

Balearic Islands Hotel Market Snapshot

2015 High Season Update

January 2016

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+ Introduction

The *Balearic Archipelago* experienced a record-setting season in 2015, with visitation largely exceeding the very positive forecast for the 2015 main tourist season.

Christie + Co has prepared this report in order to *analyse the tourism & hotel market trends in each of the islands*, bringing some light to the causes and consequences of the strong 2015 performance.

The islands' accessibility will be assessed, focusing on the necessity to improve the air connections between the Iberian Peninsula and Europe. We will analyse how increasing connectivity may trigger a need to *improve the existing tourism offer*, currently primarily focused on the beach & sun tourism. We believe that diversifying the tourism offer may mitigate the seasonal nature of the demand in the Balearic Islands, therefore guaranteeing year-round demand for flights to the Archipelago.

Furthermore, we will examine the recent debate around the future implementation of the *“eco tax” or “tourist tax”*, following the municipal elections of May 2015, and analyse how this type of regulation has been welcomed in other European countries in the past.

Taking into account the islands' own singularities, we will provide a succinct market-specific *review of the hotel market demand and supply trends*, including a comparison with the 2014 high season.

As a result of *the hotel demand recovery*, which can partly be explained by rising insecurity in other Mediterranean destinations, *hotel occupancy has increased* from previous years. As for average rates, performance varied from one island to the other, with Menorca being the only island who recorded a rate decrease in 2015. Overall, *results have been extremely positive for the hotel industry in the Balearic Islands*.

Finally, we will highlight the *main challenges and opportunities of the hotel industry that we have identified*, including seasonality, non-regulated tourism offer, limited tourist capacity in certain areas and the availability of qualified staff.

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+ Air Connectivity & Seasonality

Finding a strategic answer to the air connectivity issue in the Balearic Islands remains a priority for the local tourism stakeholders. Future regional political decisions will undoubtedly be a critical success factor in tackling this issue.

The lack of connectivity... cause or consequence?

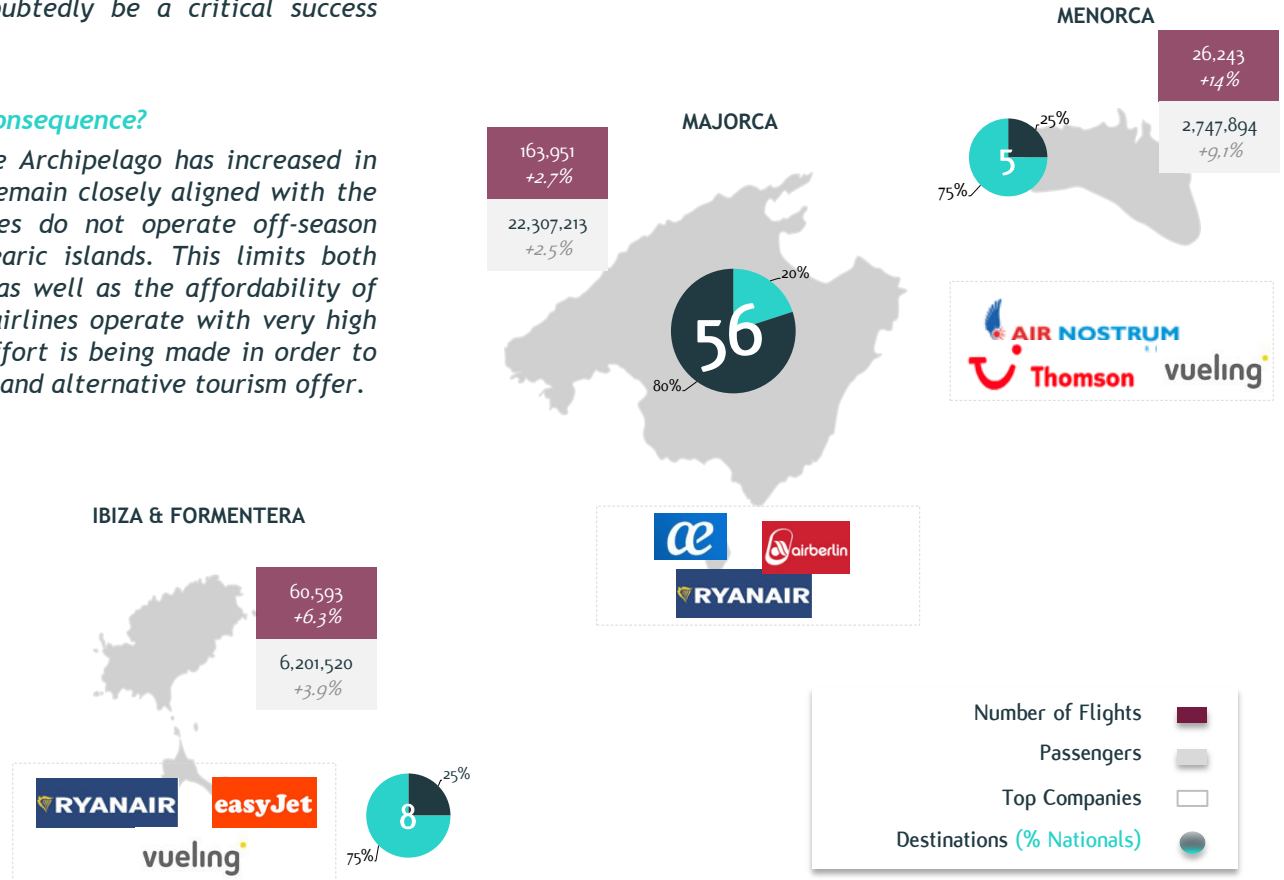
Although the number of flights to the Archipelago has increased in recent years, the airlines' schedules remain closely aligned with the islands' seasonality. Currently, airlines do not operate off-season regular flights to and from the Balearic islands. This limits both tourists and local residents' mobility as well as the affordability of travelling to the Balearic Islands, as airlines operate with very high prices. In this context, a significant effort is being made in order to promote and improve a complimentary and alternative tourism offer.

Increased seat capacity to accommodate growing demand

In light of the unparalleled 2015 season and the positive outlook for upcoming years, airlines are offering more than seven million tickets for the winter season, from 25 October to 26 March 2016.

This represents almost 100,000 additional seats (+18.2%) and 36 new routes in comparison to the 2014 winter season.

Balearic Airports Traffic YTD 2015
(% growth from YTD 2014)



+ The Balearic Islands Hotel Market

Key Tourism Indicators in the Balearic Islands
2015 versus 2014

IBIZA & FORMENTERA

Demand Supply

2.5 million visitors <i>+1.2%</i>	293 hotels <i>+4.0%</i>
€2.3 billion <i>+1.3%</i>	62,200 beds <i>+0.4%</i>

RevPAR

87.2% Occupancy <i>0.0%</i>
€79.7 ADR <i>+31.6%</i>



MAJORCA



Demand Supply RevPAR

8.8 million visitors <i>+3.5%</i>	893 hotels <i>-0.8%</i>	87.2% Occupancy <i>+5.0%</i>
€8.1 billion <i>+7.0%</i>	248,000 beds <i>+1.4%</i>	€79.7 ADR <i>+7.0%</i>

MENORCA



Demand Supply

1.1 million visitors <i>+9.0%</i>	96 hotels <i>+2.0%</i>
€986 million <i>+11.0%</i>	25,000 beds <i>+5.0%</i>

RevPAR

83.0% Occupancy <i>+5.0%</i>
€91.9 ADR <i>-7.0%</i>

Note: Tourist demand shows the cumulative volume from January to September 2015, whilst the hotel supply and profitability analysis is focused on the high season, from May to September.

+ Majorca

A summer to remember

Majorca experienced its most successful season of the past decade in 2015, largely exceeding previous years' performance. During the summer months, the "Peninsula's big sister" reached historic records in terms of hotel occupancy, rates, profitability, and tourist spending.

The island's main tourism areas, such as Platja de Palma, Alcúdia-Can Picafort, Palmanova-Magaluf, Capdepera, Cala Millor, Peguera y Santa Ponça, have exceeded all forecasts as a result of an unexpected last-minute surge in bookings, amongst other reasons.

On the back of these figures, hoteliers have been able to increase their rates and attract higher-spending visitors, leading to both an increase in total expenditure and average daily rates.

With occupancy levels similarly on the rise, hotel profitability increased both in summer months and year to date. In May and September 2015, performance exceeded previous years' figures, encouraging the tourism industry to pursue its effort to reduce seasonality.



Historic Levels of Visitation

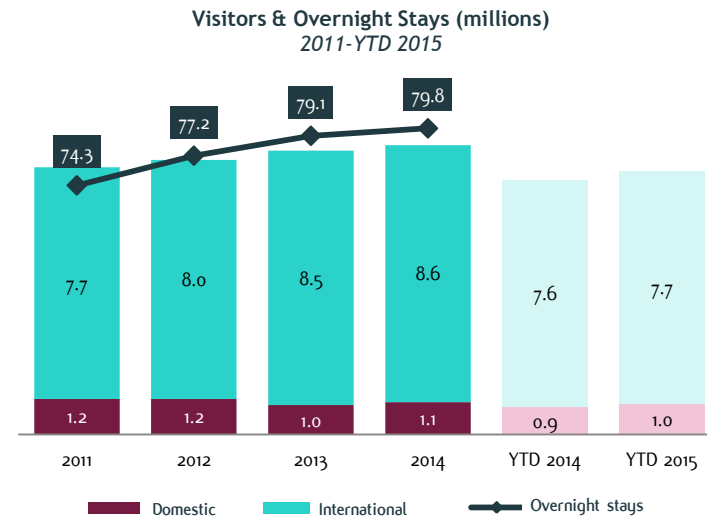
Tourists visiting and spending more

Tourist arrivals recorded a cumulative 2.7% growth between 2011 and 2014. This trend continued in 2015 with nearly 8.8 million visitors to the islands as of year-to-September 2015, representing a 3.5% increase year on year.

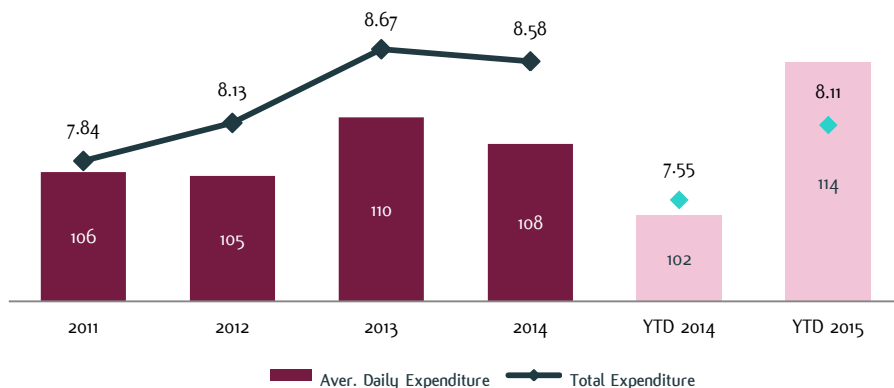
International visitation has historically been very high, close to 88% of total visitation. Nevertheless, thanks to the recent recovery of the Spanish market, the percentage of domestic visitors is slowly increasing, reaching 12% of total visitors as of year-to-September 2015, compared to 10% in 2013.

The German market remains the leading international market accounting for 39% of total international arrivals, followed by the UK market (27%), the Nordic Countries (9%) and Benelux (5%).

As shown below, tourism expenditure was in excess of €8 billion as of year-to-September 2015, representing a 7.4% increase year on year. Similarly, the daily average expense reached €114, increasing by €12 year on year.



Tourism Expenditure 2011 - YTD 2015
Total expenditure (billions €) & Average daily expenditure (€)



Top International Feeder Markets
Share of total international visitors - High season 2015

39%	Germany	
27%	UK	
9%	Nordic Countries	
5%	Benelux	

Source: IBESTAT, EGATUR, Christie + Co Analysis

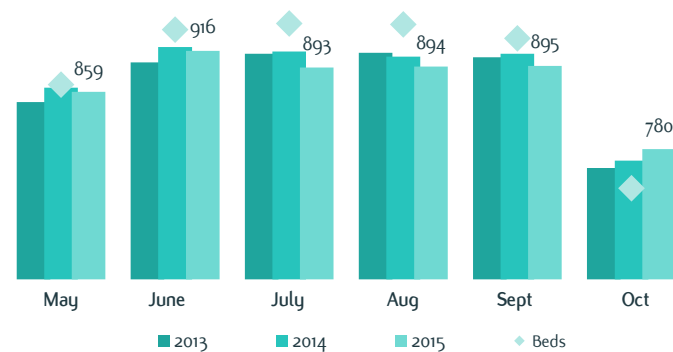
Profitability on the Rise

RevPAR growth supported by strong rates

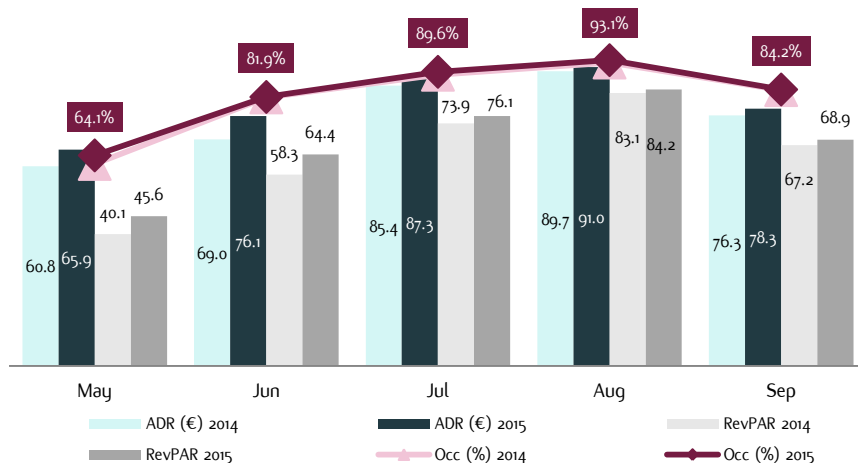
Hotel supply equated to an average of 893 opened hotels during the summer months, reaching 916 hotels in June 2015 (248,146 beds). In October, supply was 2.1% higher than the previous year, representing an 8% increase in bed terms. 72% of the hotel supply is located in the main tourism areas, leading to saturation issues during the high season.

The average occupancy from June to September was 87.2%, reaching 93.1% in August and largely exceeding 2014 performance levels. Rates have also increased during each month of the high season, with a record growth of c. 10% in June. This strong performance led to an average RevPAR growth of 11% as of year-to-September 2015, supported by a 5% occupancy growth and a 7% rate increase.

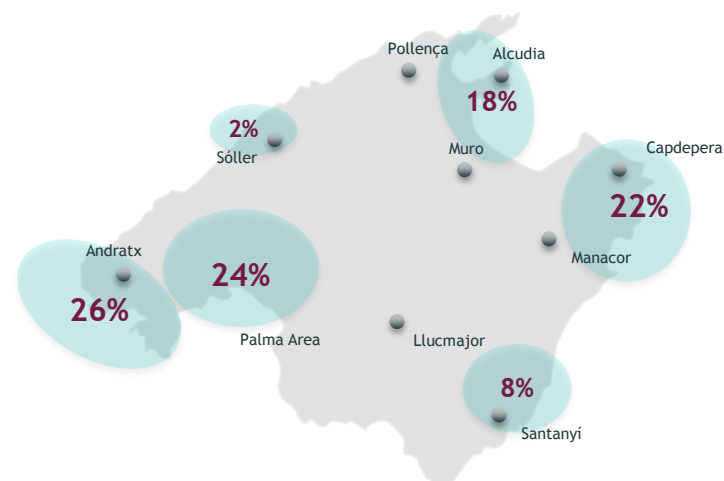
Hotel and Bed Supply
High Season 2013-2015



High Season KPIs
2015 vs. 2014



Majorca Hotel Supply (approximate distribution)
2013



Sources: INE, IBESTAT, Christie + Co Analysis

+ Menorca

Gaining momentum

Traditionally known as the hidden gem of the Balearic Archipelago, Menorca has been gaining momentum this season. This trend is set to continue during the 2016 high season - for instance, British Airways will connect Menorca to the UK for the first time.

Travel groups such as Thomas Cook and TUI are also planning on strengthening their operations in Menorca in 2016, as well as major tour operators from Ireland and Czech Republic increasing flight capacities to Menorca.

During the 2015 high season, the volume of arrivals increased significantly and hotels saw occupancy levels improve, despite some rate depreciation compared to 2014. Hotel openings have increased the local room supply by more than 1,000 units in the 3-, 4- and 5-star categories.

The island's environmental limitations, and particularly its capacity to sustainably welcome a growing number of visitors, is becoming a concern for the sector. In addition, some industry players have flagged that close to 50% of the tourist accommodation supply is not compliant with legal regulations.



Domestic Demand Recovery

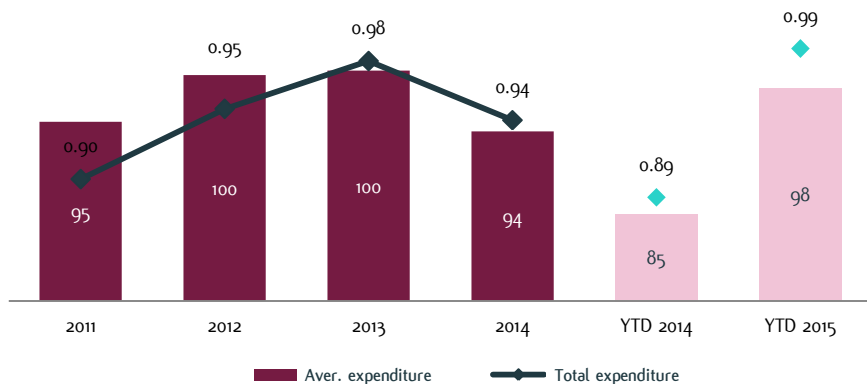
Average daily spending on the rise

The volume of arrivals to Menorca remained fairly stable between 2011 and 2014, with approximately 1.1 million tourists each year. However, there was a considerable increase in arrivals as of year-to-September 2015 compared to the same period in 2014 (c. 9%), with almost 97,000 additional tourists visiting Menorca.

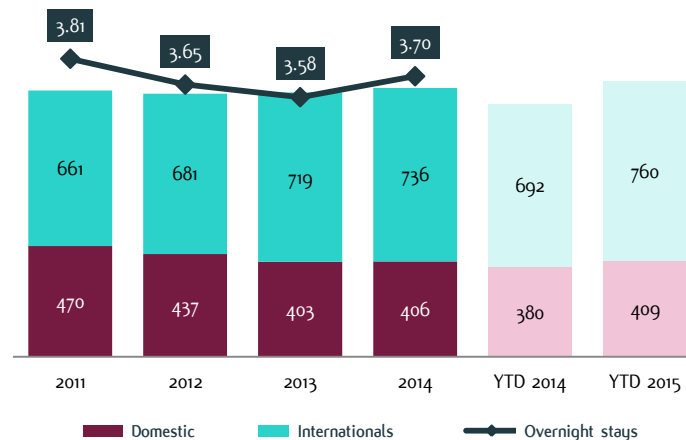
The volume of domestic arrivals has been particularly strong (+7.5%), after having recorded losses of around 5% yearly in the two previous years. However, whilst domestic arrivals are growing, they continue to lose share compared to international arrivals, decreasing from 42% of total arrivals in 2011 to 35% today. The UK remains the largest international feeder market, accounting for 58% of international arrivals, followed by Italy (15%), Germany (9%) and France (6%).

After having decreased by 4% in 2014, tourist expenditure grew by 11% as of year-to-September 2015, rising slightly above €986 million. The average daily spending per visitor experienced an even more impressive growth, rising from €85 as of year-to-September 2014 to €98 over the same period in 2015 (+16%).

Tourist expenditure 2011 - YTD 2015
Total expenditure (billions €) & Average daily expenditure (€)



Visitors ('000) & Overnight Stays (millions)
2011-YTD 2015



Top International Feeder Markets
Share of total international visitors - High season 2015

58%	UK	
15%	Italy	
9%	Germany	
6%	France	

Sources: IBESTAT, EGATUR, Christie + Co Analysis

Increasingly Affordable Hotels

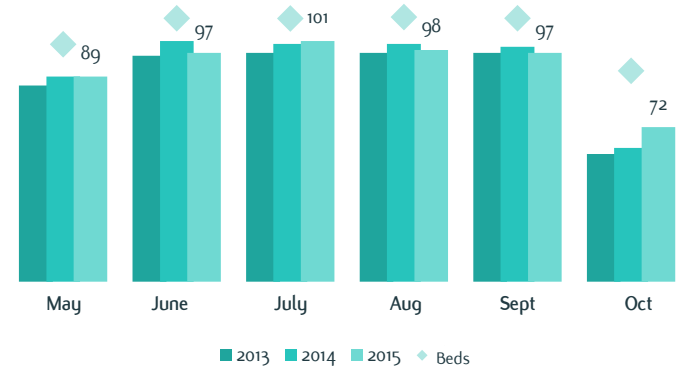
Lower prices encouraging occupancy

During the 2015 summer months, Menorca was home to 96 opened hotels on average (around 25,000 beds) compared to 98 in 2014, with almost half of this supply being located in the Ciutadella area (47%).

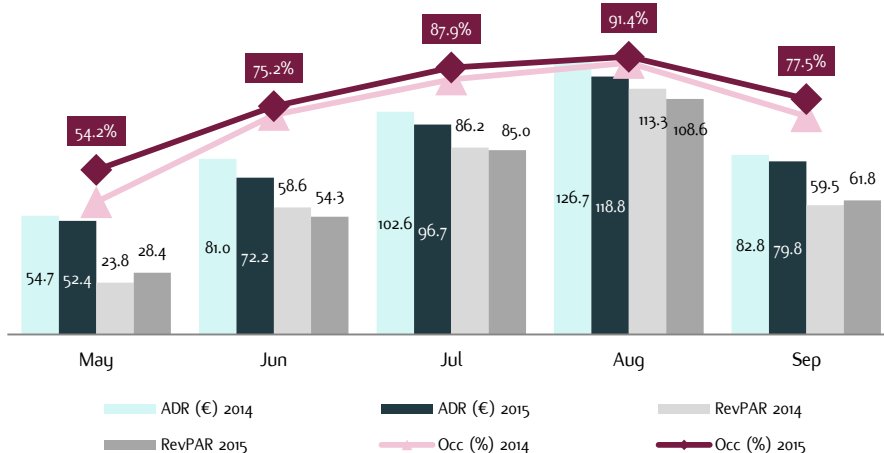
Hotel occupancy reached an average of 83% between June and September 2015, representing a 9% increase from 2014. This growth failed to compensate for the 7% rates decrease over the same period, leading to a 2% drop in RevPAR levels.

The strongest drop in rates occurred in June, with ADR dropping by c. 11% from €82.0 in June 2014 to €72.2 in June 2015. The island also experienced strong rates decline in July and August (c. 6%), whereas October saw both encouraging performance in both occupancy and rate, resulting in a c. 25% RevPAR increase, compared to October 2014.

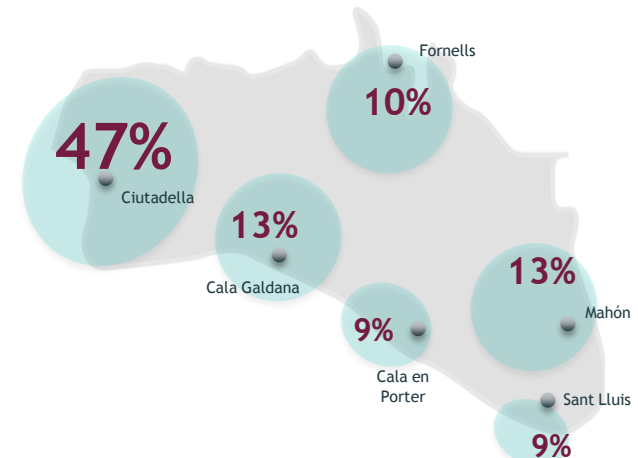
Existing Supply
High Season 2013-2015



High Season Hotel KPIs
2015 vs. 2014



Menorca Hotel Supply (approximate distribution)
2013



Source: IBESTAT, AENA, Christie + Co Analysis

+ Ibiza & Formentera

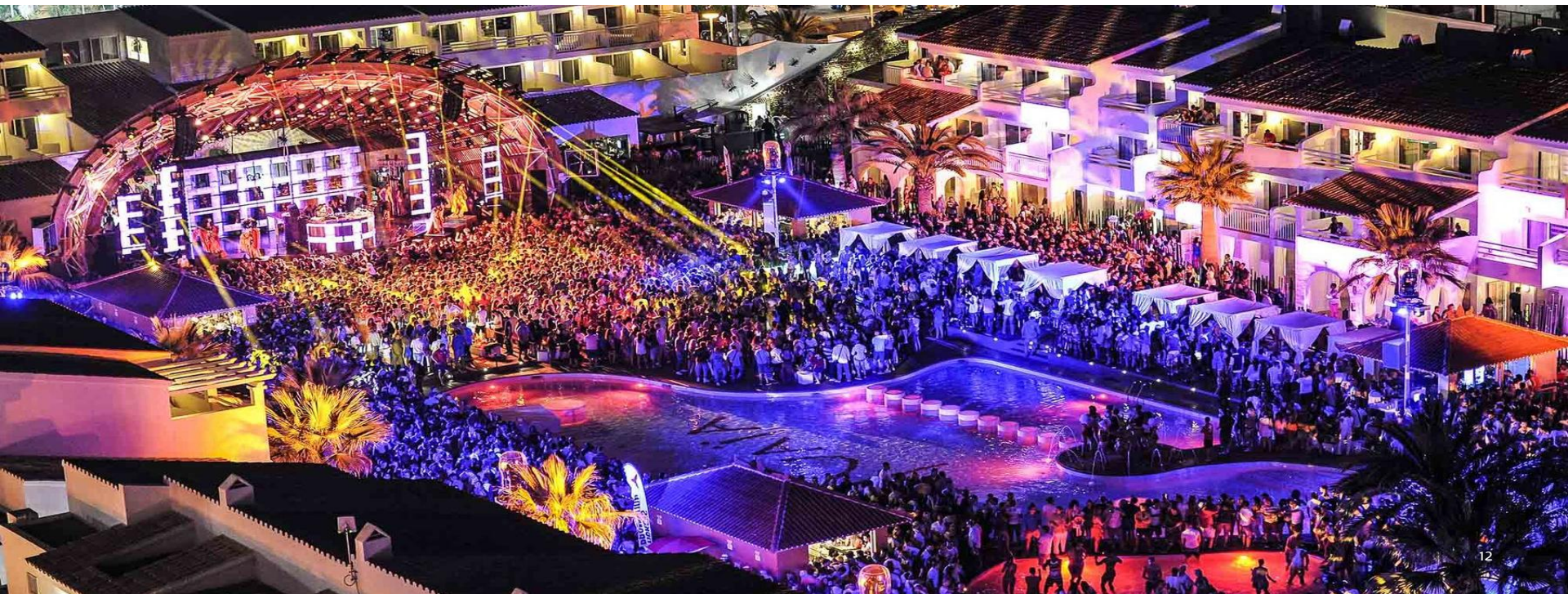
More than just summer islands

Ibiza welcomed over 2.5 million visitors as of year-to-September 2015. Over the years, it has become a must-go destination for national and international celebrities, turning into one of the 'trendiest' spots worldwide during the summer months.

Nevertheless, the Ibiza Tourism Foundation is pursuing every effort to promote the cultural and sports offer, among others, beyond its beaches and popular nightlife, in order to encourage travellers to visit the island off season, outside summer months.

Although Spanish travellers are Ibiza's primary market, the tourism industry wants to continue growing, leveraging on the improved experience of domestic tourists in the past years.

From the hotel sector perspective, hoteliers and other tourism players are expecting customers with greater purchasing power, which has already been reflected in the increased hotel rates. Eight hotels have opened in 2015, within the 3- and 4-star categories, growing supply by more than 1,000 rooms.



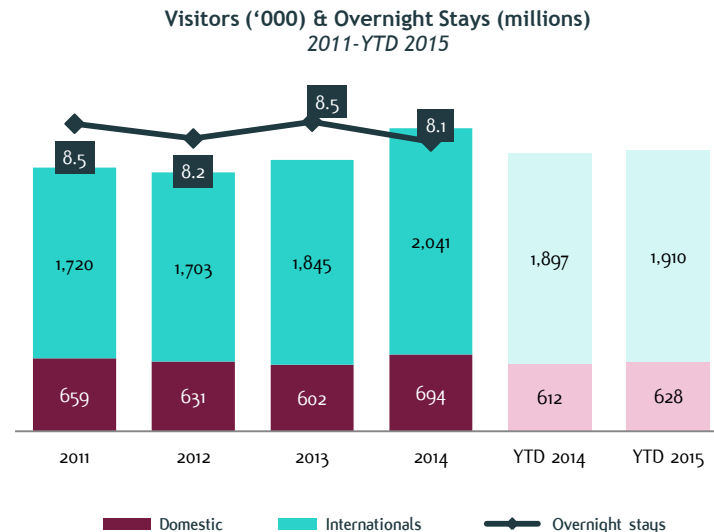
Reliance on the Domestic Market

Growing efforts to lengthen the high season

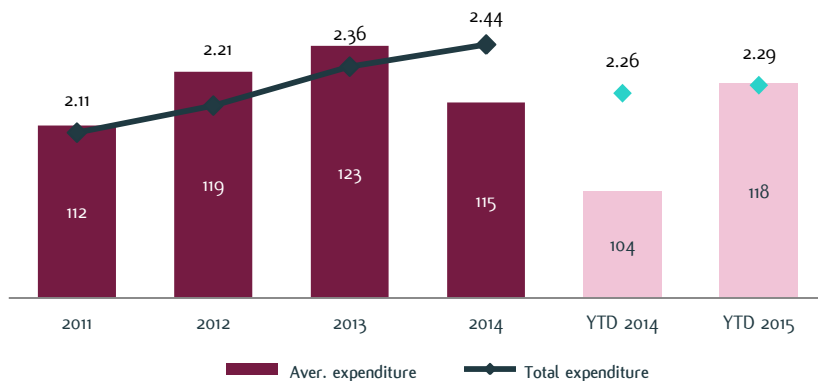
In 2015, the islands of Ibiza and Formentera welcomed 1.2% more visitors than the previous year, totalling more than 2.5 million tourists as of year-to-September. This growth has been led by the increase of the domestic demand, which grew by 2.6% whilst international visits grew by 0.7%.

Foreign demand still represents 75% of total arrivals to Ibiza and Formentera, with the UK being the main feeder market (39%), followed by Italy (18%), Germany (14%) and Benelux (11%). It is worth noting the significant decrease in the number of passengers from Germany (-13.5%) and Austria (-12.2%), which, according to the Islands authorities, is due to poor air links.

Total spending has reached c. €2.3 billion as of year-to-September, which represents a 1.3% increase from the same period in 2014. The average daily spending per visitor rose from c. €104 as of year-to-September 2014 to c. €118 over the same period in 2015 (+13.4%).



Tourist expenditure 2011 - YTD 2015
Total expenditure (billions €) & Average daily expenditure (€)



Top International Feeder Markets
Share of total international visitors - High season 2015

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Source: IBESTAT, EGATUR, Christie + Co Analysis

Improving the Hotel Offer

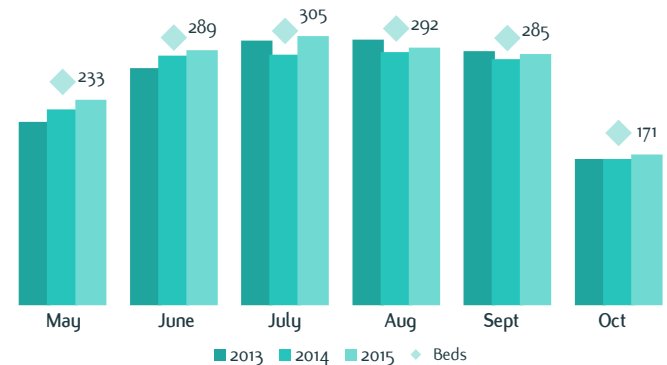
Lower occupancy vs. higher prices

During the 2015 high season, 293 hotels were opened in Ibiza and Formentera, representing a 4% increase from 2014. Supply reached 305 hotels in July (compared to 284 in July 2014), with more than 62,200 beds. During the months of May and October, there have been respectively 5% and 3% more opened hotels in the islands than in 2014.

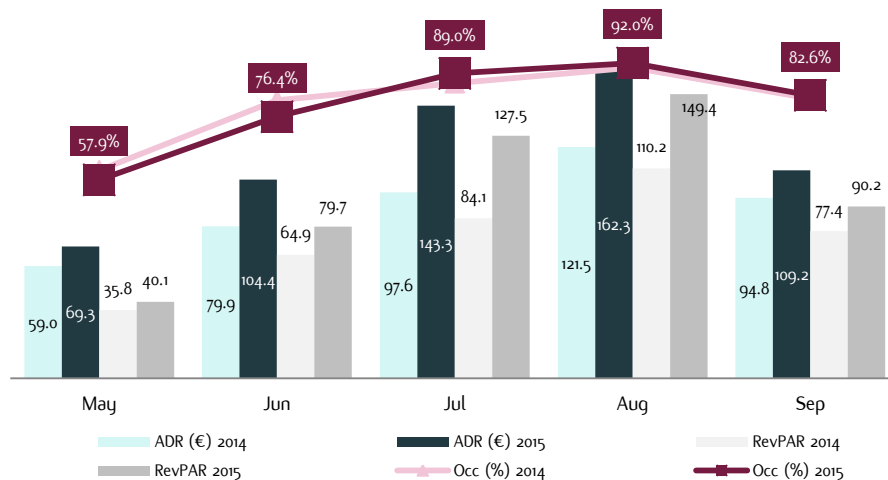
The hotel supply is well spread throughout the islands, with the exception of the northern part of Ibiza, San Juan Bautista, where only 8% of the total supply is located.

Occupancy has remained stable compared to the previous year figures, reaching 92% in August. The strong RevPAR increase during the high season (+19%) was led by the strong growth in rates, particularly during the summer months, reaching €149.4 in August.

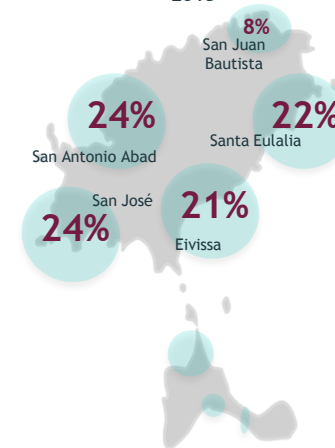
Existing Supply
High Season 2013-2015



High Season Hotel KPIs
2015 vs. 2014



Ibiza and Formentera Hotel Supply (approximate distribution)
2013



* Non available data for Formentera

Source: IBESTAT, AENA, Christie + Co Analysis

+ “Eco Tax” or “Tourist Tax”

One of the turning points during the 2015 season was the announcement of the “eco tax”, “tourist tax” or “sustainable tourism tax” to be introduced by the new Government from summer 2016 onwards.

Implementation and purpose

Visitors will be charged a tax between 50 cents to €2 per day, depending on the category of hotel. The tax will also vary between the high and low seasons - a 50% discount will apply off season in order to support the lengthening of the main tourist season and to mitigate seasonality.

Still under discussion

Initially, it was announced that the income from this tax would be invested in the promotion of sustainable tourism, but authorities will continue discussing with members of the tourism sector and the social, economic and environmental actors to improve the text, currently under consideration.

“Tourist Tax” examples around Europe

France
These taxes were initially implemented in Paris in 1994 and vary from 20 cents in camping sites, hostels and 1-star hotels up to €1.5 per person per day in 4-star and 5-star hotels. Moreover, an extra 2% is charged for rooms with rates over €200.

Catalonia
Clients of 5-star hotels pay €2.5 per night, and €1.1 in 4-star hotels. The tax is 90 cents in all other categories.

Italy
In Florence, the tax is €1 per person per night for all rooms. In Milan, the tax is €5 for 4-star hotels and above. In Rome, the tax is €3 for 5-star hotels and €2 otherwise.

Germany
In Germany, the tax varies from 25 cents up to €5 per person per night or 5% of the invoice depending on the room type & accommodation category.

Pros

- There is no evidence that the introduction of a tourist tax impacts a destination’s competitiveness
- Catalonia is a good example of the destinations which have not been affected by the tourist tax
- Neighbouring countries, and particularly members of the EU, including France, Italy and Germany, have introduced similar taxes in recent years for the improvement or development of their tourism industry
- Customers are willing to pay more if the revenue is used for the maintenance of the environment and improved infrastructure

Cons

- Potential loss of competitiveness, tourism demand, profit margins, investment and employment
- Discrimination of the legal offer against unregulated tourist accommodation
- Hotels having to become tax collectors
- Management costs for hotel companies and guarantee of how the money raised is used
- Tour operators have not included the tax in the 2016 season’s catalogue

Source: AENA, IBESTAT, Christie + Co Analysis

+ Future Outlook

Opportunities & challenges for the coming years

OPPORTUNITIES

- **Tourism is a source of wealth for the islands**, contributing to GDP and increasing employment
- **Political stability** compared to other Mediterranean countries
- Implementation of projects to mitigate seasonality, using the Islands' **natural, environmental and cultural resources**
- **Ongoing economic recovery in the main markets** such as the UK and Germany
- **Air connectivity improvement** with Mainland Spain, in-between islands and with other European destinations as a result of the increasing demand
- Rise in the volume of **greater purchasing power customers** through the improvement of the existing offer



CHALLENGES

- Regulation of the existing **unregulated tourist accommodation**
- Effective control and management of the **tax on tourist accommodation**
- Reaching an agreement on sourcing **funding to improve the sector's competitiveness**
- Increasing regulation of existing **all-inclusive hotels**, currently detrimental to the new hotel supply
- **Overcapacity and consequent deterioration** of certain tourist areas
- **Sourcing qualified staff** to deliver a quality product and service

Brief Introduction to Christie + Co

We are the leading hotel and leisure advisers in Europe

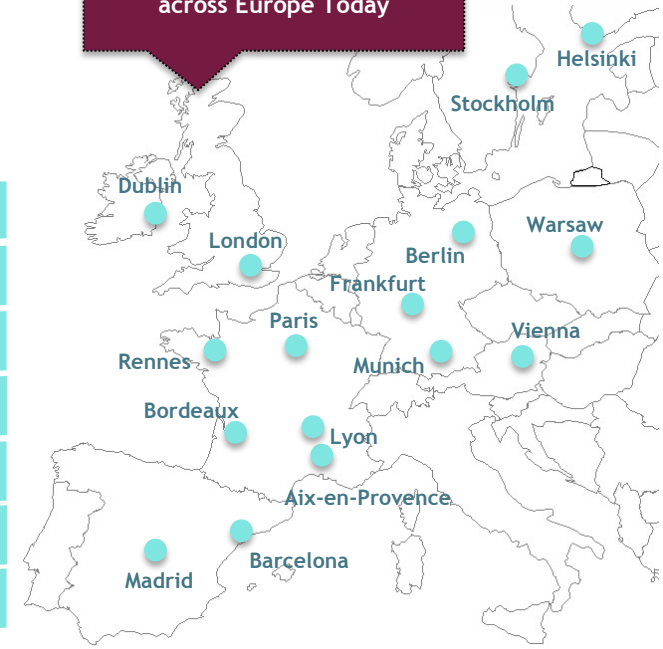
80 years of progressive growth and development

- Established by three partners in London's West End in 1935
- First International offices opened in Frankfurt and Paris in 1998
- Corporate functions added to areas of expertise
- Listed on the AIM (Alternative Investment Market) in 2005

Christie + Co today

- More than 250 professionals
- Leading valuers, consultants and brokers
- Specialists across 7 sectors
- Pan-European multi-lingual team
- 450 hotel valuations completed yearly
- More than 400 current hotel sale instructions
- Launch of the Asia Desk in 2015

16 Offices across the UK and 16 International Offices across Europe Today



Why Christie + Co?

Reasons to work with us

Experience

We are Europe's **leading advisor in the hospitality industry** and we have extensive knowledge and experience of the Spanish and Catalan hotel markets.

Specialisation

We have the largest **highly-experienced team of brokers and consultants** across Europe, specialised in the hotel sector.

Personalisation

We offer **services tailored to each client**. Our ability to maximise proceeds and meet sellers' key objectives is second to none.

Integration

We work in an integrated manner with the wider network of Christie + Co. The Spain-based Hotels team are supported by a large team of **brokers, valuers and consultants across our international offices** headquartered in London.

Quality

We focus on providing outstanding service quality and **our customers appreciate the high added value of our product**.



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