



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Portugal

Future Outlook & Pipeline

NOVEMBER 2020



Introduction

Rapidly growing tourism demand in Portugal over recent years has been attracting both hotel investors and operators who have noticed the potential of this hospitality market. This interest has been converted into an increasing volume of transactions and development plans. Improving KPIs and competitiveness indicators have been reflecting this upward trend, with increased competition for supply in expanding markets; the arrival of new brands to the country; and changes in consumer behaviour and needs. All these factors have been contributing to this important period in the evolution of Portugal’s hotel, tourism and leisure sectors.

This positive trend was undermined this year as a result of the coronavirus pandemic, which has caused exceptional damage to tourism and hospitality worldwide. 2020 will be remembered as a year when the travel and tourism industry was put under extraordinary pressure and was challenged to understand its resilience and capacity to adapt to change.

Given the positive results of 2019 and the existing pipeline of projects under development, an optimistic attitude towards the long-term future of the Portugal’s tourism and hospitality industries can be adopted. Feedback received from established experts in the sector supports this favourable outlook.

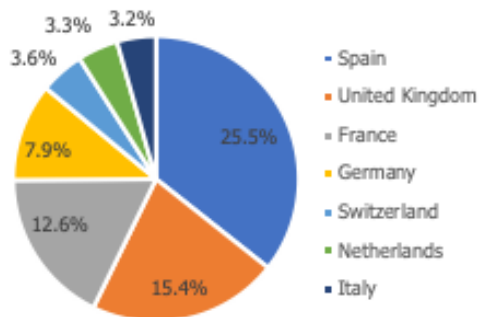
Tourism in 2019

The fact that Portugal was ranked 12th (out of 140 countries) by the World Economic Forum in the 2019 Travel and Tourism Competitiveness Index is enough evidence to demonstrate the strong position in which the country found itself at the beginning of this year. It has risen three positions in the ranking since 2015.



According to WTTC, Travel & Tourism accounted for 16.5% of Portuguese GDP in 2019, increasing 4.2% from 2018. International tourism arrivals reached 24.6 million, a 7.6% growth compared to 2018, and generated €18.431 M in revenue, accounting for 8.7% of Portuguese GDP (if national tourism is included, this would rise to 15% of GDP). Tourism was responsible for 52.3% of service exports and 19.7% of total exports.

Tourist Arrivals by Country of Origin 2019



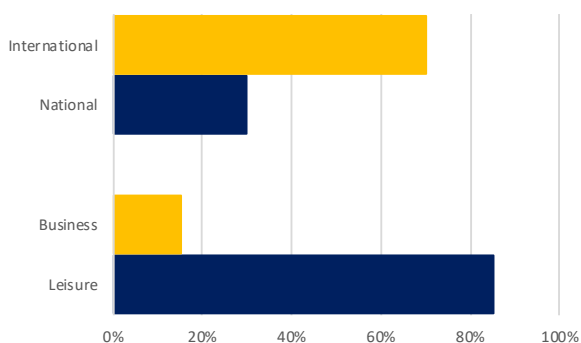
Source: INE Portugal

Spain remained the main inbound market in 2019 (25.5% of the total) registering an increase of 8.2% vs 2018. Tourists from the United Kingdom increased 7.6% representing 15.4% of total tourists. French tourist arrivals also rose by 2.1% (a 12.6% share). From the list of top issuers, the only country that showed a decrease in tourists was Germany (7.9% of the total) but only by 0.05%. Among other markets, the increases recorded in the North American (+23.2%), Chinese (+16.8%), Brazilian (+13.9%), Irish (+9.9%), and Canadian (+9.6%) markets are also worthy of note.

The Portuguese government has put sustainable and balanced tourism development at the top of its policy priorities. This includes initiatives to overcome seasonality by extending the season beyond the traditional summer months and its focus on local communities, which has seen a better integration between residents and tourists.

The efforts made to position Portugal as one of the most competitive and sustainable tourism destinations in the world has resulted in attracting key demand segments gaining strength worldwide, as reflected in the split between national and international leisure tourism spending in 2019.

Tourism Spending 2019



Source: WTTC

Portugal in 2020

As the year began, everything pointed towards 2020 being another successful year for Portugal’s tourism and hotel sector. However, coronavirus paralysed hospitality and its effect on the industry has been indisputable.

The UNWTO World Tourism Barometer (September 2020 Edition) registered a decline of 71.9% YTD of international tourist arrivals to Portugal compared to the previous year. International tourism statistics also show negative results, with total receipts and expenditure being down 54.4% and 43.8% respectively over the same period in 2019. This trend can also be observed in local tourism figures. INE Portugal confirms that in Q2 2020 national tourism decreased by 59.1% and international tourism fell by almost 99%.

Data obtained from INE Portugal reveal the disturbing results obtained for the hotel sector in the nine months to September 2020 (the latest available statistics). The tourist accommodation sector registered 3.6 million room nights in September (down by 53% compared to the same period in 2019) and the total number of tourists was 1.4 million, down by 52%. Main issuer markets saw significant decreases in room nights in September (more than 50%) with China, UAE, Canada and Ireland falling by over 90%. Also, in the same month, 24.3% of tourist accommodation establishments were closed or didn’t register any movement of guests.

Month	Total RNS	Total Tourists	Total Revenue	RevPar	ADR
June 2020	1.1M (-85%)	483k (-82%)	€53.4M (-88,5%)	€13 (-79%)	€74,4 (-23,8%)
July 2020	2.6M (-68%)	1033k (-63,8%)	€161M (-69,9%)	€26.7 (-43,3%)	
August 2020	5.1M (-47.1%)	1.9M (-43.2%)	€258M (-48.9%)	€49.2 (-35,2%)	
September 2020	3.6M (-53.4%)	1.4M (-52.2%)			

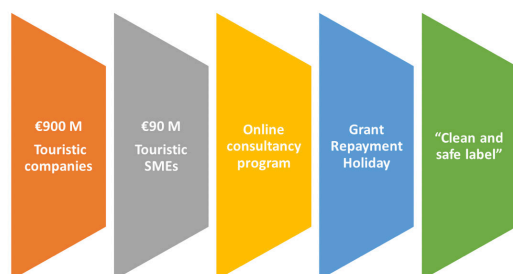
Looking at these KPIs for the months of June to September compared to 2019, it is clear that the closure of borders, limited travel conditions and fear of travelling has wreaked havoc on the industry. The positive side to this is that results improved during the summer, showing possible signs of recovery towards the end of the year. Even in some cases, performance for Q3 was not only in line with expectations but even better as Mário Ferreira, CEO of NAU Hotels & Resorts recognises. The reason behind this could be the positive response of local Portuguese tourism as identified by Pedro Capitão, CEO Hospitality at Sonae Capital.

Tourism & Economic Outlook 2020

It is challenging to make any estimates for future market behaviour given the level of uncertainty we are currently experiencing. The volatility of travel bookings; whether containment measures are sufficient; the discovery of an effective vaccine; and the many and varied political responses are all issues to bear in mind.

By the end of the summer, overall statistics showed some improvement compared to previous months, but we had to ask ourselves whether this was the beginning of a positive trend or just the effect of seasonality. It is also important to consider that travel restrictions were mainly lifted during summer, partially and temporarily restoring tourism activity.

The picture has changed now, with the Government of Portugal instituting a State of Alarm on October 15th prohibiting travel between municipalities until 3 Nov and establishing partial confinements in 121 municipalities from 4 Nov onwards. This, together with the lockdown responses across western Europe, will unfortunately be a serious setback for travel and tourism.



A series of measures have been implemented by the Portuguese Government that are aimed at helping the tourist sector to revive. These include €900M in support for tourism companies; €90M of financial support to tourism SMEs; an online consultancy programme offering technical advice to implement corrective measures; suspension of repayment of grants given to projects supported by

“Turismo de Portugal”; a “Clean and Safe” label to promote the country as a safe destination; and the recently announced €50M for a campaign to stimulate internal demand.

Ricardo Gonçalves, Board Member of Hoti Hotéis and Mário Ferreira agree that the most significant measures for the tourism sector have been the moratorium in debt servicing until September 2021 on all mortgages and loans, and the simplified furlough act.

Luis Araújo, President of Turismo de Portugal and of the European Travel Commission announced that a new financial scheme will be implemented that will be focused on promoting new investments in less developed regions and the requalification of assets in cities like Lisbon, Porto and the South of Portugal.

The Portuguese Government expects international tourism revenue in 2020 to be 50% lower than in 2019 - in the same range as the UNWTO, which has estimated between 50% and 60% of negative impact on tourism income worldwide. This would imply a 9% decrease on the country's GDP. The feedback received from the industry leaders whom we interviewed is that, given the second coronavirus outbreak in most European countries and the restrictions on travel, demand will continue to be very limited and thus have a detrimental impact on Q4 results. Ricardo Gonçalves solidly affirms that there will be no sign of recovery until the end of Q1 2021. It is conceivable that it may be even further delayed.

According to a Banco de Portugal Economic Bulletins (June and October 2020), in annual average terms, GDP in Portugal is expected to decrease by 8.0% in 2020 and grow by 5.2% in 2021 and 3.8% in 2022. Banco de Portugal estimates “a relatively faster recovery than that observed in the wake of the 2011-13 recession - characterised by a faster recovery in investment”. According to GlobalData the international investment position (IIP) of Portugal improved in Q2 2020 including both portfolio and direct investments.

Consequently, the value of tourism assets will most probably reflect the negative profitability in the sector as affirmed by Ricardo Gonçalves. Nevertheless, Luis Araújo believes that “prices will not come down drastically as we've seen in 2011-13, since what is happening today is not structural”. There is “light at the end of the tunnel” and hope that these scenarios will have a positive impact on the hotel industry in the near future.

Pipeline Projects

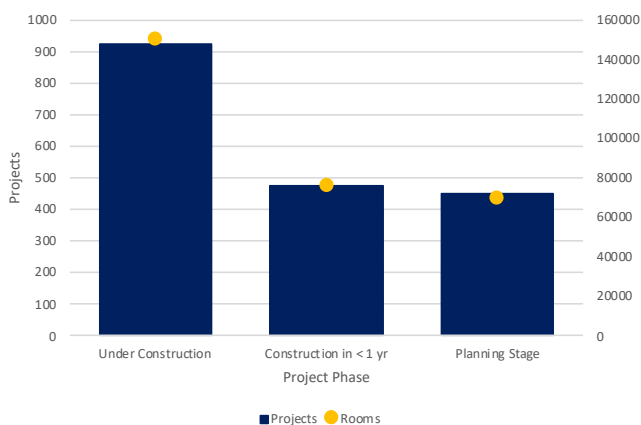
The hotel construction pipeline in Portugal is an important indicator in assessing how the market is evolving and reacting to the Covid-19 crisis.

Pre-pandemic there was optimism as to future hotel investments and new projects in Portugal. Lisbon was considered the 4th most attractive European city in which to invest and its room stock increased by 1,000 rooms in 2019 (+5% vs 2018). Luis Araújo states that “Portugal will always favour investments that can have a positive and prolonged impact on the lives of the communities where they will be implemented”. Consolidated markets such as Lisbon, Porto and the Algarve were attracting new investors with Lisbon prices reaching new highs.

In 2017, the Portuguese Government launched the “REVIVE” program, which offers state heritage properties for private investment to develop these as tourist attractions through public tendering. Since its creation, 20 concession contracts have been signed, with the majority aimed at the transformation of the properties into hotels. The establishment of Portuguese SIGs (REITs) as a new investment channel was also a key factor in strengthening the national hotel market.

According to the latest “Europe Hotel Construction Pipeline Trend Report” from Lodging Econometrics (LE), analysts report that Europe’s hotel construction pipeline increased 9% by projects and 13% by rooms to end of Q2 2020 with a total of 1,851 projects and 295,038 rooms.

European Construction Pipeline

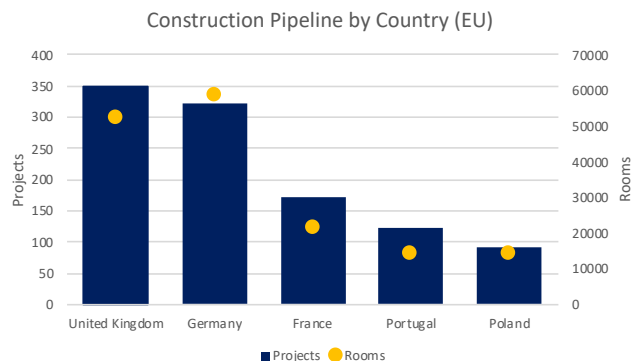


Source: Lodging Econometrics

923 projects under construction represented 149,637 rooms. There were 477 projects scheduled to start construction in less than a year, representing 75,818 rooms.

Projects in the early planning stage stood at 451 (69,583 rooms); indicating growth of 16% and 26% respectively compared to 2018.

Construction Pipeline by Country (EU)



Source: Lodging Econometrics

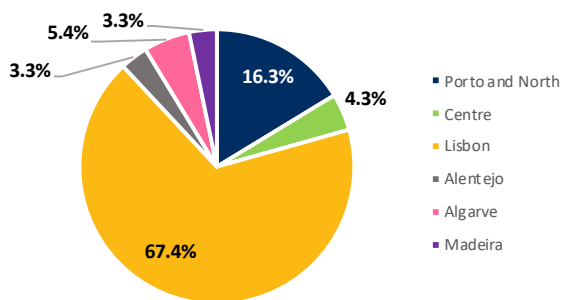
Within Europe, the United Kingdom leads the construction pipeline with 350 projects, closely followed by Germany with 323 projects and the largest number of rooms (58,533). Portugal lies fourth in the ranking with 123 projects and 14,329 rooms. Lisbon ranks fourth amongst the cities in Europe with 38 projects and 4,173 rooms, a record number.

These figures highlight that investors have not only continued with their hotel development planning but have even shown more interest in the market, increasing the number of projects throughout the year. The fact that Portugal and Lisbon are in the top five of their European rankings underlines the overall positive outlook for the market.

Besides new projects, many hotel owners such as Hoti Hotéis have taken advantage of the current situation to carry out renovation and expansion strategies. This is confirmed by the increased number of architectural projects and requests received by Turismo de Portugal since May as explained by Luis Araújo. In contrast, Pedro Capitão outlines that other industry players have decided to pause this kind of investment until signs of recovery are observed in the market.

Information has also been gathered from Top Hotel Projects and Turismo de Lisboa to provide an in-depth analysis of the existing hotel project pipeline. Only those with reliable and relevant data have been included in this analysis.

Hotel Projects by Region



Source: Top Hotel Projects and Turismo de Lisboa

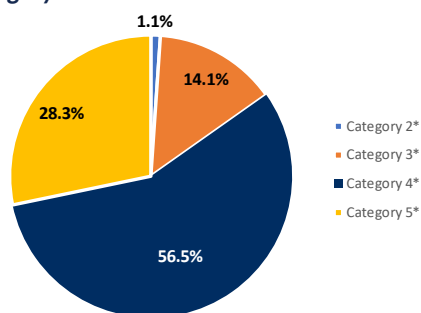
We asked our industry leaders in Portugal, to comment on the pipeline data.

Focusing on the main urban destinations, there is still space for growth specially from international markets as pointed out by Pedro Capitão.

Luis Araújo assumes that cities will continue to be the main drive of Foreign Direct Investment, but that other regions are becoming increasingly appealing to investors because of the type of demand attracted to these destinations. The result is that “investors are starting to diversify their portfolio and looking to regions they wouldn’t look at 5 years ago”.

Mário Ferreira reinforces this view as he thinks that investors are looking at alternative destinations such as the Douro Valley in a more favourable way.

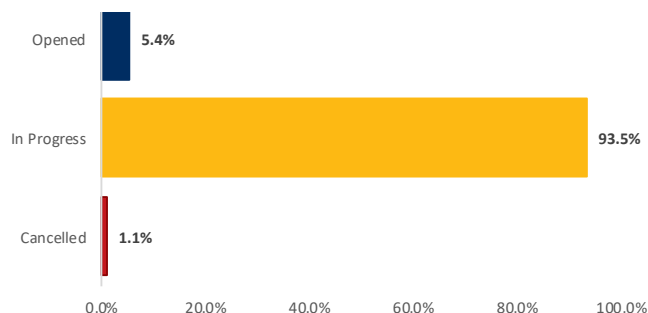
Hotel Category



Source: Top Hotel Projects and Turismo de Lisboa

By category, 4-star hotels are those that represent the largest share with almost 57% of the projects under development belonging to this category. This is followed by 5-star hotels amounting to 28.3% revealing a trend towards investing in the upper upscale and luxury segments.

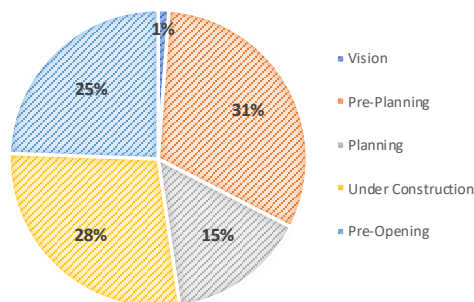
Projects by Development Phase



Source: Top Hotel Projects and Turismo de Lisboa

93.5% of the projects under evaluation are on progress and only 1.1% have been put on hold or cancelled, a positive sign that confidence remains in the potential of the Portuguese market.

Status of Projects in Progress

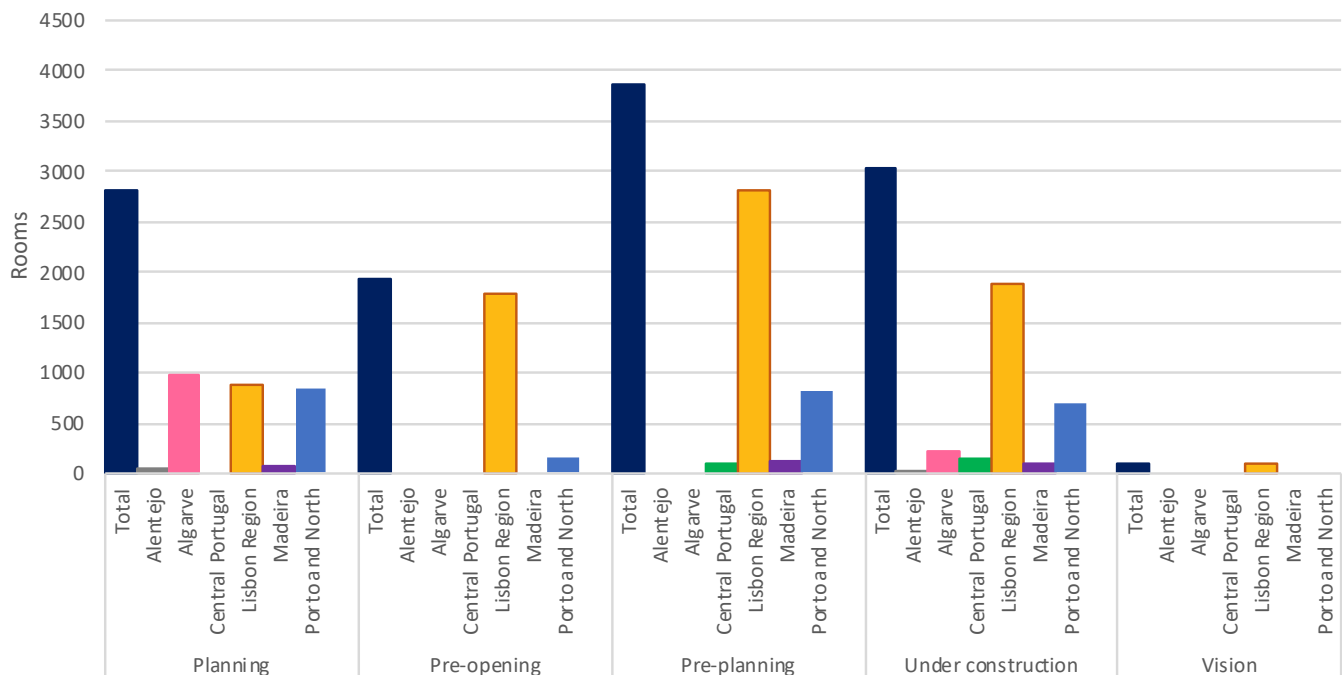


Source: Top Hotel Projects and Turismo de Lisboa

Of the projects in progress which imply a total of 11,733 new rooms, 53% are either under construction or in pre-opening phase and 31% in the pre-planning phase.

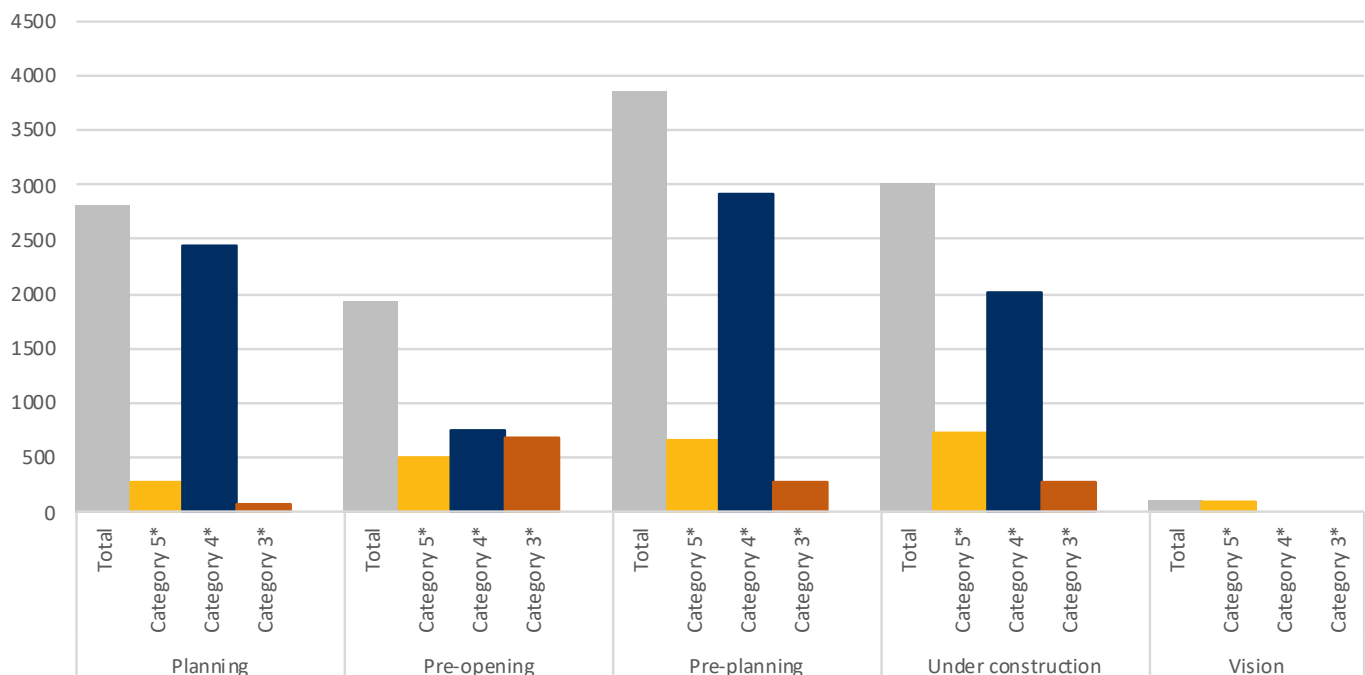
When taking a closer look at the total number of rooms of projects in progress, results differ. Rooms in the pre-planning phase lead the ranking with 3,856 rooms, followed by those under construction (3,023) and those in the planning phase (2,812 rooms). Geographically speaking, Lisbon region is also first in all sub-categories of the “in progress” phase, except in the planning sub-phase which is led by the Algarve. 4* rated hotels stand out and lead the ranking of rooms in progress for all projects in the pipeline.

Rooms "In Progress" by Region



Source: Top Hotel Projects and Turismo de Lisboa

Rooms "In Progress" by Category

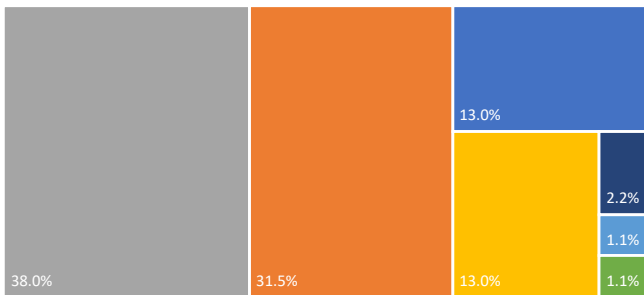


Source: Top Hotel Projects and Turismo de Lisboa



Key Count

- 0-50 Keys ■ 51-100 Keys ■ 101-200 Keys ■ 201-300 Keys
- 301-400 Keys ■ 401-500 Keys ■ 501-600 Keys



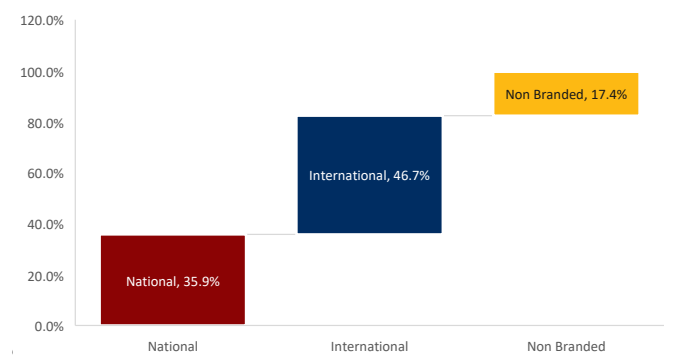
Source: Top Hotel Projects and Turismo de Lisboa

Small hotels of up to 200 keys lead the way for the projects under development we have analysed. This includes 38% of hotels that have between 101-200 keys and 31.5% of hotels within the range of 51-100 keys.

This has a direct correlation with the category of hotels being developed (4 and 5-star) as prime locations are difficult to find and so developers need to adapt to the characteristics of the sites available and limit the number of rooms.

This trend applies both for main cities and specific locations such as Comporta and the Douro Valley, as confirmed by Pedro Capitão who believes that the number and scale of projects in these areas will be small and focused on premium segments.

Brand Affiliation



Source: Top Hotel Projects and Turismo de Lisboa

It is clear that international branded operators are gaining ground in the country. Hotels affiliated to international brands (for example Room Mate Hotels, Radisson Red Hotels, Meliá Hotels & Resorts) account for 46.7% of the data analysed compared to 35.9% associated with national brands (for example Vila Galé Hotéis and Turim Hotels).

Summary & Conclusions



2019 was a year of consolidation for the Portuguese tourism and hotel sector. Economic indicators revealed exceptional results and growth compared to previous years. The increase of international tourists from new markets such as North America and China confirmed an increased interest from foreigners for Portuguese destinations.

It is evident that coronavirus pandemic has had a destructive impact on tourism in Portugal and worldwide. KPIs for the last months reflect this with statistics hitting lows unseen before. Ricardo Gonçalves comments that hotel groups with lease agreements or with high levels of indebtedness are likely to come off worse, and it is clear that the relationship between the industry and sources of both equity and debt finance will have to deal with these issues in the short term. However, we strongly believe, as Mário Ferreira also points out, that once travel recovers to levels seen in 2019, Portugal's cities and tourist destinations will remain appealing for investors.

The Portuguese government has developed diverse measures to assist national companies involved in the tourist sector and attract international tourism. Luis Araújo highlights that Portugal was invited to present at the World Tourism Organisation (WTO) assembly the "Clean and Safe" initiative and has been the first country in Europe to be awarded the "Safe Travels" label by the WTTC (World Travel & Tourism Council).

Portugal has also launched a travel insurance scheme for international tourists covering medical, quarantine and repatriation costs which will hopefully stimulate demand once travel restrictions and lockdowns are lifted.

New investors have been attracted by Portugal resulting in Lisbon leading the European rankings with regards to new projects in the pipeline. Luis Araújo's perspective is that the country and Lisbon will remain as one of the preferred destinations for tourism investments in the coming years, assisted by a tax-friendly environment for foreign investors and accessibility to public financial instruments to facilitate investment. New transactions will take place, but most probably this trend will not be identified before the Spring of 2021.

Whilst Ricardo Gonçalves believes that in the short term the values of tourism assets will reflect the negative profitability of the current year and reduced returns for 2021 and 2022, Mário Ferreira outlines that major discounting of prices is expected to be limited emphasizing Portugal's strong market position. Pedro Capitão reckons that in the long term the real value of hotel assets will be maintained.

There seems little doubt that there will be some opportunities for investors, this is part of the nature of economic crises, but any significant transaction activity is not expected until Q2 2021 at the earliest. Now is the time to make plans and be in a good position to exploit any opportunities that may arise.

Pre-pandemic, the outlook for 2020 and beyond in Portugal was positive. The efforts being made by all those involved in the hotel industry, the current development pipeline and the positive expectations expressed by our panel of industry leaders suggests that Portugal will remain a top destination for investment as the country and the rest of the world emerge from the current crisis, well-placed to offer the products and experiences demanded by hotel guests in the post-pandemic era.

Horwath HTL would like to thank our panel of industry leaders for their valuable contributions to this article: Luis Araujo - President of Turismo de Portugal and of the European Travel Commission; Pedro Capitão - CEO Hospitality at Sonae Capital; Mário Ferreira - CEO, NAU Hotels & Resorts and Ricardo Gonçalves - Board Member of Hoti Hotéis.

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A hospitality and real estate specialist with over 35 years' experience in professional business advisory services and general management in a wide range of independently-managed and publicly-listed international companies. Comprehensive experience of all aspects of hotel and resort development and operations over a period of more than 25 years, with particular focus on residential business models and mixed-use developments, managing projects and cross-functional international teams during development, start up and operational launch. More than 15 years' international consulting experience of hotel valuations and feasibility studies, operator search, asset management and strategic business planning to owners, lenders and operators across Europe as well as in Africa, the Middle East and the Caribbean. Creator and Lecturer for the Hotel Budgeting & Forecasting Module of the Online MBA at Ecole Hôtelière de Lausanne.



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Having worked for international hotel companies such as The Ritz Carlton Hotel Company and Mandarin Oriental Hotel Group, Irene has more than 10 years' experience in the hospitality sector. Following a Bachelor's Degree in Business Management, her later studies have all been focused on the hotel industry including a Postgraduate Diploma in Hotel Operations Management (Montreux) and various certificates from the renowned Cornell University (Hotel Design and Real Estate Investment & Asset Management). Irene possesses experience at an operational and corporate level and her career allows her as a consultant with Horwath HTL to analyse planning strategies and asset valuation with a unique perspective.



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Luis has a PhD in Management and Administration from the University of Santiago de Compostela, Spain, with a Doctoral Thesis in Tourism Strategic Planning. He is a specialist in Tourism and Leisure with more than 15 years' international consulting experience in strategic planning and implementation projects across Europe as well as in Africa and South America. A regular participant and speaker at national and international conferences, Luis has published several articles, book chapters and books on tourism and hotel strategic marketing and management.

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