Hotel markets in Europe – alternative hotel types becoming the central focus for investors

In times of globalization and mobility - the ever-present buzzwords – the tourism industry is booming, especially in Europe. This is demonstrated by the more than 3.1 billion overnight stays last year in all European countries, which represents a further increase of 2.2 % compared to 2017. Hotels continue to be regarded as the essential hardware for the tourism industry and the most important type of property for real estate investors. For investors, attractive hotel investments are determined by three key factors:

- Location,
- Concept,
- Operator.

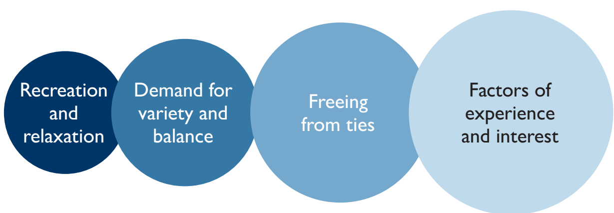
With these factors, the effects of the digital transformation can now also be seen, especially in the "location" and "concept" aspects. The ongoing digitalization will continue to change the hotel industry in the long term. The focus will continue to be on the hotel guest and digital processes will be used to provide even better and more efficient service, with personal contact remaining the top priority of every concept. In addition to focusing on the digitization factor, service will become a competitive differentiating feature in the market.

In this Market Tracker, Catella Research provides an overview of the key trends in the coming years for the travel and hotel industry

Economy of experience

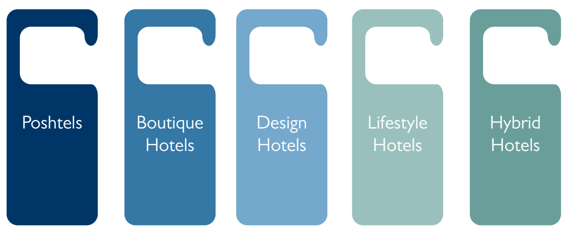
Encounters and individual, authentic experiences are increasingly becoming the focus of travel and thus of hotel business models. Mostly, encounters with other guests or "locals" create this experience and turn the guests into "experience travelers". The access to a destination and the participation therein is made up of the choice of the hotel, the restaurant or various activities. The guests embrace an entirely new way of thinking and therefore have altered demands, which are reflected in the planning and marketing of various experience possibilities. Additional tourist services can be found in most concepts today. The current guest is also referred to as a "prosumer" – a consumer who places high demands on a certain product. Hotels today are very concerned with terms such as authenticity, regionality, flexibility, individual design and the individual feel-good factor. In addition, there is a technical upgrade. This is particularly evident in the creation of new brands for standard hotel chains, which appear in the form of so-called boutique and lifestyle hotels and are, above all, intended to attract the younger generation. In recent years, these have developed into an important segment within the accommodation industry. Fig. 4 gives an overview of the lifestyle brands of major hotel chains. The fact that this segment will continue to play an important role in the future can already be seen in the plans of the hotel chains – Accor, for example, is planning another 50 locations for its lifestyle brand "Jo&Joe" by 2020. Marriott also plans to open 14 Moxy hotels this year. But also so-called "economy hotels", which stand for both low prices and high quality (e.g. prizeotel), are increasingly appearing on the market. The results are new hotel types that focus primarily on a design-oriented concept and are selectively shown in Fig. 3. Among these, boutique and lifestyle hotels in particular can be identified as the largest group.

FIG. 1: DEVELOPMENT OF TRAVEL MOTIVATIONS



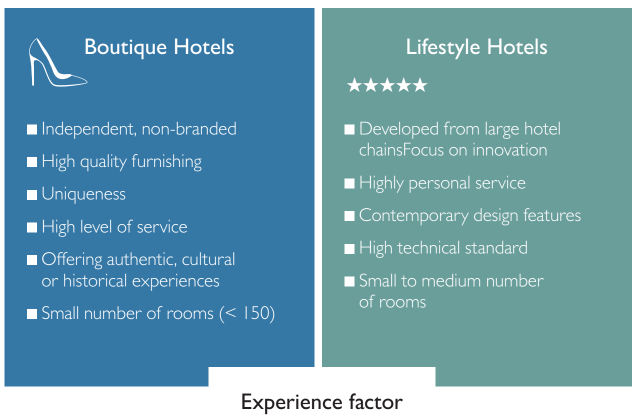
Source: Catella Research 2019, based on Hartmann

FIG. 2: GLOSSARY FOR DESIGN-ORIENTED HOTELS



Source: Catella Research 2019

FIG. 3: BOUTIQUE AND LIFESTYLE HOTELS



Source: Catella Research 2019

Alternative hotel forms

Considering these trends, alternative forms have developed in addition to the standard hotel property, which especially serve these new demands. The most important of these is the overnight accommodation platform "Airbnb", which has recorded steady growth figures since its founding in 2008 and is therefore not very popular in the hotel industry, but also with the authorities, so-called "in- and scene quarters". Since the platform does not own any real estate of its own, but merely acts as an intermediary between private individuals, accusations such as "unfair competition" or "tax fraud" are made here. The fact that Airbnb has grown into a serious alternative can be seen in the number of currently active offers in European cities. London is to be mentioned above all here, as it forms the current Airbnb stronghold with 60,858 active offers altogether (further cities see map on page 3). The combination of the global economic crisis, technological progress and the emergence of digital platforms has led to an increase in these so-called "new platform tourism services", which are now also known as the "Sharing Economy". Sharing, however, is not a new phenomenon; it has always been a component of human coexistence. The difference to today, however, lies in the emergence of technical innovations, above all the internet and smartphone apps, so that sharing now becomes easier both for a short time and between strangers and is therefore also more strongly perceived by investors.

FIG 4: LIFESTYLE BRANDS

HOTEL CHAIN	LIFESTYLE BRAND	LOCATIONS IN EUROPE	LAUNCH
Intercontinental	Indigo	35	2004
Hyatt	Andaz	4	2007
Starwood	Aloft	9	2012
Marriott	Moxy	30	2014
Lindner	Me and all	2	2015
Steigenberger	Jaz	3	2015
Accor	Jo&Joe	2	2016

Source: Catella Research 2019

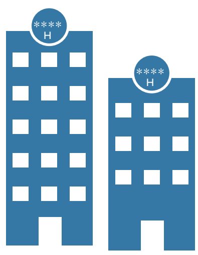
Adapting to the demands and requirements of the target groups

Airbnb initially focused its clientele on young, hip and tech-savvy individual travelers (digital natives). However, business travelers soon also discovered the new travel option for themselves. Further target groups, such as families, were added. Through new campaigns, such as the latest "Airbnb Plus", which includes the luxury segment, the platform wants to expand its spectrum, which is increasing the pressure on the hotel industry. Nevertheless, the end of the German WIMDU platform at the end of 2018 makes it clear that there is no automatism to success in this segment. Hotels have to jump on this bandwagon and offer several functions at one place through mixed-use, which allows them to better adapt to these new needs (keyword Co-Working Spaces). Should the hotel be the ideal place to work or rather serve as a retreat? In the future, the hotel industry will have to ask itself these and many other questions in order to limit its business field. The first answers can already be seen in a multitude of new hotel forms that combine hotel standards and the Airbnb style - upscale holiday apartments with hotel services. This trend can already be seen in the new niche product of serviced apartments (see Catella Market Tracker August 2018). There is also a stronger demand for city-based models to experience the so-called "urban feeling". Investors are no longer focusing solely on capital cities, however, but are increasingly shifting their focus to "gateway cities", which are located in metropolitan regions or at important transport hubs and thus also underpin this high demand.

Hotel remains an established asset class

In general, the popular asset class hotel still proves to be very attractive: the transaction volume in Europe last year was around 23 billion euros, of which Great Britain bears the largest share with a total of 7.68 billion euros (see map of Europe on Pg. 3). This is partly due to the continued strength of the brand hotel industry, which will continue to play a key role in the market. Nevertheless, the focus within the concept will shift somewhat due to the "individualists". In addition, the projects under construction (see Fig. 5) are putting increased pressure on urban locations, which has already triggered displacement competition and is increasingly focusing on suburban areas.

FIG. 5: COMING SOON: NEW-BUILD SUPPLY ON THE MARKET



IN FINAL CONSTRUCTION PHASE
– 1,485 hotels
– 101,426 rooms

IN CONSTRUCTION
– 1,317 hotels
– 162,372 rooms

IN PLANNING
– 1,733 hotels
– 164,254 rooms

Source: Catella Research 2019, STR 2019

Conclusion

New trends are leading to a far greater diversification of the hotel market. At short intervals, new models are created that focus on a mixed function. The hotel industry currently finds it difficult to escape this transformation process and is looking for operational alternatives. At the same time, it continues to benefit overall from a steadily increasing occupancy rate due to the positive economic environment. Stronger distortions will emerge when the economy cools down. In the future, new hybrid offers and thus also hotel types will emerge that combine living with eating and drinking, work, sport and leisure.

RESEARCH CONTACTS:

Prof. Dr. Thomas Beyerle
thomas.beyerle@catella.de
+49 (0)69 31 01 930 220

Lena Jung
lena.jung@catella.de
+49 (0)69 31 01 930 274

Analysis of alternative forms of overnight accommodation in Europe 2019

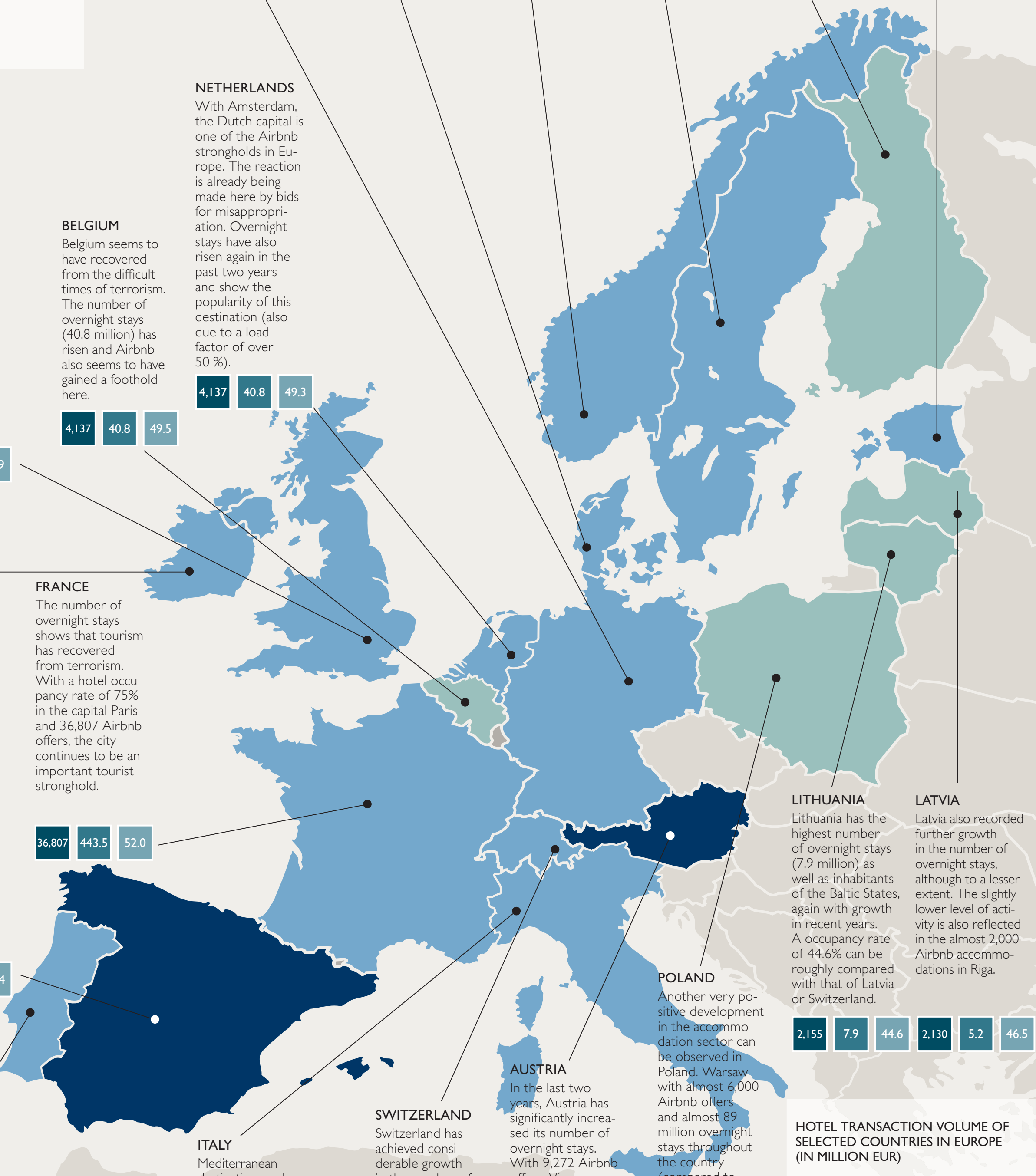
CATELLA

Explanation

- Active Airbnb-offers in the capital city (as of 22.02.2019)
- Overnight stays in millions
- Occupancy rate

Ratio overnight stays and inhabitants 2018

- <5
- 5 – 10
- > 10



GERMANY
Germany is still far ahead in tourism. 418 million overnight stays last year and a hotel occupancy rate of 77% in the capital Berlin speak for itself.

15,022 | 418.5 | 46.1

DENMARK
Compared to other European countries, the number of overnight stays in Denmark has risen only slightly - but Copenhagen can score points with a total of 11,598 active Airbnb offers and thus continues to be an important tourist destination.

11,598 | 33.2 | 49.5

NORWAY
Compared to the other Nordic countries, Norway was only able to generate very low growth in its overnight stays. On the other hand, the capital Oslo has almost twice as many active Airbnb offers (4,002) and the ratio of overnight stays to population is also very positive.

4,002 | 33.9 | 41.0

SWEDEN
An increase in overnight stays was also recorded in Sweden. Airbnb accommodation in Stockholm, at 2,585, is slightly lower than in other European cities.

2,585 | 59.3 | 46.8

FINLAND
With 22.2 million overnight stays, an increase in hotel activity can also be observed here. However, Airbnb offers (2,431 in Helsinki) do not yet form such a large segment.

2,431 | 22.2 | 41.7

ESTONIA
Compared to its neighbour Latvia, Estonia has recorded a significantly lower growth in overnight stays in the last two years, but they have also risen slightly here. The number of Airbnb accommodations in Tallinn can be compared with that of Riga.

2,268 | 6.6 | 48.9

NETHERLANDS
With Amsterdam, the Dutch capital is one of the Airbnb strongholds in Europe. The reaction is already being made here by bids for misappropriation. Overnight stays have also risen again in the past two years and show the popularity of this destination (also due to a load factor of over 50 %).

4,137 | 40.8 | 49.3

BELGIUM
Belgium seems to have recovered from the difficult times of terrorism. The number of overnight stays (40.8 million) has risen and Airbnb also seems to have gained a foothold here.

4,137 | 40.8 | 49.5

UK
With the largest hotel transaction volume of EUR 7.68 billion and at the same time London as the capital with the most active Airbnb offers, Great Britain is still one of the frontrunners in tourism.

60,858 | 350.7 | 54.9

IRELAND
The green isle reached a respectable hotel transaction volume of EUR 747 million last year. The occupancy rate of 56.8 % also shows growing tourism in Ireland.

6,175 | 33.4 | 56.8

FRANCE
The number of overnight stays shows that tourism has recovered from terrorism. With a hotel occupancy rate of 75% in the capital Paris and 36,807 Airbnb offers, the city continues to be an important tourist stronghold.

36,807 | 443.5 | 52.0

SPAIN
Spain achieved the highest number of overnight stays in 2018 with a total of 467 million overnight stays and followed Great Britain in second place with a transaction volume of EUR 4.74 billion. In terms of Airbnb accommodation, the capital also plays a leading role here.

17,541 | 467.0 | 64.4

PORTUGAL
Portugal has experienced very strong growth in recent years. More than 70 million overnight stays in the country as well as more than 15,000 Airbnb accommodations in the Portuguese capital Lisbon and a occupancy rate of almost 80% show the positive development.

15,115 | 73.3 | 53.4

ITALY
Mediterranean destinations such as Italy continue to be perceived by tourists as one of the most popular destinations. 428 million overnight stays and 26,780 active Airbnb offers in Rome confirm this.

26,780 | 428.7 | 53.5

SWITZERLAND
Switzerland has achieved considerable growth in the number of overnight stays in recent years. With more than 55 million overnight stays (2016: 35.4 million), Switzerland is once again perceived as a very attractive destination.

3,315 | 55.2 | 46.2

AUSTRIA
In the last two years, Austria has significantly increased its number of overnight stays. With 9,272 Airbnb offers, Vienna is just behind Amsterdam. This positive development is also reflected in the ratio of overnight stays (124.6 million) to population (8.9 million).

9,272 | 124.6 | 51.2

POLAND
Another very positive development in the accommodation sector can be observed in Poland. Warsaw with almost 6,000 Airbnb offers and almost 89 million overnight stays throughout the country (compared to 79.6 in 2016). Nevertheless, due to Poland's large population, the ratio of overnight stays to population is not quite as positive.

5,697 | 88.7 | 42.2

LITHUANIA
Lithuania has the highest number of overnight stays (7.9 million) as well as inhabitants of the Baltic States, again with growth in recent years. A occupancy rate of 44.6% can be roughly compared with that of Latvia or Switzerland.

2,155 | 7.9 | 44.6

LATVIA
Latvia also recorded further growth in the number of overnight stays, although to a lesser extent. The slightly lower level of activity is also reflected in the almost 2,000 Airbnb accommodations in Riga.

2,130 | 5.2 | 46.5

HOTEL TRANSACTION VOLUME OF SELECTED COUNTRIES IN EUROPE (IN MILLION EUR)

Europe	23,000
UK	7,680
Spain	4,740
Germany	3,890
Italy	1,370
Netherlands	1,340
France	880
Ireland	750
Nordics	680
Portugal	360
Switzerland	200
Austria	100

Source: Catella Research 2019, Eurostat, AirDNA, IWF, CBRE 2019