

Going from strength to strength

Even without as many sports and cultural highlights in 2007, hoteliers in Europe will feel pleased with this year's performance so far. Year-to-August revPAR increased 6.9% to €78. Although the pace of growth is marginally slower than the 8.5% seen in the same period last year, it is still impressive given the lack of events throughout the region.

While Athens hosted the UEFA Champions League Football, France hosted this year's Rugby World Cup, attracting hundreds of thousands of fans to Paris during September and October, filling hotel rooms in both cities.

RevPAR king

In US dollar terms, Europe remains the revPAR king, with the highest absolute revPAR at US\$104. This is around US\$4 and US\$9 higher than the Middle East and Asia Pacific respectively. Here, as in other world regions, increases in average room rates and driving double-digit increases in revPAR growth, as can be seen in the table below.

Global hotel performance year-to-August 2007 – in US dollars

	Occupancy (%)	Change (%)	Average room rate (US\$)	Change (%)	RevPAR (US\$)	Change (%)
Asia Pacific	71.6	1.0	133	13.0	95	14.1
Europe	68.6	0.9	151	13.6	104	14.6
Middle East	70.7	3.8	142	9.9	100	14.1

Source: Hotelbenchmark™ Survey by Deloitte.

In and out of the euro zone

While all European regions have seen revPAR growth, those who have yet to embrace the Euro have seen better growth rates. Occupancy, average room rates and revPAR have all done better outside of the euro zone, with strong non-Euro countries, like the UK, pushing up the numbers. This growth has also been a result of local currencies strengthening against the Euro.

European hotel performance year-to-August 2007 – in euros

	Occupancy (%)	Change (%)	Average room rate (€)	Change (%)	RevPAR (€)	Change (%)
All Europe	68.4	0.9	113	5.9	78	6.9
Euro zone	66.3	0.8	107	4.0	71	4.8
Non-euro zone	71.2	1.0	116	7.4	82	8.5
New EU member	66.7	-0.1	85	1.4	57	1.3

Source: Hotelbenchmark™ Survey by Deloitte.

Whatever currency hotel bills are paid in, most European cities have seen growth in revPAR so far this year. Looking first across the euro zone, all but four cities have seen revPAR rise.

European cities revPAR percentage change in euros – year-to-August 2007			
0-10% decline	0-5% growth	5-10% growth	10-20% growth
Euro zone cities			
Berlin Frankfurt Rome Salzburg	Amsterdam Dublin Milan	Brussels Helsinki Luxembourg Madrid Paris Vienna	Athens Barcelona Lisbon
Non euro zone cities			
Budapest Prague Tallinn	Bratislava Eilat	Copenhagen Geneva Gothenburg Stockholm	Istanbul London Malta Moscow Reykjavik Tel Aviv Warsaw Zurich

Source: HotelBenchmark™ Survey by Deloitte.

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Germany goes into extra time

Germany’s tourism scored highly last year with the football World Cup, and few expected the country to maintain such a good performance. Year-to-August 2007 results show that hotel occupancy grew 1.5% to 62% while average room rates dipped slightly to €82. The VAT increases in the country have no doubt hampered German hoteliers willingness to push up average room rates. Overall, revPAR dropped less than 1% to €51.

This pattern was also witnessed in Berlin, where a 6.7% growth in occupancy was matched by a 6.7% drop in average room rates, keeping revPAR stable at €58. The city’s hoteliers were undoubtedly pleased to be able to fill more rooms, even with no football and several new hotels openings. Unlike Berlin, Frankfurt didn’t attract more visitors during 2007 and both occupancy and average room rates declined, resulting in revPAR dipping 8.4% to €62.

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Salzburg drops

In 2006, thousands of visitors travelled to Salzburg to celebrate the 250th anniversary of Mozart’s birth, catapulting the city into first place in terms of revPAR growth up 26.6%. However, without a similar event to draw the crowds this year, there were lots of spare rooms and revPAR dropped 8.8% to €66.

Plenty of room in Rome

In Rome, hotels have also seen performance decline, with revPAR down 5.1% to €116 year-to-August 2007. The two major factors affecting performance are in the influx of hundreds of new rooms entering the market and the exchange rate.

Thousands of tourists are still attracted by what Rome has to offer, but with the Rome Park Marriott, Ibis Rome Magliana, Hilton Garden Inn, Domina Rome Capannelle and others adding around 1,300 more rooms to the list of places to stay, occupancy levels have been hard to maintain. The strength of the Euro has also dissuaded some American tourists from visiting the city, typically a strong source market for Rome.

Winning streaks

In May 2007, Athens claimed one of the biggest prizes in modern sport – the role of host for the UEFA Champions League Final, between Liverpool FC and AC Milan. Hosting the European final is a massive coup for any city, as few sports attract so much passion and so many supporters as football. However, this event was a particular gem, as few clubs have the status of these two, claiming 11 European Cups between them.

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The scene was set for a classic encounter, and eager supporters from across Europe travelled in their thousands to the Greek capital. Special charter flights were scheduled from Liverpool's John Lennon Airport and Malpensa in Milan to transport the fans to Athens. Although only 17,000 tickets were allocated to each side, several thousand more made the journey, hoping to buy tickets once there, or at least share some of the atmosphere.

On the night of the final, hotels in Athens enjoyed soaring revPAR results – up 116% to €337 according to the Daily HotelBenchmark™ Survey by Deloitte, adding a welcome boost to year-to-August 2007 results. Occupancy reached just short of 70%, while average room rates were up 7.7% to €148 resulting in a revPAR of €101.

Busy Barcelona

Barcelona has performed well recently, thanks to a mixture of sport, business and culture fixtures, as well as its increasing popularity as a weekend break destination. Year-to-August 2007, average room rates in the city matched those in Athens at €148, rising 11.8%. Occupancy has also been boosted a couple of percentage points, resulting in an overall revPAR growth of 14.5%.

Among the added attractions to the city so far this year was a global 3G mobile telecommunications conference and trade show, the Spanish Grand Prix and an Olympic sailing week. There were also several popular festivals, including the Barcelona Summer Festival, staged between June and August, and Barcelona has now become a stop over point for Disney Cruises.

Lisbon

Lisbon achieved a similar result with revPAR up 14.8% year-to-August 2007. The city has hosted a number of conferences, including the biennial Alimentaria International Food Show in May, which attracted 40,000 visitors. RevPAR growth has been mainly driven by average room rates, which are currently at €102.

Paris flies high

Popular Paris had an additional attraction this year, with the 47th International Paris Air Show, at Le Bourget in June. With just under 154,000 trade representatives and 160,000 public visitors, the show set a record during its three days. The show was first staged in the Grand Palais in Paris in 1909, so celebrates its centenary in 2009. Year-to-August 2007, the city achieved a 9.9% increase in revPAR to €162. Paris still maintains some of the highest average room rates in Europe at €214.

Outside the euro zone

Turkey has been trying to increase its appeal as an 'arts and culture' destination, and has also hosted some major sporting events – including the Turkish Grand Prix – recently. With average room rates that are more competitive than its European rivals, it has also been attracting a good slice of the trade show and conference market. Demand is high from Middle East business travellers, particularly in the summer months.

As a result, Istanbul hoteliers enjoyed revPAR growth of 15.8% year-to-August 2007. Its absolute average room rate of €143 put it in fourth place of cities outside the euro zone behind Moscow, Geneva and London. However, with another 25 hotels opening up in the city by 2010, including Marriott and Holiday Inn, occupancy levels are expected to drop off, with average room rates possibly following.

A lift for Tel Aviv

In the summer of 2006, the picture looked bleak for Israel's hotels, as the conflict with Lebanon kept tourists away. However, visitor numbers have picked up quickly during 2007 and the country's Tourism Ministry expects 2007 to welcome 2.3m, an increase of 42% on 2006, when cross-border tensions escalated.

Year-to-August 2007 results show that tourism numbers and occupancy rates across the country and similar to the summer of 2005, with revPAR in Tel Aviv up 16% to €103. Two large exhibitions, one in January and one in June, brought thousands of extra visitors into the city. In addition, the Tourism Minister has been lobbying for government funding for new hotels to cope with the anticipated demand in 2008.

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European Performance Review

London cheer

London still stands head and shoulders above many of its neighbours. It has the highest occupancy rate of Europe – at 81.9% and commands the third highest average room rate – €187 – in the non euro-zone area after Moscow (€255) and Geneva (€235). Both business and leisure travel to the UK's capital has remained strong, leading to a 12.8% growth in revPAR.

One of the main highlights of the year was the Tour de France starting in London for the first time in its 104-year history. Although the tour later became bogged down in controversy with drug testing and teams being sent home, it is still the world's biggest annual sporting event. More than a million spectators enjoyed the Grand Départ, the start of the tour, in July, with some of the world's best athletes speeding past the capital's landmarks.

During the same weekend, the Live Earth Concert attracted a multinational audience of 90,000 to Wembley Stadium, while 15,000 more crammed into the grounds of the All England Lawn Tennis Club for the Wimbledon tennis finals.

Warsaw

While thousands of Polish migrants are leaving the country for new lives elsewhere, thousands of tourists are reversing the journey and heading for Warsaw. International businesses are also attracted to the city, by the good economic conditions in Poland and the skills of the local workforce, with major companies such as LG Electronics and 3M increasing their local presence.

As a result of this increased demand, hotels in Warsaw were able to fill more rooms year-to-August 2007 and pushed up their rates 9.1% to €87, resulting in a revPAR increase of €7 to €57. A new supply of smaller boutique hotels is likely, but these are not expected to impact the overall market significantly.

Moving to Moscow

Moscow's growth as a centre for global business is phenomenal, and pushing up the demand for affordable rooms and hotels that can provide good quality conference facilities.

Recent reports have indicated that there have been 18 applications to build new hotels in Moscow so far in 2007, as hotel companies struggle to keep up with the 15% rise in visitor numbers. One of the first hotels focused at attracting business travellers has been built within Moscow's World Trade Centre building. The 527-room Crowne Plaza Moscow – World Trade Centre opened in September 2007 but there is plenty of room for more developments.

With this backdrop, it's not surprising that Moscow is hanging onto the gold medal for average room rates in the non euro-zone, at €255. The city also stole the show in terms of revPAR growth year-to-August 2007, with a 19.5% increase to just short of €180.

On the sidelines

Prague's recent popularity has been outstanding, but the oversupply of new hotels and competition from other Eastern European cities has led to a rather flat performance among Prague's hotels. The strength of the local currency has added to Prague's problems, as European travellers visiting the city now feel they are getting less for their money than they did in the past.

With several new hotels opening in the city so far this year – including the 126-room five-star Prague Imperial Hotel, occupancy levels have declined slightly to just over 70%. Meanwhile, year-to-August 2007 performance shows a decline in revPAR of 4% to €68. Business visitor numbers are also down, as far fewer events have been staged this year in the International Congress Centre, contributing to the fall off in hotel performance.

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2008 is expected to see more hotel rooms enter the market, including the Sheraton Prague Charles Square. The former Golden Gate Hotel will re-open its doors as the Sheraton Prague Charles Square in the autumn of 2008, following extensive refurbishment, the first property for Starwood Hotels & Resorts in the city. Other hotels expected to open over the coming two years include the 75-room Kempinski Residences Prague due in early 2008 and the 165-room Le Royal Meridien Prague expected to open in early 2009.

Bottom rung

Markets commanding the lowest revPAR year-to-August across Europe are Tallinn (€48) and Riga (€50) – these have fallen by 5% and 12.5% respectively. Low occupancy and average room rates in Riga are mainly due to the stronger 2006 comparisons, when the Ice Hockey World Championships were staged in May. With tens of thousands of spectators filling the Arena Riga and Arena Skonto, demand for overnight accommodation was naturally high.

This year, tourism agencies suggest numbers are on the way up, but media reports say that so are complaints about high prices, which are a natural consequence of current inflation. The city’s outlook, though, is positive, with growth in commercial services and financial institutions showing strong potential.

Difficulties in Tallinn

Tallinn, which has also seen a drop in occupancy and average room rates, has had a difficult few months. Riots and clashes with police followed the removal of the famous Russian memorial – the Bronze Soldier – to a military cemetery outside of the city centre. Russian-speaking teenagers, the worse for wear from cheap alcohol, were among those blamed for the protracted violence that led to a ban on alcohol sales from stores after 8pm.

This widespread ban has been blamed for a drop in tourist numbers, as many of them had visited Tallinn to stock up on cheap drinks. The number of Finnish visitors, who account for about half of Tallinn’s tourists, for instance, is down 6% compared to 2006, with potential visitors opting for other Eastern European destinations. With news that the government intends to appeal the 8pm rule and ban alcohol sales from 11pm instead, visitor numbers may soon rise again.

Cash concerns

The outlook for hotels across Europe – particularly those within the euro zone – looks good for the rest of the year, with strong demand from both business and leisure travellers.

However, as we point out in the economic overview section of this report, there is concern that rising interest rates and less disposable income could put a dampener on leisure travel for some Europeans.