



Horwath HTL™

Hotel, Tourism and Leisure

MARKET REPORT

Madrid, Spain

FEBRUARY 2018



Madrid: Tourism & Hotel Market Analysis

Introduction

If 2016 was a record-beating year in terms of tourism performance in Spain (more than 75 million tourists visited the country), 2017 is showing clear signs for setting another new benchmark: hoteliers expect last year to have ended with 80 million tourist arrivals.

Between January and November (December data not available yet), 77.8 million international tourists were recorded according to INE (Spain's National Statistics Office), with July having registered the largest number of monthly tourist arrivals since records began: 10.5 million.

Following the terrorist attacks that took place in Barcelona and Cambrils during August, national overnight stays during August and September substantially decreased (compared to the same months in 2016) not only in Barcelona, but also in other coastal Catalan destinations such as Cambrils, Salou, Sitges or Lloret de Mar. However, international overnight stays suffered only a slight decrease of -1.25% in the city of Barcelona during these months, and have considerably increased in the sun and beach destinations. For example, Cambrils (where the second attack took place) has experienced a year-on-year increase of 18.4% in August and a 25.5% in September.

Although there are some other clouds on the horizon due to the uncertainty caused by the Catalan Secessionist conflict (which provoked a sudden drop in the number of y-o-y overnight stays during October, November and December in Barcelona) we remain optimistic: although this conflict is complex and will take time to be fully resolved, we believe the worst has already passed, and the negative effects this situation has seemingly caused on the Barcelona tourism industry, will in time be absorbed by the industry.

Within this context of strong tourism momentum, favored by an encouraging macro-economic environment in Spain, the European Union and North America, and political and social stability in the Autonomous Community of Madrid, the city of Madrid has again benefited this year in terms of tourism and hotel performance.

The aim of this report is to be an update of last year's Madrid Hotel Market Outlook, highlighting any major changes that have occurred in this period.

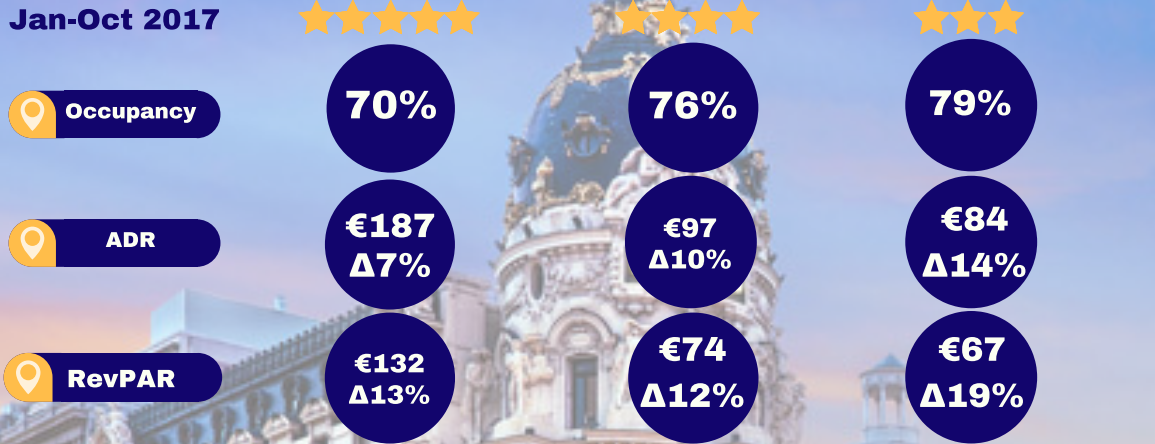
As a result, this report will not refer to all the virtues and qualities the city of Madrid has to offer as an international destination for all types of tourism, since they were explained in the previous report, and these have remained unchanged.

Please note that the vast majority of the data provided refers to the city of Madrid. Whenever the data refers to the entire region, it will be indicated.

MADRID IN NUMBERS



Jan-Oct 2017



TOURIST DEMAND



HOTEL SUPPLY



TRANSACTIONS



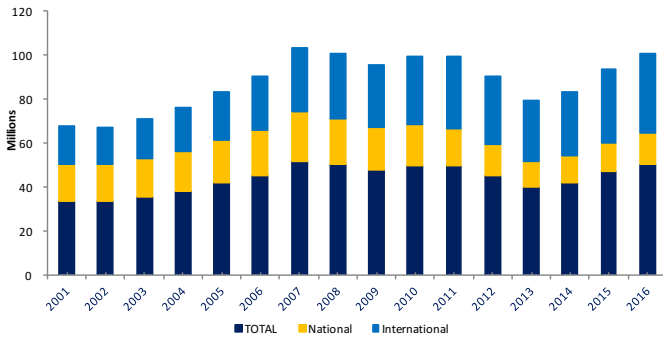
PIPELINE



Tourism Demand Analysis

Airport Passenger Flow

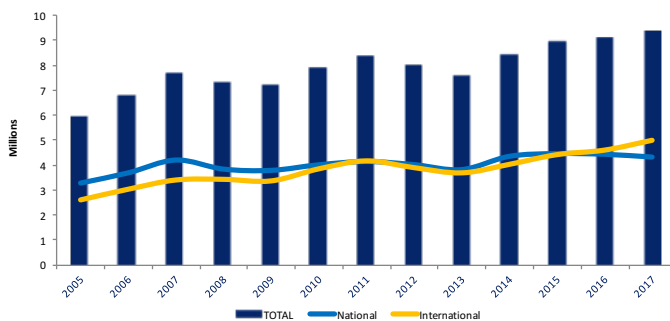
Passenger Flow Evolution: Madrid-Barajas Airport



Source: AENA & INE

Tourist Arrivals

Tourist Arrivals to Hotels



Source: INE

In 2016, Madrid-Barajas Airport received 50.4 Million passengers (+7.7% over 2015), of which 36.1 were foreigners. While national passenger flow has remained flat in the period 2001-2016, international passengers have increased at a compound annual growth rate (CAGR) of more than 5%.

During the period January-November 2017, the accumulated total passenger flow was 49.13 Million, a 6% increase over the same period in 2016.

Tourist Arrivals

More than 9.3 Million tourists arriving at hotels in the city of Madrid were recorded in 2017, a 3% increase over 2016. 2016 was the year in which international tourist arrivals clearly surpassed national arrivals (in 2011 there was an exact 50/50 ratio). There is a clear sign of international demand catching up and gaining market share over national demand: while national tourist arrivals have increased at a 2.3 % CAGR in the period 2005-2017, internationals have grown at a faster pace (5.5% CAGR).

During 2017, Spanish tourist arrivals to the city decreased by -2.5%. However, international arrivals have been boosted by 8.5% over 2016; as a result, the current international mix represents 53.5% of the total, confirming the trend established in 2016.

Overnight Stays in Hotels



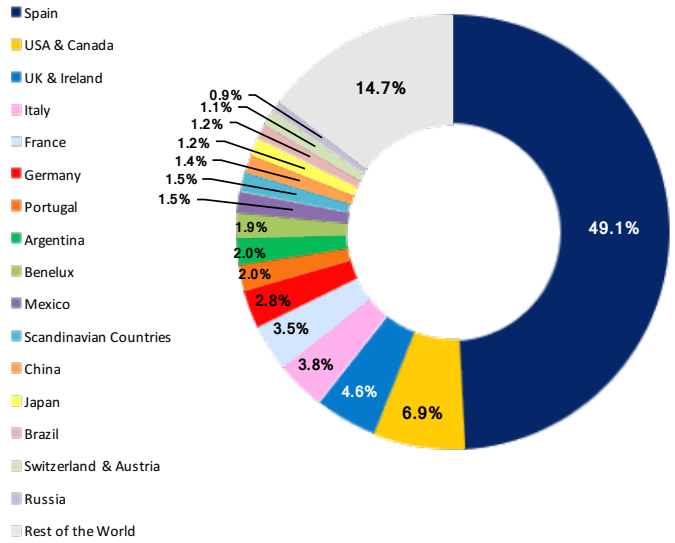
Source: INE

Following a similar pattern to tourist arrivals, overnight stays also showed an increase compared to 2016 (in this case a 6.9%). However, international overnight stays already surpassed the total for Spanish national back in 2006, due to the traditionally higher average length of stay (ALS) enjoyed by foreign tourists.

During 2017, international overnight stays soared 11.3% over 2016, while the Spanish remained flat (+0.6%) Currently, foreign overnight stays represent 61% of the total in the city.



Countries of Origin 2016



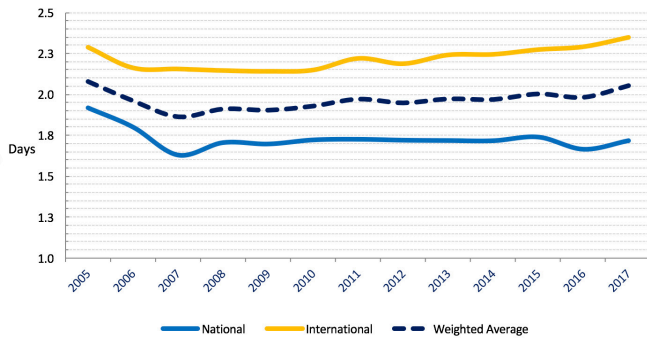
Source: INE

As previously mentioned, 2016 was the first year the national market represented less than half of the tourist arrivals to Madrid.

Regarding the top six source markets, during 2016 nothing changed compared to 2015: USA & Canada remained as the first international market, accounting for almost 7% of the total tourist arrivals, followed by UK & Ireland, Italy, France, Germany and Portugal.

During 2017, the top six order has remained unchanged, but USA by itself represents now 8.5% of the total. The fastest growing markets this year are Brazil, China, Mexico and Russia.

Average Length of Stay (ALS)

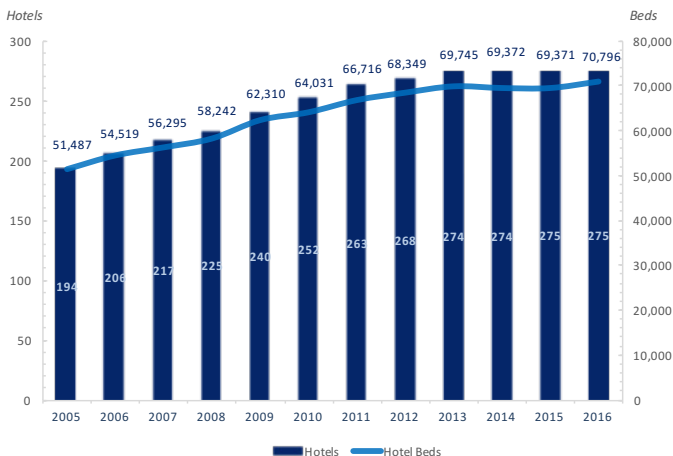


Source: INE

Historically, the total average ALS has always hovered around two days. Nevertheless, foreign tourists tend to stay 2.2-2.3 nights while the Spanish stay on average 1.7 nights. This big difference is the main cause that enabled international overnight stays to surpass those of nationals ten years before the international tourist arrivals did the same.

Hotel Supply Analysis

Hotel & Bed Supply Evolution: Madrid City (2005-2016) Inns & Hostels excluded

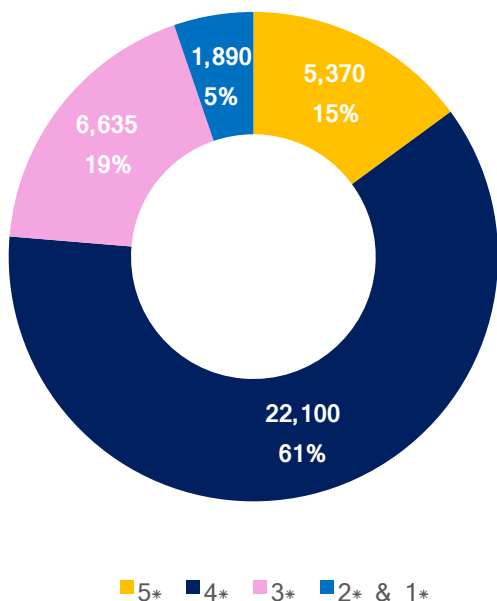


Source: INE

According to INE, hotel and hotel bed supply in the City of Madrid has remained stable in 2016 when compared to the last three years (Please, note that inns are not included in these data). In 2016, there were 505 inns recorded, providing a total of 13 thousand additional beds to the city).

Total bed supply has evolved at a similar pace than demand (3.2% CAGR in the period 2005-2016 vs 3.5% CAGR for total overnight stays in the same period). The Four-star category has seen the highest increase.

Room Supply Distribution by Category 2016



With data provided by INE, the room supply in the city of Madrid is still clearly dominated by the four-star category, which represents more than 60% of the total hotel rooms. The increasing importance of the MICE segment in the city, can be the main reason of the above average growth of this category in Madrid.

Hotel & Room Supply in Madrid Region by Chain & Business Model 2017

Based on Alimarket Census Database, which provides information about hotel and room supply, not only for the city, but also for the entire Autonomous Community of Madrid, more than 77% of the hotel rooms were managed by hotel chains, with the rest being independently managed. International hotel chains currently manage 26% of the total room supply in the region.

Rank	Top 10 Chain Groups	Hotels	Rooms
1	NH HOTEL GROUP	28	3,864
2	MARRIOTT INTERNATIONAL	19	3,554
3	ACCOR HOTELS	24	3,500
4	EUROSTARS HOTEL COMPANY - HOTUSA	20	2,769
5	MELIÁ HOTELS INTERNATIONAL	8	2,680
6	INTERCONTINENTAL HOTELS GROUP - IHG	14	2,025
7	PETIT PALACE HOTELES	20	1,355
8	WYNDHAM HOTELS WORLDWIDE	10	1,339
9	BARCELÓ HOTEL GROUP	5	822
10	VINCCI HOTELES	6	779

The table above shows the top 10 ranking of hotel chains by rooms in the region. NH Hotel Group, although positioned in 1st place, is closely followed by the international chains Marriott and Accor.



Rooms	Franchise	%	Lease	%	Mgmt.	%	Owned	%	Total
Economy	371	11%	1.039	31%	125	4%	1.765	53%	3.300
Midscale	1.732	16%	3.116	28%	630	6%	5.604	51%	11.082
Upscale	4.103	15%	9.006	32%	2.921	10%	11.927	43%	27.957
Upper-Upscale	0	0%	1.753	77%	338	15%	182	8%	2.273
Luxury	0	0%	297	11%	1.357	48%	1.145	41%	2.799
Total	6.206	13%	15.211	32%	5.371	11%	20.623	43%	47.411

The table above, shows the room supply distribution by segment and business model in Madrid region.

We placed one & two-star hotel rooms in the economy segment, three-star rooms in the midscale segment, four-star hotel rooms in the upscale segment, five-star hotel rooms in the upper-upscale segment, and five-star luxe and grand luxe rooms in the luxury segment.

As can be observed, the traditional ownership business model is still predominant, accounting for 43% of the total room supply. However, almost half of the total rooms in the luxury segment are under a management contract, and 77% of the upper-upscale rooms are under a lease contract. Overall, this lease business model represents the second most prevailing business model, with 32% of the total rooms supply.

Future Supply: Hotel projects in the pipeline

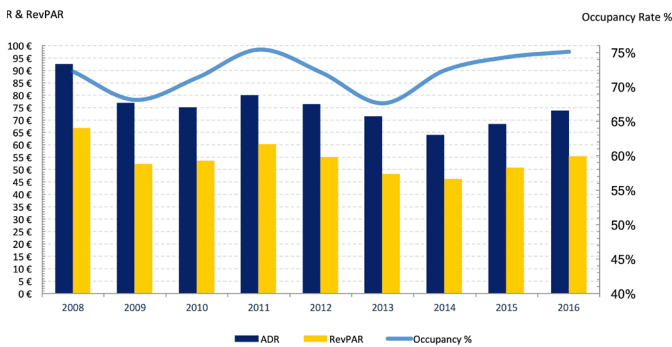
Projects	Keys	*	Type	Phase	Expected Opening
Axel Hotel Madrid	88	4*	Conversion	Pre-Opening	Summer 2017
VP Plaza de España	214	5*	New Building	Pre-Opening	Autumn 2017
Leonardo Hotel	153	4*	Refurbishment	Pre-Opening	Q3/2017
Gran Hotel Ingle Hidden Away	48	5*	Refurbishment	Under Construction	Winter 2017
One Shot Fortuny	78	4*	Conversion	Under Construction	Q4/2017
Hyatt Centric Gran Vía	159	4*	Conversion	Under Construction	Q4/2017
NH Collection Gran Vía		5*	Refurbishment	Planning	Q1/2018
Room Mate Teresa	84	4*	Conversion	Under Construction	Q1/2018
Gran Hotel Velázquez	111	5*	Refurbishment	Under Construction	Q1/2018
Pestana CR7 Madrid	160	5*	New Building	Planning	Q3/2018
Four Seasons Madrid Plaza Canalejas	215	5*	New Building/ Conversion	Under Construction	Q4/2018
Mandarin Oriental Madrid (Hotel Ritz)	167	5*	Refurbishment	Planning	Q4/2018
Room Mate Rex Gran Vía	130	4*	Refurbishment	Planning	2018-2019
Pestana Collection Casa de la Carnicería	89	5*	Conversion	Planning	Q1/2019
Aloft Madrid Gran Vía	139	4*	Conversion	Planning	Q2/2019
W Madrid	141	5*	Conversion	Under Construction	Q2/2019
RIU Plaza Edificio España	650	4*	Conversion	Planning	Q2/2019
The Student Hotel Madrid	300	3*	Conversion	Planning	September 2019

Based on data from Top Hotel Projects and the Alimarket Census, there are currently 1.050 rooms in pre-opening or under construction, expected to be added to the room supply before mid-2019.

Please, note that Axel Hotel and Leonardo Hotel have recently started operations. Especially noteworthy is the fact that, except for The Student Hotel, all the rooms in the pipeline belong to the four and five-star categories.

Hotel KPIs in Madrid: YoY

3* Hotel KPIs: City of Madrid

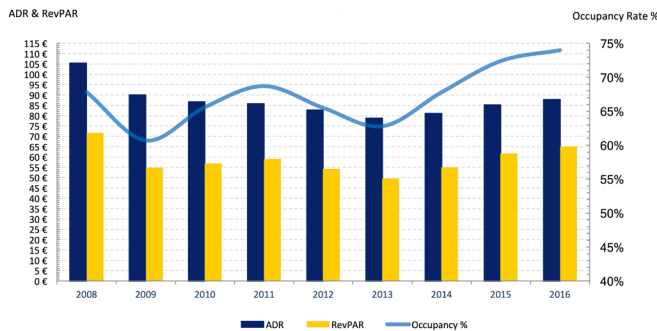


Source: Exceltur

Three-star properties have not yet reached 2008 RevPAR levels, although there has been a steady and gradual increase since 2014, favored both by an increase in the Average Daily Rate (ADR) and in the Occupancy Rate.

According to Exceltur data, during the period January-October 2017 (latest data available), the Occupancy Rate achieved was 79%, and the ADR €84.2, resulting in a RevPAR of €66.6, 20% higher compared to the same period in 2016.

4* Hotel KPIs: City of Madrid

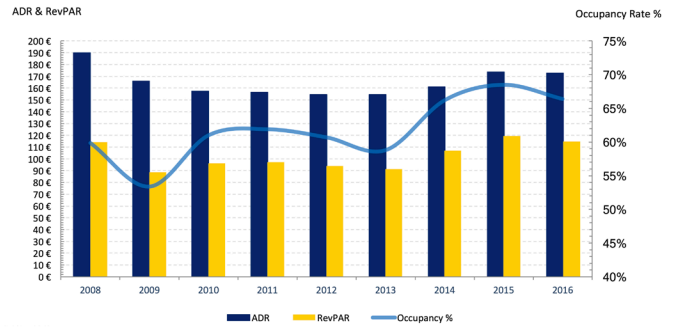


Source: Exceltur

Four-star hotels have followed a similar pace; however, the RevPAR increase started already in 2013 and has almost reached 2008 levels, all this in spite of a steep decrease in the ADR, but favored by a considerable boost in Occupancy rates in the last three years. If this trend continues in future years, hoteliers will be in the position to increase rates at a faster pace.

In the period January-October 2017, the Occupancy Rate achieved for this type of properties was 76.4%, and the ADR €96.5, totaling a RevPAR of €73.8, a 13% increase over the same period last year.

5* Hotel KPIs: City of Madrid



Source: Exceltur

Unlike other categories, five-star properties had surpassed 2008 RevPAR in 2015, and stabilized in 2016. This was mainly caused by a substantial rise in Occupancy Rates since 2009, achieving almost 69% occupancy in 2015.

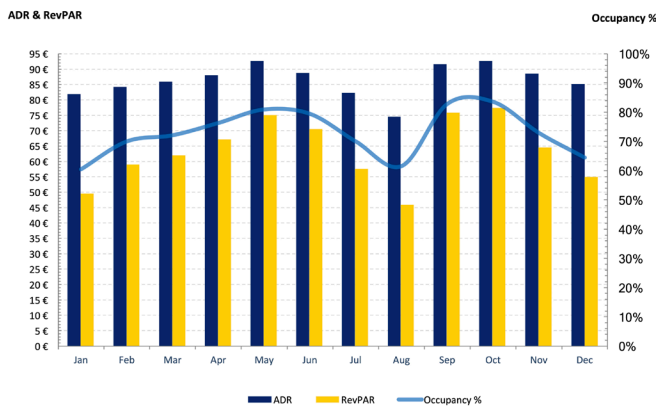
From January until October 2017, the Occupancy Rate slightly increased compared to last year, standing at 70.4%, and ADR stood at €187.2. This has led to a RevPAR increase of 12% compared to the same period in 2016.

Traditionally, there has been a lack of hotel and room supply managed by international branded operators within this category. Currently there are only seven hotels, which offer a total of 1,388 rooms to the capital.

After the complete refurbishment that will take place in Hotel Ritz in order to be adapted to Mandarin Oriental standards, and the arrival of Four Seasons and W to the city, we expect to see a considerable RevPAR increase in Madrid.



KPIs: City of Madrid by Month



Source: Exceltur

Although not as strong as in other Spanish destinations, seasonality in Madrid is significantly marked. RevPAR peaks during the months of May, June, September and October, while August has traditionally been the worst performing month. The three main reasons are as follows:

- The high temperatures reached make the city unsuitable for the type of tourism Madrid has to offer.
- Traditionally, tourists prefer sun and beach destinations during the summer months.
- The lack of MICE segment due to the summer holidays period.

December, January and February complete the low season.

Recent and Notable Hotel Transactions

Since our last report, issued just over a year ago, many transactions have taken place, the majority of them being part of large portfolio deals, and also due to the merger between Metrovacesa and Merlin Properties, creating the largest REIT in Spain.

The main players have been: Baraka Group, acquiring the future RIU Palace Plaza de España from Dilian Wanda, and reselling it to RIU Hotels & Resorts; the French hotel investment group Foncière des Murs, acquiring 7 hotels in Madrid, which were part of a portfolio deal of 19 hotels in total, that was being sold by Metrovacesa/Merlin, the other main player this year, but on the sell side.

The biggest transaction this year was the Four Seasons hotel. Mohari Ltd., managed and owned by the entrepreneur Mark Steinberg (founder of PokerStars), acquired 50% stake of the hotel project from Villar Mir Group (OHL), one of the largest construction & infrastructure companies in Spain, and the developer of the project, for a total amount of €63.2 Million.

Recent and Notable Hotel Transactions

Property Name	Keys	Price in € Million	Price per Key in €	Buyer	Seller
Crowne Plaza Madrid	306	46.8	153.000	Riu Hotels & Resorts	Baraka Group
Gran Hotel Velazquez	142	58	408.451	Aina Hospitality, Ardid Villoslada	Salazar
Crowne Plaza Madrid	306	43.6	142.484	Baraka Group	Dalian Wanda Group
B&B Hotel Fuenlabrada	110	5.9	53.636	Corum AM	B&B Hotels
future Generator Madrid	-	15.2	-	Queensgate Investments	Invesco, Patron Capital
Hotel Inside Madrid Genova	65	29.25	450.000	Armando Alvarez	Inversiones Gasolgest SL
Hotel Four Seasons	200	63.2	316.000	Mohari Ltd	Grupo Villar Mir, OHL
Barcelo Torre de Madrid	256	50.8	198.438	Fonciere des Murs	Metrovacesa (Merlin)
Eurostars Gran Madrid	100	15.2	152.000	Fonciere des Murs	Metrovacesa (Merlin)
Holiday Inn Express Tres Cantos	61	11.3	185.246	Fonciere des Murs	Metrovacesa (Merlin)
Barcelo Castellana Norte	144	28.6	198.611	Fonciere des Murs	Metrovacesa (Merlin)
Hotel Husa Paseo del Arte	260	51.6	198.462	Fonciere des Murs	Metrovacesa (Merlin)
NH Collection Colon	146	29	198.630	Fonciere des Murs	Metrovacesa (Merlin)
Hotel Exe Plaza	262	52	198.473	Fonciere des Murs	Metrovacesa (Merlin)
Hotel Silken Puerta de America	315	16.3	51.746	Bank of America	Grupo Urvasco
Hotel Carlos V	67	-	-	Baraka Group	n/a
Urban Sea Atocha 113	36	1.9	52.778	Portobello Capital	Blue Sea Hotels & Resorts
Hotel Carlos V	67	50	746.269	Hines, Universal- Investment, BVK	Baraka Group
NH Collection Hotel	136	19.8	145.588	Triuva	Iberfin Capital
Gran Hotel Las Rozas	90	-	-	Inveravante	Promociones Compostela 2002
Holiday Inn Express Tres Cantos	61	9.6	157.377	Metrovacesa (Merlin)	Metrovacesa
Barcelo Castellana Norte	144	35.3	245.139	Metrovacesa (Merlin)	Metrovacesa
Barcelo Torre de Madrid	256	62.7	244.922	Metrovacesa (Merlin)	Metrovacesa
Hotel Gran Atlanta	180	24	133.333	Shlomo Group, Fattal Hotels	-
Teatro Lope de Vega	-	29	-	Stage Entertainment, Rockspring	-
Teatro Coliseum	-	29	-	Stage Entertainment, Rockspring	-

Summary & Conclusions

2017 has ended as a year of consolidation, improving on the results of 2016 (which was itself an outstanding year in terms of tourism performance).

Even though domestic demand in Madrid has shown signs of stagnation over last year, international demand remains very strong, and has confirmed the milestone achieved in 2016, when foreign tourist arrivals clearly outnumbered domestic tourist arrivals to the capital.

The accumulated total tourism expenditure in Madrid during the first eleven months of 2017 has exceeded €8.2 Billion according to EGATUR (national survey of tourism expenditure), an increase of 16% compared to 2016. Average daily expenditure per tourist has shown a 6.2% increase, standing at €220 per tourist and day.

These factors, together with a slower-than-demand supply increase in 2017, has resulted again in improved KPIs for the main hotel categories. More investors have been attracted this year by Madrid's hotel market, boosting hotel transaction volume and the amount of hotel projects in the pipeline.

Opinion: Opportunities, Risks & Trends for 2018-2019

After this growth consolidation, the question again is: can this growth be sustained in the coming years?

There are many elements and factors that could affect, either positively or negatively, the sustainability of this growth:

Economic factors

Spain and the majority of countries in the Western economy are currently experiencing generally solid economic performance.

If this situation prevails, it is likely that international tourism demand will continue to grow, while the national market will at least remain stable in the following years.

However, it has to be noted that a large part of this momentum is the result of policies of the major Central Banks: an ultra-expansionary monetary policy, with interest rates close to zero that provides "free" and easy money flowing into the economy, resulting in an excess of optimism and investment projects that might not have been considered otherwise.

This creates some uncertainty regarding what will happen when Central Banks decide to end this policy and increase interest rates again, as has recently been seen in the UK.

Geopolitical factors

Both Spain and Madrid have benefited in recent years from the geopolitical instability that affects many of the country's and the city's competitors. But for the first time in many years, Spain was hit by a terrorist attack. So far, national tourism demand in Catalonia has decreased to some extent, but international demand has not shown any worrying signs of slowdown.

Spain in general, and Madrid in particular, are still considered as a safe tourism destinations, so no major influence on demand is expected. The Catalan Secessionist Conflict only affects the Barcelona area, so Madrid will not be negatively affected by it. If anything, this may have some positive effects for Madrid as the capital could absorb part of any MICE segment cancellations in Barcelona.

Supply factors

The number of rooms in the current pipeline seems to be adequate to cope with expected demand trends, and the quality of these new rooms will help to balance the overall supply picture and position Madrid better as an upscale destination, improving the city's RevPAR. The tourist apartment sector remains as a potential threat to the traditional hotel business and could have a negative influence on some hotels' KPIs if the current relative lack of regulation continues.

To conclude, despite some external factors that could affect the positive trend that the Madrid tourism and hotel markets have seen during the last three years, we maintain that there is room for growth in the near future, as international demand is expected to remain strong, while the quality of planned future supply will change the positioning and the image of the city, to an even more international and upscale destination.

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Following a career with Price Waterhouse in London and Barcelona, over more than 20 years, Philip has gained comprehensive experience, as a finance director, external board adviser and independent consultant, of the Spanish hospitality real estate market and of all aspects of hotel and resort development, operations and valuation.



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During his career, he has gained operational hotel experience working for groups such as Starwood and has had international experience in countries such as Philippines, France and Switzerland.

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