

A Land of Opportunity

The Stockholm Hotel Market Revealed



Full Year 2015 KPIs

Please note that the source of the Stockholm data differs from the source of the KPIs mentioned later in this article. This is due to the fact that Benchmarking Alliance uses a smaller hotel sample and thus provides full year data quicker than SCB. Furthermore results might vary due to currency fluctuations.

Oslo, Norway¹

Occupancy: **65%**
ARR: **107€**
RevPAR: **69€**

Copenhagen, Denmark¹

Occupancy: **77%**
ARR: **114€**
RevPAR: **88€**

Stockholm, Sweden¹

Occupancy: **68%**
ARR: **121€**
RevPAR: **82€**

Helsinki, Finland²

Occupancy: **68%**
ARR: **93€**
RevPAR: **63€**

Sources: ¹Benchmarking Alliance,

²Christie & Co estimate based on YTD October 2015 results from National Statistical Centre



**International
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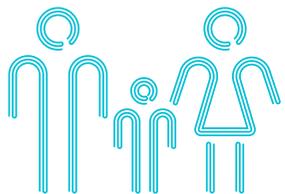
Often referred to as Scandinavian Pearl and Capital of Scandinavia, Stockholm is one of the strongest hotel markets in the Nordic region.

Although a large amount of additional hotel supply was introduced in the last decade, the market has been able to absorb it and has maintained a robust performance in recent years. In terms of feeder markets, hotel demand is dominated by domestic guests but international visitation is growing. Underpinned by a positive economic outlook, the Stockholm hotel market should become increasingly interesting for global investors. Hence, this article provides a detailed review of the local hotel market fundamentals and maps out opportunities for investment in a market where international brands are still underrepresented.

GDP



Population



Sweden
9,845,000

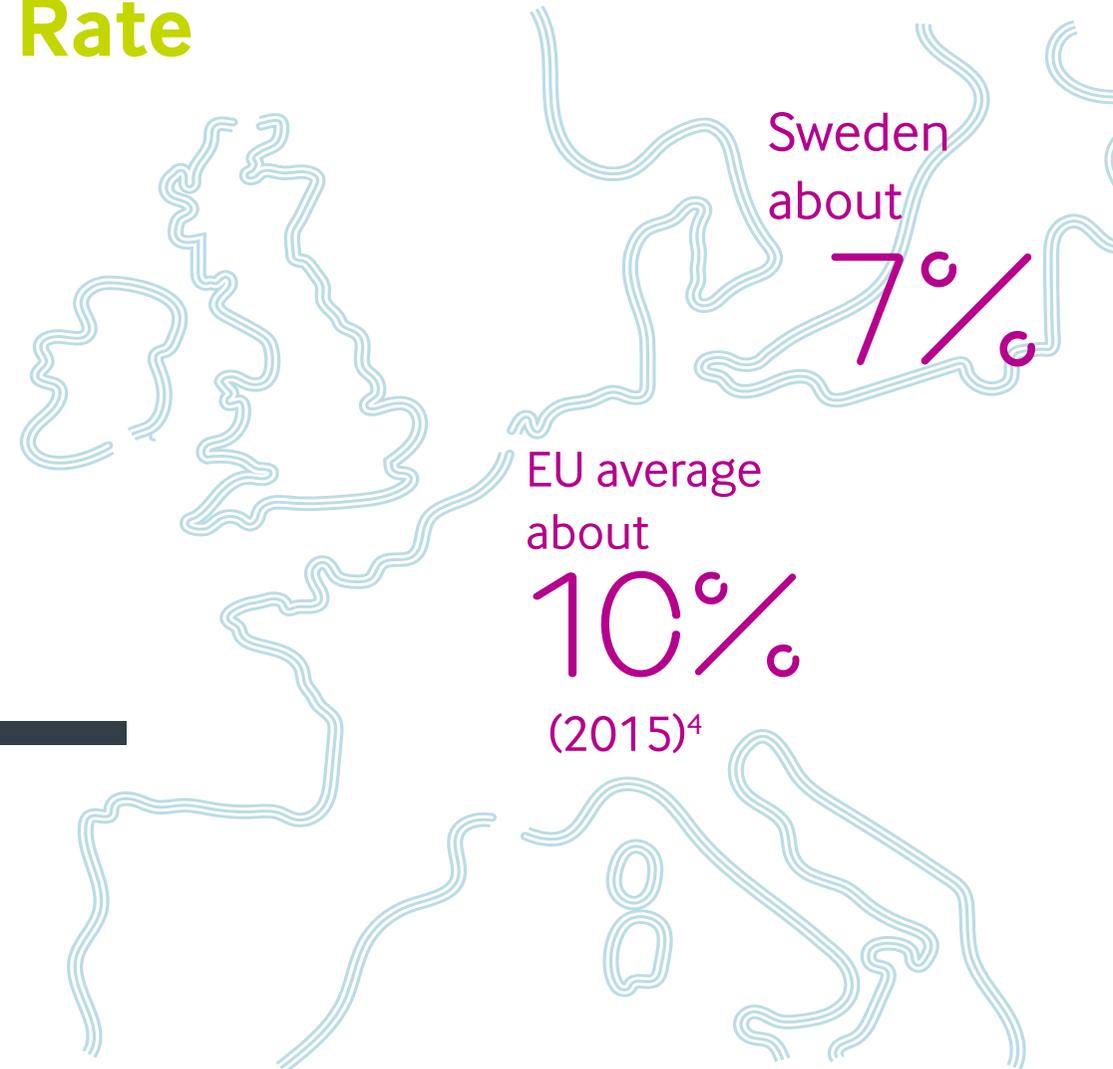
Stockholm
912,000
(2015)⁴

Monthly Salary

Private Sector,
Non-Manual Worker

38,200 kr
4,100€ (2015)⁴

Unemployment Rate



Key Industries

Iron & Steel, Precision Equipment, Wood Pulp & Paper Products, Processed Foods, Motor Vehicles⁵

Exchange Rate

9.29kr = 1€



1kr = 0.11€
(December 2015)³

Inflation

0.5%

(2015)²

Average Price of Residential Dwellings

In Stockholm

4.75m

(510,900€)⁴

+8.6% vs 2014



GDP Composition by Sector⁵

Services

65%

33%

Industry

Agriculture

2%

Note: Latest available data

Sources: Christie & Co Research, ¹IMF Forecast, ²The Economist Intelligence Unit, ³Oanda, ⁴SCB, ⁵CIA World Factbook

Booming Housing Demand Drives Economic Growth



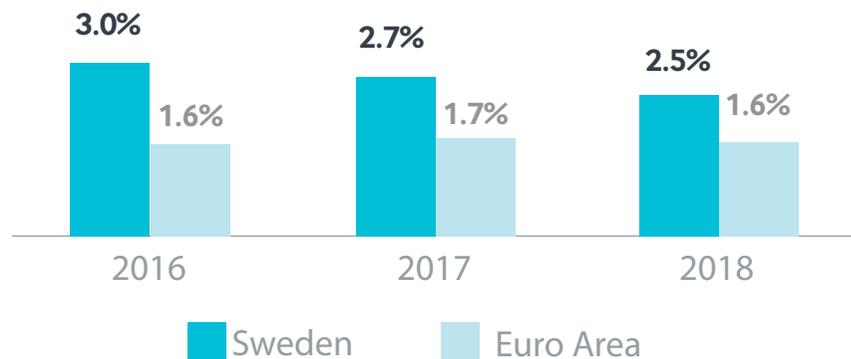
Sweden has been historically one of the strongest performing economies of the Nordic region, sustaining reasonably healthy growth between 2% to 3% after the 2009 decline.

The short-term economic outlook remains positive after robust expansion in late 2014 and relatively strong growth in the first half of 2015. Whilst Western European recovery is gaining momentum, Sweden's industrial output and merchandise exports continue to rebound. However, underlying uncertainties about the world economy and domestic policies are somewhat hampering the country's growth expectations.

Residential construction expanded rapidly in late 2014 and 2015, and this trend is expected to continue during 2016. High demand for residential properties in Stockholm has driven prices to skyrocket, resulting in an estimated 7% surge in residential property investment nationwide during 2015. Another key factor underpinning growth has been the rising household consumption. Overall, GDP is expected to grow at a rapid rate in 2016 due to the expectation that Swedish exports will increase on the back of the improving global economy. Furthermore, due to low inflation and rising employment, real income is expected to appreciate at a healthy rate well into 2016. Thus, the International Monetary Fund (IMF) forecasts strong GDP growth of 3.0% and 2.7% for 2016 and 2017, respectively.

Modest pay increases and low world market prices are expected to push prices down in 2016, which will put pressure on the federal bank — the Riksbank — to attain its inflation target. However, in the medium term, inflation is expected to stabilise within the target of 2%. Further actions by the Riksbank are expected to keep the Swedish Krona weak against other currencies, making Sweden an attractive investment opportunity for Euro-based companies.

GDP Growth Forecast 2016 to 2018



Sources: IMF, Christie & Co Research & Analysis

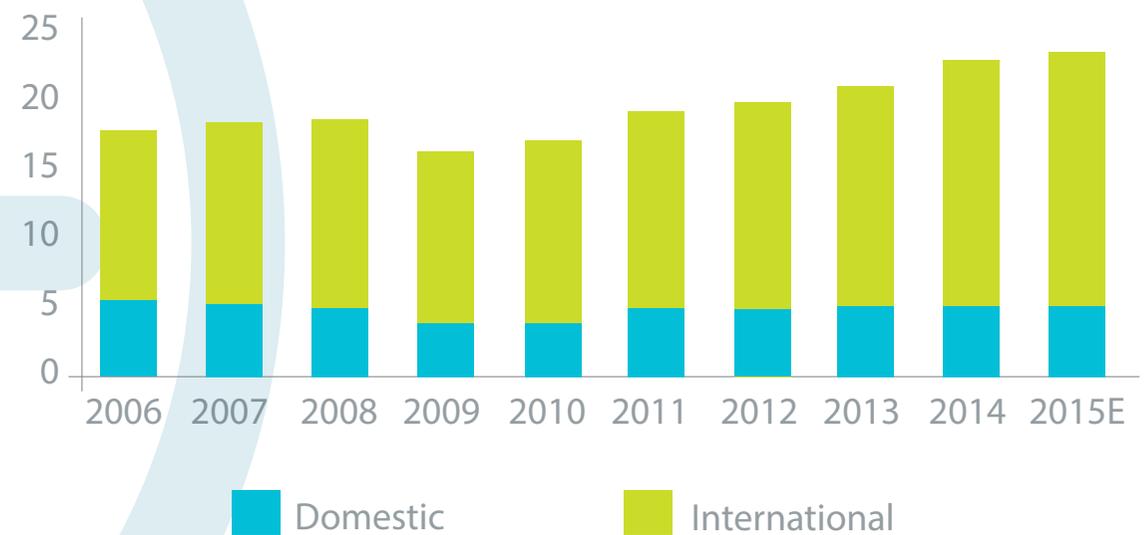
International Travellers on the Rise



Arlanda Airport is one of the largest airports in the Nordics, in terms of passenger volume, after Oslo and Copenhagen.

In 2015, around 23.2m passengers frequented the airport based on preliminary estimates by Swedavia Arlanda. Between 2006 and 2015, passenger volume increased by roughly 32% or 3.1% per annum. Going forward, airport traffic is expected to grow by around 2% per annum to reach about 35m passengers in 2040. Whilst the share of domestic passengers has remained roughly constant, the volume of international travellers has grown by about 48% or 5.9m over the last ten years. Such trend is expected to continue, thus bringing even more international guests to Stockholm in years to come.

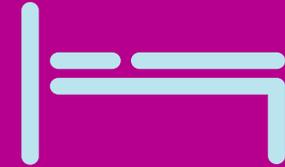
Total Number of Passengers at Arlanda Airport (m)



Note: 2015 figures are based on preliminary results published by Swedavia Arlanda

Sources: Swedavia Arlanda, Christie & Co Research & Analysis

International Room Nights Share Increasing in a Traditionally Domestic Market

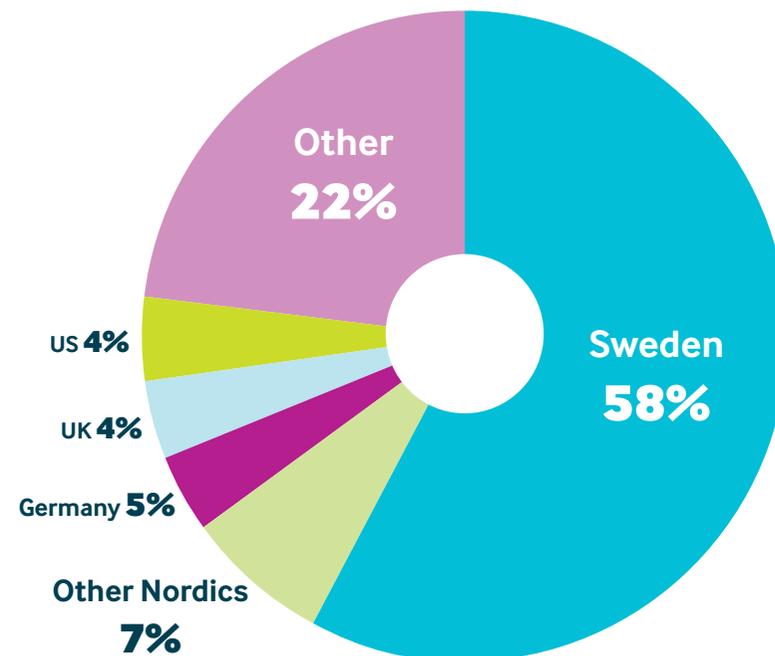


According to data published by the Central Statistical Bureau of Sweden (SCB) and Christie & Co estimates, Stockholm accommodated roughly 8.6m commercial overnights in 2015. About nine out of ten overnights were spent in hotels, whilst the rest were accommodated by hostels and campsites.

Overall, the number of commercial overnights in Stockholm has increased significantly in the last decade. Although decreasing slightly, the share of domestic tourists equates to circa 58% of room nights, leaving 3.6m to foreign markets. In terms of foreign feeder markets, other Nordic countries contributed around 6.8% of total overnights in 2015, followed by Germany (4.6%), the UK and the US (both 3.7%).

Stockholm remains one of the top 20 destinations for international conferences and congresses. According to the International Congress and Convention Association (ICCA), Stockholm ranked 19th and Sweden 14th in terms of meetings held and total number of participants in 2014. The main conference facilities — Stockholm Waterfront Conference Centre, The Brewery Conference Centre and Stockholm City Conference Centre — provide capacities for 2,000 to 4,000 people. In addition, a wide variety of meeting and event facilities are offered by hotels in and around Stockholm. In 2016, the city will host the Eurovision Song Contest, which is expected to attract a record number of international visitors to the Swedish capital, therefore boosting tourism further and providing the city with greater international exposure.

Stockholm's Feeder Markets by Room Nights 2015E

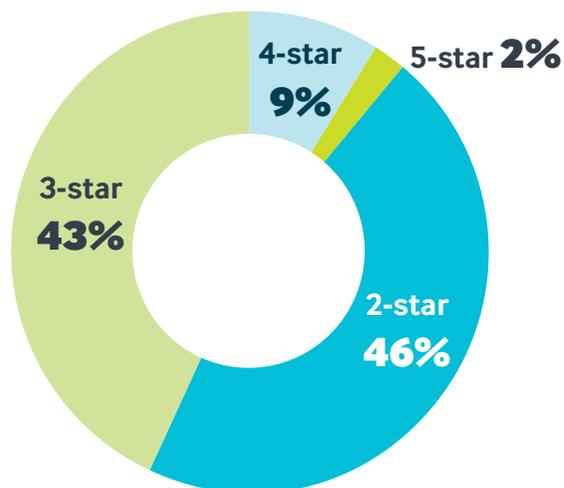


*Note: 2015 figures are Christie & Co estimates based on YTD November 2015 results
Sources: SCB, Christie & Co Research & Analysis*

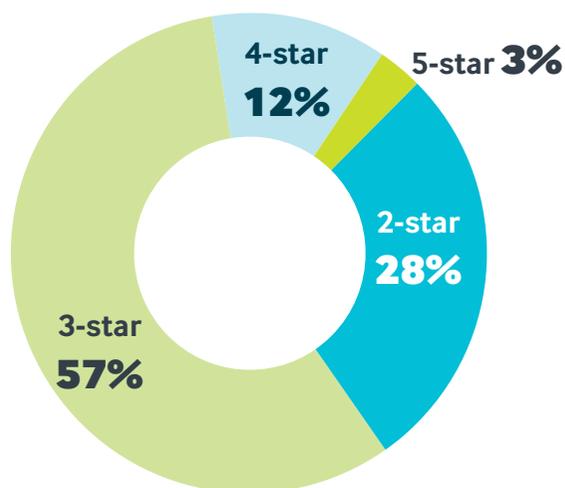
Domestic and Regional Operators Dominate Hotel Supply

Stockholm has experienced a surge in new hotel stock over the past few years. Currently, total capacity is just short of 20,000 rooms, making the city the largest single hotel market in the Nordics. The city has 149 hotels and is dominated by the mid-market and economy segments, with only about one out of nine hotels trading within the international 4- and 5-star categories. In terms of room supply, around 85% of the current stock is positioned in the mid-market and economy categories.

Hotel Supply Breakdown by Segment in 2015



Room Supply Breakdown by Segment in 2015



Sources: Christie & Co Research & Analysis

Supply dominated by mid-market domestic and regional products

approximately
85%
of room stock

Stockholm is the largest market in the Nordics with about **14.9** hotels and about **20,000** rooms

More than
6,600
rooms added to the
market since 2006

Hotel demand has broadly kept pace with supply. Between 2006 and 2015E, more than 6,600 rooms (50%) were added to the market, representing a strong compound annual growth rate of about 4.7%. During the same period, demand grew at a similar pace with a CAGR of 4.5%, resulting in a 48% increase in rooms sold in 2015E versus 2006.

Average Daily Room Supply and Demand 2006-2015E (000s)



Note: 2015 figures are Christie & Co estimates based on YTD November 2015 results
Sources: Nutek, SCB, Christie & Co Research & Analysis

Hotel Supply Pipeline

Year	Hotel	Location	Type	Positioning	Rooms
2016	Scandic Continental	Norrmalm	Re-opening	Mid-Market	400
2016	Nordic Choice Hotels	Norrmalm	New	Mid-Market	340
2016	Sleeping Fox	Norrmalm	New	Economy	202
2016	The Winery Hotel	Solna	New	Mid-Market	184
2016	Motel L	Älvsjö	New	Economy	172
2016	Scandic Haymarket	Norrmalm	New	Mid-Market	136 ¹
2016	HTL	Norrmalm	New	Economy	115
2016	Confidential	Norrmalm	New	n.a.	108
2016	Apartments by Ligula	Älvsjö	New	Long-Stay	75
2016	Hotel Södermalm	Södermalm	New	Economy	45
					1,777
2017	Nordic Choice Hotels	Norrmalm	New	Mid-Market	340
2017	Nordic Choice Hotels	Norrmalm	New	Mid-Market	200
					540

Confirmed New Supply - Stockholm 2016 and 2017 **2,317**

¹Will be combined with Scandic Kungsgatan resulting in a total of 405 rooms

Note: As of December 2015; some of the projects mentioned may materialise at a later than indicated stage, while some may never do so

Sources: Swedish Trade & Invest Council, Christie & Co Research & Analysis

A total of over 2,300 new rooms, primarily positioned in the economy and mid-market segments, are expected to enter the market in 2016 and 2017. This notable increase in supply (almost 12% of the current room stock) is likely to put some pressure on occupancy and ARR. However, historical performance has proven that the Stockholm hotel market is relatively resilient to significant supply additions due to its solid market fundamentals and growing demand.

Stable Hotel Performance over the Past Decade



The Stockholm hotel market has grown substantially over the past decade. Combining the increase in supply and demand together with ARR growth of about 14% over the same period (on average 1.4% per annum), room revenue has gained a staggering 56% in the last decade or a total of about 5.6m kr in 2015 according to our estimates.

The local hotel market has traded fairly consistently over the past few years. Occupancy for the wider Stockholm area has hovered around the mid-sixties mark, reaching 65% in 2014. Although this is about six percentage points below the 2007 peak, this performance is considered robust given the current economic situation and recent increases in room supply. YTD November 2015 results confirm this positive trend for the Stockholm city area, with occupancy levels increasing to 73%, a figure comparable to pre-crisis levels. Overall, market occupancy is expected to have settled around 70% for full year 2015.

Stagnant ARR growth, mainly due to new mid-market supply

Occupancy in the low seventies

Average room rates have remained fairly buoyant at around 1,100kr for the past years increasing to around 1,150kr in 2014. This level stabilised during 2015 as YTD November results show average room rates around 1,160kr and rates for the full year are expected to be only slightly below this figure.

Improvements in occupancy and ARR translated into a RevPAR performance of about 750kr in 2014. YTD November 2015 figures indicate a positive change to the somewhat-static performance observed during the past years with a healthy RevPAR growth of about 12% (840kr) and we expect full year 2015 RevPAR to average around 800kr.

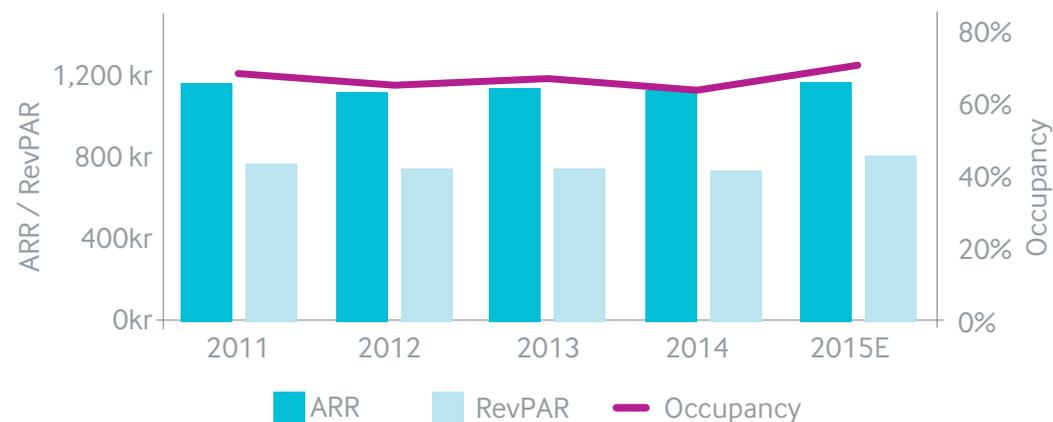


RevPAR around 800 kr

The Stockholm hotel market has proven relatively resilient. RevPAR only decreased twice in more than a decade and was able to recover quickly from the 2009 (-10.4%) and 2012 (5.6%) downturns linked to the global economic crisis and European debt crisis, respectively. Overall, this is a positive performance in the context of the European hotel market.

Should more internationally-branded supply be introduced, instead of further national/regional branded mid-market stock, which the market is saturated with, there may be an opportunity for room rates to increase ahead of inflation in coming years.

Hotel Market Performance 2011-2015E



Note: 2015 figures are Christie & Co estimates based on YTD November 2015 results
Sources: SCB, Christie & Co Research & Analysis

Where are the Opportunities?

The Stockholm hotel market remains largely dominated by domestic and regional brands and operators. Nordic Choice Hotels and Scandic Hotels are currently the largest operators and less than one seventh of the city's room stock is internationally branded, making Stockholm an attractive market for international operators and brands to expand into.

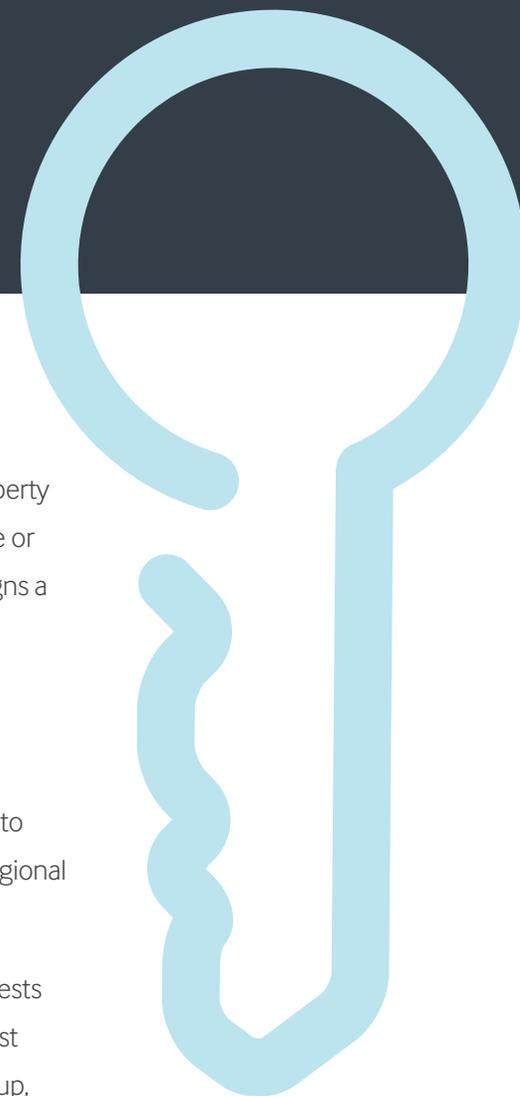
International brands and operators adapting to different operating structure

Whilst there is a lot of appetite from international hotel operators to penetrate the market, this has not materialised yet, primarily due to differences in operating structure preferences from national, as well as, to a certain extent, Scandinavian investors. Leading Swedish property companies and local hotel operators seek lease structures while most international brands favour asset-light strategies such as franchise or management contracts. An alternative would be for a property owner to sign a lease contract with a third-party operator who, in turn, signs a franchise agreement with an international brand.

Expanding the product range

In terms of product, there are clear gaps in the international-branded full and limited-service sectors. Tourism is up and guests are eager to discover unique hotel concepts in their home market, which they may have already been exposed to abroad. However, domestic and regional players do not offer suitable products and concepts to respond to such expectations, and therefore more mid-market supply is added.

The demand for trendy low-cost accommodation alternatives emerged quite recently as — due to the recent financial downturn — guests became more price-sensitive and aware of affordable unique concepts in other markets. As a result, property owners have shown interest in new, space-efficient limited-service hotels all over Sweden. A good example is the Swedish hospitality company Ligula Hospitality Group, which recently introduced their own budget brand called Motel L. However, price is not the only factor driving demand. Rising global visitation will undoubtedly create more demand for internationally-branded hotels, especially from US and UK travellers.



New concepts in the pipeline

Whilst Stockholm has seen the introduction of some new concepts such as Motel L and HTL by Scandic in 2014, a landmark opportunity to display new concepts and fresh ideas at the top of the Gallerian department store in central Stockholm will be taken over by an established player — Nordic Choice Hotels. The project will consist of 540 rooms with two different concepts; a business and a boutique hotel planned to be completed in 2018. Another project is envisaged in the historic PUB department store, which will be redeveloped and turned into 400 rooms with meeting and restaurant facilities. Additionally, Sweden's first combined urban winery and boutique hotel — The Winery Hotel — just opened its doors in January 2016 with 184 rooms, as well as meeting and dining facilities.

In addition to the aforementioned projects, we consider that a broader diversity of brands and operators would strengthen Stockholm as a destination – both promoting the city as the Capital of Scandinavia and increasing its attractiveness internationally.



Gallerian Department Store Hotel Conversion

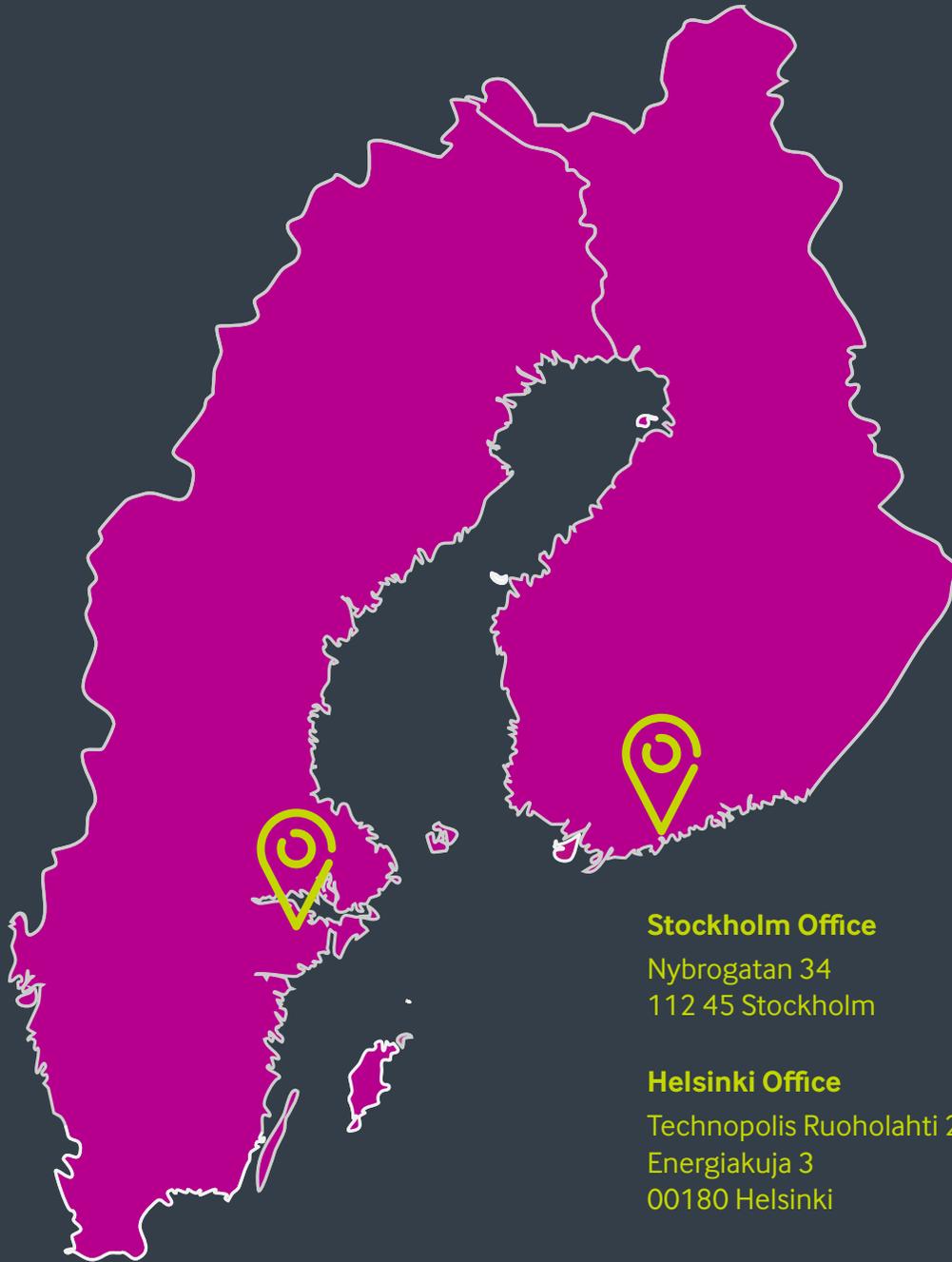
Room for International Brands as Foreign Visitors are on the Rise



Despite increasing stock, the Stockholm hotel market has demonstrated its solid fundamentals and the positive economic backdrop and increasing international visitation should allow it to gain further momentum in years to come.

Given that the city's hotel supply is currently very mid-market focused, lacking innovative concepts in the limited-service sector, as well as internationally-branded full-service hotels, we consider that Stockholm offers great potential for developers and operators alike. While a number of new products, such as HTL by Scandic and Motel L, are due to enter the market, there is still room for more.

In addition, although Stockholm remains predominantly a domestic market, the continued rise in international visitation presents great potential for both operators, especially with a global brand, and investors to tap into this growing market.



Stockholm Office

Nybrogatan 34
112 45 Stockholm

Helsinki Office

Technopolis Ruoholahti 2
Energiakuja 3
00180 Helsinki

Contacts

Marcus Josefsson – Consultant

M +46 (0) 70 558 98 93
E marcus.josefsson@christie.com

**Kimmo Virtanen – Director of Scandinavia,
Russia and the Baltic States**

T +358 (0) 9 4137 8500
E kimmo.virtanen@christie.com

Anna Eck – Consultant

T +44 (0) 20 7227 0726
E anna.eck@christie.com