THE NORDIC HOTEL MARKET

OVERVIEW OF THE CAPITALS

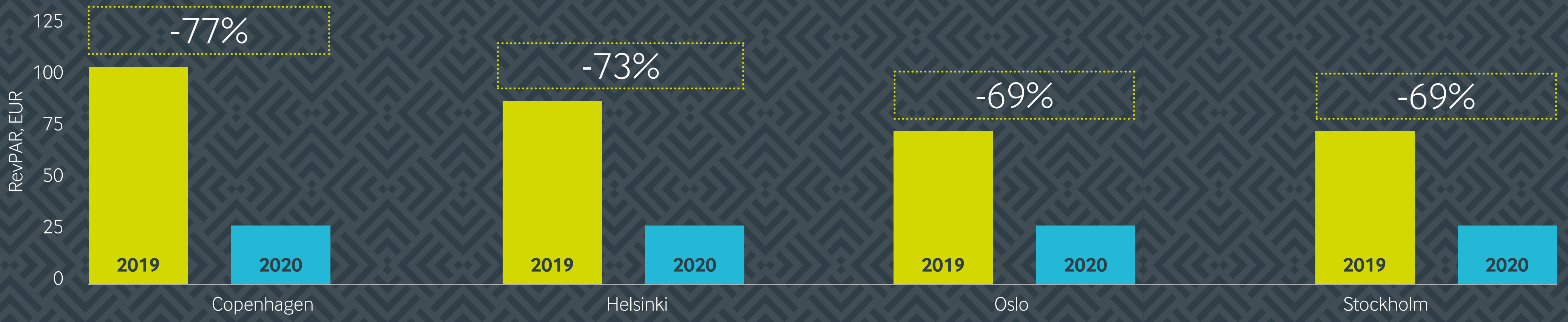
JUNE 2021

2020 KPIs

As for most of the hotel markets worldwide, 2020 was also a historically unfortunate year for the Nordic capitals. The sudden collapse in demand placed the markets, which had enjoyed annual aggregated demand growth of 5.5% in the previous decade, in an unprecedented situation, resulting in RevPAR sliding below the 25 EUR mark in each of the four capitals. Note that Copenhagen and Helsinki markets recorded a sharper RevPAR drop than the two other Nordic capitals' markets, as hotels in Oslo and Stockholm are more local demand-driven.

While both occupancy and ADR contributed to the decline, occupancy was the primary factor that caused the RevPAR collapse. Occupancy fell by an average of 65% across the four capitals, while ADR decreased by a relatively lower 21% from the previous year. Whereas the RevPAR drop is unparalleled for the four Nordic capitals, other European capitals observed a decrease of a similar magnitude.

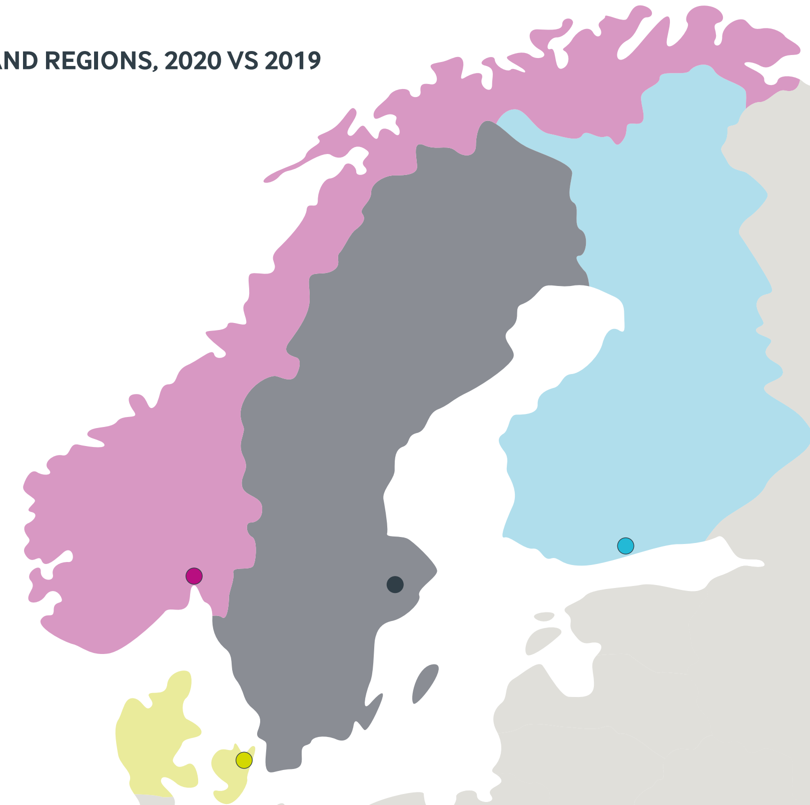
ANNUAL HOTEL REVPAR PERFORMANCE 2019 VS. 2020



Source: Benchmarking Alliance

ANNUAL HOTEL OVERNIGHT CHANGE IN CAPITALS AND REGIONS, 2020 VS 2019

-65%	Copenhagen	-12%	Rest of Denmark
-64%	Helsinki	-32%	Rest of Finland
-59%	Oslo	-44%	Rest of Norway
-55%	Stockholm	-30%	Rest of Sweden



Even though the pandemic hit the Nordic capitals' hotel markets hard, its impact on regional performance was less severe. In contrast to the capitals, regions are more reliant on domestic demand and have been less affected by the imposed international travel restrictions. Copenhagen, a city which has the lowest share of domestic overnights among the four Nordic capitals, was also the one that experienced the sharpest overnight drop of 65% in 2020. However, in the rest of Denmark, hotel overnights dropped by a relatively low 12%, as foreign demand share in provinces is more than two times less than in the capital. A similar pattern is also present in the other three countries, where demand in the capitals was affected more severely than in the provinces.

> People's need to explore, gather together and build business connections has not changed or diminished due to the pandemic or otherwise. These megatrends go still strong, but the way how we travel and what we value while making choices changes all the time, and the winners are those who read the situation the best.
>
> **Tomi Peitsalo, CEO, Primehotels**

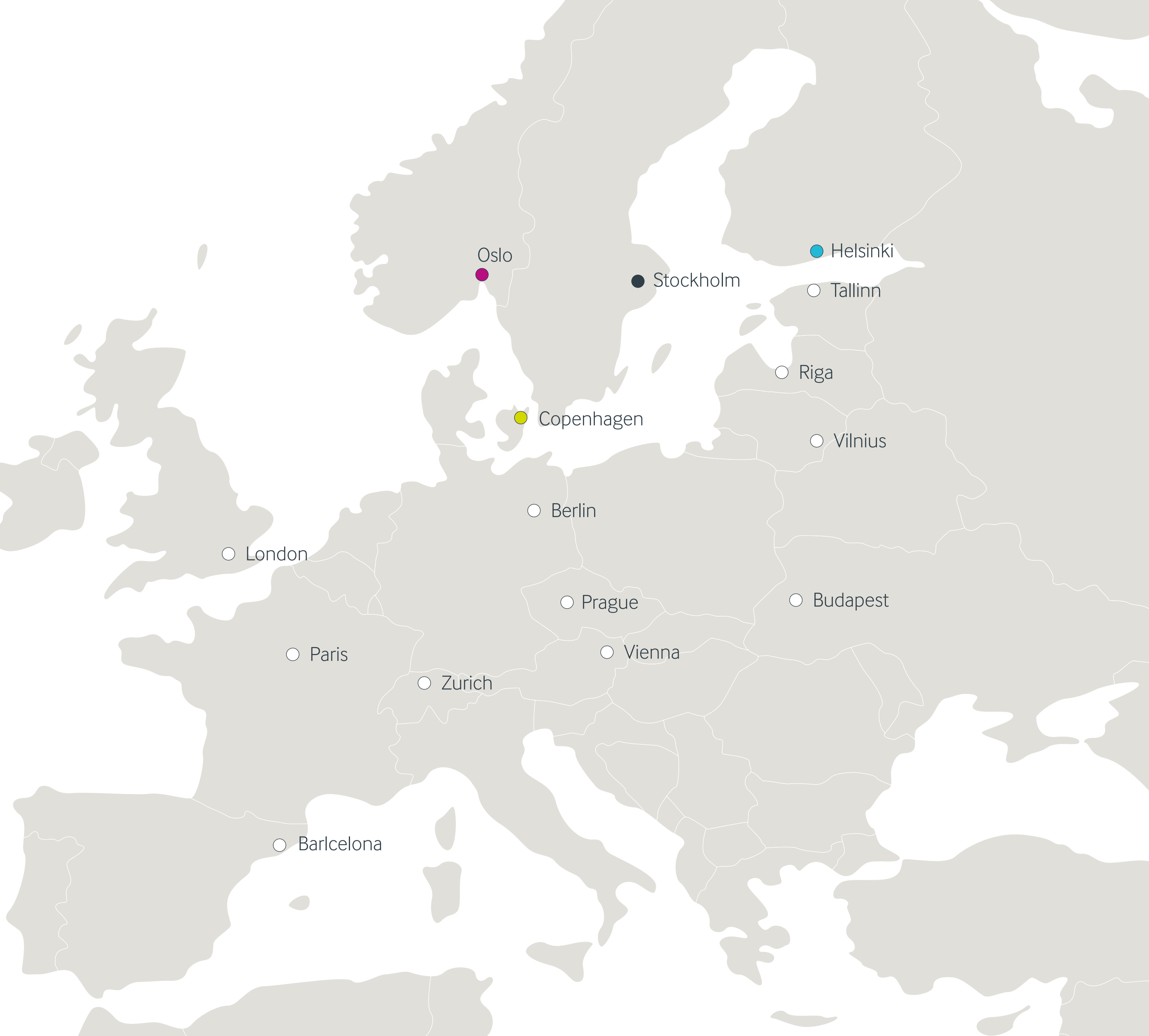
Source: National Statistics Centres

HOTEL DEMAND BY SOURCE REGION (2019)

	Domestic	Europe	Long-Haul
Helsinki	**47%**	**34%**	**19%**
Stockholm	**62%**	**21%**	**17%**
Copenhagen	**36%**	**46%**	**18%**
Oslo	**64%**	**23%**	**13%**
Barcelona	13%	44%	42%
Paris	31%	30%	39%
London	20%	39%	41%
Berlin	55%	32%	13%
Vienna	18%	58%	24%
Zurich	29%	36%	35%
Prague	12%	63%	26%
Budapest	13%	72%	15%
Tallinn	14%	75%	11%
Riga	14%	74%	12%
Vilnius	21%	68%	11%

Source: National Statistics Centres

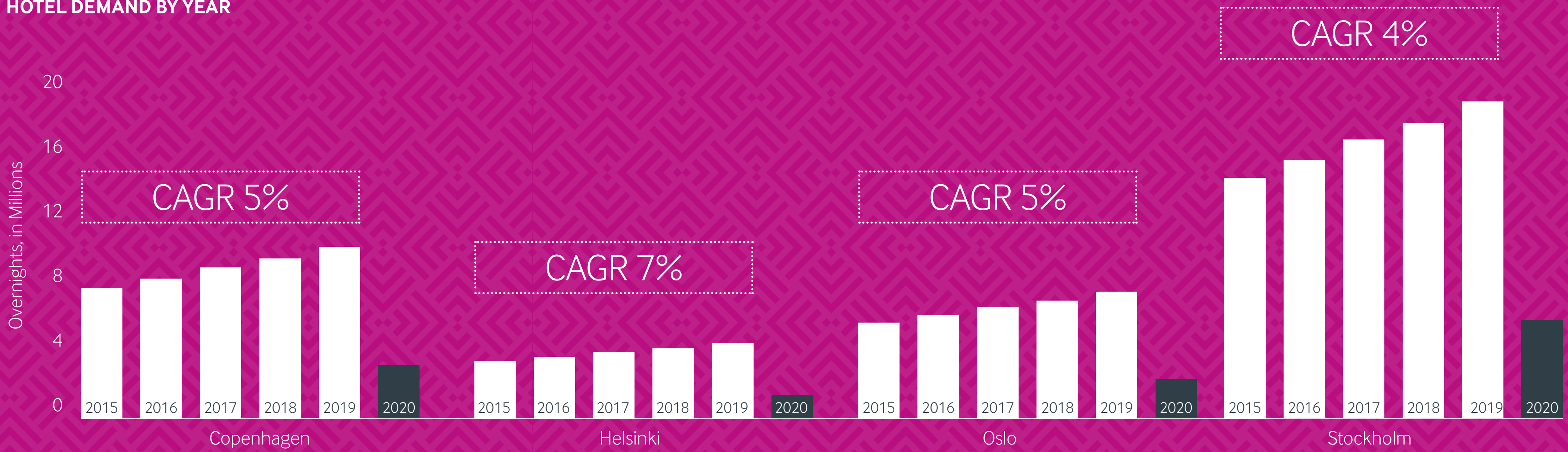
The demand structure of the four capitals hotel markets is relatively well-positioned for a speedy recovery, as the long-haul (non-European) share accounts for only 17% of the total overnights. In comparison, an array of major European cities has a higher long-haul overnight percentage; therefore, some of those cities are less-favourably positioned for recovery. Long-haul demand is likely to take the longest to recover to the pre-pandemic level, as connectivity has been more affected for these segments.



Pre-COVID-19

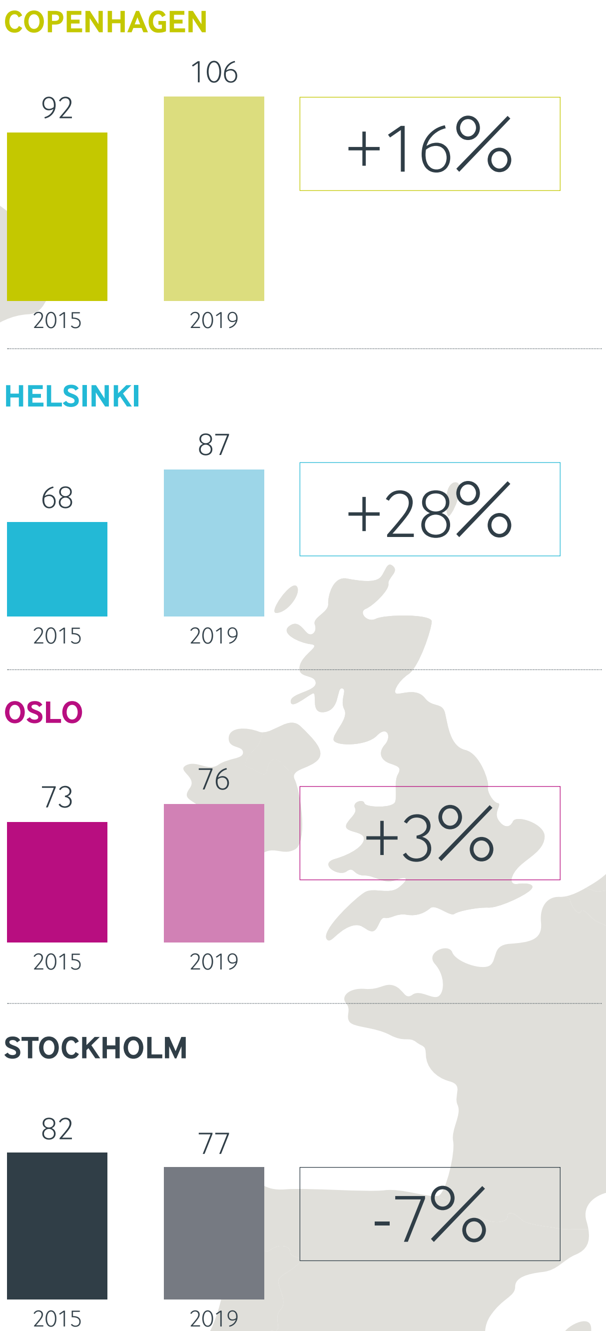
The Nordic capitals, alike most of the markets worldwide, underperformed vastly for most of 2020. Nonetheless, exploring how the markets were doing before the pandemic would improve our understanding of markets' prospects beyond recovery. As the graph indicates, the markets were registering steady demand growth before the pandemic hit. In the 2015-2019 period the number of annually recorded hotel overnights rose by an average of 7% in Helsinki, 5% in Copenhagen and Oslo, and 4% in Stockholm.

HOTEL DEMAND BY YEAR

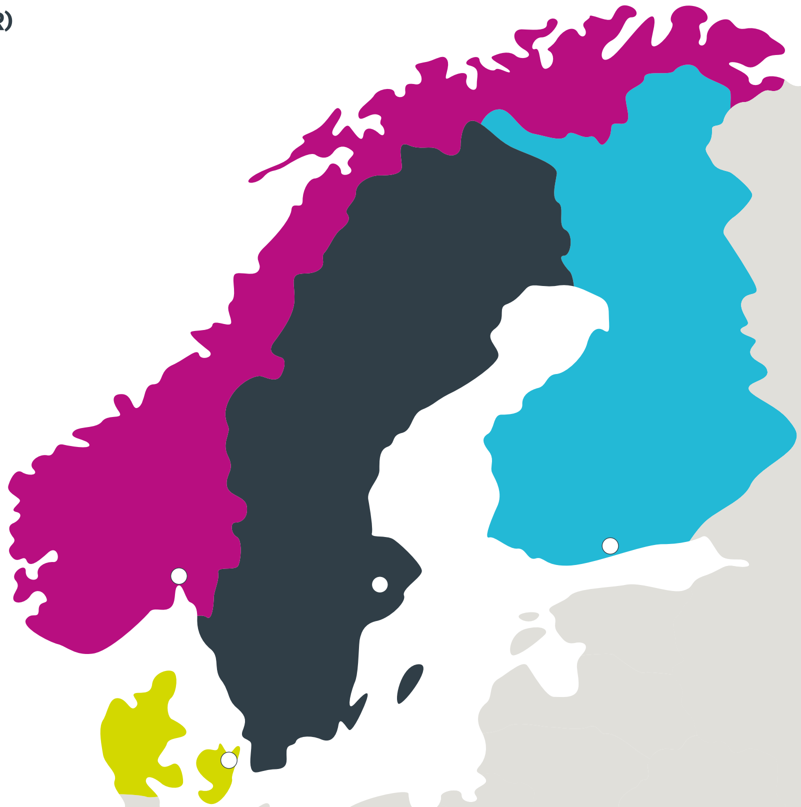


Source: National Statistics Centres

HOTEL REVPAR PERFORMANCE 2019 VS. 2015 (IN EUR)



Source: Benchmarking Alliance



While in Stockholm, and to a large extent also in Oslo, the notable demand growth was offset by the increase in hotel supply, in Helsinki and Copenhagen, demand growth outpaced supply growth. As a result, in the 2015-2019 period, Helsinki and Copenhagen experienced annual average RevPAR uplift of 6.4% and 3.7%, respectively. However, the RevPAR dynamics in the two other capitals were not as good. Oslo managed to achieve a minor growth of 0.8% annually in the same period, while Stockholm's RevPAR decreased by 1.7% per annum over the period.

"We are extremely optimistic about the future of travel and believe that the Nordics will play a fundamental role in Europe's recovery. As government restrictions ease and vaccine programmes roll out, we're starting to see an uptick in leisure travel, as well as early progress for business travel. At Marriott, we're confident there is pent-up demand, and while leisure travel will lead the recovery, we don't expect a significant permanent change to business travel demand.

Axel Steinbach, Development Director, Nordics, Marriott International

Recovery

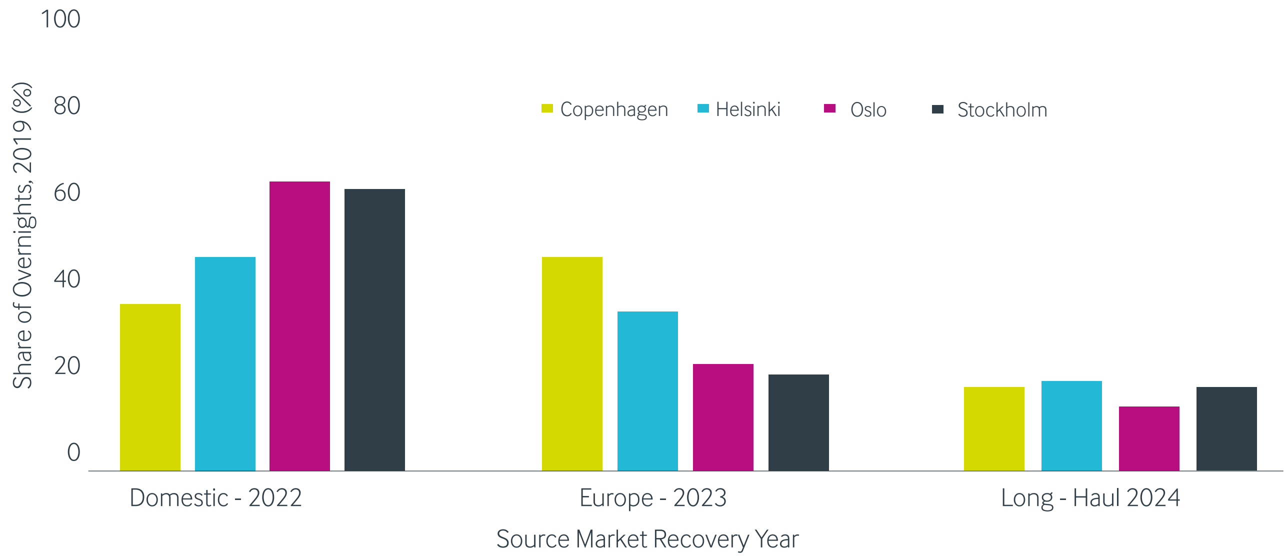
Even though most hotel markets are still affected by the imposed travel restrictions, the ongoing vaccination programmes , which have started at the end of 2020, provide optimism for the market outlook. Some countries are already allowing vaccinated travellers to enter, and broader European-level travel certificates will be introduced in June and July, allowing vaccinated people to travel freely, without self-quarantine. Because of the gradual ease of the travel restrictions, we expect different market segments to recover at a different pace. Thus, to better gauge the overall timeline of recovery, it is helpful to explore the that for each major source market individually since the recovery speed is likely to differ.

We have identified three primary demand sources: **Domestic**, **European** and **Long-Haul**, and their respective recovery timelines. Assuming that a sufficient number of people get vaccinated to get the virus under control, we anticipate the local domestic segment to be the quickest to come back, reaching the pre-pandemic level in 2022. This segment is likely to pick up the fastest, as fewer constraints are slowing down its recovery. The majority of domestic visits are conducted by car, and short-distance public transport connections (road, rail and air) have been less affected by the travel implications than longer-distance travel.

Recent years' growth in global tourism is such a force to reckon with that it will not be stopped even by the current pandemic. Now more than ever, it is vital for parties to work together to overcome the impact of the situation. In the short-to-medium term, I would expect the importance of the leisure sector to increase enormously.

Pirjo Ojanperä, Partner, CapMan

RECOVERY TIMELINE AND SHARE BY SOURCE MARKET



Source: Christie & Co Research

While the connection is also uninterrupted for the domestic business travellers, some other factors might lead to a slightly longer recovery compared to the domestic leisure segment. People are likely to be more reluctant to travel for business, as those trips usually require having meetings indoors for an extended period. Besides, many face-to-face meetings could get replaced by video meetings. Nevertheless, we foresee this segment to reach the pre-pandemic demand level relatively soon but slightly later than the leisure segment does.

We expect Europe's leisure and business travel recovery to have a similar pattern as domestic, the leisure segment getting back to the pre-pandemic demand level before the business. Yet, we do not anticipate Europe's demand to get to the 2019 level before 2023. Part of the mobility limitations could hold longer across overall Europe than domestically or regionally, and Europe's connectivity has been affected more severely than regional and domestic. Currently, part of the recovery is being hampered by a limited air travel capacity, which is not responding with equal promptness.

Finally, the long-haul non-European demand is expected to take the longest to reach its pre-pandemic level, considering its travel connectivity has been affected the most. In addition, lifting travel restrictions for longer-distance travel is likely to take longer than for shorter-distance, i.e. travel within Europe.

As mobility has been extremely limited for an extended period, most people are likely to be as eager to travel as ever before. Therefore, once the mobility restrictions ease and it is safe to go abroad again, pent up demand could boost travel, paving the road for a prompt recovery.

YTD PERFORMANCE STILL DRASTICALLY IMPACTED

Based on the YTD May 2021 numbers, it appears that the interregional travel restrictions are still causing serious damage to capital hotel market's performances. Travelers appear yet very cautious about travelling into the capitals, and domestic demand is nowhere near to substitute the interregional travel, not to talk about the absence of the long-haul demand. In general, occupancies are hovering between low-to-high teens, falling seriously short from the required breakeven levels cashflow wise. YTD ADR has also naturally sank when compared to previous year, as the severity of the pandemic situation just hit the markets in April / May time, current performances being c. 20% down for 2021.

However, not all is gloom and doomed yet! There are some flashes of light at the end of the tunnel; the number of rooms open and available for trade is up, so more hotel operators see the situation better than last year. When looking at May in particular, there is some nascent improvement on its way: occupancies are two-to-three folded, reaching late teens now, where as last year they were hovering at single digits! ADR is still lagging behind the trend, growing well in Stockholm (11.6%) and Oslo (2.1%), whereas indicating slight decline in Helsinki (-3.0%) and somewhat more severe in Copenhagen (-7.7%) compared to the same period in 2020. But the overall direction is clear: strong improvements in RevPAR!

ECONOMIC OUTLOOK

The Nordics are home to more than 27 million people, and Sweden is the largest country representing almost 40% of the population. On average, every tenth person lives in one of the four countries' capitals. In terms of nominal GDP per capita, all four countries rank among the top 15 countries worldwide (Norway and Denmark rank in the top 10).

The four countries' economies are well-balanced and have low public debt to GDP ratios, below the EU average. In 2020, the ratio was 39% in Sweden, 41% in Norway, 44% in Denmark, and 68% in Finland, whereas, in the EU, the average ratio was 103%; therefore, the Nordic countries should have a lower burden from the pandemic-caused increased borrowings.

Also, from a tourism perspective, the Nordic countries' economies are not overly exposed to it. While Finland and Sweden had 7% and 8% tourism contribution to GDP in 2019, below that level of 10%, Norway and Denmark had the ratio of 10%, which is on par with Europe's average level. Yet some of Europe's southern countries, such as Croatia, Cyprus, and Greece, have this ratio of over 20%, making their economies more vulnerable to lower tourism activity. Due to documented correlation between economic activity and the health of the tourism market, countries and markets with high correlations and dependency on tourism will experience troubles now if "tourism cylinders are not firing up in the economy's motor!"

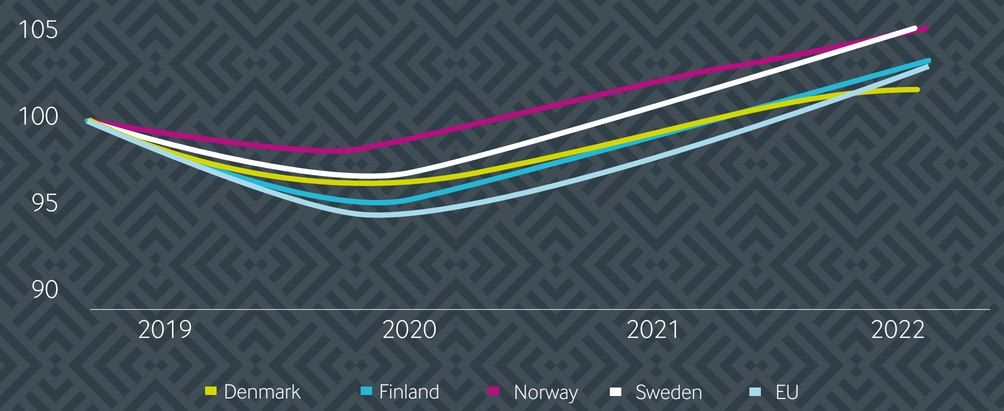
Considering the overall decent economic performance of the Nordics, once the travel restrictions caused by the pandemic ease, the Nordics should be relatively well-positioned for a swift recovery.

Although the pandemic's impact on the tourism industry has been severe, the effect on economies has been milder. The GDP drop, an average of 2.8% across the four countries, was relatively modest in the Nordics in 2020. Meanwhile, in the EU, the GDP decrease was more notable, 6.6%. Denmark and Finland, corresponding to their capitals being more international visitor driven than those of the two other Nordic countries, had higher GDP decrease, 4.0% and 3.3% respectively, compared to 2.6% and 1.3% in Sweden and Norway.

The GDP forecast is optimistic for the Nordics. SEB Group economists predict the GDP to bounce back already in 2021 and further growth at an average of 4% in 2022. Simultaneously, the EU's average forecasted GDP growth is slightly steeper than in the Nordics. However, the EU is expected to reach the 2019 level only in 2022, as the decrease was sharper than in the four Northern countries.

Despite the negative short-term outlook, the Nordic economies are still some of the healthiest in the world, and the overall long-term economic outlook for the Nordics remains positive, ahead of the Eurozone.

GDP GROWTH INDEX



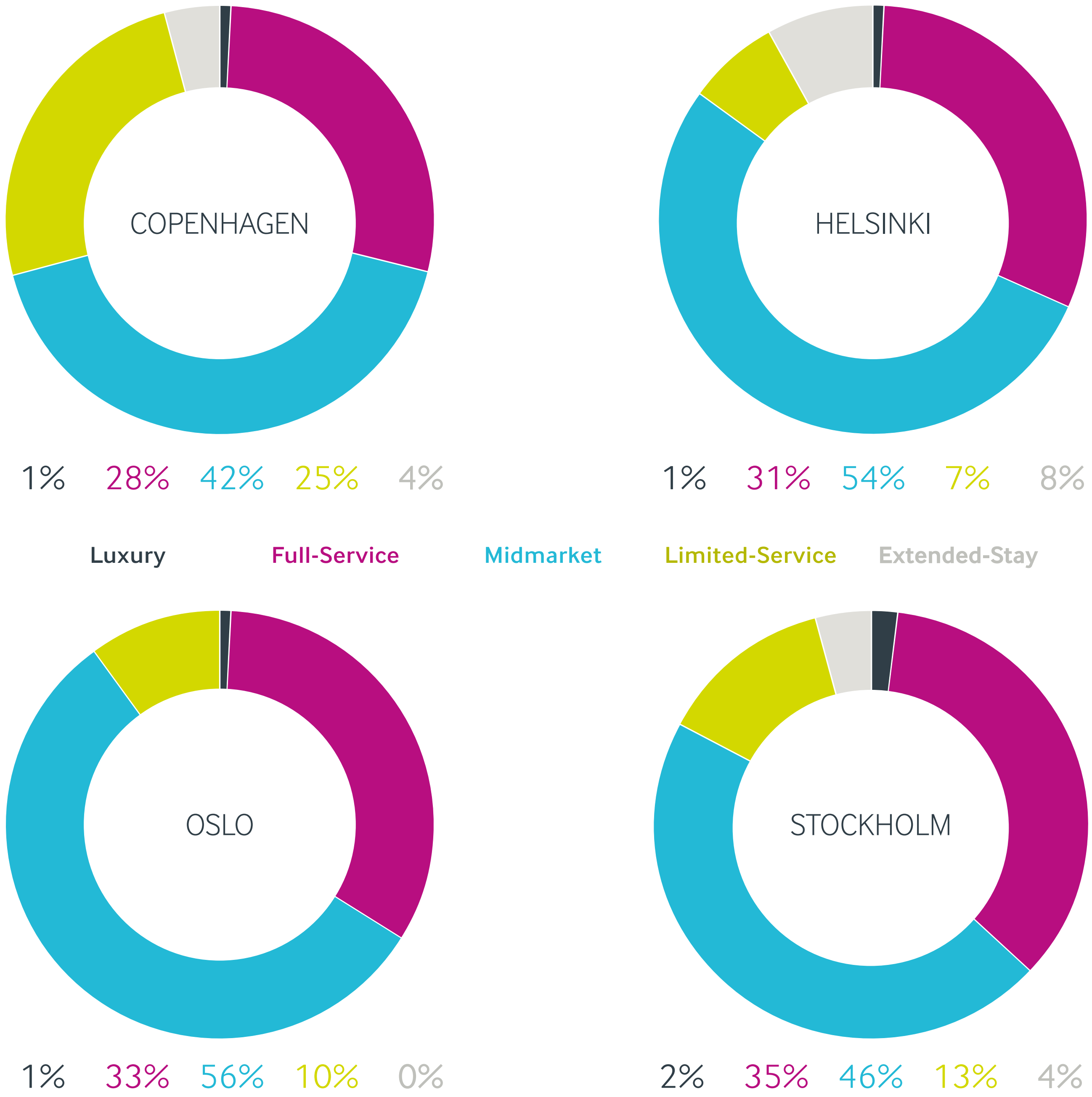
Source: SEB Group

SUPPLY BY SEGMENT

As we are waiting for the recovery to hit the market with full force later 2021/22, some products have been performing relatively well during the crisis times. For example, at the moment most of the city centre hotels are suffering the most, especially the ones with a large proportion of MICE business. Some resort operations have been experiencing the best time for a long period, as domestic demand has been seeking alternatives for the cancelled or postponed international travel plans. Furthermore, clients are becoming more demanding and are seeking hotel product that meets better for their needs. Travellers who are not keen to allocate a too large proportion of their travel budget for overnight staying, especially for services they do not use, have historically favoured limited-service hotels. This has also been the case with some companies that have been downshifting their travel budgets, but it is also very apparent with leisure segments.

To a large extent, this type of behaviour is mirroring the events of the airline industry several years ago. However, based on our brief analysis of the capital markets of the Nordics, these products are not yet present at the market to a broad extent. The best-penetrated market for such products at the moment is Copenhagen, which seems to be a frontrunner for adopting these, with some organic domestic, but also increasingly with new internationally branded products. Compared to many other western markets, the proportion of limited-service concept capacity is lagging well behind in the Nordics.

HOTEL ROOM SUPPLY DISTRIBUTION BY SEGMENT



Source: Christie & Co Research

SENTIMENT

Most of the Nordics, perhaps excluding Sweden, have been fairing quite well with the pandemic compared to the rest of Europe. The number of cases in Q2 are on downward trending, and vaccination programs are progressing reasonably well. Overall, the region has suffered relatively little as such. In most instances, the capacity of the healthcare sector has not been overwhelmingly stressed. The quality level of healthcare is very high in the Nordics. There is positive sentiment about overcoming the pandemic soon as we are heading into the summer months, when the pandemic is expected to lose some of its strength as last year.

CLOSING REMARKS

While the pandemic has severely affected the Nordic hotel markets, they are relatively well-positioned for a somewhat swift recovery. All four markets before the pandemic were recording steady demand growth and would likely continue to do so post-pandemic. Furthermore, as a significant demand share stems from the domestic, inter-Nordic and close European markets, the Nordics are in a healthy position for the hotel market KPIs to rebound once the pandemic is better under control. Moreover, economies in the Nordics were some of the most balanced ones globally before the pandemic and continue to be very well positioned afterwards. Due to their relatively low reliance on the tourism sector, the economies have been less adversely impacted by the ripple effects of the pandemic.

The UK's hotel market, which recorded above 50% occupancy in June, indicates that a nascent comeback in demand can be expected once mobility restriction ease. As the national vaccination programmes continue to progress, creating a stronger sense of security and enabling more people to travel safely, we hope to see also improved trading volumes in the Nordic capitals. Let's see whether Q3 2021, which corresponds with Europe's summer holiday season, could be a catalyst for the long-desired recovery!

In our opinion, it would be fair to say that the European recovery could well start from the Nordic region! We will continue to monitor the situation and provide further feedback in the coming months after the summer period.

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