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MARKET INTELLIGENCE REPORT MADRID 2011

THE ONLY WAY IS UP

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Market Intelligence Report Madrid 2011

The following article guides the reader through the Urban Hotel Market of Madrid, dealing with the development of the market during 2010 and the beginning of 2011 with a view to the immediate future for the city.

SUMMARY OF KEY % VARIANCES - 2010 VERSUS 2009

Airport Arrivals (variation of total)	All Nationalities	3,32%
Domestic		-1,32%
International		6,38%
Visitors (variation of total)	All Nationalities	9,80%
Domestic		5,90%
International		14,20%
Highest increase	Russian Source Market	30,61%
Highest decrease	Czech Source Market	-10,50%
Occupancy	By rooms	9,37%
Winner category (January to April comparison)	5-star	14,11%
Best month (all categories)	June 2010	18,84%
ADR		
Loser (variation of yearly average)	5-star	-4,21%
Worst month	February 2010	-8,73%
Best month	May 2010	4,45%
RevPar (variation of yearly average)		
Gold medal	5-star	10,01%
Silver medal	4-star	3,67%
Supply (variation of total)	by rooms	4,48%
Highest increase	5-star	9,02%
Highest decrease	1 & 2-star	-7,41%

* ADR, Occupancy and RevPar comparisons do not inlcude 1&2-star hotels)

The Economy in Spain

Spain has suffered badly from its own and the world's economic crisis and is still not out of the danger zone. This year GDP is expected to grow only 0,8% and to recover slowly over the next four years to reach a forecast growth rate of 2,20% in 2015. In 2009 (latest available data) Madrid's GDP was more than 12% of that of the whole country and nearly 68% of that of the *Comunidad Autónoma de Madrid* (Greater Madrid). The unemployment rate in the first quarter of 2011 was 21,29%, taking the country close to the quite terrifying barrier of five million people out of work. In Madrid, the unemployment rate is approximately 4,5% lower than the average rate in the country.

Did you know that …….. Madrid City is the second biggest city in Europe after Berlin? It has approximately 3,3 millon inhabitants, 7% of the whole country and twice as many as Barcelona.

The political situation in Spain is stagnating as well, as the current leader José Luís Zapatero experiences a lack of support within his own party PSOE (Socialist Party) and strong pressure from the *Partido Popular* (Conservative Party) which is trying to bring forward the general election due in 2012, expecting to win comfortably after their success in the recent local government elections, after which, in Madrid, the PP has already reinforced its existing controlling position. The winds of change are blowing in Spain as one of the very few remaining socialist governments in Europe awaits its fate at the hands of a very disappointed and worried population.

The view of leading economists and politicians is that a proper recovery of the Spanish economy cannot be achieved before 2013, due to the lack of employment opportunities and national purchasing power. As a consequence of the restructuring of the banking sector, credit and financing are very difficult to obtain and even though GDP is slowly increasing, many more measures are needed to get the economy going again.

TABLE 1: ECONOMIC INDICATORS FOR SPAIN (EIU)

	Historical Data				Forecast					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP growth (%)	4	3,6	0,9	-3,7	-0,1	0,8	1,3	1,7	2,1	2,2
Consumer price inflation (av; %)	3,6	2,8	4,1	-0,2	2	3,1	2	1,9	1,8	2
Budget balance (% of GDP)	2	1,9	-4,2	-11	-9,2	-6,5	-5,4	-4,1	-3,2	-2,8
Curr.acc.balance (% of GDP)	-9	-10	-9,8	-5,5	-4,5	-3,6	-3,1	-2,7	-2,2	-2
Short-term interest rate (av; %)	3,1	4,3	4,6	1,2	0,8	1,3	1,9	2,8	3,5	3,5
Exchange rate US$:€ (av)	1,26	1,368	1,47	1,39	1,33	1,36	1,3	1,23	1,23	1,28

Source: EIU May 2011

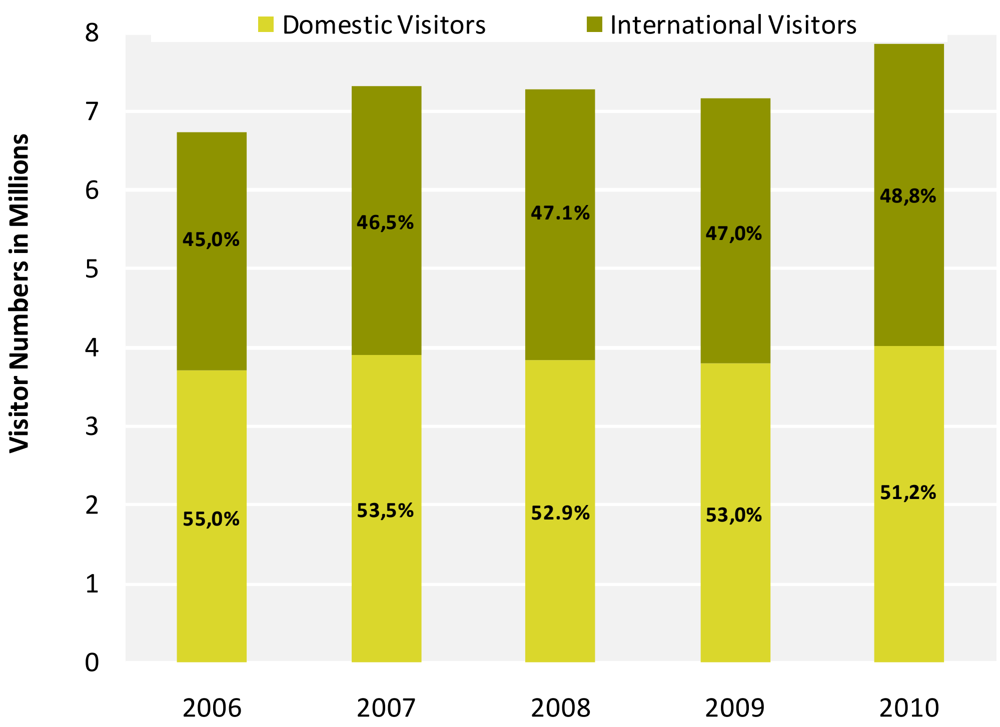
Tourist Visitation to Madrid

Last year nearly eight million visitors came to Madrid, just over four million of them from other parts of the country. The total number of visitors was 9,8% higher than in 2009. The domestic market, for obvious reasons, is recovering slowly, showing a modest annual increase of 5,9%, whilst the international market registered a more encouraging 14,2% growth rate. The percentage share of domestic visitation in 2010 (51,2%) was the lowest in the last five years. Looking at the period of January to June 2011, the number of domestic visitors has only increased by an average of 1,82% compared to the same period last year, whereas the number of international visitors rose by 7,39 %.

Did you know that ...... more than 7% of the foreign visitors and nearly 28% of the Domestic visitors are mainly motivated by shopping?

In the context of visitation, it is worth noting that, in 2010, 1.290.171 Congress & Convention participants were registered in the city of Madrid, 24,9% more than during the previous year.

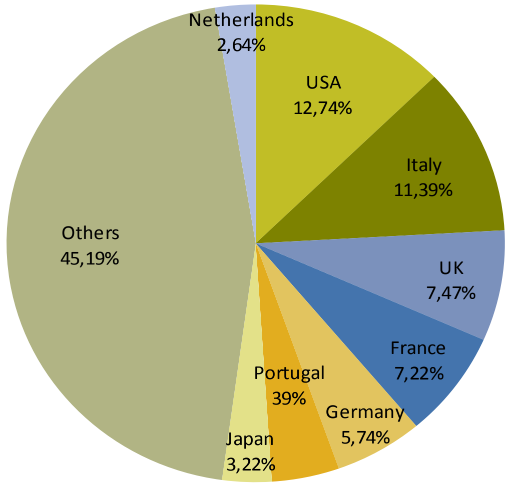
TABLE 2: DOMESTIC AND INTERNATIONAL VISITORS IN MADRID



Source: INE

Madrid's International Source Markets

TABLE 3: RANKING OF MAIN INTERNATIONAL SOURCE MARKETS

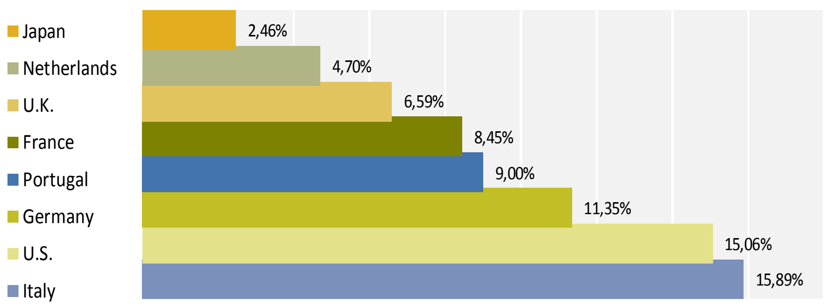


No.1	USA	489.614
No.2	Italy	437.952
No.3	UK	287.083
No.4	France	277.690
No.5	Germany	220.757
No.6	Portugal	168.774
No.7	Japan	123.673
No.8	Netherlands	101.333
	Others	1.736.767
Total International Visitors		3.843.642

Source: Patronato de Turismo, INE

45% of all international visitors to Madrid come from only eight countries. As shown in Table 4 below, the highest growth market in 2010 was Italy with an increase of almost 16%, closely followed by the United States, with more than 15%. All other markets grew, some showing less enthusiasm than others, but overall the tendency appears to be upwards. Looking at the average figures for each of the eight coutries in the period of January to April 2011, it shows that the U.S. market increased by 11,52%, followed by the Japanese with 9,22%, despite of the negative effect of the earthquake registered in April. Italy and the Netherlands performed 6,5% to 7,5% more each, Germany and the UK between 2% and 2,5% and Portugal and France showed practically no variation in comparison to the same period of the previous year 2010 (please see Table 4.1 below).

TABLE 4: INTERNATIONAL VISITATION - CHANGE 2010 VS. 2009



Source: Ayuntamiento de Madrid, INE

TABLE 4.1 AVERAGE CHANGE 2011 VS. 2010*

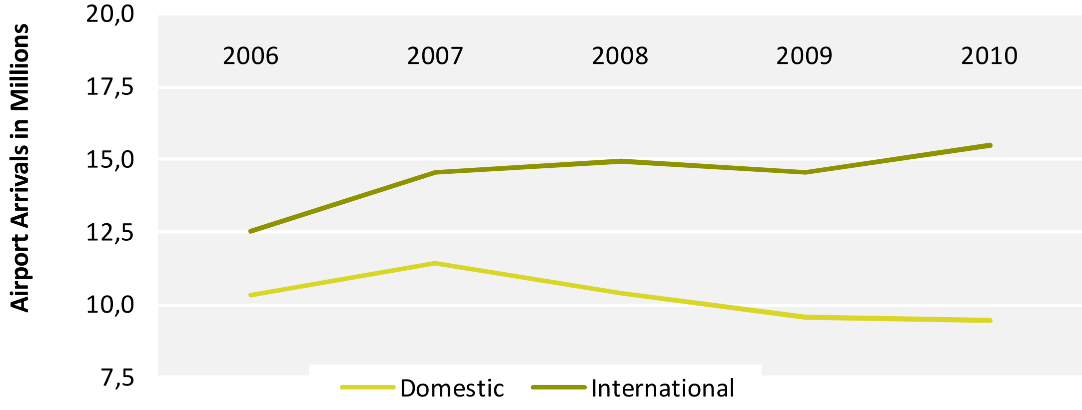
USA	11,52%
Japan	9,22%
Italy	7,44%
Netherlands	6,44%
Germany	2,47%
UK	2,16%
Portugal	-0,34%
France	-0,05%

* Period January to April of each year

Arrivals at Barajas Airport

In 2010 a total of 24.917.188 arrivals were registered at Madrid's Barajas Airport, 3,3% more than in 2009. Domestic Arrivals, representing 37,9% of the total, have decreased by 1,3%, whereas the number of International Arrivals (62,1% of the total), increased by 6,4%. This is the first rise in the past three years and it brings numbers back to 2007 levels. Looking at Table 5, which shows the evolution during the last five years, it is clear that the Domestic Market is still suffering badly from the deep crisis that the whole country is enduring, and although the 2010 decrease is less significant than in 2008 and 2009, there is still a long road ahead.

TABLE 5: EVOLUTION OF AIRPORT ARRIVALS AT BARAJAS AIRPORT 2006-2010

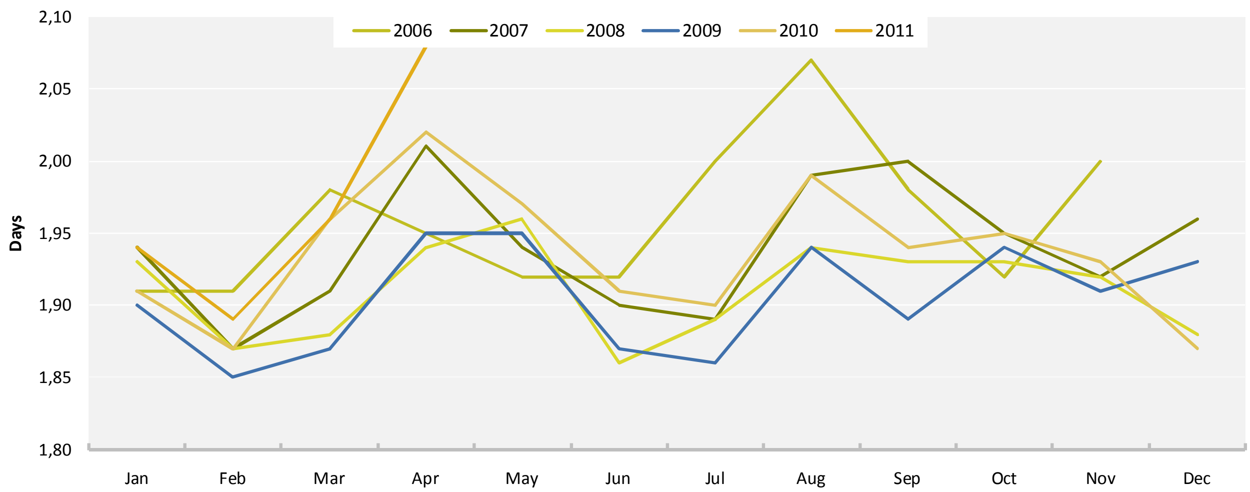


Source: AENA

Average Length of Stay

In 2010 the average stay of each visitor was 1,94 days, back to 2007 levels. In 2008 and 2009 this had dropped to 1,91 days per visitor. In April 2011 an average stay of 2,08 days was registered, the highest in the last five years.

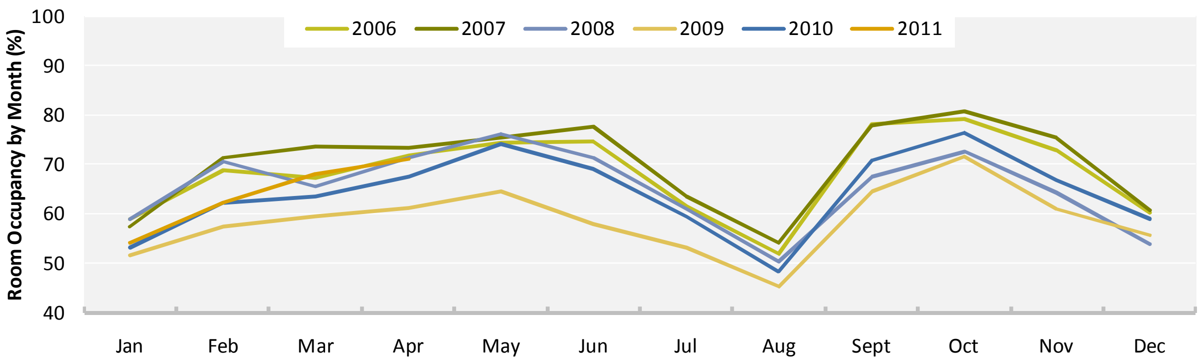
TABLE 6: AVERAGE LENGTH OF STAY IN MADRID



Source: INE

Hotel Occupancy

TABLE 7: SEASONALITY ACCORDING TO ROOM OCCUPANCY



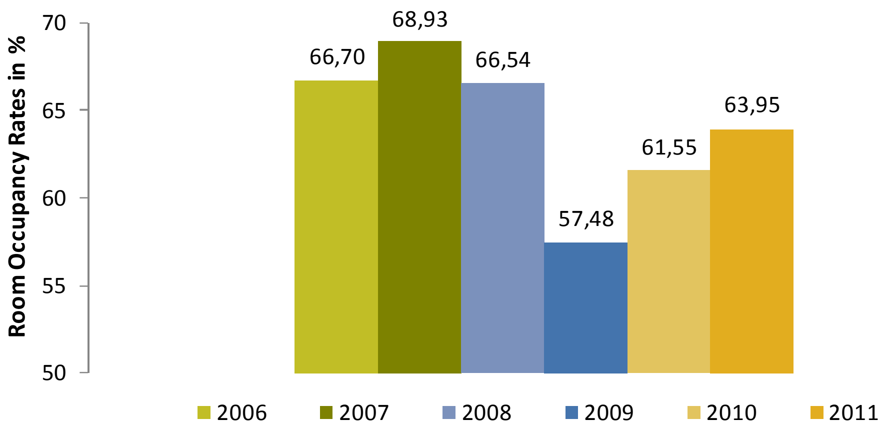
Source: INE

In 2010, **Seasonality** followed the established pattern of the city, as shown in Table 7 above. The lowest occupancy from 2006 to 2010 has always been registered in August, not surprising given the heat and the impact of the holiday season. Thanks mainly to the conference and exhibition season, the strongest month has always been October, except in 2008, when the month of May showed the highest occupancy rates.

Table 8 shows **Occupancy** rates in recent years, comparing average rates from January to April of each year. In 2010 overall occupancy rates seemed to be back on the road to recovery with an average increase of 7,09% compared to 2009. In the first four months of 2011 however, the speed of recovery has slowed to 3,90%. Pre-crisis levels are getting closer but the volatility in the market makes firm predictions a challenge for all concerned.

The speed of recovery has slowed down in the first four months of 2011.

TABLE 8: AVERAGE OCCUPANCY RATE (JANUARY TO APRIL)

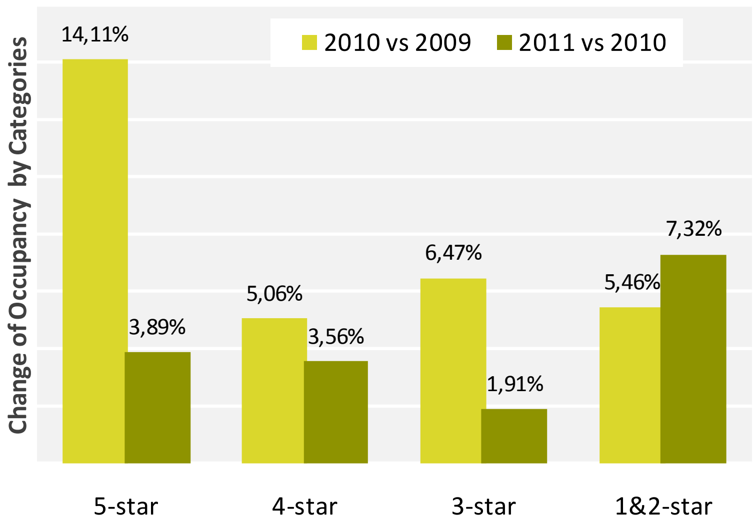


Source: INE

In Table 9 below the evolution of **Occupancy by Category** over the last two years has been summarized. In 2010, the winner was the five-star segment, gaining over 14%. Looking at the results of the first four months of 2011 compared to the same period last year the rate of recovery has slowed to less than 4%, possibly because 2008 levels had already been reached in 2010. The four-star segment improved occupancy by 5,06% in 2010 but has also seen a slow down in the first few months of this year. Three-star hotels in 2010 enjoyed a 6,74% higher occupancy rate than in the previous year, no doubt boosted by budget-conscious visitors from home and abroad but in the first four months of this year the three-star segment has been overtaken by the one & two-star hotels which increased occupancy rates by over 7%.

All hotel categories increased occupancy rates in the first four months of 2010 and 2011.

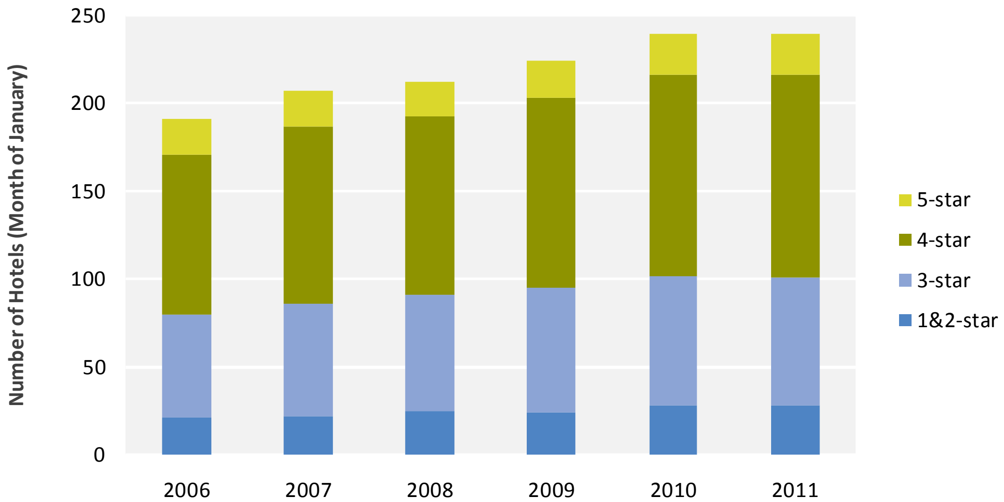
TABLE 9: CHANGE IN OCCUPANCY RATES BY CATEGORY (JANUARY TO APRIL)



Source: Ayuntamiento de Madrid, INE

HOTEL SUPPLY IN THE CITY OF MADRID

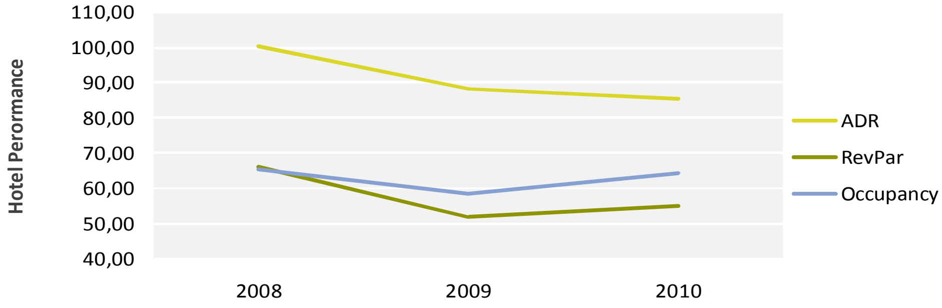
TABLE 10: EVOLUTION OF SUPPLY 2006-2011 (MONTH OF JANUARY)



Source: Ayuntamiento de Madrid, INE

Table 11 above shows the **Evolution of Supply** by category based on figures in January of each year. In 2010, the number of five-star hotels grew by 9,5% and remained unchanged in January 2011. The four-star segment increased its presence in 2010 by 5,6% but only a further 0,9% in 2011. Three-star hotels only registered growth of 4,2% in 2010, in order to slightly decrease in January 2011. One & two-star hotels showed the highest variation from 2009 to 2010, with a 16,7% more properties in the city. This segment has benefited from the demand created by the economic situation. However, in January 2011 the number of one & two-star hotels has, like other categories, stagnated.

TABLE 11: HOTEL PERFORMANCE IN THE CITY OF MADRID (AVERAGE PER YEAR)



Source: INE

This relatively stagnant picture is to be expected given the circumstances; the question now remains – How long will it be before there is a measurable increase in supply given that most new projects are either on hold or have been cancelled? Some exceptions to this state affairs are detailed below in Table 12.

New Supply

TABLE 12: NEW HOTEL PROJECTS IN THE METROPOLITAN AERA OF MADRID

Name	Room Number*	Category	Date
NH Mejía Lequerica	85	5-star	November 2011
Indigo Madrid (IHG)	89	4-star	2012
Hotel Barquillo (Ayre Hotels)	70	4-star	First half of 2012
Petit Palace Alfonso XII (High Tech Hoteles)	50	4-star	August 2011
Petit Palace Santa Barbara (High Tech Hoteles)	50	4-star	July 2011
Oikos Prado	55	3-star	Summer 2012
Oikos Recoletos	80	3-star	End of 2012
I-Sleep (Best Rest Hotels)	80	1-star	July 2012
Travellodge Santa Leonor	98	1-star	Second half of 2012
TOTAL	657		

Source: HVS Research (room Numbers may be modified; rumoured or unconfirmed projects not included)

TABLE 13: RECENT OPENINGS IN THE CITY OF MADRID

Name of the Hotel	Room Number	Category	Date
NH Ribera de Manzanares	224	4-star	Jan 2010
Dormirdcine (Nova Corporation)	85	3-star	Jul 2010
Crowne Plaza Madrid Airport (IHG)	125	4-star	Nov 2010
Mercure Santo Domingo (Accor) *	80	4-star	June 2010
All Seasons Madrid Prado (Accor)	48	3-star	Dec 2010
Catalonia Atocha	138	4-star	Feb 2011
Catalonia Plaza Mayor	82	4-star	Apr 2011
NH Palacio de Tepa	84	5-star	Nov 2010
TOTAL	**866**		

*new building

Source: HVS Research

Hotel Performance

In 2010, the average **ADR** in Madrid was 85,38 €, closing -3,33% down compared with the previous year. As many hoteliers lowered their daily rates even further in order to be more competitive, pre-crisis levels were still out of reach for most operators. Within the segments, according to our analysis based on ADR figures published by CEHAT (the Spanish Hotel Association), the ADR of four and five-star hotels decreased by slightly over 4%, whereas the three-star segment only lost 2,6%. On a more positive note, as a consequence of higher occupancy rates in all segments (please see Table 9), the average **RevPar** in 2010 was 6,02% higher than in 2009.

TABLE 14: ADR & REVPAR BY CATEGORY (AVERAGE PER YEAR)

ADR	2009	2010	2010 vs 2009	RevPAR	2009	2010	2010 vs. 2009
5-star	162,97	156,10	-4,21%	5*	87,06	95,77	10,01%
4-star	89,35	85,68	-4,10%	4*	54,20	56,19	3,67%
3-star	74,67	72,75	-2,56%	3*	50,68	51,68	1,98%

*yearly average

Source: HVS Research based on figures published by CEHAT

Hotel Transactions

During 2010 and the year to date hotel transactions in Madrid are reported to cover nearly 20% of the whole market in Spain. Prices have softened notably compared to pre-crisis levels.

TABLE 15: RECENT HOTEL TRANSACTIONS IN THE CITY OF MADRID

2010	Name	Brand	Category	Purchaser	Rooms	Purchase Price (ca.)
	ABBA Plaza Castilla		4-star	Grupo Millenium	228	33.000.000,00 €
	Husa Princesa + Husa Moncloa*		5 and 4-star	Continental Property Investments	423	122.000.000,00 €
	Tryp Ambassador		4-star	La Caixa Renting	183	23.000.000,00 €
2011 YTD	Name	Brand	Category	Purchaser	Rooms	Purchase Price (ca.)
	Hotel Selenza		5-star	Único Hotels	44	18.000.000,00 €
	Hotel Intercontinental		5-star	Toufic Aboukhater	302	Unit price unknown
	Tryp Centro Norte		3-star	Grupo Millenium	203	30.000.000,00 €

*price includes other facilities

Source: HVS Research (purchase prices are not exact figures)

Conclusion

In general, the hotel market in Madrid showed signs of recovery during 2010. **Occupancy** rates increased notably in the first half of the year but were still some distance from 2007 levels, except in December 2010 when average occupancy was approximately the same as in 2007. Last year´s average **ADR** failed to reach 2008 levels and dropped 3,31%. However, compared to the average decrease of -11,91% in the previous year (2009 vs. 2008), it seems that ADR is slowly moving into the right direction. On the whole **Supply** did not change significantly from 2009 to 2010 (+4,48%). Only one five-star hotel opened in 2010 adding a total of 24 rooms. The four-star segment showed the most significant increase, with 13 new hotels in the period from December 2009 until April 2011. The three-star category saw no change since last year and the two and one-star segments have had two hotels taken out of inventory.

Forecast for second half of 2011

The first four months of 2011 show a lower increase in **Occupancy** than the same period in 2010. The average increase was only 3,90%, just over half that of last year. We expect overall occupancy rates to increase by an average of approximately 6% during the remaining months from May to December. The segments with the highest occupancy increase should be in lower category hotels, as demand for budget accommodation remains relatively strong.

The **ADR** of five-star hotels is lower than last year, but rates are falling much less than in 2010. Recovery in this segment still has to overcome some serious obstacles, including the relative lack of international luxury standard properties, and we estimate an ADR for the remaining eight months of 2011 of between 157 and 158 euro. If the tendency of the first four months continues, four-star hotels can be expected to grow their ADR to an average of 90 euro in what remains of 2011. The winners this year could well be three-star properties which have already increased their average rates by 4,67% during the first four months of 2011 and should achieve a daily rate of 76 euro during the rest of 2011. This segment certainly benefits from the many people looking to downgrade from four to three-star accommodation and making a considerable saving. New Supply will not have much influence on the figures during the rest of the year as the expected variation is not significant (1,14%).

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, 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 apartments and mixed-use developments.

About the Authors

Esther Gladen is Business & Market Intelligence Analyst at HVS Madrid. Esther is originally from Düsseldorf and speaks English, Spanish and French in addition to her native German. Esther joined HVS Madrid in September 2007 and is responsible for developing and maintaining the research database in support of client assignments, research projects and articles. 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.

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 projects and resorts developed around shared ownership business models such as Vacation Ownership, Residence Clubs, Branded Residences and Condo Hotels. Following a career with Price Waterhouse in London and Barcelona, Philip has gained comprehensive experience as a finance director and external board adviser of all aspects of hotel and resort development and operations, with particular focus on mixed use resort development including golf and residential business models. Since joining HVS in 2005 he has advised on the development of mixed use resorts in Europe, Africa, and the Middle East involving brands such as Armani, Kempinski, Mandarin Oriental, Four Seasons, Fairmont and Wyndham.