*European cities hotel forecast for 2015 and 2016 for 20 gateway cities from Amsterdam to Zurich*

*March 2015*

# Room for growth


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European cities hotel forecast 2015 and 2016 analyses trading trends and gives econometric forecasts for 20 cities, all national or regional capitals of finance, commerce and culture. This year, in addition to the economic and travel outlook, we also look at some thought provoking predictions for 2015 and their potential impact on hotels; as well as the impact of strong hotel trading on the deals outlook in Europe

# Foreword

*2014 was a good year for hoteliers. Europe attracted 22 million more international tourists than it did in 2013. All but two of the markets we look at saw RevPAR growth, and many are breaking records, especially on occupancy.*

The economic backdrop has been generally supportive, growth has remained strong in the US and key emerging markets, the Eurozone has grown, albeit modestly, and falling oil prices have increased consumers discretionary spending power.

We expect economic growth to continue in 2015 and 2016, although the risks are weighted to the downside given uncertainty over the future of Greece and the Eurozone and instability in the Middle East and North Africa.

In this fourth edition of the European cities hotel forecast we look at 20 cities across Europe. In most hotel markets we are expecting rising occupancy and Average Daily Rate (ADR), although generally at a slower pace than 2014. But some cities are facing specific challenges; Geneva and Zurich are made more costly by the appreciation of the Swiss Franc, whilst Moscow is impacted by international sanctions. Other markets will receive a welcome fillip, such as London where the Rugby World Cup will bring additional visitors.

We build on previous editions of the forecast in considering the impact of global megatrends on the hotels business and adaptive strategies for 2015 and beyond.

These include:

- The increasing potential to use robots and Artificial Intelligence for hotels to cut costs and improve the customer experience;
- The potential for a new global deal on climate change to affect travel behaviours;
- The strength of the US economy and consumer;
- The potential for new smartphone enabled technology (such as iBeacons) to be adopted in the sector; and
- The rising importance of sub-Saharan Africa in the global economy.

The sector still faces plenty of challenges and geopolitical uncertainties. But we are optimistic in its ability to compete, adapt and succeed; especially now economic fundamentals of rising prosperity and increased globalisation have re-asserted themselves following the financial crisis.

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HOTE

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# *Summary*

Analyses and forecasts for hotels in 20 key cities at the heart of Europe


***The 4th edition of PwC's European cities hotel forecast looks at the outlook for hotel trading in 20 key cities in Europe, set against a backdrop of uncertainty and change.***

### *20 cities feature in the latest European cities hotel forecast*

In this snapshot (taken in February 2015) we look forward to what 2015 and 2016 may hold for hotels in key European cities and which are best placed to grow.

There are 20 cities in this econometric forecast – all are important gateway cities and/or business and tourism centres and some are already mega cities. This time, two new important regional cities, Belfast and Porto also participate.

### *Uncertain economic backdrop*

The majority of the markets we are analysing are based in the Eurozone where the start of 2014 was looking more optimistic, with average GDP growth of 0.8%, but concerns have now returned and the ECB has announced quantitative easing (QE). This is likely to encourage a depreciation of the Euro which should be beneficial for tourism and the hotels market. Many visitors to Europe come from further afield and the improving economic situation in the US should lead to increased numbers of tourists this year and into the future.

*“Strong trading will have a positive impact on investor demand and confidence”*

## *Trends and issues*

In addition to the economic outlook we examine some other issues that could keep hoteliers awake at night, such as which megatrends will impact hotels most; how alternative accommodation business models, like Airbnb could impact if demand slows; how it’s necessary to provide a local and authentic experience and what developments in technology and in Artificial Intelligence (AI) might mean.

## *A positive picture for travel and hotels*

Despite continuing economic and political uncertainty in Europe, travel and hotels actually did rather well in 2014. There were almost 600 million international visitors and 2.7 billion nights recorded in EU tourist accommodation – a new peak, and up 1.7% compared with 2013.

## *Room for more growth in 2015 and 2016*

In terms of city results in 2015, we forecast strengthening fundamentals, with RevPAR growth in all but three markets, Geneva, Moscow and Zurich. We anticipate growth in all but two of the markets in 2016, Geneva and Zurich, although some is relatively marginal – but it’s still growth.

The top RevPAR growth stories in 2015 are expected to be Dublin with 8.8% growth in 2015; followed by Madrid (5.6%) and London (4.6%). There follows a long list of cities with healthy growth stories – a further 10 cities with growth over 3%.

In 2016, Dublin tops the growth story yet again, followed by Madrid, London, Rome, Milan and Barcelona.

Despite this good news story the hotel market overall remains significantly behind pre-recession peaks in real terms (i.e. factoring in growth in overall prices). For example, European RevPAR exceeded pre-recession peaks in 2014 in nominal terms but is still 13% below in real terms.

## *What’s driving growth?*

Factors driving growth in 2015 include the continued strength of inbound international tourism into Europe. Business travel spend is expected to accelerate by over 6% in 2015 with growth strongest in the key economies. Restrained supply growth is helping some cities, like Dublin. Others with high pipelines like London, continue to attract high visitor numbers. Improving consumer confidence is also a positive.

On top of their historical and cultural attractions many of the cities have an extensive 2015 events and trade fair cycle – a few in particular stand out: EXPO 2015 in Milan expects around 20 million visitors over the six months of the EXPO; Berlin hosts the UEFA Champions League final this summer; also the Rugby World Cup is taking place in England and Wales during September and October with large numbers of visitors expected.

Euro 2016 sees France as the host nation with the football tournament held at 10 host cities (including Paris) between June and July. Still on the topic of football, 2016 sees Milan’s San Siro Stadium host the UEFA Champions Final. But perhaps stealing the limelight from Europe, summer 2016 sees Brazil host the Olympic and Paralympic Games.

## *Supply in the slow lane*

On the flip-side of the equation, supply has not been a huge concern during the recession. For example, in Dublin there is almost no new supply expected in 2015. In contrast, there are sizeable pipelines in supply in cities like London and Amsterdam which could impact performance and factor in more serviced apartments, home rentals like Airbnb, and new style hostels and the competition to accommodate visitors can be seen to be hotting-up.

## *Strong trading means a buoyant investment outlook*

Reflecting the healthy trading fundamentals we anticipate that deal activity will remain strong in Europe in 2015 with many countries expecting an increase in deal volume, although deal size may not be as strong as 2014 due to potential limited supply in further high value pan-European portfolios such as were transacted in 2014. We expect to see banks and lenders looking to dispose of more over-leveraged assets in 2015 and overseas investment is expected to remain high, with increased demand from Asian capital resulting in heightened competition for trophy assets in prime European cities such as Paris, Rome, London and Barcelona – this could lead to further escalation in pricing as demand outweighs supply.

# *How did 2014 turn out?*

A strong finish with RevPAR outpacing 2007's peak in nominal terms but hotel revenues still well below pre-recession peaks

### *A return to ADR growth*

Europe's hotels operated against a positive travel backdrop in 2014 with over 22 million more international tourists visiting Europe, compared to 2013.

Some destinations were clearly more successful than others in attracting international travellers from outside and within Europe as well as enticing domestic travellers to holiday at home.

This was driven by a combination of things, such as the Champions League Final in Lisbon in May, the Commonwealth Games in Glasgow, and the 100 year centenary of WWI. New air routes improving international connectivity, strengthening business travel markets including tradefairs, and favourable exchange rates also stimulated travel.

The travel environment helped drive average European hotel-wide RevPAR to end the year at €73, almost 6% higher than in 2013 and a little higher than the past peak in 2007, in nominal terms at least. In real terms RevPAR remains almost 13% below 2007.

Occupancy ended the year at 68.8%, the best performance for the past 10 years. This was 2.1% higher than 2013's level.

ADR at €106 still trails 2007, in nominal terms as well in real terms. But, positively 2014 represented a 3.6% gain over 2013.

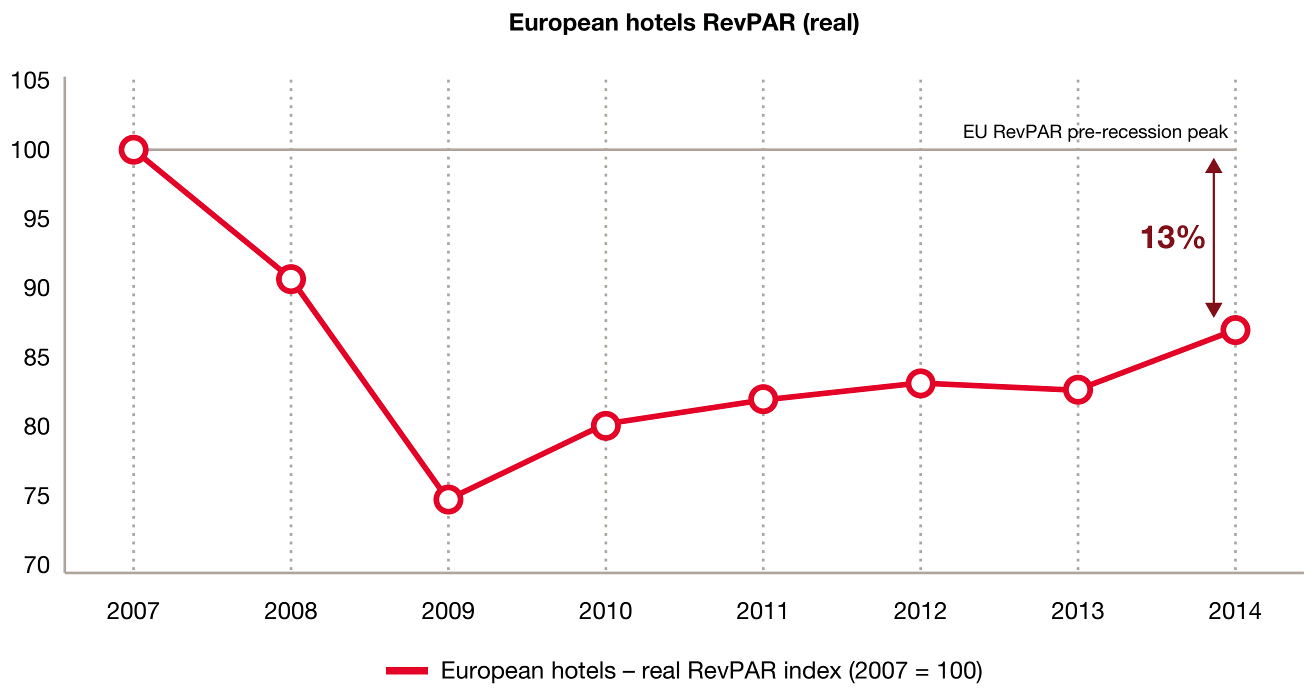
### *Winners*

Clearly it's a diverse continent with the hotel sector in various cities across Europe at different cycle positions.

Northern Europe and the Southern Mediterranean areas experienced the strongest travel resurgence and established destinations such as Greece, Portugal, Spain and Malta recorded record tourism years and these trends are reflected in regional hotel performance.

STR Global reports three out of four regions back at their pre-recession peaks. Western Europe leads with southern and northern Europe also reported bouncing back, albeit at a lower level. Eastern Europe has been impacted by geo-political uncertainty from the crisis in Ukraine.

## Hotel revenues well below pre-recession peak




**Source:** STR Global Eurostat

# Economic, travel and supply outlook

## Economic outlook

### The changing balance of global growth, low oil prices and geopolitical risks will determine the global economic outlook for 2015

#### *Eurozone*

The majority of the hotel markets we are analysing are based in the Eurozone. Average GDP growth in 2014 in the Eurozone was 0.8% but concerns have now returned. As a reaction to low levels of inflation, 0.5% in 2014 in the Eurozone, and stalling economic growth, the ECB has announced QE. This is likely to encourage a depreciation of the Euro and higher inflation, which would improve exports and help to stimulate growth. In addition, a weaker Euro would be beneficial for tourism and the hotels market. However, further economic and political uncertainty has been added by the new Greek government and difficulties in Ukraine.

A more positive development has been the fall in oil prices. The currency block is a major net importer of oil and the move should boost economic growth. The impact on the hospitality sector is more nuanced however. On the positive side, local consumers will be spending less of their household budget on energy bills, meaning they have more to spend on holidays. Furthermore, the trips themselves are cheaper as flights and road transport have come down in price, further boosting demand. But the fall in oil prices will have an impact on the economies of Russia and the Middle East in particular – potentially weakening travel from these countries.

The outlook for 2015 is a cautious one, with Eurozone GDP growth forecast at 1.1% and inflation creeping up to 0.8%. The economic outlook will be highly dependent on how events in Ukraine and Greece play out, and the success of QE.

## Non-euro countries

We also look at several non-euro countries, including Russia, the UK and Switzerland. The Russian economy is now suffering due to economic sanctions linked to Ukraine, and its dependence on oil and gas exports has made it vulnerable to falling oil prices. GDP is forecast to decline by 5% in 2015, with inflation reaching highs of 15%.

In Switzerland, the removal of the cap on the Franc has put downward pressure on growth as exports to the Eurozone may suffer. The strengthened currency will directly impact the tourism and hotels markets through higher prices for visitors, and so the outlook is not as positive this year.

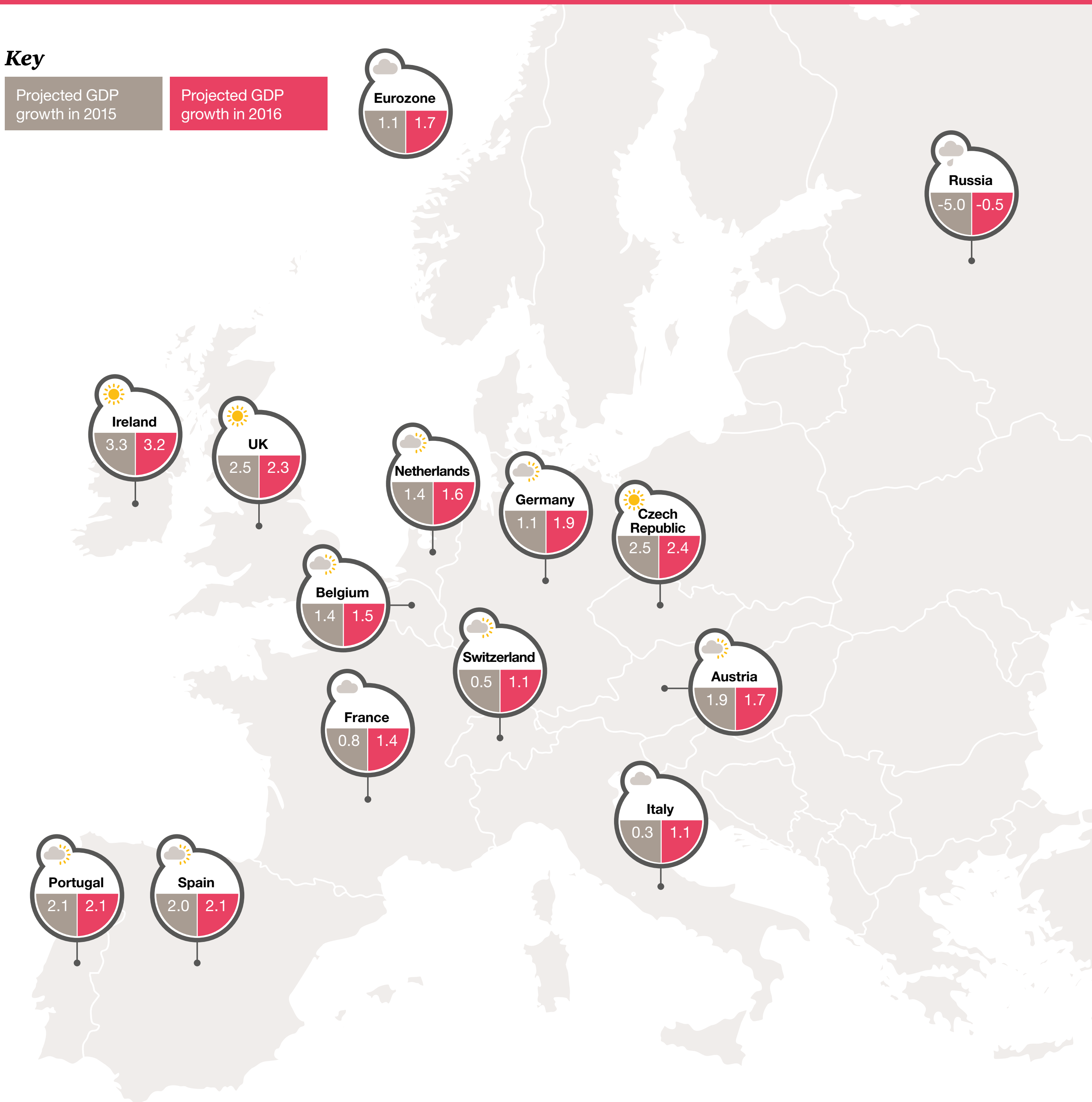
In the UK the situation remains positive. Economic growth has been robust, at 2.6% in 2014. We expect growth to remain broadly unchanged at 2.5% in 2015.

## Other key markets

Many visitors to Europe come from further afield and the improving economic situation in the US should lead to increased numbers of tourists this year and into the future. At 3.2%, GDP is forecast to grow at the fastest rate since 2005, which coupled with lower oil prices and unemployment below 6% should lead to rising household consumption.

In 2015, as we see China experience its slowest rate of GDP growth since 1990 (7.2%), countries in Sub-Saharan Africa are experiencing impressive growth. Nigeria, South Africa, Angola and Ethiopia combined will have a GDP overtaking that of Italy in 2015. As a result this area is becomingly increasingly attractive for business investment.

# European countries economic weather map




**Source:** PwC forecasts (February 2015), IMF World Economic Outlook 2014, UBS

# Travel outlook

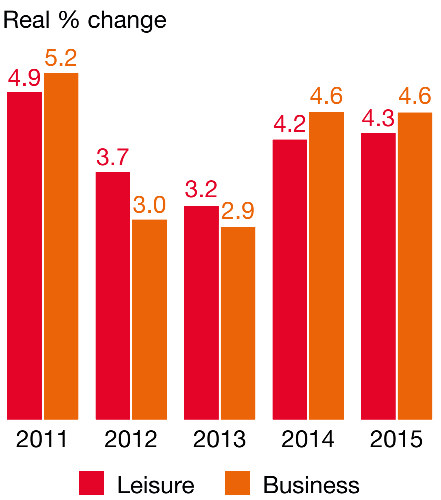
## More travellers wanting more local and authentic experiences

### More growth in 2015

Macroeconomic and geo-political uncertainties dominate the headlines but travel has remained remarkably resilient and holidays continue to be a top priority for many consumers. European inbound international travel, domestic 'staycations' and the recovered business travel sector have proved robust recently.

Global travel spending is on the up and forecasts for 2015 from the World Travel & Tourism Council (WTTC) are for more of the same. While Asia and particularly China is set to account for a lot of this growth, European destinations will also benefit. See chart below.

### Global travel spend




**Source:** World Travel & Tourism Council

While the value placed on travel seems here to stay, travel patterns fluctuate due to a variety of issues. 2014 was no exception, for example disruption in Russian travel to many popular destinations. Overall the number of people travelling from Russia in 2014 saw a 6% decline, according to UNWTO.

Overall, Europe looks on track for 588 million international visitors in 2014, some 22 million more than in 2013, according to UNWTO. Its been an upward pattern since 2011.

In terms of where saw the strongest growth. Northern Europe and Southern and Mediterranean Europe led the growth (both +7%). Spain, Greece and Portugal reported record tourism years. Results were more modest in Western Europe (+2%). Arrivals in Central and Eastern Europe stagnated after three years of strong growth.

### Leisure and business travel

Leisure visitors are attracted by Europe's extensive cultural and events programme. Rome and London (after Istanbul) top TripAdvisor's 25 top-rated places to stay list. Paris, Prague, Berlin, Barcelona and Lisbon also make the cut.

Business travel spending growth in Europe's main markets is forecast to remain strong in 2015 according to WTTC, and the Global Business Travel Association who is expecting a 6.6% increase in spend with growth strongest in the key economies. ICCA surveys show the importance of international meetings and conferences with all but three of the top 15 cities for meetings globally, located in Europe.

While Europe remains a must visit destination, the way we research, book and buy leisure and business trips – especially on mobile and digital platforms – continues to change radically.

### Making it local and authentic

Increasingly travellers are seeking out shared, authentic and local experiences.

TripAdvisor forums allow would-be travellers to ask locals advice; eating with a local host in their home can be found at Eatwith.com in many of the cities in this report such as Porto, London, Paris, Rome and Milan; Bookalokal.com – shares guest reviews and the best places to eat around the world; Vayable.com helps visitors discover and book local experiences offered by local insiders such as 'Paris night photography tour' or a 'Food Crawl Rome tour'. Word of mouth and peer to peer sites are set to become even more popular.

### Share and care

The popularity of the sharing economy and rented homes websites will continue to grow, Airbnb now has around 6 million guests across 190 countries. Airbnb's Geneva room supply has reached 16% of the total hotel room supply and competes directly with hotels.

# *Supply outlook*

## Modest supply pipeline but some city hot-spots

### *Over 50,000 new hotel rooms opened in 2014…*

Over 50,000 new hotel rooms opened across Europe in 2014 compared to 30,000 rooms at the same point in 2013, according to STR Global.

### *…but only a modest supply pipeline*

Despite more new rooms opening, the future supply pipeline is modest with fewer hotels and rooms in construction than at the same time in 2013. In fact there are around 14,000 less rooms in the total pipeline (at all stages from in construction to planning).

Overall there are around 900 projects and 140,000 rooms in the European pipeline with 56,000 of these already in construction.

### *Demand vs supply*

In 2014 supply grew at around 1% and demand closer to 3%. This is good news for incumbent hoteliers. But averages can be deceptive and some cities still have high supply pipelines.

### *Istanbul and London lead the pack (rooms under construction)*

We do expect to see hotspots of high supply growth in some cities, some of which have seen significant new hotel openings in prior years. So while the overall situation seems calm, there will be pockets of oversupply, especially in secondary or tertiary locations.

In terms of hot spots, Istanbul and London lead the pack with over 4,000 rooms apiece in construction. These cities are followed by Amsterdam (2,370 rooms), Berlin (1,470 rooms) and Moscow (1,030 rooms) and less so, Munich. Some of these cities have already seen considerable new openings recently, so its growth on growth.

### *Upping the quality*

Choice Hotel Europe's Fourth Pan-European Hotelier Pulse-Check revealed that hoteliers displayed renewed confidence in Europe's hotel sector with many planning refurbishments and other enhancements to their properties.

The poll uncovered a strong desire to improve hotel quality, with 79% expecting to refurbish their hotels in the year ahead. A third of those surveyed expected to add another property to their portfolio.

## What is the real impact of hotels on local communities?

**Total Impact Measurement & Management (TIMM) – a different perspective for business**

While Tourism is generally considered to be a driver of economic development in many countries of the world, it's a claim often based simply on economic considerations and local anecdotal operational evidence. The environmental and social impacts of the industry (both positive and negative) influence economic development too, but are rarely taken into account as the management systems just aren't in place at a local and national level to collect the data.

Diverse destinations, a fragmented industry and multiple stakeholders mean collective action on sustainability issues is challenging. However, leading organisations are recognising there is value in seeing the full picture, they want to understand the total impact their hotel operation makes on the surrounding community and environment.

**Total Impact Measurement and Management (TIMM)**

By measuring business success beyond financial analysis, and calculating a value (and a cost) for the social, environmental, tax and economic activities of a company, business can see at a glance the total impact it's making. It's a more innovative approach that also means companies can see the *trade-offs between choosing different strategies, allowing them to make the optimal decision for themselves and all their stakeholders.*

**A current example**

PwC is currently working with TUI Group and The Travel Foundation to apply TIMM to TUI Group's Mainstream Sector tourism operations, focusing on hotels in Cyprus. This is the first time the methodology has been applied to tourism. The pilot is expected to provide new insights into the impacts – both positive and negative – of hotel operations on a holiday destination.

**Join the debate**

We want to hear your views on these issues. We believe a new way of thinking about and measuring success is required for business in order for 'good' growth to take root. Join us at ***pwc.com/totalimpact*** to have your say.

## *Upscale, economy and branded opportunities*

There are plenty of opportunities for the large operators to exploit distribution systems and loyalty schemes in Europe as well as for the introduction of existing or new brands. For example, the UK's leading budget chain, Premier Inn are reported to have set an initial target of around six hotels in Germany within the next five years – taking advantage of the large scale and low level of branded budget penetration.

Chains with the largest European pipelines include Hampton Inn, Hilton Garden Inn, Ibis, Holiday Inn, Holiday Inn Express, Hilton, Park Inn, Motel One, Novotel and Radisson Blu.

Most rooms likely to open in 2015 fall into the upscale segment (upper upscale and upscale). Next in the pecking order is the midscale segment (upper midscale and midscale).

# *Spotlight on prospects for 2015 and 2016*

## Improved trading fundamentals across virtually all the cities in 2015 and 2016. Dublin, Madrid and London lead the pack in RevPAR growth terms for both years

### *Growth on growth*

The good news is that the improving economic and resultant business travel backdrop is expected to drive hotel trading growth again in 2015 and 2016.

All the cities except one are expected to achieve some growth in 2015 and all should see additional growth in 2016.

Growth is actually remarkably uniform with 17 out of the 20 cities in this report forecast to enjoy RevPAR growth close to or in excess of 2% in 2015. Half are forecast to see growth in excess of 3% in 2015. One city – Dublin – outshines the field with almost 9% RevPAR growth forecast in 2015 and 8% in 2016.

### *2015 forecasts*

The cities best placed to take advantage of circumstances in 2015 are Dublin followed by Madrid and London and then Rome, Prague, Porto, Amsterdam, Edinburgh and Barcelona. The others are very close behind in growth terms. Paris is expected to see 1.8% RevPAR growth in 2015 – enough to catapult it into the lead in absolute terms as the city with the highest RevPAR in this survey.

At the other end of the scale, Geneva, Zurich and Moscow's hotel sectors are not best placed to grow as the removal of the Swiss Franc cap and the ongoing geopolitical crisis (Moscow) cast long shadows. Moscow sees a decline driven by occupancy falls in 2015 as a result of international sanctions. Geneva and Zurich also see declines.

### *2016 forecasts*

In 2016 the most positive RevPAR stories are Dublin, Madrid and London. In Dublin a lack of new supply and strong ADR growth (over 7%) is driving up RevPAR. Geneva and Zurich are expected to see further marginal declines.

## What's driving growth?

It is a mixture of ADR and occupancy growth, but in many top performing cities like London or Paris which operate at around over 80% occupancy, it's ADR driving the most growth.

The strongest ADR growth in 2015 and 2016 is found in Dublin (around 7 % each year). London is also expected to see robust gains in both years (3% and 4.4% respectively). Madrid, Edinburgh and Barcelona also see growth on top of growth.

Rome, Lisbon and Porto see healthy occupancy growth in 2015. Rome, Madrid and Milan see solid growth in 2016.

## What could cast a shadow over growth?

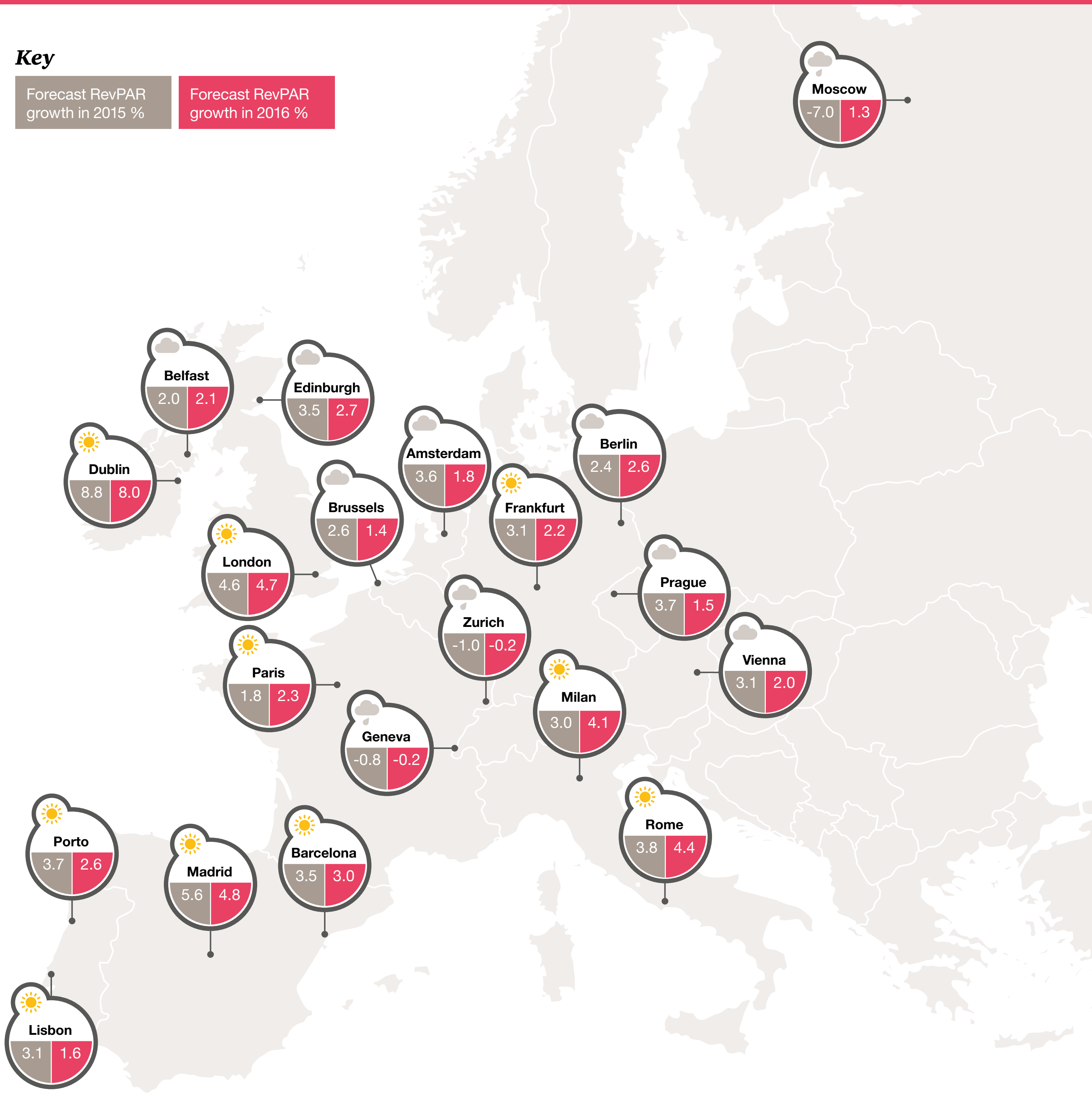
The changing balance of global growth and geopolitical risks will determine the global economic outlook for 2015 and this will have implications for travel and hotels in the cities analysed. The supply pipeline also has the potential to accelerate further in some hot spot cities and this could impact trading should demand weaken.

## RevPAR (local currency) growth tables

| 2015 | 2015 RevPAR | 2016 | 2016 RevPAR |
|---|---|---|---|
| Dublin | 8.8% | Dublin | 8.0% |
| Madrid | 5.6% | Madrid | 4.8% |
| London | 4.6% | London | 4.7% |
| Rome | 3.8% | Rome | 4.4% |
| Prague | 3.7% | Milan | 4.1% |
| Porto | 3.7% | Barcelona | 3.0% |
| Amsterdam | 3.6% | Edinburgh | 2.7% |
| Edinburgh | 3.5% | Porto | 2.6% |
| Barcelona | 3.5% | Berlin | 2.6% |
| Vienna | 3.1% | Paris | 2.3% |
| Lisbon | 3.1% | Frankfurt | 2.2% |
| Frankfurt | 3.1% | Belfast | 2.1% |
| Milan | 3.0% | Vienna | 2.0% |
| Brussels | 2.6% | Amsterdam | 1.8% |
| Berlin | 2.4% | Lisbon | 1.6% |
| Belfast | 2.0% | Prague | 1.5% |
| Paris | 1.8% | Brussels | 1.4% |
| Geneva | -0.8% | Moscow | 1.3% |
| Zurich | -1.0% | Geneva | -0.2% |
| Moscow | -7.0% | Zurich | -0.2% |

**Source:** Econometric forecast PwC 2015
**Benchmarking data:** STR Global and other data

# European cities RevPAR weather map 2015 and 2016




**Source:** PwC Econometric forecast 2015

# Which cities are the most expensive, the fullest and will have the highest RevPAR ?

PwC's research and forecasts show that growth is the dominant theme in 2015 and 2016.

Hoteliers we speak to corroborate this and are increasingly confident that 2015 will see trading improve further. A poll carried out by Choice Hotels Europe among its franchisees says 55% of them believe the sector will enjoy a sustained upturn in the next year. The positive sentiment was headed by UK hoteliers.

Of course it's not just about growth rates and the absolute levels of trading are also a key piece of the jigsaw too. Each city has its own supply and demand characteristics and could be at a different stage on the hotel cycle. All these factors and more need to be taken into consideration in any comparisons.

## *The highest occupancies*

In 2015, the highest occupancies are forecast to be up in the 80s in three cities, London, Edinburgh and Paris – with Dublin and Amsterdam not far off. Belfast and Berlin follow. These are the same results as in 2014, although the absolute occupancy levels have crept upwards. Higher occupancies reflect a structural shift towards more branded budget hotels in some countries as well as access to online distribution channels combined with greater propensity to travel.

In 2016 most cities see further growth but we see no change in the top 7 rankings.

In the lower rankings we forecast some jostling for position.

## *The highest ADRs (€)*

In 2015 the most expensive city is Paris followed by Geneva and Zurich, followed by London and Rome, Milan and Amsterdam.

In 2016, all the cities, except Geneva and Zurich, see further ADR growth, albeit quite marginal for some. All the top rankings remain the same but there are some changes further down as the chart overpage shows with Dublin, Vienna and Berlin moving up and Brussels and Moscow moving down.

## *The highest RevPARs (€)*

In 2015 the high ADR and occupancy rates translate into lofty RevPAR levels for Paris in particular – almost €50 ahead of Geneva. But Geneva, London and Zurich stay ahead of the others. Rome is ranked 5th at €101, some way behind.

In 2016 there is more growth in yields as Paris stays on top but London jumps into second place.

This translates into upward movement on the RevPAR rankings for Dublin and downward for Frankfurt and Belfast.

# Occupancy rankings

## No change at the top

| 2014 (A) | 2015 (F) | 2016 (F) | Rank |
|---|---|---|---|
| London (83.0%) | London (84.3%) | London (84.6%) | 1 |
| Edinburgh (80.4%) | Edinburgh (81.0%) | Edinburgh (81.3%) | 2 |
| Paris (80.3%) | Paris (80.5%) | Paris (80.9%) | 3 |
| Dublin (78.3%) | Dublin (79.6%) | Dublin (80.2%) | 4 |
| Amsterdam (77.2%) | Amsterdam (78.1%) | Amsterdam (78.4%) | 5 |
| Belfast (76.1%) | Belfast (76.8%) | Belfast (77.6%) | 6 |
| Berlin (74.2%) | Berlin (74.4%) | Berlin (75.0%) | 7 |
| **Zurich (73.2%)** | **Barcelona (73.5%)** | **Vienna (74.3%)** | **8** |
| **Barcelona (73.0%)** | **Vienna (73.2%)** | **Barcelona (74.1%)** | **9** |
| **Vienna (72.0%)** | **Zurich (73.0%)** | **Lisbon (73.5%)** | **10** |
| **Lisbon (71.0%)** | **Lisbon (72.5%)** | **Zurich (73.0%)** | **11** |
| **Prague (70.3%)** | **Prague (71.6%)** | **Rome (72.7%)** | **12** |
| **Rome (69.1%)** | **Rome (71.0%)** | **Prague (72.3%)** | **13** |
| **Brussels (68.7%)** | **Frankfurt (69.3%)** | **Frankfurt (69.7%)** | **14** |
| **Frankfurt (68.5%)** | **Brussels (69.2%)** | **Brussels (69.4%)** | **15** |
| **Geneva (67.6%)** | **Geneva (68.1%)** | **Porto (68.4%)** | **16** |
| **Porto (66.2%)** | **Porto (67.6%)** | **Geneva (68.3%)** | **17** |
| Madrid (65.5%) | Madrid (66.6%) | Madrid (68.3%) | 18 |
| Milan (63.8%) | Milan (64.9%) | Milan (66.5%) | 19 |
| Moscow (60.2%) | Moscow (56.3%) | Moscow (56.7%) | 20 |

**A:** Actual
**F:** Forecast

**Source:** Econometric forecast PwC 2015
**Benchmarking data:** STR Global and other data

# *ADR ranking (€)*

## Paris forecast for number one spot in 2015 and 2016

| *2014 (A)* | *2015 (F)* | *2016 (F)* | *Rank* |
|---|---|---|---|
| Paris (252) | Paris (257) | Paris (261) | 1 |
| Geneva (236) | Geneva (232) | Geneva (228) | 2 |
| Zurich (196) | Zurich (193) | Zurich (190) | 3 |
| London (173) | London (182) | London (190) | 4 |
| Rome (141) | Rome (143) | Rome (145) | 5 |
| Milan (129) | Milan (131) | Milan (133) | 6 |
| Amsterdam (122) | Amsterdam (125) | Amsterdam (127) | 7 |
| **Moscow (119)** | **Barcelona (121)** | **Barcelona (124)** | **8** |
| Frankfurt (118) | Frankfurt (121) | Frankfurt (122) | 9 |
| **Barcelona (118)** | **Moscow (113)** | **Brussels (114)** | **10** |
| **Brussels (111)** | **Brussels (113)** | **Edinburgh (112)** | **11** |
| **Edinburgh (104)** | **Edinburgh (109)** | **Moscow (112)** | **12** |
| **Vienna (96)** | **Dublin (102)** | **Dublin (109)** | **13** |
| **Dublin (95)** | **Vienna (97)** | **Vienna (97)** | **14** |
| Berlin (89) | Berlin (91) | Berlin (92) | 15 |
| **Lisbon (85)** | **Madrid (88)** | **Madrid (90)** | **16** |
| **Madrid (85)** | **Lisbon (85)** | **Lisbon (86)** | **17** |
| Belfast (74) | Belfast (77) | Belfast (78) | 18 |
| Prague (73) | Prague (75) | Prague (75) | 19 |
| Porto (64) | Porto (65) | Porto (66) | 20 |

**A:** Actual
**F:** Forecast

**Source:** Econometric forecast PwC 2015
**Benchmarking data:** STR Global and other data

# RevPAR ranking (€)

## Paris tops the RevPAR rankings followed by Geneva, London and Zurich

| *2014 (A)* | *2015 (F)* | *2016 (F)* | *Rank* |
|---|---|---|---|
| Paris (203) | Paris (206) | Paris (211) | 1 |
| **Geneva (160)** | **Geneva (157)** | **London (161)** | **2** |
| **London (144)** | **London (153)** | **Geneva (154)** | **3** |
| Zurich (143) | Zurich (141) | Zurich (138) | 4 |
| Rome (97) | Rome (101) | Rome (106) | 5 |
| Amsterdam (94) | Amsterdam (98) | Amsterdam (99) | 6 |
| Barcelona (86) | Barcelona (89) | Barcelona (92) | 7 |
| Edinburgh (84) | Edinburgh (88) | Edinburgh (91) | 8 |
| Milan (82) | Milan (85) | Milan (88) | 9 |
| **Frankfurt (81)** | **Frankfurt (84)** | **Dublin (88)** | **10** |
| **Brussels (76)** | **Dublin (81)** | **Frankfurt (85)** | **11** |
| **Dublin (75)** | **Brussels (78)** | **Brussels (79)** | **12** |
| **Moscow (71)** | **Vienna (71)** | **Vienna (72)** | **13** |
| **Vienna (69)** | **Berlin (68)** | **Berlin (69)** | **14** |
| **Berlin (66)** | **Moscow (64)** | **Moscow (63)** | **15** |
| Lisbon (60) | Lisbon (62) | Lisbon (63) | 16 |
| **Belfast (57)** | **Belfast (59)** | **Madrid (61)** | **17** |
| **Madrid (55)** | **Madrid (59)** | **Belfast (60)** | **18** |
| Prague (51) | Prague (54) | Prague (54) | 19 |
| Porto (42) | Porto (44) | Porto (45) | 20 |

**A:** Actual
**F:** Forecast

**Source:** Econometric forecast PwC 2015
**Benchmarking data:** STR Global and other data

# 5 predictions and their implications for hoteliers in 2015

## Predictions for 2015

### 1 Politicians strike a global climate deal in Paris this year

In 2009, troubled by the global economic slowdown, politicians failed to agree a strong global climate deal in Copenhagen as they worried about the impacts on jobs and investment. This year as they head to the UN Climate Summit in Paris, a growing global economy may alleviate some of these concerns. At the national level, lower oil prices will also give governments the opportunity to implement carbon pricing or remove fossil fuel subsidies with less resistance from business and consumers. These, alongside vocal commitments made by many governments and businesses in 2014, make striking an international deal to curb emissions increasingly more likely.

*Politicians strike a global climate deal*

### 2 US recovery to pick up speed

In what would be quite a coup for Obama given criticism over his stewardship of the economy during his first term, we expect US growth to be its fastest since 2005. One of the Americans' oft-quoted economic metrics – unemployment – fell during 2014 to below 6%, and we expect this figure, combined with lower oil prices, to contribute to rising household consumption. We are projecting economic growth of 3.2% in 2015, and for the US to contribute around 23% of global GDP growth in 2015. This would represent its largest contribution in a single year since the financial crisis.

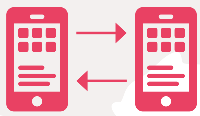
### 3 The contribution of the BRICs to global economic growth will fall for the 2nd year in a row, but growth in Sub-Saharan Africa will continue to outpace the global economy

We still expect China to make a major contribution to global growth in 2015, but its projected GDP growth rate of 7.2% would be its slowest since 1990 and its high debt levels pose some downside risks to growth. In Russia, we expect GDP to shrink in 2015 on the back of low oil prices and economic sanctions while, in Brazil, we expect growth to be sluggish at only around 1%.

On the other hand, Sub-Saharan Africa should continue to outpace global growth for the 15th year in a row. We expect the combined GDP of the region's four largest economies – Nigeria, South Africa, Angola and Ethiopia – to overtake that of Italy in 2015 in purchasing-power-parity terms.

### 4 Increased use of technology including the iBeacon

iBeacons, a micro-location technology, allows nearby devices to interact with each other without 'pairing' so allowing interaction with customers without generating privacy concerns. The technology will allow businesses to transmit tailored offers to customers who are nearby, collect data about how they interact with the environment and generally better understood their customers. We expect this to play an increasingly prominent role in the retail experience, but the potential application to hotels is also huge.



### 5 Continued advances of AI and automation in the job market

The increasing sophistication of Artificial Intelligence (AI) and robotics may be paving the way for a second industrial revolution, this time affecting the service sector, following the first revolution which occurred in agriculture and manufacturing over the last 200 years. Recent research has suggested that 47% of job categories could be open to automation within two decades. Robots are becoming cheaper and more sophisticated, and the use of sensors and AI mean they are no longer confined to static factory based roles and predictable environments. We expect that 2015 will see far greater use of technology to replace labour in services.

# Implications for European hotels

## *Carbon taxes could limit reductions in flight prices*

If politicians at the UN Climate Summit take this opportunity to implement carbon taxes, the aviation market, a major global emitter, will likely be negatively affected. Both the introduction of carbon taxes and the removal of fossil fuel subsidies would lead to increased costs to airlines, pushing prices in the opposite direction to lower oil prices. However, we expect any measures would likely be introduced gradually and are unlikely to cause a major impact on the hotels and travel sector whilst oil prices remain low.

## *Hotels will benefit from rising US household consumption*

Expectations of the fastest US growth since 2005, coupled with unemployment now below 6% and low oil prices, mean households in the US will have rising disposable incomes. In addition, US tourists' purchasing power in Europe has increased thanks to the recent dollar appreciation. These two forces should together encourage trips abroad and release the pent up demand for travel from the recession. Increased US tourism to Europe will be great news for European hotels: in 2013 US tourists spent 38 million nights in hotels, 2% of all nights booked, and spent €246 per night. France and Germany will be particularly affected as US tourists account for 13% and 10% of nights spent respectively.

## *Shifting focus to Sub-Saharan Africa*

With France, Italy and Switzerland in the top 10 most travelled to destinations by Chinese tourists, news of the slowing down of BRIC growth could be a cause for concern for European hotels. Tourists from China tend to spend a large amount on, for example, luxury shopping and hotel accommodation. As they see their slowest GDP growth rate since 1990 there may be some concerns for Europe. However, Russia's economy will be of greater concern this year. In 2012, Russia was the fastest growing tourism market in Europe. Now, with the current economic problems this is expected to change. France and Germany have 3% and 4% of their tourists coming from Russia and so a slowdown in numbers will be bad news for hoteliers.

In the long run, Sub-Saharan Africa is likely to continue growing at a faster pace than the global economy. Therefore hotels in Europe could shift their focus and look to tap into tourists from these countries.

## *Embracing digital innovations*

Digital innovations have already changed the hotel market, with online bookings allowing hotels to increase occupancy with last minute deals and personalised marketing. Now, with the adoption of iBeacons in the retail industry, hotels well need to adapt to new technologies and adopt them too. Customers will demand more from their hotels, expecting a personalised service based on their updated needs, communicated via interactions between their device and the hotel. Ordering room service via smart phone, or choosing your breakfast so it's ready for you at the table, could be the level of service demanded from guests very soon and will allow operators to up-sell services and boost loyalty.

## *Robots: at a hotel near you?*

While many guests would settle for free wifi, technology initiatives are transforming the service provided to hotel guests. Mobile room keys are allowing guests to use their smartphones to open room doors via an app, and this will be rolled out to the Apple Watch this year. A second trend is the use of robots to cut hotels' costs. Since August 2014 'Botlers' are already used by Starwood at their Aloft Hotel in Cupertino to fetch and carry for guests. Cruise ships are now using robotic bartenders to serve guests. This summer, the Hen-na hotel will open in Japan, staffed initially by 10 robots and with the goal of providing 90% of services robotically. With pressure on rates continuing we expect to see hotels continue to seek innovative ways to reduce costs in order to maintain their margins.

# Deal talk

### So what happened in 2014...

The European hotel market was very active with an estimated 30% increase in transaction volume year-on-year.

The availability of debt and the improved trading conditions across Europe have resulted in heightened investor demand for hotel assets and a more stable environment for banks and lenders to dispose of any over-leveraged assets.

The demand from international investors has continued to grow over the year, with approximately 60% of transactions in 2014 including cross border investors.

### 2014 trends

There has been further strong demand from Middle Eastern capital for trophy assets in prime European cities and 2014 saw increasing interest from Asian capital.

The three largest single asset transactions in Europe in 2014 were all located in Paris, demonstrating the strong demand for prime trophy assets from overseas investors.

### Paris – largest single asset transactions, 2014

| Location | Asset | Estimated price |
|---|---|---|
| **Paris** | Marriot Champs Elysee | €452 million |
| **Paris** | Intercontinental Paris – Le Grand | €442 million |
| **Paris** | Le Meridien Etoile | €382 million |

**Source:** HVS, RCA, Dealogic

Private equity appeared as one of the main players in the portfolio market in 2014, together with trade purchasers. The three largest pan-European deals below include Jing Jang's acquisition of Groupe de Louvre plus two significant buy-backs of freehold interests of large leased portfolios.

### Largest portfolio transactions, 2014

| Portfolio | Assets | Estimated price reported |
|---|---|---|
| **Groupe de Louvre** | 1,115 hotels in 46 countries | €1.2 billion |
| **Accor Portfolio** | 86 hotels located in Germany and Netherlands | €722 million |
| **Grove Portfolio** | 144 leased hotels located across the UK | €649 million |

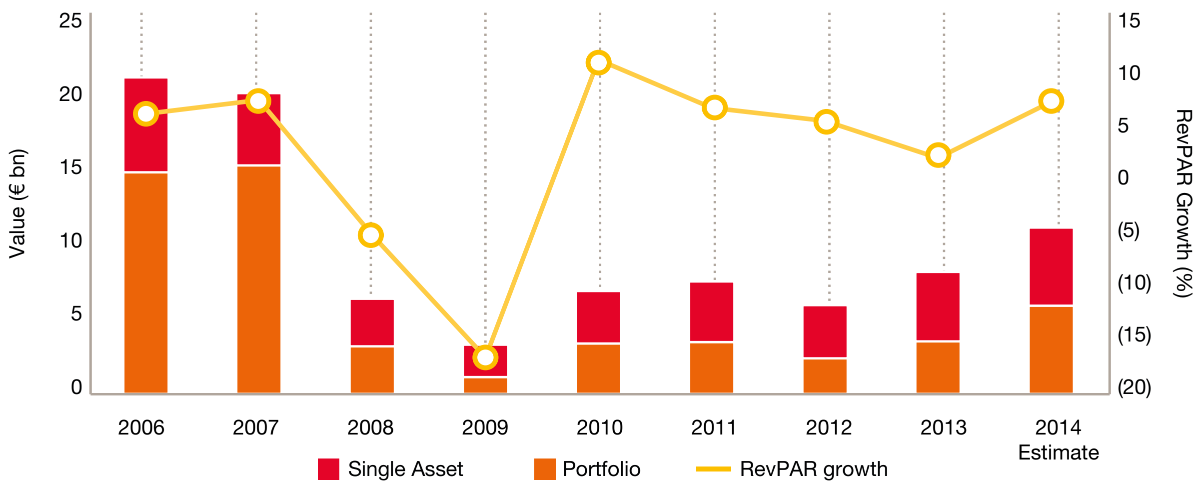
**Source:** HVS, RCA, Dealogic

### 2014 summary

As can be seen from the graph below the European hotel deal market experienced a significant decline in deal value following the onset of the economic recession in 2007. However, following strong recovery in RevPAR in 2010, deal volume has generally been growing in line with RevPAR, with an increase of c.30% in 2014 reflective of the stronger RevPAR growth this year.

As well as portfolio and single asset deals, we are seeing more loan transactions in the market in particular in regions, including the UK, Ireland and Spain, which would have a more positive impact on 2013 and 2014 deal values shown below.

## European hotel deal value




**Source:** HVS, RCA, Dealogic, STR Global, PwC analysis
Not including transactions below €7 million or loan sales

# Investment and deals outlook for 2015

### Hotels: Increasingly on the radar

PwC research shows hotels are becoming a higher priority for real estate investors and developers compared to last year. Strong trading fundamentals in some countries will continue to drive values and interest.

### European hotel sector investment prospects (by number of respondents)

| Hotels | Good to very good | Fair | Poor |
|---|---|---|---|
| 2014 | 51 | 42 | 7 |
| 2015 | 62 | 31 | 6 |

**Source:** Emerging trends in Real Estate Europe, PwC and the Urban Land Institute, 2015

### European markets to watch

The recovery in capital markets started in the UK and Germany but we are now seeing a much broader spread of recovery with Italy, France and Spain expected to show continued to improvement in 2015.

According to Emerging Trends Europe, the five leading cities for investment prospects in 2015 are a mix of German stalwarts and recovery plays.

The map opposite outlines the top cities to watch in terms of investment prospects as reported by the PwC European Emerging Trends report.

### Real estate: busier and more profitable in 2015?

Europe's real estate industry, including hotels, expects to be busier and more profitable in 2015, despite weak fundamentals and lacklustre economic conditions in many countries.

The future for hotel deals across Europe is bright, as equity rich investors look to invest in the sector and benefit from stronger returns as trading conditions are set to improve.

### So what trends do we expect in 2015?

It is anticipated that deal activity will remain strong in 2015 with many countries expecting an increase in deal volume, although deal size may not be as strong as 2014 due to potential limited supply in further high value pan-European portfolios such as transacted in 2014.

Trading performance across the key European markets is generally forecast to improve in 2015 having a positive impact on investor demand and investor confidence and we believe that RevPAR growth will continue to drive deal activity in key European cities.

It is also anticipated that Banks and Lenders will look to dispose of more over-leveraged assets in 2015 following a more stable trading and investment market, with countries such as Ireland forecasting an increase in debt sales and Spain and Italy anticipating an increase in assets being bought to the market by Banks/Lenders providing more potential targets for opportunistic buyers.

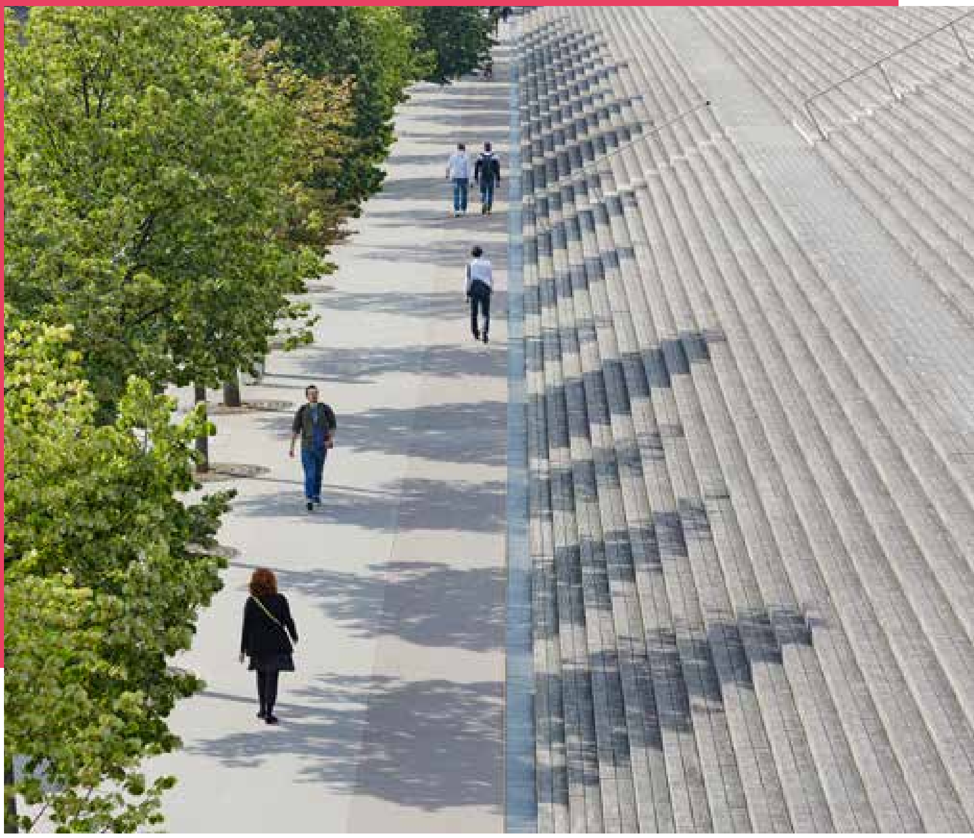
Overseas investment is expected to remain high in 2015, with increased demand from Asian capital resulting in even more competition for trophy assets in prime European cities such as Paris, Rome, London and Barcelona, which could lead to further escalation in pricing as demand outweighs supply.

Local investors will also look to optimise opportunities on smaller regional hotels/hotel chains as the trading environment is set to improve over the year.


**Source:** Emerging Trends in Real Estate Europe 2015: a balancing act, PwC and Urban Land Institute

# *The European cities forecasts*

From Amsterdam to Zurich: Which cities are best placed to grow in 2015 and 2016?



# Amsterdam

*Despite some supply pressures, demand for the city including events at the RAI, museums and exhibitions and the Sail event, should buoy up demand in 2015. RevPAR growth is forecast to grow by 3.6% to €98 – the best result since 2007.*

## Role

Amsterdam is the financial and cultural capital of the Netherlands and home to many large Dutch institutions. The Amsterdam Stock Exchange, the oldest stock exchange in the world, is located in the city centre and the country's major financial district is located to the south of the city.

In 2014 Amsterdam's conference centre, Amsterdam RAI and key attractions, including its historic canals and (recently reopened) museums drew six million international visitors. One third of all overnights stays in the Netherlands are to Amsterdam alone. The record levels are reflected in the increased volume of flights at Schiphol Airport.

## Historical trading

Trading in 2014 showed occupancy and ADR growth of 2.1% and 2.6% respectively at almost €124. This was the best ADR result since 2008.

Growth in overnight stays was driven by popular annual events, municipal tourist promotion and the reopening of Amsterdam's most important museum, the Rijksmuseum in 2013.

## Supply trends

There are around 36,000 hotel rooms available in the city (Amsterdam Marketing 2014) and according to STR Global over 1,000 new rooms opened in the past 12 months with a further 2,400 in construction and another 1,000 rooms in planning.

Persistently high office vacancy rates – especially around the periphery of Amsterdam has meant that many of these offices are being transformed into hotels. This has had a major impact on the total hotel supply. This situation is in sharp contrast to the absence of new development in the city centre (canal district) where strict planning restrictions prohibit new hotels.

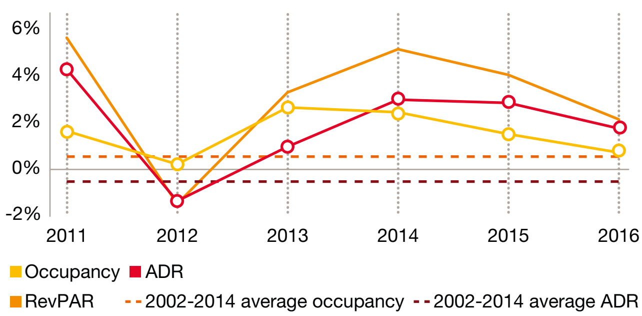
In Amsterdam more than 10,000 addresses are also available via Airbnb. Recently Airbnb started collecting tourism tax on behalf of the City. A recent report suggested 40% of Dutch hotels are facing competition from private citizens who rent out their homes or rooms to tourists using Airbnb or similar services, hotels with three stars and those with rooms of up to €65 a night were said to be experiencing most competition.

## Opportunities

Major annual events like Amsterdam Dance Event, Gay Pride and King's Day, generate high visitor levels. In addition in August 2015, the quinquennial nautical event Sail takes place. The previous edition of Sail in 2010 attracted 1.5 million visitors. This event is expected to have a positive impact on the number of overnight stays in 2015, though many visitors will come just for the day.

### Economic outlook

*In 2014 the Dutch economy exceeded expectations with GDP growing at 0.8% and unemployment falling to 6.6% in Q3 2014. The expectation is for the economy to grow steadily, at 1.4% in 2015 and then 1.6% in 2016, in line with the rest of the Eurozone as they continue to recover from the recession.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 74% | 120 | 89 |
| 2012 | 74% | 118 | 88 |
| 2013 | 76% | 119 | 90 |
| 2014 | 77% | 122 | 94 |
| **2015 F** | **78%** | **125** | **98** |
| **2016 F** | **78%** | **127** | **99** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 1.3% | 3.9% | 5.2% |
| 2012 | -0.1% | -1.7% | -1.8% |
| 2013 | 2.3% | 0.6% | 2.9% |
| 2014 | 2.1% | 2.6% | 4.7% |
| **2015 F** | **1.1%** | **2.4%** | **3.6%** |
| **2016 F** | **0.4%** | **1.4%** | **1.8%** |

# Barcelona

***Hoteliers are hopeful 2014's momentum continues into 2015. Good event activity and positive Government measures suggest a positive outcome for the year.***

## *Role*

Barcelona attracts the largest number of international tourists to Spain and was the 4th most visited city in Europe in 2013. The combination of beaches, modern architecture and gastronomy make the city one of Europe's most popular tourism destinations. In 2013, 80% of the 7.6 million tourists were international visitors.

## *Historical trading*

Tourism contributes more than 12% of Barcelona's GDP and recognizing the value of this important sector, the government has put in place a plan to encourage more tourism.

This policy appear to be securing results as occupancy rates reached 73% in 2014 – the highest since 2003. ADR experienced marginal growth in 2014 but at €118 was still a long way off the past peaks of 2007 and 2008. Important events such as the Mobile World Congress and the European Cardiology Congress, have helped to increase RevPAR which saw 2.5% growth in 2014.

## *Supply trends*

Demand continues to outpace supply according to data from STR Global. However, new rooms continue to open and in the last few years, an average of 10 hotels have been opened annually in the city.

The city provides an attractive location for international hotel brands, such as 'W' or 'Mandarin Oriental' and in fact 40% of Barcelona's hotels are managed by international brands. New hotels that have opened include the hotel 'TWO' by Axel Hotels.

The city is actively promoting the luxury hotel sector with the upcoming openings of the 'Grand Hyatt' hotel at the Agbar Tower, one of the most spectacular buildings in the city; the new Soho House Hotel and the Hotel Cotton House, part of the Marriot chain. In addition, the city is also a destination for innovative hotel products and includes the recent opening of the Hotel del Juguete – a hotel aimed at families which includes themed rooms dedicated to toys and famous children's characters from the cinema and TV; as well as 2 boutique hotels from the stylish Praktik chain.

There have been concerns that more tourist rental flats could impact future hotel sector performance.

## *Opportunities*

Barcelona will continue to benefit from its role as a leading tourism destination. In January 2015, the city hosted the urban fashion fair 'Bread and Butter', an event involving 15,000 hotel rooms over three days in what is normally a low season month. The World Mobile Congress attracts over 85,000 attendees in March. The ORC International World Championship will also take place in 2015.

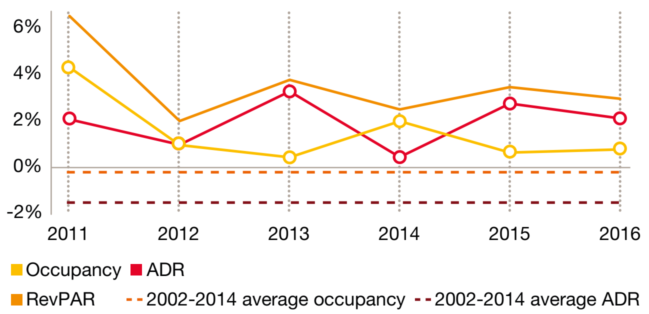
Furthermore, new projects such as the Disney Hub and the Ferrari Land Barcelona will be opened in 2016.

Another important opportunity will be more flights improving accessibility and international connectivity include Qatar Airways new flights to Barcelona in February 2015.

However, EU penalties imposed on Russia, and the Ruble devaluation are negatively impacting tourism in Barcelona, the destination of 80% of Russian tourists in Spain.

### Economic outlook

*The Spanish economy has now successfully turned a corner with GDP growth reaching 1.3% in 2014, and unemployment beginning to fall, down to 24%. Greater confidence, low oil prices and intense job creation should continue these trends into 2015, with GDP growth of 2%.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 71% | 113 | 79 |
| 2012 | 71% | 114 | 81 |
| 2013 | 72% | 117 | 84 |
| 2014 | 73% | 118 | 86 |
| **2015 F** | **73%** | **121** | **89** |
| **2016 F** | **74%** | **124** | **92** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 4.3% | 2.1% | 6.5% |
| 2012 | 1.0% | 1.0% | 2.0% |
| 2013 | 0.5% | 3.3% | 3.8% |
| 2014 | 2.0% | 0.5% | 2.5% |
| **2015 F** | **0.7%** | **2.8%** | **3.5%** |
| **2016 F** | **0.8%** | **2.1%** | **3.0%** |


NOMADIC
CHERBOURG

# Belfast

*Overall strong growth in 2014 and, with Belfast's growing attractions, this should continue in 2015.*

## Role

As Northern Ireland's regional capital, Belfast dominates the region's tourism offering. From the Titanic exhibition and 'Game of Thrones' location to the Giant's Causeway World Heritage Site, Belfast tourism revenues have more than quadrupled between 2000-13, with 7.5 million visitor trips in 2013 generating £438 million. A target to double tourism spend between 2013-20 has been set.

## Historical trading

In 2014, average year-on-year occupancy grew by 1.6%, average rates increased 3.4% and RevPAR by 5.7%.

Since 2011, Belfast's attraction as a visitor location is reflected in steady growth in all key metrics. Occupancy levels are at a record high, although ADR and RevPAR have some way to go to recover the real-term highs of re-recession activity. Steady recovery has been helped by the absence of new large-scale hotel investment, but, with peak season occupancy at close to 90% and shoulder season at c.80%, the inevitability of new hotel investment will increase competition.

## Supply trends

Three new hotels are planned for the city's Titanic Quarter waterfront area. These will add over 500 beds to the city's existing capacity. An 84-bed luxury hotel is also likely with long-term plans to open an additional four hotels in the area. Even allowing for this, the 2014 Hotel Capacity Study indicated a need for 1,000 more rooms between 2015-2020, mostly 4 and 5-star.

Belfast is also a growing cruise ship destination with 64 cruise liners and 121,000 passengers arriving in the nine months to September 2014.

## Opportunities

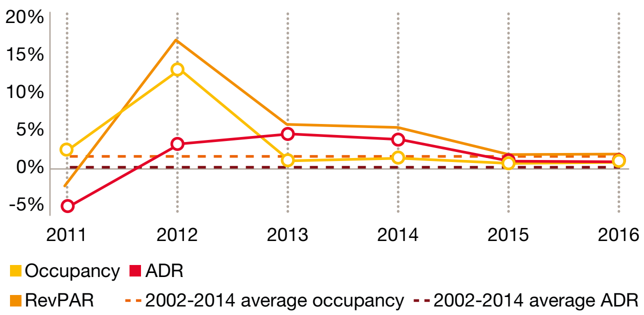
The Titanic Belfast visitor centre has had 2 million visitors since opening in March 2012, while the Game of Thrones locations, MTV Europe Music Awards and sporting events including international golf and the Giro d'Italia have delivered international publicity for the city. Belfast City Council's City Centre Regeneration Strategy and Investment Plan, intends to maxamise the tourism opportunity and increase conference activities through expanding Belfast's flagship Waterfront Hall.

New air routes to Barcelona, Iceland, Prague and Florida are all welcome additions to international connectivity.

Marketing new cultural and sporting events to Republic of Ireland (RoI), GB and overseas visitors, particularly in shoulder and off-seasons, will help ensure consistent hotel occupancy. However, devaluation of the Euro during 2015, a lower rate of tourism VAT and lower air passenger tax in RoI remain challenges.

### Economic outlook

*UK economic growth was strong in 2014, with GDP growing at 2.6% and unemployment falling further to 5.9% by Q3. Although for the UK this is expected to continue, with GDP growth of 2.5% in 2015, Northern Ireland is only predicted to achieve 1.9% growth. A combination of modest export growth and little public expenditure means domestic consumption is the main driver of demand.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (£) | RevPAR (£) |
|---|---|---|---|
| 2011 | 65% | 53 | 35 |
| 2012 | 74% | 55 | 41 |
| 2013 | 75% | 58 | 43 |
| 2014 | 76% | 60 | 46 |
| **2015 F** | **77%** | **61** | **47** |
| **2016 F** | **78%** | **62** | **48** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 2.8% | -4.8% | -2.1% |
| 2012 | 13.4% | 3.5% | 17.3% |
| 2013 | 1.2% | 4.8% | 6.1% |
| 2014 | 1.6% | 4.1% | 5.7% |
| **2015 F** | **0.9%** | **1.2%** | **2.0%** |
| **2016 F** | **1.0%** | **1.1%** | **2.1%** |

# Berlin

*Germany's No. 1 tourist destination and a magnet for new hotels and budget concepts. Despite a competitive market RevPAR saw 4.1% growth in 2014. There is growth in 2015 and 2016 but slower growth than in 2014.*

## Role

Berlin is the capital and political centre of Germany and tourism remains a growing sector. The city attracts a mix of business and leisure travellers (about 56% domestic). 2014 was the second consecutive record year for Berlin's tourism industry: With more than 28 million overnight stays (forecast) Berlin is by far the number one tourism destination in Germany.

## Historical trading

Berlin hotels recorded growth in both occupancy and ADR in 2014. Occupancy reached a record 74.3%. ADR reached €89.30, the highest since 2001 and a 2% improvement over 2013. RevPAR was boosted by 4.1% growth, to €66.35.

## Supply trends

Around 1,700 new rooms opened in the last 12 months and a further 2,800 rooms are in construction and planning, according to STR Global. Other sources put the totals higher but either way Berlin is a magnet for hotel developers and around 1 in 4 of all the rooms in planning in Germany is planned to open in Berlin.

The city is seeing both, national and international brands increase their foothold. For example, two of Marriott's latest Moxy budget brand are scheduled to open in 2015 (approx. 450 rooms). The pipeline also comprises of a number of high-rise buildings with hotel usage, for example, the Estrel Tower (46 hotel floors) and a new Motel One (18 hotel floors in a 118m building). New budget hotel concepts in good locations and attractive buildings (like Motel One) mean a tougher competitive market, especially for traditional 3 and 4-star hotels in Berlin.

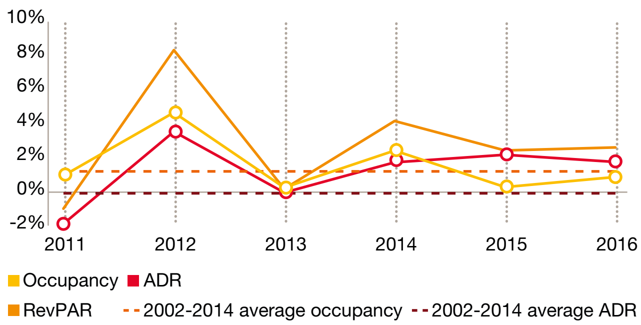
## Opportunities

Due to a variety of new trendsetting hotel openings, Berlin continues to be the largest market for hotel investment in Germany. This also enables hotel chains (operators) to enlarge their presence in Berlin. Strong demand means the Berlin hotel market is expected to remain on an upward growth curve. Overnight stays in Berlin are forecast to exceed the 30 million mark within the next two years. The opening of the long awaited Berlin Brandenburg Airport is still delayed and not expected to open before 2017.

The 2015 UEFA Champions League Final will be played at the Olympiastadion Berlin.

### Economic outlook

*As expected, in 2014 the German economy grew by 1.4% and unemployment fell even further to 5% by Q3. When compared with much of the Eurozone in social and economic difficulties, their economic position is very favourable. The growth forecast is slightly less optimistic 1.1% for 2015 but this is not likely to be a long-term dip. However, uncertainties are constantly arising from both Russia and Greece.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 69% | 85 | 59 |
| 2012 | 72% | 88 | 63 |
| 2013 | 72% | 87 | 63 |
| 2014 | 74% | 89 | 66 |
| **2015 F** | **74%** | **91** | **68** |
| **2016 F** | **75%** | **92** | **69** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 0.9% | -1.9% | -1.0% |
| 2012 | 4.6% | 3.5% | 8.2% |
| 2013 | 0.2% | -0.1% | 0.1% |
| 2014 | 2.4% | 1.7% | 4.1% |
| **2015 F** | **0.2%** | **2.1%** | **2.4%** |
| **2016 F** | **0.8%** | **1.7%** | **2.6%** |

# Brussels

*Strong trading in 2014 was driven by occupancy growth and helped recover some of the ground lost since 2008. We anticipate some ADR gains in 2015 will help keep the growth momentum going.*

## Role

The capital of Belgium is strategically located in the centre of Europe making it it a top conference hub, ranked second place worldwide but first place in Europe, according the Union of International Association (2012). Brussels hosts many international associations as well as the EU institutions.

According to the Institute for Statistics and Analysis (2013), the city welcomes about 6.3 million overnights. Around 52.5% of this total are business related. The average duration of stay is about 1.9 days.

## Historical trading (2014)

Brussels hotels recorded occupancy levels at 68.8% in 2014, a 3% improvement on 2013 and the best result since 2008. ADR averaged €111.13, a marginal improvement on 2013 and almost at 2008 levels. RevPAR moved up by 3.5% to just over €76.

Growth in the Belgian economy remained slow at 1% in 2014 and unemployment rose to 8.6% by Q3. Public sector spending and only modest growth in the services sector has been a drag on growth. Despite this, expectations are more positive for 2015 with a forecast of 1.4% GDP growth.

## Supply trends

Demand continues to outpace supply with currently around 200 hotels with almost 20,000 rooms in the city.

There have been some changes recently, for example at the end of 2014, le Méridien (225 rooms) located in the city centre reopened as the Hilton Brussels Grand Place. Overall, some 562 new rooms opened in the past 12 months. In addition there are 300 rooms in the pipeline including several projects under development:

- Project Nexity (110 rooms) in the EU district will be finalised in 2015;
- Hotel Astoria (about 140 rooms) along Rue Royale is expected to open in 2016;
- Project Gésu (73 rooms and several apartments) should be finalised in 2017; and
- Project Néo (Heysel redevelopment) will include an hotel (>500 rooms).

Brussels is seeing a trend to downgrading 5-star hotels to 4-star hotels to make them more attractive for business congresses.

Besides hotels, there are also about 1,500 rooms in aparthotels for longer stay visitors.

## Opportunities

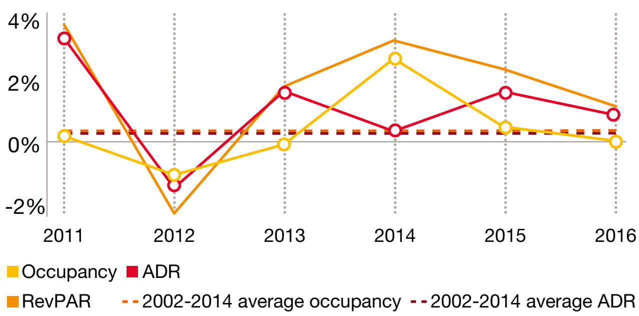
The number of overnight visitors is increasing year after year and the city aims to attract 10 million in 2020 by building on its role as a top conference centre and by further increasing international city tourism breaks.

In 2015, the city of Mons will be the European Capital of Culture. More than 1,000 cultural and artistic events are planned throughout the year, which should definitely boost tourism throughout the country, including Brussels.

Luxembourg will take over the EU presidency in the second half of 2015 which is also expected to have a positive impact on visitors number to Brussels and business travel.

### Economic outlook

*Growth in the Belgian economy remained slow at 1% in 2014 and unemployment rose to 8.6% by Q3. Public sector spending and only modest growth in the services sector has been a drag on growth. Despite this, expectations are more positive for 2015 with a forecast of 1.4% GDP growth.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 67% | 109 | 74 |
| 2012 | 67% | 108 | 72 |
| 2013 | 67% | 110 | 73 |
| 2014 | 69% | 111 | 76 |
| **2015 F** | **69%** | **113** | **78** |
| **2016 F** | **69%** | **114** | **79** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 0.4% | 3.6% | 4.0% |
| 2012 | -0.8% | -1.3% | -2.1% |
| 2013 | 0.1% | 1.9% | 2.0% |
| 2014 | 2.9% | 0.6% | 3.5% |
| **2015 F** | **0.7%** | **1.9%** | **2.6%** |
| **2016 F** | **0.3%** | **1.1%** | **1.4%** |

# Dublin

*2014 saw double digit growth in RevPAR, driven by further recovery in room rates. With little new supply, hopes are high for continued growth in 2015.*

## 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, pharma and ICT companies. It is home to a host of strategically important European headquarters of born-on-the-internet companies, such as Google and Facebook. Dublin is the most popular tourist region in the country with 5.7 million overseas and domestic visits a year and is home to approximately a third of Irish hotel rooms.

## Historical trading

In 2014 occupancy saw a 2.4% increase, rates increased 8.5% and RevPAR by 11.1%. Dublin hotels were boosted by an increase in: consumer confidence, overseas tourists and conference delegates, and a number of major events, e.g. The Web Summit (which saw attendance numbers double in 2014 to 20,000) and the Croke Park Classic American Football series.

## Supply trends

There are 152 hotels in Dublin and this has remained relatively static in recent years, with only three new hotel openings since 2007 – The Gibson (2010), The Marker (2013) and The Dean (2014). However, the number of hotel bedrooms has increased by 15% to close to 19,000 in the same time period.

There are now concerns about the lack of new supply. According to the Irish Tourism Industry Confederation (ITIC), Dublin needs as many as 30 new hotels (5,000 bedrooms) between now and 2020 to handle the expected growth in visitors.

Planning has been granted for a number of new hotels and extensions in the city, with further hotel developments planned. However, no new hotels are likely to come online in 2015, any increase in bedrooms will come from existing hotel extensions.

## Opportunities

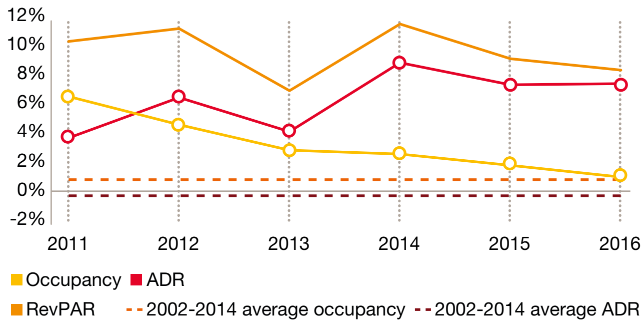
A new plan to grow tourism in Dublin was launched in 2014 – 'Destination Dublin A Collective Strategy for Growth to 2020. Fáilte Ireland are strongly focusing on repositioning Dublin as a destination city in 2015.

Further increases in flights and air routes will help increase tourist numbers for example, Dublin Airport has 14 new services in place for 2015 and will welcome new airlines such as Ethiopian, Vueling, WOW Air, and Transavia.

The increase in Irish hotel transactions experienced in 2013 continued apace in 2014. Over 60% of transactions were in Dublin. International investors are continuing to buy up hotels in the city. Portfolio sales were a significant feature in 2014 as NAMA and the banks continued to deleverage. This momentum has continued into 2015.

### Economic outlook

*In 2014 Ireland's economy sped ahead with growth of 4.3% to become the fastest growing economy in the EU. There was good news for unemployment too as this fell to under 11% by Q4. However, there are worries that this employment-led performance is not being matched by wage or productivity growth. Despite this GDP is expected to stay strong at 3.3% in 2015.*



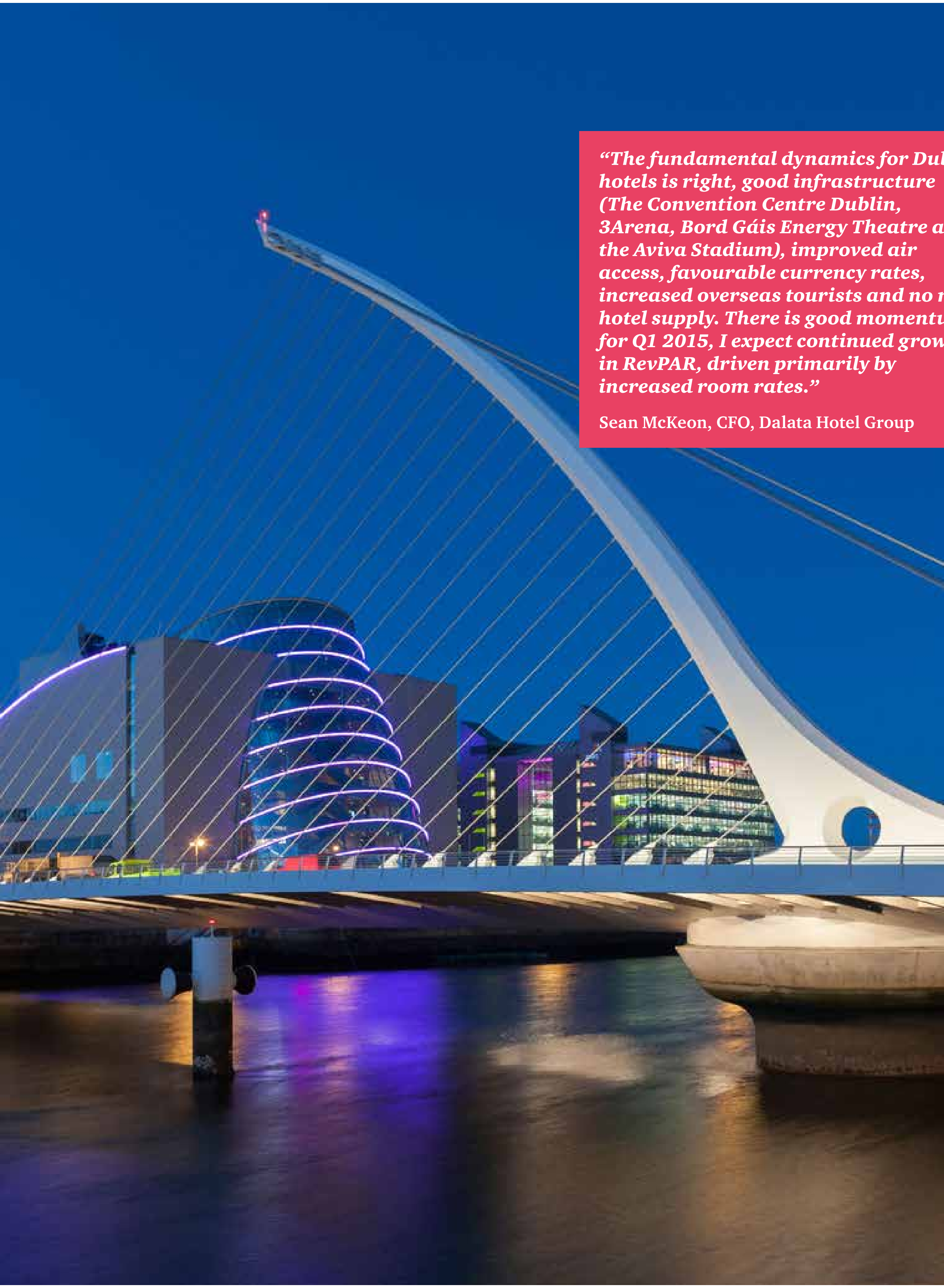

**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 71% | 80 | 57 |
| 2012 | 74% | 84 | 63 |
| 2013 | 76% | 88 | 67 |
| 2014 | 78% | 95 | 75 |
| **2015 F** | **80%** | **102** | **81** |
| **2016 F** | **80%** | **109** | **88** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 6.3% | 3.5% | 9.9% |
| 2012 | 4.4% | 6.2% | 10.8% |
| 2013 | 2.6% | 3.9% | 6.6% |
| 2014 | 2.4% | 8.5% | 11.1% |
| **2015 F** | **1.6%** | **7.0%** | **8.8%** |
| **2016 F** | **0.8%** | **7.1%** | **8.0%** |



*"The fundamental dynamics for Dublin hotels is right, good infrastructure (The Convention Centre Dublin, 3Arena, Bord Gáis Energy Theatre and the Aviva Stadium), improved air access, favourable currency rates, increased overseas tourists and no new hotel supply. There is good momentum for Q1 2015, I expect continued growth in RevPAR, driven primarily by increased room rates."*

Sean McKeon, CFO, Dalata Hotel Group

# Edinburgh

*2014 was a high profile year with events such the independence vote, Ryder Cup, Commonwealth Games and Home coming. 2015 is expected to be quieter with a slower growth pace.*

## *Role*

Edinburgh hosts a rich variety of international festivals, including the largest arts festival in the world. The historic UNESCO World Heritage Site attracts 3.7 million visitors, boasting a variety of attractions like Edinburgh castle, Holyrood palace and the Royal Yacht Britannica. Edinburgh is also the UK's second largest financial hub outside of London and the historic home to several global financial institutions.

## *Historical trading*

Edinburgh excelled in 2014 with its best performance yet. Scottish independence and the Commonwealth Games increased the global profile of Scotland and Edinburgh. Hotels in the capital performed strongly with growth in occupancy, ADR and RevPAR of 1%, 5.2% and 6.2% respectively. Historically performance peaks in the summer months, during the festival season.

## *Supply trends*

Operators and developers remain keen to invest in the capital, further increasing hotel capacity. Foreign investment include the French based Accor group planning to open a 110 room Mercure and the USA based Starwood Hotel & Resorts announcing a planned mid-market Aloft hotel in the city.

The Caltongate city centre regeneration project, which includes a 150 room Premier Inn and 131 room Premier Inn hub is planned to complete in 2015. Premier Inn hub are also planning a further 157 room hotel in the city centre.

The new 120 room Village Urban Resort opens in early 2015. Work will also begin in late 2015 on the new 175 room Hampton Hilton at the airport and 123 room spa at the Marina development in Granton.

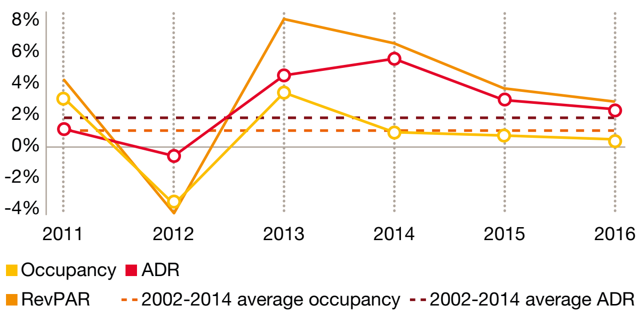
## *Opportunities*

Edinburgh remains popular. Trip Advisors' traveller's choice awards 2014 voted Edinburgh the UK's 2nd best destination. 2015 also sees the year of food and drink Scotland 2015, promoting Scottish produce. Hotels are also likely to benefit from Scottish events like the World Gymnastics Championship, Open Championship, Richo Woman's British Championship and Turner Prize.

Expansion at Edinburgh airport, saw a record 10.2 million passengers in 2014. Long haul capacity has also been increased through new services by United Airlines, US Airways and Qatar Airways Dreamliner schedule. Air Canada Rouge has also increased its frequency. Connection to Europe has improved with the introduction of new and more frequent routes by Easyjet, Jet2, Edelweiss and Lufthansa.

### Economic outlook

*Consistently one of the most prosperous parts of the UK, the economy is largely based around the services sector, with tourism and financial services particularly important. GDP growth for the UK in 2014 met expectations at 2.6% and is forecast to remain growing by a stable 2.5% in 2015.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (£) | RevPAR (£) |
|---|---|---|---|
| 2011 | 80% | 77 | 62 |
| 2012 | 77% | 77 | 59 |
| 2013 | 80% | 80 | 64 |
| 2014 | 80% | 84 | 68 |
| **2015 F** | **81%** | **87** | **70** |
| **2016 F** | **81%** | **89** | **72** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 2.9% | 1.1% | 4.0% |
| 2012 | -3.4% | -0.6% | -4.0% |
| 2013 | 3.2% | 4.3% | 7.6% |
| 2014 | 0.9% | 5.3% | 6.2% |
| **2015 F** | **0.7%** | **2.8%** | **3.5%** |
| **2016 F** | **0.4%** | **2.3%** | **2.7%** |

# Frankfurt

*An internationally important financial centre and business destination. Overall, the Frankfurt hotels market is likely to see relatively moderate growth in 2015, as ADR growth picks up.*

## *Role*

Frankfurt is Germany's financial center and the home of the ECB. With the third largest international airport in Europe, the city is also an important traffic hub and generates demand for room nights from international travellers. Business represents the most important demand generator for hotels in Frankfurt and fills rooms predominantly from Monday to Friday.

## *Historical trading*

In 2014 occupancy rose marginally to 68.5%, the highest occupancy level for more than 10 years. But 2014 saw ADR decline by 2.3% following four years of growth. ADR remains high at €118.73. The resulting RevPAR decline of 2% should be seen in the light of a very robust 2013 driven by a strong trade fair year for example, the biennial international Motor Show held in autumn 2013. In addition 2014 trading reflects strict monitoring efforts of companies on their travel expenditure.

## *Supply trends*

The Frankfurt hotel market has around 1,000 hotel rooms scheduled to open across various segments in the coming two years. For example, the long-awaited 150-room Sofitel will open in early 2016.

New developments focus on central locations in the city and especially within proximity to the Frankfurt trade fair grounds with its latest conference-centre addition Kap Europa, which opened last year.

In addition, international long-stay concepts are strengthening their foothold in the Frankfurt market with the planned Adina Frankfurt Messe (180 rooms) and the Capri by Frasers (153 rooms).

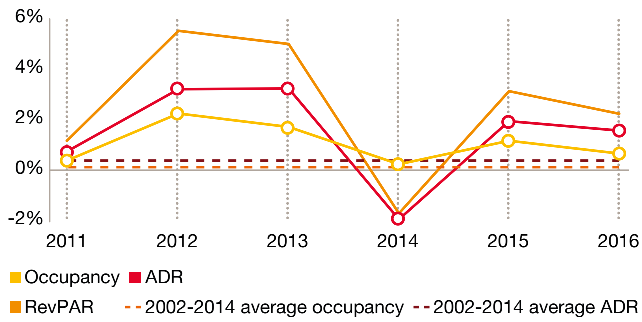
## *Opportunities*

Frankfurt will remain an internationally important destination, especially due to its role within the finance sector, the large airport and the trade fairs. The International Motor Show (IAA) will take place again in 2015 and will support hotel industry performance.

With regard to hotel investments, Frankfurt came to the fore in 2014, as two notable transactions took place in the 5-star segment (Hilton and Jumeirah Frankfurt Hotel). Combined with positive supply and demand developments, Frankfurt is expected to remain a focus for hotel investors over the next few years.

### Economic outlook

*As Germany's financial capital, Frankfurt's hotel market benefited from the country's economy growth of 1.4% in 2014. When compared with much of the Eurozone in social and economic difficulties, Germany's economic position is very favourable. The growth forecast is slightly less optimistic for 2015 at 1.1% but this is not likely to be a long-term dip. However, uncertainties are constantly arising from both Russia and Greece.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 66% | 113 | 74 |
| 2012 | 67% | 117 | 79 |
| 2013 | 68% | 121 | 82 |
| 2014 | 68% | 118 | 81 |
| **2015 F** | **69%** | **121** | **84** |
| **2016 F** | **70%** | **122** | **85** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 0.4% | 0.8% | 1.2% |
| 2012 | 2.2% | 3.2% | 5.4% |
| 2013 | 1.7% | 3.2% | 4.9% |
| 2014 | 0.2% | -1.9% | -1.7% |
| **2015 F** | **1.1%** | **1.9%** | **3.1%** |
| **2016 F** | **0.6%** | **1.5%** | **2.2%** |

# Geneva

***The Swiss National Bank's decision to remove the cap on the Franc will directly impact the tourism and hotels markets through higher prices for visitors, so the outlook is not as positive this year.***

## Role

Geneva is Switzerland's second largest city after Zurich. An international centre of finance, culture, politics and one of the world's top trading capital cities, the city hosts the United Nations, Non-Governmental Organisations (NGOs), financial institutions, international businesses and many global company headquarters.

Situated on the banks of Lake Geneva at the foot of the Alps, Geneva is a very popular tourist destination and the gateway to western Switzerland's mountain resorts. Despite this, around 70% of Geneva's visits are business related. The Middle East is an important market generating high revenues. With Ramadan moving further into early summer, the city will keep benefitting from a higher demand during that season in the coming years. Unfortunately, the prominence of Russian tourists in Geneva will mean it is negatively affected by the rouble devaluation and economic sanctions.

## Historical trading

Geneva's hotel market performance picked up with RevPAR growth of 3.7%, mainly driven by an occupancy increase of 3.7% bringing the KPI back on 2008 levels. The growth is attributed to the timing of Ramadan and the Fête de Genève and the general increase in international political summits (e.g. Syria conference). ADR however, were still below 2008 figures with CHF 288 still approx. 19% below 2008 rates as corporate travel still suffers from the economic downturn and companies reign in travel budgets.

## Supply trends

Geneva's total hotel room supply grew by 4% between 2009 and 2013. This slow growth is due to high barriers of entry in terms of strict building/conversion legislation and a preference for other real estate uses by property owners due to higher returns compared to hotels. A total of 300 additional hotel rooms are estimated to be built over the next two years in Greater Geneva. Airbnb's room supply has reached 16% of the total hotel room supply and competes directly with hotels.

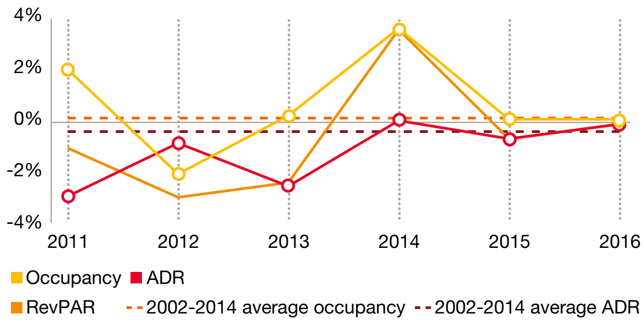
## Opportunities

The hotel market in Geneva is concentrated in the upscale and luxury category, leaving some opportunity for development of midscale hotels.

With 4.5% growth, Geneva has shown the largest increase in tourism demand in Switzerland in the winter season 2013/2014. Rather flat growth in room supply and the comparatively small average size of hotels (95 rooms) is an incentive for investors to build new and larger hotels, not only in Geneva, but throughout Switzerland. The introduction of the Corporate Tax Reform III (2018 – 2020) is expected to further boost international investment.

### Economic outlook

*Swiss economic growth slowed slightly to 1.3% in 2014, with inflation just creeping into positives at 0.06%. Expectations for 2015 were of 1.6% GDP growth, however after the Swiss National Bank's removal of the cap on the Franc, there will be downwards pressures and we expect to see negative growth.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (CHF) | RevPAR (CHF) |
|---|---|---|---|
| 2011 | 67% | 299 | 199 |
| 2012 | 65% | 296 | 193 |
| 2013 | 65% | 288 | 188 |
| 2014 | 68% | 288 | 195 |
| **2015 F** | **68%** | **286** | **193** |
| **2016 F** | **68%** | **285** | **193** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 2.0% | -3.2% | -1.2% |
| 2012 | -2.2% | -1.0% | -3.2% |
| 2013 | 0.1% | -2.7% | -2.6% |
| 2014 | 3.7% | -0.1% | 3.7% |
| **2015 F** | **0.0%** | **-0.8%** | **-0.8%** |
| **2016 F** | **0.0%** | **-0.2%** | **-0.2%** |

# Lisbon

***2014 saw a strong international conference programme and events such as the Champions League Final drove almost double digit occupancy growth, but ADR growth remained flat. In 2015, more large conferences and new air routes should drive demand further.***

## Role

Lisbon is the capital of Portugal. It is an important centre for meetings and also for history, culture, music and entertainment alongside commerce and business. World Travel Awards for Lisbon in 2014 included. With a string of accolades including:

- Europe's Leading Cruise Destination and Cruise Port;
- 2nd 'Most Affordable Destination';
- 'Best Winter Holiday Destination'; and
- 6th 'Best Destination to Visit'.

## Historical trading

Reflecting Portugal's bumper tourism year in 2014, Lisbon occupancy soared by 9.4% according to data from STR Global to reach over 71% – the highest in over 10 years. But ADR saw only a marginal 0.6% lift to €85 and RevPAR increased 10.1%. This performance was impressive despite the increase in room supply in 2014 and was supported by the introduction of new air routes by Ryanair, as well as international events and an improved image.

Large, key events with positive demand in 2014 include:

- Rock In Rio Lisbon (back in 2016);
- The Champions League Final;
- The 9th World Congress of the International Water Association;
- 'Fish in Lisbon' an international food fair; and
- WONCA Europe July 2014, – the Conference of the European Society of General Practice and Family Medicine.

## Supply trends

Lisbon expects around 20 new hotels with almost 1600 new rooms in Greater Lisbon to become available during 2015. In 2014, ten new hotels opened doors to clients (three 1-star, one 2-star, two 3-star, four 4-star, one 5-star) adding 563 extra rooms.

## Opportunities

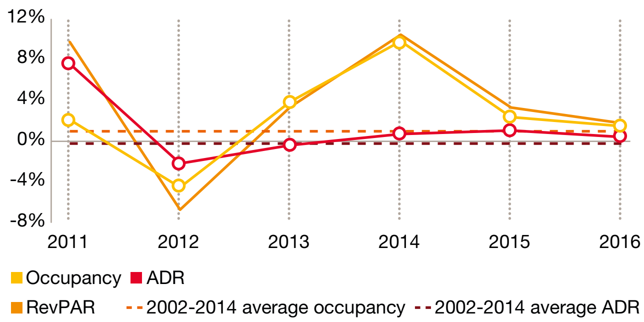
In 2015, Lisbon will host 'NOS Alive 2015', The Economist Lisbon Summit and the World Oceans Summit 2015 which are expected to bring large numbers of visitors to the city. EasyJet will start new routes through Lisbon and Ryanair will operate 6 new routes next year, improving international connectivity.

Relevant events in 2015:

- Volvo Ocean Race;
- CIRSE 2015;
- 48th IEEE International Symposium;
- 31st Annual meeting of the European Society of Human Reproduction and Embryology;
- ESPEN – Congress of the European Society of Parenteral and Enteral Nutrition 2015; and
- 23rd European Conference on General Thoracic Surgery.

### Economic outlook

*As expected, the Portuguese economy is now recovering with GDP growth at 0.9% in 2014, and unemployment falling to 13.6% by Q3. Strong growth is expected to continue, with the forecast for GDP growth in 2015 at 2.1%. Falling oil prices and the ECB's decision to implement QE should help support this.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 66% | 87 | 57 |
| 2012 | 63% | 85 | 53 |
| 2013 | 65% | 84 | 55 |
| 2014 | 71% | 85 | 60 |
| **2015 F** | **73%** | **85** | **62** |
| **2016 F** | **73%** | **86** | **63** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 1.9% | 7.3% | 9.4% |
| 2012 | -4.5% | -2.2% | -6.7% |
| 2013 | 3.7% | -0.5% | 3.2% |
| 2014 | 9.4% | 0.6% | 10.1% |
| **2015 F** | **2.2%** | **0.9%** | **3.1%** |
| **2016 F** | **1.3%** | **0.3%** | **1.6%** |

*The Padrão dos Descobrimentos (Monument to the Discoveries) is one of Lisbon's key landmarks*

# London

*Despite record breaking trading in 2014 we expect another record year in 2015 as the city attracts more visitors including Rugby World Cup fans.*

## 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. It is a leading destination for international tourism with extensive cultural, sporting and historical attractions. Two years after the Olympic Games helped turbo-charge London's global profile, record volumes of international visitors have been recorded.

## Historical trading

2014 has seen the capital trading at a very high level, and although trading wobbled a bit in the middle of the year, and then again in the autumn, it seems to have picked up in the latter part of 2014. In December 2014 hotels achieved the highest RevPAR rates of any December in 20 years, according to preliminary figures from STR Global. Occupancies have been at record highs, ending 2014 at 83% and rates soared to almost £141.

## Supply trends

London expects around 6,400 rooms to open in 2015, including the re opening of the Lanesborough as part of the Oetker Collection; the new Zetter Townhouse in Marylebone; and a series of smaller stylish hotels combining art themes and sometimes gallery space, following in the footsteps of the Hospital Club Covent Garden. These include the Arts Club, Mayfair and the Laslett in Notting Hill. New names include the Hyatt Place at Heathrow, M by Montcalm Shoreditch London Tech City and MVMNT Greenwich. In 2016 another 5,000 rooms are set to open. Currently demand is outstripping supply but there will be pressure on some segments and locations Improved transport infrastructure and cheaper rents mean more businesses and hotels are moving/opening in non traditional areas of the city such as Shoreditch and Old Street.

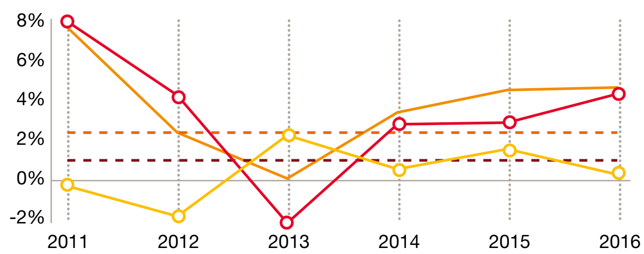
## Opportunities

Strong business travel demand also drives a major events calendar, and by example London hosts the European Society of Cardiology's (ESC) annual congress in London in 2015. The largest cardiology meeting in the world, with around 35,000 medical professionals expected for the five day event from 29 August – 2 September 2015.

Inbound travel was at record levels again last year and it is to be hoped that the Rugby World Cup boosts numbers further lifting demand and help lift ADR with 17 matches played in London with the final at Twickenham 31 October. The Rugby World Cup effect may be enhanced by the NFL International Series which comprises three matches which will also be played in London on two of the Rugby World Cup dates.

### Economic outlook

*In 2014, the UK economy grew by 2.6%, with unemployment now at a 6% low. This economic momentum, coupled with a buoyant travel market will benefit the London hotels market. With a slight slowdown in growth expected GDP growth is expected to stabilise at 2.5% in 2015 as consumer spending moderates.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (£) | RevPAR (£) |
|---|---|---|---|
| 2011 | 82% | 133 | 110 |
| 2012 | 81% | 139 | 112 |
| 2013 | 82% | 136 | 112 |
| 2014 | 83% | 140 | 116 |
| **2015 F** | **84%** | **144** | **122** |
| **2016 F** | **85%** | **151** | **127** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | -0.3% | 8.1% | 7.8% |
| 2012 | -1.8% | 4.3% | 2.4% |
| 2013 | 2.3% | -2.2% | 0.1% |
| 2014 | 0.6% | 2.9% | 3.5% |
| **2015 F** | **1.6%** | **3.0%** | **4.6%** |
| **2016 F** | **0.3%** | **4.4%** | **4.7%** |

# Madrid

*Tourism and events success led to almost double digit RevPAR growth in 2014. In 2015 we expect further growth but at a slightly slower pace.*

## *Role*

Madrid is the capital of Spain and the economic, political and cultural centre of the country. It is a major destination for high level meetings and conventions, both at the national and international level. While the economic crisis affected tourism badly in Madrid, the situation is starting to improve.

## *Historical trading*

Tourism's growing success in Madrid is partly due to the Government's new Tourism Plan introduced in 2013. Early success has led to an increase of two million tourists to the city in the first half of 2014 compared to the same period in the previous year.

Madrid is highly dependent on business tourism, and important events such as the Arcomarid Fair, the Energy Fair, and Mercedes-Benz Fashion Week, have all been important business tourism drivers.

## *Supply trends*

Large hotel chains have continued to increase their presence in Madrid. These include the 'InterContinental Indigo Gran Vía' and the 'Meliá Innside Suecia'. Madrid saw the exit of the Occidental Hotel & Resorts chain.

According to STR Global, there are 436 rooms under construction and almost 800 rooms in planning.

In 2017, Spain will see the opening of the first Four Seasons Hotel, in Madrid. will see the opening of the first Four Seasons hotel in Spain in Madrid. In addition four projects in four iconic buildings on the Plaza de España, will also include hotels.

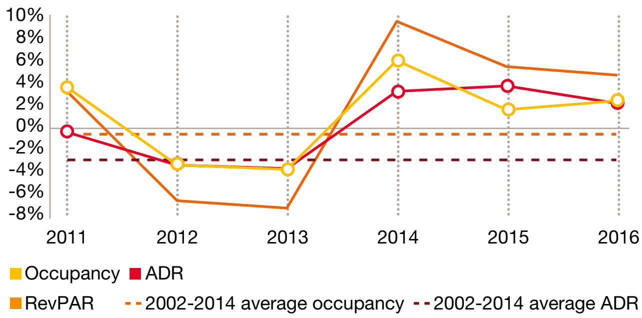
## *Opportunities*

The World Travel & Tourism Council will take place in Madrid in April 2015, attracting a large number of delegates which will help boost hotel trading. In addition, 10 significant international fairs will be celebrated in the city, including FITUR and Madrid Fusión. Between 2015 and 2019, five international congresses will be held in Madrid – another positive factor to help buoy up bednights.

Air traffic increased in 2014, as airport landing fees decreased. Fees are expected to remain the same in 2015 and this could help maintain air traffic volumes.

## Economic outlook

*Madrid is Spain's second largest industrial centre after Barcelona, however it is becoming increasingly dominated by the service sector. Unlike Barcelona, Madrid's hotel market has felt the full force of the economic decline in Spain. However, the economy has now turned a corner with GDP growth reaching 1.3% in 2014, and unemployment beginning to fall, down to 24%. Greater confidence, low oil prices and intense job creation should continue these trends into 2015, with GDP growth of 2%.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 66% | 88 | 58 |
| 2012 | 64% | 85 | 54 |
| 2013 | 62% | 82 | 51 |
| 2014 | 66% | 85 | 55 |
| **2015 F** | **67%** | **88** | **59** |
| **2016 F** | **68%** | **90** | **61** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 3.7% | -0.4% | 3.3% |
| 2012 | -3.3% | -3.3% | -6.6% |
| 2013 | -3.7% | -3.7% | -7.2% |
| 2014 | 6.2% | 3.4% | 9.7% |
| **2015 F** | **1.7%** | **3.8%** | **5.6%** |
| **2016 F** | **2.5%** | **2.3%** | **4.8%** |

# Milan

## *From May to September EXPO 2015 will be a major lure for visitors to Milan.*

### *Role*

Milan is the country's economic and financial heart. The province of Milan generates approximately 9% of Italy's GDP; while the economy of the Lombardy region generates approximately 20% of Italy's GDP.

The city is a major world fashion and design capital. Milan's museums, theatres and landmarks, including the Milan Cathedral, the fifth largest cathedral in the world, attract over 6 million annual visitors.

Starting in May 2015, and lasting for 6 months, Milan will host the 2015 World Exposition (EXPO 2015). This event should create extra visibility for the region, with 20 million visitors expected (many domestic).

### *Historical trading*

In 2014 RevPAR increased steadily in Milan, aided primarily by increases in ADR (+3% over 2013 YE) rather than occupancy (+1.5% over 2013 YE). This can be linked to an increase in corporate and trade fair demand, with particular growth from emerging markets. Total tourism demand peaked in 2013 with about 6.3 million arrivals and just over 13.5 million bednights, 1.2% and 7.5% over 2012 figures.

The 2016 the UEFA Champions League final will be played at the San Siro Stadium, Milan.

### *Supply trends*

As of year-end 2013, the city of Milan had 446 hotels (19 5-star, 129 4-star), with 25,749 rooms, and 51,359 beds, representing 69% of the total hotel supply in the province. To accommodate the extra demand for hotel rooms from visitors to EXPO 2015, some new hotels were planned and around 240 rooms opened in the last 12 months. STR Global estimate over 320 rooms are under construction and 600 or so are in final planning. By 2017, HVS estimates 1,700-1,800 rooms will be added to the market.

### *Opportunities*

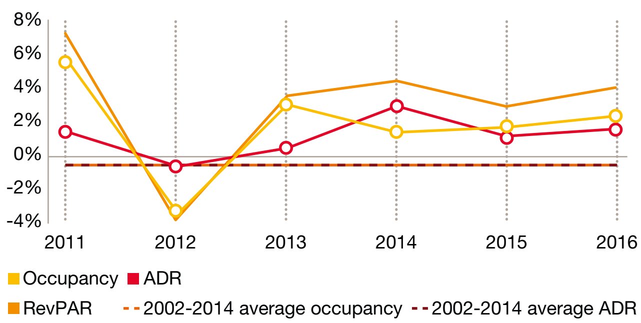
The completion/planning of mixed-use projects, part of an eco revitalization agenda, is attracting tourists: City Life, Porta Nuova, Milano Santa Giulia and Milano Sesto. The construction of two motorways (Bre-bemi and TEM) supports tourism accessibility.

Distressed opportunities abound: BREE/Alliance Hospitality, Atahotels and UNA are distressed owner situations. Among these owner/operators, there are 21 hotels in Milan, totaling 3,367 rooms, and potentially unique acquisition opportunities. There is continued interest in trophy assets demonstrated by Middle Eastern SWF acquisitions in Italy. A number of hotel operators are also looking at value add investments such as conversion of office buildings in hotels in city centre locations.

The devaluing of the euro against the dollar should bring the opportunity of increased US tourists, boosted by the strong US economic situation.

### Economic outlook

*In 2014 the Italian economy failed to recover with a decline in GDP of -0.4% and unemployment continuing to rise to 12.8%. However, forecasts are more optimistic for 2015. QE, and the depreciation of the Euro, may help Italy to recover due to its many exports, and GDP growth is predicted to be a positive 0.3% in 2015.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 63% | 126 | 79 |
| 2012 | 61% | 125 | 76 |
| 2013 | 63% | 125 | 79 |
| 2014 | 64% | 129 | 82 |
| **2015 F** | **65%** | **131** | **85** |
| **2016 F** | **67%** | **133** | **88** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 5.6% | 1.5% | 7.2% |
| 2012 | -3.4% | -0.6% | -3.9% |
| 2013 | 3.1% | 0.5% | 3.6% |
| 2014 | 1.5% | 3.0% | 4.5% |
| **2015 F** | **1.8%** | **1.2%** | **3.0%** |
| **2016 F** | **2.4%** | **1.7%** | **4.1%** |

# Moscow

*2014 saw hotel performance dip due to the uncertain geopolitical environment and the weakening Russian economy. 2015 could be a re-run if the situation doesn't change.*

## Role

Moscow is Russia's financial and political centre and home to more than 600 of the 1,250 credit institutions operating in the country. Moscow is the most populated city in Europe with more than 12 million people. There are numerous places of architectural and historic interest including museums, galleries and exhibition halls, as well as parks attracting about 5.7 million international tourists visitors in 2014. This is forecast to double by 2020.

## Historical trading

In 2014 Moscow hotels saw a 2.1% decrease in ADR. Occupancy decreased by 9% and RevPAR by 10.9%.

Even though throughout 2014 Moscow became one of the cheapest cities in Europe to stay in due to the rouble devaluation, the political impact on the economy and the image of the country was much stronger, preventing hoteliers benefitting from the potential demand. Occupancy is expected to fall to 2009 recession levels with the current economic situation.

## Supply trends

A number of new hotels entered the Moscow market in 2014. Four Seasons opened its second property in Russia in Q4 2014. Four Seasons Hotel Moscow (180 rooms) is situated in the very centre of the city 100 metres away from the Red Square. Accor, Hilton and Carlson Rezidor also opened new properties under their Mercure, Doubletree by Hilton and Radisson Blu brands. Kempinski brand at Nikolskaya hotel in the city centre was replaced by a St. Regis, which marked the first Starwood hotel under this brand in Russia.

Overall around 1,180 new rooms were opened in Moscow in 2014, which is 19% more than in 2013.

We expect that the rouble devaluation will decrease the revenue of international hotel operators in their consolidated financial statements by 40-50% in 2015, which might force them to postpone the realization of those new projects which are at an early stage.

Projects at the final stage of realization are most likely to be completed.

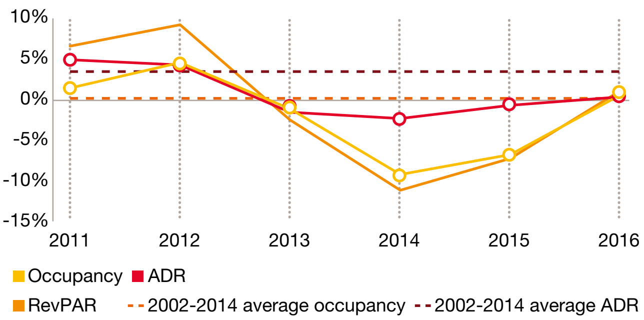
## Opportunities

Current exchange rates are starting to push up hotel operating expenses. This is particularly true for the higher-class international brand properties. Considering the difficulties that these hotels currently face we see an opportunity for established well managed local brands to increase their share of the market. Also, as a result of the cost increases, we will see a cost optimisation process driving ADR down.

Moscow is going to host various sport events in 2015 and 2016, which should positively impact the hospitality industry. Regular events will include FIVB Beach Volleyball Grand Slam and Beach Football Euroleague stage in 2015. IIHF Ice Hockey World Championship and Senior World Modern Pentathlon Championships will take place in 2016.

### Economic outlook

*Growth in Russia was barely positive in 2014, with GDP growing at 0.3%. Now, with the weight of economic sanctions and low oil prices in an economy dependent on oil and gas, it seems likely Russia will enter a recession this year. In 2015, GDP growth is expected to be -5% and the weakened ruble has caused high inflation, expected to continue at 15% this year.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (RUB) | RevPAR (RUB) |
|---|---|---|---|
| 2011 | 64% | 5631 | 3592 |
| 2012 | 67% | 5880 | 3928 |
| 2013 | 66% | 5800 | 3837 |
| 2014 | 60% | 5676 | 3418 |
| **2015 F** | **56%** | **5648** | **3178** |
| **2016 F** | **57%** | **5677** | **3218** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 1.6% | 5.1% | 6.7% |
| 2012 | 4.7% | 4.4% | 9.4% |
| 2013 | -1.0% | -1.4% | -2.3% |
| 2014 | -9.0% | -2.1% | -10.9% |
| **2015 F** | **-6.6%** | **-0.5%** | **-7.0%** |
| **2016 F** | **0.8%** | **0.5%** | **1.3%** |

# Paris

*Paris operates at a very high level and saw record trading in 2014. We expect more growth in 2015 as ADR nudges up by 1.6% taking RevPAR to €257.*

## Role

Paris is not only the political and cultural capital of France but also its major financial and commercial centre. It's a global city and remains one of the leading global tourist destinations attracting over 29 million visitors, with close to 60% of these tourists international visitors in 2013. Visitors are attracted by its wealth of cultural attractions (including some 143 museums and 484 parks and gardens). (+4.1% vs 2012). The cultural offer is supported by museums and exhibitions which draw more than 10 million visitors each year.

## Historical trading

Recently Paris hotels enjoyed record volumes of overnight stays, with 36.7 million hotel overnights recorded in 2013, a similar level to the record year 2012. Reflecting this, Paris hotels have been operating at a very high level with occupancy at 80.4% in 2014, up by 0.7% compared to 2013 and higher than 2012. ADR at €255.35, just pipped 2012, and was up 0.4% on 2013. RevPAR at over €205 was the highest for 10 years, according to data from STR Global.

International visitors are mainly from the US, UK and Italy with the number of Chinese visitors still increasing. The average stay in a hotel is 2.2 days.

## Supply trends

Demand continues to exceed supply. Paris has 81,042 rooms in 1,570 hotels. Room supply in Paris continues to grow steadily and almost 600 rooms opened in the last year and a further 140 are under construction with an additional 122 in planning, according to STR Global. However, considerably more rooms are scheduled to open on the Paris Tourism Office site including a 950 room Generator Hostel opening in 2015, the group's largest to date. A new 400 room B&B opens at Disneyland late 2015. Refurbishments include the renown Ritz Hotel which closed for renovations in 2012, reopening early 2015. Others re-opening include the Crillon (a Rosewood hotel) in 2015 and the Lotti, reopening in 2016.

## Opportunities

In terms of specific demand drivers in 2015 and beyond, the 100 year centenary of WW1 (year 2) continues to attract visitors. In addition, the Velasquez, Andy Warhol and David Bowie exhibitions will act as flagships for Paris tourism this year.

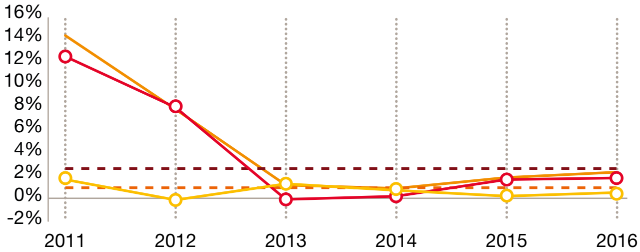
In 2015 events such as the International Paris Air Show should help sustain the business travel momentum and may actually help hotels break more records.

In 2016 France (including Paris) host the UEFA Euro Championships in June and July. For the first time in European football history 24 teams will take part in this tournament.

The first half of 2015 is expected to see lower metrics due to the terrorist attacks.

### Economic outlook

*In 2014, the French economy had a difficult year with weak GDP growth of 0.4%, unemployment remaining high at 10.3% and an increase in public debt. However, the drop in oil prices and ECB QE should help the situation improve. GDP growth is expected to be 0.8% in 2015 and 1.4% in 2016.*




**Source:** The STR sample for Paris includes upscale hotels located in central Paris. To make these figures more comparable with other cities we have rebased the data based on the historical differences between the STR sample and a selection of other sources which survey a broader range of hotels

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 79% | 234 | 184 |
| 2012 | 79% | 252 | 199 |
| 2013 | 80% | 252 | 201 |
| 2014 | 80% | 252 | 203 |
| **2015 F** | **80%** | **257** | **206** |
| **2016 F** | **81%** | **261** | **211** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 1.6% | 12.4% | 14.3% |
| 2012 | -0.2% | 8.0% | 7.8% |
| 2013 | 1.3% | -0.1% | 1.2% |
| 2014 | 0.7% | 0.2% | 0.9% |
| **2015 F** | **0.2%** | **1.6%** | **1.8%** |
| **2016 F** | **0.5%** | **1.8%** | **2.3%** |

# Porto

*Firmly on the international tourism radar and with improved air accessibility in 2015. Positive RevPAR growth despite significant supply increase in 2015 and 2016.*

## Role

The city of Porto is the second largest city in Portugal and increasingly a popular tourism destination. Porto's attractions include its history, architecture, culture, gastronomy, nautical sights as well as the Douro Valley and sightseeing beyond.

The city was elected Best European Destination in 2014 by a European Consumer Choice poll – the second time it has received this accolade. The travel site TripAdvisor chose Porto as one of its top Emerging Destinations of 2013.

## Historical trading

Reflecting the 2014 bumper tourism year for Portugal, hotel trading statistics saw a double digit uplift in occupancy to 66.3%, the highest level for nine years. ADR increased by a more modest 1.9% to €64, not yet back to past peaks in mid 2000. RevPAR saw a 13.1% boost taking RevPAR to €42 exceeding 2006.

This positive performance was due to the increase of room nights from the main tourism markets:

- Spain represents 23% of total demand and increased 13%;
- Germany represents 12% and increased 8%;
- Brazil represents 10% and increased 18%; and
- All other major tourist markets increased from 6,4% to 23%.

## Supply trends

In 2014, three new hotels opened in the city (one 3-star and two 4-star).

In 2015, seven new hotels are expected to open adding around 600 new rooms (five 4-star and two 3-star).

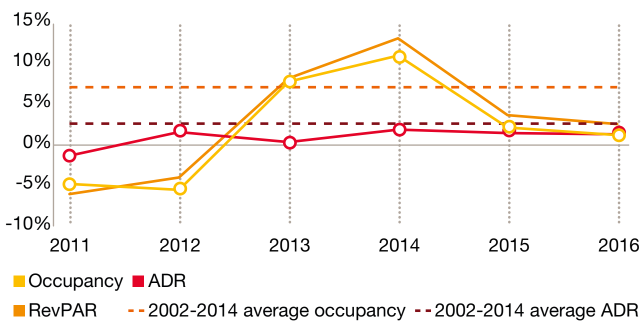
## Opportunities

While international accolades should help put Porto firmly on the international tourism radar, Porto will also host a variety of events. In 2015 Porto hosts the WRC Rally Portugal, the major International Fantasy Film Festival (Fantasporto), and NOS Primavera Sound Porto 2015 – all these events are expected to attract more tourists.

Improved air access and international connectivity includes Easyjet plans to operate two Airbus A320s at Francisco de Sá Carneiro airport in Porto from spring 2015 offering enhanced connections across Europe. Ryanair will start six new routes in 2015.

### Economic outlook

*With the Portuguese economy now recovering, with GDP growth of 0.9% in 2014 and unemployment falling to 13.6%, growth is expected to continue this year. Lower oil prices and QE should encourage this, and GDP is expected to grow at 2.1% in 2015.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 59% | 61 | 36 |
| 2012 | 55% | 62 | 34 |
| 2013 | 60% | 63 | 37 |
| 2014 | 66% | 64 | 42 |
| **2015 F** | **68%** | **65** | **44** |
| **2016 F** | **68%** | **66** | **45** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | -4.8% | -1.3% | -6.0% |
| 2012 | -5.5% | 1.6% | -4.0% |
| 2013 | 7.8% | 0.4% | 8.2% |
| 2014 | 11.0% | 1.9% | 13.1% |
| **2015 F** | **2.2%** | **1.5%** | **3.7%** |
| **2016 F** | **1.2%** | **1.3%** | **2.6%** |

# Prague

*Double digit RevPAR growth in 2014 was driven by robust ADR growth. A low supply pipeline and a weak crown could translate into a good year in 2015.*

### Role

Prague is the Czech capital and also the country's economic and political centre with more than 1.3 million inhabitants.

The city's main tourism attractions include Prague Castle, Charles Bridge, Old Town Square and the Jewish Quarter. Since 1992 the historical centre has been listed as a UNESCO World Cultural and Natural Heritage site. Prague is also a major destination for business travel and events in Central and Eastern Europe.

### Historical trading

In 2014 occupancy in Prague reached 70.5%, the highest level since 2007 and an increase of 1.5% compared to 2013. ADR saw an 8% jump and this helped push up RevPAR by almost 10%.

### Supply trends

While there were several new additions last year (Grandior, Motel One) the supply pipeline for the next two years is rather weak, with only 141 new rooms currently under construction and 120 rooms at the final planning stage (STR Global). This situation should help Prague hoteliers trading performance.

### Opportunities

The property transactions market was quite dynamic last year, especially for premium assets (Hotel Savoy and Four Seasons Prague). In 2015 we expect completion of the announced sales of Hilton Prague, the largest and most feted business hotel in the Czech Republic.

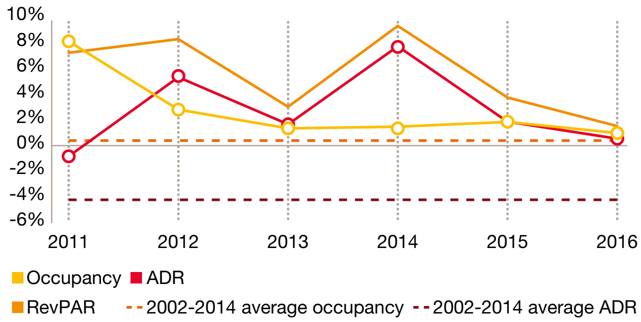
There are several large sporting events hosted by Prague in 2015, such as the European Athletics Indoor Championships and the Ice Hockey World Championship.

Hotels will also continue to benefit from weak Czech crown which lost value both to the euro and US dollar. We do not expect significant uplift till 2017.

Russian demand has declined as the Ukrainian crisis continues but this headwind has been compensated by increased number of incoming travellers from European countries, Asia and America.

### Economic outlook

*Prague's gradual recovery continued this year with GDP growth of 2.5%, however inflation remained low at 0.6%. The growth is expected to continue with the GDP growth forecasted at 2.5% again in 2015 and stronger inflation of 1.9%, supported by a weaker currency.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (CZK) | RevPAR (CZK) |
|---|---|---|---|
| 2011 | 66% | 1718 | 1142 |
| 2012 | 68% | 1809 | 1236 |
| 2013 | 69% | 1839 | 1274 |
| 2014 | 70% | 1982 | 1393 |
| **2015 F** | **72%** | **2018** | **1445** |
| **2016 F** | **72%** | **2029** | **1467** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | 8.1% | -0.8% | 7.2% |
| 2012 | 2.8% | 5.3% | 8.3% |
| 2013 | 1.3% | 1.7% | 3.0% |
| 2014 | 1.5% | 7.7% | 9.3% |
| **2015 F** | **1.8%** | **1.9%** | **3.7%** |
| **2016 F** | **1.0%** | **0.5%** | **1.5%** |

# Rome

*Occupancy growth, a modest pipeline and an uplift from EXPO 15 in Milan should mean healthy growth in 2015 and 2016.*

## Role

Rome is a major tourist destination with visitors attracted by its archaeological and artistic treasures, its culture and beauty.

Rome is the 3rd most visited city in the EU, after London and Paris, averaging 7 to 10 million tourists a year. The Colosseum (4 million tourists) and the Vatican Museum (4.2 million tourists) are the 39th and 37th most visited places in the world.

## Historical trading

In 2014 demand outstripped supply and RevPAR increased steadily in Rome, aided primarily by growth in occupancy (+3.3% over 2013 YE) rather than ADR (-0.6% over 2013 YE).

## Supply trends

As of Oct 2014, the city of Rome included 956 hotels (32 5-star, 251 4-star, 355 3-star), with 48,776 rooms, and 97,471 beds. In the short-term the number of rooms coming onto the market is not expected to increase substantially.

The global financial crisis has driven distress among various operators and many are not able to properly service their debt, or have exhausted internal recapitalisation scenarios. In certain cases, fund life cycles are winding down, meaning a need to dispose of prime assets.

Transactions increased in 2014 compared to 2013. In October 2014, a Qatari buyer purchased the St. Regis Roma for €110 million from Starwood Hotels & Resorts. In February 2014, Millennium Hotels Hotel Palace Holdings purchased the Boscolo Palace Roma for €65.5 million.

## Opportunities

Given the low returns from government bonds, institutional investors are increasing their allocation to higher yielding investments, like hotels.

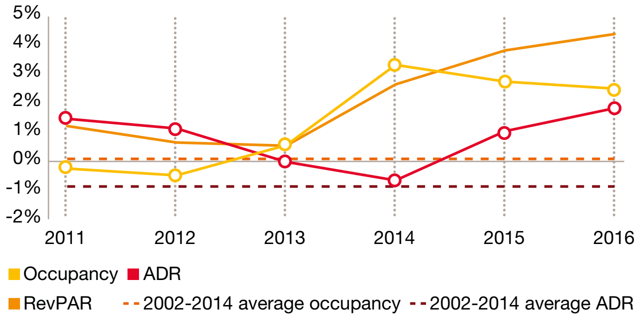
Distressed opportunities abound: BREE/Alliance Hospitality, Boscolo, Atahotels and UNA represent examples of distressed owner situations. For example, among these owner/ operators, there are four hotels in Rome, totaling 777 rooms. There is continued interest in trophy assets demonstrated by Middle Eastern SWF acquisitions in Italy. A number of hotel operators are also looking at value add investments such as conversion of office buildings in hotels in city centre locations.

In terms of travel drivers, Alitalia and Etihad Airways recently completed a strategic alliance, bolstering Fiumicino Airport as major hub for Etihad and bolstering visitor volumes from the GCC region.

EXPO 2015 should create further tourist opportunities in Rome, as visitors seize the opportunity to also explore Rome.

### Economic outlook

*The decline in the Italian economy of 0.4% in 2014 and the continued rise in unemployment to 12.8%, means Rome has felt these disappointing conditions. However, the high level of tourism in Rome means it stands to gain from the improving prospects of important markets like German, the United States and the UK. Expectations for Italy are optimistic for 2015, with GDP forecast at 0.3% thanks to QE and the depreciation of the Euro.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 67% | 140 | 94 |
| 2012 | 66% | 142 | 94 |
| 2013 | 67% | 142 | 95 |
| 2014 | 69% | 141 | 97 |
| **2015 F** | **71%** | **143** | **101** |
| **2016 F** | **73%** | **145** | **106** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | -0.2% | 1.5% | 1.2% |
| 2012 | -0.5% | 1.1% | 0.6% |
| 2013 | 0.6% | 0.0% | 0.5% |
| 2014 | 3.3% | -0.6% | 2.6% |
| **2015 F** | **2.7%** | **1.0%** | **3.8%** |
| **2016 F** | **2.5%** | **1.8%** | **4.4%** |

# Vienna

*Solid trading driven by occupancy and ADR growth in 2014. An important conference and events destination, we forecast more growth in 2015, despite an active new supply pipeline.*

## Role

Vienna is the capital of Austria and a key economic capital within the CEE region. It is home to major international organisations like OPEC. In addition, many multinational corporations have branches in the city.

Vienna is an important hub for the arts and culture and one of the leading cities in Europe for international conventions. Between January and November 2014 over 4,300,000 international visitors came to Vienna.

## Historical trading

2014 saw occupancy reach 72.3%, some 2% higher than that recorded in 2013 and the highest level since 2010. ADR also saw growth of around 2.2%, albeit compared to a poor performance in 2013. As a consequence RevPAR increased by 4.2%.

## Supply trends

According to data from STR over 1,000 rooms opened in Vienna in the last 12 months. There are almost 700 rooms in construction and a further 570 rooms in planning.

The number of 5-star hotels in Vienna continues to grow. Encouragingly the Park Hyatt, which opened in July 2014, has had a successful debut in the Viennese market.

Budget hotels such as Motel One are also gaining traction in Vienna. For some already struggling traditional 4-star hotels this is a further competitive pressure. In addition, the growth in the serviced apartment sector (across budget and luxury segments) also means tighter market conditions.

The uncertainty of the political situation between Russia and Ukraine is likely to impact upscale and luxury hotels demand.

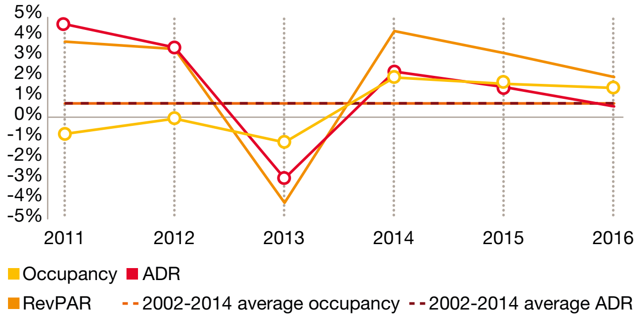
However, an increase in the number of Chinese tourists has compensated for the reduction in visitors from Russia. In addition, 78% of tourists are international so there will continue to be strong demand from the US, UK, Germany and Asia.

## Opportunities

Despite more new supply entering the Viennese hotel market, occupancy remains relatively stable and observers are hopeful that further opportunities to enhance Vienna's accommodation supply and the city as a tourism destination will be successful.

### Economic outlook

*In 2014, Austria's growth fell slightly short of expectations with GDP growing at 1%. However employment remains the lowest in the EU and this should help the hotel market. GDP growth is expected to be higher at 1.9% in 2015.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (€) | RevPAR (€) |
|---|---|---|---|
| 2011 | 72% | 93 | 67 |
| 2012 | 72% | 96 | 69 |
| 2013 | 71% | 93 | 66 |
| 2014 | 72% | 96 | 69 |
| **2015 F** | **73%** | **97** | **71** |
| **2016 F** | **74%** | **97** | **72** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | -0.8% | 4.6% | 3.7% |
| 2012 | -0.1% | 3.4% | 3.3% |
| 2013 | -1.2% | -3.0% | -4.2% |
| 2014 | 1.9% | 2.2% | 4.2% |
| **2015 F** | **1.6%** | **1.5%** | **3.1%** |
| **2016 F** | **1.4%** | **0.5%** | **2.0%** |

# Zurich

***The Swiss National Bank's decision to remove the cap on the Franc will directly impact the tourism and hotels markets through higher prices for visitors, and so the outlook is not as positive this year, although as a business destination the city may see less impact.***

## Role

Zurich is Switzerland's largest city and an international financial, economic and educational hub. Financial institutions and a large banking sector, including giants like UBS and Credit Suisse, are based here. Zurich boasts many reputable research and development centres. The low tax rate attracts overseas companies to set up their headquarters in the city. It has also established itself as a popular tourist destination. Furthermore, it is the gateway to many of Switzerland's mountain destinations.

## Historical trading

Zurich's RevPAR growth in 2014 was 1.5%, much lower than the 7.6% growth achieved in 2013. Occupancy growth (1.4%) remained stable compared to the previous year, demonstrating the resilience of demand despite the strong Swiss Franc in 2014. ADR increased by a marginal 0.2% due to growing supply and the resulting increase in competition.

Good mid-market products have started to compete with 5-star segments, which put rates under pressure. Properties suffered from low RevPAR during June and July due to the bad summer weather, which primarily deterred domestic tourists.

## Supply trends

Zurich's hotel supply continues to grow. The pipeline is busy and includes the planned openings of the luxury lifestyle hotel 'Kameha Grand', the 'Motel one', two properties by Hyatt at the airport ('The Circle'), the second '25 hours' lifestyle hotel at the Europaallee, the design hotel 'K-Star', as well as the re-opening of the 5-star 'Atlantis' Hotel and renovation of the 4-star 'Dolder Waldhaus'.

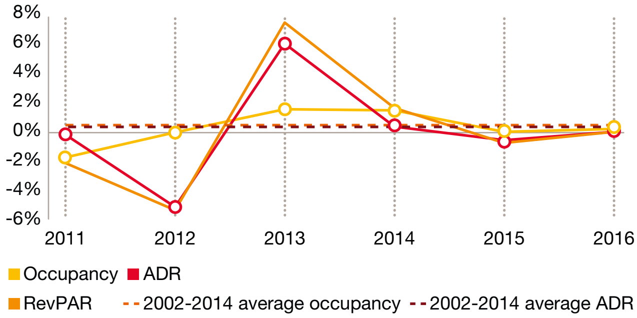
The online travel accommodation platform Airbnb currently makes up 12% of the total hotel bed supply in Zurich and is predicted to keep growing. This is likely to pose a threat to the hotel sector in the future, especially in urban areas like Zurich. As supply tightens, ADR is expected to continue under pressure in order to keep or boost occupancy.

## Opportunities

Zurich's prime location, stable economy and legal environment and tourism demand keep it an attractive location for investors. In reaction to pressures from the EU and OECD the planned Corporate Tax Reform III introduced as of 2018 has the objective to maintain the economically-desirable fiscal attractiveness for international companies. This is expected to further boost international investment. Additionally, increasing demand for business and MICE travel creates investment opportunities in the sector of extended stay hotels and serviced apartments.

### Economic outlook

*The Swiss economy slowed slightly to 1.3% growth in 2014, with inflation just creeping into positives at 0.06%. Expectations for 2015 were 1.6% GDP growth, however, now the Swiss national Bank has removed the cap on the Franc there will be downward economic pressures.*




**Source:** Data: STR Global 2015
Econometric forecast: PwC 2015

### Annual hotel statistics

| | Occupancy | ADR (CHF) | RevPAR (CHF) |
|---|---|---|---|
| 2011 | 71% | 238 | 170 |
| 2012 | 71% | 225 | 160 |
| 2013 | 72% | 239 | 172 |
| 2014 | 73% | 239 | 175 |
| **2015 F** | **73%** | **237** | **173** |
| **2016 F** | **73%** | **237** | **173** |

### Growth on previous year

| | Occupancy | ADR | RevPAR |
|---|---|---|---|
| 2011 | -2.0% | -0.4% | -2.4% |
| 2012 | -0.2% | -5.6% | -5.8% |
| 2013 | 1.4% | 6.1% | 7.6% |
| 2014 | 1.3% | 0.2% | 1.5% |
| **2015 F** | **-0.2%** | **-0.8%** | **-1.0%** |
| **2016 F** | **0.0%** | **-0.2%** | **-0.2%** |

# *Methodology for the hotel forecasts*

## This section outlines in more detail the PwC models used to forecast hotel occupancy, Average Daily Rate (ADR) and Revenue per Available Room (RevPAR) for 20 European cities

### *Data*

Our hotels dataset provided by STR Global contains ADR, hotel room supply, demand and occupancy on a monthly basis for each of the 20 cities. For Paris, the STR data does not include hotels in the economy and budget segments. We have therefore adjusted the values based on historic differences between this and broader samples. The dependent variables were based on data from STR Global for the period January 2001 – December 2014, containing monthly information on occupancy, ADR and Revenue Per Available Room (RevPAR). We averaged these data to create quarterly series, which may lead to small rounding differences between the STR data and our figures. The reason we do this is for consistency with the forecasts – the model relies on macroeconomic data (e.g. GDP) which is only available on a quarterly basis. Macroeconomic variables such as GDP growth and Consumer Price Indices (CPI) were obtained from PwC forecasts or the IMF World Economic Outlook. Investment growth rates, used in the model for Dublin only, were obtained from Eurostat. All exchange rate data were obtained from Thomson Reuters Datastream. The total nights spent by residents and non-residents in hotels, used to calculate GDP weights, and are also obtained from Eurostat for all countries except Russia (see notes 1 and 2).

### *Econometric model*

We developed a two-stage least squares (2SLS) instrumental variables panel model that models hotel demand and price (ADR) using a two-stage process with the specifications on the panel of data for the 20 cities. This is allows us to include relationships between cities as well as the trends for each city. As we used a panel dataset instead of individual time series, this is different from the modelling approach we used for London and the rest of the UK in our report published in August 2014; UK hotels forecast 2015.

### *Forecasts*

Forecasts for ADR growth and hotel demand were generated using PwC forecasts of macroeconomic variables, supplemented by additional forecast data for hotel supply based on country-level pipeline data provided by STR Global and AM:PM (for the UK). Allowance was made for attrition in the existing supply stock and pipeline based on historic trends and local expectations. RevPAR forecasts were constructed using ADR, demand and supply forecasts. This model was used to generate forecasts through to 2016.

**Notes**

1. We have used a weighted GDP measure in our models; this is a weighted average of GDP growth of the major countries of origin of hotel guests, the weights being the proportion of hotel guests from the corresponding country. For example, if 80% of Edinburgh hotel guests were from the UK, 10% from France and 10% from the US, then the weighted GDP measure for Edinburgh is the weighted average of GDP growth in the UK (weight 80%), France (10%) and US (10%)
2. No visitor data was available for Moscow, for which we have used Russian GDP only

# Further reading

***UK Hotels Forecast***

Our flagship publication for the UK hospitality and leisure industry. Provides forecasts of occupancy and hotel revenues and analysis of key trends for the UK hotels sector. Shorter update released in March.

***Hospitality Directions US***

Quarterly outlook for the US lodging sector providing our forecast for occupancy and hotel revenues and analysis of key issues impacting the US industry.

***South African Hospitality Outlook***

PwC's team of hospitality specialists provide an unbiased overview of how the hospitality industry in South Africa is expected to develop over the coming year.

***Emerging Trends in Real Estate Europe***

A joint undertaking of the Urban Land Institute and PwC, the Emerging Trends in Real Estate® series provides an outlook on real estate investment and development trends, real estate finance and capital markets, trends by property sector and metropolitan area, and other real estate issues.

***Measuring and Managing Total Impact – strengthening business decisions for business leaders***

By valuing social, environmental, tax and economic impacts, business leaders are now able to compare the total impacts of their strategies and investment choices and manage the trade-offs. PwC explores how business can measure and manage its impact to drive optimal decision making.

***Real Estate 2020 – Building the Future***

Sets out how the operating landscape for asset managers will change by 2020 and explains how real estate players can prepare for the challenges ahead and turn them into competitive advantages.

***Cities of Opportunity***

Cities of Opportunity analyses the trajectory of 30 cities, all capitals of finance, commerce, and culture – and, through their current performance, seeks to open a window on what makes cities function best. We also investigate both the urbanisation and demographic megatrends that shape our cities.

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