MADRID, SPAIN
Hotel Market Snapshot

Madrid's Wake-Up Call

December 2014

URSO Hotel & Spa (Source: Hotel)

HIGHLIGHTS

Even though it is the economic, cultural and administrative capital of Spain, Madrid has long remained in the shadow of Barcelona in terms of tourism. However, over the last decade, the city managed to renew itself and has made major investments to improve its image as well as its infrastructures. The Spanish capital has thus returned as a real challenger to the Catalan city.

Madrid is one of the primary destinations for hotel investors and operators in Europe. Historically, the lack of available prime locations for luxury properties combined with high real estate prices for redevelopment have created high barriers to entry.

Our Madrid Hotel Market Snapshot will give you an insight of the recent trends and developments that the Spanish capital has to offer.

MADRID - Key facts & Figures (2013)	
Population (Metropolitan area)	6 463 000
GDP (Metropolitan area)	€ 183 792 million
GDP per capita (Metropolitan area)	€ 28 391
GDP growth (Metropolitan area)	-1.2%
Unemployment (Metropolitan area)	20.1%
Tourism Arrivals	7 520 834
Overnight Stays	14 848 662
% Leisure tourism	82.1%
% Business tourism	17.9%
% Domestic tourism	51.0%
% International tourism	49.0%
Number of Hotels	265
Number of Hotel Rooms	67 344

Sources: IMF, Banco de España, Frontur IET, Munimadrid and BNP Paribas Research

WHAT'S NEW? WHAT'S COMING UP IN MADRID?

- In September 2014, the 5-star boutique hotel URSO Hotel & Spa opened its doors. Situated 5 minutes away from the city centre, the hotel counts 78 rooms and suites.
- The Canalejas development project comprises the opening of a 215-room Four Seasons property as well as luxury residences and an exclusive shopping centre by 2017.
- Madrid's prestigious Ritz hotel is currently the subject of a potential takeover by the Fairmont Group (FRHI Hotels & Resorts) for € 120 million, with an additional € 60 million renovation plan.
- The Bernabeu stadium development plan, including the construction of a new hotel, is currently suspended following an investigation of the European Commission.

Monument to Alfonso XII, Retiro Park (Source: © Madrid Visitors & Convention Bureau, 2013, Photographer: Escarabajo Amarillo)

Source: © JiSign - Fotolia.com

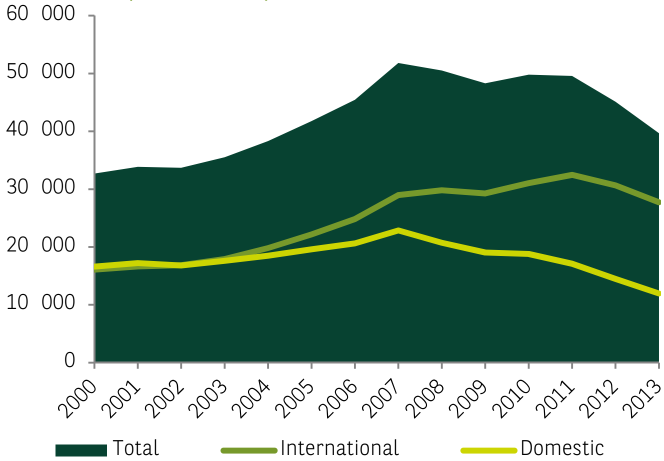
ACCESSIBILITY

Adolfo Suárez Barajas Airport, Madrid's main international airport, located 13 km from the historic city centre, was Europe's 6th busiest airport in 2013.

From 2000 to 2013, the number of passengers increased by +21.3%, reaching its highest level in 2007. Since then, the total number of passenger movements has been decreasing, mainly due to the domestic market, and registered a total drop of -48.0% between 2007 and 2013. This significant decrease was first partially offset by the increase in international travellers until 2011, but these are now also on a downward trend. The number of international passengers has declined by -14.6% since 2011 to reach 27.7 million passengers in 2013.

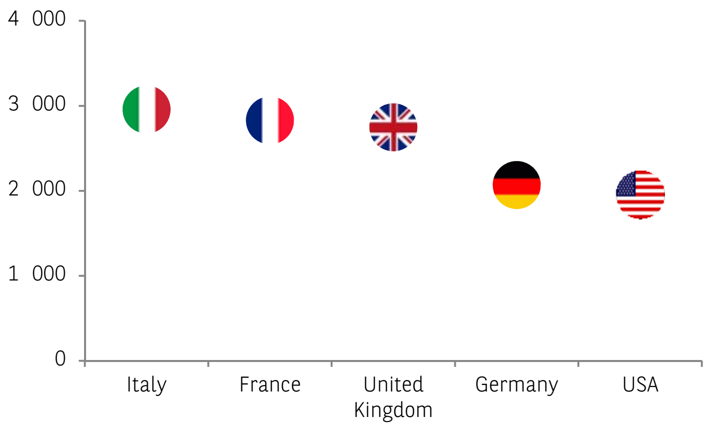
In 2013, the total number of passengers at Barajas airport exceeded 39 million, an important decrease of -12.1% compared to 2012, partly due to costly airport fees.

Barajas Airport – Passenger numbers and origins
2000-2013 (in thousands)



Source: AENA

Barajas Airport - Most represented international passengers
2013 (in thousands)



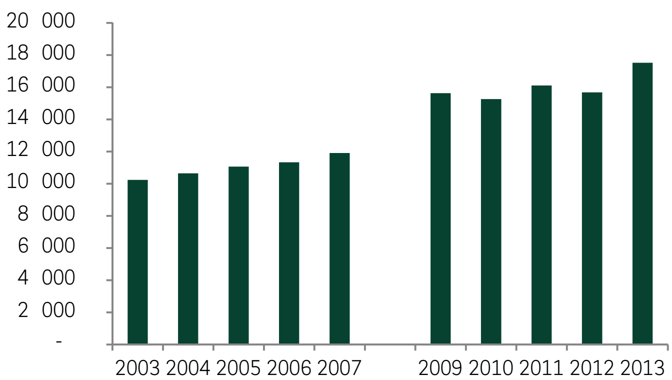
Source: AENA

Barajas Airport, Terminal 4 (Source: © Madrid Visitors & Convention Bureau, 2013)

Besides the problem of high airport charges, the substantial decrease in the number of domestic passengers in Barajas airport since 2007 can be partially explained by the increase in train passengers and the modernisation of the AVE high-speed train network, as well as the increasing commodity of the train over the plane for medium-distance travels of up to 4 hours.

The number of passengers travelling by high speed trains grew at a CAGR of +5.5% between 2003 and 2013, from 10.2 million in 2003 to 17.5 million in 2013.

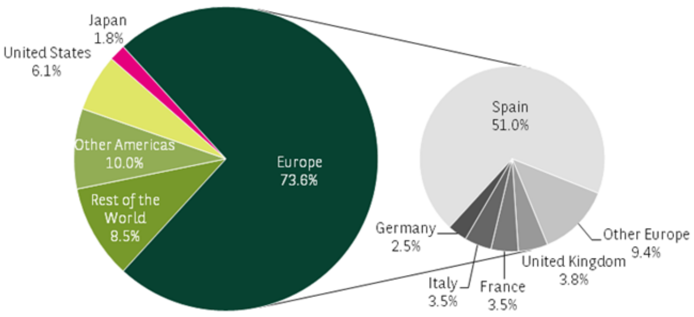
Arriving and departing high-speed train passengers
2003-2007, 2009-2013 (in thousands)



Source: Munimadrid, Renfe

DEMAND

Main feeder markets – Tourists arrivals
2013



Source: Instituto Nacional de Estadística

Evolution of commercial overnight stays by origin
2008-2013 (in millions)

Source: Ayuntamiento de Madrid

According to the European Cities Marketing Benchmark Report 2013-2014, Madrid ranks 6th on the list of the most attractive destinations in Europe after London, Paris, Berlin, Rome and Barcelona.

In 2013, Madrid welcomed 7 520 834 tourists, recording a -5.1% decrease compared to 2012. Among these, more than 50% were Spanish, and almost three quarters came from Europe (including Spain), showing the high reliance of Madrid's tourism industry on the Old Continent's travellers.

The top 5 foreign feeder markets were the United States (6.1%), the United Kingdom (3.8%), Italy (3.8%), France (3.5%) and Germany (2.5%) which together represented 19.7% of total arrivals.

Over the last six years, following the same trend as Barajas airport's passengers, the number of commercial overnights reached a record high level in 2011 with 16.4 million overnights.

In 2013, overnight stays registered a decrease for the second year in a row, dropping by -3.9% compared to 2012 to reach 14.9 million overnights, a total decrease of -9.5% since 2011.

Regarding the distribution by origin, international overnights represented 55.7% of the total overnight stays in 2013, reflecting a higher average length of stay than the domestic market.

Royal Palace (Source: © Madrid Visitors & Convention Bureau, 2013, Photographer: Promoción Madrid S.A.)

Business tourism

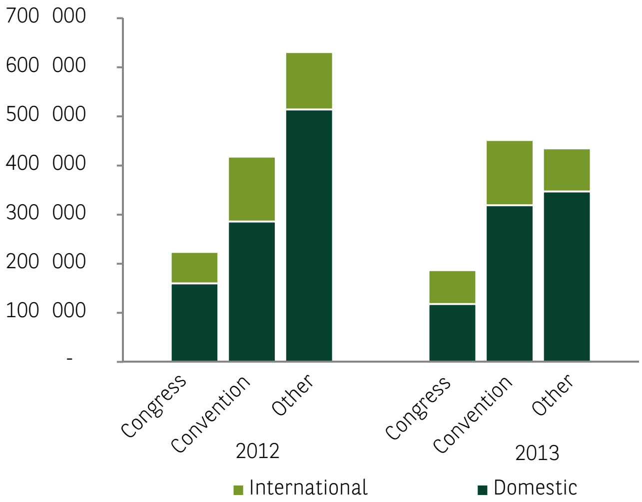
Madrid ranked 2nd in the 2013 International Congress and Convention Association (ICCA) ranking*, positioned right after Paris and before Vienna and Barcelona. According to the ICCA, trade fair and congress demand in Madrid has witnessed a steady growth since 2000, from 57 meetings held to 186 in 2013.

Madrid counts 7 main venues dedicated to MICE tourism, such as the IFEMA (Spain's largest convention centre), the Príncipe Felipe Congress Centre or the Municipal Conference Centre. Nonetheless, it should be noted that one of the oldest conference centre, the Centro de Convenciones located on Paseo de Castellana, closed its door for renovation in December 2012 and has remained closed since then. To date, it is unclear whether the municipality will find the required funds for its renovation.

** It should be noted that the ICCA ranking should only be seen as a benchmark tool, as it only includes international meetings which rotate in a minimum of three different countries.*

Participants in International Conferences & Exhibitions

2012-2013



Source: IFEMA, Munimadrid

IFEMA Centre (Source: © Madrid Visitors & Convention Bureau, 2013)

In 2014, the organisation of key international conferences and exhibitions such as the European Society of Medical Oncology (ESMO) Congress and the 16th World Congress of Psychiatry (WPA) shows the importance of Madrid as a leading MICE destination.

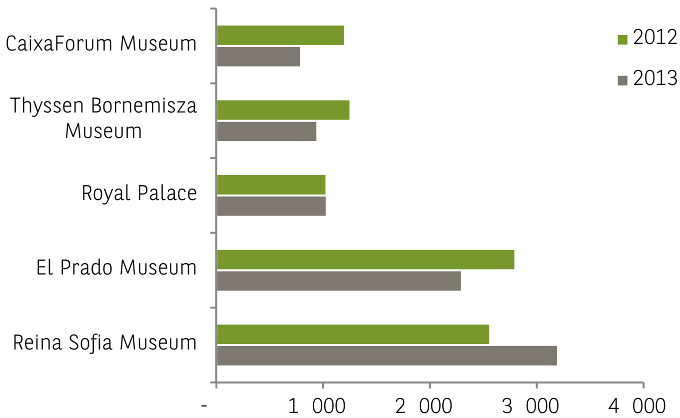
In 2013, Madrid registered a decrease of -15.6% in the number of participants in Conferences & Exhibitions compared to 2012, mainly explained by a -18.3% drop in the number of Spanish attendees. This important decrease is partially due to the closing of the Centro de Convenciones late 2012.

Leisure tourism

Renowned for its vibrant nightlife and the good quality of life it offers, Madrid also welcomes diverse major recurrent events which have a significant impact on its tourism industry, boosting hotel occupancy and revenues. For instance, in September 2014, the capital hosted some of the games of the Basketball World Cup as well as the beatification ceremony of Alvaro del Portillo.

Major tourist attractions

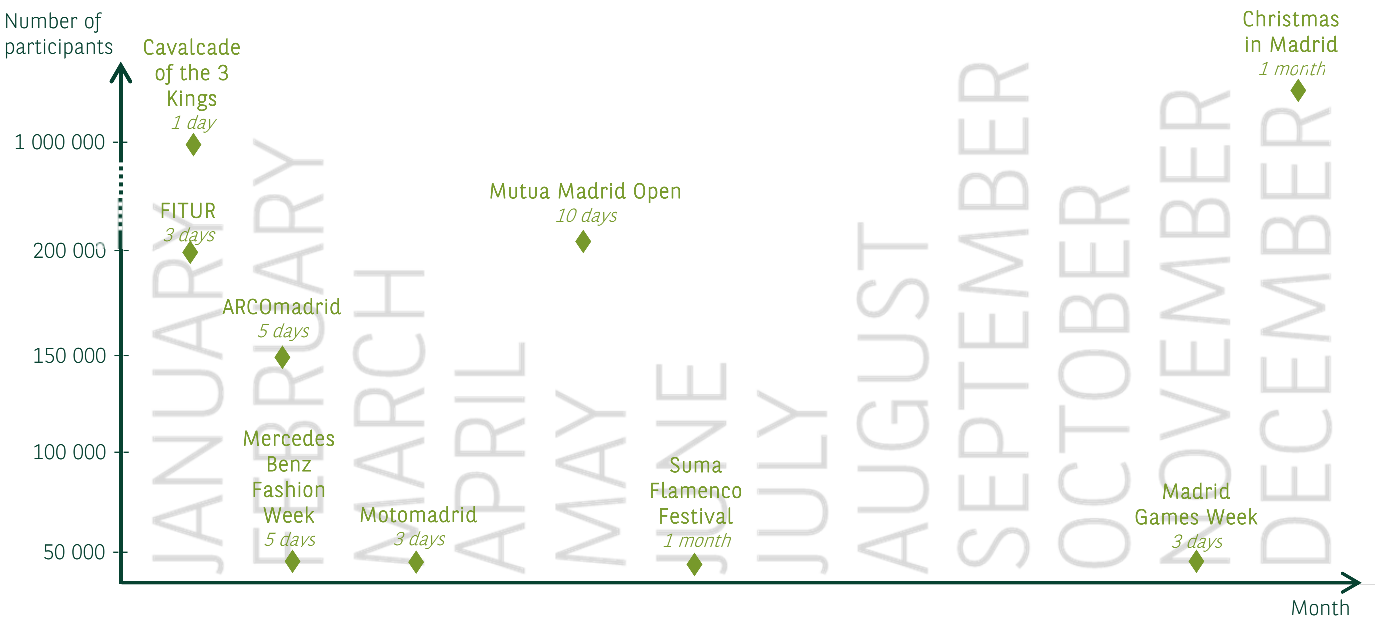
Number of visitors, 2012-2013 (in thousands)



Source. BNP Paribas Real Estate Hotels

Caixa Forum (Source: © Madrid Visitors & Convention Bureau, 2013)

Main recurrent events hosted in Madrid each year
Length and number of participants in 2013



Source: BNP Paribas Real Estate Hotels

SUPPLY

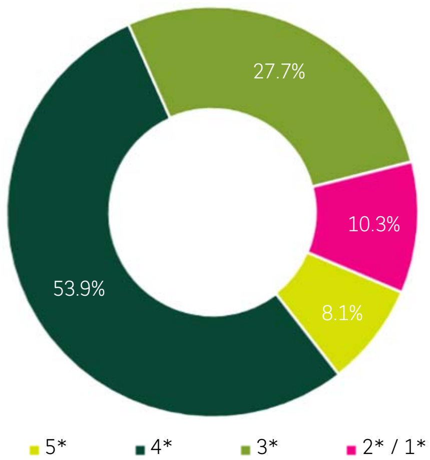
In 2013, Madrid's total supply consisted of 265 classified hotels offering a total of 67 344 rooms. Since 2008, a total of 10 693 hotel rooms has been added to the Spanish capital, primarily in the upscale segment.

The market is highly dominated by the 4-star segment which represents over 50% of the total supply, but counts a small proportion of international hotel brands compared to other similar cities. As for the 5-star and luxury segment, it is still under-represented, and Madrid's hotel supply has long been considered to stand below other European capitals' standards.

Over the last couple of years, several national and international brands have entered the market, starting to reposition it in line with other European destinations. This movement recently recorded a marked acceleration, with the announcement in 2013 of the arrival of Four Seasons by 2017 which boosted the search for prime assets by many other upscale international hotel groups.

The midscale and economic sectors are not left behind and saw the openings of two One Shot properties and two Room007 hostels in 2013 and 2014.

Hotel rooms per category
2013



Source: Munimadrid
Note: Only hotels classified from 1 star to 5 stars have been taken into consideration, other categories existing in Spain (e.g. "Estrella de plata") were not considered.

Besides the Four Seasons project, Madrid is the scene of other redevelopment projects, such as the Edificio de España, currently being converted into a 5-star VP hotel and expected to open in 2016.

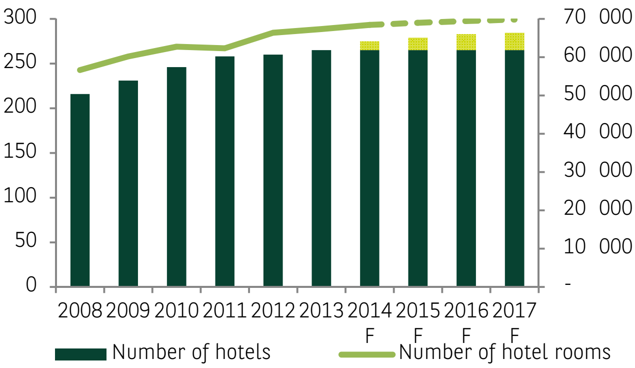
The majority of future hotel developments are focused on the 4 and 5-star segments.

Based on our research, total room supply should increase by +3.7% from 2013 to 2017 to reach over 69 824 rooms. The additional 2 480 rooms to enter the market will mainly be located in the city centre within the Centro, Retiro and Chamartin districts.

Even though international brands have been actively looking over the last 8 years to enter the market, only the Four Seasons Hotel in Canalejas has been confirmed so far.

Hotel supply evolution

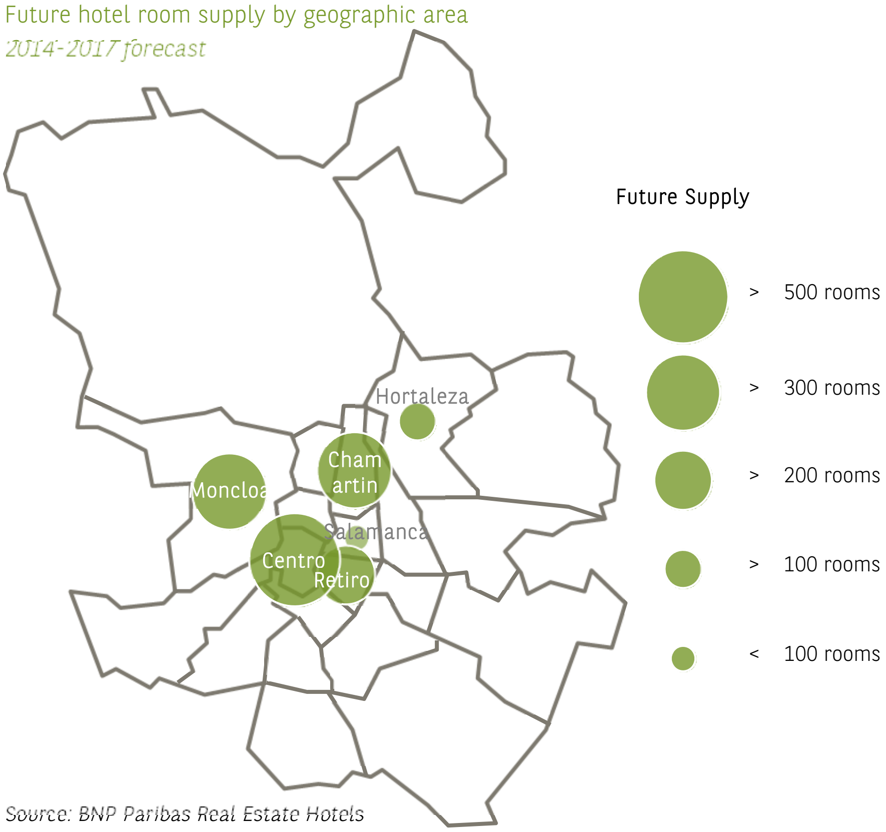
2008-2017 forecast



Source: Munimadrid, BNP Paribas Real Estate Hotels

Future hotel room supply by geographic area

2014-2017 forecast



Source: BNP Paribas Real Estate Hotels

Given the high number of rooms opened over the last 3 years in Madrid and the additional room supply in the pipeline, we expect the volume of openings to slow down after 2017.

Besides, even though the penetration of international brands across all segments has increased over the last decade, we expect the overall market to still be mainly driven by national hotel groups and independent owner / operators.

URSO Hotel & Spa (Source: Hotel)

Hotel supply – Recent openings
2013-2014

Year	Category	Hotel	Rooms	Location
2013	4*	Holiday Inn Madrid Calle Alcala	261	Calle de Alcalá
2013	4*	Hotel Exe Dome Madrid	182	Calle Maria Tubau
2013	4*	Exe Moncloa	161	Calle Arcipreste Hita
2013	4*	Holiday Inn Madrid LasTablas	133	Calle Maria Tubau
2013	4*	Eurostars Plaza Mayor	92	Calle Cortezo
2013	4*	Only You Hotel & Lounge (Ayre)	70	Calle Barquillo
2013	4*	Innside Madrid Genova	65	Plaza Alonso Martinez
2013	4*	Innside Madrid Luchana	43	Calle Luchana
2013	3*	One Shot 23	42	Calle Prado
2013	2* hostel	Room007 Ventura	21	Calle Ventura de la Vega
2013	1*	Ibis Budget Madrid Las Ventas	100	Calle Siena
2013	1*	Travelodge Madrid Alcala	98	Calle de Santa Leonor
2014	5*	Urso Hotel & Spa	78	Calle Mejia Lequerica
2014	4*	NH Collection Eurobuilding (intense refurbishment)	431	Calle de Padre Damián
2014	4*	Innside Madrid Suecia (rebranding of the Suecia Hotel)	127	Calle Marqués de Casa Riera
2014	4*	Hotel Indigo Gran Via	85	Calle de Silva
2014	4*	Mercure Madrid Centro	59	Calle Lope de Vega
2014	3*	Sidorme Hotel Las Rozas	79	Calle Peru
2014	3*	One Shot 04	64	Calle Salustiano Olozaga
2014	2* hostel	Room007 Chueca	33	Calle Hortaleza
2014	1*	Ibis Budget Madrid Calle 30	107	Calle Lozano
2014	1*	Smart Boutique Hotel Fuencarral 52	44	Calle Fuencarral
Total Rooms Recently Opened			2 375	

Source: BNP Paribas Real Estate Hotels

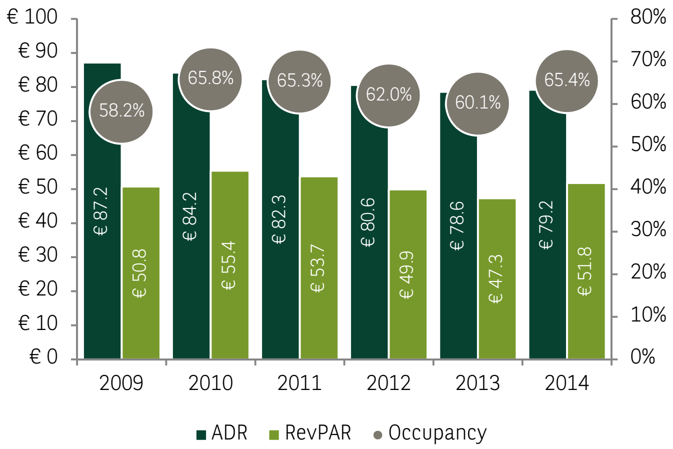
Hotel supply – Future openings
2015-2017 forecast

Year	Category	Hotel	Rooms	Location
2015	5*	Hotel Ada Palace (reopening / upgrading / 3-room extension)	77	Gran Vía
2015	4*	Ayre Atocha	230	Calle Alfons XII
2015	4*	Exe Central	135	Calle Mejia Lequerica
2015	4*	Durval Puerta de Alcala (renovation)	70	Calle Salustiano Olozaga
2016	5*	Conversion Project	TBC	Gran Vía
2016	5*	VP Hotel (conversion of the Edificio de España)	257	Plaza de España
2016	4*	Vincci Gran Via	88	Gran Vía
2016	3*	Suite Novotel Valdebebas	126	Valdebebas
2017	5*	Four Seasons Canalejas	215	Plaza Canalejas
2017	5*	Bernabeu Stadium (currently interrupted by court order)	175	Padre Damian
TBC	4*/5*	Hotel Project	136	Paseo de la Castellana 200
Total Rooms in the Pipeline			1 509	

Source: BNP Paribas Real Estate Hotels

HOTEL PERFORMANCES

Hotel trading performances
2009-2014



Source: MKG Hospitality Database

In terms of seasonality throughout the year, demand is generally strong from March to July and September to November. Little demand is generally recorded during August and the beginning of the year.

Over the 2009-2013 period, Madrid's hotel performances were on a downward trend, except for 2010, its single year of recovery after the financial crisis. Since then, hotel occupancy dropped by -5.7 points, due to Spain's economic situation and the significant share of domestic tourists among Madrid's visitors. This clientele is also very price sensitive. Between 2009 and 2013, Madrid observed a -9.9% decrease in average daily rates, resulting in a RevPAR drop of -6.8%, reaching € 47.3 in 2013.

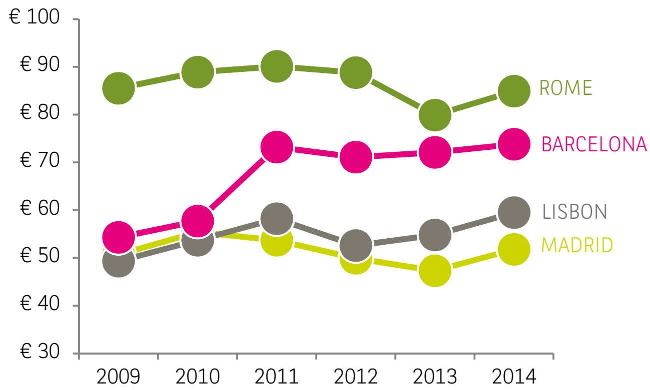
However, in 2014, performances in Madrid rebounded. Occupancy rates saw a significant improvement (+5.3 points) which, combined with a slight increase in ADR of +0.8%, led to a RevPAR improvement of +9.5%, at € 51.8.

The opposite graph shows a comparison of hotel performances (RevPAR) in four major cities located in Southern Europe, including Madrid.

As can be seen, all cities were affected to a different extent in 2012, after a couple of years of recovery. Even though Rome is still the leader in terms of RevPAR, the Italian city saw the most significant decrease (-10.0%) from 2012 to 2013, resulting from a drop in both occupancy and average rates.

Whereas Barcelona's performances managed to take off in 2011, recording a buoyant +26.9% RevPAR growth, the two Iberian peninsula capitals remain hovering around the € 55 threshold, with Madrid still lagging behind.

Key cities – RevPAR evolution
2009-2014



Source: MKG Hospitality Database

INVESTMENT MARKET

Many institutional investors consider the current situation as an excellent opportunity for taking positions in the hotel market in Madrid. The Spanish capital is definitely considered as one of the European hot spots of the moment for both hotel investors and operators, after London and Paris, and on par with Barcelona, its historical rival.

Regarding Madrid, 2014 started very actively, with the acquisition as part of a five-hotel portfolio of the InterContinental Madrid by Katara Hospitality for an estimated € 60 million. Other noteworthy transactions were recorded in 2014, such as the sale of the landmark building Edificio España to a Chinese property developer who is currently converting it into an upscale hotel.

Furthermore, the Ritz is currently the subject of a potential takeover by the Fairmont Group for € 120 million, with an additional € 60 million budget for a full renovation of the building. The sale had not been officially confirmed at the time of the writing of our Hotel Market Snapshot.

The following table shows hotel transactions recorded in 2014 in Madrid:

Year	Cat	Hotel	Rooms	Price (€)	Price per room (€)	Seller	Purchaser
2014	TBC	Edificio España (conversion project)	TBC	265 000 000	Not disclosed	Banco Santander	Wanda-Wang Jianlin
2014	5*	InterContinental Madrid	302	60 000 000	198 675	Dutch private investor	Katara Hospitality
2014	4*	Foxa 32 Suites Hotel (renovation)	161	27 000 000	167 702	BBVA	HVD Casas
2014	4*	Foxa 25 Suites Hotel (renovation)	121	16 750 000	138 430	Not disclosed	Pryconsa
2014	3*	NH Pacífico	62	Not disclosed	Not disclosed	IDL Group	Hispania Real SOCIMI
2014	3*	NH San Sebastián de los Reyes	99	Not disclosed	Not disclosed	IDL Group	Hispania Real SOCIMI
2014	2*	Hotel Asturias	175	35 000 000	200 000	Salazar Family	Platinum Estates

Source: BNP Paribas Real Estate Hotels

OUTLOOK

Considering its higher proportion of domestic tourists, Madrid was more vulnerable to the decline of the Spanish economy than Barcelona. On the European scale, the city is one example of the most severely hit tourist destinations by the crisis. Nevertheless, an estimated +1.3% GDP growth in 2014 and forecasts of +1.9% in 2015 and +1.8% in 2016* could herald the recovery of Madrid's hotel market for the coming years.

Madrid City Council's focus has been on the development of Madrid as a leading MICE destination through an intense international promotion and collaboration with key actors of the industry. This commitment is very encouraging for the future, as the city ranked 2nd in the 2013 ICCA ranking and organised key international conferences and exhibitions in 2014.

Between 2008 and 2013, room supply in the city increased at a CAGR of +3.5%. The announcement of an upcoming Four Seasons property in the Spanish capital started arousing the interest of other international hotel investors and operators for the city and 2014 confirmed the arrival of several international groups in the market. Further hotel openings are planned in the coming years, notably many conversion projects in the city centre.

Spain's hesitant economic recovery has made hotel investments more appealing than in other countries as investors have seen a potential for higher returns upon exit/disposal of the assets. In 2014, the market was exceptionally active in terms of hotel transactions.

The announced economic recovery and the positive tourism performances in 2014 make the near future look promising for investments in the Spanish capital and we expect to see properties changing hands in its hospitality sector.

**Source: BNP Paribas Research*

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** 18 under direct ownership and 22 alliances*

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