

Spanish Hotel Market

Secondary Cities



Secondary Cities 2017

Why this report

Following on from our annual report “*Most Competitive Cities*”, which analysed the key Spanish urban destinations recording the highest levels of RevPAR, we now present our analysis on the following seven cities registering higher levels of profitability in Spain - Santander, Alicante, Córdoba, Granada, Toledo, Santiago de Compostela and Valladolid.

Considering the evolution of the key performance indicators in these destinations as well as the outlook and growing interest of investors noticed in the last few years (explained in more detail in our 2017 “*Hotel Investment*” report), we consider these destinations to be secondary.

The growing tourist market for these cities, as well as the recovery of a large part of the domestic segment, has led to higher volumes of demand resulting in a consolidation of their hotel market and positioning them as key destinations in Spain. from both a domestic and international perspective.

From an investment point of view, secondary cities represent an attractive alternative to primary destinations as they offer higher returns in comparison. Primary destinations have seen decreasing yield levels in the last few years as a direct impact of the large volume of investments received.

This report provides an overview of the economic, tourism and hotel profile of each of the mentioned cities using public information sources including Exceltur, the National Institute of Statistics (INE), AENA (Spanish Airports and Air Navigation), Adif (Administrator of Railway Infrastructures), the Spanish Development Ministry, Alimarket, and Christie & Co sources.

Key Observations

- 1. Hotel profitability is on the rise:** all the analysed cities recorded increases in both occupancy and rates in 2017
- 2. Domestic demand recovery:** as a direct impact of the Spanish economic recovery, the domestic segment leads the growth in demand in four of the seven cities analysed
- 3. Overseas tourism uplift:** while representing lower volumes of growth, secondary cities have managed to diversify their demand mix and reduce their dependence on domestic tourism
- 4. Good accessibility:** five of the cities have their own airport, four have access to the AVE high-speed rail line, and two have maritime connections
- 5. Key demand generators:** secondary cities are attractive due to their large cultural offer, important historical heritage (three of them have been declared a World Heritage Site by UNESCO), and their varied gastronomic offer
- 6. Investor interest:** all of these cities record a noticeable hotel pipeline
- 7. Service focused infrastructure:** provided in the wider regions of the secondary cities, highlighting their capacity to host tourism activity
- 8. Regeneration activity:** both public and private entities are conducting key regeneration projects expected to have a direct impact on tourism, this includes, for instance, the inauguration of new AVE high-speed rail connecting Santander and Granada to key cities in the country or the development of a theme park in Toledo

Secondary Cities: 2017 KPI's



SANTANDER	€56 RevPAR	66% Occ	€86 ADR
ALICANTE	€56 RevPAR	73% Occ	€77 ADR
CORDOBA	€47 RevPAR	67% Occ	€71 ADR
GRANADA	€47 RevPAR	71% Occ	€67 ADR
TOLEDO	€41 RevPAR	63% Occ	€65 ADR
SANTIAGO DE COMPOSTELA	€40 RevPAR	59% Occ	€68 ADR
VALLADOLID	€40 RevPAR	65% Occ	€61 ADR

Cities accessibility

2017: record number of passengers in Spanish airports



- **AENA airports registered over 249m passengers in 2017**, an 8.2% increase on 2016

- **Out of all cities analysed, the airports with the highest passenger volume were Alicante (13.7m/5th largest airport in Spain) and Santiago de Compostela (2.6m/16th largest airport in Spain).** Others recorded significant increases such as Santander Airport, which recorded the highest growth in 2017 (+20.5%), followed by Granada Airport, which, with new international routes (London, Milan, and Manchester), registered an increase of 19,8% in the number of passengers

- **Alicante, Cordoba, Toledo, and Valladolid offer high-speed train access (AVE).** A new high-speed rail offering direct access to Santander and Granada is due in 2018

- **In 2017, the Port of Santander registered 234k passengers, a 7.1% increase on 2016**, outpacing the Port of Alicante which, with 227k passengers, recorded an 11.5% decrease

SANTANDER	Distance to city centre: 5km Passengers: 937,641 (+20.5%) Destinations: 17	Number of stations: 1 Passengers : 2,381,653 Number of lines: 3
ALICANTE	Distance to city centre : 12km Passengers : 13,713,081 (+11.8%) Destinations : 110	Number of stations: 1 Passengers : 3,803,402 Number of lines: 5
CORDOBA	<i>Córdoba Airport does not offer commercial lines access</i>	Number of stations: 1 Passengers : 3,963,817 Number of lines: 8
GRANADA	Distance to city centre : 17km Passengers : 90,961 (+19.8%) Destinations : 5	Number of stations: 1 Passengers : 321,393 Number of lines: 2
TOLEDO	<i>Toledo does not offer direct air access, its main access by plane is the Madrid-Barajas Airport (60 minutes' drive)</i>	Number of stations: 1 Passengers : 1,680,575 Number of lines: 2
SANTIAGO DE COMPOSTELA	Distance to city centre : 10km Passengers : 2,644,925 (+5.3%) Destinations : 29	Number of stations: 1 Passengers : 2,501,164 Number of lines: 2
VALLADOLID	Distance to city centre : 10km Passengers : 227,269 (-1.9%) Destinations : 4	Number of stations: 1 Passengers : 2,475,304 Number of lines: 2

Santander

The composition of its hotel supply drives record levels of profitability

While recording lower levels of occupancy, due to its seasonality, Santander achieves the highest RevPAR of all cities analysed. Its hotel supply weighed at 50% towards the four and five-star segments, together with its numerous demand generators, allows the city to achieve rates above €85 in 2017. Accounting for 73% of the total overnight trips, domestic demand grew by 11.9% in 2017 and combined with a 19.9% increase in overseas demand, overnight trips were up by 14% in 2017 (453k). It is expected that in 2018, with the AVE arriving at the city these demand levels will be exceeded.

Macro-Indicators 2017

- Population: 171,951
- Unemployment rate: 16.8%
- Cantabria GDP 2016: €12,539m (+2.3%/2015)
- Cantabria Inflation rate: 1.2%

Employment by Sector 2017

- Tertiary (69.9%)
- Industrial (13.7%)
- Construction (5.9%)
- Agriculture (3%)

Tourism Contribution to GDP

- 10.9% (Cantabria 2016)

Key Tourist Attractions

- Palacio de la Magdalena
- Península de la Magdalena
- Playa de El Sardinero
- Catedral de Santander
- Parque Natural las Dunas de Liencres

Hotel Pipeline

- Ibis Styles Santander (3-star, 55 keys)
- NH Collection Marqués de Pombo Santander (4-star, 65 keys)



Alicante

Excellent accessibility and a balanced demand mix drive high RevPAR levels

The Airport's international profile together with the high-speed railway access, Port and AP-7 motorway have made Alicante a key destination in Spain. Combined with its balanced demand mix (48% domestic, 52% overseas) as well as its reduced seasonality (acting as a counteract for its level of TTOO which penalises rates), Alicante registered an exponential increase its hotel profitability in 2017 (+18.3% vs. 2016).

Macro-Indicators 2017

- Population: 329,988
- Unemployment rate: 20.3%
- Comunitat Valenciana GDP 2016: €105,077m (+3.3%/2015)
- Comunitat Valenciana Inflation rate: 1.1%

Employment by Sector 2017

- Tertiary (66%)
- Industrial (16.5%)
- Construction (5.6%)
- Agriculture (2.8%)

Tourism Contribution to GDP

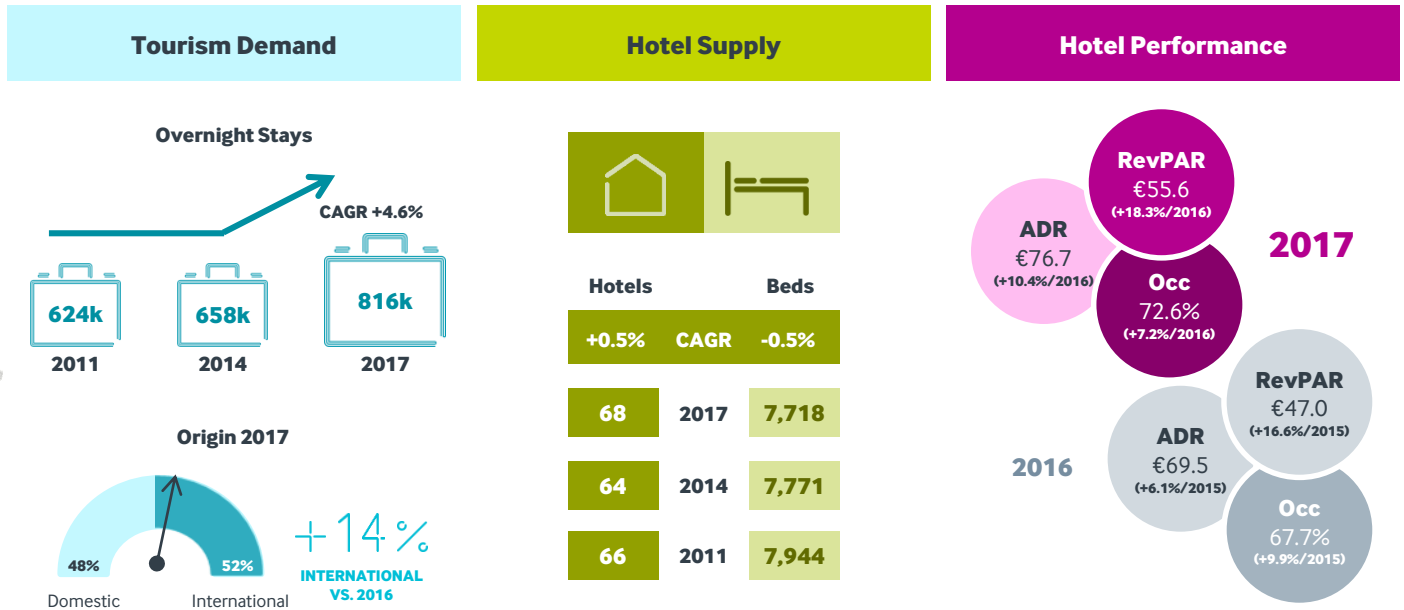
- 13.2% (Comunitat Valenciana 2016)

Key Tourist Attractions

- Castillo de Santa Bárbara
- Isla de Tabarca
- Puerto de Alicante
- Cuevas de Canelobre
- Benacantil

Hotel Pipeline

- Hotel Casa Alberola (4-star, 46 keys)



Cordoba

Occupancy levels resist new supply and rates increases

Despite continuous rates and supply increases (which grew close to 4% in 2017), occupancy levels recorded a 0.6% uplift in 2017. Driven by a balanced demand mix, an increase in international tourism and a slight decrease in the domestic segment, the city reached one million visitors in 2017. The Madrid-Granada AVE railway line inauguration, as well as the new hotel supply planned for the city, will undoubtedly have an impact on demand levels in future years.

Macro-Indicators 2017

- Population: 325,916
- Unemployment rate: 22.9%
- Andalucía GDP 2016: €148,468m (+2.8%/2015)
- Andalucía Inflation rate: 1.1%

Employment by Sector 2017

- Tertiary (61.1%)
- Industrial (8.5%)
- Construction (4.0%)
- Agriculture (12.6%)

Tourism Contribution to GDP

- 13.1% (Andalucía 2016)

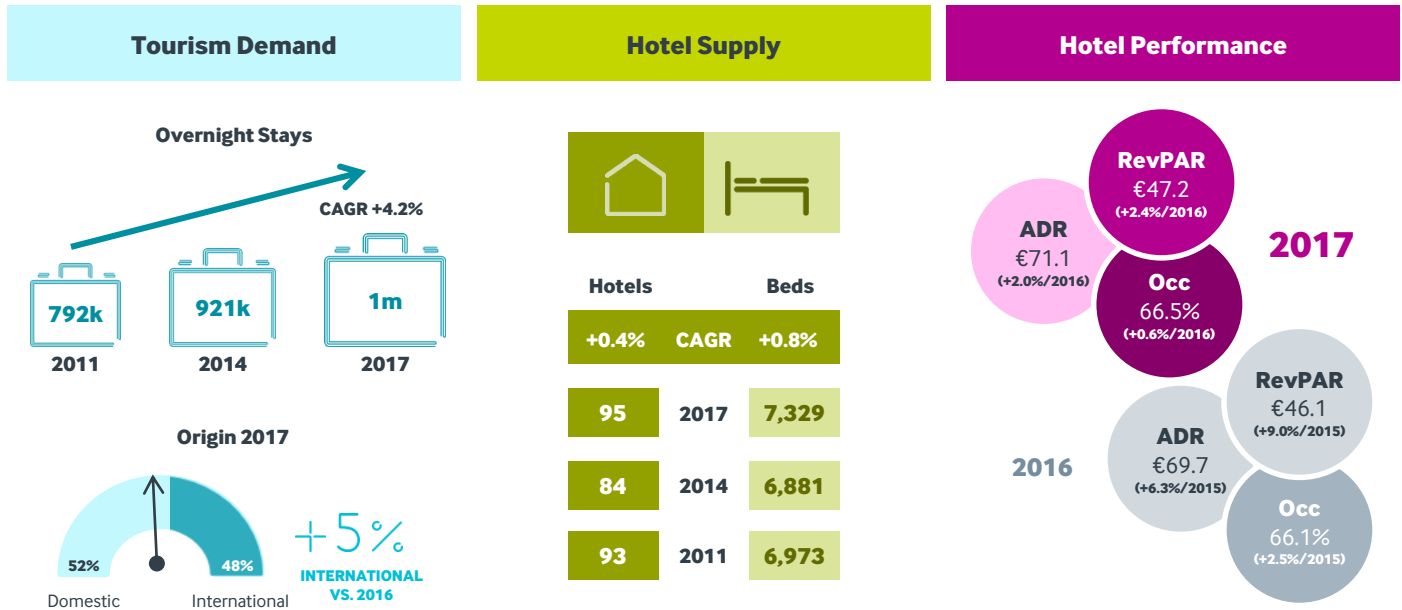
Key Tourist Attractions



- Mezquita de Córdoba
- Alcázar de los Reyes Cristianos
- Torre de Calahorra
- Templo romano de Córdoba
- Calleja de las Flores

Hotel Pipeline

- Eurostars in Córdoba (4-star, 45 keys)
- H10 Casa Colomera (4-star, 39 keys)
- H10 Convento de Santa Isabel (4-star, 70 keys)
- Mercer Córdoba (5-star, 20 keys)



Granada

Accessibility improvement increase its growth potential

With more than 2.5m visitors at the Alhambra in 2017, the RevPAR of Granada grew by 6.8% in 2017, driven by a combined increase in occupancy and ADR. Despite the decrease in overnight trips, there has been a slight increase in total nights, reflecting a positive uplift in the average length of stay, consumption and spending of the destination. Additionally, the new AVE connection (connecting with Madrid in 3 hours) will attract new flows of demand to the city, allowing hoteliers to increase their rates.

Macro-Indicators 2017

- Population: 232,770
- Unemployment rate: 23.3%
- Andalucía GDP 2016: €148,468m (+2.8%/2015)
- Andalucía Inflation rate: 1.1%

Employment by Sector 2017

- Tertiary (66.7%)
- Industrial (6.5%)
- Construction (5.2%)
- Agriculture (10.5%)

Tourism Contribution to GDP

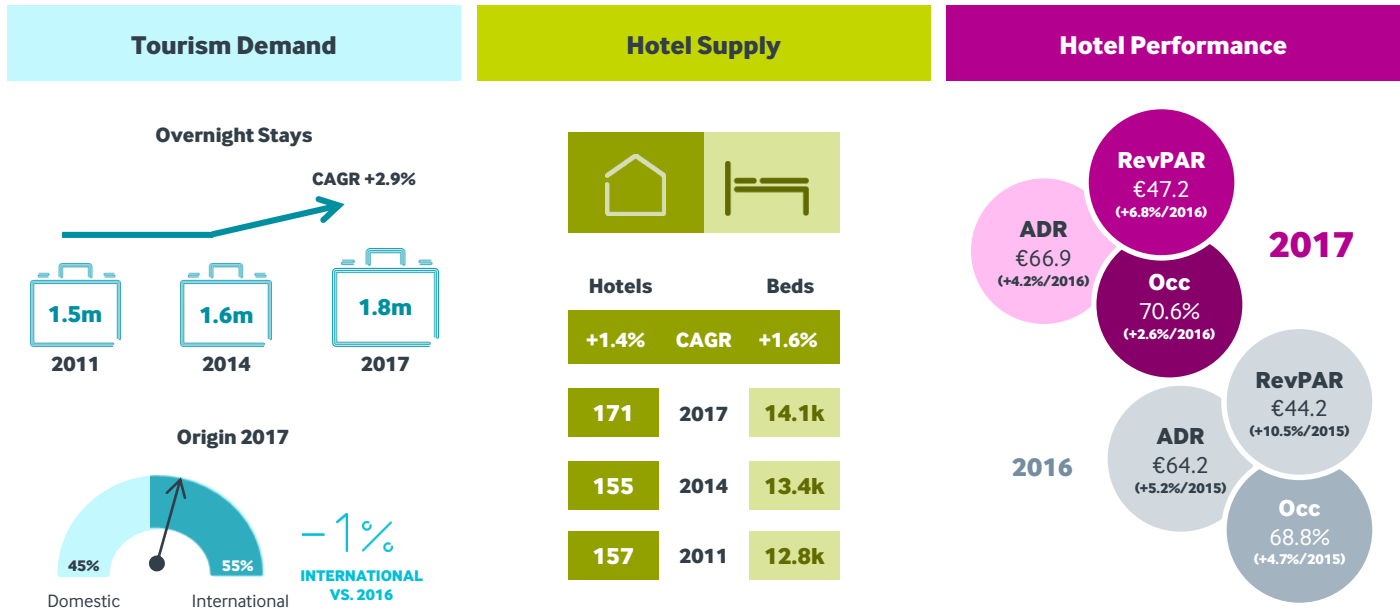
- 13.1% (Andalucía 2016)

Key Tourist Attractions

- Alhambra
- Barrio de Albaicín
- Abadía del Sacromonte
- Capilla Real de Granada
- Hospital Real de Granada

Hotel Pipeline

- YIT Casa de Cadí (3-star, 26 keys)
- Eurostars Catedral (4-star, 94 keys)
- Hotel in Reyes Católicos (4-star, 75 keys)



Toledo

Overseas demand increase and hotel supply decline drive growth in profitability

The 20 minutes that separate Toledo from Madrid by AVE push many visitors not to stay overnight. However, Toledo has been registering a positive evolution in hotel occupancy and rates in 2017. Additionally, the decrease in hotel supply suffered in recent years, as well as its internationalisation, have increased its RevPAR levels by 8.5%, attracting new hotel developments to the city.

Macro-Indicators 2017

- Population: 83,741
- Unemployment rate: 14.5%
- Castilla-La Mancha GDP 2016: €38,015m (+3.1%/2015)
- Castilla-La Mancha Inflation rate: 1.1%

Employment by Sector 2017

- Tertiary (56%)
- Industrial (16.2%)
- Construction (7.9%)
- Agriculture (7.7%)

Tourism Contribution to GDP

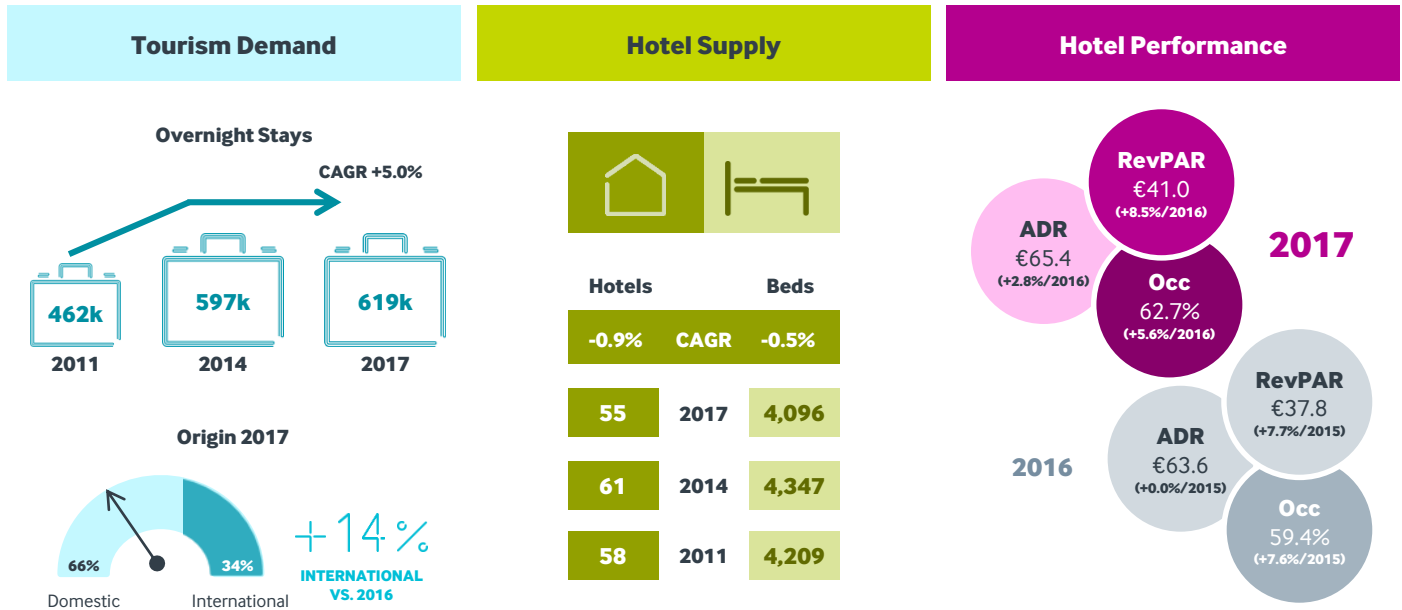
- 7.4% (Castilla-La Mancha 2016)

Key Tourist Attractions

- Alcázar de Toledo
- Catedral de Toledo
- Puerta de Bisagra
- Sinagoga de Santa María la Blanca
- Puente de Alcántara

Hotel Pipeline

- Hotel Eurostars (5-star, 64 keys)
- Hotel Café Español (4-star, 12 keys)



Santiago de Compostela

Hotels reached Holy Year (2010) profitability levels in 2017

In 2017, the combined increase in occupation and rates drove RevPAR to the same level as that during the Holy Year (2010). The uplift in overseas arrivals has driven an increase in overall demand in the city and lowered the effects of seasonality. It is expected that the international market will continue to lead the increase in RevPAR in the coming years. With a supply mainly monopolised by small hotels (less than 25 rooms on average), the city presents a consolidated front with a strong tourism brand.

Macro-Indicators 2017

- Population: 96,456
- Unemployment rate: 13.7%
- Galicia GDP 2016: €57,967m (+3.4%/2015)
- Galicia Inflation rate: 1.2%

Employment by Sector 2017

- Tertiary (66.2%)
- Industrial (14.7%)
- Construction (6.0%)
- Agriculture (5.5%)

Tourism Contribution to GDP

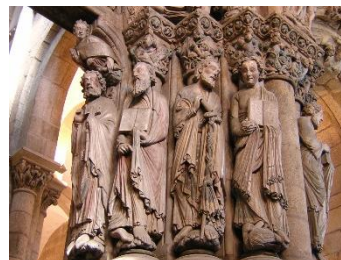
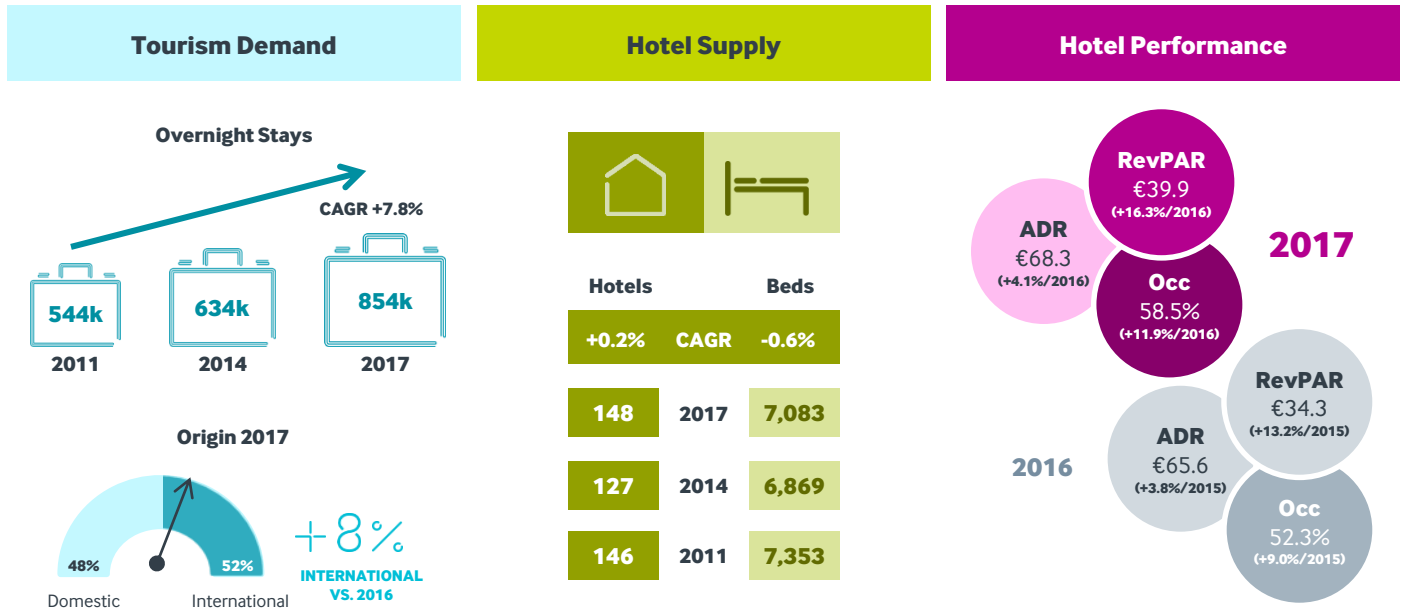
- 11.1% (Galicia 2014)

Key Tourist Attractions

- Final part of St James Way
- Catedral de Santiago de Compostela
- Monasterio de San Martiño Pinario
- Convento de San Domingos
- Monte do Gozo

Hotel Pipeline

- Hotel Pescadería Vella (5 keys)



Valladolid

A lower seasonality drives strong increases in profitability

Valladolid has managed to reduce its seasonality by positioning itself as a MICE, cultural and sports destination, which has driven arrivals to the city and led it to grow more than 10% in 2017. In recent years, the increase in international demand (CAGR of 13.5%/2013) has allowed the city to achieve high increases in RevPAR (+19.3% vs. 2016), driven by a combined increase in occupancy and average price.

Macro-Indicators 2017

- Population: 299,715
- Unemployment rate: 15.7%
- Castilla y León GDP 2016: €55,392m (+3.3%/2015)
- Castilla y León Inflation rate: 1.0%

Employment by Sector 2017

- Tertiary (66.5%)
- Industrial (18.9%)
- Construction (4.9%)
- Agriculture (2.7%)

Tourism Contribution to GDP

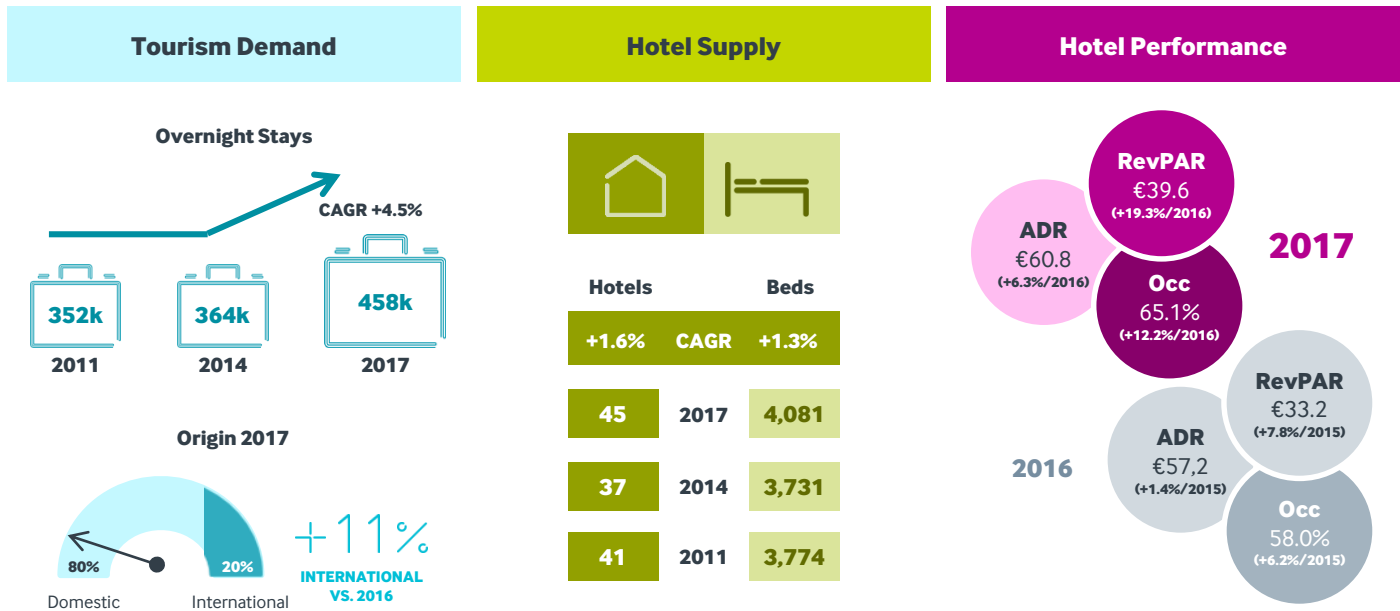
- 7.4% (Castilla y León 2016)

Key Tourist Attractions

- Catedral de Valladolid
- Casa Cervantes
- Museo de Cristobal Colón
- Plaza de Zorrilla
- Colegio de San Gregorio

Hotel Pipeline

- Hotel Lasa reopening (3-star, 62 keys)




Glossary and Legend


Terms and Abbreviations


A	Actual	Occ	Occupation: Proportion of occupied rooms over the total number of rooms available in a given period
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	RENFE	Renfe Operadora: main railway operating company in Spain
AVE	Alta Velocidad Española (Spanish High-Speed Train)	Sectors by Occupation	Percentage of the total active population at a regional level, distributed by activity branch
CAGR	Compound Annual Growth Rate. Accumulated annual growth rate recorded from 2011 to 2017	GDP	Gross Domestic Product
c.	Circa	TTOO	Tour operators / Tour operation
C & Co	Christie & Co	var	Variation
k	Thousand	YoY	Year-on-year
KPI	Key Performance Indicators	vs	Versus
m	Million		


Legend: Increase in Demand

The size of the suitcase corresponds to variations in overnight trips to the cities for the years 2011, 2014 and 2017.

 -17.7% - 0%

 0 - +12.3%

 +12.3% - +27.3%

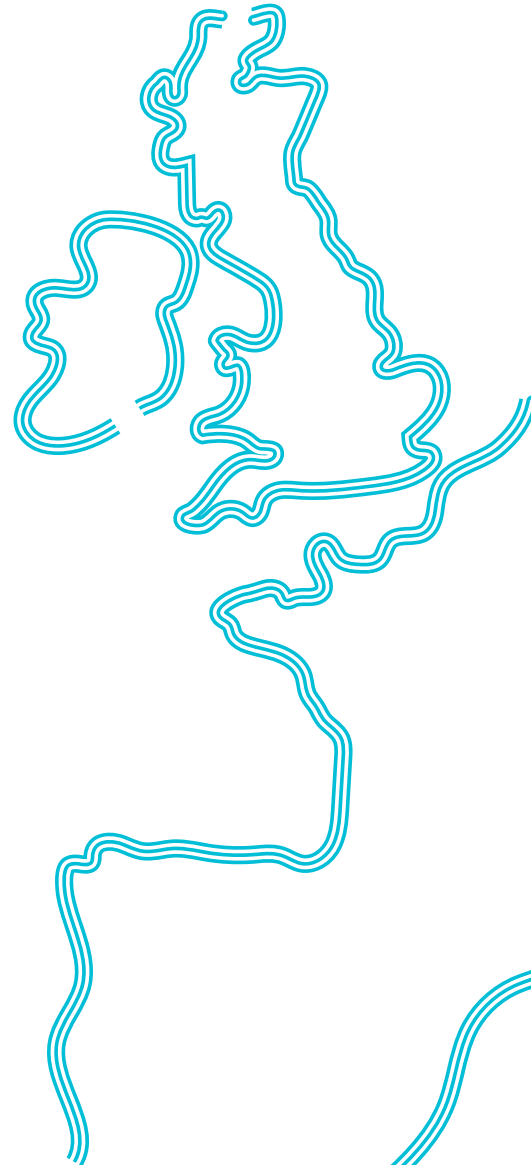
 + 27.3% - +43%

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Our team in Spain



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



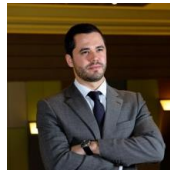
Carlos Nieto MRICS
Associate Director
T +34 91 794 26 40
M +34 686 991 351
E Carlos.Nieto@christie.com



Javier Bravo
Hotel Broker
T +34 91 794 27 19
M +34 659 354 615
E Javier.Bravo@christie.com



Pol Fabregat
Analyst
T +34 93 343 61 73
E Pol.Fabregat@christie.com



Xavier Batlle
Associate Director
T +34 93 343 61 67
M +34 670 823 315
E Xavier.Batlle@christie.com



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



Meritxell Álvaro
Marketing Manager & Team Assistant
T +34 93 343 61 76
M +34 695 417 308
E Meritxell.Alvaro@christie.com



Ñigo Cumella de Montserrat
Senior Hotel Broker
T +34 93 343 61 65
M +34 628 420 197
E Inigo.Cumella@christie.com



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



Jaime Prada
Intern - Broker
T +34 91 794 26 41
E Jaime.Prada@christie.com

BARCELONA

Paseo de Gracia, 11
Escalera B, 4º 3ª
08007 Barcelona

E: barcelona@christie.com
T: +34 93 343 61 61

MADRID

Paseo de la Castellana, 18
7ª Planta
28046 Madrid

E: madrid@christie.com
T: +34 91 794 26 40