

Nordics

A region of opportunity



Full Year 2016 KPIs

Oslo - Norway

66%
Occupancy

€103
ARR

€68
RevPAR

Copenhagen - Denmark

79%
Occupancy

€125
ARR

€99
RevPAR

Stockholm - Sweden

69%
Occupancy

€125
ARR

€86
RevPAR

Helsinki - Finland

72%
Occupancy

€102
ARR

€73
RevPAR



Nordics - A Region of Opportunity

Introduction

Positive Demand and Performance Development

Fuelled by strong economic performance and RevPAR increases around 25% across all four capitals over the past five years, the Nordics continue to grow in popularity. Airport arrivals across the capitals grew by over 3% pa, whilst overnight stays in Oslo, Stockholm and Copenhagen increased by almost 5% annually. Even though guests to the region remain mainly domestic or from the Nordic region, international arrivals have grown at a faster rate than domestic travel.

Despite this gradual internationalisation of the region, Scandinavia is still dominated by local operators, and Scandic and Nordic Choice are by far the largest operators.



Less than 10% of the supply across the Scandinavian capitals is operated under one of Europe's main brands, making the market very attractive for international brands.



Attractive Market for International Operators and Investors

As demand has outpaced supply in Copenhagen, Stockholm and Helsinki, many operators and developers have recognised the opportunity this presents, translating into a sizable pipeline with over 12,000 proposed new rooms, which is expected to impact performance. Occupancy levels will especially be pressured from this notable increase in supply, as they have previously benefitted from relatively low supply growth.

However, some of the newest additions to the market are long-desired international lifestyle brands such as citizenM and Moxy, which are expected to induce new demand to the region. Nevertheless, going forward it is important to continue diversifying the product offering to attract new segments. In terms of product, there are clear gaps in the internationally-branded full and limited-service sectors. Tourism is up and guests are eager to discover unique hotel concepts. Lasting growth in global visitation will undoubtedly create more demand for internationally-branded hotels.

While there is a lot of appetite from international hotel operators to penetrate the region, different preferences in operating structure have historically impeded international operators from entering the market. Many local property companies and hotel operators seek lease structures while most international brands favour asset-light strategies such as franchise or management contracts. The solution, which is successfully practiced in regions with a preference for leases such as Germany, appears to be a third-party operator aligned with an international franchise agreement.

This publication examines the key fundamentals of the Nordics, highlighting why investors and operators should pay close attention to this region of opportunity.



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Population and Economic Outlook

40% Scandinavia is home to more than 26m people, and Sweden is the largest country with almost 40% of the population.

GDP

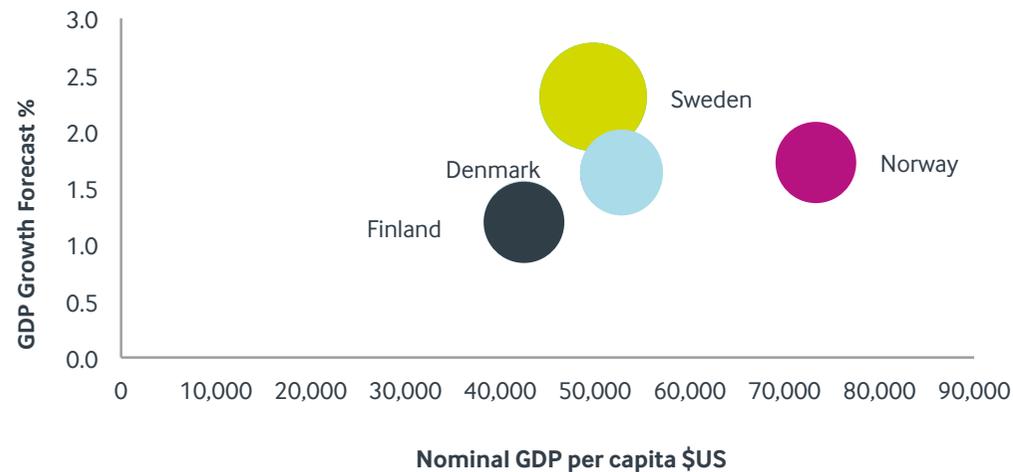
In terms of nominal GDP per capita, all four countries rank among the Top 20 countries worldwide, with Norway and Denmark in the Top 10. Historically, Sweden has been one of the strongest performing economies in the Nordics and is forecast to sustain growth around 2.3% over the coming three years.

Hit by the low oil prices in recent years, growth is forecast to pick up again in Norway, supported by household spending and fiscal stimulus, as well as increasing oil prices, of the Ruble.

The Danish economy is forecast to grow modestly around 1.6% pa, while the Finnish economy has seen signs of acceleration in late 2016 as, despite sanctions, Finnish exports to Russia are benefiting from an appreciation of the Ruble.

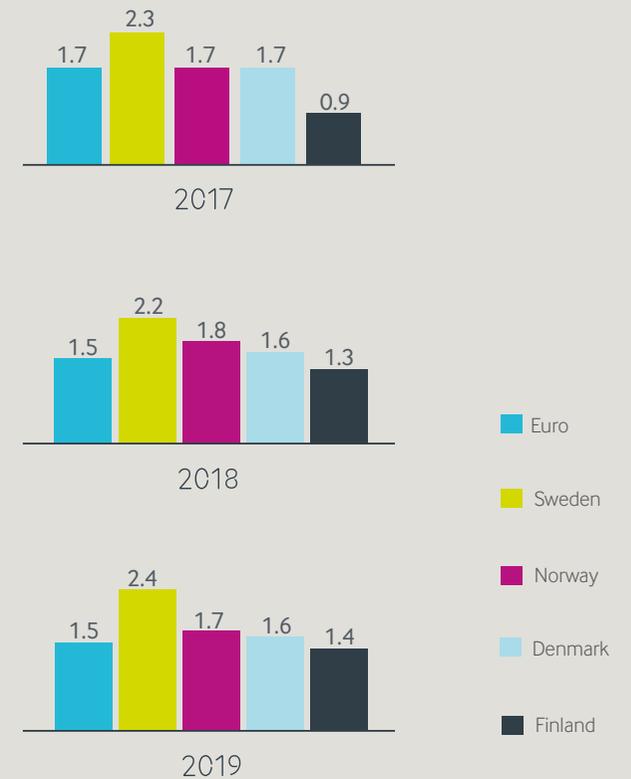
Going forward, efforts to support growth, boost competitiveness and reduce public debt will remain priorities. Overall, the short-term economic outlook in the Nordics remains positive and ahead of the Euro region.

Country Comparison – Population, GDP and Growth Forecast



On average every fifth person lives in one of the four countries' capitals.

GDP Growth Forecast 2017 - 2019 (%)



Note: Population and GDP based on 2016 figures, Growth Forecast on average GDP growth between 2017-2019
Sources: EUI, The Nordic Council, IMF, Christie & Co Research and Analysis

Air Accessibility

International arrivals have increased by over 160% across all airports over the last decade.

Oslo Airport (OSL)

The second largest airport in the Nordics, has an extensive domestic and European route network, but is underserved by long-haul routes. OSL has recorded strong passenger increases in recent years with significant future growth potential.

25.8 m passengers

Copenhagen Airport (CPH)

Is the busiest airport and main transfer hub in Scandinavia and – with over 90% – has the highest share of international travellers. Its geographical location makes it the most attractive gateway to Northern Europe.

29.0 m passengers

Helsinki-Vantaa (HEL)

Has the lowest passenger throughput compared to the other capitals. However, the airport serves more Chinese destinations non-stop than any of its rivals, due to its geographical location, as HEL offers the shortest route between Europe and Asia.

17.2 m passengers

Stockholm Arlanda Airport (ARN)

Serves the largest market in Scandinavia and demonstrates the highest growth in passengers, with an uplift of around 40% over the past decade mainly driven by international arrivals. Going forward ARN aims to further develop routes into China, India and the US.

24.7 m passengers



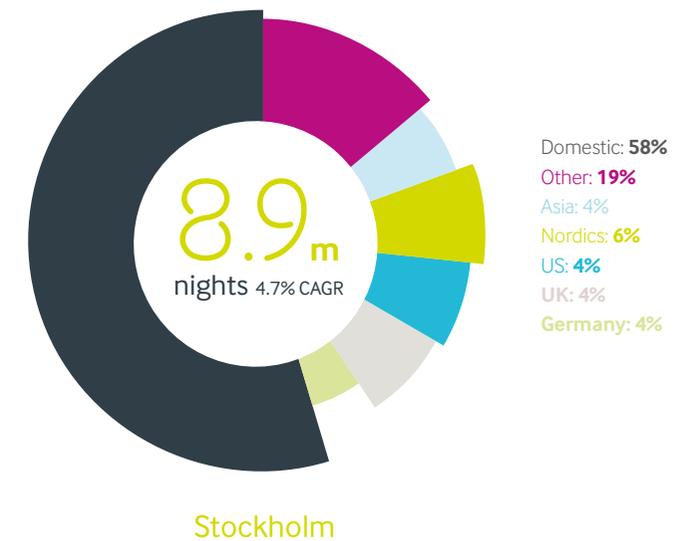
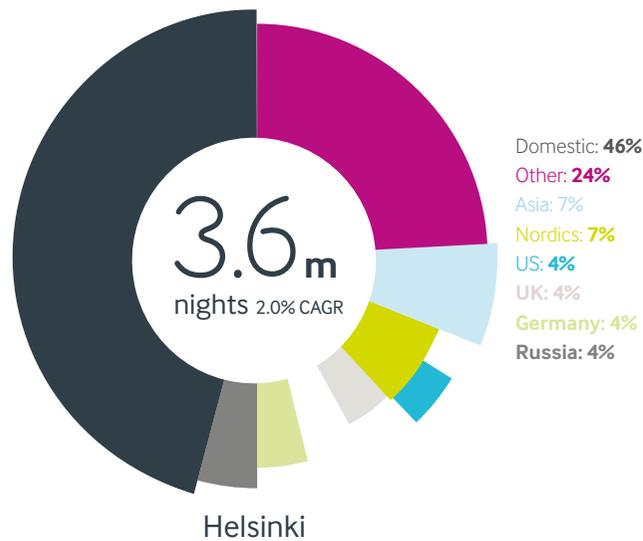
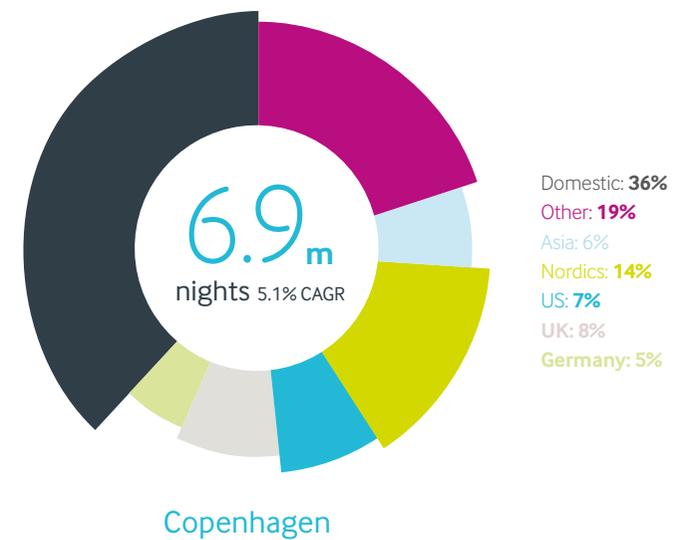
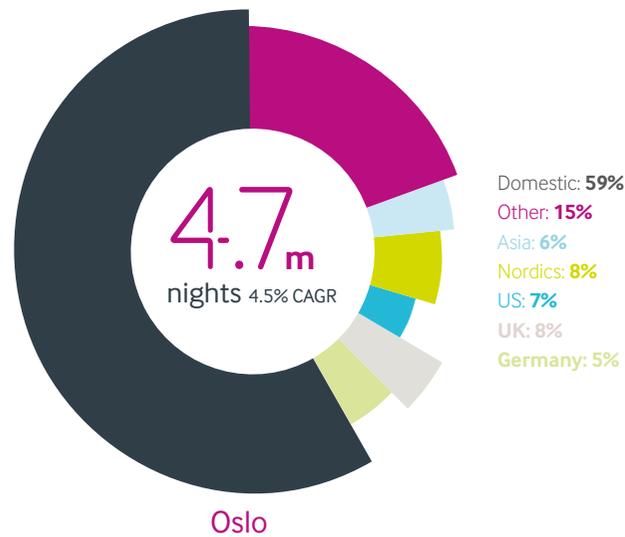
Feeder Markets

International travellers on the rise

Scandinavia is a predominantly-domestic market, with the exception of Copenhagen which is the most international city amongst these four. The main source markets are quite similar across all cities. Other Nordic countries are the biggest feeder market, followed by Germany, the UK and the US. Helsinki also records high demand from its neighbouring country, Russia.

All cities have seen an increase in international demand over the past decade, compressing the share of domestic demand, with the exception of Helsinki. This can be partly attributed to the decline in demand from Russia. While results in 2016 were positive, visitation numbers were still below the highs of 2011 and 2013 as EU trade sanctions, along with the weak Ruble exchange rate, are keeping visitor volumes from Russia at a relatively low level.

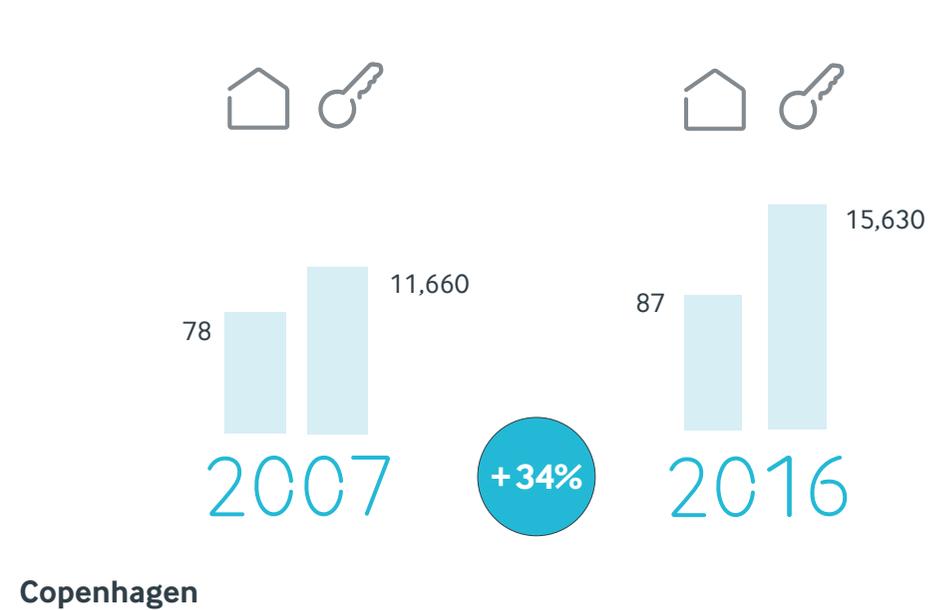
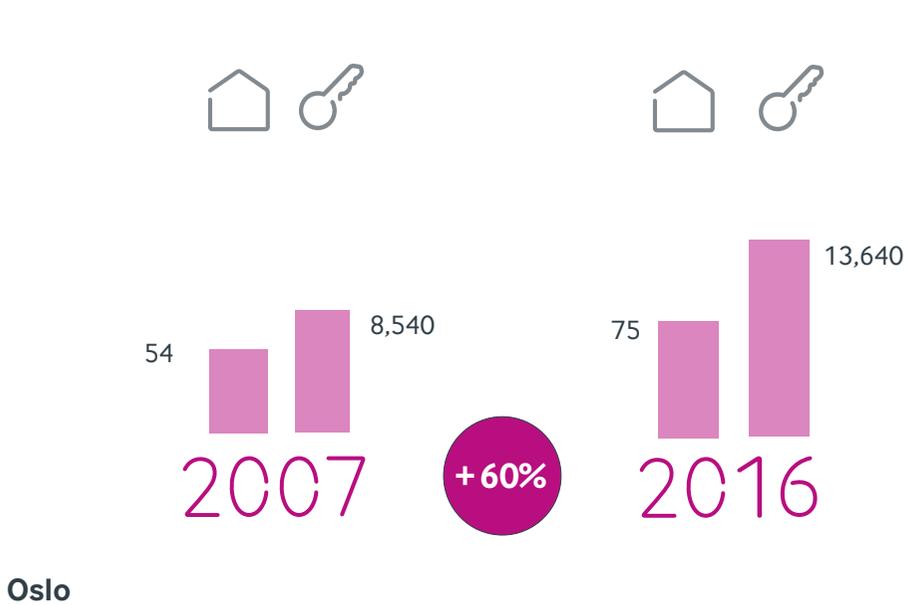
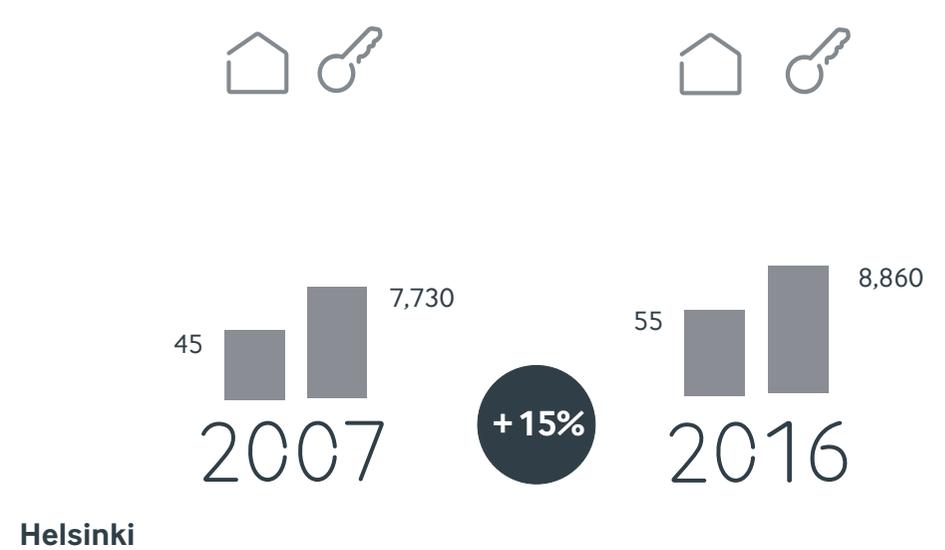
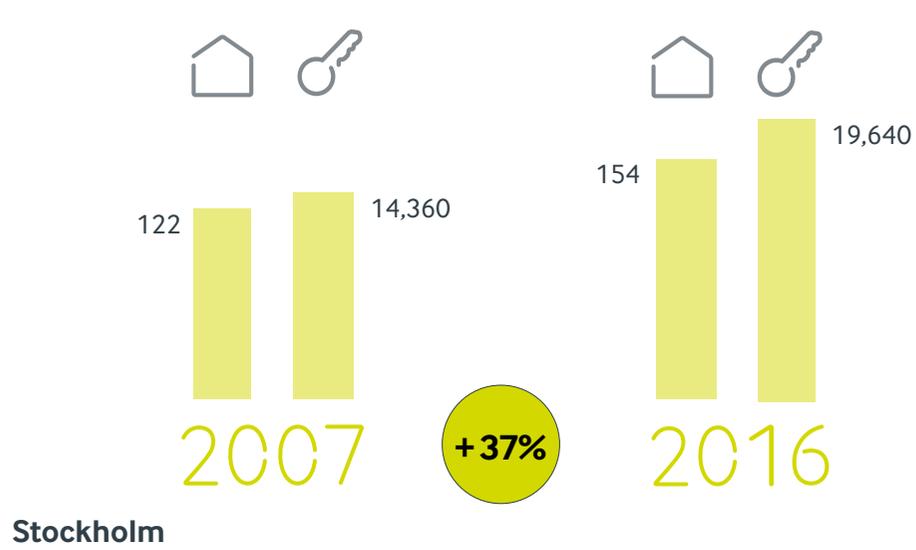
“All cities have seen an increase in international demand over the past decade”



Note: 2016 overnights to all accommodation facilities and CAGR between 2007 and 2016
Sources: National Statistical Offices, Christie & Co Research and Analysis

Supply Overview

Substantial growth across all hotel markets over the past decade



Note: Hotel and hotel room supply in 2007 and 2016 with the percentage increase in rooms over the past decade
Sources: National Statistical Offices, Christie & Co Research and Analysis

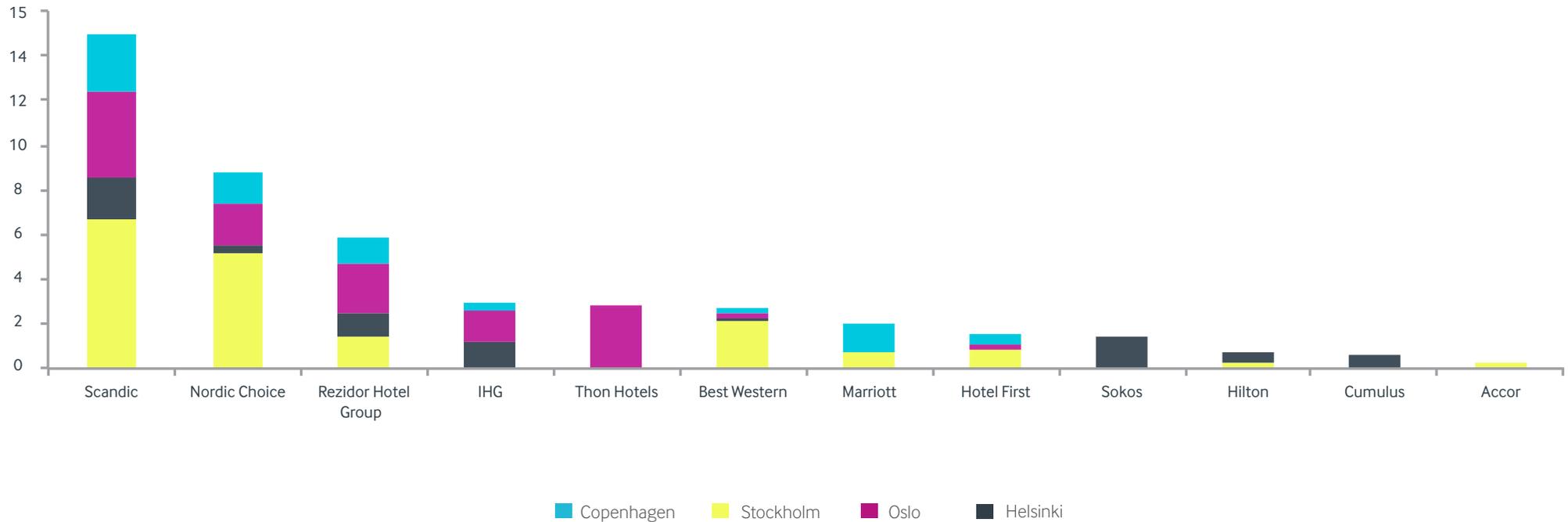
Key Operators

Scandic and Nordic Choice are by far the largest hotel operators

Historically, Scandinavia has prevalingly been a domestic market, therefore it is not surprising that the market remains largely dominated by domestic and regional brands and operators. Moreover, as many local players have not diversified their product range, the market is very much concentrated around the midscale and upscale segments, with clear gaps in the full and limited-service segments.

Scandic and Nordic Choice are by far the largest operators, and less than 10% of the supply across the Scandinavian capitals is operated under one of Europe's main brands, creating significant growth opportunity for the expansion of international brands and operators. making the market very attractive for international brands and operators to expand into.

Largest Hotel Operators by Room Count (000s)



Hotel Market Outlook

Copenhagen's growing demand attracts large pipeline

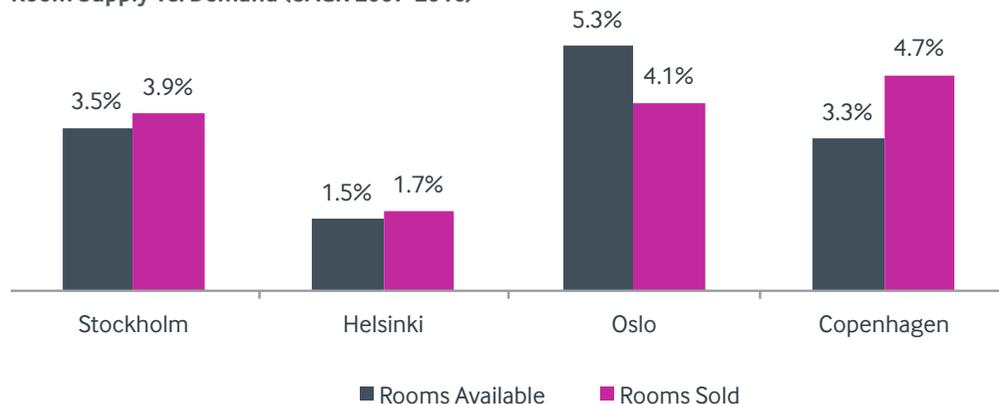
Hotel demand in Stockholm and Helsinki has broadly kept pace with supply. Overall, Helsinki (with 55 hotels, it is the smallest hotel market in Scandinavia) has seen the slowest growth in new supply - about 15% over the past decade, while in Oslo, supply has outpaced demand with the number of bedrooms growing by 60%. This notable increase in supply has put some pressure on occupancy.

On the other hand, in Copenhagen, demand has substantially outpaced supply resulting in double-digit growth in occupancy and growing investor appetite.

A total of 12,300 new rooms are expected to be added across the Scandinavian capitals by 2020 (about 21% increase of the current room supply). Copenhagen has the biggest pipeline as a percentage of existing supply - this notable increase is likely to put some pressure on the performance of the local hotel market. However, some of the new supply is expected to induce new demand, while the current positive market performance is expected to be fuelled further by the positive economic development and growing demand, especially from Asia.

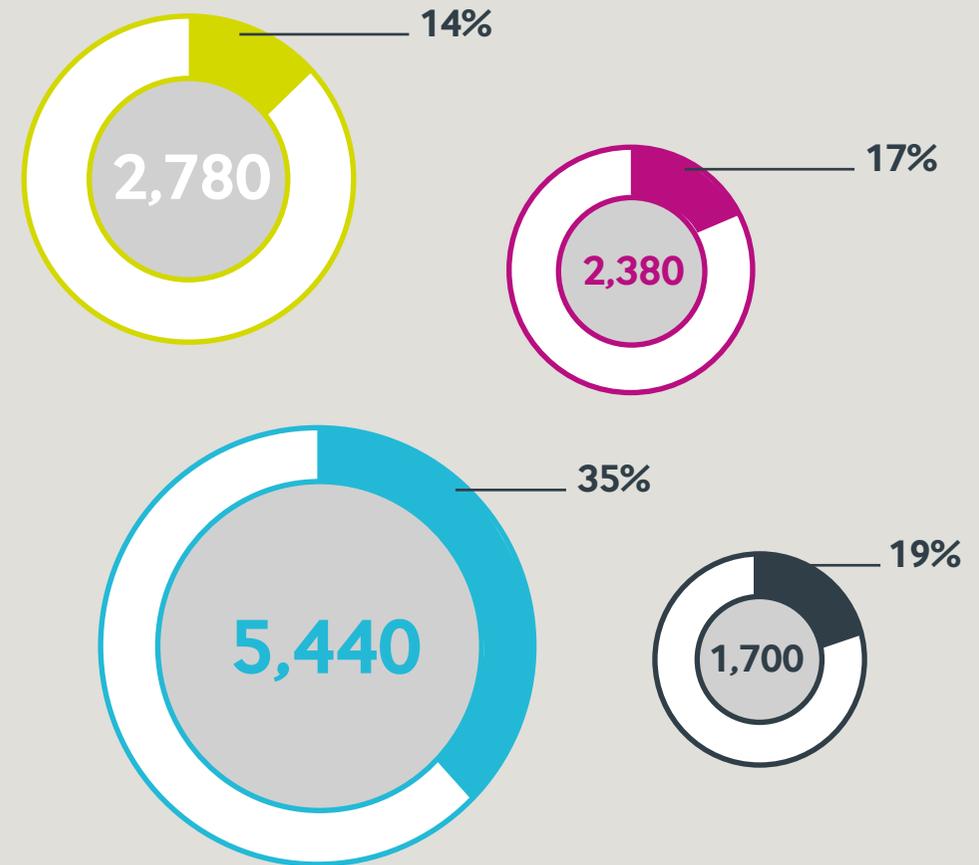
Moreover, Copenhagen also records the largest pipeline in terms of international brands across all Scandinavian capitals. By partnering with local hotel owner and investor Claus Hildebrandt, citizenM secured its first site in the Nordics and they hope to open many more in the future. Overall, fuelled by the increase in international guests, we see great demand for sites from international brands.

Room Supply vs. Demand (CAGR 2007-2016)



Sources: National Statistical Offices, Christie & Co Research and Analysis

Potential New Supply Pipeline 2017-2020 (Rooms)



12,300 rooms in the pipeline across the Scandinavian capitals

■ Copenhagen ■ Stockholm ■ Oslo ■ Helsinki

Note: Includes extensions
 Note: Total pipeline and pipeline as % of existing supply
 Source: Christie & Co Research and Analysis

Hotel Performance

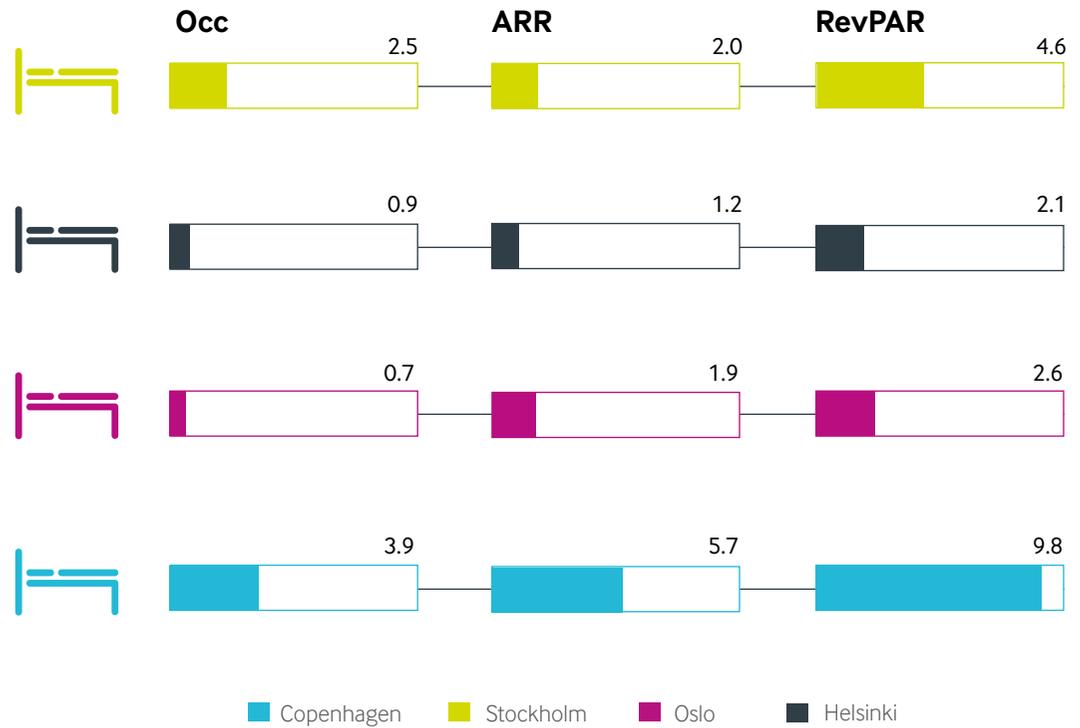
Positive 5-year KPI growth

Key performance indicators across all Scandinavian capitals show a positive trend over the past five years. In line with demand outpacing supply in most markets, RevPAR in Copenhagen has grown by an astonishing 9.8% annually over the past five years, driven by both increases in occupancy and rate.

Compared to Copenhagen, the annual growth rates of Helsinki, Oslo and Stockholm appear low. However, all three markets managed to grow RevPAR by between 2% and almost 5% pa. In order to get a clear picture of the performance of each market irrespective of exchange rate fluctuations, the second graph shows the RevPAR development per capital indexed on the 2012 figures. All markets, except Oslo, have exceeded 2012 levels, with Copenhagen showing the fastest recovery.

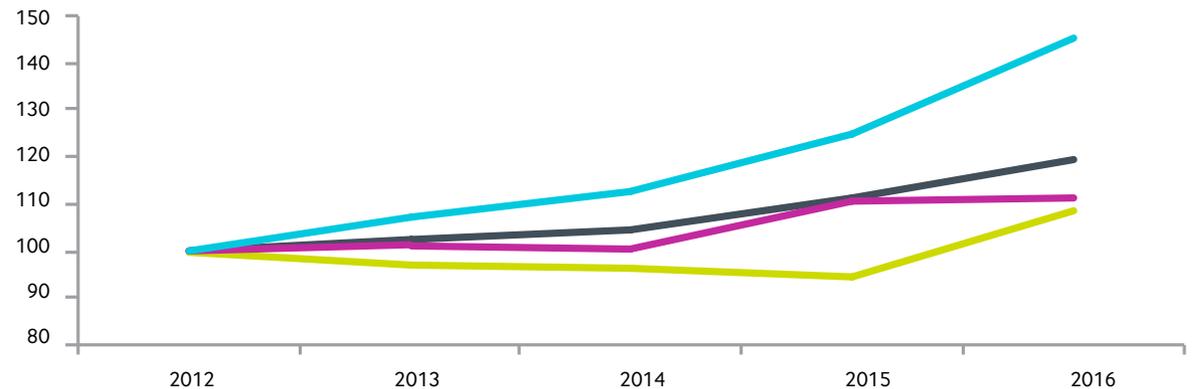


Occupancy, ARR and RevPAR (CAGR between 2012 and 2016) (%)



Note: CAGR between 2012 and 2016
Sources: National Statistical Offices, STR, Christie & Co Research and Analysis

Indexed Hotel Market Performance (RevPAR 2012-2016)



Note: Index, 2012 = 100
Sources: National Statistical Offices, Christie & Co Research and Analysis

Opportunity Identification

Are leases the most viable option for the mature Scandinavian markets?

Leases are the predominant operating model for hotels in Scandinavia. In fact, leases have historically been very popular across Europe given their stable returns. Stemming from their predictable revenue stream, fixed leases limit the potential for the owner to profit when hotel performance is strong. As investors seek to benefit from the upside potential, variable or turnover-based leases with minimum guarantees have been introduced.

Current models calculate lease payments based on a percentage of Rooms and sometimes Food & Beverage revenues. These percentages vary depending on the nature and style of the operation, and the guaranteed minimum returns are set on a case-by-case basis to a level that is appropriate for both parties. However, this still does not let the investor fully benefit from the potential success of the operating company and his investment, leaving a sizeable proportion of the profits for the operator. Paired with international hotel operators' preference for asset-light strategies, whereby they are less willing to take leases in order to remove these liabilities from their balance sheet, it is arguable if a lease agreement is the most viable vehicle for the mature Scandinavian capitals.

While some investors (i.e. institutional funds) will always have an appetite for leases, if Scandinavia wants to increase its attractiveness for domestic and international travellers, more international concepts and brands are needed. In order to link the desire for leases with hotel chains' asset-light strategy, a third-party operator can be added to the equation.

The two Moxy Hotels currently in the pipeline for Copenhagen and Oslo are a great example of this tripartite structure, whereby a local operator signed a franchise agreement with Marriott and a variable lease with the property owner, Vastint. Going forward we expect to see more deals structured like this in the Nordics.

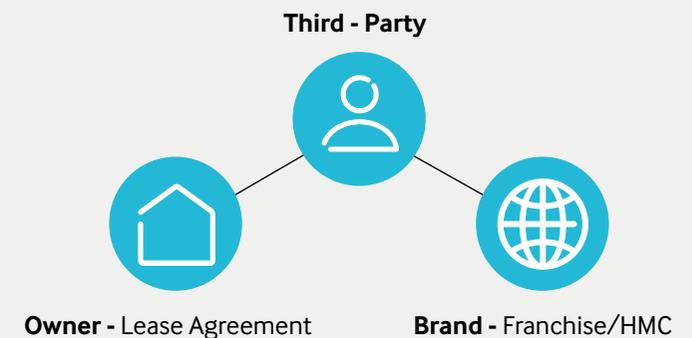
Franchise Agreement

The owner (franchisee) acquires the right to use a brand and distribution channels from a hotel chain (franchisor, i.e. IHG) for a fee. As the hotel chain has no management responsibility, the franchisee has the option to operate the hotel directly, or hire an operator to run the hotel on their behalf.

Hotel Management Contract (HMC)

An operator (branded: Marriott, Hilton, etc. or independent) operates the hotel on behalf of the owner for a fee, which typical consists of a base (revenue-related) and incentive (profit related) element. The owner retains all profits after management fees have been paid. A HMC allows the owner to enter the hotel industry without extensive experience and facilitates the opportunity to fully benefit from the success of the hotel operation.

While management contracts are not very common in Scandinavia yet, they are the predominant type of operating contract and widely used in many other European markets. Generally, HMCs can be tailored around the needs of the parties involved. As this model usually requires a much deeper understanding of the underlying business and the market in question, professional assistance might be required.





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