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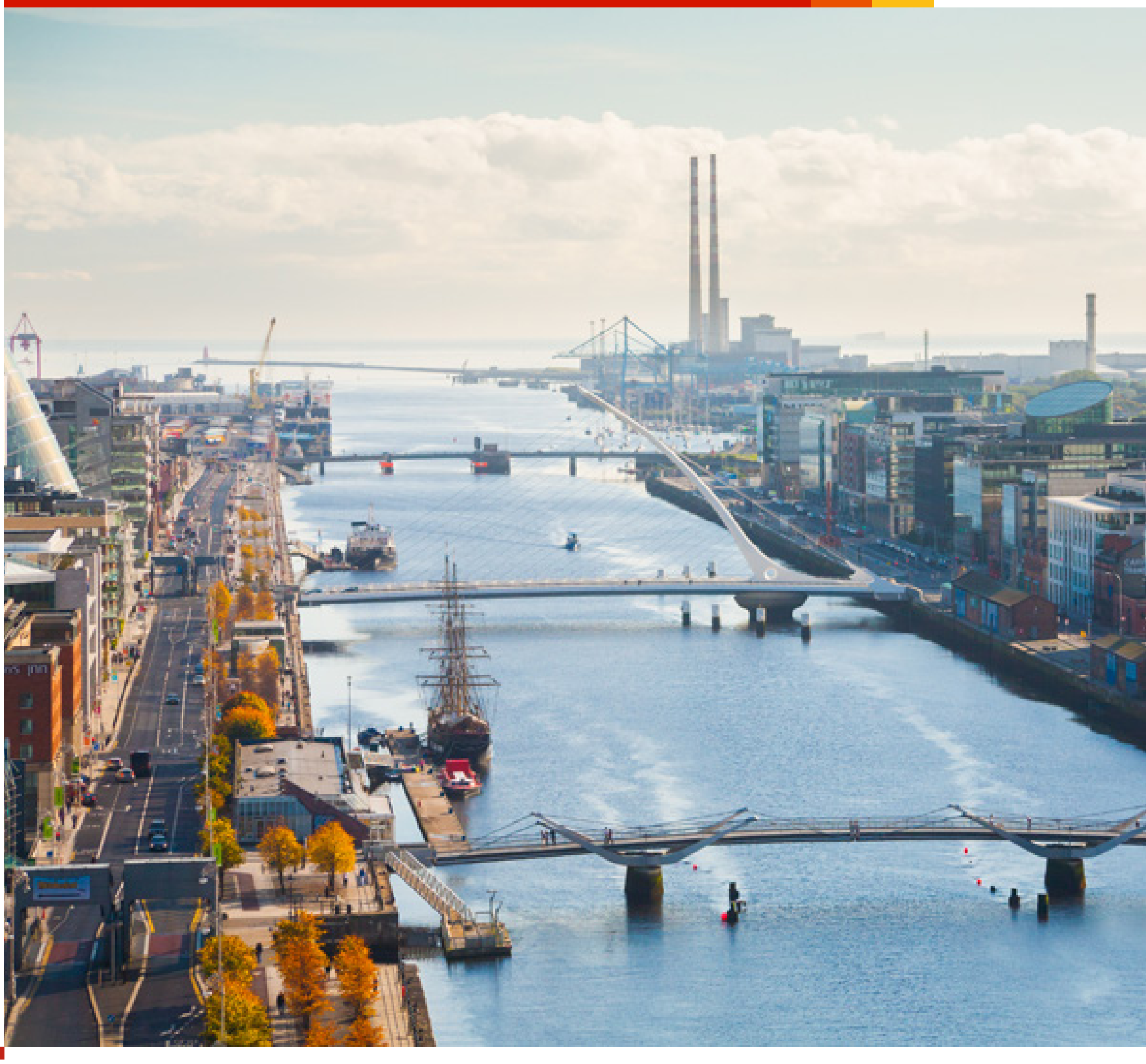
Standing out from the crowd

European cities hotel forecast for 2017 and 2018

March 2017



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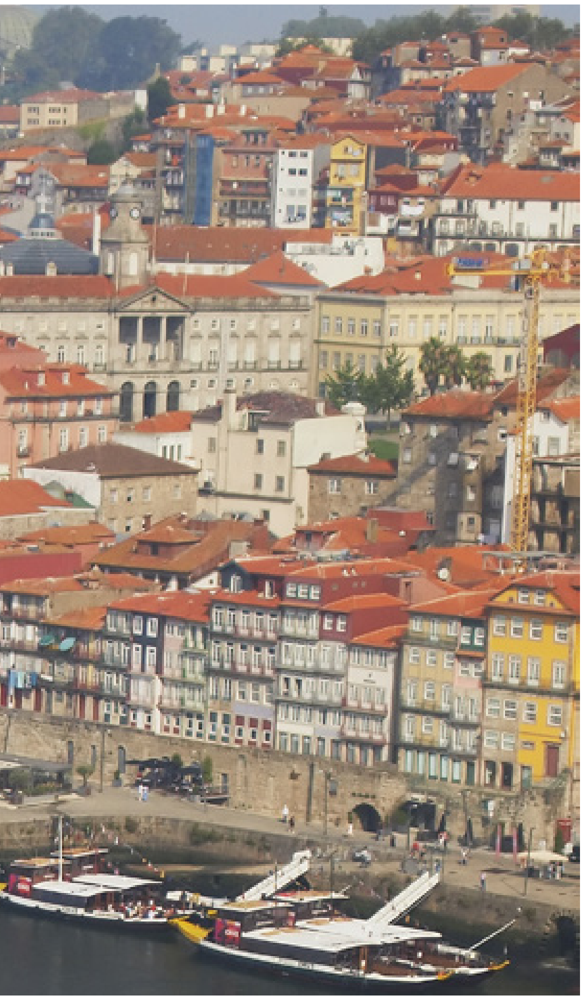
European cities hotel forecast 2017 and 2018 analyses past trading trends and provides econometric forecasts for 17 cities, all national or regional capitals of finance, commerce and culture. This year, we also look at how hotels should benefit from rising US purchasing power; whether hotels should consider refocusing on customers from periphery European economies and if rising oil prices mean higher air fares. In addition, where is the sharing economy heading in 2017? We share our top 10 predictions.

Foreword

Standing out from the crowd in 2017

2016 was a mixed year for hotels in Europe as safety and security concerns impacted some destinations. In the end, tourism proved resilient: 12 million more tourists visited Europe than in the record breaking 2015 and more than 2.8 billion nights were spent in tourist accommodation in the EU alone.

Some Mediterranean destinations flourished: Spain recorded 75.3 million visitors and Barcelona's hotels saw 11% RevPAR growth; Portugal enjoyed bumper numbers and Porto hoteliers saw a mammoth 17% RevPAR increase; Dublin hotels also saw another great year with 16% RevPAR growth. At the other end of the spectrum, Paris, Brussels and Istanbul's tourism industries were badly hurt by the lingering effects of past terrorism attacks.



In 2017 we are forecasting growth in the majority of the 17 cities in this report driven by continued economic growth. The bulk of the hotel markets we analyse are part of the Eurozone, where our latest projection is that GDP will grow by 1.5% and 1.6% in 2017 and 2018 respectively. There will be stronger growth within the peripheral Eurozone economies too (Portugal, Spain, Greece and Ireland) which will fuel demand for holidays.

Growth in the US is also projected to pick up steam this year, and combined with a rising dollar may mean we see increased numbers of US tourists flocking to Europe. Travel demand from further afield should also support hotels.

Despite unprecedented levels of geo-political uncertainty, tourism has proved resilient. The cities we project to stand out in revenue growth terms in 2017 are Porto, Dublin and Budapest; but Madrid, Lisbon, Prague and Barcelona should also see good growth.

Paris and London are projected to return to growth. Many destinations have invested in improving and promoting the quality of their tourism offering and are reaping the benefits. Looking ahead, Paris has entered the final stage of bidding (with Los Angeles) to hold the Summer Olympic Games in 2024 – a decision will be made in September 2017.

European hotel deal activity reduced by nearly 10% to c. €19bn in 2016 – still the second highest level ever recorded. We forecast similar levels of European hotel investment activity in 2017.

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Summary

Analyses and forecasts for hotels for key cities at the heart of Europe

The 6th edition of PwC's European cities hotel forecast looks at the outlook for hotel trading in key cities in Europe, set against a backdrop of economic and travel growth but unprecedented levels of geo-political uncertainty.

The cities surveyed

In this snapshot (taken in February 2017) we look forward to what 2017 and 2018 may hold for hotels in key European cities and which are best placed to grow. There are 17 cities in this econometric forecast, all are important gateway cities and/or business and tourism centres and some, such as London and Paris, are already mega cities.

How did 2016 turn out?

Following a bumper travel year in 2015, we expected it to get tougher in 2016 but by and large it was another good year and there were more than 2.8 billion tourist nights in tourist accommodation in the EU.

Some cities prospered including: Barcelona Budapest, Dublin, Lisbon, Madrid and Porto. Security concerns marred the year for others such as Paris, Brussels and Istanbul.

Overall in 2016, the European hotel industry saw RevPAR increase 2.1% to €78.64, according to data from STR Global. Travel and hotels have seen seven consecutive years of growth in volume and RevPAR respectively, since 2010.

For 2017, the economic backdrop is positive

Our latest projection is that GDP in the Eurozone will grow by 1.5% and 1.6% in 2017 and 2018 respectively. Growth in the US is also projected to pick up steam this year, and combined with a rising dollar, we may see increased numbers of US tourists flocking to Europe.

Travel

Europe recorded 12 million more tourists in 2016 than in 2015 – making a total of 620 million international arrivals – despite safety and security concerns. Some markets, like Spain and Portugal enjoyed an excellent year. For 2017, the UNWTO forecasts a further 2-3% growth. Travel and hotels are expected to benefit from rising US purchasing power abroad.

Supply

Overall, Europe is expected to continue to see relatively low levels of new hotel supply growth despite some development hotspots such as Berlin and London. Some cities have introduced restrictive legislation to control new hotel development, whereas others, like Dublin seek to increase tourism supply. Serviced accommodation and shared platforms continue to compete for travellers. More legislation and taxation is likely to regulate the shared economy.

Porto, Dublin and Budapest stand out from the crowd in 2017 and Porto, Budapest and Madrid in 2018

All the cities but two are projected to achieve growth in 2017 and all but one in 2018.

Only Porto is expected to see sustained double digit RevPAR growth this year; Dublin's performance is outstanding following 16% RevPAR growth in 2016. Budapest makes up the top three for RevPAR growth in 2017.

Porto, Budapest and Madrid make the top three in 2018, as Dublin slips to fourth place, despite 7.4% growth. In 2018 Porto sees sustained 12.8% growth, followed by 9.9% in Budapest, as Madrid moves into third place in the growth chart, with 8.2%. RevPAR growth forecast Dublin is not far behind.

Barcelona takes 3rd place in occupancy rankings in 2018 and 6th place for RevPAR in 2017 and 2018

In absolute terms there's no change in the top two occupancy rankings in 2017 or 2018, with the highest occupancies forecast to be Dublin with 83% forecast in 2017 (driven by supply shortages) and London 82% (despite high supply additions). But in 2018, Barcelona takes third place (79.8%) as Amsterdam slips to fourth.

In 2017, the top six ADR rankings, remain the same as in 2016, in absolute terms, led by Geneva, Zurich, Paris, London , Rome and Barcelona. In 2018 Dublin pushes Barcelona into seventh place.

In terms of RevPAR levels, Geneva, Zurich, Paris, London and Dublin take the top rankings but a newcomer, Barcelona takes sixth place in both 2017 and 2018.

So what for deals?

European hotel deal activity reduced by nearly 10% to c. €19bn in 2016 – still the second highest level ever recorded. The UK's share of total transaction volume fell from c.60% in 2015 to only 25% in 2016 reflecting investor uncertainty surrounding the Brexit vote. Meanwhile the "safe haven" of Germany accounted for nearly 30% of transaction volume in 2016. We forecast similar levels of European hotel investment activity in 2017.

Recap: how did 2016 turn out for hotel markets?

Following a bumper travel year in 2015, we expected it to get tougher in 2016 but by and large it was another solid year.

Some cities prospered including: Barcelona, Budapest, Dublin, Lisbon, Madrid and Porto.

Security concerns marred the year for others such as Paris, Brussels and Istanbul.

Overall in 2016, the European hotel industry saw RevPAR increase 2.1% to €78.64, according to data from STR Global. Seven years of growth since 2010.

2.8 billion tourist nights in EU in 2016

In 2016, the number of nights spent (for business or leisure) in tourist accommodation establishments in the European Union (EU) is expected to have reached more than 2.8 billion, up by 2.0% compared with 2015, according to data from Eurostat. Since 2009, there has been a steady increase in the number of nights, notably driven by the rise in the nights spent by non-residents of the Member State.

In 2016, Spain (454 million nights, +7.8% compared with 2015) accentuated its lead, ahead of France (395 m,-4.6%) and Italy (395 m, +0.5%), Germany (390 m, +2.8%) and the United Kingdom (292 m, -4.5%).

Record tourism flows for some

This growth was driven by some record tourism performances particularly in Spain, Portugal, Ireland, as well as Slovakia, Bulgaria and Poland. Europe as a whole recorded moderate growth of 2% in international tourism arrivals in 2016, compared to 4.6% in 2015 as significant declines in some established markets impacted.

Hotel RevPAR saw a 2.1% gain

In addition relatively low new supply growth also helped hotels deliver some solid results. Hotel data supplied by a sample of hoteliers to STR Global shows that in terms of trading, European occupancy was up around 0.6% to 70.4% in 2016, as ADR rose 1.5% to €111.77 and RevPAR increased 2.1% to €78.64.

European hotel revenue has seen more growth, although it's some way off making up all the ground lost since the recession and the chart shows how, in real terms, stripping out inflation across the EU, the gap has nevertheless narrowed but is still 6.5% off pre-recession peaks.

Reflections on our 2016 predictions

Averages of course don't tell all of the story and in fact most of the cities in the survey last year saw some growth, while some saw spectacular growth.

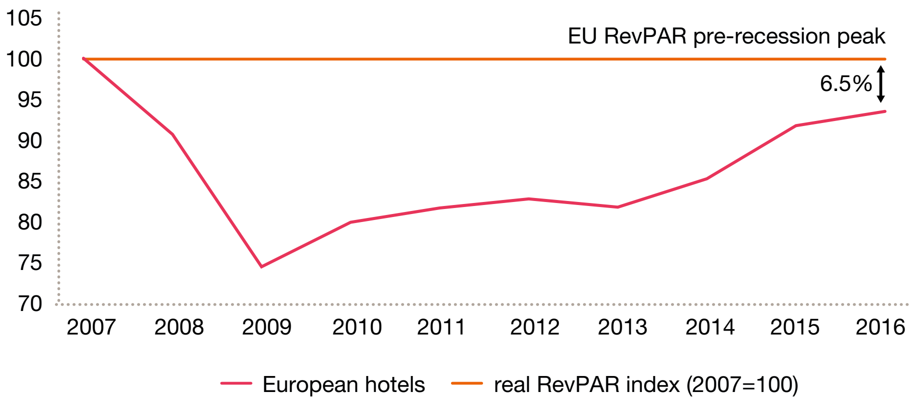
Our predictions for Amsterdam, Berlin, Geneva, Lisbon, Prague and Vienna were well called. We also forecast the resurgence in Madrid which enjoyed around a 7% RevPAR gain.

We underestimated the scale of Barcelona's 10.7% growth. In Dublin too we thought our forecast was bullish at 9.1% forecast RevPAR growth but the city actually saw RevPAR rise by 16.1%.

Porto surprised with 17% RevPAR growth; Milan didn't do as badly as expected with "only" a 14.7% decline over an exceptional EXPO year in 2015; and in the end Rome didn't benefit as much as we anticipated from the Holy Year as Pope Francis allowed pilgrims to celebrate in their localities and not have to travel to Rome. Security fears are reported putting off some pilgrims too.

Paris saw more severe declines than we anticipated as a further terrorist attack in Nice in July reinforced travellers fears and holiday tourists continued to avoid Paris. London also experienced a 'terrorism effect' for much of 2016 and saw RevPAR declines in nine months in 2016 although latterly we saw a dramatic rally, which has continued into 2017.

Hotel revenues are still not back to pre-recession levels (in real terms)



Source: PwC and STR Global 2017

Economic, travel and supply outlook

Economic outlook

Our latest projection is that GDP in the Eurozone will grow by 1.5% and 1.6% in 2017 and 2018 respectively. Growth in the US is also projected to pick up steam this year, and combined with a rising dollar, we may see increased numbers of US tourists coming to Europe.

Eurozone

The majority of the hotel markets we analyse in this study are part of the Eurozone. Despite the fact that the Eurozone may hold up to half a dozen elections this year, generating geopolitical uncertainty within the region, we are projecting relatively strong growth, especially in the peripheral economies of Spain, Greece, Portugal and Ireland. For the fourth consecutive year in a row, we expect the peripheral economies to grow faster than the core of Germany, Italy, France and the Netherlands.

Consumer spending is likely to be the driving force behind this continued steady recovery, as disposable incomes and employment rise. Ireland and Spain will be star performers, with average annual growth of around 3.3% and 2.3% respectively in 2017. The core will see more measured growth with France and the Netherlands likely to be the best performers with expectations of 1.5% and 1.6% growth in 2017 respectively.

As well as a likely boost to tourism for personal purposes as real income growth and consumer confidence pick up, we expect business-related stays to also increase, as the Eurozone economy as a whole performs well. With stronger growth there will be accompanying inflation, which we expect to pick up to around an average of 1.4% this year – still below the ECB's target of 2%. The Euro has shown signs of strengthening against the dollar since the beginning of the year, but remains low relative to its 2014 highs and the ECB is not expected to raise interest rates this year, instead extending their Quantitative Easing (QE) programme until December 2017, albeit at a lower volume. Rising inflation, as well as a strong dollar, could keep domestic demand for holidays within Europe.

Oil prices are on the rise, but they will remain well below their 2014 highs for the next two years at least. This could lead to an increase in air fares as rising costs put pressure on airline companies, but there will likely be a lag associated with any such rise (see our predictions section for more detail).

Non-euro countries

In our main scenario, we expect UK growth to lose some of its post-Brexit momentum, slowing to around 1.5% for 2017, reflecting the gradual drag on business investment from uncertainty, as well as the squeeze on real household spending power from the weaker pound and higher inflation. We expect UK inflation to rapidly rise above the Bank of England's 2% target this year, from 0.7% in 2016 to around 2.3% in 2017, and further up to 2.8% in 2018. The falling pound could have significant implications on the choice of destination for UK tourists, as well as boosting demand from overseas visitors to the UK as their purchasing power increases.

Looking to other key non-Eurozone economies, the IMF is projecting growth in the Czech Republic and Switzerland to pick up in 2017 to around 2.5% and 1.5% respectively. In the Czech Republic, the government will end its intervention regime in the koruna this year, which is likely to result in the currency strengthening by around 10% this year. The Swiss Franc

has strengthened relative to the Euro since the removal of a cap on the franc in 2015, and is continuing to gain ground this year as geopolitical uncertainties drive investors to invest in Switzerland – perceived as a safe haven.

Other key markets

The US economy is expected to pick up steam this year, driving growth within the G7. As the dollar continues to strengthen, US tourists are coming to Europe in ever increasing numbers (see the predictions section for more details). A rise – albeit small – in commodity prices is also improving the outlook for many key emerging markets, specifically in Brazil which will return to positive growth this year. China is expected to continue its gradual slowdown, but growth will still be a healthy 6%+ this year. India's growth will remain over the 7% mark, and Indonesia is expected to pick back up to around 5%. We expect Indonesia to become the world's 16th trillion-dollar economy this year. A number of other emerging markets will start to shift the spotlight away from China and India – for example, Vietnam's growth is expected to remain over 6% in the coming years as its new free trade deal with the EU is ratified. In the Americas, Colombia could be a star performer with growth picking up on the back of rising commodity prices and government reforms to reform the tax base.

Economic predictions for 2017...

1

US economic growth will drive growth in the G7

On the back on strong job creation and rising household consumption, we expect the US to grow by around 2% this year. It could also surprise on the upside if the new administration lowers taxes and pursues plans to boost spending on infrastructure. Strong US growth will see the Federal Reserve gradually tighten monetary policy this year, following its rate rise in December last year. As such, we expect the dollar to strengthen further this year.

2

The peripheral Eurozone economies will continue to grow faster than the core

For the fourth consecutive year, we expect the peripheral Eurozone economies of Spain, Portugal, Ireland and Greece to grow faster than the core countries of France, Germany, Italy and the Netherlands. Irish GDP growth is expected to be the leader of the peripheral pack, expanding by more than 3% this year, while France and the Netherlands will lead the core at around 1.5%. On the jobs front, employment in the core is expected to hit an all-time high of around 97 million – but this will be outperformed by the periphery, who will create around 100,000 more jobs than the core.

3

Oil prices back on the rise – but should remain remain well below the 2014 peak

After falling to below $30 a barrel[1] – lows not seen for over a decade – in January last year, oil prices have been back on the rise, almost doubling to around $52 a barrel by December. This gradual rise is projected to continue over the coming year, but we expect prices will remain around half their mid-2014 peaks of almost $110. This will raise the economic prospects of many emerging markets who rely on commodity exports, but will also increase costs for the many industries and businesses for whom energy comprises a larger proportion of operating costs – this will include the airline industry.

1 Average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

...and the implications for European hotels

Hotels will benefit from rising US purchasing power abroad

With US growth expected to pick up steam, coupled with strong job creation that averaged 180,000 jobs a month last year, household disposable incomes will be boosted. At the same time, the stronger dollar will also enhance the purchasing power of US consumers abroad. In January 2017, the US dollar purchased almost 15% more pounds than it did a year ago. The combination of these two effects should boost demand from US households for European holidays. These currency changes are having real effects. This could increase further as US holidaymakers plan their summer vacations on the basis of their current rise in foreign purchasing power, which is great news for the European tourist market. In the UK, visitors from the US spent an average of over £900 per trip in 2015, compared to an average of around £400 a trip for European visitors.

Hotels need to refocus on customers from the periphery economies

Stronger growth and employment within the peripheral Eurozone economies (Portugal, Ireland, Greece, Spain) will fuel demand for holidays. Disposable incomes in the peripheral economies are up by around 2% relative to 2015, suggesting tourism may experience a boost this year. Demand for air travel is typically income elastic, responding positively to an increase in disposable income levels. Studies have typically found estimates of around 1.2-1.7, meaning a rise in income has a more than proportionate increase in demand[1]. Stronger economic performance will also provide a likely boost to international business visits, which is again great news for the industry due to the greater spend per night of business-related stays, which is typically over double that of nights stayed for personal purposes.

1 http://www.iata.org/publications/economic-briefings/air_travel_demand.pdf

Do rising oil prices mean rising air fares?

Over the past two years we have seen oil prices drop to lows not seen for a decade. In our 2015 edition of this report series, we discussed the possibility of lower air fares in response. But in fact, we have not seen a corresponding fall in air prices over this period. Between January 2015 and 2016 oil prices fell by almost -40%. In contrast, air-fares in the key European markets saw little change. In France and Spain, there was a 3-4% fall over the same period, while in countries such as Austria and the Czech Republic, prices actually increased by 6-7%. In the UK and Germany, prices fell by around 1-2%.

But air fare inflation has gone negative, from an annual average across the UK, France, Germany and Spain of 2.4% in 2014 to -2.4% in 2016. Through hedging, the Airline industry faces a very delayed response to changes in the oil price. And over the course of 2016, prices in the majority of the European countries in this study began to seen some small falls, suggesting a lag in the responsiveness of prices to a change in oil prices.

Now that fuel prices are back on the rise, this lagged response may come to an abrupt end and we may begin to see air fares increase over the course of 2017 as businesses pass these costs onto consumers, especially as fuel is the single largest cost item for airlines on average. The IATA[1] estimates that fuel's contribution to overall operating costs has fallen over the past few years.

1 https://www.iata.org/pressroom/facts_figures/fact_sheets/Documents/fact-sheet-fuel.pdf

Economic outlook is brighter

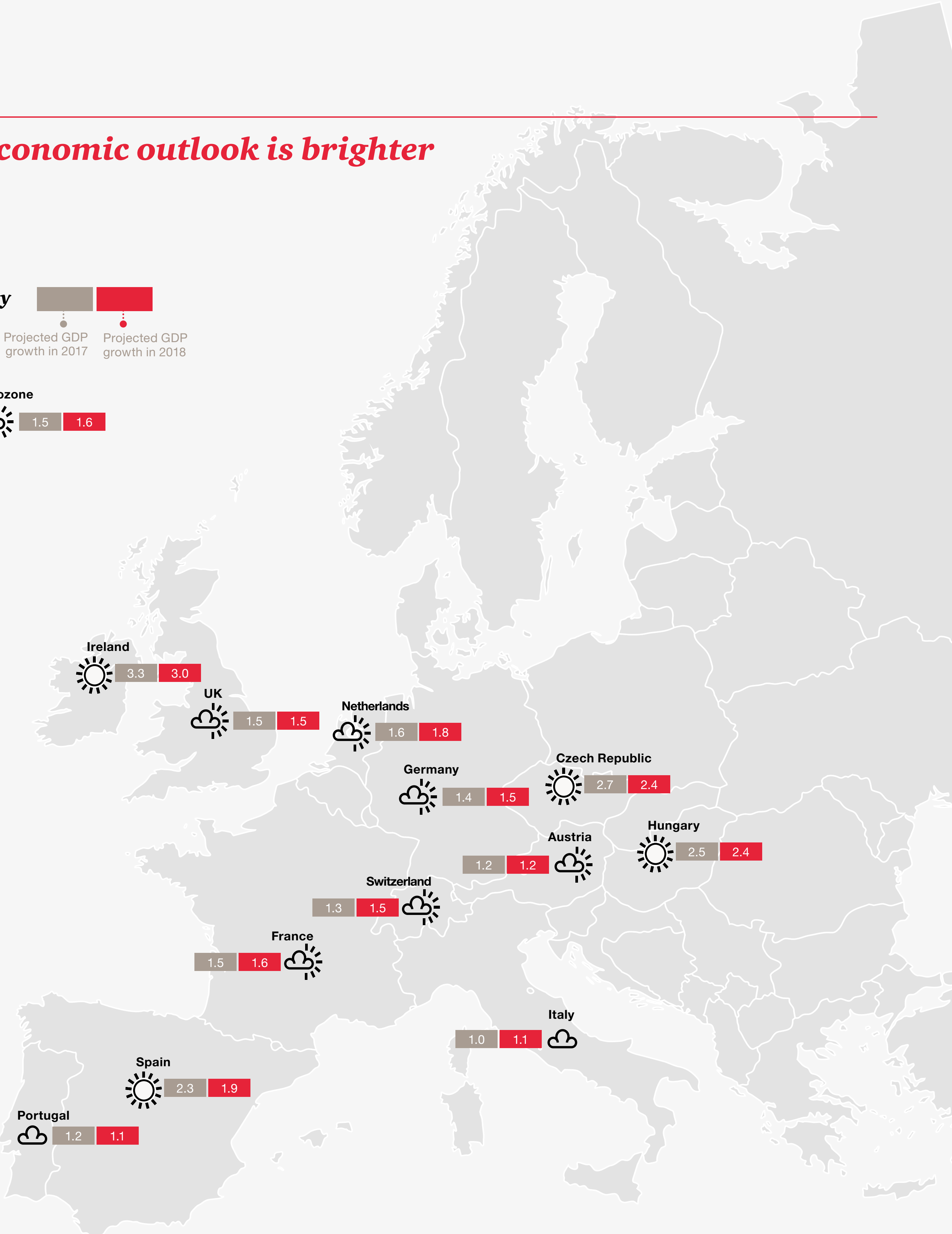
Key

Projected GDP growth in 2017

Projected GDP growth in 2018

Eurozone

1.5 1.6



Source: PwC forecasts (February 2017), IMF World Economic Outlook October 2016

Travel outlook

Europe recorded 12 million more tourists in 2016 than in 2015 – making a total of 620 million international arrivals – despite safety and security concerns. Some markets, like Spain and Portugal enjoyed an excellent year. For 2017, the UNWTO forecasts a further 2-3% growth. Travel and hotels should benefit from rising US purchasing power abroad.

1,235 million tourists worldwide

Demand for international tourism remained resilient in 2016 despite considerable safety and security challenges. According to the UNWTO, 2016 was the seventh consecutive year of sustained growth following the 2009 global economic and financial crisis. International tourism arrivals grew by 3.9% year on year reaching a total of 1,235 million.

In Europe safety and security concerns curbed growth rates

Europe recorded moderate growth of 2% in international tourism arrivals in 2016, compared to 4.6% in 2015. Whilst many destinations experienced considerable growth, this was offset by significant declines in some established markets as a result of terrorism and political instability.

Following a series of terror attacks, France and Belgium lost some of their visitor appeal with declines in tourist arrivals of 4.4% and 12.4% respectively. Meanwhile Turkey (-31%), was feeling the effects of the Istanbul bombings, the failed coup d'état and weaker demand from Russia.

Standout performers

International arrivals to Europe reached 620 million in 2016, 12 million (+2%) more than in 2015. Northern Europe (+6%) and Central Europe (+4%) both recorded sound results, while in Southern Mediterranean Europe arrivals grew by 1% and in Western Europe results were flat. Standout performers in 2016, recording double digit growth included Iceland (+31%), Norway (+14%), Ireland (+12%). Many more like Spain and Portugal saw record years.

What will drive travel volumes this year?

Looking forward, the UNWTO is predicting growth of 2-3% in international tourism arrivals to Europe in 2017.

This is likely to be stimulated by forecasted global GDP growth of 3.4% according to the IMF, as well as a more optimistic outlook for the Russian economy.

Travel and hotels are forecast to benefit from rising US purchasing power abroad

Growth in the US is also projected to pick up steam this year, and combined with a rising dollar, we may see increased numbers of US tourists travelling to Europe. See a more detailed discussion in the Economic predictions section.

Corporate travel, meetings and events will continue to drive demand

There are many events to stimulate demand in 2017, such as the 2017 International Automobile Fair (IAA) in Frankfurt and the International Air Show in Paris. In January 2017, Madrid hosted the International Tourism Fair's (FITUR) 37th edition, with an increase of 6% in number of visitors, a record 245,000. And this summer, Madrid will be hosting the "World Pride", an event in celebration of the LGBT community that is thought to attract more than three million participants. In London and a few UK international regional centres, the weak pound is providing a stimulus to inbound travel.

According to the Global Business Travel Forecast 2017 by American Express, following an uneven 2016 they expect the business travel outlook for next year to be relatively subdued for a number of reasons including political uncertainty with signs that European corporate meetings budgets will remain flat for 2017.

> ***"Bookings to Greece are currently up by over 40%, while demand for destinations such as Cyprus, Bulgaria, Portugal and Croatia is also strong. These positive trends are making up for continued weak demand for Turkey"***
>
> Thomas Cook Feb. 2017

Supply outlook

Overall, Europe is expected to continue to see relatively low levels of new hotel supply growth despite some hotspots such as Berlin and London. Some popular tourist cities have tried to intervene and moderate hotel development while some want to encourage it. Serviced accommodation and shared platforms continue to compete for travellers and more legislation and taxation is likely to regulate this sector.

Overall supply growth has been relatively low in recent years. The increase in supply was only 0.9% in Europe in 2016, according to STR Global. The average annual increase over the past decade had been 1%. Demand growth has outstripped supply and this has supported trading across the continent.

By the end of 2016, Europe had around 1,000 hotels and 155,000 rooms in the pipeline. Around 442 new hotels and 69,000 of these rooms are already in construction. For 2017 around a quarter of the new rooms are in the upper midscale segment with around 20% apiece in the economy and upscale segments.

There are still some hotspots

The UK, Germany, Russia and Turkey have some of the largest pipelines, in Berlin, London, Istanbul and Moscow. Berlin expects to add about 3,700 hotel rooms to the current market within the next two years. Budapest, expects an additional 2,600 rooms to open in 2017 and 2018. London is set to see around 8,000 new rooms opening in 2017 alone – most in the branded budget sector.

Some cities seek to encourage and others to intervene

While some cities seek to encourage the development of new hotel supply, others seek to actively intervene. For example, Barcelona's hotel moratorium (due to be ended in July 2017) imposed a freeze on licensing new tourist accommodation and it has meant little new supply has opened (except that already approved before the moratorium). Amsterdam has this year introduced a so called 'hotel stop' policy. This means that it will be very difficult to develop new hotels in Amsterdam's centre. The policy is expected to have a long term effect on the lodging market in Amsterdam, in the sense that prices may rise and the legislation might stimulate the supply of alternative accommodation. The number of hotels in Dublin has remained relatively static over the last 10 years, with only five opening since 2007. With visitor numbers continuing to grow year-on-year there are ongoing concerns regarding the lack of new supply. Now, according to a Fáilte Ireland report, 80 prospective new hotel projects are in the pipeline, of which 65 are likely to be open by 2020.

Sharing economy in the spotlight

Of course its not just about hotel accommodation, many cities have seen significant growth in serviced apartments and shared accommodation platforms and we think growth in the peer-to-peer rental stock could well continue to outpace hotel room supply in 2017. In illustration, as of January 2017, Barcelona had c.18K Airbnb accommodation listings compared to 9.5K in 2015. In the next section, we examine where we think the sharing economy is heading this year – with our 10 top predictions.

But, it is unlikely to be plain sailing for the shared economy models as regulators and tax authorities become more involved. Authorities are responding with tighter regulatory controls across many cities including London, Berlin, Moscow and Istanbul. In another move, Barcelona has sanctioned Airbnb and HomeAway, with a €600,000 fine for advertising unlicensed touristic apartments. The tax system and the sharing economy is also in the spotlight and Airbnb landlords in Austria will soon be obliged to pay the local city tax, and therefore will need an official registration with the city authorities. In London, where the law prohibits short-term rentals of more than 90 days over the course of a year without planning permission, Airbnb has agreed to restrict landlords from renting out homes for more than this period.

Where is the sharing economy heading in 2017? PwC forecasts 10 major trends

The sharing economy is big business across the globe, with services like Uber, Airbnb and Deliveroo taking the UK, and indeed, the world by storm. Our recent study for the European Commission highlights that we expect the current £7bn-a-year industry to be worth £140bn-a-year in the UK alone by 2025.

But in an area of the business world that has driven unprecedented change and re-written the rulebook, just what will 2017 bring? Have we reached a 'tipping point' where growth will now subside or are we just getting started?

For hotel companies, peer-to-peer rental and home-swapping platforms have re-defined how people travel and 2017 will see continued growth in this sector with leading platforms expanding their offerings into corporate event spaces, food sharing, and experiences.
We think growth in the peer-to-peer rental stock could well continue to outpace hotel room supply in 2017.

1. Revenues set to continue their rise

We think the overall trajectory for the sharing economy is upward and if it evolves in line with our most recent projections, sharing economy transactions in five key sectors in Europe would increase by over 60% in 2017, equivalent to around €27bn. Calculated on the same basis, the UK's sharing economy would also experience growth, at around 60%, equivalent to an increase of £8bn over the year.
This would reflect slower expansion than the last few years, but the sharing economy would still be out-performing most other sectors of the economy.
Providers should continue to be the big winners, taking home around 85% of total revenues, with platforms pocketing the remainder.

2. With growth comes risk and opportunity

A variety of factors have come to the fore that we think have expanded the range of uncertainty within our initial projections. In other words, it has never been a riskier time to be a sharing economy platform. Regulators are increasingly getting to grips with the movement and are tightening up and better enforcing rules. And legal rulings in areas such as employment regulation will continue to challenge existing business models. In the UK, we would not expect the prospect of Brexit to have any significant dampening effect on this rapid growth in 2017, given that activity is being driven by longer-term trends. But we do think Matthew Taylor's independent review on Modern Employment Practices will be a watershed moment for sharing and gig economy platforms when it reports in the Spring.

3. Trust matters

Trust will remain the hot topic in the sharing economy and we think 2017 could be the year that the sharing economy starts to get ahead of this agenda. This will likely take a range of forms but one of the most important will be platforms proactively implementing self-regulation. In 2016, we saw Airbnb announce it will enforce the 90 day limit on Londoners renting their homes for short periods, and SEUK launch its "TrustSeal" kitemark (a project that PwC is actively involved in), and we expect more initiatives along these lines this year.

4. Tax – a new frontier

In 2017, we expect that the interaction between the sharing economy and the tax system will move increasingly into the spotlight. Firstly, there are potentially big tax consequences from different applications of employment regulations or classifications.
And secondly, we are seeing increasingly novel examples for how governments and platforms are attempting to make the tax system work better for sharing economy participants. In 2016, Estonia's tax authority partnered with taxi-hailing firms including Taxify to trial an innovative form of digital tax accounts. And Airbnb has partnered with a number of city authorities to collect applicable occupancy taxes. As part of our Paying for Tomorrow initiative, our tax team will be closely monitoring developments in 2017 and sharing their perspective.

5. Permeating new sectors

The sharing economy has been made famous within certain key sectors such as automotive, and hospitality, but 2017 will see the innovation ripple across established sectors. Industries where cost pressures are mounting, such as healthcare and retail, have the most to gain from leveraging sharing economy models. Medical equipment sharing platforms such as Cohealo have emerged across the Atlantic and as the UK healthcare system starts to collaborate more closely, we think 2017 will see the first opportunities for some NHS Trusts to share resources, including staff, equipment and estates in a more dynamic way – a trend we will be exploring in future blogs!

High-value add industries where margins are fairly healthy may still be surprised by the sharing economy in 2017. For example, in a recent blog we explored the impact of the sharing economy on the legal sector, where new start-ups such as Lawyers on Demand have emerged.

6. Silvers surfing the sharing economy

In 2017, we think that digital natives, the early-adopters who powered the rise of the sharing economy, will start to take a back seat to the "silver surfers" – who could well drive the next phase of growth. The over 50's have already become the fastest-growing user group for many platforms, including Airbnb and DogVacay, and recent Eurobarometer suggests that this age group is most likely to transact more frequently. The platforms that can capture this demographic in 2017 will gain a competitive advantage against their rivals.

7. Corporates becoming sharing economy platforms

In 2017, many corporates will become platforms themselves in order to tap this new source of talent. For example, last year we piloted the "Talent Exchange" within a subset of our US Advisory business. The Talent Exchange is an online marketplace for professional, independent workers and it has surprised us how much demand there has been, with thousands of independent talent profiles now registered to be matched against relevant work opportunities. As this trend evolves, HR departments will increasingly be asked to manage an increasingly diverse workforce and accommodate increasingly flexible ways of working.

8. Innovation around the core model

We expect sharing economy platforms to continue to innovate around their core model and invest significantly in the new services they introduced last year. For example, Uber expanded into food delivery with UberEats and ridesharing with UberPool, and Airbnb introduced Trips to expand their foothold in the travel market.
The success of these new services will be an acid test of whether sharing economy platforms can eventually become the established leaders of their markets, or will forever be known as the "disrupters".

9. Statisticians catch up with sharing

This year in the UK, the Office for National Statistics (ONS) will be surveying individuals, households and businesses to develop a more accurate view of sharing economy activity. With the first data on individual's use of accommodation and transportation services set to be released in August, this will be a landmark moment – when statisticians finally catch up with sharing.

10. A new type of hospitality

Peer-to-peer rental and home-swapping platforms have re-defined how people travel and 2017 will see continued growth in this sector with leading platforms expanding their offerings into corporate event spaces, food sharing, and experiences.

We expect more consolidation in the hospitality market in general as hoteliers respond and seek greater scale themselves.

Standing out from the crowd: spotlight on prospects for 2017 and 2018

Almost all the cities in this latest forecast are expected to see growth in 2017 and 2018. Strong demand has propelled some cities into the spotlight yet again while others have moved up or down the growth rankings.

In 2017 Porto leads the growth pack with almost 15% RevPAR growth anticipated; Dublin could see 8.7% RevPAR growth and further robust growth is expected in Budapest, Madrid, Lisbon, Prague and Barcelona. We expect recovery to kick off in Paris and growth to return to London, buoyed by a weak pound.

Standing out from the crowd

The positive economic and travel backdrop, together with a relatively benign supply backdrop, is anticipated to continue to drive further growth in 2017 and 2018. See the table opposite and our RevPAR weather map.

All the cities but two are projected to achieve growth in 2017 and all but one in 2018. It's particularly impressive after a record 2015 and a pretty decent 2016.

What's driving the growth?

The positive performances of these cities is due to a number of factors. First, performance reflects Europe's position as a key destination and the continued demand from travellers to visit exceptional short break and holiday destinations to a safe environment. This year hotels should benefit from rising US purchasing power abroad and London should see a short term boost from the weak pound. Second, many of the cities are international business centres and despite economic uncertainty and political turbulence, corporate demand has also helped buoy up travel demand; this is particularly true of Frankfurt which has a busy Fairs cycle this year including the International Automobile Fair.
Third, events are a key driver of demand across many of the cities. The GSMA Mobile World Congress is in Barcelona again in 2017 – it is the world's largest exhibition, conferencing and networking event for the mobile industry and attracted over 100,000 visitors in 2016. Other factors include improving destination accessibility as many cities add new routes and flights, as well as improving airport capacity. Constrained supply is also helping some, for example, a lack of new supply in Dublin is boosting ADR. Successful destinations recognise and offer travellers what they want and many are doing it very well. Some are focusing on promoting niche trends, for example, Barcelona's medical tourism initiative, "Barcelona Medical Destination', is expected to attract more visitors. Berlin's '365/24 Berlin' aims to catapult Berlin to reach its overnight visitor targets.

2017 forecasts

The highest growth is forecast for Porto which could see a further 14.8% RevPAR growth, on top of three years consecutive growth. Dublin is next up, with 8.7% RevPAR growth, as demand for hotels in Dublin continue apace. 2016 marked double digit growth in RevPAR for the third year in a row, primarily driven by a further increase in room rates. Budapest makes the top three with a 6.8% advance. Madrid, Lisbon, Prague and Barcelona all see strong growth, Frankfurt follows – the city has recorded growth since 2010. Paris and London return to growth after a disappointing 2016. Amsterdam, Berlin, Milan, Vienna and Rome see more moderate gains. The Swiss franc, although stable, remains strong and puts pressure on Geneva and Zurich's performance and they are the only cities to show a decline.

2018 forecast

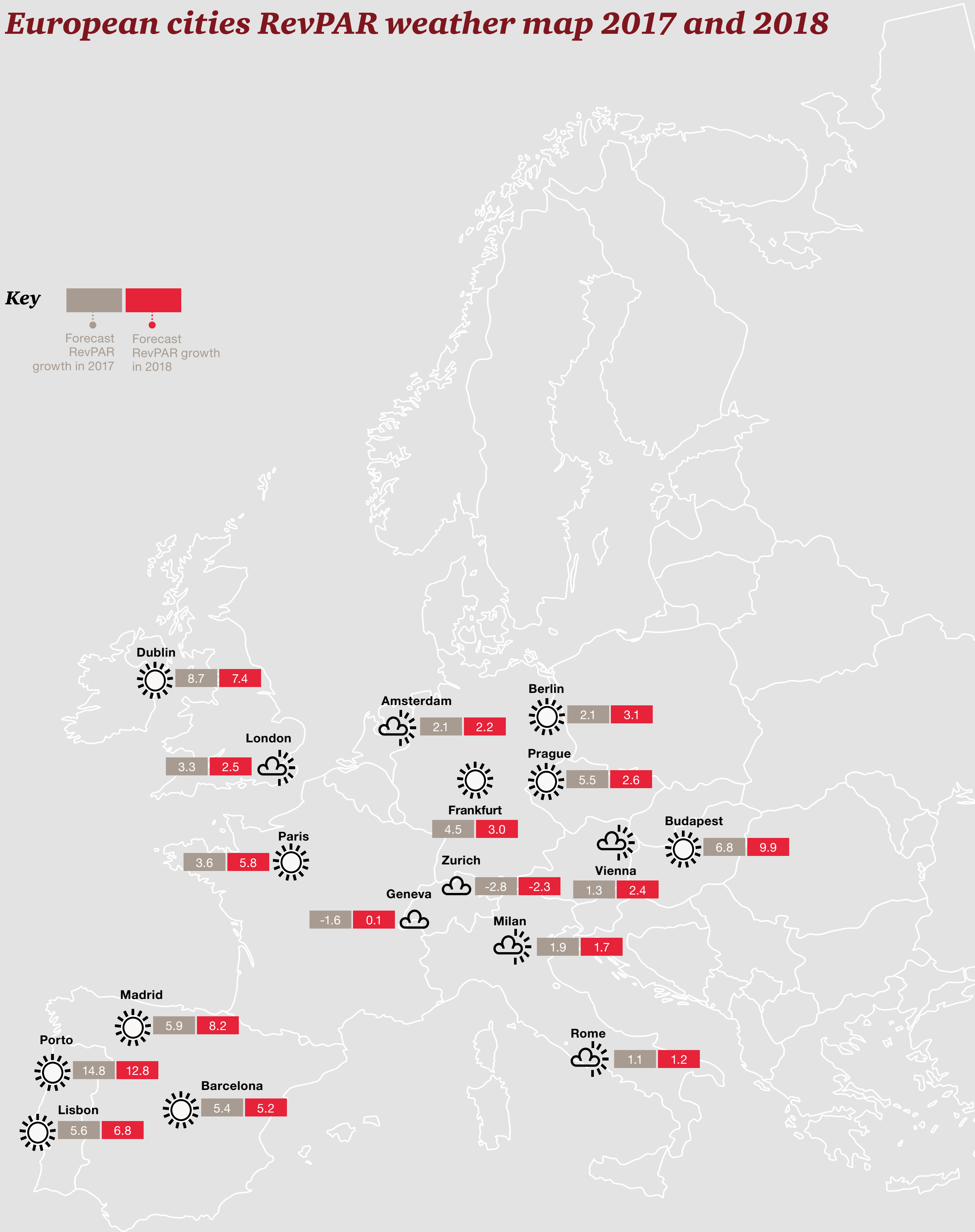
We expect further growth in all but one city in 2018 (Zurich) as Budapest soars into second place with 9.9% growth. Porto still heads the rankings with 12.8% RevPAR growth. Madrid doesn't trail by far in third place with an 8.2% advance. Dublin slips to fourth place with 7.4% growth and Lisbon, Paris and Barcelona all see strong gains. Berlin and Frankfurt enjoy 3.1% and 3% growth apiece.

RevPAR (local currency) growth tables

2017	2017 RevPAR	2018	2018 RevPAR
Porto	14.8%	Porto	12.8%
Dublin	8.7%	Budapest	9.9%
Budapest	6.8%	Madrid	8.2%
Madrid	5.9%	Dublin	7.4%
Lisbon	5.6%	Lisbon	6.8%
Prague	5.5%	Paris	5.8%
Barcelona	5.4%	Barcelona	5.2%
Frankfurt	4.5%	Berlin	3.1%
Paris	3.6%	Frankfurt	3.0%
London	3.3%	Prague	2.6%
Amsterdam	2.1%	London	2.5%
Berlin	2.1%	Vienna	2.4%
Milan	1.9%	Amsterdam	2.2%
Vienna	1.3%	Milan	1.7%
Rome	1.1%	Rome	1.2%
Geneva	-1.6%	Geneva	0.1%
Zurich	-2.8%	Zurich	-2.3%

Source: Econometric forecast PwC 2017
Benchmarking data: STR Global 2017

European cities RevPAR weather map 2017 and 2018



Source: PwC forecasts (Feb 2017)

Which cities will be the most expensive, the fullest and will have the highest RevPAR?

PwC's research and forecasts show that growth remains a dominant theme despite unprecedented geo-political uncertainty.

But its not just about growth rates and the absolute levels of trading are a key piece of the hotel jigsaw in each city and analysis of three key metrics in absolute terms shows a very different picture.

The highest occupancies

There's no change in 2017 or 2018 with the highest occupancies forecast to be in the same two cities again: Dublin with 83% forecast (supply shortages) and London 82% (despite high supply additions).

Amsterdam stays in third place with 78.3% in 2017 but slips down in 2018. Prague rises to fourth place in 2017 (78.2%)but slips back again in 2018. Barcelona (77.9%) moves into fifth ranking in 2017 and then third in 2018. Berlin (77.5%) is not far behind. Frankfurt should break through the 70% occupancy threshold this year. Although Berlin has occupancy levels above the average for Germany, it slips from fourth position last year to potentially sixth this year and 2018. Porto is expected to move from 10th last year to eighth place in 2017 and 2018. Paris suffered a decline in occupancy to 69% last year but is expected to start to recover lost ground this year and next.

Higher occupancies reflect a structural shift towards more branded budget hotels in some countries as well as access to online distribution channels and a greater propensity to travel.

The highest ADRs (€)

There's no change at the top of the ADR rankings. In 2017 the highest ADRs in euro terms are Geneva (€300.2) Zurich (€244.9) followed by Paris (€229). Paris room rates remain high despite a 4% fall in 2016 and forecast further falls in 2017. The cost of a hotel room in Geneva and Zurich reflects the appreciation of the Swiss franc and exchange rate assumptions against the euro. Neither are expected to see growth in room rates in Swiss francs in 2017 or 2018, indeed quite the opposite. London (€164), Rome (€148.2), Barcelona (€141.6), Dublin (€138.1), Milan (€137.9), Amsterdam (€137.5) and Frankfurt (€127.4) all have ADR forecast above €120 in 2017 and 2018.

The highest RevPARs (€)

The top five rankings remain unchanged in 2017 and 2018. In 2017 Geneva, Zurich, Paris, London and Dublin top the RevPAR rankings. Geneva's expected RevPAR at €201.8 is significantly higher than the other leading cities and over three times as high as Budapest in 2017. Although Budapest is expected to see some strong ADR growth in 2017 and 2018, rates remain below European norms.

Occupancy rankings

Dublin stays top but Barcelona makes 3rd place in 2018

2016	2016 rank	2017 (F)	2017 (F) rank	2018 (F)	2018 (F) rank
Dublin (82.5%)	1	Dublin (83%)	1	Dublin (83.8%)	1
London (81.3%)	2	London (82%)	2	London (82.4%)	2
Amsterdam (78%)	3	Amsterdam (78.3%)	3	Barcelona (79.8%)	3
Berlin (77.1%)	4	Prague (78.2%)	4	Amsterdam (78.9%)	4
Prague (76.9%)	5	Barcelona (77.9%)	5	Prague (78.5%)	5
Barcelona (76.6%)	6	Berlin (77.5%)	6	Berlin (78.4%)	6
Budapest (75.1%)	7	Budapest (75.8%)	7	Budapest (77.7%)	7
Vienna (74.7%)	8	Porto (75.7%)	8	Porto (77.6%)	8
Lisbon (74.2%)	9	Lisbon (75%)	9	Lisbon (76.1%)	9
Porto (73.5%)	10	Vienna (74.8%)	10	Vienna (75.5%)	10
Zurich (73.3%)	11	Zurich (73.5%)	11	Madrid (75.4%)	11
Madrid (70.5%)	12	Madrid (72.7%)	12	Paris (74.2%)	12
Frankfurt (69.8%)	13	Paris (72.1%)	13	Zurich (73.6%)	13
Paris (69.4%)	14	Frankfurt (70.8%)	14	Frankfurt (71.6%)	14
Rome (69.3%)	15	Rome (69.7%)	15	Rome (70.1%)	15
Geneva (67.3%)	16	Geneva (67.2%)	16	Geneva (67.8%)	16
Milan (65.5%)	17	Milan (65.7%)	17	Milan (66.2%)	17

Source: Econometric forecast PwC 2017
Benchmarking data: STR Global 2017

ADR (Euros) rankings

No change at the top but Dublin makes 6th place in 2018

2016	2016 rank	2017 (F)	2017 (F) rank	2018 (F)	2018 (F) rank
Geneva (€298.9)	1	Geneva (€300.2)	1	Geneva (€297.9)	1
Zurich (€247.9)	2	Zurich (€244.9)	2	Zurich (€238.6)	2
Paris (€229.5)	3	Paris (€229)	3	Paris (€235.4)	3
London (€160.1)	4	London (€164)	4	London (€168.5)	4
Rome (€147.5)	5	Rome (€148.2)	5	Rome (€149.2)	5
Barcelona (€136.7)	6	Barcelona (€141.6)	6	Dublin (€147.1)	6
Milan (€135.7)	7	Dublin (€138.1)	7	Barcelona (€145.7)	7
Amsterdam (€135.2)	8	Milan (€137.9)	8	Amsterdam (€139.4)	8
Dublin (€127.9)	9	Amsterdam (€137.5)	9	Milan (€139.3)	9
Frankfurt (€123.7)	10	Frankfurt (€127.4)	10	Frankfurt (€129.9)	10
Lisbon (€97.9)	11	Lisbon (€102.3)	11	Lisbon (€107.7)	11
Vienna (€97.8)	12	Madrid (€100.4)	12	Madrid (€105)	12
Madrid (€97.7)	13	Vienna (€98.9)	13	Vienna (€100.4)	13
Berlin (€95.6)	14	Berlin (€97.1)	14	Porto (€99.7)	14
Porto (€80.8)	15	Porto (€90.3)	15	Berlin (€99)	15
Prague (€80.3)	16	Prague (€85.2)	16	Prague (€88.5)	16
Budapest (€74.9)	17	Budapest (€79.3)	17	Budapest (€85.2)	17

Source: Econometric forecast PwC 2017
Benchmarking data: STR Global 2017

Non-€ figures were converted to € using exchange rate forecasts from Consensus (November 2016) for the sterling and the Swiss franc and national bank reports for the Czech Republic.

RevPAR (Euros) rankings

Top 5 rankings stay the same but Barcelona moves to 6th place in 2017 and 2018

2016	2016 rank	2017 (F)	2017 (F) rank	2018 (F)	2018 (F) rank
Geneva (€201.1)	1	Geneva (€201.8)	1	Geneva (€201.9)	1
Zurich (€181.6)	2	Zurich (€180)	2	Zurich (€175.6)	2
Paris (€159.3)	3	Paris (€165)	3	Paris (€174.7)	3
London (€130.1)	4	London (€134.5)	4	London (€138.9)	4
Dublin (€105.4)	5	Dublin (€114.7)	5	Dublin (€123.2)	5
Amsterdam (€105.4)	6	Barcelona (€110.4)	6	Barcelona (€116.2)	6
Barcelona (€104.7)	7	Amsterdam (€107.6)	7	Amsterdam (€110)	7
Rome (€102.2)	8	Rome (€103.3)	8	Rome (€104.6)	8
Milan (€88.9)	9	Milan (€90.6)	9	Frankfurt (€93)	9
Frankfurt (€86.4)	10	Frankfurt (€90.3)	10	Milan (€92.1)	10
Berlin (€73.7)	11	Lisbon (€76.7)	11	Lisbon (€82)	11
Vienna (€73.1)	12	Berlin (€75.3)	12	Madrid (€79.1)	12
Lisbon (€72.6)	13	Vienna (€74)	13	Berlin (€77.6)	13
Madrid (€68.9)	14	Madrid (€73)	14	Porto (€77.4)	14
Prague (€61.7)	15	Porto (€68.4)	15	Vienna (€75.8)	15
Porto (€59.4)	16	Prague (€66.6)	16	Prague (€69.4)	16
Budapest (€56.3)	17	Budapest (€60.1)	17	Budapest (€66.2)	17

Source: Econometric forecast PwC 2017
Benchmarking data: STR Global 2017

Non-€ figures were converted to € using exchange rate forecasts from Consensus (November 2016) for the sterling and the Swiss franc and national bank reports for the Czech Republic.

Deal talk

European hotel deal activity reduced by nearly 10% to c. €19bn in 2016 – still the second highest level ever recorded. The UK's share of total transaction volume fell from c. 60% in 2015 to only 25% in 2016 reflecting investor uncertainty surrounding the Brexit vote. Meanwhile the "safe haven" of Germany accounted for nearly 30% of transaction volume in 2016. We forecast similar levels of European hotel investment activity in 2017.

Overview

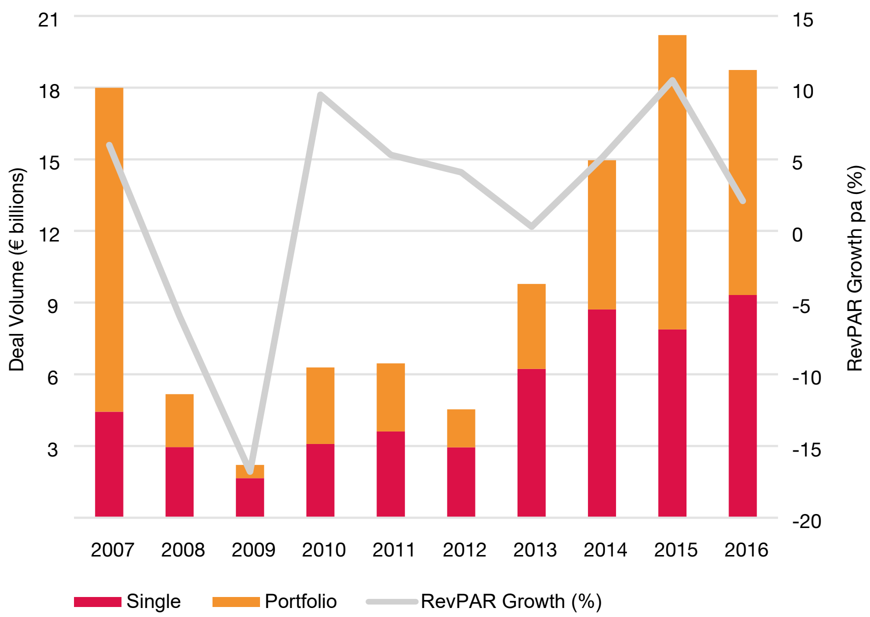
European hotel deal volumes declined by 9.7% to c. €18.7 billion in 2016 compared to the record levels set in 2015 – continuing to track RevPAR growth which also slowed to 2.1% annual growth in 2016 from 10.5% in 2015.

Much of this fall in deal activity was driven by a slowdown in hotel transaction volume in the UK which fell by over 60% compared to a year ago, mainly due to uncertainty surrounding the Brexit vote. Meanwhile the other European hotel markets continued to attract a wide range of investors in what is increasingly becoming a mainstream asset class.

In a year marked by political uncertainty, Germany attracted a record level of investment, benefitting from a profile of steady returns, and accounted for 27% of all European transactions by volume in 2016. Portfolio deals accounted for c. 50% of total transactions in 2016 compared to c. 65% in 2015 – again predominantly Germany and pan European portfolios replacing the larger portfolio transactions seen in the UK in 2015.

The 2016 transaction market also saw investment drawn to the growth in the Southern Mediterranean market destinations of Spain, Portugal, Italy and Greece.

European hotel deal volume(€bn)



Source: PwC Analysis, Hotel Analyst, AM:PM, HVS,Dealogic, STRGlobal, RCA

2016 Investment Summary

Investment trends

Domestic and European investors were responsible for some of the biggest single and portfolio transactions alike in 2016, a notable change to the year before where US, Asian and Middle Eastern investors funded the largest transactions.

Institutional and private investors increased their level of investment activity in 2016, while North American private equity investors sought to exit their European hotel investments in an increasingly mature market.

In terms of the significant 2016 single asset transactions, we saw UK investors investing both at home and abroad, compared to predominantly inbound investment into the UK in 2015.

Top 5 portfolio transactions

Country	Portfolio	Reported Value (€)	Type of Acquirer	Origin of Acquirer
Germany	Interhotel portfolio	c. €810m	REIT	France
France	B&B Hotels	c. €721m	Private Equity	France
UK	Atlas Hotels	c. €668m	Private Investor	UK
Pan European	85 Accor Hotels	c. €504m	Private Equity	France
Pan European	7 European hotels	c. €415m	Real Estate Company	Sweden

Top 5 single asset transactions

City	Country	Single Asset	Reported Value (€)	Type of Acquirer	Origin of Acquirer
London	UK	War Office	c. €430m	Private Investor	UK
Athens	Greece	Astir Palace Vouliagmeni SA	c. €393m	Private Equity	UK
Paris	France	Le Méridien Etoile	c. €365m	Private Equity	UK
London	UK	Double Tree by Hilton, Tower of London	c. €355m	Private Investor	UK
Venice	Italy	Hilton Molino Stucky	c. €280m	Real Estate Company	Italy

Market trends

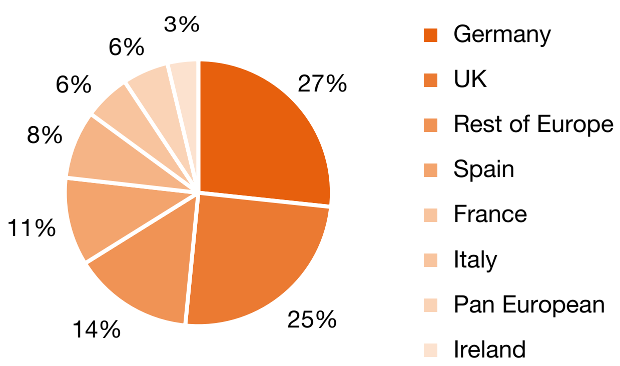
Investors shifted their focus away from the UK hotel real estate market, due to the uncertainty surrounding the Brexit vote, to other European countries, especially Germany which is considered to be more of a safe haven.

The investment in hotel assets in the Nordics and Germany has also been driven by more favourable returns compared to other commercial real estate assets in these markets. Despite the recent terror attacks in France, hotel deal volumes were maintained in 2016, mainly due to one significant portfolio deal (B&B Hotels) and two large Parisian single hotel asset deals (Le Meridien Etoile and Sofitel Le Faubourg).

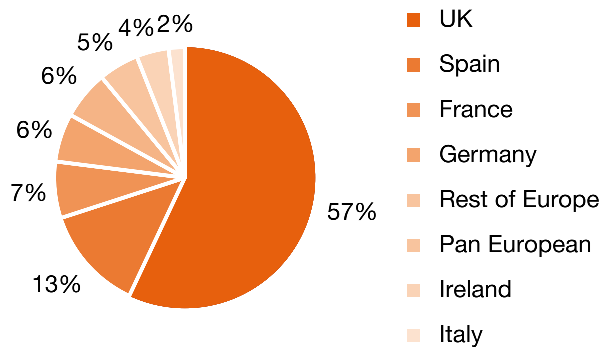
Spain's hotel market continued to experience significant investor interest – with high demand for both luxury assets, highlighted by the Hotel Villa Magna in Madrid attracting a record price of €1.2m per key; and distressed opportunities with a number of significant NPL (non performing loans) transactions.

There was an increase in transaction volume in Rest of Europe hotel assets compared to 2015 driven by demand from overseas investors who considered prime western European cities too expensive. With Greek authorities working with financial institutions to develop a framework to remove impediments from sales of distressed loans, we anticipate a greater level of hotel deal activity in Greece shortly.

2016 total transaction value (€bn)



2015 total transaction value (€bn)



Deals Outlook 2017

"Asset Light" here to stay

The trend goes on for hotel companies to sell off their real estate to release equity and focus on their managed and franchised operations and brand expansion.

Early in 2017, AccorHotels announced it had entered into discussions with potential investors to acquire the majority of its property subsidiary HotelInvest, valued at €6.6bn as at 31 December 2016. This project is expected to conclude by the end of H1 2017, and could release capital for the Group to enable investment into either HotelService, responsible for managing and franchising hotels, or to potentially consider another mega acquisition in the sector.

Also in 2017, Hilton Worldwide Holdings Inc. completed the spin-off of both its timeshare and lodging properties businesses into two separate publically traded companies, Hilton Grand Vacations Inc. and the REIT Park Hotels & Resorts Inc. at an initial market cap of c. $2.6bn and c. $5.9bn respectively.

Mega hotel companies on their way

2016 saw the completion of two of the sectors largest megadeals that were announced at the end of 2015: Marriott International's acquisition of Starwood Hotels & Resorts was completed in September 2016, creating the largest hotel company in the world with more than 5,500 hotels across 100 countries; and AccorHotels completed its acquisition of Fairmont Raffles Hotels International in July 2016, increasing its global presence in the luxury hotel market, and creating a hotel company with 4,000 hotels across 95 countries.

The rise of inbound Asian capital

In December 2016, HNA Tourism Group acquired Carlson Hotels including its 51.3% stake in the Rezidor Hotel Group; in February 2017 they then submitted an offer for the outstanding shares in Rezidor. Whilst at the time of writing, this offer has been rejected by the shareholders, this transaction points to the trend of Asian investors growing their stake in the European hotel market.

Since 2014 Europe has witnessed total inbound Asian investment of c. €2bn into major private hotel groups and c. €2.7bn in public hotel companies. This is a trend that, despite new regulations restricting outbound Chinese investment, looks set to continue.

What to expect in 2017

European hotel investments began 2017 on a strong note with the sale of a portfolio of 19 Merlin Hotels in Spain and the Germany based A&O Hotels and Hostels; and further deals reported to be in progress including the pan-European Generator Hostels portfolio, the Italy based Boscolo Hotels, the U.K. Hilton Metropole hotels, a German 13-hotel IHG franchisee portfolio and 4 Melia hotels in Spain.

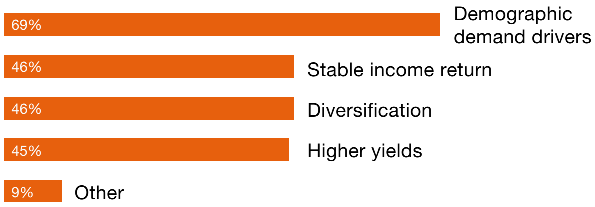
Although general elections in France, the Netherlands and Germany could impact some investment activity, we anticipate a similar level of hotel transaction volume in 2017 following better than expected macroeconomic data emerging from the UK and Europe over the past few months and the continued investor interest in this alternative asset class.

Emerging Trends in Real Estate 2017

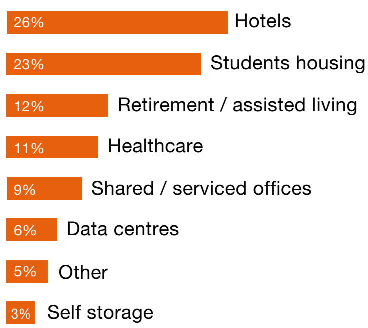
Alternatives dominated the list of sectors deemed to have the best prospects for 2017 as 44% of industry leaders stated that they would like to invest in these sectors, a 16 percentage point increase over the previous two years. Originally we understood that many investors were attracted to alternatives due to the yield profile they offered compared to mainstream sectors, however, the high yield is the fourth most common rational now behind demographic drivers, stable income return and diversification as outlined in the graph here.

For those already active in alternatives, hotels lead the way as illustrated in the graph below, with respondents expressing preference for leased hotels over those subject to management contracts or owner operated, where there is more operational risk.

Reasons for considering alternatives



Currently active in alternative real estate sectors



Source: Emerging Trends in Real Estate Europe survey, PwC and the Urban Land Institute, 2017

Note: Respondents could choose more than one category, so percentages do not add up to 100.

The European cities forecasts

From Amsterdam to Zurich: Which cities are best placed to grow in 2017 and 2018?

Amsterdam

Amsterdam had another good year in 2016. Supply is still increasing, but the enforcement of official curbs on hotel development should help limit growth and help lift existing hotel performance further. The growth trend is projected to continue into 2017 and 2018 with ADR prices driving RevPAR growth while occupancy remains relatively flat.

Role

Amsterdam is the capital of the Netherlands and also its financial and cultural hotspot. The city attracts businesses and tourists due to the favourable business climate and numerous attractions. In 2016 the city had a record number of guests (estimated 7.2 million increase of 5.8%) and a large number of multinationals have their headquarters here, such as Heineken, ING, Philips, Booking.com, ABN AMRO, Tommy Hilfiger, Shutterstock and WeWork.

The city is renowned for its ability to retain capital, people and ideas as well as maintaining that performance in the long term. Due to the favourable business climate the city sees more and more companies moving to Amsterdam

Historical trading

The Amsterdam hotel market has shown robust performance since 2009. However, 2016 marked a turning point where occupancy growth stabilized and pushed a solid ADR performance, and a 3.1% in RevPAR. For 2017, we expect the performance to be less spectacular than 2015 and 2016, but the growth will continue.

Supply trends

Municipal policy has led to significant increase in supply over the last few years. 2016 has seen an increase of 2,000 rooms to the total of 32,000 rooms in the city. For 2017/2018 we estimate that the number of hotels will increase by approximately 22 and the room supply will grow by approximately 5,900 rooms.

The introduction of the new “hotel stop” policy to be enforced by the municipality of Amsterdam, will mean it will be very difficult to develop new hotels in Amsterdam centre. The “hotel stop” policy could have a long term effect on the lodging market in Amsterdam in the sense that prices may rise and this might stimulate the supply of alternative accommodation.

The city has come to an agreement with AirBnB, in an effort to create a level playing field. In this agreement AirBnB and the municipality have agreed to prevent and reduce illegal vacation rentals and share information.

Due to rising prices of hotel rooms the AirBnB supply is growing. Currently the city offers 13,849 listings. The estimated occupancy is 26% and the average ADR €133.

Opportunities

The number of overnights booked by tourists in Amsterdam grew again in 2016. In the first nine months of 2016, the number of overnight stays grew 7.4% on average. For 2016 Schiphol expects to welcomed 63.6 million passengers, an increase of 9.2% (including transits).

The city is to draw international attention with the Amsterdam Dance Event, which attracted as many as 365,000 visitors in 2016. Also the city’s top ten museums attracted a record number of visitors in 2016: approximately 7.8 million.

The hotel stop policy is likely to drive hotel values in established parts of the city. This combined with good market performance and a growing economy makes the investment market attractive.

2017 and 2018 forecast:

In 2016, the Dutch economy grew by 1.6% and unemployment fell further to 6.0%. This improvement was mainly driven by domestic consumption and investment. The economy is expected to continue to grow steadily at 1.6% in 2017 and 1.8% in 2018 benefiting from improving labour market conditions and low interest rates, in line with the rest of the Eurozone.

Amsterdam’s hotel market saw strong growth in 2016 of 3.1% in RevPAR, driven by an increase in ADR as occupancy remained flat. This trend is projected to continue into 2017 and 2018 with ADR prices driving RevPAR growth while occupancy remains relatively flat.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	78%	131	102
2016	78%	135	105
2017F	**78%**	**137**	**108**
2018F	**79%**	**139**	**110**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	3.1%	8.2%	11.6%
2016	0.0%	3.2%	3.1%
2017F	**0.4%**	**1.7%**	**2.1%**
2018F	**0.8%**	**1.4%**	**2.2%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Barcelona

Barcelona has become a key tourist destination and a series of events and conferences planned for 2017 and 2018 as well as a hotel moratorium are expected to drive further growth in RevPAR, largely through price increases.

Role

Barcelona is the second largest city in Spain and one of the most visited cities in Europe, currently ranked fifth in ICCA's list of most popular destinations for meetings and events.

This success is due to the city's wealth of contrasts, wide-ranging gastronomic options and an infrastructure ideally suited to this market sector.

Historical trading

In 2016, the Barcelona-El Prat airport registered more than 44.1 million passengers, an increase of 11.2% compared to 2015. This increase shows that Barcelona's touristic appeal is still growing.

As a result, 2016 was a very strong year for the hotel sector in Barcelona, with RevPAR increasing by 10.7% taking it to €104.7 mainly due to a significant increase in ADR, +8% to €136.7. Occupancy rates grew in 2016 by 1.6% to reach 76.6% for the year.

Supply trends

8 new hotels that were already in pipeline before the moratorium opened this year in Barcelona with a total of 540 new rooms.

Hotel real estate investment plummeted for the second year in a row due to the hotel moratorium (lost investment has been estimated at €100 million). The moratorium imposed a freeze on licensing new tourist accommodation. This has affected the pipeline of new supply. As an example, the moratorium is said to have halted the plan to convert the Agbar Tower, a signature 38-story office tower on the central Avenida Diagonal, into a luxury hotel. In January 2017 the property was sold to Merlin Properties for office-use.

One of the largest hotel transactions for 2016 in the city was the sale of the Pullman Skipper to Shaftesbury for €93 million. However, hotel investment in the city in 2016 has decreased significantly and turned investors' interest towards Madrid.

Many municipalities around the world are wrestling with the growth of the sharing economy – especially taxation and regulatory issues.

In November, Barcelona imposed a €600,000 fine on Airbnb and HomeAway for advertising unlicensed touristic apartments.

As of January 2017, Barcelona had c.18K Airbnb accommodation listings (compared to 9.5K in 2015).

Opportunities

In 2017, Barcelona will once again host the GSMA Mobile World Congress, the world's largest exhibition, conference and networking event for the mobile industry. The 2016 edition attracted more than 101,000 visitors, c.16% more than in 2015.

With its hospitals and its leading medical facilities, Barcelona already receives about 20,000 medical tourists each year. With the initiative "Barcelona Medical Destination", the city wants to continue to promote medical tourism to foreign countries where access to good medical care is more difficult.

In 2017, new air routes will be inaugurated between Barcelona and major Asian cities. For example new direct flights will link Barcelona to Seoul and Hong-Kong. Low-cost and other European airlines are also opening new routes to different European cities.

2017 and 2018 forecast:

The Spanish economy grew strongly at 2.6% in 2016 with unemployment falling further to 19.6%, still at high levels but expected to continue to fall. Growth is expected to continue in 2017 and 2018, at 2.3% and 1.9% respectively, rates slower than 2015 and 2016 as some factors that contributed to the boost in consumption, including low energy prices and low inflation, will reverse.

Barcelona has become a key tourist destination and a series of events and conferences planned for 2017 and 2018 as well as a hotel moratorium are expected to drive further growth in RevPAR, largely through price increases.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	75%	125	95
2016	77%	137	105
2017F	**78%**	**142**	**110**
2018F	**80%**	**146**	**116**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	3.3%	6.4%	9.9%
2016	1.6%	8.9%	10.7%
2017F	**1.8%**	**3.6%**	**5.4%**
2018F	**2.4%**	**2.8%**	**5.2%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Berlin

Berlin is a vibrant city and an attractive destination for international travellers. The city was hit by a terrorism attack in December 2016 – but reports suggest it has had a relatively short-term impact. RevPAR grew strongly in 2016 and we forecast continued growth in 2017 and 2018, mainly driven by increases in ADR.

Role

Berlin is not only the political centre of Germany, but also an important cultural destination. By the end of 2016 the share of foreign visitors amounted to about 45%. The German capital is young and vibrant, and in the last few years has increasingly attracted start-up companies. As such, the city welcomes both leisure and business travellers. In 2016 business stays amounted to approx. one quarter of all overnight stays.

Historical trading

The strong 8.3% y-o-y growth in 2015 was not to be repeated in 2016. Berlin´s RevPAR still increased by 3.6% and reached €74 in 2016. The result was mainly driven by an ADR of €96 in 2016 compared to €93 in 2015. In contrast, average occupancy of 77% remained roughly on the same level as 2015 (+1%). Berlin´s occupancy rate is still above the German average.

The terrorism attack in December 2016 led to hotel booking cancellations. However, the impact has not been as significant as those seen in Paris and Brussels recently.

Supply trends

In 2016 there were at least 15 new hotels in the Berlin pipeline ranging from the budget segment up to exclusive four-star-hotels. This will add about 3,700 hotel rooms to the current market within the next two years.

Motel One is further expanding its business and in 2017 opens two new hotels. One of them will be operated within the new Upper West property, a 118m high building very well located within the city centre in the Western part of Berlin (582 rooms). The other Motel One opening will be next to the Alexanderplatz. This high-rise building will comprise 708 rooms and will be the largest Motel One Hotel in Germany.

The midmarket segment in general is very well supplied in the pipeline of hotel projects in Berlin.

Deals

Investment in the German hotel sector has proven again to be very attractive in 2016. The biggest portfolio deal was the acquisition of the former Interhotel portfolio by Foncière des Régions – including the Park Inn Berlin Alexanderplatz (1,012 rooms), the Westin Grand (400 rooms) and also the Mercure Hotel Potsdam (Greater Berlin, 210 rooms).

Opportunities

With several upcoming cultural events, such as Luther 2017, Berlin should record increasing tourist numbers in 2017. To ensure this, a new website called "365/24 Berlin" has been launched in 2016 and will be promoted worldwide.

After years of delay, Berlin Brandenburg Airport is now expected to open in 2018 and will be able to handle the growing tourism volumes. New overseas connections will support tourism and the MICE segment will benefit from the new airport.

Berlin reached a landmark 30 million overnight stays already in 2015 and 40 million stays in the medium term is considered realistic.

2017 and 2018 forecast:

The German economy grew by 1.7% in 2016, largely due to low oil prices, low interest rates and low inflation which drove private consumption and outweighed the decline in external demand from emerging markets. In 2017 and 2018, the economy is forecast to continue to grow, albeit more slowly, by 1.4% and 1.5% respectively. The lower growth is driven by the rebound in inflation and energy prices. Unemployment is expected to remain at historic lows in 2017 and 2018.

Berlin is increasingly attractive as a tourist destination and a magnet for new hotels and business conferences, especially in the start-up arena. RevPAR grew strongly in 2016 and we forecast continued growth in 2017 and 2018, mainly driven by increases in ADR.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	76%	93	71
2016	77%	96	74
2017F	**78%**	**97**	**75**
2018F	**78%**	**99**	**78**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	3.1%	5.0%	8.3%
2016	0.8%	2.7%	3.6%
2017F	**0.5%**	**1.6%**	**2.1%**
2018F	**1.1%**	**2.0%**	**3.1%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Budapest

Budapest is increasingly finding its way onto tourist itineraries, bringing robust growth for hoteliers. The industry has a positive outlook as upcoming mega-events and the government's targeted tourism developments are expected to attract more visitors, motivating investors to increase hotel capacity. Despite this growth, ADR and RevPAR remain far behind many leading European cities, limiting the sector's profitability.

Role

Budapest, the "Pearl of the Danube", is starting to take its place as a well-known tourist hub between the East and the West. Recognised for its rich history, diverse cultural heritage, beautiful baths and vibrant nightlife, the city has been voted 10th in TripAdvisor 2016 Traveller's Choice in Europe (and was placed 25th worldwide). In addition to being the economic, political and cultural centre of Hungary the city is the driving force for tourism, attracting over 60% of incoming international tourists.

Historical trading

The hotel industry had a strong year as both occupancy rates (+2.7%) and average room prices (+6.0%) have increased, resulting in an 8.8% RevPAR growth.

Despite the 14% growth in guest nights over the last four years and a significant 34% increase in RevPAR during the same period (2013-2016), the Hungarian hotel industry's prices still lag behind its European counterparts, straining hoteliers' profitability.

Supply trends

Hotel supply has not increased on par with the rising visitor flow, as hotel capacity in Budapest has grown by less than 1% over the last two years, reaching a little over 19,300 rooms.

The supply of short-term private apartment rentals, however, has grown rapidly, currently offering an estimated 8,000 rooms. Hoteliers are feeling the pressure, but the local tax authorities' recent move to more strictly control private accommodation hosts' revenues might begin to level the playing field.

In response to the expected growth of tourism, the coming years will be about expansion: in 2017 and 2018, 20 new hotels, with an additional 2,600 rooms are expected to open, indicating investors' faith in the sector's growth. The majority of the openings will be in the four and five-star segments, providing accommodation to the higher spending visitors, who are the key target of the new national tourism strategy.

Deals

Deal flow over the last two years has been slow, with only seven hotel transactions carried out in Budapest. Owners are valuing their assets high as real estate prices are increasing and the Hungarian tourism sector is performing strongly, with an even more robust outlook for the coming years.

Thus, owners are placing their bets on their assets, and are more likely to be looking for expansion than to sell off their money-makers.

Opportunities

Upcoming mega-events are expected to accelerate tourism developments and attract a significant number of international visitors. Budapest will host the FINA World Swimming Championships in the summer of 2017, along with the now-traditional Formula 1 race and a series of festivals – providing both an opportunity and a challenge for the city to accommodate the sharply increasing number of guests. Budapest will also host the Euro Championship, the European Water Polo Championship, and the European Aquatics Championship in 2020.

2017 and 2018 forecast:

In 2016, GDP growth for Hungary was 2.5%. The Hungarian economy will continue to grow over the next two years, at a similar pace, with GDP forecast to grow at 2.5% in 2017 and 2.4% in 2018. Growth will be driven by large infrastructure projects, launched in the context of the new cycle of EU structural funding, and strong private consumption.

The positive economic outlook coupled with a series of events such as the swimming championship and the media attention due to the Olympic bid (albeit withdrawn), coupled with increased marketing activity, will contribute to the good performance forecast for Budapest's hotel market in 2017 and 2018.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	73%	71	52
2016	75%	75	56
2017F	**76%**	**79**	**60**
2018F	**78%**	**85**	**66**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	6.1%	6.1%	12.6%
2016	2.7%	6.0%	8.8%
2017F	**0.9%**	**5.9%**	**6.8%**
2018F	**2.5%**	**7.4%**	**9.9%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

NB: Hungary's currency is HUF but for the purposes of the forecast and this report we have presented data in €.

Hungarian tourism is expected to benefit from the government's focus on the sector, which is eliminating administrative burdens, cutting the VAT rate for restaurant services, allocating significant funds for tourism development and creating a new national tourism strategy that shifts the focus to high-end quality tourism service offerings.

Further labour and accommodation service-related tax reductions could enable hoteliers to invest more in their people and their services.

In addition, the long-awaited new conference centre (currently planned for 2018/2019) could lead to increased RevPAR by attracting higher spending MICE tourists.

Dublin

A myriad of factors including the continued economic recovery and improved air access, has helped demand for hotels in Dublin continue apace. 2016 marked double digit growth in RevPAR for the third year in a row, primarily driven by a further increase in room rates. The impact of Brexit is unknown, however with limited new supply coming on stream in 2017, further RevPAR growth is expected.

Role

Dublin is Ireland's capital and economic centre, home to 40% (Greater Dublin Area) of the population, and host to a vast array of corporate European headquarters, such as Google, LinkedIn and Facebook. In 2016, Dublin was voted third in Lonely Planet's cities to visit and the world's third friendliest city according to Condé Nast Traveller. Dublin has c.5 million overseas visitors a year, drawing an ever more international and dynamic visitor base through conferences, festivals and large sporting events.

Historical trading

Continued GDP growth, combined with an increase in overseas visitors, improved Irish consumer confidence, and continued lack of new supply, has led to another strong year for the hotel industry. RevPAR increased by 16.1%. This was driven in part by occupancy rates, which are now some of the highest in Europe at 82.5% representing a 0.6% increase on 2015. However, the main driver of RevPAR has been an increase in rates, which increased by 15.5% to €128, compared to €77 in 2010.

Supply trends

The number of hotels in Dublin has remained relatively static over the last 10 years, with only five openings since 2007. Currently there are 147 registered hotels. This equates to 18,500 rooms, and represents a third of the bedroom stock in Ireland. With visitor numbers continuing to grow year-on-year (14% H1 2016) there are ongoing concerns regarding the lack of new supply. According to a Fáilte Ireland report, 80 prospective new hotel projects are in the pipeline, of which 65 are likely to be open by 2020.

New bedrooms capacity is estimated to be c.5,550, with 3,800 of these being from new hotel projects and the balance being from extensions to existing hotels. It is estimated that Dublin will have up to 300 new bedrooms in 2017 and 700 in 2018.

Deals

According to CBRE, there were 66 hotels sold in Ireland in 2016 with a total value of over €800 million. Sales included some well-known Dublin hotel properties such as The Gresham Hotel, the Doubletree by Hilton and the Lifestyle Collection (The Spencer, Morgan and Beacon hotels). Two of the largest hotel groups in the country, Dalata and Tifco, acquired various leasehold hotel interests. The volume of hotel sales is expected to ease in 2017, following two record years.

Opportunities

The impact of Brexit and the election results in the US on the Irish economy and tourism is unknown. Early indications are that 2017 may see a fall off in UK visitors, Ireland's largest single source market, due to the weakness of Sterling. But, further growth in tourism numbers is expected from North America, mainland Europe and Asia. Tourism strategies such as the 'Destination Dublin' and the 'Ancient East' are continuing to attract more visitors. Dublin Airport had a record-breaking 28 million passengers in 2016, which exceeded the 2015 record by more than 2.8 million. Additional new routes and capacity are expected in 2017.

2017 and 2018 forecast:

The Irish economy is forecast to continue to grow but at a more moderate pace with GDP growth forecast at 3.3% in 2017 and 3.0% in 2018, compared to 4.0% in 2016. Although consumption and investment growth remain robust, driving further growth, external risks such as Brexit and trade-related uncertainty are likely to hinder export growth in 2017.

The Irish hotel market has experienced double digit growth in RevPAR for three years in a row, driven mainly by further recovery in room rates in 2016. With little new supply putting pressure on prices, hopes are high for continued growth in both 2017 and 2018.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	82%	111	91
2016	82%	128	105
2017F	**83%**	**138**	**115**
2018F	**84%**	**147**	**123**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	4.8%	17.2%	22.8%
2016	0.6%	15.5%	16.1%
2017F	**0.7%**	**8.0%**	**8.7%**
2018F	**0.9%**	**6.5%**	**7.4%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

"2016 was another very strong year for Dublin hotels. We thought growth might taper off a little from 2015, but this was not the case – we saw double digit growth again, primarily driven by room rate. We replaced some of our group business with the transient international leisure business, the American market was particularly strong.

The backdrop for 2017 is not as benign as 2016, there are a number of risks e.g. Brexit and the weakness of the sterling. However, we are expecting continued RevPAR growth in 2017, albeit, not at quite the same levels as 2016. Growth will be helped by more new air routes at Dublin Airport and a limited amount of new supply coming on stream."

John Brennan, Chief Executive Office, Amaris Hospitality Limited (Jurys Inn, Hilton, Mercure/ MGallery and The Hotel Collection)

"2016 was a bumper year, we had a number of record breaking months. While occupancy remained relatively static, room rates grew by close to 20%. There was some fall off in in UK numbers due to Brexit and the weakening of the pound, but increases in visitors from North America, Canada, Scandinavia, France and Germany made up for it.

Looking at 2017, we expect our performance for January and February to be much the same as 2016, however March, April, May are looking very strong. All the growth is likely to come through rates, although we don't envisage the same growth as 2016. We will continue to refine our rates, but need to be careful to remain competitive."

Stephen Williams, Sales and Marketing Director, Windward Management

"2016 was a terrific year, we grew RevPAR by 20% in our Dublin Hotels, on top of a very good 2015. All our markets saw good growth, there were further improvements in the domestic market, the corporate market was strong and the transient international market grew. There is little scope for occupancy growth in Dublin so, in a healthy demand environment, there is room for 2017 growth in ADR which remains competitive compared to Amsterdam and Barcelona."

Sean McKeon, CFO, Dalata Hotel Group

"2016 was a very strong year with double digit growth, albeit there was a slight softening in November and December – perhaps due to the Web Summit leaving Dublin and the US elections in November. Occupancy across our Dublin properties was in the high 80s/ low 90s and there was good growth in room rates. Business from the US was strong and there was no fall off from the UK, following Brexit.

The indicators for 2017 are good, maybe not to the same extent as 2015 and 2016. The strong dollar, and additional flights from the US and the Middle East into Dublin Airport will help. There is speculation that sterling will continue to weaken against the euro, this would potentially impact the hotel sector in Ireland. We expect RevPAR growth to be in the high single digits in 2017, principally driven by rate. The UK conference market is looking strong for this year."

Enda O'Meara, Managing Director, Tifco Hotel Group

Frankfurt

As Germany's financial and business centre, Frankfurt's hotel market is expected to benefit from the country's economic growth as well as recovering Eurozone countries into 2017 and 2018. The 2017 International Automobile Fair (IAA) show is also expected to drive 2017 to a stronger growth rate.

Role

Frankfurt and the Rhine-Main area are economic top-performers in the German and international economic landscape. Frankfurt is the financial centre of Germany. Tourism in Frankfurt is dominated by business travellers and as such, demand for hotel rooms is especially strong during the week and outside vacation periods.

With the fourth biggest European airport, Frankfurt was able to serve more than 60 million passengers in 2016. The city also hosts international fairs and several other important events every year.

Historical trading

In 2016 the occupancy rate remained flat at 69.8% compared to the previous year. ADR decreased by 1.7% and reached €124 overall in 2016 (in 2015 it had been €126). As a result, RevPAR was down by around 2% y-o-y. It reached €86 in 2016 compared to €88 in 2015. Overall 2016 remained a good year for Frankfurt's hotel market and RevPAR surpassed the 10-year-average by 13%. This represented the second highest value since 2001 – after 2015.

Supply trends

Frankfurt's hotel capacity amounted to 46,400 hotel beds in 2016; these were spread over 249 hotels. The pipeline for the next few years is encouraging. In total, at least 17 hotels are expected to enter the market up till 2018 and will add some 3,500 rooms to Frankfurt's hotel supply. The projects range from budget to upscale properties.

Marriott's Moxy brand will enter the Frankfurt hotel market with three new properties with a total of 782 rooms. Steigenberger will launch an upscale hotel near the main train station. In the eastern part of the Europaviertel Holiday Inn Express Frankfurt will add another 162 rooms and is thus expected to further increase competition in the area. The Soluxe Hotel, an upscale product, has been under construction since 2008; the date of opening is not yet scheduled.

Deals

The hotel property market for hotels at the Frankfurt Airport was very active in 2016: the "The Square" including the Hilton Frankfurt Airport and the Hilton Garden Inn was acquired by Blackstone, two other hotel projects at the Airport were sold to Hansa Invest and Union Investment.

Opportunities

2016 was a turbulent year for the European economy. So far the German market has been spared any serious negative impacts of the Brexit vote. Several international banks have already confirmed their plans to move operations (partially) to different cities and Frankfurt is expected to benefit from these moves.

A further important pillar of Frankfurt's hotel industry is the fair trade. For 2017 a total of 31 fairs is scheduled. The biggest fair will be the International Automobile Fair in September. This will support occupancy and ADR trading.

Finally, the low-cost carrier Ryanair will start to use Frankfurt airport instead of Frankfurt-Hahn (120 km east of Frankfurt) and this move could further stimulate the hotel industry in Frankfurt.

2017 and 2018 forecast:

The German economy grew by 1.7% in 2016, largely due to low oil prices, low interest rates and low inflation which drove private consumption and outweighed the decline in external demand from emerging markets. In 2017 and 2018, the economy is forecast to continue to grow, albeit more slowly, by 1.4% and 1.5% respectively. The lower growth is driven by the rebound in inflation and energy prices. Unemployment is expected to remain at historic lows in 2017 and 2018.

Following strong growth in 2015, driven by the IAA show, Frankfurt experienced a decline of -1.6% in RevPAR in 2016 although ADR and occupancy rates remained at record highs. As Germany's financial and business centre, Frankfurt's hotel market is expected to benefit from the country's economic growth as well as recovering Eurozone countries into 2017 and 2018, with the 2017 IAA show also expected to drive 2017 to a stronger growth rate.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	70%	126	88
2016	70%	124	86
2017F	**71%**	**127**	**90**
2018F	**72%**	**130**	**93**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	2.0%	6.7%	8.8%
2016	0.1%	-1.7%	-1.6%
2017F	**1.5%**	**3.0%**	**4.5%**
2018F	**1.1%**	**1.9%**	**3.0%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Geneva

Following modest growth in RevPAR of 0.5% in 2016, we forecast a decline in RevPAR in 2017, mainly driven by ADR, and near 0% growth in RevPAR in 2018. The Swiss franc, although stable, remains appreciated and puts pressure on Geneva's hotel market which, although dependent on the relatively stable business demand from the UN and other organisations, is also dependent on the more price sensitive leisure tourists.

Role

Geneva is one of the world's top commodity trading centers and a strong contributor to the Swiss economy. The city attracts both leisure and business tourists. As one of the birthplaces of Swiss watchmaking, it is a paradise for luxury shoppers, and as the "Capital of Peace", it presents the hub for dozens of international organisations and non-governmental organisations, such as the United Nations European headquarters and the International Red Cross.

For MICE guests, Geneva offers numerous prestigious events such as the Geneva Motor show, the Salon International de la Haute Horlogerie, Bol D'Or and the Geneva Lake Festival.

Historical trading

Over the last three years, occupancy has stabilized at around 67.3%. However, ADR was on a constant decline between 2007 and 2015, with 2016 being the first year with a slight rise of CHF 2 to CHF 278. RevPAR has simultaneously increased by CHF 1 to CHF 187.

Supply trends

Geneva's hotel room supply stayed rather constant over the last three years at 86 hotels and 6,351 rooms in 2015. Geneva shows restricted growth in terms of supply, as space and building permits are restricted.

Competition for Geneva's hotels comes from hotels in France as well as Airbnb and other sharing platforms in Geneva. Listed Airbnb properties increased from around 1,200 in 2015 to 2,300 in 2016, almost doubling the number of listed properties.

Summer 2016 saw the beginning of a negative trend in demand, attributable to the lack of Middle Eastern tourists that normally boost summer demand.

Despite this recent trend, new hotel projects are underway such as the Hôtel Palexpo with an Ibis Budget and Ibis Styles, the Marriott at the Airport, the hotel project of Stellar 32 and the Radisson Blu.

Opportunities

Although Middle Eastern demand is expected to decline, this market remains an opportunity for tourism in Geneva, if it adapts its touristic offer to this target market's needs.
The economic downturn means Middle Eastern clients are choosing to stay at 4 star rather than 5 star hotels.

A threat to business tourism includes the restructuring of corporate taxes in Switzerland. Geneva is under particular pressure from Corporate Tax Reform III which has been rejected, and needs to maintain its fiscal attractiveness through reducing standard taxes on profits, which might lead to tax shortfalls for the Canton.
Otherwise international companies might look for alternative locations with more tax privileges and business demand might as a consequence decrease.

2017 and 2018 forecast:

In 2016, economic growth started to recover from the 2015 slowdown. The Swiss franc has remained relatively stable since the appreciation in January 2015. Private demand and business confidence remain weak but have recently improved contributing to moderate GDP growth of 1.3% in 2016. As the global economy continues to recover and the Swiss franc remains stable, GDP growth is forecast at 1.3% in 2017 and 1.5% in 2018. Moreover, the rise in unemployment in both 2015 and 2016 is expected to reverse and is forecast to fall by around 2% in both 2017 and 2018.

Following modest growth in RevPAR of 0.5% in 2016, we forecast a decline in RevPAR in 2017, mainly driven by ADR, and near 0% growth in RevPAR in 2018. The Swiss franc, although stable, remains appreciated and puts pressure on Geneva's hotel market which, although dependent on the relatively stable business demand from the UN and other organisations, is also dependent on the more price sensitive leisure tourists.

Annual hotel statistics

	Occupancy	ADR (CHF)	RevPAR (CHF)
2015	68%	274	186
2016	67%	277	187
2017F	**67%**	**273**	**184**
2018F	**68%**	**271**	**184**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	0.5%	-4.4%	-3.9%
2016	-0.5%	1.0%	0.5%
2017F	**-0.1%**	**-1.5%**	**-1.6%**
2018F	**0.8%**	**-0.7%**	**0.1%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Lisbon

Following three consecutive strong years in RevPAR growth, we forecast continued growth in Lisbon's hotel market. Limited new supply and large conferences and events planned in the city are expected to push ADR further with occupancy reaching record high levels.

Role

Lisbon is the capital of Portugal and the oldest city in Western Europe. Its history, culture, gastronomy and sunny sky are some of its major attractions.

In 2016 Lisbon was awarded with the Wallpaper Design Award for 'Best City', and the World Travel Awards for Europe's leading cruise destination and cruise port. Moreover, it is third in the Time Out City Index for most animated cities and is in TripAdvisor's Top 25 Worldwide Destinations. China Daily describes Lisbon as a 'city for lovers', due to its architecture and history, including Sintra landscapes.

Five Lisbon hotels won awards in 2016 including: Europe's leading business hotel, leading design hotel, leading landmark hotel, luxury hotel & conference centre and luxury rooftop view hotel. Lisbon figures in the list of 100 best reputation hotels of the world, by Trivago.

Historical trading

Occupancy levels in 2016 grew 1.0% when compared to the previous year. ADR grew 7.2% to €98 and the RevPAR reached €73, which represented an increase of 8.2% when compared with 2015.

Supply trends

During 2017, 13 new hotels are expected to open in Lisbon, adding about 1,000 new rooms to the city (5% of actual supply).

Additionally 120 rooms will be added by extensions to existing hotels.

The supply increase focus mainly on new upscale and small boutique hotels.

Opportunities

Lisbon is both a cultural and business city with a good safety and security record and this is expected to help increase Lisbon's visibility in 2017 and 2018.

According to Portugal's tourism statistics, air traffic to Lisbon grew 11% during 2016 when compared with previous year. Among others, Ryanair announced five new routes to Lisbon (Bologna, Glasgow, Luxemburg, Toulouse, Wroclaw); Delta Airlines will open a New York-Lisbon route and Capital Airlines will provide an air bridge between Lisbon and Hangzhou (China).

Lisbon hosted some major events in 2016. Most will repeat. Web Summit was considered an absolute success and the event will stay in Lisbon at least until 2018 (some foresee 2020), which promises to attract even more participants than the first meeting (53,000 attendees in 2016, expected to reach 60,000 attendees in 2017). Another major event being held in Lisbon in 2017 will be the European Association for the Study of Diabetes conference that should bring about 18,000 tourists to Lisbon. In 2017, the city will be the Ibero-American Capital of Culture. In addition there are plans to host several cultural conferences.

2017 and 2018 forecast:

The Portuguese economy continued its slow recovery in 2016 with GDP growth of 1.2%, slightly low of expectations, and unemployment falling further to 11.0%. The economic recovery is expected to continue at 1.2% in 2017 and 1.1% in 2018, lower than previously expected, largely due to uncertainty in the banking sector holding back investment and an unemployment rate that remains high.

Following three consecutive strong years in RevPAR growth, we forecast continued growth in Lisbon's hotel market. Limited new supply and large conferences and events planned in the city are expected to put further pressure on ADR with occupancy reaching record high levels.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	73%	91	67
2016	74%	98	73
2017F	**75%**	**102**	**77**
2018F	**76%**	**108**	**82**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	3.7%	6.4%	10.3%
2016	1.0%	7.2%	8.2%
2017F	**1.1%**	**4.5%**	**5.6%**
2018F	**1.5%**	**5.3%**	**6.8%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

London

London saw RevPAR declines in nine months in 2016 but latterly saw a dramatic rally which has continued into 2017. Positive economic growth and the weak pound should help boost travel demand and we forecast RevPAR growth of 3.3% in 2017 taking RevPAR to £120, driven by a 2.4% ADR increase. After two consecutive years of declining growth, we anticipate a 0.9% increase over 2016, keeping occupancy high at 82%.

Role

London is the largest urban area in Europe, a mega city and one of the world's largest financial centres. It leads in many fields and global business clusters. It is a leading destination for international tourism.

Historical trading

What a difference the last two months of 2016 made to London's hoteliers. After a largely dismal year, December marked London's highest year-over-year RevPAR growth since the 2012 Olympic Games, according to STR Global data. We didn't anticipate such a sensational finish in London. While the end of year flourish is partly a reflection of the impact of weak comparable following the November Paris bombings in 2015, it also reflects the positive impact of the weak pound and better than expected GDP growth.

Supply trends

For 2017 around 8,000 rooms could open in the capital. If all open (and often this is not the case as opening dates slip) this will mean a 5.8% increase over 2016. This is practically double the figure added in 2016, according to AM:PM. This will make it a challenge to fill all the new rooms but with a high proportion of the new rooms being branded budgets, with a large domestic customer base, existing non-budget operators should still be able to benefit from stronger demand driven by the weak pound. For 2018 there are already around 5,000 rooms set to open, meaning potential net growth of 3.7%.

Opportunities

Continued economic growth post the Referendum vote remains a positive factor underpinning business and holiday demand. The weak pound has made the UK more affordable for inbound tourists and at last appears to be making an impact on the number of holiday visitors to the UK from abroad with growth coming from America in particular as well as Europe. In 2016, London saw its second highest summer period on record.

In terms of outlook, the World Travel & Tourism Council (WTTC) as well as the Global Business Travel Association are generally positive and forecast more travel growth for key European countries. VisitBritain's forecast for inbound visits for 2017 is also positive with an expectation for 38.1 million visits, an increase of 4% on 2016; and an 8% increase in spending.

In terms of downsides, it's unclear how the Brexit negotiations will play out; how long the beneficial effect of the weak pound may last; and while holidays remain a top priority for UK consumers it's worth noting that they are easy to cut spending on given their big ticket nature; terrorism continues to cast a potential shadow over many major European cities including London; a lack of events won't help either but 2017 will see the ICC Cricket Champions Trophy, the World Athletics and Para-Athletics Championships as well as Cardiff hosting the UEFA Champions final in June.

2017 and 2018 forecast:

UK economic growth held up better than expected immediately after the Brexit vote, particularly as regards consumer spending and services with 2016 seeing average GDP growth of around 2.0%. We expect UK GDP growth to slow to around 1.5% in 2017 due to the drag on business investment from increased political and economic uncertainty following the Brexit vote, and 1.5% in 2018 as Brexit negotiations become clearer.

The positive economic outlook for the UK and most Eurozone countries, in combination with a weaker pound, is likely to benefit London. However, the performance of the market is also highly dependent on how key geopolitical issues including the Brexit negotiations play out during the year.

Annual hotel statistics

	Occupancy	ADR (£)	RevPAR (£)
2015	82%	143	117
2016	81%	143	116
2017F	**82%**	**146**	**120**
2018F	**82%**	**149**	**123**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	-1.0%	2.2%	1.2%
2016	-0.9%	0.0%	-0.9%
2017F	**0.9%**	**2.4%**	**3.3%**
2018F	**0.5%**	**2.0%**	**2.5%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Madrid

As the Spanish economy is expected to continue its recovery and Madrid gains further competitiveness as a major business centre, expectations for the hotel market remain favourable.

Role

Madrid is the capital and business centre of Spain. It remains a business destination but it is also a major international leisure destination due to its many cultural attractions, and is one of the most visited destinations in Europe. In addition, it is the third city in terms of world congress tourism, hosting important meetings and international conventions, such as FITUR (International Tourism Fair) or ARCO Madrid (International Contemporary Art Fair).

Historical trading

2016 showed a significant growth in RevPAR (7.2%) driven partly by rising occupancy rates, which are now at around 70.5% (+2.1% from 2015) but mainly by the 5.0% increase in average ADR to €97.7, the highest rate since 2008. Following the decrease in ADRs caused by the financial crisis, ADR levels have been increasing since 2009, especially in the four/five-star hotel segment. Performance has experienced robust growth in the last three years.

Supply trends

Madrid City saw a slight decrease in the number of hotel rooms that opened in 2016. However, the number of five-star hotel rooms grew by 12%.

The luxury hotel trend is experiencing significant growth: 29.6% of hotel real estate investment in Spain was in the five-star hotel category in 2016. New luxury hotel projects are also in the pipeline. Four Seasons has decided to open its first Spanish hotel in the Canalejas Building, one of the most prestigious historical buildings of the city center. Opening has been delayed to Q1 2019. Also in 2019, another new luxury hotel of 600 rooms is set to open after the sale of the emblematic Edificio España in December. This hotel will be operated by RIU and will be the group's first urban hotel in Spain.

The historical Celenque was bought by KKH Capital Group and Perella Weinberg RE for €90 million to convert it into a luxury hotel.

The Spanish record for highest price per room paid in an asset transaction was broken in March with the sale of Villa Magna, one of the most luxurious five-star hotels in Madrid, with a price per room of €1.2 million.

Madrid has been benefitting from the impact of the hotel moratorium in Barcelona and also the political uncertainty caused by the independence movement in Catalonia. Madrid province captured approximately 31% of the total volume of investment in hotels in Spain in 2016.

Significant increase has been experienced in 2016 regarding alternative accommodation: Airbnb offers c.13K accommodation listings in Madrid in January 2017 (compared to only 6.4K in 2015).

Opportunities

In January 2017, Madrid hosted the International Tourism Fair's (FITUR) 37th edition, with an increase of 6% in number of visitors, a record 245,000.

This summer, Madrid will be hosting the "World Pride", an event in celebration of the LGBT community that is thought to attract more than 3 million participants.

New airline routes were opened in 2016 from Madrid to Indian and Chinese cities which will surely permit larger flows of tourism from Asian countries. New airline routes to European cities were also inaugurated.

2017 and 2018 forecast:

Madrid is Spain's second largest industrial centre after Barcelona, however it is becoming increasingly dominated by the service sector. Similar to Barcelona, Madrid's hotel market witnessed a very strong year in 2016 with RevPAR rising by 7.2% to €69 driven by the continued recovery of the Spanish and other Euro area economies and major international events such as the Pride Parade.

As the Spanish economy is expected to continue its recovery and Madrid gains further competitiveness as a major business centre, expectations for the hotel market remain favourable.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	69%	93	64
2016	71%	98	69
2017F	**73%**	**100**	**73**
2018F	**75%**	**105**	**79**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	6.7%	10.4%	17.9%
2016	2.1%	5.0%	7.2%
2017F	**3.1%**	**2.8%**	**5.9%**
2018F	**3.6%**	**4.6%**	**8.2%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Milan

Milan is one of the most important Italian cities not only for business but also for international fashion and fairs. The hotel market experienced considerable growth in 2015, driven by the EXPO. RevPAR experienced a decline in 2016 but ADR and occupancy levels remained higher than pre-EXPO levels. The legacy of the EXPO, with large investments in infrastructure and other tourism facilities, is expected to contribute to the continued growth of the Milan market forecast at 1.9% and 1.7% growth in RevPAR in 2017 and 2018 respectively.

Role

Milan, one of the biggest and more cosmopolitan Italian cities, is the national business and financial centre and leader in technological and scientific research. Many national and international companies have HQs in the city.

Thanks to its important museums, theatres and landmarks, Milan attracts many visitors. In 2016, around 7,7 million tourists arrived in Milan City, an annual growth of 1,8% with respect to 2015.

The city is also well known for international events and fairs, including Milan Fashion Week (22,000 visitors in 2016, a growth of 10% compared to 2015) and the Milan Furniture Fair (372,000 visitors in 2016, a growth of 4%).

In 2016 there were over 34 thousand events with almost 2.3 million participants.

Historical trading

Driven by the EXPO, 2015 was a very significant year for the sector. EXPO visitors boosted a RevPAR increase of 27.8% and ADR by 16.8%.

In 2016 Milan hosted the UEFA Champions League's Final and benefited from improved economic fundamentals, but the slowdown of 2016 showed the effects of a 'technical' catch up after 2015's growth, with a RevPAR fall of -14.7% and an ADR decline of -9.8%.

Supply trends

In 2015 demand for rooms (rooms sold) increased by around 12.1% and supply (rooms available) increased by 2.4%. Under the effects of the 'catch-up' trend, 2016 demand decreased by -9.0% and supply by -3.6%.

The wave of investments in the hotel sector started with the EXPO continued in 2016 and will continue to 2018, with more than 1,000 new rooms added in ambitious hospitality plans.

Some notable investments and deals of 2016 include the opening of the facility RoomMate Giulia, the sale of B&B Cenisio to Beni Stabili and the acquisition of Nhow Milan by Finint SGR.

Opportunities

The luxury and 4-stars hotel sector in Milan is growing strongly in terms of transactions, with new deals and investment coming from both national and international investors. New trends include the increasing budget and limited service hotels offer, and the conversion of office buildings into hotels in the heart of Milan.

Milan is now more attractive for the incentive segment, thanks to the urban transformation: from the Citylife and Porta Nuova project completion to redesign of the disused railway stations; thanks to new cultural centres designed by important architects, like the Fondazione Prada of Rem Koolhaas or Fondazione Feltrinelli of Herzog & De Meuron. The new Statale Univesity campus and Human Technopole project has located to the former EXPO area.

Milan has attracted international luxury chains like Melià, Fattal, Starwood, Shangri-la, Tulip, Marriott, Millennium and Accor. The budget and limited service segment is considered a segment with high potential.

2017 and 2018 forecast:

The recovery of the Italian economy is expected to continue in 2017 and 2018 with GDP forecast to grow at moderate rates of 1.0% in 2017 and 1.1% in 2018. Despite improvements in the labour market, rising political uncertainty and weak export growth contributes to weaker than expected growth as a result of weak recovery in consumer and business confidence.

Following the large, one-off, increase in RevPAR in 2015, as a result of the Milan 2015 EXPO, RevPAR experienced a decline in 2016 with ADR and occupancy levels remaining higher than pre-EXPO levels. The legacy of the EXPO, with large investments in infrastructure and other tourism facilities, is expected to contribute to the continued growth of the Milan market forecast at 1.9% and 1.7% growth in RevPAR in 2017 and 2018 respectively.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	69%	150	104
2016	66%	136	89
2017F	**66%**	**138**	**91**
2018F	**66%**	**139**	**92**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	9.4%	16.8%	27.8%
2016	-5.4%	-9.8%	-14.7%
2017F	**0.3%**	**1.6%**	**1.9%**
2018F	**0.7%**	**1.0%**	**1.7%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Paris

Paris remains the 2nd most popular destination in Europe, attracting leisure tourists through a diversified cultural offer and business travelers thanks to its central location in Europe. 2016 was a challenging year marked by a decreasing RevPAR resulting from a reduction in both OR and ADR. However, in 2017, economic trends coupled with attractive events and conferences are expected to fuel the recovery in occupancy. We forecast a growth in RevPAR, mainly driven by a rise in occupancy rate. The dynamism of key market players in Paris is illustrated by the development of a tailored offer through digital and new diversified services, which should positively impact the position of Paris in Europe.

Role

Paris is highly attractive to domestic and international tourists thanks to its rich cultural (2,185 listed monuments) and shopping offer. Over 15.2 million visitors stayed in a hotel in Paris in 2015 (OCTP) and 11.9 million in Jan-Oct 2016 (-8.6% over the same period in 2015). Paris also hosted the UEFA Euro 2016 final. At the center of the European economy, Paris is also a major city for international conferences (1,000+ in 2015) and business travellers (34.9% of nights spent in 2015 and 48.4% in Jan-Oct 2016, OTCP), representing a loyal and less price-sensitive customer base.

"At the end of 2016 and the beginning of 2017, some tourism data show signs of recovery. It could be the starting point of the hospitality industry rebound."

Charles-Henri Boisseau,
Observatoire Economique du Tourisme Parisien

Historical trading

Following the terrorist attacks in Paris (January and November 2015) and Nice (July 2016), occupancy decreased to a historical low of 69.4% in 2016 (-9.6% from the previous year).

Combined with a reduction in ADR (€229.5 on average, -4.0%), this led to a drop in RevPAR, mainly driven by leisure tourism as business tourism remained strong, to reach €159.3 on average (-13.2%). At the end of the year, RevPAR data showed signs of recovery.

Supply trends

In 2017, renovations (five-star Crillon and four-star Lutetia) and new openings (four-star Okko) will add capacity in the luxury segment. In 2018, the five-star Cheval Blanc (LVMH) will open in the Samaritaine building.

While there is a quality upgrade in Paris hotel supply (despite -13.8% and -18.8% in four-star and five-star RevPAR over Jan-Nov 2016 compared to Jan-Nov 15 according to MKG), economy and budget segments are increasingly dominated by existing or new hostels and collaborative economy players. Following UEFA Euro 2016, Airbnb reached 50k+ listings in July 2016 (+27% compared to Feb. 2016),

2017 and 2018 forecast:

In 2016, the French economy continued to recover from a period of low growth. GDP growth is forecast at 1.6% in 2018.

As the economy recovers, unemployment will continue to fall and is projected to reach 9.0% by 2018.

We forecast recovery in RevPAR, mainly driven by occupancy levels in 2017 and 2018.

Note that these figures mainly relate to midscale, upscale and luxury hotels (STR data scope). Regarding economy/budget hotels, after a strong decrease in ADR and OR in 2016 (resp. -4.4% and -5.4pts to reach €86.0 and 66.8% – CRT Jan-Oct 2016), a RevPAR stagnation is forecast in 2017. We forecast a rebound in 2018 (+2.3% in RevPAR), driven by OR (+1.8pts to 71.4%), while ADR is expected to remain flat (€81.7).

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	77%	239	184
2016	69%	229	159
2017F	**72%**	**229**	**165**
2018F	**74%**	**235**	**175**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	-4.7%	2.6%	-2.3%
2016	-9.6%	-4.0%	-13.2%
2017F	**3.8%**	**-0.2%**	**3.6%**
2018F	**3.0%**	**2.8%**	**5.8%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Note: This forecast relates primarily to midscale, upscale and luxury hotels (STR data scope). Economy/budget hotels, saw strong decreases in ADR and occupancy in 2016. RevPAR stagnation is forecast in 2017 too due to a decrease in ADR despite increases in occupancy.

despite new measures addressing illegal listings and tourist taxation.

Deals

After a dynamic 2015 marked by notable deals (e.g. four-star Novotel Tour Eiffel), hotel transactions slowed down in 2016. Investor demand remains, however, strong for luxury assets in Paris (e.g. four-star Le Méridien Etoile acquired by Henderson Park).

Opportunities

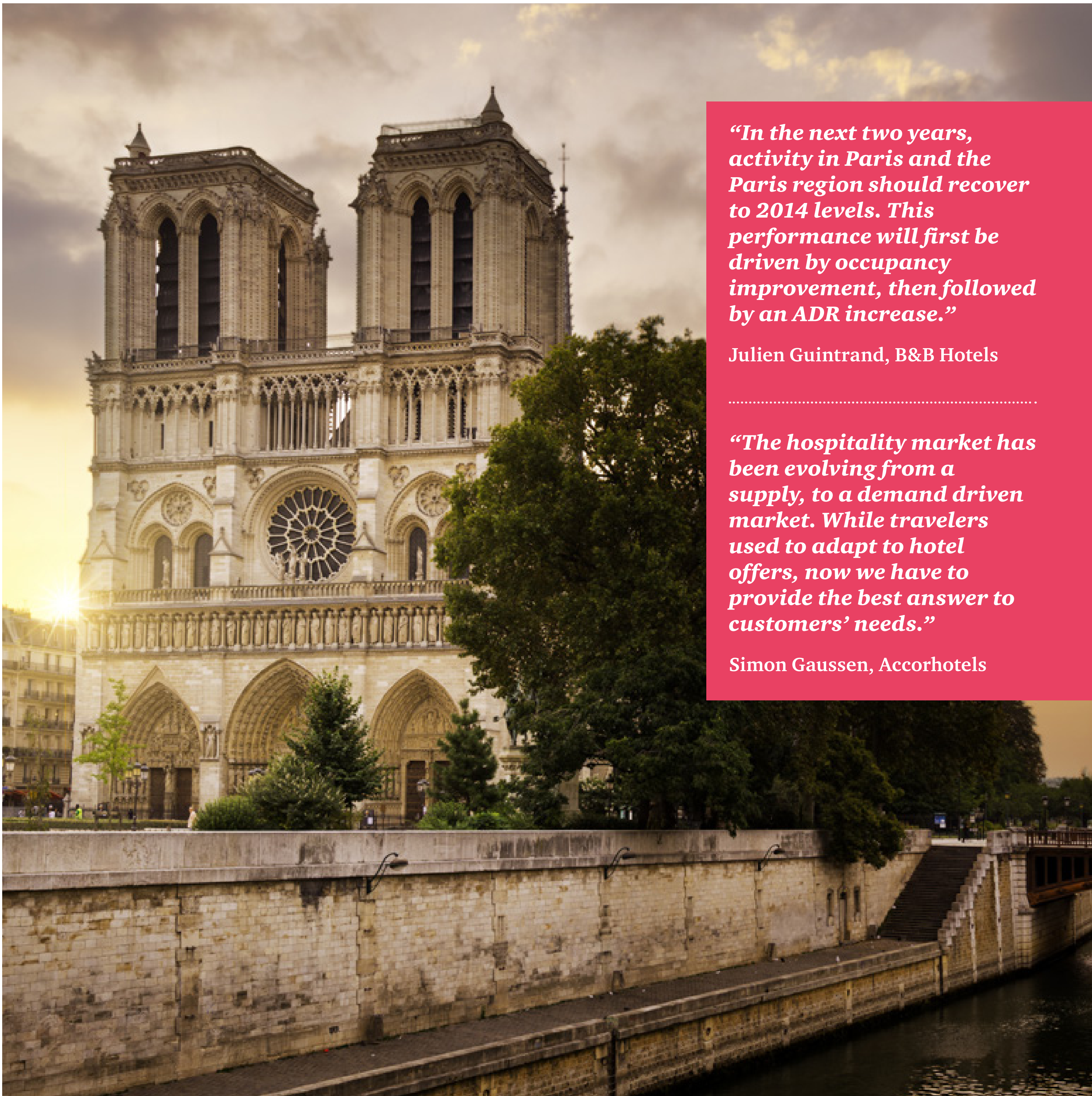
In 2017, economic recovery should continue in France and should pick up more robustly from 2018, driving domestic demand for hotels (36% of demand in 2016, MKG). In early 2017, the market is expected to adopt a wait-and-see attitude due to the upcoming national elections.

In November 2016, Paris launched its 2017-2022 tourism development strategy, aiming at a 2% increase in visitors each year.

Public transportation will also be strengthened through the Greater Paris project (4 new subway lines by 2023), thus improving accessibility to hotels outside Paris.

In 2017 and 2018, attractive events will take place in the Paris region, including the 25th anniversary of Disneyland (14.8 million visitors in 2015), the Ryder Cup, the Paris Air Show (biennial) as well as museum openings (e.g. Yves Saint-Laurent).

In the longer term, Paris has applied to host the 2024 Olympic Games (the host city will be announced in September 2017) and the 2025 World EXPO.



"In the next two years, activity in Paris and the Paris region should recover to 2014 levels. This performance will first be driven by occupancy improvement, then followed by an ADR increase."

Julien Guintrand, B&B Hotels

"The hospitality market has been evolving from a supply, to a demand driven market. While travelers used to adapt to hotel offers, now we have to provide the best answer to customers' needs."

Simon Gaussen, Accorhotels

Porto

Porto's reputation is growing as a leading European tourism city destination. The hotel market has demonstrated its resilience to unfavourable macroeconomic conditions and other external factors by growing in double digits for three consecutive years. New airline routes and a diverse programme of international events and conferences added in the past few years are expected to continue to increase tourism demand to Porto driving both ADR and occupancy levels higher.

Role

Porto is the second-largest city in Portugal and has been a World Heritage site for 20 years. Well known for its great Porto wine and its delicious gastronomy, Porto is an historical city rich in cultural activities that has been recognized as a 'magical city' by the BBC.

Porto was elected best European destination in 2012, 2014 and now again for 2017 by the European Best destinations Awards. In 2016, the city was awarded Best Tourist Destination, Best City Break and Best City Attraction by World Travel Awards. Porto Council was awarded Best Local Authority 16 by Publituris Portugal Trade Awards, listed in the Best Destinations to visit in 2016 by The Telegraph Travel, Top 10 emerging destinations 2016 by Successful meetings, awarded third Best World destination on the rise 2016, One of Porto's hotels was awarded by World Travel Awards as Portugal's Leading Conference Hotel.

Supply trends

There are currently 77 hotels and about 5,700 rooms in Porto Municipality. Three new hotels opened in 2016 with 235 new rooms. The pipeline shows plans to open 20 new hotels (1,108 new rooms) within the next three years.

Historical trading

Once again, Porto had a great year. The Porto Municipality had around 1.2 million guests in 2016 with about 72% being from foreign countries – an increase of 3% from 2015. 16 new flight routes were added to Porto in 2016.

Tourism growth also impacted hotel performance. Following a great 2015, which saw a 6.6% growth in occupancy, 2016 witnessed hotel occupancy grow 4.3% up to 73.5%, achieving a new record. ADR saw a significant 12.1% boost, to €81, driving RevPAR up by 17%, to €59.

Opportunities

Porto continues to gain visibility as a tourism, meetings and business tourism destination, supporting sustainable growth for the hotel sector.

Growth trends are expected to remain positive in 2017 and the expected growth in Francisco Sá Carneiro's Airport supports this trend with 9.4 millions passengers in 2016 and with 14 new airline routes to Porto opened in 2016 and 12 additional routes expected to open in 2017.

Porto will host a further diverse schedule of events in 2017, creating further tourism opportunities. The main events include: the Festival of Saint John (São João), NOS Primavera Sound and NOS D'bandada (music festivals), Porto Marathon, Fantasporto (International film festival), IEMS 17-eighth Industrial engineering and Management symposium, ECSITE Annual conference 17, 19th International conference on enterprise information systems (ICEIS), 24th European Congress on Obesity (ECO 2017), among many others, which should help drive demand in 2017 and 2018.

2017 and 2018 forecast:

The Portuguese economy continued its slow recovery in 2016 with GDP growth of 1.2%, slightly low of expectations, and unemployment falling further to 11.0%. The economic recovery is expected to continue at 1.2% in 2017 and 1.1% in 2018, lower than previously expected, largely due to uncertainty in the banking sector holding back investment and an unemployment rate that remains high.

Porto's hotel market has demonstrated its resilience to unfavourable macroeconomic conditions and other external factors by growing in double digits for three consecutive years. The new airline routes and the diverse programme of international events and conferences added in the past few years are expected to continue to drive more tourists to Porto pushing up both ADR and occupancy levels further.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	70%	72	51
2016	74%	81	59
2017F	**76%**	**90**	**68**
2018F	**78%**	**100**	**77**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	6.6%	13.3%	20.8%
2016	4.3%	12.1%	17.0%
2017F	**3.0%**	**11.8%**	**14.8%**
2018F	**2.5%**	**10.3%**	**12.8%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Prague

Prague's hotel market continued to perform strongly in 2016. The positive economic outlook for the Czech Republic and the Eurozone will help drive the hotel sector. The outlook for 2018 remains positive, albeit weaker than 2017.

Role

Prague, based on Mastercard's' Global Destination Cities Index, remains amongst the world's most visited cities.

Visitors traditionally come to see its extensive historical locations – especially Prague Castle, Charles Bridge, the Old Town Hall and Square, the Loreta, Vysehrad, and its Jewish monuments. As Prague is less exposed to security threats compared to the largest European cities, it is perceived as a safe place for both leisure and business purposes.

Historical trading

Despite a lack of major events Prague hotels experienced another year of robust performance demonstrated by RevPAR growth of 5.5%. Domestic demand was strong and so were the key foreign markets which outweighed significant drop in number of Russian visitors.

Supply trends

Prague currently has c. 50 five-star hotels and c. 200 four-star hotels. In contrast to previous years, there were several openings in 2016 – Hotel Wilson on Wenceslas square with 53 luxury rooms, 21 luxury rooms newly opened in the Dancing House, an unconventionally designed property located on the bank of the Vltava river.

The Accor chain opened the Century Old Town Prague Hotel – Prague's first luxury boutique hotel operated by Sofitel under the MGallery brand.

In addition to the new openings, several large refurbishments took place, such as the Hotel Barcelo.

The luxury segment continues to grow. Further (re)openings were announced for the coming years, e.g. the Grand Hotel Europa on Wenceslas Square with 165 rooms and two five-star hotels on Senovazne Square.

The impact of the sharing economy on Prague's short-term accommodation market is significant, but hard to track.

Deals

The robust performance has attracted significant attention from both established and new investors.

Blackstone sold the Hilton Old Town to the Singapore fund M&L. The Meinl group acquired the Grand Hotel Europa and another property which is to be redesigned as a hotel. China has become a dynamic source of incoming travel demand, and there were also large investments by China-based capital groups. The luxury Mandarin Oriental and Le Palais acquisitions were the most visible recent transactions by Chinese investors. We have also seen large insurance groups investing in premium properties, including hotels, e.g. Česká Pojišťovna group purchased the downtown Prague Inn.

Opportunities

The positive trend is expected to continue in 2017 and is reflected in increased levels of investor activity.

Prague should continue to benefit from being one of the safest capital cities in Europe. Increasing demand from Asian travellers should be supported by new direct flights from Peking, Shanghai and Chengdu.

Looking beyond 2017, room prices could be influenced by the expected appreciation of the Czech Crown. On the supply side, we do not expect significant growth in the number of rooms in Prague; until 2019.

2017 and 2018 forecast:

In 2016, GDP growth slowed to 2.4% largely due to a decrease in investment from EU funds. In 2017 and 2018, the Czech economy is forecast to continue to grow at a moderate but stable pace of 2.6% and 2.4% respectively. The central bank has committed to prevent exchange rate appreciation against the euro until the middle of 2017 but, as the threat of deflation weakens, the policy is expected to be lifted putting pressure on the Czech koruna.

Prague's hotel market continued to perform strongly in 2016 with a 5.5% growth in RevPAR. The stable economic outlook for the Czech Republic and the slow but stable recovery of Eurozone countries contribute to the positive outlook for Prague's hotel market in 2017, driven by further ADR increases. The outlook for 2018 remains positive, albeit weaker than 2017, driven by uncertainties surrounding the lifting of the exchange rate policy.

Annual hotel statistics

	Occupancy	ADR (CZK)	RevPAR (CZK)
2015	75%	2107	1580
2016	77%	2169	1667
2017F	**78%**	**2250**	**1759**
2018F	**78%**	**2300**	**1805**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	6.5%	7.1%	14.0%
2016	2.5%	2.9%	5.5%
2017F	**1.7%**	**3.8%**	**5.5%**
2018F	**0.4%**	**2.2%**	**2.6%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Rome

The hotel market in Rome is expected to continue to grow at a moderate pace. We forecast RevPAR growth rates of 1.1% and 1.2% in 2017 and 2018 with occupancy rates hitting pre-financial crisis levels of 70%.

Role

Rome, the capital of Italy, is not only the city where all the national public institutions, international political and cultural organisations, embassies and biggest companies are headquartered, but it's also the cultural, artistic and spiritual capital of the country. In 2016, the city was visited by more than 8 million cultural visitors and more than 20 million pilgrims for the Holy Jubilee.

In 2016, around 47 million tourists landed at the two airports in Rome, an annual growth of 1,8% with respect to 2015 (considering both national and international tourists).

Historical trading

Even though the Jubilee attracted a considerable number of tourists, the revenue gains for the sectors in 2016 did not match the expected high levels. This can be attributed in part to fears of a possible terrorist attack but also because Pope Francis allowed people to celebrate the Jubilee not only in Rome but also in local parishes.

RevPAR in 2016 grew by just 2.1%, to the 3.1% of the previous year and the 2016 ADR by 1.3%, against a 3.6% of 2015.

Supply and deals trends

In 2015 demand for rooms (rooms sold) decreased by -1.8% and supply (rooms available) of -1.2%. The trend was confirmed also in 2016, where demand decreased of -0.5% and supply of -1.1%.

Rome has always been well-known for its offering of luxury and four stars hotels and in fact, 2015 and 2016 proved to be profitable for these hotel categories. In 2016, two important international openings occurred: the NH Palazzo 500, 177 rooms, and the Generator Hostel, 75 rooms.

In the same year there were some relevant transactions in the sector, both from national and international buyers: the sale of Hotel d'Inghilterra (88 rooms) to Starhotels, the acquisition of Aldrovandi Palace (103 rooms) by Dogus Group and the opening of Nh Palazzo Cinquecento (177 rooms). Accor purchased a hotel portfolio from Invesco, that comprises six hotels, of which two in Italy and one in Rome.

New openings and investments are also scheduled in 2017 and 2018, for a total of about 1,450 rooms.

Opportunities

An ongoing trend in Rome is the investment in the budget and limited service offers. This trend is exemplified by the opening of the Rome Generator Hostel.

Another trend is the conversion of offices and buildings into hotels. One of the most notable example is the redevelopment of the former BNL headquarters into a five stars hotel (100 rooms) of the Statuto Group.

In 2016 interest of hotel investors towards Rome remained high despite the historical lack of investment opportunities.

New international hotel operators, particularly from Asia, continue to seek presence in the main markets such as Rome, Milan and Venice.

2017 and 2018 forecast:

The recovery of the Italian economy is expected to continue in 2017 and 2018 with GDP forecast to grow at moderate rates of 1.0% in 2018 and 1.1% in 2018. Despite improvements in the labour market, rising political uncertainty and weak export growth contributes to weaker than expected growth in private consumption and overall consumer and business confidence.

The positive impact expected from the Jubilee was not as significant as expected for the sector as the Pope allowed The Jubilee to be celebrated in local parishes and pilgrims were put off visiting Rome because of fear of terrorist attacks.

The hotel market in Rome is expected to continue to grow at a moderate pace. We forecast RevPAR growth rates of 1.1% and 1.2% in 2017 and 2018 with occupancy rates hitting pre-financial crisis levels of 70%.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	69%	146	100
2016	69%	148	102
2017F	**70%**	**148**	**103**
2018F	**70%**	**149**	**105**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	-0.5%	3.6%	3.1%
2016	0.7%	1.3%	2.1%
2017F	**0.7%**	**0.5%**	**1.1%**
2018F	**0.5%**	**0.7%**	**1.2%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Vienna

A relatively stable tourism destination and an important conference and events location, we forecast modest growth in RevPAR, driven mainly from ADR as occupancy rates are near capacity.

Role

Vienna is one of the top ten cities worldwide in terms of quality of life. In addition to the No. 1 position in the Mercer 2016 Quality of Living City Rankings, Vienna is ranked third in the Innovation Cities™ Index 2015 Study, showing the world's most innovative cities and highlighting Vienna a top city for start-ups.

Looking at the touristic importance of Vienna, the municipal government has been investing in cultural & touristic supply as well as security & infrastructure in order to meet their stated goals in the published Vienna Tourism Strategy 2020. One primary aim is to increase the Vienna's attractiveness by improving public infrastructure.

Historical trading

Occupancy in Vienna saw strong 2.7% occupancy growth in 2016 taking occupancy to almost 75%, the highest since 2007. But ADR fell by 1.8% to €98. RevPAR still saw 0.9% gain.

Supply

Vienna has around 363 hotels and 32,370 rooms, according to STR Global. There are around four projects and 1,270 rooms under construction currently.

In addition, demand for accommodation on online-marketplaces such as Airbnb or 9flats is on the rise. Supply is mostly concentrated in areas with a high density of existing hotels. Although there is no observable decline in overnight stays on the local market so far, an intensified level of competition with the conventional hotel market is expected. In addition a legal shift in the local legal environment is imminent – existing issues born by tenancy and tax laws & regulations are amplified by recent announcements from Salzburg to further tighten the requirements for services and platforms like Airbnb. A new regulation, coming in 2017, means Airbnb landlords in Austria will be obliged to pay the local city tax – and therefore will need an official registration with the city authorities.

Currently there are 4,961 available listings in Vienna, of which are 3,339 entire homes or apartments.

Deals

Besides increasing investment in hotels in general, two of the most prestigious Viennese hotels were sold in the first half of 2016 – the Hilton Hotel for around €200 million and the Hotel Imperial February 2016 for €78.8 million. Overall, the transaction volume for 2016 is expected to considerably exceed €900 million in Austria (around €650 million in Vienna). Other transactions (among others): The Boutique-Hotel The Ring, the NH Vienna Airport and the NH Salzburg City, the Ibis and Novotel Vienna (Railway Central Station).

Opportunities

A steady, economic performance in combination with increasing arrivals (+6.2 %) and overnight stays (+5.4%) strengthens Vienna's position in Europe and supports the stated goals in Vienna's "Tourism Strategy 2020". Possible challenges may arise as a result of recent changes in tax regulation (increase in VAT).

2017 and 2018 forecast:

In 2016, economic activity in Austria picked up following three consecutive years of growth below 1%. A gradual recovery is expected to continue in 2017 and 2018, driven by a major tax reform implemented in 2016, catch-up of foreign investment and recovery of domestic demand. GDP is projected to grow by 1.2% in both 2017 and 2018.

A relatively stable tourism destination and an important conference and events location, we forecast modest growth in RevPAR, driven mainly from ADR as occupancy rates are near capacity.

Annual hotel statistics

	Occupancy	ADR (€)	RevPAR (€)
2015	73%	100	72
2016	75%	98	73
2017F	**75%**	**99**	**74**
2018F	**76%**	**100**	**76**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	0.9%	4.7%	5.6%
2016	2.7%	-1.8%	0.9%
2017F	**0.2%**	**1.1%**	**1.3%**
2018F	**0.9%**	**1.5%**	**2.4%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Zurich

Following a decline in RevPAR for two consecutive years in 2015 and 2016, the hotel market is expected to continue on a negative trend in terms of RevPAR growth. This decline is driven by decreasing prices and flat occupancy rates as a result of a large influx of supply expected to come into the Zurich market putting further downward pressure on room prices.

Role

Zurich is a major business hub thanks to its favorable taxes, modern meeting infrastructure and its environment for research and innovation. The city also attracts leisure tourists as it is a leading city in terms of quality of life and transport connections. Zurich Airport is the largest airport in Switzerland and is used as a gateway to visit other destinations in Switzerland.

Historical trading

Occupancy has stayed relatively constant during the whole year. Over the last three years, average occupancy has stabilized at 73%.

For the first five months of 2016 ADR was higher or equal to the same period in 2015, but from May to the end of the year, this changed and the gap widened further. Therefore, average ADR has decreased significantly from CHF 237 to CHF 230 and RevPAR from CHF 174 to CHF 168 respectively. 2016 shows the lowest RevPAR since 2012.

Supply trends

Total supply of hotel rooms in Zurich has seen an increase between 2010 and 2015, while the number of hotels has stayed relatively constant. In 2015, Zurich offered 122 hotels with 8,013 hotel rooms. Due to lower demand for office space many former office properties in Zurich came to be vacant, leading to many budget and upscale hotel projects in the city's pipeline.

The forecast shows that around 2,300 rooms will be added during the next four years – which is around 20% of the current supply. Even if demand increases, the rise in supply is likely to add even more downward pressure on the RevPAR.

The hotels that are in the pipeline include 25hours, ACASA Suites, Motel One, A-JA Resort, Harry's Home, B&B-Hotel, Meininger, Hyatt Regency and Hyatt Place.

Opportunities

Zurich has potential to increasing both business and leisure tourists. The number of leisure tourists visiting Zurich is moderately increasing, as they are getting used to the strong Swiss franc and as they want to enjoy the high-quality services and products. Also business and MICE demand is expected to moderately increase further with new meeting infrastructure projects.

The expected increase in demand is however not likely to keep up with the increase in supply. Therefore hotel returns are expected to decrease in the coming years.

The current political uncertainty in the US and EU further strengthens the Swiss franc as a safe haven.

Also a major topic that is likely to threaten tourism is the Corporate Tax Reform III which has been rejected. The fiscal attractiveness for international companies is likely to be lowered and investment might decrease. As a consequence international companies might leave Zurich and the advantages as a business hub might be threatened.

2017 and 2018 forecast:

In 2016, economic growth started to recover from the 2015 slowdown. The Swiss franc has remained relatively stable since the appreciation in January 2015. Private demand and business confidence remain weak but have recently improved contributing to moderate GDP growth of 1.3% in 2016. As the global economy continues to recover and the Swiss franc remains stable, GDP growth is forecast at 1.3% in 2017 and 1.5% in 2018. Moreover, the rise in unemployment in both 2015 and 2016 is expected to reverse and is forecast to fall by around 2% in both 2017 and 2018.

Following a decline in RevPAR for two consecutive years in 2015 and 2016, the hotel market is expected to continue on a negative trend in terms of RevPAR growth. This decline is driven by decreasing prices and flat occupancy rates as a result of a large influx of supply expected to come into the Zurich market putting further downward pressure on room prices.

Annual hotel statistics

	Occupancy	ADR (CHF)	RevPAR (CHF)
2015	73%	236	173
2016	73%	230	168
2017F	**73%**	**223**	**164**
2018F	**74%**	**217**	**160**

Growth on previous year

	Occupancy	ADR	RevPAR
2015	0.4%	-1.1%	-0.7%
2016	-0.2%	-2.7%	-2.9%
2017F	**0.3%**	**-3.1%**	**-2.8%**
2018F	**0.2%**	**-2.5%**	**-2.3%**

Source: Data: STR Global 2017
Econometric forecast: PwC 2017

Methodology for the hotel forecasts 2017 and 2018

This section outlines in more detail the PwC models used to forecast hotel occupancy, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) for 17 European cities.

Data

Our hotels dataset provided by STR Global contains ADR, hotel room supply, demand and occupancy on a monthly basis for each of the 17 cities.

Macroeconomic variables such as GDP growth and Consumer Price Indices (CPI) were obtained from Eurostat for all countries except Ireland and Switzerland. For Ireland, GDP data were obtained from the Irish Central Statistics Office (CSO). For Switzerland, GDP data were obtained from the State Secretariat for Economic Affairs (SECO) and CPI data from the OECD Statistics database. All exchange rate data were obtained from Thomson Reuters Datastream. The total nights spent by residents and non-residents in hotels, used to calculate GDP weights, and are also obtained from Eurostat for all countries. (See note [1] below).

Econometric model

We developed a two-stage least squares (2SLS) instrumental variables approach that models hotel demand and price (ADR) using a two-stage process with the specifications on the panel of data for the 17 cities. This allows us to include relationships between cities as well as the trends for each city. As we used a panel dataset instead of individual time series, this is different from the modelling approach we used for London and the rest of the UK in our report published in September 2016: UK hotels forecast 2017.

Forecasts

Forecasts for ADR growth and hotel demand were generated using PwC forecasts of macroeconomic variables, supplemented by additional forecast data for hotel supply based on country-level pipeline data provided by STR Global. Allowance was made for attrition in the existing supply stock and pipeline based on historic trends and local expectations. RevPAR forecasts were constructed using ADR, demand and supply forecasts. This model was used to generate forecasts through to 2018.

1 We have used a weighted GDP measure in our models; this is a weighted average of GDP growth of the major countries of origin of hotel guests, the weights being the proportion of hotel guests from the corresponding country. For example, if 80% of Edinburgh hotel guests were from the UK, 10% from France and 10% from the US, then, the weighted GDP measure for Edinburgh is the weighted average of GDP growth in the UK (weight 80%), France (10%) and US (10%).

Further reading

Visit *www.pwc.com/hospitality* or contact Liz Hall,
Head of Hospitality and Leisure research

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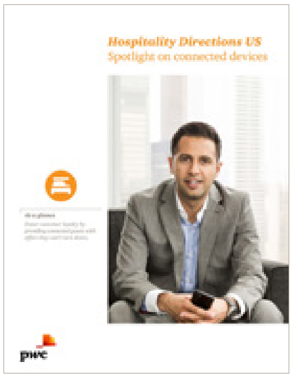

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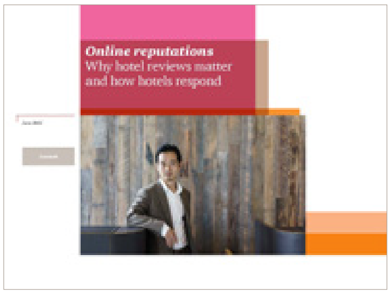

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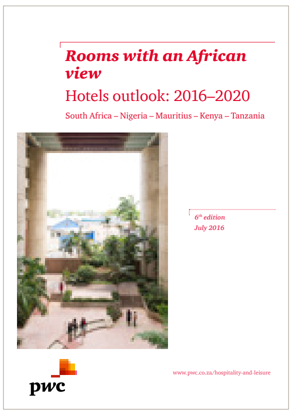

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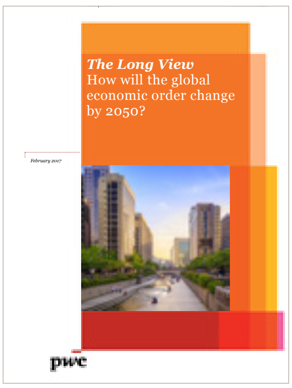

Five steps to success in the sharing economy

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