CHRISTIE & CO

SPANISH HOTEL MARKET - URBAN DESTINATIONS

FOREWORD

Introduction

This report analyses 14 Spanish cities (Madrid, Barcelona, Palma de Mallorca, Seville, Valencia, Granada, Malaga, Bilbao, Alicante, Cordoba, San Sebastian, Santiago de Compostela, Santander and Cadiz), highlighting the evolution of its main indicators at YTD September 2022.

We have selected these cities according to their volume of demand and supply as well as their levels of RevPAR.

In 2022, tourism in Spain has experienced an exceptional growth, with RevPAR surpassing 2019 results. Since 2020, domestic and international residents, could increase their saving power due to mobility limitations and insecurity towards the COVID – 19 pandemic. This situation led to a widespread willingness to travel, with Spain as one of the preferred options in Europe.

Following 2021 trends, domestic demand led to the first signs of recovery during the first quarter of 2022, which benefited smaller destinations. However, in the second and third quarter, international arrivals increased exponentially, and corporate and MICE segments registered a moderate but continued improvement. We notice that cities with a high leisure component and close to the sea, such as Malaga, Valencia and San Sebastian, have led the urban market recovery. Overall, the urban Spanish destinations are recovering at a faster pace than expected at the beginning of the year.

Nevertheless, the tourism sector is facing transcendent threats, including high energy costs, lack of qualified staff, and uncertainty about the geopolitical situation in Europe.

Methodology

Throughout this report we analyse each city's tourism and hotel framework, using public information sources including EXCELTUR, National Statistics Institute (INE), Spanish Airports and Air Navigation (AENA), Ministry of Development of Spain, Alimarket, and Christie & Co.'s own internal sources.

Glossary

ADR – Average Daily Rate.

AENA – Aeropuertos Españoles y Navegación Aérea

c – circa

CAGR – Compound Annual Growth Rate

ECB – European Central Bank

GDP – Gross Domestic Product

INE – Instituto Nacional de Estadística (National Statistics Institute)

KPI's –Key Performance Indicators

m – Million

MICE – Meetings, incentives, conferencing, exhibitions

Occ – Occupancy

RevPAR – Revenue per Available Room.

var – Variation

vs – Versus

Y – Year

YoY – Year-on-year

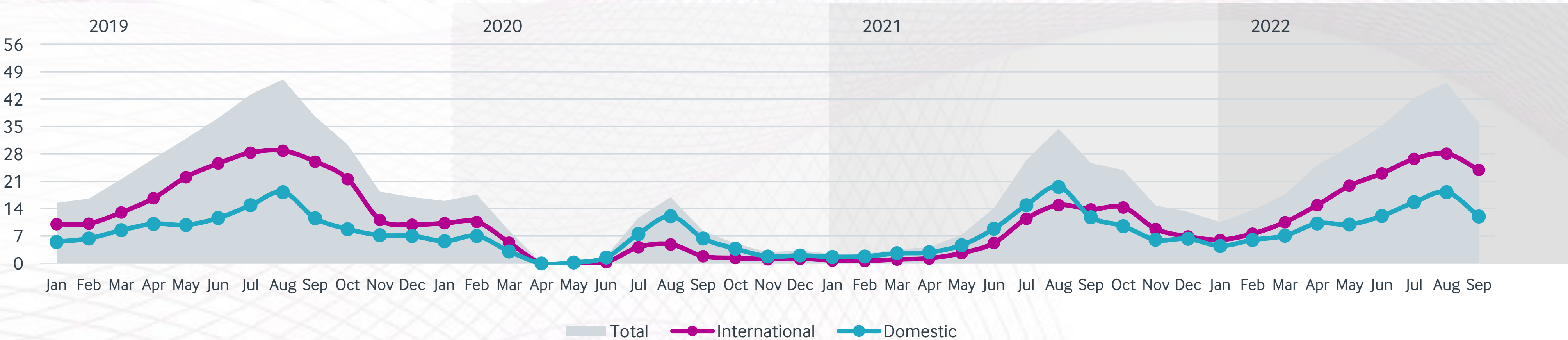
YTD –Year-to-date

SPANISH HOTEL MARKET EVOLUTION

SPANISH HOTEL MARKET EVOLUTION (I)

Recovery of 2019 demand levels during the S2 2022

Overnight Stays (m) in Spain by Origin



Since the COVID – 19 outbreak, demand in Spain was led by the domestic segment until September 2021. However, international overnight stays were still significantly below 2019.

Mobility restrictions in Q1 2022, a key period for corporate and MICE demand, slowed down the recovery (at YTD March 2022, demand was 22% below 2019).

Once the pandemic entered a controlled stage, the overseas segment started to increase. From April to September, Spain experienced a sharp demand rise, with the resort market as the main growth driver (at YTD September, demand in Spain was 7% below 2019.

The late recovery of the demand benefited destinations with a strong leisure component.

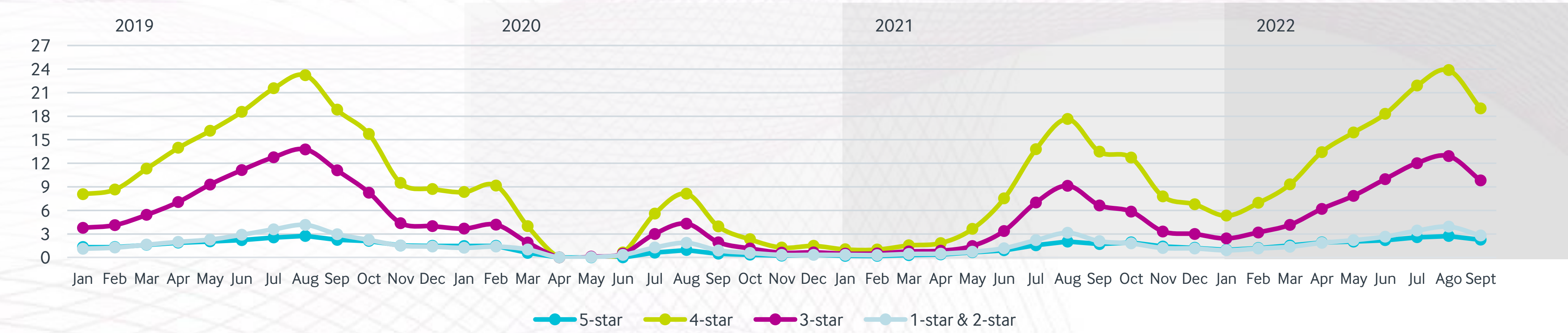
5-star and 4-star hotels (the largest categories in leisure markets) almost reached 2019 levels (-3% and -5% vs YTD 2019). On the other hand, the rest of the categories, more dependent on urban and corporate demand, registered a more significant decrease when compared to 2019.

Following the market recovery, the hotel sector almost reached its total capacity at 3% below 2019 levels.

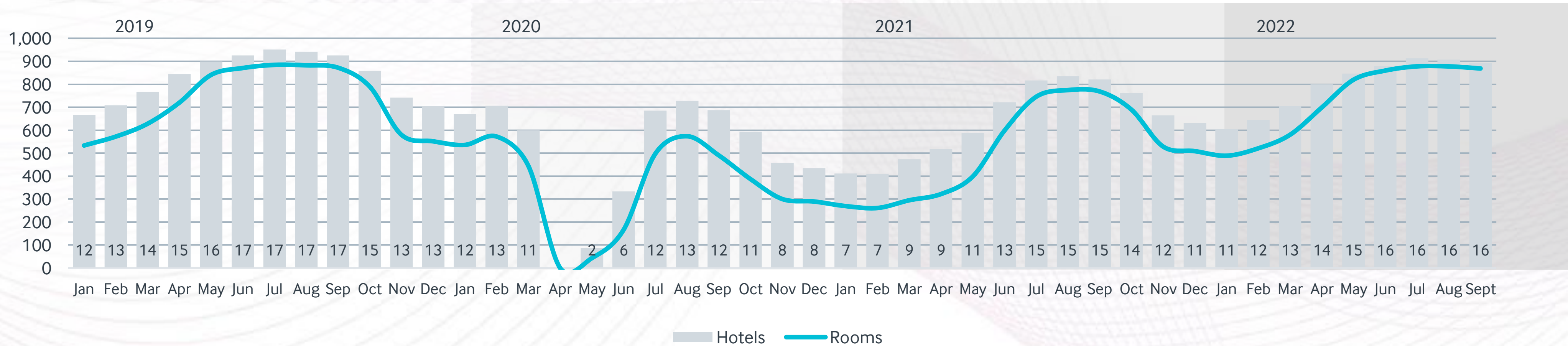
SPANISH HOTEL MARKET EVOLUTION (II)

Domestic demand and the luxury segment recovering at a faster pace

Overnight Stays (m) in Spain by Hotel Category



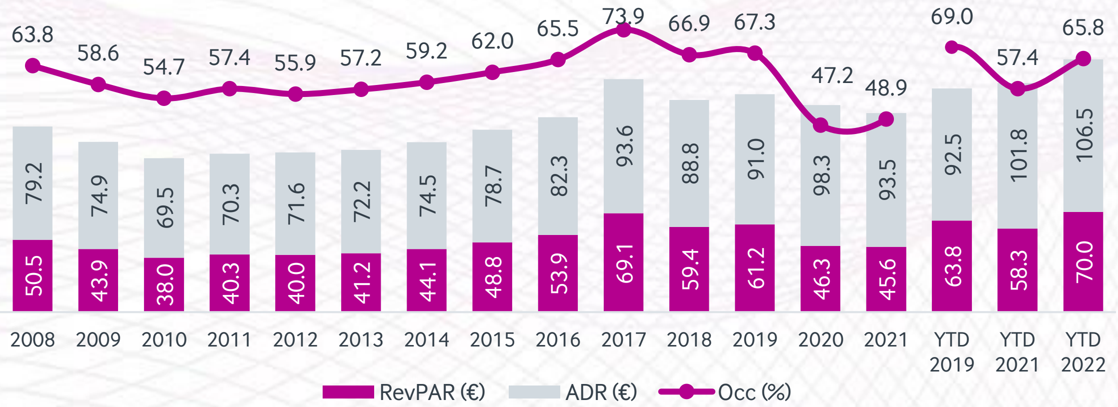
Number of Available Hotels and Rooms (k) in Spain



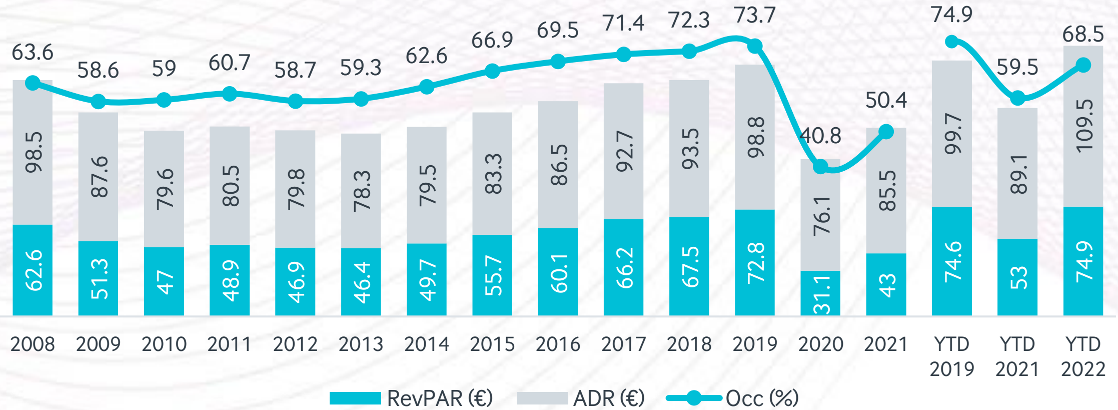
SPANISH HOTEL MARKET EVOLUTION (III)

Strong international demand in summer supports RevPAR growth

KPIs Total Spain



KPIs Top 14 Urban Destinations in Spain



Hotels at YTD September 2022 registered increasing RevPAR after three years of consecutive drops.

In 2022, the rise of energy costs and supply scarcity resulted in a high inflation rate that most hotels managed to transfer to the clients.

Hotels in Spain experienced an ADR increase of 15% when compared to 2019. Despite a contraction of occupancy levels (-5%), RevPAR surpassed 2019 results by 10%.

On a monthly basis, this increase was especially noticeable during the summer season with July and August reaching a higher RevPAR than in 2019, driven by the positive performance of the resort destinations.

On the other hand, urban hotels registered a softer growth impacted by the low tourism activity during Q1 2022, that mainly penalised corporate-oriented destinations.

At YTD 2022, RevPAR reached similar levels than in 2019, with ADR growing by 10% and occupancy decreasing by 9%.

We consider that for the following months, the ADR growth will stabilise, benefiting the recovery of the occupancy.

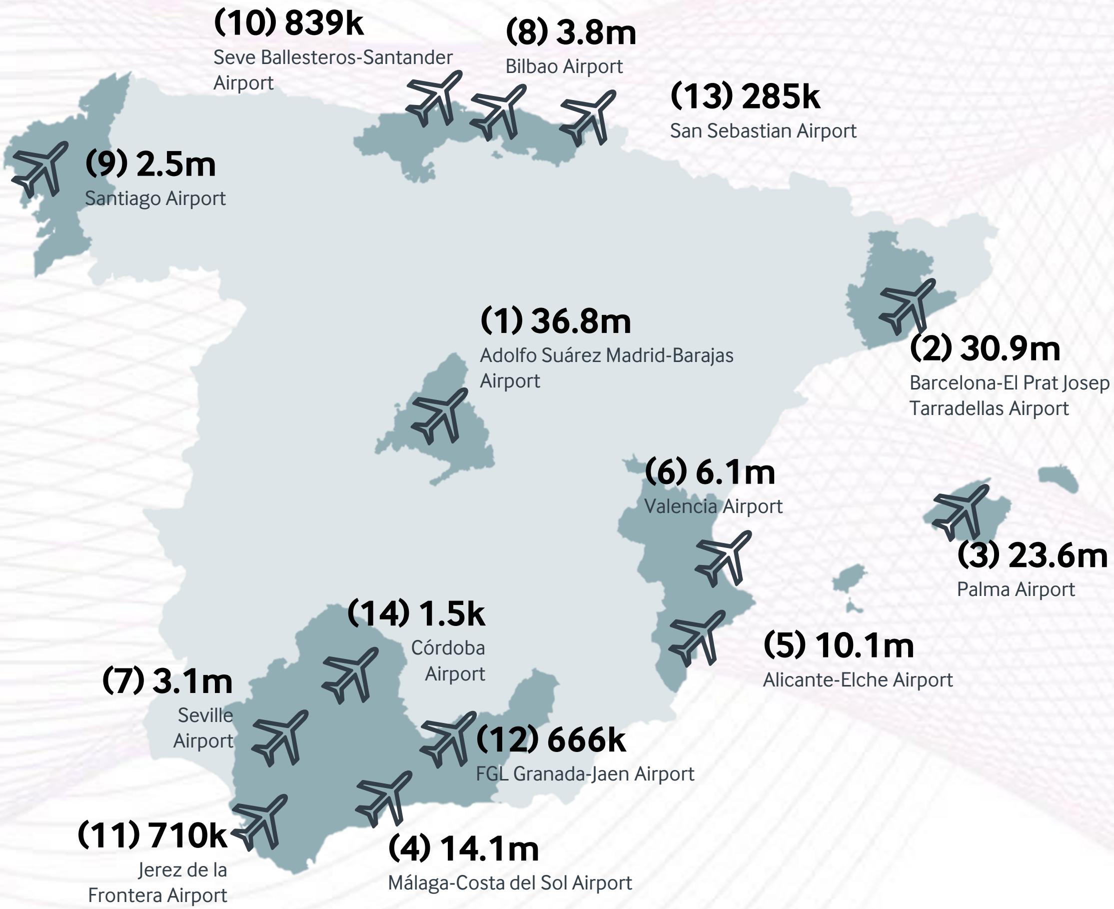
Source: Exceltur

THE SELECTED 14 URBAN MARKETS

AIR ACCESSIBILITY: YTD SEPTEMBER 2022

Airports in leisure destinations led the passengers' recovery

Number of Passengers



Ranking		% Dom 2019	% Int 2019	% Dom 2022	% Int 2022	YTD 2022 vs 2019
1	MAD	27%	73%	28%	72%	-21%
2	BCN	26%	74%	29%	71%	-24%
3	PMI	23%	77%	25%	75%	-5%
4	AGP	14%	86%	17%	83%	-10%
5	ALC	11%	89%	15%	85%	-15%
6	VLC	26%	74%	31%	69%	-7%
7	SVQ	74%	78%	55%	45%	34%
8	BIO	56%	44%	65%	35%	-15%
9	SCQ	76%	24%	76%	24%	10%
10	SDR	60%	40%	54%	46%	-6%
11	XRY	50%	50%	55%	45%	-22%
12	GRX	80%	20%	93%	7%	-29%
13	EAS	99%	1%	99%	1%	18%
14	ODB	99%	1%	97%	3%	-81%

Source: AENA

DEMAND: YTD SEPTEMBER 2022

Cities with a strong leisure component are leading the recovery

Overnight Stays in the Selected Urban Destinations

	Total			Domestic		International	
	YTD 2019	YTD 2022	YoY %	Market Share	YoY Var%	Market Share	YoY Var%
Barcelona	16,531,221	14,918,599	-10%	15%	18%	85%	-13%
Madrid	15,535,601	13,068,954	-16%	41%	-3%	59%	-23%
Palma	7,641,620	7,765,033	2%	10%	-9%	90%	3%
Seville	4,430,909	4,015,112	-9%	44%	12%	56%	-21%
Valencia	3,365,550	3,384,686	1%	38%	15%	62%	-7%
Granada	2,732,094	2,189,531	-20%	57%	1%	43%	-37%
Malaga	2,144,115	2,180,492	2%	39%	18%	61%	-7%
Bilbao	1,435,644	1,475,944	3%	49%	5%	51%	1%
Alicante	1,567,031	1,394,886	-11%	41%	-8%	59%	-13%
San Sebastian	1,121,754	1,284,990	15%	38%	11%	62%	17%
Santiago de Compostela	1,142,863	1,173,674	3%	58%	6%	42%	-2%
Cordoba	1,232,024	1,038,942	-16%	60%	-8%	40%	-25%
Santander	736,662	694,008	-6%	64%	-17%	36%	26%
Cadiz	497,473	466,458	-6%	66%	9%	34%	-26%

The international demand performed positively during the summer period, benefiting the cities with access to the sea (strong leisure component).

The Northern cities of San Sebastian and Bilbao registered the strongest increases in demand, driven by temperate weather and the reactivation of large events.

Palma, Malaga, and Valencia, all of them at the beachfront, surpassed 2019 levels and Santiago registered positive results derived from the Xacobeo year.

On the other hand, cities with a large corporate component are the ones that are recovering at a slower pace. However, after a poor Q1, MICE tourism evolved positively since April anticipating its recovery by the end of 2022.

DEMAND: SEASONALITY

CURRENT SUPPLY

Despite the pandemic, the hotel supply increased in all the analysed cities

Hotel and Room Supply in the Selected Urban Destinations

	2019		2020		2021		2022								
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	22 vs 21	22 vs 19	1-star %	2-star %	3-star %	4-star %	5-star %
Madrid	316	39,181	320	39,638	320	39,512	326	40,245	1.9%	2.7%	2%	3%	15%	65%	15%
Barcelona	394	37,624	399	38,349	402	38,807	406	38,792	0.0%	3.1%	3%	5%	22%	54%	16%
Palma	202	25,596	203	25,797	205	26,069	212	26,649	2.2%	4.1%	2%	4%	36%	51%	8%
Seville	99	9,661	101	9,709	109	9,878	118	10,557	6.9%	9.3%	2%	4%	15%	67%	11%
Valencia	74	8,284	80	8,498	82	8,552	92	8,792	2.8%	6.1%	1%	5%	23%	60%	11%
Granada	78	6,304	78	6,298	77	6,267	78	6,246	-0.3%	-0.9%	1%	5%	17%	69%	9%
Malaga	54	4,623	56	4,694	65	5,254	68	5,488	4.5%	18.7%	2%	12%	23%	56%	8%
Bilbao	42	4,080	43	4,108	46	4,481	48	4,639	3.5%	13.7%	3%	13%	11%	58%	15%
Alicante	41	3,480	40	3,457	40	3,349	42	3,427	2.3%	-1.5%	3%	10%	29%	54%	4%
Cordoba	47	3,043	47	3,036	49	3,163	50	3,224	1.9%	5.9%	6%	17%	18%	52%	7%
San Sebastian	37	2,369	42	2,778	45	2,857	48	3,059	7.1%	29.1%	3%	9%	14%	69%	5%
Santiago de Compostela	42	2,703	42	2,727	44	2,685	46	2,748	2.3%	1.7%	7%	6%	28%	43%	16%
Santander	24	1,860	24	1,860	24	1,860	26	2,017	8.4%	8.4%	2%	8%	27%	57%	6%
Cadiz	16	1,075	17	1,110	18	1,120	19	1,145	2.2%	6.5%	2%	6%	21%	71%	0%

Despite the pandemic, the majority of the selected cities experienced hotel room growth. At YTD September 2022, the combined selected cities registered an addition of c. 7.1k rooms since 2019 (+4.8%), highlighting the permanent interest of investors and hotel groups to enter or expand their footprint in Spain.

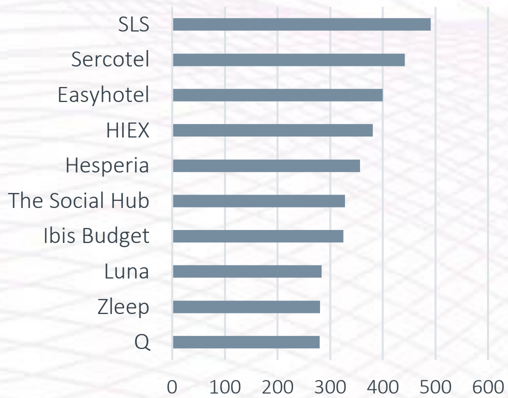
Madrid, Barcelona and Palma (including the hotels in Playa de Palma) were the largest hotel markets in Spain, representing together 67% of the total rooms of the selected markets. Madrid experienced significant growth of luxury hotels including the openings of Rosewood, Four Seasons, Mandarin Oriental, Thompson (Hyatt) and Edition (Marriott International), which positioned the city as a top hotel destination in Europe. On the other hand, the room increase in Barcelona and Palma was moderate as both cities are subjected to development restrictions that limit the room growth.

Since 2019, San Sebastian, Malaga, Bilbao and Seville were the cities that grew at a faster pace. All of them, recorded an exponential growth of international demand during the last five years, receiving the attention of international brands, which kept growing despite the pandemic.

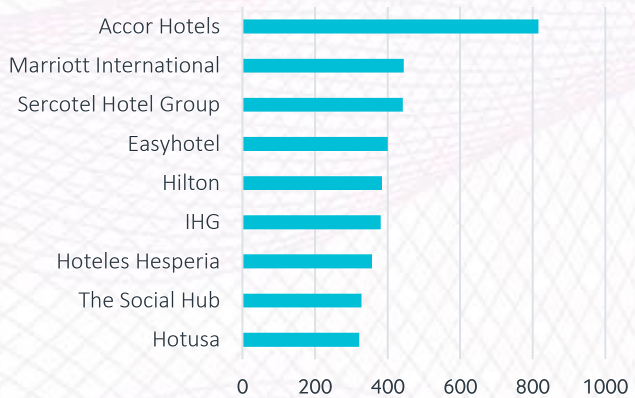
FUTURE SUPPLY

Economy hotels lead the branded pipeline

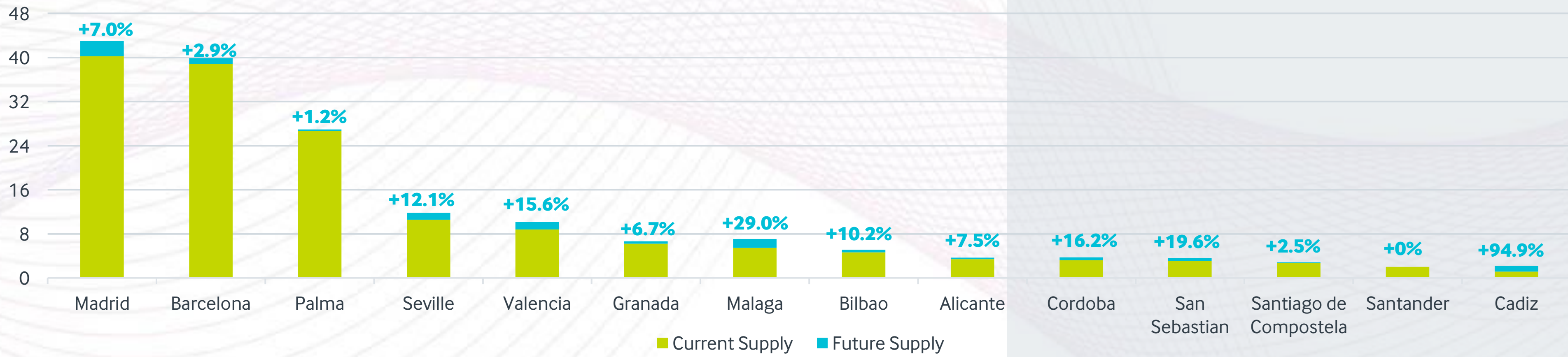
Top 10 Hotel Brands - Rooms in the Pipeline



Top 10 Hotel Groups - Rooms in the Pipeline



Current Room Supply (k) and Future Room Supply (k) (2023 – 2025)



With 45 hotels in the pipeline (11,904 rooms) projected to open in the next three years, the total room supply of the selected cities will potentially grow by 8%.

Madrid registers the largest pipeline, with 2.8k rooms, which represents 24% of the projected rooms in the analysed destinations. After Madrid, Malaga (+1.6k rooms), Valencia (+1.4k) and Seville (+1.3k) are the cities that will growth the most, maintaining the rising trend registered in the last years.

On the other hand, the number of new projects in Cadiz will double the existing supply in the next few years.

Accor Hotels is the hotel group that will grow the most, with the SLS hotel in Barcelona (491 rooms).

Majority of the brands that will enter in the urban destinations are focused on the limited service and economy segment, including HIEX, Ibis Budget and Easyhotel.

KPIs: YTD SEPTEMBER 2022

RevPAR increase sustained by the ADR

KPIs at YTD September 2022

	Occupancy %				ADR (€)				RevPAR (€)			
	2019	YTD 2019	YTD 2022	YTD YoY	2019	YTD 2019	YTD 2022	YTD YoY	2019	YTD 2019	YTD 2022	YTD YoY
Barcelona	81.0	83.5	77.5	-7.2%	134.2	137.6	144.7	5.2%	108.9	115.0	112.0	-2.6%
San Sebastian	72.5	74.2	69.5	-6.3%	140.6	147.2	162.2	10.2%	101.7	108.9	112.4	3.2%
Palma	77.9	81.4	82.6	1.5%	110.0	111.0	128.1	15.4%	85.7	90.3	105.8	17.2%
Madrid	77.9	77.4	64.9	-16.1%	103.7	101.7	114.0	12.1%	80.8	78.7	74.0	-6.0%
Malaga	78.7	79.5	76.1	-4.3%	99.2	100.0	117.7	17.7%	78.0	79.4	89.4	12.6%
Cadiz	74.6	77.8	68.9	-11.4%	103.4	107.7	122.2	13.5%	76.9	83.5	84.0	0.6%
Seville	79.1	79.7	68.4	-14.2%	96.8	95.9	104.3	8.8%	76.5	76.4	71.3	-6.7%
Bilbao	75.0	76.9	64.6	-16.0%	97.8	98.9	100.6	1.7%	73.3	76.0	65.0	-14.5%
Valencia	77.3	79.7	77.3	-3.0%	87.7	88.5	100.3	13.3%	67.7	70.4	77.4	9.9%
Alicante	74.3	77.0	73.9	-4.0%	77.1	79.4	98.3	23.8%	57.2	61.0	72.5	18.9%
Santander	66.2	69.1	65.5	-5.2%	84.8	89.0	100.3	12.7%	56.0	61.3	65.5	6.9%
Granada	71.2	71.4	64.6	-9.5%	70.1	69.2	77.6	12.1%	49.9	49.4	50.2	1.6%
Cordoba	67.7	67.9	57.7	-15.0%	71.6	70.8	80.8	14.1%	48.4	48.0	46.6	-2.9%
Santiago de Compostela	59.9	61.8	64.0	3.6%	70.4	71.9	84.8	17.9%	42.2	44.4	54.3	22.3%

At YTD September, nine of the 14 analysed cities registered RevPAR increase sustained by the ADR. The high inflation was reflected in the ADR, which was superior to 2019 levels in all the cities.

Leisure-oriented cities such as Alicante, Malaga, Santiago and Valencia were the destinations that registered the highest RevPAR growth. On the other hand, occupancy remained below 2019, except for Palma (benefited from the resort area of Playa de Palma) and Santiago de Compostela (Xacobeo year).

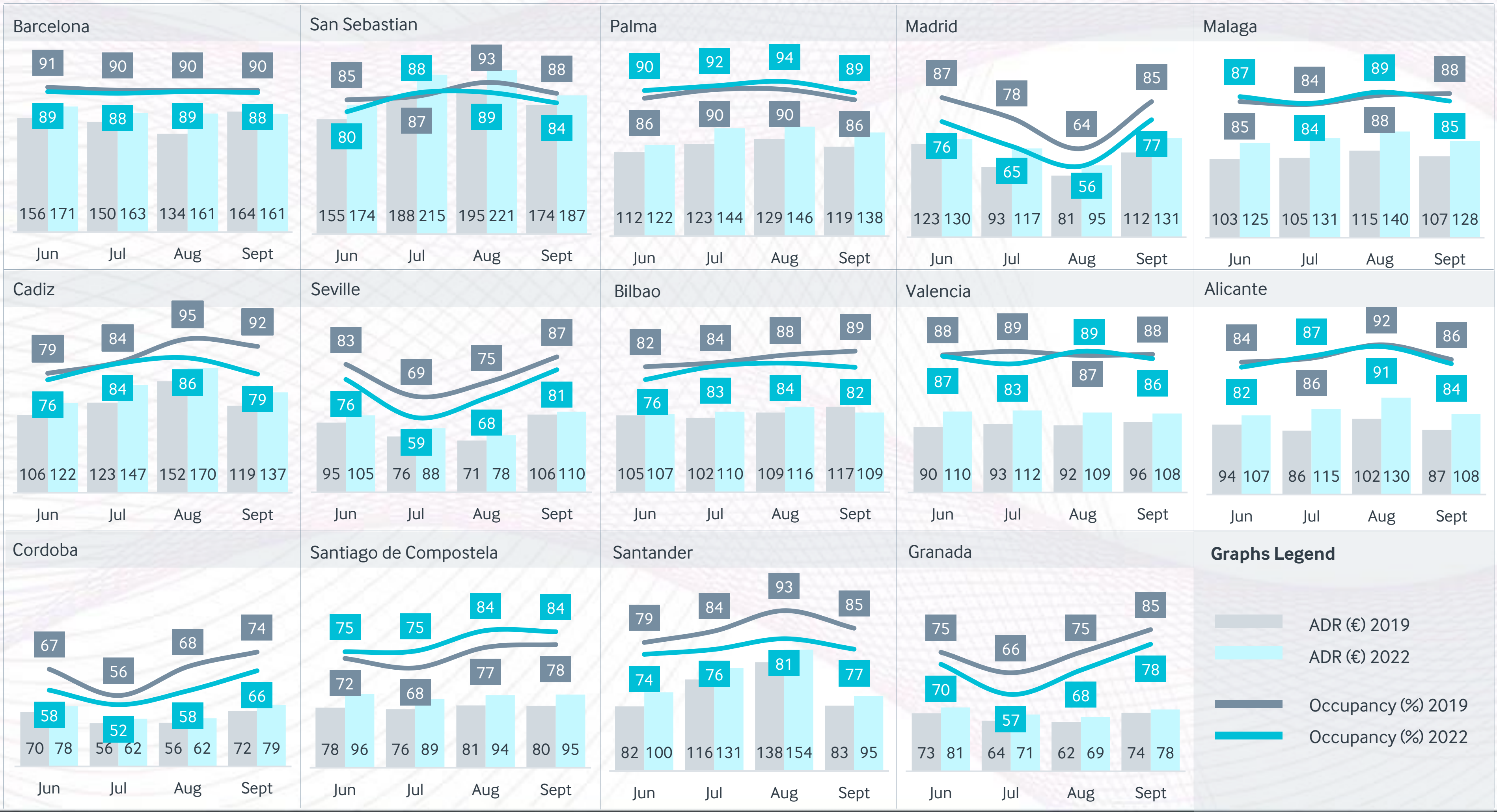
Corporate-oriented destinations such as Madrid, Barcelona (highly dependent on the MICE segment), Bilbao and Cordoba were still recording lower RevPAR than 2019.

Bilbao registered the strongest RevPAR drop in YTD 2022, due to a 16% decrease in occupancy. While the rest of the cities started to recover between February and March, Bilbao noticed the first signs of increase between March and April as the restrictions were especially stronger during Q1 2022.

KPIs: SUMMER DETAIL

Overall, positive performance during summer

ADR and Occupancy (June – September)



OUTLOOK

The 2023 forecast for the tourism sector in Spain is positive

Growing Demand and RevPAR Levels

We expect demand to remain strong in the leisure segments and prices to stabilize after a year of important growth.

Coastal destinations will likely see another successful summer season.

Corporate and MICE demand will continue to recover and should be close to 2019 levels by year end and most destinations will see record RevPAR performance.

Positive outlook with significant threats

On one hand, we have noticed the comeback of international travellers and the confirmation of the strength of the local demand, while on the other hand, the international situation is more complex than ever: inflation is reaching historical levels in Europe driven by utility costs and political instability in the country .

These elements have led to an interesting situation where operational performances have reached record levels driven by an ADR uprise. Although P&Ls have been impacted by increases in both staff and utility costs, the overall picture is still positive for hoteliers and most of them feel reasonably optimistic for the coming months and especially considering that some markets including the US and Asia are not back at full speed yet.

We have noticed that the energy costs rise has drawn a lot of attention towards sustainability and efficiency and that both operators and owners are seriously working on this topic. But this optimism will be questioned if energy costs keep being out of control and the labour situation continues to deteriorate, with difficulties to find qualified employees in some destinations.

All these elements will lead us to an interesting 2023 where we do expect operational performance to remain strong.

Sources: ECB, Banco de España, BBVA, McKinsey

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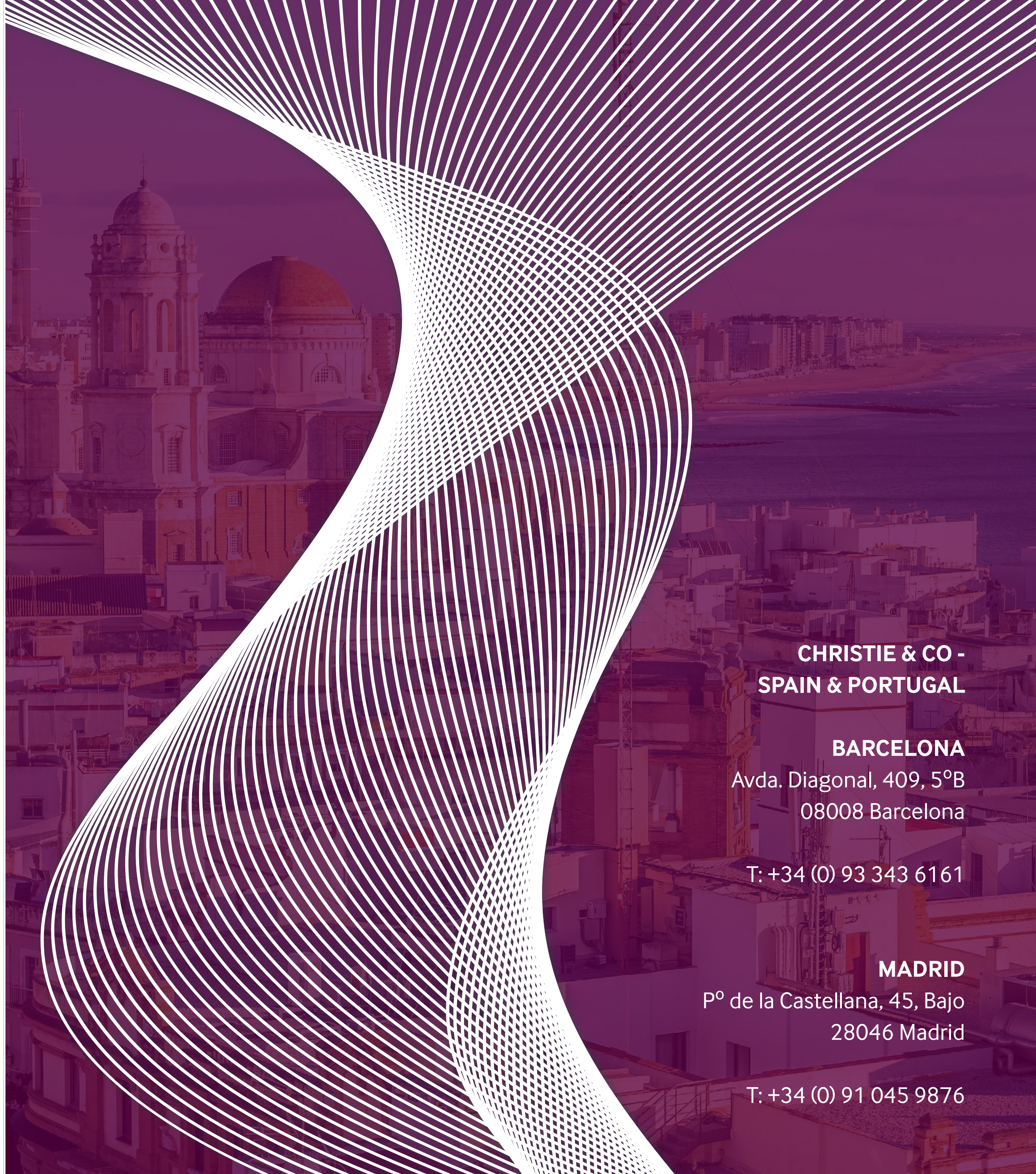

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