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THE SCANDINAVIAN HOTEL MARKET 2022
ARE WE ON THE WAY TO RECOVERY?

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FINLAND **SWEDEN** **NORWAY** **DENMARK** **ICELAND**

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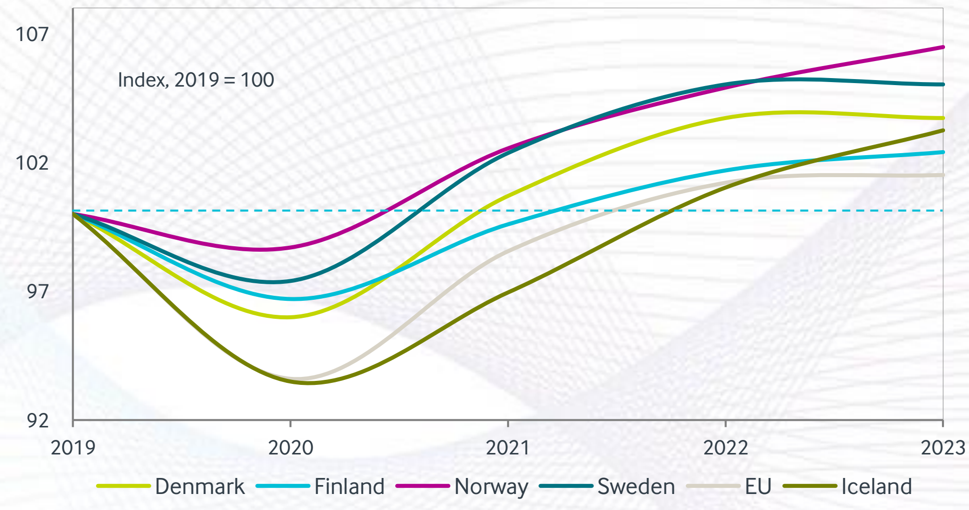
PROSPEROUS ECONOMIES

- Scandinavia, geographically referred to Denmark, Norway and Sweden, also includes Finland and Iceland on a more broad approach and is home to approximately 27.5 M people with strong common cultural, historic and linguistic ties.
- Despite the global economic slowdown due to the recent pandemic, Scandinavia is still one of the world's most prosperous and healthiest economies with an overall long-term economic outlook remaining positive and ahead of the rest of Europe.
- The region has faired relatively well throughout the pandemic compared to other European nations in terms of public health and overall economic performance. Like so many others, the Scandinavian states have experienced an obvious downfall in GDP growth in 2020-2021 (c. -2%), although the decline was notably less and short-lived in comparison with an EU average (c. -6%). The only exception is Iceland, where tourism plays a more dominant role in the economy; almost 10% of Iceland's GDP is linked to travel-related fields, while the economies of Finland, Norway, Sweden and Denmark are not overly exposed to it (c. 3-5%).
- Furthermore, the average nominal GDP per capita of Scandinavian-five remain two times the European Union average (67,900 USD vs 37,200 USD).

NOMINAL GDP GROWTH, 2019-2023



MACRO INDICATORS

Nation	Annual Inflation, %			Unemployment Rate, %			GDP Growth, %		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Finland	7.1	4.2	1.5	6.9	7.3	7.0	2.0	-0.2	1.6
Sweden	8.2	9.1	2.1	7.4	7.8	8.2	2.9	-1.3	1.3
Denmark	8.0	6.9	1.7	4.6	5.3	4.9	2.5	-0.5	2.5
Norway	5.8	4.7	2.2	3.2	3.6	4.0	2.1	0.8	1.9
Iceland	7.5	4.9	3.3	3.8	3.7	3.8	5.1	2.9	2.2

NOMINAL GDP PER CAPITA IN USD, 2022 OCT.

Norway: 92,650 — 3rd highest in the world

Iceland: 74,000 — 8th highest in the world

Denmark: 65,700 — 10th highest in the world

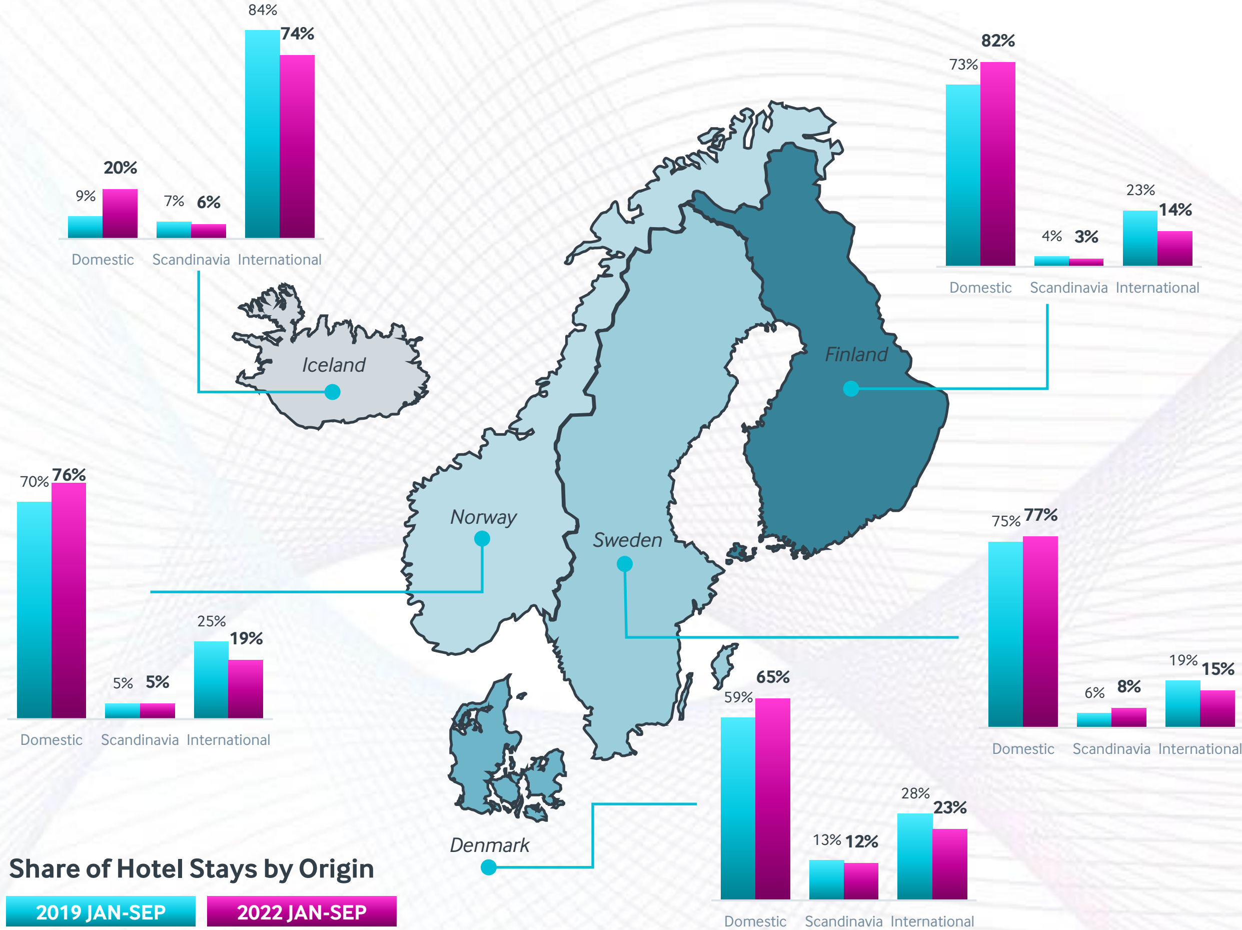
Sweden: 56,360 — 12th highest in the world

Finland: 50,820 — 16th highest in the world

Source: International Monetary Fund (IMF)

RECOVERY LED BY DOMESTIC DEMAND

- The recovery in the number of tourists in all five markets was primarily fuelled by domestic travel.
- In terms of overnight stays, Denmark and Iceland have already exceeded 2019 figures by 7% and 3%, respectively, while Finland and Norway are only 7% and 6% behind their pre-pandemic levels.
- International travel is underperforming; the hotel stays produced by outbound visitors are below 2019 numbers, with Iceland being the closest to breaking even.
- The current inflationary environment, reduced demand for corporate travel and the lesser amount of congresses held in the region have impacted the recovery of passenger traffic volume. As a result, the arrivals to the airports of capital cities are 15-30% below 2019 figures.
- A number of new hotel openings were registered in the last three years. This, together with the reopening of existing properties, led to positive changes on the supply side.

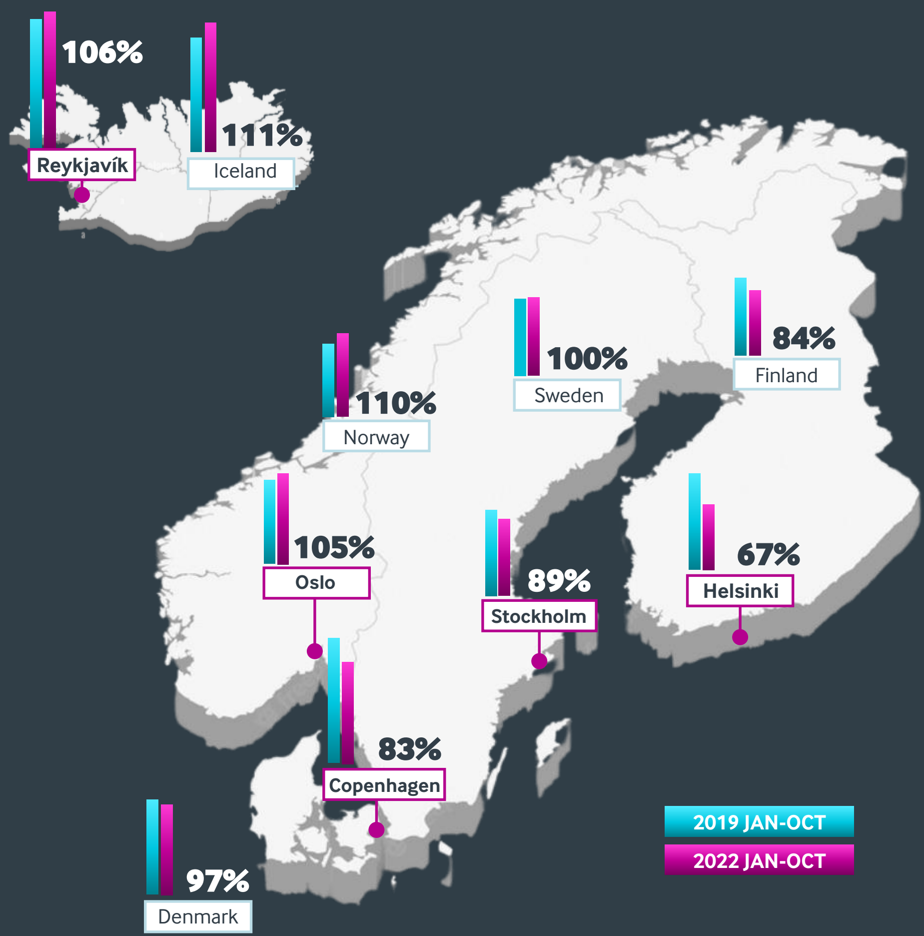


Tourism in Scandinavia, Key Changes, 2022 Jan-Sep vs 2019 Jan-Sep

Country	Overnight Hotel Stays (M)	Domestic Hotel Stays	International Hotel Stays	Hotel Guestroom Supply	Capital City Airports, Arrivals % Change	Main Air Carrier's Fleet, including subsidiaries, excluding orders
Finland	-7%	+6%	-34%	61,000 (+5%)	-27%	Finnair: 80 (-3%)
Sweden	-7%	+1%	-21%	150,000 (+8%)	-30%	SAS: 135 (-14%)
Norway	-6%	+3%	-24%	90,000 (+8%)	-24%	Norwegian: 69 (-55%)
Denmark	+7%	+20%	-10%	58,000 (+13%)	-29%	SAS: 135 (-14%)
Iceland	+3%	+120%	-9%	100,000* (+4%)	-15%	Icelandair: 43 (-5%)

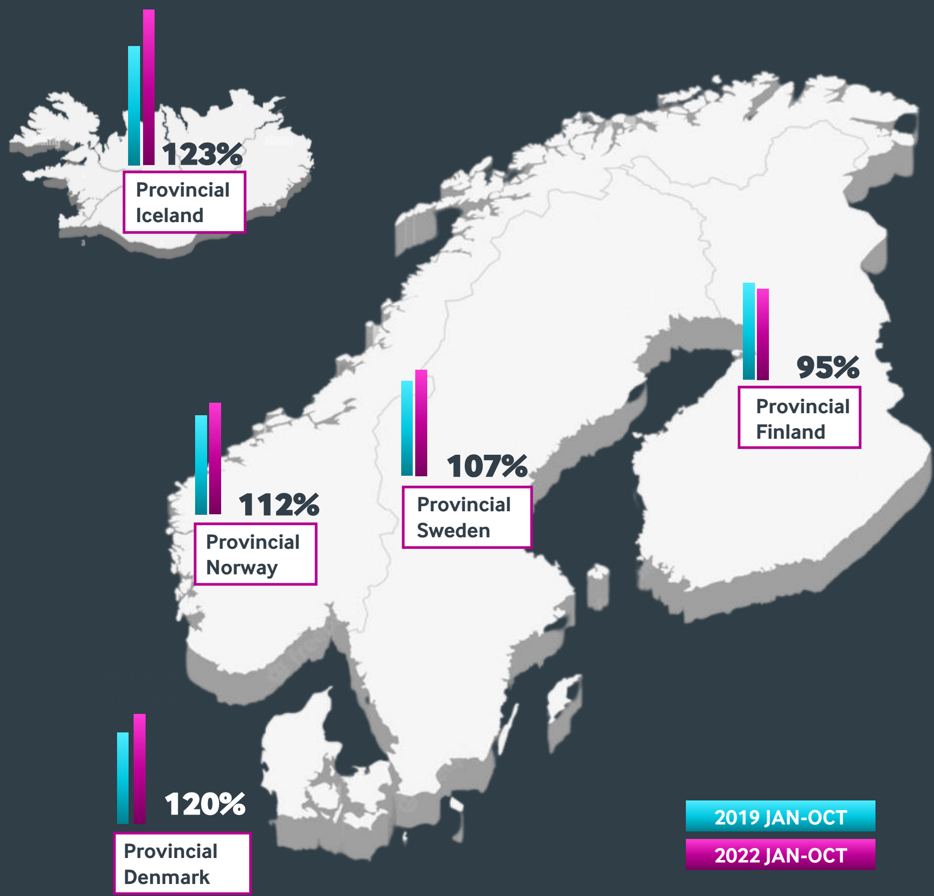
**Figures for Iceland include all lodging establishments, i.e. hotels, hostels, camping sites, apartments, lodges, etc.*
Sources: Statistical Centres of Finland, Sweden, Norway, Denmark and Iceland; Financial Reports of Finnair, SAS, Norwegian and Icelandair; Christie & Co Research

REVPAR RECOVERY:
COUNTRYWIDE AND CAPITAL CITIES



- **FINLAND:** Historically more reliant on Asian and Russian tourists and MICE travellers, the Finnish hotel market recovery was hampered by their absence. Despite this, countrywide ADR (110 EUR) bounced back and is now even higher than the pre-pandemic level (105 EUR). RevPAR and average occupancy rates are 16% and 12% behind.
- **HELSINKI:** The above-mentioned factors left a mark on hotel performance in Helsinki, where the year-to-date average occupancy is close to 55% (20% points below) and RevPAR is 30% short in comparison with 2019. Helsinki reached an ADR of 115 EUR, not far behind the 120 EUR of 2019.
- **SWEDEN:** A solid and mature Swedish hotel market achieved the same level of RevPAR (65-70 EUR) and set a new high of ADR (110 EUR) despite slightly lower occupancies (65% vs 70% in 2019).
- **STOCKHOLM:** Considering its voluminous room supply, it would be fair to say it was a fruitful year for the capital city. The third among five, it outperformed the 2019 ADR level by 5%, whilst occupancy and RevPAR were each 10% behind.
- **NORWAY:** On a countrywide level, Norwegian hotels witnessed an impressive rebound this year. RevPAR recovery exceeded 2019 figures by 10%, strongly supported by the highest ADR hike in the region (by 20%) and average occupancy rates coming very close to the pre-pandemic level of 60%.
- **OSLO:** Average occupancy rate is still 8-10% below 2019. Nevertheless, this did not prevent RevPAR from surpassing pre-pandemic figures by 5% which was mainly driven by ADR growth of 20%.
- **DENMARK:** On a nationwide level, the average occupancy and RevPAR levels are only a little lower compared to 2019 (65% this year vs 70% in 2019; 80 EUR this year vs 83 EUR in 2019).
- **COPENHAGEN:** The second lowest performing among Scandinavian capitals with RevPAR and occupancy rates still 17% and 15% below benchmarked 2019. This in large, is due to a higher proportion of international demand in the local market (pre-pandemic, two-fifths of all hotel stays were generated by foreign visitors), which only started to bounce back in late spring of 2022.
- **ICELAND:** With an average occupancy of 70% in 2022, the Icelandic hotel market is a regional leader in terms of occupancy (on par with 2019) and RevPAR (+11% above 2019) recovery. Hotels reached a historic-high ADRs of 160-165 EUR, resulting in 14% growth in comparison to 2019.
- **REYKJAVIK:** Reykjavík is a focal point of tourism in Iceland with its two airports owning a lion's share of both international and domestic passenger traffic. Not to mention a surge of globally-acclaimed hotels in the capital city in the last few years. With an average occupancy rate of 75%, the hotels in Reykjavík enjoyed ADR and RevPAR rise of 6% and 12% this year compared to 2019.

REVPAR RECOVERY:
PROVINCES



"There are several changes in our destinations since 2019, including new capacity and interesting offering, which has shifted the demand. Overall, the destination that was relying less on international and business travellers has recovered faster."

– HANNA LAK
Country Manager – Finland, Benchmarking Alliance

A completely different change of scenery when extracting the capital cities and looking at recovery from the perspective of provincial areas. In such a scenario, all states, except Finland, surpassed RevPAR levels this year in comparison with the 2019 level – Iceland leading the race once again, exceeding by almost one-quarter, followed by Denmark and Norway. Rural leisure destinations, resorts, and medical and wellness retreats have fuelled the rebound of tourism throughout the year. Secondary and tertiary markets have had their triumphant periods in the last two years and we foresee this strong momentum to persist in 2023.

Provincial Performances (Excluding Capital Cities):

- FINLAND ADR +8% RevPAR -5%
- SWEDEN ADR +14% RevPAR +7%
- NORWAY ADR +20% RevPAR +12%
- DENMARK ADR +17% RevPAR +20%
- ICELAND ADR +23% RevPAR +23%

Occupancy Rate Difference,
2019 Jan-Oct vs 2022 Jan-Oct, in % points

-22% Helsinki	-7% Provincial Finland
-10% Stockholm	-4% Provincial Sweden
-15% Copenhagen	+1% Provincial Denmark
-8% Oslo	-4% Provincial Norway
-4% Reykjavik	0% Provincial Iceland

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PRESENT CHALLENGES & EMERGING TRENDS

CHALLENGES

The major challenges industry stakeholders are facing include: continuously rising inflation and energy costs largely caused due to supply chain disruption post-pandemic and geopolitical instability further emerging after Russia's invasion of Ukraine. Furthermore, amid such a volatile environment, banks remain cautious about lending for transactions and developments, and buyers face increased pressure from the elevated interest rates. Last but by no means least, the staff shortages within hospitality-related fields remain an adamant issue which only been exacerbated by the pandemic.

Rising Inflation

On A Global Scale

- Eurozone inflation levels continuously broke record highs throughout 2022 and in September it hovered around 10% largely fuelled by rising energy costs.
- Higher inflation lowers the share of discretionary income. Thus it poses to be more disadvantageous for lower-income households - travelling, especially overseas, is a luxury more than ever.

On A Local Level

- Despite the dynamic pricing ability of hotel assets, continuously rising costs on all frontiers, cannot be met adequately by an ADR increase due to deficient demand in the market.

Soaring Energy Prices

On A Global Scale

- 2022 has witnessed record-high prices for electricity in the majority of European nations followed by a decision to suspend deliveries of gas from Russia.

On A Local Level

- The Scandinavian nations are frontrunners in renewable energy production and have created a versatile energy palette over the years, making them less reliant on energy imports *(Source: European Research Studies Journal XXIII).*
- The utility bills for gas and electricity are expected to double in the foreseeable future, putting immense pressure on the profitability line.

Accurate Forecasting Challenges

On A Global Scale

- Amid skyrocketing costs for construction materials, soaring inflation and interest rates, financial forecasting and feasibility preparations are more challenging.
- The economic uncertainty is affecting LTV (Loan-To-Value) ratios and diminishing purchasing power.
- More pure equity buyers are anticipated.

On A Local Level

- Regionally, we observe that it is getting tougher to obtain senior debt.
- There is a shift in lending parameters as banks remain cautious about lending to transactions and developments.

Labour Shortage

On A Global Scale

- Based on our research, the majority of hotels are currently facing staff shortages and many are severely understaffed.
- The shortage is not limited to a particular department but rather widespread. The most impacted remain the rooms and F&B divisions, with a great need for housekeeping and kitchen personnel.

On A Local Level

- A heavily unionised region with one of the most expensive workforces.
- The gap between inflation and current paychecks will diminish upon the next collective union negotiations. An increase in wages will have a further rampant impact on hotels' bottom line.

AIRLINES:
VOLUMINOUS, VALUABLE & VITAL

This year was expected to be the year of the travel industry's great comeback. Although the key performance indicators illustrate a notable improvement in capacity compared to the last two years, full pre-pandemic recovery is not yet there. The major industry-wide issues mentioned in the previous slide have coincided with revamped international travel demand. European airports and airlines have failed to adequately meet the increased demand, as approx. 85% of 2019 capacity has been deployed, with prolonged delays and massive cancellations becoming a norm, as seen during the summer.

The full recovery of tourism is intrinsically linked to the airline industry's performance. Before the pandemic, it is estimated that:

- 60% of international tourists travelled by air;
- Air traffic grew at an annual rate of about 8%;
- Tourism industry employed more than 330 M people and generated around 10% of the world's gross national product;
- of which, the share of direct employment within aviation-related fields was between 20 and 40 M.

At the same time, aviation, in general, has been accused of being one of the most polluting sectors, although causing only 2% of all human-produced carbon dioxide *(Source: Air Transport Action Group – ATAG)*. Recently, this resulted in so-called "flight shame", a feeling of reluctance to travel by air due to the environmental impact of planes. However, it is worth noting that flying consumes only 3.5 litres of fuel per hundred kilometres per passenger, making it one of the least polluting modes of long-distance travel mode and more climate-friendly than driving a car alone.

Furthermore, air transport emissions per passenger have been continuously reduced for the last 70 years, and the following five solutions seek to diminish the harmful effect even further:

1. Full plane and better planning of flights – restricting half-empty flights;
2. Route optimization – e.g. flying via Helsinki to Asia can save up to 30% of fuel on several routes, as the distance towards the poles is shorter compared to the equator;
3. Making planes lighter;
4. Electric-powered aeroplanes;
5. Fuel produced by solar electricity.

MARKET TRENDS & PREDICTIONS

ESG is on top of the agenda

Globally, Environmental, Social and Governance (ESG) initiatives placed themselves at a cornerstone of every decision-making process in the last few years. It has also become a prerequisite for a larger pool of hotel investors upon considering new developments or acquisitions. The Scandinavian nations have long been known for being pioneers in environmental matters and are in leading positions in this aspect.

Extended Stay, Serviced Apartment Hotels

While much of the lodging industry heavily struggled during COVID-19, the extended-stay segment showed resilience and strengths throughout the past couple of years. With serviced apartment hotels and long-stay concepts undersupplied in Scandinavia, we expect an increase in branded serviced apartment units and extended stay hotels in the region.

An emerge of modular construction

With construction and building material costs continuously soaring, additionally boosted by improved quality control, shorter construction time, lower expenses and lesser waste in production, we expect to see a rising interest in this method among developers.

Decentralised working models

A partial transformation of most occupations to smart-working and work-from-home modalities continues to evolve new developments for simultaneous-use concepts. New developments will allocate a more significant weight to this trend, for instance, by creating spaces for co-working and co-living on the premises.

Euro-Dollar parity

On the one hand, the rate parity of the US dollar against the Euro and Scandinavian currencies may attract more trans-Atlantic travellers to the region. And on the other hand, this may result in an influx of investors of non-Scandinavian origin seeking to deploy their resources in Nordic area hotel assets.

FOR MORE INFORMATION ON HOTEL MARKETS IN THE NORDICS AND ELSEWHERE IN EUROPE, PLEASE CONTACT:

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