**Economic climate**

Spain places third worldwide as a tourist destination and occupies second place in terms of traveller expenditure (Source: Hosteltur). In terms of numbers, tourism contributed 13% to Spain's GDP in 2015. Notable factors influencing the tourist market include household saving capacity, consumer confidence, the outlook in terms of loss of employment and trends in gross domestic product. During 2015 the Spanish economy recorded GDP growth of 3.2%, as compared to Eurozone growth of 1.5%. National GDP continued to grow during the first seven months of 2016, although at a somewhat more moderate pace. Within this context, the CCI is heading upwards and the fear of loss of employment is at a record low (Index formulated by the European Commission).

**Tourism in Spain**

In 2015 the figure for foreign tourists reached its highest level for the last 15 years, at 68.1 million persons. This represents an increase of 5% in comparison with 2014. Foreign tourists amounted to 42.3 million from the beginning 2016 up to July. During the first 7 months of the year, the main countries providing tourists to the Spanish market continued to be the UK, France and Germany, with a total of 64% of the total of visitors resident abroad (the proportion was 65% in 2015). The foregoing increased their stays during 2015, as did the Italians, Dutch, Belgians and Swiss. At 7%, France demonstrated the greatest increase in the arrival of tourists to Spain in 2015, this representing the average of the annual increases over the last five years. Economic and political tensions in their home country limited any expansion in the number of visitors from Russia between 2011-2013. In contrast, instability in the Middle East coincided with an increase in the number of foreign tourists.

**Record hotel overnight stays**

The figure for overnight stays has consistently broken records in Spain since 2011. The recovery of the hotel sector in Spain can largely be explained by Europe’s strongest economies overcoming crises in 2010, coupled with the geopolitical instability in markets competing with the Spanish tourism sector. Of the 308 million overnight stays in 2015, 64/0% corresponded to foreign tourists and 36% to domestic tourism. This distribution holds true for the period January-July 2016. The destinations preferred by visitors from abroad are coastal, such as the Canary and Balearic Islands. In the Canary Islands, 88% of hotel overnight stays are made by foreign tourists, the same figure for the Balearic Islands reaching 91%. Domestic tourists also seek coastal areas, though at lower prices. This is why Andalusia remains the main destination for Spanish residents, with 50% of the overnight stays. The northern regions largely receive tourists resident in Spain and few foreign tourists venture to regions such as Galicia or Castilla y León. The distribution of overnight stays in these areas stands at around 77% for domestic tourists and 23% for foreign visitors.
Record hotel occupancy

The hotel price index (HPI), which measures trends in hotel accommodation prices on the supply side, has exceeded the levels of 2007 and continues to rise. The degree of occupancy in annual terms reached its peak in 2015, with a figure of 60.5%. Up to the month of July an occupancy level of 62.5% was recorded.

The hotel sector has been restored to health

At a national level, the annual revenue per available room (RevPAR) increased by some 11% in 2015 in comparison with 2014, reaching €47/room. This growth was due in part to the role played by increased occupancy, in that the RevPAR is influenced by this. For the period January-July 2016 the increase also amounted to 11% in comparison with the same period in 2015, RevPAR reaching €48.90/room. Following the same comparative period between 2015 and 2016 and including the percentage change in brackets, the four autonomous regions performing above the national average were: The Canary Islands with €74.60/room (+13%), Catalonia €55.70 (+9%), Madrid €52.70 (+9%), and the Balearic Islands with €52/room (+13%).

In terms of categories, the RevPAR for the same period 2015-2016 for five-star hotels amounted to €120.60 (+8%), €60.50 for four-star (+11%) and €40.40 for three-star establishments (+9%).

Another measure of hotel performance, namely the average daily rate ADR (average for all categories), exceeded in 2014 the figures for 2008, with an annual average of €73/room/day. The annual increase in 2015 amounted to 5.4%, reaching a rate of €77/room/day. Comparing January/July 2016 with the same period for the previous year, the national average ADR increased by almost €4 Euro, reaching €78/room/day, Catalonia placing first at €89.40/room, followed by the Canary Islands (87.50) and, in third place, Madrid at €80/room.

In terms of categories, the average turnover in the same period amounted to €176.70/room for five-star establishments, €83.40/room for four-star and €61 for three-star hotels. In comparison with the period January-July 2015, the three regions saw increases 3.7%, both in terms of autonomous region and category.

The improvement in the performance indicators demonstrates the fact that the sector has returned to health. However, despite this improvement the Spanish hotel sector suffers from a structural problem in terms of pricing. In contrast to other European markets, Spain suffers from low price levels. This is due to a number of factors, however the most important of these is probably fact that the Spanish hotel stock is becoming obsolete.
Record in hotel investment

The improvement in tourism indicators (visits, occupancy) and performance (ADR, RevPAR) has led investors to focus their attention on this market.

Hotel investment broke records in 2015, reaching a figure of 2,311 billion Euro. This amounts to twice the investment recorded for the previous year. The number of transactions trebled in comparison with 2014 (22), reaching a figure of 62 deals. Although 2015 was an exceptional year, the momentum has continued into 2016 and up to August hotel investment amounted to 996 million Euro spread over 33 deals. Hotels consist of the third most sought after asset on the part of investors, behind retail and office buildings, 15% of total investment being recorded during the first months of the year.

Investor profile

The SOCIMIs (Spanish REITs) became the major players in the Spanish property market in 2015, being involved in some of the most significant deals. Whereas in 2014 their market share amounted to 49% with 526 million Euro invested, hotel acquisition in 2015 reached 1,227 billion Euro, representing a market share of 53%. A lower level of activity has been recorded throughout 2016, cornering solely 11% of the market.

Hispania and Merlin Properties were notable last year as the main market drivers, being the forerunners in earning the trust of both foreign and domestic investors. In 2015, Hispania extended its portfolio from 422 million to 710 million Euro. Among the most significant deals during 2015 were that of the Hotel Ritz, sold for 130 million Euro and the sale of the Meliá portfolio, acquired by Starwood Hotels & Resorts (176 million Euro). The sale of the Hotel Villa Magna for 190 million Euro has been noteworthy during 2016.

Above all however, the degree of protagonism of the SOCIMIs in 2015 was due to the launch of the first SOCIMI (Bay Hoteles & Leisure) on the part of Hispania together with the Barceló chain, created with a function exclusively focused on the hotel sector. This SOCIMI came into being with the acquisition of a portfolio of 11 hotels and 1 shopping centre and its primary objective is that of providing a new property investment vehicle in order to enable the entry of institutional capital, both domestic and international.

The leading players during 2016 have been private investors, with some 36% of the total amount invested, followed by firms dedicated to hotel management (with 28%).

Outlook

2016 points to a new record in terms of visits, exceeding the figure of 70 million foreign visitors. The impact on GDP could amount to up to +2 points. A possible ceiling to the number of visits consists of the limit to air transport capacity. Hotel investment will continue to rise and will focus on value-added strategies. Expenditure on the part of tourists will continue to grow and it is anticipated that Spanish residents will also increase their activity in this market.