MAY 2012

MARKET OVERVIEW

MADRID VS BARCELONA

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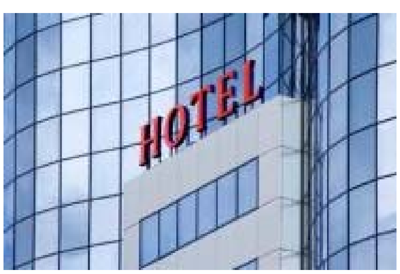
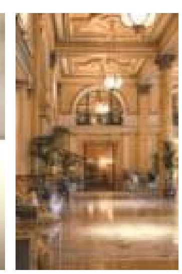


Introduction

Soccer is not the only activity in which Spain's two most influential cities constantly compete, although it is probably the most emotional. Madrid, as the country´s capital, offers many advantages to both leisure and business tourism, including its famously vibrant nightlife and an exceptional transport network which makes access to and from the city fast and efficient for both domestic and international travellers. Barcelona on the other hand benefits, among many other things, from its proximity to both the Mediterranean sea and the Pyrenean mountains as well as its established positioning as one of the leading destination cities in the world. Both cities boast a dynamic commercial and business environment as well as a fascinating history and cultural heritage with monuments, museums and other attractions that will leave any visitor more than satisfied and wanting to plan a return trip. The following article presents and compares a selection of travel and tourism facts and figures for Madrid and Barcelona, and considers the current state of the hotel sector in each city.

Some basics

The metropolitan area of Madrid has a **population** of approximately 3,3 million, compared to the 1,6 million inhabitants living in the city of Barcelona. Due to the highly-developed commercial significance for the country of each of these cities, they have suffered relatively less from the ongoing national and international economic crises than other cities in Spain. If the unemployment rate is a measure of resistance to economic downturn then Madrid and Barcelona remain ahead of the game, Madrid especially so, with jobless rates in both cities well below the national average which has been hovering around the 25 per cent mark for quite some time.

2011 MARKET DATA AT A GLANCE

2011 FIGURES	Madrid	Barcelona
Airport Passenger Movements	49.564.886	34.343.677
Domestic Visitors	4.162.043	1.627.805
International Visitors	4.166.910	5.283.251
Guestnights	16.376.845	16.190.506
4 Main Source Markets	USA, IT, UK, FR	USA, FR, IT, UK
Average Length of Stay (nights)	1,96	2,32
Existing Room Supply (rounded)	35.000	31.000
RevPAR (marketwide)	57,6 €	76,6 €
RevPAR (five-star hotels)	97,0 €	130,1 €
RevPAR (four-star hotels)	59,0 €	80,1 €
RevPAR (three-star hotels)	60,4 €	67,4 €

Visitation data

Both cities boast large international **airports**, Barajas Airport in Madrid and El Prat in Barcelona. The following figures summarize the activity at each in 2011 and over the past five years.

FIGURE 1: PASSENGER MOVEMENTS 2011

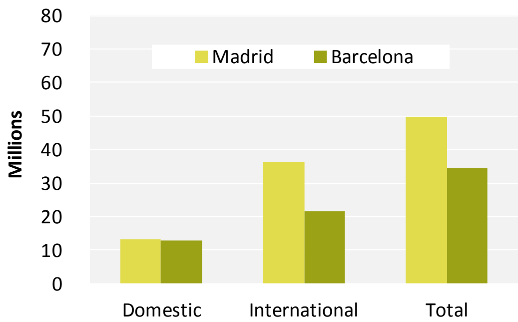
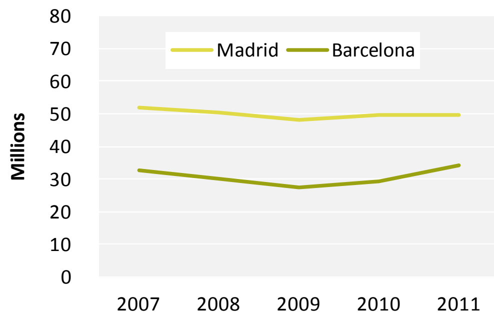


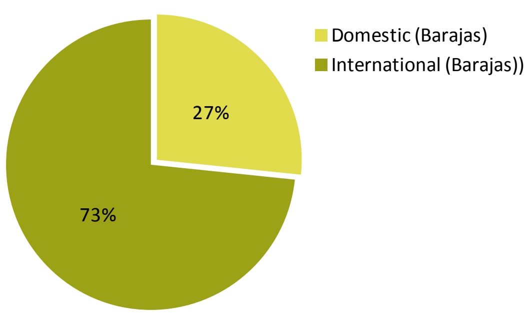
FIGURE 2: EVOLUTION OF PASSENGER MOVEMENTS

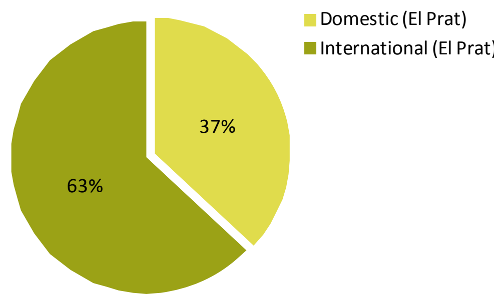


SOURCE: AENA

Last year, Barajas registered 49,6 million **passenger movements**, 0,5 per cent less than in 2010. Approximately one third of these were international passengers. El Prat saw 34,3 million passenger movements, nearly 18 per cent more than in the previous year. In the case of Barcelona, the proportion of domestic passenger movements was higher than Madrid at nearly 40 per cent (see graphs below). The largest number of movements in Madrid last year was registered in July, the lowest in February. In Barcelona the maximum was in August and the minimum in January.

FIGURES 3&4: PROPORTION OF DOMESTIC AND INTERNATIONAL PASSENGERS IN 2011

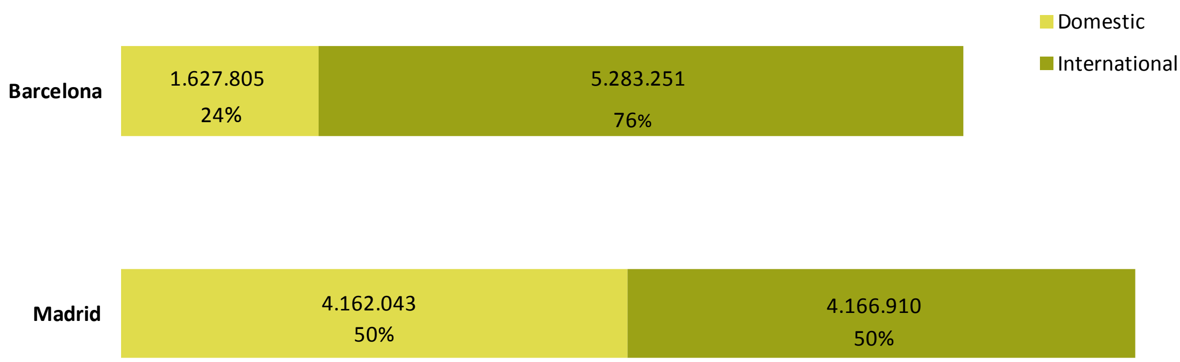




SOURCE: AENA

The picture for actual visitors to each city is somewhat different. In 2011, the Spanish capital received 8,3 million **visitors,** whereas Barcelona saw 6,9 million, nearly the same market share (55%/45%) as for airport movements (59%/41%). But when we look at the mix of city visitors we see (Figure 5) that Barcelona dominates in terms of international tourists, whereas Madrid sees more international passenger movements, reflecting Madrid's position as a true international hub linking Europe with Latin America.

FIGURE 5: VISITOR NUMBERS IN 2011



SOURCE: IINSTITUTO NACIONAL DE ESTADÍSTICA (INE)

Madrid, thanks in part to its central location, but mainly due to its role as the commercial and administrative epicentre of the country and assisted by excellent connections, not only by plane but by train and car, receives a much higher percentage of domestic visitors than Barcelona (see Figure 5). However, it could be argued that Madrid as a business and leisure tourism destination is potentially more vulnerable to the current problems of the domestic economy as a whole.

In the first quarter of 2012, domestic and international visitor numbers for both cities remained stable, showing variations of less than two per cent, compared with the first quarter of 2011.

But on a more positive note, visitors to FITUR, the largest trade fair held in Madrid, increased by two per cent in 2012. In January approximately 211.000 people from all over the world attended this global travel and tourism event in the Spanish capital. Barcelona also did well this year with its top convention "The Mobile World", held in February. The event attracted a total of 67.000 visitors, an increase of 11 per cent compared to 2011.

The Average Length of Stay (ALOS) of visitors to Madrid over the past five years has not shown any significant variations and has remained just below two nights. In 2011, the highest monthly ALOS in Barcelona was registered in August and was nearly half a day longer than the longest stay in Madrid, which had been registered in April. The importance of the traditional European summer holiday season to a city like Barcelona is clearly seen in this increased length of stay. Madrid saw a slight increase in ALOS in August last year but we shall see later (Figure 12) that the real issue here for the capital is occupancy during the height of summer.

FIGURE 8: EVOLUTION OF AVERAGE LENGTH OF STAY (NIGHTS)

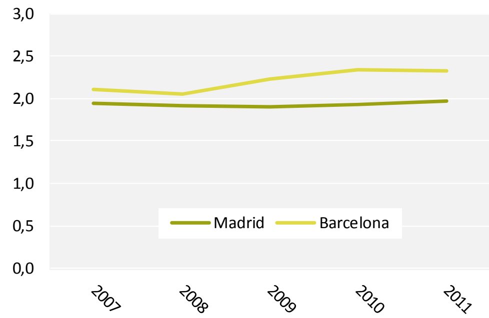
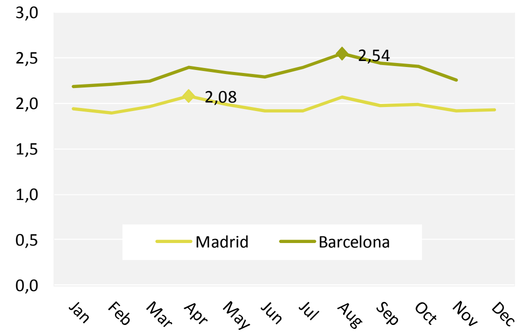


FIGURE 9: LONGEST STAYS IN 2011



SOURCE: INE

The following figure shows the most important visitor **source markets by country of origin** and their ranking for Madrid and Barcelona in 2010 and 2011. Number one in Madrid in both years were the North Americans, followed by the Italians. The only variations over five per cent were registered for the USA, the UK and Italy which each increased by six per cent from 2010 to 2011. The number of visitors from the Netherlands showed the largest growth of all with 12 per cent. Barcelona´s top spot in 2011 was taken from France by the United States, with 17 per cent more visitors than the previous year. Portuguese and Dutch visitors increased by 16 and 18 per cent, France and Japan gained nine per cent each and Italy only four.

FIGURE 10: MAIN FOREIGN SOURCE MARKETS IN 2010 AND 2011

Country of Origin	Madrid 2010	Madrid 2011	Ranking 2011
United States	491.533	519.518	1
Italy	438.011	465.516	2
United Kingdom	288.102	306.783	3
France	279.324	291.689	4
Germany	220.661	218.378	5
Portugal	170.104	172.882	6
Japan	122.880	125.702	7
Netherlands	101.327	113.024	8

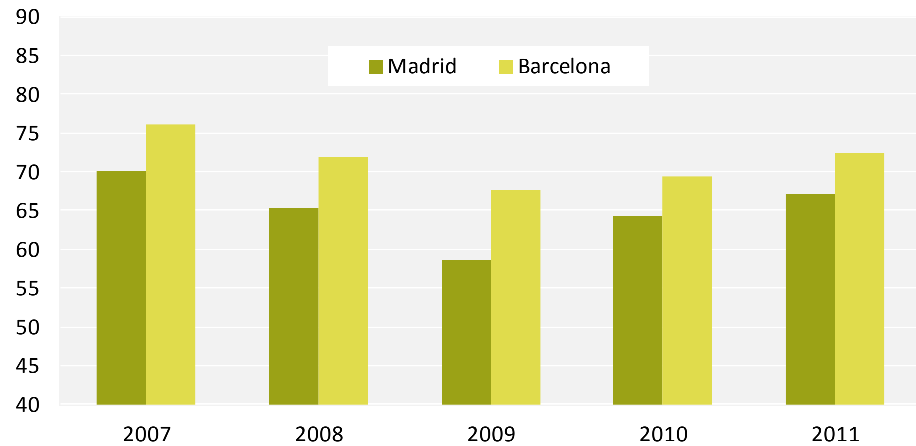
Country of Origin	Barcelona 2010	Barcelona 2011	Ranking 2011
United States	484.658	567.408	1
France	507.863	555.279	2
Italy	504.141	523.305	3
United Kingdom	478.458	495.007	4
Germany	323.247	371.512	5
Netherlands	175.468	207.533	6
Japan	135.081	146.831	7
Portugal	91.106	105.691	8

SOURCE: INE

PERFORMANCE DATA

In the following paragraphs we look at the evolution of **Occupancy, ADR and RevPAR**, not only for the entire market in both cities, but also analyzing and comparing the performance of individual hotel categories.

FIGURE 11: OCCUPANCY PER ROOM IN %



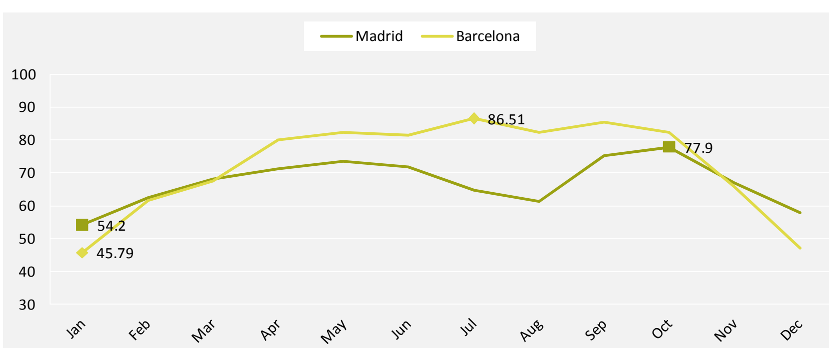
SOURCE: INE

From 2010 to 2011 both cities increased their average rate by four per cent. The highest occupancy rate achieved by Barcelona was nearly 9 points higher than that of Madrid (see Figure 11 below).

Compared to last year, Barcelona has been able to maintain and slightly improve its occupancy rates in the first quarter of 2012. Madrid lost around eight per cent points, perhaps a reflection of a greater dependence on the domestic market which is increasingly price-sensitive.

Seasonality in Madrid last year saw the highest hotel occupancy in October and the lowest in January. Barcelona peaked in July and also registered its minimum occupancy in January, traditionally a hard month for many destinations due to the double impact of a seasonal decline in both leisure and business travel.

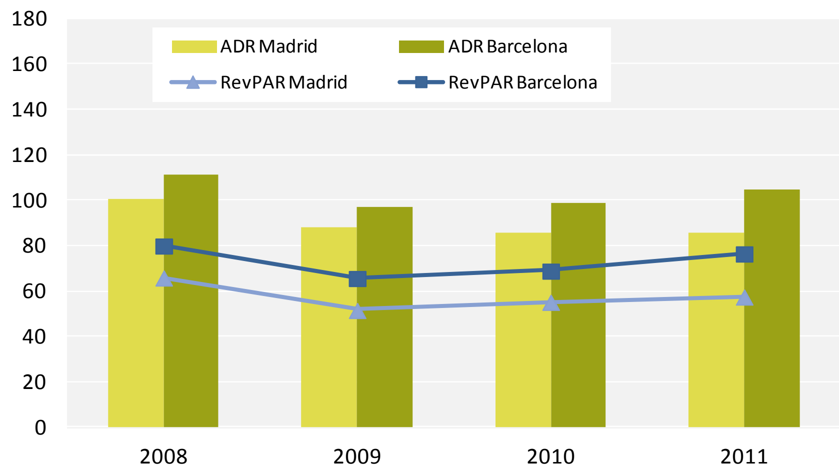
FIGURE 12: SEASONALITY IN 2012 (% ROOM OCCUPANCY)



SOURCE: INE

Looking at all hotel categories, Barcelona achieved somewhat better results than Madrid. ADRs in 2011 were approximately nine euro higher than those achieved in the capital (see the following figure). Barcelona improved RevPAR by six per cent in 2011 compared to the previous year, whereas Madrid maintained 2010 performance levels.

FIGURE 13: EVOLUTION OF PERFORMANCE - ALL CATEGORIES IN BOTH CITIES (2008-11)

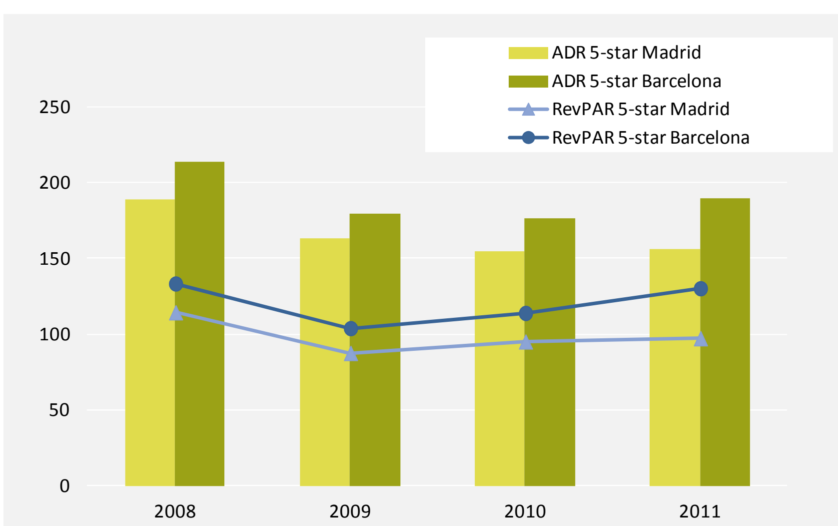


SOURCE: INE

The following figure shows that five-star hotels in Barcelona achieved higher ADR and RevPAR in the past four years than their equivalents in Madrid. In 2011 the ADR was 21 per cent higher than in Madrid and it increased by eight per cent compared to the previous year, whereas the ADR of five-star hotels in Madrid was one per cent higher than in 2010.

When it comes to RevPAR for five-star hotels, Barcelona achieved 34 per cent more than Madrid in 2011. Barcelona´s RevPAR increased by 14 per cent compared to the previous year. Madrid increased its RevPAR by two per cent.

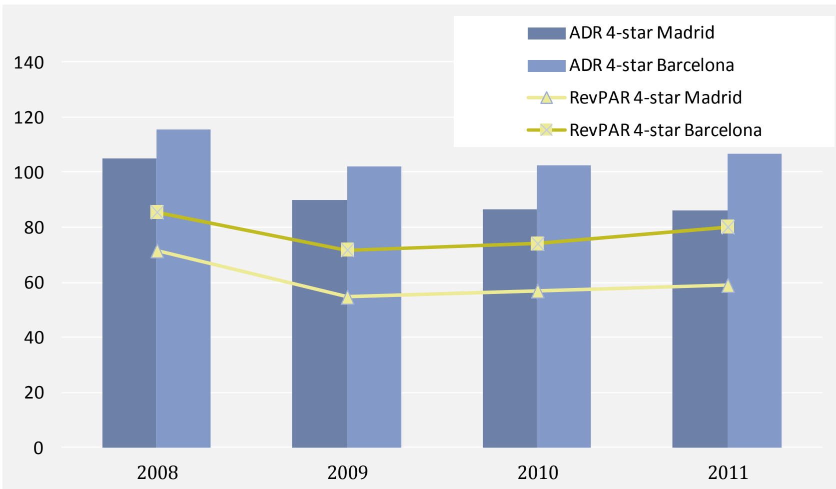
FIGURE 14: EVOLUTION OF PERFORMANCE - FIVE-STAR HOTELS IN BOTH CITIES (2008 -11)



SOURCE: INE

In 2011 ADRs in Barcelona's four-star segment were 24 per cent and RevPAR 36 per cent higher than Madrid. Compared to 2010, Barcelona registered a four per cent ADR increase and an eight per cent higher RevPAR. Again, Madrid maintained 2010 performance levels.

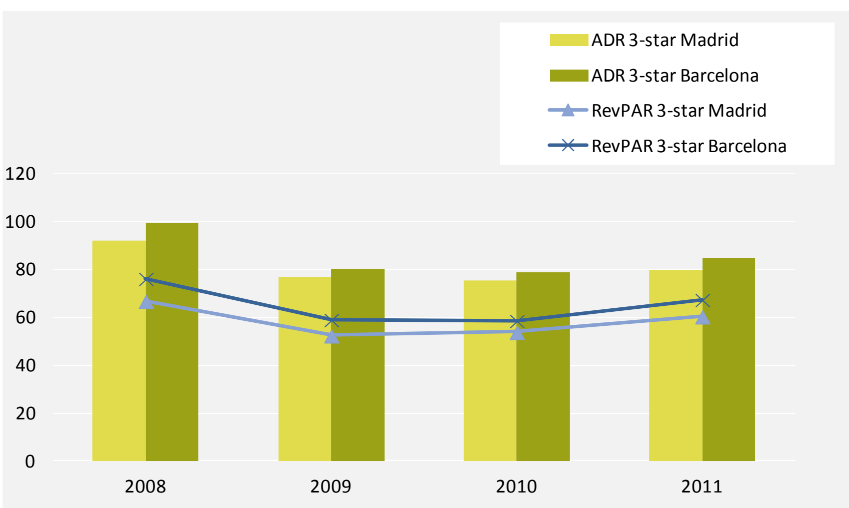
FIGURE 15: EVOLUTION OF PERFORMANCE IN FOUR-STAR HOTELS IN BOTH CITIES (2008 -11)



SOURCE: INE

In the three-star segment, the scenario was not much different. Madrid´s ADR and RevPAR during the past four years have remained lower than those of Barcelona. In 2011, Barcelona´s ADR was seven per cent higher than that of Madrid in the same category and RevPAR 12 per cent higher. Compared to the previous year 2010 RevPAR increased by 15 per cent in Barcelona and 12 per cent in Madrid (see graph below).

FIGURE 16: EVOLUTION OF PERFORMANCE IN THREE-STAR HOTELS IN BOTH CITIES (2008 -11)



SOURCE: INE

HVS

In the following paragraphs we deal with existing and new **hotel supply** in Madrid and Barcelona. Overall Madrid offers 11 per cent more room capacity than Barcelona. Four-star hotels are strongly represented in both locations; in Madrid they account for 64 per cent of room supply and for 50 per cent in Barcelona. Both three-star and five-star hotels have a higher share of the total in Barcelona (see figure below).

FIGURE 17: EXISTING ROOM SUPPLY IN MADRID AND BARCELONA (2011)

Category	Madrid	% of Total	Barcelona	% of Total
1-star	457	1%	1.172	4%
2-star	1.780	**5%**	1.951	6%
3-star	6.249	18%	7.499	24%
4-star	22.389	**64%**	15.457	50%
5-star	4.059	12%	4.939	16%
Total	34.934	100%	31.018	100%

SOURCE: INE DATA EXTRACTED FROM WEBSITE AYUNTAMIENTO DE MADRID, GENCAT DATA

FIGURE 18: EXISTING FIVE-STAR HOTELS IN MADRID AND BARCELONA

Five-star Hotels in Madrid opened before 2008	Rooms	Five-star Hotels in Barcelona opened before 2008	Rooms
Ritz (Orient Express)	167	Majestic	303
Westin Palace	467	Palace	125
Wellington	255	Miramar	75
Gran Meliá Fénix	215	Melià Barcelona	305
Meliá Madrid Princesa	274	Hilton Barcelona	276
Villa Magna	150	Le Meridien Barcelona	233
Occidental Miguel Angel	263	Rey Juan Carlos I	419
Villa Real	115	Claris	124
Intercontinental	302	Arts Barcelona (Ritz Carlton)	455
AC Santo Mauro (Autograph Collection)	49	Gran Hotel La Florida	70
Orfila (Relais & Chateaux)	32	Eurostars Grand Marina Hotel	273
Adler	45	Omm	91
Hesperia	171	Casa Fuster	105
Sheraton Mirasierra (branded since 2012)	180	Pullman Barcelona Skipper	230
Urban	102	Subtotal	3.084
AC Palacio del Retiro (Autograph Collection)	50		
Silken Puerta de América	315	Five-star Hotels in Barcelona opened 2008 to YTD	Rooms
Hospes	41	ME Barcelona	259
Subtotal	3.193	Eurostars BCN Design	65
		Abac	15
Five-star Hotels in Madrid opened 2008 to YTD	Rooms	W La Vela	470
Hilton Madrid Airport	284	Mandarin Oriental	98
Eurostars Madrid Tower	474	Diagonal Zero	262
Único	44	Princesa Sofía Gran Hotel	509
NH Palacio de Tepa	85	Bagués	31
Subtotal	887	Alma Barcelona	72
		Ohla	74
		Plaça do Reial	18
		Subtotal	1.873
Total Room Number	4.080	Total Room Number	4.957

NB: BARCELONA SUPPLY INCLUDES FIRST QUARTER 2012

SOURCE: HVS RESEARCH, GENCAT, TURISMO DE MADRID

As Figure 18 shows, national players dominate the ranks of five-star hotels in both cities. International brand presence is rather limited and although major chains such as Starwood, Marriott, Intercontinental and Hilton have a presence, they are in the minority. This state of affairs can be observed for most of the hotel accomodation in both markets. Recent openings shown in Figure 19 reflect this emphasis on the domestic brands.

FIGURE 19: HOTEL OPENINGS IN 2011

2011	Name of the Project	Rooms	Category
Madrid	Catalonia Plaza Mayor	82	4*
Madrid	Catalonia Atocha	128	4*
Madrid	NH Ribera de Manzanares	224	4*
Madrid	Splendom Suites Madrid (16 units)	26	4*
Madrid	Posada del Dragón Boutique Hotel	27	3*
Total 2011		487	
Barcelona	Alma Barcelona	72	5*
Barcelona	Ohla Hotel Barcelona	74	5*
Barcelona	Primero Primera	30	4*
Barcelona	The Mirror Barcelona	63	4*
Barcelona	Grums Barcelona	78	4*
Barcelona	AKO Premium Suites Hotels	28	4*
Barcelona	Acta Ink 606	66	3*
Barcelona	Laumon	28	3*
Barcelona	NH Diagonal Center	129	3*
Total 2011		568	

2012	Name of the Project	Rooms	Category
Madrid	IBIS Ventas (Accor)	111	2*
Total 2012		111	
Barcelona	ABBA Balmoral	103	4*
Barcelona	Eurostars Ramblas Boquería	55	3*
Barcelona	Do Plaça Reial	18	5*
Barcelona	Vincci Bit	177	4*
Total 2012		353	

SOURCE: HVS RESEARCH

Figure 20 shows that there are more new projects planned in Barcelona than in Madrid. Our list does not include rumoured projects nor those which have no agreed date for opening. In general the new openings have rather low room counts, which reflects the limited availablity of well-located and suitable properties in both markets.

FIGURE 20: PLANNED NEW SUPPLY IN MADRID

Name of the Hotel	Rooms	Category	Planned Opening Date
Ibis Madrid Aeropuerto T4	300	n/d	2013
Suite Novotel Madrid Valdebebas	126	3-star	2013
Etap Madrid Ventas	100	2-star	2013
Hotel Barquillo	70	4-star	2012
Indigo Madrid	89	n/d	2012
NH Mejía Lequerica	81	5-star	2012
Travelodge Julián Camarillo	98	1-star	2013
Oikos Recoletos	80	n/a	2012
Oikos Prado	55	n/a	2012
Total	999		

SOURCE: HVS RESEARCH

FIGURE 21: PLANNED NEW SUPPLY IN BARCELONA

Name of the Project	Rooms	Category	Planned Opening Date
Ibis Sagrada Familia	80	n/a	2012
Arai (extension))	40	4-star	2012
K+K Hotel Picasso	92	4-star	2012
Mercer Hotel, calle Lledó 7	29	5-star	2012
Ofelias Barcelona	48	4-star	2012
Catalonia Hotel, Antigua Sede Codorniú	75	4-star	2012
Andante Hotel	134	3-star	2012
Vincci Gaia	84	4-star	2013
Olivia Balmes, c/ Balmes	140	4-star	2013
NH Trafalgar	52	3-star	2014
Room Mate, c/ Fontanella 5-7	66	3-star	2012
Travelodge Barcelona, Rambla Poble Nou	250	n/a	2013
Catalonia, c/Ronda Sant Pere	58	4-star	2013
Sunborn Barcelona Yacht Hotel	183	5-star	2012
Gargallo, Barrio Gótico	23	3-star	2012
Gargallo, Barrio Gótico	59	4-star	2012
Mandarin Oriental Barcelona (additional rooms)	32	5-star	2013
Ibis Porta de Barcelona	224	n/a	2013
Gran Hotel Barcino (additional rooms)	40	4-star	2013
Gran Hotel Medinaceli (addtional rooms)	38	4-star	2013
Hotel Colonial (additional rooms)	28	4-star	2013
Total	1.775		

SOURCE: TURISME DE BARCELONA AND HVS RESEARCH

Conclusion

Barcelona´s hotels are achieving a better overall performance than Madrid at the moment and this may not only be related to overall lower supply, which it has when comparing the number of visitors per hotel room. There are several other factors in the game. Certainly the nature of this destination city, close to the beach and the mountains, plays an important role. Last year Barcelona saw nearly one million more international visitors than Madrid and these may have been the reason why Barcelona, with 17 per cent fewer visitors in total, achieved nearly the same number of guestnights as Madrid.

Looking at supply in both cities, Madrid´s overall hotel offering is perhaps a little imbalanced. The five-star segment (see Figure 17) is particularly under-represented, with a relatively low 12 per cent of the total room supply in the city. At present Barcelona has approximately 1.000 more rooms in this segment, representing 16 per cent of their total room supply. In 2011, the ADR achieved within this segment was around 33 euro higher than that of Madrid, which is a function of a higher number of international branded rooms in Barcelona (nearly 340 rooms) and to some extent the overall quality of five-star hotels in the city. The relative age of hotels in Barcelona is lower than in Madrid. 38 per cent of its five-star room supply has been created in the last four years compared to only 22 per cent in Madrid. With more five-star hotels in Barcelona´s pipeline, how many more high end properties can the city handle? Will Madrid find a way to bring its five-star supply up to the level that might be expected of the third largest European capital?

Properties like the W and the Hotel Arts, which represent 19 per cent of the total five-star room supply in Barcelona, stand out as modern symbols for the city´s quality lodging market and do not have equivalents in Madrid, where the offer is still rather conservative and has arguably been lacking innovation in recent years; a clear sign that there is an opportunity to be exploited in the city.

When it comes to the presence of international brands, both cities score rather low. In the five-star luxury segment, for example, the share of the market held by international brands ranges between 30 and 35 per cent. But this is not for lack of interest; on the contrary, many international hotel companies are keen to find an opportunity to enter these markets or to expand their existing presence. For smaller boutique hotels this is more or less feasible, provided conversion of offices or residential buildings is not excluded, but if a brand is looking for a well-located property with a higher room count and the possibility of adaptation to brand standards without the need for significant investment, things become quite complicated as the supply of such buildings is, to say the least, restricted. Mixed use developments including residential and retail will certainly be part of the range of possibilities that will need to be considered.

Looking at both cities from their position as global destinations, it is common knowledge that Barcelona looks back on a long and successful past as a global destination city, whereas Madrid´s metamorphosis into a leading European destination only began a few years ago. Since then, a great deal of effort in infrastructure and promotional marketing has been invested to position Spain's capital in the global rankings. In the latest Euromonitor publication (Ranking 2010), Madrid was placed 30th and Barcelona 16th. The American website travel.usnews.com places Madrid at number 10 in their Best European Vacation ranking; Barcelona is placed first, followed by Paris and Lisbon. This would probably not have been the case a decade ago and it is good news for Spain that its two major cities appear in this top ten.

Madrid did not win the race for the Olympic Games in 2016, but the city is already preparing for its bid to be the host of the event in 2020. This would definitely give Madrid´s hotel industry a much needed boost, as it did for Barcelona in 1992. And then, of course, both cities are still in the running for the "EuroVegas Jackpot". But that is another story….

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, mixed use, gaming, and leisure industries. Established in 1980, the company performs more than 2.000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit **www.hvs.com**.

HVS MADRID, established in 2003, provides a full range of services to clients in Spain, Portugal and worldwide. A team of multi-lingual professionals works with developers, owners, operators and lenders across a spectrum of hospitality sector asset classes including hotels, resorts, serviced residences and mixed-use developments.

About the Authors

Philip Bacon, ACA, is Managing Director of HVS Madrid office which, in addition to traditional hotel consulting and valuation services, specializes in advising clients around the world on the development of mixed used hospitality projects and master planned resort communities. Following a career with Price Waterhouse in London and Barcelona, Philip has gained over the last 20 years comprehensive experience as a finance director and external board adviser in all aspects of hotel and resort development and operations, with particular focus on mixed use resort development including golf and branded residential business models.

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Following her initial professional training as a banker in Germany, Esther has worked in several corporate and entrepreneurial organizations in both Germany and Spain. Prior to joining HVS, Esther, who has lived and worked in Spain for over 20 years, gained extensive management experience during this period in the marketing and sale of leisure real estate, including both whole ownership and shared ownership properties.