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# MERCURY RISING ON THE SPANISH HOTEL MARKET

## HOTEL AND TOURISM HIGHLIGHTS

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## Introduction

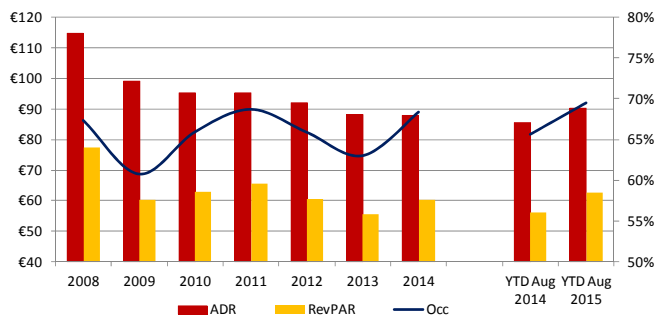
Over the last 18 to 24 months, investors have been all over Spain, and improving occupancy and rate performances across various markets has helped to drive values, further enhancing this positive trend. This article considers some of the key trends we have seen in both urban and resort markets over the last few months. We focus more specifically on Madrid and Barcelona, as well as Marbella, Ibiza and Tenerife as prime examples.

## Urban Hotel Markets

### Madrid

Occupancy and rate performance have significantly improved across markets, and this has been particularly true for Madrid. This is reflected in Figure 1, followed by some highlights of the market.

FIGURE 1: KEY PERFORMANCE INDICATORS – MADRID (€)



Source: Exceltur

- Occupancy is currently at its highest point since 2008 and although there is some way to go for rate to recover to pre-crisis levels, it seems clear that real growth is back in 2015, with rate increases of over 5.0% year-to-August;
- Though still far from its peak years, Madrid's Barajas Airport showed good growth in passenger movements in 2014 after a number of years with declining performance. Similarly, with more than 16.5 million overnights in 2014, Madrid achieved a record annual figure, with an increase of 11.1% on 2013, partly due to some large events such as the FIBA

Basketball World Championship. This trend is expected to continue in 2015;

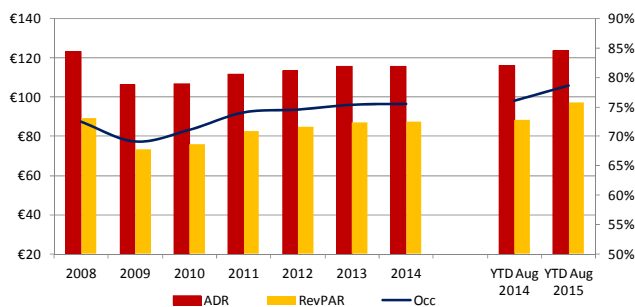
- New urban developments will continue to shape and expand the city in the coming years; among them are the Four Tower Skyscraper district (previously the Real Madrid Football Club training ground) as well as Valdebebas, west of the airport;
- The city suffered considerably during the financial downturn, especially with the drastic decrease in MICE (Meetings, Incentive, Conventions and Events) demand, something that also affected IFEMA, the largest exhibition grounds in Madrid. Anecdotal evidence suggests a reversal of this trend is already happening;
- Two hotels have recently been reclassified from five- to four-star, mainly due to accommodated demand from the lucrative pharmaceutical industry, which still shies away from five-star hotels;
- International hotel brands remain somewhat underrepresented in Madrid, resulting in slightly higher occupancy levels for the branded properties due to loyalty programs and reputation. The airport area suffers from considerable oversupply, resulting in strong downward pressure on room rates;
- Madrid has unsuccessfully applied to host the Olympic Games three times, using significant funds which could have been invested in a tourism strategy. In order to more aggressively fill the untapped potential to market Madrid as a destination, similar to Barcelona, a new tourism entity was put together at the end of 2014 (Clúster de Turismo) consisting of private and public institutions;
- Finally, exciting times are ahead for the Madrid hotel market in terms of new supply. The 215-room Four Seasons Hotel is currently under construction next to the Puerta del Sol in the city centre, expected to open after 2017. Also, in May 2015, Mandarin Oriental and Olayan announced

the acquisition of the Ritz Madrid, a historic luxury hotel operated by Belmond. The comprehensive refurbishment in 2017 will result in a brand new property with the Mandarin Oriental flag. Madrid's hoteliers are hopeful that both projects will not only establish a true luxury hotel market in the city but also help lift overall average rate.

## Barcelona

The traditionally broader seasonality and demand base of Barcelona have allowed this market to weather the storm better than Madrid over the last few years. Average rate growth to August was also strong at close to 7%. The most salient points are listed below:

FIGURE 2: KEY PERFORMANCE INDICATORS – BARCELONA (€)



Source: Exceltur

- Tourism demand continues to grow in Barcelona. Two components warrant more attention: the MICE market is expected to grow further as some large conventions will be returning to Barcelona in 2016/17, having been held elsewhere in Europe over the last few years; and Barcelona has become the Mediterranean's most important cruise terminal. Construction on what will be the largest terminal in Barcelona is expected to start in 2016 and finish in 2018. In 2015, the Allure of the Seas, currently the largest cruise ship in the world, has started servicing the city. Given the harbour's status as a home port, hotels in the city (especially upscale) benefit enormously from this demand;
- Barcelona's El Prat International Airport is the second largest in Spain and offers good connections. Nevertheless, some long haul flights require a change in Madrid which is

not favoured by tourists or business travellers;

- In Madrid the domestic market makes up around half of the visitation, while in Barcelona this amounts to only 20%. The strongest international source markets are the UK and the USA for both cities;
- In May 2015, Ada Colau Ballano was elected the new mayor of the city. In an effort to ensure more 'quality tourism' for Barcelona, she has placed a moratorium on approving new hotel developments and short-term rentals until July 2016 alongside initiating a study for a more sustainable development (PEUAT – Plan Especial Urbanistico de Aljament Turisticos);
- Barcelona has a significant number of holiday apartments whose owners operate without the necessary permits. The recent move of the new mayor is expected to somewhat mitigate this issue;
- Due to the moratorium, new hotel supply should slow down. Projects which had previously started the administrative process to secure permits could now be delayed. Sources from the Municipality report that about 35 projects (3,000 rooms) will be delayed, while 51 projects (10,000 rooms) are very likely to go ahead;
- Large, international luxury hotel operators would further increase the city's perception and demand from high-paying customers;
- While there have long been claims for an independent Catalonia, the elections in September 2015 resulted in a majority pro-separatist parliament, but not in a majority of votes for independence. It remains uncertain how such a move could impact tourism and the hotel industry in Barcelona;

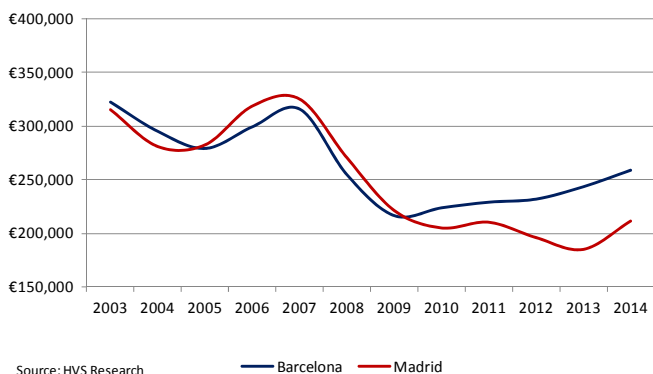
- Even though a decrease in tourism spending is noticeable, Madrid and Barcelona are listed in the top five European cities (top 15 globally) in terms of spending from foreign visitors. This is according to a 2015 report by MasterCard which includes both spending and flight ticket to the destination.

### Hotel Values Madrid versus Barcelona

In line with the previous points, Figure 3 compares values per room for both markets, as determined by the HVS Hotel Valuation Index.

Although hotel performance has improved, and the economic prospects of the country have become more certain, it is evident that there is significant room for improvement for these markets to recover to historical value levels, especially for Madrid.

FIGURE 3: VALUE TRENDS BARCELONA VS MADRID (€ PER ROOM)

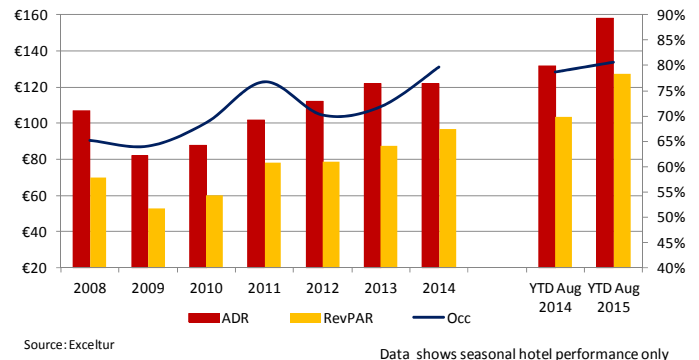


## Resort Hotel Markets

### Ibiza – Balearic Islands

In contrast to the urban markets, the seasonality of resort markets generally make them more challenging prospects for investors. However, strong rebounds in performance and a favourable touristic environment also bode well for Ibiza, Marbella and Tenerife as examples of resort destinations in Spain. These are some highlights:

FIGURE 4: KEY PERFORMANCE INDICATORS – IBIZA (€)



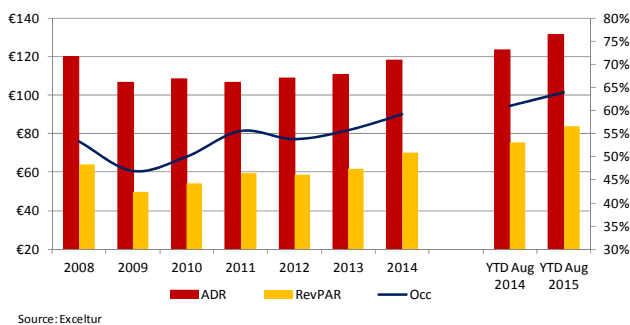
- The last couple of years have been remarkable in terms of RevPAR performance, with a mix of strong occupancy and/or average rate growth, which continues in 2015 (with an astonishing RevPAR growth close to 20%). The arrival of branded, high profile supply, such as the 493-room Hard Rock Hotel Ibiza in June 2014, as well as the addition of more international flights, is partly to thank;
- Ibiza has globally been established as a well-known party destination. The island's government and the Spanish Tourist Office have recently started an effort to promote the island as a family and year-round sports destination;
- From an international brand perspective, in addition to the Hard Rock Hotel, there is now a Relais & Chateaux property (Mirador de Dalt Vila); otherwise, the majority of the other hotel chains are mostly local/Spanish ones, such as Palladium Hotel Group, ME by Melia, Hoteles Invisa, Intertur and PlayaSol Hotel Group;
- Villa and apartment rentals constitute the overwhelming majority of available accommodation on the island, while the majority of hotels under star classifications belong to the three-star category and lower. While in 2010 70% of the arriving tourists used hotels, this has come down to 56% in 2014;

- Travelopo, a large European vacation rentals agency has a significant amount of the available accommodation on the island under its umbrella; the website currently lists more than 1,300 rentals;
- The island’s governing council recently approved new legislation regarding nightclubs’ closing times. The new law stipulates that nightclubs will have to close by 06.30, and should come into effect from mid 2016. The new legislation comes as an answer to violations of legislation already in place by large nightclubs, and is part of the effort towards establishing the island as more of a family destination;
- Reportedly, UK-based property developers and real estate investors, the Reuben Brothers, recently acquired three miles of the southwestern Ibiza beachfront (Cala Bassa, Cala Conta – including the Sunset Ashram beach bar and restaurant – and Es Penyal) for €25 million, with the aim of building a number of luxury seafront developments.

### Marbella – Costa del Sol

As opposed to Ibiza, Marbella faced a challenging number of years of performance. Matters such as oversupply, declining demand and issues with planning at municipality level, prevented this market from shining for a while. However, the tide has turned, and for the last couple years performance has been stellar. Some highlights follow Figure 5:

FIGURE 5: KEY PERFORMANCE INDICATORS – MARBELLA (€)



market suffers from severe seasonality; even though the golf market is present in the shoulder months, it can never substitute the MICE which fills hotel rooms in other destinations. Occupancy levels in December and January sink well below 50%. In order to fill their rooms, some hotels rely heavily on tour operators at the expense of average rate. An increasingly important element to the hotels staying open in winter is the football training camps, which are good business for hotels since the players generate revenues in all of the hotel’s departments;

- The Costa del Sol was hit hard by the financial crisis and many hotels had to close or seasonally close down over winter. Upscale and luxury hotels often stay open year round in order to retain their well-trained staff;
- The falling out of European tourists with the north of Africa following the Arab Spring, and more recently with the terrorist attacks in Tunisia, has benefited the Spanish *costa*, as tourists value the proximity and security of this country;
- While not always the case historically, the coast is dominated by Spanish hotel brands with the exception of the Kempinski hotel in Estepona. However, there seems to be a wind of change; Hilton has just opened a Doubletree in Fuengirola and Westin has announced its return to the market in 2016 to a property it had previously managed from 2000-2010, both rebrandings from existing hotels. This shows an increased appetite from hotel operators to be in the market, especially in light of the absent new supply;
- The beach is an important element for the hotels. A location on the beach front is a significant advantage and those hotels in the second line or even further away, often have a beach club accessible to their guests via a shuttle;
- After Malaga airport, Gibraltar airport is increasingly attractive to British tourists;

- Marbella, often referred to as the capital of the Costa del Sol, was and still is, reputed for its famous guests. However, the hotel

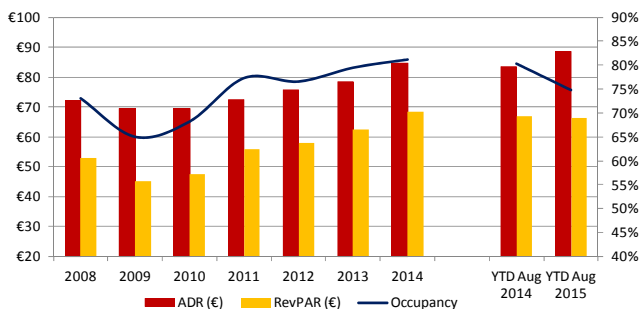
EasyJet recently launched new routes there from Bristol;

- Similar to Barcelona, a new local government was put in place at the beginning of 2015. One of its focuses will be to rearrange the tourism sector; however, it remains uncertain at this stage what this will involve and mean for the hotel industry.

### Tenerife – Canary Islands

Due to their southern location, the Canary Islands have the longest holiday season. We outline some highlights for Tenerife.

FIGURE 6: KEY PERFORMANCE INDICATORS – TENERIFE (€)



Source: CEHAT, INE

- Tenerife is the largest of the Canary Islands and is easily accessible by cruises as well as flights; it is serviced by two airports. While Tenerife North Airport is today mainly serviced by low-cost carriers, it is also used as an inter-island hub offering flights to and from various Canary Islands to the Spanish mainland. Tenerife South Airport is known for its good connections to Europe, North America and Spain;
- While Tenerife has been struggling in terms of demand over the past few years owing to the impact of the European financial crisis, as of 2012 visitor numbers have once again seen growth. The island absorbs nearly 65% of total visitation to the Canary Islands;
- As depicted by Figure 6, both average rate and occupancy have seen steady growth since 2008; year-to-August data suggests that going forward, the hotels will pursue a

more rate-driven strategy as occupancy decreased slightly;

- Tenerife offers a vast choice of resorts, however, there is an increasing demand for more exclusive products to differentiate the island from the regular full-board/all inclusive types of resort. A selection of five-star resorts are incorporating high-end services, such as, private butlers, separate reception areas and adult-only sections, in order to achieve a rate premium;
- Following the successful launch of Europe’s first Hard Rock Hotel in Ibiza in June 2014, Palladium Hotel Group has again aligned with Hard Rock International to open their second property in Europe in Tenerife. The 624-room(266 suites) hotel, a conversion of the Fiesta Hotel Playa Paraíso complex, will open in autumn 2016 on the southern coast near Adeje. Other international operators present in Tenerife include Ritz Carlton (Marriott) and Sheraton (Starwood).

### Hotel Transactions

With the recovery of the sector, hotel transactions in Spain have increased substantially in the last two years. While the main focus for urban markets was Barcelona and Madrid, Mallorca was the hot spot for the resort type. Recent portfolio transactions, such as the joint venture between Barceló and Hispania-Azora (16 hotels with 6,000 keys), Meliá and Starwood Capital (six hotels with 3,000 keys) and Bank of America buying hotels’ debt from Bankia (Project Castle – 49 hotels), confirm the strong interest from international investors in the region.

FIGURE 7: HOTEL TRANSACTIONS SPAIN (€)

Property	Date	Market	Rooms	Estimated Price (€)	Price per room (€)
<b>Barcelo Raval</b>	<b>2013</b>	<b>Barcelona</b>	<b>186</b>	<b>37,000,000</b>	<b>199,000</b>
<b>W Barcelona</b>	<b>2013</b>	<b>Barcelona</b>	<b>473</b>	<b>200,000,000</b>	<b>423,000</b>
<b>Hotel Arena</b>	<b>2013</b>	<b>Barcelona</b>	<b>84</b>	<b>15,000,000</b>	<b>179,000</b>
<b>Las Dunas Beach Hotel &amp; Spa</b>	<b>2013</b>	<b>Marbella</b>	<b>88</b>	<b>16,000,000</b>	<b>182,000</b>
Hesperia Finisterre	2014	A Coruna	92	12,500,000	136,000
<b>Deutsche Bank Tower</b>	<b>2014</b>	<b>Barcelona</b>	<b>150</b>	<b>90,000,000</b>	<b>600,000</b>
<b>Hotel Vincci Gala</b>	<b>2014</b>	<b>Barcelona</b>	<b>78</b>	<b>20,000,000</b>	<b>256,000</b>
<b>Renaissance Barcelona</b>	<b>2014</b>	<b>Barcelona</b>	<b>211</b>	<b>78,500,000</b>	<b>372,000</b>
<b>Melia Jardines del Teide</b>	<b>2014</b>	<b>Tenerife</b>	<b>300</b>	<b>36,700,000</b>	<b>122,000</b>
AC Dordoba Palacio	2014	Cordoba	162	25,000,000	154,000
<b>Foxa 32 Suites</b>	<b>2014</b>	<b>Madrid</b>	<b>161</b>	<b>16,800,000</b>	<b>104,000</b>
<b>Foxa 25 Suites</b>	<b>2014</b>	<b>Madrid</b>	<b>121</b>	<b>10,500,000</b>	<b>87,000</b>
<b>Hotel Asturias Calle Seviatl 2</b>	<b>2014</b>	<b>Madrid</b>	<b>175</b>	<b>35,300,000</b>	<b>202,000</b>
Grupotel Valparaiso	2014	Mallorca	174	48,000,000	276,000
Hipotels Mediterraneo	2014	Mallorca	840	75,000,000	89,000
<b>Guadalmina Spa &amp; Golf</b>	<b>2014</b>	<b>Marbella</b>	<b>178</b>	<b>21,500,000</b>	<b>121,000</b>
Esperanza Mar	2014	Mallorca	270	18,000,000	67,000
Sol Aloha Puerto	2014	Torremolinos	261	20,800,000	80,000
<b>TRYP Atocha</b>	<b>2015</b>	<b>Madrid</b>	<b>149</b>	<b>27,800,000</b>	<b>187,000</b>
<b>The Ritz Madrid</b>	<b>2015</b>	<b>Madrid</b>	<b>167</b>	<b>130,000,000</b>	<b>778,000</b>
Gran Hotel and Suite Hotel					
Atlantis	2015	Canary Islands	625	105,000,000	168,000
<b>Villa Magna</b>	<b>2015</b>	<b>Madrid</b>	<b>150</b>	<b>190,000,000</b>	<b>1,267,000</b>

Source: HVS Research

## Conclusion

*Spain has seen some challenging years on the back of the global downturn and especially the crash of its real estate market. However, with a strong cultural identity, sound infrastructure and excellent accessibility, attractive to both leisure and business tourists, there are many opportunities in the markets discussed in this article.*

*Undoubtedly, there is still an upside to be realised. Viva España!*



## About HVS

**HVS**, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming and leisure industries, celebrates its 35th anniversary this year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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