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Staying power
European cities hotel forecast for 2016 and 2017

March 2016

pwc

European cities hotel forecast 2016 and 2017 analyses trading trends and provides econometric forecasts for 19 cities, all national or regional capitals of finance, commerce and culture. This year, in addition to looking at what might go right or wrong for the economic and travel outlook, we also look at some of the key risks lurking for hotels, including cyber security, data theft and privacy. We also examine the impact of strong hotel trading on the deals outlook in Europe and the potential impacts of low oil prices for the sector.

Foreword

Despite global economic worries, last year saw an exceptionally strong travel backdrop which led to record hotel trading and double digit Revenue per available room (RevPAR) growth across eight of the cities in this survey. We expect this trend to have staying power, with most cities in this survey forecast to see positive revenue growth in 2016 and 2017, albeit growth is expected to be weaker than in 2015.

Generally, the European economic recovery continues as a supportive backdrop for travel and hotels in Europe. A weaker euro vis-à-vis the US dollar and other main currencies has sustained travel volumes; low new hotel supply growth in Europe is also buoying up performance.

The global fall in oil prices may also be helping. Consumers have more money in their wallets for discretionary spending and we are starting to see falls in airline fares. GDP growth has remained strong in the US and some of Europe's key travel markets, although weaker performance in emerging economies such as China, Russia and Brazil will dampen demand.

Geopolitical uncertainty in the Middle East appears to be having a strongly positive effect on some cities, as travellers choose perceived 'safer' European resorts over destinations in the Middle East and North Africa. However, the refugee crisis across Europe and terrorist attacks in Istanbul, Paris and Brussels have affected these cities.

This 5th European cities hotel forecast analyses the main trends and future performance outlook for the hotel sector in key gateway European cities and destinations in 2016 and 2017. All the cities, except two, are expected to achieve some growth in both years. We also forecast most to see a continued increase in Average Daily Rate (ADR) particularly Dublin, Lisbon, Porto, Barcelona and Madrid.

Responding to risks in today's complex and changing market requires a new focus. The principal vulnerabilities include cyber security, data theft and big data. In 2016 politicians, regulators, insurance companies, credit-rating agencies, shareholders, customers, suppliers and employees will demand more care from those entrusted with other people's data.

Our feature article in this report is written by PwC's Stewart Room on cyber security and is the subject of his keynote address at the International Hotel Investment Forum (IHIF) in Berlin.

Positive hotel trading performances are driving hotel investment markets in Europe. Deal volumes have been boosted by growing confidence and greater international investor interest. And we forecast continued activity in the hotel investment market in 2016, albeit at slightly more subdued levels.

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Summary

Analyses and forecasts for hotels in 19 key cities at the heart of Europe

The 5th edition of PwC's European cities hotel forecast looks at the outlook for hotel trading in 19 key cities in Europe, set against a backdrop of further uncertainty and change.

The cities surveyed

In this snapshot (taken in February 2016) we look forward to what 2016 and 2017 may hold for hotels in key European cities and which are best placed to grow. There are 19 cities in this econometric forecast, all are important gateway cities and/or business and tourism centres and some, such as London and Paris, are already mega cities.

2015 was an exceptional backdrop

2015 was a bumper year as record tourist arrivals propelled hotel performance for many destinations. Tourists appeared to favour European destinations over many alternatives in the Middle East and North Africa. City trips remain a top travel growth segment in Europe and strong demand, together with weak supply growth meant many hotels enjoyed a remarkable year.

While hotel revenues remain about 5% below their pre-recession peaks in real terms, 2015 has helped reduce the gap considerably.

Staying power in 2016 and 2017

We expect trading fundamentals to continue to improve across virtually all the cities in 2016 and 2017, but after an exceptional 2015, the growth (for most) will be weaker than 2015. In fact, all the cities, except two, are expected to achieve some growth in both years. With occupancies already high in many cities, most will see growth coming from ADR. The staying power of this growth trend in these cities is impressive.

In 2016 Rome takes pole position (+19.2% RevPAR growth), as the Jubilee or Holy Year is expected to attract huge numbers of pilgrims. Next comes Dublin (+9.1%), Prague (+6.6%), Madrid (+5.8%) and Lisbon (+5.7%).
At the other end of the table, another Italian city, Milan, saw a large boost in 2015 from EXPO 15, and as a consequence sees a very negative comparative this year.
Paris suffered from two terrorist attacks in 2015 and Brussels suffered from a security lockdown.

Despite the attacks, both Brussels and Paris have relatively stable tourism sectors and we expect a recovery back to average trends by 2017.

In 2017, Dublin takes up the baton, leading the cities in RevPAR growth (+8.2%), followed by Lisbon (+6.9%), Porto (+5.8%), Barcelona (+5.5%), Prague (+4.9%) and Milan (+4.1%).

What's driving growth?

Continued economic recovery

Eurozone GDP is expected to continue to expand by around 1.6% in 2016 and 1.7% in 2017, its fastest growth rate since 2011. Many visitors to Europe come from further afield and the improving economic situation in the US should lead to increased numbers of tourists in the future. But, the global outlook remains mixed and the changing balance of global growth, low oil prices and geopolitical risks will determine the global economic outlook for 2016.

A positive travel backdrop

Growth in the travel and hospitality sector is expected to continue to outpace the wider economy and further growth is forecast for 2016 in business and leisure markets.

Various special events that will help attract visitors to Europe this year include the announcement by Pope Francis of a special Jubilee in Rome, lasting from December 2015 to November 2016, when 25 million visitors and pilgrims are expected to visit Rome; the UEFA Euro 2016 sees France as the host nation with the football tournament held at 10 host cities (including Paris) between June and July; 2016 sees Milan's San Siro Stadium host the UEFA Champions Final. But perhaps stealing the limelight from Europe, summer 2016 sees Brazil host the Olympic and Paralympic Games.

Low levels of supply growth

In 2015 demand for rooms (rooms sold) increased by around 3.1% while supply growth (rooms available) saw only a 0.8% gain and this imbalance is expected to continue, although pipelines are picking up in 2016. European cities with the largest pipelines include London, Istanbul, Moscow and Berlin.

The right kind of supply growth?

While some cities, such as Dublin, report a continued shortage of hotel rooms which could constrain growth by limiting visitor volumes; others such as Amsterdam are concerned about influencing the diversity and quality of new development, rather than the quantity of new rooms. Barcelona has introduced a moratorium on new development. In contrast, London expects to see above average new supply additions in 2016, double the number of rooms that opened in 2015.

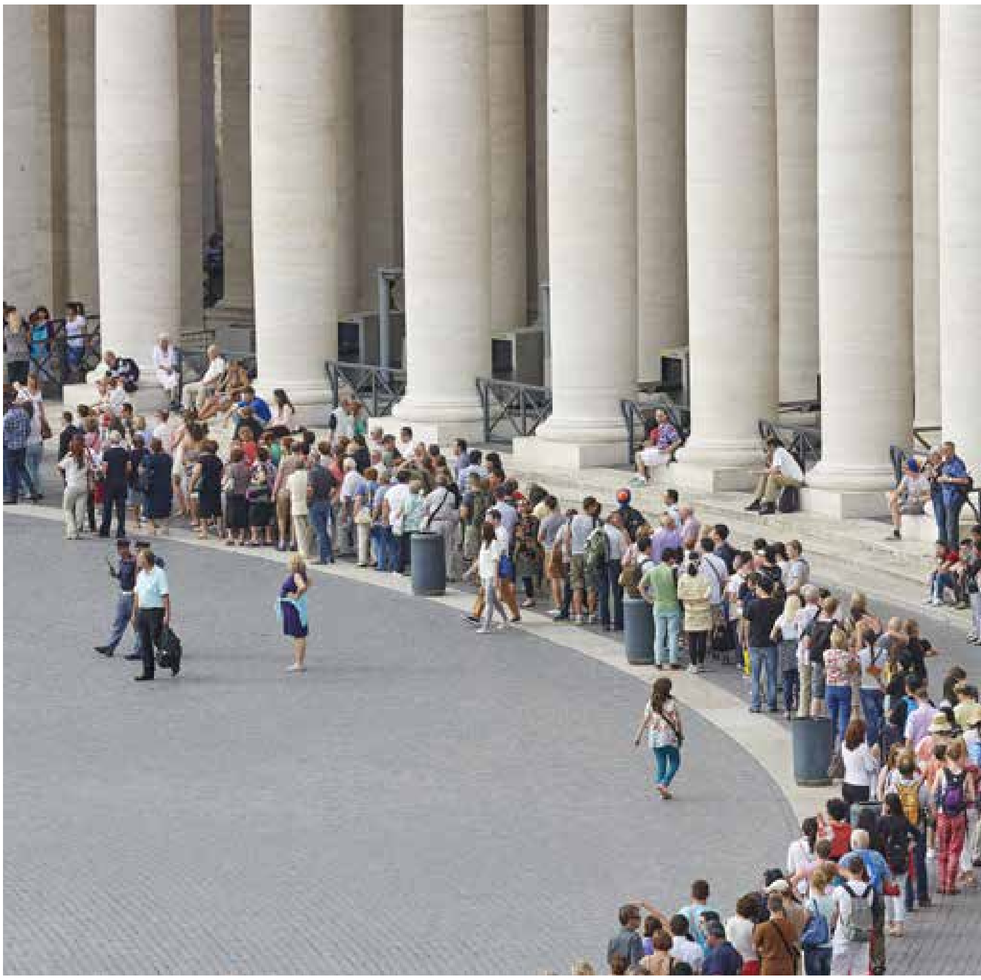
For most cities the fast growth in the serviced apartment sector and shared space models like Airbnb adds to the competition facing hotels, as well creating challenges for those seeking to regulate them.

What could go bump in the night?

Responding to risks in today's complex and changing market requires a new focus. The principal vulnerabilities facing hotels include cyber security, data theft, big data and modern slavery. In 2016 politicians, regulators, insurance companies, credit-rating agencies, shareholders, customers, suppliers and employees will demand more care from those entrusted with other people's data.

€21bn deals peak as strong trading drives a buoyant investment outlook

Positive hotel trading performances are driving hotel investment markets in Europe. Deal volumes have been boosted by growing confidence and greater international investor interest. We forecast continued activity in the hotel investment market in 2016, albeit at slightly more subdued levels.



How did 2015 turn out for travel and hotel markets?

A bumper year as record tourist arrivals propelled hotel performance for many destinations. City trips remain a top travel growth segment in Europe. Strong demand and weak supply growth meant many hotels enjoyed a remarkable year. RevPAR still trails pre-recession peaks in real terms but 2015 trading helped close the gap.

Surprisingly strong global tourism growth with 50 million more tourist arrivals than in 2014

Worldwide tourism numbers grew by 4.4% last year, with a total of 1.184 billion international tourist arrivals. The United Nations World Tourism Barometer reported 50 million more overnight international visitors were recorded than in 2014, in the sixth consecutive year of above average growth.

Europe also saw very strong tourism growth

Europe also enjoyed strong growth in travel and hotel demand and this translated into a very good year for many of Europe's hotels.

Europe (+5%) led global growth in absolute and relative terms supported by a weaker euro vis-à-vis the US dollar and other main currencies. Arrivals reached 609 million, 29 million more than in 2014. Central and Eastern Europe (+6%) rebounded from last year's decrease in arrivals. Northern Europe (+6%), Southern Mediterranean Europe (+5%) and Western Europe (+4%) also recorded good results, especially considering the number of mature destinations making up the region.

Growth has been astonishing despite negative incidents that have impacted tourism economies and travel patterns throughout the world. These included Ebola in West Africa; terrorism attacks in Tunisia, Egypt, Lebanon, France and Mali and political turmoil and continued unrest in Ukraine and Syria.

The 13th November terrorist attacks in Paris have had an impact on tourism activity and dampened enthusiasm for other major cities, such as London. It's not just foreign tourists that have been staying away but Paris businesses report lower levels of domestic eating and drinking out.

The key drivers included global security concerns, improving economies and a weak euro

Destinations reported a very busy summer season and many cities achieved double digit growth from 2014.

We think the continued conflicts and instability in the Middle East and North Africa may have played an important role in travellers choosing European destinations.

Travel volumes were also driven by improving economic conditions. The weaker euro stimulated travel from outside the Eurozone especially the US and the UK. In contrast, spending from Germany, Italy and Australia grew at a slower rate (all at +2%), while demand from Canada and France was rather weak.

China has seen double-digit growth in tourism expenditure every year since 2004, and continued to lead global outbound travel. This mainly benefitted Asian destinations such as Japan and Thailand, but also the United States and various European destinations. By contrast, expenditure from the Russian Federation and Brazil declined significantly, reflecting the economic constraints in both countries and the depreciation of the Ruble and the Real against virtually all other currencies.

Overseas travel restrictions meant domestic tourism saw a revival in Russia.

Why did they visit?

A variety of regular as well as one-off events stimulated this travel, including Milan's EXPO 2015 which was visited by over 21 million visitors and those staying overnight boosted Milan occupancy with Revenue per available room (RevPAR) soaring in August and October.

International meetings and congresses were another key motivation for travel and a boost for hotels seven of the world's top 10 global congress cities are European.

Paris (ranked 1) hosted the Climate Change Conference from 30th November to 11th December; Barcelona (ranked 2) continued to host the 4 day GSMA Mobile World Congress which attracted 94,000+ attendees in 2015. Travel fair FITUR in Madrid attracts around 220,000 visitors.

In Britain, the Rugby World Cup enhanced host stadium cities, and Cardiff's RevPAR was sent spiralling upwards. The Ice Hockey World Cup boosted Prague.

New air routes improving international connectivity were also a positive for Porto, and Edinburgh which saw the busiest year on record. Barcelona Airport also saw a record year and also saw Ryanair and Emirates increase their flights. Madrid reported a record year too.

Strengthening business travel markets also helped and Frankfurt reported a successful trade fair cycle and particularly strong corporate demand.

Stay away – we're full up

Some tourist spots may be too successful. Italy's Cinque Terre say that visitor numbers are now so high that they threaten the national park and need to be reduced.
They may introduce a quota system this summer to cut numbers from 2.5 million to 1.5 million a year.

In Barcelona, the new Mayor has spoken of a 'saturation point' having been reached in terms of tourists and a moratorium is now in place for new hotel development.

It all translated into a robust hotel performance

Low levels of new supply also helped hotels. Hotel data supplied by a sample of hoteliers to STR Global shows that in terms of trading occupancy was up just over 2%, Average Daily Rate (ADR) gained 8% as the weak euro attracted visitors, and overall RevPAR was advanced by over 10%.

RevPAR still trails pre-recession peaks in real terms but 2015 trading helped close the gap (see chart on the next page).

Outstanding performances in an exceptional year

Though we were directionally right, the growth was far greater than the scale we anticipated in our last forecast.

Of the cities in this survey, the outstanding performer in an exceptional year, driven by the highly successful EXPO, was Milan, with almost 30% RevPAR growth. Next, Dublin saw an outstanding 23% RevPAR growth, as little new supply allowed ADR to soar.

Popular Porto also saw a 20% advance. Then, ranging from high to lower double digit growth, followed Madrid, Prague, Amsterdam, Lisbon and Barcelona which is now one of Europe's five most visited cities. Frankfurt and Berlin were close behind. Strong trade fair season and the biennial motor show helped Frankfurt occupancy almost break the 70% barrier in 2015. Strong congress and leisure demand pushed Berlin upward.

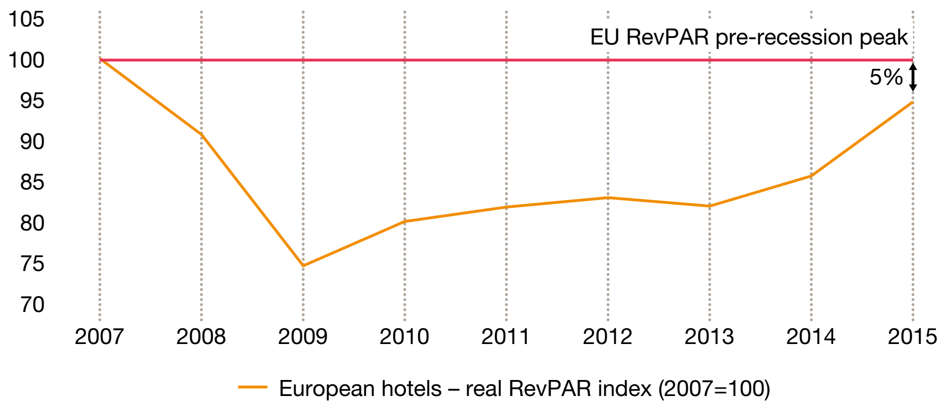
Vienna, Rome, Edinburgh and Moscow reported very respectable but more moderate growth.

Cities seeing less robust growth included Brussels where occupancy was impacted by the security lock down at the end of the year and London where trading was variable and the weak euro a challenge for hoteliers and the latter part of the year impacted by the terrorist attacks in Paris.

Zurich and Geneva saw trading decline as the Swiss franc put pressure on prices. Paris saw a challenging year as performance was impacted by the January and November terror attacks.

More details on city performances in 2015 can be found in the city forecast pages at the end of this report.

Closing the gap: hotel revenues remain 5% below pre-recession peak (real terms)



Source: STR Global; Eurostat

Economic, travel and supply outlook

Economic outlook

Eurozone GDP will continue to expand by around 1.6% in 2016 and 1.7% in 2017, its fastest growth rate since 2011. Many visitors to Europe come from further afield and the improving economic situation in the US should lead to increased numbers of tourists in the future. However, the global outlook remains mixed and the changing balance of global growth, low oil prices and geopolitical risks will determine the global economic outlook for 2016.

Eurozone

The majority of hotel markets we are analysing are based in the Eurozone and many of the visitors are from these countries. Average GDP growth in 2015 in the Eurozone was 1.5% with the peripheral economies growing faster than the core economies and this trend expected to continue in 2016.
The Greek crisis could flare up again but this should not lead to contagion to the rest of the bloc, which is why we think this year should mark the end of the wider Eurozone financial crisis. With most imbalances in peripheral economies stabilising and structural reforms underway, such as Spanish legislation on promoting corporate financing, we think that Eurozone GDP will continue to expand by around 1.6% in 2016 and 1.7% in 2017, its fastest growth rate since 2011.

As a reaction to inflation remaining below target in 2015 (0.0%) despite Quantitative Easing (QE), the European Central Bank (ECB) has extended the programme to at least March 2017 and is experimenting with negative interest rates on certain instruments (the deposit rate has been reduced from -0.2% to -0.3%).
We expect inflation in the Eurozone to grow by 0.5% in 2016 and 1.3% in 2017. Higher inflation in combination with a weaker Euro would continue to benefit tourism and the hotels market that experienced a very good year in 2015 as the Eurozone began its recovery.

A positive development has been the fall in oil prices, which we expect to remain relatively low in 2016 and 2017. The Eurozone is a major net importer of oil and this should further boost its economic recovery as consumers and businesses see their energy costs fall. The impact on the hospitality sector is more nuanced however. On the positive side, local consumers will be spending less of their household budget on energy bills, meaning they have more to spend on holidays. Furthermore, the trips themselves are cheaper as the costs of road transport have come down, and airline prices are likely to decline in the future, further boosting demand. But the fall in oil prices will have an impact on the economies of Russia and the Middle East in particular – potentially weakening inbound travel from these countries.

Non-euro countries

We also look at several non-euro countries, including Russia, Switzerland and the UK. The Russian economy suffered heavily in 2015, experiencing a fall of 3.8% in real GDP due to economic sanctions linked to Ukraine, and its dependence on oil and gas exports has made it vulnerable to falling oil prices. We expect GDP to continue to decline by 1.1% in 2016 and increase by 0.9% in 2017 as the

economy begins to recover. Similarly, inflation surged due to the depreciation of the Ruble. Inflation reached a high of 15.5% in 2015 and is forecast to increase by 7.9% in 2016 and 7.1% in 2017 respectively. Weak growth is likely to affect the hotel market in Russia, although the weak Ruble will mean more people stay in Russia.

In Switzerland, we expect the strengthened currency as a result of the removal of the cap on the Franc to continue to directly impact the tourism and hotel markets through higher prices for visitors. Therefore, the outlook continues to be less positive than previous years.

In the UK the situation remains positive. UK GDP grew by 2.2% in 2015 and we expect growth to remain broadly unchanged at around 2.2% in 2016 and 2.3% in 2017 with consumer spending and business investment being the main drivers of UK growth.

Other key markets

Many visitors to Europe come from further afield and the improving economic situation in the US should lead to increased numbers of tourists in the future. The global outlook remains mixed with continued growth in the US and good performance by India, but there are headwinds from a slowdown in China, recession in Brazil, and increased volatility in emerging markets more generally.

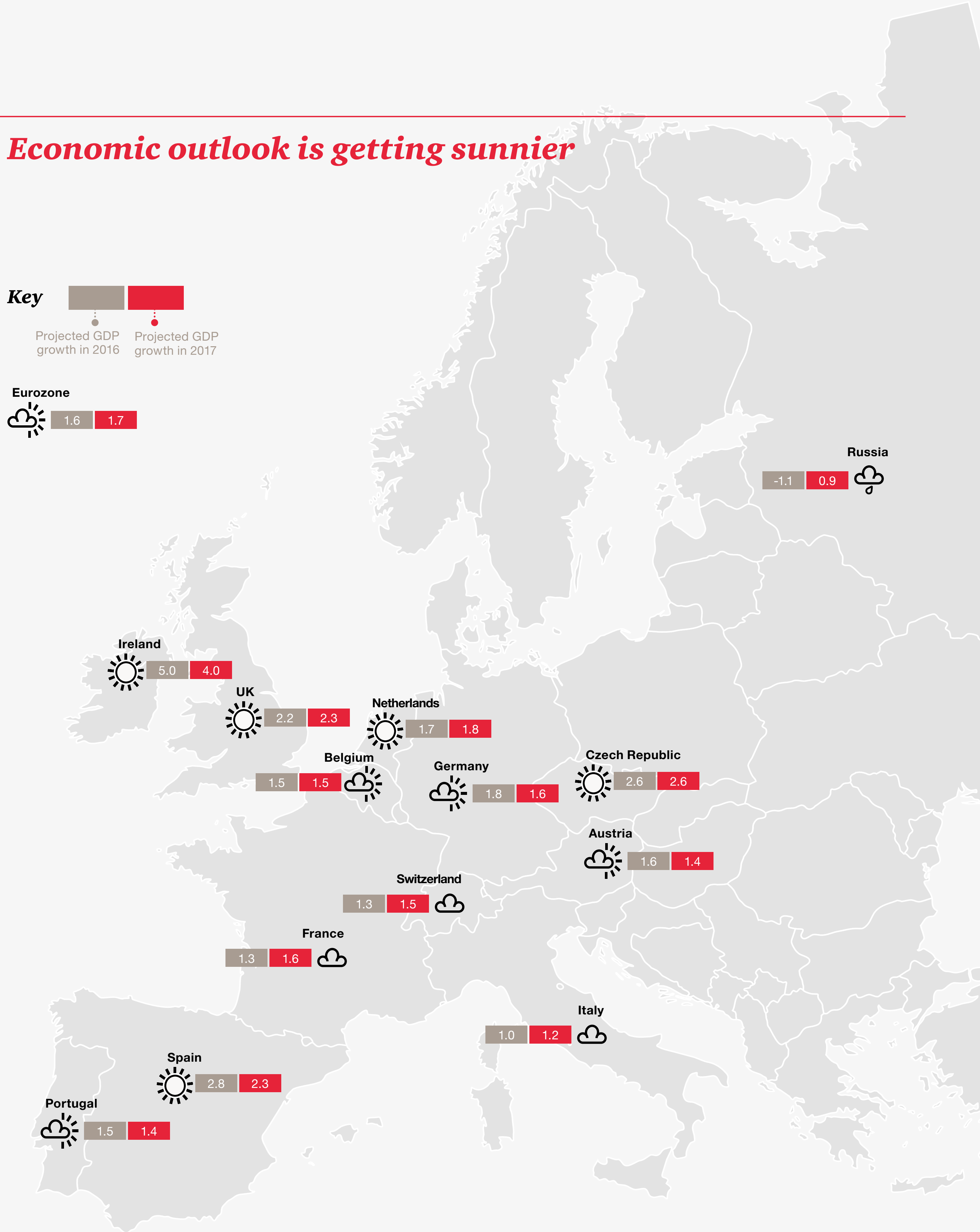
The US economy will grow by 2.3% in both 2016 and 2017, helping to sustain consumer spending growth. The US dollar remains strong which poses a risk to economies with large amount of dollar denominated debt, further pressured by the Fed's decision to raise the interest rates. Alongside this, China's slowing economy and low commodity prices are also putting many emerging economies at risk.

China's economic slowdown looks set to continue with rebalancing now under way. GDP growth is forecast to slow down to 6.5% in 2016 and 6.0% in 2017. Growth in manufacturing and exports will continue to slow gradually. However, Chinese business leaders will continue to move into higher value added areas of manufacturing. To meet this goal, we think overseas investment by Chinese companies will pick up, particularly through the acquisition of businesses involved in new technologies and R&D activities.

On a more positive note, Sub-Saharan Africa (SSA) is experiencing impressive growth with its population expected to grow by more than 25 million people in 2016, which is larger than the entire population of Australia. As a result this area is becoming increasingly attractive for business investments.

The economic outlook will also be highly dependent on how key geopolitical issues play out during the year. Three geopolitical issues will continue to dominate the news headlines. First, the migrant crisis in Europe, which has yet to be solved. Second, the response of the international community to the crisis in the Middle East.
Third, the referendum on the fate of the UK's membership of the European Union. Both UK and global economic growth remain subject to these considerable uncertainties over the next couple of years.

Economic outlook is getting sunnier



Source: PwC forecasts (February 2016), IMF World Economic Outlook 2015.

Travel outlook

Growth in the travel and hospitality sector is expected to continue to outpace the wider economy. So far European travellers have only seen modest air fare price reductions as a result of the fall in oil prices – could 2016 herald better news?

Onward and upward?

2015 marked the 6th consecutive year of above-average growth for world tourism with international arrivals increasing by 4% or more every year since the post-crisis year of 2010.

2016 is expected to prove resilient for leisure as well as business travel. At this stage in early 2016, official tourism organisations remain confident that there will be further growth in international tourism volumes into Europe and the UNWTO forecast further growth of between 3.5% and 4% in Europe in 2016.

Various events that will help attract visitors to Europe this year include the announcement by Pope Francis of a special Jubilee in Rome, lasting from December 2015 to November 2016, when 25 million visitors and pilgrims are expected to visit Rome. The 2016 UEFA European Championship takes place in France during the summer and could attract a potential three million fans to France.

In addition most cities see a variety of programme of sporting events, congresses and meetings such as GSMA Mobile World Congress in Barcelona (more than 87,000 people attended in 2015) or the Web Summit in Lisbon, all of which support visitor volumes. An event that attracts very high levels of visitors to Madrid is the Pride Parade, which is nowadays the Pride celebration's highest valued event in Europe and the second globally.

Following the recent terror attacks, the strength of the Brussel's and Paris tourism markets are in part dependent on how effective government campaigns (e.g.#CallBrussels) are in changing the perceptions of domestic and international tourists.

Business travel spending in Western Europe is expected to see growth of more than 6% this year and next. The increase is a leading indicator that economies are gathering momentum, reports the Global Business Travel Association. Germany, which represents 20% of the region's business travel, will enjoy a 9.5% increase in 2016. Spain is expected to see 7.1% growth next year, while UK business travel is predicted to grow by 6.2%.

This is not to underplay the threats that will continue to disrupt travel. A good example is the new threat to international tourism that has been raised recently, in the form of the Zika virus, now spreading fast in South America. There are fears that travel to the Olympics in Brazil's Rio de Janeiro later this year could be impacted.

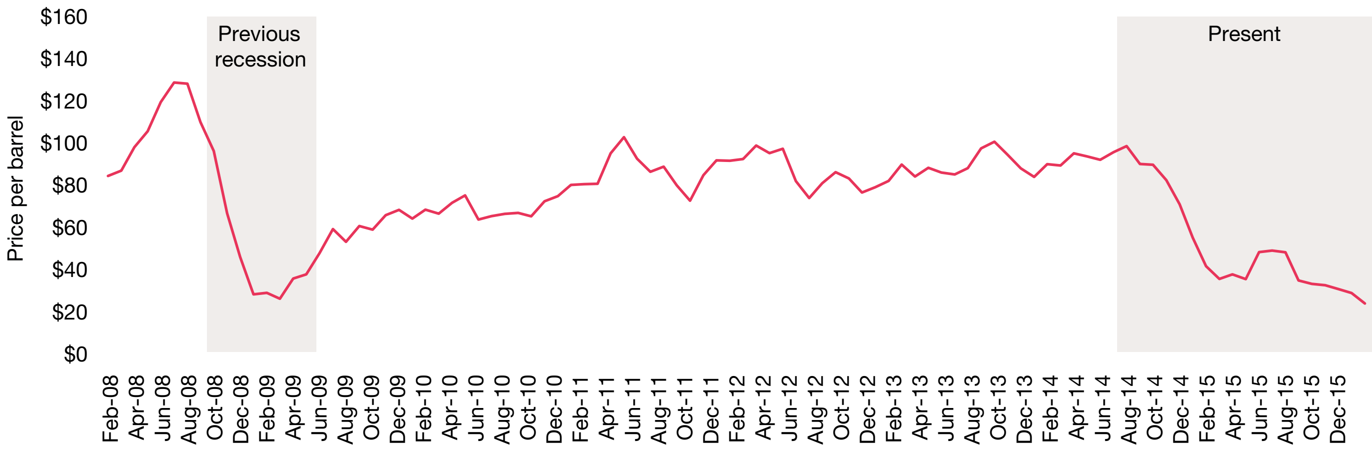
On a more positive note, could the continuing fall in oil prices provide a boost for travel in the shape of lower air fares? An article from PwC's economics and policy team examines the issues and concludes there are some grounds for optimism.

Could oil prices boost further air fare declines in 2016?

The recent fall in oil prices is one of the biggest in recent decades, matched only by the price collapses in the 1980's and in the aftermath of the 2008 global financial crisis. Following a decade of rising prices, by mid-January 2015 oil prices were around a third of their peak level in June 2014. Despite some recovery since then, prices have remained at historic lows.

Figure 1

Historic price of crude oil



Source: Oil: http://www.macrotrends.net/1369/crude-oil-price-history-chart

The drop in prices has varied effects. It is unquestionably negative for the economic performance of oil exporting nations. However, for net importers (like most EU countries) it is likely to have a positive economic effect. Consumers will spend less on transport and energy costs, giving households more to spend on other things (such as travel and leisure). In addition, heavy energy-using businesses will see a reduction in costs, boosting profits and, to the extent that these are passed on in lower prices, also boosting demand. The airline industry, which is critical for tourism and hotel demand, is one such sector, since jet fuel accounts for around a third of airlines' costs.

The price of jet fuel has fallen in line with the oil price to just over a third of its peak in mid-2014.

Moody's estimates that in 2015 airlines spent £35bn less on fuel than in 2014.

In competitive markets, we would expect to see airlines pass these savings on to customers in the form of lower air fares. Within the US, air fares fell by 15% in 2015[3], the biggest decline since data was first published in 1987. Globally however, the story is more muted. In 2015, air ticket prices on average fell by around 5% (adjusted for exchange rate changes)[4]. Within the EU, prices for air passenger transport were just 4% lower in December 2015 compared to 2014.[5]

So, European consumers appear to be getting a raw deal in comparison to their US counterparts. We can think of three main reasons why consumers have seen only modest price reductions to date.

Firstly, the ability of airlines to reduce passenger fares is not as straightforward as simply considering the current market price of jet fuel or oil.

Airlines prefer certainty in order to manage their costs so the majority hedge by forward buying their 2015 fuel at a price well above recent market rates. Although this seems an expensive policy in the current environment, equally the airlines benefited from hedges whilst prices were rising.

Secondly, fuel charges are not the only component of air fares. Beyond the basic fare, the cost of a ticket also comprises various taxes, fees and other airline costs such as wages. Therefore, a 60% fall in the price of jet fuel will not translate to an equivalent reduction in air fares while airlines' other costs remain constant.

Notes

3 US Department of Labor's Bureau of Labor Statistics, http://www.bls.gov/opub/ted/2016/import-and-export-air-passenger-fares-decrease-in-2015.htm)

4 IATA, https://www.iata.org/pressroom/pr/Pages/2015-12-03-01.aspx

5 Eurostat, http://ec.europa.eu/eurostat/data/database

This calculation is made more complex by the fact that many airlines still retain some form of 'fuel surcharge', an additional fee originally imposed during a period when hedging was insufficient to offset increasingly higher costs. As a result, it is difficult to predict the precise impact that lower fuel prices will have on air fares.

Thirdly, the fuel savings for non-US carriers have been offset by the dramatic appreciation of the dollar since mid-2014 (since jet fuel is priced in dollars). As a result, the impact of lower fuel costs on airlines' profitability, and therefore their ability to pass savings on to travellers, is more modest than the fall in fuel prices suggest.

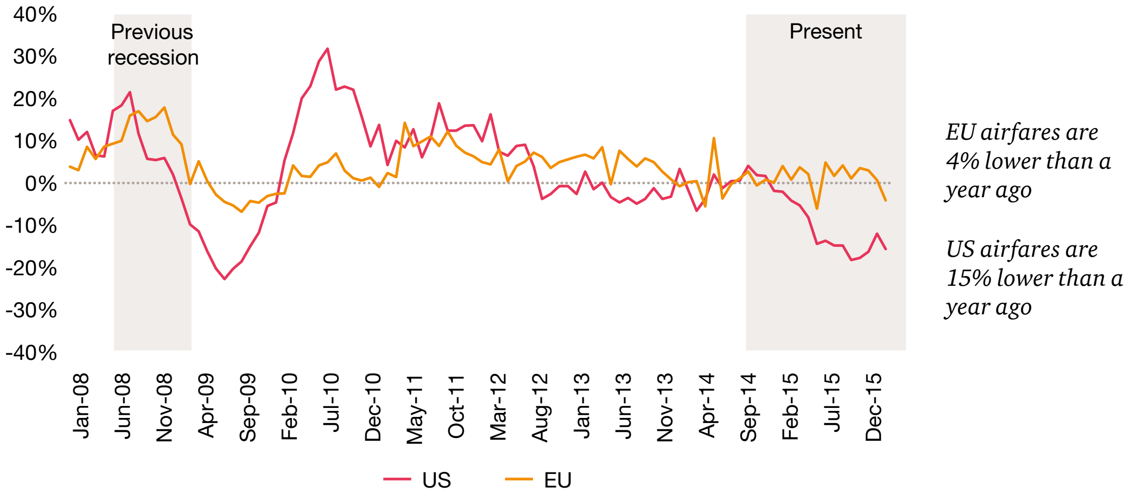
So does this mean EU consumers should expect to see further falls in ticket prices next year? IATA has suggested that the final hedges locking airlines into higher prices will unwind by mid-2016, which could provide an opportunity for more airlines to pass on greater savings than those seen to date.

The behaviour of airlines during the last big fall in oil prices may also be informative. During the financial crisis, the price of oil fell by around 70% from its June 2008 peak, but it was a year before the price of air fares (year on year) fell in the EU, and when they did the 70% fall in oil prices only translated to a 6.5% fall in EU air fares (see Figure 2).

This suggests that there may not be much more price reductions to come for the EU's consumers. However, as Figure 1 shows, in 2009 prices only remained at $40 for three months and quickly bounced back to $70 in the summer. This time oil has remained at around or below the $40 mark for over a year – giving room for optimism that consumers can expect further falls in air fares in 2016.

Figure 2

Annual rate of change for air passenger fares – EU vs US



Source:
US: http://www.bls.gov/opub/ted/2016/import-and-export-air-passenger-fares-decrease-in-2015.htm (Export air passenger fares)
EU: http://ec.europa.eu/eurostat/data/database (HICP, EU 28 passenger transport by air)

Supply outlook

Across Europe demand continues to outstrip new supply growth, and this is helping hotel performance. 2016 sees the pace of supply growth pick up a bit. Overall, European cities with the largest pipelines include London, Istanbul, Moscow and Berlin. City authorities have moved to encourage quality rather than quantity in Amsterdam and Barcelona, while Dublin wants more new rooms.

Demand still outweighs supply

In 2015 demand for rooms (rooms sold) increased by around 3.1% while supply growth (rooms available) saw only a 0.8% gain.

But the growth pace is picking up

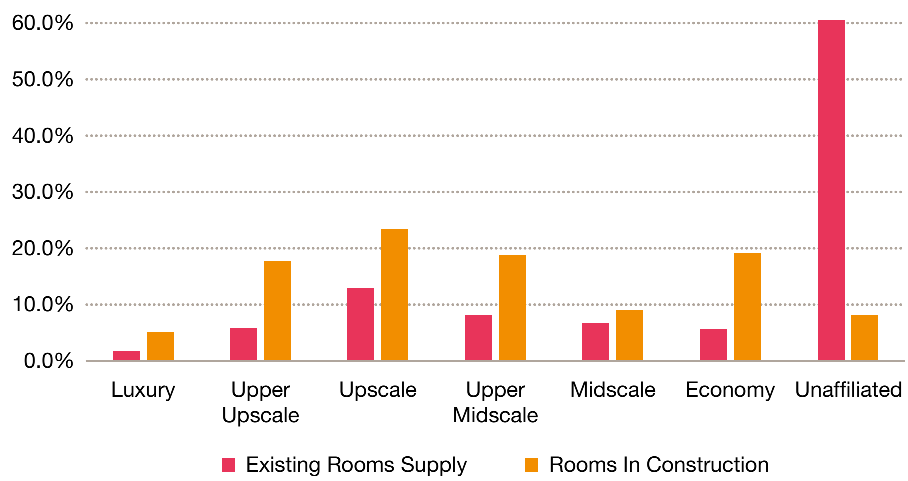
STR Global's pipeline data for Quarter 4 2015 suggests a sharp jump in the number of European pipeline rooms and projects, with the number of rooms at the planning stage the highest for 12 quarters. According to STR Global, as at January 2016, there are 1,152 hotels totalling 167,251 rooms in the European pipeline (this includes projects in the Construction, Final Planning and Planning stages). This represents a 15.8% increase in pipeline rooms compared with January 2015 and a 6.3% year-over-year increase in rooms actually under construction. Overall, in January, Europe reported 62,205 rooms in 460 hotels under construction.

Germany and the select service segment are attracting attention

The chart opposite shows Europe's room supply by segment and by number of rooms under construction. While the upscale segment leads the pipeline overall, economy rooms comprise only 5.6% of all supply but 19% of rooms under construction.

The German pipeline is building strongly. Figures from Tophotelprojects suggest the German market has seen 120 new hotels open in 2015, and 193 are scheduled to open in 2016, adding 23,300 rooms to the market.

European chain scales: % of total room supply and rooms under construction



Source: STR Global

Currently, the German market sees a clear trend towards larger branded hotels being built, while smaller independents slip out of the market, according to the Hotel Analyst journal.

With Germany representing around 20% of Western Europe's business travel activity, and with this figure forecast to grow further in 2016, it's no wonder Germany is becoming one of Europe's most attractive investment markets. Combine this with growing interest in the self select /limited service segment and it's clear why international groups are developing there. For example, Hilton is planning to launch in Germany; Motel One is expanding fast, Whitbread is about to launch Premier Inn and IHG is working on growth of its Holiday Inn Express flag in Germany.

Top 10 brands account for almost 71,000 pipeline rooms

The 10 brands with the largest European room pipelines include Hampton Inn (10,500 rooms), ibis, ibis styles, Hilton Garden Inn, Holiday Inn and Holiday Inn Express, Premier Inn, ibis budget, MOXY and Novotel (as at end December 2015).

Competition from alternative accommodation is also growing

Most of the cities in this report are seeing pressure from more serviced apartments, Airbnb and similar shared space models. These rooms are popular with travellers for weekend leisure business as well as around large events. Increasingly business travellers are expected to become more frequent user of shared models.

The right kind of growth: quality not quantity?

Overall, European cities with the largest pipelines include London, Istanbul, Moscow and Berlin.

Some cities, such as Dublin, report a continued shortage of hotel rooms which could constrain growth by limiting visitor volumes. Others such as Amsterdam are concerned about influencing the diversity and quality of new development, rather than the quantity of new rooms. Barcelona has introduced a moratorium on new development which has also impacted some projects already underway and there are concerns about further plans that could 'reduce' rooms in certain neighbourhoods. In contrast. London expects to see above average new supply additions in 2016, double the number of rooms that opened in 2015.

Staying power: spotlight on prospects for 2016 and 2017

We expect trading fundamentals to continue to improve across virtually all the cities in 2016 and 2017, but after an exceptional 2015, the growth (for most) will be weaker than 2015. Most will still see a continued increase in ADR particularly.

In 2016 Rome takes pole position in forecast RevPAR growth, with the Jubilee or Holy Year set to attract huge numbers of pilgrims. Next is Dublin, Prague, Madrid and Lisbon. In 2017, Dublin takes up the baton, followed by Lisbon and Porto as Barcelona and Prague make up the top five

Further growth on top of a record 2015

The good news is that the robust travel backdrop in Europe is expected to continue to drive hotel trading in 2016 and 2017. After an exceptional 2015, with double digit RevPAR growth in eight of the cities surveyed, we anticipated more moderate growth this year. See table opposite and the RevPAR weather map.

All the cities, except two, are expected to achieve some growth in both years. And for most it's more growth on top of a record year in 2015.

Despite the terrorist attacks, both Brussels and Paris have relatively stable tourism sectors and we expect a recovery back to average trends by 2017.

The expected draw of the Roman Jubilee propels Rome into a considerable lead this year (but then creates difficult comparatives for 2017). At the other end of the table, another Italian city, Milan, saw a large boost in 2015 from EXPO 15, and as a consequence sees a very negative comparative this year.

The results are impressive because many of the cities are mature gateway cities, and global leaders in trading performance. The growth also reflects the continued search for safer and good value destinations, as turmoil in North Africa continues. Nowhere is immune from the impact of the geopolitical crisis and Paris suffered from two terrorist attacks in 2015.

Growth also reflects continued economic recovery, and the changing face of Europe, as innovation attracts investment, for instance, technology hotspot Lisbon attracted the significant Web Summit away from Dublin.

2016 forecasts

The cities best placed to take advantage of circumstances in 2016 include Rome which leads the pack by a wide margin, followed by Dublin which is forecast to see another outstanding year as strong demand and little new supply means room rates continue to boost trading.

Prague, Madrid, and Lisbon saw abundant growth in 2015 and could see around a further 6% growth this year. Porto saw 20% growth in 2015 and may enjoy more modest 4.5% growth in 2016. Moscow has successfully flipped demand to domestic and Asian tours and is forecast to see around 4.0% growth.

A little further down the growth chart sees six cities expected to experience RevPAR growth of between about 2% and 3%+, including Barcelona, Berlin, Amsterdam, Edinburgh, Frankfurt, London and Vienna. Zurich should also see a little growth. But at the other end of the scale, Paris and Brussels have seen demand damaged by the recent terrorist attacks. Geneva remains handicapped by the Swiss franc appreciation which has put pressure on Geneva's hotel market, which largely relies on more price sensitive leisure tourists.

2017 forecasts

We expect more growth for most cities in 2017. The most positive RevPAR stories are Dublin, Lisbon, Porto, and Barcelona. In addition, Milan, Moscow and Madrid also see good growth. Geneva is expected to see further marginal decline and following the Jubilee, it's Rome's turn to suffer from difficult comparatives. Both Brussels and Paris have relatively stable tourism sectors and we expect a recovery back to average trends.

What's driving growth?

It's mainly a mixture of ADR growth but for some it's a mix of occupancy as well e.g. Moscow, Porto and Prague.
For some it's solely occupancy e.g. Geneva. For Rome 2016 should see very high occupancy and ADR growth. In many top performing cities like London, Dublin, Edinburgh or Amsterdam which operate at high occupancy levels, it's ADR driving the most growth.

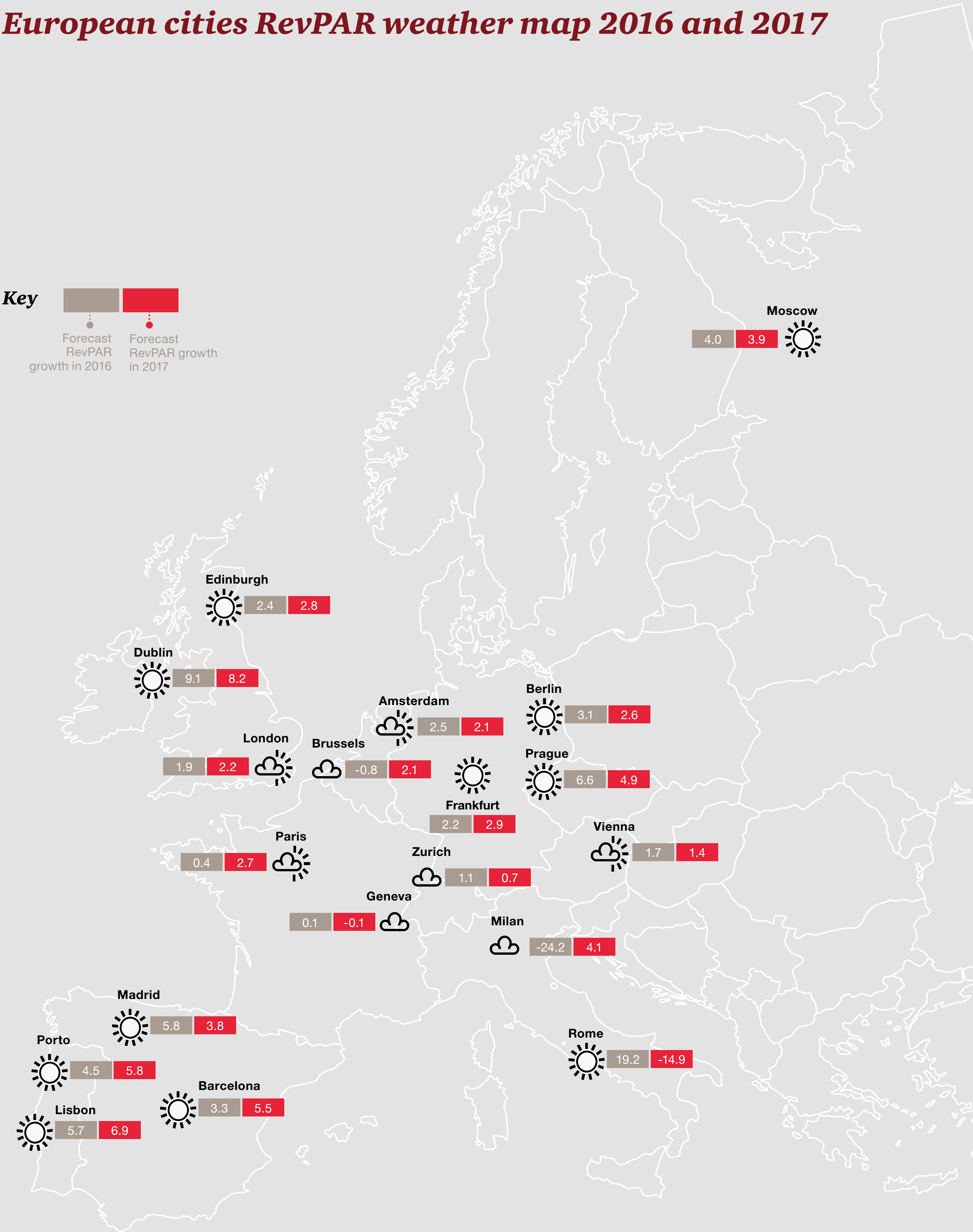
The strongest ADR growth in 2016 and 2017 is found in Dublin (around 8.8% and 8.1 % in 2016 and 2017 respectively). Lisbon (4.2% and 4.7% in 2016 and 2017) Rome is also expected to see robust gains in 2016 (5.3%), as is Madrid (4.7% in 2016) and Barcelona and Prague also sees some healthy ADR growth each year.

RevPAR (local currency) growth tables

2016	2016 RevPAR	2017	2017 RevPAR
Rome	19.2%	Dublin	8.2%
Dublin	9.1%	Lisbon	6.9%
Prague	6.6%	Porto	5.8%
Madrid	5.8%	Barcelona	5.5%
Lisbon	5.7%	Prague	4.9%
Porto	4.5%	Milan	4.1%
Moscow	4.0%	Moscow	3.9%
Barcelona	3.3%	Madrid	3.8%
Berlin	3.1%	Frankfurt	2.9%
Amsterdam	2.5%	Edinburgh	2.8%
Edinburgh	2.4%	Paris	2.7%
Frankfurt	2.2%	Berlin	2.6%
London	1.9%	London	2.2%
Vienna	1.7%	Brussels	2.1%
Zuich	1.1%	Amsterdam	2.1%
Paris	0.4%	Vienna	1.4%
Geneva	0.1%	Zurich	0.7%
Brussels	-0.8%	Geneva	-0.1%
Milan	-24.2%	Rome	-14.9%

Source: Econometric forecast PwC 2016
Benchmarking data: STR Global 2016

European cities RevPAR weather map 2016 and 2017



Source: PwC Econometric forecast 2016

Which cities will be the most expensive, the fullest and will have the highest RevPAR?

PwC's research and forecasts show that growth remains the dominant theme in 2016 and 2017 - albeit weaker than in 2015.

Hoteliers we speak to corroborate this and are increasingly confident that 2016 will see trading improve further, although many voice concerns around the stormy economic and geopolitical backdrop, local supply issues and pressure from shared apartments and accommodation models such as AirBnb.

Of course it's not just about growth rates and the absolute levels of trading are also a key piece of the jigsaw. Each city has its own supply and demand characteristics and could be at a different stage on the hotel cycle. All these factors and more need to be taken into consideration in any comparisons.

The highest occupancies

In 2016, the highest occupancies are forecast to be in three cities, London (despite high supply additions and only a marginal increase forecast), Dublin (with little new supply opening) and Edinburgh (with a high pipeline). Amsterdam and Rome (up from 17 last year to 5th position in 2016) are not far off. Berlin, Paris and Prague follow.

The charts on the next page show these are not quite the same results as in 2015. For example, Paris has slipped but is expected to move back up again in 2017 as trading recovers from the impact of terrorist attacks. Absolute occupancy levels have crept upwards for many cities. Frankfurt could break through the 70% occupancy threshold in 2017. Higher occupancies reflect a structural shift towards more branded budget hotels in some countries as well as access to online distribution channels combined with greater propensity to travel.

The highest ADRs (€)

In 2016 the most expensive city in the survey is Paris which has dislodged Geneva to second place. Next, Zurich, followed by London, Rome, Amsterdam, Barcelona and Frankfurt which has seen strong growth.

In 2017, most cities, except Geneva and Zurich, see further ADR growth, albeit quite marginal for Brussels or Moscow. Zurich's forecast ADR growth is 0.5% but the level in euros is lower than 2016 due to exchange rate assumptions. In CHF terms, from CHF 239.8 in 2016, it goes up to CHF 241 in 2017.

In 2017 all the top rankings remain the same as 2016 but there are some changes further down as the chart shows with Dublin and Lisbon moving up the chart and Berlin and Edinburgh moving down.

There is a huge disparity, in euro terms, between those at the top and the bottom of the chart.

The highest RevPARs (€)

In 2016 Paris is still expected to keep its top position, despite only marginal ADR and occupancy gains. Geneva also stays put in second place in 2016, despite a rates fall and in 2017 London beats it to second place. In 2016 Rome moves to 5th place with a gain of just under €20.

Occupancy rankings

London is the fullest in 2016 and 2017

2015	*2016 (F)*	*2017 (F)*	*Rank*
London (82.1%)	London (82.9%)	London (83.5%)	1
Dublin (82.1%)	Dublin (82.3%)	Edinburgh (82.5%)	2
Edinburgh (81.4%)	Edinburgh (81.8%)	Dublin (82.4%)	3
Amsterdam (78.1%)	Amsterdam (78.4%)	Amsterdam (78.2%)	4
Paris (76.4%)	Rome (77.8%)	Paris (77.8%)	5
Berlin (76.4%)	Berlin (77.1%)	Berlin (77.5%)	6
Barcelona (75.3%)	Paris (76.6%)	Prague (77.2%)	7
Prague (75%)	Prague (76.5%)	Barcelona (76.3%)	8
Lisbon (73.5%)	Barcelona (75.4%)	Lisbon (76.2%)	9
Zurich (73.4%)	Lisbon (74.6%)	Vienna (73.6%)	10
Vienna (72.6%)	Zurich (73.3%)	Zurich (73.5%)	11
Porto (71%)	Vienna (73.3%)	Porto (73.5%)	12
Brussels (69.8%)	Porto (72.4%)	Brussels (71.2%)	13
Frankfurt (69.8%)	Brussels (70.3%)	Madrid (70.8%)	14
Milan (69.3%)	Frankfurt (69.9%)	Frankfurt (70.5%)	15
Madrid (69%)	Madrid (69.8%)	Geneva (69.5%)	16
Rome (68.4%)	Geneva (68.8%)	Rome (68%)	17
Geneva (67.6%)	Milan (64.4%)	Moscow (65%)	18
Moscow (61%)	Moscow (63.1%)	Milan (64.5%)	19

Source: Econometric forecast PwC 2016
Benchmarking data: STR Global

ADR (Euros) rankings

Paris tops the chart as Geneva slips a notch

2015	*2016 (F)*	*2017 (F)*	*Rank*
Geneva (€252.5)	Paris (€252.5)	Paris (€255.3)	1
Paris (€252.1)	Geneva (€246.8)	Geneva (€234.2)	2
Zurich (€218)	Zurich (€219.2)	Zurich (€211.4)	3
London (€194.4)	London (€202.2)	London (€202.2)	4
Milan (€151.9)	Rome (€156.5)	Rome (€153)	5
Rome (€148.5)	Amsterdam (€133.9)	Amsterdam (€137.1)	6
Amsterdam (€131.2)	Barcelona (€129.1)	Barcelona (€134.7)	7
Frankfurt (€125.9)	Frankfurt (€128.4)	Frankfurt (€131.1)	8
Barcelona (€125.1)	Milan (€125.9)	Milan (€130.9)	9
Edinburgh (€116.6)	Edinburgh (€122.5)	Dublin (€130.6)	10
Dublin (€111.1)	Dublin (€120.9)	Edinburgh (€123)	11
Brussels (€108.8)	Brussels (€107.2)	Brussels (€108.2)	12
Vienna (€99.6)	Vienna (€100.4)	Vienna (€101.4)	13
Berlin (€93.3)	Madrid (€97.4)	Madrid (€99.7)	14
Madrid (€93)	Berlin (€95.4)	Lisbon (€99)	15
Lisbon (€90.7)	Lisbon (€94.6)	Berlin (€97.4)	16
Prague (€78.2)	Prague (€81.8)	Prague (€85)	17
Porto (€71.4)	Porto (€73.2)	Porto (€76.3)	18
Moscow (€68)	Moscow (€70.1)	Moscow (€70.4)	19

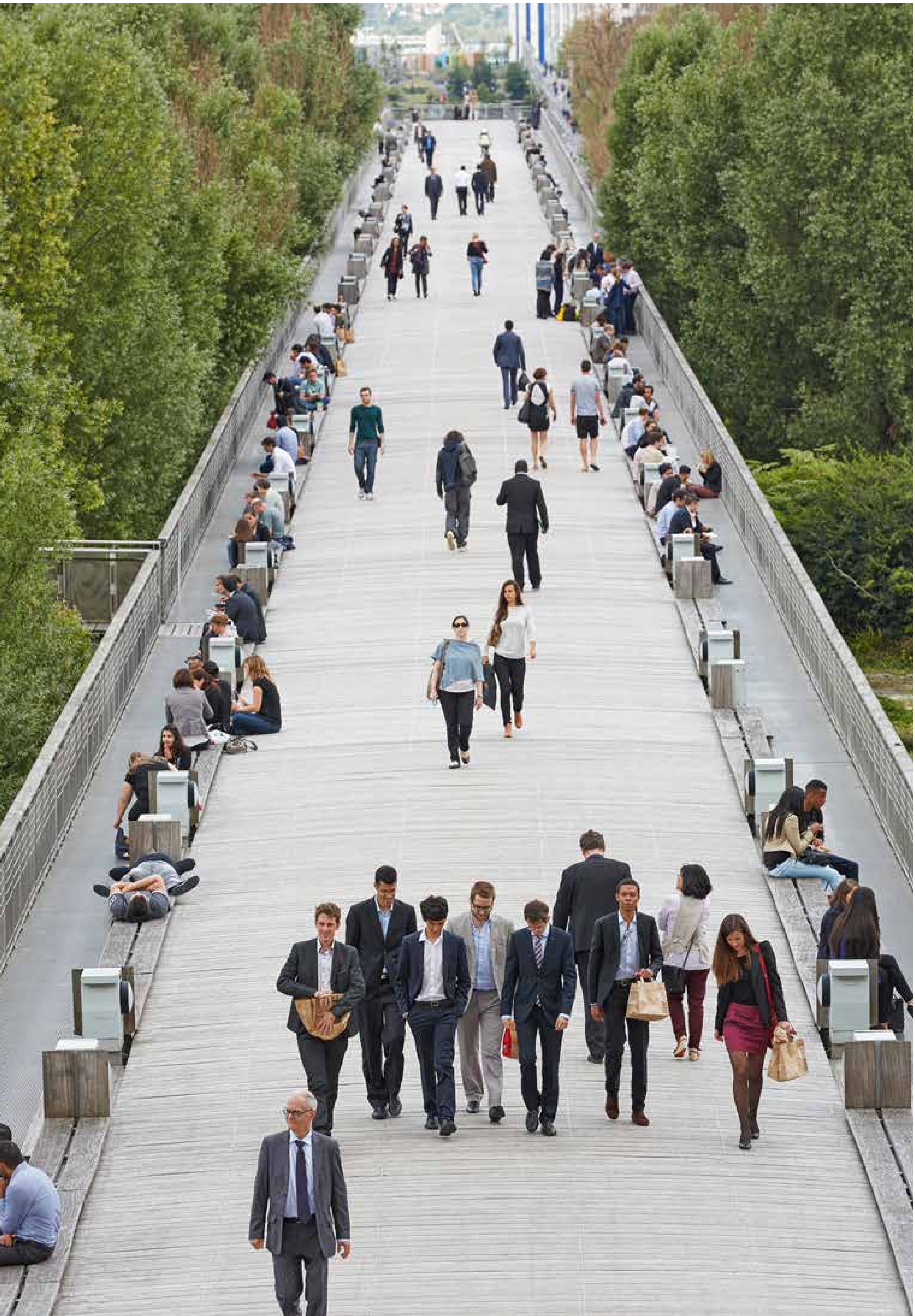
Source: Econometric forecast PwC 2016
Benchmarking data: STR Global

RevPAR (Euros) rankings

Paris keeps its crown as London heads upwards

2015	2016 (F)	2017 (F)	Rank
Paris (€192.6)	Paris (€193.4)	Paris (€198.6)	1
Geneva (€170.8)	Geneva (€169.8)	London (€168.7)	2
Zurich (€160)	London (€167.5)	Geneva (€162.8)	3
London (€159.6)	Zurich (€160.8)	Zurich (€155.4)	4
Milan (€105.3)	Rome (€121)	Dublin (€107.6)	5
Amsterdam (€102.5)	Amsterdam (€105)	Amsterdam (€107.2)	6
Rome (€101.6)	Edinburgh (€100.2)	Rome (€103.1)	7
Edinburgh (€95)	Dublin (€99.5)	Barcelona (€102.7)	8
Barcelona (€94.3)	Barcelona (€97.4)	Edinburgh (€101.5)	9
Dublin (€91.2)	Frankfurt (€89.8)	Frankfurt (€92.4)	10
Frankfurt (€87.8)	Milan (€79.8)	Milan (€83.1)	11
Brussels (€76)	Brussels (€75.4)	Brussels (€77)	12
Vienna (€72.3)	Vienna (€73.5)	Berlin (€75.4)	13
Berlin (€71.2)	Berlin (€73.5)	Lisbon (€75.3)	14
Lisbon (€66.7)	Lisbon (€70.5)	Vienna (€74.6)	15
Madrid (€64.2)	Madrid (€67.9)	Madrid (€70.5)	16
Prague (€58.7)	Prague (€62.5)	Prague (€65.6)	17
Porto (€50.6)	Porto (€52.9)	Porto (€56)	18
Moscow (€41.5)	Moscow (€44.2)	Moscow (€45.8)	19

Source: Econometric forecast PwC 2016
Benchmarking data: STR Global



Risk and cyber security

Do you know the risks you are taking? What should you do about cyber security, data theft and privacy? What does the Modern Slavery Act mean for businesses?

Do you know the risks you are taking?

There has always been an explicit driver for risk management but responding to risks in today's complex and changing market requires a new focus.

According to, PwC's 19th Annual Global CEO Survey (January 2016), 92% of CEOs within the Hospitality and Leisure industry are currently looking to change the way in which they define and manage risks.

We are seeing five key trends in the market, which include the following:

A changed risk landscape bringing increased risk for all businesses

A step change in the boards focus on risk, but still battling with how to get it to add value in practice

Increased emphasis on risk management as a critical component of value protection and enhancement

Investors seeking more meaningful reporting on changing risk exposures

Global regulators raising the bar on risk management expectations e.g. New UK Corporate Governance Code 2014

All businesses must take risk!

Successful risk taking, comes from understanding the exposure and implementing effective mitigation strategies. Key questions for Boards to consider include:

Have we identified and fully assessed all of our principle and emerging risks?

What does a robust system of risk management look like and how do we compare with our peers?

How will we disclose principle risks to investors and wider stakeholders in a more meaningful way?

Four of the most significant risks we currently see facing the hotels sector facing the hotel sector are 'Big data', modern slavery, cyber security and data privacy.

'Big data'

Hotel business models are being challenged by the emergence of well-established as well as new online entrants, disrupting the traditional patterns of planning and reservations. Data is a key resource for responding to threats and making the most of the opportunities. In particular, the ability to analyse the vast amount of information that hotels have access to about their customers, can be used to improve business decision-making as well as customer experience. However, hotels often lack the right customer data, in the right format, with the ability to analyse it. Even where data does exist, the systems required to enable effective analysis are not available.

The answer to these challenges starts with a better understanding of the data required to optimise business decisions and performance:

- What are the performance KPIs or aspects of experience that data and analysis can best support?
- Do we have this information, and if so, where, and how is it captured and stored?
- Is it of sufficient quality?

Modern slavery

Corporate Social Responsibility (CSR) is increasingly used to achieve competitive advantage with many organisations choosing to report voluntarily, providing insight, ensuring transparency and demonstrating how they operate ethically and sustainably. As new legislation is introduced, such as the Modern Slavery Act, businesses are likely to be subjected to increased scrutiny by their stakeholders. Management must confirm that slavery and human trafficking is not taking place in their operations and their supply chain or else they risk reputational damage or civil proceedings in the High Court.

All obligated businesses need to publish a 'slavery and human trafficking' statement which includes:

- The steps taken to ensure that slavery and human trafficking is not taking place in your operations; or
- That you have taken no such steps – whilst this will fulfil your regulatory requirement, it introduces additional reputational risk – we do not expect many companies to take.

Spotlight on cyber

Cyber Security and Data Privacy risks in the hotel sector

1. Awareness levels around cyber security and data privacy issues are rising rapidly
2. Hotels are already in the spotlight due to high profile breaches
3. Trust, confidence, brand and reputation are put at risk
4. The legal risks are significant
5. Hotels need a Vision for security and privacy

How often do you read or hear news stories about cyber security and data privacy issues? Is it something that you pick up on once or twice a month, or maybe more frequently?

1 Awareness levels about cyber security and data privacy issues are rising

The simple truth is that cyber security and data privacy problems can be big news and newsworthiness drives awareness levels. The public, law makers, regulators and judges are all sighted on the risks. These people provide “adverse scrutiny” to entities when things go wrong and they are fully aware of the fact that some of the world’s biggest, richest and more powerful entities have been humbled by poor approaches to security and privacy.

Awareness levels are only going one way and we are rapidly approaching a tipping point, when entities realise that they have no choice: they have to do much more to tackle the security and cyber risks they face and to live up to the expectations that society places in them. If the full roll call of entities that have been humbled in the news is considered, the conclusion seems to be obvious: security and privacy issues are not being accorded the priority they deserve.

2 Hotels are already in the spotlight due to high profile breaches

2015 was a really bad year for the hotel industry. It emerged to prominence as a massive risk area, due to a series of high profile breaches affecting payment cards. Just before Christmas 2015 the Federal Trade Commission in the United States concluded long running proceedings against a hotel. This case has established a need for the development of comprehensive information security programmes, annual security audit cycles and post-incident investigations in the hotel sector. Looking at this from the customer’s side, security experts are now advising travellers to be on heightened alert when using hotels. Hotels have been propelled to the forefront of the mind and it is inevitable that this will play out in further legal and regulatory problems over time.

3 Trust, confidence and brand put at risk

Legal and regulatory problems bring their own special range of issues. Locking horns with regulators, litigants and judges is the last thing that business needs. Judicial and Regulator design of business models has to be avoided at all costs. In landmark EU litigation in 2014, the way global web search operates in Europe was re-designed by the European Court of Justice, in a case that has delivered into law the so-called “right to be forgotten”. The security of mobile phone operating systems has just been re-designed by a District Court in Los Angeles, massively inflaming the passions of the technology sector and security experts alike.

But legal and regulatory problems are just one arc of the consequences of bad security and privacy. Businesses need to think about trust, confidence and brand health and reputation.
These points are commonly understood, but some business people point to share prices, saying that prices don’t dip much, or for long, after big security and privacy problems. That may be the case at the moment, but the absence of share price volatility does not mean that value is not being eroded. Moreover, if share prices do not dip, that points to another problem, namely defects in market behaviour. That is a dangerous place to go, because the classic response to market imperfection is the expansion of regulation: regulation is seen as the antidote to market imperfection. Businesses that trumpet the share price issue, merely bring-on the risk of more red tape and bureaucracy, as well as serious penalties and sanctions risk.

Trust, confidence and brand health may operate in a different timeframe to share prices. The absence of share price volatility does not mean that trust, confidence and brand health are not being eroded. If that is true, then the logic points, perhaps, to a convergence in the future of value erosion. Entities that are damaging their trust, confidence and brand health today may pay in share price in the future. In other words, suffering security and privacy failure might be like a cancer, where the harm is hidden from view until it is too late. This returns the focus to legal risk.

4 The legal risks are significant

The EU will soon adopt the General Data Protection Regulation (GDPR). This is a landmark piece of legislation that will radically change our perceptions on how personal data should be handled in business. The GDPR will also have global effect. This is not just law-making for the inside of Europe’s borders.

The purpose of the GDPR is to put people back in control of their personal information and to improve how entities look after personal information while it is in their custody.

This reminds us that entities do not have rights of ownership over personal information. They are simply acting on licence. People are the owners of information about themselves.
Part of the rights of ownership is the right to privacy. One of the principles of privacy, is that information shall be secured from events that affect privacy. Hence, in a narrow sense the GDPR is legislation for privacy and security. In an expansive sense, it is legislation for transparency and quality in the handling of personal information. This means that entities have to tell people what they are doing with their data, which includes coming clean if there is a breach of security.

This law is being adopted because the EU lawmakers have lost trust and confidence in the ability of entities to handle personal information properly. They see the constant and repeated failures of privacy and security as being symptomatic of a failed market, which can only be cured through tough regulation. The toughness is represented by the powers that the regulators will get to intervene and re-design business models and to impose financial penalties and the rights that people will gain to recover compensation if they are upset by the way their information is being handled. The financial penalty power will enable the regulators to impose fines on entities of up to 4% of group annual worldwide turnover. Modest compensation for low level distress will probably be no less than £1,000 per person, with no upper cap. If the litigation risk is modelled by reference to some of world's largest data breach cases (those affecting personal data), which have exceeded 100 million people on a number of occasions, the financial exposure is £1e+11 (100 million people affected x £1,000 per person), i.e., too big for the calculator app on an iPhone to present in digits. What we are talking about is a potentially ruinous legal risk for big businesses operating in Europe. Surely when the penny drops, we will see share price volatility.

When looking at legal risk, businesses should not forget the evidential value to lawyers of past wrongful behaviour. A serious historical privacy or security breach in one country may be legally significant at some point in the future in another country. If your point of view is that a US Federal Trade Commission fine of $20m is loose change for a big multi-national and therefore non-significant, which is a view that some business people hold, perhaps your point of view may change when you appreciate that the historical failure may be sufficiently relevant enough to help fix you with £1e+11 financial exposure in Europe at some point in the future. For good and bad, security and privacy is built on a web of interdependencies and one of them is the foreseeability of harm in a legal sense that follows from past failures. Therefore, when judging legal risk, entities would be wise to reflect on the fact that there is now global legal connectivity as far as failure events are concerned.

5 Hotels need a Vision for security and privacy

There is much more to security and privacy than compliance and risk. There is also the economic interest in gaining commercial advantages from the use of personal data. Gaining better customer insights and providing them with personalised services are now recognised by many in the hotel industry as core business goals.

In order to properly bring together the interests of economic advantage, risk management and compliance with legal obligations, entities need to develop an appropriate Vision for their desired end state.

That Vision will take account of the entity's "special characteristics" and the points of view of all necessary stakeholders. Once a Vision has been set, a strategy to deliver the Vision can be developed and appropriate structures can be put in place.

When the lessons of failure are examined (failure of data handling projects, such as Single Customer View systems, and failure in the sense of security and privacy breaches), it becomes obvious that the absence of an appropriate Vision is at root cause. People responsible for security and privacy in hotels ought to ask themselves whether their entities have appropriate Visions for desired end states. If not, they should bring together the stakeholders to discuss ways to take things forward.

Deal talk

European hotel deal activity peaked in 2015 at nearly €21bn with a 28% increase in transaction volume year-on-year. The UK accounted for c.60% of the total transaction volume in 2015. Outside of the UK, prime markets continued to show investor demand including Germany and Spain. We forecast continued activity in 2016, albeit at slightly more subdued levels.

Overview

European hotel deal activity peaked in 2015 to the highest level recorded at €20.8bn, a 28% increase in transaction volume year-on-year.

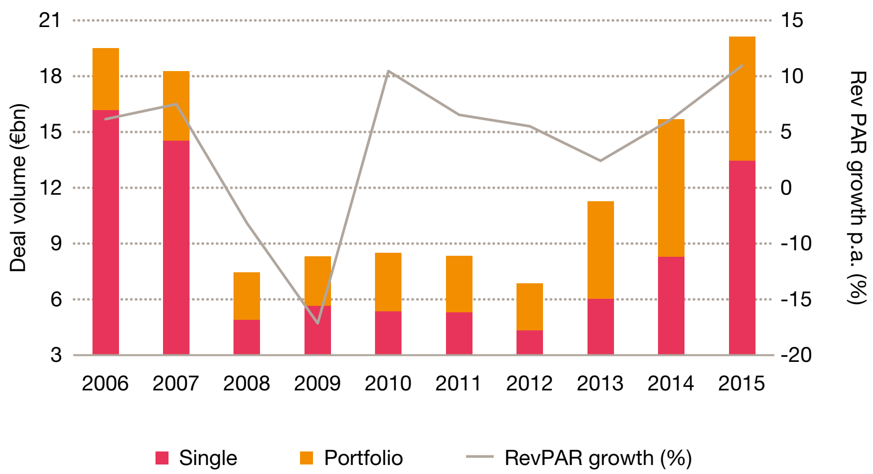
The significant increase in transactions is a result of continued improvement in trading fundamentals, the availability of debt and the hotel sector becoming a more mainstream investment attracting a wider pool of investors.

The correlation between positive RevPAR growth and deal volume continues, with RevPAR growing +10.5% in 2015 as deal volume reached record levels at c.€20.8bn.

Where is the investment?

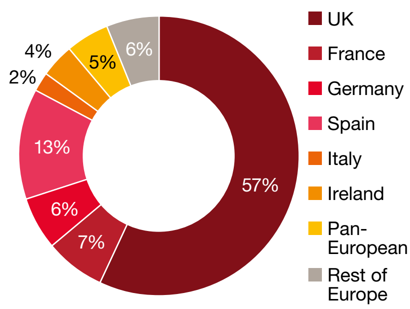
Overall, UK transactions accounted for c.60% of total European transactions, as UK hotel trading fundamentals continue to show good growth and London is seen as a safe haven by many international investors. However, many European markets (e.g. Spain and the Balearics) have seen a significant increase in investment as investors are willing to take on greater risk profiles in return for potential trading growth and capital appreciation.

European hotel deal volume (€bn)

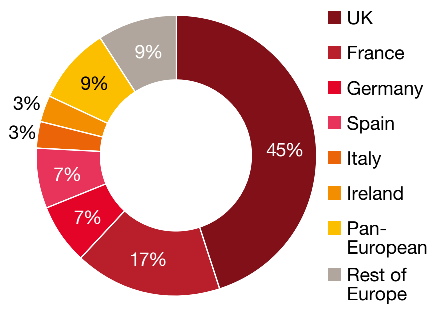


Source: PwC Analysis, Hotel Analyst, AM:PM, HVS, RCA. Dealogic, STR Global

2015 total transaction value (€)



2014 total transaction value (€)



2015 investment summary

2015 summary

The 2015 single asset transaction market was UK-dominant, with a lower total value in 2015 due to the limited supply of trophy assets compared to 2014, which saw a number of major Paris assets transact.

Portfolio transactions account for c.64% of overall transactions in 2015, with the UK portfolio market being the most active (70% of total portfolio transactions).

The second half of 2015 saw an increase in European portfolio activity including the Hilton hotel portfolio, the BAY REIT creation by Hispania and Barcélo, and the sale and leaseback of Leonardo Hotels in Germany.

Investor trends

Middle East and Asian activity in the hotel investment market has continued in 2015, with demand for trophy assets in traditional core markets such as London and Paris, however with limited supply these investors are looking to other prime European cities including Madrid, Milan and Rome.

North American Private Equity remains very active in the sector, especially in relation to large portfolios which offer repositioning/value enhancing opportunities. In Europe, domestic investors are also active acquiring additional assets to expand on existing portfolios.

Top 4 single asset transactions

Location	Single Asset	Reported Price (€)	Type of Acquirer	Origin of Acquirer
London, UK	Holiday Inn Kensington Forum	c.€550m	Private Equity	Europe
London, UK	St. Ermins	c.€260m	Hotel Company	Asia
Rome, Italy	Westin Excelsior	c.€222m	Private Equity	Middle East
Perth, UK	Ace Hotel	c.€210m	Investment Manager	Europe

Top 4 portfolio transactions

Location	Portfolio	No. hotels	Reported Price (€)	Type of Acquirer	Origin of Acquirer
UK	Maybourne Group	3	c.€2,200m	Sovereign Wealth Fund	Middle East
UK	LRG Group C	22	c.€1,400m	Private Equity	USA
UK & Ireland	Jurys Inn	31	c.€930m	Private Equity	USA
UK	Kew Green	44	c.€550m	Hotel Investor	Asia

Top 4 non-UK portfolio transactions

Location	Portfolio	No. hotels	Reported Price (€)	Type of Acquirer	Origin of Acquirer
Pan Europe	Host Hotels	8	c.€420m	Private Equity	USA/ Europe
Spain	BAY REIT	16	c.€455m	Private Equity	Europe
Germany	Leonardo Hotels	18	c.€400m	Hotel Investor	Europe
Pan Europe	Hilton Portfolio	7	c.€380m	Sovereign Wealth Fund	Middle East

Deals outlook 2016

Asset light or asset right?

In recent years we have seen most hotel companies take an "asset light" strategy, selling off their real estate in favour of leases, management contracts or franchise agreements, as operators look at ways to reduce fixed costs and release equity to focus on brand expansion and investment in existing stock. This trend has continued in the market in 2015 with Leonardo hotels' sale and leaseback with Pandox and the creation of the BAY REIT by Barcélo and Hispania.

In contrast over the past 18 months, we have started to see some restructuring by both hotel owners and hotel operating companies to a more "asset right" strategy. HotelInvest, the investment arm of Accor Hotels is estimated to have spent c.€1bn in 2015 buying back the freehold on their previously leased hotels, enabling them to re-structure to franchise agreements; dispose of non-core assets, re-gear existing leases and re-brand/ upgrade their portfolios.
Similarly we have seen some hotel owners reduce their fixed costs by exiting management contracts in favour of franchise agreements; a recent example being on the recent sale in three tranches of the UK-based LRG Group of 61 Holiday Inn and Crowne Plaza hotels.

Hilton Worldwide Holdings Inc. has recently announced that they are to spin off its lodging properties and timeshare business into a separate publicly traded company. Approximately 70 of the company's 146 owned and leased properties, mainly in the US, will be spun off into a REIT, albeit overseas leased hotels will remain with Hilton.

We await to see if any other hotel companies will look to create REIT's in the future.

Emergence of mega hotel companies

It was announced in Q4 2015 that Marriott International is to acquire Starwood Hotels and Resorts Worldwide, creating the world's largest hotel company, with c.1.1 million rooms in more than 5,500 hotels across 100 countries.

Also in Q4 2015, Accor SA agreed to acquire FRHI Holdings comprising the Fairmont, Raffles and Swissotel brands, providing an opportunity for Accor SA to strengthen their Asian and American reach.

It remains to be seen whether there will be any more mega-mergers of the likes of IHG and/or Hyatt Hotels.

What to expect in 2016

Portfolio transactions are forecast to continue to dominate the market, both domestic and pan-European, as hotel companies and investors look to continue to benefit from value enhancing possibilities.

Portfolios currently in the market include B&B, Interhotels, Astir Palace Vouliagmeni SA in Greece, the London and Birmingham Hilton Metropole hotels and the Shiva collection of London hotels.

We anticipate limited major single asset transactions as the supply of trophy assets continues to remain scarce. There are currently two major prime assets in the market, the Rosewood Hotel in London and the Meridien Etoile in Paris.

Some loan/distressed sales are forecast to be active across Europe, however we are not anticipating a large number of distressed assets being bought to the market in 2016.

Overall, we forecast there to be continued activity in the hotel investment market in 2016 albeit at slightly more subdued levels to the record levels achieved in 2015.

Emerging trends in real estate: Sectoral shift

The European real estate industry continues to signal an encouraging willingness to embrace alternative sectors. Of those surveyed, 41% say they are thinking of investing in alternative sectors, a sharp increase on the 2015 figure of 28%.

This shift is being driven partly by the realisation that demographic changes and other megatrends like urbanisation are working in favour of these sectors.

66% of those who are considering going into alternatives cite demographic demand drivers, followed by higher yields and stable income as the main drivers for investment.

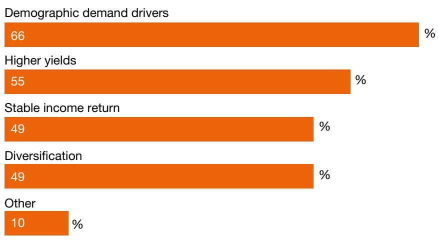
Student accommodation and hotels are the most popular by some distance, both with those investors already active and those who are thinking of moving beyond the traditional sectors.

Emerging trends – hotel sector investment prospects

Hotel	Good to very good	Fair	Poor
2014	51	42	7
2015	62	31	6
2016	66	28	7

Source: Emerging Trends in Real Estate Europe survey, PwC and the Urban Land Institute, 2016

Emerging trends – reasons for considering alternative investments



Source: Emerging Trends in Real Estate Europe survey, PwC and the Urban Land Institute, 2016

The European cities forecasts

From Amsterdam to Zurich: Which cities are best placed to grow in 2016 and 2017?

Amsterdam

Amsterdam had an exceptional 2015. Supply increased significantly in recent years but new official curbs on hotel development should help limit growth and help lift existing hotel performance further. We forecast more growth in 2016 and 2017, but relatively weaker growth than seen in 2015. Occupancy remains high at 78% and ADR growth each year takes rates to €134 in 2016. RevPAR is expected to see moderate growth in both years.

Role

Amsterdam is the financial and cultural capital of the Netherlands and is a tourism hotspot. The city is recognized as having the most diverse population in the world (180 nationalities). A range of diverse cultural activities, attractions and the tourist friendly environment have contributed to the increasing volumes of tourists coming to Amsterdam.

Historical trading

In 2015, the Dutch economy showed signs of recovery with 2.0% GDP growth. Improving market conditions helped the hotel industry to another very strong year. In 2015 the demand for rooms increased by 6.7% and this is expected to grow further next year.

In 2015, hoteliers in Amsterdam saw some of the strongest growth of the last few years, with occupancy gains of over 3% in 2015 taking occupancy to 78.2%. Robust ADR growth of 8.3% pushed rates up to €131. This drove a remarkable RevPAR gain of 11.9%, taking RevPAR to €103.

Supply trends

Currently, there are approximately 30,000 hotel rooms available in Amsterdam. Around a further 4,000 hotel rooms will be added to the current supply in 2016. After 2016 forecasts estimate that a further 7,000 rooms will be added, bringing the total to 41,000 rooms.

The fast pace of development of new room supply in Amsterdam, means that market capacities forecast for 2020 will actually be reached by 2017. Therefore, a new hotel policy has been enacted for the period 2016-2022. The objective of this is to balance supply and demand. The new policy requires that diversity and quality become more important factors than quantity for new hotel initiatives, which will need to offer a unique concept and provide additional value to the locality.

Another, supply trend is the rise of hostels and long stay apartment/hotel concepts. For 2015-2016 respectively, 700 hostel rooms and 986 long stay apartments will open.

Deals

In 2015, there have been 8 transactions, worth €348m, compared to 12 transactions worth €294m in 2014. Notable sales include the former Palace of Justice (re-development), Crowne Plaza City Centre and Steigenberger Jaz in the City.

Opportunities

Amsterdam is a well-known international tourism city. The diversity of cultural activities, museums, UNESCO world heritage site and other points of interest make Amsterdam a popular destination. Annual returning events such as Amesterdam Dance Event and Kingsday, also drive demand. Amsterdam is the host for the Council of the European Union. Amsterdam's Gay Pride event will become a European annual event this year - EuroPride Amsterdam 2016.

The city will also host large conventions (>20,000 visitors) in 2016 including, the Next Web Europe convention and the International Broadcast conference.

2015 has shown an increase in hotel demand, however the growth pace was slightly slower than in 2014, mainly due to the quantity of hotel rooms added to the current supply. New hotel development policies will limit the development of new hotels in future, which should be favourable for existing hotels.

2016 and 2017 forecast

In 2015, the Dutch economy grew by 1.9%, twice as much as in 2014, and unemployment fell to 6.9%. This improvement was mainly driven by domestic consumption and investment.

The economy is expected to continue to grow steadily at a rate of 1.7% in 2016 and 1.8% in 2017 benefiting from weaker euro and lower oil prices, in line with the rest of the Eurozone. After an exceptional 2015, we forecast more growth in 2016 and 2017, but relatively weaker than 2015. Occupancy remains high at 78% and ADR growth each year takes rates to €134 in 2016 and €137 by 2017. RevPAR is expected to see further growth in both years.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	76%	121	92
2015	78%	131	103
2016F	**78%**	**134**	**105**
2017F	**78%**	**137**	**107**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	0.9%	1.8%	2.8%
2015	3.3%	8.3%	11.9%
2016F	**0.4%**	**2.1%**	**2.5%**
2017F	**-0.3%**	**2.3%**	**2.1%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Barcelona

Barcelona has become a key tourist destination and a series of events and conferences planned for 2016 and 2017 as well as a hotel moratorium are expected to drive growth in RevPAR, largely through price increases. We forecast ADR gains of 3.2% will lift RevPAR by 3.3% to reach €97 in 2016, with further gains in 2017 (€103).

Role

Barcelona is the second largest city in Spain and the leading international tourist destination of the country. The city is gifted with great tourist attractions, such as beaches, modern architecture and gastronomy. It is also a leading MICE (Meetings, Incentives, Conventions and Exhibitions) destination, hosting nearly 2,000 events a year. 40% of tourists visiting the city in 2014 cited a convention or exhibition as their prime motivation to visit.

Historical trading

In the last few years, Barcelona has experienced significant tourist growth and now is one of the five most visited cities in Europe. Despite the large number of new tourist apartments, hotel occupancies continue to increase. The number of tourists has also increased, due in part to new international flights and in 2015 Barcelona airport achieved a record 5.7% more passengers than in 2014.

As a result, 2015 was a great year, with RevPAR increasing by 11.3% taking RevPAR to €96.80. This was driven in part by marginal supply growth and healthy occupancy levels, at 75.5%, representing a 3.8% increase on 2014. However, the main driver of RevPAR has been an increase in rates, which increased by 7.2% to €128.27.

Supply trends

A hotel moratorium approved by the new Mayor and city council, has stopped the opening of some high profile new hotels in Barcelona. This has included several pending projects, totalling nearly 5,000 rooms. If these were granted an exception (and there have been appeals) and allowed to be developed, this would increase the current hotel offer by 14%. Some projects, such as the 5 star Monument and H10 hotels, as well as the new Yurbban Hotel (4 stars) will go ahead, other high profile projects, like the Four Seasons or the Hyatt (on the Agbar Tower) are delayed.

There have been reports that some neighbourhoods could also see a 'reduction' in hotel numbers.

Major Latin American investors focused on Barcelona, have been turning their focus on Madrid.

Opportunities

In 2016, Barcelona will continue to host the world's largest exhibition, conference and networking event for mobile operators, GSMA Mobile World Congress, which took place in February. More than 87.000 people attended GSMA Mobile World Congress 2015. Other important events will take place in Barcelona in 2016, such as the International Wine Tourism Conference or the European Association of Nuclear Medicine Congress.

Barcelona wants to increase medical tourism to the city by 20% through the Project "Barcelona Medical Destination". Furthermore, some airlines (Ryanair or Emirates) have increased their services at Barcelona airport, which will be another opportunity to boost tourism.

2016 and 2017 forecast

The Spanish economy grew strongly at 3.2% in 2015 with unemployment falling to 22.3%, still at high levels but expected to continue to fall. Inflation in 2015 fell by 0.6% driven by a fall in energy prices but is expected to pick-up in 2016 and 2017 as import prices rise. The Spanish economy should continue to benefit from more favourable international environment and from gains in competitiveness driven by the weaker euro and lower oil and other commodity prices. The economic recovery will continue with GDP forecast to grow at 2.8% in 2016 and 2.3% in 2017.

Barcelona has become a key tourist destination and the hotel sector saw some remarkable growth in 2015. A series of events and conferences planned for 2016 and 2017, as well as a hotel. moratorium, are expected to drive more growth in RevPAR, largely through price increases, taking RevPAR to €97 in 2016 and €103 by 2017.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	73%	118	86
2015	75%	125	94
2016F	**75%**	**129**	**97**
2017F	**76%**	**135**	**103**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	1.6%	0.3%	1.8%
2015	3.7%	6.2%	10.2%
2016F	**0.1%**	**3.2%**	**3.3%**
2017F	**1.2%**	**4.3%**	**5.5%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Berlin

Berlin is a fast growing tourist destination and a magnet for new hotels and budget concepts. Occupancy is high (76.4% compared to 74.1% in 2014) driven by high demand from congress guests and city leisure travelers. RevPAR grew strongly in 2015 with an 8.2% gain and we forecast continued but more moderate growth in 2016 and 2017, driven mainly by increases in ADR.

Role

Berlin is the capital and political centre of Germany and tourism remains an important and growing sector. The city attracts a mix of business and leisure travellers (about 55% domestic). Berlin is the by far most visited city in Germany and ranked number three in Europe after London and Paris. The number of foreign visitors has potential to increase after the opening of the new international airport. About 24% of the overnight stays in Berlin are generated by congresses in the city.

Historical trading

After a hefty RevPAR increase of 4% in 2014 to €66.17, hotels in Berlin achieved even more substantial gains in 2015, to €71, about 8.2% higher than 2014. This growth was driven both by increases in occupancy as well as ADR. Hotel occupancy in Berlin is high (76.4% compared to 74.1% in 2014) and was driven by high demand from congress guests and city leisure travellers. ADR grew by 4.9% to €93 despite the imposition of a City Tax on private overnight stays in 2014.

Supply trends

Supply growth remained relatively subdued in 2015 at around 1%, but around 2,145 hotel rooms are in construction and a further 1,258 are in final planning, according to STR Global, and Berlin remains the most vibrant location in Germany in terms of new hotel products and projects.

Several budget and midscale hotels with a high rooms capacity are planned and under construction: two Motel One Hotels – both highrise buildings – with more than 700 and 580 rooms, a Hampton by Hilton next to the Alexanderplatz (350 rooms) and a further Hampton by Hilton (254 rooms), two Moxy Hotels (266 and 190 rooms) and some further projects.

The growth of upscale supply has been more muted. New hotels from Fraser's, Lindner and Roomers will come to market within the next 12 months.

Deals

Demand for hotel acquisitions in Germany is very high and Berlin is one of the top locations for hotel investment due to increasing tourism numbers and attractive and modern hotel products in the city.

Opportunities

Germany's capital tops the table for both investment and general real estate development prospects in 2016, according to Emerging Trends in Real Estate Europe 2016.

> *"All the creative industries are going there (Berlin); it has a multitude of different tenant types; it's dynamic; and it has new infrastructure coming."*
>
> Source: Emerging Trends in Real Estate 2016

Overnight stays in Berlin are forecast to reach over 30 million in the future. The opening of the long awaited Berlin Brandenburg Airport is still delayed and is not expected to open before the end of 2017 or 2018.

2016 and 2017 forecast

The German economy grew by 1.4% in 2015, and is expected to grow by 1.8% in 2016 and 1.6% in 2017 driven by low oil prices, low interest rates and low inflation that will continue to drive private consumption and outweigh the decline in external demand caused by the slowdown in emerging economies. Unemployment fell even further to 4.8% and is expected to remain that historic lows in 2016 and 2017. Weak inflation in 2015 (0.1%) was mainly driven by a fall in energy prices but is forecast to pick up in 2016 and 2017.

Berlin is increasingly attractive as a tourist destination and a magnet for new hotels and budget concepts. RevPAR grew strongly in 2015 at 8.2% and we forecast continued growth in 2016 and 2017, mainly driven by increases in ADR.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	74%	89	66
2015	76%	93	71
2016F	**77%**	**95**	**73**
2017F	**77%**	**97**	**75**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	2.2%	1.7%	4.0%
2015	3.2%	4.9%	8.2%
2016F	**0.9%**	**2.2%**	**3.1%**
2017F	**0.5%**	**2.1%**	**2.6%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Brussels

The growing reputation of Brussels as the capital of Europe, a key business and increasingly a weekend leisure destination, continued to boost demand for hotels in 2015, but latterly the terrorism lockdown impacted demand. We forecast Brussel's to witness a fall in RevPAR of 0.8% in 2016 driven by a fall in ADR, as hoteliers try to attract more people to the city. However, we expect the market to recover slowly in 2017.

Role

The capital of Belgium is strategically located in the centre of Europe which makes it a top conference hub, ranked second place worldwide and since 2009 it has been ranked first place in Europe according the Union of International Associations. Brussels also hosts many international associations such as the EU institutions and NATO. In 2015 the city registered 6.6 million overnight stays – of which 53% are business related and 80% of the total are international visitors.

Historical trading

Since 2009, overnight revenues in Brussels have grown by 27%, largely due to an upward trend in leisure tourism.

While occupancy rose from 63.5% in 2009 to 69.8% in 2015, there was disappointment that in 2015 the high terrorism threat level towards the end of the year lowered occupancy to 50% in December 2015, in comparison to 68% last year. Overall 2015 saw occupancy down 1.5%.

Despite this, ADR still registered a 3.4% gain taking ADR to €109. Overall this translated into RevPAR growth of 1.9%, to €76.

Supply trends

Brussels is home to a range of international hotels with a total of 205 hotels, offering around 19,250 rooms. There is a focus on luxury hotels with 45% of visitors staying in 4 star hotels. There are several projects under development but according to STR there is only one hotel with 55 rooms under construction and almost 300 rooms at the final planning stage. Project Néo (Heysel redevelopment) will include an hotel. The 142 room Astoria Hotel is scheduled to open in 2016. Project Gésu should be finalised in 2017.

Deals

Investments reached a new high in 2015 with international investors seeking higher returns as well as private investors buying small hotels. Deals included the EagleStone acquisition of the Sheraton, Park Inn Midi (Conf.), Hilton Grand Place (€50m) and the Sofitel – all sold in 2015.

Opportunities

Overnight stays in Brussels should continue to grow. The number of overnight visitors is increasing year after year and the city aims to reach 10 million by 2020 (this would represent a 51% increase over the current level), largely by building on its role as a top conference destination and by further increasing international city tourism breaks. Significant projects are ongoing in Brussels, such as the possible construction of a new conference facility and a hotel at the Heysel. Furthermore, Brussels has the second largest car-free pedestrian zone in Europe, which should help make the city-centre of Brussels more popular amongst tourists.

Following the recent terror attacks, the strength of the Brussel's tourism market is in part dependent on how effective government campaigns (e.g.#CallBrussels) are in changing the perceptions of domestic and international tourists.

2016 and 2017 forecast

Growth in the Belgian economy picked up slightly in 2015 at 1.3% and unemployment fell to 8.3%. GDP growth is projected to strengthen slowly forecast at 1.5% for both 2016 and 2017. Inflation, which has been heavily influenced by the fall in energy prices remained low in 2015, at 0.6%, but is expected to pick up in 2016 and 2017 as the impact of lower energy prices wears off.

Brussel's hotel market has experienced moderate growth in the past three years but experienced a fall in occupancy in 2015. This was mainly driven by the terror lockdown in late November following the series of coordinated terror attacks in Paris. We forecast Brussel's to witness a fall in RevPAR by 0.8% in 2016 driven by lower ADR as hoteliers try to attract more people to the city. However, we expect the market to recover in 2017, also supported by the government's plan for a tourism campaign.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	71%	105	75
2015	70%	109	76
2016F	**70%**	**107**	**75**
2017F	**71%**	**108**	**77**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	5.8%	-3.9%	1.7%
2015	-1.5%	3.4%	1.9%
2016F	**0.7%**	**-1.5%**	**-0.8%**
2017F	**1.2%**	**0.9%**	**2.1%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Dublin

Demand for hotels in Dublin continues apace, underpinned by economic recovery and Dublin's growing reputation as a tourist destination and a great place to do business. 2015 marked double digit growth in RevPAR for two years in a row, driven by further recovery in room rates. With little new supply putting pressure on prices, hopes are high for continued growth in both 2016 and 2017.

Role

Dublin is the capital and economic centre of Ireland, home to 40% of the population, and to a host of strategically important European headquarters, such as Google, LinkedIn and Facebook. Dublin has been voted third in Lonely Planet's cities to visit in 2016, and the world's second friendliest city by Condé Nast Traveller. Dublin has over 4 million overseas visitors a year, drawing an ever more international and dynamic visitor base through conferences and events like the St Patrick's Day Festival.

Historical trading

In 2015, Ireland had the fastest growing GDP in the Eurozone for the second year running, at 6.7%.

Against this backdrop, the hotel industry has had another strong year. 98% of hoteliers are reporting an upturn in business in 2015. 2015 has been a strong year, with RevPAR increasing by a huge 23.3%. This was driven in part by occupancy rates, which are now some of the highest in Europe at 82.2% representing a 4.9% increase on 2014. However, the main driver of RevPAR has been an increase in rates, which increased by 17.5% to €111, compared to €77 in 2010.

Supply trends

The number of hotels in Dublin has remained relatively static in recent years at 155. This equates to 18,900 rooms, and represents a third of the hotel stock in Ireland. With visitor numbers growing at 12%, there are continuing concerns regarding the lack of new supply. Commentators suggest that 5,000 new rooms are needed in Dublin in the next 3-5 years to cater for demand. Considering current developments and extensions, and the 13 new hotels proposals, there are 3,500 new rooms in Dublin in the pipeline. Bank debt restructuring projects, such as 'Project Crystal' and 'Project Arch' are an increasingly noticeable feature of the market, as financial institutions looks to deleverage. Many of these hotels are likely to come under new ownership in 2016, as recently formed hotel groups look to consolidate the sector.

Deals

Increased demand has driven an upturn in hotel transactions in 2015, there have been 56 transactions, worth €650m, compared to 60 transactions worth €440m in 2014. Notable sales include Jurys Inns, nine Moran Bewley hotels, and the InterContinental Hotel.

Opportunities

Ireland's economic recovery is set to continue, with 5.5% GDP growth forecast for 2016. Good economic growth in key foreign markets, such as the UK, coupled with strong domestic growth will fuel further trips taken to Dublin. ADR and RevPAR are likely to continue on an upward trajectory, supporting further hotel transactions and investment in new supply. Tourism strategies such as the 'Wild Atlantic Way' and 'Destination Dublin' are gaining traction and attracting visitors. In addition, quantitative easing by the ECB is set to keep the Euro soft through 2016, which encourages visitors from the UK and US. These favourable conditions are supported by a 9% increase in seat capacity on air routes to Ireland, with Dublin airport passenger numbers up 14% YoY.

2016 and 2017 forecast

In 2015 Ireland was the fastest growing economy in the EU with GDP growth of 6.5%. The economy will continue its strong expansion in the next two years with GDP forecast to grow at 5.0% in 2016 and 4.0% in 2017. Growth will continue to have a positive impact on employment further reducing unemployment and spreading the recovery more widely.

2015 saw double digit growth in RevPAR for two years in a row, driven by further recovery in room rates. With little new supply putting pressure on prices, hopes are high for continued growth in both 2016 and 2017.

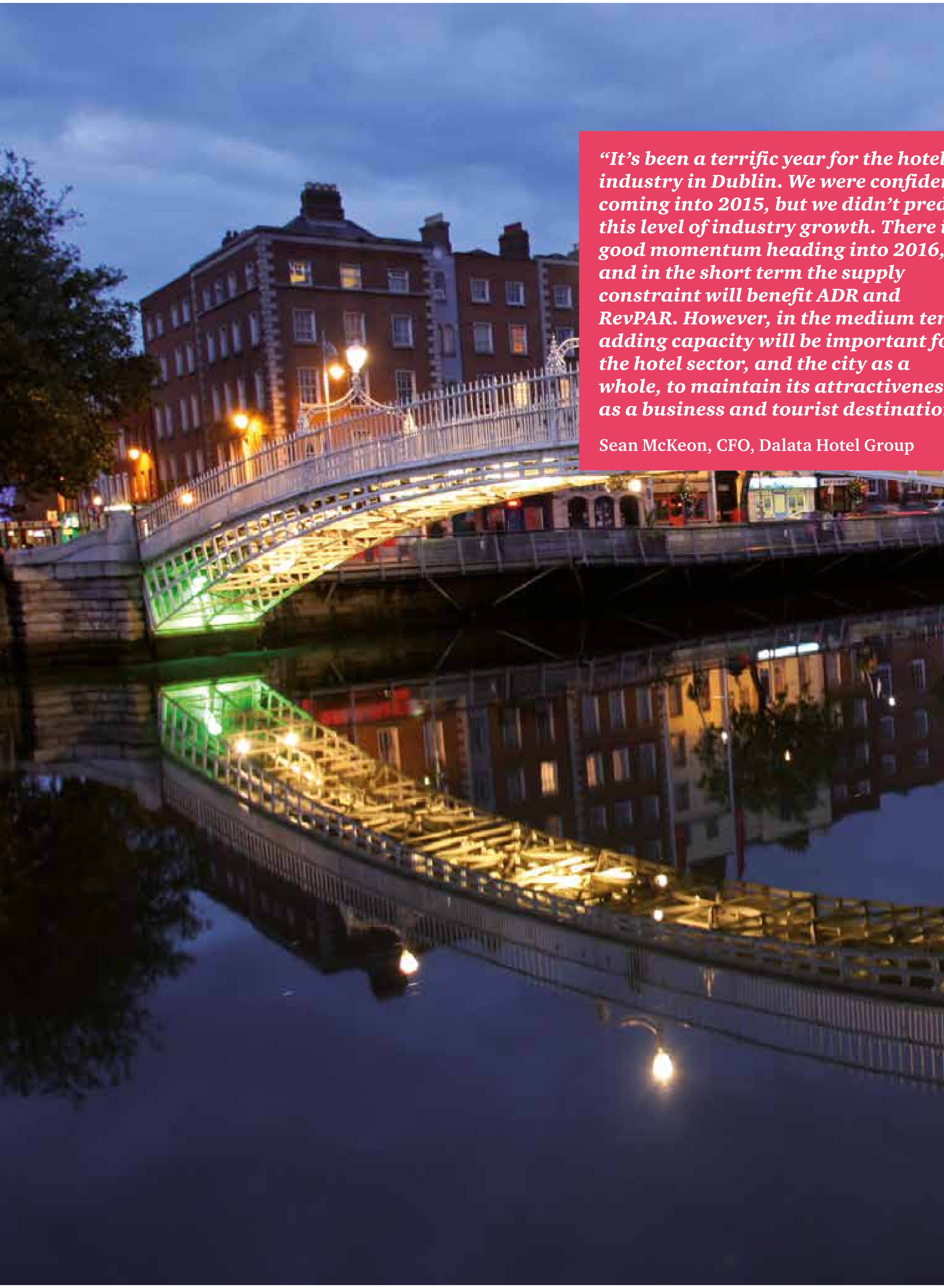
Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	78%	95	74
2015	82%	111	91
2016F	**82%**	**121**	**99**
2017F	**82%**	**131**	**108**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	2.3%	8.4%	11.0%
2015	4.9%	17.5%	23.3%
2016F	**0.3%**	**8.8%**	**9.1%**
2017F	**0.1%**	**8.1%**	**8.2%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016



"It's been a terrific year for the hotel industry in Dublin. We were confident coming into 2015, but we didn't predict this level of industry growth. There is good momentum heading into 2016, and in the short term the supply constraint will benefit ADR and RevPAR. However, in the medium term adding capacity will be important for the hotel sector, and the city as a whole, to maintain its attractiveness as a business and tourist destination."

Sean McKeon, CFO, Dalata Hotel Group

Edinburgh

Hotels saw yet another record breaking performance in 2015, following on from a high profile 2014, even though the growth pace (especially ADR) slowed. The market has seen over 1,000 rooms added over the past three years and more are planned for 2016. 2016 will concentrate on developing a cohesive Glasgow - Edinburgh tourism industry, and the positive economic outlook coupled with a series of conferences and events and the opening of the International Convention Centre should contribute to more moderate growth for Edinburgh's hotel market in 2016 and 2017.

Role

Edinburgh is a city rich in culture, tradition and history, attracting visitors from countries all over the world. The 2015 Edinburgh Festival welcomed the sale of almost 2.3m tickets, not including those for free shows, showing a 5% increase from 2014. The UNESCO World Heritage site remained popular, with further interest spurred on by the growing film industry. It maintains its status as a top UK contender for business tourism, coming second only to London for hosting international association meetings.

Historical trading

2015 was another record year for hotel performance, utilising the heightened profile from 2014 to continue the flurry of tourism activity, as well as benefitting from Scotland hosting several national events and promotion through the 'Year of Food and Drink' celebrations.

Overall market demand remained high, with average room occupancy up 1% to a record 81.5% in 2015. ADR was up by almost 2% taking rates to a record high and driving RevPAR up by 3.5% to £70. The festival season once again caused a peak in performance during the summer months, but with an earlier increase in April.

Supply trends

Supply growth continues. The market has seen over 1,000 rooms added over the past 3 years. There were numerous plans lodged for new hotels in 2015 with the council granting permission for several developments, encouraging investors both locally and further afield to support Edinburgh's evolving hotel market. It was confirmed that Amaris Hospitality will use £15m to transform the Carlton, located on the North Bridge, into the Hilton Edinburgh Carlton by the third quarter of 2016.

A conference and spa hotel with 123 beds is to be erected in the Marina development area in Granton. This will be supported further if the plan to extend the tramline goes ahead in 2017. August brought with it planning permission for a 5 star hotel in the centre of the city, incorporated within the £850m regeneration of the St James centre. Further developments including plans for the Hampton by Hilton were confirmed in September, the hotel will boast a minimum 175 rooms near the airport.

Opportunities

Edinburgh has maintained its status as Trip Advisor's UK's 2nd best destination to visit in 2015. The ever popular tourist destination has welcomed the 22.5% rise in international routes through its airport, with many months' passenger numbers overtaking their 2014 counterparts and noted as the busiest on record.

2016 will celebrate 'Scotland's Year of Architecture, Innovation and Design' and with too many wonders to list, including design expos, art installations and events at the National Museum of Scotland created specifically for this festivity, Edinburgh will be a prominent figure on this programme. Edinburgh's promoters hope that this, combined with the efforts to promote Glasgow – Edinburgh tourism and the 'China Ready' scheme, will continue to draw in the high numbers of visitors in the coming years.

2016 and 2017 forecast

Consistently one of the most prosperous parts of the UK, the economy is largely based around the services sector, with tourism and financial services particularly important. GDP growth in the UK slowed a little in 2015 (2.2%) but domestic demand growth remains relatively strong, helped by lower oil prices. We expect UK GDP growth to average around 2.2% in 2016 and 2.3% in 2017. Consumer spending and business investment will be the main drivers of UK growth in these years.

The positive economic outlook coupled with a series of conferences and events and the opening of the International Convention Centre will contribute to the good performance forecast for Edinburgh's hotel market in 2016 and 2017.

Annual hotel statistics

	Occupancy	ADR (£)	RevPAR (£)
2014	80%	84	68
2015	81%	86	70
2016F	**82%**	**88**	**72**
2017F	**83%**	**89**	**74**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	0.7%	5.3%	6.0%
2015	1.4%	2.0%	3.5%
2016F	**0.4%**	**2.0%**	**2.4%**
2017F	**0.9%**	**1.9%**	**2.8%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Frankfurt

An internationally important financial centre and business tourism destination, Frankfurt's hotel market had an excellent 2015 with RevPAR up by 8.6%, driven by strong ADR growth after a successful trade fair cycle, the International Motor Show and very strong corporate demand. Overall, Frankfurt's hotel market will continue to grow at a moderate pace on the back of improving German and Eurozone economies.

Role

The hotel industry in Frankfurt is dominated by the business segment, as the city is Germany's centre of the financial and services industry. Demand for hotels remains strong from Monday to Friday and outside vacation periods. Further hotel demand is generated by the airport, the fourth largest airport in Europe, which served 61 million passengers in 2015 (+2.5% versus 2014), and by the Fairs-ground, which is very centrally located in the city and hosts a couple of strong Fair concepts.

Historical trading

Frankfurt almost broke through the 70% occupancy threshold in 2015, as hotel occupancy hit 69.7%.
This is remarkable for Frankfurt which is a business location with lower weekend demand from business travellers. ADR growth in 2015 was even stronger; it increased significantly by 6.2% to €126, the highest ADR since 2001. Demand was driven by a strong trade fair segment in 2015, in addition to the strongly performing business segment. The resulting RevPAR was €88, up 8.6% compared to 2014.

Supply trends

All categories of accommodation have seen growth. There are around 1,855 rooms in the Frankfurt pipeline according to STR Global, with around 900 in construction.

Motel One will operate a 450-room hotel to be built within the former Bundesrechnungshof (Federal Auditing Authority), a listed building between the city centre and Main river. Further projects in the budget segment are the Tokyo-Inn Hotel and two Moxy Hotels. Upscale operators have also signed operating contracts in Frankfurt: a new Grand Mélia Hotel and a Steigenberger Hotel are planned not far away from the main station. And the prestigiously located Sofitel Frankfurt Opera will open in September 2016.

Opportunities

As Germany's financial capital, Frankfurt's hotel market benefited from the country's economic growth in 2015. More optimistic growth is expected for 2016.

Frankfurt will remain an internationally important destination, especially due to its role within the finance sector, the large and growing airport and the trade fairs. The biennial International Motor Show (IAA) will take place again in 2017 and will support hotel industry performance.

Deals

Some notable transactions took place in the 4-star and 4-star-plus segment (Leonardo Portfolio with 18 properties from which two hotels are located in Frankfurt and Le Méridien Parkhotel next to main station).
Combined with the positive supply and demand balance, Frankfurt is expected to remain a 'hot spot' for hotel investments over the next few years.

2016 and 2017 forecast

As Germany's financial centre, Frankfurt's hotel market benefited from the country's economic growth of 1.4% in 2015 as well as recovering Eurozone which, as a whole, also grew at 1.5%. Overall, Frankfurt's hotel market will continue to grow at a moderate pace on the back of improving German and Eurozone economies.

The German economy is forecast to grow by 1.8% in 2016 and 1.6% in 2017 driven by low oil prices, low interest rates and low inflation that will continue to drive private consumption and outweigh the decline in external demand caused by the slowdown in emerging economies. Unemployment fell even further to 4.8% and is expected to remain that historic lows in 2016 and 2017. Weak inflation in 2015 (0.1%) was mainly driven by a fall in energy prices but is forecast to pick up in 2016 and 2017.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	68%	119	81
2015	70%	126	88
2016F	**70%**	**128**	**90**
2017F	**70%**	**131**	**92**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	0.0%	-1.8%	-1.8%
2015	2.2%	6.2%	8.6%
2016F	**0.2%**	**2.0%**	**2.2%**
2017F	**0.8%**	**2.1%**	**2.9%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Geneva

A major international business hub, Geneva's 2015 results were impacted by the appreciation of the Swiss franc and while the city saw marginal occupancy growth, ADR tumbled and RevPAR declined. We forecast the hotel market to witness near zero growth in the next two years with the decline in ADR expected to be slower than in 2015 as the Swiss economy recovers and the impact from the Swiss franc appreciation becomes more nuanced. The Swiss franc is expected to remain at the same level putting pressure in Geneva's hotel market which largely relies on leisure tourists who are more price sensitive than business-related tourists.

Role

Switzerland's second largest city, Geneva, is an international centre for finance, culture and politics. It hosts the United Nations, countless non-governmental organizations (NGOs), financial institutions, international businesses and many global company headquarters.

Situated on the banks of Lake Geneva at the foot of the Alps, Geneva is a very popular tourist destination and the gateway to western Switzerland's mountain resorts. It boasts the second highest number of lodging nights in the country after Zurich.

Around 70% of Geneva's visits are business related. The city also focuses on the Middle Eastern market segment, which is constantly growing and generating high revenues.

Historical trading

In 2015 Geneva hotels saw marginal occupancy growth take occupancy to 67.6% but in contrast ADR tumble by 4.5% to CHF 276.42, driving a 4% drop in RevPAR. In 2014 and 2015 supply (the number of rooms available) actually fell by 1% according to STR.

Supply trends

Geneva's hotel supply remains at a steady level with very slow growth due to high barriers of entry in terms of strict building and conversion legislation, as well as preference of other real estate uses by property owners because of higher returns compared to hotels. To meet the high expectations of Geneva's international visitors, owners continue to upgrade hotel standards through renovation and/or extensions of their properties.

Opportunities

As a business hub Geneva is less prone to the effect exchange rate changes can have on room night demand, than leisure regions. Additionally, it is forecasted that the currency will remain at a similar level in 2016.
The Swiss economy is expected to grow by 1.5% in 2016 and 1.9% in 2017.

The rather flat growth in room supply and the comparatively small average size of hotels (75 rooms) is an incentive for investors to build new and larger hotels, not only in Geneva, but in Switzerland in general.
However, uncertainty regarding the 'initiative against mass immigration' and the future of the bilateral agreements to the EU could jeopardize the country's stability and investment attractiveness- as firms and investors fear for a potential lack of qualified and skilled labour from abroad.
The introduction of the Corporate Tax Reform III (2019) aims to further boost international investment.

2016 and 2017 forecast

Swiss economic growth stagnated in 2015 growing only by 0.8%, with inflation falling by 1.1%. The marked slowdown in growth is mainly attributed to the appreciation of the Swiss franc.
The weaker expansion of global trade and the slowing dynamic of the domestic economy also had a dampening effect. As the global economy recovers, GDP growth is forecast at 1.3% in 2016 and 1.5% in 2017. As a result of the slow economic recovery, the unemployment rate is expected to rise from 3.3% in 2015 to 3.6% in 2016 and start falling again to 2.4% in 2017.

We forecast the hotel market to witness near zero growth in the next two year with the decline in ADR expected to be slower than in 2015 as the Swiss economy recovers and the impact from the Swiss franc appreciation becomes more nuanced. The Swiss franc is expected to remain at the same level putting pressure in Geneva's hotel market which largely relies on leisure tourists who are more price sensitive than business-related tourists

Annual hotel statistics

	Occupancy	ADR (CHF)	RevPAR (CHF)
2014	67%	287	193
2015	68%	274	186
2016F	**69%**	**270**	**186**
2017F	**69%**	**267**	**186**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	3.2%	-0.4%	2.8%
2015	0.5%	-4.4%	-3.9%
2016F	**1.7%**	**-1.6%**	**0.1%**
2017F	**1.0%**	**-1.1%**	**-0.1%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Lisbon

Tourism is booming which meant Lisbon saw some of the highest tourism growth rates in Europe in 2015 and this clearly benefitted hoteliers. In 2016, more large conferences such as the Web Summit (wrested from Dublin) and Diabetes, as well as new air routes, should drive demand further putting pressure on ADR and pushing occupancy to record high levels. Accordingly we expect another good year in 2016.

Role

Lisbon is the capital of Portugal and attractions include history, gastronomy, architecture and business.
It is a European capital that has become an increasingly popular place to visit. In 2015, Lisbon was awarded 2nd place by European Best Destination, 2nd in the “Global Review Index” from PwC’s online reputation benchmarking report, best short-break destination by the Irish Travel Media Awards, and 6th most economic city in TripIndex by TripAdvisor, among other relevant awards. Three Lisbon hotels also received awards in 2015: as best business hotel, best green hotel in Europe and best landmark hotel.

Historical trading

Despite high occupancy levels and occupancy growth in Lisbon in 2014 (9.6%), occupancy increased by a further 3.3% in 2015. ADR grew by 7.4% to €91 and consequently RevPAR increased by a robust 11% to take RevPAR to €67.

Supply trends

Supply growth has been restrained in recent years. But there are 184 hotels in Lisbon, 21 of which opened in 2015, representing an increase of 13%. 1,600 new rooms opened in Lisbon in 2015 (+9%). Despite this supply growth, demand outpaced supply in 2015.

In 2016, 9 new hotels are expected to open, adding over 600 rooms to the city. Additionally, there are already 5 new hotels in the pipeline for 2017 (450 new rooms). Supply increases in private apartments (as well as hotels) will also put pressure on hoteliers.

Opportunities

Tourism growth is expected to continue in 2016 building on Lisbon’s positive and safe image. Travel disruption in the eastern Mediterranean should also benefit Portugal in 2016.

New air routes and growing cruise traffic will also drive volume.
EasyJet has announced 2 new routes, from Lille and Toulouse, to Lisbon and Monarch airlines also has new flights.
Lisbon welcomed 9% more cruise passengers in the first half of 2015, compared to the same period in 2014.

Lisbon will host some key events in 2016 with expected levels of attendance similar to 2015. In 2016, Lisbon sees the Web Summit come to Lisbon (from Dublin) for the next few years in principle and the Rock in Rio festival should be the biggest international events taking place in Lisbon.

2016 and 2017 forecast

The Portuguese economy continued to recover in 2015 with GDP growth of 1.5%, slightly lower than expected, and unemployment falling further to 12.6%. The economic recovery is expected to continue with GDP growth forecast at 1.5% in 2016 and 1.4% in 2017. The growth will be underpinned by lower oil prices, low interest rates and the weaker euro boosting exports and private consumption. Portugal is reported as a good place to live and work by entrepreneurs and popular for tech start-ups.

In 2016, some large conferences such as the Web Summit and Diabetes and new air routes should drive demand further putting pressure on ADR and pushing occupancy to record high levels.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	71%	85	60
2015	73%	91	67
2016F	**75%**	**95**	**70**
2017F	**76%**	**99**	**75**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	9.6%	0.4%	10.1%
2015	3.3%	7.4%	11.0%
2016F	**1.4%**	**4.2%**	**5.7%**
2017F	**2.2%**	**4.7%**	**6.9%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

"2015 was a great year for Lisbon tourism. The strength of the meetings and congress segment together with cultural and leisure tourism, will help leverage the attractiveness and the investment in the Lisbon hotel industry in 2016."

Cristina Siza Vieira, AHP

London

London saw variable growth in 2015, following a record 2014. The Paris terrorist attacks impacted leisure demand in December and into January 2016. High new supply additions in 2016 won't help but while we are cautious, we think this hotel cycle has some room for more modest growth and that the year will pick up. Accordingly, we forecast modest RevPAR growth of 1.9% in 2016 and 2.2% in 2017.

Role

London is the largest urban area in Europe, a mega city and one of the world's largest financial centres. It leads in many fields and global business clusters. It is a leading destination for international tourism with extensive cultural, sporting and historical attractions. Two years after the Olympic Games helped boosted London's global profile, high volumes of international visitors continue to be recorded.

Historical trading

Trading in London in 2015 was variable by location, by segment and by month. Nevertheless 2015 saw the capital trading at a high level with RevPAR growth up 1.5% on 2014. Occupancies have been at record highs, ending 2015 at 82.2%, down 1% on 2014. ADR grew by 2.5% to almost £144. December did not emulate the record breaking December 2014 as difficult comps and the Paris effect pushed occupancy down. Some hoteliers report low levels of forward bookings into 2016, although others expect trading to normalise as the year progresses.

Supply trends

London saw over 3,000 new rooms open in 2015 and in 2016 closer to 7,000 rooms are forecast to open –with more than half of these in the budget sector as well as 2,500 rooms in the 4 star and 5 star segment.

London hotel capacity is set to rise by 12% over the next 3 years and is forecast to exceed 150,000 rooms during 2018 according to research by London & Partners and AM:PM.

Currently demand is outstripping supply but there will be pressure on some segments and locations as new rooms continue to open. More serviced apartments and sharing economy products also add to the competitive mix.

Opportunities

London's role as a centre for innovation and business, the digital economy, as well as its role as a tourism magnet, means it will continue to attract business and leisure visitors.

The strong pound made it hard for hotels to compete for some European markets but VisitBritain has forecast that the volume of international tourism to Britain will grow by 3% in 2016, meaning almost one million extra visitors will come to the UK – most will visit London. The pound, having moved against the sector since 2014, has recently fallen from recent highs against the euro which will also help buoy up inbound demand.

2016 and 2017 forecast

UK GDP has slowed a little in 2015 but domestic demand growth remains relatively strong, helped by lower oil prices. In 2015, UK GDP grew by 2.2%. We expect UK GDP growth to average around 2.2% in 2016 and 2.3% in 2017. Consumer spending and business investment will be the main drivers of UK growth in these years.

The positive economic outlook for Eurozone and key markets for the tourism industry such as the US will benefit London. However, the economic outlook and, therefore, it's impact on London tourism is highly dependent on how key geopolitical issues including the migrant crisis in Europe, the response to the crisis in the Middle East and the referendum on the fate of the UK's membership of the European Union, play out during the year.

Annual hotel statistics

	Occupancy	ADR (£)	RevPAR (£)
2014	83%	140	116
2015	82%	143	118
2016F	**83%**	**144**	**120**
2017F	**83%**	**147**	**122**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	0.5%	2.7%	3.3%
2015	-0.9%	2.4%	1.5%
2016F	**0.9%**	**1.0%**	**1.9%**
2017F	**0.7%**	**1.5%**	**2.2%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Madrid

Record tourism visits helped drive a remarkable 17.6% increase in RevPAR in 2015, to €64. Very strong double digit ADR growth benefitted hotel trading. More tourists are forecast for 2016 with a continued economic recovery and some large events in the city expected to boost its popularity. Our forecast expects further robust, but weaker RevPAR growth in 2016 and slightly more restrained growth in 2017 taking RevPAR to €68 and €71, in 2016 and 2017 respectively.

Role

Madrid is the capital and business centre of Spain. Its wide range of cultural, leisure and gastronomic offers, along with the warm weather make it one of the most visited destination of Europe. In addition, it is the second city in terms of world congress tourism, hosting important meetings and international conventions, such as, FITUR (International Tourism Fair) or ARCO Madrid (International Contemporary Art Fair).

Historical trading

The number of tourists visiting Madrid has increased considerably and its airport is one of Europe's fastest growing. 2015 has been a record year for tourism in Madrid. In July, the city reached a historical high in terms of international tourists (26.7% more than in 2014), partly due to the celebration of Pride Parade attracting around 300.000 tourists to the city.

2015 has been a strong year, with RevPAR increasing by 17.5%. This was driven in part by occupancy rates, which are now around 69%, representing a 6.5% increase on 2014. However, the main driver of RevPAR has been a substantial increase in rates, which increased by 10.7% to €94.38, the highest since 2008.

Supply trends

Demand outgunned supply growth during 2014 and 2015 and in fact supply growth declined by 1.5% in 2015 (STR).

New hotel projects aimed at developing luxury tourism are changing the image of the city. In 2016, several 4 and 5 stars hotels will open, such as the Hotel Barceló Emperatriz, Gran Meliá Palacio de los Duques, Double Tree by Hilton and the Hotel Auditorium by Marriot, which will be one of the largest hotels in Europe with 869 rooms.

Political changes and a hotel development moratorium in Barcelona has benefitted Madrid, and has encouraged new hotel investor interest in the city. Many investors also see opportunities in Madrid due to strong RevPAR growth in 2015.

Redevelopment of the 25 storey Edificio Espana by Wanda Group (including a luxury hotel) have been put on hold due to conservation demands from the Madrid regional government.

Opportunities

An event attracting very high levels of visitors to Madrid is the Pride Parade, which is nowadays the Pride celebration's highest valued event in Europe and the second globally. In 2017, Madrid will host the "World Pride" Event, which will draw even more tourists than the current Pride Parade.

Madrid also hosts a large number of international fairs and congresses, e.g. FITUR (c.220,000 visitors) and the European Congress of Psychiatry in March 2016. Madrid is working on launching a brand to promote the city and attract more international tourists. Norwegian and Air Europe among other airlines, will offer new routes from Madrid, e.g. to New York or San Francisco. In addition, June 2016, will see Cathay Pacific launch the first direct Madrid to Hong Kong flights, four times a week.

2016 and 2017 forecast

Madrid is Spain's second largest industrial centre after Barcelona, however it is becoming increasingly dominated by the service sector. Similar to Barcelona, Madrid's hotel market witnessed a very strong year in 2015 with RevPAR rising by 17.6% to €64 driven by the recovery of the Spanish and other European economies and major international events such as the Pride Parade.

The Spanish economy should continue to benefit from more favourable international environment and from gains in competitiveness driven by the weaker euro and lower oil and other commodity prices. The economic recovery will continue with GDP forecast to grow at 2.8% in 2016 and 2.3% in 2017. Our forecast expects further robust RevPAR growth in 2016 and slightly more restrained growth in 2017, driven mainly by ADR gains, and taking RevPAR to €68 and €71, in 2016 and 2017 respectively.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	65%	84	55
2015	69%	93	64
2016F	**70%**	**97**	**68**
2017F	**71%**	**100**	**71**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	5.2%	3.2%	8.5%
2015	6.6%	10.4%	17.6%
2016F	**1.1%**	**4.7%**	**5.8%**
2017F	**1.4%**	**2.4%**	**3.8%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Milan

Milan's hotel market ended 2015 on a very high note largely as a result of EXPO 2015, which attracted over 21 million visitors. In 2016, Milan's hotel market is forecast to witness a drop in occupancy and ADR, due to the large 2015 trading increases following EXPO 2015. There are also some oversupply concerns and ADR and occupancy levels in 2016 are forecast to return back to dimensions similar to 2014. Forecasts for 2017 see the Milan market return to average growth rates.

Role

With strong fundamentals and high standards of living, Milan plays a significant role in the Italian economy. Italian business and financial centre, and a leader in technological and scientific research. Milan is the preferred city for many national and international fashion and design companies for their headquarters and hosts several globally-renowned events throughout the year, such as Milan Fashion Week and the Milan Furniture Fair. Milan was voted as the third lonely Planet's best tourist destination for 2015.

Historical trading

Visits to the Expo 2015 event beat all expectations, with over 21 million visitors recorded and as a consequence the city's hotel industry recorded a strong performance, with year-on-year revenue growth ranging between 30% and almost 75% between May and October 2015.

Overall, 2015 was a very strong year, with RevPAR increasing by 28.5%. The main driver of RevPAR has been an increase in rates, which increased by 17.6%.

Supply trends

In 2015 the number of hotels in Milan city reached about 470 hotels and 27,000 rooms, as a result of investment for EXPO 2015.

Five-star rooms in Milan represent only a very small fraction (7.6%) of total supply which is dominated by the 4-star category (59% of total supply).

In 2015 several new flagship hotel openings took place, including the Mandarin Oriental Milan, ME by Meliá, the reopening of Excelsior Gallia – now a Luxury Collection hotel, as well as further from the city, at Malpensa airport, thefirst Moxy Hotel by Marriott (in partnership with Ikea).

By the end of 2016 around 2,500 new rooms will be added to the market.

Opportunities

Many recent investments associated with EXPO 2015 that were not completed, are expected to continue in order to improve the city's accessibility and mobility system. Few example, the extension of Metro lines 1, 5 and 4; the mixed use projects City Life, Porta Nuova, Milano Santa Giulia, Milano Sesto, etc. The EXPO site itself will be redeveloped.

The Milan area has attracted the interest of international luxury chains like Melià, Fattal, Starwood, Shangri-la, Tulip, Marriott, Millennium and Accor. The budget and limited service segment is underrepresented in Milan and is considered a segment with high potential for development in the coming years.

2016 and 2017 forecast

The recovery of the Italian economy will continue in 2016 and 2017 with GDP forecast to grow at 1.0% in 2016 and 1.2% respectively in comparison to 0.7% in 2015. The labour market will continue to improve driving private consumption upwards but the forecasts for export growth remain negative.

In 2016, Milan's hotel market is forecast to witness a drop in occupancy and ADR, due to the large 2015 trading increases following Milan's hosting of EXPO 2015, i.e. a one-off event. There are also some oversupply concerns and ADR and occupancy in 2016 are forecast to return back to dimensions similar to 2014 and forecasts for 2017 see the Milan market return to average growth rates.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	63%	129	82
2015	69%	152	105
2016F	**64%**	**126**	**80**
2017F	**64%**	**131**	**83**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	0.9%	3.0%	3.9%
2015	9.3%	17.6%	28.5%
2016F	**-7.1%**	**-17.1%**	**-24.2%**
2017F	**0.1%**	**4.0%**	**4.1%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Moscow

After two years of trading declines, 2015 saw growth return to Moscow as new opportunities emerged, including a revival in domestic tourism and success attracting Asian tour groups. Hoteliers are expecting further recovery in 2016 as occupancy gains drive RevPAR up by 4% and by a further 3.9% in 2017. Supply saw a slowdown in 2015 but a large increase is expected in 2016.

Role

Moscow is Russia's financial and political centre. It is the most populated city in Europe with more than 12 million people. There are numerous places of architectural and historic interest including museums, galleries and exhibition halls, as well as parks attracting about 6 million international tourists visitors in 2015 and this is forecast to double by 2020.

Moscow remains the largest and the most interesting investor market in Russia. In 2015 more than 90% of real estate investment in Russia was made in Moscow.

Supply trends

A number of new hotels entered the Moscow market in 2015. These included a new Russian market hotel brand StandArt Boutique Hotel (105 rooms) which opened in October 2015. Accor, Marriott, Hilton and Dedeman also opened new properties under their Ibis, Marriott, Hampton by Hilton and Dedeman brands. Few unbranded properties entered the market.

Overall around 1,050 new rooms were opened in Moscow in 2015, which is 12% less than in 2014. Despite the decrease in income, developers are not ready to reduce their activity in Moscow - as investors have to complete developments, which are unprofitable to freeze.

The volume of new supply in 2016 may increase up to 80% compared to 2015. According to STR data there are around 3,425 rooms in construction and a further 1,120 rooms in final planning.

Historical trading

The Moscow hotel market saw a gradual return of business activity in 2015. Hotel operational indicators improved slightly during the year.

Based on STR data ADR in Moscow hotels grew by 2% compared to an almost 8% decline in 2014 results, occupancy and RevPAR showed a 1.1% and 2% increase respectively, following significant declines in 2014.

The weak ruble has allowed international travelers to upgrade from lower level hotels. As a consequence the Luxury segment in Moscow has shown an impressive 10% increase in ruble RevPAR, mainly driven by occupancy increases.

Opportunities

The current economic situation had had a dual impact on hotel business: on the one hand, there has been a dramatic drop in business demand from western countries; on the other hand– new demand segments are appearing, including a resurgence in domestic leisure tourism and tour groups from Asian countries, especially China.

Macroeconomic factors have also had a dramatic impact on local hotels' operations. Expenses have grown faster than income driven by high inflation and the higher costs of imported products. One of the main goals for hoteliers for 2016 is to improve cost-saving measures.

2016 and 2017 forecast

The Russian economy is in recession as the economy continued to weaken in 2015. GDP declined by 3.8% on the back of low oil prices, international sanctions and capital flight. Looking ahead, recovery will be gradual with GDP expected to continue to decline at a lower rate of 1.1% in 2016 but turning positive in 2017 with GDP growth forecast at 0.9%.

Russia experienced a large depreciation of the ruble which pushed inflation to double-digits in 2015 (15.5%) which is expected to remain high growing by 7.9% in 2016 and 7.1% in 2017. Russia's high dependence on oil and gas exports makes it vulnerable to falling prices and puts further pressure on its currency.

Annual hotel statistics

	Occupancy	ADR (RUB)	RevPAR (RUB)
2014	60%	5284	3185
2015	61%	5389	3285
2016F	**63%**	**5416**	**3417**
2017F	**65%**	**5459**	**3549**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	-9.2%	-7.9%	-16.4%
2015	1.1%	2.0%	3.1%
2016F	**3.5%**	**0.5%**	**4.0%**
2017F	**3.1%**	**0.8%**	**3.9%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Paris

2015 proved to be a difficult year for the Paris hotel market, with performance impacted by the January and November terror attacks and a state of emergency remains in place. Despite overall ADR gains in 2015, the demand dip means RevPAR declined as international visitor levels fell. We forecast weak growth in the hotel market for 2016, despite the UEFA Euro 16 football championship, but a stronger recovery in both ADR and occupancy levels in 2017.

Role

Paris is a global city. It remains the number one tourist destination in the world attracting over 22.4 million overnight visitors in 2014 according to Office de Tourisme et de Commerce de Paris. Visitors come to visit its extensive cultural attractions (including some 138 museums and 449 parks and gardens). Around 50% of tourists were international visitors in 2014 (+14.2% vs 2013). Paris is also a major city for business travel and for international meetings and congresses.

Historical trading

In 2015, due to the two terrorist attacks (January and November) visitor volumes, especially international tourists, declined and occupancy finished the year at 76.5%, down 4.8% (STR) on 2014. November and December, saw occupancy drop by -12% and -20% (STR) While ADR increased in 2015 (+2.9%) with an average daily room price at 252€, lower occupancy rates, meant RevPAR fell -2.1% compared to 2014.

Supply trends

Hotel capacity has increased at a relatively slow pace (+1.5% in terms of rooms), with 82,227 rooms in 1,588 hotels in 2014. Paris itself dominates hotel supply, with 78% of the rooms of the Greater Paris area (Paris plus 3 adjacent departments) and is one of the most important global hotel destinations.

Supply is dominated by the midscale and upscale / luxury segments (above 3 star) which account for 75.8% of capacity in Paris.

In 2016, at least 12 new hotels will open in Paris, mainly above 3 star level. In the three adjacent departments to Paris, at least 5 new hotels will also open, in the and midscale segments.

Competition from home-sharing websites is now a constant concern for hotel managers, for instance the growing capacity of AirBnb (40,000 rooms in 2015).

Opportunities

In 2016, the sector should benefit from the continued recovery of the French economy.

While some hotel specialists (UMIH- ID) are expecting tourists to return to Paris to their normal levels during the first semester, based on their experience of the market recovery after 2015 January attacks (around 3 months), we expect weak growth in 2016 but with a resilient tourism sector, we expect growth to return to trend by 2017.

Positively, summer 2016, sees France host the football UEFA Euro 2016 championship, which could attract 3 million tourists to France, and could boost occupancy. The final will be held on 10 July at the Stade de France, St Denis.

2016 and 2017 forecast

In 2015, the French economy continued to recover from a period of low growth with GDP growth of around by 1.1%. Economic growth is forecast to rise gradually to 1.3% in 2016 and 1.6% in 2017 underpinned by external factors such lower oil prices, a weaker euro and continued expansion in monetary policy in the Eurozone and by domestic factors such as improvement in corporate profit margins. Unemployment is expected to remain at 10.5% in 2016 but start falling to 10.3% in 2017.

A state of emergency remains in place following a coordinated series of terrorist attacks in November 2015. We forecast weak growth in the hotel market for 2016 but a recovery in both ADR rates and occupancy levels in 2017.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	80%	245	197
2015	76%	252	193
2016F	**77%**	**253**	**193**
2017F	**78%**	**255**	**199**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	0.5%	-1.1%	-0.6%
2015	-4.8%	2.9%	-2.1%
2016F	**0.2%**	**0.2%**	**0.4%**
2017F	**1.6%**	**1.1%**	**2.7%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016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Porto

Porto is one of Europe's most popular tourism destinations displaying consistent volume growth. Many hotels saw a record 2015 performance. With the Portuguese economy now on route to a full recovery with GDP growth forecast to continue at 1.5% in 2016 and 1.4% in 2017 and unemployment falling further to 12.6%, the next two years should drive more tourists to Porto. New airline routes and a diverse programme of international events and conferences are expected to drive both ADR and occupancy levels despite significant new supply coming into the market. Porto is regarded as one of the best cities in Europe in terms of quality-price.

Role

Porto is Portugal's second-largest city and a World Heritage site since 1996 due to its monuments and artistic heritage. Well known for the excellence of Porto wine and its gastronomy, Porto is an historical city rich in cultural activities. In 2015, the city was awarded best emerging destination in Europe by Tripadvisor, best under-the-radar romantic destination by USA Today, top best destination by The Telegraph and the Guardian, and one of the best cities in quality-price relation by Trivago. The Porto Congress Centre (Alfândega) recognised as Europe's best meetings & congress centre by the Business Destination Travel Awards (2015 and 2014) and listed in the top 10 for emerging destinations for meetings by Successful Meetings.

Supply trends

There are currently 74 hotels and about 5,500 rooms. The pipeline shows plans to open 12 new hotels and some 860 new rooms (+16%).

Historical trading

2015 was again a great tourism year for Porto. The Porto and North region had a total of more than 3.4 million guests in 2015 with about 45% from foreign countries. There were 13 new flight routes to Porto in 2015 from Ryanair, Europe Airspot, Turkish Airlines, Czech Airlines, German Wings and easyJet.

Tourism growth is reflected in hotel performance. Following a great 2014, which saw 11% growth in occupancy, 2015 saw hotel occupancy up a further 7.4% to a record 71.1% (five percentage points higher than in 2014). ADR saw a significant 12.1% boost, to €71, driving RevPAR up by 20.4%, to €51.

Opportunities

Porto continues to consolidate its position as a top tourism destination supporting sustainable growth for its hotel sector. The top 4 tourism markets include Spain, with a 23% share, followed by Germany, France and Brazil.

Growth trends are expected to remain positive in 2016. At this moment, there are 11 new airline routes already confirmed to Porto in 2016. Disruption to travel patterns in the eastern Mediterranean should also benefit Portugal's tourism sector.

As a cultural city, Porto will host a diversity of events in 2016 that create clear additional tourism opportunities. Events include NOS Primavera Sound, World Rally, F1 Motonautic and the ECSITE Annual conference, among others, which should help fill Porto with more tourists. Main events include the festivals of St John, NOS Primavera Sound, the ECSITE (European network of science centres) Annual conference in 2017 (>1,000 expected attendees), among others, which should help fill Porto with more tourists. Porto will also host the next Great Wine Capital's General Assembly.

2016 and 2017 forecast

With the Portuguese economy now on route to full recovery with GDP growth forecast to continue at 1.5% in 2016 and 1.4% in 2017 and unemployment falling further to 12.6%, the next two years should drive more tourists to Porto.

New airline routes and a diverse programme of international events and conferences are expected to drive both ADR and occupancy levels despite significant new supply coming into the market.

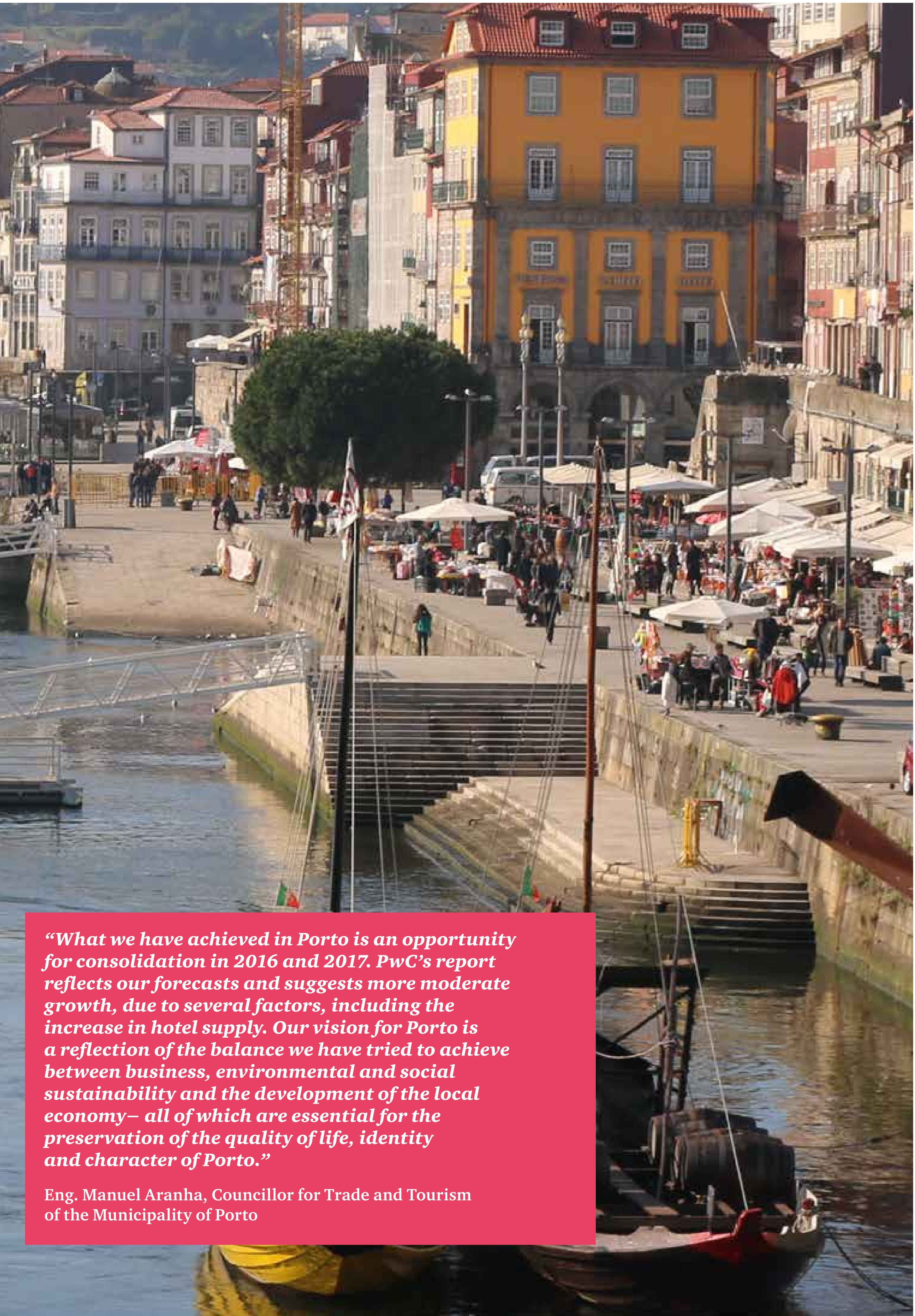
Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	66%	64	42
2015	71%	71	51
2016F	**72%**	**73**	**53**
2017F	**73%**	**76**	**56**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	11.0%	1.5%	12.7%
2015	7.4%	12.1%	20.4%
2016F	**2.0%**	**2.5%**	**4.5%**
2017F	**1.5%**	**4.3%**	**5.8%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016



"What we have achieved in Porto is an opportunity for consolidation in 2016 and 2017. PwC's report reflects our forecasts and suggests more moderate growth, due to several factors, including the increase in hotel supply. Our vision for Porto is a reflection of the balance we have tried to achieve between business, environmental and social sustainability and the development of the local economy– all of which are essential for the preservation of the quality of life, identity and character of Porto."

Eng. Manuel Aranha, Councillor for Trade and Tourism of the Municipality of Porto

Prague

A record 2015 was driven by several one-off events which helped push a significant RevPAR increase of over 14%. Growth was driven in part by a high 6.6% gain in occupancy, but also by 7.3% ADR growth. A supply hiatus should help 2016 achieve further progress with 6.6% RevPAR growth in 2016 a further almost 5% in 2017.

Role

Prague, the capital of the Czech Republic, is the country's economic, political and cultural centre. Attractions range from Romanesque chapels, Baroque palaces and gardens, to Art Nouveau buildings and unique Cubist architecture, Prague has been voted fifth in TripAdvisor 2015 Travellers' Choice worldwide (second in Europe). Some hotels also scored very well, e.g. hotel U Zlate Studne has been voted first among European luxury hotels (number three worldwide) by TripAdvisor.

Supply trends

Despite a recent significant uplift in performance for Prague hotels, there were no major openings in 2015. Indeed, annual supply growth has been marginal since 2010 and actually declined in 2013. In contrast to the flourishing office and residential development, hotel investment remains modest and aimed at premium downtown / business park locations. At the moment, there are no new rooms under construction or in the final planning stage according to STR Global' s pipeline report. This supply hiatus has allowed existing hoteliers to profit from the current RevPAR revival and to recover losses encountered during the credit crunch.

Historical trading

In 2015, the Czech Republic had one of the fastest growing GDPs in the EU, reaching almost 5%. This rather unexpected boom boosted Prague's hospitality performance with ADR growth of 7.3% combined with occupancy growth of 6.6%, resulting in atdouble digit 14.4% RevPAR increase.

Deals

PwC recorded up to ten mid-sized hotel deals, encompassing a range of properties. The largest expected disposal in Prague's market, the Hilton Prague, has not been completed yet.

Opportunities

As the effect of 2015's economic one-off tail-winds start to weaken (accelerated EU fund drawings, drop in oil price, fiscal stimulation), Czech GDP growth is expected to slow down in 2016 to a forecasted 2.7%. ADR and RevPAR are likely to continue on an upward trajectory; however, 2015 's record growth will be unattainable as the last year's results were pushed up by several large events, such as the Ice Hockey World Championship.

Looking beyond 2016, we are positive overall despite several external risks that can influence future industry performance, starting with the expected CZK appreciation and also the fragile underlying macroeconomic fundamentals (esp. Eurozone and China weak performance).

2016 and 2017 forecast

The Czech economy grew strongly in 2015 with GDP growing by 4.5% driven largely by domestic demand, especially investment growth. Growth is expected to remain robust with GDP forecast to grow by 2.5% in 2016 and 2.6% in 2017.

2015 was an exceptional year for Prague's hotel market largely driven by the Ice Hockey World Cup but also economic growth experienced by key markets for the industry. As the Eurozone countries and other key markets such as US continue to recover and grow, the hotel market outlook for Prague looks positive.

Annual hotel statistics

	Occupancy	ADR (CZK)	RevPAR (CZK)
2014	70%	1968	1385
2015	75%	2113	1585
2016F	**76%**	**2212**	**1690**
2017F	**77%**	**2298**	**1772**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	1.3%	7.7%	9.1%
2015	6.6%	7.3%	14.4%
2016F	**1.9%**	**4.7%**	**6.6%**
2017F	**1.0%**	**3.9%**	**4.9%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Rome

As an attractive tourist destination, Rome stands to gain from the recovery of other Eurozone economies, strong US growth and the weaker Euro. We expect the 2016 Jubilee or Holy Year to bring in a large number of tourists and pilgrims to Rome, lifting both occupancy (13.8%) and ADR (5.3%) to record highs, as was the experience during the last Jubilee year in 2000. In 2017, we expect the hotel market to return to average growth rates with some legacy effects from the Jubilee year.

Role

Rome is major tourist destination, due to the immensity of its archaeological and artistic treasures, as well as for the charm of its traditions, the beauty of its vistas, and the majesty of its "villas" (parks). Rome is the 3rd most visited city in the EU, after London and Paris, averaging 7–10 million tourists a year. The Colosseum (4 million tourists) and the Vatican Museums (4.2 million tourists) are the 39th and 37th most visited places in the world, according to a recent study.

Deals

Hotel transactions increased compared to 2014. Foreign investment, particularly from the Middle East, has dominated luxury hotel purchases in recent years.

The Hotel Eden was aquired by the Brunei Investment Agency (owner of the Dorchester Collection). Aleph of Rome, sold by the Boscolo Group to the Qatar holding Artic (Al Rayyan Tourism Investment Company). Palace of Rome, sold by the Boscolo Group to the British group Millennium.

Supply trends

Rome has seen no new development recently according to STR Global, but there are 2 hotels with almost 500 rooms under construction and a further 350 rooms in planning.

Some hotels in Rome are reported suffering from underinvestment because capital expenditure has been deferred for too long. Underinvestment and a lower number of international luxury hotel brands, have so far prevented the Rome luxury hotel market from reaching comparable room rates with other destinations such as Milan, Paris, London, or New York.

Historical trading

In 2015 demand (number of rooms sold) fell slightly by almost 2% while supply (number of rooms available) fell by a lower 1.3%. Rome enjoyed 4.4% RevPAR growth in 2015, taking RevPAR to €104 – the highest for seven years. This was driven by 4.9% ADR but occupancy fell marginally to 68.4%.

Opportunities

From December 8, 2015 until November 20, 2016, Pope Francis has announced a special Jubilee, with 25 million visitors and pilgrim expected to visit Rome.

2016 and 2017 forecast

The recovery of the Italian economy will continue in 2016 and 2017 with GDP forecast to grow at 1.0% and 1.2% respectively in comparison to 0.6% in 2015. The labour market will continue to improve driving private consumption upwards. As an attractive tourist destination, Rome stands to gain from the recovery of other Eurozone economies, strong US growth and the weaker Euro.

Furthermore, we expect the 2016 Jubilee year to bring in a large number of tourists in Rome rising both occupancy (78%) and prices (€156) at record highs, as was the experience during the last Jubilee year in 2000. In 2017, we expect the hotel market to return to average growth rates with some legacy effects from the Jubilee year.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	69%	142	97
2015	68%	149	102
2016F	**78%**	**156**	**121**
2017F	**68%**	**153**	**103**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	2.8%	-0.4%	2.4%
2015	-0.5%	4.9%	4.4%
2016F	**13.8%**	**5.3%**	**19.2%**
2017F	**-12.6%**	**-2.2%**	**-14.9%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Vienna

A gradual economic recovery and an uptick in tourism arrivals meant strong trading and particularly ADR growth in 2015. An important conference and events destination, we forecast modest growth in both ADR and occupancy, with new supply putting downward pressure on prices.

Role

The capital of Austria and a major economic centre located close to the CEE region. Home to major international organisations such as OPEC, but also to numerous branch offices of multinational groups. Vienna is an important hub for art and culture and one of the leading cities in Europe when it comes to hosting international conventions. In Mercer's worldwide 2015 Quality of Living Index, Vienna reached first place for the sixth time. Between January and November 2015, over 5.9 million arrivals and 13 million overnight stays from abroad were registered.

Supply trends

Supply continued to grow in 2015 (+2.9% according to STR) Limited service chains such as Motel One have gained popularity. For some already struggling 4 star hotels, this means further challenges. There has also been trend towards a growing number of non-classified hotels.

Wien Hauptbahnhof (Vienna central station) is currently the hot spot in terms of hotel development. After the Star Inn Hotel, Motel One, Hotel Zeitgeist Vienna and A&O Hostel Wien, UBM Development is currently developing a Novotel and an Ibis with a total of 575 rooms. Hotels also face increasing competition from serviced apartment providers and shared space models like Airbnb.

Deals

In the second quarter of 2015, the Austrian hotelier family Koller sold a portfolio of 10 hotels (4 star and 4 star superior) of the K+K Hotel Group in 8 European cities, of which 2 hotels are located in Vienna to the American hotel investment and management group Highgate Hotels. Leonardo Hotel Vienna (213 rooms) and Star Inn Hotel Wien Hauptbahnhof (300 rooms) were sold by Immofinanz and Rhomberg Bau, respectively.

Historical trading

Vienna's hotel sector continued to recover this year. The capital saw a strong hotel performance in 2015, as occupancy reached 73% in 2015, a 1% increase over 2014. ADR saw a 4.4% gain over 2014 taking ADR to €100, the highest since 2007. 4 star and 5 star hotels ADR reversed their downward trend and enjoyed strong growth. ADR growth drove RevPAR up by 5.4%, the highest growth since 2008.

Opportunities

In 2013, Vienna Tourism presented its "Tourism Strategy 2020", containing key milestones for the tourism industry. The overall plan aim is to reach 17.7 million overnight stays (5 million more than 2013), revenue of almost €1bn (€400m more than 2013) and to encourage more direct flights from other major cities to Vienna by 2020.

Vienna's development is a core part of achieving this strategy. The main prerequisites for these goals to be reached are the improvement of infrastructure (especially trains and the new metro line), greater attractiveness of congress tourism, the further implementation of digital infrastructure as well as the expansion of the city's cultural offerings.

2016 and 2017 forecast

Following GDP growth rate of 0.8% in 2015, slightly short of expectations, a gradual recovery is underway with economic growth projected to reach 1.6% in 2016 and 1.4% in 2017. The recovery will be driven mainly by historically low interest rates, lower oil prices, pick-up in foreign demand and a weaker euro.

An important conference and events destination, we forecast modest growth in both ADR and occupancy, but new supply is expected to put downward pressure on prices.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2014	72%	95	69
2015	73%	100	72
2016F	**73%**	**100**	**74**
2017F	**74%**	**101**	**75**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	1.8%	1.9%	3.7%
2015	1.0%	4.4%	5.4%
2016F	**0.9%**	**0.8%**	**1.7%**
2017F	**0.4%**	**1.0%**	**1.4%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Zurich

Following a decline in ADR and RevPAR in 2015, Zurich's hotel market is forecast to recover slowly in 2016 and 2017. Even though Zurich is more dependent on business tourists who are less sensitive to price changes, expected budget supply entering the market in 2016/7 will put downward pressure on ADR.

Role

Zurich is Switzerland's largest city and boasts the highest number of hotel room nights. It is also an international financial, economic and educational centre. It has a large banking sector and financial institutions, like UBS and Credit Suisse, are located in the city. Zurich is also home to many research and development organizations and the renowned Swiss Federal Institute of Technology (ETH). The low tax rate and high living standards attract overseas companies. In addition, Zurich is one of the gateways to many of Switzerland's mountain destinations.

Historical trading

Zurich hotels saw a fairly flat year in 2015. Despite occupancy rates exhibiting marginal growth pushing occupancy up to 73%, ADR fell by 1.1% translating into a 0.5% decline in RevPAR, to CHF 174.

Supply trends

Zurich's hotel supply continues to grow, albeit only marginally in 2015. Planned openings in the future include the Hilton Garden Inn Zurich Limmattal opening in 2016 with 120 rooms; the Motel One Zurich with 380 rooms and the '25Hours' lifestyle hotel at the Europaallee with 170 rooms, both open in 2017; two properties by Hyatt at the airport (The Circle) totaling 550 rooms in 2018; as well as the complete renewal of the "Dolder Waldhaus" starting this year.

These supply additions will put the city's ADR under more pressure as hoteliers try to maintain or boost occupancy levels.

Opportunities

The impacts of the strong Swiss Franc are less significant in a business city like Zurich compared to pure leisure destinations. Continued strong domestic demand also supports the sector. In addition, the currency is forecast to remain at recent levels in 2016.

Zurich remains an attractive location for investors because of its high living standards, stable economy & legal environment. However, uncertainty regarding the 'initiative against mass immigration' and the future of the bilateral agreements to the EU could jeopardize stability and impact investment. Firms and investors fear a potential lack of qualified and skilled labour from abroad.

The introduction of the Corporate Tax Reform III (2019) aims to further boost international investment.

2016 and 2017 forecast

Swiss economic growth stagnated in 2015 growing only by 0.8%, with inflation falling by 1.1%. The marked slowdown in growth is mainly attributed to the appreciation of the Swiss franc. The weaker expansion of global trade and the slowing dynamic of the domestic economy also had a dampening effect. As the global economy recovers, GDP growth is forecast at 1.3% in 2016 and 1.5% in 2017.

Following a decline in ADR and RevPAR in 2015, the hotel market is forecast to recover slowly in 2016 and 2017. Even though Zurich is more dependent on business tourists who are less sensitive to price changes, expected budget supply entering the market in 2016/7 (e.g. Motel One) will put downward pressure on ADR.

Annual hotel statistics

	Occupancy	ADR (CHF)	RevPAR (CHF)
2014	73%	240	175
2015	73%	237	174
2016F	**73%**	**240**	**176**
2017F	**73%**	**241**	**177**

Growth on previous year

	Occupancy	ADR	RevPAR
2014	0.9%	0.5%	1.4%
2015	0.6%	-1.1%	-0.5%
2016F	**-0.1%**	**1.2%**	**1.1%**
2017F	**0.2%**	**0.5%**	**0.7%**

Source: Data: STR Global 2016
Econometric forecast: PwC 2016

Methodology for the hotel forecasts 2016 and 2017

This section outlines in more detail the PwC models used to forecast hotel occupancy, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) for 19 European cities

Data

Our hotels data set provided by STR Global contains ADR, hotel room supply, demand and occupancy on a monthly basis for each of the 19 cities. For Paris, the STR data does not include hotels in the economy and budget segments. We have therefore adjusted the values based on historic differences between this and broader samples.

Macroeconomic variables such as GDP growth and Consumer Price Indices (CPI) were obtained from Eurostat for all countries except Russia, Ireland and Switzerland. For Russia, GDP and CPI data were obtained from the Russian National Statistics office. For Ireland, GDP data were obtained from the Irish Central Statistics Office (CSO). For Switzerland, GDP data were obtained from the State Secretariat for Economic Affairs (SECO) and CPI data from the OECD Statistics database. All exchange rate data were obtained from Thomson Reuters Datastream. The total nights spent by residents and non-residents in hotels, used to calculate GDP weights, and are also obtained from Eurostat for all countries except Russia. (See notes 1 and 2 below[6]).

Econometric model

We developed a 2-stage least squares (2SLS) instrumental variables approach that models hotel demand and price (ADR) using a two-stage process with the specifications on the panel of data for the 19 cities.
This allows us to include relationships between cities as well as the trends for each city. As we used a panel dataset instead of individual time series, this is different from the modelling approach we used for London and the rest of the UK in our report published in September 2015: *UK hotels forecast 2016*

Forecasts

Forecasts for ADR growth and hotel demand were generated using PwC forecasts of macroeconomic variables, supplemented by additional forecast data for hotel supply based on country- level pipeline data provided by STR Global. Allowance was made for attrition in the existing supply stock and pipeline based on historic trends and local expectations. RevPAR forecasts were constructed using ADR, demand and supply forecasts.
This model was used to generate forecasts through to 2017.

6 Notes

1 We have used a weighted GDP measure in our models; this is a weighted average of GDP growth of the major countries of origin of hotel guests, the weights being the proportion of hotel guests from the corresponding country. For example, if 80% of Edinburgh hotel guests were from the UK, 10% from France and 10% from the US, then the weighted GDP measure for Edinburgh is the weighted average of GDP growth in the UK (weight 80%), France (10%) and US (10%)

2 No visitor data was available for Moscow, for which we have used Russian GDP only

Further reading

Visit *www.pwc.com/hospitality* or contact Liz Hall, Head of Hospitality and Leisure research

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