

PORTUGUESE HOTEL MARKET 2018



Portuguese Hotel Market

Why this report?

In line with other publications produced periodically by Christie & Co, we have updated the “*Portuguese Hotel Market*” report, released for the first time in 2016. The report analyses the four main regions of the country (Lisbon, Porto, Algarve and Madeira for the first time), with the intention of determining the evolution of its main indicators in 2018.

Over the last few years, Portugal has experienced robust economic recovery with record numbers in its GDP, as well as an important decrease of the unemployment rate. The tourism sector, which benefited from the instability of its Mediterranean competitors (Turkey, Tunisia or Egypt), also registered significant increase in demand, supply and profitability. The entrance of new players in the market (Minor International and Curio Collection) and international investment have contributed to the professionalisation of the sector.

Portugal benefits from a wide variety of demand generators, with Lisbon and Porto identified as the country’s prime urban destinations. The recovery of the Mediterranean competitor markets will present a challenge for the Portuguese hotel sector, which experienced its first decrease in occupancy rates in 2018, mainly in the resort destinations of Algarve and Madeira.

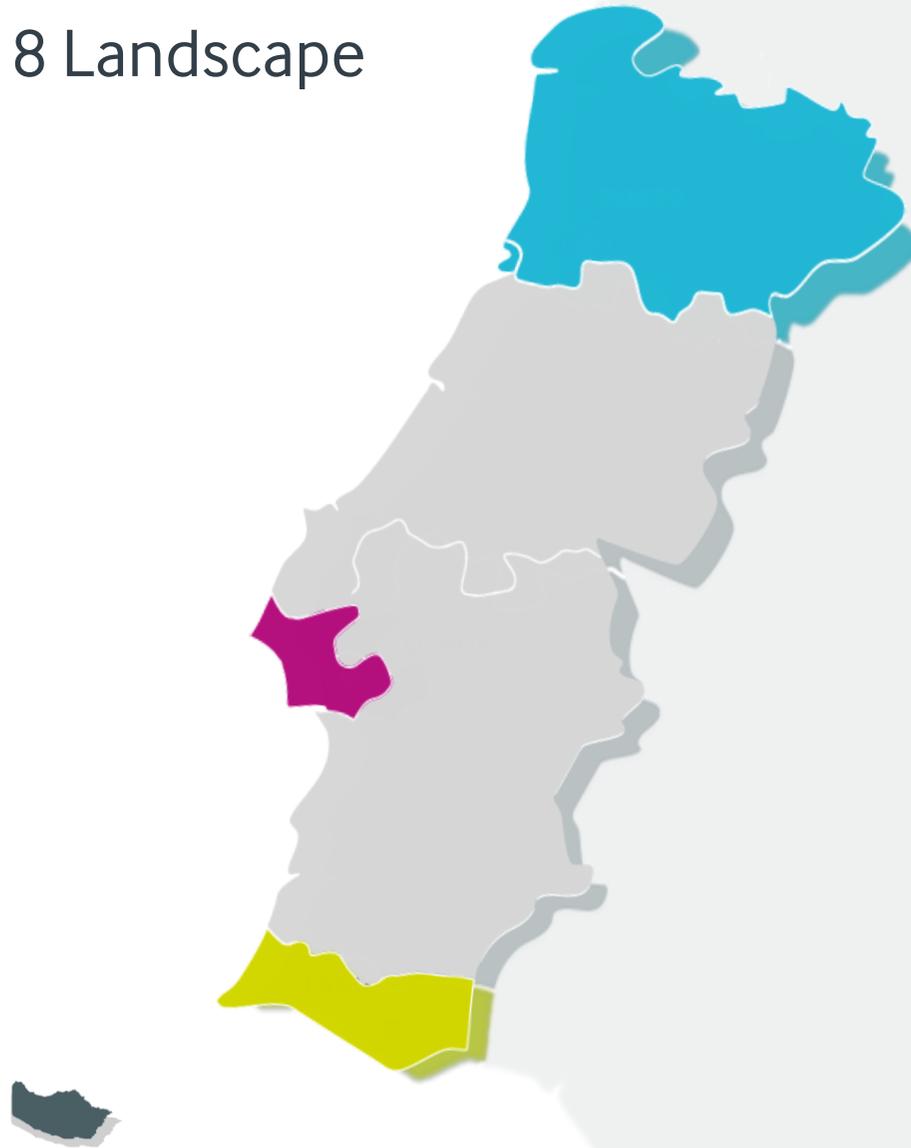
Driven by a positive macro economic environment, high interest from international hotel groups and improvement in the overall quality of supply, Portugal is expected to record another year of positive hotel performance in 2019, principally sustained by the urban markets. From an investment perspective, robust appetite from investors and the creation of the REIT (SIGI) regime is expected to boost investment. However, despite yields above the European average, we sense overseas actors will be challenged by the lack of opportunities fitting their return requirements.

Throughout this report we analyse the economic, tourism and hotel frameworks of each region using public information sources, including INE, Travel BI and Turismo de Portugal, as well as Christie & Co’s own sources.

Key Observations

- 1. Strength of the urban destinations:** whilst the volume of overnight stays in Lisbon has maintained a stable position, RevPAR experienced a robust growth of 7.9% in 2018. On the other hand, Porto experienced a new record in demand with 7.9m overnight stays (+5.9%), resulting in an overall RevPAR increase of 9.0%
- 2. Slow occupancy decrease in the resort destinations:** the decline of the main international feeders markets (UK and Germany) and the political and economic stabilisation of competitive Mediterranean destinations have generated a correction in the volume of overnight stays in 2018, resulting in occupancy drops ranging from 1% to 5%
- 3. Improvements in the quality of the hotel supply:** 4-star and 5-star hotels have increased their presence, representing more than 63% of the total room supply in 2018
- 4. ADR as the main profitability growth driver:** in 2018 ADR was the main driver of the RevPAR growth. Nevertheless, this price surge has affected occupancy levels, driving RevPAR stabilisation during the first months of 2019
- 5. Limited air accessibility:** the relevant increase in the number of passengers has caused the airports of Lisbon and Faro to reach their maximum capacity, limiting air accessibility

2018 Landscape



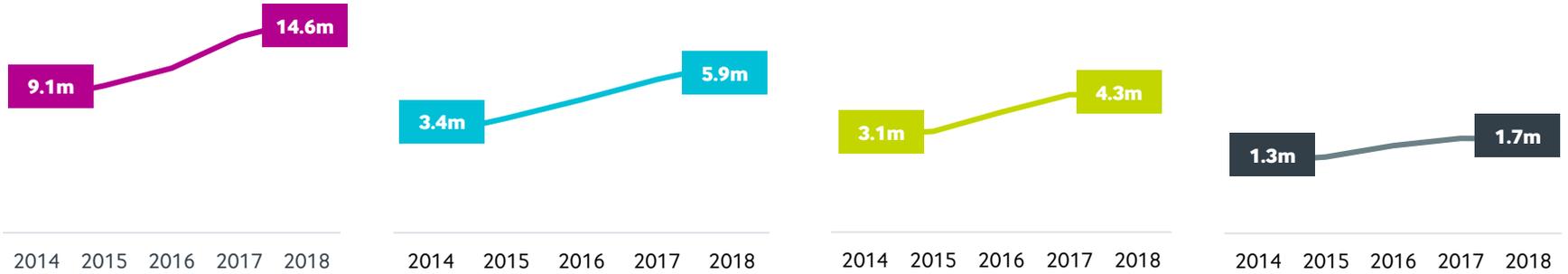
LISBON	76% Occ	€103 ADR	€78 RevPAR
PORTO	64% Occ	€72 ADR	€46 RevPAR
ALGARVE	65% Occ	€83 ADR	€54 RevPAR
MADEIRA	74% Occ	€69 ADR	€51 RevPAR

Air Accessibility

2018: A record number of passengers in the Portuguese airports



PASSENGERS



LOCATION



Lisbon



Porto



Algarve



Madeira



DETAILS

Lisbon Airport

- Passengers 2018: 14.6m (+9.0%/2017)
- Passengers CAGR 2014-2018: +12.6%
- % Domestic: 12.4% (+3.3%/2017)
- % International: 87.6% (+9.8%/2017)
- Distance to Lisbon: 10.5km

Porto Airport

- Passengers 2018: 5.9m (+10.6%/2017)
- Passengers CAGR 2014-2018: +13.8%
- % Domestic: 16.5% (+6.0%/2017)
- % International: 83.5% (+11.6%/2017)
- Distance to Porto: 12.9km

Faro Airport

- Passengers 2018: 4.3m (-0.8%/2017)
- Passengers CAGR 2014-2018: +10.0%
- % Domestic: 5.3% (+6.6%/2017)
- % International: 94.7% (-1.2%/2017)
- Distance to Faro: 6.5km

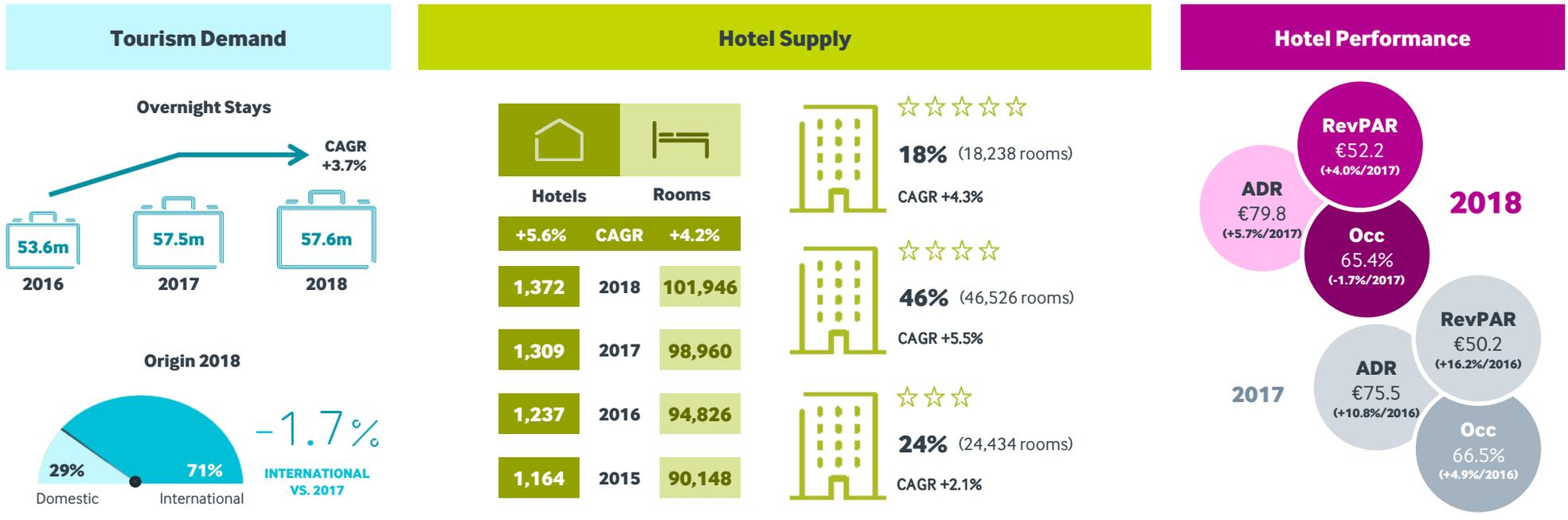
Madeira Airport

- Passengers 2018: 1.7m (-0.5%/2017)
- Passengers CAGR 2014-2018: +7.1%
- % Domestic: 44.7% (+4.6%/2017)
- % International: 55.3% (-4.4%/2017)
- Distance to Funchal: 20.6km

Portugal

ADR drives overall RevPAR increase

Representing 8.52% of the GDP in 2018, tourism in Portugal has driven the recovery following the economic downturn, resulting in a 2.1% GDP increase in 2018 and a 17.1% decrease in the unemployment rate, which recorded its lowest ever rate at 6.8%. The constant growth in demand (+3.7% CAGR 2016-2018), led by both the domestic and international segments, and the improvement in the quality of the hotel supply have sustained overall profitability growth in 2018 (+4.0%/2017).



Lisbon

Highest RevPAR levels in the country

Lisbon is the region with the highest levels of hotel profitability in Portugal, as well as the second highest overnight stays volume, after the Algarve. The entrance of new hotel players, mainly focused on the 4 and 5-star categories, has driven international demand growth (+5.6% CAGR), with the USA and Brazil identified as markets that grew the most. Consequently, hotel rates increased, reaching its highest ADR at €103.3 (+8.7%/2017) in 2018, while occupancy stabilised at 75.8% (-0.8%/2017).



Porto

Highest profitability growth in Portugal

While Lisbon and the Algarve are consolidated tourist destinations, Porto is still experiencing significant tourist development, showing the highest growing trends in demand, supply and profitability in the country. The region presents a balanced mix of demand between domestic and international markets and its hotel supply is largely composed of small and medium size hotels within the 2, 3 and 4-star categories. Improvements in air accessibility and hotel supply have driven international demand growth, resulting in increases in both ADR (+8.7%/2017) and RevPAR (+9.0%/2017).



Algarve

Leading destination in number of overnights

With almost 19m overnights, the Algarve is the leading destination in terms of demand volume in the country and one of the main resort destinations in the Mediterranean. In 2018, following a period of consistent growth, the number of overnights in the two main feeder markets, the United Kingdom and Germany, decreased by 9.0% and 5.7%, respectively, affecting occupancy levels, which dropped by 1.4%. Meanwhile, hotel rates in the Algarve increased by 2.9%, sustaining overall RevPAR growth of 1.5%.



Madeira

The most international destination in Portugal

Named "Europe's Leading Island Destination" in 2018, Madeira is a sustainable resort destination located in the Atlantic Ocean. After a record year in 2016, hotel demand, dominated by the international segment, consolidated in 2017 with 7.5m overnight stays (-1.8%/2016). In 2018, the decrease in overnight stays in overseas markets, mainly the United Kingdom (-4.7%/2017) and Germany (-2.4%/2017), influenced the island's occupancy (-5.1%), stabilising the RevPAR growth levels (-0.4%).



2019 Outlook

Overall, a positive year ahead for Portugal

Economy – Positive

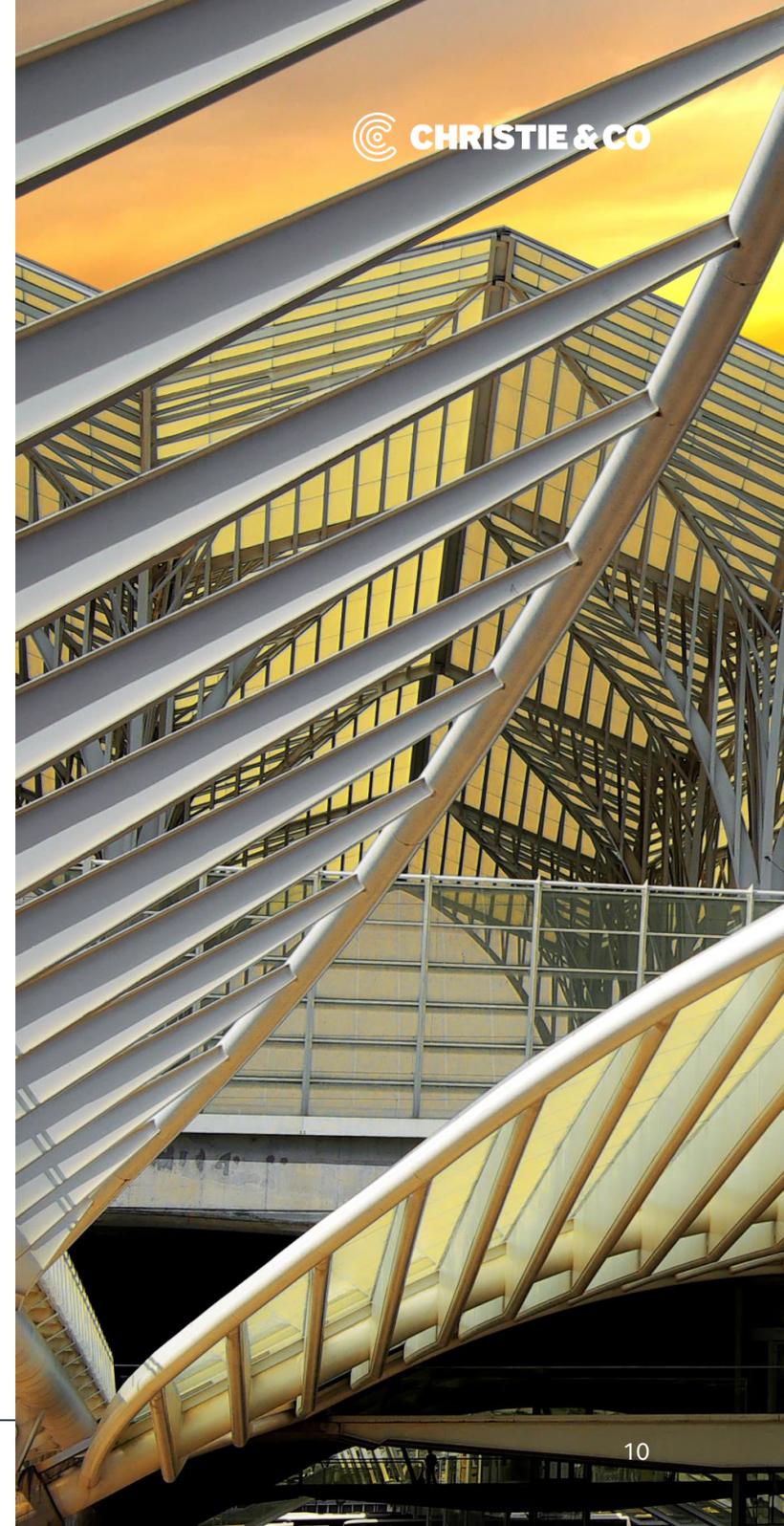
Following the 2017 growth peak (+2.8%), Portuguese GDP is expected to grow at a healthy level of c. 2% in 2019, in line with 2018 levels (+2.1%). This growth is expected to be principally driven by a high private consumption, reducing levels of unemployment, as well as strong investment. Whilst the instability of the banking sector continues to be the principal risk, the recapitalisation of the public entity Caixa Geral de Depositos and the sale of 75% of Novo Banco have improved the Portuguese banks' capital positions. From a rating prospective, Moody's has recently raised the outlook for Portugal from "stable" to "positive". However, we note the remaining large stock of NPLs, the high private and public debt, alongside the long-term negative demographic outlook, remain the key threats to the Portuguese economy.

Performance - Urban markets sustaining the growth

Portugal is expected to record another year of positive performance in 2019. With major international hotel groups presenting high interest to enter the market, particularly in Lisbon and Porto. ADR is expected to be the key driver of growth as these markets experience an overall increase in the quality of the supply. In resort destinations, performance is expected to continue experiencing troubled variations, as Mediterranean competitors fully recover and UK demand stabilises as Brexit evolves towards a clear agreement. At this stage, key risks appear to be the strong hotel pipeline in the market, as well as accessibility in certain markets (i.e. Lisbon airport over maximum capacity).

Investment – Challenge for overseas investors

Whilst the Spanish hotel investment market is set to stabilise in 2019, Portugal is expected to exceed 2018 performance, driven by the forecasted positive hotel performance ahead, high investor appetite and yield levels above the European average. Approved in January 2019, the new REIT's (SIGI) regime in Portugal, which has proven to be a case of success at a global level, is expected to boost investment. Recording historically low levels in 2018, forecasts indicate that yield levels will stabilise as interest rates are expected to start rising. Attracted by the growth potential, overseas investors show strong interest in Portugal but face challenges in finding suitable opportunities (location, scale, high price per key) which provide premium in line with their requirements. The challenge will lie with investors to find these opportunities despite the high price per key observed in the market in 2018.



Glossary and Legend

Terms and Abbreviations

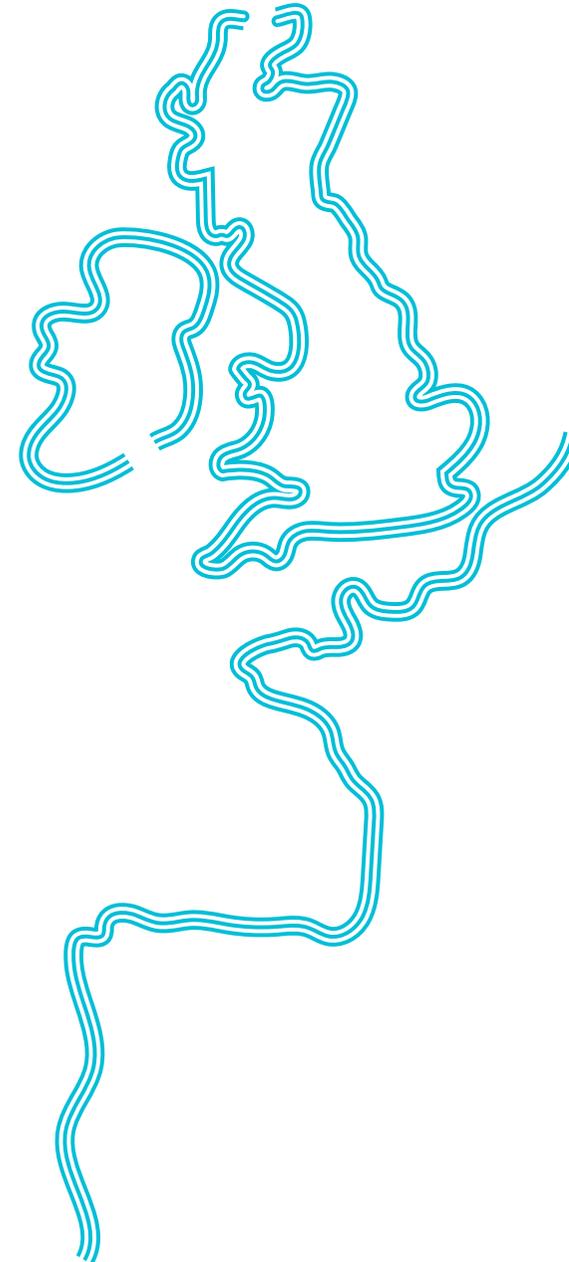
ADR	Average Daily Rate. It is defined as the income per room for the period divided by the total number of rooms occupied during the mentioned period	NPL	Non Performing Loan
b	Billion	Occ	Occupancy. Proportion of occupied rooms over the total number of rooms available in a given period
CAGR	Compound Annual Growth Rate.	RevPAR	Revenue per Available Room. Defined as room occupancy multiplied by the average achieved room rate or rooms revenue divided by the number of available rooms
C & Co	Christie & Co	GDP	Gross Domestic Product
INE	Instituto Nacional de Estatística – Statistics Portugal	var	Variation
k	Thousand	YoY	Year-on-year
KPI	Key Performance Indicator	vs.	Versus
m	Million		

Introduction to Christie & Co

The leading hotel and leisure advisers in Europe

Christie & Co

- o Established in Spain in the year 2000
- o Offices in Barcelona and Madrid
- o Providing brokerage, consultancy and valuation services to the hotel sector in Spain and Portugal
- o Regulated by the Royal Institution of Chartered Surveyors (RICS)
- o More than 275 professionals across 29 offices in eight European countries
- o More than 450 hotel valuations completed annually and more than 400 hotels currently for sale



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 - BERLIN
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 - CHINA (ASIA DESK)
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 - HELSINKI
 - LYON
 - MADRID
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