EUROPEAN HOTEL INVESTMENT TRENDS 2018

Connectivity, hospitality & opportunity

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FOREWORD

Whether you are a long-term investor or new to the hotel sector, our pan-European consultancy team is looking forward to taking you on a journey through Europe – the ultimate destination of the biggest mass movement of the millennium.

Europe has gone through drastic political and socio-economic changes in recent years that have impacted travel and hospitality trends. Knowing that European outbound markets feed the majority of demand in Europe, it is important to understand Europe as both a source of tourists and as a destination. Therefore, this year's publication analyses the main European outbound markets – Germany, the UK, Italy and France.

The UK is one of the largest outbound markets in Europe, and in a time of great political and economic uncertainty, we must seek to understand how the country leaving the EU will impact tourism demand across Europe. Whilst it is too early to determine the long-term impact Brexit might have, it is important to analyse the market fundamentals of the countries most reliant on demand from the UK in order to assess exposure.

This report highlights how the changing environment in Europe impacts travel trends, and our data-driven analysis identifies hotel investment opportunities. We hope that you enjoy reading our analysis, and that you will consider our advice when assessing your future investment decisions.

Kind regards,

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IDENTIFYING OPPORTUNITIES

RevPAR, one of the key metrics of hotel performance, has been correlated to GDP, the measure of a country's economic output. Here we review which other global and local factors drive hotel performance across the European hotel markets.

In order to analyse this, we have carried out a multi-variate analysis of travel trends, airport connectivity, and arrival-related variables, as well as the economic variable of GDP. This analysis captures both local and global factors to determine the future outlook of hotel performance across Europe.

- GDP
- Travel Trends
- Airport Connectivity
- Supply Trends
- Supply & Demand Equilibrium
- RevPAR Performance
- Hotel Transactional Market

> "International tourist arrivals in Europe grew by a remarkable 8.4% in 2017, an extraordinary result for such a large and mature region."

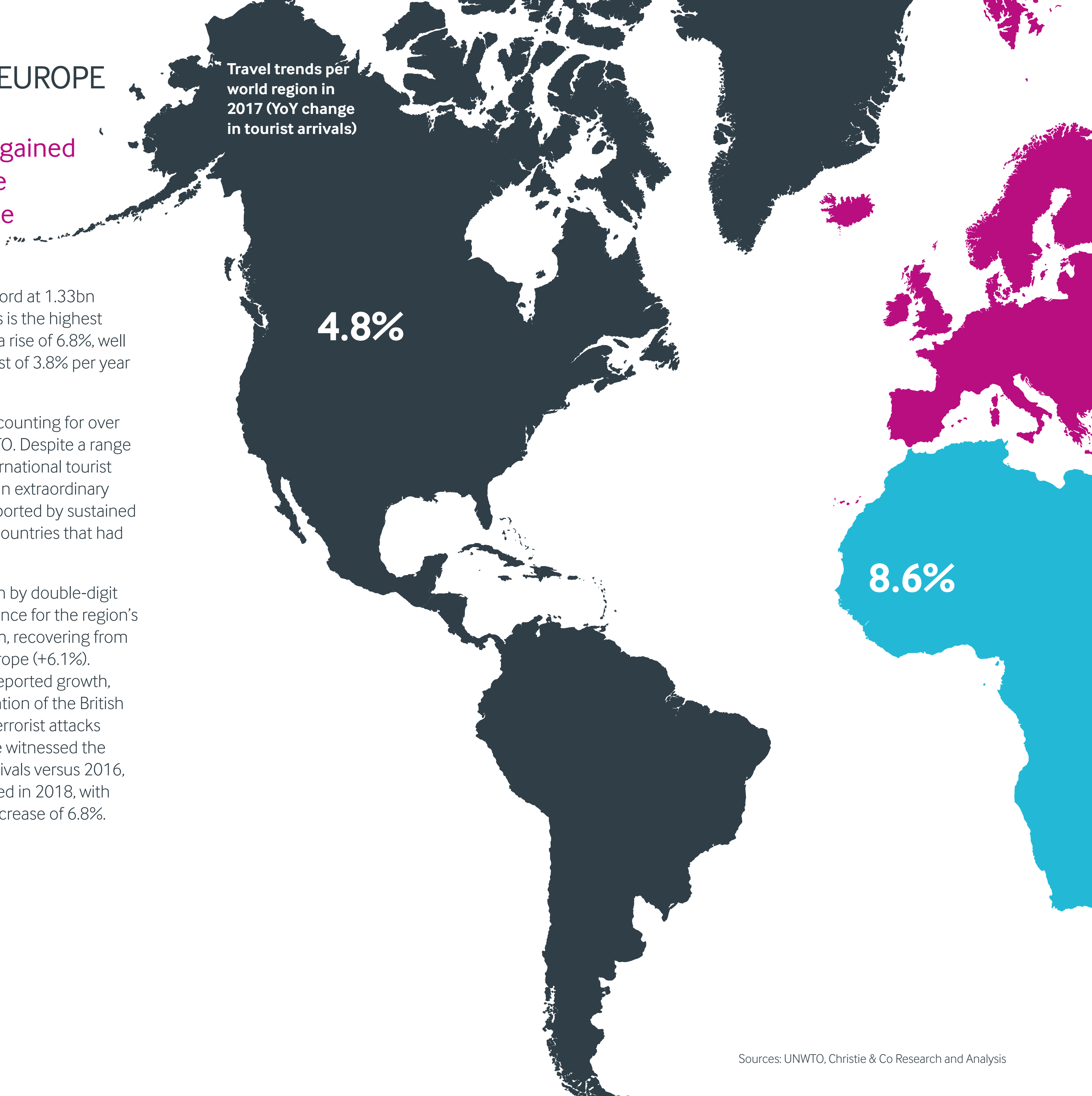
ANOTHER RECORD YEAR FOR EUROPE

Travellers around the world have regained confidence and have gone on more international trips than ever, despite security challenges.

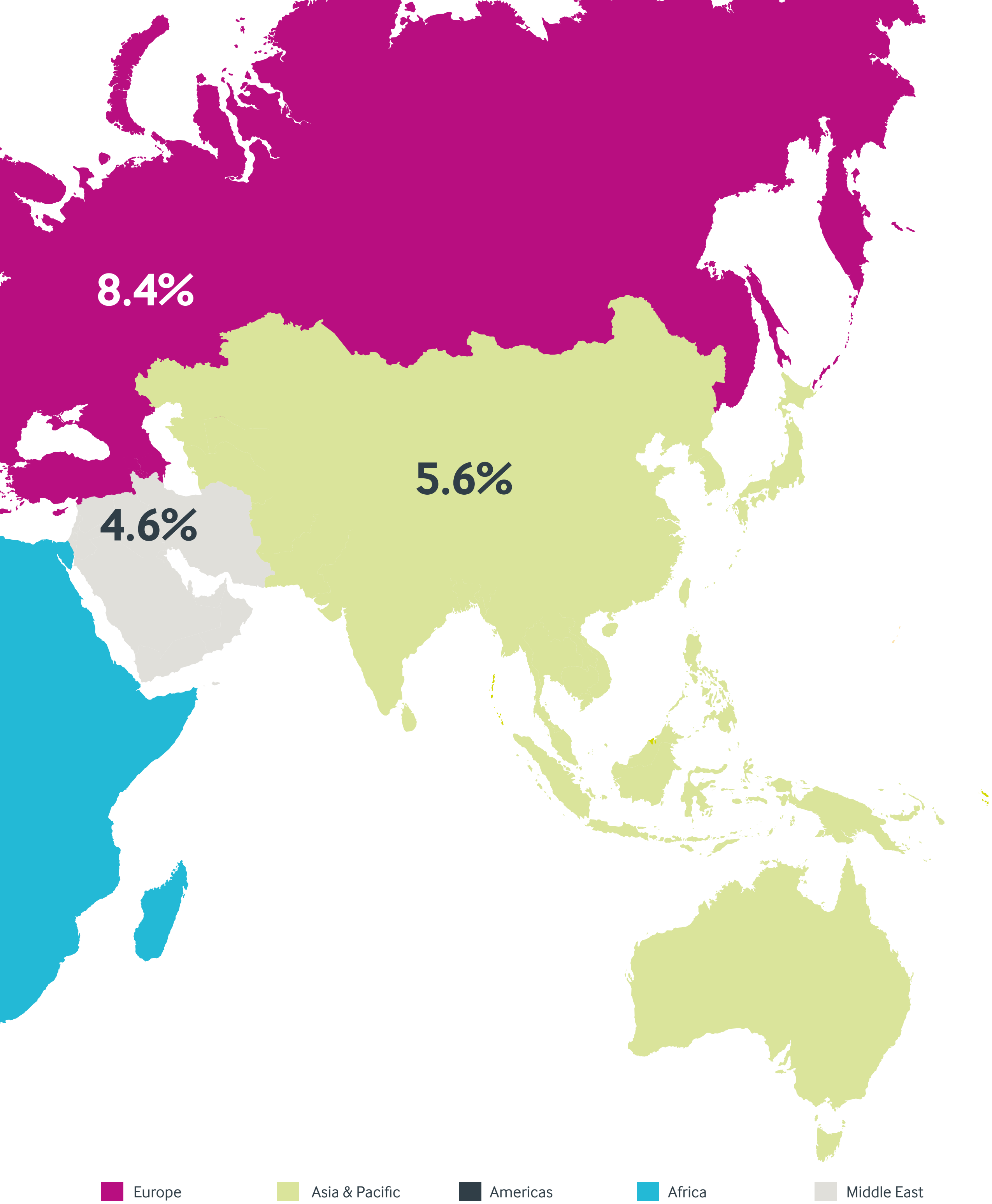
In 2017, international tourist arrivals reached a new record at 1.33bn globally, roughly 86m more than the previous year. This is the highest growth in international tourist arrivals since 2010, with a rise of 6.8%, well above 2016 results and the UNWTO's long-term forecast of 3.8% per year for the period 2010 to 2020.

Europe is the most popular destination in the world, accounting for over half of all global arrivals in 2017 according to the UNWTO. Despite a range of disruptions to European tourism in recent years, international tourist arrivals to Europe grew by a remarkable 8.4% in 2017, an extraordinary result for such a large and mature region. This was supported by sustained growth across all regions and a firm recovery of those countries that had suffered previously from security challenges.

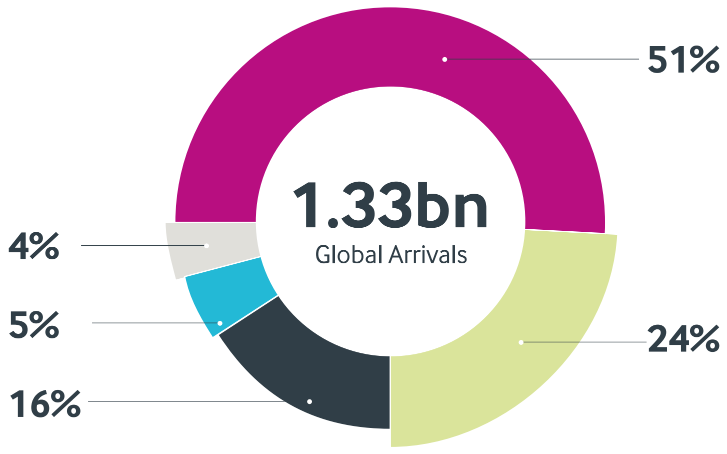
Growth in international tourist arrivals was mainly driven by double-digit growth in Southern Europe (+12.8%), a stellar performance for the region's well-established leisure destination. France and Belgium, recovering from recent security incidents, led the growth in Western Europe (+6.1%). All destinations in Northern Europe, including the UK, reported growth, averaging around 5.5%. The UK, fuelled by the depreciation of the British Pound, saw international arrivals increase despite the terrorist attacks in London and Manchester. Central and Eastern Europe witnessed the slowest growth with a 5.3% increase in international arrivals versus 2016, albeit still a good result. This positive trend has continued in 2018, with preliminary January to June figures showing a further increase of 6.8%.



Sources: UNWTO, Christie & Co Research and Analysis



International tourism by destination (2017)

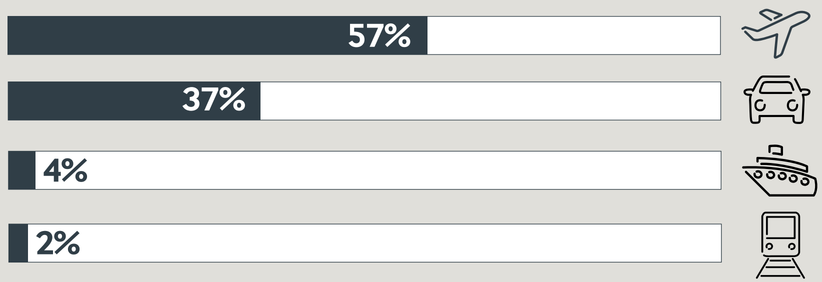


Note: Refers to international arrivals
Sources: UNWTO, Christie & Co Research and Analysis

Accessibility is a key driver of tourism and Europe's attractiveness has historically been supported by excellent transportation infrastructure. In 2017, according to the UNWTO, almost 60% of global overnight visitors travelled to their destination by air, while the remainder travelled by surface transport – whether by road, water or rail. The long-term trend has seen air transport grow at a slightly faster pace than surface transport.

Last year's report identified the capacity constraints faced by European airports. This report highlights the initiatives major airport hubs across Europe are taking to meet the growing passenger demand, as well as identifies opportunities for hotel development and investment.

International tourism by mode of transport (2017)



Sources: UNWTO, Christie & Co Research and Analysis

AIRPORT CONNECTIVITY DRIVES TOURISM GROWTH

Our research has revealed that connectivity and passenger arrivals have a strong, positive correlation. Countries with greater direct connectivity, rather than indirect air links, tend to show higher passenger arrivals and, as a result, the potential for tourism in these markets is higher.

Furthermore, a strong, positive correlation was observed between airport arrivals and overnight stays, with a less significant correlation in those markets driven by domestic visitation and neighbouring feeder markets accessible via road and rail (such as Belgium, France and Germany). Portugal, Croatia, Spain, Iceland and the UK rely heavily on their airport infrastructure to generate overnights due to the nature of their feeder markets and in some cases their geographic inaccessibility by road or rail.

Airport connectivity translates into more overnight stays

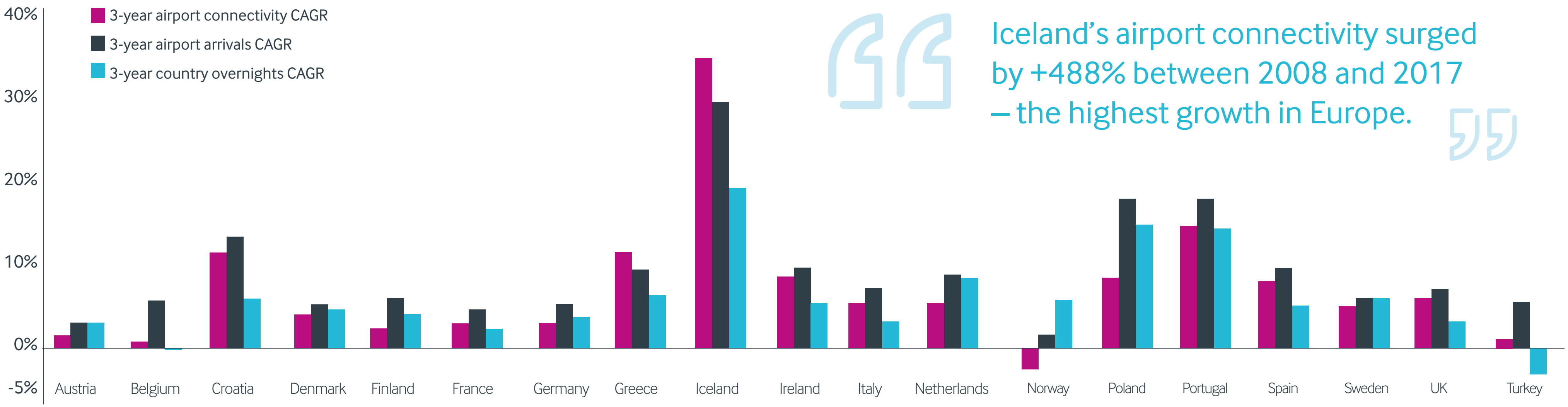
Connectivity gains in the past years have been mainly driven by intra-European low-cost carriers. Countries such as Croatia, Greece, Poland and Portugal have significantly benefited from increases in connectivity, with carriers such as easyJet and Ryanair expanding their presence in these markets.

Iceland's airport connectivity surged by +488% between 2008 and 2017 – the highest growth in Europe – as the country positioned itself as a hub for indirect flights to North America. As a result, overnight stays in Iceland grew by 186% over the same period.

Mature markets such as Italy, Germany and France have capacity-constrained airports limiting the opportunity to further grow connectivity in the short term. Therefore, these airports focus on operating higher-yielding routes and deploying larger aircraft where possible.

Norway saw a decrease in connectivity due to Russian restrictions over the use of their airspace for intercontinental flights to Asia, which impacted Norwegian's operations in particular, increasing the market share of competitor SAS, who operate primarily from Sweden and Denmark.

Evolution of overnights, airport arrivals and airport connectivity



> Iceland's airport connectivity surged by +488% between 2008 and 2017 – the highest growth in Europe.

Methodology for Airport Connectivity

Definitions by ACI Europe for the SEO NetScan Connectivity Index:

Direct Connectivity
The total number of direct scheduled flights offered by an airport to all other airports.

Indirect Connectivity
The total number of indirect connections offered by an airport to other destinations via an intermediate airport, with each indirect connection given a score of between 0 and 1 to reflect the quality of the connection. Quality is defined by how fast the connection is, relative to an equivalent direct connection (which is a function of transfer time at airport, as well as the speed of the aircraft operated and any increase in the distance travelled).

Overall Airport Connectivity
The sum of direct connectivity and indirect connectivity.

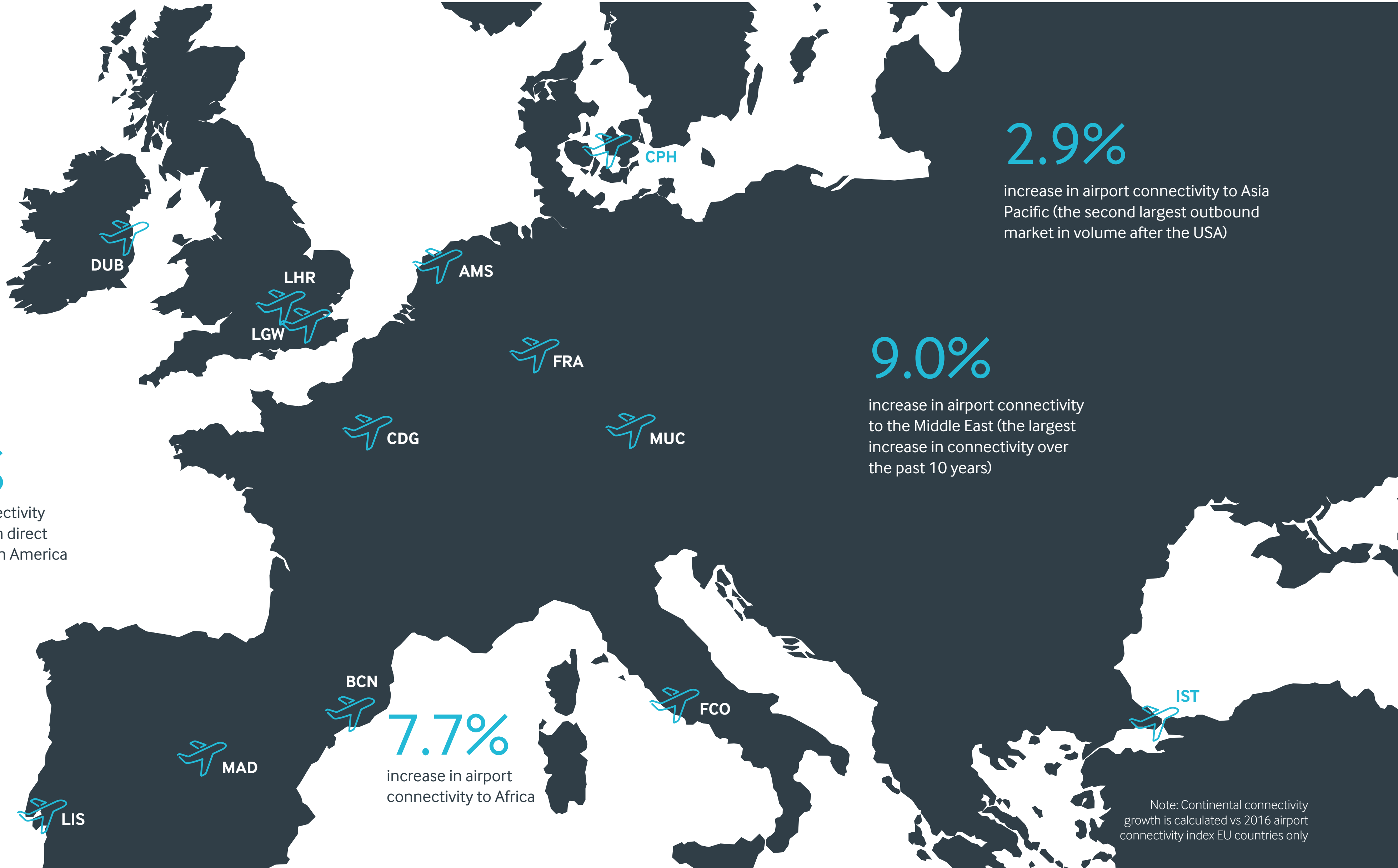
> Growth in 2017 was fuelled by a global economic upswing, resulting in strong outbound demand from virtually all source markets.

Notes: 3-year airport connectivity CAGR = annual SEO NetScan airport connectivity index 2014-2017;
3-year airport arrivals CAGR = annual passenger throughput 2014-2017. For Norway, the 3-year CAGR represents 2013-2016 as 2017 data is not yet available;
3-year country overnights CAGR = annual overnights in hotels and similar accommodations 2014-2017. For Turkey, the 3-year CAGR represents 2013-2016 as 2017 data is not yet available
Sources: Eurostat, Airports Council International, Christie & Co Research and Analysis

CONNECTING EUROPE TO THE WORLD

These 13 European airports handled more than 660m passengers in 2017.

Demand continues to thrive (+5.5% vs 2016) despite capacity constraints putting increasing pressure on local operations. Our research has shown a strong correlation between connectivity and overall passenger movements, with airports such as Heathrow, Frankfurt and Munich struggling to improve their connectivity index further as capacity constraints become more acute. In the past 10 years, low-cost carriers were the main contributors to connectivity gains as they entered the long-haul market.



3.4%

increase in airport connectivity to North America

2.9%

increase in airport connectivity to Asia Pacific (the second largest outbound market in volume after the USA)

9.0%

increase in airport connectivity to the Middle East (the largest increase in connectivity over the past 10 years)

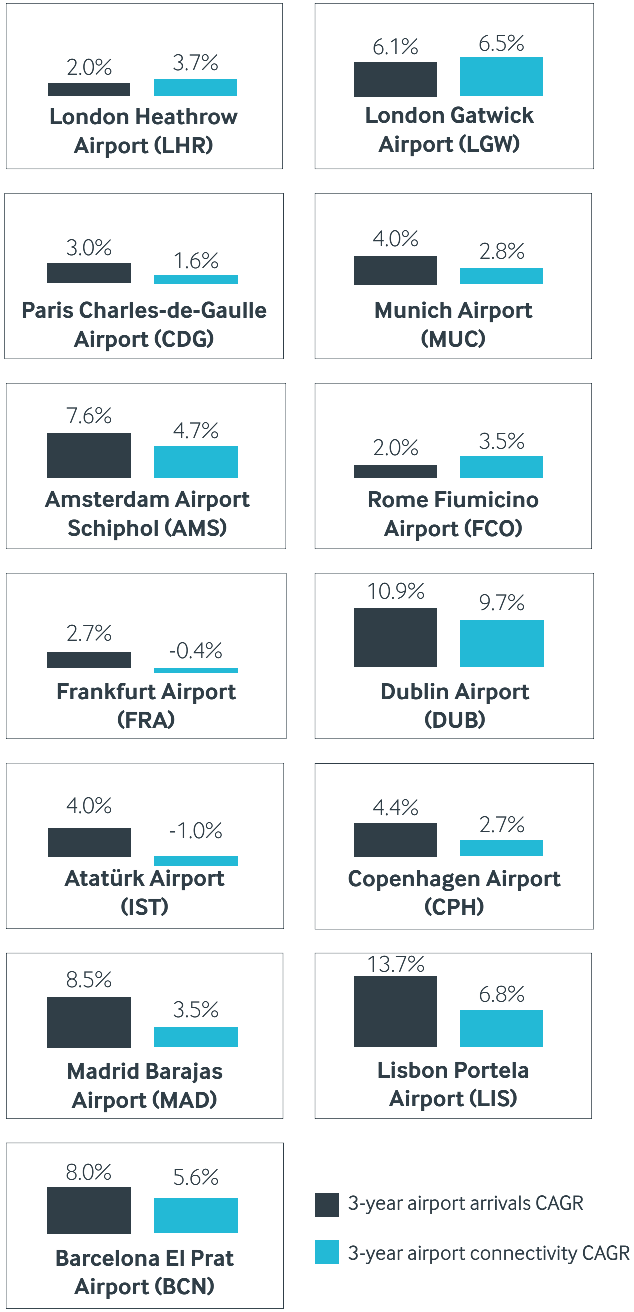
-0.1%

stable airport connectivity but 8.0% increase in direct connectivity to Latin America

7.7%

increase in airport connectivity to Africa

Note: Continental connectivity growth is calculated vs 2016 airport connectivity index EU countries only



Notes: 3-year airport arrivals CAGR = annual passenger throughput 2014-2017;
3-year connectivity CAGR = annual SEO NetScan airport connectivity index 2014-2017;
Sources: National Airport Websites, Airports Council International, Christie & Co Research and Analysis

OVERCOMING CAPACITY CONSTRAINTS

Improvement in air traffic management

According to Eurocontrol, Air Traffic Management (ATM) solutions could improve airport capacity by 7% at peak times. Currently, mis-management is causing severe delays and congestion across Europe with IATA reporting a 133% jump in delay time (minutes per day) in the first half of 2018 compared with the same period in 2017. Management solutions such as using the runways for both take-off and landing, ensuring a consistent adequate level of operation and the implementation of efficient communication across Europe could boost airport capacity and ensure a comfortable journey for travellers.

Demand displacement to alternative local airports

Large cities are generally not short of runways, albeit they are sometimes allotted across multiple airports. To increase capacity, airlines should focus their growth away from the main airports to avoid congestion. The same can be done with separating short and long-haul flights between airports.

The case of Gatwick vs Heathrow

Historically high-yielding, long-haul segments were concentrated at Heathrow Airport, while the lower-yielding, short-haul and predominately leisure segment was directed to Gatwick Airport. When Heathrow reached capacity several years ago, a large majority of new routes were absorbed by Gatwick. With Gatwick's current capacity constraints, various low-cost routes are moving to Luton and Stansted. This migration has allowed both airports to better manage their capacity and mitigate constraints to some extent.

Schedule smoothing

As peak airport slots tend to fill up, airports could incentivise airlines to add capacity at other times. This would improve fleet utilisation, however, there are cost impacts due to lower yields. Moreover, operating an airport 24 hours unlocks latent capacity - a strategy applied by the top three airports in the world (in terms of passenger numbers: Atlanta, Beijing and Dubai). However, such an approach is not practical for all airports as corresponding 24-hour infrastructure is required, passenger experience could be damaged and airports could encounter resistance from residents.

Larger aircraft

Pairing popular routes with larger aircraft can boost the overall capacity of the airport with more passengers being able to fly on fewer flights. This approach partially shifts the cost to the airline carriers and minimises the required infrastructure investment at the airport level.

The case of the Airbus A380

Considered the largest passenger plane in the world, the Airbus A380 has a total capacity of c. 850 people and is currently operated by 12 airlines serving Europe. The large aircraft has come as a solution to increase the number of passengers per flight, particularly for capacity-constrained airports. However, the costs involved in the production of the aircraft, along with the ground infrastructure to operate it, raise concerns about the economic viability of the plane and threaten its production. Consequently, bigger is not always better, and while there are large planes that require fewer infrastructure investments such as the Boeing 787-8, their maximum capacity is also lower.

High-speed train and other ground infrastructure

High-speed train (HST) is the only currently viable mode of transport achieving journey times that can compete with air services on short haul. The development of such means of transport could reshape the way tourists travel within Europe, releasing some of the pressure currently placed on air traffic and airports. At the moment, there are only ten[1] countries in Europe that operate HST services. While HST remains a forward-looking objective of European transport policy, obstacles are large, including issues around funding and acceptance by residents along the route.

The case of TEN-T (Trans-European Transport Network)

The TEN-T is a EU project to co-fund the establishment of a transport infrastructure connecting all EU member states via ten transport corridors. It includes the upgrade of current rail infrastructure to accommodate high-speed rail, new inland waterways and road improvements. Works are currently underway, and the project is to be deployed in stages up to 2030, costing an estimated €750bn.

Note: [1]Austria, Czech Republic, France, Germany, Italy, the Netherlands, Portugal, Spain, Switzerland and the UK

AIRPORT INVESTMENT PROGRAMS

A number of airports such as Amsterdam, London Gatwick, Munich and Copenhagen Airport, have already demonstrated their ability to overcome capacity constraints without constructing new runways through better capacity management and focusing on higher-yielding routes or larger planes. However, material increases in capacity can only result from significant investment. The below highlights the investment programs across the main European airports, which could increase the total capacity by 31% from 700m passengers in 2017 to 920m by 2028.

1st London Heathrow Airport (LHR) - Operating capacity: 100%

A third runway was approved by the UK government in summer 2018. Construction is expected to start in 2021 and be completed by the end of 2025.

Total investment: €12.5bn

2nd Paris Charles-de-Gaulle Airport (CDG) - Operating capacity: 87%

A fourth terminal is expected to be built in stages with the first runway ready by 2024 for the Olympic Games. The start of construction is still not confirmed. Additional improvements to access routes from Paris are also planned.

Total investment: €2.1bn

3rd Amsterdam Airport Schiphol (AMS) - Operating capacity: 104%

Plans include a new terminal to be completed by 2023 and a new operating pier to be completed by 2019.

Total investment: €350m

4th Frankfurt Airport (FRA) - Operating capacity: 91%

The construction of the second phase of the third terminal is expected to start in spring 2019 and is projected to be completed by 2021.

Total investment: €2.8bn

5th Atatürk Airport (IST) - Operating capacity: 106%

The new Istanbul Airport was partially opened in October 2018 with a total capacity of 90m passengers, expected to reach 150m passengers once completed in 2028. All flights from Atatürk will be transferred to this new airport.

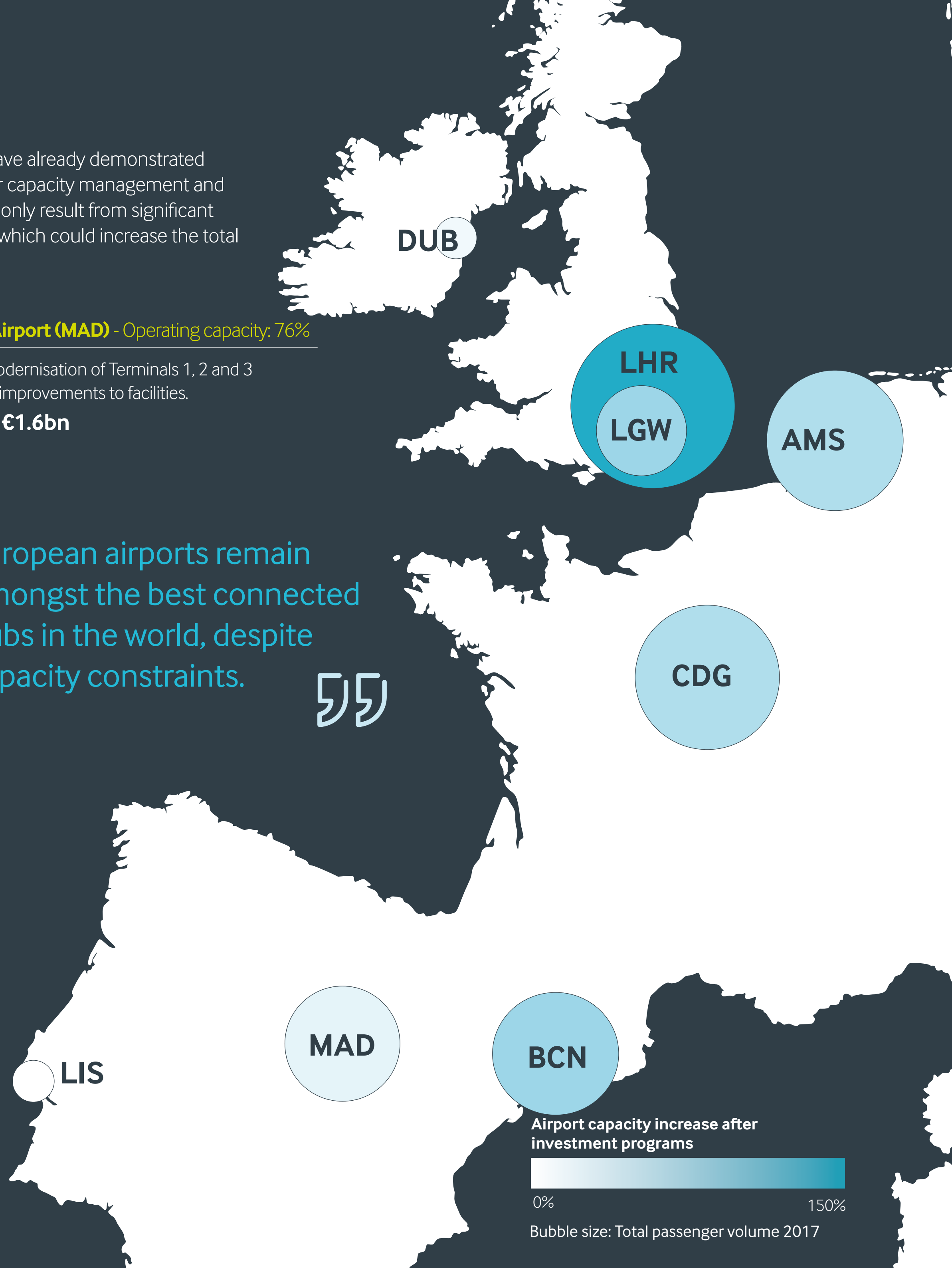
Total investment: €22bn

6th Madrid Barajas Airport (MAD) - Operating capacity: 76%

The plans include the modernisation of Terminals 1, 2 and 3 together with additional improvements to facilities.

Total investment: €1.6bn

> European airports remain amongst the best connected hubs in the world, despite capacity constraints.



> Investments worth €49bn will increase airport capacity by 31% by 2028.

7th Barcelona El Prat Airport (BCN) - Operating capacity: 86%

The plans include an additional terminal and infrastructure developments ready by 2026. No construction start date has been confirmed yet.

Total investment: €2.0bn

8th London Gatwick Airport (LGW) - Operating capacity: 106%

The expansion of the North Terminal with six new departure gates and various capacity management improvements will be completed by 2023.

Total investment: €1.2bn

9th Munich Airport (MUC) - Operating capacity: 124%

The expansion of Terminal 1 was approved in summer 2018 and is estimated to be completed by 2023. There are also speculative plans for a third runway although this is yet to receive formal approval.

Total investment: €455m

10th Rome Fiumicino Airport (FCO) - Operating capacity: 92%

Following the renovation of the departure area, the airport is looking at renovating Terminal 2 by 2021.

Total investment: €430m

14th Dublin Airport (DUB) - Operating capacity: 82%

Works for the new runway are expected to start early 2019 and be completed by 2021.

Total investment: €900m

16th Copenhagen Airport (CPH) - Operating capacity: 108%

The expansion of Terminal 2 is currently under construction and due at the end of 2019.

Total investment: €2.7bn

20th Lisbon Portela Airport (LIS) - Operating capacity: 90%

The decision on whether to construct a second airport is progressing slowly, although nothing is currently confirmed.

Notes: No investment data available for Lisbon;
European airports ranked by total passengers in 2017
Sources: National Airport Websites, Christie & Co Research and Analysis

EUROPE, THE FOUNDATION OF GROWTH

Europe – in addition to being the largest inbound market in the world – remains the world's largest source region for outbound tourism, generating almost half of the world's international trips.

The main intra-European feeder markets – Germany, the UK, Italy and France – account for almost 40% of the outbound trips made from within Europe and continue to drive visitation growth within Europe.

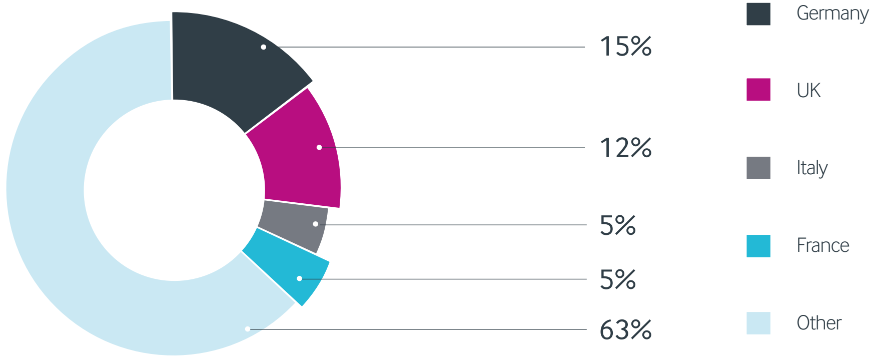
> 9 out of 10 Europeans travel within Europe.

Arrivals within Northern European countries are mainly driven by domestic demand, while internationally-renowned holiday destinations (e.g. Spain, Portugal, Greece and Croatia) are driven by international demand. Feeder markets influence the visitation potential of destinations, and therefore, hotel performance and ultimately value. A high reliance on international source markets means that a destination can be impacted heavily by the events and economic conditions within those source markets.

Our analysis highlights the significant reliance of several European markets on Germany, the UK, Italy and France. Therefore it is important to understand how the performance of one economy influences hospitality performance in another.

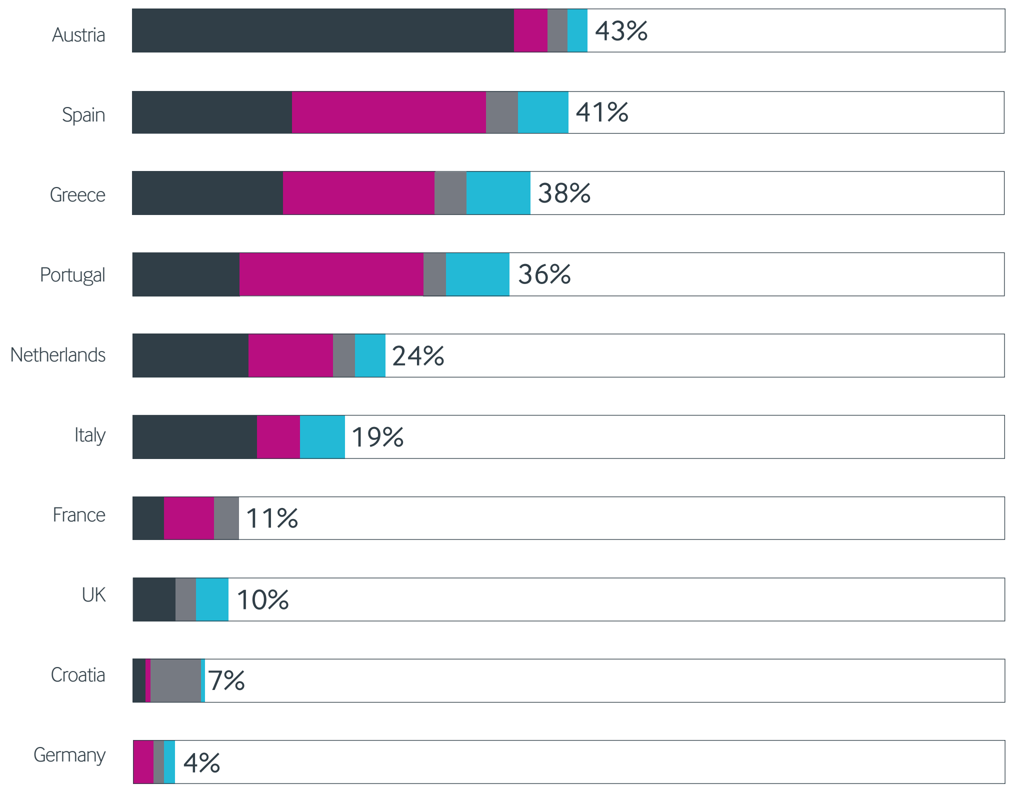
The graph opposite shows the overnights generated across Europe by the four main outbound markets – excluding domestic demand, which naturally accounts for a significant share in these markets as well. Spain, followed by Greece and Portugal, are most reliant on these four source markets and the UK in particular. Thus, they are likely to be impacted the most by any change in the UK's relationship with Europe. On the following pages, local versus international demand is analysed in conjunction with GDP, visitation and RevPAR in order to assess the impact of the source markets' economies on hotel performance within a given destination.

European outbound tourism by source market



Note: Data not available for all European countries
Sources: UNWTO, Christie & Co Research and Analysis

Demand generated by these main source markets (% of total overnights)

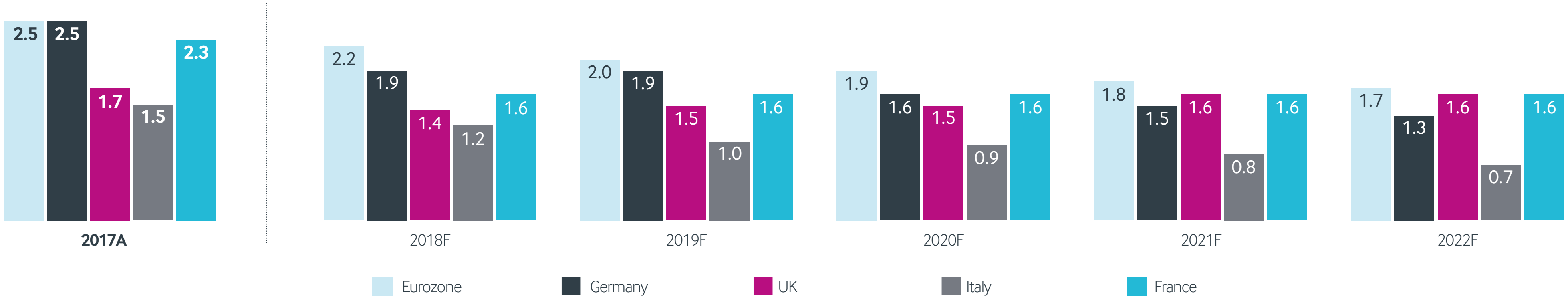


Note: The above chart shows outbound travel only, thus domestic overnights are not included
Sources: Eurostat, Christie & Co Research and Analysis

A POSITIVE ECONOMIC OUTLOOK DESPITE BREXIT

The UK is amongst the top five feeder markets across all 18 analysed destination markets and accounts for double-digit overnight shares in Iceland (18%), Spain (17%), Portugal (17%), Greece (14%) and Ireland (10%). Should the volume of tourism from the UK into Europe decline when the UK leaves the EU in March 2019, this will inevitably affect the performance of tourism-oriented businesses within these countries the most.

GDP growth (%) - Actual and forecast for the main European outbound markets

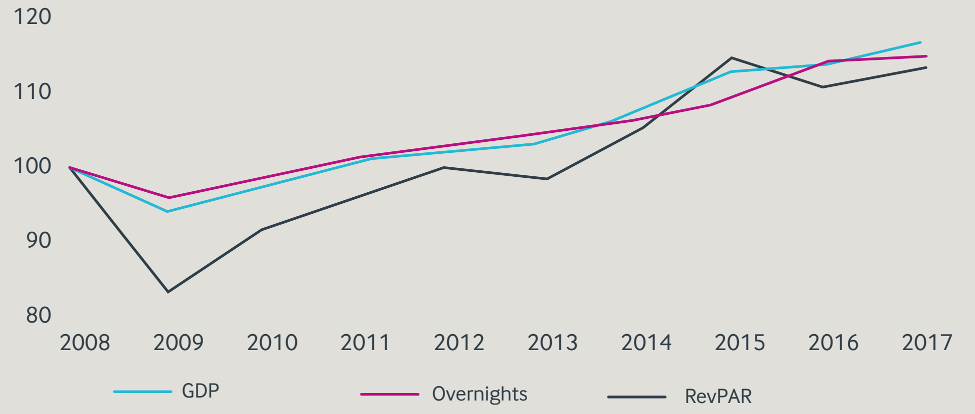


Sources: IMF, Christie & Co Research and Analysis

USING GDP TO FORECAST HOTEL PERFORMANCE

> There is a strong positive linear correlation between both RevPAR and GDP (R=0.96) and overnights (R=0.92).

European overnights vs GDP and RevPAR (indexed)



Note: Refers to the geographic region of Europe

In order to understand the relation between economic drivers and hospitality performance, we correlated 10-year RevPAR performance trends against overnights and GDP.

There is a strong positive linear correlation between overnights, GDP and RevPAR across Europe. That is to say, that if a country experiences a 2% GDP growth in a given year, it is highly probable that RevPAR will increase in parallel.

We have utilised this relationship in our subsequent analysis to forecast RevPAR and overnights by 2020.

Across our focus markets[1] we observe some variance in the strength of the correlation. However, a majority of countries have a moderate to strong correlation across the three metrics, in particular Germany, Poland, Sweden, Portugal, Italy and the Netherlands. Markets that are exceptions to this include:

Greece
The annual decline in GDP between 2008 and 2016 driven by significant exposure to the global financial crisis was mirrored by a steady increase in international overnights from 2012, as demand was predominently international in origin.

Norway
Due to the economy's dependence on oil, GDP growth has been impacted by the decline in global oil prices.

Correlation between RevPAR, overnights and GDP by country

1-Belgium	5-Sweden	9-UK
2-Spain	6-France	10-Italy
3-Finland	7-Portugal	11-Poland
4-Austria	8-Netherlands	12-Germany

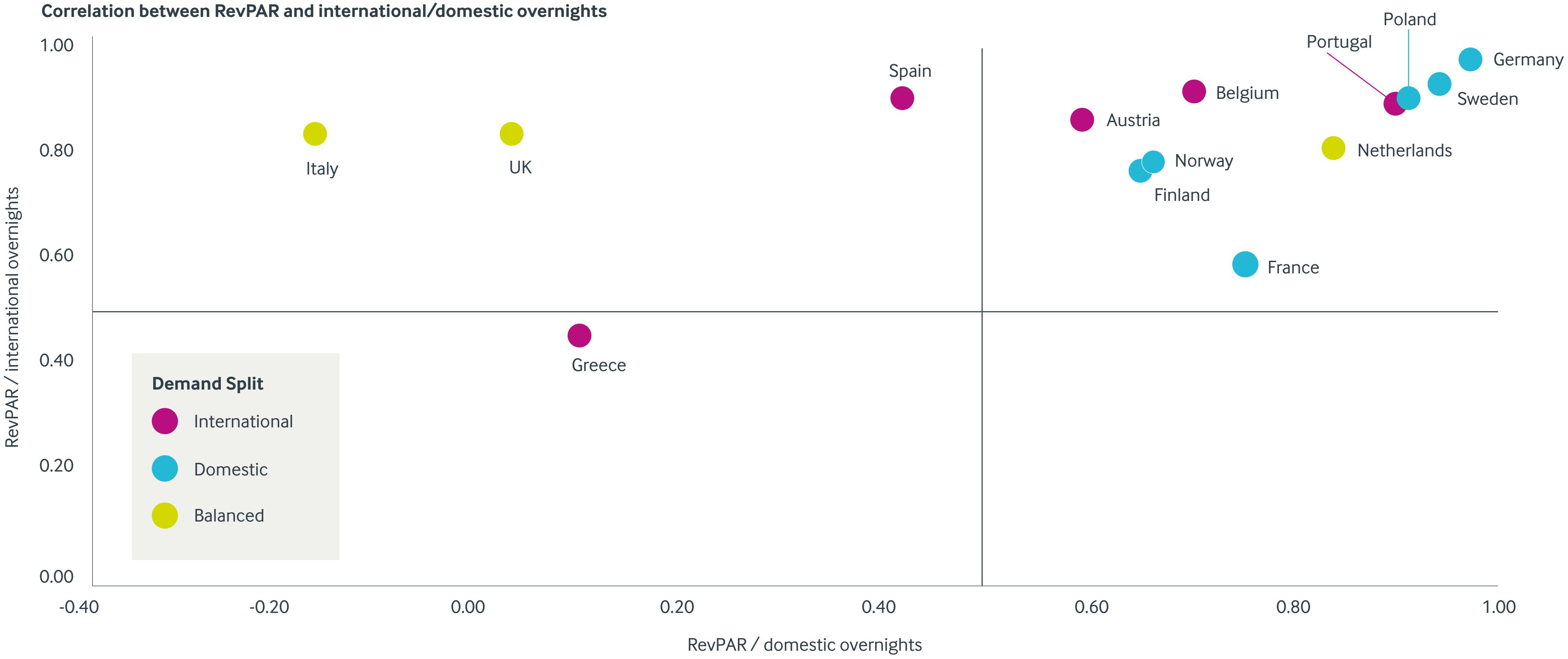
Notes: [1]Excludes markets where data is insufficient or unreliable;
Correlation computed over 10 years, where possible
Sources: Eurostat, National Statistical Offices, Observatoire MKG Consulting/OK_destination, STR, Christie & Co Research and Analysis

LOCAL & GLOBAL FACTORS

There is a strong correlation between RevPAR and overnights across Europe and individual countries, but how does the performance of one economy drive hospitality performance in another?

When looking at international and domestic overnights independently, the majority of markets have a moderate to strong correlation between both types of visitors and RevPAR. Exceptions to this are Italy, Spain and the UK, all of which have a weaker correlation to domestic visitors, and Greece which has a low to moderate correlation to both categories. This is caused by periods of low domestic travel in Italy, the UK and post-crisis Greece, where domestic travel has not yet recovered to historical levels.

Correlation between RevPAR and international/domestic overnights



Note: Excludes markets where data is insufficient or unreliable
Sources: Eurostat, National Statistical Offices, Observatoire MKG Consulting/OK_destination, STR, Christie & Co Research and Analysis

TOURISM OUTLOOK BASED ON GOOGLE SEARCHES

Google searches are an expression of interest and last year's analysis showed that they can indicate the growth potential of a given market. This year we analysed both volume and growth from a global perspective for key terms associated with accommodation and tourism in the key markets across Europe.

The UK remains the clear leader in terms of share of Google searches, accounting for 35% of total volume. However, the market has seen only moderate year-on-year growth compared to other European countries, after a strong 2016 fuelled by the devaluation of the Pound Sterling.

The highest 2-year CAGR was recorded in **Iceland,** with a stellar 89%. The market tripled its volume of searches between 2015 and 2017, reflecting its increasing appeal. Nordic countries stand out as well, with **Sweden**, **Finland, Denmark** and **Norway** recording high 2-year CAGRs, as they grow in popularity.

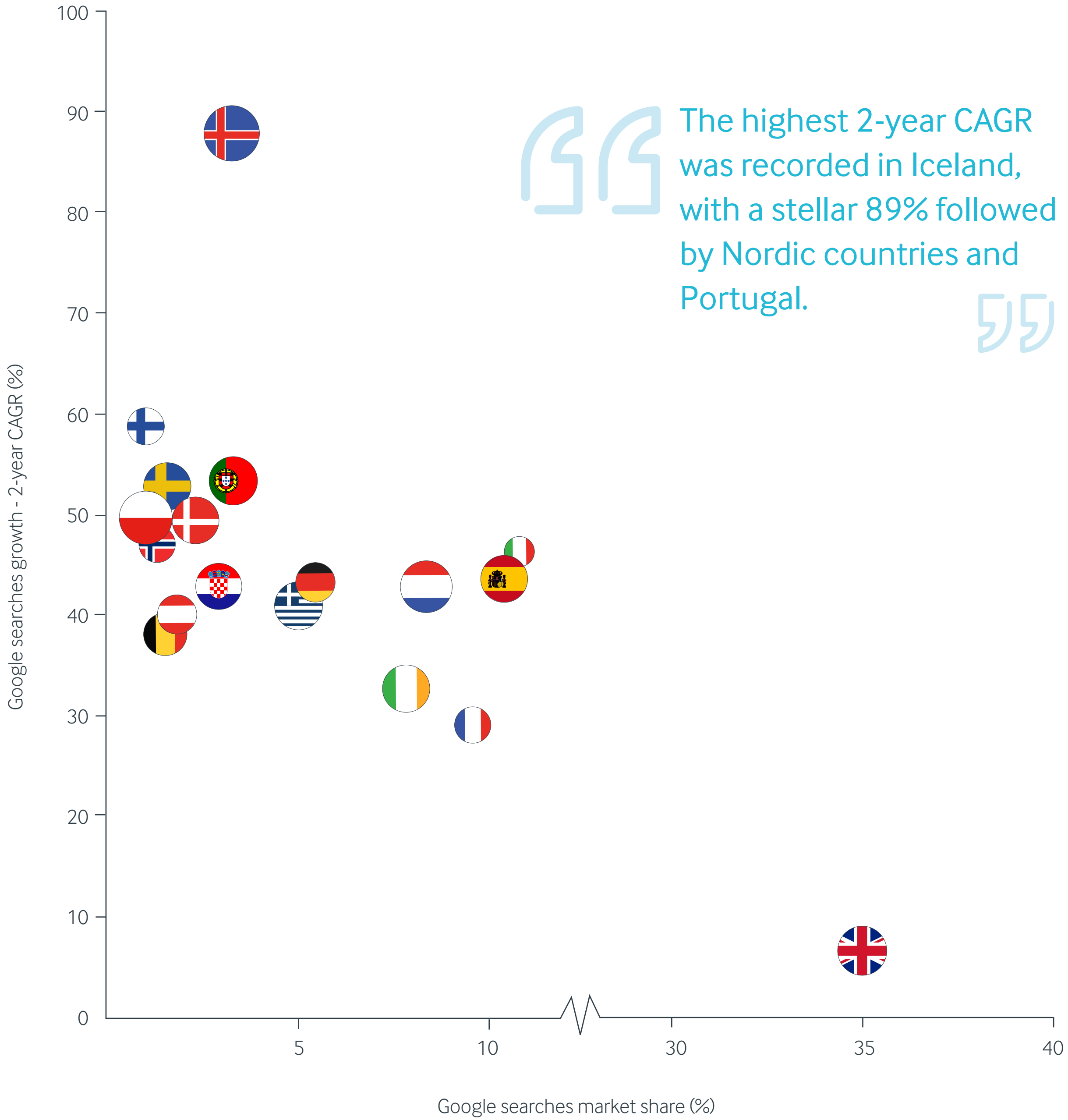
Portugal and **Poland** present strong growth in Google searches with 53% and 49% 2-year CAGRs. Over the same period, overnights grew by 18% and 22% respectively, two of the highest growth rates over the markets analysed, suggesting a significant increase in interest in these destinations that is translating into greater tourism arrivals.

France is showing positive results with a 26% 2-year CAGR, as international tourists are regaining confidence in the market following the disruption in 2016.

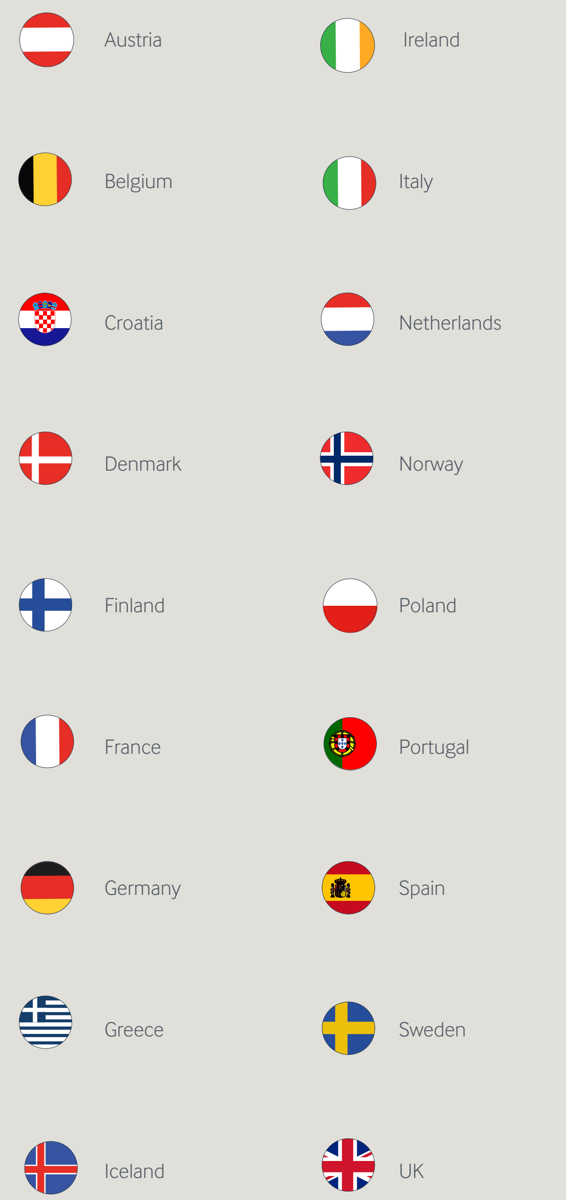
Italy and **Spain** are the most popular markets after the UK. Italy has seen a healthy 45% increase in searches between 2016 and 2017, while Spain saw 31% growth in searches.

Belgium presents the most robust year-on-year growth in searches from the markets analysed, with a 59% increase. The market has recovered fairly quickly following the 2016 terrorist attacks, which is also reflected in the high volume of searches recorded in 2017.

Distribution of Google searches for accommodation in Europe (2017)



The highest 2-year CAGR was recorded in Iceland, with a stellar 89% followed by Nordic countries and Portugal.



Note: Bubble size = 5-year average yearly GDP forecast (2018/22)
Sources: Google Analytics, IMF, Christie & Co Research and Analysis

Key Highlights

Hotel arrivals increased by 4.7% during 2017.

The top three markets in terms of hotel arrivals – **Germany**, **France** and **Spain** – accounted for 364m visitors in 2017 (+4.3% vs 2016).

All European markets have benefited from rising tourism demand in 2017, resulting in year-on-year growth ahead of the 10-year CAGR trend for almost all destinations.

The largest year-on-year increases in hotel arrivals were observed in **Iceland**, the **Netherlands**, **Greece**, **Portugal**, **Belgium** and **Croatia**.

Last year's publication identified **Iceland** as a hotspot based on its potential to drive tourism arrivals. It is therefore unsurprising that the country's hotel arrivals increased by 12.1% year on year, albeit decelerating slightly compared to the 10-year CAGR of 12.3%.

While arrivals to **Spain** grew well ahead of the 10-year trend, it is **Portugal** – also identified by our Google search volume analysis last year – that has emerged as the new Iberian hotspot in terms of hotel arrivals, demonstrating a solid 9.6% increase compared to 2016.

Belgium, which had suffered from security concerns in 2016, has bounced back with a stellar 9.3% increase in arrivals year on year.

Finland and **Norway**, two markets with significant growth potential according to last year's Google search volume analysis, recorded strong increases with 6.3% and 5.1% respectively compared to 2016.

Germany still attracted the largest number of hotel arrivals in Europe in 2017 (141.1m), and has seen solid year-on-year growth of 4.2%.

In 2017, nearly 120m people visited **France,** marking its recovery from the security concerns of the recent years and resulting in almost 5% year-on-year growth – the strongest increase amongst the top five markets in terms of arrivals.

Poland continues to go from strength to strength with a year-on-year increase of 6.7%, albeit marginally below its 10-year CAGR.

DEMAND FOR HOTELS IN EUROPE GOES FROM STRENGTH TO STRENGTH

Throughout this publication, we have focused our analysis on 18 primary destinations that together constitute the majority of tourist destinations in Europe: Austria, Belgium, Croatia, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Sweden and the UK. The Netherlands and Belgium were added in this year's publication given the significance the Netherlands gained in 2017 as the 5th largest hotel transactional market in Europe after the UK, Spain, Germany and France.

Although Europe remains extremely attractive overall, hotel arrivals vary greatly across the different countries.

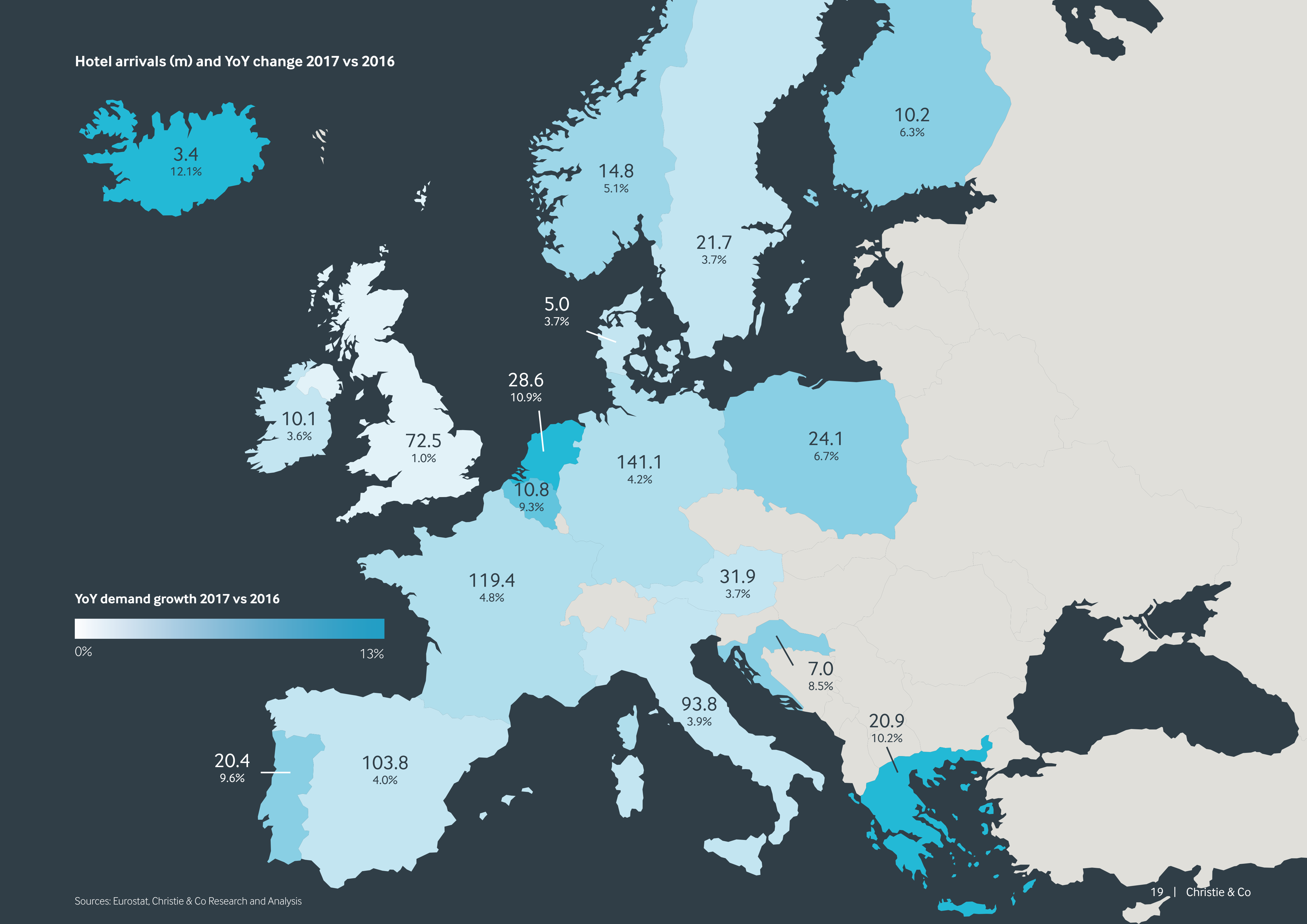
> In 2017, the top three markets in hotel arrivals – Germany, France and Spain – accounted for over half of total hotel arrivals.

Hotel arrivals – 10-year CAGR

Iceland	12.3%
Poland	6.8%
Portugal	5.3%
Netherlands	4.0%
Denmark	3.4%
Germany	3.4%
Croatia	3.4%
Sweden	3.4%
Austria	3.2%
Greece	2.9%
Norway	2.7%
Belgium	2.3%
Ireland[1]	2.1%
Spain	2.1%
Italy	1.9%
Finland	1.6%
UK	1.0%
France	0.9%

Notes: [1]5-year CAGR only due to a change in methodology;
Arrivals to hotels and similar establishments according to NACE 55.1;
Estimates were made for countries where 2017 data was not yet available (Denmark, France, Ireland and the UK)

Hotel arrivals (m) and YoY change 2017 vs 2016



Sources: Eurostat, Christie & Co Research and Analysis

BUT SUPPLY STILL LAGS BEHIND

Across the countries analysed, Italy has the largest supply of hotel rooms, with almost 2.24m hotel beds, followed by Spain and Germany with 1.92m and 1.81m hotel beds respectively.

Year-on-year changes to supply can be segregated mainly into:

Significant

Portugal has seen the most significant addition in supply compared to 2016, with beds increasing by 7.7%.

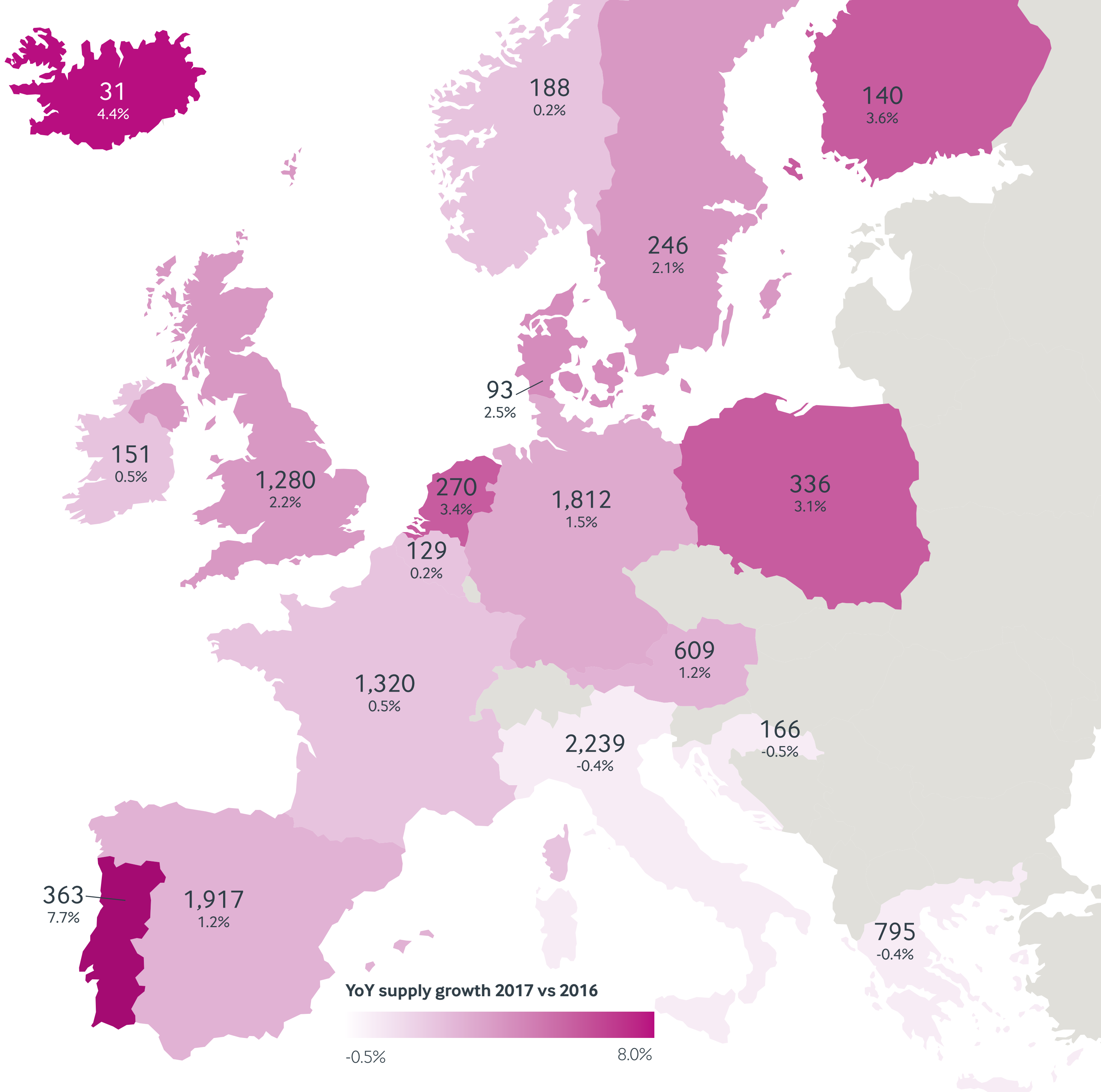
Moderate

Markets with moderate levels of new supply include **Iceland**, **Finland**, the **Netherlands**, **Poland**, **Denmark**, the **UK**, **Sweden** (all between 2.1% and 4.4%).

Minor to negative

Countries with limited additional or declining supply (<0.5%), include **France**, **Ireland**, **Belgium**, **Norway**, **Italy**, **Greece**, and **Croatia**.

Hotel bed supply (000s) and YoY change 2017 vs 2016



Bed supply – 10-year CAGR

5.8%	5.2%	3.2%	3.0%	2.4%	2.0%
Poland	Iceland	Portugal	Netherlands	Denmark	Norway
1.7%	1.7%	1.6%	1.6%	1.3%	1.0%
UK[1]	Sweden	Finland	Spain	Greece	Germany
0.6%	0.5%	0.4%	0.4%	0.2%	-0.4%
Austria	France	Belgium	Italy	Croatia	Ireland

> Over the past decade, Poland and Iceland have seen the most significant increases in bed supply in relative terms, with an annual growth rate of 5.8% and 5.2% respectively, whilst Ireland has witnessed a decline in total bed stock of -0.4% since 2007.

Notes: [1]3-year CAGR only due to data availability
Number of hotel beds according to NACE 55.1 in 2017
Sources: Eurostat, AM:PM Hotels, Christie & Co Research and Analysis

OVERNIGHT-TO-BED RATIO

Opportunity for new supply

Last year's publication put **Iceland** in the spotlight, and the country's tourism sector continues to go from strength to strength (+11% CAGR in overnights over the past decade). With the highest O2B ratio amongst the selected markets, the opportunity to expand into this market remains, albeit the pipeline is starting to increase as well (+6% of existing supply).

The Netherlands has seen increasing investor appetite, and yet the high O2B ratio indicates there is more room for new supply, albeit supply is expected to increase by 4.5% by 2020.

Tourism demand in **Ireland** is on the rise, and whilst the supply pipeline is strong (+7% of existing supply), net supply decreased over the past decade thus creating a significant opportunity for new hotel openings.

Spain remains the leading market in terms of tourism overnights, and despite having 1.92m beds, the high O2B ratio indicates that selected opportunities remain for additional hotel supply.

Denmark has seen demand outpace supply by about 1% annually, generating opportunities for expansion. Albeit the large hotel development pipeline (+5% of existing supply), indicates that opportunities might exist in selected markets only.

Over the past decade, the demand growth rate in **Portugal** has more than doubled the supply growth rate, creating opportunities across the country.

The ratios for **France** and **Germany**, number one and two in terms of hotel arrivals, indicate that additional supply could easily be absorbed. The hotel pipeline in Germany is strong (+6% of existing supply), as hotel groups and investors have long identified this market as a target for development.

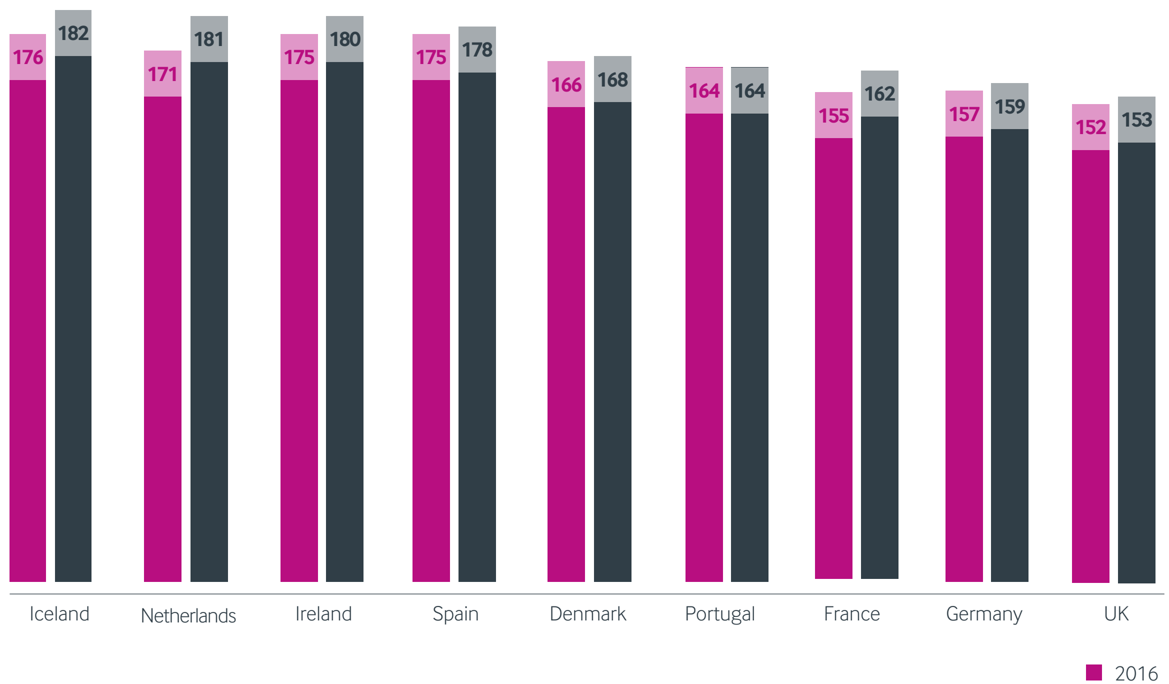
The **UK** has one of the largest inbound travel markets. However, in recent years, a significant pipeline has materialised and outpaced demand, resulting in balanced levels of supply. Opportunities may become more scarce if the current pipeline (+7% of existing supply) emerges fully.

Last year the Overnight-to-Bed or O2B ratio was introduced to highlight how the strong demand for hotels in Europe compares to existing hotel bed supply.

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.

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

Hotel Overnight-to-Bed (O2B) ratio

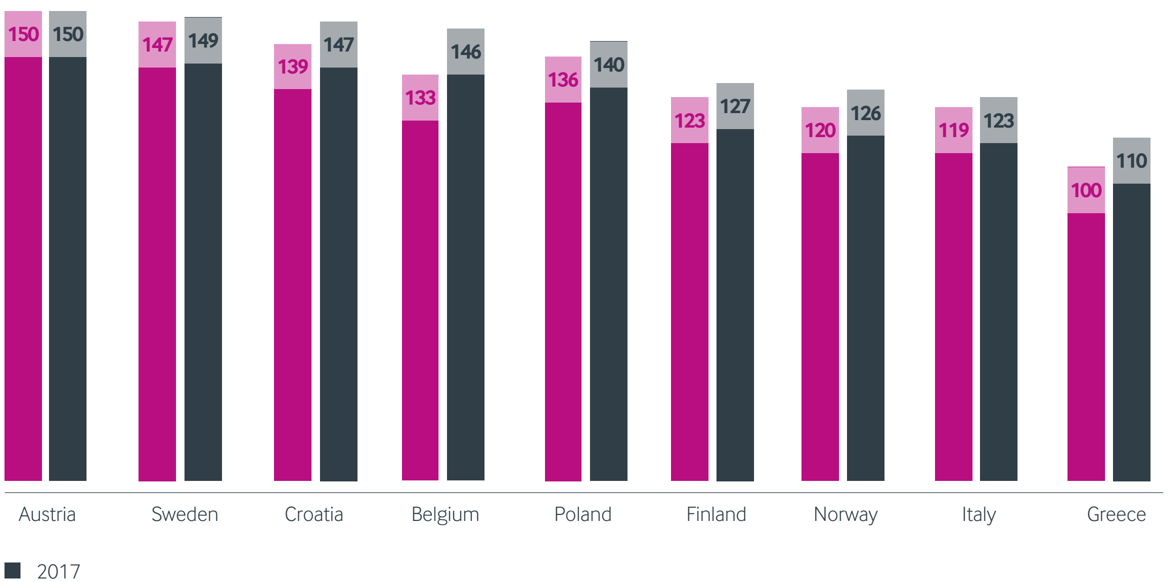


Note: Results may vary from 2017 report due to change in source data

Boosted by the strong year-on-year increase in demand and with additions to supply taking time to enter the market, most O2B ratios have increased compared to 2016, with the exception of Austria and Portugal, which remained flat.

The highest O2B ratios are recorded in Iceland, the Netherlands, Ireland and Spain followed by Denmark, Portugal and France, suggesting that there is room for new supply in these markets. At the other end of the spectrum, Greece, Italy, Norway and Finland show the most saturated levels of supply, primarily due to highly seasonal markets where visitation is concentrated over a few months.

> The highest Overnight-to-Bed ratios are found in Iceland, Netherlands and Ireland.



Sources: Eurostat, Christie & Co Estimates and Analysis

Balanced and over-supplied markets

The O2B ratio for the scenic alpine destinations, **Austria** and **Sweden** indicates balanced levels of supply and demand.

Demand growing at a faster rate than supply has resulted in balanced levels of supply in the previously over-supplied markets of **Croatia** and **Belgium**.

Poland experienced the second highest demand growth rate (c.6.8% CAGR in overnights) over the past ten years. Whilst showing slightly slower growth rates now, supply has increased at a similar level and is expected to grow by roughly 5% by 2020.

The Northern European countries, **Norway** and **Finland**, are amongst the smallest European markets in terms of hotel overnights and supply appears to keep up, or even outpace, the growing demand in these markets.

Italy is still one of the top destinations in Europe, but also home to the largest bed supply, resulting in a low, albeit somewhat improved O2B ratio. Hotel stock has improved slightly as bed supply has reached 2010 levels again. However, opportunities remain for international brands to enter the market, as hotel chains are still under-represented compared to most other European markets.

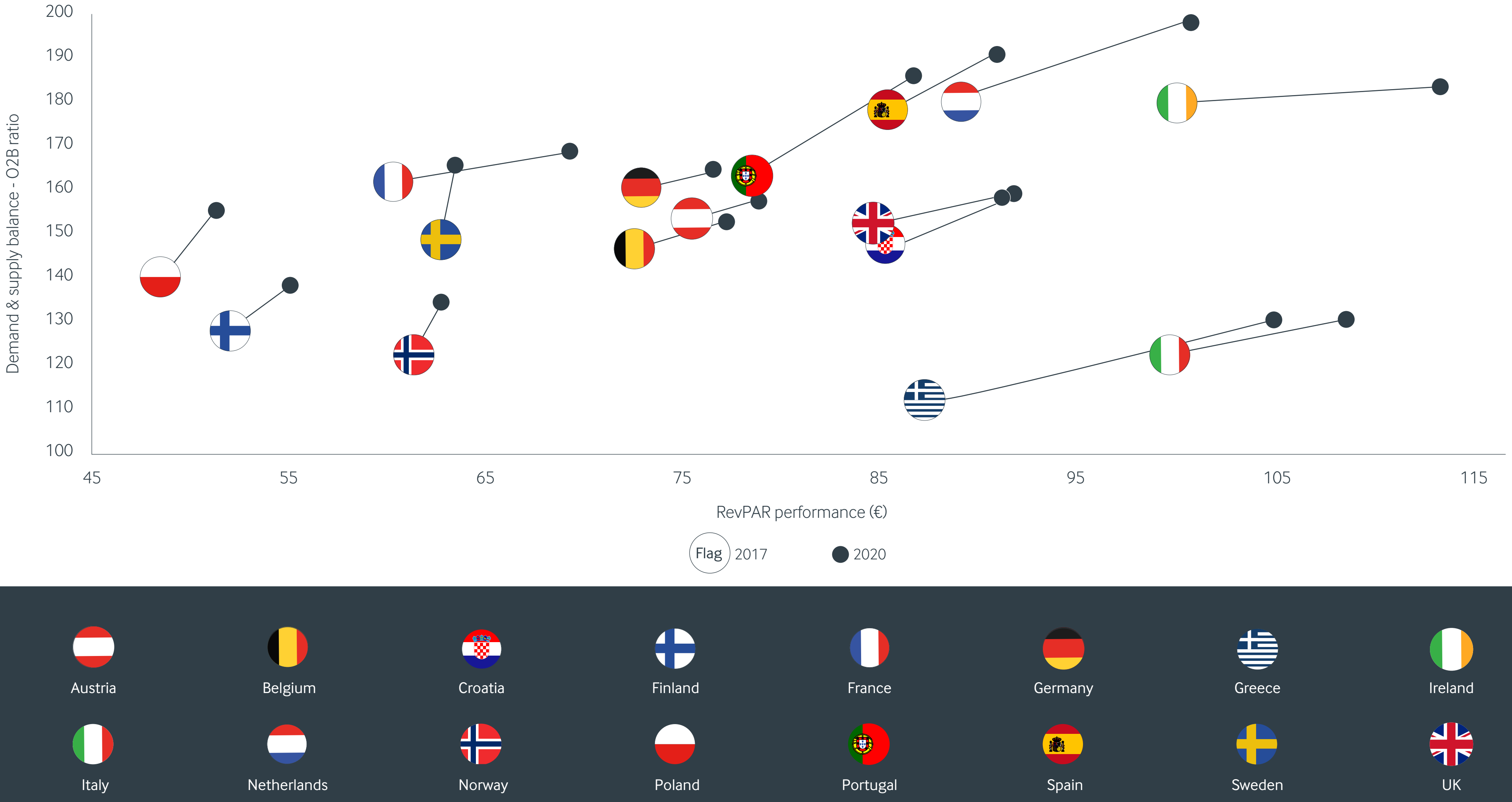
Greece, another highly seasonal market – with demand concentrated over a few months during the summer – has seen demand outpace supply over the past decade, and we identify the opportunity for additional high-quality branded supply.

WHERE ARE THE OPPORTUNITIES?

The strong positive GDP correlation found in our analysis was utilised to forecast overnights and RevPAR performance through to 2020.

The graph below illustrates and compares the current positioning of European hotel markets with their projected future position.

European hotel markets - current and future



Notes: Excludes Denmark and Iceland due to insufficient historic data; Performance might vary due to sample size

Sources: National Statistical Offices, IMF, Observatoire MKG Consulting/OK_destination, STR, Christie & Co Research, Analysis and Forecast

EUROPEAN HOTEL HOTSPOTS

The strong positive linear correlation between overnights, GDP and RevPAR was used to forecast RevPAR performance and demand across Europe in 2020, in line with projected GDP growth.

Triangulating our outlook on RevPAR, the projected future demand and supply ratio, and the transactional environment in each hotel market, we have identified some potential development and investment hotspots.

While many countries including Germany, France, Spain and the UK, are already established as attractive hotel investment markets, we have again identified some additional markets which appear to present exciting opportunities in the short to medium term.

For hotel chains

Development hotspots are defined as markets with strong projected RevPAR outlook and with demand outgrowing supply.

Based on these criteria and additional supporting data, we could label most of the European markets as key target markets for hotel chain development. By focusing on those markets likely to experience the most significant positive shift in O2B ratios, combined with strong RevPAR, we can filter this down to a number of priority markets:

Croatia, **Greece**, **Ireland**, **Iceland, Italy** and **Portugal**

Moreover, international brand penetration in these markets is relatively low, and therefore could represent particularly strong opportunities for hotel groups.

For opportunistic investors

To be considered an investment hotspot, markets must demonstrate a strong RevPAR outlook, demand that is projected to outgrow supply, good signs of liquidity and relatively low prices per key to ensure that value can be created.

Based on the results of our analysis, we have selected some markets which we believe could become investment hotspots in the near future:

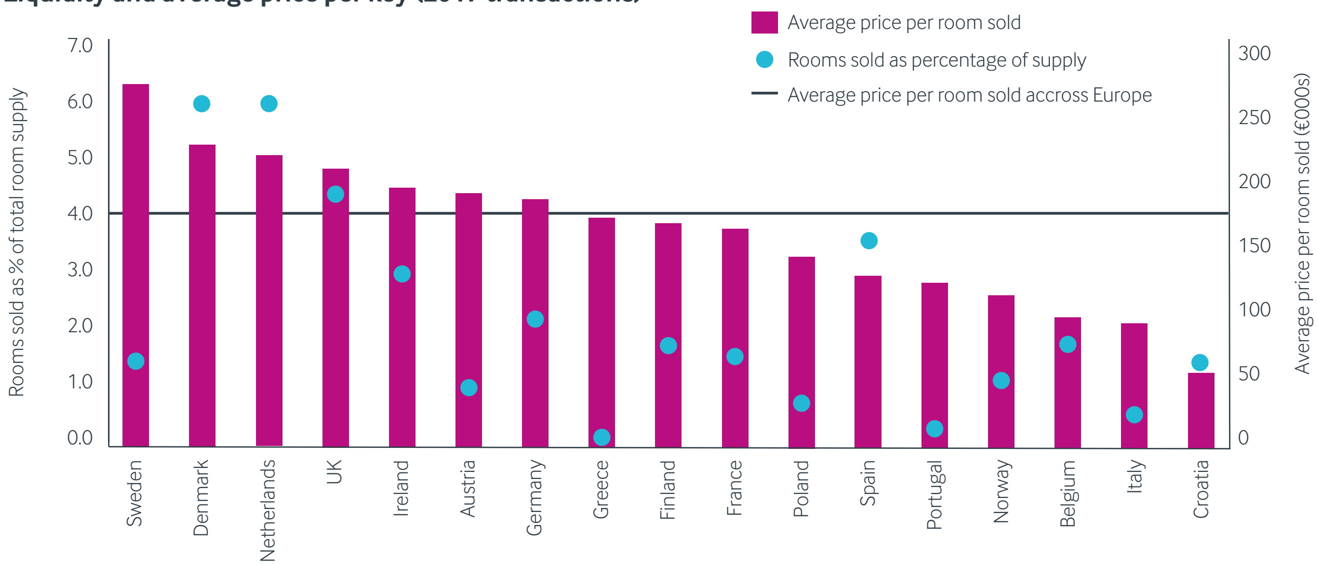
Already identified last year, **Ireland** has achieved higher prices per room transacted during 2017. Expected to benefit from the **UK** leaving the EU and RevPAR growth is forecast to be strong. Albeit liquidity will remain low and the supply pipeline is strong, the outlook remains positive.

The Netherlands offers great performance uplift potential and has seen the highest volume of rooms sold in 2017 (as a percentage of total supply).

France started to bounce back strongly in 2017. This trend is expected to continue as the country is leading up to major events in the coming years.

The predominantly resort destinations of **Greece** and **Croatia** are forecast to see a substantial uplift in RevPAR performance, albeit liquidity is still an issue. **Greece** has also seen high average prices per key in 2017.

Liquidity and average price per key (2017 transactions)



Notes: Average price/room sold in Greece includes the sale of trophy asset King George Hotel for €44m (€422k per key). Average price/room sold in Sweden includes an allocation of €845k per key for Clarion Collection Hotel Karlskrona asset sold as part of a 19-asset portfolio. Average price/room sold in Ireland includes price allocations for three assets part of the Jurys Inn portfolio and the sale of the Carton House Hotel for €57m (€345k per key). No transactions recorded for Iceland.
Sources: Real Capital Analytics, Eurostat, National Statistical Offices, Christie & Co Research and Analysis

Methodology

GDP forecasts obtained from the IMF, up to 2020, were used to forecast the future RevPAR outlook on a country basis, as outlined in our correlation analysis.

Again, in line with the methodology set out in our correlation analysis, the future O2B ratio has been estimated based on: the 2019 overnights forecast and the future bed supply (estimated as the existing bed stock in each market increased by the pipeline of beds expected to open by 2020).

The liquidity within each market has been assessed by reference to the number of rooms transacted as a percentage of the total room supply, thereby accounting for the relative size of each market.

A FINAL WORD

Europe remains a hotspot with several excellent opportunities for investors.

The outlook for tourism and hospitality is favourable, and Europe will remain the destination of the biggest mass movement of the millennium over the next decade.

The UK is one of the largest feeder markets for destinations in Europe, and in a time of great political and economic uncertainty, when the UK leaves the EU in March 2019, it is important to understand the impact this might have on the performance of tourism-oriented businesses within these countries. While currently 90% of the demand in Europe is driven by European travellers, this is bound to change as demand from Asian travellers increases. Asia and Pacific is Europe's largest tourism source region outside Europe and China (including Hong Kong) has been the top source market in nights spent since 2012, when it overtook Japan.

This is particularly noteworthy in light of our research showcasing that countries with greater direct connectivity show higher passenger arrivals and, as a result, higher potential for tourism. Therefore, maintaining connectivity between European markets and the rest of the world, particularly Asia, is vital in driving further growth in the European tourism sector. The planned €49bn investment across the analysed European airports should enable this increase in airport capacity (31% by 2028).

Supporting you from acquisition to exit with a pan-European team across 14 offices.

By tailoring our analysis to your needs, our team can help you maximise the potential of your business and investments. While opportunistic investors may wish to investigate the opportunities in **Croatia**, **Greece**, **Ireland**, **Iceland**, **Italy** and **Portugal**, we can help you identify and assess which particular markets or cities are worth prioritising. Moreover, we can help you realise your growth ambitions by analysing and advising you with specific opportunities across any of these markets. Be it acquisition, optimisation or exit of a single hotel or a portfolio – whatever the situation, we can help you formulate a strategy.

With data sitting at the heart of our business, our in-house data and analytics function led by our Analytics Lead, Hannah Gaskell, supports our research, with particular focus on trend analysis, benchmarking and forecasting the future performance of our sectors. These data-driven insights make the complex simple and enable our clients to make informed strategic decisions about their businesses and investments.

Our sector specialists support hotel investors, operators and lenders throughout every stage of their business life cycle, from pre-acquisition planning right through to exit.

> "We invite you to reach out to our network of consultants based across 14 European offices, who can offer you local market expertise and comprehensive data-driven solutions."

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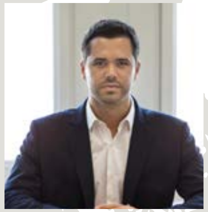

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