Spanish Hotel Market
Urban Destinations

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GLOSSARY

ADR – Average Daily Rate. It is defined as the income per room for the period divided by the total number of rooms occupied during the mentioned period

b – Billion

CAGR – Compound Annual Growth Rate

C&Co – Christie & Co

ECB – European Central Bank

INE - Instituto Nacional de Estadística

k – Thousand

KPI – Key Performance Indicator

m – Million

Occ – Occupancy. Proportion of occupied rooms over the total number of rooms available in a given period

OECD – Organisation for Economic Co-operation and Development

PEUAT – Pla Especial Urbanístic d'Allotjaments Turístics. Urban plan for tourist accommodation in Barcelona

RevPAR – Revenue per Available Room. Defined as room occupancy multiplied by the average achieved room rate or rooms revenue divided by the number of available rooms

GDP – Gross Domestic Product

var – Variation

YoY – Year-on-year

vs – Versus

INTRODUCTION

This report analyses 14 Spanish cities (Barcelona, San Sebastian, Palma, Cadiz, Malaga, Madrid, Seville, Bilbao, Valencia, Santander, Alicante, Cordoba, Granada and Santiago de Compostela), highlighting the evolution of their main hotel performance indicators in 2018, as well as YTD 2019 data, the future outlook of the markets and a comparison between the Overnight to Bed Ratio of Barcelona and Madrid with other European urban destinations. We have selected these cities according to their volume of demand and supply as well as their levels of RevPAR.

Urban destinations have benefited from the healthy economic conditions in Spain, experiencing a robust recovery within the last few years. Also, urban hotels have consolidated as one of the most reliable tourism growth drivers in the country. Excellent connectivity, improvements in the hotel supply and the increase of hotel demand, sustained by the international segment and the recovery of the MICE segment, led urban destinations to reach record numbers in 2018.

In 2018, Barcelona registered the largest volume of overnight stays in Spain and remained as the city with the highest RevPAR. Madrid is set to become a top European luxury-oriented destination, with seven five-star hotel projects in the pipeline. Seville, Bilbao and Valencia were the cities that experienced the most significant growth in both demand and hotel performance during the last years. Cities such as San Sebastian, Malaga, Palma and Cadiz benefit from being urban destinations by the sea, achieving the highest profitability levels after Barcelona. Whilst Madrid and Barcelona are the most sought-after cities for investors, other urban destinations are registering constant demand growth and investor's interest remains high.

Throughout this report we analyse the tourism and hotel fundamentals of each city, using public information sources that include: EXCELTUR, the National Statistics Institute (INE), AENA (Spanish Airports and Air Navigation), Ministerio de Fomento de España and Alimarket, as well as Christie & Co's sources.

KEY OBSERVATIONS

EXCELLENT CONNECTIVITY

All the analysed cities feature an airport. Together, these 14 airports represented 74.4% of the total passenger volume in Spain in 2018. All of them registered constant growth since 2014, with a +8.1% CAGR (2014-2018)

DEMAND GROWTH

Overnights volume in the selected cities increased by +2.9% in 2018, above the country average which recorded a flat variation of -0.1%

REDUCTION OF SEASONALITY

Whilst urban destinations are subject to slight seasonality, we noted a decrease in the dependence on the high season in 2018

AVERAGE LENGTH OF STAY

The average length of stay was 2.3 days in 2018, below the 3.2 days national average and remained stable since 2014

INCREASE OF THE FOUR AND FIVE-STAR CATEGORIES

Current hotel supply in the studied cities is weighted by the four-star and the three-star categories, representing 84.8% of the total room supply. However, most of the future supply due to open in the coming years will be a mix of four and five-star hotels (80.1% of future room supply)

ADR AS THE MAIN PROFITABILITY DRIVER

When compared with 2014, all the cities analysed registered in 2018 a positive RevPAR evolution, representing an overall growth of +6.9% (CAGR 2014-2018), sustained by +5.5% ADR increase and a lighter occupancy uplift of +1.3%

2018 OVERVIEW

Destination	RevPAR (€)	ADR (€)	Occ. (%)
Barcelona	**98.89**	125.50	78.8
San Sebastian	97.24	**134.50**	72.3
Palma	84.89	104.80	**81.0**
Cadiz	75.63	104.90	72.1
Malaga	73.92	94.40	78.3
Madrid	73.50	95.70	76.8
Seville	71.97	93.10	77.3
Bilbao	69.51	92.80	74.9
Valencia	60.55	81.50	74.3
Santander	54.75	82.20	66.6
Alicante	54.01	74.40	72.6
Cordoba	48.89	72.00	67.9
Granada	46.03	67.40	68.3
Santiago de Compostela	37.84	68.30	55.4

€98.89
Barcelona registered the highest RevPAR levels in 2018

€134.50
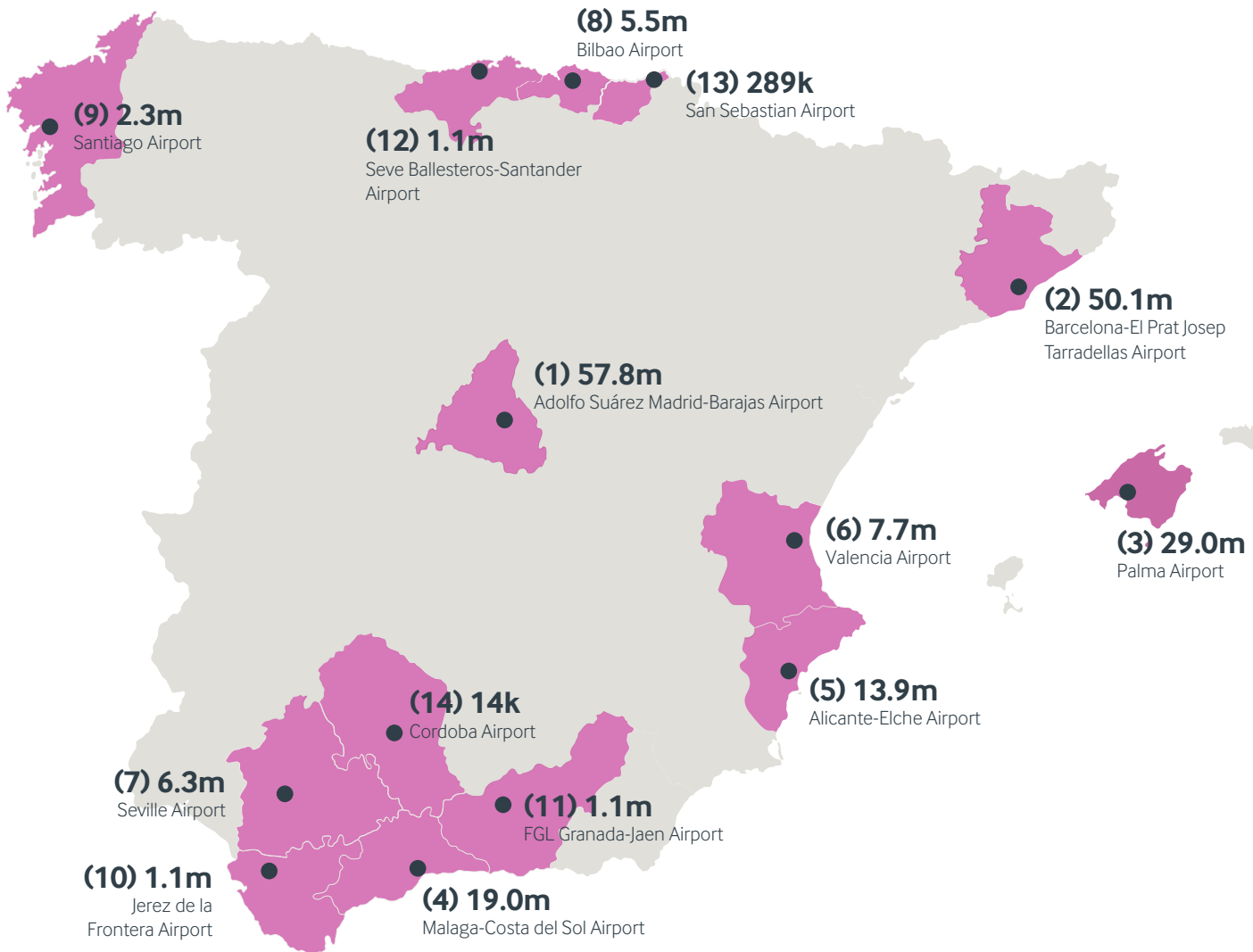San Sebastian registered the highest ADR levels in 2018

81.0%
Palma registered the highest Occupancy levels in 2018

Source: Exceltur
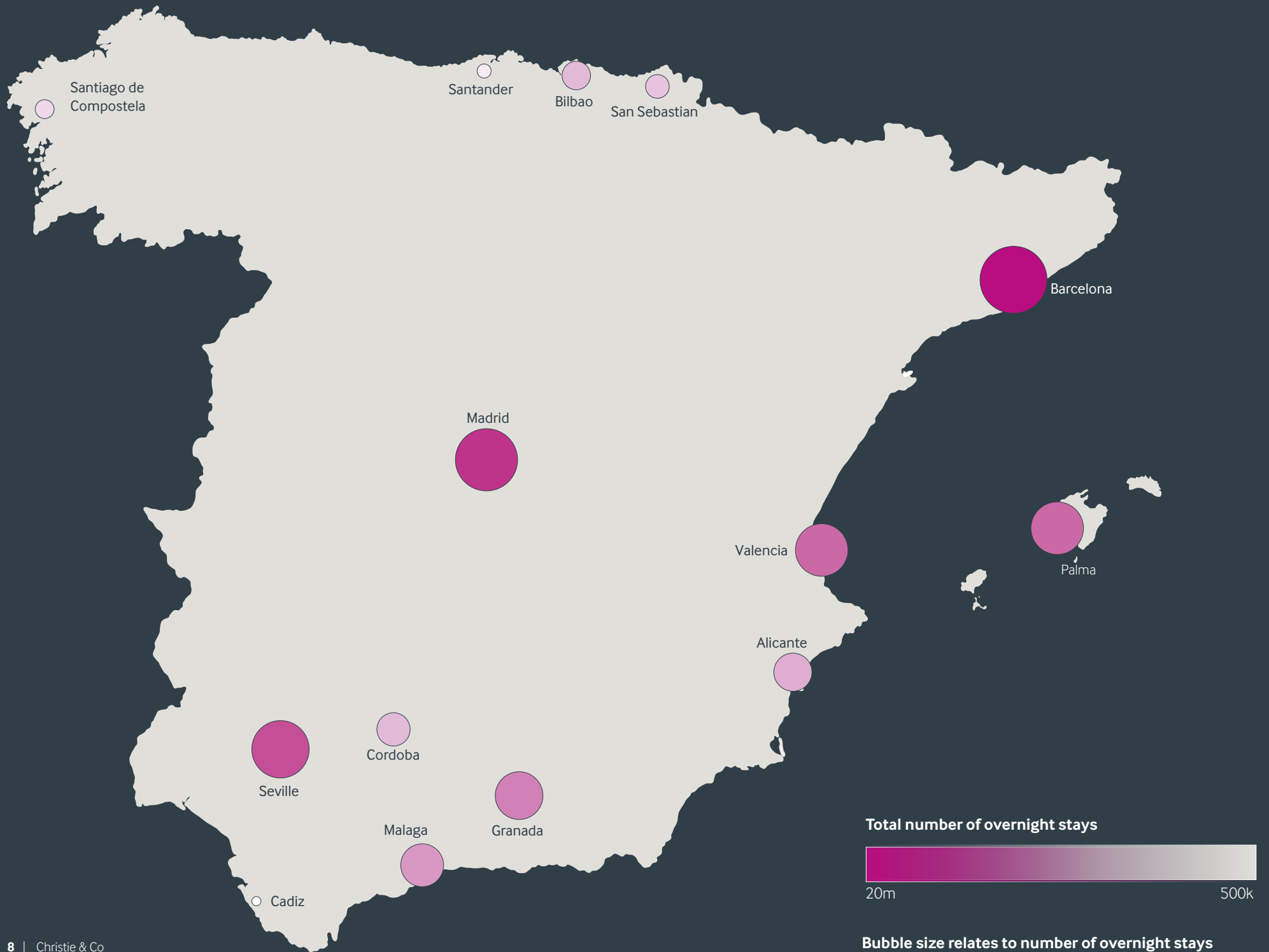
AIR ACCESSIBILITY

In 2018, the 14 airports represented 74.4% of the total air travellers in Spain. All airports registered a steady increase in number of passengers since 2014, with a total CAGR of +8.1% (2014-2018). This trend continued in 2018 with a +6.8% growth.

These airports catered primarily for the overseas segment (72.6%), led by the UK (14.1%) and Germany (11.3%). Ryanair and Vueling were the low-cost airlines registering the highest volume of passengers, 17.8% and 16.8%, respectively, while Iberia was the most used full-service airline (9.2%).

Madrid, Barcelona and Palma represented 52.0% of the total number of passengers in the country. With 57.9m passengers, the airport Adolfo Suárez Madrid – Barajas was the busiest Spanish airport and the fifth in Europe, followed by the Barcelona – El Prat Josep Tarradellas Airport, with 50.2m (the second in the country and the sixth in Europe).

(8) 5.5m Bilbao Airport

(13) 289k San Sebastian Airport

(9) 2.3m Santiago Airport

(12) 1.1m Seve Ballesteros-Santander Airport

(2) 50.1m Barcelona-El Prat Josep Tarradellas Airport

(1) 57.8m Adolfo Suárez Madrid-Barajas Airport

(6) 7.7m Valencia Airport

(3) 29.0m Palma Airport

(14) 14k Cordoba Airport

(5) 13.9m Alicante-Elche Airport

(7) 6.3m Seville Airport

(11) 1.1m FGL Granada-Jaen Airport

(10) 1.1m Jerez de la Frontera Airport

(4) 19.0m Malaga-Costa del Sol Airport

Airport Ranking*		% Nat.	% Inter.	YoY 2018	CAGR 4Y
1	MAD	28%	72%	8.4%	8.5%
2	BCN	27%	73%	6.1%	7.5%
3	PMI	24%	76%	4.0%	5.9%
4	AGP	14%	86%	2.1%	8.5%
5	ALC	11%	89%	2.0%	8.6%
6	VLC	27%	73%	15.2%	14.0%
7	SVQ	50%	50%	24.9%	13.2%
8	BIO	57%	43%	10.0%	8.0%
9	SCQ	76%	24%	3.0%	6.9%
10	XRY	49%	51%	8.3%	10.6%
11	GRX	84%	16%	24.9%	14.7%
12	SDR	56%	44%	17.7%	7.8%
13	EAS	99%	1%	2.7%	4.2%
14	ODB	99%	1%	2.4%	5.8%

Source: AENA

* Number of passengers

Santiago de Compostela

Santander

Bilbao

San Sebastian

Barcelona

Madrid

Valencia

Palma

Alicante

Seville

Cordoba

Granada

Malaga

Cadiz

Total number of overnight stays

20m   500k

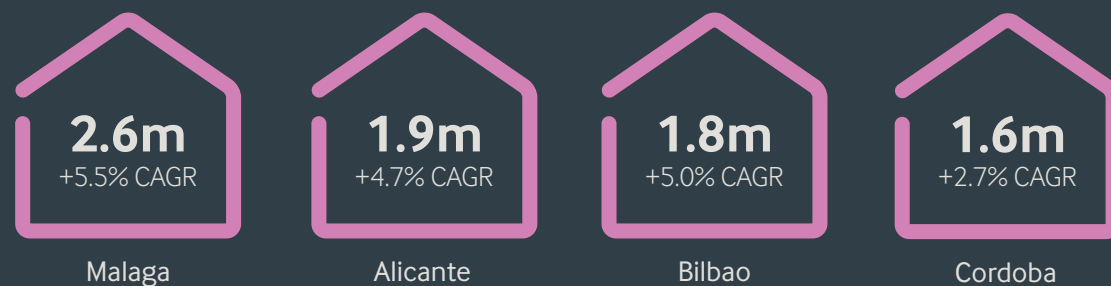**Bubble size relates to number of overnight stays**
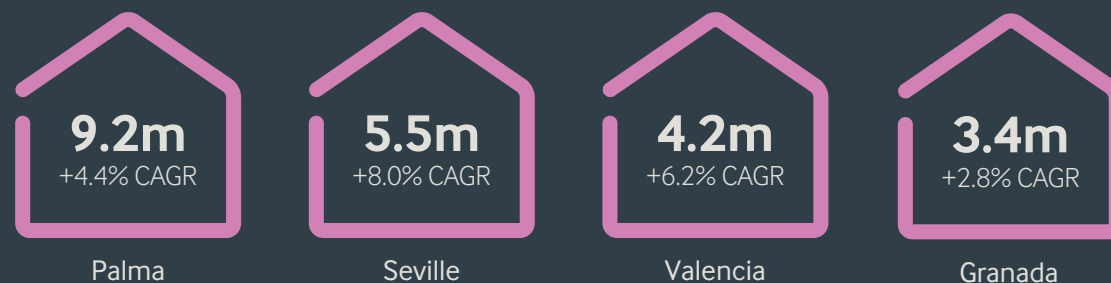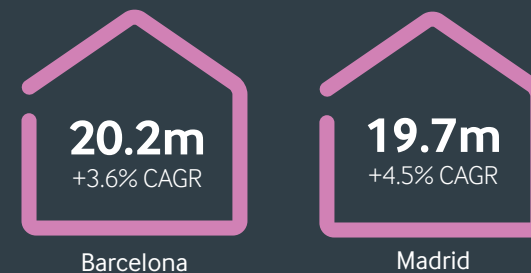
INTRODUCING THE URBAN HOTEL DESTINATIONS

In 2018, the 14 cities registered a combined 31.1% of the total number of arrivals (32.7m) and 21.9% of overnight stays (74.3m) in Spain.

While the number of overnight stays in the country remained stable (-0.1%) in 2018, affected by a slight decrease in the resort markets (-1.3%), demand in the analysed cities grew by +2.9% consolidating a steady growth trend since 2014 (+4.5% CAGR 2014-2018).

As a result of the excellent accessibility, the economic stability and the quality improvements of the hotel supply, the international segment has consistently increased (+6.1% CAGR) to represent 69.9% of the total overnight stays in 2018. Consequently, the hotel rates have risen and the domestic demand growth has slowed down (+1.3% CAGR), as more price sensitive than the overseas segment.

	Domestic		International	
	YoY 2018	**CAGR 4Y**	**YoY 2018**	**CAGR 4Y**
Barcelona	-6.4%	-0.1%	4.3%	4.3%
Madrid	0.7%	0.5%	2.8%	7.5%
Palma	6.5%	1.3%	6.8%	8.3%
Seville	-2.8%	2.3%	9.9%	8.7%
Valencia	-0.6%	1.6%	7.4%	9.5%
Granada	3.7%	4.2%	6.9%	10.7%
Malaga	12.6%	1.6%	4.9%	4.8%
Alicante	0.0%	2.3%	5.6%	8.6%
Bilbao	-0.1%	-0.4%	6.7%	15.7%
Cordoba	-4.0%	4.0%	1.4%	8.0%
San Sebastian	4.9%	0.1%	2.2%	5.5%
Santiago de Compostela	-1.0%	3.6%	-5.7%	1.5%
Santander	-5.6%	2.1%	1.8%	6.4%
Cadiz	1.0%	1.9%	-17.0%	4.6%

Source: INE

2018 NUMBER OF OVERNIGHT STAYS AND TOTAL 4Y CAGR

20.2m +3.6% CAGR — Barcelona

19.7m +4.5% CAGR — Madrid

9.2m +4.4% CAGR — Palma

5.5m +8.0% CAGR — Seville

4.2m +6.2% CAGR — Valencia

3.4m +2.8% CAGR — Granada

2.6m +5.5% CAGR — Malaga

1.9m +4.7% CAGR — Alicante

1.8m +5.0% CAGR — Bilbao

1.6m +2.7% CAGR — Cordoba

1.4m +5.7% CAGR — San Sebastian

1.3m +3.1% CAGR — Santiago de Compostela

885k +5.0% CAGR — Santander

578k +5.0% CAGR — Cadiz

THE URBAN HOTEL DESTINATIONS

Representing 53.7% of the total overnights in 2018, Barcelona and Madrid were the largest urban destinations in the country. Both registered similar demand increases (+2.0% and +2.7% respectively), sustained by the overseas market.

While the domestic segment remained stable in Madrid, Barcelona experienced a major drop in national overnights of -6.4%, on the back of the political situation.

With 9.2m overnight stays, Palma was the third most visited city in volume of overnights and registered the second highest demand growth in 2018 (+5.8%). Malaga was the city that experienced the largest uplift in demand (+6.7%) driven by increases in both domestic and international overnights. Seville and Valencia also registered a robust increase in overnights (+5.7% and +5.0%) and were the cities that grew the most within the last four years (+8.0% and +6.2% CAGR 2014-2018, respectively).

In 2018, the international repercussion of the new events held in Bilbao, like the MTV Europe Music Awards or the two European Rugby Cups, led the city to achieve a +3.1% increase in overnight stays. On the other hand, San Sebastian registered a similar evolution than Bilbao, consolidating a positive +5.7% CAGR since 2014.

Whilst tourism demand in Granada recovered in 2018 (+3.5% vs 2017), positioning it as the sixth Spanish city in terms of overnight stays, poor weather conditions affected Cordoba (mainly in March and April, considered the high season), which experienced the first demand drop (-3.1%) in the last four years.

Santiago de Compostela was the city that registered the largest decline in 2018 (-7.9%) because of the significant number of single day visitors received (those that do not spend the night in the destination) and the increase of alternative accommodation (tourist apartments).

Source: INE

WHO ARE THE FEEDER MARKETS?

Tourist demand in the selected urban destinations was weighted towards the international segment, which represented 69.9% of the total overnight stays in 2018, with Palma and Barcelona as the most international cities.

Granada and Bilbao presented the most balanced demand mix between the domestic and the international segments and Santander was the most domestic-led market, representing 72.6% of the total overnight stays in the city.
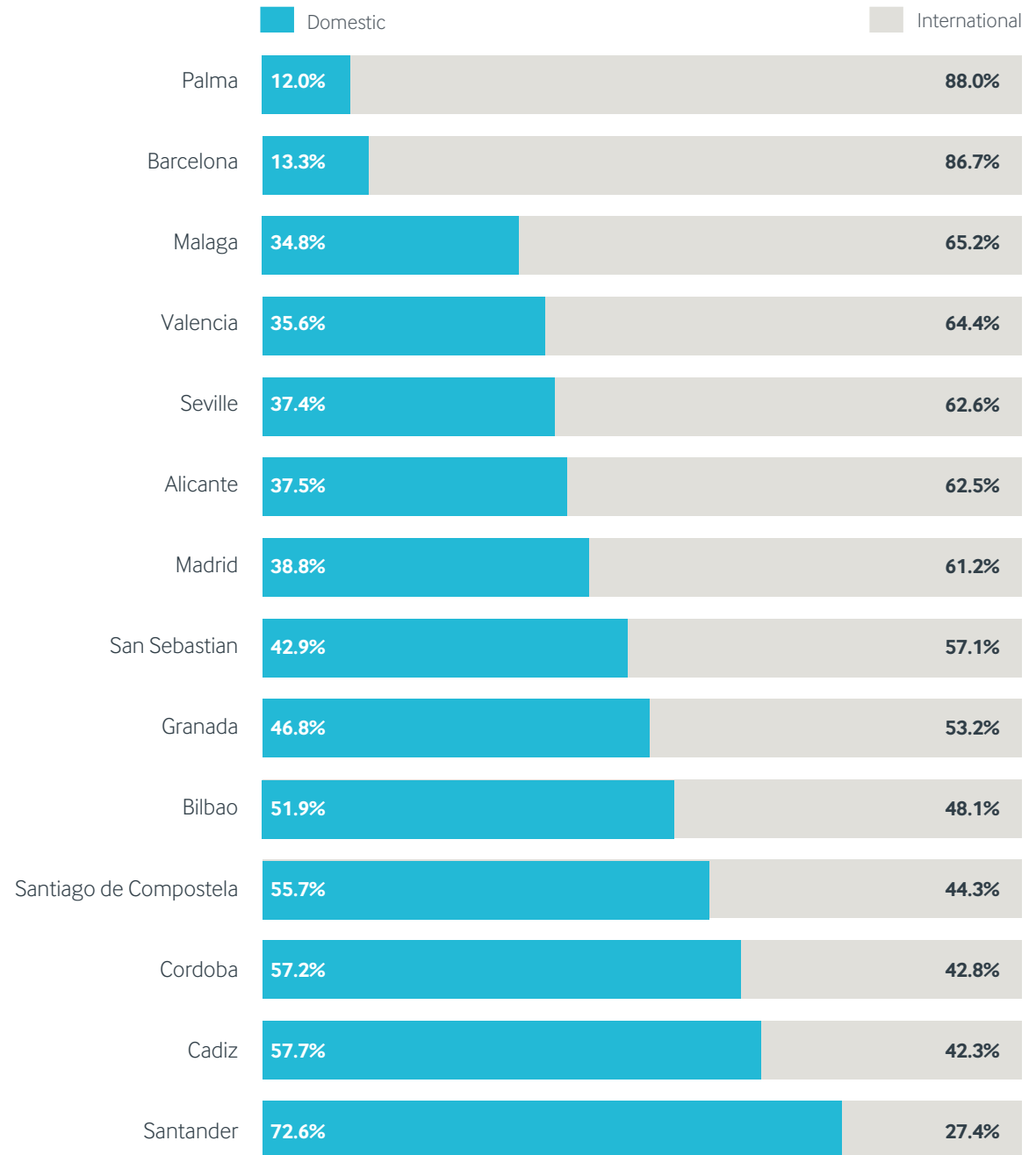
88.0%
Palma was the most international-led market

72.6%
Santander was the most domestic-led market.

Hotel overnights between domestic and international (2018)

Domestic ▮   International ▯

City	Domestic	International
Palma	12.0%	88.0%
Barcelona	13.3%	86.7%
Malaga	34.8%	65.2%
Valencia	35.6%	64.4%
Seville	37.4%	62.6%
Alicante	37.5%	62.5%
Madrid	38.8%	61.2%
San Sebastian	42.9%	57.1%
Granada	46.8%	53.2%
Bilbao	51.9%	48.1%
Santiago de Compostela	55.7%	44.3%
Cordoba	57.2%	42.8%
Cadiz	57.7%	42.3%
Santander	72.6%	27.4%

SEASONALITY

When analysing seasonality in urban Spanish destinations, the season periods (high, mid and low) often vary according to the destination profile (location, climate and demand generators). While high season for inland cities (Barcelona, Malaga, San Sebastian, Cadiz, Palma, Alicante and Santander), except for Bilbao, is comprised between the March, April, May and October months, the rest of the analysed cities (Barcelona, Malaga, San Sebastian, Cadiz, Palma and Santander) received the highest volume of demand during the summer months (June, July, August and September).

Due to its location in Mallorca Island, a consolidated resort destination, Palma was the city with the most dependence on the high season, with 56.0% of the annual overnight stays concentrated in the summer. The northern cities of Santiago de Compostela, Santander and San Sebastian also experienced strong seasonality. On the other hand, Madrid was the city with the lowest seasonality with its high season comprising 35.0% of the annual overnights, followed by Seville and Granada.
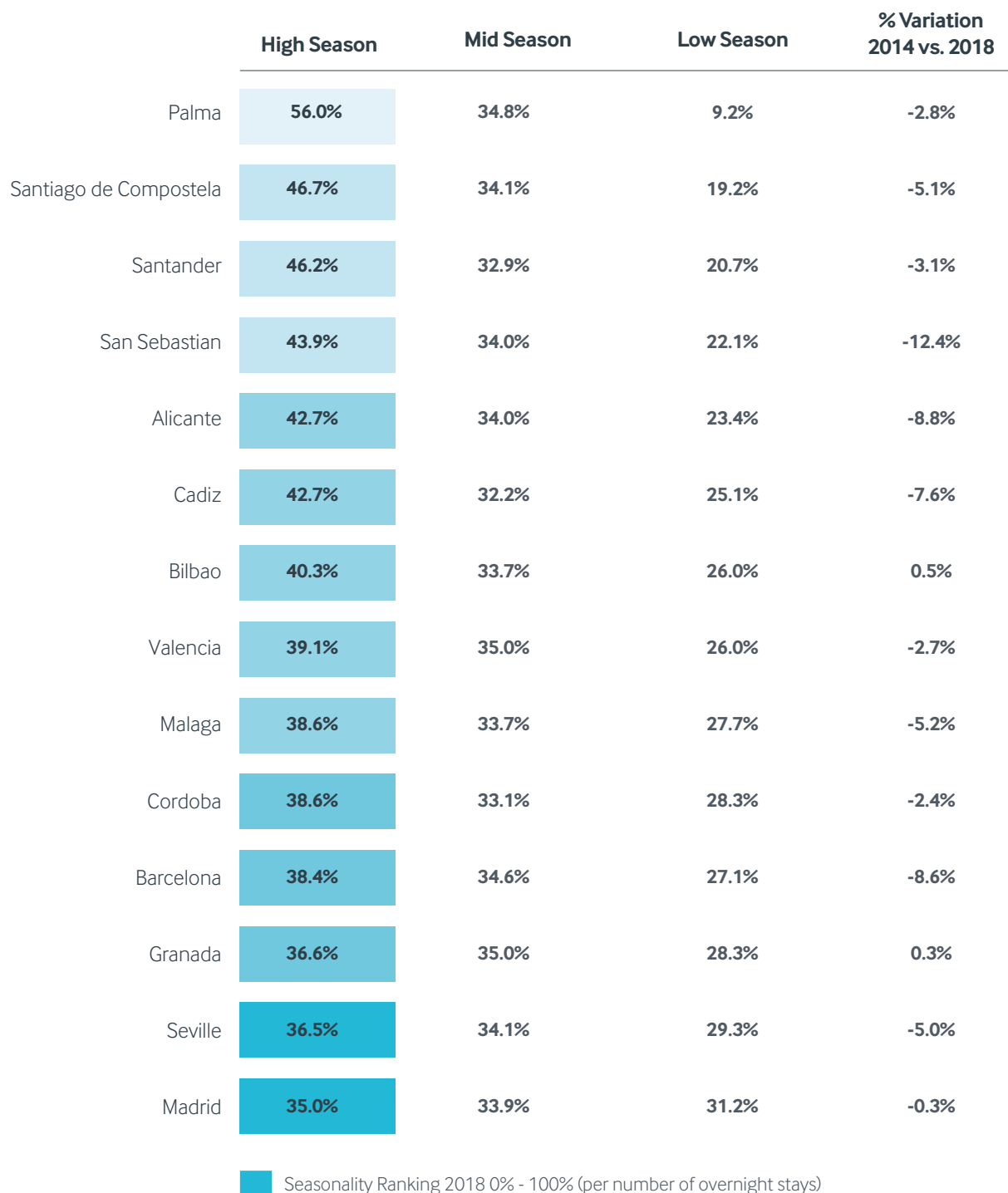
In 2018, we noted an overall -4.5% reduction in seasonality when compared to 2014. San Sebastian, for instance, registered the largest decrease in its dependence on the high season (-12.4%/2014), followed by Alicante (-8.8%) and Barcelona (-8.6%).

AVERAGE LENGTH OF STAY

The analysed cities registered an average length of stay of 2.3 days in 2018, below the national average (3.2 days) and remained stable since 2014 (-0.2% CAGR 2014-2018). The national average comprises both urban and resort destinations, with the average length of resort stay of 5 days, as previously highlighted in our recent report "Spanish Hotel Market: Resort Destinations".

Thanks to its resort component, Palma was the market with the longest average length of stay in 2018 (3.8 days), followed by Barcelona (2.5 days), Cadiz (2.4 days) and Alicante (2.3 days). On the other hand, Cordoba (1.6 days), Granada (1.8 days) and Santiago de Compostela (1.8 days) registered the shortest average length of stay.

Valencia was the city that experienced the largest increase in the average length of stay, with a positive CAGR of +2.8%, followed by Cadiz (+2.6%) and Cordoba (+1.6%).

	High Season	Mid Season	Low Season	% Variation 2014 vs. 2018
Palma	56.0%	34.8%	9.2%	-2.8%
Santiago de Compostela	46.7%	34.1%	19.2%	-5.1%
Santander	46.2%	32.9%	20.7%	-3.1%
San Sebastian	43.9%	34.0%	22.1%	-12.4%
Alicante	42.7%	34.0%	23.4%	-8.8%
Cadiz	42.7%	32.2%	25.1%	-7.6%
Bilbao	40.3%	33.7%	26.0%	0.5%
Valencia	39.1%	35.0%	26.0%	-2.7%
Malaga	38.6%	33.7%	27.7%	-5.2%
Cordoba	38.6%	33.1%	28.3%	-2.4%
Barcelona	38.4%	34.6%	27.1%	-8.6%
Granada	36.6%	35.0%	28.3%	0.3%
Seville	36.5%	34.1%	29.3%	-5.0%
Madrid	35.0%	33.9%	31.2%	-0.3%

Seasonality Ranking 2018 0% - 100% (per number of overnight stays)

Source: INE
Note: Seasonality varies according to each city

3,931 rooms
Bilbao

2,409 rooms
San Sebastian

1,882 rooms
Santander

2,703 rooms
Santiago de
Compostela

37,543 rooms
Barcelona

38,526 rooms
Madrid

25,629 rooms
Palma

8,263 rooms
Valencia

3,054 rooms
Cordoba

3,480 rooms
Alicante

6,320 rooms
Granada

9,612 rooms
Seville

4,623 rooms
Malaga

1,075 rooms
Cadiz

Bubble size relates to number of rooms

EXISTING SUPPLY

The 14 cities comprised a total supply of 1,456 hotels and 149,050 rooms, representing 22.2% of the total hotel room supply in Spain. The four-star category accounted for the largest proportion of the room stock in the selected destinations (58.3%), followed by the three-star (22.5%) and the five-star (11.7%). Branded hotels represented 68.1% of supply, with Meliá Hotels International (3.6% of the total room supply), Catalonia Hotels & Resorts (3.0%) and NH Hotel Group (2.9%) as the top three operators.

Madrid (38.5k) and Barcelona (37.5k) were the Spanish cities that comprised the largest number of rooms, followed by Palma (25.6k). Conversely, Cadiz registered the smallest hotel supply (1.1k). Barcelona (6.2k) and Madrid (5.4k) registered the largest number of luxury hotel rooms in their respective markets, which, combined, represented 66.7% of the total five-star rooms within all the cities. Nevertheless, Santiago de Compostela and Barcelona were the markets with the largest percentage of luxury keys (both registering 16.4% of the current hotel supply in each city).

In 2018, we identified 71 hotel openings in these cities, adding 6,769 new rooms. With 32 hotel openings, the four-star segment was the category that grew the most, followed by the five-star (18) and the three-star (17). Branded hotels represented 79.2% of the total new rooms, with Eurostars Hotels (10.2%) and Meliá Hotels & Resorts (8.2%) the brands with the most openings last year. Despite the restrictions to the concession of new hotel licences, Madrid (+1,677 rooms), Barcelona (+1,514) and Palma (+1,390) registered the strongest supply increases in 2018.
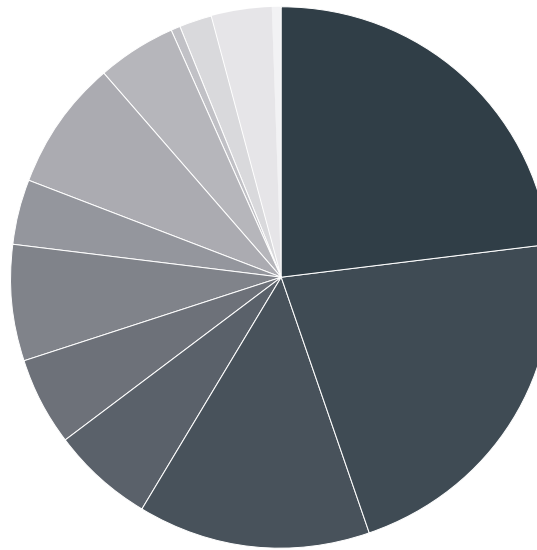
149,050
TOTAL ROOMS

Future supply: % of new hotel rooms per destination

City	%	N° of Hotels	N° of Rooms
Barcelona	23.1%	13	2,377
Madrid	21.8%	15	2,249
Malaga	13.7%	14	1,415
Valencia	6.0%	14	618
Bilbao	5.3%	6	551
Seville	7.0%	8	724
Palma	4.0%	9	415
San Sebastian	7.8%	10	807
Cadiz	4.6%	4	469
Santander	0.6%	1	64
Granada	2.0%	3	208
Cordoba	3.4%	3	354
Alicante	0.5%	1	50
Santiago de Compostela	0.0%	0	0

2018 Openings

Positioning

Destination	Rooms	1-star	2-star	3-star	4-star	5-star
Barcelona	1,514		300	218	692	304
Madrid	1,677	100		175	529	873
Malaga	298			101	197	
Valencia	258				258	
Bilbao	93				93	
Seville	464			87	60	317
Palma	1,390			482	592	316
San Sebastian	125		34		91	
Cadiz	0					
Santander	8		8			
Granada	348			37	311	
Cordoba	289			144	145	
Alicante	275				275	
Santiago de Compostela	30			30		
Total Urban Destinations	**6,769**	**2%**	**5%**	**22%**	**58%**	**12%**

FUTURE SUPPLY

We have identified a total of 106 projects (10,301 rooms) in the studied cities, which represent a 7.0% increase on the existing supply, mainly operated by Spanish hotel groups (82.0% of the total hotel pipeline). TSH (The Student Hotel) will be the hotel operator to introduce the most rooms into the selected cities (+10.3% over the existing supply, in Madrid, Barcelona and San Sebastian), followed by Marriott International (+6.2% in Madrid, Seville and Valencia) and Riu Hotels & Resorts (+5.6% in Madrid).

Despite the hotel restriction put in place in 2017, Barcelona reports the largest number of hotel developments (2,377 rooms). This is mainly explained by the fact that the ongoing schemes have obtained licences prior to the moratorium ruling (ie: Seventy Barcelona, Me by Melia, The Student Hotel in 22@ and Leonardo Royal Fira Barcelona in Marina del Port). Lastly, we have included the project Hard Rock Hotel in Sant Adrià del Besòs, adjacent to Barcelona.

With 2,249 rooms in the pipeline, Madrid is the second city in terms of future supply volume, followed by Malaga (1,415 rooms).

Proportionally to their market, we note that the cities that will experience the largest increase in supply are Malaga (+30.6%), Cadiz (+43.6%) and San Sebastian (+33.5%).

With seven luxury hotels and 1,060 rooms in the pipeline for the next years, Madrid is set to become the first urban destination in Spain per volume of luxury hotel rooms, exceeding Barcelona.
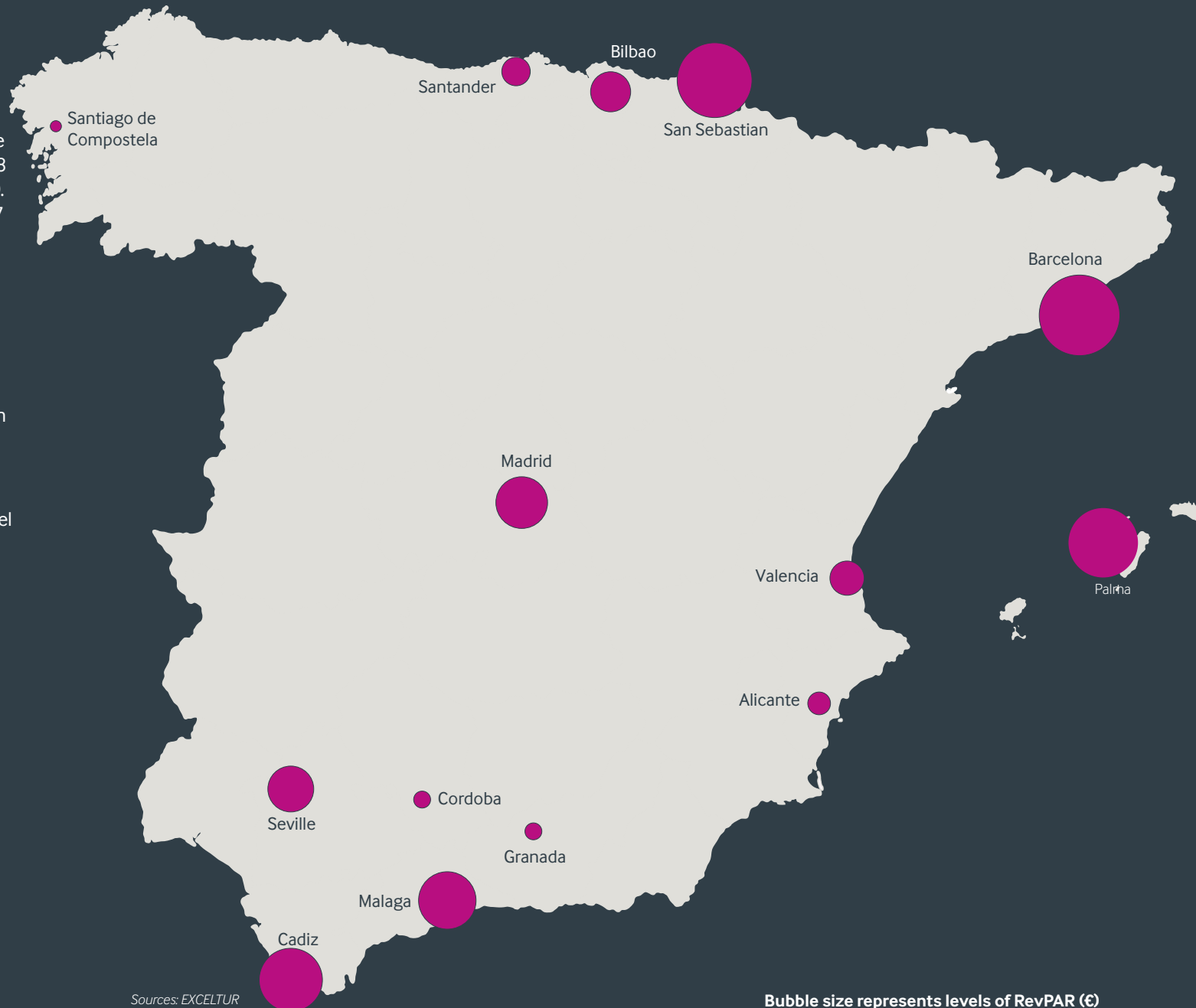
10,301
TOTAL ROOMS

KPI's 2018

Hotel performance growth in Spain remained steady during the 2014-2018 period (+8.0% CAGR). After a robust growth of 10.1% in 2017, RevPAR grew moderately in 2018 by +2.1%, affected by a stabilisation of +0.9% in ADR. The selected cities experienced similar RevPAR trends to the wider country. Nevertheless, in 2018 we noted a consolidation in hotel performance (+0.9%) of the selected cities, driven by an ADR increase of +1.5%, and a slight occupancy drop of -0.6%. In 2018 Barcelona remained the RevPAR leader in Spain (€98.9). However, after a steady increase during the 2014-2017 period (+8.0% CAGR), the city experienced a -2.6% drop in RevPAR, as a result of decreases in both ADR (-2.1%) and occupancy (-0.5%) levels.

Whilst San Sebastian reached the highest ADR (€134.5), Palma registered the highest occupancy level (81.0%). Both cities experienced strong RevPAR growth in 2018 of +5.9% and +5.8%, respectively, driven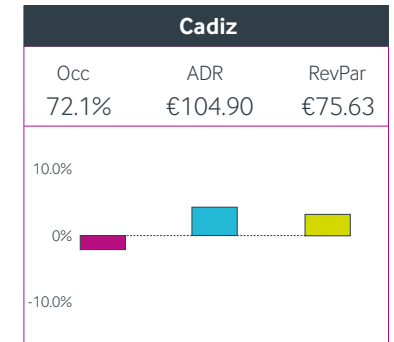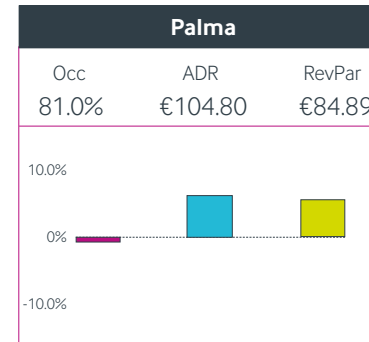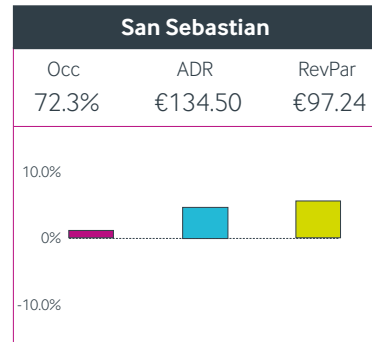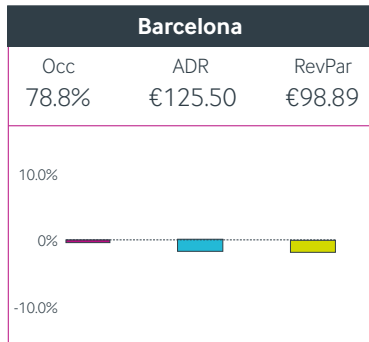 by ADR. Cadiz was the fourth highest city in Spain in terms of RevPAR (€75.6), followed by Malaga, which, in 2018, experienced an increase of +5.9%, reaching its ever-highest RevPAR (€73.9).

After a robust growth of 14.5% in 2017, we noted a hotel performance stabilisation in Madrid in 2018 due to the consolidation of ADR (-0.1%) and a slight increase in occupancy (+1.6%).

Seville, Bilbao and Valencia were the cities with the strongest improvements in RevPAR during 2018 and that experienced the most notable growth when compared to 2014, with robust CAGRs of +11.6%, +10.7% and +10.5%, respectively.

Santander and Alicante showed similar RevPAR trends, with decreases of -2.9% and -3.0% affected by drops in ADR. On the other hand, Santiago de Compostela registered a major hotel performance decrease in 2018 (-32.0% vs 2017) mainly driven by -23.7% drop in occupancy, affected by an overall demand decline.

Santiago de Compostela

Santander

Bilbao

San Sebastian

Barcelona

Madrid

Valencia

Palma

Alicante

Seville

Cordoba

Granada

Malaga

Cadiz

Sources: EXCELTUR

Bubble size represents levels of RevPAR (€)

Barcelona

Occ	ADR	RevPar
78.8%	€125.50	€98.89

San Sebastian

Occ	ADR	RevPar
72.3%	€134.50	€97.24

Palma

Occ	ADR	RevPar
81.0%	€104.80	€84.89

Cadiz

Occ	ADR	RevPar
72.1%	€104.90	€75.63

Malaga

Occ	ADR	RevPar
78.3%	€94.40	€73.92

Madrid

Occ	ADR	RevPar
76.8%	€95.70	€73.50

Seville

Occ	ADR	RevPar
77.3%	€93.10	€71.97

Bilbao

Occ	ADR	RevPar
74.9%	€92.80	€69.51

Valencia

Occ	ADR	RevPar
74.3%	€81.50	€60.66

Santander

Occ	ADR	RevPar
66.6%	€82.20	€54.75

Alicante

Occ	ADR	RevPar
72.6%	€74.40	€54.01

Cordoba

Occ	ADR	RevPar
67.9%	€72.00	€48.89

Granada

Occ	ADR	RevPar
68.3%	€67.40	€46.03

Santiago de Compostela

Occ	ADR	RevPar
55.4%	€68.30	€37.84

Legend:
- Occ
- ADR
- RevPar

OUTLOOK

1. Excellent accessibility

All the cities analysed have an excellent transportation infrastructure and in the next few years, investments are planned to improve the country's air, rail and road system. Among them, the expansion of AENA airports, with a total investment of c. €3bn, will aim to improve both Madrid and Barcelona airports' connectivity. Moreover, this plan includes the enlargement of Barcelona, Seville, Bilbao, Malaga and Palma airports, which are reaching their maximum capacity. Additionally, the high-speed train (AVE) – recently introduced in Granada – will have a strong impact in Santander (planned for 2024) and in the Basque Country region, with the "Basque Y train system" that will connect Bilbao, Vitoria and San Sebastian.

2. Increase in corporate demand and the MICE segment

In 2018 Spain registered a GDP increase of +2.6% (INE), above the European average (+2.0%, OECD), and a drop in the unemployment rate of -1.1%. These positive economic conditions have driven the corporate and MICE demand increase, benefiting the urban destinations within the country. According to EXCELTUR, the number of arrivals for professional reasons grew by +4.9% in 2018. The international corporate travel agency American Express Global Business Travel forecasts a future +6.8% increase in business travel expenditure. Overall, the number of business trips is expected to continue growing in 2019.

3. Hotel licence restrictions to control tourism growth

Driven by increases in demand (+4.5% CAGR 2014-2018) and supply (+2.0%), the local administration in some of the analysed destinations have implemented policies to control the existing and future supply. Six cities are subject to special urban plans that prevent the issuance of new tourist licenses in certain areas of the city. While Barcelona, Madrid, Valencia, Palma and Santiago de Compostela do not allow the conversion of buildings, nor the construction of new hotels and/or tourist apartments in central areas, San Sebastian only prohibits the opening of new tourist apartments. On the other hand, Malaga and Cadiz are in the process of considering whether to develop a restrictive policy for the hotel supply and, in Cordoba the new planning related to hotel developments that was immobilised in 2018 has, to date, still not reached a resolution. Bilbao, Seville, Santander, Alicante and Granada are not subject to any special plans.

4. Tourist apartments growth

The market has experienced the entry of new accommodation type such as tourist apartments, which have increased the competition for hotels. For instance, according to Airbnb published data, Madrid (23.3k) and Barcelona (22.1k) registered the largest number of tourist apartments, followed by Valencia (7.6k), Seville (7.4k) and Malaga (7.0k). On the other hand, we have identified markets where the number of tourist apartments exceeded that of the hotel room supply, including Malaga (+34.3% apartments vs hotel rooms), Cadiz (+23.0%) and Alicante (+18.2%). The significant increase in tourist apartments, experienced over the last few years, makes it necessary to implement new policies to regulate these new accommodation types and bring them in line with the highly-regulated hotel sector.

5. Limited Service Growth

We note that in response to the characteristics of the new demand (attracted by an affordable lifestyle product, focused on practical and quality services), alternative properties such as limited-service hotels, hostels, long-stay hotels and student residences, are increasing, with the collateral effect of investors willing to get into those segments, such as BlackRock with Amistat Hostels, Accor Invest with Jo&Joe Hostels and Goldman Sachs with B&B Hotels. A good example of this new trend is the hotel group TSH (The Student Hotel), which, with 1,066 rooms aimed at the student segment, will be the fastest growing operator in the coming years.

A total investment of c. €3bn, will aim to improve both Madrid and Barcelona airports' connectivity. Moreover, this plan includes the enlargement of Barcelona, Seville, Bilbao, Malaga and Palma airports, which are reaching their maximum capacity.

APPENDIX

OVERNIGHT-TO-BED RATIO (O2B)

Calculated as the volume of hotel overnights divided by the number of available beds in a market. This metric helps identify possible supply gaps, and consequently potential development and investment opportunities. Needless to say that this ratio does not account for seasonality and varies across markets within countries, and thus should be interpreted with caution.

Barcelona recorded a limited variance in the O2B ratio, which indicated that the +2.7% increase in overnights was absorbed by the new supply (+2.8%) and therefore both supply and demand were growing simultaneously. When compared to the other European cities, **Barcelona** presented the second highest O2B ratio (249) after **Lisbon** (266), which in 2018 presented the same growth levels in supply and demand (+1.2%). Nevertheless, we note that **Lisbon** expects a strong supply influx (+13.2%) in 2019, considerably above the increase in overnight stays at YTD May 2019 (+4.0%).

Amsterdam recorded the third highest O2B ratio (244), demonstrating the large number of overnights in the city when compared to its available supply. In 2018, the O2B ratio remained stable with balanced increases between demand (+6.8%) and supply (+6.7%). Paris has experienced a demand recovery since 2016 (+9.0% CAGR), driving the overall O2B ratio increase indicating further development opportunities as supply grew at a slower rate (+1.3% CAGR).

$$\frac{\text{The volume of hotel overnights}}{\text{The number of available beds in a market}} = \textbf{Overnight-to-Bed ratio (O2B)}$$

	SPAIN	Barcelona	Madrid	PORTUGAL	Lisbon	FRANCE	Paris
2017	178	249	224	164	266	162	221
2018		249	225		266		230

■ 2017   ■ 2018

Lisbon recorded the highest O2B ratio (266), followed by Barcelona (249) and Amsterdam (244). On the other hand, Milan registered the lowest O2B ratio (133) of the compared cities.
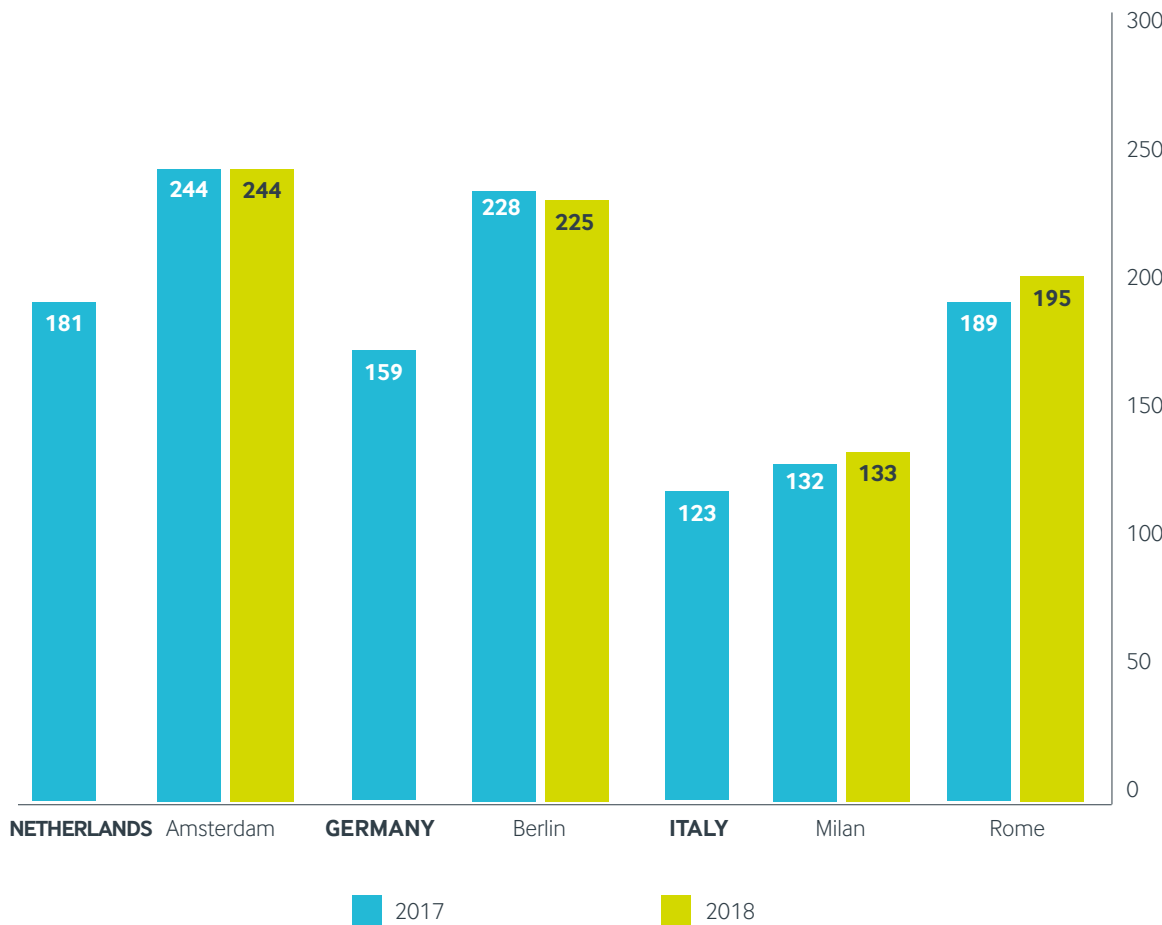
The uplift in the number of overnight stays (+2.0%) and a lighter bed supply increase (+1.5%) in Madrid, led the O2B ratio growth suggesting an opportunity for the development of additional supply. Nevertheless, we expect a more balanced ratio over the next year considering the future growth in hotel bed supply and overnight stays. While Berlin presented similar O2B ratio to **Madrid** in 2018 (225), we note a slight decrease in its ratio index compared to 2017 due to the higher supply increase (+6.7%) versus the demand (+5.5%).

Rome presented a relatively high O2B index ratio (195), suggesting a good demand to supply balance, even though the number of overnight stays has increased faster (+4.9%) than the bed supply (+1.4%). As a result, we see potential for further hotel developments in the city.

Milan positioned with the lowest index (133) within the selected European cities and was the only city that registered decreases in both demand and supply. Nevertheless, the O2B ratio evolved positively as the demand (-1.0% vs 2017) decreased proportionally less than the supply (-5.6%).

This comparison shows the strength and stability of the two main urban destinations in **Spain** with a balanced ratio between demand and supply and room for further hotel development opportunities.

City	2017	2018
Amsterdam	244	244
Berlin	228	225
Milan	132	133
Rome	189	195

NETHERLANDS 181 — GERMANY 159 — ITALY 123

Legend: ■ 2017 ■ 2018

Note: The hotel supply used for the Overnight Stays to Bed Ratio includes Hotels, Hostels and Guesthouses.

Sources: INE (Spain), INE (Portugal), ISTAT, Office du Tourisme et des Congrès de Paris, Amt für Statistik Berlin-Brandenburg, Centraal Bureau voor de Statistiek.

1.6m inhabitants, Barcelona is the second most populated city in Spain.

In 2018, Catalonia was the top Spanish region in GDP, recorded the highest CPI (104.1) and an inflation rate of +1.8%. The region also registered a +7.2% increase in the total tourist expenditure and reached an average daily expenditure per tourist of €185 (+9.5% vs 2017).

In 2017 (2018 data not available), tourism demand in Barcelona was weighted towards the international segment, with the **USA**, the **UK** and **France** as the main international feeder markets. The average age of the city visitors was below 35 years old (52.0% of the total visitors) and the main purpose of visit was leisure (67.2%), followed by business travel (21.0%).

Hotel supply in the city is led by branded properties (67.5% of the total room count), with Catalonia Hotels & Resorts, H10 Hotels and NH Hotel Group as the main operators. The Eixample district concentrated the largest volume of rooms in the city (29.2% of the total rooms), followed by Ciutat Vella (26.2%) and Sant Martí (19.0%).

In 2018, hotel performance (RevPAR) in Barcelona decreased by -2.6%. Five-star hotels were the most affected, with a RevPAR drop of -7.3%, due to a significant decline in occupancy (-7.0% vs 2017). On the other hand, four-star and three-star hotels registered a -3.0% decrease in RevPAR, driven by a -4.0% drop in ADR.

The two-year freeze moratorium on hotel licences and new planning (PEUAT) approved early in 2017 had the effect of decreasing the investment activity since 2018, whilst rebranding (especially international brands such as Fairmont Hotels and Resorts, Sir Hotels) has increased. Nevertheless, at YTD August 2019 the Superior Court has halted the current plan and it may be modified.

With regards to transactional activity, 2018 recorded a total of eight hotel transactions encompassing 1,037 rooms. At YTD August 2019, no existing hotels have been sold. Despite the lack of existing hotels available for sale, the appetite of both investors and operators is strong and yields have compressed since 2017.

3.2m inhabitants,

Madrid is the capital and most populated city in Spain

In 2018, the Madrid region reached the highest GDP per Capita in the country and the second GDP. The region registered a CPI of 103.5, in line with the national average (103.7), and an inflation rate of 1.7%.

Historically, the demand in Madrid was weighted towards the domestic segment, but this trend has changed over last three years. Thus, in 2018, international demand represented 61.2% of total room nights, with the **USA** (8.0%), **Italy** (4.6%) and the **UK** (4.3%) the main overseas markets. Daily average tourist expenditure was €243 (+10.2% vs 2017), the average age was below 35 years old (61.0% of total visitors) and the main purposes of visit were culture (28.0% of total visitors) and gastronomy (17.1%).

Branded hotels represented 73.5% of the total hotel supply, with Meliá Hotels & Resorts, NH Hotels and Accor Hotels as the main operators. The largest concentration of hotel rooms in the city are in the Centro district (29.3% of the total room supply), followed by Salamanca (11.9%) and San Blas-Canillejas (9.1%).

In 2018, four-star hotels registered the most significative RevPAR growth (+4.0% vs 2017), followed by the three-star hotels, sustained by increases in both ADR (+2.5%) and occupancy (+1.4%). The luxury segment experienced a notable RevPAR decrease of -4.0% affected by a -3.4% drop in hotel rates.

In 2018, Madrid city implemented a new regulation to control hotel growth within some central areas of the city. However, the recent local elections have led to a change in government and it is not yet known if the actual legal framework will be modified.

In any case, the city's promotion and the positive sustained growth since Q4 2014 have significantly increased the appetite of both investors and operators to have a presence in Madrid, compressing yields in prime areas. Transactional activity in 2018 comprised 17 hotels (2,642 rooms) and at YTD August 2019 acquisitions comprised six hotels (692 rooms).

YTD 2019 URBAN DESTINATIONS

OVERNIGHT STAYS YTD JUNE 2019						
Destination	Domestic	International	Total	Dom. YoY 2018	Inter. YoY 2018	Total YoY 2018
Barcelona	1,292,110	9,023,391	10,315,501	-7.9%	10.5%	7.8%
Madrid	3,834,096	6,333,903	10,167,999	-0.8%	9.6%	5.4%
Palma	492,603	3,258,166	3,750,769	-15.3%	-4.3%	-5.9%
Seville	1,097,399	1,833,330	2,930,729	5.0%	10.8%	8.5%
Valencia	751,285	1,304,202	2,055,487	0.6%	4.4%	3.0%
Granada	803,762	940,387	1,744,149	4.8%	7.1%	6.1%
Malaga	434,570	871,857	1,306,427	-0.4%	10.1%	6.4%
Alicante	376,061	550,583	926,644	18.6%	1.2%	7.6%
Bilbao	448,951	405,151	854,102	4.9%	7.3%	6.1%
Cordoba	459,321	367,829	827,150	0.0%	13.7%	5.7%
San Sebastian	273,134	352,632	625,766	6.1%	3.8%	4.8%
Santiago de Compostela	347,308	277,065	624,373	14.1%	8.3%	11.5%
Santander	283,154	102,323	385,477	5.3%	-5.9%	2.1%
Cadiz	159,216	133,637	292,853	18.6%	18.3%	18.5%

Source: INE

KPIS YTD APRIL 2019						
Destination	Occ (%)	ADR (€)	RevPAR (€)	Occ YoY 2018	ADR YoY 2018	RevPAR YoY 2018
Barcelona	76.2	120.5	91.8	5.4%	5.4%	11.1%
Madrid	74.7	96.2	71.9	-0.7%	1.9%	1.2%
Palma	66.3	90.8	60.2	-3.9%	11.8%	7.4%
Seville	78.5	92.8	72.8	5.8%	-1.3%	4.4%
Valencia	70.1	82.2	57.6	2.9%	5.0%	8.1%
Granada	65.2	68.2	44.5	1.4%	2.7%	4.1%
Malaga	71.8	90.1	64.7	-0.7%	5.3%	4.5%
Alicante	66.0	62.6	41.3	7.5%	1.0%	8.5%
Bilbao	66.4	84.5	56.1	4.2%	6.7%	11.2%
Cordoba	65.8	69.0	45.4	2.0%	-3.8%	-1.8%
San Sebastian	56.3	95.5	53.8	-3.8%	-1.1%	-4.9%
Santiago de Compostela	44.2	58.4	25.8	11.3%	-0.3%	11.0%
Santander	53.0	65.4	34.7	-4.7%	1.2%	-3.5%
Cadiz	67.3	83.2	56.0	18.1%	-10.2%	6.1%

Source: Exceltur

MEET OUR TEAM

Inmaculada Ranera MRICS
Managing Director Spain & Portugal
T +34 93 343 61 62
M +34 627 410 671
E Inma.Ranera@christie.com

Coré Martín
Head of Investment Spain & Portugal
T +34 91 794 26 40
M +34 683 286 334
E Core.Martin@christie.com

Beatriz Menéndez-Valdés
Head of Consultancy Spain & Portugal
T +34 91 794 27 19
M +34 670 823 315
E Beatriz.MenendezValdes@christie.com

Íñigo Cumella de Montserrat
Associate Director Investment
T +34 93 343 61 65
M +34 628 420 197
E Inigo.Cumella@christie.com

Guillemette Briard
Senior Consultant
T +34 93 343 61 72
M +34 679 355 693
E Guillemette.Briard@christie.com

Pol Fabregat
Consultant
T +34 93 343 61 73
M +34 680 366 763
E Pol.Fabregat@christie.com

Ariadna Planella
Consultant
T +34 93 343 61 69
M: +34 659 761 941
E Ariadna.Planella@christie.com

Borja Nieto
Investment Consultant
T +34 91 794 2641
M +34 650 950 316
E Borja.Nieto@christie.com

Alejandro Scholtz
Investment Consultant
T +34 91 794 26 40
M +34 669 959 249
E Alejandro.Scholtz@christie.com

Laura Vidal Kränzlin
Investment Consultant
T +34 93 343 61 75
M +34 679 503 140
E Laura.Vidal@christie.com

Alexia Ripoll
Administration &
Marketing Coordinator
T +34 93 343 6176
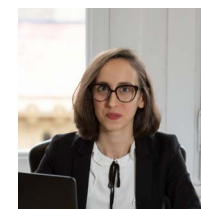M +34 695 417 308
E Alexia.Ripoll@christie.com

Joan Bagó
Market Analyst
T +34 93 343 61 71
E Joan.Bago@christie.com

Roser Sors
Analyst Intern
T +34 93 943 6167
E Roser.Sors@christie.com

Natalia Luque
Team Assistant – Barcelona
T +34 93 343 61 70
E Natalia.Luque@christie.com

Pilar Contreras
Team Assistant – Madrid
T +34 91 794 26 40
E Pilar.Contreras@christie.com

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