EUROPEAN TRAVEL TRENDS AND HOTEL INVESTMENT HOT SPOTS

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FOREWORD

In a fast-changing world where travel and hospitality trends are continuously shifting, one constant is that Europe remains the most visited region in the world, and demand is outpacing supply in most markets.

Europe encompasses a fascinating mix of markets with different seasonality, performance, visitation and supply patterns. We recognise the challenge of identifying opportunities amongst such a varied landscape. In an effort to resolve this issue, we present a new data-driven approach to analysing potential hotel investment and development opportunities.

Europeans remain the largest source market for the region. But, if the continent is to retain its long-standing title of the most visited region in the world, which international markets will fuel European visitation over the next decade? International markets offer tremendous potential. For example, each additional percentage of the Indian population travelling represents close to 15m annual outbound trips globally, and approximately 2m to Europe. It is key to understand which markets these international travellers are attracted to and how this translates into growing hotel demand and investment opportunities.

This research takes you on a journey through future European travel trends and hotel investment opportunities. We hope you will find it enlightening and useful when making future investment decisions.

Kind regards,

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All hotel investors, brands and developers have the difficult task of identifying opportunities, ideally before their competitors. Whilst this often becomes easier with experience, a number of indicators can be analysed and forecast to support development and refinement of an expansion strategy. These key indicators are listed on the right and analysed in more detail throughout the report, leading to conclusions on potential opportunities in the European hotel markets:

How to identify opportunities without a crystal ball

Demand growth potential – How is demand distributed across Europe, both in volume and value terms? Who are the current and future feeder markets and how can this impact demand in the long term?

Accessibility and connectivity – How well are local airports performing? How much room is there for passenger volume growth and are there plans in place to remedy oversaturation of some European airports? Is a market accessible enough to mitigate seasonality?

Current supply landscape – How is current supply distributed across Europe? What is the quality of the hotel stock? How well are brands represented in each market?

Supply and demand equilibrium – Is hotel demand strong enough to absorb the planned pipeline? Is the pipeline strong enough to cater for projected demand?

Current RevPAR performance and future outlook – Is RevPAR performance strong enough to support development and attract investment? Which markets are expected to experience the strongest RevPAR growth?

Size of the hotel transactional market – What is the investor appetite in the market and how is this evolving?

Liquidity – Although a market seems attractive, is there enough stock to buy? Can it be readily exited?

Yields – How do achievable hotel yields compare to other investment opportunities?

GDP growth forecast – Is the country economically attractive enough for investments?

Not forgetting political stability, strength of currency, safety, transparency and legislation

EUROPE, THE MOST VISITED REGION IN THE WORLD

Consistently ranking first in international arrivals globally, Europe is the most visited destination in the world, with three times as many arrivals as the Americas, and twice as many as Asia & Pacific in 2016. International visits to the region grew by 4% annually on average between 2010 and 2016, demonstrating Europe's resilience to safety challenges and economic uncertainty.

Despite a range of disruptions to European tourism in recent years, visitation grew by c. 1.5% in 2016. It is forecast to grow by another 2% in 2017, attracting half of global arrivals according to the latest World Tourism Organization barometer (UNWTO).

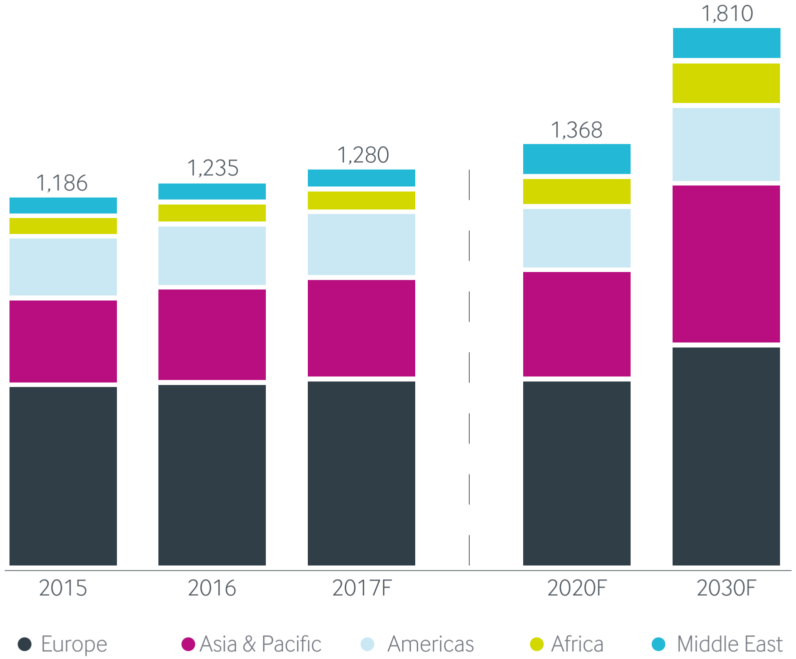
In terms of destinations within Europe, the biggest share of international travel was to Southern Europe. It is well established as the main leisure destination in the region and has also benefitted from displaced demand as a result of terrorism in the Middle East and North Africa. This has led to international visitors favouring alternative leisure destinations such as Spain, Portugal and Croatia. In 2016, Northern Europe (+6%) and Central Europe (+4%) recorded the strongest growth in visitation, against 1% growth in Southern Europe and static results in Western Europe.

> In 2016, the biggest share of international travel was to Southern Europe which has also benefitted from displaced tourism as a result of political instability and terrorism in the Middle East and North Africa.

Europe's main competitor for arrivals is the Asia & Pacific region, which is also fast becoming a leading source of outbound travel. A number of Asian countries are improving their tourism offer and experiencing strong economic growth, resulting in an impressive double-digit growth forecast for international visitation by 2030. Behind this forecast is the expectation that the emerging middle class in markets such as China, India and South Korea will boost travel within the Asia & Pacific region, as rising disposable incomes initially lead to short-haul, rather than long-haul trips.

The positive outlook for tourism in Europe will undoubtedly translate into increased demand for accommodation. Thus this publication will highlight development and investment opportunities across the region, and specifically within markets where the resulting hotel demand is forecast to grow at a faster rate than supply.

International tourism by destination (m)



Sources: UNWTO 2017 Tourism Barometer, Christie & Co Research and Analysis

Visitation to Europe grew by c.

1.5%

in 2016 and is forecast to grow by another

2%

in 2017

We expect that continued economic growth in Asia will enable some markets to become stronger source markets for Europe.

INTRODUCING THE TOP EUROPEAN HOTEL DESTINATIONS

Throughout this publication we have focused our analysis on 16 primary destinations that together constitute the majority of European tourism: Austria, Croatia, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Norway, Poland, Portugal, Spain, Sweden and the UK.

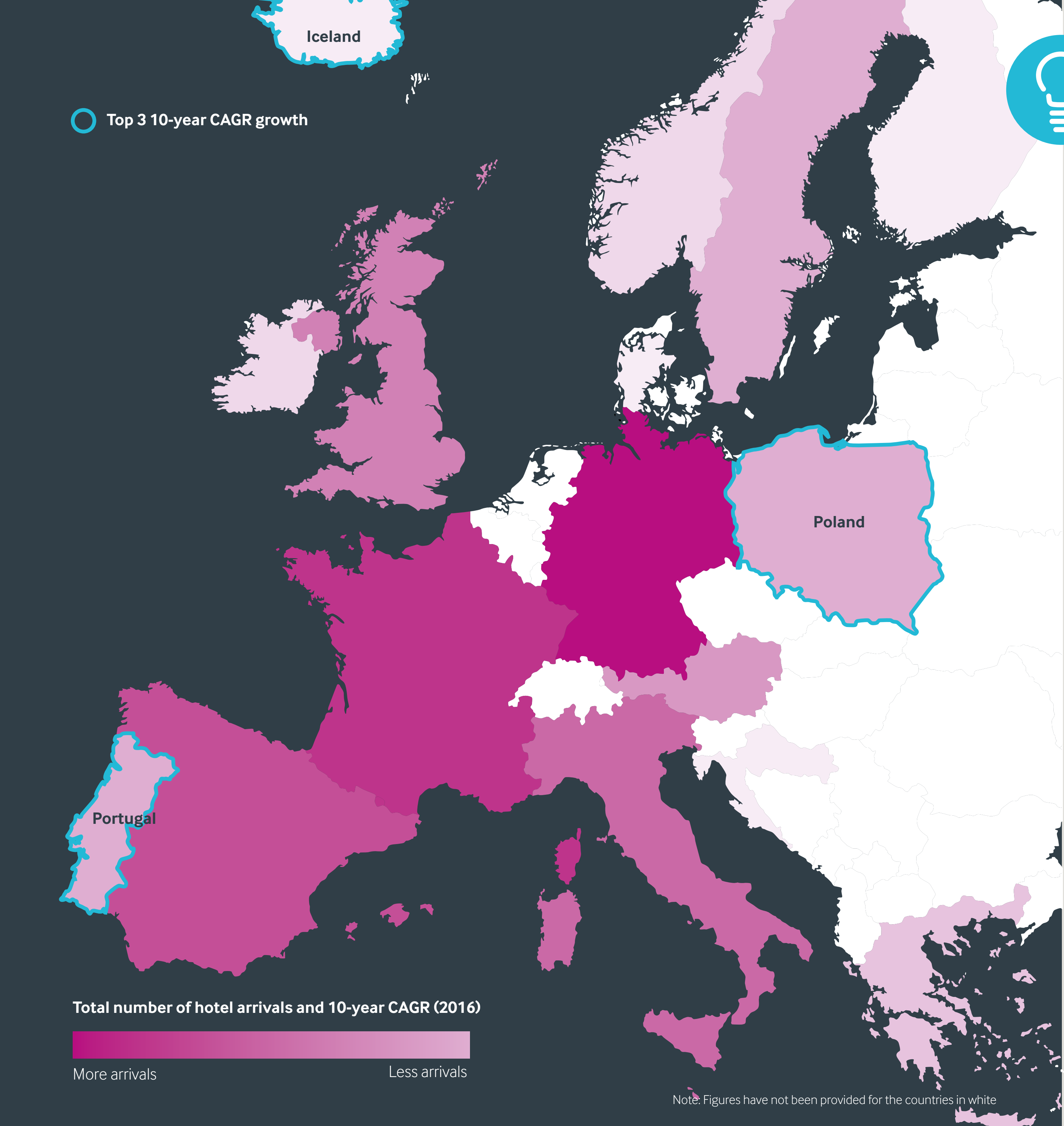
Although Europe remains extremely attractive overall, the landscape is rather mixed in terms of hotel arrivals across the different regions. In 2016, the top three markets in hotel arrivals – Germany, France, and Spain – accounted for 346m visitors or close to half of total hotel arrivals amongst the analysed markets, whilst a number of markets welcomed less than 10m visitors. Albeit not significant in absolute terms, some of these smaller markets, such as Iceland, Poland and Portugal, have experienced very strong hotel arrivals growth in the past 10 years.

Germany, France and Spain accounted for

346

million visitors in 2016.

Note: 2016 arrivals to hotels and similar establishments according to NACE 55.1 (This class includes accommodation provided by hotels, bed & breakfasts, resort hotels, apartment hotels and motels) *The hotel arrivals CAGR for the UK & Ireland is for the past five years only, due to a change in methodology within those markets
Sources: National Statistic Offices, Christie & Co Research and Analysis



Why visit?

Germany attracted the largest number of arrivals in Europe (135.5m in 2016), with travellers visiting the top city-break, conference and business destinations such as Munich, Berlin, Frankfurt and Hamburg.

France lost its first position in 2016, after suffering close to a 3% decline in hotel arrivals following the terrorist attacks in 2015 and 2016. With nearly 111m hotel arrivals, the country still ranks second, offering a balanced mix between summer resorts, winter sports as well as city-break destinations, and Paris attracting tourists all year round.

Spain and Portugal draw tourists to their resort locations as well as leisure break and MICE (meeting, incentive, conference and events) guests to Barcelona, Madrid and Lisbon, which are popular convention destinations.

Italy is popular for its historic sights in Rome, Venice, Florence and Pisa and its world-famous gastronomy and culture.

Travellers choose the UK and Ireland in mass to visit London, as well as other popular cities such as Dublin, Edinburgh and Bath, and internationally-known countryside destinations.

Winter and summer activities in the Alps, in addition to Vienna and Salzburg, are Austria's main tourist attractions.

Poland attracts travellers visiting its historic city centres and remains one of Europe's most affordable destinations.

Croatia and Greece are predominantly resort destinations, tempting visitors with their beaches and high temperatures during the summer months.

The Nordics is an attractive region with its scenic nature, from Iceland's volcanic landscape, to Norway's fjords, Lapland and the northern lights.

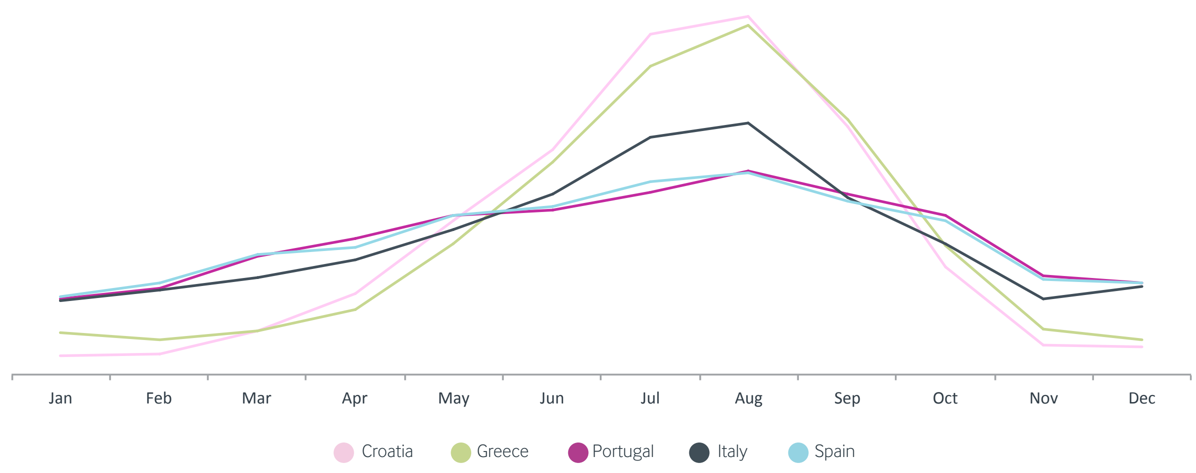
FEW TRULY SEASONAL MARKETS IN EUROPE

Investors and operators have historically shown some reluctance to enter highly-seasonal European countries, such as Greece and Croatia, as well as parts of the Italian coast and surrounding islands, which close entirely during winter months. Our analysis shows that very few countries actually suffer from strong seasonality, as demonstrated in the graph below, and that solutions can be implemented to mitigate some of the worst consequences.

Whilst the most popular time to visit Europe is early summer, the mild temperatures in most markets mean that the shoulder seasons in spring and fall still attract many visitors. In general, markets such as France and Spain, with a healthy mix between resort and city break destinations, paired with balanced business and leisure demand are less affected by seasonality.

From the graph, it is evident that only Croatia and Greece stand out as seasonal markets. Whilst Spain, Portugal and Italy show some seasonality, their range of urban tourism destinations enables them to absorb high demand year round. Similarly in alpine regions, seasonality tends to even out when ski resorts appeal to guests pursuing other activities such as hiking or mountain biking during the summer, thus resulting in limited truly low seasons across the country.

Southern Europe - visitation seasonality (2016)



Cultural diversity, outstanding connectivity and fairly limited seasonality are amongst the main drivers behind Europe's attractiveness.

Note: 2016 distribution of hotel arrivals or overnights (when arrivals weren't available)
Sources: National Statistic Offices, Christie & Co Research and Analysis

Efficient initiatives to reduce seasonality

Increasing MICE activity - According to the Global Business Travel Association (GBTA) European MICE planners are increasingly interested in non-traditional venues for their events, benefitting cities such as Bilbao, Zagreb and Reykjavík. As such, many previously seasonal destinations have now implemented initiatives to extend the season through conferences and events in the spring and fall, thus mitigating seasonality.

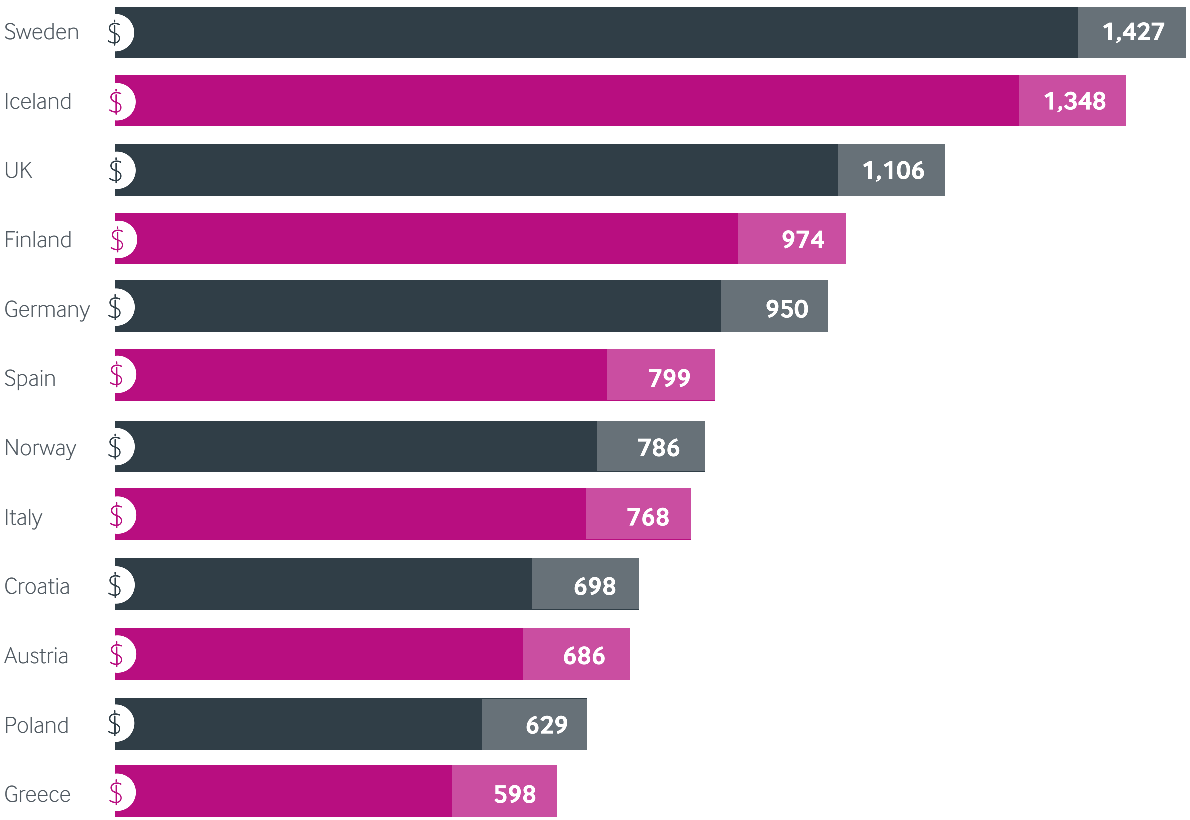
Facilitating staffing - Some countries such as Spain have been proactively tackling seasonality patterns by offering seasonal contracts, through which employees remain employed during the low season or even full closure of the hotel. Consequently, the owner foregoes hiring costs and other expenses associated with the otherwise high turnover of staff. When considering a hotel investment in a seasonal market, it is important to understand the various local practices and laws surrounding seasonal employment.

Increasing air routes - Some markets might offer attractive weather conditions but cannot be easily accessed during the shoulder seasons. Typical examples include Corsica, as well as a number of Spanish, Italian and Greek islands, and parts of Croatia. To counter this, the Balearic and Canary Islands tourism boards collaborate with airlines, supporting the launch of new routes with promotional activities in markets with existing connections.

A LARGE SPREAD BETWEEN NORTHERN AND SOUTHERN EUROPE

Beyond the volume of visitation, the actual value created by visitors is a significant data point to analyse and compare between European markets. The graph below illustrates the average spend per international visitor during their stay in the respective markets. Whilst these figures, shown in $US, are impacted by exchange rates and length of stay in the different markets, we see that the Nordic markets (Sweden, Iceland, Finland and Norway) are reportedly expensive destinations overall, whilst Southern markets appear to be more affordable.

Average spend per stay per visitor - in $US (2016)



Note: Some markets have been excluded from the analysis because of data discrepancy (France, Denmark, Ireland and Portugal)
Sources: UNWTO 2017 Tourism Barometer, Christie & Co Research and Analysis

Opportunities to increase tourism value in Southern & Eastern Europe

Improve the quality of the hotel supply
Markets such as Spain and Greece benefit from long average lengths of stay but continue to lag behind Western and Northern Europe in terms of value of visitation per international arrival. Although the affordability of these markets is one of the reasons behind their success, we identify a real opportunity to increase the value of visitation, partly by improving the quality of the hotel stock.

Branding opportunities
The hotel stock in the majority of European markets remains heavily unbranded and in need of investment following the recession and subsequent period of under investment. Visitors will be inclined to spend more as the quality of the experience continues to improve.

EUROPE, THE BEST CONNECTED CONTINENT

Accessibility is a key driver for tourism and Europe's attractiveness has historically been supported by the development of major airport hubs, connecting the continent globally and facilitating passenger movements internally. Eleven major airports in the identified regions have been analysed in order to better understand their role and potential to attract tourism to Europe. In 2016, these airports handled more than half a billion passengers through 2,000 routes altogether.

> Can European airports meet growing passenger demand? Overall, capacity constraints rather than lack of demand might impact growth potential for Europe.

London Heathrow Airport (LHR)

76 Million passengers

1.1% 10-year CAGR | 0.5% 2-year CAGR

Paris Charles de Gaulle Airport (CDG)

66 Million passengers

1.0% 10-year CAGR | 1.8% 2-year CAGR

Amsterdam Airport Schiphol (AMS)

64 Million passengers

2.9% 10-year CAGR | 7.5% 2-year CAGR

Frankfurt Airport (FRA)

61 Million passengers

1.2% 10-year CAGR | 1.0% 2-year CAGR

Madrid Barajas International Airport (MAD)

50 Million passengers

- 0.3% 10-year CAGR | 10.0% 2-year CAGR

Barcelona Airport El Prat (BCN)

44 Million passengers

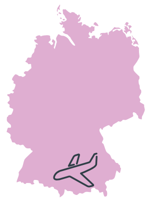
3.1% 10-year CAGR | 8.5% 2-year CAGR

London Gatwick Airport (LGW)

43 Million passengers

2.1% 10-year CAGR | 6.4% 2-year CAGR

Munich Airport (MUC)



42 Million passengers

2.2% 10-year CAGR | 3.2% 2-year CAGR

Rome Fiumicino Airport (FCO)

42 Million passengers

0.9% 10-year CAGR | 4.0% 2-year CAGR

Copenhagen Airport (CPH)

29 Million passengers

3.0% 10-year CAGR | 6.5% 2-year CAGR

Dublin Airport (DUB)

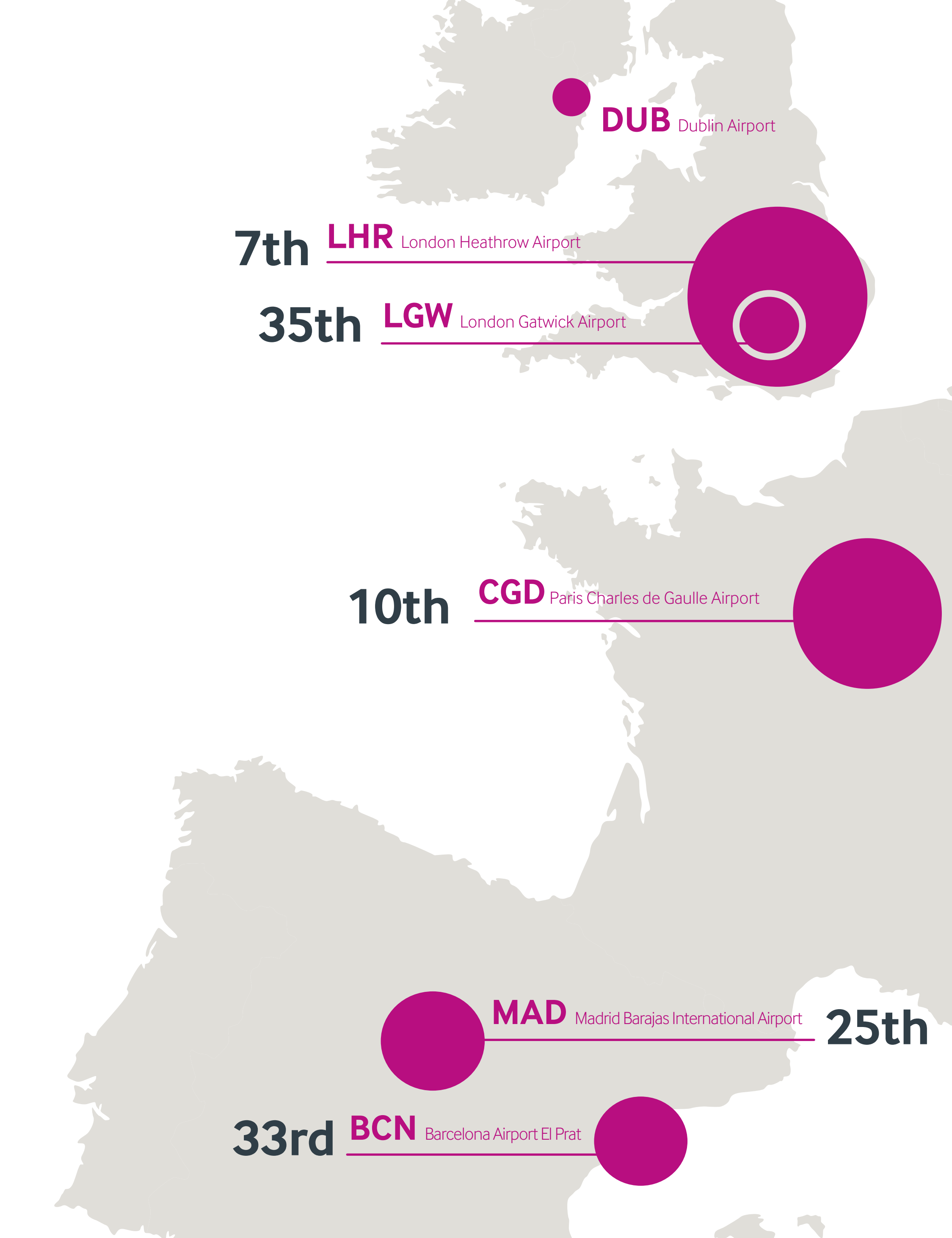
28 Million passengers

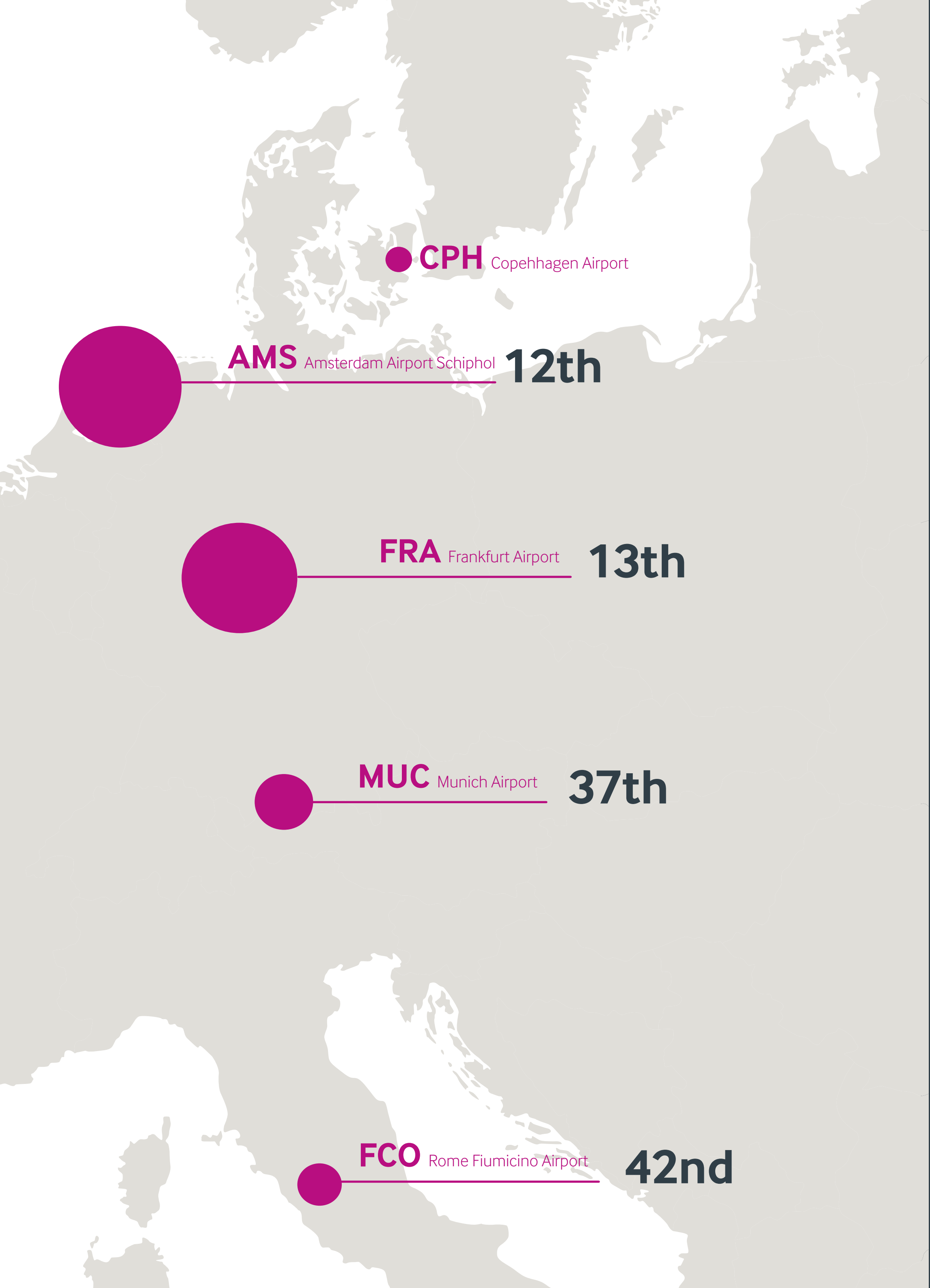
1.8% 10-year CAGR | 13.4% 2-year CAGR

Notes: Total passenger numbers for 2016, 10-year CAGR = annual passenger throughput 2007-2016, 2-year CAGR = annual passenger throughput 2014-2016
Sources: National Airport Websites, Christie & Co Research and Analysis

	Key Facts	Operating Capacity	Runways
LHR	• Pending government approval for the construction of a third runway • Strong growth potential which will be exploited if capacity increases	100%	
CDG	• 4th terminal planned but start of construction not confirmed • Strong growth potential through the new terminal	83%	
AMS	• Potential to increase capacity from 66m to 80m passengers per year through proposed expansion works	97%	
FRA	• New terminal under construction • Capacity planned to increase from 71m to 85m passengers per year	86%	
MAD	• Impressive growth in passenger volumes, due to the overall increase in visitation, as well as adding and reopening routes after the recession	63%	
BCN	• Speculative plans for a satellite terminal able to accommodate 20m passengers yearly • Potential to increase capacity from 50m to 70m passengers per year through the opening of new terminal, although no construction date has been confirmed • Massive growth in passenger volumes in recent years, due to the overall increase in visitation	88%	

AIRPORTS RANKED IN SIZE ACROSS THE WORLD





	Key Facts	Operating Capacity	Runways
LGW	• Strong growth potential due to rapid growth of long-haul services to the Far East and the North Atlantic	100%	
MUC	• Expansion plans for Terminal 1, with a potential to increase capacity from 36m to 42m passengers per year	100+%	
FCO	• Launch of a major investment plan including the extension of Terminal 1 by 2021 • Potential to grow capacity to 50m by 2021 and 100m in the long term via expansion plans	94%	
DUB	• Investment approved for a new runway • Europe's fastest growing airport by passengers in 2016	77%	
CPH	• Expansion plans for the existing terminal • Potential to increase capacity to 40m passengers per year via planned expansion works • Strong growth potential with an expected 43 international routes once the expansion is completed	100+%	

WHO ARE THE FEEDER MARKETS?

Feeder markets influence the visitation potential of destinations, and as such, impact hotel performance and ultimately value. The split between domestic and international demand can indicate how dependent a hotel could be on one or more source markets, and allows the supply to adapt to consumer behaviours from those feeder markets.

High domestic demand
Performance of hotels is driven by national economic variables, as well as domestic private and public spending.

High international demand
Performance of hotels is impacted by global economic variables and events as well as national safety issues.

Balanced demand
Moderates the impact of all factors above, particularly safety issues, to which some populations are more sensitive than others.

Demand in Sweden, Finland, Norway, Germany, Poland, France and the UK is mainly domestic, whilst internationally-renowned holiday destinations (i.e. Spain, Portugal, Austria, Greece, Croatia) are dominated by international demand. Over the past years the share of international demand has either remained the same or increased in the majority of analysed markets, with only Poland, France, Italy and Denmark showing declines.

Southern European countries welcome more international visitors than Northern Europe.

Distribution of hotel arrivals between international and domestic visitors (2016)

Notes: (nights) indicates the distribution of overnights rather than arrivals, due to lack of data. We note that because of methodology discrepancies between statistics offices, some data include hotels, residences and hostels. Sources: National Statistical Offices, Christie & Co Research and Analysis

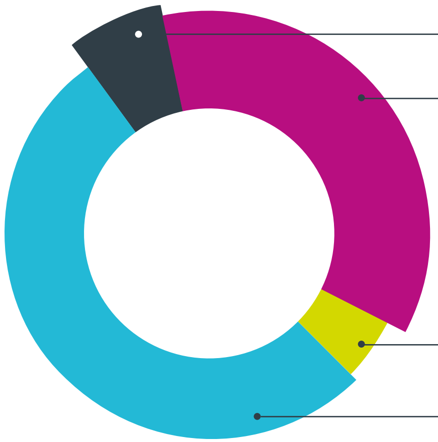
OPTIMISTIC OUTLOOK FOR LONG-HAUL TRAVEL SENTIMENT

In addition to being the largest inbound market in the world, Europe is home to some of the largest outbound markets. These intra-European feeder markets such as the UK, Germany and France continue to drive visitation growth in Europe. Excluding domestic visitors, European travellers remain the key source markets in Europe accounting for 36% of the international demand in the 16 markets analysed in this publication.

Beyond that, ambitions to attract visitors should extend to those international countries experiencing spectacular growth in outbound tourism. So, who are these feeder markets, what have been the trends in recent years and where do we foresee opportunities in the future?

Across all analysed markets, the main international – non-European – source markets for which data is recorded are the USA, Canada, Australia, Japan, Russia, UAE, South Korea, China, India and Brazil (Top 10). Whilst data is not consistently available across all these markets, the following pages highlight the current impact and future potential these markets have on European hotels.

Feeder markets (2016)



European travellers remain the key source markets for European destinations accounting for almost 90% of the total demand.

Note: Excludes Portugal as the sum of European source markets is unknown
Sources: National Statistical Offices, Christie & Co Research and Analysis

Focus on the long-haul travel sentiment

The latest long-haul travel sentiment index released in July 2017 by the European Travel Commission (ETC) shows that emerging travel markets, such as China and Brazil have slightly reduced their willingness to travel to Europe, due to economic challenges and safety issues, whilst demand from mature markets such as the USA and Japan has recovered in 2016.

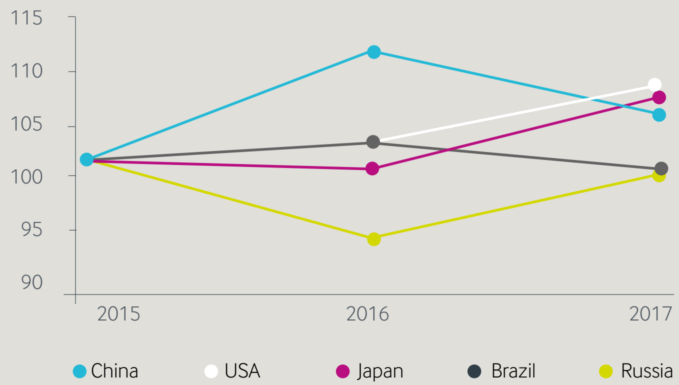
Positive outlook - USA, China and Russia
Representing a large share of visits to Europe, the recovery of the USA travel sentiment is positive news for the region, and Russian visitors are identified as high spenders in European luxury destinations.

Despite seeing slower economic growth than expected, the middle class income in China is still growing, enabling travel behaviours to shift, and long-haul trips to be considered in addition to trips in Asia.

Limited growth potential - Japan and Brazil
The recovery of the Japanese travel sentiment should be interpreted with care, as the population is extremely sensitive to changes. Furthermore, with limited population growth forecast, we do not foresee this market to significantly support inbound volume.

The economic situation in Brazil suggests that the long-haul travel sentiment will remain limited in upcoming years.

Long-haul travel sentiment index (2017)



Sources: ETC 2017, Christie & Co Research and Analysis

BOOMING DEMAND FROM ASIA

The bubble graph shows the identified feeder markets, classified into three categories: Established, Emerging and Stagnating feeder markets.

Established feeder markets

The USA, Canada, Japan and Australia have been visiting Europe for decades and continue to generate moderate, yet welcome, visitation growth for the region. Hopes remain very high regarding inbound travel from the USA. Japanese tourism expenditure increased by approximately 16% in 2016 after having suffered a significant contraction in 2014 and 2015. The Canadian outbound market is strong but reaching a plateau, whilst Australians have somewhat shifted their interest from Western Europe to Southern and Northern European destinations.

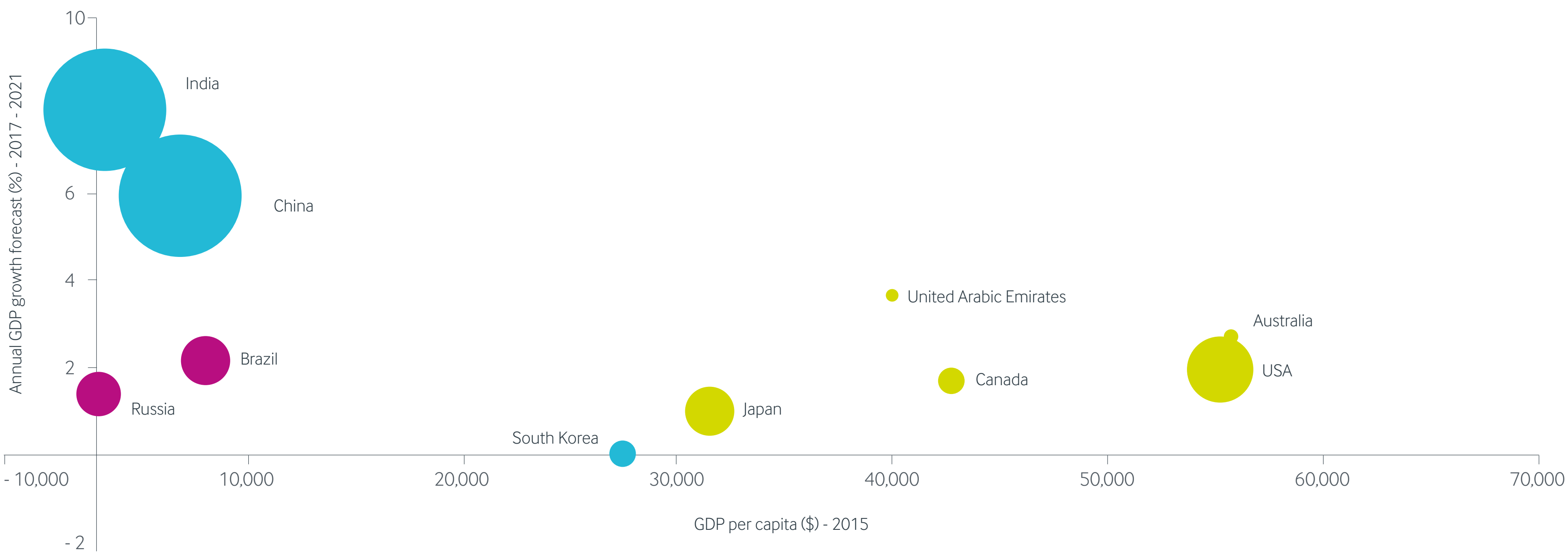
Emerging feeder markets

India and China's populations are each more than four times as large as the US, and both markets are predicted to experience healthy GDP growth over the next five years. With a more established travelling population than India's, eyes remain fixed on China in the short term. As affluence rises, we continue to expect to see the most growth coming from China. According to the UNWTO Tourism Barometer, Indian tourism expenditure (in €) increased by more than 10% in 2016, versus c. 44% for China. South Korean travellers are very high spenders and capable of increasing significantly, although its population size limits the maximum potential of this market, in the long term.

Stagnating feeder markets

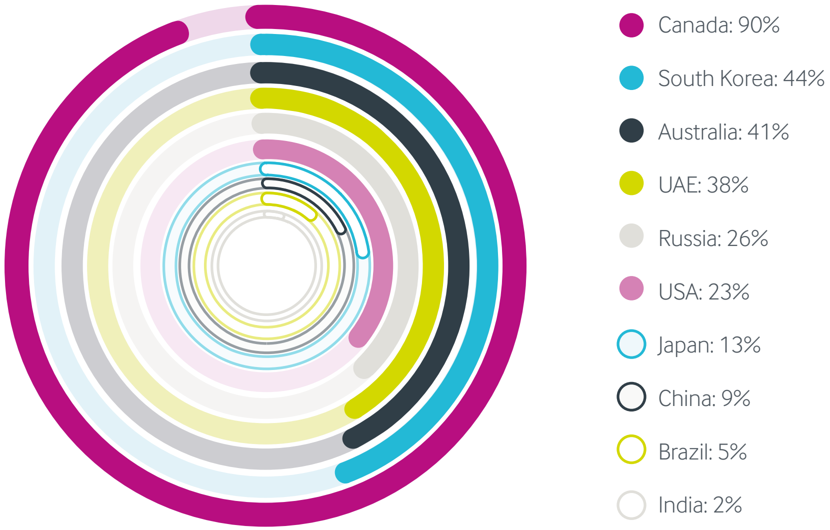
Brazil and Russia rank low in terms of growth perspectives as GDP growth forecasts remain underwhelming, impacting tourism and particularly long-haul trips.

Population, GDP per capita and GDP growth forecast comparison



Note: Bubble size = population size
Sources: World Data Bank, EIU GDP Forecasts, Christie & Co Research and Analysis

Outbound travels as a % of total population



Focus on the share of population travelling

According to data from the World Data Bank, only 23% of the USA population travelled abroad in 2016, suggesting that a big opportunity remains in this market, particularly with the baby boomer generation retiring and therefore having more freedom to travel.

The opportunity seems more limited in Canada, as 90% of the population is already travelling overseas annually although the majority of trips are made to the USA.

Brazilian outbound travel is focused on South America, and we are not expecting major growth from this market in the short term.

South Korea deserves some attention with a high GDP per capita, thus contributing to the tourism spend. However, we do not expect a strong growth in visitation volume.

Note: Latest data available is 2016 or 2015
Sources: WTO, World Data Bank, Christie & Co Research and Analysis

WHAT CAN GOOGLE SEARCHES TELL US ABOUT THE EUROPEAN TOURISM OUTLOOK?

In order to reflect the potential of visitation growth for the selected European markets, the volume and growth of Google searches from the Top 10 feeder markets for accommodation into each country were analysed. It should be noted that the data shows searches, rather than actual bookings or trips, thus showing the level of interest as opposed to actual visitation.

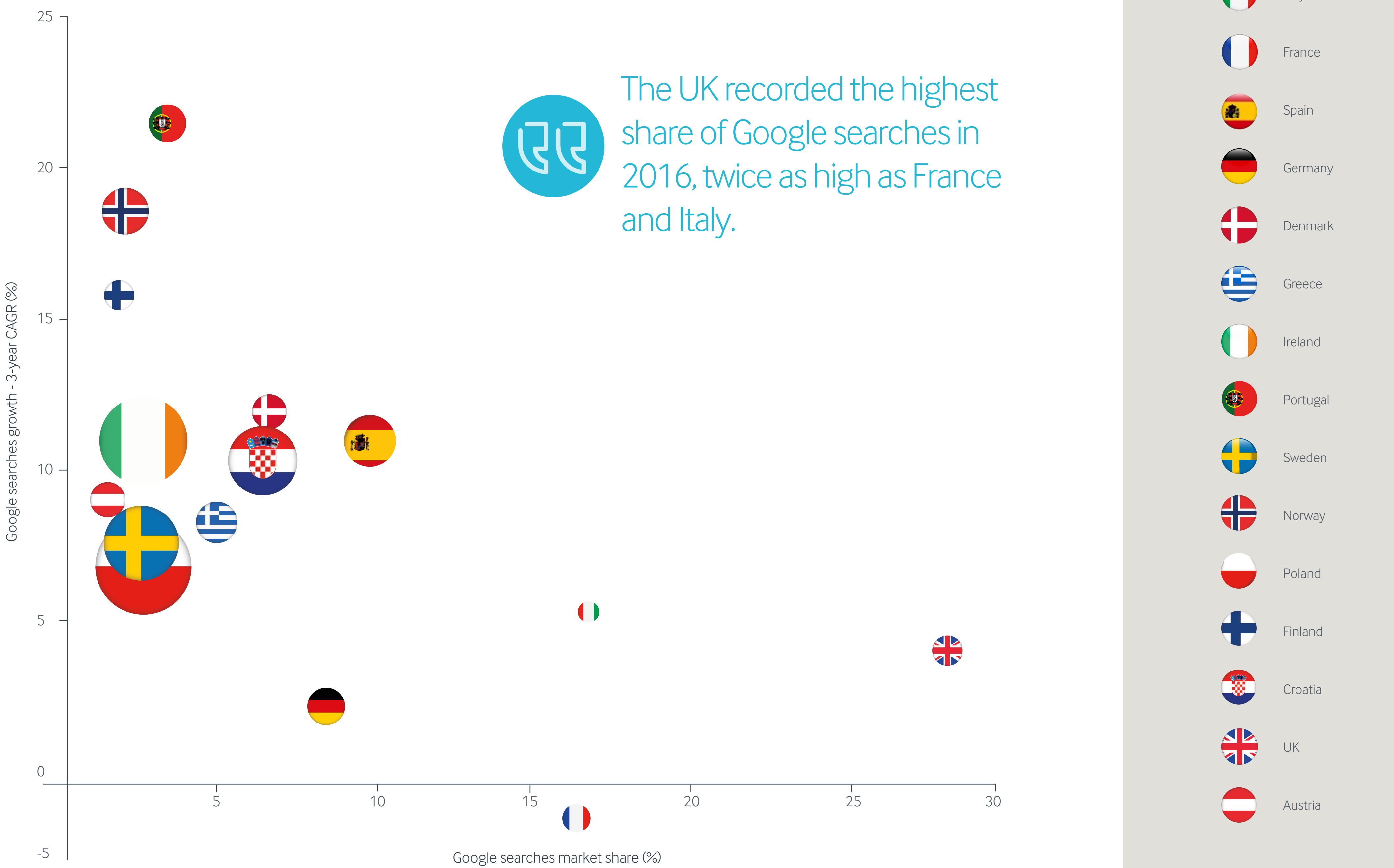
Far ahead of any other European markets, **the UK** recorded the highest share of Google searches, twice as high as France and Italy. The strongest growth occurred in 2016 and can partly be attributed to the devaluation of the Pound Sterling.

Spain shows very positive results with an impressive 11% 3-year CAGR in searches. In 2016, the strongest growth in searches for Spain originated from India, Russia and the UAE, and are partly driven by the increasing number of Google users in these markets. Visitors from Russia and the UAE are known as high spenders, which suggests that average spend may increase if searches converts into bookings.

Ranking just behind Italy in volume of searches, **France** is the only market with a negative 3-year CAGR. The decline occurred in 2016, reflecting the impact of the terrorist attacks in Paris and Nice. Searches originating from the USA declined by 5% in 2016, which is a serious hit for a country whose international visitation is heavily reliant on Americans.

Germany's share was half of Italy's and France's in 2016, and the average growth rate is the second lowest, despite real growth in tourism arrivals. This may be due to the fact that the German tourism market is still very domestic and three quarters of international visitors originate from within Europe. Other markets such as **Portugal** and **Norway** stand out with spectacular growth in searches over the past three years, which should be reflected in visitation numbers in the coming years. **Poland's** results are disappointing, although not surprising, as for now the visitation growth is still very much driven by domestic and European markets.

Distribution of Google searches for accommodation in Europe (2016)



> The UK recorded the highest share of Google searches in 2016, twice as high as France and Italy.

Notes: Bubble size = 5-year average yearly GDP forecast (2017/21). No data available for Iceland
Sources: Google Analytics, World Data Bank, Christie & Co Research and Analysis

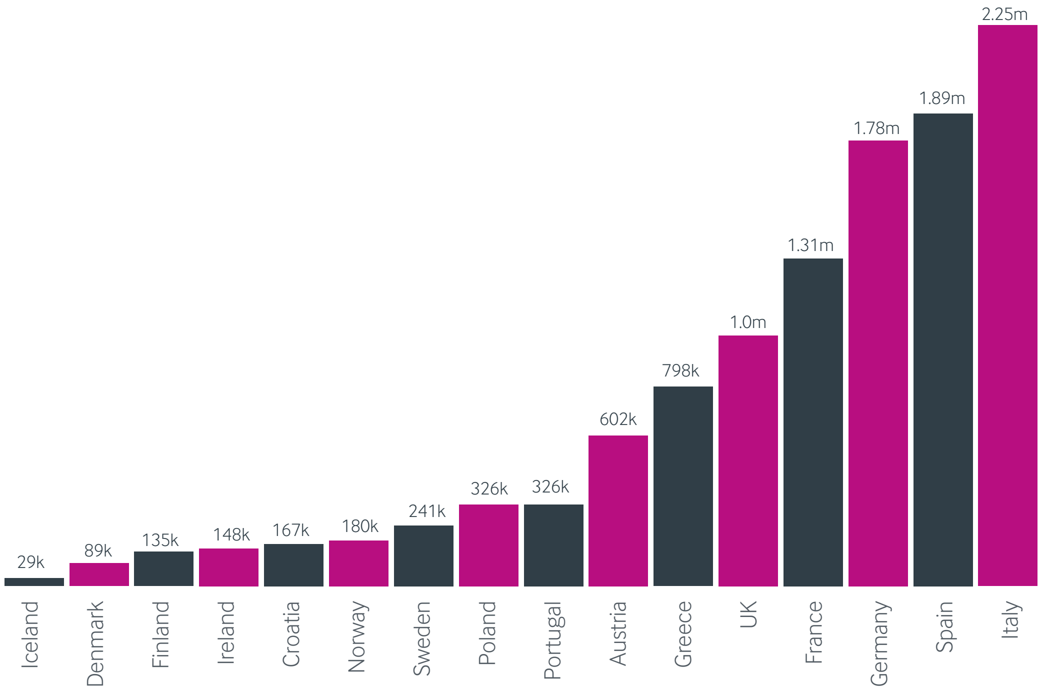
A DIVERSE HOTEL SUPPLY LANDSCAPE IN EUROPE

Across the countries analysed, Italy records the largest supply in hotel rooms, with over 2.2m hotel beds. This is followed by Spain and Germany with 1.9m and 1.8m hotel beds respectively, and France (1.3m) and the UK (1.0m) trailing further behind.

Despite a large base of existing supply, Spain recorded a 1.6% 10-year CAGR, with the majority of this supply added in Madrid, Barcelona and the Balearic Islands.

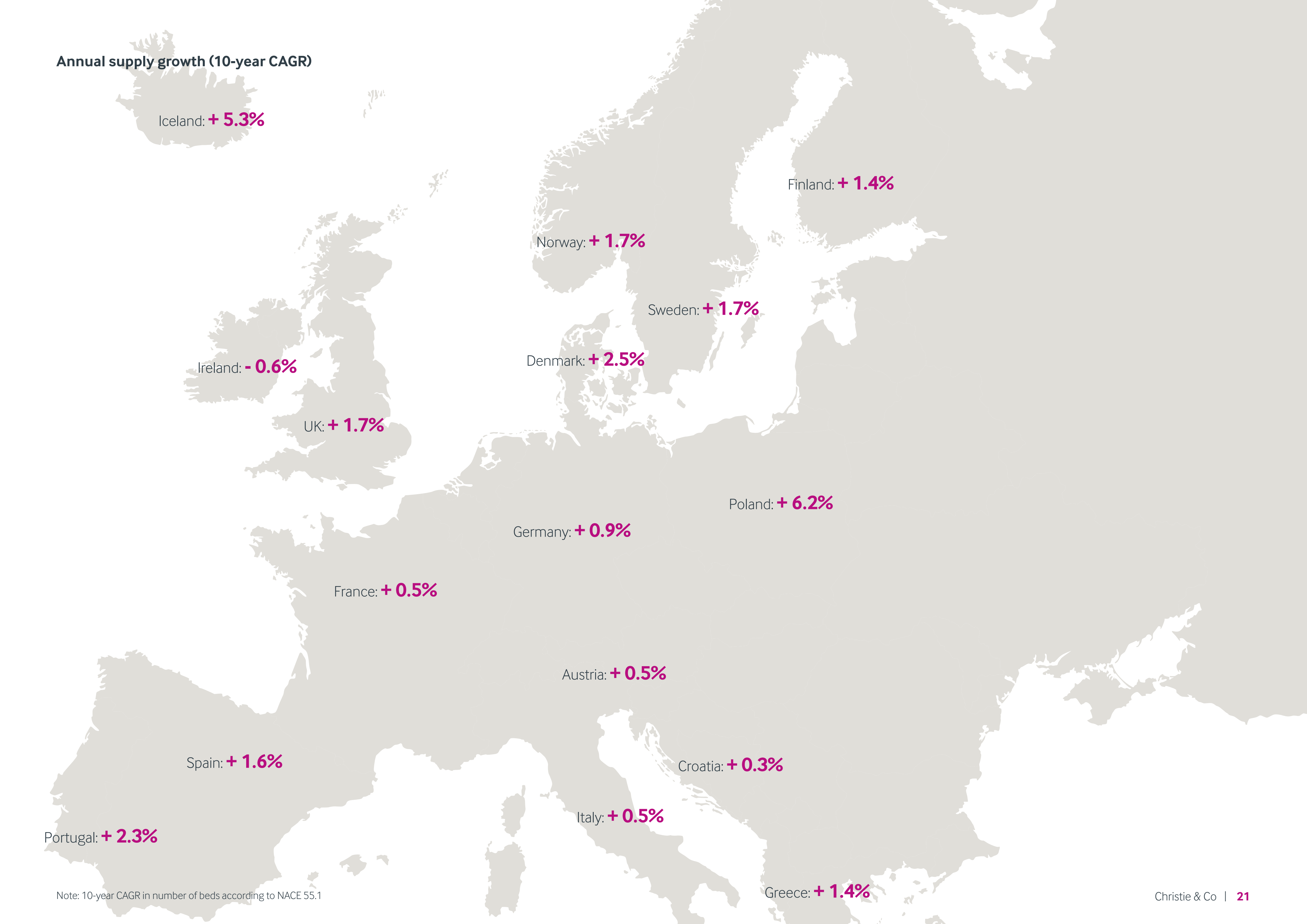
At the other end of the spectrum, Portugal has seen relatively slow growth in bed supply, in absolute terms, over the past ten years, despite a very low supply compared to other resort destinations in Europe.

Total bed supply (2016)



Note: Number of hotels and similar establishments in 2016
Sources: National Statistic Offices, AM:PM Hotels, Christie & Co Research and Analysis

Annual supply growth (10-year CAGR)

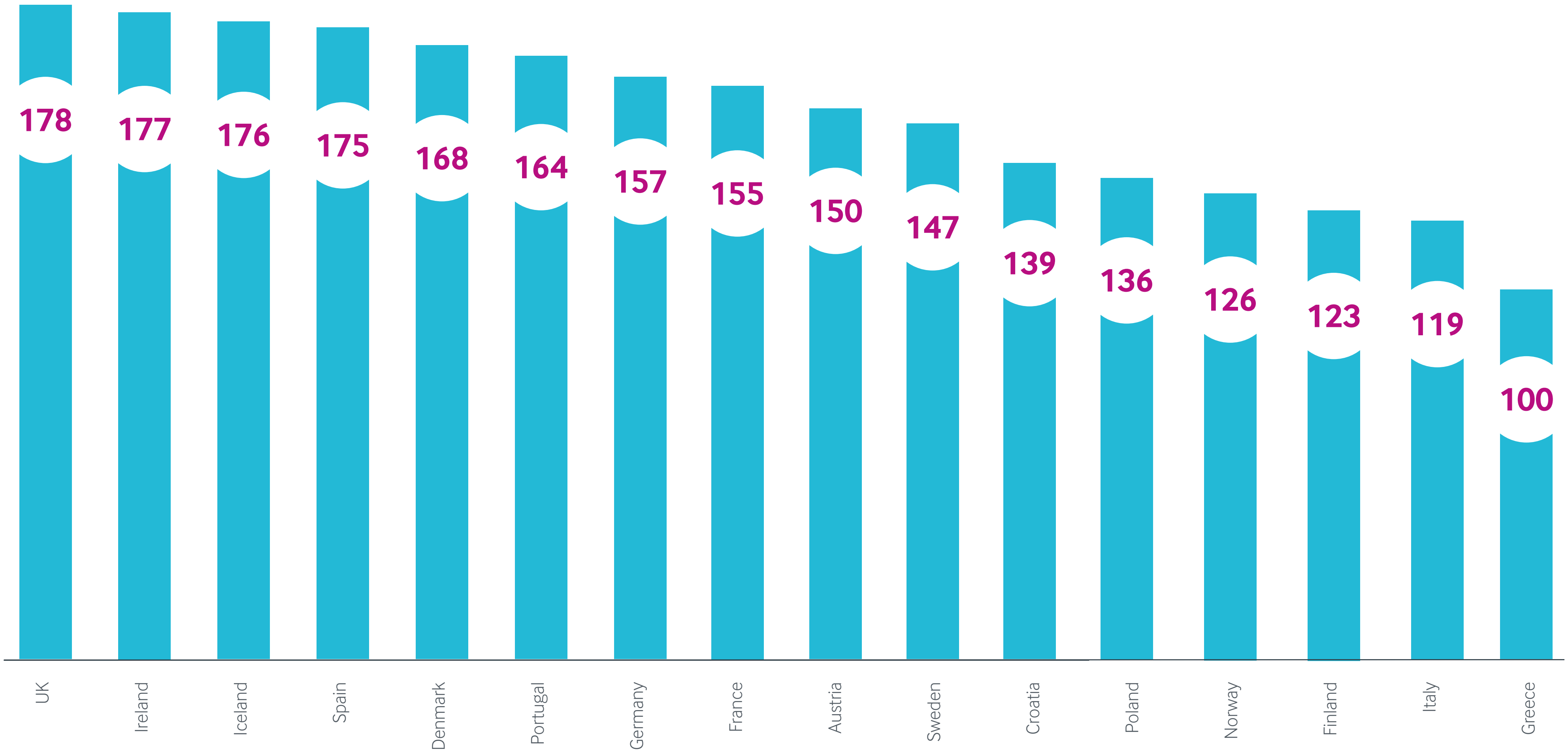


Note: 10-year CAGR in number of beds according to NACE 55.1

WHERE ARE MORE HOTEL ROOMS NEEDED?

Throughout this report, we have established that hotel demand in Europe is strong. But how does this compare to hotel supply? We use the Overnight-to-Bed ratio (O2B), calculated as the volume of hotel overnights divided by the number of available beds in a market, to identify supply gaps, and hence potential development and investment opportunities. Needless to say that this ratio varies from one market to another within countries, and thus should be interpreted with caution.

Hotel Overnight-to-Bed (O2B) ratio (2016)



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

The highest O2B ratios are recorded in the UK, Ireland, Iceland and Spain followed by Denmark, Portugal and Germany suggesting that there is room for new supply in these markets. On the other side of the spectrum Greece, Italy and Finland show the most saturated levels of supply, due to visitation being concentrated over a few months during the summer.

Opportunity for new supply

The UK has one of the largest inbound travel markets. Whilst supply has outpaced demand by about 0.4% annually, the relatively high O2B ratio suggests that potential remains for new supply.

Ireland has a travel market around 15% of the size of the UK's, and yet demand growth clearly outgrew supply changes (10% and -8% respectively) over the past 5 years, thus creating opportunity for new hotel openings.

Iceland has seen the highest hotel demand growth – about 12% annually on average – over the past decade, outpacing supply, which grew by only c. 5% per annum. Thus, the high O2B ratio highlights the opportunity to expand into this market.

Despite being home to the second largest hotel supply of beds in Europe, **Spain** is the leading market in terms of tourism overnights, meaning that opportunities remain for additional hotel supply in key cities.

Denmark has seen relatively little supply additions over the past decade. Hence, demand outpaced supply by about 0.9% annually, generating opportunity for expansion. This has already been recognised by some investors, resulting in a relatively large hotel development pipeline in many parts of the country.

In **Portugal**, demand has outpaced supply growth over the past decade (3.4% vs. 2.3% CAGR respectively). However, opportunities are still mostly concentrated in Lisbon at this stage.

Germany is the second biggest market in terms of overnights (and first in arrivals), and has long been identified by hotel groups and investors as a priority. Whilst opportunities remain, the hotel pipeline is predictably strong.

The ratio of overnights to beds in **France** is such that additional supply could easily be absorbed, despite the number of hotel beds outgrowing overnights over the past decade. Paris has historically been under-supplied and opportunities for developments are scarce and highly sought after.

Balanced and over-supplied markets

Despite a strong growth in overnights in recent years, the O2B ratio in **Austria** reflects balanced levels of supply.

Sweden, **Norway** and **Finland** are amongst the smallest European markets in terms of hotel overnights. Sweden, in particular, has seen supply outpacing demand over the past decade. As international visitation continues to grow across these markets, we will see significant opportunities develop as O2B ratios improve.

Poland has seen the second highest demand growth rate (c. 7% CAGR) over the past ten years, which can largely be attributed to the success of the UEFA European Championship. The 2012 event also significantly accelerated the growth of supply, resulting in a low O2B ratio. However, we see opportunities to disrupt the largely-independent market with branded supply.

Italy is one of the top destinations in Europe, but also home to the largest bed supply, resulting in a low O2B ratio. Bed supply has decreased since 2010 as a number of small 1- and 2-star independent hotels failed to survive the aftermath of the recession, particularly as other hotels went through renovation programmes. This has improved the hotel stock overall, and strong opportunities remain for international brands to enter the market, as hotel chains are still under-represented in Italy compared to most other European markets.

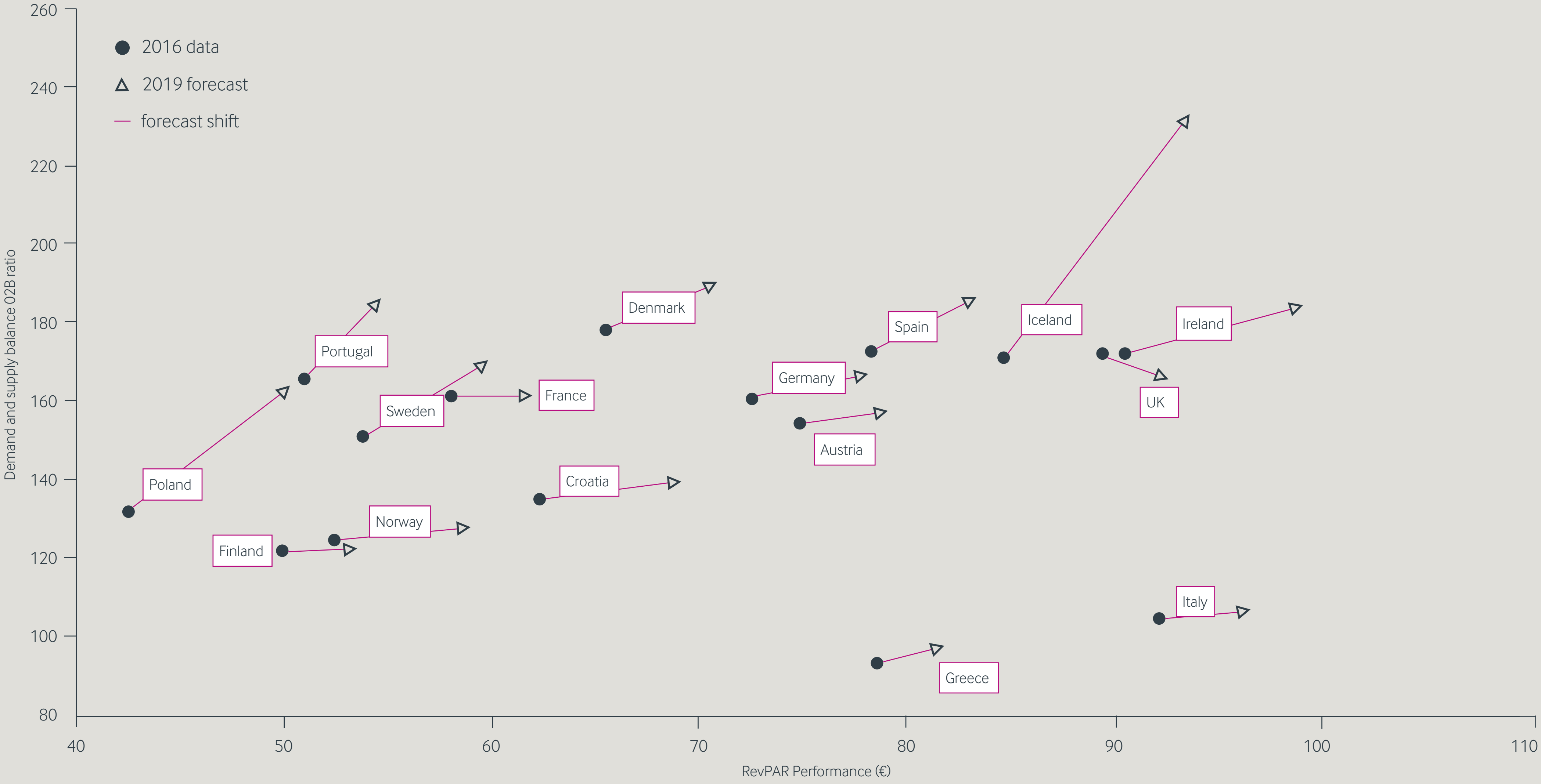
Both **Croatia** and **Greece** are highly seasonal markets, which result in low O2B ratios. The recent development of hotel chains in these markets, particularly Croatia, is likely to put further pressure on underperforming hotels and leave room for high-quality branded supply.

The UK, Ireland, Iceland and Spain record the highest Overnight-to-Bed ratios.

WHERE ARE THE OPPORTUNITIES?

TThe graph below compares the current positioning of European hotel markets with their expected position in 2019, based on the current and forecast RevPAR performance of these markets, as well as their O2B ratios.

Current and future hotel markets matrix



Note: Norway, Sweden, Denmark and Finland are adjusted from city-wide RevPARs. RevPARs for Croatia, Greece and Italy are adjusted due to small sample size. An effort to use the most reliable sources for RevPAR data has been made in the different markets, and thus, RevPARs above are not entirely comparable between markets. All forecasts in the graph have been produced by Christie & Co
Sources: National Statistic Offices, MKG, EIU GDP Forecasts, STR, Christie & Co Research, Analysis and Forecasts

EUROPEAN HOTEL HOT SPOTS

By cross-analysing the RevPAR outlook, the future balance between demand and supply, and the liquidity and transactional environment in each hotel market, we have identified a number of potential development and investment hot spots.

Markets which are expected to achieve strong RevPAR increase in upcoming years, alongside demand growth in excess of supply, may be good candidates for investment and key target markets for hotel brands overall. Whilst a number of markets including Germany, Austria, France, Spain and the UK are already established as attractive hotel investment areas, we have identified a number of other markets which may present interesting opportunities in the short to medium term.

For hotel chains

Based on these criteria and additional supporting data, we could label most of the European markets as key target markets for hotel chain development. However, based on our forecasts, the markets likely to experience the greatest positive shift in O2B ratios combined with strong RevPAR growth are:

Iceland, Poland, Denmark, Sweden, Portugal

All of these markets have low brand penetration overall, and therefore represent particularly strong opportunities for hotel groups.

For opportunistic investors

To become investment hot spots, markets must show good signs of liquidity, and fairly low prices per key to ensure value can be created. On the back of our analysis, we have selected a number of markets which we believe could become investment hot spots in years to come:

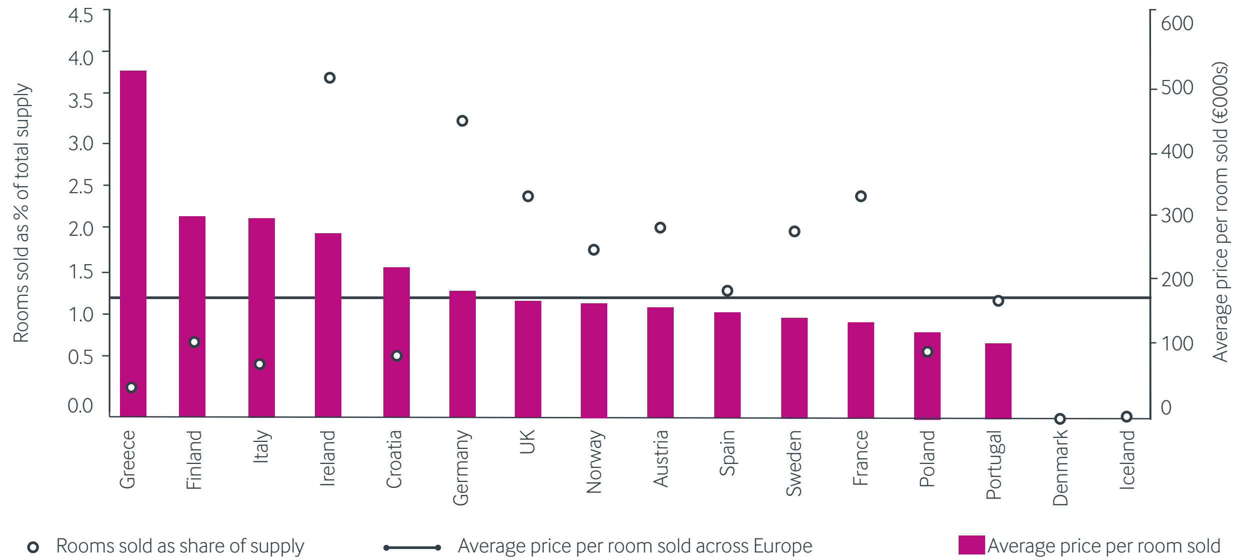
With good liquidity, **Ireland** stands out in this category as a hot spot, and boasts some of the highest hotel yields in Europe. We note that the 2016 average price per key in the adjacent graph is skewed by the sale of The Gresham in Dublin (c. 15% of the rooms sold) for c. €285k per key.

In the footsteps of Spain, **Portugal** is offering great performance uplift potential, and is fairly liquid, with prices per key remaining below the European average in 2016.

In Eastern Europe, **Poland** is a market to watch with good RevPAR growth potential, fairly good liquidity and low prices per key.

The Nordics are creating interest across the brands and investment community overall, but **Sweden** stands out with strong RevPAR growth forecast and an active transactional market, with prices per key still below the average.

European hotel markets liquidity and average price per key (2016 transactions)



Note: Average price/room in Greece includes the sale of trophy asset Astir Palace Resort for €444m (€875k per key)
Average price/room sold in Ireland includes the sale of The Gresham in Dublin for €92m (€285k per key). No transaction recorded for Denmark and Iceland
Sources: Real Capital Analytics, Christie & Co Research and Analysis

Note on methodology

In light of the historical correlation between RevPAR and GDP growth, we have used GDP forecasts from the EIU, up to 2019, to forecast the future RevPAR outlook on a country basis.

The future O2B ratio has been calculated with the 2019 overnights forecast, and the future bed supply, equal to the existing bed stock in each market increased by the pipeline of beds expected to open by 2019.

The liquidity of each market has been assessed by the share of rooms transacted as a % of the total room supply, to account for the relative size of each market.

A FINAL WORD

Europe presents excellent opportunities for investors

The outlook for tourism and hospitality is favourable and we forecast Europe to remain the most visited continent globally over the next decade. The contribution of travel and tourism to GDP in the European Union reflects this and is forecast by the WTTC to grow at an average pace of 2.3% annually during this time.

However, maintaining connectivity between European markets and the rest of the world, while simultaneously making visitors feel safe, will be key to driving further growth in the European tourism sector. Nine out of Europe's 11 main airports are operating at or close to capacity and will need to be expanded to accommodate future demand growth and maintain Europe's top position.

In terms of supply, in order to shift demand towards higher-rated segments, investments in existing stock are required in Italy, Portugal, Spain, Croatia and Greece, which will, in our opinion, present significant rebranding and repositioning opportunities for operators and investors. Furthermore, following the success story of the Balearic Islands in recent years, we see opportunities to flatten the seasonality of seaside resorts by providing additional flights during the shoulder season. This would make many seasonal destinations more attractive for tourists outside of peak times and thus attract investors.

How can our Pan European Hotel Consultancy team help you?

Tailoring our analysis to your needs, the aim of our Consultancy team is to help you maximise the potential of your business and investments. Whilst the findings of this report highlight that opportunistic investors may wish to investigate opportunities in Ireland, Portugal, Poland and Sweden we can help you identify which particular markets or cities are worth prioritising. These aren't the only markets to consider. For example, whilst France has been heavily challenged in recent years, returns are still there to be made and the market will most likely be seen as a safe haven once confidence returns to the market. Germany, on the other hand, continues to surprise as it records stellar visitation and presents huge opportunities, but can be a very competitive market to enter. Whatever the situation, we can help you formulate a strategy to overcome it.

We invite you to reach out to Christie & Co's network of consultants based across 15 European offices, who will offer you local market expertise and comprehensive data-driven solutions that are second to none.

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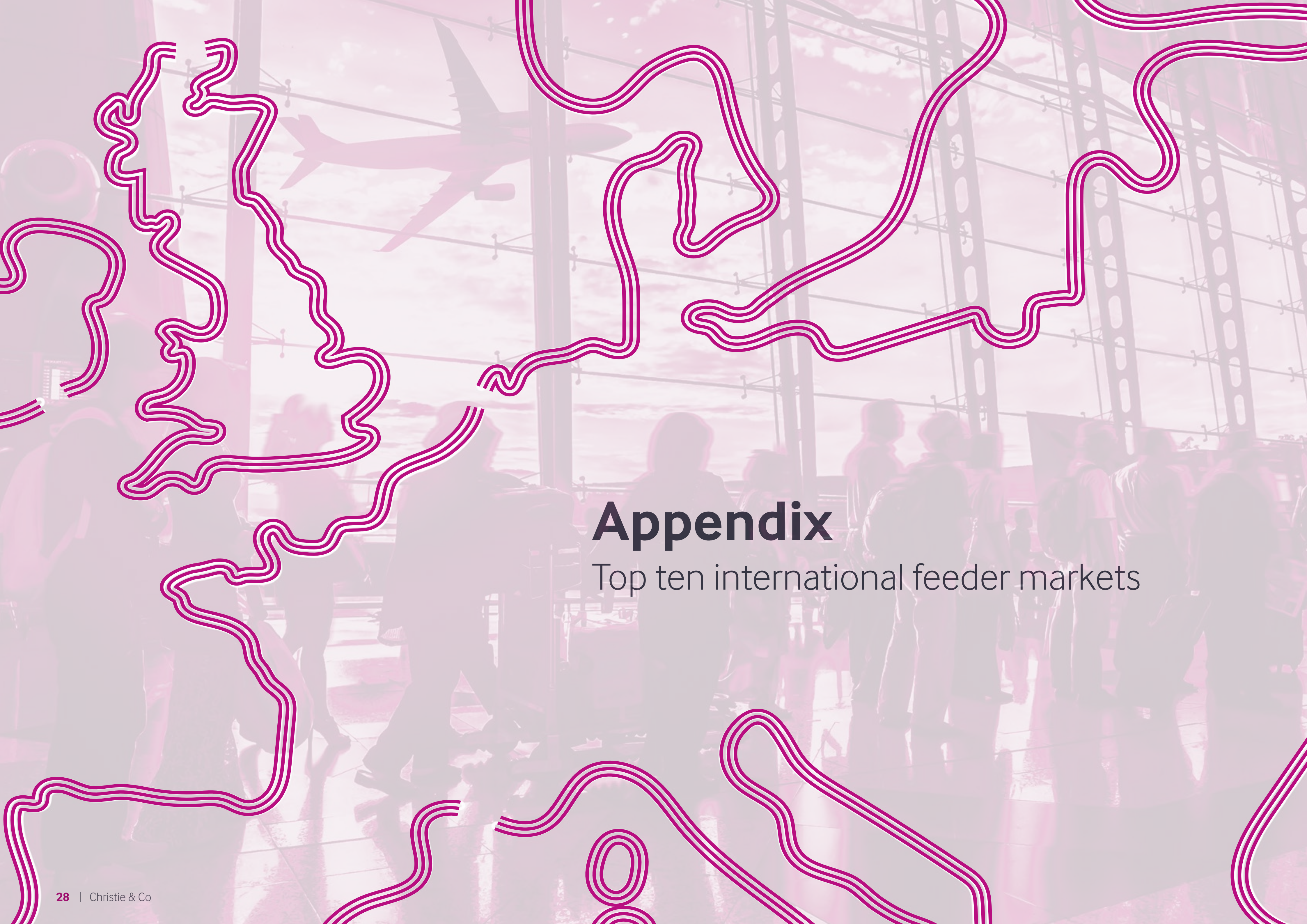


Appendix

Top ten international feeder markets

EMERGING FEEDER MARKETS

	China	South Korea
Total population 2016	1,379m	51m
Total outbound trips 2015/16 (latest data available)	128m	22m
Share of outbound trips to Europe	2015 - 15% 2016 - 12%	n/a
Outbound trips as % of population	9%	44%
Average spend per trip 2016	c. €1,845	c. €1,070
Number of passport holders as % of total population	4%	n/a
Google searches for accommodation in Europe - average annual growth 2014-2016	n/a (insufficient sample of Google users)	+14%
Top 3 destinations visited in Europe 2016	Italy, Germany, France	Italy, Germany, Croatia

China

Opportunity Identification

The share of Chinese outbound trips to Europe is still minimal, leaving a huge potential as the long-haul travel sentiment increases.

If the share of outbound trips to Europe increases by just 5%, based on 2016 figures, visitors to the region could increase by more than 6m yearly.

Red Flags

2016 figures show that the share of outbound trips to Europe has decreased significantly, as Chinese travellers reacted adversely to safety issues in the region.

South Korea

Opportunity Identification

South Korea is a very strong outbound market with 44% of the population already travelling.

The average spend per trip is already high for an emerging market and the interest in Europe is skyrocketing.

Red Flags

The potential of this market is limited by its population size.

Sources: World Data Bank, UNWTO, Tourism Economics, Government Websites, Google Analytics, Local Statistical Offices, Christie & Co Research and Analysis

EMERGING FEEDER MARKETS

	India
Total population 2016	1,324m
Total outbound trips 2015/16 (latest data available)	20m
Share of outbound trips to Europe	↓ 2015 - 16% 2016 - 15%
Outbound trips as % of population	2%
Average spend per trip 2016	c. €729
Number of passport holders as % of total population	5%
Google searches for accommodation in Europe - average annual growth 2014-2016	+24%
Top 3 destinations visited in Europe 2016	Italy, UK, France

India

Opportunity Identification

Currently a small market for Europe, India probably represents the biggest opportunity alongside China – each extra % of the population travelling represents close to 15m outbound trips globally and approximately 2m to Europe every year.

Historically, visiting friends and relatives has been the main reason for long-haul travels, but business travel now represents the strongest growth driver and this will have a huge impact on the average spend per trip, which is currently fairly low.

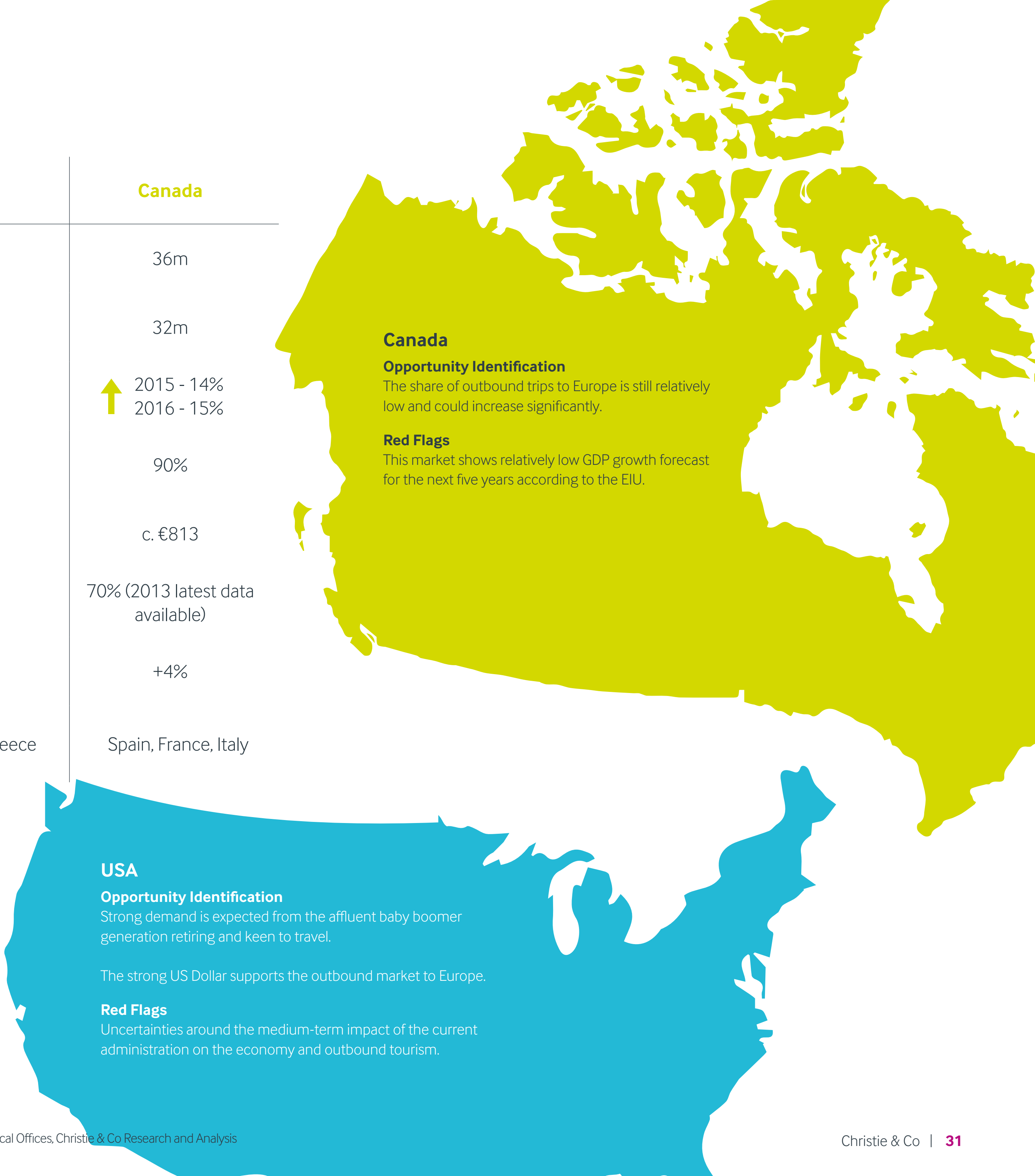
Red Flags

The GDP per capita is the lowest amongst the selected feeder markets and it will take time before the majority of the middle class embarks on long-haul trips.

Sources: World Data Bank, UNWTO, Tourism Economics, Government Websites, Google Analytics, Local Statistical Offices, Christie & Co Research and Analysis

ESTABLISHED FEEDER MARKETS

	USA	Canada
Total population 2016	323m	36m
Total outbound trips 2015/16 (latest data available)	74m	32m
Share of outbound trips to Europe	2015 - 27% 2016 - 29%	2015 - 14% 2016 - 15%
Outbound trips as % of population	23%	90%
Average spend per trip 2016	c. €1,513	c. €813
Number of passport holders as % of total population	39%	70% (2013 latest data available)
Google searches for accommodation in Europe - average annual growth 2014-2016	+7%	+4%
Top 3 destinations visited in Europe 2016	Germany, Spain, Greece	Spain, France, Italy



Canada

Opportunity Identification
The share of outbound trips to Europe is still relatively low and could increase significantly.

Red Flags
This market shows relatively low GDP growth forecast for the next five years according to the EIU.

USA

Opportunity Identification
Strong demand is expected from the affluent baby boomer generation retiring and keen to travel.

The strong US Dollar supports the outbound market to Europe.

Red Flags
Uncertainties around the medium-term impact of the current administration on the economy and outbound tourism.

Sources: World Data Bank, UNWTO, Tourism Economics, Government Websites, Google Analytics, Local Statistical Offices, Christie & Co Research and Analysis

ESTABLISHED FEEDER MARKETS

	United Arab Emirates
Total population 2016	9m
Total outbound trips 2015/16 (latest data available)	3m
Share of outbound trips to Europe	↑ 2015 - 25% 2016 - 29%
Outbound trips as % of population	38%
Average spend per trip 2016	c. €5,170
Number of passport holders as % of total population	n/a
Google searches for accommodation in Europe - average annual growth 2014-2016	+15%
Top 3 destinations visited in Europe 2016	Germany, Italy, UK

United Arab Emirates

Opportunity Identification

The outbound market is very strong from an expenditure point of view, with the highest average spend per trip amongst the feeder markets analysed.

Red Flags

The potential of this market is limited by its population size.

Only the higher-end of the tourism industry is bound to benefit in the upcoming years.

Sources: World Data Bank, UNWTO, Tourism Economics, Government Websites, Google Analytics, Local Statistical Offices, Christie & Co Research and Analysis

ESTABLISHED FEEDER MARKETS

	Australia	Japan
Total population 2016	24m	127m
Total outbound trips 2015/16 (latest data available)	10m	16m
Share of outbound trips to Europe	↓ 2015 - 37% 2016 - 32%	↓ 2015 - 22% 2016 - 20%
Outbound trips as % of population	41%	13%
Average spend per trip 2016	c. €2,272	c. €1,030
Number of passport holders as % of total population	n/a	23%
Google searches for accommodation in Europe - average annual growth 2014-2016	-1%	+3%
Top 3 destinations visited in Europe 2016	Italy, France, UK	Italy, Spain, Germany

Japan

Opportunity Identification

The outbound market is starting to recover, in line with the economy.

Notably, the devaluation of the Pound Sterling following the Brexit vote has increased the affordability of the UK for Japanese travellers.

Red Flags

The Japanese are risk-adverse travellers.

Australia

Opportunity Identification

The significant growth in outbound travel over the past 10 years has been driven by good economic growth.

Australia's average spend per trip is amongst the highest across all markets, partly due to long stays.

Red Flags

2016 figures show that the share of outbound trips to Europe has decreased, as Australian travelers have been sensitive to safety issues in Western Europe.

Sources: World Data Bank, UNWTO, Tourism Economics, Government Websites, Google Analytics, Local Statistical Offices, Christie & Co Research and Analysis

STAGNATING FEEDER MARKETS

	Brazil	Russia
Total population 2016	208m	144m
Total outbound trips 2015/16 (latest data available)	9m	37m
Share of outbound trips to Europe	2015 - 36% 2016 - 34%	2015 - 72% 2016 - 74%
Outbound trips as % of population	5%	26%
Average spend per trip 2016	c. €1,380	c. €598
Number of passport holders as % of total population	n/a	n/a
Google searches for accommodation in Europe - average annual growth 2014-2016	+2%	-6%
Top 3 destinations visited in Europe 2016	Italy, Portugal, France	Italy, Greece, Spain

Brazil

Opportunity Identification

The strong cultural links with Europe, reflected in the share of outbound trips to the region, makes the Old Continent particularly appealing for Brazilian visitors.

The length of stay in Europe – around 11 nights according to Euromonitor International – is particularly long, driven by multi-destination trips.

Brazilians have a high average spend per trip, mostly due to the extended length of stay.

Red Flags

The potential of Brazil will not be unlocked until the country fully overcomes the aftermath of the recession.

Russia

Opportunity Identification

Russian outbound trips to Europe are experiencing a gradual recovery.

Some improvement is expected in 2018 as the Rouble strengthens.

Red Flags

The share of outbound trips to Europe is at a relatively high point already, limiting the growth potential.

Sources: World Data Bank, UNWTO, Tourism Economics, Government Websites, Google Analytics, Local Statistical Offices, Christie & Co Research and Analysis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