



Paris, France – Upscale and Luxury Hotels Market Snapshot

This is the first in a series of articles that HVS will be producing every month on a series of key markets. In writing these articles we are combining the hotel market expertise of HVS with STR Global data for each key city. Our analysis is based on a customised sample of hotels as provided by STR Global. We consider that in today's challenging environment a regular update is more vital than ever in helping to assess the changing market conditions and determining the best strategy for each hotel.

Highlights

- Despite its position as one of the most prominent destinations in the world for both leisure and business visitation, Paris has suffered about a 2% drop in the number of total overnights from 2007 to 2008;
- Despite recent declines, the overall performance of the upscale and luxury market remains relatively strong, with a year-to-May 2009 occupancy of 65% and an average rate of €414, resulting in a RevPAR of €267. This compares with equivalent data to May 2008 of 77% occupancy and €490 average rate, a RevPAR of €378. RevPAR for year to May 2009 is thus 29% lower year-on-year;
- New supply in the upscale and luxury market sample, currently totalling 20 hotels and 3,711 rooms, will increase by more than 900 rooms in the next three years, mostly in the luxury segment. However, we expect that by the time these new hotel rooms come on stream, the recovery of the worldwide economy will stimulate additional visitation to Paris and demand growth will largely compensate for any drop in occupancy that the increase in room supply would otherwise have caused.

Cristina Balekjian, Market Intelligence Analyst

Sophie Perret, Associate Director

HVS - LONDON OFFICE

7-10 Chandos Street
London W1G 9DQ
UK
Tel: +44 20 7878 7700
Fax: +44 20 7878 7799

July 2009



Paris, France – Upscale and Luxury Hotels

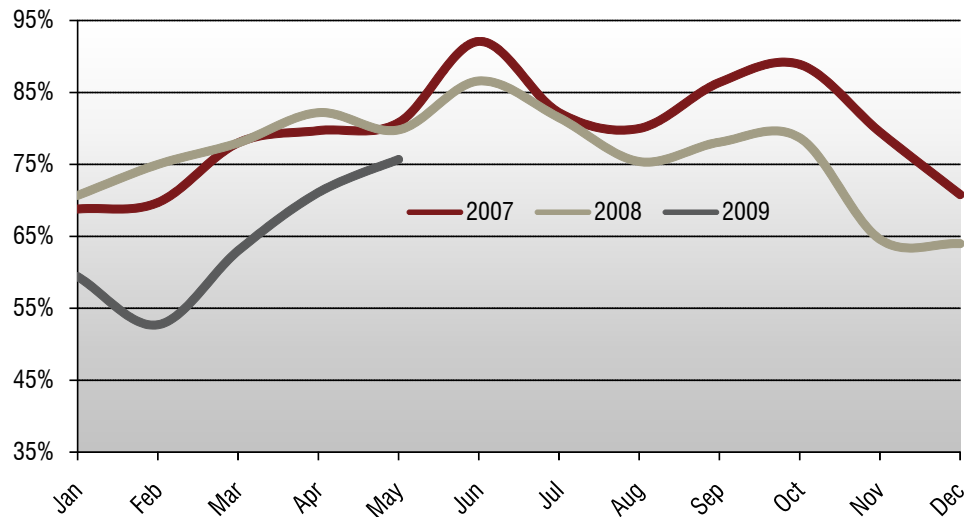
DEMAND

We make the following comments on the recent demand trends for the overall Paris market.

- In addition to the traditional attractions offered by Paris – like the Eiffel Tower, the Arc de Triomphe, and the many museums and shopping areas – international events such as the Roland Garros Tennis Open continue to make the French capital a ‘must go’ destination for business and leisure travellers, allowing domestic and international overnights to remain at a stable level with a 2% compound annual growth rate over the past ten years for the overall market;
- However, the economic slowdown has negatively impacted total overnights in 2008, which decreased by 2% overall compared to the previous year;
- Key source markets such as the USA and the UK have experienced decreases in overnights of almost 20% and 5%, respectively, in 2008. This was partly offset by an increase in other source markets such as the Middle East, which saw an increase in overnights of 18% in 2008;
- Year-to-April 2009, international visitation decreased by 13% on the same period in 2008. However, we highlight that the first half of 2008 was exceptionally good for the tourism industry, and these statistics are therefore somewhat misleading;
- The decrease in corporate demand has affected business hotels, whilst the luxury market has managed to capitalise on wealthy leisure demand, notably from countries in the Middle East, since the start of the recession.

Seasonality

Table 1 shows the seasonality of hotel occupancy in Paris from 2007 to May 2009 for the luxury and upscale hotel market.

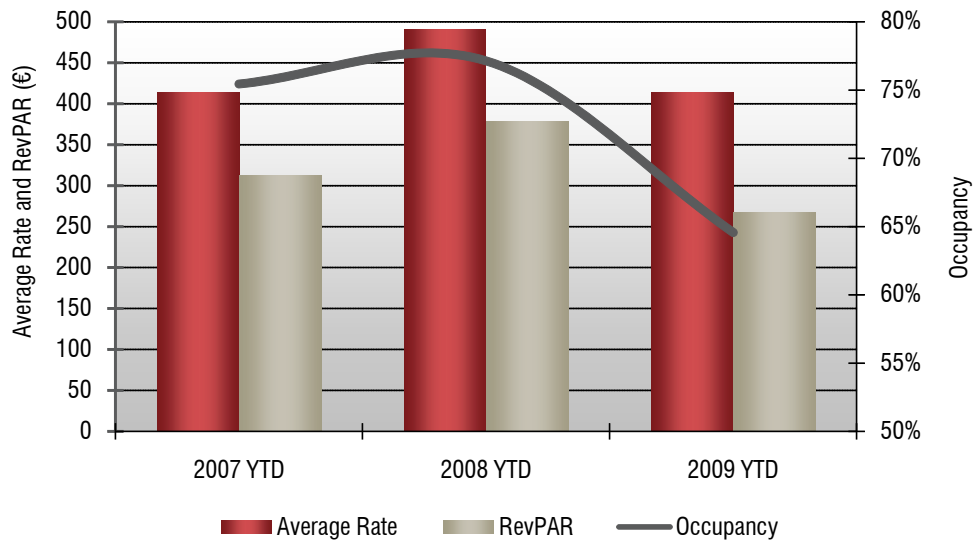

Table 1 Seasonality of Luxury and Upscale Hotels – Monthly Occupancy 2007, 2008 and Year-to-May 2009


Source: STR Global

As shown in Table 1, the current economic slowdown in 2009 has exacerbated the drop in demand during the traditionally low-season months of January and February. Year-to-May 2009 occupancy decreased by 13 percentage points compared to the same period a year earlier. The drop was especially steep in February, at 22 percentage points when compared to February 2008. Nonetheless, the decrease was significantly less in May 2009, at only four percentage points lower than in May 2008, which suggests that the year-on-year gap could be beginning to narrow.

HOTEL PERFORMANCE

Table 2 shows the year-to-May hotel performance for the upscale and luxury market in Paris from 2007 to 2009.


Table 2 Year-to-May Luxury Hotel Performance in Paris 2007-09


Source: STR Global

The whole of 2007 and the first half of 2008 were for Paris, as for most markets throughout the world, exceptional years in terms of hotel performance. Whilst occupancies up until May were similar in 2007 and 2008 – at 75% and 77%, respectively – the upscale and luxury markets managed to achieve a significant increase in average rate of 19% by May 2008 as compared to the same period the year before. This resulted in an overall increase in RevPAR of 21% for year-to-May 2008.

The economic slowdown has, however, seriously dented the market performance since then. Despite the relatively good performance of the market in absolute terms as at May 2009, Paris experienced a decrease of its occupancy of 13 percentage points, down to 65% for year-to-May 2009. Meanwhile, average rate decreased by 16% during the same period, to just €414. This resulted in a 29% drop in RevPAR. Nonetheless, we stress again that the exceptional performance of the market during the first half of 2008 somewhat distorts this comparison.

SUPPLY

This analysis is based on a customised sample of mostly branded upscale hotels, as well as some of the famous Parisian Palace hotels. The sample comprises 3,711 rooms in 20 hotels drawn from both these categories.

Traditionally, the highest hotel category in France was the *four-star luxe* and, in addition to this, the truly luxury hotels in Paris were known as 'Palaces'. However, from July 2009 the new rating for hotels comes into effect, bringing the market in line with international standards; the upscale hotels will now be classified as five-star properties. The Palaces,



on the other hand, will be considered five-star *premium* properties. We understand that upscale hotels are currently applying to the Ministry of Tourism to obtain the five-star classification, although the previous rating will still be valid until the end of 2011.

New Supply

Table 3 highlights the most relevant new openings and future developments within the upscale and luxury segments.

Table 3 New Upscale and Luxury Supply – Paris

Proposed Property	Category	Number of Rooms	Opening Date	Location (Arrondissement)
Radisson Blu Le Metropolitan	Boutique	48	2009	16th
Renaissance Arc de Triomphe Hotel	4/5 star	118	2009	17th
Reopening of the Royal Monceau	5-star Premium	203	2010	8th
Shangri-La Hotel Paris	5-star Premium	109	2010	16th
Mandarin Oriental Paris	5-star Premium	150	2011	1st
W Hotel Opera	Boutique	90	2011	9th
Proposed Luxury Hotel	5-star Premium	200	2012	16th
Total		918		

Source: HVS Research

We comment as follows on the new supply in Paris.

- Recently opened in May 2009 in the 16th arrondissement, the 48-room Radisson Blu Le Metropolitan is the second property under the Radisson Blu brand to open in the city;
- Marriott has also increased its share of the supply in the capital with the opening of the Renaissance Arc de Triomphe in April 2009;
- 2010 will see the reopening of an existing property, the Royal Monceau hotel, which is currently under renovation, and the entry of a new luxury brand in the shape of the Shangri-la Hotel Paris near the Trocadero;
- The years to follow will see another three new brands coming to the city's upscale and luxury hotel segment, with the opening of the Mandarin Oriental Paris, W Hotel Opera and a 200-room luxury hotel to be located nearby the Arc de Triomphe, making their debut in the French capital. The introduction of these hotels will add over 500 rooms to the city's luxury hotel market.

Additionally, a number of the luxury hotels in the city are undergoing renovation and extension schemes. The most relevant projects are as follows.



- Le Bristol Hotel is adding an adjacent building to the hotel that will give it another 26 rooms and suites, which are expected to open in September 2009;
- The Plaza Athénée recently added two suites and one room to its inventory. These have been available since January;
- The owners of the Raphael Hotel will soon be launching a new project called 'Villa Majestic' comprising 30 suites and 30 serviced apartments, as well as a spa and other leisure facilities.

CONCLUSION

The Paris hotel market as a whole has several business and leisure demand generators. As the capital and financial centre of France, Paris enjoys a dynamic network of high-added-value businesses that generate significant demand for hotel accommodation from domestic and international business travellers.

In recent years, the strengthening of the euro constrained the growth of visitation from countries such as the USA and Japan. Given the current financial crisis, we expect recovery of levels of visitation from these countries to take longer than originally envisaged, and that from other countries to take several more months to materialise. The UK, Spain and Germany have been major source markets for the city in recent years and, until recently, had shown constant growth. Spain, in particular, had shown the greatest average annual growth in visitation, at 5%, since 2000. The UK, owing to its proximity and easy access also via Eurostar, had also added to the growing demand in the capital. Additionally, emerging markets such as the Middle East, Russia and South America had continued to increase their presence in the city's hotel accommodation, particularly in the upscale and luxury hotel segment.

The hotel offering of the city, although already quite comprehensive, is now seeing the emergence of more international brands and is now switching to a more internationally recognised one- to five-star classification system. The current hotel supply and the relative scarcity (and high cost) of real estate in Paris suggests a higher potential for upscale and luxury developments in the centre of Paris than for hotels at the lower end of the quality scale.

The modernisation of the national and international transportation infrastructure in recent years have helped hotels achieve a reduction in seasonality, resulting in occupancy levels above 75% for most of the year.

We consider Paris to be a resilient market that is likely to recover quickly from the current difficult trading times, thanks to its diverse leisure and business demand generators and its strategic location in Western Europe. However, the rest of 2009 will continue to be a challenge for this market, as it will be for most markets across the world, and any material recovery may well not come until 2010.



About the Authors

Cristina Balekjian is a Market Intelligence Analyst with HVS's London office. Cristina holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey. She worked in a number of operational roles in the hospitality industry before joining HVS in 2007, where she has worked on assignments in Europe, the Middle East and Africa (EMEA).



Sophie Perret is an Associate Director with the HVS London office. She joined HVS in 2003 and has ten years' operational experience in the hospitality industry in South America and Europe. Originally from Buenos Aires, Argentina, Sophie holds a degree in Hotel Management from Ateneo de Estudios Terciarios, and an MBA from IMHI (Essec Business School, France and Cornell University, USA). Since joining HVS, she has advised on hotel investment projects and related assignments throughout the EMEA region.

For further information, please contact:



Cristina Balekjian – Market Intelligence Analyst, HVS – London Office

Address: 7-10 Chandos Street
Cavendish Square
London, W1G 9DQ
+44 207 8787-7700
+44 207 8787-7799 Fax

Email: cbalekjian@hvs.com

Or visit www.hvs.com



Konstanze Auernheimer – Director of Marketing, STR Global

Address: Blue Fin Building
110 Southwark Street
London SE1 0TA
Main Phone +44 207 922 1930
Fax +44 207 922 1931

Email: KAuernheimer@strglobal.com

Or visit www.strglobal.com