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HOTEL MARKET SNAPSHOT GENEVA

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Introduction

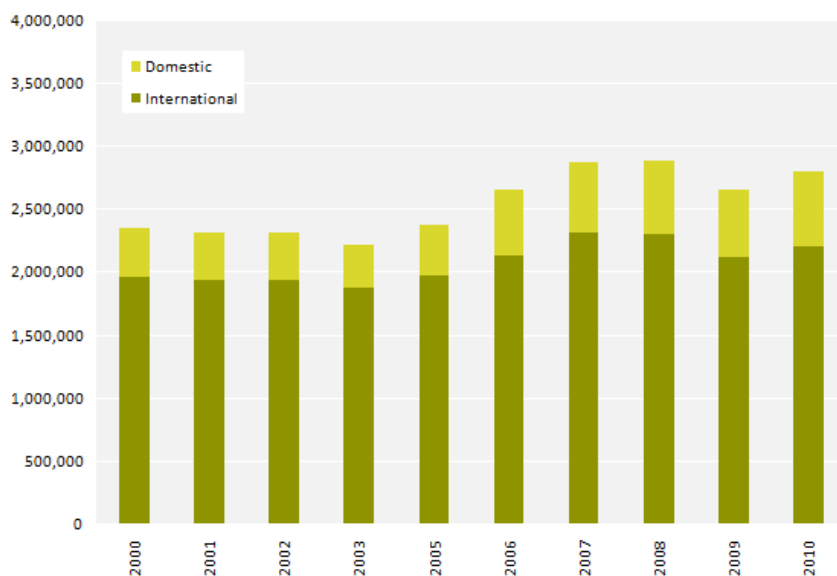
Well known as a stable market with high average room rates owing to shortage of supply, Geneva is often considered a 'safe-haven' for real estate investors. This article examines the hotel market's recent performance and outlook, in context of the hotel investor sentiment and value trends.

Supply and Demand

Geneva is Switzerland's second most populous city and one of the country's most multicultural cities. The city is a global hub, mostly on account of the presence of numerous international organisations (such as the UN), financial institutions and major research and development laboratories.

As such, **demand** for the city's hotels is primarily business oriented, accounting for more than 70% of total visitation. In addition, the strong business demand can also be attributed to the numerous events and conferences held at the Palexpo convention centre and the major conference hotels in the city. Leisure demand is generated by skiers travelling through Geneva for winter breaks and by Geneva's popularity with Middle Eastern clients for extended stays during Ramadan (which can also help generate significant uplifts in average room rates during this period). Geneva Cointrin Airport is also an important demand generator for the area. Not only has it seen increased levels of arrivals over the past 14 years, with a compound annual growth rate of over 5%, there is a master plan in place to enhance and extend the airport's facilities further. Indeed, Geneva airport is already a 'sub-market' for Geneva, with more and more companies moving to this area to avoid expensive office rents in the city centre.

FIGURE 1: OVERNIGHTS IN GENEVA 2000-10

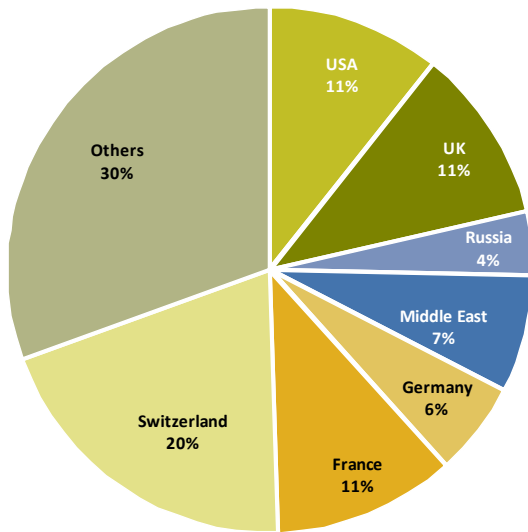


Source: Swiss Federal Statistics Office; 2004 data not available.

With a compound annual growth rate in overnight stays of more than 2% over the past 12 years, Geneva is a stable hotel market. The peak year of 2007 showed the highest increases in total overnight stays with an impressive growth of 11% and 8% from the previous two years. Towards the end of 2008 and into 2009, the city felt the impact of the global economic downturn and overnight stays dropped by 7%, to approximately 2,700,000. International visitation suffered the greatest impact, as Geneva's main source markets, in particular the UK, were negatively affected by the economic crisis. With an uplift in 2010, positive signs of recovery were evident with a year-end figure of 2.8 million overnights, a 5% increase on 2009. Looking at the data for each quarter, it is evident that demand growth slowed somewhat in the last quarter, which is likely to be linked to the appreciation of the Swiss Franc towards the end of 2010.

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FIGURE 2: SOURCE MARKETS GENEVA (OVERNIGHTS IN 2010)



80% of Geneva’s visitation is generated by international travellers. Figure 2 shows Geneva’s balanced mix of source markets with a healthy share of Russian and Middle Eastern guests being particularly noteworthy.

Supply has been relatively stable across all market segments over the last decade. Four-star and five-star hotels combined accounted for 70% of the classified rooms stock in 2010. We are not aware of any significant new developments in the city, although many of the five-star hotels are having upgrades to their product undertaken or planned. The Grand Hotel Kempinski has had long-stay apartments as well as a new spa added to its product offering in 2010. The Mandarin Oriental has

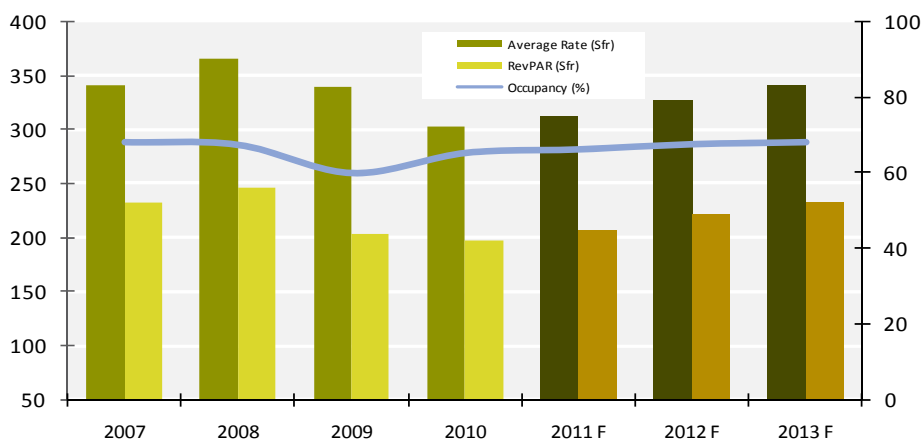
had roughly a third of its soft rooms refurbishment completed with a view to adding a destination spa at a later stage. SFr50 million was also spent on the refurbishment and extension of the Four Seasons in Geneva over the last few years. And the management of the Richemond has recently passed to The Dorchester Collection, which may herald the need for capital expenditure in the near future.

Hotel Market Performance

We have researched and analysed the occupancy and average rate performance of a sample of approximately 1,700 upscale hotels rooms in Geneva. Our analysis considers the historical performance from 2007 to 2010 and takes into account new supply expected to come on stream over the next few years. Figure 3 summarises our research and conclusions from this room night analysis.

Annual occupancy for the hotel market has historically remained at around 65%, showing that there is a solid base of business demand in Geneva. However, compared to other main European cities, although

FIGURE 3: UPSCALE HOTEL PERFORMANCE 2007-13 (SFR)



occupancy is relatively stable, marketwide average rate fluctuates depending on the quantity and quality of the events held at the Palexpo, NATO-related events and special visits from Middle Eastern royalty or high-net-worth individuals during the summer months. The strong marketwide results in 2008 were influenced by the hosting of the International Motor Show in March and the UEFA European Football Championships in the summer, and also by special visits from the Middle East. In 2008, the competitive set achieved an annual occupancy of 67% and an average rate of around Sfr365.

The decreased travel and events budgets of many companies, as a result of the global economic and financial crisis coupled with the timing of Ramadan, started to impact the performance of the competitive set in the last quarter of 2008. It caused occupancy to drop to 60% at an average rate of roughly Sfr340 in 2009. In 2010, business and MICE demand has bounced back healthily to some 65% occupancy with room rates slightly declining (in both euro and local currency terms). Looking ahead, we are confident that Geneva will be able to reach historical occupancy levels

FIGURE 4: RICHEMOND GENEVA – NOW PART OF DORCHESTER COLLECTION

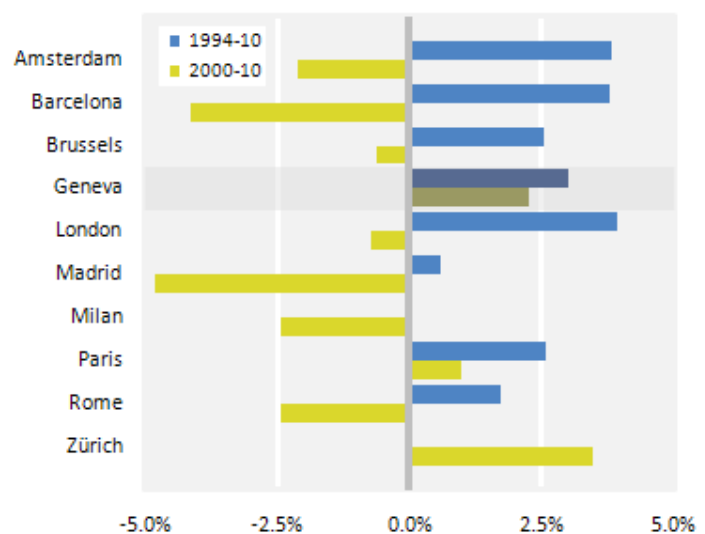


over the next two to three years as demand growth is likely to exceed supply in this period. Average room rates are set to increase moderately but steadily over the next three years.

Investment Market

With high barriers to entry and limited supply driving property prices, the Geneva market has only seen a handful of hotel transactions in recent years. In 2005, a 50% stake in the Four Seasons des Bergues was sold for an undisclosed price, with the Richemond having exchanged hands the previous year (2004) for just over SFr1,000,000 a key. In 2010, the Richemond was sold by Rocco Forte to a high-net-worth individual – the parties agreed not to disclose the sales price. Based on the HVS Hotel Valuation Index (HVI), tracking 36 markets annually, Geneva is one of the few markets that has not only shown compound value growth between 2000-10 but also in the previous decade. Despite this, hotel values in Geneva suffered slightly in 2010 owing to a decrease in average room rate as well as a shortage of debt making real estate in Geneva extremely costly. This effect was amplified in local currency (-10%). Overall, HVS ranked hotels in Geneva the fourth highest in Europe in terms of a value per room (based on euro calculations) in 2010.

FIGURE 5: VALUE CHANGES IN THE MAIN EUROPEAN MARKETS (€)



Source: HVS European Hotel Valuation Index 2011

Conclusion

With its diversified demand profile, both in terms of purpose of visit and feeder markets, as well as solid economic growth, Geneva is an international gateway city and the unofficial capital of Switzerland. In the current climate, investors are still looking for security and Geneva is well poised to provide value stability in the future given its limited project pipeline as well as its healthy demand outlook.



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About the Author



Elke Geieregger is an Associate Director with HVS's London office. Having worked as a consultant and in various roles in hospitality accounting, she is now directing valuations and feasibility studies in numerous countries in Europe and Africa. Elke

specialises in Central and Eastern European as well as German-speaking markets with recently completed assignments in Russia, CEE, Austria and Switzerland. Originally from Austria, Elke holds a BA (Hons) in tourism management and is a member of the Chartered Institute of Management Accountants (CIMA).