



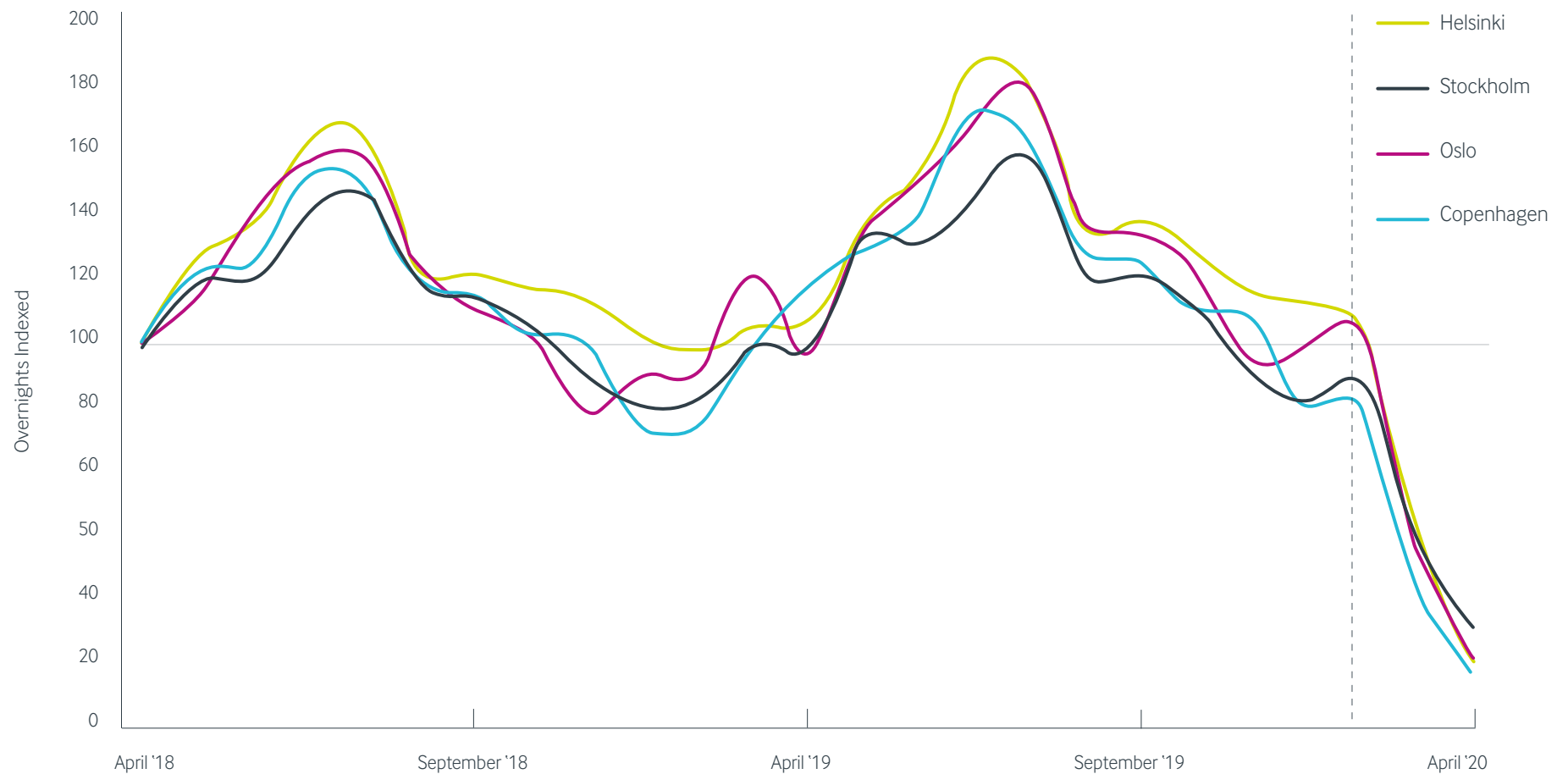
NORDIC HOTEL MARKET UPDATE

IMPACT OF COVID-19
JULY 2020

The ongoing Covid-19 pandemic has placed the hotel industry into an unprecedented situation. The pandemic that started in Wuhan, China, at the end of 2019 and spread globally, has caused an almost complete stop to all forms of travel, which was reinforced by government-imposed restrictions on mobility and border closures.

As has been widely recognised, the effects of these developments have been steep and immediate for hotels globally, with no exception in the Nordic markets. While hotels in the Nordics have not been obligated to close by the respective governments, many hotels have closed shop temporarily due to a radical collapse in demand that started in March. For instance, at the end of April, more than half of Scandic's, the largest Nordic hotel operator's, hotels were closed. In the capital markets, recorded overnights in March saw a decline of 55-65%, this continued in April when overnights plummeted by 87% on average compared to the previous year.

ROLLING 24-MONTHS OVERNIGHTS



The effects of such a steep demand drop on hotel performance have been unparalleled.

RevPAR



March 2020/2019

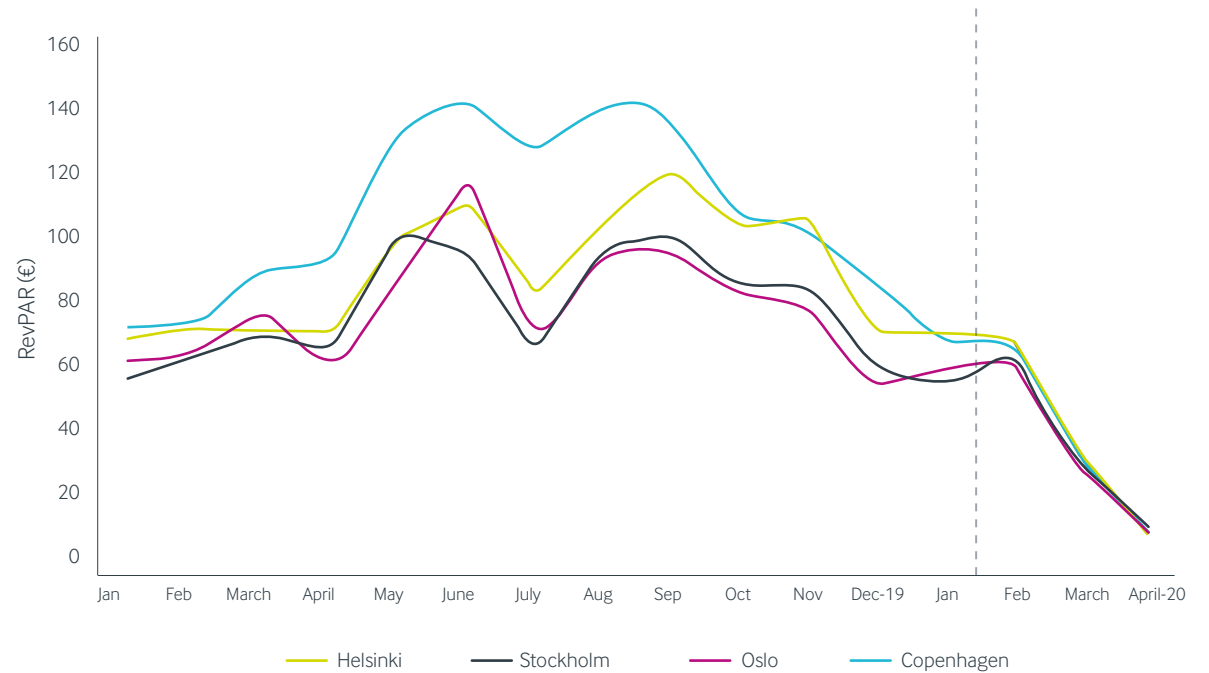


April 2020/2019



Average RevPAR in April was recorded at €5, which could be an all-time low for these markets.

REVPAR 2019 - APRIL 2020



The performance declines have been equally drastic throughout the Nordic capital markets. In April, Helsinki and Copenhagen saw occupancy drop down to circa 3%, while Stockholm, with practically no government restrictions, also saw a sharp drop in occupancy to circa 10%. The lack of demand also manifested in ADR declines, albeit with a higher degree of variation between the markets. The Stockholm market suffered the largest decline of 28% in ADR, while Helsinki in fact saw an increase of 6%, which was likely the result of a sampling issue, rather than an actual gain in performance. As a result of these developments, average RevPAR in April was recorded at €5, which could be an all-time low for these markets.

HOTEL KPI'S APRIL 2019/2020

	Occupancy			ADR			RevPAR		
	April 2019	April 2020	Change %	April 2019	April 2020	Change %	April 2019	April 2020	Change %
Helsinki	63%	2%	-96%	105	111	6%	67	3	-96%
Stockholm	62%	9%	-84%	103	74	-28%	64	7	-89%
Oslo	54%	5%	-89%	103	79	-23%	56	5	-92%
Copenhagen	75%	3%	-96%	119	118	-2%	91	4	-96%

While these numbers are highly alarming and completely unsustainable for hotel chains, even on a short-term basis, there are positive signals conveying that the worst could be behind us and that recovery for hotels is already in progress as economies have started to open. In Denmark, shopping centres, restaurants and cafés opened in mid-May, while June 1st marked the day when many restrictions were lifted in Finland and the market saw the opening of restaurants, bars and cultural venues. Similarly, in Norway amusement parks and bars reopened on June 1st, and most other establishments have been open since June 15th. In Sweden, shops, restaurants and bars have remained open throughout the pandemic, subject to specific regulations which have helped contain the spreading.

On June 15th, the Nordic countries, including Denmark, Norway, Finland, Iceland, Greenland, and the Faroe Islands opened their borders for intra-region travel, with quarantine periods only applicable to those travelling from certain, high-risk regions within the countries. Due to high infection rates, however, travel from Sweden to other Nordic countries continues to be restricted at the time of writing. Sweden's borders remain open for travel from EEA countries, and entry restrictions only apply to arrivals from non-EEA countries.

The situation throughout Europe is being monitored on a weekly basis and the other Nordic governments will be gradually opening borders for other EEA countries where infection rates are considered to be low enough.

Source: Benchmarking Alliance

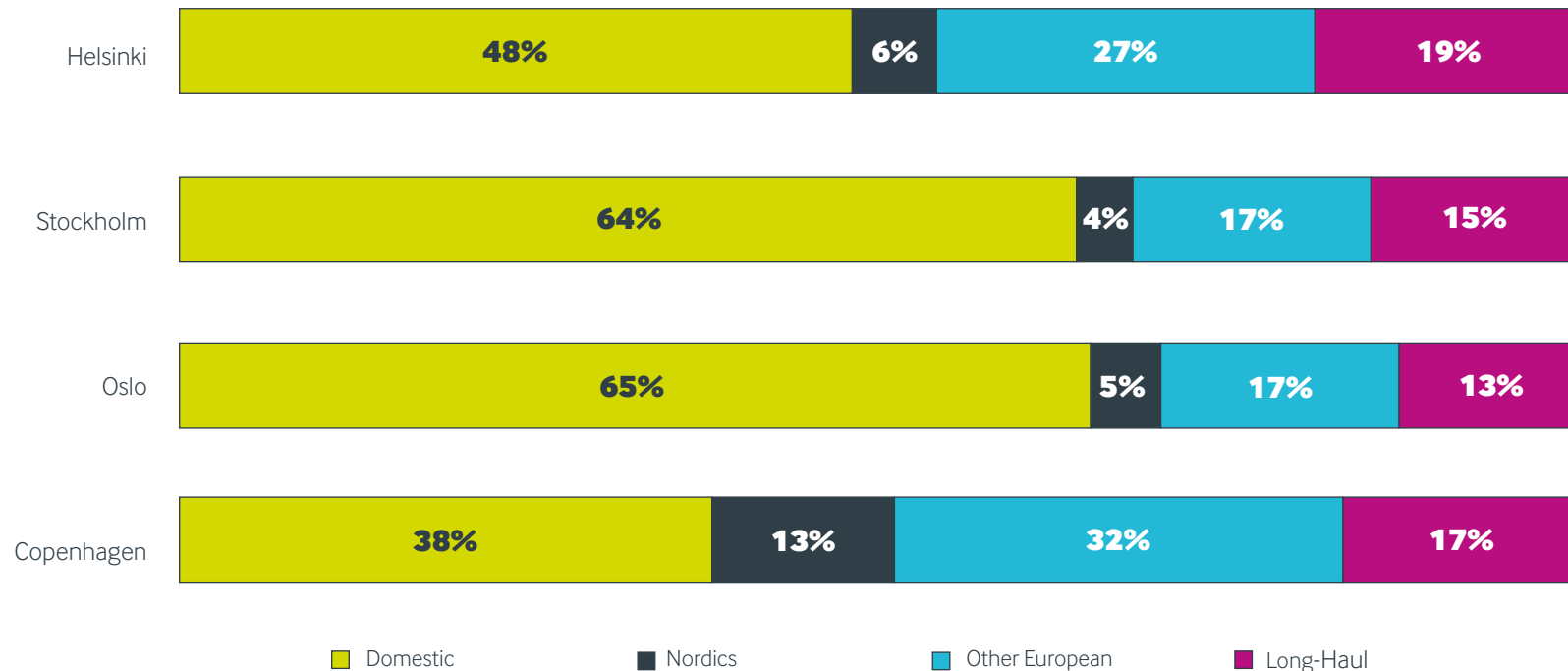
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With positive signals in demand, the temporarily closed hotels are also gradually opening for business. Again, taking Scandic as an example, the chain plans to have over 70% of its hotels open by July, and the remaining open by August.

As economies and borders open and activity picks up, we anticipate Nordic hotel markets to be better positioned for recovery compared to other markets in Europe. The key to this view lies in the demand structure of the Nordic markets which have, for decades, predominantly lived from domestic and intra-Nordic accommodation demand. While there has been a clear upward trend in arrivals from long-haul source countries, such as the US and China in recent years, the overall demand from non-European source countries has remained modest.

The share of pure domestic demand, conversely, is still at a relatively high level when compared to other European and global markets. As illustrated below, domestic and intra-Nordic overnight demand account for over 50% of total demand in all four capital markets. In Stockholm and Oslo, this number is as high as 70%. Having emerged as a gateway from Asia to Europe, Helsinki has the highest share of long-haul demand, accounting for no more than a fifth of total demand, while the figure in Oslo is as low as 13%.

HOTEL DEMAND BY SOURCE REGION (2019)



Amid a pandemic, it should be fairly evident why having strong domestic and regional demand is a strength for hotel markets, and why such markets are likely to experience a faster recovery to sustainable performance levels. Firstly, although some relaxation of travel restrictions has been announced around Europe during May and June, most countries globally still have travel restrictions in place that either prohibit entry to the country for foreigners, or require a self-quarantine period of a minimum 14-days for such entry. Such restrictions and requirements are tangible obstacles for international travel to recover in the short- to medium-term.

Secondly, travelling within the home country or neighbouring countries is perceived by most as safer than international travel. Whether these perceptions are based on factual observations on a potential target country's relatively worse infection statistics, the contagion risks of air travel, or merely psychological factors related to the avoidance of the unknown in uncertain times, the general consumer sentiment appears to be favouring domestic travel in the short-term.

Thirdly, the pandemic and ensuing government measures have had, and will continue to have, a significant negative economic impact. While the largest setbacks to company earnings and bankruptcies may still be ahead, there has been a growing number of furloughs across industries, evident from the surge of unemployment benefit applications throughout the region. Whether a longer lasting recession is ahead or not, many families and individuals have already seen their disposable income diminish. As travel spending tends to be one of the first areas to cut back on in economically uncertain times, this is likely to drive many consumers to more budget-friendly domestic travel, even after the borders eventually open. Furthermore, during a downturn, companies tend to reduce costs by cutting down on international travel, thus, also decreasing corporate demand.



Oslo Harbour

Moreover, potential challenges with air travel, including flight availability, price increases and safety concerns are likely to further support faster recovery of domestic and intra-regional travel. Since the crisis began, many airlines have grounded most of their fleets and are currently operating only on limited key routes. Thus, air travel supply has diminished just as much as demand, if not more, which appears to have led to recent price increases. Airbus airline-data subsidiary Skytra, found that air fares have risen in all major regions as travel restrictions begin to ease and people conduct essential travel on limited flights. This was especially true for long-haul flights, as flight tickets between Asia-Pacific and Europe, as well as Asia-Pacific and North America, saw a price hike of around 33% on average - which could represent a new norm in price levels

according to Skytra . As noted earlier, in addition to fewer available flights and potentially elevated prices, air travel is also perceived as less safe due to an elevated contagion risk compared to other means of transport.

With these key drivers in mind, it is reasonable to expect hotel markets with relatively strong domestic demand and low dependency on long-haul demand to recover faster from the current crisis than markets that rely more heavily on inbound travel. As illustrated below, the demand structure of the Nordic capital markets may be better positioned for recovery compared to many other European capital markets.

DEMAND STRUCTURE COMPARISON (2018)



Source: National Statistics Centres



Stockholm

Naturally, hotel demand, whether domestic or international, is highly correlated with the state and growth of the overall economy. In this regard, compared with other economies within Europe, the Nordic economies appear to have at least three key factors which make favourable conditions for economic recovery and the resulting hotel demand.

Firstly, Nordic countries benefit from low constraints to mobility. Since the opening of borders on June 15th, people have been free to move within the region (excluding Sweden) without needing to self-quarantine. With key airlines for the region, including Scandinavian Airlines, Norwegian Airlines and Finnair, being saved through refinancing and government backing, air connectivity within the region is also secured in the medium-term. As the Nordic economies are highly intertwined, mobility within the region is anticipated to support economic activity and facilitate recovery.

Secondly, Nordic economies are stable and balanced on a macro level, providing a solid base for recovery. The countries have among the lowest public debt/GDP ratios in Europe, ranging between circa 30-60% compared to the EU average of circa 80%. The region also has relatively liquid and well-functioning credit markets supporting investments through the continued availability of credit. Moreover, Nordic economies are not dependent on tourism, unlike many southern European countries who are bound to experience large declines in GDP until global travel has recovered.



Copenhagen

Thirdly, the Nordics are anticipated to benefit from less negative consumer sentiment compared to other regions. Negative news has a strong impact on consumer confidence and usually shortens the planning horizon for spending. The overall Covid-19 infection rate, hospitalisations, and death figures are relatively low in the Nordics, which instils trust in consumers and allows for more rapid resuming of normal life and consumption. The Nordics are also characterised by cultures of deep trust in authorities and high responsiveness to government recommendations, which has kept infection rates at bay and will facilitate implementing less restrictive government measures in case of future infection waves. More open economies and less wary consumers are, thus, also anticipated to support faster economic recovery.

In summary, while the situation for the past few months has been dire for hotels, the opening of economies and borders within the Nordics seems to have initiated recovery. With relatively strong domestic demand and modest dependency on long-haul arrivals, the Nordic hotel markets are anticipated to recover faster compared to many other European markets. The Nordic economies are also well positioned to deal with the aftermath of the pandemic, supported by unrestricted mobility, relatively healthy macro-economic conditions, and a good basis for resumed consumption which, in turn, drives hotel demand. Alas, as we are still early in the timeline of the crisis, exactly how long it will take before hotel demand and performance in the Nordics are back to pre-pandemic levels is still anyone's guess.



Helsinki

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For questions, comments and further discussion on the topic, please do not hesitate to get in touch with us.

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