

# HOTEL yearbook 2011

What to expect in the year ahead



Four Seasons CEO Kathleen Taylor  
on the evolving concept of luxury

The post-crisis outlook in key markets:  
20 exclusive situation reports from Horwath HTL

Best Western CEO David Kong describes the key issues  
US hoteliers will have to tackle in 2011

The industry's most progressive approach to operations:  
our interview with citizenM's Michael Levie

Plus ideas, expectations and insights for 2011  
from the Chief Executives of 8 hotel groups

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# Picking up steam

HOW WILL 2011 PLAY OUT FOR THE KEY HOTEL MARKETS IN EUROPE? TO GET AN IDEA OF THE CURRENT SITUATION AND VARYING PACE OF RECOVERY ACROSS THE CONTINENT, THE HOTEL YEARBOOK ASKED **HORWATH HTL** FOR AN ASSESSMENT. NINE DIFFERENT OFFICES CONTRIBUTED TO THIS EXTENSIVE REGIONAL OUTLOOK, WHICH EXAMINES MARKETS FROM SPAIN AND IRELAND TO RUSSIA AND MONTENEGRO.

## UNITED KINGDOM

### SITUATION REPORT

The last few years have proved extremely challenging for UK hoteliers as the global economic recession took hold.

Since the onset of the financial crisis, UK hoteliers have witnessed declines in business and leisure demand, as corporate travel budgets were slashed and uncertainty gripped the nation, resulting in countrywide occupancy falling from 73 % in 2007 to 68.7 % in 2009, according to STR Global (the source for all the performance data you see here). Rates were quick to follow as hoteliers attempted in vain to stimulate demand, and corporate room lets were replaced by lower-yielding leisure bookings with Average Daily Rate (ADR) declining from £82.78 in 2008 to £78.23 in 2009.

2010 has brought its own challenges to UK hoteliers: the nationwide «white out» early on in the year was followed by severe disruption to travel as a result of the Icelandic volcanic ash cloud; then in May, the change to a new Conservative-Liberal Democrat coalition government which has instigated tough spending reviews and announced a number of austerity measures. Nonetheless, the landscape appears to be improving for UK hoteliers, with year-to-date RevPAR (to September 2010) up 7.4 % to £57.32 compared to the same period last year.

However, there remains a major disparity between London and UK regional performance, with London hotels faring significantly better than their regional equivalents and driving much of the overall uplift in UK hotel performance. In fact, London hotels' recovery started towards the end of 2009, achieving the highest occupancy ever recorded in Q4. The capital has now posted

**In fact, London hotels' recovery started towards the end of 2009, achieving the highest occupancy ever recorded in Q4**

11 months of almost uninterrupted occupancy growth (with the exception of April 2010, thanks to the Icelandic volcano). Unquestionably, London hotels benefited from the weak pound, which encouraged overseas leisure visitors and abated further occupancy declines. In addition, hotels in the capital are less dependent on domestic corporate and leisure demand than their regional counterparts, and combined with a greater pricing power, this has made London hotels more resistant to the significant rate cuts undertaken across the provinces. Year-to-date performance data is extremely encouraging with a 12.2 % increase in RevPAR compared to the same period last year, reaching £101.67. In essence, London remains a global center for finance, business, culture and entertainment, and thus acts as a 365-day a year attraction and hotel hotspot.

UK regional hotel performance, on the other hand, is a somewhat different and less upbeat story, as domestic business travel frequency plummeted, forcing rate cuts which continue today. Year-to-date performance records a 1.3 % decline in ADR to £61.28 compared to the same period last year. On a positive note, however, corporate travel, conferences and meetings are displaying early signs of a slow resurgence with occupancy recovering, resulting in a 3.0 % year-on-year RevPAR increase to £41.67 for year-to-date. Although during previous downturns, the UK regional hotel market has tended to be more resilient than London, a more sophisticated regional hotel industry with active yield management has increased the competitiveness in the regions and thereby the impact of the downturn this time around.

### HOTEL TRANSACTIONS AND VALUES

The limited availability of debt as a result of the credit crunch has undoubtedly caused a seismic shift in the UK investment market and this, coupled with the decline in trading as described above, has resulted in a considerable reduction in transaction volume, be it financing for new acquisitions or refinancing of existing assets. As a result, many hoteliers have struggled to meet their loan repayments, and a number of high-profile hotel groups as well as many independents went into administration over the course of 2009. Some of the highest-profile casualties

included Folio Hotels, Swallow Hotels and the Real Hotel Company. While distressed assets have not entered the market at the rate anticipated, with lenders reluctant to crystallize their losses, 2010 has continued to see some companies go into receivership, the latest example of note being the Eton Group. We anticipate further distressed sales in 2011, although it remains to be seen how active the banks will be in terms of foreclosing due to the likely or potential losses on these deals.

Nonetheless, 2010 has witnessed some high-profile transactions, including The Cumberland Hotel, the Le Meridien Piccadilly, Blakes Hotel, the Jolly St Ermin's Hotel, the Hilton Hyde Park and the St James's Hotel and Club. It is notable,

however, that all of these transactions relate to properties situated in London, demonstrating the capital's continued appeal. London's resilience during market fluctuations has meant that the city continues to be a very attractive investment market. In addition, the weak pound made London even more attractive during this period. Purchasers today are largely cash-rich buyers/high net worth individuals (HNWI) who now have a purchasing advantage. Highly leveraged investors such as private equity funds who previously dominated the market during the boom period are expected to remain less active, giving way to more opportunistic buyers as well as HNWIs and sovereign wealth funds.

The cost and availability of debt is likely to remain a key factor in shaping the market going forward. Deal terms have changed significantly since the peak, with lower loan-to-value ratios (50-60% compared to 85% pre-crisis) in addition to higher margins and arrangement fees, and we anticipate that lending levels are unlikely to return to historic highs in the short to medium term, if ever. Finance is available for the right project, however, and we are likely to see a continued preference for deals relating to fixed-income, smaller lot sizes, existing proven hotels, gateway cities, high-quality operator/tenants, budget/economy segment and trophy assets. The large portfolio deals that characterized the UK hotel market pre-crisis are unlikely to return, with the focus likely to continue on single assets in the short term.

Any increases in value in the short to medium term are likely to be more the result of improving hotel performance than the investment dynamics that characterized the peak, and even in the longer term, it is questionable whether we will ever see a return to the pricing levels witnessed between 2003 and 2007.

#### **THE OUTLOOK FOR 2011**

The road ahead, however, is starting to look more positive for UK hoteliers, with London performance forecast to maintain its strong rate and occupancy growth into 2011, and UK provincial hotels projected to recover, albeit at a significantly slower pace than the London market, as regional economic performance and domestic corporate travel increase. It is important to stress that any uplift in



# Picking up steam cont.

ADR in the short term is likely to reflect a change in customer mix as higher-yielding corporate, conference and passing clients return, rather than any increase in prices. While UK hotel performance will continue to be influenced by the strength of the pound, uncertainty regarding interest rates, consumer confidence and the government's Comprehensive Spending Review, all have the potential to hamper the projected recovery, especially as public sector travel and training/conference budgets are likely to be cut significantly. In short, the UK hotel sector relies on the public sector for a substantial share of its revenue, and those markets that are most dependent upon the public sector – typically the regional hubs – are likely to be most impacted by any such cuts.

## WINNERS AND LOSERS

While the budget and luxury segments have not escaped the negative effects of the downturn, they have fared better than the overall market, and looking to 2011 and beyond, we anticipate that this is likely to continue. The mid-market sector, on the other hand, is likely to continue suffering, especially in the regions, as it continues to find itself being pressured by the newer top-end limited service properties and faces the threat of being sidelined by recently repositioned or re-branded properties. In addition, those hotels which are branded are most likely to outperform their independent counterparts.

Crucially, in under two years Britain will be under the global spotlight in the run-up to the London 2012 Olympic and Paralympic Games. This major event is expected to bring about an unprecedented level of media exposure and assist in enhancing Britain's image abroad. It is therefore anticipated that London, and to a lesser extent, the UK hotel market will benefit from this exposure and enjoy a significant return to form.

| Contributed by Alexandra van Pelt and Erlend Heiberg

## GERMANY

### SITUATION REPORT

The recent financial downturn has also hit the German hotel market, and official figures of the Federal Statistical Office

in Germany show that the number of overnights in 2009 decreased between 0.1 % and 0.2 %. A downturn in this sector has not been recorded since 2002 and can be attributed to the global market decline. However, on an international scale Germany has posted better performance in 2009 than tourism worldwide: With 132.8 million guests in German accommodation facilities and 368.7 million overnights in 2009, the decrease was below the global decline of 4 %.

With regard to the performance of hotel prices in Germany, the recession in 2009 caused a decline in hotel room rates.

Nevertheless, Germany can note an increase of 3 % in average room rates compared to the second quarter of 2009

Although prices have been raised by 2 % worldwide in the second quarter of 2010 compared to the previous year (according to [www.hotels.com](http://www.hotels.com)), the global price level remains as low as in 2004. Germany has an average room rate of €89 and is placed at position number 14 among the 22 most important tourism destinations in Europe. Nevertheless, Germany can note an increase of 3 % in average room rates compared to the second quarter of 2009.

### THE OUTLOOK FOR 2011

The «ultimo effect», where market prices often increase drastically towards the end of the year, has led to positive expectations on the part of investors for the year 2011. In general, the hotel industry in Germany is showing signs of recovery, which might also be due to the decrease in VAT to 7 % on hotel accommodation. Other political discussions which may affect the German tourism industry in 2011 is Chancellor Merkel's introduction of a tax on air transport, taking effect in

January 2011. How big the impacts of these policies will be on the German tourism industry remain to be seen.

Considering future investment projects, such as expansions of international hotel chains within Germany, the tourism industry seems to have regained confidence after a long downturn.

Meanwhile, two fascinating developments will dominate the 2011 landscape here :

- Dubai-based luxury hotel company *Jumeirah* is about to launch a major new 5-star hotel in Frankfurt, following an agreement to lease and operate the hotel element of the city's major new PalaisQuartier leisure and retail development, a project of MAB Development. The opening of the 219-room luxury hotel is set for late 2011. «We believe this agreement will see the establishment of a world-class, market-leading luxury hotel in Frankfurt city center,» said Gerald Lawless, Executive Chairman of Jumeirah Group.
- In 1997 investors were first chosen for what was then called the «Airrail Center» at Frankfurt Airport. Now the planning for «*The Squire*, Frankfurt» – its new name – is in place. Original plans called for an investment of €600 million, assuming construction work could start in early 2003 so that the grand opening would take place in 2006. The enormous building (660m long, 65m wide and 45m high) will boast, among other companies, two hotels by Hilton. The Squire will finally open



in early 2011, and these hotels are not the only ones planned to open in Frankfurt. Currently, around 20 hotel developments are in the pipeline indicating the demand for room nights for this important hub. This is not least due to the recovery of the market and the extension of the airport with a third terminal which will inevitably bring additional business.

| Contributed by Rüdiger Knospe

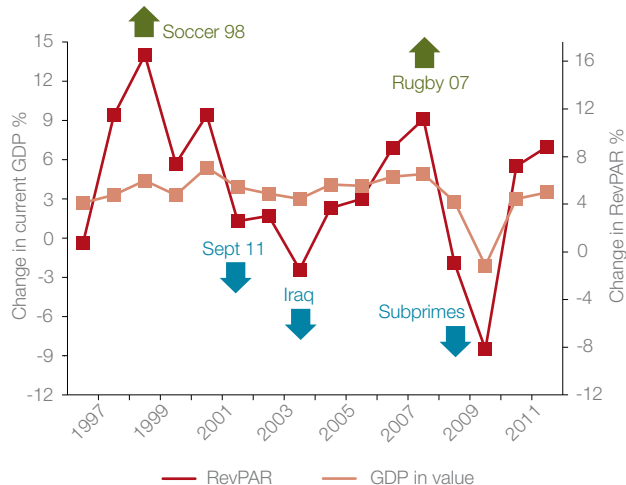
## FRANCE

### SITUATION REPORT

Most economists agree that 2010 marks a rebound in France, as elsewhere in the world. Public re-launch plans, combined with low interest rates, are starting to produce positive effects on the economy. However, as observed for the Euro zone globally, growth in GDP was moderate in France for 2010, reaching only 3% at current values.

The graph presented here shows the recent evolution of GDP growth for France, and the corresponding evolution of RevPAR.

### FRANCE: GDP AND REVPAR GROWTH



Source : INSEE/Horwath HTL

# Picking up steam cont.

Induced economic sectors including air travel and hotels are recovering, with an acceleration expected for the last quarter of 2010. As a consequence, RevPAR recorded for the first three quarters of 2010 is anticipated to have grown 5 to 6% vs. the previous year. This performance is better than expected due to a strong performance in Paris and in the upscale segment. It has to be noted also that the impact of the October 2010 strikes was offset by the Paris Motor Show which is organized every two years.

On the development side, financing organic development is still an issue, as credit terms and equity-to-debt ratios are very challenging. However, the transaction side is more active with the recent takeover of the B&B budget chain by Carlyle (€480 M) and the continuing disposal of the Concorde portfolio by Starwood Capital Europe including two major Paris hotels: Lutetia (€150 M) and Crillon (€250 M).

## THE OUTLOOK FOR 2011

The outlook is positive as growth in GDP is anticipated by economists to accelerate moderately.

A poll conducted by IPSOS in August 2010 confirms this regain of confidence, as 76% of hoteliers share the sentiment that the business climate is improving. It has to be noted that this trend has not only been improving month after month since the beginning of 2010 but also is the corresponding figure for any month in 2009. Moreover, 17% of hotelkeepers surveyed declared they are intending to hire additional permanent staff vs. only 13% in 2009.

Among other positive signs, it has to be noted that France will head the Group of Twenty in 2011 after South Korea in 2010

Among other positive signs, it has to be noted that France will head the Group of Twenty in 2011 after South Korea in 2010. It is anticipated that several political summits would be organized, not only in Paris but in Deauville and Cannes as well. This is likely to boost international visibility to these French upscale destinations and thus contribute to raise RevPAR locally. Nationwide, it is reasonable to anticipate growth in the range of 6 to 8% with a stronger dynamic in Greater Paris and the top ten metros.

In Paris, 2011 will coincide also with significant additions in supply in the top-end segment, as this segment today comprises 8 properties but will rise to 10 with the addition of the Shangri-La and Mandarin Oriental units next year, followed by Peninsula in 2012. Those properties should have no major difficulty reaching a strong occupancy level, but a stronger pressure on ADR is to be anticipated in the entire segment.

| Contributed by Philippe Doizelet

## NETHERLANDS

In 2010 the classified hotel market in The Netherlands consists of circa 2,100 hotels and more than 90,000 hotel rooms. Compared to the millennium, the supply of hotels increased by 2%, whereas the supply of hotel rooms increased by 20%. Dutch hotels are clearly scaling up, which is closely related to an increasing share of chain-related hotels. In 2010 at least 55% of all classified hotel rooms are chain related. Even in 2009 the Dutch classified hotel supply increased by more than 2%. These additions to the market had already entered the development phase when the international economic crisis hit and therefore remained unaffected. However, some did have difficulties finding an operator, the best example of which is the Symphony Hotel on the Amsterdam South Axis.

Although many planned developments faced serious delays or were even cancelled, other developments were pushed through the pipeline despite the economic challenges. Particularly the capital, Amsterdam, will welcome additions to the hotel market with impressive projects such as the IJdock hotel. The

4 or 5-star hotel with almost 300 rooms will be surrounded by the Court of Justice, 25,000m<sup>2</sup> of office space, 70 high-end apartments and a whole lot of water; the hotel will open at 4-star plus level in 2013. Further, between the main shopping area and the major museums, a 130 room «6-star» hotel will open in 2011 in the former conservatory, done by Alrov Group, who is



working on a similar job in the former Café Royal near Piccadilly Circus in London. A 500-room City Inn near Central Station and the opening of a 200-room 4-star hotel on the South Axis will make 2011 a busy year for openings in Amsterdam.

Despite the observed continued growth in hotel supply, in 2009 transactions in the Dutch hotel market were scarce. The registered transaction volume in the Dutch hotel market in 2009 was almost 80 % smaller than the record volume in 2008. Fortunately, 2010 shows the first signs of improvement. The transaction volume in the first two quarters of the year was a little more than the transaction volume for all four quarters of 2009. It is safe to say that transactions are slowly picking up. Some parties are particularly interested in acquiring distressed properties. For example, the Dutch Hotel Management Group acquired at least three hotels under the Fletcher brand, leading to a total of almost 40 hotels. Others want to free up financial sources for management expansion; e.g. Accor continues with colossal sale and lease back transactions in the Benelux

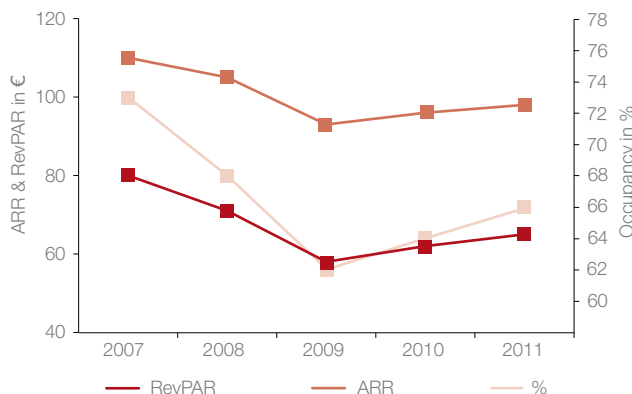
and surrounding countries; and still others wish to roll out a new brand.

The increase in hotel demand since the millennium has been notably smaller than the increase in supply, particularly during the last couple of years. In 2008 and 2009 the number of overnight stays in Dutch hotels even decreased by 4.5 % and 3.4 % respectively. This is largely caused by tightening budgets in the business segments. As a result, the occupancy rate in the Dutch mid and high level market decreased from 73 % in 2007 to 62 % in 2009, and the average room rate from €110 in 2007 to €93 in 2009, according to the 33rd annual edition of Horwath HTL's HOSTA report.

This caused the average RevPAR to have decreased by almost 28 % since 2007 – there has not been a steeper decrease for 30 years. Also profit margins decreased, both relatively and in absolute numbers. The gross operating profit, in percentage of total revenues, reached the lowest level since 1995.

Mid-2010, occupancy rates are slowly increasing, which is the first sign of recovery. Based on historic patterns, the average

#### REAL AND EXPECTED PERFORMANCE, DUTCH MID AND HIGH LEVEL HOTEL MARKET



Source: Horwath HTL

# Picking up steam cont.

room rates are supposed to follow, but they are still taking their good time. Although recovery so far is slow to say the least and

**The majority of the interviewees expect the Dutch hotel market to have fully recovered in 2012 or 2013**

a gloomy few of the hoteliers interviewed expect the recovery phase to last to 2015 or later, the majority of the interviewees (78 %) expect the Dutch hotel market to have fully recovered in 2012 or 2013.

| Contributed by E.G. Hoogendoorn and R. Lardenoye

## THE BALKANS

The Balkan countries are considered to be an emerging leisure and business market, with Croatia, Montenegro, Bulgaria, Romania and Serbia the most important players. More

standardized and comprehensive tourism statistics need to be implemented throughout the region in the next few years.

Due to the recent economic slowdown, **Croatian** tourism has experienced some negative trends in KPIs in 2009; while in 2010 ADR is expected to rise by 9.9%, occupancy by 1.3% and RevPAR by 13.3% compared to 2009. Privatization of several state-owned hotel companies is certain. As the Croatian hotel sector experienced only a minor negative impact of the global economic crisis in 2009, modest growth in performance is expected in the coming year. Further stabilization is expected, as well as accession to the EU. In terms of new hotel developments that will appear on the Croatian hotel market, there are few major projects planned for opening in 2011.

Although the crisis did hit the **Bulgarian** hotel market, new hotels were built and further growth is expected, thus leading to an oversupply in hotel accommodation. There are some city hotel projects for 2011, but the pipeline is not clear due to lack of financing. Slight improvements in hotel operating performance indicators is expected in terms of recovering rates of occupancy (up to 60% in city hotels), and the ADR of branded properties will also tend to rise, ranging between €60 and €85. Meanwhile, a new tourism law is being drafted, and a flat 9% VAT will also be introduced from April 2011.

**Romanian** tourism is mostly business-related (more than 50% of arrivals), while the leisure aspects of tourism are in their early phase of development and are local market-driven. Like the whole Romanian economy, the hotel industry was hit hard by the financial crisis in 2009, with both occupancy and ADRs decreasing by 25%. In 2010, a weak recovery is expected while in 2011 increases of about 7% are expected for these indicators. However, the recovery will be sluggish, and a long time will be needed to reach pre-crisis performance results.

**Montenegro** is a highly tourism-dependent country which means that its government pays a lot of attention to sector improvements and new tourism policies. This of course did not stop the impact of the crisis, and in 2009 occupancy decreased



Excelsior Hotel,  
Dubrovnik



by 10% and ADR by 9%. In 2010, a strong recovery is in process with an expected 5-10% increase in occupancy and up to 5% in ADRs. In 2011, further recovery is expected with strong growth rates.

The hotel industry, and the tourism market in general, are starting to develop in **Serbia**. Tourism is focused on business travel in the capital Belgrade and in several second-tier cities. The recent global economic crisis slowed down the emergence of Serbia's hotel and tourism sector, and brought about a drop in performance. In the year ahead, there are several mountain and spa resorts planned, while some major projects are on the way, for example Stara Planina. The

### Tourism is focused on business travel in the capital Belgrade and in several second-tier cities

recovery of hotel performance indicators is expected in 2011. Further development in city and resort capacities is expected, combined with the penetration of international hotel brands in Belgrade and in the country's resorts.

| Contributed by Miroslav Dragičević

## RUSSIA

### SITUATION REPORT

2010 has proved to be a better year for hotels in Russia in terms of trading levels, with significant recovery in occupancy levels, yet average room rate levels generally remain well below that of pre-crisis times. A number of new international hotel openings in Moscow, St. Petersburg and a number of key regional cities have been tempered by the cancellation and delay to many pipeline projects for financing reasons as evidenced throughout Europe.

One salient fact that must be borne in mind when considering Russia as an emerging market is that the economic downturn has not altered the considerable imbalance between quality hotel supply and demand.

### THE OUTLOOK FOR 2011

Initial signs are that the economy is beginning to move again as evidenced by the increase in interest from private and institutional investors since the summer vacation period ended. At the third Russian Hotel Investment Conference (RHIC) held in Moscow at the end of October 2010, there was a noticeable change in mood, with investors now reconsidering some hotel projects that have been placed on hold over the last two years. Although lack of domestic bank finance is still a key characteristic in the Russian economy, it is becoming more available to those who choose, albeit at punitively high interest rates. It is likely that the surge in availability of domestic finance on more attractive and competitive terms will occur only when international institutions start to lend once again – which is unlikely to happen quickly.

Return on investment possibilities remain attractive by comparison to investing in similar type projects in Western Europe and, as confirmed at RHIC by a number of leading hotel companies, namely Hyatt, IHG, Hilton and Starwood, the future pipeline is optimistic, particularly in the mid-market and economy hotel sectors where projects are being actively pursued as investors appear to be less cautious.

# Picking up steam cont.

The cost of travelling and staying in Moscow and St Petersburg still remains high, which together with the issue of most visitors requiring an entry visa, still acts as a deterrent to many a business and in particular leisure tourist. Will 2011 be the year the Russian authorities decide to relax visa requirements? And will more low-cost airlines be allowed competitive access to these cities? The impact on visitor numbers could

**Will 2011 be the year the Russian authorities decide to relax visa requirements?**

only be positive as proven when the key cities of Eastern Europe – Prague, Warsaw and Budapest – implemented an « open skies » policy.

The prognosis for 2011 would appear to be optimistically cautious, if that is not a dichotomy in itself, as developers start to press ahead with projects and as the economic climate improves, increasing demand for hotel accommodation.

Contributed by Michael O'Hare

## IRELAND

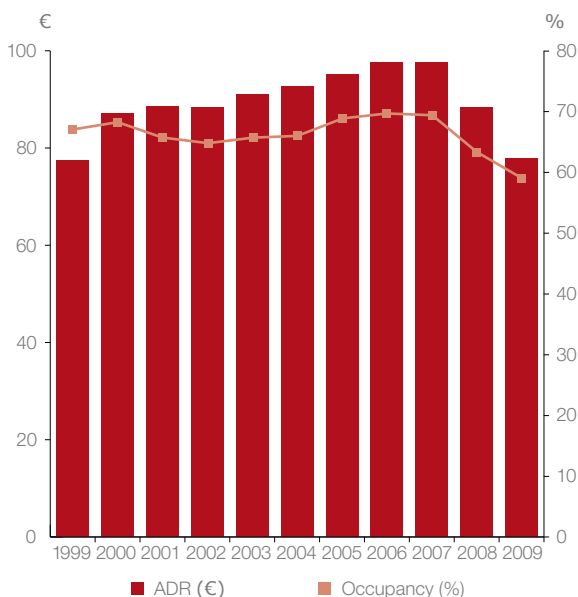
### SITUATION REPORT

A game of two halves is probably the best way of summing up the performance of the Irish hotel market over the last decade. Up until 2007, Ireland experienced a period of considerable and uninterrupted growth, with a booming economy and rising demand as well as significant investment in the sector, all of which benefited the tourism market and resulted in hotel performance peaking in 2007. However, the onset of the global economic crisis in 2008 changed the landscape and the once roaring Celtic Tiger is now struggling.

The arrival of the downturn caused hotels to suffer a major dip in demand as corporate and leisure travel reduced significantly, resulting in occupancy rates declining 14.8% between 2007 and 2009. According to Horwath Bastow Charleton (HBC), rates fell to 59.4%, and this decline in demand has increased downward pressure on rates, with HBC estimating that room rates have fallen to those experienced during 1999. This would mean that profits across Irish hotels have declined by 50% since 2007.

This downturn alone would have put significant pressure on hoteliers. However, what has compounded the situation in Ireland is the substantial oversupply in bedroom stock. While the development of additional hotels was necessary in order to satisfy growing demand as the economy expanded, capital allowance tax incentives and the easy availability of debt led to an influx of new hotels often without due consideration of individual projects' feasibility. This resulted in the number of

### OCCUPANCY AND ADR PERFORMANCE REPUBLIC OF IRELAND



Source: Horwath Bastow Charleton



rooms constructed far outstripping demand, with over 40% of Irish room stock, equivalent to 25,000 bedrooms, constructed over the last decade. While in any normal situation this would prove testing, in today's challenging market it has brought saturated markets near collapse.

As a result, it is estimated that over one third of Irish hotels are struggling to pay interest on their loans and are now experiencing acute cash flow problems. The combination of these factors has resulted in an increasing number of hotels being declared insolvent or going into administration.

Transactions remain scarce, with only one sale of significance in the first half of 2010, a far cry from the peak of the market between 2005 and 2007, when around 30 to 40 hotels sold annually. The hotels which are being transacted are distressed. The latest victim appears to be Dublin's iconic Four Seasons Hotel which was put up for sale by its investors following a reported €2m loss last year. In 2009, the National Asset Management Agency (NAMA) was set up by the Irish

**Worryingly, it is forecast that up to 200 hotels may soon fall into the hands of NAMA**

Government in response to the global banking and property crisis with the aim of removing the riskiest loans (mainly linked to land and development or bad/impaired assets) from the five participating banks (AIB, Bank of Ireland, EBS Building Society, Anglo Irish Bank and Irish Nationwide Building Society), enabling them to restore their capital position and recommence lending. Worryingly, it is forecast that up to 200 hotels may soon fall into the hands of NAMA.

#### **THE OUTLOOK FOR 2011**

Looking ahead to 2011 and beyond, the oversupply of hotels in Ireland will continue to hamper any potential recovery and put pressure on operators as they struggle to raise rates and improve cash flow. The number of Irish hotels entering administration looks set to continue and for the most leveraged owners, their future most likely lies with the decisions of their banks, creditors or perhaps NAMA.

As such, we forecast that a number of poor performing hotels will fall out of the market, easing the pressure somewhat and cleaning up the industry of the poorer quality hotel stock. Ultimately, the weakest players will not survive. New branded operators are likely to outmaneuver their independent counterparts, and those hoteliers that have clear market positioning and understanding of their guest base, as well as of their competitors, will be best placed to survive and benefit from the future upturn.

# Picking up steam cont.

The return to growth, therefore, is likely to be slow, with hotel performance largely driven by the return of international visitors and increasing GDP as Ireland begins its recovery from the considerable effects of the economic crisis.

| Contributed by Alexandra van Pelt and Erlend Heiberg

## SCANDINAVIA

### SITUATION REPORT

2009 guest nights were lower in all Scandinavian markets except Sweden. Denmark saw the largest drop (8%) from 2008. In 2010, demand has recovered with Sweden leading the way, driven by increased MICEET activity in the Stockholm area. Danish hotel operators are still struggling. An expected capacity increase of 8-10% in Copenhagen is likely to depress room rates and occupancy there.

In Norway as well, increased capacity will continue to depress average room rates, especially in key city markets and at Oslo Airport, where Park Inn by Radisson recently opened a new 300-room hotel (see photo).

closely. Choice is set to retain its position given the known development pipeline.

Sweden-based hotel owner Pandox recently acquired the Norwegian company Norgani to become Europe's largest independent hotel property owner (24,000 rooms and growing).

### THE OUTLOOK FOR 2011

The regional economy in Scandinavia is performing well – better than Europe in general – and this will continue to drive demand for hotel services.

Sweden has recovered more rapidly than the other Scandinavian countries. RevPAR for the first eight months of 2010 was up

**Sweden has recovered more rapidly than the other Scandinavian countries**

4.6% on the same period in 2009. 2011 looks to be a good year for the Swedish market, possibly on par with 2008.

In Denmark, the first half of 2010 continued on a negative path, but the number of guest nights was picking up. A recent industry survey reveals that 52% of Danish hotel operators expect an increase in guest nights, whereas 32% expect a decrease, compared to 2009. For 2011, about 65% expect an increase in volumes, whereas only 7% expect a decrease. Room rates remain soft and travellers spend less in hotels and restaurants.

In Norway, only about 20% of industry professionals expect occupancy in the second half of 2010 to be worse than 2009, with about 45% expecting higher occupancy rates. Room rates are expected to lag behind but firm up in 2011. Low interest



The Park Inn by Radisson, Oslo Airport

Choice Hotels Scandinavia is the region's largest hotel operator ranked by number of hotel rooms, with Scandic Hotels following

rates in Norway encourage investment activity and room capacity is set to increase by 4.7% in 2010 and 3% in 2011.

In the summer of 2011, the largest hotel in Scandinavia will open in Copenhagen. The Comwell Bella Sky will have 814 rooms and be located next to the Bella Sky conference centre in Ørestaden.

The FIS Nordic World Ski Championships are to be held in Oslo, Norway at the end of February 2011, and many hotels have refurbished and extended their rooms in anticipation of the event.

<b>LARGEST HOTEL CHAINS IN SCANDINAVIA (Hotel chains active in more than one country)</b>			
<b>4Q 2010</b>	<b>Total Hotels</b>	<b>Total Rooms</b>	<b>Ave. hotel size (rooms)</b>
Choice Hotels Scand.	169	24,435	145
Scandic Hotels	112	20,647	184
Rezidor Hotel Group	47	11,138	237
Rica Hotels	78	10,318	132
Best Western	125	9,861	79
Thon Hotels	59	8,661	147
First Hotels	47	6,381	136
Hilton Group	4	940	235
IHG	2	734	367
<b>TOTAL</b>	<b>641</b>	<b>92,381</b>	<b>144</b>

Several new hotels are being built in Stockholm city and around Stockholm Airport Arlanda. The Waterfront complex with a 414-room Radisson Blu hotel will open in 2010/11.

International hotel operators are struggling to establish a market for management agreements in the region. Scandinavian hotel owners still prefer fixed and variable leases.

All in all, 2011 looks to be a better year for the Scandinavian market, but growth may be hampered by strong exchange rates. Occupancy in major markets like Copenhagen, Stockholm and Oslo will be affected by capacity increases.

| Contributed by Erik Myklebust

## SPAIN

### SITUATION REPORT

The Spanish tourism markets have been hit hard by the international financial crisis. In 2009 Spain lost 9.8% of its international tourists, and this large decline took a deadly toll on the hotel market, forcing hotels in every category into bankruptcy. In the real estate market, hotel investments fell 25% in 2009, mostly due to the difficulty in obtaining credit and the continued gap between buyers' and sellers' valuation of assets, post-crisis.

Fortunately, 2010 has shown signs of recovery and in Spain, the tourism sector has grown more than GDP and is playing a key role in the recovery of the Spanish economy. So far during 2010, Spain has experienced a 2% increase in its international tourists and a 4% increase in tourism expenditure. Cities like Madrid, Barcelona, Seville or Granada, all supporting a good mix of tourism and business travelers, are the ones leading the recovery. So far, hotel investment has experienced a 27% rebound this year, compensating for the collapse of 2009.

Profound crises like the one we have experienced can change the shape of things in a market permanently. Insofar as some products, services and ideas may vanish with the crisis, some new ones will appear. In the case of Spain during 2010, we have

**So far, hotel investment has experienced a 27% rebound this year, compensating for the collapse of 2009**

# Picking up steam cont.



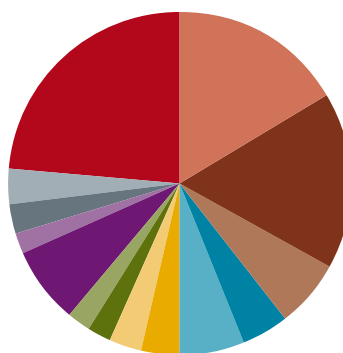
LC Torre Europa, Barcelona

## THE OUTLOOK FOR 2011

Nowadays, the tourism sector is playing a very important role in the recovery of the real estate market. One of the most successful business formulas used last year in Spain was the «recycling» of apartment or residential buildings for tourism use. Unfortunately, Spain has excess capacity in residential products and these products cannot find investors and barely obtain credit. Adapting these residential products for tourism use serves two purposes; it allows the properties of the residential buildings to earn some income and therefore service their debt, and it allows the hotel market more time to absorb part the current supply. From the perspective of the hotel operators, this is also a time of opportunity and the crisis has opened up good residential units as well as old hotels placed in unique locations.

| Contributed by Victor Martí ■

## VISITORS TO SPAIN FROM...



■ United Kingdom 23.57 %	■ Belgium 3.11 %
■ France 16.65 %	■ Ireland 2.31 %
■ Germany 16.45 %	■ Switzerland 2.11 %
■ Italy 6.42 %	■ Rest of Europe 7.32 %
■ Netherlands 4.41 %	■ US 1.91 %
■ Nordic countries 6.22 %	■ Rest of America 2.71 %
■ Portugal 3.51 %	■ Rest of world 3.31 %

seen that while Spain's real estate market may still be in the doldrums, the country's tourism sector is moving forward and in a way, is contributing to the recovery of the real estate market.

Back in the sixties, the first large waves of tourists visiting Spain brought about a booming of the real state sector. Thousands of apartments were built to host the incoming tourists, and together with the new apartments came the development of the complementary tourist offer (i.e. bars, restaurants, shops, etc.)



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