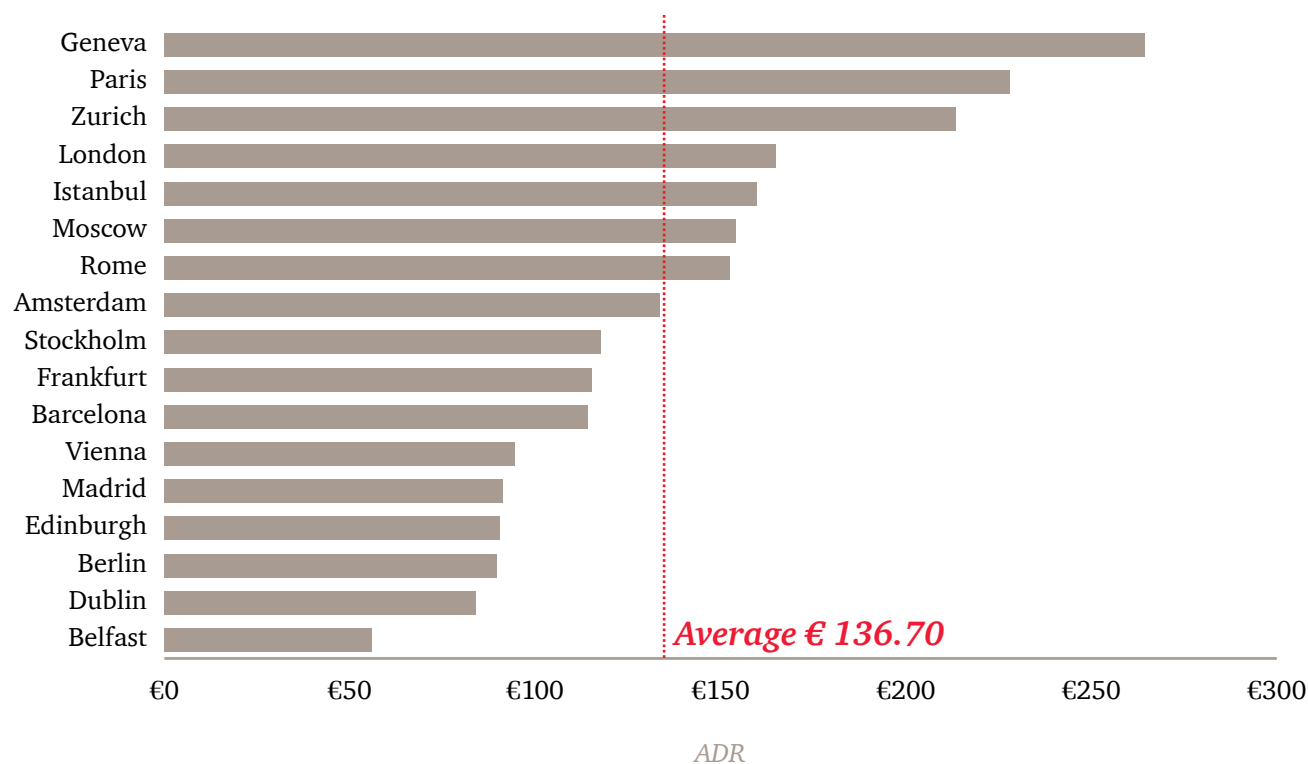
## 2012 forecast for occupancy



- Of course it's not just about growth rates, each city operates at differing levels of maturity and levels of profitability and many are at diverse stages of the hotel cycle.
- Looking at occupancy levels, London operates at a very high level, virtually full in peak months. We expect 2012 will see the capital fill further as the Olympics come to town.
- Edinburgh, Amsterdam, Paris, Vienna and Stockholm could all see occupancy in excess of 75% in 2012.

# The most expensive cities: Geneva, Paris and Zurich

## 2012 forecast for ADR

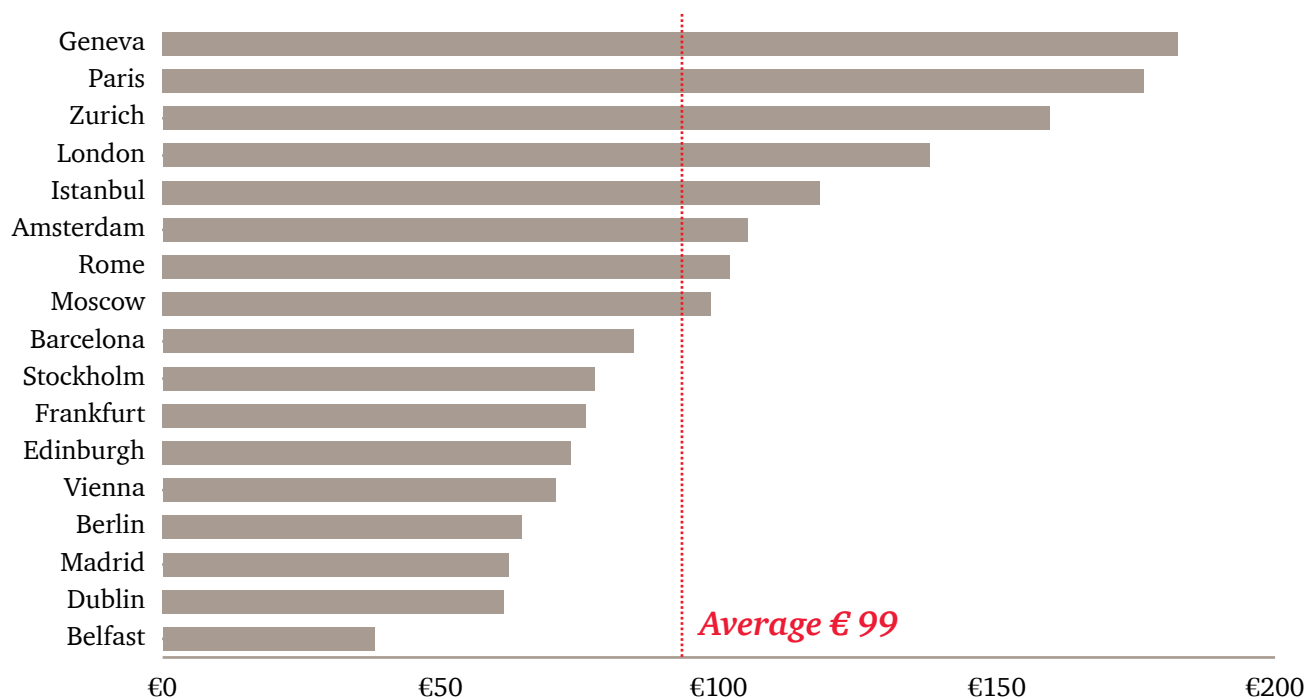


- Looking at our ADR predictions for 2012: at one end of the spectrum are Geneva, Paris and Zurich, where average ADR could exceed €200. (For Geneva ADR could be close to €265.)
- At the other end of the spectrum Vienna, Madrid, Edinburgh, Berlin, Dublin and Belfast have ADR under €100.
- Not so good for hoteliers in these cities at the lower end of the ranking but good value for consumers.

Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011

# The highest RevPAR: Geneva, Paris and Zurich (again!)

## 2012 forecast for RevPAR



- High occupancy and rates growth translates into high RevPAR forecasts in 2012.
- Geneva may see RevPAR reach €183. Zurich also sees RevPAR over €160 and for London it's more than €120.
- Istanbul, Amsterdam and Rome could all see RevPAR exceed €100.

Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011



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# *Economic and travel outlook*

# It's a divergent economic outlook

*Business travel demand is closely aligned to GDP growth, especially the business investment element of growth. Consumer demand for travel depends largely on disposable income levels. Different macroeconomic variables clearly have a varying impact on cities. Confidence is key and the current outlook is highly uncertain.*

## **Sovereign debt crisis continues into the autumn**

The Eurozone sovereign debt crisis intensified over the summer and threatened to engulf the larger, “too big to fail” economies of Spain and Italy.

There is considerable uncertainty over the outlook for Greece and other Southern European economies. This has also damaged confidence in European banks, many of which have high exposure to sovereign debt.

## **Growth of core Eurozone nations stalled in the first half of the year**

The latest data suggests that the sovereign debt crisis has spilled into the real economy. Weak growth figures in core nations such as Germany and France in Q2 2011 have caused growth projections for 2011 to be marked down.

## **Simultaneous fiscal austerity will act as a drag on economic growth going forward**

The majority of European economies are implementing fiscal austerity packages to reduce government borrowing and to help ease market concerns over fiscal sustainability.

In the short term, we expect the resulting tax increases and public spending cuts will act as a further drag on economic growth.

## **What will these economic trends mean for the hotel sector?**

We have seen that despite the modest economic performance across European economies in the first half of 2011, the hotels market has thrived. During the recession businesses and consumers were expected to cut back on spending which is partially discretionary including holidays and business travel. This was indeed the case, with many cities experiencing declines in RevPAR of 20% or more in 2008 and 2009.

Most markets bounced back in 2010 and 2011, although many still remain below their pre-recession RevPAR peaks. The big question now is whether this bounce back will continue for the rest of this year and into 2012 as the sovereign debt crisis threatens to bring about a double dip recession.

The European economic outlook has deteriorated over the last few months. We expect extremely modest growth in most countries with a few exceptions such as Turkey, with growth of 6.2% in 2011 and 3.1% in 2012. Sweden and Russia are also strong performers with growth of over 4.0% expected in 2011, although the global slowdown will take its toll and the Swedish economy is expected to slow markedly in 2012. The weakest performing national economies are expected to be Spain and Italy, which are expected to grow by less than 1% this year. See map.

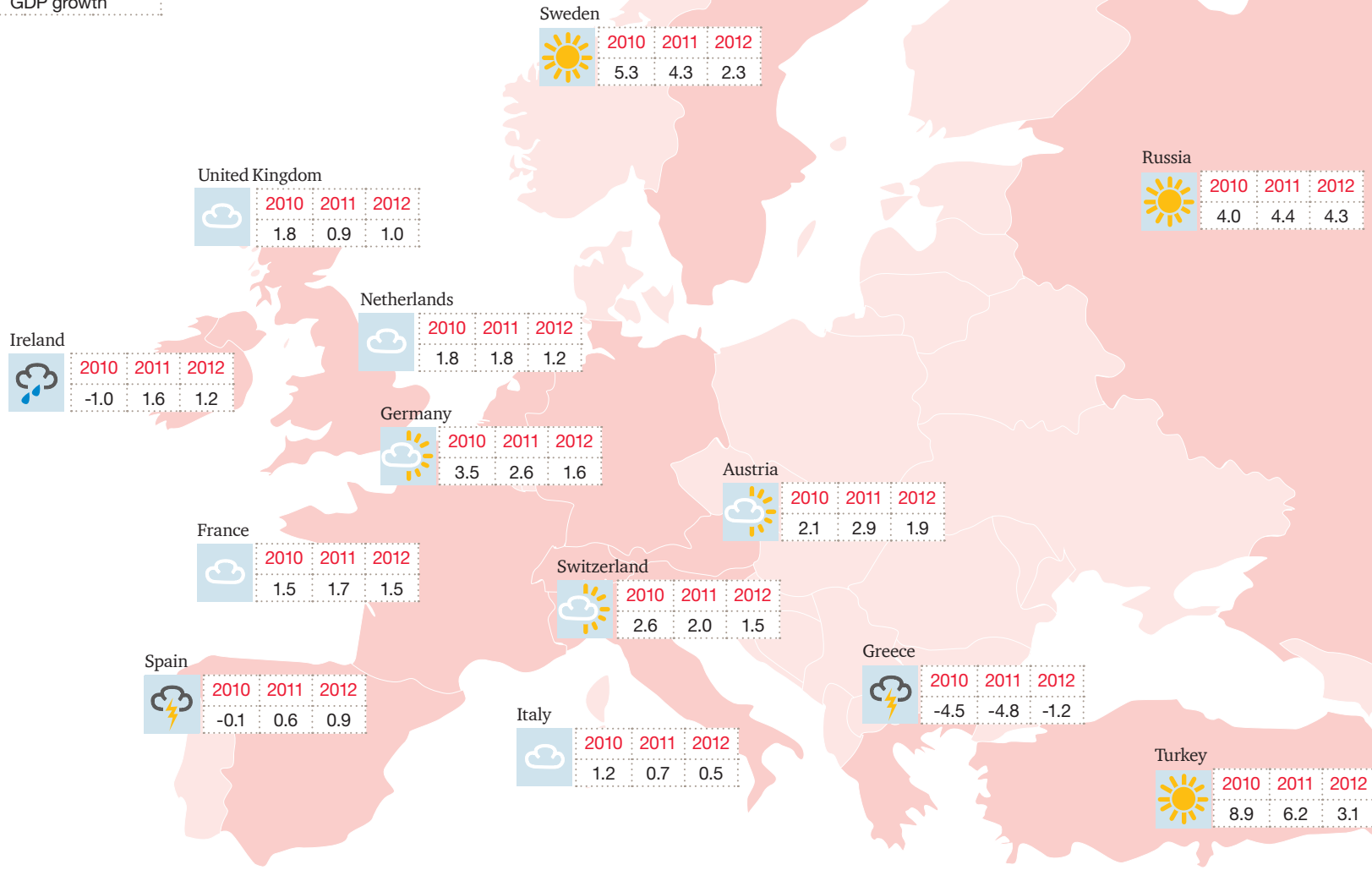
Overall we think the hotel market will remain resilient, albeit with some differing trends across cities. We expect the strongest performers over the next 18 months to be Istanbul, Stockholm and Amsterdam. The hotels sector in each of these cities has shown a searing performance in the first half of the year. Going forward we expect to see support in these cities from relatively resilient domestic economies and in some cases geo-political events. Istanbul in particular has experienced exceptional growth in hotels demand, as political uncertainty in many other Middle Eastern and North African countries has reduced the numbers of tourists elsewhere in the region.

In other cities, where the economic outlook is less bright we see a less inviting outlook for the hotels sector. These cities include Belfast, where growth is likely to be affected by cuts in public spending; and Frankfurt, where a weak financial sector will weigh on business travel in particular.

# The European sovereign debt crisis is far from over

Key to economic 'weathermap'

Outlook	Actual	Forecast	Forecast
	GDP growth		



Source: PwC 2011



# It's a competitive and challenging travel market

## The most visited region

Europe is the most important region of the world for international travel volumes and also generates huge numbers of domestic trips. Europe received around 471 million international tourism arrivals in 2010 (+3% on 2009 according to data from UNWTO). Recovery was slower than in other regions due to the air traffic disruption caused by the eruption of the Eyjafjallajökull volcano and the economic uncertainty.

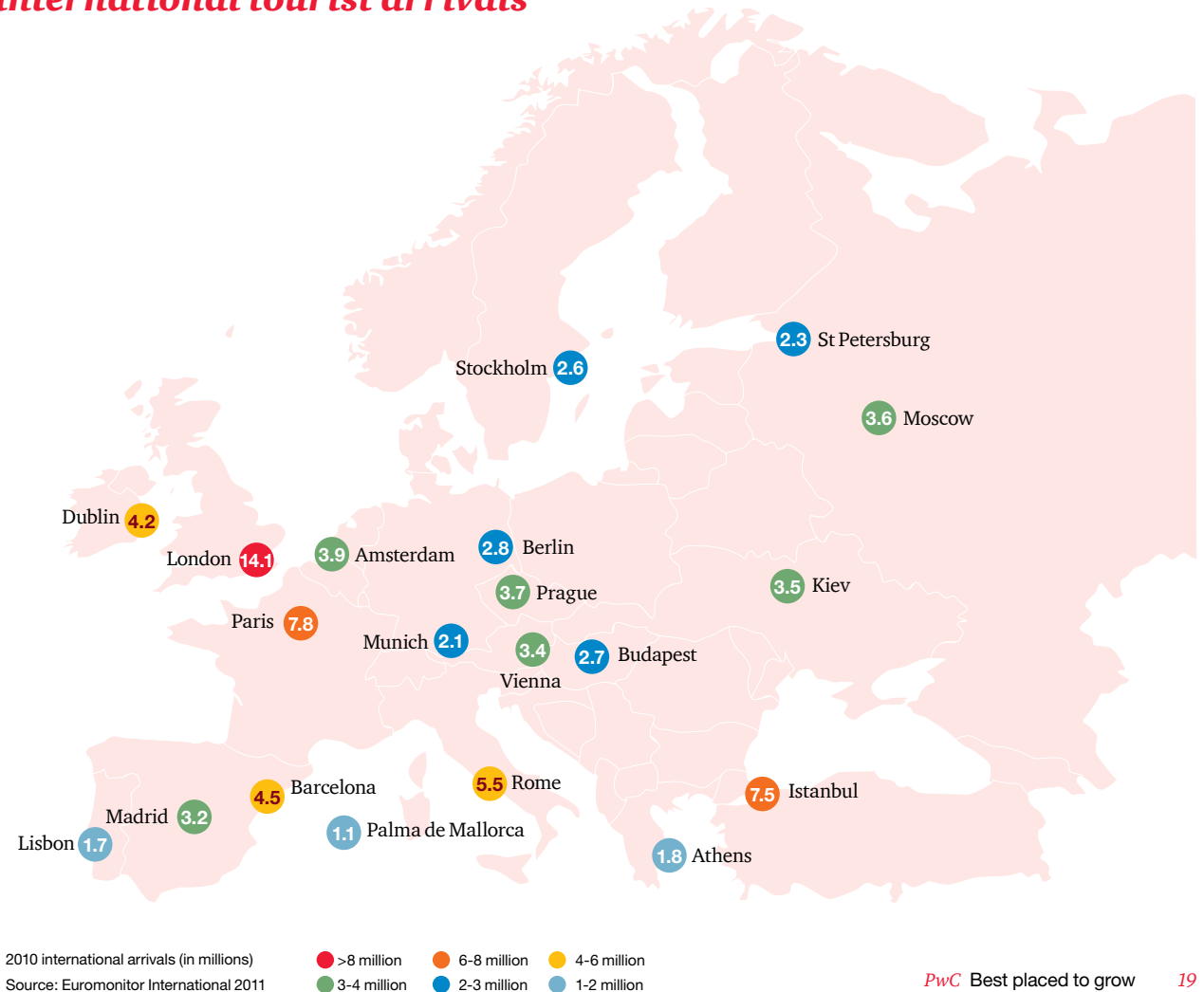
Most travel is intra-regional i.e. Europeans travelling within Europe. In 2011 Russia and France lead intra-European source markets. In terms of non-European markets, US arrivals have been particularly robust.

## And the most visited cities

Consumers value holidays and want to travel and Europe can boast many of the world's leading and most dynamic cities. However, it's an increasingly competitive global travel market. In terms of international tourist arrivals the map shows the most visited European cities in 2010. Four cities had over 5 million international visitor arrivals – London, Paris, Istanbul and Rome. A truly global city, London tops the global as well as European list and receives almost double the volume of international arrivals of the next mega European city, Paris. Barcelona and Dublin follow close behind with 4.5 million and 4.2 million apiece.

“Istanbul is the fastest growing tourism destination in the world, set to receive tourism revenues of \$10.2 billion in 2011, an increase of more than 30% over 2010.”

## Top 20 European destinations by international tourist arrivals



## The spectre of a darker travel outlook looms



### **Why continue to visit?**

The reasons for visiting the cities are diverse. For some like Frankfurt it's mainly business driven. For others like Berlin it's a large proportion of leisure travellers. Equally some like Berlin are driven by mainly domestic demand and others like Geneva mainly international. For the global gateway cities it's a mix, and therein lies their strength.

### **Europe saw a travel rebound in H1 2011 ...**

Data from the European Travel Commission (ETC) in July 2011 reported encouraging travel trends showing that Europe enjoyed a rebound in travel to the region during the first half of 2011.

So far the continued business travel recovery has been very good news for the hotel sector as it continues to recover from the 2008/9 financial crisis. Broadly speaking companies acknowledge they have to travel to grow but remain down on excess and drive a hard bargain looking for value and flexibility.

Consumer household budgets remain under pressure in many countries and although holidays remain important for our wellbeing,

cash strapped consumers may find affording them harder. Hotels are unlikely to be on the 'shopping list' for austerity hit households. On a positive note, PwC research earlier this year showed that holidays remained a top spending priority for European households. Interestingly other key priorities involved paying down debt.

On balance, for many cities leisure travel remains an important demand driver and consumers have adopted ways of stretching their budgets, including 'shopping clever' as they trawl the internet, look for deals and shorten their length of stay.

### **... but prospects are for a less promising H2 2011 and beyond**

As global economic worries intensify, uncertainties around the sustainability of the travel recovery grow. ETC anticipate that growth in travel to Europe will slow in the remainder of 2011, as comparisons are made to stronger performance in 2010 and as the sector fights against the challenges of weak economic growth. Overall it is unlikely that travel volumes and spend will bounce back quickly. The spectre of a darker travel outlook looms over Europe.

# Supply: if you build it, they may not come

## Digesting new supply can be problematic

The current economic climate and financing drought has slowed up new development across many areas of Europe and while this may have mitigated some of the impact of the recessionary slowdown, the concrete mixers and cranes have still been busy.

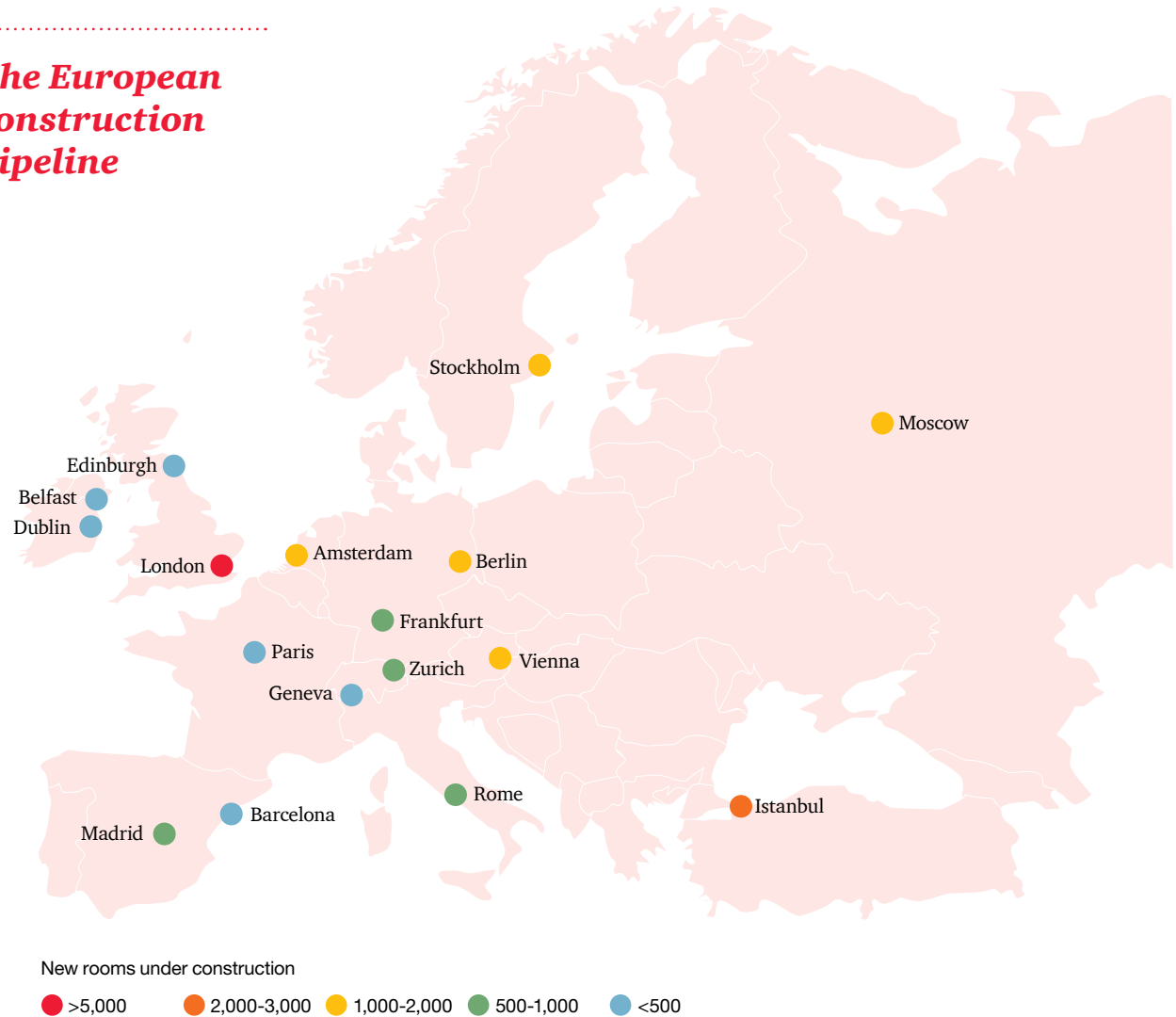
For others the legacy of past over-building continues to hover over the sector and the city reports show there are still plenty of new hotels dragging down occupancy and rates, e.g. Berlin or Madrid.

Data produced by key hotel benchmarking companies including STR Global and Lodging Econometrics track hotel development pipelines across Europe and show around 122,000-125,000 rooms in the pipeline in Europe. Of this, some 330-400 hotels (54,000-71,000 rooms) are under construction.

Where are they all being built? STR Global lists the largest pipelines (as at July 2011) in UK (particularly London in advance of the Olympic Games), Russia (in advance of the Winter Olympics 2014 and the World Cup in 2018), Germany, Turkey (especially Istanbul), Italy, France, Spain and Austria. Cities with considerable hotels under construction as opposed to in the pipeline include London, Istanbul, Moscow, Stockholm, Berlin and Amsterdam. In contrast Geneva has little new supply planned.

The concrete mixers and cranes have still been busy in some cities, despite the funding drought

## The European construction pipeline



Source: STR Global July 2011, Frankfurt PwC Research



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***The European cities hotel forecast***  
2011 and 2012

## The European cities forecast 2011 and 2012

**Table 3: European cities annual hotel statistics**

Forecast percentage change on previous year

	2011			2012		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Amsterdam	4.2	7.0	11.5	2.0	4.4	6.5
Barcelona	8.5	1.7	10.4	1.1	1.3	2.4
Belfast	0.1	-7.6	-7.5	6.1	-6.5	-0.9
Berlin	3.3	-0.8	2.5	1.4	3.6	5.0
Dublin	6.1	5.7	12.1	2.8	2.6	5.5
Edinburgh	3.9	1.1	5.1	0.5	1.1	1.6
Frankfurt	0.1	1.5	1.6	0.9	0.8	1.7
Geneva	3.1	-0.2	2.9	2.4	0.9	3.3
Istanbul	-1.8	21.7	19.5	3.1	-1.8	1.2
London	-0.8	8.9	8.1	1.7	5.7	8.3
Madrid	3.7	0.9	4.6	3.2	2.3	5.6
Moscow	0.4	3.7	4.1	2.5	3.0	5.6
Paris	-1.0	7.5	6.4	0.6	1.9	2.6
Rome	3.7	5.5	9.4	-3.4	3.4	-0.1
Stockholm	1.8	3.7	5.6	8.6	9.5	17.3
Vienna	1.7	4.5	6.3	1.4	0.6	2.1
Zurich	1.9	1.3	3.2	0.8	0.3	1.2

Source: Econometric forecast: PwC 2011

Benchmarking data: STR Global 2011

Percentage change calculated from local currencies, except Istanbul which has been converted to Euros.



# Amsterdam

**Role**

Amsterdam is the financial and cultural capital of the Netherlands, home to many large Dutch institutions as well as seven of the world's top 500 companies. The Amsterdam Stock Exchange, the oldest stock exchange in the world, is located in the city centre. Amsterdam's conference centre and main attractions, including its historic canals and museums, draw more than 3.9 million international visitors annually.

**Historical trading**

RevPAR tumbled by 22% in 2009, compared to the prior year, and occupancies fell to 67%, according to data from STR Global, as the economic recession bit hard. 2010 shows a solid RevPAR recovery. Overall ADR saw a 4.5% gain in 2010 and occupancy climbed back up to 74%. Hotel market performance data shows that for the first half of 2011 Amsterdam hotels continued to register robust RevPAR gains of 16% and are getting closer to pre-recession performance.

**Supply trends**

As of July 2011, the Greater-Amsterdam area has around 240 hotels with some 24,000 rooms. The number of hotels is estimated to have decreased slightly compared to April 2010. According to a study by CBRE, many plans for new hotels exist, either as new construction or through reconversion of existing property. Data from STR Global suggest there are around 2,100 rooms in the supply pipeline.

Amsterdam appears to be sticking to hotel policy formulated in 2007 in which the need for 9,000 extra rooms by 2015 was set out.

Notable hotel openings include the Holiday Inn - Amsterdam at Schiphol (April 2011), the Mint Hotel – soon to be rebranded a Hilton (June 2011), Alrov's Conservatorium Hotel (September 2011) and the Crowne Plaza (November 2011).

*“The Amsterdam hotel market has seen an astonishingly fast recovery and could soon overtake pre-recession trading”*

**Opportunities and issues**

Amsterdam's role as a major cluster in business services (such as consulting and IT), transport and logistics, has helped to drive demand from business travellers in recent years. We expect this and the relatively robust recovery to underpin an expansion in the hotels market. In addition, a meetings recovery appears underway aided by investment at the key conference and exhibition centre, the RAI.

**Economic outlook**

The recession in the Netherlands was milder than many other countries. The economy shrunk by a little under 4% in 2009, and has since recovered close to pre-crisis levels. Whilst the Eurozone sovereign crisis is having an effect on Amsterdam and the surrounding areas, we still expect the economy to continue to grow in 2011 and 2012.

However, the minority government is pursuing a path towards fiscal sustainability by implementing a medium-term consolidation plan which aims to reduce the deficit by over 3% of GDP. These measures are already underway and we expect this to drag on economic growth over the next few years.

**Hotel forecast**

- 2011 is expected to see double digit RevPAR growth of 11.5% driven by both rising rates and strong demand.
- At almost 79% occupancy in 2012 could pip pre recession levels.
- Strong demand will buoy up ADR growth to nearly €134 in 2012.
- In 2012 Amsterdam could see record RevPAR levels, in nominal terms, at €105.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	74.1	77.2	78.7
ADR	119.6	127.9	133.6
RevPAR	88.6	98.7	105.1
<b>% growth on previous year</b>			
Occupancy (%)	1.4%	4.2%	2.0%
ADR	4.5%	7.0%	4.4%
RevPAR	16.5%	11.5%	6.5%

In local currency (Euros)  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast



# Barcelona

## Role

Barcelona is the capital of the autonomous region of Catalunya and an important business centre. It is a popular destination for tourists from all over Europe and its hotel structure reflects this. In 2010 Barcelona welcomed 4.5 million international tourist arrivals, according to Euromonitor. It is an important port for cruise ships and a city with a lot of activity in the MICE sector.

Barcelona is a key part of the Spanish economy. As well as being a major tourist hub, the Barcelona area accounts for around a sixth of Spanish industrial production, and attracts approximately a quarter of all foreign investments to Spain.

## Historical trading

Over the last few years, RevPAR declined sharply as a combination of weaker demand and increasing supply impacted hoteliers. But the city remains very popular amongst travellers and occupancy is picking up again as prices fall (tumbling over 16% in 2009 according to data from STR Global). The increasing number of low-cost flights to the city's airport and nearby Girona have been an important factor in stabilising demand. RevPAR increased by 9.6% in 2010 to around €75, following a 23% drop in 2009.

## Supply trends

Supply data from STR Global shows Barcelona has around 460 hotels and 44,000 hotel rooms (as at July 2011). In addition, around 800 rooms are listed as in the pipeline for the city. The majority of hotels are four-star/upscale and above.

*“Barcelona is well placed to capitalise from a recovery in international tourism and occupancy is picking up again as rates fall – low cost flights have been an important factor in stabilising demand ”*

## Opportunities and issues

The high volume of new rooms in the city is likely to continue to depress hotel performance. However, the political uncertainty in North Africa is likely to have a beneficial effect on Spain's tourism sector overall, including Barcelona.

## Economic outlook

Barcelona is a key part of the Spanish economy. As well as being a major tourist hub, the Barcelona area accounts for around a sixth of Spanish industrial production, and it attracts approximately a quarter of all foreign investments to Spain.

Despite this, the weakness in the Spanish economy will weigh on the economy. The government is putting through sharp cuts in government spending, property markets remain paralysed and the banking sector is struggling. We expect little or no growth in the Spanish economy over the next two years.

## Hotel forecast

- 2011 Q1 saw occupancy growth of 5% and in Q2 occupancy was 15% higher than the year before. While our projections expect occupancy to weaken sharply in the second half of the year, the strong Q2 should drive 8.5% occupancy growth in 2011.
- Overall we expect RevPAR to manage a double digit bounce-back in 2011, largely driven by the occupancy recovery.
- In 2012, occupancy and ADR growth is expected to be more restrained. An ADR gain of 1.3% takes ADR to €114.2, still €16 lower than the peak in 2007.
- RevPAR continues to recover slowly creeping up to €84.7, an encouraging trend but still low compared to past peaks.

## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	67.5	73.3	74.1
ADR	110.8	112.8	114.2
RevPAR	74.8	82.7	84.7
% growth on previous year			
Occupancy (%)	8.4%	8.5%	1.1%
ADR	1.1%	1.7%	1.3%
RevPAR	9.6%	10.4%	2.4%

In local currency (Euros)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast



# Belfast

**Role**

Belfast is the capital of Northern Ireland (one of 12 regions comprising the UK) and is the region’s business, conference and financial centre. Two of the region’s three airports are in the Belfast Metro area, as is a deep-water port that facilitates cruise ships.

**Historical trading**

2010 was a difficult year for Northern Ireland’s hotel sector. While demand for self-catering, caravanning and camping grew, the hotel sector suffered due to a reduction in both corporate business travel and the conference market. Average hotel occupancy was the lowest for a decade, exacerbated by a 7% increase in room numbers as new hotels, planned before the recession, came on line. Hotels experienced rising operating costs and diluted earnings, with occupancy levels, at around 64%, well below the 75% experienced in 2007.

**Supply trends**

Overall, Northern Ireland has around 140 hotels, with around 7,750 rooms, the majority in the Belfast Metropolitan area. A spate of hotel investment in the early 2000s came on stream to coincide with the economic downturn, where all sectors suffered from the subsequent overcapacity. Recent land acquisitions and planning applications suggest that confidence may be returning to the sector as two new hotels are planned.

**Opportunities and issues**

In 2012, Belfast will recall the centenary of the sinking of the Belfast-built Titanic on her maiden voyage to New York. The £97 million Titanic exhibition centre expects half a million visitors in 2012 alone and will become a permanent piece of Belfast’s history. Add a new visitor centre at

*Belfast hoteliers are expecting a better year in 2012 with a new Titanic exhibition centre and the Olympics*

the Giant’s Causeway World Heritage site, a peace bridge across the River Foyle in a rejuvenated Londonderry/Derry and the 2012 London Olympics and Belfast’s hoteliers are expecting a busy year.

Nearly a half a million pounds has been invested in Northern Ireland tourism infrastructure and collectively Northern Ireland’s tourism chiefs hope that this will attract more visitors in 2012, persuade them to stay longer and spend more – and then come back and do it again.

**Economic outlook**

Belfast is Northern Ireland’s educational and commercial hub. Fears over the Eurozone debt crisis, and importantly the cutbacks in UK government spending are all combining to slow Northern Ireland’s growth. We expect it to be a lacklustre 0.8% in 2011.

Sluggish growth in the UK and the continued difficulties in the Republic of Ireland are further reducing the prospects for Northern Ireland’s exports and recovery.

**Hotel forecast**

- Occupancy remains flat this year but could see around 6% growth in 2012 taking occupancy to almost 68%
- ADR however continues to struggle and we anticipate further declines of 7.6% and 6.5% in 2011 and 2012 as rates slump to £48
- Hoteliers could see four years of declines in RevPAR from 2009 to 2012, albeit the rate of decline will hopefully slow to -0.9% in 2012. At £32.80 RevPAR would be a record low.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	64.0	64.0	67.9
ADR	56.0	51.7	48.3
RevPAR	35.8	33.1	32.8
% growth on previous year			
Occupancy (%)	-3.2%	0.1%	6.1%
ADR	-8.6%	-7.6%	-6.5%
RevPAR	-11.6%	-7.5%	-0.9%

In local currency (Sterling)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast



# Berlin

## Role

Berlin is the capital of Germany and the centre of the country. It is also a centre for life science, arts, IT, services, political and cultural education, research and the media. Tourism consists of a mixture of business and leisure travellers with 60% of travellers domestic. Conferences, exhibitions and trade fairs are also important demand drivers. In 2010 Berlin attracted 2.8 million international arrivals, according to data from Euromonitor.

## Historical trading

Occupancy saw steady growth between 2002 and 2007, increasing from 59.9% to 69.8% and, although hotel supply in Berlin increased considerably, tourist numbers grew even more strongly. Occupancy declines in 2008 and 2009 were moderate, slipping between -1.0 and -1.3 percentage points. In 2010 occupancy recovered to 68.9% and the figures for the six months to June 2011 exceed the prior year level slightly, according to data from STR Global. Increasing hotel supply in Berlin has depressed prices. ADR yo-yoed between € 79 (2005) and € 88 (2010).

## Supply trends

According to data from STR Global there are around 600 hotels and over 58,000 rooms in hotels in Berlin, with the share of budget hotels increasing. There have been around 3,500 new room openings in recent years and around 3,705 more are in the pipeline. The area around the Berlin main station (Hauptbahnhof) and Schoenefeld, the location of the new international airport, are hot spots for several new hotel projects. A prominent hotel opening will be the Waldorf Astoria between Zoologischer Garten station and the Memorial Church.

*“The area around the Berlin main station (Hauptbahnhof) and Schoenefeld, the location of the new international airport, are hot spots for several new hotel projects”*

## Opportunities and issues

The relatively weak economy in the city is an issue for Berlin. GDP per capita in Berlin lies about 10% below the German average due to a limited number of national and international HQs; a problem that will probably remain for the mid-term. However, Berlin has the potential to improve its status as a European metropolitan city, which could affect the hotel industry positively. The city hosts several national and international fairs; this leads to some performance peaks during the year. The new Berlin Airport (to be opened in 2012) will improve flight connections to Berlin; a positive driver for tourism.

## Economic outlook

Berlin's economy is dominated by the service sector, with around 80% of all companies doing business in services. Until recently, Germany had looked immune to the current Eurozone wide economic crisis, but there are signs that growth may slow in the second half of the year as the prospect of reduced global demand for German exports begins to take its toll.

## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	68.9	71.2	72.2
ADR	87.2	86.5	89.6
RevPAR	60.1	61.6	64.7
% growth on previous year			
Occupancy (%)	2.2%	3.3%	1.4%
ADR	8.4%	-0.8%	3.6%
RevPAR	10.8%	2.5%	5.0%

In local currency (Euros)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast

## Hotel forecast

- The 2011 out-turn sees a 3.3% occupancy gain take occupancy to 71.2% and, although ADR sees a marginal decline, a 2.5% RevPAR gain takes RevPAR to €61.6 – a record.
- In 2012 its more growth and more records broken as occupancy gains take occupancy levels to 72.2%.
- ADR turns positive in 2012 and at €89.6 is the highest since 2001.
- In 2012 RevPAR could see a further 5% growth, taking it to almost €65.



# Dublin

**Role**

Dublin is the capital and economic centre of Ireland. The city is globally recognised as a leading location for a range of internationally traded financial services; pharma and ICT companies e.g. it is home to the (European) headquarters of Google, Facebook, LinkedIn etc. Dublin is the most popular tourist region in the country.

**Historical trading**

The Irish tourism sector has suffered a serious fall in demand over the last few years and hotels experienced some of the sharpest falls in Europe. However, in 2010 occupancy in Dublin grew for the first time in four years to just over 67%, according to data from STR Global. This increase was driven by further discounting and the opening of venues such as the Grand Canal Theatre, the National Conference Centre and the Aviva Stadium. At the same time ADRs continued to decrease by a further 9% to approximately €77.40 in 2010.

**Supply trends**

There are 157 registered hotels with 18,900 bedrooms in Dublin, including nine five-star and 44 four-star hotels according to Fáilte Ireland. Reflecting the economic boom, Ireland and Dublin saw huge growth in hotel and bedroom supply since the 1990s. Much of the hotel supply growth was driven by the availability of capital allowances for investors over a seven year period. There are now issues with oversupply, 2011 being the first year that Dublin has had a decrease in bedroom supply (300 rooms).

**Issues**

Much of the hotel supply growth was encouraged by the availability of capital allowances for investors over a seven year period. Clearly for some stability in the Irish market and for room rates to return to sustainable levels an adjustment in bedroom capacity is required.

*“Room rates will continue to be under pressure as long as there is oversupply in the Dublin market. However, from a consumer point of view, Dublin now has some of the least expensive rooms in the Eurozone.”*

**Opportunities and issues**

Due to the prolonged economic uncertainty, the Irish hotel market is taking longer to recover than other countries. Clearly, for some stability in the Irish market and for room rates to return to sustainable levels, a further adjustment in bedroom capacity is required.

Early indications are that the sector is beginning to see a turnaround. According to the latest CSO figures, overseas tourism numbers in Q2 2011 are up over 15% (240k) compared to the same period in 2010. However, it should be noted that the ash cloud affected tourism numbers in 2010. Numbers were up across all the key markets i.e. UK, America and Europe. There was also a modest increase in ADRs helped by events such as the Ireland-England rugby match in March, the visits of Queen Elizabeth II and the US President in May, which created positive headlines around the world.

**Economic outlook**

The Irish economy has performed stronger than expected in 2011, driven primarily by exports . At the start of Q4, the Central Bank of Ireland revised upwards its growth forecast for GDP for the year. On the other hand, domestic sources of growth remain limited. Tourism is seen as a key driver of Ireland’s economic renewal. Recent Government initiatives to increase tourism include a reduction in air travel tax on passengers leaving Irish airports, a reduction on the VAT rate on a number of leisure-oriented goods and services e.g. hotel rates; a visa waiver scheme for travellers with a UK visa who wish to travel to Ireland.

**Hotel forecast**

It is generally felt that occupancy has and will continue to rise slowly as overseas tourist numbers grow over the next few years. It is unlikely that ADRs will reach the heights of 2007 any time soon. Until such time as the oversupply in the Irish hotel market is addressed there will continue to be pressure on the hotel rates.

- Steady occupancy gains of 6% in 2011 and a more modest 2.8% growth in 2012, taking occupancy to 73.2%.
- Some ADR recovery in 2011 taking rates to almost €82 – still below 2007 peak of almost €109.
- RevPAR will start to creep back and could reach €61.4 by 2012 – still over €20 lower than its previous peak.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	67.1	71.2	73.2
ADR	77.4	81.8	83.9
RevPAR	51.9	58.2	61.4
% growth on previous year			
Occupancy (%)	5.7%	6.1%	2.8%
ADR	-9.3%	5.7%	2.6%
RevPAR	-4.1%	12.1%	5.5%

In local currency (Euros)  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast



# Edinburgh

## Role

Edinburgh is one of the financial and historical centres of Europe, home to a number of large global financial institutions and a variety of cultural attractions. The city boasts a diverse range of features from Dynamic Earth and Edinburgh Castle to the Camera Obscura and Royal Yacht Britannia drawing over 2.5 million visitors each year.

## Historical trading

In 2010 RevPAR saw a significant improvement across the year as a whole in comparison to 2009, a sign that the hotel and tourism industry is beginning to recover following the recession. So far in 2011, this trend has continued as Edinburgh hotels have achieved RevPAR levels closer to those witnessed before the economic downturn. RevPAR peaks during August each year when the city hosts the Edinburgh International Festival which draws visitors to Edinburgh.

## Supply trends

As at June 2011, there are 155 hotels in Edinburgh, offering a total of 10,412 rooms. The number of rooms has increased marginally (2.9%) compared to June 2010. Furthermore, many landlords throughout the city opt for short term lets during the festival, sometimes earning two or three times more than they would from letting their property over a long term period.

Edinburgh city council recently stated that, despite some concerns in the city of over-supply, more hotels are still needed in Edinburgh across all categories.

## Opportunities and issues

A number of events (including the Edinburgh International Festival) are held in the city each year, which means that Edinburgh continues to attract a significant number of visitors on a continuing basis. Also, Glasgow will host the 2014 Commonwealth Games which will have a positive impact on the tourism prospects for Edinburgh.

## Economic outlook

Edinburgh has been consistently one of the most prosperous parts of the UK. The economy of Edinburgh is largely based around the services sector, with tourism and financial services being particularly important.

There is evidence that the depreciation of sterling against the Euro and other currencies has provided a significant fillip for the local market, which is popular with international visitors.

## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	77.7	80.7	81.2
ADR	76.4	77.2	78.0
RevPAR	59.3	62.3	63.3
% growth on previous year			
Occupancy (%)	3.1%	3.9%	0.5%
ADR	0.5%	1.1%	1.1%
RevPAR	3.6%	5.1%	1.6%

In local currency (Sterling)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast

## Hotel forecast

- Occupancy, already high, is expected to end 2011 at around 80.7% and to nudge up higher still in 2012.
- ADR is also well above the UK regional average and should see a gain of 1.1% taking rates to £78 in 2012.
- RevPAR levels should reach £63.3 by 2012, almost back to pre-recession levels.

**“In the UK market, Edinburgh has the highest occupancies and ADR outside London”**



# Frankfurt

**Role**

Frankfurt is Germany’s financial centre and a leading business hub. It is home to the European Central Bank, the Frankfurt Stock Exchange and the German Federal Bank. Business tourism is an important sector for the hotel industry. Overnight stays are also generated by the airport, the second largest in Europe. The fairground hosts some international fairs. Leisure tourism is relatively weak in comparison.

**Historical trading**

Between 2004 to 2007 occupancy in Frankfurt ranged between 62% and 64%, due to low weekend business volumes. During the financial crisis occupancy fell to 60.7% and 58.2% in 2008 and 2009 respectively. Germany’s remarkable economic recovery in 2010 has led to strong gains taking occupancy back up to 65.5%. Pre-crisis ADR remained relatively stable in 2006 to 2008 (€111 to € 113). In 2009 ADR fell 7% to € 105. 2010 saw an 8% boost to almost € 113, driven by economic growth and a VAT reduction for hotels in Germany in 2010.

**Supply trends**

Frankfurt provides around 15,000 rooms in some 117 hotels, according to data from STR Global. Around 58% of the hotel supply is in the four and five star segment and mainly caters for business travellers. PwC research suggests future new development could generate up to 2,500 additional rooms within the next three years. New openings will include two Hilton Hotels at the airport (including a Garden Inn) scheduled for the end of 2011.

**Economic outlook**

The three pillars of Frankfurt’s economy are finance, transport, and trade fairs. The ongoing Eurozone debt crisis has impacted the financial sector. However, there are signs of resilient domestic demand even as global demand slows.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	65.5	65.5	66.1
ADR	112.5	114.2	115.2
RevPAR	73.7	74.9	76.1
% growth on previous year			
Occupancy (%)	12.5%	0.1%	0.9%
ADR	8.3%	1.5%	0.8%
RevPAR	21.9%	1.6%	1.7%

In local currency (Euros)  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast

**Hotel forecast**

- After a robust leap in 2010, occupancy is expected to remain flat in 2011 with only around 0.9% growth in 2012, taking occupancy to just over 66% - high by historic standards.
- ADR remains a little stronger and we anticipate further growth, although not as strong as in 2010, of 1.5% and 0.8% in 2011 and 2012 as rates nudge up to €115 – on a par with 2001.
- ADR drives RevPAR growth of 1.6% and 1.7% in 2011 and 2012, taking RevPAR to €74.9 and €76.1.

*“2011 saw the biennial Frankfurt Motor Show roar into town as well as the annual Frankfurt Book Fair, the biggest book and media fair in the world with around 7,500 exhibitors from 110 countries. However due to the ongoing increases in new hotel supply, room rates achieved during the fair periods do not reach the levels attained a few years ago.”*



# Geneva

## Role

Geneva is Switzerland's second largest tourism destination. An international centre of finance, culture and politics, it hosts many global company headquarters, financial institutions and over 100 international organizations, including the United Nations, the International Red Cross and the WTO. Around 70% of visits are for business. Due to its spectacular setting, it is also a popular tourism destination and the gateway to western Switzerland's mountain resorts.

## Historical trading

Geneva's recent trading has not been as badly impacted by the global economic crisis as some cities but the hotel sector saw some large occupancy falls in late 2008 and 2009. The continued influx of foreign companies to the city, many establishing corporate or regional headquarters, resulted in a steady increase in demand by business travellers. As in prior years, Geneva remains one of the most expensive European cities in regards to room rates. 2010 was a good year for the Geneva lodging market, with an increase in occupancy across all segments. The reduction in ADR was largely compensated by a strong increase in RevPAR – principally driven by the added service offerings introduced by the 5-star properties as part of their facilities upgrades.

## Supply trends

Switzerland's second largest tourism destination, features a current rooms supply of 6,300 rooms, including 24 4-star and 15 5-star properties. New project developments have been limited, due to high property prices, competition for assets by corporate headquarters and limited possibilities of expansion due to the proximity of the French border. No major projects are currently under development.

*“Geneva's recent trading has not been as badly impacted by the global economic crisis as some cities but political developments in the Middle East and Arabic peninsula could well result in reduced summer visits from the Middle Eastern clientele, significantly affecting Geneva's 5-star hotel segment in the coming season.”*

## Opportunities and issues

The geopolitical developments in the Middle East and Arabic peninsula might affect the ability and willingness of the Middle Eastern clientele to travel to Geneva for extended summer stays, resulting in material loss of revenue for the luxury segment.

The continued strength of the Swiss Franc has already started to negatively affect Swiss tourism destinations and a prolonged period of a weak Euro, combined with a further deterioration of European economic performance is expected to eventually have a negative effect on the Geneva market.

The dearth of new hotel projects should help support the sector.

## Economic outlook

Geneva's economy is mainly services oriented. The city has an important and old financial sector which is specialised in private banking and financing of international trade. It is also an important centre of commodity trade.

But the value of the Swiss Franc (which has risen 27% against Euro since June 2010) is having an impact on trade. Exports account for around half of GDP, making Swiss economy particularly vulnerable to an uncompetitive exchange rate. The Swiss National Bank has recently pledged to defend the franc to prevent it rising above €1.2.

## Hotel forecast

- We anticipate slower occupancy growth but occupancy levels could almost reach 70% in 2012 – high by past comparisons.
- ADR is expected to remain under pressure, well below past peaks and see only marginal growth in 2012.
- RevPAR nudges up around 3.3% in 2012 to Swiss Franc 208.9.

## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	65.4	67.4	69.0
ADR	300.7	300.0	302.8
RevPAR	196.6	202.2	208.9
% growth on previous year			
Occupancy (%)	6.7%	3.1%	2.4%
ADR	-3.2%	-0.2%	0.9%
RevPAR	3.3%	2.9%	3.3%

In local currency (Swiss Francs)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast



# Istanbul

**Role**

A centre of cultural tourism thanks to its historic architecture, holy sites and museums, Istanbul (population 12 million) is readily accessible by air (with two airports), land and sea. It's increasingly sophisticated and regulated retail system is a further draw for visitors, as is fair and conference tourism. Already playing a key role in Turkey's economy; this is likely to increase if current plans to move the country's key financial institutions to Istanbul are realised. Istanbul received 7.5 million international arrivals in 2010.

**Historical trading**

Occupancy rate has been largely consistent over the past five years. 2008 and were exceptions due to the global economic crisis. Similarly, increasing trends in rates (ADR) were also disrupted. RevPAR was immediately impacted in 2009, dropping 6.7% against 2008. Demand is high year-round, peaking in May to October.

**Supply trends**

Figures from the Istanbul Culture and Tourism Directorate put the number of beds in Istanbul at 108,340 in 2010. Data from STR Global suggest 348 hotels and almost 33,000 rooms. The majority of rooms are on the European side of the city, and in 5-star hotels. STR also suggest another 18 hotels with almost 3,300 rooms are in the pipeline. Some two thirds of hotels under construction are in the 5-star category.

**Opportunities and issues**

Istanbul is the fastest growing tourism destination in the world, and is set to receive tourism revenues of \$10.2 billion in 2011, an increase of more than 30% over the previous year. The city attracted 7.5m international arrivals in 2010. Istanbul benefits from visa-free travel from numerous countries, (many of them neighbouring Turkey), the number of which looks set to increase.

***“Istanbul is the fastest growing tourism destination in the world, set to receive tourism revenues of \$10.2 billion in 2011, an increase of more than 30% over 2010”***

The global economic shift from west to east will continue to benefit Istanbul, already a financial hub of considerable importance, particularly in terms of conference tourism. This has also been a factor in the expansion of national carrier, Turkish Airlines.

The unrest in North Africa that began in early 2011 has had a positive impact on tourism to Turkey in general and Istanbul will continue to have a share in this.

**Economic outlook**

The Turkish economy expanded at 8.8% in the year to Q2 2011 and the outlook appears far brighter than for the Eurozone economies. A breakdown highlighted strength across the domestic economy, including a rise in private consumption and fixed investment. In addition, recent currency depreciation against the Euro should help exporters to reduce the economy's growing trade imbalance.

**Hotel forecast**

We have converted the Turkish lira projections into Euro and while the appreciation of the lira softens the growth in 2011 somewhat, even taking this into account, there has been a very sharp increase in RevPAR in 2010 and 2011 – particularly the first half of 2011 and our projections are for little further growth in the second half of the year:

- Overall, occupancy is expected to end 2011 down slightly (showing us the importance of Istanbul's role in 2010 as European Capital of Culture). We expect to see increased occupancy in 2012 as Turkey begins to tap into a growing travel-hungry middle class from the emerging markets.
- ADR (converted to Euros) will see a dramatic 21.7% gain in 2011 but fall back by 1.8%% in 2012.
- As a result, RevPAR will also increase significantly, by almost 20%, this year but level off in 2012.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	73.1	71.8	74.0
ADR	133.6	162.6	159.7
RevPAR	97.7	116.8	118.2
% growth on previous year			
Occupancy (%)	15.1%	-1.8%	3.1%
ADR	-2.6%	21.7%	-1.8%
RevPAR	12.1%	19.5%	1.2%

In Euros  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast



# London

## Role

London is the largest urban area in Europe, a mega city and one of the world's largest financial centres. It leads in many fields and global business clusters include creative industries, pharmaceuticals, finance and education. It is the world's leading destination for international tourism attracting over 14 million overseas arrivals in 2010. In total 26.2 million staying visits came to London's extensive cultural, sporting and historical attractions last year. In summer 2012 London hosts the Olympic and Paralympic Games.

## Historical trading

London bounced back quickly from the financial crisis and recession of 2008-2009 and trading in 2010 ended the year with double digit RevPAR growth of 11.5%, driven by strong ADR growth. 2011 is turning out excellently too and operators reported only a temporary brake in business from the civil riots in August.

## Supply trends

London has around 106,000 rooms in serviced accommodation (Melvin Gold 2011). In advance of the Olympics, London has seen above average levels of new hotel supply coming online, bringing new names and brands. In 2010 and 2011 over 5,000 new rooms opened or reopened and in 2012 more will open – many putting areas of London such as the east, close to the Olympic Park, on the hotel map for the first time. New names include Shangri-La, Bulgari, Citizen M, Aloft, Corinthia and ME by Melia.

## Opportunities and issues

In 2012 London will see the Olympic Games together with events such as the Farnborough International Air Show and the Queen's Diamond Jubilee attracting sports fans and tourists to London. Over £11bn of new investment is expected in the capital between 2010 and 2012 in a range of new developments.

*“With the Olympics in 2012 London should have a good year and a great Q3. But perhaps surprisingly not as good as many expect and the shoulder quarters could see pre- and post-Olympic dips”*

## Economic outlook

The UK economy has seen only lacklustre growth for the past year and looking ahead PwC now expect only modest growth for the UK economy of 0.9% GDP growth in 2011 and 1.0% in 2012. Families will continue to feel the squeeze on their incomes from low wage growth and above target inflation and we expect real consumer spending to shrink in 2011. Planned fiscal austerity measures will act as a further drag on growth ahead.

So far, the London hotel market has remained resilient due to its gateway city status and the boost from the weak pound. Looking forward, London's economy is less dependent on public spending than most other UK regions, so we would expect it to be relatively less affected by fiscal austerity. However, the latest figures are some cause for concern, with unemployment rising to 10.0% in June-August 2011, up from 9.0% a year ago. The ongoing difficulties in the finance sector, and the knock-on effects on the rest of London's economy, may be one reason for this.

## Hotel forecast

With the Olympics in 2012 we expect a good year but perhaps surprisingly not as good as many expect – the shoulder quarters could see pre- and post-Olympic dips.

- Overall, RevPAR should end 2011 with another bumper year, up 8.1% as rates continue to boom.
- London occupancy can't get that much better and we expect London to be full up in Q3 2012 with occupancies in the 90s. Overall next year should see occupancies reach around 84%.
- Rates in 2012 could see around 6% growth to £142.2.
- RevPAR in 2012 depends on how many extra visitors come to London but the capital could see 8.3% growth taking RevPAR to £120.

## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	83.0	82.3	83.6
ADR	123.4	134.6	142.2
RevPAR	110.9	111.8	120.1
% growth on previous year			
Occupancy (%)	2.7%	-0.8%	1.7%
ADR	8.6%	8.9%	5.7%
RevPAR	11.5%	8.1%	8.3%

In local currency (Sterling)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast



# Madrid

**Role**

Madrid is the capital of Spain and its main business centre. Although it attracts an important number of tourists and has some of the most important museums in Europe, its focus lies on the business traveller and it is also an important destination for MICE.

**Historical trading**

During 2008 and 2009, RevPAR declined sharply (by 26% in 2009, according to data from STR Global) as demand weakened but new hotels opened, especially in the luxury segment. There is at present a clear excess of five-star hotels, and as a result projects that had been initiated in the boom years have recently been terminated. This trend will affect prices in this segment over the near future. Nonetheless, ADR falls between 2008 and 2010 helped occupancy to pick up (showing a 11% gain in 2010) and supporting a RevPAR recovery – although at around €57 in 2010 this is a long way below 2007 peaks of close to €77.

**Supply trends**

According to data from STR Global there are 353 hotels and 45,700 rooms in greater Madrid, with around 2,000 rooms still in the pipeline.

*“Spain’s tourism sector has performed well recently and many hope that it will help lead the way out of the economic downturn”*

**Economic outlook**

Madrid is Spain’s second largest industrial centre. Its economy is also heavily dependent on public administration. This is a vulnerability with the government pushing through sharp reductions to public spending. Additional uncertainty comes from the political situation. The prime minister has called for early elections in November in a bid to give any incoming government a clear mandate to deal with the debt crisis from 2012 onwards. Disappointing economic data and political uncertainty mean we forecast the Spanish economy to expand at 0.6% in 2011 and 0.9% in 2012.

**Hotel forecast**

- For 2011, Madrid is expected to experience steadily improving occupancy growth, albeit significantly lower than the growth rate in 2010. ADR declines should halt as ADR reaches almost €90.
- By 2012 occupancy could reach 68%, just below 2007 levels.
- Although ADR sees marginal growth this year and a bit more in 2012, taking rates to €91.2, rates remain a long way below past peaks.
- At €62.2 in 2012, RevPAR will be around €10 below 2007 levels.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	63.7	66.1	68.2
ADR	88.4	89.2	91.2
RevPAR	56.3	59.0	62.2
% growth on previous year			
Occupancy (%)	10.9%	3.7%	3.2%
ADR	-2.5%	0.9%	2.3%
RevPAR	8.1%	4.6%	5.6%

In local currency (Euros)  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast



# Moscow

## Role

Moscow is Russia's financial centre and home to more than 600 of the 1,250 credit institutions operating in the country. Nearly 80% of the country's financial resources are exchanged through the city's financial system. Moscow is the most populated city in Europe, with a population of 10.6 million in 2010. There are numerous places of architectural and historic interest including museums, galleries and exhibition halls, as well as parks. About 3.6 million international tourists visited Moscow in 2010.

## Historical trading

Moscow saw significant growth in occupancy but larger declines in ADR in 2010, and as a consequence suffered a 1.9% fall in RevPAR. In contrast, the first half of 2011 saw 5% occupancy gains and almost 8% ADR growth drive a 13% RevPAR boost, taking RevPAR to RUB 3,817.9.

## Supply trends

According to data from STR Global, Moscow has 136 hotels with almost 36,000 rooms – some 700 rooms opened within the last 12 months. Over half of the city's accommodation stock comprises of 3-star hotels. STR pipeline data in July 2011 lists 20 hotels with 4,600 rooms in the pipeline for Moscow. If all the scheduled openings occur as planned, room numbers in the capital will increase by more than 1,000 rooms in 2011, representing a larger increase than in 2010.

***“In Moscow alone, there are just over 9,000 international standard rooms, which is equivalent to around ten per cent of the hotel rooms in London, so there is still a terrific opportunity for international hotel operators with a presence here”***

## Opportunities and issues

The World Cup in 2018, and the Winter Olympics at Sochi in 2014 are prestigious global events, which will attract fans and tourists and raise investor interest all over the world. In addition Moscow and St. Petersburg will hold the 2016 International Ice Hockey (IIHF) World Championship.

## Economic outlook

The Russian economy appears in relatively good health. Unemployment, which reached 9.4% during the recession has declined to 6.5%. GDP has been growing at an annualised rate of around 4% since the beginning of 2010. But having experienced a relatively deep downturn in 2009, the economy is still smaller than it was in 2008. The other concern on the horizon is the reliance on high oil prices. Two thirds of Russia's exports and much of its tax receipts come from oil. A decline in the oil price would lead to a sharp deterioration in the trade balance and the government budget.

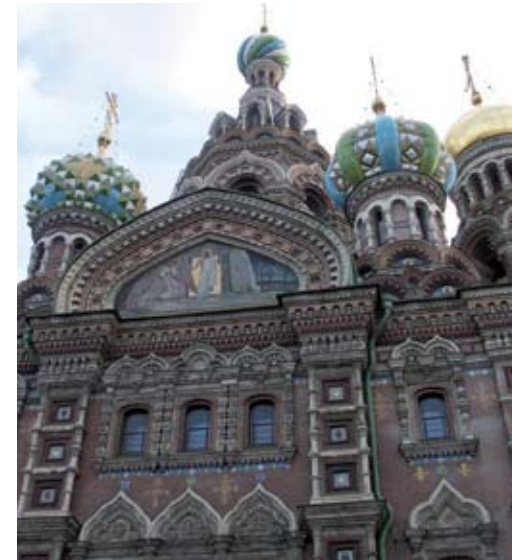
## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	62.1	62.4	63.9
ADR	5,723.9	5,936.7	6,117.3
RevPAR	3,555.6	3,701.6	3,909.1
% growth on previous year			
Occupancy (%)	9.2%	0.4%	2.5%
ADR	-10.1%	3.7%	3.0%
RevPAR	-1.9%	4.1%	5.6%

In local currency (Roubles)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast

## Hotel forecast

- Occupancy is likely to struggle to absorb all the new hotel supply additions in Moscow and we estimate only marginal growth in 2011 but 2.5% growth in 2012.
- ADR is expected to continue to recover in 2011 with a 3.7% gain and further growth of 3% in 2012.
- RevPAR should turn positive again this year with just over 4% growth and a further 5.6% in 2012.



# Paris

**Role**

Paris is a global city. It remains the number one tourist destination in the world attracting over 28 million visitors (2010) to its numerous cultural venues (including some 130 museums and 463 parks and gardens). Paris attracted 7.7m international arrivals in 2010, according to Euromonitor. According to the French Tourist Bureau, the French hotel industry has a turnover of €4.1 billion (2009), almost half of which comes from business travel.

**Historical trading**

After very significant performance declines in 2009, trading saw a strong recovery in 2010, as occupancy recovered and ADR enjoyed robust growth driving RevPAR up again. STR Global data (which does not include Accor hotels) clearly shows this trend. Paris enjoyed a 12% bounce back in RevPAR to almost €162 in 2010.

**Supply trends**

According to data from INSEE (2010) there are around 1,466 hotels and almost 78,000 rooms in Paris. To meet growth plans, the hotel industry anticipates the need for an extra 7,000 hotel rooms in the city by 2020.

In recent years there has been significant upgrading in the sector (with a decrease in 2-star rooms and an increase in 4-star luxury rooms). For example, the opening of the Shangri-La in 2010, the re-opening of Royal Monceau, and the arrival of Mandarin Oriental and Peninsula hotels in 2011 and 2013 respectively.

In Paris in 2010, 27% of rooms were high end or luxury, affecting the average price of hotel accommodation.

*“In 2012, thanks to its strong attractiveness as a tourism destination, Paris should better resist the impact of a potential crisis on the hotel industry than any other French city”*

**Opportunities and issues**

There is a busy annual calendar of trade shows like Le Bourget Air show and the Paris Car Show which has an impact on tourism. The London Olympics is expected to attract visitors to Europe and France is positioning itself as an ‘overspill’ location for the UK.

**Economic outlook**

Paris is not only the political and cultural capital of France but also its major financial and commercial centre. However the French recovery ground to a halt in the second quarter of 2011 and there are concerns over whether reforms to reduce the level of government spending will be successful.

French banks have also been under pressure recently due to their substantial holdings of Greek government debt.

**Hotel forecast**

On top of a highly successful 2010, hoteliers should see further ADR growth, in 2011 and to a lesser extent in 2012. The strong RevPAR numbers in 2011 are driven by an exceptionally strong first half of the year when ADR grew by 10% in Q1 and 18% in Q2.

- Occupancy is expected to grow marginally in 2012 to take occupancy levels to just over 77%.
- ADR continues to soar with two years of strong growth, to almost €228 by 2012.
- RevPAR also sees strong growth to €176.4 in 2012.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	77.6	76.9	77.4
ADR	208.1	223.7	228.0
RevPAR	161.6	171.9	176.4
% growth on previous year			
Occupancy (%)	4.5%	-1.0%	0.6%
ADR	7.2%	7.5%	1.9%
RevPAR	12.0%	6.4%	2.6%

In local currency (Euros)  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast



# Rome

## Role

Rome is Italy's capital city and a unique destination with a mix of leisure and business visitation, both national and international, and very good accessibility. Important sectors include banking, high technology companies (aerospace, defence and telecommunications) and tourism. Education and media are also important and Rome is a centre for music, with one of the largest musical venues in the world, the new Parco della Musica. Rome has the enclave of the Vatican City within its territory. Rome received 5.5 million international arrivals in 2010, according to Euromonitor and is the third most visited city in Europe.

## Historical trading

The slowdown of most Euro economies has affected visitation to the city over the last two years and Rome saw steep RevPAR falls in 2008 and 2009. Occupancy has, according to data from STR Global, seen 7.7% growth in 2010, reaching almost 67%, still below 2006 highs. A 1.2% increase in ADR took rates in 2010 to €139.9 and RevPAR to €93.3%.

## Supply trends

Based on data from ISTAT (the National Institute for Statistics) there were 1,063 hotels in Rome in 2010. In contrast estimates from STR Global report 457 hotels and 36,310 rooms.

There is a relatively limited new full-service hotel supply pipeline for the Rome hotel market due to strict planning requirements and a lack of suitable sites for branded hotel developments. However, there were a handful of additions to supply during 2010, including the 151-bedroom NH Giustiniano. Rome's hotel market is expected to increase by around 350 rooms in 2011 and STR Global estimate there are six hotels and 1,188 rooms in the pipeline.

***“Big events in Rome this year included the Republic's 150th anniversary in March (300,000 visitors) and the Pope Woytila beatification in May (1 million visitors) – both will have helped boost trading.”***

## Opportunities and issues

Since 1st January 2011 a room occupancy tax has been applied in Rome to anyone staying overnight in a hotel inside Rome's boundaries.

Big events in Rome this year included the Republic's 150th anniversary in March (300,000 visitors) and the Pope Woytila beatification in May (1 million visitors) – both will have helped boost trading.

## Economic outlook

The economy of Rome is characterized by the absence of heavy industry and it is largely dominated by services, high-technology companies and the huge tourism sector.

Italy's economy is in poor health however. GDP expanded by only 0.2% (quarter-on-quarter) in Q2 2011, continuing from the weak 0.1% growth experienced in the previous two quarters.

## Hotel forecast

- Occupancy is expected to grow by 3.7% in 2011 but a dip of 3.4% in 2012 means levels remain some way below 2006 peaks of 75%.
- ADR sees strong growth this year and 3.4% growth in 2012 taking ADR to €152.6 (compared to €160.9 in 2007).
- RevPAR shows another year of strong recovery in 2011 but sees a marginal decrease in 2012.

## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	66.7	69.2	66.8
ADR	139.9	147.5	152.6
RevPAR	93.3	102.1	102.0
% growth on previous year			
Occupancy (%)	7.7%	3.7%	-3.4%
ADR	1.2%	5.5%	3.4%
RevPAR	9.0%	9.4%	-0.1%

In local currency (Euros)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast



# Stockholm

**Role**

Stockholm, the capital of Sweden, is both a tourist destination and the main business city. It is home to a rich cultural life and a great variety of events, restaurants and shopping experiences. Stockholm is the leading business city in Northern Europe with regional head offices for international companies. The region attracted over 10 million overnight stays in 2010 and 2.6 million international arrivals.

**Historical trading**

In 2010 Stockholm enjoyed over 10 million overnight stays and this boosted occupancy by 3.1% compared to 2009, taking occupancy to 69%, close to the 2007 high. ADR in Swedish Kronor (SEK) also saw a gain, of 5.3% at SEK 1110.4. Despite increases in supply, ADR and occupancy gains drove a healthy recovery in RevPAR.

**Supply trends**

The Stockholm Visitors Board reports that the number of hotel rooms increased by 55%, to 16,300 rooms between 2000 and 2010 – with most built in 2008. This compares with a 2011 estimate of around 200 hotels and 26,000 rooms from STR Global, who estimate a further six hotels with 1,700 rooms are in the pipeline. Notwithstanding conflicting data sources, to reach future 2020 growth goals, a report by Rese-och Turistnärigen i Sverige (RTS) concludes that Stockholm will need 50 new hotels and 8,000 new rooms.

In September 2011 the tallest hotel in the Nordic Countries opened in Kista Science City, situated between Stockholm city and Arlanda airport. The 34 storey Scandic Victoria Tower with its 118 metres and 299 rooms is one of the most spectacular designed hotels in Sweden.

*“There is an ongoing ‘building boom’ of bigger hotels in Stockholm, but also smaller and more personal ones popping up. A handful of bigger hotel complexes are also being constructed north of Stockholm and nearby Arlanda, the main international airport of Sweden.”*

**Opportunities and issues**

Sweden is experiencing robust economic performance with one of the strongest recoveries in the EU and we expect this to buoy up ADR and occupancy levels. An issue for the city is where to build almost 8,000 attractive new hotel rooms in the centre of Stockholm.

**Economic outlook**

The Swedish economy grew by 1% (quarter-on-quarter) in Q2 2011 boosted by household consumption, continuing the strong growth that has characterised the economy’s recovery from recession.

The turmoil in financial markets is ongoing and downside risks still exist from a greater deterioration of conditions in the Eurozone as well as a persistently strong Swedish Kronor.

**Hotel forecast**

Despite supply increases we anticipate continued robust ADR and occupancy growth both this year and in 2012

- Occupancy could see almost 2% growth this year and a further 8.6% in 2012, boosting occupancy to over 75%.
- ADR is also expected to see very good growth of 9.5% by 2012 setting a record high of SEK 1260.9.
- As a consequence RevPAR could enjoy 17.3% growth in 2012, taking it to SEK 948.9 – a record.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	69.0	70.3	75.3
ADR	1,110.4	1,151.8	1,260.9
RevPAR	766.6	809.2	948.9
% growth on previous year			
Occupancy (%)	3.1%	1.8%	8.6%
ADR	5.3%	3.7%	9.5%
RevPAR	8.6%	5.6%	17.3%

In local currency (Swedish Kronor)  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast



# Vienna

## Role

Vienna is the capital of Austria and the major economic capital close to the CEE region. As such, it accommodates major international organisations such as OPEC, the United Nations and innovation driven corporations are accommodated there. Vienna has significant banking, insurance and manufacturing sectors. Vienna is a cultural centre and host to extensive international trade and cultural events and had 3.4 million international tourist arrivals in 2010.

## Historical trading

The number of overnight stays in Vienna has grown by 40% since 2000. Occupancy rates reached almost 73% in 2010, an increase of 11.2% over 2009, according to data from STR Global. ADR was about €90 in 2010, the third year of decline since 2007 peaks. RevPAR grew by 7.3%, to reach €65, well below the 2008 peak of €80.\*

## Supply trends

There are approximately 370 hotels and 29,000 rooms in the city, according to data from STR Global. We estimate around 77% of hotels fall into the class of 3- and 4-star. STR Global estimate a further 15 hotels and almost 3,000 rooms could be in the pipeline. Therefore almost 75% of the new rooms are expected to open in 2012.

**“The meetings industry accounted for over 12% of bed nights in Vienna in 2010”**

## Opportunities and issues

The Vienna meetings industry accounted for around 12.3% of total bed nights in Vienna in 2010, according to the Vienna Meeting Report 2010, when the city hosted almost 3,000 congresses and corporate events. Example, the city hosted La Donna Fair for Women (30,000 participants) in 2011. In 2012 Vienna hosts the World Barista Championship (12,000 participants) and The European Congress of Radiology (20,000 participants).

## Economic outlook

Vienna is Austria's most important economic centre, generating approximately 28% of the nation's GDP and employing about a quarter of the nation's workforce.

Austria's GDP grew by 3.7% year on year in the second quarter of 2011, only slightly lower than in the first quarter (4.2%). The economy has been less affected than other economies by the current crisis, but a slowdown is still expected in the second half of 2011 and into 2012.

## Hotel forecast

- Moderate occupancy growth in 2011 takes occupancy to just over 74%.
- By 2012 new supply means slightly less growth.
- ADR is expected to see some recovery in 2011 to almost €94 but, remains some way below past highs. We anticipate marginal growth in 2012, taking rates to €94.4.
- RevPAR sees 2.1% growth in 2012, taking it to almost €71, slightly below the annual average since 2000.

## Annual hotel statistics

	2010A	2011F	2012F
Occupancy (%)	72.5	73.8	74.8
ADR	89.8	93.8	94.4
RevPAR	65.1	69.2	70.6
% growth on previous year			
Occupancy (%)	11.2%	1.7%	1.4%
ADR	-3.5%	4.5%	0.6%
RevPAR	7.3%	6.3%	2.1%

In local currency (Euros)  
Source: Econometric forecast: PwC 2011  
Benchmarking data: STR Global 2011  
A= Actual F=Forecast



\*Predominantly 3-5 star hotels

# Zurich

**Role**

Zurich, Switzerland’s largest city, is an international financial, economical and educational centre and gateway to many of Switzerland’s mountain destinations. Traditionally the home to numerous corporate headquarters, financial institutions and educational institutions it has also evolved to a top city destination for leisure travellers. Zurich/Basel is one of the largest global pharmaceutical clusters.

**Historical trading**

Zurich’s recent trading has been relatively unscathed by the worldwide economic crisis, although hotels saw some steep declines in 2009. The market has increased by 650 rooms since 2008 and many of the existing properties have completed substantial refurbishment and capex projects. Zurich remains one of the most expensive European cities in regards to room rates. 2010 in particular was a solid year for the market, with increases in occupancy and RevPAR and near stable ADR, as the Swiss economy in general and the Zurich economic region continued to increase its importance as an international financial hub and increased business and leisure arrivals.

**Supply trends**

Zurich is Switzerland’s largest tourism destination, with a current rooms supply of 7,300 rooms, including 36 4-star and 12 5-star properties. Current developments are expected to add approximately 2,200 rooms over the next five years, centred mainly around the airport, the football stadium and the industrial conversion areas at Zurich West and Zurich Enge.

*“A hotel room in Zurich remains one of the most expensive in Europe.”*

**Opportunities and issues**

The large number of new rooms in the greater city area over the next five years means Zurich will become a more competitive market for participants and there is a real danger of oversupply, especially in the eventuality of a prolonged period of worldwide economic crisis. Some weaker, older operators might find it difficult to compete with the new arrivals, many of which are supported by a strong brand.

The continued strength of the Swiss Franc has already started to negatively affect Swiss tourism destinations and a prolonged period of a weak Euro, combined with further slower European economic growth is expected to have a negative effect on the Zurich market.

**Economic outlook**

The key sector of the Zurich economy is financial services, which accounts for more than 20% of employees and much of the economic activity in the city. However, the economic outlook remains uncertain, on account of continued struggles in the finance sector, weakening growth in the Eurozone and the sharp appreciation of the Swiss Franc.

**Hotel forecast**

- Overall we expect steady but unspectacular ADR and occupancy growth in 2011.
- By 2012 occupancy should reach 74.7%.
- ADR sees marginal growth next year taking rates to Swiss Franc 244.3 - some way below 2007 peaks.
- In 2012, RevPAR creeps up to Swiss Franc 182.5, a 1.2% increase over 2011.

**Annual hotel statistics**

	2010A	2011F	2012F
Occupancy (%)	72.7	73.8	74.7
ADR	240.4	243.5	244.3
RevPAR	174.8	180.4	182.5
% growth on previous year			
Occupancy (%)	6.4%	1.9%	0.8%
ADR	2.4%	1.3%	0.3%
RevPAR	9.0%	3.2%	1.2%

In local currency (Swiss Francs)  
 Source: Econometric forecast: PwC 2011  
 Benchmarking data: STR Global 2011  
 A= Actual F=Forecast



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# *Appendix*

## Methodology for hotel forecasts

# Methodology for hotel forecasts

This section outlines in more detail the PwC model used to forecast hotel occupancy, average daily rate (ADR) and revenue per available room (RevPAR).

## Econometric model

The econometric models used were similar to the PwC UK Hotels Forecasts models, based on a Vector Autoregression (VAR) framework. Each city has an independently-estimated VAR model. This type of model was chosen because it allows for interaction between occupancy and average room rates, as we observe in the market. Each VAR uses occupancy rate growth and real ADR growth as dependent variables, while the explanatory variables include lags of the dependant variables and a set of macroeconomic explanatory variables.

## Data

The dependent variables were based on data from STR Global for the period January 2000 – June 2011, containing monthly information on occupancy, ADR and Revenue Per Available Room (RevPAR). We averaged these data to create a quarterly series.

For the explanatory variables, we used:

- a range of macroeconomic data,
- dummy variables based on historical events, and,
- data on the supply of rooms.

The macroeconomic data covered both the relevant domestic markets, and relevant international markets (e.g. United States) where statistically significant. For example, GDP and household consumption data was based on a weighted average across a range of countries. The weighting used reflected the

breakdown between domestic and different international visitors in each city. For other macro-economic variables such as interest rates and exchange rates, we used the relevant national levels.

The model also incorporates some dummies as explanatory variables. We included quarterly dummies to control for the strong seasonality of the data. Terrorism dummies were included to account for the effects of 9/11 and specific terrorist attacks such as those in Istanbul, Madrid, Moscow and London bombings over the decade. Dummy variables were also included for the impact of the recent “Arab Spring”.

The final type of data we used was the growth in the supply of new rooms from 2000 to 2011, sourced from STR Global.

## Final specifications

The final specifications for the city models were chosen according to which explanatory variables exerted a statistically significant influence on the dependent variables. This means different explanatory variables were included in each model, as well as varying lag lengths. The table below provides an overview of the dependent and explanatory variables used in final specifications of the models.

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## Variables and data sources used in the model

	Variable	Data source
<i>Dependent variables</i>	Occupancy%	STR Global
	ADR	STR Global
<i>Explanatory variables</i>	GDP	Eurostat, Turkstat
	Exchange rates	Thomson Reuters, Datastream
	Unemployment	Eurostat, Turkstat
	Investment	Eurostat
	Consumer expenditure	Eurostat
	Domestic interest rate	National central banks
	Hotel room supply	STR Global

The adjacent table provides details of the different economic drivers which had a relationship with the hotels markets in these cities (along with the lag period in number of quarters in parentheses). As can be seen, optimal lag lengths varied between zero and three quarters, with a one-quarter lag, or no lag, being typical.

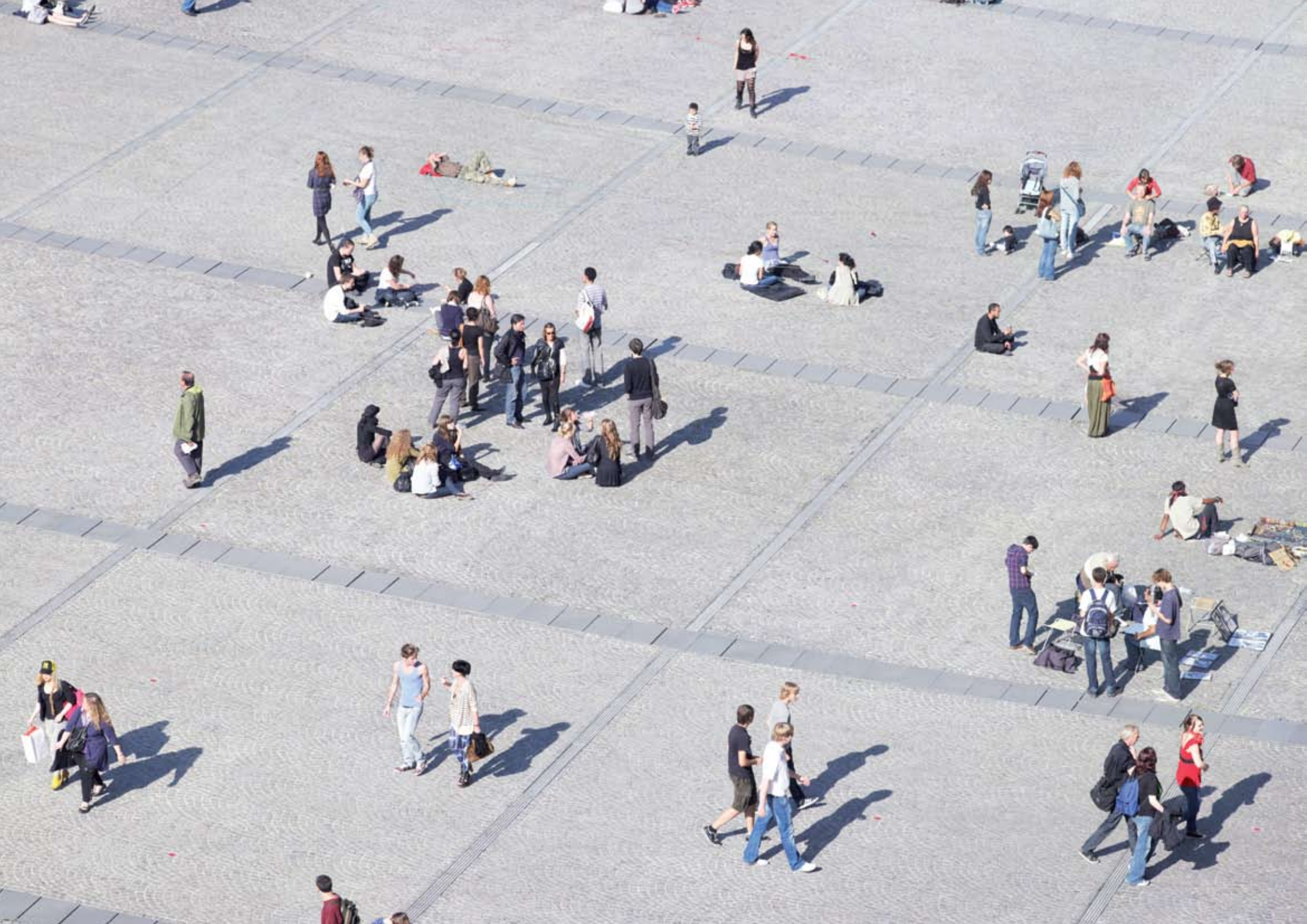
### Market projections

We used the model to generate projections for ADR and occupancy in each city through to Q4 2012. Projections for the explanatory variables were from two sources:

1. Macroeconomic variables were drawn from PwC in-house forecasts
2. Supply of rooms forecasts were based on PwC analysis of STR Global data

### Important economic drivers

	GDP	Exchange rates	Unemployment	US unemployment	Domestic investment	Consumer expenditure	Interest rate	Supply of rooms
Amsterdam	✓ (1)	✓ (1)	✓ (1)				✓	
Barcelona	✓ (1)	✓ (1)						✓
Belfast	✓ (1)	✓						
Berlin	✓ (1)						✓ (1)	✓
Dublin	✓ (1)	✓ (1)		✓				✓
Edinburgh	✓ (2)							
Frankfurt	✓ (1)				✓			
Geneva	✓ (1)	✓ (3)						
Istanbul	✓	✓	✓ (1)					
London	✓	✓ (1)		✓				
Madrid					✓			✓
Moscow			✓	✓ (1)				✓ (2)
Paris		✓ (1)				✓		
Rome	✓ (2)	✓ (1)*		✓				
Stockholm			✓ (1)				✓	✓
Vienna	✓ (1)						✓	✓
Zurich	✓ (1)	✓			✓			✓ (2)



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